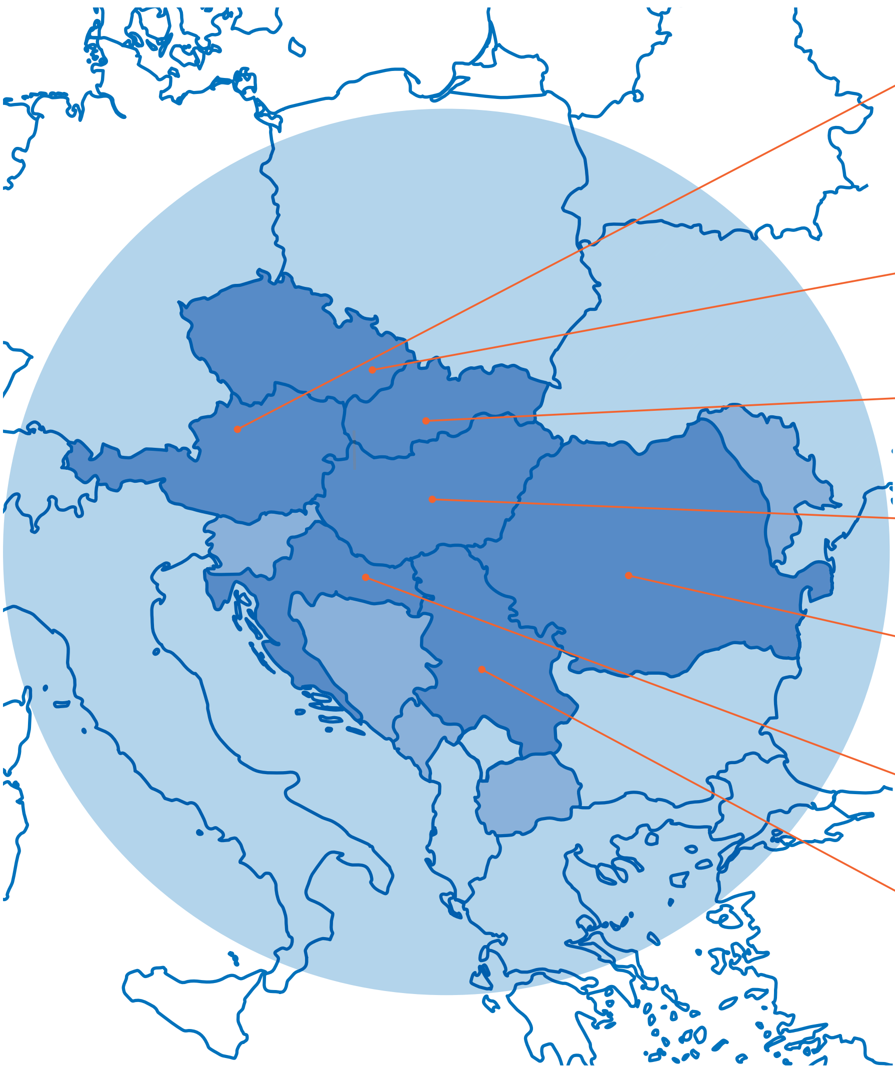
ERSTE GROUP

Annual Report 2013

2013

Extensive presence in Central and Eastern Europe



AUSTRIA

Employees: 15,659
Branches: 236
Customers: 0.9 million

SPARKASSE

Branches: 736
Customers: 2.5 million

CZECH REPUBLIC

Employees: 10,432
Branches: 653
Customers: 5.3 million

SLOVAKIA

Employees: 4,206
Branches: 292
Customers: 2.4 million

HUNGARY

Employees: 2,778
Branches: 135
Customers: 0.9 million

ROMANIA

Employees: 7,020
Branches: 563
Customers: 3.2 million

CROATIA

Employees: 2,584
Branches: 150
Customers: 1.0 million

SERBIA

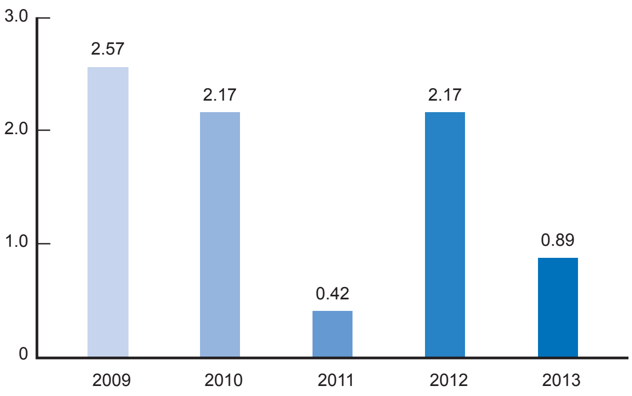
Employees: 922
Branches: 68
Customers: 0.3 million

Key financial and operating data *

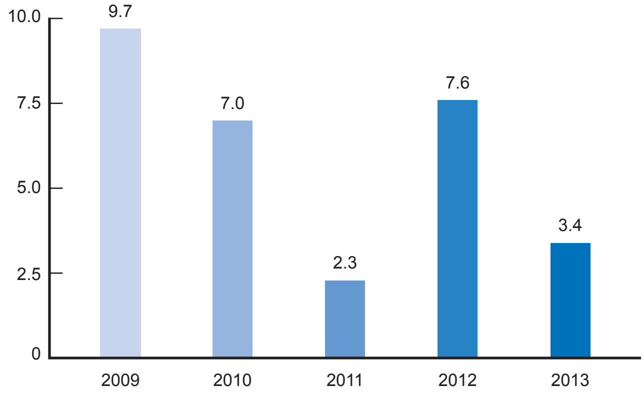
in EUR million (unless otherwise stated)	2009	2010	2011	2012	2013
Balance sheet					
Total assets	**201,513**	**205,770**	**210,006**	**213,824**	**199,876**
Loans and advances to credit institutions	13,140	12,496	7,578	9,074	9,062
Loans and advances to customers	128,755	132,334	134,750	131,928	127,698
Risk provisions for loans and advances	-4,954	-6,119	-7,027	-7,644	-7,810
Securities, other financial assets	40,298	39,957	44,008	47,287	44,832
Other assets	24,274	27,102	30,697	33,179	26,095
Total liabilities and equity	**201,513**	**205,770**	**210,006**	**213,824**	**199,876**
Deposits by banks	26,295	20,154	23,785	21,822	17,126
Customer deposits	112,042	117,016	118,880	123,053	122,442
Debt securities in issue and subordinated capital	35,760	37,136	36,565	34,750	33,319
Other liabilities	11,721	14,906	15,596	17,861	12,208
Equity attributable to non-controlling interests	3,321	3,444	3,143	3,483	3,457
Equity attributable to owners of the parent	12,374	13,114	12,037	12,855	11,324
Changes in total qualifying capital					
Risk-weighted assets pursuant to section 22 Austrian Banking Act (total risk)	123,891	119,844	114,019	105,323	97,901
Qualifying consolidated capital pursuant to sections 23 & 34 Austrian Banking Act	15,772	16,220	16,415	16,311	15,994
Tier 1 capital	11,450	12,219	11,909	12,223	11,560
Hybrid capital	1,174	1,200	1,228	375	361
Solvency ratio pursuant to section 22 Austrian Banking Act	12.7%	13.5%	14.4%	15.5%	16.3%
Core tier 1 ratio (total risk)	8.3%	9.2%	9.4%	11.2%	11.4%
Income statement					
Net interest income	5,220.9	5,439.2	5,569.0	5,235.3	4,858.1
Risk provisions for loans and advances	-2,056.6	-2,021.0	-2,266.9	-1,980.0	-1,763.4
Net fee and commission income	1,772.8	1,842.5	1,787.2	1,720.8	1,810.0
Net trading result	585.1	321.9	122.3	273.4	293.2
General administrative expenses	-3,807.4	-3,816.8	-3,850.9	-3,756.7	-3,653.5
Operating result	3,771.4	3,786.8	3,627.6	3,472.8	3,307.9
Pre-tax profit/loss	1,261.3	1,324.2	-322.2	801.2	374.3
Net profit/loss after minority interests	903.4	878.7	-718.9	483.5	61.0
Operating data					
Number of employees	50,488	50,272	50,452	49,381	45,670
Number of branches	3,205	3,202	3,176	3,063	2,833
Number of customers (million)	17.5	17.0	17.0	17.0	16.5
Share price and key ratios					
High (EUR)	31.15	35.59	39.45	24.33	26.94
Low (EUR)	7.00	25.10	10.65	11.95	19.34
Closing price (EUR)	26.06	35.14	13.59	24.03	25.33
Price/earnings ratio	10.9	15.1	na	19.6	178.6
Dividend per share (EUR)	0.65	0.70	0.00	0.40	0.20
Payout ratio	27.2%	30.1%	0.0%	32.6%	141.0%
Dividend yield	2.5%	2.0%	0.0%	1.7%	0.8%
Book value per share (EUR)	28.9	29.9	26.1	27.9	26.3
Price/book ratio	0.9	1.2	0.5	0.9	1.0
Total shareholder return (TSR)	64.9%	37.3%	-59.3%	76.8%	7.1%
Number of shares					
Number of shares outstanding	377,925,086	378,176,721	390,767,262	394,568,647	429,800,000
Average number of shares outstanding	322,206,516	374,695,868	377,670,141	391,631,603	411,553,048
Market capitalisation (EUR billion)	9.8	13.3	5.3	9.5	10.9
Trading volume (EUR billion)	13.3	15.3	10.9	7.4	8.3

*) The figures starting from 1 January 2010 are restated according to IAS 8. For further details see chapter C on accounting policies − restatement in the consolidated financial statements 2011.
The dividend pay-out ratio represents dividends paid to owners of the parent (excluding dividends paid on participation capital) for the respective year divided by net profit for the period attributable to owners of the parent.
The term "net profit after minorities" corresponds to the term "net profit attributable to owners of the parent".
Shares outstanding include Erste Group shares held by savings banks that are members of the Haftungsverbund (cross-guarantee system).
Trading volume as reported by Vienna Stock Exchange.

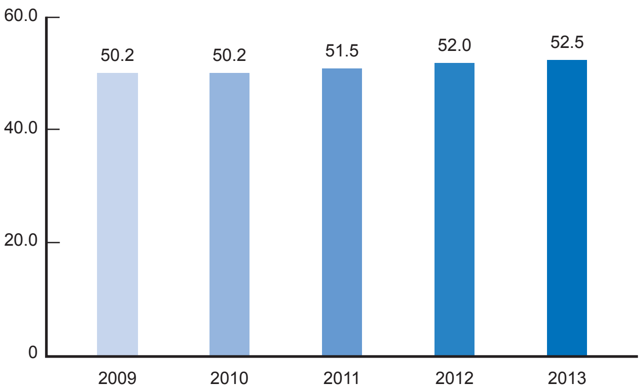
Cash earnings per share (in EUR)



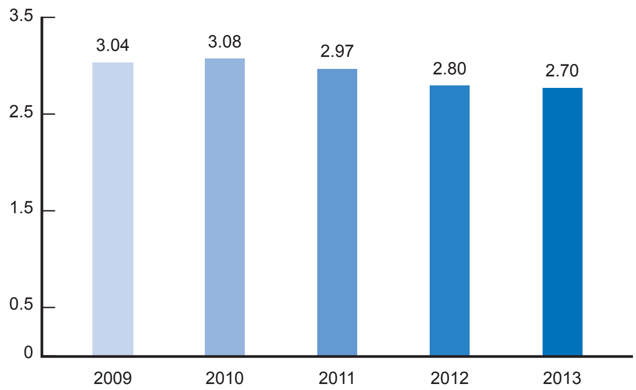
Cash return on equity (in %)



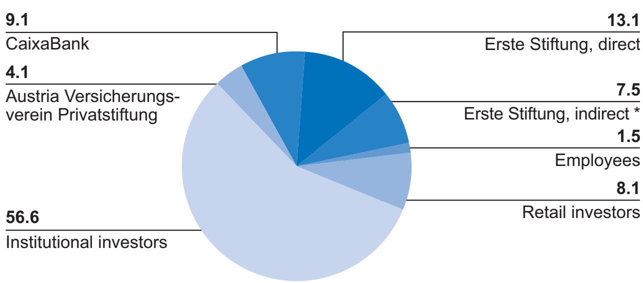
Cost/income ratio (in %)



Net interest margin (in %)

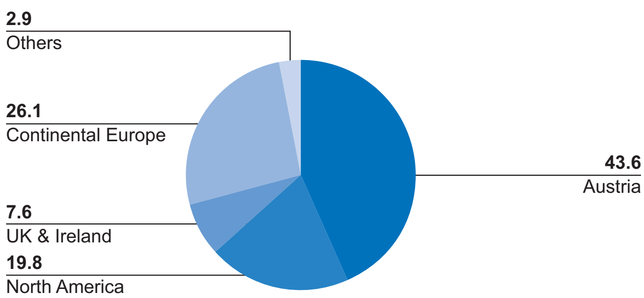


Shareholder structure as of 31 December 2013 by investors (in %)



* including savings banks 1.6%, Sparkassen Beteiligungs GmbH & Co KG and other syndicate members

Shareholder structure as of 31 December 2013 by regions (in %)



Ratings as of 31 December 2013

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

Financial calender 2014

Date	Event
30 April 2014	Results Q1 2014
21 May 2014	Annual General Meeting
26 May 2014	Ex-Dividend Day
28 May 2014	Dividend Payment Day - Shares
05 June 2014	Dividend Payment Day - Participation Capital
31 July 2014	Results H1 2014
30 October 2014	Results Q3 2014

As the financial calendar is subject to change, please check Erste Group's website for the most up-to-date version (www.erstegroup.com/investorrelations).

Highlights

Participation capital repaid in full

_ Successful capital increase of EUR 660.6 million
_ Redemption of the participation capital in full to the state and private investors

Further improvement in capital ratios

_ Core tier 1 ratio at 11.4% (Basel 2.5)
_ Reduction of risk-weighted assets

Operating result slightly reduced

_ Decline in revenues on low interest rate environment
_ Excellent cost performance
_ Cost/income ratio at 52.5%

Improvement in risk costs

_ NPL ratio at 9.6%, stabilising in second half-year
_ NPL coverage rose to 63.1% in 2013

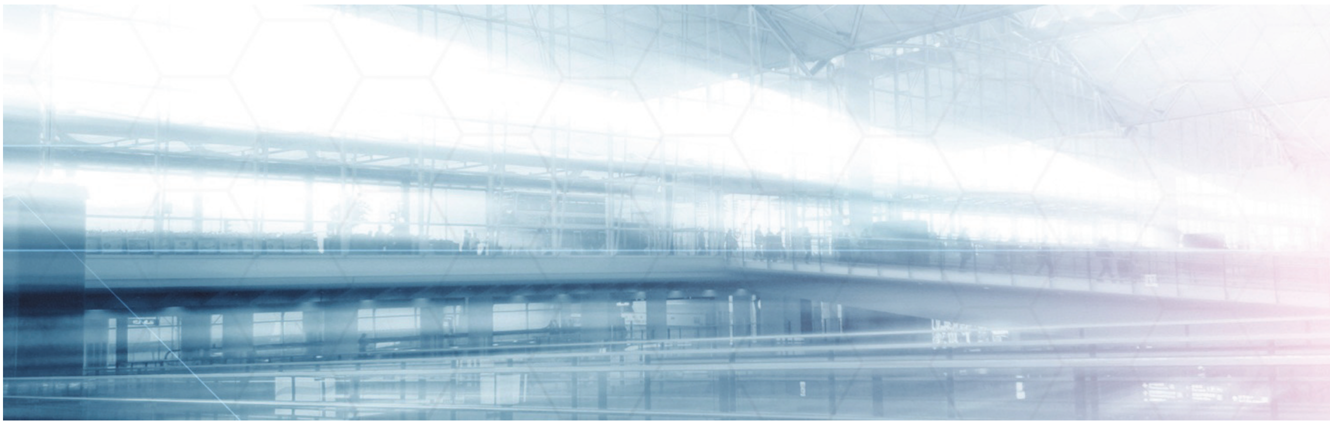
Net profit burdened by one-off effects

_ Negative one-off effects of EUR 482 million
_ Banking taxes and FTT of EUR 311 million
_ Dividend of EUR 0.2 proposed to AGM

Excellent funding and liquidity position

_ Strong deposit base is key competitive advantage
_ Loan-to-deposit ratio at 104.3%

Table of Contents



Letter from the CEO

Dear shareholders,

In 2013, banks were again confronted by a challenging environment. In Central and Eastern Europe, economic development was still mixed but, overall, exceeded the expectations of many sceptics. This had a positive impact on Erste Group's risk costs, especially in Romania, but did not translate into a noticeable recovery of loan demand in our core markets. Very weak loan growth in a low-interest-rate environment adversely affected net interest income and hence Erste Group's operating result. The net profit of EUR 61 million is not a genuine reflection of the bank's operating performance, but instead the result of a substantial year-on-year increase in taxes on income and adverse extraordinary impacts not offset by positive one-off effects. Banking and transaction taxes in Austria, Hungary and Slovakia, goodwill write-downs and the cost of exiting Ukraine amounted to almost EUR 770 million.

As regards our capital position, we have good news to report though: Erste Group is well prepared to cope with regulatory changes. After a successful capital increase, in 2013, Erste Group was the first Austrian bank to repay the entire participation capital that had been provided by the Austrian government and private investors. Erste Group concluded the year with a solid capital buffer. At year-end 2013, the common equity tier 1 ratio (CET1, Basel 3, fully loaded) stood at 10.8%, well above the 10% minimum ratio targeted for year-end 2014. The solvency ratio was 16.3%. At the annual general meeting, we will therefore propose to pay a dividend of EUR 0.2 per share.

Reviving growth in the region

In the euro zone, a broad-based recovery has set in, driven by global trends. Especially exports contributed to the acceleration of economic growth in Central and Eastern Europe, while domestic demand picked up only moderately in Erste Group's core markets despite subsiding inflation. GDP growth rates ranged between 3.5% in Romania and -1.3% in the Czech Republic, with major contributions coming from the automotive industry in the Czech Republic, Slovakia, Romania, and Hungary. Romania benefited from the strong performance of its agricultural sector. Overall, the region recorded net investment inflows. Even the Hungarian economy recovered despite various unorthodox and unpredictable political decisions. The Austrian economy outperformed the euro area again in 2013 with a GDP growth rate of 0.3%, not least because of its robust and well-diversified economic structure.

The central banks continued their expansionary monetary policies. To stimulate economic growth, they cut key lending rates, in Romania and Hungary even to new historical lows. In the Czech Republic, the key interest rate stood at 5 basis points throughout the year. The European Central Bank also lowered its base rate to the historical low of 0.25%. The Czech koruna depreciated following the Czech National Bank's announcement that it would intervene to keep the currency at around 27 koruna against the euro. All other currencies, including the Romanian leu and the Hungarian forint, remained relatively stable in 2013.

Net profit driven by extraordinary effects

In 2013, Erste Group heightened its geographical focus on the core markets, Austria and the medium- to long-term growth markets in the eastern part of the European Union. The exit from Ukraine and goodwill write-downs totalling EUR 383 million eroded the Group's net profit by around EUR 460 million. As these items were not cash-effective, they had no impact on regulatory capital unlike the – by international standards – very high banking taxes levied in Austria, but also in Hungary (along with an additional financial transaction tax) and in Slovakia. These levies amounted to EUR 311 million in 2013 and halved pre-tax profit. The significant increase in the tax rate was in fact attributable to the continuing high level of Austrian banking tax and goodwill adjustments of previous years, which permitted only a relatively modest recognition of deferred tax assets.

We are aware that cost efficiency is of vital importance to long-term profitability. In 2013, we again successfully implemented reorganisation measures in the Czech Republic and in Romania, for example. The reduction of general administrative expenses by 2.7% did not fully compensate for the decline in operating income though. Especially subdued demand for consumer loans and the persistently low interest rate environment had a negative impact on Erste Group's net interest income. Net fee and commission income improved due to the solid development of the securities business and payment transfers but, even together with the likewise higher net trading result, did not offset the decline in net interest income.

Overall, the customers of Erste Group demonstrated their trust in the bank, with customer deposits stable at EUR 122.4 billion. At year-end, the loan-to-deposit ratio stood at 104.3%. Loans and advances to customers were down, however, to EUR 127.7 billion in 2013. Besides the decline in the loan portfolios in Hungary and Romania, this was attributable in particular to the sale of Erste Bank Ukraine and the depreciation of the Czech koruna following national bank intervention. The fall in loan volume contributed significantly to the rise of the NPL ratio to 9.6% at year-end. Due to a decline in NPL volume, the NPL ratio remained stable in the second half of the year, however. Risk costs declined to 136 basis points of average customer loans. This was mainly the result of improvements in the retail and SME business, especially in Romania. Asset quality also improved further in the Czech Republic and Slovakia. On the other hand, the need for risk provisioning increased in the large corporates and commercial real estate business. The NPL coverage ratio improved to 63.1%.

Solid results were posted in the retail and SME business in the Czech Republic, in Slovakia and by Erste Bank Oesterreich. The development in Romania was also positive. The measures taken proved successful and, supported by lower risk costs, resulted in the turnaround planned for 2013. Hungary remained a challenge despite the redimensioning of the local bank as banking and transaction taxes caused its result to turn negative. It was also a difficult year for the large corporates and real estate business. Risk costs increased and volume reductions led to a decline in net interest income.

Successful funding

Erste Group's short- and long-term liquidity position remained excellent and enabled it to make early repayment of funds taken up under the ECB's long-term refinancing operations (LTROs). The bank maintained its independence from inter-bank refinancing as short-term funding requirements were more than covered by highly liquid assets. Erste Group was again attractive for bond investors in 2013. In view of undiminished interest from retail clients, a significant part of funding needs was covered by retail issues. In addition, an unsecured EUR 500 million senior benchmark bond with a tenor of 5.5 years was successfully placed with institutional investors in November 2013.

Regulatory environment

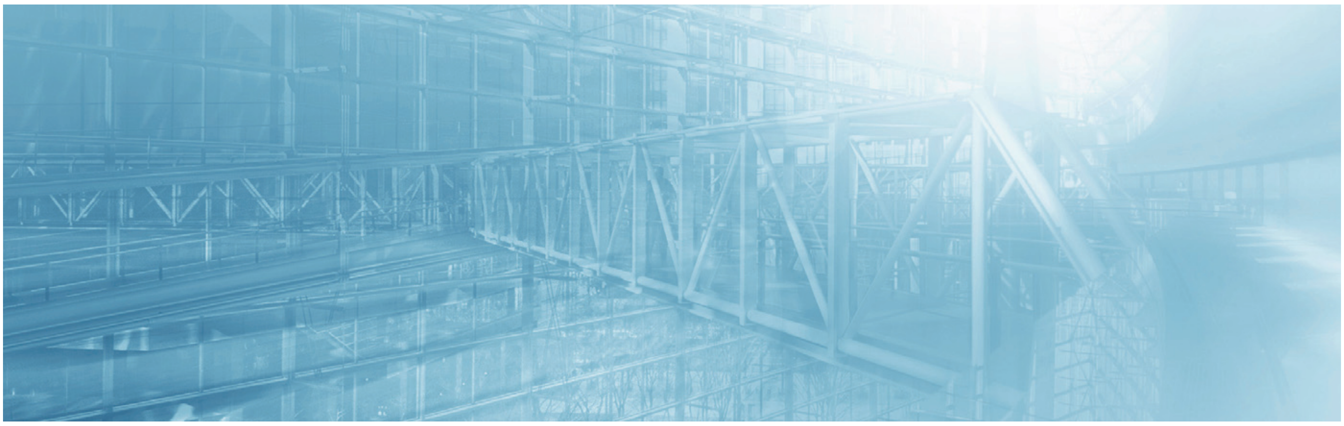
In 2014, the European Central Bank will take on responsibility for the supervision of major European banks, including Erste Group. In order to strengthen trust in the European banking system, the EBA published a transparency report at year-end 2013. In 2014, banks will undergo a comprehensive Asset Quality Review, to be followed by the next Europe-wide stress test in the second half of the year. Erste Group has taken timely action to meet regulatory requirements by improving its capital position and strengthening its risk management.

Strictly customer-centred strategy

Erste Group is well positioned. In the retail and corporate business, its business model is based on stable customer relations, a large proportion of which have evolved over decades. The bank is sufficiently flexible to be able to respond to developments in its core markets of Austria and the eastern part of the European Union. We have steadily reduced non-customer-related activities. We invest in innovation, such as digital banking and branches designed to serve future needs. By offering easily understandable financial products and services designed to meet customer requirements, Erste Group generates added value for its customers and thus for the real economy. We have built a solid capital buffer and are therefore able to provide our customers with the loans they require.

We have always appreciated and continue to value the trust that existing and new customers, shareholders and investors place in Erste Group. I would like to take the opportunity to thank all employees, since ultimately it is their skills and dedication that secure our customers' continuing loyalty to Erste Group.

Andreas Treichl mp



Management board

ANDREAS TREICHL

Chairman

Responsibilities:
Group Strategy & Participation Management
Group Secretariat
Group Communications
Group Investor Relations
Group Human Resources
Group Audit
Group Brands
Employees' Council

FRANZ HOCHSTRASSER

Vice Chairman

Responsibilities:
Group Large Corporates Banking
Erste Group Immorent Client, Industries and Infrastructure
Group Capital Markets
Group Research
Group Investment Banking
Steering & Operating Office Markets
Steering & Operating Office Large Corporates/Erste Group Immorent

ANDREAS GOTTSCHLING

Responsibilities:
Operational Risk, Compliance & Security
Group Legal
Group Workout
Risk Methods and Models
Corporate Credit Risk Management
Group Risk Operating Office
Group Validation
Enterprise wide Risk Management
Group Risk and SME Risk Management

HERBERT JURANEK

Responsibilities:
Group Organisation/IT
Group Banking Operations
Group Services

GERNOT MITTENDORFER

Responsibilities:
Group Accounting
Group Performance Management
Group Asset Liability Management

Report of the supervisory board

Dear shareholders,

The supervisory board looks back on an eventful year 2013. Economically, it was a challenging year on the back of a difficult business environment. In addition, the net result was materially affected by extremely high banking taxes. The successful completion of the capital increase made it nevertheless possible, with the consent of the supervisory board, to fully repay the participation capital to the state and to private investors. Erste Group Bank AG was thus the first Austrian bank to fully repay the state-held participation capital to the Republic of Austria.

We were deeply grieved by the passing away of Theresa Jordis, a long-standing member of the supervisory board, on 7 September 2013. Already on 29 July 2013, Theresa Jordis had resigned from her mandate for health reasons. Theresa Jordis had served the bank for many years, most recently as second vice chairwoman of the supervisory board, and contributed enormously to the success of Erste Group Bank AG. The supervisory and management boards were always able to rely on her exceptional expertise and experience.

The period of office of Werner Tessmar-Pfohl ended with the close of the annual general meeting 2013. Due to the age limit specified in the articles of association, re-election to the supervisory board was not possible. Werner Tessmar-Pfohl therefore resigned from the supervisory board of Erste Group Bank AG on 16 May 2013. He had been a member of the supervisory board since 2008 and had in particular represented the Austrian savings banks.

The delegation of Barbara Smrcka was revoked and committee appointments were adjusted effective 29 July 2013 to align the number of supervisory board members delegated by the Employees' Council accordingly.

To again reflect the cooperation with the savings banks through a supervisory board member, the supervisory board will recommend the election of Gunter Griss as representative of the savings banks to the annual general meeting 2014.

There were further personnel changes: The members of the supervisory board approved at their meeting of 19 June 2013 the resignation of Manfred Wimmer from the management board effective 31 August 2013 and the appointment of Andreas Gottschling as a new member of the management board of Erste Group Bank AG effective 1 September 2013. The supervisory board furthermore approved a new distribution of responsibilities and representation rules for the management board members: Andreas Gottschling took over responsibility for risk management as successor to Gernot Mittendorfer, and Gernot Mittendorfer succeeded Manfred Wimmer as chief financial officer.

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

In the course of 44 supervisory board and committee meetings, the management board promptly and comprehensively informed the supervisory board in both written and oral reports on all business matters. This allowed us to act in accordance with the mandate laid down by law, the articles of association and the Corporate Governance Code, as well as to ascertain the proper conduct of business.

The financial statements (consisting of the balance sheet, income statement and notes), the management report, the consolidated financial statements and the group management report for 2013 were audited by the legally mandated auditor, Sparkassen-Prüfungsverband, and by Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H., as supplementary auditor, and received an unqualified audit opinion. Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H. was also contracted to perform a discretionary audit of the corporate governance report 2013.

The audit did not give rise to any qualifications. Representatives of both auditors attended the financial statements review meetings of the audit committee and the supervisory board, and presented their comments on the audits they had conducted. Based upon our own review, we endorsed the findings of these audits.

The supervisory board approved the financial statements 2013 at its meeting of 13 March 2014 and these were thereby duly endorsed in accordance with section 96 (4) of the Aktiengesetz (Austrian Stock Corporation Act). The management report, consolidated financial statements, group management report and Corporate Governance Report have been reviewed and accepted.

The supervisory board is of the opinion that the result of the financial year 2013 justifies the distribution of dividends and therefore endorses the proposal of the management board to submit a recommendation to the annual general meeting regarding payment of a dividend to the shareholders and the former holders of participation certificates.

For the supervisory board:

Friedrich Rödler mp
Chairman of the Supervisory Board

Vienna, March 2014

Erste Group on the capital markets

In 2013, stock market performance was driven largely by the central banks' loose monetary policies. Most of the major central banks cut their key interest rates and continued their multi-billion bond purchases to support the economy. Injection of liquidity by the central banks and signs of a slight recovery of the US and European economies led to double-digit gains on most of the global stock markets and all-time highs at some of the key stock exchanges. After initial setbacks, European banking stocks were also up markedly in the second half of the year. The Erste Group share was 5.4% higher at yearend on the back of the steady development of the operating result, improved asset quality and further strengthening of its capital base.

EQUITY MARKET REVIEW

Record highs at key stock exchanges

Stock market rallies were mostly liquidity-driven. Strong gains on most global stock markets were realised due to abundant levels of liquidity provided in particular by the US central bank (Fed) and the European Central Bank (ECB) and a lack of alternative investment options in view of the decline in sovereign bond yields. At low volatilities and with stock prices rising across all sectors, US and German stock market indices surged to record highs: the Dow Jones Industrial advanced 26.5% to 16,576.66, the Standard & Poor's 500, which represents the 500 largest US companies, rose 29.6% to 1,848.36 and the German DAX climbed 22.8% to 9,552.16. The Euro Stoxx 600 Index, which is composed of the biggest European companies, gained 17.4%. Japan's leading Nikkei Index increased by more than 50%, hitting a new six-year high.

Continuation of expansionary monetary policy

Worldwide, investors focused primarily on the continuation of the Fed's monetary policy. In December, the Fed announced its plan to reduce its USD 85-billion-a-month purchases of US treasuries and mortgage bonds by USD 10 billion while keeping interest rates low as long as unemployment did not fall below the 6.5% threshold. There were also positive signals from the ECB, which cut its key interest rate two times last year to a historic low of 0.25%. The Fed's and the ECB's announcements to keep their monetary policies highly expansionary for a long time to come fuelled a year-end rally in the financial markets.

Improvement of economic data in the US and in the eurozone

In the third quarter 2013, the US economy posted the highest growth rate in almost two years as gross domestic product expanded faster than expected. This and the US central bank's commitment to continue its loose monetary policy brightened the prospects for moderate economic growth in the US. Additional encouraging signals came from the political settlement of the US budget dispute and the agreement reached between Republicans and Democrats to raise the debt ceiling for the fiscal year 2014. The ECB reported that there were clear indications that the European economy was stabilising and a turning point had been reached. After two years, 2014 is expected to be the first year in which the eurozone will return to economic growth. The German economy in particular is expected to see a noticeable recovery. On the other hand, developments in southern Europe will remain a challenge for the eurozone, despite the emergence of first positive signs of recovery.

European banking index up by more than a quarter

After the Cyprus crisis, in which bank customers were forced to contribute to the state bailout through levies on deposits, debates about the introduction of a single resolution mechanism for winding down failed banks in Europe and the planned establishment of a banking union including a tighter single supervisory mechanism sent prices of European banking stocks down in the first six months. Later in the year, sentiment improved amid positive signals from the central banks confirming a continuation of their loose monetary policies. In the second half of the year, the Dow Jones Euro Stoxx Bank Index, which is composed of leading European banking stocks, embarked on a steady upward trend and posted solid gains. At 141.43 points, the banking index was up 25.9%.

Vienna Stock Exchange lagging behind global markets

While other markets posted double-digit growth, the Austrian stock market advanced by just 6.1%. From 2,401.21 points at the beginning of the year, the Austrian Traded Index (ATX) rose to 2,546.54 points on the last trading day. The ATX's laggardly performance versus other stock market indices was largely due to a declining share of international investors and subdued demand from domestic retail investors, the introduction of a capital gains tax on securities, and a lack of momentum from major IPOs.

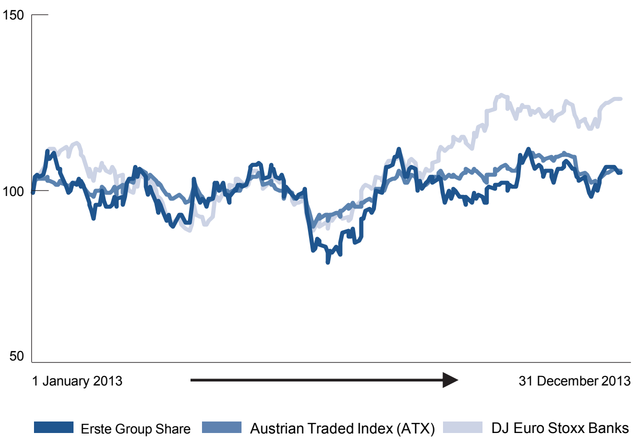
ERSTE GROUP SHARE

Erste Group share performance up 5.4%

In an environment in which European banking stocks declined by almost 10% in the first half of the year, the Erste Group share sustained a disproportionate decline in its valuation by more than 19% to under EUR 20.00. Against the backdrop of the general recovery of the European banking sector, the Erste Group share rebounded in the second half of the year, due also to the successful placement of the capital increase ahead of the full redemption of its participation capital.

Positive feedback from analysts on third-quarter results, which focused mainly on the higher-than-expected operating result, the improvement in asset quality and the capital increase, boosted the price of the Erste Group share to its yearly high of EUR 26.94. Despite a 31% rise from its 2013 low of EUR 19.34 on 3 July to its year-end price of EUR 25.33, the performance of the Erste Group share trailed the European Banking Index.

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



Performance of the Erste Group share versus indices*

	Erste Group share	ATX	DJ Euro Stoxx Banks Index
Since IPO (Dec 1997)	128.6%	95.2%	-
Since SPO (Sep 2000)	115.6%	117.9%	-59.8%
Since SPO (Jul 2002)	45.4%	108.8%	-43.7%
Since SPO (Jan 2006)	-43.7%	-34.6%	-62.7%
Since SPO (Nov 2009)	-12.7%	-2.3%	-37.9%
2013	5.4%	6.1%	25.9%

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

Number of shares, market capitalisation and trading volume

Following the resolution to repay the outstanding participation capital in the total amount of EUR 1.76 billion, a capital increase against cash contributions was conducted in early July. 35,231,353 new shares were placed with gross proceeds of EUR 660.6 million. This transaction increased the number of shares from 394,568,647 to 429,800,000. On 8 August 2013, Erste Group Bank AG was the first Austrian bank to repay the entire participation capital that it had received from the Austrian government (EUR 1.205 billion) and private investors (EUR 559 million) in 2009.

The market capitalisation of Erste Group rose – partly due to the capital increase – to EUR 10.9 billion at year-end 2013 from EUR 9.5 billion in 2012.

The Erste Group share is traded on the stock exchanges of Vienna, Prague, and Bucharest. In 2013, the trading volume on these three stock exchanges averaged 844,798 shares a day and accounted for about 41% of the total trading volume in Erste Group shares. More than half of the trading activity is executed over the counter (OTC) or through electronic trading systems.

Erste Group in sustainability indices

The Erste Group share has been included in VÖNIX, the Vienna Stock Exchange's sustainability index, since its launch in 2008. In addition, the Erste Group share has been included in the Euronext-Vigeo Eurozone 120 index and in the STOXX® Global ESG Leaders index.

DIVIDEND

The Erste Group's dividend policy has been guided by the bank's profitability, growth outlook and capital requirements. The dividend for the financial year 2012 was EUR 0.40 per share. The 8% p.a. dividend on the participation capital of EUR 1.76 billion was paid on 3 June 2013. The management board of Erste Group will propose to the annual general meeting to pay a dividend in the amount of EUR 0.20 per share for the financial year 2013 and to pay the dividend on the participation capital.

SUCCESSFUL FUNDING

In 2013, Erste Group issued bonds in a total volume of EUR 2.8 billion, with an average tenor of 7.8 years. The underlying funding structure has remained unchanged: to extend or flatten the redemption profile. Due to rather compressed spread differentials between senior and covered bonds, Erste Group shifted its focus towards senior funding. In contrast to the previous year, Erste Group – last but not least due to solid deposit growth – abstained from issuing a benchmark-sized bond at the beginning of the year. Demand for retail issues and private placements remained high. Issues of subordinated bonds alone amounted to EUR 590 million. The volume of covered bonds'-placements amounted to EUR 420 million. In the fourth quarter 2013, it was decided to pre-fund part of the 2014 redemptions by a benchmark transaction to benefit from low spreads in the constructive market environment. Erste Group successfully issued a 5 ½-year EUR 500 million unsecured bond.

INVESTOR RELATIONS

Open and regular communication with investors and analysts

In 2013, Erste Group's management and the investor relations team met with investors in a total of 480 one-on-one and group meetings. The presentation of the 2012 annual result was followed by the annual analysts' dinner in London. In the past year, three road shows were held in Europe and in the US: the spring road show conducted after the release of the first-quarter results, the second road show in early July marking the capital increase and the autumn road show following the release of the third-quarter results. Erste Group presented its strategy in the current operating environment at international banking and investor conferences organised by the Vienna Stock Exchange, UBS, Morgan Stanley, HSBC, VTB Capital, RCB, Deutsche Bank, Bank of America Merrill Lynch, Goldman Sachs, Barclays, Unicredit, Wood and Citigroup. Forty meetings were held to intensify the dialogue with bond investors. At conferences, road shows and workshops a large number of face-to-face meetings were held with analysts and portfolio managers.

On 8 April 2013, the internet chat with Erste Group's CEO was held for the eleventh time. The chat provided a chance for many retail investors and the general public to communicate directly with the chairman of the management board, Andreas Treichl.

At http://www.erstegroup.com/investorrelations comprehensive information on Erste Group and the Erste Group share is available. Investors and the broader public can also follow the investor relations team on the social media platform Twitter at http://twitter.com/ErsteGroupIR and on SlideShare at http://slideshare.net/Erste_Group. These sites provide users with the latest news on Erste Group in the social web. An overview of Erste Group's social media channels is available at http://www.erstegroup.com/en/about-us/socialmedia.

As an additional service for investors and analysts, Erste Group launched free Investor Relations Apps for iPhone, iPad and Android devices in August 2012. These applications enable users to access and download Erste Group Bank AG share price information, the latest investor news, multimedia files, financial reports and presentations as well as an interactive financial calendar and contact details for the investor relations team. More details on this service and downloading are available at http://www.erstegroup.com/en/investors/IR_App.

In late June 2013, Erste Group's investor relations team won the award for the best investor relations performance of an Austrian company for the third consecutive time. More than 500 buy-side and sell-side analysts and portfolio managers from across Europe took part in the survey conducted by IR Magazine. Its outcome impressively underlined the investor relations team's success in focusing on transparency and competent communication with investors as their top priority.

Analyst recommendations

In 2013, 26 analysts released research reports about Erste Group, including one initial coverage analysis. Another analyst started coverage in early 2014. The Erste Group Bank AG share was covered by financial analysts at the following national and international firms: Atlantik, Autonomous, Bank of America Merrill Lynch, Barclays, Berenberg, Citigroup, Commerzbank, Concorde, Credit Suisse, Deutsche Bank, Exane BNP Paribas, Goldman Sachs, HSBC, JP Morgan, KBW, Kepler, Macquarie, mBank, Mediobanca, Morgan Stanley, Natixis, Nomura, RCB, SocGen, UBS, VTB Capital and Wood. As of the year-end, 14 analysts had issued buy recommendations, eight rated the Erste Group share neutral and four had sell recommendations. The average year-end target price was EUR 25.68. The latest updates on analysts' estimates for the Erste Group share are posted at: http://www.erstegroup.com/en/Investors/Share/AnalystEstimates.

Strategy

A historic principle: serving customer needs

Ever since its foundation in 1819 as Central Europe's first savings bank, Erste Group has been pursuing a business strategy focused upon the real economy. The bank's activities also reflect the commitment to society as it pursues not only financial but also ecological goals and supports social initiatives. The strategic orientation was changed neither when Erste Group went public in 1997 nor by increasing regulatory and political interventions in the banking sector. Quite the contrary: The developments of recent years have even strengthened Erste Group's resolve to focus even more consistently on its core activities, which are to provide banking services on a sustainable basis to private individuals, businesses and the public sector in Austria and the eastern part of the European Union. This is what differentiates Erste Group from investment banks or other banks whose business is not embedded in the real economy.

As the Group's operations developed, the core activities evolved as well, from those of a savings bank focused on retail lending and deposit-taking into those of an international bank providing banking services to all sectors of the economy. In view of the increasing importance of internet and mobile banking, Erste Group not only values direct contacts with its customers at the branch offices but also turns its attention to technological developments and innovations to meet its customers' expectations even more effectively.

In addition to the traditional strength in serving private individuals, Erste Group's core activities also include advisory services and support for its corporate customers with regard to financing, investment, hedging activities and access to international capital markets. Public sector funding through investing parts of the bank's liquidity in sovereign bonds issued in its region is also part of the core activities. To meet the short-term liquidity management needs of the customer business, Erste Group also operates in the interbank market.

It is important to Erste Group to develop customer relationships beyond pure lending and deposit collection that benefit both its customers and Erste Group itself, for only a bank that is financially strong is able to offer services at sustainably attractive terms. Erste Group therefore strives to be the principal bank for its customers, or at least their most important banking relationship. This applies not only to the retail and SME business but also to the large corporate and real estate business and to the serving of entities in the public sector. It applies equally to every country in which Erste Group operates. As Erste Group occupies very strong market positions in most of its markets, it has the attributes to achieve this objective.

Geographic focus on Austria and the eastern part of the European Union

When Erste Group went public in 1997, it defined its region as consisting of Austria and Central and Eastern Europe, i.e. that part of Europe that offers the best structural and therefore long-term growth prospects. Many countries of Central and Eastern Europe have special ties to Austria, not only because of their geographical proximity but also due to a common cultural heritage. Their shared history was interrupted by the division of Europe after World War II but restored after the demise of the Communist dictatorships in the late 1980s. In the early 20th century, regions like today's Czech Republic and Hungary had been economically as advanced as or even more advanced than Austria. That had been true also in terms of banking, as the savings banks philosophy had spread across Central Europe.

Decades of a centrally planned economy, however, restrained development and the subsequent transition to a market economy has resulted in enormous potential for growth and the need to meet pent-up demand. Against the backdrop of emerging European integration and limited potential for growth in Austria, Erste Group grasped this opportunity and from the late 1990s onwards acquired savings banks and financial institutions in countries adjacent to Austria.

Erste Group intends to be the leading bank between Germany and Russia in the medium to long term. Today, Erste Group operates extensive branch networks in its markets of Austria, the Czech Republic, Slovakia, Romania, Hungary and Croatia – all of which are members of the European Union. Following significant investments in its subsidiaries, Erste Group holds leading market positions in many of these countries. In Serbia, which has been assigned European Union candidate status, the bank maintains a minor market presence, but one that may be quickly expanded through acquisitions or organic growth as the country makes progress on European Union integration. In addition to its core markets, Erste Group also holds direct and indirect majority and minority banking participations in Slovenia, Montenegro, Bosnia and Herzegovina, Macedonia and Moldova. These operations mainly focus on serving private individuals and corporate customers.

In its capital market business, Erste Group maintains additional presences in Poland, Turkey and Germany. In addition, the bank's branches in London, New York and Hong Kong engage in lending and treasury business since the strategic orientation has been shifted to focus on customer business.

Erste Group's strategy

Customer banking in Central and Eastern Europe

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

Erste Group's business model creates sustainability

The sustainability of Erste Group's business model is reflected by a consistent operating performance through economic cycles, which allows the absorption of higher risk costs in times of economic uncertainty. Erste Group creates value by doing exactly what a customer-centred bank should do for the real economy: Erste Group uses the money collected from depositors to make loans to people who wish to buy a home for their families or finance companies that make investments, pursue ideas and create jobs. Any material deviation from this principle that may have occurred in the past has been rigorously eliminated by reducing activities that are not part of the bank's core business or by realigning the core business. Consequently, Erste Group no longer grants for instance foreign currency loans to customers who do not have corresponding foreign currency income or are not hedged against currency volatility by other instruments. In practice, this means that Erste Group does not provide foreign currency loans to private individuals on any significant scale in Austria and in the countries of Central and Eastern Europe. The only exceptions from this rule are Croatia and Serbia, where the euro is widely used as a currency and customers not only take out loans in euro but also hold a significant part of their deposits in euro.

The same sustainable approach is employed in funding and capital planning. Due to Erste Group's strong deposit business, the bank has an altogether excellent funding position. That situation varies, however, at the level of individual entities: while the subsidiaries in the Czech Republic and Slovakia boast aggregate deposit surpluses, the reverse is true in Hungary and Romania, mainly due to the existence of legacy foreign currency loan portfolios. Therefore, it is the bank's aim to rebalance deposits and loans in the course of time, and in particular in each of the relevant currencies. Hence, Erste Group's strategy is in line with regulatory efforts to promote local deposits and funding on local capital markets.

THE STRATEGY IN DETAIL

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

Retail business

Erste Group's key business is the retail business, covering the entire spectrum from lending, deposit and investment products to current accounts and credit cards. This is where the largest part of the bank's capital is tied up, where the bank generates most of its income and funds the overwhelming part of its other core activities by drawing on its customers' deposits. The retail business represents Erste Group's strength and is the bank's top priority when developing its product offer. This includes Erste Group's focus on new technological developments and innovations such as mobile and internet banking that enable the bank to meet its customers' expectations even more effectively.

Erste Group's core competence in retail banking has historical roots. In 1819, wealthy Viennese citizens donated funds to establish Erste Group's predecessor, the first savings bank in Central Europe. It was their aim to bring basic banking services such as safe savings accounts and mortgage loans to wide sections of the population. Today, the bank serves a total of 16.5 million customers in its markets and operates more than 2,800 branches. In addition, Erste Group uses digital distribution channels such as internet and mobile banking. Wealthy private clients, trusts and foundations are served by the bank's private banking staff and benefit from services that are tailored to the needs of this target group.

Retail banking is attractive to Erste Group for a number of reasons: It offers a compelling business case that is built on market leadership, an attractive risk-reward profile and the principle of self-funding as well as on a comprehensive range of products that are simple and easy to understand and provide substantial cross-selling potential. Only a retail bank with an extensive distribution network is able to fund loans in local currency mainly from deposits made in the same currency. Erste Group is in such a position of strength. In short, Erste Group's retail banking model supports sustainable and deposit-funded growth even in economically more challenging times.

Another positive factor is diversification of the retail business across countries that are at different stages of economic development, such as Austria, the Czech Republic, Romania, Slovakia, Hungary, Croatia and Serbia.

Corporate business

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

Catering to their different requirements, Erste Group serves small and medium-sized enterprises locally in branches or separate commercial centres while multinational groups are serviced by the Group Corporate and Investment Banking division. This approach permits Erste Group to combine industry-specific and

product expertise with an understanding of regional needs and the experience of the bank's local customer relationship managers.
In view of the regulatory reform efforts commonly referred to as Basel 3, advising and supporting the bank's corporate customers in capital market transactions is becoming increasingly important. As these activities form an integral part of Erste Group's corporate business, the bank is also focused on becoming the leading investment bank in its core markets.

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

The capital markets business serves the needs of Erste Group's retail and corporate customers as well as government entities and financial institutions. Due to Erste Group's organisation across countries and its strong network in Central and Eastern Europe, the bank has a thorough understanding of local markets and customer needs. In Erste Group's capital markets business, too, the bank concentrates on key markets of the retail and corporate business: Austria, the Czech Republic, Slovakia, Romania, Hungary, Croatia and Serbia. For institutional customers, specialised teams have been established in Germany, Poland, Turkey as well as in London, Hong Kong and New York, which offer these customers a tailor-made range of products.

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

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

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

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

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

REGULATORY CHANGES IN BANKING

In the wake of the financial crisis, regulatory requirements placed on banks increased significantly with a view to establishing a framework for a more resilient global financial system. It has become the clear regulatory aim to prevent tax-payers from having to bail out financial institutions in future. To this effect, a new international regulatory framework for banks (Basel 3) has been developed by the Basel Committee on Banking Supervision. The new regime aims to strengthen the regulation, supervision and risk management of the banking sector. Within the European Union the Basel 3 legal framework is implemented through the Capital Requirements Directive (CRD IV) and the Capital Requirements Regulation (CRR).

These reform measures aim to improve the banking sector's ability to absorb any shocks arising from financial or economic stress, to strengthen the sector's transparency and disclosure requirements and to improve risk management and governance. Capital requirements have been tightened and minimum liquidity requirements have been introduced. To tackle potential weaknesses in the loss-absorbing capacity of banks additional capital buffers (capital conservation buffer, anti-cyclical buffer) are to be introduced in various steps. In addition, the quality of equity and own funds instruments follows stricter rules.

As of year-end 2013, Erste Group reported a fully-loaded Basel 3 CET 1 (common equity tier-1) ratio of 10.8% and a solvency ratio of 16.3%. Despite increasing regulatory pressure in general and additional burdens on the capacity of retaining earnings as a result of bank levies in Austria, Hungary and Slovakia, Erste Group remained well capitalised and boasted an excellent liquidity position enabling it to proactively serve clients' needs.

LONG-TERM GROWTH TRENDS IN CENTRAL AND EASTERN EUROPE

While the financial and economic crisis has slowed the economic catching-up process across the countries of Central and Eastern Europe, the underlying convergence trend continues unabated. This is on the one hand due to the fact that the region has to make up for almost half a century of Communist mismanagement of the economy and on the other hand due to the fact that banking activities were largely non-existent during that time. In addition, most countries of Central and Eastern Europe have human resources that are at least equivalent to those of Western European countries but do not need to struggle with the unaffordable costs in the long term of the western welfare states and have labour markets that are considerably more flexible. These advantages are complemented by – on average – highly competitive export industries that benefit from wage costs that are low relative to workforce productivity and from investor-friendly tax and welfare systems.

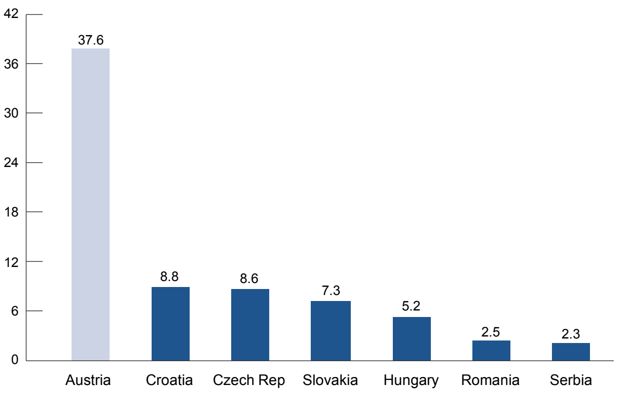
Over the upcoming 15 to 20 years, these countries are therefore expected to experience much faster growth than the countries of Western Europe, even though periods of rapid expansion may alternate with times of economic stagnation or even setbacks on this long-term path of sustainable growth.

BANKING GROWTH IN CENTRAL AND EASTERN EUROPE

In many of the countries in which Erste Group operates, modern banking services – with the exception of deposit-taking – were largely unknown until some ten to fifteen years ago. On the lending side, this was due to high nominal and real interest rates and also to disposable incomes that did not support household credit growth. In addition, a healthy competitive environment was lacking due to extensive state ownership. All this has changed since the late 1990s and the beginning of this century. In most of the countries, interest rates are in a process of convergence or have already converged to euro levels. Disposable incomes have risen strongly on the back of growing gross domestic products. Most formerly state-owned banks have been sold to strategic investors that have fostered product innovation and competition. Despite the recent economic slowdown and potential temporary negative impacts on the banking markets in Central and Eastern Europe, these factors will remain the driving force behind future development.

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

Customer loans/capita in CEE (2013) in EUR thousand



Source: Local central banks, Erste Group

CONTINUING DEVELOPMENT OF OUR CUSTOMER BUSINESS

Erste Group regards Central and Eastern Europe as a region offering above-average long-term growth potential in traditional banking as well as in wealth management. The Group has established a presence in all major countries in the eastern part of the European Union, with the exception of Poland. Erste Group's local banking subsidiaries are market leaders in the Czech Republic, Slovakia and Romania, and among the top three banks in Hungary and Croatia; it has a small market share in Serbia. Erste Group's future development will be driven mainly by organic growth, with the possible exception of an expansion into Poland in the medium term.

Management report

ECONOMIC ENVIRONMENT IN 2013

The global economy continued its recovery in 2013 with the world's major economies seeing significantly different growth patterns. Emerging markets and developing economies have continued to outgrow the industrialised countries. The single most important factor that shaped economic developments around the world was loose monetary policies throughout the year. These relaxed policies, supported by very limited inflationary pressure in advanced economies, were carried out by most of the major central banks of the world such as the Federal Reserve (Fed), the Bank of England, the Bank of Japan and the European Central Bank. The global macroeconomic developments in 2013 were also characterised by the Cyprus crisis in the first quarter of 2013, which fuelled discussions on the introduction of a European Single Resolution Mechanism for distressed banks and on the structure of deposit protection schemes. Further significant economic events comprised in particular the political debate in the budget dispute in the United States concerning the increase of the debt ceiling for the fiscal year 2014 (fiscal cliff) after drawn-out negotiations between Republicans and Democrats, the Federal Reserve's decision to wait with starting the tapering until December, parliamentary elections in Germany, presidential elections in Iran, volatile oil prices throughout the year impacted by events in the Middle East and declining agricultural and gold prices. All of these events shaped the global economy during 2013, which grew by 3.0% in 2013 after 3.2% in 2012.

In the wake of the global developments, a broad-based recovery commenced in the eurozone. This recovery was partly driven by export growth not only in Germany, Europe's leading economy, but also in other European countries and even on the periphery. Companies became more optimistic as a result of stronger demand and considered investments and new hiring again. Stabilisation became visible in most of the eurozone labour markets, which also contributed to improved domestic demand. The European Central Bank cut the key interest rate in two steps to a record low of 0.25% by the end of the year. The US economy developed positively again in 2013, with GDP growth of 1.9% and corresponding job creation at around 180,000 non-farm payrolls per month. The reduction in fiscal spending and the tax increases, which dampened consumer demand, was absorbed leading to an improvement in business confidence. Exports and investments also contributed to growth in the US. In addition, the Fed's asset purchase programme contributed to a strong revival of the housing market with rising sales and house prices. It was not until December that the Fed announced the reduction of its monthly purchases of US government bonds and mortgage securities totalling USD 85 billion by USD 10 billion. It also confirmed, however, the low interest rates as long as the unemployment rate remained above 6.5%. Economic growth in Asia continued to outperform that of Europe and the US, still driven mainly by China and India. Japan was clearly a bright spot and continued its recovery from its post-tsunami setback of 2011.

The Austrian economy continued to outperform the eurozone in 2013, with GDP growth of 0.3%. The country remained one of the most successful economies in the European Union with its robust and well-balanced structure, flexible and educated workforce, stable institutional frame-work and strong international competitiveness. Exports performed well, with Germany remaining the key export market with a share of more than 30%. Domestic demand also contributed to growth. The unemployment rate remained at 4.9%, one of the lowest in Europe. Measured in terms of GDP per capita at approximately EUR 37,000, Austria remained one of the eurozone's most prosperous countries in 2013. Parliamentary elections were held in September 2013, with the Social Democratic Party together with the People's Party achieving a parliamentary majority. As a result, stable and predictable political conditions prevailed.

Economic growth in Central and Eastern Europe improved in 2013. Within the region, GDP growth rates varied from 3.5% in Romania to -1.3% in the Czech Republic. Across the region, growth was mainly driven by the export sector; however, higher consumer confidence also resulted in improved domestic demand. The car industry, which was one of the main contributors to exports, had another great year supporting the Czech, Slovak, Romanian and Hungarian economies. Agriculture also had a very successful year and in particular had a pronounced impact on the Romanian economy, where this sec-tor plays a more important role for the overall economy than in other CEE countries. Investments into the region continued to flow, with Hungary being the only exception due to its unorthodox and unpredictable political decisions. In order to promote growth, national banks in the region continued to cut base rates throughout the year. As a result, benchmark interest rates remained at very low levels, reaching new record lows in Romania and Hungary. In the Czech Republic, the base rate remained at five basis points throughout the year. With the exception of the Czech koruna, which weakened after the National Bank announced that it would intervene to keep the currency at around 27 versus the euro, other currencies such as the Romanian lei or the Hungarian forint remained relatively stable in 2013.

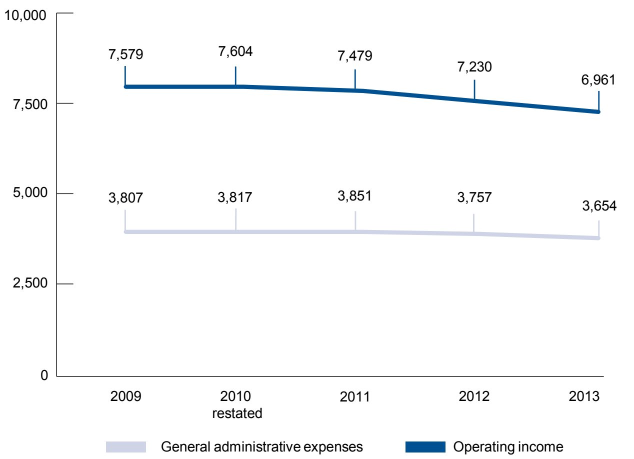
PERFORMANCE IN 2013

Acquisitions and disposals in Erste Group in 2013 did not have any significant impact and therefore no effects on the rates of changes stated below. Details are provided in the notes to the consolidated financial statements.

Overview

Despite a reduction in operating costs, the **operating result** declined to EUR 3,307.9 million in 2013 (-4.7% versus EUR 3,472.8 million in the financial year 2012) due to lower operating in-come.

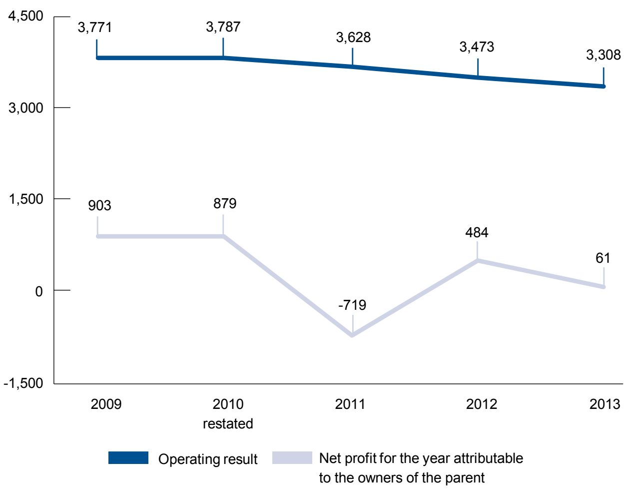
Operating income and operating expenses in EUR million



Operating income amounted to EUR 6,961.3 million in 2013 (2012: EUR 7,229.5 million). The 3.7% decline was mainly due to lower net inter-est income (-7.2% to EUR 4,858.1 million), which was not fully offset by rises in net fee and commission income (+5.2% to EUR 1,810.0 mil-lion) and in the net trading result (from EUR 273.4 million in 2012 to EUR 293.2 million). **General administrative expenses** were down 2.7% to EUR 3,653.5 million (2012: EUR 3,756.7 million). This resulted in a **cost/income ratio** of 52.5% (2012: 52.0%).

Net profit attributable to owner of the parent decreased from EUR 483.5 million to EUR 61.0 million.

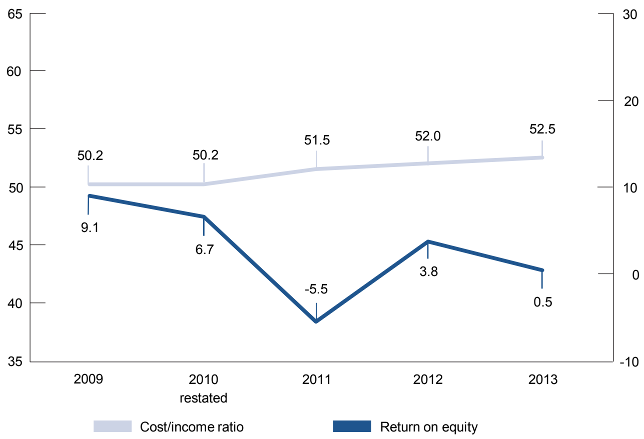
Operating result and net profit/loss for the year attributable to owners of the parent in EUR million



Cash return on equity, i.e. return on equity adjusted for non-cash expenses such as goodwill impairment and straight-line amortisation of customer relationships, stood at 3.4% (reported ROE: 0.5%) in 2013 versus 7.6% (reported ROE: 3.8%) in 2012.

Cash earnings per share for the financial year 2013 amounted to EUR 0.89 (reported EPS: EUR -0.06) versus EUR 2.17 (reported EPS: 0.87) in 2012.

Key profitability ratios in %



Total assets, at EUR 199.9 billion, were 6.5% lower than at year-end 2012. Risk-weighted as-sets declined by EUR 7.4 billion to EUR 97.9 billion.

The **solvency ratio** improved to 16.3% as of 31 December 2013 (year-end 2012: 15.5%) and was well above the legal minimum requirement of 8.0%. The **core tier 1 ratio** (excluding hybrid capital pursuant to section 23 (4a) and (4b) of the Austrian Banking Act) relating to total risk and as defined by Basel 2.5 was 11.4% as of 31 December 2013.

Dividend

The management board will propose to the annual general meeting to pay a dividend of EUR 0.20 (2012: EUR 0.40) per share for the financial year 2013 and the pro rata participation capital dividend.

Outlook

In order to ensure a like-for-like comparison, all P&L figures provided in this outlook statement are adapted in line with EBA FINREP reporting standards to be applied from Q1 2014. The full dataset of the adapted 2013 figures has been published in a release dated 28 February 2014.

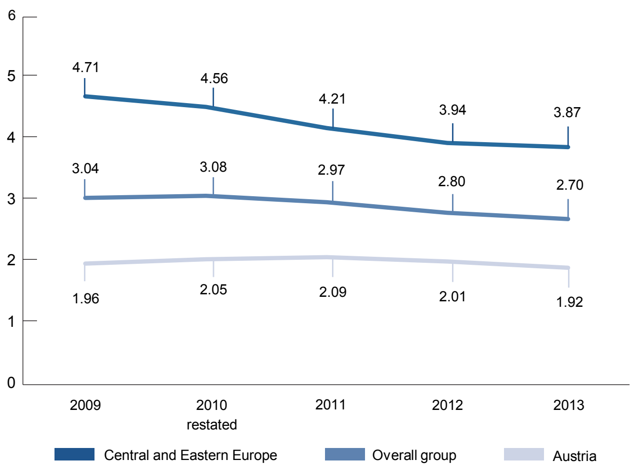
For 2014, Erste Group has planned with a stable operating environment in its markets in Austria and Central and Eastern Europe: while economic growth is forecast to average 1.7% (Erste Group Research), interest rates are expected to remain persistently low or fall even further in certain geographies. Against this backdrop, Erste Group anticipates a slow start to the year but aims to keep operating profit stable (± 2%) at about EUR 3.1 billion. Net customer loans are expected to remain equally stable (± 2%) at about EUR 120 billion. In light of the upcoming ECB Asset Quality Review, Erste Group does not expect a decline in risk costs beyond 5% or to about EUR 1.7 billion. Erste Group does not anticipate recognising deferred tax assets in the Austrian tax group in 2014, which will result in a significantly elevated tax rate of about 40%. The decline in banking taxes from EUR 311 million in 2013 to about EUR 270 million in 2014 should positively affect net profit.

ANALYSIS OF PERFORMANCE

Net interest income

Net interest income declined from EUR 5,235.3 million in 2012 to EUR 4,858.1 million in 2013, mainly due to the low interest rate environment and continuing subdued credit demand. Accordingly, the net interest margin (net interest income as a percentage of average interest-bearing as-sets) contracted from 2.80% to 2.70%.

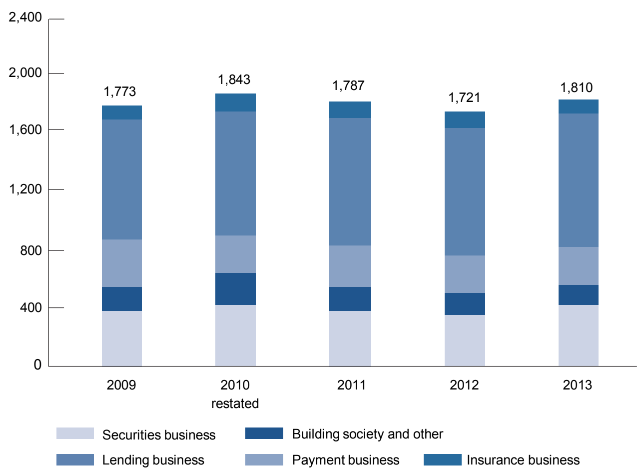
Net interest margin in %



Net fee and commission income

Net fee and commission income grew primarily on the back of improvements in payment transfers and in the securities business from EUR 1,720.8 million in 2012 to EUR 1,810.0 million in 2013.

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



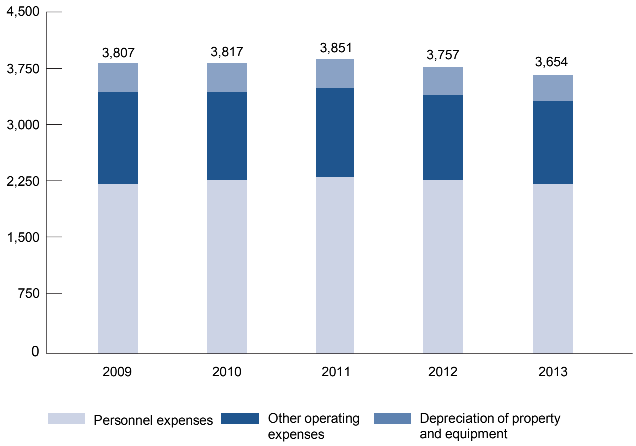
Net trading result

The net trading result improved from EUR 273.4 million to EUR 293.2 million in 2013, mainly as a result of a significant improvement in foreign exchange trading.

General administrative expenses

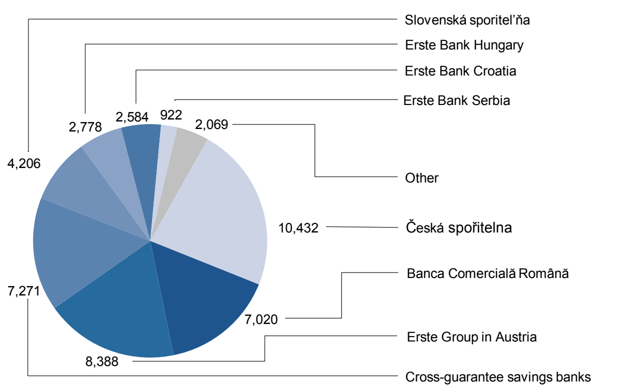
General administrative expenses declined by 2.7% from EUR 3,756.7 million to EUR 3,653.5 million (currency-adjusted: -2.1%).

General administrative expenses, structure and trend, in EUR million



Personnel expenses were down 2.3% (currency-adjusted -1.7%) from EUR 2,284.1 million to EUR 2,232.4 million. Further cost savings were achieved in **other administrative expenses**, which dropped by 3.4% (currency-adjusted: -2.5%) from EUR 1,106.1 million to EUR 1,068.8 million (mainly due to lower marketing and office-related expenses), and in **depreciation and amortisation**, which was down 3.9% (currency-adjusted: -3.1%) from EUR 366.5 million to EUR 352.3 million.

Headcount as of 31 December 2013



The **headcount** declined by 7.5% versus year-end 2012 to 45,670 employees. This was mainly due to successful restructuring measures in the Czech Republic and Romania and the sale of Erste Bank Ukraine.

Operating result

Driven by the decline in net interest income, **operating income** decreased by 3.7% to EUR 6,961.3 in 2013 from EUR 7,229.5 million in 2012. At the same time, **general administrative expenses** were reduced by 2.7% from EUR 3,756.7 million to EUR 3,653.5 million. This led to an **operating result** of EUR 3,307.9 million (2012: EUR 3,472.8 million).

Risk provisions

Risk provisions (i.e. the balance of the allocation and release of provisions for the lending business together with the costs of direct loan write-offs offset by income received from the recovery of loans already written off) decreased by 10.9% from EUR 1,980.0 million in 2012 to EUR 1,763.4 million. This was mostly attributable to a significant decline in retail and SME risk costs (in particular Romania and further improvements of the risk situation in the Czech Republic and Slovakia) which more than offset the deterioration in the commercial real estate business and in the large corporate business. In the financial year 2013, risk costs in relation to the average volume of customer loans were 136 basis points (2012: 148 basis points).

Other operating result

The other operating result deteriorated from EUR -724.3 million by EUR 357.6 million to EUR -1,081.9 million in 2013. The better result in 2012 had been mainly attributable to one-off income in the amount of EUR 413.2 million from the buyback of tier 1 and tier 1 instruments.

Goodwill write-downs declined to EUR 383.0 million (EUR 283.2 million in Romania, EUR 52.2 million in Croatia and EUR 47.6 million in Austria) versus EUR 514.9 million (EUR 469.4 million in Romania, with the remainder mainly in Austria) in 2012.

Other taxes rose from EUR 269.1 million to EUR 329.7 million, comprising mostly banking taxes. A large proportion of these – EUR 103.4 million (2012: EUR 47.3 million) – was levied in Hungary and comprised the following items: the regular financial transaction tax introduced in 2013 and subsequently doubled (EUR 31.1 million), an extraordinary financial transaction tax (EUR 16.3 million), banking tax for the year of 2013 (EUR 49.0 million), and the programme subsidising repayment of foreign-currency loans (EUR 7.0 million). The item "other taxes" also included banking levies charged in Austria in the amount of EUR 166.4 million (2012: EUR 165.2 million) and in Slovakia in the amount of EUR 41.2 million (2012: EUR 31.5 million).

In 2013, this item was also negatively impacted by EUR 76.6 million due to the sale of the Ukrainian subsidiary, mainly the negative currency translation effect related to capital and goodwill which was recycled through the income statement. This booking did not impact the capital position.

The other operating result also included straight-line amortisation of intangible assets (i.e. customer relationships) of EUR 65.2 million (2012: EUR 69.2 million) as well as deposit insurance contributions of EUR 77.2 million (2012: EUR 80.7 million).

Result from financial instruments

The result from all categories of financial instruments declined from EUR 32.7 million in 2012 to EUR -88.3 million in 2013. This was mainly due to negative valuation effects in the fair-value and available-for-sale portfolios (credit spread tightening of own issues, write-downs on securities and losses on the sale of securities).

Pre-tax profit/loss

The pre-tax profit for 2013 amounted to EUR 374.3 million, reflecting negative one-off effects, versus EUR 801.2 million in 2012, which had benefited from – on balance – positive extraordinary effects.

Taxes on income

The taxes on income line benefited from a positive one-off effect of EUR 127.7 million attributable to the release of a deferred tax liability in Romania. The deferred tax liability resulted from the difference between local regulatory and IFRS loan loss provisions upon transition to IFRS accounting.

In 2013, Erste Group only partly recognised deferred tax assets for tax losses carried forward, as it is unlikely that they will be realised within a reasonable time frame. This is directly related to the persistently high banking tax burden on the Austrian tax group as well as goodwill write-downs over the past years. The relatively reduced recognition of deferred tax assets in the Austrian tax group resulted in a significant increase in the tax rate.

Net profit after minorities attributable to owners of the parent

The net profit after minorities declined from EUR 483.5 million in 2012, which had benefited from net positive extraordinary effects, due to the effects already explained, to EUR 61.0 million in 2013.

Tax situation

Pursuant to section 9 of the Austrian Corporate Tax Act ("KStG"), Erste Group Bank AG and its main domestic subsidiaries constitute a tax group. Due to the high proportion of tax-exempt income – particularly income from participating interests – and tax payments for the permanent establishments abroad, no Austrian corporate income tax was payable in fiscal year 2013. The current tax loss carried forward increased in 2013.

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 2013 the reported total income tax expense amounted to EUR 178.5 Mio (2012: EUR 170.2 Mio). The tax rate increased in 2013 to 47.7% (2012: 21.2%).

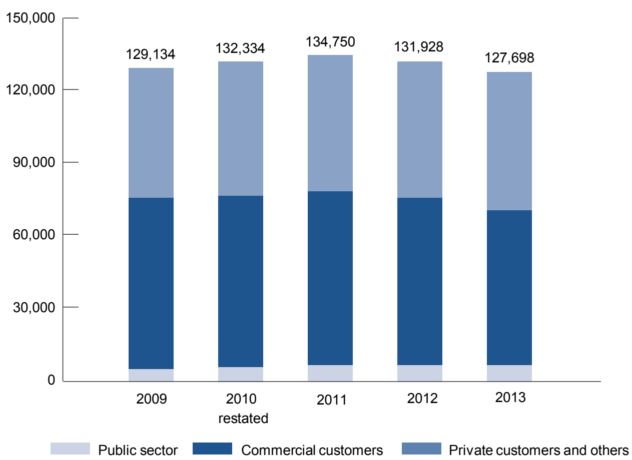
Balance sheet development

Total assets, at EUR 199.9 billion, were 6.5% lower than at year-end 2012. Risk-weighted assets declined by EUR 7.4 billion to EUR 97.9 billion.

Loans and advances to credit institutions, at EUR 9.1 billion as of 31 December 2013 were unchanged versus 31 December 2012.

Loans and advances to customers decreased from EUR 131.9 billion as of 31 December 2012 to EUR 127.7 billion. This was due to a decline in the lending business in Hungary and Romania, the deconsolidation of Erste Bank Ukraine and negative foreign currency translation effects primarily in relation to the Czech Republic.

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



Risk provisions increased from EUR 7.6 billion at year-end 2012 to EUR 7.8 billion at year-end 2013 due to additional allocations. The NPL ratio (non-performing loans as a percentage of loans to customers) stood at 9.6% as of 31 December 2013 (9.2% as of 31 December 2012). The NPL coverage ratio improved further from 62.6% to 63.1% at year-end 2013.

Investment securities held within the various categories of financial instruments were down 7.6% from EUR 42.1 billion at year-end 2012 to EUR 38.9 billion primarily due to a decline in the available-for-sale and held-to-maturity portfolios.

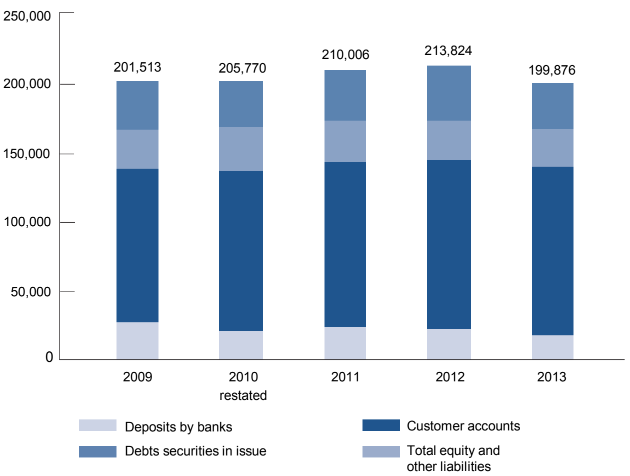
Customer deposits declined by 0.5% from EUR 123.1 billion as of 31 December 2012 to EUR 122.4 billion as of 31 December 2013.

At 104.3%, the **loan-to-deposit ratio** as of 31 December 2013 was lower than it had been as of 31 December 2012 (107.2%)

Debt securities in issue in particular bonds as well as mortgage and public sector covered bonds declined by 4.9% from EUR 29.4 billion to EUR 28.0 billion as of 31 December 2013, while subordinated liabilities were unchanged at EUR 5.3 billion.

Other liabilities, included in the line item sundry liabilities, declined from EUR 3.1 billion to EUR 2.7 billion as of 31 December 2013.

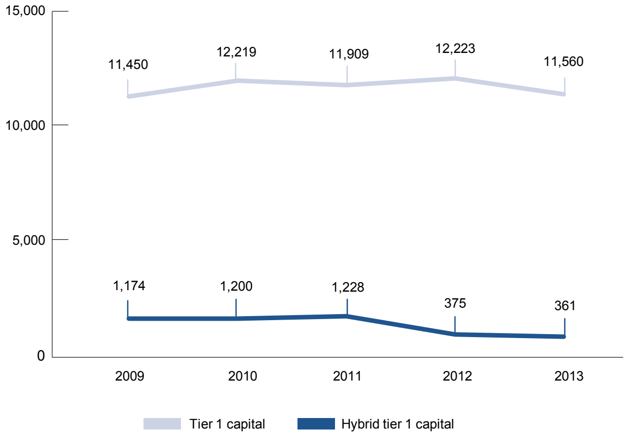
Balance sheet structure/liabilities and total equity in EUR million



Total **risk-weighted assets (RWA)** declined to EUR 97.9 billion as of 31 December 2013 from EUR 105.3 billion as of 31 December 2012, primarily due to the deconsolidation of the Ukrainian subsidiary, exposure reductions and the currency devaluation in the Czech Republic.

Following the redemption of the participation capital of EUR 1.76 billion in August 2013 and negative currency effects, Erste Group's **shareholders' equity** declined to EUR 11.3 billion as of 31 December 2013 from EUR 12.9 billion as of year-end 2012. The capital increase carried out in the third quarter of 2013 had a positive impact of EUR 660.6 million on this item. **Tier 1 capital** after the deductions defined in the Austrian Banking Act amounted to EUR 11.6 billion (year-end 2012: EUR 12.2 billion). Core tier 1 capital stood at EUR 11.2 billion (year-end 2012: EUR 11.8 billion).

Tier 1 capital under ABA and hybrid tier 1 capital in EUR million

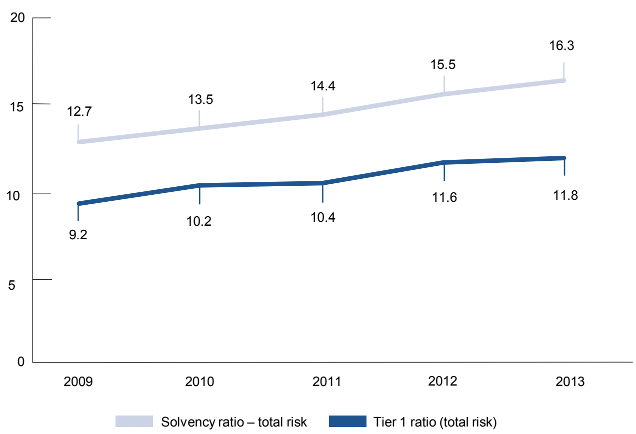


The **tier 1 ratio** (total risk) stood at 11.8% (year-end 2012: 11.6%). The **core tier 1 ratio** amounted to 11.4% as of 31 December 2013 (year-end 2012: 11.2%).

As of 2013, Erste Group has switched from Austrian GAAP to IFRS in the calculation of consolidated regulatory capital. Total eligible qualifying capital of the Erste Group credit institution group, as defined by the Austrian Banking Act, declined from EUR 16.3 billion as of 31 December 2012 to EUR 16.0 billion as of 31 December 2013 due to the early redemption of participation capital in August 2013.

The **solvency ratio** in relation to total risk (total eligible qualifying capital as a percentage of the assessment base for total risk pursuant to section 22 par. 1 Austrian Banking Act) was 16.3% as of 31 December 2013 (year-end 2012: 15.5%), well above the legal minimum requirement.

Solvency ratio and tier 1 ratio (total risk) in %



EVENTS AFTER BALANCE SHEET DATE

There were no significant events after the balance sheet date.

RISK MANAGEMENT

With respect to the explanations on substantial financial and non-financial risks at Erste Group as well as the goals and methods of risk management, we would like to draw the reader's attention to the information in the Notes 38 to the consolidated financial statements.

RESEARCH AND DEVELOPMENT

As Erste Bank Group AG does not conduct any independent and regular research for new scientific and technical findings and no upstream development work for commercial production or use, it does not engage in any research and development activities pursuant to section 243 (3) no. 3 UGB. In order to drive improvements for retail customers and in the ongoing services Erste Group Bank AG launched the Innovation Hub in 2012. Its purpose is to initiate and coordinate across-the-board initiatives with a strong focus on "real customer experiences". As a multidisciplinary team consisting of marketing, product and IT as well as design experts, the Innovation Hub is tasked with creating innovations and managing new programme initiatives.

CORPORATE SOCIAL RESPONSIBILITY

As one of the leading retail and corporate banks in Austria and the CEE region, Erste Group has committed itself to strict ethical standards for all the activities it carries out in its markets. Almost 200 years ago, the very founding concept of Erste österreichische Spar-Casse already embraced the idea of contributing to the common good. It goes without saying that Erste Group acts responsibly towards customers, employees, investors and communities. This is why Erste Group has brought in a wide variety of measures.

Erste Group has introduced the Know-Your-Customer (KYC) policy in line with Corporate Governance Standards to prevent illegal cash flows. The Group has additionally adapted its internal corruption and bribery rules to these standards.

Commitment to society

Erste Group has always supported social, cultural, educational and sports projects. Parts of the profit made in Central and Eastern Europe go directly into projects in the region within the framework of Erste Group's *Mehr*WERT sponsorship programme.

Social activities

Erste Group's social commitment is marked by its long-term cooperation agreements with local and international organisations. These cooperation agreements focus on combating poverty through providing quick, direct assistance to people in difficult life situations. Most notably, Erste Bank Oesterreich supports *Caritas* projects, such as the annual *Inlandshilfe* and the Eastern Europe Campaigns. In Serbia alone, about 100 projects and initiatives were supported through partial financing in 2013. In Slovakia, Erste Group helps create new jobs in sheltered workshops and supports organisations for disabled people. Scholarships have been given to young people from children's homes for the sixth year in a row, as part of the *Durch Bildung zum Erfolg* (Success through Education) project. Special NGO seminars teaching NGO managers more efficient management methods are offered in the Czech Republic. The Group's social activities in Hungary focus on helping disadvantaged, young people. Supported organisations include SOS Children's Villages and the Maltese Charity Service.

Arts and culture

Erste Group supports partnerships between cultural and social institutions to carry out joint ideas and strategies within the framework of its partnership programmes. Erste Group also provides financial support for numerous cultural projects in the countries in which it operates. Erste Bank Oesterreich is the main sponsor of *Jeunesse*, a programme focusing on the support of young artists and the development of innovative concepts for sharing music. Erste Group also cooperates in this field with Caritas to make music more accessible to socially disadvantaged people. In Romania, Erste Group supports the *International Transylvanian Film Festival* and other important cultural events. Music festivals and young talent are also promoted in Slovakia, the Czech Republic and Hungary.

Financial education

One prerequisite for stable economic growth and long-term improvements in living standards is the accessibility of adequate financial and business know-how for as many people as possible, so that they are in a position to secure and improve their economic situation. Thus, Erste Group has initiated a number of activities to give people access to this know-how.

The video series *A Cup of Coffee* with Rainer Münz was produced in German and English in 2013. These approximately 50 short films provide answers to current economic questions and provide the basics for financial advice. Initially produced for in-house use, the videos are now available to the public via Erste Group's website and YouTube. The videos were given an official recommendation by the Federal Ministry of Economy, Family and Youth at the end of last year.

Further services are aimed at younger people, but also teachers. The website www.geldundso.at for instance was particularly designed for teenagers.

Corporate volunteering

Erste Group regards itself as an institution founded on the principle of social responsibility that has developed into a modern bank. This is why the social engagement of employees is supported. The Time Bank initiative, launched in 2012, encourages employees to get involved in social projects in their free time and boasted 1,000 new members in 2013. Moreover, Erste Group's employees made an amazing effort to help the victims of the disastrous summer floods in 2013. The Group supports various projects across its units and encourages its employees to volunteer for social activities. Employees of Česká spořitelna, for example, get two days leave per year as part of the company's Charity Days to actively support social projects.

Customers

Erste Group puts customers and their interests at the centre of attention. Understanding the customers' needs is essential to provide the corresponding solution at the right time. The bank strives to build and maintain long-term relationships with its customers by offering appropriate and understandable products and advice. Erste Group's websites have received a new look and are now more user-friendly and equipped with responsive design. This means that the websites adapt to the device and screen size and, therefore, improve the usability. All webpages have been adapted to suit the needs of the visually impaired, who can now select between three font sizes. Many ATMs and ATM cards already carry information in Braille and each branch in Austria features at least one ATM with an inbuilt voice module.

The products and services offered undergo regular quality and sustainability checks to maintain the top product quality standards. In 2013 Erste Group introduced a special product approval process that examines each new product and service carefully before launch.

The branch network remains an important distribution channel, even though comprehensive and widely-used online-banking services are provided. Personal customer contact has remained an essential pillar for good customer relations. One of Erste Group's highest priorities is the continuous improvement of customer relations. As a result, customer experience is evaluated on an annual basis with the help of the Bank Market Monitor. Erste Group held its overall position across all markets and segments in 2013. The results in the Czech Republic, Croatia and Hungary improved in comparison to those of Erste Group's competitors. Erste Group is the clear market leader in Croatia and Serbia in terms of customer satisfaction.

Since 2012 all asset management units have been centralised under the umbrella of Erste Asset Management, committing to the UN's Principles of Responsible Investments (UNPRI). With the signing of the 2013 *Bangladesh Memorandum*, Erste Asset Management has committed itself not to invest in textile industry companies that infringe human or labour rights in the country they are based in or that have suppliers who infringe on these labour and human rights. Anticipating the trend for sustainable investments, Erste Asset Management launched in addition to its existing funds the Erste Responsible Emerging Corporate fund, which invests in Emerging Markets on a global basis, focusing on sustainability aspects.

Good.bee Credit, founded as a joint venture in Romania in 2009 and fully-owned by Erste Group since August 2013, provides development-oriented loans to SMEs. As of year-end 2013 2,800 loans, amounting in total to EUR 14 million have been granted. Erste Bank Serbia granted start-up loans to ten entrepreneurs through the programme *SupERSTEp*. The micro loan initiative in Austria was continued together with the Federal Ministry of Labour, Social Affairs and Consumer Protection. About 300 small enterprises have been founded with assistance from this service up to now.

Another fundamental project is the Group's cooperation with the Schuldnerberatung Wien (Vienna City debt advisory service). This jointly established initiative provides debt advisory service clients with the opportunity to open assisted accounts – a vital step towards an independent life.

Employees

Retaining experienced and committed employees is fundamental to the long-term success of every company. Toward that end, Erste Group – as one of the largest employers in the region – strives to maintain its position as an employer of choice for talented people in Central and Eastern Europe. This was confirmed in the 2013 employee engagement survey.

The most important strategic fields are: diversity and talent management, efficiency and competitiveness, as well as knowledge transfer and staff training. In 2013 a Diversity Manager was appointed, ensuring that all employees receive equal opportunities. The main targets are to increase the number of women in management positions, promote intercultural exchange and provide a healthy work-life balance for all staff members. Furthermore, a great number of diversity indicators were evaluated.

Providing training and development opportunities is among the top priorities. Thus, Erste Group has developed three Business Colleges: the Group Corporate & Markets College, the Risk Management College and the Compliance College. Compliance training is compulsory for all employees. Erste Group offers top university graduates an attractive start in the banking sector with its one-year Group Graduate Programme. This programme is also designed to recruit the best graduates possible.

The service range provided by the Erste Group Health Center was extended in 2013. In addition to comprehensive health checks and various prevention services it now includes the evaluation of psychological stress factors at the workplace

Environment

At Erste Group respect for the environment is as important as respect for individuals. Erste Group believes it is necessary to monitor the impact of its business activity and behaviour on the environment and recognise that commercial activities and environmental responsibility do not exclude but even complement each other. In 2013 the management board of Erste Group approved the Erste Group Environment, Energy and Climate Strategy as a basic principle for all the local banks. Its goal is to integrate environmental aspects into daily banking business. The Group also strives to reduce energy consumption, thermal energy, paper consumption and CO_2 emissions significantly by 2016.

The Erste Campus – the new headquarters, which has already received several sustainability prizes for its energy efficiency and sustainability during its building phase – should serve as a model project. Energy saving programmes are rolled out systematically in all countries. Involving employees in this programme and raising awareness has proved a great success and will likely reduce energy consumption by 10% over the next two years. Moreover, the change to LED lighting has proved very effective and will save a significant amount of energy. To keep greenhouse gas emissions at low levels, business trips were reduced due to investments in more progressive video conferencing systems. Without doubt, besides measures relating to energy, one of the greatest direct contributions that a financial institution can make to protect the environment is cutting paper consumption. Wherever technically possible, only 100% recycled paper is to be used, especially in the case of copy paper and all paper used for internal purposes. The increased importance of digital banking also contributes positively to paper consumption. Fewer printed statements are delivered by physical mail. In addition, Erste Group cooperates with numerous environmental NGOs – on the one hand, it supports these groups, and on the other it also learns from them how to continue its environmental strategy innovatively and successfully.

CAPITAL, SHARE, VOTING AND CONTROL RIGHTS

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

With regard to the statutory disclosure requirements, connected to the composition of the capital as well as the class of shares, a special reference is made to the note 30 in the consolidated financial statements.

As of 31 December 2013, DIE ERSTE oesterreichische Spar-Casse Privatstiftung, a foundation, held 20.65% of the shares in Erste Group Bank AG. This makes the foundation the largest shareholder.

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

Art. 15.4 of the Articles of Association concerning the appointment and dismissal of members of the Management Board and the Supervisory Board is not directly prescribed by statutory law: a three-quarter majority of valid votes cast and a three-quarter majority of the subscribed capital represented at the meeting considering the proposal are required to pass a motion for removal of Supervisory Board members.

The Articles of Association contain no restrictions in respect of voting rights or the transfer of shares. A holding period of one year applies with regard to the employee share ownership programmes (MSOP/ESOP).

Art. 19.9 of the Articles of Association concerning amendments to the Articles of Association contains a provision that is not prescribed directly by statutory law: amendments to the Articles of Association, in so far as they do not alter the business purpose, may be passed by simple majority of votes cast and simple majority of the subscribed capital represented at the meeting considering the amendment. Where higher majority votes are required by individual provisions of the Articles of Association, these provisions can only be amended with the same higher majority vote. Moreover, amendments to article 19.10 require a three-quarter majority of the votes cast and a three-quarter majority of the subscribed capital represented at the meeting considering the proposal.

Other information

In 2013, collaboration with savings banks was further strengthened by way of an additional agreement. The purpose of the agreement concluded in 2013 and effective as of 1 January 2014 is not only to broaden the regulatory options available to Erste Group Bank AG but also to ensure compliance with point 127 of Article 4 (1) (1) CRR and Article 113 (7) CRR with a view to allowing recognition of minority interests at consolidated level in acc. with Article 84 (6) CRR. Savings banks that are party to the agreement concluded in 2013 also include Allgemeine Sparkasse Oberösterreich, which forms an institutional protection scheme as defined under Article 113 (7) CRR with the other members of the Haftungsverbund.

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

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

Preferred co-operation between Erste Foundation and Caixabank S.A.

Erste Foundation and Caixabank S.A. (formerly Criteria CaixaCorp) have concluded a Preferred Partnership Agreement (PPA), by which Erste Foundation gives Caixabank, S.A. ("CaixaBank") the status of a friendly investor and preferred partner for participations. Under this agreement, CaixaBank is authorised to nominate a person for appointment to the Supervisory Board of Erste Group Bank AG. In return, CaixaBank has undertaken not to participate in a hostile takeover bid for Erste Group Bank AG's shares, and to give Erste Foundation the right of pre-emption and an option right to the Erste Group Bank AG shares held by CaixaBank. Under the PPA, Erste Foundation undertakes not to grant any rights to third parties that are more favourable than those granted to CaixaBank, except under certain circumstances. Erste Foundation's and CaixaBank's voting rights at Erste Group Bank AG remain unaffected by the PPA. The PPA has been approved by the Austrian Takeover Commission.

Haftungsverbund

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

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

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

Directors and officers insurance

Changes in controlling interests

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

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

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

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

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

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

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

Pursuant to the following provisions, members of the management board have the right to repurchase shares, where such a right is not prescribed by statutory law.

As per decision of the Annual General Meeting of 16 May 2013:

a) The management board is entitled to purchase up to 10% of the subscribed capital in treasury shares for trading purposes according to section 65 (1) no. 7 AktG (Austrian Stock Corporation Act). However, the trading portfolio of these shares may not exceed 5% of the subscribed capital at the end of any calendar day. The consideration for the shares to be purchased must not be less than 50% of the closing price at the Vienna Stock Exchange on the last trading day prior to the purchase and must not exceed 20% of the closing price at the Vienna Stock Exchange on the last trading day prior to the purchase. This authorisation is valid for a period of 30 months, i.e. until 15 November 2015.

b) The management board is entitled, pursuant to section 65 (1) no. 8 as well as (1a) and (1b) Stock Exchange Act and for a period of 30 months from the date of the resolution, i.e. until 15 November 2015, to acquire own shares of up to 10% of the subscribed capital, subject to approval by the supervisory board, with the option of making repeated use of the 10% limit, either at the stock exchange or over the counter, likewise to the exclusion of the shareholders' right to tender proportional payment. The authorisation may be exercised in whole or in part or in several instalments and in pursuit of one or several purposes. The market price per shall must not be below EUR 2.00 or above EUR 120.00. Pursuant to section 65 (1b) in conjunction with section 171 Stock Corporation Act, the management board is authorised, from the date of the resolution, i.e. until 15 May 2018, on approval by the supervisory board, to sell or use the company's own shares, also by means other than the stock exchange or a public offering for any purpose allowed by the law, particularly as consideration for the acquisition and financing of the acquisition of companies, businesses, business divisions or shares in one or several businesses in Austria or abroad to the exclusion of the shareholders' proportional purchase option. The authorisation may be exercised in whole or in part or in several instalments and in pursuit of one or several purposes. The management board is authorised to redeem own shares subject to the supervisory board's approval without requiring the Annual General Meeting to adopt any further resolution.

All sales and purchases were carried out as authorised at the Annual General Meeting.

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

Control environment

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

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

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

Risks relating to the financial reporting procedures

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

Controls

Group Accounting and Group Performance Management are responsible for group reporting and report to Erste Group's CFO. Erste Group issues group policies used for preparation of consolidated financial statements in accordance with IFRS. A summary description of the accounting process is provided in Erste Group' IFRS Accounting Manual. All transactions have to be recorded, posted and accounted for in accordance with the accounting and measurement methods set out in this manual. The management of each subsidiary is responsible for the implementation of group policies.

The basic components of the internal control system (ICS) at Erste Group are:

- Controlling as a permanent financial/business analysis (e.g. comparison of target and actual data between Accounting and Controlling) and control of the company and/or individual corporate divisions.
- Systemic, automatic control systems and measures in the formal procedure and structure, e.g. programmed controls during data processing.
- Principles of functional separation and the four-eye principle.

_ Internal Audit – as a separate organisational unit – is charged with monitoring all corporate divisions in an independent yet proximate manner, particularly with regard to the effectiveness of the components of the internal control system. The Internal Audit unit is monitored and/or checked by the Management Board, the Audit Committee/Supervisory Board, by external parties (bank supervisor, in single cases also by external auditor) as well as through audit's internal quality assurance measures (self-assessments, peer reviews).

Group Consolidation

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

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

Information and communication

Each year the annual report shows the consolidated results in the form of a complete set of consolidated financial statements. These consolidated financial statements are examined by an external auditor. In addition, the management summary (Group management report) provides verbal comments on the consolidated results in accordance with the statutory requirements. Throughout the year the Group produces consolidated monthly reports for Group management. Statutory interim reports are produced that conform to the provisions of IAS 34 and are also published quarterly in accordance with the Austrian Stock Corporation Act. Before publication, the consolidated financial statements are presented to senior managers and the Chief Financial Officer for final approval and then submitted to the Supervisory Board's Audit Committee.

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

Responsibilities of Internal Audit

Internal Audit is in charge of auditing and evaluating all areas of the bank based on risk oriented audit areas (according to the annual audit plan as approved by the Management Board and reported to the Audit Committee). Main focus of audit reviews is to monitor the completeness and functionality of the internal control system. Internal Audit has the duty of reporting its findings to the Group's Management Board, Supervisory Board and Audit Committee several times within one year.
According to section 42 BWG, Internal Audit is a control body that is directly subordinate to the Management Board. Its sole purpose is to comprehensively verify the lawfulness, propriety and expediency of the banking business and banking operation on an on-going basis. The mandate of Internal Audit is therefore to support the Management Board in its efforts to secure the bank's assets and promote economic and operational performance and thus in the Management Board's pursuit of its business and operating policy. The activities of Internal Audit are governed in particular by the currently applicable Rules of Procedure, which were drawn up under the authority of all Management Board members and approved as well as implemented by them. The Rules of Procedure are reviewed on a regular basis and whenever required, and adapted should the need arise.

Audit activities of Internal Audit

In its auditing activities, Internal Audit puts a special focus on:
_ operating and business areas of the bank;
_ operating and business processes of the bank;
_ internal bank standards (organisational policies, regulations on the division of powers, guidelines, etc.) as well as operating instructions, also with regard to their compliance, up-todateness and on-going updates;
_ audit areas stipulated by the law, such as the material accuracy and completeness of notifications and reports to the Financial Market Authority and Oesterreichische Nationalbank or the annual audit of rating systems and their effectiveness.

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

Vienna, 28 February 2014

Management board

Andreas Treichl mp
Chairman

Franz Hochstrasser mp
Vice Chairman

Andreas Gottschling mp
Member

Herbert Juranek mp
Member

Gernot Mittendorfer mp
Member

Segments

INTRODUCTION

The segment report of Erste Group complies with IFRS presentation and measurement requirements and shows the results of Erste Group's reportable segments. It is based on IFRS 8 - Operating Segments, which adopts the management approach. Accordingly, segment information is prepared on the basis of internal reporting information that is regularly reviewed by the chief operating decision maker, i.e. the management board of Erste Group, to assess the performance of the reportable segments and to make decisions regarding the allocation of resources.

The segment report 2013 consists of four reportable segments that reflect Erste Group's internal management reporting systems: Retail & SME, Group Corporate & Investment Banking, Group Markets and Group Corporate Center.

The Retail & SME segment comprises the business activities that are in the responsibility of the retail and corporate network across Erste Group's geographical operations focusing on local customer business. To improve transparency and in accordance with the geographical presence of Erste Group's banking and other financial institutions, the Retail & SME segment is divided into the geographical areas of the core markets Austria and Central and Eastern Europe. The geographical area Austria is further split into Erste Bank Oesterreich (including majority-owned participations) and the remaining savings banks consolidated under the cross-guarantee system (Haftungsverbund). The geographical area CEE consists of the retail and SME business activities in the Czech Republic, Romania, Slovakia, Hungary, Croatia, Serbia and Ukraine (sold as of 29 April 2013).

The Group Corporate & Investment Banking (GCIB) segment includes Erste Group's large corporate business, the commercial real estate business – especially of Erste Group Bank AG – and Erste Group Immorent AG, equity capital markets (from the second quarter of 2012 onwards), the investment banking activities in CEE and the International Business unit (covering all investment and lending activities outside Erste Group's core markets, i.e. the branch offices in London, Hong Kong, New York, Stuttgart and Berlin).

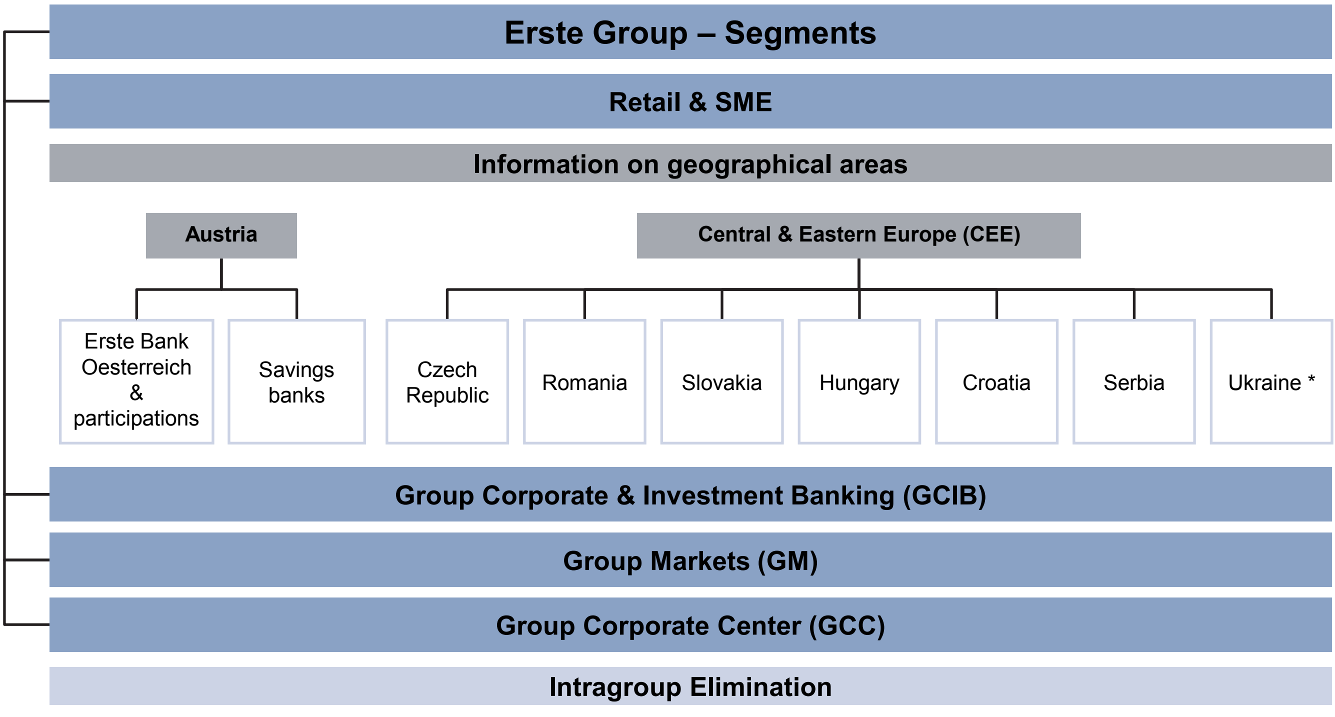
The Group Markets (GM) segment comprises the divisionalised business units Group Treasury and Group Capital Markets (except Equity Capital Markets, which has been allocated to the segment GCIB from the second quarter of 2012 onwards) and includes the treasury activities of Erste Group Bank AG, the CEE subsidiaries, the foreign branch offices as well as the business from Erste Asset Management.

The Group Corporate Center (GCC) segment mainly comprises all non-core and centrally managed business activities. These include internal service providers for the Group (such as facility management, IT and procurement) and the Asset and Liability Management of Erste Group Bank AG. Other components of this segment include the banking taxes paid by Erste Group Bank AG and impairments on participations.

The segment structure is aligned with Erste Group's management approach. This leads to a somewhat lower Group contribution from the CEE subsidiaries (the geographical segments), as part of their local results are allocated, in line with the management approach, to the GCIB and GM segments.

Intragroup Elimination is not defined as a segment as such but is the reconciliation to the consolidated accounting result.

Segment reporting structure at Erste Group



* Due to the deconsolidation following the sale of Erste Bank Ukraine, only the results of the first three months are included in 2013

Retail & SME

The Retail & SME segment comprises the business activities that are in the responsibility of the retail and corporate network across Erste Group's geographical operations focusing on local customer business. Targeted customers are mainly private individuals, micro businesses, small and medium-sized enterprises, free professions and public sector companies. According to the geographical presence of Erst Group's banking and other financial institutions, the Retail & SME segment is divided into the geographical areas of the core markets Austria and Central and Eastern Europe. The geographical area Austria is further split into Erste Bank Oesterreich (including majority-owned participations) and the remaining savings banks consolidated under the cross-guarantee system (Haftungsverbund). The geographical area CEE consists of the retail and SME business activities in the Czech Republic, Romania, Slovakia, Hungary, Croatia, Serbia and Ukraine (sold as of 29 April 2013).

AUSTRIA

Economic review

Following gradual signs of recovery in the second half of the year, Austria posted GDP growth of 0.3% in 2013. The Austrian economy is export driven. It owes its resilience to broad diversification, a well-balanced mix of industries and strong international competitiveness. With a share of approximately 30%, Germany remained Austria's key export market. Domestic demand strengthened but was still relatively weak despite improvements in business and consumer sentiments. Neither the low interest rate environment nor the solid corporate liquidity led to a significant increase in investments. Consumption remained subdued as household incomes were contracting in real terms. The labour market proved again to be robust. While the unemployment rate increased from 4.4% to 4.9% on the back of an increasing labour force, it remained the lowest in the European Union. At a GDP per capita of around EUR 37,100, Austria was again one of the wealthiest countries in the European Union.

The rating agencies Moody's and Fitch continued to rank Austria as one of the highest-rated countries worldwide with an AAA rating and a stable outlook based in particular on its competitive and diversified economy, social and political stability and the prudent management of fiscal resources, both now with outlook stable. S&P affirmed its AA+ rating with a stable outlook on continuing fiscal consolidation and a resilient economy.

Albeit increasing, to 74.6% of GDP, government debt was significantly lower than the eurozone average of 96%. In 2013, the general government budget benefited from one-off effects, namely revenues from the telecommunications multiband auction and a tax agreement with Switzerland. On the other hand, Hypo Alpe-Adria-Bank International AG has continued to negatively impact the fiscal situation. The overall financial sector support – mainly transfers to partially or fully nationalised banks – has been moderate to date by international comparison, at approximately 3.4% of GDP. The budget deficit was 2.3% after 2.5% in 2012.

Consumer price inflation slowed down to 2.0% (compared to 2.6% in 2012) mainly due to declining energy and food prices. The European Central Bank continued its low-interest rate policy and cut the key lending rate to 0.25% in 2013.

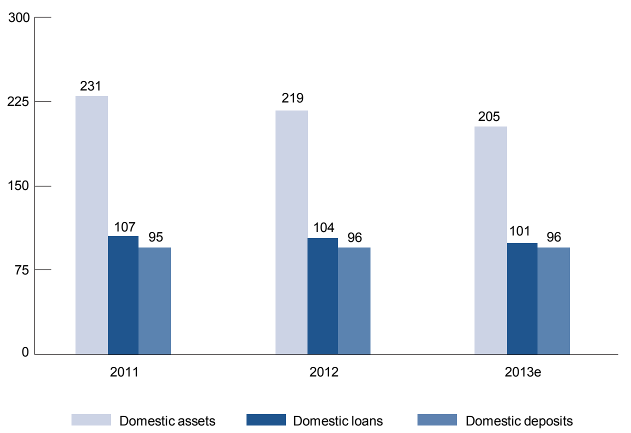
Key economic indicators – Austria	2010	2011	2012	2013e
Population (ave, million)	8.4	8.4	8.4	8.5
GDP (nominal, EUR billion)	286.4	300.7	307.0	314.6
GDP/capita (in EUR thousand)	34.2	35.8	36.5	37.1
Real GDP growth	2.1	2.7	0.9	0.3
Private consumption growth	1.7	0.7	0.5	-0.1
Exports (share of GDP)	38.2	40.5	40.2	40.8
Imports (share of GDP)	39.7	43.6	43.0	43.5
Unemployment (Eurostat definition)	4.4	4.2	4.4	4.9
Consumer price inflation (ave)	1.7	3.6	2.6	2.0
Short term interest rate (3 months average)	1.0	1.4	0.2	0.3
EUR FX rate (ave)	1.0	1.0	1.0	1.0
EUR FX rate (eop)	1.0	1.0	1.0	1.0
Current account balance (share of GDP)	3.4	0.6	1.6	2.3
General government balance (share of GDP)	-4.5	-2.5	-2.5	-2.3

Source: Erste Group

Market review

The Austrian banking sector, with total domestic assets of 205% of GDP in 2013, is a well-developed banking market. The market remained very competitive due to the large number of non-listed banks. In 2013, no significant market consolidation took place, even though the Austrian business of the nationalised Hypo Alpe-Adria-Bank International AG was sold. As a result, margins remained significantly lower than in Central and Eastern Europe, as did risk costs. Loans to customers declined slightly compared to 2012, while deposits remained flat. The banking system's loan-to-deposit ratio was approximately 103% at year-end 2013. The special banking tax aimed to lower the government deficit by a planned total of EUR 625 million in 2013.

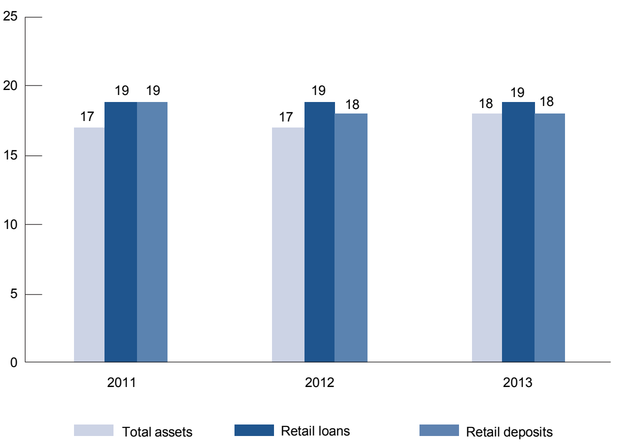
Financial intermediation – Austria (in % of GDP)



Source: Oesterreichische Nationalbank, Erste Group

On the back of reduced risk-weighted assets, capital ratios of Austrian banks improved. In general, Austrian banks have a more favourable leverage than their European peers. The foreign exposure of Austrian banks is strongly concentrated on the CEE region, where risk is broadly diversified.

Market shares – Austria (in %)



Source: Oesterreichische Nationalbank, Erste Group

In 2013, Erste Bank Oesterreich maintained its position and the savings banks increased their strong position in the Austrian banking market. At year-end 2013, their combined market share as measured by total assets stood at 18%. In the retail business, Erste Bank Oesterreich and the savings banks maintained their shares in customer loans and customer deposits at 19% and 18% respectively, while in the corporate business market shares ranged between 17% and 20% depending on the product.

ERSTE BANK OESTERREICH

In addition to Erste Bank Oesterreich itself, this geographical segment includes the three savings banks in which Erste Bank Oesterreich holds majority ownerships: Salzburger Sparkasse, Tiroler Sparkasse and Sparkasse Hainburg-Bruck-Neusiedl. Another component of this geographical segment is Erste Bank Oesterreich's residential real estate as well as mortgage business, which encompass retail mortgages and financing for subsidised and non-subsidised housing projects, as well as facility management and real estate brokerage. s Bausparkasse, who is one of the Austrian market leaders in financing for retail customers and for non-profit and commercial developers, is among the bank's key operating entities in this business. Since 2005, s Bausparkasse has also been responsible for the mortgage bond transactions of Erste Bank Oesterreich. The real estate broker s REAL and s Wohnbaubank, a bank specialised in housing loans, also play key roles.

Business review

Strategy. Erste Bank Oesterreich and its three majority-owned savings banks are universal banks focusing on private individuals, free professions and small and medium-sized enterprises as well as large corporate customers, the public sector and non-profit organisations. The strategic focus is on strengthening their market position and achieving market leadership jointly with the other savings banks. The banks aim to grow by acquiring new customers and intensifying existing customer relationships. In its core business of deposit-taking and lending, Erste Bank Oesterreich is focused on retail customers, corporate customers, the public sector and non-profit organisations. Through its subsidiaries, the bank also offers financial products related to investments, construction, housing and leasing. In private banking, Erste Bank Oesterreich is among the market leaders in Austria. Together with the savings banks, Erste Bank Oesterreich is striving to become Austria's strongest and most profitable banking group. To achieve this goal, the bank is optimising its service and advice standards and consistently improving the customer experience.

Highlights from 2013

Growth continuously driven by new customers. Top quality in customer relationship management is key to winning new customers. Despite customers' steadily rising expectations and the general public's critical attitude towards banks, current surveys conducted by the *Banking Market Study 2013* indicate a high degree of satisfaction, a willingness to recommend the bank, and a higher level of trust among customers of Erste Bank Oesterreich as compared to the banking industry as whole. Accordingly, approximately 30,000 new customers were acquired in 2013. More than one in four inhabitants of Vienna are already a customer of the bank. The bank successfully implemented a new customer relationship management approach. Considerable success, mainly visibly in terms of a higher recommendation rate, was already achieved in Private Banking.

New branch concept. Customers' needs change over the course of time. Customers expect their bank to offer better accessibility and more flexibility than it did a few years ago. Enhancing accessibility to banking services through a variety of channels is among the bank's key business efforts.

Erste Bank Oesterreich developed a new branch concept to meet the changed customer expectations. In spring 2013, the bank opened a pilot branch following the new concept. This allows the innovative account management and services concept to be tested in a real-life environment. The feedback from the customers contributes to the design of further branches.

Innovations in banking. Combined with the new branch concept, access to banking services for the customer base through digital channels is optimised on a continuous basis. In this context, the *Most Innovative Account* offers a wide range of possibilities. In addition to the well-established netbanking, the product range comprises a series of apps for smartphones.

To complement the existing apps, the *Quickcheck App* and the *Finance Manager* were introduced in 2013. The *Quickcheck App* allows customers to get information on their payments any time by simply using their fingertips, whereas the *Finance Manager* systematically gathers the information on incoming payments or payouts and allocates this data to specific categories. Customers are provided with a concise overview of their personal earnings and spending behaviour. Apart from that, since spring 2013 all new bank cards have been equipped for contactless payment and allow non-cash payments without a PIN for purchases of less than EUR 25.

In September 2013, Erste Bank Oesterreich together with the savings banks started to run the online-platform s Lab. This is an entirely new form of cooperation between the bank and its customers. Products and services are jointly developed and trends and developments are discussed. Through s Lab, Erste Bank Oesterreich is sending out a clear signal on the Austrian banking market: there is no other financial institution that cooperates this closely with its customers.

Focus on wealth management. Erste Bank Oesterreich successfully continued its focus on wealth management, which it started last year. Individual financial needs of the customer base, in particular a balance between expected yields and risk profiles, are at the centre of attention.

YOU INVEST, an actively managed wealth management tool offered by Erste Bank Oesterreich, is aimed at customers who do not wish to manage their investments by themselves but who are nonetheless highly interested in flexibility and transparency in their investments. Interactive tools allow customers to view detailed information on their investments on a daily basis and experts of Erste Sparinvest explain via videos or blogs the latest developments of the portfolio.

Awards for excellent private banking. The British business magazine *The Banke*r has named Erste Bank Oesterreich's Private Banking the best private banking services in Austria. This, together with the award by *Euromoney* for the best private banking in Croatia, underlines the success of Erste Group in positioning itself as a top private banking institution in Central and Eastern Europe.

Financial review

in EUR million	2013	2012
Pre-tax profit/loss	257.8	255.1
Net profit/loss after minority interests	184.4	192.4
Operating result	367.7	337.9
Cost/income ratio	61.8%	64.5%
Return on equity	14.4%	15.0%
Customer loans	28,049	28,052
Customer deposits	29,969	29,960

The decline in net interest income from EUR 617.8 million in the financial year 2012 by EUR 7.3 million, or 1.2%, to EUR 610.5 million in the financial year 2013 was mainly attributable to lower margins and subdued loan demand in the retail business. Net fee and commission income improved from EUR 339.0 million in the financial year 2012 by EUR 2.9 million, or 0.8%, to EUR 341.9 million on the back of a positive contribution from securities business. The rise in the net trading result from EUR -4.2 million in the financial year 2012 by EUR 13.5 million to EUR 9.3 million in the financial year 2013 was attributable to valuation gains. The decline in operating expenses from EUR 614.7 million by EUR 20.7 million, or 3.4%, to EUR 594.0 million was mainly driven by strict cost management. The operating result improved from EUR 337.9 million in the financial year 2012 by EUR 29.8 million, or 8.8%, to EUR 367.7 million. The cost/income ratio improved to 61.8% versus 64.5% in the financial year 2012. Risk provisions declined from EUR 96.2 million in the financial year 2012 by EUR 25.9 million, or 26.9%, to EUR 70.3 million in the financial year 2013.

The "other result" declined by EUR 53.0 million to EUR -39.6 million in the financial year 2013. This was mainly due to proceeds from the sale of securities held in the available-for-sale portfolio and from the sale of real estate recorded in the financial year 2012 as well as impairments from carrying amounts of participations in the financial year 2013. Banking tax amounted to EUR 9.7 million in 2013 (2012: EUR 9.7 million). Net profit after minorities decreased from EUR 192.4 million in the financial year 2012 by EUR 8.0 million, or 4.1%, to EUR 184.4 million. Return on equity declined from 15.0% in the financial year 2012 to 14.4%.

Credit risk

Total credit exposure in the Erste Bank Oesterreich geographical segment rose slightly by 0.6% to EUR 35.4 billion in 2013, while the volume of customer loans barely changed and totalled EUR 28 billion at year-end 2013. The share of Erste Bank Oesterreich in Erste Group's total loan portfolio was 22.0% at the end of December 2013, and therefore 0.8 percentage points higher than in 2012. The breakdown by customer segment showed a slight shift from retail customers towards medium-sized and larger companies. The share of retail customers in the total credit volume decreased from 42% to 41%, while the share of corporates increased to 43%. Loans to the self-employed, the free professions and small businesses are less significant than they are for the savings banks. At the end of 2013, these loans amounted to 10.2% of total lending to customers.

Driven by the specific advice campaign to promote the conversion of foreign currency loans, the share of Swiss franc loans in the total loan portfolio decreased noticeably from 11.8% to 9.7%.

The high quality of Erste Bank Oesterreich's loan portfolio remained essentially unchanged in 2013. At the end of 2013, the share of non-performing loans in total loans to customers was stable at 3.8%. The development was especially positive in the retail segment, with the further improvement of asset quality among the self-employed and smaller businesses being quite remarkable. Apart from the public sector, private households constituted the customer group with the fewest defaults.

SAVINGS BANKS

The Savings Banks geographical segment encompasses 43 Austrian savings banks with 736 branches across the country. They are consolidated due to their membership in the Haftungsverbund (cross-guarantee system). Erste Bank Oesterreich and Sparkasse Oberösterreich entered into a separate cross-guarantee agreement. Erste Bank Oesterreich has no or only minor shareholdings in these institutions. Savings banks that are majority owned by Erste Bank Oesterreich, i.e. Salzburger Sparkasse, Tiroler Sparkasse, Sparkasse Hainburg-Bruck-Neusiedl, are included in the Erste Bank Oesterreich geographical segment. The cross-guarantee system covers in total 49 Austrian savings banks and provides a sound legal basis for collaboration with Erste Bank Oesterreich.

In 2013, the cooperation between the savings banks was intensified on the basis of a further agreement. This agreement, concluded in 2013 and valid from 1 January onwards, aims to intensify the control elements through Erste Group Bank AG and implement the new regulatory requirements under Basel 3. The new agreement stipulates the liability of all savings banks for each other in case of remedial actions (within the scope of an institutional protection scheme).

Business review

Strategy. The savings banks are classic universal banks serving private individuals, free professions and small and medium-sized enterprises as well as large corporate clients, the public sector and non-profit organisations. The Austrian savings banks and Erste Bank Oesterreich are focused on becoming the market leaders in Austria over the medium term. The savings banks' close collaboration in key business areas is reflected in their common corporate identity and their harmonised business and market approach. Customers benefit from the wide variety of financial products and services developed through coordinated activities. At the same time, these common production and distribution activities, as well as the shared IT platform and applications (e.g. unified management information and control systems), yield synergies and cost advantages for the savings banks and Erste Bank Oesterreich. Providing outstanding quality and acquiring customers continue to be key goals.

Highlights from 2013

Successful customer acquisition. The Austrian savings banks continued to gain additional new customers in 2013. By continuing the upward trend of the previous year, the total number of customers rose to more than 3.3 million. Campaigns such as *Kunden werben Kunden* (tell a friend) contributed significantly to the successful acquisition of new customers. This proved just how much customers appreciate it when services are aimed at satisfying their actual needs.

Sales support. The savings banks are supported by a dedicated task-force of Erste Bank Oesterreich. The main priorities are the further optimisation of sales potential and sales management. By observing business developments, financial needs can be quickly identified, thus allowing pro-active steps to be taken and continuously improving the service quality of the savings banks.

Mobile banking. Enhancing accessibility to banking services through a variety of channels as well as facilitating mobile financial transactions have become crucial to meeting the changing needs of customers.

In addition to the existing savings products, such as *Impulssparen* (Impulse savings) and *Rundungssparen* (Keep the Change), further innovative products were launched in 2013. The *Quick-check App* allows customers to get information on their payments, whereas the *Finance Manager* systematically gathers the information on incoming payments or payouts and allocates this data to specific categories.

The savings banks together with Erste Bank Oesterreich started to run the online platform s Lab. Products and services are jointly developed and trends and developments are discussed.

Cost projects. Further expense-related projects were implemented in 2013 across the savings banks. Initiatives related to the optimisation of other administrative expenses and to personnel benchmarking at savings banks that enabled the participating institutions to compare their expenses with those of their peers and to identify potential action points. Another initiative supporting the savings banks in identifying further optimisation potential focused on the analysis of the branch locations, providing information on the performance of the branches and allowing peer comparison. Measures were drawn up to tackle weaknesses and to follow best practice examples. As a result, individual savings banks identify their optimisation potential and can exploit it quickly.

Financial review

in EUR million	2013	2012
Pre-tax profit/loss	190.6	202.3
Net profit/loss after minority interests	22.8	21.5
Operating result	418.3	425.7
Cost/income ratio	69.2%	68.7%
Return on equity	5.7%	5.8%
Customer loans	37,664	37,687
Customer deposits	35,075	34,215

The decline in net interest income from EUR 940.0 million in the financial year 2012 by EUR 31.6 million, or 3.4%, to EUR 908.4 million in the financial year 2013 was mainly attributable to lower income from securities. Net fee and commission income increased by EUR 29.8 million, or 7.5%, to EUR 427.8 million in the financial year 2013. This development was mainly due to higher income from securities business and payment transfers. The net trading result remained nearly unchanged and amounted to EUR 20.1 million in the financial year 2013. Operating expenses increased marginally from EUR 932.2 million by EUR 5.8 million, or 0.6%, to EUR 938.0 million. The cost/income ratio rose slightly from 68.7% to 69.2%.

Risk provisions increased from EUR 225.9 million by EUR 10.0 million, or 4.4%, to EUR 235.9 million in the financial year 2013. The "other result" improved from EUR 2.5 million by EUR 5.7 million to EUR 8.2 million on the back of fewer negative one-off effects. Banking tax amounted to EUR 8.9 million in the financial year 2013 (2012: EUR 8.1 million). Net profit after minorities rose from EUR 21.5 million in the financial year 2012 by EUR 1.3 million, or 6.0%, to EUR 22.8 million in the financial year 2013. Return on equity stood at 5.7% versus 5.8% in the financial year 2012.

Credit risk

Total credit exposure in the Savings Banks geographical segment declined by 0.8% from EUR 52.1 billion to EUR 51.7 billion in 2013. Loans to customers stagnated at EUR 37.7 billion and there were hardly any shifts in the distribution of borrowers by customer segment. Compared with other Group entities, the Austrian savings banks conduct a much larger proportion of their business with self-employed customers, the free professions and small businesses. At nearly one-fifth of total loans, the share of this customer segment is significantly larger than at Erste Group's subsidiaries in Central and Eastern Europe. This reflects the structure of Austria's economy, which features in an international comparison a very high share of small and medium-sized enterprises.

Foreign currency loans in Swiss francs continued to decline. At 12.2% of total loans, their share in total loans to customers was clearly more pronounced than that of Erste Bank Oesterreich. The trend towards higher collateralisation of loans continued in the past financial year.

The quality of the loan portfolio changed only slightly in the course of 2013 and remained satisfactory. Non-performing loans as a percentage of total loans to customers decreased by 10 basis points to 6.8% during the financial year. The migration trend of performing loans to better risk classes continued. Compared by customer segment, the development was especially positive among retail customers and smaller businesses, while the quality of loans to larger businesses deteriorated slightly. The NPL coverage ratio remained more or less stable and stood at 60.4% of the total non-performing loan portfolio at year-end 2013.

CZECH REPUBLIC

The Czech Republic geographical segment includes the retail, private banking and SME business of Česká spořitelna and its subsidiaries. Česká spořitelna is the leading retail bank in the country and the largest among Erste Group's operations in Central and Eastern Europe. The bank operates a network of 653 branches and 1,530 ATMs. It serves some 5.3 million retail customers, SME customers, large corporate customers and municipality customers. Česká spořitelna has issued more than 3.2 million bank cards, including roughly 320,000 credit cards. The bank's building society, pension fund and factoring subsidiaries also occupy leading positions in their respective fields.

Economic review

Despite strong and improving fundamentals, the Czech economy remained in recession in 2013. The development of 2013 was in particular positively influenced by a recovery of industry, whereas domestic consumption was still weak. The traditionally strong contribution of net exports to GDP was supported by a significant increase in exports in the second half of the year. Pointing to the constantly high competitiveness of the Czech economy, real GDP growth stood at -1.3% and GDP per capita amounted to EUR 13,900 at year-end 2013. While inflation dropped to 1.3%, the labour market remained relatively weak and the unemployment rate increased slightly to 7.5%.

After an increase in 2012, the general government deficit improved to 2.6% of GDP in 2013. The development reflects the overall better macroeconomic conditions and some positive effects of austerity measures. The Czech Republic maintained its traditionally lower public debt relative to its CEE peers at 47% of GDP. Rating agencies acknowledged the overall performance of the Czech economy, with S&P, Moody's and Fitch affirming the country's long-term sovereign credit rating at AA−, A1 and A+ respectively in 2013.

The Czech National Bank kept interest rates at 0.05% in 2013. As the inflation rates throughout the year were lower than expected the National Bank decided to weaken the Czech koruna in November 2013, aiming to ward off deflationary pressures and further support the economy.

The autumn of 2013 was also characterised by the parliamentary elections after the previous right-wing coalition collapsed in June 2013. The newly formed coalition consists of the election-winning Social Democrats (CSSD), the newly founded ANO-movement and the Christian Democrats (KDU-CSL).

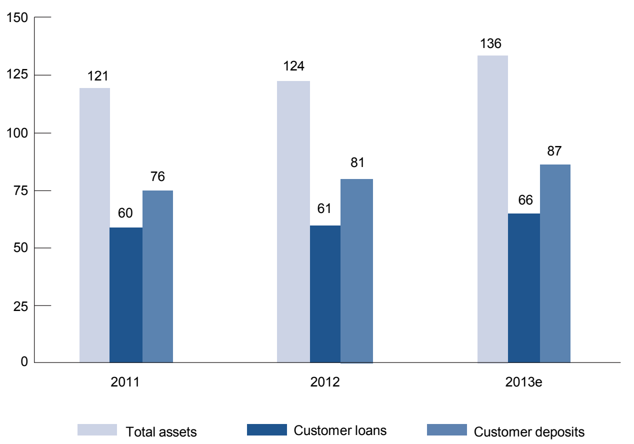
Key economic indicators – Czech Republic	2010	2011	2012	2013e
Population (ave, million)	10.5	10.5	10.5	10.5
GDP (nominal, EUR billion)	149.8	155.4	152.6	145.7
GDP/capita (in EUR thousand)	14.2	14.8	14.5	13.9
Real GDP growth	2.3	1.8	-0.9	-1.3
Private consumption growth	0.9	0.5	-2.1	-0.4
Exports (share of GDP)	65.8	75.7	64.4	73.2
Imports (share of GDP)	62.5	71.5	62.0	63.0
Unemployment (Eurostat definition)	7.3	6.7	7.0	7.5
Consumer price inflation (ave)	1.5	1.9	3.3	1.3
Short term interest rate (3 months average)	1.3	1.2	1.0	0.5
EUR FX rate (ave)	25.3	24.6	25.2	26.3
EUR FX rate (eop)	25.0	25.6	25.2	25.1
Current account balance (share of GDP)	-3.9	-2.7	-2.5	-1.6
General government balance (share of GDP)	-4.8	-3.3	-4.4	-2.6

Source: Erste Group

Market review

In 2013, the Czech banking market remained one of the most liquid and well-capitalised markets in Central and Eastern Europe. The solid fundamentals are demonstrated by a system-wide loan-to-deposit ratio of 75% and a strong capital adequacy ratio of 17%. Towards year-end, the growth of customer deposits slowed down as a result of central bank intervention and related spending activity. The NPL ratio remained stable at 6% and was lower than elsewhere in the CEE region. The attractiveness of the Czech banking market was also demonstrated by a stable return on equity of approximately 20%.

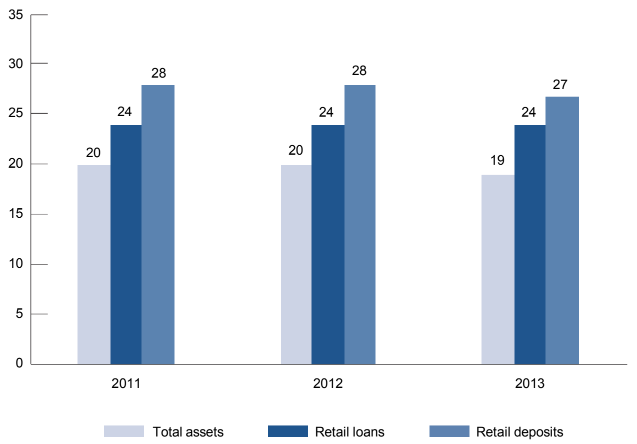
Financial intermediation – Czech Republic (in % of GDP)



Source: Czech National Bank, Erste Group

Česká spořitelna maintained its market leadership positions across all major product categories in 2013. Its retail market shares ranged from 24% to 27%, while its share in the corporate loans business remained lower at around 19%. Overall, its market share in terms of total assets remained at around 19%. Česká spořitelna also retained its number-one position in the payment card market with a market share of 32%.

Market shares – Czech Republic (in %)



Source: Czech National Bank, Erste Group

Business review

Strategy. Česká spořitelna's strategy is directed towards growing with the evolving needs of a retail customer base that is becoming wealthier. While catering to the mass market, the bank also offers a broad range of services to corporate and public sector customers. In line with this balanced business model that is focused on the real economy, Česká spořitelna aims to retain its leading market positions in all key product segments and to substantially increase its presence in the business with entrepreneurs, SMEs and local corporate customers while not losing sight of the need to further enhance client satisfaction. The bank aims at sustainable profit growth while maintaining high risk standards.

Highlights from 2013

Focus on export financing. Due to its open economy, demand for export financing has grown significantly in the recent past in the Czech Republic. Česká spořitelna managed to increase the volume of export financing in 2013. In addition to traditional industries (like mechanical engineering, chemicals, industrial engineering or the power industry), the bank also finances new technologies. The bank has significantly strengthened its capabilities in offering all types and sizes of export transactions. Česká spořitelna has built up very good coverage of all corporate business segments, ranging from SMEs to large multinational corporations.

Front-runner in electronic banking. Česká spořitelna maintained its leading position in electronic banking and strengthened its position as the leader in the payment cards market. The bank has issued more than 1.75 million contactless payment cards since October 2011. The contactless technology allows customers to pay for shopping worth up to CZK 500 without needing to enter the PIN. The aggregate spending volume using these cards exceeded CZK 13 billion in the Czech Republic in 2013, showing a steadily increasing trend. The clients of Česká spořitelna made seven times more transactions in 2013 than the year before.

Focus on customer relationships. Česká spořitelna launched *iBod* (iPoint), its wholly-owned multi-partner loyalty programme in October 2013. This loyalty programme is unique on the Czech market as there is no other programme where several partners are involved. iBods (points) are collected for every 25 Czech koruna spent and the clients may then exchange their collected iBods for various goods or vouchers. 320,000 clients registered for the programme until year-end and made it a huge success right from the start.

International and local recognition. Česká spořitelna defended its top position and was again named the *Best Bank in the Czech Republic* in 2013. A professional jury of experts from several countries chooses the winners of the *Euromoney Awards for Excellence*. Česká spořitelna also won the international award *Bank of the Year* in the Czech Republic, annually bestowed by the magazine *The Banker*. For the tenth time in a row, Česká spořitelna was awarded the title *The Most Trustworthy Bank of the Year* in the prestigious Fincentrum Bank of the Year competition, and Pavel Kysilka, CEO of Česká spořitelna, was again elected *Banker of the Year*. These awards confirmed Česká spořitelna's success in pursuing its strategic approach and highlighted the quality of the services that the bank provides.

Financial review

in EUR million	2013	2012
Pre-tax profit/loss	623.7	656.2
Net profit/loss after minority interests	493.6	518.0
Operating result	793.0	889.0
Cost/income ratio	44.8%	43.8%
Return on equity	37.8%	40.9%
Customer loans	17,023	17,891
Customer deposits	24,822	25,598

Net interest income in the Czech Republic geographical segment declined from EUR 1,113.8 million by EUR 127.5 million, or 11.4% (currency-adjusted: -8.6%), to EUR 986.3 million. This development was mainly attributable to the persistently low interest rate environment and subdued credit demand, especially for consumer loans. Net fee and commission income declined by EUR 39.6 million, or 8.9% (currency-adjusted: -5.9%), from EUR 447.2 million in the financial year 2012 to EUR 407.6 million, mainly as a result of lower income from payment transfers and from lending business. The net trading result improved from EUR 19.9 million by EUR 24.1 million to EUR 44.0 million on the back of a better result from the derivatives business. Cost-cutting measures, in particular, reduced operating expenses by EUR 47.1 million, or 6.8% (currency-adjusted: -3.8%), to EUR 644.8 million in the financial year 2013 (2012: EUR 691.9 million).

The operating result declined from EUR 889.0 million in the financial year 2012 by EUR 96.0 million, or 10.8% (currency-adjusted: -7.9%), to EUR 793.0 million. As the portfolio quality continued to improve, risk provisions fell by EUR 20.4 million, or 14.6% (currency-adjusted: -11.8%), to EUR 119.2 million in the financial year 2013. The item "other result" improved from EUR -93.2 million by EUR 43.0 million to EUR -50.2 million in the financial year 2013. Net profit after minorities declined in the financial year 2013 by EUR 24.4 million, or 4.7%, from EUR 518.0 million to EUR 493.6 million. However, on a currency-adjusted basis, a decrease of only 1.6% in net profit was posted. The cost/income ratio rose from 43.8% to 44.8%. Return on equity amounted to 37.8%.

Credit risk

In 2013, total credit exposure in the Czech Republic geographical segment declined significantly by EUR 2.1 billion to just over EUR 30 billion, which was mainly due to the depreciation of the Czech koruna against the euro. Loans to customers decreased by 9.5% to EUR 17.0 billion, with loans to corporates declining more steeply than loans to retail customers. As a result of this development, customer loans in the Czech Republic geographical segment as a percentage of Erste Group's total loans to customers dropped from 13.6% to 13.3% year on year. The Czech Republic is still by far the second most important market for Erste Group after Austria.

Even though economic output declined again in 2013, the negative effects were relatively mild compared with other countries of Central and Eastern Europe. Measured by the quality of the credit portfolio, the development was even contrary. Supported by effective credit risk management, the ratio of NPLs to total loans to customers dropped from 5.3% to 4.7%. In contrast to the trend in many other CEE markets, quality improvements were seen mainly in lending to corporates. In 2013 the NPL coverage ratio rose substantially from 72.2% to 79.4%.

ROMANIA

The Romania geographical segment includes the retail, private banking and SME business of Banca Comercială Română and its subsidiaries. The bank offers a full array of retail and corporate banking services through a network of 563 branches and 22 commercial centres as well as internet and phone banking. It also operates the largest national network of ATMs and POS terminals, numbering approximately 2,200 and approximately 13,300 units respectively. Banca Comercială Română is the market leader with total assets of EUR 14.9 billion and 3.2 million customers at year-end 2013. It is also top ranked in leasing and well positioned in the pension fund and brokerage business.

Economic review

Romania was among the best-performing economies in Europe in 2013. Real GDP grew by 3.5% in 2013 while GDP per capita rose to EUR 7,000. Agriculture played a pivotal role in supporting the country's economy mainly due to excellent weather conditions. In addition, land transportation, information technology, legal and management consultancy services, and real estate and leasing activities also had a positive impact on the economic performance. Dacia, a Romanian car producer, also had excellent results in 2013 and achieved the strongest increase of all car producers in terms of newly registered vehicles in the EU 27. Overall, exports proved to be a clear contributor to growth in 2013 while domestic consumption did not pick up significantly. Within domestic demand, the bright spot was private consumption. Disposable income was supported by falling inflation in the second half of the year. The unemployment rate did not change significantly in 2013 and stood at 7.2% at the end of the year.

After continuous political uncertainty in the previous year, 2013 brought a stable government led by the Social-Liberal Union. In acknowledgement of the progress made towards fiscal adjustments, and shortly after the European Commission authorised the exit from the Excessive Deficit Procedure, the International Monetary Fund green-lighted the successful conclusion of the second precautionary stand-by arrangement in the amount of EUR 4 billion. The government laid down a new set of fiscal measures aimed at fighting tax evasion. In addition, excise taxes were raised for alcohol and new excise duty was introduced for luxury goods and guns. As a result of these measures, the budget deficit improved further to 2.9% of GDP in 2013. Romania's public debt level to GDP remained one of the lowest in the European Union at 38.1% at the end of 2013.

Inflationary pressures eased in Romania during 2013. Although inflation remained relatively high in the first half of the year, in the summer it started to decline mainly due to the sharp drop in food prices. Overall, inflation stood at 1.6% at the end of the year, which is the lower bound of the National Bank's target range of 1.5% – 3.5%. The Romanian National Bank cut the base rate several times in 2013 to 4%. The Romanian lei did not change significantly versus the euro, trading in the range of 4.3 – 4.5 throughout the year.

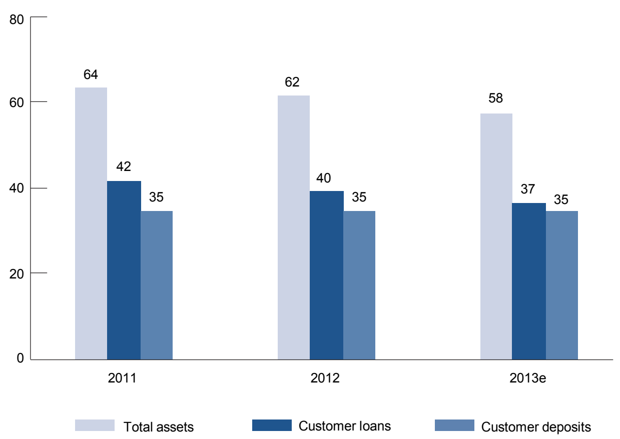
Key economic indicators – Romania	2010	2011	2012	2013e
Population (ave, million)	20.3	20.2	20.1	20.1
GDP (nominal, EUR billion)	124.4	131.3	131.8	141.3
GDP/capita (in EUR thousand)	6.1	6.5	6.6	7.0
Real GDP growth	-1.1	2.2	0.7	3.5
Private consumption growth	-0.2	1.1	1.1	0.7
Exports (share of GDP)	30.1	34.3	34.0	35.3
Imports (share of GDP)	37.7	41.7	39.5	38.0
Unemployment (Eurostat definition)	7.3	7.4	7.0	7.2
Consumer price inflation (ave)	6.1	5.8	5.0	4.0
Short term interest rate (3 months average)	6.8	5.8	5.3	4.2
EUR FX rate (ave)	4.2	4.2	4.5	4.4
EUR FX rate (eop)	4.3	4.3	4.4	4.5
Current account balance (share of GDP)	-4.4	-4.3	-3.8	-1.0
General government balance (share of GDP)	-6.8	-5.5	-3.0	-2.9

Source: Erste Group

Market review

Although the Romanian banking market was characterised by a declining interest rate environment throughout 2013, demand for customer loans remained low. The only loan growth driver of customer loans was mortgage lending, while other business segments saw declining volumes. The banking market was also characterised by a gradual shift towards local-currency lending which became more attractive with lower interest rates. In addition, *Prima Casa*, a government-guaranteed mortgage programme, was exclusively available in local currency after August 2013. Altogether, customer loans in 2013 declined by 3.1%. Customer deposits, on the other hand, were driven by a pronounced saving behaviour and grew by 9.1%. Similarly to lending, the growth in deposits mainly stemmed from the local currency side. As banks' profitability was still significantly impacted by high risk costs, financial institutions continued to implement cost efficiency measures, which included a reduction in workforce and further network optimisation. As a result of these efforts, the banking sector was profitable in 2013. Importantly, the banking market maintained sufficient capital buffers in 2013.

Financial intermediation – Romania (in % of GDP)

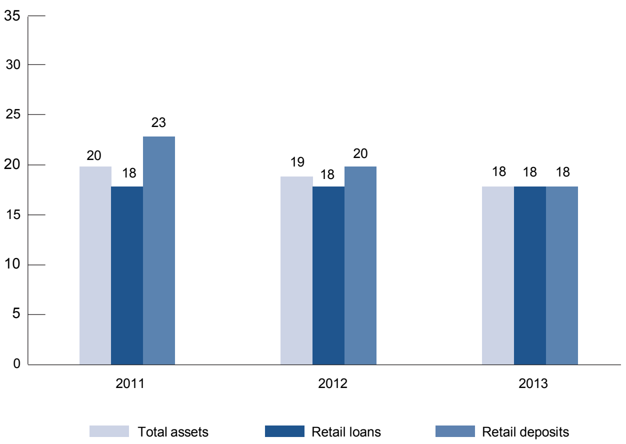


Source: National Bank of Romania, Erste Group

Generally market participants became more aware of the risks of foreign-currency-based lending. Although many market participants continued to offer foreign currency loans, parental funding of the Romanian banking system reflected the declining volume of foreign currency loans and decreased significantly by 6%. The Romanian National Bank continued to support local funding and local-currency-based lending throughout 2013 by imposing rules on tenor, debt-to-income ratio, loan-to-value ratio, and collateral coverage. The banking system's loan to deposit ratio improved to 103%.

Despite losing some market share on both the lending and deposit side, Banca Comercială Română kept its leadership position in almost all major product categories. By the end of 2013, the bank was ranked number one based on total assets, customer loans, customer deposits and asset management. Banca Comercială Română's customer loan market share, however, was impacted by the decision of not to offer foreign currency loans, while the declining development of customer deposit market shares reflected the company's deposit repricing activity throughout the year. Overall, Banca Comercială Română had a market share as measured by total assets of 18% at the end of 2013.

Market shares – Romania (in %)



Source: National Bank of Romania, Erste Group

Business review

Strategy. Banca Comercială Română's objective is to maintain its leading market position and to return to sustainable profitability. Meeting customer needs while providing understandable financial products and high-quality customer service are at the centre of attention. Special emphasis is given to continuously improving risk management and efficiency.

Following the bank's comprehensive turnaround programme (including the reorganisation of the branch network and the formation of a separate work-out unit), the strategic priorities aim to improve the asset quality, optimise the allocation of resources, and further develop the bank's commercial strengths.

Highlights from 2013

Focus on asset quality improvement. While the NPL ratio continued its increase in 2013, the NPL coverage ratio improved from 58.6% at year-end 2012 to 64.1% at year-end 2013. At the same time, risk costs decreased substantially compared to 2012.

The newly established workout unit to resolve legacy NPLs became fully operational in 2013. Its main focus is the remediation, restructuring and recovery of non-performing assets.

Focus on commercial capabilities. Banca Comercială Română holds leading market shares in retail deposits and retail loans and operates the largest national network of ATMs and POS terminals.

To improve its service quality and to optimise its profitability, the bank completed a review of its branch and ATM network. Banca Comercială Română implemented the re-designed retail management network model and an integrated corporate-retail services area has been set up in 130 retail units.

Further to that, the corporate client segmentation was optimised. It is based on industry expertise for large corporate clients and customer proximity for smaller corporates. The bank's corporate network comprises in total 22 commercial centres and in addition 23 mobile offices. Another measure to strengthen the corporate business includes the redesign of transaction banking and capital markets business to further improve service quality and fee income generation.

Improving cost efficiency. Significantly reducing the cost base was among the main targets of Banca Comercială Română in 2013. The bank successfully aligned the cost dynamics with the revenue generation capacity. The branch network and head office functions were critically reviewed. As a consequence, 60 retail branches were closed and the total headcount of the bank was reduced by approximately 17%. The bank is committed to maintaining efficiency at its current levels.

Local-currency lending. Banca Comercială Română was the first bank to shift the *Prima Casa* state-guaranteed programme to local-currency lending back in autumn 2012. Since then, only retail customers with foreign-exchange income have been eligible for FX loans. In a still FX-dominated market, the bank succeeded in launching competitive offers and got more than 30% of the industry's new originations. The mortgage loan book in Romanian lei has more than doubled from a very low base since October 2012.

New management information system. The design and implementation of a new management information system covering financial, risk and business-related indicators is among the key strategic priorities. The bank made visible progress in enforcing the performance management system in 2013. Banca Comercială Română has put a strong focus on optimising the subsidiaries portfolio and reinforcing their management to fully realise both business growth and further cost reduction.

Financial review

in EUR million	2013	2012
Pre-tax profit/loss	7.6	-378.6
Net profit/loss after minority interests	127.9	-294.3
Operating result	460.4	407.3
Cost/income ratio	40.6%	46.6%
Return on equity	19.3%	n.a.
Customer loans	9,549	10,682
Customer deposits	7,397	7,595

Net interest income in the Romania geographical segment rose from EUR 572.4 million by EUR 2.0 million, or 0.3%, to EUR 574.4 million in the financial year 2013. However, in currency-adjusted terms a decrease of 0.5% was posted. The increase in net fee and commission income by EUR 24.0 million, or 19.9% (currency-adjusted: +18.9%), from EUR 120.3 million in the financial year 2012 to EUR 144.3 million in the financial year 2013 was mainly attributable to higher income from payment transfers. The net trading result declined from EUR 70.5 million in the financial year 2012 by EUR 14.4 million, or 20.5% (currency-adjusted: -21.2%), to EUR 56.1 million, reflecting lower income from foreign exchange business. Operating expenses decreased due to comprehensive optimisation measures, especially in terms of personnel, by EUR 41.5 million, or 11.7% (currency-adjusted: -12.4%), from EUR 355.9 million in the financial year 2012 to EUR 314.4 million in the financial year 2013. Thus, the operating result improved by EUR 53.1 million, or 13.0% (currency-adjusted: +12.0%), to EUR 460.4 million in the financial year 2013.

Due to extensive provisioning in previous years, risk provisions declined by EUR 350.7 million, or 47.6% (currency-adjusted: -48.0%), from EUR 737.2 million in the financial year 2012 to EUR 386.5 million in the financial year 2013. The NPL coverage ratio improved to 64.1%. The "other result" deteriorated from EUR -48.7 million by EUR 17.6 million to EUR -66.3 million in the financial year 2013. The item "taxes on income" amounted to EUR 124.8 million versus EUR 65.3 million in the financial year 2012, reflecting a positive one-off impact – the release of deferred tax liabilities – of EUR 127.7 million. The net result after minorities improved from EUR -294.3 million by EUR 422.2 million to EUR 127.9 million in the financial year 2013. The cost/income ratio improved from 46.6% to 40.6%.

Credit risk

Total business volumes in the Romania geographical segment declined noticeably in almost all business areas in 2013. While total credit exposure declined from EUR 15.0 billion to EUR 14.0 billion, loans to customers contracted more severely, by 11.2% to EUR 9.5 billion. At year-end 2013, these accounted for a share of 7.5% (year-end 2012: 8.1%) of Erste Group's total loans to customers. The decrease in the loan portfolio was mainly due to subdued loan demand. Furthermore, selling of small portions of the NPL portfolio, especially of unsecured consumer loans, continued.

At year-end 2013, the loan portfolio was split equally into non-collateralised loans and collateralised loans. The share of foreign currency loans decreased from 62.6% to 61.0% and was almost completely denominated in euros. This development was due to the state-subsidised *Prima Casa* programme for residential housing loans. Since the autumn of 2012, Banca Comercială Română has been offering this programme exclusively in local currency.

The country's incipient economic recovery did not yet improve credit quality in 2013, but the increase in non-performing loans slowed significantly. Non-performing loans as a percentage of total loans to customers rose from 28.3% to 30.6%, with most of the deterioration – as in previous years – being due to corporate loans. The greatest economic difficulties were experienced by the self-employed and micro businesses. Nonetheless, this customer group accounted for only 6.1% of the total credit portfolio at year-end 2013. Loans to private households developed much better; non-performing loans declined and dropped over the course of the year by almost 8% to EUR 680 million. Risk provisions were substantially increased once again so that the NPL coverage ratio went up from 58.6% at year-end 2012 to 64.1% at the close of the financial year 2013.

SLOVAKIA

The Slovakia geographical segment encompasses the retail, private banking and SME business of Slovenská sporiteľňa and its subsidiaries. Slovenská sporiteľňa is the long-standing retail market leader and is also one of the top players in the corporate and municipality business. Slovenská sporiteľňa also occupies leading positions in asset management, leasing and factoring. It serves some 2.4 million clients, or about half of the Slovak population, through a network of 292 branches and 769 ATMs.

Economic review

The Slovak economy – one of the most open economies in the CEE region – was to a significant degree driven by net exports in 2013. While industrial production benefitted from the automotive industry, textiles and also electrical equipment, the construction sector still showed signs of weakness. Altogether, the Slovak economy grew by 0.9% in 2013 and GDP per capita amounted to EUR 13,300. In the absence of a major improvement in the labour market, the unemployment rate remained high at 14.3% at the end of 2013.

In 2013, public debt as a percentage of GDP stood at 55%. As a result of mainly revenue-based measures, the government deficit in relation to GDP declined to 3.2%. The measures to curb the deficit I 2013 comprised in particular the following: the corporate income tax rate rose from 19% to 23%, the marginal tax rate for higher personal incomes was increased to 25% (instead of 19%) and, since the fourth quarter of 2012, the basis from which the bank levy is derived has broadened to include all retail deposits. Further measures include a pension system reform and minor cuts in spending (in particular in the area of defence and of certain subsidies by the Ministry of Agriculture).

After the increase in the previous years, inflation declined to 1.4% in 2013. This development was largely due to a deceleration of energy, food, service and commodity prices, which had shown a pick-up in 2012.

Having adopted the euro in 2009, Slovakia continued to benefit from low eurozone interest rates. Rating agencies acknowledged the overall performance of the Slovak economy, with S&P, Moody's and Fitch affirming the country's long-term sovereign credit rating at A, A2 and A+ respectively in 2013.

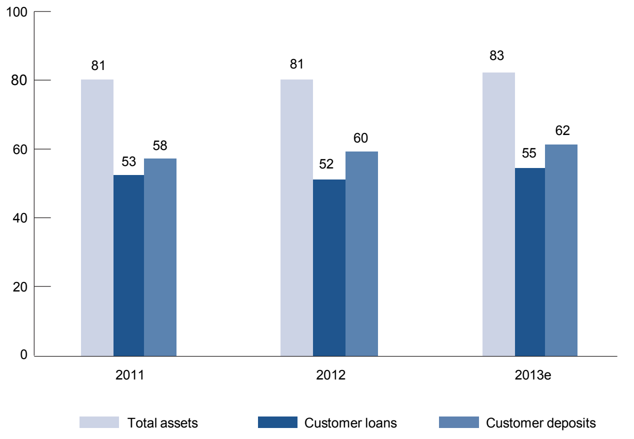
Key economic indicators – Slovakia	2010	2011	2012	2013e
Population (ave, million)	5.4	5.4	5.5	5.4
GDP (nominal, EUR billion)	65.9	69.1	71.5	72.1
GDP/capita (in EUR thousand)	12.1	12.7	13.1	13.3
Real GDP growth	4.4	3.2	2.0	0.9
Private consumption growth	-0.8	-0.5	-0.4	0.2
Exports (share of GDP)	73.3	82.4	87.8	90.9
Imports (share of GDP)	72.1	81.0	82.7	84.3
Unemployment (Eurostat definition)	14.4	13.5	13.9	14.3
Consumer price inflation (ave)	1.0	3.9	3.6	1.4
Short term interest rate (3 months average)	1.0	1.4	0.2	0.3
Current account balance (share of GDP)	-2.5	-2.1	2.1	3.8
General government balance (share of GDP)	-7.7	-4.8	-4.9	-3.2

Source: Erste Group

Market review

The comparably positive macroeconomic environment continued to impact favourably upon Slovakia's banking market, which was among the very few with visible loan growth in CEE. Customer loans increased by 6% in 2013, mainly driven by retail loans (particularly housing and consumer loans), while corporate loans showed less pronounced growth. Customer deposits grew by 4%, mainly driven by corporate customers and the public sector. With its loan-to-deposit ratio of 89%, Slovakia maintained its position as one of the most liquid and balanced banking sectors in the region. The banking market's asset quality remained strong; the NPL ratio amounted to 5.2% at year-end 2013.

Financial intermediation – Slovakia (in % of GDP)

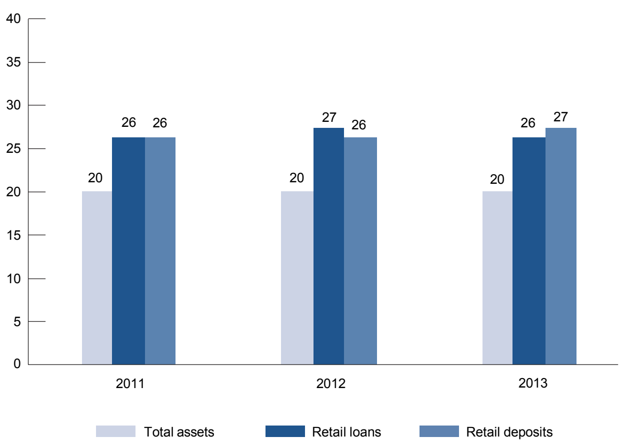


Source: National Bank of Slovakia, Erste Group

The banking tax, introduced in 2012 and later increased to 0.4% on the basis of all non-equity liabilities, fuels the resolution fund in Slovakia. Total banking tax paid by the end of 2013 amounted to EUR 370 million.

Slovenská sporiteľňa successfully retained its leading market positions. The bank continued to control one-fifth of the country's banking market in terms of total assets, while it also led the market in retail loans and retail deposits. In the retail loan business, Slovenská sporiteľňa's market share amounted to 25.8%. On the deposit side, its market share was significantly lower in the corporate customers business, at almost 10%, than in retail, at 26.5%.

Market shares – Slovakia (in %)



Source: National Bank of Slovakia, Erste Group

Business review

Strategy. The strategic focus of Slovenská sporiteľňa remains on maintaining its leading market positions in retail and SME banking by building on its unique strength in the retail business, its trustworthiness and its distribution network. In addition to the core mass market business, the bank targets the growing ranks of mass affluent clients and aims to strengthen its positions in the affluent customers' and corporate banking business. In the corporate business, Slovenská sporiteľňa aims to be the "bank of first choice" and its main focus is on SMEs. Special emphasis is placed on delivering added value to its customers by providing appropriate financial products and services. The bank is also committed to enhancing the customer experience by continuously improving accessibility.

Highlights from 2013

Focus on client activation in retail. Fostering long-term relationships with its customers is of utmost importance for Slovenská sporiteľňa. The bank therefore puts a strong emphasis on its loyalty programmes, which reward salary to accounts, card payments and the use of electronic banking. The schemes aim to increase client retention and support the use of digital banking instead of cash payments. Customers with current account packages, for instance, are refunded a certain percentage of effected card payments.

Addressing young people. Putting an emphasis on dedicated marketing campaigns resulted in increased product awareness among young people. Backed by marketing campaigns, more than 35,000 new accounts for people between the age of fifteen and twenty-six were opened. The bank is also highly successful in retaining the young customers once they are no longer eligible for dedicated youth products, as approximately 93% switch to a regular account.

Banking for corporate customers. In the corporate business, Slovenská sporiteľňa continued its support of businesses in the agricultural sector. The *AGRO PRO* programme includes financing, advice and payment services. The bank also initiated new deposit products and has participated in several cooperation programmes focusing on corporate clients. These cooperation programmes include the support of energy projects in the field of energetic effectiveness of residential buildings by the Council of Europe and the European Investment Bank loan programme to support SMEs.

Focus on loan growth. Slovenská sporiteľňa regards the retail business as one of the key priorities for the upcoming years. While the branch network will maintain its key role in the sales business, the bank aims to use digital sales channels more actively. The bank has also taken measures to improve client retention in housing loans.

International and local recognition. A strong market position, high profitability, an improved asset quality and a strengthened capital position are the main reasons why Slovenská sporiteľňa won prestigious awards in 2013. The bank defended its top position and was again named *Best Bank in Slovakia*. A professional jury of experts from several countries chose the winners of the *Euromoney Awards for Excellence*. Slovenská sporiteľňa also won the international *Bank of the Year* award in the Slovak Republic, annually bestowed by the magazine *The Banker*, as well as the *Bank of the Year* award granted by the local economic magazine *TREND* and, last but not least, the *Best Bank in Slovakia* award conferred by the *Global Finance magazine*.

Financial review

in EUR million	2013	2012
Pre-tax profit/loss	222.2	210.6
Net profit/loss after minority interests	173.8	169.3
Operating result	302.7	301.7
Cost/income ratio	44.0%	43.9%
Return on equity	42.4%	39.4%
Customer loans	6,990	6,598
Customer deposits	8,320	7,620

Net interest income in the Slovakia geographical segment improved from EUR 424.9 million in the financial year 2012 by EUR 4.6 million, or 1.1%, to EUR 429.5 million in the financial year 2013. This development was primarily driven by retail loan growth offsetting the impact of the low interest rate environment. Net fee and commission income decreased by EUR 4.0 million, or 3.6%, to EUR 106.0 million due to legislation limiting commission for payment transfers. The net trading result improved from EUR 2.8 million in the financial year 2012 by EUR 2.6 million to EUR 5.4 million in the financial year 2013 due to revaluation of derivatives. The increase of operating expenses by EUR 2.2 million, or 0.9%, to EUR 238.2 million was driven by the consolidation of the subsidiary Erste Group IT SK and a moderate increase in personnel expenses, mostly in connection with statutory social insurance.

Risk provisions fell from EUR 53.4 million in the financial year 2012 by EUR 14.2 million, or 26.6%, to EUR 39.2 million in the financial year 2013, reflecting lower allocations especially in the corporate and real estate business. The deterioration in the "other result" from EUR -37.7 million by EUR 3.6 million to EUR -41.3 million was due to the higher banking tax, which amounted to EUR 37.8 million in the financial year 2013 (2012: EUR 26.5 million). Net profit after minorities increased from EUR 169.3 million in the financial year 2012 by EUR 4.5 million, or 2.7%, to EUR 173.8 million in the financial year 2013. The cost/income ratio remained stable at 44.0% (2012: 43.9%). Return on equity increased from 39.4% to 42.4%.

Credit risk

Total credit exposure in the Slovakia geographical segment was EUR 11.1 billion at year-end 2013, which equals an increase of almost 2% versus year-end 2012. At 6.1%, loans to customers rose clearly more pronounced and amounted to EUR 7.0 billion as of the end of December 2013 (2012: EUR 6.6 billion). This resulted in Slovakia being the fastest-growing geographical segment within Erste Group; its share in total loans to customers rose from 4.7% to 5.5%.

A breakdown of the portfolio by customer segment shows a continuation of the trend seen in previous years: the percentage of better rated loans to retail customers and local governments in the total portfolio – as measured by asset quality – increased at the expense of corporate loans. At year-end 2013, loans to corporates accounted for approximately 22% of total loans to customers. Almost all lending was denominated in euros and the policy of not granting foreign currency loans to retail customers was continued.

The positive development in asset quality continued. The NPL ratio dropped from 6.6% to 5.6%, with improvements being seen across all customer segments, as in 2012. Apart from the decline in NPL among medium-sized and larger enterprises, the excellent quality of loans to private households is to be highlighted. In contrast to many other countries of Central and Eastern Europe, credit quality continued to improve among small businesses as well. The NPL coverage ratio based on risk provisions was exceptionally high, at 87.3% at year-end.

HUNGARY

The Hungary geographical segment comprises the retail, private banking and SME business of Erste Bank Hungary and its subsidiaries. Erste Bank Hungary operates a network of 135 branches and commercial centres plus 421 ATMs. Erste Bank Hungary serves approximately 900,000 customers and has market shares of 6% to 16%, varying by product category. The bank also has significant market positions in securities brokerage.

Economic review

The Hungarian economy recovered from its recession in 2013. Agriculture, construction and industry played important roles in the economic growth. Exports remained the main demand component to grow, while domestic demand did not contribute significantly to growth. The country's agricultural performance, in line with other CEE countries, was exceptionally favourable due to very good weather conditions. Car manufacturing also had a successful year, while construction was supported by the increased role of EU funds. The *Funding for Growth* programme of the Hungarian National Bank also supported the economy in 2013. Investments clearly lagged behind other CEE countries but were supported by government investment, which was primarily driven by increased absorption of EU funds. High distortionary taxes, most notably additional burdens on the financial sector, utilities and telecommunications, remained a drag on the economic performance. Altogether, Hungary's GDP performance, with a growth rate of 1.1%, was better than expected in 2013. Employment expanded mainly due to the extension of the *Public Work*

Scheme, while it stagnated in the private sector. Overall, the unemployment rate stood at 10.2% at the end of 2013.

At 79% at the end of 2013, the public debt ratio of Hungary continued to stay above the average of other CEE countries. Hungary exited the Excessive Deficit Procedure in May 2013. The government, however, needed to carry out numerous measures to keep the deficit below the 3% Maastricht criterion. Income from the financial transaction tax proved to be much lower than planned, while income from connecting cashiers to the tax authority remained below expectations as well. In addition, The *Job Protection Action Plan* also decreased budget revenues. In light of these developments, the government introduced a number of measures in order to keep the deficit under control. These measures mainly impacted the corporate sector and included additional taxes for banks, telecommunications and energy companies. In addition, strict cost control continued in the public sector while VAT remained at 27% throughout the year, the highest in the European Union. Altogether, the government budget balance showed a deficit of 2.7% in 2013.

Key economic indicators – Hungary	2010	2011	2012	2013e
Population (ave, million)	10.0	10.0	10.0	9.9
GDP (nominal, EUR billion)	96.6	99.9	96.9	96.7
GDP/capita (in EUR thousand)	9.7	10.1	9.7	9.7
Real GDP growth	1.3	1.6	-1.7	1.1
Private consumption growth	-2.7	-1.7	-1.7	0.0
Exports (share of GDP)	72.3	83.9	78.6	80.6
Imports (share of GDP)	68.9	71.8	80.0	74.9
Unemployment (Eurostat definition)	11.2	10.9	10.9	10.2
Consumer price inflation (ave)	4.9	3.9	5.7	1.7
Short term interest rate (3 months average)	5.5	6.2	7.0	4.3
EUR FX rate (ave)	275.4	279.2	289.4	296.9
EUR FX rate (eop)	278.8	311.1	291.3	296.9
Current account balance (share of GDP)	1.1	0.9	1.0	3.0
General government balance (share of GDP)	-4.2	4.3	-1.9	-2.7

Source: Erste Group

Inflation remained very much under control throughout 2013 and reached a 40-year low at 0.4% by the end of 2013. This was due to administrative price reductions of electricity and gas as well as some other services provided by local councils, such as water and refuse disposal. In addition, food prices increased only marginally due to a good harvest, while fuel prices declined in line with the oil price development. Finally, subdued consumer demand also limited price increases. Despite the unpredictable economic environment throughout the whole year, the Hungarian forint remained relatively stable against the euro in 2013. The base rate was cut several times throughout 2013 and fell from 6.25% to 3% by the end of the year, in line with the National Banks's communicated target.

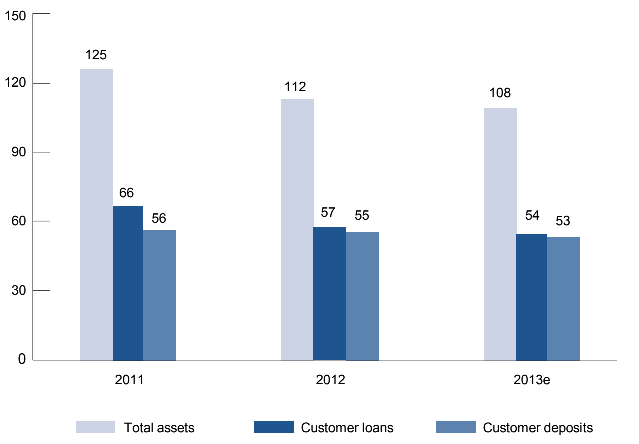
Market review

For Hungary's banking market, which was impacted by political decisions, 2013 was another extremely difficult year. The government decided to keep the special banking tax on a permanent basis and increased the financial transaction tax in August to 0.3% on the amount of transactions and to 0.6% on cash transactions. In addition, financial institutions were charged a one-off financial transaction tax, which amounted to 208% of the aggregate sum of the transactions made between January and April. The government also maximised the card interchange fees at 0.2% for bank cards and 0.3% for credit cards, while banks had to start offering free cash withdrawals twice a month up to a HUF 150,000 limit for their clients. In addition, the Competition Office levied a combined fine of HUF 9.5 billion on eleven banks for colluding in connection with preventing mortgage clients from paying off their loans in 2011 by setting interest rates in local currency.

In 2013, the Hungarian banking sector achieved a profit, which was due to positive one-off effects. Other commercial banks conducted capital increases by converting liabilities owed to the parent company into equity. This resulted in a significant positive contribution to the banking sector. Without it, the banking sector was loss-making.

Client demand stayed at a very low level, which led Hungarian banks to further scale down their operations. Moreover, ahead of an anticipated programme for foreign currency borrowers, moral hazard played a role in deteriorating asset quality in the second half of the year. The rising rate of non-performing loans was also impacted by weak commercial real estate and SME-related businesses. On the positive side, the National Bank introduced the *Funding for Growth* scheme for small and medium-sized enterprises with the aim of stimulating the economy. As part of the programme, the National Bank gave commercial banks free funding, while credit institutions could lend the central bank loan to SMEs at a preferential interest rate of 2.5% at maximum. The programme comprised two parts, amounting in total to HUF 2,750 billion.

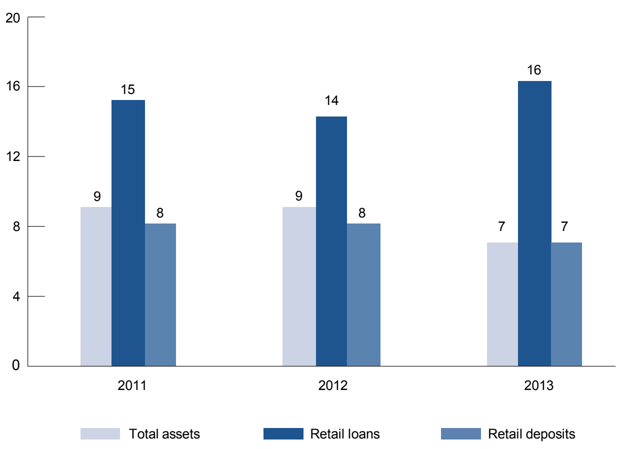
Financial intermediation – Hungary (in % of GDP)



Source: National Bank of Hungary, Erste Group

Despite its significantly shrinking balance sheet, Erste Bank Hungary continued to be a major market player in the country. After the loss in 2012, the bank remained loss making in 2013, mainly due to very limited loan demand, elevated risk provisions and the number of extraordinary items the government imposed on banks. The bank's market shares for customer loans remained stable at around 11%, while market shares for customer deposits declined to 6.5%.

Market shares – Hungary (in %)



Source: National Bank of Hungary, Erste Group

Business review

Strategy. Following the political and economic situation in Hungary, the bank optimised the size of its operation and improved the efficiency of its processes. The strategic orientation is focused on sustainable growth and returning to profitability. Loans are only granted in local currency funded from local liquidity sources. At the same time, funding through Erste Group Bank AG is being continuously reduced. Based on a redimensioned size and strengthened risk management, Erste Bank Hungary aims to position itself as the top relationship bank. It strives to further enhance the customer experience for its retail customers and further improve customer satisfaction and customer loyalty.

Highlights from 2013

New business initiatives. Affirming Erste Bank Hungary's strategic initiatives, first positive trends in the bank's business performance became visible. New retail lending improved in the second half of the year, albeit from a very low base. In addition, the volume of credit card sales and the number of active cash account clients increased.

Loans provided by building societies constitute an increasing part of the lending business in Hungary. Erste Bank Hungary entered the building society market in 2012 and ranks third in the market. In its second business year, the bank concluded more than 35,000 contracts, which is in line with the expansion plan.

Strengthened private banking. Following the acquisition of the wealth management unit of BNP Paribas, Erste Bank Hungary successfully positioned itself in private banking. The bank managed to increase assets under management significantly and defended its market share in a growing business. Erste Bank Hungary's new Private Banking centre in Budapest is the largest in the country.

Focus on process improvements. In line with the new strategic set-up of the bank, key processes have also been reviewed and optimised. These projects focus on the improvement of process efficiency and service quality for both retail and corporate business. The processing time for secured lending accelerated by 30%, unsecured lead time was even decreased by 40% and the documentation requirements for opening an account were halved. Projects were also launched for streamlining lending to micro and small and medium-sized enterprises.

To enhance customer service, Erste Bank Hungary introduced new retail internet banking services in May 2013. In addition, the call centre's interactive voice response was renewed and a new IT system was implemented.

Financial review

in EUR million	2013	2012
Pre-tax profit/loss	-107.7	-46.2
Net profit/loss after minority interests	-108.9	-55.1
Operating result	230.5	241.7
Cost/income ratio	41.7%	41.2%
Return on equity	n.a.	n.a.
Customer loans	5,287	6,185
Customer deposits	3,684	4,018

Net interest income in the Hungary geographical segment declined from EUR 335.2 million in the financial year 2012 by EUR 78.7 million, or 23.5% (currency-adjusted: -21.4%), to EUR 256.5 million in the financial year 2013. This development was driven by higher refinancing costs for the foreign currency business, a declining loan portfolio and falling market interest rates. Net fee and commission income improved on the back of higher income from payment transfers from EUR 91.9 million by EUR 31.7 million, or 34.5% (currency-adjusted: +38.1%), to EUR 123.6 million in the financial year 2013. The improvement in the net trading result from EUR -15.9 million by EUR 31.0 million to EUR 15.1 million in the financial year 2013 was due to valuation gains. Operating expenses declined from EUR 169.5 million by EUR 4.8 million, or 2.8% (currency-adjusted: -0.2%), to EUR 164.7 million. The cost/income ratio increased from 41.2% to 41.7%.

Risk provisions declined from EUR 215.0 million by EUR 8.9 million, or 4.1% (currency-adjusted: -1.6%), to EUR 206.1 million in the financial year 2013 on the back of decreased provisioning requirements in corporate business. The deterioration in the item "other result" from EUR -72.9 million in the financial year 2012 by EUR 59.2 million to EUR -132.1 million in the financial year 2013 was mainly caused by the introduction of a financial transaction tax in 2013 that amounted to EUR 45.5 million in total, EUR 16.3 million thereof being a one-off extraordinary financial transaction tax. The banking tax amounted to EUR 49.0 million. The net loss after minorities amounted to EUR 108.9 million versus EUR 55.1 million in the financial year 2012.

Credit risk

In the Hungary geographical segment, credit exposure declined even more strongly than in the previous years and dropped by more than 15% in 2013. The loan portfolio declined at a similar pace, dropping over the course of the year from EUR 6.2 billion to EUR 5.3 billion. As a result, the share of the Hungary geographical segment in the total loan portfolio of Erste Group decreased from 4.7% at year-end 2012 to 4.1% at the end of 2013. The composition of the loan portfolio by customer segment shows a shift from corporates to privates. Loans to retail customers as a percentage of total lending to customers reached almost 70% at the end of the financial year.

The marked downward trend in business volume was due to the extremely weak demand for loans. Repayments on loans were made in nearly equal parts in local currency and foreign currency so there was hardly any change in the respective ratios to total exposure: At year-end 2013, 70% of customer loans were denominated in foreign currency, mostly in Swiss francs, and 30% in local currency.

Asset quality deteriorated further, especially at the start of the financial year 2013, but from the second quarter onwards the ratio of non-performing loans to total loans stabilised. At year-end 2013, the NPL ratio stood at 26.8% versus 25.4% at year-end 2012. As in previous years, this development was driven by the business with retail customers and micro businesses, while the trend in corporates – supported by selling on the secondary market – was positive. NPL coverage by risk provisions was 62.2% at year-end 2013.

CROATIA

The Croatia geographical segment comprises the retail, private banking and SME business of Erste & Steiermärkische Bank, commonly referred to as Erste Bank Croatia, its subsidiary Erste Bank Montenegro as well as its other subsidiaries. It serves approximately one million customers through a state-of-the-art network of 150 branches and well-developed distribution channels, such as the internet, mobile communications and ATMs. With double-digit market shares in all key product categories, Erste Bank Croatia is one of the major banking institutions in Croatia. In addition to banking services, Erste Bank Croatia also occupies strong market positions in a wide range of other financial services, such as fund management, pension funds, brokerage and leasing.

Economic review

While domestic demand showed – at still low levels – some signs of improvement, net exports did not develop as positively as anticipated at the beginning of 2013. Croatia's economy continued to face cyclical and structural headwinds throughout the year and remained in recession. Real GDP contracted by 0.9% and GDP per capita amounted to EUR 10,100. On 1 July 2013, Croatia joined the EU, triggering significant changes in its export and import balance. The exit from the Central European Free Trade Agreement resulted in more constrained access for the country's exports to its former main trade partners, while still fragile EU demand weighed on EU exports, leading to a neutral net export contribution in 2013. Private consumption developed slightly better than in 2012 but had to cope with unchanged weak labour market fundamentals. The average unemployment rate in 2013 stood at 17.3%, approximately 1.5 percentage points higher compared to 2012. In light of the macroeconomic performance, Fitch downgraded the country's long-term sovereign credit rating to BB+ in September 2013, and Standard & Poor's even cut the rating to BB in January 2014

On the back of declining food, oil and energy prices, inflation decreased to 0.4% at year-end 2013, allowing average CPI to decelerate to 2.3% in 2013.The nominal euro exchange rate was kept relatively stable throughout the year. Fiscal policy faced the negative budgetary consequences of the recession, while the progress on expenditure adjustments and structural reforms remained fairly slow. The current account surplus, mainly supported by tourism, equalled 1.0% of GDP, whereas the budget deficit in relation to GDP is estimated at about 6.5%.

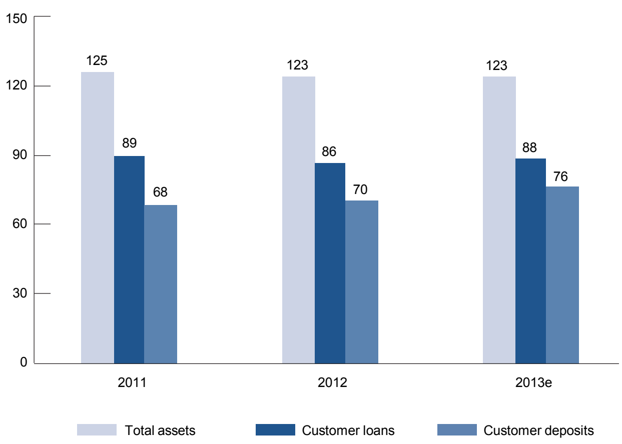
Key economic indicators – Croatia	2010	2011	2012	2013e
Population (ave, million)	4.4	4.3	4.3	4.3
GDP (nominal, EUR billion)	44.4	44.2	43.7	43.4
GDP/capita (in EUR thousand)	10.1	10.3	10.2	10.1
Real GDP growth	-2.3	-0.2	-1.9	-0.9
Private consumption growth	-1.3	0.3	-3.0	-0.8
Exports (share of GDP)	20.4	20.5	22.5	21.1
Imports (share of GDP)	4.6	33.9	36.4	36.1
Unemployment (Eurostat definition)	12.0	13.4	15.8	17.3
Consumer price inflation (ave)	1.1	2.3	3.4	2.3
Short term interest rate (3 months average)	2.4	3.1	3.4	1.5
EUR FX rate (ave)	7.3	7.4	7.5	7.6
EUR FX rate (eop)	7.4	7.5	7.6	7.6
Current account balance (share of GDP)	-1.0	-1.0	-0.1	1.0
General government balance (share of GDP)	-5.4	-5.5	-4.0	-6.5

Source: Erste Group

Market review

Croatia's banking market reflected the macroeconomic development of the country in 2013, with rising non-performing loans in the corporate sector. Overall, loans to customers increased by 1.6% and customer deposits by 8.6%.

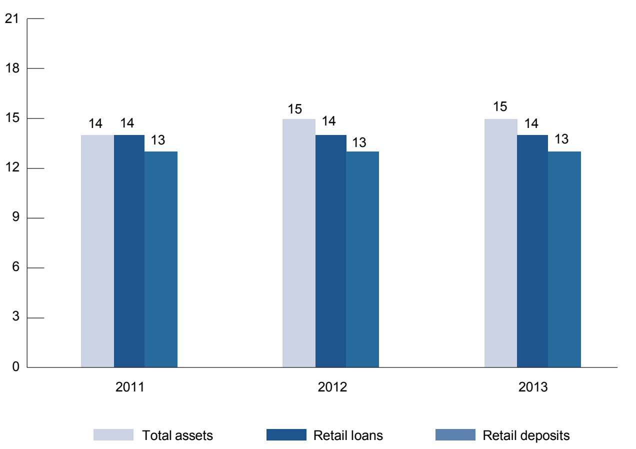
Financial intermediation – Croatia (in % of GDP)



Source: National Bank of Croatia, Erste Group

The slightly improved but still modest development of the lending market reflected the continued labour market weakness and challenges in the corporate business. On the lending side, the corporate sector showed more activity than private households. On the deposit side, households maintained steady growth, while the corporate sector showed a weak but nonetheless positive performance. Overall, the sector's loan-to-deposit ratio improved to 116% at the end of 2013. At above 20%, the capital adequacy of the Croatian banking sector remained among the highest in Europe. With total banking assets at 123% of GDP, Croatia's level of financial intermediation remained among the highest in the region.

Market shares – Croatia (in %)



Source: National Bank of Croatia, Erste Group

Erste Bank Croatia performed broadly in line with the overall trends in the country's banking market, marking a visible decline in profitability due to a rise in risk costs stemming from the corporate sector. Growth in corporate loans was the main driver behind loan expansion, and the positive development in the retail business was reflected in growing customer deposits. The bank's loan-to-deposit ratio amounted to 147% at year-end 2013. Erste Bank Croatia remained among the top three players in the market, with a total asset market share of 14.8%.

Business review

Strategy. Erste Bank Croatia's main objective is to further enhance its market positions in the medium and long term by providing simple and transparent products and excellent banking services to retail, SME and large corporate clients with favourable risk profiles. Efficiency and innovation remain a top priority. Special emphasis is put on continuous optimisation and the automation of processes and work flows while maintaining high risk management standards. These measures are designed to ensure efficiency in service delivery as well as high service quality and customer satisfaction.

Highlights from 2013

Optimisation of key processes. In 2013, Erste Bank Croatia continued its activities aimed at optimising key processes to strengthen the efficiency in service delivery further. A strong focus was set on reorganising and improving the lending processes in the corporate business. The project resulted in a higher degree of automation and centralisation, thus not only in a decrease of administrative expenses but in particular in freeing up time for improved and more active customer service.

Focus on customer relationships. Fostering long-term relationships with customers is of utmost importance for Erste Bank Croatia. In addition to the broad range of retail products, the bank also aims to improve the product range for corporate customers. In light of Croatia's accession to the European Union, Croatian companies have an increased need for products and services in this changed environment. Erste Bank Croatia supports its clients in tapping new business opportunities with several initiatives and programmes. The *Transaction Banking Initiative* focuses on cash management and trade finance, thus offering new and customised services for importers and exporters. In addition, the bank provides consultancy services to clients applying for co-financing of projects from EU funds.

Leading banking innovations. Erste Bank Croatia has always been active in developing innovative banking products and is actively cooperating with Erste Group's innovation hub. The bank improved its product offering for the retail customers. In 2013, *Erste Maestro Pay Pass Display Card*, the first of this type worldwide, was launched. The card is a "5 in one", as it can be used for ATM withdrawals, POS payments, contactless POS payments, secured internet shopping and, finally, the card is also equipped with a display showing transaction numbers for user authentication and transaction authorisation when used in direct channels.

International and local recognition. The bank's main strengths compared to its competitors are innovation, a wide range of products and a special emphasis on customer care. Along with satisfied customers, the bank won for the 6th time the prestigious *Zlatna Kuna* (Golden Weasel) competition for the *Best Bank of the Year,* presented by the Croatian Chamber of Commerce in 2013. In addition, the British magazine *Euromoney* has named Erste Bank Croatia's Private Banking the best private banking services in Croatia. Last but not least, the bank's subsidiary Erste Bank Montenegro was declared the *Bank of the Year* by the financial magazine *The Banker* in 2013.

Financial review

in EUR million	2013	2012
Pre-tax profit/loss	-8.6	55.5
Net profit/loss after minority interests	-10.8	23.7
Operating result	184.3	195.9
Cost/income ratio	40.9%	40.4%
Return on equity	n.a	8.2%
Customer loans	5,978	5,909
Customer deposits	4,344	4,156

Net interest income in the Croatia geographical segment declined from EUR 253.7 million in the financial year 2012 by EUR 19.4 million, or 7.6% (currency-adjusted: -6.9%), to EUR 234.3 million in the financial year 2013. This was attributable to narrower margins as well as to lower loan demand in the retail business and higher NPL volumes in the corporate business. The increase in net fee and commission income from EUR 65.6 million by EUR 2.2 million, or 3.4% (currency-adjusted: +4.2%), to EUR 67.8 million was attributable to increased payment transfers and card business. The net trading result remained nearly unchanged at EUR 9.9 million. Due to synergies with the Erste Card Club credit card company and additional optimisation measures, operating expenses declined by EUR 5.0 million, or 3.8% (currency-adjusted: -3.1%), from EUR 132.8 million to EUR 127.8 million in the financial year 2013.

The operating result decreased by EUR 11.6 million, or 5.9% (currency-adjusted: -5.2%), from EUR 195.9 million to EUR 184.3 million. The cost/income ratio stood at 40.9% after 40.4% in the financial year 2012. Increased risk provisioning requirements in the corporate business – partly due to new legislation regarding pre-bankruptcy proceedings – caused provisions to rise by EUR 31.2 million, or 22.7% (currency-adjusted: +23.7%), from EUR 137.4 million to EUR 168.6 million in the financial year 2013. The deterioration in the item "other result" from EUR -3.0 million by EUR 21.3 million to EUR -24.3 million was mainly attributable to litigation provisions. The net result after minorities declined from EUR 23.7 million by EUR 34.5 million to EUR -10.8 million in the financial year 2013.

Credit risk

In the Croatia geographical segment, total credit exposure widened by 2% to nearly EUR 8.4 billion in 2013. The volume of loans to customers also rose slightly and was EUR 6.0 billion at the close of the financial year. In terms of Erste Group's total loans to customers, the share of the Croatia geographical segment was 4.7%. The composition of the loan portfolio by customer segment remained mostly unchanged. Only the share of loans to municipalities rose significantly. Retail and corporates accounted for 44% and 42% respectively of the total customer loan portfolio.

The majority of loans are still denominated in foreign currency, mainly euros, even though the focus has recently been on lending in Croatian kuna. At year-end 2013, the share of foreign currency loans was 76%, while at the end of 2012 it had been close to 81%.

The high share of foreign currency loans is due to the widespread use of the euro in Croatia. Therefore, euro loans are typically matched by corresponding income or deposits in euros.

Against the backdrop of persistently challenging macroeconomic conditions – the Croatian economy contracted in 2013 just like in the preceding years – and partially also because of new legislation, asset quality continued to decline in 2013. Non-performing loans rose by around EUR 200 million to almost EUR 1.3 billion. As a percentage of total loans to customers, they increased from 18.8% to 21.1%. Most of the deterioration was seen in commercial lending – in loans to small businesses as well as in lending to medium-sized and large enterprises. NPL coverage by risk provisions was 53% at year-end, with the balance covered by collateral.

SERBIA

The Serbia geographical segment comprises the business of Erste Bank Serbia, which serves some 300,000 customers through a network of 68 branches, 8 commercial centres and 118 ATMs. Catering to the needs of a broad retail and mid-market corporate client base, the bank is represented in all of Serbia's major business centres. In terms of total assets, Erste Bank Serbia ranks 11th in the country.

Economic review

The Serbian economy recovered from recession in 2013, with real GDP growing by 2.4% and GDP per capita amounting to EUR 4,400. Economic growth was mainly driven by exports, with excellent performance by the automotive, pharmaceutical, chemical and petroleum industries. In addition, similarly to other countries in the region, agriculture had an excellent year. Domestic demand, however, remained subdued as did investments throughout the year. Although the unemployment rate stabilised in 2013, it still was among the highest in the region, at 22%. The government laid out a structural reform agenda, aimed at improving labour market efficiency and strengthening pension system finances.

In addition, the Serbian government introduced a series of fiscal consolidation and structural reform measures in 2013, including VAT hikes on the revenue side, and wage consolidation as well as lower subsidies to state-owned enterprises on the expense side. Additional measures focused on tackling the shadow economy through imposed tax collection. Still, these measures were not enough to meet the original fiscal targets and the government had to revise upwards the expected budget deficit figures which, at the end of 2013, stood at 5% of GDP. Public debt as a percentage of GDP also trended away from the 45% target set by the Fiscal Responsibility Law. In light of the missed fiscal commitments, the International Monetary Fund refused to start talks on a possible aid deal with the country. Importantly, the government expressed its preference towards a disciplined fiscal policy and readiness to strike a new deal with the IMF. Serbia started European Union membership talks in January 2014, which include negotiations on tough economic reforms and potentially unpopular compromises with Kosovo.

Consumer price inflation was influenced by weak domestic demand, the broadly stable exchange rate, and the favourable agricultural performance. The National Bank of Serbia cut the base rate several times in 2013 to 9.5%.

Key economic indicators – Serbia	2010	2011	2012	2013e
Population (ave, million)	7.4	7.3	7.2	7.2
GDP (nominal, EUR billion)	28.0	31.1	29.9	31.7
GDP/capita (in EUR thousand)	3.8	4.3	4.2	4.4
Real GDP growth	1.0	1.6	-1.7	2.4
Private consumption growth	na	na	na	na
Exports (share of GDP)	26.5	27.1	25.0	31.6
Imports (share of GDP)	43.5	44.6	40.4	44.0
Unemployment (Eurostat definition)	19.2	23.0	24.0	22.1
Consumer price inflation (ave)	6.1	11.2	7.3	7.9
Short term interest rate (3 months average)	10.8	12.9	11.6	10.0
EUR FX rate (ave)	103.1	102.0	113.1	113.1
EUR FX rate (eop)	105.5	104.6	113.7	116.0
Current account balance (share of GDP)	-7.4	-9.3	-10.5	-5.2
General government balance (share of GDP)	-4.7	-5.0	-6.4	-5.0

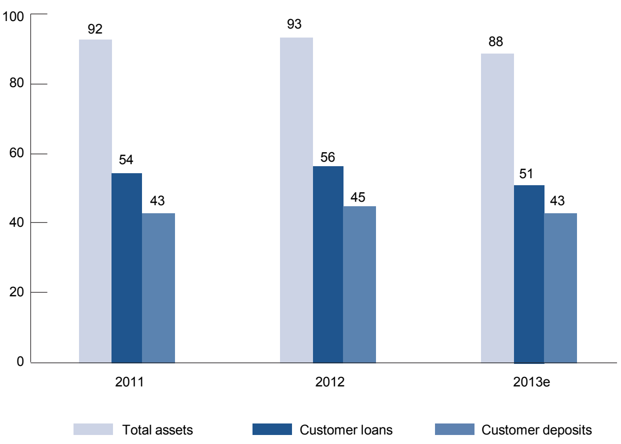
Source: Erste Group

Market review

In line with macroeconomic and political developments, the Serbian banking market also continued to make further steps towards adopting European Union standards. The National Bank of Serbia started to analyse the most suitable manner and timetable for the implementation of Basel 3 and continued to implement measures geared at a greater use of the Serbian dinar and a gradual reduction of the foreign exchange risk in the financial system. Still, as of the end of 2013, more than 70% of the system's customer loans were denominated in foreign currency, mainly in euros. Non-performing loans reached 21% and remained the main challenge for the banking sector. A deterioration of asset quality was especially visible in the corporate business with a non-performing loan ratio of 23%, while it remained below 10% in the retail business. Overall, customer loans fell by 4.2% while customer deposits increased by 2.6%, leading to an improvement of the system's loan-to-deposit ratio to 116%. Foreign-owned banks kept their dominant position in the banking sector with a market share of approximately 70%.

Erste Bank Serbia's customer loan market share increased in 2013. This trend was driven mainly by the corporate loan business where its market share went up marginally from 2.7% to 2.8%, while the retail market share remained stable at 3.3%. On the deposit side, Erste Bank Serbia's activities continued to be driven by local currency deposit-taking, where its market share increased significantly, from 4.5% to 6.0%. Overall, the bank's customer deposit market shares stood at 3.4% at the end of 2013.

Financial intermediation – Serbia (in % of GDP)



Source: National Bank of Serbia, Erste Group

Business review

Strategy. Erste Bank Serbia's main objective is to build long-term customer relationships and to become the bank of first choice for its customers. It aims to be recognised for the quality and efficiency of its services and to position itself as a long-term partner of Serbia's growing middle class. The bank strives to increase profitability and continuously extend its market shares in the key retail and SME business areas. To achieve these goals, the bank has developed a state-of-the-art branch network and digital distribution channels, in addition to a wide range of competitive financial products and services.

Highlights from 2013

Balanced business model. Erste Bank Serbia remained one of the most balanced financial institutions in the country, with a loan-to-deposit ratio of 94%. The bank managed to increase retail deposits both in euros and Serbian dinar. This development underscores that Erste Bank Serbia is one of the most trusted banks in the market.

Focus on innovation. As the oldest savings bank in the country, Erste Bank Serbia is committed to providing its customers with various tools to fulfil their financial needs. The bank launched several projects in the field of digitalisation. The internet banking solution was upgraded, a new design and new functionalities were added, and a mobile banking app was launched. Developments of further functionalities and full channel integration are planned in the upcoming future.

Supporting corporate customers. Along with its continuing attention to the retail segment, Erste Bank Serbia also set its focus on corporate clients. The bank continued its successful cooperation with the European Investment Bank and managed to provide its corporate clients with the best funding for their business developments and projects. Combined with the bank's initiatives towards environmental protection, Erste Bank Serbia also funded corporate energy efficiency projects.

Financial review

in EUR million	2013	2012
Pre-tax profit/loss	8.3	8.5
Net profit/loss after minority interests	6.3	7.8
Operating result	19.4	19.2
Cost/income ratio	64.4%	63.6%
Return on equity	11.9%	18.8%
Customer loans	562	569
Customer deposits	601	497

Net interest income of Erste Bank Serbia rose from EUR 37.1 million by EUR 1.6 million, or 4.4% (currency-adjusted: +4.5%), to EUR 38.7 million in the financial year 2013. This improvement was driven by a rise in lending volumes to corporate clients and wider margins in the retail business. Net fee and commission income remained nearly unchanged at EUR 13.4 million. The net trading result improved from EUR 2.4 million by EUR 0.2 million, or 6.5% (currency-adjusted: +6.6%), to EUR 2.6 million on the back of higher income from foreign exchange business.

Operating expenses increased from EUR 33.6 million in the financial year 2012 by EUR 1.6 million, or 4.8% (currency-adjusted: +4.9%), to EUR 35.2 million in the financial year 2013. The cost/income ratio went up to 64.4% from 63.6%. Risk costs rose from EUR 9.0 million by EUR 0.6 million, or 6.5% (currency-adjusted: +6.6%), to EUR 9.6 million due to higher allocations in the corporate business. Net profit after minorities declined by EUR 1.5 million, from EUR 7.8 million to EUR 6.3 million, in the financial year 2013.

Credit risk

Due to the steep rise in loans to banks, reflecting the investment of surplus liquidity that resulted from the substantial increase in customer deposits, total exposure in the Serbia geographical segment increased by over 17%, from EUR 736 million to EUR 865 million, in 2013. Loans to customers remained almost unchanged and amounted to EUR 562 million at the end of 2013 (2012: EUR 569 million). With a share of 0.4% in total customer loans, the Serbia geographical segment was still only of minor significance for Erste Group. Compared with other markets in Central and Eastern Europe in which Erste Group operates, the share of corporate loans in the total loan portfolio was above average at nearly 63%.

Even though the volume of loans denominated in Serbian dinar increased over the course of the year, a much larger share of loans is still denominated in foreign currency, especially in euros. The share of foreign currency loans in the total lending volume was 77.5% at year-end 2013. This is mainly due to the widespread use of the euro in Serbia. Loans in euros are usually matched by income or deposits in euros.

Asset quality worsened in 2013, with the ratio of non-performing loans to the total portfolio rising by 3.3 percentage points to 15.3%. Essentially, this development was driven by a marked increase in the NPL ratio of corporate loans, while the quality of loans to private individuals deteriorated only slightly. NPL coverage by risk provisions excluding collateral was 76.6% at year-end 2013.

UKRAINE

On 29 April 2013, Erste Group finalised the sale of 100% of Erste Bank Ukraine to the owners of FIDOBANK. The subsidiary has been deconsolidated. The Ukraine geographical segment therefore includes only the results of the first quarter of 2013.

Financial review

in EUR million	2013	2012
Pre-tax profit/loss	-9.4	-44.1
Net profit/loss after minority interests	-9.4	-44.3
Operating result	-6.0	-26.0
Cost/income ratio	247.1%	215.0%
Return on equity	n.a.	n.a.
Customer loans	0	426
Customer deposits	0	274

Group Corporate & Investment Banking (GCIB)

The Group Corporate & Investment Banking segment includes Erste Group's large corporate business, the commercial real estate business – especially of Erste Group Bank AG – and Erste Group Immorent AG. In addition, this segment comprises equity capital markets (from the second quarter of 2012 onwards), the investment banking activities in CEE and the International Business unit (covering all investment and lending activities outside Erste Group's core markets, i.e. the branch offices in London, Hong Kong, New York, Stuttgart and Berlin).

The full range of banking services is provided to large corporate customers as well as institutional and public sector customers. The division employs some 1,050 professionals, who combine industry and product expertise with local knowledge, and offers services in debt financing, equity capital markets, mergers and acquisitions, debt advice, acquisition finance, infrastructure finance, project finance, syndication, real estate development, lending and leasing, as well as transaction banking. The division cooperates closely with the capital markets as well as the retail & SME network.

Business review

Segment strategy. Building on its strong presence in retail and SME banking, Erste Group aims to further expand its footprint in the CEE region's markets for large corporate and investment banking and aims to be the leading corporate bank in its markets by 2015. The GCIB division pursues a selective growth strategy reflecting the differing market conditions in complex environments due to restrictive banking regulations.

Deepening relationships with core customers by combining regional expertise, a sector-based coverage approach and a broadening of the product range to match the customers' needs remains key for the Group Large Corporates business.

Erste Group Immorent (EGI) focuses on real estate business, infrastructure financing and property development in CEE. EGI offers a one-stop-shop approach that covers the full real estate value chain (lending, leasing, investment, project development, construction services and infrastructure business) for corporate clients, specialised project developers, real estate investors, municipalities and other public agencies. As a result of a restrictive approach to new business and a focus on core markets and core customers, the size of the portfolio continued to decline.

Erste Group's investment banking business line focuses on all equity-related transactions and services across Erste Group. This includes in particular corporate finance advice, equity capital markets services (initial and secondary offerings), equity brokerage and institutional sales, and private-equity-related services (including acquisition finance). The business model is built on Group-wide integration with the corporate business. In addition to the business line departments in Erste Group Bank AG and in the subsidiaries in the Czech Republic, Romania, Croatia and Serbia, Investment Banking operates a branch office in London and brokerages in Istanbul, Warsaw and Budapest.

The International Business unit covers all lending and investing activities outside the Group's core markets (including the branches in London, Hong Kong and New York) and is responsible for business development with, as well as credit line management for, banks and non-banking financial institutions. In accordance with Erste Group's strategic business objective to exit non-core activities, the International Business portfolio was further reduced in 2013.

Highlights from 2013

Balanced portfolio in large corporate customer business. Based on the successfully implemented sector-based coverage approach and a clear focus on corporate customers with significant economic interest in Erste Group's home market, the Group Large Corporates coverage teams, acting and cooperating across borders, managed to generate stable revenues from intensified customer relations. As a response to the demanding economic and regulatory environment, initiatives were taken to enhance organisational efficiency and to foster the Group-wide product offering in the transactional banking area.

Erste Group again demonstrated its syndicated loan and debt capital market capabilities in the CEE region. Amongst other things, Erste Group acted successfully as a joint bookrunner in a EUR 1 billion benchmark bond transaction for ASFINAG, the Austrian motorway operator. Also, Erste Group acted as the sole dealer manager and coordinator in a EUR 500 million hybrid bond exchange of Voestalpine. Furthermore, Erste Group, as a joint lead manager, led a EUR 200 million Schuldscheindarlehen transaction for Verbund, and in the same amount as a joint lead manager and paying agent for Wiener Stadtwerke. In addition, Erste Group acted as a mandated lead arranger in a USD 545 million multicurrency revolving credit facility for MOL, a leading oil and gas company in CEE.

Erste Group Immorent focuses on real estate business in CEE. The size of the portfolio continued to decline in 2013. More than 90% of the exposure is located in Erste Group´s core markets, with more than half of it attributable to Austria, the Czech Republic and Slovakia. The majority of Erste Group Immorent's (EGI) business is located in or in close proximity to the major economic centres in Erste Group's core markets. The portfolio comprises mainly retail properties, office buildings, hotel/tourism and logistics. In 2013, EGI managed to reduce the cost base further and continued to follow a cautious and selective market approach to new business. Overall, the real estate market continues to be challenging, reflected in a continuously high level of risk provisioning. Operating income decreased, driven by declining volumes and elevated levels of non-performing loans.

Benchmark deals regarding real estate financing included the financing of the Institute of Science and Technology in Lower Austria (IST), the refinancing of the Shopping Centre Lugner City in Vienna, the financing of the Business Forum Centre in Prague and the co-refinancing of the City Business Centre in Bratislava. EGI generated additional income from project management, such as the office projects (in their earn-out phase) Futurama and Moulikova in Prague. Further to that, the sale of various residential projects in Austria and the sale of the logistics park Jastrebasko in Croatia contributed to the income. Currently, the main projects in Vienna are the office building silo and Erste Campus. Both Viennese projects received awards at the *Green & Blue Building Conference 2013* for energy efficiency, sustainability and technical innovation in the real estate sector.

Investment Banking franchise is growing. Erste Group's investment banking competitive advantage stems from delivering professional service at an international standard, efficient product organisation that builds upon local expertise, and very close cooperation between GCIB's customer coverage teams and the local corporate banking teams.

A substantial improvement of deal flows and results of Corporate Finance and Equity Capital Markets was achieved in 2013, with transactions being completed in nearly all countries of operation. Notable deals included bookrunning the IPO of Romgaz (the Romanian national gas company) in Bucharest and London, the capital increase of AT&S in Austria, the listing of Immofinanz Group in Warsaw, advising a Turkish conglomerate on an acquisition in Austria, advising a group of Austrian banks on the sale of Paylife bank, advising the Czech government on the sale of a minority stake in CSA (the national airline) and advising two private equity funds on the largest infrastructure transaction in CEE this year, the acquisition of Net4Gas (the Czech gas transmission network) from RWE.

In the field of private equity, the investment banking team continued to finance leveraged buy-outs and corporate acquisitions. Transaction highlights include the arrangement of a refinancing of Adria Cable Group (Serbia and Slovenia's largest cable TV operator, private equity owned) and several acquisition financings in the Czech and Slovak energy sectors. The debt financing portfolio was stable with a total exposure of around EUR 1 billion. Market standards in the leveraged finance area have become more aggressive in 2013 which has made it more difficult for Erste Group to attract additional business and to grow volume and income whilst maintaining the strict credit risk policy.

On the equity side, a few investments were committed to large, well-established European private equity fund managers who also offer cross-selling opportunities to Erste Group's investment banking franchise. Overall, equity commitments in the Merchant Banking portfolio amounted to approximately EUR 100 million.

The strategy of structured trade finance remains to originate initially bilateral and subsequently club or syndicated facilities with major corporates in Erste Group's core markets. Tailor-made structures capture current assets and sales cash flows to generate repayment and to mitigate transfer risk. The total portfolio size managed by the structured trade finance team amounts to approximately EUR 250 million.

A small team at the London branch successfully positioned itself in a highly specialised aerospace financing segment. The business model is to provide secured asset-based loans to investors in commercial aircraft and aircraft engines. The department increased the portfolio size from approximately EUR 100 million to EUR 150 million in 2013 with an expanded client base on the back of moderate growth in the global airline industry.

Financial review

in EUR million	2013	2012
Pre-tax profit/loss	-245.6	-58.3
Net profit/loss after minority interests	-224.2	-55.6
Operating result	343.5	390.5
Cost/income ratio	35.8%	33.5%
Return on equity	n.a.	n.a.
Customer loans	16,039	17,928
Customer deposits	5,585	5,517

Net interest income declined from EUR 495.9 million in the financial year 2012 by EUR 94.5 million, or 19.0%, to EUR 401.4 million in the financial year 2013. This development was attributable to volume declines across all business lines (Group Large Corporates, Group Real Estate and International Business). Net fee and commission income improved by EUR 29.5 million, or 33.9%, to EUR 116.6 million on the back of higher income from the large corporate business in Austria as well as new syndicated lending activities in the Czech Republic. The net trading result rose by EUR 12.7 million to EUR 17.1 million due partly to better performance in the International Business unit. Operating expenses declined from EUR 196.9 million by EUR 5.2 million, or 2.6%, to EUR 191.7 million as a result of lower expenses in the commercial real estate business and in the International Business unit. The operating result decreased by 47.0 million, or 12.0%, to EUR 343.5 million.

Risk provisions increased by EUR 183.3 million, or 52.8%, to EUR 530.5 million. This was mainly due to higher risk provisions in the commercial real estate business and in the large corporate business. The item “other result” improved by EUR 43.1 million, or 42.4%, to EUR -58.5 million in the financial year 2013, which was largely attributable to negative valuation results and losses on disposals of securities in the International Business unit in the previous year. The net result after minorities declined by EUR 168.6 million to EUR -224.2 million in the financial year 2013. The cost/income ratio rose from 33.5% to 35.8%.

Credit risk

In 2013, the credit exposure in the Group Corporate & Investment Banking segment decreased from EUR 26.1 billion to EUR 24.5 billion, thus continuing the downwards trend of the preceding years. Group Real Estate was down sharply, reflecting the weakness of the economy and the problems of the real estate industry in most countries of Central and Eastern Europe. Part of the contraction was also attributable to the further reduction of International Business, which is not a core business of Erste Group. Finally, the development of Group Large Corporates, the most important business of GCIB, was sluggish, with credit exposure stagnating at EUR 13.7 billion. One reason for this trend was the attractive situation on the capital markets that made refinancing possible for larger companies by issuing bonds.

Loans to customers in the total GCIB segment decreased significantly by 10.6% from EUR 17.9 billion to EUR 16.0 billion in 2013. The share of the GCIB loan portfolio in the total loan portfolio of Erste Group dropped from 13.6% to 12.6% year on year. Group Large Corporates and Group Real Estate accounted for over 95% of total loans to GCIB customers. In International Business, loans to non-banks play only a minor role, with the majority of the portfolio consisting of bonds and loans to credit institutions. 94% of total loans by GCIB related to corporates and project financing at year-end 2013, with the rest being loans to the public sector. 79.4% of the GCIB portfolio was denominated in euros.

The significant deterioration of the loan portfolio in the GCIB segment during the year 2013 was mainly attributable to the commercial real estate business. The share of NPLs in the total portfolio increased markedly from 7.4% to 11.1%. NPL coverage by risk provisions was 59.1% at year-end 2013, with the balance fully covered by collateral.

Group Markets (GM)

The Group Markets segment comprises the divisionalised business units Group Treasury and Group Capital Markets (except Equity Capital Markets, which has been allocated to the GCIB segment from the second quarter of 2012 onwards) and includes the treasury activities of Erste Group Bank AG, the CEE subsidiaries, the foreign branch offices as well as the business from Erste Asset Management.

In the case of institutional clients, GM covers the full customer relationship and all interactions with the clients. GM is the internal trading unit for all classic treasury products (such as FX, commodities and money market) and capital market products (such as bonds, interest rate derivatives, credit and equity products).

Business review

Strategy. The focus in the Group Markets segment is on client-oriented capital markets business. Group Capital Markets is the link between financial markets, customers and the bank. Erste Group provides solid knowledge of local markets and customer needs due to the divisionalised set-up and the strong network in the CEE region. To further improve customer relationships with institutional clients, designated teams have been established in Germany, Poland, London and Hong Kong that – in addition to the departments across Erste Group’s core markets – offer a selective product range with a clear focus on CEE. The goal is to combine the best of the various core markets while benefiting from synergies. Based on Erste Group's strategy, treasury products complement the product range for retail clients. In addition, Erste Group's customers benefit from market reports of Group Research. The research reports complete the comprehensive support offer and address both retail and institutional customers.

Highlights from 2013

Leading position in CEE new issues. Debt Capital Markets managed to defend the top 3 position for eurobond issuance in the core region. Erste Group thus managed to be for the 5th consecutive time the best Austrian issuance bank. Notable deals comprise the joint lead management of the issuance of the Republic of Austria totalling EUR 4 billion and of supplementary capital in the amount of EUR 500 million of Vienna Insurance Group. In CEE, Erste Group acted successfully among others as joint lead manager in the EUR 750 million bond issuance of eustream, the leading Slovak gas transmission company.

Increased focus on customer relationships. Success is a result of well managed customer relationships. In 2013, Erste Group acquired 13 new institutional customers in Asia. In Southeast Europe (Macedonia, Montenegro, Serbia and Bosnia-Hercegovina) Erste Group launched a new and also successful initiative. In all those countries Erste Group acquired new customers. In Germany, the financial year ended again with all-time highs in terms of the number of customers, business volume and income. The lower number of new issuances was more than compensated for with numerous private placements and increased activity in the secondary market.

Growth in retail business. In 2013, overall business activity was characterised by two main topics, the still very low interest rate environment and the increasing regulatory requirements. Despite this environment, Erste Group managed to meet the retail clients' investment needs by offering tailor-made retail products. There was high demand for corporate bonds, supplementary capital with attractive yields, short-term structures (mainly indices) and broadly diversified portfolio solutions. The latter were offered as the demand for direct investments in shares was low, despite the overall very satisfying development of many stock markets. The successful launch of *Erste Investment App,* providing amongst other things information on stocks as well as analysis and recommendations of Erste Group Research, supported the sales activity.

Financial review

in EUR million	2013	2012
Pre-tax profit/loss	253.4	297.4
Net profit/loss after minority interests	197.1	227.6
Operating result	241.7	295.4
Cost/income ratio	47.8%	42.2%
Return on equity	51.1%	65.0%
Customer loans	238	77
Customer deposits	1,896	2,768

Net interest income increased by EUR 28.8 million, or 15.7%, to EUR 212.5 million in the financial year 2013. Net commission income rose from EUR 124.7 million by EUR 9.6 million, or 7.7%, to EUR 134.3 million, partly due to an improved result of Erste Asset Management. The net trading result declined by EUR 86.9 million, or 42.8%, to EUR 116.0 million. This was mainly attributable to the business areas Global Money Market & Government Bonds as well as Credit & Rates Trading, which had posted extraordinarily good results in the financial year 2012.

Operating expenses rose from EUR 215.9 by EUR 5.1 million, or 2.4%, to EUR 221.0 million in the financial year 2013. The operating result declined by EUR 53.7 million, or 18.2%, to EUR 241.7 million. The cost/income ratio increased to 47.8% versus 42.2% in the financial year 2012. Net profit after minorities decreased by EUR 30.5 million, or 13.4%, to EUR 197.1 million. Return on equity stood at 51.1% versus 65.0% in the previous year.

Group Corporate Center (GCC)

The Group Corporate Center segment mainly comprises all non-core and centrally managed business activities. These include amongst others internal service providers for the Group (such as facility management, IT and procurement) and the Asset and Liability Management of Erste Group Bank AG. Other components of this segment include the banking taxes paid by Erste Group Bank AG and impairments on participations.

Financial review

in EUR million	2013	2012
Pre-tax profit/loss	-817.9	-357.2
Net profit/loss after minority interests	-791.7	-227.5
Operating result	-47.7	-5.5
Cost/income ratio	137.8%	104.5%
Return on equity	n.a.	n.a.

Net interest income declined from EUR 237.2 million to EUR 199.4 million, which was mainly attributable to a lower result from securities and derivative business. The net trading result improved from EUR -31.5 million to EUR 1.0 million on the back of better valuation results in asset/liability management.

The increase in operating expenses to EUR 173.6 million in the financial year 2013 was largely due to intragroup consolidation of banking support operations. The item "other result" included amortisation of customer relationships of EUR 65.2 million as well as banking tax paid by the holding (Erste Group Bank AG) of EUR 147.5 million (2012: EUR 146.9 million). In addition, in the financial year 2013, this item was adversely impacted by goodwill impairments totalling EUR 380.8 million mainly for Banca Comercială Română (EUR 281.0 million) and Erste Bank Croatia (EUR 52.2 million) as well as for investments in Austria and a negative one-off impact from the sale of Erste Bank

Ukraine of EUR 76.6 million. In the financial year 2012, the main positive contribution was the proceeds of the buyback of tier 1 and tier 2 instruments (hybrid capital and subordinated bonds) of EUR 413.2 million, which almost offset goodwill impairments for Banca Comercială Română of EUR 469.4 million and investments in Austria in the total amount of EUR 45.5 million.

Intragroup Elimination

Intragroup Elimination is not defined as a segment as such but is the reconciliation to the consolidated accounting result. All intragroup eliminations between participations of Erste Group are comprised in this reconciliation (e.g. intragroup funding, cost charges etc.). Intragroup eliminations within partial groups are disclosed in the respective operating segments.

Commitment to society

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

In 2008, at the beginning of the most severe economic crisis of our time, the Austrian government took resolute action and provided Erste Group as well as other Austrian banks with funds in the form of participation capital to provide support in an uncertain economic environment. Over the five years that followed, Erste Group doubled its core capital ratio from own funds and, as a result, it is now stronger as a banking group than ever before. The bank appreciated the trust and confidence shown. Private investors and tax payers have always received the agreed dividend payments on the participation capital. In August 2013, Erste Group was the first Austrian bank to fully repay the participation capital of EUR 1.76 billion. Erste Group is convinced that only a stable and financially sound bank will be able to play a responsible role in society in the long term.

FINANCIAL LITERACY

A good understanding of money and finance is of the utmost importance, because it enables individuals and households to improve and secure their economic situation. The first pocket money, the first summer job, the decision on professional training, financing for an apartment, or retirement planning – the careful and responsible handling of money is a topic that people will be dealing with throughout their lives. Financial ignorance limits social, economic and cultural life, which might become a risk to the individual but also creates problems for communities, countries and society in general. Financial literacy is important for creating equal opportunities, social inclusion and economic well-being.

Erste Group strongly believes that knowledgeable and financially educated customers are more likely to make sound financial decisions. Financially secure individuals and families will contribute positively to communities and foster economic growth and development. This in turn supports sustainable economic development in a region and has a positive effect on market stability.

Therefore, Erste Group has been engaged in financial education activities for many years. The main objectives of Erste Group's financial education activities are to enable people of all ages to gain adequate skills and competencies to make informed and sound financial decisions and to assure that the employees of Erste Group have up-to-date knowledge as well as a comprehensive understanding of financial concepts and recent economic developments. Detailed knowledge of the range of financial products offered by the bank is simply not enough. Erste Group's employees have to be able to understand the bigger picture and to advise customers to choose the appropriate financial products.

In addition, Erste Group is committed to ensuring that the financial products and services offered are transparent and easy to understand and meet the customers' short- and long-term financial needs.

A weekly series of already 50 videos called *A cup of coffee with Rainer Münz* explaining basic financial concepts and current economic questions in an easy-to-understand manner proved very successful in 2013. The short three- to five-minute videos were initially produced for Erste Group employees and later made publicly available in German and English on the bank's website (www.erstebank.at/finanzbildung/erwachsene) and on YouTube. They are recommended by the Austrian Federal Ministry of Labour, Social Affairs and Consumer Protection.

The bank engages in many activities for children and young people. In Austria, the savings banks have been working closely together with youth organisations and debt counsellors for many years. Young adults with questions about financial issues or who need help are provided with advice. Employees of the savings banks visit up to 40,000 children and youths every year at schools to teach them how to handle money in a responsible manner. Educational modules designed for specific age groups and school grades were developed together with debt counselling experts. Primary school pupils are taught the fundamentals of economic and monetary cycles, while the focus for young people is on budgeting and debt prevention. The savings banks offer specialised workshops on various subject areas for teachers.

The platform www.geldundso.at was developed together with youths. The website includes information on a wide range of issues relating to responsibility for one's own finances, such as "Should I overdraw my account to buy the latest smartphone?" or "Can I afford to move into a shared flat?". Special education kits for schools are provided that contain extensive materials on current economic topics and how to deal with money. The materials were developed in cooperation with the *Institute for Business Education of the Vienna University of Economics and Business* and *Impulszentrum für Entrepreneurship-Education*. In the Czech Republic, the web platform www.dnesni-financni-svet.cz/cs/ (Today's Financial World Programme) offers textbooks and tools for teachers and students. It even includes a financial literacy board game for schools.

Within the special focus on educating financially vulnerable groups, Banca Comercială Română and the *New Horizon Foundation* trained 50 teachers and social workers as financial responsibility coaches. So far, 8,000 people have benefited from this programme. In a joint project of local commercial banks and the National Bank of Serbia, Erste Bank Serbia offers a course on how to manage personal finances for people who struggle with their debts. Thirty-four workshops with more than 500 attendees have been held in six towns.

Sparefroh TV is an animated video series about economics for primary school children produced by Erste Bank Oesterreich and the savings banks. The Sparefroh character explains economic principles in the context of the children's own finances in four episodes. It is accompanied by teaching materials that were designed in cooperation with the *Austrian Federal Ministry of Education, Arts and Culture*. All episodes are available in German and English on YouTube, www.facebook.com/sparefroh and www.sparefroh.at. Within the scope of the *Mehr*WERT sponsoring programme, an exhibition on the topic of money was designed to deal with the basic concepts of finance and money matters. The travelling exhibition for the target group of children aged six to twelve years of age has been to Vienna, Bratislava, Bucharest and Prague, and by the end of 2013 it had already recorded 100,000 visitors. In 2014, the exhibition on money will be on display in Belgrade.

*Mehr*WERT

For Erste Group, sponsoring is the voluntary promotion and support of institutions, initiatives and projects relating to social welfare, culture and education in our markets. The bank also has a long tradition in supporting specific sports. For Erste Group, sponsoring is not a covert form of advertising or a marketing instrument, but a way to pass on added value earned from business activities to society. The *Mehr*WERT sponsoring programme shows Erste Group's commitment to social responsibility and the values it considers worthy of support beyond its business activities.

SOCIAL ACTIVITIES

Erste Group's long tradition of cooperation with established local and international organisations reflects its commitment to the promotion of social welfare. The focus is on providing practical and swift assistance to people in difficult life situations and on support for initiatives for the long-term personal development of disadvantaged people and the creation of new opportunities.

Erste Bank Oesterreich has been a partner of *Caritas* for many years. The fight against poverty is a key priority within the wide range of joint aid projects. Erste Bank Oesterreich sponsored the annual domestic aid campaigns as well as campaigns in Eastern Europe. It also continued its support for the *youngcaritas.at* project. Since 2003, Erste Bank Oesterreich, the savings banks and s Bausparkasse have been sponsoring *Hilfswerk Österreich*, one of the largest non-profit providers of health care, social and family services in Austria. Additionally, Erste Bank Oesterreich has also been supporting the aid organisation *lobby.16*, which works to protect the right to education of unaccompanied young refugees and give them access to education, employment and participation in social life.

Banca Comercială Română operates www.BursaBinelui.ro, the only platform in Romania for no-fee donations. Donors know that even small donations fully benefit the selected projects of 200 small to medium-sized NGOs. Erste Bank Serbia supported around 100 different projects and initiatives in 2013. The bank continued to reward and support young, active, talented and creative people who have achieved outstanding results through a programme called *Club SUPERSTE*. Slovenská sporiteľňa continued its support for projects that create new jobs in sheltered workplaces and for organisations that work with handicapped people. Every year, Christmas and Easter markets are organised at which employees of sheltered workplaces from all over Slovakia offer their products for sale to bank employees. For the past six years, young people from children's homes have obtained scholarships under a project called *Vzdelávaním k úspechu* (Success through Education).

Česká spořitelna organised a series of educational seminars for NGOs. The common goal is to equip the representatives of non-profit organisations and social enterprises with knowledge that will enable them to do business in an efficient and socially conscious manner. Erste Bank Hungary's charitable activities again focused primarily on help for youths, aid to disadvantaged people and support to improve their standards of living, the promotion of healthy lifestyles and the prevention of diseases by supporting key local civic organisations such as *SOS Children's Villages* and the Hungarian *Maltese Charity Service*.

ART AND CULTURE

Erste Group supports and promotes partnerships between cultural and social institutions with the aim of jointly developing ideas and strategies for deepening the understanding and appreciation of art. Erste Bank Oesterreich is the principal sponsor of *Jeunesse*, which offers a broad concert programme covering classical, jazz, world and new music as well as children's concerts. The focus is on the promotion of young artists by giving them opportunities to perform professionally on stage as well as on the development of new concepts for teaching music appreciation. A further goal of cooperation is to give socially disadvantaged persons a chance to experience music. Erste Group also works with charitable social organisations such as *Caritas* to implement specific activities for bringing music to people. In Slovakia, Slovenská sporiteľňa is most visibly associated with the Bratislava Jazz Days, but also provided support to the music festival *Viva musica!*, to exhibitions held in a modern art museum, *Danubiana*, to the film festival *Jedensvet* (One World) as well as to five regional theatres. Česká spořitelna is the most dedicated long-term promoter of music in the Czech Republic. The portfolio includes the biggest multi-genre festivals – *Colours of Ostrava* and *United Islands*. Česká spořitelna is also a patron of *Pražské jaro* and *Smetanova Litomyšl*, two festivals of classic music.

For the tenth time, Erste Bank Oesterreich acted as the principal sponsor of the *Viennale*, Austria's largest international film festival. For the third time, Erste Bank Oesterreich awarded the *Mehr*WERT Film Prize to a film by an Austrian film director presented at the Viennale. Banca Comercială Română supported the two most important events of the Romanian film industry, *Gopo* (the Romanian Oscar equivalent) and the *Transylvania International Film Festival*, which awarded prizes to the best local and international film productions.

With the support of Erste Bank Oesterreich, selected designers are offered an opportunity to work on projects as part of the *Vienna Design Week* every year. In 2013, five projects with a focus on "Social Design" were funded. Each year, Česká spořitelna sponsors the prestigious Czech *Grand Design* award ceremony and *Designblok*, a festival of design and modern art.

Kontakt, Erste Group's art collection, concentrates on art from Central, Eastern and Southeast Europe. The collection reflects the political and historical transformation in Europe and the significance of art against the backdrop of specific cultural, social and economic developments in the post-Communist countries. Erste Bank Oesterreich acted again as a principal sponsor of *Viennafair*, an international art fair specialising in the CEE region, by enabling galleries from Central and Eastern Europe to participate in *Viennafair*. Erste Bank Croatia organised a well-known competition for emerging artists and art students, called *Erste fragments*, for the ninth time in 2013. The bank purchased the award-winning works of art and granted a cash prize. Additionally, one art student received an annual scholarship, while a special award was conferred by visitors to the bank's Facebook page. Many of the young artists who won awards in prior years have become renowned names in the art scene.

Erste Bank Serbia continued to support local cultural and social initiatives, including NGOs, across the country through its cultural programme *Centrifuge*. Erste Bank Hungary focused again on young talents and organised three dedicated programmes – *Junior Prima Award* for the best young journalists, *Erste az elsőkért* (Erste for the Best) for students of Ferenc Liszt University of Musical Arts, and the *Hungarian Press Photo* for the best photographic artist under the age of 30. Since 2008, Erste Bank Hungary has been the sponsor of *Művészetek Palotája* (Palace of Arts), a highly recognised and acclaimed institution both in Hungary and internationally.

CORPORATE VOLUNTEERING

"We are not a bank that is trying to act in a socially responsible manner. We are a socially responsible institution from which a modern bank was born." This fundamental belief, which is closely related to Erste Group's founding history, lies at the heart of all social initiatives. Driven by this spirit, Erste Group facilitates, supports and encourages employees to actively contribute and walk the extra mile to make this idea a reality. Donating money is not the only possibility of supporting communities or non-profit organisations.

Erste Group's Austrian initiative *Time Bank* is based on the idea that personal commitment and practical assistance are required more often than funds. Unlike spending money, donating time leads to personal contacts with people in need in the communities in which we live and work, and gives us a deeper insight into their plight. Giving time for a good cause is a very satisfying and humbling experience. The *Time Bank* initiative was launched in 2012 and is a scheme that matches employees who want to donate their spare time and skills with currently 32 partner organisations. Time Bank has proved highly successful in providing short-term assistance when urgently required, especially during the cold winter months when the need to help out at the aid organisations' winter shelters for the homeless is acute and urgent. In one instance, seven employees enrolled for this activity within four hours of the appeal for assistance being published. In 2013, *Time Bank* recorded over 10,000 visits on its web portal, and by the end of 2013, more than 1,000 employees had registered on the portal. In 2013, *Time Bank* arranged more than 120 new voluntary work agreements. Due to its success in the Vienna area, many of the regional savings banks joined *Time Bank*, enabling employees across Austria to volunteer their time in their local communities. Erste Bank Croatia has added corporate volunteering to its executive development programme run by Human Resources.

Another notable example of employees helping to improve their communities is the charity drive organised by the bank's Austrian Employees' Council in response to the serious floods that hit large parts of the country in 2013, leaving many people without food, clothing and shelter. The call to help the flood victims resulted in employees donating to *Caritas* and the *Red Cross*, and the collected amount was matched by the CEO of Erste Group Bank AG.

The *Good Deeds Bakery* project of Banca Comercială Română was organised as an internal competition that awards prizes to suitable projects in selected eligible categories including education, social solidarity, the environment, health and animal rights. Half of its employees were involved as volunteers or supporters. In addition, the bank found a creative way to use the 2013 Employee Engagement Survey to support local communities. Banca Comercială Română partnered with *Fondul Special pentru Copii al Fundaţiei Principesa Margareta a României* (Children's fund of Princess Margareta of Romania), a charity helping children from underprivileged families to return to school. The bank donated one euro to the charity for each employee completing the survey and, since a total of 5,261 employees participated, it ultimately doubled the figure and donated a total of EUR 10,000.

In 2013, Erste Bank Serbia organised volunteering activities in six towns. One hundred and fifty-four volunteers refurbished children's playgrounds, retirement homes, kindergartens and walking paths. Erste Bank Serbia was awarded the prize for the Best Volunteering Programme in Serbia by *Business Leaders Forum Serbia* and *Smart Kolektiv*. Slovenská sporiteľňa's employees used the possibility to support regional projects aimed at environmental quality improvement within the employee grant Euro-to-Euro. Employees took part in numerous voluntary actions aimed at the support of local communities. As part of the

Corporate Volunteering Day, the staff of Erste Bank Hungary participated in the *Közös Lábos* (Common Cooking Pot) programme organised by *Szimplakerti Háztáji Piac* (Simple Garden Home-grown Market) and prepared and sold meals. The money raised was given to *Deméter Alapítvány* (Deméter Foundation).
Česká spořitelna contributes to the development of the Czech non-profit sector by actively supporting the publicly beneficial volunteer work of its employees. Since 2007, employees have been granted two working days off each year to volunteer as part of Česká spořitelna's *Charity Days* programme. In 2013, a total of 1,883 employees volunteered their time in 134 non-profit organisations. For the fifth year running, the *Grant* programme supported non-profit organisations nominated by employees who work for them in their free time. In 2013, the bank started with the same *Grant* programme for Česká spořitelna's clients. The aim of the initiative is to support non-profit organisations in the strategic areas of CSR, helping seniors, persons with mental and multiple disabilities, and the prevention and treatment of persons with substance abuse issues. In 2013, Česká spořitelna awarded grants to 36 projects totalling CZK 2 million.

More than 400 employees of Erste Bank Oesterreich and the savings banks work on a voluntary basis at *Zweite Sparkasse*. People in financial difficulties with no access to banking services can open an account without an overdraft facility at *Zweite Sparkasse*. The accounts are offered only in close cooperation with partners such as Caritas and on the condition that the person consults a debt counsellor.

SPORTS

The capacity of sports to bring people together while encouraging them to pursue common goals embodies an idea that is also central to Erste Group's corporate philosophy. Erste Group has been supporting amateur and professional sporting events in Austria and Central Europe for many decades. Projects are carried out in a spirit of close partnership with the organisers and hosts of these events. Ice hockey, running and tennis are given particular emphasis, as is the promotion of activities for young athletes.

In tennis, activities range from support for amateur initiatives such as the *BCR Tennis Partner Circuit* in Romania to professional tennis. In 2013, Erste Bank Oesterreich was again the main, name-giving sponsor of Austria's most important tennis tournament, the *Erste Bank Open* in Vienna.

In 2013, Erste Group sponsored a large number of running events, including many in support of social projects such as the *erste bank vienna night run* in Austria, the *Bratislava Kids Run* in Slovakia and the *Homo si Tec Marathon* in Croatia. *Erste Bank Sparkasse Running* 2013 comprised more than 200 running events and more than 150,000 participants dashing some million kilometres through Austria. As Austria's largest running initiative, the *Erste Bank Sparkasse Running* community also maintains its own online presence on Facebook.

Since 2003, Erste Bank Oesterreich has been the name-giving main sponsor of the professional Austrian Ice Hockey League, the Austrian national ice hockey team as well as the local *Vienna Capitals* team. To support young Austrian ice hockey players, two youth series – *Erste Bank Young Stars League* and *Erste Bank Juniors League* – were introduced.

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

If you are interested in the many other activities being pursued at Erste Group, you will find more information on the subsidiaries' websites in the respective local language and some also in English.

Supporting our customers

FOCUS ON CUSTOMER RELATIONS

Erste Group puts customers and their interests at the centre of its business activities. Only banks that understand the financial needs of their customers can offer the right solutions at the right time. Special attention is devoted to the quality of products and advisory services, as these are key factors for customer satisfaction, and therefore, for building up and maintaining long-term customer relations. Erste Group strives to offer its customers appropriate and understandable products and advisory services. This includes constant efforts to keep service quality and the range of products aligned to customers' needs and requirements. Factors such as financial literacy and experience in financial matters as well as the financial position and the risk appetite of the individual customer are taken into account. The high standard of quality aimed at in advisory services is guaranteed by the continuous training of Erste Group's employees. The focus of Erste Group is clearly on the relationship with the customer, not on the transaction.

ACCESSIBILITY

Customer centricity as the focus of all the activities also means providing customers with access to banking services through many different channels. Customer expectations of a modern bank are subject to constant change. Contacts through digital channels and social media are increasingly gaining significance in this context. Digital channels have become as natural to many customers as barrier-free access to branches. Customers wish to be able to and can perform many banking transactions conveniently without any restrictions in terms of place or time through the use of smartphones or the internet. Erste Group believes that despite technological developments, personal contact with customers remains important to clarify questions related to financial topics face-to-face. This is why the branch network of Erste Group remains a key element of its banking business.

The range of multilingual advisory services offered by Erste Bank Oesterreich has been enlarged and now includes product information in English, Turkish, Serbian, Croatian and Czech. Banca Comercială Română also offers product and service information in Hungarian.

For blind and partially sighted people, Erste Bank Oesterreich offers bank cards printed in braille for easier identification. In addition, Erste Bank Oesterreich operates at least one self-service machine with auditory instructions in each of its branches and in all VIVA shops of its cooperation partner OMV. Currently, there are around 180 such ATMs at Erste Bank Oesterreich and around 190 at VIVA shops. At Erste Bank Serbia, ATMs also have braille lettering. Eighty-six branches of Erste Bank Hungary are equipped with self-service machines featuring individual control of colour output and light intensity. The websites of Erste Group's local banks Erste Bank Oesterreich, Erste Bank Hungary, Erste Bank Croatia, Erste Bank Serbia, Banca Comercială Română and, most recently, Slovenská sporiteľňa have been modified to allow a choice of three character sizes.

To accommodate for the technical mobility of customers, the websites of Erste Group Bank AG, Erste Bank Oesterreich, Erste Bank Serbia, Erste Bank Croatia and Banca Comercială Română now feature responsive designs. This means that the website adapts automatically to the device and screen size, therefore improving the usability.

INNOVATION AND PRODUCT QUALITY

Further to developing new products, the aim is to identify and realise potential for improvement in order to guarantee optimal services. Erste Hub was founded at the end of 2012 to develop technical innovations that benefit the customer business. A multidisciplinary team of product, IT, design and marketing experts cooperates with experts from the banking business. The purpose is to initiate and promote initiatives across departments that focus on customer satisfaction. The teams of Erste Hub worked on some fifteen projects in 2013. Five of them have been implemented in Austria and two in Croatia so far.

Securing the high quality of the financial products and services offered is an essential element in product development. In 2013, Erste Group therefore implemented a specific approval process for all new products prior to their launch. It is planned that all local banking subsidiaries will be integrated into this product approval process in 2014.

CUSTOMER SATISFACTION

High levels of customer satisfaction and thus customer loyalty help secure the long-term success of a bank. The quality of customer relations ultimately depends on the customers' experiences with their banks. Such experiences may be direct or indirect, significant or less significant. In addition, conscious as well as unconscious experiences influence customer relations. Customer satisfaction is evaluated by representative and extensive surveys conducted across all countries of Erste Group.

Based on the results, the calculated index (the Customer Experience Index, CXI) describes the quality of customer relations. The CXI also ascertains the positioning as well as the strengths and weaknesses of the local banks of Erste Group in comparison to the top three competitors in each country. Furthermore, the CXI is a bonus criterion for both the management board of Erste Group and the management board of the local banking subsidiaries.

With respect to customer satisfaction, Erste Group managed to improve its position across all markets and segments in 2013. Erste Bank Oesterreich, Banca Comercială Română, Slovenská sporiteľňa, Erste Bank Croatia and Erste Bank Serbia developed positively, Česká spořitelna and Erste Bank Hungary remained at stable positions.

Erste Group is committed to continuously improving the customer experience and the quality of its services. Across Erste Group, more than 80 customer experience projects were successfully completed in 2013, and just as many are scheduled for the year 2014.

In the private banking business, Erste Group further strengthened its positions in Austria, the Czech Republic, Slovakia, Romania, Hungary and Croatia. The focus of the activities and services offered is particularly on long-term wealth creation and investment management, estate planning, philanthropy and foundation management. As a result of the underlying low interest rate environment, the focus was set on higher yielding products in 2013, without neglecting the higher risk attached to these financial instruments. Erste Group will continue its efforts in the upcoming years to achieve the overall market leadership in private banking in Central and Eastern Europe as well as the leading positions in the local countries.

Erste Group is particularly pleased about the awards won by its local banks in Central and Eastern Europe, which demonstrate the high level of customer satisfaction. At the same time, Erste Group regards it as its duty to continuously strive to maintain the status as one of the best and most trusted banks. The fact that all its banking subsidiaries operate under a brand name of very high recognition value and trustworthiness represents a significant competitive advantage in the banking business, which, among other ways, has manifested itself in solid deposit inflows at times of economic uncertainty.

ETHICAL INVESTING

Erste Asset Management was an early mover in anticipating the growing needs and intentions of investors to increasingly emphasise environmental and socio-ethical aspects in their investment decisions. Over the past decade, Erste Group has used these changes as an opportunity to develop the largest variety of sustainable funds in Austria. Since 2012, all asset management entities have been operating under the umbrella of Erste Asset Management UN PRI Signatories and have committed themselves to acknowledging the United Nations-backed Principles of Responsible Investment (PRI). In 2011, it had already been decided to prohibit investments in companies that are active in the field of controversial weapons such as land mines, nuclear weapons or cluster bombs for all actively managed mutual fund portfolios. By signing the Bangladesh Memorandum in 2013, Erste Asset Management has now also committed itself to refraining from investing in companies and their suppliers that commit violations of labour laws or human rights in the textile industry.

Erste Asset Management is an acknowledged provider of sustainable investment funds in Austria and in the CEE region. In 2013, the total volume of assets under management was EUR 48 billion. Of this, EUR 16 billion relates to actively managed funds. The actively managed fund assets totalled EUR 16 billion. The sustainable assets under management reached a volume of EUR 2.3 billion in 2013, an increase of 15% versus 2012.

In 2013, the sustainability specialists managed thirteen investment funds as well as several externally mandated portfolios. The managed mutual funds comprised four bond funds, five regional stock funds, one micro finance fund of funds and two theme funds for climate protection and the environment (the latter two are managed jointly with WWF Austria) as well as one asset allocation fund of funds. In 2013, *Erste Responsible Emerging Corporate* was launched, which invests in corporate bonds from emerging markets focusing on sustainability aspects.

FINANCIAL INCLUSION

Offering simple banking services to the otherwise unbanked part of the population was among the main reasons behind the foundation of Erste österreichische Spar-Casse in 1819. For a variety of reasons, even today some segments of the population do not have access to the financial services of commercial banks.

In 2013, the business focus of good.bee, the financial inclusion joint-venture owned by Erste Group (60%) and ERSTE Stiftung (40%), was again on micro banking and social enterprise financing geared towards supporting enterprises that address social issues. In addition, local networks promote the training of social entrepreneurs by supporting them in acquiring the expertise and skills required for running their businesses successfully. At Erste Bank Oesterreich, a specific team coordinates all activities related to social issues and enterprises. While commercial enterprises have access to a wide range of financing options and instruments, the social sector, especially in the region of Central and Eastern Europe, still lacks sufficient banking services. These efforts of Erste Group are indirectly supported by the EU programme *Horizon 2020* for research and development, which, amongst others, provides support for small and medium-sized business innovations and for coping with societal challenges.

Erste Group's banking subsidiaries have started a number of good.bee initiatives. In Romania, good.bee Credit was founded in 2009 in partnership with the Economic Development Center (CDE foundation) in Romania. The company, which has been fully owned by Erste Group since August 2013, offers development-oriented financing products for self-employed persons and small businesses. By the end of 2013, around 2,800 loans with a total volume of EUR 14 million had been granted. Smallholdings and micro entrepreneurs are provided with investment loans and working capital loans to develop their businesses on a long-term perspective.

In 2013, Erste Bank Serbia and the Serbian National Employment Agency continued *supERSTEp,* a programme designed to support unemployed young people and start-ups with capital and training to set up or continue developing their own businesses. Erste Bank Croatia also continued the project good.beginners. This initiative addresses people and businesses that have difficulties meeting standard requirements for obtaining loans. Twenty-five projects totalling EUR 260,000 have been funded up to now.

In Austria, the microfinance initiative was continued in cooperation with the Federal Ministry of Labour, Social Affairs and Consumer Protection and guaranteed by the European Investment Fund. On the initiative of Erste Bank Oesterreich, the campaign was taken over by the larger Austrian savings banks. Up to now, almost 300 micro enterprises have been founded within the framework of this initiative. In 2013, the evaluation of the project was started.

Social entrepreneurship means initiatives of individual persons or organisations that pursue charitable purposes through entrepreneurial activities. This may apply to non-profit organisations generating their own revenues as well as to profit-oriented enterprises pursuing social initiatives. In addition to the areas of labour, health and education, the social aspect in this context also includes environmental and cultural topics. These organisations offer products and services as well as employment opportunities that satisfy fundamental needs in society or offer alternative approaches that are socially and also ecologically more agreeable.

Erste Bank Oesterreich continued to support the customer group of social entrepreneurs in 2013. The bank provides financing, in some cases in cooperation with business angels and socially oriented investment funds, for business initiatives if the bank is convinced of the social impact. Furthermore, Erste Bank Oesterreich continued to support the student project *For Best Students*. In cooperation with Vienna's debtor counselling service, the initiative called *betreutes Konto* (assisted account) was successfully continued and also launched in other regions of Austria. On average, every week Erste Group grants two clients of the debtor counselling service such an account. Experience gained up to now shows that this service is capable of closing the gap between customers of full legal capacity and those who have become incapable of handling their own financial affairs.

As a result of closer cooperation with NGOs, more than 80 charitable organisations have their principal bank accounts with Erste Bank Oesterreich. The new support concept and the exemption from banking fees for charitable organisations ensure that every donation to an Erste Bank account is received without being burdened by any fees. Erste Bank Oesterreich is also the primary contact for joint activities with NGOs within this core area. A major aspect is the support provided to NGO customers for donations. Customers have the possibility to simply and directly donate money to some 40 aid, animal protection and environmental organisations through electronic distribution channels as well as at the local branches. Furthermore, Erste Bank Oesterreich designed the seminar *Das Geld kommt von der Bank* (The money is from the bank) in cooperation with the Competence Centre for Non-profit Organisations and Social Entrepreneurship of the Vienna University of Economics and Business for this interest group. This seminar will remain on the curriculum of the institute in 2014 as well.

All cooperation projects launched since the start of the Social Banking Initiative are still in place, which is a clear confirmation of Erste Group's commitment to sustainability. Some examples are its cooperation with *Verein Wohnen* (housing association), which pursues the goal of supporting people who are homeless or at risk of becoming homeless. In addition, a project to measure social effectiveness was launched. In future, apart from measuring the economic impact, the social impact of numerous campaigns will also be assessed.

In the area of social entrepreneurship, similar initiatives have been implemented at the local banking subsidiaries across Erste Group. Erste Bank Serbia, for instance, supports social enterprises that focus on agriculture or on healthcare. Česká spořitelna continued its programmes for social enterprises, as did Erste Bank Hungary, Banca Comercială Română and Slovenská sporiteľňa.

Employees

Retaining experienced and committed employees is fundamental to the long-term success of every company. Towards that end, Erste Group – as one of the largest employers in the region – strives to maintain its position as an employer of choice in Central and Eastern Europe; it encourages its employees to continually strive for professional and personal development and offers equal opportunities to everyone in the organisation. For employees, working for one of the most renowned banks also means a commitment to actively dealing with topics such as competence building and talent and career management.

Erste Group believes that employee engagement is vital for a successful company. Feedback from the employees is of the utmost importance for Erste Group, as it considers engagement and an open dialogue to be key. In 2013, Erste Group conducted its second Group-wide employee engagement survey to gain feedback on employee satisfaction, engagement, motivation and loyalty. 75% of the employees of more than 100 subsidiaries of the Group participated in this survey. The results of the survey allow the bank to evaluate initiatives and policies aimed at creating and promoting a balanced and healthy work environment as well as to assess success and identify areas that can be improved. Based on the results of the survey carried out in 2011, various measures were undertaken and have already yielded benefits. Team work and leadership have always been – and will continue to be – Erste Group's undisputed strengths. This shows that respectful behaviour towards each other, one of Erste Group's key values, is also practised.

The work-life balance of many employees has been impacted not only by the economic downturn across countries but also by an additional workload due to regulatory requirements as well as restructuring and process-efficiency improvements. Erste Group's Employees' Councils and the bank's Group Human Resources Department jointly developed guidelines aiming to avoid or reduce staff layoffs and to avoid violations of working time regulations. Erste Group has developed specific measures for employee reductions that consider the local legal environment and bring in the support of the respective Employees' Councils. An important measure, in addition to the well-established internal job market across Erste Group, is to recognise the competence and performance of employees in redundant job positions and help them find appropriate positions that become available through attrition, retirement and organisational changes in other entities.

Erste Group puts a strong emphasis on ensuring that its employees are provided with a safe and healthy work environment. As an employer of choice, Erste Group recognises that a satisfying work-life balance enhances a sustainable work environment, which in turn benefits all stakeholders. Employees are also encouraged to give back to the society and communities in which the bank operates, by volunteering their time and sharing their knowledge and expertise.

DIVERSITY AND INCLUSION

Companies that are committed to diversity and inclusion benefit from more engaged employees, a better brand image and higher customer satisfaction. Erste Group regards diversity as a vital part of its business strategy in attracting and retaining the best and brightest talents for offering the right products and services to a diverse client base. Innovation and sustainable success can only be achieved by leveraging the skills and abilities of individuals with a broad range of educational backgrounds, professional and other interests, work experience, life experience and cultural perspectives.

Erste Group provides a work environment free of discrimination and harassment and values the work of each and every person and treats the members of its organisation as unique individuals, regardless of gender, age, marital status, sexual orientation, skin colour, religious or political affiliation, ethnic background, nationality or any other aspect unrelated to their employment. Erste Group is firmly committed to creating conditions for greater diversity in decision-making bodies as well as a work environment where each and every employee has equal opportunities to develop at all professional levels.

In 2013, Erste Group confirmed its commitment to diversity and equal opportunities by appointing a Group Diversity Manager. This was in response to the 2011 employee engagement survey, where only 48% of the group-wide employees felt that the group was committed to providing equal opportunities. One of the key human resources targets is to increase the percentage of women in management bodies to 35% by 2019. The measures to reach this target comprise in addition to a succession pool and career planning for women, mentoring and coaching. Currently, 26% of senior management and 16% of supervisory board members across Erste Group are female. Other priorities include promoting intercultural dialogue, age management and work-life balance. Progress in reaching the above target will be monitored and reported on on a regular basis. Diversity principles were also incorporated into key human resources instruments and processes such as succession planning, talent management, leadership competencies and remuneration policy (equal pay for equal work).

At Česká spořitelna, the *Diversitas programme* is a comprehensive and systematic approach to diversity and inclusion. The bank received a grant from the European Social Fund for the project *Diverzita: flexibilní formy práce a slaďování pracovního a osobního života* (Diversity: Flexible Work Arrangements and Work-Life Balance). This programme aims to create a systematic approach to flexible work arrangements, which will lead to the successful integration of parents returning from parental leave as well as providing women over 55 years of age with more opportunities to balance work with caring for dependent family members. As of year-end 2013, a total of 10% of Česká spořitelna's work force was on maternity or parental leave and 7.5% were women over 55 years of age. Allowing these employee groups better access to flexible work arrangements will increase their motivation and loyalty, improve corporate culture and save the company high turnover costs. In 2014, 140 managers will be trained to better understand the benefits of flexible work arrangements.

Erste Bank Oesterreich is convinced that success in business correlates with highly effective and efficient diverse teams. To achieve a better gender balance at management levels, the bank launched the *WoMen Business programme* in 2011. This initiative covers a range of measures to support female leadership, talent development (also for women over 40 years of age) and customer relationships. In 2013, Erste Bank Oesterreich continued to support measures to increase the number of women in management positions and has set an internal target of 40% by 2017. At the end of 2013, it stood at 33%.

Respecting and promoting a work-life balance among its employees has been a long-standing priority of Erste Bank Oesterreich. The company offers a wide variety of family-friendly measures and evaluates them on a regular basis to ensure that they meet employees' needs. These measures include flexible work arrangements, short sabbaticals, regular meetings for employees on maternity/parental leave, a work-life centre focusing on work-life balance issues and a special Women and Families Committee in the Employees Council. In 2013, Erste Bank Oesterreich received the *Taten statt Worte* (Actions instead of Words) award for being the most family-friendly company in Vienna.

Erste Group's commitment towards diversity and inclusion is, of course, also visible in its smaller banking operations. Erste Bank Serbia is a signatory to the UN Global Compact's Women's Empowerment Principles.

The priorities for 2014 are establishing an Erste Women's Network, which will help develop and promote women in their professional careers, increasing the number of women in both the local and executive succession pools (both currently at 26%) and ensuring at least one new female supervisory board member across Erste Group. In addition, it is planned to sign the *Charta der Vielfalt* (Diversity Charter) in Austria and to encourage more diversity initiatives across Erste Group's subsidiaries in CEE.

LEARNING, TALENT MANAGEMENT, LEADERSHIP AND COMPETENCY DEVELOPMENT

Erste Group regards supporting the continuous development of its employees' professional and social skills as a top priority to ensure that the employees are well prepared to act professionally and in a socially responsible manner. The Erste School is the group's centre of competence for learning and development activities. It offers executive training and comprises open enrolment courses including personal development courses as well as programmes for specific business areas. Developed in co-operation with the respective business lines, these courses provide expert knowledge and assure a uniform understanding of standards and processes at fundamental, advanced and excellence levels. Erste School runs three business colleges that focus on key areas of the bank.

In 2013, the Group Corporates & Markets College offered seven standardised educational learning programmes. In addition, tailor-made as well as open enrolment courses focusing on large corporates, real estate, sales, treasury, transaction banking, investmentbanking and steering & support units are available. The Risk Management College conducts training courses covering all areas of risk management and also provides basic risk management training to employees in other divisions of the bank. To maintain and improve industry-specific knowledge, compliance education initiatives were introduced for all Erste Group employees. The courses include topics and learning modules on regulatory issues such as securities compliance, the prevention of money laundering and terrorist financing as well as fraud awareness training. Starting in 2014, all employees of Erste Group have to annually complete a set of online training courses to ensure appropriate awareness of compliance issues. The Project Management/Business Analyst (PM/BA) College aims to increase Erste Group's competency in project management and ensure that project success is sustainable. In 2013, the PM/BA College offered four programmes for group project managers and business analysts. To ensure a high performance level of the sales force, a group-wide certification process for advisors in the branch network was implemented across Erste Group. At Banca Comercială Română, the implementation is scheduled for 2014.

In addition, Erste Group offers an annual Graduate Programme for university graduates and continues its well-established Group Leadership Development Programme. The former aims to attract high-potential university graduates and provides them with fundamental banking knowledge, whereas the latter focuses on the development of highly qualified managers.

Erste Group's Talent Management has set its focus on the implementation of a group-wide succession pooling initiative. This initiative aims to prepare high-performing and high-potential managers for further career steps and align Erste Group's leadership talent pipeline with strategic business needs. This directly supports the group's strategic objective of being the leading bank in the region. Internationally mobile talents are supported in their individual development towards a defined career direction in the group. A similar process has been implemented in the local banks as well.

In 2013, each employee of Erste Group had on average 3.4 training days for professional development. In addition, Erste Group had an average of 4.1 training days per participant in all group-wide learning and training activities offered by Erste School. The total group-wide training budget amounted to EUR 12.2 million, which represents an average of EUR 370 per employee.

For 2014, it is planned to further review and adapt the needs for risk management education in order to be ahead of the ever increasing regulatory requirements. In the area of talent management, the scope of the target group will be extended beyond the group's key positions to include all management levels.

REMUNERATION AND PEOPLE PERFORMANCE MANAGEMENT

Across Erste Group, the focus was on implementing clear remuneration policies, processes and procedures that ensure sound remuneration structures. Erste Group's reward system is consistent, competitive and transparent. It is is to recognise individual, team and company performance. The remuneration policy aims to (i) create an environment where employees can perform, develop and be engaged, (ii) reward at the right level to attract and retain employees with the required competence and skills, (iii) be cost-competitive on the external job market and be cost-flexible to follow changes in the organisation and in the labour market and (iv) support leadership and employee behaviour, actions and decisions that are aligned with creating positive customer experiences and effective risk management practices.

Erste Group offers competitive but not market-leading compensation packages. The local banks' remuneration practices are well balanced with the business line needs and local country pay practices. In general, the remuneration schemes are designed according to the respective local CRD III (Capital Requirements Directive), bank laws and ESMA (European Securities and Markets Authority) guidelines for remuneration.

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

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

The Long-Term Incentive (LTI) programme is offered only to selected top management. The LTI is linked to the long-term competitive performance of Erste Group. The LTI-programme was launched in 2007 and has been awarded three times since then.

The supervisory board reviews and evaluates on an annual basis the remuneration policies and practices across Erste Group. This is to ensure that remuneration practices comply with the respective international and national regulations. The evaluation covers the entire remuneration process from determining bonus budget pools to target setting and performance evaluation, awarding bonuses in relation to performance and fixed salary and the actual pay-out of bonuses.

In 2014, Erste Group plans to continue with the remuneration strategy set forward in 2012 – to create an environment where performance (target setting and evaluation) and development (career, employability) are fully integrated in the bank's reward and promotion decisions.

HEALTH, SAFETY & WORK-LIFE BALANCE

The workplace is the centre for health promotion in the 21st century, as it directly influences the physical, mental, economic and social well-being of employees and affects the health of their families, communities and society. It offers an ideal setting and infrastructure to support and promote health issues to large groups of people, thus making occupational health an important contributor to public health.

The Erste Group Health Centre has a professional team of occupational physicians, industrial psychologists and physiotherapists. In 2013, the Health Centre focused on the following areas: (i) ensuring full compliance with local labour laws on a group-wide tives started in 2013, such as tools for early detection of mental health issues and focusing on rehabilitation.

As a supporting measure for a satisfying work-life balance, Erste Group strives to fully reintegrate employees returning from parental leave into the work force by offering flexible work arrangements, the opportunity to work from home and a monthly childcare subsidy. Erste Group encourages communication during paternal leave to keep the employees informed on topics such as

scale, (ii) prevention of diseases by focusing on risk factors or on changing personal habits and behaviours and (iii) prevention of psycho-social diseases. The Health Centre offers voluntary medical check-ups, screening of the carotid artery for stroke prevention, stress reduction and nutritional consulting. In Austria, the Health Centre serves some 7,000 employees, and more than 15,000 employee contacts with the Health Centre were registered in 2013. The Austrian Ministry of Health awarded the Erste Health Centre the *Seal of Quality for Health Promotion* in recognition of the quality of its activities.

Mental health issues are among the most important contributors to the burden of disease and disability worldwide. Five of the ten leading causes of disability worldwide are related to mental health. Therefore, Erste Group has also started to focus on the prevention of psycho-social diseases. In addition to person-focused interventions (training courses for managers, promotion of good mental health practices and providing tools for recognition and early identification of mental health problems), the Health Centre also involves employees, management and other stakeholders in integrating health-promoting policies, systems and practices. In the past four years, sick-leave due to mental illness at Erste Group has been more than 40% lower than for all other Austrian white collar employees. As a result, the European Network of Workplace Health Promotion recognised Erste Group and its Health Centre as a model of good practice.

Erste Group was one of just a few companies asked by the OECD to contribute to their research on mental health in Europe in 2013. A representative of the Erste Group Health Centre was asked by the Austrian Federal Ministry of Labour, Social Affairs and Consumer Protection to lead a task group on retirement due to mental illness. For 2014, the Health Centre plans to continue the initia-

organisational changes or vacancies. Information meetings offer parents the opportunity to meet managers and discuss current issues that concern the company or the team. Moreover, flexible work arrangements are offered not only to returning parents – who are empowered to organise their work to fit in better with the current phase of their lives. All employees of Erste Group are entitled to benefit from these opportunities and are encouraged to use them in order to achieve a satisfying work-life balance.

Staff indicators *

	Share of female staff		Share of part-time staff		Share of female part-time staff from total part-time workforce		Share of male part-time staff from total male workforce		Share of executive positions	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
Austria	53.1%	53.4%	25.2%	31.0%	88.3%	78.7%	6.3%	n.a.	1.4%	1.4%
Czech Republic	74.5%	74.5%	8.8%	10.6%	94.1%	95.0%	2.0%	n.a.	0.5%	0.5%
Slovakia	72.5%	78.6%	0.6%	0.7%	83.3%	92.0%	0.3%	n.a.	1.1%	0.8%
Hungary	65.7%	67.0%	1.3%	1.6%	82.9%	86.0%	0.7%	n.a.	1.4%	1.5%
Croatia	68.9%	74.0%	1.2%	0.9%	83.3%	95.0%	0.6%	n.a.	2.6%	1.1%
Serbia	71.3%	67.0%	0.1%	0.4%	0.0%	64.4%	0.4%	n.a.	1.7%	1.7%
Romania	70.9%	75.6%	5.0%	0.3%	84.5%	80.6%	2.7%	n.a.	1.1%	0.9%

	Other managerial positions		Share of women in executive positions		Share of women in other managerial positions		Average number of sick leave days per employee		Number of employees with health disability	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
Austria	8.2%	8.8%	15.9%	23.0%	28.0%	33.0%	7.8	7.8	102	n.a.
Czech Republic	4.5%	4.3%	26.9%	23.2%	35.0%	41.0%	5.4	5.7	73	n.a.
Slovakia	8.5%	9.0%	28.3%	29.4%	54.6%	57.3%	7.3	6.4	65	n.a.
Hungary	12.6%	14.0%	25.0%	23.0%	53.5%	56.0%	6.0	6.8	6	n.a.
Croatia	13.4%	12.6%	38.5%	21.7%	58.2%	60.0%	4.0	3.7	2	n.a.
Serbia	16.2%	15.4%	58.8%	62.5%	49.7%	49.0%	6.1	5.8	0	n.a.
Romania	6.5%	13.9%	39.7%	28.3%	55.5%	62.0%	8.2	7.1	23	n.a.

Turnover rate		<30 yrs		31-40 yrs		41-50 yrs		>50 yrs	
2013	Total	initiated by the employee	initiated by the employer	initiated by the employee	initiated by the employer	initiated by the employee	initiated by the employer	initiated by the employee	initiated by the employer
Austria	5.0%	42.5%	0.4%	29.8%	1.1%	16.8%	1.1%	7.6%	0.7%
Czech R.	16.8%	15.4%	15.8%	20.7%	12.3%	10.9%	7.8%	14.4%	2.7%
Slovakia	8.6%	19.6%	14.3%	14.9%	20.4%	6.3%	12.4%	4.1%	8.0%
Hungary	14.5%	21.3%	5.8%	29.5%	18.7%	10.8%	12.1%	0.3%	1.6%
Croatia	7.9%	6.4%	10.4%	17.3%	12.9%	5.0%	4.0%	0.5%	43.6%
Serbia	4.1%	7.5%	7.5%	27.5%	15.0%	2.5%	7.5%	0.0%	32.5%
Romania	31.4%	7.9%	4.8%	8.5%	18.0%	3.5%	32.0%	0.7%	24.6%

* Executive positions cover all the board and board-1 positions. Other managerial positions cover all the board-2 and board-3 positions.
The scope of reporting was extended in 2013, the subsidiaries of the CEE banks were included.

Environment

ENVIRONMENTAL STRATEGY

Respect for the environment, just like respect for individuals, is an integral part of Erste Group's corporate philosophy. Erste Group believes it is necessary to monitor the impact of its business activity and behaviour on the environment and recognise that commercial activities and environmental responsibility do not exclude but even complement each other.

Based on the experience gained since the establishment of Erste Group's Environmental Management unit in 2011, a group-wide Environmental, Energy & Climate Strategy (environmental strategy) was approved by Erste Group's management board in 2013. As the environmental strategy provides a general framework that is binding for all group companies, the approval was a big step towards incorporating not only economic and social but also environmental issues into Erste Group's strategy.

The environmental strategy is built on four pillars:
_ Implementation of an Environmental Management System
_ Implementation of a Supply Chain Management System for all products and services needed to run the banking business
_ Integration of environmental criteria into banking products and services (especially financing products)
_ Co-operation with environmental NGOs.

An Environmental Steering Committee consisting of the CEO and COO of Erste Group and the Head of Group Environmental Management was set up to monitor the group-wide implementation of the environmental strategy. In each banking subsidiary, one board member took over the responsibility for implementing the environmental strategy on local levels. Over the next few years, it will become common practice to integrate environmental aspects in day-to-day banking business wherever appropriate.

Medium-term priorities

In line with the environmental strategy, the following key priorities were confirmed:
_ Climate protection and sustainable use of natural resources: increased use of energy from renewable sources, improvement of energy efficiency at all office locations and branches across Erste Group, improving the energy efficiency of data centres, reduction in the number of business trips supported by increased use of telephone and video conferences
_ Ecological impact of procured products and services: further development and implementation of ecological procurement criteria
_ Waste management: implementation and optimisation of internal waste management and waste separation
_ Sustainable banking products: definition of criteria for sustainable financing and investments, participation in international environmental agreements

ENVIRONMENTAL TARGETS

To improve the environmental footprint of the business activities, Erste Group defined the following measurable group-wide reduction targets by 2016 compared to 2012 data:

_ Electricity consumption by -10%
_ Heating energy by -10%
_ Copy paper consumption by -20%
_ Carbon dioxide (CO_2, scope 1 and 2) emissions by -30%

Development of the environmental footprint in 2013 versus 2012

_ Electric energy: - 5.0 % to 177 GWh
_ Heating energy: + 1.6 % to 165 GWh
_ Copy paper: - 10.6 % to 1,530,121 t
_ CO_2 emissions (scope 1 and 2): - 10.0 % to 113,204 t

GROUP-WIDE ACTIVITIES IN 2013

Energy efficiency and greenhouse gas emissions

The Supply Chain Management System will ensure that ecological and commercial considerations are equally taken into account in future purchasing decisions. Not surprisingly, energy is key in optimising Erste Group's environmental impact.

Erste Group defined the following group-wide criteria for the selection of heating and electricity suppliers. Whenever available, district heating – preferably from renewable sources or waste – is to be used followed by natural gas or LNG (liquefied natural gas), electricity and, finally, heating oil. If available, electricity is to be purchased from 100% renewable sources or from local suppliers with the highest share of renewable energy or the lowest CO_2/kWh ratio.

In Austria, Erste Group has been using exclusively green electricity – CO_2 free, from renewable sources only – since the switch to the certified electricity provider Naturkraft in 2012. In August 2013, Erste Bank Croatia followed as the second company purchasing only 100% CO_2-free electricity – the first Croatian bank to do so.

Erste Bank Croatia was also a pilot for an energy-saving programme with the aim of decreasing energy consumption in the branch network without installing new technical equipment just by increasing the awareness of employees. Within three months, electricity consumption decreased by an impressive 17% in the summer of 2013 compared with the same period in 2012.

Based on this experience, similar energy-saving programmes will be implemented in all local banking subsidiaries within the next two years. It is expected that this initiative will be a major contributor to the planned reduction of electricity consumption by 10% on group level.

In 2013, Česká spořitelna implemented several measures to decrease energy consumption. The roll-out of the remote monitoring of building technologies continued and monitoring devices for energy consumption and management were installed in 15 buildings. Energy audits for 65 buildings were conducted to identify further areas to improve energy efficiency. In addition, all heating systems older than 15 years were replaced where appropriate.

Erste Bank Hungary placed a special focus on energy savings. All refrigerators and other technical equipment located in the branch network were checked and replaced, if necessary, to meet high energy efficiency standards. The installation of new thermostats in 40 branches requiring a PIN to change the temperature setting proved to be a very efficient measure as it was accompanied by proper communication and training of the employees. Overall, Erste Bank Hungary reduced the electricity consumption of its entire branch network by 10% in 2013.

Slovenská sporiteľňa continued the inspection of all technical equipment at the 30 buildings with the highest energy consumption. A reduction of the office temperature from 23°C to 22°C resulted in an immediate and quick success in terms of heating savings.
A very effective way to reduce the consumption of electricity is to switch to LED lighting. At the underground car park of the Austrian headquarters, the existing fluorescent tubes were replaced with LED tubes. Since the lighting has to be on around the clock for security reasons, the costs involved will amortise within one year. Erste Bank Hungary reduced its electricity costs considerably by various measures including the installation of LED sign boards at the headquarters and 61 branches and a change of the lighting system in the car park and the main entrance lobby. Erste Bank Serbia decided to turn off the illumination of the sign boards between midnight and the early hours of the morning, thus saving energy without any investment.

To identify further potential for energy efficiency at its business sites, Erste Bank Serbia together with an external advisor started a feasibility study at one office building in Novi Sad, which will be completed in 2014.

Another well-proven way of tackling greenhouse gas emissions is to reduce business travel. In 2013, the roll-out of state-of-the-art video conferencing equipment across Erste Group was completed. Employees increasingly appreciate the advantages of video conferences. The system reduces the CO_2 emissions and carbon footprint as well as travel time, as employees can maintain personal contact with colleagues and customers without having to use trains, cars or planes. Additional non-environmental benefits include increased employee productivity, a better work-life balance and faster decision-making.

Across Erste Group, all air conditioning systems with R22 refrigerants – one of the most dangerous greenhouse gases – are being replaced on an ongoing basis with state-of-the-art systems or approved refrigerants as required by EU law by 2015 at the latest.

An excellent example of a forward-thinking approach to energy efficiency and environmental sustainability is Erste Group's new headquarters Erste Campus, which are under construction in Vienna and scheduled to be ready for use in 2016. Even during the construction phase, only electricity from renewable sources is being used. The building has been awarded preliminary DGNB

Gold certification by the Austrian Society for Sustainable Real Estate (ÖGNI). Further information about the project is available at www.erstecampus.at.
Erste Group participated again in the Carbon Disclosure Project (CDP) and improved its score slightly from 56D to 58D. This result equalled the average of the thirteen participating Austrian companies. As announced, Erste Group provided data for all local banking subsidiaries in 2013, while in 2012 only the Austrian data was included (for more details, see www.cdp.net/CDPResults/CDP-DACH-350-Report-2013-german.pdf).

Measures to reduce office paper consumption

Without doubt, besides measures relating to energy, one of the greatest direct contributions that a financial institution can make to protect the environment is cutting paper consumption. Therefore, Erste Group established group-wide sourcing rules for paper:

_ When purchasing paper, environmental criteria are to be as important as other business criteria such as price, availability, product quality and regulatory requirements.
_ Wherever technically possible, only 100% recycled paper is to be used, especially in the case of copy paper and all paper used for internal purposes.
_ If recycled paper cannot be used, only FSC- or PEFC-certified paper is to be chosen, to prevent the use of paper from illegally harvested wood sources.

Erste Group's advanced electronic banking solutions including different apps for mobile phones and other mobile electronic devices not only increase convenience for the clients. They enable clients to carry out banking transactions wherever and whenever they want. But digital banking also helps the environment, as it saves paper – fewer printed statements are delivered by physical mail, the handling of payment forms is reduced as well.

In most of Erste Group's local banking subsidiaries, recycling copy paper has been used although it is sometimes more expensive than the previously used fresh fibre paper. The overall consumption of copy paper was reduced in 2013 by 10.6% to approximately 1,530 tonnes compared with 2012. Even more significant is the sharp rise in the consumption of recycled paper from 76 tonnes to close to 724 tonnes. Fresh-fibre copy paper consumption was more than halved. Slovenská sporiteľňa started to limit paper consumption by setting paper consumption targets for all departments and branches and reduced its consumption by 24%. Erste Bank Croatia replaced – in line with group standards – small copy machines with a reduced number of multifunctional devices and introduced general guidelines to print double-sided and in black and white.

Waste management activities

Waste separation and waste paper collection were introduced in most banking subsidiaries, even in countries where it is not standard procedure yet, like in Serbia. Erste Bank Serbia promoted an initiative to produce bags for children from recycled plastic posters that had previously been used for advertising purposes. Erste Bank Croatia's main focus remained the reduction of PET bottles. Special devices purify tap water to make water dispensers or PET water bottles on its premises redundant. In addition, the PET plastic packaging collection initiative to support a local non-governmental institution was continued.

Other environmental initiatives

One element of Erste Group's environmental strategy is the cooperation with NGOs. Independent environmental NGOs offer access to their local and international know-how and provide valuable assistance in Erste Group's efforts to become an even more environmentally sustainable company. Since 2011, Erste Group has been one of the Austrian partners of the WWF's Climate Savers programme. The aim of the initiative is to mobilise companies to cut global carbon dioxide emissions. Further information is available at www.climategroup.at.

Impact of procured products and services

Erste Group Procurement continued its efforts to include environmental criteria in its purchasing activities by screening the top 150 suppliers and adapting its sourcing criteria in line with Erste Group's environmental strategy. The supply audit evaluation includes further sustainability aspects. In addition to governance-related issues such as ethical trading, conflicts of interest, bribery or stakeholder engagement, social issues (e.g. child labour, fair working conditions, health and safety, freedom of association) are covered as well.

Less than 15% of Erste Group's purchases are made across borders. The dominance of local procurement positively impacts the economy in Erste Group's core countries and underscores the bank's commitment to the communities where it operates.

Environmental data

The cornerstone for an effective Environmental Management System is the collection of comprehensive environmental data. Although the reported figures starting from 2012 had improved due to data collection based on international best practice standards, the scope of the collected environmental data still does not cover all companies that are consolidated in Erste Group Bank AG's financial statements. Apart from smaller entities, the most significant omissions derive from the Austrian savings banks sector. Considering that roughly a quarter of Erste Group's 48,000 employees work for a savings bank, the impact of the savings banks is estimated to be equivalent to an increase of approximately 30% in all environmental figures. One of the initiatives planned for 2014 is the extension of the scope of data collection to be able to get a complete report on Erste Group's environmental impact.

Environmental indicators 2013*

Tonnes CO_2eq	Total	Austria	Croatia	Czech Rep	Hungary	Romania	Serbia	Slovakia
Heating/ warm water	31,867	2,787	887	11,424	1,690	11,093	424	3,561
Electricity	71,109	0	2,490	32,915	3,772	20,522	2,645	8,765
Diesel for electricity	29	5	4	11	n.a.	n.a.	3	6
Mobility	9,067	1,631	574	2,705	1,087	1,910	235	923
Cooling agents	1,133	184	255	262	262	128	41	2
Total	**113,204**	**4,606**	**4,211**	**47,317**	**6,812**	**33,654**	**3,348**	**13,257**

* CO_2eq = CO_2 equivalents (scope 1 and 2 – in the annual report 2012 the data referred to scope 1, 2 and 3)

Relative values per FTE or m²	Heating kWh/m²	Electricity kWh/m²	Copy paper kg/FTE	Waste kg/FTE	CO_2eq t/FTE
Austria	82	176	34	251	0.81
Croatia	66	141	45	12	1.85
Czech Republic	106	99	24	153	3.83
Hungary	113	168	54	321	2.14
Romania	136	94	101	na	5.52
Serbia	97	138	58	43	3.62
Slovakia	92	110	27	285	3.08

* FTE (full-time equivalent) is defined as an employee times his/her employment factor.
CO_2eq = CO_2 equivalents (scope 1 and 2)

Environmental indicators 2012*

Tonnes CO_2eq	Total	Austria	Croatia	Czech Rep	Hungary	Romania	Serbia	Slovakia
Heating/ warm water	37,394	3,223	977	14,721	2,491	10,378	679	4,925
Electricity	77,557	0	4,436	35,087	3,978	21,457	2,426	10,174
Diesel for electricity	50	14	5	18	n.a.	n.a.	3	9
Mobility	9,262	1,484	536	2,543	1,646	1,543	314	1,196
Cooling agents	1,480	0	215	262	74	694	42	194
Total	**125,743**	**4,721**	**6,170**	**52,631**	**8,188**	**34,072**	**3,464**	**16,498**

* CO_2eq = CO_2 equivalents (scope 1 and 2 – in the annual report 2012 the data referred to scope 1, 2 and 3)

Relative values per FTE or m²	Heating kWh/m²	Electricity kWh/m²	Copy paper kg/FTE	Waste kg/FTE	CO_2eq t/FTE
Austria	86	198	33	259	0.86
Croatia	60	151	44	27	2.84
Czech Republic	122	114	22	135	4.13
Hungary	132	167	58	546	2.79
Romania	105	84	106	na	4.73
Serbia	131	138	68	28	3.66
Slovakia	113	130	35	138	3.75

* FTE (full-time equivalent) is defined as an employee times his/her employment factor
CO_2eq = CO_2 equivalents (scope 1 and 2)

Corporate governance

Corporate Governance Report

In 2003, Erste Group Bank AG declared its commitment to comply with the rules of the Austrian Code of Corporate Governance (Austrian CCG) with the objective of ensuring responsible and transparent corporate governance. The Corporate Governance Report has been prepared in accordance with section 243b of the Austrian Commercial Code and Rules 60 et seq of the Austrian Code of Corporate Governance and also complies with sustainability reporting guidelines (www.globalreporting.org). The current version of the Austrian CCG as well as its English translation are publicly available on the website www.corporate-governance.at.

The Austrian CCG is based on voluntary, self-imposed obligations and its requirements are more stringent than the legal requirements for stock corporations. The aim is to establish responsible corporate management and control oriented to creating value over the long term. Application of the Austrian CCG guarantees a high degree of transparency for all stakeholders including investors, customers and employees. The Code contains the following sets of rules: L-Rules (Legal Requirements – mandatory legal norms), C-Rules (Comply-or-Explain – deviations are permitted, but must be explained) and R-Rules (Recommendations – these rules are more similar to recommendations; non-compliance does not need to be disclosed or explained).

In the financial year 2013, Erste Group complied with all L-Rules and R-Rules of the Austrian CCG as well as with all C-Rules with the exception of the one described below.

Pursuant to C-Rule 57 of the Austrian CCG, supervisory board members holding a position on the management board of a listed company are not permitted to hold more than a total of four supervisory board mandates in non-Group stock corporations (chairmanship counts double). Companies included in the consolidated financial statements or in which an investment with a business interest is held are not considered non-Group stock corporations. Juan María Nin Génova, a member of the management board of the listed company CaixaBank S.A., held five supervisory board mandates in non-Group stock corporations in 2013. CaixaBank S.A., in which he serves as a member of the management board, became a listed company only after he had assumed his supervisory board mandates.

Working methods of the management board and the supervisory board

Erste Group Bank AG has a two-tier governance structure with a management board and a supervisory board as management bodies.

The management board of Erste Group Bank AG is responsible for the management of the company. Its duty is to promote the welfare of the company with due regard to the shareholders' and the employees' interests. The management board develops the strategic orientation of the company and aligns it with the supervisory board. It ensures effective risk management and risk control. The management board takes its decisions in compliance with all relevant legal provisions, the articles of association and its internal rules of procedure.

The supervisory board advises the management board on its strategic planning and actions. It takes part in making decisions as provided for by law, the articles of association and its internal rules of procedure. The supervisory board has the task of overseeing the management board in the management of the company.

Selection and assessment of members of management bodies

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

Training and development

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

MANAGEMENT BOARD

In the financial year 2013, the management board of Erste Group Bank AG consisted of five members.

Management board member	Year of birth	Date of initial appointment	End of the current period of office
Andreas Treichl (Chairman)	1952	1 October 1994	30 June 2017
Franz Hochstrasser (Vice Chairman)	1963	1 January 1999	30 June 2017
Herbert Juranek	1966	1 July 2007	30 June 2017
Gernot Mittendorfer	1964	1 January 2011	30 June 2017
Andreas Gottschling	1967	1 September 2013	30 June 2017
Manfred Wimmer*	1956	1 September 2008	31 August 2013

Manfred Wimmer resigned from the management board as of 31 August 2013. Andreas Gottschling joined the management board on 1 September 2013.

Distribution of responsibilities on the management board

Management board member	Areas of responsibility
Andreas Treichl (Chairman)	Group Strategy & Participation Management, Group Secretariat (including Corporate Social Responsibility, Group Environmental Management), Group Communications, Group Investor Relations, Group Human Resources (including Group Diversity), Group Audit, Group Brands, Employees' Council
Franz Hochstrasser (Vice Chairman)	Group Large Corporates Banking, Erste Group Immorent Client, Industries and Infrastructure, Group Capital Markets, Group Research, Group Investment Banking, Steering & Operating Office Markets, Steering & Operating Office Large Corporates/Erste Group Immorent
Herbert Juranek	Group Organisation/IT, Group Banking Operations, Group Services
Gernot Mittendorfer	Since 28 October 2013: Group Accounting, Group Performance Management, Group Asset Liability Management Until 27 October 2013: Group Strategic Risk Management, Group Corporate Risk Management, Group Retail Risk Management, Group Corporate Workout, Group Compliance Legal & Security, Erste Group Immorent Real Estate Risk Management, Group Risk Governance and Projects, Quantitative Risk Methodologies
Andreas Gottschling	Since 28 October 2013: Operational Risk, Compliance & Security, Group Workout, Risk Methods and Models, Corporate Credit Risk Management, Group Risk Operating Office, Group Validation, Enterprise wide Risk Management, Group Legal, Group Retail and SME Risk Management
Manfred Wimmer	Until his resignation: Group Accounting, Group Performance Management, Group Asset Liability Management

Supervisory board mandates and similar functions

In the financial year 2013, the management board members of Erste Group Bank AG held the following supervisory board mandates or similar functions in domestic or foreign companies not included in the consolidated financial statements:

Andreas Treichl

DONAU Versicherung AG Vienna Insurance Group (Vice Chairman), MAK – Österreichisches Museum für angewandte Kunst (Chairman), Sparkassen Versicherung AG Vienna Insurance Group (Chairman)

Franz Hochstrasser

CEESEG Aktiengesellschaft, Oesterreichische Kontrollbank Aktiengesellschaft (Vice Chairman), Wiener Börse AG

Manfred Wimmer

Österreichische Galerie Belvedere

Herbert Juranek, Gernot Mittendorfer and Andreas Gottschling did not hold any supervisory board mandates or similar functions in domestic or foreign companies not included in the consolidated financial statements.

SUPERVISORY BOARD

In the financial year 2013, the following persons were members of the supervisory board of Erste Group Bank AG:

Position	Name	Year of birth	Occupation	Date of initial appointment	End of the current period of office
Chairman	Friedrich Rödler	1950	Auditor and tax advisor	4 May 2004	AGM 2014
1st Vice Chairman	Georg Winckler	1943	Former rector of the University of Vienna; Professor emeritus of Economics	27 April 1993	AGM 2015
2nd Vice Chairwoman	Theresa Jordis	1949	Lawyer	26 May 1998	29 July 2013
Member	Bettina Breiteneder	1970	Entrepreneur	4 May 2004	AGM 2014
Member	Jan Homan	1947	General Manager, ret.	4 May 2004	AGM 2014
Member	Brian D. O'Neill	1953	Vice Chairman Lazard International	31 May 2007	AGM 2017
Member	Juan María Nin Génova	1953	Vice Chairman and CEO CaixaBank	12 May 2009	AGM 2014
Member	Wilhelm Rasinger	1948	Consultant	11 May 2005	AGM 2015
Member	John James Stack	1946	CEO, ret.	31 May 2007	AGM 2017
Member	Werner Tessmar-Pfohl	1942	Entrepreneur, ret.	6 May 2008	16 May 2013
Delegated by the employees' council					
Member	Andreas Lachs	1964		9 August 2008	Until further notice
Member	Friedrich Lackner	1952		24 April 2007	Until further notice
Member	Bertram Mach	1951		9 August 2008	Until further notice
Member	Barbara Smrcka	1969		9 August 2008	29 July 2013
Member	Karin Zeisel	1961		9 August 2008	Until further notice

Changes in the supervisory board in the financial year:
Werner Tessmar-Pfohl resigned at the end of the annual general meeting (AGM) on 16 May 2013. Theresa Jordis resigned on 29 July 2013. The delegation of Barbara Smrcka was revoked as of the same date.

Membership in supervisory board committees

Committee membership as of 31 December 2013:

Name	Construction committee	Executive committee	Nomination committee	Audit committee	Risk management committee	Remuneration committee
Friedrich Rödler	Vice Chairman	Chairman	Chairman	Vice Chairman*	Chairman	Chairman**
Georg Winckler	Member	Vice Chairman	Vice Chairman	Chairman	Vice Chairman	Vice Chairman
Bettina Breiteneder	Chairwoman	-	-	Member	Member	-
Jan Homan	-	Member	-	Substitute	Member	Substitute
Brian D. O'Neill	-	-	-	-	-	Member
Juan María Nin Génova	-	Member	-	-	-	Member
Wilhelm Rasinger	-	Substitute	-	Member	Member	-
John James Stack	-	-	-	-	-	Member
Delegated by the employees' council						
Andreas Lachs	-	Substitute	-	Member	Member	Substitute
Friedrich Lackner	Member	Member	Member	Member	-	Member
Bertram Mach	Substitute	Member	Substitute	-	Member	Member
Karin Zeisel	-	-		Substitute	Member	Member

*Financial expert, **Remuneration expert

Mandates on supervisory boards or similar functions

As of 31 December 2013, the supervisory board members of Erste Group Bank AG held the following additional supervisory board mandates or similar functions in domestic or foreign companies. Listed companies are marked with *.

Friedrich Rödler

Erste Bank der oesterreichischen Sparkassen AG, Erste Bank Hungary Zrt.

Georg Winckler

Austria Versicherungsverein auf Gegenseitigkeit Privatstiftung (Chair), DIE ERSTE österreichische Spar-Casse Privatstiftung (Chair), Educational Testing Service (ETS) (Trustee), Erste Bank der oesterreichischen Sparkassen AG, UNIQA Insurance Group AG* (Vice Chair)

Bettina Breiteneder

ZS Einkaufszentren Errichtungs- & Vermietungs-Aktiengesellschaft

Jan Homan

Allianz Elementar Versicherungs-Aktiengesellschaft, Billerud Korsnäss AB, Constantia Flexibles Group GmbH (Chair), Frapag Beteiligungsholding AG (Chair), Slovenská sporiteľňa, a.s.

Brian D. O'Neill

Council of the Americas (BoD), Emigrant Bank (BoD), Inter-American Dialogue (BoD), Banca Comercială Română S.A., Seven Seas Water (BoD)

Juan María Nìn Génova

APD – Association for the Advancement of Management (Member of the Academic Board), Banco BPI, S.A.* (Portugal) (BoD), CaixaBank, S.A.* (Vice Chair), Criteria CaixaHolding S.A. (Vice Chair), Gas Natural SDG, S.A.* (BoD), Grupo Financiero Inbursa, S.A.B. DE C.V.* (BoD), Repsol YPF* (BoD), VidaCaixa Grupo, S.A.U. (BoD), "la Caixa" Foundation (Vice Chair), Circulo Ecuestre (BoD), Aspen Institute Spain Foundation (Trustee), CEDE Foundation (BoD), Deusto University (BoD), Deusto Business School (BoD), Esade Business School Foundation (Trustee), Federico Garcia Lorca Foundation (Trustee), FUOC-Foundation for the Open University of Catalonia (Member of the Global Strategy Council), Spain-China Council Foundation (BoD), Spain-India Council Foundation (BoD), Spain-United States Council Foundation (BoD)

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

John James Stack
Ally Bank (BoD), Česká spořitelna, a.s. (Chair), Mutual of America* (BoD)

Theresa Jordis (resigned on 29 July 2013)
Austrian Airlines AG, Miba Aktiengesellschaft* (Chair), Mitterbauer Beteiligungs-Aktiengesellschaft (Chair), Prinzhorn Holding GmbH (Chair), Wolford Aktiengesellschaft* (Chair), Österreichische Industrieholding AG

Werner Tessmar-Pfohl (resigned on 16 May 2013)
Sattler AG (Chair), Steiermärkische Bank und Sparkassen Aktiengesellschaft (Chair), Teufelberger Holding Aktiengesellschaft (Vice Chair)

Delegated by the employees' council:

Friedrich Lackner
DIE ERSTE österreichische Spar-Casse Privatstiftung

Andreas Lachs
VBV-Pensionskasse AG

Bertram Mach, Barbara Smrcka and Karin Zeisel did not hold any mandates on supervisory boards or similar functions in domestic or foreign companies.

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

Under the articles of association (Art. 15.1), DIE ERSTE österreichische Spar-Casse Privatstiftung, a private foundation, is accorded the right to delegate up to one third of the members of the supervisory board to be elected by the annual general meeting. The Privatstiftung has not exercised this right to date.

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

Independence of the supervisory board
At its meeting of 15 March 2006, the supervisory board of Erste Group Bank AG defined the guidelines set out in Annex I of the Austrian Code of Corporate Governance as independence criteria pursuant to C-Rule 53 of the Austrian CCG:

A member of the supervisory board is deemed to be independent if such person does not have any business or personal relations with the company or its management that would constitute a material conflict of interest and, therefore, might influence the member's conduct.

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

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

In 2013, two members of the supervisory board (Georg Winckler, Friedrich Lackner) served on a management body of a company holding more than 10% of the shares of Erste Group Bank AG. One member (Wilhelm Rasinger) represented in particular the interests of retail shareholders.

Attendance of supervisory board meetings
In 2013, all members of the supervisory board attended at least half of its meetings.

Self-evaluation of the supervisory board

The supervisory board performed a self-evaluation of its activity pursuant to C-Rule 36 of the Austrian CCG. In the supervisory board meeting of 28 October 2013, it considered the efficiency of its activity, including in particular its organisation and methods of work.

Contracts subject to approval pursuant to section 95 (5) 12 Austrian Stock Corporation Act (C-Rule 49 Austrian CCG)

In 2013, the firm DORDA BRUGGER JORDIS Rechtsanwälte GmbH, in which Theresa Jordis was a partner, invoiced companies of Erste Group for consulting work in the total amount of EUR 314,727.77. Friedrich Rödler was a Senior Partner at PricewaterhouseCoopers Austria until 30 June 2013. Companies of this group billed companies of Erste Group for consulting work in the total amount of EUR 348,471 up to and including 30 June 2013.

SUPERVISORY BOARD COMMITTEES AND THEIR DECISION-MAKING POWERS

The supervisory board has set up six committees: the risk committee (until 31 December 2013 the risk management committee), the executive committee, the audit committee, the nomination committee, the remuneration committee and the construction committee.

Risk committee

The risk committee is responsible for granting approval in all those cases in which loans and exposures or large exposures reach an amount exceeding the approval authority of the management board defined in the approval authority regulation. The approval of the risk committee is required for any exposure or large exposure as defined in section 27 (beginning with 1 January 2014 section 28a) of the Austrian Banking Act if the carrying value of such an investment exceeds 10% of the company's eligible own funds or of the banking group's eligible consolidated own funds. In addition, it may grant advance approvals to the extent permitted by law. The risk committee is responsible for monitoring the risk management of Erste Group Bank AG. The supervisory board has delegated to the risk committee the right to approve the establishment of branches, to grant special statutory power of attorney (Prokura) or commercial power (Handlungsvollmacht) for all business operations. The committee is responsible for monitoring the Group's portfolio of participations except in cases where this is the responsibility of the audit committee. The tasks of the risk committee include the acknowledgement of reports on legal disputes and on the risk impact and costs of major IT projects as well as of reports on important audits of subsidiaries conducted by regulatory authorities.

Executive committee

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

Audit committee

The audit committee is responsible for overseeing the accounting process; monitoring the effectiveness of the company's internal control system, internal audit system and risk management system; overseeing the annual audit of single-entity and consolidated financial statements; reviewing and monitoring the qualification and independence of the auditor (Group auditor); reviewing and preparing the adoption of annual financial statements, the proposal for the appropriation of profits, the management report and the corporate governance report and submitting a report on the results of the review to the supervisory board; reviewing the consolidated financial statements of Erste Group and the Group management report; preparing the supervisory board's proposal for the selection and revocation of the auditor; conclusion of the contract with the appointed auditor for the performance of the annual audit and agreement on the auditor's remuneration; acknowledging timely information on the focal points of the audit and submitting proposals for additional focal points of the audit; taking note of the annual financial statements of key subsidiaries; acknowledging the audit plan of the company's internal audit function; acknowledging information on current matters relevant for the internal audit of the Group and on the efficiency and effectiveness of the internal audit; acknowledging the internal auditors' report on the audit areas and material audit findings and the activity report pursuant to section 20 in connection with section 21 (2) of the Austrian Securities Supervisory Act (Wertpapieraufsichtsgesetz); acknowledging immediate information on material findings of the auditor, the internal audit function or an audit conducted by a regulatory authority; acknowledging immediate information on loss events that could exceed 5% of consolidated equity or 10% of the budgeted net result; acknowledging reports of the management board on current developments and compliance regarding corporate governance and anti-money laundering rules; acknowledging the compliance activity report pursuant to section 18 in connection with section 21 of the Austrian Securities Supervisory Act (Wertpapieraufsichtsgesetz).

Nomination committee

Meetings of the nomination committee are held as needed (beginning with 1 January 2014 at least once a year) or when a member of the committee or of the management board requests a meeting. The nomination committee submits proposals to the supervisory board for filling management board mandates that become vacant and deals with issues of succession planning. The committee discusses and decides on the content of employment contracts for members of the management board. It deals with and decides on relationships between the company and the members of the management board except for resolutions to appoint members to the management board or revoke such appointments and on the granting of company stock options. Furthermore, the nomination committee submits proposals to the supervisory board for filling supervisory board mandates that become vacant. Particular attention is given to the members' personal and professional qualifications, a well-balanced composition of the supervisory board in terms of expertise and to diversity.

Remuneration committee

The remuneration committee approves the general principles of remuneration policy, reviews them regularly and is also responsible for their implementation. The committee monitors remuneration policy, remuneration practices and remuneration-linked incentive programmes. The committee monitors the payment of variable remuneration to members of the management board and to the company's second management level as well as to management board members of major subsidiaries. Furthermore, the remuneration of senior managers in risk management and in compliance functions is reviewed directly by the remuneration committee. Once a year, the committee is presented with a comprehensive report on the remuneration system including key performance indicators as well as a report on the situation regarding personnel and management in the Group.

Construction committee

The construction committee is responsible for advising the management board and for preparing resolutions of the supervisory board with respect to Erste Campus, the future headquarters of Erste Group. The supervisory board may assign further tasks to the committee, if necessary.

MEETINGS OF THE SUPERVISORY BOARD AND REPORT ON PRINCIPAL ACTIVITIES

Eight meetings of the supervisory board were held in the financial year 2013.

At each ordinary meeting of the supervisory board, the monthly developments of the balance sheet and the income statement were presented, reports were given on individual risk types and the bank's total risk; the status of individual banking subsidiaries in Central and Eastern Europe was discussed and reports were delivered on the areas audited and on the internal audit department's material audit findings. The chairpersons of the committees reported on the main topics dealt with by the committees since the last supervisory board meeting. A recurring topic at the supervisory board meetings was the status of the future banking supervisory regime at the European level and in Austria and its implications for Erste Group. The management board regularly presented proposals to the supervisory board that require its approval under the law, the articles of association and the rules of procedure.

On 8 March 2013, the financial statements and the management report 2012, the consolidated financial statements and consolidated management report 2012 as well as the corporate governance report 2012 were reviewed; the bank auditors' reports were discussed, the financial statements 2012 were adopted in accordance with the recommendation of the audit committee, and the proposal for the appropriation of the profit 2012 was approved. Furthermore, the resolutions proposed for the annual general meeting were discussed and approved.

At the joint extraordinary meeting of the management board, the audit committee and the supervisory board held on 9 April 2013, previously passed resolutions on the financial statements prepared in February 2013 by the management board and adopted by the supervisory board in March 2013 were revoked due to an error in the calculation of risk-weighted assets. The auditors were requested to revoke their auditors' opinion on the financial statements for the year ended on 31 December 2012 of Erste Group Bank AG. The auditors complied with this request. At the meeting, the financial statements for 2012 were restated and adopted. The error concerned exclusively the single-entity financial statements prepared in accordance with the Austrian Commercial Code and hence did not have any impact on the consolidated financial statements 2012 to which, therefore, no changes had to be made. The changes made were regarded as not material.

On 8 May 2013, a report was given on the status quo and developments at the foreign branches of Erste Group Bank AG in New York, London, Hong Kong and Malta. This meeting also approved the internal guidelines of Erste Group Bank AG on the selection and assessment of members of the management board and the supervisory board as well as of persons holding key functions.

At the constituent meeting of 16 May 2013 after the annual general meeting, the distribution key for the remuneration of supervisory board members approved by the annual general meeting was adopted.

On 19 June 2013, the report on major participations for 2012 and the first quarter of 2013, the report on directors' dealings and the annual compliance report were presented and discussed. The resignation of Manfred Wimmer was accepted and amongst others the appointment of Andreas Gottschling as a new member of the management board of Erste Group Bank AG was approved. In this context it was decided that, because of his expertise and experience, Andreas Gottschling will succeed Gernot Mittendorfer as chief risk officer while Gernot Mittendorfer will succeed Manfred Wimmer as chief financial officer. Due to these changes, responsibilities were newly assigned and new rules of representation were adopted.

On 5 September 2013, a detailed report was given on developments regarding Erste Campus, the future headquarters building of Erste Group, and on the entire Quartier Belvedere. It was furthermore advised that Theresa Jordis had resigned for health reasons from her function as member of the supervisory board and as second vice chairwoman of the supervisory board. Consequently, the Employees' Council revoked the nomination of Barbara Smrcka and committee appointments were adjusted.

The meeting on 28 October started with a moment of silence in remembrance of Theresa Jordis, who had passed away on 7 September 2013. After discussion of the results of the supervisory board's self-evaluation 2012/13, a report was given on the activities of Erste Hub, the Erste Group's innovation centre for new banking solutions. The diversity strategy of Erste Group was approved.

On 19 December 2013, the budget and the investment plan 2014 of Erste Group Bank AG were approved and a report on the consolidated budget for the year 2014 was presented. Furthermore, a detailed report on the restructuring programme for the Romanian subsidiary Banca Comercială Română was presented. Information was provided on anti-corruption measures taken within the Group, on the recovery and resolution plan of Erste Group Bank AG and on the status of the ECB's Asset Quality Review. At this meeting, the supervisory board approved the restructuring of the Austrian savings banks' cross-guarantee system (*Haftungsverbund*), which had become necessary due to new regulatory requirements. Finally, the meeting adopted the rules of procedure of the management board, the supervisory board and its committees that had been amended to comply with the new provisions of the Austrian Banking Act.

MEETINGS OF THE COMMITTEES AND REPORT ON ACTIVITIES

The risk committee held seventeen meetings in 2013 at which it regularly took decisions on exposures and loans exceeding the powers of the management board and was briefed on loans granted within the scope of authorisation of the management board. The committee was regularly informed of the individual risk types, risk-bearing capacity and large exposures. Furthermore, reports were given on the situation of specific sectors and industries, on the audits conducted by supervisory authorities, on various legal disputes as well as on risk development in certain countries and subsidiaries, on the activities of Group Compliance and on the new supervisory regime at the European level and in Austria.

The executive committee met twice in 2013 within the scope of the powers assigned to it by the supervisory board to adopt the resolutions needed to carry out the capital increase in connection with the redemption of the participation capital.

The audit committee met six times in 2013. Among other things, the auditors reported on the status of the audit of the single-entity financial statements and consolidated financial statements. Subject to the approval of the supervisory board, the decision was taken to propose Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H. to the annual general meeting as an additional auditor of the (consolidated) financial statements for the financial year 2014. The supervisory board approved this proposal at its next meeting. The audit committee also conducted the final discussion. The financial statements and the management report, the consolidated financial statements and the consolidated management report as well as the corporate governance report were audited and recommended to the supervisory board for adoption, and the proposal of the management board for the appropriation of the net profit for the financial year 2012 was acknowledged. The head of the internal audit department reported on the audit subjects and material audit findings for the year 2012 and explained the audit plan for 2013. The internal audit department presented its reports pursuant to section 42 (3) of the Austrian Banking Act. A report was given on the audit of the functionality of the risk management system according to Rule 83 of the Austrian CCG and on the effectiveness of the internal control system. The audit committee also discussed its work plan and defined which topics were to be on the agendas of which meetings.

The nomination committee met three times in 2013 and dealt with various personnel matters relating to the management board and the supervisory board. One of the meetings assessed the qualification of the new chief risk officer Andreas Gottschling, a subsequent one reassessed Gernot Mittendorfer due to his change from chief risk officer to chief financial officer. Furthermore, the nomination committee dealt with proposals for membership of the supervisory board to be approved at the annual general meeting 2014.

The remuneration committee met four times in 2013 and discussed various remuneration topics relating to Erste Group and its subsidiaries including the structure of key performance indicators and the bonus policy, and was informed about regulatory developments relating to remuneration.

The construction committee met four times in 2013. Its main topics were project planning, project organisation, the budget, costs and risks as well as procedures relating to tenders, scheduling and developments regarding Erste Campus, the Erste Group's headquarters building currently under construction in Vienna.

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

Erste Group was founded on the principles of accessibility and inclusion. Diversity and equal opportunities are firmly embedded in Erste Group's corporate philosophy and corporate culture, thus providing a solid foundation for building strong and mutually beneficial relationships between Erste Group, its employees and the communities and societies in Erste Group's markets.

Erste Group institutionalised its commitment to promoting equal opportunities and diversity by appointing a Diversity Manager in mid-2013. She is responsible for developing a Group-wide diversity policy, identifying targets and measures, as well as regular monitoring and reporting on targets.

Based on in-depth fact-finding and an analysis of the gender balance in the Group, the management board set an internal target to increase the share of women on the management board, in senior management positions as well as on supervisory boards (Group-wide) to 35% by 2019. Currently, 26% of senior management and 16% of supervisory board members are female. The management board also approved an action plan to reach greater gender parity through succession planning, mentoring and leadership development.

Local initiatives to support measures to promote gender parity in management positions also continued in 2013. Erste Bank Oesterreich set its own internal target to increase the share of women in management positions from the current 33% to 40% by 2017. Its WoMen Business programme contributes towards the development and promotion of female leadership by offering special training programmes and networking events for women. Česká spořitelna's diversity and inclusion programme *Diversitas*, which was launched in 2008, supports mentoring and networking for women and has received many awards and recognitions for its diversity efforts. It is considered a best practice model on the Czech labor market and within Erste Group.

REMUNERATION OF THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD

Principles governing the remuneration policy

The principles governing management board remuneration are specified in the remuneration policy of Erste Group Bank AG, including in particular the definition and evaluation of performance criteria. In accordance with legal provisions, performance-linked payments to the CEO and the management board member responsible for Corporate and Markets shall not exceed 200% of the respective annual gross salary, those to other management board members shall not exceed 100% of gross annual salary. The method for determining whether the performance criteria have been met is defined at the beginning of the year by the supervisory board following a proposal of the responsible organisational units (Group Performance Management, Group Risk Management and Group Human Resources). For 2013, both the ratio between fixed and short-term variable remuneration components and the maximum levels remained unchanged. The performance criteria for the management board are defined at both company level and individual level. The first criterion is Erste Group's overall performance. For the year 2013, this criterion is measured by reference to the solvency ratio and the payment of dividends to shareholders and investors holding participation capital. The second performance criterion is the achievement of individual objectives: these include return on equity, common equity tier-1 ratio, solvency ratio, NPL coverage ratio, cost/income ratio as well as customer satisfaction and leadership.

Since the financial year 2010, the variable part of the management board's remuneration, including both cash payments and share-equivalents, is distributed over five years in accordance with legal requirements and is paid out only under certain conditions. Share- equivalents are not exchange-traded shares but phantom shares that are paid out in cash after a one-year vesting period based on defined criteria.

Remuneration of management board members

Remuneration in 2013

			Performance-linked remuneration		
in EUR thousand	Fixed salaries	Other remuneration	for 2012	for previous years	Total
Andreas Treichl	1,262.4	470.9	392.6	65.4	2,191.4
Franz Hochstrasser	750.0	177.4	203.0	42.7	1,173.1
Herbert Juranek	631.2	98.8	120.0	16.9	866.9
Gernot Mittendorfer	633.0	97.6	129.0	0.0	859.6
Andreas Gottschling (since 9/2013)	211.0	25.8	0.0	0.0	236.8
Total	**3,487.6**	**870.6**	**844.6**	**125.0**	**5,327.8**

The item "Other remuneration" comprises pension fund contributions, contributions to employee provision funds (for new-type severance payments) and remuneration in kind. Apart from performance-linked remuneration and share equivalents for the financial year 2012, deferred portions of performance-linked remuneration for 2010 were also paid out or vested in 2013.

Non-cash performance-linked remuneration in 2013

Share-equivalents (in units)	For 2012	For previous years
Andreas Treichl	24,898	2,182
Franz Hochstrasser	12,449	1,423
Herbert Juranek	7,013	563
Gernot Mittendorfer	7,539	0
Andreas Gottschling (since 9/2013)	0	0
Total	**51,899**	**4,168**

Share-equivalents were valued at the average weighted daily share price of Erste Group Bank AG of the year 2013 in the amount of EUR 23.85 per share. Pay-outs will be made in the year 2014 after the one-year vesting period.

Long-term incentive programme

Currently, one long-term incentive programme (LTI), which is based on changes in the share price of Erste Group Bank AG versus a group of peers and the Dow Jones Euro Stoxx Banks, is still active. It was started on 1 January 2010 and led to the following payments in 2013.

in EUR thousand	LTI 2010
Andreas Treichl	226.5
Franz Hochstrasser	56.6
Herbert Juranek	56.6
Gernot Mittendorfer	0
Andreas Gottschling (since 9/2013)	0
Total	**339.8**

Manfred Wimmer resigned from the management board as of 31 August 2013. In 2013, he received EUR 421,000 in fixed and EUR 137,000 in performance-linked remuneration from previous years as well as EUR 111,000 in other remuneration. In addition, he was awarded 7,584 share-equivalents. He received EUR 57,000 under the LTI programme 2010. The severance payment, payments for unused holidays and compensatory payment to the pension fund made on his departure are included in the remuneration of previous members of management bodies and their dependants. In 2013, EUR 3,095,000 was paid in cash and 1,066 share-equivalents were assigned to former members of management bodies and their dependants.

Principles governing the pension scheme for management board members

Members of the management board participate in the defined contribution pension plan of Erste Group on the basis of the same principles as employees. For two members of the management board, compensatory payments have to be made to the pension fund in case the management board member’s tenure ends before he or she reaches the age of 65 by no fault of the member.

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

Regarding vested benefits and entitlements of management board members in the event of termination of their position, the standard legal severance benefit provisions of section 23 of the Austrian Salaried Employees Act (Angestelltengesetz) still apply to two members of the management board. All other members of the management board are not entitled to receive any severance benefits.

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

Remuneration of members of the supervisory board

in EUR thousand	Attendance fees for 2013	Supervisory board remuneration for 2012	Total
Friedrich Rödler	45.0	81.4	126.4
Georg Winckler	39.0	75.0	114.0
Bettina Breiteneder	26.0	50.0	76.0
Jan Homan	16.0	50.0	66.0
Wilhelm Rasinger	34.0	50.0	84.0
Brian D.O´Neill	9.0	50.0	59.0
John James Stack	7.0	50.0	57.0
Juan María Nin Génova	6.0	50.0	56.0
Theresa Jordis	8.0	75.0	83.0
Werner Tessmar-Pfohl	5.0	50.0	55.0
Heinz Kessler	0.0	37.4	37.4
Elisabeth Gürtler	0.0	18.7	18.7
Friedrich Lackner	0	0	0
Andreas Lachs	0	0	0
Bertram Mach	0	0	0
Karin Zeisel	0	0	0
Barbara Smrcka	0	0	0
Total	**195.0**	**637.5**	**832.5**

The annual general meeting 2013 granted the members of the supervisory board remuneration totalling EUR 637,568.30 for the financial year 2012, whereby the distribution of this remuneration is at the supervisory board's discretion. In addition, attendance fees paid to the members of the supervisory board were set at EUR 1,000 per meeting of the supervisory board or one of its committees.

Directors' and officers' liability insurance

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

EXTERNAL EVALUATION

Erste Group Bank AG commissioned an external evaluation of compliance with the Austrian Code of Corporate Governance in accordance with R-Rule 62 of the Austrian CCG in the years 2006, 2009 and 2012 for the respective preceding business years. All evaluations reached the conclusion that Erste Group Bank AG had met all requirements of the Code. Summary reports on these evaluations are available at the website of Erste Group Bank AG.

SHAREHOLDERS' RIGHTS

Voting rights

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

Dividend rights

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

Liquidation proceeds

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

Subscription rights

All holders of shares have subscription rights allowing them to subscribe to any newly issued shares to maintain their existing share in the share capital of Erste Group Bank AG. Such subscription rights are in proportion to the number of shares held by such shareholders prior to the issue of the new shares. The said subscription rights do not apply if the respective shareholder does not exercise these subscription rights, or subscription rights are excluded in certain cases by a resolution of the annual general meeting or by a resolution of the management board and the supervisory board.

The Austrian Stock Corporation Act contains provisions that protect the rights of individual shareholders. In particular, all shareholders must be treated equally under equal circumstances unless the shareholders affected have consented to unequal treatment. Furthermore, measures affecting shareholders' rights, such as capital increases and the exclusion of subscription rights, generally require a shareholders' resolution.
The articles of association of Erste Group Bank AG do not contain any provisions regarding a change in the share capital, the rights associated with the shares or the exercise of the shareholders' rights that differ from statutory requirements.
Stock corporations like Erste Group Bank AG must hold at least one annual general meeting (ordinary shareholders' meeting) per year, which must be held within the first eight months of any financial year and cover at least the following items:

_ Presentation of certain documents
_ Appropriation of profit
_ Discharge of the members of the management board and the supervisory board for the financial year ended.

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

Vienna, 28 February 2014

Management board

Andreas Treichl mp
Chairman

Franz Hochstrasser mp
Vice Chairman

Andreas Gottschling mp
Member

Herbert Juranek mp
Member

Gernot Mittendorfer mp
Member

ADDITIONAL CORPORATE GOVERNANCE PRINCIPLES

Compliance

The responsibility for all compliance issues at Erste Group rests with Operational Risk, Compliance and Security. In organisational terms it is assigned to the Chief Risk Officer but reports directly to the management board. The compliance rules of Erste Group are based on the relevant legislation, such as the Austrian Stock Exchange Act and the Securities Supervision Act; on the Standard Compliance Code of the Austrian banking industry as well as on international practices and standards. Conflicts of interest between customers, Erste Group and employees are covered by clear rules regarding "Chinese walls", provisions on employee transactions, research disclaimer, gift policy etc. Further key topics are procedures and measures to prevent money laundering and terrorist financing and to monitor sanctions and embargoes, as well as the establishment and coordination of measures to prevent financial crimes within Erste Group.

Directors' dealings

In accordance with the Austrian Stock Exchange Act and the Issuer Compliance Regulation of the Austrian Financial Market Authority (FMA), individual trades by members of the management board and supervisory board in Erste Group shares are published on the websites of Erste Group (www.erstegroup.com/investorrelations) and the FMA.

Transparency

Investor confidence in public companies is essential to the functioning of the global economy. Transparent operations and reporting play a crucial part in establishing and upholding confidence. Accordingly, it is one of the main goals of Erste Group and its investors that the financial results fairly reflect the results of its operations. Erste Group has always been diligent in maintaining compliance with its established financial accounting policies, which are consistent with the requirements of the International Financial Reporting Standards (IFRS), and in reporting its results with objectivity and the highest degree of integrity.

Risk management

Erste Group's approach to risk management seeks to achieve the best balance between risks and returns for earning a sustained high return on equity. A detailed report on risk policy, risk management strategy and organisation, as well as a thorough discussion of the individual risk categories, are included in the Notes beginning on page 153. In addition, credit risk is analysed in detail in a separate section starting on page 30, in the "Segments" section of this report.

Accounting and auditors

The company financial statements, company management report, consolidated financial statements and group management report of Erste Group Bank AG for the financial year 2013 were audited by Sparkassen-Prüfungsverband as the legally mandated auditor and by Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H., appointed by the Annual General Meeting, as the supplementary auditor.

Your Notes