Erste Group

Annual Report 2014

ERSTE Group

Extensive presence in Central and Eastern Europe

Key financial and operating data*

in EUR million (unless otherwise stated)	2010	2011	2012	2013	2014
Balance sheet					
Total assets	**205,938**	**210,006**	**213,824**	**200,118**	**196,287**
Loans and receivables to credit institutions	12,412	7,506	9,008	8,377	7,442
Loans and receivables to customers	126,696	127,808	124,353	119,945	120,834
Trading, financial assets	46,582	52,981	57,932	51,269	50,131
Intangibles	4,675	3,532	2,894	2,441	1,441
Cash & Other assets	15,574	18,180	19,637	18,087	16,439
Total liabilities and equity	**205,938**	**210,006**	**213,824**	**200,118**	**196,287**
Bank deposits	20,154	23,785	21,822	17,299	14,803
Customer deposits	117,016	118,880	123,053	122,415	122,583
Debt securities	37,137	36,564	34,751	33,124	31,140
Trading liabilities & Other liabilities	14,499	15,597	17,860	12,494	14,319
Equity attributable to non-controlling interests	3,543	3,143	3,483	3,466	3,605
Equity attributable to owners of the parent	13,588	12,037	12,855	11,319	9,838
Own funds pursuant to Basel 3					
Calculation base/total risk (final)	119,844	114,019	105,323	97,901	101,870
Total own funds	16,220	16,415	16,311	15,994	15,853
Common equity tier 1 capital (CET1)	11,019	10,681	11,848	11,199	10,811
Tier 2 capital (T2)	3,627	4,092	3,791	4,206	5,042
Total capital ratio	13.5%	14.4%	15.5%	16.3%	15.6%
CET1 capital ratio	9.2%	9.4%	11.2%	11.4%	10.6%
Income statement					
Net interest income	5,186.1	5,368.7	5,041.5	4,685.0	4,495.2
Net fee and commission income	1,936.0	1,787.2	1,720.8	1,806.5	1,869.8
Net trading and fair value result	450.2	122.6	269.8	218.8	242.3
Operating income	7,843.6	7,531.0	7,281.1	6,995.1	6,877.9
Operating expenses	-3,931.2	-3,971.9	-3,881.0	-3,896.1	-3,787.3
Operating result	3,912.4	3,559.1	3,400.1	3,099.0	3,090.7
Net impairment loss on financial assets not measured at fair value through profit or loss	-2,068.0	-2,365.2	-2,060.1	-1,774.4	-2,159.2
Pretax result	1,515.1	-322.1	801.2	378.4	-803.2
Net result attributable to owners of the parent	1,015.4	-718.9	483.5	60.3	-1,442.0
Operating Data					
Headcount	50,272	50,452	49,381	45,670	46,067
Number of branches	3,202	3,176	3,063	2,833	2,792
Number of customers	17.0	17.0	17.0	16.5	16.2
Share price and key ratios					
High (EUR)	35.59	39.45	24.33	26.94	29.71
Low (EUR)	25.10	10.65	11.95	19.34	17.02
Closing price (EUR)	35.14	13.59	24.03	25.33	19.235
Price/earnings ratio	13.1	na	19.6	180.6	na
Dividend per share (EUR)	0.70	0.00	0.40	0.20	0.00
Payout ratio	26.1%	0.0%	32.6%	142.6%	0.0%
Dividend yield	2.0%	0.0%	1.7%	0.8%	0.0%
Book value per share	29.9	26.1	27.9	26.3	22.9
Price/book ratio	1.2	0.5	0.9	1.0	0.8
Total shareholder return (TSR)	37.3%	-59.3%	76.8%	7.1%	-23.3%
Stock market data (Vienna Stock Exchange)					
Shares outstanding at the end of the period	378,176,721	390,767,262	394,568,647	429,800,000	429,800,000
Weighted average number of outstanding shares	374,695,868	377,670,141	391,631,603	411,553,048	427,533,286
Market capitalisation (EUR billion)	13.3	5.3	9.5	10.9	8.3
Trading volume (EUR billion)	15.3	10.9	7.4	8.3	9.3

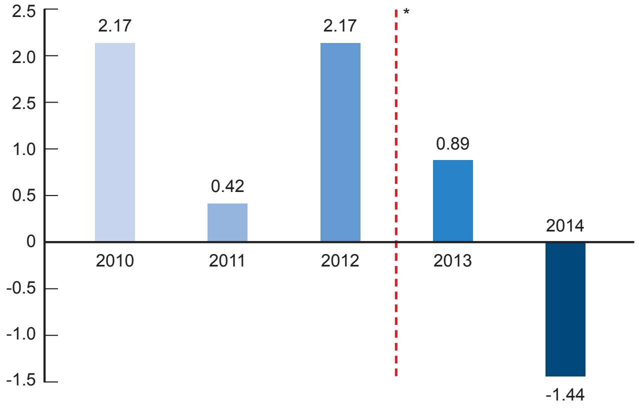
*) The figures for the years prior to 31 December 2014 are restated according to IAS 8. The resulting retrospective changes in the presentation are explained in chapter B on significant accounting policies in the consolidated financial statements 2014.

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

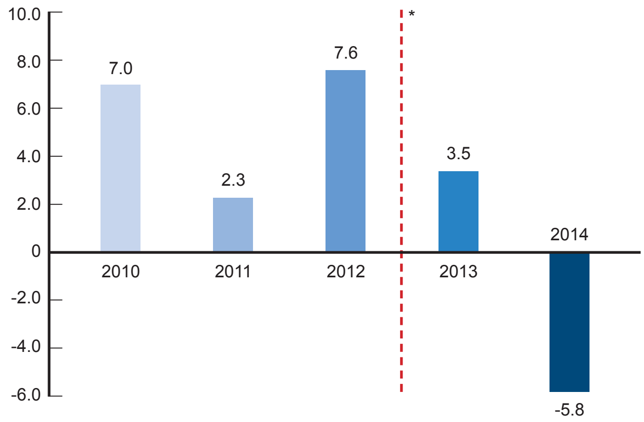
The dividend pay-out ratio represents dividends paid to owners of the parent (excluding dividends paid on participation capital) for the respective year divided by net result attributable to owners of the parent.

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

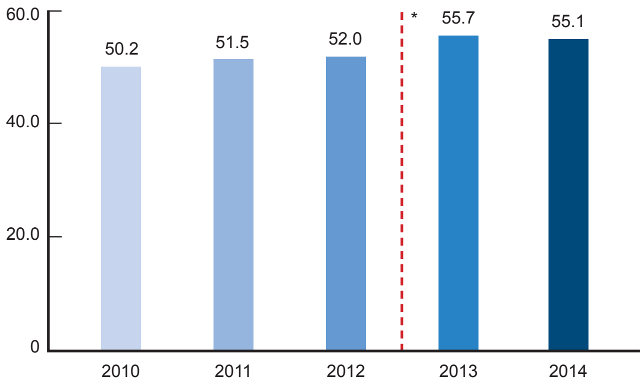
Cash earnings per share (in EUR)



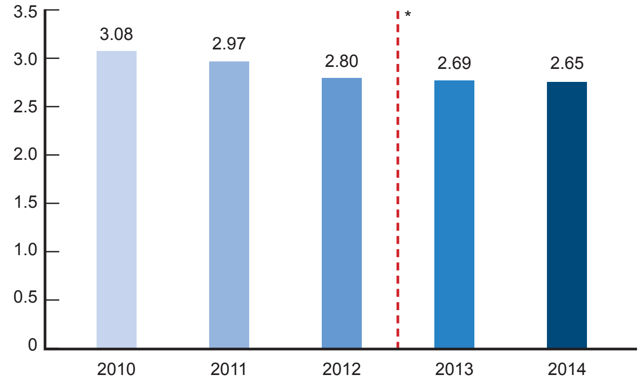
Cash return on equity (in %)



Cost/income ratio (in %)

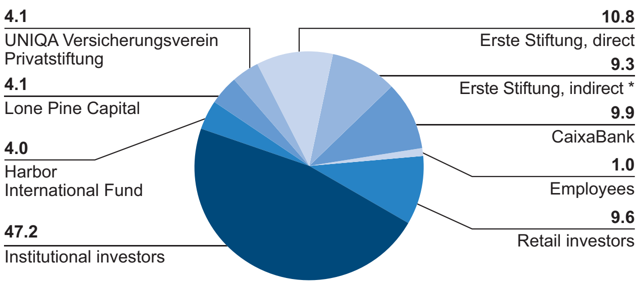


Net interest margin (in %)



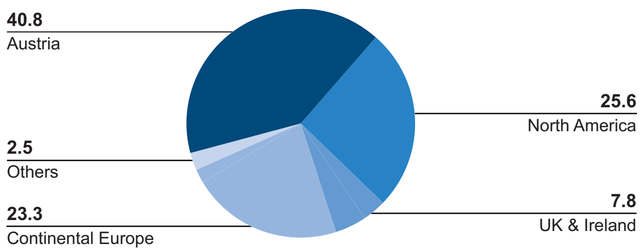
* adoption of IFRS 10 and changes in the presentation of the income statement and balance sheet

Shareholder structure as of 31 December 2014 by investors (in %)



* includes voting rights of Erste Foundation, savings banks, savings bank foundations and Wiener Städtische Wechselseitige Versicherungsverein

Shareholder structure as of 31 December 2014 by regions (in %)



Ratings as of 31 December 2014

Fitch	
Long-term	A
Short-term	F1
Outlook	Negative
Moody's Investors Service	
Long-term	Baa2
Short-term	P-2
Outlook	Negative
Standard & Poor's	
Long-term	A-
Short-term	A-2
Outlook	Negative

Financial calender 2015

Date	Event
7 May 2015	Results for the first quarter of 2015
12 May 2015	Annual general meeting
7 August 2015	Results for the first half year of 2015
6 November 2015	Results for the first three quarters of 2015

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

Highlights

Operating result stable
_ Revenue decline on low interest rate environment
_ Reduced costs
_ Cost/income ratio slightly improved to 55.1%

Loan growth returning
_ Performing loans up by EUR 2.0 billion
_ Retail business as growth driver

Asset quality substantially improved
_ NPL ratio significantly improved to 8.5%
_ NPL coverage increases to 68.9% in 2014

Capital ratios remain solid
_ CET 1 ratio (Basel 3, final) at 10.6%
_ Moderate increase in risk-weighted assets

Net profit burdened by one-off effects
_ Negative one-off effects of EUR 1,474.0 million
_ Banking taxes and FTT totalling EUR 256.3 million
_ No dividend payment for 2014

Excellent funding and liquidity position
_ Strong deposit base is key competitive advantage
_ Loan-to-deposit ratio at 98.6%

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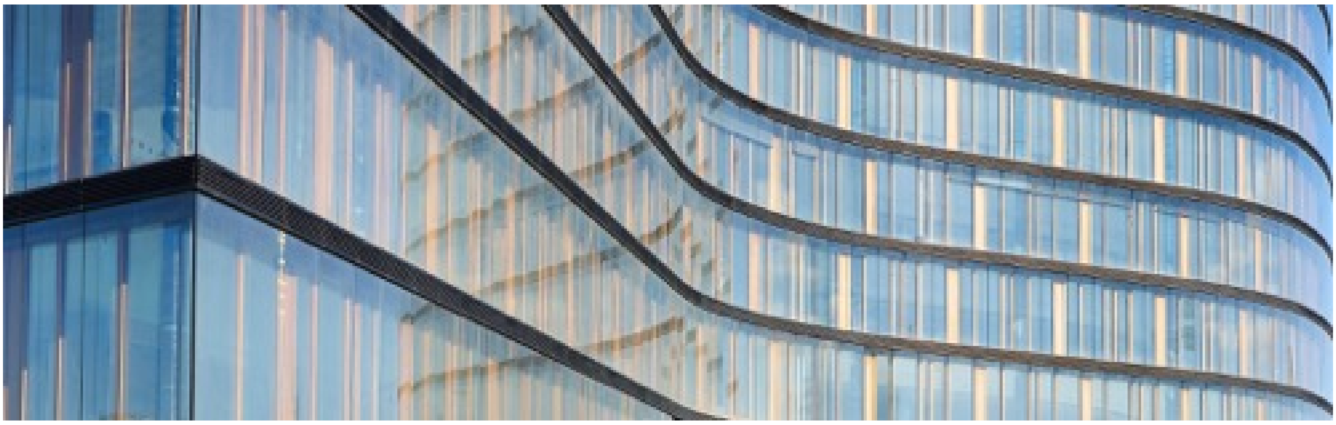


Letter from the CEO

Dear shareholders,

2014 was a year of change. Many of the issues we had been dealing with over the past few years, such as the challenging business environment in Hungary and the risk situation in Romania, were hopefully finally resolved. This resulted in a loss of EUR 1.4 billion attributable to various one-off effects and the suspension of dividend payments for 2014, but also led to a fair number of positive developments. The operating result remained stable at EUR 3.1 billion, not least due to further cost reductions. For the first time since 2011, lending volume was up by EUR 1 billion. Growth was recorded primarily in the core markets of Austria, the Czech Republic and Slovakia, while lending volume still contracted in Romania and Hungary. At the same time, asset quality improved further, particularly in Romania. We eliminated bad loans and added good loans. The NPL ratio declined by more than one percentage point to 8.5%. The NPL coverage ratio improved significantly to 68.9%. Even though the low interest rate environment held little attraction for savers, customer deposits increased, which is a clear sign of trust in the bank. And in the fourth quarter of 2014, Erste Group returned to profitability. Also in 2014, we laid the groundwork for our new group-wide digital platform.

Having radically disposed of legacy issues, we can now face the future with a clean slate. The changes on the management board of Erste Group as of year-end underline our commitment to our business model: we aim to be the leading bank in the eastern part of the European Union. Peter Bosek will manage the key strategic initiatives in retail banking group-wide, including the digital transformation and innovation. Our clear goal is to further enhance and strengthen Erste Group's position as the pre-eminent retail bank in our region. In the corporate business, Jozef Síkela, new board member for Corporate & Markets, will focus on SMEs and companies that operate in our core markets. Erste Group does not aspire to be a global bank, but is and will stay a regional bank that is firmly embedded in the real economy in CEE. Petr Brávek, who will take up his new position as COO on 1 April 2015, will be responsible for the technical implementation of the digital transformation and the alignment of data management with new regulatory standards.

Economic growth accelerating in CEE

In Central and Eastern Europe, the macroeconomic environment was characterised by stable developments in 2014. With the exception of Croatia and Serbia, all core markets of Erste Group in the CEE region continued growing, albeit at modest rates. Austria posted real GDP growth of 0.4%, below the euro zone average of 0.9%. Across the region, domestic demand picked up visibly, with household consumption showing an extremely positive trend in the Czech Republic and in Romania. With its large share of exports, the automotive industry was again a key contributor to economic performance, especially in the Czech Republic, Slovakia, Romania and Hungary. In Austria, public-sector consumption played a major role in supporting economic growth as household consumption remained weak, as did investment in plant and equipment. The labour market improved in many of the CEE economies. At 5.0%, the Austrian unemployment rate was again one of the lowest in Europe in 2014. The sanctions imposed by Russia have only had a minor impact on CEE economies to date, as trade flows between the two regions are limited. In light of very low inflation pressure, the key policy rates in Romania and Hungary were cut further to new historical lows. In the Czech Republic, the key interest rate stood at 5 basis points throughout the year. The Czech koruna and the Romanian leu remained stable while the Hungarian forint depreciated slightly versus the euro despite very good economic data.

Substantial negative impacts of one-off effects

The operating result of Erste Group was stable in line with the solid development in CEE markets. While operating income was affected by the persistently low interest rates, this negative impact was partly offset by a decline in general administrative expenses, the result of rigorous cost control efforts of recent years. The main loss drivers for the year, however, were adverse one-off effects and high risk costs, especially in Hungary and Romania. One key factor was the write-down of intangible assets in the total amount of EUR 964.8 million. We wrote off the entire remaining goodwill in Romania and in Croatia and some smaller participating interests – goodwill write-downs totalled EUR 475.0 million – as well as customer relationships and brand in Romania in the amount of EUR 489.8 million. These write-offs were attributable to the need to revise some original projections due to significant changes in the economic environment. Risk-induced one-off effects also had a negative impact in 2014. In Romania, an additional EUR 400 million in additional risk costs was posted in connection with the accelerated reduction of non-performing loans. As a result, the Romanian NPL portfolio was sharply reduced by almost one billion euro already in 2014. The Hungarian consumer loan law passed last summer had a negative net impact of EUR 312.2 million on the annual result. The exchange rate for the forced conversion of foreign-currency loans to local currency was set in autumn at the market rate applying at that time. The issue of foreign currency loans in Hungary should be finally settled in 2015.

The banking taxes levied in Austria, Hungary and Slovakia at levels that were substantial by international standards were unfortunately not a one-off effect. While they were lower than in the preceding year, they still had a negative impact of EUR 210.0 million on 2014 earnings. In addition, transaction taxes of EUR 46.3 million were paid in Hungary. Levies will increase again in 2015, mainly in Austria, as the additional contributions to the European bank resolution and deposit insurance funds will significantly exceed the slight reduction in banking taxes of 2014.

Sound capital and liquidity positions

Major portions of the one-off effects were not cash-effective, however, and had no impact on Erste Group's regulatory capital. Erste Group's position as one of the best-capitalised major Austrian banks was confirmed. At year-end 2014, Erste Group's common equity tier 1 ratio (CET1, Basel 3, fully loaded) was 10.6%, well above the 10% minimum ratio target agreed with the regulator. The solvency ratio stood at 15.7%. Erste Group's long- and short-term liquidity positions remained excellent on the back of deposit inflows.

Regulatory environment

In November 2014, the European Central Bank (ECB) assumed responsibility for the supervision of significant European banks, including Erste Group. Before that date, Erste Group had successfully passed the Asset Quality Review (AQR) and the associated stress test conducted by ECB and the European Banking Authority (EBA) respectively. It would now be desirable to achieve some continuity and stability of regulatory standards after years of uncertainty.

Leading retail bank with a clear geographical focus

In our core markets, we are well positioned to benefit from the medium- to long-term growth opportunities in the eastern part of the European Union and Austria. We strive to offer our customers – private individuals, professionals, SMEs and large corporate customers – suitable and transparent modern financial products and bank services. Especially in Austria, the Czech Republic and Slovakia, we saw lending growth driven by increased demand already in 2014. In Hungary, recent developments make it possible to leave the past behind. As the government and the European Bank for Reconstruction and Development (EBRD) signed an agreement in February 2015 designed to strengthen the financial sector and providing, among other things, for a gradual reduction of Hungarian banking taxes from 2016, we invited the Hungarian government and the EBRD to acquire shares in Erste Bank Hungary. We are confident that Erste Group will be able to earn a premium on capital costs that is sustainable over the long term even though the steady rise in capital requirements is not exactly helpful.

I would like to take the opportunity to thank all employees, as it is their competence and commitment that secure strong relationships with our customers over the long term and they translate our strategy into business.

Andreas Treichl mp

Management board

Andreas Treichl

Chairman

Group Strategy
Group Secretariat (incl. CSR, Group Environmental Management)
Group Communications
Group Investor Relations
Group Human Resources (incl. Group Diversity)
Group Audit
Employees' Council
Social Banking Development

Gernot Mittendorfer

Group Asset Liability Management
Group Controlling and Information Management
Group Accounting
Participation Management
Group Services

Andreas Gottschling

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

Peter Bosek

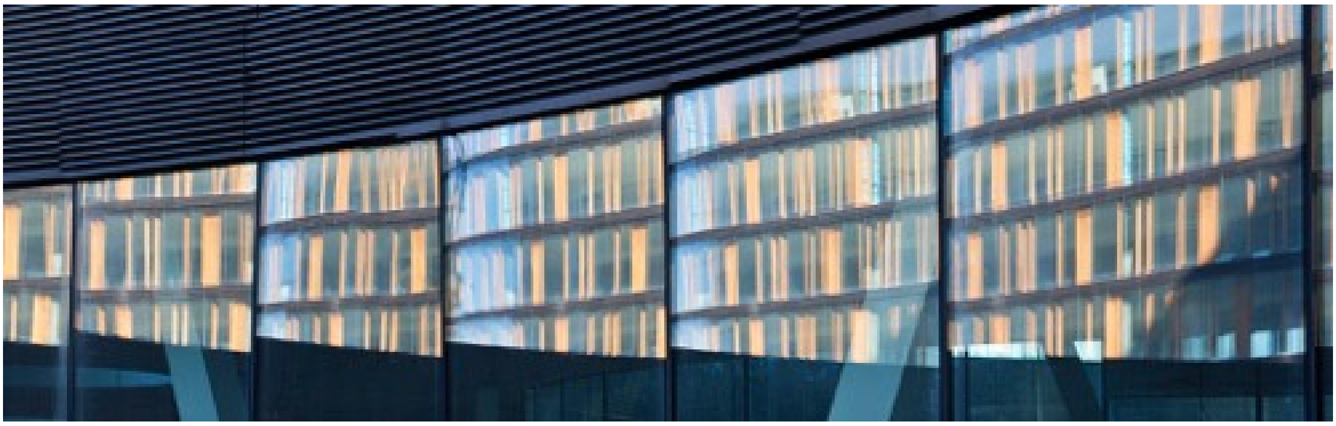
Digital Sales
HUB
Group Private Banking
Group Brands Communication
Group Retail Steering and Projects
Group Retail Strategy

Jozef Síkela

Large Corporates
Erste Group Immorent
Group Capital Markets
Group Research
Group Investment Banking
Steering & Operating Office Markets
Steering & Operating Office Corporates

Petr Brávek

Group Organisation/IT
Group Banking Operations



Report of the supervisory board

Dear shareholders,

In 2014, the supervisory board had to deal with substantial challenges and the critical task of setting the course that Erste Group Bank AG will take going forward. We took important, albeit not always easy decisions for the future in order to secure a sound base for the bank's long-term development.

On the positive side, Erste Group passed the Asset Quality Review and the associated stress test conducted by the European Central Bank and the European Banking Authority respectively, and reaffirmed its position as one of the best-capitalised major banks in Austria. The increase in risk provisions in Romania and Hungary announced on 3 July 2014 doubtless made a significant contribution to Erste Group's successful passing of the Asset Quality Review and stress test. While these measures resulted in a significant loss in the financial year 2014, the supervisory board regarded them as a prerequisite for mastering the challenges in an economically difficult environment that is characterised by moderate economic growth and low interest rates.

One of the key issues was certainly the strategic repositioning of Erste Group and the related human resources decisions. For the retail business, a group function has been created to which the supervisory board appointed Peter Bosek as a new member of the management board of Erste Group Bank AG. For the realignment of the corporate business, which – after an initial period under central control – is to be returned increasingly to local management responsibility, the supervisory board appointed Jozef Síkela as a member of the management board. Both started in their new positions on 1 January 2015. Petr Brávek was appointed by the supervisory board to join the management board on 1 April 2015 as Chief Operations Officer. On behalf of the entire supervisory board, I cordially thank Franz Hochstrasser and Herbert Juranek, who left the management board at year-end, for their many years of successful service for Erste Group Bank AG.

The eventful year of 2014 also saw changes in the composition of the supervisory board: at the annual general meeting, Elisabeth Bleyleben-Koren, Elisabeth Krainer Senger-Weiss and Gunter Griss were newly elected to the supervisory board. The employees' council nominated Markus Haag and Barbara Pichler as new members to the supervisory board. I am very pleased that we have thus not only gained additional professional expertise but have also achieved more diversity on the supervisory board. Juan Maria Nìn Génova resigned from his mandate, which he had held since 2009, for personal reasons effective 11 December 2014. As of the same date, Friedrich Lackner, chairman of the employees' council, left the supervisory board due to his retirement. Committee membership has been adjusted accordingly. I also wish to thank them both for their many years of valuable and competent service as members of the supervisory board.

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

In the course of 46 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 Austrian Code of Corporate Governance , as well as to ascertain the proper conduct of business.

The financial statements (consisting of the balance sheet, income statement and notes), the management report, the consolidated financial statements and the group management report for 2014 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 2014.

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.

We have approved the financial statements and these have thereby been duly endorsed in accordance with section 96 (4) of the

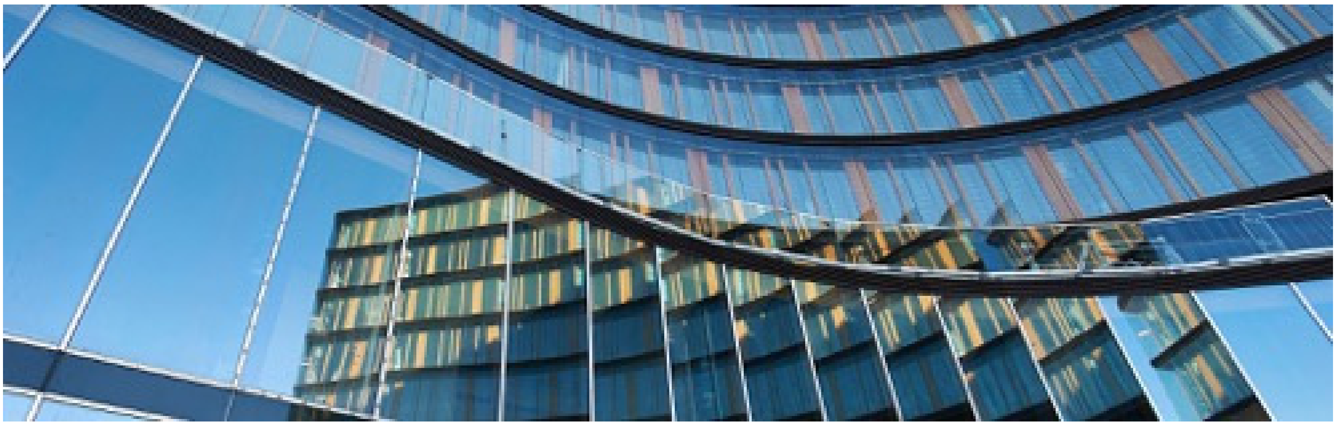
Aktiengesetz (Austrian Stock Corporation Act). The management report, consolidated financial statements, group management report and corporate governance report have been reviewed and accepted.

Even though the result of the financial year 2014 does not permit distribution of a dividend, the supervisory board is nonetheless convinced that due to the measures it has implemented, Erste Group Bank AG can look forward to 2015 with optimism. The course charted will enable the bank to grow and hold its ground even in difficult economic conditions and in a competitive business environment.

For the supervisory board:

Friedrich Rödler mp
Chairman of the Supervisory Board

Vienna, March 2015



Erste Group on the capital markets

Against the backdrop of economic growth in the US, a weakening euro zone economy and the impacts of geopolitical uncertainty, the focus of international stock markets in the past year was on the central banks' interest rate policies. While the euro zone was moving towards further monetary policy easing, the US central bank (Fed) was considering steps to tighten its monetary policy. The prospect of a first rate hike in the US since the severe financial and economic crisis buoyed up the dollar and pushed the euro lower. European banking stocks were impacted by regulatory measures and reviews conducted by supervisory authorities. The Erste Group share declined by more than 20% year on year due to the challenging environment and one-off effects (including goodwill adjustments), even though the bank comfortably passed the stress test and has recently seen improvements in credit quality.

EQUITY MARKET REVIEW

Solid performance of key markets

After most of the stock markets followed had extended the rallies started in 2013 well into the first half of 2014, clouded economic outlooks in Europe, China and Japan as well as uncertainty about the Fed's future monetary policy fuelled volatility once the quantitative easing measures had been ended. The relative weakness of European key indices compared with US indices became more pronounced amid a softening European economy, the conflict between Russia and Ukraine and the sanctions imposed in this context. The weak euro aggravated the negative sentiment towards Europe. While the US indices hit new record highs, European stocks were lagging behind. The US Dow Jones Industrial Index closed the year 7.5% up at 17,823.07. The broader US indices posted two-digit gains: the Standard & Poor's 500 Index advanced 11.4% to 2,058.90 and the Nasdaq Composite Index climbed 13.4% to 4,736.05. By comparison, the Euro Stoxx 600 Index rose 4.4% to 342.54 and the Euro Stoxx 50 Index closed at 3,146.43, up 1.2%.

Continuation of expansionary monetary policy

The European Central Bank (ECB) cut its rates once again in response to weak macroeconomic data in Europe and growing concerns about deflation. The inflation rate fell to 0.3%, the lowest level since October 2009. The euro zone's benchmark refinancing rate, at which central bank funds are offered to the banking system, was cut to a new record low of 0.05%. For the first time, the ECB decided to offer banks a negative interest rate for short-term deposits. With this move, the ECB intends to stimulate lending and, thereby, the economy, particularly in southern Europe, and to prevent inflation from falling too low. The Fed confirmed that it would keep its key interest rate low within a range of 0% to 0.25%. In view of solid US economic data, however, the Fed has already started its controlled exit from the ultra-loose monetary policies pursued in recent years by tapering its quantitative easing programme, i.e. large-scale asset purchases.

Weakening economic activity in the euro zone

The US economic environment has improved significantly, with stronger-than-expected real gross domestic product growth in the third quarter of 2014, robust employment data and solid economic indicators. The growth data published indirectly supported the Fed's decision to end quantitative easing and to keep its key interest rate close to 0%. Unlike for the US, economic research institutes had to revise their growth forecasts for the euro zone downwards. This was attributable to weak economic data and, most importantly, the impacts expected from the Ukraine crisis in the shape of sanctions mutually imposed on each other by Russia and the European Union. Apart from the euro zone, the research institutes and the OECD have identified further soft spots in the global economy such as potentially lower growth in China and a contraction of the Japanese economy, which may dampen economic activity worldwide.

Focus on Asset Quality Review and stress test

While the continuation of the ECB's loose monetary policy in the form of rate cuts provided positive momentum and supported the ongoing rally in European bank stocks in the first quarter, market conditions turned tense later in the year as 130 European banks had to undergo Asset Quality Reviews (AQRs) and stress tests. The results released at the end of October confirmed that the major banks of the euro zone were sufficiently resilient to withstand crises. The capital requirements of the 25 banks that failed the test were lower than expected. Since the beginning of November 2014 the European Central Bank (ECB) has directly supervised the most significant banks of the euro zone. The introduction of bank recovery and resolution rules designed to force creditors to absorb some of the costs of winding down banks and requiring banks to contribute to a resolution fund were viewed critically by the rating agencies Standard & Poor's and Moody's. In the year ended, the Dow Jones Euro Stoxx Bank Index, which is composed of leading European bank stocks, declined by 4.9% to 134.51 points.

Vienna Stock Exchange lagging behind global markets

While in the first half of the year the Vienna Stock Exchange was still trending upwards, the Austrian Traded Index (ATX) slipped significantly against the backdrop of geopolitical crises after mid-year. The index marked its annual low in mid-October and temporarily dropped below the level of 2,000 points. The ATX ended the year 2014 down 15.2% at 2,160.08 points. This comparatively weak performance was partly due to the industry composition of the ATX. The heavily weighted commodity and banking stocks were affected quite heavily by the Ukraine crisis and the depreciation of the rouble, which was driven by the sanctions imposed by the EU and the US as well as by the slide of the oil price following OPEC's decision to keep production unchanged.

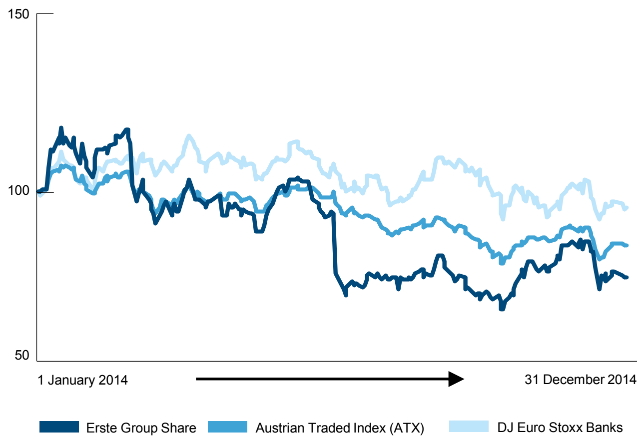
ERSTE GROUP SHARE

One-off effects weighing on share price

After significant declines in the first nine months of 2014, the shares of Erste Group benefited in the last quarter of 2014 from the bank's comfortable passing of the stress test and better-than-expected third-quarter results (stable operating result, improved credit quality). Apart from the asset quality review and the stress test conducted by the EBA, the main focus of analysts in the year ended was on the operating result, risk costs, the tax burden, write-downs of intangible assets (goodwill) and the possible conversion of foreign currency loans in Hungary.

At the beginning of 2014, the Erste Group share saw a visible but not sustainable increase, having reached its annual high at EUR 29.71 on 15 January 2014. At the end of the first quarter, the development of the shares of Erste Group was in line with the ATX. After the Erste Group share had already closed the first half of the year down 6.8%, it declined further in early July following the release of the revised outlook for 2014 earnings reflecting the need to recognise higher provisions in Hungary and in Romania. In mid-August, Standard & Poor's downgraded the rating of Erste Group – along with those of other Austrian banks – to A-/A-2/negative. In early September, the rating of long-term unsecured senior debt was downgraded by Moody's to Baa2. On 16 October, the Erste Group share marked its annual low at EUR 17.02. After the release of the results of the bank stress test and third-quarter results, the Erste Group share increased significantly and closed the last quarter of 2014 up 6.1%. The Erste Group share ended the year 2014 at a price of EUR 19.235, down 24.1%.

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 Bank Index
Since IPO (Dec 1997)	73.6%	65.6%	-
Since SPO (Sep 2000)	63.7%	84.9%	-61.7%
Since SPO (Jul 2002)	10.4%	77.1%	-46.5%
Since SPO (Jan 2006)	-57.3%	-44.6%	-64.5%
Since SPO (Nov 2009)	-33.7%	-17.1%	-40.9%
2014	-24.1%	-15.2%	-4.9%

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

Number of shares, market capitalisation and trading volume

In the year ended, the number of shares of Erste Group Bank AG remained unchanged at 429,800,000. Due to the decline in the share price, the market capitalisation of Erste Group decreased to EUR 8.3 billion at year-end 2014 from EUR 10.9 billion in 2013.

The Erste Group share is traded on the stock exchanges of Vienna, Prague and Bucharest. In 2014, the trading volume on these stock exchanges averaged 985,010 shares per day and accounted for about 34% 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 STOXX Global ESG Leaders index, which represents the best sustainable companies on the basis of the STOXX Global 1800.

DIVIDEND

Since 2005, Erste Group's dividend policy has been guided by the bank's profitability, growth outlook and capital requirements. The dividend for the financial year 2013 of EUR 0.20, approved by the annual general meeting, was paid on 28 May 2014. On 5 June 2014, pro-rated dividend payments in the amount of EUR 84.5 million were made on participation capital of EUR 1.76 billion that had already been repaid on 8 August 2013. The management board of Erste Group will propose to the annual general meeting not to pay any dividend for the financial year 2014.

SUCCESSFUL FUNDING

In 2014, Erste Group issued bonds in a total volume of EUR 2.3 billion, with an average tenor of 8 years. The underlying funding structure has remained unchanged: to extend or flatten the redemption profile. Due to still compressed spread differentials between senior and covered bonds, Erste Group kept its focus on senior funding, which was supported by a continuous demand for retail issues and private placements. In the fourth quarter 2014, Erste Group issued a USD 500 million subordinated Tier 2 bond in a total amount of EUR 975 million. The volume of new tier 2 instrument and covered bond placements stood at EUR 157 million at year-end 2014.

INVESTOR RELATIONS

Open and regular communication with investors and analysts

In 2014, Erste Group's management and the investor relations team met with investors in a total of 392 one-on-one and group meetings and conducted a large number of teleconferences with analysts and investors. The presentation of the 2013 annual result in Vienna was followed by the annual analysts' dinner and a road show day with investor meetings in London. A spring road show was conducted after the release of the first-quarter results, and an autumn road show was held 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, Kepler Cheuvreux, UBS, Morgan Stanley, HSBC, RCB, Deutsche Bank, Bank of America Merrill Lynch, Autonomous, Goldman Sachs, Barclays, Unicredit, and Wood. Additional 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.

The website http://www.erstegroup.com/ir provides comprehensive information on Erste Group and the Erste Group share. Investors and the broader public can also follow the investor relations team on the social media platform Twitter at http://twitter.com/ErsteGroupIR and on Slideshare at http://de.slideshare.net/Erste_Group. These sites provide users with the latest news on Erste Group 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 2014, Erste Group's investor relations team won the award for the best investor relations performance of an Austrian company for the fourth consecutive time. More than 700 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 2014, 27 analysts released research reports about Erste Group, including one initial coverage analysis. The Erste Group 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 Cheuvreux, Macquarie, mBank, Mediobanca, Morgan Stanley, Natixis, Nomura, RCB, SocGen, UBS, VTB Capital and Wood.

As of year-end, 11 analysts issued buy recommendations, 14 rated the Erste Group share neutral and two had sell recommendations. The average year-end target price was EUR 23.24. The latest updates on analysts' estimates for the Erste Group share are posted at: http://www.erstegroup.com/en/Investors/Share/AnalystEstimates.

Strategy

Erste Group aims to be the leading retail and SME bank in the eastern part of the European Union, including Austria. To achieve this goal, Erste Group aims to lend responsibly, provide a safe harbour for deposits and in general support all its customers in achieving their financial goals, be they retail, corporate or public sector customers.

Erste Group pursues a balanced business model focused on providing banking services to its customers on a sustainable basis. Sustainability is reflected in the bank's ability to fund customer loans entirely by customer deposits, with most customer deposits being stable retail deposits. Sustainability is also reflected in long term client trust, which underpins strong market shares in almost all of Erste Group's core markets. However, market leadership is not an end in itself. Market leadership only creates value when it goes hand in hand with sustainable profitability; hence Erste Group targets to earn a premium on the cost of capital.

Long-standing tradition in customer banking

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

Offering understandable products and services that meet the individual needs and objectives of the bank customers at sustainably attractive terms is important to building and maintaining strong long-term customer relationships. Today, the bank serves a total of about 16 million retail customers in its core markets. Erste Group's core activities also include advisory services and support for its corporate customers with regard to financing, investment, hedging activities and access to international capital markets. Public sector funding through investing parts of the bank's liquidity in infrastructure projects as well as sovereign bonds issued in its region are also part of the business. To meet the short-term liquidity management needs of the customer business, Erste Group also operates in the interbank market.

Core markets in the eastern part of the European Union

When Erste Group went public as an Austrian savings bank with no meaningful foreign presence in 1997, it defined its target region as consisting of Austria and the part of Central and Eastern Europe that had realistic prospects of joining the European Union. Against the backdrop of emerging European integration and limited potential for growth in Austria, Erste Group from the late 1990s onwards acquired savings banks and financial institutions in countries adjacent to Austria.

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 part of Europe offered and still offers the best structural and therefore long-term growth prospects.

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

Focus on sustainable profitability

Earning a sustainable premium on the cost of capital in a socially responsible manner and for the benefit of all stakeholders is a key prerequisite for the long-term survival of any company or bank. For only a sustainably profitable bank can achieve the following: provide products and services to customers that support them in achieving their long-term financial goals; deliver the foundation for share price appreciation as well as dividend and coupon payments to investors; create a stable and rewarding work environment for employees; and, be a reliable contributor of tax revenues to society at large.

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

Erste Group's strategy

Customer banking in Central and Eastern Europe

Eastern part of the EU		Focus on CEE, limited exposure to other Europe		
Retail banking	**SME/Corporate banking**	**Capital markets**	**Public sector**	**Interbank business**
Focus on local currency mortgage and consumer loans funded by local deposits FX loans only where funded by local FX deposits (Croatia and Serbia) Savings products, asset management and pension products Potential future expansion into Poland	SME and local corporate banking Advisory services, with focus on providing access to capital markets and corporate finance Real estate business that goes beyond financing Potential future expansion into Poland	Focus on customer business, incl. customer-based trading activities In addition to core markets, presence 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

THE STRATEGY IN DETAIL

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

Retail business

Erste Group's key business is the retail business, covering the entire spectrum from lending, deposit and investment products to current accounts and credit cards. Erste Group's core competence in retail banking has historical roots. In 1819, wealthy Viennese citizens donated funds to establish Erste Group's predecessor, the first savings bank in Central Europe. It was their aim to bring basic banking services such as safe savings accounts and mortgage loans to wide sections of the population. Today, the bank serves a total of 16 million retail customers in its markets and operates about 2,800 branches. In addition, Erste Group uses and promotes 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 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.

SME and 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 SMEs and large corporate customers to choose Erste Group as their principal bank and also route their payment transfers through the Group's banking entities and, in fact, regard Erste Group as their first point of contact for any kind of banking service.

Catering to their different requirements, Erste Group serves small and medium-sized enterprises locally in branches or separate commercial centres while multinational groups are serviced by the Large Corporate and Investment Banking units. This approach permits Erste Group to combine industry-specific and product expertise with an understanding of regional needs and the experience of the bank's local customer relationship managers.

In view of the regulatory reform efforts, advising and supporting the bank's corporate customers in capital market transactions is becoming increasingly important.

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 of government entities and financial institutions. Due to Erste Group's strong network in the eastern part of the European Union, the bank has a thorough understanding of local markets and customer needs. In Erste Group's capital markets business, too, the bank concentrates on key markets of the retail, SME and large corporate business: Austria, the Czech Republic, Slovakia, Romania, Hungary, Croatia and Serbia. For institutional customers, specialised teams have been established in Germany, Poland and 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

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

Interbank business

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

REGULATORY CHANGES IN BANKING

In the wake of the financial crisis, regulatory requirements for 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, the new international regulatory framework for banks has been revised by the Basel Committee on Banking Supervision (Basel 3). The new regime is designed 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).

The goal behind the reform measures is 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, anticyclical buffer, systemic risk buffer) are to be introduced in various steps. In addition, the quality of equity and own funds instruments follows stricter rules.

In November 2014, the Single Supervisory Mechanism (SSM) entered into force. It is based on commonly agreed principles and standards. The banking supervision is performed by the European Central Bank (ECB) together with the national supervisory authorities of participating member states of the euro zone. The ECB is responsible for the effective and consistent functioning of the SSM. To ensure efficient supervision, credit institutions are categorised as significant or less significant: the ECB directly supervises significant banks, whereas national authorities are in charge of supervising less significant banks. Erste Group has been classified as significant.

Austria, Germany and the UK were the first countries to implement the EU Bank Recovery and Resolution Directive (BRRD). As of 1 January 2015 the BaSAG (Austrian Recovery and Resolution Act/ Bundesgesetz zur Sanierung und Abwicklung von Banken) entered into force. Further to the requirement to have recovery and resolution plans in place, the framework also stipulates an additional minimum capital requirement to ensure sufficient loss-absorbing capacity, the MREL (Minimum Requirement on Own Funds and Eligible Liabilities), which will be further specified on a bank-by-bank basis in 2015. In addition, several tools to resolve failing institutions have been introduced for the newly established resolution authority (i.e. the FMA for Austrian banks).

As of year-end 2014, Erste Group reported a fully loaded Basel 3 CET1 (common equity tier-1) ratio of 10.6% and a total capital ratio of 15.7%. 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 benefits from an excellent liquidity position, enabling it to proactively serve customers' needs.

LONG-TERM GROWTH TRENDS IN CENTRAL AND EASTERN EUROPE

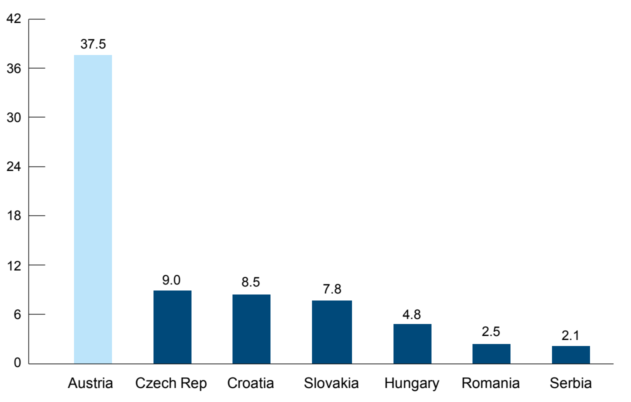
While the financial and economic crisis has slowed the economic catching-up process across the countries of Central and Eastern Europe, the underlying convergence trend continues. This is on the one hand due to the fact that the region has to make up for almost half a century of Communist mismanagement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

With the exception of deposit-taking, modern banking services were largely unknown until some twenty 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. 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.

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

A comparison of per capita debt levels in Central and Eastern Europe with those of advanced economies reveals that even today an enormous gap exists between these markets. Countries such as the Czech Republic and Slovakia, but also Croatia and Hungary, are many years away from reaching Austrian or Western European levels of loans per capita; also in relative terms, these countries differ substantially regarding debt levels common in the West. The contrast to Serbia or Romania is even more pronounced: private debt levels, and particularly household debt, are substantially lower than in the advanced economies. Even though the developments of very recent years will probably lead to a reassessment of what constitutes acceptable debt levels and to only a gradual rise in lending in Central and Eastern Europe, Erste Group still firmly believes that credit expansion accompanied by 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 (2014) in EUR thousand



Source: Local central banks, Erste Group

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

Management report

ECONOMIC ENVIRONMENT IN 2014

The global macro economy continued its uneven recovery in 2014. Among advanced economies, the United States and the United Kingdom left the crisis behind and achieved decent growth. In the euro zone, the pace of recovery was again very country-specific with Spain and Germany clearly outperforming France and Italy. Emerging markets and developing economies continued to outgrow the advanced markets. Despite their weakening economic indicators, countries such as China and India clearly achieved higher growth rates than the United States or the euro zone, whereas Brazil, the largest economy of Latin America, was not able to emerge from recession after the second quarter of 2014. The year 2014 was also characterised by rising geopolitical tensions and a surprising and significant decline in oil prices. The financial crisis in Russia was the result of a rapid decline in the Russian rouble relative to other currencies during the second half of 2014 and a slowdown in the Russian economy. The lack of confidence in the Russian economy stemmed from the fall in the price of oil and from the international economic sanctions imposed on Russia following Russia's annexation of Crimea and Russian military intervention in Ukraine. In addition, the ongoing conflict in Syria and the tense political situation in other countries in the region caused uncertainties throughout the year. The macroeconomic effects of these developments were mostly confined to the regions involved. All in all, the global economy grew by 3.3% in 2014, after 3.0% in 2013.

The United States were the bright spot of the global economy in 2014. Labour market conditions improved further, with solid job gains and a lower unemployment rate. Household spending rose moderately and investments advanced, while the recovery in the housing sector remained slow. Inflation, held down by lower energy prices, continued to remain below the Federal Reserve's longer-term objective of 2%. Improving market conditions, including diminished fears of persistently low inflation and a steadily declining jobless rate, led the Fed to end Quantitative Easing and to keep the base rate close to zero. All in all, the US economy grew by 2.4% in 2014. The moderate recovery in the euro zone continued in 2014 with member states achieving significantly varying performances. Spain and Germany clearly outperformed the average growth of the member states while France and Italy weighed on growth. Economic performance of the euro zone was impacted by soft external demand in conjunction with low investments while consumption became a stabilising factor for the economy in 2014. The European Central Bank (ECB) decided to pursue a more expansionary monetary policy by purchasing asset-backed securities and covered bonds while cutting the interest rates to a new historical low of 5 basis points. Consequently, the euro weakened versus the US dollar in the second half of the year. The ECB also announced its targeted longer-term refinancing operations aimed at improving bank lending to the euro zone non-financial private sector. Overall, the euro zone economy grew by 0.9% in 2014.

The Austrian economy performed broadly in line with the euro zone in 2014 with annual GDP growth of 0.4%. Both exports and domestic demand contributed to the growth, with the role of exports diminishing in the second half of the year. Public consumption played a significant role in supporting the economic growth while private consumption growth was weak and fixed capital formation remained stagnant. Despite the slow economic activity in 2014, employment growth continued, driven mainly by job creation in the services sector. The unemployment rate remained one of the lowest in Europe and stood at 5.0% in 2014. In terms of GDP per capita at approximately EUR 39,000, Austria remained one of the euro zone's most prosperous countries in 2014. Both private house-hold debt and public debt as a percentage of GDP remained below the euro zone average, with the latter standing at 86.9% compared to 81.2% in 2013. This significant increase in public debt was largely due to costs associated with the troubled financial institution Hypo Alpe Adria. Due to the lower systemic support stemming from the resolution of Hypo Alpe Adria, rating agencies downgraded the debt and deposit ratings of most Austrian banks.

Economic growth in Central and Eastern Europe improved further in 2014. Economies clearly benefitted from revived domestic demand and improved confidence with household consumption being exceptionally strong in the Czech Republic, Romania, and Poland. Exports have also contributed to growth of CEE economies with strong industrial production. The car industry, which was one of the main contributors to exports, again supported the Czech, Slovak, Romanian and Hungarian economies. The latter's GDP growth was mainly attributable to high public spending.

With the exception of Croatia and Serbia, where delayed fiscal consolidation hampered economic performance, all of the CEE countries grew in 2014. Inflation remained very low across the region. To support growth, national banks continued to cut key rates, which in Hungary and Romania stood at historical lows by the end of 2014. In the Czech Republic the base rate remained five basis points throughout the year. The Czech koruna and the Romanian leu remained stable while the Hungarian forint weakened versus the euro mainly due to lack of investors' confidence in the unpredictable economic environment.

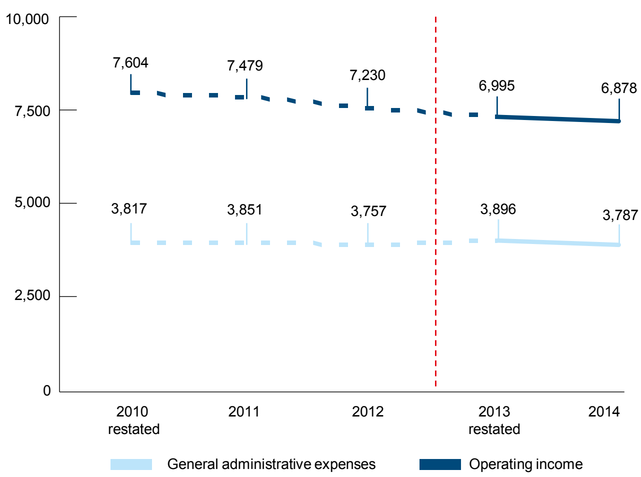
PERFORMANCE IN 2014

Acquisitions and disposals in Erste Group in 2014 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

Net interest income declined to EUR 4,495.2 million (EUR 4,685.0 million), mainly due to the persistently low interest rate environment and FX translation effects. **Net fee and commission income** increased to EUR 1,869.8 million (EUR 1,806.5 million) on the back of an improved result from securities business and asset management. The **net trading and fair value result** rose to EUR 242.3 million (EUR 218.8 million). **Operating income** amounted to EUR 6,877.9 million (-1.7%; EUR 6,995.1 million).

Operating income and operating expenses in EUR million



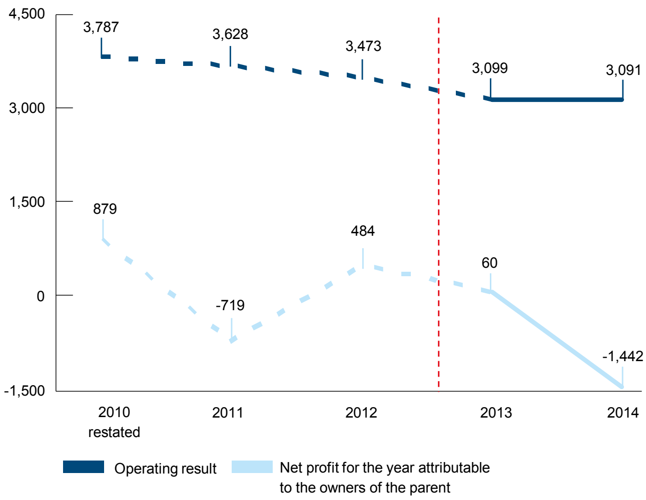
General administrative expenses declined to EUR 3,787.3 million (-2.8%; EUR 3,896.1 million), mainly due to lower personnel expenses on the back of lower average headcount and decreased depreciation and amortisation. This led to an **operating result** of EUR 3,090.7 million (-0.3%; EUR 3,099.0 million) and an improved **cost/income ratio** of 55.1% (55.7%).

Net impairment loss on financial assets not measured at fair value through profit or loss went up to EUR 2,159.2 million or 169 basis points of average customer loans (+21.7%; EUR 1,774.4 million or 137 basis points). This rise was attributable in particular to additional risk costs in Romania incurred in connection with the accelerated NPL reduction. The **NPL ratio** declined substantially to 8.5% (9.6%) on the back of successful NPL sales in Romania. The **NPL coverage ratio** improved significantly to 68.9% (63.1%).

Other operating result amounted to EUR -1,752.9 million (EUR -1,008.6 million). This was primarily due to the write-down of goodwill in the amount of EUR 475.0 million as well as of brand and customer relationships in Romania of EUR 489.8 million in total. At EUR 256.3 million (EUR 311.0 million), levies on banking activities were again significant: EUR 130.5 million (EUR 166.5 million) in Austria, EUR 31.5 million (EUR 41.2 million) in Slovakia and EUR 94.2 million (EUR 103.4 million) in Hungary – including EUR 47.9 million in banking tax. In addition, the item other operating result included EUR 336.8 million in expenses resulting from the consumer loan law passed by the Hungarian parliament. The net burden of the law and the conversion of the foreign-currency loans was EUR 312.2 million.

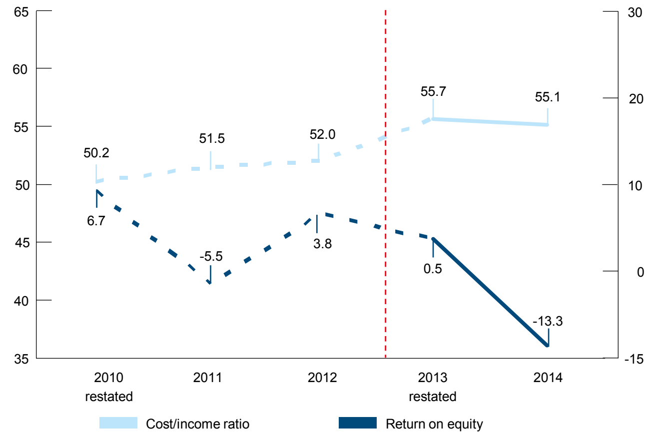
Result for the year attributable to owners of the parent amounted to EUR -1,442.0 million (EUR 60.3 million).

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 -9.4% (reported ROE:-13.3%) versus 3.4% (reported ROE: 0.5%) in 2013.

Key profitability ratios in %



Cash earnings per share for the financial year 2014 amounted to EUR -1.44 (reported EPS: EUR -3.37) versus EUR 0.89 (reported EPS: -0.06) in 2013.

Total assets amounted to EUR 196.3 billion (EUR 200.1 billion). **Loans and advances to customers (net)** increased moderately to EUR 120.8 billion (EUR 119.9 billion). **Total risk** (risk-weighted assets including credit, market and operational risk, Basel 3 phased-in) increased to EUR 100.6 billion (EUR 97.9 billion).

The **common equity tier 1 ratio** (CET 1, Basel 3 phased-in) stood at 10.6% versus 11.4% (Basel 2.5). The **total capital ratio** (Basel 3 phased-in) stood at 15.7% versus 16.3% (Basel 2.5).

Dividend

No dividend distributions will be proposed at the Annual General Meeting (2014: EUR 0.20/share). The participation capital was fully redeemed in August 2013, when dividends of 8% per annum were paid out for the last time.

Outlook

Operating environment anticipated to be conducive to credit expansion

Real GDP growth is expected to be between 2% and 3% in all major CEE markets, except Croatia, driven by rising domestic demand. For Austria, a real GDP growth below 1% is forecast.

Return on tangible equity (ROTE) expected at 8-10% in 2015 (YE 14 TE: EUR 8.4 billion)

Operating result is expected to decline in the mid-single digits on the back of lower but sustainable operating results in Hungary (due to FX conversion related effects of lower average volume and the expected reversal of a positive 2014 trading effect in 2015) and Romania (lower unwinding impact) as well as the persistent low interest rate environment.

For 2015, loan growth in the low single digits and a significant decline in risk costs are anticipated. Banking levies are expected to amount to about EUR 360 million in 2015, including contributions to European bank resolution and deposit insurance funds. Related discussions with the Austrian government are still ongoing.

Risks to guidance

Consumer protection initiatives for example potential pre-election CHF legislation in Croatia as well as geopolitical risks (Eastern Ukraine conflict, Greece) could have a negative impact on Erste Group's operating environment.

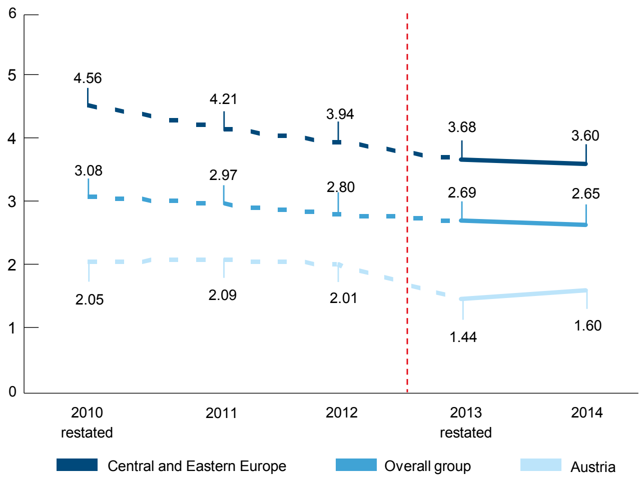
ANALYSIS OF PERFORMANCE

January-December 2014 compared with January-December 2013

Net interest income

Net interest income declined to EUR 4,495.2 million (EUR 4,685.0 million), mainly due to continuing subdued loan demand in a low interest rate environment. The net interest margin (net interest income as a percentage of average interest-bearing assets) contracted from 2.69% to 2.65%.

Net interest margin in %

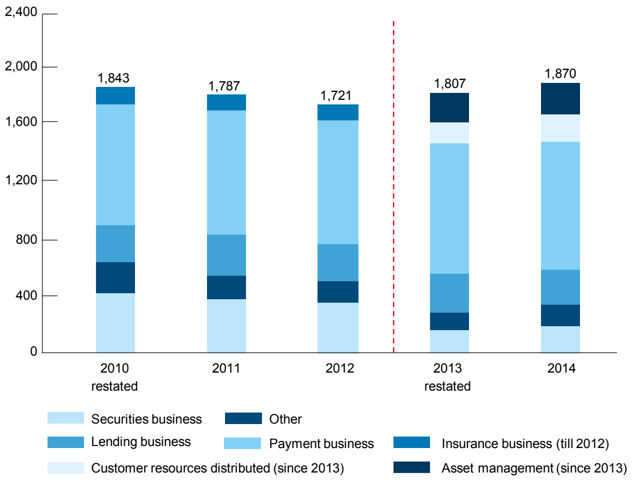


Since 2013 the calculation method for the net interest margin has been based on segment figures. For the calculation of the average interest-bearing assets five quarterly figures are now used instead of the four in the past.

Net fee and commission income

Net fee and commission income increased to EUR 1,869.8 million (EUR 1,806.5 million), due among other factors to improved results from securities business, asset management, and brokerage commissions.

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



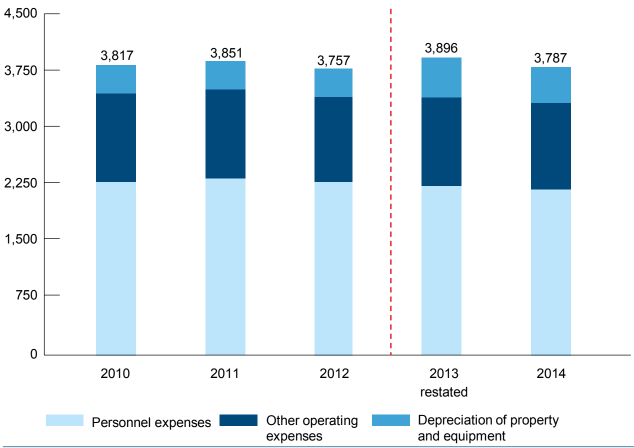
Net trading and fair value result

The net trading and fair value result rose to EUR 242.3 million (EUR 218.8 million), mainly due to valuation results for securities and derivatives held for trading. Swaps entered into with the Hungarian National Bank to secure refinancing of foreign-currency loans had a positive impact of EUR 32.4 million. A corresponding negative counter-effect was shown in other operative result.

General administrative expenses

General administrative expenses declined to EUR 3,787.3 million (EUR 3,896.1 million) (currency-adjusted: -1.5%).

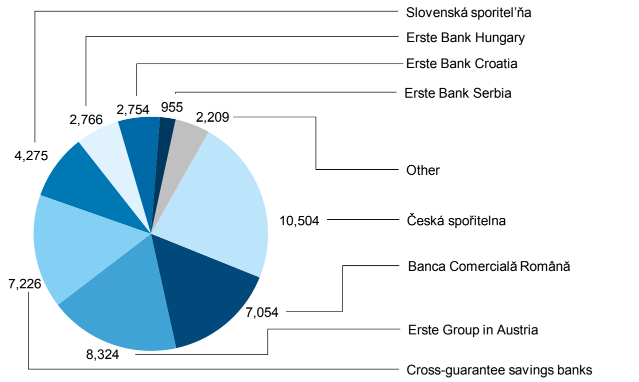
General administrative expenses, structure and trend, in EUR million



Personnel expenses decreased to EUR 2,184.2 million (EUR 2,232.4 million) (currency-adjusted: -1.1%). Further cost savings were achieved in **other administrative expenses** which decreased on the back of lower office-related expenses to EUR 1,136.9 million (EUR 1,146.0 million) (currency-adjusted: +1.1%). Depreciation and amortisation declined to EUR 466.1 million (EUR 517.7 million) (currency-adjusted: -1.5%). The line item other administrative expenses included deposit insurance contributions in the amount of EUR 87.6 million (EUR 77.2 million). The line item **depreciation and amortisation** included the straight-line amortisation of intangible assets (i.e. customer relationships) in the amount of EUR 37.0 million (EUR 65.2 million).

The headcount increased slightly by 0.9%, partly due to the expanded consolidation scope, to 46,067; average headcount went down to 45,996 (46,843)

Headcount as of 31 December 2014



Operating result

Driven by lower net interest income, operating income declined to EUR 6,877.9 million (-1.7%; EUR 6,995.1 million). As general administrative expenses were reduced at the same time to EUR 3.787,3 million (-2.8%; EUR 3,896.1 million), the operating result remained stable at EUR 3,090.7 million (-0.3%: EUR 3,099.0 million).

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

Gains/losses from financial assets and liabilities not measured at fair value through profit and loss (net) declined to EUR 18.3 million (EUR 62.4 million), mainly due to the negative contribution from the repurchase of financial liabilities.

Net impairment loss on financial assets not measured at fair value through profit or loss (net)

Net impairment loss on financial assets (net) rose to EUR 2,159.2 million (EUR 1,774.4 million), mainly due to higher risk costs in Romania. This development was largely attributable to the rise in 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 to EUR 2,120.4 million (EUR 1,726.5 million). Net impairment loss on financial assets not measured at fair value through profit or loss, based on the average volume of customer loans, amounted to 169 basis points (137 basis points). In addition, this line item included net impairment loss on financial assets – held to maturity and financial assets – available for sale in the amount of EUR -38.8 million (EUR -47.9 million).

Other operating result

Other operating result amounted to EUR -1,752.9 million (EUR -1,008.6 million). This was primarily attributable to write-downs: overall, goodwill write-downs amounted to EUR 475.0 million (thereof EUR 319.1 million in Romania, EUR 61.4 million in Croatia, and EUR 94.5 million for participations in Austria). In addition, an amount of EUR 489.8 million was written down in Romania for customer relationships and brand.

Other operating result also included expenses of EUR 336.8 million resulting from a consumer loan law passed by the Hungarian parliament. The negative net impact of the law and the conversion of the foreign-currency loans was EUR 312.2 million.

Levies on banking activities declined to EUR 256.3 million (EUR 311.0 million). Banking levies charged in Austria amounted to EUR 130.5 million (EUR 166.5 million) and in Slovakia to EUR 31.5 million (EUR 41.2 million). The Hungarian banking levies in the amount of EUR 94.2 million (EUR 103.4 million) comprised a banking tax in the amount of EUR 47.9 million (EUR 49.0 million) and a financial transaction tax in the amount of EUR 46.3 million (EUR 54.4 million). The latter included expenses of EUR 8.8 million (EUR 7.1 million) for the programme subsidising repayment of foreign-currency loans.

Profit/loss for the year

The result for the year from continuing operations amounted to EUR -803.2 million (EUR 378.4 million). The net result for the year attributable to owners of the parent declined to EUR -1,442.0 million (EUR 60.3 million).

Tax situation

Pursuant to section 9 of the Austrian Corporate Tax Act (KStG), Erste Group Bank AG and its main domestic subsidiaries constitute a tax group. Due to the high proportion of tax-exempt income – particularly income from participating interests – and tax payments for the permanent establishments abroad, no Austrian corporate income tax was payable in the financial year 2014. The current tax loss carried forward increased in 2014.

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 2014, the reported total income tax expense amounted to EUR 509.4 million (2013: EUR 178.5 million).

Balance sheet development

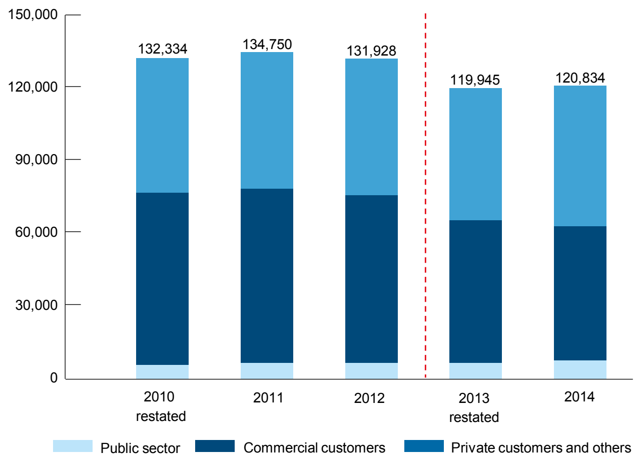
Total assets amounted to EUR 196.3 billion (EUR 200.1 billion). Loans and advances to customers (net) increased moderately to EUR 120.8 billion (EUR 119.9 billion). **Total risk** (risk-weighted assets including credit, market and operational risk, Basel 3 phased-in) increased to EUR 100.6 billion (EUR 97.9 billion).

Trading and investment securities declined slightly to EUR 50.1 billion (EUR 51.3 billion). The rise in the line item financial assets – available for sale did not fully offset the decline in the line items financial assets – held to maturity, financial assets – held for trading, and financial assets – at fair value through profit or loss.

Loans and receivables to credit institutions (net) decreased to EUR 7.4 billion (EUR 8.4 billion). **Loans and receivables to customers (net)** rose to EUR 120.8 billion (EUR 119.9 billion) despite continuing subdued credit demand in some business segments and significant declines in Romania and Hungary. **Allowances for loans and receivables to customers** shown as part of loans and receivables to customers decreased to EUR 7.5 billion (EUR 7.8 billion).

The **NPL ratio**, non-performing loans as a percentage of loans to customers, declined significantly to 8.5% (9.6%). The **NPL coverage ratio** improved to 68.9% (63.1%).

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

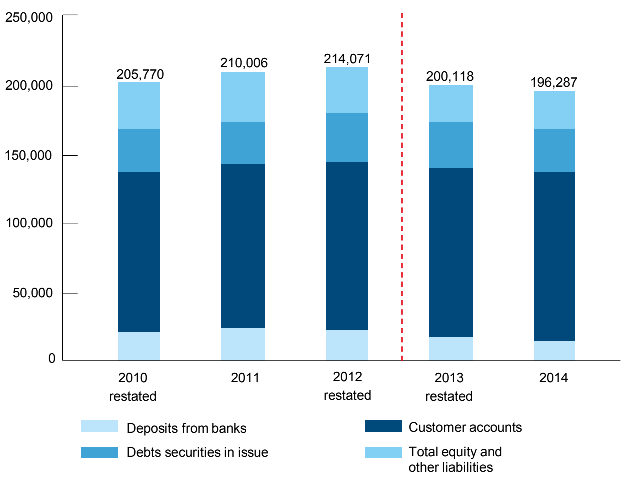


Due to the recognition of impairments including goodwill, customer relationships and brand, **intangible assets** declined to EUR 1.4 billion (EUR 2.4 billion). Miscellaneous assets were largely unchanged at EUR 8.6 billion (EUR 8.8 billion) despite a write-down of deferred tax assets.

Financial liabilities – held for trading increased to EUR 7.7 billion (EUR 6.5 billion) due to interest yield changes.

Deposits from banks decreased to EUR 14.8 billion (EUR 17.3 billion), reflecting a decline in overnight deposits from credit institutions. **Deposits from customers** increased moderately to EUR 122.6 billion (EUR 122.4 billion) despite a negative impact of EUR 1.8 billion related to the final deconsolidation of the Czech pension fund. The **loan-to-deposit ratio** stood at 98.6% (98.0%).

Balance sheet structure/liabilities and total equity in EUR million



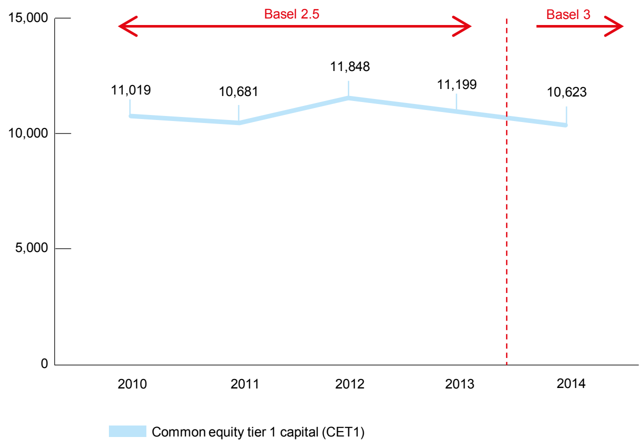
Debt securities in issue, in particular bonds as well as mortgage and public sector covered bonds, declined to EUR 31.1 billion (EUR 33.1 billion) due to redemptions. Miscellaneous liabilities rose to EUR 6.6 billion (EUR 6.0 billion).

Erste Group's **total equity** (IFRS) declined to EUR 13.4 billion (EUR 14.8 billion). After regulatory deductions and filtering according to the CRR, **tier 1 capital** (Basel 3 phased-in) amounted to EUR 10.6 billion (year-end 2013, Basel 2.5: EUR 11.6 billion), **common equity tier 1 capital** (CET1, Basel 3 phased-in) stood at EUR 10.6 billion (year-end 2013, Basel 2.5: EUR 11.2 billion).

Total risk (**risk-weighted assets** including credit, market and operational risk, Basel 3 phased-in) increased to EUR 100.6 billion (EUR 97.9 billion).

As of 2014, Erste Group calculates consolidated regulatory capital according to Basel 3. In 2014, the calculation followed the requirements as defined in the capital requirements regulation (CRR) taking into consideration transitional provisions as defined in the Austrian CRR-Begleitverordnung. These transitional provisions define the percentages applicable to eligible capital instruments and regulatory deduction items as well as filters. The **total capital ratio** (Basel 3 phased-in) in relation to the total risk (total eligible qualifying capital in relation to total risk pursuant to CRR) was 15.7% as of 31 December 2014 (year-end 2013, Basel 2.5: 16.3%), well above the legal minimum requirement.

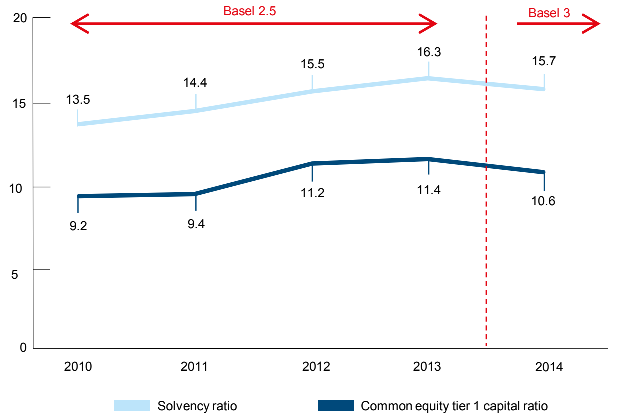
Common equity tier 1 capital (CET1) according to CRR in EUR million



In Basel 2.5: Core tier-1 capital.
Basel 3 values are based on CRR transitional rules.

The **tier 1 ratio** (Basel 3 phased-in), which includes the capital requirements for credit, market and operational risk, stood at 10.6% (year-end 2013, Basel 2.5: 11.8%). The **common equity tier 1 ratio** (Basel 3 phased-in) amounted to 10.6% as of 31 December 2014 (year-end 2013, Basel 2.5: 11.4%).

Solvency ratio and common equity tier 1 capital ratio in %



In Basel 2.5: Core tier-1 capital.
Basel 3 values are based on CRR transitional rules.

EVENTS AFTER BALANCE SHEET DATE

On 15 January 2015, the Swiss National Bank decided to discontinue the minimum exchange rate of CHF against EUR. This announcement resulted in significant appreciation of CHF against all major currencies including the currencies of CEE countries. The impact on Erste Group arose primarily in relation to borrowers who have taken out CHF-denominated loans in the past and are now adversely affected in terms of repayment ability. Preliminary sensitivity analyses performed indicate a moderate impact in terms of higher risk costs and increase in credit RWAs (10 bps CET1 loss in the case of EUR/CHF parity prevailing for a longer period of time). The actual impact is contingent on future exchange rate developments.

On 26 January 2015, following a proposal by the Croatian government, the Croatian parliament approved a change in the Consumer Protection Act, to fix payments of future monthly annuities in 2015 for CHF/HRK exchange rate at 6.39 for customers who have CHF-denominated loans. This change became effective as of 27 January 2015. Erste Group expects that this will have a moderate effect via foreign exchange losses on profit and loss in 2015.

On 9 February 2015, the government of Hungary and the European Bank for Reconstruction and Development (EBRD) sealed an agreement (the Memorandum of Understanding) aimed at strengthening Hungary's financial sector and boosting the flow of bank credits to Hungary's private corporations and citizens. In this context, Erste Group announced that it has invited the government of Hungary and theEBRD to invest in Erste Bank Hungary by acquiring a minority stake of up to 15% each. Negotiations are in progress and the completion of the transaction is expected within the next six months, after implementation of a new Hungarian banking tax law, as set out in the Memorandum of Understanding. The purchase price will be negotiated between Erste Group and the two parties based on market valuation methods after performing the due diligence. The EBRD's investment is expected to be structured with a pre-agreed exit to Erste Group after an agreed period of time. The transaction is subject to all necessary approvals required from Hungarian or European banking supervisory and competition authorities.

RISK MANAGEMENT

With respect to the explanations on substantial financial and non-financial risks at Erste Group as well as the goals and methods of risk management, we would like to draw the reader's attention to the information in Notes 44, 45 and 49 to the consolidated financial statements.

ECB Asset Quality Review and EBA Stress Test

As regards the ECB Asset Quality Review and the EBA stress test we would like to draw the reader's attention to the information in Note 44.3.

RESEARCH AND DEVELOPMENT

As Erste Bank Group AG does not conduct independent or regular research into new scientific and technical findings or 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 of the Austrian Commercial Code (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, IT and design experts, the Innovation Hub is tasked with creating innovations and managing new programme initiatives.

CORPORATE SOCIAL RESPONSIBILITY

As one of the leading banks in Austria and the eastern part of the EU, 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.

Adhering to laws and international initiatives against bribery and corruption is common practice – nothing related to these topics was recorded at Erste Group in 2014. In addition, a variety of measures have been introduced. In 2014, a documentation and approval tool for gifts was introduced, as was a Whistleblowing Office. The Erste Integrity Line encourages lawful, fair behaviour and enables all employees to report cases of suspicious misconduct.

Commitment to society

Erste Group has always supported social, cultural, educational and sports projects, such as Erste Bank Oesterreich's *Mehr*WERT sponsorship programme.

Social activities

The Erste Group's social commitment is marked by its long-term cooperation with local and international organisations. This focuses on combating poverty and unemployment. Since 2013 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 supported 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 a platform for no-fee donations, which helps finance 200 NGO projects. Approximately 90 projects and initiatives were supported through partial financing in Serbia in 2014. Slovenská sporiteľňa continued its support for projects that create new jobs in sheltered workplaces and for organisations that work with handicapped people Young people from children's homes have obtained scholarships under a project called Success through Education. The Česká spořitelna Foundation also supports those from whom society turns away. It supported 28 projects with people excluded for reasons of age, social status, or mental handicap.

Arts and culture

Erste Group is dedicated to supporting an understanding of and appreciation for the arts and culture. One of the cornerstones of the activities is to enable young and socially disadvantaged people to find access to music the performing and the applied arts. Promoting young talents is another focus of Erste Group's arts and culture sponsorship programme. Erste Bank Oesterreich is the main sponsor of the Viennale film festival and Jeunesse, which sup-ports young artists and the development of innovative concepts for sharing music. Projects focusing on social design were financed as part of the Vienna Design Week in 2014. In the Czech Republic Designblok, a design and arts festival, is supported. In addition, a number of music festivals and art projects have been promoted in Hungary, Slovakia, Serbia and Croatia.

Financial education

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. 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. Erste Group believes that knowledgeable and financially educated customers are more likely to make sound appropriate financial decisions. Financially secure individuals and families will contribute positively to communities and foster economic growth and development. Therefore, Erste Group has been engaged in financial education activities for many years.

Target-group oriented short films for adults and children provide basic financial and economic know-how and explain current economic situations. The weekly series of already more than one hundred videos is recommended by the Austrian Federal Ministry of Labour, Social Affairs and Consumer Protection. Erste Group also offers workshops in the fields of financial education and debt prevention, especially for younger people. Large amounts of school and practice materials can be downloaded from the platform www.geldundso.at, which was developed together with youths.

Corporate volunteering

Erste Group encourages its employees to show social commitment through various initiatives. Thus, the number of participants in the Time Bank initiative, which was launched in 2012 and in which employees dedicate some of their free time to social projects, is growing steadily. A broad range of social projects, such as the renovation of social institutions or support for homeless people, are supported across the group. Employees of Česká spořitelna receive two free days for the support of social projects as part of its Charity Days.

Customers

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. The focus of Erste Group is clearly on the relationship with the customer, not on the transaction.

Erste Group believes that, despite technological progress, personal contact with customers remains important. This is why the modern branch network of Erste Group remains a key element of its banking business. Customers of Erste Group who require complex long-term financial services expect sound advice. The combination of digital channels and traditional sales approaches enables customer relationship managers to explore customer needs even more proactively. By implementing digital applications, Erste Group in 2014 took another step closer to its customers to help them manage their financial affairs.

Accessibility, transparency and comprehensibility of product information are top priorities. As a result, the range of multilingual consultation services is constantly expanding. Each branch of Erste Bank Oesterreich features an ATM machine with braille and the number of barrier-free branches is increasing across the group.

Customer retention based on high levels of satisfaction ensures the bank's long-term success. The Customer Experience Index (CXI) is assessed in all Erste Group countries, based on representative and comprehensive surveys. This index also serves as a bonus criterion for management board members.

In 2014, the main focus of financial inclusion was again on micro banking and social enterprise financing. Erste Group's local banks offer micro-financing models. Good.bee Credit provides development-oriented financial products for small businesses and the self-employed in Romania. Start-ups are also supported through micro-loans in Serbia, Croatia, Slovakia and Austria that target the financing of social enterprises.

Suppliers

Erste Group suppliers must fulfil strict standards in order to preserve the sustainable business principles. Covering the entire supply chain, Erste Group Procurement (EGP) is the sourcing and procurement company of Erste Group. Its basic objective is to ensure clear and fair sourcing and procurement activities and contracts. In addition to governance issues such as trade ethics, conflicts of interest, bribery and stakeholder commitment, the supplier audit requires responses to questions on sustainability and social topics such as child labour, and health and safety.

Employees

Retaining experienced and committed employees is fundamental to the long-term success of every company. Erste Group – as one of the largest employers in the region – therefore aims to maintain its position as an employer of choice in Central and Eastern Europe. The employee engagement survey conducted in

2013 showed that diversity and transparency were of particular importance. The appointment of a Group Diversity Manager underlines the importance of diversity for Erste Group. The key objectives in 2014 were the employment of people with disabilities, generation management and increasing the number of women in management positions. Erste Group signed the Austrian Charta der Vielfalt (Diversity Charter) in September 2014. By signing the charter, Erste Group expresses its appreciation and the importance of diversity in the group, as well as the commitment to carry out measures to promote diversity internally and externally.

Erste Group regards supporting the 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 Leadership Evolution Centre was introduced in 2014. It structures group-wide leadership development offerings. Erste Group also offers university graduates a very attractive career start with its Group Graduate Programme.

Across Erste Group, the focus of the remuneration policy was on an appropriate balance in rewarding the performance, competence and level of responsibility of the employees and keeping a sustainable personnel cost base. Erste Group offers competitive, but not market leading, compensation packages. The remuneration schemes are designed according to the CRD IV requirements on remuneration, ESMA guidelines (European Securities and Markets Authority) and local bank laws.

Erste Group is committed to a proactive approach towards helping its employees to identify and manage health risk. Therefore, a multi-professional team of occupational physicians, industrial psychologists and physiotherapists assists Erste Group's employees in any matters of health and well-being. In 2014, employees in Austria contacted the health centre 15,883 times.

Environment

Environmental issues affect everyone's life and the time when only environmental activists paid attention is long gone. 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.

To improve its ecological footprint, Erste Group introduced far-reaching measures to reduce electric energy, heating energy, copy paper and CO_2 emissions. Switching to LED light bulbs has already carried out successfully. In addition, group-wide criteria for choosing heating and electric energy providers based on their use of renewable energies have been defined. Moreover, company cars were replaced by new ones with lower CO_2 emissions and business trips have been reduced in favour of advanced video conference systems. This should help keep greenhouse gas emissions to a minimum.

An electronic Meeting Management System was installed in 2014, reducing paper printouts. Copy paper use has also been lowered through the encouragement of digital banking and mobile apps. Recycled and certified environment-friendly paper is used and recycled properly for tasks that still require paper. In 2014, the annual report and the interim reports were printed on recycled paper for the first time. The existing cooperation with the WWF was extended.

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 Note 36 to the consolidated financial statements.

As of 31 December 2014, DIE ERSTE oesterreichische Spar-Casse Privatstiftung, a foundation, together with Austrian savings banks held 30.04 % of the shares in Erste Group Bank AG. The foundation is holds 10.83 % of the shares directly, which makes it the largest shareholder.

Indirect participation of the Privatstiftung was at 9.29%, with 5.41% of the shares held by Sparkassen Beteiligungs GmbH & Co KG, which is an affiliated undertaking of the Privatstiftung; 0.80% was held by Austrian savings banks acting together with the Privatstiftung and affiliated with Erste Group Bank AG through the Haftungsverbund and 3.08% by other syndicate members. 9.92% of the subscribed capital was controlled by the Privatstiftung on the basis of a shareholder agreement with Caixabank S.A.

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

Article 15.4 of the Articles of Association concerning the appointment and dismissal of members of the management board and the supervisory board is not directly prescribed by statutory law: a motion for removal of supervisory board members requires a three-quarters majority of valid votes cast and a three-quarters majority of the subscribed capital represented at the meeting considering the proposal to be successful.

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

Other information

Furthermore, it should be noted that Erste Group Bank AG – just as nearly all Austrian savings banks – are members of the Haftungsverbund of Sparkassengruppe.

Sparkassengruppe sees itself as an association of independent, regionally established savings banks which strives to bolster its market position by strengthening common product development, harmonising its market appearance and advertising concepts, pursuing a common risk policy, engaging in co-ordinated liquidity management and applying common controlling standards.

In addition, the purpose of this scheme is:

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

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

As required by the BWG, individual members of the Haftungsverbund may need to provide assistance to other members (by giving liquidity assistance, granting loans or guarantees and providing equity capital, for instance), and, in the case of section 93 (3) no. 1 BWG, to service the guaranteed customer deposits of a Haftungsverbund member. The scope of the individual services to be provided by individual Haftungsverbund members where needed is subject to an individual and general maximum limit. Any contributions made by Haftungsverbund members under the statutory deposit guarantee system pursuant to section 93 et seq. BWG are likewise taken into consideration. The corresponding amounts are determined by Haftungsgesellschaft and communicated to members liable for contributions.

In 2013, collaboration with savings banks was further strengthened by way of an additional agreement. The purpose of the agreement concluded in 2013 and effective as of 1 January 2014 is not only to broaden the regulatory options available to Erste Group Bank AG but also to ensure compliance with point 127 of Article 4 (1) (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. Owing to the new legal and supervisory requirements, the maximum limits for support mechanisms of the individual members were raised and an ex ante fund was set up. Payments to the ex ante fund are made on a quarterly basis over a period of ten years.

In the financial statements, the payments by the individual members are recognised as participations in IPS GesbR – which has been charged with managing the ex ante fund. There was a shift in retained earnings from untied reserves to tied reserves. On the basis of the contractual provisions, these retained earnings represent a tied reserve. These tied retained earnings may be released only if the ex ante fund is used due to a contingency. Internally, this reserve may therefore not be used to cover a loss and, at member level, it does not qualify as capital under the definition of CRR; on a consolidated level, however, the ex ante fund qualifies as capital.

Additional disclosures pursuant to section 243a (1) 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:

- 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.
- 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 share must not be below EUR 2.00 or above EUR 120.00. Pursuant to section 65 (1b) in conjunction with section 171 Stock Corporation Act, the management board is authorised, from the date of the resolution, i.e. until 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 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.

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

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

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

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

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

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

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:

- the insured ceases to exist as a result of merger or consolidation, unless the merger or consolidation occurs between two insured parties, or
- another company, person or group of companies or persons acting in concert who are not insured parties, acquire more than 50% of the insured'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.

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.

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, the process description and the necessary control procedure are defined in the operating instructions.

Risks relating to the financial reporting procedures

The main risk in the financial reporting procedures is that errors or deliberate action (fraud) prevent facts from adequately reflecting the company's financial position and performance. This is the case whenever the data provided in the financial statements and notes is essentially inconsistent with the correct figures, i.e. whenever, alone or in aggregate, it is apt to influence the decisions made by the users of financial statements. Such a decision may lead to 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's IFRS Accounting Manual. All transactions have to be recorded, posted and accounted for in accordance with the accounting and measurement methods set out in this manual. The management of each subsidiary is responsible for the implementation of group policies. The basic components of the internal control system (ICS) at Erste Group are:

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

_ Principles of functional separation and the four-eye principle.
_ Internal Audit – as a separate organisational unit – is charged with monitoring all corporate divisions in an independent yet proximate manner, particularly with regard to the effectiveness of the components of the internal control system. The Internal Audit unit is monitored and/or checked by the management board, the audit committee/supervisory board, by external parties (bank supervisor, in individual cases also by an external auditor) as well as through audit's internal quality assurance measures (self-assessments, peer reviews)

Group Consolidation

The data provided by the group entities is checked for plausibility by the IFRS Competence Center, and the Group Consolidation department. The subsequent consolidation steps are then performed using the consolidation system (TAGETIK). These include consolidation of capital, expense and income consolidation, and debt consolidation. Lastly, possible intragroup gains are eliminated. At the end of the consolidation process, the notes to the financial statements are prepared in accordance with IFRS, 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). The main focus of audit reviews is to monitor the completeness and functionality of the internal control system. Internal Audit has the duty of reporting its findings to the Group's management board, supervisory board and audit committee several times within one year.

According to section 42 BWG, Internal Audit is a control body that is directly subordinate to the management board. Its sole purpose is to comprehensively verify the lawfulness, propriety and expediency of the banking business and banking operation on an 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-to-dateness 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 also reported to the audit committee.

Vienna, 27 February 2015

Management board

Andreas Treichl mp
Chairman

Gernot Mittendorfer mp
Member

Andreas Gottschling mp
Member

Peter Bosek mp
Member

Jozef Síkela mp
Member

Segments

Introduction

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

Following a strategic review, the segment structure as well as the methodology for capital allocation was changed. Erste Group therefore introduced a new segment reporting, starting from 1 January 2014. It is based on the matrix organisation (business and geographical information) and provides comprehensive information to assess the performance of the business and geographical segments.

However, the segmentation criteria for corporate business were changed as well with no retrospective adjustments. The former local large corporate business (included in the SME segment in 2013) was reallocated either to the Large Corporates segment or to the SME segment, depending on annual turnover thresholds.

As a result of IFRS 10 application as of 1 January 2014, Erste Group started with consolidation of 18 investment funds. The consolidation has been applied retrospectively, hence all affected 2013 comparative figures have been restated. Details are described in section B. "Significant accounting policies (d) Significant accounting judgments, assumptions and estimates and (e) Application of amended and new IFRS/IAS" of the Notes to the Group Financial Statements.

The tables and information in this chapter provide a brief overview and focus on selected and summarised items. For more details, please see Note 37. Additional information is available in Excel format at www.erstegroup.com.

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

Business segments

Erste Group – business segments

Retail	SME	ALM & Local CC	Savings Banks	Large Corporates	Commercial Real Estate	Other Corporate	Group Markets	Group Corporate Center	Intragroup Elimination

The **Retail** segment comprises the entire business with private individuals, free professionals and micros in the responsibility of account managers in the retail network of the local banks cooperating with their specialised subsidiaries (such as factoring, leasing and asset management companies).

The **SME** segment consists of business with clients which are in the responsibility of the local corporate account managers, mainly consisting of micros, SMEs, small public sector companies and small financial institutions (e.g. third party leasing companies).

The **Asset/Liability Management & Local Corporate Center (ALM & LCC)** segment includes all local asset/liability management functions as well as the one from Erste Group Bank AG and the local corporate centers which comprise all non-core banking activities, non-profit servicing participations and reconciliation items to local entity results.

The **Savings Banks** segment includes the savings banks that are members of the Haftungsverbund (cross-guarantee system) of the Austrian savings banks sector except for Erste Bank Oesterreich, Tiroler Sparkasse, Salzburger Sparkasse, and Sparkasse Hainburg.

The **Large Corporates** segment comprises business with large corporate customers whose annual turnover exceeds a defined threshold that varies depending on the country.

The **Commercial Real Estate** segment covers the real estate value chain (lending, leasing, real estate investment, project development and construction services as well as infrastructure business) for corporate clients, project developers, real estate investors, municipalities and other public sector agencies.

The **Other Corporate** segment consists of two operating segments – International Business and Investment Banking – that are below the threshold criteria defined by IFRS 8. International Business comprises all lending and investing activities outside Erste Group's core markets (including the branches in London, Hong Kong and New York) and is responsible for business development with and credit line management for banks and non-banking financial institutions. Investment Banking covers equity-related business focusing mainly on corporate finance, equity capital markets services, equity brokerage (institutional sales) and merchant banking.

The **Group Markets** segment comprises the divisionalised business units Group Treasury and Capital Markets (except Equity Capital Markets) and includes the treasury activities of Erste Group Bank AG, the CEE subsidiaries, foreign branch offices in Hong Kong, New York, Berlin and Stuttgart as well as business with institutional clients of Erste Asset Management.

The **Group Corporate Center** segment covers mainly centrally managed activities and items that are not directly allocated to other segments. It includes the Corporate Center of Erste Group Bank AG, internal non-profit service providers, goodwill impairments and the free capital of Erste Group.

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

RETAIL

Financial review

in EUR million	2013	2014	Change
Net interest income	2,216.8	2,175.1	-1.9%
Net fee and commission income	1,053.4	1,050.3	-0.3%
Net trading and fair value result	62.2	59.8	-3.8%
Operating income	3,361.0	3,317.4	-1.3%
Operating expenses	-1,839.2	-1,814.3	-1.4%
Operating result	1,521.8	1,503.1	-1.2%
Cost/income ratio	54.7%	54.7%	
Net impairment loss on financial assets not measured at fair value through profit or loss	-466.0	-671.7	44.1%
Other result	-93.0	-393.2	>100.0%
Net result attributable to owners of the parent	739.0	271.7	-63.2%
Return on allocated capital	37.3%	13.6%	

The decrease in net interest income was driven by lower income from unwinding as well as lower deposit volumes and margins in Romania and shrinking loan volumes and margins in Hungary. These developments were partly offset by positive contributions from deposits in Austria and growing lending business in Slovakia. Rental income increased due to the consolidation of a leasing subsidiary in Croatia. Cost-saving measures in the Czech Republic and Romania led to a reduction in operating expenses. Although the decrease in costs could not fully offset the net interest income decline and the operating result decreased, the cost/income ratio remained stable. The deterioration of net impairment loss on financial assets not measured at FV through P&L was driven by significantly higher risk costs in Romania on the back of the accelerated NPL reduction. The line item other result included expenses related to the Hungarian consumer loan law in an amount of EUR 304.4 million (further expenses of EUR 32.4 million related to the conversion of the foreign-currency loans were included in the segment Asset/Liability Management & Local Corporate Center). This triggered the significant decrease of the net result attributable to the owners of the parent.

Credit risk

Credit risk exposure in the Retail segment rose slightly to EUR 51.7 billion (+1.3%). The customer loan portfolio increased to a similar extent to EUR 47 billion. The share of the retail business in Erste Group's total customer loans remained practically unchanged at 36.7%. The collateralisation ratio, which reflects the ratio of collateral to loan volume, was 63.5%.

The quality of the retail customer loan portfolio improved significantly. The ratio of non-performing loans to total retail customer loans decreased over the course of the year to 6.2% (7.4%). Measured by the NPL ratio, this segment featured the highest quality of all business segments with significant loan portfolios. Apart from a decline of almost EUR 530 million in non-performing loans, there was also a major migration of performing loans to better risk classes. The share of loans with low default risk to total retail customer loans rose to almost 82%.

SME

Financial review

in EUR million	2013	2014	Change
Net interest income	671.0	569.4	-15.1%
Net fee and commission income	231.2	198.4	-14.2%
Net trading and fair value result	29.1	31.9	9.7%
Operating income	937.9	832.7	-11.2%
Operating expenses	-288.0	-292.8	1.7%
Operating result	650.0	539.9	-16.9%
Cost/income ratio	30.7%	35.2%	
Net impairment loss on financial assets not measured at fair value through profit or loss	-455.0	-461.1	1.3%
Other result	-34.2	0.6	n/a
Net result attributable to owners of the parent	109.9	50.4	-54.2%
Return on allocated capital	6.8%	3.6%	

The declines in net interest income and in net fee and commission income were primarily related to the reallocation of a local large corporate portfolio, which in 2013 had been shown in the SME segment, to the Large Corporate segment: operating expenses increased slightly; the cost/income ratio rose. Net impairment loss on financial assets not measured at FV through profit and loss went up moderately. The other result improved mainly due to one-off income related to an insurance payment in Austria. The net result attributable to the owners of the parent declined.

Credit risk

In the SME business segment, total credit risk exposure decreased to EUR 25.8 billion (-15.8%) in 2014. This development was mainly driven by the shift of larger SME clients to the Large Corporates segment at the beginning of the year. The volume of loans to customers also decreased considerably to EUR 21.2 billion. Measured as a percentage of total loans to customers of Erste Group, the share of SMEs declined to 16.5% (18.5%). 50% (47%) of the loans were secured by collateral. Credit quality in the SME business segment improved significantly.

Supported by write-downs and sales on the secondary market as well as by a decrease in new bad loans, the portfolio of non-performing loans declined by EUR 1.1 billion to EUR 2.3 billion. The NPL ratio dropped within one year by 3.7 percentage points to 10.7%. The ratings of performing loans also showed a positive development: while the share of loans requiring management attention and assessed as having a higher default risk dropped to 13.3% (15.7%) of the SME loan portfolio, the share of loans assessed as low risk increased significantly.

ASSET/LIABILITY MANAGEMENT & LOCAL CORPORATE CENTER

Financial review

in EUR million	2013	2014	Change
Net interest income	220.5	164.7	-25.3%
Net fee and commission income	-102.6	-65.3	-36.4%
Net trading and fair value result	-92.2	24.7	n/a
Operating income	86.7	184.6	>100.0%
Operating expenses	-120.6	-112.9	-6.5%
Operating result	-33.9	71.8	n/a
Cost/income ratio	>100.0%	61.1%	
Net impairment loss on financial assets not measured at fair value through profit or loss	-5.0	1.2	n/a
Other result	-85.1	-214.2	>100.0%
Net result attributable to owners of the parent	20.8	-174.8	n/a
Return on allocated capital	0.6%	-9.9%	

Net interest income decreased considerably mainly due to a lower ALM contribution driven by flat curves and the low interest rate environment as well as high spreads for Austrian banks. The increase in net fee and commission income was primarily related to the positive impact from lower fee expenses in Austria. The net trading and fair value result improved substantially due to a better result from derivatives. Operating expenses also improved, mainly due to lower personnel expenses in Romania. Thus, the operating result improved significantly. The other result deteriorated as a consequence of the impairment of real estate property and intangible assets in Banca Comercială Română as well as one-off revenues earned in 2013 in the Czech Republic. The line item other result also included expenses related to the conversion of the foreign-currency loans in Hungary in an amount of EUR 32.4 million. Taxes on income in 2013 benefited from a positive one-off impact from the release of deferred tax liabilities in Romania in the amount of EUR 127.7 million. Consequently, the net result attributable to the owners of the parent decreased significantly.

SAVINGS BANKS

Financial review

in EUR million	2013	2014	Change
Net interest income	814.7	891.8	9.5%
Net fee and commission income	396.4	419.3	5.8%
Net trading and fair value result	22.0	1.1	-94.8%
Operating income	1,304.5	1,379.0	5.7%
Operating expenses	-926.5	-932.1	0.6%
Operating result	378.0	446.9	18.2%
Cost/income ratio	71.0%	67.6%	
Net impairment loss on financial assets not measured at fair value through profit or loss	-229.2	-199.4	-13.0%
Other result	-3.7	-15.4	>100.0%
Net result attributable to owners of the parent	22.4	18.4	-18.0%
Return on allocated capital	4.4%	9.0%	

The increase in net interest income was attributable to the reduction of deposit interest rates due to the lower interest rate environment and a change in deposit structure. Together with the improved net fee and commission income, it offset the drop in net trading and fair value result. Total operating income increased. Although operating expenses went up slightly, the cost/income ratio improved. Net impairment loss on financial assets not measured at FV through profit and loss decreased. The decline in other result was mainly caused by valuation effects. The banking tax increased to EUR 15.9 million (EUR 8.9 million) due to the revised banking tax regulation.

Credit risk

Total credit risk exposure in the Savings Banks segment increased to EUR 53.9 million (+2.0%; EUR 52.8 billion) while loans to customers advanced by 1.7% to EUR 38.6 billion. In the distribution of borrowers by customer segments, there was a noticeable shift from medium-sized and large enterprises to retail customers, with robust growth primarily in private households. Business with the free professions, other self-employed customers and small businesses declined slightly but, compared with other group entities, the Austrian savings banks still conducted a much larger proportion of their business with this category. At 17% 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 with a very high share of small and medium-sized enterprises compared with other countries.

Foreign-currency loans in Swiss francs declined sharply by EUR 665 million to EUR 3.9 billion (-14.5%). The trend towards higher collateralisation of loans continued. The quality of the loan portfolio improved. Non-performing loans as a percentage of total loans to customers decreased by 45 basis points, to 6.3%. Compared by customer segments, the development was especially positive among retail customers and smaller businesses. The NPL coverage ratio also improved to 64.0%.

LARGE CORPORATES

Financial review

in EUR million	2013	2014	Change
Net interest income	185.3	214.1	15.5%
Net fee and commission income	86.0	99.2	15.4%
Net trading and fair value result	8.4	9.3	10.9%
Operating income	279.6	322.5	15.3%
Operating expenses	-67.7	-85.0	25.6%
Operating result	211.9	237.5	12.1%
Cost/income ratio	24.2%	26.4%	
Net impairment loss on financial assets not measured at fair value through profit or loss	-229.2	-386.2	68.5%
Other result	-34.5	14.8	n/a
Net result attributable to owners of the parent	-45.1	-113.1	>100.0%
Return on allocated capital	-5.6%	-15.1%	

The increase in net interest income and net commission income was largely attributable to the reallocation of a local large corporate portfolio to the Large Corporates segment (shown in the segment SME in 2013), partially offset by negative impacts on the income attributable to unwinding effects related to the Romanian Large Corporates portfolio. Net trading and fair value result improved moderately. The increase in operating expenses was also mainly driven by the portfolio reallocation. Overall, the operating result improved. The cost/income ratio increased. Net impairment loss on financial assets not measured at FV through profit and loss increased substantially on the back of higher risk provisions for loans and receivables in Romania, partially offset by decreasing risk provisions in Austria and Slovakia. The improvement in other result was largely attributable to lower provisions for commitments and guarantees in Romania and Austria. Net result attributable to the owners of the parent deteriorated.

Credit risk

The credit risk exposure in the Large Corporates business segment was EUR 17.6 billion (+40%). Loans to customers rose by EUR 3.1 billion to almost EUR 10.0 billion. The high growth rates in this segment were mainly driven by the restructuring of customer relationship management whereby a substantial share of large corporates – including in particular companies at risk of default and defaulted companies – were transferred from regional responsibility to central management. The relatively big difference between credit exposure volume and the customer loan portfolio in the Large Corporates segment is due, above all, to the large volume of guarantees and unused loan commitments.

The transfer of many non-performing loans to the Large Corporates segment reduced the loan quality. The NPL ratio rose to 11.8% (7.8%). The share of low risk loans remained almost unchanged. Risk provisions rose by the same proportion as non-performing loans so that NLP coverage was hardly changed at 77%. Taking into account available collateral, the credit risk loss was fully covered.

COMMERCIAL REAL ESTATE

Financial review

in EUR million	2013	2014	Change
Net interest income	170.0	150.1	-11.7%
Net fee and commission income	14.3	15.8	10.1%
Net trading and fair value result	5.9	-6.2	n/a
Operating income	276.7	205.7	-25.6%
Operating expenses	-134.0	-88.2	-34.1%
Operating result	142.7	117.5	-17.7%
Cost/income ratio	48.4%	42.9%	
Net impairment loss on financial assets not measured at fair value through profit or loss	-380.5	-364.3	-4.3%
Other result	-50.3	-45.9	-8.8%
Net result attributable to owners of the parent	-257.0	-279.6	8.8%
Return on allocated capital	-28.5%	-36.1%	

The decline in net interest income was mainly attributable to the deconsolidation of leasing entities of Immorent as well as the non-recurrence of a positive one-off effect. Net fee and commission income improved slightly on the back of higher fees in Czech, Slovak and Hungarian real estate portfolios. The decline in the net trading and fair value result was attributable to FX revaluation losses in Immorent. Rental income declined mostly due to the deconsolidation of Immorent leasing entities. The decline in operating expenses was driven by strict cost management and the deconsolidation of leasing entities. The operating result decreased but the cost/income ratio improved. Net impairment loss on financial assets not measured at FV through profit and loss reflected an improvement in risk structure, but remained at a high level; mainly driven by Erste Group Bank AG, Immorent, BCR and Erste Bank Hungary. The other result was impacted by higher gains from repossessed assets in Hungary and development projects in Immorent. Net result attributable to the owners of the parent declined further.

Credit risk

Business activity in the Commercial Real Estate segment declined again due to the adverse economic situation in the real estate industry in the past years. Credit risk exposure decreased over the course of the year by EUR 1 billion to EUR 9.9 billion, while loans to customers declined to EUR 9.3 billion (-8.7%). As a result, the share of the Commercial Real Estate segment in Erste Group's total customer loan portfolio dropped to 7.2% (8.0%).

The quality of loans barely changed, a further deterioration was successfully prevented. Non-performing loans as a percentage of total commercial real estate financing decreased to 20.9% (21.1%). Among loans with high credit ratings, migration to better risk classes prevailed, which means that a more positive development in loan losses may be expected over the short to medium term.

OTHER CORPORATE

Financial review

in EUR million	2013	2014	Change
Net interest income	68.9	75.2	9.1%
Net fee and commission income	27.7	18.9	-31.9%
Net trading and fair value result	13.1	4.8	-63.6%
Operating income	109.7	99.4	-9.4%
Operating expenses	-50.9	-58.2	14.3%
Operating result	58.8	41.1	-30.0%
Cost/income ratio	46.4%	58.6%	
Net impairment loss on financial assets not measured at fair value through profit or loss	-6.2	-12.9	>100.0%
Other result	8.7	1.5	-82.3%
Net result attributable to owners of the parent	47.9	22.9	-52.1%
Return on allocated capital	14.4%	10.9%	

The improvement of net interest income was mostly attributable to aircraft business in London and to increased lending activities in the New York International Business portfolio. Net fee and commission income declined primarily due to lower fees in the structured trade finance portfolio in London, lower corporate finance and institutional equity sales fees in the Czech Republic and further reductions of the loan book of International Business in Austria. The drop in net trading and fair value result was mainly due to negative valuation effects. Lower operating income and increased operating expenses led to a decline in the operating result, the cost/income ratio went up. Net impairment loss on financial assets not measured at FV through profit and loss increased on the back of higher risk provisions for loans and receivables in London Investment Banking portfolio related to the downgrade of Ukrainian customers. Net result attributable to the owners of the parent declined.

Credit risk

Credit risk exposure in the Other Corporate segment declined by EUR 600 million to EUR 3.4 billion and loans to customers decreased to EUR 1.7 billion (-6.4%). The low share of customer loans in the total credit risk exposure compared with other business segments is mainly due to the relatively high level of investments in securities and loans to credit institutions. With a share of merely 1.6% of the credit risk exposure or 1.3% of the entire group's customer loan portfolio, the Other Corporate segment is of minor significance overall.

Loan quality developed well. The NPL ratio dropped to 4.2% (6.8%), and loan losses were sufficiently covered by risk provisions and collateral. The ratings of performing loans also improved substantially. 82% (72%) of total loans were classified in the low risk category.

GROUP MARKETS

Financial review

in EUR million	2013	2014	Change
Net interest income	217.2	191.2	-12.0%
Net fee and commission income	104.9	102.9	-1.9%
Net trading and fair value result	116.8	116.1	-0.6%
Operating income	439.3	412.6	-6.1%
Operating expenses	-188.1	-179.1	-4.8%
Operating result	251.3	233.4	-7.1%
Cost/income ratio	42.8%	43.4%	
Net impairment loss on financial assets not measured at fair value through profit or loss	12.2	-0.1	n/a
Other result	-3.2	-0.7	-78.4%
Net result attributable to owners of the parent	206.0	185.3	-10.1%
Return on allocated capital	45.3%	38.3%	

The net interest income declined primarily due to the extremely low interest rate environment affecting interest-rate-related products. Net fee and commission income declined due to the lower bond issuance activities and institutional and retail sales. The moderate decline in the net trading and fair value result was mainly attributable to credit and rates trading, alternative investments portfolio management as well as valuation effects of interest-related products. The operating result declined, attributable to decreased operating income, although operating expenses were reduced. The cost/income ratio deteriorated moderately. The other result improved. Net result attributable to the owners of the parent declined.

GROUP CORPORATE CENTER (GCC)

Financial review

in EUR million	2013	2014	Change
Net interest income	136.1	70.2	-48.5%
Net fee and commission income	137.6	69.1	-49.8%
Net trading and fair value result	20.9	-11.3	n/a
Operating income	361.8	183.3	-49.3%
Operating expenses	-669.0	-710.5	6.2%
Operating result	-307.2	-527.2	71.6%
Cost/income ratio	>100.0%	>100.0%	
Net impairment loss on financial assets not measured at fair value through profit or loss	-15.4	-64.7	>100.0%
Other result	-425.1	-655.7	54.2%
Net result attributable to owners of the parent	-783.6	-1,423.1	81.6%
Return on allocated capital	-12.7%	-28.7%	

The net interest income decrease was mainly attributable to the decreasing 5-year moving average rate and thus a lower capital benefit from the free capital of the group. Net fee and commission income declined considerably due to higher fee expenses from internal service providers. However, at group level the impact was neutral due to consolidation shown in Intercompany Elimination. Operating expenses went up as a consequence of a change in the methodology of cost reimbursements. The corresponding positive counter-effect was shown in the other result (at group level, the impact was neutral due to consolidation). The deterioration of the other result was driven mainly by higher goodwill impairments of EUR 475.0 million (2013: EUR 380.8 million), where Romania accounted for EUR 319.1 million, Croatia for EUR 61.4 million, and Austrian participations for EUR 94.5 million, as well as the write-down of the entire remaining value of customer relationships and brand of BCR of EUR 470.7 million. A negative change in deferred taxes had a further unfavourable impact on the result of the segment.

Geographical segments

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

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

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

The **Erste Bank Oesterreich & Subsidiaries (EBOe & Subsidiaries)** segment comprises Erste Bank der oesterreichischen Sparkassen AG (Erste Bank Oesterreich) and its main subsidiaries (e.g. sBausparkasse, Salzburger Sparkasse, Tiroler Sparkasse, Sparkasse Hainburg).

The **Savings banks** segment is identical to the business segment Savings banks.

The **Other Austria** segment comprises Erste Group Bank AG (Holding) with its Large Corporates, Commercial Real Estate, Other Corporate and Group Markets business, Erste Group Immorent AG and Erste Asset Management GmbH.

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

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

The residual segment **Other** consists mainly of centralised service providers, Group Asset/Liability Management and the Corporate Center of Erste Group Bank AG as well as the reconciliation to the consolidated accounting result (e.g. intercompany elimination, dividend elimination), goodwill impairments, amortisation of customer relationships and free capital.

Austria

Economic review

Austria is an open and developed economy. In 2014, real GDP growth accelerated only slightly to 0.4% compared to the previous year, and was broadly in line with the performance of the euro zone. Real GDP growth in 2014 was fuelled primarily by consumption. Exports also contributed to the growth despite a weaker performance in the second half of the year. Foreign trade remained key, with an export share of more than 50% of GDP. The country's most important trading partners were Germany and Central and Eastern Europe. Importantly, services continued to perform well in 2014, and tourism was again a growth contributor. The Austrian labour market, with its skilled and highly educated workforce, continued to play a major role in the economic developments. The unemployment rate was one of the lowest in Europe at 5.0%, albeit rising for the third consecutive year. At EUR 39,000, GDP per capita remained one of the highest in Europe.

Social and political stability remained one of the key characteristics of Austria in 2014. The government continued its efforts regarding fiscal consolidation. In the stability programme that was presented to the European Commission in October 2014, the government confirmed that it would maintain the consolidation path for government finances and implement the proposed structural reforms. The structural reform programme included optimisation of administrative costs in the public sector and adjusting the health care and pension systems in the following years. Importantly, Austria's general government deficit stood at 3.0% of GDP ,and the country exited the Excessive Deficit Procedure in 2014. The increase of general government debt as a percentage of GDP to 86.9% in 2014 was mainly due to the inclusion of liabilities related to Hypo Alpe-Adria-Bank and the reclassification of debt for a number of public sector companies. The estimated impact of the costs associated with the troubled financial institution Hypo Alpe-Adria-Bank amounted to EUR 17.8 billion or 5.5% of GDP.

Despite slow economic growth and the disinflationary impact from energy prices, inflation remained among the highest in the euro zone at 1.5%. Real estate prices remained broadly stable. Interest rates fell on the back of the European Central Bank cutting its refinancing rate to a new historical low of 5 basis points during 2014.

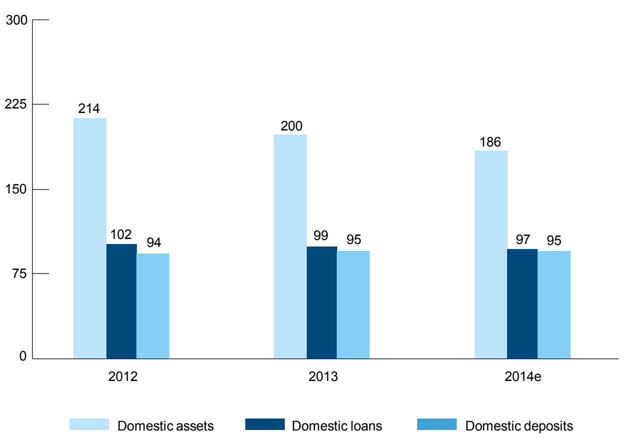
Key economic indicators – Austria	2011	2012	2013	2014e
Population (ave, million)	8.4	8.4	8.5	8.5
GDP (nominal, EUR billion)	308.7	317.2	322.6	328.7
GDP/capita (in EUR thousand)	36.9	37.7	38.2	38.7
Real GDP growth	3.1	0.9	0.2	0.4
Private consumption growth	0.8	0.5	-0.2	0.2
Exports (share of GDP)	39.5	38.9	39.0	39.0
Imports (share of GDP)	42.4	41.6	40.5	40.7
Unemployment (Eurostat definition)	4.2	4.4	4.9	5.0
Consumer price inflation (ave)	3.6	2.6	2.1	1.5
Short term interest rate (3 months average)	1.4	0.2	0.3	0.2
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)	1.6	1.5	1.0	2.4
General government balance (share of GDP)	-2.6	-2.3	-1.5	-3.0

Source: Erste Group

Market review

The Austrian banking market, with total assets equivalent to 273% of GDP (total domestic assets of GDP: 186%) in 2014, is a highly competitive and developed banking market. It is characterised by significantly lower margins than in Central and Eastern Europe. Growth rates remained low throughout the year, with customer loans expanding by less than 1% while deposits rose by 3.2%. The banking system's loan-to-deposit ratio stood at 102% at year-end. Capitalisation of the banking system improved further in 2014. The special banking tax intended to tackle the country's budget deficit remained unchanged at EUR 625 million in 2014. In light of the bail-in legislation on Hypo Alpe-Adria-Bank, rating agencies downgraded several systemically important Austrian banks in response to the reduced predictability of government support.

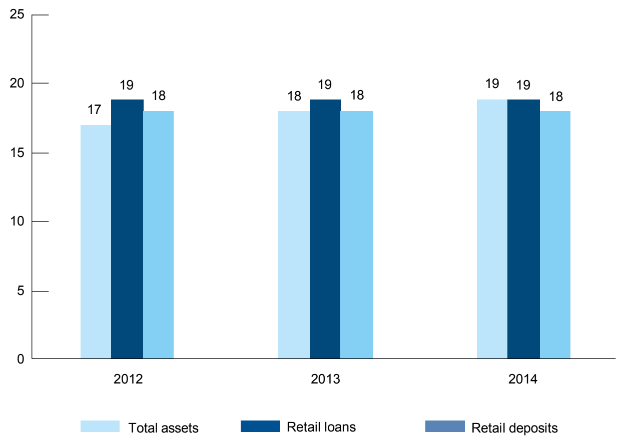
Financial intermediation – Austria (in % of GDP)



Source: Oesterreichische Nationalbank, Erste Group

Erste Bank Oesterreich and the savings banks held on to their very strong market position in the Austrian market. Their combined market share as measured by total assets stood at 19% at year-end 2014. Based on their balanced business models, Erste Bank Oesterreich and the savings banks maintained their market shares between 18% and 20% in both the retail and corporate segments.

Market shares – Austria (in %)



Source: Oesterreichische Nationalbank, Erste Group

ERSTE BANK OESTERREICH & SUBSIDIARIES

Business review – Highlights

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, surveys conducted by the *Banking Market Study 2014* indicate a high degree of satisfaction, a willingness to recommend the bank, and a higher level of trust among customers of Erste Bank Oesterreich than in the financial industry as a whole. This positive perception resulted in the acquisition of about 30,000 new customers.

New branch concept. Customer needs change over the course of time and reflect demographic and technology changes. Today, customers expect their bank to offer better accessibility and more flexibility than a few years ago. The business model makes banking services available through a variety of channels.

Branches also have to offer services in different formats and require a cost-efficient sales organisation. As a basic service, cash dispensers are provided across the country. In the future, simple business will be dealt with quickly at new service centres situated at high-frequency locations, along people's daily routes. For more complex customer needs, Erste Bank Oesterreich offers a wide range of products and services at its large customer support centres designed to create a new type of relaxed atmosphere. For customers, this means clearly designed and welcoming branches, more rooms for discrete meetings, faster handling of their requests, and proactive support in the foyers.

In October 2014, the first service centre in the new design was opened at Vienna's Central Train Station, and by the end of the year, three such branches were in operation. Furthermore, opening hours were adjusted to meet customer expectations: at least one branch in every district of Vienna is open from 9.00 a.m. to 6.00 p.m. on working days.

Innovation in banking. Along with the new branch concept, access to banking services through digital channels is also being optimised continuously. The application *Finanzmanage*r, which was introduced in 2013, has become well established and the range of apps offered for smartphones and tablets was enlarged again in 2014.

George – the most modern online banking system in Austria – was tested in 2014 in a pre-launch phase and went live at the beginning of 2015. Additional apps are planned to enlarge *George's* already extensive basic features to match specific customer needs and permit even more individualised settings.

Focus on wealth management. Against the backdrop of persistently low interest rates, customers perceive securities as increasingly attractive as an alternative to savings products. Demand for high-quality advisory services is particularly strong in the affluent customer segment. Individual financial needs of the customer base, in particular a balance between expected yield and risk profiles, are at the centre of attention.

A key contributor to increase in fee income was the investment tool *YOU INVEST*, which was introduced in late 2013 and gives customers more flexibility as well as maximum transparency. In 2014, new investment volume stood at about EUR 300 million. Insurance business also performed very well with an increase of over 20%. A major contributor to this rise was the prolongation and the reinvestment of maturing life insurance policies.

Cost projects. The measures initiated already in 2013 to reduce other administrative expenses and bundle human resources were continued. Branch consolidation and natural employee turnover resulted in lower staffing levels. To maintain the high quality of customer support and advisory services, the organisation of workflows at the branches and among teams was optimised and the administrative workload at branches reduced to free up more time for serving customers.

Private banking awards. The British business magazine *The Banker* once again named Erste Bank Oesterreich the best private banking institution in Austria. Together with the award for best private banking in Central and Eastern Europe, also conferred by *The Banker,* this highlights the success of Erste Group in positioning itself as the top private banking institution in the CEE region.

Financial review

in EUR million	2013	2014	Change
Net interest income	559.6	613.5	9.6%
Net fee and commission income	332.2	354.9	6.8%
Net trading and fair value result	11.3	8.7	-22.5%
Operating income	943.2	1,020.3	8.2%
Operating expenses	-606.9	-630.7	3.9%
Operating result	336.3	389.6	15.9%
Cost/income ratio	64.3%	61.8%	
Net impairment loss on financial assets not measured at fair value through profit or loss	-77.5	-104.5	34.7%
Other result	-34.4	6.2	n/a
Net result attributable to owners of the parent	160.5	214.5	33.7%
Return on allocated capital	14.8%	20.8%	

The increase in net interest income was primarily attributable to deposit repricing and a change in deposit structure. Net fee and commission income increased due to the merger with Brokerjet as well as higher payment and insurance fees. The decrease in the net trading and fair value result was mainly due to lower valuation gains from derivatives. Although operating expenses increased due to the merger with Brokerjet, higher pension plan contributions and increased IT and marketing expenses, the operating result and cost/income ratio improved. Net impairment loss on financial assets not measured at FV through profit and loss increased due to higher portfolio provisions. Other result was positively affected by one-off income from insurance payments, whereas 2013 was impacted by impairment of carrying amounts from participations. Overall, the net result attributable to owners of the parent improved considerably.

Credit risk

Total credit risk exposure in the Erste Bank Oesterreich and Subsidiaries geographical segment rose significantly to EUR 37.0 billion (+4.4%). The volume of customer loans grew at a similar pace and totalled approx. EUR 29 billion. The share of this segment in Erste Group's total loan portfolio rose by 0.6 percentage points to 22.6%. The breakdown by customer segments 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 41.0% to 40.5%, while the share of corporates, including self-employed individuals and small businesses, increased to 53.8%. Loans to the free professions, the self-employed and small businesses are less significant than they are for the savings banks. These loans amounted to 10.0% of total loans to customers.

Driven by the continued targeted advice campaign to promote the conversion of foreign-currency loans, the share of Swiss franc loans in the total loan portfolio decreased once again significantly from 9.7% to 8.4%.

The quality of the loan portfolio improved in the course of the year. The share of non-performing loans as a ratio of total loans to customers declined by 0.3 percentage points to 3.5%. The development was positive across all customer segments. Especially notable was the further improvement of loan quality among the self-employed and small businesses. Apart from the public sector, private households were again the group with the fewest defaults.

SAVINGS BANKS

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

Business review – Highlights

Haftungsverbund (cross-guarantee system). Under a system of cross-guarantee agreements, Erste Bank and the savings banks guarantee customer deposits far beyond the amounts protected by law. The cross-guarantee system supplements the statutory deposit insurance and investor compensation system as an additional safety net. To conform to new regulations governing the protection of deposits held with credit institutions, the agreements were extended in 2013, in particular to further intensify the control elements through the holding. This change took effect on 1 January 2014 and has further strengthened the cooperation between the holding, Erste Bank Oesterreich and the savings banks.

Sales support. The savings banks are supported by a dedicated service unit of Erste Bank Oesterreich. The main priorities are the further optimisation of sales potential and sales management. The development of customers' business performance is monitored to permit early identification of any need for support in financial matters and the initiation of targeted measures to continually improve the quality of services offered by the savings banks.

Focus on wealth management. Securities are becoming increasingly attractive for customers as an alternative to savings products. With *YOU INVEST*, the investment scheme of Erste Bank and Sparkassen introduced in 2013, customers can define their own investment strategy according to their individual preferences and needs, while a balance between expected yields and the customers' risk profiles is at the centre of attention.

Cost projects. Measures to optimise other administrative and personnel expenses across the savings banks were implemented to permit them to compare their own costs with those of their peers, to identify potential action points and to ultimately deploy their resources more efficiently. Measures were drawn up to tackle weaknesses and follow best practice examples. This helps savings banks to identify and exploit optimisation potential.

OTHER AUSTRIA

Business review – Highlights

Strong performance of Erste Asset Management. Across Erste Group, all asset management activities are coordinated and managed by Erste Asset Management (EAM). EAM serves both retail and institutional customers. While the business development with retail customers was mainly driven by a shift from bond and money market funds to mixed funds (due to the increased demand for *YOU INVEST* investment products), business with institutional clients was focused on emerging markets bonds, fixed income products and sustainable investments. EAM successfully increased its business volumes and strengthened its leading market position in Austria and Romania and was again one of the top three asset management companies in its other CEE markets.

Assets under management rose to EUR 53.8 billion (+13.6%). Backed by strict cost management, EAM increased its net profit by almost 42% to EUR 16.5 million.

Leading position in CEE new issues. Debt Capital Markets defended its top position for eurobond issuance and thus again managed to be among the most successful issuance banks in Erste Group's core region. Notable deals comprise the joint lead management of an issuance of the Republic of Austria totalling EUR 4 billion, of a EUR 500 million bond issue byÖBB, the Austrian railway company, and of a EUR 500 million issue by Hypo Vorarlberg. In CEE, Erste Group acted successfully among others as joint lead manager in the EUR 1.5 billion bond issuance of the Slovak Republic. In addition, Erste Group was joint bookrunner for mBank in Poland and Vakif Bank in Turkey, each totalling EUR 500 million.

Success with syndicated loans. Erste Group again demonstrated its syndicated loan capabilities. Erste Group acted among others as mandated lead arranger and book-runner for a EUR 435 million revolving credit facility for Porsche Corporate Finance, for a EUR 250 million revolving credit facility for Novomatic, and for a USD 1.55 billion multicurrency revolving credit facility for MOL.

Strong transaction banking. Erste Group has positioned itself as a reliable partner in transaction banking: it covers all transactional customer needs from cash management to trade finance by providing expertise in export finance and documentary business, and it covers the entire supply chain financing needs through factoring or receivables financing solutions. In 2014, Erste Group became the main bank for cash collection and payments for Petrom.

Real estate business in CEE. The size of the real estate portfolio of Erste Group Immorent (EGI) continued to decline. 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 EGI's business is located in or in close proximity to the major economic centres. The portfolio comprises mainly commercial real estate (retail shopping properties, office buildings and logistics) but also hotels/tourism and infrastructure. Overall, the CEE real estate market continued to be challenging; this was reflected in a continuously high level of risk provisioning.

Benchmark real estate financing deals included a combined share and asset deal for the Austria Campus and a syndicated loan for the acquisition of the Millennium City shopping centre, both in Vienna, refinancing transactions for the CTP group in the Czech Republic, and the Apollo Rida Portfolio in Poland. Infrastructure financing projects included wind farms in Croatia and Romania.

In 2014, Erste Group Immorent CZ was named the best financial service provider in real estate in the Czech Republic by the real estate magazine Construction and Investment Journal. Banca Comercială Română and Erste Group Immorent RO were named *Bank of the Year* by EuropaProperty's Awards for real estate and infrastructure investments in Romania.

Solid investment banking franchise. Erste Group's competitive advantage in investment banking stems from the combination of expertise, professional service and local presence. The business model is built on integration with Erste Group's corporate business.

Against the backdrop of an increasingly competitive market environment Erste Group's merchant banking managed to slightly increase its asset base at stable net margins. The financing for PPF Arena for the acquisition of Telefónica Czech Republic, where Erste Group acted as mandated lead arranger through Česká spořitelna, was named *Deal of the Year 2014* by the magazine *The Banker*.

Erste Group participated again in book-running for all Austrian equity capital markets transactions (except those, where issuer and book runner were affiliates), most notably the first IPO on the Vienna Stock Exchange in three years, FACC, and the capital increases in Telekom Austria, PORR and the spin-offs of BUWOG from IMMOFINANZ and PIAG from PORR. Major transactions in CEE included accelerated book-building for Romgaz in Bucharest and the IPO of Pivovary Lobkowicz in Prague.

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.

Financial review

in EUR million	2013	2014	Change
Net interest income	412.4	395.4	-4.1%
Net fee and commission income	180.2	174.0	-3.5%
Net trading and fair value result	34.9	3.1	-91.2%
Operating income	714.9	621.5	-13.1%
Operating expenses	-365.1	-323.3	-11.4%
Operating result	349.8	298.1	-14.8%
Cost/income ratio	51.1%	52.0%	
Net impairment loss on financial assets not measured at fair value through profit or loss	-440.1	-269.2	-38.8%
Other result	-27.4	-7.2	-73.7%
Net result attributable to owners of the parent	-121.1	-31.0	-74.4%
Return on allocated capital	-7.3%	-2.1%	

The decline in net interest income was mainly attributable to the deconsolidation of leasing entities in Immorent as well as the non-recurrence of a positive one-off effect and to lower income from money market transactions and bonds due to the low interest rate environment that was partially compensated by new business at the London and New York branches. As an increased volume of assets under management from retail and institutional clients did not fully offset lower fees in investment banking and lower treasury sales results, net fee and commission income declined. The net trading and fair value result decreased primarily due to lower treasury results of Erste Group Bank AG, namely from strategic positions and hedge funds, the yield curve and spreads impact as well as the fair value market pricing of the structured credit portfolio of International Business in Vienna. In addition, the trading result of Immorent decreased mainly due to valuation losses and unfavourable developments of FX rates. Consequently, the operating result declined. Net impairment loss on financial assets not measured at FV through profit and loss improved substantially on the back of lower specific risk provisions in large corporate business and commercial real estate business in Erste Group Bank AG as well as in Immorent but remained at an elevated level. The net result attributable to the owners of the parent improved; nevertheless, it remained negative.

Credit risk

The credit risk exposure in the Other Austria segment, which is almost completely made up of Erste Group Bank and Erste Group Immorent, rose to EUR 33.1 billion (EUR 32.6 billion), which was almost 16% of the credit risk exposure of Erste Group. A large share of business in this segment was accounted for by securities and investments with banks. The share of loans to customers as a percentage of Erste Group's total loan portfolio was significantly lower at 9.8%. Loans to customers rose to EUR 12.6 billion (EUR 12.2 billion), with loans to the relatively low risk public sector and to large corporates posting robust growth. In contrast, financing for commercial real estate decreased again sharply, reflecting the weak economy and the problems of the real estate industry in most of Erste Group's core markets.

The share of non-performing loans in the total loan portfolio declined markedly to 11.8% (13.4%). NPL coverage by risk provisions was 58.1%, with the balance fully covered by collateral. Within the category of performing loans there was a clear migration to better risk categories, which also indicates improved credit quality.

Central and Eastern Europe

CZECH REPUBLIC

Economic review

The Czech Republic is one of the most developed and stable countries in Central and Eastern Europe. Although the country is among the most open economies in the region, growth in 2014 was clearly driven by household consumption and investments. Consumption was positively impacted by higher consumer confidence, lower unemployment and accelerating growth of real wages. In addition, the European funds absorption rate improved further in 2014 and supported investments. Exports, on the other hand, performed only moderately with the automotive industry remaining one of the bright spots. Overall, real GDP expanded by 2.0% in 2014, while GDP per capita stood at EUR 14,800. Reflecting the strong economic performance, the unemployment rate declined further in 2014 to 5.9%.

The Czech Republic experienced political stability in 2014. After the political turmoil of 2013, the outcome of the lengthy negotiations was the formation of a three-party coalition that consists of the Czech Social Democratic Party, the newly founded party ANO and the Christian Democrats. This agreement among parties was reached in January 2014 and played an important role in the prudent fiscal policy. Stronger real GDP growth supported tax revenues in 2014, while a higher value-added tax rate of 21% had already been introduced the previous year. As a result, the government deficit of 1.2% in 2014 remained significantly below the 3% Maastricht criterion and the country exited the Excessive Deficit Procedure during the year. Public debt as a percentage of GDP remained one of the lowest in Central and Eastern Europe and declined even further to 43.6% in 2014. Rating agencies acknowledged the performance of the Czech economy with S&P, Moody's and Fitch affirming the country's long-term credit rating at AA-, A1, and A+ respectively in 2014.

The Czech National Bank began intervening back in 2013 to weaken the koruna by targeting an exchange rate of CZK 27 against the euro as part of its attempt to avoid deflation. Despite the maintenance of this exchange rate floor by the National bank, inflation remained low throughout 2014. The average consumer price index was at 0.4% in 2014, impacted by lower regulated energy prices from the beginning of the year. The Czech koruna, supported by the country's strong fundamentals, traded within a narrow range of CZK 27-28 versus the euro. The Czech National Bank left its base rate unchanged at 0.05% throughout 2014.

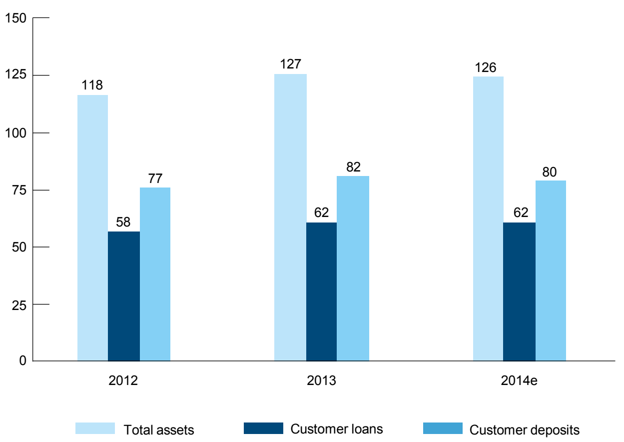
Key economic indicators – Czech Republic	2011	2012	2013	2014e
Population (ave, million)	10.5	10.5	10.5	10.5
GDP (nominal, EUR billion)	163.3	160.8	157.2	155.6
GDP/capita (in EUR thousand)	15.6	15.3	15.0	14.8
Real GDP growth	2.0	-0.7	-0.7	2.0
Private consumption growth	0.3	-1.8	0.4	1.4
Exports (share of GDP)	64.0	67.3	68.2	73.3
Imports (share of GDP)	63.7	65.7	65.6	69.6
Unemployment (Eurostat definition)	6.6	7.2	6.8	5.9
Consumer price inflation (ave)	1.9	3.3	1.4	0.4
Short term interest rate (3 months average)	1.2	1.0	0.5	0.4
EUR FX rate (ave)	24.6	25.2	26.0	27.6
EUR FX rate (eop)	25.6	25.6	27.5	27.9
Current account balance (share of GDP)	-2.1	-1.6	-1.4	0.0
General government balance (share of GDP)	-2.9	-4.0	-1.3	-1.2

Source: Erste Group

Market review

The Czech banking market benefitted from improved macroeconomic conditions, which lead to an increased demand for banking products. Supported by increased household consumption and an improved consumer confidence level, customer loans grew by 4.8% in 2014. The lending market was clearly driven by retail loans while corporate loans rose only slightly. Customer deposits increased only moderately by2.9%. This was entirely due to the public sector, while deposits from households and corporate customers increased by 6.7%. Overall, the Czech banking market remained one of the most liquid in Central and Eastern Europe. The loans to deposits ratio across the banking sector stood at 77% as of year-end 2014.

Financial intermediation – Czech Republic (in % of GDP)

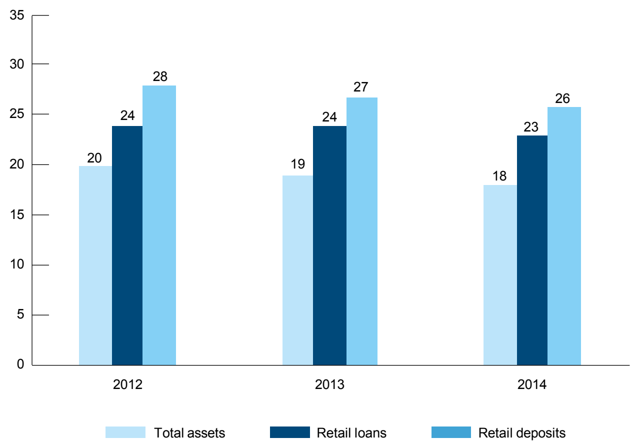


Source: Czech National Bank, Erste Group

The latest results of the semi-annual stress tests of the Czech National Bank were published in December 2014 and confirmed that the banking sector as a whole continued to be sufficiently resilient to potential adverse shocks. The National Bank also implemented new capital requirements in line with the European Union's Capital Requirements Directive IV including capital buffers of 1-3% for systemically important institutions and a conservation buffer of 2.5% for all banks. The country's banking market continued to be well capitalised with a total capital ratio of 18% as of year-end 2014. The Czech banking system remained very profitable in 2014, with favourable asset quality indicators playing a significant role. Foreign exchange-based lending remained insignificant compared to some other Central Eastern European countries.

Česká spořitelna maintained its market leadership positions across all major product categories in 2014. Its retail market shares ranged from 23% to 26%, while its share in the corporate segment remained lower at around 20%. Overall, its market share as measured by total assets stood at 18.3%. Česká spořitelna also retained its number-one position in consumer lending including the credit card market with a market share of 34%. In addition, Česká spořitelna continued to control more than one quarter of the asset management market.

Market shares – Czech Republic (in %)



Source: Czech National Bank, Erste Group

Business review – Highlights

Front-runner in electronic banking. In October 2014, Česká spořitelna introduced a new version of the well-established internet banking solutions. In the *SERVIS 24* application, existing functions, such as the blocking, unblocking or issue of replacement cards, ordering a card with a customised design or an improved transaction history, were enhanced. Comprehensive payment card administration is a novelty for *BUSINESS 24*. *SERVIS 24* is the most popular internet banking application in the Czech Republic with almost 1.8 million users.

In addition, Česká spořitelna launched the service *3D Secur*e, secure online card payments that provide customers with the highest possible security, to further strengthen the bank's position in electronic banking. The bank achieved a two-digit increase in transaction volumes made at merchants using Česká spořitelna cards in the last years, and the total number of issued active payment cards exceeded 3 million.

New branch concept and focus on customer relations. In October 2014, Česká spořitelna opened an experimental branch in Plzeň - Lochotín. This new type of branch aims to strengthen the customer service model, expand self-service devices for routine banking operations and improve the quality of the provided advisory services.

A novelty in Czech retail banking was the introduction of personal banking for middle-income customers under the *BLUE* brand, which Česká spořitelna began offering at 140 branches in October 2014. This targets customers who expect extensive service and a wide range of high-quality personal banking services from the bank. Česká spořitelna aims at establishing a lifelong relationship with customers and has therefore designed the *BLUE* service to meet the customers' needs at each stage of their life cycle. *BLUE* service customers may obtain the services of a personal banker and have the option of gaining advisory services and complex financial planning.

Solid performance in corporate business. The holding and Česká spořitelna cooperated on the largest corporate CZK bond issue of the last decade in the Czech Republic – the issuance of NET4GAS bonds. NET4GAS, the operator of a natural gas transmission network, issued bonds in EUR and in CZK, in an aggregate volume of EUR 710 million.

As part of its digital banking services for corporate customers, Česká spořitelna presented *BUSINESS 24 Mobile Bank.* It is the first bank offering a special mobile application for corporate clients allowing them to fully administer their own account. Česká spořitelna also implemented extended functionalities in the areas of trade finance, in documentary transactions and bank guarantees.

International and local recognition. In the 2014 Fincentrum Bank of the Year competition, Česká spořitelna won the *Bank Without Barriers Award*, the *Mortgage of the Year Award* and for the eleventh year running defended *The Most Trusted Bank Award.* Thanks to the bank's innovative approach of offering mortgages via Facebook as well, Česká spořitelna won first place in the *Best Use of Digital Media* category of the FLEMA Media Awards.

Financial review

in EUR million	2013	2014	Change
Net interest income	999.4	924.0	-7.5%
Net fee and commission income	434.9	410.6	-5.6%
Net trading and fair value result	79.7	83.1	4.2%
Operating income	1,547.9	1,449.4	-6.4%
Operating expenses	-721.8	-662.2	-8.3%
Operating result	826.1	787.1	-4.7%
Cost/income ratio	46.6%	45.7%	
Net impairment loss on financial assets not measured at fair value through profit or loss	-140.1	-135.4	-3.4%
Other result	9.8	-16.6	n/a
Net result attributable to owners of the parent	551.9	506.2	-8.3%
Return on allocated capital	34.9%	35.8%	

The devaluation of the CZK due to the intervention of the Czech National Bank in November 2013 had a significant negative impact on the EUR figures of the Czech Republic segment. Net interest income in the Czech Republic segment (comprising Česká spořitelna Group) decreased due to the persistently low interest rate environment and subdued loan demand, especially for consumer loans; mortgage loan volumes increased though. Net fee and commission income remained flat in local currency terms. Net trading and FV result increased due to the improved result from foreign exchange transactions. Lower operating expenses related to cost reduction measures could not offset the decrease in operating income, resulting in a decline in the operating result. However, the operating result in local currency terms went up and the cost/income ratio improved. The deviation in the net impairment loss on financial assets not measured at FV through P&L was mainly attributable to the FX impact. Other result declined due to the non-recurrence of a one-off positive effect from 2013, but also due to impairments on own buildings and real estate funds. Overall, these developments led to a decline in the net result attributable to the owners of the parent.

Credit risk

Total credit risk exposure in the Czech Republic geographical segment declined by more than EUR 1.6 billion to slightly above EUR 32 billion (-4.9%). In contrast to this trend in total credit exposure, loans to customers rose slightly to almost EUR 18.7 billion, with growth being confined to the retail business. Loans to medium-sized and large enterprises were slightly down. Customer loans in this segment as a percentage of Erste Group's total loans to customers were almost unchanged at around 14.6%. The Czech Republic is hence still by far the second most important market for Erste Group after Austria. In the Czech Republic, loans continue to be granted almost exclusively in local currency. Slightly more than one half of loans to customers were collateralised.

The quality of customer loans was again significantly better than in other markets in Central and Eastern Europe in which Erste Group operates. Due to proactive and effective credit risk management, non-performing loans as a percentage of the total customer loan portfolio decreased to 4.4% (4.6%), which continued the positive development of recent years. In 2014, this trend was supported by the retail business, in which credit quality improved both among retail clients and micro-businesses. Risk provisions as a percentage of non-performing loans improved to almost 79%. Including collateral, surplus cover amounted to 17% at year-end.

SLOVAKIA

Economic review

Slovakia exhibited one of the most dynamic recoveries of the Central and Eastern European region in 2014. Economic growth was positively impacted by the significant pickup of domestic demand, which was mainly driven by higher real disposable income and increased consumer confidence. In addition, gross fixed capital formation performed well, with investments in machinery being an important factor. Exports, on the other hand, increased at a lesser pace than in the previous year, mainly because of slower growth by Slovakia's main trading partners. Altogether, real GDP grew by 2.4% in 2014 and GDP per capita stood at EUR 13,900 by year-end. The increased economic activity supported the country's labour market, which improved significantly in 2014. The unemployment rate stood at 13.3% at the end of 2014, representing a 0.9 percentage point improvement compared to 2013.

The fiscal stance of Slovakia improved notably in the past two years and the country exited the Excessive Deficit Procedure in 2014. After declining to 2.6% of GDP in 2013, the fiscal deficit stood at 2.9% in 2014. An improving labour market along with the higher tax intake efficiency helped the budget revenues in 2014. Public deficit as a percentage of GDP remained slightly below the threshold of the debt brake rule of 55%. Rating agencies acknowledged the performance of the Slovak economy with S&P raising the credit rating outlook from stable to positive.

Consumer prices in 2014 slowed down even more noticeably than in the previous year. Inflation was impacted by favourable harvest conditions and lower food and energy prices. In addition, prices in the service sector grew only very moderately. Altogether, average consumer prices decreased marginally, by 0.1% in 2014. Having adopted the euro back in 2009, Slovakia continued to benefit from low euro zone interest rates.

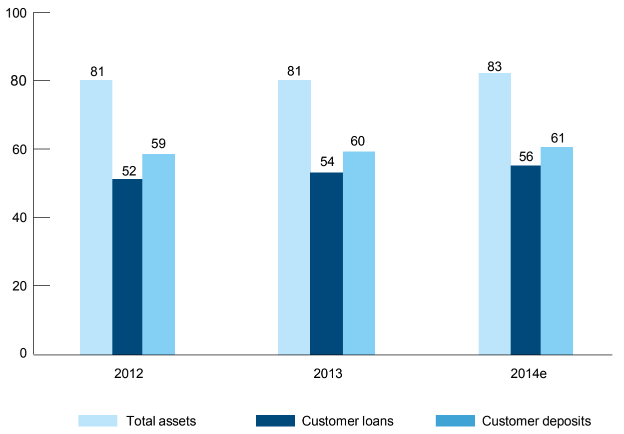
Key economic indicators – Slovakia	2011	2012	2013	2014e
Population (ave, million)	5.4	5.4	5.4	5.4
GDP (nominal, EUR billion)	70.2	72.2	73.6	75.2
GDP/capita (in EUR thousand)	13.0	13.4	13.6	13.9
Real GDP growth	2.7	1.6	1.4	2.4
Private consumption growth	-0.7	-0.5	-0.8	2.1
Exports (share of GDP)	80.9	86.1	87.2	86.1
Imports (share of GDP)	79.5	81.2	81.4	79.9
Unemployment (Eurostat definition)	13.6	13.9	14.2	13.3
Consumer price inflation (ave)	3.9	3.6	1.4	-0.1
Short term interest rate (3 months average)	1.4	0.6	0.2	0.2
Current account balance (share of GDP)	-3.7	2.2	2.1	3.1
General government balance (share of GDP)	-4.1	-4.2	-2.6	-2.9

Source: Erste Group

Market review

The positive macroeconomic environment continued to favourably impact Slovakia's banking market. Customer loans grew by 6.4% in the year, with the retail segment leading the way on the back of improved consumer confidence. Corporate loan volumes increased only marginally. Foreign-currency lending remained insignificant. Customer deposits grew less than loans at 3.8%. With its loan-to-deposit ratio of 91%, Slovakia maintained one of the most liquid and balanced banking sectors in the region. In order to maintain a sound and prudent banking market, the National Bank of Slovakia published its recommendations for financial institutions in October 2014, in which it addressed important parameters such as loan-to-value ratios, maturity of loans, and a prudential approach to property valuations. Having reached the first threshold of paid-in banking tax in the resolution funds, financial institutions did not need to pay the special banking tax in the last quarter of 2014. Furthermore, the banking tax for 2015 was halved compared to 2013.

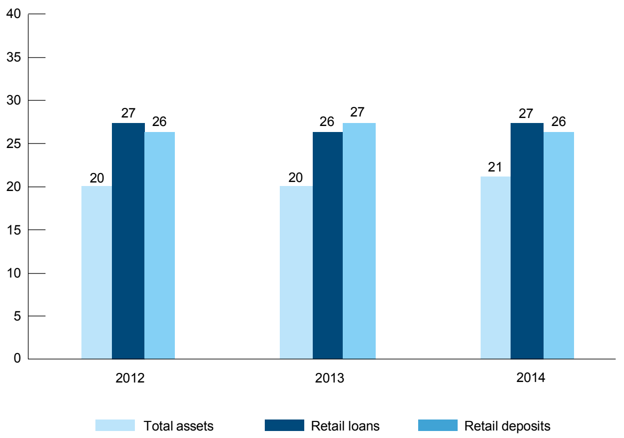
Financial intermediation – Slovakia (in % of GDP)



Source: National Bank of Slovakia, Erste Group

In the improved banking market environment, Slovenská sporiteľňa successfully retained its leading market positions. The bank continued to control one-fifth of the country's banking market as measured by total assets, while it also led the market in customer loans and deposits. In the housing loan business, Slovenská sporiteľňa's market share increased further in 2014 to 27.6%. On the deposit side, its market share was significantly lower in corporate business, at 10.6%, than in retail, at 26.4%.

Market shares – Slovakia (in %)



Source: National Bank of Slovakia, Erste Group

Business review – Highlights

Retail product innovation. Slovenská sporiteľňa introduced an *All-inclusive mortgage*, a unique product in Slovakia. In addition to granting the mortgage, the bank pays for the valuation of the real estate that serves as collateral and processes the registration of pledge in the land register. As a result, the customer experience further improved and about 80% of the customers who signed a housing loan made use of this offer. Product innovations like this support Slovenská sporiteľňa's efforts to increase its market shares. The bank's position in retail business improved on the back of product innovation, focused direct marketing and process improvements.

Banking for corporate customers. In corporate business, Slovenská sporiteľňa strengthened its position. The bank not only participated in all major local-market transactions but also increased revenues from transaction banking. Especially the factoring business showed impressive growth. Through streamlining of internal processes and increased efficiency, Slovenská sporiteľňa aims at improving the customer satisfaction of SMEs and large corporates to further increase its position in corporate business.

Focus on digital banking. In line with group-wide cooperation efforts, Slovenská sporiteľňa established a new unit focusing on digital banking. This team supports the bank's digital evolution to better meet the growing expectations and needs of its customer base. It is the bank's goal to create an exceptional experience for its customers. Visible website improvements will be implemented in 2015, and new digital business ideas to further improve customer convenience have already been successfully piloted.

International and local recognition. Its strong market position, high profitability, even further improved asset quality and a strengthened capital position are the main reasons why Slovenská sporiteľňa won various awards in 2014. For the third consecutive year the bank won the most prestigious banking award in Slovakia – *TREND TOP Bank of the Year*. In addition, the British journal *The Banker* named Slovenská sporiteľňa *Bank of the Year 2014* in Slovakia, and for the fourth time it won the *Euromoney Awards for Excellence*.

Financial review

in EUR million	2013	2014	Change
Net interest income	431.2	451.0	4.6%
Net fee and commission income	117.4	123.4	5.1%
Net trading and fair value result	11.6	9.6	-17.2%
Operating income	572.3	593.5	3.7%
Operating expenses	-249.0	-266.2	6.9%
Operating result	323.3	327.3	1.2%
Cost/income ratio	43.5%	44.9%	
Net impairment loss on financial assets not measured at fair value through profit or loss	-47.2	-51.4	8.8%
Other result	-45.0	-43.0	-4.6%
Net result attributable to owners of the parent	180.7	178.7	-1.1%
Return on allocated capital	35.7%	34.9%	

The increase in net interest income in the Slovakia segment (comprising Slovenská sporiteľňa Group) was mainly attributable to higher new business volumes, namely housing and consumer loans, and a changed deposit structure. Despite the cancellation of loan account fees imposed by legislation, the net fee and commission income improved due to current account, insurance and securities fees. The decrease in the net trading and fair value result was driven by valuation losses from derivatives. The increase in operating expenses was mostly related to the EUR 8.9 million payment into the deposit insurance fund (no corresponding payment in 2013) and higher personnel expenses. Owing to improved operating income, the operating result increased. The cost/income ratio increased. Net impairment loss on financial assets not measured at FV through profit and loss increased due to allocation of higher provisions in the commercial real estate business, while large corporates developed positively. Other result improved slightly due to a decrease in banking tax (no payment in the fourth quarter of 2014). The net result attributable to the owners of the parent declined moderately.

Credit risk

Total credit risk exposure in the Slovakia geographical segment amounted to EUR 13.7 billion (+10.6%; EUR 12.6 billion). Loans to customers increased to EUR 8.4 billion (+12.2%; EUR 7.5 billion). The share of the Slovakia geographical segment in Erste Group's total loan portfolio rose by almost 0.7 percentage points to 6.5%.

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 in the total portfolio – as measured by asset quality – rose further at the expense of the corporate loans. Loans to corporates accounted for approx. 29% of total loans to customers, loans to private households for almost 71%. This customer mix also explains the large share of secured business of almost 59% of the entire loan portfolio. Again, no foreign-currency loans were granted to retail customers.

The positive development of credit quality continued. The NPL ratio dropped to 5.0% (5.4%), with significant improvements seen primarily in retail loans – loans to private individuals as well as loans to self-employed people and micro-businesses – while the quality of loans to larger corporates deteriorated slightly. The NPL coverage ratio based on risk provisions declined but at 82.4% was still above average.

ROMANIA

Economic review

Although growth slowed down from the previous year, Romania's economy continued to perform well in 2014. Growth was mainly driven by private consumption and exports, while investments failed to pick up during 2014. Private consumption was supported by higher real disposable income and improved consumer confidence levels. Exports also performed well in 2014, with industrial production being an important driver. With 70%, the European Union continued to represent the main export destination from Romania. Dacia, a Romanian car maker, had another excellent year. In addition, information technology, paper manufacturing and agriculture also had positive impacts on the economic performance. The latter with its relatively high share in the overall economy, however, contributed to economic growth to a much lower extent than in the exceptionally favourable conditions of the previous year. In addition, European funds absorption clearly improved further in 2014 and reached 52%, still low compared to other countries in the region. Altogether, real GDP grew by 2.9% in 2014 and GDP per capita rose to EUR 7,600. The unemployment rate improved to 6.7%.

Under the third precautionary agreement with the International Monetary Fund, Romania continued its fiscal consolidation programme in 2014. Despite the reorganisation of the existing government in 2014 and the approval of some populist measures ahead of presidential elections in November, the budget deficit remained at a low level of 1.9% of GDP. Impacted by capping public investments, co-financing of European Union projects, higher excise duties and property taxes, the deficit stayed within the agreed target of a maximum of 3% for the third consecutive year. The rating agencies Moody's and S&P acknowledged the performance of the Romanian economy. Romania's public debt level to GDP remained one of the lowest in the European Union at 38.6% at the end of 2014.

Inflation remained subdued in 2014 and stood in the lower bound of the interval regarding the National Bank's target range of 1.5%-3.5%. The low inflation was mainly attributable to lower global energy prices, low food prices, the cut in VAT for bread, and delays in gas price liberalisation. Overall, average consumer prices rose by 1.1% in 2014. The Romanian National Bank cut the base rate several times in 2014 to 2.75% by the end of the year. The Romanian leu did not change significantly versus the euro and stood in the range of 4.4-4.5 throughout the year.

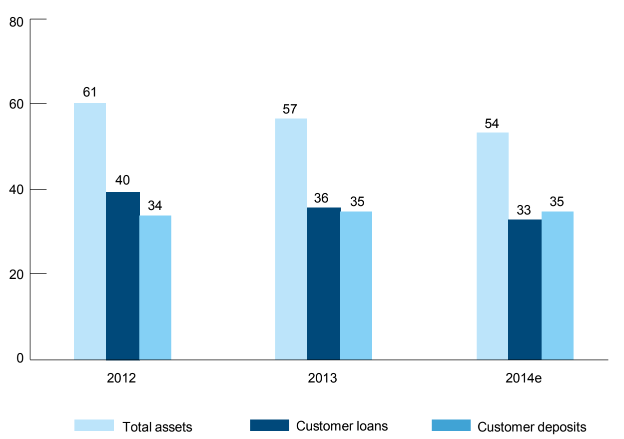
Key economic indicators – Romania	2011	2012	2013	2014e
Population (ave, million)	20.2	20.1	20.0	19.9
GDP (nominal, EUR billion)	133.3	133.9	144.7	151.8
GDP/capita (in EUR thousand)	6.6	6.7	7.2	7.6
Real GDP growth	2.3	0.6	3.5	2.9
Private consumption growth	1.4	1.5	0.9	3.6
Exports (share of GDP)	34.0	33.7	34.3	34.6
Imports (share of GDP)	41.2	40.9	38.2	38.5
Unemployment (Eurostat definition)	7.2	6.8	7.1	6.7
Consumer price inflation (ave)	5.8	3.3	4.0	1.1
Short term interest rate (3 months average)	5.8	5.3	4.2	2.5
EUR FX rate (ave)	4.2	4.5	4.4	4.4
EUR FX rate (eop)	4.3	4.4	4.5	4.5
Current account balance (share of GDP)	-4.6	-4.5	-0.8	-0.5
General government balance (share of GDP)	-5.5	-2.9	-2.3	-1.9

Source: Erste Group

Market review

Although interest rates continued to decline and reached historical lows in Romania, demand for customer loans remained low throughout 2014. Customer loans fell by 3.3%, mainly driven by a decline in the corporate sector of 5.2%. This significant reduction was due not only to low demand but also to the reduction in non-performing loans following the recommendation of the Romanian National Bank. Retail loans remained stable throughout 2014 and were characterised by significantly increasing local currency lending which became more attractive due to lower interest rates. In addition, *Prima Casa*, a government-guaranteed mortgage programme, was exclusively available in local currency after August 2013. Customer deposits, on the other hand, grew by 7.9% in 2014 which represented a slowdown compared to 2013. Both retail and corporate deposits were impacted by higher yield investment products in asset management.

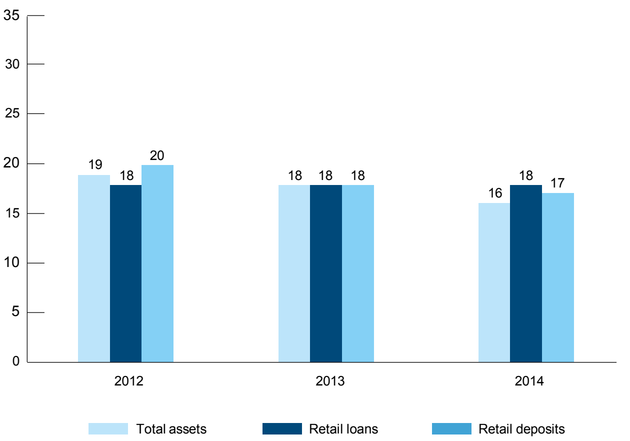
Financial intermediation – Romania (in % of GDP)



Source: National Bank of Romania, Erste Group

The Romanian National Bank, ahead of the European Central Bank's asset quality review, recommended local banks to reduce fully provisioned non-performing loans in the banking system in an accelerated manner. Following this recommendation, banks took decisive measures aimed at cleaning up their balance sheets through write-offs, sales and recoveries. These efforts led not only to significantly higher risk costs but also to lower non-performing loan ratios and higher coverage, most visibly in the corporate sector. In 2014, the country's banking sector was loss-making due the accelerated NPL reduction. The Romanian National Bank also continued to support local funding and local currency based lending throughout 2014 by maintaining the rules on limitations on tenor, debt-to-income ratio, loan-to-value ratio, and collateral coverage. Overall, the Romanian banking market remained well balanced, with the loan-to-deposit ratio declining further to 93% by the end of 2014. In addition the banking sector remained very strongly capitalised with a total capital ratio of 17%.

Market shares – Romania (in %)



Source: National Bank of Romania, Erste Group

Despite losing some market shares on both the lending and deposit sides, Banca Comercială Română held on to its leadership position in almost all major product categories. By the end of 2014, 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 significant reduction of non-performing loans, most visibly in the corporate sector in which the market share decreased to 17.1%. Customer deposit market shares remained stable in 2014. Overall, Banca Comercială Română had a market share as measured by total assets of 16.2% at the end of 2014.

Business review – Highlights

Substantially improved asset quality. Banca Comercială Română decided to accelerate the resolution of the NPL legacy issues to enhance its asset quality. Following significant write-offs, sales and recoveries, the NPL stock decreased by almost 30%. The risk costs increased to EUR 999.1 million. As a result, the NPL ratio decreased to 23.7% and the NPL coverage improved significantly to 82.2%.

Success in local currency retail lending. Retail lending focused on financing customers with good credit ratings and on improving client activation. Banca Comercială Română launched a new standard mortgage loan with a 5-year fixed interest rate. In addition, the bank simplified the documentation for secured lending, optimised the cash and non-cash transactions processes and, as a result, improved customer satisfaction by implementing a queue management system in the 70 most important branches.

Local currency lending accelerated, driven by a significant uplift in both secured and unsecured loan originations. The retail performing book was driven by a substantial increase in standard mortgages and *Prima Casa* (the state-guaranteed housing loans programme) new sales. The volume in new production tripled year-on-year. Banca Comercială Română captured about one third of the newly underwritten mortgage market, and remained – also in terms of cash loans – among the top three largest banks. The bank continued the marketing campaigns promoting local currency unsecured consumer loans and credit cards.

Continued cost efficiency. The cost dynamics were successfully aligned with the revenue generation capacity thanks to the bank's considerable optimisation measures and strict cost management. As a result of the comprehensive turnaround programme, Banca Comercială Română improved processes and decreased the cost base. The headcount was reduced to 7,054 and 25 branches were closed.

Transaction banking and cash management initiatives. To better meet the needs of the corporate customers, Banca Comercială Română redesigned its transaction banking business and introduced new products. Further to that, it extended its cash management service coverage and simplified product packages. The number of corporate outgoing local currency payments increased by about 5.8%.

Financial review

in EUR million	2013	2014	Change
Net interest income	610.1	484.7	-20.6%
Net fee and commission income	169.1	160.0	-5.4%
Net trading and fair value result	99.9	81.2	-18.7%
Operating income	887.1	732.2	-17.5%
Operating expenses	-369.3	-331.9	-10.1%
Operating result	517.8	400.3	-22.7%
Cost/income ratio	41.6%	45.3%	
Net impairment loss on financial assets not measured at fair value through profit or loss	-454.3	-999.1	>100.0%
Other result	-67.1	-117.2	74.7%
Net result attributable to owners of the parent	114.9	-614.1	n/a
Return on allocated capital	8.6%	-60.3%	

Net interest income in the Romania segment (comprising Banca Comercială Română Group) decreased after sharp key rate cuts in 2013 and 2014, but also due to lower income from unwinding and declining corporate business. Net fee and commission income declined mainly due to lower fees from loans, current accounts and transaction banking. Net trading and fair value result declined due to a lower result from derivatives. Consequently, operating income decreased. Operating expenses decreased on the back of cost reduction measures. The operating result declined and the cost/income ratio deteriorated. The net impairment loss on financial assets not measured at FV through profit and loss increased on the back of the announced accelerated NPL reduction. The net result attributable to the owners of the parent decreased significantly.

Credit risk

Due to the continued consolidation strategy, business volumes in the Romania geographical segment declined again noticeably in almost all business areas. While total credit risk exposure was reduced by EUR 1.1 billion to EUR 14.3 billion, loans to customers contracted visibly to EUR 9.0 billion (-13.8%). This represented a share of 7.0% (8.2%) of Erste Group's total loans to customers. The decline in the loan portfolio was attributable to more restrictive lending in the face of increased credit quality requirements and, above all, to extensive selling of non-performing loans in the amount of EUR 747 million.

The loan portfolio of the Romania geographical segment was made up of 53% collateralised and 47% non-collateralised loans, which significantly increased the degree of collateralisation. The share of foreign-currency loans decreased to 60% (63%) 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 NPL ratio declined by almost one third, last but not least due to sales in the secondary market, to 23.7% (29.2%), with non-performing corporate loans down more sharply. Loans to private households continued to show the highest quality in the loan portfolio. Risk provisions were substantially increased once again so that the NPL coverage ratio improved to 82.2% (66.9%).

HUNGARY

Economic review

The Hungarian economy grew surprisingly well in 2014 at 3.6%, the strongest growth since 2006. This development was mainly supported by household consumption and investments; however, exports also contributed positively to the country's overall economic performance. The surge in both public and private investments was partly supported by one-off factors such as an accelerated absorption of European Union funds and measures of the National Bank, such as the *Funding for Growth* scheme. The highest growth rates in investments were registered in manufacturing, logistics, defence and agriculture. Exports were supported by car manufacturers, such as Mercedes, Audi and General Motors, which again performed well in 2014. High distortionary taxes, most notably very high additional burdens on the financial sector, however, remained a drag on the economic performance in 2014. Altogether, Hungary's GDP performance was better than most market participants expected. The unemployment rate decreased significantly in 2014 to 7.7% mainly due to maintenance of the government's Public Work Scheme. Employment also slightly increased in the private sector.

Political stability prevailed in Hungary in 2014, with the coalition of the centre right FIDESZ and the Christian Democrats winning both the general parliamentary and municipal elections. In order to reach its deficit goal of 2.9% the re-elected government announced fiscal adjustment measures in July 2014 including a freeze of government expenditures. Additionally, the government decided to maintain the special taxes in sectors such as energy, telecoms, retail and finance. In addition, strict cost control continued in the public sector. Overall, the general government deficit remained below the 3% Maastricht criterion at 2.7%. The public debt ratio of Hungary continued to stay above the average of other CEE countries and stood at 76.5% at the end of 2014. Although bond issuance by Hungary was limited in 2014, the weaker currency exchange level had a significant impact on indebtedness as a percentage of GDP. None of the three main rating agencies changed the sovereign rating of Hungary in 2014, but their outlook perspectives were modified to a stable outlook.

Inflation remained under control during 2014. Consumer prices in 2014 were broadly unchanged due to the subdued imported inflation, low food prices, and regulated price cuts. Artificial price reductions of electricity and gas services as well as some other services provided by local councils, such as water charges, sewerage and refuse disposal, played a role in disinflation. Average consumer prices decreased by 0.2% in 2014. Despite the stable economic environment, the forint depreciated slightly against the euro reaching HUF 315 at the end of 2014. The National Bank continued its policy of further reducing the base rate, which was cut seven times until July 2014. The main monetary policy rate was then left unchanged at the historical low of 2.1% until the end of the year.

Key economic indicators – Hungary	2011	2012	2013	2014e
Population (ave, million)	10.0	10.0	9.9	9.9
GDP (nominal, EUR billion)	100.4	98.6	100.5	103.3
GDP/capita (in EUR thousand)	10.1	9.9	10.1	10.4
Real GDP growth	1.8	-1.5	1.5	3.6
Private consumption growth	0.7	-2.0	0.2	1.1
Exports (share of GDP)	71.5	71.3	72.0	73.9
Imports (share of GDP)	68.6	68.2	68.5	71.2
Unemployment (Eurostat definition)	10.9	10.9	10.3	7.7
Consumer price inflation (ave)	3.9	5.7	1.7	-0.2
Short term interest rate (3 months average)	6.2	7.0	4.3	2.4
EUR FX rate (ave)	279.2	289.4	296.9	308.6
EUR FX rate (eop)	311.1	291.3	296.9	314.9
Current account balance (share of GDP)	0.8	1.9	4.1	3.8
General government balance (share of GDP)	4.2	-2.2	-2.4	-2.7

Source: Erste Group

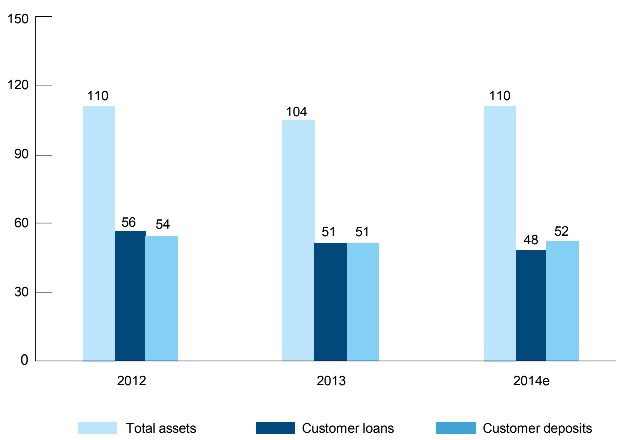
Market review

For Hungary's banking market, 2014 was another challenging year. Following the Supreme Court's decision in June 2014, the Hungarian parliament approved two laws on retail loans in relation to the retroactive correction of bid-ask spreads applied to FX loans and the abolition of unilateral interest rate and fee changes applied for both forint- and foreign-currency-based loans. In November 2014, another law was passed, which regulated the conversion of foreign-currency household loans to Hungarian forint at fixed exchange rates. The currency conversion programme was facilitated by the Hungarian National Bank, which allocated up to EUR 9 billion from its foreign currency reserves for banks. The programme was designed to neutralise any impact from conversions on the forint spot market. The fair banking law was also approved in November 2014, which set reference rates for new retail loans, regulated unilateral interest and fee changes, and placed contractual obligations on banks as of February 2015. The special banking tax and the financial transaction tax remained unchanged throughout 2014.

The Hungarian government, which has advocated a Hungarian ownership of more than 50% in the banking sector for years, achieved that goal in 2014. With the acquisition of the Hungarian subsidiaries of Bayerische Landesbank and General Electric Capital, state ownership in the banking sector increased to slightly above 50%. The government also decided to set up a new integration organisation for savings cooperatives in 2014 and formed a strategic alliance of the Hungarian Post and a number of financial institutions representing around 14% of the country's total assets.

Hungary's banking market was loss-making in 2014. As a result of the measures imposed on financial institutions, demand for customer loans remained low throughout 2014. Despite the low interest rate environment, both retail and corporate loans shrank in 2014. On the positive side, the National Bank continued its *Funding for Growth* scheme for small and medium-sized enterprises in 2014 with the aim of stimulating the economy. The scheme was extended in September 2014 to a maximum amount of HUF 1,000 billion. As part of the programme, the National Bank provided commercial banks with free funding, while credit institutions could lend to SMEs at a preferential interest rate.

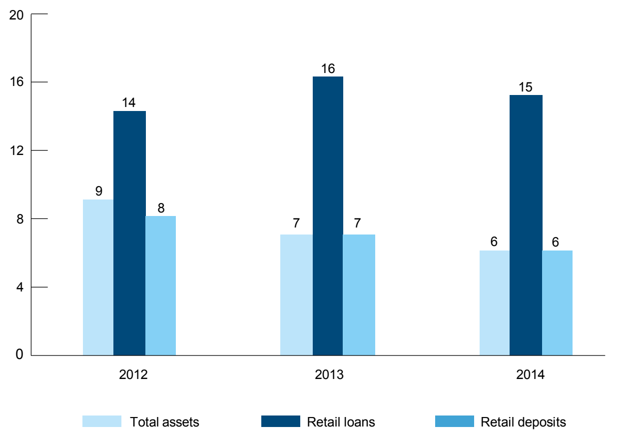
Financial intermediation – Hungary (in % of GDP)



Source: National Bank of Hungary, Erste Group

Despite its significantly shrinking balance sheet and lower market shares, Erste Bank Hungary continued to be a major market player in the country. The bank remained loss-making in 2014 mainly due to very limited customer demand, elevated risk provisions, and a number of extraordinary items that the government imposed on banks. As part of its strategy, Erste Bank Hungary continued to focus on local-currency lending from locally sourced liquidity and a reduction of parent company funding. The bank's market shares were impacted by the relatively high portion of foreign-currency-based loans, which declined significantly in 2014. Overall, Erste Bank Hungary's total asset market shares decreased to 5.6% in 2014.

Market shares – Hungary (in %)



Source: National Bank of Hungary, Erste Group

Business review – Highlights

Focus on process improvements. The cycle time of key processes in the mortgage and credit card business was significantly reduced. Mortgage post-disbursement processes were centralised in February 2014, resulting in completely unified and standardised processes. Erste Bank Hungary also ran a document rationalisation project. The focus was on redesigning and simplifying of the forms used in branches.

Improvements in the customer experience with the branch network as well as optimisation of unsecured and micro-companies lending processes are planned for 2015.

Strengthened digital channels. Digitalisation is a key element of the bank's efficiency improvement. Erste Bank Hungary closely cooperates with Erste Group's innovation centre to align with group-level initiatives. In 2014, the bank launched a remote mobile payment system providing functions such as: bill payment, peer-to-peer payment, and parking fee payment. Furthermore, Erste Bank Hungary's netbanking was upgraded with more user-friendly functions based on customer feedback and business requirements.

New business initiatives. New sales figures improved in the bank's most important product categories. Credit card business as well as both personal and mortgage new loan disbursements improved during the last two years. New retail loans, albeit from a very low base, more than doubled. New credit card sales also outperformed last year's results.

The decline of retail deposit volumes due to the low interest rate environment is counterbalanced by increasing volumes being placed in investment funds. Overall, the number of customers and the transaction volumes increased.

Financial review

in EUR million	2013	2014	Change
Net interest income	298.7	263.4	-11.8%
Net fee and commission income	131.7	139.3	5.8%
Net trading and fair value result	4.1	38.8	>100.0%
Operating income	435.1	442.3	1.7%
Operating expenses	-180.1	-175.8	-2.4%
Operating result	255.0	266.5	4.5%
Cost/income ratio	41.4%	39.7%	
Net impairment loss on financial assets not measured at fair value through profit or loss	-201.3	-152.2	-24.4%
Other result	-136.7	-434.9	>100.0%
Net result attributable to owners of the parent	-89.5	-330.6	>100.0%
Return on allocated capital	-17.8%	-67.5%	

Net interest income in the Hungary segment (comprising Erste Bank Hungary Group) declined mainly due to decreasing loan volumes and margins in the retail business as well as the conversion of retail foreign currency denominated loans. Net fee and commission income improved primarily on the back of higher fees from cash management, custody business and asset management. Swaps entered into with the Hungarian National Bank to secure refinancing of foreign-currency loans at fixed exchange rates had a positive impact of EUR 32.4 million on the net trading and fair value result. A corresponding negative counter-effect is included in the other result. Although operating expenses increased slightly in local currency terms due to higher IT charges and depreciation that could not be offset by lower personnel costs, they declined in euro terms. This led to an increase in the operating result and an improvement in the cost/income ratio. Net impairment loss on financial assets not measured at FV through profit and loss declined due to lower risk provisions on loans to customers in SME as well as in the retail business. Other result included expenses related to the Hungarian consumer loan law in the amount of EUR 336.8 million. The net burden of the law and the conversion of the foreign-currency loans was EUR 312.2 million. This led to a significant deterioration in the net result attributable to the owners of the parent.

Credit risk

In the Hungary geographical segment, credit risk exposure declined even more strongly than in previous years, to EUR 6.3 billion (-19.5%), in an environment marked by severe economic and political challenges for the banking sector. The loan portfolio declined at a similar rate, to EUR 4.3 billion (EUR 5.4 billion). As a result, the share of this segment in Erste Group's total loans to customers decreased to 3.4% (4.2%). The composition of the loan portfolio by customer segment shows another shift from corporates and the public sector to retail customers. Loans to private households as a percentage of total loans to customers reached 68.4%.

The noticeable downwards trend in business volume was attributable to highly restrictive new lending amid weak loan demand. Due to repayments and the conversion of foreign-currency loansto local-currency loans, the share of financing denominated in Hungarian forint in total loans rose to 33%. Foreign-currency loans to customers were denominated mostly in Swiss francs.

The negative trend in asset quality that had started with the onset of the financial and economic crisis in 2008 continued, albeit at a weaker rate. This development had already emerged in the second half of 2013. The NPL ratio stood at 26.8% (26.4%). This development of loan quality was also attributable to sales of non-performing loans – both retail and corporate loans – in the amount of EUR 71.7 million. NPL coverage of non-performing loans by risk provisions improved to 64.0%.

CROATIA

Economic review

The Croatian economy struggled to fully recover, and the country concluded 2014 as the sixth consecutive year of recession. Domestic demand remained weak throughout the year and was impacted by low consumer confidence. Investments continued to be sluggish in 2014 mainly due to the low activity of the private sector. The bright spot of the economy was the performance of exports with transport equipment, textiles and machinery being the most important sectors. Croatia's well-developed tourism industry with more than 10 million visitors annually also performed well in 2014. Altogether, real GDP showed a decline of 0.4% in 2014, while GDP per capita stood at EUR 10,000 at the end of the year. The unemployment rate reflected the economic performance and remained high at 17.2% by the end of 2014.

Reflecting weak domestic consumption and lower food and energy prices, inflation remained very low in 2014, with consumer prices being flat throughout the year. Given the country's very high use of the euro, the Croatian National Bank's main objective remained to preserve nominal exchange rate stability. Fiscal consolidation failed to meet expectations in 2014, which resulted in a budget deficit of 5.5% of GDP. This was in particular due to unexpected flood-related expenses and a lower than anticipated VAT revenue collection in the second half of the year. Croatia's public debt increased further to 81.5% in 2014, due not only to the shrinking economy but also to the inclusion of two major state-owned enterprises.

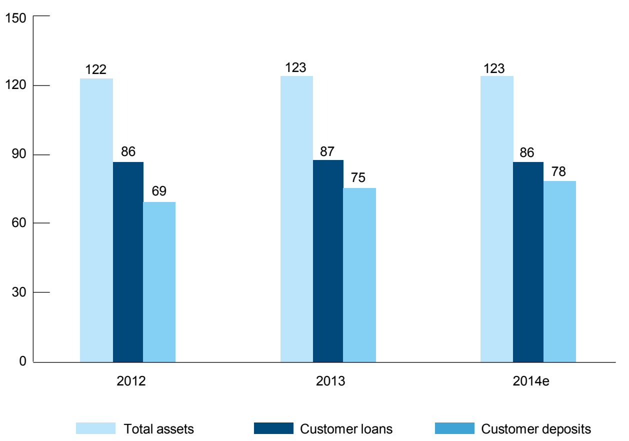
Key economic indicators – Croatia	2011	2012	2013	2014e
Population (ave, million)	4.3	4.3	4.3	4.3
GDP (nominal, EUR billion)	44.8	44.0	43.6	43.1
GDP/capita (in EUR thousand)	10.4	10.2	10.1	10.0
Real GDP growth	-0.3	-2.2	-0.9	-0.4
Private consumption growth	0.3	-3.0	-1.3	-0.7
Exports (share of GDP)	21.4	21.9	20.5	20.5
Imports (share of GDP)	36.4	36.9	36.1	36.3
Unemployment (Eurostat definition)	13.5	15.8	17.3	17.2
Consumer price inflation (ave)	2.3	3.4	2.3	-0.2
Short term interest rate (3 months average)	3.1	3.4	1.5	0.9
EUR FX rate (ave)	7.4	7.5	7.6	7.6
EUR FX rate (eop)	7.5	7.5	7.6	7.7
Current account balance (share of GDP)	-0.8	-0.1	0.9	0.2
General government balance (share of GDP)	-7.7	-5.6	-5.2	-5.5

Source: Erste Group

Market review

In 2014, Croatia's banking market reflected the weak macroeconomic developments of the country. The country's lending market shrank, driven mainly by lower corporate volume. The retail market showed more activity but was still subdued due to weak domestic demand. Overall, loans to customers decreased by 2.5%, while customer deposits increased by 2.5%. This increase in savings was heavily impacted by higher corporate deposits, while retail deposits rose by only 2.0%. The profitability of the Croatian banking sector was impacted by the significantly increased level of provisioning during 2014. Despite lower returns at sector levels, the level of capital adequacy remained satisfactory. The country's level of financial intermediation remained among the highest in Central and Eastern Europe, with total banking assets at 123% of GDP.

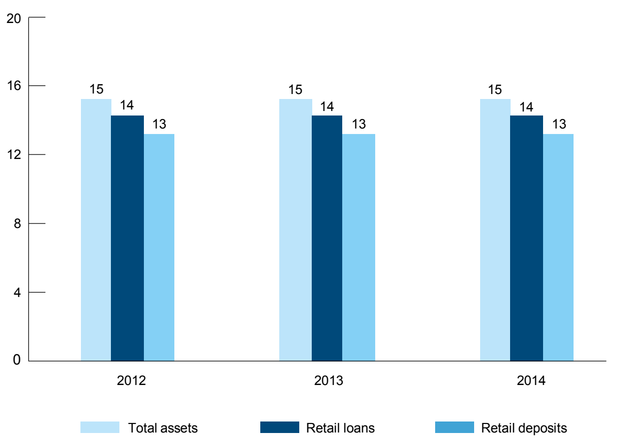
Financial intermediation – Croatia (in % of GDP)



Source: National Bank of Croatia, Erste Group

Erste Bank Croatia remained among the top three players in the market, with a total asset market share of 14.9%. Erste Bank Croatia's performance reflected the development of the overall banking market, with customer loans declining and deposits increasing. The bank's loan-to-deposit ratio decreased to 123% by year-end 2014.

Market shares – Croatia (in %)



Source: National Bank of Croatia, Erste Group

Business review – Highlights

Local currency lending. As in other markets, the focus was on strengthening the position in retail loans denominated in local currency. Business volumes were lively and allowed the bank to position itself as one of the market leaders in the segment.

Local currency consumer lending characterised the business developments in the retail business segment. The continuous drive for efficiency further boosted business amid the commitment to provide approval decisions to clients within 24 hours.

Focus on SME business. Fostering long-term relationships with customers is of utmost importance for Erste Bank Croatia. Hence, a new operating model in SME business, shifting the focus to an industry-specific approach, was introduced. Specialist teams were formed to better combine SME-specific know-how and risk management capacities. This allows the introduction of tailor-made finance products and a service-oriented approach. The new SME product packages represent an important qualitative step forward and set the stage for a more competitive approach aimed at becoming the customers' first bank.

Banking innovations. Erste Bank Croatia introduced various innovations on the local market, such as the *Erste Queuing app*, *Erste Wallet* and also launched the *Personal Finance Manager*. The *Erste Queueing app* allows users to get a ticket for a branch they want to visit. The user does not need to queue as he gets a virtual ticket number and the app will notify the user when they are 9th, 6th or 3rd in line. *Erste Wallet* is a new system on the market and serves as a mobile payment method. It allows users to make in-store payments and conduct peer-to-peer payments between *Erste Wallet* users. The main advantage of this payment feature is the significantly lower costs for the customers compared to the credit card business. The *Personal Finance Manager* systematically gathers information on incoming payments or payouts and allocates this data to specific categories, such as food, housing or entertainment. Customers are provided with a concise overview of their personal earnings and spending behaviour.

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. The financial magazine *The Banker* has named Erste Bank Croatia's Private Banking the best private banking service in Croatia. In addition, the bank was already top-ranked in the *MIXX competition*, a nationwide competition for the best online campaigns. Erste Bank Croatia won two out of the seven major categories – Digital Brand Awareness and Mobile.

Financial review

in EUR million	2013	2014	Change
Net interest income	240.5	261.2	8.6%
Net fee and commission income	72.6	79.9	10.0%
Net trading and fair value result	20.4	24.1	18.3%
Operating income	334.5	399.3	19.4%
Operating expenses	-143.7	-183.5	27.7%
Operating result	190.8	215.9	13.2%
Cost/income ratio	43.0%	45.9%	
Net impairment loss on financial assets not measured at fair value through profit or loss	-159.2	-155.3	-2.5%
Other result	-13.0	-4.4	-65.7%
Net result attributable to owners of the parent	10.1	32.6	>100.0%
Return on allocated capital	3.9%	10.7%	

Net interest income in the Croatia segment (comprising Erste Bank Croatia Group) increased due to lower interest expenses for liabilities. The consolidation of additional subsidiaries affected the revenue and expenditure side. Net fee and commission income improved primarily on the back of higher fees in retail business as well as fees for arranging a government bond issue. The increase in the rental income by EUR 31.5 million due to consolidation of a leasing subsidiary also had a positive impact on the operating income. Despite increased operating expenses due to the consolidation of subsidiaries (a leasing subsidiary and a Slovenian credit card company), the operating result improved. The cost/income ratio went up. The decrease in the net impairment loss on financial assets not measured at FV through profit and loss was driven by lower provisioning requirements in SME business that more than offset the higher risk provisions in commercial real estate business. NPL coverage rose to 60.4%. The net result attributable to the owners of the parent improved.

Credit risk

In the Croatia geographical segment, credit risk exposure rose by 3.6% to EUR 9.7 billion. Loans to customers were slightly up at EUR 6.9 billion (+1.2%). The share of this segment in Erste Group's total loans was stable at 5.3%. The composition of the loan portfolio by customer segments shifted from corporate loans to better-quality loans to municipalities, with the latter accounting for as much as 19.5% (18.4%) of the customer loan portfolio.

The majority of loans are still denominated in foreign currency, especially euros, even though the focus has recently been on lending in Croatian kuna. The share of foreign-currency loans was above 76% (77.5%). The high share of foreign-currency loans is due to the widespread use of the euro in Croatia. Euro loans are typically matched by corresponding income or deposits denominated in euro.

Against the backdrop of persistently harsh macroeconomic conditions, the Croatian economy contracted. Partly due to regulatory changes, asset quality continued to deteriorate, even though the increase in non-performing loans was significantly weaker than in previous years. NPLs rose by EUR 82.6 million to EUR 1,262 million. As a percentage of total loans to customers, they rose to 18.4% (17.4%). Most of the deterioration was seen in commercial lending to medium-sized and larger enterprises while the above-average growth in loans to the public sector contributed to a certain stabilisation of credit quality. NPL coverage by risk provisions was 60.4%. Including collateral, NPLs were fully covered.

SERBIA

Economic review

The Serbian economic recovery was significantly disrupted by the heavy floods in 2014. As a result, industrial activity in sectors such as mining and energy strongly deteriorated in 2014. Agriculture was one of the most impacted sectors, with production falling by approximately 7% in 2014. Manufacturing dropped as well, driven mainly by the steep decline in the production of motor vehicles. Flooding also had a negative impact on the performance of exports, which worsened in 2014 after the excellent results of 2013. In addition, domestic demand remained subdued throughout the year. Despite some improvements in labour market indicators, the unemployment rate was impacted by the weak economic performance and remained one of the highest in Europe at 18.9%. Overall, real GDP decreased by 1.8% and GDP per capita stood at EUR 4,600.

Despite an improved tax collection and cuts in capital spending the budget deficit rose to 6.6% of GDP in 2014. To improve the fiscal situation, the Serbian government signed a precautionary arrangement with the International Monetary Fund to implement further fiscal consolidation measures such as a 10% cut in public wages, pension cuts, a reduction in subsidies, privatisation and restructuring plans for state-owned enterprises. The nominal public debt trajectory remained stable in 2014 and, similarly to previous years, grew by approximately EUR 2 billion. Public debt to GDP increased to 70.9% as a result of the shrinking economy.

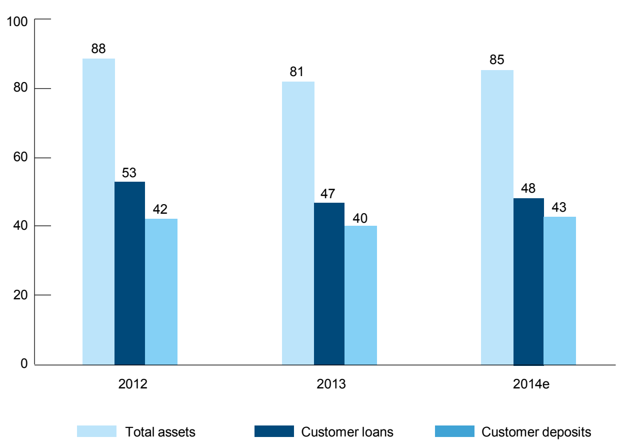
Key economic indicators – Serbia	2011	2012	2013	2014e
Population (ave, million)	7.2	7.2	7.2	7.2
GDP (nominal, EUR billion)	30.1	31.7	33.3	32.7
GDP/capita (in EUR thousand)	4.2	4.4	4.6	4.6
Real GDP growth	1.4	-1.0	2.6	-1.8
Private consumption growth	-1.2	-2.0	-1.5	-1.5
Exports (share of GDP)	28.0	26.5	31.7	33.2
Imports (share of GDP)	45.7	44.3	44.2	45.3
Unemployment (Eurostat definition)	23.0	24.0	22.1	18.9
Consumer price inflation (ave)	11.2	7.3	7.9	2.1
Short term interest rate (3 months average)	12.9	11.6	10.0	8.0
EUR FX rate (ave)	113.1	113.1	116.5	118.7
EUR FX rate (eop)	104.6	113.7	114.6	120.3
Current account balance (share of GDP)	-9.1	-12.3	-6.5	-6.6
General government balance (share of GDP)	-4.9	-6.5	-5.0	-6.6

Source: Erste Group

Market review

Despite the weak macroeconomic developments, the Serbian banking market continued to grow in 2014. Growth was clearly driven by retail loans, which increased by 7.6% while corporate loans shrank slightly. Non-performing loans stabilised at 23% as a percentage of customer loans. Asset-quality-related issues were especially visible in corporate business, with non-performing loans at 27% while they remained below 10% in e retail business. More than 70% of the system's customer loans were denominated in foreign currency, mainly in euro. Overall, customer loans increased marginally, while customer deposits increased by 6.9% leading to a decrease in the system's loan-to-deposit ratio to 111%. The system's capital adequacy ratio remained high at 19.2%, and the implementation of Basel 3 also moved further ahead in 2014. The attractiveness of the country's banking market was also reflected in new foreign market participants entering the market. United Arab Emirates' Mirabank started to operate in the final quarter of the year. Foreign-owned banks maintained their dominant position in the banking sector with a market share of approximately 75%. Inflation, traditionally very high compared to other Central and Eastern European countries, was lower in 2014 than in the previous years and remained in the National Bank's target range of 2.5%-5.5%. Consequently, the National Bank of Serbia cut the base rate three times in 2014 from 9.5% to 8% by the end of the year.

Financial intermediation – Serbia (in % of GDP)



Source: National Bank of Serbia, Erste Group

Erste Bank Serbia maintained its position among the country's top 15 banks in 2014. Erste Bank Serbia's market shares for customer loans remained stable at 3.1% by maintaining retail and corporate market shares at 3.5% and 2.8% respectively. On the deposit side, Erste Bank Serbia's activities regarding foreign exchange and local currency savings continued. As a result, the bank's deposit base remained fairly divided between euro and dinar deposits. Overall, the bank's market share for customer deposits stood at 3.5% at the end of 2014.

Business review – Highlights

Balanced business model. Erste Bank Serbia remained one of the most balanced financial institutions in the country, with a loan-to-deposit ratio of around 90%, both in euro and Serbian dinar.

Continued cost efficiency. To further improve its cost efficiency, the bank implemented specific projects for the automation of lending processes for private and corporate customers. The shortened time requirement speeds up loan approvals and improves customer satisfaction.

Focus on innovation. To meet the financial requirements of its customers through different channels the bank launched several digitalisation projects and continued to upgrade its netbanking solution with new functions, such as a digital finance advisor, online account opening or a Skype call centre. Erste Bank Serbia also implemented additional online banking services.

Supporting corporate customers on renewable energy. In light of the increasing importance of renewable energy, the bank funded several projects, such as a wind farm near Kula, a solar plant near Beočin and 17 mini hydropower plants and two biogas plants.

Financial review

in EUR million	2013	2014	Change
Net interest income	32.5	34.4	5.9%
Net fee and commission income	13.4	13.4	0.1%
Net trading and fair value result	2.6	2.9	11.9%
Operating income	48.5	50.5	4.3%
Operating expenses	-36.5	-38.6	5.8%
Operating result	12.0	11.9	-0.4%
Cost/income ratio	75.3%	76.4%	
Net impairment loss on financial assets not measured at fair value through profit or loss	-9.6	-15.7	63.0%
Other result	-0.1	-1.3	>100.0%
Net result attributable to owners of the parent	1.4	-5.4	n/a
Return on allocated capital	2.8%	-10.2%	

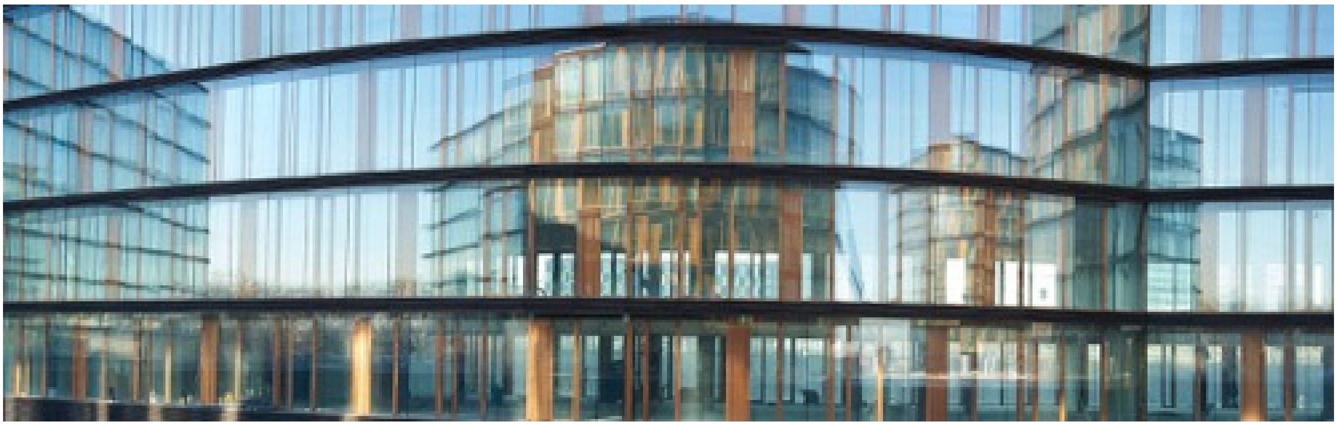
Net interest income in the Serbia segment (comprising Erste Bank Serbia Group) increased mainly as a result of higher margins from consumer loans in retail business. In addition, asset/liability management benefitted from liquidity surplus placements. Operating expenses increased mostly due to higher workout and IT costs as well as the consolidation of a leasing company. The increase in the net impairment loss on financial assets not measured at FV through profit and loss was driven by the increase in coverage for SME clients. As a result, the net result attributable to the owners of the parent turned negative.

Credit risk

Total credit exposure in the Serbia geographical segment rose only slightly by EUR 14 million to EUR 879 million. Loans to customers posted slightly more robust growth to EUR 588 million (+EUR 26 million). With a share of 0.5% in total customer loans, this segment was still only of relatively minor significance for Erste Group. Despite a declining trend, the share of corporate loans in the total loan portfolio was still above average, at more than 62%, compared with other markets in Central and Eastern Europe. This applies in particular to loans to the self-employed and to micro-businesses.

Even though the increase in loan volume was confined almost exclusively to loans denominated in Serbian dinar, a much larger share of loans (75%) is still denominated in foreign currency, especially in euros. This is mainly due to the wide-spread use of the euro in Serbia as a result of the weakness of the local currency. Euro loans are usually matched by corresponding income or deposits in euros.

After cleaning up its loan portfolio in the final quarter, Erste Bank Serbia achieved a trend reversal following several years of rising NPL ratios. The share of non-performing loans in total loans to customers declined by 1.2 percentage points, to 14.1%. Essentially, this development was driven by a noticeable improvement in the quality of corporate loans. NPL coverage by risk provisions excluding collateral was 76%.



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.

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. 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 believes that knowledgeable and financially educated customers are more likely to make sound appropriate 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 the 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 appropriate 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.

Erste Group is continually developing new products to support people in managing their finances better, e.g. smart phone apps such as Quick Check or Fair Split. 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 more than one hundred videos explaining basic financial concepts and current economic questions in an easy-to-understand manner proved very successful. The short three- to five-minute videos are 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. 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 co-operation 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.

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 co-operation 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 has been shown in renowned institutions in Vienna, Bratislava, Bucharest, Prague and Belgrade, and by the end of 2014 it had already recorded 120,000 visitors. The Technical Museum of Zagreb will be the next venue to host the exhibition in 2015.

SPONSORING

For Erste Group, sponsoring is the voluntary promotion and support of institutions, initiatives and projects relating to social welfare, culture and education. The bank also has a long tradition in supporting specific sports.Erste Group considers sponsoring as an opportunity to pass on added value earned from business activities to society. The *Mehr*WERT sponsoring programme of Erste Bank Oesterreich 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 co-operation 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, a platform for no-fee donations. Donors know that even small donations fully benefit the selected projects of 200 small to medium-sized NGOs. Bursa Binelui again hosted *Campionatul de Bine* (The Good Championship), a fundraising contest. Erste Bank Serbia supported around 90 different projects and initiatives in 2014. 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 like Civic Association Inkluzia 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 at bank premises. For the past six years, young people from children's homes have obtained scholarships under a project called *Vzdelávaním k úspechu* (Success through Education).

Smile as a gift is a scholarship programme with the Association of the Friends of Children from Children's Homes supporting studies at high schools and universities. The Česká spořitelna Foundation is governed by the motto "We are with those from whom society turns away". It supported 28 projects with people excluded for reasons of age, social status or mental handicap.

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 co-operation 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*. For the first time, the bank supported the *Bohemia Jazz*

Fest. Česká spořitelna is also a patron of *Pražské jaro* and *Smetanova Litomyšl*, two festivals of classic music.

For the eleventh time, Erste Bank Oesterreich acted as the principal sponsor of the *Viennale*, Austria's largest international film festival. For the fourth time, Erste Bank Oesterreich awarded the *Mehr*WERT Film Prize to a film by an Austrian film director presented at the Viennale.

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 2014, 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. Erste Bank Croatia organised a well-known competition for emerging artists and art students, called *Erste fragments*, for the tenth time in 2014. 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 of 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*. 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. In 2014, the bank supported a new initiative of the *Liszt Ferenc Music Academy*, three concerts with world-famous conductors.

CORPORATE VOLUNTEERING

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

Erste Group's Austrian initiative *Time Bank* is based on the idea that personal commitment and practical assistance are required more often than funds. 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. 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. Some local banks added corporate volunteering to its executive development programme run by Human Resources.

The *Good Deeds Bakery* project of Banca Comercială Română was again 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. In August 2014, at an initiative to help flood victims, Banca Comercială Română employees donated items ranging from clothes, toys, blankets, electronics and personal hygiene items to food for affected families.

In 2014, Erste Bank Serbia organised several volunteering activities and participated in some organised by partners. Volunteers refurbished for example an old people's home, a kindergarten, an elementary school, picnic areas and hiking paths. Most of the volunteering resources though were allocated to flooded areas where volunteers helped people whose houses had been ruined.

Slovenská sporiteľňa cooperates with the Pontis Foundation, which established a network called *Engage* bringing together firms active in corporate social responsibility activities and voluntary efforts. Employees took part in numerous voluntary activities aimed at the support of local communities. Erste Bank Hungary participated in the *Közös Lábos* (Common Cooking Pot) programme organised by *Szimplakerti Háztáji Piac* (Simple Garden Home-grown Market) where employees prepared and sold meals. The money raised was given to *Szimbiózis Foundation* (an initiative dealing with the integration of mentally disadvantaged people) and to *HabitatPont* (providing cheap construction material, tool rental and technical advice to some of the poorest communities in Hungary).

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.

More than 400 employees of Erste Bank Oesterreich and the savings banks work on a voluntary basis at Zweite Sparkasse. People with no access to banking services can open an account without an overdraft facility at Zweite Sparkasse. The accounts are offered in close co-operation with partners such as Caritas or debt-counselling centres.

SPORTS

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 2014, Erste Bank Oesterreich was again the main, name-giving sponsor of Austria's most important tennis tournament, the *Erste Bank Open* in Vienna.

In 2014, 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* 2014 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.

Customers and suppliers

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 products aligned to customers' needs and requirements and to recognise customers' needs at an early stage to be able to offer the right solutions in time. Factors such as financial literacy and experience 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 also means providing customers with access to banking services through many different channels. Customer expectations of a modern bank are subject to constant change. Digital channels have become as natural to many customers as barrier-free access to branches. Today, many customers appreciate being able to conduct their banking transactions at any time, from anywhere, via their smartphones or on the internet.

Erste Group believes that, despite technological progress, personal contact with customers remains important. Customers of Erste Group who require complex long-term financial services expect sound advice. Erste Group therefore invests in new concepts, refurbishes its branches and meets customers' requirements and expectations, also by extending banking hours. The combination of digital channels and traditional sales approaches enables customer relationship managers to explore customer needs even more proactively. This is why the modern branch network of Erste Group remains a key element of its banking business.

By implementing digital applications, Erste Group in 2014 took another step closer to its customers to help them manage their financial affairs. Among these are, for example, mobile payment applications for smartphones and the option to open accounts online on the web.

Top priorities of product information remain transparency and easy-to-understand products and services, both in terms of technical details and language. Erste Bank Oesterreich is therefore continuing to expand its range of multilingual advisory and other services in English, Turkish, Serbian, Croatian and Czech. Banca Comercială Română provides information on products and services in Hungarian.

For partially sighted people, Erste Bank Oesterreich offers bank cards printed in braille, and each branch of Erste Bank as well as each VIVA shop (where available) operates at least one cash dispenser equipped to provide audio instructions. Česká spořitelna has further increased the number of cash dispensers designed for use by persons with impaired vision so that by now more than one third of all machines boast this feature. The number of branches with barrier-free access has risen further across Erste Group. Erste Bank Hungary has already remodelled more than 50% of its branches, and access is likewise barrier-free at all new or remodelled branches of Erste Bank Serbia. In addition, Erste Bank Serbia offers special advisory services to people who are deaf or hard of hearing.

As part of the *Barrier-free Bank* initiative, Česká spořitelna certified another 21 branches in 2014. It is the first bank in the Czech Republic that has its branches certified as barrier-free and provides the required training to its staff. In 26 branches, people with impaired hearing are offered the online transcription service www.escribecz. For these efforts, Česká spořitelna was awarded the title *Barrier-free Bank 2014* in the Fincentrum Bank of the Year 2014 competition.

The websites of the local banks of Erste Group are continuously adapted. In this respect, the focus is on accessibility, usability and easy–to-understand content. The websites of the holding, Erste Bank Oesterreich, Erste Bank Serbia, Erste Bank Croatia and Banca Comercială Română feature responsive design, which means that the website adapts automatically to screen size and resolution for optimum display.

75% of bank cards have been successfully set up for contactless payment at POS terminals. 9% of the cards are already being used for contactless payment. This is significantly above the market average of 5%. At year-end 2014, Erste Group started an initiative to encourage the increased use of prepaid cards. These are cards that can be loaded with money like prepaid phone cards, for example. The amount that has been loaded can be used for making payments at POS terminals.

INNOVATION AND PRODUCT QUALITY

Further to developing new products, the aim is to identify and realise potential for improvement. Assuring the high quality of the financial products and services offered is an essential element in product development. The *Product Approval Process* implemented for newly developed products in 2013 has by now become well-established. To meet customer expectations as well as Erste Group's own quality standards, all new products are reviewed for marketability prior to their launch. Standardisation of processes, documentation rules and decision-making bodies guarantee consistent product standards and product approval across the Group.

In 2014, newly developed financing, insurance and card products were reviewed under the Product Approval Process before being launched in the market.

CUSTOMER SATISFACTION

High levels of customer satisfaction and thus customer loyalty secure the bank's long-term success. The quality of customer relations ultimately depends on the customers' experiences in their day-to-day dealings with the bank. Such experiences may be direct or indirect, significant or less significant, conscious or subconscious. Customer satisfaction is evaluated by means of representative and extensive surveys conducted across all markets of Erste Group.

On this basis, the Customer Experience Index (CXI) is calculated, which assesses the quality of customer relationships and classifies them in five categories. The CXI is also used to determine the positioning as well as the strengths and weaknesses of the local banks of Erste Group relative to the top three competitors in each country. Furthermore, the CXI is a bonus criterion for both the management board of Erste Group and the management board members of the local banks.

With respect to customer satisfaction, Erste Group held its overall position across all markets and segments in 2014. The results in Slovakia and Hungary improved in comparison to those of Erste Group's top competitors. In terms of customer experience Erste Group is market leader in retail in Slovakia, Croatia and Serbia.

In private banking and asset management, Erste Group further strengthened its position in Central Europe despite the persistent low-interest-rate environment. The focus of the services offered was on long-term wealth accumulation, estate planning, asset management and foundation management. In addition, new products featuring direct investments in real estate, gold and diamonds were developed. Besides the continuing strengthening of the market positions of Erste Group and its local banking subsidiaries in Central and Eastern Europe, the main priority in the coming two years will be the implementation of the new regulatory requirements under MiFID II. Erste Private Banking will focus on offering its customers advisory excellence and transparency. With a view to MiFID II, Erste Group developed an up-to-date training curriculum for Private Banking relationship managers in 2014.

The awards won by Erste Group banking subsidiaries in Central and Eastern Europe are proof of the high degree of customer satisfaction. At the same time, the bank regards it as its duty to steadily strive to maintain the status of being one of the best and most trustworthy banks for retail and corporate customers. The fact that all banking subsidiaries of Erste Group operate under a brand name of very high recognition value and trustworthiness represents a significant competitive advantage in the banking business, which has manifested itself, among other things, in steady inflows of deposits and funds under management at times of economic uncertainty.

SUSTAINABLE INVESTMENT

Erste Asset Management was an early mover in anticipating the growing needs of investors to increasingly emphasise environmental and socio-ethical aspects in their investment decisions. Over the past decade, Erste Group has developed the most diverse portfolio of sustainable funds in Austria. Since 2012, all asset management entities of Erste Group have been operating under the umbrella of Erste Asset Management *UN PRI Signatories* and have hence committed themselves to complying with the *UN Principles of Responsible Investment (PRI)*. The decision not to allow any actively managed mutual fund to invest in companies engaged in controversial weapons such as land mines, nuclear weapons or cluster bombs had already been taken in 2011. By signing the Bangladesh Memorandum in 2013, Erste Asset Management agreed to refrain from investments in companies and subcontractors of such companies that commit violations of labour laws or human rights in their countries' textile industry. Furthermore, funds are not allowed to engage in food speculation.

Erste Asset Management is an acknowledged and leading provider of sustainable investment funds in Austria and in the CEE region. In 2014, Erste Asset Management managed assets worth EUR 53.8 billion. Its subsidiary Erste-Sparinvest KAG has gained market leadership in Austria. Actively managed funds that are screened for prohibited weapons amounted to approx. EUR 25 billion. The total volume of assets managed by sustainable investment funds reached EUR 3.7 billion in 2014, up 62% versus 2013.

In 2014, sustainability experts of Erste Asset Management managed 26 investment funds in the categories public funds and special funds/externally mandated portfolios. The managed public funds comprised six bond funds, five regional stock funds, one micro-finance fund of funds, two theme funds for climate protection and the environment (the latter two funds were managed jointly with WWF Austria) as well as one asset allocation fund of funds. 2014 was characterised by strong investor demand for funds that invest in emerging market corporate bonds globally, in conformity with sustainability rules.

As regards Engagement and Interaction with Investees/Business Partners/Clients, global companies were contacted on various subject matters, with the key topics being the automobile industry/CO_2 emissions, major sports events, tourism, the oil industry and luxury goods. Debates were held with external sustainability experts and analysts, and questions on sustainability were addressed to key representatives of relevant industries. In 2014, international co-operation (e.g. UN PRI) was intensified under the heading of Engagement in order to be able to approach companies from a position of greater strength.

The establishment of an ethics board – the Erste Responsible Advisory Board – was approved in 2014. The *EAM SRI Universe Report* is a monthly publication that covers the investment universe for the sustainability funds. A guideline issued for the entire *ERSTE RESPONSIBLE* product range lays down Erste Asset Management's principles and views on sustainability.

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 financial services of commercial banks.

In 2014, the main focus of financial inclusion was again on micro banking and social enterprise financing. In addition, local networks promote the training of social entrepreneurs by helping them acquire the expertise and the skills required for running their businesses successfully.

Micro financing

All local banks of Erste Group offer micro-financing schemes customised for their markets. In Romania, Good.bee Credit offers self-employed persons and small businesses development-oriented financing products and supports regional economic development by providing micro loans. In 2014, three new branches were opened. The Good.bee Credit network comprises 17 branches and serves 40 districts in Romania. At year-end 2014, almost 5,000 loans with a total volume of EUR 36 million had been granted.

In 2014, 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 help them set up or continue developing their own businesses. Erste Bank Croatia adapted its existing micro-lending programme in 2014 to include micro loans for the start-ups of small businesses as a standard offering. Its implementation is planned for 2015.

Slovenská sporiteľňa supports micro-entrepreneurs with the aim of creating and securing jobs. Apart from providing financing in the start-up phase, the focus is also on the transfer of business management expertise. The initiative was started in three regions in 2014 and is set for nation-wide roll-out in 2015. For its efforts, Erste Bank Hungary received the *Hungarian Donors' Forum's* award for the most innovative micro-financing programme for the third consecutive time.

In Austria, the micro-finance initiative was continued in co-operation with the Federal Ministry of Labour, Social Affairs and Consumer Protection for the fifth consecutive year. Under this initiative, Erste Bank Oesterreich offers start-up loans to people who were previously jobless or threatened by unemployment. So far, more than 400 start-ups have received funding under this programme from savings banks and Austria Wirtschaftsservice. Until the end of September 2014, loans were also guaranteed by the European Investment Fund. Under this guarantee programme, Erste Bank Oesterreich was the exclusive partner of the European Investment Fund in Austria. A study on the social impact of this programme was conducted with micro-loan customers. It was scheduled for completion in early 2015.

Social enterprise financing

Social entrepreneurship means initiatives of private individuals, organisations or networks that pursue charitable purposes through entrepreneurial activities. Besides the areas of work, health and education, social entrepreneurship also includes the environment and culture. These initiatives offer products and services as well as employment opportunities that satisfy fundamental needs in society or offer alternative approaches that are socially and ecologically more agreeable.

The local banks of Erste Group stepped up their activities for social enterprises in 2014, which resulted in growing loan portfolios especially in Austria, the Czech Republic and Hungary.

Erste Bank Oesterreich, for example, supports social enterprise customers with financing even after the start-up phase and also offers business management consulting services, including access to business angels (e.g. *Ideas meet money* or the Social Impact Hub's *Investment ready* programme in Vienna). The *For Best*

Students initiative supports students by providing the financial means to cover tuition fees, living costs, etc. In co-operation with debt counselling services, the initiative called *betreute Konten* (assisted accounts) was developed further and has proved to be an instrument that may help many vulnerable people to retain their full legal capacity. It also helps to prevent homelessness. A care card has been developed jointly with organisations offering care services. This card enables home care services to spend small amounts on purchases without needing access to the client's account. This facilitates the management of finances for care organisations.

Česká spořitelna also supports social enterprises with a broad range of initiatives, including in particular special loan offers and the training programmes of the Česká spořitelna Social Enterprise Academy. In addition, Česká spořitelna offers the *Social Impact Award*, an award for social and innovative ideas proposed by students.

Similar social entrepreneurship initiatives have also been implemented by the local banking subsidiaries of Erste Group.

SUPPLIERS

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

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

Suppliers of materials, equipment and services, selected as group partners, are expected to:

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

SUPPLY CHAIN

The focus of Erste Group's supply chain is on indirect expenses that support the group's core business. The total amount spent on companies outside Erste Group was slightly below EUR 1 billion, and the majority of it is linked to services, operations and marketing (amounting to 40% of the total amount spent), followed by IT (36%) and facility management (22%). Out of a total of approximately 19,000 suppliers on group level, 80% of the total procurement expenses relate to 628 suppliers. 88.8% of the suppliers (reflecting 95,4% of the expenses) were located in the European Union, highlighting Erste Group's focus on its markets in CEE. Additional 10.6% were located in other European countries, the rest were based in North America (0.5%) and Asia (0.1%).

Only 13.1% of Erste Group's purchases are made across borders. The dominance of local procurement positively impacts the economy in Erste Group's core countries.

SUPPLIER SELECTION PROCESS

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

The supplier audit questionnaire was integrated into EGP's IT system in February 2014. This operational tool allows timely assessment and risk identification before entering into contracts with suppliers.

The results of the audits, which are complemented by supporting information material, form the basis for the supplier evaluation in procurement. The results of the evaluation are aggregated in a supplier scorecard.

The audit and evaluation has to be completed, otherwise the IT application inhibits any further processing of the respective supplier. Any non-compliance with the supplier code of conduct is brought before a committee, which decides – if required – upon further measures. In addition to the initial evaluation, regular supplier business reviews are performed, covering the most important or most risk-associated suppliers.

Environmental aspects

Based on Erste Group's efforts towards environmental protection, environmental aspects are part of EGP's supplier selection process. The supplier audit questionnaire comprises specific topics such as the

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

For the procuring of goods, the audit questionnaire is extended by questions on potentially hazardous chemicals, recycling capabilities of the product, the return policy at the end of the product's useful life and ENERGY STAR or similar standards.

13.5% of the suppliers of new and renewed contracts were audited according to environmental standards in 2014. No supplier was subject to a specific environmental impact assessment beyond the standard audit questionnaire nor was any supplier identified as having had significant actual and potentially negative environmental impacts. No actual and potentially negative environmental impacts were identified in the supply chain. Finally, no supplier contract had to be terminated as a result of significant actual and potentially negative environmental impacts.

Social aspects

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

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

13.5% of the suppliers of new and renewed contracts were audited according to both labour practice standards and human rights criteria in 2014. No supplier was subject to specific labour practice or human rights impact assessments beyond the standard audit questionnaire nor was any supplier identified as having had significant actual or potentially negative labour practice or human rights impacts. There were no actual and potentially negative labour practice or human rights impacts identified in the supply chain, and no supplier contract had to be terminated as a result of significant actual and potentially negative labour practice or human rights impacts.

Furthermore, no supplier was subject to violation of or put at risk the right to exercise freedom of association and collective bargaining, nor was any supplier subject to having a significant risk of child labour or young workers exposed to hazardous work, and nor was any supplier subject to having had a significant risk of incidents of forced or compulsory labour.

Employees

Retaining experienced and committed employees is fundamental to the long-term success of every company. Erste Group – as one of the largest employers in the region – therefore aims 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. Competence building and developing performance-oriented teams are cornerstones of the strategy.

Erste Group focuses on operational excellence, market-competitive reward and recognition and attracting and retaining the best people. The leadership culture is engaging and empowering and fosters a high-performing and inclusive work environment, where every employee has equal opportunities to develop and advance.

Erste Group reshaped its people management processes and strategies to better reflect the changing demands of the business environment. The pillars for people management are:
_ competence
_ culture
_ competitiveness.

Erste Group considers employee engagement as a vital element for the success of the bank. Systematic and regular group-wide employee engagement surveys allow employees to give feedback on different aspects of their working experience. In 2013, more than 100 companies across Erste Group participated. The main focus in 2014 was on analysing and working with the results of the survey. An action plan with initiatives and follow-up measures to tackle the identified issues and to reach defined goals was devised. The main measures were planned and implemented locally – based on local results. The next survey is planned for 2015.

The most important topics singled out by employees were:
_ diversity: specifically the topic of equal opportunity, closing the pay gap
_ strategy: clearer communication of the strategy and vision of Erste Group.

As a result, Erste Group analysed diversity issues further. The two main points of concern were transparency and the low number of women in executive positions.

Erste Group places 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 stable work environment. 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. 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 sees diversity as a vital part of its business strategy in attracting and retaining talented employees, and developing and offering the right products and services for a diverse client base. The appointment of a Group Diversity Manager underlines the importance of diversity for Erste Group. Erste Group's Diversity Agenda and its activities and initiatives have the support of the management board.

Erste Group provides a work environment free of discrimination and harassment, values the work of each and every person, and treats the employees as unique individuals, regardless of gender, age, disability, marital status, sexual orientation, skin colour, religious or political affiliation, ethnic background, nationality or any other aspect unrelated to their employment. 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.

Erste Group monitors and reports the following diversity indicators: gender balance on all levels including managerial positions, gender representation in talent programmes and in the succession pools, age distribution across the group, the share of employees on parental leave by gender, part-time/flexible working arrangements by gender, and the average training days per employee by gender. Other monitored areas include gender representation in recruitment to managerial positions and the gender pay gap. A comprehensive "Erste Group Diversity Fact Sheet" is updated on an annual basis.

Česká spořitelna launched its comprehensive Diversity and Inclusion Programme ("Diversitas") back in 2008. The programme has focused on all aspects of diversity management, such as supporting the career advancement of women through mentoring, coaching, leadership development and networking, offering flexible work arrangements and a parental support programme as well as age management and an intergenerational dialogue. The latter is especially important as over 8% of the workforce is over 50. In 2014, Česká spořitelna focused on special training and development activities for employees over 50, e.g. workshops, English lessons and intergenerational topics. A reverse mentoring programme (for employees older than 50 and younger than 30) will start in 2015.

Attracting and retaining handicapped employees was another priority at Česká spořitelna. Česká spořitelna continued to offer internships for handicapped people and provided more ergonomic working conditions. Česká spořitelna ranked second both in the 2014 *Company of the Year: Equal Opportunities* Awards and the *TOP Responsible Company* CSR Awards.

Erste Bank Oesterreich launched the *WoMen Business* programme in 2011 to achieve a better gender balance at management levels. This ambitious initiative covers a range of measures to support female leadership, talent development (including for women over 40) and customer relationships. In 2014, 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 2014, the figure stood at 33%.

Networking events, such as the *Securities Dialogue for Women*, give women the opportunity to discuss topics of relevance. In 2014, *WoMen Business* joined forces with *Erste Women's Hub*, which was launched in July 2014, and organised two networking business breakfasts which were open to all female employees in the holding, Erste Bank Oesterreich and the subsidiaries in Austria and attracted a total of 220 participants.

The goal of *Erste Women's Hub* is to create a network that is driven by its members and adds value to the business. Three working groups with specific goals and initiatives were established: *Women – Careers – Opportunities*; *Women Financial Lifetime* and *Erste World* (organisational culture).

In the 2013 Group-wide employee engagement survey, only 48% of the employees agreed that Erste Group provides equal opportunities, which is significantly below the external benchmark. To better assess and address the situation, some 3,000 employees were asked on their perceptions of equal opportunities at Erste Group. Roughly 75% of the respondents rated Erste Group positively for providing equal opportunities based on religion, race/ethnicity and nationality. Areas where respondents perceive Erste Group as offering comparably fewer equal opportunities are seniority, age, part-time/full-time employment and position/hierarchy. Women see much less commitment by Erste Group to gender and family issues than their male colleagues. An overwhelming majority felt that Erste Group needs to be more transparent - not only when it comes to remuneration, but also when it comes to promotions and filling managerial positions.

At the beginning of 2014, Erste Group set a group-wide internal target of having 35% women in top management and on supervisory boards by 2019. Currently there are 30% women in top management, which is a 4 percentage point increase over 2013. In 2014, Erste Group Bank appointed two further female board minus 1 managers, increasing the corresponding proportion to 18.8% from 12.5% at the beginning of 2013. Two additional female members were appointed to Erste Group's supervisory board in 2014, raising the total share of women on supervisory boards group-wide to 23% compared with 16% at the beginning of 2013. To increase the number of women in senior management positions, Erste Group aims for a greater gender and age balance in its talent pools. The latest international talent pool is made up of almost 40% women.

Erste Group signed the Austrian *Charta der Vielfalt* (Diversity Charter) in September 2014. By signing the charter, Erste Group expresses its appreciation and the importance of diversity in the group, as well as the commitment to carry out measures to promote diversity internally and externally. Erste Group joined more than 130 Austrian and global companies operating in Austria and associates of the European Diversity Charter initiative platform. Česká spořitelna has also signed its national diversity charter.

The diversity priorities for 2015 are the following:
_ develop three new initiatives within the framework of *Erste Women's Hub*
_ increase the number of women in the international talent pool by at least 5 percentage points
_ nominate at least one new female supervisory board member and increase the number of women in top management to 32%
_ establish a group-wide diversity policy framework
_ continue to encourage local diversity initiatives across the group
_ take necessary steps to close the gender pay gap by 2025.

LEARNING, TALENT MANAGEMENT, LEADERSHIP AND COMPETENCY DEVELOPMENT

Erste Group regards supporting the 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. Learning, talent management and leadership development are dedicated to supporting the general 2015 Human Resources strategy for Erste Group. Erste Group continuously develops and aligns group-wide training programmes for senior experts and managers. In 2014, the focus was on implementing the new group-wide talent management landscape, improving leadership development and defining the functional competencies needed across Erste Group.

Erste School of Banking and Finance, the group's centre of competence for learning and development activities, offers executive training and comprises open enrolment courses including personal development training 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 different levels.

To complement the existing core competencies (cooperate as a team, act responsibly, be accountable, foster growth, excel in execution), five major categories of functional competencies have been identified: formal education, specific functional know-how, IT literacy, language skills and relevant experience. In 2014, the focus was on the financial and risk management divisions of the holding. It is planned to harmonise and align these definitions group-wide. After identification of the functional competencies for the various positions, managers will agree with their employees on measures to close the identified competency gaps.

The Erste Leadership Evolution Centre was introduced in 2014. It structures group-wide leadership development offerings. The Group Leadership Development Programme is Erste Group's training programme for members of the key position pool. Erste Group's Talent Management has launched three gender-balanced talent pools. The creation of these talent pools provides transparency and a perspective for Erste Group's talents, and serves as the group's talent pipeline. The newly implemented International Talent Pool targets high-performing employees and includes junior professionals up to board minus 3 management levels. The next level is represented by the already existing Key Positions Pool, which aims at preparing managerial talents for roles at division head level. A new Executive Pool, which identifies and develops top executive level talent, has been introduced.

Erste Group also offers an annual Graduate Programme for university graduates. The aim of the programme is to attract top graduates from the external market and provide fundamental banking and risk management knowledge.

In 2014, each employee of Erste Group had on average 3.4 training days for professional development. In addition, Erste Group had an average of 4.04 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 13.6 million (i.e. approx. EUR 597 on average per employee).

For 2015, it is planned to focus on mobilising identified talents within the Group, improving cross-pool co-operation, completing the Erste Leadership Evolution Centre offering and finalising the functional competencies definition.

REMUNERATION AND PEOPLE PERFORMANCE MANAGEMENT

Across Erste Group, the focus of the remuneration policy was on an appropriate balance in rewarding the performance, competence and level of responsibility of the employees and keeping a sustainable personnel cost base. Erste Group's reward system is consistent, competitive and transparent. The remuneration policy aims to
_ create an environment where employees can perform, develop and be engaged
_ reward to attract and retain competence and performance
_ be cost-competitive and cost-flexible for a sustainable business
_ support leadership and employee behaviour that creates an engaging and unique customer experience.

The regulatory pressure on variable pay has had an impact on the average fixed salary level in the Czech Republic and Slovakia. Overall, Erste Group has been able to keep its fix wages flat, while maintaining cost flexibility in rewarding performance. Erste Group offers competitive, but not market leading, compensation packages. The local banks' remuneration practices remain well-balanced with the business line needs and local country pay practices. The remuneration schemes are designed according to the CRD IV requirements on remuneration, ESMA guidelines (European Securities and Markets Authority) and local bank laws.

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 flexible and 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 also includes the employee's behaviour and competence. Commission-based schemes are offered to selected employees working in the retail business line and are based on company, business line and individual performance. 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 law, regulation and market practice. Benefits are provided as a means to stimulate the well-being in the work environment and to support an appropriate work-life balance. Examples of benefits are flexible working time, study leave, parental leave and the health centre expertise.

The variable component for material risk takers is designed according to the respective local capital and ESMA guidelines for remuneration and consists, in general, of a cash and non-cash part. The non-cash instrument is in most companies across Erste Group the phantom share. The condition of pay-out of variable salary and any deferred component to material risk takers is linked to minimum profitability criteria as approved by the supervisory board. The Long-Term Incentive plan (LTI) is offered only to Erste Group's management board. The LTI is linked to the long-term competitive performance of Erste Group. The last LTI plan is from 2010. Since then, no new LTI plans have been granted.

The respective group and local remuneration policies and execution are annually evaluated to ensure that remuneration practices are compliant with respective international and national regulations. The governance principles of remuneration for executives are outlined in the remuneration policy. The policy and the execution of the remuneration practices is overseen and monitored by the remuneration committee of the supervisory board. The remuneration committee provides an independent view on compensation practices and consulted an external advisor in 2014.

For all executives, the variable compensation is capped at 100% of the fixed salary. The remuneration committee has determined that 40% of variable compensation exceeding EUR 60,000 is deferred over a period of three to five years (depending on local country regulations) and 60% of variable compensation is deferred when exceeding EUR 150,000. The total amount of variable compensation is split into 50% cash and 50% instruments. Instruments are retained for at least one year; in some countries, the retention period is longer due to regulatory requirements.

The variable compensation is subject to appropriate ex-ante and ex-post risk adjustment measures. Both of them comprise quantitative and qualitative parameters. Erste Group believes that this risk-adjusted assessment represents a strong governance mechanism.

In 2015, Erste Group plans to continue with the remuneration strategy set forward in 2012 to continue 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. A group-wide core competency model has been established that sets the framework for the core behavioral aspects for every employee.

HEALTH, SAFETY & WORK-LIFE BALANCE

The workplace is the centre for health promotion. 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.

Erste Group is committed to a proactive approach towards helping its employees to identify and manage health risks. Therefore, a multi-professional team of occupational physicians, industrial psychologists and physiotherapists assists Erste Group's employees in any matters of health and well-being. The managerial importance of the topic of health is also supported by a direct reporting line from the health centre to the management board. In Austria, thanks to Erste Group's medical and psychological support programme, the health centre enjoys great popularity with an increasing number of employees. In 2014, employees in Austria contacted the health centre 15,883 times, and a total of about 7,000 employees in Austria were assisted by the health centre.

Besides complying with legal requirements of the Austrian Employee Act (including the evaluation of the psychological strain of every single workplace), the health centre is a model of good practice in prevention of disease: focusing on risk factors (e.g. prevention of heart disease and stroke) or on changing personal health practices and behavioural patterns (e.g. smoking and diet), employees are provided with a broad range of assistance, such as medical check-ups, screening of the carotid artery for stroke prevention, back therapy training, relaxation techniques and nutritional consulting.

All of Erste Group's health-related activities were evaluated and again rewarded with the Seal of Quality for Health Promotion by the Austrian Ministry of Health (2012 – 2014).

In co-operation with Erste Group's health insurance partner, an analysis of sickness absence rates of Erste Group's employees due to all relevant diagnoses of the service sector was conducted. It shows that within the last few years, the sickness rate, due to both mental and musculoskeletal diseases has decreased significantly. Erste Group, therefore, received a Model of Good Practice reward from the European Network of Workplace Health Promotion.

The World Health Organisation recognises mental health as a top priority. Mental health problems are among the most important contributors to the burden of disease and disability worldwide (five of the ten leading causes of disability worldwide are mental health problems). In 2013, Erste Group started to place a more intense and special focus both on the prevention of psychosocial diseases and on reintegration of employees after such a disease – with a dedicated project to reintegrate employees after longer periods of sick leave, which attracted a lot of media attention in Austria. Besides person-focused interventions (training for managers, promotion of good mental health practices, and providing tools for recognition and early identification of mental health problems), Erste Group also involved employees, management and further stakeholders to integrate health promoting policies, systems and practices in their daily life. In January 2014, a labour-management contract was signed to accept an obligation on this topic. This programme clearly defines responsibilities of employees and managers in the process of resuming work after a longer period of sick leave and is supported and accompanied by physicians and psychologists of the health centre. According to this agreement, employees can reduce their work time factor or operating procedures up to a maximum of two months on full pay. Erste Group is the first company in Austria that implemented this system in close collaboration with the Austrian Medical Association, Safety Inspection and Federal Ministry of Labour, Social Affairs and Consumer Protection.

Respecting and promoting work-life balance among its employees has been a long-standing priority of Erste Group. Erste Bank Oesterreich offers a wide variety of family-friendly measures and evaluates them on a regular basis in order to ensure that they truly meet the 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 Family and Women's Committee to prepare initiatives and resolutions for the promotion of equal opportunities to be discussed with the management board. The Family and Women's Committee acts as a communication platform and lobby for all employees.

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	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
Austria	55.1%	53.1%	27.5%	25.2%	86.9%	88.3%	8.0%	6.3%	1.5%	1.4%
Czech Republic	71.4%	74.5%	8.6%	8.8%	94.0%	94.1%	1.8%	2.0%	0.5%	0.5%
Slovakia	72.0%	72.5%	0.4%	0.6%	89.5%	83.3%	0.3%	0.3%	1.0%	1.1%
Hungary	63.8%	65.7%	2.4%	1.3%	72.7%	82.9%	1.8%	0.7%	1.4%	1.4%
Croatia	69.2%	68.9%	0.9%	1.2%	100.0%	83.3%	0.0%	0.6%	2.5%	2.6%
Serbia	70.7%	71.3%	0.1%	0.1%	0.0%	0.0%	0.3%	0.4%	2.4%	1.7%
Romania	71.2%	70.9%	5.6%	5.0%	82.0%	84.5%	3.5%	2.7%	0.9%	1.1%

	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	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
Austria	8.2%	8.2%	20.9%	15.9%	30.8%	28.0%	7.8	7.8	112	102
Czech Republic	5.6%	4.5%	25.5%	26.9%	39.5%	35.0%	5.2	5.4	107	73
Slovakia	8.4%	8.5%	27.9%	28.3%	55.5%	54.6%	7.1	7.3	82	65
Hungary	12.4%	12.6%	23.7%	25.0%	51.0%	53.5%	6.9	6.0	6	6
Croatia	12.8%	13.4%	35.8%	38.5%	56.8%	58.2%	5.3	4.0	22	2
Serbia	14.3%	16.2%	37.5%	58.8%	55.9%	49.7%	5.3	6.1	2	0
Romania	6.8%	6.5%	41.5%	39.7%	55.8%	55.5%	7.0	8.2	18	23

Turnover rate 2013	Total	<30 yrs		31-40 yrs		41-50 yrs		>50 yrs	
		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%

Turnover rate 2014	Total	<30 yrs		31-40 yrs		41-50 yrs		>50 yrs	
		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	6.0%	35.4%	3.1%	33.5%	2.4%	15.7%	1.2%	7.1%	1.6%
Czech R.	13.9%	23.1%	12.1%	19.6%	13.1%	12.6%	6.1%	6.9%	6.5%
Slovakia	13.0%	22.6%	16.2%	13.3%	18.0%	5.2%	11.1%	1.1%	12.6%
Hungary	19.0%	22.3%	7.7%	33.8%	13.0%	9.1%	9.2%	1.3%	3.6%
Croatia	6.1%	14.3%	23.6%	22.4%	19.3%	3.1%	3.1%	0.0%	14.3%
Serbia	4.4%	18.2%	9.1%	34.1%	13.6%	6.8%	6.8%	9.1%	2.3%
Romania	15.6%	30.7%	7.4%	28.8%	7.7%	11.6%	7.3%	2.5%	4.0%

* 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

The 2014 Assessment Report of the IPCC (Intergovernmental Panel on Climate Change) was a wake-up call for many people and politicians worldwide. The message is quite clear: climate change has become a reality and has started to impact ecosystems, societies and economies. The only option to limit the negative consequences of the greenhouse gas emissions is to confine global warming to +2°C. But even at this level, there will be severe and widespread consequences on all continents due to the rising sea levels and increasing climate-related hazards. Environmental issues affect everyone's life, and the time when only environmental activists paid attention is long gone.

The direct impact of banks on the environment may be very limited. But Erste Group recognises its responsibility to also take into account potential environmental risks related to lending and investment. Balancing financial and ecological interests will be one of the main challenges in the upcoming years.

ENVIRONMENTAL STRATEGY

Erste Group's environmental strategy is built on four pillars:
_ implementation of an Environmental Management System
_ implementation of a Supply Chain Management System for all products and services needed to run the banking business
_ integration of environmental criteria into banking products and services (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 is responsible for implementing the environmental strategy on a local level. Over the next few years, it will become common practice to integrate environmental aspects into day-to-day banking business wherever appropriate. The Supply Chain Management System ensures that ecological and commercial considerations are equally taken into account in purchasing decisions.

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 2014 versus 2012

_ Electric energy: - 11.6% to 164.9 GWh
_ Heating energy: - 6.0% to 152.6 GWh
_ Copy paper: - 13.0% to 1,489 t
_ CO_2 emissions (scope 1 and 2): - 23.6% to 98,171 t

GROUP-WIDE ACTIVITIES

Reduction of greenhouse gas emissions

Not surprisingly, heating and electric energy are key in optimising Erste Group's environmental impact followed by the use of paper and electronic equipment.

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.

Erste Group started to use exclusively green electricity – CO_2 free, from renewable sources only – in 2012 in Austria. Approximately 40% of the Austrian electric energy demand is covered by Erste Group's own hydro power plant in Styria. In June 2014, Erste Bank Croatia became the first Croatian bank to purchase only 100% CO_2-free electricity. Unfortunately a switch will not be possible in all core markets in the near future due to a lack of appropriate local energy providers selling country-wide CO_2-free electricity in some countries.

A wide variety of energy-saving programmes has been implemented in all local banking subsidiaries. In Banca Comercială Română simple but very efficient measures were taken to reduce energy consumption. These range from shorter operation hours of air-condition units and adjusting the room temperature or the obligatory switching-off of computers and laptops when leaving the working place to reducing the lighting of branches outside business hours. Erste Bank Hungary installed opening sensors for windows and, together with other measures, it reduced the energy consumption of the headquarters by 3% within one year.

Slovenská sporiteľňa continued its energy-saving efforts on buildings with higher than average energy consumption. At the headquarters in Bratislava, roughly 500 energy-intensive halogen lamps can now be better controlled and are turned on only when really needed. In addition, CO_2-controlled ventilation and switching off of IT equipment in many branches helped to further reduce energy consumption. Electricity consumption declined by roughly 9%, heating energy consumption by roughly 14%. Česká spořitelna continued a special energy reduction programme for its branch network. Since the end of 2014, the individual energy consumption of each branch can be monitored over the intranet. The roll-out of the remote monitoring of building technologies continued and monitoring devices for energy consumption and management were installed in 70 additional buildings. Energy efficiency audits were finalised for 95 buildings. Simple measures such as shortening the daily running time of indoor advertising panels by two hours or the limitation of room temperature to 22°C also had a positive energy-saving impact (electricity consumption declined by 3.7%, heating energy consumption by 16.9%).

Erste Bank Serbia reduced the number of illuminated logo signs and many of them are now switched off between midnight and the early hours of the morning. Normal bulbs have been replaced by LED. Sun protection films were tested which, by keeping the heat outside, reduce the energy consumption of air conditioning. Overall, energy consumption declined by 9.6%. Together with an external advisor an in-depth energy efficiency audit of one of the main office buildings was finalised. The technical realisation of the identified energy-savings potentials is planned for 2015.

Another well-proven way to reduce greenhouse gas emissions is to reduce business travel and to switch to business cars with lower CO_2 emissions. The group-wide installation of state-of-the-art video conferencing equipment enabling face-to-face interaction close to "being there" limited the increase in business air travel to 1.6%.

Erste Bank Oesterreich implemented further individual electric energy monitoring systems at branches with a higher than average energy consumption to identify reasons for the elevated energy consumption. Due to the upcoming move to the new headquarters in Vienna – approximately 4,500 employees will work at Erste Campus – nearly no investments were undertaken at currently used office buildings to improve energy efficiency.

Erste Campus has been awarded preliminary *DGNB Gold certification* by the Austrian Society for Sustainable Real Estate (ÖGNI). The construction is on-time and on-budget and the certification is expected to be confirmed when the building is in full used in 2016. Calculations show a reduction of 30-50% on electric energy compared with the consumption of the existing buildings used in Vienna.

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. The production of recycled paper requires approximately 80% less water and 70% less energy, overall the CO_2 footprint is 50% less.

To minimise the environmental impact of the group-wide paper consumption Erste Group continuously runs paper-saving initiatives. In addition, group-wide sourcing rules for paper are in place:

_ When purchasing paper, environmental criteria are as important as other business criteria such as price, availability, product quality and regulatory requirements.
_ Target for 2015:
  _ 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 (Forest Stewardship Council) or PEFC (Programme for the Endorsement of Forest Certification Schemes)-certified paper is to be chosen, to prevent the use of paper from illegally harvested wood sources.

In Slovakia, the Czech Republic, Hungary, Serbia and Croatia, the targeted level of 100% recycled copy paper has been almost reached, and Austria was close with over 80%. Only Romania is lagging behind with a recycled copy paper share of only 10%. The overall consumption of copy paper was reduced in 2014 by 41 tonnes to 1,489 tonnes. Since 2011, the total volume declined by 500 tonnes or 27%. For the first time, the annual report and the quarterly report of Erste Group were printed on recycled paper. Furthermore, as more and more readers use the on-line version, the number of printed copies is declining.

Technology is becoming an increasingly useful tool to reduce paper dependency. Meeting management of the management board or the supervisory board and its committees previously involved a lot of printed paper. In January 2014, the holding and Erste Bank Oesterreich introduced an electronic meeting management system that not only eliminates the need for printing all applications and reports but also increases data security and accessibility anytime, anywhere. This single measure reduced the annual copy paper consumption at the Group Secretariat by at least one million pages. It is intended to implement this system in all local bank subsidiaries as well as the large savings banks.

Erste Group's advanced electronic banking solutions including different apps for mobile phones and other mobile electronic devices enable customers to carry out basic banking transactions wherever and whenever they want. Erste Bank Oesterreich confirmed its innovation leadership by launching a new digital platform *George* Digital banking also helps the environment, as it saves paper – e-statements replace printed statements and the handling of payment forms is reduced.

Waste management activities

Erste Group aims at reducing waste as this is the most efficient and cost saving environmental measure.

An additional disadvantage of printing and copying is the frequently related inefficient paper filing and storage. While the working environment in the new headquarters in Vienna will provide various forms of workspaces, employees will have very limited space to store paper and files. In preparation for the move to Erste Campus, all Vienna-based employees were asked to dispose of as much stored paper as possible in a one-time effort in summer 2014. An astonishing amount of more than 130 tonnes of waste paper was disposed of in line with data protection requirements. As an additional incentive for the employees the management board supported a WWF nature conservation project, the Marchegg meadowland reserve (www.wwf.at/march) with a donation linked to the total volume of paper disposal.

Other environmental initiatives

One of the main challenges is to keep the employees informed about the ecological consequences of their activities. Slovenská sporiteľňa developed an e-learning tool for all employees focusing on conscious usage of resources such as energy and paper. If possible, this tool will be used in other countries as well.

Česká spořitelna supports its employees to commute to the office by bike by installing bike parking areas. A similar effort is being undertaken by Erste Bank Serbia, which installed bicycle stands in front of the headquarters and branches and teamed up with a local bicycle association to create public awareness about its environmental activities. Holding and Erste Bank Oesterreich employees can borrow E-bikes to ride between the different bank locations in Vienna faster and more healthily than by using public transport or cars.

One element of Erste Group's environmental strategy is the co-operation 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. Erste Group prolonged its co-operation with the WWF Climate Group till 2017. The aim of the initiative is to mobilise companies to cut global carbon dioxide emissions. Further information is available at www.climategroup.at. In 2014, many Austrian NGOs (not only environmental ones) chose Erste Bank Oesterreich as their preferred bank partner, especially for payment transactions, thus acknowledging its commitment to supporting society.

Impact of procured products and services

Erste Group Procurement (EGP) 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.

In 2014, EGP finalised its *Ethical and Environmental Code of Conduct for Suppliers of Goods and Services,* which will be used across the group. The supply audit evaluation includes not only sustainability/environmental aspects. For further details, please refer to the Customers and Suppliers chapter.

Environmental data

At the end of 2014, the selection process for suitable software facilitating easier environmental data collection and evaluation was completed. The new software should allow to improve data quality for all Erste Group entities including the savings banks (until now savings banks data was not reported) and to give a comprehensive picture of Erste Group's environmental impact.

Environmental indicators 2014*

Tonnes CO_2eq	Total	Austria	Croatia	Czech Rep	Hungary	Romania	Serbia	Slovakia
Heating/ warm water	29,359	2,905	643	9,502	1,366	11,483	389	3,072
Electricity	57,680	0	0	25,272	5,319	16,331	2,391	8,367
Diesel for electricity	31	1	0	17	0	0	3	10
Mobility	9,969	1,533	595	4,182	980	1,534	264	881
Cooling agents	1,131	119	279	332	25	195	63	118
Total	**98,171**	**4,558**	**1,517**	**39,305**	**7,690**	**29,543**	**3,110**	**12,448**

Relative values per FTE or m²	Heating kWh/m²	Electricity kWh/m²	Copy paper kg/FTE	Waste kg/FTE	CO_2eq t/FTE
Austria	73	160	26	197	0.61
Croatia	49	139	43	12	0.63
Czech Republic	91	98	25	135	3.16
Hungary	101	145	48	219	2.45
Romania	144	77	87	na	4.85
Serbia	85	120	55	41	3.33
Slovakia	79	104	30	280	2.84

Environmental indicators 2013*

Tonnes CO_2eq	Total	Austria	Croatia	Czech Rep	Hungary	Romania	Serbia	Slovakia
Heating/ warm water	32,251	3,172	887	11,424	1,690	11,093	424	3,561
Electricity	74,552	0	2,490	32,915	6,821	20,522	2,645	9,159
Diesel for electricity	29	5	4	11	0	0	3	6
Mobility	9,066	1,631	574	2,705	1,088	1,910	235	923
Cooling agents	1,134	184	255	262	262	128	41	2
Total	**117,033**	**4,992**	**4,210**	**47,317**	**9,861**	**33,654**	**3,348**	**13,651**

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	148	28	214	0.73
Croatia	66	141	45	12	1.85
Czech Republic	106	99	24	153	3.83
Hungary	113	168	54	321	3.09
Romania	136	94	101	na	5.52
Serbia	97	138	58	43	3.62
Slovakia	92	115	27	285	3.17

* FTE (full-time equivalent) is defined as an employee times his/her employment factor
CO_2eq = CO_2 equivalents (scope 1 and 2); deviations to the Annual Report 2013 due to improved data quality

Copy paper

	2013			2014		
	total weight (tonnes)	recycled %	not-recycled %	total weight (tonnes)	recycled %	not-recycled %
Austria	191.80	88.40	11.60	191.43	79.20	20.80
Croatia	96.60	63.10	36.90	95.83	99.90	0.10
Czech Republic	303.27	76.40	23.60	302.36	100.00	0.00
Hungary	151.27	100.00	0.00	132.68	100.00	0.00
Romania	618.13	10.70	89.30	584.10	7.60	92.40
Serbia	53.49	9.10	90.90	51.42	90.60	9.40
Slovakia	115.58	15.00	85.00	131.22	95.10	4.90

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 CCG 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 2014, Erste Group Bank AG complied with all L-Rules and R-Rules of the Austrian CCG. The deviation from one C-rule is described and explained below. Pursuant to C-Rule 52a of the Austrian CCG, the number of supervisory board members (without employee representatives) shall not be higher than ten. Due to the size of the company, however, the number of shareholder representatives temporarily reached eleven in the course of the financial year 2014. After the resignation of Juan Maria Nìn Génova on 11 December 2014, the number of shareholder representatives was ten as of 31 December 2014.

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 is responsible for managing the company as required for the benefit of the company taking into account the interests of the shareholders and the employees as well as public interest. The management board develops the strategic orientation of the company and aligns it with the supervisory board. It ensures effective risk management and risk 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

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	31 December 2014
Herbert Juranek	1966	1 July 2007	31 December 2014
Gernot Mittendorfer	1964	1 January 2011	30 June 2017
Andreas Gottschling	1967	1 September 2013	30 June 2017

In the financial year 2014, the management board consisted of five members. Franz Hochstrasser and Herbert Juranek resigned from the management board as of 31 December 2014. The supervisory board appointed Peter Bosek and Jozef Síkela (both effective 1 January 2015) and Petr Brávek (effective 1 April 2015) as new members of the management board.

In the financial year 2014, the allocation of duties among the members of the management board was as follows:

Allocation of duties on the management board

Management board member	Areas of responsibility
Andreas Treichl (Chairman)	Group Strategy, 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, Social Banking Development
Franz Hochstrasser (Vice Chairman)	Until the resignation as of 31 December 2014: Large Corporates, Erste Group Immorent, Group Capital Markets, Group Research, Group Investment Banking, Steering & Operating Office Markets, Steering & Operating Office Corporates
Herbert Juranek	Until the resignation as of 31 December 2014: Group Organisation/IT, Group Banking Operations, Group Services
Gernot Mittendorfer	Group Asset Liability Management, Group Controlling, Group Accounting, Group Business Information Center, Participation Management
Andreas Gottschling	Enterprise wide Risk Management, Group Risk Operating Office, Operational Risk, Compliance & Security, Group Credit and Market Risk Management, Risk Methods and Models, Group Workout, Group Validation, Group Retail and SME Risk Management, Group Legal

Supervisory board mandates and similar functions

In the financial year 2014, the management board members 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 Chair), MAK – Österreichisches Museum für angewandte Kunst (Chair), Sparkassen Versicherung AG Vienna Insurance Group (Chair)

Franz Hochstrasser

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

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 2014, the following persons were members of the supervisory board.

Position	Name	Year of birth	Occupation	Date of initial appointment	End of the current period of office
Chairman	Friedrich Rödler	1950	Auditor and tax advisor	4 May 2004	AGM 2019
1st Vice Chairman	Georg Winckler	1943	Former rector of the University of Vienna and Professor emeritus of Economics	27 April 1993	AGM 2015
2nd Vice Chairman	Jan Homan	1947	General Manager, ret.	4 May 2004	AGM 2019
Member	Elisabeth Bleyleben-Koren	1948	General Manager, ret.	21 May 2014	AGM 2019
Member	Bettina Breiteneder	1970	Entrepreneur	4 May 2004	AGM 2019
Member	Gunter Griss	1945	Lawyer	21 May 2014	AGM 2019
Member	Elisabeth Krainer Senger-Weiss	1972	Lawyer	21 May 2014	AGM 2019
Member	Brian D. O'Neill	1953	Vice Chairman Lazard International	31 May 2007	AGM 2017
Member	Juan Maria Nìn Génova	1953	CEO, ret.	12 May 2009	11 December 2014
Member	Wilhelm Rasinger	1948	Consultant	11 May 2005	AGM 2015
Member	John James Stack	1946	CEO, ret.	31 May 2007	AGM 2017
Delegated by the employees' council					
Member	Markus Haag	1980		21 November 2011	until further notice
Member	Andreas Lachs	1964		9 August 2008	until further notice
Member	Friedrich Lackner	1952		24 April 2007	11 December 2014
Member	Bertram Mach	1951		9 August 2008	until further notice
Member	Barbara Pichler	1969		9 August 2008	until further notice
Member	Karin Zeisel	1961		9 August 2008	until further notice

Changes in the supervisory board in the financial year: at the annual general meeting (AGM) held on 21 May 2014, the shareholder representatives Elisabeth Bleyleben-Koren, Gunter Griss and Elisabeth Krainer Senger-Weiss were elected to the supervisory board. The shareholder representatives Bettina Breiteneder, Jan Homan, Juan Maria Nìn Génova and Friedrich Rödler were re-elected on the same date. Concurrently Markus Haag and Barbara Pichler were delegated by the employees' council. Juan Maria Nìn Génova resigned on 11 December 2014, however. Concurrently, the delegation of Friedrich Lackner was revoked.

Membership in supervisory board committees

Committee membership as of 31 December 2014:

Name	Construction committee	Executive committee	Nomination committee	Audit committee	Risk 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
Jan Homan	-	Member	Member	Substitute	Member	Substitute
Elisabeth Bleyleben-Koren	-	-	-	Member	Member	-
Bettina Breiteneder	Chairwoman	-	Substitute	Member	Member	-
Gunter Griss	-	-	-	-	-	Member
Elisabeth Krainer Senger-Weiss	Member	-	-	-	-	-
Brian D. O'Neill	-	-	-	-	-	Member
Wilhelm Rasinger	-	Substitute	-	Member	Member	-
John James Stack	-	-	-	-	-	Member
Delegated by the employees' council						
Markus Haag	-	-	-	Substitute	Substitute	-
Andreas Lachs	Substitute	Substitute	Member	Member	Member	Member
Bertram Mach	Member	Member	Member	-	Member	Member
Barbara Pichler	Member	Member	Substitute	Member	-	Substitute
Karin Zeisel	-	-	-	Member	Member	Member

*Financial expert, **Remuneration expert

Mandates on supervisory boards or similar functions

As of 31 December 2014, the supervisory board members 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., Österreichische Industrie Holding AG

Georg Winckler
DIE ERSTE österreichische Spar-Casse Privatstiftung (Chair), Educational Testing Service (ETS) (Trustee), Erste Bank der oesterreichischen Sparkassen AG, UNIQA Versicherungsverein Privatstiftung (Vice Chair)

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

Bettina Breiteneder
Generali Holding Vienna AG, ZS Einkaufszentren Errichtungs- & Vermietungs-Aktiengesellschaft

Gunter Griss
AVL List GmbH (Chair), Bankhaus Krentschker & Co. AG (Vice Chair), BDI - BioEnergy International AG* (Chair), Steiermärkische Bank und Sparkassen AG (Chair)

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 Maria Nìn Génova (resigned as of 11 December 2014)
Gas Natural SDG, S.A.* (BoD), Repsol YPF* (BoD)

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

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

Elisabeth Bleyleben-Koren and Elisabeth Krainer Senger-Weiss did not hold any mandates on supervisory boards or similar functions in domestic or foreign companies as of 31 December 2014.

Delegated by the employees' council:

Friedrich Lackner (until 15 December 2014)
DIE ERSTE österreichische Spar-Casse Privatstiftung

Barbara Pichler (since 16 December 2014)
DIE ERSTE österreichische Spar-Casse Privatstiftung

Andreas Lachs
VBV-Pensionskasse AG

Markus Haag, Bertram Mach 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 Erste Group Bank AG's 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

Pursuant to C-Rule 53 of the Austrian CCG, the majority of the members of the supervisory board elected by the general meeting or delegated by shareholders in accordance with the articles of association shall be independent of the company and its management board.

A member of the supervisory board is deemed to be independent if such person does not have any business or personal relations with the company or its management that would constitute a material conflict of interest and, therefore, might influence the member's conduct. The supervisory board adheres to the independence criteria guidelines as set out in Annex I of the Austrian CCG.

_ The supervisory board member shall not have been a member of the management board or a managing employee of the company or of a subsidiary of the company in the past five years.
_ The supervisory board member shall not have or not have had in the past year any business relations with the company or a subsidiary of the company to an extent of significance for the supervisory board member. This shall also apply to business relations with companies in which the supervisory board mem-

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

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

In 2014, three members of the supervisory board (Georg Winckler, Friedrich Lackner and Barbara Pichler) served on a management body of a company holding more than 10% of the shares of Erste Group Bank AG. One member (Wilhelm Rasinger) represented in particular the interests of retail shareholders.

Attendance of supervisory board meetings

Friedrich Lackner could not attend at least half of the meetings in 2014 due to illness. All other members of the supervisory board attended at least half of the 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 22 October 2014, it considered the efficiency of its activity, including in particular its organisation and methods of work.

Contracts subject to approval pursuant to section 95 para 5 no 12 Austrian Stock Corporation Act (C-Rule 49 Austrian CCG)

In 2014, the firm Griss & Partner Rechtsanwälte, in which Gunter Griss is a senior partner, invoiced companies of Erste Group for legal representation and consulting services in the total amount of EUR 17,777.28.

SUPERVISORY BOARD COMMITTEES AND THEIR DECISION-MAKING POWERS

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

Risk committee

The risk committee advises the management board with regard to the bank's current and future risk appetite and risk strategy and monitors the implementation of this risk strategy. The committee also reviews whether the services and products offered are adequately priced in accordance with the bank's business model and risk strategy. Without prejudice to the duties of the remuneration committee, the risk committee is also responsible for reviewing whether the incentives offered by the internal remuneration system adequately take into account risk, capital, liquidity and the probability and timing of profit realisation. The risk committee is responsible for granting approval in all those cases in which loans and exposures or large exposures reach an amount exceeding the approval authority of the management board defined in the approval authority regulation. The approval of the risk committee is required for any exposure or large exposure as defined in section 28a of the Austrian Banking Act if the carrying value of such an investment exceeds 10% of the company's eligible own funds or of the banking group's eligible consolidated own funds. In addition, it may grant advance approvals to the extent permitted by law. The risk committee is responsible for monitoring the risk management of Erste Group Bank AG. A report providing key information about the organisation, structure and operation of the risk management system in place for the company and major subsidiaries has to be submitted to the committee at least once a year. The supervisory board has delegated to the risk committee the right to approve the establishment and closure of branches, 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), especially with regard to additional services rendered for the audited company and/or consolidated group companies; 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 and of the participations report; 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 (2) of the Austrian Securities Supervisory Act (Wertpapieraufsichtsgesetz).

Nomination committee

Meetings of the nomination committee are held as needed (begin-(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 supports the supervisory board in making proposals to the annual general meeting for filling supervisory board mandates that have become vacant. In filling vacant management board and supervisory board mandates, the focus is in particular on the members' personal and professional qualifications, a well-balanced board composition in terms of expertise, a well-balanced and broad range of knowledge, skills and experience of the members on each body, and on aspects of diversity. The nomination committee also defines a target quota for the underrepresented gender and develops a strategy to achieve this target. Furthermore, the nomination committee has to ensure that the management board's and the supervisory board's decision-making processes are not dominated by one single person or a small group of persons. The nomination committee periodically assesses the management board's and the supervisory board's structure, size, composition and performance and submits proposals for changes to the supervisory board, if necessary. In addition, the nomination committee has to conduct periodic assessments of the expertise, skills and experience of both the management board members and the individual members of the supervisory board as well as of each body in its entirety and to report its findings to the supervisory board. As regards the selection for senior management positions, the nomination committee has to review the course of action adopted by the management board and supports the supervisory board in making recommendations to the management board.

Remuneration committee

The remuneration committee prepares resolutions on remuneration matters, including resolutions that have an impact on the bank's risk and risk management and have to be passed by the supervisory board. The remuneration committee approves the general principles of remuneration policy, reviews them regularly and is also responsible for their implementation. The committee monitors remuneration policy, remuneration practices and remuneration-linked incentive programmes, in relation to the control, monitoring and containment of risks, the capital base and liquidity, with due regard to the long-term interests of the bank's shareholders, investors and employees as well as the national interest in a well-functioning banking system and financial market stability. The committee 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 2014.

At each ordinary meeting of the supervisory board, the monthly developments of the balance sheet and the income statement were presented and reports were given on individual risk types and the bank's total risk; the status of individual 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 in the financial year 2014 was reports on current regulatory developments in the banking environment and their impacts on Erste Group, including in particular the status of the banking supervisory regime at the European level and in Austria. In the financial year 2014, reports were also issued repeatedly on the current status of the asset quality review and the stress test conducted by the European Central Bank (ECB) and the European Banking Authority (EBA), respectively. 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 13 March 2014, the financial statements and the management report 2013, the consolidated financial statements and consolidated management report 2013 as well as the corporate governance report 2013 were reviewed; the bank auditors' reports were discussed, the financial statements 2013 were adopted in accordance with the recommendation of the audit committee, and the proposal for the appropriation of the profit 2013 was approved. Furthermore, the resolutions proposed for the annual general meeting were discussed and approved. It was also decided to propose Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H. to the annual general meeting on 21 May 2014 as an additional auditor of the (consolidated) financial statements for the financial year 2015. In addition, a report was delivered on the economic outlook in the CEE region for the years 2014 and 2015.

At the meeting held on 24 April 2014, a report was given on the status quo and the business development of the Slovak subsidiary Slovenská sporiteľňa, a.s. In addition, resolutions were adopted relating to variable remuneration components and the allocation of duties on the management board.

At the constituent meeting of 21 May 2014 held after the annual general meeting, Friedrich Rödler was elected chairman of the supervisory board and Jan Homan second vice chairman. In addition, supervisory board members were elected to the respective supervisory board committees and the composition of the committees was thus realigned. The distribution key for the remuneration of supervisory board members approved by the annual general meeting was adopted for 2013.

At the meeting held on 26 June 2014, the report on major participations for 2013 and the first quarter of 2014, the report on directors' dealings and the annual compliance report were discussed. The Group Recovery Plan 2014 was submitted to the supervisory board for its information and discussed.

At the meeting held on 17 September 2014, a report was given on the FMA's revised Fit & Proper circular concerning the assessment of the qualifications of directors, supervisory board members and holders of key functions and information was provided on the resulting consequences. In addition, it was announced that a self-evaluation of the supervisory board would be performed in accordance with section 29 no 6 and 7 of the Austrian Banking Act and information was provided on the further procedure.

At the meeting held on 22 October 2014, the main focus was on the changes to the management board following the resignations of Franz Hochstrasser and Herbert Juranek. It was decided to appoint Peter Bosek as a new member of the management board of Erste Group Bank AG as of 1 January 2015. Because of his expertise and experience as management board member of Erste Bank Oesterreich, it was decided that Peter Bosek will steer the retail business on a group-wide basis in addition to Austria in the newly created position of Retail Officer of Erste Group Bank AG. In addition, the results of the supervisory board's self-evaluation were discussed.

At the extraordinary meeting of 24 October 2014, the resignations of Franz Hochstrasser and Herbert Juranek effective 31 December 2014 were dealt with once again and the proposed nomination of Jozef Síkela as a new member of the management board of Erste Group Bank AG was discussed. The supervisory board subsequently decided by circular resolution dated 26 October 2014 to authorise the chairman to terminate the contracts with the resigning management board members. The appointment of Jozef Síkela as a new member of the management board of Erste Group Bank AG as of 1 January 2015 was likewise approved by circular resolution on 26 October 2014. It was also decided that in view of his expertise and experience as chairman of the management board of the Slovak subsidiary Slovenská sporiteľňa, a.s. Jozef Síkela would take over the responsibility for Erste Group's Corporate & Markets division from Franz Hochstrasser.

At the meeting held on 11 December 2014, the appointment of Petr Brávek as a new management board member of Erste Group Bank AG as of 1 April 2015 was approved. It was decided that in view of his expertise and experience as a member of the management board of the Slovak subsidiary Slovenská sporiteľňa, a.s., Petr Brávek would succeed Herbert Juranek as Chief Operations Officer of Erste Group Bank AG and would hence have responsibility for Organisation/IT and Banking Operations.

The realignment of the allocation of duties and updated rules of representation for the management board as of 1 January 2015 – required due to the changes in the management board – were also approved. Finally, a cordial farewell was bid to Juan Maria Nìn Génova, who had announced his resignation from the supervisory board as of the end of 11 December 2014.

MEETINGS OF THE COMMITTEES AND REPORT ON ACTIVITIES

The risk committee held seventeen meetings in 2014 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. In the financial year 2014, recurring reports were issued on developments in Hungary, in particular in connection with foreign-currency loans, as well as on the current status of the asset quality review and the stress test conducted by the European Central Bank (ECB) and the European Banking Authority (EBA), respectively. Reports were also delivered on the activities of Group Compliance and on regulatory developments at the European level and in Austria.

The executive committee did not meet in 2014.

The audit committee met seven times in 2014. Among other things, the auditors reported on the audit of the single-entity and consolidated financial statements for 2013, and the audit commit-committee subsequently 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 2013 was acknowledged. The head of the internal audit department reported on the audit subjects and material audit findings for the year 2013 and explained the audit plan for 2014. The internal audit department presented its reports pursuant to section 42 para 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 for 2015 and defined which topics were to be placed on the agendas of which meetings. 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 on 21 May 2015 as an additional auditor of the (consolidated) financial statements for the financial year 2016. The auditors provided information about the preliminary audit of the single-entity and consolidated financial statements for 2014. They also reported about the audit conducted by Österreichische Prüfstelle für Rechnungslegung (OePR), the Austrian Financial Reporting Enforcement Panel (AFREP), as well as about the impacts of the asset quality review conducted by the ECB and the EBA. Tax issues relating to the recognition of deferred tax assets were also discussed. In addition, the audit committee explored the impacts of the entry into force of the EU Statutory Audit Directive and the implementation of the group policy on the independence of auditors (Pre-Approval Policy).

The nomination committee met four times in 2014 and dealt with various personnel matters relating to the management board and the supervisory board. These included, first of all, the election of supervisory board members at the annual general meeting 2014. The nomination committee assessed the qualifications of the candidates nominated for first-time or re-election and recommended that the supervisory board propose to the annual general meeting the first-time election of Elisabeth Bleyleben-Koren, Gunter Griss and Elisabeth Krainer Senger-Weiss and the re-election of Bettina Breiteneder, Jan Homan, Juan Maria Nìn Génova and Friedrich Rödler to the supervisory board. Due to the changes in the management board, the nomination committee also assessed the qualifications of the candidates nominated for appointment to the management board – Peter Bosek, Jozef Síkela and Petr Brávek – and recommended their appointment by the supervisory board. In addition, the nomination committee reviewed the evaluation pursuant to C-Rule 36 of the Austrian CCG and evaluation of the management board and the supervisory board pursuant to section 39 no 6 and 7 of the Austrian Banking Act.

The remuneration committee met five times in 2014 and discussed various remuneration topics relating to Erste Group and its subsidiaries including the structure of key performance indicators and the bonus policy concerning the requirements for the payment of variable remuneration components. In addition, information was provided about regulatory developments concerning remuneration, including in particular the impacts of CRD IV/CRR rules.

The construction committee met five times in 2014. Its main topics were project planning, project organisation, the budget, costs and risks as well as procedures relating to tenders, schedul-scheduling and developments regarding Erste Campus, the Erste Group 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. The-commitment to promoting equal opportunities and diversity was institutionalised by appointing a Diversity Manager responsible for developing a group-wide diversity policy, identifying targets and measures, as well as regular monitoring and reporting on targets.

At the beginning of 2014, the management board together with the supervisory board set a group-wide internal target of having 35% women at top management level (management board and senior management) and on supervisory boards by 2019. At the end of 2014, the share of female top managers was 31%, which is an increase of one percentage point over 2013 or five percentage points over 2012. In 2014, two more female managers were appointed at the first management level below the Holding board, increasing the share of women at that management level to 19% from 13% at the beginning of 2013. As two more women joined the supervisory board in 2014, the total share of women on supervisory boards rose to 25% compared with 16% at the beginning of 2013. One of the measures to increase the number of women in top management positions is to strive for a greater gender and age balance in our talent pools. The new international talent pool is made up of almost 40% women. Other measures to help increase the number of women in top management include succession pool and career planning for women, as well as mentoring, coaching and networking.

The Erste Women's Hub network was launched on 24 July 2014 and brings together women at all stages in their professional careers from the Holding, Erste Bank Oesterreich and subsidiaries. It aims to create an inclusive, sustainable network that is driven and owned by its members. Three working groups with specific goals and initiatives were established: *Women - Careers - Opportunities*, *Women Financial Lifetime* and *Erste World*.

Local initiatives to support measures to promote gender parity in management positions also continued in 2014. Erste Bank Oesterreich set its own internal target to increase the share of women in management positions to 40% by 2017. With a share of female top managers of 41%, the target was already met at the end of 2014. The share of female top managers (from the second management level) was 36%, up three percentage points over 2013. 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 labour 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. The contractual maximum value of performance-linked payments to management board members shall not exceed 100% of the fixed salaries. 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 2014, both the ratio between fixed and short-term variable remuneration components and the maximum levels were reduced. Management board members have to achieve defined performance criteria at both company level and individual level. The first criterion is Erste Group's overall performance. For the year 2014, this criterion is measured by reference to four indicators: the operating result, the solvency ratio (JRAD), the common equity tier 1 ratio and the achievement of strategic goals. The second performance criterion is the achievement of individual objectives. These are, for example, the operating result, the common equity tier 1 ratio, the NPL coverage ratio, customer satisfaction and leadership quality.

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 2014

in EUR thousand	Fixed salaries	Other remuneration	Performance-linked remuneration for 2013	Performance-linked remuneration for previous years	Total
Andreas Treichl	1,333.7	498.2	225.2	122.2	2,179.4
Franz Hochstrasser	792.4	260.3	167.0	71.1	1,290.7
Herbert Juranek	666.9	92.3	56.4	32.9	848.5
Gernot Mittendorfer	633.0	88.3	69.1	17.2	807.6
Andreas Gottschling	633.0	76.2	30.0	0.0	739.2
Total	**4,059.0**	**1,015.2**	**547.8**	**243.4**	**5,865.3**

The item "Other remuneration" comprises pension fund contributions, contributions to employee provision funds (for new-type severance payments) and remuneration in kind. In 2014, performance-linked remuneration and share equivalents were paid out or vested for the financial year 2013 and previous years. No performance-linked remuneration was paid to members of the management board for the financial year 2011. No performance-linked remuneration will be paid to members of the management board for the financial year 2014 either.

Non-cash performance-linked remuneration in 2014

Share equivalents (in units)	for 2013	for previous years
Andreas Treichl	10,881	5,502
Franz Hochstrasser	6,918	3,083
Herbert Juranek	2,365	1,498
Gernot Mittendorfer	3,145	1,005
Andreas Gottschling	1,285	0
Total	**24,594**	**11,088**

Pay-outs will be made in the year 2015 after the one-year vesting period. Share equivalents are valued at the average weighted daily share price of Erste Group Bank AG of the year 2014 in the amount of EUR 22.25 per share.

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 but did not result in any payment in 2014.

In 2014, EUR 2,080.0 thousand was paid in cash and 2,572 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 one member of the management board, compensatory payments have to be made to the pension fund in case the management board member's tenure ends before he reaches the age of 65 by no fault of the member.

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

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

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

Remuneration of members of the supervisory board

in EUR thousand	Meeting fees for 2014	Supervisory board compensation for 2013	Total
Friedrich Rödler	46.0	100.0	146.0
Georg Winckler	44.0	75.0	119.0
Jan Homan	21.0	50.0	71.0
Elisabeth Bleyleben-Koren	14.0	0.0	14.0
Bettina Breiteneder	29.0	50.0	79.0
Gunter Griss	9.0	0.0	9.0
Theresa Jordis	0.0	43.4	43.4
Elisabeth Krainer Senger-Weiss	9.0	0.0	9.0
Brian D.O´Neill	12.0	50.0	62.0
Juan Maria Nìn Génova	7.0	50.0	57.0
Wilhelm Rasinger	30.0	50.0	80.0
John James Stack	12.0	50.0	62.0
Werner Tessmar Pfohl	0.0	18.8	18.8
Markus Haag	0.0	0.0	0.0
Friedrich Lackner	0.0	0.0	0.0
Andreas Lachs	0.0	0.0	0.0
Bertram Mach	0.0	0.0	0.0
Barbara Pichler	0.0	0.0	0.0
Karin Zeisel	0.0	0.0	0.0
Total	**233.0**	**537.3**	**770.3**

The annual general meeting 2014 granted the members of the supervisory board remuneration totalling EUR 537,317.0 for the financial year 2013. The distribution of this remuneration is at the supervisory board's discretion and was approved at the constituent meeting of the supervisory board on 21 May 2014. 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 a voluntary 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. A voluntary external evaluation for 2014 is scheduled for spring 2015. A summary report of this evaluation will also be available at the website.

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, 27 February 2015

Management board

Andreas Treichl mp
Chairman

Gernot Mittendorfer mp
Member

Andreas Gottschling mp
Member

Peter Bosek mp
Member

Jozef Síkela mp
Member

ADDITIONAL CORPORATE GOVERNANCE PRINCIPLES

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

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 such as Chinese walls, provisions on employee transactions, research disclaimer or gift policy. Further key topics are procedures and measures to prevent money laundering and terrorist financing and to monitor sanctions and embargoes, as well as the establishment and coordination of measures to prevent financial crimes within Erste Group.

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

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

In 2014, Erste Group did not detect any incident of corruption. To ensure compliance with all laws and regulations group-wide standards, policies and procedures are evaluated and refined continuously.

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

Activities in 2014

_ implementation of a new gift policy with a special focus on anti-bribery and anti-corruption
_ introduction of a documentation and approval tool for gifts and invitations to standardise the process and facilitate adequate compliance monitoring
_ providing regular information relating to the latest anti-bribery and anti-corruption laws and regulations as well as training for employees
_ implementation of a whistleblowing office and a procedure for potential whistleblowing cases and their documentation. Employees are encouraged to report suspected unethical and/or unlawful behaviour via a designated tool (Erste Integrity Line) to the whistleblowing office. The whistleblowing platform offers the possibility to file reports and ask questions in case of suspected misconduct of financial crime (such as fraud, corruption, embezzlement), theft (e.g. concerning assets of customers), securities and markets issues (e.g. insider trading), money laundering and terrorism financing, conflicts of interest outside the securities business (e.g. illegitimate gifts, secondary employment) or regulatory issues (pursuant to section 99g of the Austrian Banking Act).

Activities started in 2014 with roll out planned for 2015

_ new policy regulating personal conflicts of interests outside of the securities business including the implementation of a tool for employees to report secondary employment, ownership, participations and mandates
_ new group policy for anti-corruption

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

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

Risk management

Erste Group's approach to risk management seeks to achieve the best balance between risk and return for earning a sustainable return on equity. A detailed report on risk policy, risk management strategy and organisation, as well as a thorough discussion of the individual risk categories, is included in the Notes beginning on page 170. 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 2014 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.