# ERSTE GROUP BANK AG

## Unconsolidated
## Financial Statements 2014

# Balance sheet at 31 December 2014
## Erste Group Bank AG

### Assets

| | € | € | thsd € prev. year | thsd € prev. year |
|---|---|---|---|---|
| **1. Cash in hand and balances with central banks** | | 1,382,017,200.87 | | 1,452,398 |
| **2. Treasury bills and other bills eligible for refinancing with central banks** | | | | |
| a) treasury bills and similar securities | 5,377,135,071.35 | | 5,092,698 | |
| b) other bills eligible for refinancing with central banks | 0.00 | 5,377,135,071.35 | 0 | 5,092,698 |
| **3. Loans and advances to credit institutions** | 661,639,399.19 | | 479,919 | |
| a) repayable on demand | 18,346,503,642.01 | 19,008,143,041.20 | 24,776,199 | 25,256,119 |
| b) other loans and advances | | | | |
| | | 14,276,540,585.88 | | 13,827,077 |
| **4. Loans and advances to customers** | | | | |
| | | 9,631,440,334.97 | | 8,301,986 |
| **5. Debt securities and other fixed-income securities** | | | | |
| | 1,223,802,550.30 | | 1,084,772 | |
| a) issued by public bodies | 8,407,637,784.67 | | 7,217,215 | |
| b) issued by other borrowers | 4,794,717,057.02 | | 3,523,789 | |
| of which: own debt securities | | | | |
| | | 532,681,227.03 | | 563,574 |
| **6. Shares and other variable-yield securities** | | | | |
| | | 191,598,140.76 | | 254,597 |
| **7. Participating interests** | 71,554,817.01 | | 107,558 | |
| of which: in credit institutions | | | | |
| | | 5,388,537,393.23 | | 11,328,890 |
| **8. Shares in affiliated undertakings** | 4,698,637,239.09 | | 869,567 | |
| of which: in credit institutions | | | | |
| | | 67,104,552.28 | | 65,529 |
| **9. Intangible fixed assets** | | | | |
| | | 19,872,371.53 | | 19,356 |
| **10. Tangible fixed assets** | | | | |
| of which: land and buildings used by the credit institution for its own business operations | 8,446,529.90 | | 7,941 | |
| **11. Own shares and shares in a controlling company** | | 0.00 | | 0 |
| of which: par value | 0.00 | | 0 | |
| **12. Other assets** | | 10,159,276,461.15 | | 8,846,492 |
| of which: deferred taxes | 24,869,000.00 | | 24,869 | |
| **13. Subscribed capital called but not paid** | | 0.00 | | 0 |
| **14. Prepayments and accrued income** | | 332,232,420.05 | | 359,437 |
| **Total Assets** | | 66,366,578,800.30 | | 75,368,153 |

### Off-balance-sheet items

| | | | | |
|---|---|---|---|---|
| **1. Foreign assets** | | 39,853,158,394.25 | | 39,059,953 |

# Balance sheet at 31 December 2014
## Erste Group Bank AG

### Liabilities and Equity

| | | € | € | thsd € prev. year | thsd € prev. year |
|---|---|---|---|---|---|
| **1.** | **Liabilities to credit institutions** | | | | |
| | a) repayable on demand | 1,875,780,636.89 | | 2,017,358 | |
| | b) with agreed maturity dates or periods of notice | 17,764,128,876.78 | 19,639,909,513.67 | 21,996,891 | 24,014,249 |
| **2.** | **Liabilities to customers (non-banks)** | | | | |
| | a) savings deposits | 0.00 | | 0 | |
| | of which: | | | | |
| | aa) repayable on demand | 0.00 | | 0 | |
| | bb) with agreed maturity dates or periods of notice | 0.00 | | 0 | |
| | b) other liabilities | 4,599,610,120.61 | | 4,789,509 | |
| | of which: | | | | |
| | aa) repayable on demand | 1,865,647,296.78 | | 1,619,782 | |
| | bb) with agreed maturity dates or periods of notice | 2,733,962,823.83 | 4,599,610,120.61 | 3,169,727 | 4,789,509 |
| **3.** | **Securitised liabilities** | | | | |
| | a) Debt securities issued | 18,860,491,962.38 | | 19,944,671 | |
| | b) other securitiesed liabilities | 3,570,112,178.88 | 22,430,604,141.26 | 3,248,504 | 23,193,175 |
| **4.** | **Other liabilities** | | 9,655,311,221.71 | | 7,255,215 |
| **5.** | **Accruals and deferred income** | | 225,796,769.94 | | 195,698 |
| **6.** | **Provisions** | | | | |
| | a) provisions for severance payments | 0.00 | | 0 | |
| | b) pension provisions | 355,856,049.52 | | 329,027 | |
| | c) provisions for taxes | 15,430,612.51 | | 54,465 | |
| | d) other | 205,848,438.85 | 577,135,100.88 | 261,841 | 645,333 |
| **6.a** | **Special fund for general banking risks** | | 0.00 | | 0 |
| **7.** | **Tier 2 capital pursuant to Part 2 Title I Chapter 4 of the Regulation (EU) No 575/2013** | | 4,348,611,421.56 | | 4,392,045 |
| **8.** | **Additional Tier 1 capital pursuant to Part 2 Title I Chapter 3 of the Regulation (EU) No 575/2013** | | 0.00 | | 0 |
| **8a** | **compulsory convertible bond pursuant to § 26 BWG** | | 0.00 | | 0 |
| **8b** | **Instruments without a vote pursuant to § 26a BWG** | | 0.00 | | 0 |
| **9.** | **Subscribed capital** | | 859,600,000.00 | | 859,600 |
| **9.A** | **Participation capital** | | 0.00 | | 0 |
| **10.** | **Capital reserves** | | | | |
| | a) committed | 1,627,019,510.67 | | 7,300,056 | |
| | b) uncommitted | 0.00 | | 0 | |
| | c) for own shares and shares in a controlling company | 0.00 | 1,627,019,510.67 | 0 | 7,300,056 |
| **11.** | **Retained earnings** | | | | |
| | a) statutory reserve | 1,537,900,000.00 | | 1,537,900 | |
| | b) reserves provided for by the bye-laws | 0.00 | | 0 | |
| | c) other reserves | 0.00 | | 147,987 | |
| | d) for own shares and shares in a controlling company | 0.00 | | 10,634 | |
| | e) other allocated reserves | 8,948,000.00 | 1,546,848,000.00 | 0 | 1,696,521 |
| | **Carry forward** | | 65,510,445,800.30 | | 74,341,400 |

## Liabilities and Equity

| | € | € | thsd € prev. year | thsd € prev. year |
|---|---|---|---|---|
| **Carry forward** | | 65,510,445,800.30 | | 74,341,400 |
| **12. Reserve pursuant to Section 23 (6) of the Austrian Banking Act (BWG)** | | 851,000,000.00 | | 851,000 |
| **13. Net profit or loss for the year** | | 0.00 | | 170,620 |
| **14. Untaxed reserves** | | | | |
| a) valuation reserve resulting from special depreciation | 5,133,000.00 | | 5,133 | |
| b) other untaxed reserves | 0.00 | 5,133,000.00 | 0 | 5,133 |
| of which: | | | | |
| aa) investment reserve pursuant to Section 9 of the Austrian Income Tax Act (EStG) 1988 | 0.00 | | 0 | |
| bb) investment allowance pursuant to Section 10 of the Austrian Income Tax Act (EStG) 1988 | 0.00 | | 0 | |
| cc) rent reserve pursuant to Section 11 of the Austrian Income Tax Act (EStG) 1988 | 0.00 | | 0 | |
| dd) reserve transferred pursuant to Section 12 (7) of the Austrian Income Tax Act (EStG) 1988 | 0.00 | | 0 | |
| **Total Liabilities and Equity** | | 66,366,578,800.30 | | 75,368,153 |

### Off-balance-sheet items

| | | | | |
|---|---|---|---|---|
| **1. Contingent liabilities** | | 4,828,284,926.43 | | 4,958,195 |
| of which: | | | | |
| a) acceptances and endorsements | 0.00 | | 0 | |
| b) guarantees and assets pledged as collateral security | 4,290,050,352.04 | | 4,611,719 | |
| c) credit derivatives | 538,234,574.39 | | 346,476 | |
| **2. Commitments** | | 6,566,222,767.49 | | 5,777,356 |
| of which: commitments arising from repurchase agreements | 0.00 | | 0 | |
| **3. Commitments arising from agency services** | | 317,812.68 | | 343 |
| **4. Own funds pursuant to Part 2 of the Regulation (EU) No 575/2013** | | 9,366,598,681.75 | | 14,102,798 |
| of which: Tier 2 capital pursuant to Part 2 Title I Chapter 4 of the Regulation (EU) No 575/2013 | 4,645,708,645.40 | | 263,384 | |
| **5. Own funds requirements pursuant to Art 92 of the Regulation (EU) No 575/2013** | | 2,746,699,405.83 | | 3,028,364 |
| of which: capital required pursuant to Art 92(1) of the Regulation (EU) No 575/2013 | | | 2,764,978 | |
| a) Common Equity Tier 1 capital ratio of 4.0 % | 1,373,349,702.91 | | | |
| b) Tier 1 capital ratio of 5.5 % | 1,888,355,841.51 | | | |
| c) Total capital ratio of 8.0 % | 2,746,699,405.83 | | | |
| **6. Foreign liabilities** | | 17,167,516,891.33 | | 19,856,250 |

# Profit and Loss Account 2014

## Erste Group Bank AG

| | € | € | thsd € prev. year | thsd € prev. year |
|---|---|---|---|---|
| 1. **Interest and similar income** | | 1,025,471,074.61 | | 1,560,401 |
| of which: from fixed-income securities | 364,478,805.61 | | 402,473 | |
| 2. **Interest and similar expenses** | | - 627,430,251.51 | | - 1,127,349 |
| I. **NET INTEREST INCOME** | | **398,040,823.10** | | **433,052** |
| 3. **Income from securities and participating interests** | | | | |
| a) income from shares, other ownership interests and variable-yield securities | 10,068,273.58 | | 25,291 | |
| b) income from participating interests | 15,234,138.36 | | 16,409 | |
| c) income from shares in affiliated undertakings | 2,435,919.88 | 27,738,331.82 | 103,944 | 145,643 |
| 4. **Commissions income** | | 161,488,832.40 | | 169,313 |
| 5. **Commissions expenses** | | - 127,385,975.00 | | - 140,189 |
| 6. **Net profit or net loss on financial operations** | | 2,218,786.54 | | 58,262 |
| 7. **Other operating income** | | 77,694,657.52 | | 28,280 |
| II. **OPERATING INCOME** | | **539,795,456.38** | | **694,362** |
| 8. **General administrative expenses** | | - 538,281,261.92 | | - 399,302 |
| a) staff costs | - 309,235,637.40 | | -219,210 | |
| of which: | | | | |
| aa) wages and salaries | - 185,771,984.58 | | - 145,938 | |
| bb) expenses for statutory social-security contributions and compulsory contributions related to wages and salaries | - 37,653,378.16 | | - 34,694 | |
| cc) other social expenses | - 2,231,167.63 | | - 1,741 | |
| dd) expenses for pensions and assistance | - 16,828,837.89 | | - 14,987 | |
| ee) allocation to the pension provision | - 55,873,355.00 | | - 19,110 | |
| ff) expenses for severance payments and contributions to severnace and retirement funds | - 10,876,914.14 | | - 2,740 | |
| b) other administrative expenses | - 229,045,624.52 | | - 180,091 | |
| 9. **Value adjustments in respect of assets items 9 and 10** | | - 25,697,325.16 | | - 24,304 |
| 10. **Other operating expenses** | | - 9,075,577.10 | | - 8,222 |
| III. **OPERATING EXPENSES** | | **- 573,054,164.18** | | **- 431,828** |
| IV. **OPERATING RESULT** | | **- 33,258,707.80** | | **262,534** |

| | € | thsd € prev. year |
|---|---|---|
| **Carry forward (IV. Operating result)** | - 33,258,707.80 | 262,534 |
| **11. Value adjustments of loans and advances and allocations to provisions for contingent liabilities and commitments** | - 466,138,607.49 | - 461,447 |
| **12. Value re-adjustments of loans and advances and provisions for contingent liabilities and commitments** | 220,879,010.69 | 171,343 |
| **13. Value adjustments of transferable securities held as financial fixed assets, participating interests and shares in affiliated undertakings** | - 264,581,863.26 | - 93,971 |
| **14. Value re-adjustments of transferable securities held as financial fixed assets, participating interests and shares in affiliated undertakings** | 8,911,439.42 | 28,201 |
| **V. PROFIT OR LOSS ON ORDINARY ACTIVITIES** | **- 534,188,728.44** | **- 93,340** |
| **15. Extraordinary income** | 266,044,347.96 | 350,000 |
| of which: withdrawals from the special fund for general banking risks | 0.00 | 0 |
| **16. Extraordinary expenses** | 0.00 | 0 |
| of which: allocation to the special fund for general banking risks | 0.00 | 0 |
| **17. Extraordinary result** (sub-total of items 15 and 16) | 266,044,347.96 | 350,000 |
| **18. Tax on profit or loss** | 100,963,127.33 | 11,375 |
| **19. Other taxes not reported under item 18** | - 101,566,302.75 | - 154,847 |
| **19.A Result from mergers** | - 5,554,031,997.44 | |
| **VI. PROFIT OR LOSS FOR THE YEAR AFTER TAX** | **- 5,822,779,553.34** | **113,187** |
| **20. Changes in reserves** | 5,822,779,553.34 | 57,418 |
| off which: allocation to liability reserve pursuant to Section 23 (6) of the Austrian Banking Act (BWG) | 0.00 | 0 |
| reversal of liability reserve pursuant to Section 23 (6) of the Austrian Banking Act (BWG) | 0.00 | 0 |
| **VII. NET INCOME FOR THE YEAR** | **0.00** | **170,605** |
| **21. Profit brought forward from previous year** | 0.00 | 14 |
| **22. Profit transferred on the basis of profit transfer agreement** | 0.00 | 0 |
| **VIII. NET PROFIT OR LOSS FOR THE YEAR** | **0.00** | **170,620** |

# Notes

## to the Financial Statements 2014

## of Erste Group Bank AG

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# I. General Information

The 2014 financial statements of Erste Group Bank AG have been prepared in accordance with the regulations of the Austrian Commercial Code (*Unternehmensgesetzbuch*) and in conjunction with the applicable provisions of the Austrian Federal Banking Act (*Bankwesengesetz*).

Pursuant to section 59a Federal Banking Act, Erste Group Bank AG prepared the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) on the same balance sheet date.

Erste Group Bank AG – just as nearly all Austrian savings banks – is a member of the Haftungsverbund Savings Banks Group.

Savings Banks Group defines 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 while applying common controlling standards.

In addition, the purpose of this association 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;
- to provide customers with a deposit insurance system that goes beyond the legal deposit insurance requirement (sections 93 et seq. Federal Banking Act), 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 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 Federal Banking Act, individual members of 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 insolvency (section 93 (3) no. 1 Federal Banking Act), to service the guaranteed customer deposits of a Haftungsverbund member. The scope of the individual payments to be made by individual Haftungsverbund members where needed is subject to an individual and general limit. Any contributions made by Haftungsverbund members under the statutory deposit insurance system pursuant to sections 93 et seq. Federal Banking Act are likewise counted in. The corresponding amounts are determined by Haftungsgesellschaft and communicated to members liable for contributions.

In 2013, collaboration with the savings banks was further strengthened by way of an additional agreement. The purpose of the agreement concluded in 2013 and effective as of 1 January 2014 is not only to broaden the regulatory options available to Erste Group Bank AG but also to ensure compliance with point 127 of Article 4 (1) CRR and Article 113 (7) CRR with a view to allowing recognition of minority interests at consolidated level in acc. with Article 84 (6) CRR. Savings banks that are party to the agreement concluded in 2013 further include Allgemeine Sparkasse Oberösterreich, which, together with the other members of the Haftungsverbund, forms an institutional protection scheme as defined under Article 113 (7) CRR. Owing to the new legal and supervisory requirements, the maximum limits for support mechanisms of the individual members were raised and an ex ante fund was set up. Payments to the ex ante fund are made on a quarterly basis over a period of 10 year.

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 in 2014. 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 own funds under the definition of CRR; on a consolidated level, however, the ex ante fund qualifies as own funds.

## 1. Ongoing legal cases

Erste Group Bank AG is party to lawsuits that, for the most part, have a bearing on ordinary banking business. The outcome of these proceedings is not expected to have any significant negative impact on the financial position and profitability of Erste Group Bank AG. Erste Group Bank AG is currently also involved in the following legal case:

*Hungarian Holocaust litigation*

In 2010, a group of plaintiffs filed a putative class action complaint, in a federal court in Chicago, on behalf of alleged victims of the Holocaust or their heirs, alleging that several Hungarian banks improperly benefited from the seizure of assets of Jewish customers during World War II. The assets claimed total $2 billion in 1944 dollars. Although Erste Group Bank AG is not alleged to have participated in the alleged misappropriation of Jewish assets, it is nevertheless named as a defendant in the litigation, as plaintiffs allege that Erste Group Bank AG is the legal successor to a number of banks that were active during that time in Greater Hungary. Erste Group Bank AG has denied all of the material allegations against it, including, but not limited to, allegations of successorship. In January 2014 the Federal District Court entered judgment in favor of Erste Group Bank AG, dismissing the claims on forum non conveniens grounds. In January 2015 the United States Court of Appeals for the Seventh Circuit decided on the appeal filed by plaintiffs and affirmed the judgement of the District Court.

*Corporate Bond investors`s prospectus claims*

In 2014 a number of investors in corporate bonds, issued by a large Austrian construction group in the years 2010, 2011 and 2012, filed claims with courts in Vienna against Austrian banks, among them Erste Group Bank AG, requesting compensation for their losses as bond-holders following the bankruptcy of the issuer in 2013. The plaintiffs argue in essence that the defendant banks, which acted as joint-lead managers in the issuing of the respective bond, already knew of the insolvency status of the issuer at such time and should be liable for the failure of the issuing prospectus to state this. Erste Group Bank AG, together with a second Austrian bank, acted as joint-lead manager of the bond issuance in 2011. Erste Group Bank AG rejects the claims.

## 2. Disclosure

Erste Group Bank AG uses the internet as the medium for publishing disclosures in compliance with Part 8 of the Regulation (EU) No 575/2013 and the Disclosure Regulation. Details are available on the website of Erste Group Bank AG (www.erstegroup.com/ir).

## 3. ECB Asset Quality Review and EBA Stress Test

Erste Group has completed and passed the asset quality review (AQR) and associated stress test carried out by the European Central Bank (ECB) and the European Banking Authority (EBA) in 2014. The asset quality review and the EBA Stress Test was performed on group level.

*Asset quality review*

A phase-in CET1 ratio of 11.2% as at 31 December 2013 (Basel 3) was used as the reference point for the asset quality review. Aggregated adjustments due to the outcome of the AQR were mainly related to Romanian as well as Hungarian assets and amounted to 117 basis points, resulting in an AQR-adjusted phase-in CET 1 ratio as at 31 Dec 2013 of 10.0%. The impact of AQR for Erste Group Bank AG was analysed. There was no material impact on accounting.

*Stress test (adverse scenario)*

An AQR-adjusted phase-in CET 1 ratio of 10% as at 31 Dec 2013 was used as the reference point for the stress test. In spite of macroeconomic stress test conditions the AQR and adverse scenario stress test-adjusted CET 1 ratio, according to the transitional provisions of Basel 3, amounted to 7.6% (minimum ratio of 5.5%). Even without the application of transitional Basel 3 rules, the adverse scenario stress-test-adjusted CET 1 ratio (fully loaded CET 1) accounted for 6.8%.

The complete detailed results of all participating banks, including Erste Group, are publicly available and can be accessed via the ECB and EBA websites.

## 4. Size according to section 221 Austrian Commercial Code (UGB)

The legal regulations for large companies are valid for the fiscal year ending 31 December 2014 pursuant to section 221 Austrian Commercial Code (UGB).

# II. Notes on accounting and measurement methods

## 1. Generally accepted accounting principles

The financial statements have been prepared in accordance with generally accepted accounting principles and according to the standard principle that the financial statements should give a fair and accurate view of the company's financial position, income and expenses. The principle of individual measurement was applied in the assessment of the company's assets and liabilities, and the assumption was that the company would continue to operate (going concern). In applying the principle of prudence, the particularities of the banking business were taken into account.

## 2. Receivables and liabilities in foreign currency

Receivables and liabilities in foreign currency were measured at the ECB reference rates as at the balance sheet date. The currencies for which ECB did not publish a reference rate were recognised at the mid rate for foreign currencies of Erste Group Bank AG. Foreign exchange forward transactions and FX swaps were rated at the forward currency rate.

## 3. Participating interests and shares in affiliated undertakings

Interests and shares in affiliated undertakings were recognised at cost of acquisition. Where permanent impairments resulted from sustained losses or other circumstances, valuations were revised downward accordingly. Where the reasons for an impairment ceased to exist, a write-up was required in the amount of the value increase but in due consideration of write-downs already implemented.
Where available, the carrying amount is determined based on recent transactions, market quotations or appraisals. The value is determined using a discounted cash flow model (DCF model), which incorporates the specifics of the banking business and its regulatory environment. In determining the value, the present value of future earnings distributable to shareholders is calculated. The estimation of future earnings distributable to shareholders is based on financial plans as agreed by the management while taking into account the fulfilment of the respective regulatory capital requirements. The planning period is five years. Any forecasted earnings beyond the planning period are derived on the basis of the last year of the planning period and a long-term growth rate. The present value of such perpetual earnings growing at a stable rate (referred to as terminal value) takes into consideration macroeconomic parameters and economically sustainable cash flows.

## 4. Securities

Depending on their classification, securities (debt securities and other fixed-income securities, shares and other variable-yield securities) are held either as trading assets, current assets or as financial assets. According to the classification the valuation is done as specified below:

- trading assets at market value, even where acquisition costs are exceeded
- current assets at acquisition cost or at the lower market value (strict application of the rule to value "at the lower of cost or market") and bonds admitted for trading on stock exchanges at market values
- fixed assets at acquisition cost and where permanent impairment can be presumed, at the lower market value (discretionary application of the rule to value "at the lower of cost or market").

Securities in the trading portfolio and other securities in the current asset portfolio were measured at market value pursuant to section 207 Commercial Code and section 56 (5) Federal Banking Act.

For bonds and other fixed-income securities, the difference between acquisition cost and redemption value was amortised pro rata temporis pursuant to section 56 (2) Federal Banking Act or recognised as income pro rata temporis over the residual time to maturity until redemption in accordance with section 56 (3) Federal Banking Act. Sustained depreciation was written off pursuant to section 204 (2) Commercial Code at the lower present value as at the balance sheet date.

Allocation of Securities to trading assets, current assets or to financial assets was carried out in accordance with the organizational policies adopted by the Management Board.

The Fair Value, or market price, is the price, that can be achieved through selling a financial instrument, or the price that has to be paid for its purchase, on an active market. For valuation of assets the market prices were used, as far as they were available. For assets where market prices were missing, valuation methods, especially the Present Value, was used.

## 5. Loans and advances to credit institutions and customers, bills of exchange and other assets

Loans and advances to credit institutions and customers, bills of exchange and other assets were measured in accordance with section 207 Commercial Code. Appropriate value adjustments have been made to account for recognisable risk. Write-ups have been made from the reversal of value adjustments. Loans have been measured in consideration of statistical risk factors while provisions have been made where applicable in the form of portfolio corrections. Loans and advances to debtors in high-risk countries were assessed conservatively giving due consideration to the opinion of the Expert Senate for Commercial Law and Auditing (*Fachsenat für Handelsrecht und Revision*) of the Chamber of chartered public accountants and tax consultants (*Kammer der Wirtschaftstreuhänder*).

## 6. Intangible and tangible assets

Intangible and tangible assets were measured at purchase or production cost less depreciation and impairment. Straight-line depreciation was employed where planned. The useful life is 25 to 50 years for buildings and 5 to 20 years for fixtures and fittings; the amortisation period for intangible assets is 4 to 15 years. Low-value assets were fully written off in the year of acquisition.

## 7. Securitised and subordinated liabilities

Securitised and subordinated liabilities were recognised in the balance sheet at their repayment values or the pro rata annual values (zero coupon bonds).

## 8. Issuing costs – premiums and discounts on issues

Issuing costs for securities were expensed immediately; premiums and discounts on issues were amortised over the term of the securities.

## 9. Provisions

### a) Defined benefit plans

Defined benefit plans of Erste Group AG comprise provisions for pension, severance and jubilee benefits.

Defined pension plans now only apply to retired employees. In past years, the pension obligations for active employees were transferred to VBV-Betriebliche Altersvorsorge AG. Remaining with Erste Group is a defined-benefit obligation for entitlements of former employees who were already retired as of 31 December 1998 before the pension reform took effect, and for those former employees who did not retire until 1999 but continued to be entitled to a direct pension from Erste Group Bank AG under individual agreements; and for entitlements to resulting survivor pensions.

Severance entitlements continue to be applicable for employees whose employment contract with Erste Group Bank AG commenced prior to 1 January 2003.Severance pay is a one-off payment to which employees are entitled when their employment is terminated. Entitlement to this severance pay arises after three years of employment.

Defined benefit plans include jubilee benefits. The amount of jubilee benefits (payments for long-term service/loyalty to the company) is determined by the length of employment with the employer. The entitlement to jubilee benefits is established by collective agreement, which defines both the conditions and amount of the entitlement.

Obligations under defined benefit plans for employees are determined using the projected unit credit method. Future obligations will be determined based on an actuarial report. The calculation takes into account not only the known salaries, pensions and entitlements to future pension payments but also salary and pension increases expected in the future.

### b) Tax provisions and other provisions

Unless the amounts were small, provisions were set aside in the amount deemed necessary in standard commercial practice.

## 10. Assets held in trust

Recoverable trust assets were declared off-balance sheet in accordance with section 48 (1) Federal Banking Act.

## 11. Derivative business

Hedging products and their underlying asset or liability are shown as single valuation unit in the balance sheet. Derivatives that are not used for hedging purposes are shown with their gross value through single valuation in the balance sheet. With the annual financial statements for 2014, Erste Group Bank AG puts the AFRAC statement “Die unternehmensrechtliche Bilanzierung von Derivaten und Sicherungsinstrumenten” of September 2014, concerning the reporting of internal derivatives in hedges, in practice.
Interest amounts on other products of the banking book (strategic positions) that have accrued over the period got amortized affecting net income. Negative market values were accounted in the income statement, while positive market values were not recognised.
Trading portfolios were measured mark-to-market.

For calculating the market values, Credit value adjustment (CVA) for assets in trading and banking book, and debit value adjustment (DVA) only for assets in the banking book were taken into account.

## 12. Securities lending and repurchase transactions

In accordance with the provision applicable, the securities lending and repurchase transactions are not posted in the balance sheet. The securities underlying the lending transactions were recognised in the respective balance sheet items.

## 13. Changes in balance sheet disclosure

As Appendix 2 of Article I sec. 43 Federal Banking Act was adapted due to the introduction of CRR, there has been a change in 2014 regarding the disclosure of subordinated liabilities, supplementary capital and equity positions in the financial statements based on the Federal Banking Act. Subordinated liabilities and emissions that fail to qualify as supplementary capital acc. to Part 2 Title 1 Chapter 4 of EU Regulation No 575/2013 now need to be reported under securitised liabilities. The corresponding figures of the previous year have not been adjusted.

In position ‘P11’ of the Balance Sheet named ‘Retained earnings’ a new position ‘e) other allocated reserves’ was created. In this position the reserve for the ex ante fonds described under section I ‘General information’ was shown.

In the Profit and Loss account a new position ‘19.A Result from mergers’ was created. This position is described in more detail in section IV point 10 of the notes.

# III. Notes on the balance sheet

Unless indicated otherwise, amounts for the reporting year are stated in euros, for the previous year in thousand euros. The tables in this report may contain rounding differences.

In the financial statements, interest accruals are for the first time allocated to the individual balance sheet items; in the previous year, they had been aggregated under other assets and other liabilities.

## 1. Maturity structure of loans and advances as well as liabilities to credit institutions and customers (by residual time to maturity):

### a) Loans and advances

| | **31/12/2014** | 31/12/2013 |
|---|---|---|
| **Loans and advances to credit institutions** | **19,008,143,041.20** | **25,256,119** |
| payable on demand | 661,639,399.19 | 479,919 |
| up to 3 months | 7,107,580,053.62 | 10,908,869 |
| more than 3 months and up to 1 year | 2,242,875,268.07 | 3,348,434 |
| more than 1 year and up to 5 years | 7,585,504,452.41 | 9,054,936 |
| more than 5 years | 1,410,543,867.91 | 1,463,961 |
| **Loans and advances to customers** | **14,276,540,585.88** | **13,827,077** |
| payable on demand | 592,888,841.00 | 855,769 |
| up to 3 months | 1,280,870,828.63 | 1,103,906 |
| more than 3 months and up to 1 year | 1,626,553,371.05 | 2,867,822 |
| more than 1 year and up to 5 years | 5,588,437,135.50 | 4,690,530 |
| more than 5 years | 5,187,790,409.70 | 4,309,050 |

### b) Liabilities

| | **31/12/2014** | 31/12/2013 |
|---|---|---|
| **Amounts owed to credit institutions** | **19,639,909,513.67** | 24,014,249 |
| payable on demand | 1,875,780,636.89 | 2,017,358 |
| up to 3 months | 13,885,108,705.91 | 17,330,020 |
| more than 3 months and up to 1 year | 660,215,395.02 | 1,482,144 |
| more than 1 year and up to 5 years | 2,386,809,798.64 | 2,322,696 |
| more than 5 years | 831,994,977.21 | 862,030 |
| **Liabilities to customers** | **4,599,610,120.61** | 4,789,509 |
| **Savings deposits** | **0.00** | 0 |
| **Other** | **4,599,610,120.61** | 4,789,509 |
| payable on demand | 1,865,647,296.78 | 1,619,782 |
| up to 3 months | 1,920,446,687.19 | 2,291,410 |
| more than 3 months and up to 1 year | 88,524,602.19 | 329,517 |
| more than 1 year and up to 5 years | 120,500,000.00 | 90,000 |
| more than 5 years | 604,491,534.45 | 458,800 |
| **Securitised liabilities** | **22,430,604,141.26** | **23,193,175** |
| payable on demand | 0.00 | 0 |
| up to 3 months | 1,499,336,943.65 | 3,953,093 |
| more than 3 months and up to 1 year | 1,336,842,488.73 | 3,146,184 |
| more than 1 year and up to 5 years | 10,011,926,927.15 | 9,078,172 |
| more than 5 years | 9,582,497,781.74 | 7,015,725 |

## 2. Debt securities due within one year

Purchased debt securities worth EUR 2,285,344,478.51 (prior year: EUR 6,127,682 thousand) and issued debt securities worth EUR 2,836,179,432.38 (prior year: EUR 7,099,277 thousand) are scheduled to mature in the year following 31 December 2014.

## 3. Assets and liabilities in foreign currencies

| | **31/12/2014** | 31/12/2013 |
|---|---|---|
| Assets | **15,663,721,088.21** | 22,437,372 |
| Liabilities | **8,571,322,132.07** | 14,190,515 |

The change is due to the decline in foreign currency transactions in loans and deposits.

## 4. Loans and advances as well as liabilities to affiliated undertakings and companies in which participating interests were held

| | **Loans and advances to affiliated undertakings** | | **Loans and advances to companies in which interest is held** | |
|---|---|---|---|---|
| | **31/12/2014** | 31/12/2013 | **31/12/2014** | 31/12/2013 |
| Loans and advances to credit institutions | **14,708,409,538.48** | 17,679,915 | **398,973.86** | 399 |
| Loans and advances to customers | **4,386,745,127.78** | 4,806,291 | **0.00** | 0 |
| Debt securities and other fixed-income securities (incl. securitised loans and advances to credit institutions) | **1,493,339,052.66** | 1,767,239 | **0.00** | 0 |
| Shares and other variable-yield securities | **265,778,728.90** | 217,352 | **0.00** | 0 |

| | **Liabilities to affiliated undertakings** | | **Liabilities to companies with participating interests** | |
|---|---|---|---|---|
| | **31/12/2014** | 31/12/2013 | **31/12/2014** | 31/12/2013 |
| Amounts owed to credit institutions | **12,490,045,395.42** | 11,214,737 | **485,993.12** | 269 |
| Liabilities to customers | **230,174,818.73** | 242,032 | **596,138.62** | 0 |

Among these, the most important companies are:

Loans and advances to affiliated undertakings:

Banca Comerciala Romana SA, Bucharest
Steiermärkische Bank und Sparkassen Aktiengesellschaft, Graz
Erste & Steiermaerkische Bank d.d., Rijeka
Erste Bank der Oesterreichischen Sparkassen AG, Vienna

Liabilities to affiliated undertakings:

Erste Bank der Oesterreichischen Sparkassen AG, Vienna
Allgemeine Sparkasse Oberösterreich Bank AG, Linz
Steiermärkische Bank und Sparkassen Aktiengesellschaft, Graz
Ceska Sporitelna a.s., Prag

Business with affiliated companies is conducted at armth's length.

# 5. Subordinated assets

| | | 31/12/2014 | 31/12/2013 |
|---|---|---|---|
| a) | Loans and advances to credit institutions | **1,578,185,014.95** | 1,290,792 |
| | thereof: | | |
| | to affiliated undertakings | 1,557,276,219.06 | 1,270,253 |
| | to companies with participating interests | 0.00 | 0 |
| b) | Loans and advances to customers | **202,315,220.02** | 208,706 |
| | thereof: | | |
| | to affiliated undertakings | 5,500,000.00 | 5,940 |
| | to companies with participating interests | 570,481.75 | 570 |
| c) | Debt securities and other fixed-income securities | **330,820,859.01** | 296,207 |
| | thereof: | | |
| | to affiliated undertakings | 5,211,028.58 | 5,488 |
| | to companies with participating interests | 0.00 | 0 |

# 6. Fiduciary business

No fiduciary business was disclosed as of the balance sheet date.

# 7. Securities

## a) Breakdown of securities admitted for trading on a stock exchange

| *pursuant to section 64 (1) no. 10 Federal Banking Act* | listed | | not listed | |
|---|---|---|---|---|
| | **31/12/2014** | 31/12/2013 | **31/12/2014** | 31/12/2013 |
| a) Debt securities and other fixed-income securities | 2,387,172,911.27 | 2,504,242 | 7,162,569,364.22 | 5,797,649 |
| b) Shares and other variable-yield securities | 98,249,649.77 | 170,977 | 98,055,302.00 | 88,931 |
| c) Participating interests | 43,596,972.80 | 49,580 | 0.00 | 0 |
| d) Shares in affiliated undertakings | 0.00 | 0 | 0.00 | 0 |
| **Total** | **2,529,019,533.84** | **2,724,798** | **7,260,624,666.22** | **5,886,580** |

| *pursuant to section 64 (1) no. 11 Federal Banking Act* | Fixed assets | | Current assets | |
|---|---|---|---|---|
| | **31/12/2014** | 31/12/2013 | **31/12/2014** | 31/12/2013 |
| a) Bonds and other fixed-income securities | 2,549,036,751.57 | 2,473,856 | 7,000,705,523.91 | 5,828,035 |
| b) Shares and other variable-yield securities | 65,902,195.68 | 67,047 | 130,402,756.09 | 192,861 |
| **Total** | **2,614,938,947.25** | **2,540,903** | **7,131,108,280.01** | **6,020,896** |

Allocation pursuant to section 64 (1) no. 11 Federal Banking Act was carried out in accordance with the organisational policies adopted by the Management Board, with positions being included under fixed assets that are held due to strategic aspects for a long-term profitable investment.

The difference to the redemption value resulting from the pro-rata write-downs pursuant to section 56 (2) Federal Banking Act as at 31 December 2014 amounted to EUR 211,832,012.40 (prior year: EUR 264,622 thousand), while the difference to the redemption value from the pro-rata write-ups pursuant to section 56 (3) Federal Banking Act amounted to EUR 88,290,174.38 (prior year: EUR 33,834 thousand).

### b) Repurchase agreements

The carrying amount of the assets subject to sale and repurchase agreements amounted to EUR 200,562,214.35 at the balance sheet date (prior year: EUR 1,634,018 thousand).

The prior year amount was adjusted due to a change in presentation.

### c) Differences of the securities listed for trade on the stock exchange not held as financial fixed assets

The difference between the higher market value at the balance sheet date and the cost of purchase pursuant to section 56 (5) Federal Banking Act amounts to EUR 140,794,156.88 (prior year: EUR 104,035 thousand).

### d) Breakdown of debt securities and other fixed-income securities

| | **31/12/2014** | 31/12/2013 |
|---|---|---|
| Issued by public-sector issuers | 1,223,802,550.30 | 1,084,772 |
| own issues | 4,794,717,056.97 | 3,523,788 |
| bonds - domestic credit institutions | 293,267,405.71 | 329,081 |
| bonds - foreign credit institutions | 1,432,410,210.62 | 1,313,871 |
| mortgage and municipal securities | 456,536,480.94 | 635,661 |
| convertible bonds | 46,509,906.27 | 24,393 |
| other bonds | 1,384,196,724.16 | 1,390,420 |
| **Total** | **9,631,440,334.97** | **8,301,986** |

## 8. Trading book

Erste Group Bank AG kept a trading book pursuant to Art 102 CRR throughout the financial year. The **securities portfolio** assigned to the trading book as at 31 December 2014 was EUR 2,844,456,831.47 (prior year: EUR 3,411,665 thousand). **Money market instruments** worth EUR 12,782,284,862.90 (prior year: EUR 12,170,393 Tsd) were assigned to the trading book on 31 December 2014.

The volume of **other financial instruments** included in the trading book had a par value of EUR 220,145,816,931.84 at 31 December 2014 (prior year: EUR 233,425,605 thousand).

| | **31/12/2014** | 31/12/2013 | **31/12/2014** | 31/12/2013 | **31/12/2014** | 31/12/2013 |
|---|---|---|---|---|---|---|
| | **Long position** | | **Short position** | | **Total** | |
| Options | 2,308,940,417.55 | 3,057,443 | 2,134,863,569.42 | 3,067,987 | 4,443,803,986.97 | 6,125,430 |
| Caps and floors | 19,613,221,988.11 | 20,521,309 | 19,907,576,628.86 | 20,763,761 | 39,520,798,616.97 | 41,285,070 |
| Currency swaps | 43,443,330,110.30 | 40,310,072 | 0.00 | 0 | 43,443,330,110.30 | 40,310,072 |
| Interest rate swaps | 130,780,562,155.50 | 144,030,327 | 0.00 | 0 | 130,780,562,155.50 | 144,030,327 |
| Fwd rate agreem. | 4,752,065.41 | 241,248 | 350,006,579.15 | 143,047 | 354,758,644.56 | 384,295 |
| Financial futures | 195,274,676.75 | 213,946 | 43,316,294.68 | 288,430 | 238,590,971.43 | 502,376 |
| Loan derivatives | 162,165,193.62 | 225,666 | 538,234,574.39 | 346,476 | 700,399,768.01 | 572,142 |
| Commodity derivatives | 247,476,152.55 | 114,393 | 0.00 | 0 | 247,476,152.55 | 114,393 |
| Other | 416,096,525.55 | 101,500 | 0.00 | 0 | 416,096,525.55 | 101,500 |
| **Total** | **197,171,819,285.34** | **208,815,903** | **22,973,997,646.50** | **24,609,701** | **220,145,816,931.84** | **233,425,605** |

## 9. Participating interests and shares in affiliated undertakings

**Holdings as at 31 December 2014:**

The indicated figures generally comply with IFRS; dividends received in the same year are deducted from equity capital. The share indicated below, represents direct and indirect shares.

| Company name, company location | Share (%) (interest of Erste Group) | Equity | Result | Balance sheet date |
|---|---|---|---|---|
| **1.) Credit institutions** | | | | |
| Banca Comerciala Romana SA, Bucuresti | 93.58 | 1,140,112,606.00 | -591,685,455.00 | 31/12/2014 |
| Banka Sparkasse d.d.,Ljubljana | 28.00 | 73,500,891.00 | -4,200,884.00 | 31/12/2014 |
| Ceska sporitelna, a.s.,Praha | 98.97 | 3,724,924,080.00 | 537,524,375.00 | 31/12/2014 |
| Erste & Steiermärkische Bank d.d.,Rijeka | 69.26 | 938,937,452.00 | 30,419,390.00 | 31/12/2014 |
| ERSTE BANK AD NOVI SAD,Novi Sad | 80.50 | 120,302,160.00 | 2,930,274.00 | 31/12/2014 |
| Erste Bank der oesterreichischen Sparkassen AG, Vienna | 100.00 | 1,395,748,933.00 | 198,707,958.00 | 31/12/2014 |
| Erste Bank Hungary Zrt,Budapest | 100.00 | 537,746,137.00 | -329,602,815.00 | 31/12/2014 |
| Prvá stavebná sporitelna, a.s.,Bratislava | 35.00 | 241,157,313.91 | 19,154,313.91 | 30/11/2014 |
| Slovenska sporitelna, a. s., Bratislava | 100.00 | 1,273,298,309.00 | 181,476,656.00 | 31/12/2014 |
| SPAR-FINANZ BANK AG, Salzburg | 50.00 | 4,004,608.07 | 161,763.92 | 31/12/2014 |
| Sparkasse Hainburg-Bruck-Neusiedl Aktiengesellschaft, Hainburg an der Donau | 75.03 | 62,547,804.00 | 6,693,979.00 | 31/12/2014 |
| **2) Financial institutions** | | | | |
| EB-Malta-Beteiligungen Gesellschaft m.b.H., Vienna | 100.00 | 6,147,269.00 | -43,821.00 | 31/12/2014 |
| ERSTE FACTORING d.o.o., Zagreb | 76.95 | 33,082,646.00 | 12,851,477.00 | 31/12/2014 |
| Erste Group Immorent AG, Vienna (sub-group) | 100.00 | 343,804,930.00 | -6,971,442.00 | 31/12/2014 |
| ERSTE GROUP IMMORENT SME financne storitve d.o.o., Ljubljana | 100.00 | 88,160.00 | 36,900.00 | 31/12/2014 |
| Erste Group Services GmbH, Vienna | 100.00 | 17,204,937.00 | -7,606,977.00 | 31/12/2014 |
| Sparkassen IT Holding AG, Vienna | 29.67 | 3,029,118.00 | -151,651.00 | 31/12/2014 |
| TIPAL Immobilien GmbH in Liquidation, Bolzano | 92.50 | 5,683,517.00 | -2,350,630.00 | 31/12/2014 |
| VBV - Betriebliche Altersvorsorge AG, Vienna | 26.94 | 54,148,549.00 | 6,943,844.00 | 31/12/2013 |
| **3.) Other holdings** | | | | |
| „Sparkassen-Haftungs Aktiengesellschaft“, Vienna | 43.19 | 190,955.00 | -6,813.00 | 31/12/2014 |
| Capexit Private Equity Invest AG,Vienna | 100.00 | 703,206.00 | -297,476.00 | 31/12/2014 |
| EH-Gamma Holding GmbH,Vienna | 100.00 | 14,035.03 | -3,464.97 | 31/12/2013 |
| Erste Bank Beteiligungen GmbH,Vienna | 100.00 | 246,136,507.00 | 13,017,671.00 | 31/12/2014 |
| ERSTE d.o.o.,Zagreb | 45.19 | 13,865,095.03 | 1,915,379.47 | 31/12/2014 |
| Erste Finance (Delaware) LLC,City of Wilmington | 100.00 | 29,652.00 | -12,036.00 | 31/12/2014 |
| Erste GCIB Finance I B.V., Amsterdam | 100.00 | 4,678,836.00 | 1,473,840.00 | 31/12/2014 |
| Erste Securities Istanbul Menkul Degerler AS, Istanbul | 100.00 | 5,149,811.00 | -1,110,266.00 | 31/12/2014 |
| ESB Holding GmbH, Vienna | 69.27 | 51,477.96 | 16,477.96 | 31/12/2013 |
| Haftungsverbund GmbH, Vienna | 63.88 | 517,156.00 | 0.00 | 31/12/2014 |
| Harkin Limited,Dublin | 100.00 | 1,250,000.00 | 0.00 | 31/12/2013 |
| Immorent razvoj projektov d.o.o., Ljubljana | 100.00 | -73,513.00 | -7,043,312.00 | 31/12/2014 |
| Immorent Severna vrata d.o.o., Ljubljana | 100.00 | -70,560.00 | -1,837,509.00 | 31/12/2014 |
| IPS Fonds Gesellschaft bürgerlichen Rechts, Vienna | 64.74 | 25,067,069.00 | -161.00 | 31/12/2014 |
| ÖCI-Unternehmensbeteiligungsgesellschaft m.b.H., Vienna | 99.59 | 142,169.00 | 83,046.00 | 31/12/2014 |
| OM Objektmanagement GmbH, Vienna | 100.00 | 86,289,753.00 | 317,748.00 | 31/12/2014 |
| s IT Solutions SK, spol. s.r.o.,Bratislava | 99.76 | 504,619.00 | -2,656.00 | 31/12/2014 |
| TPK-18 Sp. z o.o., Warsaw | 100.00 | -6,748,862.91 | -316,001.18 | 31/12/2013 |
| Valtecia Achizitii S.R.L., Voluntari,Ilfov County | 100.00 | -3,555,431.65 | -159,993.02 | 31/12/2013 |
| Vaudeville Ingatlanberuhazo Korlatolt Felelössegü Tarsasag, Budapest | 100.00 | -15,652,643.09 | -1,222,339.27 | 31/12/2013 |
| Zelina Centar d.o.o., Sveta Helena | 100.00 | -16,931,705.41 | -7,801,325.54 | 31/12/2013 |

## 10. Fixed assets

The statement of changes in fixed assets pursuant to section 226 (1) Commercial Code is disclosed separately in the attachment to the notes.

The carrying amount of developed land was EUR 509,327.35 as at 31 December 2014 (prior year: EUR 516 thousand).The carrying amount at 31 December 2014 did not include leased assets.

For the next fiscal year, Erste Group Bank AG will have expenses from the use of tangible assets not disclosed in the balance sheet (rental and leasing contracts) of a total of EUR 18,900,696 (prior year: EUR 18,919 thousand), and of a total of EUR 92,288,370 for the next five fiscal years (prior year: EUR 88,837 thousand).

Intangible fixed assets include assets with a value of EUR 31,724,506.83 (prior year: EUR 33,838 thousand) that have been acquired from an affiliated undertaking. During the year, assets in the value of EUR 10,741,176.60 were acquired (prior year: EUR 20,772 thousand).

## 11. Other assets

| | **31/12/2014** | 31/12/2013 |
|---|---|---|
| Securities transactions | 7,045,862.21 | 17,958 |
| Derivative products* | 9,911,639,827.48 | 7,041,975 |
| Accrued income** | 9,541,512.28 | 672,903 |
| Deferred taxes | 24,869,000.00 | 24,869 |
| Receivables from participating interests and affiliated undertakings | 98,889,205.53 | 316,901 |
| Other receivables *** | 107,291,053.65 | 771,886 |
| **Total** | **10,159,276,461.15** | **8,846,492** |

* Increase due to the application of the AFRAC position paper "*Die unternehmensrechtliche Bilanzierung von Derivaten und Sicherungsinstrumenten*" (The accounting treatment of derivatives and hedging instruments under commercial law) when recognising internal derivatives and due to increased market values on account of a change in interest rates.

** Decline, as interest accruals are disclosed in the respective main position in 2014.

*** Decline due to a security in the process of being settled as at 31 December 2013.

## 12. Accrued and deferred items

Prepayments and accrued income had increased to EUR 332,232,420.05 as at the balance sheet date of 31 December 2014 (prior year: EUR 359,437 thousand). Of these, EUR 121,889,783.63 (prior year: EUR 158,837 thousand) were accruals in connection with derivative instruments and EUR 106,229,506.77 (prior year: EUR 118,033 thousand) were prepayments on commissions.

## 13. Securitised liabilities

| | **31/12/2014** | 31/12/2013 |
|---|---|---|
| Covered loans and bank bonds | 907,276,993.46 | 957,267 |
| Non-covered loans and bank bonds | 9,935,146,008.67 | 11,642,084 |
| Mortgage bonds and local government bonds | 11,427,549,269.63 | 10,099,772 |
| Certificates of deposit and commercial paper | 160,631,869.50 | 494,052 |
| **Total** | **22,430,604,141.26** | **23,193,175** |

## 14. Other liabilities

| | 31/12/2014 | 31/12/2013 |
|---|---|---|
| Securities transactions | 4,535,861.63 | 7,392 |
| Derivative products* | 9,158,192,477.03 | 6,271,590 |
| Accrued income** | 5,252,173.67 | 446,396 |
| Other liabilities | 487,330,709.38 | 529,837 |
| **Total** | **9,655,311,221.71** | **7,255,215** |

* Increase due to the application of the AFRAC position paper "*Die unternehmensrechtliche Bilanzierung von Derivaten und Sicherungsinstrumenten*" (The accounting treatment of derivatives and hedging instruments under commercial law) when recognising internal derivatives and due to increased market values on account of a change in interest rates.
** Decline, as interest accruals are disclosed in the respective main position in 2014.

## 15. Provisions

| | 31/12/2014 | 31/12/2013 |
|---|---|---|
| Provisions for pensions | 355,856,049.52 | 329,027 |
| Provisions for taxation | 15,430,612.51 | 54,465 |
| Provisions for contingent liabilities | 26,777,759.13 | 34,078 |
| Provisions for negative market values of open derivative without any hedge relationship | 78,905,739.98 | 106,481 |
| Other provisions | 100,164,939.74 | 121,281 |
| **Total** | **577,135,100.88** | **645,333** |

The following assumptions were made for the actuarial calculation of pension entitlements:

| | 31/12/2014 | 31/12/2013 |
|---|---|---|
| Interest rate | 2.00% | 3.65% |
| Expected increase in pension benefits | 2.00% | 2.00% |

The expected retirement age for each employee was individually calculated on the basis of the changes set out in the Budget Implementation Act of 2003 (*Budgetbegleitgesetz 2003*, Federal Law Gazette Vol. I No. 71/2003) relating to the increase in the minimum retirement age. The currently applicable legislation on the gradual rise in the retirement age for men and women to 65 was taken into consideration.

The rise in pension provisions in the reporting year by EUR 26,828,648.52 essentially resulted on account of the interest rate reduction.

The following assumptions were made for the actuarial calculation of severance entitlements and jubilee benefits:

| | 31/12/2014 | 31/12/2013 |
|---|---|---|
| Interest rate | 2.00% | 3.65% |
| Average salary rise (including career trend and collective agreement trend) | 2.90% | 2.90% |

The obligations were calculated in accordance with the Pagler & Pagler mortality table "*AVÖ 2008 P – Rechnungsgrundlagen für die Pensionsversicherung*".

Severance obligations have been outsourced to Sparkassen Versicherung Aktiengesellschaft since 2007.

Severance entitlements measured in accordance with commercial law and based on the above parameters amount to EUR 48,012,562.30 (prior year: 38,594 thousand) and were posted as a contingent liability off the balance sheet. The credit intended for the performance of outsourced severance entitlements with the insurer as at 31 December 2014 amounted to EUR 48,012,562.30 (prior year:

40,236 thousand).The outsourcing of severance entitlements to S-Versicherung AG has not resulted in any change to employee claims against Erste Group Bank AG, which continues to be liable for the severance entitlements of eligible employees.

## 16. Subordinated liabilities

Subordinated debt (subordinated liabilities and supplementary capital) amounted to EUR 4,962,983,794.81 (prior year: EUR 4,392,045 thousand) as per 31 December 2014.No subordinated liability taken by Erste Group Bank AG during the reporting year (including supplementary capital) was above the 10% limit for total subordinated liabilities. The terms of all other subordinated liabilities are in compliance with the requirements set forth in section 63 CRR.

Movements in total subordinated liabilities were as follows:

| | | |
|---|---|---|
| Increase due to new issues | EUR | 956,438,688.23 |
| Decrease due to maturity | EUR | 133,600,000.00 |
| Decrease due to partial extinguishment | EUR | 399,810,000.00 |
| Increase in carrying amount due to valuation price fluctuations | EUR | 89,110,141.60 |

At the balance sheet date, the bank held no own issues from subordinated liabilities that were not admitted for trading on stock exchanges.

In 2014, Erste Group Bank AG expenses for subordinated liabilities and supplementary capital were EUR 202,476,617.91 (prior year: EUR 193,330 thousand).

The term “subordinated” is defined in section 45 (4) and section 51 (9) Federal Banking Act.

## 17. Tier 2 capital pursuant to Part 2 title I Chapter 4 of the Regulation (EU) No 575/2013

At the balance sheet date for 2014, Erste Group Bank AG held subordinated own capital, including deferred interest, with a carrying value of EUR 21,295,712.58 (prior year: supplementary own capital EUR 2,152 thousand and subordinated own capital EUR 17,212 thousand).

## 18. Subscribed capital

Subscribed capital at 31 December 2014 was € 859,600,000.00 (prior year: EUR 859,600 thousand), represented by 429,800,000 voting bearer shares (ordinary shares).Erste Group Bank AG held no own shares at the balance sheet date.

On 8 August 2013, the participation capital issued in 2009 in acc. with section 23 (4) Federal Banking Act in the amount of EUR 1,763,744,000.00, which was subscribed by the Republic of Austria as well as private and institutional investors, was fully paid back. The prorated dividend for 2013 were paid out in June 2014 according to the resolution of the Annual General Meeting from 28 May 2014.

## 19. Authorised and conditional capital as at 31 December 2014

*Authorised capital:*

According to clause 5 of the Articles of Association, the Management Board is authorised to increase the registered capital of the Company until 21 May 2019 with the consent of the Supervisory Board - also in several tranches - by an amount of up to EUR 171,800,000.00 by issuing up to 85,900,000 voting no-par value bearer shares in return for contributions in cash and/or in kind, with the issue price and issuing conditions being determined by the Management Board with the consent of the Supervisory Board. Furthermore, the Management Board is authorised to fully or partly exclude the statutory subscription right of the shareholders with the consent of the Supervisory Board (exclusion of the subscription right):

- if the capital increase is in return for a cash contribution and the shares issued while excluding the subscription right of the shareholders, taken together, do not exceed EUR 43,000,000.00; and/or
- if the capital increase is in return for contributions in kind.

These two measures can also be combined. The aggregate pro rata amount of registered capital represented by shares in respect of which the shareholders' subscription rights are excluded under the referenced authorisation, together with the pro rata amount of registered capital attributable to shares to which conversion or subscription rights or obligations related under bonds which were issued and sold on the basis of the authorisation subject to an exclusion of subscription rights, on or after 21 May 2014 must not, however, exceed the amount of EUR 171,800,000.00.

*Conditional capital:*

Pursuant to clause 6.3 of the Articles of Association, conditional capital based on the Management Board resolutions in 2002 and 2010 with a nominal value of EUR 21,923,264.00 persists, which can be consumed by issuing up to 10,961,632 ordinary bearer shares or ordinary registered shares with an issue price of at least EUR 2.00 per share against cash contribution and by excluding the subscription rights of the current shareholders. This conditional capital serves to grant share options to the employees, managers and Management Board members of the Company or an affiliated undertaking.

According to clause 6.4 of the Articles of Association, the company has additional conditional capital of EUR 124,700,000.00 from the issuance of up to 62,350,000 ordinary bearer shares. This conditional capital serves to grant conversion or subscription rights to investors of convertible bonds.

*Authorised conditional capital:*

According to clause 7 of the Articles of Association no authorisation currently exists to grant conditional capital.

## 20. Major shareholders

At 31 December 2014, the foundation DIE ERSTE oesterreichische Spar-Casse Privatstiftung (hereinafter referred to as "the Privatstiftung") controlled a total of 30.04% interest in Erste Group Bank AG. 10.83% of the shares were held directly by the Privatstiftung. 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. This makes the Privatstiftung the single largest investor in Erste Group Bank AG. Up to the time of repayment on 8 August 2013, the Privatstiftung held participation capital in Erste Group Bank AG with a notional value of EUR 18,095,000.00.

A dividend in the amount of EUR 12,877,953.60 was paid (prior year: EUR 30,505) on the stake held by the Privatstiftung in Erste Group Bank AG in 2014 (for the financial year 2013).Moreover, a prorated dividend in the amount of EUR 868,560.00 (prior year: EUR 1,360 thousand) was paid in 2014 (for the financial year 2013) for the participation capital of Erste Group Bank AG, which had been paid pack on 8 August 2013.The purpose of the Privatstiftung, to be achieved notably by way of the participating interest in Erste Group Bank AG, is to support social, scientific, cultural as well as charitable institutions and to promote the guiding principles of the savings bank philosophy. As at 31 December 2014, Theodora Eberle (chairwoman), Richard Wolf (vice chairman), Franz Karl Prüller and Bernhard Spalt were members of the Privatstiftung Management Board. The Privatstiftung's Supervisory Board had seven members at the end of 2014, one of whom is also a member of the Supervisory Board of Erste Group Bank AG.

Under clause 15.1 of the Articles of Association, and for the time in which it assumes liability for all current and future debts in the event of their default on payment, the Privatstiftung is entitled, pursuant to section 92 (9) Federal 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.

As at 31 December 2014, Erste Group Bank AG had no accounts receivable vis-à-vis the Privatstiftung (prior year: EUR 13.96).In addition, standard derivative transactions for hedging purposes were in place between Erste Group Bank AG and the Privatstiftung at year-end, namely interest rate swaps in the amount of EUR 282,000,000.00 (prior year: EUR 282,000 thousand).As in the previous year, there were no foreign currency swaps. In addition, the Privatstiftung held bonds of Erste Group Bank AG in the amount of EUR 203,043.84 as at 31 December 2014 (prior year: EUR 5,243 thousand) and Erste Group Bank AG held debts evidenced by certificates issued by the Privatstiftung in the amount of EUR 3,703,000.00 (prior year: EUR 1,981 thousand).In 2014, the interest income of Erste Group Bank AG from these derivative transactions and from bonds held amounted to EUR 11,893,445.73 (prior year: EUR 11,912 thousand) for the reporting period while interest expenses amounted to EUR 8,060,853.35 (prior year: EUR 8,288 thousand).

As at 31 December 2014, Caixabank S.A., which is based in Barcelona, Spain, held a total of 42,634,248 Erste Group shares (prior year: 39,195,848 shares), equivalent to 9.92% (prior year: 9.12%) of the subscribed capital of Erste Group Bank AG. Juan Maria Nin who resigned as deputy chairman and CEO of Caixabank S.A. as of 30 June 2014 also stepped down as member of the Erste Group Bank AG Supervisory Board on 11 December 2014. He was replaced by Antonio Massanell Lavilla (deputy chairman of Caixabank S.A.), who was invited to join the Supervisory Board of Erste Group Bank AG as guest member.

In addition, the shareholders' agreement between Caixabank S.A. and the Erste Foundation, which had been in effect since 2009, was renewed on 15 December 2014 (Preferred Partnership Agreement).On the basis of this agreement, Caixabank S.A. joined the ranks of the core shareholders, which include Erste Foundation as well as the savings banks, their foundations as well as Wiener Städtische Wechselseitige Versicherungsverein – Vermögensverwaltung – Vienna Insurance Group. As member of this syndicate, Caixabank will abide by the recommendations of the Erste Foundation when electing new Supervisory Board members. In addition, Caixabank S.A. is granted the right to nominate a second Supervisory Board member at the 2015 Shareholders Meeting.

Caixabank S.A. received a dividend of EUR 7,839,169.60 (prior year: EUR 15,678) on its stake in Erste Group Bank AG in 2014 (for the financial year 2013).Owing to the redemption of participation capital on 8 August 2013, Caixabank S.A. received dividend income of EUR 720,000.00 (prior year: EUR 1.2 million) in 2014 (for the financial year 2013).

Provisions concerning the appointment and dismissal of members of the Management Board and the Supervisory Board that do not result from statutory law concern clause 15.4 of the Articles of Association, according to which a majority of three quarters of valid votes cast and a majority of three quarters of the subscribed capital existing at the time of resolution are required to decide on the revocation of Supervisory Board members.

The Articles of Association contain no restrictions in respect of voting rights or the transfer of shares.

Clause 19.9 of the Articles of Association (amendments to the Articles of Association) contain provisions that do not follow directly from statutory law: amendments of the Articles of Association, in so far as they do not alter the purpose of the company, may be passed with a simple majority of votes cast and a simple majority of the subscribed capital represented at the Annual General Meeting considering the resolution. Where higher majority votes are required by individual provisions of the Articles of Association, these provisions can only be amended with the same higher majority vote. Furthermore, clause 19.9 of the Articles of Association may only be amended with a majority of three-quarters of votes cast and with a majority of three-quarters of the subscribed capital represented at the meeting considering the resolution.

## 21. Reserves

### a) Changes in capital reserves

The capital reserves at 31 December 2014 totalled EUR 1,627,019,510.67 (prior year: EUR 7,300,056 thousand).The reduction in the capital reserves by EUR 5,673,036,489.33 is the result of the merger loss mentioned in section IV.10 of these Notes.

### b) Changes in retained earnings:

As at 31 December 2014, retained earnings amounted to EUR 1,546,848,000.00 (prior year EUR 1,696,521 thousand).They include no reserve for own shares (prior year: EUR 10,634 thousand).As of 31 December 2014, retained earnings, which equal the amount paid into the ex ante fund, amounted to EUR 8,948,000.00. The allocation to the retained earnings is shown under position ‘e) other allocated reserves’.

### c) Changes in the liability reserves

As at 31 December 2014, total liability reserves were EUR 851,000,000.00 just as in the year before.

### d) Changes in untaxed reserves

As at 31 December 2014, total untaxed reserves were EUR 5,133,000.00 just as in the year before.

## 22. Own shares

| **Own shares held by Erste Bank** | No. of shares | Purchase price | Selling price | par value in share capital |
|---|---|---|---|---|
| Portfolio as at 1 January 2014 | 0 | 0.00 | 0.00 | 0.00 |
| Total additions | 16,957,107 | 364,369,579.18 | 0.00 | 33,914,214.00 |
| Total disposals | 16,957,107 | 0.00 | 364,369,579.18 | 33,914,214.00 |
| Portfolio as at 31 December 2014 | 0 | 0.00 | 0.00 | 0.00 |
| Highest level of treasury shares held | 0 | 0.00 | 0.00 | 0.00 |

The primary purpose of the transactions was market making. As at 31 December 2014, other liabilities include a short stand in Erste Bank shares amounting to 1,318,335 units (carrying value EUR 25,358,173.73), which is covered by lending.

# 23. Own funds and capital requirement

These unconsolidated financial statements of Erste Group Bank AG has not yet been approved by the supervisory board. Erste Group Bank AG adheres to the transitional provisions concerning capital requirements, market risk and credit risk set forth by Austria's accompanying CRR ordinance. The prior year amounts were adjusted to the new structure. The Basel 2.5 comparison is limited to sum-positions as the composition according to Basel 3 materially deviates from the composition according to Basel 2.5.

## a) Own funds

| Capital structure according to the EU regulation 575/2013 (CRR) | Article pursuant to CRR | December 2014 Basel 3 Phased-in | December 2013 Basel 2.5 |
|---|---|---|---|
| ***Common equity tier 1 capital (CET1)*** | | | |
| Capital instruments eligible as CET1 | 26 (1) (a) (b), 27 to 30, 23 (1) (f), 42 | 2,486,619,510.67 | |
| Own CET1 instruments | 36 (1) (f), 42 | -23,127,289.73 | |
| Retained earnings | 26 (1) (c), 26 (2) | 2,388,900,000.00 | |
| Interim loss | 36 (1) (a) | 0.00 | |
| Other reserves | 4 (117), 26 (1) (e) | 5,133,000.00 | |
| Prudential filter: cash flow hedge reserve | 33 (1) (a) | 0.00 | |
| Prudential filter: cumulative gains and losses due to changes in own credit risk on fair valued liabilities | 33 (1) (b) | 0.00 | |
| Prudential filter: fair value gains and losses arising from the institution's own credit risk related to derivative liabilities | 33 (1) (c), 33 (2) | -9,887,649.00 | |
| Value adjustments due to the requirements for prudent valuation | 34, 105 | -56,634,293.52 | |
| Regulatory adjustments relating to unrealised gains and losses | 467, 468 | 0.00 | |
| Other intangible assets | 4 (115), 36 (1) (b), 37 (a) | -67,075,067.58 | |
| Deferred tax assets dependent upon future profitability and not temporary differences net of associated tax liabilities | 36 (1) (c), 38 | 0.00 | |
| IRB shortfall of credit risk adjustments to expected losses | 36 (1) (d), 40, 158, 159 | -5,063,624.15 | |
| Other transitional adjustments CET1 | 469 to 472, 478, 481 | 57,710,953.38 | |
| Interim loss (80%) | | 0.00 | |
| Other intangibles (80%) | | 53,660,054.06 | |
| IRB shortfall of provisions to expected losses (80%) | | 4,050,899.32 | |
| Deferred tax assets that rely on future profitability and do not arise from temporary differences (100%) | | 0.00 | |
| Excess of deduction from AT1 items over AT1 | 36 (1) (j) | -55,685,503.72 | |
| **Common equity tier 1 capital (CET1)** | 50 | **4,720,890,036.35** | **10,497,738** |
| ***Additional tier 1 capital (AT1)*** | | | |
| Capital instruments eligible as AT1 | 51 (a), 52 to 54, 56 (a), 57 | 0.00 | |
| Own AT1 instruments | 52 (1) (b), 56 (a), 57 | 0.00 | |
| Instruments issued by subsidiaries that are given recognition in AT1 | 85, 86 | 0.00 | |
| Transitional adjustments due to grandfathered AT1 instruments | 483 (4) (5), 484 to 487, 489, 491 | 0.00 | |
| AT1 instruments of financial sector entities where the institution has a significant investment | 4 (27), 56 (d), 59, 79 | 0.00 | |
| Other transitional adjustments AT1 | 474, 475, 478, 481 | -55,685,503.72 | |
| Interim loss (80%) | | 0.00 | |
| Other intangibles (80%) | | -53,660,054.06 | |
| IRB shortfall of provisions to expected losses (40%) | | -2,025,449.66 | |
| Excess of deduction from AT1 items over AT1 | 36 (1) (j) | 55,685,503.72 | |
| **Additional tier 1 capital (AT1)** | 61 | **0.00** | **2,916** |
| **Tier 1 capital - total amount of common equity tier 1 (CET1) and additional tier1 (AT1)** | | **4,720,890,036.35** | **10,500,653** |

| | Article pursuant to CRR | December 2014 Basel 3 Phased-in | December 2013 Basel 2.5 |
|---|---|---|---|
| ***Tier 2 capital (T2)*** | | | |
| Capital instruments and subordinated loans eligible as T2 | 62 (a), 63 to 65, 66 (a), 67 | 4,188,163,839.71 | |
| Own T2 instruments | 63 (b) (i), 66 (a), 67 | -82,198,613.50 | |
| Instruments issued by subsidiaries recognised in T2 | 87, 88 | 0.00 | |
| Transitional adjustments due to additional recognition in T2 of instruments issued by subsidiaries | 480 | 0.00 | |
| Transitional adjustments due to grandfathered T2 instruments and subordinated loans | 483 (6) (7), 484, 486, 488, 490, 491 | 77,652,469.45 | |
| IRB excess of provisions over expected losses eligible | 62 (d) | 86,490,825.14 | |
| Standardised approach general credit risk adjustments | 62 (c) | 19,441,574.26 | |
| Other transitional adjustments to tier 2 | 476, 477, 478, 481 | 0.00 | |
| IRB shortfall of provisions to expected losses (40%) | | 0.00 | |
| T2 instruments of financial sector entities where the institution has a significant investment | 4 (27), 66 (d), 68, 69, 79 | 0.00 | |
| Items deductible due to transitional provisions in T2 | 476 to 478, 481 | -2,025,449.66 | |
| **Tier 2 capital (T2)** | 71 | **4,287,524,645.40** | **3,338,760** |
| **Short-term subordinated capital (tier-3)** | | 0.00 | 263,384 |
| **Total own funds** | | **9,008,414,681.75** | **14,102,798** |
| **Capital requirement** | 92 (3), 95, 96, 98 | **2,746,699,405.83** | **3,028,364** |
| **CET1 capital ratio** | 92 (2) (a) | **13.8%** | |
| **Tier 1 capital ratio *)** | 92 (2) (b) | **13.8%** | **28.0%** |
| **Total capital ratio *)** | 92 (2) (c) | **26.2%** | **37.3%** |

*) In 2013 published ratios related to credit risk only, ratios disclosed in above table concern total risk.

## b) Capital requirement

### Risk structure according to the EU regulation 575/2013 (CRR)

| | | December 2014 | | December 2013 | |
|---|---|---|---|---|---|
| | Article pursuant to CRR | Calculation base /total risk (phased-in) | Capital requirement (phased-in) | Calculation base /total risk | Capital requirement |
| Risk weighted assets (credit risk) | 92 (3) (a) (f) | 29,908,520,699.70 | 2,392,681,655.98 | 33,524,844 | 2,681,988 |
| Standardised approach | | 15,493,383,176.03 | 1,239,470,654.08 | 22,433,081 | 1,794,646 |
| IRB approach | | 14,415,137,523.67 | 1,153,211,001.89 | 11,091,763 | 887,341 |
| Settlement Risk | 92(3) (c) (ii), 92 (4) (b) | 114,844.00 | 9,187.52 | 25 | 2 |
| Trading book, foreign FX risk and commodity risk | 92 (3) (b) (i) and (iii), 92 (4) (b) | 2,176,379,568.01 | 174,110,365.44 | 3,292,300 | 263,384 |
| Operational Risk | 92 (3) (e), 92 (4) (b) | 1,050,654,272.25 | 84,052,341.78 | 1,037,385 | 82,991 |
| Exposure for CVA | 92 (3) (d) | 1,198,073,188.88 | 95,845,855.11 | 0 | 0 |
| Other exposure amounts incl. Basel 1 floor | 3, 458, 459, 500 | 0.00 | 0 | 0 | 0.00 |
| **Total Risk Exposure Amount** | 92 (3), 95, 96, 98 | **34,333,742,572.84** | **2,746,699,405.83** | **37,854,554** | **3,028,364** |

## c) Consolidated own funds

**Capital structure according to the EU regulation 575/2013 (CRR)**

| | Article pursuant to CRR | December 2014 Basel 3 Phased-in | December 2014 Basel 3 Final | December 2013 Basel 2.5 |
|---|---|---|---|---|
| ***Common equity tier 1 capital (CET1)*** | | | | |
| Capital instruments eligible as CET1 | 26 (1) (a) (b), 27 to 30, 23 (1) (f), 42 | 2,335,688,434.13 | 2,335,688,434.13 | |
| Own CET1 instruments | 36 (1) (f), 42 | -81,716,271.22 | -81,716,271.22 | |
| Retained earnings | 26 (1) (c), 26 (2) | 8,129,857,089.98 | 8,129,857,089.98 | |
| Interim loss | 36 (1) (a) | 0.00 | 0.00 | |
| Accumulated other comprehensive income | 4 (100), 26 (1) (d) | -324,905,180.83 | -324,905,180.83 | |
| Minority interest recognised in CET1 | 4 (120) 84 | 3,078,469,700.28 | 3,078,469,700.28 | |
| Transitional adjustments due to additional minority interests | 479, 480 | 102,294,487.81 | 0.00 | |
| Prudential filter: cash flow hedge reserve | 33 (1) (a) | -118,199,154.57 | -118,199,154.57 | |
| Prudential filter: cumulative gains and losses due to changes in own credit risk on fair valued liabilities | 33 (1) (b) | -53,540,755.00 | -53,540,755.00 | |
| Prudential filter: fair value gains and losses arising from the institution's own credit risk related to derivative liabilities | 33 (1) (c), 33 (2) | -16,487,886.58 | -16,487,886.58 | |
| Value adjustments due to the requirements for prudent valuation | 34, 105 | -112,975,986.94 | -112,975,986.94 | |
| Regulatory adjustments relating to unrealised gains and losses | 467, 468 | -992,409,559.48 | -248,102,389.87 | |
| Goodwill | 4 (113), 36 (1) (b), 37 | -770,677,782.02 | -770,677,782.02 | |
| Other intangible assets | 4 (115), 36 (1) (b), 37 (a) | -654,114,367.57 | -654,114,367.57 | |
| Deferred tax assets dependent upon future profitability and not temporary differences net of associated tax liabilities | 36 (1) (c), 38 | -103,414,000.00 | -103,414,000.00 | |
| IRB shortfall of credit risk adjustments to expected losses | 36 (1) (d), 40, 158, 159 | -249,069,537.72 | -249,069,537.72 | |
| Other transitional adjustments CET1 | 469 to 472, 478, 481 | 1,397,503,349.85 | 0.00 | |
| Interim loss (80%) | | 0.00 | 0.00 | |
| Goodwill (80%) | | 616,542,225.62 | 0.00 | |
| Other intangibles (80%) | | 523,291,494.06 | 0.00 | |
| IRB shortfall of provisions to expected losses (80%) | | 199,255,630.18 | 0.00 | |
| Deferred tax assets that rely on future profitability and do not arise from temporary differences (100%) | | 58,414,000.00 | 0.00 | |
| Excess of deduction from AT1 items over AT1 | 36 (1) (j) | -943,625,048.76 | 0.00 | |
| **Common equity tier 1 capital (CET1)** | 50 | **10,622,677,531.36** | **10,810,811,912.07** | **11,199,174** |
| ***Additional tier 1 capital (AT1)*** | | | | |
| Capital instruments eligible as AT1 | 51 (a), 52 to 54, 56 (a), 57 | 0.00 | 0.00 | |
| Own AT1 instruments | 52 (1) (b), 56 (a), 57 | -4,000,000.00 | 0.00 | |
| Instruments issued by subsidiaries that are given recognition in AT1 | 85, 86 | 0.00 | 0.00 | |
| Transitional adjustments due to grandfathered AT1 instruments | 483 (4) (5), 484 to 487, 489, 491 | 300,000,000.00 | 0.00 | |
| AT1 instruments of financial sector entities where the institution has a significant investment | 4 (27), 56 (d), 59, 79 | 0.00 | 0.00 | |
| Other transitional adjustments AT1 | 474, 475, 478, 481 | -1,239,625,048.76 | 0.00 | |
| Interim loss (80%) | | 0.00 | 0.00 | |
| Goodwill (80%) | | -616,542,225.62 | 0.00 | |
| Other intangibles (80%) | | -523,291,494.06 | 0.00 | |
| IRB shortfall of provisions to expected losses (40%) | | -99,627,815.09 | 0.00 | |
| Excess of deduction from AT1 items over AT1 | 36 (1) (j) | 943,625,048.76 | 0.00 | |
| **Additional tier 1 capital (AT1)** | 61 | **0.00** | **0.00** | **361,000** |
| **Tier 1 capital - total amount of common equity tier 1 (CET1) and additional tier1 (AT1)** | | **10,622,677,531.36** | **10,810,811,912.07** | **11,560,174** |

| | Article pursuant to CRR | December 2014 Basel 3 Phased-in | December 2014 Basel 3 Final | December 2013 Basel 2.5 |
|---|---|---|---|---|
| ***Tier 2 capital (T2)*** | | | | |
| Capital instruments and subordinated loans eligible as T2 | 62 (a), 63 to 65, 66 (a), 67 | 4,196,741,428.43 | 4,196,741,428.43 | |
| Own T2 instruments | 63 (b) (i), 66 (a), 67 | -71,239,783.76 | -71,239,783.76 | |
| Instruments issued by subsidiaries recognised in T2 | 87, 88 | 331,565,723.00 | 331,565,723.00 | |
| Transitional adjustments due to additional recognition in T2 of instruments issued by subsidiaries | 480 | 227,226,363.56 | 0.00 | |
| Transitional adjustments due to grandfathered T2 instruments and subordinated loans | 483 (6) (7), 484, 486, 488, 490, 491 | 46,547,200.00 | 0.00 | |
| IRB excess of provisions over expected losses eligible | 62 (d) | 409,875,068.20 | 409,875,068.20 | |
| Standardised approach general credit risk adjustments | 62 (c) | 175,303,256.39 | 175,303,256.39 | |
| Other transitional adjustments to tier 2 | 476, 477, 478, 481 | -99,464,301.09 | 0.00 | |
| IRB shortfall of provisions to expected losses (40%) | | -99,627,815.09 | 0.00 | |
| T2 instruments of financial sector entities where the institution has a significant investment | 4 (27), 66 (d), 68, 69, 79 | -408,785.00 | -408,785.00 | |
| Items deductible due to transitional provisions in T2 | 476 to 478, 481 | 0.00 | 0.00 | |
| **Tier 2 capital (T2)** | 71 | **5,216,146,169.73** | **5,041,836,907.26** | **4,206,000** |
| **Short-term subordinated capital (tier-3)** | | 0.00 | 0.00 | 228,000 |
| **Total own funds** | 72 | **15,838,823,701.09** | **15,852,648,819.33** | **15,994,000** |
| **Capital requirement** | 92 (3), 95, 96, 98 | **8,047,233,701.63** | **8,149,633,701.63** | **7,832,000** |
| **CET1 capital ratio** | 92 (2) (a) | **10.6%** | **10.6%** | **11.4%** |
| **Tier 1 capital ratio** | 92 (2) (b) | **10.6%** | **10.6%** | **11.8%** |
| **Total capital ratio** | 92 (2) (c) | **15.7%** | **15.6%** | **16.3%** |

## d) Consolidated capital requirements

| Risk structure according to the EU regulation 575/2013 (CRR) | | December 2014 | | December 2013 | |
|---|---|---|---|---|---|
| | **Article pursuant to CRR** | **Calculation base /total risk (phased-in)** | **Capital requirement (phased-in)** | **Calculation base /total risk** | **Capital requirement** |
| Risk weighted assets (credit risk) | 92 (3) (a) (f) | 85,556,257,107.43 | 6,844,500,568.59 | 84,857,000 | 6,788,000 |
| Standardised approach | | 17,243,745,741.17 | 1,379,499,659.29 | 19,590,000 | 1,567,000 |
| IRB approach | | 68,312,511,366.26 | 5,465,000,909.30 | 65,267,000 | 5,221,000 |
| Settlement Risk | 92 (3) (c) (ii), 92 (4) (b) | 114,844.00 | 9,187.52 | 0 | 0 |
| Trading book, foreign FX risk and commodity risk | 92 (3) (b) (i) and (iii), 92 (4) (b) | 3,208,652,686.54 | 256,692,214.92 | 2,852,000 | 228,000 |
| Operational Risk | 92 (3) (e), 92 (4) (b) | 10,277,126,350.00 | 822,170,108.00 | 10,192,000 | 816,000 |
| Exposure for CVA | 92 (3) (d) | 1,548,270,282.39 | 123,861,622.59 | 0 | 0 |
| Other exposure amounts incl. Basel 1 floor | 3, 458, 459, 500 | 0.00 | 0.00 | 0 | 0 |
| **Total Risk Exposure Amount** | 92 (3), 95, 96, 98 | **100,590,421,270.36** | **8,047,233,701.63** | **97,901,000** | **7,832,000** |

| Risk structure according to the EU regulation 575/2013 (CRR) | | December 2014 | | December 2013 | |
|---|---|---|---|---|---|
| | **Article pursuant to CRR** | **Calculation base /total risk (final)** | **Capital requirement (final)** | **Calculation base /total risk** | **Capital requirement** |
| Risk weighted assets (credit risk) | 92 (3) (a) (f) | 86,836,257,107.43 | 6,946,900,568.59 | 84,857,000 | 6,788,000 |
| Standardised approach | | 17,243,745,741.17 | 1,379,499,659.29 | 19,590,000 | 1,567,000 |
| IRB approach | | 69,592,511,366.26 | 5,567,400,909.30 | 65,267,000 | 5,221,000 |
| Settlement Risk | 92 (3) (c) (ii), 92 (4) (b) | 114,844.00 | 9,187.52 | 0 | 0 |
| Trading book, foreign FX risk and commodity risk | 92 (3) (b) (i) und (iii), 92 (4) (b) | 3,208,652,686.54 | 256,692,214.92 | 2,852,000 | 228,000 |
| Operational Risk | 92 (3) (e), 92 (4) (b) | 10,277,126,350.00 | 822,170,108.00 | 10,192,000 | 816,000 |
| Exposure for CVA | 92 (3) (d) | 1,548,270,282.39 | 123,861,622.59 | 0 | 0 |
| Other exposure amounts incl. Basel 1 floor | 3, 458, 459, 500 | 0.00 | 0.00 | 0 | 0 |
| **Total Risk Exposure Amount** | 92 (3), 95, 96, 98 | **101,870,421,270.36** | **8,149,633,701.63** | **97,901,000** | **7,832,000** |

# 24. List of assets pledged as collateral for liabilities (acc. to sec. 64 [1] no. 8 Federal Banking Act)

| Assets | 31/12/2014 | Disability description | Balance sheet item |
|---|---|---|---|
| **Collateral pool for covered Erste Bank bonds:** | | | |
| Fixed-income securities | 1,222,127,494.88 | Covered Erste Bank bonds | Liability 3 |
| **OeNB asset pool (tender):** | | | |
| Fixed-income securities / Credit Claims | 500,029,166.67 | Refinancing by OeNB / ECB | Liability 1 |
| **Pledge agreements:** | | | |
| Money market loan | 582,613,902.03 | Guarantees and contingent liabilities pledged as collateral | |
| **Collateral for OTC derivatives:** | | | |
| Cash collateral | 702,563,340.68 | Other liabilities | Liability 4 |
| Securities collateral | 15,169,000.00 | Other liabilities | Liability 4 |
| ***Total*** | ***3,022,502,904.25*** | | |
| **Collateral for exchange-traded derivatives:** | | | |
| Securities collateral | 55,190,724.94 | UBS margin requirement | |
| Cash collateral | 4,273.63 | Hungary margin requirement | |
| Cash collateral | 24,889,977.72 | Poland margin requirement | |
| ***Total*** | ***80,084,976.29*** | | |
| **Blocked securities account as collateral with Österreichische Kontrollbank AG:** | | | |
| Fixed-income securities | 30,210,665.51 | Margin requirement | |
| **Collateral pool for municipal and mortgage bonds:** | | | |
| Loans and advances to customers | 803,575,399.70 | Issued municipal and mortgage bonds | Liability 3 |
| Fixed-income securities | 483,714,784.17 | Issued municipal and mortgage bonds | Liability 3 |
| ***Total*** | ***1,317,500,849.38*** | | |
| ***Total*** | ***4,420,088,729.92*** | | |

# 25. Total volume of unsettled derivatives

| | | Time to maturity for notional amounts | | | |
|---|---|---|---|---|---|
| | | < 1 year | 1-5 years | 5 years | total |
| **INTEREST RATE CONTRACTS** | | **60,687,090,503.87** | **186,490,145,320.94** | **143,506,196,760.80** | **390,683,432,586.61** |
| OTC products: | | | | | |
| Interest rate options | Purchase | 4,054,446,884.56 | 14,484,672,801.52 | 9,540,838,205.25 | 28,079,957,891.33 |
| | Sale | 3,405,372,035.39 | 14,302,391,962.59 | 10,952,745,451.05 | 28,660,509,449.03 |
| Interest rate swaps | Purchase | 26,438,661,584.67 | 78,847,944,618.89 | 61,511,884,176.25 | 166,798,490,379.81 |
| | Sale | 26,438,661,584.67 | 78,855,135,937.93 | 61,500,728,928.25 | 166,794,526,451.85 |
| FRAs | Purchase | 0.00 | 0.00 | 0.00 | 0.00 |
| | Sale | 344,203,400.59 | 0.00 | 0.00 | 344,203,400.59 |
| Exchange-traded products | | | | | |
| Futures | | 5,745,014.00 | 0.00 | 0.00 | 5,745,014.00 |
| Interest rate options | | 0.00 | 0.00 | 0.00 | 0.00 |
| **CURRENCY CONTRACTS** | | **68,023,899,271.91** | **39,879,185,049.44** | **6,229,185,116.23** | **114,132,269,437.58** |
| OTC products: | | | | | |
| Currency options | Purchase | 1,669,198,175.56 | 114,873,397.49 | 41,463,854.36 | 1,825,535,427.41 |
| | Sale | 1,611,048,972.87 | 130,694,433.17 | 41,560,854.36 | 1,783,304,260.40 |
| Currency swaps | Purchase | 32,316,421,854.88 | 19,810,142,760.80 | 3,089,486,517.73 | 55,216,051,133.41 |
| | Sale | 32,405,769,569.98 | 19,823,474,457.98 | 3,056,673,889.78 | 55,285,917,917.74 |
| FRAs | Kauf | 4,752,065.41 | 0.00 | 0.00 | 4,752,065.4 |
| | Verkauf | 5,803,178.56 | 0.00 | 0.00 | 5,803,178.6 |
| Exchange-traded products | | | | | |
| Futures | | 10,905,454.66 | 0.00 | 0.00 | 10,905,454.66 |
| Currency options | | 0.00 | 0.00 | 0.00 | 0.00 |
| **SECURITIES-RELATED CONTRACTS** | | **2,589,500,381.60** | **5,236,263,392.09** | **780,825,807.48** | **8,606,589,581.17** |
| OTC products: | | | | | |
| Equity options | Purchase | 364,132,496.21 | 844,737,945.16 | 446,685,807.47 | 1,655,556,248.84 |
| | Sale | 230,986,071.33 | 421,627,718.92 | 228,720,000.01 | 881,333,790.26 |
| Equity swaps | Purchase | 811,255,248.66 | 1,968,419,871.62 | 52,710,000.00 | 2,832,385,120.28 |
| | Sale | 811,255,248.66 | 1,953,867,856.39 | 52,710,000.00 | 2,817,833,105.05 |
| Exchange-traded products | | | | | |
| Futures | | 207,755,309.84 | 0.00 | 0.00 | 207,755,309.84 |
| Stock options | | 164,116,006.90 | 47,610,000.00 | 0.00 | 211,726,006.90 |
| **COMMODITY CONTRACTS** | | **418,288,868.13** | **293,084,089.55** | **0.00** | **711,372,957.68** |
| OTC products: | | | | | |
| Commodity options | Purchase | 5,818,604.26 | 106,458,834.77 | 0.00 | 112,277,439.03 |
| | Sale | 6,129,742.10 | 89,358,467.59 | 0.00 | 95,488,209.69 |
| Commodity swaps | Purchase | 211,099,890.78 | 49,501,695.70 | 0.00 | 260,601,586.48 |
| | Sale | 181,047,201.51 | 47,765,091.49 | 0.00 | 228,812,293.00 |
| Exchange-traded products | | | | | |
| Futures | | 14,185,192.93 | 0.00 | 0.00 | 14,185,192.93 |
| COMMODITY options | | 8,236.55 | 0.00 | 0.00 | 8,236.55 |
| **CREDIT DERIVATIVES** | | **179,668,276.91** | **710,673,909.13** | **734,035,196.18** | **1,624,377,382.22** |
| OTC products: | | | | | |
| Credit default swaps | Purchase | 61,143,276.91 | 364,387,984.06 | 240,378,093.52 | 665,909,354.49 |
| | Sale | 118,525,000.00 | 346,285,925.07 | 493,657,102.66 | 958,468,027.73 |
| **OTHER** | | **82,000,000.00** | **736,843,576.80** | **1,717,202,878.66** | **2,536,046,455.46** |
| OTC products: | | | | | |
| Other options | Purchase | 10,000,000.00 | 22,060,000.00 | 0.00 | 32,060,000.00 |
| | Sale | 10,000,000.00 | 11,030,000.00 | 0.00 | 21,030,000.00 |
| Other swaps | Purchase | 31,000,000.00 | 392,376,788.40 | 1,060,601,439.33 | 1,483,978,227.73 |
| | Sale | 31,000,000.00 | 311,376,788.40 | 656,601,439.33 | 998,978,227.73 |
| **TOTAL** | | **131,980,447,302.43** | **233,346,195,337.95** | **152,967,445,759.35** | **518,294,088,400.73** |
| thereof OTC products in thousand | | 131,577,732.09 | 233,298,585.34 | 152,967,445.76 | 517,843,763.18 |
| thereof exchange-traded products in thousand | | 402,715.21 | 47,610.00 | 0.00 | 450,325.21 |

# 26. Derivative financial instruments and fixed-asset financial instruments acc. to the Fair-Value Valuation Act

## a) Derivative Financial Instruments

| | Notional amount Purchase | Notional amount Sale | Carrying amount | Fair value positive | Fair value negative |
|---|---|---|---|---|---|
| **INTEREST RATE CONTRACTS** | | | | | |
| *OTC products:* | | | | | |
| Interest rate options | 28,079,957,891.33 | 28,660,509,449.03 | -51,624,298.96 | 1,671,401,937.87 | -1,615,925,876.03 |
| Interest rate swaps | 166,798,490,379.81 | 166,794,526,451.85 | 369,011,181.13 | 8,892,194,736.09 | -7,234,827,966.24 |
| FRAs | 0.00 | 344,203,400.59 | 223,219.64 | 231,395.80 | -8.176,16 |
| *Exchange-traded products* | | | | | |
| Futures | 2,437,121.57 | 3,307,892.43 | 0.00 | 0.00 | 0,00 |
| Interest rate options | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| **CURRENCY CONTRACTS** | | | | | |
| *OTC products:* | | | | | |
| Currency options | 1,825,535,427.41 | 1,783,304,260.40 | 13,311,586.24 | 65,936,446.56 | -43,527,807.69 |
| Currency swaps | 55,216,051,133.41 | 55,285,917,917.74 | 55,677,144.48 | 269,974,216.20 | -204,957,752.00 |
| FRAs | 4,752,065.41 | 5,803,178.56 | 826.36 | 233,815.47 | -232.989,11 |
| *Exchange-traded products* | | | | | |
| Futures | 0.00 | 10,905,454.66 | 0.00 | 0.00 | 0,00 |
| Currency options | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| **SECURITIES-RELATED CONTRACTS** | | | | | |
| *OTC products:* | | | | | |
| Stock options | 1,655,556,248.84 | 881,333,790.26 | 16,440,699.45 | 105,431,647.49 | -99,807,783.24 |
| Equity swaps | 2,832,385,120.28 | 2,817,833,105.05 | 88,001,832.89 | 204,822,669.22 | -102,634,616.05 |
| *Exchange-traded products* | | | | | |
| Futures | 180,342,560.75 | 27,412,749.09 | 0.00 | 0.00 | 0,00 |
| Stock options | 29,654,356.90 | 182,071,650.00 | -2,765,968.45 | 1,216,763.55 | -3,982,732.00 |
| **COMMODITY CONTRACTS** | | | | | |
| *OTC products:* | | | | | |
| Commodity options | 112,277,439.03 | 95,488,209.69 | 358,565.39 | 3,504,707.75 | -2,613,298.66 |
| Commodity swaps | 260,601,586.48 | 228,812,293.00 | -105,401.62 | 20,245,006.54 | -20,683,220.69 |
| *Exchange-traded products* | | | | | |
| Futures | 12,494,994.43 | 1,690,198.50 | 0.00 | 0.00 | 0,00 |
| Commodity options | 8,236.55 | 0.00 | 51,890.29 | 51,890.29 | 0.00 |
| **CREDIT DERIVATIVES** | | | | | |
| *OTC products:* | | | | | |
| Credit default options | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Credit default swaps | 665,909,354.49 | 958,468,027.73 | -4,591,013.76 | 22,736,893.36 | -27,586,228.88 |
| **OTHER** | | | | | |
| OTC products: | | | | | |
| Inflation options | 32,060,000.00 | 21,030,000.00 | 950,613.35 | 412,031.86 | -218,904.50 |
| Inflation swaps | 1,483,978,227.73 | 998,978,227.73 | -35,375,451.01 | 89,026,749.83 | -67,239,689.24 |
| **OTC products:** | 258,967,554,874.22 | 258,876,208,311.63 | 452,279,503.58 | 11,346,152,254.03 | -9.420.264.308,49 |
| **Exchange-traded products** | 224,937,270.20 | 225,387,944.68 | -2,714,078.16 | 1,268,653.84 | -3,982,732.00 |
| **TOTAL** | **259,192,492,144.42** | **259,101,596,256.31** | **449,565,425.42** | **11,347,420,907.87** | **-9,424,247,040.49** |

| STRUCTURE EXTERNAL/INTERNAL DEALS | Notional amount Purchase | Notional amount Sale | Carrying amount | Fair value positive | Fair value negative |
|---|---|---|---|---|---|
| external deals | 209,642,075,771.6 | 210,306,562,025.6 | 1,409,827,575.9 | 9,284,644,715.7 | -7,361,470,848.3 |
| internal deals | 49,550,416,372.8 | 48,795,034,230.7 | -960,262,150.5 | 2,062,776,192.2 | -2,062,776,192.2 |

| STRUCTURE TRADING BOOK/BANKING BOOK | Notional amount Purchase | Notional amount Sale | Carrying amount | Fair value positive | Fair value negative |
|---|---|---|---|---|---|
| Trading Book | 220,348,825,943.8 | 220,770,606,929.7 | 217,568,127.4 | 8,686,808,647.3 | -8,469,240,520.0 |
| Banking Book | 38,843,666,200.6 | 38,330,989,326.6 | 231,997,298.1 | 2,660,612,260.5 | -955,006,520.5 |
| *thereof Hedges* | *31,612,045,006.1* | *31,103,729,103.1* | *281,108,049.8* | *2,537,479,950.4* | *-824,419,764.2* |

| The book values are enclosed in following balance sheet items: | |
|---|---|
| A12 Other assets | 9,109,502,653.3 |
| A14 Prepayments and accrued income | 120,555,886.5 |
| | |
| P04 Other liabilities | 8,496,708,526.2 |
| P05 Accruals and deferred income | 204,878,848.3 |
| P06 Provisions | 78,905,740.0 |
| | |
| **Total** | **449,565,425.4** |

## b) Finanzinstrumente des Anlagevermögens

| | Carrying amount | Fair value positive | Hidden losses | Hidden reserves |
|---|---|---|---|---|
| Treasury bills | 56,786,776.06 | 56,352,968.66 | -433,807.40 | |
| | 4,623,710,840.80 | 5,052,651,328.47 | | 428,940,487.67 |
| Loans and advances to credit institutions | 600,100,374.98 | 564,939,136.65 | -35,161,238.34 | |
| | 755,144,070.71 | 768,035,136.65 | | 12,891,065.94 |
| Loans and advances to customers | 611,116,658.98 | 600,941,542.73 | -10,175,116.25 | |
| | 291,446,954.49 | 295,749,031.89 | | 4,302,077.40 |
| Debt securities | 445,952,402.01 | 431,907,801.45 | -14,044,600.56 | |
| | 2,064,935,703.26 | 2,194,714,217.63 | | 129,778,514.37 |
| Shares | 153,794,469.97 | 146,216,443.80 | -7,578,026.17 | |
| | 34,286,698.38 | 35,292,392.00 | | 1,005,693.62 |
| **Total** | **1,867,750,682.00** | **1,800,357,893.28** | **-67,392,788.72** | |
| | **7,769,524,267.64** | **8,346,442,106.64** | | **576,917,839.00** |

Assets were not impaired, since the impairment is not presumed to be permanent. The fair value is the amount that could be attained in an active market through the sale of a financial instrument, or correspondingly the amount that would be payable for its purchase. Market prices were used to determine fair value where available. Where no market price was available, valuation models were used, particularly the net present value method.

The fair value of options was determined using accepted option pricing models. The valuation models used include models of the Black-Scholes class, binomial models, as well as Hull-White and BGM models.

## 27. Fair value for securities in inactive markets

Erste Group AG calculates theoretical prices for securities in an inactive market. A market is assumed to be inactive when prices for the relevant security are formed only sporadically, there is only small-volume trading or no current prices are available.

Of the securities admitted for trading at stock exchanges and marked to market, theoretical prices were used for the following volumes:

| Carrying value of securities not marked on the basis of market prices | Fair value on the basis of the price in the inactive market | Difference |
|---|---|---|
| 767,702,386.77 | 774,715,263.69 | 7,012,876.92 |
| 0.00 | no current price available | n,a, |

## 28. Reclassification in securities positions

In 2014 no need for reclassification of trading positions to the current asset portfolio was deducted by reviewing the abidance by the Kriterienkatalog.

## 29. Hedging transactions

Erste Group Bank AG uses interest rate swaps, currency swaps and options to hedge against future cash flows or the market risk (interest rate, exchange rate and price risk) resulting from balance sheet assets (bonds, loans) and liabilities (own issues, promissory notes, loans) on an individual basis or as a group.

Derivatives are used as specified by the hedging strategy in accordance with the Austrian Commercial Code to hedge the fair value of underlying transactions (e.g. by swapping fixed for variable interest payments) and payment streams (e.g. by swapping variable for fixed interest payments) thereby reducing the interest rate risk of Erste Group Bank AG to the level defined under the interest risk strategy.

| | **31/12/2014** | 31/12/2013 | Change |
|---|---|---|---|
| Positive market value fair value hedge | 2,045,172,861.72 | 1,256,719,060.32 | 788,453,801.40 |
| Positive market value cash flow hedge | 90,837,735.26 | 27,913,595.65 | 62,924,139.61 |
| Negative market value fair value hedge | -772,740,094.94 | -761,395,508.89 | -11,344,586.05 |
| Negative market value cash flow hedge | 0.00 | -27,853,665.50 | 27,853,665.50 |
| **Total Positive market values** | **2,136,010,596.98** | **1,284,632,655.97** | **851,377,941.01** |
| **Total Negative market values** | **-772,740,094.94** | **-789,249,174.39** | **16,509,079.45** |

The market values are given based on clean prices. Where market values are negative, they represent off-balance-sheet losses from derivatives in a hedge relationship. As per 31 December 2014, fair value hedges with a 2045 horizon and cash flow hedges with a 2023 horizon were available. The negative market values (accrued interest not considered) of derivatives used to hedge against payment flows are not recognised in the annual financial statements because these payment flows are – with a level of probability verging on certainty – offset by recognised payment counter-flows from the underlying transactions.

Effectiveness is basically measured using critical terms match. Where inadmissible, effectiveness is measured on a quarterly basis. This method retrospectively determines the effectiveness of fair value hedges by comparing the changes in clean market value (accrued interest not considered) between the hedge and the underlying and depicting the hedged risk of the underlying using a separate, technical trade in the trading system. For a prospective determination of the efficiency of fair value hedges, the change in the value of the derivative and the underlying is compared at a point when the interest rate curve shifts one basis point. To determine the efficiency of cash flow hedges retrospectively as well as prospectively, the same methods as for fair value hedges is being used.

## 30. Consideration of CVA/DVA in derivative valuation

Credit value adjustments (CVA) for counterparty default risk and debit value adjustments (DVA) for own credit risk are carried out for all OTC derivatives. The CVA adjustment depends on the expected positive exposure and the counterparty's credit standing. DVA is determined by the expected negative exposure and by the credit quality of Erste Group Bank AG. For the major product classes, the procedure implemented at Erste Group Bank AG for the calculation of expected exposure is based on a model that relies on replicated options and on a Monte Carlo simulation respectively. For several products, which cannot be represented using the above-mentioned procedure, exposure calculation is based on a (market value + add-on) method. The default probability of counterparties not actively traded in the market is calculated by adjusting the internal PDs using a basket of liquid issuers (active in the Central European market).This ensures that the valuation method integrates market-based information. Counterparties with liquid bond or CDS markets are assigned market-based probabilities of default that are directly derived from these instruments. The valuation parameters for Erste Group Bank AG are derived from the repurchase price for Erste Group Bank AG bonds. With collateralised derivatives, the effect of collateral received is considered and reduces the CVA amount accordingly. When determining exposure, netting effects are generally taken into account only for counterparties with whom the effect is material. In these cases, both CVAs and DVAs were netted. No CVA was recognised for counterparties fully backed by CSA agreements. However, where the thresholds were not equal to zero, CVAs/DVAs for these customers were calculated using a netting approach, with the respective threshold applying as upper limit for simulated exposure. For customers with a unilateral CSA contract, only the respective shares was taken into account, i.e. no DVA was calculated if the bank paid but did not receive any collateral. Where collateral is paid but not received by the counterparty, the DVA is not computed, whereas the CVA continues to be calculated.

For portfolios that are marked-to-market both a CVA and a DVA in the amount of EUR -21,996,575.00 and EUR 9,887,649.00, respectively, were recognised. In due application of the principle of prudence, a CVA in the amount of EUR -4,702,742.00 was recognised for the banking book.

## 31. Risk provisions

Changes in risk provisions (loans and advances to credit institutions and to customers as well as contingent liabilities):

| | **31/12/2014** | 31/12/2013 |
|---|---|---|
| At the beginning of the year | 727,530,104.54 | 663,794 |
| use | -206,219,031.57 | -237,184 |
| releases | -184,595,580.85 | -149,112 |
| additions | 430,786,413.61 | 424,955 |
| reclassification* | -36,758,033.00 | 0 |
| transfer in Immorent Bank AG merger | 0.00 | 30,928 |
| changes in valuation of foreign currency | 6,502,054.15 | -5,851 |
| At end of year | **737,245,926.88** | **727,530** |

*The reclassification concerns the removal of the suspended interest 2013.

## 32. Contingent liabilities

EUR 4,290,050,352.04 (prior year: EUR 4,611,719 thousand) of the contingent liabilities refer to guarantees and warranties from the pledging of collateral and EUR 538,234,574.39 (prior year: EUR 346,476 thousand) to credit derivatives. Any required provisions were subtracted from the contingent liabilities.

## 33. Credit risk

Credit risk accounts in the amount of EUR 6,168,637,703.56 (prior year: EUR 5,602,048 thousand) for loan and guarantee commitments are not yet exercised. Required provisions are deducted. These amounts are net of the appropriate provisions.

# IV. Notes to the Income Statement

Unless indicated otherwise, amounts for the reporting year are stated in euros, for the previous year in thousand euros.

## 1. Gross income – regional breakdown

The breakdown by region (according to the location of entities) of gross income of Erste Group Bank AG was as follows:

| | | | **2014** | | | 2013 |
|---|---|---|---|---|---|---|
| | **Domestic** | **Abroad** | **Total** | Domestic | Abroad | Total |
| Interest and similar income | 914,617,261.76 | 110,853,812.85 | 1,025,471,074.61 | 1,469,016 | 91,385 | 1,560,401 |
| Income from securities and participating interests | 27,245,840.06 | 492,491.76 | 27,738,331.82 | 145,640 | 3 | 145,643 |
| Commission income | 157,892,426.60 | 3,596,405.80 | 161,488,832.40 | 164,940 | 4,373 | 169,313 |
| Income from financial operations | 1,465,589.86 | 753,196.68 | 2,218,786.54 | 57,897 | 365 | 58,262 |
| Other operating income | 77,445,140.59 | 249,516.93 | 77,694,657.52 | 28,119 | 161 | 28,280 |
| **Total** | **1,178,666,258.87** | **115,945,424.02** | **1,294,611,682.89** | **1,865,612** | **96,289** | **1,961,900** |

## 2. Income from participating interests and shares in affiliated undertakings

Profits of affiliated undertakings (subsidiaries that are considered a tax group with Erste Group Bank AG under the group taxation regulations of 2005) posted in the income statement of Erste Group Bank AG under income from participating interests and shares in affiliated undertakings amounted to EUR 90,000.00 in 2014 (prior year: EUR 101,073 thousand).

## 3. Other operating income

Other operating income in the amount of EUR 77,694,657.52 (prior year: EUR 28,280 thousand) includes income from personnel and administrative expenses passed along to affiliated companies in the amount of EUR 71,007,431.67. Hitherto, they had been recognised as general administrative expenses in reduce expenses. In 2013, this item had further included proceeds from the sale of real estate in the amount of EUR 16,734 thousand.

## 4. Personnel expenses

In terms of personnel expenses, expenses for severance payments and payments to severance-payment funds included expenses for severance payments in the amount of EUR 9,398,450.03 (prior year: EUR 1,424 thousand).

## 5. Other administrative expenses

Other administrative expenses include fees paid for auditing and tax advisory services. The table below lists the fees charged by the auditors (these are mainly Sparkassen-Prüfungsverband and Ernst & Young):

| | **2014** | 2013 |
|---|---|---|
| Fees charged for auditing the financial statements | 2,929,789.62 | 2,631 |
| Fees charged for audit-related services | 2,380,593.17 | 3,080 |
| Fees charged for tax advisory services | 167,949.86 | 342 |
| **Total** | **5,478,332.65** | **6,053** |

## 6. Other operating expenses

Other operating expenses of Erste Group Bank AG, which amounted to EUR 9,075,577.10 (prior year: EUR 8,222 thousand), essentially consisted of insurance payments against operational risk in the amount of EUR 6,707,231.11 (prior year: EUR 5,612 thousand).

## 7. Value adjustments in respect of transferable securities held as financial fixed assets, participating interests and shares in affiliated undertakings

During the reporting year, requirements for impairment for affiliated undertakings (subsidiaries that are considered a tax group with Erste Group Bank AG under the group taxation regulations of 2005) amounted to EUR 89,740,203.00 (prior year: EUR 56,259 thousand), with EUR 89,740,203.00 (prior year: EUR 56,259 thousand) attributable to the write-down of Erste Group Immorent AG. The profit from sales for affiliated undertakings amounted to EUR 4,482.81 (prior year: EUR 0 thousand).

## 8. Taxes on profit and loss

Under the item taxes on profit or loss, tax income amounted to EUR 100,963,127.33 (prior year: EUR 11,375 thousand).Net income from taxes on profit or loss was EUR 65,841,726.84 (prior year: EUR 53,502 thousand) under the current tax allocation system while tax revenue from foreign taxes on income of previous years amounted to EUR 10,882,268.13 (prior year: payment of EUR 1,931 thousand) according to section 9 Corporate Tax Act *(Körperschaftssteuergesetz*) on group taxation.

Since 2005, Erste Group Bank AG and its main domestic subsidiaries have formed a tax group in accordance with section 9 Corporate Tax Act, with Erste Group Bank AG as parent of the group ("*Gruppenträger*").Group and tax equalisation agreements were concluded with all affiliated undertakings. Under these agreements, affiliated undertakings allocate amounts equivalent to the corporation tax on taxable profits to Erste Group Bank AG. Since tax losses from prior years are recorded and offset against their current tax liability by the affiliated undertakings themselves, there is no obligation to make tax allocation payments to Erste Group Bank AG. Moreover, Erste Group Bank AG undertakes to make compensatory payments for any tax losses utilised up to that point to affiliated undertakings leaving the Group. Future tax liabilities resulting from these constellations were allocated to reserves if their realisation was probable. Liabilities with a low probability of occurrence were not allocated to reserves due to their quasi-permanent nature.

The principal expenses under this item are foreign income tax and other foreign income-related taxes of EUR 2,046,091.42 (prior year: EUR 4,260 thousand).

## 9. Extraordinary income

This comprises received profit distributions that, in financial terms, represent the return of a capital contribution by equity investors and do not have the nature of an income from investments attainable over the longer term.

## 10. Result from mergers

As at 31 August 2014, EGB Ceps Holding GmbH first merged with EGB Ceps Beteiligungen GmbH and then with Ersten Group Bank AG (up-stream merger).As the carrying amount of the investment of Erste Group Bank AG was higher than the balance of the acquired carrying amounts, a book loss in the amount of EUR 5.554.031.997,44 was realised which recognised in the special item "result from mergers". The approval of the financial market authority was given as of February 2, 2015. The registration at the commercial register has not been effected.

## 11. Changes in reserves

In the reporting year 2014, reserves in the amount of EUR 5,822,779,553.34 were released (prior year: EUR 57,418 thousand).

## 12. Branches on a consolidated basis

| Name | **London Branch** | **New York branch** | **Hong Kong branch** | **Berlin branch and Stuttgart** |
|---|---|---|---|---|
| Business areas | Commercial lending to foreign banks, leasing companies and state debtors | | | Institutional sales |
| *Country of branch's domicile* | *Great Britain* | *USA* | *China* | *Germany* |
| Net interest in EUR | 36,831,210.81 | 43,301,384.27 | 19,426,015.48 | 786.3 |
| Operating income in EUR | 39,805,941.74 | 44,145,366.68 | 19,487,219.93 | 949.71 |
| Number of employees | 31 | 23 | 23 | 14 |
| Net profit before tax in EUR | 11,590,514.48 | 29,653,282.23 | 12,110,035.81 | -5,144,565.86 |
| Taxes on income in EUR | -657,449.44 | 427,029.96 | -2,412,573.94 | -60,755.13 |
| State aid received | none | none | none | none |

## 13. Return on assets

Net profit for the year before changes in reserves expressed in proportion to total assets was -9% in 2014 (prior year: 0.1%).

Return on assets is negative due to the year-end loss.

# V. Information on board members and employees

## 1. Employees

The average number of employees at Erste Group Bank AG (weighted, excluding employees on leave and Management board members) was 1,911.7 during the financial year 2014 (prior year: 1,829.5).

Of these, 277 employees (prior year: 242) worked for other companies in exchange for reimbursed expenses. Total reimbursement was EUR 22,394,906.78 (prior year: EUR 23,907 thousand) and was recognized under Other Operative Income (prior year: as a factor that decreased costs - under general administrative expenses).

## 2. Board members

At the end of 2013, loans and advances granted to members of the management board totalled EUR 0.00 (prior year: EUR 118 thousand). Loans to members of the supervisory board totalled EUR 0.00 (prior year: EUR 169 thousand). The applicable interest rates and other terms (maturity dates and collateral) represent market conditions.

### a) Management board members

The remuneration paid to the management board in 2014 is as follows:

**Remuneration**

| **Fixed salaries** | **Financial year 2014** | Financial year 2013 |
|---|---|---|
| Andreas Treichl | 1,333,725.68 | 1,262 |
| Franz Hochstrasser | 792,375.08 | 750 |
| Herbert Juranek | 666,862.72 | 631 |
| Gernot Mittendorfer | 632,999.92 | 633 |
| Andreas Gottschling | 633,000.08 | 211 |
| **Total** | **4,058,963.48** | **3,487** |

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.

Apart from performance-linked remuneration and share-equivalents for the financial year 2013, deferred portions of performance-linked remuneration for previous years was also paid out or vested in 2014.

| **Performance linked remuneration** | **Financial year 2014** | | | | Financial year 2013 | | | |
|---|---|---|---|---|---|---|---|---|
| | for 2013 | | for previous years ** | | for 2012 | | for previous years | |
| | cash in EUR | Share equivalent in units * | cash in EUR | Share equivalent in units | cash in EUR | Share equivalent in units | cash in EUR | Share equivalent in units |
| Andreas Treichl | 225,232.40 | 10,881 | 122,224.71 | 5,502 | 392,626.40 | 24,898 | 65,424.71 | 2,182 |
| Franz Hochstrasser | 167,000.00 | 6,918 | 71,069.24 | 3,083 | 203,000.00 | 12,449 | 42,669.24 | 1,423 |
| Herbert Juranek | 56,400.00 | 2,365 | 32,886.36 | 1,498 | 120,000.00 | 7,013 | 16,886.36 | 563 |
| Gernot Mittendorfer | 69,140.00 | 3,145 | 17,200.00 | 1,005 | 129,000.00 | 7,539 | 0.00 | 0 |
| Andreas Gottschling | 30,000.00 | 1,285 | 0.00 | 0 | 0.00 | 0 | 0.00 | 0 |
| **Total** | **547,772.40** | **24,594** | **243,380.31** | **11,088** | **844,626.40** | **51,899** | **124,980.31** | **4,168** |

*Share equivalents indicated here have been firmly granted on account of the previous year's result. Pay-outs will be made after a one-year holding period in 2015. Valuation is based on the average, weighted daily share price of Erste Group Bank AG in 2014 amounting to EUR 22.25 per share.

** No performance linked remuneration was paid to members of the management board for the financial year 2011.

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.

The item 'other remuneration' comprises pension fund contributions, contribution to employee provision funds (for new-type severance payments) and remuneration in kind.

| **Other remuneration** | **Financial year 2014** | Financial year 2013 |
|---|---|---|
| Andreas Treichl | 498,202.87 | 470.9 |
| Franz Hochstrasser | 260,256.35 | 177.4 |
| Herbert Juranek | 92,307.77 | 98.8 |
| Gernot Mittendorfer | 88,260.24 | 97.6 |
| Andreas Gottschling | 76,168.66 | 25.8 |
| **Total** | **1,015,195.89** | **870.5** |

In 2014, EUR 2,080,025.94 (prior year: EUR 3,095.3 thousand) was paid in cash and 2,572 share equivalents (prior year: 1,066) were assigned to former members of the management bodies and their dependants.

### Principles of the company retirement plan for the management board

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 applicable to eligibility and claims of the company's management board members in the event of termination of their function**

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.

### b) Supervisory board members

The supervisory board consists of at least three and a maximum of twelve members elected by the Annual General Meeting. Unless the Annual General Meeting has determined a shorter term of office for individual, several or all supervisory board members on the occasion of their appointment, the term of office of the members of the supervisory board ends at the close of the Annual General Meeting that resolves on the approvals of their actions for the fourth business year following their election; re-election is permitted. In addition, membership of the supervisory board ceases upon death, revocation, resignation or in the event of a defined impediment. Revocation requires a majority of three quarter of valid votes cast and a majority of three quarters of the registered capital represented at the time of the resolution.

In 2014, the members of supervisory board of Erste Group Bank AG were paid EUR 770,317.00 (prior year: EUR 833 thousand) for their board function. The following members of the supervisory board received the following remuneration for their board function in fully consolidated subsidiaries of Erste Group Bank AG: Friedrich Rödler EUR 13,750.00, Georg Winckler EUR 5,250.00, John James Stack EUR 40,000.00 and Gunter Griss EUR 52,800.00. No other legal transactions were concluded with members of the supervisory board.

The breakdown of remuneration paid to the supervisory board members was as follows:

| | **2014** | 2013 |
|---|---|---|
| Supervisory Board compensation | 537,317.00 | 638 |
| Meeting fees | 233,000.00 | 195 |
| **Total** | **770,317.00** | **833** |

Pursuant to the decision at the Annual General Meeting of 21 May 2014, the supervisory board adopted in its constituent meeting the following remuneration structure for the financial year 2013:

| | **Number** | **Allowance per person** | **Total allowance** |
|---|---|---|---|
| Chairman | 1 | 100,000.00 | 100,000.00 |
| Vice Chairmen | 2 | 75.000,00 | 150,000.00 |
| Members | 7 | 50,000.00 | 350,000.00 |
| **Total** | **10** | | **600,000.00** |

Information on Erste Group Bank AG shares held by management board and supervisory board members as well as transactions carried out with Erste Group Bank AG shares (numbers of shares) are shown in the following tables. The Erste Group Bank AG shares that management board and supervisory board members, whose office term began or ended during the financial year, held as at the date of inception or termination of their term in office were recognised as additions or disposals.

| **Management board members** | **31/12/2013** | **Additions** | **Disposal** | **31/12/2014** |
|---|---|---|---|---|
| Andreas Treichl | 164,640 | 0 | 0 | **164,640** |
| Franz Hochstrasser | 15,260 | 0 | 0 | **15,260** |
| Herbert Juranek | 656 | 0 | 0 | **656** |
| Gernot Mittendorfer | 2,100 | 7,900 | 0 | **10,000** |
| Andreas Gottschling (from Sept 2013) | 0 | 0 | 0 | **0** |

Supervisory board members did not receive any options on Erste Group Bank AG shares for exercising their office.

| **Supervisory board members** | **31/12/2013** | **Additions** | **Disposal** | **31/12/2014** |
|---|---|---|---|---|
| Friedrich Rödler | 1,702 | 0 | 0 | **1,702** |
| Georg Winckler | 2,500 | 0 | 0 | **2,500** |
| Jan Homan | 4,400 | 0 | 0 | **4,400** |
| Elisabeth Bleyleben-Koren (from May 21, 2014) | 0 | 10,140 | 0 | **10,140** |
| Wilhelm Rasinger | 15,303 | 3,000 | 0 | **18,303** |
| John James Stack | 32,761 | 0 | 0 | **32,761** |
| Markus Haag | 160 | 0 | 0 | **160** |
| Andreas Lachs | 52 | 0 | 0 | **52** |
| Friedrich Lackner (till Dezember 11, 2014) | 500 | 0 | 500 | **0** |
| Bertram Mach | 95 | 0 | 0 | **95** |
| Barbara Pichler | 281 | 0 | 0 | **281** |
| Karin Zeisel | 35 | 0 | 0 | **35** |

Persons related to management board or supervisory board members held 3,786 Erste Group Bank AG shares as of 31 December 2014 (prior year: 3,786).

Expenses for severance payments and pensions for members of the management board and managers amounted to EUR 7,098,756.86 (prior year: EUR 2,591 thousand). Expenses for severance payments and pensions for other employees amounted to EUR 76,480,350.17 (prior year: EUR 34,246 thousand). Each of the amounts indicated includes the required expenses for surviving dependants.

Information pursuant to section 239 (2) Commercial Code regarding management board and supervisory board members is disclosed separately in section 1 of the Appendix to the Notes.

# VI. Appropriation of profit

At the Annual General Meeting, the management board will propose to pay out no dividend (prior year: EUR 0.20) to the shareholders.

# Appendix to the Notes

## 1. Corporate bodies of Erste Group Bank AG

***Supervisory board***

**Friedrich Rödler**
Chairman
Auditor and tax advisor

**Georg Winckler**
1st Vice Chairman
Former rector of the University of Vienna and
Professor emeritus of Economics

**Jan Homan**
2nd Vice Chairman
General Manager, ret.

**Elisabeth Bleyleben-Koren** from 21 May 2014
General Manager, ret.

**Bettina Breiteneder**
Entrepreneur

**Gunter Griss** from 21 May 2014
Lawyer

**Elisabeth Krainer Senger-Weiss** from 21 May 2014
Lawyer

**Brian D. O´Neill**
Vice Chairman Lazard International

**Juan María Nín Génova** until 11 Dezember 2014
CEO „La Caixa“ ret.

**Wilhelm Rasinger**
Consultant

**John James Stack**
CEO ret.

***Delegated by the employees' council***

**Friedrich Lackner** until 11 Dezember 2014
Chairman of the Employees' Council

**Bertram Mach**
Chairman of the Employees' Council

**Barbara Pichler**
Vice Chairwoman of the Employees' Council

**Andreas Lachs**
Vice Chairman of the Employees' Council

**Karin Zeisel**
Member of the Employees' Council

**Markus Haag**
Member of the Employees' Council

***Representatives of the Supervisory Authority***

**Wolfgang Bartsch**
State Commissioner

**Michael Kremser**
Deputy State Commissioner.

**Silvia Maca**
State Controller for Premium Reserve

**Erhard Moser**
Deputy State Controller for Premium Reserve

**Irene Kienzl**
Deputy trustee under the Mortgage Bank Act (Hypothekenbank- und Pfandbriefgesetz)

**Thomas Schimetschek**
Deputy trustee under the Mortgage Bank Act

***Management board***

**Andreas Treichl**
Chairman

**Franz Hochstrasser**
Member

**Andreas Gottschling**
Member

**Herbert Juranek**
Member

**Gernot Mittendorfer**
Member

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.

## 2. Statement of changes in fixed and long-term assets 2014

| | in EUR | At cost as of 01/01/2014 | Additions | Disposals | At cost as of 31/12/2014 | Write-ups acc.to sec.56 (3) Federal Banking Act Currency translations | Accumulated depreciation 31/12/2014 | Carrying amount 31/12/2014 | Carrying amount 01/01/2014 | Write-ups 2014 | Depreciation 2014 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **1.** | **Participating interests** | **280,649,332.37** | **38,575,457.57** | **61,156,222.89** | **258,068,567.05** | **0.00** | **66,470,426.29** | **191,598,140.76** | **254,596,550.15** | **1,485,099.36** | **49,542,102.13** |
| **2.** | **Shares in affiliated undertakings *)** | **11,772,522,039.84** | **8,659,582,301.78** | **9,846,698,778.66** | **10,585,405,562.96** | **0.00** | **5,196,868,169.73** | **5,388,537,393.23** | **11,328,890,052.00** | **0.00** | **210,628,815.91** |
| **3.** | **Intangible assets** | **175,324,141.98** | **24,445,083.33** | **1,216,067.12** | **198,553,158.19** | **0.00** | **131,448,605.91** | **67,104,552.28** | **65,528,936.86** | **0.00** | **22,553,005.18** |
| **4.** | **Tangible assets** | **69,782,712.13** | **4,028,363.28** | **2,573,481.32** | **71,237,594.09** | **0.00** | **51,365,222.56** | **19,872,371.53** | **19,356,031.56** | **0.00** | **3,144,319.98** |
| **5.** | **Securities** | **10,207,468,703.92** | **819,035,719.95** | **1,149,152,351.22** | **9,877,352,072.66** | **8,906,237.32** | **248,983,360.36** | **9,637,274,949.62** | **9,988,640,202.72** | **9,986,415.79** | **56,723,601.64** |
| | Treasury bills and similar securities | 4,780,707,243.94 | 100,868,376.75 | 80,867,454.86 | 4,800,708,165.83 | 3,711,477.29 | 123,922,026.26 | 4,680,497,616.86 | 4,706,944,002.61 | 3,612,971.02 | 50,060,278.66 |
| | Loans and advances to credit institutions | 1,750,984,656.32 | 4,010,000.00 | 408,413,038.61 | 1,346,581,617.71 | 1,528,175.89 | -7,134,652.09 | 1,355,244,445.69 | 1,758,122,316.89 | 1,528,175.89 | 3,085.48 |
| | Loans and advances to customers | 1,010,971,128.18 | 23,021,211.90 | 129,001,036.68 | 904,991,303.40 | 29,523.28 | 2,457,213.22 | 902,563,613.46 | 1,008,605,053.03 | 15,104.57 | 1,528,797.02 |
| | Bonds and other fixed-income securities | 2,479,567,630.18 | 686,128,625.38 | 528,187,971.34 | 2,637,508,284.21 | 3,530,774.66 | 130,150,953.62 | 2,510,888,105.26 | 2,329,239,242.54 | 4,723,878.11 | 5,128,306.05 |
| | Shares and other non-fixed-income securities | 185,238,045.30 | 5,007,505.93 | 2,682,849.73 | 187,562,701.50 | 106,286.20 | -412,180.65 | 188,081,168.35 | 185,729,587.65 | 106,286.20 | 3,134.43 |
| | **Total** | **22,505,746,930.24** | **9,545,666,925.91** | **11,060,796,901.21** | **20,990,616,954.95** | **8,906,237.32** | **5,695,135,784.85** | **15,304,387,407.42** | **21,657,011,773.29** | **11,471,515.15** | **342,591,844.84** |

*) The additions / disposals / accumulated depreciation concerning the shares in affiliated undertakings is including EGB CEPS Holding GmbH's additions / disposals / accumulated depreciation transferred in course of the merger

# 3. Reserves pursuant to sec. 12 Income Tax Act 1988 (already assigned)

| | as at 01/01/2014 | Additions (+) | Disposals (-) | as at 31/12/2014 |
|---|---|---|---|---|
| Investments | 5,133,000.00 | 0.00 | 0.00 | 5,133,000.00 |
| Property and buildings | 0.00 | 0.00 | 0.00 | 0.00 |
| Securities | 0.00 | 0.00 | 0.00 | 0.00 |
| | **5,133,000.00** | **0.00** | **0.00** | **5,133,000.00** |

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

# MANAGEMENT REPORT 2014

# Erste Group Bank AG

## Economic environment in 2014

The global macroeconomy 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 of 2014 was also characterised by rising geopolitical tensions and a surprising and significant decline of oil prices. The financial crisis in Russia was the result of a rapid decline in the Russian rubble 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 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 descending 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 area 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 an annual GDP growth of 0.4%. Both exports and domestic demand contributed to the growth, with exports’ role 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 services. 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 of 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 the 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 dragged on the 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 historic 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.

## Financial performance indicators

### Details on earnings

Owing to the low interest rates, the **net interest income** of Erste Group Bank AG declined by 8.1% to EUR 398.0 million in 2014 (prior year: EUR 433.1 million).

The 81.0% decline in **income from securities and participating interests** to EUR 27.7 million (prior year: EUR 145.6 million) can essentially be attributed to a reduction in income from shares in affiliated undertakings from EUR 103.9 million in the previous year to EUR 2.4 million (requirements for the distribution of dividends in the same year by Erste Bank der Oesterreichischen Sparkassen AG were not met).

Particularly due to the falling away of fee and commission expenses for state-guaranteed bonds, **net commission income** improved by 17.2% to EUR 34.1 million (prior year: EUR 29.1 million).

The decrease in **net profit from financial operations** from EUR 58.3 million in the previous year to EUR 2.2 million in the ongoing financial year was essentially caused by the decline of profit in trading units (by approx. EUR 20 million) and the reduction in strategic FX-positions in 2013 (by approx. EUR 27 million). Furthermore, due to changes in 2014, derivatives in money market transactions shifted from the trading result to net interest income, as a result of which the trading result was down by approx. EUR 10 million on the previous year.

Pass-through cost items are now included under **other operating income** and not offset against the respective expense, as previously was the case. This position thus increased by 174.6% from EUR 28.3 million to EUR 77.7 million, with pass-through costs amounting to EUR 71.0 million.

As a result, **operating income** of Erste Group Bank AG decreased by 22.3% to EUR 539.8 million (prior year: EUR 694.4 million).

In addition to salaries (both fixed and variable) and social expenses, **personnel expenses** also include expenses for long-term employee provisions and pension fund contributions. Total personnel expenses increased by 41.1% to EUR 309.2 million (prior year: EUR 219.2 million).In the process, the actuarial losses from long-term employee provisions, which must be recognised as income, rose by EUR 47.8 to EUR 53.5 million in the reporting year.

The **number of employees** at Erste Group Bank AG (in full-time equivalents) was up by 4.2% and compares to the previous year as follows:

| | **as at 31/12/2014** | **as at 31/12/2013** |
|---|---|---|
| Domestic | 2,000.4 | 1,918.6 |
| International | 91.0 | 89.0 |
| *London* | *31.0* | *32.0* |
| *New York* | *23.0* | *22.0* |
| *Hong Kong* | *23.0* | *22.0* |
| *Germany* | *14.0* | *13.0* |
| **Total** | **2,091.4** | **2,007.6** |
| *of which on unpaid leave* | *161.6* | *166.7* |

**Other administrative expenses** increased by 27.2% to EUR 229.0 million (prior year: EUR 180.1 million), with costs increasing particularly due to a rise in non-capitalised IT investments and/or recognition of pass-through costs in gross terms.

**Value adjustments on tangible fixed assets** increased by 5.8% from EUR 24.3 million in the previous year to EUR 25.7 million. This rise was also due to higher impairment losses incurred on account of software solutions that were not put into operation.

As a result, **operating expenses** grew by 32.7% to EUR 573.1 million (prior year: EUR 431.8 million).

**Net operating income** turned negative from EUR 262.5 million in the prior year to EUR -33.3 million in financial year 2014 and, at 106.02%, the **cost-income ratio** (operating expenses as a percentage of operating income) was clearly above prior year's figure of 62.2%.

Owing to the economic recovery of individual key accounts, **required net allocation** for **receivables** (including receivable write-offs offset against income from written off receivables and cancellation of valuation allowances as well as risk provisions) increased from EUR 292.8 million in the previous year to EUR 244.5 million in the financial year 2014.

**Current asset securities (**valuation and gains) as well as the income and value adjustment positions on **participating interests and fixed-asset securities** was EUR -256.4 million in 2014 (prior year: EUR -63.1 million).In 2014, the additional need for impairment in investments (primarily Immorent, EB Malta, BCR) negatively affected profit.

Accordingly, **pre-tax profit for the year** decreased from EUR - 93.3 million in the previous year to EUR -534.2 million in the reporting year 2014.

**Extraordinary income** declined particularly due to the lower profit distributed (distribution not resulting from operating income) by Ceps (less by EUR 150.0 million).

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

**Tax on profit** mainly comprised expenses from foreign capital gains and other income-related taxes, as well as tax revenue from the tax allocation to subsidiary companies that form a tax group along with Erste Group Bank AG under group taxation regulations.

The merger of Erste Group Bank AG with EGB Ceps Beteiligungen GmbH resulted in a **merger loss** of EUR 5,554.0 million, as the carrying amount of the investment Erste Group Bank AG holds in EGB Ceps Beteiligungen GmbH is higher than the carrying amounts of the equity positions acquired through the up-stream mergers.

**Changes in reserves** during the year resulted in the net release of EUR 5,822.8 million (prior year: EUR 57.4 million). **Net income for the year** was at EUR 0.0 million, below the previous year's level of

EUR 170.6 million. **Profit available for distribution** amounted to EUR 0.0 in financial year 2014 (prior year: EUR 170.6 million).

As no distributable profit was generated, no dividend will be paid out to shareholders (prior year: EUR 0.20 per share) for 2014.

## Explanatory notes on the balance sheet

As of 31 December 2014, **total assets** had decreased by 11.9% from the end of 2013 to EUR 66.4 billion and this decline is essentially attributable to a slowing in interbank business and the merger with EGB Ceps Beteiligungen GmbH implemented as per 31 August 2014.

**Loans and advances to credit institutions** decreased by 24.9% from EUR 25.3 billion in the previous year to EUR 19.0 billion. The decline primarily affected interbank business with credit institutions belonging to Erste Group.

**Loans and advances to customers** grew by 3.6% from EUR 13.8 billion at the end of 2013 to a current EUR 14.3 billion. The number of international foreign-currency credit customers increased.

Due to the increase in bonds (by 15.7% from EUR 8.3 billion to EUR 9.6 billion) and in debt instruments issued by public-sector institutions (by 5.9% from EUR 5.1 billion to EUR 5.4 billion), total **securities investments** rose by EUR 1.6 billion to EUR 15.0 billion at the end of 2014.

The carrying amount of **participating interest and shares in affiliated undertakings** are down by half from the previous year and amounted to EUR 5.6 billion as of 31 December 2014.

**Other assets** of EUR 10.2 billion (prior year: EUR 8.8 billion) essentially include derivatives, which had increased by 33.8% to EUR 9.9 billion by the end of the year. This was caused by adjustments relating to the statement of internal derivatives on a gross basis in response to the AFRAC position paper "*Die unternehmensrechtliche Bilanzierung von Derivaten und Sicherungsinstrumenten*" (The accounting treatment of derivatives and hedging instruments under commercial law) and the higher market values of interest derivatives.

On the liabilities side, **liabilities to credit institutions** decreased by 18.3% to EUR 19.6 billion (prior year: EUR 24.0 billion).This can be attributed to the repayment of the ÖKB refinancing facility (EUR 1.2 billion) and the slow-down in interbank business with credit institutions belonging to Erste Group (EUR 1.4 billion) and with external banks (EUR 1.3 billion).

As the increase in daily deposits was unable to offset the decline in deposits redeemable at notice, **amounts owed to customers** decreased by 4.2% to EUR 4.6 billion at the end of 2014.

Refinancing through **own issues** (debts evidenced by certificates, subordinated liabilities and supplementary liabilities) exhibited a decline of EUR 0.8 billion to EUR 26.8 billion. In the course of implementing the Capital Requirements Regulation (CRR), balance sheet disclosure was amended as subordinated liabilities and emissions that fail to qualify as supplementary capital acc. to Part 2 Title 1 Chapter 4 of EU Regulation No 575/2013 now need to be reported under securitised liabilities. As the main own subordinated issues are qualified as supplementary capital there was no significant impact.

**Other liabilities** of EUR 9.7 billion (prior year: EUR 7.3 billion) essentially include derivatives, which had increased by 46.0% to EUR 9.2 billion at the end of the year. This was likewise caused by adjustments relating to the statement of internal derivatives on a gross basis in response to the AFRAC position paper "*Die unternehmensrechtliche Bilanzierung von Derivaten und Sicherungsinstrumenten*" (The accounting treatment of derivatives and hedging instruments under commercial law) and the higher market values of interest derivatives.

As of 2014, the equity of Erste Group Bank AG has been calculated in accordance with the provisions of Basel III. In 2014, the calculation is based on the Capital Requirements Regulation (CRR) taking into account Austria's accompanying CRR ordinance. This ordinance provides the applicable percentages for the eligibility of individual capital positions for regulatory deductions and filters.

Following the release of retained earnings and capital reserves for the purpose of covering the merger loss, **total assets** (subscribed capital, reserves and profit available for distribution) of Erste Group Bank AG declined to EUR 4.9 billion after EUR 10.9 billion in the previous year. After deduction and filtering as specified in the Capital Requirements Regulation (CRR), **Tier 1 capital** amounted to EUR 4.7 billion (year-end 2013 Basel 2.5: EUR 10.5 billion), **Common Equity Tier 1 capital** (CET1, current) corresponds to **Tier 1 capital**. As at 31 December 2014, **qualifying capital** of Erste Group Bank AG in accordance with Part 2 of EU Regulation No 575/20 (particularly Tier 1 and Tier 2 capital) amounted to EUR 9 billion (year-end 2013 Basel 2.5: EUR 14.1 billion).

In consideration of equity capital requirements for market, credit evaluation and operation risk (total risk), the Tier 1 capital ratio was at 13.8% (year-end 2013, Basel 2.5: 28.0%).

The **solvency ratio** in relation to overall risk (total own funds as a percentage of total risk pursuant to CRR) was at 26.2% as of 31 December 2014 (year-end 2013, Basel 2.5: 37.3%) and was thus markedly below the minimum level required by the law.

## 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.

## 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. Impact on Erste Group would arise primarily in relation to borrowers who took CHF-denominated loans in the past and are now adversely affected in terms of repayment ability. Preliminary sensitivities performed indicate a moderate impact in terms of higher risk costs and increase of credit RWAs (10 bps CET1 loss in case of EUR/CHF parity prevailing for longer period of time). Please note that the actual impact is contingent on future exchange rate developments.

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

## Research and development

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

## Branches

Erste Group Bank AG maintains branches in London, New York and Hong Kong that provide commercial lending to foreign banks, leasing companies and sovereign debtors. As of 2011, further branches were established in Germany (Berlin and Stuttgart) - their main focus is on institutional sales.

As of December 13, 2013 a Representation Office was registered in Ukraine. The Representation Office supports Erste Group Bank AG in managing a portfolio of prominent Ukrainian Large Corporates, particularly in agriculture and energy.

# Capital, Share, Voting and Control Rights

## Investor information pursuant to section 243a (1) of the Austrian Commercial Code ("UGB")

With regard to the statutory disclosure requirements in the Management Report, special reference is made to the relevant information in the notes to the financial statements, in section III.19 ff.

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

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

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

## Other information:

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 are subject to an individual and general maximum limit. Any contributions made by Haftungsverbund members under the statutory deposit guarantee system pursuant to section 93 et seq. BWG are likewise counted in. 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 10 year.

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 Austrian Stock Corporation Act ("AktG"). 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 shall must not be below EUR 2.00 or above EUR 120.00. Pursuant to section 65 (1b) in conjunction with sec. 171 Stock Corporation Act, the Management Board is authorised, from the date of the resolution, i.e. until 15 May 2018, on approval by the Supervisory Board, to sell or use the company's own shares, also by means other than the stock exchange or a public offering for any purpose allowed by the law, particularly as consideration for the acquisition and financing of the acquisition of companies, businesses, business divisions or shares in one or several businesses in Austria or abroad to the exclusion of the shareholders' proportional purchase option. The authorisation may be exercised in whole or in part or in several instalments and in pursuit of one or several purposes. The Management Board is authorised to redeem own shares subject to the Supervisory Board's approval without requiring the Annual General Meeting to adopt any further resolution.

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.

Please also note the relevant information given in the notes to the financial statements, in section III. 20.

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

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

The following paragraph lists significant 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 Criteria 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.

After a number of transactions that aimed to reorganise "la Caixa" Group, Criteria CaixaCorp changed its name to CaixaBank, S.A. as of 30 June 2011. In the course of these transactions, the former Criteria CaixaCorp acquired the operational banking business of "la Caixa", which now continues to do business indirectly through the newly set up company CaixaBank which is listed on the stock exchange. As a consequence, CaixaBank - with its operational banking business in "la Caixa" - holds the portfolio of bank participations, including the holdings in Erste Group Bank AG. The name change has affected neither the "Preferred Partnership Agreement" nor the on-going business cooperation.

*“Haftungsverbund”*

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

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

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

*Directors and Officers Insurance*

Changes in control

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

   a) the insured ceases to exist as a result of a merger or consolidation, unless the merger or consolidation occurs between two insured parties, or

   b) another company, person or group of companies or persons acting in concert, who are not insured parties, acquire more than 50 % of the insured’s outstanding equity or more than 50 % of its voting power (resulting in the right to control the voting power represented by the shares, and the right to appoint the Management Board members of the insured),

   then the insurance cover under this policy remains in full force and effect for claims relating to unlawful acts committed or alleged to have been committed before this change in control took effect. However, no insurance cover is provided for claims relating to unlawful acts committed or allegedly committed after that time (unless the insured and insurer agree otherwise). The premium for this insurance cover is deemed to be completely earned.

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

*Co-operation 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 oesterreichische 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 Control Rights for Financial Reporting Procedures

## Control environment

The Management Board of Erste Group Bank AG 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.

Holding and Treasury Accounting department, which is part of the Group Accounting division, prepares the final accounts of Erste Group Bank AG. The assignment of powers, account responsibilities and the necessary control procedure are defined in the operating instructions.

## Risk assessment

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

## Controls

The relevant units are obliged to comply with the accounting and measurement principles that are applicable for capturing, posting and accounting transactions and laid out in the operating instructions relating to the UGB and in the IFRS Account Manual.

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

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

## Information and communication

The final accounts are prepared in a standardised format and in compliance with the above described control measures. Before being passed on to the Audit Committee of the Supervisory Board, the financial statements to be published are submitted to the managers and the CFO for approval.

Reporting is nearly fully automated using input systems and automatic interfaces. This warrants that the data for controlling, (segment) and earnings accounting as well as other evaluations are always up to date. The information used by the accounting department is derived from the same database and reconciled monthly for reporting. Close collaboration between Accounting and Controlling ensures that target and actual data are constantly compared, allowing for effective control and harmonisation.

## Responsibilities of Internal Audit

Internal Audit is in charge of auditing and evaluating all areas of the bank at appropriate intervals based on risk oriented audit areas (according to the annual audit plan as approved by the Management Board and reported to the Audit Committee). Main focus of audit reviews is to monitor the functionality of the internal control system. Internal Audit has the duty of reporting its findings to the Group's Management Board and Audit Committee several times a 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 the Oesterreichische Nationalbank and the European Central Bank respectively 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 risk based audit plan as approved by the Management Board. Once approved, the audit plan is reported also to the Audit Committee.

# Risk Management

## Comments on the risk profile of Erste Group Bank AG

As a result of Erste Group Bank AG's business model, the risk profile is pervaded particularly by credit, market, liquidity and operational risk. At the same time, the focus is on general business risk, especially in light of the global financial crisis over the past few years. In addition to the types of risk indicated above, the Bank's risk management system also monitors a range of other risks, with smaller importance. The main types of risk can be summarised as follows:

| | |
|---|---|
| **Credit risk** | is the risk of loss from the potential collapse of counterparties, particularly of borrowers in the conventional lending business, and any related credit losses. |
| **Market risk** | generally describes the risk of loss from unfavourable price changes in marketable and traded products, such as shares, fixed-income securities and derivatives, as well as from interest and foreign exchange volatility and fluctuations in raw material prices. |
| **Liquidity risk** | describes the risk of the bank's insufficient liquidity or inability to make funds available in a timely manner to service its debts. |
| **Operational risk** | describes the risk of loss as a result of human error, the malfunctioning of internal procedures or systems, or external events. |
| **Business risk** | describes the bank's risk of being unable to reach its financial business objectives. |

Group-wide internal policies are set up and mechanisms are implemented for identifying, monitoring and minimizing or steering the above mentioned risks. The fulfilment, adaptation and further development is in responsibility of the below mentioned divisions.

## Risk management objectives and methods

It is a core function of every bank to take risks in a conscious and selective manner and to manage such risks professionally. Erste Group Bank AG's proactive risk policy and strategy aims at achieving balanced risk and return in order to generate a sustainable and adequate return on equity.

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

For credit risk, by far the most important risk category, Erste Group Bank AG has been using the Basel 3 internal ratings-based (IRB) approach since 2007 and adopts this approach also for the assessment of economic capital requirements according to Basel 3 Pillar 2. In addition, all related and required methods and processes of this advanced measurement approach are applied.

For a number of years, the capital requirement for the market risk exposure of the trading book has been assessed using the bank's own model.

In order to hedge the exposure to variability in future cash flows or the market risk (interest rate as well as exchange rate risks) resulting from balance sheet assets (bonds, loans) and liabilities (own issues, promissory notes, custody transactions) on an individual basis or as a group, Erste Group Bank AG uses interest rate swaps, currency swaps and options as hedging instruments. These hedging instruments are accounted for as valuation units together with the respective hedged item according to section 201 (2) last sentence Austrian Commercial Code (Unternehmensgesetzbuch – UGB). The requirements for the generation of valuation units are fulfilled by the cash flow and fair value hedge accounting processes, which are applied at Erste Group Bank AG. Details on these processes are presented in the notes to the financial statement, section III.30.

For Erste Group Bank AG, the capital requirement for operational risk has been in accordance with the advanced measurement approach (AMA) since 2009. Since then, the Group extends constantly the scope of this approach.

In order to provide a comprehensive overview of current and future risk and the cover pools of the Bank, the bank's risk-bearing capacity is determined by the Internal Capital Adequacy Assessment Process (ICAAP). This process provides regular updates on the risk profile and capital adequacy, furnishing a basis for defining and implementing any measures that may be necessary.

Erste Group defines its risk strategy and Risk Appetite Statement (RAS) through the annual strategic planning process to ensure appropriate alignment of risk, capital and performance targets. The Group RAS represents a strategic statement expressing the maximum level of risk that Erste Group is prepared to accept in order to deliver its business objectives. Key objectives of RAS are in particular the allocation of sufficient resources for supporting business and absorbing unexpected market events, as well as the definition of boundaries for risk-return target settings.

## Risk management organisation

Risk monitoring and control is achieved through a clear organisational structure with defined roles and responsibilities, delegated authorities, and risk limits.

Risk control and risk steering are performed based on the business strategy and the risk appetite approved by the management board.The chief risk officer of Erste Group Bank AG (Group CRO), working together with the chief risk officers of the subsidiaries, is responsible for implementation of and adherence to the risk control and risk management strategies across all risk types and business lines.

Committees with explicit strategic and operative controlling functions have been set up to ensure the Bank's effective and optimal management. At the top of the risk committee hierarchy within Erste Group Bank AG is the Risk Management Committee.

The Risk Management Committee is responsible for granting approval in all those cases in which loans and exposures or large exposures reach an amount exceeding the approval authority of the Management Board according to the Credit Risk Approval Authority Regulations. It is charged with granting approval to large exposures pursuant to Article 392 CRR, if such a claim is equal or exceeds 10% of the eligible capital of a credit institution. Within the competence assigned to it, the Committee may grant advance approvals to the extent permitted by law.

The Management Board and in particular, the Group CRO ensure the availability of appropriate infrastructure and staff as well as methods, standards and processes to that effect, the actual identification, measurement, assessment, approval, monitoring, steering and limit setting for the relevant risks are performed at the operating entity level within Erste Group Bank AG. At Group level, the management board is supported by several divisions, which were reorganized and optimized at the beginning of year 2014. The following risk management functions report directly to the Group CRO:

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

- Group Validation

Enterprise-wide risk management (ERM) has been established to enable an increased focus on holistic risk management and provide comprehensive, cross-risk oversight to further enhance Group-wide risk portfolio steering. It drives key strategic cross-risk initiatives to establish greater cohesion between defining the risk strategy incl. risk appetite, limit steering and implementing the risk strategy.

Group Credit & Market Risk Management is the operative risk management function for medium-sized and large customers as well as for institutional clients and counterparties. This area ensures that only credit and market risk in line with the risk appetite, the risk strategy and pertinent limits set by ERM is taken on the books of Erste Group.

The EGI Real Estate Risk Management department is responsible for risk management in the commercial real estate segment of Erste Group and in Erste Group Immorent (EGI). In this function, the division is responsible for the formal and material assessment, recommendation and approval of all credit risks in the real estate business.

Group Risk Operating Office provides the infrastructure and general management across all functions within the risk organisation and is responsible for the budget and staff of the whole CRO-Division. In addition, the focus of the Group Risk Operating Office is placed on long-term infrastructure enhancements, project implementation, risk data and reporting and regulatory management.

The Group Workout function has a Group-wide responsibility for clients allocated to the business segments large corporates, commercial real estate and other corporate who are rated substandard or non-performing or are specifically defined as workout clients. It takes over the direct workout management function for corporate workout clients of Erste Group Bank AG and additionally performs in the second instance risk management function for corporate workout clients of the subsidiaries exceeding the local management's authorization level.

The area Operational Risk, Compliance and Security is responsible for the management of operational risks, compliance risks and security issues. Group Operational Risk Management acts as the central and independent risk control department for identification, measurement and quantification of operational risk within Erste Group. In the handling of compliance risks, core competencies are being exercised by Group Compliance in the context of national and community laws and directives concerning banking and finance. The Group Security Management unit protects and preserves the safety and security of bank personnel and assets by means of security standards, quality assurance and, the monitoring of security-related issues at Erste Group.

The division Risk Methods and Models is responsible for specific aspects of the management of credit, market and liquidity risk, especially the modelling aspects. This area provides adequate risk measurement methodologies and tools as well as an appropriate relevant risk policy and control framework.

Group Legal acts as the central legal department of the Holding. Group Legal provides legal support and counsel for the Management Board, the business units and the centre and disputes resolution and litigation.

The core task of Group Retail and SME Risk Management is to ensure oversight and steering for the retail and SME loan portfolios across the Group.

The objective of Group Validation is to comply with regulatory requirements to perform validations (initial and annual) of all the models and methodologies (internal or from external vendors) for credit ratings, scorecards, parameters as well as of models and methodologies for derivatives, securities valuation, asset liability management (ALM), pricing and internal steering in Erste Group.

With regard to further information and description of the principal financial and non-financial risks of the Erste Group Bank please refer to note 44 (Risk management) to the Group consolidated financial statements and for litigations to section 1 (1) (Ongoing legal cases) of the notes to the financial statements as well as to note 49 (Contingent liabilities) to the Group consolidated financial statements.

### ECB Asset Quality Review and EBA Stress Test

Regarding the ECB Asset Quality Review and the EBA Stress Test we are refering to section I point 3 in the notes to the financial statements.

## 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 the *Mehr*WERT sponsorship programme.

*Social Activities*

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 Group has been sponsoring Hilfswerk Österreich, one of the largest non-profit providers of health care, social and family services in Austria. Additionally, Erste Group 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.

*Arts and Culture*

Erste Group is dedicated to support 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.

*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 hundred videos are 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.

## 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 in Austria features an ATM machine with Braille and the number of barrier-free branches is increasing.

Customer retention based on high levels of satisfaction ensures the bank's long-term success. The *Customer Experience Index* (CXI) is 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. Start-ups are supported through micro-loans in and Austria, targeting the financing of social enterprises.

## SUPPLIERS

Erste Group suppliers must fulfill 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 labor, 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 the appreciation and importance for 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 structured group-wide leadership development offers. 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 set on an appropriate balance in rewarding for 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 adopt a proactive approach for helping its employees identify and manage health risk. Therefore, a multi professional team of occupational physicians, industrial psychologists and physiotherapists assist Erste Group's employees in any health and matters of well-being. 15,883 contacts of employees with the health centre were registered in Austria in 2014.

| *Erste Group Bank AG – Key figures* | *2014* | *2013* |
|---|---|---|
| Sick days per employee | 6.5 | 6.6 |
| Percentage of women per total employee | 44.98% | 43.30% |
| Share of excecutive positions | 2.11% | 2.00% |
| Other managerial positions | 8.24% | 7.80% |
| Share women in executive positions | 17.07% | 13.50% |
| Share of women in other managerial positions | 27.50% | 24.00% |
| Percentage of part-time employees | 16.33% | 15.30% |
| Percentage of female part-time employees | 85.80% | 81.70% |

## 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 CO2 emissions. Switching to LED light bulbs was already carried out successfully. In addition, criteria for choosing heating and electrical energy providers based on their use of renewable energies have been defined. Moreover, company cars were replaced by new ones with lower CO2 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 decreased 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.

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

# AUDITORS' REPORT

## Report on the Financial Statements

Sparkassen-Prüfungsverband and Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H., Vienna, have audited the accompanying financial statements, including the accounting system, of Erste Group Bank AG, Vienna, for the fiscal year from January 1, 2014 to December 31, 2014. These financial statements comprise the balance sheet as of December 31, 2014, the income statement for the fiscal year ended December 31, 2014, and the notes.

## Management's Responsibility for the Financial Statements and for the Accounting System

The management of Erste Group Bank AG is responsible for the accounting system and for the preparation and fair presentation of the financial statements in accordance with Austrian Generally Accepted Accounting Principles and other legal or regulatory provisions for credit institutions. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; making accounting estimates that are reasonable in the circumstances.

## Auditor's Responsibility and Description of Type and Scope of the Statutory Audit

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with laws and regulations applicable in Austria and Austrian Standards on Auditing. Those standards require that we comply with professional guidelines and that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Erste Group Bank AG's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a reasonable basis for our audit opinion.

## Opinion

Our audit did not give rise to any objections. In our opinion, which is based on the results of our audit, the financial statements comply with legal requirements and give a true and fair view of the financial position of the Erste Group Bank AG as of December 31, 2014 and of its financial performance for the fiscal year from January 1, 2014 to December 31, 2014 in accordance with Austrian Generally Accepted Accounting Principles.

## Comments on the Management Report

Pursuant to statutory provisions, the management report is to be audited as to whether it is consistent with the financial statements and as to whether the other disclosures are not misleading with respect to the Company's position. The auditor's report also has to contain a statement as to whether the management report is consistent with the financial statements and whether the disclosures pursuant to section 243a UGB (Austrian Commercial Code) are appropriate.

In our opinion, the management report is consistent with the financial statements. The disclosures pursuant to section 243a UGB (Austrian Commercial Code) are appropriate.

Vienna, 27 February 2015

Austrian Savings Bank Auditing Association
(Audit Agency)

(Bankprüfer)

Friedrich O. Hief mp
Certified Accountant

Stephan Lugitsch mp
Certified Accountant

Ernst & Young

Wirtschaftsprüfungsgesellschaft m.b.H.

Ernst Schönhuber mp
Certified Accountant

Andrea Stippl mp
Certified Accountant

The report (in the German language, or translations into another language, including shortened or amended versions) may not be made public or used by third parties, when reference is made in whole or in part to the auditors' report, without the express written consent of the auditors.

This report has been translated from German into English for reference purposes only. Please refer to the official legally binding version as written and signed in German. Only the German version is definitive.

## Statement of all members of the management board

We confirm to the best of our knowledge that the separate financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the parent company as required by the applicable accounting standards and that the management report gives a true and fair view of the development and performance of the business and the position of the company, together with a description of the principal risks and uncertainties the company faces.

Vienna, 27 February 2015

**Andreas Treichl mp**
Chairman

**Gernot Mittendorfer mp**
Member

**Andreas Gottschling mp**
Member

**Peter Bosek mp**
Member

**Jozef Síkela mp**
Member