Erste Group Bank AG

Financial Statements 2017

ERSTE Group

Table of Contents

I. Balance Sheet of Erste Group Bank AG as of 31 December 2017

in EUR or in EUR thousand	Dec 17	Dec 16
Assets		
1. Cash in hand, balances with central banks	**5,126,373,057.00**	**5,817,493**
2. Treasury bills and other bills eligible for refinancing with central banks	**4,170,184,324.08**	**5,538,706**
a) treasury bills and similar securities	4,170,184,324.08	5,538,706
b) other bills eligible for refinancing with central banks	0.00	0
3. Loans and advances to credit institutions	**21,954,154,868.08**	**15,897,966**
a) repayable on demand	1,470,736,724.10	2,031,236
b) other loans and advances	20,483,418,143.98	13,866,730
4. Loans and advances to customers	**13,684,033,978.35**	**13,683,902**
5. Debt securities and other fixed-income securities	**3,770,474,112.94**	**5,184,852**
a) issued by public bodies	1,063,052,336.70	1,638,499
b) issued by other borrowers	2,707,421,776.24	3,546,353
of which: own debt securities	561,506,918.21	1,119,476
6. Shares and other variable-yield securities	**800,813,597.33**	**945,051**
7. Participating interests	**157,807,368.40**	**205,196**
of which: in credit institutions	69,977,929.12	64,036
8. Shares in affiliated companies	**6,334,769,820.09**	**6,077,614**
of which: in credit institutions	5,805,706,328.81	5,554,579
9. Intangible fixed assets	**25,268,422.32**	**38,930**
10. Tangible fixed assets	**38,089,867.28**	**28,200**
of which: land and buildings used by the credit institution for its own business operations	17,287,595.39	6,725
11. Shares in a controlling company	**0.00**	**0**
of which: par value	0.00	0
12. Other assets	**4,742,650,797.44**	**6,286,913**
13. Subscribed capital called but not paid	**0.00**	**0**
14. Prepayments and accrued income	**265,137,802.40**	**315,965**
15. Deferred tax assets	**60,966,265.41**	**7,804**
Total assets	**61,130,724,281.12**	**60,028,592**
Off-balance sheet items		
1. Foreign assets	**38,478,265,817.75**	**34,436,819**

in EUR or in EUR thousand	Dec 17	Dec 16
Liabilities and equity		
1. Liabilities to credit institutions	**23,749,997,177.10**	**20,866,154**
a) repayable on demand	5,234,563,587.51	4,826,655
b) with agreed maturity dates or periods of notice	18,515,433,589.59	16,039,499
2. Liabilities to customers (non-banks)	**4,733,258,033.60**	**4,482,165**
a) savings deposits	0.00	0
aa) repayable on demand	0.00	0
bb) with agreed maturity dates or periods of notice	0.00	0
b) other liabilities	4,733,258,033.60	4,482,165
aa) repayable on demand	3,585,915,899.70	3,204,477
bb) with agreed maturity dates or periods of notice	1,147,342,133.90	1,277,688
3. Securitised liabilities	**13,979,166,182.07**	**15,254,139**
a) debt securities issued	13,853,226,769.08	15,042,412[1]
b) other securitised liabilities	125,939,412.99	211,727[1]
4. Other liabilities	**4,656,915,811.81**	**6,217,145**
5. Accruals and deferred income	**257,933,538.85**	**278,574**
6. Provisions	**507,948,312.61**	**512,265**
a) provisions for severance payments	0.00	0
b) provisions for pensions	281,644,752.32	296,746
c) provisions for taxes	40,678,235.38	40,990
d) other	185,625,324.91	174,530
6a. Special fund for general banking risks	**0.00**	**0**
7. Tier 2 capital pursuant to Part 2 Title I Chapter 4 of Regulation (EU) No 575/2013	**5,045,440,249.26**	**5,249,747**
8. Additional Tier 1 capital pursuant to Part 2 Title I Chapter 3 of Regulation (EU) No 575/2013	**1,016,473,214.28**	**509,509**
of which: Compulsory convertible bonds pursuant to § 26 Austrian Banking Act (BWG)	**0.00**	**0**
8b Instruments without a vote pursuant to § 26a Austrian Banking Act (BWG)	**0.00**	**0**
9. Subscribed capital	**859,600,000.00**	**859,600**
10. Capital reserves	**1,627,019,510.67**	**1,627,020**
a) committed	1,627,019,510.67	1,627,020
b) uncommitted	0.00	0
11. Retained earnings	**3,330,212,250.87**	**2,891,475**
a) statutory reserve	1,537,900,000.00	1,537,900
b) reserves provided for by the articles	0.00	0
c) other reserves	1,698,446,254.93	1,320,576
d) other restricted reserves	93,865,995.94	32,999
12. Reserve pursuant to section 57 (5) of Austrian Banking Act (BWG)	**851,000,000.00**	**851,000**
13. Net profit or loss for the year	**515,760,000.00**	**429,800**
Total Liabilities and equity	**61,130,724,281.12**	**60,028,592**
Off-balance sheet items		
1. Contingent liabilities of which	**4,453,100,136.78**	**4,436,940**
a) acceptances and endorsements	0.00	0
b) guarantees and assets pledged as collateral security	3,958,181,998.88	3,995,993
c) credit derivatives	494,918,137.90	493,046[1]
2. Commitments	**6,305,634,162.96**	**7,839,226**
of which: commitments arising from repurchase agreements	0.00	0
3. Liabilities arising out of fiduciary activities	**191,408.19**	**159**
4. Own funds pursuant to Part 2 of Regulation (EU) No 575/2013	**11,863,136,326.08**	**11,233,216**
of which: Tier 2 capital pursuant to Part 2 Title I Chapter 4 of Regulation (EU) No 575/2013	4,364,584,366.42	4,635,941
5. Own funds requirements pursuant to Art 92 of Regulation (EU) No 575/2013 of which: capital required pursuant to Art 92 (1) of Regulation (EU) No 575/2013	**30,367,142,661.49**	**32,586,435**
a) Common Equity Tier 1 capital ratio	21.43%	18.76%
b) Tier 1 capital ratio	24.69%	20.25%
c) Total capital ratio	39.07%	34.47%
6. Foreign liabilities	**12,601,277,631.28**	**13,278,715**

[1] The prior year numbers have been adjusted. Details are available in the corresponding notes.

II. Income Statement of Erste Group Bank AG for the Year ended 31 December 2017

in EUR or in EUR thousand	1-12 17	1-12 16
1. Interest and similar income	832,453,258.18	842,076
of which: from fixed-income securities	224,297,702.22	301,684
2. Interest and similar expenses	-564,655,648.96	-529,986
I. NET INTEREST INCOME	**267,797,609.22**	**312,091**
3. Income from securities and participating interests	846,623,190.13	1,043,542
a) income from shares, other ownership interests and variable-yield securities	55,900,079.84	60,162
b) income from participating interests	15,589,055.02	17,127
c) income from shares in affiliated companies	775,134,055.27	966,253
4. Commissions income	149,468,127.69	140,981
5. Commissions expenses	-123,047,646.34	-113,695
6. Net profit or loss on financial operations	12,519,332.28	1,283
7. Other operating income	221,223,283.50	218,245
II. OPERATING INCOME	**1,374,583,896.48**	**1,602,448**
8. General administrative expenses	-640,675,150.52	-573,368
a) staff costs	-304,113,337.99	-285,174
aa) wages and salaries	-228,948,653.88	-202,586
bb) expenses for statutory social security contributions and compulsory contributions related to wages and salaries	-46,525,487.88	-43,201
cc) other social expenses	-3,077,497.77	-3,171
dd) expenses for pensions and assistance	-9,873,397.59	-15,467
ee) release / allocation to the provision of pensions	-6,717,862.23	-9,319
ff) expenses for severance payments and contributions to severnace and retirement funds	-8,970,438.64	-11,430
b) other administrative expenses	-336,561,812.53	-288,194
9. Value adjustments in respect of assets items 9 and 10	-15,518,886.72	-51,459
10. Other operating expenses	-71,106,800.96	-26,579
III. OPERATING EXPENSES	**-727,300,838.20**	**-651,407**
IV. OPERATING RESULT	**647,283,058.28**	**951,041**
11. Value adjustments of loans and advances and allocations to provisions for contingent liabilities, commitments and securities held in the financial current assets	-170,140,932.06	-260,407
12. Value re-adjustments of loans and advances and provisions for contingent liabilities, commitments and securities held in the financial current assets	157,168,542.63	261,840
13. Value adjustments of transferable securities held as financial fixed assets, participating interests and shares in affiliated companies	-103,587,492.35	-11,952
14. Value re-adjustments of transferable securities held as financial fixed assets, participating interests and shares in affiliated companies	291,129,040.75	393,915
V. PROFIT OR LOSS ON ORDINARY ACTIVITIES	**821,852,217.25**	**1,334,438**
15. Extraordinary income	31,466,849.34	0
of which: withdrawals from the special fund for general banking risks	0.00	0
16. Extraordinary expenses	0.00	0
of which: allocation to the special fund for general banking risks	0.00	0
17. Extraordinary result (sub-total of items 15 and 16)	31,466,849.34	0
18. Tax on profit or loss	131,657,469.16	56,084
19. Other taxes not reported under item 18	-30,479,285.28	-222,731
19a. Result from mergers	0.00	-56,337
VI. PROFIT OR LOSS FOR THE YEAR AFTER TAX	**954,497,250.47**	**1,111,455**
20. Changes in reserves	-438,737,250.47	-681,655
of which: allocation to liability reserve pursuant to section 23 (6) of the Austrian Banking Act (BWG)	0.00	0
of which: reversal of liability reserve pursuant to section 23 (6) of the Austrian Banking Act (BWG)	0.00	0
VII. PROFIT OR LOSS FOR THE YEAR AFTER DISTRIBUTION ON CAPITAL	**515,760,000.00**	**429,800**
21. Profit brought forward from previous year	0.00	0
22. Profit transferred on the basis of profit transfer agreement	0.00	0
VIII. PROFIT OR LOSS FOR THE YEAR	**515,760,000.00**	**429,800**

III. Notes to the Financial Statements 2017

A. GENERAL INFORMATION

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

The 2017 financial statements of Erste Group Bank AG have been prepared in accordance with the regulations of the Commercial Code (Unternehmensgesetzbuch, UGB) and in conjunction with the applicable provisions of the Austrian Banking Act (Bankwesengesetz, BWG).

Pursuant to section 59a Austrian Banking Act (BWG), Erste Group prepared the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) on the same balance sheet date. The Erste Group's consolidated financial statements are filed with the commercial register at the Commercial Court of Vienna.

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

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

In addition, the purpose of this association is:

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

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

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

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

In the financial statements, the payments by the individual members are recognised as participations in IPS GesbR – which is in charge to manage the ex-ante-fund. Furthermore retained earnings are built, whereby a shift from untied reserves to tied reserves was conducted in 2014. On the basis of the contractual provisions, these retained earnings represent a restricted reserve. These tied retained earnings may be released only in case of a drawdown of the ex-ante-fund due to a triggering event. 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.

Ongoing legal cases

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

Corporate Bond investors' prospectus claims: Starting with 2014, a number of investors in corporate bonds, issued by a large Austrian construction group in the years 2010, 2011 and 2012, filed claims with courts in Vienna against Austrian banks, among them Erste Group Bank AG, requesting compensation for their losses as bond-holders following the bankruptcy of the issuer in 2013. The plaintiffs argue, in essence, that the defendant banks, which acted as joint-lead managers in the issuing of the respective bond, already knew of the issuer's insolvency status at that time and should be liable for the failure of the issuing prospectus to state this. Erste Group Bank AG, together with a second Austrian bank, acted as joint-lead manager of the bond issue in 2011. Erste Group Bank AG rejects the claims. In 2017, the Public Prosecution Office shelved their criminal law investigations of the insolvency involving persons unknown from the issuing banks due to the absence of evidence of a criminal offence. They noted that there was neither evidence of deception of the investors by the issuing banks, nor indication that the issuing banks had information about the poor economic situation that the issuer was supposedly in at the time of issue.

Disclosure

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

Size according to section 221 Commercial Code (UGB)

Pursuant to section 221 (3) in connection with section 198a Commercial Code (UGB), the legal regulations for large companies are valid for the financial year ending 31 December 2017.

Claim pursuant to section 243b Commercial Code (UGB)

Non-financial reporting for Erste Group Bank AG pursuant to Section 243b of the Commercial Code (UGB) is published together with the Group's separately consolidated non-financial report in the financial statement of Erste Group. The separate non-financial report is disclosed in the financial statement on the homepage at www.erstegroup.com/ir.

B. NOTES ON ACCOUNTING AND MEASUREMENT METHODS

Generally accepted accounting principles

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

Receivables and liabilities in foreign currency

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

Participating interests and shares in affiliated companies

The valuation approach for participating interests and shares in affiliated companies is the modified lower of cost or market principle. Where permanent impairments resulted from sustained losses or other circumstances, devaluations were recognised accordingly. Where the reasons for impairment ceased to exist, a write-up was required in the amount of the value increase, but capped with costs of acquisition.

Where available, the carrying amount is determined based on recent transactions, market quotations or appraisals. The value is determined using a discounted cash flow model (DCF model), which incorporates the specifics of the banking business and its regulatory environment. For this purpose, Erste Group Bank AG performs an annual impairment test on the balance sheet date, although an impairment test is also carried out during the year if evidence exists that might indicate depreciation. Methodologically, this is carried out following IAS 36. In order to check the existing investment book values, an impairment test is carried out for all cash-generating units. The estimation of future earnings distributable to shareholders is based on financial plans (budgets) as agreed by the management while taking into account the fulfilment of the respective regulatory capital requirements. The planning period is five years. Any earnings forecast beyond the planning period are derived on the basis of the last year of the planning period and a long-term growth rate. The present value of such perpetual earnings growing at a stable rate (referred to as terminal value) takes into consideration macroeconomic parameters and economically sustainable cash flows.

The interest rate used for calculation was calculated on the basis of the CAPM (Capital Asset Pricing Model). Key input factors include:

- A risk-free interest rate (Source: Svensson yield curve method for German government bonds)
- Market risk premium
- Beta factor
- Weighted country risk premium (Source: Damodaran).

Dividend earnings from participating interests and shares in affiliated companies are reported after the resolution on dividend payouts and shown in item 3 Income from securities and participating interests.

Securities

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

- trading assets at market value, even when acquisition costs are exceeded;
- current assets at acquisition cost or at the lower market value (strict application of valuation rule "whichever is lowest out of market value or acquisition costs") respectively bonds admitted to trading on stock exchanges at market values, even when acquisition costs are exceeded;
- fixed assets at acquisition cost and where permanent impairment can be presumed, at the lower market value (discretionary application of the valuation rule "whichever is lowest out of market value or acquisition costs"). As long as there is no evidence of permanent impairment, no impairment loss is recognised. Evidence for non-permanent impairment of securities, which are intended to be held long-term, includes fluctuations within the normal market volatility as well as interest-related price fluctuations.

Securities in the trading portfolio and bonds allocated to trading on stock exchanges in the current asset portfolio were measured at market value pursuant to section 207 Commercial Code (UGB) and section 56 (5) Austrian Banking Act (BWG). For bonds and other fixed-income securities, the difference between acquisition cost and redemption value was amortised pro rata temporis pursuant to section 56

(2) Austrian Banking Act (BWG) or recognised as income pro rata temporis over the residual time to maturity until redemption in accordance with section 56 (3) Austrian Banking Act (BWG). Sustained depreciation was written off pursuant to section 204 (2) Commercial Code at the lower present value as of the balance sheet date.

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

Loans and advances to credit institutions and customers

Credit loans and advances were measured in accordance with section 207 Commercial Code (UGB) and the subsequent measurement was carried out using the effective interest rate method. Default risks, which were recognized at the balance sheet date, were covered by loan loss provisions. Write-ups from the release of loan loss provisions were carried out. If default is recognized for the individual debtor, a specific loan loss provision is recorded. If the default is determinable only for a group of debtors, a general specific loan loss provision is recorded with the help of valid statistical data. For receivables, which are not in default at the balance sheet date, general loan loss provisions are considered. This calculation is based on a prudent evaluation of statistically measurable empirical values as well as on the data and methods that are available.

Intangible and tangible assets

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

Securitised and subordinated liabilities

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

Issuing costs – premiums and discounts on issues

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

Provisions

Defined benefit plan

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

Tax provisions and other provisions

Unless the amounts were small, provisions were set aside on a best estimate basis. Tax provisions and other provisions with a term of more than a year were discounted at a customary market interest rate of corporate bonds with an AA rating as at the closing day. Depending on the applicable remaining duration, interest rates between 0.0% and 0.452% were applied.

Assets held in trust

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

Derivative business

Derivatives in a hedge relationship under AFRAC-statement 15 (September 2017) are treated as a functional unit, thus the Clean Price neither of the derivative nor of the hedged item is part of the balance sheet. The presentation of trading book derivatives on balance sheet is done for the single confirmation priced mark-to-market. Recognition-of-loss principal is applied for derivatives in banking book outside of a hedge-relation under AFRAC-statement 15 (September 2017). The negative Clean Price is represented in the form of a provision affecting income statement. Interest income and expense is accrued.

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

Deferred tax assets

Deferred tax assets are recognised to the extent of enough convincing substantial indications that sufficient taxable income will be available in future against which tax-deductible temporary differences and tax losses can be offset. The valuation methods were based on a results prognosis for all larger incorporated companies in the tax group with the budgets which were approved by the responsible supervisory authorities.

The calculation of deferred tax assets of Erste Group Bank AG as group parent of the group of companies, which includes only group members in Austria, was completed in accordance with Statement 30 Deferred Tax Assets in Annual Financial Statements issued by AFRAC (December 2016).

Securities lending and repurchase transactions

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

Changes in accounting and measurement methods

In comparison to the previous year, no changes were applied in regard to accounting and measurement methods. Transitional regulations from the Austrian Law on Changes in Accounting 2014 (Rechnungslegungs-Änderungsgesetz 2014 (RÄG 2014)) were not utilised.

C. NOTES ON THE BALANCE SHEET AND INCOME STATEMENT

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

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

Loans and Advances

in EUR or in EUR thousand	Dec 17	Dec 16
Loans and advances to credit institutions	**21,954,154,868.08**	**15,897,966**
payable on demand	1,470,736,724.10	2,031,236
0-3 months	11,392,484,325.09	4,020,899
3-12 months	3,264,364,855.07	2,987,196
1-5 years	5,001,790,134.08	6,206,114
>5 years	824,778,829.74	652,521
Loans and advances to customers	**13,684,033,978.35**	**13,683,902**
payable on demand	466,991,630.71	512,866
0-3 months	636,487,081.49	456,808
3-12 months	1,456,901,658.43	1,677,681
1-5 years	6,553,505,685.22	6,280,887
>5 years	4,570,147,922.50	4,755,660

Liabilities

in EUR or in EUR thousand	Dec 17	Dec 16
Liabilities to credit institutions	**23,749,997,177.10**	**20,866,154**
payable on demand	5,234,563,587.51	4,826,655
0-3 months	14,773,716,085.62	12,288,366
3-12 months	630,681,312.00	830,601
1-5 years	2,831,589,761.52	2,640,421
>5 years	279,446,430.45	280,110
Liabilities to customers (non-banks)	**4,733,258,033.60**	**4,482,165**
Savings deposits	**0.00**	**0**
Other Liabilities	**4,733,258,033.60**	**4,482,165**
payable on demand	3,585,915,899.70	3,204,477
0-3 months	755,767,133.90	733,355
3-12 months	56,935,000.00	50,693
1-5 years	147,840,000.00	141,340
>5 years	186,800,000.00	352,300
Securitised liabilities	**13,979,166,182.07**	**15,254,139**
payable on demand	0.00	0
0-3 months	399,021,430.37	974,993
3-12 months	1,641,320,641.92	1,190,355
1-5 years	6,575,655,720.37	7,005,876
>5 years	5,363,168,389.41	6,082,916

2. Debt securities due within one year

Purchased debt securities worth EUR 1,890,419,356.97 (prior year: EUR 2,843,172 thousand) and issued debt securities worth EUR 1,963,817,122.71 (prior year: EUR 1,953,621 thousand[2]) are scheduled to mature in the year following 31 December 2017.

3. Assets and liabilities in foreign currencies

in EUR or in EUR thousand	Dec 17	Dec 16
Assets	17,408,183,144.25	13,070,413
Liabilities	10,511,680,891.74	10,288,304

[2] Due to the deduction of Certificates of Deposits and position P07 the prior year figure has been adjusted.

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

in EUR or in EUR thousand	Loans and advances to affiliated companies		Loans and advances to participating interests	
	Dec 17	Dec 16	Dec 17	Dec 16
Loans and advances to credit institutions	20,124,396,900.33	14,161,207	0.00	399
Loans and advances to customers	2,326,057,905.97	2,972,039	25,598,571.10	0
Debt securities and other fixed-income securities (incl. securitised loans and advances to credit institutions)	1,621,526,032.66	1,324,659	0.00	345
Shares and other variable-yield securities	637,595,103.03	751,179	26,251,303.69	29,888

Among these, the most important companies are:

Loans and advances to affiliated companies:
_ Česká Spořitelna a.s., Prague
_ Banca Comercială Română S.A., Bucharest
_ Slovenská sporiteľňa, a. s., Bratislava
_ Salzburger Sparkasse Bank AG, Salzburg

in EUR or in EUR thousand	Liabilities to affiliated companies		Liabilities to participating interests	
	Dec 17	Dec 16	Dec 17	Dec 16
Liabilities to credit institutions	14,450,543,038.04	12,076,996	76,615.05	244
Liabilities to customers (non-banks)	178,812,410.80	215,772	356,833.61	8

Liabilities to affiliated companies:
_ Erste Bank der Oesterreichischen Sparkassen AG, Vienna
_ Steiermärkische Bank und Sparkassen Aktiengesellschaft, Graz
_ Allgemeine Sparkasse Oberösterreich Bank AG, Linz
_ Bausparkasse der österreichischen Sparkassen AG, Vienna

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

5. Subordinated assets

in EUR or in EUR thousand	Dec 17	Dec 16
Loans and advances to credit institutions, thereof	**1,379,562,861.00**	**1,259,361**
to affiliated companies	1,345,946,797.99	1,215,692
to companies with participating interests	0.00	0
Loans and advances to customers, thereof	**37,244,503.05**	**71,470**
to affiliated companies	0.00	5,640
to companies with participating interests	0.00	570
Shares and other fixed-income securities, thereof	**90,645,194.22**	**154,180**
to affiliated companies	0.00	0
to companies with participating interests	0.00	0

6. Fiduciary business

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

7. Securities

Breakdown of securities admitted to trading on stock exchange

pursuant to section 64 (1) no. 10 Austrian Banking Act (BWG) in EUR or in EUR thousand	Listed		Not listed	
	Dec 17	Dec 16	Dec 17	Dec 16
Debt securities and other fixed-income securities	3,591,645,344.06	5,100,757	178,828,768.92	84,095
Shares and other variable-yield securities	120,885,635.93	152,219	679,927,961.40	792,833
Participating interests	1,440,071.43	55,173	0.00	0
Shares in affiliated companies	0.00	0	0.00	0
Total	**3,713,971,051.42**	**5,308,149**	**858,756,730.32**	**876,927**

pursuant to section 64 (1) no. 11 Austrian Banking Act (BWG) in EUR or in EUR thousand	Fixed assets		Current assets	
	Dec 17	Dec 16	Dec 17	Dec 16
Debt securities and other fixed-income securities	2,178,327,848.78	2,845,637	1,592,146,264.19	2,339,215
Shares and other variable-yield securities	655,487,253.69	795,251	145,326,343.64	149,800
Total	**2,833,815,102.47**	**3,640,888**	**1,737,472,607.83**	**2,489,015**

Allocation pursuant to section 64 (1) no. 11 Austrian Banking Act (BWG) was carried out in accordance with the organisational policies adopted by the management board, with positions being included under fixed assets that are held for strategic purposes of liquidity. As of 31 December 2017, the difference to the redemption value resulting from the pro rata write-downs pursuant to section 56 (2) Austrian Banking Act (BWG) amounts to EUR 77,729,137.96 (prior year: EUR 133,895 thousand), whereas the difference to the redemption value from the pro-rata write-ups pursuant to section 56 (3) Austrian Banking Act (BWG) amounts to EUR 24,846,488.15 (prior year: EUR 24,459 thousand).

Securities that are listed on a non-regulated market, for example those on the third market of the Vienna Stock Exchange, are considered as approved for trading on the stock market, yet they are not publicly listed.

Repurchase agreements

The carrying amount of assets subject to sale and repurchase agreements amounts to EUR 1,320,205,418.43 on the balance sheet date (prior year: EUR 1,415,747 thousand).

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

The difference between the higher market value on the balance sheet date and the cost of purchase pursuant to section 56 (5) Austrian Banking Act (BWG) amounts to EUR 23,176,960.66 (prior year: EUR 24,702 thousand).

Breakdown of debt securities and other fixed-income securities

in EUR or in EUR thousand	Dec 17	Dec 16
Issued by public-sector issuers	1,063,052,336.70	1,638,499
Own issues	561,506,918.21	1,119,476
Bonds - domestic credit institutions	48,247,485.58	158,736
Bonds - foreign credit institutions	613,452,273.88	1,193,949
Mortgage and municipal securities	780,851,124.60	403,157
Convertible bonds	0.00	4,759
Other bonds	703,363,973.97	666,276
Total	**3,770,474,112.94**	**5,184,852**

8. Trading book

Erste Group Bank AG kept a trading book pursuant to Art. 102 CRR throughout the financial year. As of 31 December 2017, the securities portfolio assigned to the trading book was EUR 2,570,979,515.54 (prior year: EUR 2,738,846 thousand). Money market instruments worth EUR 14,879,598,648.66 (prior year: EUR 11,715,004 thousand) were assigned to the trading book as of 31 December 2017.

The volume of other financial instruments included in the trading book had a par value of EUR 215,803,219,022.30 as of 31 December 2017 (prior year: EUR 208.254.368 thousand):

in EUR or in EUR thousand	Long position		Short position		Total	
	Dec 17	Dec 16	Dec 17	Dec 16	Dec 17	Dec 16
Options	3,543,323,292.01	2,514,367	3,239,412,126.39	2,083,022	6,782,735,418.40	4,597,389
Caps and floors	9,327,687,862.62	13,479,568	10,082,615,875.78	14,561,305	19,410,303,738.40	28,040,873
Currency swaps	64,703,597,505.29	51,033,966	0.00	0	64,703,597,505.29	51,033,966
Interest rate swaps	120,814,469,577.37	122,147,817	0.00	0	120,814,469,577.37	122,147,817
Fwd rate agreem.	1,039,387,976.12	410,972	1,441,867,270.51	389,517	2,481,255,246.63	800,488
Bond Forwards	0.00	0	123,000,000.00	0	123,000,000.00	0
Financial futures	259,389,016.85	300,765	75,848,511.02	81,389	335,237,527.87	382,154
Loan derivatives	271,484,891.17	207,302	494,918,137.85	493,046	766,403,029.02	700,348
Commodity derivatives	12,760,954.81	163,078	0.00	0	12,760,954.81	163,078
Other	373,456,024.51	388,255	0.00	0	373,456,024.51	388,255
Total	**200,345,557,100.75**	**190,646,089**	**15,457,661,921.55**	**17,608,279**	**215,803,219,022.30**	**208,254,368**

Trades with two legs are represented solely as long position.

All statements concerning the trading book in terms of Article 102 CRR concern only external transactions.

9. Participating interests and shares in affiliated companies

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

Holdings as of 31 December 2017

Company name, registered office	Interest of Erste Group in %	Equity	Result	Balance sheet date
Credit institutions				
Banca Comercială Română S.A., Bucharest	93.58	1,598,080,409.00	123,957,585.00	31.12.2017
Banka Sparkasse d.d., Ljubljana	4.00	111,790,563.00	9,188,810.00	31.12.2017
Česká Spořitelna a.s., Prague	98.97	4,527,741,179.00	569,775,368.00	31.12.2017
Erste & Steiermärkische Bank d.d., Rijeka	59.02	959,929,101.00	87,020,564.00	31.12.2017
ERSTE BANK AD NOVI SAD, Novi Sad	74.00	176,474,347.00	21,688,664.00	31.12.2017
Erste Bank der oesterreichischen Sparkassen AG, Vienna	100.00	1,544,464,826.00	195,822,190.00	31.12.2017
Erste Bank Hungary Zrt, Budapest	85.00	1,050,542,133.00	169,586,171.00	31.12.2017
Prva stavebna sporitelna, a.s., Bratislava	25.02	235,200,345.29	19,719,066.79	31.12.2017
Slovenska sporitelna, a. s., Bratislava	100.00	1,504,546,176.00	162,055,871.00	31.12.2017
SPAR-FINANZ BANK AG, Salzburg	50.00	5,149,702.86	244,746.13	31.12.2017
Swedbank AB, Sundbyberg	0.07	8,670,940,084.11	1,976,675,674.03	31.12.2016
Financial institutions				
C&C Atlantic Limited, Dublin	100.00	1,321,151.00	837,627.00	31.12.2017
EB Erste Bank Internationale Beteiligungen GmbH, Vienna	100.00	29,205,134.00	-5,126,848.00	31.12.2017
ERSTE FACTORING d.o.o., Zagreb	25.00	3,076,139.00	-49,718,536.00	31.12.2017
Erste Group Immorent AG, Vienna	100.00	322,756,363.00	10,158,491.00	31.12.2017
EUROPEAN INVESTMENT FUND, Luxembourg	0.11	1,878,602,308.00	122,071,679,00	31.12.2016
Intermarket Bank AG, Vienna	92.63	49,830,053.00	4,120,541.00	31.12.2017
Sparkassen IT Holding AG, Vienna	0.00	3,363,582.00	941,496.00	31.12.2017
S Slovensko, spol. s r.o., Bratislava	100.00	14,455,010.00	3,058,411.00	31.12.2017
TIPAL Immobilien GmbH in Liquidation, Bozen	70.00	428,113.00	-1,232,053.00	31.12.2017
VBV - Betriebliche Altersvorsorge AG, Vienna	26.19	54,603,939.00	6,250,000.00	31.12.2017

Company name, registered office	Interest of Erste Group in %	Equity	Result	Balance sheet date
Other holdings				
Austrian Reporting Services GmbH, Vienna	14.00	53,669.58	11,721.11	31.12.2016
aws Gründerfonds Equity Invest GmbH & Co KG, Vienna	48.95	2,925,250.67	-227,798.56	31.12.2016
BeeOne GmbH, Vienna	100.00	1,574,965.00	193,339.00	31.12.2017
Business Capital for Romania - Opportunity Fund Coöperatief UA, Amsterdam	77.38	11,918,879.00	-43,219.00	31.12.2016
CEESEG Aktiengesellschaft, Vienna	11.30	374,172,630.54	41,238,475.61	31.12.2016
DONAU Versicherung AG Vienna Insurance Group, Vienna	0.76	84,537,641.38	4,515,345.48	31.12.2016
EB-Restaurantsbetriebe Ges.m.b.H., Vienna	100.00	188,439.00	-371,761.00	31.12.2017
Erste Asset Management GmbH, Vienna	98.84	90,621,251.00	24,497,559.00	31.12.2017
ERSTE d.o.o. , Zagreb	10.79	14,884,583.45	2,930,174.87	31.12.2017
Erste Finance (Delaware) LLC, Wilmington	100.00	49,179.00	8,204.00	31.12.2017
Erste Group Card Processor d.o.o. (vm.MBU), Zagreb	100.00	17,557,531.00	1,996,291.00	31.12.2017
ERSTE GROUP IMMORENT LJUBLJANA, financne storitve, d.o.o., Ljubljana	25.00	205,255.00	-244,615.00	31.12.2017
Erste Group IT International GmbH, Vienna	99.90	30,749,571.00	-61,951,930.00	31.12.2017
Erste Group Services GmbH, Vienna	100.00	252,117.00	106,160.00	31.12.2017
Erste Group Shared Services (EGSS), s.r.o., Hodonin	60.00	366,257.00	32,899.00	31.12.2017
Erste Reinsurance S.A., Leudelange	100.00	44,290,325.00	6,314,219.00	31.12.2017
Erste Securities Istanbul Menkul Degerler AS, Sisli, Istanbul	100.00	1,226,217.00	223,045.00	31.12.2017
GELDSERVICE AUSTRIA Logistik für Wertgestionierung und Transportkoordination G.m.b.H., Vienna	0.20	7,774,808.82	878,019.13	31.12.2016
Graben 21 Liegenschaftsverwaltung GmbH, Vienna	100.00	-	-	-
Haftungsverbund GmbH, Vienna	0.97	530,890.00	4,286.00	31.12.2017
Harkin Limited, Dublin	100.00	1,250,000.00	-	31.12.2016
IPS Fonds Gesellschaft bürgerlichen Rechts, Vienna	32.90	99,986,474.00	-13,526.00	31.12.2017
Österreichische Wertpapierdaten Service GmbH, Vienna	32.50	82,580.59	10,515.56	31.12.2016
OM Objektmanagement GmbH, Vienna	100.00	57,857,836.00	7,519,932.00	31.12.2017
Procurement Services GmbH , Vienna	99.80	1,316,320.00	182,341.00	31.12.2017
ROMANIAN EQUITY PARTNERS COÖPERATIEF U.A., Amsterdam	77.38	14,935,411.00	-351,873.00	31.12.2016
s IT Solutions AT Spardat GmbH , Vienna	25.00	19,887,475.00	17,867,927.00	31.12.2017
Society for Worldwide Interbank Financial Telecommunication scrl, La Hulpe	0.14	314,177,571.00	23,406,106.00	31.12.2016
"Sparkassen-Haftungs Aktiengesellschaft", Vienna	12.51	169,683.00	-	31.12.2017
Sparkassen Versicherung AG Vienna Insurance Group, Vienna	5.00	488,800,254.81	19,428,139.60	31.12.2016
Valtecia Achizitii S.R.L., Bucharest	100.00	-3,476,489.21	-25,804.62	31.12.2016
Therme Wien Ges.m.b.H., Vienna	15.00	35,543.58	205.16	31.12.2016
Therme Wien GmbH & Co KG , Vienna	15.00	29,289,518.04	223,889.54	31.12.2016
TPK-18 Sp. z o.o., Warsaw	100.00	-300,732.56	-1,334,156.14	31.12.2016
Zelina Centar d.o.o., Sveta Helena	100.00	-21,915,781.05	-54,737.73	31.12.2016

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

10. Fixed assets

The carrying amount of developed land was EUR 6,725,907.35 as of 31 December 2017 (prior year: EUR 509 thousand). The carrying amount as of 31 December 2017 did not include leased assets. For the next financial year, Erste Group Bank AG will have expenses from the use of tangible assets not disclosed in the balance sheet (rental and leasing contracts) of a total of EUR 17.091.780,09 (prior year: EUR 19,566 thousand), and of a total of EUR 88.946.309,99 for the next five financial years (prior year: EUR 93,668 thousand). Intangible fixed assets include assets with a value of EUR 4,847,488.00 (prior year: EUR 12,796 thousand) that have been acquired from an affiliated company. During the reporting year, no assets were acquired (prior year: EUR 0 thousand).

Statement of changes in fixed and long-term assets 2017

At cost

in EUR	As of 1 January 2017	Additions	Disposals	Reclassification	Currency translation	As of 31 December 2017
Participating interests	267,890,286.49	5,696,100.40	59,681,762.48	0.00	0.00	213,904,624.41
Shares in affiliated companies	10,481,126,713.31	147,860,104.08	2,840,845.41	0.00	0.00	10,626,145,971.98
Intangible assets	242,505,128.72	3,195,585.36	60,894,535.14	0.00	-251,484.03	184,554,694.91
Tangible assets	67,515,293.06	12,729,741.06	835,458.70	0.00	-322,142.20	79,087,433.22
Securities	9,892,935,775.93	1,878,535,504.61	3,998,286,652.42	0.00	-106,172,953.05	7,667,011,675.08
Treasury bills and similar securities	4,722,225,272.86	1,098,825,878.52	2,293,257,442.86	0.00	-20,604,433.94	3,507,189,274.58
Loans and advances to credit institutions	1,214,624,565.14	152,233,548.17	288,273,306.64	19,017,500.00	-78,385,471.01	1,019,216,835.66
Loans and advances to customers	421,914,792.66	37,593,056.72	219,865,072.02	68,135,250.00	-45,743,156.22	262,034,871.15
Bonds and other fixed-income securities	2,739,327,168.37	584,994,338.61	1,071,658,224.00	-68,135,250.00	38,560,108.12	2,223,088,141.10
Shares and other non-fixed-income securities	794,843,976.90	4,888,682.59	125,232,606.90	-19,017,500.00	0.00	655,482,552.59
Total	**20,951,973,197.51**	**2,048,017,035.51**	**4,122,539,254.15**	**0.00**	**-106,746,579.28**	**18,770,704,399.60**

Accumulated depreciation

in EUR	Accumulated write ups / downs As of 1 January 2017	Write-ups	Write-downs	Accumulated write ups / downs Additions / Disposals	Currency translation	Accumulated write ups / downs As of 31 December 2017
Participating interests	62,693,884.65	5,624,694.27	0.00	-971,934.37	0.00	56,097,256.01
Shares in affiliated companies	4,403,512,808.28	211,464,908.23	99,328,251.84	0.00	0.00	4,291,376,151.89
Intangible assets	203,575,520.54	0.00	12,831,577.97	-56,871,234.14	-249,591.78	159,286,272.59
Tangible assets	39,315,526.13	0.00	2,687,308.75	-736,993.71	-268,275.23	40,997,565.94
Securities	66,566,327.88	5,357,198.47	43,009,092.98	-53,681,468.58	149,738,149.29	200,274,903.10
Treasury bills and similar securities	182,955,270.11	2,246,024.37	38,869,341.57	-54,860,614.68	0.00	164,717,972.63
Loans and advances to credit institutions	-11,743,927.04	1,682,998.46	282,000.98	1,308,276.84	-47,967.18	-11,884,614.86
Loans and advances to customers	2,187,751.24	167,131.01	291,062.88	165,021.54	209,250.39	2,685,955.04
Bonds and other fixed-income securities	-106,425,845.23	1,178,360.55	3,566,084.37	-778,452.33	149,576,866.08	44,760,292.34
Shares and other non-fixed-income securities	-406,921.20	82,684.08	603.18	484,300.05	0.00	-4,702.05
Total	**4,775,664,067.48**	**222,446,800.97**	**157,856,231.54**	**-112,261,630.80**	**149,220,282.28**	**4,748,032,149.53**

Carrying amount

in EUR	As of 31 December 2017	As of 1 January 2017
Participating interests	157,807,368.40	205,196,401.84
Shares in affiliated companies	6,334,769,820.09	6,077,613,905.03
Intangible assets	25,268,422.32	38,929,608.18
Tangible assets	38,089,867.28	28,199,766.93
Securities	7,466,736,771.99	9,826,369,448.05
Treasury bills and similar securities	3,342,471,301.95	4,539,270,002.75
Loans and advances to credit institutions	1,031,101,450.52	1,226,368,492.18
Loans and advances to customers	259,348,916.12	419,727,041.42
Bonds and other fixed-income securities	2,178,327,848.76	2,845,753,013.60
Shares and other non-fixed-income securities	655,487,254.64	795,250,898.10
Total	**14,022,672,250.08**	**16,176,309,130.03**

The factor contributing most to the decrease of EUR 60,880,034.02 in the reporting year is the contribution of intangible assets in the affiliated company Erste Group IT International GmbH.

11. Other assets

in EUR or in EUR thousand	Dec 17	Dec 16
Securities transactions	3,434,491.16	8,826
Derivatives	4,530,202,023.98	6,003,236
Accrued income	9,311,980.94	8,203
Receivables from participating interests and affiliated companies	95,549,269.82	126,340
Other payments and settlements	104,153,031.54	140,308
Other assets	**4,742,650,797.44**	**6,286,913**

The decreased balance sheet value for derivatives was mainly driven by a change in the interest rate curve and to a smaller extent by the offsetting of current deals, which were moved to a central counterpart in 2017.

12. Accrued and deferred items

Prepayments and accrued income decreased to EUR 265,137,802.40 as of 31 December 2017 (prior year: EUR 315,965 thousand). Of these, EUR 108,911,211.84 (prior year: EUR 107,093 thousand) were accruals in connection with derivative instruments and EUR 70,819,670.61 (prior year: EUR 82,623 thousand) were prepayments on commissions.

13. Deferred tax assets

In accordance with Section 198 Paragraph 9 of the Austrian Commercial Code (UGB) an amount of EUR 60,966,265.41 (prior year: EUR 7,804 thousand) deferred tax assets have been accounted for in 2017 based on recognition of tax losses and differences between the book values. In 2017 use was made of the option to apply tax losses.

14. Securitised liabilities

in EUR or in EUR thousand	Dec 17	Dec 16
Non-covered loans and bank bonds	5,950,922,556.79	7,172,930
Mortgage and municipal bonds	7,902,304,212.29	7,869,482
Certificates of deposits	125,939,412.99	211,727
Securitised liabilities	**13,979,166,182.07**	**15,254,139**

Since 2017 non-covered loans and bank bonds as well as mortgage and municipal bonds are disclosed in the balance sheet position P03a. The Certificates of Deposits are part of the balance sheet position P03b since 2017. The prior year values have been adjusted accordingly.

15. Other liabilities

in EUR or in EUR thousand	Dec 17	Dec 16
Securities transactions	3,097,608.09	6,774
Derivatives	3,906,470,707.98	5,359,529
Accrued income	2,230,000.01	3,118
Other liabilities and settlements	745,117,495.73	847,724
Other liabilities	**4,656,915,811.81**	**6,217,145**

The decreased balance sheet value for derivatives was mainly driven by a change in the interest rate curve and to a smaller extent by the offsetting of current deals, which were moved to a central counterpart in 2017.

16. Provisions

in EUR or in EUR thousand	Dec 17	Dec 16
Provisions for pensions	281,644,752.32	296,746
Provisions for taxation	40,678,235.38	40,990
Provisions for contingent liabilities	46,928,694.63	46,661
Provisions for negative market values of open derivatives without any hedge relationship	15,934,975.82	22,485
Other	122,761,654.46	105,383
Provisions	**507,948,312.61**	**512,265**

Assumptions for the actuarial calculation of pension entitlements

	Dec 17	Dec 16
Interest rate	1.82%	1.80%
Expected increase in pension benefits	1.50%	1.50%

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

An interest rate of 3.84% was used for the calculation of pension obligations in the NY branch.

Assumptions for the actuarial calculation of severance entitlements and jubilee benefits

	Dec 17	Dec 16
Interest rate	1.82%	1.80%
Average salary rise (including career trend and collective agreement trend)	2.40%	2.40%

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

Severance obligations have been outsourced to Sparkassen Versicherung Aktiengesellschaft since 2007. Severance entitlements measured in accordance with commercial law and based on the above parameters amount to EUR 43,031,397.40 (prior year: EUR 44,210 thousand), respectively EUR 12,565,641.08 (prior year: EUR 12,024 thousand) for jubilee benefits obligations, and are posted as a contingent liability off-balance. The credit intended for the performance of outsourced severance entitlements with the insurer as of 31 December 2017 amounted to EUR 43,392,614.61 (prior year: EUR 43,977 thousand) and the amount defined for jubilee benefits obligations is EUR 12,556,839.00 (prior year: EUR 12,024 thousand).

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

17. Subordinated liabilities

Subordinated debt (subordinated liabilities and supplementary capital) amounted to EUR 6,168,062,036.29 as of 31 December 2017 (prior year: EUR 6,025,082 thousand). No subordinated liability taken by Erste Group Bank AG during the reporting year (including supplementary capital) was above the 10% limit for total subordinated liabilities. The terms of all other subordinated liabilities are in compliance with the requirements set forth in section 63 CRR.

Movements in total subordinated liabilities were as follows:

in EUR or in EUR thousand	1-12 17	1-12 16
Opening balance	**6,025,081,612.55**	**5,615,173**
Increase due to new issues	785,483,273.74	718,510
Decrease due to maturity	-578.629.549,02	-363,184
Decrease due to partial extinguishment	0.00	0
Changes in carrying amount of bonds, of accrued interest and of FX valuation	-63.873.300,98	54,582
Closing balance	**6,168,062,036.29**	**6,025,082**

Supplementary capital liabilities are primarily issued in the form of securities. The securities are due at the end of the term. Supplementary capital loans are sold to international institutional customers and private customers.

In the upcoming year, securitised supplementary capital liabilities in the value of EUR 52,593,923.29 (prior year: EUR 456,650 thousand) are due for repayment due to maturity. As published on 10 January 2018 on Erste Group's homepage (see https://www.erstegroup.com/de/investoren/news/investoreninformation/2018/01/10/de-irnews-Kuendigung_nachrangiger_Schuldver schreibungen), the subordinated bond with the securities identification number XS0836299320 in the value of USD 500 million will be redeemed and repaid on 28 March 2018. The supplementary capital liabilities (according to CRR "subordinated capital") are issued approx. 75% in EUR, approx. 15% in USD and the rest in CZK and RON.

The weighted average normal interest rate of supplementary capital bonds was 4.2% on 31 December 2017 (prior year: 4.2%) and the average remaining term was 5.2 years (prior year: 5.4 years).

The term "subordinated" is defined in accordance with section 45 paragraph 4 and section 51 paragraph 9 of the Austrian Banking Act.

In 2016, Erste Group Bank AG's expenses for subordinated liabilities and supplementary capital were EUR 290,316,893.24 (prior year: EUR 265,536 thousand).

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

On the balance sheet date, Erste Group Bank AG held subordinated own capital, including deferred interest, with a carrying value of EUR 17,517,528.14 (prior year: EUR 20,060 thousand).

19. Additional core capital

In April 2017 Erste Group Bank AG issued additional core capital (additional tier 1 bonds) in the amount of EUR 500 million. This is reported under liabilities item 8 Additional Tier 1 Capital pursuant to Part 2 Title I Chapter 3 of Regulation (EU) No 575/2013. Article 52 (1) lit n CRR provides for the loss absorbency of financial instruments of additional core capital (write-down or conversion).

A trigger event for the write-off or conversion of additional core capital is deemed to occur according to Article 54 Section 1 lit a CRR if the core capital ratio of the issuer falls below 5.125% or below another higher value defined by the issuer. In 2017, there were no write-downs.

20. Subscribed capital

Subscribed capital on 31 December 2017 was EUR 859,600,000.00 (prior year: EUR 859,600 thousand), represented by 429,800,000 voting bearer shares (ordinary shares). Erste Group Bank AG held no own shares on the balance sheet date.

21. Authorised and conditional capital as of 31 December 2017

Authorised capital

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

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

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

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

Conditional Capital

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

Authorized conditional capital

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

22. Major shareholders

As of 31 December 2017, together with its syndicate partners, DIE ERSTE oesterreichische Spar-Casse Privatstiftung ("Privatstiftung"), a foundation, controls approx. 29.62% of the shares in Erste Group Bank AG and with 15.62% is 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% are held directly by Austrian savings banks respectively saving banks foundations acting together with the Privatstiftung and affiliated with Erste Group Bank AG through the Haftungsverbund. 9.92% of the subscribed capital is controlled by the Privatstiftung on the basis of a shareholder agreement with Caixabank S.A. 3.08% are held by other partners to the shareholder agreement.

In 2017 (for the fiscal year 2016), a dividend in the amount of EUR 47,511,956.00 (prior year: EUR 23,756 thousand) was paid for the investment of the Privatstiftung in the Erste Group Bank AG. The purpose of the Privatstiftung, to be achieved notably by way of holding interests in Erste Group Bank AG, is to support social, scientific, cultural as well as charitable institutions and to promote the guiding principles of the savings bank philosophy. As of 31 December 2017, Bernhard Spalt (chairman), Boris Marte and Franz Portisch were appointed as board members. The Privatstiftung's supervisory board had nine members at the end of 2017, two of whom also serve as members of the supervisory board of Erste Group Bank AG. In accordance with clause 15.1 of the Articles of Association, and for the time in which the Privatstiftung assumes liability for all current and future debts in the event of their default on payment, it is entitled, pursuant to section 92 (9) Austrian Banking Act, to nominate up to one-third of the supervisory board members for election at the annual general meeting. So far, the Privatstiftung has not exercised this right.

For hedging purposes, Erste Group Bank AG held standard market derivative transactions (interest rate swaps) with the Privatstiftung. These matured in 2017 (previous year EUR 103,000 thousand). Like last year, there were no foreign currency swaps. In addition, the Privatstiftung held bonds of Erste Group Bank AG in the amount of EUR 9,162,735.42 (prior year: EUR 9,346 thousand) and Erste Group Bank AG currently does not hold any securitised liabilities issued by the Privatstiftung (previous year: EUR 325 thousand). In 2017, the interest income of Erste Group Bank AG from these expired derivative transactions and from bonds held amounted to EUR 315,362.67 (prior year: EUR 6,086 thousand) for the reporting period while interest expenses amounted to EUR 432,305.64 (prior year: EUR 3,853 thousand).

As of 31 December 2017, CaixaBank S.A., which is based in Valencia, Spain (relocated from Barcelona at the beginning of October 2017) held a total of 42,634,248 Erste Group Bank AG shares (prior year: 42,634,248 shares), which is equivalent to 9.92% (prior year: 9.92%) of the subscribed capital of Erste Group Bank AG. Mr Antonio Massanell Lavilla (Deputy Chairman of CaixaBank S.A.) resigned as Member of the Supervisory Board of Erste Group Bank AG mid September 2017. At the end of December 2017, he also resigned from his roles at CaixaBank S.A. On 17th May 2017, Mr Jordin Gual Solé (Chairman of CaixaBank S.A.) was elected for the second Supervisory Board position, for which CaixaBank S.A. has a right of proposal according to the syndicate agreement.

In 2017, for their involvement in Erste Group Bank AG, CaixaBank S.A. received a dividend in the amount of EUR 42,634,248.00 (prior year: EUR 21,317 thousand) in 2017 (for the fiscal year 2016).

23. Reserves

In 2017, the reserves of Erste Group Bank AG developed as follows:

in EUR	As of Dec 16	Allocations (+)	Releases (-)	As of Dec 17
Capital reserves	**1,627,019,510.67**	**0.00**	**0.00**	**1,627,019,510.67**
committed	1,627,019,510.67	0.00	0.00	1,627,019,510.67
uncommitted	0.00	0.00	0.00	0.00
for own shares and shares in a controlling company	0.00	0.00	0.00	0.00
Retained earnings	**2,891,475,000.40**	**438,737,250.47**	**0.00**	**3,330,212,250.87**
statutory reserve	1,537,900,000.00	0.00	0.00	1,537,900,000.00
reserves provided for by the articles	0.00	0.00	0.00	0.00
other reserves	1,320,576,152.30	377,870,102.63	0.00	1,698,446,254.93
other tied reserves	32,998,848.10	60,867,147.84	0.00	93,865,995.94
Reserve pursuant to section 57 (5) of the Austrian Banking Act (BWG)	**851,000,000.00**	**0.00**	**0.00**	**851,000,000.00**

The allocation to other tied reserves includes the ex-ante-fund (see note 24) in the amount of EUR 7,705,356.72 (prior year: EUR 7,765 thousand), deferred tax assets from New York branch of EUR 4,283,768.08 (prior year: EUR 5,527 thousand), deferred tax assets from Hong Kong branch at EUR -924,644.76 (prior year: 2,277 thousand) and domestic deferred tax assets of EUR 49,802,667.80 (prior year: EUR 0 thousand).

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

Recovery & Resolution Fund

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

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

The contributions to be made by the credit institutions are calculated as a ratio of their respective liabilities (exclusive of own funds) less secured deposits to the aggregate liabilities (exclusive of own funds) less secured deposits of all institutions authorised in Austria, distributed over a period of 10 years. Furthermore, these contributions will be weighted in accordance with the risk profile of the credit institution. The amount payable as contribution is thus determined not only by the respective credit institution's unsecured liabilities, but also significantly influenced by the unsecured liabilities held by all Austrian institutions and the risk weighting. The resolution authority is tasked with determining the risk weighting. In 2017, Erste Group Bank AG paid EUR 14,244,558.55 (prior year: EUR 19,683 thousand), which is included in the item other operating expenses.

Deposit guarantee fund

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

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

As long as the target level has not been reached, the guarantee schemes will require their member institutions to pay an annual contribution. The contributions payable by the member institutions are calculated on the basis of the volume of covered deposits (0.8% of the covered deposits distributed over a 10-year period) and determined in relation to the nature of the risks to which each relevant member institution is specifically exposed. The method used to determine the risk weighting must be approved by the FMA. In 2016, Erste Group Bank AG paid a total of EUR 25,527.75 (prior year: EUR 35 thousand), which is included in the item other administrative expenses.

IPS fund (ex-ante-fund)

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

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

The contributions (deposits) are to be taken from the annual financial report, with other reserves being released where necessary. Erste Group Bank AG created a reserve of EUR 7,705,356.72 (prior year: EUR 7,765 thousand) in 2017, which corresponds to the amount of the contributions made (deposits).

25. Own funds and capital requirement

These unconsolidated financial statements of Erste Group Bank AG have yet to be approved by the supervisory board. Erste Group Bank AG is in compliance with the transitional provisions concerning capital requirements, market risk and credit risk set forth by Austria's accompanying CRR ordinance as well as EU Regulation No. 2016/445 of the European Central Bank concerning the use of options and discretions available in European Union Law, EZB/2016/4.

Own funds

Capital structure according to Regulation (EU) No 575/2013 (CRR)		Basel 3	
in EUR or in EUR thousand	**Article pursuant to CRR**	**Dec 17**	**Dec 16**
Common equity tier 1 capital (CET1)			
Capital instruments eligible as CET1	26 (1) (a) (b), 27-30, 36 (1) (f), 42	2,486,619,510.67	2,486,620
Own CET1 instruments	36 (1) (f), 42	-16,359,517.00	-5,505
Retained earnings	26 (1) (c), 26 (2)	4,148,312,520.34	3,717,281
Interim loss	36 (1) (a)	0.00	0
Other reserves	4 (117), 26 (1) (e)	0.00	0
Prudential filter: cash flow hedge reserve	33 (1) (a)	0.00	0
Prudential filter: cumulative gains and losses due to changes in own credit risk on fair valued liabilities	33 (1) (b)	0.00	0
Prudential filter: fair value gains and losses arising from the institution's own credit risk related to derivative liabilities	33 (1) (c), 33 (2)	-2,231,366.00	-8,234
Value adjustments due to the requirements for prudent valuation	34, 105	-45,409,836.90	-52,456
Regulatory adjustments relating to unrealised gains and losses	467, 468	0.00	0
Other intangible assets	4 (115), 36 (1) (b), 37 (a)	-25,268,422.32	-38,930
Deferred tax assets dependent upon future profitability and not temporary differences net of associated tax liabilities	36 (1) (c), 38	-35,892,764.86	0
IRB shortfall of credit risk adjustments to expected losses	36 (1) (d), 40, 158, 159	-18,774,130.27	0
Other transitional adjustments CET1	469 to 472, 478, 481	15,987,063.49	15,572
Interim loss (20%)		0.00	0
Other intangibles (20%)		5,053,684.46	15,572
IRB shortfall of provisions to expected losses (20%)		3,754,826.06	0
Deferred tax assets that rely on future profitability and do not arise from temporary differences net of associated tax liabilities, which existed until December 2013 (70%)		0.00	0
Deferred tax assets that rely on future profitability and do not arise from temporary differences net of associated tax liabilities, which exists since January 2014 (20%)		7,178,552.97	0
Excess of deduction from AT1 items over AT1	36 (1) (j)	0.00	0
Common equity tier 1 capital (CET1)	**50**	**6,506,983,057.15**	**6,114,347**
Additional tier 1 capital (AT1)			
Capital instruments eligible as AT1	51 (a), 52-54, 56 (a), 57	1,000,000,000.00	500,000
Own AT1 instruments	52 (1) (b), 56 (a), 57	-1,500,000.00	-1,500
Instruments issued by subsidiaries that are given recognition in AT1	85, 86	0.00	0
Transitional adjustments due to grandfathered AT1 instruments	483 (4) (5), 484-487, 489, 491	0.00	0
AT1 instruments of financial sector entities where the institution has a significant investment	4 (27), 56 (d), 59, 79	0.00	0
Other transitional adjustments AT1	474, 475, 478, 481	-6,931,097.49	-15,572
Interim loss (20%)		0.00	0
Other intangibles (20%)		-5,053,684.46	-15,572
IRB shortfall of provisions to expected losses (10%)		-1,877,413.03	0
Excess of deduction from AT1 items over AT1	36 (1) (j)	0.00	0
Additional tier 1 capital (AT1)	**61**	**991,568,902.51**	**482,928**
Tier 1 capital - total amount of common equity tier 1 (CET1) and additional tier1 (AT1)		**7,498,551,959.66**	**6,597,276**
Tier 2 capital (T2)			
Capital instruments and subordinated loans eligible as T2	62 (a), 63-65, 66 (a), 67	4,324,346,065.76	4,550,775
Own T2 instruments	63 (b) (i), 66 (a), 67	-43,006,779.67	-51,555
Instruments issued by subsidiaries recognised in T2	87, 88	0.00	0
Transitional adjustments due to additional recognition in T2 of instruments issued by subsidiaries	480	0.00	0
Transitional adjustments due to grandfathered T2 instruments and subordinated loans	483 (6) (7), 484, 486, 488, 490, 491	48,532,793.41	58,239
IRB excess of provisions over expected losses eligible	62 (d)	36,589,699.95	78,481
Standardised approach general credit risk adjustments	62 (c)	0.00	0
Other transitional adjustments to tier 2 capital	476, 477, 478, 481	-1,877,413.03	0
IRB shortfall of provisions to expected losses (10%)		-1,877,413.03	0
T2 instruments of financial sector entities where the institution has a significant investment	4 (27), 66 (d), 68, 69, 79	0.00	0
Tier 2 capital (T2)	**71**	**4,364,584,366.42**	**4,635,941**
Total own funds		**11,863,136,326.08**	**11,233,216**
Total Risk Exposure Amount	**92 (3), 95, 96, 98**	**30,367,142,661.49**	**32,586,435**
Common Equity Tier 1 capital ratio	**92 (2) (a)**	**21.43%**	**18.76%**
Tier 1 capital ratio	**92 (2) (b)**	**24.69%**	**20.25%**
Solvency ratio	**92 (2) (c)**	**39.07%**	**34.47%**

The percentages concerning transitional provisions shown, concern the current year.

Capital Requirement

Risk structure according to Regulation (EU) No 575/2013 (CRR)		Dec 17		Dec 16	
in EUR or in EUR thousand	Article pursuant to CRR	Calculation base /total risk (phased-in)	Capital requirement (phased-in)	Calculation base /total risk	Capital requirement
Total Risk Exposure Amount	92 (3), 95, 96, 98	30,367,142,661.49	2,429,371,412.92	32,586,435	2,606,915
Risk weighted assets (credit risk)	92 (3) (a) (f)	25,201,550,548.97	2,016,124,043.92	26,208,021	2,096,642
Standardised approach		12,689,279,747.89	1,015,142,379.83	13,127,863	1,050,229
IRB approach		12,512,270,801.08	1,000,981,664.09	13,080,157	1,046,413
Settlement Risk	(3) (c) (ii), 92 (4) (b)	508,019.51	40,641.56	54	4
Trading book, foreign FX risk and commodity risk	92 (3) (b) (i) und (iii), 92 (4) (b)	2,989,947,957.26	239,195,836.58	3,901,362	312,109
Operational Risk	92 (3) (e), 92 (4) (b)	1,599,590,323.25	127,967,225.86	1,330,596	106,448
Exposure for CVA	92 (3) (d)	575,545,812.50	46,043,665.00	1,146,401	91,712
Other exposure amounts incl. Basel 1 floor	3, 458, 459, 500	0.00	0.00	0	0

For the preparation of consolidated capital and consolidated capital requirements, reference is made to the respective statements in the 2017 consolidated financial statements of Erste Group.

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

Assets in EUR or in EUR thousand	Dec 17	Dec 16	Liability description	Balance sheet item
Collateral pool for covered Erste Bank bonds				
Fixed-income securities	969,379,141.22	1,129,697	Covered Erste Bank bonds	Liability 3
OeNB asset pool (tender)				
Credit claims	1,400,000,000.00	1,400,000	Refinancing by OeNB / ECB	Liability 1
Pledge agreements				
Money market loan	320,500,000.00	520,749	Guarantees and contingent liabilities pledged as collateral	
Collateral for unregistered OTC derivatives				
Cash collateral	465,133,213.75	495,077	Other liabilities	Liability 4
Securities collateral	4,382,735.81	8,363	Other liabilities	Liability 4
Total	**3,159,395,090.78**	**3,553,886**		
Collateral for exchange-traded derivatives				
Securities collateral	19,850,898.36	132,399	margin requirement	
Cash collateral	1,435,665.91	7	Hungary margin requirement	
Cash collateral	7,746,810.97	2,446	Poland margin requirement	
Total	**29,033,375.24**	**134,852**		
Blocked securities account as collateral with Österreichische Kontrollbank AG				
Fixed-income securities	21,438,374.43	21,438	Margin requirement	
Collateral pool for municipal and mortgage bonds				
Loans and advances to customers	887,180,852.66	1,004,985	Issued municipal and mortgage bonds	Liability 3
Fixed-income securities	96,115,757.42	269,519	Issued municipal and mortgage bonds	Liability 3
Coverage for the pension provisions				
Pension provisions § 11 BPG	145,654,704.69	206,863	Coverage for the pension provisions	Liability 6
Total	**1,150,389,689.20**	**1,502,805**		
AGGREGATE TOTAL	**4,338,818,155.22**	**5,191,542**		

27. Total volume of unsettled derivatives

Dec 17 in EUR		Time to maturity for notional amounts < 1 years	1-5 years	> 5 years	Total
Interest rate contracts		**61,790,786,484.93**	**165,470,520,399.58**	**97,937,643,101.04**	**325,198,949,985.55**
OTC products					
Interest rate options	Purchase	2,276,078,722.35	8,110,329,810.15	6,072,296,205.84	16,458,704,738.34
	Sale	2,291,591,389.05	7,832,325,352.93	6,959,026,009.52	17,082,942,751.50
Interest rate swaps	Purchase	27,735,073,918.94	74,340,487,050.20	42,451,607,243.34	144,527,168,212.47
	Sale	27,735,002,032.83	74,334,691,970.70	42,454,713,642.34	144,524,407,645.86
FRAs	Purchase	451,958,957.12	587,429,019.00	0.00	1,039,387,976.12
	Sale	1,181,610,073.91	260,257,196.60	0.00	1,441,867,270.51
Bond Forwards	Purchase	0.00	0.00	0.00	0.00
	Sale	118,000,000.00	5,000,000.00	0.00	123,000,000.00
Exchange-traded products					
Futures		1,471,390.73	0.00	0.00	1,471,390.73
Interest rate options		0.00	0.00	0.00	0.00
Currency contracts		**108,181,087,998.41**	**23,919,897,908.99**	**5,672,069,165.20**	**137,773,055,072.60**
OTC products					
Currency options	Purchase	2,110,221,590.09	329,769,668.64	227,922,459.32	2,667,913,718.05
	Sale	2,237,147,525.54	259,961,532.27	228,019,459.32	2,725,128,517.13
Currency swaps	Purchase	51,906,031,333.35	11,650,185,263.33	2,608,843,410.49	66,165,060,007.17
	Sale	51,901,559,641.48	11,679,981,444.75	2,607,283,836.07	66,188,824,922.30
FRAs	Purchase	0.00	0.00	0.00	0.0
	Sale	0.00	0.00	0.00	0.0
Exchange-traded products					
Futures		26,127,907.95	0.00	0.00	26,127,907.95
Currency options		0.00	0.00	0.00	0.00
Securities related contracts		**3,823,368,380.39**	**6,825,281,631.94**	**1,651,171,720.59**	**12,299,821,732.92**
OTC products					
Equity options	Purchase	718,088,828.41	1,701,130,601.42	560,288,953.86	2,979,508,383.69
	Sale	563,464,610.58	1,057,059,047.74	605,279,388.05	2,225,803,046.37
Equity swaps	Purchase	1,125,129,462.64	2,043,777,780.79	244,177,356.95	3,413,084,600.38
	Sale	1,112,183,179.62	2,023,314,201.99	241,426,021.73	3,376,923,403.34
Exchange-traded products					
Futures		268,899,865.14	0.00	0.00	268,899,865.14
Equity options		35,602,434.00	0.00	0.00	35,602,434.00
Commodity contracts		**60,901,237.76**	**696,750.00**	**0.00**	**61,597,987.76**
OTC products					
Commodity options	Purchase	1,649,560.00	0.00	0.00	1,649,560.00
	Sale	1,781,120.00	0.00	0.00	1,781,120.00
Commodity swaps	Purchase	12,918,579.81	348,375.00	0.00	13,266,954.81
	Sale	5,813,613.90	348,375.00	0.00	6,161,988.90
Exchange-traded products					
Futures		38,738,364.05	0.00	0.00	38,738,364.05
Commodity options		0.00	0.00	0.00	0.00
Credit derivatives		**191,710,913.48**	**1,009,338,028.10**	**436,485,313.38**	**1,637,534,254.96**
OTC products					
Credit default swaps	Purchase	105,601,365.72	456,432,576.12	145,016,562.30	707,050,504.14
	Sale	86,109,547.76	552,905,451.98	291,468,751.08	930,483,750.82
Other		**133,881,240.06**	**565,518,000.00**	**1,756,096,836.34**	**2,455,496,076.40**
OTC products					
Other options	Purchase	18,100,643.19	55,180,000.00	0.00	73,280,643.19
	Sale	41,747,875.19	44,338,000.00	0.00	86,085,875.19
Other swaps	Purchase	37,016,360.84	261,000,000.00	1,080,048,418.17	1,378,064,779.01
	Sale	37,016,360.84	205,000,000.00	676,048,418.17	918,064,779.01
Total		**174,181,736,255.03**	**197,791,252,718.61**	**107,453,466,136.55**	**479,426,455,110.19**
Thereof OTC products in EUR thousand		173,811	197,791	107,453	479,056
Thereof exchange-traded products in EUR thousand		371	0	0	371

The presentation of the nominal values is made without netting of transactions with Central Counterparties.

Dec 16 in EUR thousand		Time to maturity for notional amounts < 1 years	 1-5 years	 > 5 years	 Total
Interest rate contracts		**71,679,464**	**157,376,728**	**109,292,022**	**338,348,215**
OTC products					
Interest rate options	Purchase	5,299,080	8,861,904	6,912,483	21,073,467
	Sale	5,552,357	9,035,956	7,441,448	22,029,761
Interest rate swaps	Purchase	30,011,581	69,741,678	47,467,002	147,220,261
	Sale	30,011,772	69,737,190	47,471,090	147,220,053
FRAs	Purchase	410,972	0	0	410,972
	Sale	389,517	0	0	389,517
Bond Forwards	Purchase	0	0	0	0
	Sale	0	0	0	0
Exchange-traded products					
Futures		2,853	0	0	2,853
Interest rate options		1,332	0	0	1,332
Currency contracts		**80,683,716**	**21,889,837**	**5,939,286**	**108,512,839**
OTC products					
Currency options	Purchase	1,499,843	160,812	215,393	1,876,049
	Sale	1,487,589	97,871	215,485	1,800,944
Currency swaps	Purchase	38,937,265	10,762,660	2,765,767	52,465,692
	Sale	38,732,085	10,868,493	2,742,641	52,343,219
FRAs	Purchase	0	0	0	0
	Sale	0	0	0	0
Exchange-traded products					
Futures		26,935	0	0	26,935
Currency options		0	0	0	0
Securities related contracts		**2,771,268**	**6,347,534**	**1,364,890**	**10,483,692**
OTC products					
Equity options	Purchase	391,177	1,750,087	498,610	2,639,874
	Sale	295,648	817,774	507,121	1,620,544
Equity swaps	Purchase	836,233	1,909,925	179,593	2,925,751
	Sale	825,190	1,869,080	179,566	2,873,835
Exchange-traded products					
Futures		319,556	0	0	319,556
Equity options		103,464	668	0	104,132
Commodity contracts		**338,361**	**4,443**	**0**	**342,804**
OTC products					
Commodity options	Purchase	1,924	1,650	0	3,574
	Sale	1,924	1,781	0	3,706
Commodity swaps	Purchase	163,078	506	0	163,584
	Sale	138,625	506	0	139,131
Exchange-traded products					
Futures		32,810	0	0	32,810
Commodity options		0	0	0	0
Credit derivatives		**165,028**	**865,036**	**589,883**	**1,619,947**
OTC products					
Credit default swaps	Purchase	97,373	377,488	192,240	667,101
	Sale	67,654	487,548	397,643	952,845
Other		**262,700**	**638,458**	**1,753,741**	**2,654,899**
OTC products					
Other options	Purchase	20,000	73,281	0	93,281
	Sale	24,700	86,086	0	110,786
Other swaps	Purchase	122,500	267,545	1,078,871	1,468,916
	Sale	95,500	211,545	674,871	981,916
Total		**155,900,538**	**187,122,035**	**118,939,823**	**461,962,396**
Thereof OTC products in EUR thousand		155,414	187,121	118,940	461,475
Thereof exchange-traded products in EUR thousand		487	1	0	488

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

Derivative financial instruments

Dec 17	Notional amount		Carrying amount	Fair value	
in EUR	Purchase	Sale		Positive	Negative
Interest rate contracts	**162,025,317,612.08**	**163,173,632,373.45**	**365,783,880.72**	**4,367,030,915.39**	**-3,641,799,314.78**
OTC products					
Interest rate options	16,458,704,738.34	17,082,942,751.50	124,582,946.43	868,309,781.40	-740,526,829.42
Interest rate swaps	144,527,168,212.47	144,524,407,645.86	239,682,269.17	3,496,377,975.93	-2,900,447,992.42
FRAs	1,039,387,976.12	1,441,867,270.51	-282,012.96	0.00	-282,012.96
Bond Forwards	0.00	123,000,000.00	1,800,678.08	2,343,158.06	-542,479.98
Exchange-traded products					
Futures	56,685.15	1,414,705.58	0.00	0.00	0.00
Interest rate options	0.00	0.00	0.00	0.00	0.00
Currency contracts	**68,832,973,725.22**	**68,940,081,347.38**	**8,385,385.68**	**300,947,008.57**	**-303,595,924.23**
OTC products					
Currency options	2,667,913,718.05	2,725,128,517.13	11,045,544.70	50,140,219.86	-33,184,976.06
Currency swaps	66,165,060,007.17	66,188,824,922.30	-2,660,159.02	250,806,788.71	-270,410,948.17
FRAs	0.00	0.00	0.00	0.00	0.00
Exchange-traded products					
Futures	0.00	26,127,907.95	0.00	0.00	0.00
Currency options	0.00	0.00	0.00	0.00	0.00
Securities related contracts	**6,638,722,806.06**	**5,661,098,926.86**	**99,608,087.80**	**266,334,383.24**	**-173,011,324.04**
OTC products					
Equity options	2,979,508,383.69	2,225,803,046.37	76,426,048.54	187,740,775.49	-121,642,296.10
Equity swaps	3,413,084,600.38	3,376,923,403.34	23,207,541.93	78,223,418.42	-50,973,335.94
Exchange-traded products					
Futures	230,828,837.99	38,071,027.15	0.00	0.00	0.00
Equity options	15,300,984.00	20,301,450.00	-25,502.67	370,189.33	-395,692.00
Commodity contracts	**43,420,008.52**	**18,177,979.24**	**-1,675.47**	**428,085.67**	**-430,443.93**
OTC products					
Commodity options	1,649,560.00	1,781,120.00	722.93	722.94	0.00
Commodity swaps	13,266,954.81	6,161,988.90	-2,398.40	427,362.73	-430,443.93
Exchange-traded products					
Futures	28,503,493.71	10,234,870.34	0.00	0.00	0.00
Commodity options	0.00	0.00	0.00	0.00	0.00
Credit derivatives	**707,050,504.14**	**930,483,750.82**	**-8,355,778.08**	**27,865,554.76**	**-35,991,348.00**
OTC products					
Credit default options	0.00	0.00	0.00	0.00	0.00
Credit default swaps	707,050,504.14	930,483,750.82	-8,355,778.08	27,865,554.76	-35,991,348.00
Other	**1,451,345,422.20**	**1,004,150,654.20**	**-28,427,077.81**	**74,240,306.64**	**-54,612,261.10**
OTC products					
Other options	73,280,643.19	86,085,875.19	372,304.69	0.00	0.00
Other swaps	1,378,064,779.01	918,064,779.01	-28,799,382.50	74,240,306.64	-54,612,261.10
OTC products	**239,424,140,077.37**	**239,631,475,070.93**	**437,018,325.51**	**5,036,476,064.94**	**-4,209,044,924.08**
Exchange-traded products	**274,690,000.85**	**96,149,961.02**	**-25,502.67**	**370,189.33**	**-395,692.00**
Total	**239,698,830,078.22**	**239,727,625,031.95**	**436,992,822.84**	**5,036,846,254.27**	**-4,209,440,616.08**
thereof external/internal deals					
external deals	207,762,227,066.00	208,609,030,362.60	995,995,241.30	3,628,447,615.50	-2,801,041,977.30
internal deals	31,936,603,012.20	31,118,594,669.40	-559,002,418.50	1,408,398,638.80	-1,408,398,638.80
thereof trading book/banking book					
Trading Book	214,247,017,309.70	215,144,800,676.40	364,570,378.30	3,809,335,087.40	-3,444,764,709.10
Banking Book	25,451,812,768.50	24,582,824,355.60	72,422,444.50	1,227,511,166.90	-764,675,907.00
thereof hedges	25,137,539,481.90	24,267,388,262.10	87,905,613.40	1,225,278,923.60	-748,742,532.00

The presentation of the nominal values is made without netting of transactions with Central Counterparties.

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

Dec 16 in EUR thousand	Notional amount Purchase	 Sale	Carrying amount	Fair value Positive	 Negative
Interest rate contracts	**168,706,308**	**169,641,907**	**430,013**	**6,245,204**	**-5,228,296**
OTC products					
Interest rate options	21,073,467	22,029,761	112,568	1,214,666	-1,085,171
Interest rate swaps	147,220,261	147,220,053	315,710	5,024,935	-4,139,257
FRAs	410,972	389,517	1,736	5,603	-3,868
Bond Forwards	0	0	0	0	0
Exchange-traded products					
Futures	698	2,154	0	0	0
Interest rate options	910	422	0	0	0
Currency contracts	**54,341,741**	**54,171,098**	**88,449**	**335,636**	**-226,935**
OTC products					
Currency options	1,876,049	1,800,944	13,103	62,066	-35,404
Currency swaps	52,465,692	52,343,219	75,346	273,570	-191,531
FRAs	0	0	0	0	0
Exchange-traded products					
Futures	0	26,935	0	0	0
Currency options	0	0	0	0	0
Securities related contracts	**5,874,298**	**4,609,394**	**79,124**	**283,083**	**-192,137**
OTC products					
Equity options	2,639,874	1,620,544	13,636	99,171	-94,556
Equity swaps	2,925,751	2,873,835	66,396	182,908	-95,669
Exchange-traded products					
Futures	268,799	50,757	0	0	0
Equity options	39,874	64,258	-908	1,004	-1,912
Commodity contracts	**198,425**	**144,379**	**66**	**12,509**	**-12,444**
OTC products					
Commodity options	3,574	3,706	4	8	-1
Commodity swaps	163,584	139,131	62	12,501	-12,443
Exchange-traded products					
Futures	31,267	1,543	0	0	0
Commodity options	0	0	0	0	0
Credit derivatives	**667,101**	**952,845**	**-6,380**	**20,323**	**-26,581**
OTC products					
Credit default options	0	0	0	0	0
Credit default swaps	667,101	952,845	-6,380	20,323	-26,581
Other	**1,562,197**	**1,092,702**	**-36,644**	**90,764**	**-67,579**
OTC products					
Other options	93,281	110,786	24	627	-314
Other swaps	1,468,916	981,916	-36,668	90,137	-67,265
OTC products	**231,008,521**	**230,466,257**	**555,536**	**6,986,515**	**-5,752,060**
Exchange-traded products	**341,549**	**146,069**	**-908**	**1,004**	**-1,912**
Total	**231,350,070**	**230,612,326**	**554,628**	**6,987,519**	**-5,753,972**
thereof external/internal deals					
external deals	200,222,744	200,495,641	1,253,542	5,390,654	-4,157,107
internal deals	31,127,326	30,116,685	-698,914	1,596,866	-1,596,866
thereof trading book/banking book					
Trading Book	204,289,752	204,614,220	482,995	5,348,063	-4,865,068
Banking Book	27,060,319	25,998,106	71,633	1,639,456	-888,904
thereof hedges	26,361,471	25,299,080	93,899	1,634,941	-866,400

The book values are presented in following balance sheet items:

in EUR or in EUR thousand	Dec 17	thereof internal trades	Dec 16
A12 Other assets	4,090,688,240.60	521,545,598.90	5,658,442
A14 Prepayments and accrued income	108,517,005.20	108,425,625.61	109,276
P04 Other liabilities	3,502,745,189.15	965,722,807.25	4,922,084
P05 Accruals and deferred income	252,861,649.62	223,250,835.73	268,521
P06 Provisions	15,934,975.82	0.00	22,485
Total	**427,663,431.21**	**-559,002,418.47**	**554,628**

Fixed-asset instruments

In the following table the figures are displayed without interest accruals.

	Dec 17			
in EUR	Carrying amount	Positive fair value	Hidden losses	Hidden reserves
Treasury bills	38,092,590.15	37,847,247.68	-245,342.47	
	3,240,082,575.92	3,495,557,036.03		255,474,460.11
Loans and advances to credit institutions	733,471,905.06	728,842,279.40	-4,629,625.66	
	296,065,073.15	300,680,692.59		4,615,619.44
Loans and advances to customers	96,043,963.19	95,297,690.29	-746,272.90	
	161,002,221.58	174,503,025.57		13,500,803.99
Debt securities	672,345,851.41	664,556,237.49	-7,789,613.91	
	1,487,570,668.41	1,547,729,803.70		60,159,135.29
Shares	25,000,000.00	23,924,425.00	-1,075,575.00	
	625,598,571.10	630,400,553.00		4,801,981.90
Financial instruments carried as fixed assets	**1,564,954,309.80**	**1,550,467,879.86**	**-14,486,429.94**	
	5,810,319,110.16	**6,148,871,110.89**		**338,552,000.73**

	Dec 16			
in EUR thousand	Carrying amount	Positive fair value	Hidden losses	Hidden reserves
Treasury bills	240,535	239,351	-1,184	
	4,202,577	4,542,340		339,763
Loans and advances to credit institutions	511,818	495,945	-15,872	
	711,045	715,371		4,326
Loans and advances to customers	313,195	307,923	-5,273	
	103,435	104,466		1,031
Debt securities	1,395,262	1,364,564	-30,698	
	1,427,716	1,517,891		90,175
Shares	144,943	141,260	-3,683	
	644,610	652,176		7,566
Financial instruments carried as fixed assets	**2,605,753**	**2,549,042**	**-56,711**	
	7,089,383	**7,532,244**		**442,861**

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

29. Market value for securities in inactive markets

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

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

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

Carrying amount of securities not priced on the basis of market prices in EUR thousand	Fair value on the basis of the price in the inactive market	Difference 2017
1.016.532.551,90	1.010.570.528,47	-5.962.023,43

Carrying amount of securities not priced on the basis of market prices in EUR thousand	Fair value on the basis of the price in the inactive market	Difference 2016
1,369,616	1,371,068	1,452

30. Reclassification in securities positions

In 2017 no need for reclassification of security positions to the current asset portfolio occured.

31. Hedging transactions

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

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

in EUR	Dec 17	Dec 16	Change
Positive market value fair value hedge	1,040,471,058.46	1,421,125,093.28	-380,654,034.82
Negative market value fair value hedge	-719,584,327.99	-825,319,746.26	105,735,418.27

The market values are displayed based on clean prices. Where market values are negative, they represent off-balance-sheet losses from derivatives in a hedge relationship. As of 31 December 2017, fair value hedges were up to 2042.

Effectiveness is basically measured using critical terms match.

32. Consideration of CVA/DVA in derivative valuation

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

For portfolios that are marked-to-market, both a CVA and a DVA in the amount of EUR -3,488,986.00 (prior year: EUR -13,885 thousand) and EUR 2,231,366.00 (prior year: EUR 8,234 thousand), respectively, were recognised. In due application of the principle of prudence, a CVA in the amount of EUR -1,217,739.00 (prior year: EUR -2,863 thousand) was recognised for the banking book.

33. Risk provisions

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

in EUR or in EUR thousand	Dec 17	Dec 16
Opening balance	**420,640,637.34**	**650,807**
Allocations	166,832,112.44	251,908
Use	-116,556,202.93	-262,475
Releases	-146,381,436.48	-218,816
Reclassification	-875,310.78	-2,365
Exchange rate changes	-1,169,475.89	1,582
Closing balance	**322,490,323.70**	**420,641**

In the reporting year, remaining interest adjustments in the value of EUR 33,679,767.72, which were not included in the opening balance, were rebooked as specific loan loss provisions as of 1.1.2017.

34. Contingent liabilities

Off balance contingent liabilities have been reported at EUR 3,958,181,998.88 (prior year: EUR 3,995,993 thousand) for guarantees and warranties relating to the provision of collateral. This includes a letter of comfort issued in 2015 by Erste Group Bank AG amounting to EUR 385,595,327.00 (prior year: EUR 406,539 thousand) on behalf of affiliated companies in case they do not meet their rental payment obligations. Furthermore, credit derivatives represent an amount of EUR 494,918,137.90 (prior year: EUR 493,046 thousand, prior year has been adjusted and includes now also Portfolio-CDS). The required provisions were subtracted from the contingent liabilities.

35. Credit Risk

Credit risk in the amount of EUR 6,059,980,833.80 (prior year: EUR 7,588,053 thousand) for loan and guarantee commitments which have not yet been exercised. These amounts are net of the appropriate provisions.

36. Gross income – regional breakdown

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

	1-12 17			1-12 16		
in EUR or in EUR thousand	Domestic	Abroad	Total	Domestic	Abroad	Total
Interest and similar income	690,665,130.94	141,788,127.24	832,453,258.18	717,080	124,996	842,076
Income from securities and participating interests	846,538,541.72	84,648.41	846,623,190.13	1,043,178	365	1,043,542
Commission income	147,369,113.94	2,099,013.75	149,468,127.69	139,348	1,633	140,981
Net profit or loss on financial operations	12,591,327.09	-71,994.81	12,519,332.28	1,176	107	1,283
Other operating income	211,518,881.59	9,704,401.91	221,223,283.50	212,487	5,759	218,245
Gross income	**1,908,682,995.28**	**153,604,196.50**	**2,062,287,191.78**	**2,113,269**	**132,860**	**2,246,128**

37. Net interest income

Erste Group Bank AG recognises negative interest charged on loans (assets) in the amount of EUR 71,124,965.94 (prior year: EUR 52,016 thousand) under interest and similar expenses and negative interest paid for deposits (liabilities) in the amount of EUR 37,413,581.60 (prior year: EUR 24,523 thousand) as interest and similar income.

38. Income from participating interests and shares in affiliated companies

The balance sheet item income from participating interests and shares in affiliated companies includes EUR 129,416,875.90 (prior year: EUR 332,913 thousand) and the balance sheet item extraordinary income includes EUR 31,466,849.34 (prior year: EUR 0 thousand) from group members, which are subsidiaries belonging to the fiscal group of Erste Group Bank AG within the framework of the group taxation regulations which came into power in 2005.

39. Other operating income

Other operating income of EUR 221,223,283.50 (prior year: EUR 218.245 thousand) included income from:

_ Personnel and other administrative expenses passed on to group members in the value of EUR 115,043,214.13 (prior year: EUR 85,726 thousand),
_ The termination of derivatives, which were thus far part of a hedge relationship, in the value of EUR 49,671,818.72 (prior year: EUR 99,491 thousand, from the termination of all derivatives from previous cash flow hedge relationships),
_ The contribution of intangible assets in Erste Group IT International GmbH in the value of EUR 22,762,329.86 (prior year: EUR 0 thousand) and
_ Reversal of provisions for the Recovery & Resolution fund in the value of EUR 5,438,121.45 (prior year: EUR 0 thousand).

40. Personnel expenses

In terms of personnel expenses, expenses for severance payments and payments to severance-payment funds included expenses for severance payments in the amount of EUR 6,922,279.41 (prior year: income EUR 9.628 thousand).

Expenses for pensions are accounted for as follows:
- _ Costs for defined pension payments in the amount of EUR 6,717,862.23 (prior year: EUR 9,319 thousand) as personnel costs and interest expenses in the amount of EUR 5,105,430.90 (prior year: EUR 7,214 thousand) as interest costs;
- _ Costs for pension fund contributions in the amount of EUR 8,815,522.61 (prior year: EUR 14,706 thousand) also as personnel costs.

41. Other administrative expenses

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

in EUR or in EUR thousand	1-12 17	1-12 16
Fees charged for auditing the financial statements	3,098,089.25	2,865
Fees charged for audit-related services	842,957.85	666
Fees charged for tax advisory services	0.00	614
Fees charged for other services	23,400.00	1,424
Total	**3,964,447.10**	**5,568**

Unlike in 2016, tax advisory services were not provided by the auditors in 2017.

As statutory auditors, Sparkassen-Prüfungsverband (auditing agency) provided auditing services for affiliated companies of Erste Group Bank AG in the value of EUR 5,337 thousand. Other advisory services were charged to other affiliated companies in the value of EUR 41 thousand. The amount charged for other services for affiliated companies came up to EUR 21 thousand.

PwC Wirtschaftsprüfung GmbH provided auditing services for affiliated companies of Erste Group Bank AG in the value of EUR 699 thousand. Other advisory services were charged to other affiliated companies in the value of EUR 151 thousand.

42. Other operating expenses

Other operating expenses of Erste Group Bank AG, which amounted to EUR 71,106,800.96 (prior year: EUR 26,579 thousand), essentially consisted of expenses for the Recovery & Resolution fund in the amount of EUR 19,682,680.00 (prior year: EUR 19,683 thousand) as well as the termination of derivitives, which were part of a hedge relationship, in the amount of EUR 44,050,591.21 (previous year: EUR 0 thousand). The former are in economic relationship with other operating income. Both matters are economically related to other operating expenses (see item 39). This means that costs arise for the Recovery & Resolution Funds in the net amount of EUR14,244,558.55 (previous year: EUR 19,683 thousand). In addition, this item included insurance payments against operational risk in the amount of EUR 6,004,286.84 (prior year: EUR 6,209 thousand).

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

In 2017 the balance of value adjustments in respect of participating interests and shares in affiliated companies amounted to positive EUR 117,761,350.66 (prior year: EUR positive 374,785). This resulted primarily from write-ups of Erste Bank Hungary Zrt. in the amount of EUR 196,720,908.23 and the write-off of Erste Group IT International GmbH at EUR 54,000,000.00.

During the reporting year, impairment requirements for affiliated companies (subsidiaries that are considered a tax group with Erste Group Bank AG under the group taxation regulations of 2005) amounted to EUR 82,507,000.42 (prior year: EUR 4.160 thousand). The loss from sales for affiliated undertakings amounted to EUR 0.00 (prior year: EUR 196 thousand).

44. Taxes on profit and loss

The item tax on profit or loss shows that tax income amounted to EUR 131,657,469.16 (prior year: income EUR 56,084 thousand). Net income from taxes on profit or loss was EUR 75,159,728.24 (prior year: EUR 90,074 thousand) under the current tax allocation system, whereas tax income from foreign taxes on income of previous years amounted to EUR 7,503,425.18 (prior year: expenses of EUR 2,888 thousand) according to section 9 Corporate Tax Act (Körperschaftssteuergesetz) on group taxation.

Since 2005, Erste Group Bank AG and its main domestic subsidiaries have formed a tax group in accordance with section 9 Corporate Tax Act, with Erste Group Bank AG as parent of the group ("Gruppenträger"). Group and tax equalisation agreements were concluded with all affiliated companies. Under these agreements, affiliated companies allocate amounts equivalent to the corporation tax on taxable profits to Erste Group Bank AG. Since tax losses from prior years are recorded and offset against their current tax liability by the affiliated companies themselves, there is no obligation to make tax allocation payments to Erste Group Bank AG. Moreover, Erste Group Bank AG undertakes to make compensatory payments for any tax losses utilised up to that point to any affiliated companies leaving the Group.

Foreign income tax and other foreign income-related taxes were expenses of EUR 1,564,285.85 (prior year: income of EUR 1,223 thousand).

45. Other taxes

The balance sheet item other taxes not shown under item 18 includes the bank levy to the amount of EUR 15,345,524.15 (prior year: EUR 221,560 thousand) on the one hand and a one-off backpayment of capital gains tax for securities in the amount of EUR 14,604,931.83 (prior year: EUR 0 thousand) on the other. The significant decrease in the bank levy results from the reduction of tax rates for the bank tax levy and in 2016 Erste Group Bank AG paid a special payment of EUR 138,270 thousand.

46. Result from mergers

In the reporting year, Erste Group Bank AG did not carry out any mergers. The previous year's figure (EUR -56,337 thousand) resulted from the merger with Erste Bank Beteiligungen GmbH on 30 June 2016.

47. Branches on a consolidated basis

Business	Commercial lending to foreign banks, leasing companies and sovereign debtors			Institutional sales-business
Branches	London	New York	Hong Kong	Berlin, Stuttgart
Country of domicile	Great Britain	USA	China	Germany
Net interest income in EUR	26,808,079.70	41,279,823.55	15,163,839.47	-5,003.71
Operating result in EUR	38,002,626.23	41,748,542.84	14,766,786.67	3,318,371.06
Headcount	29	23	23	12
Profit or loss from ordinary activities in EUR	22,178,790.25	27,323,128.74	10,726,069.07	122,891.88
Taxes on income in EUR	-622,824.52	4,564,677.38	-3,092,621.30	-36,701.22
Public benefits received	None	None	None	None

48. Return on assets

Net profit for the year after tax before changes in reserves expressed in proportion to the average total assets was 1.5% in 2017 (prior year: 1.8%).

49. Events after balance sheet date

There were no significant events after the balance sheet date.

D. INFORMATION ON BOARD MEMBERS AND EMPLOYEES

Employees

The average number of employees at Erste Group Bank AG (weighted, excluding employees on leave and management board members) was 2,143 during the financial year 2017 (prior year: 2,022).

In 2017, 263 employees (prior year: 211) worked at other companies against reimbursement of expenses. The reimbursement costs of EUR 28.285.553,75 (prior year: EUR 21,712 thousand) are included in other operating expenses.

Board members

Neither in 2017 nor in the previous year did Erste Group Bank AG grant loans directly to members of the board or supervisory board.

Banking transactions with Erste Bank der oesterreichischen Sparkassen AG are accounted for in the consolidated financial statement.

Management board members

Managing board remuneration is as follows:

Fixed salaries

in EUR or in EUR thousand	1-12 17	1-12 16
Andreas Treichl	1,475,000	1,475
Peter Bosek	700,000	700
Petr Brávek	700,000	700
Willibald Cernko	700,000	0
Andreas Gottschling	0	700
Gernot Mittendorfer	700,000	700
Jozef Síkela	700,000	700
Total	**4,975,000.00**	**4,975**

From 1 January 2015 to 31 January 2016, Peter Bosek was board member of both Erste Group Bank AG and Erste Bank der oesterreichischen Sparkassen AG, each of were assigned 50% of the costs of remuneration during this time. Willibald Cernko has been a board member of Erste Group Bank AG since 01.01.2017.

Performance linked remuneration

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

	1-12 17				1-12 16			
	for 2016		for previous years		for 2015		for previous years	
	cash in EUR	share-equivalents in units	cash in EUR	share-equivalents in units	cash in EUR	share-equivalents in units	cash in EUR	share-equivalents in units
Andreas Treichl	310,758.40	14,408	170,600.00	7,923	218,739.00	10,505	156,824.71	6,953
Peter Bosek	132,380.00	6,512	36,000.00	1,433	96,755.00	4,775	0.00	0
Petr Brávek	150,375.00	6,512	36,000.00	1,433	111,600.00	4,775	0.00	0
Willibald Cernko	0.00	0	0.00	0	0.00	0	0.00	0
Andreas Gottschling (until 31 December 2016)	0.00	0	0.00	0	118,424.00	5,094	4,000.00	168
Gernot Mittendorfer	156,000.00	6,349	63,200.00	2,857	120,000.00	4,775	27,200.00	1,424
Jozef Síkela	139,924.00	6,512	36,000.00	1,433	102,024.00	4,775	0.00	0
Total	**889,437.40**	**40,293**	**341,800.00**	**15,079**	**767,542.00**	**34,699**	**188,024.71**	**8,545**

The planned share-equivalents for 2017 were awarded due to success in the prior year. Payouts will be made proportionately in 2018, following the one-year holding period. Share-equivalents were valued at the average weighted daily share price of Erste Group Bank AG of the year 2017 (2016) in the amount of EUR 32.97 (EUR 24.57) per share.

For the financial years 2011 and 2014 no performance-linked remuneration was paid out to board members.

Performance linked remuneration for Andreas Gottschling, which was paid out in 2017, was included in remuneration of former board members.

Other remuneration

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

in EUR or in EUR thousand	1-12 17	1-12 16
Andreas Treichl	643,679.51	1,132
Peter Bosek	136,328.16	132
Petr Brávek	135,652.02	133
Willibald Cernko	129,056.08	0
Andreas Gottschling (until 31 December 2016)	0.00	164
Gernot Mittendorfer	136,689.99	134
Jozef Síkela	135,492.12	153
Total	**1,316,897.88**	**1,848**

In 2017, EUR 2,097,781.93 (prior year: EUR 2,893 thousand) was paid in cash and 12,894 share-equivalents (prior year: 8,390) were assigned to former members of the management bodies and their dependants. Andreas Gottschling's remuneration for 2016 is included in these figures.

Principles governing the pension scheme for management board members

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

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 applies to one member of the management board.

Supervisory board members

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

Breakdown of supervisory board remuneration

Pursuant to the decision passed at the annual general meeting of 17 May 2017, the supervisory board adopted in its constituent meeting the following remuneration structure for the financial year 2016:

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

In 2017, the members of supervisory board of Erste Group Bank AG were paid EUR 950,200.00 (prior year: EUR 907 thousand) for their board function.

in EUR	1-12 17	1-12 16
Supervisory board compensation	691,200.00	664
Meeting fees	259,000.00	243
Total	**950,200.00**	**907**

Board member remuneration for their board function in fully consolidated subsidiaries of Erste Group Bank AG

The following members of the supervisory board received the following remuneration for their board function in fully consolidated subsidiaries of Erste Group Bank AG:

Friedrich Rödler EUR 86,700.00 (prior year: EUR 39 thousand), Jan Homan EUR 17,900.00 (prior year: EUR 15 thousand), Gunter Griss EUR 63,800.00 (prior year: EUR 55 thousand), Maximilian Hardegg EUR 63,953.00 (prior year: EUR 51 thousand), Brian D. O'Neill EUR 51,000.00 (prior year: EUR 46 thousand), John James Stack EUR 96,675.00 (prior year: EUR 82 thousand).

Erste Group Bank AG did not conclude other legal transactions with its members of the supervisory board.

Transactions and shares held by management board and supervisory board members

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

Management board member	As of 31 December 2016	Additions	Disposals	As of 31 December 2017
Andreas Treichl	164,640	0	0	164,640
Peter Bosek	1,000	0	0	1,000
Petr Brávek	600	0	0	600
Willibald Cernko	0	0	0	0
Andres Gottschling (until 31 December 2016)	0	0	0	0
Gernot Mittendorfer	10,000	0	0	10,000
Jozef Síkela	6,300	0	0	6,300

In Mr Brávek's row, the opening balance amount was adjusted. Supervisory board members did not receive any options on Erste Group Bank AG shares for exercising their mandate.

Members of the supervisory board	As of 31 December 2016	Additions	Disposals	As of 31 December 2017
Friedrich Rödler	1,702	0	0	1,702
Jan Homan	4,400	0	0	4,400
Bettina Breiteneder	0	0	0	0
Elisabeth Bleyleben Koren	10,140	0	0	10,140
Jordi Gual Solé	0	0	0	0
Marion Khüny	0	0	0	0
Gunter Griss	0	0	0	0
Maximilian Hardegg	40	0	0	40
Elisabeth Krainer Senger Weiss	0	0	0	0
Antonio Massanell Lavilla	0	0	0	0
Brian D. O'Neill	0	0	0	0
Wilhelm Rasinger	21,303	0	0	21,303
John James Stack	32,761	0	0	32,761
Markus Haag	160	0	0	160
Regina Haberhauer	188	0	0	188
Andreas Lachs	52	0	0	52
Barbara Pichler	281	0	0	281
Jozef Pinter	0	0	0	0
Karin Zeisel	35	0	0	35

Persons related to management board or supervisory board members held 3,366 Erste Group Bank AG shares as of 31 December 2017 (prior year: 3,366).

Severancy payments and pensions

Expenses for severance payments and pensions for members of the management board and managers amounted to EUR 1,397,684.40 (prior year: EUR 2,711 thousand). Expenses for severance payments and pensions for other employees amounted to EUR 24,164,014.06 (prior year: EUR 33,505 thousand) pursuant to section 239 (2) Commercial Code (UGB) regarding management board and supervisory board members is disclosed separately in section 1 of the Appendix to the Notes.

E. APPROPRIATION OF PROFIT

At the annual general meeting, the management board will propose to pay out a dividend of EUR 1.20 per share (prior year: EUR 1.00). In accordance with section 235 (1) of the Commercial Code (UGB), the payout restriction amounts to EUR 0.00 (previous year: EUR 0 thousand).

F. APPENDIX 1: MANAGEMENT BODIES OF ERSTE GROUP BANK AG AS OF 31 DECEMBER 2017

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

Representatives of the supervisory authority

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

Management board

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

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

Vienna, 28 February 2018

IV. 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 the course of 2017. Overall, global economic growth accelerated from 3.2% in 2016 to 3.7%[3] in 2017.

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%[4] 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 1.5% during 2017. Overall, the US economy grew by 2.3%[5] 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%[6].

After several years of moderate growth, the Austrian economy achieved a solid performance in 2017. The real GDP growth of 2.9%[7], 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%[8]. Following the parliamentary elections held in October, a new government was formed in December. With EUR 42,000.00[9] GDP per capita, 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

---

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

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

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

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

[7] Source: 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)

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

[9] Source: 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

region was demonstrated by a 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 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%[10] in Romania and 1.8%[11] in Serbia.

FINANCIAL PERFORMANCE INDICATORS

Explanatory notes on the balance sheet

Total assets increased by 1.8% from EUR 60.0 billion at the end of 2016 to EUR 61.1 billion on 31 December 2017. The individual items developed as follows:

The item **Cash in hand, balances with central banks** declined by 11.9% from EUR 5.8 billion to EUR 5.1 billion on 31 December 2017, which was particularly due to a decrease in overnight business with central banks in euro. Declines could also be observed in **Expired treasury bills and other securities from public bodies held in assets**, which reduced by 24.7% from EUR 5.5 billion to EUR 4.2 billion. **Loans and advances to credit institutions** increased by 38.1% from EUR 15.9 billion in the previous year to EUR 22.0 billion, essentially because of the increase of repurchase agreements by 5.4 billion. Due to the fact that the decline in customers abroad was completely offset by an increase in domestic customers, **customer deposits** remained stable at EUR 13.7 billion in comparison to the end of 2016. **Debt securities** sank by 27.3% from EUR 5.2 billion to EUR 3.8 billion, whereby the greatest changes could be observed in securities held in fixed assets and in current assets. The carrying amounts of **participating interest and shares in affiliated companies** rose by 3.3% from EUR 6.3 billion to EUR 6.5 billion as of 31 December 2017, mainly due to write ups as well as the purchase of shares of Intermarket Bank AG from Erste Bank der Oesterreichischen Sparkassen AG. **Other assets** in the amount of EUR 4.7 billion (prior year: EUR 6.3 billion) include approx. 95% derivatives, which decreased by 24.5% to EUR 4.5 billion by the end of 2017, in particular as a result of the change in the interest rate curve.

Liabilities to credit institutions increased by 13.8% to EUR 23.7 billion (prior year: EUR 20.9 billion) on the liabilities side, which can be attributed to growth in interbank business that the bank was bound to. The increase of 5.6% to EUR 4.7 billion (prior year: EUR 4.5 billion) in the item **amounts owed to customers** resulted mainly from increased deposits by customers abroad. As expired own issues were not replaced by new issues, **securitised liabilities** reduced by 8.4% to EUR 14.0 billion (prior year: EUR 15.3 billion). In April 2017, an additional tier 1 bond was issued, therefore **subordinated and additional tier capital** increased by 5.3% to EUR 6.1 billion (prior year: EUR 5.8 billion). The item **other liabilities** in the value of EUR 4.7 billion (prior year: EUR 6.2 billion) includes approx. 85% derivatives, whose reduction by 27.1% to EUR 3.9 billion at the end of 2017 could be attributed to the change in the interest rate curve.

After deduction and filtering as specified in the Capital Requirements Regulation (CRR), **tier 1 capital** (tier 1, Basel 3, current) amounted to EUR 7.5 billion (prior year: EUR 6.6 billion); **common equity tier 1 capital** (CET 1, Basel 3, current) amounted to EUR 6.5 billion (prior year: EUR 6.1 billion). **Own funds** of Erste Group Bank AG pursuant to Part 2 of Regulation (EU) No 575/2013 (particularly Tier 1 and Tier 2 capital) amounted to EUR 11.9 billion on 31 December 2017 (prior year: EUR 11.2 billion). The **common equity tier 1 capital ratio** (CET 1, Basel 3, current) was 21.4% (prior year: 18.8%), whereas the **total capital ratio** (Basel 3, current) was 39.1% (prior year: 34.5%).

Details on earnings

In the continued difficult market interest rate environment, Erste Group Bank AG's **net interest income** dropped by 14.2% to EUR 267.8 million (prior year: EUR 312.1 million), whereby interest expenses increased by 6.5%, which is mainly due to the issue of additional core capital (AT 1) in April 2017. **Income from securities and participating interests** reduced to EUR 846.6 million (prior year: EUR 1.043.5 million, in particular due to the EUR 230.0 million lower dividend of Erste Bank der oesterreichischen Sparkassen AG (affiliated company). The balance of **fee and commission income and expenses** decreased by 3.2% to EUR 26.4 million (prior year: EUR 27.3 million). **Net profit or loss on financial operations** improved significantly from EUR 1.3 million in the previous year to

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

[11] Source: 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. Februar 2018), adjusted by estimates for the fourth quarter 2017

EUR 12.5 million. This is attributable to improvements in the trading positions with securities and derivatives, which more than offset the losses in foreign exchange trading. Due to the fact that increased revenue from internal operating costs (EUR +29.3 million; from EUR 85.7 million in the prior year to EUR 115.0) and the revenue from the contribution of intangible assets in Erste Group IT International GmbH in the value ot EUR 22.8 million more than offset the declined revenue from the termination of derivatives in a hedging relationship (EUR -49.8 million; from EUR 99.5 million in the prior year to EUR 49.7 million), **other operating income** increased by 1.4% to EUR 221.2 million (prior year: 218.2 million). As a result, **operating income** decreased by 14.2% to EUR 1,374.6 million in 2017 (prior year: EUR 1,602.4 million).

In addition to salaries (both fixed and variable) and social expenses, **personnel expenses** also include expenses for long-term employee provisions and pension fund contributions. Total personnel expenses increased by 6.6% to EUR 304.1 million (prior year: EUR 285.2 million). An increase in the number of employees impacted this, as well as actuarial losses from long-term employee provisions at the New York branch of EUR 5.8 million (prior year: domestic loss in the value of EUR 13.3 million), which must be recognised in profit or loss.

The **number of employees** at Erste Group Bank AG (in full-time equivalents) went up by 5.9%.

	As of 31 December 2017	As of 31 December 2016
Domestic	**2,200.0**	**2,074.5**
Foreign branches	**87.0**	**86.0**
London	29.0	29.0
New York	23.0	21.0
Hong Kong	23.0	23.0
Berlin, Stuttgart	12.0	13.0
Total	**2,287.0**	**2,160.5**
thereof maternity/paternity leave	105.3	129.4

Due to the fact that savings made on office rent and running costs were by far not sufficient to offset the additional IT and consulting costs, in particular in connection with stricter regulatory requirements, **other administrative expenses** worsened by 16.8% to EUR 336.6 million (prior year: EUR 288.2 million). On the one hand, group-wide new investments are now capitalized in Erste Group IT International GmbH and on the other, the necessary partial write-off in the value of EUR 29.3 million in 2016 did not reoccur, therefore the **depreciation and amortization on fixed assets and intangible assets** fell from EUR 51.5 million in the prior year to EUR 15.5 million. Losses resulting from the termination of derivatives in hedging relationships in the value of EUR 44.1 million (prior year: EUR 0.00 milion) were the main reason for the sharp increase in **other operating expenses** to EUR 71.1 million (prior year: EUR 26.6 million). As a consequence, **operating expenses** increased by 11.7% to EUR 727.3 million (prior year: EUR 651.4 million).

After deduction of all operating expenses from operating income, **net operating income** amounted to EUR 647.3 million in the financial year 2017 (prior year: EUR 951.0 million). At 52.9%, the **cost-income ratio** (operating expenses as a percentage of operating income) was above the prior year's figure of 40.7%.

The **required net allocation for loans and receivables** (including write-offs offset against income from written off loans) increased from EUR 5.6 million in the previous year to EUR 16.1 million in the current financial year. The cause for this was, amongst other factors, income from amortised receivables, which did not occur again in 2017. The successful balance from **current securities** (valuation and gains) as well as the result and value adjustment positions on **participating interests and fixed-asset securities** was EUR 190.7 million in 2017 (prior year: EUR 389.0 million mainly Banca Comercială Română S.A.). In particular participation valuations (primarily the appreciation of Erste Bank Hungary Zrt. as well as the depreciation of Erste Group IT International GmbH and OM Objectmanagement GmbH), but also gains realised through the sale of securities had a positive impact in the reporting year.

Accordingly, **pre-tax profit for the year** reduced from EUR 1,334.4 million in the previous year to EUR 821.9 million in 2017.

In the reporting year, dividend revenue, which did not result from operating profits, led to extraordinary income in the value of EUR 31.5 million (prior year: EUR 0.0 million). **Taxes on profit or loss** increased by 134.8% to an income of EUR 131.7 million (prior year: EUR 56.1 million). The increase is mainly due to the fact that there was enough substantial evidence that sufficient taxable income will be available in future, which resulted in the domestic recognition of deferred tax assets in the value of EUR 49.8 million (prior year: reversed EUR 24.9 million). Due to the high proportion of tax-exempt income as well as the obligation of depreciating participation over 7 years, no Austrian corporate income tax was payable in the financial year 2017. As a result of the one-off special payment of EUR 138.3 million, which was to be paid in the prior year in addition to banking levies in the amount of EUR 84.4 million (2017: EUR 15.3 million), **other taxes** decreased by 86.3% from EUR 222.7 million to EUR 30.5 million. Moreover, the one-off backpayment of capital gains tax for securities of EUR 14.6 million had a negative impact on the results.

After accounting for the **changes in reserves** (see Annex chapter C note 23), which resulted in the net allocation of EUR 438.7 million (prior year: EUR 681.7 million), there was both **annual** and **net profit** of EUR 515.8 million, which is above the previous year's level of EUR 429.8 million.

OUTLOOK

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 these markets and still historically low risk costs should be supportive factors to achieve the targets. 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 jeopardize 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 Bank AG 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 Bank AG 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 Bank AG 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. 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.

OWN SHARES

Month	Purchase/Sale	Portfolio as of	Purchase price	Selling price	Par value in share capital
January	Purchase	202,543	5,827,058		405,086
January	Sale	128,350		3,723,392	256,700
February	Purchase	175,651	5,094,154		351,302
February	Sale	119,379		3,483,647	238,758
March	Purchase	1,227,805	37,253,265		2,455,610
March	Sale	184,953		5,500,607	369,906
April	Purchase	264,725	8,337,259		529,450
April	Sale	276,238		8,625,830	552,476
May	Purchase	245,683	8,135,619		491,366
May	Sale	146,005		4,852,463	292,010
June	Purchase	72,198	2,349,715		144,396
June	Sale	401,377		12,877,733	802,754
July	Purchase	223,996	7,831,464		447,992
July	Sale	219,289		7,679,372	438,578
August	Purchase	330,379	11,916,008		660,758
August	Sale	242,231		8,763,936	484,462
September	Purchase	1,132,020	40,983,425		2,264,040
September	Sale	994,792		36,027,801	1,989,584
October	Purchase	478,908	17,915,673		957,816
October	Sale	419,474		15,714,336	838,948
November	Purchase	880,507	32,053,801		1,761,014
November	Sale	715,076		26,118,379	1,430,152
December	Purchase	246,696	8,775,076		493,392
December	Sale	762,784		26,888,023	1,525,568

The primary purpose of the transactions was market making and hedging of ATX positions. As of 31 December 2017, other liabilities include a short position in Erste Bank shares amounting to 933,620 units with a carrying amount of EUR 33,708,350.10 (prior year: 1,804,783 units, carrying amount EUR 50,218,086.98), which is covered by repurchase agreements.

RESEARCH AND DEVELOPMENT

Erste Group Bank AG ´s business purpose is to provide banking services. The production process of a bank is therefore not connected with research and development in an industrial sense. However, development work impacts permanently on the current business of the bank.

BRANCHES

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

CAPITAL, SHARE, VOTING AND CONTROL RIGHTS

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

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

As of 31 December 2017, together with its syndicate partners, DIE ERSTE oesterreichische Spar-Casse Privatstiftung (“Privatstiftung”), a foundation, controlls 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% are held directly by Austrian savings banks respectively saving banks foundations acting together with the Privatstiftung and affiliated with Erste Group Bank AG through the Haftungsverbund. 9.92% of the subscribed capital is controlled by the Privatstiftung on the basis of a shareholder agreement with Caixabank S.A. 3.08% are held by other partners to 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 which aims to strengthen its market position by strengthening common product development, harmonising its market appearance and advertising concepts, pursuing a common risk policy, engaging in co-ordinated liquidity management and applying common controlling standards.

In addition, the purpose of this scheme is:

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

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

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

In 2013, collaboration with savings banks was further strengthened by way of an additional agreement. The purpose of the agreement concluded in 2013 and effective as of 1 January 2014 is not only to broaden the regulatory options available to Erste Group Bank AG but also to ensure compliance with point 127 of Article 4 (1) CRR and Article 113 (7) CRR with a view to allowing recognition to interests at consolidated level in acc. with Article 84 (6) CRR. Participating saving bank in the contract concluded in 2013 was also the Sparkasse Oberösterreich, which forms an institutional protection system in accordance with Article 113 (7) CRR together 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 is in charge to manage the ex-ante-fund. Furthermore retained earnings are built, whereby a shift from untied reserves to tied reserves was conducted in 2014. On the basis of the contractual provisions, these retained earnings represent a restricted reserve. These tied retained earnings may be released only in case of a drawdown of the ex-ante-fund due to a triggering event. Internally, this reserve may therefore not be used to cover a loss and, at member level, it does not qualify as capital under the definition of CRR; on a consolidated level, however, the ex-ante-fund qualifies as capital.

Additional disclosures pursuant to section 243a (1) UGB

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

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

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

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

This concerns:

_ Art. 15.1 of the Articles of Association, which provides that Privatstiftung will be granted the right to nominate up to one third of the members of the Supervisory Board to be elected by the shareholders' meeting, as long as Privatstiftung is liable or all present and future liabilities of the company in the case of its insolvency pursuant to Section 92 (9) Banking Act and
_ Art. 15.4 of the Articles of Association, which provides that a three-quarter majority of valid votes cast and a three-quarter majority of the subscribed capital represented at the meeting considering the proposal are required to pass a motion for removal of Supervisory Board members
_ Art. 19.9 of the Articles of Association, which provides that the Articles of Association, in so far as they do not alter the business purpose, may be passed by simple majority of votes cast and simple majority of the subscribed capital represented at the meeting considering the amendment. Where higher majority votes are required by individual provisions of the Articles of Association, these provisions can only be amended with the same higher majority vote. Moreover, amendments to Art. 19.9 require a three-quarter majority of the votes cast and a three-quarter majority of the subscribed capital represented at the meeting considering the proposal.

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

As per decision of the Annual General Meeting of 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 may not exceed 5% of the subscribed capital at the end of any calendar day. The consideration for the shares to be purchased must not be less than 50% of the closing price at the Vienna Stock Exchange on the last trading day prior to the purchase and must not exceed 20% of the closing price at the Vienna Stock Exchange on the last trading day prior to the purchase. This authorisation is valid for a period of 30 months, i.e. until 16 November 2019.
_ 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 16 November 2019, to acquire own shares of up to 10% of the subscribed capital, subject to approval by the Supervisory Board, with the option of making repeated use of the 10% limit, either at the stock exchange or over the counter, likewise to the exclusion of the shareholders' right to tender proportional payment. The authorisation may be exercised in whole or in part or in several instalments and in pursuit of one or several purposes. The market price per share must not be below EUR 2.00 or above EUR 120.00. Pursuant to section 65 (1b) in conjunction with sec. 171 Stock Corporation Act, the Management Board is authorised, from the date of the resolution, i.e. until 16 May 2022, on approval by the Supervisory Board, to sell or use the company's own shares, also by means other than the stock exchange or a public offering for any purpose allowed by the law, particularly as consideration for the acquisition and financing of the acquisition of companies, businesses, business divisions or shares in one or several businesses in Austria or abroad to the exclusion of the shareholders' proportional purchase option. The authorisation may be exercised in whole or in part or in several instalments and in pursuit of one or several purposes. The Management Board is authorised to redeem own shares subject to the Supervisory Board's approval without requiring the Annual General Meeting to adopt any further resolution.
_ The Management Board is authorised to redeem shares without further resolution at the Annual General Meeting with the approval of the Supervisory Board.

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

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

"Haftungsverbund". The agreement in principle of the Haftungsverbund provides for the possibility of early cancellation for good cause. Good cause allowing the respective other contracting parties to cancel the agreement is deemed to exist if:
_ one contracting party grossly harms the duties resulting from the present agreement
_ the ownership structure of a party to the contract changes in such a way – particularly by transfer or capital increase – that one or more third parties from outside the savings bank sector directly and/or indirectly gain a majority of the equity capital or voting rights in the contracting party or
_ one contracting party resigns from the savings bank sector irrespective of the reason.

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

Directors and Officers Insurance. Changes in control: In the event that any of the following transactions or processes occur during the term of the insurance policy (each constituting a "change in control") in respect of the insured:

- the insured ceases to exist as a result of a merger or consolidation, unless the merger or consolidation occurs between two insured parties, or
- another company, person or group of companies or persons acting in concert, who are not insured parties, acquire more than 50% of the insured's outstanding equity or more than 50% of its voting power (resulting in the right to control the voting power represented by the shares, and the right to appoint the Management Board members of the insured),

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

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

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

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

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

IKS Framework Requirements

The IKS policy provides the framework conditions for the internal control system (IKS) at Erste Group. It defines current standards concerning general tasks and responsibilities as well as minimum criteria for IKS documentation. In Erste Group, a top-down, risk adjusted and decentralised IKS approach is to be applied with a focus on the material risks identified within the framework of the ICAAP process.

The IKS process of Erste Group is based on the framework conditions and minimum criteria of the introduction of group-wide internal policies (Group Policy Framework – GPF). All key controls for the control and monitoring of group-wide material risks are laid down in specific internal policies that have to be implemented group-wide. The definition and documentation of key controls has to be duly carried out by traceable means by the policy owner on group level. The control of the roll-out of individual policies is part of the general GPF process.

The monitoring of the efficiency and effectiveness of the IKS is ensured and validated by regularly conducted monitoring activities (control indicators) and individual sample inspections. This is done in order to guarantee that the key controls fulfil their objectives, reduce the probability of other risks occurring and to keep the other remaining risks in line with the risk-return. The risk profile, which includes the current and target situation, is monitored by each individual risk function unit and is illustrated in the framework of the consolidated risk reporting (GRR) for the management or relevant risk committee.

Control environment

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

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

Risk assessment

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

Controls

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

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

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

Information and communication

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

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

Responsibilities of Internal Audit

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

According to section 42 BWG, Internal Audit is a control body that is directly subordinate to the Management Board. It serves the exclusive purpose of ongoing and comprehensive reviews of the legal compliance, appropriateness and suitability of the banking business and banking operation. The mandate of Internal Audit is therefore to support the Management Board in its efforts to secure the bank's assets and promote economic and operational performance and thus in the Management Board's pursuit of its business and operating policy. The activities of Internal Audit are governed in particular by the law, the guidelines and minimum standards of the supervisory authorities and by its charter. The charter is reviewed on a regular basis and whenever required, and adapted should the need arise.

Audit activities of Internal Audit

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

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

RISK MANAGEMENT

Comments on the risk profile of Erste Group Bank AG

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

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

Participation Risks

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

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

Risk management objectives and methods

Taking risks in a conscious and selective manner and to manage such risks professionally is one of the core functions of a bank. Adequate risk policy and risk strategy is essential to a bank's fundamental financial health and operational business success.

Erste Group has developed a risk management framework that is forward-looking and tailored to its business and risk profile. This framework is based on a clear risk strategy that sets out general principles according to which risk taking must be performed across the group. The risk strategy is consistent with the business strategy and incorporates the expected impact of external environment on the planned business and risk development.

The risk strategy defines current and targeted risk profile for the main risk types and sets strategic limits for the significant financial and non-financial risk types as identified by the annual risk materiality assessment. The risk strategy is executed within a clearly defined governance structure, which is also applied for monitoring the risk appetite statement (RAS) and supporting metrics and escalation of limit breaches.

In 2017, management has continued to steer critical portfolios, including active portfolio management and sales of non-performing exposures to further strengthen the risk profile. This has been particularly demonstrated by the continuous improvement of the credit quality and the ongoing decrease of non-performing loans and risk costs.

For credit risk, by far the most important risk category, Erste Group Bank AG has been using the internal ratings-based (IRB) approach according to the Capital Requirements Regulation (CRR) and adopts this approach also for the assessment of economic capital requirements according to Pillar 2. In addition, all related and required methods and processes of this measurement approach are applied. The internal models are currently subject to a revision in the context of a comprehensive project with the specific view of addressing identified findings and incorporating regulatory changes.

For a number of years, the capital requirement for the market risk exposure of the trading book has been assessed using the bank's own model. In order to hedge the exposure to variability in the market risk resulting from balance sheet assets (bonds, loans) and liabilities (own issues, promissory notes, custody transactions) on an individual basis or as a group, Erste Group Bank AG uses interest rate swaps, currency swaps and options as hedging instruments. These hedging instruments are accounted for as valuation units together with the respective hedged item according to section 201 (2) Austrian Commercial Code (Unternehmensgesetzbuch – UGB). Effects of the continuing low interest rate environment are described in the unconsolidated financial statement in sections Financial performance indicators and Outlook.

The requirements for the generation of valuation units are fulfilled by the fair value hedge accounting processes which are applied at Erste Group Bank AG. Details on these processes are presented in the notes to the financial statement, section C note 31.

The equity capital for operational risk of Erste Group Bank AG is based on the advanced measurement approach (AMA). Currently, a review and adaptation of existing models are in progress.

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

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

Risk management organization

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

In 2017, it has been decided to streamline the Group CRO area's structure aiming to reduce complexity and to ensure more efficient processes and clear responsibilities, with focus on risk types. The changes addressed the following:

_ Group Liquidity and Market Risk Management was founded to cover all related topics with respect to liquidity risk and market risk;
_ Risk Methods and Models and Group Validation were integrated into the new division Credit Risk Models;
_ Group Retail and SME Risk Management was integrated into Group Credit Risk Management;
_ Group Sustainability Office was moved in Group CRO area as a staff unit;
_ Group EGI Real Estate Risk Management was integrated into existing dedicated functions and structure, i.e. Group Workout and Group Credit Risk Management;
_ Group Risk Operating Office has been shifted to the COO (Chief Operating Officer) divisions.

The following risk management functions report directly to the Group CRO:
_ 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;
_ Group Sustainability Office;
_ Local Chief Risk Officers.

The newly formed division Group Liquidity and Market Risk Management (GLMRM) comprises all market and liquidity risk functions. This division is responsible for steering, measurement, and controlling of liquidity and market risk of Erste Group Bank AG. It covers both banking book and trading book. For the independent review and validation of market and liquidity risk related methods and models, an own department was established in 2017.

Enterprise wide Risk Management (ERM) enables an increased focus on holistic risk management and ensures comprehensive risk portfolio steering, monitoring, analysis, and reporting. ERM drives key strategic initiatives to establish greater cohesion between risk strategy (including risk appetite and limit steering) and operational execution. Furthermore, ERM works together with all risk functions and key divisions to strengthen oversight risk to cover capital, credit, liquidity, market, operational, and business risk.

The Credit Risk Models division covers development and validation responsibilities in the area of credit risk. It is responsible for all the policies, standards and procedures across the full credit risk model lifecycle. This area provides adequate risk measurement methodologies and tools as well as an appropriate framework for relevant risk policies. Model validation is a fully centralized function, independent in line with regulatory requirements.

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

Group Workout (GWO) acts as single point of contact for the group's NPL strategy in line with the overall strategy of the group and all group related initiatives on NPLs and NPL management. It is responsible for the implementation of the group NPL strategy, the definition of strategic targets on group level and ensures that these targets are met on by means of monitoring, reporting and steering.

Group Credit Risk Management is the operative risk management function for both retail and non-retail portfolios (medium-sized enterprises, large corporate and real estate customers, as well as institutional clients and counterparties). In addition, the division is responsible for setting standards and steering the group's non-retail and retail lending portfolios. It ensures that only credit risk which is in line with the risk appetite, risk strategy and limits set by ERM are taken on the books of Erste Group Bank AG.

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

Due to the growing impact of non-financial issues on the reputation of a bank, Group Sustainability Office (GSO) became a staff unit within the CRO division on 1 June 2017. The main tasks of the GSO include implementing the diversity and environmental policy, adapting and communicating the Erste Group "Code of Conduct" and further developing the "Time Bank" in Austria (a corporate volunteering platform for co-operation between NGOs and Erste employees). In addition, the GSO is involved in the evaluation of non-financial risks in connection with corporate business and is the main contact for sustainability ratings and the Erste Group sustainability report.

Details about credit risk provisions are to be found in the appendix in section C note 33 and contingent liabilities are described in the appendix in section C note 34 of this unconsolidated financial statement. Litigations are treated in the appendix in section A (Ongoing legal cases).

CORPORATE GOVERNANCE

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

GLOSSARY

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

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

Operating Result
Operating result less operating expenses.

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

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

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

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

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

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

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

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

Vienna, 28 February 2018

V. Auditors’ Report

REPORT ON FINANCIAL STATEMENTS

Audit opinion

The Sparkassen-Prüfungsverband (Prüfungsstelle) and PwC Wirtschaftsprüfung GmbH, Vienna, – hereinafter referred to as “we” – have audited the financial statements of Erste Group Bank AG, Vienna, which comprise the balance sheet as at December 31, 2017, the income statement for the fiscal year then ended, and the notes.

In our opinion, the accompanying financial statements comply with legal requirements and give a true and fair view of the financial position of the Company as at December 31, 2017, and of its financial performance for the fiscal year then ended in accordance with the Austrian Commercial Code and the special legal requirements.

Basis for opinion

We conducted our audit in accordance with Regulation (EU) No. 537/2014 (hereinafter EU Regulation) and Austrian generally accepted auditing standards. Those standards require the application of the International Standards on Auditing (ISAs). Our responsibilities under those provisions and standards are further described in the “Auditor’s Responsibilities for the Audit of the Financial Statements” section of our report. We are independent of the Company in accordance with Austrian Generally Accepted Accounting Principles, the provisions of the Austrian Banking Act and professional requirements and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the fiscal year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.
We have structured key audit matters as follows:

- Description
- Audit approach
- Reference to related disclosures

1. Impairment of loan loss provision

Description:

Loan loss provisions are made by impairing loans and advances in order to take into account risks of losses with regard to the credit portfolio. As at December 31, 2017, Erste Group Bank AG, Vienna, set up loan loss provisions in the amount of EUR 0.3 billion for a credit volume totaling EUR 46.7 billion (loans and advances to customers and credit institutions as well as contingent liabilities). These loan loss provisions represent management’s best estimate with regard to losses incurred in the credit portfolio at the balance sheet date. Determining the amount of the loan loss provisions involves a high degree of judgment given the assumptions and estimates used.

As defined in the internal guidelines for determining loan loss provisions for the lending business of Erste Group Bank AG, Vienna, the following methods are applied to determine the lvel of loan loss provisions required:

- The loan loss provision is determined on a case-by-case basis for defaulted loans and advances considered to be significant at customer level.
- The loan loss provision is calculated based on statistical models for those defaulted loans and advances with a comparable risk profile that are not considered to be individually significant.
- For losses having already occurred until the balance sheet date but which the Company failed to identify, loan loss provisions are set up on a portfolio basis (impairment on a portfolio basis). These collectively assessed loan loss provisions are calculated using models based on estimated probabilities of default and loss ratios as well as the period elapsing between the occurrence of the loss event and its identification by the credit institution.

Specific provisions for impairment losses are calculated using the discounted cash flow method, meaning that the expected cash flows as well as the expected proceeds from the realization of collateral are estimated. These estimates are made on a case-by-case basis (significant loans and advances) or are collectively assessed (rule-based approach for loans and advances that are not significant).

Determining the impairment of loans and advances represents an estimate that significantly depends on the identification of the loss event and on the estimated loan loss provision to be set up. Given the volume of the loan loss provisions and the uncertainties involved regarding the estimates, we determined this matter to be a key audit matter.

Audit approach:

With a view to assess the appropriateness of the loan loss provisions set up, we:

_ evaluated the significant lending business processes.

_ identified and tested the internal control system, particularly the key controls involved in approving loans, in the ongoing monitoring and the early detection process, as well as audited the internal control system for the correct use of the rating models and measurement of collateral.

_ tested, by using samples, if loss events were fully identified, and assessed if events occurred that significantly affect the borrower's repayment ability with regard to loans and advances that are not considered as defaulted. We also evaluated the appropriateness of the risk assessment made by Erste Group Bank AG, Vienna, as well as individual loan loss provisions for a sample of loans and advances. With regard to these loans and advances, we critically assessed the cash flows estimated by the Company to be received from interest, redemption and collateral so as to be able to assess the appropriateness of the loan loss provisions stated in the financial statements.

_ referred to the below elements of the internal control system so as to assess the reliability of the statistical models used to calculate the collective loan loss provisions:

  _ Comparison of risk provision estimates made using statistical models against realized losses (backtesting),

  _ Ongoing monitoring and consistent validation of internal rating-based models and parameters,

  _ Assessment of the appropriateness of the lending values applied to the collaterals used, and

  _ Annual revision of estimates concerning the model parameters based on updated data sets.

_ evaluated, involving our credit risk experts in the audit, the reliability of the estimates made with regard to material regulatory models – which are also used for setting up collective loan loss provisions – based on their stability, performance and user acceptance.

_ assessed the information brought to the attention of the management in regular intervals at meetings of the Holding Model Committee, the Group Executive Risk Committee as well as comparable local Risk Committees and regularly monitored the decisions of these Committees, reperformed the analyses presented on backtesting and revised estimates, as well as critically assessed the model and parameter validations performed. Both Committees are responsible for taking crucial decisions regarding recalibrations or changes to the models that might be necessary.

Reference to related disclosures:

With regard to the above, we refer to management's disclosures in section C note 33 of this unconsolidated financial statement.

2. Fair values of securities and derivatives

Description:

The financial statements of Erste Group Bank AG, Vienna, include securities and derivatives at a book value of EUR 7.4 billion shown on the assets side as well as securities and derivatives at a book value of EUR 4.3 billion shown on the liabilities and equity side, accounted for at their fair values. Erste Group Bank AG, Vienna, uses observable market prices and valuation models to determine the fair values. The valuation models also play a significant role in determining the hedged risk in hedge accounting.

When measuring the fair values using valuation models, the choice of these models, the input parameters used, as well as the relating discretionary decisions made by management are decisive as regards the calculation of the market values. The measurement of securities and derivatives is subject to significant uncertainties as regards the estimates involved given the complexity of individual measurement models and the assumptions made on the measurement parameters by management.

Taking into account that securities and derivatives measured at fair value represent a large portion of the balance sheet both on the assets side and the liabilities and equity side, and given the existing uncertainties with regard to the estimates involved, we determined this matter to be a key audit matter.

Audit approach:

With a view to evaluate the appropriateness of the fair values of securities and derivatives, we used valuation experts and:

_ identified the process used to dtermine the fair values with the responsible employees and reviewed the relevant guidelines and documentation, particularly with regard to the valuation process, valuation models and market data.

_ tested select key controls with regard to the processes above.

_ tested, by using samples, if appropriate valuation methods were selected and consistently applied.
_ reconciled the reference rates used for securities against external market data and used this information to access if the fair value levels chosen comply with the internally defined criteria
_ performed plausibility checks based on a sample for those securities with regard to which the deviation between the external market data available to us and the reference rates used by Erste Group Bank AG, Vienna, exceeded a certain threshold.
_ critically assessed for a sample of securities for which no external market data were available the most important model inputs and reperformed the valuation approaches used based on our independent valuation.
_ critically assessed for a sample of derivatives measured using a model the most important model inputs and determined the valuation approaches used based on our independent valuation.
_ tested, by using samples, if the input data (yield curves) are applied in full and in a correct manner.
_ requested and analyzed the collateral reconciliation documents, the records on profits or losses from the termination of derivative contracts, as well as other documents which may help assess the appropriateness of the valuation models applied.

Reference to related disclosures:

With regard to the book values of the securities and derivatives accounted for at their fair values, we refer to management's disclosures in section C note 28. With regard to the description of the valuation methods as well as the valuation models used, we refer to management's disclosures in sections B as well as C notes 28, 29 and 32.

3. Reconverability of participating interests and shares in affiliated companies

Description:

As at December 31, 2017, the book value of participating interests and shares in affiliated companies (hereinafter referred to as "participating interests") was EUR 6.5 billion, with the historical acquisition costs amounting to EUR 10.8 billion. Whether these participating interests are recoverable or not depends on the expectations placed on the economic development of the respective companies as well as on the assumptions and parameters used in the measurement of the participating interests. Valuation results may lead to write-downs and write-ups.

The current values of the individual participating interests are based on near real-time transactions and market values, if any. When using internal valuations, the assumptions and parameters used in the measurement processes involve a significant degree of discretion on the part of management. If the current value calculated as described results in a permanent diminution in value compared to the book value, the participating interest is written down by this amount. If the current value of the participating interests written down in the past is higher, a write-up is made up to the maximum amount of the acquisition costs.

Erste Group Bank AG, Vienna, uses different valuation methods depending on the type of the participating interest and the information available.

Given the changes in value already recognized in the past and the existing uncertainties regarding the estimates involved, we determined this matter to be a key audit matter.

Audit approach:

With a view to evaluate the appropriateness of the write-downs and/or write-ups made, we:
_ evaluated the significant business processes in the management of participating interests. This also includes the budget planning process at the level of Erste Group Bank AG, Vienna, and significant subsidiaries.
_ valuated the internal process used to approve and monitor the parameters of the valuation model (e.g. risk-free interest rate, market risk premium, beta factors) and the value assessment.
_ used specialists with the necessary industry knowledge in the field of business valuation.
_ evaluated, by using samples, the valuation methods used with regard to their technical and mathematical correctness to determine whether the valuation method applied is in line with the business model of the participating interest as well as with the information available to Erste Group Bank AG, Vienna.
_ evaluated the deviation of significant parameters of the valuation model as well as their timeliness, and performed plausibility checks with regard to their appropriateness based on our own independently defined benchmarks.
_ compared, by using samples, if the target figures and parameters used in the valuation model concur with the approved budget figures as well as with the evaluated parameters of the valuation model. Here, our focus was in particular on the assumptions on perpetual annuity (most notably on the growth rate and retention).
_ analyzed, based on samples, the target figures approved and performed a plausibility check.

_ evaluated the accuracy of previous planning periods based on interviews with the employees responsible for comparing target and actual figures.
_ reconciled the identified write-downs and/or write-ups against the write-downs and/or write-ups recognized. In doing so, a particular focus was laid on the application of the historical cost principle in the event of write-ups.

Reference to related disclosures:
With regard to the above-stated information, we refer to management's disclosures in sections B and C note 9.

RESPONSIBILITIES OF MANAGEMENT AND THE AUDIT COMITEE FOR THE FINANCIAL STATEMENT

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Austrian Commercial Code and the special legal requirements, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

AUDITOR´S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

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

As part of an audit in accordance with the EU Regulation and with Austrian generally accepted auditing standards, which require the application of ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit.We also:
_ identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risks of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
_ obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
_ evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
_ conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
_ evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
We also provide the audit committee with a statement that we have complied with all relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Comments on the Management Report for the company

Pursuant to the Austrian Commercial Code, the management report is to be audited as to whether it is consistent with the financial statements and as to whether the management report was prepared in accordance with the applicable legal requirements.

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

We conducted our audit in accordance with Austrian Standards on Auditing for the audit of the management report.

Opinion

In our opinion, the management report for the Company was prepared in accordance with the applicable legal requirements, includes accurate disclosures pursuant to Section 243a UGB and is consistent with the financial statements.

Statement

Based on the findings during the audit of the financial statements and due to the obtained understanding concerning the Company and its circumstances no material misstatements in the management report came to our attention.

Other Information

Management is responsible for other information. Other information comprises any information included in the annual report, but does not include the financial statements, the management report and the auditor's report. The annual report is expected to be made available to us after the date of this auditor's report.

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

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

Additional Information in Accordance With Article 10 of the EU Regulation

Pursuant to Sections 23 and 24 Austrian Savings Bank Act (SpG), the Sparkassen-Prüfungsverband (Prüfungsstelle) is the statutory auditor of Austrian savings banks.

At the ordinary general meeting dated May 11, 2016 and pursuant to Section 1 (1) of the Auditing Rule for Savings Banks, Annex to Section 24 SpG, PwC Wirtschaftsprüfung GmbH, Vienna, was appointed as additional auditor for the first time. PwC Wirtschaftsprüfung GmbH, Vienna, was engaged by the supervisory board.

We confirm that the audit opinion in the "Report on the Financial Statements" section is consistent with the additional report to the audit committee referred to in Article 11 of the EU Regulation.

We declare that we did not provide any prohibited non-audit services (Article 5 (1) of the EU Regulation) and that we remained independent of the audited company in conducting the audit.

Responsible Engagement Partner

Responsible for the proper performance of the engagement are Mr. Gerhard Margetich, Austrian Certified Public Accountant (Sparkassen-Prüfungsverband (Prüfungsstelle)), and Ms. Dorotea-E. Rebmann, Austrian Certified Public Accountant (PwC Wirtschaftsprüfung GmbH, Vienna).

Vienna, 28 February 2018

Sparkassen-Prüfungsverand
(Prüfungsstelle)

(Bank Auditor)

Gerhard Margetich mp
Austrian Certified Public Accountant

Stephan Lugitsch mp
Austrian Certified Public Accountant

PwC Wirtschaftsprüfung GmbH

Timo Steinmetz mp
Austrian Certified Public Accountant

Dorotea-E. Rebmann mp
Austrian Certified Public Accountant

This report is a translation of the original report in German, which is solely valid. Publication and sharing with third parties of the consolidated financial statements together with our auditor's opinion is only allowed if the financial statements and the management report are identical with the German audited version. This audit opinion is only applicable to the German and complete financial statements with the management report. For deviating versions, the provisions of Section 281 (2) UGB apply.

VI. Statements of all members of the management board

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

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

Vienna, 28 February 2018