Disclosure Report pursuant to the Capital Requirements Regulation

as of 31 December 2014

ERSTE Group

Extensive presence in Central and Eastern Europe

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Definitions

1) Exposure classes: The breakdown by exposure classes is in accordance with Part Three, Title II, Chapter 2, Article 112 (referred to as Standardised Approach) and in accordance with Part Three, Title II, Chapter 3, Section 1, Article 147 (referred to as IRB Approach) of the Capital Requirements Regulation.

2) EAD (Exposure at Default): The EAD is shown pursuant to Articles 153 to 157 of the Capital Requirements Regulation in the IRB Approach and pursuant to Article 111 of the Capital Requirements Regulation in the Standardised Approach. The exposure value of an asset item is shown gross, meaning before credit risk adjustments.

3) PD class (Probability of Default): The bank has defined ten PD classes, of which class 01 is the best and 10 the worst grade. Amounts are shown under the eligibility of protection providers.

4) RW (Risk Weight): Average EAD weighted risk weight; the bank has defined eight risk weight bands, of which class 01 has the lowest and class 08 the highest risk weight.

5) Credit risk adjustments: Comprise both specific and general credit risk adjustments. “Credit risk adjustments 31.12.” are shown as at the reporting date, whereas "Credit risk adjustments 1.1." show the relevant amount at the beginning of the year.

6) SME (Small and Medium-sized Enterprises): As defined in EU law according to the EU recommendation 2003/361.

List of Abbreviations

AT1	Additional Tier 1
ABA	Austrian Banking Act
AGM	Annual General Meeting
ALCO	Asset Liability Committee
ALM	Asset Liability Management
AMA	Advanced Measurement Approach
BIA	Basic Indicator Approach
BV	Begleitverordnung
CCF	Credit Conversion Factor
CEE	Central and Eastern Europe
CESEE	Central, Eastern and Southern Europe
CET1	Common Equity Tier 1
CFO	Chief Financial Officer
CRD IV	Capital Requirements Directive IV
CRM	Credit Risk Mitigation
CRO	Chief Risk Officer
CRR	Capital Requirements Regulation
EAD	Exposure at Default
EBA	European Banking Authority
EBOe	Erste Bank der oesterreichischen Sparkassen AG
ECB	European Central Bank
EGI	Erste Group Immorent
ERM	Enterprise-wide Risk Management
EU	European Union
FMA	Austrian Financial Market Authority
FTP	Funds Transfer Pricing
FX	Foreign exchange
GCM	Group Capital Markets
G-SII	Global Systemically Important Institutions
HMC	Holding Model Committee
IAS	International Accounting Standards
ICAAP	Internal Capital Adequacy Assessment Process
IFRS	International Financial Reporting Standards
ILAAP	Internal Liquidity Adequacy Assessment Process
IPS	Institutional Protection Scheme
IRB	Internal Ratings Based
ISDA	International Swaps and Derivatives Association
LCR	Liquidity Coverage Ratio
LGD	Loss Given Default
MRC	Market Risk Committee
NAV	Net Asset Value
NPV	Net Present Value
OECD	Organisation for Economic Cooperation and Development
OeNB	Austrian National Bank
OLC	Operational Liquidity Committee
OTC	Over-The-Counter
PD	Probability of Default
RAS	Risk Appetite Statement
RCC	Risk-bearing Capacity Calculation
RW	Risk Weight
RWA	Risk-Weighted Asset
SL	Specialised Lending
S&P	Standard & Poor's
SME	Small and Medium-sized Enterprises
SRC	Standard Risk Costs
T2	Tier 2
sVaR	Stressed Value-at-Risk
VaR	Value-at-Risk

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1 Introduction

DISCLOSURE REQUIREMENTS COVERED: ART. 436 (a) CRR

The requirements of the regulation apply to Erste Group Bank AG, hereinafter referred to as Erste Group.
Erste was founded in 1819 as the first Austrian saving bank. In 1997, Erste Group went public through the Vienna Stock Exchange with a strategy to expand its retail business into Central and Eastern Europe (CEE). It is also quoted on the Prague Stock Exchange (since October 2002) and on the Bucharest Stock Exchange (since 14 February 2008).

The core activities of Erste Group, besides the traditional strength in serving private individuals, include advisory services and support for corporate clients in financing, investment and access to international capital markets, public sector funding and interbank market operations.

The report gives readers a comprehensive overview of the current risk profile and risk management of Erste Group and covers the following areas:

_ Organisational structure of risk management;
_ Capital structure;
_ Capital adequacy;
_ Risk management systems,
_ Risk management with respect to each type of risk and the
_ Risks assumed.

1.1 Disclosure policy and structure

The disclosure requirements of the Austrian Banking Act (ABA) Article 26 and the Austrian Disclosure Regulation have been implemented throughout the Group since 1 January 2007. The current Disclosure Report of Erste Group meets the disclosure requirements of Part Eight of the Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012, hereinafter referred to as the CRR. The rules took effect on 1 January 2014. The Disclosure Report provides comprehensive disclosure on risks, risk management and capital management. The main document is published on a regular basis – once a year – in German and in English, even though specific information is published more often according to the Guidelines on the materiality, proprietary nature and confidentiality of information and on disclosure frequency under Article 432(1), 432(2) and 433 of Regulation (EU) 575/2013 issued by EBA in December 2014. Pursuant to Article 434 para 1 CRR, Erste Group has opted for the Internet as the medium of publication of the Disclosure Report. The Disclosure Report is available on the website of Erste Group (http://www.erstegroup.com/).

The preparation of the Disclosure Report and the formal audit for completeness and compliance with the applicable requirements is carried out by the service unit Group Strategic Risk Management. The Disclosure Report is subject to audit by the external auditors and by the Internal Audit department.

The Disclosure Report of Erste Group consists of 18 chapters and an Annex. Generally, each risk chapter is divided into a qualitative and a quantitative section. The first chapter comprises general information with respect to the disclosure, the Basel 3 framework as well as to the risk management and the material risks within Erste Group. Chapter 2 covers all disclosure requirements regarding the scope of application. Chapter 3 provides information on capital adequacy, structure and features of the bank's own funds and regulatory capital. Chapter 4 deals with the regulatory minimum capital requirements for credit, market and operational risk. Chapters 5 and 6 refer to separate disclosure of the indicators of global systemic importance and the un- and encumbered assets. Chapters 7 to 10 give a comprehensive insight into the management, measurement and monitoring of credit risk. Chapter 11 covers the disclosure requirements for counterparty credit risk management. Chapter 12 is dedicated to the disclosure requirements with respect to securitisation positions. A detailed description on the treatment of market risk is provided in chapter 13. Chapter 14 "Interest Rate Risk" consists of disclosure requirements on interest rate risk on positions which are not included in the trading book. Management and regulatory disclosure requirements related to equity exposures not included in the trading book are discussed in chapter 15. Information on the treatment of operational risk at Erste Group is presented in chapter 16. Chapter 17 "Other Risks" outlines the goals and principles on managing liquidity risk, macroeconomic risks and risk concentrations, while chapter 18 refers to the separate disclosure of remuneration policies and practices. The Annex contains information on the scope of consolidation and refers to the detailed list of the companies which is published on Erste Group's website.

1.2 The regulatory framework of Basel 3

CURRENT REGULATORY DEVELOPMENT ON BASEL 3

Implementation of Basel 3 in the European Union (EU)

On 16 April 2013, the European Parliament adopted the new capital and liquidity requirements for the implementation of Basel 3 in the EU. On 27 June 2013, the final Capital Requirements Directive IV (CRD IV) and the final CRR were published in the Official Journal of the EU.
The application of the new regulatory requirements for credit institutions and investment firms became effective as of 1 January 2014. From then onwards, the regulatory capital (own funds) and the regulatory capital requirements will be calculated and published in accordance to the CRR.

Activities in the context of changes to regulatory requirements

Since 2010, Erste Group has been scrutinizing the impacts of the planned regulatory changes commonly known as Basel 3. The Group has established a group-wide Basel 3 programme, which ensures that all requirements arising from the CRD IV and from related national and international regulations are implemented in time and completely within the whole Group. The programme includes covering capital requirements, changes in risk-weighted assets (RWAs) calculations, counterparty credit risk, and the new capital charge for credit value adjustments. Further streams focus on new legal requirements for regulatory capital, new disclosure requirements, the new liquidity rules, the planned introduction of a leverage ratio as well as transitional provisions up to 31 December 2022, based on definitions within the CRD IV.

The “Three Pillars” were introduced for the first time under Basel 2. The objectives of this framework are: a more risk sensitive capital allocation (Pillar 1 – Minimum Capital Requirements), a more detailed regulatory assessment of material risk categories (Pillar 2 - Supervisory Review Process) and an increased market transparency (Pillar 3 – Market Discipline). Basel 3 enlarged the requirements.

Pillar 1 – minimum capital requirements

The first pillar deals in general with capital, risk coverage and containing leverage. Pursuant to Article 521 (2) (a) CRR, Article 451 (1) CRR Leverage became valid as of 1 January 2015, hence, it is disregarded in this Disclosure Report. The leverage ratio is published in both the Annual Report and in the Global Systemically Important Institutions (G-SII) data template.

Pillar 2 – supervisory review process

Pillar 2 requires banks to conduct an internal capital adequacy assessment process (ICAAP) to demonstrate that they have implemented methods and procedures to safeguard adequate capital resources with adequate attention to all material risks. The ICAAP supplements Pillar 1’s minimum regulatory requirements. It considers a broader range of risk types and the bank’s risk and capital management capabilities.

Furthermore, Pillar 2 requires regulators to conduct a Supervisory Review and Evaluation Process to assess the soundness of bank’s ICAAP and take any appropriate actions that may be required.

Pillar 3 – market discipline

Taking account of Pillar 1 (Minimum Capital Requirements) and Pillar 2 (Supervisory Review Process), Pillar 3 aims to increase market transparency by providing information on the scope of application, regulatory capital, risk positions, risk measurement approaches and as a result, the capital adequacy of a bank. Moreover details about the reconciliation of the regulatory capital to the capital according to the International Financial Reporting Standards (IFRS) accounting figures are required.

1.3 Risk management at Erste Group

DISCLOSURE REQUIREMENTS COVERED: ART. 435 (1) (a) (b) (c) (d) (e) (f) CRR

RISK POLICY AND STRATEGY

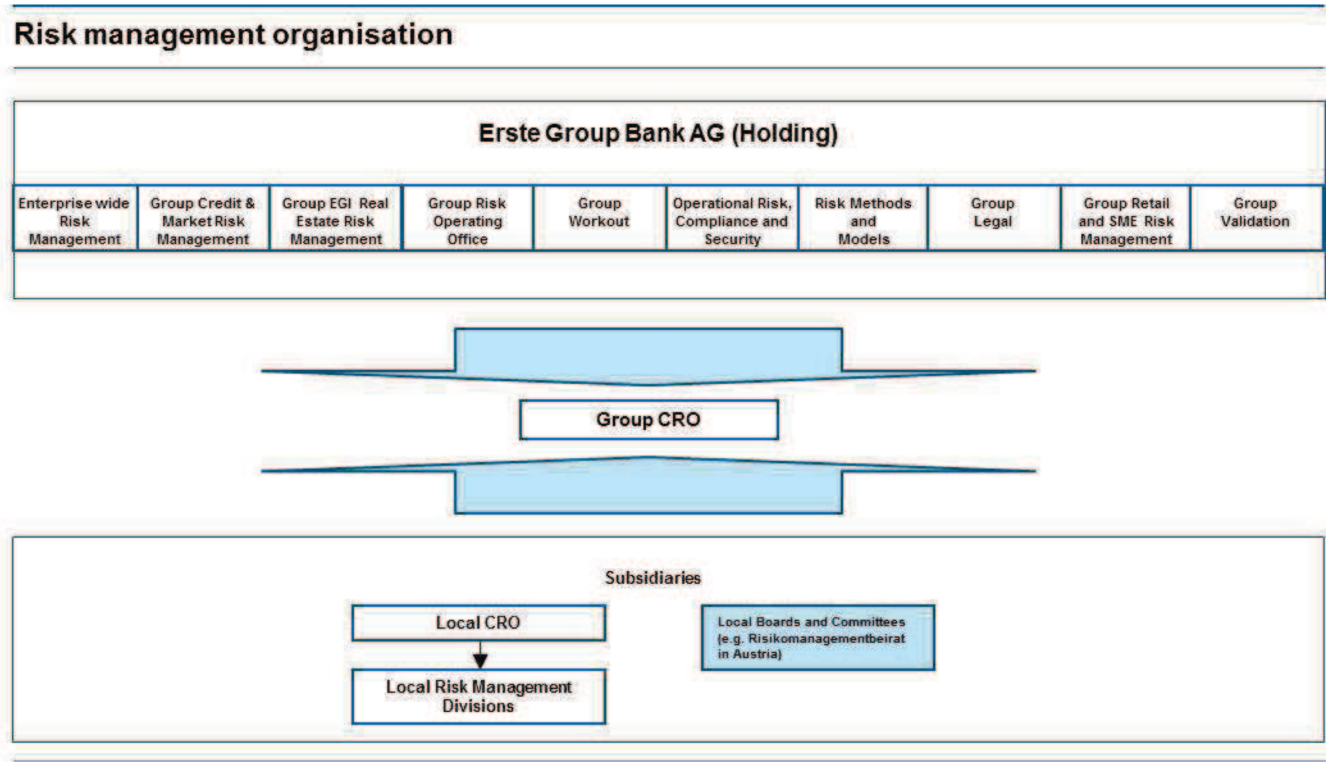
It is a core function of every bank to take risks in a conscious and selective manner and to manage such risks professionally. Erste Group’s proactive risk policy and strategy aim at achieving balanced risk and return in order to generate a sustainable and adequate return on equity.

Erste Group uses a risk management and control system that is proactive and tailored to its business and risk profile. It is based on a clear risk strategy that is consistent with the Group’s business strategy and focused on early identification and management of risks and trends. In addition to meeting the internal goal of effective and efficient risk management, Erste Group's risk management and control system has been developed to fulfil external and, in particular, regulatory requirements. Given Erste Group's business strategy, the key risks for Erste Group are credit risk, market risk, liquidity risk, and operational risk. Erste Group also focuses on managing macroeconomic risks as well as concentrations within and across risk types. In addition, Erste Group's control and risk management framework takes into account a range of other significant risks faced by the Group. The bank always seeks to enhance and complement existing methods and processes in all areas of risk management.

The year 2014 was marked by the clear strategy of the management for the implementation of adequate measures to extensively clean up the bank's portfolio. These included higher risk provisions in Romania accompanied by an accelerated reduction of non-performing loans as well as higher expenses disclosed under other operating result in Hungary as a result of the new consumer loan law. Furthermore, the key focus was also on the Asset Quality Review and the associated stress test carried out by the European Central Bank (ECB) and the European Banking Authority (EBA), which Erste Group has comfortably passed. In addition, emphasis was put on strengthening risk governance and ensuring compliance with new regulatory requirements.

RISK MANAGEMENT ORGANISATION

Risk monitoring and control is achieved through a clear organisational structure with defined roles and responsibilities, delegated authorities, and risk limits. The following chart presents an overview of Erste Group's risk management, risk governance and responsibilities.



Overview of the Risk Management Structure

The management board, and in particular Erste Group's chief risk officer (CRO), perform the oversight function within Erste Group's risk management structure. Risk control and risk steering within Erste Group are performed based on the business strategy and risk appetite approved by the management board. The Group CRO, working together with the CROs of the subsidiaries, is responsible for the implementation and adherence to the risk control and risk management strategies across all risk types and business lines.

The management board and, in particular, the Group CRO ensure the availability of appropriate infrastructure and staff as well as methods, standards and processes to that effect; 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.

At Group level, the management board is supported by several divisions established to perform operating risk control functions and exercise strategic risk management responsibilities:

_ Enterprise-wide Risk Management
_ Group Credit & Market Risk Management
_ Group EGI Real Estate Risk Management
_ Group Risk Operating Office
_ Group Workout
_ Operational Risk, Compliance and Security
_ Risk Methods and Models
_ Group Legal
_ Group Retail and SME Risk Management
_ Group Validation
_ Local Chief Risk Officers

Enterprise-wide Risk Management

Enterprise-wide Risk Management (ERM) has been established to enable an increased focus on holistic risk management and provide comprehensive, cross-risk oversight to further enhance group-wide risk portfolio steering. It drives key strategic cross-risk initiatives to establish greater cohesion between defining the risk strategy including risk appetite, limit steering and implementing the risk strategy. ERM works with all risk functions and key divisions to strengthen risk oversight group-wide, covering credit, liquidity, market and business risk. This division is responsible for the Group's ICAAP including internal and external stress testing. It is furthermore responsible for the proper RWA calculation, the group-wide risk portfolio steering in view of material risks, risk planning and risk input into capital planning, and risk appetite and limit management.

Group Credit & Market Risk Management

Group Credit & Market Risk Management is the operative risk management function for medium-sized and large customers as well as for institutional clients and counterparties. This division ensures that only credit and market risk in line with the risk appetite, the risk strategy and pertinent limits set by ERM is taken onto the books of Erste Group. It consists of five departments: Group Corporate Analysis, Credit Underwriting Corporates, Credit Underwriting Financial Institutions & Sovereigns, Corporate Portfolio Monitoring & Management, and Market Risk Control & Infrastructure. Group Corporate Analysis performs corporate analyses for Erste Holding and Erste Group Immorent (EGI) and is responsible for the Group financial analysis tool SABINE. Credit Underwriting Corporates is responsible for the group-wide underwriting of credit risks associated with major corporate customers, and the management of credit applications and training activities. It is the first-line risk management unit for all corporate business booked in the Holding and the second-line risk management unit for corporate business booked in Erste Group's subsidiaries and the cross-guarantee system of savings banks (Haftungsverbund). Corporate Portfolio Monitoring & Management is responsible for corporate risk policies and procedures along with the credit process and the operative monitoring of credit risk. Credit Underwriting Financial Institutions & Sovereigns is responsible for ratings, analysis, all operative credit risk management responsibilities (risk assessments, approval of transactions and limits, policies, watch lists and early warning systems) and the workout of financial institutions (banks, insurance companies and funds), regional governments, sovereigns, countries and structured products. Market Risk Control & Infrastructure is responsible for the group-wide risk and limit monitoring of all trading book positions, the end-of-day market data process that ensures validated market data for the valuation of all capital market products, independent price verification, the market conformity check of new trades, as well as the maintenance and support of all tools used by Market Risk Management.

Group EGI Real Estate Risk Management

The Group EGI Real Estate Risk Management department is responsible for risk management in the commercial real estate segment of Erste Group and in EGI AG. The department is responsible for the real estate risk polices and operations, the continuous advancement of real estate credit risk management in Erste Group and for the support of credit underwriting in operative activities, specifically the development and optimisation of the credit application and approval process, the setup and implementation of appropriate standards, and operating instructions across the Group.

Group Risk Operating Office

This function provides the infrastructure and general management across all functions within the risk organisation and is responsible for the budget and staff of the entire CRO division. In addition, the focus of the Group Risk Operating Office is on long-term infrastructure enhancements, project implementation, risk data and reporting, and regulatory management. In detail, the business areas it covers comprise the following units: Risk Data and Reporting, including Credit Risk Reporting, Risk Information Management and Market & Liquidity Risk Reporting, as well as Project Hub, Group Risk Regulatory Management and the Group Risk Administration Office.

Group Workout

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

local management's authorisation level. Based on regulatory requirements, Group Workout is responsible for generating group-wide workout policies, the designing of guidelines for the preparation of local workout reports and the preparation of Holding workout reports. Additionally, the division organises expert training programmes as well as workshops to ensure knowledge transfer across Erste Group entities.
Another important task of the division is its responsibility for group-wide collateral management. This includes the setup of standards for collateral management, the framework for a Group collateral catalogue, and principles for collateral evaluation and revaluation.

Operational Risk, Compliance and Security

This division is responsible for the management of operational risks, compliance risks and security issues. The business area comprises Group Operational Risk Management, Group Compliance and Group Security Management.
Compliance risks are those of legal or regulatory sanctions, material financial loss or loss of reputation that Erste Group might suffer as a result of failure to comply with laws, regulations, rules and standards. Core competencies in the handling of compliance risks are exercised by Group Compliance in the context of the Austrian Securities Supervision Act, the Austrian Stock Exchange Act and the ABA as well as applicable Community law.
The Group Security Management unit protects and preserves the safety and security of bank personnel and assets (incl. information assets). Group Security Management is responsible for the definition of security standards, quality assurance and the monitoring and further development of security-related issues at Erste Group. Group Operational Risk Management acts as the central and independent risk control department for identification, measurement and quantification of operational risk within Erste Group.

Risk Methods and Models

The Risk Methods and Models division is responsible for specific aspects of the management of credit, market and liquidity risk, especially the modelling aspects. This area provides adequate risk measurement methodologies and tools as well as an appropriate framework for relevant risk policy and control.
The Credit Risk Methods and Models unit, which is structured on the basis of competence centres, covers the topics of rating models, risk parameters and other credit risk methods.
The responsibilities covered by Market and Liquidity Risk Methods and Models are the development of risk models related to Basel 3 Pillar 1 (specifically the calculation of the regulatory capital requirements for market risk in the trading book) and Pillar 2 capital requirements as well as other internal steering purposes.

Group Legal

Group Legal, with its two sub-units Banking & Corporate Legal and Markets Legal, acts as the central legal department of the Holding. Group Legal 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. Legal support for the business activities of the banking subsidiaries in the respective jurisdictions in which they operate is performed by separate locally established legal departments. While reporting to the local management, typically the local CRO, the heads of the local legal department also report to the head of Group Legal in a functional dotted line matrix responsibility.

Group Retail and SME Risk Management

The core task of Group Retail and SME Risk Management is to ensure oversight and steering for the retail and SME loan portfolios across the Group.
The Group Retail Risk Policy and Collections department defines the retail lending framework across the lending cycle including portfolio management and early and late collection. This unit ensures implementation of these policies through a regular gap analysis process. The department also reviews and assesses local entities' new lending products and lending criteria changes to ensure that these are in line with group-wide retail lending policies. In addition, this department ensures know-how transfer on retail risk management issues across Group countries.
The Group Retail Risk Analytics department defines standardised reporting requirements and ensures regular, consistent retail risk management information. Based on this information, the underlying retail lending portfolio dynamics are analysed and, if required, risk mitigation is identified. This department also provides in-depth, ad hoc analyses to support senior management in risk management decisions. Group Retail and SME Risk Control is a newly established department that is currently extending the existing retail risk management oversight and steering tools to the SME portfolio in local entities.

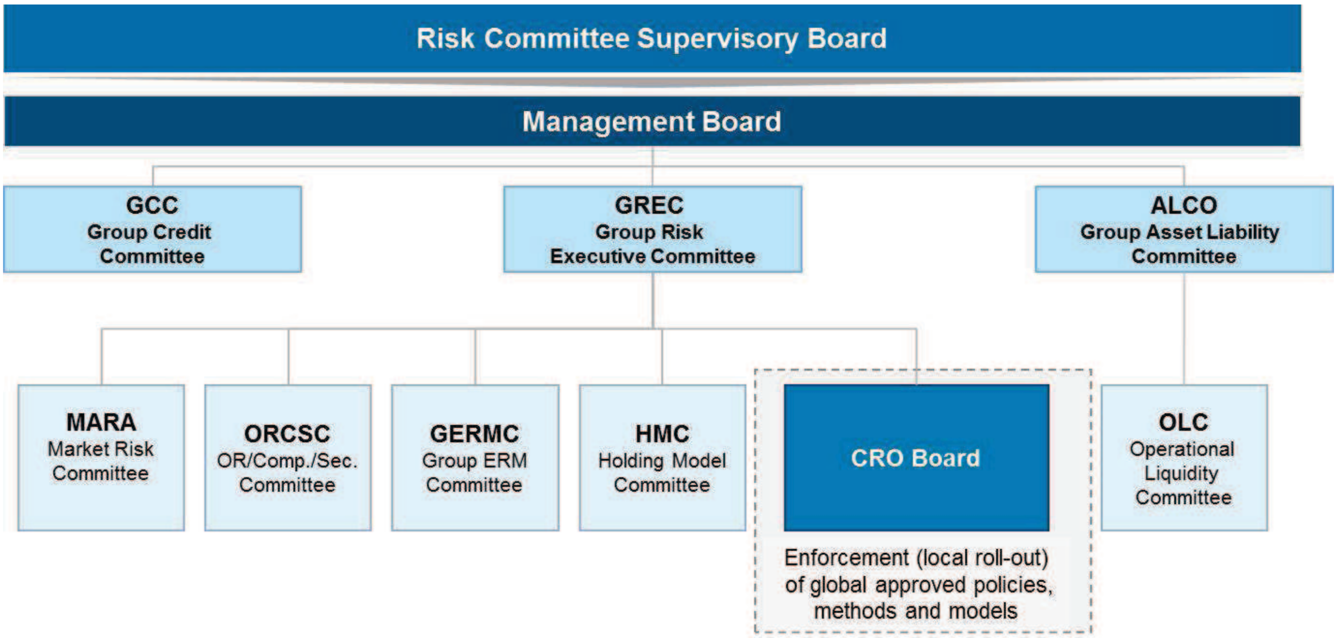
Group Validation

The objective of Group Validation is to comply with regulatory requirements regarding the performance of validations (initial and annual) concerning all the models and methodologies (internal or from external vendors) for credit ratings, scorecards and parameters, on the one hand, and concerning models and methodologies for derivatives, securities valuation, asset liability management (ALM), pricing and internal steering in Erste Group, on the other hand.
Within the structure, the Group Credit Risk Validation unit is responsible for the independent review of credit risk methods and models developed internally by Erste Group as well as externally purchased ones. This unit validates all new models prior to initiation of the internal approval process and supports the local banks by ensuring prudential validation of all models. It also performs all the annual validations, ensuring that the decreed requirements for all the validations are met.

In addition to the risk management activities performed by Erste Group in its role as the Holding company, each subsidiary also has risk control and management units, the responsibilities of which are tailored to the local requirements and which are headed by the respective entity's CRO.

Group co-ordination of risk management activities

The management board deals regularly with risk issues of all risk types in its regular board meetings. Actions are discussed and taken when needed. Furthermore, certain cross-divisional committees were established with the purpose of carrying out risk management activities within Erste Group. They are shown in the following diagram:



The **Risk Management Committee of the Supervisory Board** is responsible for granting approval in all those cases in which loans and exposures or large exposures reach an amount exceeding the approval authority of the management board according to the Credit Risk Approval Authority Regulations. It is charged with granting approval to large exposures pursuant to Article 392 CRR, if such a claim is equal to 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.
In addition it is responsible for supervising the risk management of Erste Group. The Risk Management Committee meets regularly. As the central risk control body, the Risk Management Committee is regularly briefed on the risk status across all risk types.

The **Group Credit Committee** (GCC) is responsible for deciding on transactions according to the current credit risk approval regulations. The GCC decides on credit risk exposures totalling up to EUR 300 mn per group of connected clients. Exposures in excess of EUR 300 mn must be decided on by the Risk Management Committee on the basis of a recommendation by the GCC. The GCC is headed by the Group CRO. Further members are the board member responsible for Corporates & Markets, the head of Group Credit & Market Risk Management, the head of Group Workout and the head of the requesting business line. Each local bank has its local credit committee established along the same principles.

The **Group Risk Executive Committee** (GREC) is the central forum for all joint resolutions and acknowledgements in the Erste Group Holding CRO division across all its departments and staff units. Its purpose is the division-wide co-ordination of all the Holding's risk management functions. It discusses and decides on key risk management issues and topics, in particular, it defines the division's strategy and ensures implementation of common risk management standards (e.g. pertaining to processes, systems, reporting and governance).

The **CRO Board** is responsible for the consistent co-ordination and implementation of risk management activities within Erste Group, including the cross-guarantee system of savings banks (Haftungsverbund). The CRO Board is made up of the Group CRO and the CROs of the subsidiaries within Erste Group. Chaired by the Group CRO, the CRO Board has responsibility for group-wide co-ordination of risk management and for ensuring uniformity of risk management standards across Erste Group.

The **Holding Model Committee** (HMC) is the elementary steering and control body for the model development and validation process. All new models and model changes and risk parameters in the Group, as well as group-wide methodology standards, are reviewed by the HMC and require its approval.

The **Group ERM Committee** (GERMC) is the sole forum for all joint decisions and acknowledgements in the ERM area across all Erste Group entities and Erste Group. Its purpose is the group-wide co-ordination of the ERM functions, in particular on ICAAP and economic capital, stress testing, RWA, risk appetite and limit steering. Furthermore, the Group ERM Committee discusses other key ERM topics and ensures the group-wide implementation of common ERM standards.

The objectives of the **Operational Risk, Compliance and Security Committee** (ORCSC) are to reduce operational risk at Group level through decisions on risk mitigation measures and the monitoring of these risks, and to handle substantial operational risks within the Group. The ORCSC has the authority to propose risk mitigation measures at Group level to the CRO Board and management board and consists of the following permanent members: Group Head Operational Risk, Compliance and Security, Head Operational Risk Management, Head Group Compliance and Head Group Security Management. The ORCSC chair (Group Head ORCS) regularly reports to the Management Board and Supervisory Board.

The **Market Risk Committee** (MRC) is the main steering body for market risk of trading book related issues of Erste Group. The MRC meets quarterly, approves group-wide market risk limits and elaborates on the current market situation. The members of the MRC are the Group CRO, the board member heading the Group Corporates and Markets division and the Group Chief Financial Officer (CFO), as well as the heads of the units Group Capital Markets (GCM), Group ALM, Group Credit & Market Risk Management, Risk Methods and Models, ERM and Group Validation.

The **Group Asset Liability Committee** (ALCO) manages the consolidated Group balance sheet, focusing on trade-offs between all affected consolidated balance sheet risks (interest rate, exchange rate and liquidity risks), and takes care of the setting of Group standards and limits for the members of Erste Group. In addition, it approves policies and strategies for controlling liquidity risk, interest rate risk (net interest income), capital management of the banking book, as well as examining proposals, statements and opinions of ALM, risk management, controlling and accounting functions. The approved investment strategy complies with the guidelines agreed with Risk Management.

The **Operational Liquidity Committee** (OLC) is responsible for the day-to-day management of the global liquidity position of Erste Group. It analyses the liquidity situation of Erste Group on a regular basis and reports directly to the ALCO. It also proposes measures to the ALCO within the scope of the management policies and principles laid down in the Liquidity Risk Management Rule Book. Furthermore, members of the Group OLC are points of contact for other departments or Erste Group members for liquidity-related matters. Each local bank has its own local OLC.

In addition, committees are established at local level, such as the 'Risikomanagementbeirat' in Austria. This implements a common risk approach within the Austrian members of Erste Group (i.e. EBOe).

GROUP-WIDE RISK AND CAPITAL MANAGEMENT

Overview

As in prior years, Erste Group's risk management framework has been continuously strengthened. In particular, ERM has continued to strengthen its comprehensive framework. This includes as its fundamental pillar the ICAAP, as required under Pillar 2 of the Basel framework.

The ERM framework is designed to support the bank's management in managing the risk portfolios as well as the coverage potential to assure at all times adequate capital reflecting the nature and magnitude of the bank's risk profile. ERM is tailored to the Group's business and risk profile, and it reflects the strategic goal of protecting shareholders and senior debt holders while ensuring the sustainability of the organisation.

ERM is a modular and comprehensive management and steering system within Erste Group and is an essential part of the overall steering and management instruments. The ERM components necessary to ensure all aspects, in particular also to fulfil regulatory requirements, and moreover to provide an internal value added, can be clustered as follows:

- Risk appetite statement
- Portfolio & risk analytics including
- Risk materiality assessment
- Concentration risk management
- Stress testing
- Risk-bearing capacity calculation
- Risk planning & forecasting including
- Risk-weighted asset management
- Capital allocation
- Recovery and resolution plans

In addition to the ICAAP's ultimate goal of assuring capital adequacy and sustainability at all times, the ERM components serve to support the bank's management in pursuing its strategy.

Risk appetite

Erste Group defines its risk strategy and Risk Appetite Statement (RAS) through the annual strategic planning process to ensure appropriate alignment of risk, capital and performance targets. The Group RAS represents a strategic statement expressing the maximum level of risk that Erste Group is prepared to accept in order to deliver its business objectives. It consists of a set of key risk appetite measures providing quantitative direction for risk steering, from which a top-down boundary for target and limit setting is derived, creating a holistic perspective on capital, funding and risk-return trade-offs, and qualitative statements in the form of key risk principles that form part of the strategic guidelines for managing risks. The key objective of RAS is to:

_ ensure that Erste Group has sufficient resources to support business at any given point in time and absorb stress market events;
_ set boundaries of the Group's risk-return target setting and
_ preserve and promote the market's perception of the Group's financial strength and the robustness of its systems and controls.

Key RAS measures include general indicators (i.e. capital, leverage, etc.) as well as indicators for credit (including foreign exchange (FX) lending), market operational and liquidity risk. To ensure that the RAS is operationally efficient, the indicators are classified as either targets, limits or principles, where the main differences are in the mechanisms triggered in case of a breach of the RAS.

Targets are in general derived as part of the planning process, where the final budget is aligned with the targets set. Trigger levels for RAS limits are set taking into consideration regulatory requirements and general expectations of a sustainable financial profile, which can vary over time driven by market conditions, peer profiles and shareholder perception. A significant deviation from a target or limit triggers management action, and a 'cure' plan for the next 12 months must be formulated. Regular reviews are performed and management reports are prepared in order to ensure effective RAS oversight and identify any excesses. Remediation measures must be taken to resolve any limit breach exceptions as soon as possible. Principles include qualitative strategic statements and are applied ex ante and operationalised, e.g. via strategies, guidelines and policies for managing risks.

In 2014, the RAS framework was further enhanced by broadening the scope to include additional risks (i.e. operational and reputational risk, etc.) and increasing the level of granularity by adding additional risk measures. Tighter limits and targets were defined, which serve capital and liquidity management in particular.

In 2014, the relevant RAS indicators developed within the tolerances defined in the Group RAS except for cost of risk and other operating expenses, which were affected by the developments in Romania and Hungary as well as the targeted management efforts to address these adverse developments, and a few breaches of the maximum lending limits for single-name concentrations, which were well covered by the strategic buffer established at Group level.

Portfolio and risk analytics

Erste Group uses dedicated infrastructure, systems and processes to actively identify, control and manage risks within the scope of the portfolio. Portfolio and risk analytics processes are designed to quantify, qualify and discuss risks in order to raise awareness to management in a timely manner.

Risk materiality assessment

The risk materiality assessment is an annual process with the purpose of systematically identifying new and assessing existing material risks for Erste Group. The process uses a combination of quantitative and qualitative factors in the assessment of each risk type.

This process represents the starting point of the ICAAP process, as identified material risk types need to be considered in the Risk-bearing Capacity Calculation (RCC). Insights generated by the assessment are used to improve risk management practices and further mitigate risks within the Group. The assessment also serves as an input for the design and definition of the Group's Risk Strategy and RAS. Key outputs and recommendations of the risk materiality assessment are used in the scenario design and selection of the comprehensive and reverse stress tests.

Risk concentration analysis
Erste Group has implemented a process to identify, measure, control and manage risk concentrations. This process is essential to ensure the long-term viability of Erste Group, especially in times of adverse business environment and stressed economic conditions. The risk concentration analysis at Erste Group covers credit risk, market risk, operational risk, liquidity risk and inter-risk concentrations. Identified risk concentrations are considered in the scenario design of the comprehensive stress test and measured under stressed conditions.
The output of the risk concentration analysis additionally contributes to the identification of material risks within the risk materiality assessment as well as to the RAS and to the setting/calibration of Erste Group's limit system.

Stress testing
Modelling sensitivities of the Group's assets, liabilities and profit or loss provide management and steering impulses and help in optimizing the Group's risk-return profile. The additional dimension of stress tests should help to factor in severe but plausible scenarios and provide further robustness to the measuring, steering and management system. Risk modelling and stress testing are vital forward-looking elements of the ICAAP. Finally, sensitivities and stress scenarios are explicitly considered within the Group's planning and budgeting process as well as in the risk-bearing capacity calculation and the setting of the maximum risk exposure limit.

Erste Group's most complex stress test is a scenario stress test that takes comprehensive account of the impact of various economic scenarios, including second-round effects on all risk types (credit, market, liquidity and operational) and impacts on the associated volumes of assets and liabilities as well as on profit and loss sensitivities.

Erste Group has developed specific tools to translate macroeconomic variables (e.g. gross domestic product, unemployment rate development) into risk parameters in order to support the stress testing process, which combines bottom–up and top–down approaches. In addition, Erste Group leverages the intimate knowledge of its professionals located in the different regions to further calibrate the model-based stress parameters. Special attention is given to take into account adequate granularity and special characteristics when defining the stress parameters (e.g. the particular developments in the respective region, industry, product type or segment).

Results from all of Erste Group's stress tests are assessed with regard to their explanatory power in order to decide on appropriate measures. All stress tests performed in the reporting period clearly indicated sufficient capital adequacy.

Erste Group additionally participated in the stress test exercise carried out by the ECB and the EBA. The results of these stress tests showed that Erste Group's regulatory capital was adequate.

Risk-bearing capacity calculation
The RCC defines the capital adequacy required by the ICAAP. Within the RCC, all material risks are quantified, aggregated and compared to the coverage potential and the bank's own funds. The integral forecast, risk appetite limit as well as a traffic light system supports the management in its discussions and decision-making processes.

The traffic light system embedded in Erste Group's RCC helps to alert the management in case there is a need to decide on, plan and execute actions either to replenish the capital base or to take measures for reducing the risk.

The management board and risk management committees are briefed on a quarterly basis in relation to the results of the capital adequacy calculation. The report includes movements in risks and available capital and coverage potential after consideration of potential losses in stress situations, the degree of the risk limit's utilisation and the overall status of capital adequacy according to the traffic light system.
The Group Risk Report also includes a comprehensive forecast of RWAs and capital adequacy.

Besides the Pillar 1 risk types (credit, market and operational risks), in the context of Pillar 2, interest rate risks in the banking book, FX risks arising from equity investments, credit spread risks in the banking book, risks from foreign currency loans as well as business and strategic risks are explicitly considered within the economic capital requirement via internal models. During 2014 the utilisation of the economic capital was between 62% and 66%. The methodologies that are applied for the different risk types are diverse and range from historic simulations and other Value-at-Risk (VaR) approaches to the regulatory approach for residual portfolios. Moreover, calculations for portfolios under the Standardised Approach are extended by risk parameters from the IRB Approach in order to give a better economic view.

In addition to the RCC, liquidity, concentration and macroeconomic risks in particular are managed by means of a proactive management framework that includes forward-looking scenarios, stress testing, trigger levels and traffic light systems.

Based on Erste Group's business and risk profile, besides the three main types of banking risks – credit risk, market risk and operational risk – also risks from foreign currency loans as well as business and strategic risks are considered directly in the risk-bearing capital calculation. Credit risk accounts for approximately 71% of the total economic capital requirement. Reflecting Erste Group's conservative risk management policy and strategy, the Group does not offset diversification effects between these three risk types. The economic capital requirement for unexpected losses is computed on a one-year time horizon with a 99.95% confidence level, which reflects the implied default risk consistent with a long-term credit rating of AA as well as Erste Group's conservative approach and high risk management standards.

The capital or coverage potential required to cover economic risks and unexpected losses is based on Basel 3 fully-loaded regulatory own funds adapted by held-to-maturity reserves and the year-to-date profit. The coverage potential must be sufficient to absorb unexpected losses resulting from the Group's operations at any point in time.

Risk planning and forecasting

The responsibility for risk management within the Group and each subsidiary includes ensuring sound risk planning and forecasting processes. The forecasts determined by risk management are the result of close co-operation with all stakeholders in the Group's overall planning process, and in particular, with Group Controlling, ALM and the business lines. The risk planning and forecasting process includes both a forward and backward-looking component, focusing on both portfolio and economic environment changes.

A particular role and forward-looking element is played by the rolling one-year forecast within the RCC which is vital in determining the trigger level of the traffic light system.

Risk-weighted asset management

As RWAs determine the actual regulatory capital requirement of a bank and influence the capital ratio as a key performance indicator, particular emphasis is devoted to meeting targets and to the planning and forecasting capacity for this parameter. Insights from monthly RWA analyses are used to improve the calculation infrastructure, the quality of input parameters and data as well as the most efficient application of the Basel framework.

There is a process in place for tracking compliance with RWA targets, forecasting their future developments and thereby defining further targets. Deviations are brought to the attention of the board within a short time frame. In addition to discussions in the steering committee, the Group's management board is regularly informed about the current status, and findings are taken into account in the context of Erste Group's regular steering process. Furthermore, RWA targets are included in the RAS.

Capital allocation

An important task integral to the risk planning process is the allocation of capital to entities, business lines and segments. This is done with close co-operation between Risk Management and Controlling. All insight from the ICAAP and controlling processes is used to allocate capital with a view to risk-return considerations.

Recovery and resolution plans

In compliance with the Austrian Banking Intervention and Restructuring Act, Erste Group is required to draw up recovery and resolution plans for potential crisis situations. In 2014, an updated Erste Group Recovery Plan and a Group Resolution Plan were submitted to the regulators.

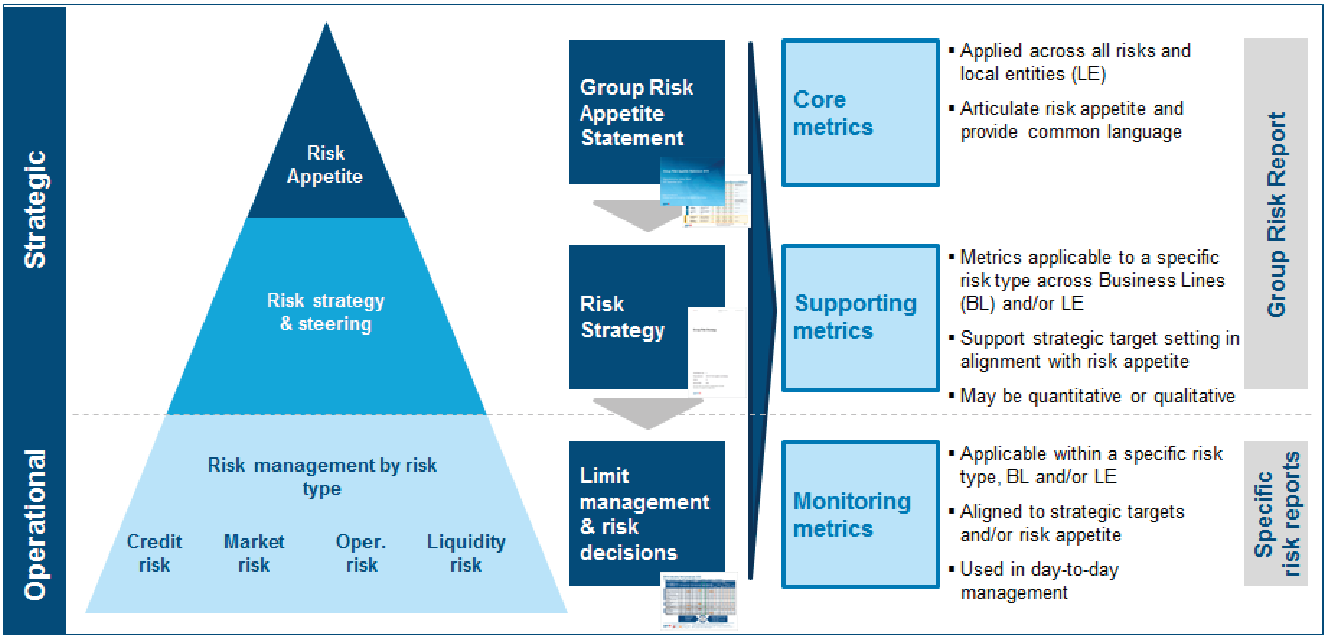
The Group Recovery Plan identifies options for restoring financial strength and viability if Erste Group comes under severe economic stress. The plan specifies potential options for the replenishment of capital and liquidity resources of the bank in order to cope with a range of scenarios including both idiosyncratic and market-wide stress.

The Group Resolution Plan outlines possible resolution scenarios for Erste Group under the regime of the Bank Recovery and Resolution Directive (BRRD) approved by the European Parliament in April 2014.

As of 1 January 2015, the new Austrian Banking Recovery and Resolution Law entered into force thereby enacting the BRRD in national law. From 2015, Erste Group will be required to submit an updated Group Recovery Plan and to support the newly established resolution authorities in the drawing up of resolution plans.

RISK MONITORING

All risks and exposures are monitored on a continuous basis and managed along portfolio, organizational level and risk type dimensions.



Oversight of the overall risk profile at the Group level consists of both strategic and operational oversight as set out below.

Strategic oversight

- The RAS sets the boundary for a maximum risk the bank is willing to accept in order to pursue its business objectives; this includes a set of core steering metrics with triggers levels providing strategic guidelines for risk management and planning
- The risk strategy sets strategic risk targets based on the target risk profile and RAS, and provides a balanced risk-return view considering strategic focus & business plans
- Both are regularly monitored and reported in the Group Risk Report including a traffic light overview together with respective measures to address identified deviations from strategic plans or objectives.

Operational oversight

Risk management by risk type ensures that the risk specific profile remains in line with the risk strategy and operational limits support achievement of the strategic targets. The development of the specific risk profile (i.e. retail credit, corporate credit, operational risk, etc.) is reported through dedicated risk reports in a more granular way and supports risk decision-making of the dedicated risk functions to ensure the risk profile remains within the risk strategy (i.e. operational risk report, retail risk report, etc.). These reports also include specific monitoring metrics that provide an early warning signal for adverse developments of, e.g., portfolio quality (client, segment, countries and industries) or risk drivers. In instances where certain risk portfolios or events are identified as potentially in distress, these are closely monitored by the dedicated risk functions to manage the risk impact and to develop effective strategies to minimize potential losses. This process facilitates early risk detection and reaction.

1.4 Management bodies

DISCLOSURE REQUIREMENTS COVERED: ART. 435 (2) (a) (b) (c) (d) (e) CRR

MANAGEMENT BODIES

Erste Group has a two-tier governance structure with a management board and a supervisory board as management bodies.

Working methods of the management board and the supervisory board

The management board of Erste Group is responsible for the management of the company. Its duty is to promote the welfare of the company with due regard to the shareholders' and the employees' interests. The management board develops the strategic orientation of the company and aligns it with the supervisory board. It ensures effective risk management and risk

control. The management board takes its decisions in compliance with all relevant legal provisions, the articles of association and its internal rules of procedure.
The supervisory board advises the management board on its strategic planning and actions. It takes part in making decisions as provided for by law, the articles of association and its internal rules of procedure. The supervisory board has the task of overseeing the management board in the management of the company.

Selection and assessment of members of management bodies

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

Training and development

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

MANAGEMENT BOARD

As of 31 December 2014, the management board of Erste Group consisted of five members.

Management board member	Year of birth	Date of initial appointment	End of the current period of office
Andreas Treichl (Chairman)	1952	1 October 1994	30 June 2017
Franz Hochstrasser (Vice Chairman)	1963	1 January 1999	31 December 2014
Herbert Juranek	1966	1 July 2007	31 December 2014
Gernot Mittendorfer	1964	1 January 2011	30 June 2017
Andreas Gottschling	1967	1 September 2013	30 June 2017

Franz Hochstrasser and Herbert Juranek have resigned from the management board as of 31 December 2014. The supervisory board has appointed Peter Bosek and Jozef Síkela (both effective as of 1 January 2015) as well as Petr Brávek (effective as of 1 April 2015) as new members of the management board of Erste Group.

Andreas Treichl

Career and education:
Born in 1952, Andreas Treichl studied economics in Vienna. He started his career with Chase Manhattan Bank in New York in 1977. He first joined Erste Group in 1983 for three years; rejoined the bank in 1994, when he was appointed member of the management board. Chairman of the management board of Erste Group since July 1997.

Number of directorships (according to Section 5 (1) (9a) ABA):
as member of management boards: 1
as members of supervisory boards (including similar functions): 1

Franz Hochstrasser

Career and education:
Born in 1963, Franz Hochstrasser studied economics at the University of Graz and started his career in 1991 at Girozentrale und Bank der österreichischen Sparkassen AG. In 1996 he was promoted to Vice Director of Investment Banking, in 1997 he became Head of Controlling and Risk Management. Member of the management board of Erste Group since January 1999.

Number of directorships (according to Section 5 (1) (9a) ABA):
as member of management boards: 1
as member of supervisory boards (including similar functions): 1

Herbert Juranek

Career and education:
Born in 1966, Herbert Juranek started his career in 1990 at Girozentrale und Bank der österreichischen Sparkassen AG. After various positions at Girozentrale and GiroCredit Bank AG, Herbert Juranek was promoted as Head of Derivative Clearing &

Technical Support at GiroCredit in 1994. After a position as Head of Risk Management and Member of the Management Team at Reuters GmbH, Austria, he joined EBOe in 1999 as General Manager for Securities & Treasury Operations, prior to being appointed the General Manager of Group IT. Member of the management board of Erste Group since July 2007.
Number of directorships (according to Section 5 (1) (9a) ABA):
as member of management boards: 1

Gernot Mittendorfer
Career and education:
Born in 1964, Gernot Mittendorfer studied law in Linz and started his career with Erste Group in 1990. After various positions as member of the management board among others at Sparkasse Mühlviertel West Bank AG he was appointed CEO of Salzburger Sparkasse Bank AG. In 2007 he joined Česká spořitelna as CEO. Member of the management board of Erste Group since January 2011, CFO of Erste Group since September 2013.

Number of directorships (according to Section 5 (1) (9a) ABA):
as member of management boards: 1

Andreas Gottschling
Career and education:
Born in 1967, Andreas Gottschling studied economics at Albert-Ludwigs-Universität, Harvard University and University of California and started his career at Deutsche Bank AG in Frankfurt in 1997. In 2003 he became Head of Quant Research at LGT Capital Management in Zürich. From 2005 until 2012 he headed various departments again with Deutsche Bank AG in Frankfurt, as well as in London, Zürich and New York, most recently as Managing Director and Member of the Risk Executive Committee. Member of the management board of Erste Group as CRO since September 2013.

Number of directorships (according to Section 5 (1) (9a) ABA):
as member of management boards: 1

SUPERVISORY BOARD

As of 31 December 2014, the following persons were members of the supervisory board of Erste Group:

Position	Name	Year of birth	Occupation	Date of initial appointment	End of the current period of office
Chairman	Friedrich Rödler	1950	Auditor and tax advisor	4 May 2004	AGM 2019
1st Vice Chairman	Georg Winckler	1943	Former rector of the University of Vienna; Professor emeritus of Economics	27 April 1993	AGM 2015
2nd Vice Chairman	Jan Homan	1947	General Manager, ret.	4 May 2004	AGM 2019
Member	Elisabeth Bleyleben-Koren	1948	General Manager, ret.	21 May 2014	AGM 2019
Member	Bettina Breiteneder	1970	Entrepreneur	4 May 2004	AGM 2019
Member	Gunter Griss	1945	Attorney-at-law	21 May 2014	AGM 2019
Member	Elisabeth Krainer Senger-Weiss	1972	Attorney-at-law	21. May 2014	AGM 2019
Member	Brian D. O'Neill	1953	Vice Chairman Lazard International	31 May 2007	AGM 2017
Member	Wilhelm Rasinger	1948	Consultant	11 May 2005	AGM 2015
Member	John James Stack	1946	CEO, ret.	31 May 2007	AGM 2017
Delegated by the employees' council					
Member	Markus Haag	1980		21 November 2011	Until further notice
Member	Andreas Lachs	1964		9 August 2008	Until further notice
Member	Bertram Mach	1951		9 August 2008	Until further notice
Member	Barbara Pichler	1969		9 August 2008	Until further notice
Member	Karin Zeisel	1961		9 August 2008	Until further notice

In the financial year 2014, there have been the following changes to the supervisory board: the shareholders' representatives Elisabeth Bleyleben-Koren, Gunter Griss and Elisabeth Krainer Senger-Weiss have been elected as new members of the supervisory board at the annual general meeting (AGM) on 21 May 2014. At the same time the shareholders' representatives Bettina Breiteneder, Jan Homan, Juan Maria Nin Génova and Friedrich Rödler have been re-elected as members of the supervisory board at the AGM on 21 May 2014. However, Juan Maria Nin Génova has resigned effective as of 11 December 2014. The delegation of Friedrich Lackner as representative of the Employees' Council was revoked effective as of the same date.

Shareholders’ representatives

Friedrich Rödler

Career:
2011 - 2013 Member of the Management Board, PwC Europe AG, Frankfurt
2001 - 2013 Senior Partner, PwC PricewaterhouseCoopers Austria
1990 - 2001 Partner, Price Waterhouse Austria
1976 - 1990 Arthur Andersen Austria
since 1982 admitted as tax advisor and certified auditor

Education:
Postgraduate course in International Studies at the University of Vienna, degree awarded 1976
Business administration and tax law at the University of Economics and Business Administration, Vienna, degree awarded 1976 (Magister)
Applied mathematics and computer sciences at the University of Technology, Vienna, degree awarded 1975 (Diplomingenieur)

Number of directorships (according to Section 28a (5) (5) ABA):
as member of management boards: 1
as members of supervisory boards (including similar functions): 1

Georg Winckler

Career:
since 10/2011 Rector and Professor Emeritus, University of Vienna
since 02/2009 PEOPLE Advisory Group, European Commission, Brussels
2008 – 2012 European Research Area Board (ERAB), Brussels
2004 – 2007 European Research Advisory Board (EURAB), Brussels
2001 – 2009 (Vice) President, European University Association (EUA), Brussels-Geneva
2000 – 2005 President of the Austrian Rectors’ Conference
1999 – 2011 Rector of the University of Vienna
1994 – 1999 Director, Center for International and Interdisciplinary Studies, University of Vienna
1980 – 1982 Head of the Department of Economics, University of Vienna
1978 – 2011 Full Professor of Economics, Department of Economics, University of Vienna
1977 – 1998 Visiting Professor, Austria/Slovakia/USA/Switzerland
1976 – 1978 University Lecturer, University of Vienna
1968 - 1975 University Assistant, Department of Economics, University of Vienna
1967 Austrian Institute of Economic Research (Wifo), Vienna

Education:
Economics at the Universities of Vienna/Austria and Princeton/New Jersey, USA, degree awarded 1968 (PhD)

Number of directorships (according to Section 28a (5) (5) ABA):
as member of supervisory boards (including similar functions): 1

Jan Homan

Career:
02/2011-12/2013 Member of the Supervisory Board, Constantia Flexibles Group GmbH
2004 – 2011 Chairman of the Management Board, Constantia Flexibles Group
1991 – 2004 Chairman of the Management Board, Constantia Teich Group
1984 – 1991 Director, Sun Chemical, Vienna
1978 – 1984 Head of Finance and Administration, Sandvik Austria
1977 – 1978 Bank Société Générale Alsacienne, Vienna
1972 – 1977 Chase Manhattan Bank, Frankfurt/New York/Düsseldorf

Education:
University of Economics, Vienna, degree awarded 1972 (Magister)

Number of directorships (according to Section 28a (5) (5) ABA):
as member of supervisory boards (including similar functions): 4

Elisabeth Bleyleben-Koren
Career:
2008 – 2010 Chairwoman of the Management Board, EBOe
1999 – 2008 Vice Chairwoman of the Management Board, EBOe
1997 – 1999 Member of the Management Board, EBOe
1977 – 1997 Managing positions (Commerce, Corporates, Director with full power of attorney, Commerce and Institutional Clients), EBOe
1973 – 1977 Staff function within Depository and Private Banking, Creditanstalt

Education:
Legal science at the University of Vienna, degree awarded 1972 (Dr. iuris)

Number of directorships (according to Section 28a (5) (5) ABA):
as member of supervisory boards (including similar functions): 1

Bettina Breiteneder
Career:
2010 – 2012 Member of the Supervisory Board, Austria Versicherungsverein auf Gegenseitigkeit Privatstiftung
2008 – 2009 Member of the Management Board, RICS Österreich
2004 – 2006 Member of the Management Board, DZ-Donauzentrum Besitz- u. Vermietungs-Aktiengesellschaft
1995 – 2004 Chairwoman of the Management Board, DZ-Donauzentrum Besitz- u. Vermietungs-Aktiengesellschaft
since 1993 various functions in her family-owned business, BIP Breiteneder Immobilien Parking

Education:
Member of the Royal Institution of Chartered Surveyors, MRICS
Licensed property developer
Certified real estate agent and manager
Business administration at the University of Economics, Vienna, degree awarded 1994 (Magister)

Number of directorships (according to Section 28a (5) (5) ABA):
as member of management boards: 1
as member of supervisory boards (including similar functions): 2

Gunter Griss
Career:
since 01/1975 Attorney-at-law and senior partner, Rechtsanwaltskanzlei Griss & Partner, Graz
1970 – 1974 Associate, Graz

Education:
Postgraduate studies (economics and law) at the University of Chicago, degree awarded 1970 (Master of Comparative Law)
Postgraduate studies (private international law) at the University of Paris, degree awarded 1969 (license for the doctorat d’université)
Legal studies at the Faculté Internationale de Droit Comparé, Strasbourg/Pescara and the Academy for International Law, Den Haag
Language and legal studies at the University of Oxford and City of London College
Legal science at the University of Graz, degree awarded 1967 (Dr. iuris)

Number of directorships (according to Section 28a (5) (5) ABA):
as member of supervisory boards (including similar functions): 3

Elisabeth Krainer Senger-Weiss
Career:
since 2010 Co-founder of Zirkel Familienunternehmen exclusiv - Generationen im Gespräch
since 2004 Attorney-at-law, Vienna
2001 - 2004 Associate, Freshfields Bruckhauser Deringer, Wien
1998 - 1999 Associate and Head of London Office, Steel Hector & Davis MNP, Miami, FL and London, GB
1997 - 1998 Associate, Kavanagh Maloney & Osnato LLP, New York, NY

Education:
Austrian notaries’ supplementary examination
Governance Excellence/Programme for Supervisory Board Members, WU Executive Academy, Vienna

Admission to the New York State Bar and the Austrian Bar
Legal studies at Fordham University, New York, NY, degree awarded 1997 (LL.M. cum laude)
Legal science at the Universities of Vienna and Paris, degree awarded 1996 (Magistra iuris) degree awarded 2001 (Dr. iuris)

Number of directorships (according to Section 28a (5) (5) ABA):
as member of management boards: 1
as member of supervisory boards (including similar functions): 1

Brian D. O'Neill
Career:
since 2013 Senior Advisor, Lazard Frères & Co
09/2009 - 12/2012 Vice Chairman, Lazard International (Lazard Frères & Co)
2008 Acting US Director, Inter-American Development Bank
2007 - 2009 Deputy Assistant Secretary, US Department of the Treasury
1977 - 2007 Managing and executive positions, JP MorganChase

Education:
Executive Program, Amos Tuck School of Business, NH
Thunderbird School of Global Management, AZ, degree awarded 1976 (MBA)
University of San Diego, CA, degree awarded 1975 (BA)

Number of directorships (according to Section 28a (5) (5) ABA):
as member of supervisory boards (including similar functions): 3

Wilhelm Rasinger
Career:
University lecturer
Management consultant
Manager of an insurance company (internal revision, asset management)
Managing director of a leasing company
Honorary Professor for Business Administration, Technical University Vienna
Project Manager, Hernstein International Management Institute

Education:
Business Administration degrees awarded (Magister, Dr.)

Number of directorships (according to Section 28a (5) (5) ABA):
as member of supervisory boards (including similar functions): 4

John James Stack
Career:
since 2008 Member of the Board of Directors at Mutual of America and Ally Bank
2000 – 2007 Chairman and Chief Executive Officer, Ceska Sporitelna, a.s.
1996 – 1999 Executive Vice President, Chase Bank
1977 – 1995 Managing positions, Chemical Bank
1970 – 1976 New York City and State Governments

Education:
Harvard Graduate School of Business Administration, degree awarded 1970 (MBA)
Mathematics and economics, Iona College, degree awarded 1968 (BA), magna cum laude

Number of directorships (according to Section 28a (5) (5) ABA):
as member of supervisory boards (including similar functions): 3

Representatives delegated by the Employees' Council

Markus Haag
Career:
since 2002 Trading, Risk Management, Financial Markets, Mid Office/Products & Valuation Markets – P&L Analyst; current position in Credit & Rates Trading, Government Bond & Collateral Trading, Group Data Steward for treasury products, Erste Group

1999 - 2001 Technical Engineering, Lauda Air Luftfahrt AG
1998 -1999 Delphi Automotive Systems Vienna GmbH

Education:
Finance, Accounting and Taxation, College of Higher Education, degree awarded 2003 (Mag. (FH))
Mechanical Engineering, Technical College Eisenstadt

Number of directorships (according to Section 28a (5) (5) ABA):
as member of supervisory boards (including similar functions): 1

Andreas Lachs

Career:
since 2011 Vice-Chairman of the Employees' Council, Erste Group
since 2008 Member of the Supervisory Board, Erste Group
since 2007 Member of the Employees' Council, EBOe
since 1997 Market Risk Manager, EBOe
1994 - 1997 Asset and stock analyst, Creditanstalt Group
1991 - 1992 Alliance Capital Management, London and New York
1985 - 1990 Bohmann Printing and Publication, Vienna

Education:
Finance and International Business at Columbia University Business School, NY, degree awarded 1993 (MBA)
Business informatics at the University of Vienna, degree awarded 1991 (Magister rer. soc. oec.)

Number of directorships (according to Section 28a (5) (5) ABA):
as member of supervisory boards (including similar functions): 2

Bertram Mach

Career:
since 1980 Member of the Employees' Council, Girozentrale/GiroCredit/Erste Group
since 1978 International Business, Girozentrale/GiroCredit/Erste Group

Education:
Economics at the University of Vienna 1969-1977

Number of directorships (according to Section 28a (5) (5) ABA):
as member of supervisory boards (including similar functions): 1

Barbara Pichler

Career:
since 2008 Vice-Chairwoman of the Employees' Council, Erste Group
since 2006 Procurement Services GmbH
1999 - 2006 BMG Warenbeschaffung GmbH
1997 - 1999 EBOe
1992 - 1997 GiroCredit Bank
1989 - 1992 Austrian Credit Institute

Education:
Employees' Representatives Academy, magna cum laude 2012
Vienna Business School

Number of directorships (according to Section 28a (5) (5) ABA):
as member of supervisory boards (including similar functions): 1

Karin Zeisel

Career:
since 11/2013 Operative Head of Erste Time Bank
since 01/2012 Jurywoman, Court of Labour and Social Law, Vienna
since 11/2010 Member of the Federal Executive Board of ÖGB (Austrian Federation of Trade Unions), Deputy Head of Trade Union GPA – djp (Federation of Private Employees)
since 06/2003 Vice-Chairwoman of the Employees' Council, Erste Group

since 08/1979 Erste Group

Education:
Lay judge training, Court of Labour and Social Law, Vienna
Slovakian Labour and Social Law, Central European Trade Union College
Certificate for Gender Mainstreaming und Diversity, AK Vienna
Leadership program training, BTS Plus
Basic and advanced training for employee representatives, GPA-DJP/ÖGB/AK

Number of Directorships (according to Section 28a (5) (5) ABA):
as member of supervisory boards (including similar functions): 1

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

Erste Group was founded on the principles of accessibility and inclusion. Diversity and equal opportunities are firmly embedded in Erste Group's corporate philosophy and corporate culture, thus providing a solid foundation for building strong and mutually beneficial relationships between Erste Group, its employees and the communities and societies in Erste Group's markets. The commitment to promoting equal opportunities and diversity was institutionalised by appointing a Diversity Manager responsible for developing a group-wide diversity policy, identifying targets and measures, as well as regular monitoring and reporting on targets.

At the beginning of 2014, the management board together with the supervisory board set a group-wide internal target of having 35% women at top management level (management board and senior management) and on supervisory boards by 2019. At the end of 2014, the share of female top managers was 31%, which is an increase of one percentage point over 2013 or five percentage points over 2012. In 2014, two more female managers were appointed at the first management level below the Holding board, increasing the share of women at that management level to 19% from 13% at the beginning of 2013. As two more women joined the supervisory board in 2014, the total share of women on supervisory boards rose to 25% compared with 16% at the beginning of 2013. One of the measures to increase the number of women in top management positions is to strive for a greater gender and age balance in our talent pools. The new international talent pool is made up of almost 40% women. Other measures to help increase the number of women in top management include succession pool and career planning for women, as well as mentoring, coaching and networking.

The Erste Women's Hub network was launched on 24 July 2014 and brings together women at all stages in their professional careers from the Holding, Erste Bank Oesterreich and subsidiaries. It aims to create an inclusive, sustainable network that is driven and owned by its members. Three working groups with specific goals and initiatives were established: *Women - Careers - Opportunities*, *Women Financial Lifetime* and *Erste World*.

Local initiatives to support measures to promote gender parity in management positions also continued in 2014. Erste Bank Oesterreich set its own internal target to increase the share of women in management positions to 40% by 2017. With a share of female top managers of 41%, the target was already met at the end of 2014. The share of female top managers (from the second management level) was 36%, up three percentage points over 2013. Its *WoMen Business* programme contributes towards the development and promotion of female leadership by offering special training programmes and networking events for women. Česká spořitelna's diversity and inclusion programme *Diversitas*, which was launched in 2008, supports mentoring and networking for women and has received many awards and recognitions for its diversity efforts. It is considered a best practice model on the Czech labour market and within Erste Group.

RISK COMMITTEE OF THE SUPERVISORY BOARD

The supervisory board of Erste Group has set up six different committees, one of them being the risk committee. The risk committee held seventeen meetings in 2014 at which it regularly took decisions and received reports that are within its duties and powers as outlined below:

The risk committee advises the management board with regard to current and future risk tolerance and the credit institution's risk strategy and monitors the implementation of this risk strategy. Irrespective of the duties incumbent on the remuneration committee, it further checks whether the incentives offered by the internal remuneration system duly consider the risk, the capital, the liquidity and the probability as well as the time of realised profits. The risk committee is responsible for granting approval in all those cases in which loans and exposures or large exposures reach an amount exceeding the approval authority of the management board defined in the approval authority regulation. The approval of the risk committee is required for any exposure or large exposure as defined in Section 28b of the ABA if the carrying value of such an investment exceeds 10% of the company's eligible own funds or of the banking group's eligible consolidated own funds. In addition, it may grant advance approvals to the extent permitted by law. The risk committee is responsible for monitoring the Risk Management of Erste Group. At least once a year, a report on the organisation, structure and functionality of the risk management system for the company and major subsidiaries shall be submitted to the committee. The Supervisory Board has delegated to the risk committee the right to approve the establishment and closure of branches, to grant special Statutory Power of Attorney or Commercial Power for all business operations. The committee is responsible for monitoring the Group's portfolio of participations except in cases where this is the responsibility of the audit committee. The tasks of the risk committee include the acknowledgement of reports on legal disputes and on the risk impact and costs of major IT projects as well as of reports on important audits of subsidiaries conducted by regulatory authorities. The committee further checks whether services and products are adequately priced to take into account the business model and the credit institution's risk strategy.

1.5 Material risks at Erste Group

At Erste Group, the risk materiality assessment is performed for all risk types to which a credit institution may be exposed. This Disclosure Report presents the qualitative and quantitative features of the following material risk types in detail:

- Credit risk (including counterparty and country risk)
- Market risk (including interest rate risk in the banking book)
- Operational risk
- Liquidity risk
- Macroeconomic risks
- Concentration risk

These risks from banking operations are discussed in detail within the scope of the supervisory regulations in chapters 7 to 17 of this report. The chapters go into more detail on the risks arising from securitisation positions and equity exposures, which form an integral part of the risk types mentioned. Liquidity risk, macroeconomic risks and concentration risk are presented as "Other Risks".

In the CRR, reputational risk and business risk are not discussed in detail. Reputational risk is the risk that the publicity concerning a transaction, counterparty or business practice involving a client will negatively impact the public's trust in Erste Group regarding its competence, integrity and reliability. In a wider sense, this risk type may also be covered by operational risk. Business risk is the risk of suffering unexpected operating losses (i.e. negative earnings) due to decreases in operating revenues (or increases in costs) which cannot be compensated by cost reductions (or revenue increases), respectively. All revenue or cost fluctuations which are attributable to credit losses (credit risk), position taking (market risk), or operational events (operational risk) are explicitly excluded from this definition. The materialization of reputational risk through business risk is comprised in the above definition. Both types of risk are considered in the business and risk strategy of Erste Group, and constitute an element of strategic risk management and internal capital adequacy assessment.

2 Scope of Application

Regulatory Requirements

Since 1 January 2014, Erste Group has been calculating the regulatory capital and the regulatory capital requirements according to Basel 3. The requirements have been implemented within the EU by the CRR and the CRD IV, which were enacted in national law in the ABA, as well as within various technical standards issued by EBA.

All requirements as defined in the CRR, the ABA and the aforementioned technical standards are fully applied by Erste Group for regulatory purposes and for the disclosure of regulatory information.

Accounting Principles

The financial and regulatory figures published for Erste Group are based on IFRS. Regulatory capital components are derived from the balance sheet and income statement which have been prepared in accordance with IFRS. Adjustments to the accounting figures are considered due to the different definitions in the scopes of consolidation (for details see the following chapter 2.1, "Comparison of consolidation for accounting purposes and regulatory purposes") for items where the regulatory treatment is not equal to the accounting requirements.

The uniform closing date of the consolidated financial statements and consolidated regulatory figures of Erste Group is 31 December of each respective year.

2.1 Comparison of consolidation for accounting purposes and regulatory purposes

DISCLOSURE REQUIREMENTS COVERED BY: ART. 436 (b) CRR

SCOPE OF CONSOLIDATION

The financial scope of consolidation is used to describe the scope of consolidation required by the International Financial and Reporting Standards, which are applicable to the financial statements of Erste Group.

The regulatory scope of consolidation is used as a synonym for the scope of consolidation that follows the regulatory requirements for consolidation as defined by the CRR and the ABA, which introduced the requirements of the CRD IV into national law.

Financial scope of consolidation

The relevant scope of consolidation for the financial statements of Erste Group includes the parent company, Erste Group, its subsidiaries, associated or jointly controlled companies and certain structured entities.

The Groups subsidiaries are those entities which are directly or indirectly controlled. Control over an entity is evidenced by the Group's ability to exercise its power in order to affect any variable returns that the Group is exposed to through its involvement with the entity (as defined by IFRS 10). An associate is an entity over which the Group has significant influence, but not a controlling interest, over the operating and financial management policy decisions of the entity. Significant influence is generally presumed when the Group holds between 20% and 50% of the voting rights.

Regulatory scope of consolidation

The regulatory scope of consolidation is defined in Part One, Title II, Chapter 2, Section 3 of the CRR.

The definition of entities to be consolidated for regulatory purposes are mainly defined in Article 4 (1) (3) and (16) to (27) CRR in conjunction with the Articles 18 and 19 CRR. Based on the relevant sections in Article 4, CRR entities to be consolidated are determined based on the business activity of the relevant entities.

Main differences between the accounting scope and the regulatory scope based on the different requirements as defined within IFRS and CRR as well as the ABA

_ Based on the CRR and ABA, mainly credit institutions pursuant to to Article 4 (1) (1) CRR, investment firms pursuant to Article 4 (1) (2) CRR, ancillary services undertakings pursuant to Article 4 (1) (18) CRR and financial institutions pursuant to Article 4 (1) (26) CRR have to be considered within the scope of consolidation. In contrast, under IFRS all other entities not required to be consolidated under CRR, such as insurance undertakings, must be included in the financial scope of consolidation.

_ Exclusion of entities from the regulatory scope of consolidation can be applied based on Article 19 CRR. According to Article 19 (1) CRR, entities can be excluded from the regulatory scope if their total assets and off-balance sheet items are less than the lower of either EUR 10 mn or 1% of the total amount and off-balance sheet items of the parent company. Erste Group makes use of Article 19 (1) CRR.

_ According to Article 19 (2) CRR, entities can also be excluded if the limits defined in Article 19 (1) CRR are exceeded, but are not relevant for regulatory purposes. Exclusion of entities based on Article 19 (2) CRR needs the prior approval of the competent authorities. For entities that exceed the limits as defined in Article 19 (1) CRR by insignificant amounts, Erste Group makes use of Article 19 (2) CRR and follows the requirements for the approval process as defined within this article. Erste Group does not apply Article 19 (2) CRR for credit institutions and investment firms.
_ Erste Group's scope of consolidation according to IFRS is disclosed in the Annual Report, section 54 (Details of the companies wholly or partly-owned by Erste Group as of 31 December 2014). A breakdown of the regulatory scope of consolidation is shown on Erste Group's website under the following link: http://www.erstegroup.com/en/Investors/RegulatoryDisclosure/Basel3. The document also contains the information regarding entities that are not consolidated for regulatory purposes due to the application of Articles 19 (1) and (2) CRR.

CONSOLIDATION METHODS

Main differences between the financial consolidation method and the regulatory consolidation method, considering regulatory adjustments

_ Erste Group applies full consolidation according to IFRS 10 for accounting purposes. At equity method according to the international accounting standard (IAS) 28 is applied to participations between 20% and 50% in associated entities.
_ For the calculation of consolidated own funds, Erste Group generally applies the same consolidation methods as used for accounting purposes. The difference applies only to Article 18 (4) CRR, which requires proportional consolidation of entities and financial institutions managed by an undertaking included in the consolidation together with one or more undertakings not included in the consolidation, where the liability of those undertakings is limited to the share of the equity held by the institution. Based on Article 18 (4) CRR, Erste Group applies proportional consolidation for two entities.

Consideration of consolidation methods for the calculation of consolidated own funds pursuant to the CRR

The amounts used for the calculation of the own funds are derived from the balance sheet according to IFRS as reported in the audited financial statements. The amounts that are used as the basis for the calculation of own funds are recalculated based on the definition of the regulatory scope of consolidation pursuant to the CRR. The difference between the financial balance sheet and the regulatory balance sheet is the difference in the scope of consolidation as shown in Table 3. Amounts that relate to the own share as well as to the minority interest in fully consolidated entities are therefore determined based on the regulatory scope of consolidation according to CRR. Minority interests are calculated based on the requirements as defined in Articles 81 to 88 CRR. Minority interests that relate to entities other than credit institutions are excluded from the own funds. Minority interests that relate to credit institutions are limited to capital requirements that relate to the minority interests in the relevant credit institutions. Erste Group made use of Article 84 (2) CRR and did not include any minority interest of credit institutions as of 31. December 2014. According to Austrian transitional provisions, 20% of the non-eligible minorities have to be excluded from consolidated own funds in 2014. As Erste Group applies the Austrian transitional provisions on Group-level this percentage was applied to the exclusion of minority interest in own funds as of 31 December 2014. Amounts that relate to minority interests in other comprehensive income are neither included in the consolidated own funds of Erste Group according to the final CRR provisions nor during the transitional period.

Consideration of non-consolidated financial sector entities and deferred tax assets that rely on future profitability arising from temporary differences within the calculation of consolidated common equity Tier 1 of Erste Group

Carrying amounts representing the investments in financial sector entities as defined in Article 4 (27) CRR that are not fully consolidated or considered by using the at equity consolidation method for regulatory purposes have to be deducted from the own funds based on the requirements as defined in Articles 36 (1) (h), Article 45 and Article 46 CRR for non-significant investments and Articles 36 (1) (i) CRR, Article 43 and Article 45 CRR for significant investments. For these purposes, non-significant investments are defined as investments in financial sector entities in which the participation is equal to or less than 10% of common equity Tier 1 (CET 1) of the relevant financial sector entities, while significant investments are defined as investments that are above 10% of the CET 1 of the relevant financial sector entities.
To determine the participation in the relevant financial sector entities, these participations are calculated based on the direct, indirect and synthetic holdings in the relevant entities.

According to Article 46 (1) CRR, holdings in non-significant investments have to be deducted only if the total amount for such investments exceeds a defined threshold of 10% in relation to CET1 of the reporting institution. Deduction shall be applied to the amount that exceeds the 10% threshold. Amounts that are equal to or less than 10% of the CET1 of the reporting institution are considered within the RWAs based on the requirements according to Article 46 (4) CRR.

For the deduction of significant investments in the CET1 of financial sector entities, a threshold is defined in Article 48 (2) CRR. According to Article 48 (2) CRR, significant investments in the CET1 of financial sector entities shall only be deducted if they exceed 10% of the CET1 of the reporting institution. If the 10% threshold is exceeded, the deduction is limited to the amount by which the defined threshold is exceeded. The remaining amount has to be considered within the calculation of the RWAs. The risk weight (RW) is defined at 250% according to Article 48 (4) CRR.

In addition to the aforementioned threshold, a combined threshold for the deduction of significant investments according to Article 36 (1) (i) CRR and for deferred tax assets that rely on future profitability and arise from temporary differences according to Article 36 (1) (c) CRR as well as according to Article 38 CRR is defined in Article 48 (2) CRR. The combined threshold according to Article 48 (2) CRR is defined at 17.65% of the CET1 of the reporting institution. If the threshold is exceeded, the exceeding amount has to be deducted from the CET1 of the reporting institution. The remaining amount has to be considered within the RWAs. A 250% RW shall be applied for the amount not exceeding the 17.65% threshold according to Article 48 (4) CRR.

Beside the 17.65% combined threshold, a 10% threshold related to the CET1 capital of the reporting institution is applied for deferred tax assets that rely on future profitability arising from temporary differences according to Article 48 (3) CRR. In case the amount for deferred tax assets that rely on future profitability that arise from temporary differences exceeds the threshold of 10% of CET1 of the reporting institution the exceeding amount has to be deducted from the CET1 of the reporting institution. The amount that is equal to or less than the threshold as defined in Article 48 (3) CRR has to be considered within the calculation of RWAs. The RW that has to be applied for the remaining amount of deferred tax assets that rely on future profitability and arise from temporary differences is defined with a RW of 250% according to Article 48 (4) CRR.

At the reporting date, Erste Group did not exceed any of the aforementioned thresholds. Hence, direct, indirect and synthetic investments in financial sector entities were not deducted from the consolidated own funds of Erste Group and therefore are considered in RWAs.

PRESENTATION OF THE SCOPE OF CONSOLIDATION

Number of entities within the scope of consolidation

	IFRS Full	IFRS Equity	CRR Full	CRR Proportional	CRR De Minimis	CRR Equity
Credit institutions	67	2	67	1	0	1
Financial institutions, financial holding companies and mixed financial holding companies	250	39	244	1	45	23
Ancillary service undertakings, investment firms and asset management companies	78	1	52	0	46	1
Others	133	19	0	0	0	0

Table 1: Art. 436 (b) CRR: Number of companies in the scope of consolidation as of 31 December 2014

The number of companies consolidated pursuant to IFRS was 589 as of 31 December 2014. The number of companies consolidated pursuant to regulatory capital requirements without de minimis companies was 390 as of 31 December 2014.

Changes within the fully consolidated entities within the regulatory scope of consolidation in 2014

Credit institutions	31.12.2013	New	Deconsolidated	Merged	Reclassified*		31.12.2014
Austria	60	0	0	1	–6	0	53
CESEE	13	0	0	0	0	1	14
Other	2	0	0	0	–2	0	0
Total	**75**	**0**	**0**	**1**	**–8**	**1**	**67**

Financial institutions, financial holding companies and mixed financial holding companies	31.12.2013	New	Deconsolidated	Merged	Reclassified*		31.12.2014
Austria	165	8	15	11	0	8	155
CESEE	89	17	23	2	–4	3	80
Other	2	6	0	0	0	1	9
Total	**256**	**31**	**38**	**13**	**–4**	**12**	**244**

Ancillary service undertakings, investment firms and asset management companies	31.12.2013	New	Deconsolidated	Merged	Reclassified*		31.12.2014
Austria	17	6	2	1	–7	5	18
CESEE	11	17	0	0	–4	3	27
Other	5	1	0	0	0	1	7
Total	**33**	**24**	**2**	**1**	**–11**	**9**	**52**

* In the course of the reclassification due to the CRR rules, entities had to be reclassified to other categories (exclusion from a category (-); inclusion into a category (+))

Table 2: Art. 436 (b) CRR: Changes to the regulatory scope of consolidation of fully consolidated companies in 2014

2.2 Impediments to the transfer of financial funds

DISCLOSURE REQUIREMENTS COVERED: ART. 436 (c) CRR

Currently there are no restrictions or significant impediments to the transfer of financial funds or regulatory capital within the Group of credit institutions of Erste Group.

Except for regulatory restrictions on capital distributions stemming from the EU-wide CRRs applicable to all financial institutions in Austria and CEE, Erste Group does not have any other significant restrictions on its ability to access or use the assets and settle the liabilities of the Group. Also, the owners of non-controlling interests in Group subsidiaries do not have protective rights that can significantly restrict the Group's ability to access or use the assets and settle the liabilities of the Group.

2.3 Total capital shortfall of all subsidiaries not included in the consolidation

DISCLOSURE REQUIREMENTS COVERED: ART. 436 (d) (e) CRR

As of 31 December 2014, there was no capital shortfall at any of the companies of Erste Group included in consolidation.

3 Own Funds

For the disclosure of own funds, Erste Group follows the requirements under Article 437 CRR as well as the requirements defined in the Implementing Technical Standards (EU) No 1423/2013.
Based on the requirements defined by the EBA in the Implementing Technical Standards, the following information must be provided:

- A full reconciliation of CET1 items, Additional Tier 1 (AT1) items, Tier 2 (T2) items and filters and deductions applied pursuant to Articles 32 to 35, 36, 56, 66 and 79 to own funds of the institution's balance sheet in the audited financial statements in accordance with Article 437 (1) (a) CRR (see chapter 3.1).
- A description of the main features of the CET1, AT1 and T2 instruments issued by the institution according to Article 437 (1) (b) CRR (see chapter 3.6).
- A table designed by the EBA to show the capital structure of regulatory capital. Presentation of this table that shows the details on the capital structure of Erste Group including the capital components as well as any regulatory deductions and prudential filters. Disclosures in this table cover the disclosure requirements as defined in Article 437 (1) (d) CRR, separate disclosure of the nature and amounts of each prudential filter applied pursuant to Articles 32 to 35 CRR, each deduction made pursuant to Articles 47, 48, 56, 66 and 79 CRR as well as items not deducted in accordance with Articles 47, 48, 56, 66 and 79 CRR (see chapter 3.4).

The tables in the following sections may contain rounding differences.

3.1 Balance sheet

DISCLOSURE REQUIREMENTS COVERED: ART. 437 (1) (a) CRR

The table below represents the difference between the financial scope of consolidation and the regulatory scope of consolidation based on the audited balance sheet of Erste Group's financial statements.

Balance Sheet

in EUR million	IFRS (audited)	Effects - scope of consolidation	CRR
Assets			
Cash and cash balances	7,835	–29	7,806
Financial assets - held for trading	10,531	43	10,574
Derivatives	7,173	4	7,177
Other trading assets	3,357	39	3,397
Financial assets - at fair value through profit or loss	350	–56	293
Financial assets - available for sale	22,373	–156	22,217
Financial assets - held to maturity	16,877	–1	16,877
Loans and receivables to credit institutions	7,442	–71	7,371
Loans and receivables to customers	120,834	431	121,265
Derivatives - hedge accounting	2,872	0	2,872
Property and equipment	2,264	–344	1,920
Investment properties	950	–38	912
Intangible assets	1,441	–16	1,425
Investments in associates and joint ventures	195	–45	150
Current tax assets	107	–1	106
Deferred tax assets	301	–7	295
Assets held for sale	291	–27	264
Other assets	1,623	192	1,814
Total assets	**196,287**	**–125**	**196,162**
Liabilities and equity			
Financial liabilities - held for trading	7,746	1	7,747
Derivatives	7,188	0	7,188
Other trading liabilities	558	1	559
Financial liabilities - at fair value through profit or loss	2,073	0	2,073
Deposits from banks	0	0	0
Deposits from customers	320	0	320
Debt securities issued	1,753	0	1,753
Other financial liabilities	0	0	0
Financial liabilities measured at amortised costs	166,921	–174	166,747
Deposits from banks	14,803	88	14,890
Deposits from customers	122,263	143	122,406
Debt securities issued	29,387	–237	29,150
Other financial liabilities	469	–169	301
Derivatives - hedge accounting	726	0	726
Changes in fair value of portfolio hedged items	1,225	0	1,225
Provisions	1,653	16	1,669
Current tax liabilities	91	–2	89
Deferred tax liabilities	99	–13	86
Liabilities associated with assets held for sale	0	0	0
Other liabilities	2,310	27	2,337
Total equity	**13,443**	**20**	**13,463**
Equity attributable to non-controlling interest	3,605	3	3,609
Equity attributable to owners of the parent	9,838	16	9,854
Total liabilities and equity	**196,287**	**–125**	**196,162**

Table 3: Art. 437 (1) (a) CRR (1/5): Balance sheet reconciliation

The following tables provide, if applicable, a reconciliation of IFRS balance sheet items to CET1 items, AT1 items, T2 items and filters according to Articles 32 to 35 as well as deductions as defined in Articles 36, 56, 66 and 79 CRR.
Last column contains a letter to link the amount derived from the accounting figures to the related eligible amount as disclosed in the own funds template in chapter 3.2.

Total equity

in EUR million	IFRS (audited)	Effects - scope of consolidation	CRR	IPS* adjustments	Regulatory Adjustments	Own funds	Own funds disclosure table - Reference
Subscribed capital	860	0	860	0	0	860	
Capital reserve	1,478	0	1,478	0	– 2	1,476	
Capital instruments and the related share premium accounts	2,338	0	2,337	0	– 2	2,336	a
Retained earnings	8,116	14	8,130	0	0	8,130	b
Other comprehensive income (OCI)	– 615	2	– 613	297	– 9	– 325	c
Cash flow hedge reserve	140	2	142	15	– 39	118	g
Available for sale reserve	580	0	580	416	– 153	843	
unrealised gains acc. to Art. 35 CRR						992	h
unrealised losses acc. to Art. 35 CRR						– 175	
other						26	
Currency translation	– 849	0	– 849	0	– 2	– 851	
Remeasurement of net liability of defined pension plans	– 394	0	– 394	– 134	100	– 428	
Deferred tax	– 92	0	– 92	0	92	0	
Other	0	0	0	0	– 7	– 7	
Equity attributable to the owners of the parent	**9,839**	**16**	**9,854**	**297**	**– 12**	**10,141**	
Equity attributable to non-controlling interest	3,605	3	3,609	– 297	– 428	3,181	d
Total equity	**13,444**	**19**	**13,463**	**0**	**– 440**	**13,321**	

* IPS adjustments include the amounts for entities that are consolidated due to the Institutional Protection Scheme according to Article 113 (7) CRR.

Table 4: Art. 437 (1) (a) CRR (2/5): Reconciliation of total equity from the financial balance sheet to regulatory capital.

Further details regarding the development of IFRS equity are disclosed in the Group Consolidated Financial Statements 2014 (IFRS) under section III “Group Statement of Changes in Total Equity”.

Intangible assets

in EUR million	IFRS (audited)	Effects - scope of consolidation	CRR	Regulatory adjustments	Own funds	Own funds disclosure table - Reference
Intangible assets	1,441	0	1,425	0	1,425	
20% deductible from CET 1 acc to transitional provisions					285	e
80% deductible from AT 1 acc to transitional provisions					1,140	j
Intangible assets	**1,441**	**0**	**1,425**	**0**	**1,425**	

Table 5: Art. 437 (1) (a) CRR (3/5): Reconciliation of intangible assets from the financial balance sheet to regulatory capital.

Details regarding the development of intangible assets are disclosed in the Group Consolidated Financial Statements 2014 (IFRS) under Note 27 “Intangible assets”.

Deferred Taxes

in EUR million	IFRS (audited)	Effects - scope of consolidation	CRR / Own Funds	Own funds disclosure table - Reference
Deferred tax assets that rely on future profitability and do not arise from temporary differences net of associated tax liabilities	104	0	104	
related DTA allocated on or after 1 January 2014 for which 100% deduction is required according to CRR transitional provisions			45	f
related DTA allocated before 1 January 2014 for which 0% deduction from CET 1 is required according to CRR transitional provisions			59	
Deferred tax assets that rely on future profitability and arise from temporary differences	198	– 7	191	
Deferred tax assets	**301**	**– 7**	**295**	

Table 6: Art. 437 (1) (a) CRR (4/5): Reconciliation of deferred taxes from the financial balance sheet to regulatory capital.

Based on the threshold definition according to Article 48 CRR deferred tax assets that rely on future profitability and arise from temporary differences are not deductible for Erste Group at year end 2014. In accordance with Article 48 (4) CRR the non-deductible amount is risk weighted with 250% and considered within the credit risk.

Details regarding deferred tax assets are disclosed in the Group Consolidated Financial Statements 2014 (IFRS) under Note 28 “Tax assets and liabilities”.

Subordinated liabilities

in EUR million	IFRS (audited)	Effects - scope of consolidation	CRR	Regulatory adjustments	Own funds	Own funds disclosure table - Reference
Subordinated issues and deposits and supplementary capital	5,400	0	5,400	– 598	4,802	
Tier 2 capital instruments (including related share premium) issued by the parent company					4,197	k
Qualifying own funds instruments included in consolidated Tier 2 capital issued by subsidiaries and held by third party					605	l
instruments issued by subsidiaries subject to phase-out					*274*	m
Hybrid issues	357	3	360	– 60	300	i
Subordinated liabilities	**5,758**	**2**	**5,760**	**– 658**	**5,102**	

Table 7: Art. 437 (1) (a) CRR (5/5): Reconciliation of subordinated liabilities from the financial balance sheet to regulatory capital.

Details regarding subordinated liabilities are disclosed in the Group Consolidated Financial Statements 2014 (IFRS) under Note 32 “Financial liabilities-at fair value through profit or loss” and Note 33 “Financial liabilities measured at amortised costs”.

3.2 Threshold calculations

Threshold calculations according to Articles 46 and 48 CRR in EUR million

Non-significant investments in financial sector entities	
Threshold (10% of CET1)	1,106
Holdings in CET1	– 302
Holdings in AT1	– 20
Holdings in T2	– 437
Distance to threshold	**348**

Significant investments in financial sector entities	
Threshold (10% of CET1)	1,106
Holdings in CET 1	– 323
Distance to threshold	**783**

Deferred tax assets	
Threshold (10% of CET1)	1,106
Deferred tax assets that are dependent on future profitability and arise from temporary differences	– 191
Distance to threshold	**915**

Combined threshold for deferred tax assets and significant investments	
Threshold (17.65% of CET1)	1,952
Deferred tax assets that are dependent on future profitability and arise from temporary differences and CET1 instruments of financial sector entities where the institution has a significant investment	– 514
Distance to threshold	**1,438**

Table 8: Threshold calculations pursuant to Art. 46 and 48 CRR

3.3 Transitional provisions

Transitional Provisions based on CRR-Begleitverordnung (BV) from the Austrian Financial Market Authority in 2014

a) Capital Ratios

Capital Ratios		
Common Equity Tier 1 (CET1)	465 (1) CRR, 1 (1) CRR- BV	4.0%
Additional Tier 1 (AT1)	465 (1) CRR, 1 (2) CRR - BV	1.5%
Subordinated Capital (T2)	465 (1) CRR, 1 (2) CRR - BV	2.5%

b) Transitional Provisions concerning CET1

Minority interests		
Minority interests	480 (1) CRR, 18 CRR - BV	80%
Prudential Filters		
Unrealised losses	467 (2) CRR, 2 (1) CRR - BV	100%
Unrealised gains	468 (2) CRR	0%
Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	468 (4) CRR, 2 (3) CRR - BV	100%
Regulatory Deductions		
Losses for the current financial year	36 (1) a) CRR, 3 (1) CRR - BV	20%
Intangible assets	36 (1) b) CRR, 3 (1) CRR - BV	20%
IRB shortfall of provisions to expected losses	36 (1) d) CRR, 3 (1) CRR - BV	20%
Defined benefit pension fund assets	36 (1) e) CRR, 3 (1) CRR - BV	20%
Direct/ indirect/ synthetic holdings of own CET1 capital instruments	36 (1) f) CRR, 3 (1) CRR - BV	100%
Direct reciprocal cross holdings in CET1 capital instruments of financial sector entities	36 (1) g) CRR, 3 (1) CRR - BV	50%
Indirect / synthetic reciprocal cross holdings in CET1 capital instruments of financial sector entities	36 (1) g) CRR, 3 (1) CRR - BV	100%
Direct holdings in CET1 capital instruments of financial sector entities where the institution does not have a significant investment	36 (1) h) CRR, 3 (1) CRR - BV	50%
Indirect / synthetic holdings in CET1 capital instruments of financial sector entities where the institution does not have a significant investment	36 (1) h) CRR, 3 (1) CRR - BV	100%
Deferred tax assets that rely on future profitability and do not arise from temporary differences booked before 2014	36 (1) c) CRR, 3 (2) CRR - BV	0%
Deferred tax assets that rely on future profitability and do not arise from temporary differences booked in 2014 or afterwards	36 (1) c) CRR	100%
Direct holdings in CET1 capital instruments of financial sector entities where the institution has a significant investment	36 (1) i) CRR, 3 (3) CRR - BV	50%
Indirect / synthetic holdings in CET1 capital instruments of financial sector entities where the institution has a significant investment	36 (1) i) CRR, 3 (3) CRR - BV	100%

c) Transitional Provisions concerning AT1

Grandfathering		
Grandfathering of non-eligible AT1 capital instruments	484 (4), 486 (3) CRR, 20 CRR - BV	80%
Minority interests		
Minority interests	480 (1) CRR, 18 CRR - BV	80%
Direct/ indirect/ synthetic holdings of own AT1 capital instruments	56 a) CRR, 13 CRR - BV	100%
Direct reciprocal cross holdings in AT1 capital instruments of financial sector entities	56 b) CRR, 13 CRR - BV	20%
Indirect / synthetic reciprocal cross holdings in AT1 capital instruments of financial sector entities	56 b) CRR, 13 CRR - BV	100%
Direct holdings in AT1 capital instruments of financial sector entities where the institution does not have a significant investment	56 c) CRR, 13 CRR - BV	20%
Indirect / synthetic holdings in AT1 capital instruments of financial sector entities where the institution does not have a significant investment	56 c) CRR, 13 CRR - BV	100%
Direct holdings in AT1 capital instruments of financial sector entities where the institution has a significant investment	56 d) CRR, 13 CRR - BV	20%
Indirect / synthetic holdings in AT1 capital instruments of financial sector entities where the institution has a significant investment	56 d) CRR, 13 CRR - BV	100%

d) Transitional Provisions concerning T2

Grandfathering		
Grandfathering of non-eligible T2 capital instruments	484 (5), 486 (4) CRR, 20 CRR - BV	80%
Minority interests		
Minority interests	480 (1) CRR, 18 CRR - BV	80%
Regulatory Deductions		
Direct/ indirect/ synthetic holdings of own T2 instruments	66 a) CRR, 15 CRR - BV	100%
Direct reciprocal cross holdings in T2 capital instruments of financial sector entities	66 b) CRR, 15 CRR - BV	20%

The table is continued on the next page.

Continuation of the table:

Indirect / synthetic reciprocal cross holdings in T2 capital instruments of financial sector entities	66 b) CRR, 15 CRR - BV	100%
Direct holdings in T2 capital instruments of financial sector entities where the institution does not have a significant investment	66 c) CRR, 15 CRR - BV	20%
Indirect / synthetic holdings in T2 capital instruments of financial sector entities where the institution does not have a significant investment	66 c) CRR, 15 CRR - BV	100%
Direct holdings in T2 capital instruments of financial sector entities where the institution has a significant investment	66 d) CRR, 15 CRR - BV	20%
Indirect / synthetic holdings in T2 capital instruments of financial sector entities where the institution has a significant investment	66 d) CRR, 15 CRR - BV	100%

e) Deduction of remaining amounts		
Remaining amounts out of CET1 deducted from AT1		
Losses for the current financial year	472 (3) CRR	80%
Intangible assets	472 (4) CRR	80%
IRB shortfall of provisions to expected losses	472 (6) CRR	40%
Defined benefit pension fund assets	472 (7) CRR	0%
Direct reciprocal cross holdings in CET1 capital instruments of financial sector entities	472 (9) CRR	25%
Direct holdings in CET1 capital instruments of financial sector entities where the institution does not have a significant investment	472 (10) CRR	25%
Deferred tax assets that rely on future profitability and do not arise from temporary differences booked before 2014	472 (5) CRR	RW
Direct holdings in CET1 capital instruments of financial sector entities where the institution has a significant investment	472 (11) CRR	25%
*Riskweight		
Remaining amounts out of AT1 deducted from AT1		
Direct reciprocal cross holdings in AT1 capital instruments of financial sector entities	477 (3) CRR	40%
Direct holdings in AT1 capital instruments of financial sector entities where the institution does not have a significant investment	477 (4) CRR	40%
Direct AT1 instruments of financial sector entities where the institution has a significant investment	477 (4) CRR	40%
Remaining amounts out of CET1 deducted from T2		
IRB shortfall of provisions to expected losses	472 (6) CRR	40%
Direct reciprocal cross holdings in CET1 capital	472 (9) CRR	25%
Direct holdings in CET1 capital instruments of financial sector entities where the institution does not have a significant investment	472 (10) CRR	25%
Direct holdings in CET1 capital instruments of financial sector entities where the institution has a significant investment	472 (11) CRR	25%
Remaining amounts out of AT1 deducted from T2		
Direct reciprocal cross holdings in AT1 capital instruments of financial sector entities	475 (3) CRR	40%
Direct holdings in AT1 capital instruments of financial sector entities where the institution does not have a significant investment	475 (4) CRR	40%
Direct holdings in AT1 instruments of financial sector entities where the institution has a significant investment	475 (4) CRR	40%
Remaining amounts out of T2 deducted in T2		
Direct reciprocal cross holdings in T2 capital instruments of financial sector entities	475 (3) CRR	40%
Direct holdings in T2 capital instruments of financial sector entities where the institution does not have a significant investment	475 (4) CRR	40%
Direct holdings in T2 capital instruments of financial sector entities where the institution has a significant investment	475 (4) CRR	40%

Table 9: Transitional Provisions

3.4 Own funds template

DISCLOSURE REQUIREMENTS COVERED BY ART. 437 (1) (d) (e) CRR
With respect to Art. 437 (1) (f), a nil report is made

Own funds under Basel 3 consist of CET1, AT1 and T2. In order to determine the capital ratios, each respective capital component, after consideration of all the regulatory deductions and filters, is compared to the total risk. According to the final rules, the minimum ratio for CET1 is 4.5%, which can be increased based on the buffer regime according to CRD IV. The minimum capital requirement for Tier 1 capital (CET1 plus AT1) and for total own funds are 6% and 8%, respectively. According to the Austrian transitional provisions, the minimum ratios for 2014 are 4% for CET1, 5.5% for Tier 1 and 8% for total own funds. No additional capital buffers were required for the year end 2014.
The audited regulatory own funds are published in the Annual Report of Erste Group in Note 51.

The table below presents the composition of the regulatory capital during the transitional period based on the Implementing Technical Standards on the disclosure of own funds published in the Official Journal of the EU.

In column (A), the current amount, which considers all the transitional requirements, is disclosed. Column (C) discloses the residual amount, implying full CRR implementation. Column (D) provides information of data comparable figures within the IFRS Annual Report related to equity, intangible assets, deferred tax assets and subordinated liabilities as shown in chapter 3.1.

	in EUR million	(A) December 2014	(B) Regulation (EU) No 575/2013 article reference	(C) Amounts subject to preregulation (EU) No 575/2013 treatment or prescribed residual amount of regulation (EU) 575/2013	(D) Reference to reconciliation tables
	Common equity Tier 1 (CET1) capital: instruments and reserves				
1	Capital instruments and the related share premium accounts	2,336	26 (1), 27, 28, 29, EBA list 26 (3)	0	a
	ordinary shares	2,336	EBA list 26 (3)	0	a
2	Retained earnings	8,130	26 (1) (c)	0	b
3	Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	– 325	26 (1)	0	c
3a	Funds for general banking risk	0	26 (1) (f)	0	
4	Amount of qualifying items referred to in Article 484 (3) and the related share premium accounts subject to phase out from CET1	0	486 (2)	0	
	Public sector capital injections grandfathered until 1 January 2018	0	483 (2)	0	
5	Minority interests (amount allowed in consolidated CET1)	3,181	84, 479, 480	– 102	d
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	0	26 (2)	0	
6	**CET1 capital before regulatory adjustments**	**13,321**		**– 102**	
	Common equity Tier 1 (CET1) capital: regulatory adjustments				
7	Additional value adjustments (negative amount)	– 113	34, 105	0	
8	Intangible assets (net of related tax liability) (negative amount)	– 285	36 (1) (b), 37, 472 (4)	– 1,140	e
9	Empty set in the EU	0		0	
10	Deferred tax assets that rely on future profitability excluding those arising from temporary difference (net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	– 45	36 (1) (c), 38, 472 (5)	– 58	f
11	Fair value reserves related to gains or losses on cash flow hedges	– 118	33 (a)	0	g
12	Negative amounts resulting from the calculation of expected loss amounts	– 50	36 (1) (d), 40, 159, 472 (6)	– 199	
13	Any increase in equity that results from securitised assets (negative amount)	0	32 (1)	0	
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	– 70	33 (b)	0	
15	Defined-benefit pension fund assets (negative amount)	0	36 (1) (e), 41, 472 (7)	0	
16	Direct and indirect holdings by an institution of own CET1 instruments (negative amount)	– 82	36 (1) (f), 42, 472 (8)	0	
17	Holdings of the CET1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	0	36 (1) (g), 44, 472 (9)	0	
18	Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	0	36 (1) (h), 43, 45, 46, 49 (2) (3), 79, 472 (10)	0	
19	Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	0	36 (1) (i), 43, 45, 47, 48 (1) (b), 49 (1) to (3), 79, 470, 472 (11)	0	
20	Empty set in the EU	0		0	
20a	Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative	0	36 (1) (k)	0	
20b	qualifying holdings outside the financial sector (negative amount)	0	36 (1) (k) (i), 89 to 91	0	
20c	securitisation positions (negative amount)	0	36 (1) (k) (ii), 243 (1) (b), 244 (1) (b), 258	0	
20d	free deliveries (negative amount)	0	36 (1) (k) (iii), 379 (3)	0	
21	Deferred tax assets arising from temporary difference (amount above 10% threshold , net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	0	36 (1) (c), 38, 48 (1) (a), 470, 472 (5)	0	
22	Amount exceeding the 15% threshold (negative amount)	0	48 (1)	0	
23	direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities		36 (1) (i), 48 (1) (b), 470, 472 (11)	0	

The table is continued on the next page.

Continuation of the table:

		(A)	(B)	(C)	(D)
24	Empty set in the EU			0	
25	deferred tax assets arising from temporary difference		36 (1) (c), 38, 48 (1) (a), 470, 472 (5)	0	
25a	Losses for the current financial year (negative amount)	0	36 (1) (a), 472 (3)	0	
25b	Foreseeable tax charges relating to CET1 items (negative amount)	0	36 (1) (l)	0	
26	Regulatory adjustments applied to CET1 in respect of amounts subject to pre-CRR treatment	0		0	
26a	Regulatory adjustments relating to unrealised gains and losses pursuant to Articles 467 and 468	– 992		744	
	unrealised losses	0	467	0	
	unrealised gains	– 992	468	744	h
26b	Amount to be deducted from or added to CET1 capital with regard to additional filters and deductions required pre CRR	0	481	0	
27	Qualifying AT1 deductions that exceeds the AT1 capital of the institution (negative amount)	– 944	36 (1) (j)	944	
28	Total regulatory adjustments to CET1	– 2,699		290	
29	CET1 capital	10,623		188	
	Additional Tier 1 (AT1) capital: instruments				
30	Capital instruments and the related share premium accounts	0	51, 52	0	
31	classified as equity under applicable accounting standards	0		0	
32	classified as liabilities under applicable accounting standards	0		0	
33	Amount of qualifying items referred to in Article 484 (4) and the related share premium accounts subject to phase out from AT1	300	486 (3)	– 300	i
	Public sector capital injections grandfathered until 1 January 2018	0	483 (3)	0	
34	Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interest not included in row 5) issued by subsidiaries and held by third parties	0	85, 86, 480	0	
35	instruments issued by subsidiaries subject to phase-out	0	486 (3)	0	
36	**AT1 capital before regulatory adjustments**	**300**		**– 300**	
	Additional Tier 1 (AT1) capital: regulatory adjustments				
37	Direct and indirect holdings by an institution of own AT1 instruments (negative amount)	– 4	52 (1) (b), 56 (a), 57, 475 (2)	4	
38	Holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	0	56 (b), 58, 475 (3)	0	
39	Holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	0	56 (c), 59, 60, 79, 475 (4)	0	
40	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	0	56 (d), 59, 79, 475 (4)	0	
41	Regulatory adjustments applied to AT1 in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase-out as prescribed in Regulation (EU) No 585/2013 (ie. CRR residual amounts)	0		0	
41a	Residual amounts deducted from AT1 with regard to deduction from CET1 during the transitional period pursuant to article 472 of Regulation (EU) No 575/2013	– 1,239	472, 473 (3)(a), 472 (4), 472 (6), 472 (8)(a), 472 (9), 472 (10)(a), 472 (11) (a)	1,239	
	Interim loss	0		0	
	Intangible assets	– 1,140		1,140	j
	Shortfall of provisions to expected loss	– 100		100	
41b	Residual amounts deducted from AT1with regard to deduction from T2 capital during the transitional period pursuant to article 475 of Regulation (EU) No 575/2013	– 0.2	477, 477 (3), 477 (4)(a)	0.2	
	reciprocal cross holdings in T2 instruments	0		0	
	direct holdings of non-significant investments in the capital of other financial sector entities	– 0.2		0.2	
41c	Amount to be deducted from or added to AT1 with regard to additional filters and deductions required pre- CRR	0	467, 468, 481	0	
	possible filter to unrealised losses	0		0	
	possible filter to unrealised gains	0		0	
42	Qualifying T2 deductions that exceed the T2 capital of the institution (negative amount)	0	56 (e)	0	
43	Total regulatory adjustments to AT1 capital	– 1,244		1,244	

The table is continued on the next page.

Continuation of the table:

		(A)	(B)	(C)	(D)
44	**AT1 capital**	**0**		**0**	
45	**Tier 1 capital (T1 = CET1 + AT1)**	**10,623**		**188**	
	Tier 2 (T2) capital: instruments and provisions				
46	Capital instruments and the related share premium accounts	4,197	62, 63	0	k
47	Amount of qualifying items referred to in Article 484 (5) and the related share premium accounts subject to phase out from T2	0	486 (4)	0	
	Public sector capital injections grandfathered until 1 January 2018	0	483 (4)	0	
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interest and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third party	605	87, 88, 480	– 274	l
49	instruments issued by subsidiaries subject to phase-out	274	486 (4)	– 274	m
50	Credit risk adjustments	585	62 (c) (d)	0	
51	**T2 capital before regulatory adjustment**	**5,387**		**– 274**	
51	**T2 capital before regulatory adjustment**	**5,387**		**– 274**	
	Tier 2 (T2) capital: regulatory adjustments				
52	Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)	– 71	63 (b) (i), 66 (a), 67, 477 (2)	0	
53	Holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institutions designed to inflate artificially the own funds of the institution (negative amount)	0	66 (b), 68, 477 (3)	0	
54	Direct, indirect and synthetic holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	0	66 (c), 69, 70, 79, 477 (4)	0	
54a	new holdings not subject to transitional arrangements	0		0	
54b	holdings existing before 1 January 2013 and subject to transitional arrangements	0		0	
55	Direct, indirect and synthetic holdings of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amounts)	– 0.4	66 (d), 69, 79, 477 (4)	0	
56	Regulatory adjustments applied to T2 in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amounts)	0		0	
56a	Residual amounts deducted from T2 with regard to deduction from CET1 during the transitional period pursuant to article 472 of Regulation (EU) No 575/2013	– 99	472, 472 (3)(a), 472 (4), 472 (6), 472(8), 472 (9), 472 (10)(a), 472 (11) (a)	99	
	Shortfall of provisions to expected loss	– 100		100	
	Non significant investments	0.2		– 0.2	
56b	Residual amounts deducted from T2 with regard to deduction from AT1 during the transitional period pursuant to article 475 of Regulation (EU) No 575/2013	0	475, 475 (2) (a), 475 (3), 475 (4) (a)	0	
	reciprocal cross holdings in T1 instruments	0		0	
	direct holdings of non-significant investments in the capital of other financial sector entities	0		0	
56c	Amounts to be deducted from or added to T2 with regard to additional filters and deductions required pre- CRR	0	467, 468, 481	0	
	possible filter to unrealised losses	0		0	
	possible filter to unrealised gains	0		0	
57	**Total regulatory adjustments to T2 capital**	**– 171**		**99**	
58	**T2 capital**	**5,216**		**– 174**	
59	**Total capital (TC = T1 + T2)**	**15,839**		**14**	
59a	RWAs in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amount)	0		0	
	items not deducted from CET1 (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line, e.g. Deferred tax assets that rely on future profitability net of related tax liability, indirect holdings of own CET1, etc)	0	472, 472 (5), 472 (8) (b), 472 (10) (b), 472 (11) (b)	0	
	items not deducted from AT1 items (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line, e.g. Reciprocal cross holdings in T2 instruments, direct holdings of non-significant investments in the capital of other financial sector entities, etc.)	0	475, 475 (2) (b), 475 (2) (c), 475 (4) (b)	0	
	Items not deducted from T2 items (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line, e.g. Indirect holdings of own T2 instruments, indirect holdings of non-significant investments in the capital of other financial sector entities, indirect holdings of significant investments in the capital of other financial sector entities etc)	0	477, 477 (2) (b), 477 (2) (c), 477 (4) (b)	0	
60	**Total RWAs**	**100,590**		**1,280**	

The table is continued on the next page.

Continuation of the table:

		(A)	(B)	(C)	(D)
Capital ratios and buffers					
61	CET1 (as a percentage of total risk exposure amount)	10.6%	92 (2) (a), 465	0.1%	
62	Tier 1 (as a percentage of total risk exposure amount)	10.6%	92 (2) (b), 465	0.1%	
63	Total capital (as a percentage of total risk exposure amount)	15.7%	92 (2) (c)	– 0.2%	
64	Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements plus a systemic risk buffer, plus systemically important institution buffer expressed as a percentage of total risk exposure amount)	not yet implemented	CRD 128, 129, 140	0	
65	capital conservation buffer requirement	not yet implemented		0	
66	countercyclical buffer requirement	not yet implemented		0	
67	systemic risk buffer requirement	not yet implemented		0	
67a	G-SII or Other Systemically Important Institution (O-SII) buffer	not yet implemented	CRD 131	0	
68	CET1 available to meet buffers (as a percentage of risk exposure amount)	not yet implemented	CRD 128	0	
69	[non-relevant in EU regulation]	0		0	
70	[non-relevant in EU regulation]	0		0	
71	[non-relevant in EU regulation]	0		0	
Amounts below the thresholds for deduction (before risk-weighting)					
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	348	36 (1)(h), 45, 46, 472 (10), 56(c), 59, 60, 475 (4), 66(c), 69, 70, 477(4)	0	
73	Direct and indirect holdings of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	323	36 (1) (i), 45, 48, 470, 472 (11)	0	
74	Empty set in the EU	0		0	
75	Deferred tax assets arising from temporary difference (amount below 10% threshold , net of related tax liability where the conditions in Article 38 (3) are met)	191	36 (1) (c), 38, 48, 470, 472 (5)	0	
Applicable caps on the inclusion of provisions in Tier 2					
76	Credit risk adjustments included in T2 in respect of exposures subject to Standardised Approach (prior to the application of the cap)	175	62	0	
77	Cap on inclusion of credit risk adjustments in T2 under Standardised Approach	216	62	0	
78	Credit risk adjustments included in T2 in respect of exposures subject to IRB Approach (prior to the application of the cap)	528	62	0	
79	Cap for inclusion of credit risk adjustments in T2 under IRB Approach	410	62	0	
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2014 and 1 Jan 2022)					
80	Current cap on CET1 instruments subject to phase-out arrangements	0.8	484 (3), 486 (2) & (5)	0	
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	0	484 (3), 486 (2) & (5)	0	
82	Current cap on AT1 instruments subject to phase-out arrangements	0.8	484 (4), 486 (3) & (5)	0	
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	– 58	484 (4), 486 (3) & (5)	0	
84	Current cap on T2 instruments subject to phase-out arrangements	0.8	484 (5), 486 (4) & (5)	0	
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	0	484 (5), 486 (4) & (5)	0	

Table 10: Art. 437 (1) (d) CRR: Transitional own funds

3.5 Own funds development

During 2014, the regulatory own funds developed as following:

Common Equity Tier 1 (CET1) development, phase in	in EUR million
CT1 Basel 2.5	11,199
Conversion to Basel 3	116
CET1 beginning of period	11,315
Release of share premium (shift to retained earnings)*	– 4,912
Dividends declared	0
Increase retained earnings	3,443
net loss	– 1,383
shift from share premium*	4,912
Decrease accumulated other comprehensive income	– 95
Increase minority interest	44
Decrease prudential filters	– 104
Changes in regulatory deductions	951
goodwill	467
other intangibles	512
Other	– 19
Changes in CET1	**– 692**
CET1 end of period	**10,623**
AT1 development, phase in:	
Hybrid capital Basel 2.5	361
Conversion to Basel 3	– 61
Net increase / decrease in AT1	0
Changes in regulatory deduction	-300
Other	0
Changes in AT1	**0**
AT1 end of period	**0**
T2 development, transitional provisions:	
T2 Basel 2.5	4,404
Conversion to Basel 3	– 167
T2 beginning of period	4,237
Net increase in T2	904
Changes in regulatory deduction	14
IRB Excess and SA credit risk adjustments	61
Changes in Tier– 2	**979**
T2 end of period	**5,216**
Total own funds	**15,839**

* Correspondent to Group Statement of changes in total equity (Erste Group Financial Statements)

Table 11: Flow statement for own funds – transitional period

3.6 Capital instruments

DISCLOSURE REQUIREMENTS COVERED: ART. 437 (1) (B) AND (C) CRR

On the website of Erste Group, all capital instruments that are eligible on Erste Group level based on the template published in the Official Journal of the EU No. 1423/2013 on 20 December 2013 are listed in a separate document. (http://www.erstegroup.com/en/Investors/RegulatoryDisclosure/Basel3/CapitalInstruments)
Furthermore, the full terms and conditions of the capital instruments are disclosed on Erste Group's website, respectively on each website of the individual credit institution.

4 Capital Requirements

DISCLOSURE REQUIREMENTS COVERED: ART. 438 CRR

The full amount of the capital requirement is calculated and put into relation with the above mentioned regulatory capital. The eligible qualifying capital must be available at least in the amount of the sum of the minimum capital requirements.

Based on the business activities of Erste Group, the following minimum capital requirements are derived for credit risk, for risk types in the trading book, as well as outside of the trading book, and for operational risk.

The capital requirements were complied with at all times during the reporting period.

CREDIT RISK

The Austrian Financial Market Authority (FMA) granted approval together with the Austrian National Bank (OeNB) for the application of the IRB Approach for the majority of the credit risk positions of Erste Group in January 2007. The Supervisory Slotting Approach is applied to Specialised Lending (SL). The remaining risk positions are covered by the Standardised Approach. Further information on the topic is available in chapter 8 “Use of ECAIs” and in chapter 9 “Use of the IRB Approach to Credit Risk” and in chapter 11 “Counterparty Credit Risk”. More details on securitisations are available in chapter 12 “Exposure to securitisation positions”, on equity exposures in chapter 15 “Exposures in equities”.

The table below shows an overview of minimum capital requirements to cover credit risk. The credit risk in the IRB Approach, Standardised Approach and in the Supervisory Slotting Approach is broken down into exposure classes.

in EUR million	Capital requirements	Capital requirements (% of total)
Exposure Classes		
IRB Approach		
Central Governments and Central Banks	35.5	0.5%
Institutions	304.5	4.4%
Corporates	3,344.2	48.9%
Specialised Lending	875.2	12.8%
Retail	1,392.8	20.3%
SME	286.3	4.2%
Secured by immovable property collateral	595.2	8.7%
Revolving	19.2	0.3%
Other retail	492.0	7.2%
Equity	100.7	1.5%
Simple Risk Weight Approach (ER)	48.1	0.7%
Private equity exposures in sufficiently diversified portfolios	0.0	0.0%
Exchange traded equity exposures	12.4	0.2%
Other equity exposures	35.7	0.5%
PD/LGD approach (PD)	44.0	0.6%
Significant Investments with RW of 250% (FR)	8.6	0.1%
Securitisation Positions	46.6	0.7%
Other non-credit obligation assets	240.6	3.5%
IRB Approach Total	**5,465.0**	**79.8%**
Standardised Approach		
Central Governments and Central Banks	72.8	1.1%
Regional Governments and Local Authorities	38.2	0.6%
Public Sector Entities	22.1	0.3%
Multilateral Development Banks	0.0	0.0%
International Organisations	0.0	0.0%
Institutions	25.3	0.4%
Corporates	530.4	7.7%
Retail	215.4	3.1%
Exposures secured by mortgages on immovable property	86.1	1.3%
Exposures in default	94.3	1.4%
Exposures associated with particular high risk	6.4	0.1%
Covered Bonds	1.2	0.0%
Securitisation Positions	0.0	0.0%
Exposures to institutions and corporates with a short-term credit assessment	0.0	0.0%
Collective Investment Undertakings	0.1	0.0%
Equity	119.0	1.7%
Institutions in Standardised Approach	9.6	0.1%
Permanent Partial Use	3.4	0.0%
Grandfathering Provisions	106.0	1.5%
Other items	168.1	2.5%
Standardised Approach Total	**1,379.5**	**20.2%**
Total	**6,844.5**	**100.0%**

Table 12: Art. 438 (c) (d) CRR: Capital requirements for credit risk by exposure classes under the Standardised and the IRB Approach

MARKET RISK

The table below gives an overview of the capital requirements to cover market risk.

in EUR million	Capital requirements	Capital requirements (% of total)
Market Risk	257.0	100.0%

Table 13: Art. 438 (e): Capital requirements for market risk

OPERATIONAL RISK

For the calculation of regulatory capital requirements for operational risk at Erste Group the Advanced Measurement Approach (AMA) is used after approval by the OeNB in the first half of 2009 and in those subsidiaries, which do not use the AMA yet, the Basic Indicator Approach (BIA) is used. The table below shows the capital requirements for operational risk on the basis of the AMA and the BIA. The details on the management of operational risks at Erste Group are presented in chapter 16 “Operational Risk”.

in EUR million	Capital requirements	Capital requirements (% of total)
Advanced Measurement Approach	584.7	71.1%
Basic Indicator Approach	237.3	28.9%
Total	**822.0**	**100.0%**

Table 14: Art. 446 CRR: Capital requirements for operational risk

INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS

DISCLOSURE REQUIREMENTS COVERED: ART. 438 (a) CRR
With respect to Art. 438 (b) CRR a nil report is made

The ICAAP and the RCC form a part of the Pillar 2 requirements, according to Basel. Erste Group’s RCC is an internally developed model, which measures the risk relevant exposure across all relevant risk types and compares it with the capital or the coverage potential Erste Group has for covering such risks.

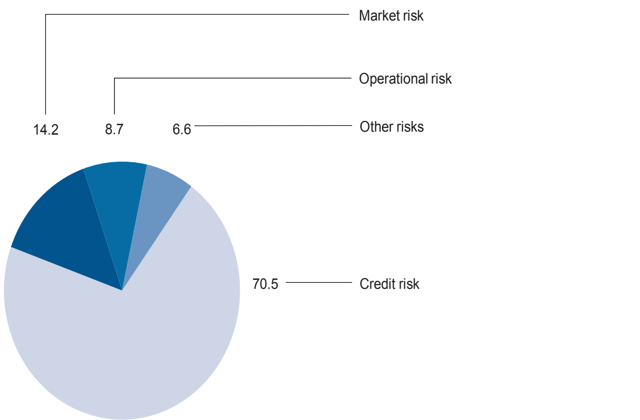
More specifically, the risk side of the calculation serves to determine the economic capital requirement (the total potential loss from the assumption of risk) from unexpected losses in respect of credit, market and operational risk. The economic capital requirement for market risk as of 31 December 2014 also includes currency risk from equity investments and the risk of spread changes for securities in the banking book. Furthermore, liquidity, concentration and macroeconomic risks are taken into account within the scope of stress testing. This economic capital requirement is then compared to the capital held as coverage (broken down into equity, subordinated capital, reserves and retained earnings), thus determining the bank’s ability to absorb these potential unexpected losses. The risk is calculated at a confidence level of 99.95%. The calculation of RCC is designed in accordance with the business strategy and risk profile of Erste Group and is accounted for the risk appetite of the Group. The RAS defines, from a strategic perspective, the risk level that the Group is willing to expose itself to. The RAS specifies restrictions and limits required for daily operations.

In general, the entire coverage potential has to be higher than or equal to the bank’s overall risk exposure. The Group has defined Economic Capital Adequacy Limits as one of several measures to express and monitor the Group’s risk appetite. The definition of the economic capital adequacy risk limit is designed, among other things, also by taking into account stress test results which show the effects of adverse scenarios and shocks to be considered in the strategic management of the Group and therefore also reduce the flexibility available for business activities.

To determine the Group’s capital adequacy, Erste Group deployed a forward-looking traffic light system. In this manner, the management may assess at any time the extent to which the economic capital adequacy of the Group is appropriate and sufficient. The process enables the management to respond in time to changes, and if necessary, to take the relevant measures on either the risk side or the capital/coverage potential side.

The management board and risk management committees are briefed regularly, at least quarterly, on the results of the risk-bearing capacity determined, including the movements in risks and in available capital/coverage potential, the degree of utilisation of the risk limits and modelled risks and capital/coverage potential going forward. The calculation of risk-bearing capacity forms a vital part of the management of risk and capital at Erste Group.

Economic capital allocation in %, 31.12.2014



The graph above shows the distribution of risk types, which form the economic capital requirement of Erste Group. Other risks include the risk from foreign currency loans and the business and strategic risk, which were taken into consideration for the first time as of 31 December 2014.

The results of the RCC are presented in the table below.

Risk bearing capacity calculation

in EUR million	
Economic capital requirement	11,766.8
Coverage potential	18,328.3
Excess	**6,561.5**

Table 15: Art. 438 (a) CRR: Risk-bearing capacity calculation as of 31 December 2014

5 Indicators of Global Systemic Importance

DISCLOSURE REQUIREMENTS COVERED: ART. 441 CRR

The data template for the indicators of G-SIIs is disclosed in a separate document, which has been published on Erste Group's website under http://www.erstegroup.com/en/Investors/RegDisclosure/G-SII.

6 Encumbered and Unencumbered Assets

DISCLOSURE REQUIREMENTS COVERED: ART. 443 CRR AND EBA GUIDELINES ON DISCLOSURE OF ENCUMBERED AND UNENCUMBERED ASSETS

As stipulated in the CRR (Articles 100 and 443) and the preliminary EBA guidelines on disclosure of asset encumbrance (EBA/GL/2014/03) which will make up the foundation of compulsory technical standards to be implemented by 2016; Erste Group is obliged to report encumbered and unencumbered assets on Group level based on the CRR scope of consolidation for all institutions in the following manner:

The identification of encumbered assets was carried out in a method consistent with the established reporting requirements laid out in the European CRR. Based on the approval of the local regulator year-end figures as opposed to median values were used.

Assets

in EUR million	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
Assets of the reporting institution	30,099	0	166,063	0
Equity instruments	160	160	2,039	2,069
Debt securities	5,653	6,069	35,554	36,634
Other assets	6,338	0	13,065	0

Table 16: Art. 443 CRR: Encumbered and unencumbered assets – assets

Collateral received

in EUR million	Fair value of encumbered collateral received or own debt securities issued	Fair value of collateral received or own debt securities issued available for encumbrance
Collateral received by the reporting institution	280	2,993
Equity instruments	23	252
Debt securities	257	2,415
Other collateral received	0	0
Own debt securities issued other than own covered bonds or ABSs	0	0

Table 17: Art. 443 CRR: Encumbered and unencumbered assets – collateral received

Encumbered assets/collateral received and associated liabilities

in EUR million	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
Carrying amount of selected financial liabilities	24,415	29,239

Table 18: Art. 443 CRR: Encumbered and unencumbered assets – encumbered assets/collateral received and associated liabilities

As of December 31, 2014 EUR 30.4 billion of the Group's own and received assets were identified as being encumbered based on the official definition. Encumbered assets were primarily pledged to securitize or credit enhance the issuance of covered bonds and collateralised trading activities. Asset classes used for said purposes were loans and advances to customers and debt securities respectively.

As a result of the structural unsecured funding position, predominantly made up of customer savings and current accounts, the total percentage of encumbered assets and matching secured liabilities is proportionately low; albeit levels vary on single entity level mainly due to diverse business models.

Asset encumbrance is reviewed regularly by the ALCO of Erste Group, where material changes are discussed and potential steering measures approved.

7 Credit Risk

7.1 Goals and principles of risk management

DISCLOSURE REQUIREMENTS COVERED: ART. 435 (a) (b) (c) (d) CRR

Credit risk arises in the traditional lending and investment business and includes losses incurred due to the default of a borrower or the impairment of a credit exposure due to the downgrading of a debtor. Country risk is implicitly considered when assessing credit risk.

Credit risk in retail lending stems from the probability that customer may fail to settle their financial obligations as stipulated by the contractual terms. Managing credit risk in retail involves dealing with a large number of relatively small exposures extended to private individuals, free professionals, entrepreneurs or to micro companies in line with the Basel definitions. These exposures can be clustered into different risk segments with similar characteristics based on their rating and/or payment behaviour and treated accordingly by applying a rule-based approach.

Credit risk related to retail loan portfolios are managed at Group and at local entity level with a common interest to ensure regulatory compliant risk management practices and to provide customers with manageable loan facilities that are within their financial capacities.

At Group level, retail credit risk is managed by the group-wide retail lending framework that sets out specific risk management policy requirements. All local entities engaged in lending activities must comply with these requirements. In addition, a standardised group-wide retail risk specific reporting platform is in place. This ensures that loan portfolio dynamics can be monitored and analysed regularly identifying potential adverse developments early-on and developing targeted mitigating actions.

Local banks develop their local lending business strategy in which input from the local risk management plays a key role. Local retail risk management supports the local business line by identifying which customer segments should be in focus in terms of new lending initiatives. Moreover, the local retail risk management ensures that any new products or change in lending criteria are in line with the group-wide lending framework requirements and are adequately supported by the existing risk infrastructure. Local risk management also holds the primary responsibility to ensure that country-specific know-how is incorporated into risk management practices and that implications of the local environment (market, competitive, economic, political, and legal/regulatory) are appropriately addressed.

In the non-retail business, the business and risk strategy is defined jointly by account managers and risk managers. The underlying principle is to ensure that lending activities are in compliance with the client rating based maximum (including uncollateralised) credit limit and build on expert opinions, analyses and involves relevant cross-functional support from other departments (i.e. Economic and Country Research, Sector Research, Competence Centres, Creditworthiness Analysis and Workout). In addition, as and when available, peer group analyses and information from the industry leaders/losers are used to identify industry consolidation trends early-on and to adjust the business and risk strategies accordingly.

The corporate risk strategy defines the maximum level of risk Erste Group is willing to accept in the corporate credit portfolio in order to deliver its business objectives according to the Group RAS. Quantitative portfolio limits and qualitative risk principles are defined to ensure that the risk profile remains in line with the risk strategy. To manage industry concentrations and align portfolio composition to business strategy, an industry limit framework is applied. Single name concentrations are managed through Maximum Lending Limits set at a single name level.

No transaction can be executed without prior approval by risk management according to the procedural requirements and explicitly delegated approval authorities. No credit decision is taken without a thorough assessment of the industry each borrower operates in, its risk profile, repayment capability and the assignment of an internal rating.

Collateral and credit enhancements are evaluated according to internally defined rules. Depending on rating grade, purpose and tenor, risk-bearing products are protected against losses by stipulating adequate collateral that is fully and indisputably legally enforceable and sufficiently documented for the bank. Nevertheless, collateral and credit enhancements can never substitute repayment capability.

The credit monitoring process is used to ensure the consistency between the credit decision and the loan agreement, and to monitor the fulfilment of contractual obligations of a client. The process encompasses pre-drawn checks (i.e. fulfilment of all contractual conditions precedent and other contractual conditions) and ongoing monitoring (i.e. fulfilment of contractual conditions subsequent and operationalised covenants). Counterparty credit risk limits are monitored daily in an internal limit management system with remedial actions taken in case limits are exceeded. An early warning framework is implemented to proactively identify negative developments. When early warning signals are identified, adequate risk mitigating actions are taken.

ORGANISATION

The task of Group Retail and SME Risk Management is to ensure the oversight and steering of retail and SME lending portfolios across the group by defining the group-wide retail lending and analytical framework that serves as a basis for monitoring local banks´ retail lending practices and for identifying potential adverse portfolio developments early on. This division comprises of three sub-units:

- Group Retail Risk Policy and Collections
- Group Retail Risk Analytics
- Retail and SME Risk Control

Group Retail Risk Policy and Collections defines the retail lending framework by establishing policy rules for the entire retail lending cycle covering underwriting, portfolio management, early and late collection. This unit ensures implementation of and compliance with these policies through the gap analysis process whereby countries' local lending practices are reviewed against the group-wide policy rules. Differences – if any – are reviewed and are individually approved by Group Retail and SME Risk Management and/or the Group CRO. The unit also reviews and assesses local entities' new lending products and lending criteria changes in order to ensure that these are prudent and are in line with group-wide retail lending policies. This unit moreover ensures retail lending-specific knowledge transfer across Group countries including offering a tailor-made, retail lending curriculum.

Group Retail Risk Analytics ensures oversight and independent management control through regular, consistent operational retail risk management information. This unit defines standard operational retail lending reporting requirements across the Group. Using this information, Group Retail Risk Analytics monitors underlying retail lending portfolio dynamics in order to understand the key drivers, identify the required risk mitigation - if any - and ensure their implementation. This unit also provides topical, pro-active, ad-hoc analyses in order to support decision-making and background information related to key retail risk management developments throughout the Group.

Group Retail and SME Risk Control ensure further strengthening of the existing group-wide operational steering and oversight of this segment by leveraging the existing retail risk reporting and lending framework platform.

In the local entities, the CRO and the local Retail Risk Head assume primary responsibility for credit risk management of the retail loan portfolios, local credit policy rules are defined in line with Group Retail Risk Management Policies at every bank in compliance with the local regulatory and business environment.

Group Corporate Risk Management is the operational credit risk management function for Erste Group's divisionalised corporate business (Group Corporate and Investment Banking). It is responsible for the formal and material verification, recommendation and approval of all credit risks of Erste Group as a Holding company. Group Corporate Risk Management is also responsible for credit risk management for the Group Corporate and Investment Banking segment as well as all credit applications where the amount involved exceeds the approval limits granted to the respective subsidiary. This unit covers country risks, sovereigns, other credit institutions, securitisations and large corporates risk. Group Corporate Risk Management provides specific credit risk reports on the aforementioned portfolios managed centrally by Erste Group as a Holding company. It is in charge of process development for credit risk management and implementation of Group standards for these portfolios, and it monitors compliance with relevant credit risk limits. This unit is also responsible for establishing and monitoring appropriate credit analysis processes and systems for corporate business at the subsidiary level and co-ordinating and reviewing corporate credit and project analysis adopted across the business.

RISK MEASUREMENT AND CONTROL

Prior to granting a loan, the creditworthiness of a retail client is determined and verified in view of the risk/reward trade-off. Loans can only be granted if the repayment capacity of the borrower is sufficient to serve the regular repayments. Risk-adjusted pricing ensures a balanced relationship between risk and return.

The regular credit risk reports contain information for the management board and the risk management committee related to the developments of loan exposures in each key segment, the quality of the portfolio by rating category and detailed risk-

relevant information on customers at risk of default or already defaulted. These reports serve as the basis for audits of the credit policy of the business areas and their business and risk strategy.
Complementing the group-wide credit risk report, Group Retail and SME Risk Management prepares a consolidated, group-wide retail risk management report that shows retail loan portfolio dynamics across local entities with monthly frequency. This report, building on up-to-date portfolio monitoring techniques (vintage analysis, delinquency trends, segment analyses, etc.) shows key drivers behind specific portfolio developments. The report covers new loan bookings as well as the main developments (including FX share trends).

A management summary of the key developments is distributed at least quarterly to senior management and key decision makers. In addition, key lending criteria changes planned by local entities are also reviewed and aligned with Group Retail and SME Risk Management prior to implementation.

Credit decisions and credit processing for the non-retail business must be conducted in accordance with the currently valid authorisation matrix and the corresponding work instructions. Defined standards apply when granting loans. Among other things, credit analyses must be prepared using current business data and financial projections. This information serves to elaborate an indicative analysis for the rating and credit decision.

It is the interest of the lender not to put customers into a position in which they are no longer able to meet their contractual obligations. This also includes the principle of matching the term of the debt to the object financed; in particular, as the regards relations between operating output, cash flow, repayment capability and financing need; the recoverability of the loan and its use must be plausible and verifiable. Foreign currency loans depend on the regional market conditions and customer class. Generally, financing in local currency is given preference especially if the customer does not have any income in foreign currency. However, market practices vary in the different CEE markets along with different business strategies. Interest rate hedging is provided to the extent necessary. Holding companies and transactions with purely financing companies are financed only in exceptional cases, and if so, only by taking the assets and cash flows of the operating companies into account. Erste Group has established clear policies with respect to FX lending across countries and businesses. This includes appropriate monitoring and governance in place with distinct limits as part of the Group RAS to manage and ensure proper oversight of the FX lending risk.

Erste Group strictly follows a cash-flow based corporate lending approach. Any financing is based on a corporate client´s ability to generate future cash-flows. Purely collateral-based lending is avoided as collateral only serves for reducing potential losses caused by unforeseen cash-flow shortfalls. All corporate lending activities (including Leverage and Acquisition Financing) are regulated by group-wide lending policies prescribing limitations and minimum requirements.

RISK HEDGING

As mentioned above, collateral as such is no basis for lending decisions. Nevertheless, depending on the creditworthiness of a corporate client it is obligatory to take in collateral in order to reduce potential losses. The eligibility of collateral is determined in accordance with the bank’s internal collateral catalogue.

In retail risk management applying prudent lending criteria are essential in mitigating credit risk.
In retail lending FX loans (i.e. loans that are at least partially receivable in currencies other than the legal tender of the country in which the borrower is domiciled) are not allowed – with the exception of the following:

_ Customers have natural hedge (i.e. no FX risk involved)
_ The loan is fully secured with matching currency liquid collateral
_ Lombard and margin lending fully secured with liquid collateral
_ Explicitly approved in the RAS

Subsidiaries or sub-groups of a customer group are financed only if all material documents are available. All customers of a group of related customers or within a corporate group are subjected to a rating process. In such cases, the Group rating and the “corporate ceiling” are taken into account. Beyond a predefined total debt level, companies or groups that have credit relations to more than one fully consolidated company of Erste Group are classified as limit customers, with the limit cap being determined in the respective limit application. In the case of sector clusters, once a certain size is reached, joint business strategies are defined following the GO/HOLD/STOP logic.

7.2 Definition of past due, substandard and defaulted

DISCLOSURE REQUIREMENTS COVERED: ART. 442 (a) CRR

The Group's ongoing assessment of the customers' capacity to fulfil their obligations is carried out using a large number of risk management instruments. This includes the constant monitoring of the Group's portfolio of past due, substandard and defaulted exposures.

PAST DUE

In the case of payments in arrears, payments are considered past due as of the date when the borrower exceeded an approved credit limit, or the borrower was advised of a lower limit than the current outstanding, or drew on an unauthorised credit facility, or did not make a contractually agreed payment in due time, and the amount concerned is significant. Unpaid credit card debt is deemed past due from the earliest due date.

SUBSTANDARD

The borrower is vulnerable to negative financial and economic impacts; such loans are managed in specialised risk management departments.

DEFAULTED

There is a default if one or more of the default criteria under Basel apply:
_ full repayment unlikely,
_ interest or principal payments on a material exposure more than 90 days past due,
_ restructuring resulting in a loss to the lender,
_ realisation of a loan loss,
_ initiation of bankruptcy proceedings or
_ the customer is regarded as impaired.

7.3 Credit risk adjustments and definition of impairment

DISCLOSURE REQUIREMENTS COVERED: ART. 442 (a) (b) CRR

The following paragraphs provide a description of the approaches and methods adopted for determining value adjustments and credit risk adjustments.

CREDIT RISK ADJUSTMENT CALCULATION

The general principles and standards for credit risk adjustments within Erste Group are described in internal policies. The bank evaluates the need for credit risk adjustments in line with regulatory and accounting standards and allocates them accordingly. Credit risk adjustments are calculated
_ for financial assets carried at amortised cost (loans and advances, financial assets held to maturity) in accordance with IAS 39 and
_ for contingent liabilities (financial guarantees, loan commitments) in accordance with IAS 37.

Credit risk adjustments are created in a process performed on customer level. The process includes the identification of default and impairment and the type of assessment (individual or collective) to be applied. 'On customer level' means in this context that if one of the customer's exposures is classified as defaulted then typically all of this customer's exposures are classified as defaulted. Depending on the characteristics of the exposure and the respective expected cash flows (e.g. considering collateral), some exposures may not be impaired.

The bank distinguishes between
_ specific credit risk adjustments calculated for exposures to defaulted customers that are deemed to be impaired and
_ general credit risk adjustments (credit risk adjustments for incurred but not reported losses) calculated for exposures to non-defaulted customers or defaulted customers that are not deemed to be impaired.

Erste Group regularly reviews its specific and general credit risk adjustments. These exercises comprise the parameters and methodologies used in its credit risk adjustment calculation. Adjustments can take place in the context of specific reviews (in view of specific credit risk adjustments), routine maintenance of parameters (such as regular calibration) or in the case of specific events (e.g. improved knowledge about recovery behaviour, backtesting results)

CALCULATION OF SPECIFIC CREDIT RISK ADJUSTMENTS & IMPAIRMENT

Objective evidence of impairment is given as a result of one or more events ("trigger event" or "loss event") that occurred after the initial recognition of the asset which has an impact on the estimated future cash flows of the financial asset or group of financial assets and that can be reliably estimated. This includes, for example, the observation of significant financial difficulty of issuer or obligor, or a high likelihood of entering bankruptcy or other financial reorganization.

Upon observation of such loss events an impairment process is being triggered. Depending on the outcome of the discounted cash flow analysis, the financial asset of the defaulted customer is regarded as impaired or not.

For the calculation of specific credit risk adjustments, the discounted cash flow model is applied. This means that a difference between carrying amount and net present value (NPV) of the expected cash flows leads to an impairment and defines the amount of any adjustment requirement. All estimated interest and redemption payments as well as estimated collateral recoveries and costs for selling and obtaining collateral are considered as expected cash flows. The effective interest rate is used as the discount rate for the calculation of the NPV of the expected cash flows.

The calculation of specific credit risk adjustments is performed either on an individual basis or as a collective assessment (rule-based approach). In case of significant customers, expected cash flows are estimated individually by workout or risk managers. A customer is considered as significant if the total exposure defined as the sum of all on and off-balance sheet exposures exceeds a defined materiality limit. Otherwise, the customer is considered as insignificant and a rule-based approach is used for the calculation of the specific credit risk adjustment. Under this approach, specific credit risk adjustments are calculated as the product of the carrying amount and the loss given default (LGD), where LGD depends on relevant characteristics such as time in default or the stage of the workout process.

CALCULATION OF GENERAL CREDIT RISK ADJUSTMENTS

Collective allowances are calculated on on-balance and off-balance sheet exposures to non-defaulted customers for which a default has not been detected or reported. The level of collective allowances depends on the carrying amount, the PD, the LGD, the credit conversion factor (CCF) in case of off-balance-sheet exposures, and the loss identification period. The loss identification period corresponds to the average period between the occurrence and the detection of the loss and ranges from four months to one year. The result of discounting future cash flows to their NPVs is taken into consideration in the LGD calculation.

Generally, risk parameters used in the calculation of collective allowances may be different to the Basel 3 Pillar 1 or Pillar 2 risk parameters, if the properties of the respective portfolio in combination with accounting rules necessitate this.

Collective allowances are also calculated in case of exposures to defaulted customers which are not identified as impaired. For these customers, no specific credit risk adjustments are allocated. Collective allowances are calculated based on the historical loss experience for the relevant customer segment.

7.4 Quantitative disclosure on credit risk

DISCLOSURE REQUIREMENTS COVERED: ART. 442 (c) (d) (e) (f) (g) (h) (i) CRR

The total amount of exposures, presented by the EAD, is the basis for credit risk. The EAD is broken down by exposure classes, groups of countries (by country of risk), industries and maturity bands. In addition, the exposure to SMEs and the average amount of EAD over the reporting period are presented.

Main exposure classes

in EUR million	EAD	thereof SMEs*	average EAD in the reporting period
Sovereigns	48,661.7	0.0	47,307.4
Institutions	17,140.8	0.0	20,292.1
Corporates	79,001.2	27,067.3	78,082.8
Retail	68,840.0	12,484.5	68,166.3
Total	**213,643.7**	**39,551.9**	**213,848.6**

* The definition of SME differs from that in the Annual Report which is based upon segment reporting purposes.

Table 19: Art. 442 (c) (e) CRR: Credit Risk – EAD, exposure to SMEs and average EAD by exposure classes

Group of countries

in EUR million	EAD	EAD (% of total)
Core market - Austria	97,186.0	45.5%
Core market - Croatia	10,113.9	4.7%
Core market - Czech Republic	33,080.1	15.5%
Core market - Hungary	7,505.5	3.5%
Core market - Romania	17,222.7	8.1%
Core market - Serbia	1,295.0	0.6%
Core market - Slovakia	16,626.7	7.8%
Emerging markets - Asia	940.6	0.4%
Emerging markets - Latin America	119.8	0.1%
Emerging markets - Middle East/Africa	401.3	0.2%
Emerging markets - SE Europe/CIS	2,203.1	1.0%
Other EU countries	23,346.3	10.9%
Other industrialised countries	3,602.7	1.7%
Total	**213,643.7**	**100.0%**

Table 20: Art. 442 (d) CRR (1/2): Credit Risk – EAD by country groups (based on country of risk)

Group of countries

in EUR million	Main Exposure Classes	EAD
Core market - Austria	Sovereigns	15,132.0
	Institutions	2,881.5
	Corporates	42,371.4
	Retail	36,801.0
Core market - Croatia	Sovereigns	2,921.7
	Institutions	359.2
	Corporates	3,870.9
	Retail	2,962.2
Core market - Czech Republic	Sovereigns	10,534.3
	Institutions	824.6
	Corporates	9,344.4
	Retail	12,376.8
Core market - Hungary	Sovereigns	1,737.9
	Institutions	355.5
	Corporates	2,325.7
	Retail	3,086.3
Core market - Romania	Sovereigns	7,203.3
	Institutions	155.7
	Corporates	5,569.2
	Retail	4,294.5
Core market - Slovakia	Sovereigns	5,960.1
	Institutions	261.7
	Corporates	3,856.0
	Retail	6,548.9
Other EU Countries	Sovereigns	3,791.6
	Institutions	10,492.3
	Corporates	7,425.9
	Retail	1,636.5

Table 21: Art. 442 (d) CRR (2/2): Credit Risk – EAD by important country groups (based on country of risk) and main exposure classes

Industry

in EUR million	EAD	EAD (% of total)
Agriculture and forestry	2,246.4	1.1%
Mining	466.4	0.2%
Manufacturing	12,214.6	5.7%
Energy and water supply	3,735.4	1.7%
Construction	7,623.9	3.6%
Development of building projects	3,362.7	1.6%
Trade	9,905.2	4.6%
Transport and communication	4,385.5	2.1%
Hotels and restaurants	4,040.9	1.9%
Financial and insurance services	34,262.8	16.0%
Holding companies	5,906.5	2.8%
Real estate and housing	22,529.2	10.5%
Services	5,987.9	2.8%
Public administration	41,038.6	19.2%
Education, Health and Art	2,774.8	1.3%
Private households	56,043.9	26.2%
Other	6,388.0	3.0%
Total	**213,643.7**	**100.0%**

Table 22: Art. 442 (e) CRR: Credit Risk – EAD by industry groups

Maturity band

			EAD			
in EUR million	EAD	EAD (% of total)	Sovereigns	Institutions	Corporates	Retail
less than 3 months	25,796.3	12.1%	6,428.7	4,354.2	9,599.0	5,414.4
3 months to less than 1 year	15,659.1	7.3%	1,487.6	2,374.6	8,819.5	2,977.3
1 year to less than 2.5 years	33,480.0	15.7%	8,270.8	2,942.2	16,477.2	5,789.7
2.5 years to less than 5 years	26,381.8	12.3%	5,644.7	2,275.0	13,162.0	5,300.0
5 years to less than 10 years	35,994.5	16.8%	9,760.4	3,191.8	12,479.5	10,562.9
10 years to less than 15 years	21,740.1	10.2%	4,035.1	865.9	7,729.1	9,110.0
15 years to less than 20 years	16,727.2	7.8%	1,404.3	509.3	4,046.4	10,767.2
more or equal than 20 years	37,864.7	17.7%	11,630.0	627.8	6,688.5	18,918.4
Total	**213,643.7**	**100.0%**	**48,661.7**	**17,140.8**	**79,001.2**	**68,840.0**

Table 23: Art. 442 (f) CRR: Credit Risk – EAD by residual maturity bands and main exposure classes

Exposures classified as past due and as impaired are presented below in detail for all main exposure classes, industries and group of countries. The down splits are shown for EAD and credit risk adjustments.

Main exposure classes

	EAD			
in EUR million	Past due (equal or more than 1 day)	Past due (% of total)	Impaired	Impaired (% of total)
Sovereigns	207.4	1.7%	16.4	0.1%
Institutions	207.8	1.7%	128.2	1.1%
Corporates	5,271.3	43.5%	6,711.3	59.0%
Retail	6,429.1	53.1%	4,523.8	39.8%
Total	**12,115.6**	**100.0%**	**11,379.8**	**100.0%**

Table 24: Art. 442 (g) (i) CRR: Credit Risk – EAD by main exposure classes for past due and impaired exposures

Industry

in EUR million	Credit risk adjustments General	Credit risk adjustments Specific	Total credit risk adjustments	Credit risk adjustments (% of total)	Charges General	Charges Specific	Total charges
Industry							
Agriculture and forestry	28.8	182.5	211.3	2.6%	7.6	74.7	82.3
Mining	4.6	24.2	28.7	0.4%	–0.4	8.9	8.5
Manufacturing	74.7	1,045.5	1,120.2	14.0%	3.4	411.5	414.9
Energy and water supply	38.8	96.9	135.8	1.7%	17.4	28.6	46.0
Construction	84.5	868.5	953.0	11.9%	26.0	216.5	242.5
Development of building projects	62.9	297.8	360.7	4.5%	19.6	103.0	122.5
Trade	76.5	717.4	793.8	9.9%	7.0	261.0	268.0
Transport and communication	37.9	189.8	227.7	2.8%	5.6	39.9	45.5
Hotels and restaurants	5.7	296.2	301.9	3.8%	10.6	55.6	66.2
Financial and insurance services	41.4	226.9	268.3	3.3%	21.2	76.7	97.9
Holding companies	16.7	180.8	197.5	2.5%	2.1	66.9	69.0
Real estate and housing	143.7	805.6	949.3	11.8%	2.8	216.7	219.5
Services	72.9	207.5	280.5	3.5%	9.3	51.1	60.4
Public administration	53.6	7.9	61.5	0.8%	1.1	5.0	6.1
Education, Health and Art	18.1	125.5	143.6	1.8%	1.2	32.7	33.9
Private households	181.4	2,299.9	2,481.3	30.9%	2.5	545.7	548.1
Other	8.6	54.8	63.4	0.8%	–44.3	18.4	–22.5
Total	**871.1**	**7,149.1**	**8,020.2**	**100.0%**	**71.0**	**2,043.0**	**2,117.4**

Table 25: Art. 442 (g) (ii) (iii) CRR: Credit Risk – general and specific credit risk adjustments and charges (additions – releases) by industry groups

Group of countries

in EUR million	EAD Past due (equal or more than 1 day)	EAD Past due (% of total)	EAD Impaired	EAD Impaired (% of total)
Core market - Austria	3,559.4	29.4%	2,601.4	22.9%
Core market - Croatia	1,914.2	15.8%	1,587.8	14.0%
Core market - Czech Republic	834.5	6.9%	1,136.9	10.0%
Core market - Hungary	1,476.6	12.2%	1,442.9	12.7%
Core market - Romania	2,433.1	20.1%	2,693.8	23.7%
Core market - Serbia	121.9	1.0%	178.1	1.6%
Core market - Slovakia	947.6	7.8%	653.5	5.7%
Emerging markets - Asia	1.4	0.0%	1.0	0.0%
Emerging markets - Latin America	0.4	0.0%	4.5	0.0%
Emerging markets - Middle East/Africa	1.5	0.0%	13.1	0.1%
Emerging markets - SE Europe/CIS	201.5	1.7%	334.5	2.9%
Other EU countries	549.1	4.5%	654.5	5.8%
Other industrialised countries	74.4	0.6%	77.7	0.7%
Total	**12,115.6**	**100.0%**	**11,379.8**	**100.0%**

Table 26: Art. 442 (h) CRR (1/2): Credit Risk – EAD by country groups (based on country of risk) for past due and impaired exposures

Group of countries

in EUR million	Credit risk adjustments General	Credit risk adjustments Specific	Total credit risk adjustments	Credit risk adjustments (% of total)
Core market - Austria	169.8	1,775.0	1,944.8	24.2%
Core market - Croatia	186.0	936.6	1,122.6	14.0%
Core market - Czech Republic	121.3	628.3	749.6	9.3%
Core market - Hungary	51.8	725.7	777.5	9.7%
Core market - Romania	158.8	1,982.8	2,141.5	26.7%
Core market - Serbia	18.0	107.7	125.7	1.6%
Core market - Slovakia	96.6	306.8	403.4	5.0%
Emerging markets - Asia	0.8	0.6	1.4	0.0%
Emerging markets - Latin America	0.3	0.2	0.5	0.0%
Emerging markets - Middle East/Africa	1.2	1.3	2.5	0.0%
Emerging markets - SE Europe/CIS	26.3	232.7	259.0	3.2%
Other EU countries	38.4	397.0	435.4	5.4%
Other industrialised countries	1.8	54.4	56.2	0.7%
Total	**871.1**	**7,149.1**	**8,020.2**	**100.0%**

Table 27: Art. 442 (h) CRR (2/2): Credit Risk – general and specific credit risk adjustments by country groups (based on country of risk)

Specific credit risk adjustments for impaired exposures developed as follows in the reporting period:

in EUR million	Credit risk adjustments as of 1.1.	release	allocation	write-off by use	revaluation	transferred	Credit risk adjustments as of 31.12.
Specific	7,544.8	1,625.0	3,668.0	2,153.0	–337.0	51.3	7,149.1

Table 28: Art. 442 (i) CRR: Credit Risk – development of specific credit risk adjustments for impaired exposures

The following direct write-offs and recoveries on written-off loans and advances were directly recognised in the income statement:

in EUR million	Direct write-offs	Recoveries
Total	**227.5**	**200.5**

Table 29: Art. 442 (i) CRR (2/2): Credit Risk - direct write-offs and recoveries recorded directly to the income statement

8 Use of ECAIs

8.1 Scope of application and use of external ratings

DISCLOSURE REQUIREMENTS COVERED: ART. 444 (a) (b) (d) CRR
With respect to Art. 444 (c) CRR a nil report is made, as Erste Group does not apply any ratings to issuers or issues for items that are not part of the trading book.

According to Article 4 (98) CRR, external credit assessment institution (ECAI) means a credit rating agency that is registered or certified in accordance with Regulation (EC) No 1060/2009.

Erste Group generally uses the IRB Approach for determining the minimum capital requirements according to Basel 3. The Standardised Approach is applied to intangible assets for business areas and business units as well as when the rollout plan specifies a later date for transition to the IRB Approach. Furthermore, specific legal regulations for certain business segments may trigger the application of the Standardised Approach (e.g. zero weighting for Austrian municipalities).

External ratings are used to a limited extent in some exposure classes to calculate the RWAs in the Standardised Approach. If an external rating of the counterparty is available, the RW has to be determined according to Option 2. Otherwise the RW has to be determined according to Option 1.

The following external ratings are used:

OECD COUNTRY RISK RATINGS

The country risk ratings according to the Organisation for Economic Cooperation and Development (OECD) apply to the following exposure classes:
- Central governments and central banks
- Institutions where Option 1 for exposures to institutions applies to the Group member's home country (home country government risk-weight-based method pursuant to Article 121 (1) CRR). In such cases, the ratings are assigned depending on the creditworthiness level of the home country of the counterparty (institution).

STANDARD & POOR'S RATINGS

The external ratings published by the Standard & Poor's (S&P) rating agency are used by the Erste Group Holding as well as the Austrian subsidiaries for the sub-portfolio of insurance companies of the corporates exposure class, and for part of Banks' portfolio. Furthermore, the external S&P ratings of securities issuers are used for determining the eligibility of the financial collateral (bonds from the securities portfolio split) and the calculation of the adjustment for volatility pursuant to Article 224 (1) CRR. If an issuer of a security is at the same time a borrower whose exposure is subject to the Standardised Approach and a rating is available from both S&P's and the OECD, the worse of the two ratings is used.

Allocation of external ratings to credit quality steps and risk weights
The allocation of the ratings to credit quality steps is as follows:

Standard & Poor's	OECD Country Risk Ratings	Credit Quality Step
AAA to AA-	0 to 1	1
A+ to A-	2	2
BBB+ to BBB-	3	3
BB+ to BB-	4 to 5	4
B+ to B-	6	5
CCC+ and below	7	6

Table 30: Art. 444 (d) CRR (1/2): Allocation of the external ratings to credit quality steps

The RW allocation depending on the credit quality step and the exposure class is as follows:

Credit Quality Step	Central governments and central banks	Institutions (Option 1)	Institutions (Option 2) long-term	Institutions (Option 2) short-term	Corporates
1	0%	20%	20%	20%	20%
2	20%	50%	50%	20%	50%
3	50%	100%	50%	20%	100%
4	100%	100%	100%	50%	100%
5	100%	100%	100%	50%	150%
6	150%	150%	150%	150%	150%

Table 31: Art. 444 (d) CRR (2/2): Allocation of the external ratings to credit quality steps and risk weights

8.2 Quantitative disclosure on credit risk – Standardised Approach

DISCLOSURE REQUIREMENTS COVERED: ART. 444 (e) CRR

The exposures in the Standardised Approach are presented below by exposure values and exposure values after credit risk mitigation (CRM) per riskweight band for all exposure classes as well as those deducted from own funds.

Standardised Approach - exposure classes

in EUR million	Riskweight band	EAD	EAD after CRM	Collateral (% of EAD)	EAD (% of total)
Central governments or central banks	01	36,604.5	36,479.1	0.3%	52.7%
	02	147.1	147.1	0.0%	0.2%
	03	4.5	4.5	0.0%	0.0%
	04	374.8	374.8	0.0%	0.5%
	05	441.3	441.3	0.0%	0.6%
	06	0.0	0.0	0.0%	0.0%
	07	0.0	0.0	0.0%	0.0%
	08	0.0	0.0	0.0%	0.0%
Total		**37,572.1**	**37,446.8**	**0.3%**	**54.1%**
Regional governments or local authorities	01	4,605.1	4,604.7	0.0%	6.6%
	02	1,272.4	1,272.4	0.0%	1.8%
	03	1.0	1.0	0.0%	0.0%
	04	220.2	219.9	0.1%	0.3%
	05	5.1	5.1	0.0%	0.0%
	06	0.0	0.0	0.0%	0.0%
	07	0.0	0.0	0.0%	0.0%
	08	0.0	0.0	0.0%	0.0%
Total		**6,103.6**	**6,103.0**	**0.0%**	**8.8%**
Public sector entities	01	27.4	22.3	18.4%	0.0%
	02	973.7	972.3	0.1%	1.4%
	03	1.0	1.0	0.0%	0.0%
	04	75.1	75.0	0.1%	0.1%
	05	0.0	0.0	0.0%	0.0%
	06	0.0	0.0	0.0%	0.0%
	07	0.0	0.0	0.0%	0.0%
	08	0.0	0.0	0.0%	0.0%
Total		**1,077.1**	**1,070.6**	**0.6%**	**1.6%**
Multilateral Development Banks	01	641.7	641.7	0.0%	0.9%
	02	0.0	0.0	0.0%	0.0%
	03	0.0	0.0	0.0%	0.0%
	04	0.0	0.0	0.0%	0.0%
	05	0.0	0.0	0.0%	0.0%
	06	0.0	0.0	0.0%	0.0%
	07	0.0	0.0	0.0%	0.0%
	08	0.0	0.0	0.0%	0.0%
Total		**641.7**	**641.7**	**0.0%**	**0.9%**

Table continued on the next page.

Continuation of the table:

in EUR million	Riskweight band	EAD	EAD after CRM	Collateral (% of EAD)	EAD (% of total)
International Organisations	01	440.3	440.3	0.0%	0.6%
	02	0.0	0.0	0.0%	0.0%
	03	0.0	0.0	0.0%	0.0%
	04	0.0	0.0	0.0%	0.0%
	05	0.0	0.0	0.0%	0.0%
	06	0.0	0.0	0.0%	0.0%
	07	0.0	0.0	0.0%	0.0%
	08	0.0	0.0	0.0%	0.0%
Total		**440.3**	**440.3**	**0.0%**	**0.6%**
Institutions	01	1,151.2	1,151.1	0.0%	1.7%
	02	384.8	383.8	0.3%	0.6%
	03	15.5	15.5	0.2%	0.0%
	04	270.3	265.3	1.9%	0.4%
	05	0.8	0.8	0.0%	0.0%
	06	0.0	0.0	0.0%	0.0%
	07	0.0	0.0	0.0%	0.0%
	08	0.0	0.0	0.0%	0.0%
Total		**1,822.7**	**1,816.5**	**0.3%**	**2.6%**
Corporates	01	1,076.1	795.8	26.0%	1.5%
	02	408.0	42.7	89.5%	0.6%
	03	1,035.7	720.5	30.4%	1.5%
	04	5,757.5	5,449.3	5.4%	8.3%
	05	88.4	58.4	33.9%	0.1%
	06	0.0	0.0	0.0%	0.0%
	07	0.0	0.0	0.0%	0.0%
	08	0.0	0.0	0.0%	0.0%
Total		**8,365.7**	**7,066.7**	**15.5%**	**12.0%**
Retail	01	40.7	21.8	46.4%	0.1%
	02	558.2	270.6	51.5%	0.8%
	03	2,942.3	2,675.4	9.1%	4.2%
	04	227.1	209.1	7.9%	0.3%
	05	38.8	23.0	40.6%	0.1%
	06	0.0	0.0	0.0%	0.0%
	07	0.0	0.0	0.0%	0.0%
	08	0.0	0.0	0.0%	0.0%
Total		**3,807.0**	**3,200.0**	**15.9%**	**5.5%**
Exposures secured by mortgages on immovable property	01	0.7	0.0	100.0%	0.0%
	02	1,646.4	0.9	99.9%	2.4%
	03	44.4	7.8	82.4%	0.1%
	04	884.2	866.9	1.9%	1.3%
	05	0.0	0.0	0.0%	0.0%
	06	0.0	0.0	0.0%	0.0%
	07	0.0	0.0	0.0%	0.0%
	08	0.0	0.0	0.0%	0.0%
Total		**2,575.6**	**875.6**	**66.0%**	**3.7%**
Exposures in default	01	314.1	309.9	1.3%	0.5%
	02	11.0	3.8	65.3%	0.0%
	03	48.5	41.0	15.6%	0.1%
	04	2,504.4	2,344.1	6.4%	3.6%
	05	402.4	398.8	0.9%	0.6%
	06	0.0	0.0	0.0%	0.0%
	07	0.0	0.0	0.0%	0.0%
	08	0.0	0.0	0.0%	0.0%
Total		**3,280.4**	**3,097.5**	**5.6%**	**4.7%**

Table continued on the next page.

Continuation of the table:

in EUR million	Riskweight band	EAD	EAD after CRM	Collateral (% of EAD)	EAD (% of total)
Covered bonds	01	0.0	0.0	0.0%	0.0%
	02	0.0	0.0	0.0%	0.0%
	03	0.0	0.0	0.0%	0.0%
	04	15.0	15.0	0.0%	0.0%
	05	0.0	0.0	0.0%	0.0%
	06	0.0	0.0	0.0%	0.0%
	07	0.0	0.0	0.0%	0.0%
	08	0.0	0.0	0.0%	0.0%
Total		**15.0**	**15.0**	**0.0%**	**0.0%**
Securitisations	01	0.0	0.0	0.0%	0.0%
	02	0.0	0.0	0.0%	0.0%
	03	0.0	0.0	0.0%	0.0%
	04	0.0	0.0	0.0%	0.0%
	05	0.0	0.0	0.0%	0.0%
	06	0.0	0.0	0.0%	0.0%
	07	0.0	0.0	0.0%	0.0%
	08	0.0	0.0	0.0%	0.0%
Total		**0.0**	**0.0**	**0.0%**	**0.0%**
Exposures to institutions and corporates with a short-term credit assessment	01	0.0	0.0	0.0%	0.0%
	02	0.0	0.0	0.0%	0.0%
	03	0.0	0.0	0.0%	0.0%
	04	0.0	0.0	0.0%	0.0%
	05	0.0	0.0	0.0%	0.0%
	06	0.0	0.0	0.0%	0.0%
	07	0.0	0.0	0.0%	0.0%
	08	0.0	0.0	0.0%	0.0%
Total		**0.0**	**0.0**	**0.0%**	**0.0%**
Exposures in the form of units or shares in collective investment undertaking (CIUs)	01	1.3	1.3	0.0%	0.0%
	02	2.8	2.8	0.0%	0.0%
	03	0.0	0.0	0.0%	0.0%
	04	0.0	0.0	0.0%	0.0%
	05	0.0	0.0	0.0%	0.0%
	06	0.0	0.0	0.0%	0.0%
	07	0.0	0.0	0.0%	0.0%
	08	0.0	0.0	0.0%	0.0%
Total		**4.1**	**4.1**	**0.0%**	**0.0%**
Equity exposures	01	0.1	0.1	0.0%	0.0%
	02	0.0	0.0	0.0%	0.0%
	03	0.0	0.0	0.0%	0.0%
	04	795.6	795.6	0.0%	1.1%
	05	203.6	203.6	0.0%	0.3%
	06	0.0	0.0	0.0%	0.0%
	07	0.0	0.0	0.0%	0.0%
	08	0.0	0.0	0.0%	0.0%
Total		**999.3**	**999.3**	**0.0%**	**1.4%**

Table continued on the next page.

Continuation of the table:

in EUR million	Riskweight band	EAD	EAD after CRM	Collateral (% of EAD)	EAD (% of total)
Other items	01	811.5	811.3	0.0%	1.2%
	02	13.6	13.6	0.0%	0.0%
	03	567.1	566.4	0.1%	0.8%
	04	1,281.7	1,272.6	0.7%	1.8%
	05	4.4	4.4	0.0%	0.0%
	06	0.0	0.0	0.0%	0.0%
	07	0.0	0.0	0.0%	0.0%
	08	0.0	0.0	0.0%	0.0%
Total		**2,678.3**	**2,668.3**	**0.4%**	**3.9%**
Standardised Approach Total		**69,441.7**	**65,502.4**	**5.7%**	**100.0%**
exposures deducted from own funds		770.7			

Table 32: Art. 444 (e) CRR: Exposures in the Standardised Approach – EAD and EAD after CRM (EAD net of eligible collateral) by exposure classes and risk weight bands as well as exposures deducted from own funds

9 Use of the IRB Approach to Credit Risk

9.1 Approved approaches and transitional rules by the regulator

DISCLOSURE REQUIREMENTS COVERED: ART. 452 (a) CRR

Erste Group was authorised by the Austrian Financial Market Authority (FMA) and Oesterreichische Nationalbank (Austrian central bank) to calculate risk-weighted exposure amounts for credit risk using the IRB Approach as of 1 January 2007.

The following segments fall under the Foundation IRB Approach:
- Institutions
- Sovereigns (Austrian regional and local authorities remain under the Permanent Partial Use clause)
- Corporates
- Specialised Lending - Slotting Criteria approach

The following segment falls under the Advanced IRB Approach:
- Retail

For the equity portfolio, the grandfathering option is applied to all investments made until 31 December 2007. For equity exposures entered into after 31 December 2007, the PD/LGD approach is applied. Equity exposures without a valid rating grade are treated under the simple risk weight method.

Erste Group, as the higher-level credit institution, and the lower-level institutions of Erste Group uniformly apply the IRB Approach pursuant to Article 143 CRR.

The authorisation by the supervisory authority FMA was issued for an indefinite period of time.

IRB OFFICIAL NOTICES AND IRB ROLL-OUT PLAN

IRB official notice for single banking entities and at consolidated level in Austria
Of the savings banks in the cross-guarantee system and the domestic operating subsidiaries of Erste Group, the following entities were audited locally by the FMA/OeNB and received approval to apply the IRB Approach indefinitely effective as of 1 January 2007 or later:

IRB approval with application starting from 1 January 2007 applies to
- Allgemeine Sparkasse Oberösterreich Bank AG
- Dornbirner Sparkasse Bank AG
- Kärntner Sparkasse AG
- Sparkasse Imst AG
- Sparkasse Niederösterreich Mitte West AG
- Steiermärkische Bank und Sparkassen AG
- Tiroler Sparkasse Bank AG Innsbruck
- Bausparkasse der oesterreichischen Sparkassen AG
- Sparkasse Baden
- Sparkasse Bregenz Bank AG
- Sparkasse Herzogenburg-Neulengbach
- Lienzer Sparkasse AG
- Salzburger Sparkasse Bank AG
- Sparkasse Bludenz Bank AG
- Sparkasse der Stadt Feldkirch
- Sparkasse Korneuburg AG
- Sparkasse Frankenmarkt AG
- Sparkasse Hainburg-Bruck-Neusiedl AG
- Sparkasse Kremstal-Pyhrn AG
- Sparkasse Horn-Ravelsbach-Kirchberg AG
- Waldviertler Sparkasse Bank AG
- Sparkasse der Gemeinde Egg
- Sparkasse der Stadt Amstetten AG

_ Sparkasse Eferding-Peuerbach-Waizenkirchen
_ Sparkasse Feldkirchen/ Kärnten
_ Sparkasse Lambach Bank AG
_ Sparkasse Langenlois
_ Sparkasse Mühlviertel-West Bank AG
_ Sparkasse Mürzzuschlag AG
_ Sparkasse Neuhofen Bank AG
_ Sparkasse Neunkirchen
_ Sparkasse Pöllau AG
_ Sparkasse Pottenstein N.Ö.
_ Sparkasse Poysdorf AG
_ Sparkasse Pregarten – Unterweißenbach AG
_ Sparkasse Rattenberg Bank AG
_ Sparkasse Scheibbs AG
_ Sparkasse Voitsberg-Köflach Bank AG
_ Wiener Neustädter Sparkasse
_ Bankhaus Krentschker & Co. AG

IRB approval with application later on applies to

_ Sparkasse Salzkammergut AG (IRB Official Notice 30 June 2008)
_ Erste Bank der oesterreichischen Sparkassen AG (IRB Official Notice 26 Aug. 2008 after the split-off from Erste Group)
_ Sparkasse Ried im Innkreis-Haag am Hausruck (IRB Official Notice 20 July 2009)
_ s Wohnbaubank AG (IRB Official Notice 1 May 2010)

The following savings banks were granted an individual IRB Official Notice prior to joining the cross-guarantee system that was supplemented when they joined the cross-guarantee system:
_ Sparkasse Schwaz AG (IRB Official Notice 28 Jun. 2007 / 29 Sept. 2008)
_ Sparkasse Reutte AG (IRB Official Notice 18 Apr. 2007 / 22 Sept. 2008)
_ Sparkasse der Stadt Kitzbühel (IRB Official Notice 18 Apr. 2007 / 22 Sept. 2008)
_ Sparkasse Mittersill Bank AG (IRB Official Notice 18 Apr. 2007 / 22 Sept. 2008)
_ Sparkasse Kufstein, Tiroler Sparkasse von 1877 (IRB Official Notice 18 Apr. 2007 / 1 Oct. 2009)

IRB official notice for single banking entities and at consolidated level for institutions abroad

The following foreign banks have been audited by the local supervisory authorities on behalf of the FMA and have been granted an indefinite approval to apply the IRB Approach as of 1 January 2007 or later:
_ Česká spořitelna, a.s. (IRB Official Notice 1 Jan. 2007)
_ Stavebni sporitelna Ceske sporitelny a.s. (IRB Official Notice 1 Jan. 2007)
_ Erste Bank Hungary Zrt (IRB Official Notice 28 Mar. 2008)
_ Slovenská sporiteľňa, a.s. (IRB Official Notice 29 Jul. 2008)
_ Erste & Steiermärkische bank d.d., Rijeka (IRB Official Notice for the consolidated level 31 Jul. 2009 and single-entity level 7 Oct. 2011)

IRB official notice only at consolidated level

The following banks have been audited by the OeNB or by local supervisory authorities on behalf of the FMA and were granted approval to apply the IRB Approach at the consolidated level indefinitely:
_ EBV Leasing Gesellschaft m.b.H & Co.KG (IRB Official Notice 1 Jan. 2007)
_ EGI AG (IRB Official Notice 1 Jan. 2007)

IRB application planned

The following members of the credit institutions Group will be gradually implemented in the application of the IRB Approach, for which, a specific rollout plan is in progress:
_ Banca Comerciala Romana SA
_ Waldviertler Sparkasse Bank AG (only Business area Czech Market)
_ ERSTE BANK AD NOVI SAD

At present, the application of the IRB Approach is not planned for any of the other fully consolidated credit institutions.

PERMANENT PARTIAL USE

Based on the approval of the FMA, Permanent Partial Use is applicable to the following exposure classes and in the following cases:

- Exposures with respect to the mandatory liquidity reserve with the central institution;
- Exposures with insignificant risk profiles in minor business areas and exposure classes of insignificant volume;
- Exposures in the exposure classes of the federal government, the federal states, municipalities and public sector entities;
- Exposures regarding claims of a credit institution vis-à-vis its parent company, its subsidiaries or a subsidiary of its parent company;
- Investments within the scope of government programmes of the member states to promote specific economic sectors;
- Exposures in the form of mandatory minimum reserves;
- Liabilities and back-to-back guarantees of central governments and
- Investments in companies if the exposures to these companies are assigned a weighting of 0% under the credit risk Standardised Approach.

9.2 Rating systems

DISCLOSURE REQUIREMENTS COVERED: ART. 452 (b) (i) CRR

A rating system comprises all models, methods, processes, controls, data collection and data processing processes that serve the assessment of credit risks, the allocation of exposures to rating grades and the quantification of default probabilities for certain types of exposures.

The rating systems used by Erste Group meet the requirements for the application of the IRB Approach.

RATING MODELS

The internal rating models and the estimates of the risk parameters play a key role in credit risk management, in the decision-making processes and in lending operations. Furthermore, they deliver the main determinants for the procedures to assess the capital requirement. Erste Group uses empirical-statistical and expert-based model types. A periodical validation assures the quality of the rating models and risk parameters.

Empirical-statistical models
Empirical-statistical models of risk assessment require a large data base and are especially suitable for mass business.

Based on sufficiently large empirical data bases (data of a large population from the customer base of the bank), scorecards are developed using logistic regression techniques. The key criterion used for selecting the best scorecard is the accuracy ratio. The accuracy ratio indicates the ability of the scorecard to differentiate between customers with low and high default risk. The result of the scorecard is presented as a rating grade, which is associated with a probability of default estimate.

The key element in rating models applied to retail portfolios is assessment of account behaviour, which is updated on a monthly basis. This enables continuous risk monitoring of customer portfolios in the retail banking business. Furthermore, the rating models also include customer information that is updated at least once a year but in any case when a credit application is made (in the event of a credit decision).

The rating results (rating grades) are verifiable and objective, i.e. if the input information is the same they supply the same rating grade regardless of the individual assessment by the account manager.

Empirical-statistic models are used not only in the retail business, but also in the corporate segment. In the case of corporates, the emphasis is on statistically developed financial ratings (valuation of financial statements ratios). Apart from the financial rating (hard facts), qualitative customer information (soft facts) also enters into the risk evaluation of corporate customers, which is updated at least once a year.

Expert-based model
For expert-based models, the empirical-statistical component is not as important – due to the lack of a sufficiently large population of customers in the respective customer segments or a sufficient number of defaulted customers – and is replaced by expert know-how, which takes into account quantitative criteria (e.g. financial statements), qualitative criteria (e.g. market and industry development), but also macro-economic factors (e.g. country rating).

By helping to assess the specific debtor- and business-specific features, this expert knowledge makes an important contribution to the rating models for the following customer segments: specialised lending, banks (for which the rating model is currently being amended with an empirical-statistical financial rating) and sovereigns.

These rating models ensure a sound assessment of the debtor- and business-specific features, risk differentiation as well as precise and consistent quantitative risk estimates.

RATING METHODS

DISCLOSURE REQUIREMENTS COVERED: ART. 452 (c) CRR

An overview of the exposure classes of the IRB Approach and the applicable rating methods is given in the table below:

Rating method	Rating of private individuals	Rating SME	Rating Corporates	Rating SL	Bank rating	Country rating	External ratings (ECAIs)
	Statistical model			Expert model			
Exposure class							
Retail	•	•					
Corporate incl. SME, SL and purchased corporate receivables		•	•	•	•		
Institutions					•		
Central government and central banks						•	
Equity			•	•	•		
Securitisations							•
Other assets							

Table 33: Art. 452 (c) (i) CRR: Map of rating methods

The rating methods Bank Rating and Country Rating are used as centralised methods throughout Erste Group without any regional modifications. The rating grades are determined by Erste Group centrally and made available to the Group companies.

The other rating methods (Rating Private Individuals, Rating SME, Rating Corporates and Rating Specialised Lending) follow uniform modelling guidelines and where possible model structures and feature regional adaptations appropriate to the respective portfolios in the individual Group companies of Erste Group. As of 2011, the models are being developed at competence centres in order to achieve higher quality, efficiency and consistency by pooling modelling expertise.

Rating of private individuals

Classification

Customers are classified as private individuals by their occupational status. They are assigned to the rating method Rating Private Individuals in the customer database.

Development

The rating method Rating Private Individuals was developed by experts at Erste Group as an empirical-statistical model. The variants used at the various subsidiaries were developed on the basis of the local customer database, making it possible to take the local specifics into account. The rating method is applied in case of applications for a financing decision (e.g. new loan applications) and automatically within the monthly update of customer ratings.

Rating determinants

The rating model assigns scores based on demographic information, account data (e.g. debit balances and days in overdraft), product attributes as well as “external data” (e.g. information supplied by Kreditschutzverband, an Austrian creditor protection association, or other credit reference agencies). The assessment of account behaviour is performed monthly and provides an essential input for timely risk assessment. Analyses done in the case of applications take into account not only the input factors for the rating, but also the current customer information on their income and expenditure.

Outputs of the rating process

Based on a scorecard, every private individual is assigned a rating grade on a rating scale of 8 grades. The customers with rating grade A1 have the lowest and customers with rating grade D2 have the highest PD. The customer rating serves as basis for the calculation of capital requirements and is an indicator for the credit decision and the lending terms.

Private individual ratings derived from the analysis of the loan application, which includes all loans granted and applied for is an integral part of the decision recommendation. Rating grades of customers are updated at the monthly reappraisal of account behaviour.

The monthly processing of customer and account data is also the basis for the early warning system. The early warning list supplies account managers with valuable information on current risk assessments and also contains private individuals of substandard creditworthiness because of specific customer or account features. Such customers may include, for example, those with regular overdrafts or customers that have been sent reminders.

Rating SME

Classification

The rating method Rating SME (incl. small commercial customers and free professionals) is applied to SMEs with sales revenues of up to EUR 5 mn as well as to free professionals.

Development

The SME rating procedure was developed at Erste Group. Statistically-derived rating models are used at all subsidiaries.

In principle, the PD for SME customers and free professionals must be determined before and after financing. This Basel requirement is complied with by means of an online rating initiated manually for determining the current rating grade and the rating in the case of a loan application (rating by type of financing).

In addition to the online rating, there is also a monthly batch rating in which the current rating grade is determined based on behaviour. This automatically updates the rating grade (based on an evaluation of behaviour and any available external information).

Rating determinants

According to differences in income patterns, the method is broken down into three sub-groups: customers using double-entry accounting, customers using single-entry accounting and customers using flat-rate accounting. Depending on these accounting types, the following six rating determinants apply:

Double-entry accounting

From the analysis of financial statements, condensed information is extracted (financial rating) that can be adjusted by entering any corrections relevant to financial strength (such as hidden reserves or liabilities).

Single-entry accounting

A financial rating is also calculated based on the statement of income and expenses.

Asset and liability status

The asset and liability position may be considered in the financial rating for customers that use single-entry accounting. For customers using flat-rate accounting, it is used to calculate a debt ratio, which in turn is considered in the overall rating.

Qualitative factors

Qualitative factors make it possible to take into account input factors that cannot be derived directly from financial statements. Examples are management, accounting practices, market and its trends, and external information (credit bureau notifications).

Account behaviour

Particular attention is paid to account behaviour, which is automatically assessed and updated on a monthly basis. The evaluation considers and scores, for example, the incidence of payment difficulties, account balances and the extent to which available credit and overdraft facilities are used.

Creditworthiness based on cash flow considerations

Finally, the ability to service debts is evaluated. To this end, disposable income derived from the business documentation and from revenue and expenditure accounting is compared to current liabilities.

Outputs of the rating process

A specific rating grade from a scale of 13 grades is assigned to every SME or professional customer. This customer rating serves as the basis for determining the required regulatory capital, as an indicator for the credit decision and as a factor in credit terms.

Rating Corporates

Classification

Corporates, i.e. commercial customers with sales revenues above specified thresholds, are rated by the "Rating Corporates" method. Within the corporate segment a further size differentiation exists: corporate customers that use financial ratings (information from the evaluated financial statements). In addition, some locally specific corporate rating methods exist adapted to the nature of certain portfolio segments.

Development

Rating Corporates was developed at Erste Group. Statistically-derived rating models are used at all subsidiaries.

Rating determinants

The assignment of ratings for corporates is done systematically both with respect to information on past developments as well as future prospects, with special attention being paid to the relevant customer segment (e.g. whether the customers' business is capital goods intensive) and the characteristics of the relevant markets (e.g. divergent accounting rules in Eastern European countries).

Rating Corporates is a two-stage process:

Individual customer rating

The cornerstone is the evaluation of the company's financials. Based on ratios from the financial statements, a so-called "financial rating" (hard facts) is calculated. This financial rating also takes into account local factors based on the country where the company has its registered office. Another component for rating corporates are qualitative factors (soft facts). Unlike the hard facts that enter into the financial rating, these soft facts also include projections into the future. A company's potential, opportunities and risks are determined and evaluated according to a standardised procedure as well as documented.

Group rating

In a second step, the company is considered within the context of a group of companies that form an economic unit. A separate customer rating is produced for the Group as a whole. On the one hand, the capacity and the willingness to provide support are analysed which may have a positive influence on the individual customer rating. On the other, the Group's rating is the cap for the rating of the individual customer. Rating caps also result from country ratings.

Outputs of the rating process

Based on the score, every corporate is assigned a rating grade on a scale of 13 grades. The customer rating serves as the basis for determining the regulatory capital requirement, as an indicator for the credit decision and as a factor in the credit terms and conditions.

Rating specialised lending

Classification

The Corporates customer category includes the specialised lending customer segment. These are mainly real estate projects (e.g. rental, tourism and for-sale properties) and other project financing (e.g. power plants, infrastructure).

Rating determinants

Both the hard facts (financial ratios) and the soft facts differ substantially from the rating for general corporates. The indicators include the loan to value and the debt service coverage ratio, features of the object financed (e.g. location quality) and project risks.

Outputs of the rating process

The model output is mapped to the regulatory risk categories in the Supervisory Slotting Approach within the IRB Approach. These categories are the basis for the calculation of the capital requirement.

Bank rating

Classification

The Bank Rating method is used to evaluate foreign and domestic banks, investment banks as well as financial institutions belonging to banking groups.

Development
The expert-based Bank Rating model was developed and is supported centrally by Erste Group.

A credit institution or financial institution is to be assigned a rating grade if
- A bank overdraft limit is granted;
- there is an exposure vis-à-vis the Group;
- Erste Group has a (nostro) account with the institution or
- the institution has a (loro) account with Erste Group with overdraft privileges.

Rating determinants
The central component of the bank rating is a peer group comparison on the basis of quantitative, qualitative and country-related criteria. The institution to be analysed is compared with a group of banks of similar size, business activities, geographic location, ownership structure, etc.

The following quantitative data for the institution to be rated is automatically compared by the rating model to the data for the peer group and evaluated:
- Profitability (e.g. return on equity)
- Liquidity (e.g. deposit base)
- Asset quality (e.g. ratio of non-performing loans to gross loans)
- Capitalisation (e.g. capital ratio).

The following qualitative criteria are evaluated by the expert analyst:
- Likelihood of support (e.g. by the owner or the state)
- Importance of the institution for the country's financial system
- Quality of banking supervision
- Experience to date
- Future potential.

To recognize transfer risk, the country rating of the home country of the company is also considered in the rating. The model automatically assigns scores depending on the country's rating.

Outputs of the rating process
Based on the score achieved in the rating model, every customer from the Bank rating segment is assigned a rating grade on a scale of 13 grades. The exposure class determined is the basis for the calculation of the limit for the maximum exposure that the bank is prepared to enter into with a given customer. The rating grade must be stated in every limit and credit application. After approval of the rating, the rating grade is made available to all member institutions of Erste Group.

Country rating
Classification
The rating method Country Rating is at the same time a rating for the sovereign and covers central governments, central banks and institutions guaranteed by the central government.

Development
The expert-based country rating model was developed in 1992/1993, adapted after the Asian crisis (1997/1998) and implemented in 2001 and subsequently adjusted as a consequence of the financial crisis 2008/2009. External ratings do not enter into the model as input factors.

The rating reflects the risk of a default in foreign currency and thus primarily represents the transfer risk (risk arising from cross-border transactions). The country ratings are determined centrally with binding effect by Erste Group for Erste Group (generally quarterly, at least once a year) and are made available to the Group entities.

Rating determinants
Two groups of countries are distinguished: industrialised nations and emerging markets. The reason for the distinction is that foreign debt and debt service play an important role in emerging markets, but are of minor importance as indicators in established industrialised countries. For industrialised countries, the Maastricht criteria are used as indicators to help determine creditworthiness.

The emerging markets model contains 18 indicators. Of these, 12 are quantitative and 6 qualitative indicators. Eight further quantitative indicators are indirectly incorporated via the qualitative variables. The data comes from the research organisation, Economist Intelligence Unit. The qualitative indicators have a weighting of about 40%.

Outputs of the rating process

Based on the score achieved in the rating model, every customer from the Country Rating segment is assigned a rating grade on a scale of 13 grades. The country rating assigned is a key factor for determining the limits for countries and their sovereign institutions. Usually, the country rating serves as cap for the assessment of the companies located there ("sovereign ceiling"); exceptions exist, for example, when sovereign powers are transferred to higher-ranking supranational organisations (e.g. "Euroland").

External ratings (ECAIS)

External ratings are used for securitisations only.

RELATION BETWEEN INTERNAL AND EXTERNAL RATINGS

DISCLOSURE REQUIREMENTS COVERED: ART. 452 (b) (i) CRR

All IRB rating models currently in use at Erste Group are internally-developed models. External ratings are not used directly for internal ratings and are used as input factors only in the Corporates model. For the segment "Large Corporates", the valuation of the soft fact "capacity for raising external capital" takes external ratings into consideration, if available.
Therefore, external ratings hardly play a role in the internally-developed rating models and do not influence the rating grades that result from the model.

RATING PROCESS

Assignment of customers to an internal rating method

Clients are assigned a rating method according to the Basel customer class (i.e. portfolio) to which they have been classified. The criteria for the selection of the rating method include factors such as occupational status, type of determination of income (i.e. whether the client uses flat-rate, single-entry or double-entry accounting), and the company's legal form and its size as expressed by operating output.

For the Equity asset class, no special rating methods are used. The same rating methods are used for equity positions as for customers in the exposure classes Corporates and Institutions.

Rating by the selected method

Decentralised methods

Under the decentralised methods – Rating Private Individuals, Rating SME, Rating Corporates, and Rating SL – the input data needed for the rating is entered into the IT system by the account manager or the risk manager or is inferred from historical data on payment and account behaviour. The result is a computer-assisted rating grade.

Centralised methods

The centralised approaches are the rating methods Bank Rating and Country Rating. The input data is captured by central specialised departments; the process results in an internal rating grade.

Rating confirmation by risk management

As a key principle, the rating determined based on any of these methods must be confirmed by Risk Management (back office). The only exceptions are certain assets in the retail portfolio, unless the automation-assisted rating result or decision recommendation is manually overridden.

CONTROL MECHANISMS FOR RATING SYSTEMS

DISCLOSURE REQUIREMENTS COVERED: ART. 452 (b) (iv) CRR

Initial validation

Every new IRB model developed must be reviewed prior to use by the Independent Group Validation department. Compliance with development standards and the quality of the results are assessed based on documented validation standards.

The final decision on a model's use is taken by the HMC that Erste Group has set up as a steering and control body at Erste Group for the model development and validation process and which reports to Group Risk Executive Committee.

Validation

The rating systems are regularly validated and reviewed by Group Validation by means of a standardised validation process carried out annually. The validation comprises the following methods:

- _ Review of the documentation of the rating method
- _ Review of the basic assumptions underlying the models (representativeness)
- _ Testing of the data quality
- _ Testing of the correlations and the multi-collinearity structure
- _ Benchmarking based on external ratings
- _ Testing of the discriminatory power of the rating method
- _ Testing of the discriminatory power of the rating method in sub-portfolios
- _ Testing of the coefficients of the risk variables
- _ Review of the distribution of rating grades
- _ Testing of migration matrices
- _ Testing of calibration
- _ Analysis of manually overruling of model results.

The validation methods comprise qualitative methods (data quality, model design, overruling) and quantitative methods (discriminatory power, stability, calibration) with the results being presented on the basis of objective assessment criteria. If the validation of a rating model reveals a weakness, appropriate actions are agreed to remediate the relevant rating models, for example further analysis, re-calibration, partial or full re-development as necessary.

Apart from the rating model, the rating process is also reviewed. This review comprises a valuation of the model's coverage of the portfolio (lacking/overdue ratings) and of cross-portfolio migration (rating method switching).

In this case as well, measures are developed and implemented to resolve any defects.

Review of the rating systems in use by exposure segment

The rating method to be used is determined depending on customer classification:

- _ Retail
- _ Corporates
- _ Banks
- _ Sovereigns

Every customer is assigned a certain rating method. This allocation process is highly automated to keep the percentage of manual work as low as possible. It includes a number of checks executed by the IT system, e.g. the permanent monitoring of the criteria occupational status, operating output, legal form and industry code, which are needed for the automated allocation of rating methods to customers.

The checks conducted by the system for plausibility and correct completion of the data entry fields inform the user of any errors by sending a warning or error message. Ensuring data quality is done by special periodical evaluations. The main responsibility for the correct application of the rating methods and correct data entry lies ultimately with the local level, from the account managers to the persons responsible in the operative risk management department.

Work instructions covering the rating process, the use of rating methods, the allocation of customers to customer classes and of rating methods to customers as well as guidelines on financing, delegation authorities and overruling govern the use of the rating systems.

DEFINITIONS, METHODS, AND DATA FOR THE ESTIMATION AND VALIDATION OF THE RISK PARAMETERS

DISCLOSURE REQUIREMENTS COVERED: ART. 452 FOR THE PURPOSE OF POINT (c) CRR

Probability of default

The PD represents the probability that a given customer will default within the subsequent twelve months (one-year PD). The PD is estimated internally for the portfolios Retail, Corporates, Banks and Sovereigns.

The one-year PD is estimated per rating grade by a method developed by Lando and Skødeberg (Lando Method). The Lando Method permits the determination of default and migration probability matrices for any desired period. An advantage of this method is that it also covers indirect defaults. This means that even a very good rating grade in which no customers defaulted historically can have a PD greater than zero when applying this method.

Additionally, when estimating PD, a safety margin or margin of conservatism is added for each portfolio in order to ensure a conservative estimate as per IRB Approach standards.

The validation of the PDs employs both qualitative and quantitative methods:
- _ Audit of the documentation
- _ Audit of the underlying model assumptions
- _ Testing of the data quality
- _ Analysis of the time series
- _ Backtesting

In the quantitative validation the estimated PDs are validated using the binomial test (backtesting). This involves comparing actual default rates with estimated probabilities of default. Qualitative methods comprise population distribution tests, time-series analysis of default rates and analysis of raw data.

Both the qualitative and quantitative validation is performed annually by Group Validation in line with the rating models. Where appropriate, improvement measures are initiated depending on the results. The same also applies to the risk parameters LGD and CCF described further below.

The table below shows the estimated PDs per rating method compared to actual default rates (backtesting). The figures are derived from the number-weighted average across all Group member banks which apply the IRB Approach, for each time period given. For the rating method Country Rating, all countries rated by Erste Group are used for the PD estimate and the default rate calculation because of the small number of countries involved, while otherwise only customers with exposure were considered as relevant. From a group-wide perspective, the PD estimates turned out to be higher than the actual default rates.

Rating method	Time period	Average PD estimates	Average default rates
Country rating	01/1994 – 12/2013	1.9%	1.1%
Bank rating	04/2001 – 12/2013	0.5%	0.2%
Rating Corporates	01/2006 – 12/2013	3.7%	3.0%
Rating SME	01/2006 – 12/2013	4.1%	3.0%
Rating of private individuals	01/2006 – 12/2013	3.4%	2.6%

Table 34: Backtesting PD

Loss given default

The LGD is currently estimated at Erste Group internally only for the Retail portfolio for Pillar 1 purposes.

The LGD is defined as the expected economic loss after recoveries (from collateral and other repayments) as a percentage of EAD. Depending on data availability and local factors (e.g. processes, business needs) modelling is based either on a total recovery rate or on a combination of a redemption recovery rate (customer repayments) and a collateral recovery rate (proceeds of realisation of collateral).

Depending on credit exposure, LGD is calculated taking into account proportionately allocated costs and a margin of conservatism. The risk drivers are identified, homogenous segments (pools) formed and a recovery rate calculated for every segment. This rate is directly incorporated in the modelling and estimation of the LGD.

Regular validation of the LGD risk parameter is performed by Group Validation once a year, using both qualitative and quantitative methods:
- _ Audit of the documentation
- _ Audit of the underlying model assumptions
- _ Testing of the data quality
- _ Analysis of the time series
- _ Backtesting

The quantitative validation (backtesting) consists primarily of the comparison of actual and expected LGDs. Qualitative methods address the assessment of compliance with all relevant rules in the models (e.g., investigation of documentation and data quality).

The table below shows the LGD backtesting results for defaulted customers at Group level on the long-term EAD-weighted average. All defaults over a period of observation of at least five years (the years 2009 to 2013) were considered, with the model valid as of the beginning of 2013 being used for the calculation of estimated LGD. Segmentation was done by (retail) customer class. .

The estimated LGDs were higher than the observed value for both retail customers and SMEs:

Asset class	Average LGD estimates	Average annual observed LGD
Private individuals	32.9%	26.7%
SME	26.5%	22.7%

Table 35: Backtesting LGD

CREDIT CONVERSION FACTOR

The CCF is estimated internally only in the Retail portfolio for Pillar 1 purposes.

It is defined as the expected drawdown of off-balance sheet, non-derivative positions within twelve months on the condition that the customer defaults within this period. EAD represents current drawings plus the off-balance sheet non-derivative positions (that is, the available undrawn credit), multiplied by the CCF.

The CCF is estimated in a two-stage process:
In the first step, empirical conversion rates are determined based on the loss data collected on defaulted customers. The conversion rate represents the relationship between the net credit increase from the reference date to the default date, on the one hand, and the available undrawn credit at the reference date on the other hand. The reference date is the date one year before default.

The second step consists of the identification of risk drivers and, based on this, the segmentation and the estimation of the CCF for each homogeneous segment.

The estimates of CCFs are calculated by segment as the respective mean of all conversion rates per given segment over the entire period, plus a margin of conservatism allowance for estimation error. The amount of error is determined based on a bootstrapping method.

Regular validation of the CCF risk parameter is performed by Group Validation once a year, using both qualitative and quantitative methods:

_ Audit of the documentation
_ Audit of the underlying model assumptions
_ Segmentation
_ Outlier rules
_ Use test
_ Approval of limits
_ Testing of the data quality
_ Analysis of the time series
_ Benchmarking

Quantitative methods consist primarily of the comparison of actual and expected CCFs. Qualitative methods are large population distribution tests, such as analysis of raw data and time series analysis of defaults, of conversion rates and of exposure at the reference date.

The following table presents the results of backtesting at the Group level. This procedure is analogous to LGD, with the difference being that the weighting was done with the off-balance volume (unused commitment) to ensure a useful aggregate.

Asset class	Average CCF estimates	Average observed CCF
Private individuals	73.1%	70.0%
SME	63.8%	57.8%

Table 36: Backtesting CCF

9.3 Use of internal estimates for purposes other than for calculating risk-weighted exposure amounts

DISCLOSURE REQUIREMENTS COVERED: ART. 452 (b) (ii) CRR

Having qualified for the IRB Approach under Basel, Erste Group has internal risk parameters which, aside from the calculation of regulatory capital requirements, are also employed for the purposes of loan loss provision calculation and standard risk costs (SRC).

LOAN LOSS PROVISION CALCULATION

In general, internally-assessed risk parameters are applied mainly to the recognition of portfolio loan loss provisions when incurred loss concept according to IAS 39 (in case of on-balance sheet exposures) or expected loss concept according to IAS 37 (in case of off-balance sheet exposures) is applied.

Generally, risk parameters used in the calculation of collective allowances may be different to the Basel 3 Pillar 1 or Pillar 2 risk parameters if the properties of the respective portfolio in combination with accounting rules necessitate this.

STANDARDISED RISK COSTS

SRC are used in Erste Group as a component of risk-adjusted pricing. SRC at the time of origination (internally called “expected risk margin”) represent, in absolute terms, the sum of revenues that the bank should obtain over the lifetime (or till next re-pricing date) of a given production to cover losses generated by this production.

Based on SRC, the bank is able to estimate losses until remaining maturity or until the next re-pricing date.

In case of SRC, IRB parameters are not used in calculation directly, mainly in case of PD, due to:
- a different granularity of segmentation required for SRC
- PD until maturity (or until next re-pricing date) being required in comparison with one year IRB PDs used in the RWAs calculation.

STRESS TESTING

Stress testing is a vital component of the risk management framework at Erste Group and is incorporated into the strategic planning process for business activities, capital and liquidity assessments. The assessment of the ability of the bank to sustain losses in severe but plausible macroeconomic scenarios provides information on the adequacy of the overall business model, and supports the planning of emergency and mitigation measures.

Stress testing for credit risk is done at Erste Group for all portfolios including the portfolios under the Standardised Approach. Especially with respect to the IRB portfolio, the internal risk parameters are used for stress tests by simulating the values of these parameters under stress conditions. Erste Group models sensitivities for the individual parameters (e.g. PD or LGD) and also complex crisis testing scenarios based on simulations.

Simulations are calculated for the individual exposures by applying shifts in the current values of the rating grade and of the PD, LGD and CCF parameters in the IRB portfolio in order to compute the effects on RWA, expected loss, non-performing loans and risk costs. The results are used to define the impact on the income statement and overall capital position.

Stress testing results and recommendations are incorporated into the RAS setting process, subsequent financial projections and budgeting process, assessment of risk concentrations, as well into the calculation of risk-bearing capacity and the determination of the economic capital risk adequacy limit.

9.4 Quantitative disclosure on credit risk – IRB Approach

DISCLOSURE REQUIREMENTS COVERED: ART. 452 (d) (e) (f) (g) (j) CRR IN CONJUNCTION WITH ART. 447 (c) CRR

The EAD of the IRB portfolio (including supervisory slotting) broken down by exposure classes is shown in the table below:

IRB Approach - exposure classes

in EUR million	EAD	EAD (% of total)
Central governments and central banks	3,195.1	2.2%
Institutions	14,228.8	9.9%
Corporates	59,703.0	41.4%
Specialised Lending	13,551.2	9.4%
Retail	61,278.0	42.5%
SME	11,490.4	8.0%
Secured by immovable property collateral	30,643.2	21.3%
Revolving	771.5	0.5%
Other retail	18,372.9	12.7%
Equity	529.7	0.4%
Securitisation positions	1,030.6	0.7%
Other non-credit obligation assets	4,236.7	2.9%
IRB Approach Total	**144,202.1**	**100.0%**

Table 37: Art. 452 (d) CRR: IRB Approach (incl. supervisory slotting) – EAD by exposure classes

As regards to exposures in the IRB Approach, a breakdown is given below of the exposure classes of central governments and central banks, institutions, corporates, retail and equity by PD classes, exposure, outstanding loans, undrawn commitments, EAD and EAD-weighted average RWs. For the exposure class retail – which is the only exposure class for which LGD estimates are made – an additional presentation is given by EAD-weighted average LGD.

IRB Approach – Central governments and central banks

in EUR million	PD class	Exposure	Outstanding loans	Undrawn commitments	EAD	RW (EAD weighted %)	EAD (% of total)
Central governments and central banks	01	2,128.5	225.2	0.0	2,128.5	4.2%	66.6%
	02	1,015.6	666.9	0.0	1,015.6	30.5%	31.8%
	03	44.0	10.0	0.0	23.1	48.2%	0.7%
	04	0.0	0.0	0.0	0.0	44.8%	0.0%
	05	8.9	0.3	0.1	8.9	105.4%	0.3%
	06	13.5	6.2	0.0	13.5	130.2%	0.4%
	07	0.0	0.0	0.0	0.0	100.0%	0.0%
	08	2.1	1.8	0.0	2.1	19.5%	0.1%
	09	0.2	0.0	0.0	0.2	228.4%	0.0%
	10	3.2	3.0	0.0	3.2	0.0%	0.1%
Total		**3,216.0**	**913.4**	**0.1**	**3,195.1**	**13.7%**	**100.0%**

Table 38: Art. 452 (e) CRR (1/4): IRB Approach – Exposure class: Central Governments and Central Banks by PD classes

IRB Approach – Institutions

in EUR million	PD class	Exposure	Outstanding loans	Undrawn commitments	EAD	RW (EAD weighted %)	EAD (% total)
Institutions	01	796.5	0.0	100.9	716.9	16.0%	5.0%
	02	8,017.7	0.0	762.6	7,911.4	17.4%	55.6%
	03	4,650.5	0.0	153.2	4,541.1	32.7%	31.9%
	04	810.0	0.0	25.3	756.9	62.3%	5.3%
	05	110.9	0.0	1.7	107.9	103.6%	0.8%
	06	18.7	0.0	0.2	18.6	122.0%	0.1%
	07	148.4	0.0	1.3	147.9	125.4%	1.0%
	08	9.7	0.0	0.0	8.3	58.0%	0.1%
	09	4.7	0.0	0.0	3.4	151.2%	0.0%
	10	16.3	0.0	0.0	16.3	0.0%	0.1%
Total		**14,583.5**	**0.0**	**1,045.1**	**14,228.8**	**26.5%**	**100.0%**

Table 39: Art. 452 (e) CRR (2/4): IRB Approach – Exposure class: Institutions by PD classes

IRB Approach – Corporates (excl. SL)

in EUR million	PD class	Exposure	Outstanding loans	Undrawn commitments	EAD	RW (EAD weighted %)	EAD (% total)
Corporates (excl. SL)	01	3,055.6	1,293.7	1,643.3	1,738.4	15.0%	3.8%
	02	6,814.9	4,914.4	1,307.0	6,370.4	21.6%	13.8%
	03	5,357.7	3,305.2	1,403.7	4,863.6	46.7%	10.5%
	04	12,737.4	7,677.4	2,723.6	11,206.5	62.6%	24.3%
	05	11,971.1	7,113.8	1,654.9	9,496.5	84.5%	20.6%
	06	3,721.4	2,911.0	471.8	3,440.0	101.7%	7.5%
	07	3,093.0	2,434.7	326.6	2,867.4	124.4%	6.2%
	08	1,773.1	1,429.5	134.9	1,673.5	140.9%	3.6%
	09	1,715.7	1,457.3	135.6	1,629.2	208.1%	3.5%
	10	2,937.8	2,732.9	110.7	2,866.3	0.0%	6.2%
Total		**53,177.7**	**35,269.8**	**9,912.0**	**46,151.8**	**68.8%**	**100.0%**

Table 40: Art. 452 (e) CRR (3/4): IRB Approach – Exposure class: Corporates (excluding SL) by PD classes

IRB Approach – Retail

in EUR million	Exposure classes	PD class	Exposure	Outstanding loans	Unused commitments	EAD	LGD (EAD weighted %)	RW (EAD weighted %)	EAD (% of total)
Retail	SME	01	0.0	0.0	0.0	0.0	22.1%	4.4%	0.0%
		02	93.2	76.5	10.5	90.0	19.5%	5.1%	0.1%
		03	1,860.0	1,238.1	384.8	1,666.2	23.7%	10.3%	2.7%
		04	1,766.6	1,489.1	175.0	1,681.8	22.0%	16.2%	2.7%
		05	2,203.2	1,878.0	207.3	2,102.1	23.8%	29.4%	3.4%
		06	2,541.3	2,064.2	323.3	2,226.1	27.0%	43.7%	3.6%
		07	964.1	881.4	54.5	934.7	26.8%	59.2%	1.5%
		08	1,353.2	1,185.5	92.4	1,295.9	24.1%	59.5%	2.1%
		09	678.6	643.0	15.3	667.3	23.8%	92.6%	1.1%
		10	830.8	816.2	4.6	826.2	28.0%	19.4%	1.3%
	Total		**12,290.8**	**10,272.0**	**1,267.6**	**11,490.4**	**24.7%**	**36.0%**	**18.8%**
	Secured by immovable property collateral	01	101.4	101.3	0.1	101.4	36.2%	4.0%	0.2%
		02	2,721.2	2,702.1	16.8	2,718.3	12.6%	2.1%	4.4%
		03	6,108.7	6,063.7	37.6	6,105.9	20.8%	8.6%	10.0%
		04	11,412.3	10,944.7	454.9	10,997.7	14.8%	11.1%	17.9%
		05	4,742.9	4,699.8	36.0	4,741.4	20.8%	32.0%	7.7%
		06	456.2	453.7	2.4	456.2	30.8%	67.4%	0.7%
		07	1,931.5	1,913.7	16.6	1,931.1	19.7%	58.0%	3.2%
		08	947.1	944.0	2.9	946.9	18.1%	77.6%	1.5%
		09	1,009.9	1,008.4	0.9	1,009.7	23.7%	132.4%	1.6%
		10	1,634.9	1,631.2	0.6	1,634.7	34.9%	37.3%	2.7%
	Total		**31,066.0**	**30,462.7**	**568.7**	**30,643.2**	**18.8%**	**24.3%**	**50.0%**
	Revolving	01	0.0	0.0	0.0	0.0	0.0%	0.0%	0.0%
		02	0.0	0.0	0.0	0.0	0.0%	0.0%	0.0%
		03	100.7	12.7	88.0	42.9	75.2%	7.4%	0.1%
		04	531.8	210.7	321.1	396.7	54.8%	10.1%	0.6%
		05	192.6	151.9	40.7	154.7	54.1%	27.0%	0.3%
		06	15.8	10.0	5.7	12.1	76.0%	50.5%	0.0%
		07	104.6	90.8	13.9	92.6	54.4%	61.2%	0.2%
		08	30.0	27.2	2.7	27.3	56.1%	102.3%	0.0%
		09	39.6	37.1	2.5	36.8	57.7%	159.8%	0.1%
		10	9.3	7.8	1.1	8.3	62.9%	68.2%	0.0%
	Total		**1,024.4**	**548.2**	**475.8**	**771.5**	**56.4%**	**31.1%**	**1.3%**
	Other retail	01	66.9	36.3	30.2	43.9	41.0%	4.9%	0.1%
		02	2,591.4	1,000.6	223.3	2,361.8	39.8%	6.6%	3.9%
		03	3,971.2	3,001.7	246.6	3,795.0	40.1%	15.9%	6.2%
		04	6,365.4	4,620.8	543.4	5,044.6	33.1%	23.2%	8.2%
		05	3,321.5	3,054.5	177.7	3,276.4	40.7%	49.5%	5.3%
		06	189.9	162.3	26.7	187.5	51.3%	74.4%	0.3%
		07	1,547.3	1,463.7	58.3	1,534.7	44.1%	69.5%	2.5%
		08	524.7	501.2	16.3	520.5	43.7%	74.9%	0.8%
		09	676.2	639.4	11.9	672.5	45.0%	107.3%	1.1%
		10	937.0	924.4	2.8	936.0	46.2%	29.2%	1.5%
	Total		**20,191.5**	**15,405.0**	**1,337.2**	**18,372.9**	**39.3%**	**33.5%**	**30.0%**
Total			**64,572.7**	**56,687.9**	**3,649.3**	**61,278.0**	**26.5%**	**29.3%**	**100.0%**

Table 41: Art. 452 (f) CRR: IRB Approach – Exposure class: Retail by exposure classes and PD classes

IRB Approach – Equity

in EUR million	PD class	EAD	RW (EAD weighted %)	EAD (% total)
Equity	01	0.0	225.0%	0.0%
	02	29.2	208.9%	5.5%
	03	0.0	252.9%	0.0%
	04	42.0	216.0%	7.9%
	05	437.1	269.0%	82.5%
	06	0.1	341.3%	0.0%
	07	3.5	379.0%	0.7%
	08	1.7	479.0%	0.3%
	09	15.9	288.9%	3.0%
	10	0.3	0.0%	0.1%
Total		**529.7**	**263.3%**	**100.0%**

Table 42: Art. 452 (e) CRR (4/4): IRB Approach – Exposure class: Equity by PD classes

IRB Approach – Group of countries

	Retail		Non-Retail	
EAD weighted %	LGD	RW	LGD	RW
Core market - Austria	22.4%	20.4%	32.4%	64.3%
Core market - Croatia	37.9%	45.6%	31.1%	66.7%
Core market - Czech Republic	33.3%	40.1%	32.7%	67.9%
Core market - Hungary	41.0%	73.9%	21.8%	86.2%
Core market - Romania	30.5%	53.0%	17.4%	94.5%
Core market - Serbia	35.6%	56.9%	45.1%	29.0%
Core market - Slovakia	29.3%	34.6%	26.9%	58.4%
Emerging markets - Asia	23.6%	39.4%	44.9%	51.2%
Emerging markets - Latin America	18.7%	20.1%	35.5%	76.5%
Emerging markets - Middle East/Africa	19.7%	20.0%	45.1%	78.6%
Emerging markets - SE Europe/CIS	33.0%	83.2%	34.1%	91.6%
Other EU countries	19.8%	25.0%	26.4%	44.4%
Other industrialised countries	21.7%	21.6%	34.5%	60.3%
Total	**26.5%**	**29.3%**	**30.9%**	**61.7%**

Table 43: Art. 452 (j) CRR: IRB Approach – Retail and non-retail by country groups (based on country of risk)

SL exposures for which the Supervisory Slotting Approach is used pursuant to Article 170 (2) CRR have the following exposure amounts by remaining time to maturity in the different regulatory categories (supervisory slots):

Maturity band

in EUR million	Supervisory slot	EAD	EAD (% of total)
Below 2.5 years	Category 1	1,073.7	7.9%
	Category 2	1,243.7	9.2%
	Category 3	623.0	4.6%
	Category 4	194.4	1.4%
	Category 5 – Default	1,143.6	8.4%
Below 2.5 years		**4,278.3**	**31.6%**
2.5 years and longer	Category 1	3,427.7	25.3%
	Category 2	3,091.0	22.8%
	Category 3	1,092.2	8.1%
	Category 4	826.8	6.1%
	Category 5 – Default	835.3	6.2%
2.5 years and longer		**9,272.9**	**68.4%**
Total		**13,551.2**	**100.0%**

Table 44: Art. 452 (d) CRR: Portfolio in the Supervisory Slotting Approach – Exposure by residual maturity bands and supervisory slots

Exposure amounts for equity exposures, calculated according to the simple risk weight method pursuant to Article 155 (2) CRR, are broken down for the categories specified as follows:

Equity

in EUR million	Portfolios under the Simple Risk Weight Approach	EAD	EAD (% of total)
	Private equity exposures in sufficiently diversified portfolios	0.0	0.0%
	Exchange traded equity exposures	53.6	24.6%
	Other equity exposures	164.2	75.4%
Total		**217.8**	**100.0%**

Table 45: Art. 447 (c) CRR: Exposure class Equity under the simple risk weight approach – Exposure amounts by different portfolios

The following table shows the actual specific credit risk adjustments by exposure classes during the reporting period:

in EUR million	Specific credit risk adjustments 1.1.	Specific credit risk adjustments 31.12.	Change (%)	Specific credit risk adjustments (% of total)
Sovereigns	4.6	7.6	65.4%	0.1%
Institutions	36.3	22.3	–38.4%	0.3%
Corporates	4,360.3	4,134.3	–5.2%	57.8%
Retail	3,143.6	2,984.9	–5.0%	41.8%
Total	**7,544.8**	**7,149.1**	**–5.2%**	**100.0%**

Table 46: Art. 452 (g) CRR: Specific credit risk adjustments and changes in specific credit risk adjustments by main exposure classes

As shown in the table above, the overall specific credit risk adjustments decreased by 5.2% and were chiefly accounted for reductions in the retail and corporate portfolio.

The decrease of specific credit risk adjustments in the corporate portfolio was explained by NPL portfolio sales and write-offs in Banca Comerciala Romana together with positive economic developments in Austria, Slovakia and the Czech Republic. This downward development, which went hand in hand with the NPL reduction following the Asset Quality Review conducted by the ECB, offset the increased credit risk adjustments on Ukrainian assets as a result of the economic downturn and political instability.

Concerning the retail portfolio, the decrease in specific credit risk adjustments was dominated mainly by the NPL stock decrease in Hungary and Romania as the NPL clean-up progressed. In Erste Bank Hungary more than 1,500 non-performing mortgages loans were transferred to the National Asset Management Company, closing associated exposures and reducing the amount of credit risk adjustments. The progress made in the NPL clean-up was also the main driver in the reduction of credit risk adjustments in Romania.

10 Credit Risk Mitigation Techniques

10.1 Management and recognition of credit risk mitigation

DISCLOSURE REQUIREMENTS COVERED: ART. 452 (b) (iii)

Collateral Management has been set up as a staff unit within the business area Group Corporate Workout. The Collateral Management Policy defines, among other things, group-wide uniform valuation standards for credit collateral. This ensures that the requirements of CRM are met as well as the standardisation of the credit risk decision-making process with respect to the assets recognised as collateral.

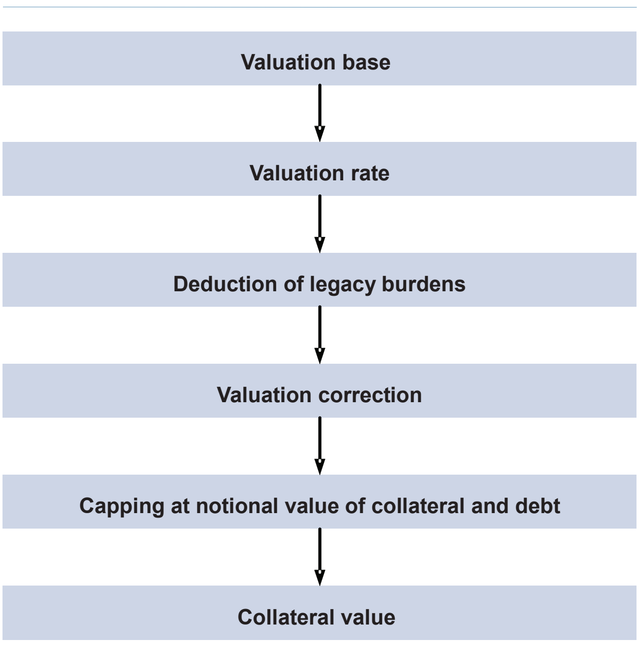
All collateral eligible within the Group is specified in an exhaustive list in the Group Collateral Catalogue. Locally-permitted collateral is defined by the respective bank in accordance with the applicable national legal provisions. The valuation and revaluation of the collateral is done in accordance with the principles defined in the Group catalogue and internal work instructions grouped by class and based on individual supervisory requirements. Whether or not a class of collateral or a specific collateral asset is admitted for CRM is decided by Group Collateral Management after determining whether the applicable regulatory capital requirements are met. Adherence to the standard work processes stipulated for assigning the eligible collateral to the categories available is monitored by Group Operational Risk Control.

10.2 Collateral valuation and netting

COLLATERAL VALUATION AND MANAGEMENT

DISCLOSURE REQUIREMENTS COVERED: ART. 453 (b) (c) CRR

The valuation of collateral is performed according to the following process:



Collateral valuation is based on current market prices with an amount that can be recovered within a reasonable period being taken into account. The valuation processes are defined and technically implemented by authorised staff using the appropriate software applications. The methods and discounts used for valuations are based on empirical data representing the past experience of the workout departments and on the results of the data collected on the proceeds from the realisation of collateral. The valuation methods are backtested regularly – at least once a year – to current recovery proceeds. Financial collateral assets are recognised at market value and are subject to the Simple Risk Weight Approach

Collateral revaluation is done periodically and is automated as far as possible. The relevant interfaces are used for external data sources. The maximum periods for the revaluation of individual collateral are predefined and risk management monitors compliance supported by software applications. Irrespective of the periodically conducted revaluations, revaluations must also be carried out when information becomes available indicating that the value of the collateral has decreased for special reasons.

The following types of collateral are accepted:

- Real estate: this includes both residential and commercial real estate
- Financial collateral: these are mainly securities and cash deposits as well as life insurance policies
- Guarantees: guarantees are given mostly by states, banks and companies. All guarantees must have a minimum credit rating which is reviewed annually

Other types of collateral such as physical collateral or the assignment of receivables are less frequent.

Only independent appraisers not involved in the lending decision process are permitted to conduct real estate valuations; the valuation methods to be applied are defined. For quality assurance purposes, the real estate valuations are validated on an ongoing basis and real estate appraisers who do not work according to standard are eliminated from future valuations as a consequence. The decision on who can be used as an appraiser and which valuation procedures are to be applied is taken exclusively by Credit Risk Management.

The regular monitoring of the value of real estate assets is automated based on publicly available indices provided these are recognised by the national supervisory authority. For real estate located in Austria, a software application has been developed that performs annual automatic adjustments based on the value determined by an appraiser for both private and commercial real estate. Similar procedures are also used for residential real estate located in Romania, Slovakia, Hungary and the Czech Republic.

POLICIES AND PROCESSES FOR NETTING

DISCLOSURE REQUIREMENTS COVERED: ART. 453 (a) CRR

Netting is currently not used for risk mitigation in the customer lending business. The consideration of netting agreements for the over-the-counter (OTC) derivative business is described in chapter 11.1.

10.3 Main types of guarantors and credit derivative counterparties

DISCLOSURE REQUIREMENTS COVERED: ART. 453 (d) CRR

Credit derivatives business is being conducted only with credit institutions of sufficient credit quality based in Austria or abroad, and only within a limit that is based on the counterparty´s credit rating. Furthermore, the transactions are executed with credit institutions with rating in the investment grade range assigned by recognised rating agencies.

10.4 Risk concentrations within credit risk mitigation

DISCLOSURE REQUIREMENTS COVERED: ART. 453 (e) CRR

Risk concentrations resulting from CRM techniques are understood to be the risk of a detrimental correlation of risks that may arise from the use of these techniques. This may affect a single customer, but also a portfolio defined by region, industry or type of collateral. Erste Group is a retail bank and due to its customer structure and the different markets in which it does business, it does not have any concentrations with respect to collateral.

10.5 Quantitative disclosure on credit risk mitigation

DISCLOSURE REQUIREMENTS COVERED: ART. 453 (f) (g) CRR

The EAD of each exposure class is secured by the following collateral values split up by type of collateral:

By rating approach

in EUR million	Main exposure classes	Guarantees	Mortgage collateral	Financial and other collateral
Standardised	Sovereigns	168.4	5.9	0.1
	Institutions	2,287.6	0.6	6.2
	Corporate	2,015.2	733.8	311.2
	Retail	622.9	2,363.9	71.4
Total Standardised		**5,094.2**	**3,104.2**	**388.9**
IRB	Sovereigns	102.0	20.1	37.7
	Institutions	106.2	0.0	3,645.7
	Corporate	1,577.3	11,226.1	1,453.1
	Retail	223.6	26,186.2	3,207.5
Total IRB		**2,009.1**	**37,432.5**	**8,344.0**
Total		**7,103.4**	**40,536.7**	**8,732.9**

Table 47: Art. 453 (f) (g) CRR: Collateral values by type of collateral

11 Counterparty Credit Risk

11.1 Goals and principles of risk management

DISCLOSURE REQUIREMENTS COVERED: ART. 435 (1) (a) (b) (c) (d) CRR

Counterparty default risk for OTC derivatives and securities financing transactions (securities transactions and securities lending) consists of current replacement costs in the case of default of the counterparty (i.e. the positive market value taking into account netting agreements) as well as of potential replacement costs that may result from future changes in market values due to a change in the underlying market risk factors (e.g. interest rates, currencies, equity or commodity prices).

Counterparty default risks are monitored and controlled at transaction level as well as at portfolio level. Erste Group has a group-wide real-time limit monitoring system to which the companies of the Group are connected online, especially the units with trading activities. The availability of unused limits must be checked before a transaction is executed.

ORGANISATION

Credit risks from derivatives, repurchase agreements and securities lending transactions are fully integrated into the general credit risk management system. A requirement for entering into derivatives transactions is the compliance with the credit process for which the same standards as regards to classification, limits and monitoring apply as for conventional credit transactions. Counterparty default risks are measured and monitored on a daily basis by an independent risk management unit in Group Credit and Market Risk Management. Counterparty default risk is taken into consideration in the credit risk reporting.

RISK MEASUREMENT AND CONTROL

For the internal measurement of credit risk arising from derivatives, repurchase transactions and securities lending transactions, the current market values (replacement values) and potential fluctuations of the replacement values (Potential Future Exposure) due to changes in the underlying market risk factors until maturity are taken into account.

The calculation of the potential future exposure is done using standard methods as well as Monte Carlo simulation methods. The simulation method is used especially for interest rate and currency derivatives. These derivatives account for the larger part of the portfolio.

For repurchase agreements and derivatives that are not included in the simulation method, a standard method is used. This method takes into account the current market value and an add-on for potential changes to the EAD in the future. The add-on values are based on internal estimates (derived from historic changes) depending on the product, maturity and underlying risk factors.

For the calculation of current and potential credit risks, netting procedures are taken into account only if they can be legally enforced (depending on business partner and jurisdiction). The legal enforcement of netting agreements is examined based on legal expert opinions.

The amounts receivable are limited by own limits as well as within the scope of the limits of the overall credit risk exposure of the respective counterparty, groups of counterparties and countries. Additionally, the settlement risk is limited by adequate limits.

RISK HEDGING

An important basis for the reduction of counterparty risk is entering into framework agreements (international framework agreements for derivatives of the International Swap and Derivatives Association (ISDA), Austrian or German framework agreements, framework agreements for securities lending transactions and repurchase deals) with the respective business partners. Based on these agreements, in the case of a credit default it is possible to net all amounts due or payable for each individual transaction under a framework agreement, the outcome being that only the net receivables vis-à-vis the business partner are of relevance for credit risk.

Furthermore, collateral agreements (e.g. ISDA; Credit Support Annex) are also used for reducing the credit risk from derivatives. Within the scope of these collateral agreements, the portfolio with the respective counterparty is revalued periodically, usually daily, and in the case of insufficient coverage, additional collateral is requested.

11.2 Internal capital allocation and definition of credit limits for counterparty credit exposures

DISCLOSURE REQUIREMENTS COVERED: ART. 439 (a) CRR

Counterparty risk is assessed as part of the centralised calculation of RWAs and treated as a component of credit risk in the RCC. In part, portfolios subject to the Standardised Approach are replaced by IRB parameters in order to gain an economic perspective. RWAs are scaled to the confidence level of 99.95% in the RCC. Counterparty risk is incorporated into the Group RCC, which is reported quarterly to the management board. It forms one of the vital components of the risk limit, which is approved by the management board.

A credit limit for counterparties at individual customer level is requested and approved by the appropriate credit processing channels. Individual customer limits are regularly monitored and tracked in the reporting system.

A further limit is constituted by the maximum lending limit based on the group of associated customers which is defined in the RAS and also periodically reviewed and reported on.

11.3 Securing of collateral and establishing of reserves

DISCLOSURE REQUIREMENTS COVERED: ART. 439 (b) CRR

On the basis of bilateral contracts (securities repurchase transactions, securities lending, ISDA netting agreements, credit support annexes, etc.), Erste Group has the ability to apply risk mitigating measures (netting, taking of security).

Erste Group incurs credit risk only when the net market value is positive (replacement risk). As this risk depends mainly on fluctuations in the market risk parameters (exchange rates, interest rate movements, share prices, credit spreads), open transactions must regularly be revalued and the collateral adjusted.

Acceptable collateral is usually cash-denominated in certain defined major currencies (generally EUR, USD) and securities of top-rated issuers (government bonds of several European countries and the US or issues of Austrian banks backed by the Austrian government). In the case of securities used as collateral, an additional valuation discount (haircut) contingent on the residual maturity is applied.

The adjustment of the collateral to the current risk situation (mark-to-market valuation of the transactions with the respective counterparty) and the review of the current collateral value (taking into account exchange rate fluctuations for collateral in foreign currency, market value of securities) are performed at contractually agreed intervals. Valuation frequencies customary in the market are daily or weekly; Erste Group strives to ensure daily valuation.

The ability to realise collateral in the event of counterparty insolvency, and to reuse collateral (notably to re-pledge it to third parties, or to reuse it for lending or repo transactions), is ensured based on legal opinions issued on behalf of ISDA for the relevant jurisdictions of the individual counterparties.

As Erste Group accepts either cash deposits or securities with the best credit ratings issued by sovereign issuers as collateral, no further reserves are being created for exposures secured in this manner. Credit value adjustments are made for unsecured exposures from derivatives dealings contingent on the credit rating or PD of the counterparty and the maturity of the contract. For repurchase and securities lending agreements, bonds of issuers with investment grade credit ratings are accepted as collateral. As the mutual obligation to meet margin calls ensures full collateralization on an ongoing basis, no additional reserves are formed for these transactions.

11.4 Limitation on wrong-way risk

DISCLOSURE REQUIREMENTS COVERED: ART. 439 (c) CRR

Erste Group is using various scenarios and standard reports to identify wrong-way risk. Based on the results specific limits are set in order to avoid general and specific wrong-way risk (e.g. limitations for acceptable collateral for OTC and repurchase agreements, limitations on trades where specific wrong-way risk could occur).

11.5 Impact on collateralisation of a rating downgrade

DISCLOSURE REQUIREMENTS COVERED: ART. 439 (d) CRR

Contractual provisions concerning dependencies between collateralisation and the credit rating of Erste Group exist only in the context of collateral agreements under derivatives contracts. The variables affected by this in some of the collateral agreements are the exposure-independent amount of collateral (referred to as the independent amount), the amount of exposure the counterparty is willing to accept before Erste Group is required to post collateral (the threshold amount), and the minimum amount of additional collateral that may be requested (the minimum transfer amount). Based on the existing contracts, a rating downgrade of Erste Group would not have a material impact on collateral depositing requirements.

11.6 Estimation of the scaling factor (including treatment of correlation risks)

DISCLOSURE REQUIREMENTS COVERED: ART. 439 (i) CRR

As Erste Group does not apply any own estimates of the scaling factor, a nil report is made.

11.7 Quantitative disclosure on counterparty risk

DISCLOSURE REQUIREMENTS COVERED: ART. 439 (e) (f) (g) (h) CRR

The table below contains the gross positive fair value of derivative transactions broken down by product group, as well as after netting benefits and after consideration of collateral agreements.

Derivatives

in EUR million	Gross positive fair value of contracts	Netting benefits	Netted current credit exposure	Collateral held	Net derivatives credit exposure
Total	**10,193.7**	**5,458.3**	**4,735.3**	**2,477.8**	**2,257.5**

Table 48: Art. 439 (e) CRR: Fair values of derivatives

The amounts of EAD are determined by the following methods:

Calculation method

in EUR million	EAD
Market value method	4,071.2
Original risk method	70.0
Standard method	0.0
Internal model	0.0
Total	**4,141.2**

Table 49: Art. 439 (f) CRR: Distribution of derivatives risk exposure by calculation method

The table below shows the notional values of derivatives positions within Erste Group. The table groups the positions by banking book and trading book and subdivides them further into protection purchased and protection sold.
The notional value of Erste Group's hedging positions in the form of credit derivatives amounts to EUR 83.5 mn and is depicted in the column banking book/protection purchased.

	Banking book		Trading book	
in EUR million	Protection purchased	Protection sold	Protection purchased	Protection sold
Credit derivatives	**83.5**	**96.0**	**569.5**	**540.7**
Single name credit event/default swaps	83.5	96.0	552.5	513.8
Portfolio credit event/default swaps	0.0	0.0	17.0	27.0
Total return swaps	0.0	0.0	0.0	0.0
Credit spread forward	0.0	0.0	0.0	0.0
Credit spread options	0.0	0.0	0.0	0.0
Other credit derivatives	0.0	0.0	0.0	0.0

Table 50: Art. 439 (g) (h) CRR: Notional values of credit derivative transactions

12 Exposure to Securitisation Positions

12.1 Investments in securitisation positions

DISCLOSURE REQUIREMENTS COVERED: ART. 435 (1) (a) (b) (c) (d), 449 (f) CRR

In the past, securitisation deals had been concluded by Erste Group to diversify risks and returns. Credit decisions are reached on the basis of a fundamental analysis of the underlying pools, while on a regular basis a waterfall simulation of the pool is done, for which structural risks of securitisation are taken into account.
There have not been any new investments in securitisation positions since 2011. It is planned to largely phase out this portfolio or sell if market conditions allow.

The continuous monitoring of the securitisation portfolio is done by a standardised process using various impairment tests.
Changes in market risk are analysed on a monthly basis using current market prices for each of the securitisation positions. Furthermore, developments in credit spreads are analysed in the various asset classes of the securitisation portfolio and used in the regular monitoring of market liquidity.

Valuations by external rating agencies as well as a series of performance-linked indicators are used for the monthly assessment of credit risk. Additionally, annual reviews are prepared at the individual transaction level to check for impairment and measure the development of the securitisation positions. Transactions that fall below certain defined thresholds are furthermore tracked in a watch list that is regularly updated.

Erste Group holds only a very small number of resecuritisation positions in its securitisation portfolio. These are also subject to the monitoring process described above.

12.2 Securitisation activities at Erste Group

DISCLOSURE REQUIREMENTS COVERED: ART. 449 (a) (b) (c) (d) (e) (g) (h) (j) (k) (n) (o) CRR

Erste Group is not acting as a sponsor of an asset-backed commercial paper programme or other securitization scheme according to Article 4 (1) (14) CRR, hence a nil report is made pursuant to Art. 449 (i) CRR.

No implicit support according to Art. 248 (1) CRR was provided to Edelweiss 2013-1 securitisation transaction by Erste Group, hence a nil report is made pursuant to Art. 449 (r) CRR. The Internal Assessment Approach refers only to asset-backed commercial paper programmes, which is not applicable for Erste Group, hence a nil report is made pursuant to Art. 449 (l) CRR.

Securitisation transactions can improve the risk/return profile and enable growth through the following effects:
- Transfer of credit risk to the capital market
- Freeing of credit limits for customers of Erste Group
- Release of economic and regulatory capital
- Raising liquidity at attractive terms

In December 2013, Erste Group securitised a portion of the car leasing portfolio of EBV-Leasing Gesellschaft m.b.H., Vienna through the Edelweiss 2013-1 transaction with a volume of EUR 266.9 mn. There was no gain recognised for sale of leasing receivables by EBV-Leasing as they were sold at notional values.

Compartment Edelweiss 2013-1 bond of the Luxembourg SSPE Bee First Finance S.A., was structured in four tranches with AAA to BB+ ratings by Moody‘s and Fitch. The four tranches were fully placed with institutional investors thereby achieving the goal of decreasing RWAs by transferring a significant portion of credit risk to third parties.

Erste Group's Edelweiss 2013-1 securitisation transaction of Austrian car leasing receivables is structured and rated as shown in the table below:

in EUR million	Notional value	Share (%)	Rating (Moody's/Fitch)	Spread in bps
Tranche A	232.5	87.1%	Aaa/AAA	47
Tranche B	18.4	6.9%	Aa3/A	92
Tranche C	9.3	3.5%	Bbb2/BBB	200
Tranche D	6.7	2.5%	-/BB+	300
Total	**266.9**	**100.0%**		
Reserve fund	3.3	1.3%		

Table 51: Art. 449 (e) (k) CRR: Overview of Edelweiss 2013-1 securitisation tranche structure as well as external ratings

Like in the preceding transaction Edelweiss 1, the reserve fund (first-loss piece) of EUR 3,336,250 is provided by EBV-Leasing in the form of a subordinated loan to the issuer. This loan represents the first loss piece of the transaction, i.e. it covers the losses of the securitised leasing exposures after usage of excess spread up to its total amount of EUR 3,336,250. The loan has a risk-weight of 1250% and is retained on balance sheet. No hedging or unfunded protection is used to mitigate the risk of the retained first loss piece.

The average spread of the four tranches is 62bps over the 3-month Euribor. In contrast to Edelweiss 1, Edelweiss 2013-1 was structured in four instead of two tranches and a liquidity facility was added. The replenishment period is one year instead of five years for Edelweiss 1. The portfolio consists 100% of Austrian car leasing receivables that are redeemed monthly unlike the notes with quarterly payments.

The 5% originator retention required under Art. 405 CRR was met by retaining exposures with a volume of EUR 14.1 mn or 5% prior to securitisation at EBV level by random selection and on each quarterly replenishment date.

Jointly with the Royal Bank of Scotland plc, Erste Group acted as co-arranger and joint lead manager for the structuring and placement of the transaction, and is responsible for the following activities during the life: deemed collections guarantee provider, back-up servicer and swap counterparty. EBOe is collection account bank and EBV-Leasing Gesellschaft m.b.H. fulfils the functions of the seller, servicer and subordinated loan provider in the transaction.

In 2014, no securitisation transaction was executed and no assets are awaiting securitisation. Edelweiss 2013-1 remains Erste Group's only outstanding securitisation transaction as of 31 December 2014.

12.3 Quantitative disclosure on securitisation positions

SECURITISATION ACTIVITIES

DISCLOSURE REQUIREMENTS COVERED: ART. 449 (m) (n) (p) CRR
Referring to trading book securitisation positions a nil report is made pursuant to Art. 449 (q) CRR

Type of securitisation

in EUR million	Type of exposure	Exposure	Exposure (% of total)
Traditional	Car finance	242.3	100.0%
Synthetic	Car finance	0.0	0.0%
Total		**242.3**	**100.0%**

Table 52: Art. 449 (n) (i) CRR: Overview on outstanding exposures securitised as of 31 December 2014

The total amount of outstanding exposures securitised is EUR 24.6 million lower compared to prior year due to redemptions in the Edelweiss 2013-1 securitisation transaction.

Risk category

in EUR million	Type of exposure	Exposure	Exposure (% of oustanding exposures)
Impaired / past due assets	Car finance	4.4	1.8%
Losses	Car finance	1.6	0.7%

Table 53: Art. 449 (p) CRR: Amount of impaired/past due assets (leases in arrears and defaulted) securitised and losses recognised during the reporting period for Edelweiss 2013-1

EXPOSURE AMOUNTS FOR INVESTMENTS IN SECURITISATIONS

DISCLOSURE REQUIREMENTS COVERED: ART. 449 (o) CRR
With respect to Art. 449 (o) (ii) CRR a nil report is made as the securitisations held are not hedged

Investments in securitisation positions differ by type of securitisation and are broken down into the following risk weight bands:

By type of securitisation product

in EUR million		EAD	EAD (% of total)	Capital requirements
Asset Backed Securities	ABS	288.4	28.0%	17.2
Collateralised Bond Obligation	CBO	0.0	0.0%	0.0
Collateralised Loan Obligation	CLO	333.8	32.4%	4.2
Commercial Mortgage Backed Securities	CMBS	8.7	0.8%	2.3
Collateralised Mortgage Obligation	CMO	0.0	0.0%	0.0
Other Collateralised Debt Obligation	Other CDO	0.0	0.0%	0.0
Residential Mortgage Backed Securities	RMBS	92.1	8.9%	7.2
Securitisation Loan		3.3	0.3%	3.3
Resecuritisations		304.3	29.5%	12.4
Total		**1,030.6**	**100%**	**46.6**

Table 54: Art. 449 (o) (i) CRR (1/3): Exposure class securitisation positions – EAD by securitisation product and the associated capital requirements

By risk weight band

in EUR million	EAD	EAD (% of total)	Capital requirements
01	478.0	46.4%	5.1
02	372.2	36.1%	9.9
03	110.9	10.8%	5.0
04	11.8	1.1%	1.0
05	32.1	3.1%	5.8
06	4.9	0.5%	1.8
07	5.7	0.6%	3.2
08	15.0	1.5%	15.0
Total	**1,030.6**	**100.0%**	**46.6**

Table 55: Art. 449 (o) (i) CRR (2/3): Exposure class securitisation positions – EAD by risk weight bands and the associated capital requirements

By rating approach and by securitisation and re-securitisation exposures

in EUR million		EAD	EAD (% of total)
Rating approach	**Exposure type**		
IRB	Securitisation exposures	726.3	70.5%
	Resecuritisation exposures	304.3	29.5%
Standardised	Securitisation exposures	0.0	0.0%
	Resecuritisation exposures	0.0	0.0%
Total		**1,030.6**	**100.0%**

Table 56: Art. 449 (o) (i) CRR (3/3): Exposure class securitisation positions – EAD by rating approach and by securitisation and re-securitisation exposures

13 Market Risk

13.1 Goals and principles of risk management

DISCLOSURE REQUIREMENTS COVERED: ART. 435 (1) (a) (b) (c) (d) AND 445 CRR

Market risks arise due to fluctuations of interest rates, exchange rates, security prices and commodity prices. Market risks derive from short-term trading in instruments whose prices are determined daily (trading book) as well as from the traditional banking business (banking book). The measurement method for risk in the trading book is VaR.

ORGANISATION

The responsibility for market risk at Group level rests in the departments Market and Liquidity Risk Methods, Liquidity and Market Risk Steering, Market Risk Control and Infrastructure and Market and Liquidity Risk Reporting. This split allows a clear separation between market risk methods and implementation of risk models and reporting. In detail, the departments comprise the following tasks:

Market a. Liquidity Risk Methods:
_ Functional responsibility, development, inclusion of new products, parameterization of the VaR-System (KVAR+ & Calypso)
_ Calculation of capital requirement for the trading book position within the scope of the internal model
_ Group-wide calculation of all market risks on the basis of VaR
_ Further improvement and development of methodology.

Liquidity and Market Risk Steering:
_ Risk materiality assessment
_ Limits proposals to RAS and ICAAP/ILAAP
_ Measurement framework.

Market Risk Control and Infrastructure:
_ Coordination and setup of market risk limits in Erste Group
_ Reporting and limit control for all trading and sales units of GCM Division
_ Owner of the Product Approval Process Committee for GCM Products
_ Definition and maintenance of all market data used for the valuation of capital market products
_ Independent price verification
_ System ownership for all components used in the new Market Risk Solution (KVaR Replacement)
_ Market conformity check
_ Management and support function for local risk management units.

Market and Liquidity Risk Reporting:
_ Reporting for Liquidity Risk and Market Risk to senior management
_ External risk reporting for regulatory purposes and for Investor Relations
_ Defining and analysing data and process requirements
_ Contribution to Data & Reporting projects

RISK MEASUREMENT AND CONTROL

At Erste Group, VaR is calculated according to the method of historic simulation. A confidence interval of 99% and a holding period of one day apply. The software packages KVAR+ and Calypso are used for this purpose. The validity of the statistical methods used is constantly checked by backtesting.

The Holding Board sets the strategic framework for market risk management in the Group, approves risk tolerance, which is appropriate to the business strategy, and approves the Group strategy. The distribution follows a proposal of the risk management department Market Risk Control and Infrastructure, which is subject to approval of the MRC. The MRC is the ultimate decision-making body for market risk of trading book-related issues of all entities of Erste Group. Its purpose is to discuss and decide on important risk management issues related to GCM activities, in particular, to approve and implement common risk management standards, limit structures, trading strategies and the Risk Manual. The chairman of the MRC is the CRO. In addition, the CFO, the board member responsible for the Group capital market business and other managers from Risk Management and business units responsible are members of the MRC.

Limit compliance is verified at several levels by the appropriate local decentralised risk management units as well as by the department Market Risk Control and Infrastructure.

METHODS AND INSTRUMENTS OF RISK MITIGATION

The general standards of market risk controlling and management (standards, limits and analyses) are defined by Erste Group, described in the Group Principles for Managing Market Risk and are constantly reviewed and improved.
Risk measurement is guaranteed by the daily calculation of VaR for the entire Group and for each of the trading units. Additionally, sensitivity limits are in place for all asset classes. This system permits control that extends to the level of the individual trading desks and the individual traders. The limits are monitored daily. Furthermore, a consistency check between the VaR limits and the sensitivity limits is carried out on a regular basis.

Risk measurement by purely statistical methods such as VaR does not adequately take into account the consequences of crisis situations. For this reason, Erste Group supplements its VaR-based risk measurement with stress testing based on several methods (stressed Value-at-Risk (sVaR), extreme value theory, scenario analysis). These assessments help to analyse the effects of market movements of low probability; the results are made available to the management board.

MARKET RISK REPORTING

Risk reporting is divided into internal and external reporting.

Internal reporting comprises:
- Daily measurement and limit control of the market risk of all trading books on Group level (includes VaR, sensitivity and stop-loss limit reporting to management
- Monthly: detailed monthly reports including the banking book to the Management Board and Supervisory Board
- VaR overview for the Group, movements over time by risk type, banking book, hedge funds, detailed analyses of the trading book, limit utilisation
- Stress testing: sVaR, extreme value theory, standard scenarios, combination scenarios

External reporting comprises:
- Capital requirement based on the internal model
- Quarterly reports to the Austrian FMA
- Reports on exceptions in backtesting of the internal model if required

EXPOSURE TO MARKET RISK

The table below gives an overview of the capital requirements to cover market risk, broken down by risk types in the trading book as well as commodities, FX risk (incl. gold positions) and settlement risk not included in the trading book in accordance with Article 445 CRR.

Exposure to market risk

in EUR million	Capital requirements	Capital requirements (% of total)
Position risk (Standardised Approach)	132.2	51.5%
position risk with interest rate instruments	70.3	27.4%
position risk in equity instruments	38.5	15.0%
commodities risk	0.1	0.0%
foreign-exchange risk (incl. gold)	23.3	9.1%
Position risk by internal model (VaR model)	124.7	48.5%
Settlement risk	0.0	0.0%
Specific interest rate risk of securitisation positions	0.0	0.0%
Large exposures	0.0	0.0%
Total	**257.0**	**100.0%**

Table 57: Art. 445 CRR: Exposure to market risk

13.2 Market risk model

13.2.1 SCOPE OF APPLICATION AS APPROVED BY THE SUPERVISORY AUTHORITY

DISCLOSURE REQUIREMENTS COVERED: ART. 455 (b) CRR

The VaR model was approved on 3 September 2001 by the Ministry of Finance for the calculation of the capital requirements based on an IRB model pursuant to Article 26b (3) ABA and covered the business units of Treasury Vienna and Investment Banking Vienna and the branches in New York, Hong Kong and London. On 6 April 2006, the FMA expanded the approval of the model to cover the subsidiaries: Česká spořitelna, a.s., Slovenská sporiteľňa, a.s., Erste Bank Hungary Zrt, Erste Securities Polska s.a. and Erste Befektetési Zrt. A multiplication factor of 3.5 applies at present. The model considered the following risk positions:
- _ General position risk in interest-related instruments
- _ Specific and general position risk in equity instruments
- _ Commodity position risk
- _ Risk from positions in foreign currency and gold
- _ Gamma risk
- _ Vega risk

As of the end of 2011, the method for the integration of event risk of equity instruments in the internal model as well as the implementation of sVaR was approved by the Austrian FMA, and as of 1 July 2013, the use of the Calypso software for interest rate and FX derivatives.
However, the standard method is used for trading units not covered by the approval of the FMA for the internal model and for risks in positions that do not qualify for being captured by the internal model (e.g. new shares whose price history is too short or certain types of collective investment undertakings). The standard method is also applied to hedge against the specific risk of interest-linked instruments.

CHARACTERISTICS OF THE INTERNAL MODEL

DISCLOSURE REQUIREMENTS COVERED: ART. 455 (a) (i) CRR
With respect to Art. 455 (a) (ii) CRR, a nil report is made as the applied model does not cover specific position risk

The internal model uses the method of historical simulation for the VaR calculation. VaR is the greatest expected loss that will not be exceeded within a defined period with a certain probability. To calculate VaR by this method, a historical time series is needed for every market parameter that goes into the valuation of the portfolio. Subsequently, the assumption is made that past price changes are an approximation of future market behaviour.

The calculation of VaR involves three stages:

In the first step, the NPV of the positions being assessed is calculated based on the current market data (e.g. interest, volatilities).
In a second step, the changes in market data are determined for every day – within a selected historical time period. The current market data are adapted to take account of these changes and then the value of the portfolio is re-assessed. The difference between the current NPV and the new NPV based on historical change is calculated for every day of the simulation period. This produces a time series of gains and losses.
In the third step, the NPV gains and losses are analysed statistically. To this end, confidence intervals and ranks are calculated.

The computation is based on a confidence level of 99% and a holding period of one day. For VaR, the simulation period is the past two years. For the sVaR, the simulation period is only one year. For the purposes of capital requirements, the values calculated are scaled to a holding period of ten days using the square-root-of-time rule.

DESCRIPTION OF THE STRESS TESTS APPLIED

DISCLOSURE REQUIREMENTS COVERED: ART. 455 (a) (iii) CRR

Stressed value-at-risk (SVAR)
In contrast to the normal VaR calculation, the simulation does not cover the past two years, but rather a 12-month period during which there were particularly adverse market price fluctuations for the position of the bank. At present, this is the period from 1 July 2008 to 30 June 2009.

Extreme value theory
The extreme value theory is a statistical theory about the behaviour of extreme values in probability distributions. As stress tests are concerned with exactly these extreme values, the extreme value theory is particularly suitable for determining crisis-level values.

The extreme value theory uses observations in the simulated profit-and-loss time series to determine a theoretical profit-and-loss distribution of the highest losses, known as the Pareto distribution. Based on this distribution, VaR can be determined at a confidence level of 99.95%. The 99.95% level here represents a probability of one occurrence every eight years. From the hypothetical profit-and-loss results of the last two years for the trading book positions, the crisis amount under the extreme value theory is calculated at a confidence level of 99.95% and scaled to achieve a 10-day holding period.

Standard scenarios
The following standard scenarios are calculated:

- Four interest rate scenarios with a respective shift of 1, 25, 50, 100, 200 and 500 basis points upward and downward in the currencies EUR, CZK, HUF, RON, HRK, USD and CHF
- Increases and declines of 10%, 25% and 50% in the equity index
- Appreciation and depreciation of USD, CZK, HUF, RON and HRK vs. EUR by 6%, 25% and 50%
- Increases and declines in volatilities of interest rates, exchange rates and equities of 50%

Comprehensive stress tests
On the one hand, historical scenarios are used as a basis for calculations, i.e. actual historical market crises are replicated and applied to the current position. The advantage of this approach is that no assumptions need to be made about the correlations between market risk factors and that the scenarios are always realistic, since they actually happened in the past. Calculations are made for holding periods of 1, 10 and 20 workdays, which also generates information on the development of the portfolio under illiquid market conditions.

In addition, the method also relies on probabilistic scenarios in which the strongest historical fluctuations in the most relevant market risk factors are applied to the portfolio. Such scenarios can be computed with different holding periods and difference percentiles.

BACKTESTING AND VALIDATION OF THE INTERNAL MODEL

DISCLOSURE REQUIREMENTS COVERED: ART. 455 (a) (iv) CRR

Backtesting is performed mark-to-model, i.e. based on hypothetical changes in the portfolio value at unchanged daily closing positions as well as on the economic result.

Backtesting is executed in three steps based on the mark-to-model method:

First, the NPV of the daily closing position is measured at current prices.
In a second step, the position is then revalued at the next business day's prices.
The difference represents the hypothetical profit or loss on the trading position given a one-day holding period.

Backtesting is done both for the overall risk and the individual risk types (interest rate, currency, equities, commodity, and volatility).

The same as for determining VaR, the backtesting calculations also employ KVAR+ and Calypso.

For the economic backtesting, actual profit and loss results are used, and if necessary, corrected for profit and loss resulting from positions not covered by the internal model.

The validation methods used that exceed regulatory backtesting include:

_ As statistical methods, Kupiec's dual proportion-of-failure test and testing the independence of outliers to each other
_ Validation of the scaling of the holding period of ten days using the square-root-of-time rule
_ Validation of the validity of risk factors in product valuation as well as the influence of proxies on market risk factors

13.3 Description of the extent and methodologies for compliance with the requirements set forth in Art. 104 and 105 CRR

DISCLOSURE REQUIREMENTS COVERED: ART. 455 (c) CRR

Market risks are actively taken as part of trading activities including market making, specific types of client servicing and proprietary trading. The definition of trading book is defined in the Group Principles for Managing Market Risks.

Valuation at market prices
Generally, all positions in the trading book are valued daily in the front office system independent of trading operations. The valuation of all positions is done, if possible, based on market data obtained from independent external providers such as Reuters, Bloomberg, etc. Bond positions are valued on bid-ask prices, and exchange-traded securities and trades are valued using the closing prices or the last traded price.

Valuation at model prices
If it is not possible to conduct the valuation at market prices, model prices are used. For this purpose, models commonly found on the market are used (e.g. Black Scholes, Hagan, Hull White, Libor Market). If available, the input data is obtained, from the same data providers that are used for determining market prices. The valuation of the positions is done at mean rates. The figures of relevance for the internal model are determined daily in a system independent of trading operations.
The periodical review of market conformity of the models, model parameters and model prices determined is the responsibility of Market Risk Control and Infrastructure which is independent from the trading business. The sections of the trading book for which model prices are used are reported periodically to the management board.

Independent price review
The valuations are coordinated periodically between Mid-Office and Risk Management. Additionally, at least once a month, a reconciliation of the valuations is conducted with Accounting.

Valuation adjustments or reserves
For financial instruments for which a mid-model price is determined, product-specific valuation adjustments are carried out that take into account the usual market bid-ask spreads, remaining times to maturity and nominal values which reflect the model and liquidity risks as well as ask-bid spreads. The adjustments are reported separately in the risk systems.

Systems and controls
All models used are documented and accorded with Risk Management, Trading and the auditors. An independent validation of valuation models is done by Group Validation, a unit reporting directly to the CRO. All model parameters and data that cannot be obtained from market providers are documented and are reviewed periodically for market conformity independently of the Front Office.
The valuation method applied for a specific product is defined and documented in the Product Approval Process. The final approval is given by the MRC, which serves as Product Approval Board.

Generally, three categories are distinguished for positions in the trading book:

_ **Level 1:**
Financial instruments for which there is a price in an active market belong to this category. An active market is a market in which there are transactions in sufficient frequency and volumes. In some cases, it may occur that a price on an active market does not reflect the fair value. For example, if a major event occurs after the market closes but before the value date. If the price quoted needs to be adjusted (to account for this), it results in a classification with a lower level.

_ **Level 2:**
Level 2 inputs are inputs that are not included in Level 1; these inputs may be directly observable (prices) or indirectly observable inputs (derived from prices). When a financial instrument has a fixed maturity, Level 2 inputs must be observable for the entire life (for example the discount curve for a bond or swap).

The following inputs belong to Level 2:
_ Prices quoted for similar instruments in active markets;
_ Prices quoted for identical or similar financial instruments in inactive markets;
_ Inputs that do not represent prices such as interest rates (if available for the entire life), volatilities, prepayment rates and default rates and
_ Inputs that may be derived from observable market data.

_ **Level 3:**
These are inputs that are not based on observable market data. Unobservable inputs may be used if there are no observable inputs to determine the fair value of a financial instrument for which there is no active market. Unobservable inputs must reflect the assumptions that market participants would make in their assessment. When measuring unobservable inputs as much information as possible must be used, including internal data.

Prudent valuation

The CRR sets out requirements relating to prudent valuation adjustments (Article 105) of all asset and liability positions measured at fair value, including those positions not in the trading book, to determine prudent values that achieve an appropriate degree of certainty.
In Article 34 ("Additional value adjustments") of the CRR, the demand for additional value adjustments, as specified in Article 105 CRR ("Requirements for prudent valuation"), is laid down as mandatory from 1 January 2014 on.
According to the CRR and the Regulatory Technical Standards, Erste Group implemented additional value adjustments under the 'core approach' (which is more elaborated than the 'simplified approach'), due to its absolute sum of fair-valued assets and liabilities of more than EUR 15 bn. Additional value adjustments are applied to fair values of the positions to calculate an asset's 'prudent' value in the sense that the prudent value is unfavourable or equal to a realised value with a certainty of 90%. Expert approaches may be applied, if a straightforward quantification is not applicable to the bank's methodological valuation approach. The additional value adjustments reduce the regulatory CET1 capital.

13.4 Quantitative disclosure on market risk

DISCLOSURE REQUIREMENTS COVERED: ART. 455 (d) (i) (ii) (g) CRR
With respect to Art 455 (d) (iii) and Art 455 (f), a nil report is made as the applied model does not cover the specific position risk

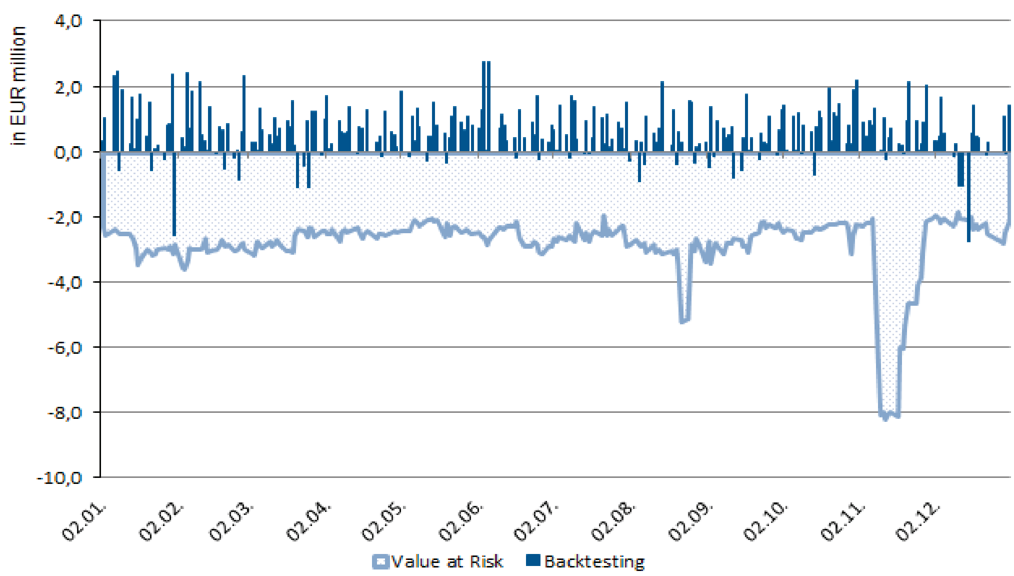
The table below shows the maximum, the mean and the minimum VaR value and sVaR value of the reporting period as well as the value at the end of the reporting period:

Value-at-Risk 2014

in EUR million	Maximum	Mean	Minimum	End of Dec. 14
VaR	8.2	2.8	1.8	2.1
sVaR	26.3	6.5	3.7	5.2

Table 58: Art. 455 (d) CRR: Market Risk – VaR 2014

The chart below shows a comparison of the VaR estimates with the actual gains/losses of the bank.



14 Interest Rate Risk

14.1 Goals and principles of risk management

DISCLOSURE REQUIREMENTS COVERED: ART. 435 (1) (a) (b) (c) (d) AND 448 (a) CRR

Interest rate risk is the risk of a change in the market value of the balance sheet as a result of a certain change in the yield curve. Changes in the yield curve can have a negative effect on net interest income and the amounts of interest-sensitive income/expenses. These changes also affect the market value of assets, liabilities and off-balance sheet items, as the future payments (and thus also their NPV) vary directly with changes in interest rates. As a consequence, an effective risk management process that keeps the impacts of interest rate changes on the bank's balance sheet within appropriate limits is of fundamental importance for the security and creditworthiness of the bank.

The forms of interest rate risk to which a bank is exposed are:

- **Prolongation risk/re-pricing risk** – results from the incongruence in the fixed terms applicable to interest rates
- **Yield curve risk** – is caused by changes in the slope and shape of the interest rate curve
- **Basis risk** – results from the imperfect correlation in the adjustment of the credit and debit interest rates of different products that otherwise would have the same interest rate terms
- **Optionality risk** – is derived mainly from options (gamma and vega effect) that are contained in many positions of the banking book (e.g., right to call loans).

The first three types represent traditional interest rate risk. The fourth type is becoming increasingly important with the growing number of options embedded in products reported both on and off the balance sheet.

ORGANISATION

The interest rate risk is dealt with by the management in the Group Asset Liability Committee. The purpose of the Asset Liability Committee is the steering of assets and liabilities on the balance sheet. It meets monthly within the scope of the regular management board meetings.

The tasks of ALM comprise the management of interest risk on the banking books of Erste Group and also the further development and maintenance of the Funds Transfer Pricing (FTP) Systems. Bank Book and Liquidity Risk Management is responsible for risk controlling. For the Group's Austrian subsidiaries and the savings banks, all analyses and ALCO documents are prepared by ALM of EBOe. The foreign subsidiaries have their own ALM, which is responsible for the analyses and the preparation of the documents. With respect to these subsidiaries, the responsibility of Erste Group's ALM is to safeguard uniform standards of analysis and ensure that the ALM tasks at the subsidiaries are performed according to Group guidelines.

RISK MEASUREMENT AND CONTROL

The ALM software QRM Balance Sheet Management is used throughout the entire Erste Group. This software makes planning and consolidation possible at the Group level as well as the modelling of the interest rate risk on the balance sheet of Erste Group. This system captures all significant sources of interest rate risk and calculates the effect of these changes on the balance sheet of Erste Group. The data for the current portfolio, market data for the cut-off date in question and the assumptions on future portfolio developments (volume, margins, etc.) are all entered into this system. It measures both the effect on profit/loss and the market value of the banking book positions. The data are organised in an account/product structure. The account structure corresponds to that of the IFRS balance sheet, while the product structure represents the currency and the interest rate-related behaviour of the products in this group. The portfolios are analysed once a month with the exception of the savings banks (review intervals are usually every quarter).

The interest rate risk strategy of the Group is based on the optimisation of market risk and income possibilities, i.e. all measures developed in the interest rate strategy were analysed with respect to their effect on the income defined in the financial projections and on the market value. The interest rate risk strategy is approved by the Asset Liability Committee and periodically reviewed to ensure it is up-to-date. A modification may become necessary due to changes in the business plan or the market situation and is therefore a requirement for active risk control.

Key assumptions used in risk modelling

Products without fixed terms are modelled. For modelling the interest rate risk behaviour of products with variable interest rates (i.e. valid until changed), Erste Group currently uses the applicable internal transfer pricing interest rate (moving average of short and long term interest rates) plus a static margin. The weighting used reflects the historic pattern of the interest rate curves of products with variable interest rates (valid until changed). In 2012, the assumptions were reviewed and updated. The resulting new modelling approach is applied from January 2013.

RISK HEDGING AND MONITORING SUSTAINABLE EFFECTIVENESS OF HEDGING POSITIONS

The investment process is part of the entire ALM process. The investment decisions are made by the Asset Liability Committee on the basis of the overall risk profile of the bank and the expected development of the economy. Balance Sheet Management/Group ALM provides regular updates on economic trends and forecasts of interest rate trends (Market Report).

Balance Sheet Management/Group ALM analyses the banking book by means of NPV simulations of the market value, for example, the effect of a 100bps interest rate shock (understood to mean a sudden and unexpected change in interest rates on the money and/or capital market) on market value and interest income, and also by means of net interest income simulations. Based on the results and the economic forecast, investment recommendations are presented to the Asset Liability Committee. These recommendations may increase or decrease risk. They may be implemented by means of on-balance sheet or off-balance sheet transactions. For cash flow hedges and fair value hedges, the relationship between the underlying transaction and the hedge (effectiveness) is continually monitored and documented.

INTEREST RATE RISK REPORTING

The interest rate risk of Erste Group is calculated separately by currency (EUR, CHF, JPY, USD, CZK, HRK, HUF, RON, RSD) and reported at the monthly Group Asset Liability Committee meeting and to the local Asset Liability Committee. Furthermore, materials on the following topics are prepared for the Group Asset Liability Committee:

- Market overview;
- Periodic and economic risk ratios related to market risk for the Group and subsidiaries;
- Positions (held-to-maturity portfolios in the Group, strategies);
- Balance sheet movements (equity, liquidity, primary deposits, non-bank business) and
- Liquidity management.

14.2 Quantitative disclosure on interest rate risk

DISCLOSURE REQUIREMENTS COVERED: ART. 448 (b) CRR

The potential effects of interest rate changes on equity instruments of the Group are analysed at Erste Group using the simulation method already described under “Risk Measurement and Control”. Simulation models make it possible to apply maximum precision and flexibility to risk measurement, also for complex portfolio structures. The NPV simulation accounts for all future cash flows based on current knowledge.

The following table exhibits Erste Group’s fair value risk, specifically the change in the market value in the case of a parallel shift of the interest rate curve by 100bps upwards. At Erste Group, monthly upward and downward shocks of 100bps and 200bps are calculated and analysed for all entities and all currencies. The 200bps shock enters into the calculation of the internal Basel 3 ratio. As shown in the table, the +100bps shock resulted in a negative risk at the Group level.

Interest rate risk

in EUR million	EGB	EBOe	SPK	BSPK	Immo	sAL	WBB	CS	SLSP	EBH	BCR	EBC	EBS	Total
EUR	–385.6	93.0	–6.3	–81.5	1.6	0.2	–2.5	–47.0	–99.2	8.6	–25.3	18.4	–2.0	–527.4
USD	–18.7	3.8	–0.1		0.0			1.0	–4.0	0.4	3.5	1.6	–0.1	–12.7
CZK	–4.9	0.0	–2.8		–2.8			93.8	0.1					83.4
HUF	0.9	0.0						0.0		24.8				25.8
HRK	–0.7							0.0				–3.7		–4.4
JPY	–0.9	–0.1	0.2					0.0						–0.8
CHF	7.9	0.5	9.3		0.8			0.0		0.6		–34.1	–1.3	–16.4
RON	–0.5							0.0			–22.9			–23.3
RSD	0.0							0.0					–1.2	–1.2
Total	**–402.4**	**97.2**	**0.3**	**–81.5**	**–0.3**	**0.2**	**–2.5**	**47.8**	**–103.1**	**34.4**	**–44.7**	**–17.7**	**–4.6**	**–476.9**

Legend: EGB… Erste Group Bank; EBOe… Erste Bank Österreich; SPK Töchter… SPK subsidiaries; BSPK… Bausparkasse der österreichischen Sparkassen; Immo… Immorent; sAL… s Autoleasing; WBB… s Wohnbaubank; CS… Česká spořitelna; SLSP… Slovenská sporitel'ňa; EBH… Erste Bank Hungary; BCR… Banca Comercială Română; EBC… Erste Bank Croatia; EBU… Erste Bank Ukraine

Table 59: Art. 448 (b) CRR: Changes in the market value by interest rate shock

15 Exposures in Equities

15.1 Goals and principles of risk management

DISCLOSURE REQUIREMENTS COVERED: ART. 435 (1) (a) (b) (c) (d) CRR

Investment risk refers to the potential loss in value resulting from lack of dividend payouts, the (partial) write-off of assets, losses from divestments and the reduction of hidden reserves from invested own funds, from profit transfer contracts (loss transfers) or from liability risks (e.g. letters of comfort). Investment risk covers both strategic investments as well as operating investees and includes all investees of the Group (irrespective of type of consolidation).

The continuing implementation of the concept of a comprehensive financial services provider is Erste Group's strategy for equity exposures aimed primarily at complementing the bank's core business through investment companies that provide financial products and services (esp. Bausparkasse der österreichischen Sparkassen Aktiengesellschaft, EGI AG, Erste Asset Management GmbH, s Real Immobilienvermittlung GmbH). Investments outside the bank's core business (except for providers of support services for banking operations) are being reduced in the interest of a greater strategic focus. Within its international business activities in Europe, the USA and Asia, Erste Group places particular emphasis on Central Europe as it views the region as its extended core market.

As of December 2014, the investees of Erste Group AG included 58 direct holdings of various legal forms and size with a carrying value of EUR 5.6 bn (of which 29 are fully consolidated companies under IFRS with a carrying value of EUR 5.4 bn; of which 23 are fully consolidated companies pursuant to the ABA with a carrying value of EUR 5.3 bn; and of which 3 are fully consolidated companies under the de minimis concept with a carrying value EUR 0.03 bn).

Counting all investees in the cross-guarantee system of savings banks (Haftungsverbund), the banking Group consisted of 659 companies of which 364 were fully consolidated as of 31 December 2014.

ORGANISATION

Responsibility for investees lies with Participation Management, a staff unit of Erste Group that reports to the Chief Executive Officer of Erste Group. When it acts for EBOe (i.e. as an outsourcing partner), Participation Management reports directly to the management board member responsible for investments at EBOe.

The Participation Management unit assists the management board and business units of Erste Group and EBOe by providing coordination and information processing services as well as support for decision-making. Inside the Group, it acts as contact, interface, service provider and coordinator for the various units and governing bodies of the subsidiaries. Outside the Group, it serves as contact and coordinator for auditors, notaries, lawyers, public authorities and other parties for business, legal, tax and investee-related matters.

In the case of subgroups with investees of their own (currently CEE subsidiaries and EGI AG), Participation Management fulfils its Group responsibilities by ensuring that an investee management framework in line with the framework of Erste Group is established at these subgroups (policy-making powers rest with Erste Group) and by assuming group-wide responsibility for defined topics (e.g. offshore investments). To accomplish these tasks, it is considered important to involve the investee support units early in deliberations and decision-making processes (matrix responsibilities).

In detail, this results in the following responsibilities of the Participation Management unit:
- Investee-related decision support (relating to any kind of equity measure) to the management board and other governing bodies of Erste Group and EBOe in line with applicable guidelines on decision-making powers;
- Preparation of reports on investees (quarterly reports as reporting instrument and as basis for budget approvals);
- Implementation, management and ongoing administration of the investee database AMI and central information distributor of the banks' investee data (for internal and external purposes);
- Implementation of notifications and reports to the OeNB, the Ministry of Finance and foreign authorities and organisations; and
- Implementation and support for company setups, acquisition and selling processes.

RISK MEASUREMENT AND CONTROL

Once a year, all investees are subjected to a standardised earning-capacity value calculation based on future budgets and multiple year projections, taking into account, among others, the valid (local) capital adequacy regulations for each of the entities. These calculations are based on standards for the valuation of goodwill from the acquisition of investments pursuant to IFRS from which the required depreciations and write-ups, capital measures and hidden reserves are derived. Since 2012, a standardised evaluation tool has increasingly been used for this purpose which was developed jointly with a major auditing firm. The result of these calculations is discussed in detail with Group Accounting and Group Performance Management, and the corresponding measures (accounting entries, reports) are initiated. Moreover, any capital measures required are accorded with the business area responsible for operations prior to execution.

REPORTING ON EQUITY EXPOSURES

As part of the monitoring and control process, the economic development of all significant direct and indirect investees and any risk provisions or revaluations that may become necessary during the course of the year are evaluated regularly on the basis of standardised reports and internal procedures. Any adjustments to provisions or valuations that may become necessary during the year are done based on the actual and projected figures presented for each individual investee. Any corrections required are forwarded to the banks' accounting and controlling units for further processing.

15.2 Description of the investment objectives

DISCLOSURE REQUIREMENTS COVERED: ART. 447 (a) CRR

The objective of Erste Group is to achieve market leadership in financial services for retail customers and corporates in the region of CEE by establishing a supranational network of banks. According to the core strategy, the objective of Erste Group is to offer a wide range of financial services, and for this reason, investments in banking-related entities (fully consolidated banks and financial institutions, ancillary units, financial holding companies and other financial service providers) are entered regularly for business policy or strategic reasons. This usually also applies to minority interests in investees from the area of combined banking.

If such services cannot be realised directly by Erste Group, investments are made in new subsidiaries or by acquiring existing entities. A further strategic focus is the adjustment to constantly changing customer behaviour by integrating mobile banking and brokerage services into the bank's range of services.

In connection with the realisation of collateral, decisions to acquire ownership are taken on a case-by-case basis in order to facilitate orderly realisation, which is done primarily in the area of real estate. To a limited extent, Erste Group enters positions with the basic intention of earning returns on capital through its venture capital units.

15.3 Accounting policies and valuation methods

DISCLOSURE REQUIREMENTS COVERED: ART. 447 (a) CRR

Investees are measured in accordance with general commercial accounting principles (historical cost principle, modified lower-of-cost or market-value principle), based on capitalised income value and net asset value as well as the value derived from the investee's functional integration in the Group, as determined by periodic analyses regarding provisioning requirements and hidden reserves.

Under IFRS standards applied to the Group, investees are classified as available-for-sale in accordance with IAS 39 and are generally measured at fair value.

15.4 Quantitative disclosure on exposures in equities not included in the trading book

DISCLOSURE REQUIREMENTS COVERED: ART. 447 (b) (c) (d) (e) CRR

The following table presents an overview of the different valuations in the individual exposures in equities not included in the trading book as of 31 December 2014:

Type of equity exposures

in EUR million	Type of instrument	Book value	Fair value	Market value
Credit institutions				
	Exchange traded instruments	1.5	16.5	n.a.
	Instruments not traded on an equity exchange	19.7	74.8	
	Other equity instruments	0.0	0.0	
Financial institutions				
	Exchange traded instruments	0.0	0.0	n.a.
	Instruments not traded on an equity exchange	65.6	67.5	
	Other equity instruments	0.0	0.0	
Others				
	Exchange traded instruments	46.4	46.4	n.a.
	Instruments not traded on an equity exchange	454.5	566.5	
	Other equity instruments	0.0	0.0	
Total		**587.7**	**771.7**	**n.a.**

Table 60: Art. 447 (b) (c) CRR: Exposures in equities not included in the trading book

The following gains and losses from sales and liquidations of investees were achieved in the reporting period:

Realised and unrealised gains or losses from exposures in equities

in EUR million	Value
Realised gains or losses from sales and liquidations	28.8
Unrealised gains or losses	312.7
Deferred revaluation gains or losses	0
values in core capital	0
values in supplementary capital	0

Table 61: Art. 447 (d) (e) CRR: Realised and unrealised gains or losses from exposures in equities not included in the trading book

16 Operational Risk

16.1 Goals and principles of risk management

DISCLOSURE REQUIREMENTS COVERED: ART. 435 (1) (a) (b) (c) (d) CRR

Pursuant to Article 4 (52) CRR, Erste Group defines operational risk as the risk of loss resulting from inadequacy or failure of internal processes, people or systems, or from external events, including legal risks. Both quantitative and qualitative methods are used to identify operational risks, and are refined further in order to capture all information relevant to risk management.

ORGANISATION

While the business areas and infrastructure units are responsible for the daily management of operational risks, Group Operational Risk Management is responsible for operational risk control across all business areas and countries as well as for the uniform application of the strategy and Group standards for operational risk management in all areas of the bank.

In detail, this results in the following tasks:

- Identification of risk potentials as well as measures for early detection and risk avoidance
- Definition of ratios and risk indicators as well as guidelines
- Implementation, management and ongoing administration of the loss database
- Calculation of scenarios and assessment of specific risk situations
- Group-wide calculation of the required own funds of all operational risks and execution of stress tests
- Analysis and periodic reporting
- Further development of methods

The structure of operational risk management and control at Erste Group is also defined in the Group Risk Policy Framework in order to safeguard the complete identification of all risk components and consistent treatment of all operational risks.

RISK MEASUREMENT AND CONTROL

The quantitative measurement methods are based on internal loss experience data, which is collected across the Group using a standard methodology and entered in a central data pool. In order to be able to also model losses that have not yet occurred but are nonetheless possible, scenarios and external data are used. In this context it is worth noting that Erste Group has been a member of the Operational Riskdata eXchange Association, an international loss data consortium, since 2006, and participates in the consortium on a group-wide basis.

Apart from quantitative approaches, qualitative approaches are used to determine operational risk, primarily by performing risk analysis (Risk Control Self Assessments) surveys. In order to also ensure early detection of risk potentials, a series of risk indicators were developed and implemented at the Group level.

The results and proposals for risk control derived from the quantitative and qualitative processes are reported to the line management and form the basis for measures to reduce operational risks. Furthermore, Erste Group defined risk appetite for operational risk and all operational risk decisions are to be taken bearing in mind adequately balanced costs and benefits commensurate with the RAS.

RISK HEDGING

Since the beginning of 2004, the insurance contracts for operational risks of Erste Group's core institutions have been combined in a group-wide insurance programme. This reduced the cost of meeting the Group's traditional property insurance needs and thus made it possible to buy additional insurance for previously uninsured banking-specific risks. The savings potential and the additional cover are achieved – while keeping expenses unchanged as far as possible – by having a certain share of the loss or damage assumed by the Group's own insurance company, Erste Reinsurance S.A. This makes it possible to diversify operational risk within Erste Group.

OPERATIONAL RISK REPORTING

Information on operational risks is reported regularly to the management board. This is done within the scope of various reports, above all, the quarterly report for the top management, which informs on recent losses, loss trends, qualitative information derived from Risk Control Self-Assessment, risk indicators, key ratios and VaR for operational risk computed for Erste Group.

16.2 Approaches for the assessment of minimum capital requirements

DISCLOSURE REQUIREMENTS COVERED: ART. 446 CRR

In 2009, Erste Group was granted approval by the supervisory bodies to apply the AMA at the Group level for five companies:
_ Erste Group Bank AG
_ Erste Bank der oesterreichischen Sparkassen AG
_ Česká spořitelna a.s.
_ Slovenská sporiteľňa a.s.
_ Erste Bank Hungary Zrt.

And in 2010 for two further companies:
_ Banca Comercială Română
_ Erste & Steiermärkische Bank d.d.

The scope of application of the AMA was further enlarged in the second half of 2011 by two companies:
_ Bausparkasse der österreichischen Sparkassen AG
_ Stavebni sporitelna Ceske sporitelny, a.s.

In 2012, another five companies were approved:
_ Steiermärkische Sparkasse Bank AG
_ Kärntner Sparkasse AG
_ Salzburger Sparkasse AG
_ Tiroler Sparkasse Bank AG Innsbruck
_ Brokerjet Bank AG

In 2013 the following company was approved:
_ ERSTE BANK AD NOVI SAD

In 2014 Brokerjet Bank AG was merged in EBOe.

The AMA is used at the companies listed above in all areas of application.
Risk mitigating effects within the Advance Measurement Approach are applied at all companies except for:
_ Steiermärkische Sparkasse Bank AG
_ Kärntner Sparkasse AG

Minimum capital requirements for those subsidiaries that do not yet apply the AMA are calculated using the BIA.

16.3 Advanced Measurement Approach

DISCLOSURE REQUIREMENTS COVERED: ART. 454 CRR

The AMA is a complex approach used for the valuation of operational risk. The required capital is calculated using an internal VaR model taking into account the following factors:

_ Internal data (historic gross loss)
_ External data (data from the external consortium Operational Riskdata eXchange Association)
_ Scenario analysis (supplements the internal and external data by rare events that may lead to large loss or damage)
_ Business environment and internal risk control factors (such as risk indicators and risk assessment)

The weighting is evaluated and calculated on a quarterly basis using quantitative and qualitative features.

The key ratio in this context for regulatory capital requirements is the VaR at a confidence level of 99.9% for one year, which is computed for all units using the AMA and is distributed across the respective subsidiaries based on a risk sensitive allocation ratio.

Furthermore, apart from the regulatory capital requirement under the CRR, the economic risk capital is represented for the material part of the Group using the AMA. Here, all entities – irrespective of the AMA approval for regulatory capital requirements purposes - providing sufficient loss data information are covered within AMA calculating the VaR at a confidence level of 99.95% for one year. The remaining part is taken into account using the BIA method.

The quantitative methods outlined (based on the central data pool, scenarios and external data) and the qualitative methods (e.g. risk control self-assessments) including the insurance strategy and the modelling approaches, form the operational risk framework of Erste Group.

For the modelling of operational risk, Erste Group uses the Loss Distribution Approach. The modelling of aggregate damage distribution is done in two steps. In a first step, the individual distributions of damage frequency and the damage amount are calculated and then combined using a Monte Carlo simulation. The structure of the Loss Distribution Approach model complies with the Basel 2 rules, the CRD IV and with the Solvency Regulation.

Apart from internal and external data, scenario analyses as well as economic framework conditions and changes to the risk profile are factors inputted into the model of Erste Group. Erste Group does not take any correlation effects into account in its model. The regulatory capital requirement is not reduced by the expected loss.

The AMA capital value of Erste Group takes into account both unexpected and expected losses of all banks using the AMA. Both the expected loss and the unexpected loss are reported to the management.

The model assumptions and input factors are validated once a year by Group Operational Risk Control and the results of the validation are reported to the Strategic Risk Management Committee. Furthermore, Erste Group conducts periodical stress tests and sensitivity analyses to assess risk potential.

Differentiation of operational risk from credit and market risk

A loss event relating to credit risk is reported as an operational risk event when the operational risk was the actual cause of the loss. Whenever an event occurs that may be attributed to operational risk or that triggers a loss or gain on the market side, then this is deemed an operational risk and reported as such.

16.4 Use of insurances for risk mitigation in AMA

DISCLOSURE REQUIREMENTS COVERED: ART. 454 CRR

Risk mitigating insurance effects under existing insurance contracts, taking into account all applicable legal provisions, are included in the models developed for the insurance-related reduction of capital requirements for operational risk only when the risk is reinsured on the external insurance market. The risk mitigating insurance effects are calculated using a Monte Carlo simulation for all eligible losses.

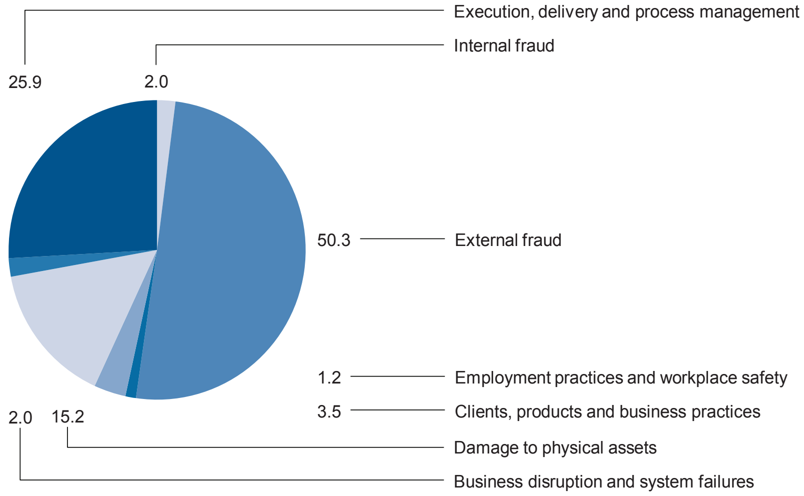
In selecting insurance partners, Erste Reinsurance S.A. strictly observes supervisory requirements. The insurance portfolio and the captive reinsurance activities are periodically audited by Group Audit.

16.5 Quantitative disclosure on operational risk

DISCLOSURE REQUIREMENTS COVERED: ART. 454 CRR

The chart below shows the percentage composition by type of event of operational risk as defined in the CRR. The observation period runs from 1 January 2010 to 31 December 2014.

Event type categories (in %)



The different types of event categories are defined as follows:

_ **Internal fraud**
Losses due to acts intended to defraud, misappropriate property or circumvent regulations, the law or company policy, excluding diversity/discrimination loss events, which involve at least one internal party.

_ **External fraud**
Losses due to acts of a type intended to defraud, misappropriate property or circumvent the law by a third party.

_ **Employment practices and workplace safety**
Losses arising from acts in breach of employment, health or safety laws and agreements; losses from payment of personal injury claims; from diversity/discrimination events.

_ **Clients, products and business practices**
Losses arising from an unintentional or negligent failure to meet a professional obligation to specific clients (including fiduciary and suitability requirements); losses due to the nature or design of a product

_ **Damage to physical assets**
Losses arising from loss or damage to physical assets caused by natural disasters or other events.

_ **Business disruption and system failures**
Losses arising from disruption of business or system failures.

_ **Execution, delivery and process management**
Losses from failed transaction processing or process management; from relations with trade counterparties and suppliers/vendors.

17 Other Risks

17.1 Liquidity Risk

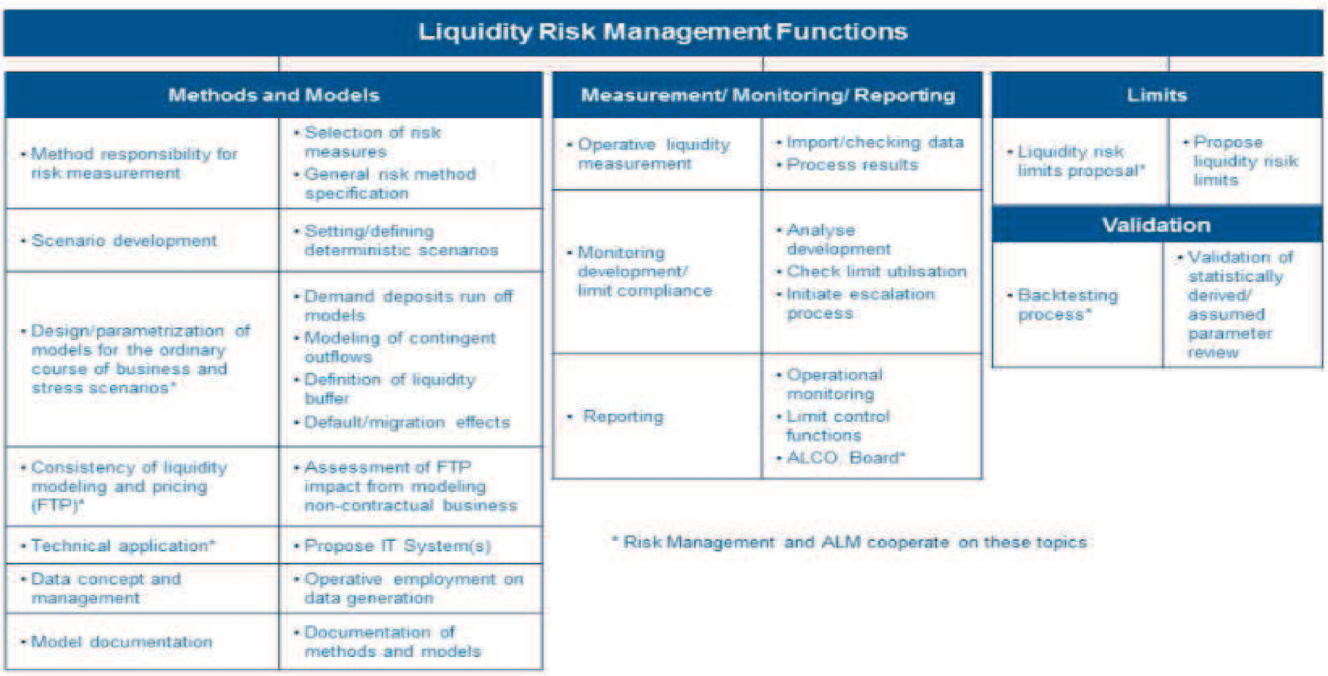
GOALS AND PRINCIPLES OF RISK MANAGEMENT

DISCLOSURE REQUIREMENTS COVERED: ART. 435 (1) (a) (b) (c) (d) CRR

Liquidity risk management framework
Liquidity risk is defined by Erste Group according to the principles of the Basel Committee for Banking Supervision. Thus, a difference is made between market liquidity risk, i.e., the risk that the companies of the Group will be unable to close a position due to insufficient market depth or market disruptions, and funding liquidity risk, i.e., the risk that the banks of the Group would not be capable of efficiently fulfilling expected or unexpected requirements for current and future cash flows and collateral without restricting their daily business or the financial situation of the Group's members.

The funding liquidity risk is broken down further into insolvency risk and structural liquidity risk. The former is the short-term risk that current or future payment obligations will not be fully met in a timely and economically appropriate manner, while structural liquidity risk refers to the long-term risk of losses due to a change in the refinancing costs or in the issuer spreads of the Group.

The chart below presents an overview of the functions of liquidity risk management within the Group for liquidity/funding management and risk management.



This framework for liquidity/funding management and risk management includes general provisions on competencies, responsibilities and powers of Erste Group decision-making bodies, committees and units:

The Holding Supervisory Board acknowledges the RAS, receives Group risk reports which include RAS development and the liquidity risk profile and approves credit limits and funding tools.

The Holding Board sets the strategic framework for liquidity management within the Group, approves the risk tolerance appropriate to the business strategy, approves the Group strategy, policies and practices to manage liquidity risk in accordance with risk tolerance and reviews the information on the bank's liquidity development.

The Group ALCO is the highest decision making committee concerning all aspects of Group Liquidity Risk Management and includes all Holding Board members. It approves and is responsible for the definition and implementation of a sound liquidity risk analysis framework for identifying, measuring, monitoring and controlling all liquidity risk types across the Group.

The OLC consists of the relevant stakeholders of Group Liquidity Management and Liquidity Risk Management functions and monitors the liquidity position of the Holding and major entities.

RISK MEASUREMENT AND CONTROL

Survival period analysis

The short-term liquidity risk (insolvency risk) is measured and limited by applying a “Survival Period Analysis” for every currency at the single-entity level and the Group level. This analysis provides the maximum period during which a bank survives in a serious combined market and idiosyncratic crisis while relying on its pool of liquid assets. The worst-case scenario monitored simulates very limited money market and capital market access and at the same time significant client deposit outflow. Furthermore, the simulation assumes increased drawdown on guarantees and loan commitments dependent on the type of the customer, as well as the potential outflows from collateralised derivative transactions estimating the effect from collateral outflow in the case of adverse market movements. In order to reflect the reputational risk from callable own issues, the principal outflows from these liabilities are modelled to the next call date in all stress scenarios.

Liquidity coverage ratio (LCR)

After the Quantitative Impact Study monitoring phase according to Basel Committee on Banking Supervision guidelines in 2014 Erste Group successfully switched to the LCR and Net Stable Funding Ratio according to CRR. Internally, the ratios are monitored on both single-entity and Group level, and from 2014 LCR is part of the internal RAS, targeting a rate above 100% on Group level, ahead of regulatory requirement.

Concentration analysis

The risk concentrations with respect to the business partners is analysed on an ongoing basis. At the end of June 2014, the top 10 interbank counterparty groups provided approximately 36% of the total unsecured interbank funding, the same ratio for the other wholesale funding providers (non-financial corporates, financial institutions and public sector entities) was 22%. By customer group, funding was provided by wholesale with a share of 20%, by SME/corporates with 9% and by retail with 71%.

Comprehensive stress testing and recovery and resolution planning

Additional scenarios are analysed to further elaborate on main additional vulnerabilities of Erste Group’s liquidity position. These scenarios are elaborated based on specific storylines. The scenarios and the relevant stress parameter are taken from historical evidence where available. In case historical evidence is not available, expert opinions and assumptions are taken.

Funds transfer pricing (FTP)

The FTP of Erste Group for monetary funds has also proven an efficient control instrument for the management of structural liquidity risk.

METHODS AND INSTRUMENTS OF RISK MITIGATION

The general standards of liquidity risk controlling and management (standards, limits and analyses) are defined by Erste Group, documented in respective internal guidelines and are constantly reviewed and further developed.

The liquidity risk is controlled by the Survival Period Concept and by the LCR compliance at the Group and single-entity level. Breaches to limits are reported to the Group Asset Liability Committee. A further instrument for monitoring the liquidity risk within Erste Group and its subsidiaries is the FTP system. The planning of the refinancing needs is of fundamental significance for liquidity management and is analysed in detail for the entire Erste Group on a quarterly basis.

The Contingency Funding Plan provides a framework for managing both temporary and long-range liquidity disruptions that risk the bank’s ability to fund some or all of its activities in a timely manner and/or at reasonable cost. The Contingency Funding Plan is defined in all local banks as part of the local Liquidity Risk Manuals. Contingency funding plans are tested and revised at least yearly. Testing shall ensure that roles and responsibilities are appropriate and understood, contact information is up to date and the transferability of cash and collateral is still present.

17.2 Macroeconomic Risk

DISCLOSURE REQUIREMENTS COVERED: ART. 435 (1) (a) (b) (c) (d) CRR

Macroeconomic risk is the risk of losses resulting from a change to the general economic situation.

METHODS AND INSTRUMENTS APPLIED

In the course of stress testing, scenarios are developed based on assumptions of deteriorating economic conditions. These economic scenarios apply not only to the entire portfolio of the Group (credit, market, operational and liquidity risk), but also to earnings and capital adequacy. This method reveals how the changed economic conditions affect the risk and earnings situation as well as own funds.

Stress testing is included in the calculation of the risk-bearing capacity and the risk appetite processes by taking into consideration the economic capital risk limit, thereby capturing the effects of macroeconomic risk. Furthermore, the stress tests are also included in financial projections and in the budgeting process for strategic planning, and therefore, macroeconomic risk is taken into account in this context as well.

17.3 Concentration Risk

DISCLOSURE REQUIREMENTS COVERED: ART. 435 (1) (a) (b) (c) (d) CRR

Concentration risk is the risk of possible adverse consequences that may result from concentrations or mutual effects of similar and divergent risk factors or risk types. These include, for example, the risk that may arise from loans to the same customer, to a group of associated companies or to customers from the same region or industry or to customers offering the same services and goods, from the use of credit risk mitigating techniques and especially from indirect large volume loans.

METHODS AND INSTRUMENTS APPLIED

Erste Group has implemented a comprehensive system for the identification, measurement, control, reporting and management of concentration risks. This is of key importance for securing the long-term viability of every single credit institution especially in phases with an adverse macroeconomic environment.

Concentration risk management at Erste Group is based upon a framework of processes, methods and reports covering both intra- and inter-risk concentrations. Diverse analyses are regularly conducted, reviewed and reported. Concentration risks are also taken into account systematically in the stress factors of stress tests. The result of the internal stress tests is included in the calculation of the RCC.

Moreover, the results of the concentration risk analysis are used in the definition of the RAS as well as for the setting and calibration of Group limits.

Concentration risk analyses have revealed potential regional, country and industrial concentrations in the credit portfolio. Regional concentration plays an important role in the Group strategy due to its dominant presence in the CEE region.

18 Remuneration Policy

DISCLOSURE REQUIREMENTS COVERED: ART. 450 CRR

Information on remuneration policy and practices in Erste Group is disclosed in a separate document, which will be published on Erste Group’s website.

Annex

DISCLOSURE REQUIREMENTS COVERED: ART. 436 (b) CRR

CRR SCOPE OF CONSOLIDATION

The document with the scope of consolidation is stored on Erste Group's website (http://www.erstegroup.com/en/Investors/RegulatoryDisclosure/Basel3). A list includes all entities which are considered within the CRR scope (details see chapter 2.1), but also those entities which are not part of the regulatory scope, as they are not covered by CRR or those entities which are excluded from the regulatory scope because Art. 19 (1) and (2) CRR are applied. All entities that are not consolidated are accounted for within the RWAs calculation.
The types of entities are grouped into four categories:

_ Credit institutions (Art. 4 (1) CRR)
_ Financial institutions (Art. 4 (26) CRR), financial holding companies (Art. 4 (20) CRR) and mixed financial holding companies (Art. 4 (21) CRR)
_ Ancillary service undertakings (Art. 4 (18) CRR), investment firms (Art. 4 (2) CRR), asset management companies (Art. 4 (19) CRR)
_ Others

Fully consolidated subsidiaries, investments in associates accounted for according to the equity method and other investments under the financial scope of consolidation are disclosed in Note 54 of Erste Group's Annual Report.

Glossary

Backtesting
Standardised testing of models based on the periodic comparison of gains and losses with the values estimated by the model.

Banking book
The banking book contains all transactions of a credit institution that are not included in the trading book. These include above all lending transactions, investments and securities held as non-current assets.

Capital adequacy
Capital adequacy means the adequacy of a bank's own funds with respect to its risk profile. Under Basel, the minimum capital requirements (pillar 1) and the supervisory review process (pillar 2) guarantee that banks meet capital adequacy requirements.

Capital requirements
Credit institutions and groups of credit institutions must at all times have a minimum total eligible capital available composed of the sum of the elements set out below:

1. 8% of the assessment base for credit risk
2. Minimum capital requirement for all types of risk in the trading book
3. Minimum capital requirements for commodities risk and FX risk, including the risk arising from gold positions, each for positions outside the trading book
4. Minimum capital required for operational risk
5. Additional capital requirement as necessary for qualified investments pursuant to Article 29 para. 4 ABA and for regulatory measures according to Article 70 para. 4a ABA.

Qualifying eligible own funds consist of the core capital (Tier 1), supplementary capital (Tier 2) and short-term subordinated capital (Tier 3) after making all regulatory deductions.

Confidence level
Under the VaR concept and economic capital, the probability that an actual loss will not exceed the potential loss as measured by VaR or economic capital.

Credit conversion factor (CCF)
Off-balance sheet transactions are converted into credit risk equivalents by applying (credit) conversion factors.

Credit risk mitigation (CRM)
Banks have a number of methods at their disposal for mitigating credit risk exposures that may reduce the minimum capital requirements pursuant to Article 22 ABA if the bank meets the corresponding regulations of the ABA and the Solvency Regulation. Receivables may be secured by tangible collateral or personal guarantees.

Default
The default of a borrower occurs when the borrower fails to make a contractually agreed payment. The nominal loss resulting from the default, which initially is equivalent to the amount of the outstanding credit, decreases to the actual loss after all collection options have been exhausted.

Expected loss (EL)
A measure of the loss which is expected for each receivable in case of default of a specific counterparty. According to Basel, risk provisions are to be created for expected losses.

Fair value
Value of an asset or a liability in an arm's length transaction between independent and competent parties willing to enter into a contract.

Grandfathering
In the case of changes to the legal or economic framework, existing rights may continue to be exercised for a certain transition period.

Incurred loss
Loss incurred in the case of an impairment according to IFRS.

International financial reporting standard (IFRS)/ International accounting standards (IAS)

IFRS, formerly IAS, are the international accounting rules for single-entity and consolidated financial statements issued by the International Accounting Board to render such financial statements comparable irrespective of national legal requirements.

Internal Ratings Based (IRB) Approach

As an alternative to the Standardised Approach, credit institutions have the option of applying the IRB Approach for calculating minimum capital requirements according to Article 22b ABA. In this approach, customers are assigned a credit rating based on the bank's own internal valuation processes which must comply with the stringent requirements of banking supervisors. In the Foundation IRB Approach, the PD of customers is assessed by the bank itself while the remaining parameters are defined by the banking supervisory authorities. The Advanced IRB Foundation approach applies an additional assessment of further risk parameters.

Loss given default (LGD)

The share of EAD which is actually to be expected as economic loss upon default of the borrower. It is in particular the realisation of collateral, if available, may result in the LGD being less than the outstanding receivable. Other proceeds and expenses as well as the time lag of cash flows due to the default are included in the economic loss figure as well.

PD/LGD approach

The PD/LGD approach applies the calculation of a RW based on the risk parameters PD and loss-given-default (LGD).

Probability of default (PD)

Probability that a borrower will default on a financial obligation within a certain period (usually one year). In the IRB Approaches for credit risk, PD is an estimated risk parameter.

Qualified revolving retail exposures

These exposures are defined as revolving, unsecured and cancellable at any time. They include credit facilities with amounts drawn and repaid fluctuating at the discretion of the customer within a limit defined by the bank.

Rating

Standardised assessment of the creditworthiness of a borrower (e.g. government, enterprise or private individual) based on qualitative and quantitative criteria. The rating may be assigned by the credit institution (internal rating) or by a rating agency (external rating). The internal rating reflects the default probability of the borrower. The better the rating, the lower the default probability of the borrower and, as a rule, the lower the interest rate the borrower pays to the bank on the debt.

Rating agency (external credit assessment institution, ECAI)

Companies that assess the creditworthiness of a debtor (e.g. of a government or a company) based on standardised qualitative and quantitative criteria.

Regulatory capital

Credit institutions and groups of credit institutions must meet the minimum capital requirements pursuant to Article 22 ABA at all times. The capital requirements and the eligible own funds must be reported in the balance sheet.

Risk-weighted assets (RWA)

RWAs are applied under Basel 2 to determine the amount of required capital for the credit risk exposure. For the coverage of credit risk, a bank must hold own funds of at least eight percent of RWAs.

Securitisations

The creation of (tradable) securities based on receivables or ownership rights. In the case of a securitisation, payment claims depend on the realisation of the credit or counterparty risk of a securitised portfolio and the subordination grade. The subordination grade results from the ranking of the securitisation tranche and determines the priority and the amounts of payments or losses to holders of securitised tranches in accordance with the structure of the cash flow waterfall. Securitisations for the purpose of backing securities with collateral are referred to as asset-backed securities. Residential mortgage-backed securities are securities backed by privately held residential real estate property; commercial MBS are backed by financing receivables from commercial real estate. Collateralised debt obligations, which belong to the ABS group, are structured products. These are baskets of collateralised loan obligations in which pools of loans serve as the underlying assets or collateralised bond obligations in which bonds serve as the underlying assets.

Sensitivity analysis
A sensitivity analysis serves to identify the relationship between the input variables and the output results in model calculations. By systematically varying the parameters, it is possible to test the sensitivity of the model output to changes in the input factors.

Solvency regulation
This regulation issued by the Austrian FMA serves to implement EU Directive 2006/48/EC "Banking Directive" and Directive 2006/49/EC on the capital adequacy of investment firms and credit institutions in Austrian legislation. The objective is the transformation of the Basel regulations into Austrian supervisory law. Their application is mandatory for individual credit institutions as well as for groups of credit institutions.

Standardised Approach
A calculation method for determining the minimum capital requirements of a bank to cover credit risk pursuant to Article 22a ABA. The creditworthiness of a debtor is taken into consideration for the calculation of the capital required. External ratings may also be included in this approach to quantify the required minimum capital.

Stress test
A stress test is an analysis of how the impacts of crisis scenarios affect on revenue and solvency situation of a credit institution or a banking system. A stress scenario describes a future, drastic, but nonetheless plausible deterioration of the environment in which the institution or the system operates. Stress tests are carried out by the individual credit institutions as well as by supervisory authorities and/or central banks. In the area of financial market stability, stress tests represent a key element of quantitative analysis.

Supervisory Slotting Approach
This is an IRB variant for SL transactions in which pursuant to Article 170 (2) CRR, for the calculation of RWAs exposures are directly allocated to the regulatory RWs.

Trading book
The trading book contains transactions belonging to the proprietary trading of a credit institution. Pursuant to Article 22n ABA, all positions in financial instruments and commodities held by a credit institution with trading intent as well as financial instruments and commodities which are used to hedge or refinance specific risks in the trading book must be assigned to the trading book. Trading intent exists if positions in the trading book are held for the purpose of short-term resale or with the intention of benefiting from current or expected price differences between the buying and selling prices, or from other price or interest rate variations.

Unexpected loss
In the context of risk control and within the framework of regulatory capital requirements for financial institutions pursuant to Basel, an unexpected loss is defined as the potential loss amount of credit risk exposures that exceeds the expected loss. According to Basel, own funds must be available to cover unexpected losses.

Value-at-risk (VaR)
VaR is a risk measure which indicates the value that a loss on a certain risk exposure (e.g. of a securities portfolio) will not exceed with a given probability and within a given time period. To calculate the capital requirement of an exposure in the trading book, a bank may use an internal model. The ABA also describes this as VaR method.