Erste Group Bank AG

Financial Statements 2016

ERSTE Group

Table of Contents

I. Balance sheet of Erste Group Bank AG as of 31 December 2016

in EUR or in EUR thousand	Dec 16	Dec 15
Assets		
1. Cash in hand, balances with central banks	**5,817,493,481.65**	**1,829,728**
2. Treasury bills and other bills eligible for refinancing with central banks	**5,538,705,722.71**	**5,536,142**
a) treasury bills and similar securities	5,538,705,722.71	5,536,142
b) other bills eligible for refinancing with central banks	0.00	0
3. Loans and advances to credit institutions	**15,897,965,727.14**	**18,236,022**
a) repayable on demand	2,031,235,728.97	2,746,268
b) other loans and advances	13,866,729,998.17	15,489,754
4. Loans and advances to customers	**13,683,902,030.50**	**13,712,778**
5. Debt securities and other fixed-income securities	**5,184,851,659.89**	**6,004,837**
a) issued by public bodies	1,638,498,579.59	2,002,923
b) issued by other borrowers	3,546,353,080.30	4,001,914
of which: own debt securities	1,119,475,848.47	904,291
6. Shares and other variable-yield securities	**945,051,097.66**	**1,115,018**
7. Participating interests	**205,196,401.84**	**205,641**
of which: in credit institutions	64,036,247.01	64,036
8. Shares in affiliated companies	**6,077,613,905.03**	**5,654,810**
of which: in credit institutions	5,554,579,434.16	4,962,222
9. Intangible fixed assets	**38,929,608.18**	**83,796**
10. Tangible fixed assets	**28,199,766.93**	**19,324**
of which: land and buildings used by the credit institution for its own business operations	6,725,171.26	10,347
11. Shares in a controlling company	**0.00**	**0**
of which: par value	0.00	0
12. Other assets	**6,286,913,494.19**	**7,594,872**
13. Subscribed capital called but not paid	**0.00**	**0**
14. Prepayments and accrued income	**315,965,049.48**	**333,812**
15. Deferred tax assets	**7,804,474.29**	**24,869**
Total assets	**60,028,592,419.49**	**60,351,651**
Off-balance sheet items		
1. Foreign assets	**34,436,818,887.87**	**37,418,407**

in EUR or in EUR thousand	Dec 16	Dec 15
Liabilities and equity		
1. Liabilities to credit institutions	**20,866,153,882.20**	**19,698,992**
a) repayable on demand	4,826,655,076.69	4,229,981
b) with agreed maturity dates or periods of notice	16,039,498,805.51	15,469,011
2. Liabilities to customers (non-banks)	**4,482,165,353.11**	**4,252,603**
a) savings deposits	0.00	0
aa) repayable on demand	0.00	0
bb) with agreed maturity dates or periods of notice	0.00	0
b) other liabilities	4,482,165,353.11	4,252,603
aa) repayable on demand	3,204,477,442.66	2,770,341
bb) with agreed maturity dates or periods of notice	1,277,687,910.45	1,482,263
3. Securitised liabilities	**15,254,139,202.66**	**17,417,121**
a) debt securities issued	11,502,853,632.92	13,571,205
b) other securitised liabilities	3,751,285,569.74	3,845,915
4. Other liabilities	**6,217,144,730.58**	**7,426,410**
5. Accruals and deferred income	**278,574,034.20**	**273,186**
6. Provisions	**512,265,257.58**	**526,234**
a) provisions for severance payments	0.00	0
b) provisions for pensions	296,745,542.34	307,912
c) provisions for taxes	40,990,070.87	17,929
d) other	174,529,644.37	200,392
6a. Special fund for general banking risks	**0.00**	**0**
7. Tier 2 capital pursuant to Part 2 Title I Chapter 4 of Regulation (EU) No 575/2013	**5,249,746,519.52**	**4,994,766**
8. Additional Tier 1 capital pursuant to Part 2 Title I Chapter 3 of Regulation (EU) No 575/2013	**509,508,928.57**	**0**
of which: Compulsory convertible bonds pursuant to § 26 Austrian Banking Act (BWG)	**0.00**	**0**
8b Instruments without a vote pursuant to § 26a Austrian Banking Act (BWG)	**0.00**	**0**
9. Subscribed capital	**859,600,000.00**	**859,600**
10. Capital reserves	**1,627,019,510.67**	**1,627,020**
a) committed	1,627,019,510.67	1,627,020
b) uncommitted	0.00	0
11. Retained earnings	**2,891,475,000.40**	**2,209,820**
a) statutory reserve	1,537,900,000.00	1,537,900
b) reserves provided for by the articles	0.00	0
c) other reserves	1,320,576,152.30	629,622
d) other restricted reserves	32,998,848.10	42,299
12. Reserve pursuant to section 57 -5 of Austrian Banking Act (BWG)	**851,000,000.00**	**851,000**
13. Net profit or loss for the year	**429,800,000.00**	**214,900**
Total Liabilities and equity	**60,028,592,419.49**	**60,351,651**
Off-balance sheet items		
1. Contingent liabilities of which	**4,436,939,506.58**	**4,816,805**
a) acceptances and endorsements	0.00	0
b) guarantees and assets pledged as collateral security	3,995,993,277.38	4,180,588
c) credit derivatives	440,946,229.20	636,216
2. Commitments	**7,839,225,934.09**	**7,078,400**
of which: commitments arising from repurchase agreements	0.00	0
3. Liabilities arising out of fiduciary activities	**159,004.50**	**189**
4. Own funds pursuant to Part 2 of Regulation (EU) No 575/2013	**11,233,216,467.98**	**10,036,583**
of which: Tier 2 capital pursuant to Part 2 Title I Chapter 4 of Regulation (EU) No 575/2013	4,635,940,888.04	4,704,216
5. Own funds requirements pursuant to Art 92 of Regulation (EU) No 575/2013 of which: capital required pursuant to Art 92 -1 of Regulation (EU) No 575/2013	**32,586,434,693.19**	**31,549,571**
a) Common Equity Tier 1 capital ratio	18.76%	16.90%
b) Tier 1 capital ratio	20.25%	16.90%
c) Total capital ratio	34.47%	31.81%
6. Foreign liabilities	**13,278,715,150.99**	**13,933,553**

II. Income statement of Erste Group Bank AG for the year ended 31 December 2016

in EUR or in EUR thousand	1-12 16	1-12 15
1. Interest and similar income	842,076,332.24	1,027,539
of which: from fixed-income securities	301,683,846.06	324,055
2. Interest and similar expenses	-529,985,730.53	-598,831
I. NET INTEREST INCOME	**312,090,601.71**	**428,709**
3. Income from securities and participating interests	1,043,542,317.63	675,819
a) income from shares, other ownership interests and variable-yield securities	60,162,277.58	7,130
b) income from participating interests	17,127,157.21	14,009
c) income from shares in affiliated companies	966,252,882.84	654,680
4. Commissions income	140,981,182.03	159,534
5. Commissions expenses	-113,694,849.54	-127,761
6. Net profit or loss on financial operations	1,283,229.36	26,022
7. Other operating income	218,245,354.98	166,309
II. OPERATING INCOME	**1,602,447,836.17**	**1,328,632**
8. General administrative expenses	-573,368,346.13	-458,493
a) staff costs	-285,173,881.52	-245,077
aa) wages and salaries	-202,585,979.26	-204,798
bb) expenses for statutory social security contributions and compulsory contributions related to wages and salaries	-43,200,896.48	-41,905
cc) other social expenses	-3,171,062.81	-2,577
dd) expenses for pensions and assistance	-15,466,502.02	-13,858
ee) release / allocation to the provision of pensions	-9,319,445.55	19,561
ff) expenses for severance payments and contributions to severnace and retirement funds	-11,429,995.40	-1,500
b) other administrative expenses	-288,194,464.61	-213,415
9. Value adjustments in respect of assets items 9 and 10	-51,459,254.27	-26,545
10. Other operating expenses	-26,578,905.37	-35,052
III. OPERATING EXPENSES	**-651,406,505.77**	**-520,089**
IV. OPERATING RESULT	**951,041,330.40**	**808,543**
11. Value adjustments of loans and advances and allocations to provisions for contingent liabilities, commitments and securities held in the financial current assets	-260,406,643.40	-409,787
12. Value re-adjustments of loans and advances and provisions for contingent liabilities, commitments and securities held in the financial current assets	261,839,997.51	270,781
13. Value adjustments of transferable securities held as financial fixed assets, participating interests and shares in affiliated companies	-11,951,846.89	-19,851
14. Value re-adjustments of transferable securities held as financial fixed assets, participating interests and shares in affiliated companies	393,915,413.26	237,284
V. PROFIT OR LOSS ON ORDINARY ACTIVITIES	**1,334,438,250.88**	**886,971**
15. Extraordinary income	0.00	0
of which: withdrawals from the special fund for general banking risks	0.00	0
16. Extraordinary expenses	0.00	0
of which: allocation to the special fund for general banking risks	0.00	0
17. Extraordinary result (sub-total of items 15 and 16)	0.00	0
18. Tax on profit or loss	56,084,004.59	85,987
19. Other taxes not reported under item 18	-222,731,005.28	-100,219
19a. Result from mergers	-56,336,525.10	0
VI. PROFIT OR LOSS FOR THE YEAR AFTER TAX	**1,111,454,725.09**	**872,739**
20. Changes in reserves	-681,654,725.09	-657,839
of which: allocation to liability reserve pursuant to section 23 -6 of the Austrian Banking Act (BWG)	0.00	0
of which: reversal of liability reserve pursuant to section 23 -6 of the Austrian Banking Act (BWG)	0.00	0
VII. PROFIT OR LOSS FOR THE YEAR AFTER DISTRIBUTION ON CAPITAL	**429,800,000.00**	**214,900**
21. Profit brought forward from previous year	0.00	0
22. Profit transferred on the basis of profit transfer agreement	0.00	0
VIII. PROFIT OR LOSS FOR THE YEAR	**429,800,000.00**	**214,900**

III. Notes to the financial statements 2016

A. GENERAL INFORMATION

Erste Group Bank AG is listed on the Vienna Stock Exchange. It is also quoted on the Prague Stock Exchange (since October 2002) and on the Bucharest Stock Exchange (since February 2008). Erste Group Bank AG is registered in the company register at the Commercial Court of Vienna under FN 33209m. Its registered office is at Am Belvedere 1, 1100 Vienna.

The financial statements 2016 of Erste Group Bank AG have been prepared in royalty with the regulations of the Commercial Code (Unternehmensgesetzbuch, UGB) and in conjunction with the applicable provisions of the Austrian Banking Act (Bankwesengesetz, BWG). Statements and explanations resulting from the changes in the applicable accounting standards [Austrian Financial Reporting Amendments Act 2014 (Rechnungslegungs-Änderungsgesetz 2014 (RÄG 2014)), Austrian Financial Reporting Amendments Accompanying Act 2015 (Rechnungslegungsänderungs-Begleitgesetz 2015 (RÄ-BG 2015)), Amendment Act 2015 (Abgabenänderungsgesetz 2015 (AbgÄG 2015)), Audit of Financial Statements Amendment Act 2016 (Abschlussprüfungsrechts-Änderungsgesetz 2016 (APRÄG 2016)) and Financial Market Money Laundering Act 2016 (FM-GwG 2016)] can be found in Chapter B (Notes on Accounting and Measurement Methods).

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

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

The Savings Banks Group defines itself as an association of independent, regionally established savings banks which aims to strengthen its market position by strengthening common product development, harmonising its market appearance and advertising concepts, pursuing a common risk policy and engaging in co-ordinated liquidity management while applying common controlling standards.

In addition, the purpose of this association is:

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

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

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

In 2013, collaboration with the savings banks was further strengthened by way of a further 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 a consolidated level in acc. with Article 84 (6) CRR. Savings banks that are party to the agreement concluded in 2013 to further include Allgemeine Sparkasse Oberösterreich, which, together with the other members of the Haftungsverbund, forms an institutional protection scheme as defined under Article 113 (7) CRR. Owing to the new legal and supervisory requirements, the maximum limits for support mechanisms of the individual members were raised and an ex-ante-fund was set up. Payments to the ex-ante-fund are made on a quarterly basis over a period of 10 years.

In the financial statements, the payments by the individual members are recognised as participating interest in IPS GesbR – which has been charged with managing the ex-ante-fund. In addition, a reserve has been created, which, as agreed under the contractual provisions, constitutes an other restricted reserve. These appropriated retained earnings may be released only if the ex-ante-fund is used due to a case of loss. Internally, this reserve may therefore not be used to cover a loss and, at member level, it does not qualify as own funds under the definition of CRR; on a consolidated level, however, the ex-ante-fund qualifies as own funds.

Ongoing legal cases

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

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

Disclosure

Erste Group Bank AG uses the Internet as the medium for publishing disclosures under Article 434 of the Regulation (EU) No. 575/2013 on prudential requirements for credit institutions and investment firms (Capital Requirements Regulation - CRR). Details are available on the website of Erste Group Bank AG at www.erstegroup.com/ir. Relevant disclosures are included in the annual report in the section 'reports' or published as separate documents in the section 'regulatory disclosure'.

Size according to section 221 Commercial Code (UGB)

Pursuant to section 221 (3) in connection with section 198a Commercial Code (UGB), the legal regulations for large companies are valid for the financial year ending 31 December 2016.

B. NOTES ON ACCOUNTING AND MEASUREMENT METHODS

Generally accepted accounting principles

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

Receivables and liabilities in foreign currency

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

Participating interests and shares in affiliated companies

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

Securities

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

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

Securities in the trading portfolio and bonds allocated to trading on stock exchanges in the current asset portfolio were measured at market value pursuant to section 207 Commercial Code (UGB) and section 56 (5) Austrian Banking Act (BWG). For bonds and other fixed-income securities, the difference between acquisition cost and redemption value was amortised pro rata temporis pursuant to section 56 (2) Austrian Banking Act (BWG) or recognised as income pro rata temporis over the residual time to maturity until redemption in accordance with section 56 (3) Austrian Banking Act (BWG). Sustained depreciation was written off pursuant to section 204 (2) Commercial Code at the lower present value as of the balance sheet date.

Securities were allocated to trading assets, current assets or to financial assets in accordance with the organisational policies adopted by the management board. The fair value, or market price, is the price that can be achieved by selling a financial instrument, or the price payable for its purchase, in an active market. Where available, market prices were used for asset valuation. Valuation methods, especially the present value method, were used for assets without market prices.

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

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

Intangible and tangible assets

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

Securitised and subordinated liabilities

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

Issuing costs – premiums and discounts on issues

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

Provisions

Defined benefit plan

Defined benefit plans of Erste Group AG comprise provisions for pension, severance and jubilee benefits. Defined pension plans now only apply to retired employees. In past years, the pension obligations for active employees were transferred to VBV-Betriebliche Altersvorsorge AG. Remaining with Erste Group Bank AG is a defined-benefit obligation for entitlements of former employees who had already retired by 31 December 1998 before the pension reform took effect, and for those former employees who did not retire until 1999 but continued to be entitled to a direct pension from Erste Group Bank AG under individual agreements. Entitlements to resulting survivor pensions also remained with the Erste Group Bank AG. Severance entitlements continue to be applicable for employees whose employment contract with Erste Group Bank AG commenced prior to 1 January 2003. Severance pay is a one-off payment which employees are entitled to when their employment is terminated. Entitlement to this severance pay arises after three years of employment. Defined benefit plans include jubilee benefits. The amount of jubilee benefits (payments for long-term service/loyalty to the company) is determined by the length of employment with the employer. The entitlement to jubilee benefits is established by a collective agreement, which defines both the conditions and amount of the entitlement. Obligations under defined benefit plans for employees are determined using the projected unit credit method. Future obligations are determined based on actuarial reports. The calculation takes into account not only the known salaries, pensions and entitlements to future pension payments but also salary and pension increases expected in the future.

Tax provisions and other provisions

Unless the amounts were small, provisions were set aside on a best estimate basis. Tax provisions and other provisions with a term of more than a year were discounted at a customary market interest rate of corporate bonds with an AA rating as at the closing day. Depending on the applicable remaining duration, interest rates between 0.0% and 0.521% were applied.

Assets held in trust

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

Derivative business

Derivatives in a hedge-relation under AFRAC are treated as a functional unit, thus the Clean Price neither of the derivative nor of the hedged item is part of the balance sheet. The presentation of trading book derivatives on balance sheet is done for the single confirmation priced mark-to-market. Recognition-of-loss principal is applied for derivatives in banking book outside of a hedge-relation under AFRAC. The negative Clean Price is represented in the form of a provision affecting income statement. Interest income and expense is accrued.

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

Securities lending and repurchase transactions

In repurchase agreements / securities lending transactions, the assets assigned are still recognised in the balance sheet. A liability is presented against the pledgee in the amount received for the transfer. In reverse repurchase agreements / securities lending transactions, the assets taken over are not part of the balance sheet. The amount owed by the pledgor is recognised as a receivable in the amount paid for the transfer. The Erste Group Bank AG has repurchase agreements / securities lending transactions with the commitment to return the securities.

Changes in accounting and measurement methods

Due to modifications to the law concerning accounting principles (for changes concerning individual laws see point III.A), the following changes to accounting methods took place:

Attachment 2 concerning Article I § 43 of the Austrian Banking Act (BWG) was changed. The purpose of the changes was to bring the breakdown of the balance sheet for companies with balance sheet accounting according to the Austrian Banking Act (BWG) into line with the new accounting standards.

The disclosure of untaxed reserves and with it liabilities item 14 were removed without replacement. Untaxed reserves in the amount of EUR 5,133,000.00 were added in the application of § 906 (31) of the Austrian Commercial Code (UGB) as retained earnings.

Due to changes to the law (RÄG 2014), it is no longer allowed to include and disclose own shares as assets on the assets side. In point of fact, balancing within one's own equity is conducted in accordance with § 229 of the Commercial Code (UGB) nF. The description of asset item 11 of Attachment 2 concerning Article I § 43 of the Austrian Banking Act (BWG idF FM-GwG 2016) was shortened because of the content-related changes to the law.

Following the clarification given by the authorities in 2016, the disclosure of capital requirements according to Article 922 of the Capital Requirements Regulation (CRR) was adapted in the financial statements accordingly. Correspondingly, the overall risk value according to Article 92 Section 3 CRR as well as the ratios actually achieved in relation to common equity Tier 1 capital, Tier 1 capital and total capital are now displayed under 5. Capital Requirements Regulation according to Article 92 of EU Regulation No. 575/2013. The previous year`s figures were amended accordingly.

On the balance sheet date, there was a deferred tax asset surplus of EUR 7,804,474.29 from the first time application in the reporting year of the asset-liability approach. The disclosure is made in asset item 15 deferred tax assets, which was added in Attachment 2 concerning Article I § 43 of the Austrian Banking Act (BWG). Calculation took place considering AFRAC statement 30 Deferred Taxes in the annual financial statement (September 2016). All deferred taxes were encompassed in the calculation of profit and loss. The accounting choice on the distribution of differing amounts at the beginning of the fiscal year in accordance with interim regulation § 906 Paragraphs 33 and 34 of the Commercial Code (UGB) was not exercised. On the contrary, the accounting choice on the recognition of tax losses was exercised. There were no deferred tax liability from the profit and loss calculation resulting from the first time application of § 198 Paragraph 10 Z 2 of the Commercial Code (UGB).

On 1. January 2016 an effect in the value of EUR 586,467.63 resulted from the first time application of the discounting of other reserves with a remaining duration of more than a year. The transition effect was shown as revenue pursuant to provisions in the calculation of profit and loss. The accounting choice on distribution according to Section 906 Paragraph 34 of the Commercial Code (UGB) was not exercised. Deferred taxes resulting from various discount rates were taken into consideration.

Due to a change in the Austrian Investment Fund Act, there is no longer an accrual of dividends from investment funds. Interest accrual from investment funds can only take place if there is a legal right to the distribution of interest and this right is attributable to that fiscal year.

Based on legal, organisational and technical necessity, Erste Group Bank AG decided to change to the effective interest rate method according to the Commercial Code (UGB) when calculating the interest earned in credit transactions. The application of the effective interest rate method to existing business meant deviating from previous accounting practice. This change was made with reference to Section 201 (3) of the Commercial Code (UGB), according to which derogation from the principle of the consistency of valuation is allowed under certain circumstances. An example of such a special circumstance is the necessity to simplify the IT structure within the Erste Group Bank AG due to growing regulatory challenges.

As a result of these changes, one-off charges and fees with interest-like characteristics are no longer to be recognised in profit or loss at the start of the loan agreement, but are rather to be included as income similar to interest in the calculation of the effective interest rate. Balance sheet recognition of the credit claim at the beginning of the term is in the amount of the nominal value adapted in accordance with the one-off payment (payment amount). The allocation of the difference to the contractually agreed repayment amount of receivables is recognised over the term on the basis of expected cash flows. The applicable change to the differing amount is recognised as profit or loss in the interest revenue.

The first application of this accounting method resulted in a negative one-off effect in the value of EUR 22.1 million, which is reflected in profit and loss as a reduction of the operational results in the financial year 2016. In balance sheet terms, the receivables are therefore reduced by the same amount.

In the course of the harmonisation of UGB and IFRS in 2016, the statement of interest expenses for performance-linked pension plans and interest earnings from plan assets was adapted according to the specifications of the EBA, which led to a transfer from personnel to interest expenses. This resulted in a negative impact on the interest result of EUR 7,072,769.77; in 2015, personnel expenses were shown at EUR 7,048,660.92.

As a result of adaptations to the contractual basis in the reporting year, certain software development expenses now qualify as production, meaning that the concrete prohibition of the activation of self-produced intangible assets according to Section 197 (2) of the Commercial Code (UGB) applies.

Summarizing overview

Untaxed reserves: the previous year’s item was removed without replacement and regrouped as retained earnings

Other reserves: the item declined by EUR 586,467.63 due to the discounting obligation; disclosure was made under the items in which the initial reserves were listed in the profit and loss statement

Effective interest method:

- Loans and advances to customers /credit institutions: reduction of the book values by EUR 22,129,238.40 to EUR 31,926,670,990.12
- Fee/Interest result:
  - One-off effect: reduction of fees payable in the previous years in the amount of EUR 24,025,342.52 (of which EUR 6,462,885.62 fee result and EUR 17,562,456,90 interest result)
  - Current year: due to the change of method, fees in the value EUR 10,287,771.72 (of which EUR 7,835,573.47 fee result and EUR 2,452,198.25 interest result) were not recognised in profit or loss, but recognised in the advances to customers.
- Interest income: increase in the amount of EUR 12,183,875.84 due to the release of accruals

Due to the described changes in the accounting methods, the comparability of the previous year's figures is limited.

C. NOTES ON THE BALANCE SHEET AND INCOME STATEMENT

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

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

Loans and advances

in EUR or in EUR thousand	Dec 16	Dec 15
Loans and advances to credit institutions	**15,897,965,727.14**	**18,236,022**
payable on demand	2,031,235,728.97	2,746,268
0-3 months	4,020,899,257.95	4,576,689
3-12 months	2,987,196,253.40	3,287,873
1-5 years	6,206,113,795.67	6,522,462
>5 years	652,520,691.15	1,102,729
Loans and advances to customers	**13,683,902,030.50**	**13,712,778**
payable on demand	512,865,786.52	450,036
0-3 months	456,808,105.36	1,196,170
3-12 months	1,677,681,040.57	1,589,298
1-5 years	6,280,887,020.64	5,484,224
>5 years	4,755,660,077.41	4,993,051

Liabilities

in EUR or in EUR thousand	Dec 16	Dec 15
Liabilities to credit institutions	**20,866,153,882.20**	**19,698,992**
payable on demand	4,826,655,076.69	4,229,981
0-3 months	12,288,366,278.55	12,179,643
3-12 months	830,600,832.63	1,101,398
1-5 years	2,640,421,233.47	1,573,778
>5 years	280,110,460.86	614,192
Liabilities to customers (non-banks)	**4,482,165,353.11**	**4,252,603**
Savings deposits	**0.00**	**0**
Other Liabilities	**4,482,165,353.11**	**4,252,603**
payable on demand	3,204,477,442.56	2,770,341
0-3 months	733,355,334.14	893,507
3-12 months	50,692,576.41	44,569
1-5 years	141,340,000.00	178,086
>5 years	352,300,000.00	366,100
Securitised liabilities	**15,254,139,202.66**	**17,417,121**
payable on demand	0.00	0
0-3 months	974,992,633.59	544,899
3-12 months	1,190,355,032.98	2,779,607
1-5 years	7,005,875,959.23	6,559,143
>5 years	6,082,915,576.86	7,533,472

2. Debt securities due within one year

Purchased debt securities worth EUR 2,843,171,793.90 (prior year: EUR 2,357,119 thousand) and issued debt securities worth EUR 2,622,549,540.54 (prior year: EUR 3,324,506 thousand) are scheduled to mature in the year following 31 December 2016.

3. Assets and liabilities in foreign currencies

in EUR or in EUR thousand	Dec 16	Dec 15
Assets	13,070,413,122.81	14,540,081
Liabilities	10,288,304,422.83	9,632,323

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

in EUR or in EUR thousand	Loans and advances to affiliated companies		Loans and advances to participating interests	
	Dec 16	Dec 15	Dec 16	Dec 15
Loans and advances to credit institutions	14,161,207,483.56	15,190,719	398,973.86	709
Loans and advances to customers	2,972,039,148.78	3,677,599	0.00	0
Debt securities and other fixed-income securities (incl. securitised loans and advances to credit institutions)	1,324,658,859.69	1,477,454	344,522.70	0
Shares and other variable-yield securities	751,179,302.02	725,421	29,888,196.27	0

Among these, the most important companies are:

Loans and advances to affiliated companies:
- Česká Spořitelna a.s., Praha
- Banca Comercială Română S.A., Bukarest
- Erste Bank der Oesterreichischen Sparkassen AG, Wien
- Steiermärkische Bank und Sparkassen Aktiengesellschaft, Graz

in EUR or in EUR thousand	Liabilities to affiliated companies		Liabilities to participating interests	
	Dec 16	Dec 15	Dec 16	Dec 15
Liabilities to credit institutions	12,076,995,824.68	12,328,951	243,760.61	19
Liabilities to customers (non-banks)	215,772,040.51	238,746	7,571.88	0

Liabilities to affiliated companies:
- Erste Bank der Oesterreichischen Sparkassen AG, Wien
- Oesterreichische Kontrollbank AG, Wien
- Steiermärkische Bank und Sparkassen Aktiengesellschaft, Graz
- Allgemeine Sparkasse Oberösterreich Bank AG, Linz

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

5. Subordinated assets

in EUR or in EUR thousand	Dec 16	Dec 15
Loans and advances to credit institutions, thereof	**1,259,360,732.50**	**1,585,883**
to affiliated companies	1,215,692,153.60	1,564,994
to companies with participating interests	0.00	0
Loans and advances to customers, thereof	**71,469,770.16**	**48,145**
to affiliated companies	5,639,791.66	5,500
to companies with participating interests	570,481.75	570
Shares and other fixed-income securities, thereof	**154,179,550.70**	**502,992**
to affiliated companies	0.00	5,262
to companies with participating interests	0.00	0

6. Fiduciary business

No fiduciary business without any right of disposal was disclosed as of the balance sheet date.

7. Securities

Breakdown of securities admitted to trading on stock exchange

pursuant to section 64 -1 no. 10 Austrian Banking Act (BWG)	Listed		Not listed	
in EUR or in EUR thousand	Dec 16	Dec 15	Dec 16	Dec 15
Debt securities and other fixed-income securities	5,100,756,938.61	5,823,278	84,094,721.29	181,559
Shares and other variable-yield securities	152,218,501.91	330,747	792,832,595.75	784,271
Participating interests	55,173,398.63	55,173	0.00	0
Shares in affiliated companies	0.00	0	0.00	0
Total	**5,308,148,839.15**	**6,209,199**	**876,927,317.04**	**965,831**

pursuant to section 64 -1 no. 11 Austrian Banking Act (BWG)	Fixed assets		Current assets	
in EUR or in EUR thousand	Dec 16	Dec 15	Dec 16	Dec 15
Debt securities and other fixed-income securities	2,845,636,746.25	3,195,151	2,339,214,913.65	2,809,687
Shares and other variable-yield securities	795,250,898.10	779,441	149,800,199.56	335,577
Total	**3,640,887,644.35**	**3,974,592**	**2,489,015,113.21**	**3,145,264**

Allocation pursuant to section 64 (1) no. 11 Austrian Banking Act (BWG) was carried out in accordance with the organisational policies adopted by the management board, with positions being included under fixed assets that are held for strategic purposes of liquidity. As of 31 December 2016, the difference to the redemption value resulting from the pro rata write-downs pursuant to section 56 (2) Austrian Banking Act (BWG) amounts to EUR 133,895,176.21 (prior year: EUR 176,024 thousand), whereas the difference to the redemption value from the pro-rata write-ups pursuant to section 56 (3) Austrian Banking Act (BWG) amounts to EUR 24,459,255.22 (prior year: EUR 23,977 thousand).

Repurchase agreements

The carrying amount of the assets subject to sale and repurchase agreements amounts to EUR 1,415,747,456.17 on the balance sheet date (prior year: EUR 520,753 thousand).

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

The difference between the higher market value on the balance sheet date and the cost of purchase pursuant to section 56 (5) Austrian Banking Act (BWG) amounts to EUR 24,701,643.52 (prior year: EUR 19,025 thousand).

Breakdown of debt securities and other fixed-income securities

in EUR or in EUR thousand	Dec 16	Dec 15
Issued by public-sector issuers	1,638,498,579.59	2,002,923
Own issues	1,119,475,848.47	904,291
Bonds - domestic credit institutions	158,735,786.36	266,348
Bonds - foreign credit institutions	1,193,948,827.14	1,098,948
Mortgage and municipal securities	403,157,243.04	451,355
Convertible bonds	4,758,885.98	28,380
Other bonds	666,276,489.31	1,252,594
Total	**5,184,851,659.89**	**6,004,837**

8. Trading book

Erste Group Bank AG kept a trading book pursuant to Art. 102 CRR throughout the financial year. As of 31 December 2016, the securities portfolio assigned to the trading book was EUR 2,738,846,317.57 (prior year: EUR 3,210,977 thousand). Money market instruments worth EUR 11,715,004,436.99 (prior year: EUR 12,761,231 thousand) were assigned to the trading book as of 31 December 2016.

The volume of other financial instruments included in the trading book had a par value of EUR 208,254,368,059.35 as of 31 December 2016 (prior year: EUR 219,516,738 thousand):

in EUR or in EUR thousand	Long position		Short position		Total	
	Dec 16	Dec 15	Dec 16	Dec 15	Dec 16	Dec 15
Options	2,514,366,744.56	2,629,279	2,083,022,049.83	2,137,607	4,597,388,794.39	4,766,886
Caps and floors	13,479,568,294.57	16,365,874	14,561,305,085.51	18,544,108	28,040,873,380.08	34,909,982
Currency swaps	51,033,965,943.69	49,979,936	0.00	0	51,033,965,943.69	49,979,936
Interest rate swaps	122,147,816,653.49	127,613,660	0.00	0	122,147,816,653.49	127,613,660
Fwd rate agreem.	410,971,613.10	111,017	389,516,702.70	100,000	800,488,315.80	211,017
Financial futures	300,764,859.23	284,473	81,388,999.12	214,720	382,153,858.35	499,193
Loan derivatives	207,302,068.11	260,126	493,046,229.16	636,216	700,348,297.27	896,342
Commodity derivatives	163,078,070.50	225,553	0.00	0	163,078,070.50	225,553
Other	388,254,745.78	414,170	0.00	0	388,254,745.78	414,170
Total	**190,646,088,993.03**	**197,884,087**	**17,608,279,066.32**	**21,632,652**	**208,254,368,059.35**	**219,516,739**

Trades with two legs are represented solely as long position.

All information concerning the trading book in terms of Article 102 CRR solely concern external transactions.

In the table the nominal values for options (mainly caps) with a fair value of zero are included for the first time. The amounts of the comparative period 2015 have been adjusted accordingly.

9. Participating interests and shares in affiliated companies

The amounts for equity and income are denominated in euro and, as a rule, are derived from the IFRS financial statements prepared to consolidate the consolidated financial statements according to uniform Group guidelines. The share indicated below represents direct and indirect shares.

Holdings as of 31 December 2016

Company name, registered office	Interest in %	Equity	Result	Balance sheet date
Credit institutions				
Banca Comercială Română S.A., Bucharest	93.58	1,527,892,447.00	198,188,506.00	31.12.2016
Banka Sparkasse d.d., Ljubljana	4.00	102,725,419.00	9,328,717.00	31.12.2016
Česká Spořitelna a.s., Prague	98.97	4,291,198,864.00	536,647,425.00	31.12.2016
Erste & Steiermärkische Bank d.d., Rijeka	59.02	890,055,914.00	83,162,632.00	31.12.2016
ERSTE BANK AD NOVI SAD, Novi Sad	74.00	146,726,038.00	16,772,821.00	31.12.2016
Erste Bank der oesterreichischen Sparkassen AG, Vienna	100.00	1,482,242,237.00	134,449,585.00	31.12.2016
Erste Bank Hungary Zrt, Budapest	85.00	872,504,849.00	134,144,718.00	31.12.2016
Prva stavebna sporitelna, a.s., Bratislava	25.02	232,528,198.00	16,849,293.28	30.11.2016
Slovenska sporitelna, a. s., Bratislava	100.00	1,533,368,819.00	212,220,747.00	31.12.2016
SPAR-FINANZ BANK AG, Salzburg	50.00	4,238,409.01	247,130.56	31.12.2016
Swedbank AB, Sundbyberg	0.07	8,100,706,621.30	1,409,159,905.78	31.12.2015
Financial institutions				
C&C Atlantic Limited, Dublin	100.00	605,673.00	576,781.00	31.12.2016
ERSTE FACTORING d.o.o., Zagreb	25.00	52,114,596.00	10,670,754.00	31.12.2016
Erste Group Immorent AG, Vienna	100.00	310,526,936.00	535,118.00	31.12.2016
S Slovensko, spol. s r.o., Bratislava	100.00	10,096,598.00	2,603,335.00	31.12.2016
Sparkassen IT Holding AG, Vienna	0.00	2,772,086.00	364,017.00	31.12.2016
TIPAL Immobilien GmbH in Liquidation, Bozen	70.00	60,166.00	-2,720,055.00	31.12.2016
VBV - Betriebliche Altersvorsorge AG, Vienna	23.93	53,954,019.00	5,440,000.00	31.12.2016

Company name, registered office	Interest in %	Equity	Result	Balance sheet date
Other holdings				
EB Erste Bank Internationale Beteiligungen GmbH, Vienna	100.00	33,556,596.00	-10,459,232.00	31.12.2016
"Sparkassen-Haftungs Aktiengesellschaft", Vienna	12.51	169,698.00	-140,454.00	31.12.2016
BeeOne GmbH, Vienna	100.00	5,781,626.00	321,474.00	31.12.2016
EB-Restaurantsbetriebe Ges.m.b.H., Vienna	100.00	-846,801.00	-2,074,819.00	31.12.2016
Erste Finance (Delaware) LLC, Wilmington	100.00	47,164.00	-5,171.00	31.12.2016
Erste Group Card Processor d.o.o. (vm.MBU), Zagreb	100.00	19,047,452.00	1,080,316.00	31.12.2016
Erste Group IT International GmbH, Vienna	99.80	4,689,395.00	-9,837,277.00	31.12.2016
Erste Group Services GmbH , Vienna	100.00	306,642.00	203,887.00	31.12.2016
Erste Group Shared Services (EGSS), s.r.o., Hodonin	60.00	314,058.00	-58,965.00	31.12.2016
Haftungsverbund GmbH, Vienna	0.97	526,604.00	6,680.00	31.12.2016
IPS Fonds Gesellschaft bürgerlichen Rechts, Vienna	33.59	76,355,204.00	1,355,438.00	31.12.2016
ÖCI-Unternehmensbeteiligungsgesellschaft.m.b.H., Vienna	60.00	113,058.00	-2,220.00	31.12.2016
OM Objektmanagement GmbH, Vienna	100.00	86,338,929.00	1,724,675.00	31.12.2016
Procurement Services GmbH , Vienna	99.80	1,294,767.00	173,318.00	31.12.2016
s IT Solutions AT Spardat GmbH , Vienna	60.40	5,168,688.00	-1,122,535.00	31.12.2016
Austrian Reporting Services GmbH, Vienna	14.00	41,948.47	771.99	31.12.2015
GELDSERVICE AUSTRIA Logistik für Wertgestionierung und Transportkoordination G.m.b.H., Vienna	0.20	6,971,487.72	953,856.45	31.12.2015
Harkin Limited, Dublin	100.00	1,250,000.00	0.00	31.12.2015
Österreichische Wertpapierdaten Service GmbH, Vienna	32.30	72,065.03	6,701.22	31.12.2015
Society for Worldwide Interbank Financial Telecommunication scrl, La Hulpe	0.14	291,333,374.00	65,185,124.00	31.12.2015
Valtecia Achizitii S.R.L., Bucharest	100.00	-3,512,172.73	-92,558.70	31.12.2015
aws Gründerfonds Equity Invest GmbH & Co KG, Vienna	48.95	2,071,332.58	-193,913.57	31.12.2015
Business Capital for Romania - Opportunity Fund Coöperatief UA, Amsterdam	77.38	14,552,164.00	-612,870.00	31.12.2015
CEESEG Aktiengesellschaft, Vienna	11.30	370,175,594.93	27,975,764.44	31.12.2015
ERSTE d.o.o. , Zagreb	10.79	14,445,879.41	2,615,020.45	31.12.2016
ERSTE GROUP IMMORENT LJUBLJANA, financne storitve, d.o.o., Ljubljana	25.00	159,869.00	-294,502.00	31.12.2016
ESB Holding GmbH, Vienna	100.00	26,384.25	-8,615.75	31.12.2015
EUROPEAN INVESTMENT FUND, Luxembourg	0.11	1,854,258,748.00	140,718,835.00	31.12.2015
FINTEC-Finanzierungsberatungs- und Handelsgesellschaft m.b.H. in Liqu., Vienna	25.00	1,219,862.81	1,128,916.92	30.06.2015
ROMANIAN EQUITY PARTNERS COÖPERATIEF U.A., Amsterdam	77.38	14,892,212.00	-472,719.00	31.12.2015
S IMMO AG, Vienna	10.21	401,647,466.45	-2,105,798.90	31.12.2015
Therme Wien Ges.m.b.H., Vienna	15.00	35,338.42	-475.10	31.12.2015
Therme Wien GmbH & Co KG , Vienna	15.00	30,547,628.50	175,771.61	31.12.2015
TPK-18 Sp. z o.o., Warszawa	100.00	1,003,169.10	681,179.20	31.12.2015
Zelina Centar d.o.o., Sveta Helena	100.00	-21,514,724.92	-2,363,871.93	31.12.2015
Erste Asset Management GmbH, Vienna	98.84	84,543,343.00	20,529,939.00	31.12.2016
DONAU Versicherung AG Vienna Insurance Group, Vienna	0.76	57,331,124.80	0.00	31.12.2015
Erste Reinsurance S.A., Leudelange	100.00	37,976,106.00	225,719.00	31.12.2016
Sparkassen Versicherung AG Vienna Insurance Group, Vienna	5.00	487,583,166.59	29,407,723.29	31.12.2015
Erste Securities Istanbul Menkul Degerler AS, Sisli, Istanbul	99.99	1,255,867.00	-1,142,174.00	31.12.2016

As of 11 August 2016, the European Bank for Reconstruction and Development (EBRD) and Corvinus Nemzetközi Befektetési Zártkörüen Müködö Részvénytársaság (Corvinus) each acquired 15% of the shares in Erste Bank Hungary Zrt. (EBH) from Erste Group Bank AG. For the transfer of the shares, Erste Group Bank AG received an amount converted to EUR 250 million. At the same time, call-put option agreements were entered into for the acquisition of 30% of the shares between Erste Group Bank AG and the EBRD and with Corvinus. Due to the different structures of these option agreements, 15% of the shares that were sold to the EBRD are still included as investments in affiliated companies in the Erste Group Bank AG's annual financial report at the same time a financial liability in the value of the expected exercise price is accounted for. For the remaining part (Corvinus), the put-call agreements were recognised off-balance sheet.

10. Fixed assets

The carrying amount of developed land was EUR 509,327.35 as of 31 December 2016 (prior year: EUR 509 thousand). The carrying amount as of 31 December 2016 did not include leased assets. For the next financial year, Erste Group Bank AG will have expenses from the use of tangible assets not disclosed in the balance sheet (rental and leasing contracts) of a total of EUR 19,566,378.00 (prior year: EUR 21,953 thousand), and of a total of EUR 93,668,162.00 for the next five financial years (prior year: EUR 113,332 thousand). Intangible fixed assets include assets with a value of EUR 12,796,073.00 (prior year: EUR 40,344 thousand) that have been acquired from an affiliated company. During the reporting year, no assets were acquired (prior year: EUR 20,380 thousand).

Statement of changes in fixed and long-term assets 2016

At cost

in EUR	As of 1 January 2016	Additions	Disposals	Reclassification	Currency translation	As of 31 December 2016
Participating interests	270,856,760.96	1,696,128.39	4,662,602.86	0.00	0.00	267,890,286.49
Shares in affiliated companies	10,531,380,583.23	634,516,747.41	684,770,617.33	0.00	0.00	10,481,126,713.31
Intangible assets	238,147,410.52	6,006,598.15	88,783.56	-1,565,433.90	5,337.51	242,505,128.72
Tangible assets	71,647,823.57	10,127,719.59	15,423,440.96	1,565,433.90	-402,243.04	67,515,293.06
Securities	10,579,253,636.53	1,462,265,650.51	2,442,333,784.00	0.00	293,750,272.89	9,892,935,775.93
Treasury bills and similar securities	4,897,764,496.10	712,820,882.66	890,375,253.07	0.00	2,015,147.17	4,722,225,272.86
Loans and advances to credit institutions	1,324,189,761.30	147,982,838.14	354,225,483.64	-7,358,960.73	104,036,410.07	1,214,624,565.14
Loans and advances to customers	314,168,401.69	50,748,029.10	180,906,297.78	242,748,284.27	-4,843,624.62	421,914,792.66
Bonds and other fixed-income securities	3,263,772,239.57	545,016,293.71	1,011,606,881.64	-250,396,823.54	192,542,340.27	2,739,327,168.37
Shares and other non-fixed-income securities	779,358,737.87	5,697,606.90	5,219,867.87	15,007,500.00	0.00	794,843,976.90
Total	**21,691,286,214.81**	**2,114,612,844.05**	**3,147,279,228.71**	**0.00**	**293,353,367.36**	**20,951,973,197.51**

Accumulated depreciation

in EUR	Accumulated write ups / downs As of 1 January 2016	Write-ups	Write-downs	Accumulated write ups / downs Additions / Disposals	Currency translation	Accumulated write ups / downs As of 31 December 2016
Participating interests	65,215,441.29	1,382,923.01	1,322,617.73	2,461,251.36	0.00	62,693,884.65
Shares in affiliated companies	4,876,570,401.56	383,358,009.48	8,632,979.29	98,332,563.09	0.00	4,403,512,808.28
Intangible assets	154,351,101.61	0.00	49,222,325.27	3,732.00	5,825.66	203,575,520.54
Tangible assets	52,323,572.58	0.00	2,236,929.00	15,107,251.35	-137,724.10	39,315,526.13
Securities	223,690,306.79	7,047,232.49	53,843,648.20	-161,828,732.97	-42,091,661.65	66,566,327.88
Treasury bills and similar securities	163,155,064.53	3,539,473.32	48,497,452.44	-25,157,773.54	0.00	182,955,270.11
Loans and advances to credit institutions	-10,210,085.91	1,537,401.37	14,697.67	-2,248.49	-8,888.94	-11,743,927.04
Loans and advances to customers	2,206,322.95	44,356.49	1,189,084.19	-1,148,847.95	-14,451.46	2,187,751.24
Bonds and other fixed-income securities	68,621,693.96	1,516,698.43	4,140,991.94	-135,603,511.45	-42,068,321.25	-106,425,845.23
Shares and other non-fixed-income securities	-82,688.74	409,302.88	1,421.96	83,648.46	0.00	-406,921.20
Total	**5,372,150,823.83**	**391,788,164.98**	**115,258,499.49**	**-45,923,935.17**	**-42,223,560.09**	**4,775,664,067.48**

As the securities are admitted to trading on a market which is not recognised, securities in the item "Bonds and other fixed-income securities" were moved to "Loans and advances to customers" in 2016.

The at cost values relate to EUR 35,669.54 in addition to participating interests and EUR 318,379,155.90, respectively, of shares in affiliated companies from the merger with Erste Bank Beteiligungen GmbH. EUR 379,593,550.50 result from the disposal of Erste Bank Beteiligungen GmbH by merger with Erste Group Bank AG EUR 64,438,500.18 are included in accumulated write downs as disposals from the merger with Erste Bank Beteiligungen GmbH.

Carrying amount

in EUR	As of 31 December 2016	As of 1 January 2016
Participating interests	205,196,401.84	205,641,319.67
Shares in affiliated companies	6,077,613,905.03	5,654,810,181.67
Intangible assets	38,929,608.18	83,796,308.91
Tangible assets	28,199,766.93	19,324,250.99
Securities	9,826,369,448.05	10,355,563,329.74
Treasury bills and similar securities	4,539,270,002.75	4,734,609,431.57
Loans and advances to credit institutions	1,226,368,492.18	1,334,399,847.21
Loans and advances to customers	419,727,041.42	311,962,078.74
Bonds and other fixed-income securities	2,845,753,013.60	3,195,150,545.61
Shares and other non-fixed-income securities	795,250,898.10	779,441,426.61
Total	**16,176,309,130.03**	**16,319,135,390.98**

11. Other assets

in EUR or in EUR thousand	Dec 16	Dec 15
Securities transactions	8,825,694.89	7,099
Derivatives	6,003,236,078.11	7,328,788
Accrued income	8,203,478.90	9,126
Receivables from participating interests and affiliated companies	126,339,765.38	105,619
Other payments and settlements	140,308,476.91	144,241
Other assets	**6,286,913,494.19**	**7,594,872**

The decrease in the balance sheet value of derivatives results from the application of balance sheet netting for business that was transferred to the London Clearing House (LCH) in 2016. The active deferred taxes are no longer included in this item, but rather as a separate item on the balance sheet.

12. Accrued and deferred items

Prepayments and accrued income decreased to EUR 315,965,049.48 as of 31 December 2016 (prior year: EUR 333,812 thousand). Of these, EUR 107,093,248.02 (prior year: EUR 117,394 thousand) were accruals in connection with derivative instruments and EUR 82,622,949.33 (prior year: EUR 94,426 thousand) were prepayments on commissions.

13. Deferred Tax Assets

Deferred tax assets in the amount of EUR 7,804,474.29 (prior year: EUR 24,869 thousand) are the result of the recognition of losses carried forward and the difference between the book values at the branches New York and Hong Kong, as sufficient future taxable profits are expected in the forecast for the next 5 years. There is no asset recognised for deferred taxes from temporary differences in the Erste Group Bank AG for the Austrian part of the corporation tax group, as this was already activated in the annual financial reports of several group members.

14. Securitised liabilities

in EUR or in EUR thousand	Dec 16	Dec 15
Covered loans and bank bonds	0.00	0
Non-covered loans and bank bonds	7,172,930,150.45	9,074,747
Mortgage and municipal bonds	7,869,482,213.11	8,224,567
Certificates of deposit and commercial paper	211,726,839.10	117,807
Securitised liabilities	**15,254,139,202.66**	**17,417,121**

15. Other liabilities

in EUR or in EUR thousand	Dec 16	Dec 15
Securities transactions	6,774,402.07	3,259
Derivatives	5,359,528,691.66	6,819,479
Accrued income	3,117,646.48	4,444
Other liabilities and settlements	847,723,990.37	599,227
Other liabilities	**6,217,144,730.58**	**7,426,410**

The decrease in the balance sheet value of derivatives results from the application of balance sheet netting for business that was transferred to the London Clearing House (LCH) in 2016.

16. Provisions

in EUR or in EUR thousand	Dec 16	Dec 15
Provisions for pensions	296,745,542.34	307,912
Provisions for taxation	40,990,070.87	17,929
Provisions for contingent liabilities	46,661,168.74	54,120
Provisions for negative market values of open derivatives without any hedge relationship	22,485,423.41	26,351
Other	105,383,052.22	119,922
Provisions	**512,265,257.58**	**526,234**

Assumptions for the actuarial calculation of pension entitlements

	Dec 16	Dec 15
Interest rate	1.80%	2.45%
Expected increase in pension benefits	1.50%	1.70%

The expected retirement age for each employee was individually calculated. The currently applicable legislation specifiying a gradual rise of the retirement age for men and women to 65 was taken into consideration.

Assumptions for the actuarial calculation of severance entitlements and jubilee benefits

	Dec 16	Dec 15
Interest rate	1.80%	2.45%
Average salary rise (including career trend and collective agreement trend)	2.40%	2.60%

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

Severance obligations have been outsourced to Sparkassen Versicherung Aktiengesellschaft since 2007. At the beginning of this year, jubilee benefits obligations were also outsourced to Sparkassen Versicherung Aktiengesellschaft. Severance entitlements measured in accordance with commercial law and based on the above parameters amount to EUR 44,209,797.73 (prior year: 43,889 thousand), respectively EUR 12,023,623.21 for jubilee benefits obligations, and are posted as a contingent liability off-balance sheet. The credit intended for the performance of outsourced severance entitlements with the insurer as of 31 December 2016 amounted to EUR 43,977,013.17 (prior year: 47,358 thousand) and the amount defined for jubilee benefits obligations is EUR 12,023,622.98.

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

17. Subordinated liabilities

Subordinated debt (subordinated liabilities and supplementary capital) amounted to EUR 6,025,081,612.55 (prior year: EUR 5,615,173 thousand) as of 31 December 2016. No subordinated liability taken by Erste Group Bank AG during the reporting year (including supplementary capital) was above the 10% limit for total subordinated liabilities. The terms of all other subordinated liabilities are in compliance with the requirements set forth in section 63 CRR.

Movements in total subordinated liabilities were as follows:

in EUR or in EUR thousand	1-12 16	1-12 15
Opening balance	**5,615,173,107.51**	**4,962,984**
Increase due to new issues	718,510,109.50	599,438
Decrease due to maturity	-363,184,000.00	-86,962
Decrease due to partial extinguishment	0.00	-1,200
Increase in carrying amount of zero coupon bonds due to valuation price fluctuations	54,582,395.54	140,914
Closing balance	**6,025,081,612.55**	**5,615,173**

At the balance sheet date, the bank held no own issues from subordinated liabilities that were not allocated to trading on stock exchanges on the asset side. In 2016, Erste Group Bank AG as expenses for subordinated liabilities and supplementary capital were EUR 265,536,123.75 (prior year: EUR 212,792 thousand). The term "subordinated" is defined in sections 45 (4) and 51 (9) Austrian Banking Act (BWG).

18. Tier 2 capital pursuant to Part 2 Title I Chapter 4 of Regulation (EU) No 575/2013

On the balance sheet date, Erste Group Bank AG held subordinated own capital, including deferred interest, with a carrying value of EUR 22,060,081.08 (prior year: EUR 20,071 thousand).

19. Additional core capital

On 2 June 2016 Erste Group Bank AG issued additional core capital (additional tier 1 bonds) in the amount of EUR 500 million. This is reported under liabilities item 8 Additional Tier 1 Capital pursuant to Part 2 Title I Chapter 3 of Regulation (EU) No 575/2013. Article 52 (1) lit n CRR provides for the loss absorbency of financial instruments of additional core capital (write-down or conversion).

A trigger event for the write-off or conversion of additional core capital is deemed to occur according to Article 54 Section 1 lit a CRR if the core capital ratio of the issuer falls below 5.125% or below another higher value defined by the issuer. In 2016, there were no write-downs.

20. Subscribed capital

Subscribed capital on 31 December 2016 was EUR 859,600,000.00 (prior year: EUR 859,600 thousand), represented by 429,800,000 voting bearer shares (ordinary shares). Erste Group Bank AG held no own shares on the balance sheet date.

21. Authorised and conditional capital as of 31 December 2016

Authorised capital

According to clause 5 of the Articles of Association, the management board is authorised to increase the registered capital of the Company until 21 May 2019 subject to the supervisory board's consent - also in several tranches - by an amount of up to EUR 171,800,000.00 by issuing up to 85,900,000 voting no-par value bearer shares in return for contributions in cash and/or in kind, with the issue price and issuing conditions being determined by the management board subject to supervisory board's consent.

Furthermore, the management board is authorised to fully or partly exclude the shareholders' statutory subscription right subject to supervisory board's consent (exclusion of the subscription right):

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

These two measures may also be combined. However, the aggregate pro rata amount of registered capital represented by shares for which the shareholders' subscription rights are excluded under the referenced authorisation, together with the pro rata amount of registered capital attributable to shares issued to creditors of convertible bonds, which had been issued and sold after the beginning of 21 May 2014, in order to grant conversion or subscription rights or fulfil obligations must not exceed the amount of EUR 171,800,000.00.

Conditional Capital

Pursuant to clause 6.3 of the Articles of Association, conditional capital based on the management board resolutions in 2002 and 2010 with a nominal value of EUR 21,923,264.00 persists, which can be consumed by issuing up to 10,961,632 ordinary bearer shares or ordinary registered shares with an issue price of at least EUR 2.00 per share against cash contribution and by excluding the subscription rights of the current shareholders. This conditional capital serves to grant share options to the employees, managers and management board members of the Company or an affiliated company. According to clause 6.4 of the Articles of Association, the company has additional conditional capital of EUR 124,700,000.00 from the issuance of up to 62,350,000 ordinary bearer shares. This conditional capital serves to grant conversion or subscription rights to investors of convertible bonds.

Authorized conditional capital

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

22. Major shareholders

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% controlling shareholder. The Privatstiftung is holding 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 company 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.

In 2016 (for the fiscal year 2015), a dividend in the amount of EUR 23,755,978.00 (prior year: EUR 0.00) was paid for the investment of the Privatstiftung in the Erste Group Bank AG. The purpose of the Privatstiftung, to be achieved notably by way of holding interests in Erste Group Bank AG, is to support social, scientific, cultural as well as charitable institutions and to promote the guiding principles of the savings bank philosophy. As of 31 December 2016, Bernhard Spalt (chairman), Richard Wolf, Boris Marte and Franz Portisch were appointed as board members. The Privatstiftung's supervisory board had eight members at the end of 2016, two of whom also serve as members of the supervisory board of Erste Group Bank AG. In accordance with clause 15.1 of the Articles of Association, and for the time in which the Privatstiftung assumes liability for all current and future debts in the event of their default on payment, it is entitled, pursuant to section 92 (9) Austrian Banking Act, to nominate up to one-third of the supervisory board members for election at the annual general meeting. So far, the Privatstiftung has not exercised this right.

As at 31 December 2016 AG, Erste Group Bank AG had accounts receivables - mainly from accrued interest on derivatives - with respect to the Privatstiftung in the amount of EUR 1,722,228.43 (prior year: EUR 6,293 thousand) and liabilities - primarily from accrued interest on derivatives - amounting to EUR 952,640.31 (prior year: EUR 1,952 thousand). In addition, standard derivative transactions for hedging purposes were in place between Erste Group Bank AG and the Privatstiftung at year-end, namely interest-rate swaps for a notional amount of EUR 103,000,000.00 (prior year: EUR 278,000 thousand). Like last year, there were no foreign currency swaps. In addition, the Privatstiftung held bonds of Erste Group Bank AG in the amount of EUR 9,345,505.42 (prior year: EUR 9,481 thousand) and Erste Group Bank AG held debts evidenced by certificates issued by the Privatstiftung in the amount of EUR 324,720.74 (prior year: EUR 2,925 thousand). In 2016, the interest income of Erste Group Bank AG from these derivative transactions and from bonds held amounted to EUR 6,086,270.14 (prior year: EUR 11,692 thousand) for the reporting period while interest expenses amounted to EUR 3,852,865.57 (prior year: EUR 7,937 thousand).

As of 31 December 2016, CaixaBank S.A., which is based in Barcelona, Spain, held a total of 42,634,248 Erste Group Bank AG shares (prior year: 42,634,248 shares), which is equivalent to 9.92% (prior year: 9.92%) of the subscribed capital of Erste Group Bank AG. At the end of October 2016, Mr Gonzalo Gortázar Rotaeche (CEO of the CaixaBank S.A.) resigned his mandate on the supervisory board of Erste Group Bank AG, as he accepted a mandate at Banco Português de Investimento in Portugal. In the view of the Portuguese National Bank, he would have exceeded the maximum number of allowed mandates if he had remained in the supervisory board at Erste Group Bank AG. The resulting vacant posistion will be appointed in the course of Erste Group Bank AG's next shareholders' meeting. In addition, the shareholders' agreement between CaixaBank S.A. and the Erste Foundation, which has been in effect since 2009, was renewed on 15 December 2014 (Preferred Partnership Agreement). By virtue of this agreement, CaixaBank S.A. joined the core shareholders, which include Erste Foundation as well as the savings banks, their foundations as well as Wiener Städtische Wechselseitige Versicherungsverein – Vermögensverwaltung – Vienna Insurance Group. As member of this syndicate, CaixaBank will abide by the recommendations of the Erste Foundation when electing new supervisory board members. Moreover, CaixaBank S.A. has the right to nominate a second supervisory board member in the course of the shareholders' meeting. For their involvement in Erste Group Bank AG, CaixaBank S.A. received a dividend in the amount of EUR 21,317,124.00 (prior year: EUR 0.00) in 2016 (for the fiscal year 2015).

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

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

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

23. Reserves

In 2016, the reserves of Erste Group Bank AG developed as follows:

in EUR	As of Dec 15	Reclassification	As of Dec 15	Allocations (+)	Releases (-)	As of Dec 16
Capital reserves	**1,627,019,510.67**	**0.00**	**1,627,019,510.67**	**0.00**	**0.00**	**1,627,019,510.67**
committed	1,627,019,510.67	0.00	1,627,019,510.67	0.00	0.00	1,627,019,510.67
uncommitted	0.00	0.00	0.00	0.00	0.00	0.00
for own shares and shares in a controlling company	0.00	0.00	0.00	0.00	0.00	0.00
Retained earnings	**2,204,687,275.31**	**5,133,000.00**	**2,209,820,275.31**	**706,523,725.09**	**-24,869,000.00**	**2,891,475,000.40**
statutory reserve	1,537,900,000.00	0.00	1,537,900,000.00	0.00	0.00	1,537,900,000.00
reserves provided for by the articles	0.00	0.00	0.00	0.00	0.00	0.00
other reserves	624,488,712.43	5,133,000.00	629,621,712.43	690,954,439.87	0.00	1,320,576,152.30
other restricted reserves	42,298,562.88	0.00	42,298,562.88	15,569,285.22	-24,869,000.00	32,998,848.10
Reserve pursuant to section 23 -6 of the Austrian Banking Act (BWG)	**851,000,000.00**	**0.00**	**851,000,000.00**	**0.00**	**0.00**	**851,000,000.00**
Untaxed reserves	**5,133,000.00**	**-5,133,000.00**	**0.00**	**0.00**	**0.00**	**0.00**
valuation reserve resulting from special depreciation	5,133,000.00	-5,133,000.00	0.00	0.00	0.00	0.00
other untaxed reserves	0.00	0.00	0.00	0.00	0.00	0.00

In the course of RÄG 2014, § 205 UGB was deleted and according to transitional regulations, existing untaxed reserves were to be related in retained earnings and any included deferred taxes as passive deferred taxes. As untaxed reserves result from non-taxable valuation reserves from participations at Erste Group Bank AG, there was no reclassification to deferred taxes, but rather the total untaxed reserves were transferred to the other reserves.

The distribution block for deferred tax assets pursuant to § 235 (2) UGB is taken into account by allocating other retained earnings reserves. The allocation of other restricted retained earnings amounting to EUR 7,764,810.93 (prior year: EUR 8,482 thousand) relates to the ex-ante-fund (see Note 24), EUR 5,527,263.79 relates to the deferred tax assets of the New York branch and EUR 2,277,210.50 refers to the deferred taxes of the Hong Kong branch (prior year – domestic: EUR 24.869 thousand). The reversal of retained earnings entirely concerns domestic deferred taxes.

24. Recovery & Resolution Fund, deposit guarantee fund, IPS fund

Recovery & Resolution Fund

EU directive 2014/59/EU (Bank Recovery and Resolution Directive, BRRD) was transposed into Austrian law via the Austrian Banking Restructuring and Resolution Act (BaSAG). BaSAG became effective on 1 January 2015. The law governs a number of aspects, including the creation of financing mechanisms for the resolution of credit institutions that provide for the annual payment of contributions by banks to a joint European recovery and resolution fund (Single Resolution Fund, SRF).

BaSAG defines the target level of the Austrian Recovery & Resolution Fund and the contribution payable by the Austrian credit institutions. The law requires that, the Recovery & Resolution Fund be endowed with at least 1% of the secured deposits of all credit institutions authorised in Austria by 31 December 2024. Therefore, the fund shall be set up over a period of 10 years and, to the extent practicable, contributions will be equally distributed over the entire period.

The contributions to be made by the credit institutions are calculated as a ratio of their respective liabilities (exclusive of own funds) less secured deposits to the aggregate liabilities (exclusive of own funds) less secured deposits of all institutions authorised in Austria, distributed over a period of 10 years. Furthermore, these contributions will be weighted in accordance with the risk profile of the credit institution. The amount payable as contribution is thus determined not only by the respective credit institution's unsecured liabilities but also significantly influenced by the unsecured liabilities held by all Austrian institutions and the risk weighting. The resolution authority is tasked with determining the risk weighting. In 2016, Erste Group Bank AG paid EUR 19,682,680.00 (prior year: EUR 19,281 thousand), which is included in the item other operating expenses.

Deposit guarantee fund

The deposit guarantee scheme, based on an EU directive (2014/49/EU), serves to protect customer deposits held at credit institutions. This EU directive was transposed into national law in Austria by way of the Act on Deposit Guarantee Schemes and Investor Compensation (ESAEG), and came into effect on 14 August 2015.

Every guarantee scheme has its own deposit guarantee fund consisting of available financial ressources amounting to no less than 0.8% of the sum total of covered deposits held at the member institutions (target level). This target level is to be achieved over a period of 10 years.

As long as the target level has not been reached, the guarantee schemes will require their member institutions to pay an annual contribution. The contributions payable by the member institutions are calculated on the basis of the volume of covered deposits (0.8% of the covered deposits distributed over a 10-year period) and determined in relation to the nature of the risks to which each relevant member institution is specifically exposed. The method used to determine the risk weighting must be approved by the FMA. In 2016, Erste Group Bank AG paid a total of EUR 34,716.99 (prior year: EUR 10 thousand), which is included in the item other administrative expenses.

IPS fund (ex-ante-fund)

The IPS fund is an ex-ante-fund of Haftungsverbund's institutional guarantee system (IPS) that is intended to secure financial support to Haftungsverbund members facing economic difficulties. The IPS fund is a "Gesellschaft bürgerlichen Rechts" (IPS Fonds GesBR - a partnership under civil law) – the low-risk, readily available investment of the ex-ante-fund is recognised as a special asset. Shareholders with a stake in the assets are Erste Group Bank AG, Erste Bank der oesterreichischen Sparkassen AG and all other savings banks that subscribe to the institutional guarantee system. Haftungsverbund GmbH is an active partner but not obliged to make a capital contribution.

The plan is to provide the ex-ante-fund with EUR 250 million over a period of 10 years, i.e. by 30 September 2024. Partners are obliged to pay EUR 25 million a year, payable in quarterly installments. Haftungsverbund GmbH is charged with determining the amount of the respective payment due. The schedule of contributions as defined in the second Supplementary Agreement has been set up both on the basis of the distribution key specified under sec. 7 (1) Agreement in Principle (total risk) and on the basis of the distribution key specified under sec. 12 (1) Agreement in Principle ("Amounts owed to customers" plus 50% of the item "Securitised liabilities"), in equal terms.

The contributions (deposits) are to be taken from the annual financial report, with other reserves being released where necessary. Erste Group Bank AG created a reserve of EUR 7,764,810.93 (prior year: EUR 8,482 thousand) in 2016, which corresponds to the amount of the contributions made (deposits).

25. Own funds and capital requirement

These unconsolidated financial statements of Erste Group Bank AG have yet to be approved by the supervisory board. Erste Group Bank AG is in compliance with the transitional provisions concerning capital requirements, market risk and credit risk set forth by Austria's accompanying CRR ordinance.

Own funds

Capital structure according to EU regulation 575/2013 (CRR)		Basel 3	
in EUR or in EUR thousand	**Article pursuant to CRR**	**Dec 16**	**Dec 15**
Common equity tier 1 capital (CET1)			
Capital instruments eligible as CET1	26 (1) (a) (b), 27-30, 23 (1) (f), 42	2,486,619,510.67	2,486,620
Own CET1 instruments	36 -1 (f), 42	-5,504,540.83	-7,703
Retained earnings	26 -1 (c), 26 -2	3,717,280,626.59	3,013,389
Interim loss	36 -1 (a)	0.00	0
Other reserves	4 -117, 26 -1 (e)	0.00	5,133
Prudential filter: cash flow hedge reserve	33 -1 (a)	0.00	0
Prudential filter: cumulative gains and losses due to changes in own credit risk on fair valued liabilities	33 -1 (b)	0.00	0
Prudential filter: fair value gains and losses arising from the institution's own credit risk related to derivative liabilities	33 -1 (c), 33 -2	-8,234,124.00	-10,277
Value adjustments due to the requirements for prudent valuation	34, 105	-52,456,284.31	-63,160
Regulatory adjustments relating to unrealised gains and losses	467, 468	0.00	0
Other intangible assets	4 -115, 36 -1 (b), 37 (a)	-38,929,608.18	-83,796
Deferred tax assets dependent upon future profitability and not temporary differences net of associated tax liabilities	36 -1 (c), 38	0.00	0
IRB shortfall of credit risk adjustments to expected losses	36 -1 (d), 40, 158, 159	0.00	-11,196
Other transitional adjustments CET1	469 to 472, 478, 481	15,571,843.27	56,995
Interim loss (40%)		0.00	0
Other intangibles (40%)		15,571,843.27	50,278
IRB shortfall of provisions to expected losses (40%)		0.00	6,718
Deferred tax assets that rely on future profitability and do not arise from temporary differences net of associated tax liabilities, which existed until December 2013 (80%)		0.00	0
Deferred tax assets that rely on future profitability and do not arise from temporary differences net of associated tax liabilities, which exists since January 2014 (40%)		0.00	0
Excess of deduction from AT1 items over AT1	36 -1 (j)	0.00	-53,637
Common equity tier 1 capital (CET1)	**50**	**6,114,347,423.21**	**5,332,368**
Additional tier 1 capital (AT1)			
Capital instruments eligible as AT1	51 (a), 52-54, 56 (a), 57	500,000,000.00	0
Own AT1 instruments	52 -1 (b), 56 (a), 57	-1,500,000.00	0
Instruments issued by subsidiaries that are given recognition in AT1	85, 86	0.00	0
Transitional adjustments due to grandfathered AT1 instruments	483 (4) (5), 484-487, 489, 491	0.00	0
AT1 instruments of financial sector entities where the institution has a significant investment	4 -27, 56 (d), 59, 79	0.00	0
Other transitional adjustments AT1	474, 475, 478, 481	-15,571,843.27	-53,637
Interim loss (40%)		0.00	0
Other intangibles (40%)		-15,571,843.27	-50,278
IRB shortfall of provisions to expected losses (20%)		0.00	-3,359
Excess of deduction from AT1 items over AT1	36 -1 (j)	0.00	53,637
Additional tier 1 capital (AT1)	**61**	**482,928,156.73**	**0**
Tier 1 capital - total amount of common equity tier 1 (CET1) and additional tier1 (AT1)		**6,597,275,579.94**	**5,332,368**
Tier 2 capital (T2)			
Capital instruments and subordinated loans eligible as T2	62 (a), 63-65, 66 (a), 67	4,550,775,356.19	4,632,002
Own T2 instruments	63 (b) (i), 66 (a), 67	-51,554,764.51	-68,089
Instruments issued by subsidiaries recognised in T2	87, 88	0.00	0
Transitional adjustments due to additional recognition in T2 of instruments issued by subsidiaries	480	0.00	0
Transitional adjustments due to grandfathered T2 instruments and subordinated loans	483 -6 -7, 484, 486, 488, 490, 491	58,239,352.09	67,946
IRB excess of provisions over expected losses eligible	62 (d)	78,480,944.27	75,715
Standardised approach general credit risk adjustments	62 (c)	0.00	0
Other transitional adjustments to tier 2 capital	476, 477, 478, 481	0.00	-3,359
IRB shortfall of provisions to expected losses (20%)		0.00	-3,359
T2 instruments of financial sector entities where the institution has a significant investment	4 -27, 66 (d), 68, 69, 79	0.00	0
Tier 2 capital (T2)	**71**	**4,635,940,888.04**	**4,704,216**
Total own funds		**11,233,216,467.98**	**10,036,583**
Total Risk Exposure Amount	**92 -3, 95, 96, 98**	**32,586,434,693.19**	**31,549,571**
Common Equity Tier 1 capital ratio	**92 -2 (a)**	**18.76%**	**16.90%**
Tier 1 capital ratio	**92 -2 (b)**	**20.25%**	**16.90%**
Solvency ratio	**92 -2 (c)**	**34.47%**	**31.81%**

Capital Requirement

Risk structure according to EU regulation 575/2013 (CRR)		Dec 16		Dec 15	
in EUR or in EUR thousand	Article pursuant to CRR	Calculation base / total risk (phased-in)	Capital requirement (phased-in)	Calculation base / total risk	Capital requirement
Total Risk Exposure Amount	92 -3, 95, 96, 98	32,586,434,693.19	2,606,914,775.45	31,549,571	2,523,966
Risk weighted assets (credit risk)	92 -3 (a) (f)	26,208,020,821.93	2,096,641,665.75	27,195,334	2,175,627
Standardised approach		13,127,863,443.66	1,050,229,075.49	14,576,087	1,166,087
IRB approach		13,080,157,378.27	1,046,412,590.26	12,619,247	1,009,540
Settlement Risk	-3 (c) (ii), 92 -4 (b)	53,874.00	4,309.92	72	6
Trading book, foreign FX risk and commodity risk	92 -3 (b) (i) und (iii), 92 -4 (b)	3,901,362,355.00	312,108,988.40	2,456,927	196,554
Operational Risk	92 -3 (e), 92 -4 (b)	1,330,596,387.38	106,447,710.99	909,033	72,723
Exposure for CVA	92 -3 (d)	1,146,401,254.88	91,712,100.39	988,205	79,056
Other exposure amounts incl. Basel 1 floor	3, 458, 459, 500	0.00	0.00	0	0

For the preparation of consolidated capital and consolidated capital requirements, reference is made to the respective statements in the consolidated financial statements 2016 of Erste Group.

26. List of assets pledged as collateral for liabilities (acc. to section 64 [1] no. 8 Austrian Banking Act)

in EUR or in EUR thousand	Dec 16	Dec 15	Liability description	Balance sheet item
Collateral pool for covered Erste Bank bonds				
Fixed-income securities	1,129,697,330.94	1,226,267	Covered Erste Bank bonds	Liability 3
OeNB asset pool (tender)				
Credit claims	1,400,000,000.00	500,790	Refinancing by OeNB / ECB	Liability 1
Pledge agreements				
Money market loan	520,749,000.00	563,000	Guarantees and contingent liabilities pledged as collateral	
Collateral for unregistered OTC derivatives				
Cash collateral	495,077,129.74	629,382	Other liabilities	Liability 4
Securities collateral	8,362,584.00	13,660	Other liabilities	Liability 4
Total	**3,553,886,044.68**	**2,933,098**		
Collateral for exchange-traded derivatives				
Securities collateral	122,912,931.06	59,314	UBS & EUREX margin requirement	
Cash collateral	9,485,740.81	0	UBS margin requirement	
Cash collateral	6,530.55	0	Hungary margin requirement	
Cash collateral	2,446,305.88	12,453	Poland margin requirement	
Total	**134,851,508.30**	**71,767**		
Blocked securities account as collateral with Österreichische Kontrollbank AG				
Fixed-income securities	21,438,374.43	23,560	Margin requirement	
Collateral pool for municipal and mortgage bonds				
Loans and advances to customers	1,004,984,526.16	962,158	Issued municipal and mortgage bonds	Liability 3
Fixed-income securities	269,518,659.89	255,678	Issued municipal and mortgage bonds	Liability 3
Coverage for the pension provisions				
Pension provisions § 11 BPG	206,862,951.37	192,356	Coverage for the pension provisions	Liability 6
Total	**1,502,804,511.85**	**1,433,753**		
Aggregate Total	**5,191,542,064.83**	**4,438,618**		

27. Total volume of unsettled derivatives

Dec 16 in EUR		Time to maturity for notional amounts < 1 years	1-5 years	> 5 years	Total
Interest rate contracts		**71,679,464,286.07**	**157,376,728,360.78**	**109,292,022,453.30**	**338,348,215,100.15**
OTC products					
Interest rate options	Purchase	5,299,080,267.33	8,861,903,863.50	6,912,482,898.13	21,073,467,028.96
	Sale	5,552,357,450.55	9,035,956,048.37	7,441,447,698.09	22,029,761,197.01
Interest rate swaps	Purchase	30,011,581,149.53	69,741,678,037.64	47,467,001,648.79	147,220,260,835.96
	Sale	30,011,772,468.57	69,737,190,411.27	47,471,090,208.29	147,220,053,088.13
FRAs	Purchase	410,971,613.10	0.00	0.00	410,971,613.10
	Sale	389,516,702.70	0.00	0.00	389,516,702.70
Exchange-traded products					
Futures		2,852,634.28	0.00	0.00	2,852,634.28
Interest rate options		1,332,000.00	0.00	0.00	1,332,000.00
Currency contracts		**80,683,716,466.17**	**21,889,836,771.07**	**5,939,286,083.08**	**108,512,839,320.32**
OTC products					
Currency options	Purchase	1,499,843,340.17	160,812,268.56	215,392,929.75	1,876,048,538.48
	Sale	1,487,588,527.36	97,870,674.92	215,485,031.42	1,800,944,233.70
Currency swaps	Purchase	38,937,264,812.59	10,762,660,355.72	2,765,767,273.71	52,465,692,442.02
	Sale	38,732,084,533.23	10,868,493,471.87	2,742,640,848.20	52,343,218,853.30
FRAs	Purchase	0.00	0.00	0.00	0.0
	Sale	0.00	0.00	0.00	0.0
Exchange-traded products					
Futures		26,935,252.82	0.00	0.00	26,935,252.82
Currency options		0.00	0.00	0.00	0.00
Securities related contracts		**2,771,267,983.83**	**6,347,533,533.35**	**1,364,890,206.37**	**10,483,691,723.55**
OTC products					
Equity options	Purchase	391,176,880.64	1,750,086,769.33	498,610,282.15	2,639,873,932.12
	Sale	295,648,053.78	817,774,458.86	507,121,296.08	1,620,543,808.72
Equity swaps	Purchase	836,233,070.54	1,909,924,708.02	179,592,873.77	2,925,750,652.33
	Sale	825,190,069.76	1,869,079,597.14	179,565,754.37	2,873,835,421.27
Exchange-traded products					
Futures		319,555,989.11	0.00	0.00	319,555,989.11
Equity options		103,463,920.00	668,000.00	0.00	104,131,920.00
Commodity contracts		**338,361,498.16**	**4,442,680.00**	**0.00**	**342,804,178.16**
OTC products					
Commodity options	Purchase	1,924,429.15	1,649,560.00	0.00	3,573,989.15
	Sale	1,924,429.15	1,781,120.00	0.00	3,705,549.15
Commodity swaps	Purchase	163,078,070.50	506,000.00	0.00	163,584,070.50
	Sale	138,624,587.22	506,000.00	0.00	139,130,587.22
Exchange-traded products					
Futures		32,809,982.14	0.00	0.00	32,809,982.14
Commodity options		0.00	0.00	0.00	0.00
Credit derivatives		**165,027,536.19**	**865,035,980.57**	**589,883,164.87**	**1,619,946,681.63**
OTC products					
Credit default swaps	Purchase	97,373,476.61	377,488,041.68	192,239,742.00	667,101,260.29
	Sale	67,654,059.58	487,547,938.89	397,643,422.87	952,845,421.34
Other		**262,700,000.00**	**638,457,515.90**	**1,753,741,361.20**	**2,654,898,877.10**
OTC products					
Other options	Purchase	20,000,000.00	73,280,643.19	0.00	93,280,643.19
	Sale	24,700,000.00	86,085,875.19	0.00	110,785,875.19
Other swaps	Purchase	122,500,000.00	267,545,498.76	1,078,870,680.60	1,468,916,179.36
	Sale	95,500,000.00	211,545,498.76	674,870,680.60	981,916,179.36
Total		**155,900,537,770.42**	**187,122,034,841.67**	**118,939,823,268.82**	**461,962,395,880.91**
Thereof OTC products in EUR thousand		155,413,588	187,121,367	118,939,823	461,474,778
Thereof exchange-traded products in EUR thousand		486,950	668	0	487,618

The presentation of the nominal values is made without netting of transactions with the London Clearing House (LCH).

In the table the nominal values for options (mainly caps) with a fair value of zero are included for the first time. The amounts of the comparative period 2015 have been adjusted accordingly.

Dec 15 in EUR thousand		Time to maturity for notional amounts < 1 years	 1-5 years	 > 5 years	Total
Interest rate contracts		**73,490,354**	**164,022,022**	**132,139,391**	**369,651,768**
OTC products					
Interest rate options	Purchase	4,858,145	11,332,053	9,347,708	25,537,906
	Sale	5,643,304	11,885,160	10,045,309	27,573,773
Interest rate swaps	Purchase	31,406,449	70,382,841	56,368,836	158,158,125
	Sale	31,413,450	70,371,969	56,377,539	158,162,958
FRAs	Purchase	111,017	0	0	111,017
	Sale	50,000	50,000	0	100,000
Exchange-traded products					
Futures		3,916	0	0	3,916
Interest rate options		4,073	0	0	4,073
Currency contracts		**80,429,117**	**20,995,556**	**6,932,460**	**108,357,133**
OTC products					
Currency options	Purchase	1,647,659	192,606	96,584	1,936,849
	Sale	1,581,809	163,873	96,681	1,842,363
Currency swaps	Purchase	38,676,071	10,294,532	3,389,961	52,360,564
	Sale	38,504,000	10,344,545	3,349,233	52,197,777
FRAs	Purchase	0	0	0	0
	Sale	0	0	0	0
Exchange-traded products					
Futures		19,579	0	0	19,579
Currency options		0	0	0	0
Securities related contracts		**2,455,933**	**6,787,116**	**949,855**	**10,192,905**
OTC products					
Equity options	Purchase	330,634	1,723,327	400,894	2,454,855
	Sale	290,082	705,029	290,460	1,285,571
Equity swaps	Purchase	621,433	2,162,527	129,259	2,913,219
	Sale	593,751	2,124,524	129,241	2,847,516
Exchange-traded products					
Futures		454,114	0	0	454,114
Equity options		165,920	71,710	0	237,630
Commodity contracts		**622,997**	**52,166**	**0**	**675,163**
OTC products					
Commodity options	Purchase	98,878	1,650	0	100,527
	Sale	86,094	1,781	0	87,875
Commodity swaps	Purchase	212,646	26,365	0	239,011
	Sale	203,796	22,370	0	226,166
Exchange-traded products					
Futures		21,584	0	0	21,584
Commodity options		0	0	0	0
Credit derivatives		**193,226**	**851,524**	**743,546**	**1,788,297**
OTC products					
Credit default swaps	Purchase	73,752	394,699	237,653	706,103
	Sale	119,474	456,826	505,894	1,082,194
Other		**59,121**	**864,533**	**1,754,809**	**2,678,462**
OTC products					
Other options	Purchase	4,421	93,281	0	97,702
	Sale	14,700	96,086	0	110,786
Other swaps	Purchase	20,000	376,633	1,079,404	1,476,037
	Sale	20,000	298,533	675,404	993,937
Total		**157,250,749**	**193,572,918**	**142,520,061**	**493,343,728**
Thereof OTC products		156,581,564	193,501,208	142,520,061	492,602,832
Thereof exchange-traded products		669,186	71,710	0	740,896

28. Derivative financial instruments and fixed-asset financial instruments acc. to the Fair-Value Valuation Act (FVBG)

Derivative financial instruments

Dec 16	Notional amount		Carrying amount	Fair value	
in EUR	Purchase	Sale		Positive	Negative
Interest rate contracts	**168,706,307,935.10**	**169,641,907,165.06**	**430,013,337.68**	**6,245,204,300.63**	**-5,228,295,990.35**
OTC products					
Interest rate options	21,073,467,028.96	22,029,761,197.01	112,567,542.22	1,214,666,439.46	-1,085,171,481.55
Interest rate swaps	147,220,260,835.97	147,220,053,088.14	315,710,173.39	5,024,934,720.50	-4,139,256,990.20
FRAs	410,971,613.10	389,516,702.70	1,735,622.07	5,603,140.67	-3,867,518.60
Exchange-traded products					
Futures	698,457.07	2,154,177.21	0.00	0.00	0.00
Interest rate options	910,000.00	422,000.00	0.00	0.00	0.00
Currency contracts	**54,341,740,980.50**	**54,171,098,339.82**	**88,448,785.15**	**335,635,814.91**	**-226,935,114.35**
OTC products					
Currency options	1,876,048,538.48	1,800,944,233.70	13,103,132.06	62,065,723.19	-35,403,964.44
Currency swaps	52,465,692,442.02	52,343,218,853.30	75,345,653.09	273,570,091.72	-191,531,149.91
FRAs	0.00	0.00	0.00	0.00	0.00
Exchange-traded products					
Futures	0.00	26,935,252.82	0.00	0.00	0.00
Currency options	0.00	0.00	0.00	0.00	0.00
Securities related contracts	**5,874,297,885.55**	**4,609,393,838.00**	**79,123,925.73**	**283,083,183.22**	**-192,137,370.95**
OTC products					
Equity options	2,639,873,932.12	1,620,543,808.72	13,635,556.43	99,170,834.79	-94,556,353.73
Equity swaps	2,925,750,652.33	2,873,835,421.27	66,396,328.42	182,908,102.60	-95,668,812.27
Exchange-traded products					
Futures	268,799,161.10	50,756,828.01	0.00	0.00	0.00
Equity options	39,874,140.00	64,257,780.00	-907,959.12	1,004,245.83	-1,912,204.95
Commodity contracts	**198,425,300.71**	**144,378,877.45**	**66,159.49**	**12,509,190.42**	**-12,443,903.18**
OTC products					
Commodity options	3,573,989.15	3,705,549.15	3,900.32	8,032.12	-1,144.77
Commodity swaps	163,584,070.50	139,130,587.22	62,259.17	12,501,158.30	-12,442,758.41
Exchange-traded products					
Futures	31,267,241.06	1,542,741.08	0.00	0.00	0.00
Commodity options	0.00	0.00	0.00	0.00	0.00
Credit derivatives	**667,101,260.29**	**952,845,421.34**	**-6,380,436.28**	**20,322,667.68**	**-26,581,088.89**
OTC products					
Credit default options	0.00	0.00	0.00	0.00	0.00
Credit default swaps	667,101,260.29	952,845,421.34	-6,380,436.28	20,322,667.68	-26,581,088.89
Other	**1,562,196,822.55**	**1,092,702,054.55**	**-36,643,640.64**	**90,764,137.96**	**-67,578,630.99**
OTC products					
Other options	93,280,643.19	110,785,875.19	24,240.17	627,253.81	-313,628.40
Other swaps	1,468,916,179.36	981,916,179.36	-36,667,880.81	90,136,884.15	-67,265,002.59
OTC products	**231,008,521,185.47**	**230,466,256,917.10**	**555,536,090.25**	**6,986,515,048.99**	**-5,752,059,893.76**
Exchange-traded products	**341,548,999.23**	**146,068,779.12**	**-907,959.12**	**1,004,245.83**	**-1,912,204.95**
Total	**231,350,070,184.70**	**230,612,325,696.22**	**554,628,131.13**	**6,987,519,294.82**	**-5,753,972,098.71**
thereof external/internal deals					
external deals	200,222,743,735.04	200,495,640,594.27	1,253,542,067.78	5,390,653,726.73	-4,157,106,530.62
internal deals	31,127,326,449.66	30,116,685,101.95	-698,913,936.65	1,596,865,568.09	-1,596,865,568.09
thereof trading book/banking book					
Trading Book	204,289,751,626.68	204,614,219,784.19	482,995,462.88	5,348,063,278.67	-4,865,067,815.79
Banking Book	27,060,318,558.01	25,998,105,912.03	71,632,668.25	1,639,456,016.15	-888,904,282.92
thereof hedges	26,361,471,059.07	25,299,080,132.62	93,898,786.73	1,634,940,751.16	-866,400,152.93

The presentation of the nominal values is made without netting of transactions with the London Clearing House (LCH).

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

In the table the nominal values for options (mainly caps) with a fair value of zero are included for the first time. The amounts of the comparative period 2015 have been adjusted accordingly.

Dec 15 in EUR thousand	Notional amount Purchase	 Sale	Carrying amount	Fair value Positive	 Negative
Interest rate contracts	**183,808,496**	**185,843,272**	**263,639**	**7,814,137**	**-6,545,226**
OTC products					
Interest rate options	25,537,906	27,573,773	36,911	1,336,425	-1,264,544
Interest rate swaps	158,158,125	158,162,958	224,675	6,475,660	-5,280,682
FRAs	111,017	100,000	2,053	2,053	0
Exchange-traded products					
Futures	739	3,177	0	0	0
Interest rate options	709	3,364	0	0	0
Currency contracts	**54,297,414**	**54,059,719**	**106,311**	**300,578**	**-180,334**
OTC products					
Currency options	1,936,849	1,842,363	15,768	42,286	-14,187
Currency swaps	52,360,564	52,197,777	90,543	258,293	-166,147
FRAs	0	0	0	0	0
Exchange-traded products					
Futures	0	19,579	0	0	0
Currency options	0	0	0	0	0
Securities related contracts	**5,728,732**	**4,464,172**	**86,214**	**286,028**	**-196,487**
OTC products					
Equity options	2,454,855	1,285,571	15,868	106,469	-100,283
Equity swaps	2,913,219	2,847,516	73,032	177,237	-91,195
Exchange-traded products					
Futures	263,512	190,602	0	0	0
Equity options	97,147	140,483	-2,686	2,321	-5,008
Commodity contracts	**359,759**	**315,404**	**160**	**36,539**	**-36,147**
OTC products					
Commodity options	100,527	87,875	111	2,401	-1,901
Commodity swaps	239,011	226,166	49	34,138	-34,246
Exchange-traded products					
Futures	20,221	1,363	0	0	0
Commodity options	0	0	0	0	0
Credit derivatives	**706,103**	**1,082,194**	**-5,079**	**24,241**	**-29,158**
OTC products					
Credit default options	0	0	0	0	0
Credit default swaps	706,103	1,082,194	-5,079	24,241	-29,158
Other	**1,573,739**	**1,104,723**	**-27,895**	**75,100**	**-55,932**
OTC products					
Other options	97,702	110,786	51	487	-244
Other swaps	1,476,037	993,937	-27,946	74,613	-55,689
OTC products	**246,091,916**	**246,510,917**	**426,036**	**8,534,302**	**-7,038,277**
Exchange-traded products	**382,328**	**358,568**	**-2,686**	**2,321**	**-5,008**
Total	**246,474,244**	**246,869,484**	**423,350**	**8,536,623**	**-7,043,285**
thereof external/internal deals					
external deals	209,359,972	210,844,756	1,168,389	6,842,623	-5,349,285
internal deals	37,114,272	36,024,728	-745,039	1,694,000	-1,694,000
thereof trading book/banking book					
Trading Book	214,388,208	215,964,675	225,252	6,364,853	-6,139,600
Banking Book	32,086,036	30,904,809	198,097	2,171,770	-903,685
thereof hedges	31,139,496	29,988,579	226,724	2,164,438	-891,725

The book values are presented in following balance sheet items:

in EUR or in EUR thousand	Dec 16	Thereof internal trades	Dec 15
A12 Other assets	5,658,441,808.90	542,349,839.80	6,729,349
A14 Prepayments and accrued income	109,276,466.20	107,395,764.50	110,930
P04 Other liabilities	4,922,084,219.30	1,108,356,603.80	6,136,600
P05 Accruals and deferred income	268,520,501.20	240,302,937.20	253,979
P06 Provisions	22,485,423.40	0.00	26,351
Total	**554,628,131.10**	**-698,913,936.60**	**423,350**

Fixed-asset instruments

In the following table the figures are without interest accruals.

in EUR	Dec 16 Carrying amount	Positive fair value	Hidden losses	Hidden reserves
Treasury bills	240,535,026.30	239,350,919.36	-1,184,106.94	
	4,202,577,120.30	4,542,340,008.55		339,762,888.25
Loans and advances to credit institutions	511,817,596.15	495,945,113.15	-15,872,483.00	
	711,044,905.50	715,370,829.05		4,325,923.55
Loans and advances to customers	313,195,437.01	307,922,685.15	-5,272,751.86	
	103,435,046.41	104,466,499.68		1,031,453.27
Debt securities	1,395,261,759.08	1,364,563,507.19	-30,698,251.89	
	1,427,716,234.24	1,517,891,037.85		90,174,803.61
Shares	144,943,166.67	141,260,075.00	-3,683,091.67	
	644,610,124.53	652,175,708.50		7,565,583.97
Financial instruments carried as fixed assets	**2,605,752,985.21**	**2,549,042,299.85**	**-56,710,685.36**	
	7,089,383,430.98	**7,532,244,083.63**		**442,860,652.65**

in EUR thousand	Dec 15 Carrying amount	Positive fair value	Hidden losses	Hidden reserves
Treasury bills	51,243	50,865	-379	
	4,572,005	4,943,334		371,330
Loans and advances to credit institutions	534,616	505,601	-29,015	
	797,950	806,412		8,462
Loans and advances to customers	232,700	229,163	-3,537	
	56,487	57,373		885
Debt securities	1,332,272	1,298,971	-33,300	
	1,572,374	1,665,744		93,369
Shares	759,370	749,759	-9,611	
	33,305	33,968		663
Financial instruments carried as fixed assets	**2,910,201**	**2,834,359**	**-75,842**	
	7,032,121	**7,506,831**		**474,709**

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

29. Market value for securities in inactive markets

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

Of the securities allocated to trading on stock exchanges and valued to market price, theoretical prices were used for the following volumes:

In the following tables the figures are shown without interest accruals.

Carrying amount of securities not marked on the basis of market prices in EUR	Fair value on the basis of the price in the inactive market	Difference 2016
1,369,615,932.81	1,371,067,913.94	1,451,981.13

Carrying amount of securities not marked on the basis of market prices in EUR thousand	Fair value on the basis of the price in the inactive market	Difference 2015
965,036	962,841	-2,195

30. Reclassification in securities positions

In 2016 no need for reclassification of security positions to the current asset portfolio occured.

31. Hedging transactions

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

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

As of 30.6.2016, all cash flow hedge relationships were terminated, as efficiency between the hedged risk of basic transactions and interest rate swaps could no longer be maintained due to the negative interest rate environment. A one-off positive result in the amount of EUR 99,490,975.80 was the result of the termination of the swaps, due to the swap compensation payments received. This is included in other operating income. The nominal volume of the terminated swap transactions amounted to EUR 1,500,000,000.00.

in EUR	Dec 16	Dec 15	Change
Positive market value fair value hedge	1,421,125,093.28	1,758,874,460.31	-337,749,367.03
Positive market value cash flow hedge	0.00	80,930,965.85	-80,930,965.85
Total positive market values	**1,421,125,093.28**	**1,839,805,426.16**	**-418,680,332.88**
Negative market value fair value hedge	-825,319,746.26	-850,754,214.18	25,434,467.92
Negative market value cash flow hedge	0.00	0.00	0.00
Total negative market values	**-825,319,746.26**	**-850,754,214.18**	**25,434,467.92**

The market values are displayed based on clean prices. Where market values are negative, they represent off-balance-sheet losses from derivatives in a hedge relationship. As of 31 December 2016, fair value hedges were up to 2042. The negative market values (accrued interest not considered) of derivatives used to hedge against cash flows are not recognised in the annual financial statements because these cash flows are – with a level of probability of virgued certainty – offset by recognised counter cash-flows from the underlying transactions.

Effectiveness is basically measured using critical terms match.

32. Consideration of CVA/DVA in derivative valuation

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

For portfolios that are marked-to-market, both a CVA and a DVA in the amount of EUR -13,884,825.00 (prior year: EUR -19,819 thousand) and EUR 8,234,124.00 (prior year: EUR 10,277 thousand), respectively, were recognised. In due application of the principle of prudence, a CVA in the amount of EUR -2,862,776.00 (prior year: EUR -4,973 thousand) was recognised for the banking book.

33. Risk provisions

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

in EUR or in EUR thousand	Dec 16	Dec 15
Opening balance	**650,806,643.68**	**737,246**
Allocations	251,907,711.22	396,796
Use	-262,474,568.99	-257,788
Releases	-218,815,692.97	-232,223
Reclassification	-2,365,020.62	0
Exchange rate changes	1,581,565.02	6,776
Closing balance	**420,640,637.34**	**650,807**

34. Contingent liabilities

Off balance liabilities has been recognised EUR 3,995,993,277.38 (prior year: EUR 4,180,588 thousand) as "Contingent liabilities" for guarantees and warranties relating to the provision of collateral. This includes a letter of comfort issued in 2015 by Erste Group Bank AG amounting to EUR 406,539,103.00 (prior year: EUR 423,989 thousand) on behalf of affiliated companies for these failure to meet their rental commitments. Furthermore, credit derivatives amounting to EUR 440,946,229.20 (prior year: EUR 636,216 thousand). The required provisions were subtracted from the contingent liabilities.

35. Credit Risk

Credit risk in the amount of EUR 7,588,052,703.32 (prior year: EUR 6,916,450 thousand) for loan and guarantee commitments have not yet been exercised. These amounts are net of the appropriate provisions.

36. Gross income – regional breakdown

Gross income of Erste Group Bank AG was broken down as follows (according to the location of branches):

	1-12 16			1-12 15		
in EUR or in EUR thousand	Domestic	Abroad	Total	Domestic	Abroad	Total
Interest and similar income	717,080,479.90	124,995,852.34	842,076,332.24	895,452	132,087	1,027,539
Income from securities and participating interests	1,043,177,676.71	364,640.92	1,043,542,317.63	675,220	600	675,819
Commission income	139,347,961.57	1,633,220.46	140,981,182.03	157,735	1,799	159,534
Net profit or loss on financial operations	1,175,863.52	107,365.84	1,283,229.36	26,062	-41	26,022
Other operating income	212,486,688.74	5,758,666.24	218,245,354.98	158,506	7,803	166,309
Gross income	**2,113,268,670.44**	**132,859,745.80**	**2,246,128,416.24**	**1,912,975**	**142,249**	**2,055,224**

37. Net interest income

Erste Group Bank AG recognises negative interest charged on loans (assets) in the amount of EUR 52,016,391.89 (prior year: EUR 12,789 thousand) under interest and similar expenses and negative interest paid for deposits (liabilities) in the amount of EUR 24,523,229.05 (prior year: EUR 17,925 thousand) as interest and similar income.

38. Income from participating interests and shares in affiliated companies

Profits of affiliated companies resulting from subsidiaries that are considered a tax group with Erste Group Bank AG under the group taxation regulations of 2005 are recognised in the income statement of Erste Group Bank AG under income from participating interests and shares in affiliated companies amounting to EUR 332,913,238.02 in 2016 (prior year: EUR 93,658 thousand).

39. Other operating income

Other operating income in the amount of EUR 218,245,354.98 (prior year: EUR 166,309 thousand) includes income from personnel and administrative expenses passed along to affiliated companies in the amount of EUR 85,725,726.77 (prior year: EUR 80,063 thousand). In 2016, this item further included income in the amount of EUR 99,490,975.80 from termination of derivates from former cash flow hedge relations (prior year: EUR 57,915 thousand from the release of the provision for the negative market values of derivatives in the banking book for internal trades that are not used for hedging purposes).

40. Personnel expenses

In terms of personnel expenses, expenses for severance payments and payments to severance-payment funds included expenses for severance payments in the amount of EUR 9,628,499.98 (prior year: income EUR 126 thousand).

41. Other administrative expenses

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

in EUR or in EUR thousand	1-12 16	1-12 15
Fees charged for auditing the financial statements	3,474,069.47	4,017
Fees charged for audit-related services	455,124.04	2,321
Fees charged for tax advisory services	1,165,620.52	796
Other administrative expenses	**5,094,814.03**	**7,133**

42. Other operating expenses

Other operating expenses of Erste Group Bank AG, which amounted to EUR 26,578,905.37 (prior year: EUR 35,052 thousand), essentially consisted of expenses for the Recovery & Resolution fund in the amount of EUR 19,682,680.00 (prior year: EUR 19,281 thousand). In addition, this item included insurance payments against operational risk in the amount of EUR 6,208,983.50 (prior year: EUR 6,702 thousand) in 2016.

43. Value adjustments as well as results from purchases and sales in respect of participating interests and shares in affiliated companies

In 2016 the balance of value adjustments in respect of participating interests and shares in affiliated companies amounted to positive EUR 374,785,335.47 (prior year: 201,186). This resulted primarily from write-ups of Banca Comercială Română S.A. amounting to EUR 321,498,711.21 and of Erste Bank Hungary Zrt.with EUR 48,700,000.00.

During the reporting year, impairment requirements for affiliated companies (subsidiaries that are considered a tax group with Erste Group Bank AG under the group taxation regulations of 2005) amounted to EUR 4,159,662.59 (prior year: EUR 33 thousand). The loss from sales for affiliated undertakings amounted to EUR 196,190.16 (prior year: EUR 0 thousand).

44. Taxes on profit and loss

The item tax on profit or loss, tax income amounted to EUR 56,084,004.59 (prior year: income EUR 85,987 thousand). Net income from taxes on profit or loss was EUR 90,073,699.80 (prior year: EUR 87,575 thousand) under the current tax allocation system, whereas tax expense from foreign taxes on income of previous years amounted to EUR 2,887,948.90 (prior year: income of EUR 870 thousand) according to section 9 Corporate Tax Act (Körperschaftssteuergesetz) on group taxation.

Since 2005, Erste Group Bank AG and its main domestic subsidiaries have formed a tax group in accordance with section 9 Corporate Tax Act, with Erste Group Bank AG as parent of the group ("Gruppenträger"). Group and tax equalisation agreements were concluded with all affiliated companies. Under these agreements, affiliated companies allocate amounts equivalent to the corporation tax on taxable profits to Erste Group Bank AG. Since tax losses from prior years are recorded and offset against their current tax liability by the affiliated companies themselves, there is no obligation to make tax allocation payments to Erste Group Bank AG. Moreover, Erste Group Bank AG undertakes to make compensatory payments for any tax losses utilised up to that point to any affiliated companies leaving the Group. Future tax liabilities resulting from these constellations were allocated to provisions if their realisation was probable. Against this backdrop, those provisions set aside for future obligations up to 2015 with a total volume of EUR 6,231,348.12 were reversed in 2016.

Foreign income tax and other foreign income-related taxes were EUR 1,222,870.17 (prior year: expenses of EUR 3,464 thousand).

45. Other taxes

The item other taxes if not recognised in item 18 essentially includes the bank levy in the value of EUR 221,559,913.10 (prior year: EUR 98,796 thousand). In addition to the regular levy of the stability fee, Erste Group Bank AG had to make a special payment of EUR 138,270,367.00. For this payment, there is an option in § 5 StabAbgG to either make the payment in four quarters one each of the years 2017-2020, whereby the levy debt arises in the respective year, or to make a one-off payment by 31 January 2017. For the second of the two options, the levy arises in 2016, which Erste Group Bank AG opted for.

46. Result from mergers

As of 20 June 2016, Erste Bank Beteiligungen GmbH was merged with Erste Group Bank AG (up-stream-merger). As the investment book value of Erste Group Bank AG was higher than the balance of the acquired book values, the result was a book loss in the amount of EUR 56,336,525.10, which is stated in the special item Result from mergers.

47. Branches on a consolidated basis

Business	Commercial lending to foreign banks, leasing companies and sovereign debtors			Institutional sales-business
Branches	London	New York	Hong Kong	Berlin, Stuttgart
Country of domicile	Great Britain	USA	China	Germany
Net interest income in EUR	25,812,493.53	56,262,019.91	14,214,230.80	-1,723.43
Operating result in EUR	32,197,146.10	57,300,359.35	13,855,402.28	4,723,328.00
Headcount	29	21	23	13
Profit or loss from ordinary activities in EUR	9,259,459.95	44,169,107.01	6,261,569.45	187,342.53
Taxes on income in EUR	0.00	8,391,445.79	714,610.57	-40,875.15
Public benefits received	None	None	None	None

48. Return on assets

Net profit for the year after tax before changes in reserves expressed in proportion to the average total assets was 1.8% in 2016 (prior year: 1.3%).

49. Events after balance sheet date

On 3 January 2017, Erste Group Bank AG signed the purchase agreement to acquire a 79.62% stake of Erste Bank der Oesterreichischen Sparkassen AG at Intermarket Bank AG. The transaction was still in January completed. No essential effects on the financial situation are expected.

D. INFORMATION ON BOARD MEMBERS AND EMPLOYEES

Employees

The average number of employees at Erste Group Bank AG (weighted, excluding employees on leave and management board members) was 2,022 during the financial year 2016 (prior year: 2,008).

In 2016, 211 employees (prior year: 226) worked at other companies against reimbursement of expenses. The reimbursement of costs of EUR 21,711,803.31 (prior year: 22,712 thousand) is included in other operating expenses.

Board members

Neither in 2016 nor in the previous year did Erste Group Bank AG grant loans to members of the board or supervisory board.

Management board members

Managing board remuneration is as follows:

Fixed salaries

in EUR or in EUR thousand	1-12 16	1-12 15
Andreas Treichl	1,475,000.12	1,335
Peter Bosek	700,000.00	633
Petr Brávek	700,000.00	495
Andreas Gottschling	700,000.00	633
Gernot Mittendorfer	700,000.00	633
Jozef Síkela	700,000.00	633
Total	**4,975,000.12**	**4,362**

A management board position both in Erste Bank der oesterreichischen Sparkassen AG (Erste Bank Oesterreich) and in Erste Group Bank AG was held by Peter Bosek until 31 January 2016. 50% of the costs indicated were thus reimbursed to Erste Bank Oesterreich.

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.

In 2016, performance-linked remuneration and share-equivalents were paid out or vested for the financial year 2015 and for previous financial years. For the financial years 2014 and 2011 no performance-linked remuneration was paid out to board members.

Performance linked remuneration

	1-12 16				1-12 15			
	for 2015		for previous years		for 2014		for previous years	
	cash in EUR	share-equivalents in units	cash in EUR	share-equivalents in units	cash in EUR	share-equivalents in units	cash in EUR	share-equivalents in units
Andreas Treichl	218,739.00	10,505	156,824.71	6,953	0.00	0	156,824.71	6,953
Peter Bosek	96,755.00	4,775	0.00	0	0.00	0	0.00	0
Petr Brávek	111,600.00	4,775	0.00	0	0.00	0	0.00	0
Andreas Gottschling	118,424.00	5,094	4,000.00	168	0.00	0	4,000.00	168
Gernot Mittendorfer	120,000.00	4,775	27,200.00	1,424	0.00	0	27,200.00	1,424
Jozef Síkela	102,024.00	4,775	0.00	0	0.00	0	0.00	0
Total	**767,542.00**	**34,699**	**188,024.71**	**8,545**	**0.00**	**0**	**188,024.71**	**8,545**

Share-equivalents were valued at the average weighted daily share price of Erste Group Bank AG of the year 2016 (2015) in the amount of EUR 24.57 (EUR 25.13) per share.

Long-Term Incentive-Programme

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

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

Other remuneration

in EUR or in EUR thousand	1-12 16	1-12 15
Andreas Treichl	1,132,363.04	1454
Peter Bosek	132,446.96	84
Petr Brávek	132,668.69	64
Andreas Gottschling	164,159.51	157
Gernot Mittendorfer	133,760.88	86
Jozef Síkela	152,893.16	82
Total	**1,848,292.24**	**1,928**

In 2016, EUR 2,892,922.18 (prior year: EUR 3,140 thousand) was paid in cash and 8,390 share-equivalents (prior year: 8,390) were assigned to former members of the 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 Bank AG on the basis of the same principles as employees. For one member of the management board, compensatory payments have to be made to the pension fund in case the management board member's tenure ends before he or she reaches the age of 65 by no fault of the member.

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

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

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

Supervisory board members

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

In 2016, the members of supervisory board of Erste Group Bank AG were paid EUR 907,400.00 (prior year: EUR 845 thousand) for their board function. The following members of the supervisory board received the following remuneration for their board function in fully consolidated subsidiaries of Erste Group Bank AG: Friedrich Rödler EUR 38,500.00 (prior year: EUR 39 thousand), Jan Homan EUR 15,100.00 (prior year: EUR 13 thousand), Gunter Griss EUR 55,000.00 (prior year: EUR 52 thousand), Maximilian Hardegg EUR 50,600.00 (prior year: EUR 40 thousand), Brian D. O'Neill EUR 45,688.00 (prior year: EUR 33 thousand), John James Stack EUR 81,975.00 (prior year: EUR 53 thousand). Erste Group Bank AG did not conclude other legal transactions with its members of the supervisory board.

Breakdown of supervisory board remuneration

in EUR	1-12 16	1-12 15
Supervisory board compensation	664,400.00	580
Meeting fees	243,000.00	265
Total	**907,400.00**	**845**

Pursuant to the decision passed at the annual general meeting of 11 May 2016, the supervisory board adopted in its constituent meeting the following remuneration structure for the financial year 2015:

in EUR	Number	Allowance per person	Total allowance
Chairman	1	100,000.00	100,000.00
Vice Chairmen	2	75,000.00	150,000.00
Members	9	50,000.00	450,000.00
Total	**12**		**700,000.00**

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

Management board member	As of 31 December 2015	Additions	Disposals	As of 31 December 2016
Andreas Treichl	164,640	0	0	164,640
Peter Bosek	1,000	0	0	1,000
Petr Brávek	0	0	0	0
Andreas Gottschling (until 31. December 2016)	0	0	0	0
Gernot Mittendorfer	10,000	0	0	10,000
Jozef Síkela	6,300	0	0	6,300

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

Members of the supervisory board	As of 31 December 2015	Additions	Disposals	As of 31 December 2016
Friedrich Rödler	1,702	0	0	1,702
Jan Homan	4,400	0	0	4,400
Bettina Breiteneder	0	0	0	0
Elisabeth Bleyleben Koren	10,140	0	0	10,140
Gonzalo Gortázar Rotaeche (until 27. October 2016)	0	0	0	0
Gunter Griss	0	0	0	0
Maximilian Hardegg	40	0	0	40
Elisabeth Krainer Senger Weiss	0	0	0	0
Antonio Massanell Lavilla	0	0	0	0
Brian D. O'Neill	0	0	0	0
Wilhelm Rasinger	18,303	3,000	0	21,303
John James Stack	32,761	0	0	32,761
Markus Haag	160	0	0	160
Regina Haberhauer	188	0	0	188
Andreas Lachs	52	0	0	52
Barbara Pichler	281	0	0	281
Jozef Pinter	0	0	0	0
Karin Zeisel	35	0	0	35

Persons related to management board or supervisory board members held 3,366 Erste Group Bank AG shares as of 31 December 2016 (prior year: 3,366).

Expenses for severance payments and pensions for members of the management board and managers amounted to EUR 2,711,394.84 (prior year: EUR 1,619 thousand). Expenses for severance payments and pensions for other employees amounted to EUR 33,504,548.13 (prior year: EUR 5,822 thousand) pursuant to section 239 (2) Commercial Code (UGB) regarding management board and supervisory board members is disclosed separately in section 1 of the Appendix to the Notes.

E. APPROPRIATION OF PROFIT

At the annual general meeting, the management board will propose to pay out a dividend of EUR 1.00 per share (prior year: 0.50).

F. APPENDIX 1: MANAGEMENT BODIES OF ERSTE GROUP BANK AG AS OF 31 DECEMBER 2016

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

Representatives of the supervisory authority

Name	Position
Wolfgang Bartsch	State Commissioner
Michael Kremser	Deputy State Commissioner.
Silvia Maca	State Controller for Premium Reserve
Erhard Moser	Deputy State Controller for Premium Reserve
Irene Kienzl	Deputy trustee under the Mortgage Bank Act (Hypothekenbank- und Pfandbriefgesetz)
Thomas Schimetschek	Deputy trustee under the Mortgage Bank Act (Hypothekenbank- und Pfandbriefgesetz)

Management board

	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	30 December 2020
Jozef Síkela	1967	1 January 2015	31 December 2020

Vienna, 28 February 2017

Management board

Andreas Treichl mp
Chairman

Peter Bosek mp
Member

Petr Brávek mp
Member

Willibald Cernko mp
Member

Gernot Mittendorfer mp
Member

Jozef Síkela mp
Member

IV. Management Report

ECONOMIC ENVIRONMENT

In 2016, the global macroeconomic environment was particularly characterized 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 a 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 10-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 of 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 a 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 (source: IMF). 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 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[2] GDP per capita 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% in 2016.[3]

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[1] Source: IWF: http://www.imf.org/external/pubs/ft/weo/2017/update/01/pdf/0117.pdf (Download am 21. Februar 2017), Page 7

[2] Source: Statistik Austria: http://www.statistik.at/web_de/statistiken/wirtschaft/volkswirtschaftliche_gesamtrechnungen/index.html (Download am 21. Februar 2017), adjusted economic growth and inflation 2016

[3] Quelle: 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 (Download am 21. Februar 2017), Page 1

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 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]

FINANCIAL PERFORMANCE INDICATORS

Explanatory notes on the balance sheet

Total assets remained almost unchanged, having declined by 0.5% from EUR 60.4 billion at the end of 2015 to 60.0 billion on 31 December 2016. The individual items developed as follows:

The most significant growth can be observed in **Cash in hand, balances with central banks**, which more than tripled from EUR 1.8 billion to EUR 5.8 billion as of 31.12.2016. **Expired treasury bills and other securities from public bodies held in assets** were compensated by acquisitions in the trading portfolio meaning that there was no change from the EUR 5.5 billion on 31.12.2015. **Loans and advances to credit institutions** decreased by 12.8% from EUR 18.2 billion in the previous year to EUR 15.9 billion. The decline primarily affected interbank business, but also affected non-marketable securities held as assets. Due to the fact that the decline in domestic customers was almost completely offset by an increase in customers abroad, **customer deposits** remained stable at EUR 13.7 billion in comparison to the end of 2015. **Debt securities** dropped by 13.7% from EUR 6.0 billion in the previous year to EUR 5.2 billion, whereby the greatest changes could be observed in securities held in fixed assets at the New York branch as well as in the trading portfolio in Austria. The carrying amounts of **participating interest and shares in affiliated companies** rose by 7.2% from EUR 5.9 billion to EUR 6.3 billion as of 31.12.2016, mainly as a consequence of write ups. **Other assets** in the amount of EUR 6.3 billion (prior year: EUR 7.6 billion) include approx. 95.0% derivatives, which decreased by 18.1% to EUR 6.0 billion by the end of 2016 in the application of balance sheet netting due to the partial transfer to the London Clearing House.

Liabilities to credit institutions increased by 5.9% to EUR 20.9 billion (prior year: EUR 19.7 billion) on the liabilities side, which can be attributed to an increased volume of repurchased agreements. In terms of **amounts owed to customers**, growth abroad overcompensated for domestic decline resulting in a 5.4% increase to EUR 4.5 billion at the end of 2016 (prior year 4.3 billion). As expired own issues were not replaced by new issues, **securitised liabilities** reduced by 12.4% to EUR 15.3 billion (prior year: EUR 17.4 billion). As a result of the issue of an additional tier 1 bond in June, **subordinated and additional tier capital** increased by 15.3% to EUR 5.8 billion (prior year: EUR 5.0 billion). **Other liabilities** of EUR 6.2 billion (prior year: EUR 7.4 billion) include approx. 85.0% derivatives, which decreased by 21.4% to EUR 5.4 billion by the end of 2016 due to the application of balance sheet netting due to the partial transfer to the London Clearing House.

After deduction and filtering as specified in the Capital Requirements Regulation (CRR), **Tier 1 capital** (CET 1, Basel 3, current) amounted to EUR 6.6 billion (prior year: EUR 5.3 billion); **Common equity tier 1 capital** (CET 1, Basel 3, current) amounted to EUR 6.1 billion (prior year: 5.3 billion). **Own funds** of Erste Group Bank AG pursuant to Part 2 of Regulation (EU) No 575/2013 (particularly Tier 1 and Tier 2 capital) amounted to EUR 11.2 billion on 31.12.2016 (prior year: EUR 10.0 billion). The **common equity tier 1 capital ratio** (CET 1, Basel 3, current) was 18.8% (prior year: 16.9%), whereas the **total capital ratio** (Basel 3, current) was 34.5% (prior year: 31.8%).

Details on earnings

Erste Group Bank AG's **net interest income** reduced by 27.2% to EUR 312.1 million (prior year: 428.7 million), mostly due to sustained low current market interest rates and the continued reduction of NPLs. Excluding the adverse special effects on results in 2016 (change to the effective interest rate method EUR 7.8 million as well as a change in the method of accounting of interest for pension benefit obligations and plan assets EUR 7.1 million), the net interest income would amount to EUR 327.0 million in 2016, which would correspond to a decline of 23.7 %. In particular on account of the interest income from AT-1 issues of affiliated companies in the amount of EUR 50.7 million (prior year: 0 million) as well as the dividend of the Erste Bank der oesterreichischen Sparkassen AG (affiliated company) which increased by EUR 250.0 million, the **income from securities and participating interests** rose to EUR 1,043.5 mil-

[4] Source: Hungarian Central Statistical Office: http://www.ksh.hu/gyorstajekoztatok/#/en/document/gde1612 (Download am 21. Februar 2017), Seite 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 (Download am 21. Februar 2017), Page 1

lion (prior year: 675.8 million). As growth in the securities business was unable to offset the decline in lending because of the change to the effective interest method, the balance of **fee and commission income and expenses** decreased by 14.1% to EUR 27.3 million (prior year: EUR 31.8 million). Excluding the negative special effects on results in 2016 in the amount of EUR 14.3 million, the net commission income would amount to EUR 41.6 million, which would mean an increase of 30.9%. **Net profit or loss on financial operations** decreased by 95.1% from EUR 26.0 million in the previous year to EUR 1.3 million. In the previous year, this item included one-time effects (realized gains from the sale of hedge fund positions), which did not recur in 2016. **Other operating income** increased by 31.2% from EUR 166.3 million to EUR 218.2 million. This resulted predominantly from the termination of all cash flow hedge relationships (see Annex chapter C note 31 “Hedging transactions”). Furthermore, this item mainly includes income from Group pass-through costs, which amounted to EUR 85.7 million (prior year: EUR 80.1 million). As a result, **operating income** rose by 20.6% to EUR 1,602.5 million in 2016 (prior year: EUR 1,328.6 million).

In addition to salaries (both fixed and variable) and social expenses, **personnel expenses** also include expenses for long-term employee provisions and pension fund contributions. Total personnel expenses increased by 16.4% to EUR 285.2 million (prior year: EUR 245.1 million). The actuarial losses from long-term employee provisions, which must be recognised in profit or loss, amounting to EUR 13.3 million (prior year: gain in the amount of EUR 30.7 million) had a negative impact.

The **number of employees** at Erste Group Bank AG (in full-time equivalents) went up by 1.2% and compares to the previous year as follows:

	As of 31 December 2016	As of 31 December 2015
Domestic	**2.074,5**	**2.041,8**
Foreign branches	**86,0**	**93,0**
London	29,0	34,0
New York	21,0	24,0
Hong Kong	23,0	22,0
Berlin, Stuttgart	13,0	13,0
Total	**2.160,5**	**2.134,8**
thereof maternity/paternity leave	129,4	142,9

Other administrative expenses increased particularly due to a rise in IT costs (changes to the basis of the contracts whereby entrepreneurial risk for the creation of services is now borne by the bank) and consulting fees by 35.0% to EUR 288.2 million (prior year: EUR 213.4 million). **Depreciation and amortization on fixed assets and intangible assets** almost doubled to EUR 51.5 million in 2016 from EUR 26.5 million in the previous year. This was caused by partial write-offs in the amount of EUR 29.3 million for software projects under construction for which no future benefit as assets in the balance sheet could be displayed due to the aforementioned reasons. **Other operating expenses**, including payment into the Recovery & Resolution Fund in the amount of EUR 19.7 million (prior year: 19.3 million), decreased from EUR 35.1 million in the financial year 2015 to EUR 26.6 million in 2016. As a consequence, **operating expenses** increased by 25.2% to EUR 651.4 million (prior year: EUR 520.1 million).

After deduction of all operating expenses from operating income, **net operating income** amounted to EUR 951.0 million in the financial year 2016 (prior year: EUR 808.5 million). At 40.7%, the **cost-income ratio** (operating expenses as a percentage of operating income) was above the prior year's figure of 39.1%.

The **required net allocation for loans and receivables** (including write-offs offset against income from written off loans) decreased significantly from EUR 168.4 million in the previous year to EUR 5.6 million in the current financial year, which is due to the improvement of portfolio quality. **Current securities** (valuation and gains) as well as the result and **v**alue adjustment positions on **participating interests and fixed-asset securities** was EUR 389.0 million in 2016 (prior year: EUR 246.8 million). Investment write-ups (primarily BCR), in particular, but also gains realised through the sale of securities, had a positive impact on income in the reporting year.

Accordingly, **pre-tax profit for the year** improved from EUR 887.0 million in the previous year to EUR 1.334,4 million in 2016.

Taxes on profit or loss declined by 34.8% to EUR 56.1 million (prior year: EUR 86.0 million). Due to the high proportion of tax-exempt income as well as the obligation of depreciating participation over 7 years, no Austrian corporate income tax was payable in the financial year 2016. The current tax loss carried forward increased in 2016. Due to the one-off special payment of EUR 138.3 million (see Annex chapter C note 45 “Other tax“), which was to be paid in 2016 in addition to banking levies in the amount of EUR 84.4 million (prior year: EUR 98.8 million), **other taxes** increased by 122.2% from EUR 100.2 million to EUR 222.7 million.

After consideration of the **changes in reserves** (see Annex chapter C note 23), which resulted in the net allocation of EUR 681.7 million (prior year: EUR 657.8 million), **profit or loss for the year after distribution on capital** was EUR 429.8 million, which is above the previous year's level of 214.9 million. Profit or loss amounted to EUR 429.8 million (prior year: EUR 214.9 million) in the financial year 2016.

OUTLOOK

The anticipated solid macroeconomic 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 in achieving targets. On the other hand, the persistent low interest rate environment, and potential – and as yet unquantifiable – political risks might jeopardize this achievement.

In 2017, the positive development of the economy should be reflected in growth rates (real GDP growth) of about 3% in Erste Group Bank AG's CEE core markets. Unemployment rates should decline further – in the Czech Republic and in Hungary they are already among the lowest in the EU. Inflation is forecasted to remain low and strong competitive positions should again lead to current accounted 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 background, Erste Group Bank AG expects mid-single digit net loan growth which should be sufficient to offset the 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 Bank AG 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 week year in 2016, the securities business should also improve again. The other income components are expected to remain flat, all in all, despite the volatility of the net trading. Operating income should hence remain stable in 2017 or decline marginally in the case of lower-than-expected loan growth. Due to the introduction of the effective interest rate method in lending business in 2016, there will also be a switch from the fees received in the net commission income to of higher interest rates in the next years.

As in 2016, operating expenses are expected to rise by 1-2% in 2017. This is mostly associated with investments necessary to secure Erste Group's future competitiveness and IT measures induced by regulatory requirements. Over the past few years, the regulatory authorities' main focus has been on data quality and availability of data. There is an increasing demand for more data and internationally standardised data due to the new role of the ECB as the supervisory authority and the Single Resolution Board as the resolution authority. Additionally, the length of time which is given to banks to deliver data is increasingly shortened. Projects were launched, particularly in the area of IT, in order to meet the demands of the increasing data quality and speed of delivery requirements (AUREP, IFRS 9, FINREP reports etc.). Regulatory challenges and the associated IT measures manifested themselves in increased costs in the fiscal year 2016. Work on these projects to simplify the IT structure will also continue over the next years, in order to meet the requirements in the future. In this regard, an important step was taken in this year, namely the change to the effective interest rate method and the corresponding adjustment to IFRS accounting. 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, in Slovakia and Romania in 2017. Additional cost drivers include 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 be a strong profit driver 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.
Significant positive development is expected to be seen in other taxes. Following the one-off payment of EUR 138.3 million to the Innovation Fund in 2016, banking tax in Austria is set to decrease significantly. As a result, this line item will improve subject to the occurrence of any unforeseen events.

OWN SHARES

Month	Purchase/Sale	Number	Purchase price	Selling price	Par value in share capital
January	Purchase	96.750	2.536.569		193.500
January	Sale	93.848		2.443.933	187.696
February	Purchase	155.441	3.742.184		310.882
February	Sale	366.810		8.768.101	733.620
March	Purchase	271.668	6.773.182		543.336
March	Sale	412.357		10.335.770	824.714
April	Purchase	70.431	1.754.228		140.862
April	Sale	146.509		3.635.938	293.018
May	Purchase	332.300	8.866.102		664.600
May	Sale	273.948		6.430.226	547.896
June	Purchase	856.832	18.013.877		1.713.664
June	Sale	814.051		16.986.033	1.628.102
July	Purchase	185.323	3.688.216		370.646
July	Sale	202.437		4.137.209	404.874
August	Purchase	109.168	2.700.903		218.336
August	Sale	70.904		1.725.683	141.808
September	Purchase	453.146	11.560.686		906.292
September	Sale	300.408		7.800.402	600.816
October	Purchase	95.325	2.693.653		190.650
October	Sale	115.385		3.220.426	230.770
November	Purchase	242.363	6.497.754		484.726
November	Sale	140.203		3.801.487	280.406
December	Purchase	337.381	9.551.645		674.762
December	Sale	285.451		7.991.123	570.902

The primary purpose of the transactions was market making and hedging of ATX positions. As of 31 December 2016, other liabilities include a short position in Erste Bank shares amounting to 1,804,783 units with a carrying amount of EUR 50,218,086.98 (prior year: 1,788,600 units, carrying amount EUR 51,708,426.00), which is covered by repurchase agreements.

RESEARCH AND DEVELOPMENT

The business purpose of Erste Group Bank AG is to provide banking services. The production process of a bank is not comparable with research and development in industrial companies. Nevertheless, development projects concerning the banking business take place on a continuing basis.

BRANCHES

Erste Group Bank AG maintains branches in London, New York, Hong Kong and Germany (Berlin and Stuttgart) that provide commercial lending to foreign banks, leasing companies and sovereign debtors as well as institutional sales. Since 2013, a Representative Office is registered in Ukraine. The Representative Office supports Erste Group Bank AG in managing a portfolio of prominent Ukrainian Large Corporates, particularly in agriculture and energy.

CAPITAL, SHARE, VOTING AND CONTROL RIGHTS

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

With regard to the statutory disclosure requirements in the Management Report, special reference is made to the relevant information in the notes to the financial statements, in section C 22 ff.

As of 31 December 2016, Die Erste oesterreichische Spar-Casse Privatstiftung ("Privatstiftung"), a foundation, controlls together with its partners to shareholder agreements approx. 29.46% of the shares in Erste Group Bank AG and is with 15.37% controlling shareholder: The Privatstiftung is holding 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 – are members of the Haftungsverbund of Sparkassengruppe.

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

In addition, the purpose of this scheme is:

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

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

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

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

In the financial statements, the payments by the individual members are recognised as participations in IPS GesbR – which has been charged with managing the ex-ante-fund. There was a shift in retained earnings from untied reserves to tied reserves. On the basis of the contractual provisions, these retained earnings represent a restricted 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 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 Privatstiftung. The partners can dispose of shares according to a predefined sale procedure and can purchase shares only within the quotas agreed with Privatstiftung (of in total a maximum of 2% within 12 months); with this regulation an unwanted creeping-in according to the takeover law 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.

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

Pursuant to section 243a (1) no. 6 UGB not directly prescribed by the law regarding the appointment and dismissal of members of management and supervisory boards as well as on the amendment of the Articles of Association:

This concerns:

_ Art. 15.1 of the Articles of Association, which provides that Privatstiftung will be granted the right to nominate up to one third of the members of the supervisory board to be elected by the shareholders' meeting, as long as Privatstiftung is liable or all present and future liabilities of the Company in the case of its insolvency pursuant to Section 92 (9) Banking Act and

_ Art. 15.4 of the Articles of Association, which provides that 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

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

Pursuant to section 243a (1) no. 7 UGB, members of the management board have the right to issue or repurchase shares, where such a right is not prescribed by statutory law:

As per decision of the annual general meeting of 12 May 2015:

_ the management board is entitled to purchase up to 10% of the subscribed capital in treasury shares for trading purposes according to section 65 (1) no. 7 Austrian Stock Corporation Act ("AktG"). However, the trading portfolio of these shares may not exceed 5% of the subscribed capital at the end of any calendar day. The consideration for the shares to be purchased must not be less than 50% of the closing price at the Vienna Stock Exchange on the last trading day prior to the purchase and must not exceed 20% of the closing price at the Vienna Stock Exchange on the last trading day prior to the purchase. This authorisation is valid for a period of 30 months, i.e. until 11 November 2017.

_ the management board is entitled, pursuant to section 65 (1) no. 8 as well as (1a) and (1b) Stock Exchange Act and for a period of 30 months from the date of the resolution, i.e. until 11 November 2017, to acquire own shares of up to 10% of the subscribed capital, subject to approval by the supervisory board, with the option of making repeated use of the 10% limit, either at the stock exchange or over the counter, likewise to the exclusion of the shareholders' right to tender proportional payment. The authorisation may be exercised in whole or in part or in several instalments and in pursuit of one or several purposes. The market price per share must not be below EUR 2.00 or above EUR 120.00. Pursuant to section 65 (1b) in conjunction with 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 several businesses in Austria or abroad to the exclusion of the shareholders' proportional purchase option. The authorisation may be exercised in whole or in part or in several instalments and in pursuit of one or several purposes. The management board is authorised to redeem own shares subject to the supervisory board's approval without requiring the annual general meeting to adopt any further resolution.

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

All sales and purchases were carried out as authorised at the annual general meeting.

Significant agreements to which the company is party, and which become effective, are amended or are rendered ineffective when there is a change in the control of the company as a result of a takeover bid, as well as their effects [section 243a (1) no. 8 UGB]:

Haftungsverbund

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

_ one contracting party harms grossly the duties resulting from present agreement

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

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

Directors and Officers Insurance
Changes in control
In the event that any of the following transactions or processes occur during the term of the insurance policy (each constituting a "change in control") in respect of the insured:
_ the insured ceases to exist as a result of a merger or consolidation, unless the merger or consolidation occurs between two insured parties, or
_ another company, person or group of companies or persons acting in concert, who are not insured parties, acquire more than 50 % of the insured's outstanding equity or more than 50 % of its voting power (resulting in the right to control the voting power represented by the shares, and the right to appoint the management board members of the insured),

then the insurance cover under this policy remains in full force and effect for claims relating to unlawful acts committed or alleged to have been committed before this change in control took effect. However, no insurance cover is provided for claims relating to unlawful acts committed or allegedly committed after that time (unless the insured and insurer agree otherwise). The premium for this insurance cover is deemed to be completely earned.
In the event that a subsidiary ceases to be a subsidiary during the insurance period, the insurance cover under this policy shall remain in full force and effect for that entity for the remainder of the insurance period or (if applicable) until the end of the extended discovery period, but only in respect of claims brought against an insured in relation to unlawful acts committed or alleged to have been committed by the insured during the existence of this entity as a subsidiary. No insurance cover is provided for claims brought against an insured in relation to unlawful acts committed or allegedly committed after this entity ceased to exist.

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

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

INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM CONTROL RIGHTS FOR FINANCIAL REPORTING PROCEDURES

Control environment

The control environment provides the framework for the introduction, implementation and monitoring of ICS principles, procedures and sanctions. The management board of Erste Group Bank AG is responsible for the establishment, structure and application of an appropriate internal control and risk management system that meets the company's needs in its accounting procedures.

Holding & Treasury Accounting and Treasury Methodology department, which are part of the Group Accounting division, coordinate and verify the final accounts' compilation for Erste Group Bank AG. The assignment of powers, account responsibilities and the necessary control procedure are defined in the operating instructions.

Risk assessment

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

Controls

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

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

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

Information and communication

The final accounts in accordance with Austrian Commercial Code (UGB) / Austrian Banking Act (BWG) are prepared in a standardised format and in compliance with the above described control measures. Before being passed on to the Audit Committee of the supervisory board, the financial statements to be published are submitted to the managers and the CFO for approval. During the year the UGB-result is presented to the responsible board member (CFO) on a quarterly basis.

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

Responsibilities of Internal Audit

Internal Audit is in charge of auditing and evaluating all areas of the bank at appropriate intervals based on legally required and on risk oriented planned audits (according to the annual audit plan as approved by the management board and reported to the Audit Committee). Main focus of audit reviews is to monitor the functionality of the internal control system. Internal Audit reports its findings to the Group's management board and Audit Committee several times a year.

According to section 42 BWG, Internal Audit is a control body that is directly subordinate to the management board. It serves the exclusive purpose of ongoing and comprehensive reviews of the legal compliance, appropriateness and suitability of the banking business and banking operation. 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 law, the guidelines and minimum standards of the supervisory authorities and by its charter. The charter is 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 Requirement Regulation (CRR).

RISK MANAGEMENT

Comments on the risk profile of Erste Group Bank AG

Based on Erste Group Bank AG's business strategy, the key risks are credit risk, market risk, interest rate risk in the banking book, liquidity risk, and non-financial risk. In addition, a risk materiality assessment is undertaken on an annual basis. It is ensured that all relevant material risks are covered by Erste Group Bank AG's control and risk management framework. This entails a set of different tools and governance to ensure adequate oversight of the overall risk profile and sound execution of the risk strategy, including appropriate monitoring and escalation of issues that could materially impact the risk profile of the group. The main types of risk can be summarised as follows:

- *Credit risk:* is the risk of loss from the potential collapse of counterparties, particularly of borrowers in the conventional lending business, and any related credit losses.
- *Market risk:* generally describes the risk of loss from unfavourable price changes in marketable and traded products, such as shares, fixed-income securities and derivatives, as well as from interest and foreign exchange volatility and fluctuations in raw material prices.
- *Interest rate risk in the banking book:* is the risk of an adverse change in the fair value of financial instruments caused by a movement in market interest rates. This type of risk arises when mismatches exist between assets and liabilities, including derivatives, in respect of their maturities or of the timing of interest rate adjustments.
- *Liquidity risk:* describes the risk of the bank's insufficient liquidity or inability to make funds available in a timely manner to service its debts.
- *Non financial risk:* includes reputational and operational risks. Operational risks are losses as a result of error or malfunction of internal procedures, humans and systems or external events.

Participation Risks

Participation risks are risks of potential value losses from providing equity, as current-value write-offs, capital losses from sales, omissions of dividends or decline of hidden reserves as well liability risks from letters of comfort or capital payment commitments. The majority of direct and indirect participations fully consolidated in the group balance sheet and thus these risks are recorded ascertained. Consequently potential risks of investments are usually covered by other types of risks and correspondingly considered in their monitoring and control methods.

Participations were carried out mostly under the strategic considerations of retail banking, where own knowledge and expertise can been contributed. To participate more strongly in growth areas, there was an increasingly geographical diversification to the Central European markets. In order to reduce the political, legal and economic risks, the management focuses on countries within the EU or on potential EU candidate countries.

Risk management objectives and methods

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

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

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

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

In order to hedge the exposure to variability in the market risk (interest rate as well as exchange rate risks) resulting from balance sheet assets (bonds, loans) and liabilities (own issues, promissory notes, custody transactions) on an individual basis or as a group, Erste Group Bank AG uses interest rate swaps, currency swaps and options as hedging instruments. These hedging instruments are accounted for as valuation units together with the respective hedged item according to section 201 (2) Austrian Commercial Code (Unternehmensgesetzbuch – UGB).

The requirements for the generation of valuation units are fulfilled by the fair value hedge accounting processes which are applied at Erste Group Bank AG. Details on these processes are presented in the notes to the financial statement, section C 31. Since 2009, the equity capital for operational risk of Erste Group Bank AG is based on the advanced measurement approach (AMA).

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

Erste Group defines its risk strategy and risk appetite (Risk Appetite Statement; RAS) through the annual strategic planning process to ensure appropriate alignment of risk, capital and performance targets. Strategic limits and principles are defined in the risk strategy for all kinds of risk on the basis of the RAS. These strategic limits and principles support the implementation of the mid to long-term risk strategy. Risk management governance ensures a thorough overview of all risk decisions as well as the proper implementation of the strategy. Risk reduction measures are carried out as part of the regular risk management process so that the group always operates within the defined risk appetite.

Risk management organization

Risk control and risk steering are performed based on the business strategy and the risk appetite approved by the management board. Together with the chief risk officers of the subsidiaries, the chief risk officer of Erste Group Bank AG (Group CRO) is responsible for implementation of and adherence to the risk control and risk management strategies across all risk types and business lines. Committees with explicit strategic and operative controlling functions have been set up to ensure the Bank's effective and optimal management. At the top of the risk committee hierarchy within Erste Group Bank AG is the Risk Management Committee. The Risk Management Committee of the supervisory board is responsible for granting approval in all those cases in which loans and exposures or large exposures reach an amount exceeding the approval authority of the management board according to the Credit Risk Approval Authority Regulations. Furthermore, it is charged with granting approval to large exposures pursuant to Article 392 CRR, if such a claim is equal or exceeds 10% of the eligible capital of a credit institution. Within the competence assigned to it, the Committee may grant advance approvals to the extent permitted by law. The management board and in particular, the Group CRO ensure the availability of appropriate infrastructure and staff as well as methods, standards and processes. The actual identification, measurement, assessment, approval, monitoring, steering and limit setting for the relevant risks are performed at the operating entity level within Erste Group Bank AG. At Group level, the management board is supported by several divisions established to perform operating risk control functions and exercise strategic risk management responsibilities. The following risk management functions report directly to the Group CRO:

- Enterprise-wide Risk Management;
- Group Credit & Market Risk Management;
- Group EGI Real Estate Risk Management;
- Group Risk Operating Office;
- Group Workout;
- Group Non Financial Risk;
- Risk Methods and Models;
- Group Legal;
- Group Retail and SME Risk Management;
- Group Validation;

Enterprise-wide Risk Management (ERM) enables an increased focus on holistic risk management and ensures comprehensive, cross-risk Group-wide risk portfolio steering. ERM drives key strategic cross-risk initiatives to establish greater cohesion between the risk strategy including the risk appetite, limit steering and operational execution.

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

The Group EGI Real Estate Risk Management department is responsible primarily for the real estate risk policies, in particular for Commercial Real Estate and risk operations, and for the support of the continuous development of operative real estate credit risk management in Erste Group Bank AG.

Group Risk Operating Office provides the infrastructure and general management across all functions within the risk organisation and is responsible for the budget and staff of the entire CRO division. The division is responsible for consistent group-wide credit risk reporting standards and definitions, in particular, for internal and external regulatory reporting. Furthermore, the focus is on long-term improvements of the infrastructure and a careful project implementation. The division is also central point of information for future and current existing regulatory topics inside the CRO-division.

The Group Workout function has group-wide responsibility for clients allocated to the business segments Large Corporates, Commercial Real Estate and Other Corporate that are rated substandard or non-performing or are specifically defined as workout clients. It undertakes the direct workout management function for corporate workout clients of Erste Group Bank AG and additionally performs the (second line) risk management function for corporate workout clients of the subsidiaries exceeding local management's authorisation level.

Group Non Financial Risk (Group NFR) is responsible for the management of reputational and operational risks including compliance risks, IT and communication technology risks, conduct risks, model risks, and legal risks as well as security issues. These tasks support and protect the first line activities with special focus on the business areas.

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

Group Legal is the central legal department of Erste Group Bank AG. This division provides legal support and counsel for the management board, the business units and the central functions, and mitigates legal risk. It also attends to legal sourcing and to dispute resolution and litigation.

Group Retail and SME Risk Management is responsible for steering Erste Group's retail lending portfolios. It defines the group-wide retail lending and analytical framework that serves as a basis for monitoring local banks´ retail lending practices and for identifying potential adverse portfolio developments early on.

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

With regard to further information and description of the principal financial and non-financial risks of the Erste Group Bank AG please refer to section C note 33 (Risk management) of these financial statements and for litigations to section A (Ongoing legal cases) of the notes to the financial statements as well as to section C note 34 (Contingent liabilities) to the unconsolidated financial statements.

CORPORATE SOCIAL RESPONSIBILITY

As one of the leading banks in Austria and the eastern part of the EU, Erste Group Bank AG has committed itself to strict ethical standards for all the activities it carries out in its markets. Almost 200 years ago, the very founding concept of Erste österreichische Spar-Casse already embraced the idea of contributing to the common good. It goes without saying that Erste Group Bank AG acts responsibly towards customers, employees, investors and communities.

All statements in this individual financial statement regarding the reporting of "non-financial" aspects/sustainability follow the criteria GRI G4 (Global Reporting Initiative – Version 4). At the beginning of 2016, the Group Sustainability office was founded in Erste Group Bank AG. This office brings together the activities and responsibilities for ecological sustainability, diversity, corporate volunteering and corporate social volunteering.

Erste Group Bank AG understands sponsoring to mean the voluntary promotion and support of institutes, initiatives and projects in the field of culture, the social domain and in education. The ExtraVALUE programme reflects the company's commitment to its social responsibility and to the values which the Erste Group Bank AG finds worthy of support.

Commitment to society

Social Activities

Erste Group Bank AG's social commitment is marked by its long-term cooperation with local and international organisations. This focuses on combating poverty and unemployment. Since 2013 Erste Group Bank AG has been sponsoring Hilfswerk Österreich, one of the largest non-profit providers of health care, social and family services in Austria. Additionally, Erste Group Bank AG has also supported the aid organisation lobby.16, which works to protect the right to education of unaccompanied young refugees and give them access to education, employment and participation in social life.

Arts and Culture

Erste Group Bank AG is dedicated to supporting an understanding of and appreciation for the arts and culture. One of the cornerstones of the activities is to enable young and socially disadvantaged people to find access to music, the performing and the applied arts. Promoting young talents is another focus of Erste Group Bank AG's arts and culture sponsorship programme. These activities are summarised in the *Mehr*WERT-Sponsoring programme (*Extra*VALUE-Programme).

Financial Education

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

A new project is the *Financial Life Park* (FLiP), a museum and learning trail focusing on personal finance and basic economics. The main target group are school classes starting from primary school. The FLiP, located in the newly built Erste Campus in Vienna, Erste Group Bank AG's headquarters, has opened its doors in autumn 2016. Erste Group Bank AG also offers workshops in the fields of financial education and debt prevention, especially for younger people.

Corporate Volunteering

Erste Group Bank AG encourages its employees to show social commitment through various initiatives. Thus, the number of participants in the Time Bank initiative, which was launched in 2012 and in which employees dedicate some of their free time to social projects, is growing steadily.

Customers

Erste Group Bank AG puts customers and their interests at the centre of its business activities. Only banks that understand the financial needs of their customers can offer the right solutions at the right time. Special attention is devoted to the quality of products and advisory services, as these are key factors for customer satisfaction and, therefore, for building up and maintaining long-term customer relations. The focus of Erste Group Bank AG is clearly on the relationship with the customer, not on the transaction.

Erste Group Bank AG believes that, despite technological progress, personal contact with customers remains important. This is why the modern branch network of Erste Group Bank AG remains a key element of its banking business. Customers of Erste Group Bank AG who require complex long-term financial services expect sound advice. The combination of digital channels and traditional sales approaches enables customer relationship managers to explore customer needs even more proactively.

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

Suppliers

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

Employees

Retaining experienced and committed employees is fundamental to the long-term success of every company. Erste Group – as one of the largest employers in the region – therefore aims to maintain its position as an employer of choice in Central and Eastern Europe. The appointment of a Group Diversity Manager underlines the importance of diversity for Erste Group.

In 2015, the management board of the Holding and the employees' council signed a company agreement on preventing discrimination and promoting respectful behaviour in the workplace. An Anti-Discrimination Officer was appointed at the end of 2015, who works with management on awareness and prevention and councils, advises and mediates in matters concerning harassment and discrimination. Further to that, Erste Group Bank AG signed the *Nestor Gold Charter* on generation management in October 2015.

Erste Group Bank AG regards supporting the development of its employees' professional and social skills as a top priority to ensure that the employees are well prepared to act professionally and in a socially responsible manner. The focus of the remuneration policy is set on an appropriate balance in rewarding the performance, competence and level of responsibility of the employees and keeping a sustainable personnel cost base. Erste Group Bank AG offers competitive, but not market leading, compensation packages. The remuneration system at Erste Group Bank AG is consistent, in line with the market and transparent. Remuneration models comply with the respective applicable international and national regulations.

Erste Group Bank AG is committed to a proactive approach towards helping its employees to identify and manage health risk. Therefore, a multi-professional team of occupational physicians, industrial psychologists and physiotherapists assists the employees in any matters of health and well-being.

In 2016, Erste Group Bank AG had 2.071 employees, of which 46.1% were women. The share of women in management positions as well as in the Board of Management minus in Erste Group Bank AG was around 23.1%.

Staff indicators	Dec 16	Dec 15
Average number of sick leave days per employee	6.3	6.1
Share of femal staff	46.1%	46.6%
Share of executive positions	1.9%	2.1%
Other managerial positions	9.5%	9.3%
Share of women in executive position	23.1%	13.2%
Share of women in other managerial positions	27.4%	27.4%
Share of part-time staff	20.0%	19.2%
Share of female part-time staff from total part-tim workforce	79.5%	81.7%

Environment

In order to improve its ecological footprint, Erste Group Bank AG takes measures to reduce its electricity consumption, heating energy consumption, use of copying paper and CO_2 emissions. In addition, criteria for the selection of heating energy and electricity providers focusing on renewable energy were implemented.

Between the end of 2015 and the middle of 2016, the relocation to the Erste Campus took place. In this building, great value was placed on the consideration of ecological criteria. District heating and cooling, geothermal energy and rain water for toilets were all put into use as well as the exclusive use of energy efficient LED lights. Erste Campus was named one of the most sustainable office buildings in Vienna at present by the Austrian Sustainable Building Council and presented with the DGNB platinum certificate.

Corporate Governance

Compliance with laws and international initiatives against bribery and corruption is a matter of fact. Erste Group Bank AG places particular emphasis on continuous training of employees. A particular point of focus is on the strict requirements regarding whether gifts may be accepted at all from customers, or where appropriate the size of the gift. Another such point is the whistleblowing office. The Erste Integrity Line promotes lawful and fair behaviour, enabling all employees to report suspicious events.

GLOSSARY

Operating Income
Sum of excess interest, fee surplus, income from securities and participations, earnings from financial transactions and other operating income.

Operating Expenses
Sum of personnel expenses, material expenses, amortization of intangible assets and tangible assets as well as other operating expenses.

Operating Result
Operating result less operating expenses.

CEE (Central and Eastern Europe)
English abbreviation also commonly used in German applied to the economic area of Central and Eastern Europe. Includes the new EU member states from expansion in 2004 and 2007 as well as the successor states to Yugoslavia and the Soviet Union and Albania.

Equity Ratio
The total eligible own capital according to Article 72 CRR expressed in % of the total risk amount according to Article 92 (3) CRR.

Total Return on Capital
The annual net profit before allocation to reserves divided by the average balance sheet total (average of the last 5 quarterly cut-off dates).

Tier 1 Ratio
Core Capital (CET1) according to Article 50 CRR expressed in % of the total risk amount according to Article 92 (3) CRR.

Core Capital Ratio
Core Capital according to Article 25 CRR in % of the total risk amount according to Article 92(3) CRR.

Cost-Income Ratio
Administrative expenses and operating expenses as a % of the operating income.

Risk appetite Statement (RAS)
The RAS is a strategic explanation that describes the maximum risk that a company is prepared to take to achieve its goals.

Vienna, 28 February 2017

Management board

Andreas Treichl mp
Chairman

Peter Bosek mp
Member

Petr Brávek mp
Member

Willibald Cernko mp
Member

Gernot Mittendorfer mp
Member

Jozef Síkela mp
Member

V. Auditors' Report

REPORT ON FINANCIAL STATEMENTS

Audit opinion
Sparkassen-Prüfungsverband and Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H. - „we"- have audited the financial statements of Erste Group Bank AG, Vienna (the Company), which comprise the statement of financial position as at December 31, 2016, and the statement of income, for the financial year then ended, and notes to the financial statements.

In our opinion, the accompanying financial statements comply with legal requirements and give a true and fair view of the financial position as at December 31 2016, and its financial performance of the Company for the year then ended in accordance with Austrian Generally Accepted Accounting Principles.

Basis for opinion
We conducted our audit in accordance with the Austrian Generally Accepted Auditing Standards. Those standards require the application of the International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with laws and regulations applicable in Austria, and we have fulfilled our other professional responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit masters
Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon and did not give rise to any objections in the result of our audit. However, we do not provide a separate opinion on these matters.

In the following we describe the key audit matters from our perspective:

1. Impairment of loan loss provision

Our description:
To account for the risk of losses in credit portfolios, risk provisions are made in the form of impairment allowances for loans and advances. These represent management's best estimate of incurred losses in the credit portfolio at the reporting date. Due to the underlying assumptions and estimations, the calculation of impairment allowances is of considerable discretionary nature.

As laid out in the internal guidelines on the building of credit risk loss provisions of Erste Group Bank AG, one of three different methods to determine the amount of impairment provisions is applied:

- For loans and advances that are assessed as individually significant, impairment provisions are determined individually.
- For loans and allowances with similar risk profile, that are assessed as individually not significant, impairment provisions are calculated using statistical models.
- For losses that have been incurred at the reporting date but have not been identified by the bank, as well as for defaulted receivables where no impairment is expected, risk provisions are assessed on a portfolio basis. These collectively assessed risk provisions are calculated using models based on probabilities of default and loss given default as well as loss identification periods between the impairment event occurring and an impairment being recognized by the bank.

Specific loan loss provisions are calculated using the Discounted-Cash-Flow method. Thereby, the expected cash flows, as well as the expected recoveries from liquidation of collateral are estimated. The estimations take place on an individual basis (for significant loans and advances) or based on a collective assessment (rule based approach for non-significant loans and advances).

For further details we refer to note C 33.

In any case the calculation of impairment allowances for loans and advances represents an estimation, which is substantially determined by the identification of impairment events and the estimation of provisioning requirements. Due to the importance of these elements for the financial statements, we laid special focus on both of the above.

How we adressed the matters in the context of the audit:

To assess the adequacy of impairments, we reviewed the key processes and models in credit risk management, as well as a sample of loans.

We identified and tested key controls in the credit process, especially the key controls in the credit approval process, in the ongoing monitoring and in the early warning process of potentially nonperforming borrowers.

We examined the internal control system in the area of credit risk management, especially regarding the correct application of rating models and collateral valuation.

To assess the reliability of the implemented models for the determination of collective provisions, we referred to the following elements of the internal control system:

- the backward looking comparison of statistically estimated risk provisions with realized losses (backtesting),
- the ongoing monitoring and the regular validation of IRB-models and parameters,
- the assessment of the adequacy of implemented collateral recovery rates and
- the annual re-estimation based on updated time series.

The results of the analyses mentioned above are regularly brought to the attention of the responsible management in the context of meetings of the Holding Model Committee resp. the Group Enterprise-wide Risk Management Committee, where decisions on possibly necessary recalibrations or model changes are made.

We regularly analysed the reportings and decisions of the above mentioned committees, retraced the provided analyses on backtesting and re-estimations and critically assessed the performed model- and parameter validations. Our credit risk specialists examined the reliability of the estimations of material regulatory models that are also used for collective provisioning, based on fundamental model characteristics.We examined the adequacy of individual provisions based on a sample of test cases. For these loans we critically evaluated the estimated cash flows that are expected from redemptions and collateral, to assess the adequacy of risk provisions in the financial statements.

Apart from the adherence to internal guidelines referring to rating and collateral assignment, we examined whether major impairment events were fully identified. For this, we tested loans and advances that had not been identified as defaulted, to form our own assessment as to whether events with major impact on the repayment capability of the borrower had occurred.

2. Valuation of financial instruments (securities and derivatives)

Our description:

Beside observable market prices, Erste Group Bank AG uses various valuation techniques in order to determine fair values.

The selection and approval of valuation models and data feeds as well as the related management judgment is a critical feature for the quality of the fair values. The valuation of securities and derivatives, which are valued at fair value, is connected to significant measurement uncertainty given the complexity of valuation models and the significance of the judgments and estimates made by management.

Regarding the book value and fair value of securities and derivatives we refer to the information provided by the management in note C 28. A description of the applied valuation methods and models can also be found in notes C 28 and C 32.

The valuation of the Erste Group Bank AG's securities and derivatives held at fair value in the financial statements was a key area of focus of our audit given the significant share of securities and derivatives presented at their fair value in the financial statements and the degree of measurement uncertainty.

How we adressed the matters in the context of the audit:

We tested the design and operating effectiveness of selected controls in the Erste Group Bank AG's financial instrument valuation processes.

We examined the model validation and approval processes. Our audit work also included testing a sample of the underlying valuation models and the assumptions used in those models.

We compared the market values of securities to independent market data. We drew a sample out of the securities, for which independent market data was not available or for which the difference between independent market data and market values used by Erste Group exceeded a certain threshold. For this sample we assessed and challenged the fair values based on the information about model inputs and market data provided by Erste Group Bank AG.

Furthermore we have revalued a sample of securities and derivatives using independent models and compared the results to the Erste Group Bank AG's valuations and investigated any significant differences.

We have examined the collateral disputes, gains and losses on closing out of derivative deals and other documents, which could provide evidence about the appropriateness of the Erste Group Bank AG's valuations.

3. Deferred tax

Our description:

Deferred income taxes, above all deferred tax assets, are a material matter in Erste Group's financial statements. The significant amounts of tax loss carry forwards and deductible temporary differences available to the tax group parent entity Erste Group Bank AG and the Austrian tax group respectively lead to a substantial potential of deferred tax assets, hence including recognition and impairment issues as the result of related impairment tests.

For the purpose of these impairment tests management judgement is required to assess the recoverability of the deferred tax balance, in particular to forecast future taxable income which is associated with a relatively high degree of uncertainty. The assumptions are determined by expected future market or economic conditions. In addition to that, with regard to the Austrian tax group, due to the obligatory netting of deferred tax assets and liabilities, a consolidated approach is required in this assessment. Moreover, consolidation postings, which have to be attributed properly to the tax group entities, have to be considered, thus leading to a high overall complexity in the deferred tax position.

Regarding deferred tax assets, we refer to the information provided by the management in note C 13.

How we adressed the matters in the context of the audit:

We have involved our tax specialists in our audit procedures relating to deferred tax assets.

We reviewed the process of the determination and recognition of the deferred tax assets.

We compared the forecasts on which the tax planning is based, for all material group entities within the Austrian tax group with the budgets submitted to the supervisory board. We have analysed the main drivers for the future development included in the business plan in order to determine the appropriateness of the projections.

We have also verified the treatment of the differences between the planned results and the planned taxable results and assessed whether the deferred tax assets may be recoverable before the tax loss carry forwards expire.

We also assessed the adequacy of disclosures made regarding deferred income taxes and related assumptions.

4. IT systems

Our description:

Erste Group Bank AG is highly dependent on its complex IT-infrastructure for the financial as well as regulatory reporting. Reliability on IT-systems that support corresponding financial and regulatory reporting processes is an essential factor to ensure completeness and correctness of processed as well as reported data.

How we adressed the matters in the context of the audit:

Within our audit procedures we tested the reliability of the automated systems and processes relevant to our audit. For this purpose we have made use of our own IT audit team. Our procedures included the evaluation of the design and the operating effectiveness for relevant IT general controls as well as selected IT application controls embedded in the IT-processes, respectively IT-applications.

In detail we assessed the appropriateness of IT-processes and implemented controls regarding logical and physical access protection (system security, user and authorization management, physical security of data center infrastructure), software change procedures and IT-operations (data backup, incident management).

In addition, we evaluated existing audit reports (ISAE 3402 reports or comparable) for significant outsourced services in accordance with applicable auditing standards.

Where we considered implemented controls not to be effective, we performed additional adequate substantive audit procedures.

RESPONSIBILITIES OF MANAGEMENT AND THE AUDIT COMITEE FOR THE FINANCIAL STATEMENT

Management is responsible for the preparation of the financial statements that give a true and fair view in accordance with Austrian Generally Accepted Accounting Principles and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The audit committee is responsible for overseeing the Company's financial reporting process.

AUDITOR´S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Austrian Generally Accepted Auditing Standards, which require the application of the ISAs, will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Austrian Generally Accepted Auditing Standards, which require the application of the ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

_ Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that give a true and fair view.

We communicate with the audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the audit committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the audit committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Report on the audit of the management report

Pursuant to statutory provisions, the management report is to be audited as to whether it is consistent with the financial statements and whether it has been prepared in accordance with the applicable legal requirements.

Management is responsible for the preparation of the management report in accordance with the Austrian Commercial Code.

We conducted our audit in accordance with laws and regulations applicable with respect to the management report.

Opinion

In our opinion, the management report is prepared in accordance with the applicable legal requirements, includes appropriate disclosures according to section 243a UGB and is consistent with the financial statements.

Statement

In the light of the knowledge and understanding of the Company and its environment obtained in the course of our audit of the financial statements, we have not identified material misstatements in the management report.

Other Information

Management is responsible for the other information. The other information contains all information in the annual report but does not include the financial statements, the management report and our auditor's report thereon. The annual report is expected to be made available to us after the date of the auditor's report.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

Engagement partners

The engagement partners responsible for the audit are Gerhard Margetich (responsible Certified Accountant WTBG) and Ernst Schönhuber (responsible Certified Accountant WTBG).

Vienna, 28 February 2017

Austrian Savings Bank Auditing Association
Audit Agency

(Bankprüfer)

Gerhard Margetich mp
Certified Accountant

Herwig Hierzer mp
Certified Accountant

Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H.

Helmut Maukner mp
Certified Accountant

Ernst Schönhuber mp
Certified Accountant

This report is a translation of the original report in German, which is solely valid.
Publication of the financial statements together with our auditor's opinion may only be made if the financial statements and the management report are identical with the audited version attached to this report. Section 281 paragraph 2 UGB (Austrian Commercial Code) applies.

VI. Statements of all members of the management board

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

Vienna, 28 February 2017

Management board

Andreas Treichl mp
Chairman

Peter Bosek mp
Member

Petr Brávek mp
Member

Willibald Cernko mp
Member

Gernot Mittendorfer mp
Member

Jozef Síkela mp
Member