Key financial and operating data

in EUR million (unless otherwise stated)	2012	2013	2014	2015	2016
Balance sheet					
Total assets	**213,824**	**200,054**	**196,287**	**199,743**	**208,227**
Loans and receivables to credit institutions	9,008	8,377	7,442	4,805	3,469
Loans and receivables to customers	124,353	119,869	120,834	125,897	130,654
Trading, financial assets	57,932	51,269	50,131	47,542	47,586
Intangibles	2,894	2,441	1,441	1,465	1,390
Cash & Other assets	19,637	18,099	16,439	20,035	25,127
Total liabilities and equity	**213,824**	**200,054**	**196,287**	**199,743**	**208,227**
Bank deposits	21,822	17,299	14,803	14,212	14,631
Customer deposits	123,053	122,415	122,583	127,946	138,013
Debt securities	34,751	33,124	31,140	29,654	27,192
Trading liabilities & Other liabilities	17,860	12,494	14,319	13,124	11,789
Equity attributable to non-controlling interests	3,483	3,462	3,605	3,802	4,142
Equity attributable to owners of the parent	12,855	11,260	9,838	11,005	12,460
Own funds pursuant to Basel 3 final					
Total risk exposure amount	105,323	97,901	101,870	100,281	103,639
Total own funds	16,311	15,994	15,853	17,284	18,893
Common equity tier 1 capital (CET 1)	11,848	11,199	10,811	12,045	13,256
Tier 2 capital (T2)	3,791	4,206	5,042	5,239	5,140
Total capital ratio	15.5%	16.3%	15.6%	17.2%	18.2%
CET1 capital ratio	11.2%	11.4%	10.6%	12.0%	12.8%
Income statement					
Net interest income	5,041.5	4,685.0	4,495.2	4,444.7	4,374.5
Net fee and commission income	1,720.8	1,806.5	1,869.8	1,861.8	1,783.0
Net trading and fair value result	269.8	218.8	242.3	210.1	272.3
Operating income	7,281.1	6,995.1	6,877.9	6,771.8	6,691.2
Operating expenses	-3,881.0	-3,896.1	-3,787.3	-3,868.9	-4,028.2
Operating result	3,400.1	3,099.0	3,090.7	2,902.9	2,663.0
Net impairment loss on financial assets	-2,060.1	-1,849.9	-2,083.7	-729.1	-195.7
Pretax result	801.2	302.9	-727.7	1,639.1	1,950.4
Net result attributable to owners of the parent	483.5	0.9	-1,382.6	968.2	1,264.7
Operating Data					
Number of employees	49,381	45,670	46,067	46,467	47,034
Number of branches	3,063	2,833	2,792	2,735	2,648
Number of customers	17.0	16.5	16.2	15.8	15.9
Share price and key ratios					
High (EUR)	24.33	26.94	29.71	29.04	29.59
Low (EUR)	11.95	19.34	17.02	18.97	18.87
Closing price (EUR)	24.03	25.33	19.24	28.91	27.82
Price/earnings ratio	19.6	>100%	na	12.8	9.5
Dividend per share (EUR)	0.40	0.20	0.00	0.50	1.00
Payout ratio	32.6%	>100%	0.0%	22.2%	34.0%
Dividend yield	1.7%	0.8%	0.0%	1.7%	3.6%
Book value per share	27.9	26.2	22.9	25.6	27.8
Price/book ratio	0.9	1.0	0.8	1.1	1.0
Total shareholder return (TSR)	76.8%	7.1%	-23.3%	50.3%	-2.0%
Stock market data (Vienna Stock Exchange)					
Shares outstanding at the end of the period	394,568,647	429,800,000	429,800,000	429,800,000	429,800,000
Weighted average number of outstanding shares	391,631,603	411,553,048	427,533,286	426,726,297	426,668,132
Market capitalisation (EUR billion)	9.5	10.9	8.3	12.4	12.0
Trading volume (EUR billion)	7.4	8.3	9.3	10.0	11.4

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

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.

Number of employees is defined as full-time equivalents as of the end of the reporting period.

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).

Highlights

Best result in Erste Group's history
_ Net result of EUR 1,264.7 million
_ Historically low risk costs
_ Dividend of EUR 1.0 proposed to AGM

Investments in the future weigh on operating result
_ Revenue decline due to low interest rate environment
_ IT-projects drive increase in personnel and other administrative expenses
_ Cost/income ratio at 60.2%

Loan growth continues in 2016
_ Net loans increase to EUR 130.6 billion
_ Retail business as growth driver
_ Growth in Czech Republic, Slovakia and Austria

Asset quality improves substantially in all core markets
_ NPL ratio improved to 4.9%
_ NPL coverage stood at 69.1%

Solid capitalisation
_ Strong organic capital generation, successful issuance of EUR 500 million additional tier 1 capital
_ CET 1 ratio increased to 12.8%,
CET 1 capital rose to EUR 13.3 billion (both Basel 3 final)
_ Moderate increase in risk-weighted assets

Excellent funding and liquidity position
_ Strong deposit base is key trust indicator and competitive advantage
_ Loan-to-deposit ratio at 94.7%

Table of contents

Letter from the CEO

Dear shareholders,

2016 was a remarkable year for Erste Group. At EUR 1,264.7 million, Erste Group posted the highest net profit in its corporate history despite substantial and primarily IT driven investments. This translated into a return on tangible equity (ROTE) of 12.3% and cash earnings per share of EUR 3.08. The strong organic capital generation of about EUR 1.2 billion pushed the CET 1 ratio (Basel 3 fully loaded) to 12.8%. Never before had Erste Group's asset quality improved so significantly within just one year: The volume of non-performing loans (NPLs) declined by almost EUR 2.6 billion or 28.6%; the NPL ratio dropped from 7.1% to 4.9%. The bank succeeded in accelerating the reduction of bad loans while at the same time increasing the volume of performing loans. As a percentage of total exposure, the share of loans in the best risk category has never been higher, at least not since such metrics were first released in 1999. On the back of improved asset quality across all countries, risk provisions fell to 15 basis points of average gross customer loans. On the digital front, Erste Group made significant progress as customers appreciated its innovative strength and moved in large numbers to its digital platform *George*, lifting registered user numbers to almost 900,000 by year-end 2016.

Economic growth supports loan demand

The operating environment did not change significantly in 2016. While economic performance in Erste Group's markets in Central and Eastern Europe continued to be positive, the political environment in Europe was marked by uncertainty. Many of the factors that were impeding income generation in the previous year remained in place in 2016: First and foremost, the zero or even negative interest rate policy pursued by the European Central Bank (ECB); secondly, various organisations' initiatives, including those of trade unions and consumer protection agencies, to call for political intervention in private-sector pricing powers; and, last but not least, increasing competition by new financial service providers that continued to operate still largely undisturbed by regulatory requirements.

The economic development in the euro zone remained moderate and divergent. Erste Group, however, benefitted from its geographical position as the CEE economies, supported by domestic demand, recorded solid economic growth ranging from 2.0% in Hungary to 4.8% in Romania. This enabled Erste Group to increase net loans by 3.8%, driven primarily by robust loan demand in the Czech Republic, Slovakia, Serbia and Austria. Demand focused mainly on mortgage loans, whereas demand for consumer loans was comparatively subdued. On the deposit side, growth was even more pronounced with an advance of 7.9% in the face of an unchanged base rate of five basis points in the Czech Republic and the ECB lowering its policy rate to zero percent for the first time in March 2016. This development contradicted the assumption that a further loosening of monetary policy would stimulate household consumption. It was proven once again that, especially in Central and Eastern Europe, bank customers regard the accumulation of savings as an indispensable necessity. For many savers, investing in stocks or other securities is not a viable alternative option. For Erste Group, this resulted in a further decline in the loan-to-deposit ratio to 94.7% at year-end 2016. As a result, funding requirements were moderate and Erste Group's short- and long-term liquidity position remained excellent.

Operating pressure offset by plummeting risk costs

The positive volume development in assets and liabilities proved insufficient, though, to entirely offset pressure on operating income from low interest rates and lower securities business income. In addition, operating income was negatively affected by a significantly lower unwinding contribution on the back of a material decline in non-performing loans. These developments expressed themselves in slight declines of 1.6% and 4.2% in net interest income and fee and commission income respectively, the two most important income streams of the bank. The former was primarily impacted by continuously eroding reinvestment yields for government bonds, which was not fully offset by solid loan growth. In addition to lower fees from securities transactions, the latter was driven down by the politically motivated introduction of limits on card fees in Europe.

Costs also contributed to operating pressure in 2016. This was a result of heavy IT-related investments to satisfy future regulatory and accounting requirements as well as to ensure the long-term digital competitiveness of Erste Group. Key projects related to the timely implementation of IFRS 9 and to building a new group-wide data warehouse. The latter will enable the bank to comply with regulatory demands, such as seamlessly supplying credit datasets to the ECB's loan database AnaCredit, but more importantly setting the foundation for improved data quality, simplification of the product portfolio and standardisation of processes across the group. All of this will be vital for providing an individualised customer experience in the digital age. In addition, the continued development of Erste Group's digital front-end, *George* remained at the centre of the bank's digital banking activities. The latter has already been rolled out successfully in Austria and is about to be introduced in the Czech Republic, Slovakia and Romania in 2017. All of these activities led to higher staff expenses on the back of a higher headcount as well as an uptick in other administrative expenses, mainly driven by higher consulting and IT expenses. The cost base was also impacted by regulatory expenses, most notably EUR 88.8 million in deposit insurance contributions as well as the rising costs of supervision. On the back of these developments the consolidated cost/income ratio slipped to 60.2%.

The lower operating result was more than compensated, though, by the lowest risk costs since 2000, i.e. a time that essentially predates Erste Group's expansion into Central and Eastern Europe. This performance was driven, in particular, by the rigorous clean-up of legacy issues conducted in recent years, proper provisioning for non-performing loans in the years prior to and including 2014 and from releases of provisions that were certainly also supported by the low-interest-rate environment. Ultimately, extremely low risk costs were a key factor paving the way to a record result for 2016 despite operational headwinds.

Banking taxes spiked, before coming down in 2017

While not impacting operating expenses, extraordinarily high banking levies of EUR 388.8 million in Austria, Slovakia and Hungary as well as contributions to resolution funds in the amount of EUR 65.5 million weighed on other operating result and hence net profit. This also included a one-off banking tax payment of EUR 200.9 million in Austria, which will not recur in 2017. In addition, banking levies in Austria are expected to come down by about EUR 110 million, taking the total of banking and financial transaction taxes down to approximately EUR 100 million per annum from 2017 onwards. Other material effects impacting results in 2016 broadly offset each other: The proceeds from the sale of Erste Group's VISA participation were almost balanced by the goodwill adjustment in Slovakia and the provision for Romanian consumer protection claims.

Record profits result in record regulatory capital ratios

On the back of record net profit, the common equity tier 1 ratio (CET 1 ratio; Basel 3 phased-in) rose to 13.4%, a level well above the regulatory minimum requirements. The CET1 ratio (Basel 3 fully loaded) improved to 12.8% and thus already exceeded the bank's target for 2019 of at least 12.75%. At the annual general meeting, management will therefore propose to pay a dividend of EUR 1.0 per share, an increase over the previous year of 100%.

In 2016, Erste Group also streamlined its capital structure, by calling legacy capital instruments and replacing them with additional tier 1 (AT1) capital. To this effect, Erste Group was the first Austrian bank to issue AT1 capital in May 2016. The EUR 500 million issue was well received by institutional investors and has since then performed very well on the secondary market.

Confident about the future

2016 was the first year since 2010 in which all of Erste Group's seven core markets – Austria, the Czech Republic, Slovakia, Romania, Hungary, Croatia and Serbia – posted a net profit, and we certainly aim to keep it this way. Consequently, our guidance for 2017 targets a return on tangible equity (ROTE) of at least 10%.

While the central banks' interest rate policies will continue to have major impacts on us and our customers, we have clearly stated our position: We wish to avoid negative interest rates for retail customers by all means. We are convinced that customers are willing to pay a fair price for high-quality products and services, including banking services. With our almost 200-year history as a savings bank, a consistently customer-centred business model and proven innovative capability, we are excellently positioned for doing well in the years ahead. We believe in our customers – private individuals, professionals, SMEs and larger corporates alike – and will do everything we can to retain their trust in the future as well. Our employees, who I would like to thank for another year of excellent performance, will make all of this happen. By focusing on digitalisation we ensure our future ability to offer suitable banking products at home, on the go, at service centres and at flagship branches, and to generate sustainable growth and value for customers, shareholders and the economy at large.

Andreas Treichl mp

Management board

Peter Bosek, Gernot Mittendorfer, Andreas Treichl

Petr Brávek, Willibald Cernko, Jozef Síkela

Report of the supervisory board

Dear shareholders,

With a 12.3% return on tangible equity (ROTE), Erste Group has met its target for 2016. Asset quality has improved further, the capital position is solid. However, low interest rates, increased cost pressure due to tightening regulation and a substantial need for investment driven by progressing digitalisation keep posing compelling challenges. The market environment and competition, including from FinTechs, are making it imperative to maintain a clear strategic position. In these efforts, the supervisory board will assist the management board in a consultative capacity. The establishment of a dedicated IT committee underlines the importance that the supervisory board attributes to the digitalisation process at Erste Group.

To continue the successful development, the supervisory board extended the management board mandates of Gernot Mittendorfer, Jozef Síkela, Peter Bosek and Petr Brávek until year end 2020. I would like to express my particular gratitude to Andreas Gottschling, who resigned from his position as a member of the management board with effect from year-end 2016. As CRO, he contributed significantly to the improvement of asset quality, including by the sale of NPL portfolios. I am pleased that by recruiting Willibald Cernko we have been able to fill the position of CRO with a highly experienced and respected successor.

The intensive dialogue between the supervisory authorities' joint supervisory team and the supervisory board was continued. As an example of the rising regulatory requirements facing the supervisory board, I wish to highlight the additional tasks assigned to the audit committee, which were discharged in conformity with the Austrian Amending Act on Statutory Audits ("Abschlussprüfungsrechts-Änderungsgesetz", APRÄG). Because of its key role, the audit committee delivers its own report on its activities. Jan Homan has assumed the chairmanship of the audit committee.

Gonzalo Gortázar, CEO of CaixaBank, resigned from his position as a member of Erste Group Bank AG's supervisory board effective 27 October 2016 following changes in his responsibilities. At the annual general meeting in May 2017, the mandate shall be reassigned to a candidate proposed by CaixaBank.

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 40 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 2016 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 2016 corporate governance report. 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 in the last financial year.

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

Report of the audit committee

Dear shareholders,

As chairman of the audit committee I am pleased to provide to you an insight into the duties of Erste Group Bank AG's audit committee and our work in the financial year 2016.

The audit committee is one of six committees established by Erste Group Bank AG's supervisory board. The audit committee's mandate is derived from the law, the rules of the Austrian Code of Corporate Governance (CCG) and its rules of procedure. The audit committee oversees in particular the accounting process, the effectiveness of the internal control system, the internal audit system and the risk management system, and the audit of the (consolidated) financial statements; it reviews and monitors the independence of the (Group) auditor, reports on the results of the audit to the supervisory board, reviews and prepares the adoption of the (consolidated) financial statements, reviews the proposal for the appropriation of profits, the (Group) management report and the (consolidated) corporate governance report, reports the findings of the review to the supervisory board and conducts the process for the selection of the (Group) auditor.

Due to legal amendments in the previous year, the audit committee's scope of duties has expanded further. The audit committee is now tasked with explaining to the supervisory board in detail how the annual audit has affected the reliability of financial reporting and the role played by the audit committee in doing so. The duties of supervising the auditor's independence, carrying out the procedure for selecting the auditor and giving a recommendation for this appointment to the supervisory board were defined in more precise terms. As a new rule in 2017, key audit matters will be covered in the auditor's report and the auditor will provide the audit committee with an additional report explaining the findings of the annual audit.

The audit committee currently comprises six shareholders' representatives and three members delegated by the employees' council. In 2016, there were a number of changes in the members of the audit committee, and the election of Jan Homan as new chairman deserves particular mention.

The audit committee met five times in 2016 and, in addition, held one informal meeting to prepare the February 2016 meeting. Those who attended the meetings included the chairman of the management board, the management board members responsible for accounting, controlling and risk as well as the auditors' representatives. Responsible division heads were also invited to attend as permanent guests or to attend as guests discussions on specific agenda items. The chairman of the audit committee and the financial expert regularly conducted one-on-one meetings including with the auditors, members of the management board, the head of group internal audit and, if required, with division heads.

The chairman of the audit committee informed the supervisory board on the committee's activities, the subject matters of its meetings and of its discussions at the respective subsequent supervisory board meetings.

In 2016, the audit committee considered topics including the following: After receipt of the auditors' report on the (Group) (consolidated) financial statements for 2015, the audit committee held the final discussion, reviewed the (Group) (consolidated) financial statements and the (Group) status report as well as the corporate governance report and recommended to the supervisory board the approval of the financial statements. The reports of internal audit as well as the reports on the assessment of the effectiveness of the risk management system and the effectiveness of the internal control system were duly delivered. In December 2016, it was furthermore decided to recommend to the supervisory board to propose at the annual general meeting the renewal of PwC Wirtschaftsprüfung GmbH as additional (Group) auditor for the financial year 2018. In addition, in the course of a one-on-one interview with the chairmen of the audit committee and of the supervisory board, the joint supervisory team of the regulatory authorities has been informed of the scope of duties of the audit committee.

Further information on the activities of the audit committee and its composition is contained in the (consolidated) corporate governance report prepared by the management board and reviewed by the supervisory board.

For the audit committee,
Jan Homan mp

Erste Group on the capital markets

The political events of the year 2016 also had a substantial impact on international stock markets. Early in the year, share prices were driven by concerns over an economic downturn in China and its impact on the global economy, later on by the unexpected outcomes of the June referendum on the United Kingdom's exit from the European Union and, finally, the US presidential election. The central banks' rate policies remained at the centre of market attention. While the European Central Bank (ECB) continued its expansionary monetary policy, the US central bank (Fed) raised its key interest rate. After sustaining losses in the first half of the year, the markets covered rebounded across the board, with US markets rising at a faster pace than their European counterparts. Erste Group's share price was unable to detach itself from the volatility of European bank shares and closed the year 2016 down by 3.8%.

EQUITY MARKET REVIEW

Gains in the second half of the year after a weak start

In an environment of uncertainty about global economic trends, some European stock markets registered quite significant declines prior to the Brexit vote. These losses were only compensated in the second half of the year, when global markets generally improved. Exceptions were the Vienna stock market, which gained 9.2%, and the London market, with the FTSE rising 14.4%. For euro zone-based investors, the depreciation of the British pound against the euro undid most of these gains, though. The upward movement of markets in the second half of the year was driven by positive economic news flows from the US, China and the euro zone, the ECB's confirmation to continue its accommodative monetary policy and the recovery of European bank shares. At year-end 2016, the Euro Stoxx 600 Index was slightly lower at 361.42, down by 1.2%, while the Euro Stoxx 50 Index closed at 3,290.52 points, up 0.7%. The US indices widened their outperformance of the European markets in the course of the year and reached new all-time highs. The Dow Jones Industrial Average Index rose 13.4% to 19,762.60 points. The broader Standard & Poor's 500 Index increased by 9.5%% to 2,238.83 points. This development was attributable to US firms' stronger earnings momentum compared with European companies, upbeat economic forecasts and growth prospects in the wake of the US presidential elections, supported by the announcement of fiscal policies, more infrastructure spending and a deregulation of the financial industry.

Monetary policies in Europe and the US

In the year ended, the investors' focus was again on the ECB's and the Fed's monetary policies. The ECB continued its accommodative monetary policy by cutting its key interest rates to 0% in the first quarter and extending its bond purchasing programme until the end of 2017, albeit at a reduced monthly volume of EUR 60 billion. The US central bank pursued a different course. After the Fed's initial rate increase in late 2015 and tapering off the quantitative easing programme had marked the start of a more restrictive monetary policy, the range for the key interest rate was widened by 0.25% in December 2016, and the improved outlook for market fundamentals (growth, inflation, unemployment rate) was confirmed. These positive expectations as well as the anticipation of the economic policies of the Trump administration were also cited as factors supporting further rate increases in 2017.

Stronger growth prospects for the global economy

Following the concerns about the economy at the beginning of 2016, which were triggered by a slowdown in growth momentum emanating from emerging markets, most importantly China, and the feared impacts of the Brexit vote, economic indicators later on signalled an improvement in conditions both in the US and in the euro zone. According to the outlook released by the Organisation for Economic Co-operation and Development (OECD), specific public spending programmes are expected to stimulate the private sector. The expected or already implemented changes in the fiscal policies of several major economies are the main reason why global growth rates have been slightly raised to 3.3% in 2017 and 2.6% in 2018. For the US, the OECD forecasts an acceleration of economic growth to 2.3% in 2017 and 3.0% in 2018 if fiscal policies are relaxed. For the euro zone, the OECD expects economic growth of 1.6% in 2017 and 1.7% in 2018.

European bank shares lower after volatile year

The Dow Jones Euro Stoxx Bank Index, which is composed of the leading European bank shares, declined by almost 35% in the first half of 2016 and was among the indices losing the most. This was primarily due to the ECB's expansionary monetary policy that caused yields in Europe to fall significantly below US levels and weighed on the earnings prospects of financials. Investors also focused on the large volume of non-performing loans held by Italian banks. When international stock markets rallied, the European banking index strongly outperformed the stock indices covered, advancing 41.3% in the second half of the year. The Dow Jones Euro Stoxx Bank Index nonetheless closed the year down by 8.0%, at 117.67 points.

Outperformance of the Vienna Stock Exchange in Europe

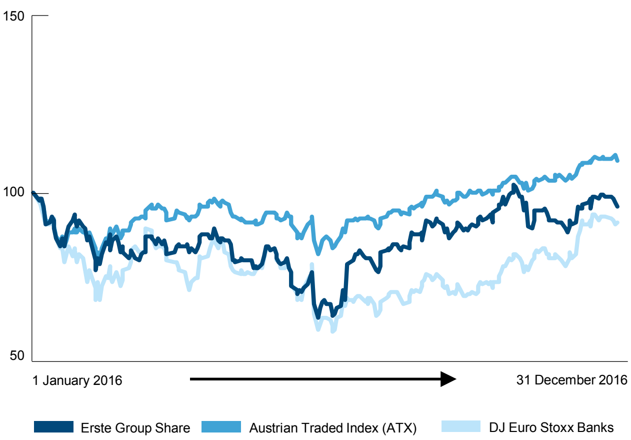
The domestic market also registered a decline in the first half of the year. The Austrian Traded Index (ATX) registered its lowest close of the year on 11 February 2016, at 1,957.05 points. When markets bounced back in the second half of the year, the index picked up momentum and, towards the end of the year, rose to its all-year highs of above 2,600. Among the positive drivers were bank shares and companies sensitive to the oil price as well as robust macroeconomic data from Eastern Europe. Closing at 2,618.43, up 9.2%, the ATX not only continued the previous year's solid development but performed significantly better than major European indices like the StoxxEurope 600 (-1.2%) and the Euro Stoxx 50 (+0.7%), which ended the year more or less flat.

ERSTE GROUP SHARE

Share performance in line with industry trend

In the year ended, the Erste Group share could not detach from the general trend in European bank shares. Moving in tandem with the negative industry trend and the weakness of international stock markets, Erste Group shares declined in the first half of the year by 29.7% despite positive earnings, a continuous improvement in asset quality, declining risk costs and solid capitalisation. By comparison, the Euro Stoxx Bank Index dropped 34.9% over the same period.

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



The Erste Group share posted its all-year low at EUR 18.87 on 27 June 2016. After bottoming out, the share price moved in line with the trend of the European banking index, which rose by more than 41%. Advancing 37.0% in the second half of the year, the Erste Group share offset most of the losses previously sustained. The investors' main focus was on dividend expectations, capital ratios and the return on tangible equity (ROTE) forecast for 2016, which in July was raised to more than 12%.

Performance of the Erste Group share versus indices

	Erste Group share	ATX	DJ Euro Stoxx Bank Index
Since IPO (Dec 1997)	151.0%	100.7%	-
Since SPO (Sep 2000)	136.8%	124.1%	-66.5%
Since SPO (Jul 2002)	59.7%	114.7%	-53.2%
Since SPO (Jan 2006)	-38.2%	-32.8%	-68.9%
Since SPO (Nov 2009)	-4.1%	0.5%	-48.3%
2015	-3.8%	9.2%	-8.0%

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

The Erste Group share registered its all-year high at EUR 29.59 on 27 October 2016. With a closing price of EUR 27.82 at year-end 2016, the share was down 3.8% after a volatile performance in the year ended. By comparison, the Euro Stoxx Bank Index lost 8.0%. As of 31 December 2016, 18 analysts issued 11 buy recommendations and 7 neutral ratings for the Erste Group share.

Number of shares, market capitalisation and trading volume

The number of shares of Erste Group Bank AG remained unchanged at 429,800,000. At year-end 2016, the Erste Group's market capitalisation stood at EUR 12.0 billion, 3.2% lower than at year-end 2015 (EUR 12.4 billion).

Trading volume on the three stock exchanges (Vienna, Prague, Bucharest) on which the Erste Group share is listed averaged 1,020,646 shares per day and accounted for about 33% 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 2011, the Erste Group share was included in the STOXX Global ESG Leaders Index, which represents the best sustainable companies on the basis of the STOXX Global 1800. In 2016, the Erste Group share was included in the FTSE4Good Index Series.

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 11 May 2016 it was decided to pay a dividend of EUR 0.50 per share for the financial year 2015 after no dividend payment had been made for the year 2014. In view of a return on tangible equity (ROTE) of 12.3% in 2016 and the simultaneous rise of the common equity tier 1 ratio (CET1 ratio; Basel 3 final) to 12.8%, the management board of

Erste Group will propose to the annual general meeting to double the dividend for the financial year 2016 to EUR 1.00 per share. Based on the closing price on the last day of the year, the dividend yield is 3.6%.

SUCCESSFUL FUNDING

In the year ended, Erste Group placed two benchmark-sized issues, including a EUR 750 million 7-year mortgage covered bond in January 2016. In addition, more than EUR 200 million in tier 2 and close to EUR 600 million in senior unsecured bonds were issued via private placements in the course of the year. In the second quarter of 2016, Erste Group Bank AG was the first Austrian issuer to place EUR 500 million in CRDIV/CRR-compliant additional tier 1 capital.

INVESTOR RELATIONS

Open and regular communication with investors and analysts

In 2016, Erste Group's management and the investor relations team met with investors in a total of 362 one-on-one and group meetings and conducted a large number of teleconferences with analysts and investors. The presentation of the 2015 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 in 2016 after the release of the first-quarter results and an autumn road show was held in Europe and in the US following the release of the third-quarter results. Erste Group presented its strategy in the current operating environment at international banking and investor conferences organised by the Vienna Stock Exchange, UBS, Kepler Cheuvreux, Morgan Stanley, HSBC, RCB, JP Morgan, Deutsche Bank, Bank of America Merrill Lynch, Autonomous, Goldman Sachs, Barclays, mBank, Danske Bank and Wood. 87 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, Morgan Stanley, Bank of America Merrill Lynch, Barclays and Euromoney.

The website http://www.erstegroup.com/ir provides comprehensive information on Erste Group and the Erste Group share. Investors and the broader public can also follow the investor relations team on the social media platform Twitter at http://twitter.com/ErsteGroupIR and on SlideShare at http://de.slideshare.net/Erste_Group. These sites provide users with the latest news on Erste Group 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 app 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 the Investor Relations app, social media channels, the news/reports subscription and reminder services are available at https://www.erstegroup.com/en/investors/ir-service.

Analyst recommendations

In 2016, 22 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, Deutsche Bank, Exane BNP Paribas, Goldman Sachs, HSBC, JP Morgan, KBW, Kepler Cheuvreux, mBank, Mediobanca, Natixis, RCB, SocGen, UBS, VTB Capital and Wood.

As of year-end, eleven analysts had issued buy recommendations, seven had rated the Erste Group share neutral. The average year-end target price was EUR 30.28. The latest updates on analysts' estimates for the Erste Group share are posted at https://www.erstegroup.com/en/investors/share/analyst-estimates.

Strategy

Erste Group aims to be the leading retail and corporate 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 with superior financial advice and solutions in achieving their financial goals, be they retail, corporate or public-sector customers. In this respect, digital innovations are playing an increasingly important role.

As a result of the financial and economic crisis, banks today operate in 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.

In all of its core markets in the eastern part of the European Union, 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 positive economies of scale and contributes to the long-term success of the company. The banking business, however, should not only be run profitably but also reflect its corporate responsibility towards all material stakeholders, in particular customers, employees, society and the environment. Therefore, 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 where it funds the overwhelming part of its 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. The aim was to benefit from the attractive growth prospects in these countries. 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 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.

Growing importance of innovation and digitalisation

The pace of digital transformation has accelerated considerably as a result of technological changes, demographic developments and also regulatory interventions in recent years. As a result, customer behaviour and customer expectations – and not merely that of technically oriented customers – towards financial products have changed significantly. Erste Group is convinced that the digital banking business will continue to gain in importance and will be essential for the economic success in the long term. To this end, Erste Group has been focusing on digital innovation since 2012. Intra-group, interdisciplinary teams develop innovative solutions.

Erste Group's digital strategy is based on its own digital ecosystem. It aims at providing customers access to personalised products from Erste Group and also third-party suppliers through application programming interfaces (APIs) in the secure IT environment of a financial platform. APIs allow a wide range of cooperations, whether with FinTechs or across industries, and can therefore help open up new markets.

The digital platform *George* was implemented in Austria in 2015. The successive introduction in all core countries will start with the launch in the Czech Republic, Slovakia and Romania in 2017. *George* is supplemented by the mobile application *George Go*. The range of digitally available products and services is constantly being expanded. Customers can activate applications of Erste Group or third parties via plug-ins and use them to manage their finances.

The omni-channel approach of Erste Group integrates the various sales and communication channels. Customers decide on how, when and where they do their banking business. The newly established contact centers serve as interfaces between digital banking and traditional branch business. The contact centers offer advice and sales, thus going far beyond the traditional help desk function.

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 operating and 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.

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 successfully.

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 corporate 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 almost 16 million retail customers in its markets and operates more than 2,600 branches. 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.

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. This has already become visible through the activities of FinTech companies, which offer financial services online and typically operate without a banking licence. George, Erste Group's new digital platform, was launched in Austria in 2015 and will be rolled out across the group. The implementation in the Czech Republic, Slovakia and Romania is scheduled for 2017.

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. Erste Group meets these prerequisites in all of its core markets and to make the best use of its resulting position of strength, it pursues an omni-channel strategy. In addition to the expansion of digital sales channels, the branch network remains an important component of the business strategy. 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 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.

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 its 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 core 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 were tightened substantially to further strengthen the resilience of banks. The aim of these reforms has been to absorb any adverse impacts that may result in the event of financial or economic distress in the banking sector. A banking union has been established as a regulatory framework consisting of a European banking supervision mechanism, a banking resolution mechanism and common standards for deposit insurance. Implementing the requirements defined by the Basel Committee on Banking Supervision, the European Commission released in November 2016 a proposal for a comprehensive review to the Capital Requirements Directive (CRD IV) and the Capital Requirements Regulation (CRR) as well as of the EU's Bank Recovery and Resolution Directive (BRRD) and the Single Resolution Mechanism (SRM) Regulation.

In addition, negotiations were continued in 2016 on the harmonisation of the third pillar of the banking union, i.e. a European Deposit Insurance Scheme (EDIS). In a separate move, a uniform deposit guarantee scheme will be established, and hence a new organisational structure will be created in Austria in 2019. Institutional protection schemes (IPS) that meet specified requirements may be recognised as deposit guarantee schemes and continue to exist parallel to and separate from the uniform deposit guarantee scheme.

The European Single Resolution Board (SRB) started operating at the beginning of 2016 and has since been working on the development of resolution plans and the definition of resolution strategies for significant institutions. A specific MRL (minimum requirement for own funds and eligible liabilities) target was not defined yet in 2016.

The revised Payment Services Directive (PSD 2) has further improved consumer protection in the context of payment services and increased security for users of mobile or online payments. In addition, bank customers may use third-party providers in the future for payment transactions, which also allows Erste Group to offer its products to customers who have their accounts with other banks.

In July 2016, the EU's Market Abuse Regulation (MAR) took effect. It is designed to prevent market abuse, such as insider trading, and strengthen the public's confidence in the European financial market. In addition, the Market Abuse Directive on criminal sanctions for market manipulation was implemented.

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 0.50% of risk-weighted assets as of 1 January 2017 and will be gradually increased to 2% until 1 January 2019.

As of year-end 2016, Erste Group reported a fully loaded Basel 3 CET1 (common equity tier 1) ratio of 12.8% and a total capital ratio of 18.3%. Despite increasing regulatory pressure in general and additional burdens on the capacity of retaining earnings as a result of bank levies in Austria, Hungary and Slovakia 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

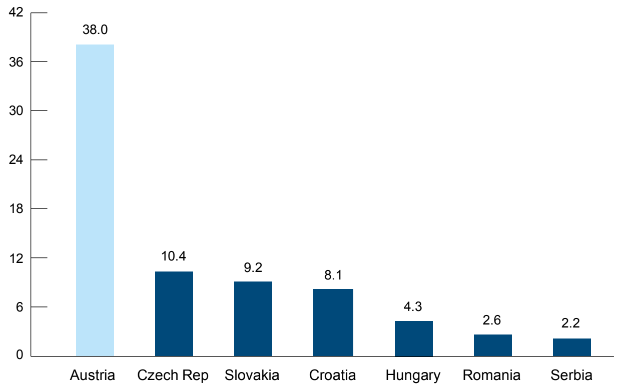
While the financial and economic crisis has temporarily slowed the economic catching-up process across the countries of Central and Eastern Europe, the underlying convergence trend continues. This is on the one hand due to the fact that the region has to make up for almost half a century of communist 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 after the fall of communism in Eastern Europe. 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 economic growth in this region will prove to be a lasting trend rather than a short-term process that has already peaked.

Customer loans/capita in CEE (2016) in EUR thousand



Source: Local central banks, Erste Group

Over the upcoming 15 to 20 years, on average, the countries of the eastern part of the European Union 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 2016, the global macroeconomic environment was characterised in particular by unexpected political events and elevated geopolitical uncertainty. Among these events, the new administration in the United States, the United Kingdom's decision to leave the European Union, increasing tension between the US and Russia and the continued migration into Europe were the most significant ones. Despite their weakening indicators, emerging markets and developing economies continued to outgrow the advanced markets, mainly due to high growth in China and India. Russia and Brazil, however, remained in recession, particularly impacted by low commodity prices and relatively weaker global trade. Among advanced economies, economic growth was less diverged. The United States and the euro area were supported by increasing consumption, favourable labour market developments and low inflation but were not affected by the Brexit referendum. Inflation remained low mainly driven by bottoming commodity prices, notably the oil price, which after several years of decline hit a ten-year low in the beginning of 2016. The British pound depreciated significantly following the vote in favour of the Brexit. The euro remained broadly unchanged against the US dollar, while the Japanese yen appreciated in an environment of elevated political risk. Diverging monetary policies of the European Central Bank (ECB) and the US Federal Reserve (Fed) were also pivotal elements in shaping global macroeconomic developments. The ECB continued its expansionary monetary policy, while the Fed started to increase the base rate. Overall, global economic growth slowed down slightly from 3.2% in 2015 to 3.1% in 2016.[1]

The United States' economy showed gradual improvement throughout 2016 with a relatively slow start followed by increased activity later in the year. Although household consumption growth slowed down compared to the previous year, it still was one of the major drivers of economic growth. Consumption benefitted significantly from rising disposable income, low inflation and favourable trends in the labour market. On the other hand, exports developed softer and investment activity was weaker. The United States' labour market proved to be resilient and the unemployment rate remained below 5% at the end of the year.[1] Consequently, the Fed showed increasing optimism about the US economy and signalled interest rates would rise at a faster pace than previously projected, as it increased the base rate in December 2016. The central bank raised the federal-funds target rate by a quarter percentage point, to between 0.50% and 0.75% pointing to a strengthening labour market and inflation moving more rapidly toward targeted levels. Altogether, the US economy grew by 1.6% in 2016.[1]

The euro zone economy maintained its moderate growth. Economic performance again differed by country with Germany and Spain clearly outperforming Italy and France. Growth was mainly driven by investments and private consumption, which benefitted from a rise in real disposable income, improvement in employment and low inflation. Despite the Brexit vote in June 2016, consumer confidence in the euro zone continued to improve. Exports were impacted by a weaker global trade but remained relatively resilient within the euro zone, but they contributed to a lesser extent to economic growth. The euro zone economies showed increasing employment rates throughout the year. Unemployment, however, varied substantially among the member states, with southern countries having significantly higher rates than those in the north. Inflation in the euro area was very low in the first half of 2016 driven by falling energy prices, but it started to pick up gradually in the second half of the year. The ECB continued its expansionary monetary policy by cutting the base rate to zero and extending its bond purchase programme. Overall, real GDP growth in the euro zone economy was 1.7% in 2016.[1]

The Austrian economy continued to perform satisfactorily. With EUR 39,700 GDP per capita[2], the country remained one of the most prosperous economies in the euro zone characterised by its well-educated workforce, stable institutional frame-work and strong international competitiveness. Political stability prevailed, and Austria's traditionally strong SME sector achieved again a solid performance. Economic growth was to a large extent driven by increasing private consumption. Mainly low energy prices contributed to inflation remaining at low levels. Overall, tourism and the service industry showed a strong performance, and Austria's real GDP grew by 1.5%[3] in 2016.

CEE economies continued to perform well. Growth was mainly driven by consumption which significantly benefitted from increasing real wages, declining unemployment rates (the Czech Republic

1 Source: IWF: http://www.imf.org/external/pubs/ft/weo/2017/update/01/pdf/0117.pdf (downloaded at 21 February 2017), page 7

2 Source: Statistik Austria: http://www.statistik.at/web_de/statistiken/wirtschaft/volkswirtschaftliche_gesamt rechnungen/index.html (downloaded at 21. February 2017), adjusted for economic growth and inflation for 2016

3 Source: WIFO (Österreichisches Institut für Wirtschaftsforschung): http://www.wifo.ac.at/jart/prj3/wifo/resources/person_dokument/person_dokument.jart?publikationsid=59271&mime_type=application/pdf (downloaded at 21 February 2017), page 1

and Hungary were among the countries showing the lowest unemployment rates in the euro zone) and low inflation. Net exports continued to increase in most CEE countries. The car industry remained an important factor, agriculture and tourism performed well, while investments declined due to a lower European Union funds' absorption rate. Positive labour market developments and competitive economies in the region supported current account balances. Public deficits across the region remained low. The main currencies of the region remained broadly stable against the euro, and the national banks of Hungary and Serbia cut the base rate further in 2016. Overall, CEE economies grew in 2016 between 2.0% in Hungary[4] and 4.8% in Romania[5].

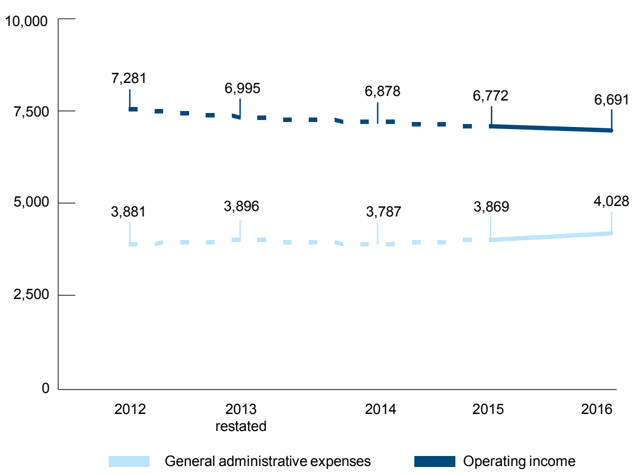
PERFORMANCE IN 2016

Acquisitions and disposals in Erste Group in 2016 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 4,374.5 million (EUR 4,444.7 million), mainly due to a market environment of persistently low interest rates and large-scale NPL reductions. This development was not fully offset by lending growth. **Net fee and commission income** decreased to EUR 1,783.0 (EUR 1,861.8 million reflecting a decline in income from lending business and payment services as well as lower income from the securities business. **Net trading and fair value result** rose to EUR 272.3 million (EUR 210.1 million). Consequently, **operating income** declined to EUR 6,691.2 million (EUR 6,771.8 million).

Operating income and operating expenses in EUR million



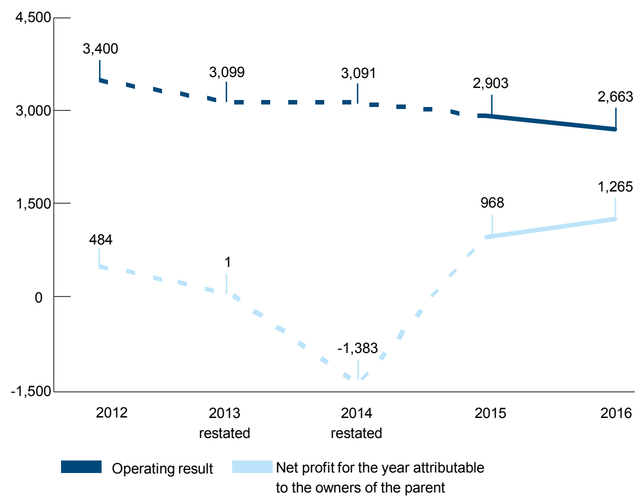
General administrative expenses increased to EUR 4,028.2 million (EUR 3,868.9 million), driven mainly by higher IT and consultancy costs as well as a rise in personnel expenses to EUR 2,339.3 million (EUR 2,244.6 million). This resulted in a decline of the **operating result** to EUR 2,663.0 million (EUR 2,902.9 million). The **cost/income ratio** stood at 60.2% (57.1%).

Net impairment loss on financial assets declined substantially to EUR 195.7 million or 15 basis points of average gross customer loans (EUR 729.1 million or 56 basis points), on the back of a significant decline of non-performing loans and higher income from the recovery of loans already written off in Romania and Hungary. The **NPL ratio** (see glossary for definition) improved significantly to 4.9% (7.1%). The **NPL coverage ratio** (see glossary for definition) increased markedly to 69.1% (64.5%).

Other operating result amounted to EUR -665.0 million (EUR -635.6 million). This includes expenses for the annual contributions to resolution funds in the amount of EUR 65.6 million (EUR 51.3 million). Banking and financial transaction taxes amounted to EUR 388.8 million (EUR 236.2 million). This rise was attributable to a one-off payment of banking tax pursuant to the Austrian Bank Tax Act (Stabilitätsabgabegesetz) in the amount of EUR 200.9 million preceding a significant reduction of future annual banking tax payments in Austria. Overall, banking levies in Austria amounted EUR 306.7 million (EUR 128.6 million). In Hungary, banking levies declined significantly to EUR 57.0 million (EUR 84.0 million) and in Slovakia amounted to EUR 25.1 million (EUR 23.6 million).

As the earnings contributions of savings banks covered by the cross-guarantee system slightly declined from historically very high levels, the minority charge decreased to EUR 272.0 million (EUR 307.0 million). The **net result attributable to owners of the parent** rose to EUR 1,264.7 million (EUR 968.2 million).

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

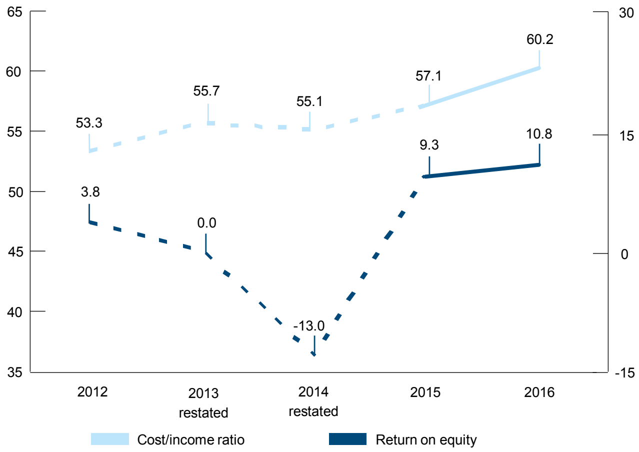


4 Source: Hungarian Central Statistical Office: http://www.ksh.hu/gyorstajekoztatok/#/en/document/gde1612 (downloaded at 21. February 2017), page 1

5 Source: National Institute of Statistics of Romania: http://www.insse.ro/cms/sites/default/files/com_presa/com_pdf/pib_trim4e2016_0.pdf (downloaded at 21. February 2017), page 1

Cash return on equity (see glossary for definition), i.e. return on equity adjusted for non-cash expenses such as goodwill impairment and straight-line amortisation of customer relationships, stood at 11.4% (reported ROE: 10.8%) in 2016 versus 9.1% (reported ROE: 9.3%) in 2015.

Key profitability ratios in %



Cash earnings per share (see glossary for definition) for the financial year 2016 amounted to EUR 3.08 (reported EPS: EUR 2.93) versus EUR 2.23 (reported EPS: 2.27) in 2015.

Total assets increased to EUR 208.2 billion (EUR 199.7 billion), driven mainly by an increase in **cash and cash balances**, including in particular cash balances at central banks, to EUR 18.4 billion (EUR 12.4 billion). **Loans and receivables to customers (net)** rose to EUR 130.7 billion (EUR 125.9 billion). Securities held for trading declined to EUR 8.0 billion (EUR 8.7 billion). On the liabilities side, **customer deposits** grew substantially – particularly in the Czech Republic, Austria and Romania – to EUR 138.0 billion (EUR 127.9 billion). Deposits from banks were higher at EUR 14.6 billion (EUR 14.2 billion). **Debt securities in issue,** mainly bonds and mortgage covered bonds, declined to EUR 27.2 billion (EUR 29.7 billion). The **loan-to-deposit ratio** stood at 94.7% (98.4%).

The **common equity tier 1 ratio** (CET 1, Basel 3 phased-in, see glossary for definition) stood at 13.4% (12.3%), the **total capital ratio** (Basel 3 phased-in, see glossary for definition) at 18.5% (17.9%).

Dividend

A dividend distribution amounting to EUR 1.00 per share will be proposed at the annual general meeting (2015: EUR 0.50 per share).

Outlook

Erste Group expects a return on tangible equity (ROTE) of more than 10% in 2017. The anticipated solid macro-economic development in the core markets Czech Republic, Slovakia, Hungary, Romania, Croatia, Serbia and Austria, the unchanged very positive assessment of the bank's risk profile and the significant reduction of banking tax in Austria should be supportive factors to achieve this target. On the other hand, the persistent low interest rate environment, the non-recurrence of one-off effects such as the sale of VISA shares and potential – and as yet unquantifiable – political risks might jeopardise it.

In 2017, the positive development of the economy should be reflected in growth rates (real GDP growth) between 1.5% and 4.5% in Erste Group's CEE core markets. All other economic parameters are currently expected to develop likewise robustly. Unemployment rates should decline further – in the Czech Republic and in Hungary, they are already among the lowest in the EU. Inflation is forecast to remain low and strong competitive positions should again lead to current account surpluses. The fiscal situation and public debt levels are also projected to remain sound. In Austria, by contrast, growth is forecast to be less dynamic, at a rate of 1.5%. Unemployment is expected to stabilise in 2017 after rising in 2016. Overall, growth continues to be driven by domestic demand across all economies, even though exports are expected to make a positive contribution to growth in most countries.

Against this backdrop, Erste Group expects mid-single digit net loan growth which is required to offset margin pressure resulting from sovereign bond reinvestments in the ongoing low interest rate environment. The strong improvement in asset quality also has an adverse impact on net interest income. With every further reduction of the NPL portfolio – driven, on the one hand, by NPL sales but also by the improved portfolio quality – net interest income will decline on the back of the lower unwinding effect. Overall, Erste Group expects that, at best, it will be able to keep net interest income stable in 2017. If the interest rate environment remains unchanged, a slight decline might also be possible, though.

The second key income component, net fee and commission income, is expected to remain at about the same level in 2017 as in the previous year. Some positive momentum should come from the anticipated rising loan demand and the dynamic economic environment. After a weak year in 2016, the securities business should also pick up again. The other income components are expected to remain flat, by and large, despite the volatility of the net trading and fair value result. Operating income should hence remain stable in 2017 or decline marginally in the case of lower-than-expected loan growth.

Operating expenses are expected to rise by 1% to 2% in 2017. This cost inflation will be mainly driven by IT investments necessary to secure Erste Group's future competitiveness and measures induced by regulatory requirements. Further investments in product simplification, process standardisation or the group-wide implementation of the digital platform *George* underline the digital strategy. After its rollout in Austria, George will be launched in the Czech Republic, Slovakia and Romania in 2017. Additional cost drivers are regulatory expenses related for example to the implementation of IFRS 9 from the beginning of 2018 or to preparations for Anacredit, a Europe-wide bank loans dataset overseen by the ECB. The operating result is therefore projected to slightly decline in 2017.

Risk costs should again support net profit in 2017. While the low interest rate environment has a negative impact on net interest income, it does have a positive effect on risk costs which, unlike net interest income, benefit additionally from the reduction of NPLs. Erste Group, however, does not expect a recurrence of the historically low risk cost level of 2016 of just 15 basis points of average customer loans. While precise forecasts are difficult in the current environment, Erste Group projects for 2017 risk costs of about 30 basis points of average customer loans.

Other result is anticipated to develop positively. Even though the one-off effects of the sale of VISA shares will not recur, banking tax in Austria is set to decrease significantly after the one-off payment of EUR 200.9 million to the Innovation Fund in 2016. As a result, this line item will improve barring the occurrence of any unforeseen events.

Assuming a similar tax rate as in 2016 and a similar level of minority charges, Erste Group aims to achieve a return on tangible equity (ROTE) of more than 10%.

Potential risks to the guidance are the impact from expansionary monetary central bank policies including negative interest rates, political risks such as those related to various elections in key EU economies, geopolitical risks and global economic risks or consumer protection initiatives.

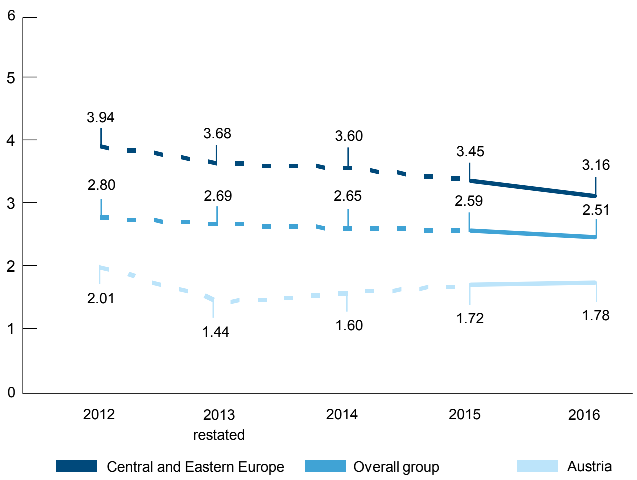
ANALYSIS OF PERFORMANCE

January-December 2016 compared with January-December 2015

Net interest income

Net interest income declined to EUR 4,374.5 million (EUR 4,444.7 million), mainly due to the impacts of the continuing low interest rate environment, which could not be fully offset by lending growth. Lower net interest income was registered in particular in Hungary and Romania due to the sale of non-performing loans and narrowing net interest margins. The net interest margin (net interest income as a percentage of average interest-bearing assets) declined from 2.59% to 2.51%.

Net interest margin in %

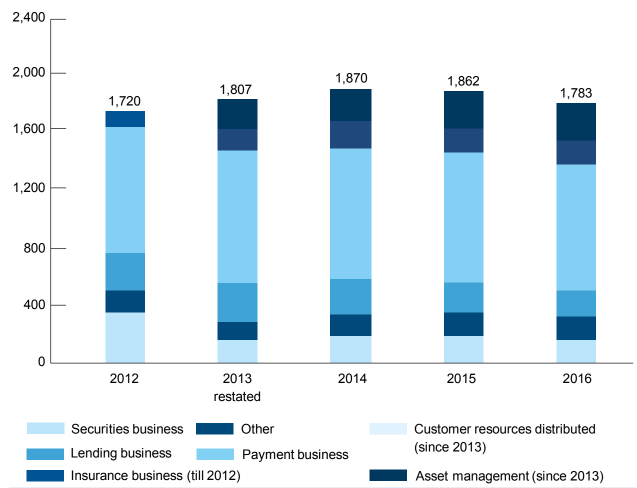


Since 2013 the calculation method for the net interest margin has been based on segment figures. For the calculation of the average interest-bearing assets five quarterly figures are now used instead of the four in the past.

Net fee and commission income

Net fee and commission income decreased to EUR 1,783.0 million (EUR 1,861.8 million). This was mainly attributable to declining income from the securities business in Austria and lower income from payment services and lending in the Czech Republic. In the other segments, net fee and commission income was largely stable.

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



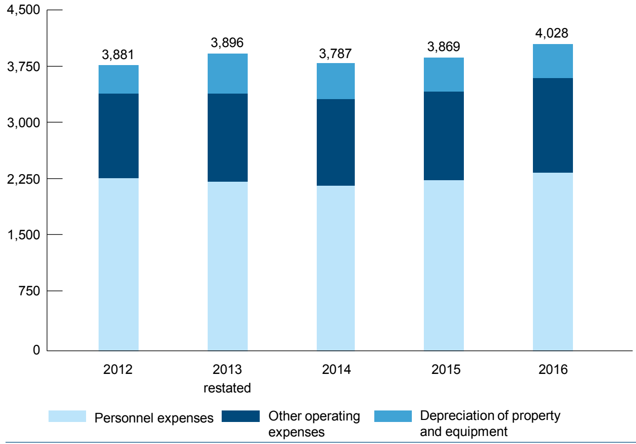
Net trading and fair value result

The net trading and fair value result rose to EUR 272.3 million (EUR 210.1 million). Income from securities and derivatives trading, which improved despite the non-recurrence of extraordinary valuation gains in the Czech Republic, more than offset the negative impact of the valuation of financial liabilities – at fair value through profit or loss.

General administrative expenses

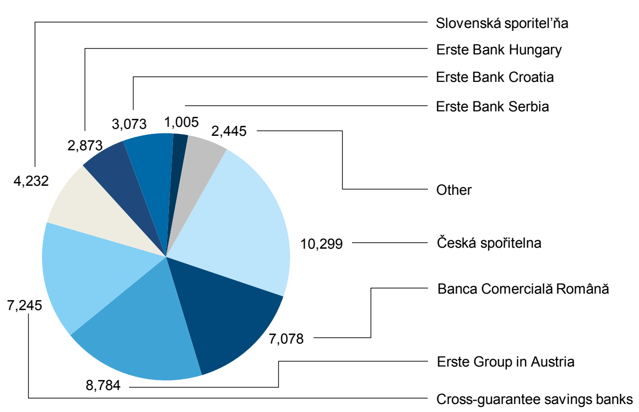
General administrative expenses rose to EUR 4,028.2 million (EUR 3,868.9 million).

General administrative expenses, structure and trend, in EUR million



Personnel expenses increased to EUR 2,339.3 (EUR 2,244.6 million) partly due to elevated staffing requirements, mostly IT related and in projects linked to increased regulatory requirements. **Other administrative expenses** rose to EUR 1,235.8 million (EUR 1,179.3 million). IT expenditure was higher at EUR 339.3 million (EUR 286.5 million), deposit insurance contributions amounted to EUR 88.8 million (EUR 99.6 million). Thereof, EUR 43.5 million (EUR 21.5 million) were for contributions payable in Austria, where the first payments of this kind had to be made in the second half of 2015. In the Czech Republic, contributions declined to EUR 7.4 million (EUR 37.1 million). **Depreciation and amortisation** increased to EUR 453.1 million (EUR 445.0 million).

Number of employees as of 31 December 2016



The number of employees is based on full-time equivalents. The data regarding subsidiaries in Central and Eastern Europe refer to partial groups.

The average headcount increased marginally by 1.0% to 46,955 (46,496).

Operating result

Operating income declined to EUR 6,691.2 million (EUR 6,771.8 million), primarily due to the decrease in net interest income and lower net fee and commission income. General administrative expenses rose to EUR 4,028.2 million (EUR 3,868.9 million), driven by an increase in IT and consultancy costs and higher personnel expenses. This led to an operating result of EUR 2,663.0 million (EUR 2,902.9 million). The cost/income ratio stood at 60.2% (57.1%).

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

Gains from financial assets and liabilities not measured at fair value through profit or loss (net) rose significantly to EUR 148.0 million (EUR 100.9 million). This includes a gain from the sale of shares in VISA Europe in the amount of EUR 138.7 million shown in income from financial assets – available for sale.

Net impairment loss on financial assets

Net impairment loss on financial assets declined significantly to EUR 195.7 million (EUR 729.1 million). This development was mostly attributable 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 184.2 million (EUR 666.5 million). The main drivers were declining risk costs in all core markets, substantial recoveries of receivables previously written off in Romania and the improvement of portfolio quality after the conversion of foreign-currency loans in Hungary. Net impairment loss on financial assets, based on the average volume of gross customer loans, thus improved to 15 basis points (56 basis points). In addition, this line item included a net impairment loss on financial assets – held-to-maturity and financial assets – available-for-sale in the amount of EUR 11.4 million (EUR 62.6 million).

Other operating result

Other operating result amounted to EUR -665.0 million (EUR -635.6 million).

Levies on banking activities rose to EUR 388.8 million (EUR 236.2 million). Banking tax in Austria increased to EUR 306.7 million (EUR 128.6 million) due to the recognition as an expense of the one-off payment made pursuant to the Austrian Bank Tax Act (Stabilitätsabgabengesetz) in the amount of EUR 200.9 million. The reduction of banking tax in Hungary had a positive impact. Due to a lower tax rate and an adjustment of the assessment base, the tax charge declined to EUR 19.4 million (EUR 46.2 million). Together with the financial transaction tax of EUR 37.6 million (EUR 37.8 million), levies in Hungary thus totalled EUR 57.0 million (EUR 84.0 million). In Slovakia, banking levies rose slightly to EUR 25.1 million (EUR 23.6 million).

Allocation/release of other provisions, including for commitments and guarantees given, decreased significantly to EUR 125.9 million (EUR 306.0 million). This includes an allocation to provisions for potential risks relating to consumer protection claims in Romania in the amount of EUR 62.3 million (EUR 101.6 million). In addition, the comparative figure also included an allocation to provisions in the amount of EUR 129.5 million for expected losses resulting from legislation requiring the conversion of customer loans (Swiss francs to euros) in Croatia. Other operating result also includes a partial goodwill impairment in the amount of EUR 61.3 million of Slovenská sporiteľňa as well as the annual contributions to resolution funds in the amount of EUR 65.6 million (EUR 51.3 million) shown in the line item result from other operating expenses/income.

Profit/loss for the year

The pre-tax result from continuing operations amounted to EUR 1,950.4 million (EUR 1,639.1 million). This rise was mainly due to substantially lower risk costs resulting from the improved quality of the loan portfolio. Because of the weaker results of the savings banks, the minority charge declined to EUR 272.0 million (EUR 307.0 million). The net result attributable to owners of the parent rose to EUR 1,264.7 million (EUR 968.2 million). The lower tax rate was mainly attributable to lower income tax charges in Hungary and Romania.

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 financial year 2016. The current tax loss carried forward increased in 2016. 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 2016, the reported total income tax expense amounted to EUR 413.6 million (EUR 363.9 million).

Balance sheet development

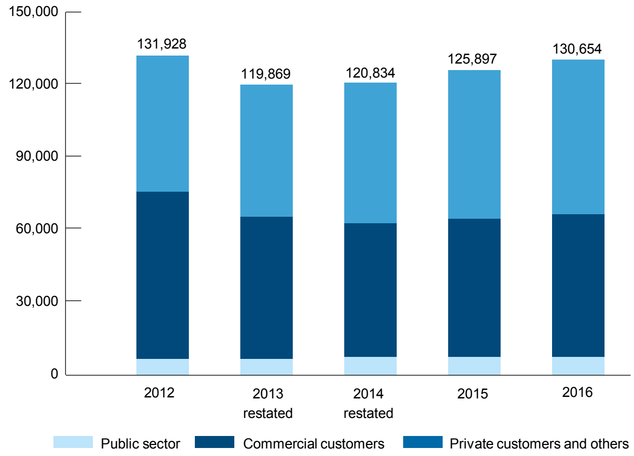
The rise in **cash and cash balances** to EUR 18.4 billion (EUR 12.4 billion) was primarily due to larger cash balances held at central banks.

Trading and investment securities held in various categories of financial assets were almost unchanged at EUR 47.6 billion (EUR 47.5 billion).

Loans and receivables to credit institutions (net) including demand deposits other than overnight deposits, declined significantly to EUR 3.5 billion (EUR 4.8 billion).

Loans and receivables to customers (net) increased – primarily in Austria and in the Czech Republic – to EUR 130.7 billion (EUR 125.9 billion).

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



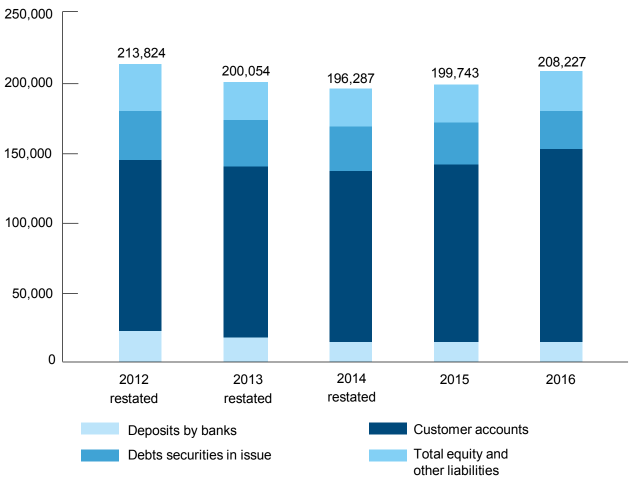
The loans and advances as of 2012 are gross figures (i.e. no deduction of allowances), pursuant to the applicable standards at that time.

Allowances for loans and receivables to customers declined to EUR 4.6 billion (EUR 6.0 billion), mostly on the back of the improvement in asset quality and the sale of non-performing loans.

Intangible assets amounted to EUR 1.4 billion (EUR 1.5 billion). **Miscellaneous assets** declined to EUR 6.8 billion (EUR 7.7 billion).

Financial liabilities – held for trading decreased to EUR 4.8 billion (EUR 5.9 billion), partly as a result of a decrease in the line item derivatives

Balance sheet structure/liabilities and total equity in EUR million

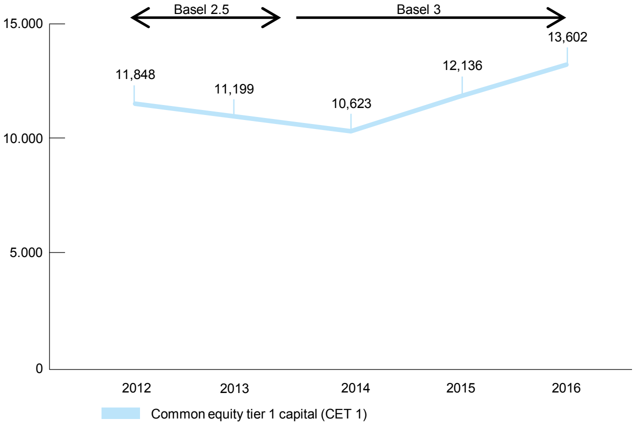


Deposits from banks were higher at EUR 14.6 billion (EUR 14.2 billion). Deposits from customers rose due to increased savings and overnight deposits mainly in Austria and in the Czech Republic to EUR 138.0 billion (EUR 127.9 billion).

The **loan-to-deposit ratio** stood at 94.7% (98.4%). **Debt securities in issue**, mainly bonds, declined to EUR 27.2 billion (EUR 29.7 billion). **Miscellaneous liabilities** were lower at EUR 7.0 billion (EUR 7.3 billion).

Erste Group's **total equity** increased to EUR 16.6 billion (EUR 14.8 billion). Since June 2016, this includes AT1-instruments in the amount of EUR 497 million. After regulatory deductions and filtering according to the CRR **common equity tier 1 capital** (CET 1, Basel 3 phased-in) rose to EUR 13.6 billion (EUR 12.1 billion), **total own funds** (Basel 3 phased-in) to EUR 18.8 billion (EUR 17.6 billion). **Total risk** (**risk-weighted assets** including credit, market and operational risk, Basel 3 phased-in) increased to EUR 101.8 billion (EUR 98.3 billion). **Total assets** increased to EUR 208.2 billion (EUR 199.7 billion),

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



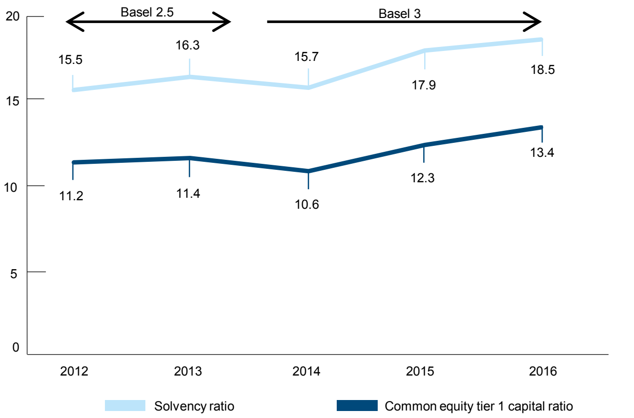
In Basel 2.5: Core tier-1 capital excluding hybrid capital pursuant to section 23 (4a and 4b) of the Austrian Banking Act
Basel 3 values are based on CRR transitional rules.

Consolidated regulatory capital is calculated in accordance with the capital requirements regulation (CRR) taking into consideration transitional provisions as defined in the Austrian CRR Supplementary Regulation and the regulation of the European Central Bank on the exercise of options and discretions. 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, see glossary for definition) in relation to the total risk (total eligible qualifying capital in relation to total risk pursuant to CRR) was 18.5% (17.9%), well above the legal minimum requirement.

The **tier 1 ratio** (Basel 3 phased in, see glossary for definition) in relation to total risk stood at 13.4% (12.3%).

The **common equity tier 1 ratio** (Basel 3 phased in, see glossary for definition) amounted also to 13.4% (12.3%).

Solvency ratio and common equity tier 1 capital ratio in %



In Basel 2.5: Core tier-1 capital excluding hybrid capital pursuant to section 23 (4a and 4b) of the Austrian Banking Act
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 2016 development costs in the amount of EUR 45 million (EUR 87 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 multidisciplinary team consisting of marketing, product and IT as well as design experts, the Innovation Hub is tasked with creating innovations and managing new programme initiatives.

CORPORATE SOCIAL RESPONSIBILITY

As one of the leading banks in Austria and the eastern part of the European Union, Erste Group has committed itself to strict ethical standards for all its activities it carries out in its markets. The very founding concept of Erste österreichische Spar-Casse already embraced the idea of contributing to the common good 200 years ago. For Erste Group, this approach is still an obligation and a mandate today. Erste Group has therefore implemented a large number of measures in recognition of its corporate responsibility towards its customers, employees, investors, local communities and national economies.

All information provided in this Annual Report on Erste Group's reporting on non-financial aspects (sustainability reporting) is in compliance with GRI G4 criteria (Global Reporting Initiative – Version 4). At the beginning of 2016, Erste Group established the Group Sustainability Office combining activities and responsibilities relating to ecological sustainability, diversity, corporate volunteering and corporate social responsibility.

For Erste Group, sponsoring is the voluntary promotion and support of institutions, initiatives and projects relating to culture, social welfare and education. Erste Group's *Mehr*WERT (*Extra*VALUE) programme shows Erste Group's commitment to its social responsibility and the values that Erste Group considers worthy of support.

Society

Social activities

Erste Group's long-standing 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. Erste Bank Oesterreich has been a partner of *Caritas Österreich* for many years, assisting it in its efforts to fight poverty in Austria. Since 2003, Erste Bank Oesterreich, the savings banks and s Bausparkasse have also been sponsoring *Hilfswerk*, one of the largest non-profit providers of health care, social and family services in Austria. In addition, Erste Bank Oesterreich has been supporting the aid organisation *lobby.16*, which works to protect the right to education of unaccompanied young refugees and give them access to education, employment and participation in social life.

Banca Comercială Română operates www.BursaBinelui.ro, a free-of-charge platform for donations on which some 300 NGOs are listed and which ensures that donations are routed directly to the NGOs. Erste Bank Serbia continued the *SupErste.net* programme, which helps young people aged 16 to 35 in implementing social projects. Slovenská sporiteľňa continued its support for the organisation *Inklúzia*, which works to create new jobs for people with special needs. In addition, it sponsors *Vagus*, an organisation promoting the integration of homeless people, and the initiative *Through education to success*, which provides scholarships to pupils and students who grew up in children's homes.

Art and culture

Deepening the understanding and appreciation of art and culture is of particular importance to Erste Group. The focus of its activities is on offering young and socially disadvantaged people access to music, the performing and the fine arts. Promoting promising young talents is another priority of Erste Group's art and culture sponsorship programmes. These activities have been brought together in the *Extra*VALUE programme.

Erste Bank Oesterreich is the principal sponsor of the *Viennale* film festival and of *Jeunesse*, which supports young artists and the development of new concepts for sharing music. Česká spořitelna is one of the most dedicated long-term promoters of music in the Czech Republic. Amongst other events, its portfolio includes *Colours of Ostrava*, a multi-genre festival. In Croatia, the *Erste fragmenti 12* project continued the promotion of young art. In Serbia, Romania and Hungary, the programmes promoting youth music and literature were likewise continued and expanded.

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

In October 2016, the *Financial Life Park (FLiP)* was opened at Erste Campus in Vienna, the Erste Group's new headquarters complex. *FLiP* is a museum and a learning trail focusing on personal finance and basic economics. Its main target group are school classes starting from primary school. For young people, Erste Group offers workshops in financial literacy and debt prevention. The platform www.geldundso.at, which was jointly developed with young people, offers a large variety of teaching and practice materials for downloading. 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 Austria in 2012 and under which employees dedicate some of their free time to social projects, has been growing steadily. A broad range of social projects, such as the renovation of social institutions and support for homeless people, are supported across the group. Employees of Česká spořitelna are granted two days paid leave per year for the support of social projects as part of the bank's *Charity Days*. The other local banks of Erste Group also promote similar initiatives by giving employees time off for an increased engagement in social activities.

A special project of Erste Group is *Zweite Sparkasse* in Austria, which celebrated its tenth anniversary in 2016 and provides free-of-charge services to people in financial need. Since 2006, almost 400 active and retired employees have been serving close to 15,000 customers facing challenging financial circumstances.

Customers

Erste Group puts customers and their interests at the centre of its business activities. Only banks that understand the financial needs of their customers can offer the right solutions at the right time. Special attention is devoted to the quality of products and advisory services as these are key factors for customer satisfaction and, therefore, for building up and maintaining long-term customer relations.

Erste Group is striving to position itself as an omni-channel bank and 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. This is why the modern branch network of Erste Group remains a key pillar of its banking business. The combination of digital channels, which are set to gain further importance in the future, with traditional sales approaches enables customer relationship managers to explore customer needs even more effectively.

Most importantly, product information must be readily accessible, transparent and easy to understand. High levels of customer satisfaction and thus customer loyalty secure the bank's long-term success. Customer satisfaction is evaluated by means of extensive and representative surveys conducted across all markets of Erste Group. On this basis, the *Customer Experience Index* (CXI) is calculated, which is also used as a criterion for management board bonuses.

In asset management, Erste Group observes the Principles of Responsible Investment for its customers. All funds managed by Erste Asset Management are therefore barred from speculation in food markets and from investing in companies engaged in any controversial weapons business.

Suppliers

To ensure compliance with the principles of sustainability, the suppliers of Erste Group also have to meet strict standards. Erste Group Procurement, Erste Group's sourcing and procurement company, covers the entire supply chain. Its basic objective is to ensure transparent and fair sourcing and procurement processes and contracts. One of its key resources is the code of conduct for suppliers. In 2016, Erste Group Procurement received the *CIPS Ethics Mark*, a certification awarded by the *Chartered Institute of Procurement and Supply (CIPS)*. This distinction is presented to companies that are committed to maintaining high procurement standards and ensure this by offering appropriate training to their employees.

Employees

Retaining experienced and engaged employees is fundamental to the long-term success of any 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. To secure the various aspects of diversity among its workforce, the position of a Group Diversity Manager was established within the Group Sustainability Office.

The obligations under the *Nestor Gold Charta* on generation management signed in 2015 have been implemented by means of an extensive programme and were formally recognised by an award presented by the Austrian Minister for Social Affairs. The Anti-Discrimination Officer likewise had a successful first year of service in which she was able to develop and implement awareness-raising and preventative action.

Erste Group regards supporting the development of its employees' professional and social skills as a top priority to ensure that employees are well prepared to perform their duties 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 employees and keeping a sustainable personnel cost base. Erste Group's remuneration system is consistent, competitive and transparent. The remuneration schemes comply with respective international and national regulations.

Erste Group actively seeks to help its employees in identifying and managing health risks. A multi-professional team of occupational physicians, industrial psychologists and physiotherapists assists employees in all matters of health and wellbeing.

Erste Group is pursuing the target of having 35% of positions on supervisory boards and in top management filled by women by 2019.

In 2016, Erste Group had 47,034 employees (full-time equivalents), thereof 65.4% women. At Erste Group Bank AG and at the local banks in CEE, the percentage of women in management board positions and at board minus one level stood at about 29.7%.

Environment

To improve its ecological footprint, Erste Group introduced far-reaching measures to reduce its consumption of electric energy, heating energy and copy paper as well as CO_2 emissions. Energy saving measures have been implemented by all local banking subsidiaries. In addition, group-wide criteria have been defined for choosing providers of heating and electric energy based on their use of renewable energy.
The move to the Erste Campus took place between year-end 2015 and mid-2016. This building provides space for about 4,500 innovative workplaces and was designed with a strong focus on ecological criteria. It relies on district heating/cooling, geothermal energy and rainwater for flushing toilets and uses exclusively

energy-efficient LED systems. The Erste Campus is currently one of Vienna's most sustainable office complexes and has been awarded the DGNB platinum certificate by ÖGNI (Österreichische Gesellschaft für Nachhaltige Immobilienwirtschaft).

For a further detailed description of the non-financial environmental indicators, please refer to the chapter on the environment in the Annual Report. Paper consumption and greenhouse gas emissions are described in this section.

Corporate governance

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 2016, DIE ERSTE oesterreichische Spar-Casse Privatstiftung (Privatstiftung), a foundation, controls together with its partners to shareholder agreements approximately 29.46% of the shares in Erste Group Bank AG and is with 15.37% the controlling shareholder: The Privatstiftung holds 6.63% of the shares directly, the indirect participation of the Privatstiftung amounts to 8.74% of the shares held by Sparkassen Beteiligungs GmbH & Co KG, which is an affiliated undertaking of the Privatstiftung. 1.09% are held directly by Austrian savings banks respectively saving banks foundations acting together with the Privatstiftung and affiliated with Erste Group Bank AG through the Haftungsverbund. 9.92% of the subscribed capital is controlled by the Privatstiftung on the basis of a shareholder agreement with Caixabank S.A. 3.08% are 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) 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 must 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 the 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 banks 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 banks sector irrespective of the reason.

The Haftungsverbund 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 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 entity 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 entity 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 checks performed by a second person (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:

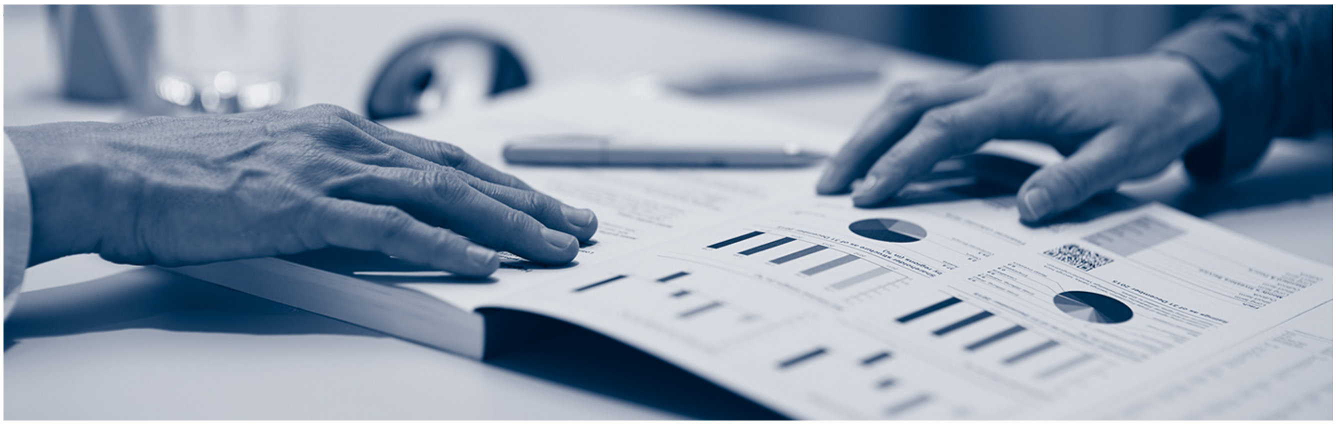
- Operating and business areas of the bank;
- Operating and business processes of the bank;
- Internal bank standards (policies, guidelines, operating instructions), also with regard to their compliance and up-to-dateness;
- Audit areas stipulated by the law as they inter alia result from the rules of the Austrian Banking Act (BWG) and the Capital Requirements Regulation (CRR).

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, 28 February 2017

Management board

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



Segments

Introduction

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

Following a strategic review related to Erste Group's operating segments and the method used for capital allocation to the segments, changes were introduced in the segment reporting from 1 January 2016. To ensure comparability Erste Group has adjusted the segment reporting for all quarters of the financial year 2015. Details of the new segmentation were published on 14 April 2016 at www.erstegroup.com.

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/en/investors/reports/financial_reports.

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. 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

The **Retail** segment comprises the business with private individuals, micros and free professionals within the responsibility of account managers in the retail network. This business is operated by the local banks in cooperation with their subsidiaries such as leasing and asset management companies with a focus on simple products ranging from mortgage and consumer loans, investment products, current accounts, savings products to credit cards and cross selling products such as leasing, insurance and building society products.

The **Corporates** segment comprises business activities with corporate customers of different turnover size (small and medium-sized enterprises, Local Large Corporate and Group Large Corporate customers) as well as commercial real estate and public sector business. Small and medium-sized enterprises are customers within the responsibility of the local corporate commercial center network, in general companies with an annual turnover ranging from EUR 0.7 million - EUR 3 million to EUR 25 million - EUR 75 million, the thresholds vary by country. Local

Large Corporate customers are local corporates with a consolidated annual turnover exceeding a defined threshold between EUR 25 million to EUR 75 million, depending on the country, which are not defined as Group Large Corporate customers. Group Large Corporate customers are corporate customers/client groups with substantial operations in core markets of Erste Group with a consolidated annual turnover of generally at least EUR 500 million. Commercial Real Estate (CRE) covers business with real estate investors generating income from the rental of individual properties or portfolios of properties, project developers generating capital gains through sale, asset management services, construction services (applicable only for EGI) and own development for business purpose. Public Sector comprises business activities with three types of customers: public sector, public corporations and the non-profit sector.

The **Group Markets (GM)** segment comprises trading and markets services as well as customer business with financial institutions. It includes all activities related to the trading books of Erste Group, including the execution of trade, market making and short-term liquidity management. In addition, it comprises business connected with servicing financial institutions as clients including custody, depository services, commercial business (loans, cash management, trade & export finance).

The **Asset/Liability Management & Local Corporate Center (ALM & LCC)** segment includes all asset/liability management functions – local and of Erste Group Bank AG (Holding) – 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 those savings banks which are members of the Haftungsverbund (cross-guarantee system) of the Austrian savings banks sector and in which Erste Group does not hold a majority stake but which are fully controlled according to IFRS 10. The fully or majority owned Erste Bank Oesterreich, Tiroler Sparkasse, Salzburger Sparkasse and Sparkasse Hainburg are not part of the Savings Banks segment.

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), non-profit internal service providers (facility management, IT, procurement), 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).

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	2015	2016	Change
Net interest income	2,211.5	2,198.2	-0.6%
Net fee and commission income	1,012.8	958.4	-5.4%
Net trading and fair value result	82.6	98.5	19.2%
Operating income	3,341.3	3,286.3	-1.6%
Operating expenses	-1,859.5	-1,892.8	1.8%
Operating result	1,481.7	1,393.5	-6.0%
Cost/income ratio	55.7%	57.6%	
Net impairment loss on financial assets	-291.9	-19.1	-93.5%
Other result	-278.3	-110.8	-60.2%
Net result attributable to owners of the parent	719.6	964.6	34.1%
Return on allocated capital	29.3%	42.0%	

The net interest income remained almost stable despite a negative impact of the consumer loan law in Hungary as well as lower margins from lending business and unwinding in Romania. These developments were mitigated by higher loan volumes in Slovakia and the Czech Republic as well as an increased contribution from Austria and the deposit business in Croatia. Net fee and commission income decreased primarily due to lower card and current account maintenance fees in the Czech Republic, lower securities fees in Austria as well as lower fees from card business in Slovakia. Net trading and fair value result went up as the negative impact of the Swiss franc exchange rate fixing for retail loans required by legislation in Croatia in 2015 did not recur. In addition, net trading and fair value result improved in the Czech Republic. Operating expenses increased primarily due to higher deposit insurance contributions in Austria and Hungary as well as higher IT and personnel expenses. Operating result thus declined, the cost/income ratio went up. The significant improvement of net impairment loss on financial assets was driven by lower risk costs in Hungary, Croatia and Romania due to portfolio quality improvement. Risk costs also decreased markedly in the Czech Republic. Other result improved significantly due to the non-recurrence of last year provisions for Swiss franc loan conversion in the amount of EUR 129.5 million in Croatia. This line item also included selling gains on property in Austria. Overall, the net result attributable to the owners of the parent went up.

Credit risk

Credit risk exposure in the Retail segment rose strongly to EUR 54.0 billion (+4.5%). The customer loan portfolio increased to EUR 48.5 billion (+EUR 2.0 billion). The share of the retail business in Erste Group's total customer loans increased to 35.8% (35.2%). The collateralisation ratio, which reflects the ratio of collateral to loan volume, was significantly higher at 63.7% (61.4%). The quality of the retail customer loan portfolio improved again substantially. Non-performing loans as a percentage of total retail customer loans decreased to 4.0% (5.6%) at year-end. In terms of the NPL ratio, this segment continued to feature the highest quality of all business segments with a significant loan portfolio. In addition to a major migration to better risk classes of performing loans, non-performing loans declined by EUR 667 million. The share of low-risk loans as a percentage of total retail customer loans rose to 84.6% (81.7%).

CORPORATES

Financial review

in EUR million	2015	2016	Change
Net interest income	1,004.4	1,015.6	1.1%
Net fee and commission income	262.9	259.1	-1.4%
Net trading and fair value result	79.3	91.7	15.7%
Operating income	1,457.4	1,504.7	3.3%
Operating expenses	-552.4	-562.4	1.8%
Operating result	905.0	942.4	4.1%
Cost/income ratio	37.9%	37.4%	
Net impairment loss on financial assets	-321.1	-61.9	-80.7%
Other result	-22.7	-10.2	-55.3%
Net result attributable to owners of the parent	417.0	653.0	56.6%
Return on allocated capital	13.3%	22.3%	

Net interest income increased primarily due to the positive business development in Austria. Net fee and commission income declined due to the non-recurrence of several one-off effects in the Large Corporate business of the Holding. The improved net trading and fair value result was attributable to derivative valuation effects in the Czech Republic. Although operating expenses increased due to higher project costs and the first time consolidation of a real estate developer entity in Austria, the cost/income ratio went down. The net impairment loss on financial assets declined substantially on the back of significantly lower risk provisions in the Holding and Croatia. The other result improved due to lower provisions for contingent credit risk liabilities. The banking tax increased to EUR 7.6 million (3.9 million) due to a one-off payment in the amount of EUR 4.6 million in Austria. Consequently, the net result attributable to the owners of the parent improved notably.

Credit risk

Credit risk exposure in the Corporates segment rose by EUR 1.0 billion to EUR 61.4 billion (+1.7%) at year-end. Loans to customers, by contrast, slightly declined to EUR 44.7 billion (-EUR 282 million). As a percentage of Erste Group's total loans to customers, they decreased to 33.1% (34.1%). The difference between credit risk exposure and the customer loan portfolio in the 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 loan quality in the Corporates segment. The NPL ratio dropped to 6.1% (9.9%). The share of low risk loans rose substantially to 84.3% (78.4%).

GROUP MARKETS

Financial review

in EUR million	2015	2016	Change
Net interest income	221.8	212.1	-4.4%
Net fee and commission income	198.6	203.7	2.6%
Net trading and fair value result	65.9	96.9	47.0%
Operating income	488.2	515.1	5.5%
Operating expenses	-225.6	-223.4	-1.0%
Operating result	262.5	291.7	11.1%
Cost/income ratio	46.2%	43.4%	
Net impairment loss on financial assets	13.1	11.4	-12.4%
Other result	-5.1	4.9	n/a
Net result attributable to owners of the parent	209.3	235.6	12.5%
Return on allocated capital	30.5%	37.6%	

Net interest income decreased primarily due to the generally low interest rate environment and lower margins on loans granted to financial institutions. Net fee and commission income increased on the back of higher investment funds related fees. The increase in net trading and fair value result was attributable to positive market developments affecting fixed income, money market and credit trading products. Therefore, operating income increased. As operating expenses decreased, this led to an improvement in operating result and the cost/income ratio. Other result improved due to the resolution of a claim. Overall, net result attributable to the owners of the parent increased.

ASSET/LIABILITY MANAGEMENT & LOCAL CORPORATE CENTER

Financial review

in EUR million	2015	2016	Change
Net interest income	34.3	-93.7	n/a
Net fee and commission income	-44.4	-64.4	45.0%
Net trading and fair value result	-62.1	-22.5	-63.7%
Operating income	-35.4	-135.2	281.7%
Operating expenses	-86.1	-117.3	36.3%
Operating result	-121.5	-252.5	107.8%
Cost/income ratio	>100%	-86.8%	
Net impairment loss on financial assets	-5.3	-9.6	82.6%
Other result	-144.8	-28.2	-80.5%
Net result attributable to owners of the parent	-216.7	-214.4	-1.0%
Return on allocated capital	-9.8%	-9.6%	

Net interest income declined considerably mainly due to lower ALM contribution on the back of an unfavourable yield curve development. The decrease in net fee and commission income was primarily related to lower fee income in Erste Bank Oesterreich. Net trading and fair value result improved mainly due to valuation effects of derivatives. The increase in operating expenses was attributable to higher IT costs in Slovakia and the first-time depreciation of the new headquarters in Vienna. Overall, operating result deteriorated. Other result improved as the selling gain of the shares in VISA Europe (EUR 138.7 million) and the reduction of the banking tax in Hungary offset the temporarily higher Austrian banking tax due to a one-off payment in the amount of EUR 25.4 million preceding a significant reduction of future annual banking tax payments. The net result attributable to the owners of the parent was almost unchanged.

SAVINGS BANKS

Financial review

in EUR million	2015	2016	Change
Net interest income	929.7	955.8	2.8%
Net fee and commission income	439.3	429.7	-2.2%
Net trading and fair value result	3.1	5.3	68.9%
Operating income	1,435.3	1,446.0	0.7%
Operating expenses	-966.0	-1,021.8	5.8%
Operating result	469.3	424.2	-9.6%
Cost/income ratio	67.3%	70.7%	
Net impairment loss on financial assets	-83.6	-54.2	-35.1%
Other result	6.3	-56.8	n/a
Net result attributable to owners of the parent	41.6	34.1	-18.2%
Return on allocated capital	14.3%	9.3%	

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 declined mainly due to lower fees from securities and insurance business. Net trading and fair value result improved on the back of positive derivatives valuation. Operating expenses went up due to the contribution to the deposit insurance fund of EUR 24.2 million (EUR 12.2 million – in 2015, the first payment was due only in the second half of the year) as well as higher personnel and IT expenses. Therefore, operating result decreased, the cost/income ratio went up. Net impairment loss on financial assets decreased. Other result deteriorated due to valuation effects and due to the selling gain on AfS securities in 2015. Banking tax increased to EUR 47.0 million (EUR 15.0 million) on the back of a one-off payment of EUR 32.6 million preceding a significant reduction of future annual banking tax payments The payment into the resolution fund increased to EUR 8.5 million (EUR 8.0 million). Overall, the net result attributable to owners of the parent decreased.

Credit risk

Credit risk exposure in the Savings Banks segment increased to EUR 56.1 billion (55.1 billion) while loans to customers advanced to EUR 40.6 billion (+3.3%; EUR 39.3 billion). Their share in total customer loans amounted to 30.0% (29.8%) at year-end. Robust growth was particularly registered in lending to private households (+5.2%). Their share in the Savings Banks' total customer loan portfolio increased to 38.3% (37.6%). Lending to freelance professionals, other self-employed persons and small businesses declined by 1.7%. At 16.2% of total loans, the share of this customer segment was again 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. Swiss franc denominated foreign-currency loans declined further to EUR 3.0 billion (-EUR 543 million). The trend towards higher collateralisation of loans continued. The quality of the loan portfolio was again very solid. Non-performing loans as a percentage of total loans to customers decreased by 0.7 percentage points to 4.9%. The development was especially positive among corporate customers.

GROUP CORPORATE CENTER

Financial review

in EUR million	2015	2016	Change
Net interest income	66.2	77.4	16.9%
Net fee and commission income	18.3	6.4	-64.9%
Net trading and fair value result	12.4	2.0	-84.0%
Operating income	129.3	112.0	-13.4%
Operating expenses	-689.5	-871.5	26.4%
Operating result	-560.2	-759.4	35.6%
Cost/income ratio	>100.0%	>100.0%	
Net impairment loss on financial assets	-40.4	-62.2	54.2%
Other result	375.8	307.3	-18.2%
Net result attributable to owners of the parent	-202.7	-408.1	>100.0%
Return on allocated capital	-5.0%	-7.2%	

The increase in net interest income almost fully offset lower net fee and commission income. Net trading and fair value result decreased due to valuation effects. The increase in operating expenses was mainly due to higher IT expenses and costs related to the move into the new headquarters in Vienna. Other result declined significantly due to the higher Austrian banking tax. The one-off payment of EUR 138.3 million precedes a significant reduction of future annual banking tax payments in Austria. This line item also included a partial impairment of the goodwill in Slovenská sporiteľňa in the amount of EUR 61.3 million. Consequently, the net result attributable to the owners of the parent declined.

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 according to the local management responsibility.

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 segment 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 Corporates 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), 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 developed and open economy of Austria is well diversified across sectors, benefitting from a high value adding industrial base, well educated workforce, and a strong service sector. In terms of GDP per capita of 40,100, the country remained one of the richest countries in the euro zone. Economic growth in 2016 was mainly driven by domestic demand, which benefitted from higher consumer confidence, low inflation and an increase in disposable income. The income tax reform came into force in the beginning of 2016 and contributed to an increase in private consumption. Imports increased on the back of stronger demand for investment goods, while net exports declined. Although the unemployment rate increased further, reaching 6.0%, it was still low compared to the euro zone average. Overall, real GDP grew by 1.5%.

Political stability prevailed throughout the year, irrespective of changes in the government and presidential elections. In May, the chancellor resigned and the Social Democrats nominated the successor. Presidential elections were held in December. Austria kept its general government deficit at a relatively low level of 1.4% in 2016. Revenues were positively impacted by strong increase in tax revenues, while expenditures increased only moderately. Public debt as a percentage of GDP decreased and stood at 83.2%, still high compared to most of the CEE countries. Despite these improvements, in June 2016 Moody's downgraded Austria's long-term credit rating to Aa1 from Aaa, while the outlook was changed from negative to stable. Standard & Poor's and Fitch kept their ratings at AA+ with a stable outlook.

Although inflation was higher than the average in the euro zone, it remained well under control throughout the year. Inflation was impacted by an increase of the household's disposable income following the tax reform. The price increase in the service sector was most pronounced in tourism. Property prices continued to rise moderately, mainly driven by high demand in real estate and construction. Overall, average consumer prices increased by 1.0. After keeping the base rate at 0.05% throughout 2015, the European Central Bank cut the main interest rate to zero in March 2016 as part of its effort to boost growth in the euro zone.

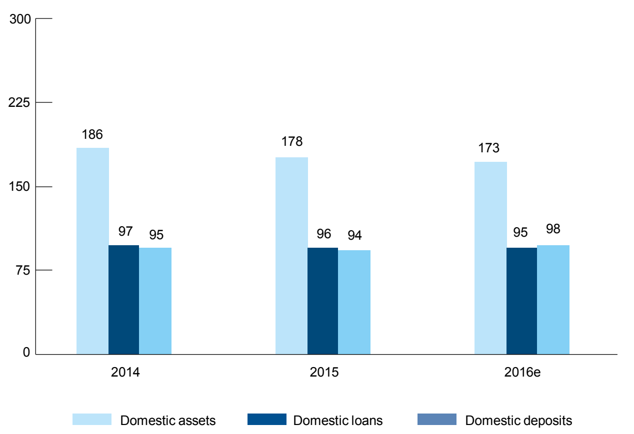
Key economic indicators – Austria	2013	2014	2015	2016e
Population (ave, million)	8.5	8.5	8.6	8.7
GDP (nominal, EUR billion)	322.6	330.4	339.9	348.4
GDP/capita (in EUR thousand)	38.2	38.8	39.6	40.1
Real GDP growth	0.1	0.6	1.0	1.5
Private consumption growth	0.1	0.0	0.0	1.5
Exports (share of GDP)	39.0	39.5	40.1	40.2
Imports (share of GDP)	40.5	40.7	41.2	41.7
Unemployment (Eurostat definition)	5.4	5.6	5.7	6.0
Consumer price inflation (ave)	2.1	1.5	0.8	1.0
Short term interest rate (3 months average)	0.3	0.1	0.0	-0.3
EUR FX rate (ave)	1.0	1.0	1.0	1.0
EUR FX rate (eop)	1.0	1.0	1.0	1.0
Current account balance (share of GDP)	2.0	2.4	1.8	2.4
General government balance (share of GDP)	-1.3	-2.7	-1.0	-1.4

Source: Erste Group

Market review

The Austrian banking market, with total assets of 239% of GDP in 2016, 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 CEE but benefitted from its traditionally low risk costs. Challenges to profitability persisted in the form of relatively high costs compared to banking markets in CEE and the one-off banking tax payment in the fourth quarter of 2016. Growth rates remained low throughout the year, customer loans expanded by 1.8% and deposits increased by 6.4%. The banking system's loan-to deposit-ratio ratio stood at 97.2%.

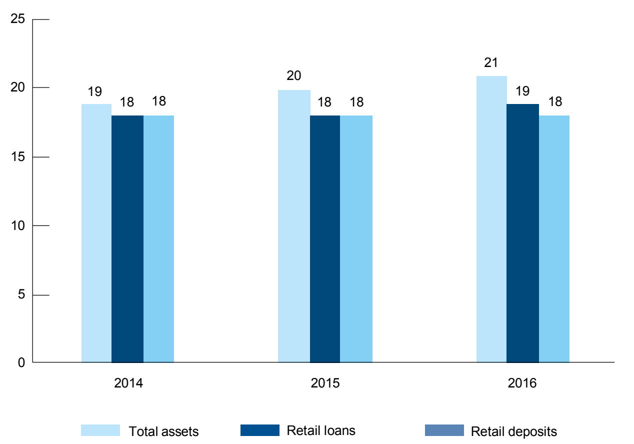
Financial intermediation – Austria (in % of GDP)



Source: Oesterreichische Nationalbank, Erste Group

The annual banking tax remained unchanged at a high level. In December 2016, the parliament approved the government's proposal to lower the banking levy to around one fifth from 2017 onwards. As part of an agreement with the government, the banks agreed to pay an additional one-time contribution of approximately EUR 1 billion banking levy, which the state plans to spend on education, research and infrastructure.

Market shares – Austria (in %)



Source: Oesterreichische Nationalbank (data as of Q3 2016), Erste Group

Erste Bank Oesterreich and the savings banks have a very strong market position in the Austrian market. The three largest banks of the Austrian market continued to have a combined market share of approximately 60% in customer loans and deposits. The market share of Erste Bank Oesterreich and the savings banks in terms of total assets stood at 21% at the end of the year. 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.

ERSTE BANK OESTERREICH & SUBSIDIARIES

Business review – Highlights

Innovation in banking. By launching its online platform *George,* Erste Bank Oesterreich affirmed its leading position as innovation leader in the market. While core functions such as the personalised design of user profiles and payment transfers in just a few steps are available to every user, individual extensions can be added by installing plug-ins. A subscription to *George*, the so-called *George* Abo, gives customers a choice of predefined plug-in packages.

The bank's digital offering also includes simple consumer loans, and, in January 2017, Erste was the first bank in the country to enable customers to open bank accounts using video identification.

Continued growth. Despite the persistent low interest rate environment, demand for secure savings products remained high. Overall, Erste Bank Oesterreich reported an increase in deposits by nearly 5%. The bank also posted robust lending growth. The volume of new loans increased by around 10%, particularly in the retail business.

Attractive offerings with fixed interest rates – also for longer maturities – allow Erste Bank Oesterreich's customers to benefit from and lock in low interest rates. As in the previous year, significantly more than half of all housing loans were granted at fixed interest rates.

Attractive branch concept. The rollout of the new branch concept was continued. 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 advisory branches. For customers, this means clearly designed and welcoming branches, rooms for discreet meetings, faster handling of their requests and proactive support in the foyers.

After the transformation, customer satisfaction increased at all newly opened advisory branches. The refurbishment also had a positive impact on the Erste Bank brand. The new branches are perceived as modern and inviting places. The information desk is clearly identifiable and customers appreciate that they immediately have a contact person to talk to.

International recognition. Erste Group won the prestigious *Best Private Bank in CEE* award conferred by the financial magazine *The Banker* for the third time in a row and was also recognised for *Best Private Banking* in Austria for the third time within four years. The jury of experts drawn from the private banking and asset management industry compared more than 120 banks from 60 countries.

Financial review

in EUR million	2015	2016	Change
Net interest income	639.5	660.5	3.3%
Net fee and commission income	370.8	334.6	-9.8%
Net trading and fair value result	-0.6	16.2	n/a
Operating income	1,040.0	1,057.5	1.7%
Operating expenses	-640.3	-666.9	4.2%
Operating result	399.7	390.6	-2.3%
Cost/income ratio	61.6%	63.1%	
Net impairment loss on financial assets	-59.0	-29.3	-50.4%
Other result	-25.6	-18.5	-27.5%
Net result attributable to owners of the parent	231.1	228.4	-1.2%
Return on allocated capital	18.9%	19.3%	

Net interest income increased as higher loan volumes and re-pricing of deposits offset the negative effect from the low interest rate environment. While the net fee and commission income declined mainly due to lower securities fees, the net trading and fair value result increased primarily due to valuation effects of derivatives. Operating income further increased due to the first time consolidation of a real estate developer in Austria. Operating expenses increased due to deposit insurance contributions in the amount of EUR 19.2 million (EUR 9.2 million – in 2015, the first payment was due only in the second half of the year), higher IT costs and the first time consolidation of a real estate developer entity in Austria. Therefore, operating result decreased and the cost/income ratio went up. Net impairment loss on financial assets decreased substantially on the back of lower risk provisions in the corporate business. The improvement of other result was driven by releases of provisions for contingent credit risk liabilities, selling gains for buildings and the selling gain of the shares in VISA Europe in the amount of EUR 12.2 million. Banking tax increased to EUR 44.4 million (EUR 14.9 million), because of the one-off payment in the amount of EUR 30.0 million preceding a significant reduction of future annual banking tax payments in Austria. Payment into recovery and resolution fund increased to EUR 7.2 million (EUR 4.7 million). Overall, the net result attributable to owners of the parent went down marginally.

Credit risk

Credit risk exposure in the Erste Bank Oesterreich and Subsidiaries segment rose to EUR 39.0 billion (+2.8%). The volume of customer loans increased to EUR 31.0 billion (+3.2%). The share of this segment in Erste Group's total loan portfolio grew by 0.2 percentage points to 23.0%. The share of retail customers in total loan volume was almost unchanged at 40.0% (40.1%). The share of corporates, including self-employed individuals and small businesses, was likewise almost constant at 53.8% (53.9%). Loans to freelance professionals, the self-employed and small businesses are less significant than they are for the savings banks and amounted to 9.8% (9.9%) of total loans to customers. Lending to the public sector increased visibly to EUR 1.9 billion (+5.8%). Owing to the continued campaign to promote the conversion of foreign currency loans to euros, the share of Swiss franc loans in the total loan portfolio decreased further to 6.7% (7.9%). The quality of the loan portfolio improved. While low-risk loans increased above-average, non-performing loans as a percentage of total loans to customers declined by 0.4 percentage points to 2.5%. 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. Default rates were lowest in the public sector and private households customer segments.

SAVINGS BANKS

The geographical segment Savings Banks is identical to the business segment Savings Banks (see page 34).

Business review – Highlights

Growth in a challenging environment. Like Erste Bank Oesterreich, the savings banks also achieved significant growth in deposits and loans. Loans grew by around 4%, while the increase in deposits was more pronounced at over 5%. These growth rates were backed by intensive customer support and high service quality but also by the successful positioning as an innovative provider of banking services and the positive image that resulted from it.

Reducing complexity. Like Erste Bank Oesterreich, the savings banks also achieved significant growth in deposits and loans. Loans grew by around 4%, while the increase in deposits was more pronounced at over 5%. These growth rates were backed by intensive customer support and high service quality but also by the successful positioning as an innovative provider of banking services and the positive image that resulted from it.

Innovation in banking. For the savings banks innovation is key to creating more value for customers and raising customer satisfaction. With *George,* Erste Bank Oesterreich and the savings banks have developed a modern platform that already boasts a large number of active users. Online consumer loans were recently launched, and Erste Bank Oesterreich and the savings banks were the first financial institutions in the country to allow video identification when customers open bank accounts.

OTHER AUSTRIA

Business review – Highlights

Strong performance of Erste Asset Management. Erste Asset Management (EAM) continued to expand its business volume despite difficult market conditions. In terms of assets under management EAM is market leader in Austria, Romania and since 2016 also in the Czech Republic. Assets under management rose to EUR 57.2 billion (+2.3%). While *YOU INVEST* remained the main investment products for retail clients, *ERSTE BOND COPRORATE PLUS* was successfully issued in December and invests mainly in subordinated and hybrid bonds of international investment grade companies.

The performance of EAM was recognised by multiple awards. At the Austrian fund of funds awards, EAM ranked first in five categories. EAM was also awarded the FNG label for nine 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.

Success with syndicated loans and debt financing. Erste Group again demonstrated its syndicated loan capabilities, one example was the co-ordinated financing a EUR 615 million revolving credit facility for the Hungarian Oil & Gas group MOL, one of the largest syndicated loans in the CEE region in 2016. The facility was arranged as a club-deal with a group of ten relationship banks of MOL Group with Erste Group acting also as facility agent.

Erste Group also acted as M&A and debt advisor to Allianz Capital Partners in the acquisition of a minority stake in Gas Connect Austria GmbH from OMV Group. Erste Group, in co-operation with other advisors, assisted the bidders' consortium in securing binding non-recourse financing commitments up to EUR 310 million from a consortium of four international banks in which Erste Group played a substantial role as Mandated Lead Arranger and Agent. In addition, Erste Group supported a number of corporations and private equity fund customers in the domestic and international acquisition and project development activities, in particular with long term financings in the industrial and healthcare sectors.

Group Markets business. Group Markets activities comprise not only trading and markets services but also the entire financial institutions customer business. Despite negative interest rates and adverse effects on risk-weighted assets in Group Markets trading, Group Markets showed a strong performance, particularly in financial institutions and trading. Several efficiency measures were implemented and significant progress was made in numerous regulatory driven projects.

Real estate business. Thanks to a strong new business generation the portfolio volume remained stable. The robust risk profile of the supported the continued improvement of the overall portfolio quality and diversification. More than half of the new business volume was attributable to Austria and the Czech Republic. Erste

Group Immorent completed the development of the Enterprise Office building in Prague, which is considered a landmark office development and was sold with a significant profit. While the commercial real estate business was almost equally distributed between the asset classes logistics, office and retail, the share of financing of commercial development declined.

Group Research. In addition to its research publications, Erste Group organised institutional investor conferences in London, New York and Stegersbach/Austria. More than 80 stock-listed companies of Erste Group's core markets in CEE attended the conference in Stegersbach.

Financial review

in EUR million	2015	2016	Change
Net interest income	414.5	401.6	-3.1%
Net fee and commission income	202.3	197.8	-2.2%
Net trading and fair value result	6.5	20.5	>100.0%
Operating income	667.3	681.7	2.2%
Operating expenses	-344.6	-355.5	3.2%
Operating result	322.8	326.2	1.1%
Cost/income ratio	51.6%	52.2%	
Net impairment loss on financial assets	-78.7	-23.5	-70.1%
Other result	-8.4	25.6	n/a
Net result attributable to owners of the parent	170.6	248.1	45.4%
Return on allocated capital	10.6%	16.6%	

Net interest income decreased primarily due to the non-recurrence of one-off income in the real estate business in Austria and a lower contribution of business with financial institutions. Net fee and commission income declined due to lower asset management volumes and lower fees from lending business. The increase of net trading and the fair value result was predominantly attributable to the positive impact of mark-to-market valuations and better performance of credit trading products. Overall operating income improved. Despite an increase in general administrative expenses driven by higher project related costs, operating result went up. The cost/income ratio worsened. Net impairment loss on financial assets improved significantly on the back of lower provisioning requirements in the corporate business of the Holding. Other result improved significantly due to releases of provisions for contingent credit risk liabilities. This line item also included a resolution fund contribution of EUR 3.1 million (EUR 3.8 million). The net result attributable to the owners of the parent increased significantly.

Credit risk

Credit risk exposure in the Other Austria segment, which is almost completely made up of the Holding and Erste Group Immorent, declined further to EUR 29.1 billion (EUR 30.4 billion) or 13.6% (14.3%) of Erste Group's credit risk exposure. A large share of the business in this segment was accounted for by securities and investments with banks. Consequently, the share of loans to customers as a percentage of Erste Group's total loan portfolio was significantly lower than the contribution to credit risk exposure. It decreased to 9.3% (9.7%) at year-end 2016. The decline in loans to customers to EUR 12.5 billion (-EUR 258 million) was primarily attributable to the commercial real estate business. As a result of portfolio clean-ups, lending to this segment declined significantly to EUR 3.6 billion (-EUR 645 million). Lending to medium-sized enterprises and the public sector increased. Non-performing loans declined by almost a half. Their share in the total loan portfolio fell to 5.5% (10.5%). This was largely attributable to sales of at-risk loans. Within the category of performing loans, there was a clear migration to better risk categories.

Central and Eastern Europe

CZECH REPUBLIC

Economic review

The Czech Republic remained one of the most stable and developed economies in Central Europe. Although the country is among the most open economies in the region, growth in 2016 was also supported by household consumption. Consumption was positively impacted by higher consumer confidence, lower unemployment, and accelerating growth of real wages. Investments, on the other hand, decreased visibly in 2016 due to a lower level of the absorption rate related to European Union funds. Foreign demand also supported economic growth, mainly driven by the country's largest export partner Germany. Industrial production benefitted significantly from the strong performance of the automotive industry. Overall, real GDP expanded by 2.3% in 2016, while GDP per capita stood at EUR 16,600. Reflecting the strong economic performance, the unemployment rate decreased further to 4.1%, the lowest in the European Union.

Since the coalition government of the Social Democrats, the centrist ANO movement and centre-right Christian Democrats took over in early 2013, the political situation in the Czech Republic has remained stable. This stability supported the positive macroeconomic developments in 2016. The Czech Republic achieved a budget surplus of 0.5%. State revenues were positively impacted by growing contributions from personal income tax and higher tobacco excise tax. Public expenditure was driven by rising wages in state administration and higher expenses for education. Public debt as a percentage of GDP was again one of the lowest in Central and Eastern Europe and declined further to 37.2%. Standard &

Poor's had the country's long-term rating at AA-, Moody's at A1 and Fitch at A+, with each giving a stable outlook.

Inflation was low and hovered around zero in the first three quarters of 2016. Prices, however, started to rise in autumn, mainly driven by rising domestic demand, higher wages and fading of the negative fuel price contributions from 2015. Overall, the average consumer price index stood at 0.7%. The Czech koruna remained stable in 2016, supported by the country's strong fundamentals and the National Bank's commitment to keep the Czech crown at 27 against the euro. The National Bank kept its main policy interest rate unchanged at 0.05% throughout the year.

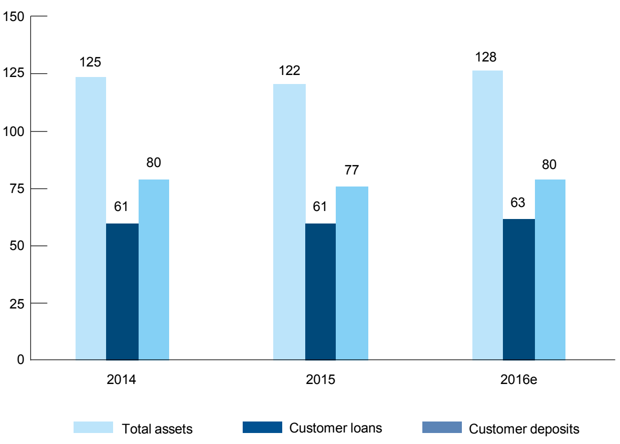
Key economic indicators – Czech Republic	2013	2014	2015	2016e
Population (ave, million)	10.5	10.5	10.5	10.5
GDP (nominal, EUR billion)	157.6	156.5	167.0	174.7
GDP/capita (in EUR thousand)	15.0	14.9	15.9	16.6
Real GDP growth	-0.5	2.7	4.6	2.3
Private consumption growth	0.5	1.8	3.1	2.7
Exports (share of GDP)	68.0	73.1	76.7	76.4
Imports (share of GDP)	65.4	69.5	71.5	70.7
Unemployment (Eurostat definition)	6.8	5.9	5.1	4.1
Consumer price inflation (ave)	1.4	0.3	0.3	0.7
Short term interest rate (3 months average)	0.5	0.4	0.3	0.3
EUR FX rate (ave)	26.0	27.6	27.3	27.0
EUR FX rate (eop)	27.5	27.9	27.1	27.0
Current account balance (share of GDP)	-0.5	0.2	0.9	2.1
General government balance (share of GDP)	-1.3	-1.9	-0.4	0.5

Source: Erste Group

Market review

The Czech banking market benefitted from the sound macroeconomic environment and was characterised by high demand for banking products.

Financial intermediation – Czech Republic (in % of GDP)



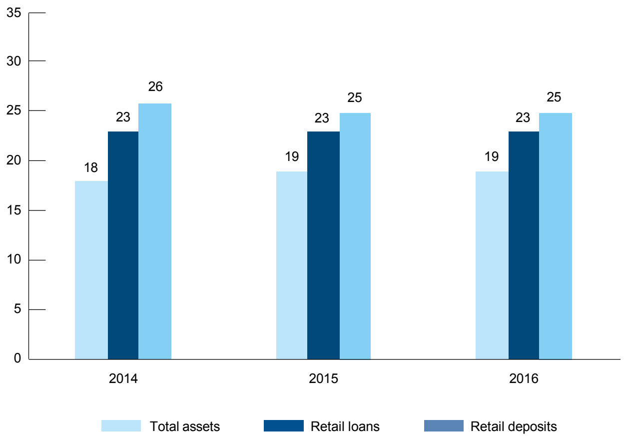
Source: Czech National Bank, Erste Group

Supported by increased household consumption and a further improvement in consumer confidence level, customer loans grew by 6.0%. Growth of the lending market was balanced between the corporate and retail business with the latter mainly driven by higher demand for mortgage loans. Customer deposits increased significantly by 7.0%, despite the very low interest rates. The three largest banks continued to have a combined market share of approximately 60% in customer loans and deposits. The Czech banking market remained one of the most liquid and well-capitalised markets in the region. The solid fundamentals are demonstrated by a system-wide loan-to-deposit ratio of 78% and a capital adequacy ratio of 18%.

Despite the very low interest rate environment, margin pressure and declining fee and commission income, the Czech banking market achieved its most profitable year. Positive asset quality trends continued and non-performing loans were below 5%, one of the lowest in the European Union. Foreign-currency lending remained insignificant. The sale of VISA stakes also contributed to the profitability of the sector. The strength of the sector was demonstrated by the return on equity of 15.3%. Regulatory topics, such as higher capital requirements and consumer protection initiatives like new rules on early repayment of mortgage loans and loan to value cap of 95% on new mortgage loans also influenced the development of the Czech banking market.

Česká spořitelna maintained its market leadership positions across all product categories. Its retail market shares ranged from 23% to 26%, while its market shares in the corporate segment remained at around 20%. Česká spořitelna increased its market shares both in retail and corporate lending. Overall, its market share in terms of total assets stood at 18.9%. The company retained its top position in consumer lending including the credit card business with a market share of 29%. Česká spořitelna defended its strong position in asset management products, with a market share of approximately 25%, the highest in the country.

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. *My Healthy Finances* was rolled out across the entire branch network. This innovative service is based on the principle of new products and in particular personal advisory services, which help clients to monitor and manage their family incomes and expenditure. The advisors at Česká spořitelna offer clients the best solution for their current financial needs. With *My Healthy Finances* the bank further improved client satisfaction.

The emphasis on personal advisory services is also projected in the concept for a new type of branch – centres of healthy finances. New branches are exceptional in that they now offer a different type of service. Advisors do not have a fixed position, they do not wait until clients come to them, but actively contact clients themselves. Via videoconference, they are even able to redirect a client to a loan specialist who can prepare a loan offer within a few minutes. This type of branch is suitable in locations with the highest concentration of people such as shopping centres, transport hubs or busy shopping streets in cities.

Success in mortgage and consumer lending. Česká spořitelna's continued its strong performance in mortgage lending. The volume of newly provided mortgages achieved a record level and with a year-on-year growth of 12%, the bank defended its number one position on the Czech market.

The auspicious economic situation and offerings of Česká spořitelna are also reflected in the consumer loan portfolio, so that the bank could reverse the rather weak trend of the past years Česká spořitelna confirmed its number one position on the consumer loan market.

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. The specialised solutions of the bank cover the whole company lifecycle. For the start-up stage, Česká spořitelna is the only bank in the Czech Republic to offer the unique *INOSTART* programme with a guarantee by the Czech-Moravian Guarantee and Development Bank, which this year also achieved significant growth. The portfolio of guaranteed loans which the bank is able to offer its clients ranging from start-up, right through to large companies, is unique. Česká spořitelna achieved a double-digit growth in corporate loan volumes.

In 2016, Česká spořitelna was able to achieve a great result in distribution of mutual funds and took the top spot in the Czech Republic with a market share in excess of a quarter of the market. The stars of the funds for example include the share-based TOP Stock or the property-based ČS nemovitostní fond, which are the largest funds on the Czech market in their categories. The market for open-ended mutual funds grew by 8% from the start of 2016, whereas Česká spořitelna grew by 13%.

International and local recognition. Česká spořitelna defended the *Most Trustworthy Bank* title in the prestigious competition Bank of the Year by Fincentrum for the fourteenth time in a row. It also defended the first position in the category *Bank without Barriers*.

Financial review

in EUR million	2015	2016	Change
Net interest income	923.0	914.3	-0.9%
Net fee and commission income	375.8	344.3	-8.4%
Net trading and fair value result	103.5	105.5	2.0%
Operating income	1,431.7	1,384.5	-3.3%
Operating expenses	-681.2	-671.2	-1.5%
Operating result	750.5	713.3	-5.0%
Cost/income ratio	47.6%	48.5%	
Net impairment loss on financial assets	-97.1	-70.5	-27.4%
Other result	-20.9	27.7	n/a
Net result attributable to owners of the parent	498.3	542.0	8.8%
Return on allocated capital	29.5%	31.1%	

Net interest income in the Czech Republic segment (comprising Česká spořitelna Group) declined primarily because of the maturing of high yielding government bonds. Net fee and commission income declined mostly due to lower private current account fees and the implementation of debit and credit card fee caps as of the third quarter of 2015. Net trading and fair value result increased slightly on the back of higher result from derivatives and foreign exchange. The lower deposit insurance contribution of EUR 7.4 million (EUR 37.1 million) led to a decline in operating expenses although personnel costs increased. Operating result thus decreased, the cost/income ratio went up. The decline of net impairment loss on financial assets was attributable to an improvement in retail portfolio quality. Other result improved on the back of the selling gains of the shares in VISA Europe in the amount of EUR 52.6 million. The resolution fund contribution amounted to EUR 14.7 million (no payment in 2015). Overall, these developments led to an increase in the net result attributable to the owners of the parent.

Credit risk

Credit risk exposure in the Czech Republic segment rose to EUR 36.5 billion (+7.8%). Loans to customers rose at the same pace to EUR 21.9 billion (20.3 billion) at year-end, with most of the growth posted in the retail business. Customer loan volume in this segment as a percentage of Erste Group's total loans to customers increased to 16.2% (15.4%). In terms of business volume, the Czech Republic is thus still by far the second most important market for Erste Group after Austria. The quality of customer loans was significantly better than in Erste Group's other core markets in Central and Eastern Europe. Due to proactive and effective credit risk management, non-performing loans as a percentage of the total customer loan portfolio decreased to 3.2% (4.1%), which continued the positive development of recent years. Improvements were seen in all customer segments but most notably among retail customers and small enterprises. Default rates were again lowest in the retail segment. Provisioning for non-performing loans through loan loss provisions increased substantially to 82.8% (72.4%).

SLOVAKIA

Economic review

The Slovak economy – one of the most open economies in the CEE region – achieved again a strong performance in 2016. Although economic growth was to a significant degree driven by robust household consumption, exports also contributed to the country's favourable performance. Consumption benefitted from further improvement in the labour market, growing real wages and declining price levels. The unemployment rate decreased below 10% for the first time since 2008 and stood at 9.6% at year-end, still high compared to most of the countries in the region. Exports were supported by the country's car industry as Slovakia remained the world's top car producer per capita. Economic growth, however, was restrained by the visible slowdown of the withdrawal of European Union funds. Overall, real GDP grew by 3.3%, while GDP per capita amounted to EUR 14,800 at the end of the year.

The fiscal stance of Slovakia continued to improve. Tax revenues increased significantly and were supported by robust corporate income tax reflecting rising profitability and by growing personal income tax and social contributions. The fiscal deficit stood at 2.2%. The country's public debt as a percentage of GDP remained low at 52.4%. Parliamentary elections were held in March 2016, political stability prevailed for the rest of the year. Slovakia lead the presidency of the European Union between July and December.

Slovakia experienced mild deflation as consumer prices declined for the third consecutive year. Inflation was negatively impacted by falling energy and food prices, while prices in the service industry continued to rise moderately throughout the year. Overall, average consumer prices declined by 0.5%. Having adopted the euro in 2009, Slovakia continued to benefit from low euro zone interest rates. Standard & Poor's and Fitch had the country's long-term rating at A+ and Moody's at A2, with each giving a stable outlook.

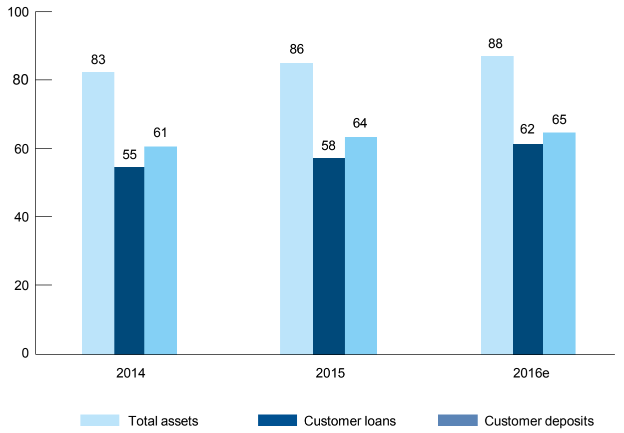
Key economic indicators – Slovakia	2013	2014	2015	2016e
Population (ave, million)	5.4	5.4	5.4	5.5
GDP (nominal, EUR billion)	74.2	75.9	78.4	80.9
GDP/capita (in EUR thousand)	13.7	14.0	14.5	14.8
Real GDP growth	1.5	2.6	3.8	3.3
Private consumption growth	-0.8	1.4	2.2	2.8
Exports (share of GDP)	83.8	82.4	84.0	83.9
Imports (share of GDP)	79.7	78.6	81.7	80.3
Unemployment (Eurostat definition)	14.2	13.2	11.5	9.6
Consumer price inflation (ave)	1.4	-0.1	-0.3	-0.5
Short term interest rate (3 months average)	0.2	0.2	0.0	-0.2
Current account balance (share of GDP)	2.0	0.1	-1.3	1.3
General government balance (share of GDP)	-2.7	-2.7	-2.7	-2.2

Source: Erste Group

Market review

The positive macroeconomic environment continued to favourably impact the country's banking market which maintained its growth at a sustainable pace in 2016. Customer loans increased by 10.2%, with the retail business growing by 13.5% and corporate loans by 6.9%. Foreign-currency lending remained insignificant. Customer deposits, mainly driven by retail business, rose by 4.7% which led to a loan-to-deposit ratio of 95%. The three largest banks continued to have a combined market share of approximately 60% in customer loans and deposits. The banking sector remained well capitalised with a capital adequacy ratio of 17.3% and a tier 1 ratio of 15.7%.

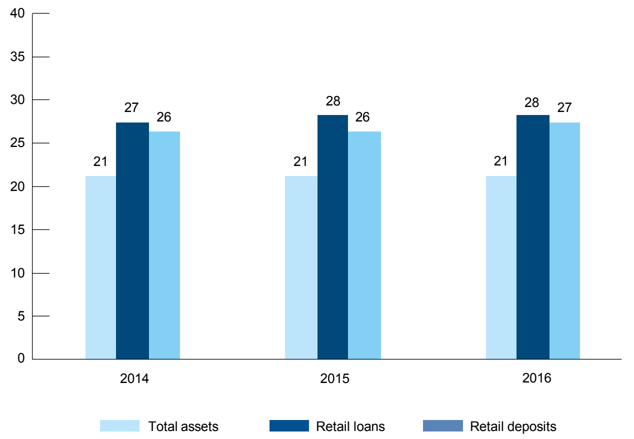
Financial intermediation – Slovakia (in % of GDP)



Source: National Bank of Slovakia, Erste Group

Despite the very low interest rate environment, banking tax and regulatory changes limiting fees at 1% in case of early repayment of housing loans, Slovakia's banking sector continued to be profitable. The sector's return of equity reached 10.0% at the end of 2016. Low interest rates led to declining net interest income but also supported the positive asset quality trends throughout the year. Non-performing loans decreased further to 4.5%. Banks continued to pay banking tax at 0.2% of total liabilities excluding equity and subordinated debt. Profitability of the sector was also impacted by deposit insurance and resolution fund contributions, which was offset by the one-off gain from the sale of VISA stakes.

Market shares – Slovakia (in %)



Source: National Bank of Slovakia, Erste Group

Slovenská sporiteľňa successfully retained its leading market positions. The bank continued to control one fifth of the country's banking market in term of total assets and led the market in retail loans and deposits. In the retail loan business, the bank's market share amounted to 27.5%. At 12.3%, its market share in corporate deposits was significantly lower than in retail deposits, which stood at 27.1%. Slovenská sporiteľňa remained its strong position in asset management products with a market share of approximately 25%.

Business review – Highlights

New branch and advisory concept. With 287 branches and 795 ATM machines, Slovenská sporiteľňa has the widest banking distribution network in Slovakia. The bank continued to focus on customer experience and launched a new branch concept along with a new customer service standard. This should result in shorter waiting time for the customers, easier navigation in branches and more comfortable premises, offering new waiting zone and more privacy. Following the successful pilot in 2016, the improvements should be applied in a wider branch network in 2017.

Slovenská sporiteľňa also significantly improved the quality of client advisory with a rollout of tablets to all the advisors. Customers can be conveniently informed about their products and their needs financial needs can easily be discussed. In addition, the usage of tablets simplifies the sales process. Two new savings products are now offered through tablets with a paperless signature at the end of the process.

Sales performance through digital channels. Slovenská sporiteľňa significantly increased the sales of consumer loans and overdrafts in internet banking. The total volume of digital sales (i.e. paperless, branchless sales of loans, originated in one of the digital channels and finished there, partially with the assistance of the call centre) tripled to almost EUR 50 million in 2016. Digital sales focus on personalised offers, risk-based pricing equal to the branch offer and multichannel processing. Apart from that, customers with unfinished applications are contacted and supported by the call centre.

To further grasp the potential of active campaigns, the headcount of call centre agents was increased. The call centre focuses on servicing customers in the digital environment and to support them in purchasing products without visiting a branch.

Banking for corporate customers. In the corporate segment, the most important novelty of last year was the upgrade of the electronic banking *Business 24*. Customers can actively manage their current and term deposits, standing orders, payments (e.g. including mandate database, payment cancellation and revocation, allocation of the individual exchange rate) and check their loan statements. In addition to the customisable website, *Business 24* now allows the secure exchange of financial statements, claims and other documents between the customers and the bank.

International and local recognition. Slovenská sporiteľňa has again been awarded with multiple prizes. For the fifth time in a row, the bank received the prestigious award *TOP Bank of the Year* awarded by the local economic weekly journal *TREND* for its exceptional business results, winning by a wide margin. Amongst others, Slovenská sporiteľňa was also awarded the prize *Bank without Barriers*, selected by members of the Slovak Paralympic Committee.

Financial review

in EUR million	2015	2016	Change
Net interest income	458.0	453.0	-1.1%
Net fee and commission income	121.4	121.7	0.2%
Net trading and fair value result	8.8	12.6	42.8%
Operating income	600.1	595.4	-0.8%
Operating expenses	-266.1	-275.1	3.4%
Operating result	334.0	320.4	-4.1%
Cost/income ratio	44.3%	46.2%	
Net impairment loss on financial assets	-58.0	-48.2	-16.9%
Other result	-32.5	11.0	n/a
Net result attributable to owners of the parent	184.8	213.3	15.4%
Return on allocated capital	28.7%	33.7%	

Net interest income in the Slovakia segment (comprising Slovenská sporiteľňa Group) decreased slightly mainly due to a lower asset/liability management contribution in the low interest rate environment that was not fully compensated by higher loan volumes, particularly in housing and consumer loans. Net fee and commission income remained stable as lower fee expenses for card transactions and higher loan prepayment fees were offset by lower card and deposit account maintenance fees. The increase in the net trading and fair value result was driven by the valuation of derivatives. Operating expenses increased mainly due to higher personnel expenses. The booking of deposit insurance contributions amounted to EUR 2.5 million (EUR 2.4 million). Consequently, operating result decreased, the cost/income ratio went up. Net impairment loss on financial assets decreased due to lower provisioning requirements in corporate business. The selling gains of the shares in VISA Europe (EUR 26.8 million) impacted the other result positively, the payment into the resolution fund decreased to EUR 4.0 million (EUR 7.3 million). Banking tax increased to EUR 25.1 million (EUR 23.6 million). Overall, the net result attributable to the owners of the parent improved.

Credit risk

Credit risk exposure in the Slovakia segment rose to EUR 15.7 billion (+7.4%). Loans to customers increased to EUR 10.6 billion (+9.1%) at year-end. Slovakia was thus one of the most dynamic segments of Erste Group. Its share of Erste Group's total loan portfolio rose by 0.5 percentage points to 7.8%. The breakdown of the portfolio by customer segment showed a further shift towards retail loans. The share of loans to private households rose to 73.3% (71.0%) of total customer loans and was significantly larger than in the other geographical segments. The share of loans to corporates and the public sector in the total portfolio decreased to 26.7%. This customer mix also explains the large share of secured business of almost 63.6% of the entire loan portfolio. After a temporary rise of the NPL-ratio to 5.6% following a modified definition of NPLs in 2015, non-performing loans declined by EUR 65 million and the NPL ratio by 1.1 percentage points to 4.5% in 2016. Loan quality improved across all customer segments. The NPL coverage ratio based on loan loss provisions increased to 72%. Risk provisions together with collateral exceeded non-performing loan volume by almost one quarter.

ROMANIA

Economic review

The Romanian economy continued to perform well with GDP growth being one of the fastest in the European Union in 2016. The impressive growth was mainly driven by household consumption, which rose significantly on the back of wage increases, VAT reduction, and the low interest rate environment. Investments contributed to a lesser extent, mainly due to a further slowdown in EU-funds absorption. Although the Romanian car producers had another excellent year, exports did not contribute to economic growth. Chemical industry and raw materials continued to drag on exports. Agriculture, with its relatively high share in the overall economy, performed only moderately, due to a harsh drought and floods in some parts of the country throughout the summer. Altogether, real GDP grew by an impressive 4.8% in 2016, while GDP per capita amounted to EUR 8,500. The unemployment rate declined further and stood at 6.0%.

The Romanian political situation was rather volatile in 2016 and had an impact on the country's fiscal developments. After the resignation of the Social-Democratic government in November 2015, a technocratic caretaker government was elected. Due to broad fiscal easing and higher wages in the public sector, the budget deficit increased to 2.8% of GDP in 2016. In December, general parliamentary elections were held with the Social-Democrats winning by a wide margin. The public debt as a percentage of GDP decreased to 37.9%, low compared to some of the other countries in the CEE region. Despite the fiscal developments, Standard & Poor's and Fitch affirmed the country's long-term rating at BBB- with a stable outlook, while Moody's kept the rating at Baa3 with a positive outlook.

Inflation remained very low throughout the year and reached a new historical low in May. The cut of the VAT rate on food prices and non-alcoholic beverages to 9% in June 2015 hampered inflation in the first half of 2016, while the cut of the standard VAT rate to 20% in January 2016 also impacted price developments. Although inflation picked up slightly in the second half of the year, average consumer prices in Romania still decreased by 1.5%. The Romanian leu did not change significantly against the euro and stood in the range of 4.4 and 4.5. The National Bank kept its policy rate at 1.75% throughout the year.

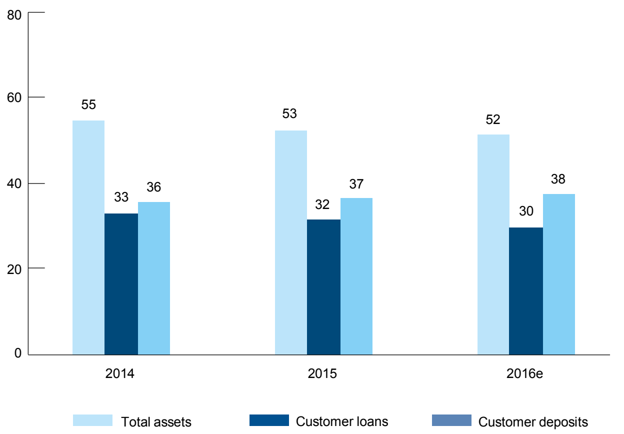
Key economic indicators – Romania	2013	2014	2015	2016e
Population (ave, million)	20.0	19.9	19.9	19.8
GDP (nominal, EUR billion)	144.3	150.3	160.0	169.1
GDP/capita (in EUR thousand)	7.2	7.5	8.0	8.5
Real GDP growth	3.5	3.1	3.9	4.8
Private consumption growth	-2.4	4.2	5.9	7.4
Exports (share of GDP)	34.4	34.9	34.1	33.9
Imports (share of GDP)	38.3	38.9	39.4	39.8
Unemployment (Eurostat definition)	7.1	6.8	6.8	6.0
Consumer price inflation (ave)	4.0	1.1	-0.6	-1.5
Short term interest rate (3 months average)	4.2	2.5	1.3	0.8
EUR FX rate (ave)	4.4	4.4	4.4	4.5
EUR FX rate (eop)	4.5	4.5	4.5	4.4
Current account balance (share of GDP)	-0.8	-0.5	-1.2	-2.4
General government balance (share of GDP)	-2.1	-0.8	-0.8	-2.8

Source: Erste Group

Market review

Although the Romanian banking market benefitted from positive macroeconomic developments, demand for lending products remained low. At 1.4%, customer loans grew insignificantly, as retails loans increased, while corporate loans declined. The latter was substantially influenced by the sale of non-performing loans throughout the year. Retail loans rose by 4.7%, mainly driven by local-currency mortgage loans. Customer deposits increased by 9.7%, with higher growth of retail than corporate products. The banking system's loan-to-deposit ratio dropped further and stood at 81%. The Romanian banking sector continued to be strongly capitalised with a solvency ratio of 18.3% at the end of the year.Despite pressure on revenues, which stemmed mainly from low interest rates coupled with limited loan growth, the Romanian banking sector was again profitable in 2016. The country's banking market continued to implement efficiency measures, including further workforce reductions and network optimisation. Lower risk provisions contributed significantly to the higher profitability. Asset quality improved again visibly, mainly driven by the continued resolution of non-performing loans as well as macroeconomic developments such as the low interest rate environment and declining unemployment rate.

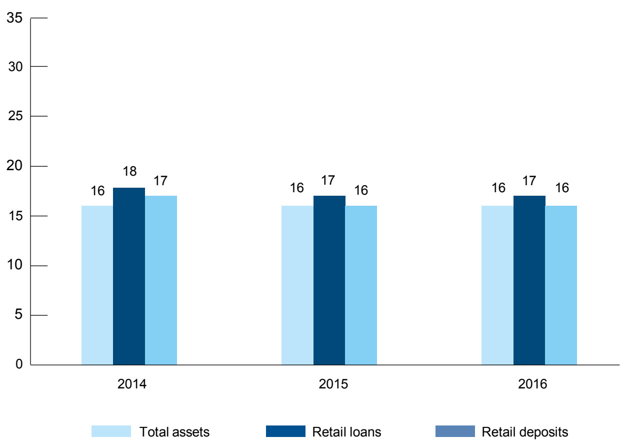
Financial intermediation – Romania (in % of GDP)



Source: National Bank of Romania, Erste Group

The banking market was also characterised by changes in the regulatory environment throughout the year. In April 2016, the Romanian Parliament approved a law allowing debtors to hand over to the bank the ownership of the mortgaged assets against a release from the outstanding debt. In September, the EU Mortgage Credit Directive was transposed into national law, which the Constitutional Court later declared unconstitutional. Nonetheless, these issues had only a limited direct impact on the country's banking sector. Prima Casa, a government guaranteed mortgage programme continued to be only available in local currency.

Market shares – Romania (in %)



Source: National Bank of Romania, Erste Group

Banca Comercială Română maintained its leadership positions in almost all major product categories, despite losing some market shares on the lending side. The bank's net result improved as a result of higher net provision releases. By the end of 2016, the bank was ranked number one by total assets, customer loans, customer deposits and asset management. The bank defended its market leader position in Prima Casa, with a share of approximately 25%. 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 13.5%. Customer deposit market share increased to 15.7%. In terms of total assets, Banca Comercială Română had a market share of 16.3%.

Business review – Highlights

Continued improvements in asset quality. After the extensive portfolio clean-up of the past two years, 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 substantially to EUR 928 million (-46.8%), the NPL ratio to 11.8% (20.2%). At the same time, the NPL-coverage improved to 85.3% (77.4%). Banca Comercială Română implemented further measures for streamlining risk assessment, the underwriting process and collateral management.

Customer satisfaction and new branch concept. Banca Comercială Română focused on increasing customer satisfaction and service excellence. The bank has started to implement a new bank office concept, the Financial Dialogue Centre, developed as a result of customers' suggestions and recommendations. The branches are featured by a modern and open architecture, the latest generation of banking devices and a wide range of financial education tools. About one thousand employees are prepared to become dedicated trainers in schools, universities and companies to support the development of financial literacy.

Focus on data excellence. The bank continued its business intelligence programme. It aims at creating the framework for integrated reporting, improved data quality management and efficient information flow within the bank. The focus is on a higher level of data quality and governance to support business management and compliance with regulators' requirements and to facilitate internal reporting transformation towards a more dynamic analysis and advanced risk management methodologies, tools and processes. The programme will contribute to improved data sharing across the entire organisation and will allow the bank to respond more effectively to regulatory requirements and customer needs, thus creating value for the customers and gaining a competitive advantage on the banking market.

International and local recognition. Banca Comercială Română was named the *Best Bank in Online Banking* by the Romanian Association of Credit Brokers, ranked second for the new company website at *Mobile Awards Romania* and received an excellence award for launching biometric authentication in mobile banking application, a premiere for Romania. Following the publication of the financial results of the third quarter, then bank was awarded *the Bank of the year* by Finmedia. Banca Comercială Română also won the first prize of the Romanian CSR Awards for its *Good Deeds Bakery* project that promotes corporate volunteering and community involvement.

Financial review

in EUR million	2015	2016	Change
Net interest income	436.5	374.9	-14.1%
Net fee and commission income	163.2	157.9	-3.2%
Net trading and fair value result	69.4	70.0	0.9%
Operating income	680.0	615.7	-9.5%
Operating expenses	-340.5	-349.8	2.7%
Operating result	339.5	266.0	-21.7%
Cost/income ratio	50.1%	56.8%	
Net impairment loss on financial assets	16.4	62.4	>100.0%
Other result	-140.0	-90.7	-35.2%
Net result attributable to owners of the parent	184.8	199.5	7.9%
Return on allocated capital	17.9%	21.6%	

Net interest income in the Romania segment (comprising Banca Comercială Română Group) decreased mainly due to an adapted loan pricing, a mortgage loan re-financing campaign and a lower unwinding contribution. Net fee and commission income decreased on the back of lower building society and asset management fees in the retail business. The slight increase in net trading and fair value result was mostly attributable to the revaluation of some foreign currency denominated participations. Operating expenses increased as the lower deposit insurance fund contribution of EUR 14.5 million (EUR 21.2 million) did not fully offset higher legal, consultancy and IT expenses. Consequently, operating result declined and the cost/income ratio went up. Successful insurance claims, lower provisioning requirements and the sale of non-performing portfolio led to net provision releases (net impairment loss on financial assets). Other result improved due to lower provisions for litigations and the selling gains of the shares in VISA Europe in the amount of EUR 24.3 million. Overall, the net result attributable to the owners of the parent improved.

Credit risk

Credit risk exposure was almost stable at EUR 14.1 billion (+1.2%) while loans to customers declined by EUR 591 million to EUR 7.9 billion (-7.0%). This represented a share of 5.8% (6.4%) of Erste Group's total loans to customers. The decline in the loan portfolio was mainly attributable to extensive write-downs and sales of non-performing loans. The loan portfolio of the Romania segment was made up of 56.4% (47.6%) secured and 43.6% (52.4%) unsecured loans. The degree of collateralisation was therefore significantly up year on year. The share of foreign-currency loans decreased by approximately 5.7 percentage points to 49.1% and was almost completely denominated in euro. Due to the clean-up of the portfolio by write-downs and sales, the NPL-ratio fell substantially to 11.8% (20.2%), with non-performing corporate loans down even more sharply. The breakdown by customer segment shows that loan quality was again the highest in loans to private households. The NPL coverage ratio based on risk provisions and collateral rose to 120.8% (110.1%).

HUNGARY

Economic review

The Hungarian economy performed again well in 2016. Although the country has one of the most open economies in the region, growth was mainly driven by household consumption, which benefitted significantly from higher consumer confidence, increasing real wages, and continuing positive trends in the labour market. Exports also contributed to economic growth, although to a much lesser extent. Car manufacturers performed well again, and so did agriculture. Construction, however, declined mainly due to the deceleration of European Union funds absorption. Overall, the Hungarian economy grew by 2.0% in 2016, while GDP per capita stood at EUR 11,300 .The unemployment rate declined further and stood at a multi-year low of 5.1%, among the lowest in the European Union. Employment benefitted significantly from the maintenance of the government's Public Work Scheme.

Political stability prevailed in Hungary with conservative centre-right parties Fidesz and Christian Democrats maintaining its majority in the Parliament. The fiscal stance benefitted from increasing tax revenues, declining interest payments and gains from the sale of state-owned lands. Public debt as a percentage of GDP decreased further to 74.3%. Rating agencies acknowledged the performance of the Hungarian economy with all three major agencies rating the country at investment grade by the end of the year due to improved debt metrics, sustainable GDP growth, lower external vulnerability and credible commitment of the government towards a strict budget balance. Standard & Poor's and Fitch had the country's long-term rating at BBB- and Moody's at Baa3, with each giving a stable outlook.

Inflation was moderate mainly due to low energy prices, while the effect of regulated price cuts that were carried out in previous years already faded. The increase in consumer prices in the last quarter of the year was mainly due to higher energy prices. Services price inflation remained benign throughout the year. Overall, average consumer prices in Hungary increased by 0.4% in 2016. The Hungarian forint was relatively stable against the euro, trading between 304 and 318 throughout the year. The National Bank continued its loose monetary policy and cut the base rate three times from 1.35% to 0.90%.

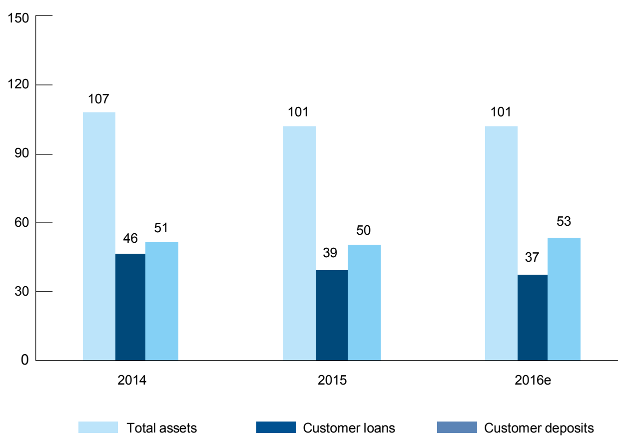
Key economic indicators – Hungary	2013	2014	2015	2016e
Population (ave, million)	9.9	9.9	9.9	9.9
GDP (nominal, EUR billion)	101.5	105.0	109.7	112.4
GDP/capita (in EUR thousand)	10.2	10.6	11.1	11.3
Real GDP growth	2.1	4.0	3.1	2.0
Private consumption growth	0.5	2.1	3.1	4.2
Exports (share of GDP)	86.0	88.7	90.7	92.9
Imports (share of GDP)	79.0	81.7	81.9	82.8
Unemployment (Eurostat definition)	10.2	7.7	6.8	5.1
Consumer price inflation (ave)	1.7	-0.2	-0.1	0.4
Short term interest rate (3 months average)	4.3	2.4	1.5	0.9
EUR FX rate (ave)	296.9	308.7	309.9	311.5
EUR FX rate (eop)	296.9	314.9	313.1	311.0
Current account balance (share of GDP)	3.8	2.1	3.4	4.4
General government balance (share of GDP)	-2.6	-2.3	-2.0	-2.2

Source: Erste Group

Market review

Hungary's banking sector benefitted from the positive macroeconomic environment and the significant improvement of the business sentiment. Following Erste Group's agreement with the government of Hungary and EBRD regarding the sale of 30% of Erste Bank Hungary, the banking tax was reduced significantly and is expected to decline further until 2019 to strengthen the country's financial sector. The tax rate was reduced from 53 basis points to 24 basis points with its base remaining total assets of 2009. In 2017, the banking tax is to be lowered to 21 basis points and calculated on the basis of total assets of 2015. The government also expressed its commitment to create a framework to ensure the long-term sustainability of a stable and predictable economic policy. The Hungarian banking sector continued to be well capitalised with a capital adequacy ratio of more than 20%.

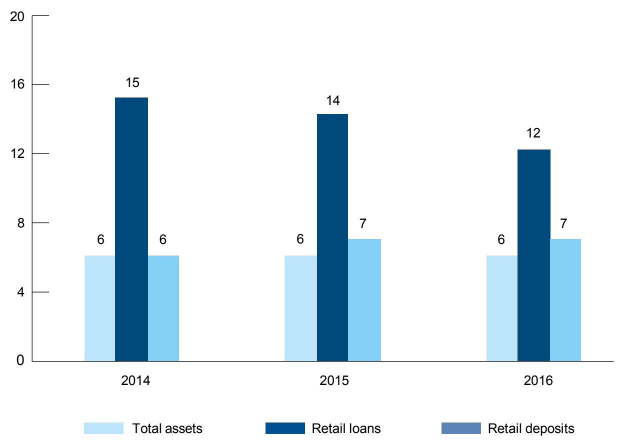
Financial intermediation – Hungary (in % of GDP)



Source: National Bank of Hungary, Erste Group

Customer loans picked up in 2016, of which retail loans were mainly driven by housing loans supported by the Home Purchase Subsidy Scheme for families, while consumer lending benefitted from growing consumption. In the corporate sector, lending to SMEs was supported by National Bank programmes, such as the Funding for Growth scheme. As part of the agreement with the government and to support the Hungarian economy, Erste Bank Hungary introduced several loan programmes with preferential interest rates. Despite higher demand for loans, customer lending volumes declined due to the sale of non-performing loans and substantial amounts of early repayments. Overall, customer loans declined by 3.2% and customer deposits increased by 10.8%. The banking system's loan-to-deposit ratio decreased to 70% by the end of the year.

Market shares – Hungary (in %)



Source: National Bank of Hungary, Erste Group

The profitability of the Hungarian banking sector improved significantly. Revenues, however, continued to be impacted by the very low interest rate environment and limited demand for lending products throughout the year. The country's banking market kept costs under control which partly compensated declining revenues. Risk provisions declined substantially on the back of net provision releases and favourable macroeconomic indicators. The significant reduction of the banking tax also contributed to the sector's profitability. Overall, the banking sector's return on equity rose to 14.1% in 2016.

Erste Bank Hungary continued to be a major market player in the country. As part of its strategy, Erste Bank Hungary continued to focus on local-currency lending from locally sourced liquidity. The bank's market share for customer loans declined to 9.0% with the retail sector remaining at a much higher share than the corporate sector. Following net provision releases, the bank returned to profitability. Customer deposit market shares increased to 6.8%. Overall, Erste Bank Hungary's total asset market share increased to 5.8%.

Business review – Highlights

Return to profitability. After loss-making years due to forced conversion programmes of FX-based loans at non-market rates and substantial banking levies, the business environment recovered substantially in 2016. The banking levy was significantly reduced and market sentiment improved on the back of a rise in retail consumption. Despite a decline in operating performance, Erste Bank Hungary achieved a double-digit return on equity.

Completion of the Citibank transaction. Erste Bank Hungary completed the acquisition of Citibank Europe's consumer banking business. The transaction included Citibank's retail banking and investment business as well as consumer loans and card business. As a result of the transaction, Erste Bank Hungary became the country's second largest retail bank and largest bank in terms of issued credit cards.

Growth in retail and corporate lending. Increasing household consumption and decreasing interest rates supported consumer lending growth. At Erste Bank Hungary personal loans doubled, and new disbursements in mortgages increased by 60% in a year-on-year comparison. The increase in new lending was due to an expansion in the housing market. Government subsidies, such as the Home Purchase Subsidy Scheme for families (HPS), continue to support the real estate market.

In the corporate business, Erse Bank Hungary was particularly strong in the SME business, partly due to the Funding for Growth Scheme and the Market-based Lending Scheme.

Strengthened digital channels. Digitalisation is a key element of the bank's efficiency improvement and also a key element for customer satisfaction. Erste Bank Hungary launched a new mobile banking application, *MobilBank*, for iOS and Android devices. It is an addition to the already existing mobile ecosystem (including *MobilePay*, *ErsteMarket* and the *Mobile Queuing* app).

International and local recognition. Erste Bank Hungary was named *Real Estate Financing Bank of the Year* at the Construction & Investment Journal (CIJ) Awards Hungary. This award is one of the most prestigious professional recognitions in the commercial real estate market in CEE. Handed out for the first time this year, the *Bank Team of the Year* award was also granted to Erste Bank Hungary.

Financial review

in EUR million	2015	2016	Change
Net interest income	198.5	173.4	-12.6%
Net fee and commission income	137.5	141.8	3.1%
Net trading and fair value result	-0.5	21.1	n/a
Operating income	336.6	340.3	1.1%
Operating expenses	-179.9	-195.6	8.7%
Operating result	156.7	144.8	-7.6%
Cost/income ratio	53.5%	57.5%	
Net impairment loss on financial assets	-105.8	91.7	n/a
Other result	-111.6	-93.4	-16.2%
Net result attributable to owners of the parent	-71.3	133.6	n/a
Return on allocated capital	-14.0%	27.1%	

Net interest income in the Hungary segment (comprising Erste Bank Hungary Group) declined considerably mainly due to lower market interest rates and the impact of the consumer loan law. Net fee and commission income increased on the back of higher fees from securities business. Net trading and fair value result improved mainly due to the non-recurrence of the negative impact of the loan conversion booked in 2015. Operating expenses increased due to the higher deposit insurance fund contribution amounting to EUR 7.4 million (EUR 4.3 million) as well as higher personnel and IT costs. Consequently, operating result deteriorated, the cost/income ratio went up. The net release of risk provisions (net impairment loss on financial assets) was largely driven by the retail business partly on the back of NPL sales. Other result improved, although the positive impact of the reduced banking tax of EUR 19.4 million (EUR 46.2 million) was largely offset by higher provisions for contingent credit risk liabilities. This line item was positively impacted by a gain related to the sale of shares in VISA Europe in the amount of EUR 12.8 million; it also included the contribution to the resolution fund of EUR 1.8 million (EUR 2.1 million). Overall, the net result attributable to the owners of the parent improved substantially.

Credit risk

Credit risk exposure in the Hungary segment experienced a trend reversal. After contracting for several years, it rose significantly to EUR 6.7 billion (+9.1%). The customer loan portfolio by contrast declined further, albeit only marginally, by EUR 20 million. At year-end 2016, total loans to customers stood at EUR 3.5 billion. The share of the Hungary segment in Erste Group's total loans to customers decreased slightly to 2.6%

(2.7%). While loans to private households declined to EUR 2.2 billion (-5.6%), commercial loans to corporates increased to EUR 1.3 billion (+16.2%). After a fundamental change resulting from the government-mandated conversion of foreign-currency loans in 2015, the currency composition of the customer loans portfolio remained almost unchanged in 2016. The share of loans denominated in Hungarian forint amounted to 79.5%. The quality of loans improved again substantially. Non-performing loans as a percentage of total loans to customers declined to 9.7% (18.7%). This development was significantly supported by sales of non-performing loans – both retail and corporate loans. Coverage of non-performing loans by risk provisions and collateral rose to 127.4% (111.5%).

CROATIA

Economic review

The Croatian economy continued to perform well in 2016. After exiting a six-year recession in 2015, real GDP grew by 2.9% and GDP per capita increased to EUR 10,600. The main driver of the economy was private consumption on the back of higher consumer confidence and favourable trends in the labour market. Unlike many other countries in the region growth was also supported by strong investment activity. In addition, the country's well-developed tourism had a record summer season in 2016. Exports, however, contributed to a much lesser extent to economic growth. The unemployment rate declined further to 12.8%, still high compared to other countries in CEE.

Following political uncertainty in the first eight months, general parliamentary elections were held in September 2016, resulting in the conservative Croatian Democratic Union (HDZ) gaining majority in the parliament. Croatia's fiscal situation improved further, mainly as a result of the consolidation efforts of the prior year. Revenues were positively impacted by strong inflow of corporate income taxes and VAT, while expenses were kept under control. As a result, the general government deficit stood at 1.6. Public debt as a percentage of GDP improved to 84.2%, still high compared to other countries in the region. Standard & Poor's upgraded the outlook on Croatia in December 2016 to stable, keeping the rating unchanged at BB. At the beginning of 2017, both Fitch and Moody's upgraded their outlook to stable, keeping the ratings at BB and Ba2, respectively.

Inflation remained below zero throughout the year, mainly driven by falling energy and food prices. Deflationary pressure was more pronounced in the first half of the year, overall, average consumer prices declined by 1.1%. Given the country's very high use of the euro, the Croatian National Bank's main objective remained to preserve the nominal exchange rate stability. As a result, the Kuna traded in the narrow range of 7.5 and 7.7 against the euro. The National bank kept its liquidity conditions and left the key policy rate unchanged at 3.0%.

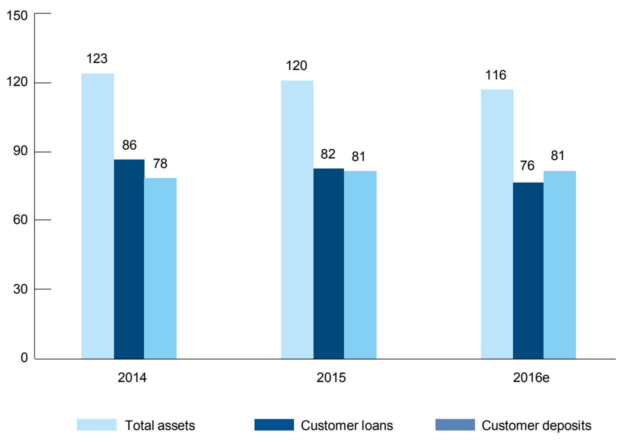
Key economic indicators – Croatia	2013	2014	2015	2016e
Population (ave, million)	4.3	4.3	4.3	4.3
GDP (nominal, EUR billion)	43.5	43.0	43.9	45.6
GDP/capita (in EUR thousand)	10.1	10.0	10.2	10.6
Real GDP growth	-1.1	-0.5	1.6	2.9
Private consumption growth	-1.9	-1.6	1.2	3.4
Exports (share of GDP)	20.5	22.7	24.4	24.7
Imports (share of GDP)	35.6	37.8	39.9	40.6
Unemployment (Eurostat definition)	17.3	17.3	16.3	12.8
Consumer price inflation (ave)	2.2	-0.2	-0.5	-1.1
Short term interest rate (3 months average)	1.2	0.7	1.0	0.6
EUR FX rate (ave)	7.6	7.6	7.6	7.5
EUR FX rate (eop)	7.6	7.7	7.6	7.6
Current account balance (share of GDP)	1.0	2.1	5.1	2.9
General government balance (share of GDP)	-5.3	-5.5	-3.2	-1.6

Source: Erste Group

Market review

Croatia's banking market was characterised by a weak demand for lending products, while customer deposits grew by 3.3%. On the lending side, both retail and corporate loans declined. Tourism and export-related lending, however, increased visibly. Customer deposits increased in both retail and corporate businesses. The system's loan-to-deposit ratio stood at 94% at the end of the year. With total banking assets at 116% of GDP, Croatia's level of financial intermediation as well as the capital adequacy of the Croatian banking system at above 20% remained among the highest in the region.

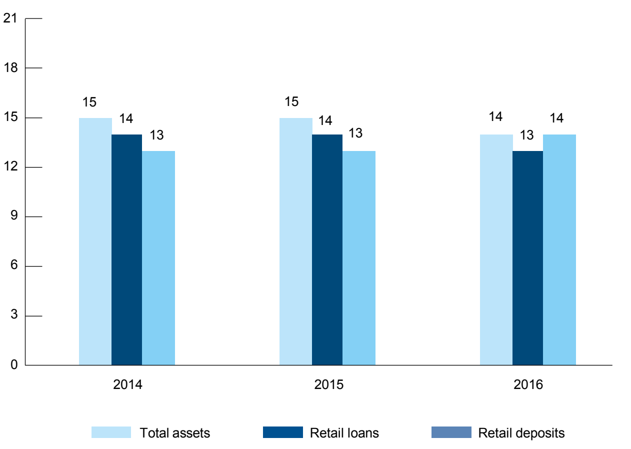
Financial intermediation – Croatia (in % of GDP)



Source: National Bank of Croatia, Erste Group

Despite pressure on revenues and limited demand for banking related products, Croatia's banking sector had one of its most profitable years, mainly due to sharply declining risk provisions. The banking sector's asset quality benefitted from the improvement in macroeconomic developments, such as the low interest rates and falling unemployment. Non-performing loans declined to 13.8%. The sale of non-performing loans intensified in 2016 on the back of an improved regulatory framework. The significantly improved profitability in a year-on-year comparison was mainly a result of the expenses in 2015 related to the conversion of Swiss franc-based loans into euros. Overall, the country's banking sector achieved a return on equity of 12.3% in 2016.

Market shares – Croatia (in %)



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 14.1%. The bank performed broadly in line with the market with customer loans declining and customer deposits increasing. The bank's loan-to-deposit ratio stood at 101% at the end of the year. In line with the market, Erste Bank Croatia's profitability was impacted by declining risk provisions in 2016.

Business review – Highlights

Innovations in digital banking. The bank has continued its strong emphasis on digital banking. Erste Bank Croatia now offers more online and mobile channels, such as online account pre-openings and online loan applications. Online cash loans already account for one half of total cash loans, and also online current account sales play a dominant role. In addition, corporate customers can use a new web application for online transactional account openings, thus speeding up the entire process significantly. To foster further digital innovations in the future additional resources were dedicated to specialised teams.

The bank also intensified its contact centre activities to introduce a new remote advisory concept for mass affluent customers. The focus was on providing advisory, customer support and sales services.

Addressing SME customers. To become the bank of first choice for SME customers, Erste Bank Croatia started a new transformation project. It aims at further improving customer satisfaction, increasing market share and operational income as well as reaching a still higher level of internal efficiency.
The bank defined key organisational prerequisites and local growth initiatives. The majority of these initiatives will be implemented in 2017 and 2018.

Strength in card business. The bank Through its subsidiary Erste Card Club, Erste Bank Croatia plays a dominant role in the card business in Croatia and its adjacent countries. More than 500,000 credit card cards were issued in in Croatia, Slovenia and Bosnia and Herzegovina. In November Erste Card Club has signed the agreement to buy the 100% share of the Diners Club companies in Serbia, Montenegro and Macedonia. The transaction represents a major step of the company's strategy to become the regional credit card market leader.

International and local recognition. The bank's main strengths compared to its competitors are innovation, a wide range of products and a special emphasis on customer care. For its cash loan online campaign, Erste Bank Croatia received the *Silver Croatia Effie award* and for its Erste Maestro Plus service the *Ideja X award*, the Croatian national marketing award for extraordinary advertising ideas. The bank's contact center was named best contact center in the country by the Contact Center Academy.

Financial review

in EUR million	2015	2016	Change
Net interest income	270.6	264.9	-2.1%
Net fee and commission income	84.8	88.0	3.8%
Net trading and fair value result	15.9	29.5	85.9%
Operating income	401.6	407.4	1.4%
Operating expenses	-187.0	-194.3	3.9%
Operating result	214.7	213.1	-0.7%
Cost/income ratio	46.6%	47.7%	
Net impairment loss on financial assets	-167.3	-48.4	-71.1%
Other result	-134.9	-5.2	-96.1%
Net result attributable to owners of the parent	-43.7	83.7	n/a
Return on allocated capital	-11.6%	22.2%	

Net interest income in the Croatia segment (comprising Erste Bank Croatia Group) declined mainly due to lower asset margins in the corporate business and a reduction in the loan portfolio. Net fee and commission income went up due to higher fees from payment transfers. The net trading and fair value result improved significantly as the negative impact from Swiss franc exchange rate fixing for retail loans required by legislation as well as negative foreign exchange differences on the open position in Swiss francs did not recur. Operating expenses increased due to consolidation of an IT service entity and higher personnel costs. Overall, the operating result declined marginally, the cost/income ratio went up. The decrease in net impairment loss on financial assets was driven by lower provisioning requirements in the corporate as well as retail businesses. Other result improved significantly due to the non-recurrence of last year's provision for Swiss franc loan conversion in the amount of EUR 129.5 million. Other result included a gain related to the sale of shares in VISA Europe in the amount of EUR 10.0 million as well as the contribution to the resolution fund of EUR 5.2 million (EUR 4.2 million). Consequently, the net result attributable to the owners of the parent improved considerably.

Credit risk

In the Croatia segment, credit risk exposure declined to EUR 9.0 billion (-4.2%). Loans to customers were down at EUR 6.3 billion (-6.6%). The share of this segment in Erste Group's total loans to customers also decreased to 4.6% (5.1%). The composition of the loan portfolio by customer segment changed only moderately, with private households accounting for 39.0% (39.1%), corporates for 40.1% (41.2%) and the public sector for 20.9% (19.7%) of the total loan portfolio. Swiss franc denominated loans were largely converted to Croatian kuna or euros following the corresponding legislation. After amounting to the equivalent of EUR 512 million at the beginning of the year, Swiss currency loans to customers were down to EUR 82 million or 1.3% of the customer loan portfolio at year-end. 70.1% (65.6%) of total loans to customers were denominated in euros. The large share of foreign currency loans is mostly due to the widespread use of the euro in Croatia. Euro loans are usually matched by a corresponding income or deposits in euros. Asset quality improved again significantly, with non-performing loans declining to EUR 704 million (-31.7%) and the NPL ratio down to 11.2% (15.3%). This very positive development was primarily driven by sales of non-performing retail and corporate loans. Provisioning for non-performing loans by loan loss provisions increased to 72.4% (67.4%).

SERBIA

Economic review

In 2016, the Serbian economy showed impressive performance with both GDP growth and fiscal consolidation better than expected. Economic growth was supported by all components with a strong rebound of private consumption, acceleration of investment activity, stable growth of government spending and double-digit growth of exports. Agricultural performed well again. Private consumption benefitted from growing real wages, increasing consumer confidence and further improvement in the labour market. The unemployment rate declined to 16.0%, although still high compared to other CEE countries. Overall, real GDP grew by 2.8%, while GDP per capita stood at EUR 4,600.

Fiscal consolidation in Serbia also improved significantly benefitting from the stable political situation after the general elections in April 2016. Although the consolidation was partly driven by one-off effects, such as dividends from state-owned companies and sale of land, rising economic activity and efforts to reduce the grey economy led to significantly higher revenues. Growth in public expenditure, however, remained subdued due to only moderately increasing wages and pensions. Public debt as a percentage of GDP improved and reached 70.7% by year-end. Strong fiscal consolidation brought a turnaround in government debt dynamics with the budget deficit standing at 1.4%. Rating agencies acknowledged these developments: Fitch upgraded the country's long-term rating from B+ to BB- with a stable outlook, Standard & Poor's assigned a BB- rating with a positive outlook. In March 2017, Moody's followed with an upgrade of the country's long-term rating from B1 to Baa3 with a stable outlook. Inflation remained under control and well below the National Bank's target of 1.5% and 4.5%. Consumer prices, however, increased in the second half of the year driven by stronger domestic demand, gradual stabilisation of commodity prices and an administrative electricity price hike in the last quarter. Overall, average consumer prices increased by 1.1%. The Serbian dinar traded relatively stable throughout the year and remained in the range of 121 and 124 against the euro. The Serbian National Bank cut the base rate by 50 basis points to 4% in 2016.

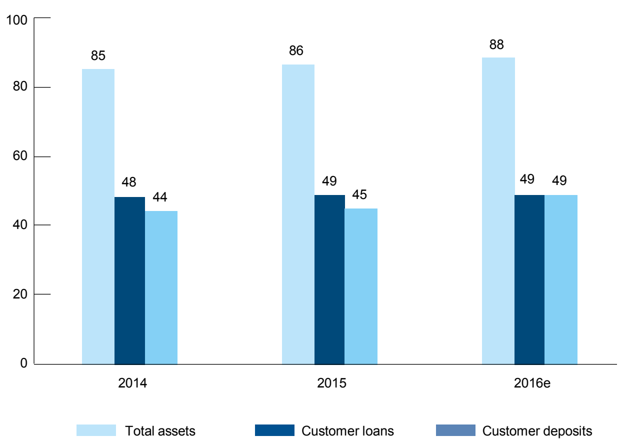
Key economic indicators – Serbia	2013	2014	2015	2016e
Population (ave, million)	7.2	7.2	7.2	7.2
GDP (nominal, EUR billion)	34.1	33.1	32.9	33.0
GDP/capita (in EUR thousand)	4.7	4.6	4.6	4.6
Real GDP growth	2.6	-1.8	0.8	2.8
Private consumption growth	-0.3	-1.3	-0.6	1.1
Exports (share of GDP)	32.1	33.6	35.5	38.8
Imports (share of GDP)	45.1	46.4	47.3	49.8
Unemployment (Eurostat definition)	22.1	19.2	17.7	16.0
Consumer price inflation (ave)	7.9	2.1	1.4	1.1
Short term interest rate (3 months average)	10.0	8.3	6.1	3.4
EUR FX rate (ave)	113.8	117.3	120.7	123.1
EUR FX rate (eop)	114.6	121.0	121.5	123.5
Current account balance (share of GDP)	-6.1	-6.0	-4.8	-4.2
General government balance (share of GDP)	-5.0	-6.6	-3.8	-1.4

Source: Erste Group

Market review

The continuation of macroeconomic recovery was also reflected in Serbia's banking market development. Growth was clearly driven by retail loans which increased by 10.7%, while corporate loans fell by 2.1%. Housing and agricultural-related loans played a pronounced role in the increase of customer loans. Customer deposits, which were driven by the corporate business, grew by 10.9%. The banking sector's loan-to-deposit ratio stood at 100% at the end of 2016. Regulatory topics also played a significant role in the development of the Serbian banking market. Several laws regulating reliability and security of the banking business were adopted, while new rules on the resolution of non-performing loans were approved. The consolidation of the sector continued throughout the year with acquisitions and mergers of and between smaller banks. Serbia's banking sector remained well capitalised with the capital adequacy ratio of 21.2% significantly exceeding the legal requirement of 12% the end of 2016.

Financial intermediation – Serbia (in % of GDP)



Source: National Bank of Serbia, Erste Group

The profitability of the country's banking sector improved significantly. The declining interest rate environment, however, resulted in margin pressure and lower net interest income. Although non-performing loans declined to 17%, they remained fairly high compared to other CEE countries. At 9.3%, non-performing loans in the retail segment continued to be significantly lower than in the corporate segment. Asset quality improved mainly on the back of positive macroeconomic developments, the low interest rate environment and the amendments in the legal framework regarding sale of non-performing loans. Lower risk costs also contributed to the sector's profitability, which stood at 4.3% of return on equity.

Erste Bank Serbia maintained its position among the country's top 15 banks. Its market share of customer loans increased further to 4.9%, retail and corporate market shares stood at 4.4% and 5.3%, respectively. On the deposit side, Erste Bank Serbia's activities in foreign- exchange and local-currency savings continued. As a result, the bank's deposit base remained fairly divided between euro and dinar deposits. Overall, the bank's market share for customer deposits stood at 3.8% at the end of 2016.

Business review – Highlights

Most successful year. In terms of profitability, the year 2016 was the most successful one since Erste Bank Serbia launched its operations. The net result doubled and rose to EUR 12.8 million, the cost/income-ratio improved to 65.2%. 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.

Focus on innovation. To meet the financial needs of its customers through different channels, the bank continued its digitalisation projects. Erste Bank Serbia introduced a simpler authentication method for online banking users to further improve customer experience. In addition, online consumer loans were introduced for existing and potential clients. Customers only need to visit the branch to sign the documents. The simplified process resulted in an increase of customer satisfaction and a higher number of customers.

Growing retail business. Retail loans denominated in Serbian dinars increased substantially in 2016. Thanks to efficient marketing campaigns, Erste Bank Serbia could take advantage of this development despite the competitive situation on the market. Overall, net customer loans rose by a double-digit margin. At the same time customer deposits increased by almost 9% affirming the high level of trust the bank has built over time.

International and local recognition. The bank's performance was also confirmed by various awards. For its *Superste* programme Erste Bank Serbia received the *Best Communicator of the Year* award by the European association of communications directors as well as the *Silver Award* by the Association of Marketing Communications in Belgrade.

Financial review

in EUR million	2015	2016	Change
Net interest income	42.1	46.8	11.3%
Net fee and commission income	12.6	11.1	-11.6%
Net trading and fair value result	3.2	3.3	3.8%
Operating income	58.4	61.7	5.8%
Operating expenses	-39.0	-40.2	3.0%
Operating result	19.3	21.5	11.3%
Cost/income ratio	66.9%	65.2%	
Net impairment loss on financial assets	-10.8	-4.1	-61.6%
Other result	-0.6	-0.6	3.1%
Net result attributable to owners of the parent	6.3	12.8	>100.0%
Return on allocated capital	7.9%	13.6%	

Net interest income in the Serbia segment (comprising Erste Bank Serbia Group) increased mainly due to higher loan and deposit volumes despite decreasing margins. Net fee and commission income declined mostly due to lower fees from lending business. The increase in operating expenses was driven by higher project related costs. Net impairment loss on financial assets declined on the back of a better loan portfolio. Overall, the net result attributable to the owners of the parent improved.

Credit risk

Credit risk exposure in the Serbia segment rose substantially to EUR 1.2 billion (+19.0%). The customer loan portfolio also increased significantly. Loans to customers increased by EUR 113 million to EUR 832 million (+15.7%; EUR 719 million). With a share of 0.6% in total customer loans, this segment was still only of relatively minor significance for Erste Group. The dynamic development was attributable in particular to expanding business with medium-sized business and larger enterprises. The share of foreign-currency loans – denominated almost exclusively in euros – in the total loan portfolio stood at 79.3% (78.8%). This very large share is mainly due to the wide-spread use of the euro in Serbia as a result of the weakness of the local currency. Euro loans are usually matched by a corresponding income or deposits in euros. The clean-up of the loan portfolio by write-downs and sales and a decline in NPL inflows resulted in another visible improvement in asset quality. Non-performing loans as a percentage of the total loan portfolio declined by 3.7 percentage points to 6.8%. This positive trend was seen in all customer segments and was particularly pronounced in corporate loans. NPL coverage by loan loss provisions excluding collateral stood at 99.1% (88.4%).

OTHER

Financial review

in EUR million	2015	2016	Change
Net interest income	132.1	129.3	-2.1%
Net fee and commission income	-45.9	-43.9	-4.3%
Net trading and fair value result	0.8	-11.6	n/a
Operating income	120.7	100.9	-16.4%
Operating expenses	-224.4	-257.9	14.9%
Operating result	-103.6	-157.0	51.5%
Cost/income ratio	>100.0%	>100.0%	
Net impairment loss on financial assets	-85.1	-71.5	-16.1%
Other result	-66.5	-315.9	>100.0%
Net result attributable to owners of the parent	-234.4	-430.7	83.8%
Return on allocated capital	-4.6%	-6.4%	

The lower net interest income was largely offset by the improved net fee and commission income. Net trading and fair value result decreased due to valuation effects. Operating expenses increased on the back of IT expenses and costs related to the move to the new headquarters in Vienna. Consequently, operating result declined. Other result decreased primarily because of a one-off banking tax payment in the amount of EUR 138.3 million that precedes a significant reduction of the future annual banking tax in Austria as well as due to higher provisions for contingent credit risk liabilities. This line item also included a partial impairment of the goodwill in Slovenská sporiteľňa in the amount of EUR 61.3 million. Net result attributable to the owners of the parent thus decreased.

Commitment to society

Almost 200 years ago, the very founding concept of Erste österreichische Spar-Casse, Erste Group's predecessor, 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 the Eastern part of the European Union, 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, community affairs, 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 various Erste Group initiatives is available at www.erstegroup.com/en/about-us/responsibility and at websites of Erste Group's subsidiaries in the respective local language and in some cases also in English.

SUSTAINABILITY AT ERSTE GROUP

While several generations of savings bankers have been committed to doing business responsibly, the establishment of the Group Sustainability Office at the beginning of 2016 underpins the increasing strategic importance of non-financial aspects. Covering the topics environment, diversity, corporate volunteering and corporate social responsibility (CSR), the team is primarily responsible for the development and implementation of appropriate group-wide policies and the group-wide code of conduct. Following the increased demand for information on sustainability and non-financial aspects by stakeholders such as customers or investors, Erste Group started several years ago to report according to the Global Reporting Initiative. This fosters awareness of the importance of all aspects of sustainability in providing banking services to our customers. Community affairs and sponsoring activities are combined group-wide under the umbrella of the *Extra*VALUE programme. Regional focus, cross-thematic initiatives and cooperation within related fields characterise the programme.

THE EXTRAVALUE PROGRAMME

The *Extra*VALUE programme of Erste Group is based on the bank's commitment to social responsibility and, moreover, to values that the bank deems worthy of support and promotion. These values go beyond the enterprise's business activities. These are intangible values – humane, social, cultural – that the enterprise is committed to. Values not created by the bank but valuable to us. This extra value is passed on to the people by supporting and promoting institutions, initiatives and projects, and it eventually benefits the individual and their social and cultural needs.

Erste Group's *Extra*VALUE programme underpins the bank's commitment to its responsibility toward society and the individual. Further information is available on the internet: www.erstegroup.com/en/sponsoring/extravalue-programme.

Financial literacy

Financial literacy is important for creating equal opportunities, social inclusion and economic well-being. Financial ignorance limits social, economic and cultural life. 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 is engaged in a wide variety of financial education activities. 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. In addition, they assure that employees of Erste Group have up-to-date knowledge about bank products and services as well as a comprehensive understanding of financial concepts and recent economic developments. Erste Group's employees have to be able to understand the bigger picture 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. Erste Group wants to empower young people to participate in economic life and to understand finance as a system.

Erste Group developed a social banking programme named *Step-by-step*. This programme is set up as a framework to provide education in financial literacy and to offer banking products and services with favourable conditions tailor-made for the specific needs of underbanked groups of society. *Step-by-step* will be rolled out by all local banks by 2019. Slovenská sporiteľňa started piloting the new social banking programme back in 2015 focusing on starting entrepreneurs and social organisations. In 2016, Česká spořitelna, Erste Bank Croatia and Erste Bank Serbia followed with local initiatives.

Another popular Erste Group project within the *Extra*VALUE programme is the interactive exhibition *ABC of Money*. It deals with the basics of the money system, explains how and why money originated and how it is produced. Although designed for children over eight it is an enjoyable and effective way to learn for all age groups. More than 150,000 children and adults already visited the exhibition in Graz, Bratislava, Bucharest, Prague and Belgrade. Under the title *Abeceda novca* the exhibition will run until April 2017 in Zagreb.

In all core markets Erste Group cooperates with schools to promote financial literacy. Employees of Erste Bank Croatia visit schools and teach young children the basics of finance focusing on facts about money, internet shopping, savings and banks. Slovenská sporiteľňa systematically supports educational projects at Slovak schools and universities; one example is a joint project with the Foundation of Children of Slovakia called *Get to Know Your Money* in more than 200 high schools. Slovenská sporiteľňa has developed an interactive e-learning tool, *The Training Bank*, which offers the opportunity to learn online about bank products. Erste Bank Serbia cooperates with the Ministry of Youth and Sport, nine faculties of economics, mathematics and science and seven economics and business schools and offers mentoring and internships. In 2016, the bank hosted around 200 interns.

Erste Group's most ambitious financial literacy project is the newly opened Financial Life Park (FLiP) at Campus in Vienna (http://www.financiallifepark.at). FLiP offers innovative financial education and a unique visitor experience through a combination of state-of-the-art digital media technology and trained guides. By promoting know-how in money matters, FLiP helps visitors to acquire the skills to manage personal financial affairs responsibly and independently. Depending on the visitors' age and background, three different guided tours are available, each with its own approach, didactics, thematic layout and depth of content. Since the soft launch in May 2016, more than 3,000 schoolchildren and approximately 800 employees have already taken part in a FLiP tour. While children are the main target group, FLiP proved to be interesting for visitors of all age groups.

Social and education activities

Erste Group's long tradition of cooperation with established local and international organisations reflects its commitment to the promotion of social welfare and education. The focus of social activities is on providing practical and swift assistance to people in difficult life situations and on support for initiatives creating new opportunities for disadvantaged people. In all core countries, Erste Group supports diverse educational initiatives.

Erste Bank Oesterreich has been a partner of Caritas for many years supporting the annual domestic aid campaigns, the initiative for children, the *youngCaritas* and other joint projects. Erste Bank Oesterreich has also been sponsoring Hilfswerk Österreich, one of the largest non-profit providers of health care, social and family services in Austria for many years. Additionally, support is provided for a variety of smaller NGO's: One example is lobby.16 whose focus is to give unaccompanied young refugees access to education, employment and participation in social life.

Banca Comercială Română operates *Bursa Binelui*, a crowd funding platform for NGOs. The bank is a partner of *Teach for Romania*, an initiative to improve the educational system in Romania by recruiting and training top graduates from universities, who would normally not consider a teaching career, to become teachers in disadvantaged communities. The bank supports the training of some teachers and provides space for conferences and training courses. Their online and offline programme for students and young professionals *Laboratorul de Cariere* facilitates labour market integration through developing soft skills. In addition, BCR is a strategic partner for the most important five universities in Romania (University of Bucharest, Alexandru Ioan Cuza University Iasi, Babe Bolyai University Cluj, West University Timisoara and Economic Studies Academy in Bucharest).

Slovenská sporiteľňa supports disadvantaged people and raises awareness about them with the help of various partners: *Civic Association Inklúzia* (inclusion of handicapped people), *Vagus* (resocialisation of homeless people), *People in need* (building houses for underprivileged Roma families) or *Association of the friends of children from children's homes* (scholarship programme for young people from children's homes). Furthermore, Slovenská sporiteľňa systematically supports educational projects at Slovak high schools and universities.

Superste is a Serbian online hub where people from 16 to 35 can find support in securing funds and gain access to mentoring knowledge and a network of contacts of NGOs and leaders for their social responsible projects in the fields of arts, culture and education. The bank continued to supports two science festivals in Belgrade and Novi Sad, which are well known for making science fun, inspiring and motivating not only for kids but the elderly as well.

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 2016, 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* 2016 comprised more than 200 running events and more than 150,000 participants dashing some million kilometres through Austria.

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.

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* matches employees who want to donate their spare time and skills with currently 46 partner organisations. Volunteers organised for instance the collection of furniture and office materials that were no longer required and left behind in old office buildings due to the move to Erste Campus. 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.

Zweite Sparkasse celebrated its 10th anniversary in 2016. In close co-operation with partners such as Caritas or debt-counselling centres, Zweite Sparkasse offers people with no access to banking services the possibility to open an account without an overdraft facility. Roughly 400 active and retired employees of Erste Bank Oesterreich and the savings banks work on a voluntary basis at this very unique fully licensed bank in Austria. Since its foundation, more than 15,000 people have been clients and 3,000 of them have found their way back to a regular bank account. The underlying aim of Zweite Sparkasse reflects the origins of Erste oesterreichische Spar-Casse, as Erste Bank Oesterreich was originally called. Its founders were convinced that the most effective way to fight poverty is to help people to help themselves.

Volunteering employees are encouraged to be guides at the *Financial Life Park (FLiP)* during regular working hours.

Several of Erste Group's local banks foster volunteering as team-building activities with great success. 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. The bank 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.

Around 300 employees of Erste Bank Serbia organised volunteering activities. They spent more than 1,100 hours cleaning and refurbishing a children playground of a kindergarten, helping to repair a primary school yard and building a ramp for disabled children, working in a garden of a home for elderly people and revitalising a nature park.

Slovenská sporiteľňa continued its grant project Euro to Euro and supported sports, educational and cultural activities in local home communities of the bank's employees.

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. Under the *Extra*VALUE sponsoring programme 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 supports a wide variety of institutions such as Klangforum Wien, the Gustav Mahler Youth Orchestra, Wien Modern, Jazz at Konzerthaus, Secession, Tanzquartier Wien, the ZOOM Childrens' Museum, Wiener Festwochen, the International Childrens' Film Festival or the promotion Hunger auf Kunst und Kultur (Hunger for Art and Culture).

Erste Bank Oesterreich also has a long standing partnership with *Viennale*, Austria's largest international film festival. Annually, the bank awards the *Extra*VALUE Film Prize as well as the *Extra*VALUE Design Prize as part of the Vienna Design Week with a focus on social design.

Slovenská sporiteľňa is most visibly associated with the *Bratislava Jazz Days* and the music festival *Viva musica* and supports the modern art museum *Danubiana* as well as five regional theatres in Bratislava, Martin, Nitra, Prešov and Košice. Česká spořitelna is a sponsor of several international festivals like *Pražské jaro*, *Kefír* as well as general partner of *Colours of Ostrava*, *Česká filharmonie*, *Smetanova Litomyšl* and *Bohemia Jazz Fest*.

Erste Bank Croatia organises a well-known annual competition for emerging artists and art students, called *Erste fragments*. *Fragmentologija* are urban gallery spaces, including 24-hour pop-up exhibitions of works purchased in previous editions of *Erste fragments*, combined with an introduction of works by a young new artist chosen by a curator. *Organ vida* is an international festival of photography gathering photographers from Croatia and abroad in a series of exhibitions, workshops and lectures in venues across Zagreb. Banca Comercială Română supports *ArtSafari,* an annual and innovative art exhibition focusing on the developments of contemporary art. Romanian and international art galleries and museums are invited to shape the new directions in the Romanian contemporary art and museums' collections exhibitions. The bank is also a sponsor of *Festivalul Shakespeare* and *Premiile Gopo,* the Romanian film festival.

Customers

FOCUS ON CUSTOMER RELATIONS

Erste Group puts customers and their interests at the centre of its business activities. Only banks that understand the financial needs of their customers can offer the right solutions at the right time. Special attention is devoted to the quality of products and advisory services as these are key factors for customer satisfaction and, therefore, for building up and maintaining long-term customer relations. Erste Group strives to offer its customers appropriate and understandable products and advisory services.

Through offering financial advice that is based on the customers' interests, needs and financial literacy and by increasing the accessibility, Erste Group puts its customers in control of their financial life. The high standard of quality 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.

Advisory concept

Erste Group's retail business reflects its approach of thinking from the customers' perspective. Only a bank that understands the clients' needs and the individual motives forming those needs is able to develop specific solutions. Customer behaviour is changing: online and digital channels are growing in importance. That frees up branch advisors' resources to fully focus on high quality advice. The sales incentive scheme of Erste Group reflects this development by abandoning purely product-driven targets and shifting the attention towards quality-driven criteria like the quality of customer relationship.

To meet the increasing customer expectations, it is essential to adapt the education and learning approach of both the customers and advisors. The focus is devoted to customer behaviour and the sales channels customers most frequently use for their daily and long-term banking activities. Factors such as experience, financial literacy, financial position and the risk appetite of the individual customer are taken into account. The education programme of Erste Bank Oesterreich and Slovenská sporiteľňa already reflect this new approach.

Products and processes

Product development is driven by customers' needs and the ways customers handle their banking activities. Product features and services reflect flexibility, life-cycle changes, simplicity, security and transparency. Identifying and satisfying the customers' needs leads to higher customer retention and stronger sales and cross-selling potential. In this respect, Erste Group focuses on simplifying the current product portfolios and aims at developing new products and services within the omni-channel approach to open new business opportunities.

To this end, Erste Group continued its initiatives to reduce the complexity of its product portfolio in Austria. Based on this experience, similar adaptions of the product portfolios in CEE will follow.

OMNI-CHANNEL APPROACH

As an omni-channel bank, Erste Group enables its customers to choose between new and traditional sales and communication channels. Customers decide how, when and where they do their banking. The aim is to integrate all areas of retail banking business, the brick-and-mortar branch network, advisory tools, ATMs, internet and mobile banking and the contact center.

Branches

Direct contact with customers through branches is and will remain a substantial asset, as confidence and trust in the highly-qualified advisor build the basis for successful business relations. The interior and infrastructure of the branches also have to meet the increased expectations of the customers. Customers expect to handle their banking business in the branches not only more easily and quickly but also more memorably and conveniently. Cash desk areas are replaced by an appealing reception area as the most important part in the centre of the branches.

The implementation of the new branch concept has started in Erste Bank Oesterreich, more than 20 branches have been refurbished or newly opened. A similar concept has been developed for Česká spořitelna, and the first new branches were opened in November 2016. Banca Comercială Română opened the first pilot branch in Bucharest in October 2016.

Digital banking

Not only internet-savvy but also traditional customers increasingly expect modern digital banking services. The websites of the local banks of Erste Group are constantly enhanced, focusing on accessibility, usability and simple and easy-to-understand content. The range of digitally available products and services is continually being extended.

Erste Group focuses on innovation and has developed its own digital ecosystem. The new digital value proposition for existing and potential customers consists on one hand of the new generation web portal and internet banking *George* and on the other hand on the new mobile core app *George Go*.

George and *George Go* are the main digital interfaces and enable customers to activate and use additional applications of the bank or third parties in a secure IT environment to help them in their financial lives. Following the successful implementation in Austria, *George* will soon become available in three more core markets: Slovenská sporiteľňa, Česká spořitelna and Banca Comercială Română plan to launch *George* in 2017. The other local banks of Erste Group started the preparations for a later roll-out.

Erste Group has launched digital consumer loan offerings in Austria, the Czech Republic and Slovakia. At Slovenská sporiteľňa, digital sales contributed significantly to the new business development in 2016. Erste Bank Oesterreich started as the first bank in the country to offer a fully online account opening process including video legitimation, which is compliant with all legal and security requirements.

Contact Center

Customers expect easy service interactions when they need assistance with digital banking. The first point of contact is Erste Group's contact center. Qualified employees of the contact center assist with information on questions regarding products and services or self-service terminals. Additionally, the contact center agents support the customers with navigating through the digital sales process. A further role is the handling of customer complaints and emergencies, like requests to block credit and debit cards.

The contact center is the bridge between the traditional physical banking and the digital world, the interface between digital banking and the service in branches. The contact center is developing from a help desk role to a more relevant support in advisory as well as selling products and services. They are an essential part of the omni-channel strategy of Erste Group and will be further expanded in the core markets. Banca Comercială Română, for instance, has significantly increased the size of its contact center team. The capacities of Slovenská sporiteľňa's call center have also been increased by 60%, and it is effectively supporting digital customer service. Erste Bank Croatia was named the best contact center in its category in the contest of the local Contact Center Akademija.

THE IMPORTANCE OF THE BRAND

Brands have an important identification and differentiation function, which in turn determines whether a customer prefers one brand to the other. Several studies have shown that, across all industries, more than 40% of customers already have a clear brand preference before making a purchase decision.

The high degree of brand awareness and the trustworthiness of Erste Group and its subsidiary banks in Central and Eastern Europe is an additional significant competitive advantage in the banking business, which already manifested in the past by increases in deposits in times of economic uncertainty. This applies to Erste Bank and Sparkassen in Austria as well as for instance Česká spořitelna or Slovenská sporiteľňa.

In addition to typical values, such as trust, competence, popularity or accessibility, positioning itself as an innovative bank to meet the changing needs of customers and the expectations towards digital offers was just as important for Erste Group. With the implementation of the cutting-edge internet banking *George* and its mobile counterpart, the x*George Go* app, as well as the new web portal, which allows online sales, Erste Bank Oesterreich has already succeeded in positioning itself as an innovative bank. This should also be achieved with the introduction of *George* in the other core countries of Erste Group. In 2017, the implementation is planned in the Czech Republic, Slovakia and Romania.

To illustrate the economic importance and potential of the Central and Eastern Europe region to a broader public, Erste Group has been running a TV and online campaign in leading international media since 2009. The image campaign in 2016 portrayed selected SMEs in the region that were able to realise their business ideas due to Erste Group's support.

Erste Group is represented in numerous social media to communicate directly with its stakeholders. Up-to-date information is published through Twitter, YouTube, Flickr and SlideShare. In addition, all subsidiary banks are accessible on local Facebook pages.

Sports

In addition to the numerous activities oriented towards amateur and professional sporting events described in the chapter "Commitment to society", since 2013 Erste Group has been the name-giving main sponsor of the national ice hockey league, sponsor of the Austrian national ice hockey team and the local Vienna Capitals team. The Erste Bank Ice Hockey league grew beyond borders; teams from the 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.

The activities comprise tennis as well and range from 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 event in Austria. The Erste Bank Open, sponsored again by Erste Bank Oesterreich in 2016, was upgraded in 2015 to the level of an ATP World Tour 500 tournament.

ACCESSIBILITY

Hand in hand with the implementation of the new retail branch concept, Erste Group has focused on barrier-free access. It is planned to have all branches barrier-free within the next years.

In co-operation with the Prague wheelchair users' organisation, Česká spořitelna tested its branches for barrier-free access, and more than a third of Česká spořitelna's branches are already entirely barrier-free. At Erste Bank Oesterreich, all new or refurbished branches are fully barrier-free, and Erste Bank Hungary has already remodelled two thirds of its branches so that at year-end 82 are classified as barrier-free. Access is likewise barrier-free at all new or remodelled branches of Erste Bank Serbia.

In addition to past achievements in terms of barrier-free access for blind and visually impaired persons (e.g. bank cards printed in braille or cash dispensers equipped to provide audio instructions), Erste Group now offers mobile banking for the blind through its digital platform, the *George Go* app. The possibility of barrier-free use of the app is based on the accessibility features of the two large smart phone operating systems iOS and Android. A variety of functions are available: zoom, contrast adjustment, very large fonts and speech output. The barrier-free functions were developed together with blind persons and persons with a wide variety of visual impairments. According to the Austrian Federation of the Blind and Partially Sighted, 300,000 visually impaired people are living in Austria.

CUSTOMER SATISFACTION

The quality of customer relations ultimately depends on the customers' experiences in their day-to-day dealings with the bank. As high levels of customer satisfaction and thus customer loyalty secure the bank's long-term success, it is essential to intensify the relations between the bank and the customers and to increase client satisfaction by improving the quality of the offer and solving requests in a timely manner.

To this end, the Customer Experience Index is established. It focuses on the loyalty of Erste Group's customers, combining five relevant dimensions. It is 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. It is also a bonus criterion for board members of Erste Group and the local banks.

In 2016, Erste Group improved in customer experience aspects across its markets, the positive development being especially visible in the private individuals and SME customer segments. These results are proof of the local banks putting their focus on customer experience as a cornerstone of a successful development of the Group. Česká spořitelna and Banca Comercială Română were particularly successful in improving customer satisfaction in the private customers' segment, while Erste Bank Croatia achieved the highest improvement in the SME customers' segment.

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 thus 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. In November 2016, a further step was taken to support global climate goals. Erste Asset Management has excluded companies that earn more than 30% of total revenues from coal mining, trade in thermal coal and from the production of coal-based fuels from all public funds. The respective guidelines are available at the website of Erste Asset Management.

Erste Asset Management is an acknowledged and leading provider of sustainable investment funds in Austria and in the CEE region. In 2016, Erste Asset Management managed assets worth EUR 57.2 billion. Actively managed funds amounted to EUR 24.7 billion. The total volume of assets managed by sustainable investment funds reached EUR 4.5 billion in 2016, up 10.4% versus 2015.

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, and as of 2016 this co-operation has been active for 10 years) as well as one asset allocation fund of funds. 2016 was again characterised by strong investor demand for funds that invest in emerging market corporate bonds globally, in conformity with sustainability rules. There was strong interest in the theme of micro-finance.

The micro-finance fund of funds doubled its volume and won several awards in 2016.

In 2016, Erste Asset Management was awarded the FNG label – introduced in 2015 – for nine of its sustainable funds (2015: four). 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. Moreover, four of the sustainable funds have had the Austrian environmental certificate for sustainable financial products for ten years.

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. Co-operation with international asset managers organised by the PRI Association was continued in 2016 to approach companies from a position of greater strength. In this context, activities in the oil sector were intensified. Furthermore, discussions with companies were initiated on the use of black coal to power utilities and support was given to the common efforts to assume responsibility for environmental damage in mining.

Apart from engaging in dialogue with companies on controversial topics in the areas of sustainability and environmental protection, Erste Asset Management represented the interests of its customers at numerous annual general meetings in 2016. For more than 200 of the largest equity positions in the public funds of Erste Asset Management voting rights were exercised at annual general meetings and numerous shareholder motions to move companies to manage their businesses in a more sustainable and transparent manner were supported.

In 2016, the ESG Letter, a quarterly research publication on various sustainability themes was published on the topics of chocolate, coal, patent remedies and toys. Apart from the main publication of the Responsible Investment Team at Erste Asset Management, various short profiles are published monthly on the investment universe and the sustainability funds to inform customers of the selection criteria and their influence on the ESG key indicators (such as the CO_2 footprint of the fund).

In 2015, 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. Also in 2016, Erste Asset Management calculated and published the CO_2 emissions of their equity investments. With the divestment of CO_2-intensive companies from the sectors of coal mining and coal trade, the CO_2 footprint of company-wide investments was reduced further.

The Erste Responsible Advisory Board met twice in 2016 and made valuable contributions to the further development of Erste Asset Management's sustainable investments. Active membership in *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) was continued.

Despite the persistent low interest-rate environment, Erste Group continued to strengthen its market position in private banking and asset management in Central and Eastern Europe. In Hungary, this development was supported by the acquisition of the Hungarian Citibank subsidiary. Across the group, 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. Erste Private Banking focuses on offering its customers advisory excellence and transparency. To meet these high quality requirements, a group-wide training programme has been set up

In 2016, Erste Private Banking was named *Best Private Bank in CEE* for the third consecutive year and again *Best Private Bank in Austria*. In addition, Erste Group was named *Best Bank for Wealth Management in Central and Eastern Europe* by Euromoney.

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.

Erste Group has launched the *Step-by-step* social banking programme, aiming to address directly the needs of traditionally unbanked groups in CEE and Austria. Erste Group's social banking programme fosters the financial inclusion of low-income individuals, first-time entrepreneurs and social organisations, offering them fair access to basic financial products, sound money advice and business mentoring.

The *Step-by-ste*p programme will be rolled out through Erste Group's network of local banks and in partnership with other organisations and NGOs. It builds on individual programmes that Erste Group's subsidiaries in the CEE region have already launched and works together with existing local social banking projects, such as Zweite Sparkasse in Austria and good.bee Credit in Romania, with the target of creating a unique infrastructure for financial inclusion across the region.

In addition, Erste Group continued its social enterprise financing activities. 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.

All local banks of Erste Group offer micro-financing schemes customised for their markets. Following the guarantee agreements between the European Investment Fund (EIF) and Erste Bank Oesterreich, more micro-loans can be granted to start-ups and small companies in the framework of an initiative of the Federal Ministry of Labour, Social Affairs and Consumer Protection in Austria. Together with the savings banks, more than 500 start-ups have received funding under this programme.

good.bee Credit offers micro-financing to small entrepreneurs, mainly farmers, in rural areas of Romania. By year-end 2016, good.bee Credit had financed more than 5,300 customers through 8,000 loans with a total volume of EUR 56 million. In 2016, it introduced as the country's first financial institution an innovative product, the APIA loan, that bridges the cash-flow needs until public subsidies are transferred.

Česká spořitelna continued its social banking activities and financed entrepreneurs and NGOs that have a social impact with EUR 8 million. In addition, Česká spořitelna offers several programmes that provide support to these social entrepreneurs and NGOs with business development, testing the viability of business cases or strengthening the social impact. Slovenská sporiteľňa engaged in similar activities and financed social entrepreneurs with a total volume of EUR 3.5 million. In addition, a set of financial and advisory services was developed and several social projects with a total value of EUR 2 million were financed. Together with municipalities, the bank developed a programme to enable societal minority groups to finance self-constructed homes.

Erste Bank Hungary has become an acknowledged financial partner for local NGOs and social enterprises. In 2016, the bank launched its three-year programme SEEDS to support social organisations in strengthening their financial independence. Erste Bank Croatia launched its new micro-finance programme that supports unemployed persons who intend to become entrepreneurs. This programme is unique on the Croatian market and aims to encourage self-employment and entrepreneurial development. Erste Bank Serbia followed a similar approach. Its new micro-finance programme is designed for start-up entrepreneurs, unemployed persons, small-scale social enterprises and micro-businesses in the first two years of operations. Furthermore, Erste Bank Serbia also offers business monitoring as part of a new guarantee agreement in co-operation with the European Investment Fund.

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 resolutely 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.

Erste Group Procurement holds the *CIPS Ethics Mark*, a certification awarded by the *Chartered Institute of Procurement and Supply (CIPS)*. This certificate distinguishes institutions that have committed to adhere to high standards in procurement and have set up relevant further education courses within the company. Currently, 66% of all employees of Erste Group Procurement have obtained individual certification on ethical behaviour in procurement.

SUPPLY CHAIN

Erste Group's supply chain comprises mainly indirect expenses that support the group's core business. In 2016, the total amount paid to companies outside Erste Group was slightly above EUR 1 billion, and the majority of it is linked to services, operations and marketing (amounting to 41.9% of the total amount spent), followed by IT (39.9%) and facility management (18.2%). Out of a total of approximately 26,000 suppliers on group level, 80% of the total procurement expenses relate to 642 suppliers. 98.9% of the suppliers (reflecting 98.8% of the expenses) were located in the European Union, highlighting Erste Group's focus on its markets in CEE. An additional 0.5% of the suppliers were located in North America, 0.4% in other European countries and the rest (0.2%) were based in other continents.

Only 14.7% 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

Compliance with sustainability criteria in selecting suppliers is guaranteed at both the strategic and the operational levels. Strategies have been developed for selected groups of goods to serve as guidance for supplier selection. Apart from group standards on social responsibility, these standards also include defined technical specifications. Since 2016, sustainability criteria have been a mandatory element in these documents drafted together with the Sustainability Office of Erste Group.

To ensure that Erste Group's suppliers meet the group's corporate responsibility standards at an operational level, 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 processed through a special IT tool and is an integral part of Erste Group Procurement's supply chain. 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 form the basis for the supplier evaluation in procurement.

To ensure correct procedures, all of the relevant steps have been integrated into the electronic tendering system. The IT application blocks the entry of further data, and thus collaboration with the supplier, if there is not enough information or no explicit release has been given for suppliers classified as critical. 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 2016. 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 2016. 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 and encourages the 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 as well as 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

In addition, 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

A diverse and inclusive workforce is essential for business success. Companies that are committed to diversity and inclusion benefit from more engaged employees, a better brand image and higher customer satisfaction. Erste Group sees diversity and inclusion as a vital part of its human resources strategy and key to attracting and retaining talented employees.

Erste Group's diversity and inclusion principles are reflected both in its statement of purpose and code of conduct, which emphasise a work environment free of discrimination and harassment and values the work and worth 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.

In 2016, Erste Group focused on the following diversity priorities:

- establish a group-wide diversity policy framework
- implement diversity and anti-discrimination training courses for managers
- implement specific generation management measures
- increase the number of women in top management
- continue to encourage local diversity initiatives across the group

Amongst others, various diversity and anti-discrimination workshops were offered, and a systemic evaluation and audit regarding generation management resulted in several recommendations to be put into practice by the end of 2018. Some of these measures refer to training that takes employees' life phases into account or anti-discrimination training for management, raising awareness of generation management and benchmarking with corporate best practice. In December 2016, the management board approved the group-wide diversity policy framework. It provides the formal structures and processes for diversity management across the group and will be adopted in the local banking subsidiaries in 2017.

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). At year-end 2016, 29% of positions in top management were filled by women (2015: 28%), and the share of female supervisory board members stood at 34% (24%).

Erste Bank Oesterreich has set a corresponding internal target of 40% by 2017. In 2016, Česká spořitelna's first female management board member since its privatisation in 2000 was appointed.

To increase the number of women in senior management positions, Erste Group aims for a greater gender and age balance in itstalent pools. The international talent pool is made up of 40% women and 35% of the group's key positions pool is female.

In addition, Erste Group implemented a variety of initiatives to support the development of female leadership. In Austria, the *Erste Women's Hub* employee resource group continued key initiatives such as the *WoMentoring* programme, financial education for women, networking events for female employees and clients, and launched a new network initiative for employees on maternity/parental leave. Through its *Diversitas* programme, which is also the general partner of *TEDx Women Prague 2016*, Česká spořitelna offered internal and external mentoring opportunities to 54 high-potential women and launched the dialogue platform *Rainbow Talks*, which addresses inclusion issues regarding the workplace and society. In addition to its established programmes, Slovenská sporiteľňa piloted a mentoring programme for female managers. Erste Bank Croatia offered six of their female managers the participation at the *Future leaders – development of women leadership potential conference,* one of them won the *Future leaders 2016 – Women in Adria* award for the finance industry.

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 co-operation.

The diversity priorities for 2017 are the following:

- adopt and implement the group diversity policy framework in the local banks of Erste Group
- develop and encourage more initiatives in the area of generation management and inclusion
- encourage more men to use paternity leave options
- increase the number of women in top management by at least 3 percentage points and develop more group-wide initiatives to support female leadership
- continue to encourage local diversity initiatives
- continue monitoring the gender pay gap and identify measures for closing it

LEARNING, TALENT MANAGEMENT, LEADERSHIP AND COMPETENCY DEVELOPMENT

Erste Group is committed to developing its employees' professional and interpersonal skills 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 2016, the main focus was on implementing the group-wide talent management landscape, improving leadership development and implementing the concept of functional competency management.

Erste School of Banking and Finance, the group's platform for professional and leadership training, offers customised executive training and personal development training courses as well as programmes for specific business areas. In 2016, Erste Group started co-operation with the renowned IESE Business School. This co-operation focuses on the Group Leadership Development Programme and will be expanded in 2017 to include further development opportunities for senior executives in the field of strategy.

In addition, Erste Group continued to expand the offer in 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. Erste Group's Talent Management offers 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 2016, about 40% of the International Talent Pool were women. The next level, the Group Key Positions Pool, aims at preparing managerial talents for roles at division head level. This pool comprises 35% women. The Executive Pool, which identifies and develops top executive level talent, comprises 33% 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 2016, each employee of Erste Group had on average 4 training days for professional development. The total group-wide training budget amounted to EUR 19.8 million (i.e. approximately EUR 500 on average per employee).

The focus for 2017 is the mobilisation of identified talents within the group and to further develop the digital learning offering.

REMUNERATION AND PEOPLE PERFORMANCE MANAGEMENT

Erste Group continued to focus the remuneration policy on an appropriate balance in rewarding the performance, competence and level of responsibility of the employees. Minor adaptions in the retail sales incentive schemes made the link between company performance and retail sales incentive payments more transparent. 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 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.

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.

The areas of activity for health promotion in Erste Group include lifestyle habits, work-life balance, mental health and stress prevention and nutrition consultation. 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.

At Erste Group's headquarters in Vienna, the health centre offers 38 courses covering a wide range of measures such as relaxation techniques and physical activity. The courses include yoga, circuit training, pilates, preventive back pain training, etc. In addition, the health centre continued to focus on health risk factors (in particular the prevention of heart disease and stroke) and on changing personal health practices and behavioural patterns (e.g. smoking and diet). Chronic diseases do not have a major impact only on the quality of life and life expectancy but also on the labour market as chronic illness affects job fluctuation and wages. Erste Group implemented a wide variety of measures to prevent or at least limit the impact of chronic diseases. These measures include preventive medical examinations.

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 continued to also focus on strengthening its effectiveness on maintaining mental health of the employees in 2016. Erste Group is still one of very few companies having a company agreement on stepwise reintegration after a long sickness. The company agreement is appreciated as a very good example of bridging health and labour issues, and it was discussed at the Austrian medical association and various medical congresses in 2016.

Respecting and promoting work-life balance among its employees has been a long-standing priority of Erste Group, and it offers a wide variety of family-friendly measures and evaluates them on a regular basis to ensure that they truly meet the employees' needs. These measures differ from country to country and include flexible work arrangements, short sabbaticals, and regular meetings for employees on maternity/parental leave.

As an additional offer, Erste Group opened its MiniCampus company kindergarten at Erste Group's headquarters in Vienna.

Staff indicators

	Share of female staff		Share of part-time staff		Share of female part-time staff in total part-time workforce		Share of male part-time staff in total male workforce		Share of executive positions	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Austria	50.0%	47.9%	25.8%	24.5%	81.1%	83.0%	9.8%	4.2%	2.9%	1.6%
Czech Republic	69.7%	70.9%	7.6%	7.9%	89.4%	92.6%	2.7%	0.6%	1.2%	0.9%
Slovakia	68.7%	71.9%	1.2%	0.5%	83.3%	87.0%	0.6%	0.1%	1.1%	0.9%
Romania	70.3%	70.2%	5.8%	5.6%	80.1%	79.0%	3.9%	1.2%	1.7%	1.1%
Hungary	62.5%	62.4%	3.4%	2.6%	74.0%	81.1%	2.4%	0.5%	2.4%	2.1%
Croatia	66.4%	69.2%	1.5%	0.9%	80.0%	96.6%	0.9%	0.0%	2.7%	2.7%
Serbia	69.9%	69.1%	0.1%	0.1%	0.0%	0.0%	0.3%	0.1%	2.8%	2.2%

	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	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Austria	6.9%	8.9%	26.5%	17.0%	27.8%	27.0%	7.3	7.7	138	110
Czech Republic	4.2%	4.8%	25.4%	16.5%	44.3%	39.6%	8.3	7.2	109	130
Slovakia	8.8%	8.5%	23.1%	25.6%	54.6%	55.7%	12.0	7.1	102	100
Romania	6.3%	6.5%	44.0%	46.8%	56.0%	57.4%	7.9	8.2	27	20
Hungary	12.2%	12.2%	22.9%	25.0%	51.4%	53.0%	7.6	7.7	8	6
Croatia	5.5%	9.5%	32.6%	36.5%	55.9%	61.5%	9.4	10.2	9	9
Serbia	14.4%	13.9%	33.3%	37.5%	56.2%	55.0%	6.7	4.8	1	2

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

In 2016, the scope of consolidation was extended to 103 entities (additional 93 FTEs were employed in entities that were not included in this scope of consolidation; that is 0.25% of the total FTEs of the staff indicators). The 2016 data is therefore not comparable to 2015.

Turnover rate

2016	Total		<30 years		31-40 years		41-50 years		>50 years	
	Females	Males	Females	Males	Females	Males	Females	Males	Females	Males
Austria	3.2%	4.1%	5.3%	5.6%	2.8%	4.5%	1.6%	2.3%	2.9%	4.2%
Czech Republic	12.4%	5.3%	18.7%	8.9%	11.6%	6.3%	7.5%	3.1%	11.6%	3.1%
Slovakia	12.8%	5.0%	18.7%	8.3%	11.8%	6.9%	8.2%	2.6%	12.3%	2.3%
Romania	11.5%	6.3%	21.6%	10.0%	12.3%	6.2%	6.3%	3.7%	5.8%	5.2%
Hungary	13.8%	8.1%	17.1%	12.6%	12.1%	8.0%	10.8%	6.4%	15.0%	5.5%
Croatia	4.6%	2.7%	10.5%	4.6%	2.7%	1.7%	2.0%	2.2%	3.2%	2.2%
Serbia	6.3%	5.7%	12.2%	14.5%	4.7%	5.1%	1.9%	1.4%	6.5%	1.7%

The presentation of the turnover data was amended pursuant to GRI. The calculation of the turnover rate comprises employees that left Erste Group (including retirees); employees on parental leave, internal moves within Erste Group and the departure of trainees or interns were excluded from the calculation.

As a result of the changed presentation, the table is not directly comparable with the data presented in the annual report 2015.

Return to work after parental leave

2016	Austria	Czech Rep.	Slovakia	Romania	Hungary	Croatia	Serbia
Females	94.5%	42.3%	43.4%	42.1%	68.5%	98.6%	27.5%
Males	100.0%	100.0%	n.a.	100.0%	0.0%	100.0%	n.a.

Environment

Environmental issues affect everyone's life, and the time when only environmental activists paid attention is long gone. In 2016, the Paris Agreement went into force when more than 55 countries, contributing together more than 55% of the global greenhouse gas emissions (GHG), had signed. After more than two decades of discussions, all signatories now have the obligation to reduce their GHG emissions to keep the global temperature rise below 2 degrees Celsius above the pre-industrial level. To cap global warming at the agreed level, from now on a maximum of 20% of the known global reserves of fossil fuel (especially coal) shall be burned to avoid the more severe and widespread consequences on all continents due to the rising sea levels and other increasing climate-related hazards.

Although the direct impact of banks on the environment may be very limited, Erste Group has been committed to reducing the consumption of natural resources, notably heating and electric energy, for years. It had implemented plans to cut its direct CO_2 emissions by 30% in 2012. The most significant impact is achieved through increased energy efficiency and the usage of electric energy from renewable resources.

Erste Group recognises its indirect responsibility and also takes into account potential environmental risks related to lending and investment. Erste Asset Management, one of the first investment fund companies that signed the *Montréal Carbon Pledge*, announced in October 2016 to exclude companies that derive more than 30% of sales from coal mining. Erste Group will follow in 2017 with an updated policy for responsible financing. In addition to already existing restrictions on financing of nuclear power plants the financing of coal mines and fossil fuel fired power plants will be limited to exceptional cases. Balancing financial and ecological interests will remain 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 Sustainability Office was established 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
_ sustainable banking products: definition of criteria for sustainable financing and investments, align with international environmental agreements like the *UN Global Compact* where Erste Group has been a signatory since the end of 2015 to support the *UN Sustainable Development Goals*

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%
_ Greenhouse gas (CO_2eq, scope 1 and 2) emissions by -30%

The targets – with the exemption of greenhouse gas emissions – were met. The reduction of CO_2eq-emissions stood at 28%, slightly below the envisaged 30%. Including the conversion to electric energy from renewable sources, which happened already in 2011 in Austria, the CO_2eq emissions declined by 40%.

Development of the environmental footprint in 2016 versus 2012

_ Electric energy:	-13% to 160.9 GWh
_ Heating energy:	-18% to 132.8 GWh
_ Copy paper:	-20% to 1,376 t
_ CO_2eq emissions (scope 1 and 2):	-28% to 77,008 t

GROUP-WIDE ACTIVITIES

In 2016, several thousand of Erste Group employees moved into the new headquarters Erste Campus, one of the most energy efficient and sustainable office buildings in Vienna. In April 2016, the complex was certified with the platinum award of DGNB/ÖGNI (Österreichische Gesellschaft für Nachhaltige Immobilienwirtschaft). The architectonical landmark building offers more than 165,000 m² of total space for up to 4,500 employees which were scattered in more than 20 office buildings throughout Vienna prior to the move. There is no heating/cooling system in place using fossil fuel. Heating and cooling is provided by district heating, district cooling and using geothermal energy by heating pumps. Furthermore, 100% of the electric energy is CO_2 free from renewable sources. State-of-the-art LED systems reduce the annual consumption of electric energy by close to 1,000 MWh compared with old-fashioned lighting systems.

Based on a desk sharing concept a variety of different types of work spaces are provided. Employees can choose on a daily basis to work in focus zones, at regular desks or in team desks to get the work at hand done. Flexible working practices are supported by a secure Wi-Fi system allowing mobile notebook usage anywhere at the campus – even at the roof gardens. Compared to the traditional system of assigned desks, low occupancy and accompanying waste of resources are avoided. The new working environment does not only save space and energy, it also facilitates the communication and cooperation between employees and teams. Furthermore, in combination with a limitation of the individual storage place for documents, it resulted in a reduced consumption of office copy paper by 24t or 14% compared with last year.

Outside the Erste Campus, improving energy efficiency remained on the agenda within the programme of modernising and renovating branches, for example by installing LED lights and efficient heating systems.

In Austria, Erste Group continued its cooperation with a non-profit organisation employing handicapped and long-term unemployed people which is specialised in re-cycling and reselling old IT equipment of companies.

Slovenská sporiteľňa is the first local bank meeting Erste Group's target of implementing an environmental management system and passed the certification at the end of 2015 according to EN ISO 14001:2004. Internal auditors audited more than eighty premises and external auditors audited ten premises to verify compliance with the obligations under this ecological regulation. No shortcomings were identified. In line with the bank's focus on lower energy consumption and related carbon dioxide emissions, energetic inspections were performed at more than forty premises. Checks were done on settings of correct operating times for individual technologies or correct temperature parameters. Based on the findings, measures for energy consumption optimisation were adopted. One of the main criteria for the selection of new servers in the bank's data centre in Bratislava was low electric energy consumption.

To increase awareness of employees for environmental protection, all new employees of Slovenská sporiteľňa are trained in environmental targets and measures. All employees are obliged to complete an e-learning course about environmental protection, and even an eco-driving training for employees is now offered.

Following the example of Erste Group in Vienna, bee hives were placed on the rooftop of the banks headquarters building at Bratislava.

The main focus at Česká spořitelna is also on efficient energy consumption. All branches participate in an energy reduction programme called *Energetická liga*. On a quarterly basis, energy consumption of each branch is compared with other locations similar in size and functionality and with the previous period.

Remote monitoring of heating, ventilation and air conditioning technologies has already been implemented in one hundred forty-six buildings. The data collected – ranging from temperature, settings of electronic valves to energy consumption – is used to optimise the total energy consumption. In cooperation with the Czech Technical University in Prague, analytical methods and sophisticated algorithms are developed to improve energy efficiency. To quantify, organisational environmental performance and position environmental audits are performed on the building portfolio, 34 audits were completed in 2016 (30 audits in 2015 and 19 in 2014).

At one of the buildings of Česká spořitelna's headquarters, an *ECO DAY* was introduced. Employees were encouraged to collect worn-out and obsolete electrical and electronic equipment to ensure environmentally friendly waste management and recycling. Similar to the desk sharing concept of Erste Group in Vienna, the bank is also testing this concept at one of its main buildings with the aim to save space and thus energy and other resources.

Erste Bank Serbia continued its energy efficiency initiatives, besides the ongoing renovation of its branches a new head office is under construction – the business complex Sirius Offices. Of course, high environmental standards are a given, and the bank strives for a top certification of BREEAM (Building Research Establishment Environmental Assessment Method for buildings). Energy-efficient lighting remains on the top of the agenda; to reduce the energy consumption in the branches, neon lights are replaced by LED and advertising signs are turned off at midnight.

Like in all core countries of Erste Group, the bank encourages a healthy and sustainable lifestyle by providing space for bikes wherever possible to motivate employees and customers alike to use bikes.

Raising employees' awareness and keeping people informed about the ecological consequences of their activities supported the programmes to save resources at the workplace. Erste Bank Serbia continued to be the leading Serbian institutions in financing renewable energy projects. For three years, Erste Bank Serbia has been a partner of the competition *Green ideas*, which rewards the best innovative entrepreneurial ecoprojects. The aim is to encourage the development of entrepreneurial ideas with a social, environmental and economic impact in the community.

Erste Bank Croatia is – apart from the Austrian operations of Erste Group – the only core market consuming electric energy from almost 100% renewable sources. In 2016, the contract was extended to keep the CO_2 emissions at the very low level. No appropriate local energy providers selling country-wide CO_2-free electricity are operating in the other core markets yet.

Various programmes to improve the energy efficiency have been prolonged in Croatia as well. One example is that electric boilers in toilets and kitchenettes are now equipped with timers to distribute the energy consumption more evenly throughout the day to avoid expensive peak demand. To reduce energy consumption for cooling, a special foil was applied on large glass surface at five premises and the headquarters at Rijeka to protect against UV and heat radiation.

Office paper consumption was reduced by switching to work with scanned (with OCR recognition) electronic versions of the credit application documentation, while storage at the new central archives in Bjelovar will be limited to one copy.

Special banking products with positive environmental impact have also been implemented in 2016. Retail introduced consumer EKO loans for private investments increasing energy efficiency. Correspondingly, the Corporate Division launched a special investment loan for the financing of energy efficiency projects in buildings. In cooperation with international financial institutions (EIB and EBRD), special credit lines are offered for financing energy efficiency projects and the production of energy from renewable sources. An ongoing task was and is to create awareness about environmental issues with employees and other stakeholders.

Measures to reduce office paper consumption

Without a 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.

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. The next step will be to switch to recycled paper also for business cards, envelopes and other kinds of office paper. With this measure, Erste Group shows its commitment to protecting natural resources. In Slovakia, the Czech Republic, Hungary, Serbia and Croatia, the targeted level of 100% recycled copy paper has been almost reached. In Austria, the share reached 88.7%. Only Romania is lagging behind with a copy-paper share of 13%. At Banca Comercială Română, it is planned to switch to recycled copy paper in 2017. Excluding the savings banks, total consumption of copy paper was reduced by additional 94 tonnes to 1,376 tonnes. Since 2012, the total volume declined by 337 tonnes or about 20%. To complete the environmental cycle local banking subsidiaries increased their efforts to collect waste paper.

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 further developing its 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.

Other environmental initiatives

One element of Erste Group's environmental strategy is the cooperation with NGOs. Independent environmental NGOs offer access to their local and international know-how and provide valuable assistance in Erste Group's efforts to become an even more environmentally sustainable company. Erste Group cooperates 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.

Public recognition

In Austria, Erste Group was again awarded by the City of Vienna within the framework of *ÖkoBusinessPlan Wien 2016* for the ongoing commitment to environmental protection. Česká spořitelna was awarded for the second time with the *Green Bank Award* (*GEEN Zelená banka)* for its commitment in areas like paper consumption reduction, green energy purchase, recycling and environmentally friendly means of transport.

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

Environmental data are collected with a software tool called *cr360*. This system uses emission factors from the UK Department for Environment, Food & Rural Affairs (DEFRA) and the International Energy Agency (IEA).

Environmental indicators 2016

Tonnes CO_2eq-emissions	Total	Austria	Croatia	Czech Rep	Hungary	Romania	Serbia	Slovakia
Cooling agents	1,246	14	268	399	148	159	81	176
Mobility	7,642	949	724	2,964	680	1,333	273	720
Heating/ warm water	13,742	994	585	807	449	7,863	150	2,895
Σ Scope 1	22,630	1,957	1,577	4,169	1,277	9,355	504	3,792
District heating	11,076	144	293	9,208	436	490	236	269
Electricity	43,302	109	14	22,365	3,137	12,283	2,002	3,391
Σ Scope 2	**54,377**	**253**	**307**	**31,573**	**3,573**	**12,773**	**2,237**	**3,661**
Scope 3 (only mobility)	**4,476**	**1,478**	**48**	**2,043**	**24**	**728**	**71**	**84**
Total	**81,484**	**3,688**	**1,933**	**37,785**	**4,874**	**22,856**	**2,812**	**7,537**

Relative values per FTE or m²	Heating kWh/m²	Electricity kWh/m²	Copy paper kg/FTE	CO_2eq Scope 1 t/FTE	CO_2eq Scope 2 t/FTE	CO_2eq Scope 3 t/FTE
Austria	92.0	186.7	20.0	0.24	0.03	0.18
Croatia	76.7	193.1	37.3	0.51	0.10	0.02
Czech Republic	96.1	90.4	24.4	0.40	3.04	0.20
Hungary	63.5	158.0	45.4	0.44	1.22	0.01
Romania	107.2	91.2	72.2	1.29	1.80	0.10
Serbia	69.0	98.8	52.8	0.50	2.23	0.07
Slovakia	84.4	107.0	33.0	0.87	0.84	0.02

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

Environmental indicators 2015

Tonnes CO_2eq-emissions	Total	Austria	Croatia	Czech Rep	Hungary	Romania	Serbia	Slovakia
Cooling agents	1,341	130	97	525	23	448	118	0
Mobility	7,786	1,235	635	2,730	789	1,364	297	735
Heating/ warm water	16,366	1,012	574	3,640	369	8,389	163	2,218
Σ Scope 1	25,493	2,377	1,307	6,895	1,181	10,201	579	2,953
District heating	8,899	833	230	5,865	618	987	208	159
Electricity	43,276	1	35	24,528	2,944	10,499	1,880	3,389
Σ Scope 2	**52,175**	**834**	**264**	**30,393**	**3,562**	**11,486**	**2,088**	**3,548**
Scope 3 (only mobility)	**4,332**	**1,808**	**107**	**1,900**	**19**	**336**	**51**	**111**
Total	**82,000**	**5,019**	**1,678**	**39,188**	**4,762**	**22,023**	**2,718**	**6,612**

CO_2eq = CO_2 equivalents

Relative values per FTE or m²	Heating kWh/m²	Electricity kWh/m²	Copy paper kg/FTE	CO_2eq Scope 1 t/FTE	CO_2eq Scope 2 t/FTE	CO_2eq Scope 3 t/FTE
Austria	68.1	200.6	28.6	0.36	0.13	0.28
Croatia	71.1	169.2	35.8	0.48	0.10	0.04
Czech Republic	89.0	95.6	26.9	0.63	2.78	0.17
Hungary	70.3	147.8	43.7	0.40	1.20	0.01
Romania	121.6	79.2	96.2	1.71	1.93	0.06
Serbia	65.0	90.7	43.5	0.60	2.16	0.05
Slovakia	61.5	103.1	34.0	0.69	0.83	0.03

Following a retrospective change of the emission factors by DEFRA and IEA, the environmental data 2015 are only partially comparable to the data presented in the annual report 2015.

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

CO_2eq = CO_2 equivalents

Copy paper

	2015			2016		
	Total weight (tonnes)	Recycled %	Not recycled %	Total weight (tonnes)	Recycled %	Not recycled %
Austria	187.1	76.4	23.6	163.5	88.7	11.3
Croatia	97.7	99.2	0.8	116.2	99.9	0.1
Czech Republic	294.4	100.0	0.0	254.0	98.4	1.6
Hungary	130.0	100.0	0.0	132.8	100.0	0.0
Romania	573.7	17.0	83.0	513.2	13.4	86.6
Serbia	42.0	85.0	15.0	53.1	100.0	0.0
Slovakia	145.0	96.5	3.5	143.2	98.8	1.2

Corporate governance

(Consolidated) 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 – see www.corporate-governance.at) 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, in which Erste Group is active. Building on this Statement of Purpose, a Code of Conduct defines binding rules for the day-to-day business. Erste Group values responsibility, respect and sustainability in pursuing its business activities. The Code of Conduct hence helps to protect the reputation of Erste Group and to strengthen stakeholder confidence. The (consolidated) corporate governance report has been prepared in accordance with sections 243c and 267b 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 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 2016, 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 eleven shareholder representatives elected by the annual general meeting. 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 is a stock corporation established according to Austrian law with a management board and a supervisory board as management bodies (two-tier system). 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 appoints the members of the management board, decides on the remuneration of the management board and monitors and evaluates on a yearly basis its activity. The supervisory board advises the management board on the determination of the business strategy. It takes part in making decisions as provided for by law, the articles of association and its internal rules of procedure.

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 members of the management bodies. 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 members of the management board and supervisory board, management and staff. 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 2020
Petr Brávek	1961	1 April 2015	31 December 2020
Willibald Cernko	1956	1 January 2017	31 December 2020
Andreas Gottschling	1967	1 September 2013	31 December 2016
Gernot Mittendorfer	1964	1 January 2011	31 December 2020
Jozef Síkela	1967	1 January 2015	31 December 2020

In the financial year 2016, the management board consisted of six members. Andreas Gottschling resigned as of 31 December 2016. The supervisory board appointed Willibald Cernko as new member of the management board effective 1 January 2017.

As of 1 January 2017, the allocation of duties among the members of the management board is as follows:

Management board member	Areas of responsibility
Andreas Treichl (Chairman)	Group Strategy, Group Secretariat, Group Communications, Group Investor Relations, Group Human Resources, Human Resources, Group Audit, Social Banking Development
Peter Bosek	Erste Hub, Digital Sales, Group Retail Strategy
Petr Brávek	Holding IT, Holding Banking Operations, Group COO Governance, Group Architecture and Portfolio Management
Willibald Cernko	Liquidity and Market Risk Management, Enterprise wide Risk Management, Risk Methods and Models, Non Financial Risk, Group Workout, Group Credit Risk Management
Gernot Mittendorfer	Group ALM, Group Data Management and Reporting, Group Accounting and Controlling, 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, management roles in subsidiaries

As of 31 December 2016, the management board members held the following supervisory board mandates or similar functions in domestic or foreign companies or material subsidiaries of Erste Group Bank AG (the latter are marked with *). No management board member holds a management position in a material subsidiary of Erste Group Bank AG.

Andreas Treichl

Sparkassen Versicherung AG Vienna Insurance Group (Chair), Leoganger Bergbahnen Gesellschaft m.b.H. (Member), Erste Bank der oesterreichischen Sparkassen AG* (Member), Banca Comercială Română S.A.* (Vice Chair), Česká spořitelna, a.s.* (Vice Chair)

Peter Bosek

Wiener Städtische Versicherung AG Vienna Insurance Group (2nd Vice Chair), Sparkassen Versicherung AG Vienna Insurance Group (Member), Česká spořitelna, a.s.* (Member)

Petr Brávek

Česká spořitelna, a.s.* (Member), s IT Solutions AT Spardat GmbH* (Vice Chair), Erste Group IT International GmbH* (Chair)

Andreas Gottschling

Erste Group Immorent AG* (Vice Chair), Erste & Steiermärkische Bank d.d.* (Erste Bank Croatia) (Chair)

Gernot Mittendorfer

Banca Comercială Română S.A.* (Member), Erste Bank Hungary Zrt.* (Member), Erste Bank a.d. Novi Sad* (Chair), Erste Bank der oesterreichischen Sparkassen AG* (Member), Slovenská sporiteľňa, a.s.* (Chair), Erste Group IT International GmbH* (Vice Chair)

Jozef Síkela
Oesterreichische Kontrollbank Aktiengesellschaft (Member), Erste Group Immorent AG* (Chair), Prvá stavebná sporiteľňa, a.s.* (Member)

Andreas Gottschling resigned from the supervisory boards of Erste Group Immorent AG* und Erste & Steiermärkische Bank d.d.* as of 31 December 2016. Willibald Cernko was elected to the supervisory board of Erste Group Immorent AG* (Vice Chair) in February 2017 and holds a supervisory board mandate in Mobilux Acquisition SAS.

SUPERVISORY BOARD

In the financial year 2016, 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	Jan Homan	1947	General Manager, ret.	4 May 2004	AGM 2019
2nd Vice Chairwoman	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	27 October 2016
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	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 2016: Regina Habenauer's delegation to the supervisory board was temporarily revoked by the employees' council as of 14 March 2016. As of 1 November 2016 she was delegated to the supervisory board again.

Gonzalo Gortázar Rotaeche resigned as member of the supervisory board with effect from 27 October 2016.

Membership in supervisory board committees

Committee membership as of 31 December 2016:

Name	Executive committee	Nomination committee	Audit committee	Risk committee	Remuneration committee	IT committee
Friedrich Rödler	Chairman	Chairman	Member*	Chairman	Chairman**	Vice Chairman
Jan Homan	Vice Chairman	Vice Chairman	Chairman	Vice Chairman	Vice Chairman	Substitute
Bettina Breiteneder	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	Substitute
Regina Haberhauer	-	-	Member	Substitute	-	-
Andreas Lachs	Substitute	Substitute	Substitute	Member	Member	Member
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 2016, the supervisory board members held the following additional supervisory board mandates or similar functions in domestic or foreign companies. Material subsidiaries of Erste Group Bank AG are marked with *, listed companies are marked with **.

Friedrich Rödler
Erste Bank der oesterreichischen Sparkassen AG*, Erste Bank Hungary Zrt.*, Sparkassen-Prüfungsverband (Chair), Abschlussprüferaufsichtsbehörde (Austrian authority responsible for the supervision of statutory auditors and audit firms)
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, Best in Parking – Holding AG
Gonzalo Gortázar Rotaeche
VidaCaixa, S.S. Seguros y Reaseguros (Chair), Repsol S.A.**(1st Vice Chair)
Gunter Griss
AVL List GmbH (Chair), Bankhaus Krentschker & Co. Aktiengesellschaft* (2nd Vice Chair), Steiermärkische Bank und Sparkassen Aktiengesellschaft* (Chair)
Maximilian Hardegg
DIE ERSTE österreichische Spar-Casse Privatstiftung, Česká spořitelna, a.s.*
Antonio Massanell Lavilla
Repsol S.A.**, SAREB, S.A., Telefónica, S.A.*, Cecabank, S.A. (Chair)
Brian D. O'Neill
Emigrant Bank, Banca Comercială Română S.A.*, Aqua Venture Holdings, LLC
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 2016.

Delegated by the employees' council:

Regina Haberhauer
ERSTE-SPARINVEST Kapitalanlagegesellschaft m.b.H.*, Erste Asset Management GmbH* (from January 2017)
Barbara Pichler
DIE ERSTE österreichische Spar-Casse Privatstiftung
Andreas Lachs
VBV-Pensionskasse Aktiengesellschaft

Markus Haag, Jozef Pinter 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 2016, two members of the supervisory board (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 2016, all members of the supervisory board attended more than half of the supervisory board meetings that took place after their election or delegation 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 15 December 2016, 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 2016, 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 1,601.68.

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 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 and 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 supervising the independence of the auditor (Group auditor), in particular with respect to the additional services rendered to the audited company and the group companies; submitting a report on the results of the annual audit to the supervisory board and explaining how the annual audit has affected the reliability of financial reporting and the role of the audit committee in doing so; reviewing the annual financial statements and preparing its approval; reviewing the proposal for the allocation of profits, the management report and the (consolidated) corporate governance report and submitting a report on the results of the review to the supervisory board; reviewing the consolidated financial statements of the group and the group management report and submitting the report on the results of the review to the supervisory board; carrying out the procedure for the selection of the auditor (group auditor), taking into account the appropriateness of the fees and recommending the appointment of the auditor (group auditor) to the supervisory board; recommending the renewal of the auditor's (group auditor's) mandate to the supervisory board; acknowledging the additional report of the auditor and deliberating on this report; 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 material 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.

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.

IT committee

The IT committee monitors and supervises IT-related issues and IT strategy in general. In addition, the IT committee is also responsible for taking note of IT reports, of reports on the IT outsourcing strategy and on the outsourcing of IT-related functions; taking note of the Group IT budget; of reports on the status of the IT support function and on the development of key IT initiatives and projects; monitoring the capacity and performance of systems, operating continuity and crisis management, data security, computer and network security and taking note of critical changes in the organisational structure and responsibilities of the IT department. The IT committee is also responsible for rendering advice to the management board and for the preparation of resolutions of the supervisory board relating to Erste Campus.

MEETINGS OF THE SUPERVISORY BOARD AND REPORT ON PRINCIPAL ACTIVITIES

Six meetings of the supervisory board were held in the financial year 2016.

At each ordinary meeting of the supervisory board, with the exception of the meeting of 11 May 2016, 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 2016 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 15 March 2016, the financial statements and the management report 2015, the consolidated financial statements and consolidated management report 2015 as well as the corporate governance report 2015 were reviewed; the auditors' reports were discussed and the financial statements 2015 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 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. In addition, a report was delivered on current developments at Erste Bank Hungary Zrt., the supervisory board's report to the annual general meeting, the re-organisation of Group Retail and of Group Risk Strategy were each approved and the annual report of the supervisory board on loans to board members pursuant to section 28 para. 4 of the Austrian Banking Act was taken note of.

At the meeting of 21 April 2016, a report was delivered on the current status and the development of the business of Erste & Steiermärkische Bank d. d. (Erste Bank Croatia). In addition, a capital measure concerning Erste Bank Hungary Zrt. was approved and the annual report on OpRisk, Compliance and Security was discussed.

At the meeting of 11 May 2016 held after the annual general meeting, Friedrich Rödler informed those present that he was resigning from his position as chairman of the audit committee. Bettina Breiteneder resigned as member of the audit committee at her own request. Jan Homan was elected vice chairman of the audit committee. In addition, the distribution key for the remuneration of supervisory board members approved by the annual general meeting was adopted for 2015.

At the meeting of 23 June 2016, which was also attended by staff members of the European Central Bank (ECB) and the Austrian Financial Market Authority (FMA), who gave presentations and answered questions raised by supervisory board members, matters of strategy relating to retail and corporate business, IT and risk were discussed and the management board's report in this regard was taken note of. A report was delivered on the current status of the 2016 EBA stress test. The meeting discussed the participations report for 2015 and the first quarter of 2016, the report on the development of risk and credit risk, the report on AT1 issuance, the report on legal changes relating to directors' dealings and the report on current developments at Erste Bank Hungary Zrt. In addition, the framework plan for the issuance of certificates and warrants was adopted.

At the meeting of 15 September 2016, Gernot Mittendorfer, Jozef Síkela, Peter Bosek and Petr Brávek were each reappointed early as members of the management board for a term ending 31 December 2020. The chairman informed of the resignation of Andreas Gottschling from the management board effective 31 December 2016. Willibald Cernko was appointed as a member of the management board with effect from 1 January 2017 until 31 December 2020. Reports were delivered on the savings banks and Haftungsverbund GmbH, on current developments at Slovenská sporiteľňa, a.s., on the current status of the Group Recovery Plan 2016 and on the development of risk. Changes to the audit committee's rules of procedure were also approved.

At the meeting of 15 December 2016, the strategy of Group Retail was approved and the reports on the rights and duties of the supervisory board, on large exposures pursuant to section 28b of the Austrian Banking Act, on committee activities and the annual plan for the financial year 2017 were discussed and taken note of. The findings of the supervisory board's self-evaluation were discussed; the re-organisation of Holding Org/IT and Risk, the allocation of duties as well as the rules of replacements from 1 January 2017 were approved and an anticipatory resolution was taken pursuant to section 95 para. 5 no. 12 of the Austrian Stock Corporation Act.

MEETINGS OF THE COMMITTEES AND REPORT ON ACTIVITIES

The risk committee held seventeen meetings in 2016, 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 2016, reports were delivered repeatedly on recent developments in ongoing IT projects. Among the matters discussed and reported on were the impacts of Brexit and cyber security. Regulatory developments at the European level and in Austria were also considered.

The executive committee did not meet in 2016.

The audit committee met five times in 2016. Among other things, the auditors reported on the audit of the single-entity and consolidated financial statements for 2015, 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 the approval of the financial statements. The head of the internal audit department reported on the audit subjects and material audit findings for the year 2015 as well as the current matters relevant for the internal audit of the Group and explained the audit plan for 2016. The internal audit department presented its reports pursuant to section 42 para. 3 of the Austrian Banking Act. In addition a report was delivered on the assessment of the functionality of the risk management system pursuant to Rule 83 of the Austrian CCG and on the effectiveness of the internal control system and a report on Erste Campus was discussed. The audit committee also discussed its work plan for 2017 and defined agenda topics for the meetings. It was decided to propose to the supervisory board to renew the audit mandate of PwC Wirtschaftsprüfung GmbH as additional auditor of the (consolidated) financial statements for the financial year 2018. The auditors provided information about the preliminary audit of the single-entity and consolidated financial statements for 2016. Besides, discussions were held on the reports on the development of participations, on the half year review as of 30 June 2016, on current legal developments impacting audit committee activities, on reviews conducted by the European Central Bank, on the processes for preparing the taxation data for the annual financial statements and on the 2015 management letter. Furthermore, the audit committee did a self-evaluation in one of its meetings and regularly approved permissible non-audit services rendered by the (group) auditor.

The nomination committee met four times in 2016 and dealt with various personnel matters relating to the management board. The nomination committee assessed the qualifications of Gernot Mittendorfer, Jozef Síkela, Peter Bosek and Petr Brávek for their early re-appointment to the management board and recommended that the supervisory board approve their respective appointments. The nomination committee also assessed the qualifications of a candidate nominated for a first-time appointment to the management board and recommended that the supervisory board appoint Willibald Cernko as an additional member of the management 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 four times in 2016 and discussed various remuneration topics relating to Erste Group Bank AG and its subsidiaries including the structure of key performance indicators, the bonus policy concerning the requirements for the payment of variable remuneration components and the remuneration rules for Material Risk Takers. 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.

The IT committee met four times in 2016. Its main topics were an IT project portfolio for Erste Group, risk management relating to IT and an IT audit plan, which was discussed on an ongoing basis. Reports were delivered on the final phase of the Erste Campus project, on IT security, on the strategic direction on data transmission and digitalisation, on the current status of various infrastructure projects and on IT strategy. In addition, the IT budget was discussed and organisational changes in the Holding Org/IT division were presented.

REMUNERATION OF THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD

Principles governing the remuneration policy

The principles governing the remuneration of the management boards of Erste Group Bank AG and of material subsidiaries are specified in the remuneration policy of Erste Group Bank AG at Group level, 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 by the board members of Erste Group Bank AG is defined at the beginning of the year by the supervisory board of Erste Group Bank AG 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 2016, this criterion is measured by reference to three indicators: operating result minus risk cost, return on equity and cost optimisation. The second performance criterion is the achievement of individual objectives. These are, for example, operating result, return on tangible equity, risk costs to customer loans, customer satisfaction index, data quality, NPL coverage ratio and the NPL ratio.

The method for determining whether the performance criteria have been met by the board members of material subsidiaries is defined at the beginning of the year by the relevant supervisory boards or councils 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.

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 2016

in EUR thousand	Fixed salaries	Other remuneration	Performance-linked remuneration		Total
			for 2015	for previous years	
Andreas Treichl	1,475.0	1,132.4	218.7	156.8	2,982.9
Peter Bosek	700.0	132.4	96.8	0.0	929.2
Petr Brávek	700.0	132.7	111.6	0.0	944.3
Andreas Gottschling	700.0	164.2	118.4	4.0	986.6
Gernot Mittendorfer	700.0	133.8	120.0	27.2	981.0
Jozef Síkela	700.0	152.9	102.0	0.0	954.9
Total	**4,975.0**	**1,848.3**	**767.5**	**188.0**	**7,778.9**

Until 31 January 2016, Peter Bosek was a management board member of Erste Group Bank AG as well as of Erste Bank der oesterreichischen Sparkassen AG. Therefore, the remuneration was split equally between both entities for that period.

The item "Other remuneration" comprises pension fund contributions, contributions to employee provision funds (for new-type severance payments) and remuneration in kind. In 2016, 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 2016

Share equivalents (in units)	for 2015	for previous years
Andreas Treichl	10,505	6,953
Peter Bosek	4,775	0
Petr Brávek	4,775	0
Andreas Gottschling	5,094	168
Gernot Mittendorfer	4,775	1,424
Jozef Síkela	4,775	0
Total	**34,699**	**8,545**

Pay-outs will be made in 2017 after the one-year vesting period. Share equivalents are valued at the average weighted daily share price of Erste Group Bank AG in 2016 in the amount of EUR 24.57 per share.

In 2016, EUR 2,892.9 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 the member 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.

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 2016	Supervisory board compensation for 2015	Total
Friedrich Rödler	41.0	100.0	141.0
Georg Winckler	0.0	27.3	27.3
Jan Homan	29.0	75.0	104.0
Bettina Breiteneder	21.0	66.1	87.1
Elisabeth Bleyleben-Koren	27.0	50.0	77.0
Gonzalo Gortázar Rotaeche	5.0	32.0	37.0
Gunter Griss	11.0	50.0	61.0
Maximilian Hardegg	33.0	32.0	65.0
Elisabeth Krainer Senger-Weiss	17.0	50.0	67.0
Antonio Massanell Lavilla	11.0	32.0	43.0
Brian D.O'Neill	10.0	50.0	60.0
Wilhelm Rasinger	28.0	50.0	78.0
John James Stack	10.0	50.0	60.0
Markus Haag	0.0	0.0	0.0
Regina Haberhauer	0.0	0.0	0.0
Andreas Lachs	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	**243.0**	**664.4**	**907.4**

The 2016 annual general meeting granted the members of the supervisory board remuneration totalling EUR 664,400 for the financial year 2015. The distribution of this remuneration is at the supervisory board's discretion and was approved at the meeting of the supervisory board on 11 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's diversity and inclusion principles are reflected both in its statement of purpose and in its code of conduct, which emphasise a work environment free of discrimination and harassment and value the work and worth 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.

In December 2016, the management board approved the group-wide diversity policy framework. It provides the formal structures and processes for diversity management across the group and will be adopted by the local banking subsidiaries in 2017.

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). At the end of 2016, 29% of positions in top management were filled by women, up one percentage point versus 2015. The share of female supervisory board members went up by 10 percentage points to 34% in 2016. 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 female customers, the advancement of women's careers and a work environment that supports diversity and inclusion. Among the initiatives launched in Austria are *WoMentoring*, *Women Financial Lifetime* and *Securities Dialogue for Women,* were launched. Česká spořitelna continued 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, offering flexible work arrangements and a parental support programme as well as age management and an intergenerational dialogue. Slovenská sporiteľňa, Banca Comercială Română and Erste Bank Croatia implemented initiatives to foster diversity with a special focus on woman.

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. The deviations of C-Rules were described and explained. 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

Erste Group Bank AG has no rights arising from its own shares. Neither a subsidiary nor a third party holding shares on behalf of Erste Group Bank AG or of a subsidiary may exercise its voting rights and its rights for subscription of these shares.

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 as well as additional tier 1 capital will be distributed pro rata to the shareholders. The dissolution of Erste Group Bank AG requires a majority of at least 75% of the share capital present at an annual general meeting.

Subscription rights

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

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

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

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

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

Vienna, 28 February 2017

Management board

Andreas Treichl mp Chairman	Willibald Cernko 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.

Non Financial Risk

Reflecting Erste Group's integrated view of Compliance, Operational Risk and Security, non-financial risk decisions were taken in the respective committees, adjusting the Corporate Governance Principles towards this holistic view instead of silo views. The integrated approach offers great potential for improvement regarding completeness, effectiveness and efficiency.

Closely associated with this approach is the constant pursuance of a clear assignment of roles and responsibilities to first, second and third line of defense (accountability of business and supporting units, independent challenge and audit).

Compliance

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

Based on international anti-corruption/anti-bribery 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.

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 2016, Erste Group did not discover or record any incident of corruption. To ensure compliance with all laws and regulations group-wide standards, policies and procedures are evaluated and refined continuously.

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

Activities in 2016

_ Further improvement of the group-wide concept for Non-Financial Risk management, by embedding the established methodology (Risk Return Decision Procedure) into core business processes and developing a committee structure with Group, Regional and Local Operational Conduct Committees and by optimising roles and responsibilities as well as the corresponding communication between all stakeholders.
_ Review of policies including the group-wide Sanctions & Embargoes Policy, Securities Compliance Manual, Anti-Corruption and Conflicts of Interest Policy
_ Implementation and update of the reporting tool for monitoring employees' securities transactions, black- and white-lists and secondary employment activities as well as various employee trainings and preparation of group reports
_ Regular anti-corruption training
_ Further roll-out of Erste Group's whistleblowing tool in various entities to ensure an international state-of-the-art process for potential whistleblowing cases and their documentation. Since 2016, employees throughout Erste Group have been able to report severe cases of potential misconduct not only locally in their respective entities but also directly to Holding. The rollout into the savings banks sector in Austria has also reached a penetration rate of nearly two thirds of the institutes.

Activities started in 2016 with rollout planned for 2017

_ Optimisation of the Group Risk Return Decision Procedure and its rollout to all local banks.
_ Analysing the implementation of the requirements of EU-Directive 2014/95/EU on the disclosure of non-financial and diversity information by certain large undertakings and groups (Non-Financial Reporting) which includes the reporting obligation for anti-corruption and bribery issues
_ Projects related to the following regulations: the Markets in Financial Instruments Directive (MiFID II), consisting of the directive and of a regulation (MiFIR), related Commission Delegated Directive and Commission Delegated Regulations, regu-

latory and implementing technical standards developed by the European Securities and Markets Authority (ESMA). MiFID II will be applicable from 3 January 2018; the connected Packaged Retail and Insurance-based Investment Products (PRIIPs); the Market Abuse Regulation (MAR) setting out a new standardised pan-EU regime dealing with market abuse, market manipulation and insider dealing (applicable since July 2016). In addition, the Finanzmarkt - Geldwäschegesetz (financial market money laundering act) entered into force in Austria, making Austria the first EU member state to implement the 4th EU Anti-Money Laundering Directive but for the provisions on the registration of beneficial owners which is scheduled to be implemented in a separate legal act scheduled to be issued and enter into force in the course of 2017.

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 180. In addition, credit risk is analysed in detail in a separate section starting on page 31, in the "Segments" section of this report.

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.