

AUDITOR'S REPORT

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

Audit Opinion

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

In our opinion, the accompanying consolidated financial statements comply with legal requirements and give a true and fair view of the financial position of the Group as at December 31, 2017, and of its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRSs) as adopted by the EU and the additional requirements under Section 59a Austrian Banking Act (BWG) in conjunction with Section 245a Austrian Commercial Code (UGB).

Basis for Opinion

We conducted our audit in accordance with Regulation (EU) No. 537/2014 (hereinafter EU Regulation) and Austrian generally accepted auditing standards. Those standards require the application of the International Standards on Auditing (ISAs). Our responsibilities under those provisions and standards are further described in the “Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements” section of our report.

We are independent of the Group in accordance with Austrian Generally Accepted Accounting Principles, the provisions of the Austrian Banking Act and professional requirements and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

We have structured key audit matters as follows:

- _ Description
- _ Audit approach
- _ Reference to related disclosures

1. Impairment of loans and advances

Description:

Loan loss provisions are made by impairing loans and advances in order to take into account risks of losses with regard to the credit portfolio. As at December 31, 2017, Erste Group Bank AG, Vienna, set up loan loss provisions in the amount of EUR 4.3 billion for a credit volume totaling EUR 182.9 billion (loans and advances to customers and credit institutions as well as contingent liabilities). These loan loss provisions represent management’s best estimate with regard to losses incurred in the credit portfolio at the balance sheet date. Determining the amount of the loan loss provisions involves a high degree of judgment given the assumptions and estimates used.

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

- _ The loan loss provision is determined on a case-by-case basis for defaulted loans and advances considered to be significant at customer level.
- _ The loan loss provision is calculated based on statistical models for those defaulted loans and advances with a comparable risk profile that are not considered to be individually significant.
- _ For losses having already occurred until the balance sheet date but which the Company failed to identify, loan loss provisions are made on a portfolio basis (impairment on a portfolio basis). These collectively assessed loan loss provisions are calculated using mod-

els based on estimated probabilities of default and loss ratios as well as the period elapsing between the occurrence of the loss event and its identification by the Company.

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

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

Audit approach:

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

- _ evaluated the significant lending business processes.
- _ identified and tested the internal control system, particularly the key controls involved in approving loans, in the ongoing monitoring and the early detection process at the level of Erste Group Bank AG, Vienna, and significant subsidiaries, as well as audited the internal control system for the correct use of the rating models and measurement of collateral.
- _ tested, by using samples, if loss events were fully identified, and assessed if events occurred that significantly affect the borrower's repayment ability with regard to loans and advances that are not considered as defaulted. We also evaluated the appropriateness of the risk assessment made by Erste Group Bank AG, Vienna, as well as individual loan loss provisions for a sample of loans and advances. With regard to these loans and advances, we critically assessed the cash flows estimated by the Group to be received from interest, redemption and collateral so as to be able to assess the appropriateness of the loan loss provisions stated in the consolidated financial statements.
- _ referred to the below elements of the internal control system so as to assess the reliability of the statistical models used to calculate the collective loan loss provisions:
 - _ Comparison of loan loss provision estimates made using statistical models against realized losses (backtesting),
 - _ Ongoing monitoring and consistent validation of internal rating-based models and parameters,
 - _ Assessment of the appropriateness of the lending values applied to the collaterals used, and
 - _ Annual revision of estimates concerning the model parameters based on updated data sets.
- _ evaluated, involving our credit risk experts in the audit, the reliability of the estimates made with regard to material regulatory models – which are also used for setting up collective loan loss provisions – based on their stability, performance and user acceptance.
- _ assessed the information brought to the attention of the management in regular intervals at meetings of the Holding Model Committee, the Group Executive Risk Committee as well as comparable local Risk Committees and regularly monitored the decisions of these Committees, reperformed the analyses presented on backtesting and revised estimates, as well as critically assessed the model and parameter validations performed. Both Committees are responsible for taking crucial decisions regarding recalibrations or changes to the models that might be necessary.

Reference to related disclosures:

With regard to the above, we refer to management's disclosures in section 44.4 in the notes.

2. Fair values of securities and derivatives

Description:

The consolidated financial statements of Erste Group Bank AG, Vienna, include financial assets at a carrying amount of EUR 23.7 billion as well as financial liabilities at a carrying amount of EUR 5.5 billion, accounted for at their fair values. Erste Group Bank AG, Vienna, uses observable market prices and valuation models to determine the fair values. The valuation models also play a significant role in determining the hedged risk in hedge accounting.

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

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

Audit approach:

With a view to evaluate the appropriateness of the fair values of the financial assets and liabilities, we used valuation experts and:

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

Reference to related disclosures:

With regard to the carrying amounts and the distribution to the fair value levels of the securities and derivatives accounted for at their fair values, we refer to management's disclosure in section 46 in the notes. With regard to the description of the valuation methods as well as the valuation models used, we refer to management's disclosure in section 46 in the notes. With regard to changes in the value of specific parameters, we also refer to section 46 in the notes.

Responsibilities of Management and the Audit Committee for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU, and the additional requirements under Section 59a BWG in conjunction with Section 245a UGB, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

As part of an audit in accordance with the EU Regulation and with Austrian generally accepted auditing standards, which require the application of ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- _ identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis

for our opinion. The risks of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- _ obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- _ evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- _ conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- _ evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- _ obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Report on Other Legal and Regulatory Requirements

Comments on the Management Report for the Group

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

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

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

Opinion

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

Statement

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

Other Information

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

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

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

Additional Information in Accordance with Article 10 of the EU Regulation

Pursuant to Sections 23 and 24 Austrian Savings Bank Act (SpG), Sparkassen-Prüfungsverband (Prüfungsstelle) is the statutory auditor of Austrian savings banks. In accordance with Section 23 (3) SpG in conjunction with Sections 60 and 61 BWG, the Company is subject to an audit, the consolidated financial statements are also subject to a statutory audit.

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

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

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

Responsible Engagement Partner

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

Vienna, 28 February 2018

Sparkassen-Prüfungsverband

Prüfungsstelle

(Bank Auditor)

Gerhard Margetich
Austrian Certified Public Accountant

Stephan Lugitsch
Austrian Certified Public Accountant

PwC Wirtschaftsprüfung GmbH

Timo Steinmetz
Austrian Certified Public Accountant

Dorotea-E. Rebmann
Austrian Certified Public Accountant

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

STATEMENT OF ALL MEMBERS OF THE MANAGEMENT BOARD

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

Management board

Andreas Treichl mp, Chairman

Peter Bosek mp, Member

Petr Brávek mp, Member

Willibald Cernko mp, Member

Gernot Mittendorfer mp, Member

Jozef Sikela mp, Member

Vienna, 28 February 2018