Erste Group

Annual Report 2015

ERSTE Group

Extensive presence in Central and Eastern Europe

Key financial and operating data

in EUR million (unless otherwise stated)	2011	2012	2013	2014	2015
Balance sheet					
Total assets	**210,006**	**213,824**	**200,054**	**196,287**	**199,743**
Loans and receivables to credit institutions	7,506	9,008	8,377	7,442	4,805
Loans and receivables to customers	127,808	124,353	119,869	120,834	125,897
Trading, financial assets	52,981	57,932	51,269	50,131	47,542
Intangibles	3,532	2,894	2,441	1,441	1,465
Cash & Other assets	18,180	19,637	18,099	16,439	20,035
Total liabilities and equity	**210,006**	**213,824**	**200,054**	**196,287**	**199,743**
Bank deposits	23,785	21,822	17,299	14,803	14,212
Customer deposits	118,880	123,053	122,415	122,583	127,946
Debt securities	36,564	34,751	33,124	31,140	29,654
Trading liabilities & Other liabilities	15,597	17,860	12,494	14,319	13,124
Equity attributable to non-controlling interests	3,143	3,483	3,462	3,605	3,802
Equity attributable to owners of the parent	12,037	12,855	11,260	9,838	11,005
Own funds pursuant to Basel 3 (Final)					
Total risk exposure amount	114,019	105,323	97,901	101,870	100,281
Total own funds	16,415	16,311	15,994	15,853	17,284
Common equity tier 1 capital (CET1)	10,681	11,848	11,199	10,811	12,045
Tier 2 capital (T2)	4,092	3,791	4,206	5,042	5,239
Total capital ratio	14.4%	15.5%	16.3%	15.6%	17.2%
CET1 capital ratio	9.4%	11.2%	11.4%	10.6%	12.0%
Income statement					
Net interest income	5,368.7	5,041.5	4,685.0	4,495.2	4,444.7
Net fee and commission income	1,787.2	1,720.8	1,806.5	1,869.8	1,861.8
Net trading and fair value result	122.6	269.8	218.8	242.3	210.1
Operating income	7,531.0	7,281.1	6,995.1	6,877.9	6,771.8
Operating expenses	-3,971.9	-3,881.0	-3,896.1	-3,787.3	-3,868.9
Operating result	3,559.1	3,400.1	3,099.0	3,090.7	2,902.9
Net impairment loss on financial assets not measured at fair value through profit or loss	-2,365.2	-2,060.1	-1,849.9	-2,083.7	-729.1
Pre-tax result	-322.1	801.2	302.9	-727.7	1,639.1
Net result attributable to owners of the parent	-718.9	483.5	0.9	-1,382.6	968.2
Operating Data					
Headcount	50,452	49,381	45,670	46,067	46,467
Number of branches	3,176	3,063	2,833	2,792	2,735
Number of customers	17.0	17.0	16.5	16.2	15.8
Share price and key ratios					
High (EUR)	39.45	24.33	26.94	29.71	29.04
Low (EUR)	10.65	11.95	19.34	17.02	18.97
Closing price (EUR)	13.59	24.03	25.33	19.235	28.91
Price/earnings ratio	na	19.6	>100%	na	12.8
Dividend per share (EUR)	0.00	0.40	0.20	0.00	0.50
Payout ratio	0.0%	32.6%	>100%	0.0%	22.2%
Dividend yield	0.0%	1.7%	0.8%	0.0%	1.7%
Book value per share	26.1	27.9	26.2	22.9	25.6
Price/book ratio	0.5	0.9	1.0	0.8	1.1
Total shareholder return (TSR)	-59.3%	76.8%	7.1%	-23.3%	50.3%
Stock market data (Vienna Stock Exchange)					
Shares outstanding at the end of the period	390,767,262	394,568,647	429,800,000	429,800,000	429,800,000
Weighted average number of outstanding shares	377,670,141	391,631,603	411,553,048	427,533,286	426,726,297
Market capitalisation (EUR billion)	5.3	9.5	10.9	8.3	12.4
Trading volume (EUR billion)	10.9	7.4	8.3	9.3	10.0

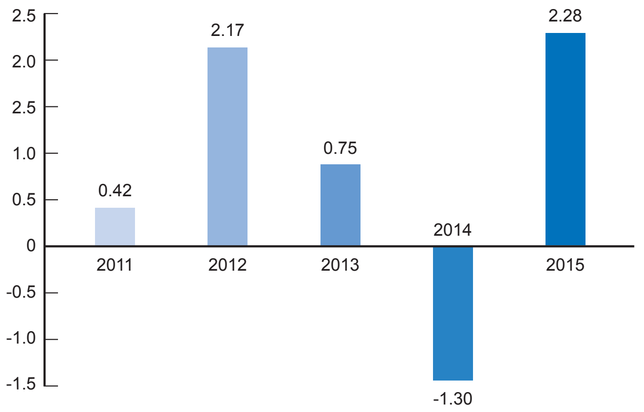
The figures for the comparative periods 2014 and 2013 are restated according to IAS 8. The resulting retrospective changes in the presentation are explained in chapter B on significant accounting policies in the consolidated financial statements 2015.

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

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

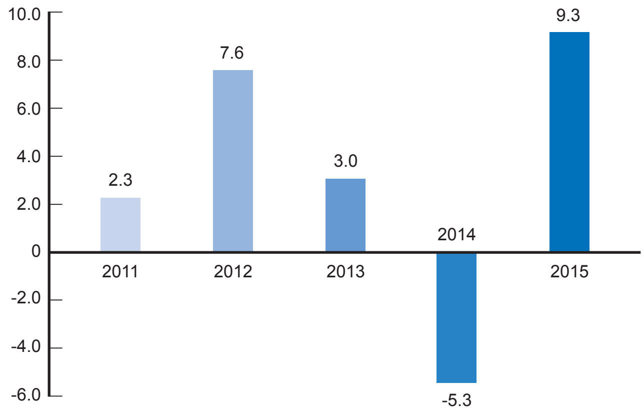
Shares outstanding include Erste Group shares held by savings banks that are members of the Haftungsverbund (cross-guarantee system).

Cash earnings per share (in EUR)

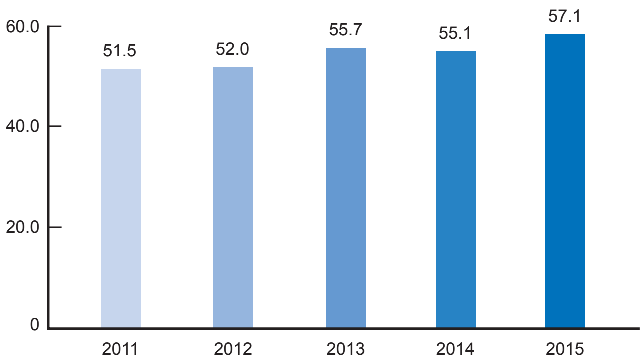


The figures for the comparative periods 2014 and 2013 are restated according to IAS 8.

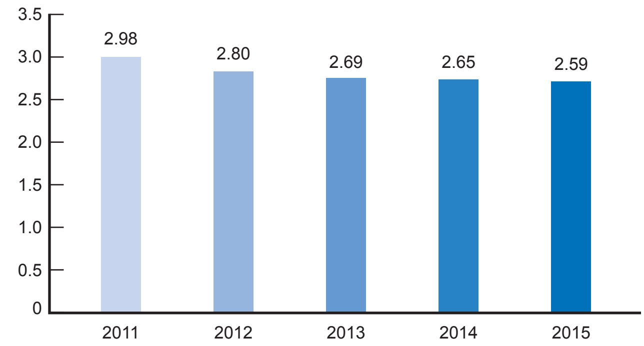
Cash return on equity (in %)



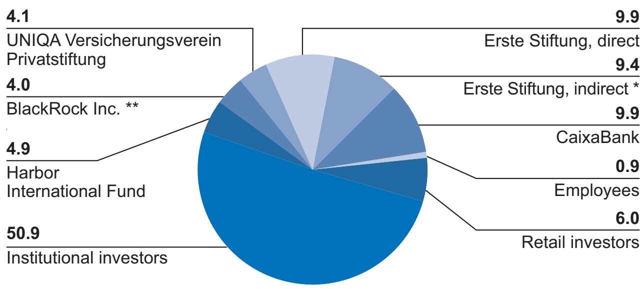
Cost/income ratio (in %)



Net interest margin (in %)

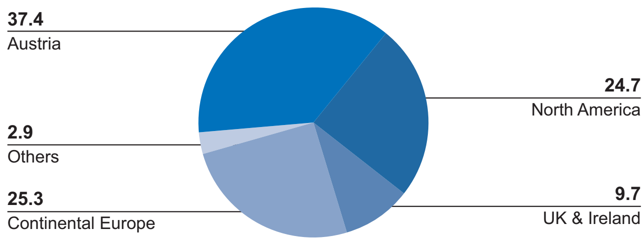


Shareholder structure as of 31 December 2015 by investors (in %)



* Includes voting rights of Erste Foundation, savings banks, savings bank foundations and Wiener Städtische Wechselseitige Versicherungsverein
** Based on voting rights related to shares

Shareholder structure as of 31 December 2015 by regions (in %)



Ratings as of 31 December 2015

Fitch	
Long-term	BBB+
Short-term	F2
Outlook	Stable
Moody's Investors Service	
Long-term	Baa2
Short-term	P-2
Outlook	Positive
Standard & Poor's	
Long-term	BBB+
Short-term	A-2
Outlook	Negative

Financial calendar 2016

Date	Event
4 May 2016	Interim report Q1 2016
11 May 2016	Annual general meeting
17 May 2016	Ex-dividend day
19 May 2016	Dividend payment
5 August 2016	Half year financial report 2016
4 November 2016	Interim report Q3 2016

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

Highlights

Net profit substantially improved
- Net result of EUR 968.2 million
- Significant decline of risk costs and lower one-off effects
- Dividend of EUR 0.5 proposed to AGM

Loan growth continues in 2015
- Performing loans increase to EUR 122.6 billion
- Retail business as growth driver
- Growth in Slovakia, Czech Republic and Austria

Asset quality improves substantially
- NPL ratio improved to 7.1%
- NPL coverage stood at 64.5%

Solid capital ratios
- Capital clearly above all regulatory requirements
- CET 1 ratio (Basel 3, final) increased to 12.0%
- CET 1 capital (Basel 3, final) rose to EUR 12.0 billion
- Moderate decline in risk-weighted assets

Operating result declining
- Revenue decline due to low interest rate environment
- Slight increase in personnel and other administrative expenses
- Cost/income ratio at 57.1%

Excellent funding and liquidity position
- Strong deposit base is key competitive advantage
- Loan-to-deposit ratio at 98.4%

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Letter from the CEO

Dear shareholders,

Erste Group posted a net profit of EUR 968.2 million in 2015 amid a challenging banking environment. This solid result was largely attributable to a significant decline in risk costs and substantially lower one-off effects than in the previous year, which had been marked by the clean-up of legacy issues. Improved economic growth in Central and Eastern Europe supported robust loan growth of 4.2%. At the same time, asset quality improved significantly. Non-performing loans as a percentage of loans to customers (NPL ratio) dropped to 7.1%, the lowest level in five years. These positive developments should not disguise the fact, though, that the overall business environment remained challenging for Erste Group and loan growth did not fully offset the impacts of the persistent low-interest-rate environment on net interest income. In 2015, populist measures, this time in Croatia, as well as banking levies in Austria and Hungary, and to a reduced extent in Slovakia, weighed again on the result.

Against the backdrop of proliferating regulatory requirements on European banks, bank capitalisation has become a central concern. It is therefore gratifying and important that Erste Group's capital ratios developed very robustly while loan growth accelerated. At the end of December 2015, the common equity tier 1 ratio (Basel 3 fully loaded) stood at 12.0%. It was hence significantly above the minimum ratio of 9.75% required for the year 2016 as a result of the ECB's SREP ratio (set at 9.5% for 2016) plus the 0.25 percentage point systemic risk buffer imposed by the Austrian Financial Market Authority for 2016. This systemic risk buffer will rise year after year until it finally reaches 2 percentage points by 1 January 2019. The total capital ratio (Basel 3 final) amounted to 17.2%. At the annual general meeting, we will therefore propose to pay a dividend of EUR 0.5 per share.

Domestic demand drives growth in CEE

The economic development of the region underpinned Erste Group's solid result and confirmed once again the validity of our customer-centred business model and our strategy of positioning Erste Group as the leading retail bank in the European Union's Eastern growth area. Higher real wages boosted domestic demand and hence economic growth in CEE. With the exception of Croatia and Serbia, economic growth in Erste Group's Eastern European core markets exceeded the 1.9% average of the European Union's member states and the euro zone's 1.6%. The Czech Republic, Slovakia and Romania even posted GDP growth in excess of 3%, while Austria remained at the bottom of the table with 0.9%. The labour market improved in most of the CEE economies. The Austrian unemployment rate rose to 5.7% but was nevertheless again one of the lowest in Europe in 2015. FX exchange rates versus the euro were largely stable. In view of very low inflation pressure, the key policy rates in Romania and Hungary were cut further to new historic lows of 1.75% and 1.35% respectively. In the euro zone and in the Czech Republic, the base rate remained unchanged at five basis points. In March 2016, the European Central Bank (ECB) lowered its policy rate to zero percent for the first time. This decision was a severe blow to savers. Whether further monetary easing will result in more consumer spending is questionable, though. Especially in CEE, most bank customers must be able to live off savings. They do not have sufficient resources for investing in shares or other financial instruments.

The generally benign economic environment had a direct impact on Erste Group's balance sheet as it supported loan growth: growth was registered in Slovakia, in the Czech Republic and, in Austria, by both Erste Bank Oesterreich and the Savings Banks, specifically in the Retail, SME and Large Corporates segments. In Hungary, loan volume contracted once again; in Romania, the performing loan portfolio stabilised. At the same time, customer deposits increased despite the adverse effects of low interest rates on savers. This may also be interpreted as a clear sign of our customers' trust in Erste Group. At the end of December 2015, the loan-to-deposit ratio stood at 98.4%. Erste Group's short and long-term liquidity position remained excellent.

Non-performing loans as a percentage of loans to customers were down to 7.1%. This decline was attributable, on the one hand, to the successful sale of NPL portfolios in Croatia and Romania and, on the other, to the general improvement in asset quality. As we had done the year before, we again reduced non-performing loans and added performing loans. This improvement is all the more remarkable as in the fourth quarter we implemented the EBA definitions of non-performing loans, which had a negative impact of 38 basis points on the NPL ratio. This methodological effect also lowered the NPL coverage ratio to 64.5%.

Low-interest rate environment weighs on operating result

Net interest and net fee and commission income were almost stable in 2015. Rising demand for loans in Erste Group's key markets largely cushioned the adverse impact of low interest rates on operating income. In Romania, net interest income was negatively impacted by NPL sales, in Hungary by reduced volume after the conversion of foreign-currency loans. Net fee and commission income remained stable. While the trend in income from asset management was positive, income from lending decreased. Together with a lower net trading and fair value result this resulted in a decline in operating income to EUR 6.8 billion. General administrative expenses increased, ultimately also due to the fact that the line item other administrative expenses included higher regulatory expenses such as deposit insurance contributions in the amount of almost EUR 100 million. As had been anticipated, operating income decreased in 2015, by 6.1%.

Lower one-off effects

The solid result was due in part to the non-recurrence of the previous year's substantial negative one-offs, most notably close to EUR 1 billion in write-downs for goodwill, client relationships and brand. This resulted in a significant improvement in other operating result in 2015, even though populist political measures taken in the run-up to elections again had a negative impact: the recognition of EUR 129.5 million in provisions for losses resulting from legislation requiring the conversion of the entire Croatian CHF-denominated retail and corporate loan portfolio to euros. Risks related to consumer protection claims in Romania required further provisions in the amount of EUR 101.6 million. The sale of a participation had a positive effect in the amount of EUR 38.3 million.

Other recurring issues were political and regulatory costs, which were again high by international standards. Overall, Erste Group paid banking levies and financial transaction taxes in three countries in the total amount of EUR 236.2 million. While banking taxes have already been lowered in Slovakia, Hungary, by an act of parliament, has committed to a sharp reduction from 2016 onwards. Levies have remained disproportionately high in Austria. In 2015, their adverse impact was exacerbated further by the need for initial payments to European resolution funds in the aggregate amount of EUR 51.3 million, including EUR 32.1 million in Austria.

Sharp decline in risk costs

The reduction of risk costs contributed substantially to the improved result. Risk costs fell by about two-thirds to EUR 729.1 million or 56 basis points of average loans versus 163 basis points in 2014. After the successful portfolio clean-up in the previous year, provisioning requirements were significantly lower in Romania and Hungary. Impairments were also down in all Austrian segments. Generally, lower risk costs reflect the continuing positive trend in the asset quality development.

The new world of banking

The focus of the management board was in particular on advancing digitalisation and data quality projects, not least in order to meet the multitude of regulatory requirements. Our digital platform George, which has even attracted international attention, has been developed further and, in 2016, will also be rolled out in the Czech Republic and Slovakia. We invest in our capability to offer our customers bank products through a variety of channels in the future by means of digital services that can be accessed from home or while on the road via mobile devices, at small service centres in high-frequency locations or in one of the large flagship branches.

2016 will again be a challenge in view of the impacts of negative interest rates on the customer business or of consumer protection issues. For a bank like Erste Group with its almost 200-year tradition as a savings bank, passing negative interest rates on to retail clients is one step we want to avoid by all means. Margin erosion is certainly going to influence banks' pricing policies as banks, despite ongoing efficiency and cost-cutting efforts, will find it increasingly impossible to continue the cross-subsidisation of services which has been taken for granted so far. Despite these challenges we are confident that our strategy and market position will ensure that Erste Group will perform well over the long term and will be able to earn a premium on its capital costs.

Our success in 2015 is clearly attributable to our many thousand employees, who I wish to thank very cordially at this point. They will remain the most important interface to our customers, even in the digital age.

Andreas Treichl mp

Management board

Jozef Síkela, Andreas Gottschling, Andreas Treichl

Petr Brávek, Gernot Mittendorfer, Peter Bosek

Report of the supervisory board

Dear shareholders,

In an environment marked by geopolitical unrest and economic challenges, Erste Group posted a solid result. Unlike many other banks, Erste Group achieved lending growth and an improvement in its capitalisation in 2015. Its business model – serving customers in Central and Eastern Europe – has proved sustainable and appropriate.

In recognition of this successful performance and as a sign of continuity, the supervisory board extended Andreas Treichl's mandate as management board member early, on 16 September 2015, for a term ending on 30 June 2020 and reappointed him as chairman of the management board.

The duties and objectives of the supervisory board, particularly the monitoring of the management of the Group and the risk strategy were the subject of an in-depth dialogue between the European Central Bank and the supervisory board. By conducting several talks with the chairman of the supervisory board, attending one of the supervisory board meetings as a guest and receiving the meeting minutes of supervisory board meetings, the ECB collected information about the work of the supervisory board and its committees.

Due to the age limit specified in the articles of association, Georg Winckler retired from the supervisory board as of the annual general meeting 2015. He had been a member of the supervisory board since 1993 and, since 2005, first vice chairman of the supervisory board. I would like to thank Georg Winckler very cordially for his many years of successful service. Further changes in the supervisory board in 2015: at the annual general meeting held on 12 May 2015, Maximilian Hardegg, Gonzalo Gortázar Rotaeche and Antonio Massanell Lavilla were elected to the supervisory board; Wilhelm Rasinger was re-elected. Regina Haberhauer and Jozef Pinter were delegated to the supervisory board by the employees' council. I would also like to extend very heartfelt thanks for many years of collaboration to Bertram Mach, who has retired and whose delegation was therefore revoked by the employees' council.

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

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

The financial statements (consisting of the balance sheet, income statement and notes), the management report, the consolidated financial statements and the group management report for 2015 were audited by the legally mandated auditor, Sparkassen-Prüfungsverband, and by Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H., as supplementary auditor, and received an unqualified audit opinion. Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H. was also contracted to perform a discretionary audit of the corporate governance report 2015. The audit did not give rise to any qualifications. Representatives of both auditors attended the financial statements review meetings of the audit committee and the supervisory board and presented their comments on the audits they had conducted.

Based upon our own review, we endorsed the findings of these audits and agreed with the proposal for appropriation of the profits. We have approved the financial statements and these have thereby been duly endorsed in accordance with section 96 para 4 of the Aktiengesetz (Austrian Stock Corporation Act). The management report, consolidated financial statements, group management report and corporate governance report have been reviewed and accepted.

The supervisory board thanks the management board and all employees of Erste Group for their great personal commitment and their successful work in the financial year ended.

For the supervisory board:
Friedrich Rödler mp
Chairman of the supervisory board

Vienna, March 2016

Erste Group on the capital markets

The year 2015 was a turbulent one for international stock markets. The main focus was again on the central banks' interest rate policies. While the European Central Bank (ECB) engaged in further easing, the US central bank (Fed) took steps towards a tightening of its monetary policy, which in December finally led to the first hike of key interest rates since June 2006. Geopolitical uncertainties, ranging from Greece to Russia/Ukraine and Syria, as well as the decelerating economic growth in China and the resulting impacts on the global economy caused some major stock market swings. The Erste Group share remained unaffected by global stock market volatility, and the negative trend in European banking shares advanced year on year more than 50% on the back of results that beat market expectations and a steady improvement in asset quality.

EQUITY MARKET REVIEW

A turbulent year for international stock exchanges

Supported by the ECB's continued monetary easing and the weak euro, European stock markets initially continued the rally that had started at the beginning of the year and maintained their relative strength versus US stock indices, posting two-digit gains well into the second quarter. Later in the year, Greek debt talks, concerns over Greece's ability to keep the euro, the disappointing development of the Chinese economy and its potential impact on the global economy as projected by the Organisation for Economic Co-operation and Development (OECD) and the International Monetary Fund (IMF) resulted in increased volatility and substantially lower international stock markets. In the final quarter of the year ended, the ECB's announcement of a further easing of European monetary policy and the prospect of an initial rate hike by the Fed, which confirmed its confidence in the positive development of the US economy, led to a brief rebound of stock markets. The Dow Jones Industrials Index closed the year 2.2% down at 17,425.03 points. The broader Standard & Poor's 500 Index was almost unchanged year on year at 2,043.94, down 0.7%. Most of the European markets ended the period under review with gains. The Euro Stoxx 600 Index climbed 6.8% to 365.81 points; the Euro Stoxx 50 Index was up 3.8% at 3,267.52.

Monetary policies in Europe and the US

Against the backdrop of the underlying trends in major economies, the focus of market participants in 2015 was on the central banks' monetary policies. While Europe pursued an extremely expansionary monetary policy, with the ECB expanding the bond purchasing programme it had launched at the beginning of the year to a monthly volume of EUR 60 billion and extending it to March 2017, monetary policy in the US was in comparison less expansionary, with the Fed continuing to taper its quantitative easing programme and finally implementing the first rate hike that had already been expected for about one year. The US central bank raised its key interest rate for the first time in almost ten years and announced additional gradual increases. Since year-end 2008, which saw the climax of the global financial crisis and the threat of a meltdown of the US economy, the interest rate for lending to commercial banks had ranged between 0% and 0.25%. Rates were finally raised in view of the expected continuation of solid economic growth in the US, the recovery of the US labour market and the lowest unemployment rate since 2007.

Global economy growing more slowly than expected

Both the IMF and the OECD have revised their forecasts for global economic growth downwards despite the continuing robust performance of the US economy on the back of household spending and solid labour market data and the expected continuation of the moderate economic recovery in the eurozone. This was primarily attributable to the challenging situation in emerging markets, most notably China, which economists believe is heading for the lowest growth in decades. Additional uncertainty comes from slow growth in Japan as well as US monetary policy and its impacts on the US dollar. For the eurozone, the OECD forecasts economic growth to run at 1.4% in 2015 and 2.1% in 2016. The IMF projects 1.5% and 1.6% respectively. For the US, the OECD forecasts 2.0% for 2015 and 2.8% for 2016, the IMF 2.5% and 2.8% respectively.

European bank shares close lower

The positive momentum from the ECB's continuing loose monetary policy, which in the first quarter had still fuelled double-digit gains in European banking stocks, later on gave way to an increasingly heated political debate over Greek solvency and a potential exit of Greece from the eurozone. After the ECB had refused to increase its emergency liquidity assistance any further, capital controls were imposed and Greek banks were closed for a couple of weeks. The resulting weakening of European markets dragged down in particular bank shares, as investors feared a spreading of Greek turmoil to other eurozone countries and banks. In a volatile environment, markets tumbled further on the back of negative news from a number of European banks, tightened regulatory requirements imposed by the ECB's supervisory mechanism, the European Banking Authority (EBA) and the Single Resolution Mechanism (SRM) with regard to minimum capital ratios and the resolution of financial institutions. In the year ended, the Dow Jones Euro Stoxx Bank Index, which is composed of leading European bank stocks, declined by 4.9% to 127.87 points.

Vienna Stock Exchange among top performers

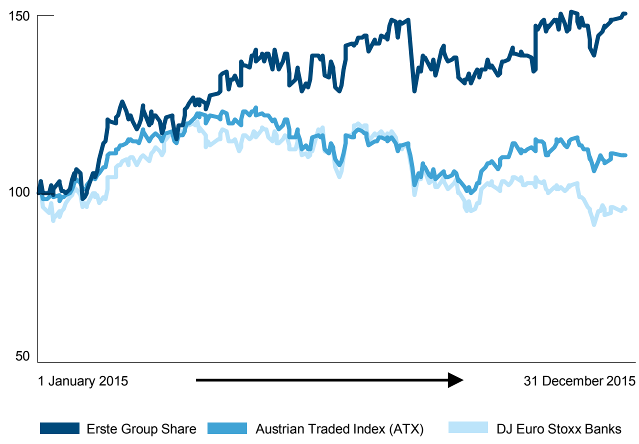
After dropping to its annual low of 2,122.08 points on 14 January, the Austrian Traded Index (ATX) posted significant gains in the first half of the year, supported by an easing of the tensions between Russia and Ukraine, lower oil prices and the weakening of the euro, and hit its annual high at 2,681.44 points on 15 May. In the third quarter, uncertainty surrounding Greek solvency and the plunge of the Chinese stock market also triggered market slides in Vienna, in tandem with the trends in other markets across Europe. Later in the year, the ATX benefited from the ECB's announcement of continuing quantitative easing and upbeat corporate news and had largely recovered by year-end. On the last trading day of 2015, the Austrian benchmark index closed at 2,396.94 points, up 11.0% year on year and among the top-performing European markets.

ERSTE GROUP SHARE

Share price up despite negative industry trends

Despite the trend of European bank shares, the Erste Group share showed a strong upward performance in the year ended, hitting its low of EUR 18.97 on 28 January 2015 and marking its high at EUR 29.04 on 30 November 2015. In the first quarter, the Erste Group share already traded 19.2% higher, buoyed up by the positive sentiment in European stock markets driven by the launch of the ECB's bond purchasing programme. While international stock indices and some European banking shares suffered significant losses later in the year, the Erste Group share resisted this trend and advanced further. Measured against the Euro Stoxx Bank Index, the Erste Group share was up 11.1% in the second quarter versus -4.9%, gained 1.8% in the third quarter (-12.4%), and advanced 11.5% in the fourth quarter (-2.6%). The Erste Group share's outperformance was attributable to the release of quarterly results that consistently beat market expectations, the decline in risk costs, a steady improvement in asset quality and strong capital ratios. In view of the positive development of earnings and the affirmation of the outlook given, a large number of analysts raised their earnings estimates and target prices for the Erste Group share. Closing at EUR 28.91 on the last trading day of the year 2015, the share was up 50.3% year on year, against the trend present among its European peers and significantly outperforming both the ATX and the Euro Stoxx Bank Index.

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



Performance of the Erste Group share versus indices

	Erste Group share	ATX	DJ Euro Stoxx Bank Index
Since IPO (Dec 1997)	160,9%	83,7%	-
Since SPO (Sep 2000)	146,0%	105,1%	-63,6%
Since SPO (Jul 2002)	65,9%	96,5%	-49,1%
Since SPO (Jan 2006)	-35,8%	-38,5%	-66,3%
Since SPO (Nov 2009)	-0,3%	-8,0%	-43,8%
2015	50,3%	11,0%	-4,9%

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

Number of shares, market capitalisation and trading volume

The number of shares of Erste Group Bank AG remained unchanged at 429,800,000. Due to the 50% rise of the share price, the market capitalisation of Erste Group rose to EUR 12.4 billion at year-end 2015 from EUR 8.3 billion in 2014.

Trading volume on the three stock exchanges (Vienna, Prague, Bucharest) on which the Erste Group share is listed averaged 910,499 shares per day and accounted for about 46% of the total trading volume in Erste Group shares. More than half of the trading activity was executed over the counter (OTC) or through electronic trading systems.

Erste Group in sustainability indices

The Erste Group share has been included in VÖNIX, the Vienna Stock Exchange's sustainability index, since its launch in 2008. In addition, the Erste Group share has been included in the STOXX Global ESG Leaders index, which represents the best sustainable companies on the basis of the STOXX Global 1800.

DIVIDEND

Since 2005, the Erste Group's dividend policy has been guided by the bank's profitability, growth outlook and capital requirements. At the annual general meeting held on 12 May 2015 it was decided not to pay any dividends for the financial year 2014. For the financial year of 2015, the management board of Erste Group will propose to the annual general meeting to pay a dividend in the amount of EUR 0.50.

SUCCESSFUL FUNDING

In 2015, the Holding issued close to EUR 2.4 billion in bonds, including EUR 1 billion in two benchmark-sized mortgage covered bond issues. After Erste Group had not been active at capital markets in the covered bond format since 2012, the bank used favourable market conditions in the first and third quarter for issuing a 10-year and a 5-year mortgage-covered bond. In addition, approx. EUR 700 million in senior unsecured bonds were placed via private placements and with retail customers. Another EUR 600 million were funded by issuing subordinated bonds (tier 2). Overall, the average tenor of new issues was about 7.5 years in 2015.

INVESTOR RELATIONS

Open and regular communication with investors and analysts

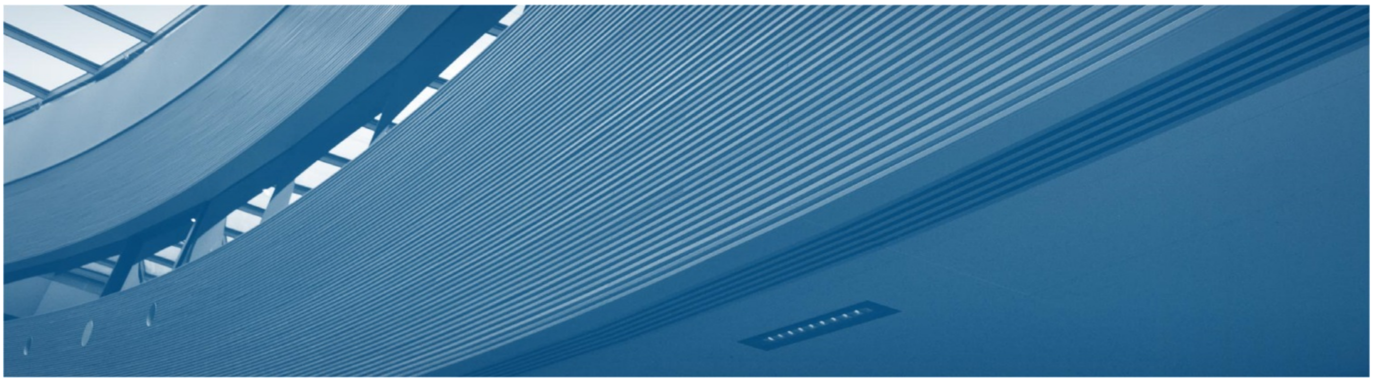
In 2015, Erste Group's management and the investor relations team met with investors in a total of 376 one-on-one and group meetings and conducted a large number of teleconferences with analysts and investors. The presentation of the 2014 annual result in Vienna was followed by the annual analysts' dinner and a road show day with investor meetings in London. A spring road show was conducted after the release of the first-quarter results and an autumn road show was held following the release of the third-quarter results in Europe and in the US. Erste Group presented its strategy in the current operating environment at international banking and investor conferences organised by the Vienna Stock Exchange, Kepler Cheuvreux, UBS, Morgan Stanley, HSBC, Concorde, RCB, J.P. Morgan, Deutsche Bank, Bank of America Merrill Lynch, Autonomous, Goldman Sachs, Barclays, UniCredit and Wood. 107 meetings were held to intensify the dialogue with bond investors. A large number of face-to-face meetings with analysts and portfolio managers were held at conferences, road shows and workshops hosted by UBS, Nomura, Barclays, Danske Bank, ING and Euromoney.

The website http://www.erstegroup.com/investorrelations provides comprehensive information on Erste Group and the Erste Group share. Investors and the broader public can also follow the investor relations team on the social media platform Twitter at http://twitter.com/ErsteGroupIR and on Slideshare at http://de.slideshare.net/Erste_Group. These sites provide users with the latest news on Erste Group on the social web.

As an additional service for investors and analysts, Erste Group offers a free Investor Relations app for iPhone, iPad and Android devices. This application enables users to access and download Erste Group Bank AG share price information, the latest investor news, multimedia files, financial reports and presentations as well as an interactive financial calendar and contact details for the investor relations team. More details on this service and downloading are available at http://www.erstegroup.com/en/investors/ir-service.

Analyst recommendations

In 2015, 26 analysts regularly released research reports about Erste Group, including one initial coverage analysis. The Erste Group Bank AG share was covered by financial analysts at the following national and international firms: Autonomous, Bank of America Merrill Lynch, Barclays, Berenberg, Citigroup, Commerzbank, Concorde, Credit Suisse, Deutsche Bank, Exane BNP Paribas, Goldman Sachs, HSBC, JP Morgan, KBW, Kepler Cheuvreux, Macquarie, mBank, Mediobanca, Morgan Stanley, Natixis, Nomura, RCB, SocGen, UBS, VTB Capital and Wood.
As of year-end, 19 recommendations had recently been issued for the share. Twelve analysts issued buy recommendations and seven rated the Erste Group share neutral. The average year-end target price was EUR 31.52. The latest updates on analysts' estimates for the Erste Group share are posted at http:www.erstegroup.com/en/investors/share/analyst-estimates.



Strategy

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

In 2015, the management board adopted a statement of purpose to reaffirm and state in more detail the purpose of Erste Group to promote and secure prosperity across the region. Building on this statement of purpose, a code of conduct defines binding rules of the day-to-day business for the employees and the members of both the management and supervisory board. At the same time, the code of conduct underlines that in pursuing its business activities, Erste Group values responsibility, respect and sustainability. The code of conduct is an important tool to preserve the reputation of Erste Group and to strengthen stakeholder confidence. Sustainability in this context means to operate the core business both in a socially and environmentally responsible manner and economically successful.

As a result of the financial and economic crisis, banks today face a new and substantially tougher regulatory framework. At the same time, Erste Group is confronted with a very difficult environment: with persistently low interest rates and no political support for the task of promoting economic growth in the bank's region.

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

Long-standing tradition in customer banking

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

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

Core markets in the eastern part of the European Union

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

While the financial and economic crisis has slowed the economic catching-up process across the countries of Central and Eastern Europe, the underlying convergence trend continues unabated. This part of Europe offered and still offers the best structural and therefore long-term growth prospects.

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

Focus on sustainability and profitability

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

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

Erste Group's strategy

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

THE STRATEGY IN DETAIL

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

Retail business

Erste Group's key business is the retail business, covering the entire spectrum from lending, deposit and investment products to current accounts and credit cards. Erste Group's core competence in retail banking has historical roots. In 1819, wealthy Viennese citizens donated funds to establish Erste Group's predecessor, the first savings bank in Central Europe. It was their aim to bring basic banking services such as safe savings accounts and mortgage loans to wide sections of the population. Today, the bank serves a total of 16 million retail customers in its markets and operates about 2,800 branches. In addition, the bank uses and promotes digital distribution channels such as Internet and mobile banking as Erste Group is convinced that the importance of digital banking will further increase and will substantially change the future of retail business. George, Erste Group's new digital platform, was launched in Austria in 2015 and will be rolled out across the group. Wealthy private clients, trusts and foundations are served by the bank's private banking staff and benefit from services that are tailored to the needs of this target group.

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

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

SME and corporate business

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

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

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

Capital markets business

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

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

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

Public sector business

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

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

Interbank business

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

REGULATORY CHANGES IN BANKING

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

The goal behind the reform measures is to improve the banking sector's ability to absorb any shocks arising from financial or economic stress, to strengthen the sector's transparency and disclosure requirements and to improve risk management and governance. Capital requirements have been tightened and minimum liquidity requirements have been introduced. To tackle potential weaknesses in the loss-absorbing capacity of banks additional capital buffers (capital conservation buffer, anticyclical buffer, systemic risk buffer) are to be introduced in various steps. In addition, the quality of equity and own funds instruments follows stricter rules. In 2015, many of the new rules were defined through regulations, explanations and recommendations by European and national regulators.

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

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

In August 2015, in the implementation of the directive on deposit guarantee schemes, the Deposit Guarantee and Investor Compensation Act (Einlagensicherungs- und Anlegerentschädigungsgesetz, ESAEG) was published. Following a transition period until year-end 2018, it stipulates a new structure and an ex ante formation of a deposit insurance funds by 2024.

To strengthen the Austrian banking industry, the Financial Markets Authority (FMA) introduced a systemic risk buffer for a series of Austrian credit institutions by way of ordinance (capital buffer ordinance). For the Holding, it amounts to 0.25% of risk-weighted assets as of 1 January 2016 and will be gradually increased to 2% until 1 January 2019.

As of year-end 2015, Erste Group reported a fully loaded Basel 3 CET1 (common equity tier-1) ratio of 12.0% and a total capital ratio of 17.2%. Despite increasing regulatory pressure in general and additional burdens on the capacity of retaining earnings as a result of bank levies in Austria, Hungary and Slovakia as well as contributions into national deposit insurance and resolutions funds, Erste Group remained well-capitalised and benefits from an excellent liquidity position, enabling it to proactively serve customers' needs.

LONG-TERM GROWTH TRENDS IN CENTRAL AND EASTERN EUROPE

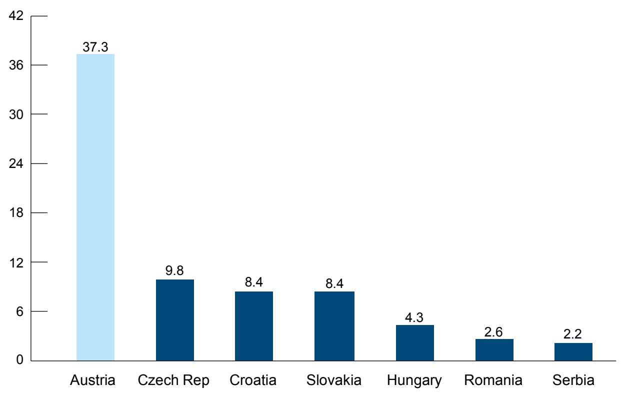
While the financial and economic crisis has slowed the economic catching-up process across the countries of Central and Eastern Europe, the underlying convergence trend continues. This is on the one hand due to the fact that the region has to make up for almost half a century of communist mismanagement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

With the exception of deposit-taking, modern banking services were largely unknown in these countries until some twenty years ago. On the lending side, this was due to high nominal and real interest rates and also to disposable incomes that did not support household credit growth. In addition, a healthy competitive environment was lacking due to extensive state ownership. All this has changed. In most of the countries, interest rates are in a process of convergence or have already converged to euro levels. Disposable incomes have risen strongly on the back of growing gross domestic products. Most formerly state-owned banks have been sold to strategic investors that have fostered product innovation and competition. Economic growth, which declined substantially in some countries in CEE following the economic and financial crisis, recovered recently. Despite such economic slowdowns and potential temporary negative impacts on the banking markets in Central and Eastern Europe, these factors will remain the driving force behind future development.

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

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

Customer loans/capita in CEE (2015) in EUR thousand



Source: Local central banks, Erste Group

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

Management report

ECONOMIC ENVIRONMENT

In 2015, the global macroeconomic environment was particularly characterised by different money supply policies, which impacted global economic developments. The loose monetary policy (quantitative easing) pursued in Europe contrasted with the restrictive policy adopted in the United States. The Federal Reserve (Fed) eventually terminated the quantitative easing programme, and the interest rate reversal that had been anticipated for a whole year finally happened. The Fed's confidence reflected the positive economic development of the world's largest economy, consumer spending and employment visibly improved throughout 2015. The European Central Bank (ECB), on the other hand, continued its bond purchase programme initiated at the start of the year. Recovery of the euro zone remained on track as its economies were supported by strengthening domestic demand and exports. Although emerging markets and developing economies continued to outgrow advanced markets, their performances disappointed in 2015 – in particular in China, where decelerating economic growth reflected the ongoing correction in the property sector, weakness in industrial activity and slower loan growth. In addition, the Russian economy experienced an economic downturn due to weakening commodity prices and political tensions with Ukraine. A possible exit of Greece from the euro zone and implications of the military actions in Syria also led to uncertainties in 2015. Overall, the global economy grew by 3.1%, after 3.4% in 2014.

The United States' economy performed well in 2015. Solid labour market conditions continued to support consumption-led growth with job creation averaging more than 200,000 per month in 2015 and the unemployment rate falling to 5% in the final quarter of the year. Higher real disposable household income, boosted by employment gains, declining oil prices and moderate wage growth, led to rising personal consumption growth despite the increase in the savings ratio. Investments also developed satisfactorily with the sole exception of the oil sector. Foreign trade, on the other hand, was the weak spot of the US economy. The decline in net exports was mainly due to the strength of the dollar against the euro and the softness in external demand, particularly from large emerging markets. The fall of oil prices in the summer of the year and the strong currency led inflation to hover around zero in the second half of 2015. In December 2015, the Fed decided to raise short-term interest rates by 0.25% for the first time since the financial crisis. The central bank expressed its confidence that the US economy had recovered and job growth had strengthened sufficiently to allow it to raise the key policy rate. Altogether, the US economy grew by 2.4% in 2015

The economic performance of the euro zone was satisfactory but remained uneven in 2015. Germany, Europe's biggest economy, was supported by increasing consumption, growing investments and improved foreign trade. Consumption significantly benefitted from rising real wages and the low unemployment rate. Investments also contributed to the country's economic growth, driven mainly by strong activity in residential housing. The country's foreign trade was supported by strong exports, which benefitted from a weaker euro; this more than compensated for weaker exports to China. Spain was one of the most dynamic economies of the euro zone as the country benefitted from the comprehensive reforms that were adopted in the wake of the financial crisis. The economies of France and Italy, however, lagged behind those of Spain and Germany. The French government showed little willingness to implement reforms in 2015, while in Italy labour market reforms were implemented. In March 2015, the ECB announced plans to continue its monetary policy by purchasing public sector bonds, asset-backed securities and covered bonds with a monthly targeted amount of EUR 60 billion until at least September 2016. A further enhancement of monetary policy support until March 2017 was decided in December 2015. The ECB kept interest rates at the historic low of 5 basis points throughout the year. Overall, the eurozone economy grew by 1.5% in 2015.

The Austrian economy remained well diversified across sectors, benefitting from a sizeable, high value-added industrial base, its well-educated workforce and its important service sector. In terms of GDP per capita of approximately EUR 39,400, Austria remained one of the euro zone's most prosperous countries in 2015. Despite the fact that Austria grew less than the euro zone in 2015, the country's economic performance met expectations. Activity across all sectors of the economy rose. While foreign trade was negatively impacted by a noticeable decline in exports to China and Russia, the balance of trade remained positive. Domestic demand also contributed to economic growth despite a relatively low increase in disposable income. Overall, the country's economic growth stood at 0.8%. Austria's unemployment rate increased for the fourth consecutive year, but at 5.8% was still among the lowest in Europe. The troubled financial institution HETA Asset Resolution AG, formerly Hypo AlpeAdria International AG, continued to weigh on the fiscal outcome, and the public sector had to book illiquid assets of Kommunalkredit of around 2% of GDP, which also contributed to the increase of public debt in 2015. Public debt, as a percentage of GDP, increased to 87% (2014: 84.2%). As a result of the relatively low growth and elevated debt burden, Moody's downgraded the outlook of the country's sovereign rating in the last quarter of 2015.

Despite the relatively weak developments of some of the world's major emerging markets, the CEE economies achieved strong economic growth in 2015. This performance was mainly due to fiscal tightening packages carried out in previous years, improved external imbalances, very low inflation and the fact that the region's countries are net importers of energy. In addition, European Union fund absorption rates significantly improved in CEE, particularly in Hungary and the Czech Republic, the region's fastest growing economy. Overall, consumer confidence improved across the region, and domestic demand proved to be the main driver of economic growth. The car industry, which was one of the main contributors to exports, again supported the Czech, Slovak, Romanian and Hungarian economies. On the back of the ECB's monetary policy, the national banks in Hungary and Romania continued to cut their key rates. In the Czech Republic, the base rate remained at five basis points throughout the year, and the region's currencies remained broadly stable against the euro. The competitive economies of the region and decreasing unemployment rates supported current account balances in 2015. In addition, the region was characterised by solid public finances, as almost all countries fulfilled Maastricht criteria. Overall, the CEE economies grew, with the Czech Republic achieving the highest growth rate at 4.5%. Croatia, on the other hand, had the weakest growth at 1.5%, still emerging from a multi-year recession.

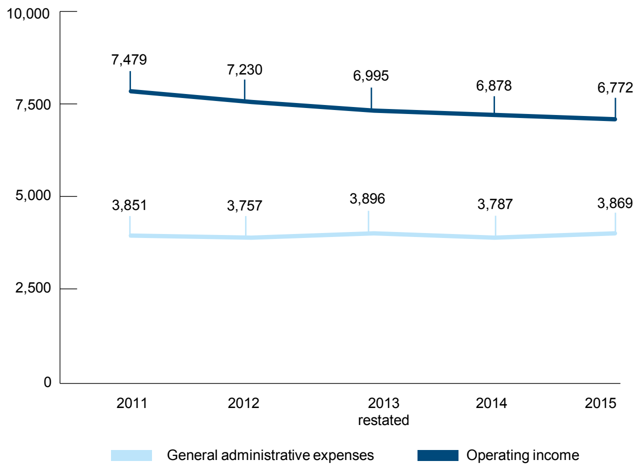
PERFORMANCE IN 2015

Acquisitions and disposals in Erste Group in 2015 did not have any significant impact and therefore had no effect on the rates of changes stated below. Details are provided in the notes to the consolidated financial statements.

Overview

Net interest income declined to EUR 4,444.7 million (EUR 4,495.2 million), mainly due to the persistently low interest rate environment, which was not fully offset by loan growth. **Net fee and commission income** declined slightly to EUR 1,861.8 million (EUR 1,869.8 million) due to lower income from lending business and payment services. The **net trading and fair value result** decreased to EUR 210.1 million (EUR 242.3 million). **Operating income** went down moderately to EUR 6,771.8 million (-1.5%; EUR 6,877.9 million).

Operating income and operating expenses in EUR million



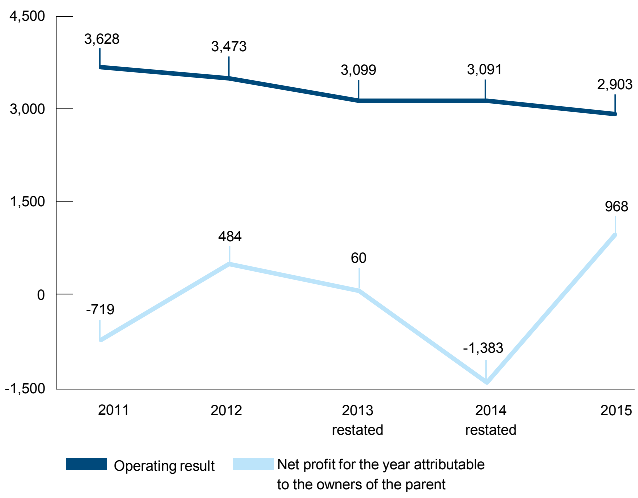
General administrative expenses rose to EUR 3,868.9 million (+2.2%; EUR 3,787.3 million). This resulted in a decline of the **operating result** to EUR 2,902.9 million (-6.1%; EUR 3,090.7 million). The **cost/income ratio** amounted to 57.1% (55.1%).

Net impairment loss on financial assets not measured at fair value through profit or loss (net) fell significantly to EUR 729.1 million or 56 basis points of average gross customer loans (-65.0%; EUR 2,083.7 million or 163 basis points), primarily due to a substantial decline in Romania, but also due to a positive trend in all Austrian segments. The **NPL ratio** improved further to 7.1% (8.5%). The **NPL coverage ratio** stood at 64.5% (68.9%).

Other operating result amounted to EUR -635.6 million (EUR -1,752.9 million). The significant positive change was attributable to the non-recurrence of high negative one-off effects in 2014 (primarily intangible write-downs). Current figures include the expense of contributions to national resolution funds in the amount of EUR 51.3 million payable in 2015 for the first time as well as losses in the amount of EUR 129.5 million resulting from legislation requiring the conversion of customer loans (Swiss francs to euro) in Croatia. In addition, provisions were recognised in the amount of EUR 101.6 million for risks related to Romanian consumer protection claims. At EUR 236.2 million (EUR 256.3 million), banking and financial transaction taxes were again significant: EUR 128.6 million (EUR 130.5 million) in Austria, EUR 23.6 million (EUR 31.5 million) in Slovakia and EUR 84.0 million (EUR 94.2 million) in Hungary.

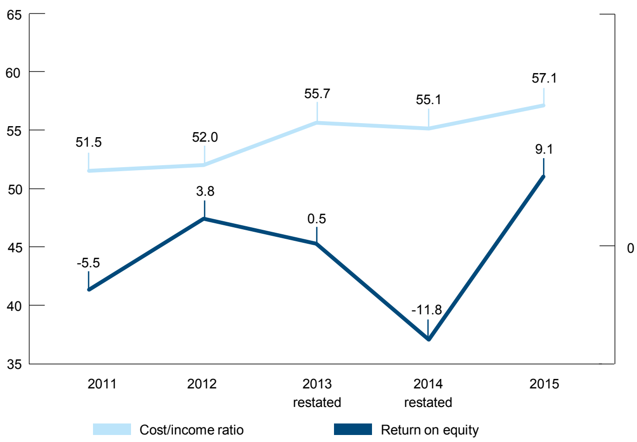
Due to the good risk development at the Savings Banks and the turnaround in Romania, the minority charge was high at EUR 307.0 million (EUR 133.4 million). The **net result attributable to owners of the parent rose** to EUR 968.2 million (EUR -1,382.6 million).

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



Cash return on equity, i.e. return on equity adjusted for non-cash expenses such as goodwill impairment and straight-line amortisation of customer relationships, stood at 9.3% (reported ROE:-9.3%) in 2015 versus -9.4% (reported ROE:-13.3%) in 2014.

Key profitability ratios in %



Cash earnings per share for the financial year 2015 amounted to EUR 2.23 (reported EPS: EUR 2.22) versus EUR -1.44 (reported EPS: -3.37) in 2014.

Total assets increased to EUR 199.7 billion (EUR 196.3 billion), driven mainly by the increase in customer lending volume, with **loans and receivables to customers (net)** rising to EUR 125.9 billion (EUR 120.8 billion). Within liabilities, **customer deposits** rose to EUR 127.9 billion (EUR 122.6 billion). The **loan-to-deposit ratio** stood at 98.4% (98.6%).

The **common equity tier 1 ratio** (CET 1, Basel 3 phased-in) stood at 12.3% (10.6%). The **total capital ratio** (Basel 3 phased-in) at 17.9% (15.7%).

Dividend

A dividend distribution amounting to EUR 0.50 per share will be proposed at the Annual General Meeting (2014: no dividend distribution).

Outlook

Operating environment anticipated to be conducive to credit expansion

In 2016, real GDP growth, driven primarily by robust domestic demand, of between 1.5% and 3.8% is expected for Erste Group's key markets, i.e. Austria, the Czech Republic, Slovakia, Romania, Hungary and Croatia. As in 2015, the contribution of net exports to GDP growth will again be less significant in 2016, though. Inflation will remain negligible in 2016 against the backdrop of a weak economic environment in Europe and the continuing decline in commodity prices. The economic growth anticipated for 2016 should support a further drop in unemployment in most of Erste Group's key countries. In Austria, the unemployment rate is expected to increase, however. The solid economic development in Erste Group's core markets will again be reflected by current account surpluses in 2016, with the exception of Romania, which is expected to post a current account deficit of 1.1%. The solid macroeconomic situation of Central and Eastern Europe is underpinned by continuing moderate levels of government debt in the Czech Republic, Slovakia and Romania, where public debt ratios should remain below the Maastricht limit of 60%. Overall, the 2016 economic outlook for Erste Group's markets in Central and Eastern Europe should hence be bright. In those circumstances, it is expected that loan demand should rise further in Erste Group's core countries.

Return on tangible equity (ROTE) expected at about 10-11% in 2016

In 2016, the business of Erste Group should benefit from the following factors: supported by the solid development of the overall economy, loan growth should continue and credit quality should improve amid a favourable risk environment. The sale of a participation in VISA will result in a positive one-off impact of about EUR 127 million pre-tax. While higher lending volume has a positive impact on net interest income, the persistently low interest rate environment will result in lower returns from investments in government bonds and will also adversely affect the liabilities side. Banking levies (comprising banking taxes in Austria, Hungary and Slovakia), the Hungarian financial transaction tax as well as resolution funds and deposit insurance fund contributions) will have a negative pre-tax impact of about EUR 360 million. In 2016, the bank will continue to pursue the digital transformation as one of its key business policy objectives: the newly designed digital platform George will be expanded further and, after its successful launch in Austria, will also be rolled out in the Czech Republic. Overall, the bank is expected to continue its positive development, which should lead to a further strengthening of the capital base. The bank therefore assumes that it will be in a position to pass the stress test announced by the European Central Bank for 2016.

Risks to outlook

Risks related to political interventions in the banking market and risks arising from legal action under consumer protection legislation: in recent years, politically motivated legislation that has significantly increased the cost of banking operations was passed in several countries in which Erste Group operates. This included most notably the introduction of banking levies in Austria, Hungary and Slovakia as well as various laws providing for a refund of fees and the forced conversion of foreign-currency loans, e.g. in Hungary and in Croatia. It cannot be ruled out that further legislative measures may be adopted in the future, including some of the kind currently being discussed in Romania, under which consumers are to be allowed to transfer ownership in loan collateral to the bank in return for cancellation of their debt. Erste Group and its subsidiaries are furthermore involved in various lawsuits brought by consumer protection organisations, which in the event of a negative outcome might result in additional costs.

Risks in connection with geopolitical and global economic developments: international political and economic turmoil caused, for example, by a severe slowdown in global growth, a potential exit of Great Britain from the European Union or political tensions within the EU may, individually or collectively, negatively affect the profitability and growth prospects of Erste Group. The extremely expansionary monetary policies pursued by the central banks of Western advanced economies also have an ongoing negative effect on the profitability of the global banking sector. They reduce banks' interest income and result in a persistent decrease in net interest margins. Erste Group Bank AG has already responded to this development by introducing more digital elements into its business model.

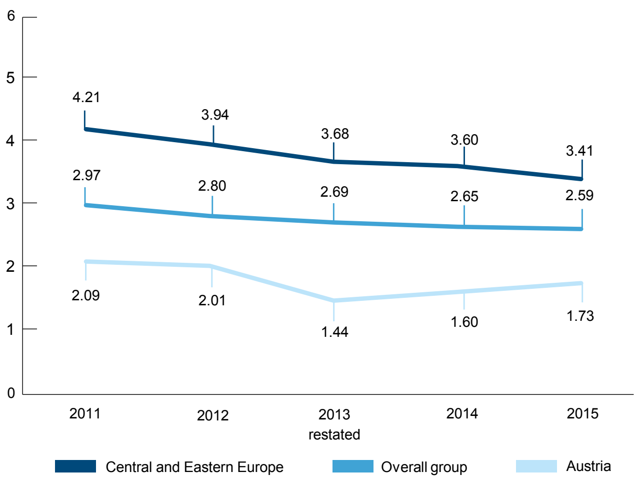
ANALYSIS OF PERFORMANCE

January-December 2015 compared with January-December 2014

Net interest income

Net interest income declined to EUR 4,444.7 million (EUR 4,495.2 million), mainly due to the low interest rate environment which could not be offset by loan growth of 4.2%. Developments varied geographically: while net interest income declined significantly in Romania (lower unwinding effect) and Hungary (consumer loan law, lower loan volume), it increased in Austria. Consequently, the net interest margin (net interest income as a percentage of average interest-bearing assets) contracted from 2.65% to 2.59%.

Net interest margin in %

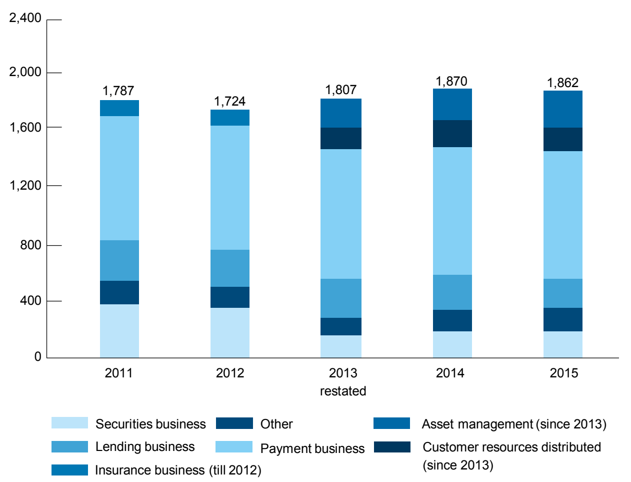


Since 2013 the calculation method for the net interest margin has been based on segment figures. For the calculation of the average interest-bearing assets five quarterly figures are now used instead of the four in the past.

Net fee and commission income

Net fee and commission income declined slightly to EUR 1,861.8 million (EUR 1,869.8 million). Consistently strong results from asset management and the custody business largely offset the decline in income from the lending business and payment services.

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



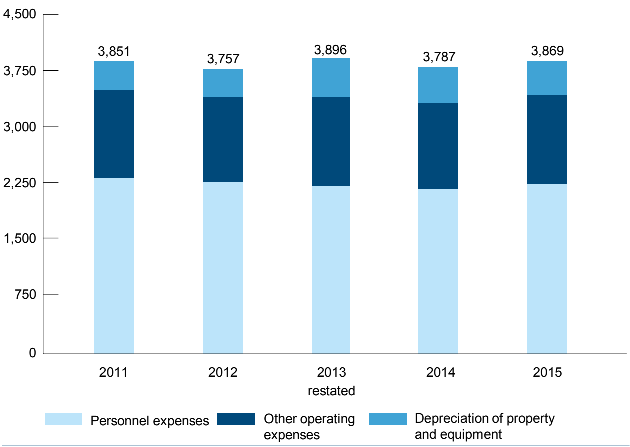
Net trading and fair value result

The net trading and fair value result decreased to EUR 210.1 million (EUR 242.3 million), as improved income from foreign exchange transactions and positive valuation results of financial liabilities – at fair value through profit or loss did not compensate for the lower contribution of the line item securities and derivatives trading.

General administrative expenses

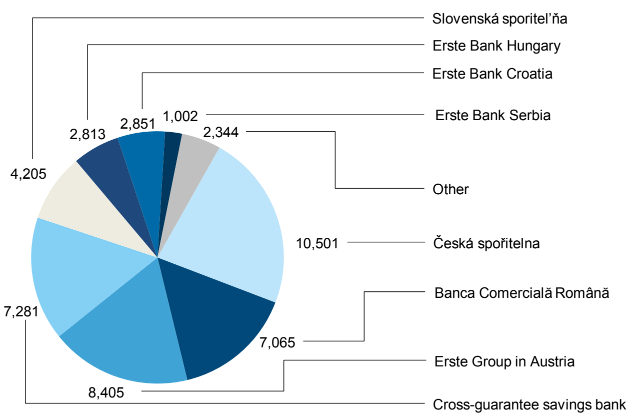
General administrative expenses rose to EUR 3,868.9 million (EUR 3,787.3 million).

General administrative expenses, structure and trend, in EUR million



Personnel expenses increased, partly due to a higher average headcount, to EUR 2,244.6 million (EUR 2,184.2 million). **Other administrative expenses** were up at EUR 1,179.3 million (EUR 1,136.9 million), **depreciation and amortisation** declined to EUR 445.0 million (EUR 466.1 million). The line item other administrative expenses comprised deposit insurance contributions in the amount of EUR 99.6 million (EUR 87.6 million). The rise in these expenses was attributable to contributions to a deposit insurance fund in the amount of EUR 21.5 million that Austrian financial institutions had to pay for the first time in 2015. The line item depreciation and amortisation included the straight-line amortisation of intangible assets (customer relationships) in the amount of EUR 6.2 million (EUR 37.0 million). The marked decline was due to the full write-down of customer relationships in BCR in 2014.

Headcount as of 31 December 2015



The average headcount increased slightly by 1.1% to 46,496 (45,996).

Operating result

Operating income declined to EUR 6,771.8 million (-1.5%; EUR 6,877.9 million) due to lower net interest income, a decline in the net trading and fair value result and lower dividend income. General administrative expenses rose to EUR 3,868.9 million (+2.2%; EUR 3,787.3 million), which led to an operating result in the amount of EUR 2,902.9 million (-6.1%; EUR 3,090.7 million). The cost/income ratio stood at 57.1% (55.1%).

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

Gains/losses from financial assets and liabilities not measured at fair value through profit or loss (net) rose to EUR 100.9 million (EUR 18.3 million). This was attributable to positive contributions from the sale of financial assets – available for sale as well as gains from the repurchase of financial liabilities carried at amortised cost.

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

Net impairment loss on financial assets declined to EUR 729.1 million (EUR 2,083.7 million). This development was attributable in particular to the decline in the balance of the allocation and release of provisions for the lending business together with the costs of direct loan write-offs offset by income received from the recovery of loans already written off to EUR 666.5 million (EUR 2,044.9 million). The main drivers were declining risk costs in Austria as well as lower risk costs plus substantial recoveries of receivables previously written off in Romania after the recognition of extraordinarily high risk provisions in 2014. Consequently, net impairment loss on financial assets not measured at fair value through profit or loss, based on the average volume of gross customer loans, improved significantly to 56 basis points (163 basis points). In addition, this line item included a net impairment loss on held-to-maturity and available-for-sale financial assets in the amount of EUR -62.6 million (EUR -38.8 million).

Other operating result

The non-recurrence of high negative one-off effects had a positive impact on other operating result, which came in at EUR -635.6 million (EUR -1,752.9 million). The comparative period had been affected by substantial write-offs: goodwill write-downs in the total amount of EUR 475.0 million (thereof EUR 319.1 million in Romania, EUR 61.4 million in Croatia and EUR 94.5 million in Austria). In addition, EUR 489.8 million were written off in Romania for customer relationships and brand.

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

Levies on banking activities declined to EUR 236.2 million (EUR 256.3 million). In Hungary, banking levies of EUR 84.0 million (EUR 94.2 million) included banking tax of EUR 46.2 million (EUR 47.9 million) and a financial transaction tax of EUR 37.8 million (EUR 46.3 million). Banking levies charged in Austria amounted to EUR 128.6 million (EUR 130.5 million) and in Slovakia – after a substantial reduction – to EUR 23.6 million (EUR 31.5 million).

Other operating result also comprises the allocation/release of other provisions, including for commitments and guarantees given, in the amount of EUR 306.0 million (EUR 73.8 million). This includes provisions in the amount of EUR 129.5 million for losses resulting from legislation requiring the conversion of customer loans (Swiss francs to euro) in Croatia as well as EUR 101.6 million for risks related to Romanian consumer protection claims. In the comparative period, other operating result had mainly reflected provisions in the amount of EUR 336.8 million recognised after a consumer loan law had been passed in Hungary. Provisions for commitments and guarantees given amounted to EUR 63.0 million.

This line item also includes contributions to the national resolution fund payable in 2015 for the first time in the amount of EUR 51.3 million. Impairments of own properties and repossessed assets of EUR 36.3 million also had a negative impact on this position.

Profit/loss for the year

The pre-tax result from continuing operations amounted to EUR 1,639.1 million (EUR -727.7 million). Due to the good risk development in Austria and the turnaround in Romania, the minority charge increased significantly to EUR 307.0 million (EUR 133.4 million). The net result attributable to owners of the parent rose to EUR 968.2 million (EUR -1,382.6 million).

Tax situation

Pursuant to section 9 of the Austrian Corporate Tax Act ("KStG"), Erste Group Bank AG and its main domestic subsidiaries constitute a tax group. Due to the high proportion of tax-exempt income – particularly income from participating interests – and tax payments for the permanent establishments abroad, no Austrian corporate income tax was payable in fiscal year 2015. The current tax loss carried forward increased in 2015.

Taxes on income are made up of current taxes on income calculated in each of the Group companies based on the results reported for tax purposes, corrections to taxes on income for previous years, and the change in deferred taxes. In 2015, the reported total income tax expense amounted to EUR 363.9 million (2014: EUR 521.5 million).

Balance sheet development

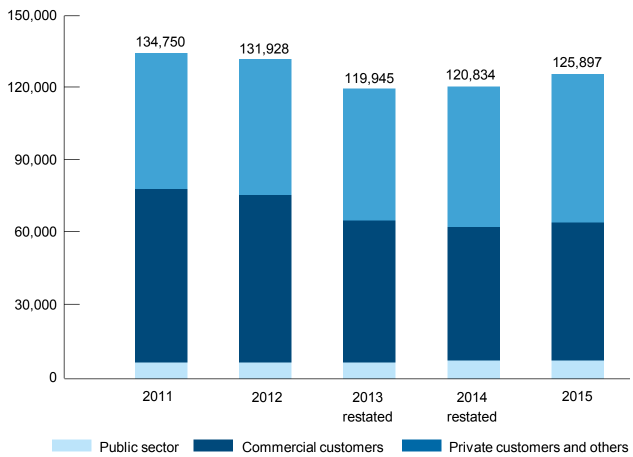
Total assets increased to EUR 199.7 billion (EUR 196.3 billion), driven mainly by the increase in customer lending volume, with loans and receivables to customers (net) rising to EUR 125.9 billion (EUR 120.8 billion). Within liabilities, customer deposits rose to EUR 127.9 billion (EUR 122.6 billion). **Total risk**, i.e. risk-weighted assets including credit, market and operational risk, (Basel 3 phased-in) decreased to EUR 98.3 billion (EUR 100.6 billion).

The cash and cash balances amounting to EUR 12.4 billion (EUR 7.8 billion) are a sign of good liquidity.

Trading and investment securities held in various categories of financial assets were down at EUR 47.5 billion (EUR 50.1 billion), with declines posted in the line items financial assets – available for sale and financial assets – held for trading (in the derivatives position).

Loans and receivables to credit institutions (net) decreased to EUR 4.8 billion (EUR 7.4 billion). **Loans and receivables to customers (net)** rose to EUR 125.9 billion (EUR 120.8 billion), driven by higher volumes in Slovakia, the Czech Republic and Austria (Erste Bank Oesterreich and Savings Banks).

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

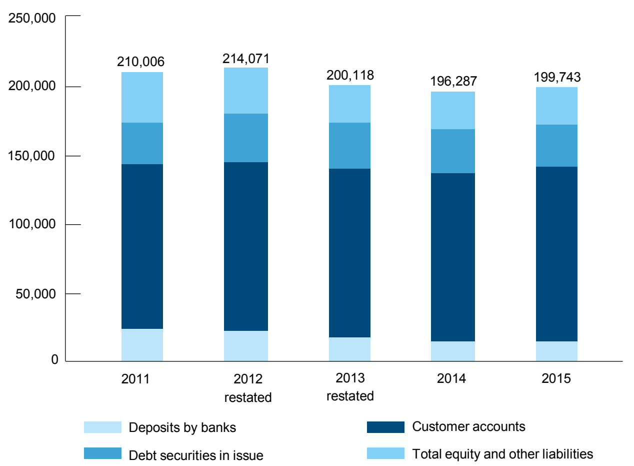


Allowances for loans and receivables to customers declined to EUR 6.0 billion (EUR 7.5 billion), reflecting the steady improvement in asset quality.

Intangible assets stood at EUR 1.5 billion (EUR 1.4 billion). **Miscellaneous assets** declined to EUR 7.7 billion (EUR 8.6 billion).

Financial liabilities – held for trading were lower at EUR 5.9 billion (EUR 7.7 billion), primarily as a result of a decrease in the line item derivatives.

Balance sheet structure/liabilities and total equity in EUR million

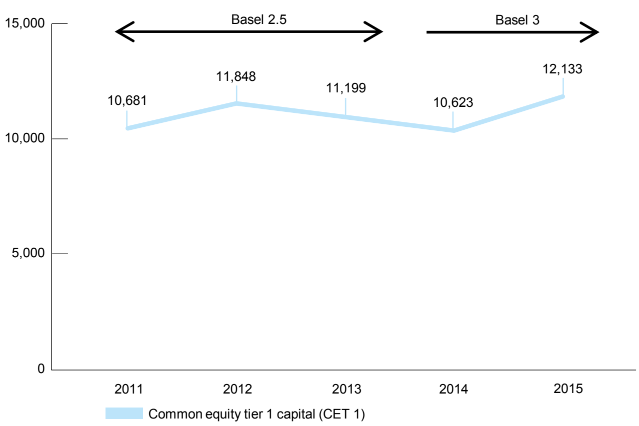


Deposits from banks declined to EUR 14.2 billion (EUR 14.8 billion). **Deposits from customers** were up at EUR 127.9 billion (EUR 122.6 billion). The **loan-to-deposit ratio** stood at 98.4% (98.6%).

Debt securities in issue, mainly bonds, declined to EUR 29.7 billion (EUR 31.1 billion). **Miscellaneous liabilities** rose to EUR 7.3 billion (EUR 6.6 billion).

Erste Group's **total equity** increased to EUR 14.8 billion (EUR 13.4 billion). **Common equity tier 1 capital** (CET 1, Basel 3 phased-in) rose to EUR 12.1 billion (EUR 10.6 billion); **total own funds** (Basel 3 phased-in) improved to EUR 17.6 billion (EUR 15.8 billion). **Total risk** (**risk-weighted assets** including credit, market and operational risk, Basel 3 phased-in) declined to EUR 98.3 billion (EUR 100.6 billion).

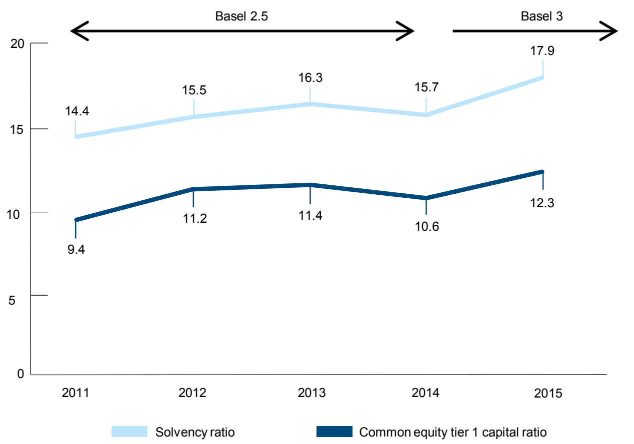
Common equity tier 1 capital (CET 1) according to CRR in EUR million



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

As of 2014, Erste Group has calculated consolidated regulatory capital according to Basel 3. The calculation follows the requirements as defined by the capital requirements regulation (CRR) taking into consideration transitional provisions as defined in the Austrian CRR Supplementary Regulation. These transitional provisions define the percentages applicable to eligible capital instruments and regulatory deduction items as well as filters. The **total capital ratio** (Basel 3 phased-in) in relation to the total risk (total eligible qualifying capital in relation to total risk pursuant to CRR) was 17.9% (15.7%), well above the legal minimum requirement (8%).

Solvency ratio and common equity tier 1 capital ratio in %



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

EVENTS AFTER BALANCE SHEET DATE

There were no significant events after the balance sheet date.

RISK MANAGEMENT

With respect to the explanations on substantial financial and non-financial risks at Erste Group as well as the goals and methods of risk management, we would like to draw the reader's attention to the information in Notes 44, 45 and 50 to the consolidated financial statements.

RESEARCH AND DEVELOPMENT

Erste Group does not engage in any research activities pursuant to section 243 (3) no. 3 UGB, but in 2015 development costs in the amount of EUR 87 million (EUR 50 million) were capitalised in connection with software developed in-house. In order to drive improvements for retail customers and in the ongoing services, Erste Group Bank AG launched the Innovation Hub in 2012. Its purpose is to initiate and coordinate across-the-board initiatives with a strong focus on "real customer experiences". As a multi-disciplinary team consisting of marketing, product and IT as well as design experts, the Innovation Hub is tasked with creating innovations and managing new programme initiatives.

CORPORATE SOCIAL RESPONSIBILITY

As one of the leading 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 Bank AG acts responsibly towards customers, employees, investors and communities. This is why Erste Group Bank AG has brought in a wide variety of measures.

Adhering to laws and international initiatives against bribery and corruption is common practice. Measures are implemented to fulfil this responsibility, such as a documentation and approval tool for gifts and a Whistleblowing Office. The Erste Integrity Line encourages lawful, fair behaviour and enables all employees to report cases of suspicious misconduct.

Commitment to society

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

Social activities

Erste Group's social commitment is marked by its long-term cooperation with local and international organisations providing practical and swift assistance to people in difficult life situations. Erste Bank Oesterreich, for instance, has been a partner of Caritas for many years. Since 2003 Erste Bank Oesterreich, the savings banks and s Bausparkasse have sponsored Hilfswerk Österreich, one of the largest non-profit providers of health care, social and family services in Austria. Additionally, Erste Bank Oesterreich has also supported the aid organisation lobby.16, which works to protect the right to education of unaccompanied young refugees and give them access to education, employment and participation in social life. Banca Comercială Română operates a platform for no-fee donations, which promotes approximately 300 listed non-governmental organisations (NGOs). Approximately 90 projects and initiatives were supported through partial financing in Serbia in 2015. Slovenská sporiteľňa continued its support for projects that create new jobs in sheltered workplaces and for organisations that work with handicapped people. Young people from children's homes have obtained scholarships under a project called *Success through Education*.

Arts and culture

Erste Group is dedicated to supporting an understanding of and appreciation for the arts and culture. One of the cornerstones of the activities is to enable young and socially disadvantaged people to find access to music and to the performing or the applied arts. Promoting young talents is another focus of Erste Group's arts and culture sponsorship programme. Erste Bank Oesterreich is the main sponsor of the *Viennale* film festival and *Jeunesse*, which supports young artists and the development of innovative concepts for sharing music. Česká spořitelna is the most dedicated long-term promoter of music in the Czech Republic. The portfolio includes the biggest multi-genre festivals – *Colours of Ostrava* and *United Islands*. Česká spořitelna is also a patron of Česká filharmonie, the Czech Philharmonic orchestra. Projects focusing on social design were financed as part of the Vienna Design Week in 2015. In addition, a number of music festivals and art projects have been promoted in Hungary, Slovakia, Serbia and Croatia.

Financial education

A good understanding of money and finance is of the utmost importance, because it enables individuals and households to improve and secure their economic situation. Financial ignorance limits social, economic and cultural life, which might become a risk to the individual but also creates problems for communities, countries and society in general. Erste Group believes that knowledgeable and financially educated customers are more likely to make sound appropriate financial decisions. Financially secure individuals and families will contribute positively to communities and foster economic growth and development. Therefore, Erste Group has been engaged in financial education activities for many years.

A new project is the *Financial Life Park* (FLiP), a museum and learning trail focusing on personal finance and basic economics. The main target group are school classes starting from primary school. The FLiP, located in the newly built Erste Campus in Vienna, Erste Group's headquarters, will open its doors in autumn 2016.

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. The local banks in the Czech Republic, Hungary and Slovakia support similar education projects.

Corporate volunteering

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

In addition to former branch premises at Europaplatz in Vienna, Erste Group also made available unused space at Erste Campus as emergency shelter for refugees.

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

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

In 2015, the main focus of financial inclusion was again on micro banking and social enterprise financing. Erste Group's local banks offer micro-financing models. Good.bee Credit provides development-oriented financial products for small businesses and the self-employed in Romania. Start-ups are also supported through micro-loans in Serbia, Croatia, Slovakia and Austria that target the financing of social enterprises.

Suppliers

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

Employees

Retaining experienced and committed employees is fundamental to the long-term success of every company. Erste Group – as one of the largest employers in the region – therefore aims to maintain its position as an employer of choice in Central and Eastern Europe. The appointment of a Group Diversity Manager underlines the importance of diversity for Erste Group. In 2015, the management board of the Holding and the employees' council signed a company agreement on preventing discrimination and promoting respectful behaviour in the workplace. An Anti-Discrimination Officer was appointed at the end of 2015; this person works with management on awareness and prevention and councils, advises and mediates in matters concerning harassment and discrimination. Further to that, Erste Group signed the Nestor Gold Charter on generation management in October 2015.

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 structures group-wide leadership development offerings. Erste Group also offers university graduates a very attractive career start with its Group Graduate Programme.

The focus of the remuneration policy is on an appropriate balance in rewarding the performance, competence and level of responsibility of the employees and keeping a sustainable personnel cost base. Erste Group offers competitive, but not market-leading, compensation packages. The remuneration schemes are designed according to the CRD IV requirements on remuneration, ESMA guidelines (European Securities and Markets Authority) and local bank laws. Erste Group is committed to a proactive approach towards helping its employees to identify and manage health risk. Therefore, a multi-professional team of occupational physicians, industrial psychologists and physiotherapists assists the employees in any matters of health and well-being.

Environment

Environmental issues affect everyone's life. An Environmental Steering Committee consisting of the CEO and COO of Erste Group Bank AG 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. A wide variety of energy-saving programmes has been implemented in all local banking subsidiaries. In addition, group-wide criteria for choosing heating and electric energy providers based on their use of renewable energies have been defined. Erste Campus, the new headquarters in Vienna, has been awarded preliminary DGNB Gold certification by the Austrian Society for Sustainable Real Estate (ÖGNI), and Erste Asset

Management was the first Austrian investment funds company to sign the Montréal Carbon Pledge.

The Corporate governance report is part of the annual report of Erste Group (www.erstegroup.com/investorrelations).

CAPITAL, SHARE, VOTING AND CONTROL RIGHTS

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

With regard to the statutory disclosure requirements related to the composition of the capital as well as the class of shares, special reference is made to note 36 in the consolidated financial statements.

As of 31 December 2015, DIE ERSTE oesterreichische Spar-Casse Privatstiftung ("Privatstiftung"), a foundation, controlled together with its partners to shareholder agreements approximately 29.17% of the shares in Erste Group Bank AG and was the controlling shareholder with 12.88% of the shares. The Privatstiftung held 9.22% of the shares directly, the indirect participation of the Privatstiftung amounted to 3.66% of the shares were held by Sparkassen Beteiligungs GmbH & Co KG, which is an affiliated undertaking of the Privatstiftung. 3.30% were hold by Austrian savings banks and saving banks foundations acting together with the Privatstiftung and affiliated with Erste Group Bank AG through the Haftungsverbund. 9.92% of the subscribed capital was controlled by the Privatstiftung on the basis of a shareholder agreement with Caixabank S.A., 3.08% were held by other partners to other shareholder agreements.

Furthermore, it should be noted that Erste Group Bank AG – just as nearly all Austrian savings banks – is a member of the Haftungsverbund of Sparkassengruppe. Sparkassengruppe sees itself as an association of independent, regionally established savings banks that strives to bolster its market position by strengthening common product development, harmonising its market presence 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. of the Austrian Banking Act ("BWG"), 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 any other protection case (insolvency) to service the guaranteed customer deposits of a Haftungsverbund member. The scope of the individual services to be provided by individual Haftungsverbund members where needed is subject to an individual and general maximum limit. Any contributions made by Haftungsverbund members under the statutory deposit guarantee system pursuant to section 93 et seq. BWG are likewise 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 years. In the financial statements, the payments by the individual members are recognised as participations in IPS GesbR – which has been charged with managing the ex ante fund. There was a shift in retained earnings from untied reserves to tied reserves. On the basis of the contractual provisions, these retained earnings represent a tied reserve. These tied retained earnings may be released only if the ex ante fund is used due to a contingency. Internally, this reserve may therefore not be used to cover a loss and, at member level, it does not qualify as capital under the definition of CRR; on a consolidated level, however, the ex ante fund qualifies as capital.

Additional disclosures pursuant to section 243a (1) UGB

All restrictions on voting rights or the transfer of shares, even if they are included in agreements between shareholders, insofar as they are known to the management board pursuant to section 243a (1) no. 2 UGB:

In shareholder agreements, the Privatstiftung agreed with its partners the following: concerning the appointment of the members of the supervisory board, the partners are obliged to vote as required by the Privatstiftung. The partners can dispose of shares according to a predefined sale procedure and can purchase shares only within the quotas agreed with the Privatstiftung (of in total a maximum of 2% within 12 months); with this regulation an unwanted creeping-in according to the Takeover Act shall be prevented. In addition, the partners have committed themselves not to make a hostile takeover bid, nor to participate in a hostile takeover bid, nor to act together with a hostile bidder in any other way.

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

Art. 15.4 of the Articles of Association concerning the appointment and dismissal of members of the management board and the supervisory board is not directly prescribed by statutory law: a three-quarter majority of valid votes cast and a three-quarter majority of the subscribed capital represented at the meeting considering the proposal are required to pass a motion for removal of supervisory board members. The Articles of Association contain no restrictions in respect of voting rights or the transfer of shares. Art. 19.9 of the Articles of Association concerning amendments to the Articles of Association contains a provision that is not prescribed directly by statutory law: amendments to the Articles of Association, in so far as they do not alter the business purpose, may be passed by a simple majority of votes cast and a 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.

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 12 May 2015:

_ 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 11 November 2017.

_ 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 11 November 2017, 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 more purposes. The market price per share must not be below EUR 2.00 or above EUR 120.00. Pursuant to section 65 (1b) in conjunction with sec. 171 Stock Corporation Act, the management board is authorised, from the date of the resolution, i.e. until 11 May 2020, 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 more 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 more 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 authorised until 28 June 2017, with the consent of the supervisory board, to issue convertible bonds, which have the conversion or subscription right for shares of the Company, observing or excluding the subscription rights of the shareholders. The terms and conditions may, in addition or instead of a conversion or subscription right, also provide for the mandatory conversion at the end of the term or at any other time. The issuance of the convertible bonds is limited to the extent that all conversion or subscription rights, and in case of a mandatory conversion stipulated in terms and conditions, the mandatory conversion, are covered by conditional capital. The issue amount, the terms and conditions of the issue of the convertible bonds and the exclusion of the subscription rights for the shareholders will be determined by the management board with the consent of the supervisory board.

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

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

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

Haftungsverbund

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

- one contracting party harms grossly the duties resulting from present agreement
- the ownership structure of a party to the contract changes in such a way – particularly by transfer or capital increase – that one or more third parties from outside the savings bank sector directly and/or indirectly gain a majority of the equity capital or voting rights in the contracting party or
- one contracting party resigns from the 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% 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 12 weeks from the change of control that it intends to withdraw from the Haftungsverbund.

Directors and officers insurance

Changes in controlling interests

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

- the insured party ceases to exist as a result of merger or consolidation, unless the merger or consolidation occurs between two insured parties, or
- another company, person or group of companies or persons acting in concert who are not insured parties, acquire more than 50% of the insured party's outstanding equity or more than 50% of its voting power (giving rise to the right to control the voting power represented by the shares, and the right to appoint the management board members of the insured party), 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 party and insurer agree otherwise). The premium for this insurance cover is deemed to be completely earned.

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

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

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

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

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

Control environment

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

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

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

Risks relating to the financial reporting procedures

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

Furthermore, especially estimates for the determination of the fair value of financial instruments for which no reliable market value is available, estimates for the accounting of risk provisions for loans and advances and for provisions, complex measurement requirements for accounting as well as a difficult business environment bear the risk of significant financial reporting errors.

Controls

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

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

Group Consolidation

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

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

Information and communication

Each year the annual report shows the consolidated results in the form of a complete set of consolidated financial statements. In addition, the management summary provides verbal comments on the consolidated results in accordance with the statutory requirements. Throughout the year, the group produces consolidated monthly reports for group management. Statutory interim reports are produced that conform to the provisions of IAS 34 and are also published quarterly in accordance with the Austrian Stock Corporation Act. Before publication, the consolidated financial statements are presented to senior managers and the Chief Financial Officer for final approval and then submitted to the supervisory board's audit committee.

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

Responsibilities of Internal Audit

Internal Audit is in charge of auditing and evaluating all areas of the bank based on risk-oriented audit areas (according to the annual audit plan as approved by the management board and reported to the audit committee). The main focus of audit reviews is to monitor the completeness and functionality of the internal control system. Internal Audit has the duty of reporting its findings to the group's management board, supervisory board and audit committee several times within one year.

According to section 42 BWG, Internal Audit is a control body that is directly subordinate to the management board. Its sole purpose is to comprehensively verify the lawfulness, propriety and expediency of the banking business and banking operation on an on-going basis. The mandate of Internal Audit is therefore to support the management board in its efforts to secure the bank's assets and promote economic and operational performance and thus in the management board's pursuit of its business and operating policy. The activities of Internal Audit are governed in particular by the currently applicable Rules of Procedure, which were drawn up under the authority of all management board members and approved as well as implemented by them. The Rules of Procedure are reviewed on a regular basis and whenever required, and adapted should the need arise.

Audit activities of Internal Audit

In its auditing activities, Internal Audit puts a special focus on:

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

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

Vienna, 26 February 2016

Management board

Andreas Treichl mp Chairman	Peter Bosek mp Member
Petr Brávek mp Member	Andreas Gottschling mp Member
Gernot Mittendorfer mp Member	Jozef Síkela mp Member

Segments

Introduction

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

Erste Group's segment reporting is based on the matrix organisation (business and geographical information) and provides comprehensive information to assess the performance of the business and geographical segments.

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

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

Business segments

Erste Group – business segments

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

The **Retail** segment comprises the entire business with private individuals, free professionals and micros in the responsibility of account managers in the retail network of the local banks cooperating with their specialised subsidiaries (such as leasing and asset management companies). Retail products and services including current and savings accounts, mortgage and consumer loans, investment products, credit cards and cross-selling products such as leasing, insurance, and building society products are offered via various distribution channels (branch networks and digital banking).

The **SME** segment comprises the business with micros, small and medium-sized enterprises (SMEs), small public sector companies, and small financial institutions (e.g. third-party leasing companies) in the responsibility of local corporate account managers. Local banks cooperate with specialised subsidiaries such as factoring and leasing companies. The turnover threshold for SMEs varies from country to country within the range of EUR 0.7 million and EUR 75 million.

The **Asset/Liability Management & Local Corporate Center** (ALM & LCC) segment includes all asset/liability management functions (local and Erste Group Bank AG) as well as the local corporate centers which comprise internal service providers that operate on a non-profit basis and reconciliation items to local entity results. The corporate center of Erste Group Bank AG is included in the Group Corporate Center segment.

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

The **Large Corporates** (LC) segment comprises the business with large corporate customers whose annual turnover exceeds a defined threshold that starts at EUR 25 million and EUR 75 million respectively, depending on the country.

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

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

The **Group Markets** (GM) segment comprises the divisionalised business units Group Treasury and Capital Markets (except Equity Capital Markets) and includes the treasury activities of Erste Group Bank AG, the CEE subsidiaries, foreign branch offices in Hong Kong, New York, Berlin and Stuttgart as well as the business with institutional clients of Erste Asset Management. The focus is on client-oriented business with institutional clients. Group Markets is the internal trading unit for all classic treasury (such as FX, commodities and money market) and capital market products (such as bonds, interest rate derivatives, credit products).

The **Group Corporate Center** (GCC) segment covers mainly centrally managed activities and items that are not directly allocated to other segments. It comprises the corporate center of Erste Group Bank AG (and thus dividends and the refinancing costs from participations, general administrative expenses), internal non-profit service providers (facility management, IT, procurement), amortisation/write-down of customer relationships and brand, goodwill impairments, the banking tax of Erste Group Bank AG as well as free capital of Erste Group (defined as the difference between the total average IFRS equity and the average economic equity allocated to the segments).

Comparative figures for 2014 contained several one-off effects that did not recur in 2015. Thus, in 2014 the write-down of the entire remaining value of customer relationships and brand in Romania totaled EUR 470.7 million. Goodwill impairments amounted to EUR 475.0 million, whereby Romania accounted for EUR 319.1 million, Croatia for EUR 61.4 million and Austrian participations for EUR 94.5 million.

Intragroup Elimination (IC) is not defined as a segment but is the reconciliation to the consolidated accounting result. It includes all intragroup eliminations between participations of Erste Group (e.g. intragroup funding, internal cost charges). Intragroup eliminations within partial groups are disclosed in the respective segments.

RETAIL

Financial review

in EUR million	2014	2015	Change
Net interest income	2,175.1	2,207.7	1.5%
Net fee and commission income	1,050.3	1,029.1	-2.0%
Net trading and fair value result	59.8	56.1	-6.3%
Operating income	3,317.4	3,329.8	0.4%
Operating expenses	-1,814.3	-1,856.4	2.3%
Operating result	1,503.1	1,473.4	-2.0%
Cost/income ratio	54.7%	55.8%	
Net impairment loss on financial assets not measured at fair value through profit or loss	-671.7	-289.7	-56.9%
Other result	-393.2	-277.5	-29.4%
Net result attributable to owners of the parent	271.7	714.6	>100.0%
Return on allocated capital	13.6%	33.5%	

The rise in net interest income was driven by increased loan and deposit volumes in Austria, accompanied by a repricing of deposits, higher loan volumes in Slovakia as well as increasing mortgage loan and current account volumes in the Czech Republic. These developments more than offset lower contribution from the lending business in Romania and Hungary. Net fee and commission income decreased primarily due to lower current account, cards and lending fees in the Czech Republic. Increased asset management and securities fees in Austria partially mitigated this impact. Net trading and fair value result was negatively impacted by the one-year Swiss franc exchange rate fixing for retail loans required by the legislation in Croatia in January 2015. Operating expenses increased due to the integration of new entities in Austria as well as due to higher expenses in Austria and Romania. Operating result declined, the cost/income ratio went up. The significant improvement of net impairment loss on financial assets not measured at FV through profit and loss was driven by lower risk costs in Romania, where the previous year included high provisions in connection with the accelerated NPL reduction, while risk costs in Hungary went up mostly due to method effects. Other result improved significantly due to the non-recurrence of one-time effects, namely expenses related to the Hungarian consumer loan law in the amount of EUR 304.4 million. The improvement was partially offset by provisions for risks related to Romanian consumer protection claims. Overall, the net result attributable to the owners of the parent improved substantially.

Credit risk

Credit risk exposure in the Retail segment rose strongly to EUR 54.3 billion (+5.1%). The customer loan portfolio increased to EUR 48.8 billion (+EUR 1.7 billion). The share of the retail business in Erste Group's total customer loans was up slightly at 37.0% (36.7%). The collateralisation ratio, which reflects the ratio of collateral to loan volume, stood at 62.8%.

The quality of the retail customer loan portfolio improved again significantly. Non-performing loans as a percentage of total retail customer loans decreased to 5.3% (6.3%). Measured by the NPL ratio, this segment continued to feature the highest quality of all business segments with a significant loan portfolio. In addition to a decline in non-performing loans by EUR 340 million, there was also a major migration of performing loans to better risk classes. The share of low-risk loans as a percentage of total retail customer loans rose to 84.4% (81.7%).

SME

Financial review

in EUR million	2014	2015	Change
Net interest income	569.4	570.2	0.1%
Net fee and commission income	198.4	190.3	-4.1%
Net trading and fair value result	31.9	34.8	8.9%
Operating income	832.7	826.0	-0.8%
Operating expenses	-292.8	-306.9	4.8%
Operating result	539.9	519.1	-3.9%
Cost/income ratio	35.2%	37.2%	
Net impairment loss on financial assets not measured at fair value through profit or loss	-461.1	-187.4	-59.4%
Other result	0.6	-31.1	n/a
Net result attributable to owners of the parent	50.4	230.9	>100.0%
Return on allocated capital	3.6%	19.6%	

Net interest income remained stable due to higher loan volumes in Austria offsetting the re-allocation of a part of the Erste Factoring portfolio in Croatia to the Large Corporate segment. Net fee and commission income decreased mainly in the Czech Republic. Net trading and fair value result improved as a result of positive credit value adjustments in the Czech Republic. Operating expenses went up due to higher costs in subsidiaries; the cost/income ratio rose. Net impairment loss on financial assets not measured at FV through profit and loss improved substantially on the back of lower risk provisions in Romania and Austria. Other result deteriorated mainly due to the non-recurrence of one-off insurance income in Austria. Net result attributable to the owners of the parent improved significantly.

Credit risk

In the SME business segment, total credit risk exposure declined to EUR 25.2 billion (-2.3%). This development was mainly attributable to the transfer of larger SME clients to the Large Corporates segment towards the end of the year. The volume of loans to customers also decreased to EUR 20.6 billion at year-end. Measured as a percentage of total loans to customers of Erste Group, the share of SMEs declined to 15.6% (16.5%). 46% (50%) of the loans were secured by collateral.

Credit quality in the SME segment improved further. Supported by write-downs and sales on the secondary market as well as by a decrease in new bad loans, the portfolio of non-performing loans fell by EUR 470 million to EUR 1.8 billion. The NPL ratio dropped by 1.9 percentage points year on year to 8.8% at year-end. The development of credit risk loss provisions was also positive. The NPL coverage ratio rose to 72.1% (64.3%). Including collateral for defaulted loans, the coverage ratio stood at 109.3% at year-end.

ASSET/LIABILITY MANAGEMENT & LOCAL CORPORATE CENTER

Financial review

in EUR million	2014	2015	Change
Net interest income	164.7	4.8	-97.1%
Net fee and commission income	-65.3	-45.8	-29.9%
Net trading and fair value result	24.7	-53.1	n/a
Operating income	184.6	-47.3	n/a
Operating expenses	-112.9	-90.9	-19.5%
Operating result	71.8	-138.2	n/a
Cost/income ratio	61.1%	>100.0%	
Net impairment loss on financial assets not measured at fair value through profit or loss	1.2	-13.9	n/a
Other result	-214.2	-116.0	-45.9%
Net result attributable to owners of the parent	-174.8	-204.5	17.0%
Return on allocated capital	-9.9%	-11.7%	

Net interest income declined considerably mainly due to lower ALM contribution on the back of an unfavourable yield curve development. The increase in net fee and commission income was primarily related to a positive impact from lower fee expenses in the Czech Republic. Net trading and fair value result deteriorated substantially due to negative impacts from the yield curve development, hedging and FX effects. The reduction in operating expenses was mainly attributable to lower costs in Romania and Austria. Overall, operating result deteriorated. Other result improved especially due to some non-recurring negative effects booked in 2014 in Romania and Hungary. The net result attributable to the owners of the parent decreased.

SAVINGS BANKS

Financial review

in EUR million	2014	2015	Change
Net interest income	891.8	926.4	3.9%
Net fee and commission income	419.3	439.3	4.8%
Net trading and fair value result	1.1	3.1	>100.0%
Operating income	1,379.0	1,432.0	3.8%
Operating expenses	-932.1	-966.0	3.6%
Operating result	446.9	466.0	4.3%
Cost/income ratio	67.6%	67.5%	
Net impairment loss on financial assets not measured at fair value through profit or loss	-199.4	-83.6	-58.1%
Other result	-15.4	6.3	n/a
Net result attributable to owners of the parent	18.4	40.2	>100.0%
Return on allocated capital	9.0%	16.9%	

The increase in net interest income was attributable to loan growth and the repricing of deposits due to the persistent low interest rate environment. Net fee and commission income improved due to higher fees from securities business and payment services. Net trading and fair value result increased driven by the valuation effects of derivatives. Operating expenses went up due to the increase of payments into deposit insurance funds to EUR 12.2 million (EUR 1.3 million) as well as higher personnel and IT expenses. Operating result increased while the cost/income ratio remained stable. Net impairment loss on financial assets not measured at FV through profit and loss decreased considerably on the back of a benign risk environment. Other result improved as the payment into the recovery & resolution fund in the amount of EUR 8.0 million was more than offset by valuation effects, lower provisions for contingent credit risk liabilities as well as higher selling gains for securities. Banking tax decreased slightly to EUR 15.0 million (EUR 15.9 million). Overall, the net result attributable to owners of the parent increased.

Credit risk

Total credit risk exposure in the Savings Banks segment increased to EUR 55.1 billion (53.9 billion) while loans to customers advanced to EUR 39.3 billion (+2.0%). Their share in total customer loans amounted to 29.8% at year-end. In the distribution of borrowers by customer segments there was a further shift from medium-sized and large enterprises as well as from the public sector to retail customers, with robust growth primarily in private households. Lending to professionals, other self-employed persons and small businesses expanded at 2.0%, the same rate as the total portfolio. At 17.0% of total loans, the share of this customer segment is significantly larger than at Erste Group's subsidiaries in Central and Eastern Europe. This reflects the structure of Austria's economy with a very high share of small and medium-sized enterprises compared with other countries.

Despite the Swiss franc's strong appreciation versus the euro (+11.0%), Swiss franc denominated foreign-currency loans declined further to EUR 3.6 billion (-EUR 397 million). The trend towards higher collateralisation of loans continued. The quality of the loan portfolio continued to be very solid. Non-performing loans as a percentage of total loans to customers decreased by 0.7 percentage points to 5.6%. This development was especially positive among corporate customers.

LARGE CORPORATES

Financial review

in EUR million	2014 restated	2015	Change
Net interest income	214.1	229.3	7.1%
Net fee and commission income	99.2	89.1	-10.2%
Net trading and fair value result	9.3	13.5	45.6%
Operating income	322.5	331.9	2.9%
Operating expenses	-85.0	-91.4	7.5%
Operating result	237.5	240.5	1.3%
Cost/income ratio	26.4%	27.5%	
Net impairment loss on financial assets not measured at fair value through profit or loss	-310.7	-11.5	-96.3%
Other result	14.8	-34.5	n/a
Net result attributable to owners of the parent	-53.8	144.5	n/a
Return on allocated capital	-7.3%	21.9%	

Net interest income increased as a result of the reallocation of a part of the Erste Factoring portfolio in Croatia to the Large Corporates segment (shown fully in the SME segment in 2014) which, together with higher volumes and margins in the Slovak Large Corporates portfolio, more than offset the lower income attributable to unwinding effect and lower margins in Romania. Net fee and commission income decreased mostly due to lower fees in the Czech portfolio, lower guarantee fees in Austria and lower cash management fees in the Hungarian portfolio. Net trading and fair value result improved due to fixed income derivative business and positive credit value adjustments in Austrian and Czech portfolios. Operating result increased despite an increase in operating expenses, while cost/income ratio deteriorated. Net impairment loss on financial assets not measured at FV through profit and loss decreased substantially due to the non-recurrence of high risk provisions for loans and receivables booked in Romania in the previous year. Other result deteriorated due to higher provisions for commitments and guarantees given in Austria. Net result attributable to the owners of the parent improved significantly.

Credit risk

Credit risk exposure in the Large Corporates segment rose to EUR 21.4 billion (+21.5%; EUR 17.6 billion) at year-end. Loans to customers increased to EUR 12.2 million (+EUR 2.2 billion). As a percentage of Erste Group's total loans to customers, they rose to 9.2% (7.8%). The high growth rates in the Large Corporates segment was mainly driven by a restructuring of customer relationship management whereby larger customers – primarily from the public sector – were transferred from regional responsibility to central management. The relatively big difference between credit risk exposure and the customer loan portfolio in the Large Corporates segment is primarily due to a large volume of guarantees and unused loan commitments.

Active management of non-performing loans by restructuring, write-downs and sales resulted in a significant improvement of the loan quality in the Large Corporates segment. The NPL ratio dropped to 7.8% (11.8%). The share of low-risk loans rose to 84.7% (78.7%).

COMMERCIAL REAL ESTATE

Financial review

in EUR million	2014	2015	Change
Net interest income	150.1	169.3	12.8%
Net fee and commission income	15.8	14.0	-11.2%
Net trading and fair value result	-6.2	4.7	n/a
Operating income	205.7	230.4	12.0%
Operating expenses	-88.2	-86.5	-2.0%
Operating result	117.5	143.9	22.4%
Cost/income ratio	42.9%	37.5%	
Net impairment loss on financial assets not measured at fair value through profit or loss	-364.3	-56.9	-84.4%
Other result	-45.9	-34.0	-26.0%
Net result attributable to owners of the parent	-279.6	25.7	n/a
Return on allocated capital	-36.1%	4.4%	

The increase in net interest income was mainly attributable to a one-off income in the Austrian portfolio and higher loan volumes in the Czech Republic. Net fee and commission income declined on the back of lower fees in the Czech portfolio. The improvement in the net trading and fair value result was attributable to a one-off negative effect from FX valuations in 2014. Rental income increased mostly in Immorent. Operating expenses decreased slightly. Consequently, operating result increased and the cost/income ratio improved. Net impairment loss on financial assets not measured at FV through profit and loss dropped, mainly driven by Immorent and Austrian portfolios, as well as the Romanian and Hungarian portfolios. Other result improved due to a one-off income in Immorent. Overall, net result attributable to the owners of the parent improved significantly.

Credit risk

Business activity in the Commercial Real Estate segment declined again due to the continued adverse economic situation in the real estate industry. Over the course of the year, credit risk exposure decreased to EUR 9.2 billion (-EUR 627 million) while loans to customers declined to EUR 8.5 billion (-7.8%). The share of the Commercial Real Estate segment in Erste Group's total customer loan portfolio decreased to 6.5% (7.2%).

Loan quality improved noticeably for the first time in several years due to, among other things, portfolio clean-up measures such as write-downs and sales. Non-performing loans as a percentage of total commercial real estate financing decreased to 18.9% (20.9%). The migration of performing loans to better risk classes accelerated. The share of low-risk loans rose to 64.5% (59.3%).

OTHER CORPORATE

Financial review

in EUR million	2014	2015	Change
Net interest income	75.2	74.1	-1.4%
Net fee and commission income	18.9	14.8	-21.6%
Net trading and fair value result	4.8	-2.9	n/a
Operating income	99.4	86.1	-13.4%
Operating expenses	-58.2	-58.6	0.7%
Operating result	41.1	27.4	-33.3%
Cost/income ratio	58.6%	68.1%	
Net impairment loss on financial assets not measured at fair value through profit or loss	-12.9	-53.0	>100.0%
Other result	1.5	25.0	>100.0%
Net result attributable to owners of the parent	22.9	-1.0	n/a
Return on allocated capital	10.9%	-0.5%	

The decline in net interest income is attributable to a further reduction of the International Business loan book in Austria as well as lower interest income in the Investment Banking portfolio in London which could not be entirely compensated by the improved performance of the International Business loan portfolio in New York. Net fee and commission income declined primarily due to a one-off fee expense related to a sale of private equity funds and lower guarantee fee income from the International Business. The decline in net trading and fair value result was driven by the worsening performance of asset-backed securities and derivatives in the structured credit business as well as the mark-to-market valuation of interest rate swaps. Operating result thus declined and the cost/income ratio deteriorated. Net impairment loss on financial assets not measured at FV through profit and loss increased on the back of higher risk provisions for loans and receivables related to Ukrainian customers. Other result improved significantly due to the sale of private equity funds and extraordinary income from various credit exposures. Net result attributable to the owners of the parent declined.

Credit risk

Credit risk exposure in the Other Corporate segment declined further to EUR 2.8 billion (EUR 3.4 billion) while loans to customers increased to EUR 1.8 billion (+5.5%). The still low share of customer loans in total credit risk exposure compared with other business segments is mainly due to the relatively high level of investments in securities and loans to credit institutions. With a share of merely 1.4% of the entire group's customer loan portfolio, the Other Corporate segment is of minor significance overall.

The quality of customer loans deteriorated slightly. The share of non-performing loans in the loan portfolio rose to 5.4% (4.2%). Performing loan volume in more risky categories declined while the share of low-risk loans rose to 88% (82%) of the total customer loan portfolio.

GROUP MARKETS

Financial review

in EUR million	2014	2015	Change
Net interest income	191.2	182.0	-4.8%
Net fee and commission income	102.9	123.3	19.9%
Net trading and fair value result	116.1	110.2	-5.1%
Operating income	412.6	417.3	1.1%
Operating expenses	-179.1	-187.0	4.4%
Operating result	233.4	230.3	-1.4%
Cost/income ratio	43.4%	44.8%	
Net impairment loss on financial assets not measured at fair value through profit or loss	-0.1	2.5	n/a
Other result	-0.7	-4.8	>100.0%
Net result attributable to owners of the parent	185.3	176.6	-4.7%
Return on allocated capital	38.3%	40.5%	

Net interest income declined primarily due to the persistently low interest rate environment affecting interest-rate-related products. Net fee and commission income improved significantly due to increased retail, corporate and institutional sales business as well as the performance of funds of institutional customers. Net trading and fair value result decreased due to unfavourable market conditions. Although operating income increased, operating result declined due to higher operating expenses; the cost/income ratio deteriorated. Other result slipped due to the contribution to the recovery and resolution funds. Overall, net result attributable to the owners of the parent declined.

GROUP CORPORATE CENTER (GCC)

Financial review

in EUR million	2014	2015	Change
Net interest income	70.2	104.1	48.3%
Net fee and commission income	69.1	33.4	-51.7%
Net trading and fair value result	-11.3	14.9	n/a
Operating income	183.3	210.1	14.6%
Operating expenses	-710.5	-735.4	3.5%
Operating result	-527.2	-525.4	-0.3%
Cost/income ratio	>100.0%	>100.0%	
Net impairment loss on financial assets not measured at fair value through profit or loss	-64.7	-35.7	-44.7%
Other result	-655.7	397.7	n/a
Net result attributable to owners of the parent	-1,423.1	-158.8	-88.8%
Return on allocated capital	-28.7%	-2.4%	

Net interest income increased mainly due to higher contributions from businesses not allocated to other business lines. Net fee and commission income declined due to the reallocation of subsidiaries to other segments. Net trading and fair value result improved due to valuation results. Operating expenses increased mainly due to higher IT costs. Other result improved considerably due to the non-recurrence of negative effects, namely last year's goodwill impairments of EUR 475.0 million and the write-down of the entire remaining value of customer relationships and brand of BCR of EUR 470.7 million. Consequently, net result attributable to the owners of the parent improved significantly.

Geographical segments

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

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

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

_ The **Erste Bank Oesterreich & Subsidiaries** (EBOe & Subsidiaries) segment comprises Erste Bank der oesterreichischen Sparkassen AG (Erste Bank Oesterreich) and its main subsidiaries (e.g. sBausparkasse, Salzburger Sparkasse, Tiroler Sparkasse, Sparkasse Hainburg).
_ The **Savings banks** segment is identical to the business segment Savings banks.
_ The **Other Austria** segment comprises Erste Group Bank AG (Holding) with its Large Corporates, Commercial Real Estate, Other Corporate and Group Markets business, Erste Group Immorent AG and Erste Asset Management GmbH.

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

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

The residual segment **Other** covers mainly centrally managed activities and items that are not directly allocated to other segments. It comprises the corporate center of Erste Group Bank AG (and thus dividends and the refinancing costs from participations, general administrative expenses), internal non-profit service providers (facility management, IT, procurement), amortisation/write-down of customer relationships and brand, goodwill impairments, the banking tax of Erste Group Bank AG as well as free capital of Erste Group (defined as the difference of the total average IFRS equity and the average economical equity allocated to the segments). Asset/Liability Management of Erste Group Bank AG as well as the reconciliation to the consolidated accounting result (e.g. intercompany eliminations, dividend eliminations) are also part of the segment Other.

Austria

Economic review

The Austrian economy remained well diversified across sectors, benefitting from a sizeable, high value adding industrial base, its well-educated workforce and its important service sector. In terms of GDP per capita of EUR 39,400, Austria remained one of the euro zone's most prosperous countries. Despite the fact that Austria grew less than the euro zone in 2015, the country's economic performance met expectations. Activity across all sectors of the economy rose. While foreign trade was negatively impacted by a noticeable decline in exports to China and Russia, balance of trade remained positive. Domestic demand also contributed to economic growth despite a relatively small increase in disposable income. Austria's unemployment rate increased for the fourth consecutive year, but at 5.7% was still among the lowest in Europe. Overall, the country's economic growth stood at 0.9%.

The European Central Bank kept its main refinancing rate at 0.05% throughout 2015, and average consumer price inflation stood at 0.8%, slightly lower than expected. This development was especially pronounced in the second half of the year, mainly due to the low oil price. The core inflation rate remained relatively stable at a level between 1.5% and 2% throughout the whole year. However, in comparison with other euro countries, the Austrian inflation rate was one of the highest, particularly due to the considerable increase in prices in the service sector.

Heta Asset Resolution, the wind-down company owned by the Republic of Austria whose statutory task is to dispose of the non-performing portion of Hypo Alpe Adria, continued to weigh on the fiscal outcome. In addition, the public sector had to book illiquid assets of Kommunalkredit of around 2% of GDP, which also contributed to the increase of public debt. Public debt, as a percentage of GDP, increased to 86.5% (2014: 84.2%). As a result of the relatively low growth and elevated debt burden, Moody's downgraded the outlook of the country's sovereign rating.

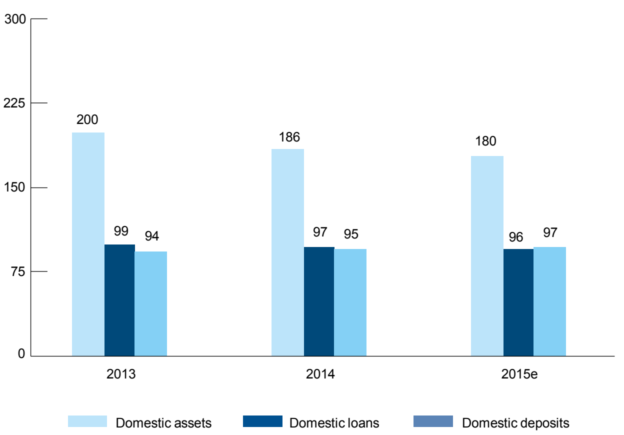
Key economic indicators – Austria	2012	2013	2014	2015e
Population (ave, million)	8.4	8.5	8.5	8.6
GDP (nominal, EUR billion)	317.2	322.6	329.3	337.2
GDP/capita (in EUR thousand)	37.7	38.2	38.5	39.4
Real GDP growth	0.9	0.2	0.4	0.9
Private consumption growth	0.5	0.1	0.0	0.4
Exports (share of GDP)	38.9	39.0	39.6	39.6
Imports (share of GDP)	41.6	40.5	40.8	40.8
Unemployment (Eurostat definition)	4.9	5.4	5.6	5.7
Consumer price inflation (ave)	2.6	2.1	1.5	0.8
Short term interest rate (3 months average)	0.2	0.3	0.1	0.0
EUR FX rate (ave)	1.0	1.0	1.0	1.0
EUR FX rate (eop)	1.0	1.0	1.0	1.0
Current account balance (share of GDP)	1.5	1.9	2.0	3.0
General government balance (share of GDP)	-2.2	-1.3	-2.7	-1.9

Source: Erste Group

Market review

The Austrian banking market, with total assets equivalent to 255% of GDP (total domestic assets of GDP: 180%) in 2015, is a highly competitive and developed banking market and remained among the most fragmented ones in Europe. The market continued to be characterised by significantly lower margins than in Central and Eastern Europe but benefitted from traditionally low risk costs. Growth rates remained low throughout the year, with customer loans expanding by 1.8% while deposits rose by 4.2%. The banking system's loan-to-deposit ratio stood at 100% at year-end. Although the special banking tax, intended to tackle the country's budget deficit, remained unchanged at EUR 625 million in 2015, capitalisation of the banking system improved further. As a result of low nominal GDP growth, flat yield curves and high regulatory burden, the sector's profitability remained comparatively low.

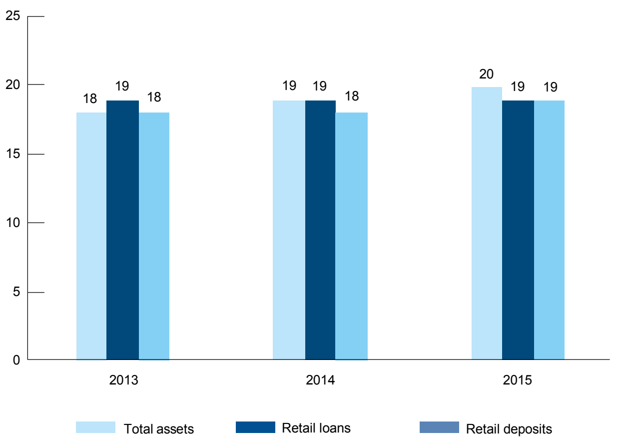
Financial intermediation – Austria (in % of GDP)



Source: Oesterreichische Nationalbank, Erste Group

Erste Bank Oesterreich and the savings banks held on to their very strong market position in the Austrian market. While the three largest banks continued to have a combined market share of approximately 60% in customer loans and deposits, the combined market share of Erste Bank Oesterreich and the savings banks as measured by total assets stood at 20% at year-end. Based on their balanced business models, Erste Bank Oesterreich and the savings banks maintained their market shares between 18% and 20% in both retail and corporate segments.

Market shares – Austria (in %)



Source: Oesterreichische Nationalbank, Erste Group

ERSTE BANK OESTERREICH & SUBSIDIARIES

Business review – Highlights

Innovation in banking. By launching its online platform *George*, Erste Bank Oesterreich positioned itself in the market as an innovation leader in digital banking. This new digital distribution channel has created new standards for the online customer experience. Since December 2015, customers have been able to apply for consumer loans online and enter into contracts either electronically or by visiting a branch, depending on their individual preferences. Customers also benefit from a range of useful and innovative apps, which is steadily being expanded. *büro2go* is an app that was developed specifically for corporate customers.

For retail and SME customers, a video advisory service was created as an additional channel through which they can contact their relationship managers. The service is easy to use and offers customers face-to-face advisory sessions while they are at home or at the office.

Focus on investments. Persistently low interest rates make investing in securities increasingly attractive for customers as an alternative to savings products. In the affluent customer segment, demand for high-quality advisory services has remained solid. Here, the focus is on the individual needs of customers and, above all, on the right balance between return expectations and risk profile. The investment scheme *YOU INVEST* offers customers great flexibility as well as maximum transparency and again contributed significantly to business performance. The share of managed products (e.g. investment funds) rose to 49.9%.

Continuing growth. In view of rising customer expectations, it is important to position the bank as a reliable provider of financial services and suitable products. The number of newly acquired customers stood at about 30,000, i.e., the same level as in previous years. In financing, new business volume went up despite subdued market sentiment. New financing volume increased by 6%. Longer-term fixed-rate products allowed customers to benefit from low interest rates. Significantly more than half of all housing loans were granted at fixed interest rates.

Attractive branch concept. Customer needs are constantly changing and reflect demographic and technological change. Nowadays, customers expect their bank to offer better accessibility and more flexibility than a few years ago. Branches also have to offer services in different formats and require a cost-efficient sales organisation. The roll-out of this new branch concept continued in 2015. As a basic service, cash dispensers are provided across the country. Simple business is dealt with quickly at newly designed service centres situated at high-frequency locations, along people's daily routes. For more complex customer needs, Erste Bank Oesterreich offers a wide range of products and services at its large customer support centres. For customers, this means clearly designed and welcoming branches, rooms for discrete meetings, faster handling of their requests and proactive support in the foyers. There is a strong focus on ensuring a consistent customer experience and communicating the brand values of Erste Bank Oesterreich.

Cost projects. The measures previously initiated to enhance the focus on quality and customer satisfaction were continued in 2015. Nonetheless, more efficiency and adjustments to other administrative expenses are needed. The bank is therefore investing in accessibility and in the high quality of its general and advisory services, optimising work flows and reducing administrative expenses at the branches, e.g. by integrating other distribution channels.

Financial review

in EUR million	2014	2015	Change
Net interest income	613.5	638.2	4.0%
Net fee and commission income	354.9	370.8	4.5%
Net trading and fair value result	8.7	-0.6	n/a
Operating income	1,020.3	1,038.6	1.8%
Operating expenses	-630.7	-640.3	1.5%
Operating result	389.6	398.4	2.3%
Cost/income ratio	61.8%	61.6%	
Net impairment loss on financial assets not measured at fair value through profit or loss	-104.5	-59.0	-43.5%
Other result	6.2	-25.6	n/a
Net result attributable to owners of the parent	214.5	230.2	7.3%
Return on allocated capital	20.8%	22.4%	

The increase in net interest income was primarily attributable to higher retail loan and deposit volumes, mainly current accounts, accompanied by a repricing of deposits. Net fee and commission income increased due to higher securities fees and lower building society fee expenses. Net trading and fair value result decreased due to valuation effects of derivatives. Operating expenses increased due to the first time payment into the deposit insurance fund of EUR 9.2 million as well as higher IT costs, which were partially compensated for by lower personnel costs mainly from lower pension fund provisions. Overall, operating result and the cost/income ratio improved. Net impairment loss on financial assets not measured at FV through profit and loss decreased substantially mainly due to a benign risk environment. The worsening of other result was driven by a one-off income from insurance payments in 2014, higher provisions for contingent credit risk liabilities, higher provisions for legal expenses as well as the resolution fund contribution of EUR 4.7 million, which was partially offset by the selling gain of a participation. Overall, the net result attributable to owners of the parent increased.

Credit risk

Total credit exposure in the Erste Bank Oesterreich and Subsidiaries geographical segment rose to EUR 38.0 billion (+2.7%). The volume of customer loans increased to EUR 30.0 billion

(+3.9%). The share of this segment in Erste Group's total loan portfolio rose by 0.2 percentage points to 22.8%. The breakdown by customer segments showed a slight shift from retail customers towards medium-sized and larger enterprises. The share of retail customers in total loan volume decreased to 40.1% (40.5%), while the share of corporates, including self-employed individuals and small businesses, stood at 53.9% (53.8%). Loans to professionals, the self-employed and small businesses are less significant than they are for the Savings Banks. These loans amounted to 9.9% of total loans to customers. Owing to the continued targeted advice campaign to promote the conversion of foreign currency loans to euro, the share of Swiss franc loans in the total loan portfolio decreased further to 7.9% (8.4%). Without the 11% appreciation of the Swiss franc, the decline would have been significantly steeper.

The quality of the loan portfolio improved and non-performing loans as a percentage of total loans to customers declined by 0.6 percentage points to 2.9%. The development was positive across all customer segments, but most visible among medium-sized and larger enterprises. The continued improvement of loan quality among the self-employed and small businesses was also notable. The public sector and private households were again the borrower groups with the fewest defaults.

SAVINGS BANKS

The geographical segment Savings Banks is identical to the business segment Savings Banks (see page 32).

Business review – Highlights

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

A new group project aims to further improve the customer experience and administrative processes in Austria. Customers have access to digital channels and a well-positioned branch network. Measures taken include improvements to service quality and customer satisfaction. In addition, operational targets have been defined, including financial ratios such as operating performance and profitability.

Achieving growth in a challenging environment. Similar to Erste Bank Oesterreich, the savings banks owe their successful performance in investment business especially to the *YOU INVEST* products. This platform allows customers to design their own investment strategy. The savings banks increased the loans to customers by 2.0% in the year ended. At 5.0%, growth in lending to private households was particularly strong.

Cost projects. Measures to optimise other administrative and personnel expenses resulted in a more efficient use of resources. A "cost compass" was developed to compare costs among savings banks. It is used to identify any potential need for action to boost efficiency. Best practice examples help to make processes safer and leaner. This helps savings banks to identify and exploit their optimisation potential.

OTHER AUSTRIA

Business review – Highlights

Strong performance of Erste Asset Management. Erste Asset Management (EAM) co-ordinates and manages all asset management activities of Erste Group for retail and institutional customers. *YOU INVEST* investment products again contributed significantly to retail business performance. The development of stock funds such as ESPA Stock Global and ESPA Stock Europe was likewise positive. EAM expanded its business volume and maintained its leading market position in Austria and Romania and was again one of the top three asset management companies in its other CEE markets. Assets under management rose to EUR 55.8 billion (+3.6%). Backed by strict cost management, EAM increased its net profit to EUR 17.6 million (+6.7%).

The performance of EAM was recognised by multiple awards, among them the Lipper Fund Award, the title Asset Manager of the Year 2015 in the Czech Republic, and the FNG label for several sustainable retail investment funds. Created by Forum für Nachhaltige Geldanlagen, the FNG label is the quality standard for sustainable financial investment in German-speaking countries. In 2015, EAM was the first Austrian asset management company to sign the Montréal Carbon Pledge, by which it agreed to disclose the CO_2 footprint of its retail stock funds annually. The CO_2- footprint of EAM's sustainable stock funds was calculated to amount to only 41% of the global benchmark stock index (MSCI World Index).

New organisational set-up to improve efficiency. Erste Group combined Group Large Corporates, Investment Banking and Corporate Steering to set up the Group Corporates division. The division now includes all group large corporate coverage responsibility (for companies with annual sales exceeding EUR 500 million), the specialised finance and advisory business (corporate finance), the transaction banking services and the steering function for the local corporate business in Erste Group's banking subsidiaries. The equity capital markets and brokerage business were transferred to the Group Markets area. These reorganisational measures resulted in an improved cost base and efficiency gains in the Group Corporates business.

Success with syndicated loans. Erste Group again demonstrated its syndicated loan capabilities, one example was the financing for the Austria Campus in the proximity of the former Vienna Nordbahnhof. In addition, the loan syndication desk was also involved in syndicated facilities for INA in Croatia, KMG International (the former Rompetrol Group) in Romania and the

Austrian Porsche Holding group. In the area of acquisition finance, Erste Group acted as a key syndicate bank in the buy-out of the Constantia Flexibles Group by the French investment company Wendel S.A. and financed a number of other small to mid-sized acquisitions of corporate or private equity clients in Austria and CEE. Industrial clients like voestalpine or AMAG were granted long-term loans to expand and modernise production capacity and thus increase competitiveness further.

Group Markets business. Group Markets sales offer the full range of treasury services, from simple capital markets products to structured investments and advice on tailored solutions. While the corporate customers increased their demand for FX business solutions, the requests for Money Market products was weaker due to the extremely low interest rate environment. The investment opportunities offered satisfied the demand for market investments on the condition of sustainable wealth creation.

Equity Capital Market and Debt Capital Markets product teams within the newly established Group Markets Origination and Funding unit offer the full range of origination solutions. This reflects clients' requests to have the best market opportunities provided by one department. The success of this set up was proven and underlined by several transactions like the issue of benchmark bonds for Austrian and German clients as well as numerous transactions across CEE & SEE under sole and joint lead of Erste Group. As a result, Erste Group strengthened its position as one of the most successful partners for emissions within its core region.

Real estate business. A moderate pick-up in all markets supported the successful development of the commercial real estate business, which returned to profitability, as operating income grew moderately and risk costs declined significantly. Following the strategy of financing the modernisation of the commercial and residential infrastructure across CEE, the commercial real estate business line conducted several projects and deals. The focus was on the financing of retail, logistic and office real estate, such as the leading shopping centre in the Slovak town of Nitra, a mixed-use retail and office scheme in Budapest and an office centre in the Romanian town of Târgu Mures. In addition, several logistic projects, mainly in the Czech Republic and Romania, were financed. In Austria, Erste Group Immorent was involved in a variety of projects, for example the construction of the new Rapid stadium, provided lease finance to build the IST Austria research institute as well as financed a mixed use retail and office building in Vienna.

Financial review

in EUR million	2014	2015	Change
Net interest income	395.4	407.1	2.9%
Net fee and commission income	174.0	187.2	7.6%
Net trading and fair value result	3.1	4.1	31.5%
Operating income	621.5	642.4	3.4%
Operating expenses	-323.3	-325.9	0.8%
Operating result	298.1	316.5	6.2%
Cost/income ratio	52.0%	50.7%	
Net impairment loss on financial assets not measured at fair value through profit or loss	-269.2	-83.3	-69.1%
Other result	-7.2	-7.9	9.4%
Net result attributable to owners of the parent	-31.0	162.3	n/a
Return on allocated capital	-2.1%	12.8%	

Net interest income increased on the back of positive one-off effects in the real estate business and increased corporate lending business. Net fee and commission income improved primarily due to higher assets under management volumes and better market performance. Increased corporate, institutional and retail sales business in Group Markets also contributed positively. The increase in net trading and fair value result was predominantly attributable to FX business development, partially offset by the negative impact of mark-to-market valuations in the context of unfavourable market conditions. Despite increasing operating expenses, driven mainly by IT costs and higher legal costs, operating result as well as the cost/income ratio improved. Net impairment loss on financial assets not measured at FV through profit and loss decreased on the back of lower portfolio risk provisions and improvements in the portfolio structure in real estate of the Holding and Immorent, despite additional impairments for Ukrainian exposure. Other result included a resolution fund contribution of EUR 3.4 million. The net result attributable to the owners of the parent increased significantly.

Credit risk

The credit risk exposure in the Other Austria segment, which is almost completely made up of the Holding and Erste Group Immorent, declined to EUR 30.4 billion (EUR 33.1 billion) or 14.3% of Erste Group's credit risk exposure. A large share of business in this segment was accounted for by securities and investments with banks. The share of loans to customers as a percentage of Erste Group's total loan portfolio was significantly lower at 9.7%. Loans to customers rose slightly to EUR 12.7 billion (EUR 12.6 billion), with loans to large corporates posting above-average growth. Financing of commercial real estate decreased again sharply, by 10.4%, which reflected the weak economy and the problems of the real estate industry in most of Erste Group's core markets.

The share of non-performing loans in the total loan portfolio declined markedly to 10.5% (11.8%). Expected losses were fully covered by loss allowances and collateral. Within the category of performing loans, there was a clear migration to better risk categories, which also indicated improved credit quality.

Central and Eastern Europe

CZECH REPUBLIC

Economic review

The Czech economy remained one of the most successful in Central and Eastern Europe. The main drivers of the excellent economic performance were domestic demand, which was supported by higher real wages and an improved labour market, as well as an improved absorption rate of European Union funds. As a result of legislative changes related to pre-stocking of tobacco products, inventories also contributed to economic growth. Exports performed moderately, with the manufacturing sector remaining one of the bright spots. The Czech economy maintained its strong position among world automotive producers in terms of per capita output. Overall, real GDP expanded by 4.5% in 2015, while GDP per capita stood at EUR 15,800. Reflecting the strong economic performance, the unemployment rate declined further to 4.8%.

Political stability prevailed in the Czech Republic throughout 2015, with the Social Democrats, the centrist ANO political party and the centre-right Christian Democrats remaining in coalition since 2013. This stability supported positive macroeconomic developments. At 1.5%, the country's budget deficit remained at a low level. State revenues were positively affected by higher excise duties on tobacco, which was offset by the reintroduction of tax credits for working pensioners and a lower value added tax rate. Public debt as a percentage of GDP remained one of the lowest in Central and Eastern Europe and declined even further to 41.0%. Rating agencies acknowledged the performance of the Czech economy with S&P, Moody's and Fitch affirming the countries long-term credit rating at AA, A1, and AA- respectively.

Inflation remained very low, hovering around zero throughout the year. The average consumer price index was at 0.4%, affected mainly by the sharp decline in oil prices. Lower regulated energy prices and falling prices for food also pushed down inflation. The Czech koruna, supported by the country's strong fundamentals, traded within a narrow range of 27 and 28 against the euro. The Czech National Bank began intervening in 2013 to weaken the koruna by targeting an exchange rate of 27 against the euro as a measure against deflation. The Czech National Bank left its base rate unchanged at 0.05% throughout 2015.

Key economic indicators – Czech Republic	2012	2013	2014	2015e
Population (ave, million)	10.5	10.5	10.5	10.5
GDP (nominal, EUR billion)	160.5	156.8	154.6	166.2
GDP/capita (in EUR thousand)	15.3	14.9	14.7	15.8
Real GDP growth	-0.8	-0.5	2.0	4.5
Private consumption growth	-1.4	0.7	1.5	3.1
Exports (share of GDP)	67.4	68.3	74.0	74.2
Imports (share of GDP)	65.8	65.7	70.4	70.8
Unemployment (Eurostat definition)	7.2	6.8	5.9	4.8
Consumer price inflation (ave)	3.3	1.4	0.4	0.4
Short term interest rate (3 months average)	1.0	0.5	0.4	0.3
EUR FX rate (ave)	25.2	26.0	27.6	27.3
EUR FX rate (eop)	25.6	27.5	27.9	27.1
Current account balance (share of GDP)	-1.6	-0.5	0.6	1.4
General government balance (share of GDP)	-4.0	-1.3	-2.0	-1.5

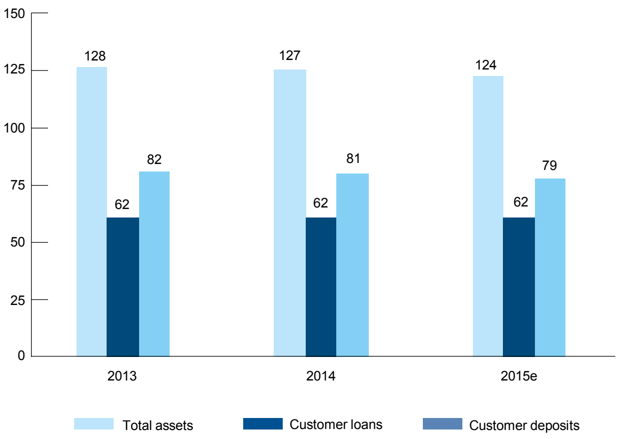
Source: Erste Group

Market review

The Czech banking market reflected the positive macroeconomic environment and was characterised by a growing demand for banking products. Supported by increased household consumption and an improved confidence level, customer loans grew by 5.6%. Growth of the lending market was attributable to both retail and corporate loans. The 2.5% growth of customer deposits was also driven by retail and corporate deposits, while public sector deposits declined due to a change in government liquidity management procedures. Overall, the Czech banking market remained one of the most liquid in Central and Eastern Europe. The loans to deposits ratio across the banking sector stood at 79% as of year-end. Moody's acknowledged the positive developments and upgraded its outlook for the Czech banking system.

The dynamics of housing and corporate loans prompted the Czech National Bank to introduce a countercyclical capital buffer of 0.5% for Czech exposures. In its semi-annual stress test, the Czech National Bank acknowledged that the banking sector continues to be sufficiently resilient to potential adverse shocks. The country's banking market continued to be well capitalised with a total capital ratio of 17.3% and remained very profitable. Asset quality continued to be very strong. Non-performing loans declined further and stood at 4.4% at the end of the year.

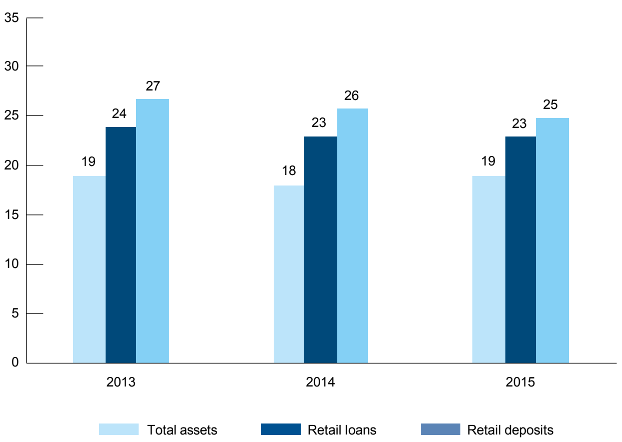
Financial intermediation – Czech Republic (in % of GDP)



Source: Czech National Bank, Erste Group

The three largest banks continued to have a combined market share of approximately 60% in customer loans and deposits. Česká spořitelna maintained its market leadership positions across all major product categories. Its retail market shares ranged from 23% to 26% while its share in the corporate segment remained lower at around 20%. Česká spořitelna also retained its number-one position in consumer lending including the credit card market with a market share of 30%. Overall, its market share measured by total assets stood at 18.6%. In addition, Česká spořitelna continued to control more than one quarter of the asset management market.

Market shares – Czech Republic (in %)



Source: Czech National Bank, Erste Group

Business review – Highlights

Innovation and focus on customer relationships. Česká spořitelna puts a strong emphasis on the development of digital banking, on serving clients through the distribution channels that suit them the most, and on offering customised products and services in places where they are actually needed. Owing to the development of internet banking solutions, the number of active direct banking clients increased to 1.7 million users (+2.0%).

With *My Healthy Finance*, the bank launched a unique service for retail clients at selected pilot branches. The service introduces a fundamental change in the thinking and overall approach of advisors to clients to teach them to better manage their household budgets and effectively helping them to reduce their regular monthly expenses.

Success in mortgage lending. Česká spořitelna's loans to customers (gross) grew by 5.9%, mainly driven by mortgage loans. The aggregate volume of the bank's retail mortgage portfolio was up by 11.8%. Faster than market growth in new retail mortgages led to a strengthening of the market share by two percentage points to 26.9%. The sound growth in the volume of loans was supported by declining risk costs.

Solid performance in corporate business. Over the years, the bank has developed specialised programmes for individual industrial sectors focusing on smaller and medium-sized customers, such as *TOP Innovation*, with an emphasis on the financing of innovative projects and development activities of companies. These *TOP* programmes constitute a significant competitive advantage. Largest in terms of volume are *TOP Energy* and *TOP Automotive*. A stable evergreen is *TOP Agro*, which helped Česká spořitelna gain a leading position in financing agricultural enterprises. A new hit is *TOP Waste Management*, focusing on the rapidly expanding sector of waste processing.

International and local recognition. 2015 was an exceptional year for Česká spořitelna, as the bank celebrated its 190th anniversary and was voted *Bank of the Year of the Czech Republic* for the sixth time. For the twelfth consecutive year, the bank also won the main award from the general public and became *Most Trusted Bank of 2015*. Česká spořitelna also won the *Company of 2015: Equal Opportunity Award* announced by the non-governmental organisation Gender Studies. Among others, the bank was also named *Best Card Issuer* in the Visa Awards, defending its victory in that category from last year.

Financial review

in EUR million	2014	2015	Change
Net interest income	924.0	911.2	-1.4%
Net fee and commission income	410.6	375.8	-8.5%
Net trading and fair value result	83.1	103.5	24.6%
Operating income	1,449.4	1,419.9	-2.0%
Operating expenses	-662.2	-681.2	2.9%
Operating result	787.1	738.7	-6.2%
Cost/income ratio	45.7%	48.0%	
Net impairment loss on financial assets not measured at fair value through profit or loss	-135.4	-97.1	-28.3%
Other result	-16.6	-20.9	25.7%
Net result attributable to owners of the parent	506.2	490.6	-3.1%
Return on allocated capital	35.8%	34.5%	

Net interest income in the Czech Republic segment (comprising Česká spořitelna Group) decreased due to the persistently low interest rate environment and a change in the balance sheet structure towards a higher proportion of lower-margin housing loans. Net fee and commission income declined mostly due to lower private current account, lending as well as card fees. Net trading and fair value result increased due to a better result from derivatives. Operating expenses increased on the back of higher personnel costs and higher expenses related to group projects including IT. Operating result decreased, the cost/income ratio went up. The decline of net impairment loss on financial assets not measured at FV through profit and loss was attributable to a change in the provisioning methodology for retail portfolio risks. Other result deteriorated due to the booking of impairments for own properties. Overall, these developments led to a decrease in the net result attributable to the owners of the parent.

Credit risk

Total credit risk exposure in the Czech Republic geographical segment rose to EUR 33.9 billion (+5.2%; EUR 32.2 billion), which was partially due to the 2.6% appreciation of the Czech koruna against the euro. Loans to customers rose more strongly, to EUR 20.3 billion (+8.7%) at year-end, with most of the growth posted in the corporate business. Customer loans in this segment as a percentage of Erste Group's total loans to customers increased to 15.4% (14.6%). Measured by business volume, the Czech Republic is hence still by far the second most important market for Erste Group after Austria.

The quality of customer loans was again significantly better than in other markets in Central and Eastern Europe in which Erste Group operates. Due to proactive and effective credit risk management, non-performing loans as a percentage of the total customer loan portfolio decreased to 4.1% (4.4%), which continued the positive development of recent years. Improvements were seen in all customer segments, but most notably among medium-sized and larger enterprises. Default rates were again lowest in the retail segment. Provisioning for non-performing loans by means of loss allowances declined to 72%.

SLOVAKIA

Economic review

Backed by strong fundamentals, the Slovak economy achieved an excellent performance. Domestic demand was particularly strong and investments in construction, which were supported by improved absorption of European Union funds, also contributed to growth. Household consumption continued to increase on the back of higher real disposable income. Exports were supported by the country's car industry, which, for the first time, produced more than one million vehicles. Slovakia remained the world's top car producer per capita. Overall, real GDP grew by 3.6%, while GDP per capita stood at EUR 14,400 at year-end. Employment gains remained strong and labour market conditions improved further in line with the favourable economic activity. As a result, the unemployment rate decreased to 11.5% at year-end.

After exiting the Excessive Deficit Procedure in 2014, the fiscal stance of Slovakia remained broadly unchanged in 2015. Although tax revenues increased significantly due to the government's measures against tax evasion, expenditures rose as well. At the end of the year, fiscal deficit stood at 2.6% of GDP, a level similar to the previous year. The country's public debt as a percentage of GDP remained relatively low at 52.8%. Rating agencies acknowledged the performance of the Slovak economy, with S&P upgrading the sovereign rating with a stable outlook in summer 2015.

Slovakia experienced a mild deflation. Average consumer prices were significantly impacted by declining oil prices and stood at -0.3%. Energy prices decreased by almost 4% on average, mainly due to lower electricity and fuel prices.

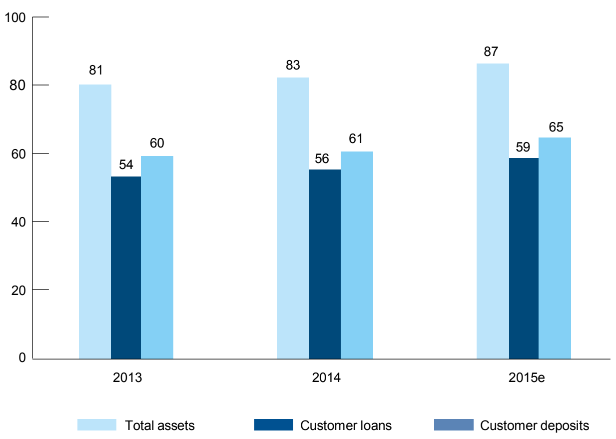
Key economic indicators – Slovakia	2012	2013	2014	2015e
Population (ave, million)	5.4	5.4	5.4	5.4
GDP (nominal, EUR billion)	72.4	73.8	75.5	78.1
GDP/capita (in EUR thousand)	13.4	13.6	13.9	14.4
Real GDP growth	1.5	1.4	2.5	3.6
Private consumption growth	-0.4	-0.8	2.4	2.4
Exports (share of GDP)	83.0	84.2	82.8	85.4
Imports (share of GDP)	79.6	80.0	79.0	82.4
Unemployment (Eurostat definition)	13.9	14.2	13.2	11.5
Consumer price inflation (ave)	3.6	1.4	-0.1	-0.3
Short term interest rate (3 months average)	0.6	0.2	0.2	0.0
Current account balance (share of GDP)	0.9	2.0	0.1	-0.5
General government balance (share of GDP)	-4.2	-2.6	-2.8	-2.6

Source: Erste Group

Market review

The positive macroeconomic environment continued to favourably impact Slovakia's banking market. Customer loans grew by 8.8%, with the retail segment leading the way on the back of further improved consumer confidence, while corporate loan volumes increased by 4.2%. Customer deposits rose by 9.4%, which led to a loan-to-deposit ratio of 91%. The reduction of the special banking tax from 0.4% to 0.2% of liabilities excluding equity and subordinated debt contributed to the improved profitability of the Slovak banking sector. The three largest banks continued to have a combined market share of approximately 60% in customer loans and deposits.

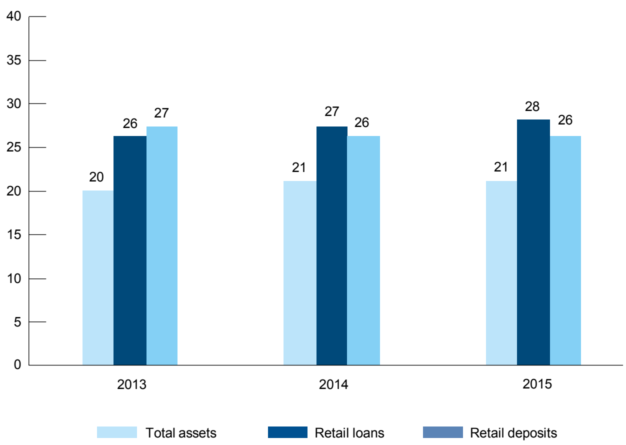
Financial intermediation – Slovakia (in % of GDP)



Source: National Bank of Slovakia, Erste Group

In an improved banking market environment, Slovenská sporitel'ňa retained its leading market positions. Slovenská sporitel'ňa increased its market shares in all major product categories. The bank controlled more than one-fifth of the country's banking market as measured by total assets and also led the market in both customer loans and deposits. In the housing loan segment, Slovenská sporitel'ňa's market share increased further to 27.7%. On the deposit side, at 12.5%, its market share was significantly lower in the corporate segment than in retail, which stood at 26.4%.

Market shares – Slovakia (in %)



Source: National Bank of Slovakia, Erste Group

Business review – Highlights

Solid development in retail business. Slovenská sporiteľňa was again very successful in retail loans. At 16%, the bank grew faster than the market. While this development was mainly due to the strong performance in housing loans, the bank also increased its share in consumer loans.

To better meet customers' needs, Slovenská sporiteľňa introduced new savings products. *Saving for housing* is the first of its kind in the Slovak market. It combines benefits of saving and mortgage. Customers who hold such a savings account receive a preferential interest rate on housing loans when they apply for one. The bank also introduced a new *Savings book for children*. To support the campaign, Slovenská sporiteľňa commissioned a book of short stories where heroes save money to fulfil their dreams. The book features stories by popular children's book authors.

Digitalisation and launch of a new website. The existing website was completely redesigned to better reflect current customer needs and to accommodate new trends in mobile marketing. Users benefit from a simplified information architecture and a responsive design that adapts to all modern digital devices. The website now features more concise product information as well as useful information based on the visitor's interests in products and services.

To broaden the bank's digital sales capabilities and to open up new opportunities for customers, Slovenská sporiteľňa further enhanced its web services. Customers can now open a current account or apply for a consumer loan virtually from home, without the need for physical interaction with the bank. For the current account, client authorisation can be granted via a webcam. Slovenská sporiteľňa is the first Slovak bank capable of opening a client account without requiring a branch visit or courier services.

Banking for corporate customers. Slovenská sporiteľňa strengthened its position in corporate business. The bank introduced new accounts for corporate customers. Unlike the past, when the company size was the main criterion, customers can now choose an account based on the number of transactions they make per month. Accounts can be easily switched at any time free of charge. With the account, customers get access to the new electronic banking service *Business 24* and manage their accounts and make payments online.

A new customer relationship management platform for all corporate segments is designed to further improve customer satisfaction.

International and local recognition. The bank again won various awards in 2015. For the fourth consecutive year, the bank won the most prestigious banking award in Slovakia – *TREND TOP Bank of the Year*. In addition, the British journal The Banker named Slovenská sporiteľňa *Bank of the Year 2015* in Slovakia, and for the fifth time in a row the bank won the *Euromoney Awards for Excellence*.

Financial review

in EUR million	2014	2015	Change
Net interest income	451.0	457.5	1.4%
Net fee and commission income	123.4	121.4	-1.6%
Net trading and fair value result	9.6	8.8	-8.6%
Operating income	593.5	599.6	1.0%
Operating expenses	-266.2	-266.1	-0.1%
Operating result	327.3	333.5	1.9%
Cost/income ratio	44.9%	44.4%	
Net impairment loss on financial assets not measured at fair value through profit or loss	-51.4	-58.0	13.0%
Other result	-43.0	-32.5	-24.3%
Net result attributable to owners of the parent	178.7	184.4	3.2%
Return on allocated capital	34.9%	34.0%	

The increase in net interest income in the Slovakia segment (comprising Slovenská sporitel'ňa Group) was mainly attributable to higher loan volumes, both housing and consumer loans, as well as a changed deposit structure. These effects were partially offset by a lower contribution from asset/liability management due to the low interest rate environment. Net fee and commission income decreased due to current account, card and securities fees. The decrease in the net trading and fair value result was driven by the valuation of derivatives. While total operating income increased, operating expenses remained stable. As a consequence, operating result and the cost/income ratio improved. Net impairment loss on financial assets not measured at FV through profit and loss increased due to higher provisions in Large Corporate and Commercial Real Estate business, partially offset by lower provisions in Retail and SME. The improvement of other result was driven by a reduced banking tax in the amount of EUR 23.6 million (EUR 31.5 million) and lower provisions for contingent credit risk liabilities. The contribution to the resolution fund amounted to EUR 7.3 million. The net result attributable to the owners of the parent increased.

Credit risk

Total credit risk exposure in the Slovakia geographical segment increased to EUR 14.6 billion (+6.9%). Loans to customers rose at an even faster pace to EUR 9.7 billion (+15.4%) at year-end. Slovakia was thus one of the most dynamic segments of Erste Group. Its share of Erste Group's total loan portfolio increased by 0.4 percentage points to 6.9%.

The breakdown of the portfolio by customer segment remained relatively unchanged. The share of loans to retail customers was again substantially higher than in other geographical segments. Loans to private households accounted for 71.0% of total customer loans, loans to corporates and the public sector only for 29.0%. This customer mix also explains the large share of secured business of almost 60.0% of the entire loan portfolio. The increase in the NPL ratio by 54 basis points to 5.6% was primarily attributable to the ECB's modified definition of non-performing loans. This change affected mostly the retail segment, which again posted the lowest default rate of all customer segments. The NPL coverage ratio based on loss allowances declined, but risk provisions and collateral together still exceeded non-performing loan volume significantly.

ROMANIA

Economic review

The Romanian economy continued to perform well. The main performance driver was robust domestic demand fuelled by strong private consumption and booming private investments. In addition, construction played an important role in investment activity throughout the year. Real household disposable income rose significantly as a result of wage increases and deflation. Although the absorption of European funds improved further and reached 70%, it is still low compared to other countries in the region. Agriculture was negatively impacted by a drought, and its contribution to the economy was much less than in the previous years. Exports also declined despite the positive contribution from the car making industry. With a share of 70%, the European Union continued to represent the main export region of Romania. The country's labour market showed significant improvements and the unemployment rate declined slightly further to 6.8% at year-end. Overall, real GDP grew by 3.6% while GDP per capita rose to EUR 8,000.

Romanian politics were characterised by continuous uncertainty. After the prime minister stepped down in early November 2015, a new cabinet was formed, which won approval from Parliament. Romania continued its disciplined fiscal consolidation programme. The state's revenues were supported by all important tax categories mainly due to improved tax collection. Higher revenues allowed the government to reduce value added taxes for food from 24% to 9% as of June 2015. On the expenditure side, significant savings were achieved due to low public investments and reduced co-financing of European Union projects. These savings were partly offset by the doubling of child benefits and the significant increases of the remuneration in health care and education. Overall, the budget deficit stood at 1.5% of GDP. At 37.6%, the country's public debt level to GDP remained one of the lowest in the European Union. Rating agencies also appreciated the performance of the Romanian economy, with Moody's upgrading the outlook on government bonds in December 2015.

Romania experienced a deflationary environment mainly attributable to lower energy prices and – owing to the reduction of VAT – low food prices. Overall, average consumer prices declined by 0.6%. The Romanian National Bank cut the key policy rate four times in the first half of 2015 to a new historic low of 1.75% by the end of the year. The Romanian Leu did not change significantly against the euro and stood in the range of 4.4 to 4.5 throughout the year.

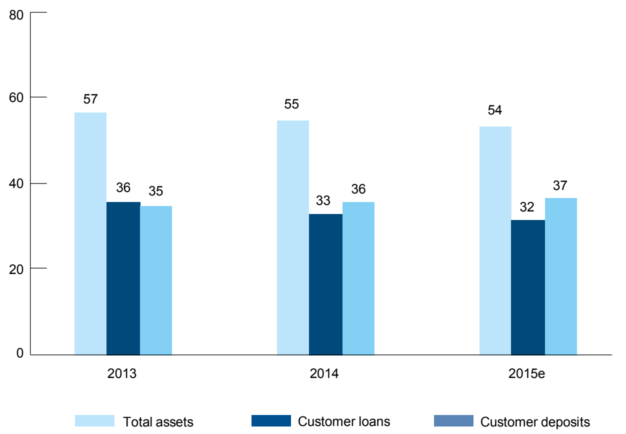
Key economic indicators – Romania	2012	2013	2014	2015e
Population (ave, million)	20.1	20.0	19.9	19.9
GDP (nominal, EUR billion)	133.9	144.2	150.2	158.5
GDP/capita (in EUR thousand)	6.7	7.2	7.5	8.0
Real GDP growth	0.6	3.5	3.0	3.6
Private consumption growth	1.5	-2.4	3.7	4.5
Exports (share of GDP)	33.7	34.3	34.9	34.4
Imports (share of GDP)	40.9	38.3	38.9	39.7
Unemployment (Eurostat definition)	6.8	7.1	6.8	6.8
Consumer price inflation (ave)	3.3	4.0	1.1	-0.6
Short term interest rate (3 months average)	5.3	4.2	2.5	1.3
EUR FX rate (ave)	4.5	4.4	4.4	4.4
EUR FX rate (eop)	4.4	4.5	4.5	4.5
Current account balance (share of GDP)	-4.5	-0.8	-0.5	-1.1
General government balance (share of GDP)	-2.9	-2.2	-1.5	-1.5

Source: Erste Group

Market review

Supported by an improved macroeconomic environment, the Romanian banking developed positively. Customer loans grew particularly in the retail sector, which was due to an improved consumer confidence and higher wages. Corporate loans also increased, but to a lesser extent. Prima Casa, the government-guaranteed mortgage programme, has been exclusively available in local currency since August 2013, and local currency lending increased to 52% of customer loans. Overall, customer loans grew by 3.1%. Customer deposits increased by 9%, mainly driven by higher volumes in the corporate business. Both retail and corporate deposits were impacted by higher-yielding investment products in asset management.

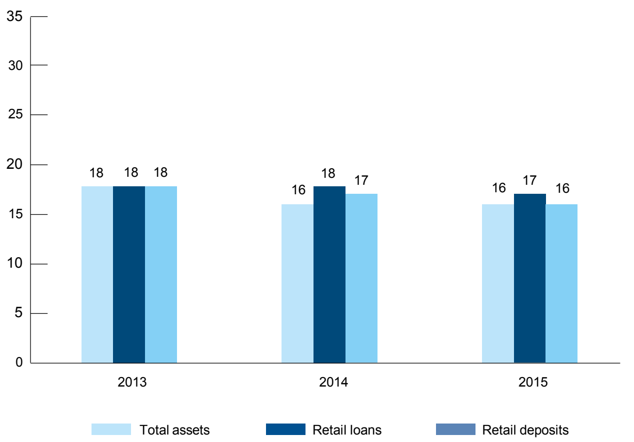
Financial intermediation – Romania (in % of GDP)



Source: National Bank of Romania, Erste Group

Despite increasing pressure by regulatory institutions and consumer protection associations, the Romanian banking sector's profitability improved. The Romanian National Bank maintained its recommendation to reduce fully provisioned non-performing loans in an accelerated manner. Following this recommendation, banks continued to take measures aimed at cleaning up their balance sheets through write-offs, sales and recoveries. After having booked significantly higher risk provisions in 2014, these efforts led to a lower NPL ratio and higher coverage ratios in the country's banking system. As a result, risk provisions declined visibly in 2015, playing a significant role in making the country's banking sector profitable. The sector's profitability was also supported by the implementation of further cost-efficiency measures.

Market shares – Romania (in %)



Source: National Bank of Romania, Erste Group

The Romanian National Bank continued to support local funding and local currency-based lending throughout the year by maintaining the limitation rules on tenor, debt-to-income ratio, loan-to-value ratio and collateral coverage. The banking sector remained well capitalised with a total capital ratio of 18.7%; the loan to deposit ratio stood at 87%.

Despite losing some market shares on both the lending and deposit side, Banca Comercială Română held on to its leading position in almost all major product categories. By the end of 2015, the bank was ranked number one based on total assets, customer loans and asset management. Banca Comercială Română's customer loan market share, however, was impacted by the significant reduction of non-performing loans, most visibly in the corporate sector in which the market share decreased to 15.6%. Customer deposit market shares remained stable. Overall, Banca Comercială Română had a market share as measured by total assets of 15.8% at the end of 2015.

Business review – Highlights

Continued improvements in asset quality. After the extensive portfolio clean-up in 2014, the measures to resolve the non-performing loan legacy continued through sell-offs, write-offs and higher cash recoveries. As a result, non-performing loans declined to EUR 1.7 billion (-24.9%), the NPL ratio to 20.2% (2014: 23.7%). Banca Comercială Română implemented more measures for streamlining risk assessment, the underwriting process and collateral management.

Success in local currency retail lending. Building on its retail network capabilities and a full set of channels on an industry-leading level, the bank focused on financing customers with good credit ratings and on improving client activation and retention. Banca Comercială Română recorded a significant pickup in new retail production in local currency. New loan production to private individuals increased by 9.5%, mainly driven by secured loan originations. New volumes of cash loans grew by 7.0%. The positive development in net retail loans was supported by a gradual demand recovery and marketing campaigns. The bank maintained its leadership in retail lending with a 17.2% market share. Its share in local currency mortgage lending stood at 20.2%.

Return to profitability. Following the turnaround programme the bank went through until year-end 2014, the profitability improved substantially on the back of lower risk costs. The cost saving efforts in certain business areas (process/network optimisation) continued jointly with investments in process automation, data optimisation and staff training.

Focus on data excellence. After setting up a business information centre, the bank launched a business intelligence programme to build the framework for integrated reporting and a more efficient information flow and data quality management. This business intelligence programme aims at harmonising the data steering requirements, implementing data quality checks and streamlining processes and management reporting. By implementing this data excellence, Banca Comercială Română will be able to respond more effectively to regulatory requirements, create value for the customers and gain a competitive advantage on the banking market.

Financial review

in EUR million	2014 restated	2015	Change
Net interest income	484.7	428.7	-11.5%
Net fee and commission income	160.0	163.2	2.0%
Net trading and fair value result	81.2	69.4	-14.5%
Operating income	732.2	672.2	-8.2%
Operating expenses	-331.9	-340.5	2.6%
Operating result	400.3	331.7	-17.1%
Cost/income ratio	45.3%	50.7%	
Net impairment loss on financial assets not measured at fair value through profit or loss	-923.5	16.4	n/a
Other result	-117.2	-140.0	19.5%
Net result attributable to owners of the parent	-554.7	178.7	n/a
Return on allocated capital	-54.4%	20.5%	

Net interest income in the Romania segment (comprising Banca Comercială Română Group) decreased mainly due to lower income from unwinding, lower loan volumes and lower interest rates. Net fee and commission income increased due to higher insurance brokerage income. The decline in net trading and fair value result was mostly attributable to a one-off positive effect from derivatives in 2014. Operating expenses increased mainly due to higher personnel costs. Operating result declined and the cost/income ratio deteriorated. Net impairment loss on financial assets not measured at FV through profit and loss improved significantly after non-performing loan portfolio clean-up activities in 2014 and more than offset the decline in operating result. Other result included provisions for risks related to Romanian consumer protection claims and the contribution to the resolution fund of EUR 5.6 million, whereas last year was negatively affected by the impairments of intangible and tangible assets. Consequently, the net result attributable to the owners of the parent improved markedly.

Credit risk

Due to the continued consolidation strategy, business volumes in the Romania geographical segment declined further, but less pronounced than in the previous year. While total credit risk exposure was reduced to EUR 13.9 billion (-2.5%), loans to customers contracted to EUR 8.5 billion (-5.8%). This represented a share of 6.4% (7.0%) of Erste Group's total loans to customers. The decline in the loan portfolio was mainly attributable to write-downs and sales of non-performing loans.

The loan portfolio of the Romania geographical segment was made up of 52.4% non-collateralised and 47.6% collateralised loans. The degree of collateralisation was slightly up year on year. The share of foreign currency loans decreased by approximately five percentage points to 54.8% and was almost completely denominated in euro.

Due to the clean-up of the portfolio by write-downs and sales, the NPL ratio declined to 20.2% (23.7%), with non-performing corporate loans down more sharply. Loans to private households continued to show the highest quality in the loan portfolio. The NPL coverage ratio based on risk provisions and collateral rose to 110.1%.

HUNGARY

Economic review

After growing at an exceptional rate of 3.7% in 2014, the Hungarian economy grew at a more sustainable rate of 2.9% in 2015. Domestic demand was supported by higher disposable income, low inflation and high nominal wage growth. The country's economic performance benefitted from an exceptionally high absorption of European Union funds. Manufacturing remained strong, while growth of construction output lost momentum and agriculture contracted in 2015. The National Bank of Hungary extended its funding for growth programme to support small and medium-sized enterprises. Exports developed positively, supported strongly by the well-performing car industry. High distortionary taxes, most notably very high additional burdens on the financial sector, however, remained a drag on economic performance. Overall, Hungary's GDP grew by 2.9%, while GDP per capita stood at EUR 11,000 in 2015. The unemployment rate continued to decline to 6.8%, mainly as a result of the government's Public Work Scheme and increased employment in the private sector.

Although the coalition of centre right FIDESZ and the Christian Democrats lost its two-thirds majority in the parliament, political stability prevailed in Hungary throughout the year. The government's target of 2.4% budget deficit was easily achieved, and special taxes such as in the energy, telecom, retail and financial sectors remained unchanged. Robust tax revenue dynamics and declining interest payments were key elements in reducing the deficit. In addition, strict cost control continued in the public sector while VAT remained at 27% throughout the year, the highest in the European Union. Although the country's public debt ratio improved further to 76.0% it was still above the CEE average. Credit rating agencies left Hungary in non-investment grade, although major rating agencies upgraded the country's outlook.

Inflation hovered around zero mainly due to low oil prices and regulated price reductions. The average consumer price index stood at -0.1%. The Hungarian forint remained broadly stable against the euro, trading at between 295 and 320 throughout the year. The National Bank of Hungary continued its policy of reducing the base rate and cut it four times up to July 2015, leaving the main monetary policy rate then unchanged at the historic low of 1.35% until the end of the year.

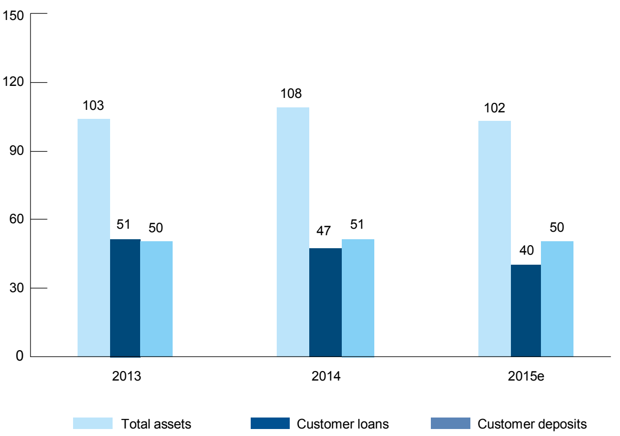
Key economic indicators – Hungary	2012	2013	2014	2015e
Population (ave, million)	10.0	9.9	9.9	9.9
GDP (nominal, EUR billion)	98.9	101.2	104.3	108.7
GDP/capita (in EUR thousand)	9.9	10.1	10.5	11.0
Real GDP growth	-1.7	1.9	3.7	2.9
Private consumption growth	-2.3	0.6	1.5	2.6
Exports (share of GDP)	87.0	88.0	89.6	92.2
Imports (share of GDP)	80.1	80.6	82.1	83.4
Unemployment (Eurostat definition)	10.9	10.3	7.7	6.8
Consumer price inflation (ave)	5.7	1.7	-0.2	-0.1
Short term interest rate (3 months average)	7.0	4.3	2.4	1.5
EUR FX rate (ave)	289.4	296.9	308.6	310.1
EUR FX rate (eop)	291.3	296.9	314.9	313.1
Current account balance (share of GDP)	1.8	4.0	2.3	5.0
General government balance (share of GDP)	-2.2	-2.4	-2.7	-2.0

Source: Erste Group

Market review

For the Hungarian banking market, 2015 was another challenging year. Following the final conversion of foreign-currency household loans to Hungarian forint, the banking sector operated in a more stable and predictable environment. The profitability of the industry, however, was still negatively impacted by the banking tax and the financial transaction tax, both remaining at very high levels. In addition, the collapse of three brokerage houses in March 2015 led to an increase of banks' payments to the national deposit insurance fund and to the investor protection fund.

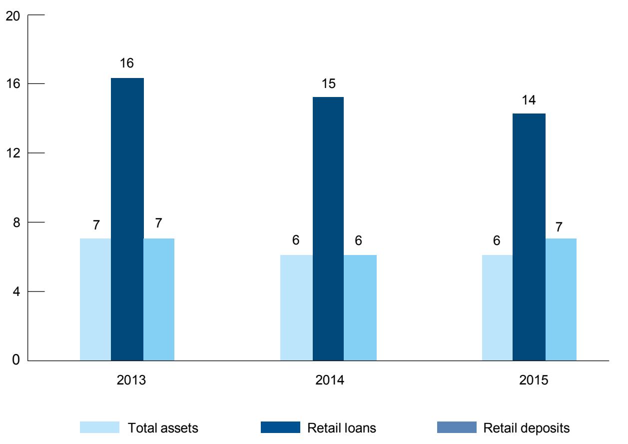
Financial intermediation – Hungary (in % of GDP)



Source: National Bank of Hungary, Erste Group

In line with the Memorandum of Understanding signed by Erste Bank Hungary, the Hungarian government and the European Bank for Reconstruction and Development (EBRD), the Hungarian parliament reduced the banking tax with effect from 2016. The sector's profitability was also hit by the fair banking law, which was approved back in November 2014 and set fixed or reference rates for new retail loans, regulated unilateral interest and fee changes. Overall, the Hungarian banking sector was profitable in 2015.

Market shares – Hungary (in %)



Source: National Bank of Hungary, Erste Group

Demand for customer loans remained relatively low throughout the year. As a result of the *Funding for Growth* programme by the Hungarian National Bank, lending to the SME sector increased but did not offset the significant decline in the large corporate segment. The government extended its housing subsidy scheme for the retail sector. The relatively high ratio of distressed household mortgage loans, however, continued to be a significant risk in the financial system. Adjustments of the personal bankruptcy conditions and the expansion of the National Asset Management Agency for mortgage loans helped mitigate this risk by facilitating the resolution of the non-performing portfolio. Overall, customer loans declined by 11.2%, with shrinking volumes in both retail and corporate segments. As customer deposits increased by 2.7%, the banking system's loan-to deposit ratio declined to 79% at the end of the year.

Despite its significantly shrinking balance sheet and lower market shares, Erste Bank Hungary continued to be a major market player in the country. The bank remained loss-making mainly due to limited client demand and the number of extraordinary government-imposed burdens on banks. The conversion of the foreign-currency denominated loans into local currency resulted in a considerable change in the currency structure of Erste Bank Hungary's balance sheet. As part of its strategy, the bank continued to focus on local currency lending from locally sourced liquidity and to further reduce parent company funding. Overall, Erste Bank Hungary's total assets market share decreased to 5.5%.

Business review – Highlights

Growing presence in retail business. Erste Bank Hungary acquired the Hungarian consumer banking business of Citibank Europe comprising its retail banking and investment business as well as consumer loans and cards businesses. Following the transaction, which is expected to occur in 2016, Erste Bank Hungary will have the country's second-largest retail customer portfolio.

New business initiatives. The implementation of a new forint-denominated housing loan product combined with Erste Building Society has been completed. The advantage of the new product is that accumulated savings in the building society account can be used directly for loan payments, resulting in a reduction of monthly instalments. New sales figures improved in the bank's most important product categories, mainly in lending, net savings and building society sales. Both personal and mortgage new loan disbursements performed well. New retail loan volumes increased by 32.2%. The decline of retail deposit volumes in the low interest environment was offset by increasing volumes placed to investment funds.

Strengthened digital channels. Digitalisation is a key element of the bank's efficiency improvement. Erste Bank Hungary closely cooperates with Erste Group's innovation centre to align with group-level initiatives. In 2015, the bank implemented the *Mobile Queuing* app. The digital service *Personal Finance Manager* will be rolled out in 2016.

International and local recognition. Owing to the bank's achiements in digital banking, Erste Bank Hungary was named *Most Innovative Bank of the Year 2015* in Hungary. The bank also won MasterCard's *Bank of the Year Grand Prize*.

Financial review

in EUR million	2014	2015	Change
Net interest income	263.4	194.4	-26.2%
Net fee and commission income	139.3	137.5	-1.3%
Net trading and fair value result	38.8	-0.5	n/a
Operating income	442.3	332.5	-24.8%
Operating expenses	-175.8	-179.9	2.3%
Operating result	266.5	152.6	-42.8%
Cost/income ratio	39.7%	54.1%	
Net impairment loss on financial assets not measured at fair value through profit or loss	-152.2	-105.8	-30.5%
Other result	-434.9	-111.6	-74.3%
Net result attributable to owners of the parent	-330.6	-72.6	-78.0%
Return on allocated capital	-67.5%	-16.9%	

Net interest income in the Hungary segment (comprising Erste Bank Hungary Group) declined mainly due to lower loan volumes, the impact of the consumer loan law as well as the lower contribution from securities. Net fee and commission income declined slightly due to lower fees from cash management products and card business. Net trading and fair value result decreased due to the non-recurrence of the positive impact of swaps entered into with the Hungarian National Bank in 2014 to secure refinancing of foreign currency loans at a fixed exchange rate. Operating expenses increased on the back of higher personnel costs following temporary hiring to execute the FX conversion program. Consequently, operating result deteriorated significantly, the cost/income ratio went up. Net impairment loss on financial assets not measured at FV through profit and loss decreased on the back of lower provisioning requirements in commercial real estate business. Other result improved significantly as expenses related to the Hungarian consumer loan law in the amount of EUR 336.8 million did not recur. The line item included the contribution to the resolution fund of EUR 2.1 million. Overall, the net result attributable to the owners of the parent improved.

Credit risk

In the Hungary geographical segment, credit risk exposure declined further to EUR 61 billion (EUR 6.3 billion) in an environment marked by economic and political challenges for the banking sector. The loan portfolio contracted more sharply, to EUR 3.5 billion (-18.8%). This development was attributable to highly restrictive lending as well as to the government-mandated conversion of Swiss franc or euro denominated retail mortgage loans to Hungarian forint. As a result, the share of this segment in Erste Group's total loans to customers decreased to 2.7% (3.4%). Due to the conversion of foreign-currency loans, loans to private households as a percentage of total loans to customers declined to 65.9% (68.4%). Along with retail loans, lending to the public sector was also down significantly. Due to the conversion of foreign-currency loans, the currency composition of the customer loan portfolio changed fundamentally; the share of loans denominated in Hungarian forint rose to 80% (33%).

After extensive restructuring of the loan portfolio, loan quality improved substantially and non-performing loans as a percentage of total loans to customers declined to 18.7% (26.8%). As a result, the NPL ratio went down for the first time since the onset of the financial and economic crisis in 2008. This development was also supported by sales of non-performing loans – both retail and corporate loans – in the amount of EUR 109 million. Coverage of non-performing loans by risk provisions and collateral rose to 111.5%.

CROATIA

Economic review

After six years of recession, Croatia's economy started to recover. Domestic demand was positively impacted by lower energy prices. Private consumption was boosted by the reduction in personal income tax. In addition, investments stabilised and the country's well-developed tourism industry also performed well. Overall, Croatia was still among the most challenging economies in Central and Eastern Europe, with real GDP increasing by 1.6% and GDP per capita stood at EUR 10,200 at the end of the year. The unemployment rate reflected the economic performance and dropped slightly to 16.7%. Due to political uncertainty prior to the elections held in November 2015, Croatia's fiscal position remained challenging. The general government balance was negatively impacted by lower personal income tax, which was partly offset by additional revenues from increased excise duties and capital gains tax. The conversion of CHF-denominated loans also had a negative effect as revenues from corporate income tax of banks declined. The general government deficit stood at 4.4% and public debt as a percentage of GDP was 87.7%, one of the highest in the region. S&P's and Fitch confirmed Croatia's long-term rating at BB, but downgraded the country's outlook mainly due to fiscal challenges and deteriorating debt dynamics.

Inflation remained below zero throughout 2015, with average consumer prices standing at -0.5% at the end of the year. The sharp decline in oil prices and low food prices led to a mild deflation. Given the country's very high use of the euro, the Croatian National Bank's main objective remained to preserve nominal exchange rate stability. As a result, the Kuna traded in the narrow range of 7.5 to 7.7 against the euro.

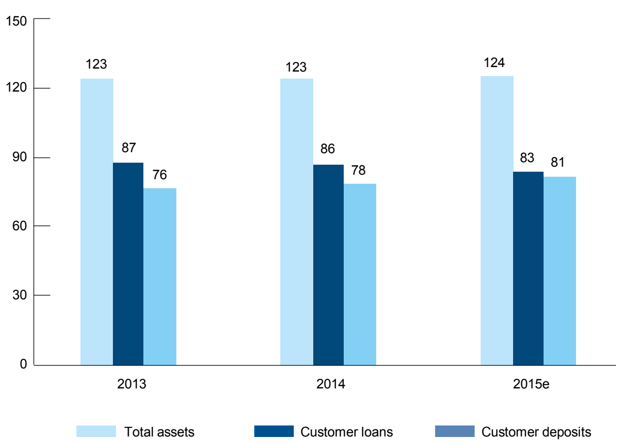
Key economic indicators – Croatia	2012	2013	2014	2015e
Population (ave, million)	4.3	4.3	4.3	4.3
GDP (nominal, EUR billion)	44.0	43.6	43.1	43.7
GDP/capita (in EUR thousand)	10.2	10.1	10.0	10.2
Real GDP growth	-2.2	-1.1	-0.4	1.6
Private consumption growth	-3.0	-1.9	-0.7	1.2
Exports (share of GDP)	19.7	20.5	22.7	24.7
Imports (share of GDP)	34.0	35.6	37.4	39.8
Unemployment (Eurostat definition)	15.8	17.3	17.2	16.7
Consumer price inflation (ave)	3.4	2.3	-0.2	-0.5
Short term interest rate (3 months average)	3.4	1.5	0.9	1.2
EUR FX rate (ave)	7.5	7.6	7.6	7.6
EUR FX rate (eop)	7.5	7.6	7.7	7.6
Current account balance (share of GDP)	-0.1	1.0	0.8	4.0
General government balance (share of GDP)	-5.3	-5.4	-5.7	-4.4

Source: Erste Group

Market review

Croatia's banking market was characterised by a weak demand for loans, while customer deposits grew strongly by 6.2%. Customer loans fell by 1.7%, resulting in a balanced 102% loan-to-deposit ratio. Profitability of the Croatian banking sector was negatively affected by the substantial expenses in relation to the conversion of the Swiss-franc denominated loans into euro. Despite this significant burden on banks' profitability, the level of capital adequacy remained satisfactory.

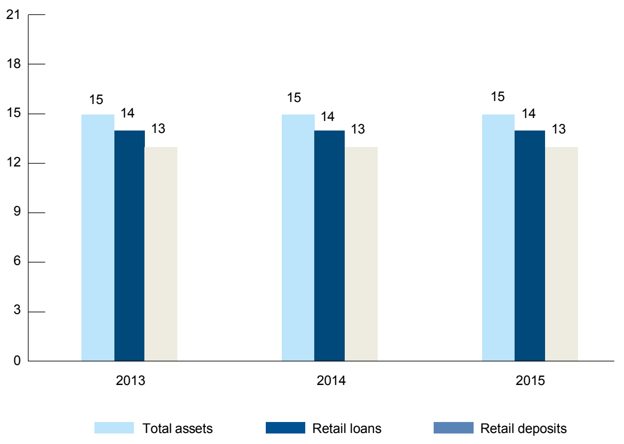
Financial intermediation – Croatia (in % of GDP)



Source: National Bank of Croatia, Erste Group

Erste Bank Croatia remained among the top three players in the market, with a total asset market share of 14.6%. The bank outgrew the market both in customer loans and customer deposits by growth rates of 0.4% and 8.4% respectively. The bank's loan-to-deposit ratio decreased to 111% by year-end.

Market shares – Croatia (in %)



Source: National Bank of Croatia, Erste Group

Business review – Highlights

Innovations in retail business. The bank has continued its strong emphasis on digital banking, particularly in the retail business. Erste Bank Croatia now offers more online and mobile channels, such as online account pre-openings and online loan applications. Together with remote advisory services for retail clients, the bank improved its customer targeting activities. These efforts, along with the additional centralisation of back office operations, aim at creating smoother processes and provide an enhanced level of service to customers, thereby further strengthening the bank's position as market leader according to customer satisfaction surveys.

Focus on improved customer satisfaction. In line with the bank's efforts in further strengthening its high quality standards, areas of activity were identified to improve customer centricity. The measures taken led to a higher degree of customer satisfaction (ease of opening current accounts, satisfaction with branch visits, etc.).

Addressing corporate customers. The bank finalised its customer relationship management projects designed at improving client acquisition and cross-selling in the corporate business. The acquisition process and customer management were significantly improved, showing in particular positive trends in the second half of the year. In terms of gross corporate loans, Erste Bank Croatia holds a market share of 15%.

Financial review

in EUR million	2014	2015	Change
Net interest income	261.2	268.3	2.7%
Net fee and commission income	79.9	84.8	6.2%
Net trading and fair value result	24.1	15.9	-34.2%
Operating income	399.3	399.3	0.0%
Operating expenses	-183.5	-187.0	1.9%
Operating result	215.9	212.3	-1.6%
Cost/income ratio	45.9%	46.8%	
Net impairment loss on financial assets not measured at fair value through profit or loss	-155.3	-167.3	7.8%
Other result	-4.4	-134.9	>100.0%
Net result attributable to owners of the parent	32.6	-45.5	n/a
Return on allocated capital	10.7%	-14.2%	

Net interest income in the Croatia segment (comprising Erste Bank Croatia Group) increased due to a change in the deposit structure towards sight deposits. Net fee and commission income went up due to higher fees from payment transfers and card business. The net trading and fair value result was negatively impacted by the Swiss franc exchange rate fixing for retail loans in January 2015 required by legislation as well as negative foreign exchange differences on the open position in Swiss francs. Operating expenses went up due to increased personnel expenses as well as higher legal and IT costs. The operating result deteriorated, as did the cost/income ratio. The increase in net impairment loss on financial assets not measured at FV through profit and loss was driven by higher provisions in the SME business aiming at improving NPL coverage. This effect was mitigated by lower provisioning requirements in retail and large corporate businesses. Other result deteriorated significantly due to the booking of provisions resulting from legislation requiring the conversion of customer loans (Swiss francs to euro) in the amount of EUR 129.5 million. The line item included the contribution to the resolution fund of EUR 4.2 million. Consequently, the net result attributable to the owners of the parent deteriorated considerably.

Credit risk

In the Croatia geographical segment, credit risk exposure declined to EUR 9.4 billion (-2.4%). Loans to customers decreased to EUR 6.7 billion (-1.8%). The share of this segment in Erste Group's total loans to customers was also slightly lower at 5.1% (5.3%). The composition of the loan portfolio by customer segments changed only moderately: while lending to large corporates was slightly down and loans to private households were at the same level as in the previous year, loans to small businesses increased. Lending to the public sector, especially to municipalities, again played a major role. This group accounted for 19.7% (19.5%) of the total customer loan portfolio.

Swiss franc denominated loans will be eliminated almost completely in the short to medium term after the passing of legislation in 2015 permitting their conversion to Croatian kuna or euro. At the end of December 2015, Swiss franc denominated loans still amounted to EUR 513 million. At 66%, the majority of loans to customers are still denominated in euro. The high share of foreign-currency loans is mostly due to the widespread use of the euro in Croatia. Euro loans are usually matched by corresponding income or deposits in euro.

Credit quality improved for the first time in several years, with non-performing loans declining to EUR 1.0 billion (-18.2%) and the NPL ratio down to 15.3% (18.4%). This positive trend was initiated primarily by the sale of non-performing loans in the secondary market, which started to develop in Croatia for the first time in 2015. Provisioning for non-performing loans by loss allowances rose to 67.4% (60.4%).

SERBIA

Economic review

The Serbian economy slowly emerged from recession. Investments were one of the key factors of the improved economic performance, mainly due to reforms implemented in the last two years resulting in an improved business environment and a stabilisation of the economy. Exports showed a robust performance, while private consumption dropped slightly as a result of lower fiscal transfers and declining real wages. Agriculture, on the other hand, posted a much better performance than in 2014, when heavy floods impacted the sector. Industrial production also showed a stronger and faster recovery than expected. Overall, real GDP increased by 0.7% and GDP per capita stood at EUR 4,600. Despite some improvements in labour market indicators, in particular new jobs in retail trade and agriculture, the unemployment rate remained one of the highest in Europe and stood at 17.9%.

The Serbian government achieved impressive fiscal consolidation based on its precautionary arrangement with the International Monetary Fund in the previous year. The government deficit fell sharply to 3.7% of GDP as considerable savings were achieved from cuts in public wages and pensions, a reduction of subsidies, as well as privatisation and restructuring plans for state-owned enterprises. In addition, the government improved tax collection. Public debt as a percentage of GDP increased slightly to 73.2%. Rating agencies acknowledged the positive macroeconomic developments, such as the economic recovery pick-up, maintenance of the fiscal consolidation path and improved external imbalances. Fitch kept the sovereign rating unchanged at B+ and upgraded the outlook in December 2015.

Inflation was high compared to other Central Eastern European countries and remained below the Serbian National Bank's target range of 2.5% to 5.5%. Average consumer price inflation was impacted by relatively weak domestic demand and falling oil prices and stood at 1.7% at the end of the year. The Serbian National Bank cut the base rate seven times from 8.0% to 4.5% by the end of the year.

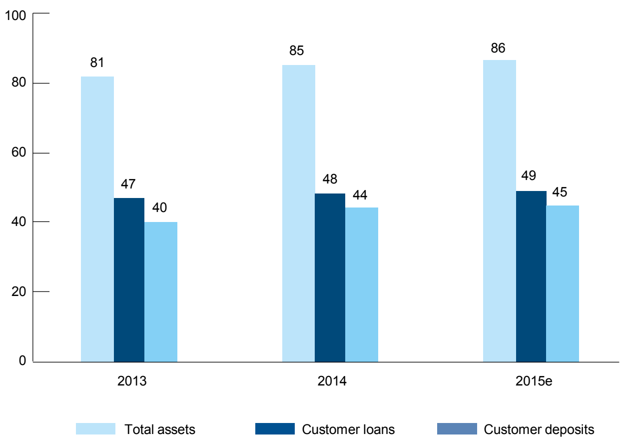
Key economic indicators – Serbia	2012	2013	2014	2015e
Population (ave, million)	7.2	7.2	7.2	7.2
GDP (nominal, EUR billion)	31.7	33.3	33.1	32.9
GDP/capita (in EUR thousand)	4.4	4.6	4.6	4.6
Real GDP growth	-1.0	2.6	-1.8	0.7
Private consumption growth	-2.0	-1.5	-1.5	-0.7
Exports (share of GDP)	26.5	31.7	32.8	34.2
Imports (share of GDP)	44.3	44.2	44.8	46.0
Unemployment (Eurostat definition)	24.0	22.1	19.4	17.9
Consumer price inflation (ave)	7.3	7.9	2.1	1.7
Short term interest rate (3 months average)	11.6	10.0	8.3	6.1
EUR FX rate (ave)	113.1	116.5	117.3	120.7
EUR FX rate (eop)	113.7	114.6	121.0	121.5
Current account balance (share of GDP)	-11.5	-6.1	-6.0	-5.3
General government balance (share of GDP)	-6.5	-5.0	-6.6	-3.7

Source: Erste Group

Market review

The macroeconomic recovery was also reflected in the country's banking market developments. Growth was clearly driven by retail loans, which increased by 4.8%, while corporate loans grew by 1.9%. The banking system's strong capital adequacy of 21% and its favourable liquidity situation were also confirmed by the asset quality review of the National Bank of Serbia. The high level of non-performing loans, however, remained a challenge for the banking system. Asset quality related issues were especially visible in the corporate segment, with non-performing loans at 26% while it remained below 12% in the retail business. More than 70% of the system's customer loans were denominated in foreign currency, mainly in euro reflecting the country's high level of euroisation.

Financial intermediation – Serbia (in % of GDP)



Source: National Bank of Serbia, Erste Group

Overall, customer loans increased by 3.0% and customer deposits by 6.5%, leading to a decrease in the system's loan-to-deposit ratio to 108%. The banking system's profitability improved in 2015. The attractiveness of the Serbian banking market was also reflected in new market participants. Turkish Halkbank entered the Serbian market in October 2015 by taking over Čačanska banka, while mts Banka, a mobile bank majority-owned by Telekom Srbija, appeared on the market in May. Foreign-owned banks kept their dominant position with a market share of approximately 75%.

Erste Bank Serbia remained among the country's top 15 banks. Its market share of customer loans increased to 4.3% by achieving retail and corporate market shares of 4.2% and 4.4% respectively. On the deposit side, Erste Bank Serbia's activities regarding foreign exchange and local currency savings continued. As a result, the bank's deposit base remained fairly divided between euro and dinar deposits. The bank's market share of customer deposits stood at 3.8%. Overall, Erste Bank Serbia had a market share measured by total assets of 3.4%.

Business review – Highlights

Most successful year. In terms of profitability, the year 2015 was the most successful one since Erste Bank Serbia launched its operations. In addition, the continued inflow of retail deposits reaffirmed customers' trust and the bank's position as a stable financial institution. Erste Bank Serbia is highly rated by its customers by all parameters of quality: trust, recommendation, satisfaction and ease of doing business with the bank.

Growing retail business. The bank continued to increase its retail market share, both in loans and deposits. The branch network expansion through the express branches concept, which started in late 2014, continued in 2015 resulting in branches in cities where the bank was not present before.

Focus on innovation. To meet the financial requirements of its customers through different channels, the bank continued its digitalisation projects. The bank also continued to upgrade its banking solutions with new functionalities such as online application for overdrafts, credit cards and cash loans.

Financial review

in EUR million	2014	2015	Change
Net interest income	34.4	40.8	18.7%
Net fee and commission income	13.4	12.6	-6.1%
Net trading and fair value result	2.9	3.2	11.1%
Operating income	50.5	57.1	13.1%
Operating expenses	-38.6	-39.0	1.2%
Operating result	11.9	18.1	51.5%
Cost/income ratio	76.4%	68.4%	
Net impairment loss on financial assets not measured at fair value through profit or loss	-15.7	-10.8	-31.3%
Other result	-1.3	-0.6	-51.8%
Net result attributable to owners of the parent	-5.4	5.3	n/a
Return on allocated capital	-10.2%	7.9%	

Net interest income in the Serbia segment (comprising Erste Bank Serbia Group) increased due to growing customer loan volumes in retail and corporate business as well as higher deposit volumes. Net fee and commission income decreased mostly due to lower lending fees. The improvement of net trading and fair value result was mainly driven by foreign exchange transactions. Operating expenses went up. Net impairment loss on financial assets not measured at FV through profit and loss declined on the back of better portfolio quality. As a result, the net result attributable to the owners of the parent improved significantly.

Credit risk

Total credit risk exposure in the Serbia geographical segment rose substantially to EUR 1.0 billion (+17.2%). Loans to customers grew at an even faster pace to EUR 719 million (+22.2%). With a share of 0.5% in total customer loans, this segment was still only of relatively minor significance for Erste Group. This highly dynamic development was attributable in particular to expanding business with medium-sized businesses and larger enterprises.

The share of foreign-currency – almost exclusively euro-denominated – loans in the total loan portfolio stood at 79% (75%). This is mainly due to the widespread use of the euro in Serbia as a result of the weakness of the local currency. Euro loans are usually matched by corresponding income or deposits in euro.

The clean-up of the loan portfolio by write-downs and sales and a decline in new non-performing loans resulted in a marked improvement in loan quality. The share of non-performing loans in the total loan portfolio was down 3.6 percentage points to 10.5%. This positive trend was seen in all customer segments, with the improvement being largely attributable to higher quality in corporate loans. NPL coverage by risk provisions excluding collateral stood at 88.4% (75.8%).

OTHER

Financial review

in EUR million	2014	2015	Change
Net interest income	175.7	171.9	-2.1%
Net fee and commission income	-4.9	-30.8	>100.0%
Net trading and fair value result	-10.3	3.3	n/a
Operating income	189.9	178.1	-6.2%
Operating expenses	-242.9	-243.0	0.0%
Operating result	-53.0	-64.9	22.5%
Cost/income ratio	>100.0%	>100.0%	
Net impairment loss on financial assets not measured at fair value through profit or loss	-77.1	-80.5	4.4%
Other result	-1,100.9	-67.0	-93.9%
Net result attributable to owners of the parent	-1,411.2	-205.3	-85.5%
Return on allocated capital	-24.4%	-2.9%	

Net interest income decreased moderately. Net fee and commission income declined predominantly due to the reallocation of subsidiaries to other segments. Net trading and fair value result improved due to valuation effects. Operating expenses remained stable. Other result improved significantly due to the non-recurrence of negative one-off effects, namely goodwill impairments of EUR 475.0 million and the write-down of the entire remaining value of customer relationships and brand of BCR of EUR 470.7 million. Net result attributable to the owners of the parent thus improved significantly.

Commitment to society

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

Because of the multitude of projects being pursued in business and financial education, sponsoring and corporate volunteering in all of Erste Group's core markets, only a few selected projects can be highlighted here. More detailed information on Erste Group projects is available at www.erstegroup.com/commitment and at websites of Erste Group's subsidiaries in the respective local language and in some cases also in English.

FINANCIAL LITERACY

A good understanding of money and finance is of the utmost importance as it enables individuals and households to improve and secure their economic situation. Financial ignorance limits social, economic and cultural life. Financial literacy is important for creating equal opportunities, social inclusion and economic well-being.

Erste Group believes that knowledgeable and financially educated customers are more likely to make sound appropriate financial decisions. Financially secure individuals and families will contribute positively to communities and foster economic growth and development. This in turn supports sustainable economic development in the region and has a positive effect on market stability. Therefore, Erste Group has been engaged in financial education activities for many years. The main objectives of Erste Group's financial education activities are to enable people of all ages to gain adequate skills and competencies to make informed and appropriate financial decisions and to assure that the employees of Erste Group have up-to-date knowledge as well as a comprehensive understanding of financial concepts and recent economic developments. Detailed knowledge of the range of financial products offered by the bank is simply not enough. Erste Group's employees have to be able to understand the bigger picture and to advise customers to choose the appropriate financial products. Erste Group is committed to ensuring that the financial products and services offered are transparent and easy to understand and meet the customers' short- and long-term financial needs.

In line with a recommendation of the Organisation for Economic Co-operation and Development (OECD) that financial education should start as early as possible, Erste Group puts a particular emphasis on financial education projects for children and young people. The aim is to enable even children to acquire knowledge and skills to build responsible financial behaviour. Erste Group wants to empower young people to participate in economic life and to understand finance as a system that supports everyone in their day-to-day activities.

Erste Bank Hungary, together with the Foundation Salva Vita, developed *Erste Salva*, a programme of financial educational lessons given by volunteering bank employees in ten schools. The *Contemporary Financial World* programme offers a variety of activities including the interactive board game *Financial Freedom* in more than sixty schools in the Czech Republic. Slovenská sporiteľňa supports educational projects in grammar schools and universities and realised the project *Get to Know Your Money* with the Foundation of Children in two hundred schools, educating students about earning, spending and saving money. Erste Bank Oesterreich developed further modules for teachers on current economic developments and entrepreneurship education on the platform www.geldundso.at. The crowdfunding platform www.startedeinprojekt.at introduced a new workshop format for teachers of Austrian schools and their students on how to successfully do crowdfunding for their school projects.

In some of the core markets, workshops are regularly held at schools on topics such as how to achieve one's own financial goals and how to avoid debt traps. In 2015, such workshops were attended by several thousand pupils and apprentices in Austria and in the Czech Republic. Through the *Seniors Communicate* programme, employees provide free-of-charge training courses to senior citizens across the Czech Republic on how to use payment cards and Internet banking.

A new ambitious project is the *Financial Life Park* (FLiP), a museum and learning trail focusing on personal finance and basic economics. The FLiP is designed to raise curiosity and illustrate the importance of finance. School classes starting from primary school are the main target group. The FLiP, located in the newly built Erste Campus in Vienna, Erste Group's headquarters, will open its doors in autumn 2016. It will provide space for workshops, lectures and seminars, especially on entrepreneurship education for pupils and teachers.

SPONSORING

For Erste Group, sponsoring is the voluntary promotion and support of institutions, initiatives and projects relating to social welfare, culture and education. The bank also has a long tradition in supporting specific sports. Erste Group considers sponsoring as an opportunity to pass on added value earned from business activities to society. The *Mehr*WERT sponsoring programme of Erste Bank Oesterreich shows Erste Group's commitment to social responsibility and the values it considers worthy of support beyond its business activities.

SOCIAL ACTIVITIES

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

Erste Bank Oesterreich has been a partner of Caritas for many years. The fight against poverty is a key priority within the wide range of joint aid projects. Erste Bank Oesterreich sponsored the annual domestic aid campaigns as well as campaigns in Eastern Europe. It also continued its support for the *youngCaritas* project. Since 2003, Erste Bank Oesterreich, the savings banks and s Bausparkasse have been sponsoring Hilfswerk Österreich, one of the largest non-profit providers of health care, social and family services in Austria. Additionally, Erste Bank Oesterreich has also been supporting the aid organisation lobby.16, which works to protect the right to education of unaccompanied young refugees and give them access to education, employment and participation in social life. In Austria, asylum seekers were offered a refugee account free of charge for the duration of the asylum process, but for at least one year. In cooperation with Caritas, asylum seekers who already hold a work permit are offered a housing account and hence the chance to enter into a tenancy agreement.

Erste Bank Oesterreich has established itself as the preferred partner of charity fundraisers in Austria. More than 130 organisations are clients of the bank. Everyone can donate conveniently via netbanking or at the branches. Participating NGOs have already promoted more than one hundred regional and supra-regional fund-raising projects through a new donation app (*Hilfreich App*). In Austria, donations total about EUR 600 million annually. Banca Comercială Română operates www.BursaBinelui.ro, the only Romanian platform for no-fee donations, which promotes approximately 300 listed non-governmental organisations (NGOs). Donors know that even small donations fully benefit projects of the NGOs. Erste Bank Serbia supported around 90 different projects and initiatives in 2015. The bank continued to reward and support young, active, talented and creative people who have achieved outstanding results through a programme called *Club supERSTEp*.

Slovenská sporiteľňa continued its support for projects that create new jobs in sheltered workplaces and for organisations and projects that work with handicapped or homeless people as well as Roma families. For the past seven years, young people from children's homes have obtained scholarships under a project called *Vzdelávaním k úspechu* (Success through Education).

Česká spořitelna is the first financial institution in the Czech Republic to regularly certify its branches and educate employees in approaching people with disabilities correctly. The bank runs a *Bank without Barriers* project. In addition, the new portal www.bankabezbarier.cz provides information about special services available for handicapped customers including automated teller machines for use by visually impaired clients. Within the framework of *+1 Act programme*, Erste Bank Hungary cooperates with NGOs focusing on social challenges and supports their projects.

ART AND CULTURE

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

For the twelfth time, Erste Bank Oesterreich acted as the principal sponsor of the *Viennale*, Austria's largest international film festival. For the fifth time, Erste Bank Oesterreich awarded the *Mehr*WERT *Film Prize* to a film by an Austrian film director presented at the *Viennale*. With the support of Erste Bank Oesterreich, selected designers are offered an opportunity to work on projects as part of the *Vienna Design Week* every year. In 2015, five projects were funded. For the first time, the *Mehr*WERT *Design Prize* with a focus on social design was awarded. The *Mehr*WERT sponsoring programme also provides support to Klangforum Wien, the Gustav Mahler Youth Orchestra, Wien Modern, Jazz at Konzerthaus, the Vienna Secession, Tanzquartier Wien, the ZOOM Children's Museum, the Vienna Festival, the International Children's Film Festival, the socio-cultural project Hunger auf Kunst und Kultur (Hunger for Art and Culture), the mirno more peace fleet, Yad Vashem and many other institutions.

Kontakt, Erste Group's art collection, concentrates on art from Central, Eastern and Southeast Europe. The collection reflects the political and historical transformation in Europe and the significance of art against the backdrop of specific cultural, social and economic developments in the post-Communist countries. Erste Bank Croatia organised a well-known competition for emerging artists and art students, called *Erste fragments*, for the eleventh time in 2015. The bank purchased the award-winning works of art and granted a cash prize. Erste Bank Serbia continued to support local cultural and social initiatives, including NGOs, across the country through its cultural programme *Centrifuge*. Assistance was also provided to the *Belgrade Jazz Festival* and the *Belgrade Guitar Art Festival* as well as to numerous programmes focusing on literature and the fine arts. Since 2008, Erste Bank Hungary has been the sponsor of *Művészetek Palotája* (Palace of Arts), a highly recognised and acclaimed institution both in Hungary and internationally.

CORPORATE VOLUNTEERING

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

Erste Group's Austrian initiative *Time Bank* is based on the idea that personal commitment and practical assistance are often urgently required and as valuable as monetary donations. The *Time Bank* initiative was launched in 2012 and is a scheme that matches employees who want to donate their spare time and skills with currently 38 partner organisations. *Time Bank* has proved highly successful in providing short-term assistance even on short notice if needed. In addition, volunteers organised in-kind donations, such as toys and sporting goods, and provided support to partner organisations by disseminating information on their special events and fundraising activities. Employees of the Holding, Erste Bank Oesterreich and their subsidiaries, as well as of many regional savings banks across Austria volunteer their time in their local communities.

The main focus in 2015 was supporting partner organisations in dealing with the refugee crisis in Austria. *Time Bank* provided employees with a comprehensive overview of volunteer opportunities with organisations and initiatives to help refugees in Austria. It collected hundreds of public transport tickets for Diakonie and organised a winter clothes collection that provided partner organisations with over 600 boxes of donated clothing items.

In addition to former branch premises at Europaplatz, Erste Group also made available as yet unused space at Erste Campus as emergency shelter for refugees. Because of their close vicinity to Vienna's Central Train Station and Westbahnhof, both shelters with a total of 350 beds were heavily frequented. The refugees were supported by teams of 20 employees during working hours. Overall, more than 500 employees were engaged in the bank's refugee relief effort. In mid-October, the Europaplatz emergency shelter was converted into a facility designed to provide basic services for families with children seeking permanent asylum in Austria.

Employees of Slovenská sporiteľňa took part in numerous voluntary activities aimed at the support of local communities. In 2015, the bank as well as Erste Bank Hungary introduced the option of volunteering instead of teambuilding activities. Česká spořitelna contributes to the development of the Czech non-profit sector by actively supporting the publicly beneficial volunteer work of its employees. Since 2007, employees have been granted two working days off each year to volunteer as part of Česká spořitelna's *Charity Days* programme. Česká spořitelna supports a special volunteering programme for managers, which allows them to spend up to a week offering their skills to NGOs and charity organisations. Erste Bank Croatia signed the *Charter on recognition of competencies acquired through volunteering*, which means that as a bank, it recognises the importance of competencies gained through volunteering and that these competencies are considered during the recruiting process and career progression. For example, they organised volunteering in children's shelters and helping in other socially sensitive areas; there are plans for further activities in 2016.

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

SPORTS

Erste Group has been supporting amateur and professional sporting events in Austria and Central Europe for many decades. Projects are carried out in a spirit of close partnership with the organisers and hosts of these events. Running, ice hockey and tennis are given particular emphasis, as is the promotion of activities for young athletes.

In tennis, activities range from support for amateur initiatives such as the *BCR Tennis Partner Circuit* in Romania to professional tennis events such as the *Erste Bank Open* in Vienna, the most important tennis tournament in Austria. The *Erste Bank Open*, sponsored again by Erste Bank Oesterreich 2015, was upgraded in 2015 to the level of an ATP World Tour 500 tournament, and with a prize money of EUR 2.4 million it ranks fifth in Europe.

In 2015, Erste Group sponsored a large number of running events, including many in support of social projects such as the *erste bank vienna night run* in Austria, the Košice Peace Marathon – the oldest European marathon – in Slovakia, the *Color run* in Romania and the *Homo si Tec Marathon* in Croatia. *Erste Bank Sparkasse Running* 2015 comprised more than 200 running events and more than 150,000 participants dashing some million kilometres through Austria.

Since 2003, Erste Bank Oesterreich has been the name-giving main sponsor of the national ice hockey league, the Austrian national ice hockey team and the local *Vienna Capitals* team. The Erste Bank Ice Hockey League grew beyond borders; teams from Czech Republic, Hungary, Slovenia and Italy are now also participating. To support young Austrian ice hockey players, two youth series – Erste Bank Young Stars League and Erste Bank Juniors League – were introduced.

Česká spořitelna is the main partner of the Czech Athletics Federation and supports athletes of all performance levels – from the national teams to young talents. Owing to the athletic youth programmes, more than ten thousand children have been trained by licensed instructors and coaches.

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

Customers and suppliers

FOCUS ON CUSTOMER RELATIONS

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

The customers decide themselves how they wish to do their banking. For this reason, in 2015, Erste Group focused on further improving its digital services and its branch concept. In Austria, *George* was launched to start a new era in digital banking and was warmly welcomed by the customers. The branch concept was thoroughly overhauled. Simple banking business can now be done in service branch offices, while newly designed advisory centres provide in-depth support to meet more complex, long-term needs.

ACCESSIBILITY

Customer centricity also means providing customers with access to banking services through many different channels. Customer expectations of a modern bank are subject to constant change. Digital channels have become as natural to many customers as barrier-free access to branches. Today, many customers appreciate being able to conduct their banking transactions at any time, from anywhere, via their smartphones or on the Internet.

Erste Group believes that, despite technological progress, personal contact with customers remains important in banking. Customers of Erste Group who require complex long-term financial services expect sound advice. Top priorities of product information remain transparency and easy-to-understand products and services, both in terms of technical details and language. Erste Bank Oesterreich is therefore continuing to expand its range of multilingual advisory and other services in English, Turkish, Serbian, Croatian and Czech. Banca Comercială Română provides information on products and services in Hungarian.

For partially sighted customers, Erste Bank Oesterreich offers bank cards printed in braille, and each branch of Erste Bank as well as each VIVA shop (where available) operates at least one cash dispenser equipped to provide audio instructions. Česká spořitelna has further increased the number of cash dispensers designed for use by persons with impaired vision so that by now already one out of two of all machines boast this feature. In addition, Česká spořitelna has implemented the service *e-Scribe* in several branches to facilitate the communication between people with impaired hearing and bank advisers. In 26 branches the bank also offers an online subscription service (www.tichalinka.cz), which is unique on the Czech banking market.

The number of branches with barrier-free access has risen further across Erste Group. Working with the Prague wheelchair users' organisation, Česká spořitelna tested all of its branch offices for barrier-free access. 234 branch offices were classified as being 100% barrier-free. Erste Bank Hungary has already remodelled more than two thirds of its branches, and access is likewise barrier-free at all new or remodelled branches of Erste Bank Serbia. In addition, Erste Bank Serbia offers special advisory services to people who are deaf or hard of hearing.

The websites of the local banks of Erste Group are continuously updated. In this respect, the focus is on accessibility, usability and easy–to-understand content. Customers may choose between three font sizes on the websites of the Holding, Erste Bank Oesterreich, Banca Comercială Română, Slovenská sporiteľňa, Erste Bank Hungary and Erste Bank Croatia. In addition, the websites of the Holding, Erste Bank Oesterreich, Erste Bank Serbia, Erste Bank Croatia and Banca Comercială Română feature responsive design, which means that the website adapts automatically to screen size and resolution for optimum display.

INNOVATION AND PRODUCT QUALITY

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

To enhance quality even further, it was decided in 2015 to integrate operational risk assessment, including the testing of new products for potential financial, legal and reputational risks.

CUSTOMER SATISFACTION

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

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

In 2015, Erste Group improved in customer experience aspects across its markets. The positive development is especially visible in the SME segment. Slovenská sporiteľňa and Erste Bank Hungary were particularly successful in improving customer satisfaction.

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

In 2015, Erste Private Banking was again named *Best Private Bank in CEE* by the business magazine *The Banker*. To maintain these high standards, all private banking advisers will attend a new training programme on completion of which they will receive an internationally recognised certificate. The fact that all banking subsidiaries of Erste Group operate under a brand name of very high recognition value and trustworthiness represents a significant competitive advantage in the banking business, which has manifested itself, among other things, in steady inflows of deposits and funds under management at times of economic uncertainty.

SUSTAINABLE INVESTMENT

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

Erste Asset Management is an acknowledged and leading provider of sustainable investment funds in Austria and in the CEE region. In 2015, Erste Asset Management managed assets worth EUR 55 billion. Its subsidiary Erste-Sparinvest KAG has strengthened its market leadership position in Austria. Actively managed funds that are amongst others screened for prohibited weapons amounted to EUR 23.4 billion. The total volume of assets managed by sustainable investment funds reached EUR 4 billion in 2015, up 10% versus 2014.

In 2015, sustainable investment remained one of the core competencies of Erste Asset Management. Sustainability experts of Erste Asset Management managed 28 investment funds in the categories public funds and special funds/externally mandated portfolios. The managed public funds comprised seven bond funds, four regional stock funds, one micro-finance fund of funds, one theme funds for climate protection and the environment (the latter two funds were managed jointly with WWF Austria) as well as one asset allocation fund of funds. Five stock funds were bundled into two. 2015 was characterised by strong investor demand for funds that invest in emerging market corporate bonds globally, in conformity with sustainability rules. In addition, a new public fund, one of the first of its kind, was established that solely invests in globally certified green, social and climate awareness bonds.

In 2015, Erste Asset Management was awarded the newly created FNG label for several of its sustainable funds. Created by Forum Nachhaltige Geldanlagen e.V. (FNG), the FNG label is the quality standard for sustainable financial investment in German-speaking countries. To qualify for the FNG label, the minimum requirements are transparency and process criteria, the exclusion of weapons and nuclear energy and meeting standards in four UN Global Compact categories: human rights, labour law, environmental protection and the fight against corruption and bribery.

As regards engagement and interaction with investees, business partners and clients, global companies were contacted on various subject matters, with the key topics being solutions for climate change/alternative energy, water supply and energy. Debates were held with external sustainability experts and analysts, and questions on sustainability were addressed to key representatives of relevant industries. In 2015, international co-operation (e.g. UN PRI) was further intensified under the heading of Engagement in order to be able to approach companies from a position of greater strength. In this context, action was taken in relation to retail trade supply chains and the oil industry.

In 2015, the ethics board – the Erste Responsible Advisory Board – commenced its work and contributed successfully to sustainable investments of Erste Asset Management. The *EAM SRI Universe Report* is a monthly publication that covers the investment universe for the sustainability funds. Erste Asset Management was the first Austrian asset management company to sign the Montréal Carbon Pledge. Under this scheme, capital market participants agree to have the CO_2 emissions of their stock holdings measured and to annually disclose their CO_2 footprint as well as to support the efforts of the Paris World Climate Summit to reduce CO_2 emissions. In addition, Erste Asset Management continued to be an active member of Forum Nachhaltige Geldanlagen (Forum for Sustainable Financial Investments), Eurosif and Verein zur Förderung von Ethik und Nachhaltigkeit bei der Geldanlage (Corporate Responsibility Interface Center, CRIC). The FNG sustainability label for German-speaking countries was implemented in late 2015 and was awarded to five sustainability funds managed by Erste Asset Management.

FINANCIAL INCLUSION

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

In 2015, the main focus of financial inclusion was again on micro banking and social enterprise financing. In addition, local networks promote the training of social entrepreneurs by helping them acquire the expertise and the skills required for running their businesses successfully.

Micro financing

All local banks of Erste Group offer micro-financing schemes customised for their markets. In Austria, the micro-finance initiative was continued in cooperation with the Federal Ministry of Labour, Social Affairs and Consumer Protection for the sixth consecutive year. Under this initiative, Erste Bank Oesterreich offers start-up loans to people who were previously jobless or threatened by unemployment. So far, more than 480 start-ups have received funding under this programme from savings banks and Austria Wirtschaftsservice.

In Romania, Good.bee Credit offers self-employed persons and small businesses development-oriented financing products and supports regional economic development by providing micro loans. Good.bee Credit mainly aims at small enterprises in rural areas that have otherwise no access to traditional banking. At year-end 2015, more than 4,300 loans with a total volume of EUR 35 million had been granted. In 2015, Erste Bank Serbia and the NGO Smart Kolektiv continued *supERSTEp*, a programme designed to support start-ups with capital and training to help them set up or continue developing their own businesses. This programme is planned to become part of the standard offering and to achieve substantial growth rates. Erste Bank Croatia fundamentally changed its micro-lending programme and will launch it in 2016.

Slovenská sporiteľňa supports micro-entrepreneurs with the aim of creating and securing jobs. Apart from providing financing in the start-up phase, the focus is also on the transfer of business management expertise. The programme is set for nation-wide roll-out in the first half of 2016. In addition, a separate programme was designed for NGOs including financing models and financial education. In Hungary, the local good.bee programme, collaborating with the Budapest Civil Info Center and the Civil Academy, focused in particular on NGOs. Erste Bank Hungary increased lending volume in social enterprise finance by 30% year on year. Annual transaction volume rose to EUR 5 million.

Social enterprise financing

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

The local banks of Erste Group stepped up their activities for social enterprises in 2015. Erste Group has become one of the leading banking groups in social enterprise financing in CEE, and the respective loan portfolios grew particularly in Austria, Romania and Hungary.

Erste Bank Oesterreich, for example, supports social enterprise customers with financing after the start-up phase and also offers business management consulting services, including access to business angels (e.g. *Idea meets Money* or the Impact Hub's *Investment ready* programme in Vienna). The *For Best Students* initiative supports students by providing the financial means to cover tuition fees, living costs, etc. The programme *career with children* aims at supporting young families by taking over the costs for day care for children, thus making it possible to reconcile career and family. In cooperation with debt counselling services, the initiative called *betreute Konten* (assisted accounts) was developed further and has proved to be an instrument that may help many vulnerable people to retain their full legal capacity. It also helps to prevent homelessness. A care card has been developed jointly with organisations offering care services. This card enables home care services to spend small amounts on purchases without needing access to the client's account. This facilitates the management of finances for care organisations. Similar social entrepreneurship initiatives have also been implemented by the local banking subsidiaries of Erste Group.

SUPPLIERS

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

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

In the course of fulfilling their contractual obligations, suppliers of materials, equipment and services, selected as group partners, are expected to:

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

This is also expressed in the supplier code of conduct that is publicly available on the website of Erste Group Procurement.

SUPPLY CHAIN

Erste Group's supply chain comprises mainly indirect expenses that support the group's core business. The total amount paid to companies outside Erste Group was slightly below EUR 1 billion, and the majority of it is linked to services, operations and marketing (amounting to 40.3% of the total amount spent), followed by IT (39.6%) and facility management (20.1%). Out of a total of approximately 20,800 suppliers on group level, 80% of the total procurement expenses relate to 643 suppliers. 98.8% of the suppliers (reflecting 97.4% of the expenses) were located in the European Union, highlighting Erste Group's focus on its markets in CEE. An additional 0.54% of the suppliers were located in North America, 0.44% in other European countries and the rest were based in Asia (0.14%).

Only 13.1% of Erste Group's purchases were made across borders. This focus on local procurement strengthens the local economies of the countries where Erste Group operates and underlines the commitment to support these regions.

SUPPLIER SELECTION PROCESS

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

The supplier audit questionnaire is an integral part of Erste Group Procurement's supply chain and is covered by the eRFx tool. This operational tool ensures full transparency and allows a timely assessment and risk identification before entering into contracts with suppliers.

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

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

Environmental aspects

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

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

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

Some 20% of the suppliers of new and renewed contracts were audited according to environmental standards in 2015. No supplier was subject to a specific environmental impact assessment beyond the standard audit questionnaire nor was any supplier identified as having had significant actual and potentially negative environmental impacts. No actual and potentially negative environmental impacts were identified in the supply chain. Finally, no supplier contract had to be terminated as a result of significant actual and potentially negative environmental impacts.

Social aspects

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

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

Some 20% of the suppliers of new and renewed contracts were audited according to both labour practice standards and human rights criteria in 2015. No supplier was subject to specific labour practice or human rights impact assessments beyond the standard audit questionnaire nor was any supplier identified as having had significant actual or potentially negative labour practice or human rights impacts. There were no actual and potentially negative labour practice or human rights impacts identified in the supply chain, and no supplier contract had to be terminated as a result of significant actual and potentially negative labour practice or human rights impacts.

Further to that, no supplier was found to violate or put at risk the right to exercise freedom of association and collective bargaining, nor was any supplier found to have significant risk of child labour or young workers exposed to hazardous work, nor was found to have had a significant risk for incidents of forced or compulsory labour.

Employees

Retaining talented, engaged and experienced 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; we encourage our employees to continually strive for professional and personal development and offers equal opportunities to everyone in the organisation. Competence building and developing performance-oriented teams as well as organisational effectiveness and competitiveness through customer centricity, cost-effective organisation design and process excellence are cornerstones of the strategy.

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

Erste Group's people management strategy reflects the changing demands of the business environment. It is based on three key pillars:

- competence
- culture
- competitiveness

Erste Group considers employee engagement as a vital element for the success of the bank. Systematic and regular group-wide employee engagement surveys allow employees to give feedback on different aspects of their working experience. In 2015, more than 50 companies across Erste Group participated in the third group-wide survey. Following an in-depth analysis of the results, action plans, follow-up measures and initiatives are developed and implemented both on a group level and in the local entities. The next survey is planned for 2017

The most important topics singled out by employees were:

- diversity and equal opportunity
- career development opportunities
- work process improvements

Erste Group places a strong emphasis on ensuring that its employees are provided with a safe and healthy work environment. As an employer of choice, Erste Group recognises that a satisfying work-life balance enhances a stable work environment. Employees are also encouraged to volunteer their time and share their knowledge and expertise to give back to the society and communities in which the bank operates.

DIVERSITY AND INCLUSION

Companies that are committed to diversity and inclusion benefit from more engaged employees, a better brand image and higher customer satisfaction. Innovation and sustainable success can only be achieved by leveraging the skills and abilities of individuals with a broad range of experiences, educational and cultural backgrounds as well as perspectives. Erste Group sees diversity as a vital part of its business strategy and key to attracting and retaining talented employees. The appointment of a Group Diversity Manager underlines the importance of this topic. The management board supports the diversity agenda and its activities.

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

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

In 2015, the management board of the Holding and the employees' council signed a company agreement on preventing discrimination and promoting respectful behaviour in the workplace. It aims at providing the employees a timely and efficient support mechanism against discrimination, bullying and/or sexual harassment and at preventing or stopping these situations from occurring. An Anti-Discrimination Officer was appointed at the end of 2015, who works with management on awareness and prevention and councils, advises and mediates in matters concerning harassment and discrimination.

Further to that, Erste Group signed the *Nestor Gold Charter* on generation management in October 2015. Nestor Gold is an initiative of the Austrian Federal Ministry for Labour, Social Affairs and Consumer Protection. The Charter is a commitment of companies to support intergenerational dialogue and create a corporate culture where all generations are valued. In 2016, the Holding will begin with a systematic evaluation of policies, processes and of the overall environment relating to generation management at the workplace. The audit will result in a series of recommendations, concrete goals and action steps, and certification.

Erste Group believes that diverse teams are more creative and flexible in reacting to changing demands. Valuing and understanding cultural diversity fosters inclusion and integration as well as better teamwork and cooperation. To promote intercultural understanding, an *International Dinner*-initiative was launched in Austria in 2015 providing opportunities for employees from different cultures to introduce their traditional home country cuisines.

At the beginning of 2014, Erste Group set a group-wide internal target of having 35% of positions in top management and on supervisory boards filled by women by 2019. This target applies to the local banks (excluding other subsidiaries or the savings banks in Austria). Currently, 28% of positions in top management are filled by women, which is a 2 percentage point decrease over 2014 resulting from organisational changes. The share of female supervisory board members increased by 1 percentage point to 24% in 2015. To increase the number of women in senior management positions, Erste Group aims for a greater gender and age balance in its talent pools.

The *Erste Women Hub* focuses on supporting women advance their careers, reaching out to female customers and encouraging an inclusive work environment. Various initiatives in Austria, such as the *WoMentoring* programme, *Women Financial Lifetime* and *Securities Dialogue for Women,* were launched.

Česká spořitelna continues its comprehensive diversity and inclusion programme *Diversitas*. The programme is focused on all aspects of diversity management, such as supporting the career advancement of women through mentoring, coaching, leadership development and networking and offering flexible work arrangements and a parental support programme as well as age management and an intergenerational dialogue.

Attracting and retaining handicapped employees as well as supporting reverse and intergenerational mentoring was another priority at Česká spořitelna. Česká spořitelna continued to offer internships for handicapped people, e.g. under the *Pět statečných* (Five Brave) programme, and provided more ergonomic working conditions. Česká spořitelna's *Moudrá Sova* (Wise Owl) programme supports reverse and intergenerational mentoring for employees older than fifty and younger than thirty. In 2015, Česká spořitelna was named *Company of the Year: Equal Opportunities and Diversity* for the third time.

Both Slovenská sporiteľňa and Banca Comercială Română offered workshops dedicated to women in their diversity approach. In addition, Slovenská sporiteľňa recruits disabled persons for their call centre, and Erste Bank Hungary agreed with the employees'council to provide an additional 5 days of paid leave for disabled employees.

The diversity priorities for 2016 are the following:

_ implement concrete measures in the area of generation management
_ implement diversity and anti-discrimination training courses for managers
_ nominate at least one new female supervisory board member and increase the number of women in top management by at least 3 percentage points
_ establish a group-wide diversity policy framework
_ continue to encourage local diversity initiatives across the group
_ take necessary steps to close the gender pay gap by 2025

LEARNING, TALENT MANAGEMENT, LEADERSHIP AND COMPETENCY DEVELOPMENT

Erste Group regards supporting the development of its employees' professional and social skills as a top priority to ensure that the employees are well prepared to act professionally and in a socially responsible manner. Erste Group continuously develops and aligns group-wide training programmes for senior experts and managers. In 2015 the main focus was on implementing the group-wide talent management landscape, improving leadership development and realising the concept of functional competency management.

Erste School of Banking and Finance, the group's platform for professional and leadership training, offers executive training and comprises open enrolment courses including personal development training courses as well as programmes for specific business areas. In 2015, Erste Group successfully established the Finance College, where training is offered in four key areas: controlling, asset/liability management, accounting, and business data excellence. The training options of the Risk Management College have been expanded. New courses reflect the regulatory changes and contribute to bridging functional competency gaps of employees. The Corporates & Markets College also continued to offer its learning initiatives, covering topics such as specific product knowledge or corporate sales abilities.

The Erste Leadership Evolution Centre structures group-wide leadership development offerings. Participants of the Group Leadership Development Programme, Erste Group's training programme for members of the key position pool, are trained by IESE Business School Barcelona. Erste Group's Talent Management launched three gender-balanced talent pools. The International Talent Pool targets high-performing junior professionals up to board minus 3 management levels. As of year-end 2015, about 40% of the international talent pool were women. The next level, the Key Positions Pool, aims at preparing managerial talents for roles at division head level. This pool comprises 39% women. The Executive Pool, which identifies and develops top executive level talent, comprises 27% women.

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

In 2015, each employee of Erste Group had on average 3.4 training days for professional development. The total group-wide training budget amounted to EUR 13.9 million (i.e. approximately EUR 386 on average per employee).

The focus for 2016 is the mobilisation of identified talents within the group and to further develop the digital learning offer.

REMUNERATION AND PEOPLE PERFORMANCE MANAGEMENT

Across Erste Group, the focus of the remuneration policy was on an appropriate balance in rewarding the performance, competence and level of responsibility of the employees and keeping a sustainable personnel cost base. Erste Group's reward system is consistent, competitive and transparent. The remuneration policy aims to

- create an environment where employees can perform, develop and be engaged
- reward at the right level to attract and retain employees with the required competence and skills
- be cost-competitive and cost-flexible for a sustainable business
- support leadership and employee behaviour that creates an engaging and unique customer experience and effective risk management practices

As a signatory of the Austrian *Diversity Charter*, Erste Group committed itself to the principles of equal opportunity and transparency, especially in remuneration. One of the key strategic priorities is to ensure that total reward schemes are more transparent, market-driven and linked to performance and personal development. Erste Group offers competitive, but not market leading, compensation packages. The local banks' remuneration practices remain well balanced with the business line needs and local country pay practices. The remuneration schemes are designed according to all EU and national regulatory requirements on remuneration.

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

Benefits are provided as a means to stimulate well-being in the work environment and to support an appropriate work-life balance. Examples of benefits are flexible working time, study leave, parental leave and the health centre expertise. Pension and insurance schemes aim at ensuring that employees have an appropriate standard of living after retirement. Pension and insurance provisions are according to local law, regulation and market practice.
The supervisory board annually reviews group and local remuneration policies and practices. The respective group and local remuneration policies and execution are annually evaluated to ensure that remuneration practices comply with respective international and national regulations. The evaluation comprises the entire remuneration process from determining bonus budget pools, to target setting and performance evaluation, to awarding bonuses in relation to performance and fixed salary, to the actual pay-out of bonuses.

The supervisory board has approved a more distinctive change in the remuneration for top executives, and the long-term incentive scheme was cancelled to better balance forward-looking and short term key performance indicators.

HEALTH, SAFETY & WORK-LIFE BALANCE

The workplace offers an ideal setting and infrastructure to support and promote health issues to large groups of people, thus making occupational health an important contributor to public health.

Erste Group is committed to a proactive approach towards helping its employees to identify and manage health risks. A multi-professional team of occupational physicians, industrial psychologists and physiotherapists assists Erste Group's employees in any matters of health and well-being. The health centre is a model of good practice in the prevention of disease: focusing on risk factors (e.g. prevention of heart disease and stroke) or on changing personal health practices and behavioural patterns (e.g. smoking and diet), employees are provided with a broad range of assistance, such as medical check-ups, screening of the carotid artery for stroke prevention, back therapy training, relaxation techniques and nutritional consulting.

Mental health is crucial for labour market outcomes and affects economic growth. In developed countries, mental illness is responsible for one-third to one-half of all long-term sickness and disability among the working-age population. At any given moment, some 20% of the working-age population faces mental health issues and one in two people will suffer from a mental health condition during their lifetime. Therefore, it is important that companies and policy makers address the interplay between mental health and work. The workplace directly influences the physical, mental, economic and social well-being of employees, and affects the health of their families, communities and society.

Consequently, the health centre focused on strengthening its effectiveness on maintaining mental health of the employees in 2015. The health centre covers a whole variety of preventive measures for employees such as by providing relaxation techniques or training courses for managers, supporting employees in personal situations (caring for young and old, challenging personal circumstances) and offering quick accessibility to adequate treatment.

Another focus in 2015 was integrating employees after longer sickness. The longer people are on sick leave, the more difficult it becomes to reintegrate them into the labour force. This is even more so for those suffering from mental illness. Erste Group signed a company agreement on this topic, giving all employees the possibility of a step-by-step integration (in terms of working hours and activities) after long-term illness.

In April 2015, Erste Group's health centre presented this model in The Hague at the OECD High-Level Policy Forum Mental Health and Work. In Austria, it is seen as a best practice model by the Austrian Federal Ministry for Labour, Social Affairs and Consumer Protection. An evaluation of the impact of these efforts showed that the rate of long-term illness declined and reintegration was successful in many more cases than in the past.

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

In 2015, the Holding and Erste Bank Oesterreich were re-certified as family friendly by the Austrian Federal Ministry of Families and Youth. This certificate is only granted to employers that allow their employees to successfully balance their work and private life. In addition to supporting flexible working hours, sabbaticals are offered and there are processes in place to reintegrate employees after long-term illnesses or parental leave. As a further measure the company kindergarten will open its doors at Erste Campus in 2016.

Staff indicators

	Share of female staff		Share of part-time staff		Share of female part-time staff from total part-time workforce		Share of male part-time staff from total male workforce		Share of executive positions	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
Austria	47.9%	55.1%	24.5%	27.5%	83.0%	86.9%	4.2%	8.0%	1.6%	1.5%
Czech Republic	70.9%	71.4%	7.9%	8.6%	92.6%	94.0%	0.6%	1.8%	0.9%	0.5%
Slovakia	71.9%	72.0%	0.5%	0.4%	87.0%	89.5%	0.1%	0.3%	0.9%	1.0%
Hungary	62.4%	63.8%	2.6%	2.4%	81.1%	72.7%	0.5%	1.8%	2.1%	1.4%
Croatia	69.2%	69.2%	0.9%	0.9%	96.6%	100.0%	0.0%	0.0%	2.7%	2.5%
Serbia	69.1%	70.7%	0.1%	0.1%	0.0%	0.0%	0.1%	0.3%	2.2%	2.4%
Romania	70.2%	71.2%	5.6%	5.6%	79.0%	82.0%	1.2%	3.5%	1.1%	0.9%

	Other managerial positions		Share of women in executive positions		Share of women in other managerial positions		Average number of sick leave days per employee		Number of employees with health disability	
		2014		2014		2014		2014		2014
Austria	8.9%	8.2%	17.0%	20.9%	27.0%	30.8%	7.7	7.8	110	112
Czech Republic	4.8%	5.6%	16.5%	25.5%	39.6%	39.5%	7.2	5.2	130	107
Slovakia	8.5%	8.4%	25.6%	27.9%	55.7%	55.5%	7.1	7.1	100	82
Hungary	12.2%	12.4%	25.0%	23.7%	53.0%	51.0%	7.7	6.9	6	6
Croatia	9.5%	12.8%	36.5%	35.8%	61.5%	56.8%	10.2	5.3	9	22
Serbia	13.9%	14.3%	37.5%	37.5%	55.0%	55.9%	4.8	5.3	2	2
Romania	6.5%	6.8%	46.8%	41.5%	57.4%	55.8%	8.2	7.0	20	18

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

Turnover rate		<30 yrs		31-40 yrs		41-50 yrs		>50 yrs	
2015	Total	initiated by the employee	initiated by the employer	initiated by the employee	initiated by the employer	initiated by the employee	initiated by the employer	initiated by the employee	initiated by the employer
Austria	6.0%	26.6%	1.7%	24.9%	6.8%	18.8%	6.5%	7.7%	7.0%
Czech Rep.	15.9%	25.8%	9.4%	19.6%	12.3%	11.6%	7.4%	9.0%	5.0%
Slovakia	14.5%	21.9%	13.3%	13.5%	16.4%	7.4%	14.1%	2.1%	11.2%
Hungary	12.6%	22.1%	2.1%	40.2%	13.9%	10.0%	3.6%	6.3%	1.8%
Croatia	6.4%	13.2%	17.6%	28.9%	15.2%	8.3%	8.3%	1.0%	7.4%
Serbia	5.3%	3.5%	17.5%	15.8%	36.8%	5.3%	10.5%	7.0%	3.5%
Romania	18.2%	29.3%	16.6%	27.7%	5.7%	11.3%	5.1%	2.2%	2.1%

Executive positions cover all the board and board-1 positions. Other managerial positions cover all the board-2 and board-3 positions.

Environment

Environmental issues affect everyone's life, and the time when only environmental activists paid attention is long gone. We are already feeling the effect of climate change and might be the last generation who can do something about it. Climate change has become a reality and has started to impact ecosystems, societies and economies. The only option to limit the negative consequences of the greenhouse gas emissions is to confine global warming. Even if this is successful, there will be severe and widespread consequences on all continents due to the rising sea levels and increasing climate-related hazards.

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

ENVIRONMENTAL STRATEGY

Erste Group's environmental strategy is built on four pillars:
_ implementation of an Environmental Management System
_ implementation of a Supply Chain Management System for all products and services needed to run the banking business
_ integration of environmental criteria into banking products and services (especially financing products)
_ cooperation with environmental NGOs

An Environmental Steering Committee consisting of the CEO and COO of Erste Group and the Head of Group Environmental Management was set up to monitor the group-wide implementation of the environmental strategy. Within each local banking subsidiary, environmental teams under the direct responsibility of one Board Member are installed. Over the next few years, it will become common practice to integrate environmental aspects into day-to-day banking business wherever appropriate. The Supply Chain Management System ensures that ecological and commercial considerations are equally taken into account in purchasing decisions.

Medium-term priorities

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

ENVIRONMENTAL TARGETS

To improve the environmental footprint of the business activities, Erste Group defined the following measurable group-wide reduction targets by 2016 compared to 2012 data:
_ Electricity consumption by -10%
_ Heating energy by -10%
_ Copy paper consumption by -20%
_ Carbon dioxide (CO_2, scope 1 and 2) emissions by -30%

Development of the environmental footprint in 2015 versus 2012

_ Electric energy: -16.3% to 155.2 GWh
_ Heating energy: -22.4% to 125.3 GWh
_ Copy paper: -14.2% to 1,469 t
_ CO_2 emissions (scope 1 and 2): -21.4% to 82,093 t

GROUP-WIDE ACTIVITIES

Reduction of greenhouse gas emissions

Not surprisingly, reducing the consumption of natural resources, notably heating and electric energy, is key in optimising Erste Group's environmental impact. A careful selection of suppliers and resources with CO_2 emissions that are as low as possible is of utmost importance.

Erste Group defined the following group-wide criteria for the selection of heating and electricity suppliers:

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

Erste Group started to use exclusively green electricity – CO_2-free, from renewable sources only – in 2012 in Austria. The contract was renewed in 2015 until the end of 2017. Approximately 50% of the Austrian electric energy demand is covered by Erste Group's own hydro power plant in Styria. In 2014, Erste Bank Croatia switched to purchasing only 100% CO_2-free electricity. In the Czech Republic, the purchase of electricity is done mainly through Česká spořitelna's energy trading subsidiary Erste Energy Services, a company selling electricity from renewable energy sources. Currently, no appropriate local energy providers selling country-wide CO_2-free electricity are operating in other Erste Group core markets.

The cheapest and most effective way to reduce greenhouse gas emissions is to reduce energy consumption through energy saving and increasing energy efficiency.

A wide variety of energy-saving programmes has been implemented in all local banking subsidiaries. Banca Comercială Română and Erste Bank Hungary take simple but very efficient measures to reduce energy consumption. These range from the replacement of lighting by LED to room temperature adjustments. Erste Bank Hungary achieved an overall reduction in electric energy of some 12%. Slovenská sporiteľňa continued its ambitioned energy-saving efforts within its Environmental Action Plan (2014-2016) and reduced its total energy consumption by 15%. Česká spořitelna pursued its energy reduction programme for the branch network. The individual energy consumption of each branch is monitored on a quarterly basis. The roll-out of the remote monitoring of building technologies continued, and monitoring devices for energy consumption and management were installed in more than a hundred buildings. In Croatia, the project *PEEP* (Project of Electric Energy savings in Premises) as well as the implementation of an energy management system in Serbia were continued. The usage of a special p sun-blocking foil that helped to avoid heating up the room by sunlight especially in summer.

European Union countries transposed the 2012 Energy Efficiency Directive into national law establishing a set of binding measures to help the EU reach its 20% energy efficiency target by 2020. The Austrian regulations required energy audits for nearly all local Erste Group entities. With the help of an external advisor, a representative portfolio of premises of savings banks and Erste Bank Oesterreich including branches from different provinces such as Tyrol, Salzburg, Lower Austria, Vienna and Burgenland was selected to be audited. With Erste Campus, the new headquarters in Vienna, and the Austrian data centre, the two buildings with the highest electric energy consumption were part of the energy audit. The final report identified and quantified cost-effective energy saving opportunities. It also showed that in general the audited entities used energy efficiently.

Due to the move to the new headquarters in Vienna, which will be completed in the second quarter 2016 (approximately 4,500 employees will work at Erste Campus) nearly no investments were undertaken at formerly used office buildings to improve energy efficiency. Erste Campus has been awarded preliminary *DGNB Gold certification* by the Austrian Society for Sustainable Real Estate (ÖGNI). The re-certification is expected to be confirmed in 2016. Calculations show an expected reduction of 30-50% on electric energy compared with the consumption of the existing buildings used in Vienna.

Erste Asset Management was the first Austrian investment funds company to sign the *Montréal Carbon Pledge*. By signing it, investors commit to measure and publicly disclose the carbon footprint of their investment portfolios on an annual basis and support the World Climate Summit in Paris in its effort to reduce the CO_2 emissions.

Measures to reduce office paper consumption

Without doubt, besides measures relating to energy, one of the greatest direct contributions that a financial institution can make to protect the environment is cutting paper consumption. The production of recycled paper requires approximately 80% less water and 70% less energy; overall, the CO_2 footprint is 50% less.

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

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

Erste Group is already close to reaching the target of 100% recycling paper for copy machines and reduced the total consumption of copy paper from 2,000 to 1,400 tonnes since 2012. The next step will be to fully switch to recycled paper also for business cards, envelopes and other kind of office paper. With this measure Erste Group shows its commitment to protect natural resources. To complete the environmental cycle local banking subsidiaries increased their efforts to collect waste paper. To give one example, Erste Bank Hungary achieved a collection increase of 300% compared to last year.

In Slovakia, the Czech Republic, Hungary, Serbia and Croatia, the targeted level of 100% recycled copy paper has been almost reached, and Austria was close with over 80%. Only Romania is lagging behind with a recycled copy paper share of only 10%. The overall consumption of copy paper was reduced in 2015 by additional 24 tonnes to 1,467 tonnes. Since 2011, the total volume declined by 500 tonnes or 30%. For the first time, the 2014 annual report and the quarterly report of Erste Group were printed on recycled paper. Furthermore, as more and more readers use the online version, the number of printed copies declines steadily.

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

Waste management activities

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

Other environmental initiatives

One of the main challenges is to keep the employees informed about the ecological consequences of their activities. Slovenská sporiteľňa developed an e-learning tool for all employees focusing on conscious usage of resources such as energy and paper. Several local banks including Erste Bank Serbia and Česká spořitelna provide allocated bike parking areas for employees commuting by bike to the office or offer free use of electric bikes for local business trips within the city centres.

One element of Erste Group's environmental strategy is the co-operation with NGOs. Independent environmental NGOs offer access to their local and international know-how and provide valuable assistance in Erste Group's efforts to become an even more environmentally sustainable company. Erste Group co-operates with the WWF Climate Group. The aim of the initiative is to mobilise companies to cut global carbon dioxide emissions. Further information is available at www.climategroup.at. Slovenská sporiteľňa started a cooperation with ekoPolis foundation whose vision is "an advanced civil society with citizens realising their responsibility for social development and environmental issues. A society with citizens who are interested in participating in public policy, have courage to adopt a critical stance and care about avoiding detriment to future generations [...]" (www.ekopolis.sk/en/).

Erste Bank Oesterreich continued its exclusive partnership with the ELENA-project (European Local ENergy Assistance). This EU-initiative is designed for local municipalities to finance the technical advice/planning for projects on energy efficiency such as implementing LED in street lights and upgrading public buildings for higher energy efficiency. More than 50 applications have been filed, some have already been approved and EU-subsidies have been paid out; see www.sparkasse.at/erstebank/Gemeinden/Finanzierung-Leasing/Produkte/Foerderorgramm-ELENA).

Public recognition

In Austria, Erste Group was again awarded by the City of Vienna with the *ÖkoBusinessPlan Wien 2015* for the ongoing commitment to environmental protection. Česká spořitelna was the first-ever laureate of the *Green Bank Award* in the *GEEN Zelená banka* survey organised by www.vstricnabanka.cz and www.bankovnipoplatky.com honouring its commitment in areas like paper consumption reduction, green energy purchase, recycling and environmentally friendly means of transport.

Erste Group, like in the previous years, reported to the CDP climate change programme and performed with D86 compared with C71 in 2014 and D58 in 2013. This is a constant improvement in disclosure score (out of 100 points), but the performance score decreased from C to D due to stricter criteria.

Impact of procured products and services

Erste Group Procurement (EGP) continued its efforts to include environmental criteria in its purchasing activities. Since 2014, the *Ethical and Environmental Code of Conduct for Suppliers of Goods and Services* of EGP is used across the group. The supply audit evaluation includes more than just sustainability and environmental aspects. For further details, please refer to the Customers and Suppliers chapter.

Environmental data

One of the main initiatives of the year 2015 was the final selection and implementation of a new software tool, cr360, to collect and analyse sustainability data. All environmental data (approximately 150,000-200,000 individual data points) from the years 2011 to 2014 of all local banks in the seven core markets was transferred from Excel spreadsheets to the new database in the first half of 2015. In 2016, the focus will be on the continuation of the group-wide processing of energy and CO_2 emission data. In addition, it is planned to extend the environmental data collection and to implement additional monitoring processes.

It should be noted that due to the relocation of some 20 locations in Vienna, which started in the fourth quarter 2015, the most recently available data for energy consumption in Austria differs substantially in some cases from those of previous periods. Therefore, the data cannot be compared with 2014 figures.

The new system uses conversion factors from the UK Department for Environment, Food & Rural Affairs (Defra) and the International Energy Agency (IEA) while the old one was based on ecoinvent (www.ecoinvent.org). Within the new system, whenever possible the reported conversion factors of the energy suppliers (electricity and heating energy) are used. In all other cases, the factors for "electricity grids per country" are used. Therefore, CO_2 emission data from 2015 cannot be compared with the new data.

Environmental indicators 2015

Tonnes CO_2eq	Total	Austria	Croatia	Czech Rep	Hungary	Romania	Serbia	Slovakia
Heating/ warm water	25,265	1,846	804	9,505	987	9,376	371	2,378
Electricity	48,633	1	47	25,598	3,155	14,186	1,911	3,736
Mobility	6,853	1,206	635	2,603	780	874	207	547
Cooling agents	1,341	130	97	525	23	448	118	n.a.
Total	**82,093**	**3,182**	**1,583**	**38,231**	**4,945**	**24,883**	**2,607**	**6,661**

CO_2eq = CO_2 equivalents (scope 1 and 2)

Relative values per FTE or m²	Heating kWh/m²	Electricity kWh/m²	Copy paper kg/FTE	CO_2eq t/FTE
Austria	68.1	200.6	28.6	0.43
Croatia	71.1	169.2	35.8	0.63
Czech Republic	89.0	95.6	26.9	3.49
Hungary	70.3	147.8	43.7	1.76
Romania	121.6	79.2	96.2	4.17
Serbia	65.0	90.7	43.5	2.70
Slovakia	61.5	103.1	34.0	1.56

FTE (full-time equivalent) is defined as an employee times his/her employment factor

CO_2eq = CO_2 equivalents (scope 1 and 2)

Copy paper

	2014			2015		
	total weight (tonnes)	recycled %	not-recycled %	total weight (tonnes)	recycled %	not-recycled %
Austria	191.4	79.2	20.8	187.1	76.4	23.6
Croatia	95.8	99.9	0.1	97.7	99.2	0.8
Czech Republic	302.4	100.0	0.0	294.4	100.0	0.0
Hungary	132.7	100.0	0.0	130.0	100.0	0.0
Romania	584.1	7.6	92.4	573.7	17.0	83.0
Serbia	51.4	90.6	9.4	42.0	85.0	15.0
Slovakia	131.2	95.1	4.9	145.0	96.5	3.5

Corporate governance

Corporate governance report

In 2003, Erste Group Bank AG declared its commitment to comply with the rules of the Austrian Code of Corporate Governance (Austrian CCG) with the objective of ensuring responsible and transparent corporate governance. In addition, the management board adopted a Statement of Purpose in 2015. This statement reaffirms and states in more detail the purpose of Erste Group Bank AG to promote and secure prosperity throughout the region. Building on this Statement of Purpose, a Code of Conduct defines binding rules for the day-to-day business. At the same time, the Code of Conduct underlines that in pursuing its business activities, Erste Group values responsibility, respect and sustainability. The Code of Conduct hence helps to protect the reputation of Erste Group and to strengthen stakeholder confidence. The Corporate Governance Report has been prepared in accordance with section 243b of the Austrian Commercial Code and Rules 60 et seq of the Austrian CCG and also complies with sustainability reporting guidelines (www.globalreporting.org). The current version of the Austrian CCG as well as its English translation are publicly available on the website www.corporate-governance.at.

The Austrian CCG is a set of self-regulation rules for Austrian listed companies supplementing Austrian laws on stock markets and capital markets. The aim is to establish responsible corporate management and control to create long-term value. Application of the Austrian CCG guarantees a high degree of transparency for all stakeholders including investors, customers and employees. The Code contains the following sets of rules: L-Rules (Legal Requirements – mandatory legal norms), C-Rules (Comply-or-Explain – deviations are permitted but must be explained) and R-Rules (Recommendations – these rules are more similar to recommendations; non-compliance does not need to be disclosed or explained).

In the financial year 2015, Erste Group Bank AG complied with all L-Rules and R-Rules as well as – with two exceptions – all C-Rules of the Austrian CCG. The two deviations are described and explained below.

Pursuant to C-Rule 2 of the Austrian CCG, shares are to be construed in accordance with the principle of one share – one vote, i.e. investors have one vote per share and no right to nominate members to the supervisory board. Under Erste Group Bank AG's articles of association (Art. 15.1), DIE ERSTE österreichische Spar-Casse Privatstiftung is, however, granted the right to nominate up to one third of the members of the supervisory board to be elected by the shareholder meeting as long as it is liable for all present and future liabilities of Erste Group Bank AG in case of its insolvency according to section 92 para 9 of the Austrian Banking Act. The Privatstiftung has not exercised this right to date.

Pursuant to C-Rule 52a of the Austrian CCG, the number of supervisory board members (without employees' representatives) shall be ten at most. At present, though, Erste Group Bank AG's supervisory board consists of twelve shareholder representatives elected by the 22nd annual general meeting held on 12 May 2015. The deviation from C-Rule 52a of the Austrian CCG is due to the size of Erste Group and its market position in seven core markets in Central and Eastern Europe as well as to the fact that Erste Group is subject to a multitude of financial market and prudential regulations, which have increased in recent years and will continue to increase in the future. In addition, the supervisory board has to meet a rising number of additional review and control requirements under current laws and regulations.

Working methods of the management board and the supervisory board

Erste Group Bank AG has a two-tier governance structure with a management board and a supervisory board as management bodies. The management board is responsible for managing the company as required for the benefit of the company taking into account the interests of the shareholders and the employees as well as public interest. The management board develops the strategic orientation of the company and aligns it with the supervisory board. It ensures effective risk management and risk control. The management board takes its decisions in compliance with all relevant legal provisions, the articles of association and its internal rules of procedure.

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

Selection and assessment of members of management bodies

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

Training and development

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

MANAGEMENT BOARD

Management board member	Year of birth	Date of initial appointment	End of current period of office
Andreas Treichl (Chairman)	1952	1 October 1994	30 June 2020
Peter Bosek	1968	1 January 2015	31 December 2017
Petr Brávek	1961	1 April 2015	31 December 2017
Andreas Gottschling	1967	1 September 2013	30 June 2017
Gernot Mittendorfer	1964	1 January 2011	30 June 2017
Jozef Síkela	1967	1 January 2015	31 December 2017

In the financial year 2015, the management board consisted until 31 March 2015 of five members, since 1 April 2015 of six members.
The supervisory board had already appointed Peter Bosek and Jozef Síkela (both effective 1 January 2015) and Petr Brávek (effective 1 April 2015) as new members of the management board in the financial year 2014.

As of 1 February 2016, the allocation of duties among the members of the management board is as follows:

Allocation of duties on the management board

Management board member	Areas of responsibility
Andreas Treichl (Chairman)	Group Strategy, Group Secretariat, Group Communications, Group Investor Relations, Group Human Resources, Group Audit, Employees' Council, Social Banking Development
Peter Bosek	Erste Hub, Digital Sales, Group Private Banking, Group Brands Communication, Group Customer Experience, Group Retail Steering a. Projects, Group Retail Strategy
Petr Brávek	Group Org/IT, Holding Banking Operations, Group COO Governance
Andreas Gottschling	Enterprise wide Risk Management, Risk Methods and Models, Op. Risk, Compliance and Security, Group Workout, Group Credit and Market Risk Management, Group Risk Operating Office, Group Validation, Group Retail and SME Risk Management, Group Legal
Gernot Mittendorfer	Group ALM, Group Controlling and Information Management, Group Accounting, Group Services
Jozef Síkela	Group Corporates, Group Commercial Real Estate, Group Markets, Operating Office C and M, Group Research

Supervisory board mandates and similar functions

In the financial year 2015, the management board members held the following supervisory board mandates or similar functions in domestic or foreign companies not included in the consolidated financial statements:

Andreas Treichl

DONAU Versicherung AG Vienna Insurance Group (Vice Chair), Sparkassen Versicherung AG Vienna Insurance Group (Chair), Leoganger Bergbahnen Gesellschaft m.b.H. (Member)

Peter Bosek

Wiener Städtische Versicherung AG Vienna Insurance Group (Member), Sparkassen Versicherung AG Vienna Insurance Group (Member), Wien 3420 Aspern Development AG (Member)

Andreas Gottschling

Oesterreichische Kontrollbank Aktiengesellschaft (Member)

Jozef Síkela

Oesterreichische Kontrollbank Aktiengesellschaft (Member)

Petr Brávek and Gernot Mittendorfer did not hold any supervisory board mandates or similar functions in domestic or foreign companies not included in the consolidated financial statements.

SUPERVISORY BOARD

In the financial year 2015, the following persons were members of the supervisory board.

Position	Name	Year of birth	Occupation	Date of initial appointment	End of the current period of office
Chairman	Friedrich Rödler	1950	Auditor and tax advisor	4 May 2004	AGM 2019
1st Vice Chairman (until 12 May 2015)	Georg Winckler	1943	Former rector of the University of Vienna and Professor emeritus of Economics	27 April 1993	AGM 2015
1st Vice Chairman (since 12 May 2015)	Jan Homan	1947	General Manager, ret.	4 May 2004	AGM 2019
2nd Vice Chairwoman (since 12 May 2015)	Bettina Breiteneder	1970	Entrepreneur	4 May 2004	AGM 2019
Member	Elisabeth Bleyleben-Koren	1948	General Manager, ret.	21 May 2014	AGM 2019
Member	Gonzalo Gortázar Rotaeche	1965	CEO, CaixaBank	12 May 2015	AGM 2020
Member	Gunter Griss	1945	Lawyer	21 May 2014	AGM 2019
Member	Maximilian Hardegg	1966	Entrepreneur	12 May 2015	AGM 2020
Member	Elisabeth Krainer Senger-Weiss	1972	Lawyer	21 May 2014	AGM 2019
Member	Antonio Massanell Lavilla	1954	Deputy Chairman, CaixaBank	12 May 2015	AGM 2020
Member	Brian D. O'Neill	1953	Senior Advisor, Lazard Frères & Co	31 May 2007	AGM 2017
Member	Wilhelm Rasinger	1948	Consultant	11 May 2005	AGM 2020
Member	John James Stack	1946	CEO, ret.	31 May 2007	AGM 2017
Delegated by the employees' council					
Member	Markus Haag	1980		21 November 2011	until further notice
Member	Regina Haberhauer	1965		12 May 2015	until further notice
Member	Andreas Lachs	1964		9 August 2008	until further notice
Member	Bertram Mach	1951		9 August 2008	25 June 2015
Member	Barbara Pichler	1969		9 August 2008	until further notice
Member	Jozef Pinter	1974		25 June 2015	until further notice
Member	Karin Zeisel	1961		9 August 2008	until further notice

Changes in the supervisory board in the financial year: at the annual general meeting (AGM) held on 12 May 2015, the shareholder representatives Maximilian Hardegg, Gonzalo Gortázar Rotaeche and Antonio Massanell Lavilla were elected to the supervisory board. The shareholder representative Wilhelm Rasinger was re-elected on the same date, Regina Haberhauer was delegated by the employees' council. A re-election of Georg Winkler at the AGM was not possible due to the age limit of 70 years defined in the articles of association. By a letter of 25 June 2015 to the chairman of the supervisory board, Jozef Pinter was delegated by the employees' council and the delegation of Bertram Mach was revoked.

Membership in supervisory board committees

Committee membership as of 31 December 2015:

Name	Executive committee	Nomination committee	Audit committee	Risk committee	Remuneration committee	Construction/ IT committee
Friedrich Rödler	Chairman	Chairman	Chairman*	Chairman	Chairman**	Vice Chairman
Jan Homan	Vice Chairman	Vice Chairman	Substitute	Vice Chairman	Vice Chairman	Substitute
Bettina Breiteneder	Member	Member	Member	Member	-	Chairwoman
Elisabeth Bleyleben-Koren	-	-	Member	Member	-	-
Gonzalo Gortázar Rotaeche	-	-	-	-	-	-
Gunter Griss	-	-	-	-	Member	-
Maximilian Hardegg	Member	Member	Vice Chairman	Member	Substitute	Member
Elisabeth Krainer Senger-Weiss	-	-	-	Substitute	-	Member
Antonio Massanell Lavilla	-	-	Member	-	-	Member
Brian D. O'Neill	-	-	-	-	Member	-
Wilhelm Rasinger	Substitute	-	Member	Member	-	-
John James Stack	-	-	-	-	Member	-
Delegated by the employees' council						
Markus Haag	-	-	-	Member	Substitute	-
Regina Haberhauer	-	-	Member	Substitute	-	-
Andreas Lachs	Substitute	Substitute	Substitute	Member	Member	Substitute
Barbara Pichler	Member	Member	Member	-	Member	Member
Jozef Pinter	Substitute	Substitute	Member	Substitute	Substitute	Substitute
Karin Zeisel	Member	Member	Substitute	Member	Member	Member

*Financial expert, **Remuneration expert

Mandates on supervisory boards or similar functions

As of 31 December 2015, the supervisory board members held the following additional supervisory board mandates or similar functions in domestic or foreign companies. Listed companies are marked with *.

Friedrich Rödler

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

Georg Winckler (until end of AGM 2015)

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

Jan Homan

Billerud Korsnäs AB*, Constantia Flexibles Holding GmbH, Frapag Beteiligungsholding AG (Chair), Slovenská sporiteľňa, a.s.

Bettina Breiteneder

Generali Holding Vienna AG, ZS Einkaufszentren Errichtungs- und Vermietungs-Aktiengesellschaft

Gonzalo Gortázar Rotaeche (since end of AGM 2015)

Grupo Financiero Inbursa*, VidaCaixa, S.S. Seguros y Reaseguros (Chair), Repsol S.A.*

Gunter Griss

AVL List GmbH, Bankhaus Krentschker & Co. AG, Steiermärkische Bank und Sparkassen AG

Maximilian Hardegg (since end of AGM HV 2015)

DIE ERSTE österreichische Spar-Casse Privatstiftung, Česká spořitelna, a.s.

Antonio Massanell Lavilla (since end of AGM 2015)

Mediterránea Beach & Golf Community, S.A.U. (Vice Chair), SAREB, S.A., Telefónica, S.A.*, Cecabank, S.A. (Chair)

Brian D. O’Neill

Emigrant Bank, Banca Comercială Română S.A., Seven Seas Water

Wilhelm Rasinger

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

John James Stack

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

Elisabeth Bleyleben-Koren and Elisabeth Krainer Senger-Weiss did not hold any mandates on supervisory boards or similar functions in domestic or foreign companies as of 31 December 2015.

Delegated by the employees’ council:

Regina Haberhauer (since end of AGM HV 2015)

ERSTE-SPARINVEST KAG, Ringturm KAG

Barbara Pichler

DIE ERSTE österreichische Spar-Casse Privatstiftung

Andreas Lachs

VBV-Pensionskasse Aktiengesellschaft

Markus Haag, Bertram Mach (until 25 June 2015), Jozef Pinter (since 25 June 2015) and Karin Zeisel did not hold any mandates on supervisory boards or similar functions in domestic or foreign companies.

Mechanism for shareholders and employees to provide recommendations and direction to the supervisory board

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

Measures to avoid conflicts of interest

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

Independence of the supervisory board

Pursuant to C-Rule 53 of the Austrian CCG, the majority of the members of the supervisory board elected by the annual general meeting or delegated by shareholders in accordance with the articles of association shall be independent of the company and its management board. A member of the supervisory board is deemed to be independent if such person does not have any business or personal relations with the company or its management that would constitute a material conflict of interest and, therefore, might influence the member’s conduct. The supervisory board adheres to the independence criteria guidelines as set out in Annex I of the Austrian CCG.

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

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

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

No member of the supervisory board holds directly or indirectly more than 10% of the shares of Erste Group Bank AG. In 2015, three members of the supervisory board (Georg Winckler, Maximilian Hardegg and Barbara Pichler) served on a management body of a company holding more than 10% of the shares of Erste Group Bank AG. One member (Wilhelm Rasinger) represented in particular the interests of retail shareholders.

Attendance of supervisory board meetings

In 2015, all members of the supervisory board attended more than half of the supervisory board meetings that took place after their election to the supervisory board.

Self-evaluation of the supervisory board

The supervisory board performed a self-evaluation of its activity pursuant to C-Rule 36 of the Austrian CCG. In the supervisory board meeting of 17 December 2015, it considered the efficiency of its activity, including in particular its organisation and methods of work.

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

In 2015, the firm Griss & Partner Rechtsanwälte, in which Gunter Griss is a senior partner, invoiced companies of Erste Group for legal representation and consulting services in the total amount of EUR 8,121.00.

SUPERVISORY BOARD COMMITTEES AND THEIR DECISION-MAKING POWERS

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

Risk committee

The risk committee advises the management board with regard to the bank's current and future risk appetite and risk strategy and monitors the implementation of this risk strategy. The committee also reviews whether the services and products offered are adequately priced in accordance with the bank's business model and risk strategy. Without prejudice to the duties of the remuneration committee, the risk committee is also responsible for reviewing whether the incentives offered by the internal remuneration system adequately take into account risk, capital, liquidity and the probability and timing of profit realisation. The risk committee is responsible for granting approval in all those cases in which loans and exposures or large exposures reach an amount exceeding the approval authority of the management board defined in the approval authority regulation. The approval of the risk committee is required for any exposure or large exposure as defined in section 28a of the Austrian Banking Act if the carrying value of such an investment exceeds 10% of the company's eligible own funds or of the banking group's eligible consolidated own funds. In addition, it may grant advance approvals to the extent permitted by law. The risk committee is responsible for monitoring the risk management of Erste Group Bank AG. A report providing key information about the organisation, structure and operation of the risk management system in place for the company and major subsidiaries has to be submitted to the committee at least once a year. The supervisory board has delegated to the risk committee the right to approve the establishment and closure of branches, to grant special statutory power of attorney (Prokura) or commercial power (Handlungsvollmacht) for all business operations. The committee is responsible for monitoring the Group's portfolio of participations except in cases where this is the responsibility of the audit committee. The tasks of the risk committee include the acknowledgement of reports on legal disputes and on the risk impact and costs of major IT projects as well as of reports on important audits of subsidiaries conducted by regulatory authorities.

Executive committee

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

Audit committee

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

Nomination committee

Meetings of the nomination committee are held as needed (beginning with 1 January 2014 at least once a year) or when a member of the committee or of the management board requests a meeting. The nomination committee submits proposals to the supervisory board for filling management board mandates that become vacant and deals with issues of succession planning. The committee decides on the employment contracts for members of the management board. It deals with and decides on relationships between the company and the members of the management board except for resolutions to appoint members to the management board or revoke such appointments and on the granting of company stock options. Furthermore, the nomination committee supports the supervisory board in making proposals to the annual general meeting for filling supervisory board mandates that have become vacant. In filling vacant management board and supervisory board mandates, the focus is in particular on the members' personal and professional qualifications, a well-balanced board composition in terms of expertise, a well-balanced and broad range of knowledge, skills and experience of the members on each body, and on aspects of diversity. The nomination committee also defines a target quota for the underrepresented gender and develops a strategy to achieve this target. Furthermore, the nomination committee has to ensure that the management board's and the supervisory board's decision-making processes are not dominated by one single person or a small group of persons. The nomination committee periodically assesses the management board's and the supervisory board's structure, size, composition and performance and submits proposals for changes to the supervisory board, if necessary. In addition, the nomination committee has to conduct periodic assessments of the expertise, skills and experience of both the management board members and the individual members of the supervisory board as well as of each body in its entirety and to report its findings to the supervisory board. As regards the selection for senior management positions, the nomination committee has to review the course of action adopted by the management board and supports the supervisory board in making recommendations to the management board.

Remuneration committee

The remuneration committee prepares resolutions on remuneration matters, including resolutions that have an impact on the bank's risk and risk management and have to be passed by the supervisory board. The remuneration committee approves the general principles of remuneration policy, reviews them regularly and is also responsible for their implementation. The committee monitors remuneration policy, remuneration practices and remuneration-linked incentive programmes in relation to the control, monitoring and containment of risks, the capital base and liquidity, with due regard to the long-term interests of the bank's shareholders, investors and employees as well as the national interest in a well-functioning banking system and financial market stability. The committee monitors the payment of variable remuneration to members of the management board and to the company's second management level as well as to management board members of major subsidiaries. Furthermore, the remuneration of senior managers in risk management and in compliance functions is reviewed directly by the remuneration committee. Once a year, the committee is presented with a comprehensive report on the remuneration system including key performance indicators as well as a report on the situation regarding personnel and management in the Group.

Construction committee/IT committee

The construction committee is responsible for advising the management board and for preparing resolutions of the supervisory board with respect to Erste Campus, the headquarters of Erste Group. The supervisory board may delegate further duties to the committee, if necessary. Following the completion and handing over of Erste Campus, the construction committee was renamed IT committee as of 2 December 2015 and its scope of duties and internal rules were amended. The IT committee monitors and supervises IT-related issues and IT strategy in general. The IT committee is also responsible for rendering advise to the management board and for the preparation of any resolutions of the supervisory board regarding Erste Campus.

MEETINGS OF THE SUPERVISORY BOARD AND REPORT ON PRINCIPAL ACTIVITIES

Six meetings of the supervisory board were held in the financial year 2015.

At each ordinary meeting of the supervisory board, the monthly developments of the balance sheet and the income statement were presented and reports were given on individual risk types and the bank's total risk; the status of individual banking subsidiaries in Central and Eastern Europe was discussed and quarterly reports were delivered on the areas audited and on the internal audit department's material audit findings according to section 42 para 3 of the Austrian Banking Act. The chairpersons of the committees reported on the main topics dealt with by the committees since the last supervisory board meeting. A recurring topic at the supervisory board meetings in the financial year 2015 was reports on current regulatory developments in the banking environment and their impacts on Erste Group, including in particular the status of the banking supervisory regime at the European level and in Austria. The management board regularly presented proposals to the supervisory board that require its approval under the law, the articles of association and the internal rules.

On 12 March 2015, the financial statements and the management report 2014, the consolidated financial statements and consolidated management report 2014 as well as the corporate governance report 2014 were reviewed; the bank auditors' reports were discussed and the financial statements 2014 were adopted in accordance with the recommendation of the audit committee. Furthermore, the resolutions proposed for the annual general meeting were discussed and approved. It was also decided to propose Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H. to the annual general meeting on 12 May 2015 as an additional auditor of the (consolidated) financial statements for the financial year 2016. In addition, reports were delivered on the development of risk and credit risk, on anti-corruption activities and on a project regarding the sale of non-performing loans of Banca Comercială Română S.A. and a decision was taken on the re-organisation of the Corporates and Markets division.

At the meeting of 22 April 2015, which was also attended by staff members of the European Central Bank (ECB), who answered questions raised by supervisory board members, reports were delivered on the current status and the development of the business of Erste Bank Hungary Zrt. A report was also given on the situation of HETA Asset Resolution AG and its impact on Erste Group, on capital planning and its implementation as well as on the restructuring of the COO division. An update was presented on initiatives and cooperation arrangements, and the report on directors' dealings as well as the annual compliance report were discussed. In addition, resolutions were adopted relating to variable remuneration components for the management board.

At the constituent meeting of 12 May 2015 held after the annual general meeting, Jan Homan was elected first vice chairman and Bettina Breiteneder second vice chairwoman of the supervisory board. In addition, supervisory board members were elected to the respective supervisory board committees and the composition of the committees was thus realigned. The distribution key for the remuneration of supervisory board members approved by the annual general meeting was adopted for 2014.

At the meeting held on 24 June 2015, the report on major participations for 2014 and the first quarter of 2015, the risk development and credit risk report as well as the report on the current status and the development of the business of the Hungarian subsidiary Erste Bank Hungary Zrt were discussed.

At the meeting of 16 September 2015, Andreas Treichl was reappointed early as member of the management board for a term ending 30 June 2020 and his function as chairman of the management board was confirmed at the same time. In addition, reports were delivered on Česká spořitelna, a.s. and Banca Comercială Română S.A., on the current status of the Group Recovery Plan 2015, on the development of risk and on the Credit Risk Remediation programme.

At the meeting of 17 December 2015, the strategy and reorganisation of Group Retail was approved and reports on cyber security, diversity, large exposures pursuant to section 28b of the Austrian Banking Act, committee activities and the annual plan for the financial year 2016 were discussed and taken note of. It was further decided to propose PwC Wirtschaftsprüfung GmbH to the annual general meeting on 11 May 2016 as an additional auditor of the (consolidated) financial statements for the financial year 2017. The findings of the supervisory board's self-evaluation were discussed. Maximilian Hardegg was elected as an additional member of the IT committee (formerly: construction committee).

MEETINGS OF THE COMMITTEES AND REPORT ON ACTIVITIES

The risk committee held eighteen meetings in 2015, at which it regularly took decisions on exposures and loans exceeding the powers of the management board and was briefed on loans granted within the scope of authorisation of the management board. The committee was regularly informed of the individual risk types, risk-bearing capacity and large exposures. Furthermore, reports were given on the situation of specific sectors and industries and resulting effects on the risk strategy, on the audits conducted by supervisory authorities, on various legal disputes and on risk development in certain countries and subsidiaries. In 2015, reports were delivered repeatedly on developments in Hungary and Croatia, focusing in particular on foreign-currency loans and on the impacts of Swiss franc exchange rate fluctuations. Further topics were the evaluation of remuneration schemes and salary schemes for workout managers within the Group as well as the activities of Group Compliance and regulatory developments at the European level and in Austria.

In 2015, a meeting of the executive committee was held to discuss a project regarding the sale of non-performing loans of Banca Comercială Română S.A.

The audit committee met seven times in 2015. Among other things, the auditors reported on the audit of the single-entity and consolidated financial statements for 2014, and the audit committee subsequently conducted the final discussion. The financial statements and the management report, the consolidated financial statements and the consolidated management report as well as the corporate governance report were audited and recommended to the supervisory board for adoption. The head of the internal audit department reported on the audit subjects and material audit findings for the year 2014 and explained the audit plan for 2015. The internal audit department presented its reports pursuant to section 42 para 3 of the Austrian Banking Act as well as a report pursuant to section 39 of the Austrian Banking Act. A report was given on the assessment of the functionality of the risk management system according to Rule 83 of the Austrian CCG and on the effectiveness of the internal control system. The audit committee also discussed its work plan for 2016 and defined which topics were to be placed on the agendas of which meetings. After completion of a bidding process and evaluation of its results, it was decided, subject to the approval of the supervisory board, to propose PwC Wirtschaftsprüfung GmbH to the annual general meeting on 11 May 2016 as an additional auditor of the (consolidated) financial statements for the financial year 2017. The auditors provided information about the preliminary audit of the single-entity and consolidated financial statements for 2015. Further reports were about the audit conducted and the decision taken by the Austrian Financial Reporting Enforcement Panel (Österreichische Prüfstelle für Rechnungslegung) as well as about the outcome of the Asset Quality Review and the findings of an outside auditor's review of the internal audit function's asset quality assessment. Reports were also delivered on the audit of Erste Campus, the performance of investments and the internal control system and the management letter 2014 was discussed.

The nomination committee met three times in 2015 and dealt with various personnel matters relating to the management board and the supervisory board. These included, first of all, the election of supervisory board members at the annual general meeting 2014. The nomination committee assessed the qualifications of the candidates nominated for first-time or re-election and recommended that the supervisory board propose to the annual general meeting the first-time election of Maximilian Hardegg, Gonzalo Gortázar Rotaeche und Antonio Massanell Lavilla and the re-election of Wilhelm Rasinger to the supervisory board. The nomination committee also assessed the qualifications of Andreas Treichl for early re-appointment as member and chairman of the management board and recommended his re-appointment by the supervisory board. In addition, the nomination committee reviewed the evaluation pursuant to C-Rule 36 of the Austrian CCG and evaluation of the management board and the supervisory board pursuant to section 39 no 6 and 7 of the Austrian Banking Act.

The remuneration committee met five times in 2015 and discussed various remuneration topics relating to Erste Group and its subsidiaries including the structure of key performance indicators and the bonus policy concerning the requirements for the payment of variable remuneration components. In addition, the remuneration of members of the supervisory board was discussed, and decisions regarding the remuneration of management board members were made. Information was provided about regulatory developments concerning remuneration and their implementation by Erste Group, including in particular the impacts of CRD IV/CRR rules.

The construction committee met three times in 2015. Its main topics were project planning, project organisation, the budget, costs and risks as well as procedures relating to tenders, scheduling and developments regarding Erste Campus, the new Erste Group headquarters building in Vienna. After the successful completion and acceptance of the Erste Campus project in December 2015, the construction committee was renamed IT committee, its scope of duties was redefined and its internal rules were amended accordingly. In 2015, a meeting of the IT committee was held, which discussed, among other things, the IT strategy and fundamental strategic COO initiatives.

REMUNERATION OF THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD

Principles governing the remuneration policy

The principles governing management board remuneration are specified in the remuneration policy of Erste Group Bank AG, including in particular the definition and evaluation of performance criteria. The contractual maximum value of performance-linked payments to management board members shall not exceed 100% of the fixed salaries. The method for determining whether the performance criteria have been met is defined at the beginning of the year by the supervisory board following a proposal of the responsible organisational units (Group Performance Management, Group Risk Management and Group Human Resources). Management board members have to achieve defined performance criteria at both company level and individual level. The first criterion is Erste Group's overall performance. For the year 2015, this criterion is measured by reference to three indicators: the SREP ratio, the common equity tier 1 ratio and operating result minus risk cost. The second performance criterion is the achievement of individual objectives. These are, for example, operating result, operating result minus risk costs, return on tangible equity, risk costs to customer loans, the NPL coverage ratio and the NPL ratio.

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

Remuneration of management board members

Remuneration in 2015

in EUR thousand	Fixed salaries	Other remuneration	Performance-linked remuneration		Total
			for 2014	for previous years	
Andreas Treichl	1,335.1	1,454.4	0.0	156.8	2,946.3
Peter Bosek	633.0	84.4	0.0	0.0	717.4
Petr Brávek (since 1 April 2015)	495.3	63.6	0.0	0.0	558.9
Andreas Gottschling	633.0	157.4	0.0	4.0	794.4
Gernot Mittendorfer	633.0	86.3	0.0	27.2	746.5
Jozef Síkela	633.0	82.2	0.0	0.0	715.2
Total	**4,362.4**	**1,928.3**	**0.0**	**188.0**	**6,478.7**

In 2015, Peter Bosek was a management board member of the Holding as well as of Erste Bank Oesterreich. Therefore, the remuneration was split equally between both entities.

The item "Other remuneration" comprises pension fund contributions, contributions to employee provision funds (for new-type severance payments) and remuneration in kind. In 2015, performance-linked remuneration and share equivalents were paid out or vested for previous years. No performance-linked remuneration was paid to members of the management board for the financial years 2014 and 2011.

Non-cash performance-linked remuneration in 2015

Share equivalents (in units)	for 2014	for previous years
Andreas Treichl	0	6.953
Peter Bosek	0	0
Petr Brávek (since 1 April 2015)	0	0
Andreas Gottschling	0	168
Gernot Mittendorfer	0	1.424
Jozef Síkela	0	0
Total	**0**	**8.545**

Pay-outs will be made in the year 2016 after the one-year vesting period. Share equivalents are valued at the average weighted daily share price of Erste Group Bank AG of the year 2015 in the amount of EUR 25.13 per share.

Long-term incentive programme

A long-term incentive programme (LTI) that was started on 1 January 2010 expired in 2015. It was based on changes in the share price of Erste Group Bank AG versus a group of peers and the Dow Jones Euro Stoxx Banks. In 2015, it did not result in any payment.

In 2015, EUR 3,140.0 thousand was paid in cash and 8,390 share-equivalents were assigned to former members of management bodies and their dependants.

Principles governing the pension scheme for management board members

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

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

Regarding vested benefits and entitlements of management board members in the event of termination of their position, the standard legal severance benefit provisions of section 23 of the Austrian Salaried Employees Act (Angestelltengesetz) still apply to one member of the management board. No other members of the management board are entitled to receive any severance benefits.

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

Remuneration of members of the supervisory board

in EUR thousand	Meeting fees for 2015	Supervisory board compensation for 2014	Total
Friedrich Rödler	46,0	100,0	146,0
Georg Winckler	13,0	75,0	88,0
Jan Homan	29,0	65,5	94,5
Bettina Breiteneder	27,0	50,0	77,0
Elisabeth Bleyleben-Koren	30,0	30,7	60,7
Gonzalo Gortázar Rotaeche	3,0	0,0	3,0
Gunter Griss	10,0	30,7	40,7
Maximilian Hardegg	25,0	0,0	25,0
Elisabeth Krainer Senger-Weiss	19,0	30,7	49,7
Antonio Massanell Lavilla	9,0	0,0	9,0
Juan Maria Nìn Génova	0,0	47,5	47,5
Brian D.O´Neill	11,0	50,0	61,0
Wilhelm Rasinger	34,0	50,0	84,0
John James Stack	9,0	50,0	59,0
Markus Haag	0,0	0,0	0,0
Regina Haberhauer	0,0	0,0	0,0
Friedrich Lackner	0,0	0,0	0,0
Andreas Lachs	0,0	0,0	0,0
Bertram Mach	0,0	0,0	0,0
Barbara Pichler	0,0	0,0	0,0
Jozef Pinter	0,0	0,0	0,0
Karin Zeisel	0,0	0,0	0,0
Total	**265,0**	**580,1**	**845,1**

The 2015 annual general meeting granted the members of the supervisory board remuneration totalling EUR 580,100 for the financial year 2014. The distribution of this remuneration is at the supervisory board's discretion and was approved at the constituent meeting of the supervisory board on 12 May 2015. In addition, attendance fees paid to the members of the supervisory board were set at EUR 1,000 per meeting of the supervisory board or one of its committees.

Directors' and officers' liability insurance

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

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

Erste Group was founded on the principles of accessibility and inclusion. Diversity and equal opportunities are firmly embedded in Erste Group's corporate philosophy and corporate culture, thus providing a solid foundation for building strong and mutually beneficial relationships between Erste Group, its employees and the communities and societies in Erste Group's markets. The commitment to promoting equal opportunities and diversity was institutionalised by appointing a Diversity Manager responsible for developing a group-wide diversity policy, identifying targets and measures, and regularly monitoring and reporting on targets.

At the beginning of 2014, Erste Group set a group-wide internal target of having 35% of positions in top management and on supervisory boards filled by women by 2019. This target applies to the local banking subsidiaries (excluding the savings banks in Austria). Currently, 28% of positions in top management are filled by women, which is a 2 percentage point decrease over 2014 resulting from organisational changes. The share of female supervisory board members increased by 1 percentage point to 24% in 2015. To increase the number of women in senior management positions, Erste Group aims for a greater gender and age balance in its talent pools.

The *Erste Women Hub* focuses on supporting women in advancing their careers, reaching out to female customers and encouraging an inclusive work environment. Various initiatives in Austria, such as the *WoMentoring* programme, *Women Financial Lifetime* and *Securities Dialogue for Women,* were launched. Česká spořitelna continues its comprehensive diversity and inclusion programme *Diversitas*. The programme is focused on all aspects of diversity management, such as supporting the career advancement of women through mentoring, coaching, leadership development and networking, and offering flexible work arrangements and a parental support programme as well as age management and an intergenerational dialogue. Both Slovenská sporiteľňa and Banca Comercială Română offered workshops dedicated to women in their diversity approach. In addition, Slovenská sporiteľňa recruits disabled persons for their call centre, and Erste Bank Hungary agreed with the employees'council to provide additional 5 days of paid leave for disabled employees.

EXTERNAL EVALUATION

Erste Group Bank AG commissioned an external evaluation of compliance with the Austrian Code of Corporate Governance in accordance with C-Rule 62 of the Austrian CCG at least every three years, most recently in 2015, for the respective preceding business years. All evaluations reached the conclusion that Erste Group Bank AG had met all requirements of the Code. Summary reports on these evaluations are available at the website of Erste Group Bank AG. An external evaluation for 2017 is scheduled for spring 2018. A summary report of this evaluation will also be available at the website.

SHAREHOLDERS' RIGHTS

Voting rights

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

Dividend rights

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

Liquidation proceeds

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

Subscription rights

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

The Austrian Stock Corporation Act contains provisions that protect the rights of individual shareholders. In particular, all shareholders must be treated equally under equal circumstances unless the shareholders affected have consented to unequal treatment. Furthermore, measures affecting shareholders' rights, such as capital increases and the exclusion of subscription rights, generally require a shareholders' resolution.

The articles of association of Erste Group Bank AG do not contain any provisions regarding a change in the share capital, the rights associated with the shares or the exercise of the shareholders' rights that differ from statutory requirements.
Stock corporations like Erste Group Bank AG must hold at least one annual general meeting (ordinary shareholders' meeting) per year, which must be held within the first eight months of any financial year and cover at least the following items:

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

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

Vienna, 26 February 2016

Management board

Andreas Treichl mp Chairman	Andreas Gottschling mp Member
Peter Bosek mp Member	Gernot Mittendorfer mp Member
Petr Brávek mp Member	Jozef Síkela mp Member

ADDITIONAL CORPORATE GOVERNANCE PRINCIPLES

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

Based on our Statement of Purpose, we are determined to develop our products and services to the highest possible standards. To achieve these standards, we ask ourselves three questions before taking a decision. With "Is it legal?" and "Is it profitable?", we cover fundamental requirements. But we also want to make sure that any decision is in the best interest of our customers whilst at the same time not violating Erste Group's interest. Therefore, we ask the third question "Is it the right thing to do?"

Compliance

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

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

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

In Austria, an anti-corruption law (sections 302, 304 to 311 of the Austrian Criminal Code) and the Federal Bureau of Anti-Corruption and the Economic and Corruption Prosecutor Office (Wirtschafts- und Korruptionsstaatsanwaltschaft) highlight the importance of fighting corruption in public and private business. In 2014 the Economic and Corruption Prosecutor Office investigated 1,359 cases of economic or corruption misconduct. No figures for 2015 are available yet.

In 2015, Erste Group did not recognise any incident of corruption.

Employees are encouraged to report suspected unethical and/or unlawful behaviour via a designated tool (Erste Integrity) to the whistleblowing office. The whistleblowing platform offers the possibility to file reports and ask questions in case of suspected misconduct of financial crime (such as fraud, corruption, embezzlement), theft (e.g. concerning assets of customers), securities and markets issues (e.g. insider trading), money laundering and terrorism financing, conflicts of interest outside the securities business (e.g. illegitimate gifts, secondary employment) or regulatory issues (pursuant to section 99g of the Austrian Banking Act).

To ensure compliance with all laws and regulations group-wide standards, policies and procedures are evaluated and refined continuously.

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

Activities in 2015

- release of a new group policy for "anti-corruption" to support public authorities in their course of action against bribery and corruption
- implementation of a new reporting tool for gifts and invitations in Austria to standardise the process and facilitate adequate compliance monitoring
- provision of regular information relating to the latest anti-bribery and anti-corruption laws and regulations as well as training for employees
- release of a new group policy establishing a general framework for managing potential conflicts of interest in different areas
- introduction of a new local policy in Austria for secondary employments, participations and additional functions or mandates to manage potential conflicts of interest

_ kick-off of roll-out for a whistleblowing tool in Erste Group entities to ensure an international state-of-the-art process for potential whistleblowing cases and their documentation. In a next step, employees will be able to report severe cases of potential misconduct not only in the respective local entity but also directly to the holding.

Activities started in 2015 with roll out planned for 2016

_ policies for further areas of potential conflicts of interests (e.g. sponsoring)
_ roll-out of a documentation/approval tool for secondary employments, participations and additional functions or mandates in Austria
_ continued roll-out of Erste Integrity as a whistleblowing tool in entities throughout the group.

Directors' dealings

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

Transparency

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

Risk management

Erste Group's approach to risk management seeks to achieve the best balance between risk and return for earning a sustainable return on equity. A detailed report on risk policy, risk management strategy and organisation, as well as a thorough discussion of the individual risk categories, is included in the Notes beginning on page 192. In addition, credit risk is analysed in detail in a separate section starting on page 29, in the "Segments" section of this report.