Erste Group Bank AG

Financial Statements 2018

ERSTE Group

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I. Balance Sheet of Erste Group Bank AG as of 31 December 2018

in EUR or in EUR thousand	Dec 18	Dec 17
Assets		
1. Cash in hand, balances with central banks	**8,241,827,295.61**	**5,126,373**
2. Treasury bills and other bills eligible for refinancing with central banks	**3,969,950,168.93**	**4,170,184**
a) treasury bills and similar securities	3,969,950,168.93	4,170,184
b) other bills eligible for refinancing with central banks	0.00	0
3. Loans and advances to credit institutions	**23,834,469,887.38**	**21,954,155**
a) repayable on demand	1,052,869,624.32	1,470,737
b) other loans and advances	22,781,600,263.06	20,483,418
4. Loans and advances to customers	**14,458,710,908.66**	**13,684,034**
5. Debt securities and other fixed-income securities	**4,961,648,001.92**	**3,770,474**
a) issued by public bodies	892,514,231.93	1,063,052
b) issued by other borrowers	4,069,133,769.99	2,707,422
of which: own debt securities	1,888,038,744.64	561,507
6. Shares and other variable-yield securities	**858,178,982.77**	**800,814**
7. Participating interests	**158,926,066.95**	**157,807**
of which: in credit institutions	73,709,928.12	69,978
8. Shares in affiliated companies	**6,656,692,377.97**	**6,334,770**
of which: in credit institutions	5,861,752,961.80	5,805,706
9. Intangible fixed assets	**25,925,919.16**	**25,268**
10. Tangible fixed assets	**42,441,529.91**	**38,090**
of which: land and buildings used by the credit institution for its own business operations	22,126,983.01	17,288
11. Shares in a controlling company	**0.00**	**0**
of which: par value	0.00	0
12. Other assets	**3,880,304,038.20**	**4,742,651**
13. Subscribed capital called but not paid	**0.00**	**0**
14. Prepayments and accrued income	**167,996,690.65**	**265,138**
15. Deferred tax assets	**57,010,638.22**	**60,966**
Total assets	**67,314,082,506.33**	**61,130,724**
Off-balance sheet items		
1. Foreign assets	**42,690,454,487.27**	**38,478,266**

in EUR or in EUR thousand	Dec 18	Dec 17
Liabilities and equity		
1. Liabilities to credit institutions	**25,037,760,590.25**	**23,749,997**
a) repayable on demand	6,678,361,676.04	5,234,564
b) with agreed maturity dates or periods of notice	18,359,398,914.21	18,515,434
2. Liabilities to customers (non-banks)	**7,264,807,727.66**	**4,733,258**
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	7,264,807,727.66	4,733,258
aa) repayable on demand	3,061,902,394.03	3,585,916
bb) with agreed maturity dates or periods of notice	4,202,905,333.63	1,147,342
3. Securitised liabilities	**17,138,954,865.35**	**13,979,166**
a) debt securities issued	16,278,519,924.77	13,853,227
b) other securitised liabilities	860,434,940.58	125,939
4. Other liabilities	**3,779,401,297.37**	**4,656,916**
5. Accruals and deferred income	**187,391,626.48**	**257,934**
6. Provisions	**485,058,851.17**	**507,948**
a) provisions for severance payments	0.00	0
b) provisions for pensions	298,186,516.83	281,645
c) provisions for taxes	13,156,376.04	40,678
d) other	173,715,958.30	185,625
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	**4,799,400,070.19**	**5,045,440**
8. Additional Tier 1 capital pursuant to Part 2 Title I Chapter 3 of Regulation (EU) No 575/2013	**1,016,440,086.48**	**1,016,473**
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	**3,665,527,880.71**	**3,330,212**
a) statutory reserve	1,537,900,000.00	1,537,900
b) reserves provided for by the articles	0.00	0
c) other reserves	2,030,514,327.07	1,698,446
d) other restricted reserves	97,113,553.64	93,866
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	**601,720,000.00**	**515,760**
Total Liabilities and equity	**67,314,082,506.33**	**61,130,724**
Off-balance sheet items		
1. Contingent liabilities of which	**4,569,755,043.25**	**4,453,100**
a) acceptances and endorsements	0.00	0
b) guarantees and assets pledged as collateral security	4,049,194,999.55	3,958,182
c) credit derivatives	520,560,043.70	494,918
2. Commitments	**7,293,503,272.32**	**6,305,634**
of which: commitments arising from repurchase agreements	0.00	0
3. Liabilities arising out of fiduciary activities	**148,530.72**	**191**
4. Own funds pursuant to Part 2 of Regulation (EU) No 575/2013	**11,413,737,709.67**	**11,863,136**
of which: Tier 2 capital pursuant to Part 2 Title I Chapter 4 of Regulation (EU) No 575/2013	3,532,456,381.22	4,364,584
5. Own funds requirements pursuant to Art 92 of Regulation (EU) No 575/2013 of which: capital required pursuant to Art 92 (1) of Regulation (EU) No 575/2013	**32,235,316,755.30**	**30,367,143**
a) Common Equity Tier 1 capital ratio	21.35%	21.43%
b) Tier 1 capital ratio	24.45%	24.69%
c) Total capital ratio	35.41%	39.07%
6. Foreign liabilities	**17,116,895,346.24**	**12,601,278**

II. Income Statement of Erste Group Bank AG for the Year ended 31 December 2018

in EUR or in EUR thousand	1-12 18	1-12 17
1. Interest and similar income	2,569,271,749.21	832,453
of which: from fixed-income securities	199,685,413.70	224,298
2. Interest and similar expenses	-2,283,458,451.30	-564,656
I. NET INTEREST INCOME	**285,813,297.91**	**267,798**
3. Income from securities and participating interests	1,050,017,987.29	846,623
a) income from shares, other ownership interests and variable-yield securities	52,436,963.25	55,900
b) income from participating interests	8,017,803.49	15,589
c) income from shares in affiliated companies	989,563,220.55	775,134
4. Commissions income	167,754,882.64	149,468
5. Commissions expenses	-128,252,178.81	-123,048
6. Net profit or loss on financial operations	-77,574,761.08	12,519
7. Other operating income	107,522,854.68	221,223
II. OPERATING INCOME	**1,405,282,082.63**	**1,374,584**
8. General administrative expenses	-647,008,384.22	-640,675
a) staff costs	-335,122,086.20	-304,113
aa) wages and salaries	-230,355,066.71	-228,949
bb) expenses for statutory social security contributions and compulsory contributions related to wages and salaries	-46,585,125.59	-46,525
cc) other social expenses	-3,000,249.19	-3,077
dd) expenses for pensions and assistance	-10,426,113.14	-9,873
ee) release / allocation to the provision of pensions	-37,713,596.08	-6,718
ff) expenses for severance payments and contributions to severnace and retirement funds	-7,041,935.49	-8,970
b) other administrative expenses	-311,886,298.02	-336,562
9. Value adjustments in respect of assets items 9 and 10	-15,327,594.35	-15,519
10. Other operating expenses	-34,081,216.73	-71,107
III. OPERATING EXPENSES	**-696,417,195.30**	**-727,301**
IV. OPERATING RESULT	**708,864,887.33**	**647,283**
11. Value adjustments of loans and advances and allocations to provisions for contingent liabilities, commitments and securities held in the financial current assets	-113,753,903.99	-170,141
12. Value re-adjustments of loans and advances and provisions for contingent liabilities, commitments and securities held in the financial current assets	157,251,753.54	157,169
13. Value adjustments of transferable securities held as financial fixed assets, participating interests and shares in affiliated companies	-159,526,408.80	-103,587
14. Value re-adjustments of transferable securities held as financial fixed assets, participating interests and shares in affiliated companies	240,289,852.23	291,129
V. PROFIT OR LOSS ON ORDINARY ACTIVITIES	**833,126,180.31**	**821,852**
15. Extraordinary income	0.00	31,467
of which: withdrawals from the special fund for general banking risks	0.00	0
16. Extraordinary expenses	0.00	0
of which: allocation to the special fund for general banking risks	0.00	0
17. Extraordinary result (sub-total of items 15 and 16)	0.00	31,467
18. Tax on profit or loss	108,526,015.36	131,657
19. Other taxes not reported under item 18	-4,616,565.83	-30,479
VI. PROFIT OR LOSS FOR THE YEAR AFTER TAX	**937,035,629.84**	**954,497**
20. Changes in reserves	-335,315,629.84	-438,737
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	**601,720,000.00**	**515,760**
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	**601,720,000.00**	**515,760**

III. Notes to the Financial Statements 2018

A. GENERAL INFORMATION

Erste Group Bank AG is listed on the Vienna Stock Exchange. It is also quoted on the Prague Stock Exchange and on the Bucharest Stock Exchange. 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 2018 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 (Capital Requirements Regulation - 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 bank that is 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.

Disclosure

Erste Group Bank AG uses the Internet as the medium for publishing disclosures er Article 434 of regulation (EU) No 575/2013 on prudential requirements for credit institutions and investment firms (Captial Rquirements 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 2018.

B. NOTES ON ACCOUNTING AND MEASUREMENT METHODS

Generally accepted accounting principles

The financial statements have been prepared in accordance with the 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 applicable at the balance sheet date 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. In general 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.

Loans and advances to credit institutions and customers

Credit loans and advances to credit institutions and customers were measured in accordance with the standards set out in the AFRAC (Austrian Financial Reporting and Auditing Committee - AFRAC) and Financial Market Authority`s (FMA) joint position paper concerning the credit institutions’ subsequent measurement at amortised cost in accordance with section 57 (1) Austrian Banking Act (BWG) 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.

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 amortised 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 (in accordance with section 207 Commercial Code in connection with section 56 (5) Austrian Banking Act (BWG));

_ fixed assets at amortise 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 (in compliance with section 204 (2) Commercial Code).

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.

Amortised Costs and Effective Interest Rate Method

Pursuant to section 56 (2) und (3) Austrian Banking Act (BWG) and section 198 (7) Commercial Code, the difference between acquisition cost and book values for fixed-income securities with the characteristics of financial investments as well as for securitised liabilities is amortised on a pro rata basis. Differences are allocated in line with statement 14 by AFRAC concerning financial investments and financial assets based on the effective interest rate method (EIR). The allocation is carried out until the first opportunity for the issuer to redeem, or until the redemption date.

In the lending business, fees and provisions with interest-like characteristics, modification gains and losses as well as changes in estimates are amortised on a pro rata basis using the effective interest rate method.

The amortised acquisition costs of financial assets or liabilities are the amount, which the asset or liability is valued at when initially recognised, minus redemptions, plus or minus the cumulated amortisation of any difference between the original amount and the amount redeemable at maturity using the effective interest rate method.

The effective interest rate is the interest rate with which the estimated future in- and outflows over the expected life of the asset or liability are discounted exactly at the amortised costs of an asset or a liability. The estimated cash flows take into consideration all conditions set out in the contract for the asset or liability; expected credit losses, however, are not taken into consideration. Furthermore, the calculation includes transaction costs and handling fees, if these are distributable, as well as all other premiums and discounts on the nominal value.

The EIR is used to record interest income and expenses. For assets, interest income is calculated as follows:

_ EIR applied to the amortised acquisition costs of assets without impaired credit rating (stage 1 and stage 2 of the three stage impairment model – for a detailed description, see Chapter Impairment for Credit Risks);
_ EIR applied to the amortised acquisition costs after considering any impairment provisions of assets with impaired credit rating (stage 3);

For liabilities, interest expense is calculated by applying the effective interest rate to the amortised acquisition costs.

Should the base interest rate change during the life of a variable interest rate loan and this change is not due to contractual modification, the changes to the expected future in/outflows are taken into consideration by recalculating the EIR. Any caps and floors agreed on the base interest rate are also taken into account.
If the expected future in/outflows of a loan change during the contract term and the change is neither due to contractual modification nor to an adjustment to the nominal interest rate, nor to deterioration of credit rating, the amortised costs of the asset are adjusted by recording a changed estimate. This changed estimate corresponds to the difference between the amortised acquisition costs before the change in the expected in/outflows and the cash value of the newly expected in/outflows, discounted by the original effective interest rate. In the profit and loss statement the change in estimates is reflected in the interest income.

Handling of contractual modifications

Within the framework of the current lending business and in agreement with the respective debtors, it may be the case that Erste Group Bank AG changes or renegotiates certain contractual terms. These contractual changes could include, for example, market-driven commercial renegotiations, or might be aimed at alleviating the borrower`s financial difficulties. At Erste Group Bank AG, a series of criteria are employed for the assessment of the substance of the contractual change. Based upon these criteria, it is determined whether the modified conditions differ significantly from the original ones.

Substantial changes lead to the derecognition of the original financial asset and to the initial recognition of the modified financial asset. These changes include:

- change to the contractual counterparty (unless it concerns a formal change, e.g. changes to the legal designation);
- change to the contractual currency (unless the change results from exercising already defined conditions within an option included in the original contract to change the currency, or the new currency is linked to the original currency;
- the introduction of contractual clauses, which lead to contractual cash flows which do not only include redemption and interest (contractual clauses not complying to SPPI); unless this concerns concessions which improve the collectability of receivables by way of allowing debtors to recover from financial difficulties; and
- the removal of a contractual clause which does not comply with SPPI.

Moreover, the following contractual changes also lead to derecognition, unless these contractual changes are to be classified as forbearance measures, the contractual changes are applied to clients subject to default or a default occurs as part of the contractual change:
- change to the repayment plan, which leads to the fact that the weighted residual term of the asset is changed by more than 100% and no less than two years in comparison to the original asset;
- change to the point in time or amount of the contractual cash flow, which leads to the cash amount of the modified cash flow (discounted using the effective interest rate prior to modification) deviating by more than 10% from the amortised cost of the asset immediately before the change (cumulative assessment considering all changes in the past twelve months); or
- Re-negotiations initiated by a debtor, who is not impaired and is attempting to achieve better conditions than the refinancing alternative, provided that there is the option of advance payment or premature termination and a sufficiently competitive refinancing market. In addition, the costs that the debtor incurs in the case of advance payment or premature termination must be valued sufficiently lowly so that these do not prevent the debtor from exercising this option. This derecognition criterion is rarely applied to loans in stage 2 and stage 3.

If contractual modifications applying as forbearance measures for defaulted customers or triggering the default are so significant that they are qualitatively seen as an extinguishment of the original contract, they lead to derecognition. Examples of such modifications include:
- a new agreement with significantly modified contract components, which was signed in the context of a necessary restructuring after a standstill agreement that temporarily suspended the rights of the original asset;
- merging of several original loans into an asset with significantly modified conditions; or
- conversion of a revolving loan to a non-revolving loan.

Contractual modifications, which lead to the derecognition of the respective original asset, result in the initial recognition of a new financial asset. If the debtor has defaulted, or the substantial modification leads to a default, the new asset is treated as a defaulted asset. The difference between the book value of the derecognised asset and the fair value of the new asset upon initial recognition is recorded in the profit and loss statement in items 11 or 12.

If the debtor has not defaulted or the substantial modification does not lead to default, the new asset, which was recognised after the derecognition of the original asset, is allocated to stage 1. The non-amortised amount of handling fees/transaction costs considered in the effective interest rate, are recognised in the interest result on the write-off date. The reversal of impairments, which were recorded for the original asset at the point in time the substantial modification took place, as well as the recording of the impairment for the new asset are both shown in the profit (item 7) and loss (item 10) statement in items 11 or 12. The remaining difference is shown in other operating income or expenses.

Impairment for Credit Risks

Impairments for credit risks to loan receivables and off-balance sheet credit risk arising from financial guarantee contracts and certain loan commitments are recorded. For loan receivables, the book value of the asset recorded in the balance sheet corresponds to the difference between the amortised acquisition costs and the cumulated impairments. Impairments for loan commitments and financial guarantee contracts are reported in the balance sheet item other provisions. In the profit and loss statement, impairment losses and income are recorded in items 11 and 12 for all assets.

The calculation of impairments is carried out in line with the FMA and AFRAC's common position paper concerning the subsequent valuation in credit institutions by using the IFRS 9 model in the Commercial Code. The impairment model is based on expected credit loss and considers the "statistically determined empirical values from similar facts and circumstances" in Section 201 (2) Z 7 Commercial Code, which are also necessary for the valuation of expected credit loss in the Commercial Code.
Expected credit loss (ECL) reflects the following:
- an undistorted and probability-weighted amount, which is determined by a series of possible scenarios;
- the time value of money; and

_ plausible and comprehensible information about past events and current conditions as well as prognoses about future economic developments

Three Stage Model

An impairment model based upon a three stage approach is used for the calculation of risk provisioning:
_ Stage 1 includes financial assets at initial recognition and financial assets which have not significantly shown increased credit risk since initial recognition, independent of their creditworthiness.
_ Stage 2 includes financial assets which have shown significant increased credit risk since initial recognition, however for which there is not yet any impairment at the time of report. Specific rules for the classification of initial utilisations of approved lines of credit exist. Dependent on the development of credit risk between confirmation and initial utilisation, the loan is classified at stage 1 or stage 2.
_ Stage 3 includes financial assets that are impaired on the reporting date. A financial asset is principally impaired if the customer defaults.

Across the Group, the definition used for loan default is based on EBA/GL/2016/07 guide to using the definition of default in accordance with Article 178 of EU regulation number 575/2013. The definition outlines the default-contagion surrounding groups of connected customers as well as technically defaulted loans. At Erste Group Bank AG there is generally a total customer perspective, which leads to impairment for all receivables, even if the default occurs only for one out of more transactions. On the other hand, an upgrade of the default status causes the reversal of impairment in all transactions

In stage 1 risk provisions are calculated in the amount of the expected losses over 12 months. In stages 2 and 3 risk provisions are calculated in the amount of the expected credit losses over the (remaining) duration.

Significant Increase in Credit Risk

Erste Group Bank AG recognises risk provisions for non-defaulting customers amounting to the expected credit losses. In accordance with the AFRAC and FMA's common position paper, the IFRS 9 method for calculating expected credit losses provides a possible method of taking into account expected credit losses for the Commercial Code. Therefore, Erste Group Bank AG measures risk provisions in the Commercial Code in the same amount as in the IFRS 9 model.

Concerning the modelling of the expected credit loss (ECL) and the calculation of the risk provisions for credit risks resulting therefrom, the identification of a significant increase in credit risk (SICR) since the recognition of the loan receivable is one of the substantial determinants for the expected impact. For this purpose, quantitative and qualitative indicators for the estimation of a SICR are defined for all portfolios and product types, including receivables overdue by more than 30 days.

Quantitative indicators include adverse changes in the probability of default (PD) over the total (remaining) duration as well as the one year PD, whereby the significance is determined by means of a combination of relative and absolute change threshold levels. Generally, the indicators for the PD are defined in order to represent the risk in consideration of forward-looking information as a point-in-time measurement. The PD threshold values are defined for customer segments or (individual) customer rating and are subject to first time and continuous validation.

Qualitative indicators for calculating an SICR include forbearance measures and the transfer of the customer to the workout department as well as early warning indicators (if these are not already sufficiently considered in the rating) and indications of fraud. The setting of qualitative indicators is based inherently on the expert evaluation of credit risks, which is to be carried out in an appropriate and timely manner. The group-wide and institution-specific guidelines and processes concerning this ensure the required governance framework. Besides the qualitative determinants on a customer level, the calculation of an SICR is carried out at portfolio level if the increase to the credit risk on a business or customer level occurs only after some delay or if the increase is only noticeable at portfolio level.

Individually or Collectively Calculated Risk Provisions

The calculation of risk provisions for defaulted customers is generally carried out on an individual level. The individual method is used for defaulted customers and comprises an individual definition of those restructuring or liquidation scenarios deemed currently possible, the probability of them occurring and the expected recoveries per scenario (amortisations and collateral proceeds) by the workout-riskmanager. The probabilities are stipulated by the workout-riskmanagers based on an individual assessment of the restructuring and liquidation scenarios.The cash value comes from the discounting of the expected cash flows based on the original effective interest rate. The required risk provision is the difference between the gross book value and the cash value of the expected cash flows in a scenario, calculated over all probability-weighted scenarios.

Regardless of their significance, rule-based risk provisions are calculated on the basis of a rule-based approach for non-defaulted customers. The amount of portfolio valuation allowances depends on the gross book value, the probability of default (PD), the losses upon default (LGD) and the credit conversion factor (CCF) for off-balance sheet items. For the calculation of loss upon default, the impact of the discounting of future cash flows on the cash value is considered.

As a result of the characteristics of each portfolio and under consideration of the IFRS rules, the risk parameters that are included in the calculation of the portfolio valuation allowances may differ to the risk parameters that are used for the calculation of the capital requirement.

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 on a pro rata temporis basis using the effective interest rate method.

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.

As a result of the first-time application of the Actuarial Association of Austria (AVÖ) 2018 generation tables, an impact in the provisions for severance, pension and jubilee benefits provisions in the amount of EUR 22,223,010.16 was recognised (severance: EUR -830,889.29 / pension: EUR 21,690,194.54 and jubilee benefits provisions EUR 1,363,707.91). The first-time application of the Actuarial Association of Austria (AVÖ) 2018 generation tables this financial year did not change the valuation method. The option to distribute the adjustment pursuant to override regulation was not exercised; rather the effect was shown in total in the profit and loss of the reporting year. Due to the single recording of the figure, the true picture of the assets, financial and earnings position is not negatively influenced.

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 0.01223% 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 valuation unit, thus the Fair Value neither of the derivative nor of the hedged item is part of the balance sheet. This means that value adjustments from derivative and underlying transaction are not recognised in the balance sheet. The presentation of trading book derivatives on balance is done for the single confirmation priced mark-to-market.

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. Derivatives in the Banking Book, which are not in a hedge relationship under AFRAC statement 15 (September 2017) are recognised based on the imparity principle in profit and loss as provisions for contingent losses with the expected loss exceeding the book value. The interest income/expenses as well as possible financial compensation from the current period are accrued based on the effective interest rate. These are shown in the interest result, independent of assignment to the trading book or banking book. The calculation of interest income or expense is generally carried out on single trade basis. For currency derivatives, the calculation is conducted on the basis of each currency.

Erste Group Bank AG applies AFRAC statement 15 Derivatives and Hedging Instruments (Commercial Code) from September 2017 for the reporting of internal derivative transactions in hedge relationships.

The attributed fair value is the amount which could be achieved in an active market from the sale of a financial instrument, or the amount which would need to be paid for a relevant acquisition. As long as market rates were available, these are used for valuation. If market rates were not available, valuation models were used, which included the present value method in particular. Fair values for options are calculated with recognised option price models. The valuation models applied include inter alia models of the Black-Scholes class, the binomial model, the Hull&White and Brace Gatorek Musiela (BGM) models.

Credit Value Adjustment (CVA) and Debt Value Adjustment (DVA) are used for the calculation of the market values of derivatives. For derivatives in hedge relationships, the CVA is reported as an inefficient part in the balance sheet and income statement.

Deferred tax assets

Deferred tax assets are recognised to the extent of convincing substantial evidence 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

On 1.1.2018, the new international accounting standard IFRS 9 "Financial Instruments" was applied for the first time in the consolidated financial statement. In connection with the transition to IFRS 9, special circumstances in accordance with section 201 (3) Commercial Code exist. This is due to the fact that significant impacts to the corporate strategy and corporate management are connected with the application of IFRS 9 and, in addition, the quality of data in the calculation of credit losses has improved due to the requirements of IFRS 9. A deviation from the principle of consistency of valuation in accordance with section 201 (3) Commercial Code is therefore permitted in consideration of the general requirement. It is indicated in the AFRAC and FMA`s common position paper from September 2017 that due to the first-time adaption of IFRS 9 in the consolidated financial statement, there is a sufficient basis for the deviation from the consistency of valuation in accordance with section 201 (3) Commercial Code in the individual financial statements.

Up until 31.12.2017, risk provisions for impaired loans were calculated according to the discounted cash flow method. For loans in which the impairment had occurred before the balance sheet date, but this had not been identified by the credit institution, risk provisions were calculated using a model, which is based on the estimation of default probabilities and loss rates as well as the time period between the loss event occurring and its identification by the credit institution. Since 1.1.2018, risk provisions have been calculated by analogously application of the IFRS 9 risk provision model (three stage model) based on expected credit loss. This calculation is carried out in accordance with the AFRAC and FMA`s common paper on questions regarding subsequent valuation by credit institutions. Due to the change, there was an adjustment to the risk provisions recorded in the profit and loss statement in the current financial year.

Moreover, in the context of the first-time application of IFRS 9 and concerning the distribution of distributable interest income in securities and derivatives, a modification was made to the so-called effective interest method. In the calculation of the effective interest rates, all directly attributable distributable fees, premiums and other payments received or made are taken into account. Only insignificant change effects resulted from the logical application of the IFRS requirements stipulated in the Commercial Code.

Pursuant to section 56 (2) Austrian Banking Act (BWG), section 56 (3) Austrian Banking Act (BWG) and section198 (7) Commercial Code, the difference between the acquisition cost of securities and their redemption amount was amortised on a straight-line basis until 31.12.2017; from 1.1.2018 the effective interest rate method is used. The transition did not lead to an adjustment of the carrying amounts on 1.1.2018.

From the reporting year 2018 onwards, accrued current interest income/expenses for all derivatives are reported in the interest result, independent of the allocation to trading book or banking book. The calculation of interest income or interest expense is generally carried out on the basis of single trade or on currency level for currency derivatives. On the one hand, this leads to an increase in the interest result of EUR 72.4 million in comparison to the application of the booking logic of the previous year. On the other hand, it also leads to the separate recognition in income interest / and expense (increase in interest income: EUR 1.540,7 million; interest expense: EUR 1.468,3 million), which was reported in total in the balance sheet item financial results to date. This adjustment to the statement was also carried out due to the introduction of a new position-keeping and accounting system for derivatives. For these reasons, a comparison to the previous year's results is possible only to a limited extent for both items.

Issued securities in liability items 3 lit. a and 7 are deducted upon repurchase of the liabilities if renewed placement on the market is definitively excluded. Deduction is also carried out if the liability item is redeemed. Any differences between the book value and the paid repurchase or redemption price are reported in other operating income or other operating expenses since the financial year 2018. Prior to the financial year 2018, this reporting was carried out under items 11 and 12 of the profit and loss statement.

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 18	Dec 17
Loans and advances to credit institutions	**23,834,469,887.38**	**21,954,155**
payable on demand	1,052,869,624.32	1,470,737
0-3 months	13,608,813,675.68	11,392,484
3-12 months	2,185,981,142.59	3,264,365
1-5 years	5,941,020,639.52	5,001,790
>5 years	1,045,784,805.27	824,779
Loans and advances to customers	**14,458,710,908.66**	**13,684,034**
payable on demand	656,905,149.42	466,992
0-3 months	754,968,806.47	636,487
3-12 months	1,755,150,374.00	1,456,902
1-5 years	6,075,117,012.61	6,553,506
>5 years	5,216,569,566.16	4,570,148

Liabilities

in EUR or in EUR thousand	Dec 18	Dec 17
Liabilities to credit institutions	**25,037,760,590.25**	**23,749,997**
payable on demand	6,678,361,676.04	5,234,564
0-3 months	15,493,980,976.51	14,773,716
3-12 months	280,041,177.62	630,681
1-5 years	2,465,809,333.87	2,831,590
>5 years	119,567,426.21	279,446
Liabilities to customers (non-banks)	**7,264,807,727.66**	**4,733,258**
Savings deposits	**0.00**	**0**
Other Liabilities	**7,264,807,727.66**	**4,733,258**
payable on demand	3,061,902,394.03	3,585,916
0-3 months	3,931,295,854.56	755,767
3-12 months	52,500,000.00	56,935
1-5 years	144,880,679.07	147,840
>5 years	74,228,800.00	186,800

In accordance with section 64 (1) Z Austrian Banking Act (BWG), remaining maturities of securitised liabilities are not disclosed in the reporting year.

2. Debt securities due within one year

Purchased debt securities worth EUR 712,425,722.32 (prior year: EUR 369,066 thousand, prior year adjusted on the basis of section 64 (1) Z 7 Austrian Banking Act (BWG) only item A5 disclosed) and issued debt securities worth EUR 1,444,146,605.54 (prior year: EUR 1,963,817 thousand) are scheduled to mature in the year following 31 December 2018.

3. Assets and liabilities in foreign currencies

in EUR or in EUR thousand	Dec 18	Dec 17
Assets	20,494,120,857.73	17,408,183
Liabilities	13,115,075,633.66	10,511,681

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 18	Dec 17	Dec 18	Dec 17
Treasury bills and other bills eligible for refinancing with central banks	0.00	0	0.00	0
Loans and advances to credit institutions	19,403,512,060.74	20,124,397	0.00	0
Loans and advances to customers	2,432,659,235.25	2,326,058	412,226.72	25,599
Debt securities and other fixed-income securities (incl. securitised loans and advances to credit institutions)	710,442,798.60	1,621,526	0.00	0
Shares and other variable-yield securities	628,772,333.71	637,595	26,344,334.74	26,251

Among these, the most important companies are:

Loans and advances to affiliated companies:
_ Česká Spořitelna a.s., Prague
_ Slovenská sporiteľňa, a. s., Bratislava
_ Salzburger Sparkasse Bank AG, Salzburg
_ Steiermärkische Bank und Sparkassen Aktiengesellschaft, Graz

in EUR or in EUR thousand	Liabilities to affiliated companies		Liabilities to participating interests	
	Dec 18	Dec 17	Dec 18	Dec 17
Liabilities to credit institutions	14,543,090,796.23	14,450,543	128,706.62	77
Liabilities to customers (non-banks)	234,195,467.49	178,812	23,590.60	357
Securitised liabilities	593,197,403.84	637,843	0.00	0
Tier 2 capital pursuant to Part 2 Title I Chapter 4 of Regulation (EU) No 575/2013	2,510,590.54	70	0.00	0

Liabilities to affiliated companies:
_ Erste Bank der Oesterreichischen Sparkassen AG, Vienna
_ Steiermärkische Bank und Sparkassen Aktiengesellschaft, Graz
_ Allgemeine Sparkasse Oberösterreich Bank AG, Linz
_ Česká Spořitelna a.s., Prague

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

5. Subordinated assets

in EUR or in EUR thousand	Dec 18	Dec 17
Loans and advances to credit institutions, thereof	**745,540,793.57**	**1,379,563**
to affiliated companies	691,160,907.88	1,345,947
to companies with participating interests	0.00	0
Loans and advances to customers, thereof	**1,146,403.77**	**37,245**
to affiliated companies	0.00	0
to companies with participating interests	412,226.72	0
Shares and other fixed-income securities, thereof	**11,160,821.60**	**90,645**
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

The prior year figure in item A6 was adjusted to the book value of listed securities only in both following tables:

Breakdown of securities admitted to trading on stock exchange items A5 to A8

pursuant to section 64 (1) no. 10 Austrian Banking Act (BWG) in EUR or in EUR thousand	Listed		Not listed	
	Dec 18	Dec 17	Dec 18	Dec 17
Debt securities and other fixed-income securities	4,961,648,001.92	3,591,645	0.00	178,829
Shares and other variable-yield securities	151,700,005.71	120,886	39,754,795.63	8,057
Participating interests	1,440,071.43	1,440	0.00	0
Shares in affiliated companies	0.00	0	0.00	0
Total	**5,114,788,079.06**	**3,713,971**	**39,754,795.63**	**186,886**

Breakdown of securities admitted to trading on stock exchange items A5 to A8

pursuant to section 64 (1) no. 11 Austrian Banking Act (BWG) in EUR or in EUR thousand	Fixed assets		Current assets	
	Dec 18	Dec 17	Dec 18	Dec 17
Debt securities and other fixed-income securities	2,044,387,839.64	2,178,328	1,914,417,833.01	530,720
Shares and other variable-yield securities	58,694,589.45	0	70,550,063.27	26,902
Total	**2,103,082,429.09**	**2,178,328**	**1,984,967,896.28**	**557,622**

The prior year figures for current assets were reduced by the trading book items in line with the reporting year.

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.

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 2018, the difference to the redemption value – items A2 to A6 - resulting from the pro rata write-downs pursuant to section 56 (2) Austrian Banking Act (BWG) amounts to EUR 62,887,942.52 (prior year: EUR 77,729 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 37,301,716.30 (prior year: EUR 24,846 thousand).

Repurchase agreements

The carrying amount of assets subject to sale and repurchase agreements amounts to EUR 1,043,210,347.88 on the balance sheet date (prior year: EUR 1,320,205 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 1,857,862.36 (prior year: EUR 7,778 thousand, prior year adjusted on the basis of section 59 (5) Austrian Banking Act (BWG): disclosure of current assets only).

Breakdown of debt securities and other fixed-income securities

in EUR or in EUR thousand	Dec 18	Dec 17
Issued by public-sector issuers	892,514,231.93	1,063,052
Own issues	1,888,038,744.64	561,507
Bonds - domestic credit institutions	62,265,737.13	48,247
Bonds - foreign credit institutions	1,018,553,925.65	613,452
Mortgage and municipal securities	797,194,453.75	780,851
Convertible bonds	0.00	0
Other bonds	303,080,908.82	703,364
Total position A5	**4,961,648,001.92**	**3,770,474**

8. Trading book

Erste Group Bank AG kept a trading book pursuant to Art. 102 CRR throughout the financial year. As of 31 December 2018, the securities portfolio assigned to the trading book was EUR 2,090,486,888.13 (prior year: EUR 2,570,980 thousand). Money market instruments worth EUR 18,679,846,505.74 (prior year: EUR 14,879,599 thousand) were assigned to the trading book as of 31 December 2018.

The volume of other financial instruments included in the trading book had a par value of EUR 226,104,502,584.06 as of 31 December 2018 (prior year adjusted: EUR 233,305,154 thousand):

The disclosure of other financial instruments includes external transactions as well as booked internal transactions concerning hedge relationships.

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 2018

Company name, registered office	Interest of Erste Group in %	Equity	Result	Balance sheet date
Credit institutions according to CRR				
Banca Comercială Română S.A., Bucharest	99.88	1,745,057,709.00	208,514,513.00	31.12.2018
Banka Sparkasse d.d., Ljubljana	4.00	117,547,989.00	8,472,687.00	31.12.2018
Česká Spořitelna a.s., Prague	100.00	4,552,106,967.00	582,886,335.00	31.12.2018
Erste & Steiermärkische Bank d.d., Rijeka	59.02	1,053,714,682.00	111,852,323.00	31.12.2018
ERSTE BANK AD NOVI SAD, Novi Sad	74.00	199,592,910.00	24,689,116.00	31.12.2018
Erste Bank der oesterreichischen Sparkassen AG, Vienna	100.00	1,543,591,361.23	189,705,667.29	31.12.2018
Erste Bank Hungary Zrt, Budapest	85.00	1,085,188,374.00	180,252,752.00	31.12.2018
Prva stavebna sporitelna, a.s., Bratislava	25.02	240,912,035.49	15,205,129.07	31.12.2018
Public Joint-stock company commercial Bank "Center-Invest", Rostow on Don	9.09	142,433,798.78	9,146,650.65	31.12.2017
Slovenska sporitelna, a. s., Bratislava	100.00	1,479,872,412.00	180,175,991.00	31.12.2018
SPAR-FINANZ BANK AG, Salzburg	50.00	5,223,351.21	205,048.39	31.12.2018
Swedbank AB, Sundbyberg	0.07	8,483,058,599.15	1,576,980,713.47	31.12.2017
Financial institutions				
EB Erste Bank Internationale Beteiligungen GmbH, Vienna	100.00	33,652,376.00	4,447,243.00	31.12.2018
Erste Group Immorent AG, Vienna	100.00	319,775,124.00	37,474,718.00	31.12.2018
EUROPEAN INVESTMENT FUND, Luxembourg	0.11	1,957,523,178.00	110,120,860.00	31.12.2017
Intermarket Bank AG, Vienna	92.63	53,330,490.00	4,305,879.00	31.12.2018
S Slovensko, spol. s r.o., Bratislava	100.00	24,848,486.00	6,937,383.00	31.12.2018
VBV - Betriebliche Altersvorsorge AG, Vienna	26.19	56,143,939.00	8,190,000.00	31.12.2018

Company name, registered office	Interest of Erste Group in %	Equity	Result	Balance sheet date
Other holdings				
Austrian Reporting Services GmbH, Vienna	14.00	66,074.65	12,405.07	31.12.2017
aws Gründerfonds Equity Invest GmbH & Co KG, Vienna	5.11	17,969,395.84	-2,426,983.48	31.12.2017
George Labs GmbH (vorm. BeeOne GmbH), Vienna	100.00	2,214,105.00	709,140.00	31.12.2018
Business Capital for Romania - Opportunity Fund Coöperatief UA, Amsterdam	77.38	7,021,104.00	1,325,577.00	31.12.2017
CEESEG Aktiengesellschaft, Vienna	11.30	372,626,620.99	29,383,006.37	31.12.2017
EB-Restaurantsbetriebe Ges.m.b.H., Vienna	100.00	262,881.00	91,920.00	31.12.2018
Erste Asset Management GmbH, Vienna	64.67	107,559,394.00	39,854,314.00	31.12.2018
ERSTE d.o.o., Zagreb	10.79	15,000,119.00	3,084,962.55	31.12.2018
Erste Finance (Delaware) LLC, Wilmington	100.00	76,552.00	24,285.00	31.12.2018
Erste Group Card Processor d.o.o. (vm.MBU), Zagreb	100.00	17,703,194.00	2,089,054.00	31.12.2018
ERSTE GROUP IMMORENT LJUBLJANA, financne storitve, d.o.o., Ljubljana	25.00	197,538.00	-337,717.00	31.12.2018
Erste Group IT International GmbH, Vienna	99.90	16,363,050.00	-14,192,086.00	31.12.2018
Erste Group Services GmbH, Vienna	100.00	245,899.00	102,563.00	31.12.2018
Erste Group Shared Services (EGSS), s.r.o., Hodonin	60.00	207,732.00	-1,907.00	31.12.2018
Erste Reinsurance S.A., Luxembourg	100.00	43,130,172.00	-1,160,153.00	31.12.2018
Graben 21 Liegenschaftsverwaltung GmbH, Vienna	100.00	33,174.23	-1,825.77	31.12.2017
Haftungsverbund GmbH, Vienna	0.97	719,200.00	1,530.00	31.12.2018
IPS Fonds Gesellschaft bürgerlichen Rechts, Vienna	32.08	124,999,102.00	12,628.00	31.12.2018
Österreichische Wertpapierdaten Service GmbH, Vienna	32.50	97,861.25	15,280.66	31.12.2017
OM Objektmanagement GmbH, Vienna	100.00	51,729,489.00	958,468.00	31.12.2018
Procurement Services GmbH, Vienna	99.80	967,279.00	155,178.00	31.12.2018
ROMANIAN EQUITY PARTNERS COÖPERATIEF U.A., Amsterdam	77.38	13,984,445.00	486,929.00	31.12.2017
s IT Solutions AT Spardat GmbH, Vienna	25.00	28,054,952.00	9,872,029.00	31.12.2018
Society for Worldwide Interbank Financial Telecommunication scrl, La Hulpe	0.20	394,698,392.00	81,079,470.00	31.12.2017
TAUROS Capital Investment GmbH & Co KG, Vienna	47.62			Founded in 2018
TAUROS Capital Management GmbH, Vienna	49.00			Founded in 2018
Therme Wien GmbH & Co KG, Vienna	15.00	29,297,298.00	446,179.96	31.12.2017
WE.TRADE INNOVATION DESIGNATED ACTIVITY COMPANY, Dublin	8.52			Founded in 2018
WIENER STÄDTISCHE VERSICHERUNG AG Vienna Insurance Group, Vienna	2.15	987,436,879.19	79,429,598.38	31.12.2017

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 2018 (prior year: EUR 6,726 thousand). The carrying amount as of 31 December 2018 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 EUR 16,550,756.00 (prior year: EUR 17,092 thousand), and of EUR 85,660,723.66 for the next five financial years (prior year: EUR 88,946 thousand). Intangible fixed assets include assets with a value of EUR 6,381,180.00 (prior year: EUR 4,847 thousand) that have been acquired from an affiliated company. During the reporting year such assets have been acquired with a value of EUR 5,799,600.00 (prior year: EUR 0 thousand).

Statement of changes in fixed and long-term assets 2018

At cost

in EUR	As of 1 January 2018	Additions	Disposals	Reclassification	Currency translation (+/-)	As of 31 December 2018
Participating interests	213,904,624.41	10,120,440.54	13,765,147.30	0.00	0.00	210,259,917.65
Shares in affiliated companies	10,626,145,971.98	234,760,659.38	11,030,222.53	0.00	0.00	10,849,876,408.83
Intangible assets	184,554,694.91	10,751,382.26	101,223,961.76	355,237.69	158,746.59	94,596,099.69
Tangible assets	79,087,433.22	9,796,800.76	13,461,917.31	-355,237.69	76,394.57	75,143,473.55
Securities	**7,594,934,545.39**	**3,979,828,720.57**	**3,494,145,683.58**	**0.00**	**4,757,111.19**	**8,085,374,693.57**
Treasury bills and similar securities	3,440,114,171.10	823,535,617.42	773,405,004.95	153,670,060.00	548,341.66	3,644,463,185.23
Loans and advances to credit institutions	1,025,943,140.75	2,076,858,331.67	2,004,109,628.85	0.00	11,783,187.19	1,110,475,030.76
Loans and advances to customers	246,979,563.63	374,458,109.64	51,575,400.56	16,011,829.79	5,157,387.77	591,031,490.27
Bonds and other fixed-income securities	2,231,303,799.91	704,976,571.08	665,055,649.22	-227,467,572.70	-12,731,805.43	2,031,025,343.64
Shares and other non-fixed-income securities	650,593,870.00	90.76	0.00	57,785,682.91	0.00	708,379,643.67
Total	**18,698,627,269.91**	**4,245,258,003.51**	**3,633,626,932.48**	**0.00**	**4,992,252.35**	**19,315,250,593.29**

Accumulated depreciation

in EUR	Accumulated write ups / downs As of 1 January 2018	Write-ups (-)	Write-downs (+)	Accumulated write ups / downs Additions / Disposals (-/+)	Currency translation (+/-)	Accumulated write ups / downs As of 31 December 2018
Participating interests	56,097,256.01	5,542,916.95	779,874.00	-362.36	0.00	51,333,850.70
Shares in affiliated companies	4,291,376,151.89	230,459,000.99	140,387,065.23	-8,120,185.27	0.00	4,193,184,030.86
Intangible assets	159,286,272.59	0.00	10,434,342.87	-101,224,058.96	173,624.03	68,670,180.53
Tangible assets	40,997,565.94	0.00	4,893,251.48	-13,269,540.99	80,667.21	32,701,943.64
Securities	**219,661,078.77**	**9,586,127.46**	**38,001,073.74**	**-29,692,380.85**	**-46,129,071.37**	**172,254,572.83**
Treasury bills and similar securities	161,938,981.77	2,063,066.28	34,630,646.74	-34,183,261.34	2,685,094.07	163,008,394.96
Loans and advances to credit institutions	-3,593,837.45	553,553.47	87,001.28	10,764,174.36	4,414,659.08	11,118,443.80
Loans and advances to customers	-10,066,644.54	160,259.87	915,536.55	-158,303.93	6,853,343.79	-2,616,328.00
Bonds and other fixed-income securities	71,387,280.09	6,710,998.03	1,780,020.75	-6,114,989.94	-60,082,168.31	259,144.56
Shares and other non-fixed-income securities	-4,701.10	98,249.81	587,868.42	0.00	0.00	484,917.51
Total	**4,767,418,325.20**	**245,588,045.40**	**194,495,607.32**	**-152,306,528.43**	**-45,874,780.13**	**4,518,144,578.56**

Carrying amount

in EUR	Clean Price	Contractual interest accrual	As of 31 December 2018	As of 1 January 2018
Participating interests	158,926,066.95	0.00	158,926,066.95	157,807,368.40
Shares in affiliated companies	6,656,692,377.97	0.00	6,656,692,377.97	6,334,769,820.09
Intangible assets	25,925,919.16	0.00	25,925,919.16	25,268,422.32
Tangible assets	42,441,529.91	0.00	42,441,529.91	38,089,867.28
Securities	**7,913,120,120.74**	**82,195,828.74**	**7,995,315,949.48**	**7,466,736,771.99**
Treasury bills and similar securities	3,481,454,790.27	55,798,999.15	3,537,253,789.42	3,342,471,301.95
Loans and advances to credit institutions	1,099,356,586.96	2,916,545.54	1,102,273,132.50	1,031,101,450.52
Loans and advances to customers	593,647,818.27	4,027,467.17	597,675,285.44	259,348,916.12
Bonds and other fixed-income securities	2,030,766,199.08	13,649,865.01	2,044,416,064.09	2,178,327,848.76
Shares and other non-fixed-income securities	707,894,726.16	5,802,951.87	713,697,678.03	655,487,254.64
Total	**14,797,106,014.73**	**82,195,828.74**	**14,879,301,843.47**	**14,022,672,250.08**

The largest part of EUR 101,220,103.61 of the disposal of intangible assets in the reporting year is due to the inventory of IT developments to affiliated companies as well as external suppliers. In the section Securities, contractual accrued interest was shown in at cost as well as in accumulated depreciation until 31 December 2017. Due to the introduction of a new position-keeping and accounting system for securities the contractual accrued interest is not in at cost as well as in accumulated depreciation. The values as of 1 January 2018 were adjusted. As a result of improved static data quality it came to reclassifications of customers in the public sector and hybrid bonds. The additions and disposals of around EUR 2 billion in the position Loans and Advances to Customers are due to a higher number of three-month certificate of deposit transactions in the year 2018.

11. Other assets

in EUR or in EUR thousand	Dec 18	Dec 17
Securities transactions	5,840,723.22	3,434
Derivatives	3,599,558,933.83	4,530,202
Accrued income	7,205,700.64	9,312
Receivables from participating interests and affiliated companies	109,683,146.48	95,549
Other payments and settlements	158,015,534.03	104,153
Other assets	**3,880,304,038.20**	**4,742,651**

The decline in the balance sheet value for derivatives results to a large extent from matured transactions in 2018 and from the transfer of already existing derivatives to a central counterpart in the reporting year which lead to financial offsetting. In the balance sheet item other assets derivatives amounting to EUR 1,240,402,044.70 and in the balance sheet item loans to credit institutions collateral trades in the amount of EUR 33,354,273.75 are offset.

12. Accrued and deferred items

Prepayments and accrued income decreased to EUR 167,996,690.65 as of 31 December 2018 (prior year: EUR 265,138 thousand). Of these, EUR 101,977,051.19 (prior year: EUR 108,911 thousand) were accruals in connection with securities and derivative instruments and EUR 59,294,292.84 (prior year: EUR 70,820 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 57,010,638.22 (prior year: EUR 60,966 thousand) deferred tax assets have been accounted for in 2018 based on recognition of tax losses and differences between the book values. The option of recognising tax losses is generally made use of at Erste Group Bank AG. Those local tax rates, which are legally enforceable at the time of the preparation of the financial statements, are used for the calculation of deferred taxes.

14. Securitised liabilities

in EUR or in EUR thousand	Dec 18	Dec 17
Non-covered loans and bank bonds	5,381,678,978.19	5,950,923
Mortgage and municipal bonds	10,896,840,946.58	7,902,304
Certificates of deposits	860,434,940.58	125,939
Securitised liabilities	**17,138,954,865.35**	**13,979,166**

15. Other liabilities

in EUR or in EUR thousand	Dec 18	Dec 17
Securities transactions	20,048,867.44	3,098
Derivatives	2,981,667,972.04	3,906,471
Accrued income	2,276,052.02	2,230
Other liabilities and settlements	775,408,405.87	745,117
Other liabilities	**3,779,401,297.37**	**4,656,916**

The decline in the balance sheet value for derivatives results to a large extent from matured transactions in 2018 and from the transfer of already existing derivatives to a central counterpart in the reporting year which lead to financial offsetting. In the balance sheet item other liabilities derivatives amounting to EUR 1,269,793,993.93 and in the balance sheet item liabilities to credit institutions collateral trades in the amount of EUR 3,962,324.52 are offset.

16. Provisions

in EUR or in EUR thousand	Dec 18	Dec 17
Provisions for pensions	298,186,516.83	281,645
Provisions for taxation	13,156,376.04	40,678
Provisions for contingent liabilities	35,699,148.75	46,929
Provisions for negative market values of open derivatives without any hedge relationship	16,220,210.40	15,935
Other	121,796,599.15	122,762
Provisions	**485,058,851.17**	**507,948**

Assumptions for the actuarial calculation of pension entitlements

	Dec 18	Dec 17
Interest rate	1.92%	1.82%
Expected increase in pension benefits (including career- and collective agreement trend)	1.80%	1.50%

The expected retirement age was individually calculated per employee due to the amendments determined in the Ancillary Budget Act 2003 (BGBl I 71/2003) concerning the raising of the earliest possible retirement age. 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 4.23% (prior year: 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 18	Dec 17
Interest rate	1.92%	1.82%
Average salary rise (including career- and collective agreement trend)	2.70%	2.40%

The obligations were calculated in accordance with the Association of Actuaries' (AVÖ) mortality table "AVÖ 2008 – Rechnungsgrundlagen für die Pensionsversicherung".

Severance obligations have been outsourced to Wiener Städtische Versicherung AG (Sparkassen Versicherung Aktiengesellschaft) since 2007. Severance entitlements measured in accordance with commercial law and based on the above parameters amount to EUR 43,485,440.60 (prior year: EUR 43,031 thousand), respectively EUR 14,431,168.24 (prior year: EUR 12,566 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 2018 amounted to EUR 43,485,440.60 (prior year: EUR 43,393 thousand) and the amount defined for jubilee benefits obligations is EUR 14,431,168.24 (prior year: EUR 12,557 thousand).

The outsourcing of severance/jubilee benefits entitlements to Wiener Städtische Versicherung AG (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 5,815,840,156.68 as of 31 December 2018 (prior year: EUR 6,168,062 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 62 until 71 CRR.

Movements in total subordinated liabilities were as follows:

in EUR or in EUR thousand	1-12 18	1-12 17
Opening balance	**6,168,062,036.29**	**6,025,082**
Increase due to new issues	114,473,684.20	785,483
Decrease due to redemption	-498,026,277.51	-578,630
Decrease due to partial extinguishment	0.00	0
Changes in carrying amount of bonds, of accrued interest and of FX valuation	31,330,713.70	-63,873
Closing balance	**5,815,840,156.68**	**6,168,062**

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 228,682,901.38 (prior year: EUR 52,594 thousand) are due for repayment due to maturity.

The weighted average normal interest rate of supplementary capital bonds was 4.3% on 31 December 2018 (prior year: 4.2%) and the average remaining term was 4.5 years (prior year: 5.2 years). The increase in the average weighted interest is related to the transition to the effevtive interest rate method.

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

In 2018, Erste Group Bank AG's expenses for subordinated liabilities and supplementary capital were EUR 290,006,223.03 (prior year: EUR 290,317 thousand).

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

As reissue on the market of repurchased supplementary capital is not intended, it is deducted on the liabilities side since the reporting year (prior year: asset side EUR 17,518 thousand).

19. Additional core capital

In the reporting year 2018, no Additional Tier-1 bonds were issued by Erste Group Bank AG.

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 2018 no write-downs occured.

20. Subscribed capital

Subscribed capital on 31 December 2018 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 2018

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 24 May 2023 subject to the supervisory board’s consent - also in several tranches - by an amount of up to EUR 343,060,000.00 by issuing up to 171,800,000 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 24 May 2018, in order to grant conversion or subscription rights or fulfil obligations must not exceed the amount of EUR 171,920,000.00.

Conditional Capital

Pursuant to clause 6.3 of the Articles of Association, conditional capital based on the management board resolutions in 2002 and 2010 (both approved by the supervisory board) 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. According to clause 6.4 of the Articles of Association, the Company has additional conditional capital from the general meeting's resolution of 12 May 2009 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. In the case of a specified conversion obligation in the terms of issue of convertile bonds, it should also serve to fulfil this conversion obligation. The issue amount and conversion ratio are to be determined according to financial calculation methods as well as the company's share prices in a recognised pricing procedure.

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 2018, together with its syndicate partners, DIE ERSTE oesterreichische Spar-Casse Privatstiftung ("Privatstiftung"), a foundation, controls approx. 29.99% of the shares in Erste Group Bank AG and with 16.21% is the main shareholder. The Privatstiftung holds 6.49% of the shares directly; the indirect participation of the Privatstiftung amounts to around 9.72% of the shares held by Sparkassen Beteiligungs GmbH & Co KG, which is an affiliated undertaking of the Privatstiftung. 0.78% 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 2018 (for the fiscal year 2017), a dividend in the amount of EUR 57,494,347.20 (prior year: EUR 47,512 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 2018, Bernhard Spalt (chairman), Boris Marte and Franz Portisch were appointed as board members. On 1 January 2019, Mario Catasta takes over the chairman's seat, which was previously held by Bernhard Spalt. The Privatstiftung's supervisory board had eight members at the end of 2018, 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 2018. No new business was taken up to this regard. 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 9,162,743.75 (prior year: EUR 9,163 thousand) and Erste Group Bank AG currently does not hold any securitised liabilities issued by the Privatstiftung (previous year: EUR 0.00 thousand). In 2018, the interest expenses of Erste Group Bank AG from announced bonds held amounted to EUR 317,557.63 (prior year: EUR 432 thousand) for the reporting period, while interest income amounted to EUR 0,- (prior year: EUR 315 thousand).

As of 31 December 2018, 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. In accordance with the syndicate agreement with the other major shareholders of the bank, CaixaBank may nominate two supervisory board members. Mr. Jordi Gual Solé (chairman of the board at CaixaBank S.A.) has held one of these seats since the general meeting in 2017, while the second seat is currently vacant.

In 2018, for their involvement in Erste Group Bank AG, CaixaBank S.A. received a dividend in the amount of EUR 51,161,097.60 (prior year: EUR 42,634 thousand) in 2018 (for the fiscal year 2017).

23. Reserves

In 2018, the reserves of Erste Group Bank AG developed as follows:

in EUR	As of Dec 17	Allocations (+)	Releases (-)	As of Dec 18
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	**3,330,212,250.87**	**335,315,629.84**	**0.00**	**3,665,527,880.71**
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	1,698,446,254.93	332,068,072.14	0.00	2,030,514,327.07
other tied reserves	93,865,995.94	3,247,557.70	0.00	97,113,553.64
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 7,203,184.89 (prior year: EUR 7,705 thousand), deferred tax assets from New York branch of EUR -8,517,863.29 (prior year: EUR 4,284 thousand), deferred tax assets from Hong Kong branch of EUR -1,162,021.31 (prior year: EUR -925 thousand) and domestic deferred tax assets of EUR 5,724,257.41 (prior year: EUR 49,803 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 2018, Erste Group Bank AG paid EUR 17,471,011.17 (prior year: EUR 14,245 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 2018, Erste Group Bank AG paid a total of EUR 27,707.34 (prior year: EUR 26 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 tasked 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 result, with other reserves being released where necessary. Erste Group Bank AG created a reserve of EUR 7,203,184.89 (prior year: EUR 7,705 thousand) in 2018, 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 18**	**Dec 17**
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	-34,636,327.40	-16,360
Retained earnings	26 (1) (c), 26 (2)	4,476,424,965.26	4,148,313
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)	-2,447,880.17	-2,231
Value adjustments due to the requirements for prudent valuation	34, 105	-10,713,729.60	-45,410
Regulatory adjustments relating to unrealised gains and losses	467, 468	0.00	0
Other intangible assets	4 (115), 36 (1) (b), 37 (a)	-25,925,919.16	-25,268
Deferred tax assets dependent upon future profitability and not temporary differences net of associated tax liabilities	36 (1) (c), 38	0.00	-35,893
IRB shortfall of credit risk adjustments to expected losses	36 (1) (d), 40, 158, 159	-6,539,291.15	-18,774
Other transitional adjustments CET1	469 to 472, 478, 481	0.00	15,987
Interim loss (0%)		0.00	0
Other intangibles (0%)		0.00	5,054
IRB shortfall of provisions to expected losses (0%)		0.00	3,755
Deferred tax assets that rely on future profitability and do not arise from temporary differences net of associated tax liabilities, which existed until December 2013 (80%)		0.00	0
Deferred tax assets that rely on future profitability and do not arise from temporary differences net of associated tax liabilities, which exists since January 2014 (0%)		0.00	7,179
Excess of deduction from AT1 items over AT1	**36 (1) (j)**	**0.00**	**0**
Common equity tier 1 capital (CET1)	**50**	**6,882,781,328.45**	**6,506,983**
Additional tier 1 capital (AT1)			
Capital instruments eligible as AT1	51 (a), 52-54, 56 (a), 57	1,000,000,000.00	1,000,000
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	0.00	-6,931
Interim loss (0%)		0.00	0
Other intangibles (0%)		0.00	-5,054
IRB shortfall of provisions to expected losses (0%)		0.00	-1,877
Excess of deduction from AT1 items over AT1	36 (1) (j)	0.00	0
Additional tier 1 capital (AT1)	**61**	**998,500,000.00**	**991,569**
Tier 1 capital - total amount of common equity tier 1 (CET1) and additional tier1 (AT1)		**7,881,281,328.45**	**7,498,552**
Tier 2 capital (T2)			**0**
Capital instruments and subordinated loans eligible as T2	62 (a), 63-65, 66 (a), 67	3,481,595,149.19	4,324,346
Own T2 instruments	63 (b) (i), 66 (a), 67	-29,314,307.93	-43,007
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	38,826,234.72	48,533
IRB excess of provisions over expected losses eligible	62 (d)	41,624,550.81	36,590
Standardised approach general credit risk adjustments	62 (c)	0.00	0
Other transitional adjustments to tier 2 capital	476, 477, 478, 481	0.00	-1,877
IRB shortfall of provisions to expected losses (0%)		0.00	-1,877
T2 instruments of financial sector entities where the institution has a significant investment	4 (27), 66 (d), 68, 69, 79	-275,245.57	0
Tier 2 capital (T2)	**71**	**3,532,456,381.22**	**4,364,584**
Total own funds		11.413.737.709,67	11,863,136
Total Risk Exposure Amount	92 (3), 95, 96, 98	32,235,316,755.30	30,367,143
Common Equity Tier 1 capital ratio	92 (2) (a)	21.35%	21.43%
Tier 1 capital ratio	92 (2) (b)	24.45%	24.69%
Solvency ratio	92 (2) (c)	35.41%	39.07%

The percentages concerning transitional provisions shown, relate to the current year.

Capital Requirement

Risk structure according to Regulation (EU) No 575/2013 (CRR)		Dec 18		Dec 17	
in EUR or in EUR thousand	Article pursuant to CRR	Calculation base /total risk (phased-in)	Capital requirement (phased-in)	Calculation base /total risk	Capital requirement
Total Risk Exposure Amount	92 (3), 95, 96, 98	32,235,316,755.30	2,578,825,340.42	30,367,143	2,429,371
Risk weighted assets (credit risk)	92 (3) (a) (f)	27,012,633,093.16	2,161,010,647.45	25,201,551	2,016,124
Standardised approach		6,492,484,180.31	519,398,734.42	12,689,280	1,015,142
IRB approach		20,520,148,912.85	1,641,611,913.03	12,512,271	1,000,982
Settlement Risk	(3) (c) (ii), 92 (4) (b)	37,857.25	3,028.58	508	41
Trading book, foreign FX risk and commodity risk	92 (3) (b) (i) und (iii), 92 (4) (b)	3,572,772,129.76	285,821,770.38	2,989,948	239,196
Operational Risk	92 (3) (e), 92 (4) (b)	1,015,021,487.00	81,201,718.96	1,599,590	127,967
Exposure for CVA	92 (3) (d)	634,852,188.13	50,788,175.05	575,546	46,044
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 2018 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 18	Dec 17	Liability description	Balance sheet item
Collateral pool for covered Erste Bank bonds				
Fixed-income securities	848,967,362.65	969,379	Covered Erste Bank bonds	Liability 3
OeNB asset pool (tender)				
Credit claims	1,385,766,666.67	1,400,000	Refinancing by OeNB / ECB	Liability 1
Pledge agreements				
Money market loan	216,400,000.00	320,500	Guarantees and contingent liabilities pledged as collateral	
Collateral for unregistered OTC derivatives				
Cash collateral	386,057,243.62	465,133	Other liabilities	Liability 4
Securities collateral	33,246,131.31	4,383	Other liabilities	Liability 4
Total	**2,870,437,404.25**	**3,159,395**		
Collateral for exchange-traded derivatives				
Securities collateral	255,054,739.42	19,851	margin requirement	
Cash collateral	15,044,621.47	9,182	margin requirement	
Total	**270,099,360.89**	**29,033**		
Blocked securities account as collateral with Österreichische Kontrollbank AG				
Fixed-income securities	21,025,716.90	21,438	Margin requirement	
Collateral pool for municipal and mortgage bonds				
Loans and advances to customers	555,814,073.39	887,181	Issued municipal and mortgage bonds	Liability 3
Fixed-income securities	101,133,244.23	96,116	Issued municipal and mortgage bonds	Liability 3
Coverage for the pension provisions				
Pension provisions § 11 BPG	143,390,600.57	145,655	Coverage for the pension provisions	Liability 6
Total	**821,363,635.09**	**1,150,390**		
AGGREGATE TOTAL	**3,961,900,400.23**	**4,338,818**		

27. Total volume of unsettled derivatives

Dec 18 in EUR	Time to maturity for notional amounts < 1 years	 1-5 years	 > 5 years	 Total
Interest rate contracts	**31,085,541,597.02**	**82,754,607,997.90**	**45,677,992,483.34**	**159,518,142,078.26**
OTC products	30,762,399,579.54	82,754,607,997.90	45,677,992,483.34	159,195,000,060.78
Options	3,298,978,277.59	10,569,403,811.88	4,476,635,916.45	18,345,018,005.92
Other (f.i.: Interest rate swaps)	27,463,421,301.95	72,185,204,186.02	41,201,356,566.89	140,849,982,054.86
Exchange-traded products	323,142,017.48	0.00	0.00	323,142,017.48
Options	0.00	0.00	0.00	0.00
Other (f.i.: Futures)	323,142,017.48	0.00	0.00	323,142,017.48
Securities related contracts	**1,491,598,503.02**	**13,804,099,069.75**	**834,266,591.45**	**16,129,964,164.22**
OTC products	1,316,786,848.14	13,803,387,029.75	834,266,591.45	15,954,440,469.34
Options	990,225,186.95	13,760,372,781.59	832,094,443.92	15,582,692,412.46
Other (f.i.: Stock swaps)	326,561,661.19	43,014,248.16	2,172,147.53	371,748,056.88
Exchange-traded products	174,811,654.88	712,040.00	0.00	175,523,694.88
Options	33,631,348.47	0.00	0.00	33,631,348.47
Other (f.i.: Futures)	141,180,306.41	712,040.00	0.00	141,892,346.41
Currency contracts	**56,020,170,645.97**	**13,103,197,029.83**	**2,011,353,519.26**	**71,134,721,195.06**
OTC products	55,975,648,086.99	13,103,197,029.83	2,011,353,519.26	71,090,198,636.08
Options	3,311,939,570.60	735,772,596.29	243,741,253.29	4,291,453,420.18
Other (f.i.: Currency swap)	52,663,708,516.39	12,367,424,433.54	1,767,612,265.97	66,798,745,215.90
Exchange-traded products	44,522,558.98	0.00	0.00	44,522,558.98
Options	0.00	0.00	0.00	0.00
Other (f.i.: Futures)	44,522,558.98	0.00	0.00	44,522,558.98
Credit derivatives	**60,687,772.93**	**549,067,697.82**	**108,380,131.00**	**718,135,601.75**
OTC products	60,687,772.93	549,067,697.82	108,380,131.00	718,135,601.75
Credit Default Options	0.00	0.00	0.00	0.00
Other (f.i.: Credit Default Swaps)	60,687,772.93	549,067,697.82	108,380,131.00	718,135,601.75
Exchange-traded products	0.00	0.00	0.00	0.00
Options	0.00	0.00	0.00	0.00
Other	0.00	0.00	0.00	0.00
Commodity contracts	**10,586,515.30**	**0.00**	**0.00**	**10,586,515.30**
OTC products	0.00	0.00	0.00	0.00
Options	0.00	0.00	0.00	0.00
Other (f.i.: Commodity swaps)	0.00	0.00	0.00	0.00
Exchange-traded products	10,586,515.30	0.00	0.00	10,586,515.30
Options	0.00	0.00	0.00	0.00
Other (f.i.: Futures)	10,586,515.30	0.00	0.00	10,586,515.30
Other	**141,000,000.00**	**121,838,000.00**	**857,697,230.59**	**1,120,535,230.59**
OTC products	141,000,000.00	121,838,000.00	857,697,230.59	1,120,535,230.59
Options	141,000,000.00	121,838,000.00	850,614,690.91	1,113,452,690.91
Other (f.i.: Inflation swaps)	0.00	0.00	7,082,539.68	7,082,539.68
Exchange-traded products	0.00	0.00	0.00	0.00
Options	0.00	0.00	0.00	0.00
Other	0.00	0.00	0.00	0.00
Total	**88,809,585,034.24**	**110,332,809,795.30**	**49,489,689,955.64**	**248,632,084,785.18**
OTC products	**88,256,522,287.60**	**110,332,097,755.30**	**49,489,689,955.64**	**248,078,309,998.54**
Exchange-traded products	**553,062,746.64**	**712,040.00**	**0.00**	**553,774,786.64**

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

Dec 17 in EUR thousand	Time to maturity for notional amounts < 1 years	 1-5 years	 > 5 years	 Total
Interest rate contracts	**33,603,825**	**90,545,292**	**55,486,036**	**179,635,153**
OTC products	33,602,354	90,545,292	55,486,036	179,633,682
Options	4,567,670	15,942,655	13,031,322	33,541,647
Other (f.i.: Interest rate swaps)	29,034,684	74,602,637	42,454,714	146,092,035
Exchange-traded products	1,471	0	0	1,471
Options	0	0	0	0
Other (f.i.: Futures)	1,471	0	0	1,471
Securities related contracts	**2,711,184**	**4,801,969**	**1,409,745**	**8,922,898**
OTC products	2,406,682	4,801,969	1,409,745	8,618,396
Options	1,281,553	2,758,190	1,165,568	5,205,311
Other (f.i.: Stock swaps)	1,125,129	2,043,779	244,177	3,413,085
Exchange-traded products	304,502	0	0	304,502
Options	35,602	0	0	35,602
Other (f.i.: Futures)	268,900	0	0	268,900
Currency contracts	**56,273,497**	**12,269,713**	**3,064,785**	**71,607,995**
OTC products	56,247,369	12,269,713	3,064,785	71,581,867
Options	4,347,369	589,731	455,942	5,393,042
Other (f.i.: Currency swap)	51,900,000	11,679,982	2,608,843	66,188,825
Exchange-traded products	26,128	0	0	26,128
Options	0	0	0	0
Other (f.i.: Futures)	26,128	0	0	26,128
Credit derivatives	**191,711**	**1,009,338**	**436,485**	**1,637,534**
OTC products	191,711	1,009,338	436,485	1,637,534
Credit Default Options	0	0	0	0
Other (f.i.: Credit Default Swaps)	191,711	1,009,338	436,485	1,637,534
Exchange-traded products	0	0	0	0
Options	0	0	0	0
Other	0	0	0	0
Commodity contracts	**55,088**	**348**	**0**	**55,436**
OTC products	16,350	348	0	16,698
Options	3,431	0	0	3,431
Other (f.i.: Commodity swaps)	12,919	348	0	13,267
Exchange-traded products	38,738	0	0	38,738
Options	0	0	0	0
Other (f.i.: Futures)	38,738	0	0	38,738
Other	**96,865**	**360,519**	**1,080,048**	**1,537,432**
OTC products	96,865	360,519	1,080,048	1,537,432
Options	59,849	99,518	0	159,367
Other (f.i.: Inflation swaps)	37,016	261,001	1,080,048	1,378,065
Exchange-traded products	0	0	0	0
Options	0	0	0	0
Other	0	0	0	0
Total	**92,932,170**	**108,987,179**	**61,477,099**	**263,396,448**
OTC products	**92,561,331**	**108,987,179**	**61,477,099**	**263,025,609**
Exchange-traded products	**370,839**	**0**	**0**	**370,839**

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

Derivative financial instruments

Dec 18	Notional amount		Carrying amount	Fair value	
in EUR		thereof sells	Assets (+) / Liabilities (-)	Positive	Negative
Interest rate contracts	**159,518,142,078.26**	**8,629,644,113.58**	**341,679,209.03**	**3,218,329,717.83**	**-2,465,890,744.66**
OTC products	159,195,000,060.78	8,629,644,113.58	341,679,209.03	3,218,329,717.83	-2,465,890,744.66
Options	18,345,018,005.92	8,629,644,113.58	76,178,737.58	-998,939,426.12	882,228,640.81
Other (f.i.: Interest rate swaps)	140,849,982,054.86		265,500,471.45	4,217,269,143.95	-3,348,119,385.47
Exchange-traded products	323,142,017.48	0.00	0.00	0.00	0.00
Options	0.00	0.00	0.00	0.00	0.00
Other (f.i.: Futures)	323,142,017.48		0.00	0.00	0.00
Securities related contracts	**16,129,964,164.22**	**7,701,049,967.45**	**67,860,642.13**	**206,227,833.66**	**-208,247,125.16**
OTC products	15,954,440,469.34	7,701,049,967.45	68,408,699.26	205,647,017.35	-207,118,251.72
Options	15,582,692,412.46	7,701,049,967.45	15,221,162.29	109,791,712.98	-173,678,232.26
Other (f.i.: Stock swaps)	371,748,056.88		53,187,536.97	95,855,304.37	-33,440,019.46
Exchange-traded products	175,523,694.88	0.00	-548,057.13	580,816.31	-1,128,873.44
Options	33,631,348.47	0.00	-548,057.13	580,816.31	-1,128,873.44
Other (f.i.: Futures)	141,892,346.41		0.00	0.00	0.00
Currency contracts	**71,134,721,195.06**	**2,102,883,297.51**	**55,116,923.08**	**544,563,145.08**	**-503,844,791.00**
OTC products	71,090,198,636.08	2,102,883,297.51	55,116,923.08	544,563,145.08	-503,844,791.00
Options	4,291,453,420.18	2,102,883,297.51	7,552,630.68	34,325,060.70	-30,525,655.77
Other (f.i.: Currency swap)	66,798,745,215.90		47,564,292.40	510,238,084.38	-473,319,135.23
Exchange-traded products	44,522,558.98	0.00	0.00	0.00	0.00
Options	0.00	0.00	0.00	0.00	0.00
Other (f.i.: Futures)	44,522,558.98		0.00	0.00	0.00
Credit derivatives	**718,135,601.75**	**153,829,340.61**	**-2,392,727.76**	**16,627,479.94**	**-13,286,124.29**
OTC products	718,135,601.75	153,829,340.61	-2,392,727.76	16,627,479.94	-13,286,124.29
Credit Default Options	0.00	0.00	0.00	0.00	0.00
Other (f.i.: Credit Default Swaps)	718,135,601.75	153,829,340.61	-2,392,727.76	16,627,479.94	-13,286,124.29
Exchange-traded products	0.00	0.00	0.00	0.00	0.00
Options	0.00	0.00	0.00	0.00	0.00
Other	0.00		0.00	0.00	0.00
Commodity contracts	**10,586,515.30**	**0.00**	**0.00**	**0.00**	**0.00**
OTC products	0.00	0.00	0.00	0.00	0.00
Options	0.00	0.00	0.00	0.00	0.00
Other (f.i.: Commodity swaps)	0.00		0.00	0.00	0.00
Exchange-traded products	10,586,515.30	0.00	0.00	0.00	0.00
Options	0.00	0.00	0.00	0.00	0.00
Other (f.i.: Futures)	10,586,515.30		0.00	0.00	0.00
Other	**1,120,535,230.59**	**98,908,000.00**	**-28,813,175.01**	**72,078,187.17**	**-52,726,657.27**
OTC products	1,120,535,230.59	98,908,000.00	-28,813,175.01	72,078,187.17	-52,726,657.27
Options	1,113,452,690.91	98,908,000.00	-26,600,198.97	72,078,187.17	-50,513,681.23
Other (f.i.: Inflation swaps)	7,082,539.68		-2,212,976.04	0.00	-2,212,976.04
Exchange-traded products	0.00	0.00	0.00	0.00	0.00
Options	0.00	0.00	0.00	0.00	0.00
Other	0.00		0.00	0.00	0.00
Total	**248,632,084,785.18**	**18,686,314,719.15**	**433,450,871.47**	**4,057,826,363.68**	**-3,243,995,442.38**
thereof external/internal deals					
External	215,479,429,501.59	11,966,235,091.69	799,481,291.65	2,964,178,123.56	-2,150,254,316.68
Internal	33,152,655,283.59	6,720,079,627.46	-366,030,420.18	1,093,648,240.12	-1,093,741,125.70
thereof OTC/Exchange-traded products					
OTC products	248,078,309,998.54	18,686,314,719.15	433,998,928.60	4,057,245,547.37	-3,242,866,568.94
Exchange-traded products	553,774,786.64	0.00	-548,057.13	580,816.31	-1,128,873.44
thereof trading book/banking book					
Trading book	226,104,502,584.06	16,821,846,208.13	343,123,382.57	3,254,325,104.05	-2,911,201,721.40
Banking book	22,527,582,201.12	1,864,468,511.02	90,327,488.90	803,501,259.63	-332,793,720.98
thereof hedges	21,959,082,201.12	1,681,468,511.02	106,559,366.08	803,439,949.78	-316,573,510.58

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 17	Notional amount		Carrying amount	Fair value	
in EUR thousand		thereof sells	Assets (+) / Liabilities (-)	Positive	Negative
Interest rate contracts	**179,635,153**	**17,082,943**	**365,783**	**4,367,031**	**-3,641,801**
OTC products	179,633,682	17,082,943	365,783	4,367,031	-3,641,801
Options	33,541,647	17,082,943	124,582	868,310	-740,527
Other (f.i.: Interest rate swaps)	146,092,035	0	241,201	3,498,721	-2,901,274
Exchange-traded products	1,471	0	0	0	0
Options	0	0	0	0	0
Other (f.i.: Futures)	1,471	0	0	0	0
Securities related contracts	**8,922,898**	**2,246,104**	**99,608**	**266,334**	**-173,011**
OTC products	8,618,396	2,225,803	99,634	265,964	-172,615
Options	5,205,311	2,225,803	76,426	187,741	-121,642
Other (f.i.: Stock swaps)	3,413,085	0	23,208	78,223	-50,973
Exchange-traded products	304,502	20,301	-26	370	-396
Options	35,602	20,301	-26	370	-396
Other (f.i.: Futures)	268,900	0	0	0	0
Currency contracts	**71,607,995**	**2,725,129**	**8,386**	**300,947**	**-303,596**
OTC products	71,581,867	2,725,129	8,386	300,947	-303,596
Options	5,393,042	2,725,129	11,046	50,140	-33,185
Other (f.i.: Currency swap)	66,188,825	0	-2,660	250,807	-270,411
Exchange-traded products	26,128	0	0	0	0
Options	0	0	0	0	0
Other (f.i.: Futures)	26,128	0	0	0	0
Credit derivatives	**1,637,534**	**930,484**	**-8,356**	**27,866**	**-35,991**
OTC products	1,637,534	930,484	-8,356	27,866	-35,991
Credit Default Options	0	0	0	0	0
Other (f.i.: Credit Default Swaps)	1,637,534	930,484	-8,356	27,866	-35,991
Exchange-traded products	0	0	0	0	0
Options	0	0	0	0	0
Other	0	0	0	0	0
Commodity contracts	**55,436**	**1,781**	**-1**	**428**	**-430**
OTC products	16,698	1,781	-1	428	-430
Options	3,431	1,781	1	1	0
Other (f.i.: Commodity swaps)	13,267	0	-2	427	-430
Exchange-traded products	38,738	0	0	0	0
Options	0	0	0	0	0
Other (f.i.: Futures)	38,738	0	0	0	0
Other	**1,537,432**	**86,086**	**-28,427**	**74,240**	**-54,612**
OTC products	1,537,432	86,086	-28,427	74,240	-54,612
Options	159,367	86,086	372	0	0
Other (f.i.: Inflation swaps)	1,378,065	0	-28,799	74,240	-54,612
Exchange-traded products	0	0	0	0	0
Options	0	0	0	0	0
Other	0	0	0	0	0
Total	**263,396,448**	**23,072,527**	**436,993**	**5,036,846**	**-4,209,441**
thereof external/internal deals					
External	222,196,065	13,816,947	995,995	3,628,447	-2,801,042
Internal	41,200,383	9,255,580	-559,002	1,408,399	-1,408,399
thereof OTC/Exchange-traded products					
OTC products	263,025,609	23,052,226	437,019	5,036,476	-4,209,045
Exchange-traded products	370,839	20,301	-26	370	-396
thereof trading book/banking book					
Trading book	233,305,154	18,434,667	364,571	3,809,335	-3,444,765
Banking book	30,091,294	4,637,860	72,422	1,227,511	-764,676
thereof hedges	29,777,021	4,637,860	87,906	1,225,279	-748,743

The book values are presented in following balance sheet items:

in EUR or in EUR thousand	Dec 18	thereof internal trades	Dec 17
A12 Other assets	3,599,558,933.83	652,324,887.85	4,090,688
A14 Prepayments and accrued income	17,037,346.21	17,037,346.21	108,517
P04 Other liabilities	2,981,667,972.04	850,135,428.11	3,502,745
P05 Accruals and deferred income	185,257,226.13	185,257,226.13	252,862
P06 Provisions	16,220,210.40	0.00	15,935
Total	**433,450,871.47**	**-366,030,420.18**	**427,663**

Fixed-asset instruments

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

	Dec 18			
in EUR	Carrying amount	Positive fair value	Hidden losses	Hidden reserves
Treasury bills	83,365,269.05	82,035,969.48	-1,329,299.58	
	3,398,089,521.22	3,626,572,499.75		228,482,978.54
Loans and advances to credit institutions	504,598,863.16	496,685,108.18	-7,913,754.99	
	594,757,723.80	596,793,962.41		2,036,238.61
Loans and advances to customers	97,372,405.84	91,874,248.28	-5,498,157.56	
	496,275,412.43	511,104,719.62		14,829,307.19
Debt securities	691,366,591.09	681,429,942.32	-9,936,648.77	
	1,339,399,607.99	1,363,665,054.17		24,265,446.18
Shares	150,000,000.00	149,744,260.50	-255,739.50	
	557,894,726.16	567,149,909.29		9,255,183.13
Financial instruments carried as fixed assets	**1,526,703,129.14**	**1,501,769,528.76**	**-24,933,600.40**	
	6,386,416,991.60	**6,665,286,145.24**		**278,869,153.65**

	Dec 17			
in EUR thousand	Carrying amount	Positive fair value	Hidden losses	Hidden reserves
Treasury bills	38,093	37,847	-245	
	3,240,083	3,495,557		255,474
Loans and advances to credit institutions	733,472	728,842	-4,630	
	296,065	300,681		4,616
Loans and advances to customers	96,044	95,298	-746	
	161,002	174,503		13,501
Debt securities	672,346	664,556	-7,790	
	1,487,571	1,547,730		60,159
Shares	25,000	23,924	-1,076	
	625,599	630,401		4,802
Financial instruments carried as fixed assets	**1,564,954**	**1,550,468**	**-14,486**	
	5,810,319	**6,148,871**		**338,552**

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 contractual interest accruals:

Carrying amount of securities not marked on the basis of market prices in EUR	Fair value on the basis of the price in the inactive market	Difference 2018
2,048,978,965.01	2,044,255,234.64	-4,723,730.37

Carrying amount of securities not marked on the basis of market prices in EUR thousand	Fair value on the basis of the price in the inactive market	Difference 2017
1,016,533	1,010,571	-5,962

30. Reclassification in securities positions

In 2018 no need for reclassification of security positions to the current asset portfolio occurred.

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) and liabilities (own issues) 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 18	Dec 17	Change
Fair Value Hedge			
Positive market value fair value hedge	630,816,651.29	1,040,471,058.46	-409,654,407.17
Negative market value fair value hedge	-250,509,578.09	-719,584,327.99	469,074,749.90

The figures for 2018 represent the proportion of the fair value (Dirty Price) of derivatives in a hedging relationship that were not recognized in the balance sheet. The previous year's figures are listed on the Clean-Price basis. As of 31 December 2018 fair value hedges were up to 2042.

The Commercial Code hedging efficiency measurement is carried out for Erste Group Bank AG for the year 2018 in form of a critical terms match by means of the cash flow matching method. All hedged cash flows of the hedged items are compared with the cash flows of the fixed interest rate side of the derivative. For individual products, it is necessary to carry out a critical terms match with a comparison of certain characteristics due to a lack of regular cash flows.

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 -6,386,955.77 (prior year: EUR -3,489 thousand) and EUR 2,447,880.17 (prior year: EUR 2,231 thousand), respectively, were recognised. For the banking book portfolio no CVA (prior year: EUR -1,218 thoursand) was recognised, due to the fact that hedging transactions are carried out via the central counterparty whereby trades are collateralised.

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 18	Dec 17
Opening balance	**322,490,323.70**	**420,641**
Allocations / Releases	-19,470,770.08	20,451
Use	-84,713,005.06	-116,556
Reclassification	0.00	-875
Exchange rate changes	1,242,623.41	-1,169
Closing balance	**219,549,171.97**	**322,490**

34. Contingent liabilities

Off balance contingent liabilities have been reported at EUR 4,049,194,999.55 (prior year: EUR 3,958,182 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 367,718,611.52 (prior year: EUR 385,595 thousand) on behalf of affiliated companies in case they do not meet their rental payment obligations. Furthermore, credit derivatives represent an amount of EUR 520,560,043.70 (prior year: EUR 494,918 thousand, prior year has been adjusted and includes now also Portfolio-CDS). The required provisions were subtracted from the contingent liabilities.

35. Credit Risk

There is credit risk in the amount of EUR 6,902,243,963.22 (prior year: EUR 6,059,981 thousand) primarily 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 18			1-12 17		
in EUR or in EUR thousand	Domestic	Abroad	Total	Domestic	Abroad	Total
Interest and similar income	2,355,100,591.07	214,171,158.14	2,569,271,749.21	690,665	141,788	832,453
Income from securities and participating interests	1,050,017,987.29	0.00	1,050,017,987.29	846,539	85	846,623
Commission income	166,800,904.92	953,977.72	167,754,882.64	147,369	2,099	149,468
Net profit or loss on financial operations	-77,894,507.85	319,746.77	-77,574,761.08	12,591	-72	12,519
Other operating income	103,531,713.59	3,991,141.09	107,522,854.68	211,519	9,704	221,223
Gross income	**3,597,556,689.02**	**219,436,023.72**	**3,816,992,712.74**	**1,908,683**	**153,604**	**2,062,287**

37. Net interest income

Erste Group Bank AG recognises negative interest charged on loans (assets) in the amount of EUR 50,848,033.67 (prior year: EUR 71,125 thousand) under interest and similar expenses and negative interest paid for deposits (liabilities) in the amount of EUR 91,457,222.10 (prior year: EUR 37,414 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 230,909,630.67 (prior year: EUR 129,417 thousand) and the balance sheet item extraordinary income includes EUR 0.00 (prior year: EUR 31,467 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 107,522,854.68 (prior year: EUR 221,223 thousand) included income from personnel and other administrative expenses passed on to group members in the value of EUR 92,592,387.74 (prior year: EUR 115,043 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 4,878,053.10 (prior year: income EUR 6,922 thousand). This includes an amount of EUR -830,889.29, which can be attributed to the first-time application of the changed biometric actuarial assumptions AVÖ 2018.

Expenses for pensions are accounted for as follows:

_ Costs for defined pension payments in the amount of EUR 37,713,596.08 (prior year: EUR 6,718 thousand) as personnel costs and interest expenses in the amount of EUR 5,968,148.95 (prior year: EUR 5,105 thousand) as interest costs;
_ Costs for pension fund contributions in the amount of EUR 9,464,076.78 (prior year: EUR 8,816 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 external auditors (Sparkassen-Prüfungsverband and PwC Wirtschaftprüfung GmbH):

in EUR or in EUR thousand	1-12 18	1-12 17
Fees charged for auditing the financial statements	2,331,273.87	3,098
Fees charged for audit-related services	1,154,230.69	843
Fees charged for tax advisory services	0.00	0
Fees charged for other services	44,012.50	23
Total	**3,529,517.06**	**3,964**

As statutory auditors, Sparkassen-Prüfungsverband (auditing agency) provided auditing services for affiliated companies of Erste Group Bank AG in the value of EUR 5,246,579.70 (prior year: EUR 5,337 thousand). Other advisory services were charged to other affiliated companies in the value of EUR 49,226.48 (prior year: EUR 41 thousand). The amount charged for other services for affiliated companies came up to EUR 18,368.50 (prior year: EUR 21 thousand).

PwC Wirtschaftsprüfung GmbH provided auditing services for affiliated companies of Erste Group Bank AG in the value of EUR 590,710.00 (prior year: EUR 699 thousand). Other advisory services were charged to other affiliated companies in the value of EUR 260,640.00 (prior year: EUR 151 thousand).

42. Other operating expenses

Other operating expenses of Erste Group Bank AG, which amounted to EUR 34,081,216.73 (prior year: EUR 71,107 thousand), essentially consisted of expenses for the Recovery & Resolution fund in the amount of EUR 17,471,011.17 (prior year: EUR 19,683 thousand).

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

In 2018 the balance of value adjustments in respect of participating interests and shares in affiliated companies amounted to positive EUR 93,150,319.40 (prior year: EUR positive 117,761). This resulted primarily from the write-ups of Erste Bank Hungary Zrt. in the amount of EUR 145,200,000.00 (prior year: EUR 196,721 thousand) and Erste Group Immorent AG in the amount of EUR 76,900,000.00 as well as the write-down of Banca Comercială Română S.A. in the amount of EUR 118,741,249.16 (prior year: Erste Group IT International GmbH in the amount of EUR 54,000 thousand).

Due to the implementation of a bank tax ("Government Emergency Ordinance No. 114/2018") in Romania in December, an impairment loss had to be recognised in spite of the positive development in BCR`s business results in 2018. The valuation is based on the business plan prepared by BCR’s management. KPMG Romania was engaged by BCR to review and provide comments with respect to the revised business plan of BCR (used for the underlying valuation), as amended in the light of the effects of the new banking tax. To address the uncertainty regarding the banking tax and the consequential developments, the provided business plan covers three possible scenarios with different underlying macroeconomic assumptions. The most likely of these scenarios will be adopted by BCR management as budget; the budget forms the basis for the detailed planning period. To reflect the uncertainty in the valuation the sustainable profit was adjusted by using a weighted ROE (based on varying degrees of the three scenarios). The scenarios differ in terms of macroeconomic assumptions and market reaction.

The impact of the banking tax compared to the initial BCR budget (2019-2023) is on average EUR 120m after tax profit per year. The most sensitive assumption is the ROBOR (Romanian Interbank Offer Rate) forecast, with direct impact on the level of the banking tax. When creating the budget the introduction of the banking tax at 1.0% for 2019, 0.8% for 2020 and 0.4% for 2021-2023, following revised estimates for monetary policy interest rate and ROBOR evolution, was taken into account. The monetary policy interest rate was assumed flat at 2.5% p.a. for the entire forecast period (i.e. 5 years) and the ROBOR was assumed to have a decreasing trend from 2.8% p.a. forecast for 2019 to 2.25% p.a. forecast for 2021-2023.

The major parameters in the BCR valuation are the Cost of Equity, the Growth rate and the sustainable RoE. Based on the weighted scenarios as provided by BCR management and the resulting Value in Use an increase of 1% in terminal value growth would result in a raise of round EUR 10 million, a decrease of terminal value growth in a reduction of the valuation result by round EUR 7 million. A decrease of the cost of equity by 1% would result in an increase by round EUR 82 million, an increase would result in an reduction of round EUR 66 million of the valuation result. The sustainable ROE was implemented in the valuation to reflect the uncertainty in the valuation. An increase of 1,25% of this sustainable ROE would result in a raise of round EUR 113 million and the decrease of 1,25% in a reduction of round EUR 112 million of the valuation result (all numbers applied on the total of 100% of BCR).

The valuation was prepared by KPMG Alpen-Treuhand GmbH based on the AFRAC statement 24 “Beteiligungsbewertung (UGB)”, the guidelines published in the Austrian standard “Valuation of Businesses” and the recommendations on the simplified valuation approach, as far as reasonable and applicable. The dividend discount method was applied.

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 62,813,183.93 (prior year: EUR 82,507 thousand). As in the prior year, no group members were sold in the reporting year.

44. Taxes on profit and loss

The item tax on profit or loss shows that tax income amounted to EUR 108,526,015.36 (prior year: income EUR 131,657 thousand). Net income from taxes on profit or loss was EUR 91,492,597.36 (prior year: EUR 75,160 thousand) under the current tax allocation system, whereas tax income from foreign taxes on income of previous years amounted to EUR 9,454,799.63 (prior year: EUR 7,503 thousand) according to section 9 Corporate Tax Act (Körperschaftssteuergesetz) on group taxation as well as expenses from the release of deferred tax assets in the amount of EUR 4,615,652.68 (prior year: income from recognition of deferred tax assets EUR 52,179 thousand).

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 1,924,115.99 (prior year: EUR 1,564 thousand).

45. Other taxes

The balance sheet item other taxes not shown under item 18 includes the bank levy to the amount of EUR 15,863,602.45 (prior year: EUR 15,346 thousand) on the one hand and a one-off backpayment of capital gains tax for securities in the amount of positive EUR 11,717,064.29 (prior year: negative EUR 14,605 thousand) on the other.

46. Branches on a consolidated basis

Dec 18 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	28,658,740.85	-23,333,937.04	-1,997,444.68	-4.92
Operating result in EUR	33,490,365.70	-23,243,923.02	-2,282,442.42	-2,254.69
Headcount / as of reporting date	29.00	22.00	23.00	12.00
Profit or loss from ordinary activities in EUR	24,853,397.64	-36,622,409.08	-8,148,156.75	-3,172,930.32
Taxes on income in EUR	-564,833.42	-9,216,529.72	-2,485,987.61	-19,159.92
Public benefits received	keine	keine	keine	keine

Due to the improved rating of Erste Group Bank AG NY and HK branch were able to attract more external funding at favorable levels (either via commercial papers or deposits) which was placed with the Head Office in Vienna. This had a positive P/L impact on overall Erste Group Bank AG level but resulted in a negative result for both branches in 2018 on the consolidated view (as the interest income from intra-group placements is eliminated) as displayed in the table above.

Dec 17 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 / as of reporting date	29.00	23.00	23.00	12.00
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	Keine	Keine	Keine	Keine

47. Return on assets

Net profit for the year after tax before changes in reserves expressed in proportion to the average total assets was 1.4% in 2018 (prior year: 1.5%).

48. 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 2,107 during the financial year 2018 (prior year: 2,143).

In 2018, 190 employees (prior year: 263) worked at other companies against reimbursement of expenses. The reimbursement costs of EUR 21,138,025.29 (prior year: EUR 28,286 thousand) are included in other operating expenses.

Board members

Neither in 2018 nor in the previous year did Erste Group Bank AG grant loans directly to members of the board or supervisory board.

Management board members

Managing board remuneration is as follows:

Fixed salaries

in EUR or in EUR thousand	1-12 18	1-12 17
Andreas Treichl	1,475,000.12	1,475
Peter Bosek	700,000.00	700
Petr Brávek	700,000.00	700
Willibald Cernko	700,000.00	700
Gernot Mittendorfer	700,000.00	700
Jozef Síkela	700,000.00	700
Total	**4,975,000.12**	**4,975**

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 18				1-12 17			
	for 2017		for previous years		for 2016		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	317,466.00	10,738	276,800.00	12,245	310,758.40	14,408	170,600.00	7,923
Peter Bosek	127,560.00	4,853	84,000.00	3,387	132,380.00	6,512	36,000.00	1,433
Petr Brávek	158,441.00	4,853	84,000.00	3,387	150,375.00	6,512	36,000.00	1,433
Willibald Cernko	160,000.00	4,853	0.00	0	0.00	0	0.00	0
Gernot Mittendorfer	160,000.00	4,853	110,000.00	4,762	156,000.00	6,349	63,200.00	2,857
Jozef Síkela	134,797.38	4,853	84,000.00	3,387	139,924.00	6,512	36,000.00	1,433
Total	**1,058,264.38**	**35,003**	**638,800.00**	**27,168**	**889,437.40**	**40,293**	**341,800.00**	**15,079**

The planned share-equivalents for 2018 were awarded due to success in the prior year. Payouts will be made proportionately in 2019, 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 2018 (2017) in the amount of EUR 36.88 (EUR 32.97) per share.

For the financial years 2011 and 2014 no performance-linked remuneration was paid out to 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 18	1-12 17
Andreas Treichl	643,795.75	644
Peter Bosek	138,367.75	136
Petr Brávek	138,840.23	136
Willibald Cernko	133,571.46	129
Gernot Mittendorfer	139,897.92	137
Jozef Síkela	138,478.48	135
Total	**1,332,951.59**	**1,317**

In 2018, EUR 1,081,648.86 (prior year: EUR 2,098 thousand) was paid in cash and 8,392 share-equivalents (prior year: 12,894) were assigned to former members of the management bodies and their dependants.

Principles governing the pension scheme for management board members

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

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 24 May 2018, the supervisory board adopted in its constituent meeting the following remuneration structure for the financial year 2017:

in EUR	Number	Allowance per person	Total allowance
Chairman	1	150,000.00	150,000.00
1st Vice Chairmen	1	90,000.00	90,000.00
2nd Vice Chairmen	1	80,000.00	80,000.00
Members	9	60,000.00	540,000.00
Total	**12**		**860,000.00**

In addition, the chairmen of the risk, audit and IT committee each receive further annual compensation of EUR 10,000.00 and the chairmen of the remuneration and nomination committee each receive further annual compensation of EUR 5,000.00 (prior year: EUR 0 thousand).

In 2018, the members of supervisory board of Erste Group Bank AG were paid EUR 1,100,219.00 (prior year: EUR 950 thousand) for their board function.

in EUR or in EUR thousand	1-12 18	1-12 17
Supervisory board compensation	860,219.00	691
Meeting fees	240,000.00	259
Total	**1,100,219.00**	**950**

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 104,110.00 (prior year: EUR 87 thousand), Jan Homan EUR 19,400.00 (prior year: EUR 18 thousand), Gunter Griss EUR 43,400.00 (prior year: EUR 64 thousand), Maximilian Hardegg EUR 62,814.00 (prior year: EUR 64 thousand), Elisabeth Krainer Senger-Weiss EUR 7,713.00 (prior year: 0 thousand), Brian D. O'Neill EUR 51,466.00 (prior year: EUR 51 thousand), John James Stack EUR 96,377.00 (prior year: EUR 97 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 2017	Additions	Disposals	As of 31 December 2018
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
Gernot Mittendorfer	10,000	0	0	10,000
Jozef Síkela	6,300	0	0	6,300

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

Members of the supervisory board	As of 31 December 2017	Additions	Disposals	As of 31 December 2018
Friedrich Rödler	1,702	0	0	1,702
Jan Homan	4,400	0	0	4,400
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	200	0	240
Elisabeth Krainer Senger Weiss	0	0	0	0
Brian D. O'Neill	0	0	0	0
Wilhelm Rasinger	21,303	1,000	0	22,303
John James Stack	32,761	0	0	32,761
Markus Haag	160	16	0	176
Regina Haberhauer	188	0	0	188
Andreas Lachs	52	0	52	0
Barbara Pichler	281	28	0	309
Jozef Pinter	0	0	0	0
Karin Zeisel	35	3	0	38

Persons related to management board or supervisory board members held 3,366 Erste Group Bank AG shares as of 31 December 2018 (prior year: 3,366).

Severance payments and pensions

Expenses for severance payments and pensions for members of the management board and managers amounted to EUR 4,426,020.00 (prior year adjusted: EUR -673 thousand). Expenses for severance payments and pensions for other employees amounted to EUR 50,755,624.64 (prior year adjusted: EUR 26,234 thousand). Expenses for surviving dependents and pensioners are included in the reported amounts. In accordance with section 239 (2) Commercial Code, statements regarding members of the executive and supervisory boards are disclosed separately in the annex.

E. APPROPRIATION OF PROFIT

At the annual general meeting, the management board will propose to pay out a dividend of EUR 1.40 per share (prior year: EUR 1.20). 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 2018

Supervisory board

Position	Name	Year of birth	Occupation	Date of initial appointment	End of the current period of office
Chairman	Friedrich Rödler	1950	Wirtschaftsprüfer und Steuerberater	4 May 2004	AGM 2022
1st Vice Chairman	Jan Homan	1947	Generaldirektor i.R.	4 May 2004	AGM 2022
2nd Vice Chairman	Maximilian Hardegg	1966	Unternehmer	12 May 2015	AGM 2020
Member	Elisabeth Bleyleben-Koren	1948	Generaldirektorin i.R.	21 May 2014	AGM 2019
Member	Gunter Griss	1945	Rechtsanwalt	21 May 2014	AGM 2019
Member	Jordi Gual Solé	1957	Vors., CaixaBank	17 May 2017	AGM 2022
Member	Marion Khüny	1969	Beraterin	17 May 2017	AGM 2019
Member	Elisabeth Krainer Senger-Weiss	1972	Rechtsanwältin	21 May 2014	AGM 2019
Member	Brian D. O'Neill	1953	Senior Advisor, Lazard Frères & Co	31 May 2007	AGM 2022
Member	Wilhelm Rasinger	1948	Berater	11 May 2005	AGM 2020
Member	John James Stack	1946	CEO i.R.	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 Mai 2015	Until further notice
Member	Andreas Lachs	1964		9 August 2008	Until further notice
Member	Barbara Pichler	1969		9 August 2008	Until further notice
Member	Jozef Pinter	1974		25 June 2015	Until further notice
Member	Karin Zeisel	1961		9 August 2008	Until further notice

Representatives of the supervisory authority

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

Management board

Board member	Year of birth	Date of initial appointment	End of current period of office
Andreas Treichl (Chairman)	1952	1 October 1994	31 December 2019
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

Vienna, 28 February 2019

Management board

Andreas Treichl mp
Chairman

Peter Bosek mp
Member

Petr Brávek mp
Member

Willibald Cernko mp
Member

Gernot Mittendorfer mp
Member

Jozef Síkela mp
Member

IV. Management Report

ECONOMIC ENVIRONMENT

In 2018, the global economic developments were characterised by diverging monetary policies among the world's major central banks, trade disputes between the United States and its key trading partners, unresolved negotiations about the United Kingdom's withdrawal from the European Union, US sanctions against emerging countries such as Russia and Iran, and last but not least Italy's budget dispute with the European Union. Economic activity in advanced economies remained solid, with the United States outperforming both the euro zone and Japan. Although growth in Japan slightly decelerated in 2018, overall economic conditions remained favourable as the country benefitted from its lowest unemployment rate since the 1990s. Economic activity in emerging markets continued to show significant divergence across countries and regions. Growth in several emerging markets outside Asia, such as South Africa, Mexico, and Argentina fell short of expectation due to macroeconomic imbalances, domestic policy uncertainty and geopolitical developments. Argentina and Turkey were also impacted by currency turmoils and financial market weaknesses. By contrast, commodity exporting countries, like Russia, benefitted from higher average oil prices which boosted exports and improved current account balances and fiscal positions. China and India again outperformed other emerging markets due to their robust private consumption and firm investment activity. Within Europe, the Central and Eastern European (CEE) countries again outperformed the euro zone in terms of GDP growth, mainly driven by a robust domestic demand.

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 unchanged throughout the year, the Bank of England and the Federal Reserve (Fed) increased their key rates in by 0.25% and by 1.00%, respectively in 2018. Overall, global economic growth reached 3.7%[1] unchanged to 2018.

The United States' economy continued its good performance. Economic growth was significantly supported by an increased consumer and public spending and a strong labour market as well as the initial impact of personal income tax cuts. In addition, exports performed better than expected and also contributed to economic growth. Employment growth continued to strengthen, pushing the unemployment rate below 4%[2]. The budgetary impact of the fiscal stimulus, however, led to falling revenues and a deterioration in the fiscal position. Inflation increased mainly on the back of rising energy prices and higher wages which led to core inflation hitting the Fed's 2% target for the first time since 2012. Based on the strong economic performance, the Fed decided to raise its key rate in four steps by 100 basis points, to 2.50% during the year. Overall, the US economy grew by 2.9%[3] in 2018.

Economic growth in the euro zone slowed down after having grown at its fastest pace a year ago. This was mainly due to the weaker performance of exports which were impacted by the decline in global trade activity. In addition, several domestic factors such as strikes, extraordinary weather conditions, and higher tax burdens for consumers weighed on growth in some member states. Domestic demand and investment activity, on the other hand, remained supportive of growth. Despite the slower pace of economic growth, labour market conditions in the euro area continued to improve with employment having risen steadily throughout the year. Unemployment fell to the lowest level since 2008; however, it still varied substantially among the member states, with southern countries having significantly higher rates than those in the north. When looking at the bigger economies of the euro zone, Germany and Spain again outperformed France and Italy, and Italy's rising indebtedness led to a reduction of the country's credit ratings. The continued negotiations regarding the United Kingdom exiting the European Union did not significantly impact economic performance. The inflation rose slightly in the euro area, driven mainly by rising average energy prices. Despite higher wage growth, core inflation was rather muted throughout the year. The ECB maintained its expansionary monetary policy by keeping the base rate unchanged. In June 2018, the ECB announced to end its asset purchase programme by cutting its monthly asset purchases in half after September and phase them out entirely by the end of the year. Overall, similarly to the previous year, all euro zone member states saw growing economies in 2018 with an average real GDP growth of 1.8%[4].

The Austrian economy performed well with real GDP growth of 2.7%[5], the highest in seven years. With EUR 44,000 GDP per capital[6], Austria remained one of the most prosperous economies in the euro zone characterised by its well-educated workforce, stable institutional

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[1] IMF: https://www.imf.org/en/Publications/WEO/Issues/2019/01/11/weo-update-january-2019 (Download on 20 February 2019)
[2] US Bureau of Labor Statistics: http://data.bls.gov/timeseries/LNS14000000 (Download on 26 February 2019)
[3] IMF: https://www.imf.org/en/Publications/WEO/Issues/2019/01/11/weo-update-january-2019 (Download on 20 February 2019)
[4] IMF: https://www.imf.org/en/Publications/WEO/Issues/2019/01/11/weo-update-january-2019 (Download on 20 February 2019)
[5] WIFO: https://www.wifo.ac.at/jart/prj3/wifo/resources/person_dokument/person_dokument.jart?publikationsid=61634&mime_type=application/pdf (Download on 20 February 2019)
[6] Statistik Austria: https://www.statistik.at/web_de/statistiken/wirtschaft/volkswirtschaftliche_gesamtrechnungen/index.htmll (Download on 21 February 2019), adjusted for economic growth and inflation for 2018

framework and strong international competitiveness. Economic growth was supported by all GDP components with domestic demand, particularly consumer spending, having been exceptionally strong. Growth in investment spending remained robust and exports to almost all important trade destinations accelerated significantly. In addition, the traditionally strong service and tourism sectors continued to perform well. Austria also benefitted from the strong economic performance of Central and Eastern Europe. The favourable economic performance led to a significant decline of the unemployment rate, which dropped below 5%[7] for the first time since 2012. Average consumer prices remained well under control with an increase of the inflation rate of 2.0%[8]. The favourable economic performance led to a further improvement of the general government deficit to 0.3%[9]. Public debt as a percentage of GDP decreased further to 74.2%[10] (2017: 78.3%).

The economies of Central and Eastern Europe continued their robust performance and again outperformed the euro zone. Within the CEE countries, Poland, Hungary and the Czech Republic performed particularly well, and the rising convergence was demonstrated by a significant wage inflation across the region. Although investments and exports also contributed to growth, household consumption remained the main economic driver following higher wages and growing employment levels. In addition, European Union fund absorption rates improved further. The automobile industry, which was one of the main contributors to exports, again supported the Czech, Slovak, Romanian and Hungarian economies. 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. Although average consumer prices increased in most CEE countries, inflation remained well under control. CEE currencies remained relatively stable against the euro throughout the year. Among the region's central banks, policies continued to diverge. While the Czech Republic and Romania increased their key rates several times, other central banks kept the base rates at historic low levels. In addition, public deficits in the region remained low. While the underlying convergence trend continues, there are significant differences between the countries in the region. Standard & Poor's, for instance, rates the Czech Republic's long-term credit worthiness at AA- and that of Serbia at BB. Overall, CEE economies grew in 2018, between 4.8%[11] in Hungary and 2.8%[12] in Croatia.

FINANCIAL PERFORMANCE INDICATORS

Explanatory notes on the balance sheet

Total assets increased by 10.1% from EUR 61.1 billion at the end of 2017 to EUR 67.3 billion on 31 December 2018. The individual items developed as follows:

In particular due to the expansion of overnight business with central banks in euro, the most noticeable growth can be observed in the item **cash in hand, balances with central banks**, which increased by 60.8% from EUR 5.1 billion to EUR 8.2 billion on 31 December 2018. Lower trading portfolios led to declines in **expired treasury bills and other securities from public bodies held in assets**, which reduced by 4.8% from EUR 4.2 billion to EUR 4.0 billion. Due to the fact that the growth in repurchase agreements (EUR +4.8 billion) more than compensated for the declines in interbank business in foreign currencies, the **loans and advances to credit institutions increased** by 8.6% from EUR 22.0 billion in the prior year to EUR 23.8 billion in the reporting year. Compared to the end of 2017**, customer deposits rose** by 5.7% from EUR 13.7 billion to 14.5 billion, which resulted approximately half from higher security positions in fixed assets and half from loans to customers. **Debt securities** grew by 31.6% from EUR 3.8 billion in the prior year to EUR 5.0 billion, which can largely be affiliated to the increased circulation of covered bonds. Mainly due to additional acquisitions in Banca Comerciala Romania (BCR), the book values of **participating interest and shares in affiliated companies** increased by 5.0% from EUR 6.5 billion to EUR 6.8 billion on 31 December 2018, whereby the share of Erste Group Bank AG in BCR rose from 93.58% to 99.88%. **Other assets** in the amount of EUR 3.9 billion (prior year: EUR 4.7 billion) include approx. 93% derivatives, which decreased by 19.1% to EUR 3.6 billion by the end of 2018, this was driven in particular from matured transactions in 2018.

Liabilities to credit institutions increased by 5.4% to EUR 25.0 billion (prior year: EUR 23.7 billion) on the liabilities side, which can be attributed to growth in overnight interbank business. The increase in the item **amounts owed to customers** by 53.5% to EUR 7.3 billion (prior year: EUR 4.7 billion) resulted primarily from further time deposits in the New York and Hong Kong branches. Besides the additional certificates of deposit issued, the increased circulation of covered bonds is also largely responsible for the increase in **securitised liabilities** by 22.6% to EUR 17.1 billion (prior year: EUR 14.0 billion). As publicly listed expired subordinate capital in foreign curren-

[7] European Commission: https://ec.europa.eu/info/sites/info/files/economy-finance/2019_dbp_at_en.pdf, page 28, table 4 (Download on 21 February 2019)

[8] Statistik Austria: https://www.statistik.at/wcm/idc/idcplg?IdcService=GET_PDF_FILE&RevisionSelectionMethod=LatestReleased&dDocName=023344 (Download on 21 February 2019)

[9] European Commission: https://ec.europa.eu/info/sites/info/files/economy-finance/2019_dbp_at_en.pdf, page 29, table 6 (Download on 21 February 2019)

[10] European Commission: https://ec.europa.eu/info/sites/info/files/economy-finance/2019_dbp_at_en.pdf, page 29, table 6 (Download on 21 February 2019)

[11] Hungarian Central Statistical Office: http://www.ksh.hu/docs/eng/xftp/gyor/gde/egde1812.html (Download on 20 February 2019)

[12] IMF: https://www.imf.org/external/pubs/ft/weo/2018/02/weodata/weorept.aspx?pr.x=60&pr.y=15&sy=2015&ey=2019&scsm=1&ssd=1&sort=country&ds=.&br=1&c=960&s=NGDP_RPCH%2CNGDPD%2CPPPGDP%2CNGDPDPC%2CPPPPC&grp=0&a=#download (Download am 21 February 2019)

cies was not replaced with new issues, **subordinated and additional tier capital** sank by 4.1 % to EUR 5.8 billion (prior year: EUR 6.1 billion). The item **other liabilities** in the value of EUR 3.8 billion (prior year: EUR 4.7 billion) includes approx. 79.0% derivatives, whose reduction by 23.3% to EUR 3.0 billion at the end of 2018 which was driven to a large extent from matured transactions in 2018.

After deduction and filtering as specified in the CRR, **Tier 1 Capital** (CET 1 and AT1) amounted to EUR 7.9 billion (prior year: EUR 7.5 billion); **Common Equity Tier 1 Capital** (CET 1) amounted to EUR 6.9 billion (prior year: EUR 6.5 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 11.4 billion on 31 December 2018 (prior year: EUR 11.9 billion). The **Common Equity Tier 1 Capital Ratio** (CET 1) was 21.4% (prior year: 21.4%), whereas the **Total Capital Ratio** was 35.4% (prior year: 39.1%).

Details on earnings

In the continued difficult market interest rate environment, Erste Group Bank AG's **net interest income** improved by 6.7% to EUR 285.8 million (prior year: EUR 267.8 million), whereby interest income with central banks (particularly Fed) as well as the change of reporting methods for derivatives (interest from derivatives in the trading book are now in the interest result) more than offset the declines in credit customer and security business. Particularly due to dividends from Erste Bank Hungary, Erste Group Immorent and Banca Comerciala Romania, which are all affiliated companies that did not pay dividends in 2017, **income from securities and participating interests** rose by 24.0 % to EUR 1,050.0 million (prior year: EUR 846.6 million). Significant growth in the payment transactions business as well as the non occurance of issue costs for additional core capital (AT 1) result in an increased balance from **fee and commission income and expenses** by 49.5% in the value of EUR 39.5 million in the reporting year (prior year: EUR 26.4 million**). Net profit or loss on financial operations** switched from a positive EUR 12.5 million in the prior year to a negative EUR 77.6 million in 2018. The main cause for this was the change of reporting of interest from derivatives allocated to the trading book from the financial to the interest result. As positive effects from 2017 (income from the contribution of intangible assets to Erste Group IT as well as the termination of derivatives in a hedge relationship) did not repeat themselves on the one hand and income from intragroup passed-on costs decreased on the other (EUR -22.5 million; from the prior year EUR 115.0 million to EUR 92.6 million in the reporting year), **other operating income** sank by 51.4% to EUR 107.5 million (prior year: EUR 221.2 million). This resulted in a 2.2% improvement in **operating income** in 2018 to EUR 1,405.3 million (prior year: EUR 1,374.6 million).

In addition to salaries (both fixed and variable) and social expenses, **personnel expenses** also include expenses for long-term employee provisions and pension fund contributions. In spite of lower employee numbers, total personnel expenses increased by 10.2% to EUR 335.1 million (prior year: EUR 304.1 million). The actuarial losses recognised on the balance sheet (in particular as a result of the consideration of new mortality tables) from compensation related liabilities of EUR 41.4 million (prior year: New York branch value EUR 5.8 million) were the driver for this.

The **number of employees** at Erste Group Bank AG (in full-time equivalents) went down by 4.1% and compares to the previous year as follows:

	As of 31 December 2018	As of 31 December 2017
Domestic	**2,107.5**	**2,200.0**
Foreign branches	**86.0**	**87.0**
London	29.0	29.0
New York	22.0	23.0
Hong Kong	23.0	23.0
Berlin, Stuttgart	12.0	12.0
Total	**2,193.5**	**2,287.0**
thereof maternity/paternity leave	128.5	105.3

As a result of lower consultancy costs – in 2017 it was increasingly necessary to implement new regulatory requirements – **other administative expenses** reduced by 7.3% to EUR 311.9 million (prior: EUR 336.6 million). The **depreciation and amortization on fixed assets and intangible assets** were nearly unchanged at EUR 15.3 million (prior year: EUR 15.5 million). As expenses for the termination of derivatives in hedge relationships were unnecessary (prior year: EUR 44.1 million), **other operating expenses** fell by 52.1% to EUR 34.1 million (prior year: EUR 71.1 million). As a result, **operating expenses** sank by 9.5% to EUR 696.4 million (prior year: EUR 727.3 million).

After deduction of all operating expenses from operating income, **net operating income** amounted to EUR 708.9 million in the financial year 2018 (prior year: EUR 647.3 million). At 49.4%, the **cost-income ratio** (operating expenses as a percentage of operating income) was lower than the prior year's figure of 52.9%.

Thanks to the extraordinarily good risk environment, Erste Group Bank AG reports a positive **required net allocation for loans and receivables** (including write-offs offset against income from written off loans) of EUR 41.9 million in the reporting year (prior year: negative EUR 16.1 million). 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 82.4 million (prior year: EUR 190.7 million). Participation valuations (primarily the appreciation of EBH and Immorent as well as the depreciation of BCR) in particular had a positive impact on the results in the reporting year.

Accordingly, **pre-tax profit for the year** improved from EUR 821.9 million in the previous year to EUR 833.1 million in 2018.

Dividend income, which did not result from operating profits, amounted to zero in the reporting year 2018 (prior year: EUR 31.5 million), as Erste Group Bank AG did not receive any dividends of this type. In particular due to the release of capitalised deferred taxes, **taxes on profit or loss** decreased by 17.6% to an income of EUR 108.5 million (prior year: EUR 131.7 million). Due to the high proportion of tax income from participations as well as the obligation of depreciating participation over 7 years, no Austrian corporate income tax was payable in the financial year 2018. The significant decline by 84.9% in **other taxes** from EUR 30.5 million to EUR 4.6 million is connected to capital tax income for securities lending from prior years.

After accounting for the **changes in reserves** (see Annex chapter C note 23), which resulted in the net allocation of EUR 335.3 million (prior year: EUR 438.7 million), there was both **annual** and **net profit** of EUR 601.7 million, which is above the previous year's level of EUR 515.8 million.

OUTLOOK

The expected solid macro-economic development in the core markets Czech Republic, Slovakia, Hungary, Romania, Croatia, Serbia and Austria, compared to 2018 only moderately rising interest rate levels in several of our markets and still historically low risk costs should be supportive factors to achieve this target. On the other hand, a global or regional slowdown of economic growth as well as potential – and as yet unquantifiable – political or regulatory risks might jeopardize achieving the target.

In 2019, the positive development of the economy should be reflected in growth rates (real GDP growth) of around 3% in Erste Group Bank AGs 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 remain broadly stable. Strong competitive positions should again lead to current account surpluses in most countries. The fiscal situation and public debt levels are also projected to remain sound. Austria should see continued dynamic economic growth at a rate of above 2%. 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. The 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 continue to grow in 2019. Erste Group Bank AG will continue to invest in digitalisation and thereby its future competitiveness in 2019. The focus will be on product simplification, process standardisation as well as the group-wide implementation and expansion of the digital platform George. Overall, the operating result is projected to rise in 2019.

Risk costs should remain low in 2019. Amid a stable low interest rate environment, risk costs should go up only slightly. Further improvements in asset quality, however, should have a dampening effect.

Further details on the possible impact of the Romanian banking tax on the unconsolidated financial statements of Erste Group Bank AG can be found in Note C43.

Due to its limited presence in the United Kingdom, Erste Group Bank AG does not anticipate any material impact from Brexit at the current time.

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	688,875	27,009,588		1,377,750
January	Sale	592,028		23,128,255	1,184,056
February	Purchase	958,580	37,827,250		1,917,160
February	Sale	1,002,076		39,684,216	2,004,152
March	Purchase	675,787	28,012,874		1,351,574
March	Sale	546,150		22,716,395	1,092,300
April	Purchase	235,655	9,506,117		471,310
April	Sale	237,971		9,648,804	475,942
May	Purchase	467,368	17,466,654		934,736
May	Sale	282,980		10,587,065	565,960
June	Purchase	734,092	26,216,850		1,468,184
June	Sale	423,219		15,070,219	846,438
July	Purchase	248,169	8,755,660		496,338
July	Sale	323,157		11,566,103	646,314
August	Purchase	326,473	11,585,319		652,946
August	Sale	278,068		9,978,771	556,136
September	Purchase	780,479	28,322,030		1,560,958
September	Sale	805,879		29,357,213	1,611,758
October	Purchase	279,158	10,031,913		558,316
October	Sale	318,987		11,595,729	637,974
November	Purchase	612,787	21,478,273		1,225,574
November	Sale	538,989		18,936,702	1,077,978
December	Purchase	733,769	21,797,791		1,467,538
December	Sale	622,794		18,286,914	1,245,588

The primary purpose of the transactions was market making and hedging of ATX positions. As of 31 December 2018, other liabilities include a short position in Erste Bank shares amounting to 164,726 units with a carrying amount of EUR 4,785,290.30 (prior year: 933,620 units, carrying amount EUR 33,708,350.10), which is covered by securities lending deals.

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 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 representation 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 2018, together with its syndicate partners, DIE ERSTE oesterreichische Spar-Casse Privatstiftung (“Privatstiftung”), a foundation, controls approx. 29.99% of the shares in Erste Group Bank AG and with 16.21% is the main shareholder. The Privatstiftung holds 6.49% of the shares directly; the indirect participation of the Privatstiftung amounts to around 9.72% of the shares held by Sparkassen Beteiligungs GmbH & Co KG, which is an affiliated undertaking of the Privatstiftung. 0.78% 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.

According to section 8.3 of the Articles of Association, the Management Board is authorized, until 24 May 2023 and with the approval of the Supervisory Board, to issue convertible bonds (including conditional compulsory convertible bonds according to section 26 Austrian Banking Act (BWG)), which grant subscription or conversion rights to the acquisition of company shares, while paying due consideration or excluding the subscription right of shareholders. The terms of issue can also set out a conversion obligation at the end of the term or at another point in time in addition or instead of subscription or conversion rights. The issue of convertible bonds may only take place to the extent that guarantees the fulfilment of agreed conversion or subscription rights and, in the case of a conversion obligation set out in the conditions of issue, the fulfilment of the corresponding conversion obligations from the conditional capital increase. The issue amount, conditions or issue and the exclusion of shareholders' subscription rights are to be determined by the Management Board with consent of the Supervisory Board.

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 consent, 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)
With respect to banking and insurance products, Erste Group Bank and Vienna Insurance Group AG Wiener Versicherung Gruppe (“VIG”) are contractual partners of a general sales agreement regarding the sales cooperation between Erste Group Bank AG and VIG in Austria and CEE. The contract, which was originally entered into in 2008 (between Erste Bank der österreichischen Sparkassen AG and Vienna Insurance Group der WIENER STÄDTISCHE Versicherung AG), was renewed and extended in 2018 until the end of 2033. The objective of the renewal and extension was the modification of the agreement to fit the company restructurings of the original parties, the change to several business parameters and the adaptation of the agreement to the legal framework. The parties already determined in the first agreement that each party had the right to terminate the agreement in the case of a takeover. Regarding Erste Group Bank, a takeover is deemed to occur if 50% plus one share of voting capital of Erste Group Bank AG is acquired by a third party (except DIE ERSTE oesterreichische Spar-Casse Privatstiftung or the Austrian savings banks). Regarding VIG, a takeover is deemed to occur if 50% plus one share of voting capital of VIG is acquired by a third party (except Wiener Städtische Wechselseitiger Versicherungsverein Vermögensverwaltung - Vienna Insurance Group). Aside from this contract termination agreement, upon extension of this contract the parties agreed upon an additional termination for good cause if the continuation of the contract is no longer reasonable for one or both parties based upon new statutory or regulatory requirements.

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. The Asset Management Agreement was extended until 2033 at the same time as the renewal of the aforementioned contract.

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 measures. 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 able to influence the decisions made by the addressees on the basis of the final accounts. Such decision may cause 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 guided in particular by the the law, guidelines and minimum standards of the authority, by the professional standards for internal audits and their policy, which is checked regularly and adapted if necessary.

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

In light of the business strategy of Erste Group Bank AG, besides participation risk, the main risks included credit risk, market risk, interest-change risk in the banking book, liquidity risk and non-financial risks. 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.

The participations entered into by Erste Group Bank AG took place in line with the strategic objective to invest in retail banking whereby own experience and expertise could be contributed. In order to participate more in growth markets, geographic diversification was increased by investing in central and eastern European states. 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 all 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 2018, 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.

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.

In accordance with the Advanced Measurement Approach (AMA), operational risk for Erste Group Bank AG is backed by equity capital. Towards the end of 2018, an adapted version of the model applied was approved by the supervisory authorities.

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 Bank AG defines its risk strategy and risk appetite within the framework of the annual strategic planning process, during which adequate orientation of the risk, capital and results and earnings targets is ensured. Strategic limits and principles are defined for all types of risk on the basis of the RAS in the risk strategy. These strategic limits and principles support the implementation of the medium and long-term risk decisions. Risk Management Governance ensures the comprehensive overview of all risk decisions and the proper execution of the risk strategy. Risk-reducing measures are carried out as part of the ordinary risk management process in order to make sure that the Group acts in accordance with 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 internal approval authority policies. 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 2018, the structure of the risk management organisation was adapted, in order to ensure more efficient processes and clear responsibilities, with a focus on individual types of risk. The following changes were made:
_ Creation of the corporate unit "Executive Divisional Director Strategic Risk",
_ Integration of Group Workout into Group Credit Risk Management, and
_ Establishment of Group Compliance as own division.

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 Credit Risk Management;
_ Group Legal;
_ Group Sustainability Office;
_ Executive Divisional Director Strategic Risk.

The division Group Liquidity and Market Risk Management includes all market and liquidity risk functions. This division is responsible for the management, measurement and control of the liquidity and market risk in the trading and banking book of Erste Group Bank AG. The methods and models applied are checked and validated by a separate department.

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.

The areas of responsibility for Group Non Financial Risk were reorganised in 2018 by the establishment of a separate Group Compliance division, the assignment of the department Group Security to the unit in the COO (Chief Operating Officer) division responsible for governance, as well as the preparation of the integration of the core function of operational risk management into the division Enterprise wide Risk Management. This integration will be effective from 1 January 2019. The present department Group Operational & Non-Financial Risk acts as the central and independent risk control unit for the identification, measurement and quantification of the operational risk within Erste Group and is responsible for the operation of the model for the calculation of the own funds requirement for operational risks.

In November 2018, both divisions Group Credit Risk Management and Group Workout were merged into a single division called Group Credit Risk Management. The newly organized division Group Credit Risk Management fulfils the function of operational risk management and covers the approval of credit risks as well as the support of workout cases for both, the retail and the non-retail portfolio (medium-sized companies, key accounts and real estate customers, as well as institutional customers and counterparts). At the same time, this division is responsible for the setting of standards and the management of the non-retail and retail business. Group Credit Risk Management ensures that only credit risk, which is aligned with the risk appetite, the risk strategy and the limits set by Enterprise wide Risk Management is taken onto the books.

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.

The main tasks of the GSO include the development and group-wide implementation of the diversity and environmental policy, the development of the "Code of Conduct" for Erste Group and the further development of the "Time Bank" in Austria (platform for the arrangement between NGOs and employees of the bank for voluntary engagement in civil society). Furthermore, their tasks also include participation in the evaluation of non-financial risks in client business as well as taking care of the sustainability rating and the creation of the non-financial report.

The staff unit Executive Divisional Director Strategic Risk is responsible for the further development of internal risk models and mastering challenges in connection with the review of internal models by supervisory authorities. Furthermore, this unit ensures comprehensive, optimised coordination of all divisions, which are concerned with strategic risk management (Enterprise wide Risk Management, Credit Risk Models, Group Liquidity and Market Risk Management).

Statements concerning value adjustments for credit risks can be found in Annex section C note 33 and concerning off-balance sheet risk items in Annex section C note 34 of this financial statement. Litigations are dealt with in Annex 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.

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.

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.

Forbearance
Concessions to the debtor due to financial difficulties.

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
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.

Solely Payments of Principle and Interest (SPPI)
Financial instrument, whose contractual cash flows include only redemption and interest

Vienna, 28 February 2019

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

We draw attention to the fact that the English translation of this auditor's report according to Section 274 of the Austrian Commercial Code (UGB) is presented for the convenience of the reader only and that the German wording is the only legally binding version.

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, 2018, 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, 2018, 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 Loans and Advances to Customers

Description

Loss allowances represent management's best estimate of the credit losses expected with respect to the loan portfolio at balance sheet date. Due to the underlying assumptions and estimations, the determination of expected credit losses is inherently subject to substantial judgement applied by management.

As at 31 December, 2018, the volume of loans (loans to customers and loans to credit institutions) of Erste Group Bank AG, Vienna, amounted to EUR 38.5 billion before loan loss allowances of EUR 0.2 billion.

Erste Group has implemented internal guidelines and specific processes to identify significant increases in credit risk (at the level of the individual financial instrument) as well as loss events for individual customers. These processes rely significantly on quantitative criteria and involve management judgement.

Based on the results of these assessments, several scenario-based discounted cash flow methods are used to determine the level of loan loss allowances. Assumptions incorporated in these assessments are, if required, estimated based on statistical models taking into regulatory requirements and translated into parameters compliant with accounting requirements:

_ For non-defaulted loans, loss allowances are generally collectively measured at an amount equal to 12-month expected credit loss. If a significant increase in credit risk has occurred loss allowances are measured as lifetime expected credit losses. For defaulted loans with a comparable risk profile, that are considered not to be individually significant, expected credit losses are collectively assessed as well.
_ The collectively measured loan loss allowances are calculated considering the probability of default, the impact of forward looking information and parameters that reflect the expected cash flows as well as the expected proceeds from the realization of collateral. The applied parameters are estimated based on statistical models.
_ For defaulted loans considered to be significant at customer level, loss allowances are determined on a case-by-case basis. These loss allowances are calculated considering scenario probabilities, expected cash flows as well as expected proceeds from the realization of collateral (where applicable). This process involves significant judgement and management estimates.

Due to the uncertainty of estimates in the determination of expected credit losses as well as to the amounts involved, we identified this area to be a key audit matter.

Audit approach
To assess the appropriateness of the expected credit losses, we:

_ obtained an understanding of the Expected Credit Loss calculation methodology applied by EGB.
_ evaluated control activities in credit risk management and lending business processes and tested key controls, notably with respect to the approval of loans, ongoing monitoring and early warning.
_ evaluated control activities and tested key controls in the area of rating models and collateral valuation.
_ using our credit risk modelling experts, evaluated model governance and validation processes and critically reviewed the information brought to the attention of the management as well as the results of back-testing and model validations.
_ assessed the appropriateness and reasonableness of forward-looking information incorporated in the estimates.
_ analysed sensitivities and impacts of IFRS 9 specific model aspects.
_ evaluated whether the data for calculating expected credit losses are correctly incorporated in the impairment calculation by performing audit procedures on key controls and interfaces.
_ tested, on a sample basis, the correct stage allocation according to the relevant policies.
_ tested, on a sample basis, whether loss events were identified according to the applicable policies and assessed whether events occurred that significantly affect the borrower's repayment ability with regard to loans and advances. We also tested, on a sample bases, the adequacy of individual loan loss allowances, assessing the presumed scenarios and the expected cash flows estimated by the Group to be received.

Reference to related disclosures:
We refer to the information provided by management under item III.B and III.C.33 of the disclosure notes.

2. Impairment of participating interests ("Abschreibung auf den niedrigeren beizulegenden Wert") in Banca Comercială Română SA („BCR")

Description
Erste Group Bank AG is the main shareholder of Banca Comercială Română SA, Bucharest, ("BCR") controlling 99.88 % of the shares of BCR. In December 2018, the Romanian Ministry of Finance announced a number of tax measures which will take effect starting in 2019, published in the Official Journal of Romania on 29 December, 2018, including a new tax applicable to credit institutions (Government Emergency Ordinance No. 114/2018). The structure and the content of the related tax calculation will be established by a separate order of the National Agency for Fiscal Administration. The tax on total financial assets is linked to ROBOR with the tax rate progressively depending on the ROBOR level at each quarter; at current ROBOR levels, the tax rate amounts to 1.2 percent p.a. This impacts expected profits of BCR.

Consequently, management reassessed the fair value ("beizulegender Wert") of the interest in BCR. This required discretionary judgements, assumptions and estimates to be made by management.

The fair value was determined applying the dividend discount method ("DDM") which is commonly used for the valuation of financial institutions. Under DDM, expected future dividends that are available to be paid out to shareholders ("Flow-to-equity") upon complying with regulatory capital requirements are capitalized. The key features requiring management's estimates and assumptions comprise both the profit expectations for the future and the parameters to be applied for discounting purposes.

The determination of future dividends from BCR was based on the business plan prepared by BCR's management and approved by BCR's supervisory board. The business plan projects the years 2019 until 2023 (5 years) and comprises an income statement, a balance sheet, and the planned regulatory capital. To address the uncertainty regarding the impact of the new banking tax and the consequential developments, management has adopted the revised business plan considering different potential scenarios based on different underlying macroeconomic assumptions and assessed the probability of these scenarios. Management used internal and external valuation experts to validate the underlying assumptions and derive the fair value from the revised business plan. A sustainable dividend for the infinite period in time after the business plan period was perpetuated assuming a constant growth rate. The flows-to-equity were determined based on the group-wide regulatory requirements and discounted using the Group's cost-of-equity rate applicable to Romania.

Management performed a sensitivity analysis on the main value drivers such as cost of equity in the terminal year, growth rate in the terminal year, sustainable RoE and sustainable CET1 ratio that resulted in a range for the fair value between appr. EUR 1.3 and EUR 1.8 billion. Management´s best estimate for the fair value ("beizulegender Wert") is EUR 1.5 billion resulting in an impairment of EUR 118.7 million.

Due to its significance for the financial statements, the existing estimation uncertainties as well as the level of management judgement and assumptions required, we identified this area to be a key audit matter.

Audit approach

In order to assess the appropriateness of the carrying value for the interests in BCR held by Erste Group Bank AG, we performed the following, using specialists with the required industry and regional knowledge in the field of business valuation:

- with respect to the summary of the prospective financial information used in developing the accounting estimate and the report on procedures performed thereon by management's external experts;
  - developed an understanding and evaluated the procedures performed in order to ensure mathematical accuracy of the prospective financial information;
  - critically reviewed management's independent experts' assessment of the reasonableness of key assumptions in the business plan and
    - performed sensitivity analyses in order to validate the conclusions on which assumptions are key,
    - corroborated macro-economic assumptions (interest rate policy of the Romanian National Bank, inflation, gross domestic product (GDP) growth, liquidity, wage growth, ROBOR) with macro-economic outlooks from independent sources,
    - assessed the reasonableness, interdependencies and consistency of business assumptions such as the banking tax, new lending volume, loans, deposit growth, retail deposits, corporate deposits, net interest margin, and profitability,
- examined the report on the indicative valuation performed by independent external experts on behalf of the management and reconciled the prospective financial information to the business plan on which this valuation is based,
- critically reviewed the adjustments made to the business plan for the purposes of the indicative valuation (interest adjustment due to changed capital structure and related tax impact) and assessed the reasonableness of the assumptions, including comparing the underlying regulatory capital plan to other sources,
- challenged the appropriateness of the cost of equity used to discount the resulting expected dividends by developing our own estimate of the base interest rate, the beta factor, the market risk premium, the country risk premium and the inflation differential.
- Scrutinized management's assessment regarding the weights attributed to the scenarios in order to derive the fair value ("beizulegender Wert") as at 31 December, 2018 and reconciled accounting entries to the valuation performed by management.

Reference to related disclosures

With regard to the above-stated information, we refer to management's disclosures in section III.C.43 in the notes.

Responsibilities of Management and the Audit Committee for the Financial Statements

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 17, 2017 and pursuant to Section 1 (1) of the Auditing Rules for Savings Banks, Annex to Section 24 SpG, PwC Wirtschaftsprüfung GmbH, Vienna, was appointed as additional auditor for the second 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 2019

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.

Vienna, 28 February 2019

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