Key financial and operating data

in EUR million (unless otherwise stated)	2013	2014	2015	2016	2017
Balance sheet					
Total assets	**200,054**	**196,287**	**199,743**	**208,227**	**220,659**
Loans and receivables to credit institutions	8,377	7,442	4,805	3,469	9,126
Loans and receivables to customers	119,869	120,834	125,897	130,654	139,532
Trading, financial assets	51,269	50,131	47,542	47,586	42,752
Intangibles	2,441	1,441	1,465	1,390	1,524
Cash & other assets	18,099	16,439	20,035	25,127	27,726
Total liabilities and equity	**200,054**	**196,287**	**199,743**	**208,227**	**220,659**
Bank deposits	17,299	14,803	14,212	14,631	16,349
Customer deposits	122,415	122,583	127,946	138,013	150,969
Debt securities	33,124	31,140	29,654	27,192	25,095
Trading liabilities & other liabilities	12,494	14,319	13,124	11,789	9,958
Equity attributable to non-controlling interests	3,462	3,605	3,802	4,142	4,416
Equity attributable to owners of the parent	11,260	9,838	11,005	12,460	13,872
Own funds pursuant to Basel 3 (final)					
Total risk exposure amount	97,901	101,870	100,281	103,639	111,571
Total own funds	15,994	15,853	17,284	18,893	20,337
Common equity tier 1 capital (CET1)	11,199	10,811	12,045	13,256	14,448
Tier 2 capital (T2)	4,206	5,042	5,239	5,140	4,898
Total capital ratio	16.3%	15.6%	17.2%	18.2%	18.2%
CET1 capital ratio	11.4%	10.6%	12.0%	12.8%	12.9%
Income statement					
Net interest income	4,685.0	4,495.2	4,444.7	4,374.5	4,353.2
Net fee and commission income	1,806.5	1,869.8	1,861.8	1,783.0	1,851.6
Net trading result	218.8	242.3	210.1	283.8	222.8
Operating income	6,995.1	6,877.9	6,771.8	6,691.2	6,669.0
Operating expenses	-3,896.1	-3,787.3	-3,868.9	-4,028.2	-4,158.2
Operating result	3,099.0	3,090.7	2,902.9	2,663.0	2,510.8
Net impairment loss on financial assets	-1,849.9	-2,083.7	-729.1	-195.7	-132.0
Pre-tax result from continuing operations	302.9	-727.7	1,639.1	1,950.4	2,077.8
Net result attributable to owners of the parent	0.9	-1,382.6	968.2	1,264.7	1,316.2
Operating data					
Number of employees	45,670	46,067	46,467	47,034	47,702
Number of branches	2,833	2,792	2,735	2,648	2,565
Number of customers (in million)	16.5	16.2	15.8	15.9	16.1
Share price and key ratios					
High (EUR)	26.94	29.71	29.04	29.59	37.99
Low (EUR)	19.34	17.02	18.97	18.87	27.46
Closing price (EUR)	25.33	19.24	28.91	27.82	36.105
Price/earnings ratio	>100%	na	12.8	9.5	11.8
Dividend per share (EUR)	0.20	0.00	0.50	1.00	1.20
Payout ratio	>100%	0.0%	22.2%	34.0%	39.2%
Dividend yield	0.8%	0.0%	1.7%	3.6%	3.3%
Book value per share	26.2	22.9	25.6	27.8	30.0
Price/book ratio	1.0	0.8	1.1	1.0	1.2
Total shareholder return (TSR)	7.1%	-23.3%	50.3%	-2.0%	33.4%
Stock market data (Vienna Stock Exchange)					
Shares outstanding at the end of the period	429,800,000	429,800,000	429,800,000	429,800,000	429,800,000
Weighted average number of outstanding shares	411,553,048	427,533,286	426,726,297	426,668,132	426,679,572
Market capitalisation (EUR billion)	10.9	8.3	12.4	12.0	15.5
Trading volume (EUR billion)	8.3	9.3	10.0	11.4	11.0

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

The net trading result presented in this overview includes the fair-value result for the years 2013 until 2015.

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

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

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

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

Highlights

Best result in Erste Group's history

_ Net result of EUR 1,316.2 million
_ Historically low risk costs
_ Dividend of EUR 1.2 proposed to AGM

Revenues almost stable, costs up on IT spend

_ Revenues pressure eases in volume growth
_ Regulatory requirements drive IT costs
_ Cost/income ratio at 62.4%

Loan growth accelerates to 6.8%

_ Net loans increase to EUR 139.5 billion
_ Retail business as growth driver
_ Growth in Czech Republic, Slovakia and Austria

Positive asset quality trend continues

_ NPL ratio improves further to 4.0%
_ NPL provision coverage at 68.8%

Excellent capitalisation

_ CET 1 ratio increased to 12.9% (Basel 3 fully loaded)
_ Strong organic capital generation; offset by RWA inflation, partly driven by one-offs
_ Successful issuance of another EUR 500 million additional tier 1 capital

Favourable funding and liquidity position

_ Strong retail deposit base in all core countries is key trust indicator and competitive advantage
_ Loan-to-deposit ratio at 92.4%

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Management board

Petr Brávek, Andreas Treichl, Willibald Cernko

Peter Bosek, Jozef Síkela, Gernot Mittendorfer

Letter from the CEO

Dear shareholders,

Erste Group posted a net profit of EUR 1,316.2 million for 2017 and a return on tangible equity (ROTE) of 11.5%. Based on this record result, the management board will propose to the annual general meeting to pay a dividend of EUR 1.2 per share for 2017, i.e. an increase of 20% over the previous year.

This strong performance was owed to robust economic growth in our core markets in Central and Eastern Europe: Austria, the Czech Republic, Slovakia, Romania, Hungary, Croatia and Serbia. In this benign economic environment, lending expanded by almost 7% and asset quality improved. The NPL ratio dropped from 4.9% to 4.0%. At EUR 132.0 million, risk costs were at a historically low level. Operating expenses increased due to higher IT project costs driven largely by regulatory requirements, including the implementation of IFRS 9 and the introduction of MiFID 2. However, we also invested in the ongoing development of *George*, Erste Group's digital banking platform. After its successful launch in Austria, its roll-out started in the Czech Republic and Slovakia. This was a major step leading to the establishment of a regional digital banking platform. By the end of 2017, it already had 2 million registered users.

Growth momentum in all core markets

In 2017, Erste Group benefited from the continued positive economic development in its markets in Central and Eastern Europe. While average euro zone growth was around 2.5%, the key CEE economies in which we operate showed strong economic growth of between 2.8% in Croatia and 7.0% in Romania. Amid falling unemployment rates, rising real wages and still relatively low inflation rates, domestic demand remained the region's main growth driver. Austrian GDP rose by 2.9%, also beating expectations. This boosted demand for loans, resulting in net loan growth of 6.8%. Even after taking into account the positive impact of the appreciation of the Czech koruna, a more than solid development. Demand was still focused on mortgage loans, although in 2017 interest in corporate loans picked up as well.

Despite this positive development, the loan-to-deposit ratio declined to 92.4% as a result of continued dynamic deposit growth. The extraordinarily sharp rise in customer deposits by 9.4% is a strong indication that attempts to persuade savers to increase their spending by expansionary monetary policies were hardly effective, at least not in Erste Group's core markets. The European Central Bank (ECB) left its key rate unchanged at 0%. In the Czech Republic, the base rate was raised in several steps between August 2017 and, most recently, February 2018 from 0.05% to 0.75%. In Romania, the key interest rate also rose from its historic low of 1.75% to currently 2.25%.

Stabilisation of operating income

While the interest rate environment remained as challenging for Erste Group in 2017 as it had been in previous years, solid loan growth almost offset the pressure on net interest income. Negative impacts came from the European Central Bank's zero or even negative interest rate policy and lower interest income from sovereign bonds. While net trading result was adversely affected by declining income from securities and derivatives trading, net fee and commission income improved, driven by rising client interest in asset management products, and thus contributed substantially to the stabilisation of the operating income. This is all the more notable as the development of attractive investment products with a risk-return profile suitable for retail clients is a challenge in a region whose capital markets are still at an early stage of development.

IT project costs at all-time high

As in the previous year, elevated IT project costs made up a substantial portion of operating expenses. Including personnel and consulting expenses as well as software and hardware costs, they accounted for about one quarter of Erste Group's general administrative expenses in 2017. These projects are, however, important investments in the bank's future and, in addition to compliance with regulatory and accounting standards, will ensure that Erste Group will remain competitive over the long-term. You may remember some projects from last year, such as those relating to the implementation of IFRS 9. The report on the first quarter 2018 due for release in May will already be prepared in accordance with the new requirements. Of key importance is the development of a new group-wide database, which will also establish the foundation for improved data quality, the simplification of the product portfolio and the group-wide standardisation of processes. All these will be key prerequisites for operating more efficiently in the digital age and for ensuring an individualised customer experience. To this, *George* will be making an increasingly significant contribution. Erste Group aims to roll out *George* in all of its seven core markets and establish it as the first pan-European banking platform. Its open API-based architecture and plug-in infrastructure make *George* flexible and customisable. *George* is PSD2-ready and supports co-operation with fintechs and other third-party providers.

Regulatory costs have peaked

Overall, recurring regulatory costs have declined significantly. General administrative expenses included EUR 82.8 million in deposit insurance contributions. After a large one-off payment in Austria, banking and transaction taxes decreased significantly to EUR 105.7 million from EUR 388.8 million. Like the annual contributions to resolution funds in the total amount of EUR 65.8 million, they are reflected in other operating result. Other effects with a major impact on the 2017 result largely offset each other. Gains from the sale of securities were offset by write-downs on IT projects and branches in the Czech Republic as well as losses from retail loans due to Supreme Court rulings regarding the passing on of negative interest reference rates in Austria.

Risk costs at historically low level

At 9 basis points, supported by releases, risk costs remained at a historically low level, and thus contributed substantially to the strong result. Painful as the low-interest-rate environment may be where income is concerned, it does have a positive impact on asset quality and the NPL ratio, i.e. non–performing loans as a percentage of loans to customers. Hence, asset quality continued to improve and the NPL ratio fell to 4%. I would particularly like to highlight the NPL ratio of the Czech Republic segment, which, at 2.1%, is now only slightly above the 2.0% reported by Erste Bank Oesterreich and subsidiaries. Asset quality has also improved significantly in Romania and Hungary. The NPL coverage ratio excluding collateral remained adequate at 68.8%. Year on year, Erste Group's performing loans grew by 7.1% to EUR 137.7 billion, most pronounced in the Czech Republic and in Slovakia.

Excellent capital and liquidity position

The successful second issuance of additional tier 1 capital in the amount of EUR 500 million in April 2017 along with the record profit improved Erste Group's total equity by more than 10% to EUR 18.3 billion and regulatory common equity tier 1 capital (CET 1) by EUR 1.1 billion to EUR 14.7 billion. The CET 1 ratio (Basel 3 phased in) stood at 13.4% and is hence well above the legal minimum requirement. The CET 1 ratio (Basel 3 fully loaded) improved to 12.9% and thus already exceeded our minimum target of least 12.75% set for 2019. Not least due to extraordinarily strong deposit growth in all core markets – with especially retail clients demonstrating their trust in our local banks – funding needs remained modest and Erste Group's short and long-term liquidity position excellent.

Non-financial reporting

As part of their 2017 annual reporting, large companies such as Erste Group are legally required, for the first time, to report not only key financial indicators but to additionally provide information on non-financial topics outlining their significance for the company and impacts on stakeholder groups. As dealing with customers, employees and investors in a responsible manner has always been a defining feature and common business practice of Erste Group since its very foundation almost 200 years ago, a strategic adjustment was not necessary in our case. We therefore decided to include a non-financial report in our annual report rather than publishing a separate document.

Outlook for 2018

What exactly are we expecting for 2018? Based on growth forecasts of between 3% and 5% for our core markets we again expect a return on tangible equity (ROTE) of more than 10% in 2018. This is based on the assumption of a moderate improvement in income driven by loan growth of more than 5% and further rate hikes in the Czech Republic and Romania. Declining project expenditure should result in slightly lower costs. Risk costs are likely to rise, albeit expected to remain at a still low level.

Well-positioned for the digital future

In recent years we have demonstrated that we are able to deal with a wide variety of challenges, from which we have learned our lessons and which have made us stronger for the future. Our capital base has been strengthened massively. Substantial investment has been undertaken to ensure that we are not only able to meet complex regulatory reporting obligations, but that our customers are likewise set to benefit from modern data management in the middle to long run.

We are not afraid of third-party providers, as our open digital banking platform *George* opens up opportunities for co-operation and business in ways that were inconceivable in the past. We are investing in our digital offerings while also modernising branches. At the same time, we do not make any compromises on service quality: our customers will be able to access advice and support whenever they wish, through personal visits to the branches, phone calls to contact center staff or via digital channels. For there is one thing that continues to be important to us: we want to support our customers – private individuals, freelance professionals, SMEs and corporates alike – with their lending and investment needs and offer them suitable bank products to help them attain their goals and dreams. We are working to retain their trust also in the future. In this, the efforts of our employees are of enormous importance and I therefore thank them for their dedication and excellent service.

Erste Group is well positioned to remain successful in the future. We are aware that we cannot rest on past achievements. We must become more efficient to generate sustainable growth and value – for customers, shareholders and society at large. An important part of our strategy is to let our shareholders participate in the success of Erste Group. Based on the improved result, the management board will propose to the annual general meeting to pay a dividend in the amount of EUR 1.2 per share for 2017, i.e. 20% more than in the previous year.

Andreas Treichl mp

Supervisory board

Gunter Griss, Markus Haag, Karin Zeisel, Andreas Lachs, Elisabeth Bleyleben-Koren, Jan Homan, Friedrich Rödler

Marion Khüny, Barbara Pichler, Maximilian Hardegg, Regina Haberhauer, John James Stack, Elisabeth Krainer Senger-Weiss, Wilhelm Rasinger, Jordi Gual Solé, Jozef Pinter, Brian D. O'Neill

Report of the supervisory board

Dear shareholders,

Erste Group can look back on a very successful year 2017. The highest net profit in the bank's history, continued loan and deposit growth, higher capital ratios and an unchanged low level of risk costs are encouraging and make the supervisory board confident that Erste Group, the bank for retail and corporate customers in CEE, in the eastern part of the European Union, will maintain its successful course in 2018.

Erste Group has shown its ability to deal with the challenges and disruptions in the European financial services sector. Investment expenditure was high as substantial funds were needed to meet regulatory requirements. With its digital banking platform *George*, the bank has demonstrated both innovation and creativity. At the same time, it also has invested in staff training.

It is therefore with self-assurance and confidence that Erste Group can face the coming year, which will mark Erste Bank's 200th anniversary. The economic environment prevailing in Erste Group's core markets should in any case support the continuation of its success story.

The financial year 2017 also saw changes on the supervisory board: Bettina Breiteneder, Second Vice Chairwoman, resigned from her mandate with effect from the end of Erste Group Bank AG's annual general meeting on 17 May 2017, after having served on the supervisory board for 13 years. The annual general meeting elected Jordi Gual Solé and Marion Khüny as members of Erste Group Bank AG's supervisory board. Antonio Massanell Lavilla resigned from his position on the supervisory board as of 15 September 2017. I thank both former supervisory board members very cordially for their reliable and highly valuable contributions to the work of the supervisory board.

The annual general meeting 2017 also extended the mandates of the Chairman of the supervisory board and his First Vice Chairman until 2022. Maximilian Hardegg was elected Second Vice Chairman by the supervisory board.

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

As regards the activities of the audit committee, please also refer to the report of the audit committee.

In the course of 41 supervisory board and committee meetings, the management board promptly and comprehensively informed the supervisory board. This allowed us to act in accordance with the mandate laid down by law, the articles of association and the Austrian Code of Corporate Governance, as well as to ascertain the proper conduct of business.

The financial statements (consisting of the balance sheet, income statement and notes), the management report, the consolidated financial statements and the group management report for 2017 were audited by Sparkassen-Prüfungsverband, the legally mandated auditor, and by PwC Wirtschaftsprüfung GmbH, the elected supplementary auditor, and received an unqualified audit opinion. Representatives of both auditors attended the financial statements review meeting of the audit committee and the supervisory board and presented their comments on the audits they had conducted. Based upon our own review, we endorsed the findings of these audits and agreed with the proposal for appropriation of the profit. PwC Wirtschaftsprüfung GmbH was also mandated for the audit of the (consolidated) corporate governance report for 2017. The audit did not give rise to any qualifications. Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H. was contracted to perform an audit of the (consolidated) non-financial report 2017.

We have approved the financial statements and these have thereby been duly endorsed in accordance with section 96 para. 4 of the Aktiengesetz (Austrian Stock Corporation Act). The management report, consolidated financial statements, group management report, (consolidated) corporate governance report and the (consolidated) non-financial report have also been reviewed by the supervisory board and accepted on the basis of the audit reports received by the supervisory board.

We thank the management board and all employees of Erste Group for their great dedication and impressive commitment without which the success we achieved together in the financial year ended would not have been possible.

For the supervisory board,

Friedrich Rödler mp
Chairman of the supervisory board

Report of the audit committee

Dear shareholders,

As chairman of the audit committee I am pleased to provide to you an insight into the duties of Erste Group Bank AG's audit committee and our work in the financial year 2017.

The audit committee is one of six committees established by Erste Group Bank AG's supervisory board. The audit committee's mandate is derived from the law, the rules of the Austrian Code of Corporate Governance (CCG) and its rules of procedure. The audit committee oversees in particular the accounting process, the effectiveness of the internal control system, the internal audit system and the risk management system, and the audit of the (consolidated) financial statements; it reviews and monitors the independence of the (Group) auditor, reports on the results of the audit to the supervisory board, reviews the adoption of the (consolidated) financial statements and prepares its approval. Furthermore it reviews the proposal for the appropriation of profits, the (Group) management report and the (consolidated) corporate governance report, reports on the findings of the review to the supervisory board and conducts the process for the selection of the (Group) auditor. In its report on the findings of the annual audit to the supervisory board, the audit committee also explains in detail how the annual audit has strengthened the reliability of financial reporting and the role played by the audit committee in doing so. In addition, the audit committee regularly considers the results of the reviews conducted by the regulatory authorities' joint supervisory team and their implementation at Erste Group.

Due to changes in legal requirements, the audit committee's scope of duties has expanded further, which has also been reflected in significantly more extensive agendas and longer sessions than in the previous years. Key audit matters were discussed with the auditors in the course of audit planning and covered in the auditor's report. In spring 2018, the auditors presented to the audit committee for the first time an additional report pursuant to Art 11 of the EU Audit Regulation (537/2014/EU) dated 16 April 2014, which, among other things, explains the findings of the audit of the (consolidated) financial statements in more detail and in which the auditors confirm their independence too. Another new task has been the review of the (consolidated) non-financial report for the financial year 2017 by the audit committee. As Erste Group has always been strongly committed to various aspects of sustainability since its very foundation, the topics covered in this report have not been unfamiliar to the bank.

The audit committee currently comprises five shareholder representatives and three members delegated by the employees' council, as shareholder representative Antonio Massanell Lavilla also resigned from his audit committee mandate when he left the supervisory board as of 15 September 2017.

The audit committee met five times in 2017 and, in addition, held one informal meeting to prepare the meeting on the audit of the (consolidated) financial statements. Those who attended the meetings included the chairman of the management board, the management board members responsible for accounting, controlling and risk as well as the auditors' representatives. Responsible division heads were also invited to attend as permanent guests or to attend as guests in discussions on specific agenda items. The chairman of the audit committee and the financial expert regularly conducted one-on-one meetings amongst others with the auditors, members of the management board, the head of group internal audit and, if required, with division heads.

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

In 2017, the audit committee considered topics including the following: after receipt of the auditors' report on the (Group) (consolidated) financial statements for 2016, the audit committee held the final discussion, reviewed the (Group) (consolidated) financial statements and the (Group) management report as well as the (consolidated) corporate governance report and recommended to the supervisory board the approval of the annual financial statements, setting out towards the supervisory board how the annual audit had strengthened the reliability of financial reporting and describing the role played by the audit committee. Monitoring the independence of the auditor was a key topic in the financial year 2017. The audit committee received regular reports and, after careful examination, pre-approved non-audit services to be performed by the auditor. The audit committee also considered new financial reporting and accounting standards, including the impacts of the new financial reporting standards IFRS 9. The findings and status of the annual audit were discussed with representatives of the auditors in an ongoing process. In December 2017, it was decided to recommend to the supervisory board to propose at the annual general meeting the renewal of the mandate of PwC Wirtschaftsprüfung GmbH as additional (Group) auditor for the financial year 2019. In addition, the chairmen of the audit committee and of the supervisory board met the joint supervisory team of the regulatory authorities to inform it of the audit committee's scope of duties.

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

For the audit committee,

Jan Homan mp

Erste Group on the capital markets

The uptrend in international stock markets continued in 2017. Share prices rose mainly on the back of the broad-based growth of the global economy, underpinned by positive economic and corporate news flows as well as institutions' and economists' upward revisions of economic growth, corporate earnings and revenues forecasts for 2017 and subsequent years. The central banks' rate policies remained at the centre of market attention. While the European Central Bank (ECB) continued its expansionary monetary policy, the US central bank (Fed) raised its key interest rate again in 2017. In this benign environment, which also saw a rebound in European bank share prices, the share of Erste Group, which marked the 20th anniversary of its stock market listing, was up 29.8% on the year.

EQUITY MARKET REVIEW

Steady uptrend

Against the backdrop of accelerating economic growth, solid corporate earnings and ongoing low interest rates, stock markets were up across the board in the year ended. While US leading indices recorded gains of 20% or more and closed the reporting period near historic peaks, European indices were trailing behind. The German DAX Index, which hit a new record high of more than 13,500 points in early November, closed the year on a gain of 12.5%. The Austrian Traded Index (ATX) beat all stock markets tracked, advancing by 30.6%. At year-end 2017, the Euro Stoxx 600 Index was 7.7% higher at 389.18 points while the Euro Stoxx 50 Index closed at 3,503.96 points, up 6.5%. The US indices widened their outperformance relative to the European markets as the year progressed. This was largely attributable to expectations fuelled by announcements of deregulation and tax reforms in the US and the resulting stronger earnings momentum of US companies. The Dow Jones Industrial Average Index rose 25.1% to 24,719.22 points. The broader Standard & Poor's 500 Index advanced 19.4% to 2,673.61 points as of the end of the year.

Monetary policies in Europe and the US

Central banks' policies were again closely watched by investors. The ECB left its policy rate unchanged at the record low of 0% it had reached in March 2016 and continued its EUR 60 billion sovereign bond purchasing programme until December 2017. By announcing its intention to reduce the purchasing volume by half in the period from January to at least September 2018, the ECB took first steps towards a less expansionary monetary policy. The Fed, for its part, carried out a total of three rate hikes of 25 basis points each in 2017, lifting its key interest rates to a range of 1.25% to 1.50%. In the light of the continuing recovery of the US economy as well as positive economic forecasts (including the proposed tax reform), the Fed announced further rate hikes for 2018 and 2019.

Global economy growing at fastest rate since 2010

As global economic indicators improved further, numerous economic research institutes and institutions revised their growth forecasts upwards. The International Monetary Fund (IMF) raised its outlook for 2017 global economic growth to 3.7%. The euro zone is expected to grow at a rate of 2.5% in 2017 and outperform the US, the world's largest economy (2.3%). For 2018, the growth for the euro zone is expected at 2.1% and at 1.9% for 2019, with the outcome of the Brexit negotiations being considered a factor of uncertainty. In the US, growth is expected at a rate of 2.5% in 2018 and 2.1% in 2019.

European bank shares up

After some major setbacks in the first half of 2016, the Dow Jones Euro Stoxx Bank Index, which is composed of the leading European bank shares, started a rally which continued in 2017. Interest rate policies in the US, the US administration's plans for deregulation of the banking industry and the resulting rises in US bank stock prices also had an impact on European bank shares. The European banking index also benefited from the bright economic outlook and expectations of rising yields triggered by the anticipated tapering of asset purchases by the ECB. The Dow Jones Euro Stoxx Banks Index climbed 10.9% to 130.48 points year-on-year.

Vienna Stock Exchange records largest gain

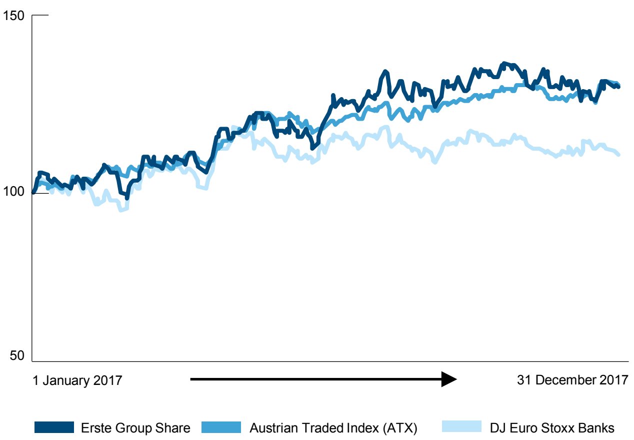
In the year ended, the Austrian Traded Index (ATX) continued the uptrend started in 2016, advancing steadily. It saw its annual and, at the same time, new nine-year high on 2 November 2017 at 3,445.23 points. With a gain of 30.6% and year-end close at 3,420.14 points, the ATX beat all indices covered. This increase was also due to the outperformance of the bank shares and oil-price-sensitive shares included in the index.

ERSTE GROUP SHARE

Share performance in its 20th year on the stock exchange

4 December 2017 marked the 20th anniversary of the Erste Group's IPO on the Vienna Stock Exchange. Erste Group not only developed from a local Austrian bank to one of the leading financial institutions in Central and Eastern Europe, but has also witnessed a strong, sometimes volatile performance of its share price, which hit its all-time high at EUR 61.5 in April 2007. In the course of the financial crisis, the share price dipped to its historic low of EUR 7.0 in February 2009. Due to Erste Group's rigorous execution of its business strategy, the share price has since more than quintupled.

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



Throughout 2017, the Erste Group share widened its outperformance relative to the Dow Jones Euro Stoxx Banks Index. The Erste Group share posted its year low at EUR 27.46 on 28 February 2017, its year high at EUR 37.99 on 20 October 2017.With a closing price of EUR 36.105 at year-end 2017, the share gained 29.8% in the year ended. By comparison, the Euro Stoxx Bank Index advanced 10.9% in the reporting period. In 2017, the analysts' and investors' main focus was on the solid business development, lending growth, low risk costs, the development of operating income and capitalisation.

Performance of the Erste Group share versus indices

	Erste Group share	ATX	DJ Euro Stoxx Bank Index
Since IPO (Dec 1997)	225.8%	162.1%	-
Since SPO (Sep 2000)	207.3%	192.7%	-62.9%
Since SPO (Jul 2002)	107.2%	180.4%	-48.1%
Since SPO (Jan 2006)	-19.8%	-12.2%	-65.6%
Since SPO (Nov 2009)	24.5%	31.3%	-42.7%
2017	29.8%	30.6%	10.9%

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

Number of shares, market capitalisation and trading volume

The number of shares of Erste Group Bank AG remained unchanged at 429,800,000. At year-end 2017, the Erste Group's market capitalisation stood at EUR 15.5 billion, 29.8% higher than at year-end 2016 (EUR 12.0 billion).

Trading volume on the three stock exchanges (Vienna, Prague, Bucharest) on which the Erste Group share is listed averaged 715,408 shares per day and accounted for about 38% of the total trading volume in Erste Group shares. More than half of the trading activity was executed over the counter (OTC) or through electronic trading systems.

Erste Group in sustainability indices

The Erste Group share has been included in VÖNIX, the Vienna Stock Exchange's sustainability index, since its launch in 2008. In 2011, the Erste Group share was included in the STOXX Global ESG Leaders Index, which represents the best sustainable companies on the basis of the STOXX Global 1800. In 2016, the Erste Group share was included in the FTSE4Good Index series, in 2017 in the Euronext Vigeo Index: Eurozone 120.

DIVIDEND

Erste Group's dividend policy is guided by the Bank's profitability, growth outlook and capital requirements. At the annual general meeting held on 17 May 2017 it was decided to pay a dividend of EUR 1.00 per share for the financial year 2016. This was double the amount paid for 2015. In view of a return on tangible equity (ROTE) of 11.5% in 2017 and a common equity tier 1 ratio (CET 1 ratio; Basel 3 phased-in) of 13.4%, the management board of Erste Group will propose to the annual general meeting a dividend for the financial year 2017 of EUR 1.20 per share. Based on the closing price on the last day of the year, the dividend yield is 3.3%.

RATING UPGRADES AND FUNDING ACTIVITIES

In view of the solid development in recent years, all of the three major US rating agencies upgraded Erste Group's ratings in 2017. Standard & Poor's raised its rating in two steps to A/A-1 and changed the outlook to positive. Fitch upgraded the rating to A-/F1 with a stable outlook and Moody's raised its rating to A3/P-2 with a positive outlook.

In 2017, Erste Group again placed two benchmark-sized issues, a EUR 750 million 7-year mortgage covered bond at mid-swap minus 6 basis points in January, and, for the second time, CRD IV/CRR compliant additional tier 1 capital in the amount of EUR 500 million in April. In addition, some EUR 270 million in tier 2 and EUR 620 million in senior unsecured bonds were issued via private placements during the year.

INVESTOR RELATIONS

Open and regular communication with investors and analysts

In the year ended, Erste Group's management and the investor relations team met with investors in a total of 346 one-on-one and group meetings and conducted a large number of teleconferences with analysts and investors. The presentation of the 2016 annual result in Vienna was followed by the annual analysts' dinner and a road show day with investor meetings in London. A spring road show was conducted in 2017 after the release of the first-quarter results, and an autumn road show following the release of the third-quarter results was held in Europe and in the US. Erste Group presented its strategy in the current operating environment at international banking and investor conferences organised by the Vienna Stock Exchange, UniCredit, Kepler Cheuvreux, Autonomous, PKO, Morgan Stanley, RCB, HSBC, Concorde, Deutsche Bank, Bank of America Merrill Lynch, Goldman Sachs, JP Morgan, UBS, Citigroup and Wood. Another 71 meetings were held to intensify the dialogue with bond investors. A large number of face-to-face meetings with analysts and portfolio managers were held at conferences, road shows and workshops hosted by UBS, Barclays, HSBC, Société Générale, Bank of America Merrill Lynch and Euromoney.

The website http://www.erstegroup.com/ir provides comprehensive information on Erste Group and the Erste Group share. Investors and the broader public can also follow the investor relations team on the social media platform Twitter at http://twitter.com/ErsteGroupIR and on Slideshare at http://de.slideshare.net/Erste_Group. These sites provide users with the latest news on Erste Group on the social web. As an additional service for investors and analysts, Erste Group offers a free investor relations app for iPhone, iPad, and Android devices. This app enables users to access and download Erste Group Bank AG share price information, the latest investor news, multimedia files, financial reports and presentations as well as an interactive financial calendar and contact details for the investor relations team. More details on the Investor Relations app, social media channels, the news/reports subscription and reminder service are available at https://www.erstegroup.com/de/investoren/ir-service.

Analyst recommendations

In 2017, 25 analysts regularly released research reports about Erste Group, including one initial coverage analysis. The Erste Group Bank AG share was covered by financial analysts at the following national and international firms: Autonomous, Bank of America Merrill Lynch, Barclays, Berenberg, Citigroup, Commerzbank, Concorde, Deutsche Bank, Exane BNP Paribas, Goldman Sachs, HSBC, JP Morgan, JT Banka, KBW, Kepler Cheuvreux, Macquarie, mBank, Mediobanca, Morgan Stanley, PKO, RCB, SocGen, UBS, VTB Capital and Wood.

As of the end of the year, fourteen analysts had issued buy recommendations, ten had rated the Erste Group share neutral and one analyst issued a sell rating. The average year-end target price was EUR 38.9. The latest updates on analysts' estimates for the Erste Group share are posted at https://www.erstegroup.com/en/investors/share/analyst-estimates.

Strategy

Erste Group strives to be the leading retail and corporate bank in the eastern part of the European Union, including Austria. To achieve this goal, Erste Group aims to support its retail, corporate and public sector customers in realising their ambitions by offering excellent financial advice and solutions, lending responsibly and providing a safe harbour for deposits. Erste Group's business activities will continue to contribute to economic growth and financial stability and thus to prosperity in its region.

In all of its core markets in the eastern part of the European Union, Erste Group pursues a balanced business model focused on providing the best banking services to each of its customers. In this respect, digital innovations are playing an increasingly important role. Sustainability is reflected in the bank's ability to fund customer loans by customer deposits, with most customer deposits being stable retail deposits. Sustainability of the bank's strategy is also reflected in long-term client trust, which underpins strong market shares in almost all of Erste Group's core markets. However, market leadership is not an end in itself. Market leadership only creates value when it goes hand in hand with positive economies of scale and contributes to the long-term success of the company.

The banking business, however, should not only be run profitably but also reflect its corporate responsibility towards all material stakeholders, in particular customers, employees, society and the environment. Therefore, Erste Group pursues banking business in a socially responsible manner and aims to earn an adequate premium on the cost of capital.

Long-standing tradition in customer banking

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

Offering attractive, easy-to-understand products and services that meet the individual needs and objectives of bank customers is important in building and maintaining strong long-term customer relationships. Today, Erste Group serves a total of more than 16 million customers in seven core markets.

The bank's core activities also include advisory services and support for its corporate customers with regard to financing, investment, hedging activities and access to international capital markets. Public sector funding includes providing finance for infrastructure projects and acquiring sovereign bonds issued in the region.

To meet the short-term liquidity management needs of the customer business, Erste Group also operates in the interbank market.

Core markets in the eastern part of the European Union

When Erste Group went public as an Austrian savings bank with no meaningful foreign presence in 1997, it defined its target region as consisting of Austria and the part of Central and Eastern Europe that had realistic prospects of joining the European Union. The aim was to benefit from the attractive growth prospects in these countries. Against the backdrop of emerging European integration and limited potential for growth in Austria, Erste Group acquired savings banks and financial institutions in countries adjacent to Austria from the late 1990s onwards. While the financial and economic crisis has slowed the economic catch-up process across the countries of Central and Eastern Europe, the underlying convergence trend continues unabated. This part of Europe offered and still offers the best structural and therefore long-term growth prospects.

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

Growing importance of innovation and digitalisation

The pace of digital transformation has accelerated considerably as a result of technological changes, demographic developments and also regulatory interventions in recent years. As a result, customer behaviour and customer expectations towards financial products have also changed significantly. Erste Group is convinced that the digital banking business will continue to gain in importance and will be essential for the economic success in the long term and therefore fosters digital innovation. Intra-group, interdisciplinary teams develop innovative solutions.

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

The digital platform *George* was implemented in Austria in 2015. By the end of 2018, *George* should also be up and running in the Czech Republic, Slovakia and Romania while being rolled out successively in all of the other core markets. *George* is supplemented by the mobile application *George Go*. The range of digitally available products and services is constantly expanded.

Customers can activate applications of Erste Group or third parties via plug-ins and use them to manage their finances.

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

Focus on sustainability and profitability

Acting responsibly and earning a premium on the cost of capital is a key prerequisite for the long-term survival of any company and the creation of value for customers, investors and employees. Only a bank that operates in a sustainable manner – balancing the social, ecological and economic consequences of its business activities – and profitably, can achieve the following: provide products and services to customers that support them in achieving their financial ambitions; deliver the foundation for share price appreciation as well as dividend and coupon payments to investors; create a stable and rewarding work environment for employees and be a reliable contributor of tax revenues to society at large.

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

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

Erste Group's strategy

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

THE STRATEGY IN DETAIL

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

Retail business

Erste Group's key business is the retail business, covering the entire spectrum from lending, deposit and investment products to current accounts and credit cards. Erste Group's core competence in retail banking has historical roots. In 1819, wealthy Viennese citizens donated funds to establish Erste Group's predecessor, the first savings bank in Central Europe. It was their aim to bring basic banking services such as safe savings accounts and mortgage loans to wide sections of the population. Today, the bank serves a total of more than 16 million customers in its markets and operates almost 2,600 branches. Wealthy private clients, trusts and foundations are served by the bank's private banking staff and benefit from services that are tailored to the needs of this target group.

In addition, the bank uses and promotes digital distribution channels such as internet and mobile banking as Erste Group is convinced that the importance of digital banking will further increase and will substantially change the future of retail business. This has already become visible through the activities of fintech companies, which offer financial services online and typically operate without a banking licence. *George*, Erste Group's new digital platform, was launched in Austria in 2015. By the end of 2018, *George* should also be up and running in the Czech Republic, Slovakia and Romania, while being rolled out successively in all of the other core markets.

Retail banking is attractive to Erste Group for a number of reasons: It offers a compelling business case that is built on market leadership, an attractive risk-reward profile and the principle of self-funding. In addition, it benefits from a comprehensive range of products that are simple and easy to understand and provide substantial cross-selling potential. Erste Group takes advantage of these factors in all core markets and makes best use of its resulting position of strength by pursuing an omni-channel strategy. In addition to the expansion of digital sales channels, the branch network remains an important component of the business strategy. Only a retail bank that offers modern digital services and operates an extensive distribution network is able to fund loans in local currency mainly from deposits made in the same currency. In short, Erste Group's retail banking model supports sustainable and deposit-funded growth even in economically more challenging times. Another positive factor is the diversification of the retail business across countries that are at different stages of economic development, such as Austria, the Czech Republic, Romania, Slovakia, Hungary, Croatia and Serbia.

Corporate business

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

Catering to their different requirements, Erste Group serves small and medium-sized enterprises locally in branches or separate commercial centres, while multinational groups are serviced by the Group Corporates' units. This approach permits Erste Group to combine industry-specific and product expertise with an understanding of regional needs and the experience of the bank's local customer relationship managers. In view of the regulatory interventions, advising and supporting corporate customers in capital market transactions is becoming increasingly important.

Capital markets business

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

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

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

Public sector business

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

In terms of sovereign bond investments, Erste Group is equally focusing on Central and Eastern Europe.

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

Interbank business

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

REGULATORY CHANGES IN BANKING

In recent years, regulation of the financial sector has been tightened substantially to strengthen the resilience of banks and prevent or at least minimise the adverse impact of any new crises on economies and market participants. The ultimate aim of these reforms has been to largely rule out reliance on state guarantees and taxpayers' money to absorb banks' losses.

A banking union has been established as a regulatory framework consisting of a European banking supervision mechanism, a banking resolution mechanism and common standards for deposit insurance. Implementing the requirements defined by the Basel Committee on Banking Supervision, the European Commission released in November 2016 a proposal for a comprehensive review of the Capital Requirements Directive (CRD IV) and the Capital Requirements Regulation (CRR) as well as of the EU's Bank Recovery and Resolution Directive (BRRD) and the Single Resolution Mechanism (SRM) Regulation. The package of revised EU regulations is not expected to enter into force before the beginning of 2019. Under a so-called fast-track procedure, though, a number of rules contained in this package of EU regulations – the regulations cluster IFRS 9, large exposures and creditor hierarchy – are implemented early, as of the beginning of 2018.

At the beginning of December 2017, the Basel Committee on Banking Supervision presented the final part of the Basel 3 reform package, which is designed to achieve a transparent and comparable calculation of the capital requirements of each institution. The standardised approaches for the individual risk categories have been revised and the use of internal models for calculating capital requirements will be restricted in the future. An output floor has been introduced to ensure that banks' calculations of risk-weighted assets (RWAs) generated by internal models cannot, in aggregate, fall below a certain percentage threshold of the risk-weighted assets computed by the standardised approaches; the output floor will be gradually raised to 72.5%. The use of internal models for the calculation of operational risks will no longer be permitted. The package is scheduled for implementation in the EU by 1 January 2022 and will be fully applicable after a transition period of up to five years.

The European Single Resolution Board (SRB) is working on the development of resolution plans and the definition of resolution strategies for significant institutions. For Erste Group Bank AG, a specific MREL (minimum requirement for own funds and eligible liabilities) was not defined yet in 2017.

Several provisions of the fourth Anti-Money Laundering Directive have meanwhile been transposed into Austrian law. On 1 January 2017, the Financial Markets Anti-Money Laundering Act (FM-GwG – Finanzmarkt-Geldwäschegesetz) took effect and, on 3 January 2017, the Austrian Financial Market Authority's Identification Regulation based on FM-GwG, which, among other things, permits video identification of customers if certain conditions are met. At the beginning of 2018, an amendment to the Ultimate Beneficial Ownership Register Act (WiEReG – Wirtschaftliche Eigentümer Registergesetz) entered into force, creating the legal basis for the register of beneficial owners of companies and other legal entities (e.g. foundations and trusts). Previously, the companies register only contained data of beneficial owners of companies and foundations.

The reform of the Banking Act and the Financial Market Authority Act that became effective in January 2018 provides, among other things, for an improvement in proportionality, transparency and legal certainty. At the same time, regulatory relief was granted to smaller institutions, e.g. with regard to the creation of committees. The Securities Supervision Act 2018 (Wertpapieraufsichtsgesetz, WAG 2018) implemented in Austria a substantial portion of the European rules of the Markets in Financial Instruments Directive (MiFID) 2 and Markets in Financial Instruments Regulation (MiFIR), which continue and expand the existing MiFID framework. The amendment to the Payment Services Act designed to transpose the revised Payment Services Directive (PSD 2) into Austrian law is expected to be adopted in 2018.

To strengthen the Austrian banking industry, the Financial Market Authority (FMA) had already introduced, by way of ordinance (capital buffer ordinance), a systemic risk buffer for a number of Austrian credit institutions and a buffer for other systemically important institutions (O-SIIs) in December 2015. For Erste Group, the buffer amounts to 1% of RWAs as of 1 January 2018 and will be increased to 2% by 1 January 2019. The FMA's amendment to the capital buffer ordinance, which took effect on 1 January 2018, implemented a recommendation of the Financial Market Stability Board. Under the amendment, seven credit institutions, including Erste Group Bank AG, are required to hold systemic risk buffers also at single-entity level.

LONG-TERM GROWTH TRENDS IN CENTRAL AND EASTERN EUROPE

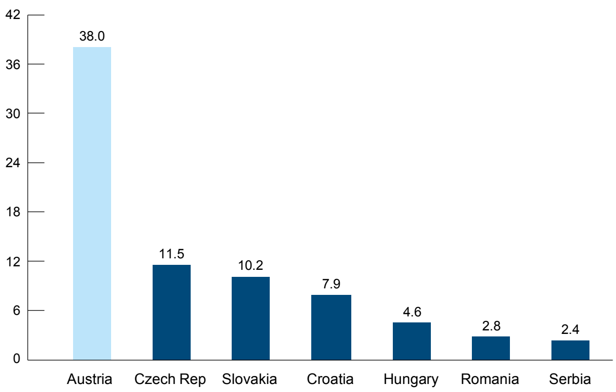
While the financial and economic crisis has temporarily slowed the economic catch-up process across the countries of Central and Eastern Europe, the underlying convergence trend continues. This is on the one hand due to the fact that the region has to make up for almost half a century of communist mismanagement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

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

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

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

Customer loans/capita in CEE (2017) in EUR thousand



Source: Local central banks, Erste Group

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

Management report

ECONOMIC ENVIRONMENT

In 2017, the global environment was characterised by a strong increase in world trade with improvements relatively well synchronised across advanced economies and emerging markets. Main economic and political topics were diverging monetary policies among central banks of the world's leading economies, the continued migration into Europe – though at a lower level – and intensified geopolitical tensions related to North Korea. Global trade activity was supported by a gradual recovery in commodity prices, continued rapid growth in China and India, a return to positive growth in formerly distressed economies such as Brazil and Russia, which benefitted from higher oil prices and growing demand among advanced economies. Among the advanced economies, Canada, New Zealand and dynamic Asian economies, such as Singapore, showed particularly strong performances in 2017. The United States and the economies of the euro zone were supported by favourable labour market developments and muted inflation. In Europe, negotiations regarding the withdrawal of the United Kingdom from the European Union continued. Among major central banks, policies continued to diverge. While the Swiss National Bank, the European Central Bank (ECB) and the Bank of Japan left key interest rates untouched throughout 2017, the Bank of England and the Federal Reserve (Fed) hiked their key rates by 0.25% and by 0.75% in 2017. Overall, global economic growth accelerated from 3.2% in 2016 to 3.7% in 2017.[1]

The US economy benefitted from solid private consumption growth, which was significantly supported by elevated consumer sentiment and higher investment activity reflecting strong increase of manufacturing output. Negotiations regarding the future of the North American Free Trade Agreement (NAFTA) continued throughout 2017 after the announcement that the United States might withdraw from the 23-year-old accord. Employment growth was solid throughout 2017, resulting in both a higher labour-force participation rate and a further decline in the unemployment rate to 4.1%[2] at the end of 2017. Despite increasing energy and moderately rising real estate prices, inflation remained muted. Based on the strong economic performance, the Fed decided to wind down its asset purchase scheme and raised its key rate three times, to 1.50% during 2017. Overall, the US economy grew by 2.3%[3] in 2017.

The pace of economic growth also accelerated in the euro zone in 2017, propelled by resilient private consumption, more investment activities, increasing support from the global upswing, loose financing conditions and further improvements in the labour market.

When looking at the bigger economies of the euro zone, Germany and Spain again outperformed Italy and France. Despite the uncertainties triggered by the Catalan independence movement, economic growth in Spain was particularly strong mainly driven by excellent investment activity. Elections in some of the continent's biggest economies, such as Germany and France were mainly in line with expectations. The continued negotiations regarding the United Kingdom exiting the European Union did not significantly impact economic performance. Most of the euro zone's economies continued to show increasing employment rates throughout 2017. Unemployment, however, still varied substantially among the member states, with southern countries having significantly higher rates than those in the north. Consumer prices increased but remained well under control across the region. The ECB maintained its expansionary monetary policy by keeping the base rate unchanged in 2017. The adaptions of the ECB's monthly asset purchase programme reflected growing confidence of the central bank to reach its inflation target of less than 2%. Overall, real GDP growth in the euro zone was 2.5%[4].

After several years of moderate growth, the Austrian economy achieved a solid performance in 2017. The real GDP growth of 2.9%[5], the highest in six years, was supported by the rapid recovery of exports, strong investment activity and solid domestic consumption. The economic sentiment indicators also showed a clear upswing throughout the year. In addition, the traditionally strong service and tourism sectors continued to perform well. The favourable economic performance led for the first time since 2012 to the decline of the unemployment rate. Average consumer prices remained well under control with an increase of the inflation rate of 2.2%[6]. Following the parliamentary elections held in October, a new government was formed in December. With EUR 42,000 GDP per capita[7], Austria remained one of the most prosperous economies in the euro zone characterised by its well-educated workforce, stable institutional framework and strong international competitiveness.

The economies of Central and Eastern Europe continued to outperform the euro zone and achieved strong economic performance in 2017. Domestic demand remained the main growth driver, while exports also contributed to economic growth. The rising convergence of the region was demonstrated by significant wage inflation, most pronounced in the Czech Republic, Slovakia, Hungary and Romania. Consumption was further supported by higher consumer confidence, improving labour markets and relatively low interest rates across the region. The automobile

[1] IMF: http://www.imf.org/en/Publications/WEO/Issues/2018/01/11/world-economic-outlook-update-january-2018 (Download on 21 February 2018)

[2] Bureau of Labor Statistics: https://www.bls.gov/news.release/archives/empsit_01052018.htm (Download on 21 February 2018)

3 Bureau of Economic Analysis: https://www.bea.gov/newsreleases/national/gdp/gdpnewsrelease.htm (Download on 21 February 2018)

[4] Eurostat: http://ec.europa.eu/eurostat/documents/2995521/8662991/2-14022018-BP-EN.pdf/ccf970c0-bb55-4a22-b8ea-d50d5a92586d (Download on 21 February 2018)

5 WIFO: http://www.wifo.ac.at/jart/prj3/wifo/resources/person_dokument/person_dokument.jart?publikationsid=60911&mime_type=application/pdf (Download on 21 February 2018)

6 Statistik Austria: http://www.statistik.at/web_de/statistiken/wirtschaft/preise/verbraucherpreisindex_vpi_hvpi/022835.html (Download on 21 February 2018)

7 Statistik Austria: http://www.statistik.at/web_de/statistiken/wirtschaft/volkswirtschaftliche_gesamtrechnungen/index.html (Download on 21 February 2018), adjusted for economic growth and inflation for 2017

industry, which was one of the main contributors to exports, again supported the Czech, Slovak, Romanian and Hungarian economies. In addition, European Union fund absorption rates improved in 2017. Consumer price inflation remained well under control and with the exception of the Czech Republic, central banks kept the base rates at historic low levels. The strong fundamentals of the Czech economy were also demonstrated by the strengthening of the Czech koruna following the decision of the Czech National Bank to depeg the currency from the euro. Unemployment rates in the region declined further. The Czech Republic and Hungary were among the countries showing the lowest unemployment rates in the European Union. In addition, public deficits in the region remained low. Overall, CEE economies grew in 2017, between 7.0%[8] in Romania and 1.8%[9] in Serbia.

PERFORMANCE IN 2017

In the consolidated management report P&L data of 2017 is compared with data of 2016, balance sheet data as of 31 December 2017 is compared to data as of 31 December 2016.

Acquisitions and disposals in Erste Group in 2017 did not have any significant impact and therefore had no effect on the rates of change stated below. Details are provided in the notes to the consolidated financial statements.

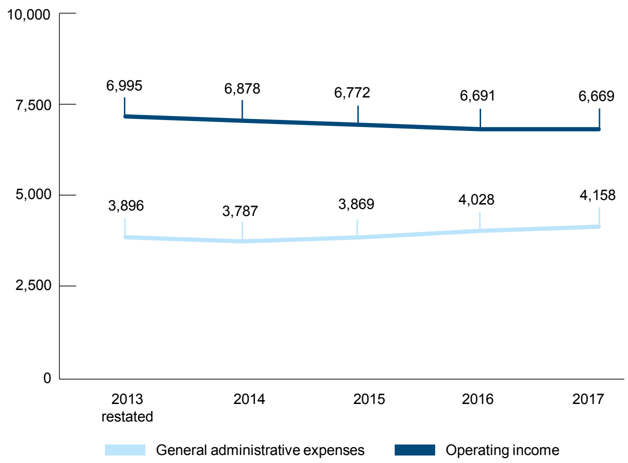
Overview

Net interest income declined to EUR 4,353.2 million (EUR 4,374.5 million) despite lending growth, mostly due to lower interest income from the government bond portfolio and a lower unwinding effect. Net fee and commission income increased to EUR 1,851.6 million (EUR 1,783.0 million). Income from the securities business, from asset management and from brokerage was up substantially, while income from the lending business declined. **Net trading result** decreased significantly to EUR 222.8 million (EUR 283.8 million). **Operating income** was nearly stable at EUR 6,669.0 million (EUR 6,691.2 million).

General administrative expenses rose to EUR 4,158.2 million (EUR 4,028.2 million). This was attributable to an increase in other administrative expenses and in depreciation and amortisation as well as higher personnel expenses of EUR 2,388.6 million (EUR 2,339.3 million). This line item also included deposit insurance payments in the amount of EUR 82.2 million (EUR 88.8 million). Consequently, the **operating result** decreased to EUR 2,510.8 million (-5.7%; EUR 2,663.0 million). The **cost/income ratio** rose to 62.4% (60.2%).

Net impairment loss on financial assets declined even further to EUR 132.0 million or 9 basis points of average gross customer loans (EUR 195.7 million or 15 basis points) and thus to a historical low. This was attributable to the substantial decline in the balance of the allocation and release of provisions for the lending business, mostly in Austria and in the Czech Republic. The **NPL ratio** improved further to 4.0% (4.9%). The **NPL cover ratio** was stable at 68.8% (69.1%).

Operating income and operating expenses in EUR million



Other operating result amounted to EUR -457.4 million (EUR -665.0 million). The improvement was largely due to the significant reduction of Austrian banking taxes to EUR 23.0 million (EUR 306.7 million, including a one-off payment of EUR 200.9 million under the Austrian Bank Tax Act). Overall, banking and transaction taxes declined to EUR 105.7 million (EUR 388.8 million). This line item includes the annual contributions to resolution funds in the amount of EUR 65.8 million (EUR 65.6 million) and EUR 45.0 million in expenses for losses from loans to consumers incurred as a result of supreme court rulings regarding negative reference interest rates in Austria.

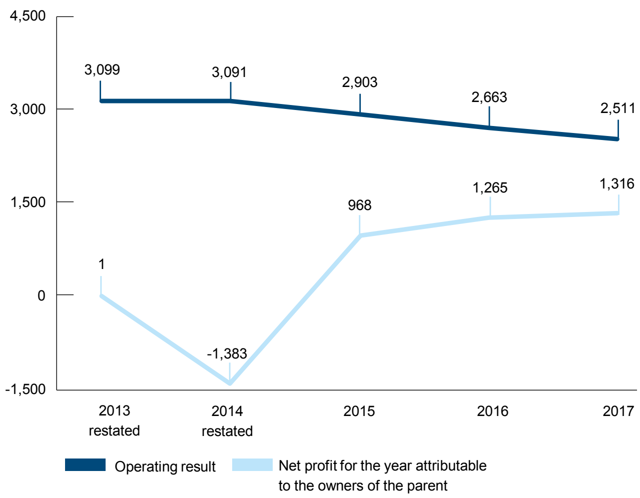
The minority charge rose to EUR 351.5 million (EUR 272.0 million) due to a rise in the earnings contributions of the savings banks. The **net result attributable to owners of the parent** rose to EUR 1,316.2 million (EUR 1,264.7 million).

Cash return on equity (see glossary for definition), i.e. return on equity adjusted for non-cash expenses such as goodwill impairment and straight-line amortisation of customer relationships, stood at 10.2% (reported ROE: 10.1%) versus 11.4% (reported ROE: 10.8%) in the previous year.

[8] National Institute of Statistics: http://www.insse.ro/cms/sites/default/files/com_presa/com_pdf/pib_tr4e2017.pdf (Download on 21 February 2018)

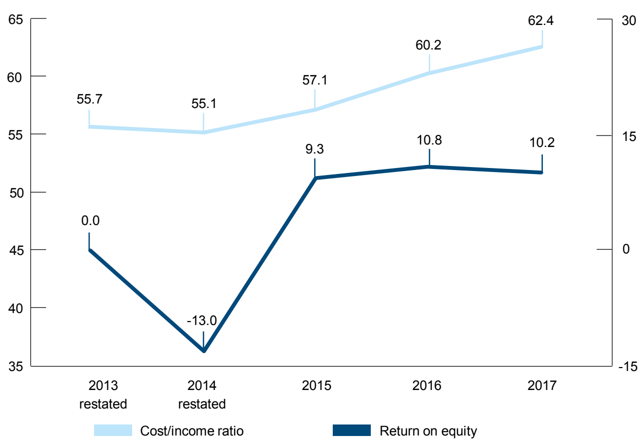
9 Statistical Office of the Republic of Serbia: (http://www.stat.gov.rs/WebSite/repository/documents/00/02/68/18/NR40_-_ENG-327.pdf (Download am 21 February 2018), adjusted by estimates for the fourth quarter 2017

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



Cash earnings per share (see glossary for definition) amounted to EUR 2.96 (reported EPS: EUR 2.94) versus EUR 3.08 (reported EPS: 2.93) in the previous year.

Key profitability ratios in %



Total assets increased to EUR 220.7 billion (EUR 208.2 billion). On the asset side, cash and cash balances rose to EUR 21.8 billion (EUR 18.4 billion), loans and receivables to credit institutions increased to EUR 9.1 billion (EUR 3.5 billion). **Loans and receivables to customers** rose to EUR 139.5 billion (EUR 130.7 billion). On the liabilities side, deposits from banks increased to EUR 16.3 billion (EUR 14.6 billion) and **customer deposits** continued to grow – most notably in the Czech Republic and in Austria – to EUR 150.9 billion (EUR 138.0 billion). The **loan-to-deposit ratio** stood at 92.4% (94.7%).

The **common equity tier 1 ratio** (CET1, Basel 3 phased-in; see glossary for definition) remained stable at 13.4% (13.4%), the **total capital ratio** (Basel 3 phased-in; see glossary for definition) at 18.5% (18.5%).

Dividend

A dividend distribution of EUR 1.20 per share will be proposed at the annual general meeting (2016: EUR 1.00 per share).

Outlook

Erste Group targets a return on tangible equity (ROTE) of more than 10% in 2018. The expected very solid macro-economic development in the core markets Czech Republic, Slovakia, Hungary, Romania, Croatia, Serbia and Austria, rising interest rate levels in several of our markets and still historically low risk costs should be supportive factors to achieve this target. On the other hand, a global or regional slowdown of economic growth as well as potential – and as yet unquantifiable – political or regulatory risks might jeopardise achieving the target.

In 2018, the positive development of the economy should be reflected in growth rates (real GDP growth) of around 3% to 5% in the Erste Group's CEE core markets. All other economic parameters are currently expected to be similarly robust. Unemployment rates should remain at historic lows – in the Czech Republic and in Hungary they are already among the lowest in the EU. Inflation is forecast to rise but remain subdued by historical standards and strong competitive positions should again lead to current account surpluses. The fiscal situation and public debt levels are also projected to remain sound. Austria should see accelerating economic growth at a rate of close to 3%. Overall, growth continues to be driven by domestic demand across all economies. The contribution of exports is forecast as neutral.

Against this backdrop, Erste Group expects mid-single digit net loan growth. In 2018, net interest income should also be slightly up on the back of rising short and long-term interest rates, primarily in the Czech Republic and Romania, but also globally, and therefore declining margin pressure from sovereign bond reinvestments. The second key income component, net fee and commission income, is also expected to increase moderately in 2018. As in 2017, some positive momentum should again come from the securities business, fund management and the insurance business. The other income components are expected to remain stable, by and large, despite the volatility of the net trading and fair value results. Consequently, operating income should grow slightly in 2018.

Operating expenses are expected to decline marginally in 2018, mainly due to the fact that in 2017 higher IT expenditure was incurred for regulatory projects, which will not recur on the same scale in 2018. However, Erste Group will continue to invest in digitalisation and thereby its future competitiveness in 2018. The focus will be on product simplification, process standardisation or the group-wide implementation of the digital platform George. After its rollout in Austria, George will be fully up and running in the Czech Republic, Slovakia and Romania in 2018. Overall, the operating result is projected to rise in 2018.

Risk costs should support net profit again in 2018. Amid a moderate rise of interest rates, risk costs should go up only slightly. Further improvements in asset quality, however, should have a dampening effect. Overall, Erste Group does not expect a recurrence of the historically low risk cost level of 2017 of just 9 basis points of average gross customer loans. While precise forecasts are difficult in the current environment, Erste Group projects for 2018 risk costs of up to 20 basis points of average gross customer loans. The implementation of accounting standard IFRS 9 is not expected to materially impact financial results in 2018.

Assuming a tax rate of around 22% and a similar level of minority charges, Erste Group aims to achieve a return on tangible equity (ROTE) of more than 10%.

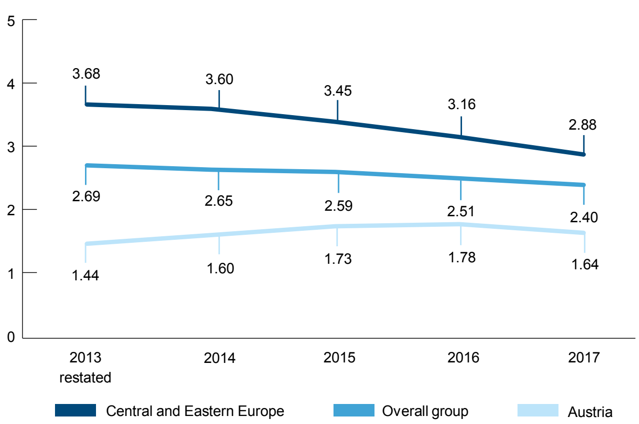
Potential risks to the guidance are interest rate trends that differ from expectations, political or regulatory measures targeting banks as well as geopolitical and global economic developments.

ANALYSIS OF PERFORMANCE

Net interest income

Net interest income declined to EUR 4,353.2 million (EUR 4,374.5 million) on the back of a persistently challenging market interest rate environment, which resulted in lower interest income from the government bond portfolio and customer loans, and a lower unwinding effect owed to continued asset quality improvements. The implementation of supreme court rulings regarding negative reference interest rates for consumer loans also had a negative impact on net interest income in Austria. Solid net customer loan growth did not fully offset the pressure on net interest income. As a result, the net interest margin (net interest income as a percentage of average interest-bearing assets) declined from 2.51% to 2.40%.

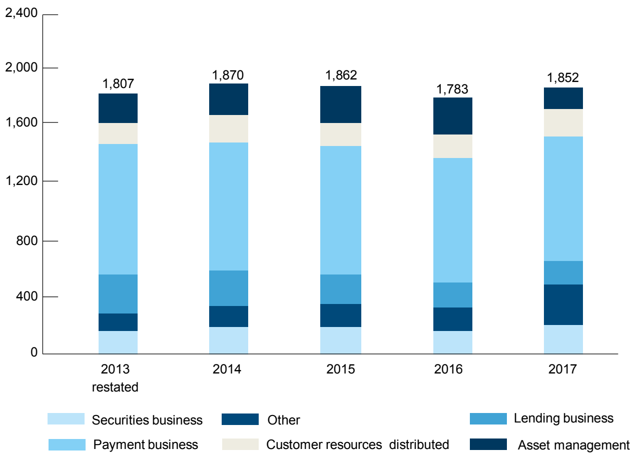
Net interest margin in %



Net fee and commission income

Net fee and commission income rose to EUR 1,851.6 million (EUR 1,783.0 million). While income from the securities business, from asset management and from brokerage saw significant growth, income from lending declined, most notably in the Czech Republic and in Slovakia.

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



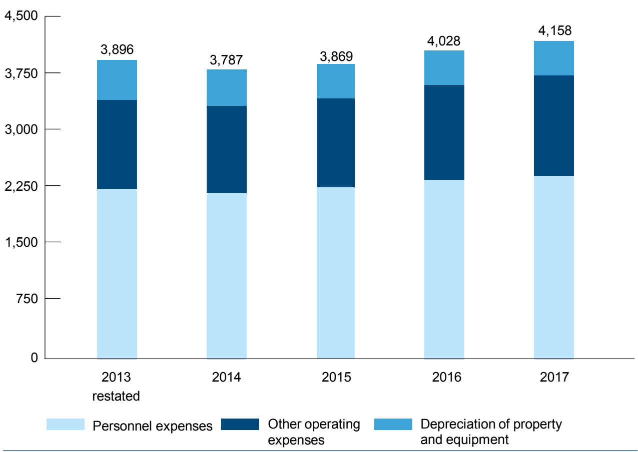
Net trading result

Net trading result decreased to EUR 222.8 million (EUR 283.8 million). This was attributable to losses from securities and derivatives trading as well as negative contributions from hedge accounting.

General administrative expenses

General administrative expenses amounted to EUR 4,158.2 million (EUR 4,028.2 million).

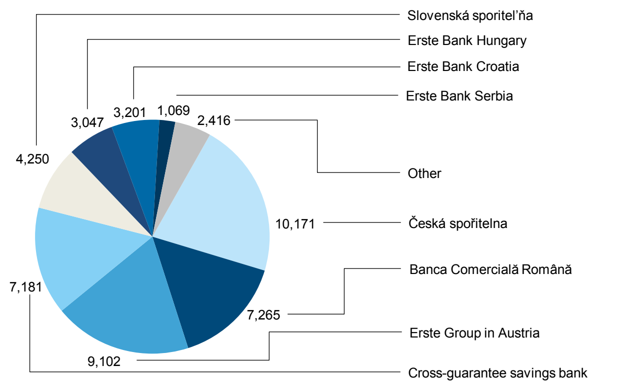
General administrative expenses, structure and trend, in EUR million



Personnel expenses increased to EUR 2,388.6 million (EUR 2,339.3 million), **other administrative expenses** to EUR 1,309.6 million (EUR 1,235.8 million). IT expenditure rose to EUR 425.9 million (EUR 339.3 million), mainly due to increased regulatory requirements and the implementation of new systems in Austria. Consulting expenses were up at EUR 165.7 million (EUR 151.7 million). Deposit insurance contributions declined to EUR 82.8 million (EUR 88.8 million) as lower contributions of EUR 2.2 million (EUR 14.5 million) in Romania and EUR 0.8 million (EUR 2.5 million) in Slovakia offset higher payments in other core markets. **Depreciation and amortisation** increased to EUR 460.0 million (EUR 453.1 million).

The **average headcount** increased marginally by 1.5% to 47,659 (46,955).

Headcount as of 31 December 2017



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

Operating result

Operating income was nearly stable at EUR 6,669.0 million (EUR 6,691.2 million) on the back of improved net fee and commission income, moderately declining net interest income and lower net trading result. General administrative expenses rose to EUR 4,158.2 million (EUR 4,028.2 million), driven by an increase in other administrative and personnel expenses and depreciation and amortisation. The operating result accordingly declined to EUR 2,510.8 million (EUR 2,663.0 million). The cost/income ratio stood at 62.4% (60.2%).

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

Gains from financial assets and liabilities not measured at fair value through profit or loss (net) amounted to EUR 156.4 million (EUR 148.0 million). This item includes mostly gains from the sale of securities in Austria, in the Czech Republic and in Hungary shown in income from financial assets – available for sale. In the comparative period, the item reflected a gain from the sale of shares in VISA Europe in the amount of EUR 138.7 million.

Net impairment loss on financial assets

Net impairment loss on financial assets amounted to EUR 132.0 million (EUR 195.7 million) or 9 basis points (15 basis points) on the average volume of gross customer loans and hence remained at a historically very low level. This was mostly attributable to the decline in the balance of the allocation and release of provisions for the lending business together with lower costs of direct loan write-offs, which also offset the decline in income received from the recovery of loans already written off. In addition, this line item included a net impairment loss on financial assets – held to maturity and financial assets – available for sale in the amount of EUR -27.0 million (EUR -11.4 million), which was mostly a net impairment loss on participations.

Other operating result

Other operating result improved significantly to EUR -457.4 million (EUR -665.0 million) mostly due to reduced **levies on banking activities** of EUR 105.7 million (EUR 388.8 million). Following last year's one-off payment of EUR 200.9 million, banking tax rates have been reduced in Austria from 2017 onwards. This resulted in lower Austrian banking levies of EUR 23.0 million (EUR 306.7 million). In addition, the Hungarian banking tax was further reduced. Due to a lower tax rate and an adjustment of the assessment base, the tax charge declined to EUR 12.8 million (EUR 19.4 million). Including financial transaction tax of EUR 42.4 million (EUR 37.6 million), bank levies in Hungary totalled EUR 55.2 million (EUR 57.0 million). In Slovakia, bank levies rose to EUR 27.4 million (EUR 25.1 million).

Allocation/release of other provisions, including for commitments and guarantees given, amounted to EUR -116.2 million (EUR -125.9 million). This included EUR 45.0 million in provisions for losses from loans to consumers resulting from supreme court rulings regarding negative reference interest rates in Austria. In addition, other operating result also reflected impairments (EUR 31.1 million for IT projects and EUR 26.7 million for branches in the Czech Republic) as well as the annual contributions to resolution funds in the amount of EUR 65.8 million (EUR 65.6 million) shown in the line item result from other operating expenses/income. In Romania, these increased to EUR 14.2 million (EUR 4.5 million) and, to a lesser extent, also in the Czech Republic and Hungary, but declined marginally in Austria, Slovakia and Croatia. In the previous year, the partial impairment of goodwill in Slovenská sporiteľňa had a negative effect of EUR 61.3 million.

Profit/loss for the year

The pre-tax result from continuing operations amounted to EUR 2,077.8 million (EUR 1,950.4 million). The minority charge rose to EUR 351.5 million (EUR 272.0 million) due to continued solid earnings contributions of the savings banks. The net result attributable to owners of the parent rose to EUR 1,316.2 million (EUR 1,264.7 million).

Tax situation

Pursuant to section 9 of the Austrian Corporate Tax Act ("KStG"), Erste Group Bank AG and its main domestic subsidiaries constitute a tax group. Due to the high proportion of tax-exempt income – particularly income from participating interests – and tax payments for the permanent establishments abroad, no Austrian corporate income tax was payable for the financial year 2017. The current tax loss carried forward increased in 2017.

Taxes on income are made up of current taxes on income calculated in each of the Group companies based on the results reported for tax purposes, corrections to taxes on income for previous years, and the change in deferred taxes. The reported total income tax expense amounted to EUR 410.1 million (EUR 413.6 million).

Balance sheet development

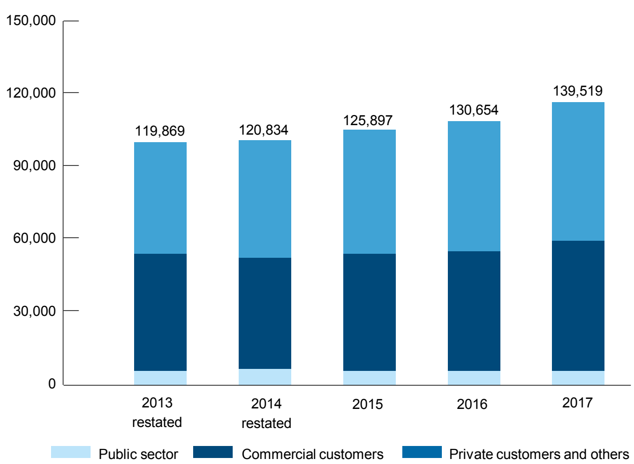
The rise in **cash and cash balances** to EUR 21.8 billion (EUR 18.4 billion) was primarily due to larger cash balances held at central banks on the back of continued strong customer deposit inflows and lower reinvestments.

Trading and investment securities held in various categories of financial assets declined to EUR 42.8 billion (EUR 47.6 billion), driven by sales of available-for-sale securities.

Loans and receivables to credit institutions (net), including demand deposits other than overnight deposits, increased to EUR 9.1 billion (EUR 3.5 billion).

Loans and receivables to customers (net) rose – mainly in the Czech Republic, but also in Austria and in Slovakia – to EUR 139.5 billion (+6.8%; EUR 130.7 billion) on the back of growth in retail and corporate lending as well as a temporarily expanded money market business.

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



Allowances for loans and receivables to customers declined to EUR 4.0 billion (EUR 4.6 billion), mostly due to the continuing improvement in asset quality.

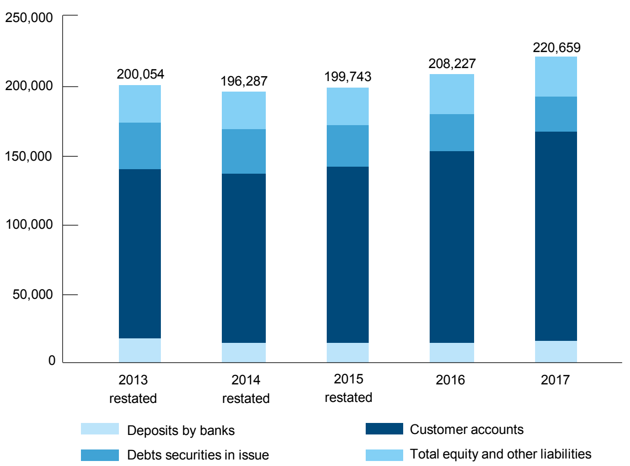
Intangible assets increased to EUR 1.5 billion (EUR 1.4 billion).

Miscellaneous assets declined to EUR 5.9 billion (EUR 6.8 billion).

Financial liabilities – held for trading decreased to EUR 3.4 billion (EUR 4.8 billion).

Deposits from banks, primarily in the form of term deposits, rose to EUR 16.3 billion (EUR 14.6 billion); **deposits from customers** increased to EUR 151.0 billion (EUR 138.0 billion), due to the strong growth in overnight deposits mainly in Austria and in the Czech Republic. The **loan-to-deposit ratio** stood at 92.4% (94.7%).

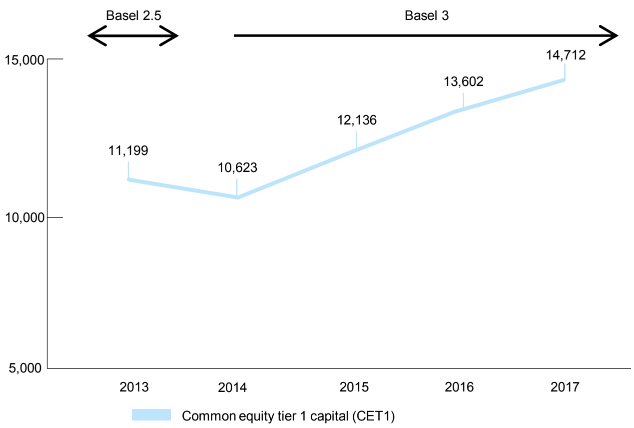
Balance sheet structure/liabilities and total equity in EUR million



Debt securities in issue declined to EUR 25.1 billion (EUR 27.2 billion). Miscellaneous liabilities were almost unchanged at EUR 6.5 billion (EUR 7.0 billion).

Total assets increased to EUR 220.7 billion (EUR 208.2 billion). Erste Group's **total equity** increased to EUR 18.3 billion (EUR 16.6 billion). Following two issuances in June 2016 and April 2017, this has included AT1 instruments in the amount of EUR 993 million. After regulatory deductions and filtering according to the Capital Requirements Regulation (CRR) the **common equity tier 1 capital** (CET1, Basel 3 phased-in) increased to EUR 14.7 billion (EUR 13.6 billion). **Total own funds** (Basel 3 phased-in) rose to EUR 20.3 billion (EUR 18.8 billion). **Total risk** (risk-weighted assets (RWAs) including credit, market and operational risk, Basel 3 phased-in) increased to EUR 110.0 billion (EUR 101.8 billion).

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

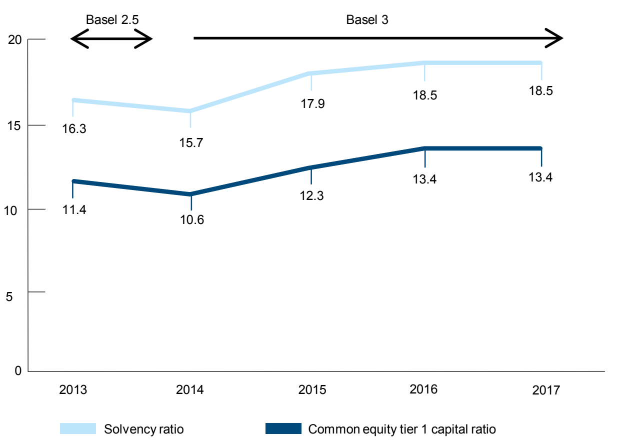


In Basel 2.5: Core tier-1 capital excluding hybrid capital pursuant to section 23 (4a and 4b) of the Austrian Banking Act
Basel 3 values are based on CRR transitional rules.

Consolidated regulatory capital is calculated in accordance with CRR taking into consideration transitional provisions as defined in the Austrian CRR Supplementary Regulation and the regulation 2016/445 of the European Central Bank on the exercise of options and discretions. These define the percentages applicable to eligible capital instruments and regulatory deduction items as well as filters. The **total capital ratio** (Basel 3 phased-in), total eligible qualifying capital in relation to total risk pursuant to CRR, remained stable at 18.5% (18.5%), well above the legal minimum requirement.

The **tier 1 ratio** (Basel 3 phased in) stood at 14.0% (13.4%), the **common equity tier 1 ratio** (Basel 3 phased-in) at 13.4% (13.4%).

Solvency ratio and common equity tier 1 capital ratio in %



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

EVENTS AFTER BALANCE SHEET DATE

There were no significant events after the balance sheet date.

RISK MANAGEMENT

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

RESEARCH AND DEVELOPMENT

Erste Group does not engage in any research activities pursuant to section 243 (3) no. 3 UGB, but in 2017 development costs in the amount of EUR 139 million (EUR 45 million) were capitalised in connection with software developed in-house.

In order to drive improvements for retail customers and in the ongoing services, Erste Group launched the Innovation Hub. Its purpose is to initiate and coordinate across-the-board initiatives with a strong focus on customer experiences. As a multi-disciplinary team consisting of marketing, product and IT as well as design experts, the Innovation Hub is tasked with creating innovations and managing new programme initiatives.

CAPITAL, SHARE, VOTING AND CONTROL RIGHTS

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

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

As of 31 December 2017, together with its syndicate partners, DIE ERSTE oesterreichische Spar-Casse Privatstiftung (Privatstiftung), a foundation, controlled approximately 29.62% of the shares in Erste Group Bank AG and with 15.62% the most important shareholder. The Privatstiftung holds 6.50% of the shares directly, the indirect participation of the Privatstiftung amounts to 9.12% of the shares held by Sparkassen Beteiligungs GmbH & Co KG, which is an affiliated undertaking of the Privatstiftung. 1.00% is 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 the shareholder agreement.

Furthermore, it should be noted that Erste Group Bank AG – just as nearly all Austrian savings banks – is a member of the Haftungsverbund of Sparkassengruppe. Sparkassengruppe sees itself as an association of independent, regionally established savings banks that strives to bolster its market position by strengthening common product development, harmonising its market presence and advertising concepts, pursuing a common risk policy, engaging in co-ordinated liquidity management and applying common controlling standards.

In addition, the purpose of this scheme is:

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

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

As required by the BWG, individual members of the Haftungsverbund may need to provide assistance to other members (by giving liquidity assistance, granting loans or guarantees and providing equity capital, for instance) and, in any other protection case (insolvency), to service the guaranteed customer deposits of a Haftungsverbund member. The scope of the individual services to be provided by individual Haftungsverbund members where needed is subject to an individual and general maximum limit. Any contributions made by Haftungsverbund members under the statutory deposit guarantee system pursuant to section 93 et seq. BWG are likewise counted. The corresponding amounts are determined by Haftungsgesellschaft and communicated to members liable for contributions.

In 2013, collaboration with savings banks was further strengthened by way of an additional agreement. The purpose of the agreement concluded in 2013 and effective as of 1 January 2014 is not only to broaden the regulatory options available to Erste Group Bank AG but also to ensure compliance with point 127 of Article 4 (1) CRR and Article 113 (7) CRR with a view to allowing recognition of minority interests at consolidated level in accordance with Article 84 (6) CRR. Savings banks that are party to the agreement concluded in 2013 also include Allgemeine Sparkasse Oberösterreich, which forms an institutional protection scheme as defined under Article 113 (7) CRR with the other members of the Haftungsverbund. Owing to the new legal and supervisory requirements, the maximum limits for support mechanisms of the individual members were raised and an ex ante fund was set up. Payments to the ex-ante fund are made on a quarterly basis over a period of 10 years. In the financial statements, the payments by the individual members are recognised as participations in IPS GesbR – which has been charged with managing the ex-ante fund. There was a shift in retained earnings from untied reserves to tied reserves. On the basis of the contractual provisions, these retained earnings represent a tied reserve. These tied retained earnings may be released only if the ex-ante fund is used due to a contingency. Internally, this reserve may therefore not be used to cover a loss and, at member level, it does not qualify as capital under the definition of CRR; on a consolidated level, however, the ex-ante fund qualifies as capital.

Additional disclosures pursuant to section 243a (1) UGB

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

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

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

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

Additional disclosures pursuant to section 243a (1) no. 7 UGB

Pursuant to the following provisions, members of the management board have the right to repurchase shares, where such a right is not prescribed by statutory law.
As per resolution of the annual general meeting of 17 May 2017:

- The management board is entitled to purchase up to 10% of the subscribed capital in treasury shares for trading purposes according to section 65 (1) no. 7 Austrian Stock Corporation Act (AktG). However, the trading portfolio of these shares must not exceed 5% of the subscribed capital at the end of any calendar day. The consideration for the shares to be purchased must not be less than 50% of the closing price at the Vienna Stock Exchange on the last trading day prior to the purchase and must not exceed 20% of the closing price at the Vienna Stock Exchange on the last trading day prior to the purchase. This authorisation is valid for a period of 30 months, i.e. until 11 November 2017.
- The management board is entitled, pursuant to section 65 (1) no. 8 as well as (1a) and (1b) Stock Exchange Act and for a period of 30 months from the date of the resolution, i.e. until 11 November 2017, to acquire own shares of up to 10% of the subscribed capital, subject to approval by the supervisory board, with the option of making repeated use of the 10% limit, either at the stock exchange or over the counter, likewise to the exclusion of the shareholders' right to tender proportional payment. The authorisation may be exercised in whole or in part or in several instalments and in pursuit of one or more purposes. The market price per share must not be below EUR 2.00 or above EUR 120.00. Pursuant to section 65 (1b) in conjunction with section 171 Stock Corporation Act, the management board is authorised, from the date of the resolution, i.e. until 11 May 2020, on approval by the supervisory board, to sell or use the company's own shares, also by means other than the stock exchange or a public offering for any purpose allowed by the law, particularly as consideration for the acquisition and financing of the acquisition of companies, businesses, business divisions or shares in one or more businesses in Austria or abroad to the exclusion of the shareholders' proportional purchase option. The authorisation may be exercised in whole or in part or in several instalments and in pursuit of one or more purposes. The management board is authorised to redeem own shares subject to the supervisory board's approval without requiring the annual general meeting to adopt any further resolution.

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

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

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

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

Haftungsverbund

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

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

The Haftungsverbund agreement in principle and supplementary agreement expire if and as soon as any entity that is not a member of the savings bank sector association acquires more than 25% of the voting power or equity capital of Erste Group Bank AG in any manner whatsoever and a member savings bank notifies the Haftungsverbund steering company and Erste Group Bank AG by registered letter within 12 weeks from the change of control that it intends to withdraw from the Haftungsverbund.

Directors and officers insurance

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

- the insured party ceases to exist as a result of merger or consolidation, unless the merger or consolidation occurs between two insured parties, or
- another company, person or group of companies or persons acting in concert who are not insured parties, acquire more than 50% of the insured party's outstanding equity or more than 50% of its voting power (giving rise to the right to control the voting power represented by the shares, and the right to appoint the management board members of the insured party), then the insurance cover under this policy remains in full force and effect for claims relating to unlawful acts committed or alleged to have been committed before this change in control took effect. However, no insurance cover is provided for claims relating to unlawful acts committed or allegedly committed after that time (unless the insured party and insurer agree otherwise). The premium for this insurance cover is deemed to be completely earned.

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

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

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

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

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

Control environment

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

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

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

Risks relating to the financial reporting procedures

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

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

Controls

Group Accounting and Group Performance Management are responsible for group reporting and report to Erste Group's CFO.

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

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

Group Consolidation

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

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

Information and communication

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

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

Responsibilities of Internal Audit

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

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

Audit activities of Internal Audit

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

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

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

CORPORATE GOVERNANCE

The (consolidated) corporate governance report is part of the annual report of Erste Group (http://www.erstegroup.com/investor-relations).

(CONSOLIDATED) NON-FINANCIAL DECLARATION

Erste Group decided to prepare and publish a separate non-financial report – integrated in the annual report– in line with an option provided for in the Austrian Sustainability and Diversity Improvement Act (NaDiVeG).

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

Vienna, 28 February 2018

Segments

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

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

The tables and information in this section are not subject to the audit of the consolidated financial statements. They provide a brief overview and focus on selected and summarised items. For more details, please see Note 37. Additional information is available in Excel format at http://www.erstegroup.com/en/investors/reports/financial_reports.

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

Business segments

Erste Group – business segments						
Retail	Corporates	Group Markets	Asset/Liability Management & Local Corporate Center	Savings Banks	Group Corporate Center	Intragroup Elimination

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

The **Corporates** segment comprises business activities with corporate customers of different turnovers (small and medium-sized enterprises, Local Large Corporate and Group Large Corporate customers) as well as commercial real estate and public sector business. Small and medium-sized enterprises (SME) are customers under the responsibility of the local corporate commercial center network with annual turnover up to determined thresholds. Local Large Corporates (LLC) are customers with an annual turnover exceeding the SME thresholds but not categorised as Group Large Corporate customers. Group Large Corporates (GLC) are large corporate customers/client groups with substantial operations in Erste Group's core markets that are included in the GLC client list. Commercial Real Estate (CRE) includes for example business with real estate investors generating income from the rental of individual properties or portfolios of properties as well as with developers of individual properties or portfolios of properties generating capital gains through sale. Public Sector consists of three sets of customers: public sector, public corporations and non-profit sector.

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

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

The **Savings Banks** segment includes those savings banks which are members of the Haftungsverbund (cross-guarantee system) of the Austrian savings banks sector and in which Erste Group does not hold a majority stake but which are fully controlled according to IFRS 10. The fully or majority owned Erste Bank Oesterreich, Tiroler Sparkasse, Salzburger Sparkasse and Sparkasse Hainburg are not part of the Savings Banks segment.

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

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

RETAIL

Financial review

in EUR million	2016	2017	Change
Net interest income	2,198.2	2,155.7	-1.9%
Net fee and commission income	958.4	1,003.8	4.7%
Net trading result	99.6	114.0	14.5%
Operating income	3,286.3	3,304.4	0.6%
Operating expenses	-1,892.8	-1,995.8	5.4%
Operating result	1,393.5	1,308.6	-6.1%
Cost/income ratio	57.6%	60.4%	
Net impairment loss on financial assets	-19.1	9.5	n/a
Other result	-110.8	-60.4	-45.5%
Net result attributable to owners of the parent	964.6	960.7	-0.4%
Return on allocated capital	42.0%	40.5%	

Net interest income declined on the back of lower contributions from deposit business in Austria and the Czech Republic as well as lower contributions from lending business in Romania and Slovakia. These developments were partially mitigated by an increasing secured loan portfolio as well as the shift of clients from the Corporates segment in Austria, improved performance of deposit business in Croatia and Slovakia as well as additional income generated by the unsecured portfolio of the acquired business of Citibank in Hungary. Net fee and commission income increased primarily due to higher securities and payment transfer fees in Austria. The former Citibank retail business in Hungary also contributed positively. Net trading went up due to the higher income from client foreign exchange transactions in Romania and the Czech Republic and the increased client base in Hungary. Operating expenses increased primarily due to higher costs in Hungary and Slovakia as well as higher costs in Austria triggered by the shift of clients from the Corporates segment. Operating result thus declined, the cost/income ratio went up. The significant improvement of net impairment loss on financial assets was driven by releases of risk provisions in the Czech Republic, Austria and Romania. Other result improved due to the non-recurrence of high litigation provisions in Romania booked last year. Overall, the net result attributable to the owners of the parent marginally decreased.

Credit risk

Credit risk exposure in the Retail segment rose strongly to EUR 59.7 billion (+10.6%). The customer loan portfolio increased to EUR 52.7 billion (+8.8%). The share of the retail business in Erste Group's total customer loans was up at 36.7% (35.8%). The collateralisation ratio, which reflects the ratio of collateral to loan volume, stood at 63.0% (63.7%). The quality of the retail customer loan portfolio improved again significantly. Non-performing loans as a percentage of total retail customer loans decreased to 3.2% (4.0%). In terms of the NPL ratio, this segment continued to feature the highest quality of all business segments with a significant loan portfolio. In addition to the decline of non-performing loans by EUR 254 million, a migration to better risk classes of performing loans took place. The share of low-risk loans as a percentage of total retail customer loans rose to 86.3% (84.6%). The NPL coverage ratio based on loan loss provisions rose to 78.0% (75.2%).

CORPORATES

Financial review

in EUR million	2016	2017	Change
Net interest income	1,015.6	993.9	-2.1%
Net fee and commission income	259.1	256.2	-1.1%
Net trading result	90.7	91.6	1.0%
Operating income	1,504.7	1,469.9	-2.3%
Operating expenses	-562.4	-577.0	2.6%
Operating result	942.4	892.9	-5.2%
Cost/income ratio	37.4%	39.3%	
Net impairment loss on financial assets	-61.9	-135.3	>100.0%
Other result	-10.2	-13.9	37.2%
Net result attributable to owners of the parent	653.0	580.3	-11.1%
Return on allocated capital	22.3%	18.8%	

Net interest income decreased primarily due to the lower contribution of business in Austria partially caused by the shift of clients to the Retail segment of Erste Bank Oesterreich. Net interest income in Croatia was negatively impacted by lower contribution of the lending business. A better result from early repayment fees in the Czech Republic, higher guarantee fees in Hungary as well as higher lending fees in Croatia partially compensated the negative impact of the shift of customers in Austria on net fee and commission income. The moderate increase in the net trading result was mainly attributable to valuation effects of derivatives in Erste Bank Oesterreich. Rental income was negatively influenced by the sale of real estate SPVs in the Czech Republic and decreasing volumes of operating lease in Croatia. As a result, operating income went down. Higher operating expenses driven by project-related costs contributed to the decrease of the operating result and the increase in the cost/income ratio. Net impairment loss on financial assets increased significantly on the back of lower income from insurance claims in Romania as well as downgrading of one customer in Croatia. On the other hand, risk costs in the Czech Republic and Erste Bank Oesterreich decreased. Other result improved mainly due to the release of provisions for litigations in Hungary. Consequently, the net result attributable to the owners of the parent decreased.

Credit risk

Credit risk exposure in the Corporates segment rose to EUR 64.1 billion (+4.4%). Loans to customers increased to EUR 47.2 billion (+5.7%). As a percentage of Erste Group’s total loans to customers they slightly declined to 32.9% (33.1%). The difference between credit risk exposure and the customer loan portfolio is primarily due to a large volume of guarantees and unused loan commitments. Active management of non-performing loans through restructuring and write-downs resulted in a significant improvement of the asset quality in the Corporates segment. Sales of non-performing loans played a lesser role than in previous years. The NPL ratio dropped to 4.9% (6.1%). The share of low risk loans rose to 86.3% (84.3%). The NPL coverage ratio based on loan loss provisions stood at 69.4% (72.3%).

GROUP MARKETS

Financial review

in EUR million	2016	2017	Change
Net interest income	212.1	196.8	-7.2%
Net fee and commission income	203.7	223.0	9.4%
Net trading result	94.3	123.8	31.2%
Operating income	515.1	554.1	7.6%
Operating expenses	-223.4	-229.5	2.7%
Operating result	291.7	324.6	11.3%
Cost/income ratio	43.4%	41.4%	
Net impairment loss on financial assets	11.4	3.6	-68.4%
Other result	4.9	-11.5	n/a
Net result attributable to owners of the parent	235.6	245.7	4.3%
Return on allocated capital	37.6%	36.9%	

Net interest income decreased primarily due to the generally low interest rate environment, lower volumes of collateral trading products and lower margins on sight deposits of financial institutions. Net fee and commission income rose on the back of increased sales activities, higher assets under management and arrangement fees related to debt issuance. The increase in net trading result was attributable to positive market developments affecting fixed income, money market, collateral trading and credit trading products. Therefore, operating income improved. Although operating expenses went up on the back of higher project-related costs, operating result as well as the cost/income ratio improved. Other result deteriorated due to the booking of one-off income from the resolution of a claim last year. Overall, the net result attributable to the owners of the parent increased.

ASSET/LIABILITY MANAGEMENT & LOCAL CORPORATE CENTER

Financial review

in EUR million	2016	2017	Change
Net interest income	-93.7	-55.4	-40.9%
Net fee and commission income	-64.4	-87.4	35.6%
Net trading result	-10.2	-74.3	>100.0%
Operating income	-135.2	-191.2	41.4%
Operating expenses	-117.3	-86.0	-26.7%
Operating result	-252.5	-277.2	9.8%
Cost/income ratio	-86.8%	-45.0%	
Net impairment loss on financial assets	-9.6	-8.3	-13.4%
Other result	-28.2	-142.9	>100.0%
Net result attributable to owners of the parent	-214.4	-359.3	67.6%
Return on allocated capital	-9.6%	-17.7%	

Net interest income increased mainly due to a higher contribution from deposits in Erste Bank Oesterreich partially offset by the lower result from derivatives in the Holding. The decrease in net fee and commission income was primarily related to lower fee income in the Czech Republic. The deterioration of net trading result as well as the result from financial assets and liabilities designated at fair value through profit or loss was driven by valuation results in the Holding. The decrease in operating expenses was mainly attributable to lower costs in Slovakia. Overall, operating result declined. Other result worsened mainly due to the non-recurrence of the selling gains on the shares of VISA Europe in 2016 (EUR 138.7 million) as well as provisions for expected losses from loans to consumers due to supreme court rulings regarding negative reference interest rates in Erste Bank Oesterreich in 2017 (EUR 13.7 million). These effects were partially compensated for by the substantial decrease of banking tax in Erste Bank Oesterreich after a one-off payment in the amount of EUR 25.4 million in 2016. The net result attributable to the owners of the parent decreased.

SAVINGS BANKS

Financial review

in EUR million	2016	2017	Change
Net interest income	955.8	982.0	2.7%
Net fee and commission income	429.7	446.2	3.8%
Net trading result	5.3	10.2	91.4%
Operating income	1,446.0	1,492.9	3.2%
Operating expenses	-1,021.8	-1,051.2	2.9%
Operating result	424.2	441.7	4.1%
Cost/income ratio	70.7%	70.4%	
Net impairment loss on financial assets	-54.2	12.6	n/a
Other result	-56.8	-38.0	-33.2%
Net result attributable to owners of the parent	34.1	51.9	52.4%
Return on allocated capital	9.3%	14.7%	

The increase in net interest income was mainly attributable to higher loan volumes and lower interest expenses, which was partially offset by the effect of the implementation of supreme court rulings regarding negative reference interest rates for consumer loans. Net fee and commission income increased mostly due to higher fees from securities business and payments. Net trading result improved on the back of positive valuation results. Operating expenses went up due to higher IT expenses. The booking of deposit insurance contributions for the full year amounted to EUR 27.0 million (EUR 24.2 million). Therefore, operating result increased and the cost/income ratio improved. Net impairment loss on financial assets decreased substantially. Other result improved due to selling gains of AfS securities and the decrease of banking tax to EUR 4.4 million (EUR 47.0 million – including a one-off payment in the amount of EUR 32.6 million) despite provisions for expected losses from loans to consumers due to supreme court rulings regarding negative reference interest rates (EUR 31.3 million) and higher provisions for contingent liabilities. The payment into the resolution fund amounted to EUR 6.4 million (EUR 8.5 million). Overall, the net result attributable to the owners of the parent increased.

Credit risk

Credit risk exposure in the Savings Banks segment increased to EUR 57.7 billion (+2.8%) while loans to customers rose to EUR 42.1 billion (+3.7%). Their share in Erste Group's total customer loans amounted to 29.4% (30.0%). Lending to private households increased at the same pace as loans to customers. Their share in the Savings Banks' total customer loan portfolio was unchanged at 38.3%. Lending to freelance professionals, other self-employed persons and small businesses grew by 0.9%. At 15.7% of total loans, the share of this customer segment was again significantly larger than at Erste Group's subsidiaries in Central and Eastern Europe. This reflects the structure of Austria's economy with a very high share of small and medium-sized enterprises compared with other countries. Swiss franc denominated foreign-currency loans declined further to EUR 2.2 billion (-25.1%). The trend towards higher collateralisation of loans continued. The quality of the loan portfolio was again very solid. Non-performing loans as a percentage of total loans to customers decreased to 4.2% (4.9%). The development was especially positive among corporate clients. The NPL coverage ratio based on loan loss provisions stood at 58.3% (58.1%).

GROUP CORPORATE CENTER

Financial Review

in EUR million	2016	2017	Change
Net interest income	77.4	74.9	-3.2%
Net fee and commission income	6.4	13.0	>100.0%
Net trading result	3.7	-41.5	n/a
Operating income	112.0	73.1	-34.8%
Operating expenses	-871.5	-996.4	14.3%
Operating result	-759.4	-923.3	21.6%
Cost/income ratio	>100.0%	>100.0%	
Net impairment loss on financial assets	-62.2	-14.1	-77.3%
Other result	307.3	709.2	>100.0%
Net result attributable to owners of the parent	-408.1	-163.2	-60.0%
Return on allocated capital	-7.2%	-2.0%	

Operating income declined mainly due to lower valuation results. The increase in operating expenses was primarily driven by higher IT costs. Other result improved significantly on the back of lower Austrian banking tax impacted by a one-off payment in the amount of EUR 138.3 million in the previous year. In 2016 this line item also included partial impairment of the goodwill in Slovenská sporitel'ňa in the amount of EUR 61.3 million. Consequently, the net result attributable to the owners of the parent improved significantly.

Geographical segments

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

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

The geographical area **Austria** consists of three segments:
_ The **Erste Bank Oesterreich & Subsidiaries** (EBOe & Subsidiaries) segment comprises Erste Bank der oesterreichischen Sparkassen AG (Erste Bank Oesterreich) and its main subsidiaries (e.g. sBausparkasse, Salzburger Sparkasse, Tiroler Sparkasse, Sparkasse Hainburg).
_ The **Savings Banks** segment is identical to the business segment Savings Banks.
_ The **Other Austria** segment comprises Erste Group Bank AG (Holding) with its Corporates and Group Markets business, Erste Group Immorent, Erste Asset Management and Intermarket Bank.

The geographical area **Central and Eastern Europe (CEE)** consists of six segments covering Erste Group's banking subsidiaries located in the respective CEE countries:
_ **Czech Republic** (comprising Česká spořitelna Group)
_ **Slovakia** (comprising Slovenská sporiteľňa Group)
_ **Romania** (comprising Banca Comercială Română Group)
_ **Hungary** (comprising Erste Bank Hungary Group)
_ **Croatia** (comprising Erste Bank Croatia Group) and
_ **Serbia** (comprising Erste Bank Serbia Group)

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

Austria

Economic review

The developed and open economy of Austria is well diversified across industries, benefiting from a high value adding industrial base, well-educated workforce and a strong tourism and service sector. Economic growth in 2017 was the strongest in six years, driven mainly by solid domestic consumption and increased investment activity. Net exports were also strong and contributed to economic growth. Consumer confidence indicators showed an upswing. The robust economic activity resulted in a decline of the unemployment rate; it reversed its negative trend and improved for the first time in five years. The unemployment rate declined to 5.5%. In terms of GDP per capita at EUR 42,000, Austria remained one of the wealthiest countries in the euro zone. Overall, real GDP grew by 2.9%.

Following early parliamentary elections in October 2017, a new coalition headed by the People's Party was formed. The fiscal position of the country remained stable and Austria kept its general government deficit at a relatively low level of 1.0%. Revenues were significantly supported by the inflows from personal income tax and higher social security contributions, which reflected the rise in employment. Government expenses increased only moderately, mainly due to lower debt service costs. Public debt as a percentage of GDP decreased from 83.6% in 2016 to 80.8% in 2017. Reflecting the country's performance, all major rating agencies affirmed their strong ratings for Austria. At year-end, Standard & Poor's and Fitch had the country's long-term credit rating with a stable outlook at AA+, Moody's at Aa1, also with a stable outlook.

Although the economic upswing led to increasing inflation, it remained at a moderate level. Property prices continued to rise moderately in 2017. The price increase in the service sector was most pronounced in tourism. Overall, average consumer prices increased by 2.2%. The European Central Bank continued its expansionary monetary policy and left the key interest rate untouched at 0% throughout 2017.

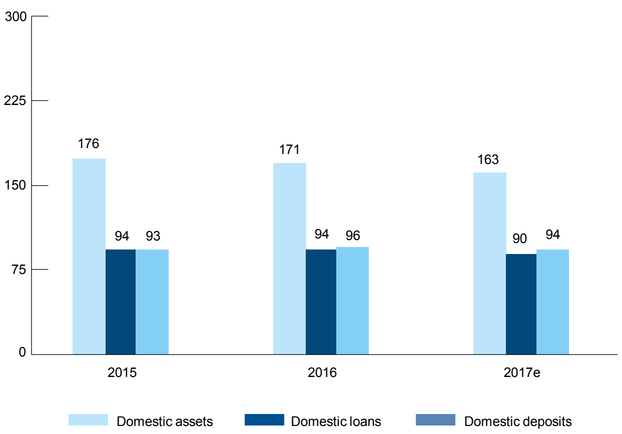
Key economic indicators – Austria	2014	2015	2016	2017e
Population (ave, million)	8.5	8.6	8.7	8.8
GDP (nominal, EUR billion)	333.1	344.5	353.3	369.2
GDP/capita (in EUR thousand)	39.0	39.9	40.4	42.0
Real GDP growth	0.8	1.1	1.5	2.9
Private consumption growth	0.4	0.8	1.7	1.3
Exports (share of GDP)	39.5	39.7	39.8	41.2
Imports (share of GDP)	41.0	41.2	4.2	43.1
Unemployment (Eurostat definition)	5.6	5.7	6.0	5.5
Consumer price inflation (ave)	1.5	0.8	1.0	2.2
Short term interest rate (3 months average)	0.1	0.0	-0.3	-0.3
EUR FX rate (ave)	1.0	1.0	1.0	1.0
EUR FX rate (eop)	1.0	1.0	1.0	1.0
Current account balance (share of GDP)	2.5	1.9	2.1	2.2
General government balance (share of GDP)	-2.7	-1.0	-1.6	-1.0

Source: Erste Group

Market review

The Austrian banking market, with total assets of 224% of GDP in 2017, has the characteristics of a developed banking market. It remains very competitive and continues to suffer from low margins. Challenges to profitability also persist in the form of relatively high costs compared to banking markets in CEE. On the other hand, the country's banking market benefits from traditionally low risk costs and the significant reduction of the banking tax in 2017. The market continued to grow with customer loans expanding by 1.4% and deposits growing by 4.0% as of September 2017. The banking system's loan-to deposit-ratio ratio stood at 95.7%.

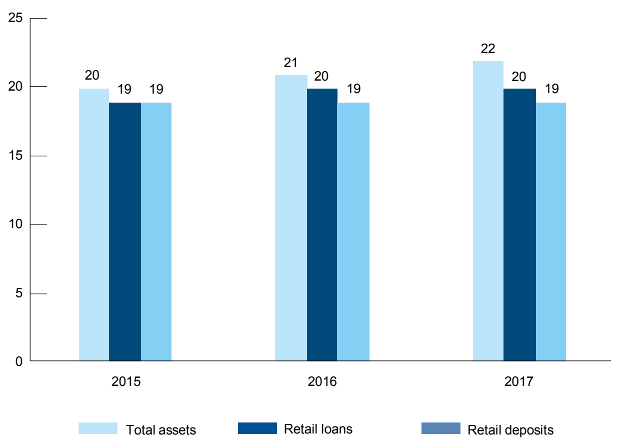
Financial intermediation – Austria (in % of GDP)



Source: Oesterreichische Nationalbank (data as of Q3 2017), Erste Group

The Austrian Supreme Court confirmed that, for consumer loans, with respect to the margin used to calculate the applicable interest rate, it is impermissible to fix a floor for such margin while not at the same time fixing a ceiling. Thus, banks are obligated to reimburse improperly-calculated interest to the affected consumers as well as to adjust the calculation of interest for future payments. At the same time, the Supreme Court confirmed that negative base rates in the loan markets cannot trigger a reversal of payment obligations.

Market shares – Austria (in %)



Source: Oesterreichische Nationalbank (data as of Q3 2017), Erste Group

Erste Bank Oesterreich and the savings banks continued to have a very strong market position in the Austrian market. Based on their balanced business model, they further increased their combined market shares to between 19% and 21% in both retail and corporate segments. Importantly, *George*, the digital banking platform developed by Erste Group Bank AG's in-house fintech, has already become the country's most modern and popular banking platform. Its 1.5 million users represents more than every third online banking user in Austria. Altogether, the market share of Erste Bank Oesterreich and the savings banks in terms of total assets stood at 22.0%. The three largest banking groups of the Austrian market continued to have a combined market share of than 60% in customer loans and deposits.

ERSTE BANK OESTERREICH & SUBSIDIARIES

Business review – Highlights

Innovation in banking. By launching its digital platform *George* and the mobile App *George Go*, Erste Bank Oesterreich affirmed its position as innovation leader in the market. Mobile use of digital banking services has strongly increased. By year-end 2017, 1.5 million users had already signed up for *George*. *George* is being continuously expanded and also offers services for corporate customers.

The bank's digital offering also includes consumer loans and enables customers to open bank accounts using video identification.

New branch concept. The rollout of the new branch concept was continued. Simple business is dealt with quickly at newly designed service centres situated at high-frequency locations, along people's daily routes. For more complex customer needs, Erste Bank Oesterreich offers a wide range of products and services at its large advisory branches. For customers, this means clearly designed and welcoming branches, rooms for private meetings, faster handling of their requests and proactive support in the foyers entry areas. Customer satisfaction increased at all newly opened advisory branches.

High customer satisfaction, strong growth. Erste Bank Oesterreich regularly conducts customer surveys to maintain and further improve its high level of customer service quality. In 2017, best marks were achieved in all three satisfaction categories (satisfaction with the bank, the branch, the relationship manager) in both the retail and the corporate customers' segments. The number of newly acquired customers amounted to more than 43,000 (net).

Continued growth. Net loans increased again significantly in 2017. Small and medium-sized enterprises increasingly turned to Erste Bank Oesterreich to fund their investment spending. In the retail business, demand for mortgage loans remained high. Attractive offerings with fixed interest rates – also for longer maturities – allow Erste Bank Oesterreich's customers to benefit from and lock in low interest rates. Significantly more than half of all housing loans were granted at fixed interest rates. Consumer loans were also up significantly, which was attributable in particular to online consumer loans, which can be contracted quickly and easily through *George*.

International recognition. Erste Group won the prestigious *Best Private Bank in CEE* award conferred by the financial magazine *The Banker* for the fourth time in a row and was also recognised once again for *Best Private Banking in Austria*.

Financial review

in EUR million	2016	2017	Change
Net interest income	660.5	631.2	-4.4%
Net fee and commission income	334.6	353.8	5.7%
Net trading result	16.1	18.9	17.0%
Operating income	1,057.5	1,053.7	-0.4%
Operating expenses	-666.9	-679.6	1.9%
Operating result	390.6	374.1	-4.2%
Cost/income ratio	63.1%	64.5%	
Net impairment loss on financial assets	-29.3	26.1	n/a
Other result	-18.5	-27.5	48.3%
Net result attributable to owners of the parent	228.4	253.2	10.9%
Return on allocated capital	19.3%	21.1%	

Net interest income decreased due to a change in accrual policy at the building society, a change in the scope of consolidation and the effect of the implementation of supreme court rulings regarding negative reference interest rates for consumer loans, which was only partially compensated for by higher customer loan volumes and re-pricing of deposits. Net fee and commission income increased due to higher securities, payments and insurance fees, as well as a change in accrual policy at the building society. The net trading result increased slightly due to valuation effects of derivatives. Operating expenses increased mainly on the back of higher IT costs. The booking of deposit insurance contributions also rose to EUR 21.7 million (EUR 19.2 million). Consequently, operating result decreased and the cost/income ratio deteriorated. Net impairment loss on financial assets benefited from lower provisioning requirements in corporate and retail business. The deterioration of other result was driven by non-recurrence of the selling gains from buildings and related to the sale of shares in Visa Europe (EUR 12.2 million) in 2016 as well as by provisions for expected losses from loans to consumers due to Supreme Court rulings regarding negative reference interest rates (EUR 13.7 million). Banking tax decreased to EUR 3.3 million (EUR 44.4 million; including a one-off payment in the amount of EUR 30.0 million). Payment into the resolution fund decreased to EUR 6.1 million (EUR 7.2 million). Overall, the net result attributable to the owners of the parent improved.

Credit risk

Credit risk exposure in the Erste Bank Oesterreich and Subsidiaries segment increased marginally to EUR 39.3 billion (+0.8%) while the volume of customer loans rose more visibly to EUR 31.8 billion (+2.4%). The share of this segment in Erste Group's total loan portfolio declined to 22.1% (23.0%). The share of retail customers in total loan volume was almost unchanged at 39.9% (40.0%). The share of corporates, including self-employed individuals and small businesses, was constant at 53.8% (53.9%). Loans to freelance professionals, other self-employed persons and small businesses are less significant than they are for the savings banks and amounted to 10.1% (9.8%) of total loans to customers. Lending to the public sector increased more substantially to EUR 2.0 billion (+6.4%). Owing to the continued campaign promoting the conversion of foreign currency loans to euro, the share of Swiss franc loans in the total loan portfolio decreased further to 5.0% (6.7%). The quality of the loan portfolio improved again. While low-risk loans registered above-average growth, non-performing loans as a percentage of total loans to customers declined to 2.0% (2.5%). The development was positive across all customer segments, but most visible among medium-sized and larger enterprises. Default rates remained lowest in the public sector and private households customer segments. The NPL coverage ratio based on loan loss provisions stood at 57.1% (59.3%).

SAVINGS BANKS

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

Business review – Highlights

Growth in a low interest rate environment. Like Erste Bank Oesterreich, the savings banks also achieved significant growth in deposits and loans. Loans grew by 3.5%, while the increase in deposits was more pronounced at 6.6%. These growth rates were the result of the excellent customer support and high service quality but also the successful positioning as an innovative provider of banking services and the positive image that resulted from it.

Reducing complexity. The measures taken by the savings banks to further reduce the complexity of work processes and simplify the products offered not only create added value for the customers but will also improve the cost/income ratio over the medium term.

Innovation in banking. For the savings banks innovation is key to creating more value for customers and raising customer satisfaction. With *George*, Erste Bank Oesterreich and the savings banks have developed a modern platform that already boasts a large number of active users.

OTHER AUSTRIA

Business review – Highlights

Strong performance of Erste Asset Management. Erste Asset Management (Erste AM) continued to expand its business volume despite difficult market conditions. Assets under management rose to EUR 63.3 billion (+10.7%). In terms of assets under management Erste AM is market leader in Austria, Romania, the Czech Republic and now also in Croatia.

The *ERSTE BOND CORPORATE PLUS* fund launched at the end of 2016 is one of the most successful product innovations with an annualised performance of 8.5%. Erste AM expanded its range of sustainable products. In March 2017, it launched the *ERSTE RESPONSIBLE STOCK DIVIDEND* fund. The fund has been awarded the Austrian Ecolabel for meeting relevant sustainability criteria.

At the Austrian fund of funds awards, Erste AM received 16 awards and ranked first in five categories. EAM was also awarded the FNG label for ten of its sustainable funds. Created by Forum Nachhaltige Geldanlagen e.V. (FNG), the FNG label is the quality standard for sustainable financial investment in German-speaking countries.

Group Markets business. Group Markets activities comprise trading and markets services as well as the entire financial institutions customer business.

Erste Group was one of the bookrunning syndicate banks in the Initial Public Offerings (IPO) of Dino Polska on the Warsaw Stock Exchange and Waberer International on the Budapest Stock Exchange. In addition, Erste Group was a leading syndicate bank in the capital increase of Agrana, listed on the Vienna Stock Exchange.

Erste Group acted as joint bookrunner on the issuance of the EUR 3.5 billion century bond as well as the EUR 4 billion benchmark bond both issued by the Republic of Austria.

Commercial real estate business. Due to strong new business generation the portfolio volume remained stable despite growing competition for financing of real estate assets across Austria and CEE. The robust risk profile of the new business supported the continued improvement of the overall portfolio quality and diversification. More than half of the new business volume was attributable to Austria and the Czech Republic.

As a result of the consistent high service quality in the commercial real estate business, Erste Group was named *Lender of the Year* at the CEE Quality Awards.

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

Group Corporates business. The integrated corporate banking business model benefits from profound sector know how of the local entities and a group-wide steering approach making it possible to utilise cross-selling opportunities.

Erste Group again demonstrated its syndicated loan capabilities domestically and internationally. Erste Group acted as coordinator, mandated lead arranger and bookrunner on a EUR 1 billion revolving credit facility for Novomatic, closing the deal with 13 international banks. Another example was the EUR 250 million loan for Egger Holzwerkstoffe, the subsidiary of a leading, Austrian based producer of wood composites. Erste Group acted as agent for a group of Egger's relationship banks.

In project finance, Erste Group focused on financing renewable energy projects in CEE. The wind power sector is a steady contributor to the financing pipeline, particularly in Croatia and Serbia. In Hungary, after years of stagnation, photovoltaic projects have gained in importance. The total project volume in various stages of debt financing in 2017 amounted to EUR 1 billion, mainly allocated to wind, solar and waste to energy projects.

Overall, Erste Group's successes in capital markets, corporate finance and transaction banking improved its market position in the large corporates business.

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

Financial review

in EUR million	2016	2017	Change
Net interest income	401.6	372.2	-7.3%
Net fee and commission income	197.8	216.6	9.5%
Net trading result	18.3	50.7	>100.0%
Operating income	681.7	708.0	3.9%
Operating expenses	-355.5	-373.8	5.1%
Operating result	326.2	334.2	2.5%
Cost/income ratio	52.2%	52.8%	
Net impairment loss on financial assets	-23.5	-40.0	69.8%
Other result	25.6	3.4	-86.7%
Net result attributable to owners of the parent	248.1	228.6	-7.8%
Return on allocated capital	16.6%	15.5%	

Net interest income declined primarily as a result of lower income from credit trading positions in Group Markets business, a decrease of lending margins in the corporate loan portfolio in New York branch and the non-recurrence of a positive one-off impact in the real estate business in Austria. Net fee and commission income increased due to higher asset management volumes and a wider scope of consolidation at Erste Asset Management, as well as the inclusion of Intermarket Bank (reported as part of EBOe & Subsidiaries segment in 2016). The increase of net trading result was predominantly attributable to better performance of interest rate derivatives. Despite an increase in operating expenses, mostly driven by higher project costs, overall operating result improved. Cost/income ratio remained stable. Net impairment loss on financial assets increased as an effect of downgrading selected corporate customers. Other result deteriorated mostly due to higher off-balance provisions and a non-recurrence of the positive effect from the resolution of a claim in the previous year. This line item also included a resolution fund contribution of EUR 3.6 million (EUR 3.1 million). Overall, the net result attributable to the owners of the parent deteriorated.

Credit risk

Credit risk exposure in the Other Austria segment, which is almost completely made up of Erste Group Bank AG and Erste Group Immorent GmbH, declined further, albeit at a slower pace than in previous years, to EUR 28.8 billion (-1.1%) or to 12.7% (13.6%) of Erste Group's credit risk exposure. A large share of the business in this segment was accounted for by securities and investments with banks. Consequently, the share of loans to customers as a percentage of Erste Group's total loan portfolio was significantly lower than the contribution to credit risk exposure. In 2017, it was nearly unchanged at 9.1% (9.3%). While commercial real estate financing declined further to EUR 3.4 billion (-5.6%), loans to medium-sized enterprises and large corporates increased. Non-performing loans were up marginally, accounting for 5.6% (5.5%) of the total loan portfolio. Within the category of performing loans, there was a clear migration to better risk categories. The NPL coverage ratio based on loan loss provisions declined to 50.2% (63.9%).

Central and Eastern Europe

CZECH REPUBLIC

Economic review

The Czech Republic remained one of the most successful economies in Central Europe. With real GDP expanding by 4.5% and GDP per capita increasing further to EUR 18,200 the country's convergence towards more developed Western European economies continued. Although the Czech Republic is among the most open economies in the region, growth in 2017 was mainly supported by household consumption and investments. Consumption benefitted significantly from higher consumer confidence, lower unemployment and accelerating growth of real wages. Investments were positively impacted by a robust EU funds absorption rate and a labour market characterised by full employment, which incentivised enterprises to invest in automation. Economic recovery in the euro zone, which spurred demand for Czech exports, also played an important role in the economic development. Industrial production benefitted significantly from the strong performance of the automotive industry. Czech passenger car production increased by 5.2% to more than 1.4 million vehicles in 2017. Reflecting the strong economic performance, the unemployment rate decreased further to 2.9%, and remained the lowest in the European Union.

Parliamentary elections were held in October 2017. The ANO movement won the elections by a significant margin. The country's political landscape remained diverse as nine parties and movements passed the minimum electoral threshold of 5%. Despite 2017 being an election year fiscal prudence prevailed, as expressed by a budget surplus of 0.6%. State revenues were positively impacted by growing tax revenues due to measures addressing tax avoidance and higher social contributions. These developments more than offset the significant increase of public wages. Public debt as a percentage of GDP was again one of the lowest in Central and Eastern Europe and declined further to 33.9%. These economic developments were also acknowledged by Fitch which revised the country's outlook from stable to positive. At year-end, Fitch assessed the country's long term credit rating at A+, Standard & Poor's at AA- and Moody's at A1, the latter two with a stable outlook.

Inflation increased but remained within the Czech National Bank's range of 1% and 3%. Rising domestic demand, increasing wages, and higher food and services prices were partly counterbalanced by the strengthening of the Czech koruna following the Czech National Bank's decision in April 2017 to remove the exchange rate floor against the euro. Overall, the average consumer price index stood at 2.5%. Due to the favourable developments of the country's economy, the strong currency and increasing inflation the Czech National Bank decided to increase its key policy rate twice in the second half of 2017, from 0.05% to 0.5%. The Czech National Bank was the first in Central Europe to increase its key policy rate.

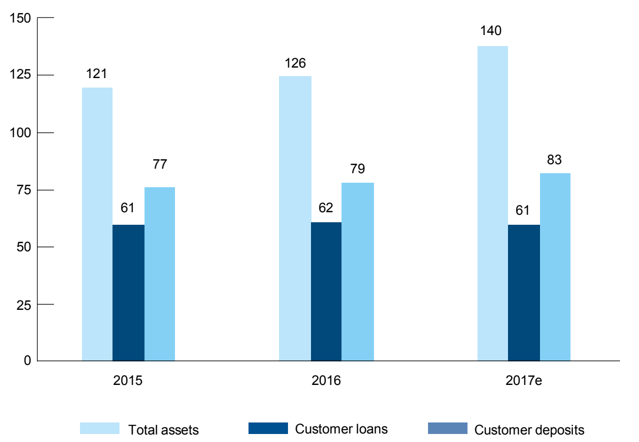
Key economic indicators – Czech Republic	2014	2015	2016	2017e
Population (ave, million)	10.5	10.5	10.6	10.6
GDP (nominal, EUR billion)	156.6	168.5	176.5	192.0
GDP/capita (in EUR thousand)	14.9	16.0	16.7	18.2
Real GDP growth	2.7	5.4	2.5	4.5
Private consumption growth	1.8	3.8	3.6	4.2
Exports (share of GDP)	75.1	74.8	75.2	76.0
Imports (share of GDP)	69.7	70.0	69.5	69.8
Unemployment (Eurostat definition)	6.2	5.1	4.0	2.9
Consumer price inflation (ave)	0.4	0.4	0.7	2.5
Short term interest rate (3 months average)	0.4	0.3	0.3	0.4
EUR FX rate (ave)	27.5	27.3	27.0	26.3
EUR FX rate (eop)	27.9	27.1	27.0	25.5
Current account balance (share of GDP)	0.2	0.2	1.1	1.2
General government balance (share of GDP)	-1.9	-0.4	0.5	0.6

Source: Erste Group

Market review

The Czech banking market benefitted from the positive macroeconomic environment and displayed rising demand for banking products. Supported by increased household consumption and improved consumer confidence, customer loans increased by 4.6%. Lending growth was attributable to both retail and corporate loans. Likewise, the 10.7% of customer deposit growth was equally balanced. Overall, the Czech banking market remained one of the most liquid in Central and Eastern Europe. The loan-to-deposit ratio across the banking sector stood at 74.0% at the end of 2017. The solid fundamentals were also demonstrated by the banking sector's total capital ratio of 19.3%. The three largest banks continued to have a combined market share of approximately 60% in customer loans and deposits.

Financial intermediation – Czech Republic (in % of GDP)

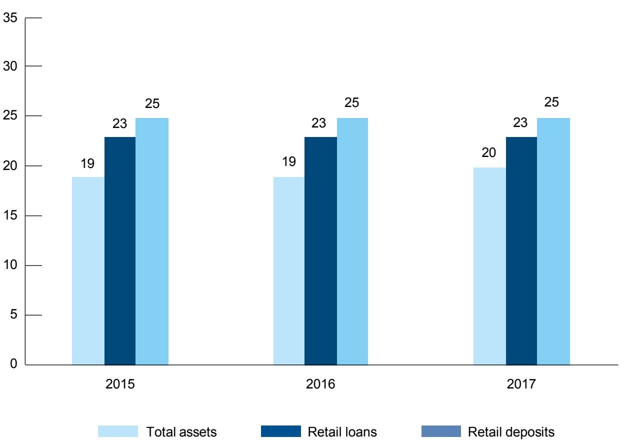


Source: Czech National Bank, Erste Group

Despite the low interest rate environment and margin pressure, the Czech banking market achieved another very profitable year. Positive asset quality trends continued and the ratio of non-performing loans declined to 4.0%, one of the lowest in the European Union. The sector's strength was demonstrated by the return on equity of 17.0%. Regulatory topics also played a significant role in the development of the Czech banking market throughout 2017. The Czech National Bank decided to further increase the countercyclical capital buffer to 1.25% as of 2019 and set stricter lending rules on secured loans regarding loan to value, debt to income, and debt service to income ratios.

Česká spořitelna maintained its market leadership positions across all product categories. Its retail market shares ranged from 23% to 28%, while its market shares in the corporate segment increased to above 20%. Česká spořitelna increased its market shares both in retail and corporate lending. The company retained its top position in consumer lending, including the credit card business, with a market share of 28.3%. Česká spořitelna further strengthened its strong position in asset management products, with a market share of approximately 26%, the highest in the country. Overall, its market share in terms of total assets stood at 19.8%.

Market shares – Czech Republic (in %)



Source: Czech National Bank, Erste Group

Business review – Highlights

Innovation and focus on customer relationships. Česká spořitelna puts a strong emphasis on the development of digital banking and improving customer satisfaction. The bank introduced *George* and more than 250,000 customers signed up during the pilot phase. The paperless loan and the online mortgage allow customers to finalise the loan application fully online, thus significantly reducing processing times.

My Healthy Finance, the bank's flagship retail banking service, extended its advisory services to the mass market segment. Overall, 720,000 customers signed up for the service by the end of the year. Thanks to *My Healthy Finance* Česká spořitelna improved customer satisfaction further, and the number of transactions done through digital channels increased significantly.

Success in mortgage and consumer lending. Česká spořitelna achieved double-digit growth in mortgage loans and retained its number two position on the market.

The positive economic situation and offerings of Česká spořitelna are also reflected in the consumer loan portfolio, the bank confirmed its number one position on the consumer loan market.

Solid performance in corporate business. Over the years, the bank has developed specialised programmes for individual industrial sectors focusing on smaller and medium-sized enterprises. The newly introduced offering *Easy Loan* significantly increased the business volume with SMEs. Due to an improved and accelerated credit application process, Česká spořitelna increased corporate loans substantially.

International and local recognition. Česká spořitelna has again received multiple awards. It was named *Best Bank* in the Czech Republic in the *Euromoney Awards for Excellence* and Erste Private Banking won the *World Finance award* for best private banking in the Czech Republic. Česká spořitelna defended the *Most Trustworthy Bank* in the prestigious competition Bank of the Year. In the *Golden Crown Competition*, it won awards for social responsibility, mortgages, supplementary pension savings and its building-society loans.

Financial review

in EUR million	2016	2017	Change
Net interest income	914.3	942.3	3.1%
Net fee and commission income	344.3	334.4	-2.9%
Net trading result	107.2	103.9	-3.0%
Operating income	1,384.5	1,393.4	0.6%
Operating expenses	-671.2	-692.8	3.2%
Operating result	713.3	700.6	-1.8%
Cost/income ratio	48.5%	49.7%	
Net impairment loss on financial assets	-70.5	-1.3	-98.2%
Other result	27.7	-35.2	n/a
Net result attributable to owners of the parent	542.0	532.9	-1.7%
Return on allocated capital	31.1%	26.3%	

The segment analysis has been performed on a constant currency basis. The CZK appreciated by 2.6% against the EUR in the reporting period. Net interest income in the Czech Republic segment (comprising Česká spořitelna Group) increased primarily due to rising interest rates and higher loan volumes. Net fee and commission income went down on the back of lower payment and lending fees as well as non-recurrence of the one-off positive impact from release of provisions for the customer incentive program in 2016. These developments were partially offset by higher fees from asset management and insurance brokerage. Net trading result decreased driven by lower derivative valuation results. Higher personnel and project-related costs led to an increase in operating expenses. Deposit insurance contributions amounted to EUR 8.3 million (EUR 7.4 million). Operating result thus decreased, the cost/income ratio went up. The decline of net impairment loss on financial assets was attributable to an improvement in corporate and retail portfolio quality resulting in releases of risk provisions. The other result deteriorated mainly due to the non-recurrence of last year's selling gains on the shares of VISA Europe in the amount of EUR 52.6 million. The resolution fund contribution amounted to EUR 16.2 million (EUR 14.7 million). Overall, these developments led to a decrease in the net result attributable to the owners of the parent.

Credit risk

Credit risk exposure in the Czech Republic segment rose significantly to EUR 45.2 billion (+23.6%) on the back of the benign economic environment, a substantial increase in the money market business and the 5.4% appreciation of the Czech koruna against the euro. Loans to customers rose at a slightly slower pace to EUR 25.5 billion (+16.2%), with growth almost evenly split between the retail and the corporate business. Customer loan volume as a percentage of Erste Group's total loans to customers increased to 17.8% (16.2%). In terms of business volume, the Czech Republic is thus still by far the second most important market for Erste Group after Austria. The quality of customer loans was significantly better than in Erste Group's other core markets in Central and Eastern Europe. Due to proactive and effective credit risk management, non-performing loans as a percentage of the total customer loan portfolio decreased to 2.1% (3.2%), which continued the positive development of recent years. Improvements were seen in all customer segments but most notably among corporate customers. Default rates were again lowest in the retail segment. The NPL coverage ratio based on loan loss provisions increased substantially to 92.5% (82.8%).

SLOVAKIA

Economic review

The Slovak economy displayed again a strong performance in 2017. Economic growth was mainly driven by robust household consumption. Investments also contributed to the favourable economic development. Consumption benefitted from further improvement in the labour market, growing real wages, and moderate inflation. Employment growth remained solid as the unemployment rate declined to a record low of 8.1%. Investments were supported by the expansion and construction of further automotive plants. Slovakia remained the world's top car producer per capita, and automotive was again the largest industry in Slovakia with a share of around 10% of the Slovak GDP. Overall, real GDP grew by 3.4%, while GDP per capita amounted to EUR 15,600 in 2017.

The fiscal position of Slovakia continued to improve. VAT and personal income tax revenues benefited from improving private consumption and labour market conditions. Higher ceiling amounts on social and healthcare contributions also played a role in the fiscal developments. As a result, the fiscal deficit declined from 2.2% to 1.5%. The country's public debt as a percentage of GDP remained low at 51.1%.

Slovakia experienced mild inflation in 2017 as consumer prices increased after three consecutive years of deflation. Inflation was impacted by higher food and services prices while energy prices declined on the back of lower electricity prices. Reflecting the upward pressure of the tightening labour market, nominal wage growth accelerated to 4.6%, the fastest rate since 2008. Overall, average consumer prices increased by 1.3%. The positive macroeconomic developments were recognised by Moody's which changed the country's outlook from stable to positive. As of the end of 2017, Moody's kept the country's long-term credit rating at A2, Standard & Poor's and Fitch, both with a stable outlook, at A+.

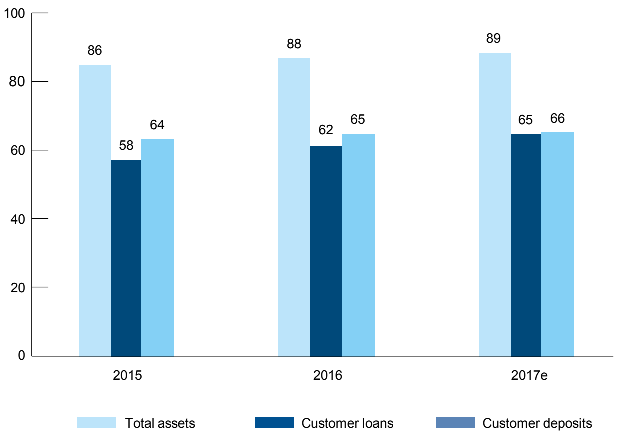
Key economic indicators – Slovakia	2014	2015	2016	2017e
Population (ave, million)	5.4	5.4	5.4	5.4
GDP (nominal, EUR billion)	76.1	78.9	81.2	85.0
GDP/capita (in EUR thousand)	14.0	14.5	14.9	15.6
Real GDP growth	2.8	3.9	3.3	3.4
Private consumption growth	1.4	2.3	2.6	3.7
Exports (share of GDP)	82.2	81.9	82.8	84.1
Imports (share of GDP)	78.6	80.6	80.7	82.6
Unemployment (Eurostat definition)	13.2	11.5	9.6	8.1
Consumer price inflation (ave)	-0.1	-0.3	-0.5	1.3
Short term interest rate (3 months average)	0.2	0.0	-0.3	-0.3
Current account balance (share of GDP)	1.1	-1.7	-1.5	-0.9
General government balance (share of GDP)	-2.7	-2.7	-2.2	-1.5

Source: Erste Group

Market review

The positive macroeconomic environment continued to favourably impact the country's banking market. Customer loans increased by 9.6%, with the retail business growing by 12.0% and corporate loans by 6.9%. Customer deposits, driven by both retail and corporate businesses, rose by 5.3%, resulting in a loan-to-deposit ratio of 99.3%. The three largest banks continued to have a combined market share of approximately 60% in customer loans and deposits. Consolidation of the sector continued with Sberbank's Slovak subsidiary merging with Prima banka. The banking sector remained well capitalised with a capital adequacy ratio of 18.6%.

Financial intermediation – Slovakia (in % of GDP)

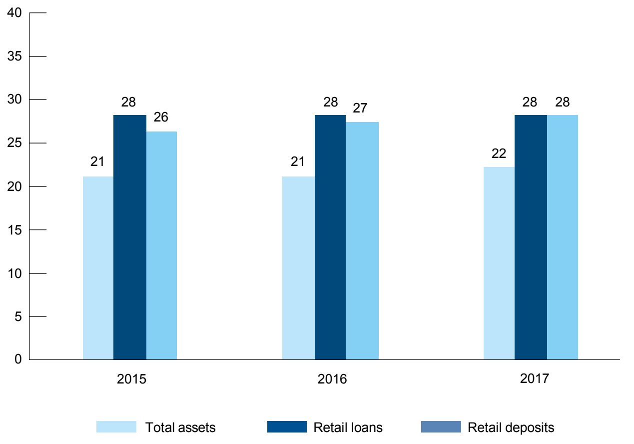


Source: National Bank of Slovakia, Erste Group

Despite suffering from the low interest rate environment, banking tax and regulatory changes, Slovakia's banking sector continued to be profitable in 2017. Low interest rates led to a decline in the net interest margin but also supported the positive asset quality trends throughout the year. The NPL ratio decreased further to 3.7%. Banks continued to pay banking tax at 0.2% of total liabilities excluding equity and subordinated debt. Overall, the sector's return on equity stood at 7.8% at the end of 2017.

Slovenská sporiteľňa successfully retained its leading market positions. The bank continued to control one fifth of the country's banking market in terms of total assets and led the market in retail loans and deposits. In the retail loan business, the bank's market share amounted to 27.7%. At 13.1%, its market share in corporate deposits was significantly lower than in retail deposits, which stood at 27.6%. Slovenská sporiteľňa maintained its strong position in asset management products with a market share of more than 25%.

Market shares – Slovakia (in %)



Source: National Bank of Slovakia, Erste Group

Business review – Highlights

New branch and advisory concept. Slovenská sporiteľňa continued its emphasis on redesigning the branch network and remodelling the advisory concept. Another 30 branches were redesigned and more than 20 deposit ATMs were installed, allowing customers not only to withdraw but also to deposit cash.

Following the reduction of purely transaction-related business at the branches, waiting times were reduced and previously tied capacities were freed-up for advisory services. The bank also intensified the usage of tablets by branch advisors. Tablets facilitate service interactions like discussions of financial needs or information about products. In addition, the usage of tablets simplifies the sales process, particularly for opening savings accounts and a newly introduced consumer loans offering. Overall, more than two million customer dialogues were supported by tablets in 2017, leading to substantially higher client activation. In addition, customer satisfaction improved substantially on the back of the new advisory concept.

Sales performance through digital channels. Slovenská sporiteľňa continued its innovation efforts and doubled the sales volume of consumer loans, overdrafts and credit cards in digital banking to more than EUR 100 million.

In the fourth quarter, the bank launched the pilot phase of the digital platform *George*. The roll-out is scheduled for 2018.

Focus on insurance products. Slovenská sporiteľňa increasingly offered its customers insurance products. In doing so, it reacted to the high demand, in particular for non-life insurance products, like household insurance or payment protection insurance. In addition, the bank piloted pension insurance in two regions. Following the success of this product launch, it is planned to rollout this offer into other regions in 2018.

Banking for corporate customers. The bank continued its focus on process improvements, rolling out a new integrated loan processing system. It aims at increasing efficiency through simplifying the lending process. *Business 24*, the digital banking channel for corporate customers, was further upgraded and now includes additional features for payment card management. In addition, a new and easy to use cash management and financial service tool, *Erste Confirming*, was introduced.

International and local recognition. Slovenská sporiteľňa was again awarded multiple prizes. It was named *Bank of the Year* in Slovakia by the financial magazine *The Banker* and ranked second in the *TREND Top Bank* of the Year. The bank also received the *Bank without barriers* award for the third consecutive year, and it ranked first in a survey conducted by the portal Profesia.sk as the country's best employer in the category banking, finance and insurance industry.

Financial review

in EUR million	2016	2017	Change
Net interest income	453.0	434.3	-4.1%
Net fee and commission income	121.7	112.7	-7.4%
Net trading result	13.5	13.8	2.3%
Operating income	595.4	568.7	-4.5%
Operating expenses	-275.1	-281.1	2.2%
Operating result	320.4	287.6	-10.2%
Cost/income ratio	46.2%	49.4%	
Net impairment loss on financial assets	-48.2	-30.1	-37.7%
Other result	11.0	-39.5	n/a
Net result attributable to owners of the parent	213.3	166.2	-22.1%
Return on allocated capital	33.7%	24.7%	

Net interest income in the Slovakia segment (comprising Slovenská sporitel'ňa Group) decreased mainly due to a lower asset/liability management contribution driven by the low interest rate environment and lower loan margins in retail business that were not fully compensated for by higher loan volumes and re-pricing of deposits. Net fee and commission income went down due to lower lending and point-of-sale maintenance fees due to the sale of the card-acquiring business in 2016. Net trading result remained stable. Operating expenses increased on the back of higher personnel and IT expenses, which was partially compensated for by lower deposit insurance contributions of EUR 0.8 million (EUR 2.5 million). Overall, operating result decreased, the cost/income ratio deteriorated. Net impairment loss on financial assets decreased mainly due to a release of provisions in the corporate business. The other result declined mainly due to the non-recurrence of last year's selling gains on the shares of VISA Europe in the amount of EUR 26.8 million. The payment into the resolution fund decreased to EUR 2.8 million (EUR 4.0 million). Banking tax amounted to EUR 27.4 million (EUR 25.1 million). Overall, the net result attributable to the owners of the parent declined.

Credit risk

Credit risk exposure in the Slovakia segment rose to EUR 17.3 billion (+10.2%). Loans to customers increased to EUR 12.0 billion (+14.2%). Slovakia was thus one of the most dynamic segments of Erste Group. Its share of Erste Group's total loan portfolio rose to 8.4% (7.8%). The breakdown of the portfolio by customer segment shows a slight shift towards corporate loans. The share of loans to private households amounted to 72.6% (73.3%) of total customer loans and was again significantly larger than in other geographical segments. This customer mix also explains the large share of secured business of 58.8% of the entire loan portfolio, which exceeds that of other Central and East European core markets. The NPL ratio declined to 3.8% (4.5%). Asset quality improved across all customer segments. The NPL coverage ratio based on loan loss provisions rose to 79.7% (72.1%).

ROMANIA

Economic review

The Romanian economy posted the fastest growth rate among Central European countries in 2017. This performance was driven by surging household consumption on the back of tax cuts and a substantial wage increase in the public sector. The unemployment rate declined further to 5.0%, the lowest level in the last 20 years. Investments also made a positive contribution to growth, mainly supported by the private sector. The good performance of the agricultural sector also played an important role.. Net exports did not contribute to economic growth, despite the robust performance of the industrial sector, including automotive. Overall, real GDP grew by 7.0%, GDP per capita amounted to EUR 9,500.

The political environment was volatile throughout 2017. The short governmental tenures limited the implementation of necessary structural reforms, especially in tax collection, public investments and EU funds absorption. The fiscal policies remained loose as the government increased wages in the public sector and cut VAT to 19%. At 3.0%, the budget deficit remained within the target of 3% of GDP. Public debt as a percentage of GDP decreased to 36.3%, a low level compared to some other countries in the region. As of the end of 2017, Standard & Poor's and Fitch had the country's long-term credit rating with a stable outlook at BBB-, Moody's, also with a stable outlook, at Baa3.

After two consecutive years of deflation, price levels started to increase in 2017. Despite the cut in VAT and lower excise duties on fuel, average consumer prices increased by 1.3%, slightly less than the national bank's target of 1.5% to 3.5%. The widening current account deficit and statements from the central bank regarding greater flexibility in foreign exchange rate control led to a weakening of the Romanian leu in the fourth quarter. The currency then traded between 4.6 and 4.7 against the euro, after a previous stable range of 4.4 and 4.5. The national bank kept its policy rate at 1.75% throughout the year but lowered the mandatory reserves for foreign exchange liabilities to 8%.

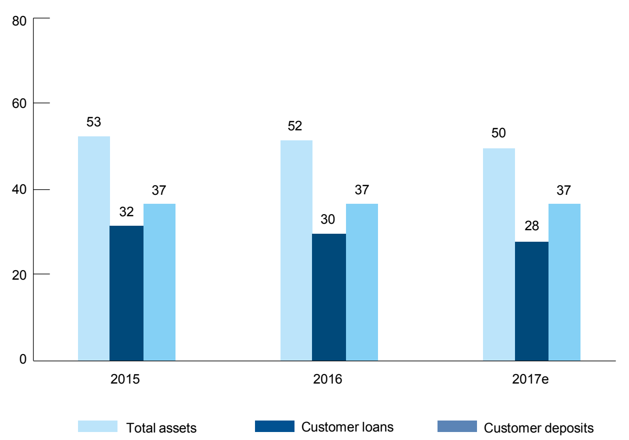
Key economic indicators – Romania	2014	2015	2016	2017e
Population (ave, million)	19.9	19.9	19.8	19.8
GDP (nominal, EUR billion)	150.3	160.3	169.8	187.5
GDP/capita (in EUR thousand)	7.5	8.1	8.6	9.5
Real GDP growth	3.1	4.0	4.8	7.0
Private consumption growth	4.4	5.7	7.3	8.8
Exports (share of GDP)	34.9	34.1	33.8	33.4
Imports (share of GDP)	38.9	39.3	39.7	40.3
Unemployment (Eurostat definition)	6.8	6.8	6.0	5.0
Consumer price inflation (ave)	1.1	-0.6	-1.5	1.3
Short term interest rate (3 months average)	2.5	1.3	0.8	1.2
EUR FX rate (ave)	4.4	4.4	4.5	4.6
EUR FX rate (eop)	4.5	4.5	4.4	4.4
Current account balance (share of GDP)	-0.7	-1.2	-2.1	-3.4
General government balance (share of GDP)	-1.4	-0.8	-3.0	-3.0

Source: Erste Group

Market review

The Romanian banking market benefitted from the macroeconomic developments and revived demand for banking products. Customer loans moved up 4.9%. In the retail segment, mortgages grew faster than consumer loans. The government-guaranteed mortgage programme Prima Casa continued to be important. In the corporate segment, lending grew mainly as a result of a pick-up in investment loans in large corporates. In addition, banks reviewed lending criteria regarding tenor and loan-to-value ratios after the initial tightening in the previous year following adoption of the walkaway law (datio in solutum). Customer deposits increased by 10.4%, mainly due to demand for current and savings accounts as a result of higher disposable income. The banking system's loan-to-deposit ratio dropped further to 76.8% at the end of 2017.

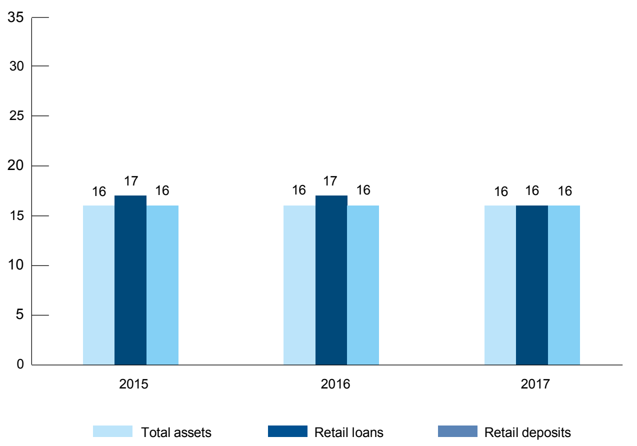
Financial intermediation – Romania (in % of GDP)



Source: National Bank of Romania, Erste Group

The profitability of the country's banking market improved, partially due to lower risk provisions. Asset quality improved, mainly driven by the continued resolution of non-performing loans as well as the positive macroeconomic backdrop such as the low interest rate environment, higher wages, and improved job market. Financial institutions continued to implement efficiency measures, including further workforce reductions, network optimisation and automation. Overall, the sector achieved a return on equity of 12.7%. The banking sector's consolidation continued as Banca Transilvania acquired Bancpost. The Romanian banking sector continued to be strongly capitalised with a total capital ratio of 18.9% at the end of the year.

Market shares – Romania (in %)



Source: National Bank of Romania, Erste Group

Banca Comercială Română remained the largest bank in the country. As of the end of 2017, the bank was ranked number one by total assets, customer loans, customer deposits and asset management. The bank defended its market leader position in Prima Casa, with a share of approximately 25%. Banca Comercială Română's customer loan market share, however, decreased to 14.1%, most visibly in the corporate sector in which the market share stood at 12.1%. The customer deposit market share remained stable at 15.7%. In terms of total assets, Banca Comercială Română had a market share of 15.8%.

Business review – Highlights

Success in retail and SME lending. The bank's leading position in mortgage lending, particularly in the Prima Casa programme and the acceleration in standard mortgage sales, drove the increase in retail loans. Micro lending started to recover, following a new service model implementation and the launch of more transactional-oriented new bundles, as well as the active participation of the bank by offering bridge loans in the state-subsidised *Start-up Nation* programme. On the back of expected interest rate increases, Banca Comercială Română promoted fixed-interest loans for both secured and unsecured loans to provide its retail customers with a higher degree of predictability and transparency, an offer which was well received by customers.

The bank also focused its lending activity on its corporate and SME business. Within the corporate loan book, working capital loans declined while investment finance increased. As a result of the bank's intensified efforts in client acquisition and activation, net loans to SME customers increased by more than 10%.

Customer satisfaction and contact center activity. Banca Comercială Română focused on increasing customer satisfaction and service excellence. In line with the new cashless branch concept, the bank started to implement a more active contact center approach. The contact center now has the role to ensure the interface between digital banking and the service in branches by offering a more relevant support in advisory as well as selling products and services. These efforts resulted in particular in a higher volume of unsecured loans and also in a higher number of current accounts opened and insurance products sold.

Innovation and digital banking. Data excellence is the basis for future growth and makes it possible to respond not only more effectively to regulatory requirements but also to customer needs. To further improve efficiency, Banca Comercială Română introduced, as the first bank in the country, the RPA (Robotic Process Automation) technology for some repetitive tasks in the back-office area.

The mobile banking offering was redesigned by adding new features. Furthermore, it is now possible to open current accounts and term deposits fully online. The number of internet banking users exceeded one million. The next step will be the implementation of *George*, which is planned for 2018.

International and local recognition. Banca Comercială Română was named the *Best Retail Bank in 2017* by the local financial magazine *Piata Financiara*. It also won the Romanian *PR Silver Award for Excellence* for the project Banking Language Understood by Everyone, the *Excellence Award of the Romanian CSR* awards for its Goodness Stock Exchange, the only free of charge donation platform in the country, and the *Best Office Lease of the Year* award for its new headquarters.

Financial review

in EUR million	2016	2017	Change
Net interest income	374.9	365.5	-2.5%
Net fee and commission income	157.9	153.4	-2.9%
Net trading result	70.3	77.3	10.0%
Operating income	615.7	611.5	-0.7%
Operating expenses	-349.8	-338.0	-3.4%
Operating result	266.0	273.5	2.8%
Cost/income ratio	56.8%	55.3%	
Net impairment loss on financial assets	62.4	-7.1	n/a
Other result	-90.7	-88.9	-2.0%
Net result attributable to owners of the parent	199.5	120.7	-39.5%
Return on allocated capital	21.6%	12.5%	

The segment analysis has been performed on a constant currency basis. The RON depreciated by 1.7% against the EUR in the reporting period. Net interest income in the Romania segment (comprising Banca Comercială Română Group) decreased mainly due to lower income from lending business and lower unwinding effects. Net fee and commission income decreased on the back of lower transaction and account maintenance fees in the retail business. The increase in net trading result was mostly attributable to foreign currency positioning and derivatives revaluation. Operating expenses decreased on the back of the significantly lower deposit insurance fund contribution of EUR 2.2 million (EUR 14.5 million). Overall, operating result increased and the cost/income ratio improved. Despite the non-recurrence of last year's high net provision releases, the net impairment loss on financial assets remained low. Other result improved due to a significantly lower level of provisions for litigations despite higher resolution fund contribution of EUR 14.2 million (EUR 4.5 million) and the non-recurrence of last year's selling gains on the shares of VISA Europe in the amount of EUR 24.3 million. Overall, the net result attributable to the owners of the parent decreased.

Credit risk
Credit risk exposure in the Romania segment was almost stable at EUR 14.1 billion (-0.1%) while loans to customers declined slightly to EUR 7.8 billion (-1.7%). This represented a share of 5.4% (5.8%) of Erste Group's total loans to customers. The decline in the loan portfolio was mainly attributable to extensive write-downs of non-performing loans. Sales in the secondary market played a much lesser role than in the previous years. The share of foreign currency loans decreased to 45.8% (49.1%) and was almost completely denominated in euro, as the state-guaranteed Prima Casa programme was initially denominated in euro. Due to the ongoing clean-up of the portfolio, the NPL ratio declined further to 8.1% (11.8%), with non-performing corporate loans down even more sharply. The breakdown by customer segment shows that asset quality was again the highest in loans to private households. The NPL coverage ratio based on loan loss provisions rose to 92.7% (85.3%).

HUNGARY

Economic review
The Hungarian economy again performed well in 2017. Economic growth was driven mainly by household consumption, which benefitted from higher consumer confidence, increasing real wages, and continued positive trends in the labour market. Despite imports growing faster than exports, Hungary maintained a positive trade balance and a significant current account surplus. Investments were positively impacted by a strong EU funds absorption rate. Industry, construction, and services performed well, while agriculture was a drag on growth. The unemployment rate declined further and stood at a record low of 4.2%, among the lowest in the European Union. Overall, the Hungarian economy grew by 4.0%, while GDP per capita increased to EUR 12,600.

The fiscal position of the country remained solid in 2017. Despite tax cuts such as lowering the employers' social security contributions and corporate income tax, the general government balance remained well within the Maastricht limits. The minimum wage was increased. These measures were to a large extent compensated by higher revenues such as additional tax receipts on the back of wage growth and the decline of interest payments and social spending. Public debt as a percentage of GDP decreased further to 72%. Rating agencies acknowledged the performance of the Hungarian economy with Standard & Poor's and Fitch upgrading the outlook from stable to positive and affirming the country's long-term rating at BBB-. Moody's rated the country's long-term credit worthiness at Baa3 with a stable outlook.

Inflation increased but remained within the national bank's target range of 2% to 4%. This development was driven mainly by higher prices for food, tobacco and alcoholic beverages, which was counterbalanced by flat energy prices. Overall, average consumer prices increased by 2.4%. The Hungarian forint was relatively stable against the euro, trading between 305 and 315 throughout the year. The National Bank continued its expansionary monetary policy and kept the base rate at a record low of 0.90% and pushed interbank interest rates (BUBOR) very close to 0%.

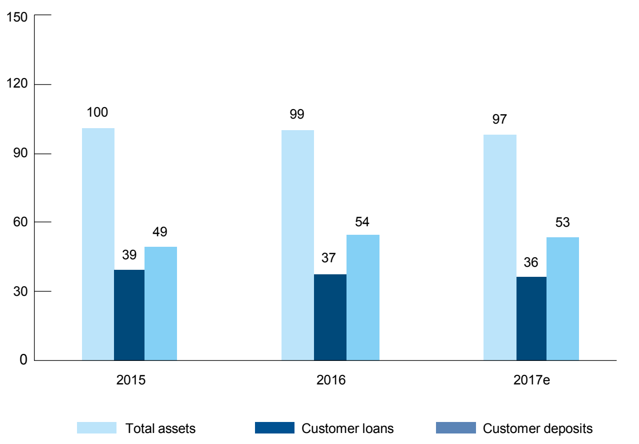
Key economic indicators – Hungary	2014	2015	2016	2017e
Population (ave, million)	9.9	9.9	9.8	9.8
GDP (nominal, EUR billion)	105.6	110.8	113.7	123.5
GDP/capita (in EUR thousand)	10.7	11.2	11.6	12.6
Real GDP growth	4.2	3.4	2.2	4.0
Private consumption growth	2.4	3.4	3.8	4.1
Exports (share of GDP)	87.7	90.2	89.6	89.9
Imports (share of GDP)	81.3	81.4	79.5	81.0
Unemployment (Eurostat definition)	7.7	6.8	5.1	4.2
Consumer price inflation (ave)	-0.2	-0.1	0.4	2.4
Short term interest rate (3 months average)	2.4	1.6	1.0	0.1
EUR FX rate (ave)	308.7	309.9	311.5	309.2
EUR FX rate (eop)	314.9	313.1	311.0	310.1
Current account balance (share of GDP)	1.5	3.5	6.1	3.5
General government balance (share of GDP)	-2.1	-1.6	-1.8	-2.0

Source: Erste Group

Market review
Hungary's banking sector benefitted further from a positive macroeconomic environment and a significant improvement in business sentiment. Lending growth was stimulated primarily by economic growth and increased consumer confidence. Overall, customer loans rose by 5.2%. Growth in the retail sector was driven primarily by an increase of 3.9% in mortgage loans. In addition to the Home Purchase Subsidy Scheme for families implemented in 2015, a new consumer friendly mortgage product was introduced in 2017. These mortgage loans have standard terms defined by the National Bank of Hungary such as interest margin and mortgage fee ceilings and tenors of three, five and ten years. New disbursement growth in retail lending was substantial in 2017 but was partially offset by a high level of early repayments. Corporate loans increased by 9.8%, mainly driven by lending to SMEs. At 5.2%, customer deposits grew in line with customer loans. Similar to the lending market, the corporate deposit segment grew more quickly than the retail segment. Overall, the banking system's loan-to-deposit ratio stood at 69.0% at the end of the year.

The Hungarian banking sector remained profitable in 2017. The low interest rate environment continued to weigh on revenues. The country's banking market kept costs under control partly compensating declining revenues. Risk provisions declined substantially on the back of net provision releases and favourable macroeconomic indicators. The banking tax, calculated on the basis of total assets of 2015, was further reduced to 21 basis points. Overall, the banking sector's return on equity rose to 16.1% in 2017. Consolidation of the sector continued without changing the positions of the main market players. The Hungarian banking sector continued to be well capitalised with a capital adequacy ratio of more than 20%.

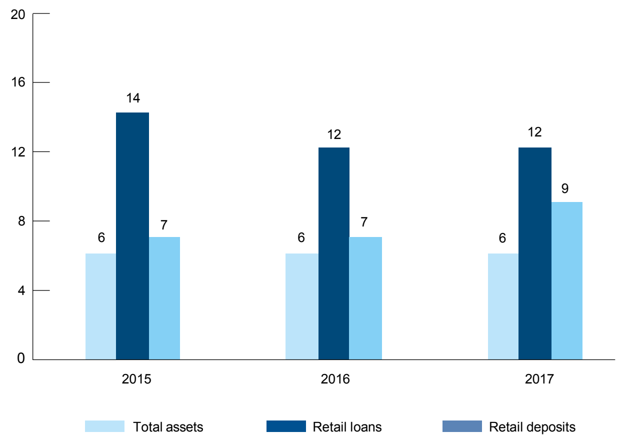
Financial intermediation – Hungary (in % of GDP)



Source: National Bank of Hungary, Erste Group

Erste Bank Hungary continued to be a major market player in the country and increased its presence further with the acquisition of Citigroup's local retail portfolio. The bank's market share for customer loans increased to 9.3% with the retail sector remaining at a higher share than the corporate sector. Customer deposit market share increased to 7.5%. Overall, Erste Bank Hungary's total assets market share increased to 5.9%.

Market shares – Hungary (in %)



Source: National Bank of Hungary, Erste Group

Business review – Highlights

Implementation of new branch model. Erste Bank Hungary started the implementation of a new branch concept. Cash desk areas are replaced by an appealing reception area in the centre of the branch. As a result of fewer administrative tasks, resources are freed up for advisory activity, leading to higher customer satisfaction.

Growth in retail and corporate lending. Erste Bank Hungary was one of the first banks, whose consumer friendly mortgage product was approved by the National Bank of Hungary. Increasing household consumption supported consumer lending growth.

The bank performed particularly well in corporate lending, increasing its net loans to corporate customers by 32.5%. Although early repayments remained relatively high, net customer loans rose by 11.1%.

International and local recognition. Erste Bank Hungary won the Randstad's *Employer Brand Research Special Award* for the most attractive employer in the banking industry in Hungary in 2017, and it ranked 3rd in the *Bank of the Year* competition.

Financial review

in EUR million	2016	2017	Change
Net interest income	173.4	198.4	14.4%
Net fee and commission income	141.8	157.4	11.0%
Net trading result	22.2	37.7	70.0%
Operating income	340.3	395.0	16.1%
Operating expenses	-195.6	-220.8	12.9%
Operating result	144.8	174.2	20.3%
Cost/income ratio	57.5%	55.9%	
Net impairment loss on financial assets	91.7	35.1	-61.7%
Other result	-93.4	-28.6	-69.4%
Net result attributable to owners of the parent	133.6	164.9	23.4%
Return on allocated capital	27.1%	29.3%	

The segment analysis has been performed on a constant currency basis. The HUF appreciated by 0.7% against the EUR in the reporting period. Net interest income in the Hungary segment (comprising Erste Bank Hungary Group) increased on the back of the acquisition of Citibank's retail portfolio (predominantly unsecured loans) and a decreased unwinding contribution. Net fee and commission income rose due to higher card, payments and securities fees in the retail business supported by the former Citibank portfolio. Net trading result improved mainly due to the higher contribution of derivatives. Operating expenses increased primarily due to additional costs related to the former Citibank business and IT expenses. The contribution to the deposit insurance fund amounted to EUR 8.7 million (EUR 7.4 million). Consequently, operating result and the cost/income ratio improved. A lower net release of risk provisions (net impairment loss on financial assets) was posted both in retail and corporate business. Other result improved on the release of provisions for litigations, higher selling gains from securities and shares in VISA Inc. and Mastercard Inc. as well as lower banking levies of EUR 55.3 million (EUR 57.0 million). This line item also included the contribution to the resolution fund of EUR 1.9 million (EUR 1.8 million). Overall, the net result attributable to the owners of the parent improved.

Credit risk

Credit risk exposure in the Hungary segment rose significantly to EUR 7.9 billion (+17.3%). After contracting for several years, loans to customers likewise registered growth, rising to EUR 3.8 billion (+8.3%). The share of the Hungary segment in Erste Group's total loans to customers was stable at 2.6%. While loans to private households were slightly down, loans to corporates increased to approximately EUR 1.6 billion (+21.6%). The share of loans denominated in Hungarian forint amounted to 75.7% (79.5%). Asset quality again improved substantially. Non-performing loans as a percentage of total loans to customers declined to 5.5% (9.7%), with the corporate business showing the sharpest reduction of the NPL ratio to 1.7% (8.9%). The NPL coverage ratio based on loan loss provisions rose significantly to 89.3% (75.0%).

CROATIA

Economic review

The Croatian economy continued to perform well in 2017. Domestic demand, in particular private consumption, remained strong and contributed significantly to the performance of the country. Consumption benefited from higher disposable income, revived credit growth, and resilient consumer sentiment. However, the restructuring of the conglomerate Agrokor, which almost became insolvent and had to be bailed out by the state, impacted spending. Investments performed well and the well-developed tourism industry had another excellent year with overnight stays expanding in mid-single digit rates. The unemployment rate declined further to 11.3%, still high compared to other countries in CEE. Overall, real GDP grew by 2.8% and GDP per capita increased to EUR 11,300.

After a period of political uncertainty, a new government was formed in June 2017. The fiscal performance improved further, revenues were to a significant degree driven by VAT and corporate income tax. Pressure on the expenditure side was largely contained partially due to lower social transfers. The general government balance stood at 0.3% and public debt as a percentage of GDP declined to 78.7%. In 2017, both Fitch and Moody's upgraded their outlook to stable, affirming the long-term credit ratings at BB+ and Ba2, respectively. Standard & Poor's upgraded the outlook to positive and affirmed the country's long-term credit rating at BB.

Inflation increased, the average consumer price rose by 1.1% and was impacted by energy price hikes and increasing food prices. The restructuring of Agrokor did not significantly impact the performance of the Croatian kuna which traded in the range of 7.4 and 7.6 against the euro. Given the country's very high use of the euro, the National Bank of Croatia's objective to preserve the nominal exchange rate stability remained in place. The National Bank of Croatia left the key policy rate unchanged at 3.0%.

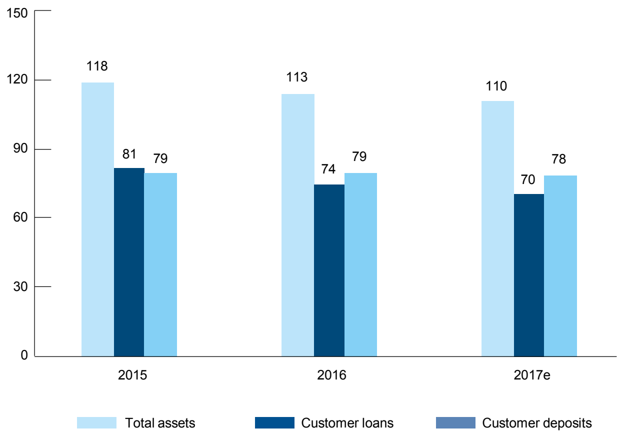
Key economic indicators – Croatia	2014	2015	2016	2017e
Population (ave, million)	4.3	4.3	4.3	4.3
GDP (nominal, EUR billion)	43.4	44.5	46.4	48.7
GDP/capita (in EUR thousand)	10.1	10.4	10.8	11.3
Real GDP growth	-0.1	2.3	3.2	2.8
Private consumption growth	-1.6	1.0	3.5	3.6
Exports (share of GDP)	21.7	22.9	22.7	24.0
Imports (share of GDP)	36.7	38.5	38.5	40.6
Unemployment (Eurostat definition)	17.3	16.3	13.1	11.3
Consumer price inflation (ave)	-0.2	-0.5	-1.1	1.1
Short term interest rate (3 months average)	0.7	1.0	0.6	0.5
EUR FX rate (ave)	7.6	7.6	7.5	7.5
EUR FX rate (eop)	7.7	7.6	7.6	7.5
Current account balance (share of GDP)	2.0	4.5	2.5	3.6
General government balance (share of GDP)	-5.1	-3.3	-0.9	0.3

Source: Erste Group

Market review

Despite favourable macroeconomic developments, Croatia's banking market suffered from relatively weak demand for banking products. The corporate sector again outperformed the retail sector in both lending and deposits. Tourism and export-related lending increased visibly. Overall, customer loans declined slightly while customer deposits increased. The system's loan-to-deposit ratio stood at 90.3% at the end of the year. With total banking assets at 110.0% of GDP, Croatia's level of financial intermediation as well as the capital adequacy of the Croatian banking system at 23.2% remained among the highest in the region.

Financial intermediation – Croatia (in % of GDP)

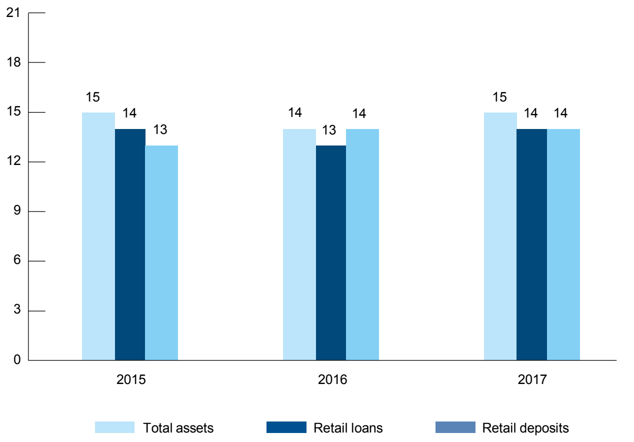


Source: National Bank of Croatia, Erste Group

Despite elevated risk provisions in the wake of Agrokor's restructuring, pressure on revenues and limited demand for banking-related products, the banking sector was profitable. The market was characterised by a visible shift towards products denominated in local currency. The banking sector's asset quality benefited from the improvement in macroeconomic developments, such as the low interest rates and decreasing unemployment. The sale of non-performing loans continued, the NPL-ratio declined further to 11.4%. Consolidation also played a role in the development of the country's banking sector. Among the transactions concluded during 2017, Hungarian OTP's acquisition of Société Générale's Splitska banka was the largest in terms of assets. Overall, the country's banking sector achieved a return on equity of 7.9%.

Erste Bank Croatia remained among the top three players in the market with a market share in terms of total assets of 14.9%. The bank outperformed the market with customer loans and customer deposits increasing by 3.5% and 5.6%, respectively. The bank's loan-to-deposit ratio stood at 97.6%.

Market shares – Croatia (in %)



Source: National Bank of Croatia, Erste Group

Business review – Highlights

Addressing SME customers. To become the bank of first choice for SME customers, Erste Bank Croatia implemented a new SME strategy. It aims at further improving customer satisfaction, increasing operational income as well as reaching an even higher level of internal efficiency.

As a result of the new strategic approach, Erste Bank Croatia acquired more than 400 new SME customers and net loans to SME customers increased by 14.6%.

Innovations in digital banking. The bank has continued its strong emphasis on digital banking. Erste Bank Croatia started to offer pre-approved loans through digital channels. The simple contracting and activation process resulted in a clear improvement in customer experience. Following a decline in 2016, net loans to customers in the retail segment increased by more than 6% due to the accelerated lending activity stemming from pre-approved loans as well as a recovery in housing loans.

International and local recognition. The bank's main strengths compared to its competitors are innovation, a wide range of products and a special emphasis on customer care. For its housing loan campaign, Erste Bank Croatia received the *Ideja X award* and for its digital media strategy for corporate clients the *MIXX award*. Erste Bank Croatia was also recognised *Best Private Bank* in Croatia in 2017 by the financial magazine *The Banker*.

Financial review

in EUR million	2016	2017	Change
Net interest income	264.9	270.5	2.1%
Net fee and commission income	88.0	95.8	8.8%
Net trading result	29.5	26.6	-9.7%
Operating income	407.4	414.0	1.6%
Operating expenses	-194.3	-206.3	6.2%
Operating result	213.1	207.7	-2.5%
Cost/income ratio	47.7%	49.8%	
Net impairment loss on financial assets	-48.4	-116.1	>100.0%
Other result	-5.2	-9.0	73.3%
Net result attributable to owners of the parent	83.7	37.7	-55.0%
Return on allocated capital	22.2%	10.4%	

The segment analysis has been performed on a constant currency basis. The HRK appreciated by 0.9% against the EUR in the reporting period. Net interest income in the Croatia segment (comprising Erste Bank Croatia Group) increased predominantly due to higher deposit margins in the retail business. Net fee and commission income went up due to higher fees from payment transfers and card transactions in retail business as well as fees related to debt issuance. The net trading result decreased on the back of lower foreign exchange and securities trading. Operating expenses increased due to higher personnel as well as IT costs and included a EUR 10.9 million (EUR 10.9 million) deposit insurance fund contribution. Overall, the operating result declined and the cost/income ratio went up. The deterioration of net impairment loss on financial assets was primarily driven by the downgrading of one customer in the corporate business. Other result deteriorated mainly due to the non-recurrence of last year's selling gains on the shares of VISA Europe in the amount of EUR 10.0 million. It included the resolution fund contribution of EUR 4.0 million (EUR 5.2 million). Consequently, the net result attributable to the owners of the parent decreased.

Credit risk

In the Croatia segment, credit risk exposure rose to EUR 9.3 billion (+3.5%). Loans to customers remained relatively stable at EUR 6.4 billion (+1.4%). The share of the Croatia segment in Erste Group's total loans to customers decreased marginally to 4.4% (4.6%). The composition of the loan portfolio by customer segment changed, with the shares of private households and corporates increasing while that of the public sector fell below 10%. The share of local currency loans rose to 31.5% (27.8%) of total loans to customers. Most loans were still denominated in euro. Since the conversion option provided by a law passed in 2015, the volume of Swiss franc denominated loans has only been marginal and, at year-end 2017, stood at EUR 63 million or 1.0% of the customer loan portfolio. The large share of foreign currency loans is mainly due to the widespread use of the euro in Croatia. Euro loans are usually matched by corresponding income or deposits in euro. Asset quality was impaired by the default of one large corporate. The NPL ratio increased to 12.3% (11.2%). The NPL coverage ratio based on loan loss provisions declined slightly to 70.9% (72.4%).

SERBIA

Economic review

The Serbian economy performed well in 2017. Economic growth, however, was weaker than expected, mainly due to lower agricultural and energy production in the first half of the year. Net exports and investments were also a drag on the economic performance. Private consumption, on the other hand, remained strong and benefitted from growing wages, increasing consumer confidence and further improvements in the labour market. The unemployment rate declined to 13.2%. Overall, real GDP grew by 1.9%, while GDP per capita stood at EUR 5,100.

Fiscal consolidation in Serbia improved further, benefitting from the stable political situation. The general government balance recorded a surplus, supported by improved tax collection and one-offs such as dividends from state-owned companies and premiums from issued securities. Public debt as a percentage of GDP improved further and reached 77.5%. Inflation increased but remained within the national bank's target range of 1.5% to 4.5%. Overall, average consumer prices increased by 3.0%. The Serbian dinar appreciated against the euro. The strong currency and improved fiscal performance led the National Bank of Serbia to cut the base rate by 50 basis points to 3.50% in 2017. Improvements in the macroeconomic development and progress of European Union membership negotiations were reflected in the actions of rating agencies in 2017 with Standard & Poor's and Fitch upgrading Serbia's long-term credit rating to BB with a stable outlook. Moody's rated the country's long-term credit worthiness at Ba3 with a stable outlook.

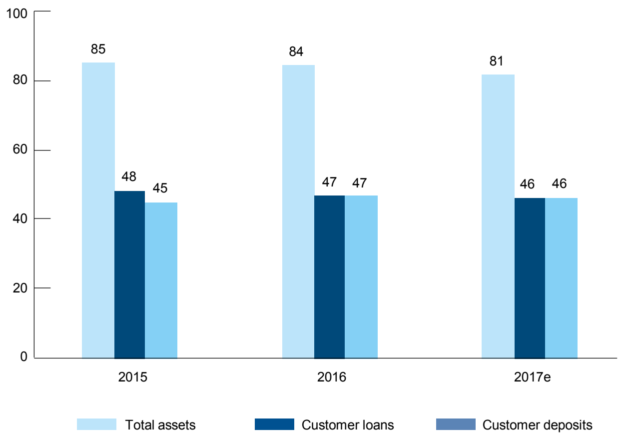
Key economic indicators – Serbia	2014	2015	2016	2017e
Population (ave, million)	7.2	7.2	7.2	7.2
GDP (nominal, EUR billion)	33.3	33.5	34.6	36.8
GDP/capita (in EUR thousand)	4.6	4.7	4.8	5.1
Real GDP growth	-1.8	0.8	2.8	1.8
Private consumption growth	-1.3	0.4	0.8	1.8
Exports (share of GDP)	33.4	34.9	37.0	38.9
Imports (share of GDP)	46.2	46.4	47.6	49.0
Unemployment (Eurostat definition)	19.2	17.7	15.3	13.2
Consumer price inflation (ave)	2.1	1.4	1.6	3.0
Short term interest rate (3 months average)	8.3	6.1	3.4	3.3
EUR FX rate (ave)	117.3	120.7	123.1	121.4
EUR FX rate (eop)	121.0	121.5	123.4	119.8
Current account balance (share of GDP)	-6.0	-4.8	-4.2	-4.7
General government balance (share of GDP)	-6.6	-3.7	-1.3	1.2

Source: Erste Group

Market review

The lending market, similar to the previous year, was clearly driven by retail loans which increased by 8.2%, while corporate loans fell by 1.1%. Customer deposits grew by 3.4%, driven by the corporate business. As of the end of 2017, the banking sector's loan-to-deposit ratio stood at 99.2%. Regulatory topics, such as further increase of capital buffers and harmonisation of balance sheet write-offs, also played a significant role in the development of the Serbian banking market. Serbia's banking sector remained well capitalised with the total capital ratio of 20.5%, significantly exceeding the legal requirement of 8.0%.

Financial intermediation – Serbia (in % of GDP)



Source: National Bank of Serbia, Erste Group

The profitability of the Serbian banking sector increased further. Although the declining interest rate environment resulted in margin pressure and lower net interest income, significantly lower risk provisions supported the banks' profitability. Asset quality improved mainly on the back of the low interest rate environment and the amendments in the legal framework regarding the sale of non-performing loans. At 11.1%, the NPL ratio in the retail segment continued to be significantly lower than in the corporate segment. Overall, the sector's profitability stood at 10.6% of return on equity.

Erste Bank Serbia maintained its position among the country's top ten banks. Its market share of customer loans increased further to 5.2%, retail and corporate market shares stood at 5.4% and 5.1%, respectively. The bank's deposit base remained fairly divided between euro and dinar deposits. Overall, the bank's market share for customer deposits stood at 4.6%, its loan-to-deposits-ratio at 110.1%.

Business review – Highlights

Most successful year. In terms of profitability, 2017 was the most successful year since Erste Bank Serbia launched its operations. The net result rose by one third to EUR 17.0 million, the cost/income-ratio stood at 67.3%. In addition, the continued inflow of deposits reconfirmed customers' trust in banks. Erste Bank Serbia is highly rated by its customers by all parameters of quality: trust, recommendation, satisfaction and ease of doing business with the bank.

Growing retail business. Retail loans denominated in Serbian dinars increased substantially. Thanks to efficient marketing campaigns, Erste Bank Serbia took advantage of this development despite the competitive situation on the market. The market share in retail loans increased to above 5%, and housing loans were the biggest growth contributor.

Overall, net customer loans rose by a double-digit margin. At the same time customer deposits increased by 28%, affirming the high levels of trust the bank enjoys.

International and local recognition. The bank received various awards. For its *Superste.net* platform Erste Bank Serbia received the bronze award for innovation in media by the magazine *The Internationalist*. The bank was also recognised for its contribution to the development of non-financial reporting in Serbia by the *Responsible Management Forum*.

Financial review

in EUR million	2016	2017	Change
Net interest income	46.8	51.3	9.6%
Net fee and commission income	11.1	11.3	1.7%
Net trading result	3.3	4.1	25.5%
Operating income	61.7	67.0	8.6%
Operating expenses	-40.2	-45.1	12.0%
Operating result	21.5	21.9	2.1%
Cost/income ratio	65.2%	67.3%	
Net impairment loss on financial assets	-4.1	1.2	n/a
Other result	-0.6	-0.3	-47.2%
Net result attributable to owners of the parent	12.8	17.0	32.8%
Return on allocated capital	13.6%	15.5%	

The segment analysis has been performed on a constant currency basis. The RSD appreciated by 1.4% against the EUR. Net interest income in the Serbia segment (comprising Erste Bank Serbia Group) increased mainly due to higher loan volumes. Net fee and commission income remained largely unchanged. Net trading result went up on the back of higher gains from foreign exchange transactions. The increase in operating expenses was driven by higher personnel and project costs. Operating result remained largely stable while the cost/income ratio went up. Net impairment loss on financial assets benefited from strong recovery activities as well as portfolio quality improvement mainly in corporate business, resulting in net releases of risk provisions. Overall, the net result attributable to the owners of the parent increased.

Credit risk

Credit risk exposure in the Serbia segment increased substantially to EUR 1.5 billion (+22.3%). The customer loan portfolio also saw strong growth. Loans to customers increased to EUR 965 million (+16.0%). This very dynamic development was almost exclusively attributable to the expansion of the retail business. The share of foreign-currency loans – denominated almost exclusively in euro – in the total loan portfolio stood at 78.0% (79.3%). The large share is mainly due to the widespread use of the euro in Serbia as a result of the weakness of the local currency. Euro loans are usually matched by corresponding income or deposits in euro. The clean-up of the loan portfolio by write-downs and sales as well as a decline in NPL inflows resulted in another visible improvement in asset quality. Non-performing loans as a percentage of the total loan portfolio declined to 3.3% (6.8%). The NPL coverage ratio based loan loss provisions stood at 112.0% (99.1%).

OTHER

Financial review

in EUR million	2016	2017	Change
Net interest income	129.3	105.5	-18.4%
Net fee and commission income	-43.9	-30.0	-31.8%
Net trading result	-1.7	-120.3	>100.0%
Operating income	100.9	-35.2	n/a
Operating expenses	-257.9	-269.6	4.6%
Operating result	-157.0	-304.8	94.1%
Cost/income ratio	>100.0%	>100.0%	
Net impairment loss on financial assets	-71.5	-12.6	-82.3%
Other result	-315.9	-37.5	-88.1%
Net result attributable to owners of the parent	-430.7	-256.8	-40.4%
Return on allocated capital	-6.4%	-3.0%	

Net interest income declined mainly due to a lower ALM result in the Holding on the back of an unfavourable yield curve development. Net trading result as well as result from financial assets and liabilities designated at fair value through profit or loss went down on the back of valuation effects. The increase in operating expenses was primarily driven by higher IT costs. Operating result declined. Other result improved significantly on the back of lower Austrian banking tax following a one-off payment in the amount of EUR 138.3 million in the previous year. In 2016, this line item also included partial impairment of the goodwill in Slovenská sporiteľňa in the amount of EUR 61.3 million. The net result attributable to the owners of the parent increased significantly.

(Consolidated) non-financial report

Introduction

For Erste Group, considering the impact of its entrepreneurial activities on society is nothing new. On the contrary, looking beyond financial performance is very much in line with the idea of social responsibility to which Erste österreichische Spar-Casse committed itself when it was founded almost 200 years ago.

Resolving the conflicting targets of profitability and the ecological and social impact of its business is also a key element for the management of Erste Group. In this regard, Erste Group's Statement of Purpose offers valuable guidance by defining the following tasks and principles:

_ Disseminating and securing prosperity
_ Accessibility, independence and innovation
_ Profitability
_ Financial literacy
_ It is about people
_ Serving civil society
_ Transparency, stability, simplicity

Every business has to answer two key questions every time it takes a decision: "Is it profitable?" and "Is it legal?". For Erste Group, this has never been enough. Before taking a business decision, every employee has to answer the "third question" in the Statement of Purpose to determine whether the action considered is responsible in terms of its impact on the future: "Is it the right thing to do?"

Implementation of the reporting obligation

For the first time, large companies – like Erste Group Bank AG – are required to provide more than just financial statements for their reporting of the financial year 2017. The reporting obligation includes at a minimum environmental matters, social and employee-related matters, respect for human rights, anti-corruption and bribery matters.

Erste Group Bank AG has decided to prepare a (consolidated) non-financial report to meet its obligations under sections 243b and 267a of the Austrian Commercial Code (UGB). Following the comply-or-explain approach, deviations are permitted, but must be explained and justified. Erste Group has drawn up this (consolidated) non-financial report in conformity with the Global Reporting Initiative (GRI standards: core option). The non-financial reporting is not subject to the audit of the consolidated financial statements. A voluntary audit of the financial reporting was performed by Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H.

Non-financial reports must be prepared for the same scope of consolidation that is covered by the financial reporting. The calculation of non-financial data, such as energy consumption per employee, is based on all Erste Group entities that have at least one full time equivalent employee. The non-financial report covers all relevant subsidiaries with the exception of the Austrian savings banks with fewer than 500 employees that are not majority-owned by Erste Group Bank AG. Human resources-relevant data are captured at single entity level, environmental data on the basis of properties used for banking operations. Over the coming years, it is the aim to gradually include the data of all consolidated companies in the non-financial report.

Sustainability at Erste Group

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

According to Erste Group's own definition, sustainability means "to operate the Bank's core business in a socially and ecologically responsible manner and at the same time be financially profitable". Erste Group's environmental strategy uses the definition of sustainability as it appears in the UN's Brundtland report *Our Common Future* of 1987: "A sustainable development is a development which meets the needs of current generations without compromising the ability of future generations to meet their own needs".

While several generations of savings bankers have been committed to doing business responsibly, the establishment of the Group Sustainability Office underpins the increasing strategic importance of non-financial aspects. Covering the topics environment, diversity, corporate volunteering and corporate social responsibility (CSR), the team is primarily responsible for the development and implementation of group-wide policies and the group-wide Code of Conduct.

The Sustainability Board, newly created in late 2017, is headed by Erste Group's Chief Risk Officer. It is composed of one board member from each of the local banking subsidiaries, the head of the Group Sustainability Office and the Group Diversity Manager. The Sustainability Board is responsible for developing and monitoring sustainability topics. For 2018 it is planned to set up local sustainability teams in each banking subsidiary which will report directly to the responsible member of the board.

One of the key tasks of the Sustainability Board in 2018 will be to discuss non-financial targets in the fields of ecology and diversity and to ensure their implementation in the local banking subsidiaries. At the same time, Erste Group's strategy and business operations will be further aligned with the *Sustainable Development Goals (SDGs)* adopted by the UN member states, including in particular those of the 17 global sustainability goals to which Erste Group is making or is able to make a positive contribution on account of its business model and corporate activities.

For a start, Erste Group is seeking to contribute to the achievement of the following selected *Sustainable Development Goals*:

- No poverty (SDG 1)
- Quality education (SDG 4)
- Gender equality (SDG 5)
- Decent work and economic growth (SDG 8)
- Sustainable cities and communities (SDG 11)
- Climate action (SDG 13)
- Partnerships for the goals (SDG 17).

For more information on the *United Nations' Sustainable Development Goals* see http://www.un.org/sustainabledevelopment/.

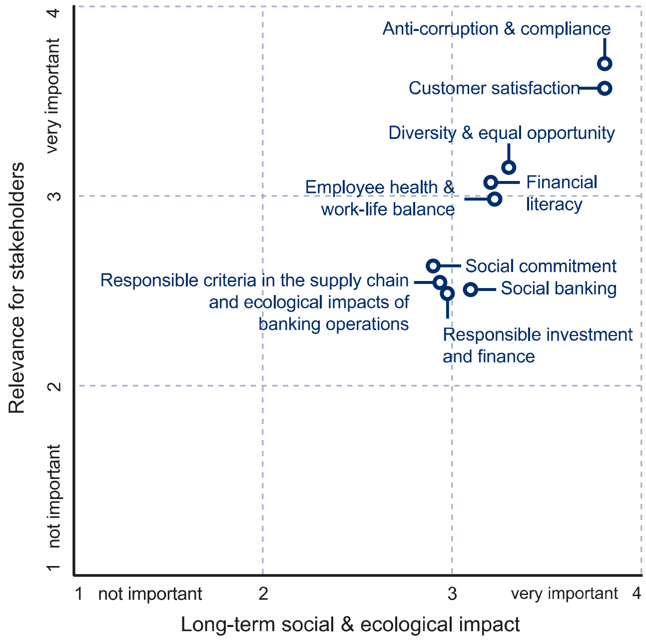
MATERIALITY ANALYSIS

The starting point of non-financial reporting is a materiality analysis. With the involvement of the relevant stakeholders, matters of economic, ecological and social relevance that are of material importance to Erste Group are identified. As a result of in-house discussions, the following stakeholders have been identified as being relevant to Erste Group: employees, customers, management (supervisory board, management board), investors and authorities/supervisors/policy-makers.

The selection of material topics for current reporting purposes is based on the evaluation of the materiality analysis performed in 2016. A survey was conducted in autumn 2017 that included the management board, the supervisory board and employees representing relevant stakeholders in order to assess their respective positions on the material topics. Based on the evaluation of potential long-term impact of the business activities on the stakeholders, the relevance of these topics for Erste Group and, subsequently, key areas of activity were derived.

The materiality matrix illustrates the relevance of the material topics to Erste Group as determined in 2017.

To make the context of the material topics more visible, Erste Group decided to categorise them by higher-level areas, regardless of their degree of relevance. Further information on how Erste Group reflects these topics in its strategy and business activities is provided in the chapters commitment to society, customers, suppliers, employees and environment of the non-financial report. The topic of anti-corruption and compliance may affect all stakeholders, but it usually results from interaction with customers or suppliers. For further information on this topic, please refer to the additional corporate governance principles presented after the corporate governance report.



Social responsibility

Financial literacy. This is a key factor in creating equal opportunities, economic prosperity and social inclusion. In most cases, a lack of financial literacy means restrictions in almost all spheres of life.

Social commitment. Erste Group aims to be not only commercially successful but also to act socially responsible. It therefore pursues a multitude of activities contributing to the cultural and social development of society and also encourages its employees' individual social engagement.

Employees

Diversity and equal opportunity. For Erste Group, diversity and equal opportunity are key elements of its human resources strategy. It therefore seeks to offer a work environment that is free of discrimination and harassment, that values the work of each and every person regardless of gender, age, disability, marital status, sexual orientation, skin colour, religious or political affiliation, ethnic background, nationality or any other aspect unrelated to their employment.

Employee health & work-life balance. Erste Group is convinced that employees perform better and are more motivated when their work and private life are well balanced and when the company contributes to their good health. The focus of Erste Group is on fostering an awareness of the importance of a healthy lifestyle and promoting preventive health care as a complementary service to the public health-care system.

Customers

Customer satisfaction. High levels of customer satisfaction and the resulting customer loyalty secure the bank's long-term success. It is therefore vital to continuously adapt products and services to customers' expectations and needs and to ensure high service quality.

Anti-corruption and compliance. Corruption is a problem in many parts of the economy. Erste Group employees are required to attend a customised training programme enabling them to recognise and prevent fraud and corruption. Conflicts of interest between customers, Erste Group and employees are covered by clear rules such as Chinese walls, provisions on employee transactions, research disclaimers, or the gift policy.

Responsible investment and finance. Public interest in the indirect impacts that bank products have on the environment and society is growing significantly. Erste Group is therefore steadily expanding its range of responsible investment and finance products. When taking business decisions, social and/or ecological criteria are increasingly taken into account in addition to the traditional financial risk aspects.

Social banking. For a variety of reasons, even today some parts of the population do not have access to financial services of commercial banks. In accordance with its founding principles, Erste Group's social banking programmes help people to help themselves and contribute to a positive economic development for the excluded parts of society.

Environment

Ecological impacts of banking operations. Protecting the environment and the climate are among the most significant global challenges. Erste Group aims to minimise its ecological footprint, specifically its consumption of energy and paper, and to use natural resources responsibly.

Suppliers

Responsible criteria in the supply chain. In the light of interrelated economic activities, companies must consider not only the ecological and social impact of their own operations, but also those of their entire supply chain. Through its supply chain management, Erste Group is making every effort to avoid having an undesirable indirect impact on the environment and human rights.

Changes in the classification of material topics

From 2016 to 2017, the number of topics included in the materiality analysis was reduced from fifteen to nine. In 2017, the topics data security, fair competition between banks and open disclosure of financial results were not covered by the materiality analysis.

Data security. The security of its customer data is of fundamental importance to Erste Group. Erste Group applies the highest standards in its IT infrastructure and provides ongoing training to its employees to offer maximum protection against the misuse or loss of customer data. This is a key prerequisite for success in the banking industry. This topic is no longer included in the materiality analysis as the measures to be taken in this regard must be implemented in any case, regardless of the outcome of such an assessment.

Fair competition between banks. As important as this topic certainly is, individual banks have hardly any way to influence it. It is essentially the duty of the legislature and the supervisory authorities to take suitable measures. Therefore, this topic has also been removed from the materiality analysis.

Open disclosure of financial results. Every company that is listed on a stock exchange is of course required to openly disclose its financial results. Transparent and full financial reporting is mandatory regardless of the outcome of the materiality analysis. For this reason, this topic is also no longer part of the materiality analysis.

In the 2017 materiality analysis, the topics social commitment of the employees and social engagement of the bank were combined under the heading of social commitment. The topic covering the impacts of the banking business on the environment is now part of the topic responsible criteria in the supply chain and ecological impact of banking operations.

The material topic customer satisfaction considered for the first time in 2017 encompasses the 2016 topics easily understandable products, easy access to banking products and digital banking/digital innovation. To assign customers a weighting that reflects their significance as stakeholders, the topic responsible investment and finance was added.

Opportunities and risks

Consideration of the material topics opens up opportunities for improving customer relationships, attracting new customers, improving the environmental footprint as well as maintaining and increasing the attractiveness as an employer. Ignoring non-financial topics may adversely affect Erste Group's stakeholders. In addition, Erste Group may become exposed to a variety of risks, some of which are interconnected.

Reputation risk exists in all these topic areas. In addition, further specific risks may arise. Commitment to society encompasses a variety of activities, ranging from financial inclusion of low-income or disadvantaged persons to supporting social initiatives, financial literacy as well as art and culture. Reducing the level of engagement may for instance result in financial gaps at co-operation partners and the suspension of initiatives or activities. This may harm reputation and, as a consequence, may have negative impact on customer retention, lead to a loss of customers and make it more difficult to attract new customers. In this context, consumer protection activities must be mentioned as well. Offering adequately designed products and services may reduce the adverse impact of such initiatives. For employees, a loss of reputation as well as an inadequate attention to social topics (such as diversity and equal opportunity) may result in a company being less attractive as a preferred employer. This may lead to a decline in employee motivation, extended sick leave and increased employee turnover, and make it harder to recruit adequate staff in the labour market. Ignoring the risk of corruption may lead not only to a loss of reputation, but may also cause financial harm. Failure to deal with environmental topics may result in reputation risk, a deterioration of the ecological footprint and higher costs due to lower resource efficiency. In the lending business, the value of collateral may decline. For suppliers, failure to respect human rights may adversely affect the working or living conditions of people in the producer's or supplier's country of origin, just as neglecting environmental concerns may adversely affect the supplier’s or producer’s environmental footprint. For Erste Group, dealing with suppliers involves delivery risk, reputation risk and the risk of losing customers.

The following materiality table provides an overview of the stakeholder groups, the material topics of the materiality analysis assigned to them, references to the GRI standards and references to the sections of the non-financial report in which these topics are explained.

Materiality table

Stakeholders	Material and other topics for Erste Group	Topics of the materiality analysis	Material topics pursuant to GRI Standard	Chapter in the non-financial report
Customers	_ Anti-corruption and compliance _ (Digital) innovation _ Information and data security _ Customer satisfaction _ Financial literacy _ Easily understandable products _ Easy access to bank services _ Fair competition _ Social banking	_ Customer satisfaction _ Anti-corruption and compliance _ Responsible investment and finance _ Social banking	_ Customer privacy (GRI 418-1) _ Anti-corruption (GRI 205-3) _ Anti-competitive behaviour (GRI 206-1) _ Indirect economic impact (GRI 203-2)	_ Customers _ (outside the non-financial report: Corporate governance)
Employees	_ Social and employee-related topics _ Respect for human rights _ Diversity and equal opportunity _ Employee health & work-life balance _ Employee development _ Gender equality and non-discrimination _ Talent promotion and planning _ Leadership competency development _ Employee engagement _ Fair competition	_ Diversity and equal opportunity _ Employee health & work-life balance	_ Employment (GRI 401-1, 401-3) _ Training and education (GRI 404-1, 404-2) _ Diversity and equal opportunity (GRI 401-3, 405-1) _ Non-discrimination (GRI 406-1)	_ Employees _ (outside the non-financial report: Corporate governance)
Investors	_ Transparency _ Financial markets communication _ Disclosure obligation		_ Economic performance (GRI 201-1)	_ (outside the non-financial report: Financial statements)
Society	_ Financial literacy _ Partnership in social and cultural affairs _ Fight against poverty _ Compliance, anti-corruption _ Indirect economic impact _ Social engagement of the bank and its employees _ Social banking	_ Financial literacy _ Social commitment _ Social banking	_ Indirect economic impact (GRI 203-2) _ Anti-corruption (GRI 205-3) _ Socioeconomic compliance (GRI 419-1) _ Economic performance (GRI 201-1)	_ Commitment to society _ Customers _ (outside the non-financial report: Financial statements)
Environment	_ Environmental topics _ Impacts of the banking business on the environment _ Climate protection _ Ecological footprint _ Responsible products and services _ Resource-efficient business management	_ Social and ecological criteria in the supply chain & ecological impacts of banking operations	_ Materials (GRI 301-1, 301-2) _ Energy (GRI 302-1, 302-4) _ Emissions (GRI 305-1, 305-2, 305-3)	_ Environment _ Suppliers
Suppliers	_ Environmental topics _ Respect for human rights _ Social and ecological criteria in the supply chain _ Local rather than cross-border procurement _ Co-operation with suppliers	_ Social and ecological criteria in the supply chain & ecological impacts of banking operations	_ Supplier environmental assessment (GRI 308-1) _ Supplier social assessment (GRI 414-1)	_ Suppliers

Commitment to society

Since the foundation of Erste Group's predecessor almost 200 years ago, commitment to society has been an important part of its business activities. It encompasses a variety of activities, ranging from financial inclusion of low-income or disadvantaged persons to supporting social initiatives, financial literacy as well as art and culture.

The *Extra*VALUE programme of Erste Group is based on the bank's commitment to social responsibility and to intangible values – humane, social, cultural – that go beyond the bank's core business activities. This extra value is created by supporting and promoting institutions, initiatives and projects.

Social and sponsoring activities are combined group-wide under the umbrella of the ExtraVALUE programme. Regional focus, cross-thematic initiatives and cooperation within related fields characterise the programme. Erste Group's *Extra*VALUE programme is a visible sign of the bank's commitment to its responsibility towards society and the individual. Ultimately, it supports personal development and helps people to meet their social and cultural needs.

Because of the multitude of social and educational initiatives, sponsoring and corporate volunteering only a few selected projects can be highlighted here. More detailed information on various Erste Group initiatives is available at http://www.erstegroup.com/en/about-us/responsibility and on websites of Erste Group's subsidiaries in the respective local language and in some cases English.

SOCIAL AND EDUCATIONAL ACTIVITIES

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

Erste Bank Oesterreich has supported annual domestic aid campaigns, the initiative for children and the *youngCaritas* and *Kulturbuddy* (a platform to coordinate volunteers) for many years as a partner of Caritas. Erste Bank Oesterreich has also been sponsoring Hilfswerk Österreich, one of the largest non-profit providers of health care, social and family services in Austria, for many years. Additionally, the bank supports a variety of smaller NGO's, such as *lobby.16,* which gives unaccompanied young refugees access to education and employment and helps them participate in social life.

Banca Comercială Română operates *Bursa Binelui*, a crowd funding platform for NGOs. The bank is a partner of *Teach for Romania*, an initiative to improve the educational system in Romania. The bank's online and offline programme for students and young professionals called *Laboratorul de Cariere* facilitates labour market integration by helping people to develop soft skills. In addition, BCR is partnered with the most important five universities in Romania and supports *Save the Children* Romania in achieving equal opportunities for all children.

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

Superste is a Serbian online hub where people from 16 to 35 can access funds, mentors, NGO contacts and leaders for their social responsibility projects in the arts, culture and education. The bank continues to support two science festivals in Belgrade and Novi Sad, which are well known for making science fun, inspiring and motivating not only for kids but the elderly as well.

Erste Group has been supporting amateur sporting events in Austria and Central Europe for many decades and is particularly active in fostering young athletes. Projects are carried out in a spirit of close partnership with the organisers and hosts of these events. In 2017, Erste Group sponsored a large number of running events, including many in support of social projects such as the *erste bank vienna night run* in Austria, the Košice Peace Marathon in Slovakia (the oldest marathon in Europe), the *Color run* in Romania and the *Homo si Tec Marathon* in Croatia.

Česká spořitelna is the main partner of the Czech Athletics Federation and supports athletes at all levels – from the national teams to young talent. Owing to the athletic youth programmes, more than ten thousand children were encouraged to get involved in sporting activities.

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

One of the key priorities within the Erste Group's commitment to educational activities is financial literacy.

FINANCIAL LITERACY

Financial literacy is important for creating equal opportunities, social inclusion and economic well-being. Financial ignorance limits social, economic and cultural life.

Therefore, Erste Group is engaged in a wide variety of financial education activities. The main objectives of Erste Group's financial education activities are to enable people of all ages to gain adequate skills and abilities to make informed and appropriate financial decisions. In addition, they assure that employees of Erste Group have up-to-date knowledge about bank products and services as well as a comprehensive understanding of financial concepts and recent economic developments. Erste Group's employees must be able to understand the bigger picture to advise customers to choose the appropriate financial products. Erste Group is committed to ensuring that the financial products and services offered are transparent and easy to understand and meet the customers' short- and long-term financial needs.

In line with a recommendation of the Organisation for Economic Co-operation and Development (OECD) that financial education should start as early as possible, Erste Group puts a particular emphasis on financial education projects for children and young people. Erste Group wants to empower young people to participate in economic life and to understand finance as a system.

Erste Group's most ambitious financial literacy project is the *Fina*ncial Life Park (FLiP) at the Erste Campus in Vienna (http://www.financiallifepark.at), open to visitors since October 2016. FLiP offers innovative financial literacy training through a combination of state-of-the-art digital media technology and trained guides. By promoting know-how in money matters, *FLiP* helps visitors to acquire the skills to manage personal financial affairs responsibly and independently. Depending on the visitors' age and background, three different guided tours are available, each with its own approach, didactics, thematic layout and depth of content. In its educational activities, the *FLiP* team is supported by some 80 active and retired Erste Group volunteers. Educational activities are currently offered in German, English and Slovak. In 2017, some14,000 visitors took part in almost 600 interactive tours conducted at *FLiP*. Since September 2017, two dates a month have been available for Slovak schools. While children and young adults are the main target group, *FLiP* has proved an exciting experience popular with all age groups. While children are the main target group, *FLiP* proved to be interesting for visitors of all age groups.

Since *FLiP* is far from reaching all schools and pupils that may be interested and since Erste Group aims at continuously promoting financial literacy, a mobile version – *FliP2Go* – will be on tour from 2019. *FLiP* educational content will be displayed in nine interactive booths installed in a remodelled double-decker bus.

More than 1,000 specially trained employees of Banca Comercială Română provide financial literacy training under the umbrella of *The School of Money* in schools, universities and companies. Since summer 2017, the bank has also been running the *Money School on Wheels*. A similar version of FLiP contents is on display in a remodeled bus. During the summer, the bus stopped in three Romanian cities while 2,000 children took part in workshops.

The interactive travelling exhibition *The ABC of Money*, a hands-on show explaining the basics of the money system and how money evolved over time, enjoys unbroken popularity. The exhibition will be in Pilsen, Czech Republic, until April 2018. To date, the exhibition has been on display at seven different venues and viewed by more than 160,000 visitors.

In all of its core markets Erste Group cooperates with schools to promote financial literacy. Slovenská sporiteľňa supports educational projects at Slovak schools and universities, for example a joint project with the Children of Slovakia Foundation on the subject of money called *Get to Know Your Money*, in which more than 20,000 pupils have already taken part. Erste Bank Serbia staff stage workshops in kindergartens and schools to explain what banks do. The local banking subsidiaries have developed a range of e-learning tools and apps to bring financial education to as wide a public as possible. More than 500 teenagers participated in financial literacy workshops called *iCan* across Austria supported by volunteers of Erste Group. Slovenská sporiteľňa piloted activities aimed at over-indebted customers to help them cope with these difficulties. Erste Bank Croatia piloted *Financial parachute*, a new financial literacy programme comprising workshops and mentoring sessions for private individuals. This programme is unique on the Croatian market and aims to stabilise and improve customers' financial health.

ART AND CULTURE

Erste Group supports and promotes cultural and art institutions. Under the *Extra*VALUE sponsoring programme, Erste Bank Oesterreich is the principal sponsor of *Jeunesse*, whose focus is on the promotion of young artists by giving them opportunities to perform professionally on stage as well as on the development of new concepts for teaching music appreciation. Erste Group also supports a wide variety of institutions such as Klangforum Wien, the Gustav Mahler Youth Orchestra, Wien Modern, Jazz at the Konzerthaus, Secession, Tanzquartier Wien, the ZOOM Childrens' Museum, Wiener Festwochen, the International Childrens' Film Festival and the promotion *Hunger auf Kunst und Kultur* (Hunger for Art and Culture).

Erste Bank Oesterreich also has a long standing partnership with *Viennale*, Austria's largest international film festival. Every year, the bank awards the *Extra*VALUE Film Prize and the *Extra*VALUE Design Prize for social design as part of Vienna Design Week, the Erste Bank *Extra*VALUE Art Prize in collaboration with *das weisse haus* art association and the Erste Bank Composition Prize.

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

Erste Bank Croatia organises a well-known annual competition for emerging artists and art students, called *Erste Fragments*. *Organ Vida* is an international photography festival in Zagreb that attracts photographers from Croatia and abroad in a series of exhibitions, workshops and lectures. Erste Bank Croatia has supported the international *comic book festival* in Zagreb for many years. In Serbia, Erste Bank focuses on jazz music events such as the *Beogradskje jazz festival* and festivals in Novi Sad, Pančevo, Subotica, Kraljevo, Kragujevac and Kikinda. The *Danube Dialogues* contemporary art festival has received support since it was founded.

CORPORATE VOLUNTEERING

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

Erste Group's Austrian initiative *Time Bank* matches employees who want to donate their free time and skills with more than 50 partner organisations. Employees of the Holding, Erste Bank Oesterreich and their subsidiaries as well as many regional savings banks across Austria volunteer their time in their local communities.

In addition to volunteering, donations in kind are becoming increasingly important as people often lack items that we take for granted such as toys, clothes and sports equipment for children. The Time Bank provides long-term support to its partner organisations by organising regular collection activities to remedy this situation.

Several of Erste Group's local banks successfully support volunteering as a teambuilding activity. Česká spořitelna contributes to the development of the Czech non-profit sector by actively supporting its employees whose volunteer work benefits the public good. Since 2007, employees have been granted two working days off each year to volunteer as part of Česká spořitelna's *Charity Days* programme. The bank supports a special volunteer programme for managers that allows them to spend up to a week offering their skills to NGOs and charity organisations. Erste Bank Croatia signed the *Charter on recognition of competencies acquired through volunteering*, which means that as a bank, it recognises the importance of skills learned through volunteering and that these skills are considered during the recruiting process and career progression. For example, they organised volunteering in children's shelters and other socially disadvantaged areas.

Slovenská sporiteľňa continued its *Euro to Euro* grant project and supported sports, educational and cultural activities in communities where the bank's employees live.

Customers

FOCUS ON CUSTOMER RELATIONS

Erste Group puts customers and their interests at the centre of its business activities. Only banks that understand the underlying reasons behind the financial needs of their customers can offer the right solutions at the right time. Special attention is devoted to dealing with customers' requests in top quality, within short response times and to providing exactly those solutions that meet the customers' needs - a vital part of establishing and maintaining long-term customer relations.

Erste Group puts its customers in control of their financial life by offering financial advice based on their interests, needs and financial literacy and by increasing their accessibility. Erste Group ensures high quality advisory services by continuously training its employees, thereby focusing clearly on the relationship with the customer and not the transaction.

Advisory concept

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

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

Products and processes

Product development is driven by customers' needs and the ways customers carry out their banking activities. Product features and services reflect flexibility, life-cycle changes, simplicity, security, transparency and easy-to-understand features. Identifying and satisfying customers' needs leads to higher customer retention and stronger sales and cross-selling potential. In this respect, Erste Group focuses on simplifying the current product portfolios and aims at developing new products and services to meet as many customer needs as possible.

To this end, Erste Group is continuously reducing the complexity of its product portfolio. With their client centric-approach and initiatives to promote simplicity, Erste Bank Oesterreich, Česká spořitelna and Slovenská sporiteľňa act as forerunners in the group.

OMNI-CHANNEL APPROACH

As an omni-channel bank, Erste Group allows its customers to choose between new and traditional sales and communication channels. Customers decide how, when and where they do their banking. They can switch channels within one single customer journey, expecting seamless experience across all touchpoints. The aim is to integrate all areas of the retail banking business, e. g. advisory services in the branch network, internet or mobile banking and the contact center.

Branches

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

The implementation of the new branch concept has started in Erste Bank Oesterreich and Česká spořitelna. More than 20 branches have been refurbished or newly opened in Austria, 50 in the Czech Republic. Banca Comercială Română opened the first pilot branch in Bucharest, Erste Bank Serbia in Belgrade and Erste Bank Hungary in Budapest. Erste Bank Croatia will follow in 2018.

Digital banking

Both only internet-savvy and also traditional customers expect more and more modern digital banking services. The websites of the local banks of Erste Group are constantly enhanced, focusing on accessibility, usability and simple and easy-to-understand content. The range of digitally available products and services is continually being extended.

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

George and *George Go* are the main digital interfaces that enable customers to activate and use additional applications of the bank or third parties in a secure IT environment to help them in their financial lives. Following the successful implementation in Austria and Slovakia, *George* will be fully available across the Czech Republic and Romania by the end of 2018. Erste Group aims to introduce its unified digital banking platform in all of its seven markets (Austria, Czech Republic, Slovakia, Romania, Hungary, Croatia and Serbia), thus making *George* the first pan-European banking platform that offers a full range of products and services across all platforms.

Erste Group has launched digital consumer loan offerings in Austria, the Czech Republic and Slovakia. Digital sales contributed significantly to new business development in 2017. Česká spořitelna is now offering its customers a new and convenient method: they can get refinance or a new mortgage completely online. Erste Bank Oesterreich started as the first bank in the country to allow customers to open an account completely online including video authentication that complies with all legal and security requirements. Erste Bank Oesterreich also introduced a new mobile payment (wallet) function as part of the *George Go* app, which allows customers to pay for goods and services directly with their NFC (near-field communication) enabled mobile phones.

Contact Center

Customers expect easy service interactions when they need assistance with digital banking. The first point of contact is the Erste Group's contact centers, where qualified employees answer questions regarding products, services or self-service terminals. Additionally, the contact centers' agents help customers navigate the digital sales process and handle customer complaints and emergencies, such as requests to block credit cards and debit cards.

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

THE IMPORTANCE OF THE BRAND

Branding is built on experience and expectation. A brand is more than a logo, it is about the perception of people when they think of or hear of an organisation, its products and services. Brands have an important identification and differentiation function, which in turn determines whether a customer chooses one brand over another. Ultimately, companies with strong brands benefit from emotional relationships with their customers. Only a few companies were founded with the underlying purpose of more than just profits. Erste Group is one of these and consequently has been benefiting from a high degree of brand awareness and trustworthiness even in economically challenging years.

By establishing the lead narrative #believeinyourself (#glaubandich), Erste Group introduced purpose-driven brand communication. The lead narrative is designed as a "one group, one brand" approach. The concept was launched in Austria, Czech Republic, Romania, Hungary and Croatia back in 2017.

Erste Group's brand identity is not only built on its history and past achievements. On the contrary, Erste Group's digital efforts are very visible to customers and competitors alike and underpin its innovation power. The cutting-edge digital platform *George* allows Erste Group to serve its customers in a very innovative and convenient way.

Erste Group's marketing efforts are not limited to the bank itself. To familiarise a broader public with the economic importance and potential of Central and Eastern Europe, Erste Group has been running a TV and online campaign in leading international media since 2009. In 2017, the image campaign portrayed selected investments of large corporations in the region that were realised with Erste Group's support.

In addition to the numerous activities oriented towards amateur and professional sporting events described in the chapter "Commitment to society", Erste Group has supported professional athletes, teams and events in ice hockey, tennis, soccer and sailing.

Since 2013, Erste Bank Oesterreich has been the main sponsor of the Austrian ice hockey league that bears its name. It also sponsors of the Austrian national ice hockey team and the local Vienna Capitals ice hockey team. The Erste Bank Ice Hockey league grew beyond Austria to include teams from the Czech Republic, Hungary, Croatia and Italy. Young Austrian ice hockey players are supported through two youth series, Erste Bank Young Stars League and Erste Bank Juniors League. Erste Bank Hungary started its engagement in ice hockey sponsoring with the 2017/18 season.

Erste Bank Oesterreich's sport sponsoring activities also comprise the Erste Bank Open in Vienna, the most important tennis event in Austria and an ATP World Tour 500 tournament. Erste Bank Hungary supported the Hungarian Sailing Association and was the main sponsor of the Kékszalag, Europe's largest round the lake sailing competition at Lake Balaton with 500 boats participating. Slovenská sporiteľňa was once again the official partner of Slovakia's National Soccer Team.

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

ACCESSIBILITY

Erste Group defines accessibility as designing the real-word and digital environment as well as information and product offerings in such a way that they can be used by people with disabilities without any additional help.

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

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

CUSTOMER SATISFACTION

The quality of customer relations depends ultimately on the customers' experiences in their day-to-day dealings with their bank. Keeping a loyal customer base is becoming increasingly difficult in banking due to growing competition that has recently included non-traditional players. Customers are more demanding, well informed and expect a higher value, more speed, flexibility and reliability from their banking services. As high levels of customer satisfaction and thus customer loyalty secure the bank's long-term success, it is essential to intensify the relations between the bank and the customers and to increase client satisfaction by improving the quality of the offering and answering requests in a timely manner.

The Customer Experience Index was established for this purpose. It focuses on the loyalty of Erste Group's customers, combining five relevant dimensions. It is used to determine the positioning as well as the strengths and weaknesses of the local banks of Erste Group relative to the top three competitors in each country. It is also a bonus criterion for board members of Erste Group and the local banks.

Overall, Erste Group maintained its position across its markets in 2017, a positive development is especially visible in the private individuals and SME customers segments. In the SME customers segment, Erste Bank Croatia confirmed its strong performance and remained comfortably ahead of its competition. Erste Bank Serbia, Erste Bank Croatia, Slovenská sporiteľňa and Erste Bank Oesterreich achieved good results in the private customer segment.

RESPONSIBLE INVESTMENT AND FINANCE

Erste Asset Management (Erste AM) was an early mover in anticipating the growing needs of investors to emphasise environmental and socio-ethical aspects in their investment decisions. Over the past decade, Erste Group has seized this opportunity and developed the most diverse portfolio of sustainable funds in Austria. Since 2012, all entities of Erste AM have been *UN PRI Signatories* and have thus committed themselves to complying with the *UN Principles of Responsible Investment (PRI)*. The decision not to allow any actively managed mutual fund to invest in companies engaged in banned weapons, such as land mines, nuclear weapons, or cluster bombs, was taken back in 2011. Furthermore, funds are not allowed to engage in food speculation. Since November 2016, Erste AM has excluded from all its actively managed mutual funds any company that earns more than 30% of its total revenue from coal mining, coal trading or production of coal-based fuels. The respective guidelines are available on the website of Erste AM (http://www.erste-am.com).

In addition to Erste AM, ERSTE Immobilien Kapitalanlagegesellschaft also offers its customers funds involving sustainability. The criteria for sustainable real estate assets in the ERSTE RESPONSIBLE IMMOBILIENFONDS include not only the typical economic criteria, but also aspects such as environmental compatibility, mobility, social infrastructure, quality of life and future viability of the property. Sustainable assets under management amounted to EUR 123 million as of the end of 2017.

Erste AM is a leading provider of sustainable investment funds in Austria and in the CEE region and also works with institutional investors. In 2017, Erste AM managed assets worth EUR 63.4 billion. Actively managed funds that are audited for exclusion of banned weapons, coal sales and coal fuel sales amounted to EUR 23.9 billion. The total volume of assets managed by sustainable investment funds reached approx. EUR 5 billion.

Sustainable investment represents a core competency of Erste AM. As of the end of 2017, Erste AM sustainability experts managed 31 investment funds in the public funds and special funds/externally mandated portfolio categories. The managed sustainable public funds comprised seven bond funds, three regional stock funds, one newly opened global stock fund focused on a dividend-based strategy, one micro-finance fund of funds, one theme funds for climate protection and the environment (jointly managed with WWF Austria) as well as one asset allocation fund of funds. As in past years, 2017 was again characterised by strong investor demand for sustainability funds that invest in emerging market corporate bonds worldwide.

In 2017, ten of Erste AM's sustainability funds were awarded the FNG label (2016: nine). Created by Forum Nachhaltige Geldanlagen e.V. (FNG) in 2015, the FNG label is the quality standard for sustainable financial investment in German-speaking countries. To qualify for the FNG label, the minimum requirements are transparency and process criteria, the exclusion of weapons and nuclear energy and meeting standards in four UN Global Compact categories: human rights and labour law, environmental protection, the fight against corruption and bribery. Moreover, nine of the sustainable funds have had the Austrian environmental certificate for sustainable financial products, some of them for many years.

Companies were contacted regarding their involvement with various sustainability issues that are highly relevant to Erste AM. Key topics were human rights in industries focusing on the exhaustion and exploitation of raw materials as well as intensive dialogues with German car manufacturers as a consequence of the exhaust emission scandal. Following the results of the 2017 Diesel Summit in Germany, they were excluded from Erste AM's sustainable investment universe. This step was accompanied by intensive dialogue aimed at receiving responses to various unsolved matters. The dialogues with the companies took place in writing, by telephone and also in person with company representatives in Vienna and have already shown initial success. Co-operation with other international asset managers (organised by the PRI Association and GES) continued in 2017 in order to approach companies from a position of greater strength.

Apart from engaging in dialogue with companies on controversial topics in the areas of sustainability and environmental protection, Erste AM represented the interests of its customers at 330 annual general meetings in 2017. In addition, more than shareholder motions were supported to encourage companies to manage their businesses in a more sustainable and transparent manner.

The online magazine by Erste AM's Responsible Investment Team (http://www.esgletter.at) also met with great interest in 2017. The quarterly published magazine focused on batteries, child labour, gambling and logistics. Apart from this main publication, specific fact sheets are published monthly on the investment universe and the sustainability funds to inform customers of the selection criteria and their influence on the ESG key indicators (such as the CO_2 footprint of the funds).

In 2015, Erste AM was the first Austrian asset management company to sign the *Montréal Carbon Pledge*. Under this scheme, capital market participants agree to have the CO_2 emissions of their stock holdings measured and to disclose their CO_2 footprint every year. Erste Asset Management calculated and published the CO_2 emissions of their equity investments in 2017 as well. By divesting from CO_2-intensive companies in coal mining and coal trading, the CO_2 footprint of company-wide investments was reduced further.

The Erste Responsible Advisory Board met once in 2017 and again made valuable contributions to the further development of Erste AM's sustainable investment strategies. Active membership in the *Forum Nachhaltige Geldanlagen* (Forum for Sustainable Financial Investments), Eurosif and the *Verein zur Förderung von Ethik und Nachhaltigkeit bei der Geldanlage* (Corporate Responsibility Interface Center, CRIC) was continued.

In line with the Statement of Purpose, Erste Group's finance guidelines also contain specific exclusion criteria to ensure its environmental and social responsibility. These exclusion criteria relate in particular to the energy and the weapon sectors, excluding for instance the financing of nuclear and coal-fired power plants, coal mining and fracking. Exceptions may be projects aimed at improving the safety of existing plants or significantly reducing CO_2 emissions. Examples of financing projects providing ecological benefits are mentioned in the chapter environment, section priorities.

SOCIAL BANKING

Part of the population in Erste Group's core markets of Austria, Croatia, the Czech Republic, Hungary, Romania, Serbia and Slovakia is still at risk of poverty or social exclusion. Erste Group believes that economic growth should be inclusive and that basic financial products and financial advice must be available to everyone. Offering basic banking services to the otherwise unbanked part of the population was one of the main reasons for the foundation of Erste oesterreichische Spar-Casse in 1819. For a variety of reasons, some segments of the population do not have access to financial services of commercial banks even today. Therefore, Erste Group has launched a social banking initiative called *Step-by-Step*.

Step-by-Step promotes the financial inclusion of low-income individuals, starting entrepreneurs and social organisations, offering them fair access to financial products, sound financial advice and business training and mentoring. The *Step-by-Ste*p programme was rolled out throughout Erste Group's network of local banks and in partnership with local organisations and NGOs. It builds on individual programmes that Erste Group's subsidiaries in the CEE region have already launched and works together with existing local social banking projects.

Access to basic financial products for people on low-income is an essential element to reduce poverty. Financial inclusion empowers people to cope with unexpected financial shock and better manage unexpected events. Zweite Sparkasse has supported a total of 16,700 people in financial difficulties in Austria for more than ten years, and, currently, serves about 7,800 customers. It also supports 500 customers through caregiver accounts with debt counselling services, which is intended for customers with full legal capacity but a lack of control over their money. Slovenská sporiteľňa launched a new offer combining micro savings, financial education and micro loans for housing.

One of the most difficult tasks for starting entrepreneurs is raising financing to start their business. Erste Group believes that small entrepreneurs provide not only financial stability for their families, but they often expand their businesses in their communities and create new jobs. Erste Group offers access to loans, business training, e-learning tools, mentoring sessions and networking to these customers. In accordance with the guarantee agreements between the European Investment Fund (EIF) and local banks, more micro-loans can be granted to start-ups and micro businesses. In Austria, the micro-loans initiative between Erste Bank Oesterreich and the Austrian Federal Ministry of Labour, Social Affairs, Health and Consumer Protection was continued. With the help of savings banks, more than 600 start-ups have received funding under this programme. Banca Comercială Română was one of three banks to participate in a state-supported start-up lending program called *Start-up Nation* in which it financed more than 160 start-ups and opened more than 1,800 new business accounts. Erste Bank Serbia launched its new micro-finance programme called *Korak po korak* (Step-by-step) that supports the unemployed persons who want to become entrepreneurs as well as small social businesses. In 2017, Erste Group financed 407 starting entrepreneurs with a total volume of EUR 10.5 million.

Social organisations (non-profit organisations and social enterprises) deal with some of the most challenging issues in our society such as youth unemployment, social integration and reducing poverty. Erste Group offers a bundle of working capital loans, bridge loans, investment loans and capacity building programmes. In 2017, together with Erste Foundation and financial support of the EU Commission, Erste Bank Hungary started to implement its three-year programme *SEEDS* to help social organisations in strengthening their financial independence. Česká spořitelna strengthened its market leadership in financing the social sector with more than 100 new customers. In 2017, Erste Group financed 166 social entrepreneurs and NGOs with a total volume of EUR 20.7 million. For further information and social banking client stories please visit ‚https://www.erstegroup.com/en/about-us/social-banking.

good.bee Credit offers micro loans to farmers and small entrepreneurs in rural and urban areas in Romania. As the first microfinance company in CEE, good.bee Credit received a certification for compliance with the European Code of Good Conduct for

Microcredit Provision in November 2017, which is the result of its clear focus on incorporating the requirements set forth in the priority clauses of the Code in the areas of customer and investor relations, governance, risk management, reporting and information systems. In 2017, good.bee Credit provided 1,177 loans with a total volume of EUR 9.9 million and reached an outstanding loan balance of EUR 19 million. More information on good.bee Credit can be found at http://www.goodbeecredit.ro/.

Launched initially as a social banking initiative in Austria, the Fund of Excellence, an alternative investment fund, was included in the Group Corporates business segment in 2017. Through the fund, the bank invests in people with potential, including funding for students, support for working parents and, under the Vision Capital programme, investing in the early stage of promising business start-ups. Overall EUR 1.2 million has been committed for investment since 2014, thereof EUR 0.5 million in 2017.

PRIVATE BANKING

Despite the persistent low interest-rate environment, Erste Group continued to strengthen its market position in private banking and asset management in Central and Eastern Europe. Across the group, the focus of the services offered was on long-term wealth accumulation, asset management and investment counselling, as well as estate planning. In addition to the services of a universal bank such as payments or financing solution, Erste Private Banking offers investments in securities, real estate, gold and diamonds. Erste Private Banking focuses on offering its customers advisory excellence, sustainability and transparency. A group-wide training programme has been initiated to meet these high quality requirements.

In 2017, Erste Group was named the *Best Private Bank* in CEE for the fourth consecutive year and again the *Best Private Bank* in Austria and Croatia by the business magazine *The Banker*. In addition, Erste Private Banking was named the *Best Private Bank* in the Czech Republic by the business magazine *Euromoney*.

Suppliers

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

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

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

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

This is also expressed in the supplier code of conduct that is publicly available on the website of Erste Group Procurement. Erste Group Procurement holds the *CIPS Ethics Mark*, a certification awarded by the *Chartered Institute of Procurement and Supply (CIPS)*. This certificate distinguishes institutions that have committed to high standards in procurement and set up relevant further education courses in house. Currently, 90% of all employees of Erste Group Procurement have obtained individual certification on ethical behaviour in procurement.

SUPPLY CHAIN

Erste Group's supply chain consists of mostly indirect expenses that support the group's core business. In 2017, the total amount paid to companies outside Erste Group was slightly above EUR 1.1 billion and the majority of it is linked to IT (amounting to 39.9% of the total amount spent), followed by expenses for services, operations and marketing (37.9%) and facility management (22.2%). Out of a total of approximately 22,000 suppliers at the group level, 80% of the total procurement expenses relate to 549 suppliers.

98.8% of the suppliers (reflecting 97.6% of the expenses) are located in the European Union, highlighting Erste Group's focus on its markets in CEE. An additional 0.5% of the suppliers are located in North America, 0.5% in other European countries and the rest (0.2%) are based on other continents.

Only 12.3% of Erste Group's purchases were made across borders. This focus on local procurement strengthens the local economies of the countries where Erste Group operates and underlines its commitment to support these regions.

SUPPLIER SELECTION PROCESS

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

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

The supplier audit questionnaire is processed with a special IT tool and is an integral part of Erste Group Procurement's supply chain. This operational tool ensures full transparency and allows timely assessment and risk identification before entering into contracts with suppliers. The results of the audits form the basis for the supplier evaluation in procurement.

To ensure correct procedures, all of the relevant steps have been integrated into the electronic tendering system. The IT application blocks the entry of further data and thus collaboration with the supplier, if there is not enough information or no explicit release has been given for suppliers classified as critical. Any non-compliance with the supplier code of conduct is brought forward to compliance delegates, who decide – if required –on further measures. In addition to the initial evaluation, regular supplier business reviews are performed covering the most important or riskiest suppliers.

Environmental aspects

Based on Erste Group's efforts in environmental protection, environmental aspects are part of Erste Group Procurement's supplier selection process. The supplier audit questionnaire addresses specific topics such as the:

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

The audit questionnaire for procuring of goods has additional questions on potentially hazardous chemicals, recycling capabilities of the product, the return policy at the end of the product's useful life and *ENERGY STAR* or similar standards.

In 2017, a supplier sustainability scorecard was introduced: suppliers must provide their ecological footprint (energy usage, waste, emission) for the last two years – either on a general level or related to their activities for Erste Group. 30 suppliers who are involved in resource-intensive operations like data-centres or transportation were selected to provide their data for this scorecard. As these areas represent relevant criteria in the supplier selection process, their development will be continuously monitored and assessed.

Some 26% of the suppliers with new and renewed contracts were audited according to environmental standards in 2017. No supplier was subject to a specific environmental impact assessment beyond the standard audit questionnaire, nor was any supplier identified as having had a significant actual and potentially negative environmental impact. No actual and potentially negative environmental impact was identified in the supply chain. Finally, no supplier contract had to be terminated as a result of a significant actual and potentially negative environmental impact.

Social aspects

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

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

Some 26% of the suppliers with new and renewed contracts were audited according to both labour practice standards and human rights criteria in 2017. No supplier was subject to specific labour practice or human rights impact assessments beyond the standard audit questionnaire, nor was any supplier identified as having had a significant actual or potentially negative impact on labour practice or human rights. There was no actual and potentially negative impact on labour practice or human rights identified in the supply chain and no supplier contract had to be terminated as a result of a significant actual and potentially negative impact on labour practice or human rights.

Furthermore, no supplier was found in violation of or at risk of violating the right to exercise freedom of association and collective bargaining, nor was any supplier found to have significant risk of child labour, young workers exposed to hazardous work, or risk of incidents of forced or compulsory labour.

Employees

The financial industry is facing a dynamic transformation in the way it does business. Customer behaviour is changing, digital channels are growing in importance. As a result, employees need a different set of skills than just a few years ago. Erste Group regards learning and competency building as key to its business future as well as to individual employability and development of its workforce and the organisation.

Retaining talented, engaged and experienced employees is fundamental to the long-term success of every company. As one of the largest employers in the region, Erste Group aims to maintain its position as an employer of choice in Central and Eastern Europe, encourages its employees to continually strive for professional and personal development and offers equal opportunities to everyone in its organisation.

Erste Group focuses on operational excellence, market-competitive compensation and recognition as well as attracting, developing and retaining the best people. Its leadership culture is engaging and empowering and promotes a high-performing and inclusive work environment.

Developing employees with high potential in special programmes is part of Erste Group's human resources strategy. Erste Group's people management strategy reflects the changing demands of the business environment. It is based on three key pillars:

- culture
- competence
- competitiveness

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

DIVERSITY AND EQUAL OPPORTUNITY

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

Erste Group's diversity and inclusion principles are reflected both in its Statement of Purpose and Code of Conduct, which emphasise a work environment free of discrimination and harassment and values the work and worth of each and every person regardless of gender, age, disability, marital status, sexual orientation, skin colour, religious or political affiliation, ethnic background, nationality or any other aspect unrelated to their employment.

The diversity priorities for 2017 were the following:

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

In December 2016, the management board approved the group-wide diversity policy framework and the policy was implemented in all local banking subsidiaries in 2017. Local diversity managers define priorities and initiatives that support the group diversity strategy.

To support generation management and inclusion, various lectures and workshops on anti-discrimination, unconscious bias and inclusive leadership were offered. Best practice sharing and benchmarking with other companies also took place.

Erste Group set a group-wide internal target of having at least 35% of positions in top management and on supervisory boards filled by women by 2019. This target applies to the local banks (excluding other subsidiaries or the savings banks in Austria). As of the end of 2017, 31% of positions in top management were filled by women (2016: 29%) and the share of female supervisory board members stood at 36% (3%).

To increase the number of women in senior management positions, Erste Group aims for a greater gender and age balance in its talent pools. The international talent pool is made up of 39% women and 29% of the group's key positions pool is female.

In addition, Erste Group implemented a variety of initiatives to support the development of female leadership. In Austria, for instance, the *Erste Women's Hub* employee resource group continued key initiatives such as the *WoMentoring* programme, financial education for women, networking events for female employees and customers and focused on encouraging more men to take parental leave options and flexible work hours. *Women in IT (Erste WIT)*, a new initiative, strives to encourage more women to pursue careers in IT. Erste Bank Hungary signed the Hungarian Diversity Charter and launched *Erste Nő* (Erste Women Club), which focuses on promoting a family-friendly organisation, the work-life balance of working women and supporting mothers returning from maternity leave.

Erste Group believes that diverse teams are more creative and flexible in reacting to changing demands. Valuing and understanding cultural diversity fosters inclusion and integration as well as better teamwork and co-operation. In February 2017, the *ErsteColours* LGBT & Friends network was launched in Austria, promoting inclusion by focusing on LGBT issues in human resources and society. Erste Group is contributing to the implementation of the UN sustainable development goals and Agenda 2030. Its diversity strategy and activities support gender equality, decent work & economic growth and reduced inequalities.

The diversity priorities for 2018 are the following:
_ increase the number of women in top management by at least one percentage point and develop more group-wide initiatives to support female leadership
_ make careers in the field of IT more attractive for women through *Erste WIT*
_ develop and encourage more initiatives in the area of LGBT inclusion
_ further develop local diversity initiatives in CEE
_ continue monitoring the gender pay gap on a country-by-country basis and identify measures for closing it

LEARNING, TALENT MANAGEMENT, LEADERSHIP AND COMPETENCY DEVELOPMENT

Erste Group is committed to developing its employees' professional and interpersonal skills to ensure that they are well prepared to act professionally and in a socially responsible manner. Erste Group continuously develops and aligns group-wide training programmes for senior experts and managers.

Erste School of Banking and Finance, the group's platform for professional and leadership training, offers customised executive training and personal development training courses as well as programmes for specific business areas. In 2017, the main focus was on further developing the group-wide talent management strategy, leadership development roadmap and the concept of functional competency management. Erste Group intensified its co-operation with the renowned IESE Business School. Other cooperation partners are IMD Lausanne, ESMT Berlin, WU Executive Academy in Vienna and Ashridge Executive Education.

In addition, Erste Group further expanded the training part of the Finance College in four key areas: controlling, asset/liability management, accounting and business data excellence. New courses at the Risk Management College reflect the regulatory changes and contribute to bridging functional competency gaps of employees. The Corporates & Markets College's initiatives cover topics such as specific product knowledge or corporate sales abilities. In addition to project management, the Business Transformation College expanded its focus on business analysis and data management.

The two pillars of Erste group's leadership development and talent management strategies are the Erste Leadership Evolution Centre, which structures group-wide leadership development offerings and Erste Group's Talent Management Architecture, which ensures the continuous development of top employees through three talent pools. The International Talent Pool targets high-performing junior professionals up to board minus 3 management levels. As of the end of 2017, 39% of the International Talent Pool were women. The next level, the Group Key Positions Pool, aims at preparing managerial talents for roles at division head level. This pool comprises 29% women. The Executive Pool, which identifies and develops top executive level talent, also comprised 29% women.

Erste Group also offers an annual Graduate Programme for university graduates. The aim of the programme is to attract top graduates and provide fundamental banking and risk management knowledge. In the current programme 52% of the participants are women.

In 2017, each employee of Erste Group had on average 30 training hours for professional development – women 33.3 and men 24.6 training hours. Employees in managerial positions had on average 24.6 training hours, while employees without managerial functions had 46.3 training hours.

The focus for 2018 is the mobilisation of identified talents within the group and to further develop the digital learning offering.

REMUNERATION AND PEOPLE PERFORMANCE MANAGEMENT

Erste Group's remuneration policy is geared towards an appropriate balance in rewarding the performance, competence and level of responsibility of the employees. The link between company performance and retail sales incentive schemes is transparent, retail incentive payments are based on quantitative and qualitative criteria. Erste Group's reward system is consistent, competitive and transparent. The remuneration policy aims to
_ create an environment where employees can perform, develop and be engaged
_ reward at the right level to attract and retain employees with the required competence and skills
_ be cost-competitive and cost-flexible for a sustainable business
_ support leadership and employee behaviour that creates an engaging and unique customer experience and effective risk management practices

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

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

Benefits are provided as a means to stimulate well-being in the work environment and to support an appropriate work-life balance. Examples of benefits are flexible working time, study leave, parental leave and the health centre expertise. Pension and insurance schemes aim at ensuring that employees have an appropriate standard of living after retirement. Pension and insurance provisions are according to local law, regulation and market practice.

The supervisory board reviews group and local remuneration policies and practices annually. The respective group and local remuneration policies and execution are evaluated annually to ensure that remuneration practices comply with respective international and national regulations. The evaluation comprises the entire remuneration process from determining bonus budget pools, target setting, performance evaluation, awarding bonuses in relation to performance and fixed salary, to the actual pay-out of bonuses.

EMPLOYEE HEALTH AND WORK-LIFE BALANCE

The development of health literacy, embedded in the UN sustainable development goals and Agenda 2030, is essential for dealing with illnesses better, guaranteeing equal access to health care, and advancing of social policies in this area. The workplace offers an ideal setting and infrastructure to support and promote health issues to large groups of people, thus making occupational health an important contributor to public health.

Erste Group is committed to a proactive approach to helping its employees to identify and manage health risks. Health promotion activities and topics in Erste Group include lifestyle habits, work-life balance, mental health, stress prevention and nutrition counselling. A multi-professional team of occupational physicians, industrial psychologists and physiotherapists assists Erste Group's employees in any matters of health and well-being.

The health centre at Erste Group's headquarters in Vienna offers 38 courses covering a wide range of measures such as relaxation techniques and physical activity. The courses include yoga, circuit training, Pilates, preventive back pain training, and more. In addition, the health centre continued to focus on health risk factors (in particular the prevention of heart disease and stroke) and on changing personal health practices and behavioural patterns (e.g. smoking and diet). It also offers comprehensive programmes in nutrition, physical fitness and addiction prevention.

Chronic diseases have a major impact not only on quality of life and life expectancy but also on the labour market, since chronic illnesses affect job fluctuation and wages. Erste Group implemented a wide variety of measures to prevent or at least limit the impact of chronic diseases. These measures include preventive medical examinations, access to rehabilitation centres and treatments and a reintegration programme after long-term absence. Erste Group is still one of very few companies with a company agreement on gradual reintegration after an extended sickness. The company agreement is a very good example of bridging health and labour issues.

The workplace directly influences the physical, mental, economic and social well-being of employees and affects the health of their families, communities and society. Consequently, the health centre continued to focus on strengthening its effectiveness on maintaining mental health of the employees in 2017.

Respecting and promoting work-life balance among its employees has been a long-standing priority of Erste Group and it offers a wide variety of family-friendly measures and evaluates them on a regular basis to ensure that they meet the employees' needs. These measures differ from country to country and include flexible work arrangements, short sabbaticals and regular meetings for employees on maternity/parental leave. One of the priority measures ensuing from the Career and Family (Beruf & Familie) Certification Audit in Austria is to encourage more men to take full advantage of paternity leave options. As of the end of the year, a total of 3,554 employees were on paternity leave, thereof 3,373 women (94.9%) and 181 men (5.1%). The share of men on paternity leave is the highest in Austria, where almost 10% of all employees on leave are men.

As an additional offer, Erste Group opened its *MiniCampus* company kindergarten at Erste Group's headquarters in Vienna in 2016.

Staff indicators

Overview 2017

	Total		Permanent employment contract		Temporary employment contract		Full-time employees		Part-time employees	
	Females	Males	Females	Males	Females	Males	Females	Males	Females	Males
Erste Group	**28,917**	**17,160**	**26,081**	**15,999**	**2,836**	**1,161**	**24,292**	**16,218**	**4,625**	**942**
thereof Holding	1,002	1,101	981	1,072	18	32	688	1,045	309	61
Austria	7,453	7,132	7,143	6,846	310	286	4,203	6,525	3,250	607
Czech Republic	7,300	3,256	6,359	2,962	941	294	6,563	3,162	739	92
Slovakia	3,086	1,269	2,472	1,053	614	216	3,028	1,257	58	12
Romania	5,218	2,333	4,800	2,182	418	151	4,871	2,188	347	145
Hungary	1,986	1,172	1,913	1,143	74	28	1,828	1,095	159	76
Croatia	2,179	1,030	1,894	898	299	118	2,153	1,016	40	0
Serbia	753	319	654	295	99	24	751	318	2	1

With the exception of the Austrian savings banks with fewer than 500 employees that are not majority-owned by Erste Group Bank AG, all relevant subsidiaries are included.
The staff indicators are based on headcount data as of the end of the year.
Total data (46,077 employees) include data from indirect holdings of Erste Group outside its core markets.

	Share of female staff		Share of part-time staff		Share of female part-time staff in total part-time workforce		Share of male part-time staff in total male workforce		Share of executive positions	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Erste Group	**62.8%**	**64.0%**	**12.1%**	**8.2%**	**83.1%**	**82.5%**	**5.5%**	**4.8%**	**1.5%**	**1.9%**
thereof Holding	47.6%	47.6%	18.4%	15.4%	83.5%	79.5%	5.5%	7.6%	1.8%	1.8%
Austria	51.1%	50.0%	26.4%	25.8%	84.3%	81.1%	8.5%	9.8%	1.4%	2.9%
Czech Republic	69.2%	69.7%	7.9%	7.6%	88.7%	89.4%	2.8%	2.7%	1.1%	1.2%
Slovakia	70.9%	68.7%	1.6%	1.2%	82.9%	83.3%	0.9%	0.6%	1.1%	1.1%
Romania	69.1%	70.3%	6.5%	5.8%	70.5%	80.1%	6.2%	3.9%	1.0%	1.7%
Hungary	62.9%	62.5%	7.4%	3.4%	67.7%	74.0%	6.5%	2.4%	2.0%	2.4%
Croatia	67.9%	66.4%	1.2%	1.5%	100.0%	80.0%	0.0%	0.9%	1.9%	2.7%
Serbia	70.2%	69.9%	0.3%	0.1%	66.7%	0.0%	0.3%	0.3%	2.1%	2.8%

	Other managerial positions		Share of women in executive positions		Share of women in other managerial positions		Average number of sick leave days per employee		Number of employees with health disability	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Erste Group	**7.8%**	**6.8%**	**29.9%**	**29.4%**	**43.3%**	**46.4%**	**7.9**	**8.4**	**548**	**394**
thereof Holding	10.2%	9.2%	18.9%	23.1%	26.7%	27.4%	5.6	6.1	16	23
Austria	8.9%	6.9%	19.3%	26.5%	29.2%	27.8%	7.1	7.3	230	138
Czech Republic	4.4%	4.2%	25.6%	25.4%	40.5%	44.3%	8.9	8.3	152	109
Slovakia	9.1%	8.8%	26.5%	23.1%	56.9%	54.6%	4.5	12.0	116	102
Romania	6.9%	6.3%	50.6%	44.0%	55.3%	56.0%	8.4	7.9	30	27
Hungary	11.8%	12.2%	23.8%	22.9%	50.8%	51.4%	7.7	7.6	3	8
Croatia	4.6%	5.5%	35.5%	32.6%	60.5%	55.9%	12.5	9.4	10	9
Serbia	14.9%	14.4%	40.9%	33.3%	53.8%	56.2%	6.0	6.7	1	1

Executive positions cover all the board and board-1 positions. Other managerial positions cover all the board-2, board-3 and board-4 positions.
In 2017, the scope of consolidation was extended. 2017 data are therefore not comparable with 2016 data.
As of year-end 2017, 18.8% of the total workforce was younger than 30, 62.4% was between 30 and 50 and 18.8% older than 50 years.
Governance bodies: Detailed information about the members of the Management Board and the Supervisory Board of Erste Group Bank AG is presented in the Corporate Governance Report. As of year-end 2017, only males were members of the Management Board, and none was younger than 30, 16.7% was between 30 and 50 and 83.3% was older than 50 years. As of year-end 2017, 64.7% of the members of the Supervisory Board were males, 35.3% were females. No Supervisory Board member was younger than 30, 29.4% was between 30 and 50 and 70.6% was older than 50 years.

New employee hires

2017	Females		Males		<30 years		30-50 years		>50 years	
	Number	in %	Number	in %	Number	in %	Number	in %	Number	in %
Erste Group	**5,250**	**11.4%**	**3,108**	**6.7%**	**4,398**	**9.5%**	**3,577**	**7.8%**	**383**	**0.8%**
thereof Holding	180	0.4%	215	0.5%	275	0.6%	112	0.2%	8	0.0%
Austria	1,113	2.4%	1,140	2.5%	1,441	3.1%	693	1.5%	119	0.3%
Czech Republic	1,419	3.1%	661	1.4%	1,240	2.7%	764	1.7%	76	0.2%
Slovakia	604	1.3%	227	0.5%	417	0.9%	390	0.8%	24	0.1%
Romania	809	1.8%	414	0.9%	646	1.4%	510	1.1%	67	0.1%
Hungary	775	1.7%	406	0.9%	307	0.7%	793	1.7%	81	0.2%
Croatia	305	0.7%	140	0.3%	193	0.4%	242	0.5%	10	0.0%
Serbia	109	0.2%	59	0.1%	73	0.2%	92	0	3	0.0%

Total data include data from indirect holdings of Erste Group outside its core markets.
The ratio of new employee hires (in total 8,358 or 18.1%) is calculated on the basis of the total headcount.

Employee turnover

2017	Females		Males		<30 years		30-50 years		>50 years	
	Number	in %	Number	in %	Number	in %	Number	in %	Number	in %
Erste Group	**4,145**	**9.0%**	**2,471**	**5.4%**	**2,174**	**4.7%**	**3,389**	**7.4%**	**1,053**	**2.3%**
thereof Holding	48	2.4%	84	4.2%	19	0.9%	66	3.3%	47	2.3%
Austria	608	4.2%	662	4.5%	411	2.8%	459	5.5%	400	2.7%
Czech Republic	1,313	12.4%	573	5.4%	721	6.8%	876	8.3%	289	2.7%
Slovakia	547	12.6%	199	4.6%	230	5.3%	421	9.7%	95	2.2%
Romania	828	11.0%	376	5.0%	451	6.0%	676	9.0%	77	1.0%
Hungary	549	17.4%	315	10.0%	199	6.3%	577	18.3%	88	2.8%
Croatia	139	4.3%	225	7.0%	113	3.5%	188	5.9%	63	2.0%
Serbia	71	6.6%	45	4.2%	17	1.6%	71	6.6%	28	2.6%

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

Total data include data from indirect holdings of Erste Group outside its core markets.
The presentation of the turnover data was amended pursuant to GRI Standard. 2017 data are therefore not comparable with 2016 data.
Employee turnover means employees who left Erste Group (including retirees) and does not include employees on parental leave, internal transfers within Erste Group or departing trainees and interns. The total number of employees who left Erste Group is presented as a ratio of the headcount at the beginning of the reporting period, amended by new employee hires and employees who left during the year. The turnover rate is calculated on the basis of the total headcount and not on the total headcount by gender.
Total turnover was 6,616 (14.4%).

Parental leave

2017	Return to work after parental leave				Retention 12 months after return			
	Females		Males		Females		Males	
	Number	in %	Number	in %	Number	in %	Number	in %
Erste Group	**955**	**73.8%**	**83**	**95.4%**	**814**	**81.7%**	**59**	**86.8%**
thereof Holding	54	96.4%	18	100.0%	91	95.8%	15	93.8%
Austria	268	91.5%	64	98.5%	294	95.5%	47	90.4%
Czech Republic	173	53.2%	1	100.0%	132	87.4%	0	n.a.
Slovakia	54	40.9%	8	100.0%	38	74.5%	1	100.0%
Romania	202	86.7%	7	87.5%	120	63.5%	7	87.5%
Hungary	121	84.0%	0	0.0%	39	44.3%	0	0.0%
Croatia	54	83.1%	1	100.0%	115	98.3%	3	100.0%
Serbia	40	72.7%	0	n.a.	31	93.9%	0	n.a.

Total data include data from indirect holdings of Erste Group outside its core markets. The ratio (in %) shows the return rate after parental leave has ended. As parental leave includes different terms, the ratios do not refer to the total number of employees on parental leave. Every employee in a permanent employment contract is eligible to take parental leave. In 2017, 3,372 female and 181 male employees were on parental leave, a total of 1,038 employees returned from parental leave (75.2%) and the retention ratio was 82.4% (873 employees).
N.a. indicates that no employee was on parental leave in the reporting or reference period.

Environment

In recent years, sustainability has developed from a marginal issue to an important part of business policy called for by various stakeholders such as employees, customers and investors.

Many states – including Austria – have signed the Paris Agreement on climate change, committing themselves to a reduction or even all-out ban of fossil fuels. On the other hand, there is a lack of actual policies for achieving national targets. It is therefore all the more important that companies like Erste Group define their own ecological targets and understand sustainability as part of their corporate responsibility.

Due to their lack of production facilities, banks are service providers whose business operations have only a modest direct impact on the environment, mostly through their consumption of energy and paper. Regardless of this, Erste Group recognises its environmental responsibility and has implemented a group-wide environmental strategy that aims at minimising both its direct and, more importantly, its indirect ecological footprint.

ENVIRONMENTAL STRATEGY

Erste Group's environmental strategy is built on four pillars:
_ implementation of an environmental management system
_ implementation of a supply chain management system for all products and services needed to run the banking business
_ integration of environmental criteria into banking products and services
_ cooperation with environmental NGOs

The following priority areas were defined as part of the environmental strategy to integrate social and ecological aspects more closely into Erste Group's day-to-day business:
_ climate protection and sustainable use of natural resources: increased use of energy from renewable sources, improvement of energy efficiency at all office locations, branches and data centres and reduction of business travel by increased reliance on telephone and video conferences.
_ include ecological considerations in purchase decisions by supply change management
_ expand the range of sustainable banking products, defining additional criteria for responsible financing.

Environmental targets until 2016

In 2012, initial group-wide targets were defined for reducing energy consumption, paper consumption and CO_2 emissions by 2016. These targets were largely met or even exceeded.

	Target	Achieved
Electricity consumption	-10%	-13%
Heating energy	-10%	-18%
Copy paper consumption	-20%	-20%
CO_2e-emissions (Scope 1,2)	-30%	-28%

Environmental footprint

	2016	2017
Electricity consumption	161 GWh	186 GWh
Heating energy consumption	134 GWh	165 GWh
Cooling energy consumption	0 GWh	4 GWh
Fuel consumption	30 GWh	38 GWh
Total energy consumption	**325 GWh**	**393 GWh**
CO_2e-emissions (Scope 1, 2+3/mobility)	**81,484 t**	**79,846 t**
Copy paper consumption	**1,376 t**	**1,733 t**

Due to the first-time inclusion of additional subsidiaries in Austria, the number of business entities included in the data rose significantly in 2017. Comparing this data with the ecological footprint of 2016 is therefore not meaningful.

Ecological group-wide targets taking into account the new consolidation scope are planned in 2018 in line with the new non-financial reporting requirements.

Implementation of environmental management systems

ISO 14,001 certification in Croatia and ISO 50,001 in Hungary have been completed, while implementation at the Holding and Erste Bank Oesterreich was postponed to 2018/2019. Of the Austrian savings banks, Steiermärkische Sparkasse has been ISO 14,001 certified and Allgemeine Sparkasse OÖ has been ISO 50,001 certified.

All local subsidiaries are expected to implement a certified environmental management system by 2020. This should create the basis for efficient monitoring of all environmental data at all banks.

PRIORITIES

Improving energy efficiency

For banks, the most effective approach to cutting CO_2-emissions is to use electricity from renewable energy sources. Erste Group has completed this switch to "green" electricity in Austria and Croatia and partially completed it in Hungary and the Czech Republic.

Reducing consumption of electrical energy, heating and hot water is largely ensured by the construction and use of new headquarter buildings, such as in Vienna (Erste Campus), Bucharest (The Bridge) and Belgrade (Sirius Office).

Measures to improve energy efficiency are being implemented group-wide on an ongoing basis. Erste Campus in Vienna, for example, is being supplied with non-fossil fuel energy (district heating and cooling and green electricity). In the future, use of cold groundwater and optimisation of heat pumps combined with geothermal energy will reduce the need for external energy sources. Energy monitoring has been rolled out to another 19 branches, primarily to cut consumption of electrical energy.

Banca Comercială Română has completed its new headquarters building and most of its employees have already moved in. This building has been certified LEEDS (Leadership in Energy and Environmental Design) GOLD and replaces the use of old, energy-inefficient buildings. The extent of energy savings will not be seen until next year when the move into the new building is complete. The replacement of old and inefficient heating systems in 110 branches in Romania is expected to save up to 1 GWh per year.

At Slovenská sporiteľňa, the focus was on raising the energy efficiency of the data centre. The use of new servers and a more efficient cooling system is projected to save 2.1 GWh/year.

Česká spořitelna already procured 50% of its electricity demand from renewable sources, which resulted in a reduction of CO_2 emissions by 34%. In the Czech Republic, installation of advanced energy monitoring systems in the branches was continued. Staff are now able to check their branch's energy consumption at any time.

In July 2017, Erste Bank Serbia started to move to the new Sirius Office complex, which had been built to the highest ecological standards, including high energy efficiency and renewable or recycled structural materials. Certification of the building to BREEAM (Building Research Establishment Environmental Assessment Method) standards will be completed in 2018.

Ecological sourcing of products and services

Erste Group Procurement (EGP) continued its efforts to include environmental criteria in its purchasing activities. Since 2014, the Ethical and Environmental Code of Conduct for Suppliers of Goods and Services of EGP has applied across the group. Supplier evaluation criteria include sustainability and environ-mental aspects. In addition, EGP staff must pass the on-line test of the Chartered Institute of Procurement and Supply (CIPS) based in England. For further details, please refer to the sections on Customers and Suppliers.

Measures to reduce office paper consumption

To minimise its environmental impact, Erste Group continuously runs paper-saving initiatives and takes into account ecological criteria by purchasing only 100% recycled paper or paper that is FSC or PEFC-certified.

The trend towards digitalisation of the banking business is also reducing paper consumption. In many transactions that are still done at the bank counter, customers sign on electronic pads rather than on printed forms.

In Romania, Banca Comercială Română redesigned many of the processes in its branches in such a way that a total of about 15,000 photocopies are being saved per day. The bank was the last local subsidiary to switch to 100% recycled copy paper.

Current efforts aim at processing all standard banking transactions electronically wherever possible, which will not only make customer service more efficient but also accelerate back office procedures. This improves not only the customer experience but also reduces paper consumption.

Bank products with ecological benefits

Erste Group continuously develops products and services for its customers that incorporate sustainability criteria, including investment products and financing. For more information on sustainable investment please refer to the Customers section.

There are also numerous examples in the lending business: Erste Bank Serbia financed the construction of one of the largest wind farms in Kovacica. This project forms part of Serbia's efforts to increase the share of renewable energy and curb CO_2 emissions. Ceska spořitelna, market leader in municipal financing in the Czech Republic, runs the Smart City project to assist local authorities who promote the use of new resource-saving technologies. Also worth mentioning is project financing that is critical to the improvement of ecological conditions in the Ostrava region: cleaning up a huge spoil heap from a former coal mine. This heap, which is more than 30 metres high and covers an area of about 100 hectares, has smouldering material inside; it has been emitting noxious greenhouse gases for 20 years.

Other environmental initiatives

Another element of Erste Group's environmental strategy is co-operation with independent environmental NGOs that offer access to their local and international know-how and provide valuable assistance to Erste Group in its efforts to become an even more environmentally sustainable company. In Austria, Erste Group and Erste Bank co-operate with the WWF Climate Group. The primary aim of this platform of leading Austrian companies is to fight climate change. In 2017, it marked its 10-year anniversary with a number of public events, debates and a prize drawing that was open to some 50,000 people working for WWF Climate Group members.

For a number of years, Erste Bank Serbia has been sponsoring a nation-wide *Green Ideas* competition, which awards the best green projects submitted by companies. In addition, Erste Bank Serbia is a partner of the *samo ne autom* project initiated by the Serbian Ministry for the Protection of the Environment, which promotes commuting by environmentally friendly means of transport rather than by car.

Slovenská sporiteľňa placed bee hives on the rooftop of its headquarters building, following the example of Erste Campus. As well as producing excellent honey, these bee hives also serve as a visible symbol of the need for nature conservation.

An exciting project in Romania supports a car-sharing initiative (eGO) by making 20 e-cars available for the exclusive use of customers of Banca Comercială Română. The bank thus helps to reduce emissions in Bucharest while at the same time making a statement in the fight against climate change. If this initiative proves popular with customers, it will be rolled out to other cities in Romania. At Erste Campus in Vienna, a car sharing system using an e-car was tested at the initiative of s-Leasing in late 2017. Employees can rent it at attractive terms for both personal and business travel. Ceska spořitelna is testing the use of e-cars in its fleet and at Erste Bank Hungary an e-car is being used as a board member's company car for the first time.

Environmental data

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

Environmental indicators

Total figures shown in the following tables include data of indirect holdings of Erste Group outside its core markets. A detailed presentation of Holding data is not available, as a meaningful separation of the environmental indicators is not possible due to the shared usage of the location (Erste Campus) with other entities. In 2017, the scope of consolidation was extended; the 2017 data are therefore not comparable with the preceding year. Relative values for 2017 refer to 40,630 FTEs (full-time equivalent; defined as an employee times his/her employment factor). CO_2 equivalents (CO_2e) are the sum of all greenhouse gas emissions, i.e. carbon dioxide, methane and nitrous oxide.

CO_2e-emissions

in tonnes	Erste Group	Austria	Czech Republic	Slovakia	Romania	Hungary	Croatia	Serbia
2017								
Cooling agents	2,124	307	118	248	870	148	284	116
Mobility	8,227	1,787	2,726	695	1,302	678	745	268
Heating/ warm water	17,503	3,250	742	2,869	9,509	343	625	166
Σ Scope 1	**27,854**	**5,343**	**3,587**	**3,811**	**11,681**	**1,169**	**1,653**	**550**
District heating / cooling	13,508	2,254	9,303	134	320	771	395	221
Electricity	35,127	436	14,736	3,379	11,549	2,664	273	1,900
Σ Scope 2	**48,635**	**2,690**	**24,038**	**3,513**	**11,869**	**3,435**	**668**	**2,121**
Scope 3 (only mobility)	**3,357**	**1,709**	**818**	**45**	**565**	**27**	**119**	**51**
Total (Scope 1,2 and 3)	**79,846**	**9,742**	**28,443**	**7,369**	**24,115**	**4,630**	**2,440**	**2,721**
2016								
Cooling agents	1,246	14	399	176	159	148	268	81
Mobility	7,642	949	2,964	720	1,333	680	724	273
Heating/ warm water	13,742	994	807	2,895	7,863	449	585	150
Σ Scope 1	**22,630**	**1,957**	**4,169**	**3,792**	**9,355**	**1,277**	**1,577**	**504**
District heating	11,076	144	9,208	269	490	436	293	236
Electricity	43,302	109	22,365	3,391	12,283	3,137	14	2,002
Σ Scope 2	**54,377**	**253**	**31,573**	**3,661**	**12,773**	**3,573**	**307**	**2,237**
Scope 3 (only mobility)	**4,476**	**1,478**	**2,043**	**84**	**728**	**24**	**48**	**71**
Total (Scope 1,2 and 3)	**81,484**	**3,688**	**37,785**	**7,537**	**22,856**	**4,874**	**1,933**	**2,812**

If national emission factors for Scope 2 (district heating and electricity) were applied, the CO_2e-emissions would amount to 124,970 t. Erste Group procures primarily CO_2e-neutral electricity and district heating from waste or biomass. For this reason, Erste Group's actual CO_2e-emissions are significantly lower.

Relative values

	Heating kWh/m²	Electricity kWh/m²	Copy paper kg/FTE	CO_2e Scope 1 t/FTE	CO_2e Scope 2 t/FTE	CO_2e Scope 3 t/FTE
2017						
Erste Group	**99.1**	**108.6**	**42.7**	**0.69**	**1.20**	**0.08**
Austria	79.8	121.8	45.5	0.42	0.21	0.13
Croatia	73.7	180.6	41.7	0.58	0.23	0.04
Czech Republic	107.5	98.6	25.7	0.35	2.37	0.08
Hungary	77.5	131.6	41.9	0.39	1.14	0.01
Romania	129.1	91.6	74.9	1.91	1.94	0.09
Serbia	74.8	106.1	48.6	0.51	1.98	0.05
Slovakia	87.3	98.4	28.8	0.89	0.82	0.01
2016						
Austria	92.0	186.7	20.0	0.24	0.03	0.18
Croatia	76.7	193.1	37.3	0.51	0.10	0.02
Czech Republic	96.1	90.4	24.4	0.40	3.04	0.20
Hungary	63.5	158.0	45.4	0.44	1.22	0.01
Romania	107.2	91.2	72.2	1.29	1.80	0.10
Serbia	69.0	98.8	52.8	0.50	2.23	0.07
Slovakia	84.4	107.0	33.0	0.87	0.84	0.02

Copy paper

	2016			2017		
	total weight tonnes	recycled in %	non-recycled in %	total weight tonnes	recycled in %	non-recycled in %
Erste Group	**1,376.0**	**65.9**	**34.1**	**1,733.0**	**74.1**	**25.9**
Austria	163.5	88.7	11.3	586.9	26.8	73.2
Croatia	116.2	99.9	0.1	119.9	99.8	0.2
Czech Republic	254.0	98.4	1.6	261.0	97.0	3.0
Hungary	132.8	100.0	0.0	125.7	100.0	0.0
Romania	513.2	13.4	86.6	458.7	99.1	0.9
Serbia	53.1	100.0	0.0	52.1	100.0	0.0
Slovakia	143.2	98.8	1.2	122.7	99.3	0.7

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

Vienna, 13 March 2018

GRI Standard 2016 Content Index

GRI Standard Number	GRI Standard Title	Disclosure Number	Disclosure Title	Page in Annual Report 2017	Chapter reference / Comments / Reasons of omission
GRI 101 Foundation 2016					
GRI 102 General Disclosures 2016					
1. Organisational profile					
GRI 102	General Disclosures	102-1	Name of the organisation	p. 282	Erste Group Bank AG
GRI 102	General Disclosures	102-2	Activities, brands, products, and services	p. 14	Strategy
GRI 102	General Disclosures	102-3	Location of headquarters	p. 282	Vienna
GRI 102	General Disclosures	102-4	Location of operations	p. 14, 17	Strategy
GRI 102	General Disclosures	102-5	Ownership and legal form	p. 84	Ownership: cover (inner face: shareholder structure) Legal form: (consolidated) corporate governance report
GRI 102	General Disclosures	102-6	Markets served	p. 14, Note 37	Strategy, Group consolidated financial statements: Note 37 (segment reporting)
GRI 102	General Disclosures	102-7	Scale of the organisation	Note 37	Cover (inner face: branches, employees), Group consolidated financial statements: Note 37 (segment reporting)
GRI 102	General Disclosures	102-8	Information on employees and other workers	p. 71 et seq.	Employees (staff indicators). The staff indicators provide information on gender distribution per country, share of part-time staff per country, gender distribution in part-time staff per country, share and gender distribution of executive and other managerial positions per country, average number of sick leave days per employee per country, number of employees with health disabilities per country, turnover rates per gender and country, return rates after parental leave per gender and country. The share of leased personnel (i.e. workers that are not employees) was not significant. The total number of employees is not subject to seasonal changes.
GRI 102	General Disclosures	102-9	Supply chain	p. 66	(consolidated) non-financial report: suppliers
GRI 102	General Disclosures	102-10	Significant changes to the organisation and its supply chain	n.a.	No significant changes in the organisation (neither in terms of size, structure nor ownerhsip) nor in the supply chain.
GRI 102	General Disclosures	102-11	Precautionary Principle or approach	p. 14, 54 et seq.	Strategy, (consolidated) non-financial report, The precautionary principle is reflected in both Erste Group's code of conduct and the statement of purpose.
GRI 102	General Disclosures	102-12	External initiatives	p. 64 et seq., 73	(consolidated) non-financial report: customers, environment, UN Principles of Responsible Investment (2012), Bangladesh Memorandum (2015), UN Global Compact (2015), Nestor Gold Charta (2015), Montréal Carbon Pledge (2015), Austrian Diversity Charter (2016)
GRI 102	General Disclosures	102-13	Membership of associations	n.a.	There are the following significant memberships for Erste Group Bank AG: WSBI (World Savings Banks Institute), ESBG (European Savings Banks Group), Österreichischer Sparkassenverband, WKÖ (Austrian Economic Chambers, Industry Sector: Banking and Insurance), OEVFA (Österreichische Vereinigung für Finanzanalyse und Asset Management), BWG (Bankwissenschaftliche Gesellschaft Österreich), WIFO (Wirtschaftsforschungsinstitut Österreich), Österreichische Industriellenvereinigung, respACT (Austrian Business Council for Sustainable Development), WWF Climate Group
2. Strategy					
GRI 102	General Disclosures	102-14	Statement from senior decision maker	p. 4 et seq., 14	Letter of the CEO, strategy
GRI 102	General Disclosures	102-15	Key impacts, risks and opportunities	p. 56 et seq.	(consolidated) non-financial report: materiality analysis
3. Ethics and integrity					
GRI 102	General Disclosures	102-16	Values, principles, standards, and norms of behaviour	p. 14, 84	Strategy (reference made to code of conduct, statement of purpose), (consolidated) non-financial report, (consolidated) corporate governance report (reference made to Austrian Code of (consolidated) corporate governance);
4. Governance					
GRI 102	General Disclosures	102-18	Governance structure	p. 54 et seq., 84 et seq.	(consolidated) non-financial report (reference to Sustainability Board), (consolidated) corporate governance report
5. Stakeholder engagement					
GRI 102	General Disclosures	102-40	List of stakeholder groups	p. 55 et seq.	(consolidated) non-financial report: materiality analysis
GRI 102	General Disclosures	102-41	Collective bargaining agreements	n.a.	100%, as collective bargaining agreements at all locations
GRI 102	General Disclosures	102-42	Identifying and selecting stakeholders	p. 55 et seq.	(consolidated) non-financial report: materiality analysis
GRI 102	General Disclosures	102-43	Approach to stakeholder engagement	p. 55 et seq.	(consolidated) non-financial report: materiality analysis
GRI 102	General Disclosures	102-44	Key topics and concerns raised	p. 55 et seq.	(consolidated) non-financial report: materiality analysis

GRI Standard Number	GRI Standard Title	Disclosure Number	Disclosure Title	Page in Annual Report 2017	Chapter reference / Comments / Reasons of omission
6. Reporting practice					
GRI 102	General Disclosures	102-45	Entities included in the consolidated financial statements	p. 54	Non-financial reports have to be prepared for the same scope of consolidation that is covered by the financial reporting. The calculation of non-financial data, such as energy consumption per employee, is based on all Erste Group entities that have at least one full time equivalent employee. The non-financial report covers all relevant subsidiaries with the exception of the Austrian savings banks with fewer than 500 employees that are not majority-owned by Erste Group Bank AG. Human resources-relevant data are captured at single entity level, environmental data on the basis of properties used for banking operations. Over the coming years, it is the aim to gradually include the data of all consolidated companies in the non-financial report.
GRI 102	General Disclosures	102-46	Defining report content and topic boundaries	p. 55 et seq.	(consolidated) non-financial report: materiality analysis
GRI 102	General Disclosures	102-47	List of material topics	p. 55 et seq.	(consolidated) non-financial report: materiality analysis
GRI 102	General Disclosures	102-48	Restatements of information	n.a.	No restatements
GRI 102	General Disclosures	102-49	Changes in reporting	p. 56	Adjustments of material topics compared to 2016 following the materiality analysis. Additional entities from the scope of consolidation were included in the non-financial reporting in 2017. This includes in particular the Austrian savings banks with more than 500 employees.
GRI 102	General Disclosures	102-50	Reporting period	n.a.	Calendar year 2017
GRI 102	General Disclosures	102-51	Date of most recent report	n.a.	Annual report 2016
GRI 102	General Disclosures	102-52	Reporting cycle	n.a.	Annual
GRI 102	General Disclosures	102-53	Contact point for questions regarding the report	p. 282	Important addresses, Imprint (contact)
GRI 102	General Disclosures	102-54	Claims of reporting in accordance with GRI Standards	p. 54	This report has been prepared in accordance with the GRI Standards: Core option.
GRI 102	General Disclosures	102-55	GRI content index	p. 77 et seq.	(consolidated) non-financial report Also available on the company's website: http://www.erstegroup.com/en/investors/reports
GRI 102	General Disclosures	102-56	External assurance	p. 82 et seq.	Independet assurance statement The (consolidated) non-financial report is compliant with the Austrian Commercial Code (Unternehmensgesetz). The GRI Standards were applied on a voluntary basis, as was the external assurance of the nonfinancial reporting by an independent auditor.
GRI 103 Management Approach 2016					
GRI 103	Management Approach	103-1	Explanation of the material topic and its boundary	p. 13 et seq., 54 et seq.	Strategy, (consolidated) non-financial report: materiality analysis
GRI 103	Management Approach	103-2	The management approach and its components	p. 13 et seq., 54 et seq.	Strategy, (consolidated) non-financial report: materiality analysis
GRI 103	Management Approach	103-3	Evaluation of the management approach	p. 55 et seq., 84	(consolidated) non-financial report: materiality analysis, (consolidated) corporate governance report: working methods of the management board and the supervisory board
Material & additional topics					
Additional topic: GRI 201 Economic Performance 2016					
GRI 103	Management Approach	103-1	Explanation of the material topic and its boundary	p. 13 et seq.	Strategy
GRI 103	Management Approach	103-2	The management approach and its components	p. 13 et seq.	Strategy
GRI 103	Management Approach	103-3	Evaluation of the management approach	p. 55 et seq., 84	(consolidated) non-financial report: materiality analysis, (consolidated) corporate governance report: working methods of the management board and the supervisory board
GRI 201	Economic Performance	201-1	Direct economic value generated and distributed	Note 37 Note 54	Group consolidated financial statements: Note 37 (segment reporting), Note 54 (country by country reporting)
Material topics: Social commitment and social banking (GRI 203 Indirect Economic Impacts 2016)					
GRI 103	Management Approach	103-1	Explanation of the material topic and its boundary	p. 13 et seq., 59 et seq., 65	Strategy, (consolidated) non-financial report: commitment to society, customers (social banking)
GRI 103	Management Approach	103-2	The management approach and its components	p. 13 et seq., 59 et seq., 65	Strategy, (consolidated) non-financial report: commitment to society, customers (social banking)
GRI 103	Management Approach	103-3	Evaluation of the management approach	p. 55 et seq., 84	(consolidated) non-financial report: materiality analysis, (consolidated) corporate governance report: working methods of the management board and the supervisory board The responsibility for the implementation of the activities lies within the respective subsidiary.
GRI 203	Indirect Economic Impacts	203-2	Significant indirect economic impacts	p. 59, 65 et seq.	(consolidated) non-financial report: commitment to society, customers (social banking)

GRI Standard Number	GRI Standard Title	Disclosure Number	Disclosure Title	Page in Annual Report 2017	Chapter reference / Comments / Reasons of omission
Material topic: Anti-corruption and compliance (GRI 205 Anti-corruption 2016)					
GRI 103	Management Approach	103-1	Explanation of the material topic and its boundary	p. 55 et seq., 95 et seq.	(consolidated) non-financial report, additional corporate governance principles
GRI 103	Management Approach	103-2	The management approach and its components	p. 55 et seq., 95 et seq.	(consolidated) non-financial report, additional corporate governance principles
GRI 103	Management Approach	103-3	Evaluation of the management approach	p. 55 et seq., 95 et seq.	(consolidated) non-financial report: materiality analysis, additional corporate governance principles Compliance with statutory and internal regulations is the responsibility of the audit departments in the respective subsidiaries. Group Audit regularly carries out control checks on compliance with these policies. In case of non-compliance, appropriate measures are taken.
GRI 205	Anti-Corruption	205-3	Confirmed incidents of corruption and actions taken	p. 96	Additional (consolidated) corporate governance principles In 2017, Erste Group did not discover or record any incident of corruption.
Additional topic: GRI 206 Anti-competitive behaviour 2016					
GRI 103	Management Approach	103-1	Explanation of the material topic and its boundary	p. 55 et seq., 84	(consolidated) non-financial report, (consolidated) corporate governance report
GRI 103	Management Approach	103-2	The management approach and its components	p. 55 et seq., 84	(consolidated) non-financial report, (consolidated) corporate governance report
GRI 103	Management Approach	103-3	Evaluation of the management approach	p. 55 et seq., 84	(consolidated) non-financial report: materiality analysis, additional corporate governance principles Compliance with statutory and internal regulations is the responsibility of the audit departments in the respective subsidiaries. Group Audit regularly carries out control checks on compliance with these policies. In case of non-compliance, appropriate measures are taken.
GRI 206	Anti-competitive behaviour	206-1	Legal actions for anti-competitive behaviour, anti-trust and monopoly practices	Note 50	Group consolidated financial statements: Note 50 (contingent liabilities) There were no legal actions for anti-competitive behavior, anti-trust, or monopoly practices pending against Erste Group Bank AG.
Material topic: Responsible criteria in the supply chain and ecological impacts on banking operations (GRI 301 Materials 2016)					
GRI 103	Management Approach	103-1	Explanation of the material topic and its boundary	p. 13 et seq., 66 et seq., 73 et seq.	Strategy, (consolidated) non-financial report: suppliers, environment
GRI 103	Management Approach	103-2	The management approach and its components	p. 13 et seq., 66 et seq., 73 et seq.	Strategy, (consolidated) non-financial report: suppliers, environment
GRI 103	Management Approach	103-3	Evaluation of the management approach	p. 55 et seq., 84	(consolidated) non-financial report: materiality analysis, (consolidated) corporate governance: working methods of the management board and the supervisory board
GRI 301	Materials	301-1	Materials used by weight or volume	p. 75 et seq.	(consolidated) non-financial report: environment
GRI 301	Materials	301-2	Recycled input materials used	p. 76	(consolidated) non-financial report: environment
Material topic: Responsible criteria in the supply chain and ecological impacts on banking operations (GRI 302 Energy 2016)					
GRI 103	Management Approach	103-1	Explanation of the material topic and its boundary	p. 13 et seq., 73 et seq.	Strategy, (consolidated) non-financial report: environment
GRI 103	Management Approach	103-2	The management approach and its components	p. 13 et seq., 73 et seq.	Strategy, (consolidated) non-financial report: environment
GRI 103	Management Approach	103-3	Evaluation of the management approach	p. 55 et seq., 84	(consolidated) non-financial report: materiality analysis, (consolidated) corporate governance: working methods of the management board and the supervisory board
GRI 302	Energy	302-1	Energy consumption within the organisation	p. 73, 75 et seq.	(consolidated) non-financial report (environment) In terms of energy consumption, there is no separate presentation of renewable / non-renewable energy sources. It is included in the determination of the CO_2 emissions.
GRI 302	Energy	302-4	Reduction of energy consumption	p. 73, 75 et seq.	(consolidated) non-financial report: environment
Material topic: Responsible criteria in the supply chain and ecological impacts on banking operations (GRI 305 Emissions 2016)					
GRI 103	Management Approach	103-1	Explanation of the material topic and its boundary	p. 13 et seq., 73 et seq.	Strategy, (consolidated) non-financial report: environment
GRI 103	Management Approach	103-2	The management approach and its components	p. 13 et seq., 73 et seq.	Strategy, (consolidated) non-financial report: environment
GRI 103	Management Approach	103-3	Evaluation of the management approach	p. 55 et seq., 84	(consolidated) non-financial report: materiality analysis, (consolidated) corporate governance: working methods of the management board and the supervisory board
GRI 305	Emissions	305-1	Direct (Scope 1) GHG emissions	p. 75 et seq.	(consolidated) non-financial report: environment GRI 305-1c is not applicable.
GRI 305	Emissions	305-2	Energy indirect (Scope 2) GHG emissions	p. 75 et seq.	(consolidated) non-financial report: environment
GRI 305	Emissions	305-3	Other indirect (Scope 3) GHG emissions	p. 75 et seq.	(consolidated) non-financial report: environment
Material topic: Responsible criteria in the supply chain and ecological impacts on banking operations (GRI 308 Supplier Environmental Assessment 2016)					
GRI 103	Management Approach	103-1	Explanation of the material topic and its boundary	p. 13 et seq., 66 et seq.	Strategy, (consolidated) non-financial report: suppliers
GRI 103	Management Approach	103-2	The management approach and its components	p. 13 et seq., 66 et seq.	Strategy, (consolidated) non-financial report: suppliers

GRI Standard Number	GRI Standard Title	Disclosure Number	Disclosure Title	Page in Annual Report 2017	Chapter reference / Comments / Reasons of omission
GRI 103	Management Approach	103-3	Evaluation of the management approach	p. 55 et seq., 84	(consolidated) non-financial report: materiality analysis, (consolidated) corporate governance: working methods of the management board and the supervisory board
GRI 308	Supplier Environmental Assessment	308-1	New suppliers that were screened using environmental criteria	p. 67	(consolidated) non-financial report: suppliers
Material topic: Diversity and equal opportunity (GRI 401 Employment 2016)					
GRI 103	Management Approach	103-1	Explanation of the material topic and its boundary	p. 13 et seq., 68 et seq.	Strategy, (consolidated) non-financial report: employees
GRI 103	Management Approach	103-2	The management approach and its components	p. 13 et seq., 68 et seq.	Strategy, (consolidated) non-financial report: employees
GRI 103	Management Approach	103-3	Evaluation of the management approach	p. 55 et seq., 84	(consolidated) non-financial report: materiality analysis, (consolidated) corporate governance: working methods of the management board and the supervisory board
GRI 401	Employment	401-1	New employee hires and employee turnover	p. 72	(consolidated) non-financial report: employees
GRI 401	Employment	401-3	Parental leave	p. 72	(consolidated) non-financial report: employees
Material topic: Diversity and equal opportunity (GRI 404 Training and Education 2016)					
GRI 103	Management Approach	103-1	Explanation of the material topic and its boundary	p. 13 et seq., 68 et seq.	Strategy, (consolidated) non-financial report: employees
GRI 103	Management Approach	103-2	The management approach and its components	p. 13 et seq., 68 et seq.	Strategy, (consolidated) non-financial report: employees
GRI 103	Management Approach	103-3	Evaluation of the management approach	p. 55 et seq., 84	(consolidated) non-financial report: materiality analysis, (consolidated) corporate governance: working methods of the management board and the supervisory board
GRI 404	Training and Education	404-1	Average hours of training per year per employee	p. 69	(consolidated) non-financial report: employees
GRI 404	Training and Education	404-2	Programmes for upgrading employee skills and transition assistance programs	p. 69	(consolidated) non-financial report: employees
Material topic: Diversity and equal opportunity (GRI 405 Diversity and Equal Opportunity 2016)					
GRI 103	Management Approach	103-1	Explanation of the material topic and its boundary	p. 13 et seq., 68 et seq.	Strategy, (consolidated) non-financial report: employees
GRI 103	Management Approach	103-2	The management approach and its components	p. 13 et seq., 68 et seq.	Strategy, (consolidated) non-financial report: employees
GRI 103	Management Approach	103-3	Evaluation of the management approach	p. 55 et seq., 84	(consolidated) non-financial report: materiality analysis, (consolidated) corporate governance: working methods of the management board and the supervisory board
GRI 405	Diversity and Equal Opportunity	405-1	Diversity of governance bodies and employees	p. 71 et seq.	(consolidated) non-financial report: employees
Material topic: Diversity and equal opportunity (GRI 406 Non-Discrimination 2016)					
GRI 103	Management Approach	103-1	Explanation of the material topic and its boundary	p. 13 et seq., 68 et seq.	Strategy, (consolidated) non-financial report: employees
GRI 103	Management Approach	103-2	The management approach and its components	p. 13 et seq., 68 et seq.	Strategy, (consolidated) non-financial report: employees
GRI 103	Management Approach	103-3	Evaluation of the management approach	p. 55 et seq., 84	(consolidated) non-financial report: materiality analysis, (consolidated) corporate governance: working methods of the management board and the supervisory board
GRI 406	NON-Discrimination	406-1	Incidents of discrimination and corrective actions taken	n.a.	As a preventive measure, an anti-discrimination officer was appointed to foster an environment of mutual respect for all employees. In 2017, no significant incidents were brought forward to the anti-discrimination officer in Austria or the other countries. For the other countries (i.e. except Austria), the local HR departments are in charge in this matter.
Material topic: Responsible criteria in the supply chain and ecological impacts on banking operations (GRI 414 Supplier Social Assessment 2016)					
GRI 103	Management Approach	103-1	Explanation of the material topic and its boundary	p. 13 et seq., 66 et seq.	Strategy, (consolidated) non-financial report: suppliers
GRI 103	Management Approach	103-2	The management approach and its components	p. 13 et seq., 66 et seq.	Strategy, (consolidated) non-financial report: suppliers
GRI 103	Management Approach	103-3	Evaluation of the management approach	p. 55 et seq., 84	(consolidated) non-financial report: materiality analysis, (consolidated) corporate governance: working methods of the management board and the supervisory board
GRI 414	Supplier Social Assessment	414-1	New suppliers that were screened using social criteria	p. 67	(consolidated) non-financial report: suppliers
Additional topic: GRI 418 Customers Privacy 2016					
GRI 103	Management Approach	103-1	Explanation of the material topic and its boundary	p. 13 et seq., 54 et seq.	Strategy, (consolidated) non-financial report
GRI 103	Management Approach	103-2	The management approach and its components	p. 13 et seq., 54 et seq.	Strategy, (consolidated) non-financial report
GRI 103	Management Approach	103-3	Evaluation of the management approach	p. 55 et seq., 84	(consolidated) non-financial report: materiality analysis, (consolidated) corporate governance: working methods of the management board and the supervisory board

GRI Standard Number	GRI Standard Title	Disclosure Number	Disclosure Title	Page in Annual Report 2017	Chapter reference / Comments / Reasons of omission
GRI 418	Customer Privacy	418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data	n.a.	In 2017, there were no substantiated complaints concerning breaches of customer privacy.
Additional topic: GRI 419 Socioconomic compliance 2016					
GRI 103	Management Approach	103-1	Explanation of the material topic and its boundary	p. 13 et seq., 84 et seq.	Strategy, (consolidated) non-financial report , (consolidated) corporate governance report
GRI 103	Management Approach	103-2	The management approach and its components	p. 13 et seq., 84 et seq.	Strategy, (consolidated) non-financial report, (consolidated) corporate governance report
GRI 103	Management Approach	103-3	Evaluation of the management approach	p. 55 et seq., 84	(consolidated) non-financial report: materiality analysis, (consolidated) corporate governance: working methods of the management board and the supervisory board
GRI 419	Socioeconomic compliance	419-1	Non-compliance with laws and regulations in the social and economic area	n.a.	In 2017, there were no significant fines nor non-monetary sanctions for non-compliance with laws and/or regulations in the social and economic area.
Material topic: Employee health and work-life balance					
GRI 103	Management Approach	103-1	Explanation of the material topic and its boundary	p. 55 et seq., 68 et seq.	(consolidated) non-financial report: materiality analysis, employees
GRI 103	Management Approach	103-2	The management approach and its components	p. 55 et seq., 68 et seq.	(consolidated) non-financial report: materiality analysis, employees Health topics for employees lie within the responsibility of the respective subsidiaries. Larger entities are equipped with appropriate health facilities or provide access to external health centers.
GRI 103	Management Approach	103-3	Evaluation of the management approach	p. 55 et seq.	(consolidated) non-financial report: materiality analysis Sick days are recorded. It is the aim to promote the health of employees and the work-life balance. Health reports are the basis for potential improvement measures.
Material topic: Financial education					
GRI 103	Management Approach	103-1	Explanation of the material topic and its boundary	p. 55 et seq., 60	(consolidated) non-financial report: materiality analysis, commitment to society (financial literacy)
GRI 103	Management Approach	103-2	The management approach and its components	p. 55 et seq., 60	(consolidated) non-financial report: materiality analysis, commitment to society (financial literacy)
GRI 103	Management Approach	103-3	Evaluation of the management approach	p. 55 et seq.	(consolidated) non-financial report: materiality analysis The responsibility for the implementation of the activities lies within the respective subsidiary.
Material topic: Customer satisfaction					
GRI 103	Management Approach	103-1	Explanation of the material topic and its boundary	p. 55 et seq., 63 et seq.	(consolidated) non-financial report: materiality analysis, customers
GRI 103	Management Approach	103-2	The management approach and its components	p. 55 et seq., 63 et seq.	(consolidated) non-financial report: materiality analysis, customers
GRI 103	Management Approach	103-3	Evaluation of the management approach	p. 55 et seq.	(consolidated) non-financial report: materiality analysis, Customer satisfaction is measured through surveys applying uniform criteria across all relevant markets. It is incorporated into strategic considerations.
Material topic: Responsible investment and finance					
GRI 103	Management Approach	103-1	Explanation of the material topic and its boundary	p. 55 et seq., 64 et seq.	(consolidated) non-financial report: materiality analysis, customers
GRI 103	Management Approach	103-2	The management approach and its components	p. 55 et seq., 64 et seq.	(consolidated) non-financial report: materiality analysis, customers
GRI 103	Management Approach	103-3	Evaluation of the management approach	p. 55 et seq.	(consolidated) non-financial report: materiality analysis, Compliance with the existing exclusion criteria for investments and financing lies within the responsibility of the respective business units. The exclusion criteria are evaluated on a regular basis to see whether they fulfill the envisaged social and ecological responsibility.

To the Board of Erste Group Bank AG

INDEPENDENT ASSURANCE REPORT

Independent assurance over the 2017 sustainability disclosures and data of Erste Group Bank AG

Attention: This letter has been translated from German to English for referencing purposes only. Please refer to the officially legally binding version as written and signed in German. Only the German version is the legally binding version.

Engagement

We were requested to perform a limited assurance engagement over the 2017 sustainability disclosures and data (hereafter "**Report**") in accordance with the GRI Standards CORE Option of Erste Group Bank AG (hereafter "**EGB**" or "**Company**").

The assurance engagement covers the chapter "Non-financial Report" in "Integrated Annual Report 2017" in pdf-format concerning information in and references linked from the GRI-Index to sustainability disclosures and data.

Our assurance engagement solely covers references directly specified in the GRI-Index. It does not cover any further web references.

Our procedures have been designed to obtain a limited level of assurance on which to base our conclusions. The extent of evidence gathering procedures performed is less than for that of a reasonable assurance engagement (such as a financial audit) and therefore a lower level of assurance is provided.

Clarifications to our Review

_ The objective of our engagement was neither a financial audit nor a financial audit review. We did not perform any assurance procedures on data, which were subject of the annual financial audit, the corporate governance report or the risk reporting. We merely checked that data was presented in accordance with the GRI Guidelines.
_ Limited assurance over prospective information was not subject to our engagement.
_ We did not test data derived from external surveys, we only verified that relevant disclosures and data are correctly quoted in the Report.
_ Neither the detection and investigation of criminal offenses, such as embezzlement or other fraudulent actions, nor the assessment of effectiveness and efficiency of management were subject to our engagement.

Criteria

The information included in the Report was based on the criteria applicable in the year 2017 ("**The Criteria"**), consisting of:

_ GRI Standards[10] in connection with the Nachhaltigkeits- und Diversitätsverbesserungsgesetz (NaDiVeG) § 267a Austrian Company Act.

[10]https://www.globalreporting.org/information/g4/Pages/default.aspx

We believe that these criteria are suitable for our assurance engagement.

Management responsibilities

EGB's management is responsible for the Report and that the information therein is in accordance with the criteria mentioned above. This responsibility includes designing, implementing and maintaining internal controls.

This responsibility includes not only proper reporting but also designing, implementing and maintaining an internal control system to ensure the required data quality (including traceability). Such an internal control system is essential for the elimination of material misstatements in the Report.

Our responsibilities

It is our responsibility to express a conclusion on the information included in the Report on the basis of the limited assurance engagement.

Our assurance engagement has been planned and performed in accordance with the International Federation of Accountants' ISAE3000[11] and the Code of Ethics for Professional Accountants, issued by the International Federation of Accountants (IFAC), which includes requirements in relation to our independence.

The objective of our engagement is not to account for the interests of any third parties. Our work solely serves the client and his purpose. Our engagement is thus not destined to be used as a basis of decision-making for third parties.

The "General Conditions of Contract for the Public Accounting Professions"[12], are binding for this engagement. According to that, our liability is limited and an accountant is only liable for violating intentionally or by gross negligence the contractual duties and obligations entered into. In cases of gross negligence, the maximum liability towards EGB and any third party together is EUR 726,730 in the aggregate.

[11]International Federation of Accountants' International Standard for Assurance Engagements Other than Audits or reviews of Historical Financial Information (ISAE3000) Revised, effective for assurance statements dated on or after December 15, 2015.

[12]version of February 21th 2011 (AAB 2011) issued by the Chamber of Public Accountants and Tax Advisors, section 8 http://www.kwt.or.at/PortalData/1/Resources/aab/AAB_2011.pdf

What we did to form our conclusion

We have performed all the procedures deemed necessary to obtain the evidence that is sufficient and appropriate to provide a basis for our conclusions. Our main procedures were:

- Obtained an overview over the industry as well as the characteristics and governance of the organisation;
- Interviewed a selection of Group and functional senior managers and executives to understand key expectations and identify systems, processes and internal control processes to support them;
- Reviewed Group level, Board and Executive documents to assess awareness and priority and to understand how progress is tracked;
- Examined risk management and governance processes related to sustainability and critical evaluation of the representation in the Report;
- Performed analytical procedures at Group level;
- Performed site visits in Vienna, Graz and Zagreb to review progress and obtain evidence of performance.
- Reviewed data and processes on a sample basis to test whether they had been collected, consolidated and reported appropriately at Group level. This included reviewing data samples to test whether the data had been reported in an accurate, reliable and complete manner;
- Reviewed the coverage of material issues against the key issues raised in the stakeholder dialogues, areas of performance covered in external media reports and the environmental and social reports of peers;
- Evaluated the materiality assessment, including sector specific megatrends and aspects of GRI;
- Challenged a sample of statements and claims in the Report against our work steps and the GRI Standards principles;
- Assessment whether the NaDiVeG requirements have been adequately addressed and
- Reviewed whether the GRI Standards were consistently applied for the CORE Option;

Our Conclusion

Based on the scope of our review nothing – with the exception of the following restrictions – has come to our attention that causes us to believe that the disclosures and data in the Report were not prepared, in accordance with the criteria identified above.

Restrictions to Engagement

- According to § 267a Austrian Company Act, the consolidated report must include the entire scope of consolidation of the EGB. Different to the scope of consolidation of the EGB, only those Savings Banks with more than 500 employees have been taken into account.
- The Reporting on environmental data includes the main, but not all, locations of the EGB in Austria, in the Czech Republic, in Slovakia, in Hungary, in Croatia, in Serbia, in Slovenia, in Poland and in Romania; furthermore the locations in London, New York and Hong Kong and the locations in smaller countries of the Balkan region (Bosnia, etc.) are not included.
- In addition, other key non-financial performance indicators among the material topics Financial Literacy, Social Engagement, Social Banking, Sustainable Criteria in the Procurement, Customers Satisfaction and Responsible Investment and Financing were reported only for selected operational units.
- Not all relevant subsidiaries of the EGB are integrated into a consistent system for risk evaluation, data management, data control and reporting of non-financial performance indicators.

Vienna, March 21st 2018

Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H.

Stefan Uher mp ppa. Christine Jasch mp

Corporate Governance

(Consolidated) corporate governance report

In 2003, Erste Group Bank AG declared its commitment to complying with the rules of the Austrian Code of Corporate Governance (Austrian CCG – see www.corporate-governance.at) with the objective of ensuring responsible and transparent corporate governance. In addition, the management board adopted a Statement of Purpose in 2015. This statement reaffirms and states in more detail the purpose of Erste Group Bank AG to promote and secure prosperity throughout the region in which Erste Group is active. Building on this Statement of Purpose, a Code of Conduct defines binding rules for day-to-day business. Erste Group values responsibility, respect and sustainability in pursuing its business activities. The Code of Conduct therefore helps to protect the reputation of Erste Group and to strengthen stakeholder confidence. The Corporate Governance Report has been prepared in accordance with sections 243c and 267b of the Austrian Commercial Code and Rules 60 et seq. of the Austrian CCG and combines the corporate governance report of Erste Group Bank AG, the parent, and the consolidated corporate governance report in one single report. For the first time, the management board has also prepared a (consolidated) non-financial report in accordance with sections 243b and 267a of the Austrian Commercial Code, which is released as part of the annual report.

In the financial year 2017, Erste Group Bank AG complied with all L-Rules (Legal Requirements – mandatory legal norms) and R-Rules (Recommendations – these rules are more similar to recommendations; non-compliance does not need to be disclosed or explained) as well as – with two exceptions – all C-Rules (Comply-or-Explain – deviations are permitted but must be explained) of the Austrian CCG. The two deviations are described and explained below: Pursuant to C-Rule 2 of the Austrian CCG, shares are to be construed in accordance with the principle of one share – one vote, i.e. investors have one vote per share and no right to nominate members to the supervisory board. Under Erste Group Bank AG's articles of association (Art. 15.1), DIE ERSTE österreichische Spar-Casse Privatstiftung is, however, granted the right to nominate up to one third of the members of the supervisory board to be elected by the shareholder meeting as long as it is liable for all present and future liabilities of Erste Group Bank AG in case of its insolvency according to section 92 para. 9 of the Austrian Banking Act. The Privatstiftung has not exercised this right to date. Pursuant to C-Rule 52a of the Austrian CCG, the number of supervisory board members (without employees' representatives) shall be ten at most. At the beginning of the year 2017, the supervisory board of Erste Group Bank AG comprised twelve members elected by the annual general meeting and at present has eleven members. The deviation from C-Rule 52a of the Austrian CCG is due to the size of Erste Group and its market position in seven core markets in Central and Eastern Europe as well as to the fact that the supervisory board of Erste Group Bank AG must perform a multitude of financial market related and prudential review and oversight duties. Moreover, the supervisory board must meet various criteria to comply with the diversity requirements.

Working methods of the management board and the supervisory board

Erste Group Bank AG is a stock corporation established according to Austrian law with a management board and a supervisory board as management bodies (two-tier system). The management board is responsible for managing the company as required for the benefit of the company taking into account the interests of the shareholders and the employees as well as public interest. The management board develops the strategic orientation of the company and aligns it with the supervisory board. It ensures effective risk management and risk controlling. The management board takes its decisions in compliance with all relevant legal provisions, the articles of association and its internal rules of procedure as well as the Statement of Purpose. The supervisory board appoints the members of the management board, decides on the remuneration of the management board and monitors and evaluates on a yearly basis its activity. The supervisory board advises the management board on the determination of the business strategy. It takes part in making decisions as provided for by law, the articles of association and its internal rules of procedure.

Selection and assessment of members of management bodies

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

Training and development

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

MANAGEMENT BOARD

Management board member	Year of birth	Date of initial appointment	End of current period of office
Andreas Treichl (Chairman)	1952	1 October 1994	30 June 2020
Peter Bosek	1968	1 January 2015	31 December 2020
Petr Brávek	1961	1 April 2015	31 December 2020
Willibald Cernko	1956	1 January 2017	31 December 2020
Gernot Mittendorfer	1964	1 January 2011	31 December 2020
Jozef Síkela	1967	1 January 2015	31 December 2020

In the financial year 2017, the management board consisted of six members.

As of 1 January 2018, the allocation of duties among the members of the management board is as follows:

Management board member	Areas of responsibility
Andreas Treichl (Chairman)	Group Strategy, Group Secretariat, Brand Management and Company Transformation, Group Investor Relations, Group Human Resources, Human Resources, Group Audit, Group Board Support & Stakeholder Management, Social Banking Development
Peter Bosek	Erste Hub, Digital Sales, Group Retail Strategy
Petr Brávek	Holding IT, Holding Banking Operations, Group COO Governance, Group Architecture and Portfolio Management
Willibald Cernko	Executive Divisional Director Strategic Risk, Group Liquidity and Market Risk Management, Enterprise wide Risk Management, Credit Risk Models, Group Non Financial Risk, Group Workout, Group Credit Risk Management, Group Legal
Gernot Mittendorfer	Executive Divisional Director Strategic Data Program, Group ALM, Group Data Management and Reporting, Group Accounting and Group Controlling, Group Services
Jozef Síkela	Group Corporates, GCRE & Leasing, Group Markets, Operating Office C and M, Group Research

Supervisory board mandates and similar functions, management roles in subsidiaries

As of 31 December 2017, the management board members held the following supervisory board mandates or similar functions in domestic or foreign companies or material subsidiaries of Erste Group Bank AG (the latter are marked with *). No management board member holds a management position in a material subsidiary of Erste Group Bank AG.

Andreas Treichl

Erste Bank der oesterreichischen Sparkassen AG* (Member),
Banca Comercială Română S.A.* (Vice Chair),
Česká spořitelna, a.s.* (Vice Chair),
Die Zweite Wiener Vereins-Sparcasse* (Chair),
Leoganger Bergbahnen Gesellschaft m.b.H. (Member)

Peter Bosek

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

Petr Brávek

Česká spořitelna, a.s.* (Member),
s IT Solutions AT Spardat GmbH* (2nd Vice Chair),
Erste Group IT International GmbH* (Chair)

Willibald Cernko

Semper Constantia Privatbank Aktiengesellschaft (Vice Chair),
Erste Bank der oesterreichischen Sparkassen AG* (Member),
Erste & Steiermärkische Bank d.d.* (Erste Bank Croatia) (Chair)

Gernot Mittendorfer

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

Jozef Síkela

Oesterreichische Kontrollbank Aktiengesellschaft (Member),
Prvá stavebná sporiteľňa, a.s.* (Member)

SUPERVISORY BOARD

In the financial year 2017, the following persons were members of the supervisory board:

Position	Name	Year of birth	Occupation	Date of initial appointment	End of the current period of office
Chairman	Friedrich Rödler	1950	Auditor and tax advisor	4 May 2004	AGM 2022
1st Vice Chairman	Jan Homan	1947	General Manager, ret.	4 May 2004	AGM 2022
2nd Vice Chairwoman (until 17 May 2017)	Bettina Breiteneder	1970	Entrepreneur	4 May 2004	AGM 2017
2nd Vice Chairman (since 17 May 2017)	Maximilian Hardegg	1966	Entrepreneur	12 May 2015	AGM 2020
Member	Elisabeth Bleyleben-Koren	1948	General Manager, ret.	21 May 2014	AGM 2019
Member	Gunter Griss	1945	Lawyer	21 May 2014	AGM 2019
Member	Jordi Gual Solé	1957	Chairman, CaixaBank	17 May 2017	AGM 2022
Member	Marion Khüny	1969	Consultant	17 May 2017	AGM 2019
Member	Elisabeth Krainer Senger-Weiss	1972	Lawyer	21 May 2014	AGM 2019
Member	Antonio Massanell Lavilla	1954	Deputy Chairman, CaixaBank	12 May 2015	15 September 2017
Member	Brian D. O'Neill	1953	Senior Advisor, Lazard Frères & Co	31 May 2007	AGM 2022
Member	Wilhelm Rasinger	1948	Consultant	11 May 2005	AGM 2020
Member	John James Stack	1946	CEO, ret.	31 May 2007	AGM 2021
Delegated by the employees' council					
Member	Markus Haag	1980		21 November 2011	until further notice
Member	Regina Haberhauer	1965		12 May 2015	until further notice
Member	Andreas Lachs	1964		9 August 2008	until further notice
Member	Barbara Pichler	1969		9 August 2008	until further notice
Member	Jozef Pinter	1974		25 June 2015	until further notice
Member	Karin Zeisel	1961		9 August 2008	until further notice

Changes in the supervisory board in the financial year 2017: Bettina Breiteneder, 2nd Vice Chairwoman, resigned as member of the supervisory board with effect as of the end of the annual general meeting on 17 May 2017. At the annual general meeting Jordi Gual Solé and Marion Khüny were elected to the supervisory board. Antonio Massanell Lavilla resigned as member of the supervisory board as of 15 September 2017.

Membership in supervisory board committees

Committee membership as of 26 January 2018:

Name	Executive committee	Nomination committee	Audit committee	Risk committee	Remuneration committee	IT committee
Friedrich Rödler	Chairman	Chairman	Member*	Chairman	Chairman**	Vice Chairman
Jan Homan	Vice Chairman	Vice Chairman	Chairman	Vice Chairman	Vice Chairman	Substitute
Maximilian Hardegg	Member	Member	Member	Member	Substitute	Chairman
Elisabeth Bleyleben-Koren	-	-	Member	Member	-	-
Gunter Griss	-	-	-	-	Member	-
Jordi Gual Solé	-	-	-	-	Member	-
Marion Khüny	-	-	-	Member	-	Member
Elisabeth Krainer Senger-Weiss	-	Member	-	Substitute	-	Member
Brian D. O'Neill	-	-	-	-	Member	-
Wilhelm Rasinger	Substitute	-	Member	Member	-	-
John James Stack	-	-	-	-	Member	-
Delegated by the employees' council						
Markus Haag	-	-	-	Member	Substitute	-
Regina Haberhauer	-	-	Member	Substitute	-	-
Andreas Lachs	Substitute	Substitute	Substitute	Member	Member	Member
Barbara Pichler	Member	Member	Member	-	Member	Substitute
Jozef Pinter	Substitute	Substitute	Member	Member	Substitute	Substitute
Karin Zeisel	Member	Member	Substitute	Substitute	Member	Member

*Financial expert, **Remuneration expert

Mandates on supervisory boards or similar functions

As of 31 December 2017, the supervisory board members held the following additional supervisory board mandates or similar functions in domestic or foreign companies. Material subsidiaries of Erste Group Bank AG are marked with *, listed companies are marked with **.

Friedrich Rödler
Erste Bank der oesterreichischen Sparkassen AG* (Chair),
Erste Bank Hungary Zrt.*,
Sparkassen-Prüfungsverband (Chair),
Abschlussprüferaufsichtsbehörde (Audit Oversight Body of Austria)

Jan Homan
Constantia Flexibles Holding GmbH,
Frapag Beteiligungsholding AG (Chair),
Slovenská sporiteľňa, a.s.*

Bettina Breiteneder
DIE ERSTE österreichische Spar-Casse Privatstiftung,
PAPPAS Holding GmbH,
Generali Holding Vienna AG,
Best in Parking-Holding AG (Vice Chair)

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

Gunter Griss
AVL List GmbH (Chair),
Bankhaus Krentschker & Co. Aktiengesellschaft* (2nd Vice Chair),
Steiermärkische Bank und Sparkassen Aktiengesellschaft* (Chair)

Jordi Gual Solé
CaixaBank, S.A.** (Chair),
Repsol S.A.**

Marion Khüny
KA Finanz AG

Elisabeth Krainer Senger-Weiss
Gebrüder Weiss Holding AG,
Gebrüder Weiss GmbH

Brian D. O'Neill
Emigrant Bank,
Banca Comercială Română S.A.*,
Aqua Venture Holdings, LLC

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

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

Elisabeth Bleyleben-Koren did not hold any mandates on supervisory boards or similar functions in domestic or foreign companies as of 31 December 2017.

Antonio Massanell Lavilla resigned as member of the supervisory boards of Repsol S.A.**, SAREB, S.A., Telefónica, S.A.** und Cecabank, S.A. (Chair) as of 31 December 2017.

Delegated by the employees' council:

Regina Haberhauer
ERSTE-SPARINVEST Kapitalanlagegesellschaft m.b.H.*,
Erste Asset Management GmbH*

Barbara Pichler
DIE ERSTE österreichische Spar-Casse Privatstiftung

Andreas Lachs
VBV-Pensionskasse Aktiengesellschaft

Markus Haag, Jozef Pinter and Karin Zeisel did not hold any mandates on supervisory boards or similar functions in domestic or foreign companies.

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

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

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

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

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

No member of the supervisory board holds directly or indirectly more than 10% of the shares of Erste Group Bank AG. In 2017, three members of the supervisory board (Maximilian Hardegg, Bettina Breiteneder and Barbara Pichler) served on a management body of a company holding more than 10% of the shares of Erste Group Bank AG. One member (Wilhelm Rasinger) represented in particular the interests of retail shareholders.

Attendance of supervisory board meetings

In 2017, all members of the supervisory board attended more than half of the supervisory board meetings that took place after their election or delegation to the supervisory board.

Self-evaluation of the supervisory board

At its meeting of 24 January 2018, the nomination committee performed an evaluation of the activities of the supervisory board and its committees. It discussed the supervisory board members' attendance of supervisory board and committee meetings in 2017, evaluated the efficiency of the supervisory board's activities as well as organisation and working practice of the supervisory board and undertook a critical review of the composition of committees. Potential conflicts of interest of management board and supervisory board members were discussed and the number of mandates and secondary activities of management and supervisory board members were reviewed. The supervisory board will discuss and consider the results of this evaluation pursuant to C-Rule 36 of the Austrian CCG.

Contracts subject to approval (C-Rule 49 Austrian CCG)

No contracts have been entered into that would require approval pursuant to section 95 para 5 no 12 Austrian Stock Corporation Act.

SUPERVISORY BOARD COMMITTEES AND THEIR DECISION-MAKING POWERS

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

Risk committee

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

Executive committee

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

Audit committee

The audit committee is responsible for overseeing the accounting process; monitoring the effectiveness of the company's internal control system, internal audit system and risk management system; overseeing the annual audit of single-entity and consolidated financial statements; reviewing and supervising the independence of the auditor (Group auditor), in particular with respect to the additional services rendered to the audited company and the group companies; submitting a report on the results of the annual audit to the supervisory board and explaining how the annual audit has affected the reliability of financial reporting and the role of the audit committee in doing so; reviewing the annual financial statements and preparing its approval; reviewing the proposal for the allocation of profits, the management report and the (consolidated) corporate governance report and submitting a report on the results of the review to the supervisory board; reviewing the consolidated financial statements of the group and the group management report and submitting the report on the results of the review to the supervisory board; carrying out the procedure for the selection of the auditor (group auditor), taking into account the appropriateness of the fees and recommending the appointment of the auditor (group auditor) to the supervisory board; recommending the renewal of the auditor's (group auditor's) mandate to the supervisory board; acknowledging the additional report of the auditor and discussing this report; acknowledging timely information on the focal points of the audit and submitting proposals for additional focal points of the audit; taking note of the annual financial statements of material subsidiaries and of the participations report; acknowledging the audit plan of the company's internal audit function; acknowledging information on current matters relevant to the internal audit of the Group and on the efficiency and effectiveness of the internal audit; acknowledging the internal auditors' report on the audit areas and material audit findings and the activity report pursuant to section 20 in connection with section 21 (2) of the Austrian Securities Supervisory Act (Wertpapieraufsichtsgesetz); acknowledging immediate information on material findings of the auditor, the internal audit function or an audit conducted by a regulatory authority; acknowledging immediate information on loss events that could exceed 5% of consolidated equity or 10% of the budgeted net result; acknowledging reports of the management board on current developments and compliance regarding corporate governance and anti-money laundering rules; acknowledging the compliance activity report pursuant to section 18 in connection with section 21 (2) of the Austrian Securities Supervisory Act. Furthermore, the supervisory board assigned the audit committee the task of reviewing the (consolidated) non-financial report (section 243b of the Austrian Commercial Code) and preparing its approval by the supervisory board to.

Nomination committee

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

Remuneration committee

The remuneration committee prepares resolutions on remuneration matters, including resolutions that have an impact on the bank's risk and risk management and must be passed by the supervisory board. The remuneration committee approves the general principles of remuneration policy, reviews them regularly and is also responsible for their implementation. The committee monitors remuneration policy, remuneration practices and remuneration-linked incentive programmes in relation to the control, monitoring and containment of risks, the capital base and liquidity, with due regard to the long-term interests of the bank's shareholders, investors and employees as well as the national interest in a well-functioning banking system and financial market stability. The committee approves exceptions from the application of the remuneration policy to individual staff members of the company and monitors the payment of variable remuneration to members of the management board and to the company's second management level as well as to management board members of major subsidiaries. It furthermore reviews the (variable) remuneration of senior managers of the company performing independent control functions such as risk management and compliance and of staff members having a significant impact on the company's risk profile. In addition, it approves the identification of employees having a significant impact on the company's risk profile and reviews the criteria on which the management board's decision is based as well as the procedure used in taking such decisions. The committee also ensures that information on the remuneration policy and practices provided to shareholders is appropriate. Once a year, the committee is presented with a comprehensive report on the remuneration system including key performance indicators as well as a report on the situation regarding personnel and management in the Group.

IT committee

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

MEETINGS OF THE SUPERVISORY BOARD AND REPORT ON PRINCIPAL ACTIVITIES

Six meetings of the supervisory board were held in the financial year 2017.

At each ordinary meeting of the supervisory board, with the exception of the meeting of 17 May 2017, the monthly developments of the balance sheet and the income statement were presented and reports were given on individual risk types and the bank's total risk; the status of individual bank subsidiaries in Central and Eastern Europe was discussed and quarterly reports were delivered on the areas audited and on the internal audit department's material audit findings pursuant to section 42 para 3 of the Austrian Banking Act. The chairpersons of the committees reported on the main topics dealt with by the committees since the last supervisory board meeting. A recurring topic at supervisory board meetings in 2017 was reports on current regulatory developments in the banking environment and their impacts on Erste Group. The management board regularly presented proposals to the supervisory board that required its approval under the law, the articles of association and internal rules.

At the meeting of 29 March 2017, the financial statements and the management report 2016, the consolidated financial statements and consolidated management report as well as the (consolidated) corporate governance report 2016 were reviewed; the auditors' reports were discussed and the financial statements 2016 were adopted in accordance with the recommendation of the audit committee. Furthermore, the resolutions proposed for the annual general meeting were discussed and approved. It was also decided to propose PwC Wirtschaftsprüfung GmbH to the annual general meeting on 17 May 2017 as an additional auditor of the (consolidated) financial statements for the financial year 2018. In addition, a report was delivered on current developments at Erste Bank Hungary Zrt., the supervisory board's report to the annual general meeting was approved and the annual report of the supervisory board on loans to board members pursuant to section 28 para 4 of the Austrian Banking Act as well as the list prepared pursuant to C-Rule 82a Austrian CCG were each taken note of.

At the constituent meeting of 17 May 2017 held after the annual general meeting those present were informed that Marion Khüny and Jordi Gual Solé had been newly elected and Friedrich Rödler, Jan Homan, Brian O'Neill and John James Stack had each been re-elected to the supervisory board of Erste Group Bank AG. The chairman further announced that Bettina Breiteneder had resigned as member of the supervisory board at her own request. Friedrich Rödler was elected chairman, Jan Homan first vice chairman and Maximilian Hardegg second vice chairman. In addition, supervisory board members were elected to the respective supervisory board committees and the composition of the committees thus reorganised. The distribution key for the remuneration of supervisory board members approved by the annual general meeting was adopted for 2016. Finally, the annual report of Group Compliance was taken note of.

At the meeting of 29 June 2017, which was also attended by members of the supervisory authorities' Joint Supervisory Team, who gave presentations and answered questions raised by supervisory board members, reports were delivered on the current status of a number of projects and the report on the implementation of the ALM strategy was taken note of. In addition, the framework plan for the issuance of certificates and warrants was adopted.

At the meeting of 14 September 2017, reports were delivered on current developments at Erste Bank der oesterreichischen Sparkassen, key competitors, risk tolerance across the Group and at individual banks in the second quarter of 2017 and on the current status of the Group Recovery Plan 2017. Changes to the remuneration committee's rules of procedure and the organisational structure of the risk division were also approved. In addition, the chairman informed those present about the procedures used in auditing the (consolidated) non-financial report.

At the meeting of 19 October 2017, the current status of specific projects was discussed and the report on the strategy for small and medium-sized enterprises was taken note of.

At the meeting of 14 December 2017, retail and ALM strategies were discussed. Reports were delivered on the current status of a project to improve data quality as well as on the development of Erste Group Immorent AG and foreign branches of Erste Group Bank AG. Furthermore, the reports on large exposures pursuant to section 28b of the Austrian Banking Act and the annual plan for the financial year 2018 were discussed, approved and taken note of. The areas of responsibility as of 1 January 2018 were approved and an anticipatory resolution was taken pursuant to section 95 para 5 no 12 of the Austrian Stock Corporation Act as well as a resolution on long-term funding activities in the financial year 2018. With regard to the supervisory board's self-evaluation it was noted that an external advisor had been engaged to provide support and that it will be continued in 2018, also for taking into account information relating to the full year of 2017.

MEETINGS OF THE COMMITTEES AND REPORT ON ACTIVITIES

The risk committee held seventeen meetings in 2017, at which it regularly took decisions on exposures and loans exceeding the powers of the management board and was briefed on loans granted within the scope of authorisation of the management board. The committee was regularly informed on the risk strategy, risk appetite, the monitoring required to comply with these limits, individual risk types, risk-bearing capacity and large exposures. Furthermore, reports were given on the situation of specific sectors and industries, including the real estate and automotive industries and the resulting impacts on the risk strategy. Further items on the agenda were audits by supervisory authorities, internal risk models and various legal disputes. Reports were regularly delivered on risk development in individual countries and subsidiaries. In 2017, the members of the risk committee were also briefed on recent developments in current IT projects. Without prejudice to the duties of the remuneration committee, the risk committee members were also informed on whether the incentives offered by the internal remuneration system adequately account for risk, capital, liquidity and the probability and timing of profit realisation. Also on the agenda were regulatory developments at the European level and in Austria. A report on a recovery plan required under applicable regulations was also delivered in the risk committee. In addition, the members of the risk committee were informed about developments in the corporate workout portfolio in general and major workout cases in particular.

The executive committee did not meet in 2017.

The audit committee met five times in 2017 and, in addition, held one informal meeting to prepare the meeting on the review of the (consolidated) financial statements. The external auditors were present at all meetings. Among other things, the auditors reported on the audit of the single-entity and consolidated financial statements for 2016 and the audit committee subsequently conducted the final discussion. The financial statements and the management report, the consolidated financial statements and the management report as well as the (consolidated) corporate governance report were reviewed and the financial statements recommended for approval by the supervisory board. The head of the internal audit department reported on the audit subjects and material audit findings for the year 2016 and, on an ongoing basis, about audit-relevant matters in the group and explained the audit plan for 2017. The internal audit department presented its reports pursuant to section 42 para 3 of the Austrian Banking Act and, jointly with the compliance department, a report pursuant to section 21 para 2 of the Austrian Securities Supervision Act. In addition, a report was delivered on the assessment of the functionality of the risk management system pursuant to Rule 83 of the Austrian CCG and on the effectiveness of the internal control system. Based on these reports, the audit committee monitored the effectiveness of the internal control system, the internal audit system and the risk management system pursuant to section 63a para 4 no 2 of the Austrian Banking Act. The audit committee also discussed its work plan for 2018 and defined agenda topics for the meetings. It was decided to recommend the renewal of the audit mandate of PwC Wirtschaftsprüfung GmbH as additional auditor of the (consolidated) financial statements for the financial year 2019 to the supervisory board. The auditors provided information about the preliminary audit of the single-entity and consolidated financial statements for 2017. Besides, discussions were held on the reports on the development of participations, on the half year report as of 30 June 2017, on current legal developments impacting audit committee activities, on the impacts of supreme court decisions on negative interest rates in loan agreements, on the current status of the IFRS 9 project and its impacts within Erste Group as well as on reviews conducted by the European Central Bank and on the 2016 management letter. The audit committee continuously reviewed and monitored the independence of the auditors of the (consolidated) financial statements with a particular focus on non-audit services rendered for Erste Group pursuant to section 63a para 4 no 4 of the Austrian Banking Act. Among other things, the audit committee gave therefore pre-approval to permissible non-audit services rendered by the (group) auditor, received reports on their current status and laid down and communicated throughout the Group guidelines for the approval of such non-audit services for Erste Group. It also discussed the process for the preparation of a (consolidated) non-financial report for 2017. The audit committee consulted Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H. to assist in its review of the non-financial report. The audit committee's report on activities included in the 2016 annual report was discussed and approved. The exchange of views between the audit committee and the auditors in the absence of the management board pursuant to C-Rule 81a Austrian CCG was conducted in December 2017.

The nomination committee met three times in 2017 and assessed the qualifications of Jordi Gual Solé, Marion Khüny, John James Stack, Brian O'Neill, Friedrich Rödler and Jan Homan ahead of their respective elections as members of the supervisory board by the annual general meeting of Erste Group Bank AG in May

2017. In addition, the nomination committee reviewed the evaluation pursuant to C-Rule 36 of the Austrian CCG and the evaluation of the management board and the supervisory board pursuant to section 29 no 6 and 7 of the Austrian Banking Act and considered, in particular, the topic diversity within Erste Group.

The remuneration committee met five times in 2017. The members discussed the result of the Remuneration Deep Dive conducted by the supervisory authorities' Joint Supervisory Team. In addition, they discussed and approved various remuneration topics relating to Erste Group Bank AG and its subsidiaries, including the structure of key performance indicators and the bonus policy including the requirements for the payment of variable remuneration components and remuneration rules for Material Risk Takers. Furthermore, the remuneration of members of the supervisory board was discussed and a decision of principal was passed concerning the proposal to the annual general meeting regarding fixed remuneration for supervisory board members. Reports were delivered on current changes in performance-linked remuneration for employees with sales responsibilities and on regulatory developments concerning remuneration and their implementation by Erste Group.

The IT committee met five times in 2017. Its main topics were the IT project portfolio and IT governance for Erste Group, risk management relating to IT and an IT audit plan, which was discussed on an ongoing basis. Reports were delivered on IT security, on the strategy concerning using of data while handling data and digitalisation, on the current status of various infrastructure projects and on IT strategy. In addition, the IT budget was discussed and the structure of the organisation considered in more detail.

REMUNERATION OF THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD

Principles governing the remuneration policy

The principles governing the remuneration of the management boards of Erste Group Bank AG and of consolidated material subsidiaries are specified in the remuneration policy of Erste Group Bank AG at Group level, including in particular the definition and evaluation of performance criteria.

The contractual maximum value of performance-linked payments to management board members shall not exceed 100% of the fixed salaries.

The performance criteria and their impact on the variable remuneration of the management board of Erste Group Bank AG are defined at the beginning of the year by the supervisory board following a proposal of the responsible organisational units (Group Strategy und Group Human Resources). Management board members must achieve defined performance criteria at both company level and individual level. The first criterion is Erste Group's overall performance. For the year 2017, target achievement is measured by reference to the following indicators: compliance with capital and liquidity requirements, net profit and operating result minus risk cost. The second performance criterion is the achievement of individual objectives. These are, for example, operating result minus risk cost, return on tangible equity, net impairment loss as a percentage of average gross customer loans, customer satisfaction index, data quality and NPL ratio.

The performance criteria and their impact on the variable remuneration of the management boards of major consolidated subsidiaries are defined at the beginning of the year by the respective supervisory or advisory boards following proposals of the responsible organisational units (Group Strategy und Group Human Resources). Management board members must achieve the defined performance criteria at both company level and individual level.

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

Remuneration of management board members

Remuneration in 2017

			Performance-linked remuneration		
in EUR thousand	Fixed salaries	Other remuneration	for 2016	for previous years	Total
Andreas Treichl	1,475.0	643.7	310.8	170.6	2,600.0
Peter Bosek	700.0	136.3	132.4	36.0	1,004.7
Petr Brávek	700.0	135.7	150.4	36.0	1,022.0
Willibald Cernko	700.0	129.1	0.0	0.0	829.1
Gernot Mittendorfer	700.0	136.7	156.0	63.2	1,055.9
Jozef Síkela	700.0	135.5	139.9	36.0	1,011.4
Total	**4,975.0**	**1,316.9**	**889.4**	**341.8**	**7,523.1**

Between 1 January 2015 and 31 January 2016, Peter Bosek was a management board member of Erste Group Bank AG as well as of Erste Bank der oesterreichischen Sparkassen AG. Thus, the remuneration was split equally between both entities for that period.

The item "Other remuneration" comprises pension fund contributions, contributions to employee provision funds (for new-type severance payments) and remuneration in kind. In 2017, performance-linked remuneration and share equivalents were paid out or vested for previous years. No performance-linked remuneration was paid to members of the management board for 2014 and 2011. Pension fund contributions declined as one member of the management board reached the legal retirement age of 65.

Non-cash performance-linked remuneration in 2017

Share equivalents (in units)	for 2016	for previous years
Andreas Treichl	14,408	7,923
Peter Bosek	6,512	1,433
Petr Brávek	6,512	1,433
Willibald Cernko	0	0
Gernot Mittendorfer	6,349	2,857
Jozef Síkela	6,512	1,433
Total	**40,293**	**15,079**

Pay-outs will be made pro rata in 2018 after the one-year vesting period. Share equivalents are valued at the average weighted daily share price of Erste Group Bank AG in 2017 in the amount of EUR 32.97 per share.

In 2017, EUR 2,097.8 thousand was paid in cash and 8,390 share-equivalents were assigned to former members of management bodies and their dependants.

Principles governing the pension scheme for management board members

Members of the management board participate in the defined contribution pension plan of Erste Group on the basis of the same principles as other employees of the company.

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

Regarding vested benefits and entitlements of management board members in the event of termination of their position, the standard legal severance benefit provisions of section 23 of the Austrian Salaried Employees Act (Angestelltengesetz) still apply to one member of the management board.

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

Remuneration of members of the supervisory board

in EUR thousand	Meeting fees for 2017	Supervisory board compensation for 2016	Total
Friedrich Rödler	42.0	100.0	142.0
Jan Homan	34.0	75.0	109.0
Bettina Breiteneder	6.0	75.0	81.0
Maximilian Hardegg	34.0	50.0	84.0
Elisabeth Bleyleben-Koren	28.0	50.0	78.0
Gonzalo Gortázar Rotaeche	0.0	41.2	41.2
Gunter Griss	11.0	50.0	61.0
Jordi Gual Solé	9.0	0.0	9.0
Marion Khüny	17.0	0.0	17.0
Elisabeth Krainer Senger-Weiss	20.0	50.0	70.0
Antonio Massanell Lavilla	9.0	50.0	59.0
Brian D. O´Neill	11.0	50.0	61.0
Wilhelm Rasinger	28.0	50.0	78.0
John James Stack	10.0	50.0	60.0
Markus Haag	0.0	0.0	0.0
Regina Haberhauer	0.0	0.0	0.0
Andreas Lachs	0.0	0.0	0.0
Barbara Pichler	0.0	0.0	0.0
Jozef Pinter	0.0	0.0	0.0
Karin Zeisel	0.0	0.0	0.0
Total	**259.0**	**691.2**	**950.2**

The 2016 annual general meeting granted the members of the supervisory board remuneration totalling EUR 691,200 for the financial year 2016. The distribution of this remuneration is at the supervisory board's discretion and was approved at the meeting of the supervisory board on 17 May 2017. In addition, attendance fees paid to the members of the supervisory board were set at EUR 1,000 per meeting of the supervisory board or one of its committees.

Directors' and officers' liability insurance

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

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

Erste Group´s diversity and inclusion principles are embedded both in its Statement of Purpose and Code of Conduct, which places emphasis on providing a work environment free of discrimination and harassment and valuing the work and worth of each and every person, regardless of gender, age, marital status, sexual orientation, physical ability, race, skin colour, religious or political affiliation, ethnic background, nationality, citizenship or any other aspect unrelated to employment.

At the end of 2016, the management board of Erste Group Bank AG formally approved the group-wide Diversity Policy, which provides the formal structures and processes for diversity management in Erste Group. The policy was adopted and implemented in local entities in 2017.

In 2014, the nomination committee of Erste Group Bank AG's supervisory board approved a group-wide target to have 35% women in board and B-1 positions (combined) by 2019 and a second target of 35% women in supervisory boards by 2019. This is a group-wide target which is aggregated from the following entities: Erste Group Bank AG, Erste Bank der oesterreichischen Sparkassen AG, Česká spořitelna, a.s., Slovenská sporiteľňa, a.s., Erste Bank Hungary Zrt., Erste Bank Croatia, Erste Bank Serbia, Banca Comercială Română S.A. While the target does not apply individually to the aforementioned entities, they are encouraged to align with the group target.

At the end of 2017, 31% (29%) of positions in top management in the Group were filled by women. The share of female supervisory board members also increased by two percentage points from 34% to 36%.

Erste Group implemented a variety of initiatives to support female leadership. In Austria, the Erste Women's Hub employee resource group continued key initiatives such as the *WoMentoring* program, financial education for women, networking events for female employees and clients and focused on encouraging more men to take advantage of parental leave options and flexible working. A new initiative focusing on Erste Women in IT (*Erste WIT*) was launched to look at ways in which to encourage more women to pursue IT careers and develop those who are in IT. Erste Bank Hungary launched *Erste Nő* (Women's Club) which focuses on promoting a family friendly organisation, the work-life balance of working women and supporting mothers returning from maternity leave, as well as on mentoring and networking activities. Slovenská sporiteľňa organised a networking conference for its female managers *ZenyZenam* (women to women) and Česká spořitelna continues to support female leadership through its internal and external mentoring activities. To increase the number of women in senior management positions, Erste Group also aims for a greater gender and age balance in its talent pools.

EXTERNAL EVALUATION

Erste Group Bank AG commissioned an external evaluation of compliance with the Austrian Code of Corporate Governance in accordance with C-Rule 62 of the Austrian CCG at least every three years, most recently for the 2017 fiscal year. All evaluations reached the conclusion that Erste Group Bank AG had met all requirements of the Code. The deviations of C-Rules were described and explained. Summary reports on these evaluations are available at the website of Erste Group Bank AG.

SHAREHOLDERS' RIGHTS

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

Voting rights

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

Dividend rights

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

Liquidation proceeds

In case of dissolution of Erste Group Bank AG, the assets remaining after the discharge of liabilities and repayment of supplementary capital as well as additional tier 1 capital will be distributed pro rata to the shareholders. The dissolution of Erste Group Bank AG requires a majority of at least 75% of the share capital present at an annual general meeting.

Subscription rights

All holders of shares have subscription rights allowing them to subscribe to any newly issued shares to maintain their existing

share in the share capital of Erste Group Bank AG. Such subscription rights are in proportion to the number of shares held by such shareholders prior to the issue of the new shares. The said subscription rights do not apply if the respective shareholder does not exercise these subscription rights or subscription rights are excluded in certain cases by a resolution of the annual general meeting or by a resolution of the management board and the supervisory board.
The Austrian Stock Corporation Act contains provisions that protect the rights of individual shareholders. In particular, all shareholders must be treated equally under equal circumstances unless the shareholders affected have consented to unequal treatment. Furthermore, measures affecting shareholders' rights, such as capital increases and the exclusion of subscription rights, generally require a shareholders' resolution.

The articles of association of Erste Group Bank AG do not contain any provisions regarding a change in the share capital, the rights associated with the shares or the exercise of the shareholders' rights that differ from statutory requirements.

Stock corporations like Erste Group Bank AG must hold at least one annual general meeting (ordinary shareholders' meeting) per year, which must be held within the first eight months of any financial year and cover at least the following items:

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

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

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

Vienna, 28 February 2018

ADDITIONAL CORPORATE GOVERNANCE PRINCIPLES

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

Non Financial Risk

Reflecting Erste Group's integrated view of Compliance, Operational Risk and Security, an increasing number of non-financial risk decisions were taken in dedicated committees, adjusting the corporate governance principles towards a holistic view instead of the silo mentality. The integrated approach offers great potential for improvement regarding completeness, effectiveness and efficiency.

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

Compliance and anti-corruption

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

Further key topics are procedures and measures to prevent money laundering and terrorist financing and to monitor sanctions and embargoes, as well as the establishment and coordination of measures to prevent financial crimes within Erste Group.

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

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

Erste Group did not record a case of corruption in 2017. To ensure compliance with all laws and regulations group-wide standards, policies and procedures are evaluated and refined continuously.

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

Activities in 2017

_ Further improvement of the group-wide concept for Non-Financial Risk management, by embedding the established methodology (Risk Return Decision Procedure) into core business processes, developing a committee structure with Group-, Regional- and Local Operational Conduct Committees and by optimising roles and responsibilities and communication between all stakeholders.
_ Amendment of processes in line with the requirements of the Financial Market Money Laundering Act (Finanzmarkt-Geldwäschegesetz) and the Beneficial Owner Register Law (Wirtschaftlicher Eigentümer Register Gesetz) that came into force in 2017 implementing the European Union Fourth Anti-Money Laundering Directive in Austria.
_ Implementation and update of the group reporting tool monitoring securities transactions of employees, black and white-lists, secondary employment activities as well as various employee trainings and preparation of group reports.
_ Annual or periodic activities included the review of group-wide policies such as the Sanctions & Embargoes Policy, Securities Compliance Manual, Anti-Corruption and Conflicts of Interest Policy
_ Regular anti-corruption training
_ Support of group-wide projects to reach compliance with new or enhanced regulatory requirements such as the Markets in Financial Instruments Directive (MiFID II), consisting of the directive and of a regulation (MiFIR), related Commission Delegated Directive and Commission Delegated Regulations, regulatory and implementing technical standards developed by the European Securities and Markets Authority (ESMA). MiFID II as well as the connected Packaged Retail and Insurance-based Investment Products (PRIIPs) will be applicable from 3 January 2018.
_ Further roll-out of Erste Group's whistleblowing tool in various entities to ensure a state-of-the-art process for potential whistleblowing cases and their documentation. Employees throughout Erste Group can report severe cases of potential misconduct either locally in their respective entity or directly to the Holding. The rollout into the savings banks sector in Austria reached a penetration rate of approximately 70% of the institutes.

Activities started to be continued in 2018

_ Optimisation of the Group Risk Return Decision Procedure and its rollout to all local banks.
_ Analysing the implementation of the requirements of EU-Directive 2014/95/EU on the disclosure of non-financial and diversity information by large companies (non-financial reporting) which includes the reporting obligation for anti-corruption and bribery issues
_ Definition of a Group Fraud Risk Management Policy with planned approval in 2018

Risk management

Erste Group's approach to risk management seeks to achieve the best balance between risk and return for earning a sustainable return on equity. A detailed report on risk policy, risk management strategy and organisation, as well as a thorough discussion of the individual risk categories, is included in the Notes beginning on page 180. In addition, credit risk is analysed in detail in a separate section starting on page 31, in the Segments section of this report.

Directors' dealings

In accordance with the Market Abuse Regulation Article 19, individual trades by persons discharging managerial responsibilities at an issuer as well as persons closely associated with them involving shares or debt instruments or associated derivatives or other associated financial instruments of an issuer are published by the issuer. Erste Group publishes directors' dealings through electronic dissemination media and on the website (www.erstegroup.com/investorrelations).

Transparency

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

Your Notes

Your Notes