Group Consolidated Financial Statements 2012 (IFRS)

I. Group Statement of Comprehensive Income of Erste Group for the Year ended 31 December 2012

Income statement

in EUR thousand	Notes	2012	2011
Interest and similar income		8,795,123	9,350,593
Interest and similar expenses		(3,576,224)	(3,789,576)
Income from equity method investments		16,403	7,952
Net interest income	1	5,235,302	5,568,969
Risk provisions for loans and advances	2	(1,979,970)	(2,266,877)
Fee and commission income		2,245,712	2,298,233
Fee and commission expenses		(524,878)	(510,997)
Net fee and commission income	3	1,720,834	1,787,236
Net trading result	4	273,410	122,330
General administrative expenses	5	(3,756,673)	(3,850,904)
Other operating result	6	(724,306)	(1,589,851)
Result from financial instruments - at fair value through profit or loss	7	(3,600)	306
Result from financial assets - available for sale	8	56,159	(66,253)
Result from financial assets - held to maturity	9	(19,939)	(27,084)
Pre-tax profit/loss		**801,217**	**(322,128)**
Taxes on income	10	(170,207)	(240,440)
Net profit/loss for the year		**631,010**	**(562,568)**
attributable to			
non-controlling interests		147,533	156,332
owners of the parent	**11**	**483,477**	**(718,900)**

Earnings per share

Earnings per share constitute net profit/loss for the year attributable to owners of the parent - adjusted for dividend on participation capital in the amount of EUR 141.1 million (2011: EUR 141.1 million) - divided by the average number of ordinary shares outstanding. Diluted earnings per share represent the maximum potential dilution (through an increase in the average number of shares) which would occur if all subscription and conversion rights granted were exercised (also see Note 30, Total equity).

		2012	2011
Net profit/loss for the year attributable to owners of the parent	in EUR thousand	483,477	(718,900)
Dividend on participation capital		(141,100)	(141,100)
Net profit/loss for the year attributable to owners of the parent after deduction of dividend on participation capital		342,377	(860,000)
Weighted average number of shares outstanding	Number	391,631,603	377,670,141
Earnings per share	**in EUR**	**0.87**	**(2.28)**
Weighted average number of shares taking into account the effect of dilution	Number	393,823,929	377,670,141
Diluted earnings per share	in EUR	0.87	(2.28)

Statement of comprehensive income

in EUR thousand		2012		2011
Net profit/loss for the year		**631,010**		**(562,568)**
Other comprehensive income				
Available for sale-reserve (including currency translation)		975,888		(64,617)
Gain/loss during the year	1,237,929		(30,739)	
Reclassification adjustments	(262,041)		(33,878)	
Cash flow hedge-reserve (including currency translation)		(3,411)		30,567
Gain/loss during the year	33,744		67,094	
Reclassification adjustments	(37,155)		(36,527)	
Actuarial gains and losses		(45,911)		(42,651)
Currency translation		16,218		(232,947)
Deferred taxes on items recognised in other comprehensive income		(183,909)		23,049
Gain/loss during the year	(184,396)		23,502	
Reclassification adjustments	487		(453)	
Total other comprehensive income		**758,875**		**(286,599)**
Total comprehensive income		**1,389,885**		**(849,167)**
attributable to				
non-controlling interests		479,077		124,250
owners of the parent		**910,808**		**(973,417)**

II. Group Balance Sheet of Erste Group as of 31 December 2012

in EUR thousand	Notes	2012	2011 amended[1)]	01.01.2011 amended[1)]
ASSETS				
Cash and balances with central banks	12	9,740,458	9,412,879	5,839,384
Loans and advances to credit institutions	13	9,074,069	7,577,654	12,496,460
Loans and advances to customers	14	131,927,528	134,749,509	132,334,114
Risk provisions for loans and advances	15	(7,643,724)	(7,027,331)	(6,119,058)
Derivative financial instruments	16	13,289,392	10,930,814	8,507,929
Trading assets	17	5,177,984	5,875,838	5,535,543
Financial assets - at fair value through profit or loss	17	715,800	1,813,055	2,434,158
Financial assets - available for sale	17	22,417,659	20,245,339	17,751,115
Financial assets - held to maturity	17	18,974,725	16,073,575	14,234,700
Equity method investments	18	174,099	173,116	223,497
Intangible assets	19	2,893,886	3,531,968	4,674,578
Property and equipment	19	2,227,859	2,360,804	2,445,580
Investment property	19	1,022,911	1,139,251	1,163,083
Current tax assets	20	127,634	115,667	116,474
Deferred tax assets	20	657,508	701,886	616,775
Assets held for sale	21	708,119	87,179	52,461
Other assets	22	2,338,089	2,245,131	3,463,245
Total assets		**213,823,996**	**210,006,334**	**205,770,038**
LIABILITIES AND EQUITY				
Deposits by banks	23	21,822,081	23,785,284	20,153,934
Customer deposits	24	123,052,912	118,880,197	117,016,323
Debt securities in issue	25	29,427,347	30,781,595	31,298,536
Value adjustments from Portfolio fair value hedges		1,219,997	914,665	501,955
Derivative financial instruments	16	10,878,380	9,336,614	8,398,818
Trading liabilities	26	480,995	535,552	215,698
Provisions	27	1,487,745	1,580,114	1,544,549
Current tax liabilities	20	53,022	33,729	68,367
Deferred tax liabilities	20	323,507	344,759	328,062
Other liabilities	28	3,077,264	2,851,290	3,847,722
Liabilities associated with assets held for sale	21	338,870	0	0
Subordinated liabilities	29	5,323,358	5,782,574	5,838,041
Total equity	30	16,338,518	15,179,961	16,558,033
attributable to				
non-controlling interests		3,483,213	3,142,895	3,443,621
owners of the parent		12,855,305	12,037,066	13,114,412
Total liabilities and equity		**213,823,996**	**210,006,334**	**205,770,038**

1) Due to reclassification of 'investment property' from 'other assets' and 'value adjustments from portfolio fair value hedges' from 'other liabilities' in separate positions.

III. Group Statement of Changes in Total Equity

A) GROUP STATEMENT OF CHANGES IN TOTAL EQUITY FOR THE YEAR ENDED 31 DECEMBER 2012

in EUR million	Sub-scribed capital	Additional paid-in capital	Retained earnings	Cash flow hedge reserve	Available for sale reserve	Currency trans-lation	Deferred tax[2]	Total owners of the parent	Non-controlling interests	Total equity
Total equity as of 31 December 2011	**2,539**	**6,413**	**3,830**	**35**	**(316)**	**(541)**	**77**	**12,037**	**3,143**	**15,180**
Changes in treasury shares			(7)					(7)		(7)
Purchase			(455)					(455)		(455)
Sale			466					466		466
Result			(18)					(18)		(18)
Dividends			(141)					(141)	(38)	(179)
Capital increases[1]	8	59						67		67
Participation capital			0					0		0
Purchase			(5)					(5)		(5)
Sale			5					5		5
Result			0					0		0
Change in interest in subsidiaries			0					0	(101)	(101)
Acquisition of non-controlling interest			(12)					(12)		(12)
Total comprehensive income	0	0	457	6	543	(14)	(81)	911	479	1,390
Net profit/loss for the year			483					483	148	631
Other comprehensive income			(26)	6	543	(14)	(81)	428	331	759
Total equity as of 31 December 2012	**2,547**	**6,472**	**4,127**	**41**	**227**	**(555)**	**(4)**	**12,855**	**3,483**	**16,338**

1) Capital increase in connection with the issue of new ordinary shares for the acquisition of additional shares in Banca Comercială Română SA.
2) For disclosure of tax effects relating to each component of other comprehensive income, see Note 10.

For further details, see Note 30 Total equity.

B) GROUP STATEMENT OF CHANGES IN TOTAL EQUITY FOR THE YEAR ENDED 31 DECEMBER 2011

in EUR million	Sub-scribed capital	Addi-tional paid-in capital	Retained earnings	Cash flow hedge reserve	Available for sale reserve	Currency trans-lation	Deferred tax[2]	Total owners of the parent	Non-controlling interests	Total equity
Total equity as of 31 December 2010	**2,513**	**6,177**	**4,939**	**11**	**(278)**	**(312)**	**64**	**13,114**	**3,444**	**16,558**
Changes in treasury shares			(27)					(27)		(27)
Purchase			(731)					(731)		(731)
Sale			681					681		681
Result			23					23		23
Dividends			(405)					(405)	(36)	(441)
Capital increases[1]	26	236						262		262
Participation capital			0					0		0
Purchase			(4)					(4)		(4)
Sale			4					4		4
Result								0		0
Change in interest in subsidiaries								0	(389)	(389)
Acquisition of non-controlling interest			67					67		67
Total comprehensive income	0	0	(744)	24	(38)	(229)	13	(974)	124	(850)
Net profit/loss for the year			(719)					(719)	156	(563)
Other comprehensive income			(25)	24	(38)	(229)	13	(255)	(32)	(287)
Total equity as of 31 December 2011	**2,539**	**6,413**	**3,830**	**35**	**(316)**	**(541)**	**77**	**12,037**	**3,143**	**15,180**

1) Capital increase in connection with ESOP (Employees Share Option Plan) was EUR 8 million and in connection with issuance of new ordinary shares related to acquisition of additional shares in Banca Comercială Română SA was EUR 256 million (see section V.B.). Costs in relation to the capital increase reduced the equity by EUR 2 million.

2) For disclosure of tax effects relating to each component of other comprehensive income, see Note 10.

IV. Group Cash Flow Statement

in EUR million	2012	2011
Net profit/loss for the year	**631**	**(563)**
Non-cash adjustments for items in net profit/loss for the year		
Depreciation, amortisation, impairment and reversal of impairment, revaluation of assets	1,112	1,608
Allocation to and release of provisions (including risk provisions)	2,131	2,400
Gains/(losses) from the sale of assets	227	23
Other adjustments	(416)	(132)
Changes in assets and liabilities from operating activities after adjustment for non-cash components		
Loans and advances to credit institutions	(1,496)	4,529
Loans and advances to customers	2,822	(1,744)
Trading assets and positive market value from derivative financial instruments	(1,660)	(2,763)
Financial assets - at fair value through profit or loss	778	609
Financial assets - available for sale	(1,605)	(2,539)
Other assets from operating activities	(1,645)	17
Deposits by banks	(1,963)	3,457
Customer deposits	4,173	1,803
Debt securities in issue	(1,337)	(517)
Trading liabilities and negative market values from derivative financial markets	1,486	1,228
Other liabilities from operating activities	724	(695)
Cash flow from operating activities	**3,962**	**6,721**
Proceeds of disposal		
Financial assets - held to maturity and associated companies	3,682	2,507
Property and equipment, intangible assets and investment properties	474	171
Acquisition of		
Financial assets - held to maturity and associated companies	(6,842)	(4,573)
Property and equipment, intangible assets and investment properties	(727)	(534)
Acquisition of subsidiaries (net of cash and cash equivalents acquired)	0	(29)
Cash flow from investing activities	**(3,413)**	**(2,458)**
Capital increases	67	8
Acquisition of non-controlling interest	(38)	(88)
Dividends paid to equity holders of the parent	(141)	(405)
Dividends paid to non-controlling interests	(38)	(36)
Other financing activities (mainly changes of subordinated liabilities)	(65)	(55)
Cash flow from financing activities	**(215)**	**(576)**
Cash and cash equivalents[1] at beginning of period	**9,413**	**5,839**
Cash flow from operating activities	3,962	6,721
Cash flow from investing activities	(3,413)	(2,457)
Cash flow from financing activities	(215)	(576)
Effect of currency translation	(7)	(114)
Cash and cash equivalents[1] at end of period	**9,740**	**9,413**
Cash flows related to taxes, interest and dividends	**5,066**	**5,329**
Payments for taxes on income (included in cash flow from operating activities)	(170)	(240)
Interest received	8,691	9,236
Dividends received	121	123
Interest paid	(3,576)	(3,790)

1) Cash and cash equivalents are equal to cash in hand and balances held with central banks.

V. Notes to the Group Financial Statements of Erste Group

A. GENERAL INFORMATION

Erste Group Bank AG is Austria's oldest savings bank and the largest wholly privately owned Austrian credit institution listed on the Vienna Stock Exchange. It is also quoted on the Prague Stock Exchange (since October 2002) and on the Bucharest Stock Exchange (since 14 February 2008). The registered office of Erste Group Bank AG is located at Graben 21, 1010 Vienna, Austria.

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

It is planned for the Management (following a presentation to the supervisory board) to approve the consolidated financial statements for publication on 28 February 2013.

The Group is subject to the regulatory requirements of Austrian (National Bank, FMA) and European supervisory bodies. These regulations include those pertaining to minimum capital adequacy requirements, categorization of exposures and off-balance sheet commitments, credit risk connected with clients of the Group, liquidity, and interest rate risk, foreign currency positions and operating risk.

In addition to the banking entities, other Group companies are subject to regulatory requirements, specifically in relation to retirement and collective investment.

B. SIGNIFICANT ACCOUNTING POLICIES

a) BASIS OF PREPARATION

The consolidated financial statements of Erste Group for the 2012 financial year and the comparative information were prepared in compliance with applicable International Financial Reporting Standards (IFRS) as adopted by the European Union on the basis of IAS Regulation (EC) No. 1606/2002. This satisfies the requirements of Section 59a of the Austrian Banking Act and Section 245a of the Austrian Commercial Code.

The consolidated financial statements have been prepared on a cost basis, except for available-for-sale financial assets, derivative financial instruments, financial assets and liabilities held for trading and financial assets and liabilities designated at fair value through profit or loss, all of which have been measured at fair value.

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

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

b) BASIS OF CONSOLIDATION

Subsidiaries

All subsidiaries directly or indirectly controlled by Erste Group Bank AG are consolidated in the group financial statements on the basis of the subsidiaries' annual accounts as of 31 December 2012 and for the year then ended.

Subsidiaries are consolidated from the date upon which control is transferred to the bank. Control is achieved when the bank has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the date of acquisition or up to the date of disposal. The financial statements of the bank's subsidiaries are prepared for the same reporting year as that of Erste Group Bank AG and using consistent accounting policies. All intra-group balances, transactions, income and expenses as well as unrealised gains and losses and dividends are eliminated. Non-controlling interests represent those portions of total comprehensive income and net assets which are not attributable directly or indirectly to the owners of the Erste Group Bank AG. Non-controlling interests are presented separately in the consolidated statement of comprehensive income and within equity in the consolidated balance sheet.

Acquisitions of non-controlling interests as well as disposals of non-controlling interests that do not lead to a change of control are accounted for as equity transactions, whereby the difference between the consideration transferred and the share in the carrying amount of the net assets acquired is recognised as equity.

Erste Group Bank AG is a member of the Haftungsverbund (cross-guarantee system) of the Austrian savings bank sector. As of the balance sheet date almost all of Austria's savings banks, in addition to Erste Group Bank AG and Erste Bank der oesterreichischen Sparkassen AG, formed part of this Haftungsverbund. The provisions of the agreement governing the Haftungsverbund are implemented by the steering company Haftungsverbund GmbH. Erste Group Bank AG always holds indirectly at least 51% of the subscribed capital of the steering company, through Erste Bank der oesterreichischen Sparkassen AG. Two of the four members of the steering company's management, including the CEO, who has the casting vote, are appointed by Erste Bank der oesterreichischen Sparkassen AG. The steering company is vested with the power to monitor the common risk policies of its members. If a member encounters serious financial difficulties – and specific key indicators are continually monitored – the steering company has the mandate to provide support measures and/or to intervene, as required, in the business management of the affected member savings bank. As Erste Group Bank AG owns the controlling interest in the steering company, it exercises control over the members of the cross-guarantee system. In accordance with IFRS, all Haftungsverbund members are therefore fully consolidated.

Investments in associates

Investments in companies over which Erste Group Bank AG exercises significant influence ('associates') are accounted for under the equity method. As a general rule, significant influence is presumed to mean an ownership interest of between 20% and 50%. Under the equity method, an interest in an associate is recognised in the balance sheet at cost plus post-acquisition changes in the Group's share of the net assets of the entity. The Group's share of the associate's profit or loss is recognised in the income statement. Entities accounted for under the equity method are recognised on the basis of annual financial statements as of 31 December 2012 and for the year then ended.

Acquisitions in 2012

Banca Comercială Română SA

Erste Group raised its participation in Banca Comercială Română SA from 89.9% by 3.4 percentage points to 93.3% by acquisition of shares from owners of non-controlling interests.

Consideration for acquisition of 3.4% of the voting shares paid out to the owners of the non-controlling interests in Banca Comercială Română SA amounted to EUR 75.6 million. Consideration of EUR 8.6 million was settled in cash and EUR 67.0 million was settled by issuance of Erste Group Bank shares.

The carrying amount for the additional acquired shares was EUR 75.5 million. The EUR 0.1 million difference between the costs of acquisition and the carrying amount resulting from the acquired shares was recognised in equity in retained earnings.

Based on written options existing at the end of 2011, in February 2012 a total of 3,801,385 new Erste Group Bank AG shares were issued in the amount of EUR 67 million and the put option in the amount of EUR 29 million was exercised in cash.

Acquisitions in 2011

Intermarket Bank AG

Erste Bank der österreichischen Sparkassen AG, Wien increased its 22.38% share of Intermarket Bank AG, Wien by 66.24% to 88.62%.

With the existing shares of Kärntner Sparkasse Aktiengesellschaft, Klagenfurt of approximately 4.38% and of Steiermärkische Bank und Sparkassen Aktiengesellschaft, Graz of 7.00%, Erste Group owns 100% (91.46% directly) of Intermarket Bank AG, Wien.

Intermarket Bank AG, Wien was fully consolidated in the financial statements of Erste Group with effect from 1 August 2011.

The purchase price for the acquisition of the shares of Intermarket Bank AG, Wien was about EUR 28.9 million and was paid in cash.

Measured at fair value, the identifiable assets acquired and liabilities assumed had the following composition at the time of initial consolidation:

in EUR million	Carrying amount	Fair value adjustment	Fair value
Loans and advances to credit institutions	7.5	0.0	7.5
Loans and advances to customers	276.6	0.0	276.6
Risk provisions for loans and advances	(5.5)	0.0	(5.5)
Property and equipment	2.2	0.0	2.2
Other assets	5.6	1.4	7.0
ASSETS	**286.4**	**1.4**	**287.8**
Deposits by banks	173.6	0.0	173.6
Customer deposits	60.8	0.0	60.8
Other liabilities	10.4	0.0	10.4
Total equity	41.6	1.4	43.0
LIABILITIES AND EQUITY	**286.4**	**1.4**	**287.8**

Taking into account identifiable equity of EUR 43.0 million and the EUR 7.6 million fair value for the share of Intermarket Bank AG, Wien held by Erste Group immediately before the acquisition date the transaction resulted in negative goodwill in the amount of EUR 2.8 million. This was recognised directly in other operating result.

The book value of the non-controlling interest is EUR 3.7 million.

Due to remeasurement to fair value of the equity interest held before the business combination, Erste Group recognised a loss of EUR 1.1 million directly in other operating result.

The contribution of Intermarket Bank AG, Wien to the operating income of Erste Group since the time of initial consolidation was EUR 6.8 million; its contribution to net profit/loss attributable to owners of the parent was EUR (0.8) million. Had Intermarket Bank AG, Wien already been included in Erste Group's consolidated financial statements from 1 January 2011, its contribution to operating income would have been EUR 14.3 million. Likewise, net profit/loss attributable to owners of the parent would have been EUR 6.0 million.

Banca Comercială Română SA

In 2011 Erste Group raised its participation in Banca Comercială Română SA from 69.4% by 20.5 percentage points to 89.9% by capital increase of 6.8% and by acquisition of shares from owners of non-controlling interests of 13.7% .

Consideration for acquisition of 13.7% of the voting shares paid out to the owners of the non-controlling interests in Banca Comercială Română SA amounted to EUR 373 million. Consideration of EUR 88 million was settled in cash and EUR 256 million was settled by issuance of Erste Group Bank shares. Furthermore, a put option for selling additional shares was written to the owners of non-controlling interests. The option resulted in recognition of liability in the amount of EUR 29 million with respect to the cash settlement of the selling price.

The carrying amount for the additional acquired shares was EUR 433 million. The EUR 60 million difference between the costs of acquisition and the carrying amount resulting from the acquired shares was recognised in equity in retained earnings.

c) ACCOUNTING AND MEASUREMENT METHODS

In order to improve transparency, Erste Group has enhanced the balance sheet structure by introducing additional line items 'Investment property and 'Value adjustment for portfolio fair value hedges'. This new presentation is felt to be more appropriate and of greater relevance.

The carrying amount of investment properties previously shown under 'Other assets' is now reported under the single line item 'Investment property'. The comparative figures have been amended as follows:

in EUR million	31.12.2011	01.01.2011
ASSETS		
Other assets	(1,139)	(1,163)
Investment property	1,139	1,163

The carrying amount of value adjustments for portfolio fair value hedges previously shown under 'Other liabilities' is now reported under the single line item 'Value adjustment for portfolio fair value hedges'. The comparative figures have been amended as follows:

in EUR million	31.12.2011	01.01.2011
LIABILITIES AND EQUITY		
Other liabilities	(915)	(502)
Value adjustments from Portfolio fair value hedges	915	502

The changes had no impact on the consolidated statement of comprehensive income.

Foreign currency translation

The consolidated financial statements are presented in euro, which is the functional currency of Erste Group Bank AG. The functional currency is the currency of the primary business environment in which an entity operates. Each entity in the group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

For foreign currency translation, exchange rates quoted by the central banks in each country are used. For group entities with the euro as functional currency, these are the European Central Bank reference rates.

(i) Transactions and balances in foreign currency

Transactions in foreign currencies are initially recorded at the functional currency exchange rate effective as of the date of the transaction. Subsequently, monetary assets and liabilities denominated in foreign currencies are translated at the functional currency exchange rate as of the balance sheet date. All resulting exchange differences that arise are recognised in the income statement in the line 'Net trading result' or in the line 'Result from financial instruments – at fair value through profit or loss'. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as of the dates of the initial transactions.

(ii) Translation of the statements of group companies

Assets and liabilities of foreign operations (foreign subsidiaries and branches) are translated into Erste Group's presentation currency, the euro, at the rate of exchange as of the balance sheet date (closing rate). Their statements of comprehensive income are translated at monthly average exchange rates. Goodwill and intangible assets recognised on acquisition of foreign subsidiaries (i.e. customer relationships and brand) and fair value adjustments to the carrying amounts of assets and liabilities on the acquisition are treated as assets and liabilities of the foreign subsidiaries and are translated at the closing rate. Exchange differences arising on translation are recognised in other comprehensive income. On disposal of a foreign subsidiary, the cumulative amount of translation differences recognised in other comprehensive income is recognised in the income statement in the line 'Other operating result'.

Financial instruments – recognition and measurement

A financial instrument is any contract giving rise to a financial asset of one party and a financial liability or equity instrument of another party. In accordance with IAS 39, all financial assets and liabilities – which also include derivative financial instruments – have to be recognised in the balance sheet and measured in accordance with their assigned categories.

Erste Group uses the following categories of financial instruments:
- financial assets or financial liabilities at fair value through profit or loss
- available-for-sale financial assets
- held-to-maturity investments
- loans and receivables
- financial liabilities measured at amortised cost

IAS 39 categories of financial instruments relevant for measurement are not necessarily the line items presented in the balance sheet. Specific relationships between the balance sheet line items and categories of financial instruments are described in the table at point (xi).

(i) Initial recognition

Financial instruments are initially recognised when Erste Group becomes a party to the contractual provisions of the instrument. Regular way (spot) purchases and sales of financial assets are recognised at settlement date, which is the date that an asset is delivered. The classification of financial instruments at initial recognition depends on their characteristics as well as the purpose and management's intention for which the financial instruments were acquired.

(ii) Initial measurement of financial instruments

Financial instruments are measured initially at their fair value including transaction costs. In the case of financial instruments at fair value through profit or loss, however, transaction costs are not included but are recognised directly in profit or loss. Subsequent measurement is described in the chapters below.

(iii) Cash and balances with central banks

Balances with central banks include only claims (deposits) against central banks which are repayable on demand. Repayable on demand means that they may be withdrawn at any time or with a term of notice of only one business day or 24 hours. Mandatory minimum reserves are also shown under this position.

(iv) Derivative financial instruments

Derivatives used by Erste Group include mainly interest rate swaps, futures, forward rate agreements, interest rate options, currency swaps and currency options as well as credit default swaps. Derivatives are measured at fair value. Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative. All kinds of derivatives without regard to their internal classification are disclosed under the line item 'Derivative financial instruments', which can be found, depending on their fair value as of the balance sheet date, on the assets or liabilities side of the balance sheet. Hence, the line item 'Derivative financial instruments' contains both derivatives held in the trading book and banking book and includes also derivatives designated for hedge accounting.

Changes in fair value (clean price) are recognised in the income statement in the line 'Net trading result', except for those resulting from the effective part of cash flow hedges which are reported in other comprehensive income. Furthermore, changes in fair value (clean price) of derivatives related to financial liabilities designated at fair value through profit or loss are presented in the income statement in the line 'Result from financial instruments – at fair value through profit or loss'. Interest income/expense related to derivative financial instruments is recognised in the income statement in the line 'Net interest income' for those held in the banking book or designated as hedging instruments in fair value hedges or in the line 'Net trading result' for those held in the trading book.

(v) Financial assets and financial liabilities held for trading

Financial assets and financial liabilities held for trading include debt securities as well as equity instruments acquired or issued principally for the purpose of selling or repurchasing in the near term. Financial instruments held for trading are measured at fair value and are presented as 'Trading assets' or 'Trading liabilities' in the balance sheet. Changes in fair value (clean price) resulting from financial instruments held for trading are reported in the income statement in the line 'Net trading result'. Nonetheless, interest income and expenses are reported in the income statement in the line 'Net interest income'.

If securities purchased under agreement to resell are subsequently sold to third parties, the obligation to return the securities is recorded as a short sale within 'Trading liabilities'.

(vi) Financial assets or financial liabilities designated at fair value through profit or loss

Financial assets or financial liabilities classified in this category are those that have been designated by management on initial recognition (fair value option).

Erste Group uses the fair value option in the case of financial assets managed on a fair value basis. In accordance with a documented investment strategy, the performance of the portfolio is evaluated and regularly reported to the management board. The portfolio consists largely of investments in bonds issued by EU governments and EU municipalities.

Financial assets designated at fair value through profit or loss are recorded in the balance sheet at fair value in the line 'Financial assets – at fair value through profit or loss' with changes in fair value recognised in the income statement in the line 'Result from financial instruments – at fair value through profit or loss'. Interest earned on debt instruments as well as dividend income on equity instruments is shown in the position 'Interest and similar income'.

Erste Group uses the fair value option in case of some hybrid financial liabilities, if:

- _ such classification eliminates or significantly reduces an accounting mismatch between the financial liability otherwise measured at amortised cost and the related derivative measured at fair value; or
- _ the entire hybrid contract is designated at fair value through profit or loss due to existence of an embedded derivative.

The amount of fair value change attributable to changes in own credit risk for financial liabilities designated at fair value through profit or loss is calculated by the method described by IFRS 7. This amount is the difference between the present value of the liability and the observed market price of the liability at the end of the period. The rate used for discounting the liability is the sum of the observed (benchmark) interest rate at the end of the period and the instrument-specific component of the internal rate of return determined at the start of the period.

Financial liabilities designated at fair value through profit or loss are reported under the respective financial liabilities positions 'Customer deposits', 'Debt securities in issue' or 'Subordinated liabilities'. Changes in fair value are recognised in the income statement in the line 'Result from financial instruments – at fair value through profit or loss'. Interest incurred is reported in the line 'Interest and similar expenses'.

(vii) Available-for-sale financial assets

Available-for-sale assets include equity and debt securities as well as other interests in non-consolidated companies. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

Available-for-sale financial assets are subsequently measured at fair value. Unrealised gains and losses are recognised in other comprehensive income and reported in the 'Available-for-sale reserve' until the financial asset is disposed of or impaired. If available-for-sale assets are disposed of or impaired, the cumulative gain or loss previously recognised in other comprehensive income is reclassified to profit or loss and reported under the line item 'Result from financial assets – available for sale'. In the balance sheet, available-for-sale financial assets are disclosed in the line item 'Financial assets – available for sale'.

If the fair value of investments in non-quoted equity instruments cannot be measured reliably, they are recorded at cost less impairment. This is the case when the range of reasonable fair value estimates as calculated by valuation models is significant and the probabilities of the various estimates cannot be reasonably assessed. There is no market for such investments. Erste Group does not have any specific plan to dispose of such investments.
Interest and dividend income on available-for-sale financial assets are reported in the income statement in the line 'Interest and similar income'.

(viii) Held-to-maturity financial investments

Non-derivative financial assets with fixed or determinable payments and fixed maturities are reported in the balance sheet as 'Financial assets – held to maturity' if Erste Group has the intention and ability to hold them until maturity. After initial recognition, held-to-maturity financial investments are subsequently measured at amortised cost. Amortised cost is calculated by taking into account any discount, premium and/or transaction costs that are an integral part of the effective interest rate. Interest earned on financial assets held to maturity is reported in the income statement in the line 'Interest and similar income'. Losses arising from impairment of such investments as well as occasional realised gains or losses from selling are recognised in the income statement in the line 'Result from financial assets – held to maturity'. Provisions for incurred but not reported losses are shown in the position 'Risk provisions for loans and advances'.

(ix) Loans and advances

The balance sheet line items 'Loans and advances to credit institutions' and 'Loans and advances to customers' include assets meeting the definition of loans and receivables. Furthermore, finance lease receivables which are accounted for under IAS 17 are presented in these balance sheet line items.

Loans and receivables are non-derivative financial assets (including debt securities) with fixed or determinable payments that are not quoted in an active market, other than:

- _ those that Erste Group intends to sell immediately or in the near term and those that Erste Group upon initial recognition designates as at fair value through profit or loss;
- _ those that Erste Group, upon initial recognition, designates as available for sale; or
- _ those for which Erste Group may not recover substantially all of its initial investment, other than because of credit deterioration.

After initial measurement, loans and receivables are subsequently measured at amortised cost. Finance lease receivables are subsequently measured as specified in the chapter leasing. Interest income earned is included in the line 'Interest and similar income' in the income statement.

Allowances for impairment and incurred but not reported losses are reported in the balance sheet line 'Risk provisions for loans and advances'. Losses arising from impairment are recognised in the income statement in the line 'Risk provisions for loans and advances'.

(x) Deposits and other financial liabilities

Financial liabilities are measured at amortised cost, unless they are measured at fair value through profit or loss. Except those which are held for trading, financial liabilities are reported in the balance sheet in the lines 'Deposits by banks', 'Customer deposits' 'Debt securities in issue' or 'Subordinated liabilities'. Interest expenses incurred are reported in the line 'Interest and similar expenses' in the income statement.

(xi) Relationships between balance sheet positions and categories of financial instruments:

Balance sheet positions	Measurement value			Financial instrument category
ASSETS	Fair value	At amortised cost	Other	
Cash and balances with central banks		x	Nominal value	n/a / Loans and receivables
Loans and advances to credit institutions		x		Loans and receivables
thereof finance lease			IAS 17	n/a
Loans and advances to customers		x		Loans and receivables
thereof finance lease			IAS 17	n/a
Risk provisions for loans and advances		x		Loans and receivables
Derivative financial instruments	x			Financial assets - at fair value through profit or loss
thereof hedging derivatives	x			n/a
Trading assets	x			Financial assets - at fair value through profit or loss
Financial assets - at fair value through profit or loss	x			Financial assets - at fair value through profit or loss
Financial assets - available for sale	x			Financial assets - available for sale
Financial assets - held to maturity		x		Financial assets - held to maturity
LIABILITIES				
Deposits by banks		x		Financial liabilities at amortised cost
Customer deposits	x	x		Financial liabilities measured at amortised cost/ Financial liabilities - at fair value through profit or loss
Debt securities in issue	x	x		Financial liabilities measured at amortised cost/ Financial liabilities - at fair value through profit or loss
Derivative financial instruments	x			Financial liabilities - at fair value through profit or loss
thereof hedging derivatives	x			n/a
Trading liabilities	x			Financial liabilities - at fair value through profit or loss
Subordinated liabilities	x	x		Financial liabilities measured at amortised cost/ Financial liabilities - at fair value through profit or loss

For purposes of risk disclosures under IFRS 7, Erste Group splits balance sheet positions for financial instruments into classes and also according to industries (see Note 37.5).

Furthermore, two additional classes of financial instruments which are not presented in the table above are part of IFRS 7 disclosures. These are financial guarantees and irrevocable commitments.

Embedded derivatives

Erste Group, as part of its business, is confronted with debt instruments containing structured features. Structured features mean that a derivative is embedded in the host instruments. Embedded derivatives are separated from the host debt instruments if

- the economic characteristics of the derivatives are not closely related to the economic characteristics and risks of the host debt instruments;
- the embedded derivative meets the IAS 39 definition of derivative; and
- the hybrid instrument is not a financial asset or liability held for trading or designated at fair value through profit or loss.

Embedded derivatives which are separated are accounted for as stand-alone derivatives and presented in the balance sheet in the line 'Derivative financial instruments'.

At Erste Group, derivatives which are not closely related and are separated are predominantly embedded in issued host debt instruments recognised as liabilities. The most typical cases are issues of bonds and deposits which contain interest caps, floors or collars which are in the money, contractual features linking payments to non-interest variables such as FX rates, equity, commodity prices and indices or credit risk of third parties.

Derecognition of financial assets and financial liabilities

A financial asset (or where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the contractual rights to receive cash flows from the asset have expired; or
- Erste Group has transferred its rights to receive cash flows from the asset
- or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement;
- and either:
  - it has transferred substantially all the risks and rewards connected with the ownership of the asset, or
  - has neither transferred nor retained substantially all the risks and rewards connected with the ownership of the asset but has transferred control of the asset.

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires.

Repurchase and reverse repurchase agreements

Transactions where securities are sold under an agreement to repurchase at a specified future date are also known as 'repos' or 'sale and repurchase agreements'. Securities sold are not derecognised from the balance sheet as Erste Group retains substantially all the risks and rewards of ownership because the securities are repurchased when the repo transaction ends. Furthermore, Erste Group is the beneficiary of all the coupons and other income payments received on the transferred assets over the period of the repo transactions. These payments are remitted to Erste Group or are reflected in the repurchase price.

The corresponding cash received is recognised in the balance sheet with a corresponding obligation to return it as a liability in the respective lines 'Deposits by banks' or 'Customer deposits' reflecting the transaction's economic substance as a loan to Erste Group. The difference between the sale and repurchase prices is treated as interest expense and recorded in the income statement in the line 'Interest and similar expenses' and is accrued over the life of the agreement. Financial assets transferred out by Erste Group under repurchase agreements remain on the Group's balance sheet and are measured according to the rules applicable to the respective balance sheet item.

Conversely, securities purchased under agreements to resell at a specified future date are not recognised in the balance sheet. Such transactions are also known as 'reverse repos'. The consideration paid is recorded in the balance sheet in the respective lines 'Loans and advances to credit institutions' or 'Loans and advances to customers', reflecting the transaction's economic substance as a loan by Erste Group. The difference between the purchase and resale prices is treated as interest income which is accrued over the life of the agreement and recorded in the income statement in the line 'Interest and similar income'.

Securities lending and borrowing

In securities lending transactions, the lender transfers ownership of securities to the borrower on the condition that the borrower will retransfer, at the end of the agreed loan term, ownership of instruments of the same type, quality and quantity and will pay a fee determined by the duration of the lending. The transfer of the securities to counterparties via securities lending does not result in derecognition. Substantially all the risks and rewards of ownership are retained by Erste Group as a lender because the securities are received at the end of the securities lending transaction. Furthermore, Erste Group is the beneficiary of all the coupons and other income payments received on the transferred assets over the period of the securities borrowings.

Securities borrowed are not recognised on the balance sheet, unless they are then sold to third parties. In this case the obligation to return the securities is recorded as a trading liability.

Determination of fair value

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

The best indication of a financial instrument's fair value is provided by quoted market prices in an active market. Where quoted market prices in an active market are available, they are used to measure the financial instrument's value (level 1 of the fair value hierarchy). The measurement of fair value at Erste Group is based primarily on external sources of data (stock market prices or broker quotes in highly liquid market segments). If all the significant inputs in the valuation model are observable the instrument is classified as level 2 of the fair value hierarchy. In some cases, the fair value of financial instruments can be determined neither on the basis of market prices nor of valuation models that rely entirely on observable market data. In such cases, individual valuation parameters not observable in the market are estimated on the basis of reasonable assumptions. If any unobservable input in the valuation model is significant the instrument is classified as level 3 of the fair value hierarchy.

As a consequence of changed market standards for the valuation of collateralized OTC derivatives, - Erste Group changed in 2012 the valuation method for OTC derivatives from Euribor-discounting to Eonia/OIS-discounting. The effect on valuation of the derivative portfolio was immaterial.

Credit value adjustments (CVA) for counterparty credit risk are to applied to all derivatives which are marked to model. The adjustment is driven by the expected positive exposure of all derivatives and the credit quality of the counterparty. In comparison with previous year Erste Group has applied an improved model based on exposures (market value plus add-on) and probability of default (PD). For counterparties with liquid bond or CDS markets a market based PD was used. For determining the exposure, netting was generally disregarded as this had a non-material impact on the results. For counterparties with CSA-agreements in place no CVA was taken into account for all cases with small threshold amounts. Erste Group plans further refinement of the CVA methodology during 2013.

Erste Group employs only generally accepted, standard valuation models. Fair value is determined for non-option derivatives (e.g. interest rate swaps, cross currency swaps, foreign exchange forwards and forward rate agreements) by discounting the respective cash flows. OTC options are valued using appropriate market standard option pricing. Erste Group uses only valuation models which have been tested internally and for which the valuation parameters (such as interest rates, exchange rates and volatility) have been determined independently.

Impairment of financial assets and credit risk losses of contingent liabilities

Erste Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, the probability that they will enter bankruptcy or other financial reorganisation, default or delinquency in interest or principal payments. For assessment at portfolio level, indications of impairment are observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. Erste Group uses Basel 2 definition of default as a primary indicator of loss events. Default occurs when interest or principal payments on a material exposure are more than 90 days past due or full repayment is unlikely for reasons such as restructuring resulting in a loss to the lender or initiation of bankruptcy proceedings.

Credit risk losses resulting from contingent liabilities are recognised if it is probable that there will be an outflow of resources to settle a credit risk bearing contingent liability which will result in a loss.

(i) Financial assets carried at amortised cost

Erste Group first assesses individually for significant loans and held-to-maturity securities whether objective evidence of impairment exists. If no objective evidence of impairment exists for an individually assessed financial asset, Erste Group includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralised financial asset also reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral.

In cases of loans and advances, any impairment is reported in the allowance account referred to as 'Risk provisions for loans and advances' in the balance sheet and the amount of the loss is recognised in the income statement in the line 'Risk provisions for loans and advances'. Risk provisions for loans and advances include specific risk provisions for loans and advances for which objective evidence of impairment exists. In addition, 'Risk provisions for loans and advances' include portfolio risk provisions for incurred but not reported losses. For held-to-maturity investments, impairment is recognised directly by reducing the asset account and in the income statement in the line 'Result from financial assets – held to maturity'. Incurred but not reported losses on held-to-maturity investments recognised at portfolio level are presented both in the balance sheet and in the income statement in the line 'Risk provisions for loans and advances'.

Loans together with the associated allowance are removed from the balance sheet when there is no realistic prospect of future recovery and all collaterals have been realised by Erste Group.

If, in a subsequent year, the amount of the estimated impairment loss increases or decreases, the previously recognised impairment loss is increased or reduced by adjusting the allowance account in case of loans and advances. In case of impaired held-to-maturity investments no allowance account is used, but the carrying amount is increased or decreased directly.

(ii) Available-for-sale financial investments
In cases of debt instruments classified as available for sale, Erste Group assesses individually whether there is objective evidence of impairment based on the same criteria as used for financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement. On recognising impairment, any amount of losses retained in the other comprehensive income item 'Available for sale reserve' is reclassified to the income statement and shown as impairment loss in the line 'Result from financial assets – available for sale'.

If, in a subsequent period, the fair value of a debt instrument increases, the impairment loss is reversed through the income statement in the line 'Result from financial assets – available for sale'. Impairment losses and their reversals are recognised directly against the assets in the balance sheet.

In cases of equity investments classified as available for sale, objective evidence also includes a 'significant' or 'prolonged' decline in the fair value of the investment below its cost. For this purpose at Erste Group, 'significant' decline means a market price below 80% of the acquisition cost and 'prolonged' decline refers to a market price which is permanently below acquisition cost for a period of 9 months up to the reporting date.

Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement, is shown as impairment loss in the income statement in the line 'Result from financial assets – available for sale'. Any amount of losses previously recognised in the other comprehensive income item 'Available for sale reserve' has to be reclassified to the income statement as a part of impairment loss in the line 'Result from financial assets – available for sale'.

Impairment losses on equity investments are not reversed through the income statement; increases in the fair value after impairment are recognised directly in other comprehensive income. Impairment losses and their reversals are recognised directly against the assets in the balance sheet.

(iii) Contingent liabilities
Provisions for credit losses of contingent liabilities (particularly financial guarantees as well as credit commitments) are included in the balance sheet line 'Provisions'. The related expense is reported in the income statement in the line 'Risk provisions for loans and advances'.

Hedge accounting
Erste Group makes use of derivative instruments to manage exposures to interest rate risk and foreign currency risk. At inception of a hedge relationship, the bank formally documents the relationship between the hedged item and the hedging instrument, including the nature of the risk, the objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship. Also at the inception of the hedge relationship, a formal assessment is undertaken to ensure the hedging instrument is expected to be highly effective in offsetting the designated risk in the hedged item. A hedge is expected to be highly effective if the changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated are expected to offset the fair value changes of the hedging instrument in a range of 80% to 125%. Exact conditions for particular types of hedges applied by Erste Group are specified internally in hedge policy.

(i) Fair value hedges
Fair value hedges are employed to reduce market risk. For qualifying and designated fair value hedges, the change in the fair value of a hedging instrument is recognised in the income statement in the line 'Net trading result'. The change in the fair value of the hedged item attributable to the hedged risk is also recognised in the income statement in the line 'Net trading result' and adjusts the carrying amount of the hedged item.

Erste Group also applies portfolio fair value hedges of interest rate risk as regulated by IAS 39.AG114-AG132. Currently only interest rate risk from issued bonds is being hedged (i.e. no assets are included as hedged items). The change in the fair value of the hedged items attributable to the hedged interest risk is presented in the balance sheet in the line 'Value adjustment for portfolio fair value hedges'.

If the hedging instrument expires, is sold, is terminated or is exercised, or when the hedge no longer meets the criteria for hedge accounting, the hedge relationship is terminated. In this case, the fair value adjustment of the hedged item shall be amortised to the income statement in the line 'Net interest income' until maturity of the financial instrument.

(ii) Cash flow hedges
Cash flow hedges are used to eliminate uncertainty in the future cash flows in order to stabilise net interest income. For designated and qualifying cash flow hedges, the effective portion of the gain or loss on the hedging instrument is recognised in other comprehensive income and reported under the 'Cash flow hedge

reserve'. The ineffective portion of the gain or loss on the hedging instrument is recognised in the income statement in the line 'Net trading result'. When the hedged cash flow affects the income statement the gain or loss on the hedging instrument is reclassified from other comprehensive income into the corresponding income or expense line in the income statement (mainly 'Net interest income').

When a hedging instrument expires, is sold, is terminated, is exercised, or when a hedge no longer meets the criteria for hedge accounting, the hedge relationship is terminated. In this case the cumulative gain or loss on the hedging instrument that has been recognised in other comprehensive income shall remain separately in 'Cash flow hedge reserve' until the transaction occurs.

Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the balance sheet if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Leasing

A lease is an agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time. A finance lease at Erste Group is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. All other lease agreements at Erste Group are classified as operating leases.

Erste Group as a lessor

The lessor in the case of finance lease reports a receivable against the lessee in the line 'Loans and advances to customers' or 'Loans and advances to credit institutions'. The receivable is equal to the present value of the contractually agreed payments taking into account any residual value. Interest income on the receivable is reported in the income statement in the line 'Net interest income'.

In the case of operating leases, the leased asset is reported by the lessor in 'property and equipment' or in 'investment property' and is depreciated in accordance with the principles applicable to the assets involved. Lease income is recognised on a straight-line basis over the lease term in the income statement in the line 'Net interest income'.

Lease agreements in which Erste Group is the lessor almost exclusively comprise finance leases.

Erste Group as a lessee

Erste Group has not as a lessee entered into any leases meeting the conditions of finance leases. Operating lease payments are recognised as an expense in the income statement in the line 'General administrative expenses' on a straight-line basis over the lease term.

Business combinations and goodwill

(i) Business combinations

Business combinations are accounted for using the acquisition method of accounting. Goodwill represents the future economic benefits resulting from the business combination, arising from assets that are not individually identified and separately recognised. Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests and the fair value of the previously held equity interest over the net of the acquisition-date amounts of the identifiable assets acquired as well as the liabilities assumed. At the acquisition date, the identifiable assets acquired and the liabilities assumed are generally recognised at their fair values.

If, after reassessment of all components described above, the calculation results in a negative amount, it is recognised as a bargain purchase gain and reported in the income statement in the line 'Other operating result' in the year of acquisition.

Non-controlling interests that are present ownership interests in the acquiree are measured at the proportionate share of the acquiree's identifiable net assets. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS. Acquisition costs incurred are expensed and included in the income statement line 'Other operating result'.

(ii) Goodwill and goodwill impairment testing

Goodwill arising on an acquisition of a business is carried at cost as established as of the date of acquisition of the business less accumulated impairment losses, if any. Goodwill is tested for impairment annually in November, or whenever there is an indication of possible impairment during the year, with any impairment determined recognised in profit or loss. The impairment test is carried out for each cash-generating unit (CGU) to which goodwill has been allocated. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Goodwill is tested for impairment by comparing the recoverable amount of each CGU to which goodwill has been allocated with its carrying amount. The carrying amount of a CGU is based on the amount of net asset value allocated to the CGU taking into account any goodwill and unamortised intangible assets recognised for the CGU at the time of business combination.

The recoverable amount is the higher of a CGU's fair value less costs to sell and its value in use. Where available, the fair value less costs to sell is determined based on recent transactions, market quotations or appraisals. The value in use is determined using a discounted cash flow model (DCF model), which incorporates the specifics of the banking business and its regulatory environment. In determining value in use, the present value of future earnings distributable to shareholders is calculated.

The estimation of future earnings distributable to shareholders is based on financial plans for the CGUs as agreed by the management while taking into account the fulfillment of the respective regulatory capital requirements. The planning period is five years. Any forecasted earnings beyond the planning period are derived on the basis of the last year of the planning period and a long-term growth rate. The present value of such perpetual earnings growing at a stable rate (referred to as terminal value) takes into consideration macroeconomic parameters and economically sustainable cash flows for each CGU. Values for the long term growth rates are disclosed in Note 19.2) Intangible assets in the subsection 'Development of goodwill'.

The cash flows were determined by subtracting the annual capital requirement generated by change in the amount of risk-weighted assets from the net profit. The capital requirement was defined through the target tier 1 ratio in light of the expected future minimum regulatory capital requirements.

The value in use is determined by discounting the cash flows at a rate that takes into account present market rates and the specific risks of the CGU. The discount rates have been determined based on the capital asset pricing model (CAPM). According to the CAPM, the discount rate comprises a risk-free interest rate together with a market risk premium that itself is multiplied by a factor that represents the systematic market risk (beta factor). Furthermore, a country-risk premium component is considered in calculating the discount rate. The values used to establish the discount rates are determined using external sources of information. Discount rates applied to determine the value in use are disclosed in Note 19.2) Intangible assets in the subsection 'Development of goodwill'.

Where the recoverable amount of a CGU is less than its carrying amount, the difference is recognised as an impairment loss in the income statement in the line ‘Other operating result’. The impairment loss is allocated first to write down the CGU’s goodwill. Any remaining impairment loss reduces the carrying amount of the CGU’s other assets, though not to an amount lower than their fair value less costs to sell. There is no need to recognise an impairment loss if the recoverable amount of the CGU is higher than or equal to its carrying amount. Impairment losses relating to goodwill cannot be reversed in future periods.

Property and equipment

Property and equipment is measured at cost less accumulated depreciation and accumulated impairment. Borrowing costs for qualifying assets are capitalised into the costs of property and equipment.

Depreciation is calculated using the straight-line method to write down the cost of property and equipment to their residual values over their estimated useful lives. Depreciation is recognised in the income statement in the line ‘General administrative expenses’ and impairment in the line ‘Other operating result’.

The estimated useful lives are as follow:

	Useful life in years
Buildings	15-50
Office furniture and equipment	4-10
Passenger cars	4-8
Computer hardware	4-6

Land is not depreciated.

Property and equipment is derecognised on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on disposal of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in the income statement in the line ‘Other operating result’ in the year the asset is derecognised.

Investment property

Investment property is property (land and buildings or part of a building or both) held for the purpose of earning rental income or for capital appreciation. In case of partial own use, the property is investment property only if the owner-occupied portion is insignificant. Investments in land and buildings under construction, where the future use is expected to be the same as for investment property, are treated as investment property.

Investment property is measured initially at cost, including transaction costs. Subsequent to initial recognition, investment property is measured at cost less accumulated depreciation and impairment. Together with rental income, depreciation is recognised in the income statement in the line ‘Interest and similar income’ using the straight-line method over an estimated useful life. The useful lives of investment properties are identical to those of buildings reported under property and equipment. Any impairment losses, as well as their reversals, are recognised in the income statement line ‘Other operating result’. Investment property is presented in the balance sheet in the line ‘Investment property’.

Property Held for Sale (Inventory)

The Group also invests in property that is held for sale in the ordinary course of business or property in the process of construction or development for such sale. This property is presented as 'Other assets' and is measured at the lower of cost and net realizable value in accordance with IAS 2 Inventories.

The cost of acquiring inventory not only includes the purchase price but also all other directly attributable expenses, such as transportation costs, customs duties, other taxes and costs of conversion of inventories, etc. Borrowing costs are capitalized to the extent to which they directly relate to the acquisition of real estate.

Sales of these assets/apartments are recognized as revenues in the income statement line 'Other operating result', together with costs of sales and other costs incurred in selling the assets.

Intangible assets

In addition to goodwill, Erste Group's intangible assets include computer software and customer relationships, brand, distribution network and other intangible assets. An intangible asset is recognised only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the bank.

Costs of internally generated software are capitalised if Erste Group can demonstrate technical feasibility and intention of completing the software, ability to use it, how it will generate probable economic benefits, availability of resources and ability to measure the expenditures reliably. Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

The cost of intangible assets acquired in a business combination is their fair value as of the date of acquisition. In the case of Erste Group these are brands, customer relationships and distribution networks and they are capitalised on acquisition if they can be measured with sufficient reliability.

Intangible assets with finite lives are amortised over their useful economic lives using the straight-line method. The amortisation period and method are reviewed at least at each financial year-end and adjusted if necessary. The amortisation expense on intangible assets with finite lives is recognised in the income statement in the line 'General administrative expenses' except for amortisation of customer relationships which is reported in the line 'Other operating result'.

The estimated useful lives are as follow:

	Useful life in years
Computersoftware	4-6
Customer relationships	10-20
Distribution network	5.5

Brands are not amortised as they are assumed to have an indefinite useful life. An intangible asset has an indefinite useful life, if there are no legal, contractual, regulatory or other factors limiting that useful life. Brands are tested for impairment annually within cash-generating unit (CGU) to which they belong and impairment is recognised if appropriate. Furthermore, each period brands are reviewed as to whether current circumstances continue to support the conclusion as to indefinite life. In the event of impairment, impairment losses are recognised in the income statement in the line 'Other operating result'.

Impairment of non-financial assets (property and equipment, investment property, intangible assets)

The bank assesses at each reporting date whether there is an indication that a non-financial asset may be impaired. Testing for impairment is done at individual asset level if the asset generates cash inflows that are largely independent of those from other assets. The typical case is investment property. Otherwise the impairment test is carried out at the level of the cash generating unit (CGU) to which the asset belongs. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. For specific rules related to impairment of goodwill and impairment allocation rules for CGU please see the chapter 'Business combination and goodwill', part (ii) Goodwill and goodwill impairment testing.

If any indication of impairment exists, or when annual impairment testing for an asset is required, the bank estimates the asset's recoverable amount. An asset's recoverable amount is the higher of the asset's or CGU's fair value less costs to sell and its value in use. If the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In measuring value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For non-financial assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the bank estimates the asset's or CGU's recoverable amount. The previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years.

Impairments and their reversals are recognised in the income statement in the line 'Other operating result'.

Non-current assets and disposal groups held for sale

Non-current assets are classified as held for sale if they can be sold in their present condition and the sale is highly probable within 12 months of their being classified as held for sale. If assets are to be sold as a part of a group which may also contain liabilities (e.g. a subsidiary) they are referred to as disposal group held for sale.

Assets classified as held for sale and assets belonging to disposal groups held for sale are reported on the balance sheet line 'Assets held for sale'. Liabilities belonging to the disposal groups held for sale are presented in the balance sheet at the line 'Liabilities associated with assets held for sale'.

Non-current assets and disposal groups that are classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. Should the impairment loss in disposal group exceed the carrying amount of the assets which are within the scope of IFRS 5 measurement requirements, there is no specific guidance on how to treat such difference. Erste Group recognises this difference as a provision in the balance sheet line 'Provisions'.

Financial guarantees

In the ordinary course of business, Erste Group provides financial guarantees, consisting of various types of letters of credit and guarantees. According to IAS 39, a financial guarantee is a contract that requires the guarantor to make specified payments to reimburse the holder for a loss it incurs in case a specified debtor fails to make payment when due in accordance with original or modified terms of a debt instrument.

If Erste Group is in a position of being a guarantee holder, the financial guarantee is not recorded in the balance sheet but is taken into consideration as collateral when determining impairment of the guaranteed asset.

Erste Group as a guarantor recognises financial guarantees as soon as it becomes a contracting party (i.e., when the guarantee offer is accepted). Financial guarantees are initially measured at fair value. Generally the initial measurement is the premium received for a guarantee. If no premium is received at contract inception the fair value of a financial guarantee is nil, as this is the amount at which the guarantee could be settled in an arm's length transaction with an unrelated party. Subsequent to initial recognition the financial guarantee contract is reviewed for the possibility that provisioning will be required under IAS 37.

The premium received is recognised in the income statement in the line 'Net fee and commission income' on a straight-line basis over the life of the guarantee.

Defined employee benefit plans

Defined employee benefit plans operated by Erste Group are for pensions, severance and jubilee benefits.

The defined benefit pension plans relate only to retired employees. The pension obligations for current employees were transferred to external pension funds in previous years. Remaining with Erste Group is a defined-benefit obligation for entitlements of former employees who were already retired as of 31 December 1998 before the pension reform took effect, and for those former employees who retired only in 1999 but remained entitled to a direct pension from Erste Group under individual agreements. Included also are entitlements to resulting survivor pensions.

Severance benefit obligations exist in relation to Austrian employees who entered the Group's employment before 1 January 2003. The severance benefit is a one-time remuneration to which employees are entitled when their employment relationship ends. The entitlement to this severance payment arises after three years of employment.

Defined benefit plans include also jubilee benefits. Jubilee payments (payments long-service and/or loyal-service) are remuneration tied to the length of an employee's service to the employer. The entitlement to jubilee benefits is established by collective agreement, which defines both the conditions and amount of the entitlement.

Obligations ensuing from defined employee benefit plans are determined using the projected unit credit method. Future obligations are determined based on actuarial expert opinions. The calculation takes into account not only those salaries, pensions and vested rights to future pension payments known as of the balance sheet date but also anticipated future rates of increase in salaries and pensions.

As of 31 December 2012, for all domestic subsidiaries, the most important actuarial assumptions used in the computation were adjusted to reflect the situation at year-end 2012. Thus, the actuarial calculation of pension, severance and jubilee benefit obligations is based on a discount rate (long-term capital market interest rate) of 3.65% per annum (previously: 4.65%). The statutory increase in pension benefits is assumed to be 2.0% per year (previously: 2.4%) and severance and jubilee benefits are calculated based on an expected annual increase of 2.9% per year in salaries (previously: 3.4%). Obligations were calculated in accordance with the Pagler & Pagler mortality tables entitled 'AVÖ 2008 P – Rechnungsgrundlagen für die Pensionsversicherung'. The expected retirement age for each employee was individually calculated on the basis of the changes set out in the Budget Implementation Act of 2003 (Austrian Federal Law Gazette Vol. I No. 71/2003) regarding the increase in the minimum retirement age. The currently applicable legislation on the gradual raising of the retirement age for men and women to 65 was taken into consideration. For Central European subsidiaries, depending upon the particular countries, the mandatory retirement ages are used. The discount rates range from 2.51% (previously: 3.4%) to 6.25% (previously: 7.5%).

The liability recognised under a defined-benefit plan represents the present value of the defined benefit obligation less the fair value of the plan assets available for the direct settlement of obligations. For all plans, the present value of the obligation exceeds the fair value of the plan assets. The resulting defined benefit liability is reported in the balance sheet in the line 'Other provisions'. At Erste Group, the plan assets consist of qualifying insurance policies purchased to back severance and jubilee benefit provisions.

Actuarial gains or losses of pension and severance benefit obligations and of plan assets available to settle these obligations are recognised in other comprehensive income for the period in which they occur. Actuarial gains or losses of provisions for jubilee benefits are recognised in the income statement in the line 'General administrative expenses' in the period during which they occur.

Based on actually realised returns of portfolios and forecasts on the development of investments included in these portfolios, as of 31 December 2012 an interest rate of 3.65% (2011: 4.00%) was assumed for the expected return on plan assets.

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. In the balance sheet, provisions are reported in the line 'Other provisions'. They include credit risk loss provisions for contingent liabilities (particularly financial guarantees and loan commitments) as well as provisions for litigations and restructuring. Expenses or income from allocation or release relating to credit risk loss provisions for contingent liabilities are presented in the income statement line 'Risk provisions for loans and advances'. All other expenses or income related to provisions are reported in the line 'Other operating result'.

Share-based payment transactions

Erste Group grants shares and share options to employees and managers as compensation for their services, under the employee stock ownership plan (ESOP) and the management share option (MSOP) plans. Both take the form of equity-settled share-based payment transactions.

The cost of equity-settled share-based payment transactions with employees is measured by reference to the fair value as of the date upon which they are granted. Under ESOP, Erste Group shares are offered to employees at a discounted price; therefore, the fair value results from the discount at which employees purchase Erste Group shares. Any expense incurred from this fair value is immediately recognised in personnel expenses in the income statement in the line 'General administrative expenses'. Under MSOP, Erste Group share options are granted to managers and other key personnel. For MSOP initial fair value of the options granted is determined by means of generally accepted option pricing models (Black and Scholes, binomial model). Expense from this fair value together with corresponding increase in equity is spread over the vesting periods (the period between the granting date and the first permitted exercise date). Expense is recognised in the income statement as personnel expense in the line 'General administrative expenses'.

Taxes

(i) Current tax

Current tax assets and liabilities for the current and prior years are measured as the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amounts are those enacted by the balance sheet date.

(ii) Deferred tax

Deferred tax is recognised for temporary differences between the tax bases of assets and liabilities and their carrying amounts as of the balance sheet date. Deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences and unused tax losses to the extent it is probable that taxable profit will be available against which the deductible temporary differences and carry forward of unused tax losses can be utilised. Deferred taxes are not recognised on temporary differences arising from the initial recognition of goodwill.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted as of the balance sheet date. For the subsidiaries, local tax environments apply.

Deferred tax relating to items recognised in other comprehensive income is also recognised in other comprehensive income and not in the income statement.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right to offset exists and the deferred taxes relate to the same taxation authority.

Treasury shares and contracts on treasury shares

Equity instruments of Erste Group which it or any of its subsidiaries acquire (referred to as treasury shares) are deducted from equity. Consideration paid or received on the purchase, sale, issue or cancellation of Erste Group's own equity instruments is recognised directly in equity. No gain or loss is recognised in the statement of comprehensive income on the purchase, sale, issue or cancellation of its own equity instruments.

Fiduciary assets

The Group provides trust and other fiduciary services that result in the holding or investing of assets on behalf of its clients. Assets held in a fiduciary capacity are not reported in the financial statements, as they are not the assets of the Group.

Dividends on ordinary shares

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by Erste Group's shareholders.

Regarding dividends on participation capital, see Note 30).

Recognition of income and expenses

Revenue is recognised to the extent that it is probable the economic benefits will flow to the entity and the revenue can be reliably measured. Regarding the lines reported in the income statement, their description and revenue recognition criteria are as follows:

(i) Net interest income

Interest income or expense is recorded using the effective interest rate (EIR) method. The calculation includes origination fees resulting from the lending business as well as transaction costs that are directly attributable to the instrument and are an integral part of the EIR (apart from financial instruments at fair value through profit or loss), but no future credit losses. Interest income from individually impaired loans is calculated by applying the original effective interest rate used to discount the estimated cash flows for the purpose of measuring the impairment loss.

Interest and similar income mainly includes interest income on loans and advances to credit institutions and customers, on balances with central banks and on bonds and other interest-bearing securities in all portfolios. Interest and similar expenses mainly include interest paid on deposits by banks and customer deposits, deposits of central banks, debt securities in issue and subordinated debt. In addition, net interest income includes interest on derivative financial instruments held in the banking book.

Also reported in interest and similar income is current income from shares and other equity-related securities (especially dividends) as well as income from other investments in companies categorised as available for sale. Such dividend income is recognised when the right to receive the payment is established.

Net interest income also includes rental income and corresponding depreciation charge from investment properties. Such rental income constitutes income from operating leases and is recognised on a straight-line basis over the lease term.

Income from associates recorded by applying the equity method (share of profit or loss in associates) is also included in the total of the net interest income. Impairment losses, reversal of impairment losses, and realised gains and losses on investments in associates accounted for at equity are reported in the line 'Other operating result'.

(ii) Risk provisions for loans and advances

This item includes allocations to and releases of specific and portfolio risk provisions for loans and advances and for contingent liabilities bearing credit risk. Also reported in this item are direct write-offs of loans and advances as well as recoveries on written-off loans removed from the balance sheet. Furthermore allocations to and releases of portfolio risk provisions for held-to-maturity investments with respect to incurred but not reported losses are part of this item.

(iii) Net fee and commission income

Erste Group earns fee and commission income from a diverse range of services it provides to its customers.

Fees earned for the provision of services over a period of time are accrued over that period. These fees include lending fees, guarantee fees, commission income from asset management, custody and other management and advisory fees as well as fees from insurance brokerage, building society brokerage and foreign exchange transactions.

Fee income earned from providing transaction services, such as arranging the acquisition of shares or other securities or the purchase or sale of businesses, is recognised upon completion of the underlying transaction.

(iv) Net trading result

Results arising from trading activities include all gains and losses from changes in fair value (clean price) on financial assets and financial liabilities classified as held for trading, including all derivatives not designated as hedges. In addition, for derivative financial instruments held in the trading book, 'Net trading result' contains also interest income or expense. However, interest income or expenses on non-derivative trading assets and liabilities and on derivatives held in the banking book are not part of 'Net trading result' as they are reported as 'Net interest income'. It also includes any ineffective portions recorded in hedging transactions as well as foreign exchange gains and losses.

(v) General administrative expenses

General administrative expenses represent the following expenses accrued in the reporting period: personnel and other administrative expenses, as well as depreciation and amortisation, apart from amortisation of customer relationships and impairment of goodwill that are reported under 'Other operating result'.

Personnel expenses include wages and salaries, bonuses, statutory and voluntary social security contributions, staff-related taxes and levies. They also include expenses and income for severance payments, pension and jubilee obligations (covering service cost, interest cost, expected return on plan assets and actuarial gains and losses for jubilee obligations).

Other administrative expenses include information technology expenses, expenses for office space, office operating expenses, advertising and marketing, expenditures for legal and other consultants as well as sundry other administrative expenses.

(vi) Other operating result
Other operating result reflects all other income and expenses not directly attributable to Erste Group's ordinary activities. This includes especially impairment losses or any reversal of impairment losses as well as results on the sale of property and equipment and other intangible assets. Also included here are amortisation and impairment of customer relationships and any impairment losses on goodwill.

In addition, other operating result encompasses the following: expenses for other taxes, including special banking taxes and for deposit insurance contributions; income from the release of and expenses for allocations to other provisions; impairment losses (and their reversal if any) on investments in associates accounted for at equity; and realised gains and losses from the disposal of equity-accounted investments.

In case of sales of non-impaired loans and advances or repurchases of financial liabilities which are measured at amortised cost gains and losses are reported in other operating result.

(vii) Result from financial instruments
Result from financial instruments consists of the following lines in the income statement:

- Result from financial instruments – at fair value through profit or loss: changes in clean price of assets and liabilities designated at fair value through profit or loss are reported here. Furthermore this position contains changes in clean prices of derivatives which are related to financial liabilities designated at fair value through profit or loss. Designation of such liabilities at fair value was chosen to eliminate or reduce an accounting mismatch between the liability and the derivative.
- Result from financial assets – available for sale: realised gains and losses from selling as well as impairment losses and reversals of impairment losses from financial assets available for sale are reported in this position. However, interest and dividend elements for these assets and reversals of impairment losses on equity instruments are not part of this position.
- Result from financial assets – held to maturity: impairment losses and reversals of impairment losses as well as occasional selling gains and losses from financial assets held to maturity are reported in this position. However, this position does not include incurred but not reported losses recognised for financial assets held to maturity on portfolio level which are part of the position 'Risk provisions for loans and advances'.

Result from loans and receivables consists on one side of sales of impaired loans shown under Risk provisions for loans and advances and, on the other side, of sales of non-impaired loans shown in 'Other operating result'.

d) SIGNIFICANT ACCOUNTING JUDGEMENTS, ASSUMPTIONS AND ESTIMATES

The consolidated financial statements contain amounts that have been determined on the basis of judgements and by use of estimates and assumptions. The estimates and assumptions used are based on historical experience and other factors, such as planning as well as expectations and forecasts of future events that are currently deemed to be reasonable. As a consequence of the uncertainty associated with these assumptions and estimates, actual results could in future periods lead to adjustments in the carrying amounts of the related assets or liabilities. The most significant use of judgement, assumption and estimates are as follow:

Fair value of financial instruments
Where the fair values of financial assets and financial liabilities recorded on the balance sheet cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data is not available judgement is required to establish fair values. Disclosures for valuation models, fair value hierarchy and fair values of financial instruments can be found in Note 39) Fair value of financial instruments.

Impairment of financial assets
Erste Group reviews its financial assets not measured at fair value through profit or loss at each balance sheet date to assess whether an impairment loss should be recorded in the income statement. In particular, it is required to determine whether there is objective evidence of impairment as a result of a loss event occurring after initial recognition and to estimate the amount and timing of future cash flows when determining an impairment loss.

Disclosures concerning impairment are provided in Note 37) Risk Management in the 'Credit risk' subsection entitled – 'Non-performing credit risk exposure, risk provisions and collateral'. Development of loan loss provisions is described in Note 15) Risk provisions for loans and advances.

Impairment of non-financial assets
Erste Group reviews its non-financial assets at each balance sheet date to assess whether there is an indication of impairment loss which should be recorded in the income statement. Furthermore, CGUs to which goodwill is allocated are tested for impairment on yearly basis. Judgement and estimates are required to determine the value in use and fair value less costs to sell by estimating the timing and amount of future expected cash flows and the discount rates. Assumptions and estimates used for impairment on non-financial assets calculations are described in the parts 'Business

combinations and goodwill' and 'Impairment of non-financial assets (property and equipment, investment property, intangible assets)' in the Accounting Policies discussion under the Notes. Inputs used for goodwill impairment testing and their sensitivities can be found in Note 19.2) Intangible assets in the section 'Development of goodwill'.

Deferred tax assets
Deferred tax assets are recognised in respect of tax losses and deductible temporary differences to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax planning strategies. Disclosures concerning deferred taxes are in Note 20) Tax assets and liabilities.

Defined benefit obligation plans
The cost of the defined benefit pension plan is determined using an actuarial valuation. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Assumption and estimates used for the defined benefit obligation calculations can be found in 'Defined benefit plans' within the Accounting Policies discussion under the Notes. Quantitative data for long-term employee provisions are in Note 27) Provisions.

Leases
From Erste Group's perspective as a lessor, judgement is required to distinguish whether a given lease is finance or operating lease based on the transfer of substantially all the risk and rewards from the lessor to the lessee.

e) APPLICATION OF AMENDED AND NEW IFRS/IAS

The accounting policies adopted are consistent with those used in the previous financial year except for standards and interpretations which became effective for financial years beginning on or after 1 January 2012. As regards new standards and interpretations and their amendments only those which are relevant for the business of Erste Group are listed below.

Effective standards and interpretations

The following amended standards and interpretations have been mandatory since 2012:
- Amendments to IAS 12 – Deferred Tax: Recovery of Underlying Assets
- Amendments to IFRS 7 – Disclosures–Transfers of Financial Assets

Application of these amended standards and interpretations had no material effect on the recognition and measurement methods of Erste Group. However, amendments to IFRS 7 brought by the Disclosures–Transfers of Financial Assets have resulted in new disclosures mainly related to repo and security lending transactions.

Standards and interpretations not yet effective

The standards and interpretations shown below were issued by IASB but are not yet effective. Thereof, the following standards and amendments have been endorsed by the EU:
Amendments to IAS 1 – Presentation of Items of Other Comprehensive Income
IAS 19 (revised 2011) Employee Benefits
IAS 27 (revised 2011) Separate Financial Statements
IAS 28 (revised 2011) Investments in Associates and Joint Ventures
Amendments to IAS 32 – Offsetting Financial Assets and Liabilities
Amendments to IFRS 7 – Offsetting Financial Assets and Liabilities
IFRS 10 Consolidated Financial Statements
IFRS 11 Joint Arrangements
IFRS 12 Disclosure of Interests in Other Entities
IFRS 13 Fair Value Measurement
Although they have been endorsed by the EU, Erste Group decided not to apply them before they become effective.

Amendments to IAS 1 – Presentation of Items of Other Comprehensive Income
Amendments to IAS 1 were issued in June 2011 and become effective for annual periods beginning on or after 1 July 2012.

The main requirement is to present, by using subtotals, whether the items of other comprehensive income (OCI) are reclassifiable to profit or loss or not. Moreover, if OCI items are presented before tax then the tax related to each of the two categories has to be presented separately.

Application of these amendments will have an impact on presentation of the statement of comprehensive income due to changes in the presentation of OCI items and their tax effects.

IAS 19 (revised 2011) Employee Benefits
The revised IAS 19 was issued in June 2011 and becomes effective for annual periods beginning on or after 1 January 2013.

The revision brought changes mainly in accounting for defined benefit plans. Net interest is recognised in profit or loss by multiplying the net defined liability by the discount rate. As the corridor method is no longer allowed, actuarial gains and losses are treated as remeasurements and are recognised fully in other comprehensive income. Clarifications were made for the area of plan amendments, curtailments and settlements. Past service costs are recognised immediately in profit or loss. Disclosure requirements were revised. New definition and recognition criteria were introduced for the termination benefits.

Application of this standard is not expected to have a significant impact on Erste Group's financial statements. However, it will result in some new disclosures in the Notes.

IAS 27 (revised 2011) Separate Financial Statements
Revised IAS 27 was issued in May 2011 and is effective for annual periods beginning on or after 1 January 2013. As adopted by the European Union, however, IAS 27 revised becomes effective, at the latest, as from the commencement date of its first financial year starting on or after 1 January 2014.

After revision, only the part relevant for individual financial statements was kept in IAS 27. This is due to the fact that IFRS 10 becomes a new standard relevant for consolidated financial statements. This resulted in a change of the name of IAS 27.

The revised IAS 27 is not expected to have a significant impact on Erste Group's financial statements.

IAS 28 (revised 2011) Investments in Associates and Joint Ventures
Revised IAS 28 was issued in May 2011 and is effective for annual periods beginning on or after 1 January 2013. As adopted by the European Union, however, IAS 28 revised becomes effective, at the latest, as from the commencement date of its first financial year starting on or after 1 January 2014.

Joint ventures are added into the scope of the revised IAS 28, which also results in a change in the name of the standard. This is due to the fact that under IFRS 11 the equity method is the only way of including joint ventures into the consolidated financial statements.

IAS 28 revised is not expected to have a significant impact on Erste Group's financial statements.

Amendments to IAS 32 – Offsetting Financial Assets and Liabilities
Amendments to IAS 32 were issued in December 2011 and are effective for annual periods beginning on or after 1 January 2014.

The amendments clarify the meaning of the terms 'currently' and 'settlement on net basis'.

The amendments are not expected to have a significant impact on Erste Group's financial statements.

Amendments to IFRS 7 – Offsetting Financial Assets and Liabilities
Amendments to IFRS 7 were issued in December 2011 and are effective for annual periods beginning on or after 1 January 2013.

Disclosures required by the amendments have to be provided for financial assets and liabilities that are set off in accordance with IAS 32. Furthermore, potential effects of netting and similar agreements which do not result in offsetting under IAS 32 are disclosed.

The amendments will result in new disclosures about the effects of master netting agreements and cash collateral agreements which do not result in offsetting under IAS 32.

IFRS 9: Financial Instruments
IFRS 9 relevant for classification and measurement of financial assets was issued in November 2009 then supplemented by regulation for financial liabilities in October 2011. An amendment issued in December 2011 concerns the mandatory effective date, which was postponed. As a result, IFRS 9 becomes effective for financial years beginning on or after 1 January 2015.

IFRS 9 introduces two classification criteria for financial assets: 1) an entity's business model for managing the financial assets, and 2) the contractual cash flow characteristics of the financial assets. As a result, a financial asset is measured at amortised cost only if both the following conditions are met: a) the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows, and b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. All financial assets which do not fulfil these conditions are measured at fair value with changes recognised in profit or loss. For investments in equity instruments which are not held for trading an entity may make an irrevocable election at initial recognition to measure them at fair value with changes recognised in other comprehensive income.

Based on changes in the business model an entity shall reclassify all affected assets from fair value to amortised cost category or vice versa.

This standard will have a significant effect on balance sheet positions and measurement methods for financial instruments. As IFRS 9 has not yet been published in its final version, its impact cannot be quantified.

IFRS 10 Consolidated Financial Statements
IFRS 10 was issued in May 2011 and is effective for annual periods beginning on or after 1 January 2013. As adopted by the European Union, however, IFRS 10 becomes effective, at the latest, as from the commencement date of its first financial year starting on or after 1 January 2014. It replaces IAS 27, 'Consolidated and Separate Financial Statements' and interpretation SIC-12, 'Consolidation – Special Purpose Entities'.

IFRS 10 defines the principle of control for all entities, including those that were previously considered special purpose entities under SIC-12. An investor controls an investee when it is exposed or has rights to variable returns from the investee and has the ability to affect those returns through its power over the investee. The assessment of control is based on all facts and circumstances, and the conclusion is reassessed if there are changes in those facts and circumstances.

Furthermore, IFRS 10 addresses other issues such as control with less than majority voting rights, control solely through rights other than voting rights, and delegated decision rights. Parts dealing with consolidation procedures, non-controlling interests and loss of control were taken over into IFRS 10 from IAS 27.

IFRS 10 brings clarification in the area of protective rights, which normally do not lead to having control of a subsidiary. Erste Group is presently undertaking a thorough review whether its power over Austrian savings banks does not merely take the form of protective rights. Based on the outcome, IFRS 10 might lead to not consolidating those savings banks united in the Haftungsverbund where Erste Group does not hold more than 50% of ownership interest. In order to continue with consolidation of the savings banks it might be necessary to strengthen the power of Erste Group in the provisions of the agreement governing the Haftungsverbund. Moreover, future consolidation of Austrian savings banks where Erste Group does not hold more than 50% will be influenced by an internal decision with respect to developments in the regulatory environment, namely whether non-controlling interests will be considered as part of the consolidated regulatory capital according to Capital Requirement Regulation after Basel 3 provisions come into force.

IFRS 11 Joint Arrangements

IFRS 11 was issued in May 2011 and is effective for annual periods beginning on or after 1 January 2013. As adopted by the European Union, however IFRS 11 becomes effective, at the latest, as from the commencement date of its first financial year starting on or after 1 January 2014. It supersedes IAS 31, 'Interests in Joint Ventures' and SIC-13, 'Jointly-controlled Entities – Nonmonetary Contributions by Venturers'.

The core principle of IFRS 11 is that a party to a joint arrangement determines the type of joint arrangement in which it is involved by assessing its rights and obligations and accounts for those rights and obligations in accordance with that type of joint arrangement. IFRS 11 classifies joint arrangements as either joint ventures or joint operations. IFRS 11 requires use of the equity method of accounting for joint ventures by eliminating the option to use the proportionate consolidation method. A joint operator recognises its assets, liabilities, revenues and expenses separately in relation to its interest in the arrangement.

As the Erste Group did not apply the proportionate consolidation method allowed in IAS 31, application of this standard is not expected to have a significant impact on Erste Group's financial statements.

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 was issued in May 2011 and is effective for annual periods beginning on or after 1 January 2013. As adopted by the European Union, however, IFRS 12 becomes effective, at the latest, as from the commencement date of its first financial year starting on or after 1 January 2014.

The objective of IFRS 12 is to require disclosure of information enabling users of financial statements to evaluate the nature of, and risks associated with, an investor's interests in other entities as well as the effects of those interests on the investor's financial position, financial performance and cash flows. Disclosures are provided separately for subsidiaries, joint operations, joint ventures, associates, and unconsolidated structured entities. IFRS 12 is a comprehensive disclosures standard. Therefore, there are no specific disclosure requirements in IFRS 10, IFRS 11 and IAS 28.

Application of this standard is not expected to have a significant impact on Erste Group's financial statements. However, it will result in new disclosures especially in the area of non-controlling interests.

Amendments to IFRS 10, IFRS 11 and IFRS 12 – Transition guidance

Amendments to IFRS 10, IFRS 11 and IFRS 12 were issued in June 2012 and their effectiveness is aligned with the effective date of the standards.

The amendments change the transition guidance to provide further relief from retrospective application.

Application of these amendments is not expected to have a significant impact on Erste Group's financial statements.

Amendments to IFRS 10, IFRS 12 and IAS 27 – Investment entities

Amendments to IFRS 10, IFRS 12 and IAS 27 were issued in October 2012 and are effective for annual periods beginning on or after 1 January 2014.

The amendments provide an exemption from consolidation of subsidiaries under IFRS 10 for entities which meet the definition of an investment entity, such as certain investment funds. Instead, such entities will measure their investments in subsidiaries at fair value through profit or loss.

Application of these amendments is not expected to have a significant impact on Erste Group's financial statements.

IFRS 13 Fair Value Measurement
IFRS 13 was issued in May 2011 and is effective for annual periods beginning on or after 1 January 2013.

It establishes a single source of guidance for fair value measurement and application under IFRS. It applies for fair value measurements which are already required or permitted by other standards. Therefore, IFRS 13 does not increase the scope of assets and liabilities measured at fair value. IFRS 13 also introduces more comprehensive disclosure requirements on fair value measurement (e.g. extending the fair value hierarchy to financial instruments measured at amortised cost).

Application of IFRS 13 will result in enhanced disclosures about fair value measurements.

Annual Improvements to IFRSs (issued in 2012)
In May 2012, IASB issued a set of amendments to various standards. The amendments are effective for annual periods beginning on or after 1 January 2013.

Application of these amendments is not expected to have a significant impact on Erste Group's financial statements.

D. NOTES TO THE STATEMENT OF COMPREHENSIVE INCOME AND THE BALANCE SHEET OF ERSTE GROUP

1) Net interest income

in EUR million	2012	2011
Interest income		
Lending and money market transactions with credit institutions	944.5	1,077.4
Lending and money market transactions with customers	5,957.8	6,426.5
Bonds and other interest-bearing securities	1,383.9	1,331.9
Other interest and similar income	7.3	10.3
Current income		
Equity-related securities	56.1	77.8
Investments		
Non-consolidated subsidiaries	17.4	11.2
Other investments	20.1	19.2
Investment properties	73.2	74.0
Interest and similar income	**8,460.3**	**9,028.3**
Interest income from financial assets - at fair value through profit or loss	334.8	322.3
Total interest and similar income	**8,795.1**	**9,350.6**
Interest expenses		
Deposits by banks	(642.3)	(654.6)
Customer deposits	(1,741.1)	(1,831.8)
Debt securities in issue	(926.5)	(1,032.2)
Subordinated liabilities	(204.9)	(239.5)
Other	(2.8)	(8.9)
Interest and similar expenses	**(3,517.6)**	**(3,767.0)**
Interest expenses from financial liabilities - at fair value through profit or loss	(58.6)	(22.6)
Total interest and similar expenses	**(3,576.2)**	**(3,789.6)**
Income from equity method investments	**16.4**	**8.0**
Total	**5,235.3**	**5,569.0**

Rental income from investment properties which are classified in accordance with IAS 40 totalled EUR 87.6 million (2011: EUR 88.7 million).

For financial assets or liabilities that are not measured at fair value through profit or loss, the total interest income amounted to EUR 7,555.1 million (2011: EUR 7,570.9 million) and the total interest expense to EUR (3,236.5) million (2011: EUR (3,551.6) million). Net interest income for these positions is therefore EUR 4,318.6 million (2011: EUR 4,019.3 million).

2) Risk provisions for loans and advances

in EUR million	2012	2011
Allocation to risk provisions for loans and advances	(3,203.7)	(3,111.8)
Release of risk provisions for loans and advances	1,364.0	1,016.5
Direct write-offs of loans and advances	(237.3)	(223.6)
Recoveries on written-off loans and advances	97.0	52
Total	**(1,980.0)**	**(2,266.9)**

3) Net fee and commission income

in EUR million	2012	2011
Lending business	263.4	279.9
Payment transfers	862.3	863.3
Card business	202.2	205.6
Securities business	356.9	373.4
Investment fund transactions	195.2	205.6
Custodial fees	39.7	36.5
Brokerage	122.0	131.3
Insurance brokerage	99.3	105.0
Building society brokerage	31.2	33.7
Foreign exchange transactions	25.2	24.8
Investment banking business	20.4	13.1
Other	62.1	94.0
Total	**1,720.8**	**1,787.2**

4) Net trading result

in EUR million	2012	2011
Securities and derivatives trading	74.2	(33.4)
Foreign exchange transactions	199.2	155.7
Total	**273.4**	**122.3**

From cash flow and fair value hedges an amount of EUR (21.0) million (2011: EUR (25.1) million) is reported in net trading result.

5) General administrative expenses

in EUR million	2012	2011
Personnel expenses	(2,284.1)	(2,323.7)
Other administrative expenses	(1,106.1)	(1,152.4)
Depreciation and amortisation	(366.5)	(374.8)
Total	**(3,756.7)**	**(3,850.9)**

Personnel expenses

in EUR million	2012	2011
Wages and salaries	(1,737.0)	(1,768.5)
Compulsory social security contributions	(433.3)	(445.5)
Long-term employee provisions	(70.4)	(62.9)
Other personnel expenses	(43.4)	(46.8)
Total	**(2,284.1)**	**(2,323.7)**

Personnel expenses include expenses of EUR 52.0 million (2011: EUR 57.4 million) for defined contribution plans of which EUR 0.9 million (2011: EUR 0.9 million) relates to members of the management board.

Average number of employees during the financial year (weighted according to the level of employment)

	2012	2011
Employed by Erste Group	**49,537**	**50,167**
Domestic	16,111	16,051
Haftungsverbund savings banks	7,433	7,465
Abroad	33,426	34,116
Banca Comercială Română Group	8,690	9,299
Česká spořitelna Group	10,760	10,556
Slovenská sporiteľňa Group	4,200	4,097
Erste Bank Hungary Group	2,639	2,949
Erste Bank Croatia Group	2,615	2,536
Erste Bank Serbia	937	931
Erste Bank Ukraine	1,569	1,716
Other subsidiaries and foreign branch offices	2,016	2,032

Other administrative expenses

in EUR million	2012	2011
IT expenses	(250.0)	(265.9)
Expenses for office space	(280.1)	(295.4)
Office operating expenses	(145.6)	(144.4)
Advertising/marketing	(184.7)	(193.7)
Legal and consulting costs	(130.5)	(115.4)
Sundry administrative expenses	(115.2)	(137.6)
Total	**(1,106.1)**	**(1,152.4)**

Operating expenses (including repair and maintenance) for 'Investment properties' held for rental income totalled EUR 3.6 million (2011: EUR 5.1 million).

Depreciation and amortisation

in EUR million	2012	2011
Software and other intangible assets	(149.4)	(139.3)
Real estate used by the Group	(85.7)	(88.8)
Office furniture and equipment and sundry property and equipment	(131.4)	(146.7)
Total	**(366.5)**	**(374.8)**

Amortisation of customer relationships is included not in the item depreciation and amortisation but in other operating result.

6) Other operating result

in EUR million	2012	2011
Other operating income	842.8	195.1
Other operating expenses	(1,567.1)	(1,785.0)
Total	**(724.3)**	**(1,589.9)**
Result from real estates/movables/properties/software	(73.0)	(84.3)
Allocation/release of other provisions/risks	25.9	(35.2)
Expenses for deposit insurance contributions	(80.7)	(87.2)
Amortisation of customer relationships	(69.2)	(69.0)
Other taxes	(269.1)	(163.5)
Impairment of goodwill	(514.9)	(1,064.6)
Result from repurchases of liabilities measured at amortised cost	413.4	0.1
Result from other operating expenses/income	(156.7)	(86.2)
Total	**(724.3)**	**(1,589.9)**

Operating expenses (including repair and maintenance) for 'Investment properties' not held for rental income totalled EUR 24.6 million (2011: EUR 8.9 million).

The amount of impairment on assets held for sale recognised in the result from real estates/moveables/properties/software is EUR (69.8) million (2011: EUR (14.7) million).

7) Result from financial instruments – at fair value through profit or loss

in EUR million	2012	2011
Gain / (loss) from measurement / sale of financial assets designated for fair value through profit or loss	40.0	(49.2)
Gain / (loss) from measurement / sale of financial liabilities designated for fair value through profit or loss	(97.5)	12.1
Gain / (loss) from derivatives used for Fair Value Option	53.9	37.4
Total	**(3.6)**	**0.3**

8) Result from financial assets – available for sale

in EUR million	2012	2011
Gain / (loss) from sale of financial assets available for sale	121.9	64.1
Impairment / reversal of impairment of financial assets available for sale	(65.7)	(130.3)
Total	**56.2**	**(66.2)**

During the reporting period, the amount removed from 'Other comprehensive income' to 'Result from Financial assets – available for sale' was EUR 262.0 million (2011: EUR 33.9 million).

The carrying amount of investments in equity instruments measured at cost which were sold during the period was EUR 9.9 million (2011: EUR 4.4 million). The resulting gain on sale was EUR 6.7 million (2011: EUR 17.3 million).

9) Result from financial assets – held to maturity

in EUR million	2012	2011
Income		
Income from sale of financial assets held to maturity	7.7	8.7
Reversal of impairment loss of financial assets held to maturity	0.0	1.3
Expenses		
Loss from sale of financial assets held to maturity	(14.3)	(27.8)
Impairment of financial assets held to maturity	(13.3)	(9.3)
Total	**(19.9)**	**(27.1)**

10) Taxes on income

Taxes on income are made up of current taxes on income calculated in each of the group companies based on the results reported for tax purposes, corrections to taxes on income for previous years, and the change in deferred taxes.

in EUR million	2012	2011
Current tax expense / income	(314.5)	(308.5)
current period	(294.2)	(302.2)
prior period	(20.3)	(6.3)
Deferred tax expense / income	144.3	68.1
current period	126.2	77.9
prior period	18.1	(9.8)
Total	**(170.2)**	**(240.4)**

The following table reconciles the income taxes reported in the income statement to the pre-tax profit/loss multiplied by the nominal Austrian tax rate.

in EUR million	2012	2011
Pre-tax profit/loss	801.2	(322.2)
Income tax expense for the financial year at the domestic statutory tax rate (25%)	(200.3)	80.6
Impact of different foreign tax rates	43.4	(83.9)
Impact of tax-exempt earnings of investments and other tax-exempt income	131.1	168.5
Tax increases due to non-deductible expenses	(142.3)	(389.5)
Tax income not attributable to the reporting period	(2.2)	(16.1)
Total	**(170.2)**	**(240.4)**

Tax effects relating to each component of other comprehensive income:

	2012			2011		
in EUR million	Before-tax amount	Tax benefit	Net-of-tax amount	Before-tax amount	Tax benefit	Net-of-tax amount
Available for sale-reserve (including currency translation)	975.9	(199.7)	776.2	(64.6)	14.5	(50.1)
Cash flow hedge-reserve (including currency translation)	(3.4)	4.6	1.2	30.6	(6.4)	24.2
Actuarial gains and losses	(45.9)	11.2	(34.7)	(42.7)	15.0	(27.7)
Currency translation	16.2	0.0	16.2	(232.9)	0.0	(232.9)
Other comprehensive income	**942.8**	**(183.9)**	**758.9**	**(309.6)**	**23.1**	**(286.5)**

11) Appropriation of profit

It will be proposed at the Annual General Meeting of Erste Group Bank AG that shareholders be paid a dividend of EUR 0.40 per share or EUR 157,827,458.80 in total. Shareholders of participation capital, will be paid a dividend of 8% on nominal value, this is EUR 141,099,520.00 in total. In 2012 EUR 141,099,520.00 was paid out to shareholders of participation capital and no dividend per share was paid for the financial year 2011. (In 2011, a dividend of EUR 0.70 per share was paid (EUR 264,723,704.70) as well as a dividend to shareholders of participation capital (EUR 141,099,520.00) for the financial year 2010). The total profit of Erste Group Bank AG distributable under Austrian accounting regulations is EUR 298.9 million (2011: EUR 141.1 million).

12) Cash and balances with central banks

in EUR million	2012	2011
Cash in hand	2,342	2,164
Balances with central banks	7,398	7,249
Total	**9,740**	**9,413**

A portion of 'Balances with central banks' represent mandatory reserve deposits that are not available for use in the day-to-day operations of Erste Group.

13) Loans and advances to credit institutions

in EUR million	2012	2011
Loans and advances to domestic credit institutions	1,029	726
Loans and advances to foreign credit institutions	8,045	6,852
Total	**9,074**	**7,578**

14) Loans and advances to customers

in EUR million	2012	2011
Loans and advances to domestic customers		
Public sector	2,873	3,027
Commercial customers	37,132	37,541
Private customers	25,099	25,148
Unlisted securities	256	256
Other	255	268
Total loans and advances to domestic customers	**65,615**	**66,240**
Loans and advances to foreign customers		
Public sector	3,620	3,487
Commercial customers	32,723	34,313
Private customers	29,124	29,728
Unlisted securities	532	689
Other	314	293
Total loans and advances to foreign customers	**66,313**	**68,510**
Total	**131,928**	**134,750**

15) Risk provisions for loans and advances

Development in risk provisions 2012

in EUR million	2011	Acquisition/ disposal of subsidiaries	Currency translation	Allocations	Use	Releases	Interest income from impaired loans	Reclassification[2)3)]	2012
Specific loan loss provisions	6,113	12	75	2,785	(1,056)	(738)	(201)	(50)	6,940
Loans and advances to credit institutions	64	0	0	1	(3)	(1)	0	0	61
Loans and advances to customers	6,049	12	75	2,784	(1,053)	(737)	(201)	(50)	6,879
Portfolio loan loss provisions	914	1	6	273	0	(479)	0	(11)	704
Loans and advances to credit institutions	9	0	(1)	13	0	(15)	0	0	6
Loans and advances to customers	891	1	7	260	0	(458)	0	(6)	695
Financial assets - held to maturity	14	0	0	0	0	(6)	0	(5)	3
Risk provisions for loans and advances[1)]	**7,027**	**13**	**81**	**3,058**	**(1,056)**	**(1,217)**	**(201)**	**(61)**	**7,644**
Other risk provisions	130	0	2	12	(24)	(24)	0	(67)	29
Provisions for contingent credit risk liabilities	186	0	0	134	(22)	(123)	0	11	186
Total	**7,343**	**13**	**83**	**3,204**	**(1,102)**	**(1,364)**	**(201)**	**(117)**	**7,859**

1) Risk provisions for loans and advances are recognised in the balance sheet as a deduction from assets.
2) Due to classification of Erste Bank Ukraine as disposal group, risk provisions of Erste Bank Ukraine in amount of EUR 67 million are presented within 'assets held for sale' in 2012 and accordingly reclassified from risk provisions.
3) Other risk provisions in the amount of EUR 67 million were reclassified into other sundry provisions as a result of an analysis of legal cases related to the lending business.

Development in risk provisions 2011

in EUR million	2010	Acquisition/disposal of subsidiaries	Currency translation	Allocations	Use	Releases	Interest income from impaired loans	Reclassification	2011
Specific loan loss provisions	5,315	16	(75)	2,653	(920)	(712)	(178)	14	6,113
Loans and advances to credit institutions	67	0	0	12	(4)	(11)	0	0	64
Loans and advances to customers	5,248	16	(75)	2,641	(916)	(701)	(178)	14	6,049
Portfolio loan loss provisions	804	0	(12)	335	0	(221)	0	8	914
Loans and advances to credit institutions	18	0	0	2	0	(11)	0	0	9
Loans and advances to customers	785	0	(12)	320	0	(210)	0	8	891
Financial assets - held to maturity	1	0	0	13	0	0	0	0	14
Risk provisions for loans and advances[1)]	**6,119**	**16**	**(87)**	**2,988**	**(920)**	**(933)**	**(178)**	**22**	**7,027**
Other risk provisions[2)]	116	3	(2)	35	(2)	(10)	0	(10)	130
Provisions for contingent credit risk liabilities	186	0	(1)	89	(4)	(74)	0	(10)	186
Total	**6,421**	**19**	**(90)**	**3,112**	**(926)**	**(1,017)**	**(178)**	**2**	**7,343**

1) Risk provisions for loans and advances are recognised in the balance sheet as a deduction from assets.
2) Other risk provisions include mainly provisions for legal proceedings in the course of the lending business.

Impairment loss for financial instruments

in EUR million	2012	2011	Position in Statement of Comprehensive income
Loans and advances to credit institutions	16.6	19.1	Risk provisions for loans and advances (Note 2)[1)]
Loans and advances to customers	3,278.7	3180.2	Risk provisions for loans and advances (Note 2)[1)]
Financial assets - available for sale	75.3	136.1	Result from financial assets - available for sale (Note 8)[2)]
Financial assets - held to maturity	13.3	21.9	Result from financial assets - held to maturity (Note 9)[3),] Risk provisions for loans and advances (Note 2) [1)]
Contingent credit risk liabilities	145.7	123.6	Risk provisions for loans and advances (Note 2)[1)]

1) Amounts presented under this position are not directly reconcilable with Note 2 which presents risk provisions for loans and advances and includes also portfolio provisions for financial assets held to maturity, whereas Note 15 shows impairment loss for all kinds of credit risk bearing exposures (including contingent credit risk bearing exposures). Furthermore, Note 2 presents comprehensive profit or loss impairment effects consisting of allocation, release of risk provisions, direct write off expenses and income on loss and advances written off, whereas Note 15 discloses just effects of impairment loss consisting of allocation of risk provisions and direct write offs.
2) Amounts presented under this position are not directly reconcilable with Note 8 as under Note 15 only impairment loss is considered unlike Note 8 where also reversal of impairment is considered.
3) Amounts presented under this position are not directly reconcilable with Note 9 as under Note 15 only impairment loss is considered unlike Note 9 where also reversal of impairment is considered.

Loans and receivables and investment held to maturity 2012

in EUR million	Balance sheet positions (gross carrying amount)	Specific loan loss provisions	Portfolio loan loss provisions	Net carrying amount
Loans and advances to credit institutions	9,074	(61)	(6)	9,007
Loans and advances to customers	131,928	(6,879)	(695)	124,354
Financial assets - held to maturity	18,975	n/a	(3)	18,972
Risk provisions for loans and advances	(7,644)	6,940	704	0
Total	**152,332**	**0**	**0**	**152,332**

Loans and receivables and investment held to maturity 2011

in EUR million	Balance sheet positions (gross carrying amount)	Specific loan loss provisions	Portfolio loan loss provisions	Net carrying amount
Loans and advances to credit institutions	7,578	(64)	(9)	7,504
Loans and advances to customers	134,750	(6,049)	(891)	127,810
Financial assets - held to maturity	16,074	n/a	(14)	16,060
Risk provisions for loans and advances	(7,027)	6,113	914	0
Total	**151,373**	**0**	**0**	**151,373**

16) Derivative financial instruments

	2012			2011		
	Notional amount	Fair value		Notional amount	Fair value	
in EUR million		Positive	Negative		Positive	Negative
Derivatives held for trading						
Interest rate	235,342	8,655	8,517	314,661	6,906	6,971
Equity	731	22	7	676	5	2
Foreign exchange	33,039	1,083	688	46,948	1,005	690
Credit	606	6	9	986	29	20
Commodity	496	5	8	171	3	7
Other	147	4	0	7	0	0
Total derivatives held for trading	**270,361**	**9,775**	**9,229**	**363,449**	**7,948**	**7,690**
Derivatives held in banking book						
Fair value hedges						
Interest rate	28,450	2,394	695	15,484	1,648	499
Equity	0	0	0	0	0	0
Foreign exchange	321	11	12	583	29	76
Credit	0	0	0	0	0	0
Commodity	0	0	0	0	0	0
Other	27	3	0	20	3	1
Total fair value hedges	**28,798**	**2,408**	**707**	**16,087**	**1,680**	**576**
Cash flow hedges						
Interest rate	2,434	102	0	4,633	97	19
Equity	0	0	0	0	0	0
Foreign exchange	1,553	2	0	1,291	36	4
Credit	0	0	0	0	0	0
Commodity	0	0	0	0	0	0
Other	0	0	0	2	0	0
Total cash flow hedges	**3,987**	**104**	**0**	**5,926**	**133**	**23**
Other derivatives						
Interest rate	15,749	853	719	31,173	884	642
Equity	1,009	37	40	1,096	54	55
Foreign exchange	15,784	89	165	10,436	170	314
Credit	580	10	4	761	56	29
Commodity	56	13	13	206	1	4
Other	106	0	1	50	5	4
Total other derivatives	**33,284**	**1,002**	**942**	**43,722**	**1,170**	**1,048**
Total derivatives in banking book	**66,069**	**3,514**	**1,649**	**65,735**	**2,983**	**1,647**
Total derivatives	**336,430**	**13,289**	**10,878**	**429,184**	**10,931**	**9,337**

17) Securities

in EUR million	Loans and advances to customers and credit institutions		Financial assets: Trading assets		Financial assets: At fair value through profit or loss		Financial assets: Available for sale		Financial assets: Held to maturity		Total	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
Bonds and other interest-bearing securities	**1,312**	**1,705**	**4,872**	**5,461**	**526**	**1,502**	**20,226**	**17,654**	**18,975**	**16,074**	**45,911**	**42,396**
Listed	0	0	4,404	4,253	467	1,375	18,924	16,457	18,216	15,150	42,011	37,235
Unlisted	1,312	1,705	468	1,208	59	127	1,302	1,197	759	924	3,900	5,161
Equity-related securities	**0**	**0**	**306**	**406**	**190**	**311**	**1,725**	**2,109**	**0**	**0**	**2,221**	**2,826**
Listed	0	0	104	119	190	311	573	474	0	0	867	904
Unlisted	0	0	202	287	0	0	1,152	1,635	0	0	1,354	1,922
Equity holdings	0	0	0	0	0	0	467	482	0	0	467	482
Total	**1,312**	**1,705**	**5,178**	**5,867**	**716**	**1,813**	**22,418**	**20,245**	**18,975**	**16,074**	**48,599**	**45,704**

Investment funds are disclosed within equity-related securities.

Held-to-maturity financial assets include bonds and other interest-bearing securities that are quoted in active markets and are intended to be held to maturity.

The carrying amount of investments in equity instruments measured at cost is EUR 376 million (2011: EUR 431 million).

Securities lending and repurchase transactions are disclosed in Note 36.

18) Equity method investments

in EUR million	2012	2011
Credit institutions	94	94
Non-credit institutions	80	79
Total	**174**	**173**

The table below shows the aggregated financial information of companies accounted for at equity:

in EUR million	2012	2011
Total assets	2,662	2,533
Total liabilities	2,262	2,159
Income	350	366
Profit/loss	43	43

As of 31 December 2012 and 31 December 2011, none of Erste Group's investments accounted for at equity published price quotations.

19) Movements in fixed assets schedule

19.1) Property, equipment and other assets

A) AT COST

in EUR million	Property and equipment: Land and buildings (used by the Group)	Property and equipment: Office and plant equipment/ other fixed assets	Property and equipment: IT assets (hardware)	Property and equipment	Investment properties	Movable other property[1]
Balance as of 1 Jan 2011	**2,865**	**1,250**	**765**	**4,879**	**1,597**	**22**
Additions in current year (+)	92	81	44	218	75	35
Disposals (-)	(72)	(81)	(94)	(248)	(38)	(15)
Acquisition of subsidiaries (+)	5	4	4	14	0	0
Disposal of subsidiaries (-)	(6)	(6)	(1)	(13)	(6)	0
Reclassifications (+/-)	1	(35)	14	(20)	6	20
Assets held for sale (+/-)	64	0	0	64	0	0
Currency translation (+/-)	(33)	(12)	(11)	(57)	(14)	0
Balance as of 31 Dec 2011	**2,917**	**1,200**	**720**	**4,837**	**1,620**	**62**
Additions in current year (+)	128	80	44	253	43	267
Disposals (-)	(110)	(70)	(63)	(243)	(116)	(8)
Acquisition of subsidiaries (+)	0	0	0	0	0	0
Disposal of subsidiaries (-)	0	(1)	0	(2)	(52)	0
Reclassifications (+/-)	4	(5)	6	5	1	0
Assets held for sale (+/-)	(85)	(9)	(5)	(99)	(9)	0
Currency translation (+/-)	8	4	1	14	23	(1)
Balance as of 31 Dec 2012	**2,863**	**1,199**	**704**	**4,766**	**1,510**	**321**

1) Movable other property is part of 'Other Assets' in the balance sheet.

B) ACCUMULATED DEPRECIATION

in EUR million	Property and equipment: Land and buildings (used by the Group)	Property and equipment: Office and plant equipment/ other fixed assets	Property and equipment: IT assets (hardware)	Property and equipment	Investment properties	Movable other property[1]
Balance as of 1 Jan 2011	**(955)**	**(880)**	**(598)**	**(2,434)**	**(434)**	**(12)**
Amortisation and depreciation (-)	(89)	(70)	(76)	(235)	(34)	(9)
Disposals (+)	47	69	91	207	11	5
Acquisition of subsidiaries (+)	(2)	(2)	(3)	(7)	(4)	0
Disposal of subsidiaries (+)	2	3	1	6	0	0
Impairment (-)	(9)	(2)	0	(12)	(23)	0
Reversal of impairment (+)	0	0	0	0	5	1
Reclassifications (+/-)	6	4	0	10	(4)	(4)
Assets held for sale (+/-)	(26)	0	0	(26)	0	0
Currency translation (+/-)	7	0	8	15	1	0
Balance as of 31 Dec 2011	**(1,019)**	**(879)**	**(578)**	**(2,476)**	**(481)**	**(18)**
Amortisation and depreciation (-)	(86)	(80)	(63)	(229)	(34)	(10)
Disposals (+)	37	62	58	158	50	1
Acquisition of subsidiaries (-)	0	0	0	0	(1)	(88)
Disposal of subsidiaries (+)	0	1	0	1	18	5
Impairment (-)	(25)	(1)	0	(26)	(36)	(4)
Reversal of impairment (+)	7	0	0	7	2	3
Reclassifications (+/-)	(4)	0	(3)	(6)	0	0
Assets held for sale (+/-)	31	7	5	43	1	1
Currency translation (+/-)	(4)	(4)	0	(9)	(6)	0
Balance as of 31 Dec 2012	**(1,063)**	**(894)**	**(581)**	**(2,538)**	**(487)**	**(110)**

1) Movable other property is part of 'Other Assets' in the balance sheet.

C) CARRYING AMOUNTS

in EUR million	Property and equipment					
	Land and buildings (used by the Group)	Office and plant equipment/ other fixed assets	IT assets (hardware)	Property and equipment	Investment properties	Movable other property[1)]
Balance as of 31 Dec 2011	**1,897**	**322**	**142**	**2,361**	**1,139**	**44**
Balance as of 31 Dec 2012	**1,800**	**305**	**123**	**2,228**	**1,023**	**211**

1) Movable other property is part of 'Other Assets' in the balance sheet.

The fair value of investment properties totalled EUR 1,047 million (2011: EUR 1,212 million).

The determination of fair values in Austria is mainly conducted by internal experts, while in the CEE countries it is on the basis of external expert opinions. The determined market values are then cross-checked with observed market values.

The amount recorded for investment properties under operating leases includes a carrying amount of EUR 325 million (2011: EUR 157 million).

In the reporting period, borrowing costs of EUR 6.5 million (2011: EUR 6.0 million) were capitalised. The related interest rates ranged from 0.7% to 2.9%. (2011: 1.0% to 3.7%).

The carrying amount of expenditure recognized in the item fixed assets and investment properties during their construction is EUR 39.4 million (2011: EUR 334.9 million). The contractual commitments for purchase of fixed assets and investment properties are EUR 277.2 million (2011: EUR 199.7 million).

Impairment losses recognised in 2012 and 2011 for investment property come from real estate funds managed by Česká spořitelna, a.s.

19.2) Intangible assets

A) AT COST

	Intangible assets						
in EUR million	Goodwill	Customer relationships	Brand	Software acquired	Self-constructed software within the Group	Others (licenses, patents, etc.)	Total
Balance as of 1 Jan 2011	**4,003**	**782**	**303**	**1,160**	**253**	**521**	**7,022**
Additions in current year (+)	0	0	0	178	15	14	207
Disposals (-)	0	0	0	(102)	(16)	(2)	(120)
Acquisition of subsidiaries (+)	0	0	0	6	0	1	7
Disposal of subsidiaries (-)	(2)	0	0	(1)	0	0	(3)
Reclassifications (+/-)	0	0	0	36	0	(29)	7
Assets held for sale (+/-)	0	0	0	0	0	0	0
Currency translation (+/-)	(21)	(6)	(4)	(20)	0	(9)	(60)
Balance as of 31 Dec 2011	**3,981**	**776**	**299**	**1,258**	**251**	**495**	**7,060**
Additions in current year (+)	0	0	0	102	27	34	163
Disposals (-)	0	0	0	(35)	(10)	(2)	(47)
Acquisition of subsidiaries (+)	0	0	0	0	0	0	0
Disposal of subsidiaries (-)	0	0	0	0	0	0	0
Reclassifications (+/-)	0	0	0	9	3	(12)	0
Assets held for sale (+/-)	0	0	0	(27)	0	0	(27)
Currency translation (+/-)	(31)	(4)	(8)	10	2	3	(29)
Balance as of 31 Dec 2012	**3,950**	**772**	**291**	**1,317**	**273**	**518**	**7,120**

B) ACCUMULATED DEPRECIATION

	Intangible assets						
in EUR million	Goodwill	Customer relationships	Brand	Software acquired	Self-constructed software within the Group	Others (licenses, patents, etc.)	Total
Balance as of 1 Jan 2011	**(744)**	**(274)**	**0**	**(821)**	**(224)**	**(284)**	**(2,347)**
Amortisation and depreciation (-)	0	(69)	0	(102)	(16)	(21)	(208)
Disposals (+)	0	0	0	88	19	2	109
Acquisition of subsidiaries (+)	0	0	0	(4)	0	(1)	(5)
Disposal of subsidiaries (+)	0	0	0	1	0	0	1
Impairment (-)	(1,065)	0	0	0	0	(1)	(1,066)
Reversal of impairment (+)	0	0	0	0	0	0	0
Reclassifications (+/-)	0	0	0	0	0	1	1
Assets held for sale (+/-)	0	0	0	0	0	0	0
Currency translation (+/-)	0	0	0	0	0	(14)	(14)
Balance as of 31 Dec 2011	**(1,809)**	**(343)**	**0**	**(838)**	**(221)**	**(317)**	**(3,528)**
Amortisation and depreciation (-)	0	(69)	0	(113)	(18)	(23)	(223)
Disposals (+)	0	0	0	31	10	2	43
Acquisition of subsidiaries (-)	0	0	0	0	0	0	0
Disposal of subsidiaries (+)	0	0	0	0	0	0	0
Impairment (-)	(515)	0	0	0	0	0	(515)
Reversal of impairment (+)	0	0	0	0	0	0	0
Reclassifications (+/-)	0	0	0	0	0	0	0
Assets held for sale (+/-)	0	0	0	10	0	0	10
Currency translation (+/-)	0	0	0	(6)	0	(7)	(13)
Balance as of 31 Dec 2012	**(2,324)**	**(412)**	**0**	**(916)**	**(229)**	**(345)**	**(4,226)**

C) CARRYING AMOUNTS

	Intangible assets						
in EUR million	Goodwill	Customer relationships	Brand	Software acquired	Self-constructed software within the Group	Others (licenses, patents, etc.)	Total
Balance as of 31 Dec 2011	**2,172**	**433**	**299**	**420**	**30**	**178**	**3,532**
Balance as of 31 Dec 2012	**1,626**	**359**	**291**	**401**	**44**	**173**	**2,894**

As of 31 December 2012, customer relationships included the customer relationships of Banca Comercială Română at EUR 253.4 million (2011: EUR 315.2 million), the customer relationship and distribution network of Erste Card Club d.d. Croatia at EUR 10.7 million (2011: EUR 17.4 million), as well as the customer relationships of Ringturm Kapitalanlagegesellschaft m.b.H at EUR 68.5 million (2011: EUR 72.8 million). The remaining amortisation period of customer relationships in Banca Comercială Română is 4.7 years, in Erste Card Club d.d. Croatia 1.6 years and in Ringturm Kapitalanlagegesellschaft m.b.H 15.8 years.

The item 'Brand' as of 31 December 2012 consisted of the brand of Banca Comercială Română, at EUR 290.6 million (2011: EUR 298.7 million).

Development of goodwill

The changes in the carrying amount of goodwill, as well as gross amounts and accumulated impairment losses of goodwill, for the years ended 31 December 2012 and 2011 are shown below by country of subsidiary.

in EUR million	Romania	Czech Republic	Slovakia	Hungary	Croatia	Austria	Other countries	Total
Balance as of 1 Jan 2011	**1,819**	**544**	**226**	**313**	**116**	**240**	**1**	**3,259**
Acquisitions	0	0	0	0	0	0	0	0
Disposals	0	0	0	0	0	0	(1)	(1)
Impairment losses	(699)	0	0	(313)	0	(53)	0	(1,065)
Exchange rate changes	(19)	0	0	0	(2)	0	0	(21)
Balance as of 31 Dec 2011	**1,101**	**544**	**226**	**0**	**114**	**187**	**0**	**2,172**
Gross amount of goodwill	2,280	544	226	313	114	363	141	3,981
Cumulative impairment	(1,179)	0	0	(313)	0	(176)	(141)	(1,809)
Balance as of 1 Jan 2012	**1,101**	**544**	**226**	**0**	**114**	**187**	**0**	**2,172**
Acquisitions	0	0	0	0	0	0	0	0
Disposals	0	0	0	0	0	0	0	0
Impairment losses	(470)	0	0	0	0	(45)	0	(515)
Exchange rate changes	(31)	0	0	0	0	0	0	(31)
Balance as of 31 Dec 2012	**600**	**544**	**226**	**0**	**114**	**142**	**0**	**1,626**
Gross amount of goodwill	2,249	544	226	313	114	363	141	3,950
Cumulative impairment	(1,649)	0	0	(313)	0	(221)	(141)	(2,324)

The gross amount of goodwill is the amount at the time of acquisition, less accumulated amortisation before 2004, including exchange rate changes.

In the development of goodwill, all companies are grouped by the country of subsidiary.

Goodwill as of 31 December 2012 comprised predominantly goodwill of EUR 597.4 million (2011: EUR 1,097.6 million) from Banca Comercială Română S.A, goodwill of EUR 543.1 million (2011: EUR 543.1 million) from Česká spořitelna a.s., and goodwill of EUR 226.3 million (2011: EUR 226.3 million) from Slovenská sporitel'ňa a.s.

Impairment losses recognised for goodwill in 2012 come from Banca Comercială Română S.A. (EUR 469.4 million). Goodwill from Salzburger Sparkasse AG (balance as of 31 Dec 2011: EUR 22.3 million), and that from Sparkasse Oberösterreich AG (balance as of 31 Dec 2011: EUR 22.8 million), were fully impaired in 2012.

Impairment losses recognised for goodwill in 2011 come from Banca Comercială Română S.A. (EUR 692.8 million). Goodwill from Erste Bank Hungary Nyrt., Erste Asset Management GmbH, as well as BCR Leasing IFN S.A. and Tiroler Sparkasse AG was fully impaired in 2011.

All these impairments were allocated based on value in use of the assets.

The carrying amounts of acquired goodwill elements have been assessed for impairment in connection with the following subsidiaries (cash generating units):

- Allgemeine Sparkasse Oberösterreich Bankaktiengesellschaft (‘ASK’)
- Banca Comerciala Romana SA (‘BCR’)
- Ceska sporitelna a.s. (‘CSAS’)
- Erste & Steiermarkische Bank d.d., Erste Bank Croatia (‘EBC’)
- Slovenska sporitelna a.s. (‘SLSP’)
- Salzburger Sparkasse (‘SSK’)
- Steiermärkische Bank und Sparkassen Aktiengesellschaft (‘STMK’)

The table below summarizes the key elements of the approach taken in designing and performing the goodwill impairment test:

In EUR million	ASK	BCR	CSAS	EBC	SLSP	SSK	STMK
Carrying amount of goodwill as of 1 January 2012	23	1,101	544	114	226	22	55
Effect of exchange rate changes for the year 2012	0	(31)	0	0	0	0	0
Basis upon which recoverable amount has been determined	Value in use (discounted cash flow model)						
Key input parameters into the discounted cash flow model	Risk free rate, terminal growth rate, β factor, market risk premium						
Description of approach to determining value assigned to risk free rate	Risk free rate has been set at 2.4% p.a. across relevant Erste Group's CGUs based on relevant financial statistics published by Deutsche Bundesbank as of the reference date 30 November 2012						
Description of approach to determining values assigned to terminal growth rate	For Austrian CGUs: Terminal growth rate has been set to 1.0% reflecting expected the Austrian annual average long-term inflation rate. For non-Austrian (CEE) CGUs: Terminal growth rate has been set to expected annual growth rate necessary for convergence to the economic level of the euro area, considering projections for each related national banking system until reaching a mature level similar to that of the euro area's saturated market.						
Description of approach to determining values assigned to β factor	Set as the median value of a group of levered β factors attributable to a sample of ‘peer banks’ representative of the tested banks (CGUs), as published by Bloomberg as of the reference date 30 November 2012. Thus, the β values used have been set at 1.0922 for Austrian tested entities and 1.2476 for non-Austrian (CEE) tested entities.						
Description of approach to determining values assigned to market risk premium	Set at 6.0% across relevant Group's CGUs based on publicly available evaluations by Austrian Chamber of Commerce (Kammer der Wirtschaftstreuhander).						
Period of cash flow projection (years)	5 years (2013 - 2017); extrapolation to perpetuity based on terminal growth rate						
Terminal growth rate used to extrapolate cash flow projection beyond projection	1.0%	5.1%	2.5%	4.3%	3.0%	1.0%	1.0%
Discount rate applied to cash flow projections (pre-tax)	11.7%	15.8%	14.0%	17.4%	14.8%	11.4%	10.3%
Amount of goodwill impairment loss recognised in profit or loss for the year 2012	(23)	(470)	0	0	0	(22)	0
Post-impairment carrying amount of Goodwill as of 31 December 2012	0	600	544	114	226	0	55

For the purpose of the goodwill impairment assessment undertaken as of 31 December 2011, the key input parameters into the cash flow model and the approach taken in determining their respective values were the same. As a result, a risk-free rate of 3.1% and a market risk premium of 4.5% were used throughout the tested group entities, whereas the β factor values used were 0.9961 for Austrian entities and 1.2710 for non-Austrian entities.

The values of the other key input parameters used as of 31 December 2011 were as follows:

	ASK	BCR	CSAS	EBC	SLSP	SSK	STMK
Terminal growth rate used to extrapolate cash flow projection beyond projection	1.0%	4.7%	2.0%	2.9%	2.6%	1.0%	1.0%
Discount rate applied to cash flow projections (pre-tax)	9.9%	15.3%	12.8%	15.4%	12.8%	9.6%	8.7%

In connection with those tested cash-generating units for which no goodwill impairment loss has been determined as existing as of 31 December 2012, the table below summarizes the outcome of the sensitivity analysis performed to determine by how much the key input parameters into the applied discounted cash flow models would need adversely to vary in order to cause the unit's calculated recoverable amount to decrease down to its related carrying amount.

In EUR million	CSAS	EBC	SLSP	STMK
Amount by which recoverable amount exceeds carrying amount	2,648	3	563	6
Risk free rate increase that would cause recoverable amount to equal carrying amount (basis points)	655	4	363	13
Terminal growth rate decrease that would cause recoverable amount to equal carrying amount (basis points)	(3,799)	(14)	(1,187)	(45)
β factor increase that would cause recoverable amount to equal carrying amount (coefficient value)	1.0913	0.0069	0.6050	0.0283
Market risk premium increase that would cause recoverable amount to equal carrying amount (basis points)	525	3	291	16

As at 31 December 2011, the comparative sensitivity analysis figures were as follows:

In EUR million	CSAS	EBC	SLSP	STMK
Amount by which recoverable amount exceeds carrying amount	4,472	170	1,724	159
Risk free rate increase that would cause recoverable amount to equal carrying amount (basis points)	711	295	725	266
Terminal growth rate decrease that would cause recoverable amount to equal carrying amount (basis points)	(20,538)	(1,490)	(20,149)	(1,247)
β factor increase that would cause recoverable amount to equal carrying amount (coefficient value)	2.6705	0.6560	2.5309	0.9207
Market risk premium increase that would cause recoverable amount to equal carrying amount (basis points)	946	232	896	416

20) Tax assets and liabilities

					Net variance 2012		
in EUR million	Tax assets 2012	Tax assets 2011	Tax liabilities 2012	Tax liabilities 2011	Total	Through profit or loss	Through other compre-hensive income
Temporary differences relate to the following items:							
Loans and advances to credit institutions and customers	102	125	(94)	(105)	(11)	(11)	0
Risk provisions for loans and advances	124	143	(169)	(111)	(77)	(77)	0
Financial assets - available for sale	294	246	(236)	(57)	(130)	69	(200)
Property and equipment	36	48	(21)	(22)	(11)	(11)	0
Deposits by banks and customer deposits	2	7	(25)	(27)	(3)	(3)	0
Long-term employee provisions	123	117	0	(2)	8	(3)	11
Sundry provisions	34	41	2	(11)	7	7	0
Carry forward of tax losses	208	185	0	0	23	23	0
Customer relationships and brand	11	12	(117)	(131)	13	13	0
Other	259	278	(202)	(379)	158	136	22
Effect of netting gross deferred tax position	(537)	(502)	537	502	0	0	0
Total deferred taxes	**658**	**702**	**(324)**	**(345)**	**(23)**	**143**	**(166)**
Current taxes	**128**	**116**	**(53)**	**(34)**	**(7)**	**(9)**	**2**
Total taxes	**785**	**818**	**(377)**	**(379)**	**(31)**	**134**	**(164)**

In compliance with IAS 12.39, no deferred tax liabilities were recognised for temporary differences relating to investments in subsidiaries in the amount of EUR 344 million (31 December 2011: EUR 337 million), as they are not expected to reverse in the foreseeable future. No deferred taxes were recognised for tax losses carried forward of EUR 1,821 million (31 December 2011: EUR 1,694 million), as they will not be realised in the foreseeable future.

21) Assets held for sale and liabilities associated with assets held for sale

in EUR million	2012	2011
Assets held for sale	708	87
Liabilities associated with assets held for sale	339	0

Assets held for sale include mainly disposal group held for sale (Erste Bank Ukraine), cars and buildings.

Disposal group held for sale (Erste Bank Ukraine)

Due to growing economic and political uncertainty in Ukraine and in order to concentrate on the key strategic markets in the eastern part of the European Union as well as on those countries with prospects to join the European Union, in December 2012 Erste Group signed an agreement for the sale of its fully owned Ukrainian subsidiary – Public Company 'Erste Bank' (hereafter referred as Erste Bank Ukraine) – to FIDOBANK, an unrelated third party.

The agreed selling price amounts to USD 83 million (approximately EUR 63 million at the USD/EUR exchange rate of 1.3194 from 31 December 2012), of which the amount of USD 25 million (approximately EUR 19 million) has been prepaid as of 31 December 2012. Due to the procedural aspects of obtaining formal approval of the transaction by the market supervising authorities in Austria and Ukraine (Antimonopoly Committee of Ukraine, National Bank of Ukraine, Finanzmarktaufsicht in Austria), its closure date is expected by the end of the 2nd quarter of 2013.

Having met the qualifying criteria of IFRS 5, Erste Bank Ukraine is presented in Erste Group consolidated financial statements for the financial year ending 31 December 2012 as a disposal group held for sale and included in the balance sheet positions 'Assets held for sale' and 'Liabilities associated with assets held for sale'. In accordance with the presentation requirements of IFRS 5, the assets and liabilities of Erste Bank Ukraine are neither reclassified nor re-presented in the statements of financial position of prior years.

As Erste Bank Ukraine does not fulfill any of the criteria stipulated in IFRS 5.32, it is not classified as 'discontinued operation'. Prior to its reclassification as a disposal group held for sale in the consolidated balance sheet of Erste Group, Erste Bank Ukraine performed, as part of preparing its individual financial statements for consolidation purposes, an impairment test of its non-financial assets according to IAS 36. This exercise led to no impairment loss being booked at the individual level, as the estimated value in use of Erste Bank Ukraine's non-financial assets as of 31 December 2012 (considered as a single cash-generating unit) exceeded their carrying amount.

Thereafter, the disposal group was measured at consolidated level according to IFRS 5 at the lower of the carrying amount and fair value less cost to sell. As the selling contract had been signed before the end of 2012, the best indication for fair value of the disposal group is the agreed transaction price. The agreed price of USD 83 million (approximately EUR 63 million) has been found to be lower than the net equity of Erste Bank Ukraine in the amount of EUR 138 million as of 31 December 2012. The resulting impairment loss was first allocated to the non-current assets in the disposal group that are within the scope of the IFRS 5 measurement requirements. For the remaining impairment loss, Erste Group has decided to create a provision for onerous contract according to IAS 37, as the underlying contractual obligation was in existence as of 31 December 2012.

The impairment loss was allocated to the following items, all of which impact the 'Other operating result' in the consolidated income statement:

in EUR million	2012
Impairment on property and equipment	(43)
Impairment on intangible assets	(17)
Allocation of provision for an onerous contract	(15)

After the allocation of impairment loss, the carrying amounts of major classes of assets and liabilities of Erste Bank Ukraine as of 31 December 2012 are as follow:

in EUR million	2012
ASSETS	
Cash and balances with central banks	36
Loans and advances, net	405
Financial assets - at fair value through profit or loss	96
Financial assets - available for sale	47
Intangible assets	0
Property and equipment	0
Other assets	15
Total assets	**599**
LIABILITIES AND EQUITY	
Deposits by banks and customer deposits	312
Other liabilities	7
Other provisions	20
Total liabilities and equity	**339**

The agreed transaction price is subject to pre-closing price adjustments. It is expected that operating business performance of Erste Bank Ukraine in the period from 1 January 2013 until the closing of the transaction will not lead to any deductions from the agreed transaction price, and thus no further material adjustments to the carrying amount of the disposal group are expected. Moreover, there is no uncertainty as to the ability of the buyer to pay the purchase price.

Other comprehensive income includes in total EUR 79 million of cumulative expenses relating to Erste Bank Ukraine, comprising EUR 81 million negative currency translation reserve and EUR 2 million positive Available for Sale reserve.

22) Other assets

in EUR million	2012	2011 amended[1]
Accrued commissions	119	125
Deferred income	198	224
Sundry assets	2,021	1,896
Total	**2,338**	**2,245**

1) Due to reclassification of Investment properties from Sundry assets to a separate position.

Sundry assets consist mainly of clearing items from the settlement of securities and payment transactions and contractual commitments.

23) Deposits by banks

in EUR million	2012	2011
Deposits by banks – domestic credit institutions	8,770	7,865
Deposits by banks – foreign credit institutions	13,052	15,920
Total	**21,822**	**23,785**

24) Customer deposits

in EUR million	Domestic 2012	Domestic 2011	Abroad 2012	Abroad 2011	Total 2012	Total 2011
Savings deposits	41,931	41,508	14,358	13,229	56,289	54,737
Other deposits						
Public sector	985	908	3,353	2,814	4,338	3,722
Commercial customers	12,198	12,450	13,979	12,893	26,177	25,343
Other deposits	6,024	5,505	29,525	28,888	35,549	34,393
Sundry	328	318	372	367	700	685
Total other	**19,535**	**19,181**	**47,229**	**44,962**	**66,764**	**64,143**
Total	**61,466**	**60,689**	**61,587**	**58,191**	**123,053**	**118,880**

Customer deposits include a total of EUR 632 million (2011: EUR 553 million) of liabilities to which the fair value option was applied. As of 31 December 2012 the total amount repayable on these liabilities at maturity at was EUR 629 million (2011: EUR 549 million). The difference between the fair value of the customer deposits to which the fair value option was applied and the amount repayable at maturity totalled EUR 3 million (2011: EUR 4 million). The amount of fair value changes that are attributable to changes in own credit risk amounts to EUR (5,4) million for reporting period 2012; cumulative amount of fair value changes at 31 December 2012 attributable to the changes in own credit risk is EUR (5,4) million.

25) Debt securities in issue

in EUR million	2012	2011
Bonds	17,217	18,656
Certificates of deposit	391	1,420
Other certificates of deposits/ name certificates	2,199	2,033
Mortgage and municipal bonds	11,915	11,652
Other	3	18
Own issues repurchased	(2,298)	(2,997)
Total	**29,427**	**30,782**

In 1998, Erste Group Bank AG launched a debt issuance programme (DIP) amounting to EUR 30 billion. The DIP is a programme for issuing debt instruments in various currencies and with a wide array of available structures and maturities. In 2012, 77 new issues with total volume of about EUR 5.1 billion were issued under the DIP.

Furthermore, in July 2010, a program to offer bonds to retail customers was implemented. In 2012, 151 new issues with total volume of about EUR 1.2 billion were floated.

The Euro Commercial Paper and Certificates of Deposit Programme from August 2008 has an overall size of EUR 10 billion. In all, 147 issues amounting to EUR 9.2 billion were placed in 2012. Issues totalling approximately EUR 9.3 billion were redeemed over the same period.

'Debt securities in issue' include EUR 1,641 million (2011: EUR 781 million) in liabilities to which the fair value option was applied. As of 31 December 2012, the total amount repayable on these liabilities at maturity was EUR 1,552 million (2011: EUR 788 million). The difference between the fair value of the debt securities for which the fair value option was applied and the amount repayable at maturity was EUR 89 million (2011: EUR (7) million). Fair value changes attributable to changes in own credit risk amount to EUR (35.4) million for the reporting period 2012 (2011: EUR 30.0 million), cumulative amount of fair value changes at 31 December 2012 attributable to the changes in own credit risk is EUR (5.4) million (2011: EUR 30.0 million).

26) Trading liabilities

in EUR million	2012	2011
Debt instruments	63	64
Trading liabilities	418	472
Total	**481**	**536**

27) Provisions

in EUR million	2012	2011
Long-term employee provisions	1,096	1,101
Sundry provisions	392	479
Total	**1,488**	**1,580**

a) Long-term employee provisions

in EUR million	Pensions	Severance payments	Jubilee payments	Total
Present value of long-term employee benefit obligations, 31 Dec 2008	**950**	**407**	**70**	**1,427**
Present value of long-term employee benefit obligations, 31 Dec 2009	**887**	**409**	**72**	**1,368**
Present value of long-term employee benefit obligations, 31 Dec 2010	**833**	**405**	**73**	**1,311**
Increase from acquisition of subsidiaries	3	2	0	5
Decrease from acquisition of subsidiaries	0	0	0	0
Settlements	0	0	0	0
Curtailments	0	0	0	0
Service cost	0	14	5	19
Interest cost	35	17	3	55
Payments	72	51	5	128
Exchange rate difference	0	2	0	2
Actuarial gains/losses recognised in other comprehensive income	26	8	0	34
Actuarial gains/losses recognised in income	0	0	3	3
Present value of long-term employee benefit obligations, 31 Dec 2011	**825**	**397**	**73**	**1,295**
Obligations covered by plan assets	0	182	12	194
Obligations covered by provisions	0	215	61	276
Less fair value of plan assets	**0**	**182**	**12**	**194**
Provisions as of 31 Dec 2011	**825**	**215**	**61**	**1,101**
Present value of long-term employee benefit obligations, 31 Dec 2011	**825**	**397**	**73**	**1,295**
Increase from acquisition of subsidiaries	0	0	0	0
Decrease from disposal of subsidiaries	0	0	0	0
Settlements	0	0	0	0
Curtailments	0	0	0	0
Service cost	0	14	4	18
Interest cost	38	18	3	59
Payments	71	39	5	115
Exchange rate difference	0	0	0	0
Actuarial gains/losses recognised in other comprehensive income	31	20	0	51
Actuarial gains/losses recognised in income	0	0	1	1
Present value of long-term employee benefit obligations, 31 Dec 2012	**823**	**410**	**76**	**1,309**
Obligations covered by plan assets	0	184	29	213
Obligations covered by provisions	0	226	47	273
Less fair value of plan assets	**0**	**184**	**29**	**213**
Provisions as of 31 Dec 2012	**823**	**226**	**47**	**1,096**

The movement in plan assets during the reporting period was as follows:

in EUR million	Severance payments	Jubilee payments	Total
Fair value of plan assets as of 31 Dec 2010	190	12	202
Expected return on plan assets	7	1	8
Contributions by the employer	12	1	13
Benefits paid	(18)	(1)	(19)
Actuarial gains/losses recognised in other comprehensive income	(9)	0	(9)
Actuarial gains/losses recognised in income	0	(1)	(1)
Settlements	0	0	0
Fair value of plan assets as of 31 Dec 2011	**182**	**12**	**194**
Addition	0	17	17
Expected return on plan assets	7	0	7
Contributions by the employer	11	1	12
Benefits paid	(22)	(1)	(23)
Actuarial gains/losses recognised in other comprehensive income	6	---	6
Actuarial gains/losses recognised in income	---	0	0
Settlements	---	---	0
Fair value of plan assets as of 31 Dec 2012	**184**	**29**	**213**

In 2012, the expected contributions for the severance and jubilee benefit obligations will amount to EUR 10.8 million (2011: EUR 10.7 million).

The following table presents the portfolio structure of the plan assets.

in EUR million	2012	2011
Debt instruments	200	129
Fixed-term deposits / cash	13	65
Total	**213**	**194**

In 2012, actual gain (loss) on plan assets amounted to EUR 14.5 million (2011: EUR (1.8) million).

The following table presents profit or loss effects for post-employment defined benefits plans (pensions and severance payments).

in EUR million	2012	2011
Service cost	(14)	(14)
Interest cost	(56)	(52)
Expected return on plan assets	7	7
Total	**(63)**	**(59)**

The whole amount is included in the income statement in the line ‘General administrative expenses’.

In 2012 the cumulative amount of actuarial gain and losses recognised in other comprehensive income was EUR (382.1) million (2011: EUR (336.1) million).

b) Sundry provisions

Sundry provisions 2012

in EUR million	2011	Acquisition/ disposal of subsidiaries	Currency translation	Alloca-tions	Use	Releases	Reclassifi-cation[2]	2012
Provisions for contingent credit risk liabilities and other risk provisions	316	0	2	146	(46)	(147)	(56)	215
Other provisions[1]	163	0	(2)	20	(26)	(46)	68	177
Total	**479**	**0**	**0**	**166**	**(72)**	**(193)**	**12**	**392**

1) Other provisions consist mainly of provisions for litigation. It is considered highly likely that use will be made next year.
2) Other risk provisions in the amount of EUR 67 million were reclassified into other sundry provisions as a result of an analysis of legal cases related to the lending business.

Sundry provisions 2011

in EUR million	2010	Acquisition/ disposal of subsidiaries	Currency translation	Alloca-tions	Use	Releases	Reclassi-fication	2011
Provisions for contingent credit risk liabilities and other risk provisions	302	3	(3)	124	(6)	(84)	(20)	316
Other provisions[1)]	134	1	(5)	68	(20)	(15)	0	163
Total	**436**	**4**	**(8)**	**192**	**(26)**	**(99)**	**(20)**	**479**

1) Other provisions consist mainly of provisions for litigation. It is considered highly likely that use will be made of other sundry provisions next year.

28) Other liabilities

in EUR million	2012	2011 amended[1)]
Deferred income	326	343
Accrued commissions	17	14
Sundry liabilities	2,734	2,494
Total	**3,077**	**2,851**

1) Due to reclassification of 'Value adjustments from portfolio fair value hedges' from sundry liabilities in a separate line item.

Sundry liabilities consist mainly of clearing items from the settlement of securities and payment transactions.

29) Subordinated liabilities

in EUR million	2012	2011
Subordinated issues and deposits	3,696	3,090
Supplementary capital	1,292	1,510
Hybrid issues	378	1,239
Own issues repurchased	(43)	(56)
Total	**5,323**	**5,783**

Subordinated liabilities include EUR 279 million (2011: EUR 215 million) in liabilities to which the fair value option was applied. As of 31 December 2012 the total amount repayable on these liabilities at maturity was EUR 273 million (2011: EUR 223 million). The difference between the fair value of the subordinated liabilities for which the fair value option was applied and the amount repayable at maturity was EUR 6 million (2011: EUR (8) million). The amount of fair value changes that are attributable to changes in own credit risk amounts to EUR -2.4 million for reporting period 2012 (2011: EUR 17.7 million); cumulative amount of fair value changes at 31 December 2012 attributable to the changes in own credit risk is EUR 15.3 million (2011: EUR 17.7 million).

30) Total equity

in EUR million	2012	2011
Subscribed capital	2,547	2,539
Share capital	790	782
Participation capital	1,757	1,757
Additional paid-in capital	6,472	6,413
Retained earnings	3,836	3,085
Owners of the parent	**12,855**	**12,037**
Non-controlling interests	3,483	3,143
Total[1)]	**16,338**	**15,180**

1) Details on equity are provided in Section III, Statement of Changes in Total Equity.

As of 31 December 2012, subscribed capital (also known as registered capital) consists of 394,568,647 (2011: 390,767,262) voting bearer shares (ordinary shares). The pro-rata amount of registered capital, per no-par value share was EUR 2.00. Additional paid-in capital (or share premium) represents the amount by which the issue price of the shares exceeded their par value. Retained earnings and other reserves represent accumulated net profit brought forward, as well as income and expenses recognised in other comprehensive income.

In April 2009, Erste Group Bank AG issued participation capital for subscription. Within the context of this offer, Erste Group Bank AG placed EUR 540 million of participation capital with private and institutional investors. In March 2009, the Republic of Austria subscribed to EUR 1.0 billion of participation capital and in May 2009, another EUR 224 million of participation certificates. In total, the participation capital issued in measures to strengthen the bank at that time amounts to EUR 1.76 billion. The participation capital securities are perpetual and non-transferable. The notional amount of each participation capital security is EUR 1,000.00. Erste Group is entitled to repay the participation capital securities only if the repayment amount would not be below 100% (or 150% after 1 January 2019) of the nominal amount.

Participation capital participates in losses of Erste Group in the same manner as does share capital, but the holders of participation capital have no voting rights. The participation capital securities confer no conversion right for ordinary shares of Erste Group.

Dividend payments to holders of participation capital securities are made prior to distributions of dividends to shareholders of Erste Group. Erste Group shall not be obliged to make up for any dividends which were not paid as a result of losses. The dividend on the participation capital is 8.0% per annum for the business years 2009 to 2013. For the business years starting from 2014, the dividend is stepped up as follows: 2014, 8.5% p.a.; 2015, 9.0% p.a.; 2016, 9.75%; and from 2017, 1% increase each year. However, the dividend must never exceed 12-month EURIBOR plus 10% per annum.

In the second half of 2011, Erste Group Bank AG negotiated with all five regional Romanian investment funds (‘Societati de Investitii Financiare’, in short ‘SIFs’), namely, SIF Banat-Crisana, SIF Moldova, SIF Muntenia, SIF Oltenia and SIF Transilvania on the acquisition of the shares in Banca Comercială Română (BCR) then held by those funds. Acquisition of the shares will be carried out in several tranches. The last transaction is expected to take place in 2013, which will increase the interest of Erste Group in BCR to around 99.5%.

Prior to the first transaction, the SIFs held a total of 3,257,561,011 shares in BCR (30.0%). Out of those, up to 2,575,523,440 shares of BCR stock will be incorporated into Erste Group Bank AG by means of a capital increase from authorised capital excluding the subscription rights of existing shareholders with a conversion ratio of 1 to 127.9583. The remaining shares of BCR held by the SIFs will be acquired by Erste Group in an all-cash payment.

In 2011, SIF Banat-Crisina, SIF Moldova, SIF Muntenia and SIF Transilvania contributed 1,573,999,761 shares of BCR into Erste Group Bank AG in kind. A total of 12,300,878 new Erste Group Bank AG shares were issued to the four SIFs and the share capital of the company was accordingly increased by EUR 24,601,756.

In February 2012 SIF Muntenia and SIF Banat-Crisana contributed 486,418,882 shares of BCR into Erste Group Bank AG in kind. A total of 3,801,385 new Erste Group Bank AG shares were issued to the two SIFs and the share capital of the company was accordingly increased by EUR 7,602,770.

Moreover in 2011 and 2012 Erste Group Bank AG acquired 545,706,063 of additional shares of BCR held by the ‘SIFs’ via cash payment. Upon completion of the transactions in 2012, Erste Group owns in total 93.3% of BCR.

Changes in number of shares and participation capital securities

Shares in units	2012	2011
Shares outstanding as of 1 January	**371,443,804**	**361,988,924**
Acquisition of treasury shares	(22,556,758)	(20,634,660)
Disposal of treasury shares	23,026,936	17,498,999
Capital increases due to ESOP and MSOP	0	289,663
Capital increase due to acquisition of non controlling interest in BCR	3,801,385	12,300,878
Shares outstanding as of 31 December	**375,715,367**	**371,443,804**
Treasury shares	18,853,280	19,323,458
Number of shares as of 31 December	**394,568,647**	**390,767,262**
Weighted average number of shares outstanding	391,631,603	377,670,141
Dilution due to MSOP/ESOP	2,192,326	2,085,372
Dilution due to options	0	3,801,386
Weighted average number of shares taking into account the effect of dilution[1)]	393,823,929	377,670,141
Participation capital securities in units	**2012**	**2011**
Participation capital securities outstanding as of 1 January	**1,763,274**	**1,763,478**
Acquisition of own participation capital securities	(5,167)	(4,640)
Disposal of own participation capital securities	5,587	4,436
Participation capital securities outstanding as of 31 December	**1,763,694**	**1,763,274**
Participation capital securities	50	470
Number of participation capital securities as of 31 December	**1,763,744**	**1,763,744**

1) Options are anti-dilutive in 2011, and therefore no consideration is given to dilution in relation to them.

Employee share ownership plan and management share option plan

ESOP

There was no subscription for shares under ESOP in 2012. No personnel expenses related to ESOP and profit-sharing occurred in 2012 (prior year: EUR 1.6 million).

MSOP 2005:

The MSOP comprises a maximum of 2,000,000 ordinary shares of Erste Group Bank AG, represented by 2,000,000 options. The distribution of vested options among management board members, managers and eligible other staff of the Erste Group Bank AG group is shown in the tables below.

Terms of MSOP 2005: Each of the options, which are granted free of charge, entitles the holder to receive one share; the transfer of options inter vivos is not permitted. The 2005 option grant dates were as follows: for the management board and other managers, 1 June 2005; for other key personnel, the grants occurred in three tranches, on 1 September 2005, 1 September 2006 and 31 August 2007. For all recipients the options were vested in three tranches, at which time they were credited to recipients' accounts: 1 September 2005, 1 September 2006 and 31 August 2007. The exercise price for all three tranches was set at the average market price of Erste Group Bank AG shares quoted in April 2005 plus a 10% premium, rounded down to the nearest half euro. The resulting exercise price was EUR 43.00 per share. The option term begins at the grant date and ends on the value date of the last exercise window of the fifth calendar year after the year in which the option vested. Every year, notices of intention to exercise may be submitted within 14 days from the day of publication of the quarterly results for the first, second and third quarter of each financial year (three exercise windows per year). The holding period runs for one year from the value date of the share purchase. Up to 25% of the purchased shares may be sold during this holding period.

As per 1.1.2012 there were 534.770 outstanding/exercisable options out of the MSOP 2005 (thereof 19.000 held by the Managing board members). None of them were exercised in 2012 (2011: exercised 0). These options expired and were written-off before the year-end 2012.

The **MSOP 2005** options granted, vested and exercised had the following distribution among recipients:

	Outstanding/ Exercisable 1 Jan 2012	Expired in 2012	Outstanding/ Exercisable 31 Dec 2012
Members of the management board	19,000	19,000	0
Other management	266,500	266,500	0
Other staff	249,270	249,270	0
Total options	**534,770**	**534,770**	**0**

Information on shares held and transactions in Erste Group Bank AG shares by members of the management board and supervisory board (in number of shares):

Members of the management

Managing board member	As of 31 Dec 2011	Additions 2012	Disposals 2012	As of 31 Dec 2012
Andreas Treichl	184,640	0	0	184,640
Franz Hochstrasser	25,260	0	0	25,260
Herbert Juranek	656	0	0	656
Gernot Mittendorfer	2,100	0	0	2,100
Manfred Wimmer	18,132	0	0	18,132

Members of the management board held the following amounts of Erste Group Bank AG participation capital as of the balance sheet date of 31 December 2012:

Managing board member	Notional amount
Andreas Treichl	30,000
Herbert Juranek	30,000
Manfred Wimmer	30,000

Supervisory board members held the following amounts of participation capital as of the balance sheet date of 31 December 2012:

Supervisory board member	Notional amount
Georg Winckler	5,000
Wilhelm Rasinger	20,000
Friedrich Rödler	82,000

As of 31 December 2012 persons related to members of the management board or supervisory board held participation capital of Erste Group Bank AG in notional amount of EUR 30,000.

Supervisory board members held the following numbers of Erste Group Bank AG shares as of the balance sheet date of 31 December 2012:

Supervisory board member	Number
Georg Winckler	2,500
Jan Homan	4,400
Wilhelm Rasinger	15,303
Theresa Jordis	2,900
Friedrich Rödler	1,702
John James Stack	32,761
Werner Tessmar-Pfohl	1,268
Andreas Lachs	52
Friedrich Lackner	500
Bertram Mach	95
Barbara Smrcka	281
Karin Zeisel	35

As of 31 December 2012, supervisory board members did not hold options in Erste Group Bank AG shares. Persons related to members of the management board or supervisory board held 3,786 shares of Erste Group Bank AG as of 31 December 2012.

Remaining authorised and contingent capital and participation capital as of 31 December 2012

Clause 5 of the articles of association authorises the management board until 12 May 2015, subject to approval by the supervisory board, to increase – if necessary in several tranches – the subscribed capital of Erste Group Bank AG up to EUR 167,795,474.00 by issuing up to 83,897,737 shares as follows (type of share, issue price, terms of issue, and – if intended – exclusion of subscription rights are assigned by the management board with approval by the supervisory board): by issuing of shares by cash contributions without exclusion of subscription rights of existing shareholders; if, however, the capital increase is used for the issue of shares to employees, management or members of the Management Board of Erste Group Bank AG or a subsidiary while excluding the subscription rights of existing shareholders; by issuing of shares by contribution in kind while excluding the subscription rights of existing shareholders.

Under clause 6.3 of the articles of association, based on decisions of the management board taken from 2002 to 2010, there exists contingent capital of EUR 21,923,264.00 which may be utilised by issuing up to 10,961,632 bearer or registered shares at an issue price of at least EUR 2.00 (payable in cash) while excluding the subscription rights of existing shareholders. This contingent capital is used for granting options to other staff, other management and members of the management board of the entity or of one of its related undertakings.

Under clause 6.4 of the articles of association, the company has contingent capital of EUR 124,700,000.00 available, which may be utilised by issuing up to 62,350,000 bearer shares. This contingent capital can be used for granting conversion or subscription rights to holders of convertible bonds.

Under clause 7 of the articles of association, currently no authority for granting contingent capital is available.

31) Segment reporting

The segment reporting of Erste Group follows the presentation and measurement requirements of IFRS.

Segment structure

Following the structure of Erste Group, the segment reporting is divided into the segments: Retail & SME, Group Corporate & Investment Banking, Group Markets and Corporate Center. The latter is split into the Corporate Center excluding intra-group eliminations and the intra-group eliminations between the segments.

The regional information regarding segments is based on the internal reporting structure. The Retail & SME segment is split into two regions of which one shows the business in Austria (consisting of the subsegments Erste Bank Oesterreich and Savings Banks) and the other one shows the business in CEE countries (consisting of the subsegments Czech Republic, Romania, Slovakia, Hungary, Croatia, Serbia and Ukraine). The remaining segments are analysed from the Group's perspective and thus are not split into regions.

The basis for Erste Group's management of individual segments and subsegments is the average attributed equity as well as the average risk-weighted assets (credit risk). For measuring and assessing the profitability of segments and subsegments, return on equity as well as cost/income ratio is used.

The return on equity is calculated as net profit/loss attributable to owners of the parent divided by the average attributed shareholder's equity allocated to the segment.

The average attributed equity of each segment represents the economic capital of the segment, which is assigned on the basis of credit risk, market risk and operational risk.

Segment Retail & SME

The Retail & SME segment includes the individual, retail and SME-focused regional banks of Erste Group. To enhance transparency, the region Austria consists of the two subsegments, Erste Bank Oesterreich (including local subsidiaries) and Savings Banks. The latter subsegment includes those savings banks which as a result of their membership are consolidated into the Haftungsverbund. In the region Central and Eastern Europe, the individual subsidiaries are reported separately as subsegments.

Segment Group Corporate & Investment Banking

The Group Corporate & Investment Banking (GCIB) segment includes the large corporate business, the real estate business of Erste Group with large corporate customers, equity capital markets (from the second quarter of 2012 onwards) as well as the investment banking subsidiaries in CEE and the International Business (excluding treasury activities). The leasing subsidiary Erste Group Immorent is also included in this segment. In Erste Group, those corporate customers with turnover of at least EUR 175 million are classified as large corporates.

Segment Group Markets

The Group Markets segment comprises the business Group Treasury and Capital Markets and includes the treasury activities of Erste Group Bank AG, the CEE subsidiaries, the foreign branch offices in Hong Kong, New York, Berlin, and Stuttgart as well as the result of Erste Asset Management.

Segment Corporate Center

The segment Corporate Center is split into two parts, whereas the effects from intra-group eliminations between segments and subsegments are disclosed in the segment 'Intra-group eliminations'.

The segment 'Intra-group eliminations' consists of internal revenues and expenses charged between subsegments and must be eliminated again on group level. These transactions mainly relate to internal services from IT, Procurement and Facility Management to the banking subsidiaries, rental income from operating lease and investment properties, and the derivatives business. Intra-group elimination between business units within the same subsegment is allocated to the respective subsegment.

The segment Corporate Center excluding 'Intra-group eliminations' includes the results of the central business areas of Erste Group Bank AG. This segment consists mainly of the balance sheet management as well as the dividends (elimination of dividends on group level is also allocated to this segment) and refinancing costs of fully consolidated subsidiaries, general administrative expenses for group center functions that cannot be directly allocated to another subsegment and the banking tax of Erste Group Bank AG. In addition, this segment includes the results of non-profit companies (especially service units) and subsidiaries that cannot be directly allocated to another subsegment, straight-line amortization of customer relationships (especially for Banca Comercială Română, Erste Card Club, and Ringturm KAG), as well as one-off effects which are not allocated to any subsegment for the sake of consistency and to assist like-for-like comparisons. Moreover, this segment includes the equity which is not allocated to the other segments/subsegments.

Goodwill impairment in the segment Corporate Centre exclusive of intra-group eliminations in the year 2012 amounted to EUR 514.9 million, of which EUR 469.4 million is accounted for by Banca Comercială Română and EUR 45.5 million by subsidiaries in Austria (2011: total EUR 1,064.6 million, of which EUR 1,058.2 million was goodwill impairment included in the segment Corporate Centre exclusive of intra-group eliminations and EUR 6.4 million was in Romania).

Details regarding impairment of goodwill are included in Note 19. Also recorded in the Corporate Centre is the amortisation of customer relationships at Banca Comercială Română, Erste Card Club d.d. and Ringturm KAG totalling EUR 69.2 million (2011: EUR 66.8 million).

With reference to the selling of Erste Bank Ukraine in Note 21, the impairment loss for non-current assets in the disposal group and the provision for onerous contract which amount to EUR 75 million is allocated to the segment Corporate Centre exclusive of intra-group eliminations.

Segmentation by core business

in EUR million	Retail and SME 2012	Retail and SME 2011	Group Corporate and Investment Banking 2012	Group Corporate and Investment Banking 2011	Group Markets 2012	Group Markets 2011	Group Corporate Centre excl. Intragroup elimination 2012	Group Corporate Centre excl. Intragroup elimination 2011 amended	Intra-group elimination 2012	Intra-group elimination 2011 amended	Total Group 2012	Total Group 2011
Net interest income	4,318.5	4,716.3	495.9	543.2	183.7	197.4	303.9	160.6	(66.7)	(48.5)	5,235.3	5,569.0
Risk provisions for loans and advances	(1,629.4)	(2,076.7)	(347.2)	(178.2)	0.0	(12.0)	(3.4)	0.0	0.0	0.0	(1,980.0)	(2,266.9)
Net fee and commission income	1,591.5	1,642.0	87.1	118.8	124.7	126.6	299.8	248.4	(382.3)	(348.6)	1,720.8	1,787.2
Net trading result	97.6	58.8	4.4	(129.2)	202.9	155.2	(57.0)	34.5	25.5	3.0	273.4	122.3
General administrative expenses	(3,215.2)	(3,278.8)	(196.9)	(191.5)	(215.9)	(244.8)	(550.9)	(547.1)	422.2	411.3	(3,756.7)	(3,850.9)
Other result[1)]	(243.7)	(405.5)	(101.6)	(46.7)	2.0	10.2	(349.6)	(1,223.6)	1.3	(17.2)	(691.6)	(1,682.9)
Pre-tax profit/loss	**919.3**	**656.0**	**(58.3)**	**116.4**	**297.4**	**232.7**	**(357.2)**	**(1,327.2)**	**0.0**	**0.0**	**801.2**	**(322.1)**
Taxes on income	(246.1)	(263.8)	4.4	(31.3)	(61.7)	(55.6)	133.2	110.3	0.0	0.0	(170.2)	(240.4)
Net profit/loss for the year	**673.2**	**392.2**	**(53.9)**	**85.1**	**235.7**	**177.0**	**(224.0)**	**(1,216.9)**	**0.0**	**0.0**	**631.0**	**(562.6)**
attributable to non-controlling interests	134.2	144.4	1.7	11.4	8.1	10.4	3.5	(9.9)	0.0	0.0	147.5	156.3
owners of the parent	**539.0**	**247.7**	**(55.6)**	**73.8**	**227.6**	**166.6**	**(227.5)**	**(1,207.0)**	**0.0**	**0.0**	**483.5**	**(718.9)**
Average risk-weighted assets	70,311	74,934	20,830	24,429	2,697	2,743	9	970	0	0	93,847	103,077
Average attributed equity	4,919	4,117	2,085	1,956	350	312	5,395	6,654	0	0	12,748	13,038
Cost/income ratio	**53.5%**	**51.1%**	**33.5%**	**35.9%**	**42.2%**	**51.1%**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**52.0%**	**51.5%**
ROE[2)]	**11.0%**	**6.0%**	**(2.7)%**	**3.8%**	**65.0%**	**53.4%**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**3.8%**	**(5.5)%**

1) Other result consists of four income statement items: other operating result, result from financial instruments at fair value through profit or loss, result from financial assets available for sale, and result from financial assets held to maturity.
2) ROE = return on equity = Net profit/loss attributable to owners of the parent divided by average attributed equity.

in EUR million	Austria 2012	Austria 2011	Saving Banks (Cross Guarantee System) 2012	Saving Banks (Cross Guarantee System) 2011	Total Austria 2012	Total Austria 2011	Central and Eastern Europe 2012	Central and Eastern Europe 2011 amended	Total Retail & SME 2012	Total Retail & SME 2011 amended
Net interest income	617.8	665.9	940.0	1,015.6	1,557.8	1,681.5	2,760.7	3,034.8	4,318.5	4,716.3
Risk provisions for loans and advances	(96.2)	(101.4)	(225.9)	(250.4)	(322.1)	(351.8)	(1,307.3)	(1,724.9)	(1,629.4)	(2,076.7)
Net fee and commission income	339.0	320.6	398.0	390.2	737.0	710.7	854.5	931.2	1,591.5	1,642.0
Net trading result	(4.2)	20.2	19.9	12.2	15.7	32.4	81.9	26.4	97.6	58.8
General administrative expenses	(614.7)	(609.4)	(932.2)	(930.9)	(1,546.9)	(1,540.3)	(1,668.3)	(1,738.4)	(3,215.2)	(3,278.8)
Other result[1)]	13.4	(63.7)	2.5	(81.9)	15.9	(145.6)	(259.6)	(259.9)	(243.7)	(405.5)
Pre-tax profit/loss	**255.1**	**232.2**	**202.3**	**154.7**	**457.4**	**386.9**	**461.9**	**269.1**	**919.3**	**656.0**
Taxes on income	(55.8)	(50.3)	(61.5)	(40.1)	(117.3)	(90.4)	(128.8)	(173.4)	(246.1)	(263.8)
Net profit/loss for the year	**199.3**	**181.9**	**140.8**	**114.6**	**340.1**	**296.5**	**333.1**	**95.7**	**673.2**	**392.2**
attributable to non-controlling interests	6.9	4.3	119.3	108.7	126.2	113.0	8.0	31.5	134.2	144.4
owners of the parent	**192.4**	**177.6**	**21.5**	**5.9**	**213.9**	**183.5**	**325.1**	**64.2**	**539.0**	**247.7**
Average risk-weighted assets	13,045	13,708	23,444	24,451	36,489	38,159	33,821	36,775	70,311	74,934
Average attributed equity	1,284	1,088	370	304	1,654	1,393	3,264	2,724	4,919	4,117
Cost/income ratio	**64.5%**	**60.5%**	**68.7%**	**65.6%**	**67.0%**	**63.5%**	**45.1%**	**43.5%**	**53.5%**	**51.1%**
ROE[2)]	**15.0%**	**16.3%**	**5.8%**	**1.9%**	**12.9%**	**13.2%**	**10.0%**	**2.4%**	**11.0%**	**6.0%**

1) Other result consists of four income statement items: other operating result, result from financial instruments at fair value through profit or loss, result from financial assets available for sale, and result from financial assets held to maturity.
2) ROE = return on equity = Net profit/loss attributable to owners of the parent divided by average attributed equity.

	Czech Republic		Romania		Slovakia		Hungary		Croatia		Serbia		Ukraine		Total CEE	
in EUR million	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**
Net interest income	1,113.8	1,183.2	572.4	672.3	424.9	445.7	335.2	402.7	253.7	261.8	37.1	36.4	23.6	32.6	2,760.7	3,034.8
Risk provisions for loans and advances	(139.6)	(210.5)	(737.2)	(499.3)	(53.4)	(73.6)	(215.0)	(812.0)	(137.4)	(109.3)	(9.0)	(9.5)	(15.7)	(10.7)	(1,307.3)	(1,724.9)
Net fee and commission income	447.2	496.5	120.3	130.1	110.0	112.2	91.9	97.8	65.6	76.7	13.3	13.0	6.2	4.9	854.5	931.2
Net trading result	19.9	(45.5)	70.5	49.3	2.8	(4.6)	(15.9)	19.1	9.4	11.2	2.4	0.1	(7.2)	(3.2)	81.9	26.4
General administrative expenses	(691.9)	(713.9)	(355.9)	(376.4)	(236.0)	(224.0)	(169.5)	(200.5)	(132.8)	(141.1)	(33.6)	(33.8)	(48.6)	(48.8)	(1,668.3)	(1,738.4)
Other result[1)]	(93.2)	(122.0)	(48.7)	(30.9)	(37.7)	(40.2)	(72.9)	(56.9)	(3.0)	(10.2)	(1.7)	(1.2)	(2.4)	1.6	(259.6)	(259.9)
Pre-tax profit/loss	**656.2**	**587.8**	**(378.6)**	**(54.8)**	**210.6**	**215.5**	**(46.2)**	**(549.8)**	**55.5**	**89.0**	**8.5**	**5.0**	**(44.1)**	**(23.6)**	**461.9**	**269.1**
Taxes on income	(135.7)	(122.4)	65.3	23.7	(41.0)	(42.3)	(8.9)	(16.8)	(9.8)	(16.1)	1.5	0.0	(0.2)	0.5	(128.8)	(173.4)
Net profit/loss for the year	**520.5**	**465.4**	**(313.3)**	**(31.1)**	**169.6**	**173.2**	**(55.1)**	**(566.6)**	**45.7**	**72.9**	**10.0**	**5.1**	**(44.3)**	**(23.2)**	**333.1**	**95.7**
attributable to non-controlling interests	2.5	9.2	(19.0)	(8.7)	0.3	0.0	0.0	0.0	22.0	29.5	2.2	1.5	0.0	0.0	8.0	31.5
owners of the parent	**518.0**	**456.2**	**(294.3)**	**(22.5)**	**169.3**	**173.2**	**(55.1)**	**(566.6)**	**23.7**	**43.4**	**7.8**	**3.6**	**(44.3)**	**(23.2)**	**325.1**	**64.2**
Average risk-weighted assets	12,521	12,951	8,156	9,167	4,148	4,825	3,775	4,147	4,040	4,321	493	606	688	757	33,821	36,775
Average attributed equity	1,266	1,065	779	556	430	401	386	345	288	251	42	41	74	66	3,264	2,724
Cost/income ratio	**43.8%**	**43.7%**	**46.6%**	**44.2%**	**43.9%**	**40.5%**	**41.2%**	**38.6%**	**40.4%**	**40.4%**	**63.6%**	**68.1%**	**215.0%**	**142.4%**	**45.1%**	**43.5%**
ROE[2)]	**40.9%**	**42.8%**	**(37.8)%**	**(4.0)%**	**39.4%**	**43.2%**	**(14.3)%**	**(164.4)%**	**8.2%**	**17.3%**	**18.8%**	**8.7%**	**(60.3)%**	**(35.2)%**	**10.0%**	**2.4%**

1) Other result consists of four income statement items: other operating result, result from financial instruments at fair value through profit or loss, result from financial assets available for sale, and result from financial assets held to maturity.
2) ROE = return on equity = net profit/loss attributable to owners of the parent divided by average attributed equity.

32) Assets and liabilities denominated in foreign currencies and outside Austria

Assets and liabilities not denominated in EUR were as follow:

in EUR million	2012	2011
Assets	89,370	85,662
Liabilities	62,160	57,288

The assets and liabilities outside Austria are given below:

in EUR million	2012	2011
Assets	124,000	116,594
Liabilities	92,568	89,279

33) Leases

a) Finance leases

Finance leases receivables are included in the balance sheet position 'Loans and advances to customers'.
Erste Group leases both movable property and real estate to other parties under finance lease arrangements. For the finance lease receivables included in this item, the reconciliation of the gross investment in leases to the present value of the minimum lease payments is as follows:

in EUR million	2012	2011
Outstanding minimum lease payments	4,855	5,627
Non-guaranteed residual values	1,070	1,118
Gross investment	**5,925**	**6,745**
Unrealised financial income	796	1,114
Net investment	**5,129**	**5,631**
Present value of non-guaranteed residual values	733	745
Present value of minimum lease payments	**4,396**	**4,886**

The maturity analysis of gross investment in leases and present values of minimum lease payments under non-cancellable leases is as follows (residual maturities):

	Gross investment		Present value of non-guaranteed residual values	
in EUR million	2012	2011	2012	2011
< 1 year	932	1,111	824	950
1-5 years	2,803	3,039	2,120	2,344
> 5 years	2,190	2,595	1,452	1,592
Total	**5,925**	**6,745**	**4,396**	**4,886**

In the reporting period, the total amount of accumulated allowance for uncollectable minimum lease payments, presented as risk provisions for loans and advances, was EUR 160 million (2011: EUR 205 million).

The total amount of contingent rents from finance leases recognised as income in the period was EUR 23 million (2011: EUR 31 million).

b) Operating leases

Under operating leases, Erste Group leases both real estate and movable property to other parties.

Operating leases from the view of Erste Group Bank AG as lessor:
Minimum lease payments from non-cancellable operating leases were as follows:

in EUR million	2012	2011
< 1 year	58	22
1-5 years	134	70
> 5 years	55	57
Total	**247**	**149**

The total amount of contingent rents from operating leases recognised as income in the period was EUR 8 million (2011: EUR 0 million).

Operating leases from the view of Erste Group Bank AG as lessee:
Minimum lease payments from non-cancellable operating leases were as follow:

in EUR million	2012	2011
< 1 year	47	31
1-5 years	120	94
> 5 years	74	65
Total	**241**	**190**

Lease payments from operating leases recognised as expense in the period amount to EUR 32.8 million (2011: 35.6 million).

34) Related-party transactions and principal shareholders

In addition to principal shareholders, Erste Group defines as related parties also other investments and associates which are included into the consolidated financial statements by the equity method. Furthermore related parties consist of management and supervisory board members as well as companies over which these persons have control or significant influence. Moreover, Erste Group Bank AG defines also close family members of management and supervisory board members as related parties.

Transactions between Erste Group Bank AG and fully consolidated companies are not recognised in the consolidated financial statements since they are eliminated.

Principal shareholders

As of 31 December 2012, the foundation DIE ERSTE oesterreichische Spar-Casse Privatstiftung (hereinafter referred to as the 'Privatstiftung') controlled a 20.13% interest in Erste Group Bank AG. The Privatstiftung holds 18.52% of the shares directly and further 1.61% of the shares are held by Sparkassen Beteiligungs GmbH & Co KG, which is an affiliated undertaking of the Privatstiftung. Furthermore, 4.34% of the shares are held by Austrian savings banks, which act together and are affiliated with Erste Group by virtue of the Haftungsverbund. This makes the Privatstiftung the largest single investor in Erste Group Bank AG. In addition, the Privatstiftung held participation capital with a notional value of EUR 17.0 million in Erste Group Bank AG as of 31 December 2012.

The Privatstiftung received no dividend (2011: EUR 67.0 million) from its stake in Erste Group Bank AG in 2012 (for the financial year 2011). The dividend for participation capital of Erste Group Bank AG amounted to EUR 1.4 million (2011: EUR 1.4 million). The purpose of the Privatstiftung, to be achieved notably by way of the participating interest in Erste Group Bank AG, is to support social, scientific, cultural and charitable institutions as well as to generally promote the guiding principles of the savings bank philosophy. As of 31 December 2012, Theodora Eberle (chairwoman), Richard Wolf (vice chairman), Franz Karl Prüller and Bernhard Spalt were members of the Privatstiftung Management Board. The Supervisory Board of the Privatstiftung had eight members at the end of 2012, two of whom are also members of the Supervisory Board of Erste Group Bank AG.

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

As of 31 December 2012, Erste Group Bank AG had in relation to the Privatstiftung accounts payable of EUR 200.7 million (2011: EUR 120.1 million) and accounts receivable of EUR 84.2 million (2011: 87.0 million). In addition, standard derivative transactions for hedging purposes were in place between Erste Group Bank AG and the Privatstiftung, namely interest rate swaps with caps in the notional amount of EUR 282.0 million (2011: EUR 185.0 million) and foreign currency swaps in the notional amount of EUR 30.0 million (2011: EUR 29.3 million).

In 2012, the interest income of Erste Group Bank AG resulting from said derivative transactions for the reporting period amounted to EUR 13.8 million (2011: EUR 11.4 million) while interest expenses amounted to EUR 10.9 million (2011: EUR 6.9 million).

As of 31 December 2012, CaixaBank S.A., which is based in Barcelona, Spain, held a total of 39,195,848 (2011: 38,195,848) Erste Group shares, equivalent to 9.93% (2011: 9.77%) of the share capital of Erste Group Bank AG. In addition, CaixaBank S.A. held participation capital with a notional value of EUR 15.0 million in Erste Group Bank AG as at 31 December 2012. Juan Maria Nin, the Deputy Chairman and CEO of CaixaBank S.A. is a member of the Supervisory Board of Erste Group Bank AG.

CaixaBank S.A. received no dividend (2011: EUR 26.7 million) for its interest in Erste Group Bank AG during the year 2012 (for the financial year 2011). Its dividend for the participation capital amounted to EUR 1.2 million.

Loans and advances to and amounts owed to related parties

in EUR million	2012	2011
Loans and advances to credit institutions		
Equity method investments	7	4
Other investments	50	26
Total	**57**	**29**
Loans and advances to customers		
Equity method investments	435	363
Other investments	1,010	1,221
Total	**1,445**	**1,584**
Financial assets - at fair value through profit or loss		
Equity method investments	0	1
Other investments	7	14
Total	**7**	**15**
Financial assets - available for sale		
Equity method investments	0	13
Other investments	36	67
Total	**36**	**80**
Financial assets - held to maturity		
Equity method investments	0	0
Other investments	54	6
Total	**54**	**6**
Deposits by banks		
Equity method investments	5	8
Other investments	6	18
Total	**11**	**26**
Customer deposits		
Equity method investments	13	9
Other investments	221	197
Total	**234**	**207**

Transactions with related parties are done at arm's length.

Compensation to management and supervisory board members

The compensation paid to the management board in 2012 includes the following:

Fixed salaries

in EUR thousand	2012	2011
Andreas Treichl	1,237	1,242
Franz Hochstrasser	691	621
Herbert Juranek	631	621
Manfred Wimmer	631	621
Gernot Mittendorfer	599	600
Total	**3,789**	**3,705**

Since the financial year 2010, the variable part of the compensation to the management board is distributed over five years according to the legal regulations and only disbursed under specific conditions. There was no performance-linked compensation to the management board for the financial year 2011. No performance-linked compensation for previous years was disbursed to the management board in 2012. Also, members of the management board did not receive any share equivalents.

Performance bonus	2012				2011			
	for 2011		for previous years		for 2010		for previous years	
in EUR thousand (unless otherwise stated)	cash	share equivalents in units	cash	share equivalents in units	cash	share equivalents in units	cash	share equivalents in units
Andreas Treichl	0	0	0	0	491	16,362	0	0
Franz Hochstrasser	0	0	0	0	320	10,671	0	0
Herbert Juranek	0	0	0	0	127	4,223	0	0
Manfred Wimmer	0	0	0	0	128	4,283	0	0
Gernot Mittendorfer	0	0	0	0	0	0	0	0
Total	**0**	**0**	**0**	**0**	**1,066**	**35,539**	**0**	**0**

Long-Term Incentive-Programme

Currently ongoing are two Long-Term Incentive-programmes (LTI), which are based on changes in the share price of Erste Group Bank AG in relation to a group of peers and the Dow Jones Euro Stoxx Banks. Under the terms of the LTI 2007, a final pay-out was made in 2012. The LTI 2010 was introduced on 1 January 2010 and runs for four years. In accordance with the conditions, the following payments were made in 2012:

LTI programme in EUR thousand	2012 from 2007	2012 from 2010	2011 from 2007	2011 from 2010
Andreas Treichl	241	0	285	0
Franz Hochstrasser	60	84	71	0
Herbert Juranek	60	84	71	0
Manfred Wimmer	0	84	0	0
Gernot Mittendorfer	0	0	0	0
Total	**361**	**252**	**427**	**0**

The item 'other compensation' includes pension fund contributions, contributions to Vorsorgekasse (for the new severance payments scheme) and various other forms of compensation.

Other compensation

in EUR thousand	2012	2011
Andreas Treichl	471	463
Franz Hochstrasser	164	148
Herbert Juranek	61	60
Manfred Wimmer	163	161
Gernot Mittendorfer	55	55
Total	**914**	**887**

Bernhard Spalt and Martin Skopek resigned from the management board as at 31 January 2012. Mr. Spalt received EUR 53 thousand in fixed compensation (2011: EUR 621 thousand) and EUR 6 thousand in other compensation (2011: EUR 60 thousand). Mr. Skopek received EUR 75 thousand in fixed compensation (2011: EUR 660 thousand) and EUR 35 thousand in other compensation (2011: EUR 130 thousand). Mr. Skopek received EUR 42 thousand from the LTI 2010 programme (2011: EUR 0 thousand). Mr. Spalt received in total EUR 144 thousand from the LTI 2007 and 2010 programmes (2011: EUR 71 thousand).

The compensation to the members of the management board represented 0.2% (prior year: 0.3%) of the total personnel expenses of the Erste Group.

Principles of the company retirement plan for the management board

The members of the management board participate in the defined contribution pension plan of Erste Group according to the same principles as the employees of the Group. If by no fault a management board member that member's tenure ends before he or she reaches the age of 65, then for three of the management board members the corresponding compensatory payments are made to the pension fund.

Principles applicable to eligibility and claims of the management board members in the event of termination of function

Regarding benefit entitlements of management board members in the event of terminating their position, the standard legal termination benefit conditions of Section 23 of the Salaried Employees Act apply for two members of the management board. No other members of the management board are entitled to receive any termination benefits.

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

Breakdown of supervisory board compensation:

in EUR thousand	2012	2011
Supervisory board compensation	700	706
Meeting fees	198	187[1)]
Total	**898**	**893**

1) Correction due to erroneous statement of attendance fees in 2011 (included also employees' representative).

In 2012, the members of the Supervisory Board of Erste Group Bank AG were paid EUR 898 thousand (2011: EUR 893 thousand) for their board function. The following members of the supervisory board received the following compensation for board positions in fully consolidated subsidiaries of Erste Group Bank AG: Heinz Kessler EUR 16,000 and CZK 900,000, Friedrich Rödler EUR 13,550, and Werner Tessmar-Pfohl EUR 28,400.

No other legal transactions were concluded with members of the Supervisory Board.

Pursuant to the decision at the Annual General Meeting of 15 May 2012, the supervisory board adopted in its constituent meeting the following compensation structure for the financial year 2011:

in EUR	Number	Allowance per person	Total allowance
Chairman	1	100,000	100,000
Vice Chairman	2	75,000	150,000
Members	9	50,000	450,000
Total	**12**		**700,000**

The Supervisory Board shall consist of at least three and a maximum of twelve members elected by the Annual General Meeting. DIE ERSTE österreichische Spar-Casse Privatstiftung, a foundation, has the right to delegate up to one-third of the members of the supervisory board for election by the general meeting, as long as the foundation guarantees pursuant to Section 92, para. 9 of the Austrian Banking Act all existing and future liabilities of the company in case of insolvency. Unless the Annual General Meeting has determined a shorter term of office for individual, several or all supervisory board members on the occasion of their appointment, the term of office of the members of the supervisory board shall end at the close of the Annual General Meeting which resolves on the approvals of their actions for the fourth business year following their election; re-election is permitted. In addition, membership in the supervisory board ceases due to death, revocation, withdrawal or in the event of a defined impediment. For a revocation to be valid, a three-fourths majority of validly cast votes and a three-fourths majority of the registered capital represented at the time of approving such resolution shall be required.

Loans and advances to key management employees and persons related to key management employees

As of the end of 2012, loans and advances granted to members of the management board totalled EUR 2,336 thousand (2011: EUR 2,766 thousand). Loans and advances to persons related to members of the management board totalled EUR 10 thousand as of 31 December 2012 (2011: EUR 20 thousand). Loans to members of the supervisory board totalled EUR 189 thousand (2011: EUR 228 thousand). Loans and advances to persons related to members of the supervisory board totalled EUR 310 thousand (2011: EUR 14 thousand). The applicable interest rates and other terms (maturity dates and collateral) are at market conditions.

Other transactions with companies related to key management employees

Companies related to members of the supervisory board invoiced the following amounts from other transactions:

In 2012, DORDA BRUGGER JORDIS Rechtsanwälte GmbH, a law firm in which Theresa Jordis is a partner, invoiced Erste Group Bank AG a total of EUR 236 thousand (2011: EUR 156 thousand) for several contracts.

Friedrich Rödler is senior partner at PricewaterhouseCoopers Austria. During 2012, companies of this group invoiced Erste Group Bank AG in total EUR 501 thousand (2011: 142 thousand) for consultancy contracts.

35) Collateral

The following assets were pledged as security for liabilities:

in EUR million	2012	2011 amended
Loans and advances to credit institutions	915	876
Loans and advances to customers[1)]	19,645	14,874
Trading assets	506	218
Financial assets - at fair value through profit or loss	232	566
Financial assets - available for sale	3,237	3,297
Financial assets - held to maturity	2,711	3,005
Total[1)]	**27,246**	**22,836**

1) The value shown for 2011 was amended for collaterals provided by savings banks against liabilities issued by Erste Group Bank AG.

The financial assets pledged as collateral consist of loan receivables, bonds and other interest-bearing securities.

Collaterals were pledged as a result of repo transactions, refinancing transactions with the European Central Bank, loans backing issued mortgage bonds and other collateral arrangements.

The fair value of collateral received from repo transactions which may be repledged or resold even without the security provider's default was EUR 1,607 million (2011: EUR 940 million). Collateral with fair value of EUR 418 million (2011: EUR 471 million) was resold. The bank is obliged to return the resold collateral.

36) Transfers of financial assets - repurchase transactions and securities lending

	2012		2011	
in EUR million	Carrying amount of transferred assets	Carrying amount of associated liabilities	Carrying amount of transferred assets	Carrying amount of associated liabilities
Repurchase agreements				
Loans and advances to credit institutions	4	4	0	0
Loans and advances to customers	1	1	0	0
Trading assets	461	458	124	128
Financial assets - at fair value through profit or loss	74	73	191	190
Financial assets - available for sale	1,316	1,300	2,225	2,169
Financial assets - held to maturity	161	174	469	377
Total - repurchase agreements	**2,016**	**2,010**	**3,009**	**2,864**
Securities lendings				
Loans and advances to credit institutions	0	0	0	0
Loans and advances to customers	0	0	0	0
Trading assets	9	0	0	0
Financial assets - at fair value through profit or loss	0	0	5	0
Financial assets - available for sale	78	0	0	0
Financial assets - held to maturity	0	0	0	0
Total - securities lendings	**86**	**0**	**5**	**0**
Total	**2,103**	**2,010**	**3,014**	**2,864**

The transferred financial instruments consist of bonds and other interest-bearing securities.

The total amount EUR 2,103 million (2011: EUR 3,014 million) represents the carrying amount of financial assets in the respective balance sheet positions for which the transferee has a right to sell or repledge.

Liabilities from repo transaction in the amount of EUR 2,010 million (2011: EUR 2,864 million), which are measured at amortised cost, represent an obligation to repay the borrowed funds.

The following table shows fair values of the transferred assets and associated liabilities which have recourse only to the transferred assets. In the case of Erste Group these assets and liabilities relate to repo transactions. In case of Erste Group these assets and liabilities relate to repo transactions.

in EUR million	Fair value of transferred assets 2012	Fair value of associated liabilities 2012	Net position 2012
Loans and advances to credit institutions	4	4	0
Loans and advances to customers	1	1	0
Trading assets	461	458	3
Financial assets - at fair value through profit or loss	74	73	1
Financial assets - available for sale	1,316	1,299	16
Financial assets - held to maturity	166	174	(8)
Total	**2,022**	**2,010**	**12**

37) Risk management

37.1) Risk policy and strategy

It is a core function of every bank to take risks in a conscious and selective manner and to professionally manage such risks. Erste Group's proactive risk policy and strategy aims to achieve an optimal balance of risk and return in order to achieve a sustainable, high return on equity.

Erste Group uses a control and risk management system that is proactive and tailored to its business and risk profile. It is based on a clear risk strategy that is consistent with the Group's business strategy and focused on early identification and management of risks and trends. In addition to meeting the internal goal of effective and efficient risk management, Erste Group's control and risk management systems have been developed to fulfil external and, in particular, regulatory requirements.

Given Erste Group's business strategy, the key risks for Erste Group are credit risk, market risk and operational risk. Erste Group also focuses on managing liquidity, concentration and macroeconomic risks. In addition, Erste Group's control and risk management framework takes into account the range of other significant risks faced by the banking group.

In all areas of risk management, the bank always seeks to enhance and complement existing methods and processes.

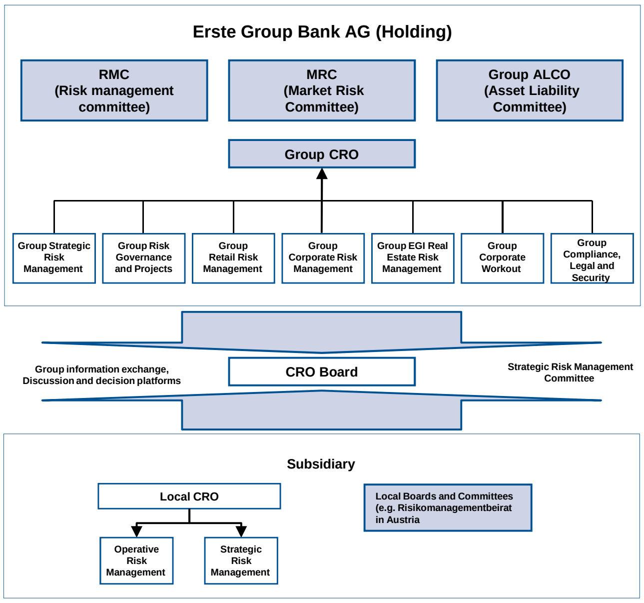
The year 2012 was dominated by preparations for Basel 3 and its impacts. Another point of emphasis was on improving and upgrading the risk-bearing capacity calculation, in particular on reviewing the economic capital calculation and the coverage potential for the risk-bearing capacity calculation not only at Group level but also at subsidiary level. A focus was on continuously incorporating more risk-sensitive measures.

Erste Group Bank AG uses the Internet as the medium for publishing disclosures of Erste Group under Section 26 of the Banking Act and the Disclosure Regulation.
Details are available on the website of Erste Group at www.erstegroup.com/investorrelations.

37.2) Risk management organisation

Risk monitoring and control is achieved through a clear organisational structure with defined roles and responsibilities, delegated authorities, and risk limits. The following diagram presents an overview of Erste Group's risk management and control governance and responsibility.

Risk management organisation and decision bodies



Overview of risk management structure

The management board, and in particular Erste Group's chief risk officer ('Group CRO'), must perform its oversight function within Erste Group's risk management structure. Risk control and management functions within Erste Group are performed based on the business and risk strategies approved by the management board and contained in the strategic risk framework. The Group CRO, working together with the chief risk officers of the subsidiaries, is responsible for implementation of and adherence to the risk control and risk management strategies across all risk types and business lines. While the management board and, in particular, the Group CRO ensure the availability of appropriate infrastructure and staff as well as methods, standards and processes to that effect, the actual identification, measurement, assessment, approval, monitoring, steering, and limit-setting for the relevant risks are performed at the operating entity level within Erste Group. At group level, the management board is supported by several divisions established to perform operational risk control functions and exercise strategic management responsibilities:

- Group Strategic Risk Management;
- Group Risk Governance and Projects;
- Group Corporate Risk Management;
- Group EGI Real Estate Risk Management;
- Group Retail Risk Management;
- Group Corporate Workout; and
- Group Compliance, Legal and Security.

Strategic Risk Management

Group Strategic Risk Management, which exercises the risk control function, is responsible for the provision of adequate risk measurement methodologies and tools as well as an appropriate risk policy and control framework. The Group Strategic Risk Management unit performs the function of the central and independent risk control unit required by Section 39 (2) of the Austrian Banking Act. One objective of Group Strategic Risk Management, a unit that is independent from the business units, is to ensure that all risks measured or taken are within the limits approved by the management board. The division is composed of the departments Group Credit Risk Methods and Reporting, Group Enterprise-wide Risk Management, Group Market and Liquidity Risk Management, and Group Operational Risk Control. Group Credit Risk Methods and Reporting is responsible for credit risk methods and rating models. Another key task of the department is the group-wide credit risk reporting. Group Enterprise-wide Risk Management is in charge of the essential elements of the risk management framework, Erste Group's risk policy principles and the group data pool. The group-wide daily calculation, analysis and reporting of market and liquidity risks is provided by the department Group Market and Liquidity Risk Management. Group Operational Risk Control is responsible for modelling, managing and reporting of operational risks.

Group Risk Governance and Projects

Group Risk Governance and Projects was introduced in 2012 to ensure central management and oversight within risk management on key topics such as risk IT (risk project– portfolio), risk policy framework, risk reporting framework, and change management in the risk area. Key tasks are oversight and control of the group-wide CRO division project portfolio, the role as interface to One IT, Erste Group's IT subsidiary, and the constant improvement of risk IT. Furthermore, the division is responsible for the group-wide risk policy framework, the development of a group-wide integrated risk reporting framework and, change management in those divisions which are reporting to the CRO.

Group Corporate Risk Management

Group Corporate Risk Management is the operative credit risk management function for Erste Group's divisionalised corporate business (GCIB). It is responsible for the formal and material verification, recommendation and approval of all credit risks of Erste Group Bank AG. Group Corporate Risk Management is also responsible for credit risk management for the GCIB segment as well as all credit applications where the amount involved exceeds the approval limits granted to the respective subsidiary. This unit covers country risks, sovereigns, other credit institutions, securitisations, large corporates, and real estate risks. Group Corporate Risk Management provides specific credit risk reports on the aforementioned centrally managed portfolios of Erste Group Bank AG as a holding company. It is in charge of process development for credit risk management and implementation of group standards for these exposure classes. It also monitors compliance with relevant credit risk limits.

Group EGI Real Estate Risk Management

Group EGI Real Estate Risk Management was implemented in the course of 2012. The division performs the function of operative risk management for the divisionalised real estate business. In this function the division is responsible for the formal and material assessment, recommendation and approval of all credit risks in the real estate business that Erste Group Bank AG is taking. Furthermore, this organisational unit is responsible for managing credit risk in Erste Group Immorent AG (EGI) and for all credit applications with exposures exceeding the authority levels granted to the respective subsidiaries. The division is structuring and steering the respective alignment and decision processes. Furthermore, in close cooperation with EGI as the defined competence center for real estate business within Erste Group, business and risk policies are prepared and implemented as the basis for business activities and reporting. Additionally, tools and systems for project analyses and valuation are developed in order to standardise the assessment of transactions and risks.

Group Retail Risk Management

Group Retail Risk Management is responsible for monitoring and steering the Group's retail lending portfolio and defining the retail risk management lending framework. It provides an analytical framework to monitor local bank's retail loan portfolios and supplies timely and actionable information for senior management decisions. In addition, the unit ensures knowledge transfer across Erste Group entities. The local chief risk officers and the local retail risk heads assume primary responsibility for credit risk management of retail loan portfolios of their respective local banks and for managing the risk–reward trade-off of their businesses. In line with Group Retail Risk Management policies, local credit policy rules are defined locally in every bank while respecting the local regulatory and business environment.

Group Corporate Workout

Group Corporate Workout is responsible for managing problematic corporate clients of the group-wide Group Corporate and Investment Banking (GCIB) segment as well as of the local corporate segment where the exposure exceeds the authority of the management board of the respective subsidiary. This task includes the operative restructuring as well as workout function for exposures booked in Erste Group Bank AG and the risk management function for all substandard and non-performing clients in the other local SME segments mentioned above. An important task in this regard is also to set up group-wide standards and policies for handling problematic corporate clients. Additionally, this area organises expert training programmes as well as workshops to ensure knowledge transfer across Erste Group entities. Another important task of the division is its responsibility for the group-wide collateral management. This includes the setup of standards for collateral management, the framework for a group collateral catalogue, and principles for collateral evaluation and revaluation.

Group Compliance, Legal and Security

Since 1 February 2012, the functions Compliance, Legal and Security have been consolidated in the division Group Compliance, Legal and Security. In essence, the division consists of the three departments: Group Compliance, Group Legal and Group Security Management. Their single tasks are as following:

Group Compliance

Group Compliance includes the departments Central Compliance, Securities Compliance, Anti-Money Laundering (AML) Compliance and Fraud Management, and it is accountable to address compliance risks. Compliance risks are those of legal or regulatory sanctions, material financial loss, or loss of reputation which Erste Group might suffer as a result of failure to comply with laws, regulations, rules and standards.

Group Legal

Group Legal, with its two units 'Legal Corporate' and 'Legal Market', functions as the central legal department of Erste Group Bank, mitigates legal risk by providing legal support and counsel for the business and centre functions, and it attends to dispute resolution and litigation. Group Legal has a group-wide focus on legal risk management and reporting aimed at identifying and then minimising, limiting or avoiding legal risk. Legal support for the business of the banking subsidiaries in those jurisdictions where they operate is performed at the local level.

Group Security Management

Group Security Management is in charge of the strategy, definition of security standards, quality assurance and monitoring, as well as the further development of issues relevant for security at Erste Group.

In addition to the risk management activities performed at the Erste Group Bank level in its special role as a holding company, each subsidiary also has a risk control and management unit, the responsibilities of which are tailored to the applicable local requirements. Each subsidiary's risk control and management unit is headed by the respective entity's chief risk officer.

Group co-ordination of risk management activities

The management board deals with risk issues in its regular board meetings. All types of risks are reported periodically and actions are taken when needed. In addition, the board is concerned with current risk issues and receives through the internal risk reporting ad hoc reports for all types of risk.

With the purpose of carrying out risk management activities within Erste Group, certain committees have been established, including the following:

- Risk Management Committee,
- CRO Board,
- Strategic Risk Management Committee (SRMC),
- Group Asset/Liability Committee (Group ALCO),
- Group Operational Liquidity Committee (Group OLC),
- Market Risk Committee (MRC), and
- Group Operational Risk Committee (GORCO)

The Risk Management Committee is responsible for granting approval in all those cases in which loans and exposures or large exposures reach an amount exceeding the approval authority of the management board according to the approval authority regulation. It is charged with granting approval to exposures or large exposures pursuant to Section 27 of the Austrian Banking Act, if such an investment in credit institutions exceeds 10% of the entity's own funds or if the investment amounts to at least 10% of the consolidated banking group's own funds. Within the competence assigned to it, the committee may grant advance approvals to the extent permitted by law. In addition, it is responsible for supervising the risk management of Erste Group Bank AG. The Risk Management Committee meets regularly. As the central risk control body, the Risk Management Committee is regularly briefed on the risk status across all risk types.

The CRO Board and the Strategic Risk Management Committee are responsible for consistent co-ordination and implementation of risk management activities within Erste Group, including the Haftungsverbund. The CRO Board is made up of the Group CRO and the chief risk officers of the subsidiaries within Erste Group. Chaired by the Group CRO, the CRO Board has responsibility for group-wide co-ordination of risk management and for ensuring uniformity of risk management standards across Erste Group.

The Strategic Risk Management Committee, which is made up of the division heads of the strategic risk management department at each subsidiary, provides support to the CRO Board in decision-making on current risk-related topics.

Erste Group has established committees at the holding level that are specifically responsible for monitoring and managing market and liquidity risk:

_ Group ALCO manages the consolidated group balance sheet, focusing on trade-offs between all consolidated balance sheet risks (interest rate, exchange rate and liquidity risks) as well as taking care of Erste Group Bank's profit and loss account by performing management actions on the holding's balance sheet and by setting the group standards and limits for Erste Group members. Additionally, it approves policies and strategies for controlling liquidity risk, interest rate risk (net interest income), capital management of the banking book, as well as examining proposals, statements and opinions of ALM, risk management, controlling and accounting functions. The approved investment strategy is within the guidelines agreed with Risk Management.

_ The Group Operational Liquidity Committee (Group OLC) is responsible for day-to-day management of the global liquidity position of Erste Group. It analyses the liquidity situation of Erste Group on a regular basis and reports directly to the Group Asset/Liability Committee (Group ALCO). It also proposes measures to the Group ALCO within the scope of the management policies and principles laid down in the Liquidity Risk Management Rule Book. Furthermore, members of the Group OLC are points of contact for other departments or Erste Group members for liquidity-related matters. Each local bank has its own local operational liquidity committee.

_ The Market Risk Committee (MRC) is the main steering body for all risks related to capital market trading operations in Erste Group. The MRC meets quarterly, approves group-wide market risk limits and elaborates on the current market situation. The members of the MRC are the Group CRO, the board member responsible for Group Capital Markets, the Head of Group Capital Markets, the Head of Group Strategic Risk Management, and the Head of Group Market and Liquidity Risk Management.

The objectives of the Group Operational Risk Committee (GORCO) are to reduce operational risk at group level through decisions on risk mitigation measures, monitor these risks, and handle substantial operational risks within the Group. GORCO has the authority to decide on risk mitigation measures at group level and consists of the following permanent members: Group CRO, the heads of Group Strategic Risk Management and Group Compliance, Legal and Security, as well as the Head of Group Operational Risk. In an advisory function, the Head of Group Audit is also a permanent member.

In addition, committees are established at local level, such as the *Risikomanagementbeirat* in Austria. It implements a common risk approach within the Austrian members of Erste Group (i.e. Erste Bank Austria and the Savings Banks).

As a result of the principle of segregating risk origination and risk control, at every level of the risk management structure of Erste Group – and particularly concerning market and credit risks – the risk control functions are exercised independently of the front office functions.

37.3) Current topics

Current regulatory topics

Activities in the context of changes in regulatory requirements

Since 2010, Erste Group has been scrutinising the impacts of the planned regulatory changes commonly known as Basel 3. The Group has established a group-wide Basel 3 programme, which ensures that all requirements arising from the Capital Requirements Directive IV (CRD IV) and from related national and international regulations are implemented in complete and timely manner across the entire Group. The programme includes a stream covering capital requirements, changes in risk-weighted asset (RWA) calculations, counterparty credit risk (CCR), and the new capital charge for credit value adjustments (CVA). Further streams focus on new legal requirements for regulatory capital, new disclosure requirements, the new liquidity rules, the planned introduction of a leverage ratio as well as transitional provisions up to 31 December 2022, based on definitions within the CRD IV.

Due to the established programme structure, Erste Group has an integrated view on all requirements arising from Basel 3. Furthermore, a close alignment is being undertaken with programmes focusing on other internal or regulatory requirements in the areas of risk and accounting, such as the IFRS 9 project.

Regarding changes in risk-weighted assets according to Basel 3, Erste Group has actively participated since 2010 in the semi-annual Quantitative Impact Study (QIS) which is co-ordinated by Austrian and European regulatory authorities. In future, Erste Group will also participate in the quarterly exercises. The bank has completed several calculations to evaluate the impact of the new accord on its risk-weighted assets, both within and beyond the scope of the QIS exercises.

Erste Group calculated as well the Basel 3 compliant liquidity ratios which also will be collected within the scope of the planned exercises. The Group has made several calculations to assess the status of the entities with regards to these ratios, and necessary preparation for the future regulatory reporting is currently underway.

Regulatory changes for the internal model approach to market risk according to the Capital Requirements Directive III (CRD III) became effective for Erste Group at year-end 2011. The inclusion of stressed value-at-risk (VaR) and event risk (for equity-related risks) into the internal model was developed and received approval from regulators after a successful audit by the Austrian regulator in the fourth quarter of 2011.

Capital requirements for systemically relevant European banking groups

In the context of the ongoing sovereign debt crisis the European Banking Authority (EBA) evaluated the capital requirements of systemically relevant banking groups across the European Union. EBA then defined a minimum core tier-1 ratio of 9% (according to the EBA definition) to be fulfilled by 30 June 2012. Based on the calculation methodology defined by EBA, Erste Group had achived a 9.9% core tier-1 ratio as of 30 June 2012. EBA published the result of this exercise on 3 October 2012.

EBA will continue its monitoring of the regulatory capital situation of European banking groups. After final implementation of the new capital requirements directive, CRD IV, European banking groups will need to comply with further requirements, notably in respect of additional minimum requirements for Common Equity Tier-1 (CET-1). Future EBA exercises will then be adopted in light of the new and stricter legal environement in respect of capital and risk specifications.

Changes in the calculation of regulatory capital ratios within first quarter 2013

In September 2012, Erste Group officially informed the Austrian regulatory authorities concerning the change of the valuation method that is used as the basis for calculating regulatory capital ratios. In the first quarter of 2013, Erste Group will calculate consolidated regulatory capital and consolidated regulatory capital requirements for the very first time based on International Financial Reporting Standards (IFRS). Pro-forma figures as of year-end 2012 indicate that no significant impact on regulatory core capital is expected from the first-time application of IFRS.

Capital Requirements Directive IV

The new Capital Requirements Directive IV (CRD IV) did not come into force as planned on 1 January 2013. A new date for implementation of the directive has not yet been communicated. Due to CRD IV's postponement, the requirements for higher capital and liquidity standards as well as for calculation of the maximum leverage ratio were postponed.

Current economic topics

The tables below illustrate that Erste Group's net exposure to European countries which are particularly affected by the sovereign debt crisis was further reduced in the course of 2012. The net exposure to Greece, Ireland, Italy, Portugal and Spain decreased from EUR 3.1 billion at year-end 2011 to roughly EUR 1.9 billion as of 31 December 2012. Since 31 December 2011, the exposure to Italy was reduced by more than one third, or EUR 694 million. The exposure to Spain was decreased by EUR 218 million. The exposure to sovereign obligors in Greece and Portugal was eliminated almost completely. There were no new investments into bonds of sovereign issuers in the aforementioned countries during 2012. Erste Group has an exposure of EUR 60 million to corporate obligors based in Cyprus. There is no related payment risk, however, as all repayments originate from outside Cyprus. There exists neither sovereign nor bank exposure to Cyprus. As of 31 December 2012, Erste Group exhibited a net exposure of EUR 333 million to the Slovenian sovereign and EUR 21 million to Slovenian banks. In total, Erste Group reduced its net exposure to Slovenia by EUR 94 million since 31 December 2011.

The following tables show the net exposure to sovereigns and institutions in selected European countries as of 31 December 2012 and 31 December 2011, respectively. The net exposure includes all on- and off-balance-sheet positions after counterparty netting and risk transfer to guarantors. Derivatives are netted (ISDA Master Agreement with netting agreement) and collateral for derivatives reduces the exposure, provided that respective contracts are in force (Credit Support Annex to ISDA Master Agreement). In the case of repo transactions, the book value of the securities sold under repurchase agreements is recognised as exposure to the issuer. Moreover, an exposure to the counterparty amounting to the difference between the funds received and a potentially higher market value of the securities sold plus a percentage of the nominal value is considered in order to take into account price fluctuations. In the case of reverse repurchase agreements, the respective counterparty risk is considered as for repurchase agreements (the difference between the funds placed and a potentially lower market value of the securities purchased plus a percentage of the nominal value in order to take into account price fluctuations), but the issuer risk is not considered. The net exposure represents the net risk view. It differs from the credit risk exposure, which is treated in the 'Credit risk' chapter, primarily by applying the risk transfer to guarantors, by the deduction of collateral and by taking netting agreements into consideration. Therefore, the two are not comparable. The sovereign net exposure includes central banks, central governments and institutions which are explicitly guaranteed by a central government.

Net exposure to selected European countries

Total in EUR million	Sovereigns 2012	Sovereigns 2011	Banks 2012	Banks 2011	Other[1)] 2012	Other[1)] 2011	Total 2012	Total 2011
Greece	0	4	0	58	5	8	5	70
Ireland	74	47	29	204	36	78	139	329
Italy	100	473	411	807	656	582	1,167	1,861
Portugal	3	6	48	94	10	13	61	113
Spain	13	24	249	282	253	426	515	732
Total	**190**	**553**	**737**	**1,445**	**960**	**1,106**	**1,887**	**3,105**

1) 'Other' contains securitisations and receivables from non- banking corporations.

Sovereigns in EUR million	Fair value 2012	Fair value 2011	Available for sale 2012	Available for sale 2011	At amortised cost 2012	At amortised cost 2011	Total 2012	Total 2011
Greece	0	(9)	0	10	0	3	0	4
Ireland	0	0	59	32	15	15	74	47
Italy	(11)	400	100	71	0	2	100	473
Portugal	(16)	0	3	6	0	0	3	6
Spain	(22)	(27)	11	39	2	12	13	24
Total	**(49)**	**364**	**173**	**157**	**17**	**31**	**190**	**553**

The short positions relating to sovereigns in Italy, Portugal and Spain as of 31 December 2012 mature before the corresponding long positions. Therefore, these are not offset in the exposure figures above. If these were considered in the calculations, total exposure would accordingly be lower. The respective positions with a market value of EUR (49) million are CDS positions and are stated in the fair value section as of 31 December 2012 in the table above.

Banks in EUR million	Fair value 2012	Fair value 2011	Available for sale 2012	Available for sale 2011	At amortised cost 2012	At amortised cost 2011	Total 2012	Total 2011
Greece	0	0	0	0	0	58	0	58
Ireland	16	99	5	92	8	13	29	204
Italy	44	234	149	181	218	393	411	807
Portugal	2	9	16	30	30	55	48	94
Spain	69	62	34	65	146	156	249	282
Total	**131**	**404**	**204**	**367**	**402**	**674**	**737**	**1,445**

The following table shows the net exposure to sovereigns and banks in Erste Group's core market as of 31 December 2012 and 31 December 2011, respectively:

Net exposure to sovereigns and banks in the core market

	Sovereigns		Banks		Total	
in EUR million	2012	2011	2012	2011	2012	2011
Austria	13,292	9,797	1,802	1,838	15,094	11,635
Croatia	2,133	2,363	11	75	2,144	2,438
Romania	5,443	5,709	29	73	5,472	5,782
Serbia	180	115	5	0	185	115
Slovakia	6,170	4,838	149	194	6,319	5,032
Slovenia	333	374	21	75	354	449
Czech Republic	11,916	9,438	526	906	12,442	10,344
Hungary	3,884	3,217	2	33	3,886	3,250
Total	**43,351**	**35,851**	**2,545**	**3,194**	**45,896**	**39,045**

37.4) Group-wide risk and capital management

Overview

In light of the lessons learned from recent turbulence on the financial markets, among other reasons, Erste Group's risk management framework has been continuously strengthened. In particular, Group Strategic Risk Management and its Enterprise-wide Risk Management (ERM) have been developed into a comprehensive framework. This includes as its fundamental pillar the Internal Capital Adequacy Assessment Process (ICAAP), as required under Pillar 2 of the Basel framework.

The ERM framework is designed to support the bank's management in managing the risk portfolios as well as the coverage potential to assure at all times adequate capital reflecting the nature and magnitude of the bank's risk profile. ERM is tailored to the Group's business and risk profile, and it reflects the strategic goal of protecting shareholders and senior debt holders while ensuring sustainability of the organisation.

ERM is a modular and comprehensive management and steering system within Erste Group, and it is integral to the bank's and Group's overall steering and management system. The components necessary to ensure all aspects of ERM, regulatory requirements, but particularly internal value adding needs, can be clustered as follows:

_ Risk Appetite Statement;
_ Portfolio & Risk Analytics, including
  _ Risk Materiality Assessment,
  _ Concentration Risk Management, and
  _ Stress Testing;
_ Risk-bearing Capacity Calculation;
_ Risk Planning & Forecasting, including
  _ RWA Management, and
  _ Capital Allocation, as well as
_ Emergency Response Plan

In addition to ICAAP's ultimate goal of assuring capital adequacy and sustainability at all times, the ERM components serve to support the bank's management in pursuing its strategy.

Risk Appetite Statement

The Risk Appetite Statement (RAS) is a high-level strategic statement and forms an integral part of Erste Group's business and risk strategy. It also serves as a formalised, high-level steering tool from which top-down targets for the bank's limit system on lower aggregation levels can be derived.

The objective of Erste Group's Risk Appetite Statement is to contain earnings volatility, avoid net losses, ensure a stable target rating for Erste Group (including all associated aspects, e.g. funding costs) and protect external and internal stakeholders. In order to reach those goals, general indicators are defined as well as indicators for credit, market and liquidity risk. To ensure that the RAS is operationally efficient, the indicators are classified as either limits, targets or principles, where the main differences will be in the mechanisms triggered in case of a breach of the RAS.

Exceeding a limit will typically trigger immediate management action. Counterbalancing measures must be taken to close the limit breach as soon as possible. Targets are in general derived as part of the planning process, where the final budget is aligned with the targets set. A significant deviation from a target usually will trigger management action and a 'cure' plan for the next 12 months must be formulated. Principles are the equivalent to a qualitative strategic statement/directive and are monitored ex ante and operationalised (e.g. via guidelines and policies).

The Risk Appetite Statement is part of the yearly planning process. The indicators of the RAS are regularly monitored and reported to the management.

In 2012, additional risk indicators were introduced in RAS to cover more risk types. Tighter limits and targets were defined which serve especially in managing of the economic capital.

Furthermore the strategic pillars were revised in order to optimise the capital allocation.

Portfolio and risk analytics

For the purpose of adequately managing the Group's risk portfolios according to the strategy, risks are systematically analysed within the scope of portfolio and risk analytics. Therefore, Erste Group has developed adequate infrastructure, systems and processes with which extensive analyses are ensured. Risks are quantified, qualified and discussed in a consistent management process in order to decide on appropriate measures on a timely basis.

Risk materiality assessment
For the purpose of systematically and continuously assessing all relevant risk types and identifying risks which are significant for the Group, Erste Group has defined a clear and structured risk materiality assessment approach which is based on defined quantitative and qualitative factors for each risk type and is carried out annually.

This process constitutes the basis for the determination of material risk types to be included into the Risk-bearing Capacity Calculation. Insights generated by the assessment are also used to improve risk management practices per se to further mitigate risks within the Group but also as an input for the design and definition of the Group's Risk Appetite Statement. Furthermore, insights from the risk materiality assessment are considered in the stress test when defining stress parameters.

Concentration risk management
Erste Group has implemented a framework to identify, measure, control, report and manage concentration risks. This is essential to ensuring the long-term viability of Erste Group, and especially in times of stressed economic conditions.

Concentration risk management at Erste Group is based on a framework of processes, methodologies and reports covering both intra- and inter-risk concentrations. Concentration risks also comprise an integral part of stress test analyses. Furthermore, the outcome of a stress test is directly considered in the Risk-bearing Capacity Calculation of the Group

Additionally, the results of concentration risk assessments are used in defining the Risk Appetite Statement, defining stress factors for stress tests, and when setting or calibrating Erste Group's limit system.

Based on the results of concentration risk studies, potential regional, country and industry concentration risks can be identified in the credit portfolio. Country concentration mainly reflects the Group's strategy to operate in its core CEE region.

Stress testing
Modelling sensitivities of the Group's assets, liabilities and profit or loss provide management and steering impulses and help in optimising the Group's risk/ return profile. The additional dimension of stress tests should help to factor in severe but plausible scenarios and provide further robustness to the measuring, steering and management system. Risk modelling and stress testing are vital forward-looking elements of ICAAP. Finally, sensitivities and stress scenarios are explicitly considered within the Group's planning and budgeting process as well as the Risk-bearing Capacity Calculation and the setting of the Maximum Risk Exposure Limit.

Erste Group's most complex stress tests take comprehensive account of the impact of stress scenarios, including second-round effects on all risk types (credit, market, operational and liquidity) and in addition impacts on the associated volumes (assets/liabilities) as well as on profit and loss sensitivities.

Erste Group has developed specific tools to support the stress testing process, which combines bottom–up and top–down approaches. In addition, Erste Group leverages the intimate knowledge of its professionals located in the different regions to further calibrate the model-based stress parameters. Special attention is given to consider adequate granularity and special characteristics when defining the stress parameters (e.g. the particular developments in the respective region, industry, product type or segment). The adequacy of scenarios and stress parameters is reviewed on a quarterly basis.

Results from all of Erste Group's stress tests are checked as to their explanatory power in order to decide on appropriate measures. All stress tests performed in the reporting period clearly showed capital adequacy to be sufficient.

Erste Group additionally participated in a stress test exercise at national level (OeNB). The results of this stress test showed that Erste Group's regulatory capital was adequate. An international stress test (EBA) did not take place in 2012.

Risk-bearing Capacity Calculation (RCC)

The Risk-bearing Capacity Calculation is ultimately the tool to define the capital adequacy required by ICAAP. Within the RCC, all material risks are aggregated and compared to the coverage potential and capital of the bank. The integral forecast, risk appetite limit as well as a traffic light system support management in its discussion and decision process.

The traffic light system embedded in Erste Group's RCC helps in alerting the management in case there is a need to decide, plan and execute actions to either replenish the capital base or to take appropriate business measures for reducing the risk.

The management board and risk management committees are briefed regularly (and at least on a quarterly basis) in relation to the results of the capital adequacy calculation. The report includes movements in risks and available capital and coverage potential after consideration of potential losses in stress situations, the degree of the risk limit's utilisation and the overall status of capital adequacy according to the traffic light system. The Group Risk Report also includes a comprehensive forecast of risk-weighted assets and capital adequacy.

Besides the Pillar 1 risk types (credit– , market– and operational risk), in the context of Pillar 2, interest rate risks in the banking book, foreign exchange risks arising from equity investments and credit spread risks in the banking book are explicitly considered within the economic capital via internal models. During 2012 the utilisation of the economic capital was between 67% and 76%. The methodologies which are applied for the different risk types in calculating the economic capital requirement are diverse and range from historic simulations, and value-at-risk approaches to the regulatory approach for residual portfolios. Moreover, additional portfolio calculations can be applied that are utilised under the standard regulatory approach and which are extended by risk parameters from the internal ratings-based approach.

In addition to the Risk-bearing Capacity Calculation, liquidity, concentration and macroeconomic risks, in particular, are managed by means of a proactive management framework that includes forward-looking scenarios, stress testing, trigger levels (including a risk buffer of 5.3% of the economic capital requirement), and traffic light systems.

Based on Erste Group's business and risk profile, the three main types of banking risks – credit risk, market risk and operational risk – are currently considered directly in the Risk-bearing Capital Calculation. Credit risk accounts for approximately 71% of the total economic capital requirement. Reflecting Erste Group's conservative risk management policy and strategy, the Group does not offset diversification effects between these three risk types. The economic capital requirement for unexpected losses is computed on a one-year time horizon with a 99.95% confidence level, which reflects the implied default risk consistent with a long-term credit rating of AA.

The capital or coverage potential required to cover economic risks and unexpected losses is based on equity, considering as well subordinated capital liabilities and regulatory deductibles. The coverage potential must be sufficient to absorb unexpected losses resulting from the Group's operations.

Risk planning and forecasting

The responsibility for strategic risk management within the Group and each subsidiary includes to ensure sound risk planning and forecasting processes. The numbers determined by risk management are a consequence of close co-operation with all stakeholders in the Group's overall planning process, and in particular with Group Performance Management (GPM), Asset/Liability Management and the business lines. The relevant numbers flow directly into the Group steering and planning process, which is hosted by GPM.

A particular role and forward-looking element is played by the rolling one-year forecast within the RCC which is vital in determining the trigger level of the traffic light system.

RWA management

As risk-weighted assets (RWA) determine the actual regulatory capital requirement of a bank and influence the capital ratio as a key performance indicator, particular emphasis is devoted to meeting targets and to the planning and forecasting capacity for this parameter. Insights from monthly RWA analyses are used to improve the calculation infrastructure, the quality of input parameters and data as well as the most efficient application of the Basel framework.

A major focus during 2012 was on meeting RWA targets. There is a process in place for tracking compliance with RWA targets, forecasting their future developments, and, thereby, defining further targets. Deviations are brought to the attention of the board within a short time frame. This process is carried out by a task force with dedicated experts from the relevant areas of risk management, controlling, and statutory reporting. The task force's steering committee is co-headed by the CFO and CRO, and its meetings take place at least monthly. In addition to discussions in the steering committee, the Group's management board is regularly informed about the current status, and findings are taken into account in the context of Erste Group's regular steering process. Furthermore, RWA targets are included in the Risk Appetite Statement.

Capital allocation

An important task integral to the risk planning process is the allocation of capital to entities, business lines and segments. This is done with close co-operation between Strategic Risk Management and Controlling. All insight from the ICAAP and controlling processes is used to allocate capital with a view to risk/ return considerations.

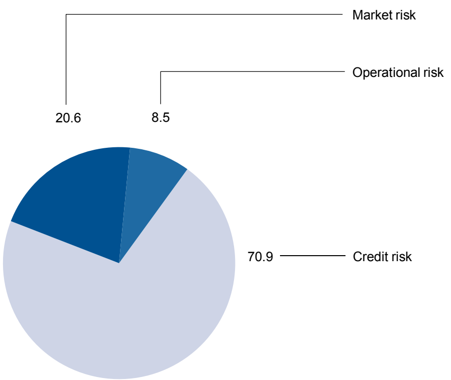
Emergency Response Plan

In order to respond in a timely and effective manner to a crisis situation, the Emergency Response Plan (ERP) provides a general governance framework and action plan for the Group in such eventuality. The ERP is a modular system which can be applied as required by a particular situation. As part of its supervisory guidance for strengthening the sustainability of the business models of large, internationally active Austrian banks, Erste Group is required to prepare recovery and resolution plans for potential crisis situations. The ERP will be incorporated into these recovery and resolution plans.

Erste Group's aggregate capital requirement by risk type

The following diagram presents the composition of the economic capital requirement as of 31 December 2012 according to type of risk:

Economic capital allocation in %, 31. 12. 2012



37.5) Credit risk

Definition and overview

Credit risk arises in Erste Group's traditional lending and investment businesses. It involves losses incurred as a result of default by borrowers and the need to set aside provisions as a result of the deteriorating credit quality of certain borrowers, as well as due to counterparty risk from trading in instruments and derivatives bearing market risk. Country risk, too, is recognised in the calculation of credit risk. Operative credit decisions are made locally by the credit risk management units at each of the banking subsidiaries, and by Group Corporate Risk Management and Group EGI Real Estate Risk Manangement at group level. For a detailed explanation of the role and responsibilities of Group Corporate Risk Management and Group EGI Real Estate Risk Manangement, see 'Overview of risk management structure' in Note 37.2) Risk management organisation.

The central database used for credit risk management is the group data pool. All data relevant to credit risk management, performance management and determination of risk-weighted assets and the regulatory capital requirement are regularly input to this database. Relevant subsidiaries not yet integrated into the group data pool regularly deliver reporting packages.

The department Group Credit Risk Methods and Reporting uses the group data pool for centralised credit risk reporting. This ensures centralised analysis and application of ratios according to unified methods and segmentation across the entire Erste Group. The credit risk reporting comprises regular reports on Erste Group's credit portfolio for external and internal recipients and permits continuous monitoring of credit risk developments, thus enabling management to take control measures. In-house recipients of these reports include, above all, the supervisory and management boards of Erste Group Bank, as well as the risk managers, business unit directors and internal audit staff.

The Credit Limit System organisational unit is in charge of the roll-out and continuous technical improvement of a group-wide online limit system for capping counterparty risk arising from treasury transactions, as well as for surveillance of credit risk from exposure to clients that fall into the 'financial institutions', 'sovereigns' and 'international large corporates' asset segments and which work with several different members of Erste Group.

Internal rating system

Overview

Erste Group has business and risk strategies in place, as well as policies for lending and credit approval processes, which are reviewed and adjusted regularly (at minimum on a yearly basis). They cover the entire lending business, taking into account the nature, scope and risk level of the transactions and the counterparties involved. Credit approval is also based on the creditworthiness of the customer, the type of credit, collateral, covenant package and other risk mitigation factors involved.

The assessment of counterparty default risk within Erste Group is based on the customer's probability of default (PD). For each credit exposure and lending decision, Erste Group assigns an internal rating which is a unique measure of counterparty default risk. The internal rating of each customer is updated at least on an annual basis (Annual Rating Review). Ratings of customers in weaker rating classes are reviewed with higher frequency than the usual Annual Rating Review.

The main purpose of the internal ratings is to support the decision-making for lending and for the terms of credit facilities to be extended. However, internal ratings also determine the level of decision-making authority within Erste Group and the monitoring procedures for existing exposures. At a quantitative level, internal ratings drive the level of required risk pricing and risk provisions.

For IRB compliant entities of Erste Group, internal ratings are a key element of the risk-weighted assets' calculation. They are also used in the Group's Internal Capital Adequacy Assessment Process (ICAAP). For these purposes, a distinct PD value is assigned to each rating grade for its IRB portfolios within the calibration process. Calibration is performed individually for each rating method. PD values reflect the 12-month probability of default based on long-term average default rates. In addition to the PD values, the bank assigns margins of conservatism dependent on the granularity of portfolios and relevant data history. Calibration of PD values is validated annually in line with all the rating methods validations.

Internal ratings take into account all available essential information for the assessment of counterparty default risk. For non-retail borrowers, internal ratings take into account financial strength of the counterparty, possibility of external support, company information, and external credit history information, where available. For the wholesale segment, internal ratings also take into account market information such as access to capital markets linked to external ratings or credit spreads. The willingness of the market to provide funds to the counterparty can be derived from these variables. For retail clients, internal ratings are based mainly on behavioural and application scoring, but they also utilise demographic and financial information, supplemented by credit bureau information, where available. Rating ceiling rules on credit quality are applied based on membership in a group of economically related entities and country of main economic activity. Country ceilings are applied for cross-border financing facilities.

Internal teams of specialists ('Competence Centers') provide internal rating models and risk parameters and develop them further. Rating development follows an internal methodology that is formalised into a group-wide methodology and documentation standard. Rating models are developed based on relevant and most-accurate data covering the respective market. In such way, Erste Group has established highly predictive rating models covering its entire core region.

All scorecards, whether retail or non-retail, are regularly validated by the central validation unit based on group-wide standard methodology. Validations are provided using statistical techniques in respect to default prediction performance, rating stability, data quality, completeness and relevancy, as well as, last but not least, the review of documentation and user acceptance. The results of this validation process are reported to the management and regulatory bodies. In addition to the validation process, the Group applies a monthly monitoring process on the performance of rating tools, reflecting the month-to-month new defaults and any early delinquencies.

A Holding Model Committee is established as an elementary steering and control body for the model development and maintenance process. The Holding Model Committee reports to the CRO Board. All new models and modifications of existing models in the group (rating models and risk parameters), as well as methodology standards, are reviewed by the Holding Model Committee. The Holding Model Committee ensures group-wide integrity and consistency of models and methodologies. Besides its review function for new models and methodologies, the Holding Model Committee organises the group-wide validation process, reviews validation results, and approves remedial actions. All development and validation activities are coordinated by the Group Credit Risk Methods organisational unit.

Risk grades and categories

The classification of credit assets into risk grades is based on Erste Group's internal ratings. Erste Group uses two internal risk scales for risk classification: for customers that have not defaulted, a risk scale of eight risk grades (for retail) and 13 risk grades (for all other segments) is used. Defaulted customers are classified into a separate risk grade. For newly acquired subsidiaries of Erste Group, the respective local risk classification is mapped to group standard classifications until internal rating systems according to group methodology are introduced.
For the purpose of external reporting, Erste Group has developed a framework to map the risk grades into four different risk categories, as follow:

Low risk: Typically regional customers with well-established and rather long-standing relationships with Erste Group or large internationally recognised customers. Strong and good financial position and no foreseeable financial difficulties. Retail clients having long relationships with the bank, or clients with a wide product pool use. No late payments currently or in the most recent 12 months. New business is generally with clients in this risk category.

Management attention: Vulnerable non-retail clients, which may have overdue payments or defaults in their credit history or may encounter debt repayment difficulties in the medium-term. Retail clients with limited savings or probable payment problems in the past triggering early collection reminders. These clients typically have good recent histories and no current delinquencies.

Substandard: The borrower is vulnerable to negative financial and economic developments. Such loans are managed in specialised risk management departments.

Non-performing: One or more of the default criteria under Basel 2 are met: full repayment unlikely, interest or principal payments on a material exposure more than 90 days past due, restructuring resulting in a loss to the lender, realisation of a loan loss, or initiation of bankruptcy proceedings. For purposes of analysing non-performing positions, Erste Group applies the 'customer view' in Austria. Accordingly, if an Austrian customer defaults on one product then all of that customer's performing products are classified as non-performing. For corporate borrowers in CEE, the customer view is also applied. However, in the retail and SME segment in CEE, Erste Group uses the 'product view', so that only the product actually in default is counted as an NPL whereas the other products of the same customer are considered performing.

Credit risk review and monitoring

Credit monitoring

In order to manage the credit risk for large corporates, banks, sovereigns and country risk, credit limits are established to reflect the maximum exposure Erste Group is willing to take on that particular customer or group of connected customers. All credit limits and the exposures booked within the limits are reviewed at least once a year. For smaller corporates, enterprises and retail customers, monitoring and credit review is based on an automated early warning system and monthly rating model, which is updated monthly. For weaker small companies (with a risk category of 'Management attention' or 'Substandard'), a continuous review process is undertaken.

Credit portfolio reports for asset classes and business lines are prepared on a regular basis. Watch-list meetings or remedial committee meetings are held on a regular basis to discuss customers with poor credit standing or to discuss pre-emptive measures to help a particular debtor avoid default.

For retail businesses, local operational risk management is responsible to undertake these monitoring activities and fulfil the minimum requirements of Group Retail Risk Management.

Credit risk exposure

Credit risk exposure relates to the following balance sheet items:

- loans and advances to credit institutions;
- loans and advances to customers;
- debt securities held for trading, at fair value through profit or loss, available for sale, and held to maturity;
- derivatives; and
- credit risks held off balance sheet (primarily financial guarantees and undrawn credit commitments).

The credit risk exposure comprises the gross amount without taking into account loan loss provisions, any collateral held (including risk transfer to guarantors), netting effects, other credit enhancements or other credit risk mitigating transactions.

Due to the sale of the Ukrainian subsidiary Public Company 'Erste Bank' which was agreed in December 2012, Ukraine does not belong to the core market anymore and does not constitute a separate sub-segment of Erste Group. Consequently, in the following tables with figures as of 31 December 2012 Ukraine is no longer presented either as separate sub-segment or as a separate region.

The credit risk exposure of Erste Group increased by 0.1%, or EUR 211 million, from just under EUR 219.5 billion as of 31 December 2011 to approximately EUR 219.7 billion as of 31 December 2012.

Erste Group's credit risk exposure is presented below divided into the following classes:

- by Basel 2 exposure class and financial instrument,
- by industry and financial instrument,
- by risk category,
- by industry and risk category,
- by region and risk category, and
- by business segment and risk category.

Thereafter, a breakdown is presented of

- contingent credit liabilities by region and risk category,
- contingent credit liabilities by product,
- credit risk exposure to sovereigns by region and financial instrument, and
- credit risk exposure to institutions by region and financial instrument.

This is followed by presentation of

- non-performing credit risk exposure by business segment and credit risk provisions,
- credit risk exposure by business segment and collateral,
- credit risk exposure by financial instrument and collateral,
- credit risk exposure past due and not covered by specific provisions by Basel 2 exposure class and collateralisation, and
- credit risk exposure covered by specific provisions by Basel 2 exposure class

and a breakdown of

- loans and advances to customers by business segment and risk category
- non-performing loans and advances to customers by business segment and coverage by loan loss provisions and collateral, and
- loans and advances to customers by business segment and currency.

Credit risk exposure by Basel 2 exposure class and financial instrument

The following tables include Erste Group's credit risk exposure broken down by Basel 2 exposure class and financial instrument as of 31 December 2012 and 31 December 2011, respectively. The assignment of obligors to Basel 2 exposure classes is based on legal regulations. For reasons of clarity, individual Basel 2 exposure classes are presented in aggregated form in the tables below and in other tables in the chapter 'Credit Risk'. The aggregated exposure class 'sovereigns' also contains regional and local governments as well as public sector entities in addition to central governments, central banks, international organisations and multinational development banks.

Credit risk exposure by Basel 2 exposure class and financial instrument in 2012

			Debt securities						
in EUR million	Loans and advances to credit institutions	Loans and advances to customers	Held to maturity	Trading assets	At fair value through profit or loss	Available for sale	Positive fair value of derivative financial instruments	Contingent credit liabilities	Credit risk exposure
	at amortised cost			fair value					
Sovereigns	2,556	7,799	16,371	4,267	236	13,016	623	881	45,748
Institutions	6,504	52	1,720	360	211	4,425	11,806	267	25,346
Corporates	15	60,302	884	245	79	2,784	857	14,640	79,805
Retail	0	63,774	0	0	0	0	4	4,990	68,768
Total	**9,074**	**131,928**	**18,975**	**4,872**	**526**	**20,225**	**13,289**	**20,779**	**219,668**

Credit risk exposure by Basel 2 exposure class and financial instrument in 2011

			Debt securities						
in EUR million	Loans and advances to credit institutions	Loans and advances to customers	Held to maturity	Trading assets	At fair value through profit or loss	Available for sale	Positive fair value of derivative financial instruments	Contingent credit liabilities	Credit risk exposure
	at amortised cost			fair value					
Sovereigns	1,556	8,247	12,427	4,638	928	9,230	166	1,276	38,468
Institutions	6,008	174	2,388	573	309	5,432	9,853	509	25,246
Corporates	13	61,968	1,259	259	265	2,992	904	15,932	83,592
Retail	0	64,361	0	0	0	0	7	7,782	72,150
Total	**7,578**	**134,750**	**16,074**	**5,471**	**1,502**	**17,654**	**10,931**	**25,499**	**219,457**

Credit risk exposure by industry and financial instrument

The following tables present Erste Group's credit risk exposure by industry, broken down by financial instruments, as of each reporting date indicated.

Credit risk exposure by industry and financial instrument in 2012

in EUR million	Loans and advances to credit institutions	Loans and advances to customers	Held to maturity	Trading assets	At fair value through profit or loss	Available for sale	Positive fair value of derivative financial instruments	Contingent credit liabilities	Credit risk exposure
			Debt securities						
	at amortised cost			fair value					
Agriculture and forestry	0	2,195	0	0	0	0	3	211	2,409
Mining	0	396	0	1	0	0	0	191	588
Manufacturing	0	10,259	54	23	1	146	102	3,770	14,356
Energy and water supply	0	2,387	51	24	0	66	43	847	3,418
Construction	0	7,067	110	4	0	76	36	2,636	9,930
Trade	0	8,903	0	1	0	13	90	2,293	11,300
Transport and communication	0	3,717	185	17	0	446	26	759	5,150
Hotels and restaurants	0	4,048	9	0	0	2	40	461	4,560
Financial and insurance services	9,074	6,208	2,423	1,302	439	7,670	12,039	1,980	41,135
Real estate and housing	0	20,534	28	22	0	225	254	1,640	22,703
Services	0	4,839	164	50	0	293	43	1,061	6,451
Public administration	0	6,615	15,932	3,422	81	10,941	581	758	38,331
Education, health and art	0	2,606	0	0	0	0	9	316	2,931
Private households	0	52,028	0	0	0	0	3	3,225	55,256
Other	0	125	18	6	3	347	20	632	1,151
Total	**9,074**	**131,928**	**18,975**	**4,872**	**526**	**20,225**	**13,289**	**20,779**	**219,668**

Credit risk exposure by industry and financial instrument in 2011

in EUR million	Loans and advances to credit institutions (at amortised cost)	Loans and advances to customers (at amortised cost)	Debt securities: Held to maturity (at amortised cost)	Debt securities: Trading assets (fair value)	Debt securities: At fair value through profit or loss (fair value)	Debt securities: Available for sale (fair value)	Positive fair value of derivative financial instruments	Contingent credit liabilities	Credit risk exposure
Agriculture and forestry	0	2,076	0	0	0	0	2	285	2,362
Mining	0	460	0	0	0	2	0	116	578
Manufacturing	0	10,931	111	20	1	119	125	3,865	15,172
Energy and water supply	0	2,419	51	18	0	68	33	955	3,544
Construction	0	6,745	141	1	0	65	8	3,220	10,179
Trade	0	9,476	0	1	0	9	84	2,458	12,028
Transport and communication	0	3,770	154	12	0	365	26	644	4,970
Hotels and restaurants	0	4,227	10	0	0	2	33	513	4,785
Financial and insurance services	7,578	6,633	3,166	1,931	707	8,511	10,094	2,468	41,088
Real estate and housing	0	20,630	54	9	4	233	224	2,111	23,265
Services	0	5,441	98	33	0	272	61	1,193	7,098
Public administration	0	7,166	12,247	3,442	790	7,768	161	997	32,571
Education, health and art	0	2,498	0	0	0	0	6	452	2,957
Private households	0	52,031	0	0	0	0	5	5,647	57,683
Other	0	247	42	2	0	241	70	575	1,177
Total	**7,578**	**134,750**	**16,074**	**5,471**	**1,502**	**17,654**	**10,931**	**25,499**	**219,457**

Credit risk exposure by risk category

The following table presents the credit risk exposure of Erste Group divided by risk category as of 31 December 2012, compared with the credit risk exposure as of 31 December 2011.

Credit risk exposure by risk category

in EUR million	Low risk	Management attention	Substandard	Non-performing	Credit risk exposure
Total exposure as of 31 Dec 2012	179,455	22,833	4,785	12,595	219,668
Share of credit risk exposure	81.7%	10.4%	2.2%	5.7%	
Total exposure as of 31 Dec 2011	175,425	27,038	5,194	11,800	219,457
Share of credit risk exposure	79.9%	12.3%	2.4%	5.4%	
Change in credit risk exposure in 2012	4,030	(4,204)	(409)	795	211
Change	2.3%	(15.5)%	(7.9)%	6.7%	0.1%

From 31 December 2011 to 31 December 2012, the percentage of credit risk exposure in the best and poorest categories increased, while exposure decreased in the other two categories. Non-performing claims as a share of total credit risk exposure (i.e. the non-performing exposure ratio, NPE ratio) rose from 5.4% to 5.7%. Of Erste Group's total credit exposure, 81.7% constituted the best risk category and 10.4% was in the management attention category. The combined proportion of the two weaker risk categories scarcely changed between 31 December 2011 and 31 December 2012, growing by 0.1 percentage points from 7.8% to 7.9% of total credit risk exposure.

Credit risk exposure by industry and risk category

The following tables present the credit risk exposure of Erste Group broken down by industry and risk category as of 31 December 2012 and 31 December 2011, respectively.

Credit risk exposure by industry and risk category in 2012

in EUR million	Low risk	Management attention	Substandard	Non-performing	Credit risk exposure
Agriculture and forestry	1,529	546	79	255	2,409
Mining	399	110	5	74	588
Manufacturing	9,611	2,436	535	1,773	14,356
Energy and water supply	2,767	340	42	269	3,418
Construction	5,950	1,843	315	1,821	9,930
Trade	7,792	1,810	375	1,324	11,300
Transport and communication	3,890	796	65	399	5,150
Hotels and restaurants	2,447	986	310	816	4,560
Financial and insurance services	39,386	1,276	80	392	41,135
Real estate and housing	17,570	3,267	658	1,208	22,703
Services	4,798	953	161	539	6,451
Public administration	37,476	817	10	28	38,331
Education, health and art	2,024	668	48	191	2,931
Private households	43,337	6,891	1,560	3,468	55,256
Other	478	92	544	37	1,151
Total	**179,455**	**22,833**	**4,785**	**12,595**	**219,668**

Credit risk exposure by industry and risk category in 2011

in EUR million	Low risk	Management attention	Substandard	Non-performing	Credit risk exposure
Agriculture and forestry	1,459	603	60	241	2,362
Mining	439	1. 68	4	67	578
Manufacturing	9,709	3,305	423	1,735	15,172
Energy and water supply	2,722	585	86	151	3,544
Construction	6,670	1,901	477	1,132	10,179
Trade	7,954	2,398	312	1,364	12,028
Transport and communication	3,369	1,017	125	460	4,970
Hotels and restaurants	2,399	1,285	317	784	4,785
Financial and insurance services	39,335	1,224	131	398	41,088
Real estate and housing	17,860	3,562	565	1,278	23,265
Services	5,284	1,040	186	587	7,098
Public administration	31,493	995	36	47	32,571
Education, health and art	2,284	500	41	132	2,957
Private households	44,032	8,447	1,842	3,362	57,683
Other	416	107	591	63	1,177
Total	**175,425**	**27,038**	**5,194**	**11,800**	**219,457**

Credit risk exposure by region and risk category

The geographic analysis of credit exposure is based on the risk country of the borrower. Accordingly, the distribution among Erste Group entities of the credit risk exposure by geography differs from the composition of credit risk exposure in terms of reporting segments of Erste Group.

The following tables present the credit risk exposure of Erste Group divided by region as of 31 December 2012 and 31 December 2011, respectively.

Credit risk exposure by region and risk category in 2012

in EUR million	Low risk	Management attention	Substandard	Non-performing	Credit risk exposure
Core market	**145,789**	**20,790**	**4,564**	**11,661**	**182,803**
Austria	75,642	8,419	1,534	3,423	89,017
Croatia	6,147	1,808	470	1,295	9,720
Romania	10,678	3,113	993	3,346	18,129
Serbia	805	276	49	79	1,209
Slovakia	13,107	1,176	232	502	15,017
Slovenia	1,328	267	127	228	1,951
Czech Republic	31,219	3,961	742	1,063	36,984
Hungary	6,864	1,770	417	1,726	10,777
Other EU	**27,409**	**1,202**	**112**	**559**	**29,283**
Other industrialised countries	**4,096**	**140**	**19**	**143**	**4,398**
Emerging markets	**2,161**	**702**	**90**	**232**	**3,184**
South-Eastern Europe/CIS	1,322	634	87	187	2,230
Asia	510	10	1	24	546
Latin America	86	19	1	8	114
Middle East/Africa	243	38	1	13	294
Total	**179,455**	**22,833**	**4,785**	**12,595**	**219,668**

Credit risk exposure by region and risk category in 2011

in EUR million	Low risk	Management attention	Substandard	Non-performing	Credit risk exposure
Core market	**142,947**	**25,055**	**4,889**	**10,822**	**183,714**
Austria	76,513	9,114	1,686	3,316	90,629
Croatia	5,954	2,417	466	982	9,818
Romania	10,641	4,924	869	2,813	19,247
Serbia	587	365	16	71	1,039
Slovakia	10,299	1,412	260	539	12,509
Slovenia	1,519	264	167	236	2,187
Czech Republic	29,197	4,128	693	1,039	35,058
Ukraine	423	574	136	230	1,362
Hungary	7,812	1,858	598	1,597	11,864
Other EU	**25,336**	**1,466**	**170**	**613**	**27,584**
Other industrialised countries	**4,181**	**204**	**46**	**178**	**4,610**
Emerging markets	**2,960**	**313**	**89**	**186**	**3,549**
South-Eastern Europe/CIS	1,298	222	47	148	1,714
Asia	714	14	40	22	791
Latin America	167	8	2	9	186
Middle East/Africa	782	69	0	7	858
Total	**175,425**	**27,038**	**5,194**	**11,800**	**219,457**

Growing by only EUR 211 million, or 0.1%, the credit risk exposure remained almost unchanged between 31 December 2011 and 31 December 2012. In the CEE core markets, the credit risk exposure increased by EUR 701 million, or 0.8%, whereas it decreased by approximately EUR 1.6 billion, or 1.8%, in Austria. In the other EU member states (EU 27 excluding core markets), the credit risk exposure rose by almost EUR 1.7 billion, or 6.2%, to EUR 29.3 billion between the two balance sheet dates, contrasting with a decrease of EUR 212 million, or 4.6%, in other industrialised countries and of EUR 365 million, or 10.3%, in emerging markets. The countries of Erste Group's core market and the EU accounted for 96.5% of credit risk exposure as of 31 December 2012. At 1.4%, credit risk exposure in emerging markets remained of minor significance.

Credit risk exposure by business segment and risk category

The following tables show the credit risk exposure of Erste Group broken down by reporting segment as of 31 December 2012 and 31 December 2011, respectively. Due to the aforementioned sale, Ukraine is not reported separately as a partial segment as of 31 December 2012.

Credit risk exposure by business segment and risk category in 2012

in EUR million	Low risk	Management attention	Substandard	Non-performing	Credit risk exposure
Retail & SME	**128,207**	**18,548**	**3,590**	**11,069**	**161,413**
Austria	72,950	9,165	1,382	3,816	87,313
EB Österreich	31,244	2,462	329	1,134	35,169
Savings Banks	41,706	6,703	1,054	2,682	52,145
Central and Eastern Europe	55,257	9,383	2,208	7,253	74,100
Czech Republic	28,063	3,107	598	989	32,758
Romania	8,766	2,523	631	3,086	15,007
Slovakia	9,449	877	197	448	10,971
Hungary	2,949	1,510	348	1,575	6,382
Croatia	5,558	1,186	417	1,085	8,246
Serbia	471	180	16	69	736
Group Corporate & Investment Banking	**19,840**	**3,895**	**861**	**1,521**	**26,117**
Group Markets	**22,479**	**186**	**20**	**2**	**22,688**
Corporate Center	**8,929**	**205**	**314**	**3**	**9,450**
Total	**179,455**	**22,833**	**4,785**	**12,595**	**219,668**

Credit risk exposure by business segment and risk category in 2011

in EUR million	Low risk	Management attention	Substandard	Non-performing	Credit risk exposure
Retail & SME	**125,950**	**22,282**	**4,275**	**10,395**	**162,902**
Austria	75,183	9,928	1,632	3,854	90,597
EB Österreich	33,193	2,973	401	1,148	37,716
Savings Banks	41,990	6,955	1,231	2,706	52,881
Central and Eastern Europe	50,767	12,355	2,642	6,541	72,305
Czech Republic	24,962	3,739	608	975	30,284
Romania	7,542	3,844	734	2,579	14,699
Slovakia	8,553	916	223	498	10,189
Hungary	3,655	1,648	517	1,504	7,324
Croatia	5,184	1,825	443	764	8,216
Serbia	416	228	15	59	718
Ukraine	455	155	101	161	873
Group Corporate & Investment Banking	**23,330**	**4,411**	**569**	**1,398**	**29,708**
Group Markets	**18,987**	**176**	**3**	**3**	**19,169**
Corporate Center	**7,158**	**169**	**348**	**4**	**7,679**
Total	**175,425**	**27,038**	**5,194**	**11,800**	**219,457**

Contingent credit liabilities by region and risk category

The following tables present the credit risk exposure of Erste Group's off-balance-sheet positions broken down by region and risk category, as well as by product, as of 31 December 2012 and 31 December 2011, respectively.

Erste Group has introduced a more stringent group-wide differentiation between irrevocable and revocable commitments. Due to this change, irrevocable unused commitments were reduced by approximately EUR 3.5 billion.

Contingent credit liabilities by region and risk category in 2012

in EUR million	Low risk	Management attention	Substandard	Non-performing	Credit risk exposure
Core market	**15,592**	**2,129**	**705**	**394**	**18,820**
Austria	9,976	820	545	240	11,580
Croatia	473	113	17	21	624
Romania	978	367	34	66	1,445
Serbia	129	14	2	0	146
Slovakia	1,042	81	16	16	1,155
Slovenia	74	30	3	8	115
Czech Republic	2,624	642	83	31	3,380
Hungary	295	62	6	12	375
Other EU	**1,290**	**105**	**22**	**13**	**1,431**
Other industrialised countries	**95**	**7**	**0**	**0**	**103**
Emerging markets	**317**	**101**	**4**	**3**	**426**
South-Eastern Europe/CIS	207	78	4	3	291
Asia	24	1	0	0	25
Latin America	3	15	0	0	18
Middle East/Africa	83	8	0	0	91
Total	**17,294**	**2,343**	**731**	**411**	**20,779**

Contingent credit liabilities by region and risk category in 2011

in EUR million	Low risk	Management attention	Substandard	Non-performing	Credit risk exposure
Core market	**19,871**	**2,618**	**716**	**265**	**23,470**
Austria	13,896	846	542	146	15,431
Croatia	550	176	20	14	760
Romania	1,247	757	28	55	2,085
Serbia	74	25	2	1	103
Slovakia	825	110	24	7	966
Slovenia	117	57	2	8	184
Czech Republic	2,773	524	83	26	3,406
Ukraine	0	67	0	0	67
Hungary	389	58	14	8	468
Other EU	**1,324**	**195**	**11**	**22**	**1,552**
Other industrialised countries	**206**	**10**	**10**	**1**	**227**
Emerging markets	**217**	**27**	**2**	**3**	**250**
South-Eastern Europe/CIS	127	12	2	3	144
Asia	12	1	0	0	13
Latin America	17	3	0	0	20
Middle East/Africa	62	12	0	0	73
Total	**21,618**	**2,851**	**739**	**290**	**25,499**

Contingent credit liabilities by product

in EUR million	2012	2011
Financial guarantees	6,363	6,920
Irrevocable commitments	14,415	18,579
Total	**20,779**	**25,499**

Credit risk exposure to sovereigns by region and financial instrument

The following tables show Erste Group's credit risk exposure to sovereigns broken down by region and financial instrument as of 31 December 2012 and 31 December 2011, respectively. The assignment of obligors to sovereigns is based on Basel 2 exposure classes.

Credit risk exposure to sovereigns by region and financial instrument in 2012

			Debt securities						
in EUR million	Loans and advances to credit institutions	Loans and advances to customers	Held to maturity	Trading assets	At fair value through profit or loss	Available for sale	Positive fair value of derivative financial instruments	Contingent credit liabilities	Credit risk exposure
	at amortised cost			fair value					
Core market	**728**	**7,479**	**15,749**	**3,949**	**229**	**10,900**	**623**	**875**	**40,532**
Austria	3	3,631	2,433	33	1	4,656	54	574	11,384
Croatia	690	990	101	111	0	530	0	5	2,427
Romania	5	1,267	2,497	587	5	980	0	85	5,425
Serbia	0	50	51	8	0	10	0	0	119
Slovakia	0	236	3,244	219	29	2,544	1	18	6,291
Slovenia	0	28	47	84	0	162	0	3	323
Czech Republic	0	681	6,175	1,867	194	1,314	567	180	10,978
Hungary	31	597	1,203	1,040	0	704	0	11	3,585
Other EU	**0**	**44**	**607**	**317**	**8**	**1,692**	**0**	**6**	**2,673**
Other industrialised countries	**1,818**	**0**	**0**	**0**	**0**	**276**	**0**	**0**	**2,093**
Emerging markets	**10**	**276**	**15**	**1**	**0**	**148**	**0**	**0**	**450**
South-Eastern Europe/CIS	0	104	15	0	0	142	0	0	262
Asia	0	128	0	0	0	2	0	0	130
Latin America	3	35	0	0	0	1	0	0	39
Middle East/Africa	7	9	0	1	0	3	0	0	19
Total	**2,556**	**7,799**	**16,371**	**4,267**	**236**	**13,016**	**623**	**881**	**45,748**

Credit risk exposure to sovereigns by region and financial instrument in 2011

in EUR million	Loans and advances to credit institutions	Loans and advances to customers	Held to maturity	Trading assets	At fair value through profit or loss	Available for sale	Positive fair value of derivative financial instruments	Contingent credit liabilities	Credit risk exposure
			Debt securities						
	at amortised cost			fair value					
Core market	**1,516**	**7,772**	**12,192**	**4,184**	**343**	**7,280**	**166**	**1,257**	**34,709**
Austria	0	3,960	842	58	0	3,511	51	777	9,201
Croatia	642	783	86	138	0	497	0	56	2,202
Romania	166	1,388	1,936	550	6	1,201	0	123	5,371
Serbia	57	66	3	9	0	36	0	1	171
Slovakia	0	235	2,597	552	46	998	2	4	4,435
Slovenia	0	28	47	2	0	168	0	0	246
Czech Republic	620	658	5,671	1,548	112	352	112	256	9,330
Ukraine	0	36	0	0	0	0	0	0	36
Hungary	30	618	1,010	1,326	179	516	0	39	3,718
Other EU	**0**	**122**	**216**	**443**	**585**	**1,450**	**0**	**16**	**2,833**
Other industrialised countries	**23**	**0**	**0**	**4**	**0**	**381**	**0**	**0**	**409**
Emerging markets	**18**	**353**	**19**	**7**	**0**	**119**	**0**	**3**	**518**
South-Eastern Europe/CIS	0	115	18	6	0	112	0	3	254
Asia	0	147	1	0	0	2	0	0	150
Latin America	3	51	0	0	0	1	0	0	54
Middle East/Africa	14	40	0	0	0	4	0	0	60
Total	**1,556**	**8,247**	**12,427**	**4,638**	**928**	**9,230**	**166**	**1,276**	**38,468**

Credit risk exposure to institutions by region and financial instrument

The following tables present Erste Group's credit risk exposure to institutions broken down by region and financial instrument as of 31 December 2012 and 31 December 2011, respectively. The assignment of obligors to institutions is based on Basel 2 exposure classes.

Credit risk exposure to institutions by region and financial instrument in 2012

in EUR million	Loans and advances to credit institutions (at amortised cost)	Loans and advances to customers (at amortised cost)	Debt securities: Held to maturity (at amortised cost)	Debt securities: Trading assets (fair value)	Debt securities: At fair value through profit or loss (fair value)	Debt securities: Available for sale (fair value)	Positive fair value of derivative financial instruments	Contingent credit liabilities	Credit risk exposure
Core market	**2,227**	**52**	**817**	**252**	**83**	**1,810**	**699**	**163**	**6,102**
Austria	1,087	25	285	249	57	1,003	465	98	3,268
Croatia	38	3	0	0	0	0	3	0	44
Romania	37	1	2	2	0	0	15	52	109
Serbia	12	4	0	0	0	1	0	0	17
Slovakia	51	0	2	0	0	62	16	0	131
Slovenia	19	0	0	0	0	4	1	2	27
Czech Republic	883	0	527	0	26	739	194	7	2,376
Hungary	101	20	0	0	0	0	5	3	129
Other EU	**3,625**	**0**	**801**	**101**	**89**	**2,405**	**10,601**	**32**	**17,653**
Other industrialised countries	**236**	**0**	**93**	**8**	**40**	**209**	**504**	**6**	**1,095**
Emerging markets	**416**	**0**	**10**	**0**	**0**	**1**	**2**	**66**	**496**
South-Eastern Europe/CIS	80	0	0	0	0	1	0	32	113
Asia	279	0	10	0	0	0	2	23	315
Latin America	1	0	0	0	0	0	0	2	3
Middle East/Africa	56	0	0	0	0	0	0	9	66
Total	**6,504**	**52**	**1,720**	**360**	**211**	**4,425**	**11,806**	**267**	**25,346**

Credit risk exposure to institutions by region and financial instrument in 2011

			Debt securities						
in EUR million	Loans and advances to credit institutions	Loans and advances to customers	Held to maturity	Trading assets	At fair value through profit or loss	Available for sale	Positive fair value of derivative financial instruments	Contingent credit liabilities	Credit risk exposure
	at amortised cost			fair value					
Core market	**1,808**	**120**	**890**	**380**	**62**	**2,614**	**588**	**441**	**6,903**
Austria	660	3	307	280	57	1,394	417	337	3,455
Croatia	51	4	0	11	0	0	3	0	68
Romania	28	0	0	2	0	0	2	50	82
Serbia	17	3	0	0	0	0	0	0	20
Slovakia	5	0	2	0	1	75	15	0	98
Slovenia	86	0	10	0	0	85	0	2	184
Czech Republic	871	63	526	0	4	830	143	13	2,450
Ukraine	31	0	0	86	0	227	0	0	344
Hungary	59	48	45	2	0	2	8	38	202
Other EU	**1,879**	**39**	**1,150**	**172**	**198**	**2,494**	**8,753**	**27**	**14,711**
Other industrialised countries	**1,290**	**0**	**164**	**21**	**48**	**318**	**510**	**10**	**2,361**
Emerging markets	**1,031**	**15**	**183**	**0**	**0**	**7**	**3**	**32**	**1,271**
South-Eastern Europe/CIS	138	0	0	0	0	1	0	1	141
Asia	412	0	55	0	0	0	2	11	480
Latin America	32	15	0	0	0	0	0	0	48
Middle East/Africa	448	0	129	0	0	5	0	20	602
Total	**6,008**	**174**	**2,388**	**573**	**309**	**5,432**	**9,853**	**509**	**25,246**

Non-performing credit risk exposure, risk provisions and collateral

For the definition of credit risk exposure classified as non-performing, please refer to the description of risk categories in the section ‘Internal rating system’ under Note 37.5.

Erste Group allocates provisions for credit risk losses. It has established a common framework referred to as Group IFRS Principles for Credit Risk Loss Provisions which defines minimum standards and principles for credit risk provisioning related to processes and measurement. According to the underlying methodological standards, the policy distinguishes between

_ loan loss provisions allocated for financial assets carried at amortised cost according to IAS 39 requirements, and
_ contingent credit risk provisions allocated for contingent credit liabilities reflecting IAS 37 principles.

In both areas, risk provisions are further split into specific and portfolio provisions, whereby specific provisions are allocated for defaulted and portfolio provisions for non-defaulted customers or products. Portfolio loan loss provisions are calculated according to the incurred but not reported losses methodology. Specific loan loss provisions are calculated by estimating future cash flows, including collateral recoveries, and discounting these by the original effective interest rate. Contingent credit risk provisions are based on expected loss methodology.

The following table shows the credit risk provisions divided into specific and portfolio provisions and provisions for guarantees as of 31 December 2012 and 31 December 2011, respectively.

in EUR million	2012	2011
Specific provisions	6,940	6,113
Portfolio provisions	704	914
Provision for guarantees	186	186
Total	**7,830**	**7,213**

Credit risk provisions covered 62.2% of the reported non-performing credit risk exposure as of 31 December 2012. For the portion of the non-performing credit risk exposure that is not covered by provisions, Erste Group assumes there are sufficient levels of collateral and expected other recoveries.

In the 12 months ended 31 December 2012, the non-performing credit risk exposure increased by approximately EUR 800 million, or 6.7%, from EUR 11.8 billion as of 31 December 2011 to EUR 12.6 billion as of 31 December 2012. Credit risk provisions were increased by EUR 617 million, or 8.5%, from EUR 7.2 billion as of 31 December 2011 to EUR 7.8 billion as of 31 December 2012. These movements resulted in a net increase in coverage of the non-performing credit risk exposure by 1.1 percentage points from 61.1% to 62.2%.

The following tables show the coverage of the non-performing credit risk exposure across the reporting segments by credit risk provisions (without taking into consideration collateral) as of 31 December 2012 and 31 December 2011, respectively. The differences in provisioning levels for the segments result from the risk situation in the respective markets, different levels of collateralisation, as well as the local legal environment and regulatory requirements.

The non-performing exposure ratio (NPE ratio) is calculated by dividing non-performing credit risk exposure by total credit risk exposure. The non-performing exposure coverage ratio (NPE coverage ratio) is calculated by dividing credit risk provisions by non-performing credit risk exposure. Collateral or other recoveries are not taken into account.

Non-performing credit risk exposure by business segment and credit risk provisions in 2012

	Credit risk exposure				
in EUR million	Non-performing	Credit risk exposure	Credit risk provisions	Non-performing-ratio	Non-performing coverage ratio
Retail & SME	**11,069**	**161,413**	**6,821**	**6.9%**	**61.6%**
Austria	3,816	87,313	2,343	4.4%	61.4%
Erste Bank Oesterreich	1,134	35,169	740	3.2%	65.3%
Haftungsverbund (Cross Guarantee System)	2,682	52,145	1,603	5.1%	59.8%
Central and Eastern Europe	7,253	74,100	4,478	9.8%	61.7%
Czech Republic	989	32,758	707	3.0%	71.4%
Romania	3,086	15,007	1,784	20.6%	57.8%
Slovakia	448	10,971	376	4.1%	83.9%
Hungary	1,575	6,382	1,009	24.7%	64.1%
Croatia	1,085	8,246	543	13.2%	50.0%
Serbia	69	736	59	9.4%	85.7%
Group Corporate and Investment Banking	**1,521**	**26,117**	**1,003**	**5.8%**	**66.0%**
Group Markets	**2**	**22,688**	**0**	**0.0%**	**9.8%**
Corporate Center	**3**	**9,450**	**5**	**0.0%**	**192.1%**
Total	**12,595**	**219,668**	**7,830**	**5.7%**	**62.2%**

Non-performing credit risk exposure by business segment and credit risk provisions in 2011

	Credit risk exposure				
in EUR million	Non-performing	Credit risk exposure	Credit risk provisions	Non-performing ratio	Non-performing coverage ratio
Retail & SME	**10,395**	**162,902**	**6,390**	**6.4%**	**61.5%**
Austria	3,854	90,597	2,346	4.3%	60.9%
Erste Bank Oesterreich	1,148	37,716	735	3.0%	64.0%
Haftungsverbund (Cross Guarantee System)	2,706	52,881	1,611	5.1%	59.5%
Central and Eastern Europe	6,541	72,305	4,044	9.0%	61.8%
Czech Republic	975	30,284	674	3.2%	69.1%
Romania	2,579	14,699	1,283	17.5%	49.8%
Slovakia	498	10,189	399	4.9%	80.2%
Hungary	1,504	7,324	1,055	20.5%	70.2%
Croatia	764	8,216	425	9.3%	55.6%
Serbia	59	718	54	8.3%	91.1%
Ukraine	161	873	154	18.5%	95.3%
Group Corporate and Investment Banking	**1,398**	**29,708**	**818**	**4.7%**	**58.5%**
Group Markets	**3**	**19,169**	**0**	**0.0%**	**1.7%**
Corporate Center	**4**	**7,679**	**6**	**0.1%**	**139.3%**
Total	**11,800**	**219,457**	**7,213**	**5.4%**	**61.1%**

Restructurings
Erste Group focuses on early identification of customers who are facing difficulties with payments or other loan-related obligations with the aim of restructuring their loans if the mid- to long-term outlook is positive. It believes that this can help to build customer loyalty for long-term relationships and co-operation. In principle, Erste Group follows a policy of restructuring by lengthening maturity and/or by deferring capital repayment but insisting on payment of interest. Restructured exposures are deemed to be performing as long as there arises no loss for the bank. If the agreed restructuring measures lead to a forbearance of debts, the borrower is rated as defaulted and the exposure is classified as non-performing. Currently, Erste Group is working on an implementation of the requirements which, for the topic restructurings, arise from the ESMA publication 'Treatment of Forbearance Practices in IFRS Financial Statements of Financial Institutions'.

Recognition of collateral
At the beginning of 2011, the Collateral Management Department was created as a staff unit within the Group Corporate Workout business area. The adopted 'Standards and Rules for Collateral Management' define, among other things, uniform valuation standards for credit collateral across the entire Group. These ensure both that the requirements of credit risk mitigation are met and that the credit risk decision processes are standardised with respect to those assets recognised as collateral.

All the collateral types acceptable within the Group are given in an exhaustive list in the Group Collateral Catalogue. Locally permitted collateral is defined by the respective bank in accordance with applicable national legal provisions. The valuation and revaluation of collateral is done according to the principles defined in the Group Catalogue broken down by class and based on the internal work instructions in accordance with the individual supervisory requirements. Whether a type of security or a specific collateral asset is accepted for credit risk mitigation is decided by Strategic Risk Management after determining if the applicable regulatory capital requirements are met. Adherence to the standard work processes stipulated for assigning the acceptable collateral assets to the categories available is monitored by operative risk management.

Main types of collateral
The following types of collateral are the most frequently accepted:
- Real estate: This includes both private and commercial real estate.
- Financial collateral: This category includes primarily securities portfolios and cash deposits as well as life insurance policies.
- Guarantees: Guarantees are provided mainly by states, banks and companies. All guarantors must have a minimum credit rating that is reviewed annually.

Other types of collateral such as real collateral in the form of movable property or the assignment of receivables are accepted less frequently.

Collateral valuation and management
Collateral valuation is based on current market prices while taking into account an amount that can be recovered within a reasonable period. The valuation processes are defined and technically implemented by authorised staff with the assistance of software applications. Only independent appraisers not involved in the lending decision process are permitted to conduct real estate valuations, and the valuation methods to be applied are defined. For quality assurance purposes, the real estate valuations are validated on an ongoing basis.

The methods and discounts used for valuations are based on empirical data representing past experience of the workout departments and on the collected data on loss recovery from realising collateral. The valuation methods are adjusted regularly – at least once a year – to reflect current recoveries. Financial collateral assets are recognised at market value.

The revaluation of collateral is done periodically and is automated as far as possible. In the case of external data sources, the appropriate interfaces are used. The maximum periods for the revaluation of individual collateral assets are predefined and compliance is monitored by risk management using software applications. Apart from periodic revaluations, collateral is assessed when information becomes available that indicates a decrease in the value of the collateral for exceptional reasons.

Concentration risks resulting from credit risk mitigation techniques may affect a single customer, but also a portfolio defined by region, industry or type of security. Erste Group is a retail bank, and, due to its customer structure and the markets in which it does business, it does not have any concentrations with respect to collateral from customers. Concerning other areas of a potentially detrimental correlation of risks, the collateral portfolios are analysed using statistical evaluations for, among other things, regional or industry-specific concentrations within the scope of portfolio monitoring. Early warning tools play an important role. The response to those risks identified includes, above all, the adjustment of volume targets, setting of corresponding limits and modification of the staff's discretionary limits for lending.

Collateral obtained in foreclosure procedures is made available for sale in an orderly fashion, with the proceeds used to reduce or repay the outstanding claim. Generally, Erste Group does not occupy repossessed properties for its own business use. The main part of assets taken onto its own books are commercial land and buildings. In addition, privately occupied properties and transport vehicles are taken into Erste Group's possession. As of 31 December 2012., the carrying value of these assets amounted to EUR 493 million (2011: EUR 312 million).

The following tables compare the credit risk exposure broken down by business segment as of 31 December 2012 and 31 December 2011, respectively, to the collateral received.

Credit risk exposure by business segment and collateral in 2012

in EUR million	Credit risk exposure	Collaterals total	Collateralised by Guarantees	Collateralised by Real estate	Collateralised by Other	Credit risk exposure excluding collateral
Retail & SME	**161,413**	**74,357**	**5,574**	**57,910**	**10,873**	**87,056**
Austria	87,313	45,061	3,850	34,731	6,480	42,252
EB Österreich	35,169	21,367	1,989	16,464	2,915	13,801
Savings Banks	52,145	23,694	1,861	18,267	3,565	28,451
CEE	74,100	29,296	1,724	23,179	4,393	44,803
Czech Republic	32,758	9,674	658	7,998	1,017	23,084
Romania	15,007	7,456	690	4,483	2,284	7,551
Slovakia	10,971	4,971	58	4,641	272	6,000
Hungary	6,382	3,931	94	3,310	526	2,451
Croatia	8,246	2,995	183	2,569	243	5,251
Serbia	736	269	41	178	51	467
Group Corporate & Investment Banking	**26,117**	**9,144**	**1,817**	**5,664**	**1,663**	**16,974**
Group Markets	**22,688**	**3,502**	**169**	**0**	**3,332**	**19,186**
Corporate Center	**9,450**	**826**	**404**	**55**	**367**	**8,624**
Total	**219,668**	**87,828**	**7,963**	**63,629**	**16,235**	**131,840**

Credit risk exposure by business segment and collateral in 2011

in EUR million	Credit risk exposure	Collaterals total	Collateralised by Guarantees	Collateralised by Real estate	Collateralised by Other	Credit risk exposure excluding collateral
Retail & SME	**162,902**	**74,408**	**5,280**	**57,111**	**12,016**	**88,494**
Austria	90,597	44,083	4,168	33,681	6,234	46,514
EB Österreich	37,716	21,205	2,149	16,290	2,767	16,511
Savings Banks	52,881	22,878	2,019	17,392	3,467	30,003
CEE	72,305	30,325	1,112	23,430	5,782	41,980
Czech Republic	30,284	8,713	549	7,297	867	21,571
Romania	14,699	8,749	185	5,071	3,494	5,949
Slovakia	10,189	4,567	74	4,187	306	5,623
Hungary	7,324	4,485	83	3,673	729	2,840
Croatia	8,216	3,099	181	2,703	215	5,117
Serbia	718	285	41	192	53	433
Ukraine	873	425	0	307	119	448
Group Corporate & Investment Banking	**29,708**	**9,442**	**2,220**	**5,807**	**1,415**	**20,266**
Group Markets	**19,169**	**2,343**	**110**	**0**	**2,233**	**16,826**
Corporate Center	**7,679**	**768**	**570**	**22**	**177**	**6,910**
Total	**219,457**	**86,961**	**8,181**	**62,940**	**15,840**	**132,496**

The following tables compare the credit risk exposure broken down by financial instrument and the received collateral as of 31 December 2012 and 31 December 2011.

Credit risk exposure by financial instrument and collateral in 2012

in EUR million	Credit risk exposure	Collateral total	Collateralised by: Guarantees	Collateralised by: Real estate	Collateralised by: Other	Credit risk exposure net of collateral
Loans and advances to credit institutions	9,074	1,553	119	2	1,432	7,521
Loans and advances to customers	131,928	78,566	5,766	61,503	11,296	53,362
Debt instruments - Held to maturity	18,975	410	373	35	2	18,565
Debt instruments - Trading assets	4,872	165	165	0	0	4,707
Debt instruments - At fair value through profit or loss	526	0	0	0	0	526
Debt instruments - Available for sale	20,225	1,206	1,132	0	74	19,019
Positive fair value of derivative financial instruments	13,289	2,264	0	0	2,264	11,025
Contingent credit liabilities	20,779	3,664	408	2,089	1,167	17,115
Total	**219,668**	**87,828**	**7,963**	**63,629**	**16,235**	**131,840**

Credit risk exposure by financial instrument and collateral in 2011

in EUR million	Credit risk exposure	Collateral total	Collateralised by: Guarantees	Collateralised by: Real estate	Collateralised by: Other	Credit risk exposure net of collateral
Loans and advances to credit institutions	7,578	1,016	157	1	858	6,562
Loans and advances to customers	134,750	77,933	5,311	60,626	11,996	56,817
Debt instruments - Held to maturity	16,074	638	556	73	9	15,436
Debt instruments - Trading assets	5,471	106	106	0	0	5,365
Debt instruments - At fair value through profit or loss	1,502	0	0	0	0	1,502
Debt instruments - Available for sale	17,654	1,499	1,442	57	0	16,155
Positive fair value of derivative financial instruments	10,931	1,528	0	0	1,528	9,403
Contingent credit liabilities	25,499	4,241	609	2,182	1,449	21,258
Total	**219,457**	**86,961**	**8,181**	**62,940**	**15,840**	**132,496**

The following tables show credit risk exposure which was past due but for which specific provisions had not been established as of 31 December 2012 and 31 December 2011, respectively.

Credit risk exposure past due and not covered by specific provisions by Basel 2 exposure class and collateralisation in 2012

	Credit risk exposure			thereof collateralised		
in EUR million	Total	thereof 91-180 days past due	thereof more than 180 days past due	Total	thereof 91-180 days past due	thereof more than 180 days past due
Sovereigns	88	20	68	41	11	30
Institutions	0	0	0	0	0	0
Corporates	258	113	146	171	75	96
Retail	167	65	103	115	35	80
Total	**513**	**197**	**316**	**327**	**121**	**206**

Credit risk exposure past due and not covered by specific provisions by Basel 2 exposure class and collateralisation in 2011

	Credit risk exposure			thereof collateralised		
in EUR million	Total	thereof 91-180 days past due	thereof more than 180 days past due	Total	thereof 91-180 days past due	thereof more than 180 days past due
Sovereigns	5	1	3	2	1	1
Institutions	0	0	0	0	0	0
Corporates	312	126	187	152	49	103
Retail	228	46	181	151	27	124
Total	**545**	**173**	**371**	**304**	**76**	**228**

As of 31 December 2012 and 31 December 2011, specific provisions existed for the following credit risk exposures.

Credit risk exposure covered by specific provisions by Basel 2 exposure class in 2012

in EUR million	Credit risk exposure covered by specific provisions total	thereof 91-180 days past due	thereof more than 180 days past due
Sovereigns	42	1	11
Institutions	84	0	49
Corporates	7,187	400	4,109
Retail	4,899	340	3,346
Total	**12,212**	**741**	**7,515**

Credit risk exposure covered by specific provisions by Basel 2 exposure class in 2011

in EUR million	Credit risk exposure covered by specific provisions total	thereof 91-180 days past due	thereof more than 180 days past due
Sovereigns	17	1	5
Institutions	52	3	49
Corporates	4,609	418	3,149
Retail	4,663	429	3,058
Total	**9,342**	**850**	**6,261**

All claims presented in the tables above were classified as non-performing. Provisions are, as a rule, established for assets that are more than 90 days past due. However, specific provisions are not established if the loans and other advances are covered by adequate collateral.

Loans and advances to customers by business segment

The following tables present the customer loan book as of 31 December 2012 and 31 December 2011, excluding loans to financial institutions and commitments, broken down by business segment and risk category.

Loans and advances to customers by business segment and risk category in 2012

in EUR million	Low risk	Management attention	Substandard	Non-performing	Total loans
Retail & SME	**83,171**	**16,455**	**3,180**	**10,766**	**113,573**
Austria	52,803	8,197	1,095	3,643	65,738
EB Österreich	24,607	2,182	204	1,058	28,052
Savings Banks	28,196	6,014	891	2,585	37,687
Central and Eastern Europe	30,368	8,258	2,085	7,123	47,834
Czech Republic	13,797	2,610	528	956	17,891
Romania	4,856	2,200	605	3,021	10,682
Slovakia	5,137	831	193	437	6,598
Hungary	2,809	1,459	345	1,572	6,185
Croatia	3,373	1,068	399	1,069	5,909
Serbia	397	90	14	68	569
Group Corporate & Investment Banking	**12,557**	**3,261**	**781**	**1,330**	**17,928**
Group Markets	**69**	**7**	**0**	**0**	**77**
Corporate Center	**229**	**102**	**17**	**2**	**350**
Total	**96,027**	**19,825**	**3,978**	**12,098**	**131,928**

Loans and advances to customers by business segment and risk category in 2011

in EUR million	Low risk	Management attention	Substandard	Non-performing	Total loans
Retail & SME	**80,952**	**19,513**	**3,779**	**10,112**	**114,355**
Austria	51,910	8,948	1,287	3,658	65,803
EB Österreich	24,248	2,630	270	1,051	28,199
Savings Banks	27,662	6,318	1,018	2,607	37,604
Central and Eastern Europe	29,042	10,565	2,491	6,454	48,552
Czech Republic	12,733	2,997	511	947	17,187
Romania	4,709	3,204	714	2,533	11,160
Slovakia	4,661	845	215	496	6,217
Hungary	3,461	1,615	513	1,499	7,088
Croatia	3,080	1,654	424	759	5,917
Serbia	316	99	13	58	486
Ukraine	82	152	101	161	497
Group Corporate & Investment Banking	**14,376**	**3,663**	**490**	**1,275**	**19,805**
Group Markets	**204**	**20**	**0**	**0**	**225**
Corporate Center	**313**	**36**	**15**	**1**	**365**
Total	**95,845**	**23,233**	**4,284**	**11,388**	**134,750**

In the tables below the non-performing loans and advances to customers subdivided by business segment are contrasted with loan loss provisions and the collateral for non-performing loans (NPL) as of 31 December 2012 and 31 December 2011, respectively. The NPL ratio, the NPL coverage ratio and the NPL total coverage ratio are also included. The NPL total coverage ratio specifies the coverage of non-performing loans by loan loss provisions and collateral for non-performing loans.

Non-performing loans and advances to customers by business segment and coverage by risk provisions and collateral in 2012

in EUR million	Non-performing	Loans and advances to customers	Loan loss provisions	NPL ratio	NPL coverage ratio	Collateral for NPL	NPL total coverage ratio
Retail & SME	**10,766**	**113,573**	**6,681**	**9.5%**	**62.1%**	**5,107**	**109.5%**
Austria	3,643	65,738	2,251	5.5%	61.8%	1,578	105.1%
EB Österreich	1,058	28,052	696	3.8%	65.7%	442	107.5%
Savings Banks	2,585	37,687	1,556	6.9%	60.2%	1,137	104.2%
Central and Eastern Europe	7,123	47,834	4,429	14.9%	62.2%	3,529	111.7%
Czech Republic	956	17,891	690	5.3%	72.2%	365	110.4%
Romania	3,021	10,682	1,771	28.3%	58.6%	1,630	112.6%
Slovakia	437	6,598	369	6.6%	84.3%	249	141.2%
Hungary	1,572	6,185	1,008	25.4%	64.1%	731	110.7%
Croatia	1,069	5,909	534	18.1%	50.0%	520	98.6%
Serbia	68	569	58	12.0%	84.1%	34	134.0%
Group Corporate & Investment Banking	**1,330**	**17,928**	**893**	**7.4%**	**67.2%**	**494**	**104.3%**
Group Markets	**0**	**77**	**0**	**0.0%**	**6,439.9%**	**0**	**6,439.9%**
Corporate Center	**2**	**350**	**0**	**0.5%**	**26.9%**	**0**	**26.9%**
Total	**12,098**	**131,928**	**7,574**	**9.2%**	**62.6%**	**5,601**	**108.9%**

Non-performing loans and advances to customers by business segment and coverage by risk provisions and collateral in 2011

in EUR million	Non-performing	Loans and advances to customers	Loan loss provisions	NPL ratio	NPL coverage ratio	Collateral for NPL	NPL total coverage ratio
Retail & SME	**10,112**	**114,355**	**6,244**	**8.8%**	**61.7%**	**5,186**	**113.0%**
Austria	3,658	65,803	2,245	5.6%	61.4%	1,540	103.5%
EB Österreich	1,051	28,199	688	3.7%	65.4%	436	106.8%
Savings Banks	2,607	37,604	1,557	6.9%	59.7%	1,104	102.1%
Central and Eastern Europe	6,454	48,552	3,999	13.3%	62.0%	3,647	118.5%
Czech Republic	947	17,187	660	5.5%	69.7%	404	112.3%
Romania	2,533	11,160	1,268	22.7%	50.1%	1,740	118.8%
Slovakia	496	6,217	393	8.0%	79.2%	275	134.6%
Hungary	1,499	7,088	1,054	21.1%	70.3%	731	119.0%
Croatia	759	5,917	419	12.8%	55.2%	363	103.1%
Serbia	58	486	52	11.9%	89.9%	25	132.3%
Ukraine	161	497	154	32.5%	95.3%	109	162.9%
Group Corporate & Investment Banking	**1,275**	**19,805**	**697**	**6.4%**	**54.6%**	**465**	**91.1%**
Group Markets	**0**	**225**	**0**	**0.0%**	**452.4%**	**0**	**452.4%**
Corporate Center	**1**	**365**	**1**	**0.1%**	**179.6%**	**0**	**179.6%**
Total	**11,388**	**134,750**	**6,942**	**8.5%**	**61.0%**	**5,651**	**110.6%**

The 'NPL ratio' in this section ('loans and advances to customers') is calculated by dividing non-performing loans and advances by total loans and advances to customers. Hence, it differs from the 'NPE ratio' in the section credit risk exposure.

The loan loss provisions which are shown in the tables above in the amount of EUR 7,574 million as of 31 December 2012 (2011: EUR 6,942 million) are composed of specific provisions amounting to EUR 6,878 million (2011: EUR 6,051 million) and portfolio provisions amounting to EUR 696 million (2011: EUR 891 million). Collateral for non-performing loans mainly consists of real estate.

The following tables show the loans and advances to customers broken down by business segment and currency as of 31 December 2012 and 31 December 2011, respectively.

Loans and advances to customers by business segment and currency in 2012

in EUR million	EUR	Local currencies	CHF	USD	Other currencies	Total loans
Retail & SME	**74,818**	**24,344**	**12,525**	**345**	**1,540**	**113,573**
Austria	55,277	0	8,782	159	1,520	65,738
Erste Bank Österreich	24,293	0	3,310	58	391	28,052
Savings Banks	30,984	0	5,472	101	1,129	37,687
Central and Eastern Europe	19,541	24,344	3,743	187	20	47,834
Czech Republic	622	17,236	2	26	4	17,891
Romania	6,539	4,001	0	131	12	10,682
Slovakia	6,587	0	0	9	2	6,598
Hungary	1,312	1,849	3,018	5	0	6,185
Croatia	4,052	1,140	705	12	1	5,909
Serbia	429	118	18	4	0	569
Group Corporate & Investment Banking	**14,191**	**1,244**	**275**	**1,263**	**955**	**17,928**
Group Markets	**24**	**11**	**1**	**33**	**8**	**77**
Corporate Center	**347**	**0**	**0**	**0**	**3**	**350**
Total	**89,381**	**25,599**	**12,801**	**1,642**	**2,505**	**131,928**

Loans and advances to customers by business segment and currency in 2011

in EUR million	EUR	Local currencies	CHF	USD	Other currencies	Total loans
Retail & SME	**72,266**	**23,988**	**15,625**	**858**	**1,619**	**114,355**
Austria	52,815	0	11,172	223	1,594	65,803
Erste Bank Österreich	23,598	0	4,061	73	468	28,199
Savings Banks	29,217	0	7,112	150	1,125	37,604
Central and Eastern Europe	19,451	23,988	4,453	636	25	48,552
Czech Republic	637	16,497	2	44	7	17,187
Romania	6,765	4,208	0	176	10	11,160
Slovakia	6,199	0	5	9	4	6,217
Hungary	1,559	1,860	3,654	13	2	7,088
Croatia	3,936	1,192	772	14	2	5,917
Serbia	346	116	18	4	0	486
Ukraine	8	114	0	376	0	497
Group Corporate & Investment Banking	**15,615**	**1,124**	**331**	**1,841**	**894**	**19,805**
Group Markets	**126**	**13**	**22**	**35**	**29**	**225**
Corporate Center	**363**	**0**	**0**	**0**	**2**	**365**
Total	**88,369**	**25,125**	**15,978**	**2,735**	**2,543**	**134,750**

Securitisations

As of 31 December 2012, Erste Group has a conservative portfolio of securitised assets and their derivatives. There were no new investments undertaken and all repayments were made as scheduled in 2012.

As at year-end 2012, the carrying amount of Erste Group's securitisation portfolio totalled EUR 1.5 billion which was EUR 0.3 billion lower than at the end of 2011. Changes in the carrying amount were due to repayments, currency effects, changes in prices and disposals of assets. The proportion of the portfolio which was rated investment grade increased from 85.9% as of 31 December of 2011 to 88.1% as of 31 December 2012. Only 4.2% of the assets are rated CCC or below.

As of 31 December 2012 and 31 December 2011 the composition of the total portfolio of securitised assets according to products and balance sheet line items is as follows:

2012	Financial assets								
	Loans and advances to customers and credit institutions		Held to maturity		At fair value through profit or loss	Available for sale	Trading assets	Total	
in EUR million	carrying amount	fair value	carrying amount	fair value	fair value1)	fair value1)	fair value1)	carrying amount	fair value
Prime RMBS	0	0	207	174	1	129	26	364	331
CMBS	0	0	49	37	1	58	2	110	98
SME ABS	0	0	16	9	1	20	2	38	31
Leasing ABS	0	0	14	14	0	3	0	17	17
Other ABS	0	0	13	13	2	36	1	52	52
CLOs	0	0	0	0	43	754	0	797	797
Other CDOs	0	0	0	0	0	3	0	3	3
Other RMBS	0	0	0	0	1	14	2	17	17
Total ABS / CDO	**0**	**0**	**299**	**247**	**49**	**1,016**	**34**	**1,397**	**1,345**
Student loans	0	0	0	0	1	133	0	134	134
Total securitisations2)	**0**	**0**	**299**	**247**	**50**	**1,149**	**34**	**1,531**	**1,479**

1) Carrying amount is equal to fair value.
2) Including cash from funds.

2011	Financial assets								
	Loans and advances to customers and credit institutions		Held to maturity		At fair value through profit or loss	Available for sale	Trading assets	Total	
in EUR million	carrying amount	fair value	carrying amount	fair value	fair value1)	fair value1)	fair value1)	carrying amount	fair value
Prime RMBS	9	9	269	201	4	203	15	500	432
CMBS	0	0	81	52	12	94	11	198	169
SME ABS	0	0	19	11	1	40	1	61	53
Leasing ABS	0	0	21	14	0	4	0	25	18
Other ABS	0	0	37	33	8	55	8	108	104
CLOs	0	0	0	0	47	727	1	775	775
Other CDOs	0	0	0	0	0	3	0	3	3
Other RMBS	0	0	0	0	2	13	4	19	19
Total ABS / CDO	**9**	**9**	**427**	**311**	**74**	**1,139**	**40**	**1,689**	**1,573**
Student loans	0	0	0	0	1	154	0	155	155
Total securitisations2)	**9**	**9**	**427**	**311**	**75**	**1,293**	**40**	**1,844**	**1,728**

1) Carrying amount is equal to fair value.
2) Including cash from funds.

European prime residential mortgage backed securities (Prime RMBS)
Prime RMBS are securitisations which are backed by mortgages on residential real estate. Erste Group is primarily invested in this asset class in British transactions, which were strongly affected by the global economic crisis. Their quotations reached the lowest level in first quarter of 2009. Since that time, prices have recovered by 13%.

Commercial mortgage backed securities (CMBS)
CMBs are transactions which are secured by pools of mortgages on commercial property (i.e. offices, retail and others). Erste Group is mainly invested in British CMBS. After declining until the second half of 2009, prices of commercial property have recovered by around 13%.

European and US collateralised loan obligations (CLOs)
CLOs are securitisations backed by pools of corporate loans. Most CLOs held by Erste Group that were downgraded during the crisis are now back at investment grade. Moody's Investors Service's global speculative-grade default rate stood at 2.6% in December 2012, after having reached the highest level at 13% in December 2009.

Other asset backed securities (ABS)
Erste Group's holding of other ABSs mainly consists of securitisations whereby the underlying assets are lease receivables or loans to small and medium-sized enterprises, or these may be other collateralised debt obligations (CDOs).

Erste Group further holds investments in securitisations of US student loans, all of which are triple-A rated securities. These securitisations carry the guarantee of the US Department of Education for 97% of their value while the remaining 3% is covered by subordination. Their associated credit risk is therefore considered very low.

37.6) Market risk

Definition and overview

Market risk is the risk of loss that may arise due to adverse changes in market prices and to the parameters derived therefrom. At Erste Group, market risk is divided into interest rate risk, currency risk, equity risk, commodity risk and volatility risk. This concerns both trading and bank book positions.

Methods and instruments employed

At Erste Group, potential losses that may arise from market movements are assessed by using the 'value-at-risk' method. The calculation is done according to the method of historic simulation with a unilateral confidence level of 99%, a holding period of one day and a simulation period of two years. Value-at-risk (VaR) describes what level of losses may be expected as a maximum at a defined probability – the confidence level – within a certain holding period of the positions under normal market conditions.

Back-testing is used to constantly monitor the validity of the statistical methods. This process is conducted with a one-day delay to monitor if the model projections regarding losses have actually materialised. At a confidence level of 99%, the actual loss on a single day should exceed the value-at-risk statistically only two to three times a year (1% of around 250 workdays).

This shows one of the limits of the value-at-risk approach: On the one hand, the confidence level is limited to 99%, and on the other hand, the model takes into account only those market scenarios observed respectively within the simulation period of two years, and calculates the value-at-risk for the current position of the bank on this basis. In order to investigate any extreme market situations beyond this, stress tests are conducted at Erste Group. These events include mainly market movements of low probability.

The stress tests are carried out according to several methods: 'Stressed VaR' is derived from the normal value-at-risk calculation. But instead of simulating only over the two most recent years, an analysis of a much longer period is carried out in order to identify a one-year period which constitutes a significant period of stress. According to the legal framework, that one-year period is used to calculate a VaR with a 99% confidence level. This enables Erste Group on the one hand to hold sufficient of its own funds available for the trading book also in periods of elevated market volatility while it also incorporates these resulting effects in the management of trading positions. In the 'extreme value theory', a Pareto distribution is adjusted to the extreme end of the loss distribution. In this manner, a continuous function is created from which extreme confidence levels such as 99.95% can be evaluated. Finally, standard scenarios are calculated in which the individual market factors are exposed to extreme movements. Such scenarios are calculated at Erste Group for interest rates, stock prices, exchange rates and volatilities. Furthermore, since 2009, combination scenarios have been calculated in which the current position of the trading book is subjected to a combination of market data shifts. These analyses are made available to the management board and the supervisory board within the scope of the monthly market risk reports.

The value-at-risk model was approved by the Financial Market Authority (FMA) as an internal market risk model to determine the capital requirements of Erste Group pursuant to the Austrian Banking Act.

Methods and instruments of risk mitigation

At Erste Group, market risks are controlled in the trading book by setting several layers of limits. The overall limit on the basis of value-at-risk for the trading book is decided by the board in the Risk Committee while taking into account the risk-bearing capacity and projected earnings. A further breakdown is done by the Market Risk Committee on the basis of a proposal from the Group Market & Liquidity Risk Management unit.

All market risk activities of the trading book are assigned risk limits that are statistically consistent in their entirety with the value-at-risk overall limit. The value-at-risk limit is assigned in a top–down procedure to the individual trading units. This is done up to the level of the individual trading groups or departments. Additionally, in a bottom–up procedure, sensitivity limits are assigned to even smaller units all the way down to the individual traders. These are then aggregated upwards and applied as a second limit layer to the value-at-risk limits. The consistency between the two limit approaches is verified regularly.

Limit compliance is verified at two levels: by the appropriate local decentralised risk management unit and by Group Market & Liquidity Risk Management. The monitoring of the limits is done within the course of the trading day based on sensitivities. This can also be carried out by individual traders or chief traders on an ad hoc basis.

The value-at-risk is calculated every day at group level and made available to the individual trading units as well as to the superior management levels all the way up to the management board.

Apart from the trading book positions, banking book positions are once monthly also subjected to a value-at-risk analysis. In this manner, the total value-at-risk is determined. In addition to VaR, a long-horizon interest rate risk measure is used to gauge the interest rate risk of the banking book. A historical simulation approach looking back five years and with a one-year holding period was chosen. The result of these calculations is presented in the monthly market risk report that is made available to the management and supervisory boards.

Analysis of market risk

Value at risk of banking book and trading book

The following tables show the VaR amounts as of 31 December 2012 and 31 December 2011 at the 99% confidence level using equally weighted market data and with a holding period of one day.

2012 in EUR thousand	Total	Interest	Currency	Shares	Commodity	Volatility
Erste Group	27,619	25,817	1,170	3,588	471	502
Banking book	25,646	25,280	769	72	0	0
Trading book	4,097	1,994	776	3,516	471	502

2011 in EUR thousand	Total	Interest	Currency	Shares	Commodity	Volatility
Erste Group	42,442	39,013	1,996	4,774	646	1,811
Banking book	36,563	36,276	2,227	1,030	0	0
Trading book	7,779	4,358	1,826	4,071	646	1,811

The method used is subject to limitations that may result in the information's not fully reflecting the fair value of the assets and liabilities involved. This restriction applies to the inclusion of credit spreads in the calculation of the VaR. Credit spreads are only applied to sovereign issuers. For all other positions, only the general market risk is considered.

Interest rate risk of banking book

Interest rate risk is the risk of adverse change in the fair value of financial instruments caused by movement in market interest rates. This type of risk arises when mismatches exist between assets and liabilities, including derivatives, in respect of their maturities or of the timing of interest rate adjustments.

In order to identify interest rate risk, all financial instruments, including transactions not recognised in the balance sheet, are grouped into maturity bands based on their remaining terms to maturity or terms to an interest rate adjustment. Positions without a fixed maturity (e.g. demand deposits) are included on the basis of modelled deposit rates which are determined by means of statistical methods.

The following tables list the open fixed-income positions held by Erste Group in the four currencies that carry significant interest rate risk – EUR, CZK, HUF and RON – as of 31 December 2012 and 31 December 2011.

Only the open fixed-income positions that are not allocated to the trading book are presented. Positive values indicate fixed-income risks on the asset side, i.e., a surplus of asset items; negative values represent a surplus on the liability side.

Open fixed-income positions not assigned to the trading book 2012

in EUR million	1-3 years	3-5 years	5-7 years	7-10 years	over 10 years
Fixed-interest gap in EUR positions as of 31 Dec 2012	(7,489.6)	2,373.8	1,875.7	1,927.0	768.2
Fixed-interest gap in CZK positions as of 31 Dec 2012	(3,759.9)	49.2	1,112.3	1,030.1	776.4
Fixed-interest gap in HUF positions as of 31 Dec 2012	148.5	119.7	(77.9)	(47.5)	0.0
Fixed-interest gap in RON positions as of 31 Dec 2012	505.4	501.0	(30.7)	(118.8)	(102.2)

Open fixed-income positions not assigned to the trading book 2011

in EUR million	1-3 years	3-5 years	5-7 years	7-10 years	over 10 years
Fixed-interest gap in EUR positions as of 31 Dec 2011	(4,048.6)	1,586.1	2,541.1	1,754.7	(205.3)
Fixed-interest gap in CZK positions as of 31 Dec 2011	(2,524.3)	311.6	81.5	164.3	(486.3)
Fixed-interest gap in HUF positions as of 31 Dec 2011	405.9	132.6	(18.1)	(28.9)	0.0
Fixed-interest gap in RON positions as of 31 Dec 2011	97.9	247.6	345.9	(98.1)	(105.0)

Exchange rate risk
The bank is exposed to several types of risks related to exchange rates. These concern risks from open foreign exchange positions and others.

Risk from open currency positions is the risk related to exchange rates that derives from the mismatch between assets and liabilities, or from currency-related financial derivatives. These risks might originate from customer-related operations or proprietary trading and are monitored and managed on a daily basis. Foreign currency exposure is subject to regulatory and internal limits. The internal limits are set by the Market Risk Committee.

Erste Group separately measures and manages other types of risks relating to the Group's balance sheet and earnings structure. The translation risk related to the valuation of the balance sheet positions, earnings, dividends and participations/net investments in local currency or foreign exchange has an impact on consolidated earnings and consolidated capital. Erste Group is also reducing the negative impact related to volatility of foreign exchange on assets' performance (for example as a result of foreign exchange lending in the CEE countries).

In order to manage its multi-currency earnings structure, Erste Group regularly discusses hedging opportunities and takes decisions in the Group Asset/Liability Committee (Group ALCO). Asset/Liability Management (ALM) uses as the usual source of information the current financial results and the financial budget prepared for the upcoming period to obtain as much information as possible on the future foreign cash flows. The proposal, which includes mainly the volume, hedging level, hedge ratio and timeline of the hedging, is submitted by ALM to Group ALCO. The impact of translation on consolidated capital is monitored and reported to Group ALCO. Group ALCO decisions are then implemented by ALM and the implementation status is reported on a monthly basis to Group ALCO.

The following table shows the largest open exchange rate positions of Erste Group per year-end 2012 as of the dates indicated.

Open exchange rate positions

in EUR thousand	31 Dec 2012	31 Dec 2011
US Dollar (USD)	(68,095)	(52,027)
Croatian Kuna (HRK)	41,672	34,943
Hongkong-Dollar (HKD)	38,255	(1,210)
Swiss Frank (CHF)	(36,245)	(28,629)
British Pound (GBP)	32,426	(17,771)
Rumanian Lei (RON)	25,275	(55,789)
Hungarian Forint (HUF)	17,759	(65,737)
Czech Koruna (CZK)	(13,620)	25,536

Hedging
Banking book market risk management consists of optimising Erste Group's risk position by finding the proper trade-off between the economic value of the balance sheet and forecasted earnings. Decisions are based on the balance sheet development, economic environment, competitive landscape, fair value of risk, effect on net interest income and appropriate liquidity position. The steering body responsible for interest rate risk management is the Group ALCO. The ALM submits proposals for actions to steer the interest rate risk to the Group ALCO and implements Group ALCO's decisions.

In order to achieve the goals of risk management, hedging activities focus on the two main control variables: net interest income and market value of equity risk. In a broader sense, hedging refers to an economic activity that mitigates risk but does not necessarily qualify for hedge accounting under IFRS rules. Within the scope of IFRS-compliant hedge accounting, cash flow hedges and fair value hedges are used. If IFRS-compliant hedge accounting is not possible the fair value option is applied, where appropriate, for the hedging of market values. Most of the hedging within Erste Group concerns hedging of interest rate risk. The remainder is hedging foreign exchange rate risk. IFRS hedge accounting is one of the tools for managing the risk.

37.7) Liquidity risk

Definition and overview

The liquidity risk is defined in Erste Group in line with the principles set by the Basel Committee on Banking Supervision and the Austrian regulators ('Liquiditätsriskomanagement-Verordnung - LRMV'). Accordingly, a distinction is made between market liquidity risk, which is the risk that the Group entities cannot easily offset or eliminate a position at the market price because of inadequate market depth or market disruption, and funding liquidity risk, which is the risk that the banks in the Group will not be able to meet efficiently both expected and unexpected current and future cash flow and collateral needs without affecting either daily operations or the financial condition of the Group members.

Funding liquidity risk is further divided into insolvency risk and structural liquidity risk. The former is the short-term risk that current or future payment obligations cannot be met in full and on time in an economically justified manner, while structural liquidity risk is the long-term risk of losses due to a change in the Group's own refinancing cost or spread.

Erste Group's 2012 liquidity strategy was implemented successfully. The original issuance plan of EUR 3.5 billion was increased during the year to EUR 4.6 billion in view of successful EUR and USD subordinated benchmark issues and in light of continuing demand from retail customers. The total amount issued consisted of EUR 2.6 billion in senior bonds, EUR 1.2 billion in Pfandbriefe (covered bonds), and EUR 0.9 billion in subordinated debt. In February 2012, Erste Group participated in its second three-year longer-term refinancing operations (LTRO) of the European Central Bank in an amount of EUR 1.2 billion (raising its total LTRO volume to EUR 4.2 billion). Erste Group's liquidity position continued to improve during 2012, as well functioning capital markets made it possible to cover its refinancing needs at low costs. Consequently, Erste Group is planning to repay the LTRO amount in its entirety during the first quarter of 2013.

Erste Group continues its ongoing project activities to improve the framework for group-wide liquidity risk reporting. One of the goals of the project is to meet the new regulatory requirements from the Basel 3 framework (i.e. the periodic [monthly] monitoring of the liquidity coverage ratio and the net stable funding ratio).

Methods and instruments employed

Short-term insolvency risk is monitored by calculating the survival period for each currency on both entity and group levels. This analysis determines the maximum period during which the entity can survive a serious combined crisis (market crisis plus reputation crisis) while relying on its pool of liquid assets. The monitored worst-case scenario simulates very limited money market and capital market access and at the same time significant client deposit outflow. Furthermore, higher drawing rates of guarantees and credit facilities are assumed while taking into account counterparty type in estimating the probability of drawdown.

Erste Group manages long-term (structural) liquidity risk on both group and individual subsidiary levels through a multiple scenario approach. Dynamic aspects of the renewal of existing balance sheet items are incorporated through a certain set of assumptions describing the going concern situation outside of crisis situations. Similarly, the modelling of customer business is adjusted according to the respective scenario. The purpose of the analysis is to determine Erste Group's ability to withstand distressed situations before they actually occur.

Legal lending limits (LLLs) exist in all CEE countries where Erste Group is represented. They restrict liquidity flows between Erste Group's subsidiaries in different countries. LLLs set limits on a bank's claims against a group of related companies. The limits refer to the bank's own funds and typical amounts are up to 25%. This restriction is taken into account for assessment of liquidity risk in the Survival Period Model.

Additionally, the traditional liquidity gaps (depicting the going concern maturity mismatches on a currency level) of the subsidiaries and the Group as a whole are reported and monitored regularly. Funding concentration risk is continuously analysed in respect to counterparties. Erste Group's fund transfer pricing (FTP) system also has proven to be an efficient tool for structural liquidity risk management.

Methods and instruments of risk mitigation

General standards of liquidity risk controlling and management (standards, limits and analysis) have been defined and are continuously reviewed and improved by Erste Group.

The short-term liquidity risk is managed by the survival period model on both entity and group levels, while the long-term liquidity risk is limited by the traffic light system which takes into account Group entities and currencies. Limit breaches are reported to the Group Asset/Liability Committee. Another important means for managing the liquidity risk within Erste Group Bank and in relation to its subsidiaries is the FTP system. As the process of planning funding needs provides important data for liquidity management, a detailed overview of funding needs is prepared on a quarterly basis for the planning horizon across Erste Group.

The Comprehensive Contingency Plan ensures the necessary co-ordination of all parties involved in the liquidity management process in case of crisis, and it is reviewed on a regular basis. The contingency plans of the subsidiaries are co-ordinated as part of the plan for the Erste Group.

Analysis of liquidity risk

Liquidity gap

The long-term liquidity position is managed using liquidity gaps on the basis of expected cash flows. This liquidity position is calculated for each materially relevant currency and based on the assumption of ordinary business activity.

Expected cash flows are broken out by contractual maturities in accordance with the amortisation schedule and ordered into maturity ranges. For products without contractual maturities (like demand deposits and overdrafts), cash flows are modelled on the basis of statistical analysis.

The following table shows liquidity gaps as of 31 December 2012 and 31 December 2011

	< 1 month		1-12 months		1-5 years		> 5 years	
in EUR million	2012	2011	2012	2011	2012	2011	2012	2011
Liquidity gap	**32,443**	**32,653**	**(38,930)**	**(40,710)**	**(9,717)**	**(5,112)**	**16,204**	**13,168**

An excess of assets over liabilities is indicated by a positive value, while an excess of liabilities over assets is indicated by a negative value.

Counterbalancing capacity

Erste Group regularly monitors its counterbalancing capacity, which consists of cash, excess minimum reserve at the central banks as well as unencumbered central bank eligible assets and other liquid securities, including changes from repos, reverse repos and securities lending transactions. These assets can be mobilised in the short term to offset potential cash outflows in a crisis situation. The term structure of the Group's counterbalancing capacity as of 31 December 2012 and 28 December 2011 is shown in the table below.

2012 in EUR million	< 1 week	1 week-1 month	1-3 months	3-6 months	6-12 months
Cash, excess reserve	6,174	(631)	0	0	0
Liquid assets	33,713	1,217	288	249	561
Counterbalancing capacity	**39,887**	**586**	**288**	**249**	**561**

2011 in EUR million	< 1 week	1 week-1 month	1-3 months	3-6 months	6-12 months
Cash, excess reserve	3,093	0	0	0	0
Liquid assets	35,596	(100)	(420)	(1,599)	(2,247)
Counterbalancing capacity	**38,689**	**(100)**	**(420)**	**(1,599)**	**(2,247)**

Financial liabilities

Maturities of contractual, undiscounted cash flows from financial liabilities as of 31 December 2012 and 31 December 2011, respectively, were as follow:

2012 in EUR million	Carrying amounts	Contractual cash flows	< 1 month	1-12 months	1-5 years	> 5 years
Non-derivative liabilities	**179,626**	**189,407**	**75,324**	**48,965**	**44,879**	**20,240**
Deposits by banks	21,822	22,377	9,770	3,057	7,573	1,977
Customer deposits	123,053	125,793	64,852	40,475	16,131	4,336
Debt securities in issue	29,445	33,746	669	4,971	17,002	11,104
Subordinated liabilities	5,305	7,491	32	462	4,173	2,823
Derivative liabilities	**1,649**	**1,451**	**47**	**444**	**588**	**372**
Derivatives banking book[1]	1,649	1,451	47	444	588	372
Total	**181,275**	**190,858**	**75,371**	**49,409**	**45,467**	**20,612**

1) The maturity analysis of undiscounted contractual cash flows of derivative financial instruments includes only the remaining contractual maturities for derivative financial liabilities in the banking book since these are essential for an understanding as to the timing of the cash flows.

2011 in EUR million	Carrying amounts	Contractual cash flows	< 1 month	1-12 months	1-5 years	> 5 years
Non-derivative liabilities	**179,230**	**189,550**	**74,403**	**51,923**	**41,228**	**21,996**
Deposits by banks	23,785	24,757	10,571	4,764	6,381	3,040
Customer deposits	118,880	121,101	60,704	41,894	13,944	4,558
Debt securities in issue	30,782	35,262	3,100	4,759	16,818	10,586
Subordinated liabilities	5,783	8,430	28	505	4,086	3,812
Derivative liabilities	**1,647**	**1,445**	**156**	**358**	**490**	**441**
Derivatives banking book[1]	1,647	1,445	156	358	490	441
Total	**180,877**	**190,995**	**74,559**	**52,281**	**41,718**	**22,437**

1) The maturity analysis of undiscounted contractual cash flows of derivative financial instruments includes only the remaining contractual maturities for derivative financial liabilities in the banking book since these are essential for an understanding as to the timing of the cash flows.

Contingent credit liabilities arising from financial guarantees amounting to EUR 6,363 million as of 31 December 2012 (2011: EUR 6,920 million) as well as from unused irrevocable commitments amounting to EUR 14,415 million as of 31 December 2012 (2011: EUR 18,579 million) are not included in these tables.

As of 31 December 2012, the volume of customer deposits due on demand amounted to EUR 51.1 billion (2011: EUR 47.9 billion). Observation of customer behaviour has shown that 95% of this volume is stable during the ordinary course of business. This means that only a minor part of the on-demand portfolio is withdrawn by the customer, whereas the major part remains generally in the bank.

37.8) Operational risk

Definition and overview

In line with Section 2, para. 57(d) of the Austrian Banking Act, Erste Group defines operational risk as the risk of loss resulting from inadequacy or failure of internal processes, people or systems, or from external events, including legal risks. Both quantitative and qualitative methods are used to identify operational risks. Consistent with international practice, the responsibility for managing operational risk rests with the line management.

Methods and instruments employed

The quantitative measurement methods are based on internal loss experience data, which is collected across Erste Group using a standard methodology and entered into a central data pool. Additionally, in order to be able to model losses that have not occurred in the past but are nonetheless possible, scenarios and external data are also used. Erste Group sources external data from a leading non-profit risk-loss data consortium.

Erste Group received regulatory approval for the Advanced Measurement Approach (AMA) in 2009. AMA is a sophisticated approach to measuring operational risk. Pursuant to AMA, the required capital is calculated using an internal VaR model, taking into account internal data, external data, scenario analysis, business environment and internal risk control factors. In 2011, Erste Group received approval to use insurance contracts for mitigation within the AMA pursuant to Section 22l of the Austrian Banking Act.

Methods and instruments of risk mitigation

In addition to quantitative methods, qualitative methods are also used to determine operational risk, such as risk assessment surveys (risk and control self-assessments). The results of and suggestions for risk control in these surveys, which are conducted by experts, are reported to the line management and thus help to reduce operational risks. Erste Group also reviews certain key indicators periodically to ensure early detection of changes in risk potential that may lead to losses.

Erste Group uses a group-wide insurance program, which, since its establishment in 2004, has reduced the cost of meeting Erste Group's traditional property insurance needs and made it possible to buy additional insurance for previously uninsured bank-specific risks. This programme uses a captive reinsurance entity as vehicle to share losses within the Group and access the external market.

The quantitative and qualitative methods used, together with the insurance strategy and the modelling approaches described above, form the operational risk framework of Erste Group. Information on operational risk is periodically communicated to the management board via various reports, including the quarterly top management report, which describes recent loss history, loss development, qualitative information from risk assessments and key risk indicators as well as the operational VaR for Erste Group.

Distribution of operational risk events

Detailed below is the percentage composition by type of event of operational risk sources as defined by the Basel 2 Capital Accord. The observation period is from 1 January 2008 to 31 December 2012.

The event type categories are as follow:

Internal fraud:
Losses due to acts of a type intended to defraud, misappropriate property or circumvent regulations, the law or company policy, excluding diversity or discrimination events, which involve at least one internal party.

External fraud:
Losses due to acts by a third party of a type intended to defraud, misappropriate property or circumvent the law.

Employment practices and workplace safety:
Losses arising from acts inconsistent with employment, health or safety laws or agreements, from payment of personal injury claims, or from diversity or discrimination events.

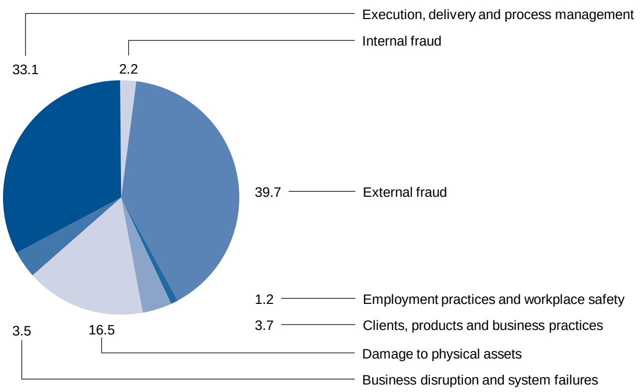
Clients, products and business practices:
Losses arising from unintentional or negligent failure to meet a professional obligation to specific clients (including fiduciary and suitability requirements) or from the nature or design of a product.

Damage to physical assets:
Losses arising from loss or damage to physical assets from natural disaster or other events.

Business disruption and system failures:
Losses arising from disruption of business or system failures.

Execution, delivery and process management:
Losses from failed transaction processing or process management. Losses pertaining to relationships with trading counterparties and vendors or suppliers.

Event type categories (in %)



38) Hedge accounting

The interest rate risk of the banking book is managed by Group ALM. Preference in managing interest rate risk is given to using bonds, loans or derivatives, with hedge accounting for derivatives usually applied in accordance with IFRS. The main guideline for interest rate risk positioning is the Group Interest Rate Risk Strategy that is approved by Group ALCO for the relevant time period.

Fair value hedges are employed to reduce interest rate risk of issued bonds, purchased securities, loans or deposits on the Erste Group balance sheet. In general the Erste Group policy is to swap all substantial fixed or structured issued bonds to floating positions and as such to manage the targeted interest rate risk profile by other balance sheet items. Interest rate swaps are the most common instruments used for fair value hedges. Concerning loans, purchased securities and securities in issuance, fair value is also hedged by means of cross-currency swaps, swaptions, caps, floors and other types of derivative instruments.

Cash flow hedges are used to eliminate uncertainty in future cash flows in order to stabilise net interest income. The most common such hedge in Erste Group consists in interest rate swaps hedging variable cash flows of floating assets into fixed cash flows. Floors or caps are used to secure the targeted level of interest income in a changing interest rate environment.

In the reporting period, EUR 37 million (2011: EUR 37 million) was taken from the cash flow hedge reserve and recognised as income in the consolidated income statement (2011: as income); while EUR 34 million (2011: EUR 67 million) was recognised directly in other comprehensive income. The majority of the hedged cash flows are likely to occur within the next five years and will then be recognised in the consolidated income statement. Ineffectiveness from cash flow hedges amounting to EUR (0.3) million (2011: EUR 3.7 million) is reported in the net trading result.

	2012		2011	
in EUR million	Positive fair value	Negative fair value	Positive fair value	Negative fair value
Hedging instrument – fair value hedge	2,408	707	1,680	576
Hedging instrument – cash flow hedge	105	0	133	23

Fair value hedges resulted during 2012 in gains of EUR 444.9 million (2011: gains of EUR 353.6 million) on hedging instruments and losses of EUR 465.6 million on hedged items (2011: losses of EUR 382.4 million).

39) Fair value of financial instruments

Financial instruments for which fair value is determined on the basis of quoted market prices are mainly listed securities and derivatives as well as liquid OTC bonds.

Erste Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: Financial instruments which are valued based on quoted (unadjusted) prices in active markets for identical assets or liabilities. These includes financial instruments which are traded in sufficient volume on an exchange, debt instruments quoted by several market participants with a sufficient depth, or liquid derivatives which are traded on an exchange.

Level 2: Financial instruments which are valued based on quoted prices (in non-active markets for similar assets or liabilities) or on inputs other than quoted prices that are observable. These includes yield curves derived from liquid underlying instruments or prices from similar instruments.

Level 3: Inputs used are not observable. This includes extrapolation of yield curves or volatilities, usage of historical volatilities, significant adjustment of quoted CDS spreads or equity prices and derivatives where credit value adjustment (CVA) has a material impact and is calculated based on unobservable parameters like internally derived default probabilities.

The table below details the valuation methods used to determine the fair value of financial instruments measured at fair value.

2012 in EUR million	Quoted market prices in active markets Level 1	Marked to model based on observable market data Level 2	Marked to model based on non-observable inputs Level 3	Total
Financial assets - available for sale	14,879	7,016	147	22,042
Financial assets - at fair value through profit or loss	329	364	23	716
Trading assets - securities	2,509	2,660	9	5,178
Positive market value - derivatives	1	13,149	139	13,289
Total assets	**17,718**	**23,189**	**318**	**41,225**
Customer deposits	0	633	0	633
Debt securities in issue	79	1,562	0	1,641
Subordinated liabilities	0	279	0	279
Trading liabilities	0	481	0	481
Negative market value - derivatives	0	10,878	0	10,878
Total liabilities and equity	**79**	**13,833**	**0**	**13,912**

2011 in EUR million	Quoted market prices in active markets Level 1	Marked to model based on observable market data Level 2	Marked to model based on non-observable inputs Level 3	Total
Loans to credit institutions	0	0	4	4
Financial assets - available for sale	13,574	6,092	148	19,814
Financial assets - at fair value through profit or loss	722	1,064	27	1,813
Trading assets - securities	2,087	3,789	0	5,876
Positive market value - derivatives	2	10,929	0	10,931
Total assets	**16,385**	**21,874**	**179**	**38,438**
Customer deposits	0	553	0	553
Debt securities in issue	85	696	0	781
Subordinated liabilities	0	215	0	215
Trading liabilities	0	536	0	536
Negative market value - derivatives	0	9,335	2	9,337
Total liabilities and equity	**85**	**11,335**	**2**	**11,422**

The volume of products whose fair values are determined using valuation models based on non-observable market data is driven in large part by illiquid bonds and securities not quoted in an active market and derivatives where credit value adjustment (CVA) has a material impact.

Movements in Level 3 of financial instruments measured at fair value

The following tables show the development of fair value of securities for which valuation models are based on non-observable inputs.

in EUR million	2011	Gain/loss in profit or loss	Gain/loss in other compre-hensive income	Purchases	Sales/ settlements	Transfers into Level 3	Transfers out of Level 3	Currency translation	2012
Loans to credit institutions	4	0	0	0	(4)	0	0	0	0
Financial assets - available for sale	148	(7)	4	44	(25)	3	(20)	0	147
Financial assets - at fair value through profit or loss	27	(3)	0	0	0	0	0	0	24
Trading assets - securities	0	0	0	9	0	0	0	0	9
Positive market value - derivatives	0	0	0	0	0	139	0	0	139
Total assets	**179**	**(10)**	**4**	**53**	**(29)**	**142**	**(20)**	**0**	**318**
Negative market value - derivatives	2	(2)	0	0	0	0	0	0	0
Total liabilities	**2**	**(2)**	**0**	**0**	**0**	**0**	**0**	**0**	**0**

in EUR million	2010	Gain/loss in profit or loss	Gain/loss in other compre-hensive income	Purchases	Sales/ settle-ments	Transfers into Level 3	Transfers out of Level 3	Currency translation	2011
Loans to credit institutions	0	0	0	4	0	0	0	0	4
Financial assets - available for sale	160	(2)	0	40	(48)	0	(2)	0	148
Financial assets - at fair value through profit or loss	78	(8)	0	0	(43)	0	0	0	27
Total assets	**238**	**(10)**	**0**	**44**	**(91)**	**0**	**(2)**	**0**	**179**
Negative market value - derivatives	2	(1)	0	0	0	1	0	0	2
Total liabilities	**2**	**(1)**	**0**	**0**	**0**	**1**	**0**	**0**	**2**

Gains or losses on Level 3 securities held at the reporting period's end and which are included in comprehensive income are as follow:

	2012		2011	
in EUR million	Gain/loss in profit or loss	Gain/loss in other compre-hensive income	Gain/loss in profit or loss	Gain/loss in other compre-hensive income
Loans to credit institutions	0	0	(0.3)	0
Financial assets - available for sale	(8.0)	4.2	(0.5)	(0.4)
Financial assets - at fair value through profit or loss	(2.2)	0.0	(5.2)	0.0
Trading assets	(0.2)	0.0	0.0	0.0
Positive market value - derivatives	0.4	0.0	0.0	0.0
Negative market value - derivatives	(0.2)	0.0	0.7	0.0
Total	**(10.2)**	**4.2**	**(5.3)**	**(0.4)**

Movements between Level 1 and Level 2

The share of Level 2 assets decreased compared to 2011, which is mainly due to the fact of reinvestment in bonds which are valued via prices. A minor number of securities were reclassified from Level 2 to Level 1 and from Level 1 to Level 2, respectively. The reclassification resulted from increase or decrease in market depth for the relevant securities.

Movements in Level 3 financial instruments measured at fair value

As the portfolio quality in 2012 remained stable, there was no material change in the Level 3 category.

Sensitivity analysis of unobservable parameters

If the value of financial instruments is dependent on unobservable input parameters, the precise level for these parameters could be drawn from a range of reasonably possible alternatives. In preparing the financial statements, levels for the parameters are chosen from these ranges using judgement consistent with prevailing market evidence. Had all these unobservable parameters been moved simultaneously to the extremes of their ranges as of 31 December 2012, it could have increased fair value by as much as EUR 14.4 million (2011: EUR 13.2 million) or decreased fair value by as much as EUR 20.3 million (2011: EUR 20.6 million). In estimating these impacts, mainly probabilities of default and market values for equities were emphasised.

Fair values of financial instruments not measured at fair value

The following table shows fair values of financial instruments not measured at fair value:

in EUR million	2012 Fair value	2012 Carrying amount	2011 Fair value	2011 Carrying amount
ASSETS				
Cash and balances with central banks	9,740	9,740	9,413	9,413
Loans to credit institutions	9,054	9,007	7,552	7,506
Loans and advances to customers	127,170	124,354	130,614	127,808
Financial assets - held to maturity	20,292	18,972	16,074	16,060
LIABILITIES				
Deposits by banks	22,042	21,822	24,007	23,785
Customer deposits	122,286	122,421	118,853	118,327
Debt securities in issue	29,340	27,786	30,202	30,001
Subordinated liabilities	5,394	5,044	5,709	5,568

The fair value of loans and advances to customers and credit institutions has been calculated by discounting future cash flows while taking into consideration interest effects. Loans and advances were grouped into homogeneous portfolios based on maturity.

For liabilities without contractual maturities, the carrying amount represents its fair value. The fair value of the other liabilities is estimated by taking into consideration the actual interest rate environment and changes in own credit risk.

40) Financial instruments per category according to IAS 39

in EUR million	As of 31 December 2012									
	Category of financial instruments									
	Loans and receivables	Held to maturity	Trading	Designa-ted at fair value	Available for sale	Financial liabilities at amortised cost	Other financial assets	Derivatives designated as hedging instruments	Finance lease according to IAS 17	Total
ASSETS										
Cash and balances with central banks	7,398	0	0	0	0	0	2,342	0	0	9,740
Loans and advances to credit institutions	9,074	0	0		0	0	0	0	0	9,074
Loans and advances to customers	126,799	0	0	0	0	0	0	0	5,129	131,928
Risk provisions for loans and advances	(7,641)	(3)	0	0	0	0	0	0	0	(7,644)
Derivative financial instruments	0	0	10,777	0	0	0	0	2,512	0	13,289
Trading assets	0	0	5,178	0	0	0	0	0	0	5,178
Financial assets - at fair value through profit or loss	0	0	0	716	0	0	0	0	0	716
Financial assets - available for sale	0	0	0	0	22,418	0	0	0	0	22,418
Financial assets - held to maturity	0	18,975	0	0	0	0	0	0	0	18,975
Total financial assets	**135,630**	**18,972**	**15,955**	**716**	**22,418**	**0**	**2,342**	**2,512**	**5,129**	**203,674**
LIABILITIES										
Deposits by banks	0	0	0	0	0	21,822	0	0	0	21,822
Customer deposits	0	0	0	633	0	122,420	0	0	0	123,053
Debt securities in issue	0	0	0	1,641	0	27,786	0	0	0	29,427
Derivative financial instruments	0	0	10,171	0	0	0	0	707	0	10,878
Trading liabilities	0	0	481	0	0	0	0	0	0	481
Subordinated liabilities	0	0	0	279	0	5,044	0	0	0	5,323
Total financial liabilities	**0**	**0**	**10,652**	**2,553**	**0**	**177,072**	**0**	**707**	**0**	**190,984**

	As of 31 December 2011									
	Category of financial instruments									
in EUR million	Loans and receivables	Held to maturity	Trading	Designa-ted at fair value	Available for sale	Financial liabilities at amortised cost	Other financial assets	Derivatives designated as hedging instruments	Finance lease according to IAS 17	Total
ASSETS										
Cash and balances with central banks	7,249	0	0	0	0	0	2,164	0	0	9,413
Loans and advances to credit institutions	7,574	0	0	4	0	0	0	0	0	7,578
Loans and advances to customers	129,119	0	0	0	0	0	0	0	5,631	134,750
Risk provisions for loans and advances	(7,027)	0	0	0	0	0	0	0	0	(7,027)
Derivative financial instruments	0	0	9,118	0	0	0	0	1,813	0	10,931
Trading assets	0	0	5,876	0	0	0	0	0	0	5,876
Financial assets - at fair value through profit or loss	0	0	0	1,813	0	0	0	0	0	1,813
Financial assets - available for sale	0	0	0	0	20,245	0	0	0	0	20,245
Financial assets - held to maturity	0	16,074	0	0	0	0	0	0	0	16,074
Total financial assets	**136,915**	**16,074**	**14,994**	**1,817**	**20,245**	**0**	**2,164**	**1,813**	**5,631**	**199,653**
LIABILITIES							**0**	**0**	**0**	
Deposits by banks	0	0	0	0	0	23,785	0	0	0	23,785
Customer deposits	0	0	0	553	0	118,327	0	0	0	118,880
Debt securities in issue	0	0	0	781	0	30,001	0	0	0	30,782
Derivative financial instruments	0	0	8,738	0	0	0	0	599	0	9,337
Trading liabilities	0	0	536	0	0	0	0	0	0	536
Subordinated liabilities	0	0	0	215	0	5,568	0	0	0	5,783
Total financial liabilities	**0**	**0**	**9,274**	**1,549**	**0**	**177,681**	**0**	**599**	**0**	**189,103**

41) Audit fees and tax consultancy fees

The following table contains fundamental audit fees and tax fees charged by the auditors (of Erste Group Bank AG and subsidiaries; the auditors primarily being Sparkassen-Prüfungsverband, Ernst & Young and Deloitte) in the fiscal years 2012 and 2011:

in EUR million	2012	2011
Audit fees	15.3	15.6
Other services involving the issuance of a report	5.1	3.1
Tax consultancy fees	3.1	1.9
Other services	2.4	2.0
Total	**25.8**	**22.7**

For auditing services provided by the Group's auditors EUR 9.3 million (2011: EUR 8.6 million) was paid by Erste Group. The Group's auditors also performed tax consultancy for Erste Group with a value of EUR 0.3 million (2011: EUR 0.4 million).

42) Contingent liabilities

To meet the financial needs of customers, the bank enters into various irrevocable commitments and contingent liabilities. Even though these obligations may not be recognised on the balance sheet, they do contain credit risk and are therefore part of the overall risk of the Bank (see Note 37.5 Credit risk).

Legal proceedings

Erste Group Bank and some of its subsidiaries are involved in legal disputes, most of which have arisen in the course of ordinary banking business. These proceedings are not expected to have a significant negative impact on the financial position or profitability of Erste Group or Erste Group Bank. Erste Group is also subject to the following ongoing proceedings:

Hungarian holocaust litigation

In 2010 a group of plaintiffs 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 Second World War II. The assets claimed total $2 billion in 1944 dollars. Although Erste Group Bank is not alleged to have participated in the alleged misappropriation of Jewish assets, it is nevertheless named as a defendant in the litigation, as plaintiffs allege 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. The case is currently in the discovery phase, and Erste Group Bank intends to take all steps necessary to defend itself against this complaint.

Consumer protection claims

Several banking subsidiaries of Erste Group in Central and Eastern Europe 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 involve mostly claims 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.

43) Analysis of remaining maturities

	2012		2011	
in EUR million	**< 1 year**	**> 1 year**	**< 1 year**	**> 1 year**
Cash and balances with central banks	9,740	0	9,413	0
Loans and advances to credit institutions	5,868	3,206	5,483	2,095
Loans and advances to customers	35,404	96,524	35,132	99,618
Risk provisions for loans and advances	(2,011)	(5,633)	(2,129)	(4,898)
Derivative financial instruments	1,496	11,793	9,838	1,093
Trading assets	3,331	1,847	3,272	2,604
Financial assets - at fair value through profit or loss	144	572	841	972
Financial assets - available for sale	4,893	17,525	4,704	15,541
Financial assets - held to maturity	3,401	15,574	3,034	13,040
Other assets	1,153	8,997	599	9,754
Total	**63,419**	**150,405**	**70,187**	**139,819**
Deposits by banks	14,055	7,767	15,288	8,497
Customer deposits	80,200	42,853	96,186	22,694
Debt securities in issue	5,268	24,159	6,772	24,010
Derivative financial instruments	2,267	8,611	1,886	7,451
Trading liabilities	16	465	11	525
Subordinated liabilities	564	4,759	106	5,677
Other liabilities	396	5,767	391	5,332
Total	**102,766**	**94,381**	**120,640**	**74,186**

44) Own funds and capital requirement

Erste Group as a group of credit institutions is subject to the Austrian Banking Act and must comply with the capital requirements set out therein.

Erste Group is subject to regulatory limitations (e.g. concentration risk) that restrict the ability of Erste Group to transfer funds among subsidiaries in different countries.

The items of own funds as disclosed below are used also for internal capital management purposes. As in the previous year, the minimum capital requirements under the Banking Act were at all times fulfilled.

Own funds and capital requirements are as follow:

in EUR million	2012	2011
Subscribed capital	2,553	2,545
Share capital	789	781
Participation capital	1,764	1,764
Reserves	9,320	9,181
Deduction of Erste Group Bank shares held within the Group	(632)	(627)
Consolidation difference	(2,205)	(3,074)
Non-controlling interests (excluding hybrid tier−1 capital pursuant to Section 23 (4a) and (4b) of the Austrian Banking Act)	3,438	3,322
Intangible assets	(507)	(505)
50% deduction for non-consolidated credit and financial institutions pursuant to Section 23 (13) 3 and 4 of the Austrian Banking Act	(107)	(125)
50% deduction of IRB-shortfall pursuant to Section 23 (13) 4c of the Austrian Banking Act	0	0
50% deduction of securitisations pursuant to Section 23 (13) 4d of the Austrian Banking Act	(12)	(36)
Additional deduction for instruments measured at fair value pursuant to Section 23 (13) 4e of the Austrian Banking Act	0	0
Core tier−1 capital	**11,848**	**10,681**
Hybrid tier−1 capital pursuant to Section 23 (4a) and (4b) of the Austrian Banking Act	375	1,228
Tier−1 capital	**12,223**	**11,909**
Eligible subordinated liabilities	4,055	4,018
Revaluation reserve	0	0
Excess risk provisions	19	397
Qualifying supplementary capital (tier−2)	**4,074**	**4,415**
50% deduction for non−consolidated credit and financial institutions pursuant to Section 23 (13) 3 und 4 of the Austrian Banking Act	(107)	(125)
50% deduction of IRB-shortfall pursuant to Section 23 (13) 4c of the Austrian Banking Act	0	0
50% deduction of securitisations pursuant to Section 23 (13) 4d of the Austrian Banking Act	(12)	(36)
100% deductions of holdings in insurances pursuant to Section 23 (13) 4a of the Austrian Banking Act	(164)	(162)
Short-term subordinated capital (tier−3)	**297**	**414**
Total eligible qualifying capital	**16,311**	**16,415**
Capital requirement	8,426	9,122
Surplus capital	7,885	7,293
Cover ratio (in %)	193.6	179.9
Tier− ratio – credit risk (in %)[1]	13.5	12.2
Core tier−1 ratio – total risk (in %)[2]	11.2	9.4
Tier−1 ratio – total risk (in %)[3]	11.6	10.4
Solvency ratio (in %)[4]	15.5	14.4

1) Tier-1 ratio - credit risk is the ratio of tier-1 capital (including hybrid capital pursuant to section 23 (4a) and (4b) of the Austrian Banking Act) to the risk weighted assets pursuant to section 22 (2) of the Austrian Banking Act.
2) Core tier-1 ratio – total risk is the ratio of core tier-1 capital (excluding hybrid capital pursuant to section 23 (4a) and (4b) of the Austrian Banking Act) to the calculation base for the capital requirement pursuant to section 22 (1) of the Austrian Banking Act.
3) Tier-1 ratio – total risk is the ratio of tier-1 capital (including hybrid capital pursuant to section 23 (4a) and (4b) of the Austrian Banking Act) to the calculation base for the capital requirement pursuant to section 22 (1) of the Austrian Banking Act.
4) Solvency ratio is the ratio of total eligible qualifying capital to the calculation base for the capital requirement pursuant to section 22 (1) of the Austrian Banking Act.

The risk-weighted basis pursuant to Section 22 (1) of the Austrian Banking Act and the resulting capital requirement are as follow:

in EUR million	2012		2011	
	Calculation base/total risk[1)]	Capital requirement[2)]	Calculation base/total risk[1)]	Capital requirement[2)]
Risk pursuant to Section 22 (1) 1 of the Austrian Banking Act[3)]	90,434	7,235	97,630	7,811
a) Standardised approach	22,936	1,835	26,461	2,117
b) Internal ratings based approach	67,498	5,400	71,169	5,694
Risk pursuant to Section 22 (1) 2 of the Austrian Banking Act[4)]	3,583	287	5,060	405
Risk pursuant to Section 22 (1) 3 of the Austrian Banking Act[5)]	131	10	119	9
Risk pursuant to Section 22 (1) 4 of the Austrian Banking Act[6)]	11,175	894	11,210	897
Total	**105,323**	**8,426**	**114,019**	**9,122**

1) Internal calculation base used for calculation of the tier-1 ratio, core tier-1 ratio and the solvency ratio (capital requirement multiplied by 12,5).
2) Capital requirement pursuant to the Austrian Banking Act.
3) Risk weighted assets – credit risk.
4) Market risk (trading book).
5) Commodities risk and foreign exchange-risk, including the risk arising from gold positions, each for positions outside the trading book.
6) Operational risk.

45) Events after the balance sheet date

There were no significant events after the balance sheet date.

46) Details of the companies wholly or partly owned by Erste Group as of 31 December 2012

The tables below present material, fully consolidated subsidiaries, investments in associates accounted for at equity and other investments.

Since Erste Group Immorent AG is disclosed here as a sub-group, the single entities are not listed separately.

Company name, registered office		Interest of Erste Group in %
Fully consolidated subsidiaries		
Credit institutions		
Allgemeine Sparkasse Oberösterreich Bankaktiengesellschaft	Linz	29.8
Banca Comercială Română Chisinau S.A.	Chişinău	93.3
Banca Comercială Română SA	Bucharest	93.3
Banka Sparkasse d.d.	Ljubljana	28.0
Bankhaus Krentschker & Co. Aktiengesellschaft	Graz	25.0
Bausparkasse der österreichischen Sparkassen Aktiengesellschaft	Vienna	95.0
BCR Banca pentru Locuinte SA	Bucharest	93.6
Brokerjet Bank AG	Vienna	100.0
Česká spořitelna, a.s.	Prague	99.0
Die Zweite Wiener Vereins-Sparcasse	Vienna	0.0
Dornbirner Sparkasse Bank AG	Dornbirn	0.0
Erste & Steiermärkische Bank d.d.	Rijeka	69.3
Erste Asset Management GmbH	Vienna	100.0
Erste Bank (Malta) Limited	Pieta	100.0
ERSTE BANK AD NOVI SAD	Novi Sad	80.5
ERSTE BANK AD PODGORICA	Podgorica	69.3
Erste Bank der oesterreichischen Sparkassen AG	Vienna	100.0
Erste Bank Hungary Zrt	Budapest	100.0
ERSTE Immobilien Kapitalanlagegesellschaft m.b.H.	Vienna	74.2
ERSTE-SPARINVEST Kapitalanlagegesellschaft m.b.H.	Vienna	86.5
Intermarket Bank AG	Vienna	91.5
Kärntner Sparkasse Aktiengesellschaft	Klagenfurt	25.0
KREMSER BANK UND SPARKASSEN AKTIENGESELLSCHAFT	Krems an der Donau	0.0
Lienzer Sparkasse AG	Lienz	0.0
Public Company “Erste Bank”	Kiev	100.0
RINGTURM Kapitalanlagegesellschaft m.b.H.	Vienna	95.0
s Wohnbaubank AG	Vienna	90.8
Salzburger Sparkasse Bank Aktiengesellschaft	Salzburg	98.7
Slovenská sporiteľňa, a. s.	Bratislava	100.0
Sparkasse Baden	Baden	0.0
Sparkasse Bank dd	Sarajevo	24.3
SPARKASSE BANK MAKEDONIJA AD SKOPJE	Skopje	24.9
Sparkasse Bank Malta Public Limited Company	Sliema	0.0
Sparkasse Bludenz Bank AG	Bludenz	0.0
Sparkasse Bregenz Bank Aktiengesellschaft	Bregenz	0.0
Sparkasse der Gemeinde Egg	Egg	0.0
Sparkasse der Stadt Amstetten AG	Amstetten	0.0
Sparkasse der Stadt Feldkirch	Feldkirch	0.0
Sparkasse der Stadt Kitzbühel	Kitzbühel	0.0
Sparkasse Eferding-Peuerbach-Waizenkirchen	Eferding	0.0
Sparkasse Feldkirchen/Kärnten	Feldkirchen	0.0
Sparkasse Frankenmarkt Aktiengesellschaft	Frankenmarkt	0.0
Sparkasse Hainburg-Bruck-Neusiedl Aktiengesellschaft	Hainburg an der Donau	75.0
Sparkasse Haugsdorf	Haugsdorf	0.0
Sparkasse Herzogenburg-Neulengbach	Herzogenburg	0.0
Sparkasse Horn-Ravelsbach-Kirchberg Aktiengesellschaft	Horn	0.0

Company name, registered office		Interest of Erste Group in %
Sparkasse Imst AG	Imst	0.0
Sparkasse Korneuburg AG	Korneuburg	0.0
Sparkasse Kremstal-Pyhrn Aktiengesellschaft	Kirchdorf a.d. Krems	30.0
Sparkasse Kufstein, Tiroler Sparkasse von 1877	Kufstein	0.0
Sparkasse Lambach Bank Aktiengesellschaft	Lambach	0.0
Sparkasse Langenlois	Langenlois	0.0
Sparkasse Mittersill Bank AG	Mittersil	0.0
Sparkasse Mühlviertel-West Bank Aktiengesellschaft	Rohrbach	40.0
Sparkasse Mürzzuschlag Aktiengesellschaft	Mürzzuschlag	0.0
Sparkasse Neuhofen Bank Aktiengesellschaft	Neuhofen	0.0
Sparkasse Neunkirchen	Neunkirchen	0.0
SPARKASSE NIEDERÖSTERREICH MITTE WEST AKTIENGESELLSCHAFT	St. Pölten	0.0
Sparkasse Oberösterreich Kapitalanlagegesellschaft m.b.H.	Linz	29.6
Sparkasse Pöllau AG	Pöllau	0.0
Sparkasse Pottenstein N.Ö.	Pottenstein/Triesting	0.0
Sparkasse Poysdorf AG	Poysdorf	0.0
Sparkasse Pregarten - Unterweißenbach AG	Pregarten	0.0
Sparkasse Rattenberg Bank AG	Rattenberg	0.0
Sparkasse Reutte AG	Reutte	0.0
Sparkasse Ried im Innkreis-Haag am Hausruck	Ried im Innkreis	0.0
Sparkasse Salzkammergut AG	Bad Ischl	0.0
Sparkasse Scheibbs AG	Scheibbs	0.0
Sparkasse Schwaz AG	Schwaz	0.0
Sparkasse Voitsberg-Köflach Bankaktiengesellschaft	Voitsberg	5.0
Stavební spořitelna České spořitelny, a.s.	Prague	98.8
Steiermärkische Bank und Sparkassen Aktiengesellschaft	Graz	25.0
Tiroler Sparkasse Bankaktiengesellschaft Innsbruck	Innsbruck	75.0
Tirolinvest Kapitalanlagegesellschaft mbH.	Innsbruck	77.9
Waldviertler Sparkasse Bank AG	Zwettl	0.0
Wiener Neustädter Sparkasse	Wiener Neustadt	0.0

Company name, registered office		Interest of Erste Group in %
Other financial institutions		
Asset Management Slovenskej sporitelne, správ. spol., a. s.	Bratislava	100.0
AVS Beteiligungsgesellschaft m.b.H.	Innsbruck	75.0
BCR Leasing IFN SA	Bucharest	93.2
BCR Partener IFN SA	Bucharest	93.3
BCR Payments Services SRL	Sibiu	93.3
brokerjet České spořitelny, a.s.	Prague	99.5
Brokerjet financne storitve d.d. - v likvidaciji	Ljubljana	100.0
Diners Club BH d.o.o. Sarajevo	Sarajevo	69.3
Drustvo za lizing nekretnina, vozila, plovila i masina “S-Leasing” doo Podgorica	Podgorica	62.5
EB Erste Bank Internationale Beteiligungen GmbH	Vienna	100.0
EB-Malta-Beteiligungen Gesellschaft m.b.H.	Vienna	100.0
EBV - Leasing Gesellschaft m.b.H. & Co. KG.	Vienna	100.0
EGB Ceps Beteiligungen GmbH	Vienna	100.0
EGB Ceps Holding GmbH	Vienna	100.0
EGB e-business Holding GmbH	Vienna	100.0
Erste & Steiermärkische S-Leasing drustvo s ogranicenom odgovornoscu za leasing vozila i strojeva	Zagreb	59.4
Erste Alapkezelo Zrt.	Budapest	100.0
Erste Bank Beteiligungen GmbH	Vienna	100.0
Erste Befektetesi Zrt.	Budapest	100.0
ERSTE CARD CLUB d.o.o.	Zagreb	69.3
ERSTE DELTA DRUSTVO S OGRANICENOM ODGOVORNOSCU ZA POSLOVANJE NEKRETNINAMA	Zagreb	69.3
ERSTE FACTORING d.o.o.	Zagreb	76.9
Erste Faktor Penzügyi Szolgaltato Zrt.	Budapest	100.0
Erste Group Immorent AG	Vienna	100.0
Erste Invest d.o.o.	Zagreb	100.0
Erste Lakas-Takarekpenztar Zartkoruen Mukodo Reszvenytarsasag	Budapest	100.0
Erste Leasing Autofinanszirozasi Penzügyi Szolgaltato Zrt.	Budapest	100.0
Erste Leasing Berlet Szolgaltato Kft. (vm. Erste Leasing Szolgaltato Kft.)	Budapest	100.0
Erste Leasing Eszközfinanszirozasi Penzügyi Szolgaltato Zrt. (vm. Erste S Leasing Pénzügyi Szolgáltató Rt.)	Budapest	100.0
Erste Securities Istanbul Menkul Degerler AS	Istanbul	100.0
Erste Securities Polska S.A.	Warsaw	100.0
Factoring České spořitelny a.s.	Prague	99.0
Factoring Slovenskej sporiteľne, a.s.	Bratislava	100.0
Flottenmanagement GmbH	Vienna	51.0
Immorent - Süd Gesellschaft m.b.H., S - Leasing KG	Graz	46.4
IMMORENT ALFA leasing druzba, d.o.o.	Ljubljana	50.0
IMMORENT BETA, leasing druzba, d.o.o.	Ljubljana	62.5
IMMORENT DELTA, leasing druzba, d.o.o.	Ljubljana	50.0
IMMORENT leasing nepremicnin d.o.o.	Ljubljana	44.9
IMMORENT-RAMON Grundverwertungsgesellschaft m.b.H.	Vienna	62.5
Immorent-Smaragd Grundverwertungsgesellschaft m.b.H.	Schwaz	0.0
Immorent-Süd Gesellschaft m.b.H.	Graz	51.3
IMMORENT-TOPAS Grundverwertungsgesellschaft m.b.H.	Vienna	62.5
Investiční společnost České spořitelny, a.s.	Prague	100.0
Kärntner Sparkasse Vermögensverwaltungsgesellschaft m.b.H.	Klagenfurt	25.0
Leasing Slovenskej sporiteľne, a.s.	Bratislava	100.0
Magyar Factor Penzugyi Szolgaltato Zartkoruen Mukodo Reszvenytarsasag	Budapest	100.0
NÖ-Sparkassen Beteiligungsgesellschaft m.b.H.	Vienna	2.5
Portfolio Kereskedelmi, Szolgaltato es Szamitastechnikai Kft.	Budapest	100.0
PREDUZECE ZA LIZING NEKRETNINA, VOZILA I MASINA S-LEASING DOO BEOGRAD	Belgrade	62.5
REICO investiční společnost České spořitelny,a.s.	Prague	99.0
RUTAR INTERNATIONAL trgovinska d.o.o.	Ljubljana	62.5

Company name, registered office		Interest of Erste Group in %
s Autoleasing a.s.	Prague	99.0
s Autoleasing GmbH	Vienna	100.0
S IMMORENT ZETA drustvo s ogranicenom odgovornoscu za poslovanje nekretninama	Zagreb	84.9
S MORAVA Leasing, a.s.	Znojmo	99.0
S Slovensko, spol. s r.o.	Bratislava	100.0
SAI Erste Asset Management S.A.	Bucharest	100.0
S-Factoring, faktoring druzba d.d.	Ljubljana	53.4
Sieben-Tiroler-Sparkassen Beteiligungsgesellschaft m.b.H.	Kufstein	0.0
S-IMMORENT nepremicnine d.o.o.	Ljubljana	50.0
Sparkasse (Holdings) Malta Ltd.	Sliema	0.0
Sparkasse Leasing S,družba za financiranje d.o.o.	Ljubljana	28.0
SPARKASSEN LEASING druzba za financiranje d.o.o.	Ljubljana	50.0
Sparkassenbeteiligungs und Service AG für Oberösterreich und Salzburg	Linz	69.3
SPK Immobilien- und Vermögensverwaltungs GmbH	Graz	25.0
S-RENT DOO BEOGRAD	Belgrade	62.5

Company name, registered office		Interest of Erste Group in %
Other		
“Die Kärntner” Trust-Vermögensberatungsgesellschaft m.b.H.	Klagenfurt	25.0
“Sparkassen-Haftungs Aktiengesellschaft”	Vienna	43.2
Atrium Center s.r.o.	Bratislava	10.0
AWEKA - Kapitalverwaltungsgesellschaft m.b.H.	Graz	25.0
BCR Finance BV	Amsterdam	93.3
BCR Fleet Management SRL	Bucharest	93.2
BCR Partener Mobil SRL	Bucharest	93.3
BCR PENSII, SOCIETATE DE ADMINISTRARE A FONDURILOR DE PENSII PRIVATE SA	Bucharest	93.3
BCR Procesare SRL	Bucharest	93.3
BCR Real Estate Management SRL	Bucharest	93.3
BECON s.r.o.	Prague	10.0
BELBAKA a.s.	Prague	10.0
Beta-Immobilienvermietung GmbH	Vienna	100.0
BGA Czech, s.r.o.	Prague	10.0
BRS Büroreinigungsgesellschaft der Steiermärkischen Bank und Sparkassen Aktiengesellschaft Gesellschaft m.b.H.	Graz	25.0
Campus Park a.s.	Prague	19.8
Capexit Beteiligungs Invest GmbH	Vienna	100.0
Capexit Private Equity Invest GmbH	Vienna	100.0
CEE Property Development Portfolio 2 B.V.	Amsterdam	19.8
CEE Property Development Portfolio B.V.	Amsterdam	19.8
CP Praha s.r.o.	Prague	19.8
CPDP 2003 s.r.o.	Prague	19.8
CPDP Jungmannova s.r.o.	Prague	19.8
CPDP Logistics Park Kladno I a.s.	Prague	19.8
CPDP Logistics Park Kladno II a.s.	Prague	19.8
CPDP Polygon s.r.o.	Prague	19.8
CPDP Prievozska a.s.	Bratislava	19.8
CPDP Shopping Mall Kladno, a.s.	Prague	19.8
CPP Lux S. 'ar.l.	Luxembourg	19.8
CS Investment Limited	St Peter Port	99.0
CS Property Investment Limited	Nicosia	99.0
CSPF Residential B.V.	Amsterdam	10.0
CSSC Customer Sales Service Center GmbH	Vienna	57.3
Czech and Slovak Property Fund B.V.	Amsterdam	10.0
Czech TOP Venture Fund B.V.	Groesbeek	83.1
Derop B.V.	Amsterdam	100.0
DIE ERSTE Immobilienvermietungsgesellschaft m.b.H.	Vienna	100.0
EBB Beteiligungen GmbH	Vienna	100.0
EB-Beteiligungsservice GmbH	Vienna	99.9
EB-Restaurantsbetriebe Ges.m.b.H.	Vienna	100.0
EGB Capital Invest GmbH	Vienna	100.0
Erste Campus Mobilien GmbH & Co KG	Vienna	100.0
Erste Capital Finance (Jersey) PCC	St. Helier	100.0
ERSTE DMD d.o.o.	Zagreb	69.3
Erste Finance (Delaware) LLC	City of Wilmington	100.0
Erste Finance (Jersey) (6) Limited	St. Helier	100.0
Erste Finance (Jersey) Limited III	St. Helier	100.0
Erste Finance (Jersey) Limited IV	St. Helier	100.0
Erste Finance (Jersey) Limited V	St. Helier	100.0
Erste GCIB Finance I B.V.	Amsterdam	100.0
Erste Group IT International, spol. s.r.o.	Bratislava	100.0
Erste Group IT SK, spol. s r.o.	Bratislava	100.0

Company name, registered office		Interest of Erste Group in %
Erste Group Services GmbH	Vienna	100.0
Erste Group Shared Services (EGSS), s.r.o.	Hodonin	99.6
Erste Ingatlan Fejleszto, Hasznosito es Mernoki Kft. (vm. PB Risk Befektetesi es Szolgaltato Kft).	Budapest	100.0
Erste Ingatlanlizing Penzügyi Szolgaltato Zrt.	Budapest	100.0
Erste Lakaslizing Zrt.	Budapest	100.0
ERSTE NEKRETNINE d.o.o. za poslovanje nekretninama	Zagreb	69.3
Erste ÖSW Wohnbauträger GmbH	Vienna	90.8
Erste Reinsurance S.A.	Luxembourg	100.0
Euro Dotacie, a.s.	Žilina	65.3
Financiara SA	Bucharest	90.9
Gallery MYSAK a.s.	Prague	19.8
Gladiator Leasing Limited	Sliema	99.9
GLL MSN 038 / 043 LIMITED	Sliema	99.9
GRANTIKA Ceske sporitelny, a.s.	Brno	99.0
Haftungsverbund GmbH	Vienna	63.4
HEBRA Holding GmbH	Vienna	100.0
Immobilienverwertungsgesellschaft m.b.H.	Klagenfurt	25.0
IT Centrum s.r.o.	Prague	99.0
Jegeho Residential s.r.o.	Bratislava	10.0
KS - Dienstleistungsgesellschaft m.b.H.	Klagenfurt	25.0
KS-Beteiligungs- und Vermögens-Verwaltungsgesellschaft m.b.H.	Klagenfurt	25.0
LANED a.s.	Bratislava	100.0
LIEGESA Immobilienvermietung GmbH Nfg OHG	Graz	25.0
Lighthouse 449 Limited	Sliema	99.9
MBU d.o.o.	Zagreb	91.3
Nove Butovice Development s.r.o.	Prague	10.0
ÖCI-Unternehmensbeteiligungsgesellschaft.m.b.H.	Vienna	99.6
OM Objektmanagement GmbH	Vienna	100.0
PARTNER CESKE SPORITELNY, A.S.	Prague	99.0
Penzijni fond Ceske sporitelny, a.s.	Prague	99.0
Procurement Services CZ s.r.o.	Prague	99.5
Procurement Services GmbH	Vienna	99.9
Procurement Services HU Kft.	Budapest	99.9
Procurement Services RO srl	Bucharest	99.9
Procurement Services SK, s.r.o.	Bratislava	99.9
Procurement Services Zagreb d.o.o.	Zagreb	99.9
Quest Investment Services Limited	Sliema	0.0
Realitná spoločnosť Slovenskej sporiteľne, a.s.	Bratislava	100.0
Real-Service für oberösterreichische Sparkassen Realitätenvermittlungsgesellschaft m.b.H.	Linz	62.6
Real-Service für steirische Sparkassen, Realitätenvermittlungsgesellschaft m.b.H.	Graz	59.7
s ASG Sparkassen Abwicklungs- und Servicegesellschaft mbH	Graz	25.0
s IT Solutions AT Spardat GmbH	Vienna	82.2
s IT Solutions CZ, s.r.o.	Prague	99.6
s IT Solutions Holding GmbH	Vienna	100.0
s IT Solutions HR drustvo s ogranicenom odgovornoscu za usluge informacijskih tehnologija	Bjelovar	93.9
s IT Solutions SK, spol. s r.o.	Bratislava	99.8
s REAL Immobilienvermittlung GmbH	Vienna	96.1
S Tourismus Services GmbH	Vienna	100.0
s Wohnbauträger GmbH	Vienna	90.8
s Wohnfinanzierung Beratungs GmbH	Vienna	75.4
SATPO Jeseniova, s.r.o.	Prague	5.0
SATPO Kralovska vyhlidka, s.r.o.	Prague	5.0
SATPO Sacre Coeur II, s.r.o.	Prague	5.0
sBAU Holding GmbH	Vienna	95.0
SC Bucharest Financial Plazza SRL	Bucharest	93.3

Company name, registered office		Interest of Erste Group in %
S-Immobilien Weinviertler Sparkasse GmbH	Vienna	100.0
Sio Ingatlan Invest Kft.	Budapest	100.0
Smichov Real Estate, a.s.	Prague	10.0
Sparkasse Kufstein Immobilien GmbH & Co KG	Kufstein	0.0
Sparkasse S d.o.o.	Ljubljana	25.0
Sparkassen Real Vorarlberg Immobilienvermittlung GmbH	Dornbirn	48.1
Sparkassen Zahlungsverkehrsabwicklungs GmbH	Linz	57.8
Sparkassen-Real-Service für Kärnten und Osttirol Realitätenvermittlungs-Gesellschaft m.b.H.	Klagenfurt	55.5
Sparkassen-Real-Service -Tirol Realitätenvermittlungs-Gesellschaft m.b.H.	Innsbruck	66.7
Steiermärkische Verwaltungssparkasse Immobilien & Co KG	Graz	25.0
S-Tourismusfonds Management Aktiengesellschaft	Vienna	100.0
SUPORT COLECT SRL	Bucharest	93.3
SVD-Sparkassen-Versicherungsdienst Versicherungsbörse Nachfolge GmbH & Co. KG	Innsbruck	75.0
TAVARESA a.s.	Prague	1.9
Trencin Retail Park a.s.	Bratislava	9.0

Company name, registered office		Interest of Erste Group in %
Equity method investments		
Credit institutions		
SPAR-FINANZ BANK AG	Salzburg	50.00
Prvá stavebná sporitelna, a.s.	Bratislava	35.00
NÖ Beteiligungsfinanzierungen GmbH	Vienna	30.00
NÖ Bürgschaften GmbH	Vienna	25.00
Other		
APHRODITE Bauträger Aktiengesellschaft	Vienna	45.42
ASC Logistik GmbH	Vienna	23.95
EBB-Gamma Holding GmbH	Vienna	49.00
ERSTE d.o.o.	Zagreb	41.66
FINEP Jegeho alej a.s.	Bratislava	3.30
Gelup GesmbH	Vienna	31.67
Immobilien West Aktiengesellschaft	Salzburg	49.34
KWC Campus Errichtungsgesellschaft m.b.H.	Klagenfurt	12.50
Let's Print Holding AG	Graz	42.00
LTB Beteiligungs GmbH	Vienna	25.00
Office Center Stodulky GAMA a.s.	Prague	39.59
ROMANIAN EQUITY PARTNERS COÖPERATIEF U.A.	Amsterdam	66.67
RSV Beteiligungs GmbH	Vienna	33.33
SATPO Na Malvazinkach, a.s.	Prague	5.50
SATPO Sacre Coeur, s.r.o.	Prague	5.50
SATPO Svedska s.r.o.	Prague	5.50
Slovak Banking Credit Bureau, s.r.o.	Bratislava	33.33
VBV – Betriebliche Altersvorsorge AG	Vienna	26.94

Although Erste Group holds less than 20% of the equity shares in FINEP Jegeho Alej, a.s., SATPO Sacre Coeur, s.r.o., SATPO Na Malvazinkach, s.r.o. and SATPO Svedska, s.r.o., it exercises significant influence over those companies by virtue of significant additional investments in those companies as well as representation on the board of directors.

On the other hand, ROMANIAN EQUITY PARTNERS COÖPERATIEF U.A. is classified as a joint venture even though Erste Group holds more than 50% of the equity shares therein.

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Company name, registered office		Interest of Erste Group in %
Other investments		
Credit institutions		
VBV - Vorsorgekasse AG	Vienna	24.5
Other financial institutions		
AS-WECO 4 Grundstückverwaltung Gesellschaft m.b.H.	Salzburg	29.98
C+R Projekt s r.o.	Prague	100.00
Company for Investment Funds Management "Erste Invest" a.d. Belgrade	Belgrade	100.00
DINESIA a.s.	Prague	98.97
E-C-A-Holding Gesellschaft m.b.H.	Vienna	65.54
E-C-B Beteiligungsgesellschaft.m.b.H.	Vienna	24.67
EFH-Beteiligungsgesellschaft m.b.H.	Vienna	50.00
Fondul de Garantare a Creditului Rural IFN SA	Bucharest	31.09
good.bee Holding GmbH	Vienna	60.00
Grema - Grundstückverwaltung Gesellschaft m.b.H.	Innsbruck	74.99
I+R Projekt Fejlesztési Korlátolt Felelösségü Társaság	Budapest	100.00
ILGES - Immobilien- und Leasing - Gesellschaft m.b.H.	Rohrbach in Upper Austria	40.00
K+R Projekt s.r.o.	Prague	100.00
KERES-Immorent Immobilienleasing GmbH	Vienna	25.00
Lorit Immobilien Leasing Gesellschaft m.b.H.	Vienna	56.24
Neue Eisenstädter gemeinnützige Bau-, Wohn- und Siedlungsgesellschaft m.b.H.	Eisenstadt	49.98
Österreichisches Volkswohnungswerk, Gemeinnützige Gesellschaft mit beschränkter Haftung	Vienna	100.00
ÖWB Gemeinnützige Wohnungsaktiengesellschaft	Salzburg	22.73
REWE Magyarország Ingatlankezelö és - forgalmazó Korlátolt Felelösségü Társaság	Budapest	100.00
s Autoleasing SK, s.r.o.	Bratislava	98.97
S-Leasing d.o.o., Sarajevo	Sarajevo	24.93
S-Leasing d.o.o., Skopje	Skopje	24.99
SPARKASSE Bauholding Gesellschaft m.b.H.	Salzburg	98.69
Sparkasse Bauholding Leasing I GmbH	Salzburg	98.69
Sparkasse Bauholding Leasing V GmbH	Salzburg	98.69
STUWO Gemeinnützige Studentenwohnbau Aktiengesellschaft	Vienna	50.32
T+R Projekt Fejelsztési Korlátolt Felelösségü Társaság	Budapest	100.00
Transfactor Slovakia a.s.	Bratislava	91.47
Other		
"Die Kärntner" - Förderungs- und Beteiligungsgesellschaft für die Stadt Friesach Gesellschaft m.b.H.	Friesach	25.00
"Die Kärntner" - Förderungsgesellschaft für das Gurktal Gesellschaft m.b.H.	Gurk	25.00
"Die Kärntner"-BTWF-Beteiligungs- und Wirtschaftsförderungsgesellschaft für die Stadt St. Veit/Glan Gesellschaft m.b.H.	St. Veit an der Glan	25.00
"Die Kärntner"-Förderungs- und Beteiligungsgesellschaft für den Bezirk Wolfsberg Gesellschaft m.b.H.	Wolfsberg	25.00
"SIMM" Liegenschaftsverwertungsgesellschaft m.b.H.	Graz	25.00
A1KS Beteiligungs GmbH	Klagenfurt	25.00
AGRI-BUSINESS Kft. (in bankruptcy)	Hegyeshalom	100.00
Argentum Immobilienverwertungs Ges.m.b.H.	Linz	28.29
AS LEASING Gesellschaft m.b.H.	Linz	29.78
AS-WECO Grundstückverwaltung Gesellschaft m.b.H.	Linz	28.29
AWEKA-Beteiligungsgesellschaft m.b.H.	Vienna	25.00
Bad Leonfelden Hotelbetriebs Gesellschaft mbH	Bad Leonfelden	63.38
Balance Resort GmbH (vm. Wellness Hotel Stegersbach)	Stegersbach	100.00
BBH Hotelbetriebs GmbH	Vienna	69.02
BeeOne GmbH (EH-Beta Holding)	Vienna	100.00
Betriebliche Altersvorsorge - Software Engineering GmbH	Vienna	24.25
BioEnergie Stainach GmbH	Stainach	25.00
BioEnergie Stainach GmbH & Co KG	Stainach	24.99
Biroul de credit SA	Bucharest	22.64

Company name, registered office		Interest of Erste Group in %
BTV-Beteiligungs-, Treuhand-, Vermögens-Verwaltungsgesellschaft m.b.H.	Klagenfurt	25.00
Business Capital for Romania - Opportunity Fund Cooperatief UA	Amsterdam	77.73
BVP-Pensionsvorsorge-Consult G.m.b.H.	Vienna	26.94
CITY REAL Immobilienbeteiligungs- und Verwaltungsgesellschaft mbH	Graz	25.00
CITY REAL Immobilienbeteiligungs- und Verwaltungsgesellschaft mbH & Co KG	Graz	25.75
Die Kärntner Sparkasse - Förderungsgesellschaft für den Bezirk Hermagor Gesellschaft m.b.H.	Hermagor	25.00
Dolomitencenter Verwaltungs GmbH	Lienz	49.99
EBB Hotelbetriebs GmbH	Imst	100.00
EBB-Delta Holding GmbH	Vienna	100.00
EBG Europay Beteiligungs-GmbH	Vienna	22.41
EB-Grundstücksbeteiligungen GmbH	Vienna	100.00
EBSPK-Handelsgesellschaft m.b.H.	Vienna	29.68
EBV-Leasing Gesellschaft m.b.H.	Vienna	50.00
EGB-Service CEE GmbH	Vienna	100.00
Erste Asset Management Deutschland Ges.m.b.H.	Zorneding	100.00
Erste Bank - Wiener Stadthalle Marketing GmbH	Vienna	60.00
Erste Campus Mobilien GmbH	Vienna	100.00
Erste Corporate Finance GmbH	Vienna	100.00
Erste Corporate Finance, a.s.	Prague	98.97
Erste Energy Services, a.s.	Prague	98.97
Erste Finance Malta Limited	Sliema	100.00
Erste Group Beteiligungen GmbH	Vienna	100.00
Erste Private Equity Limited	London	100.00
ESB Holding GmbH	Vienna	69.27
ESPA- Financial Advisors GmbH	Vienna	84.20
Finanzpartner GmbH	Vienna	50.00
FINTEC-Finanzierungsberatungs- und Handelsgesellschaft m.b.H.	Vienna	25.00
Genesis Private Equity Fund 'B' L.P.	St.Peter Port, Guernsey	98.97
GLL 29235 LIMITED	Pieta	99.89
good.bee credit IFN S.A.	Bucharest	29.40
Grundstücksverwertungsgesellschaft mbH Objekt Oggenhof	Füssen	74.99
Harkin Limited	Dublin 2	100.00
Hochkönig Bergbahnen GmbH	Mühlbach am Hochkönig	45.35
Hollawind - Windkraftanlagenerrichtungs- und Betreibergesellschaft mit beschränkter Haftung	Göllersdorf	25.00
Hotel Corvinus Gesellschaft m.b.H. & Co KG	Vienna	100.00
HV-Veranstaltungsservice GmbH	Stotzing	100.00
ILGES - Liegenschaftsverwaltung G.m.b.H.	Rohrbach in Upper Austria	40.00
Investicniweb s.r.o.	Prague	99.48
ISPA-Beteiligungsgesellschaft m.b.H.	Kempten	74.99
KKT d.o.o. za posredovanje i usluge	Zagreb	69.26
Kleinkraftwerke-Betriebsgesellschaft m.b.H.	Vienna	100.00
Kraftwerksmanagement GmbH	Vienna	100.00
Latifundium Holding Gesellschaft m.b.H.	Vienna	100.00
LBH Liegenschafts- und Beteiligungsholding GmbH	Innsbruck	74.99
LINEA Beteiligungs-Gesellschaft m.b.H.	Vienna	100.00
Luitpoldpark-Hotel Betriebs- und Vermietungsgesellschaft mbH	Füssen	71.24
LV Holding GmbH	Linz	28.49
MEG-Liegenschaftsverwaltungsgesellschaft m.b.H.	Vienna	100.00
MUNDO FM & S GmbH	Vienna	100.00
Österreichische Wertpapierdaten Service GmbH	Vienna	32.69
ÖVW Bauträger GmbH	Vienna	100.00
PARAGON Hotelbetriebs GmbH (vm. REMACO)	Vienna	76.15

Company name, registered office		Interest of Erste Group in %
Planung und Errichtung von Kleinkraftwerken Aktiengesellschaft	Vienna	82.74
První certifikační autorita, a.s.	Prague	23.01
Realitní společnost České spořitelny, a.s.	Prague	98.97
RTG Tiefgaragenerrichtungs und -vermietungs GmbH	Graz	25.00
s Real Sparkasse nepremicnine d.o.o.	Ljubljana	51.48
S Servis, s.r.o.	Znojmo	98.97
SALIX-Grundstückserwerbs Ges.m.b.H.	Eisenstadt	50.00
SBS Beteiligungs GmbH	Graz	25.00
Schauersberg Immobilien Gesellschaft m.b.H.	Graz	25.00
Schmied von Kochel Beteiligungsverwaltungs-GmbH	Füssen	74.99
Seniorenresidenz "Am Steinberg" GmbH	Graz	25.00
SPAKO Holding GmbH	Innsbruck	74.99
Sparkasse Mühlviertel-West Holding GmbH	Rohrbach in Upper Austria	40.00
Sparkasse Nekretnine d.o.o.	Sarajevo	33.67
Sparkassen - Betriebsgesellschaft mbH.	Linz	29.78
Sparkassen - Reisebüro Gesellschaft m.b.H.	Linz	28.29
Sparkassen Facility Management GmbH	Innsbruck	74.99
Sparkassen IT Holding AG	Vienna	29.68
SPV - Druck Gesellschaft m.b.H	Vienna	99.86
students4excellence GmbH	Vienna	20.00
SZG-Dienstleistungsgesellschaft m.b.H.	Salzburg	98.69
TIRO Bauträger GmbH	Innsbruck	74.99
UBG-Unternehmensbeteiligungsgesellschaft m.b.H.	Vienna	100.00
Unzmarkter Kleinkraftwerk-Aktiengesellschaft	Vienna	81.44
Valtecia Achizitii S.R.L.	Voluntari, Ilfov County	100.00
Vasudvar Hotel Kft.1	Budapest	100.00
VERMREAL Liegenschaftserwerbs- und -betriebs GmbH	Vienna	25.60
VBV - Beratungs- und Service GmbH	Vienna	26.94
VBV - Pensionsservice-Center GmbH	Vienna	26.94
VBV-Pensionskasse Aktiengesellschaft	Vienna	26.94
VINIS Gesellschaft für nachhaltigen Vermögensaufbau und Innovation m.b.H.	Vienna	26.94
WECO Treuhandverwaltung Gesellschaft m.b.H.	Salzburg	49.34
WEST CONSULT Bauten- und Beteiligungsverwaltung GmbH	Salzburg	49.34
WEVA - Veranlagungs- und Beteiligungsgesellschaft m.b.H.	Linz	28.29
Wien 3420 Aspern Development AG	Vienna	23.24

Vienna, 28 February 2013

The Management Board

Andreas Treichl mp Chairman	**Franz Hochstrasser mp** Vice Chairman
Herbert Juranek mp Member	**Gernot Mittendorfer mp** Member
Manfred Wimmer mp Member	

AUDITOR'S REPORT (REPORT OF THE INDEPENDENT AUDITORS)[1)]

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

Sparkassen-Prüfungsverband and Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H., Vienna, have audited the accompanying consolidated financial statements of Erste Group Bank AG, Vienna, for the fiscal year from 1 January 2012 to 31 December 2012. These consolidated financial statements comprise the consolidated balance sheet as of 31 December 2012, the consolidated income statement, the consolidated cash flow statement and the consolidated statement of changes in equity for the fiscal year ended 31 December 2012, as well as the Notes.

Management's Responsibility for the Consolidated Financial Statements and for the Group Accounting System

The management of Erste Group Bank AG is responsible for the group accounting system and for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility and Description of the Type and Scope of the Statutory Audit

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with laws and regulations applicable in Austria and Austrian Standards on Auditing, as well as in accordance with International Standards on Auditing (ISAs) issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC). Those standards require that we comply with professional guidelines and that we plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment as to the risks of material misstatement by the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Group's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a reasonable basis for our audit opinion.

Opinion

Our audit did not give rise to any objections. In our opinion, which is based on the results of our audit, the consolidated financial statements comply with legal requirements and give a true and fair view of the financial position of the Group as of 31 December 2012 and of its financial performance and its cash flows for the fiscal year from 1 January 2012 to 31 December 2012 in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU.

Comments on the Management Report for the Group

Pursuant to statutory provisions, the management report for the Group is to be audited as to whether it is consistent with the consolidated financial statements and as to whether the other disclosures are not misleading with respect to the Company's position. The auditor's report also has to contain a statement as to whether the management report for the Group is consistent with the consolidated financial statements and whether the disclosures pursuant to Section 243a UGB (Austrian Commercial Code) are appropriate. In our opinion, the management report for the Group is consistent with the consolidated financial statements. The disclosures pursuant to Section 243a UGB (Austrian Commercial Code) are appropriate.

Vienna, 28. February 2013

Sparkassen-Prüfungsverband
(Prüfungsstelle)
(Austrian Savings Bank Auditing Association)
(Audit Agency)
(Bank Auditor)

Friedrich O. Hief mp
Certified Accountant

Herwig Hierzer mp
Auditor

Ernst & Young
Wirtschaftsprüfungsgesellschaft m.b.H.

Helmut Maukner mp
Certified Accountant

Andrea Stippl mp
Certified Accountant

1) The report (in the German language, or translations into another language, including shortened or amended versions) may not be made public or used by third parties, when reference is made in whole or in part to the auditors' report, without the express written consent of the auditors. This report has been translated from German into English for reference purposes only. Please refer to the official legally binding version as written and signed in German. Only the German version is definitive.

STATEMENT OF ALL MEMBERS OF THE MANAGEMENT BOARD

We confirm that to the best of our knowledge the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group as required by the applicable accounting standards and that the group management report gives a true and fair view of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties to which the Group is exposed.

Vienna, 28 February 2013

The Management Board

Andreas Treichl mp
Chairman

Franz Hochstrasser mp
Vice Chairman

Herbert Juranek mp
Member

Gernot Mittendorfer mp
Member

Manfred Wimmer mp
Member