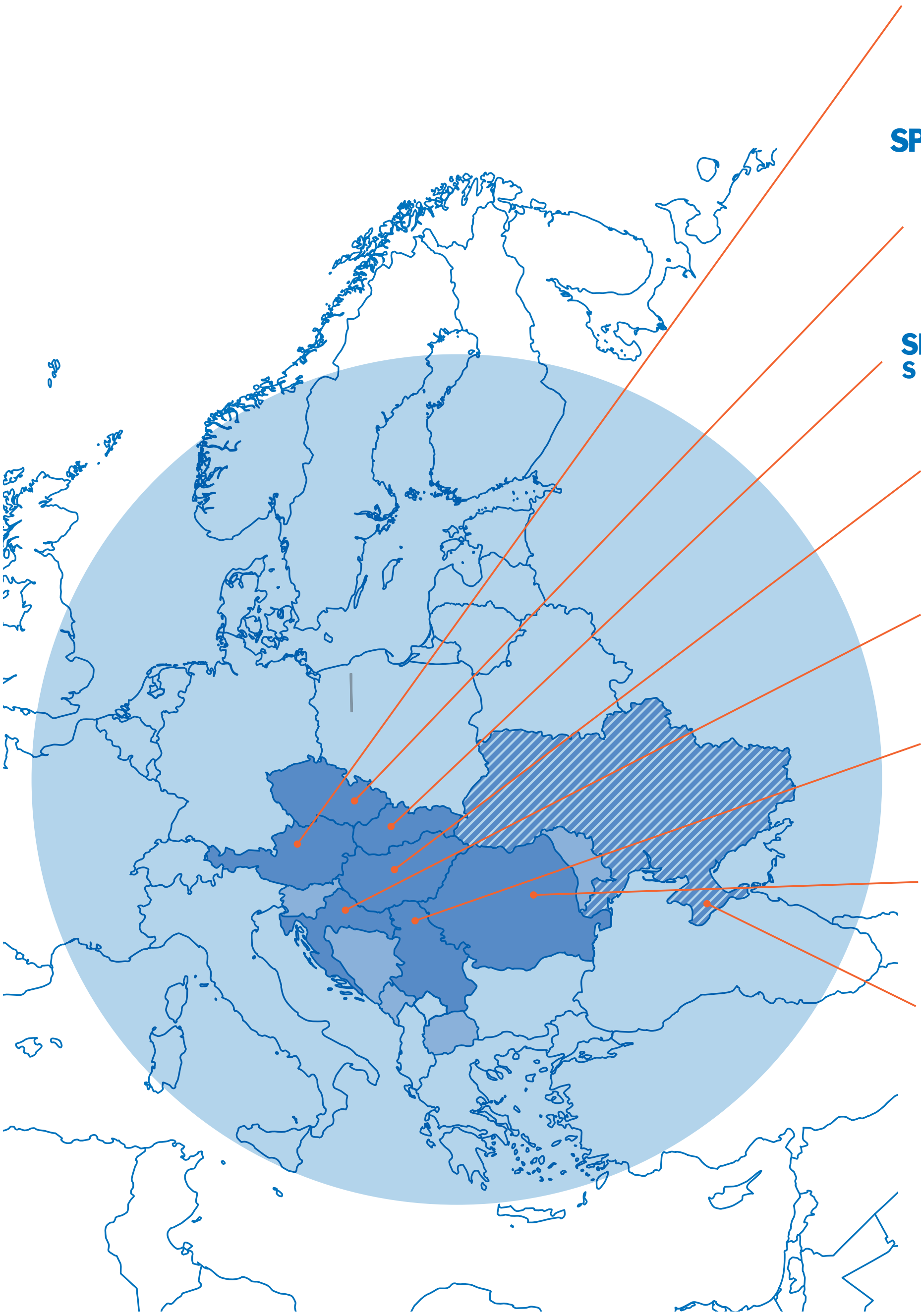
ERSTE GROUP

Annual Report 2012

2012

Extensive presence in Central and Eastern Europe



ERSTE BANK

AUSTRIA

Employees: 16,060
Branches: 254
Customers: 0.8 million

SPARKASSE

Branches: 744
Customers: 2.5 million

ČESKÁ SPOŘITELNA

CZECH REPUBLIC

Employees: 11,014
Branches: 658
Customers: 5.3 million

SLOVENSKÁ SPORITEĽŇA

SLOVAKIA

Employees: 4,185
Branches: 297
Customers: 2.4 million

ERSTE BANK Hungary

HUNGARY

Employees: 2,690
Branches: 141
Customers: 0.9 million

ERSTE BANK Croatia

CROATIA

Employees: 2,629
Branches: 150
Customers: 1.0 million

ERSTE BANK Serbia

SERBIA

Employees: 944
Branches: 68
Customers: 0.3 million

BCR

ROMANIA

Employees: 8,289
Branches: 623
Customers: 3.5 million

ERSTE BANK Ukraine

UKRAINE

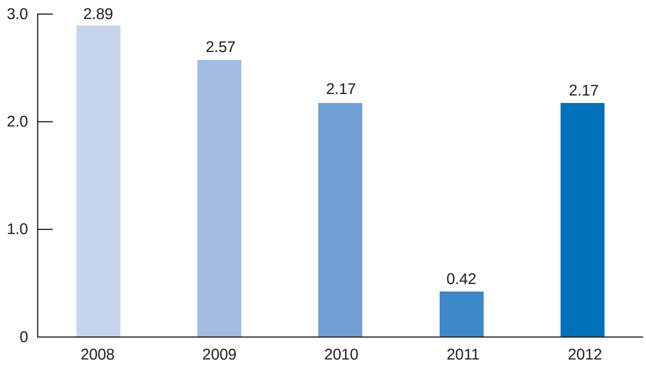
Employees: 1.530
Branches: 120
Customers: 0.3 million

Key Financial and Operating Data *

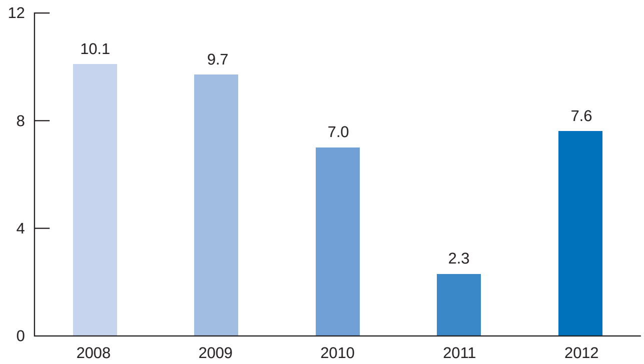
in EUR million (unless otherwise stated)	2008	2009	2010	2011	2012
Balance sheet					
Total assets	**201,441**	**201,513**	**205,770**	**210,006**	**213,824**
Loans and advances to credit institutions	14,344	13,140	12,496	7,578	9,074
Loans and advances to customers	126,185	128,755	132,334	134,750	131,928
Risk provisions for loans and advances	-3,783	-4,954	-6,119	-7,027	-7,644
Securities, other financial assets	39,238	40,298	39,957	44,008	47,287
Other assets	25,457	24,274	27,102	30,697	33,179
Total liabilities and equity	**201,441**	**201,513**	**205,770**	**210,006**	**213,824**
Deposits by banks	34,672	26,295	20,154	23,785	21,822
Customer deposits	109,305	112,042	117,016	118,880	123,053
Debt securities in issue and subordinated capital	36,530	35,760	37,136	36,565	34,750
Other liabilities	9,839	11,721	14,906	15,596	17,861
Equity attributable to non-controlling interests	3,016	3,321	3,444	3,143	3,483
Equity attributable to owners of the parent	8,079	12,374	13,114	12,037	12,855
Changes in total qualifying capital					
Risk-weighted assets pursuant to section 22 Austrian Banking Act	103,663	106,383	103,950	97,630	90,434
Qualifying consolidated capital pursuant to sections 23 & 34 Austrian Banking Act	11,758	15,772	16,220	16,415	16,311
Tier 1 capital	7,448	11,450	12,219	11,909	12,223
Hybrid capital	1,256	1,174	1,200	1,228	375
Solvency ratio pursuant to section 22 Austrian Banking Act	9.8%	12.7%	13.5%	14.4%	15.5%
Core tier 1 ratio (total risk)	5.2%	8.3%	9.2%	9.4%	11.2%
Income statement					
Net interest income	4,913.1	5,220.9	5,439.2	5,569.0	5,235.3
Risk provisions for loans and advances	-1,071.4	-2,056.6	-2,021.0	-2,266.9	-1,980.0
Net fee and commission income	1,971.1	1,772.8	1,842.5	1,787.2	1,720.8
Net trading result	114.7	585.1	321.9	122.3	273.4
General administrative expenses	-4,001.9	-3,807.4	-3,816.8	-3,850.9	-3,756.7
Operating result	2,997.0	3,771.4	3,786.8	3,627.6	3,472.8
Pre-tax profit/loss	576.2	1,261.3	1,324.2	-322.2	801.2
Net profit/loss after minority interests	859.6	903.4	878.7	-718.9	483.5
Operating data					
Number of employees	52,648	50,488	50,272	50,452	49,381
Number of branches	3,147	3,205	3,202	3,176	3,063
Number of customers (million)	17.2	17.5	17.0	17.0	17.0
Share price and key ratios					
High (EUR)	49.20	31.15	35.59	39.45	24.33
Low (EUR)	13.25	7.00	25.10	10.65	11.95
Closing price (EUR)	16.20	26.06	35.14	13.59	24.03
Price/earnings ratio	6.0	10.9	15.1	na	19.6
Dividend per share (EUR)	0.65	0.65	0.70	0.00	0.40
Payout ratio	24.0%	27.2%	30.1%	0.0%	32.6%
Dividend yield	4.0%	2.5%	2.0%	0.0%	1.7%
Book value per share (EUR)	25.8	28.9	29.9	26.1	27.9
Price/book ratio	0.6	0.9	1.2	0.5	0.9
Total shareholder return (TSR)	-65.1%	64.9%	37.3%	-59.3%	76.8%
Number of shares					
Number of shares outstanding	317,012,763	377,925,086	378,176,721	390,767,262	394,568,647
Average number of shares outstanding	313,218,568	322,206,516	374,695,868	377,670,141	391,631,603
Market capitalisation (EUR billion)	5.1	9.8	13.3	5.3	9.5
Trading volume (EUR billion)	29.4	13.3	15.3	10.9	7.4

*) The figures starting from 1 January 2010 are restated according to IAS 8. For further details see chapter C on accounting policies − restatement in the consolidated financial statements 2011.
The dividend pay-out ratio represents dividends paid to owners of the parent (excluding dividends paid on participation capital) for the respective year divided by net profit for the period attributable to owners of the parent.
The term “net profit after minorities” corresponds to the term “net profit attributable to owners of the parent”.
Shares outstanding include Erste Group shares held by savings banks that are members of the Haftungsverbund (cross-guarantee system).
Trading volume as reported by Vienna Stock Exchange.

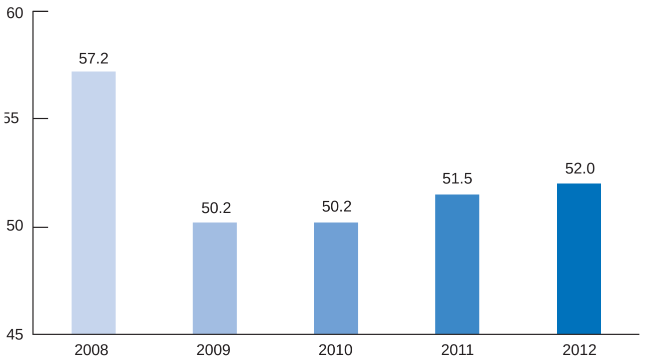
Cash earnings per share in EUR



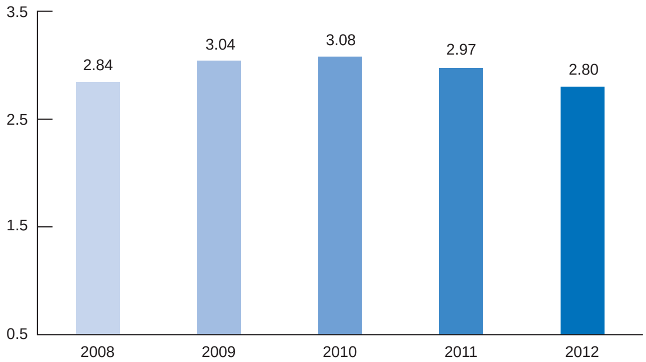
Cash return on equity (in %)



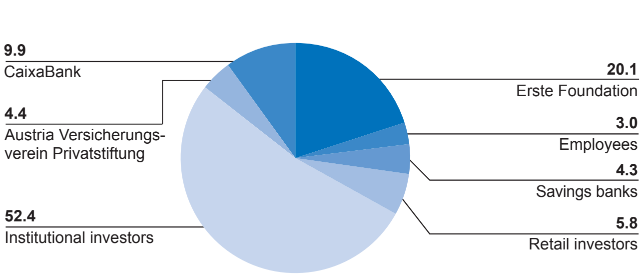
Cost/income ratio (in %)



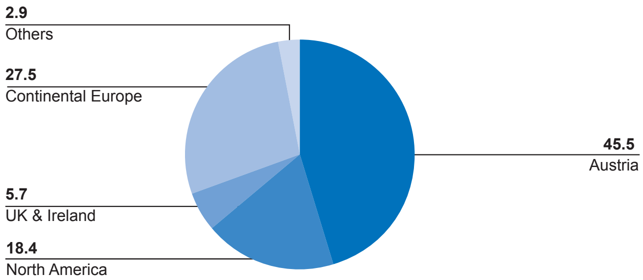
Net interest margin (in %)



Shareholder structure as at 31 December 2012 By investors (in %)



Shareholder structure as at 31 December 2012 By regions (in %)



Ratings as at 31 December 2012

Fitch	
Long-term	A
Short-term	F1
Outlook	Stable
Moody's Investors Service	
Long-term	A3
Short-term	P-2
Outlook	Negative
Standard & Poor's	
Long-term	A
Short-term	A-1
Outlook	Negative

Financial calendar 2013

Date	Event
29 April 2013	Q1 2013 results
16 May 2013	Annual General Meeting
22 May 2013	Ex-dividend day
24 May 2013	Dividend payment day
3 June 2013	Dividend payment day – Participation Capital
30 July 2013	H1 2013 results
30 October 2013	Q3 2013 results

As the financial calendar is subject to change, please check Erste Group's website for the most up-to-date version (www.erstegroup.com/investorrelations).

Highlights

Operating result remains solid
- Excellent cost performance
- Cost/income ratio at 52.0%

Significant improvement in risk costs
- NPL ratio at 9.2%, stabilising in second half-year
- NPL coverage rose to 62.6% in 2012

Solid net profit despite one-offs
- Dividend of EUR 0.4 proposed to AGM
- Negative one-off effects of EUR 361 million

Excellent funding and liquidity position
- Strong deposit base is key competitive advantage
- Loan-to-deposit ratio at 107.2%
- Successful retail and benchmark issues

Further improvement in capital ratios
- Reduction of RWAs in non-core business
- Core tier 1 ratio at 11.2% (Basel 2.5)

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Letter from the CEO

Dear shareholders,

Erste Group posted a net profit of EUR 483.5 million for the financial year 2012. At the same time, we raised the core tier 1 ratio significantly to 11.2% while lowering risk costs by almost 13%. This performance is highly satisfactory, particularly against the backdrop of a challenging economic environment, low interest rates, a steady rise in costs due to regulatory and political demands on the banking sector, and because net profit was also impacted by negative one-off charges in the net amount of EUR 361 million. Another positive factor was the undiminished inflow of deposits, a token of our customers' trust in Erste Group, which improved the loan-to-deposit ratio to approximately 107%. Loan demand remained subdued, which also contributed to this development. The bank's liquidity and funding positions remained excellent, enabling it to make early repayment of funds taken up under the ECB's long-term refinancing operations. We will, therefore, propose to the annual general meeting to pay a dividend in the amount of EUR 0.40 per share for the financial year 2012 and to pay interest on the participation capital, as we did in previous years.

Operating environment in 2012

Your bank – Erste Group – again had to operate in an environment during 2012 that was characterised by increasingly conflicting goals. Confronted by divergent demands from regulators, policymakers, the economic environment, customers, employees and owners, we strived to achieve the best balance possible. This was no easy undertaking, as we were faced last year with banking and financial transaction taxes of EUR 244 million before tax and EUR 187 million after tax while simultaneously being called upon to provide affordable loans. We were also faced with still-evolving capital adequacy and liquidity requirements which made it difficult for management to position the bank strategically, a weakening European economy that offers only limited growth prospects in 2013, customers who increasingly were moving their banking business to virtual platforms, employees who naturally valued job security, and owners who rightfully expected their bank to at least to earn the cost of capital over the medium term.

Let me discuss the general economic conditions in the reporting period in a little more detail. Over the course of 2012, the global economy gradually lost momentum and the euro zone even slipped into a mild recession. Whilst the region of Central and Eastern Europe was unable to escape this trend, developments varied by country: some, like the Czech Republic, Hungary, Croatia and Serbia, dipped back into a shallow recession. Overall, in 2012 real economic growth in Central and Eastern Europe ranged between 2.0% in Slovakia and -2.0% in Croatia. The export sector was again a major driver of economic activity in 2012. Accounting for a large share of total exports, the automotive industry made major contributions to economic performance in the Czech Republic, Slovakia, Romania and even Hungary. In Austria, the euro zone's debt crisis led to a contraction of foreign demand and impacted growth of domestic consumption. At 0.7%, economic growth in Austria nonetheless surpassed the euro zone average of -0.6%.

The Romanian economy, which is dominated largely by domestic trade, stagnated last but not least due to a poor harvest. In Croatia, the stable performance of the tourist industry was not sufficient to ward off a recession caused by sluggish exports and the impact on agriculture of bad weather conditions. The performance of the Hungarian economy was again influenced adversely by unorthodox government policies. Nonetheless, sovereign bond yields dropped to the lowest in a number of years. To stimulate economic growth, central banks across the region implemented further rate cuts. Over the medium to long term, however, comparatively lower public and private debt and generally strong economic fundamentals, such as lower current account deficits and rising net exports, will have a positive impact on the future development of EU states in Eastern Europe.

Net profit benefits from lower risk costs

Against this backdrop of a challenging operating environment, we did all we could in 2012 to compensate moderate declines in income through strict cost management. This offset was almost achieved as the operating result, at EUR 3.5 billion, was only slightly below the level of the previous year. The operating result reflected not only economic weakness in Central and Eastern Europe but also the targeted reduction of non-core activities, as we refocused on customer business in our core markets. Combined with very low interest rates, this brought a decline in net interest income. As the lending and securities businesses were generally subdued, net fee and commission income was down slightly, even though the trend reversed in 2012's fourth quarter on the back of a strongly improving securities business. The net trading result more than doubled to a normalised level after being impacted by negative valuations in 2011. At the same time, we continued to bring down costs. General administrative expenses were trimmed further despite rising inflation. With the headcount diminishing, mainly due to restructuring in Hungary and Romania, personnel expenses were also lower. The cost/income ratio was almost unchanged at 52%.

We also recorded a reduction in risk costs, which dropped below the EUR 2 billion mark for the first time since 2008 amid a substantial normalisation in Hungary and declines in all countries with the exception of Romania and Croatia. As a percentage of average customer loans, risk costs fell to 148 basis points. The item "other operating result" was influenced mainly by negative one-off effects, although the buyback of tier 1 and tier 2 instruments and the sale of real estate and financial assets resulted in positive one-off effects of EUR 323 million and EUR 56 million after tax, respectively. Negative impacts occurred due to goodwill adjustments (not affecting regulatory capital) of EUR 456 million after tax, banking levies in Austria, Hungary and Slovakia of EUR 187 million after tax, a loss of EUR 75 million from the sale of Erste Bank Ukraine, and restructuring costs in Romania in the amount of EUR 22 million after tax.

Broken down by segment, the most significant contributions to Erste Group's profitability came from the Czech Republic, Slovakia, Austria, and bond underwriting and trading. In Romania, BCR's management (newly appointed in early 2012) defined four priorities: to improve asset quality, increase operating income, optimise operating processes and focus on local currency lending. It also initiated sweeping restructuring measures. In Hungary, Erste Bank Hungary continued its restructuring and adjustment to the new operating environment.

Turning to the balance sheet, I want to comment on loans and advances to customers in addition to the previously mentioned increase in deposits. Loans and advances to customers declined slightly to EUR 131.9 billion. This was attributable to the planned reductions in the International Business and real estate business areas as well as to early repayments of loans in Hungary and the sale of Erste Bank Ukraine. CHF lending has fallen to 9.7% of the total loan book, supported by continuing efforts to convert CHF loans in Austria. The non-performing loan (NPL) ratio as a percentage of customer loans stabilised in the second half of the year and stood at 9.2% at year-end. The NPL coverage ratio rose to 62.2%. In the fourth quarter of 2012, the volume of NPLs declined in all countries except Croatia and Serbia. NPLs were also up slightly in the large corporate business. In the core markets of Austria, the Czech Republic and Slovakia, asset quality improved compared to the previous year.

Our liquidity position is likewise strong. Short-term funding requirements are more than covered by highly liquid assets, which make the bank independent of interbank funding. Evidence of Erste Group's attractiveness to bond investors can be seen in benchmark issues in various asset classes (Pfandbrief (covered), senior unsecured, and tier 2) as well as successful retail issues in a total volume of EUR 4.7 billion, with an average maturity of more than 7 years.

Best capital position since going public in 1997

In late February 2013, a fundamental political consensus was reached at the European level on new capital adequacy and liquidity standards for banks. The relevant EU directives CRR / CRD IV (Capital Requirements Regulation / Capital Requirements Directive IV) are expected to come into force in early 2014. The confirmation that the savings banks' minority capital will be recognised under the new regime is important for Erste Group. We are already well prepared to comply with the new rules. Core tier 1 capital (Basel 2.5) was improved substantially in 2012 to 11.2%, which is by far the best level since Erste Group's IPO in 1997.

Continuing focus on customer-based strategy

Unlike many other European banks, Erste Group was not forced to make major changes to its business model as a result of upheavals in the regulatory landscape. Erste Group's key strength has been, and continues to be, its strategy, which for the past 200 years has been built on long-lasting and stable customer relationships. Our clear commitment to banking in Austria and the eastern part of the European Union, coupled with our consistent focus on providing the best possible services to our retail, corporate and public sector customers will also ensure our future success.

I wish to thank not only all of our employees for their professional attitude and commitment during the past year, but also our customers and investors for the trust they place in us.

Andreas Treichl mp

Management Board

ANDREAS TREICHL

Appointed until June 2017
Born in 1952

Responsibilities:
Group Strategy & Participation Management
Group Secretariat
Group Communications
Group Investor Relations
Group Human Resources
Group Audit
Group Brands
Employees' Council

FRANZ HOCHSTRASSER

Appointed until June 2017
Born in 1963

Responsibilities:
Group Large Corporates Banking
Erste Group Immorent Client, Industries and Infrastructure
Group Capital Markets
Group Research
Group Investment Banking
Steering & Operating Office Markets
Steering & Operating Office Large Corporates/ Erste Group Immorent

MANFRED WIMMER

Appointed until June 2017
Born in 1956

Responsibilities:
Group Accounting
Group Performance Management
Group Asset Liability Management

HERBERT JURANEK

Appointed until June 2017
Born in 1966

Responsibilities:
Group Organisation/IT
Group Banking Operations
Group Services

GERNOT MITTENDORFER

Appointed until June 2017
Born in 1964

Responsibilities:
Group Strategic Risk Management
Group Corporate Risk Management
Group Retail Risk Management
Group Corporate Workout
Group Compliance, Legal & Security
Erste Group Immorent Real Estate Risk Management
Group Risk Governance and Projects
Quantitative Risk Methodologies

Report of the Supervisory Board

Dear shareholders,

At the end of the Annual General Meeting on 15 May 2012, the long-standing chairman of the supervisory board, Heinz Kessler, and supervisory board member Elisabeth Gürtler resigned from the supervisory board. The number of shareholder representatives was reduced from twelve to ten. The supervisory board now consists of fifteen members: ten shareholder representatives and five employee representatives. I would like to thank Heinz Kessler and Elisabeth Gürtler for their commitment and dedication to Erste Group Bank AG.

In March 2012, the supervisory board set up a working group that dealt in several meetings with the organisation, the activities and the efficiency of the supervisory board and its committees (self-evaluation). The supervisory board discussed the working group's proposals and agreed with them on 27 June 2012. The proposals resulted in, among other things, the division of the nomination and remuneration committee into two separate committees, a realignment of tasks and powers of the other committees, new appointments of committee members, and a change to the rules of procedure. The strategy committee was dissolved and replaced by an executive committee. While topics of strategic significance are discussed in supervisory board meetings, the executive committee meets on an ad hoc basis at the supervisory board's request to prepare or pass resolutions on specific matters in meetings or by circular vote. The supervisory board is confident that these organisational changes will enable it to meet the increased demands being made on banks' supervisory bodies.

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

In the course of 35 supervisory board and committee meetings, the management board promptly and comprehensively informed the supervisory board, in both written and oral forms, about all business matters. This allowed us to act in accordance with the mandate set down for us in the law, the articles of association and the Corporate Governance Code, as well as to ascertain the proper conduct of business.

The financial statements (consisting of the balance sheet, income statement and notes), the management report, the consolidated financial statements and the group management report for 2012 were audited by the legally mandated auditor, Sparkassen-Prüfungsverband, and by Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H., as supplementary auditor, receiving an unqualified audit opinion. Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H. was also contracted to perform a discretionary audit of the 2012 Corporate Governance Report. The audit did not give rise to any qualifications. Representatives of both auditors attended the financial statements review meeting of the audit committee and the supervisory board and presented their comments on the audits they had conducted.

Based upon our own review, we endorsed the findings of these audits.

We have approved the financial statements, which are now duly endorsed in accordance with section 96 (4) of the Austrian Stock Corporation Act (Aktiengesetz). The management report, consolidated financial statements, group management report and Corporate Governance Report have been reviewed and accepted.

The supervisory board is of the opinion that the result of the financial year 2012 justifies the distribution of dividends and therefore endorses the proposal of the management board to recommend to the Annual General Meeting to pay a dividend both to holders of participation certificates and to shareholders.

For the supervisory board:

Friedrich Rödler mp
Chairman of the Supervisory Board
Vienna, March 2013

Erste Group on the Capital Markets

The continuing European debt crisis, political controversy over reducing the US government deficit, uncertainty about global growth and further interventions by major central banks were among the key factors driving financial markets developments in 2012. Despite the challenging environment and high market volatility, key stock exchange indices ended the year in positive territory. The shares of Erste Group posted an excellent performance, rising 76.8% year on year. This gain came on the back of solid profitability of the core business, declining risk costs and further strengthening of the capital base.

EQUITY MARKET REVIEW

Mostly strong index performances despite widespread crisis sentiment

The year 2012 was marked by substantial uncertainty as to impacts of the euro zone crisis on the development of the global real economy, on the one hand, and by interventions from governments and major central banks, on the other. Against this backdrop, the US Dow Jones Industrial Average Index rose 7.3% to 13,104.14 points. The broader Standard & Poor's 500 Index advanced by 13.4% to 1,426.19 points. Most European and Asian stock exchanges posted gains in the double-digit percentage range. The Euro Stoxx 600 Index, which is composed of the biggest European companies, was up 14.4%. Most European indices followed a similar trend, while the Spanish IBEX alone suffered a decline of 4.7%.

Interventions due to persistent European debt crisis

As signs of recession became evident in several euro zone countries, EU heads of state and governments as well as the European Central Bank (ECB) were prompted into action. In the third quarter, European leaders agreed to expand the euro's safety net by setting up the ESM (European Stability Mechanism) and establishing a single bank supervisor at the European Central Bank. Closely co-ordinating its policies with these measures, the ECB cut its key interest rate to 0.75% and announced unlimited purchases of sovereign bonds of distressed countries that apply for aid under the EFSF (European Financial Stability Facility) or the ESM and agree to implement strict reforms and austerity measures.

Mixed economic data triggered additional US central bank measures

Overall, the performance of the US economy was modestly positive in 2012. The real estate market – a key driver of the US economy – recovered visibly. The unemployment rate declined continuously through the second half of the year, but it remained far above the long-term average. The sluggish labour market caused the US central bank (Fed) to continue its highly accommodative monetary policy stance. The Federal Open Market Committee decided to keep the key federal funds rate at its historic low of zero to 0.25% at least until the unemployment rate falls below 6.5% and as long as the one-to-two-year inflation outlook does not exceed 2.5%. At the same time, the Fed announced the expansion of its programme for purchasing of long-term bonds. From January 2013 onwards, the Fed will buy monthly USD 40 billion worth of mortgage bonds and USD 45 billion in US treasuries.

Double-digit growth of the European banking index

Escalation of the European debt crisis and ratings downgrades for several pan-European banks caused yields of Spanish and Italian bonds to surge in mid-2012. Against this backdrop, European bank shares sustained significant losses in the second quarter. Only the ECB's announcement that it was willing to engage in unlimited secondary market purchases of sovereign bonds of European states applying for EFSF or ESM support put European bank shares onto a stable upward trend in the second half of the year. The Dow Jones Euro Stoxx Bank Index, which is composed of leading European bank shares, climbed to 112.36 points and, overall, gained 12.0% for the year.

ATX (Austrian Traded Index) posted a solid gain

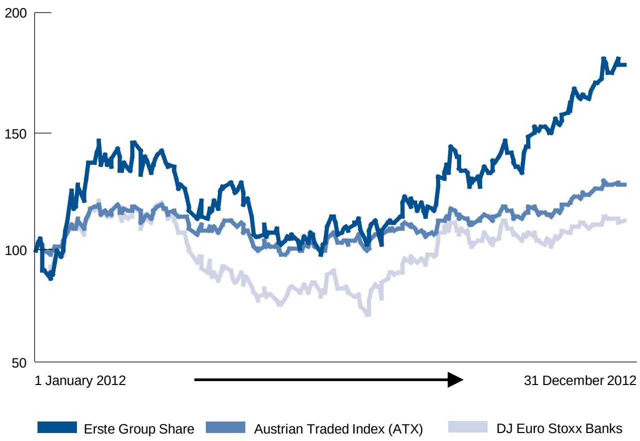
From 1,891.68 points at the beginning of 2012, Vienna's ATX rose to 2,401.21 points by the last trading day to gain 26.9% for the year. After a good start that lifted the index beyond the 2,200 mark in the first quarter, escalation of the European debt crisis forced the ATX sharply lower, especially in the second quarter. In the second half of the year, the agreements on further measures reached at the political level in Europe, the ECB intervention as well as solid corporate earnings supported a stable upward trend for the ATX. At year-end 2012, the index's market capitalisation stood at EUR 79 billion (2011: EUR 64 billion).

ERSTE GROUP SHARE

Erste Group share was best-performing ATX title

At year-end 2012, the shares of Erste Group were quoted at EUR 24.025, up 76.8% versus year-end 2011. After its strong start into the year, the Erste Group share was unable to decouple from the negative trend in international stock markets and lost some ground in the second quarter. In the second half, however, the share price rose on the back of a stable performance by the Group's core operations, lower risk costs and capital strength significantly surpassing the EBA requirements.

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



The Erste Group share price was further buoyed by positive the favourable assessment among the majority of investors and analysts regarding measures announced to achieve sustainable and substantial improvement in its Romanian operations and its continuous concentration on the core business. These factors combined to prompt the impressive rise in the Erste Group share price during 2012. At year-end, the share traded only slightly below its high of EUR 24.33 recorded on 27 December. Hence, the Erste Group share decidedly outperformed the ATX (+26.9%) and the DJ Euro Stoxx Bank Index (+12.0%).

Performance of the Erste Group share versus indices *

	Erste Group share	ATX	DJ Euro Stoxx Bank Index
Since IPO (Dec 1997)	116.8%	84.0%	-
Since SPO (Sep 2000)	104.5%	105.5%	-68.0%
Since SPO (Jul 2002)	37.9%	96.9%	-55.3%
Since SPO (Jan 2006)	-46.6%	-38.4%	-70.3%
Since SPO (Nov 2009)	-17.2%	-7.8%	-50.7%
2012	76.8%	26.9%	12.0%

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

Number of shares, market capitalisation and trading volume

In September 2011, Erste Group had signed an agreement with four regional Romanian investment funds – the Societatea de Investitii Financiare (SIF) – on the acquisition of an additional stake of 24.11% in BCR against payment of cash and issuance of new Erste Group shares in several tranches. The fourth tranche comprising 3,801,385 new shares was issued on 28 February 2012 and first listed on 23 March. All new shares of Erste Group are traded on the stock exchanges of Vienna, Prague and Bucharest. This deal increased the number of shares from 390,767,262 at the beginning of 2012 to 394,568,647 at year-end 2012.

Due to the share price gains, Erste Group's market capitalisation rose to EUR 9.5 billion at year-end 2012 from EUR 5.3 billion at 2011's close.

The trading volume of Erste Group shares was up slightly in the year. On average, 876,386 Erste Group shares were traded daily on the Vienna Stock Exchange during 2012 (2011: 867,676). Trading volume on the Prague Stock Exchange, where the shares of Erste Group have been listed since October 2002, was up versus the previous year to approximately 348,000 shares per day. On the Bucharest Stock Exchange, the average daily trading volume in Erste Group shares, which have been listed there since 14 February 2008, was 13,902 shares. Overall, the trading volume of Erste Group shares at these three stock exchanges account for approximately 45% of the total trading volume. More than half of the trading activity is executed over-the-counter (OTC) or through electronic trading systems.

Erste Group in sustainability indices

The Erste Group share has been included in VÖNIX, the Vienna Stock Exchange's sustainability index, since its launch in 2008 and in the ASPI Eurozone®-Index since 2010. In addition, the Erste Group share has been included in the STOXX Global ESG Leaders Index since its creation in 2011. Based on the STOXX Global 1800 that index is composed of leading sustainable companies worldwide, including 26 financial institutions.

DIVIDEND

Erste Group's dividend policy has been guided by the bank's profitability, growth outlook and capital requirements. In view of the significantly improved earnings in 2012, on the one hand, and the still uncertain regulatory requirements, on the other, the management board of Erste Group will propose to the general shareholders' meeting to pay a dividend in the amount of EUR 0.40 per share for the financial year 2012 and to fully service the participation capital. The 8% dividend for 2011 on the participation capital of EUR 1.76 billion was paid on 31 May 2012.

SUCCESSFUL FUNDING

Constructive sentiment prevailed throughout much of the first quarter in 2012, with the ECB's first and second longer-term refinancing operations (known as LTRO) bringing temporary stability to the markets. Erste Group took advantage of good market conditions in January 2012 to issue a 10-year EUR 1 billion Hypothekenpfandbrief (amassing the largest-ever order book for an Austrian covered bond). Later, in March 2012, Erste Group issued a 5-year EUR 500 million senior bond. On top of these transactions, the positive market sentiment in October was used to issue a USD 500 million tier 2 bond followed by another EUR 500 million a few days later. The two transactions in combination with the buybacks of outstanding tier 1 and 2 instruments during 2012's first half improved the capital structure. The remaining funding needs were mostly covered via the retail channels, which contributed EUR 1.4 billion. The total amount funded in 2012 amounted to EUR 4.7 billion, and its average maturity of 7.2 years points to the successful continuation of longer dated issuances.

INVESTOR RELATIONS

Open and regular communication with investors and analysts

In 2012, Erste Group's management and the investor relations team met with investors in a total of 467 one-on-one and group meetings (2011: 439 meetings). Presentation of the 2011 annual result was followed by the annual analysts' dinner in London. After release of the first-quarter results, the spring road show was conducted in Europe and the US. A second road show was held in autumn following the release of third-quarter results. Erste Group presented its strategy in the current operating environment at international banking and investor conferences organised by Nomura, Citi, Wood, HSBC, Morgan Stanley, UBS, Deutsche Bank, Bank of America Merrill Lynch, Goldman Sachs, and RCB. In addition, the dialogue with bond investors was continued. At conferences, road shows and workshops, a large number of one-on-one meetings were held with analysts and portfolio managers.

On 16 April, the internet chat with Erste Group's CEO was held for the tenth time. The chat provided a chance for many retail investors and the general public to communicate directly with the chairman of the management board, Andreas Treichl.

At http://www.erstegroup.com/investorrelations comprehensive information on Erste Group and the Erste Group share is available. Investors and the broader public also can follow the investor relations team on the social media platform Twitter at http://twitter.com/ErsteGroupIR and on Slideshare at http://de.slideshare.net/Erste_Group. These sites provide users with the latest news on Erste Group in the social network. An overview of the Erste Group's social media channels is available at http://www.erstegroup.com/en/about-us/socialmedia.

As an additional service for investors and analysts, Erste Group launched free Investor Relations Apps for iPhone, iPad, and Android at the beginning of August. This application enables users to access and download Erste Group Bank AG share price information, the latest investor news, multimedia files, financial reports and presentations as well as an interactive financial calendar and contact details for the Investor Relations team. More details on this service and downloading are available at http://www.erstegroup.com/en/investors/IR_App.

At the end of June, Erste Group's investor relations team was cited for the second consecutive year as having the best investor relations performance of an Austrian company. More than 700 buy-side and sell-side analysts took part in the survey conducted by IR Magazine. Its outcome impressively underlined the investor relations team's success in focusing on "transparency and competent communication with investors as a top priority".

Analyst recommendations

26 analysts released periodic research reports about Erste Group during 2012, including one initial coverage analysis. The Erste Group Bank AG share was covered by financial analysts at the following national and international firms: Atlantik Ft, Autonomous, Bank of America Merrill Lynch, Barclays, Berenberg, Citigroup, Concorde, Credit Suisse, Cyrrus, Deutsche Bank, Exane BNP Paribas, Goldman Sachs, HSBC, ING, JP Morgan, KBW, Kepler, Macquarie, Mediobanca, Morgan Stanley, Nomura, RCB, SocGen, UBS, VTB Capital, and Wood. As of year-end, 54% of the analysts had issued buy recommendations (2011: 46%), 38% rated the Erste Group share neutral (2011: 42%), and 8% (2011: 12%) had sell recommendations. The average target price was EUR 22.32. The latest updates on analysts' estimates for the Erste Group share are posted at http://www.erstegroup.com/en/Investors/Share/AnalystEstimates.

Strategy

A historic principle: serving customer needs

Ever since its foundation in 1819 as Central Europe's first savings bank, Erste Group has been pursuing a business strategy focused upon the real economy. The business model also reflects the commitment to society as it pursues not only financial but also ecological and social goals. This strategic orientation was changed neither when Erste Group went public in 1997 nor by increasing regulatory and political interventions in the banking sector. Quite the contrary: The developments of recent years have strengthened our resolve to focus even more consistently on Erste Group's core activities, which are to provide banking services on a sustainable basis to private individuals, businesses and the public sector in Austria, Central Europe and the eastern part of the European Union. This is what differentiates Erste Group from investment banks or other banks whose business is not embedded in the real economy.

As our operations developed, our core activities evolved as well, from those of a savings bank focused on retail lending and deposit-taking into those of an international bank providing banking services to all sectors of the economy. In view of the increasing importance of electronic banking and digital distribution channels, we value not only direct contacts with our customers at the branch offices but also turn our attention to technological developments and innovations to meet our customers' expectations even more effectively.

In addition to the traditional strength in serving private individuals, our core activities also include advisory services and support for our corporate customers with regards to financing, investment, hedging activities and access to international capital markets. Public sector funding through investing parts of our liquidity into sovereign bonds issued in the core region is also part of our core activities. To meet the short-term liquidity management needs of our customer business, we also operate in the interbank market.

It is important to us to develop customer relationships beyond pure lending and deposit collection that benefit both our customers and Erste Group itself, for only a bank that is financially strong is able to offer services at sustainably attractive terms. We therefore strive to be our customers' principal bank, or at least their most important banking relationship. This applies not only to our retail business but also to our large corporate and real estate business and to the serving of entities in the public sector. It applies equally to every country in which we operate. As we occupy very strong market positions in most of our markets, we have the attributes to achieve this objective.

Our core region: Austria and the eastern part of the European Union

When Erste Group went public in 1997, we defined our core region as consisting of Austria and Central and Eastern Europe, i.e. that part of Europe that offers the best structural and therefore long-term growth prospects. Many countries of Central and Eastern Europe have special ties to Austria, not only because of their geographical proximity but also due to a common cultural heritage. Their shared history was interrupted by the division of Europe after World War II but restored after the demise of the Communist dictatorships in the late 1980s. In the early 20th century, regions like today's Czech Republic and Hungary had been economically as advanced or even more advanced than Austria. That had been true also in terms of banking as the savings banks philosophy had spread across Central Europe.

Decades of a centrally planned economy, however, restrained development and the subsequent transition to a market economy has resulted in enormous potential for growth and the need to meet pent-up demand. Against the backdrop of emerging European integration and limited potential for growth in Austria, we grasped this opportunity and from the late 1990s onwards acquired savings banks and financial institutions in countries adjacent to Austria.

We intend to be the leading bank between Germany and Russia in the medium to long term. Today, we operate extensive branch networks in our core markets of Austria, the Czech Republic, Slovakia, Hungary and Romania – all of which are members of the European Union – as well as in Croatia, which is set to join the European Union in mid-2013. Following significant investments into our subsidiaries, we hold leading market positions in many of these countries and therefore focus on organic growth. In Serbia, which has been assigned European Union candidate status, we maintain a minor market presence, but one which may be quickly expanded through acquisitions or organic growth as the country makes progress on European Union integration. Ukraine is not seeking European Union membership in the medium term, and therefore we do not regard it as a core market. In December 2012, Erste Group signed an agreement to sell Erste Bank Ukraine. The closing of the transaction is expected to occur in the first half of 2013. In addition to our core markets, we also hold direct and indirect majority and minority banking participations in Slovenia, Montenegro, Bosnia and Herzegovina, Macedonia, and Moldova. These operations mainly focus on serving private individuals and corporate customers. In our capital market business, we maintain additional presences in Poland, Turkey, Germany, and London. Our international business also operates branches in London, New York and Hong Kong which engage in lending and treasury business and whose strategic outlook has been shifted to focus on customer business.

Erste Group‘s strategy

<table>
<tr><th colspan="5">Customer banking in Central and Eastern Europe</th></tr>
<tr><th colspan="2">Eastern part of EU</th><th colspan="3">Focus on CEE, limited exposure to other Europe</th></tr>
<tr><th>Retail banking</th><th>Corporate banking</th><th>Capital markets</th><th>Public sector</th><th>Interbank business</th></tr>
<tr>
<td>Focus on local currency mortgage and consumer loans funded by local deposits

FX loans only where funded by local FX deposits (RO & HR)

Savings products, asset management and pension products

Potential future expansion into Poland</td>
<td>Large, local corporate and SME banking

Advisory services, with focus on providing access to capital markets and corporate finance

Real estate business that goes beyond financing

Potential future expansion into Poland</td>
<td>Focus on customer business, incl. customer-based trading activities

In addition to core markets, presences in Poland, Turkey, Germany and London with institutional client focus and selected product mix

Building debt and equity capital markets in CEE</td>
<td>Financing sovereigns and municipalities with focus on infrastructure development in core markets

Any sovereign holdings are only held for market-making, liquidity or balance sheet management reasons</td>
<td>Focus on banks that operate in the core markets

Any bank exposure is only held for liquidity or balance sheet management reasons or to support client business</td>
</tr>
</table>

Sustainability created by our business model

The sustainability of our business model is reflected by a consistent operating performance through economic cycles which allows the absorption of higher risk costs in times of economic uncertainty. We create value by doing exactly what a customer-centred bank should do for the real economy: We use the money collected from depositors to make loans to people who wish to buy a home for their families or finance companies that make investments, pursue ideas and create jobs. Any material deviation from this principle that may have occurred in the past has been rigorously eliminated by reducing activities that are not part of our core business or by realigning the core business. Consequently we will for instance no longer grant foreign currency loans to customers who do not have corresponding foreign currency income or are not hedged against currency volatility by other instruments. In practice this means that henceforth we will not provide foreign currency loans to private individuals on any significant scale in Austria and in the countries of Central and Eastern Europe. The only exceptions from this rule will be Croatia and Serbia, where the euro is widely used as a currency and customers not only take up loans in euro but also hold a significant part of their deposits in euro.

The same sustainable approach is employed in liquidity and capital planning. Due to our strong deposit business we have an altogether excellent liquidity position. That situation varies, however, at the level of individual entities: While countries such as the Czech Republic and Slovakia boast deposit surpluses, the reverse is true in Hungary and in Romania, mainly due to the existence of foreign currency loan portfolios. Therefore, it is our aim to rebalance deposits and loans in the course of time, and in particular in each of the relevant currencies. Hence, we are working in conformity with regulatory efforts to promote local deposits and funding on local capital markets.

THE STRATEGY IN DETAIL

The basis of our banking operations is the customer business in Central and Eastern Europe. While in all business areas and, especially, in the retail and corporate segments, the geographical focus is clearly on Central Europe and the eastern part of the European Union, the capital markets and interbank activities as well as the public sector business are defined a little more broadly to be able to meet customer needs as effectively as possible.

Retail business

Our key business is the retail business, covering the entire spectrum from lending, deposit and investment products to current accounts and credit cards. This is where the largest part of our capital is tied up, where we generate most of our income and fund the overwhelming part of our other core activities by drawing on our customers' deposits. The retail business represents our strength and is our top priority when developing our product offer. This includes our focus on new technological developments and innovations that enable us to meet our customers' expectations even more effectively.

Our core competence in retail banking has historical roots. In 1819, wealthy Viennese citizens donated funds to establish Erste Group's predecessor, the first savings bank in Central Europe. It was their aim to bring basic banking services such as safe savings accounts and mortgage loans to wide sections of the population.

Today we serve a total of 17 million customers in our core markets and operate some 3,100 branches. In addition, we use distribution channels such as internet and phone banking. Wealthy private clients, trusts and foundations are served by our Private Banking staff and benefit from services that are tailored to the needs of this target group.

Retail banking is attractive to us for a number of reasons: It offers a compelling business case that is built on market leadership, an attractive risk-reward profile and the principle of self-funding as well as on a comprehensive range of products that are simple and easy to understand and provide substantial cross-selling potential. Only a retail bank with an extensive branch network is able to fund loans in local currency mainly from deposits made in the same currency. We are in such a position of strength and will be guided by this aspect of the business model even more strongly in the future. In short, our retail banking model supports sustainable and deposit-funded growth even in economically more challenging times.

Another positive factor is diversification of the retail business across countries that are at different stages of economic development, such as Austria, the Czech Republic, Romania, Slovakia, Hungary, Croatia, and Serbia.

Corporate business

The second main segment, which also contributes significantly to our earnings, is the business with small and medium-sized enterprises, regional and multi-national groups, and real estate companies. Our goal is to enhance the relationships with these clients beyond pure lending business. Specifically, in our core region, our goal is for corporate customers to choose Erste Group as their principal bank and also route their payment transfers through us and, quite generally, regard Erste Group as their first point of contact for any kind of banking service.

Catering to their different requirements, we serve small and medium-sized enterprises locally in branches or separate commercial centres while multinational groups are serviced by the Group Corporate and Investment Banking division. This approach permits us to combine industry-specific and product expertise with an understanding of regional needs and the experience of our local customer relationship managers.

In view of the regulatory reform efforts commonly referred to as Basel 3, advising and supporting our corporate customers in capital market transactions is becoming increasingly important. As these activities form an integral part of our corporate business, we are also focused on becoming the leading investment bank in our core region. In pursuit of this strategic goal, we established Capital Markets as a separate business unit within our group as early as 2007.

Capital markets business

Client-driven capital markets activities have been and will continue to be part of the comprehensive portfolio of products and services we offer to our retail and corporate customers. The strategic significance of our centrally governed and locally rooted capital markets operations consists in supporting all other business areas in their dealings with the capital markets and, hence, in providing our customers with professional access to the financial markets. We, therefore, view our capital markets business as a link between the financial markets and our customers. As a key capital markets player in our core markets, we also perform important functions such as market-making, capital market research, and product structuring.

Also in this business area, the clear focus of our work has always been on the needs of our customers: most importantly, our retail and corporate customers as well as government entities and financial institutions. Due to our organisation across countries and strong network in Central and Eastern Europe, we have a thorough understanding of local markets and customer needs. In our capital markets business, too, we concentrate on key markets of our retail and corporate business: Austria, the Czech Republic, Slovakia, Romania, Hungary, Croatia and Serbia. For institutional customers, specialised teams have been established in Germany, Poland, Turkey and London which offer these customers a tailor-made range of products.

In many countries where we operate, the local capital markets are not yet as highly developed as in Western Europe or in the United States of America. That means we are pioneers in some of these markets. Therefore, building more efficient capital markets in our core region is another strategic objective of our Group Markets division, especially against the backdrop of new regulatory guidelines related to local funding of the banking business.

Public sector business

A solid deposit business is one of the key pillars of our business model. Accordingly, customer deposits surpass lending volume in many of our core markets. We make a significant part of this liquidity available as financing to the region's public-sector entities. In this way, we facilitate, among other things, essential public-sector investment. Our public-sector customers are primarily municipalities, regional entities and sovereigns, whom we additionally support and advise in capital market issuances, infrastructure financing and project financing. Furthermore, we cooperate with supranational institutions.

Especially in the public-sector segment, we will continue to bundle our resources in the core markets and cut back investments into bonds issued by sovereigns outside Central and Eastern Europe.

Adequate transport and energy infrastructure and municipal services are absolute key prerequisites for a long-term sustainable economic growth. Therefore, we view infrastructure finance and all financial services associated with it to be of significant importance. From 2007 to 2013, the EU has made about EUR 100 billion available to the Czech Republic, Slovakia, Croatia, Hungary and Romania under a range of European funding programmes. In this context, our commitment to infrastructure development in Romania is to be highlighted. Our Romanian subsidiary Banca Comercială Română supports investment into essential infrastructure by funding key companies in all sectors.

Interbank business

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

LONG-TERM GROWTH TRENDS IN CENTRAL AND EASTERN EUROPE

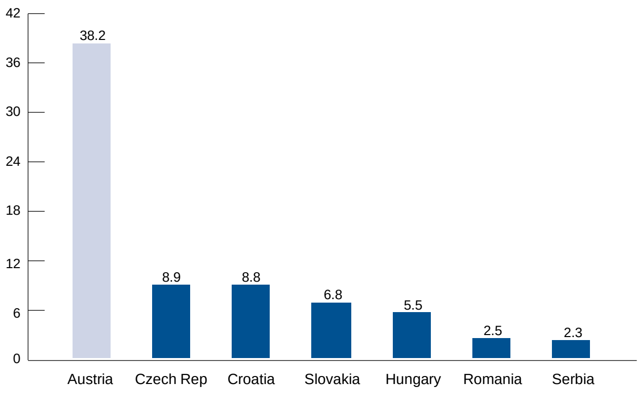
While the financial and economic crisis has slowed the economic catching-up process across the countries of Central and Eastern Europe, the underlying convergence trend continues unabated. This is on one hand due to the fact that the region has to make up for almost half a century of communist mismanagement of the economy and on the other hand due to the fact that banking activities were largely non-existent during that time. In addition, most countries of Central and Eastern Europe have human resources that are at least equivalent to those of Western European countries but need not struggle with the long-term unaffordable costs of the western welfare states and have labour markets that are considerably more flexible. These advantages are complimented by – on average – highly competitive export industries which benefit from wage costs that are extremely low relative to workforce productivity and from investor-friendly tax and welfare systems. Over the upcoming 15 to 20 years, these countries will therefore experience much faster growth than the countries of Western Europe, even though periods of rapid expansion may alternate with times of economic stagnation or even setbacks on this long-term path of sustainable growth.

BANKING GROWTH IN CENTRAL AND EASTERN EUROPE

In many of the countries in which we operate, modern banking services – with the exception of deposit-taking – were largely unknown until a few years ago. On the lending side, this was due to high nominal and real interest rates and also to disposable incomes that did not support household credit growth. In addition, a healthy competitive environment was lacking due to extensive state ownership. All this has changed in recent years. In most of the countries, interest rates are in a process of convergence or have already converged to euro levels. Disposable incomes have risen strongly on the back of growing gross domestic products. Most formerly state-owned banks have been sold to strategic investors who have fostered product innovation and competition. Despite the recent economic slowdown and potential temporary negative impacts on the banking markets in Central and Eastern Europe, these factors will remain the driving force behind future development.

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

Customer loans/capita in CEE (2012) in EUR thousand



Source: Local central banks, Erste Group

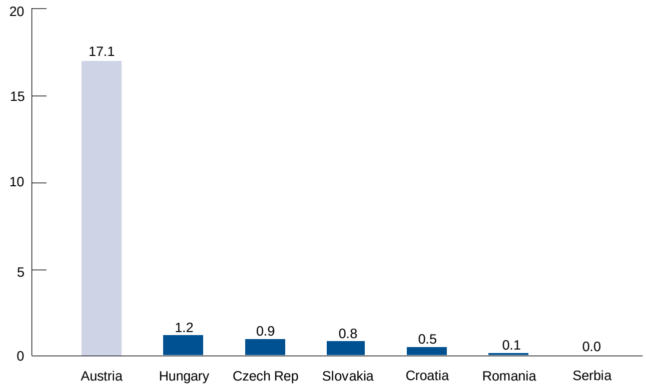
Wealth management

As customers become more prosperous, wealth management, which is embraced by our affluent banking services as well as by our asset management activities, will become another source of long-term growth. We dominate the asset management business in our existing Central and East European markets and, in addition, can build on our experience in Austria, where we have a market with a share of 21.6%. In Central and Eastern Europe we hold market shares between 14% and 36%.

The growth dynamics in asset management differ fundamentally from those seen in standard banking products, as substantial growth typically becomes visible only at a later stage of economic development. Based on past experience in Austria, we expect that asset management will reach a critical mass as soon as nominal GDP per capita exceeds significantly and sustainably the amount of EUR 10,000. Almost all of our core markets, as the Czech Republic, Slovakia, Hungary and Croatia, have either surpassed this level or are close to do so. We believe that basic consumption needs are satisfied at this level and that the attention begins shifting towards providing for the future. The relatively slow economic recovery has clouded the outlook for growth in wealth management activities in the short term, as in economically difficult times customers focus on safety and clearly prefer in their investment decisions deposits to mutual or pension funds. In the long term, however, wealth management offers huge potential in Central and Eastern Europe and we are excellently positioned to develop this potential.

To focus even more intensely on our core competencies and strengths, we sold the entire insurance business to Vienna Insurance Group in 2008. The long-term distribution agreement with the Vienna Insurance Group will enable us to still benefit from the expected rise in demand for insurance products.

Funds/capita in CEE (2012) in EUR thousand



Source: Local fund management associations, Erste Group

CONTINUING DEVELOPMENT OF OUR CUSTOMER BUSINESS

We regard Central and Eastern Europe as a region offering above-average long-term growth potential in traditional banking as well as in wealth management. Erste Group has established a presence in all major countries in the eastern part of the European Union, with the exception of Poland. Our local banking subsidiaries are market leaders in the Czech Republic, in Slovakia, and in Romania. We are among the top three banks in Hungary and Croatia and hold a small market share in Serbia. Erste Group's future development will be driven mainly by organic growth, with the possible exception of an expansion into Poland in the medium term.

Management Report

ECONOMIC ENVIRONMENT IN 2012

The global macroeconomic development in 2012 was characterised by factors including declining economic growth, uncertainty about the euro zone's future, crucial political elections in countries such as the United States, Japan, Spain, Greece, and France, and the United States' fiscal cliff. During 2012, global economic growth slowed down further with a growing number of developed economies falling into recession. Those in severe sovereign debt distress moved even deeper into recession, impacted by high unemployment, weak aggregate demand compounded by fiscal austerity, high public debt burdens, and financial sector fragility. Growth in the major developing countries and economies in transition also decelerated, reflecting both external vulnerabilities and domestic challenges. The euro zone break-up risk, something which was continually over-stated throughout the year, was also one of the major forces in 2012. The fear centered on Greece with the general election and then seemingly never-ending bail-out negotiations being in focus. Finally, in the second half of 2012, the United States' fiscal cliff also impacted the financial markets until a final deal was reached.

The US economy developed positively in 2012, with GDP growth of 2% and corresponding job creation at around 150,000 non-farm payrolls per month. Sentiment amongst companies was volatile and burdened towards the year end by the uncertainty surrounding the fiscal cliff which delayed investment activity. Net exports were neither a major contributor to growth. In contrast, the improvement on the labour and housing markets – the latter fuelled by the Fed's purchases of mortgage-backed securities (MBS) – supported households' financial situation and confidence, thus supporting consumption as well as higher savings. Economic growth in Asia continued to outperform that of Europe and the US, driven mainly by China and India. Economic growth in Japan in 2012 was up from a year ago, mainly driven by reconstruction works and recovery from the earthquake-related disasters of 2011. The Japanese government also took measures to stimulate private consumption. The euro zone, on the other hand, entered a mild recession in 2012. While doubts about the stability of the Monetary Union abated following the announcements of the European Central Bank regarding the bond purchasing programme (Outright Monetary Transactions, OMT) and Long Term Refinancing Operations (LTRO), those measures did not fully feed through to the real economy in 2012. In addition, the debt crisis continued to have an impact on peripheral countries and weighed on the continent's leading economies, Germany and France. All in all, the world economy grew by 3.2% in 2012, after 3.8% in 2011.

Despite Austria's macroeconomic slowdown in 2012, it remained one of the most successful countries of the European Union. Austria had triple-A ratings from two of the three major credit rating agencies mainly due to the countries long-term stability, its competitive and diversified economy and the prudent management of fiscal resources. The long-term budget discipline and above average economic growth kept public debt at a level of 75% in 2012. In fact, the government adopted a EUR 28 billion austerity programme to reduce debt. Measures affected civil service salaries, pensions, and state-owned enterprises on the spending side while the government levied extra taxes on real estate and closed tax loopholes on the revenue side. Dynamics of economic growth turned down as the debt crisis in the euro zone caused demand for Austrian exports to slow considerably and dampened consumption growth. Investment activity was also subdued as a consequence of weak internal and external demand and lower capacity utilization. Despite the slowdown, Austria continued to grow faster than the euro zone average in 2012, with its GDP rising by 0.7%. Measured in terms of GDP per capita at approximately EUR 37,000, Austria remained one of the euro zone's most prosperous countries in 2012. In addition, Austria had the lowest unemployment rate in the European Union at 4.3% with its highly skilled, competitive, and flexible workforce.

Economic growth in Central and Eastern Europe also decelerated during 2012, with some, including the Czech Republic, Hungary, Croatia, and Serbia falling back into recession. All in all, within Central and Eastern Europe, economic growth varied in 2012 from 2.0% in Slovakia to -2.0% in Croatia. Despite worsening external conditions, exports remained the driver of growth in the region, while fiscal austerity measures, still high unemployment rates, and fears over the euro zone crises kept consumption at low levels. The car industry, which was one of the main contributors to exports, had another great year supporting the Czech, Slovak, Romanian, and even the Hungarian economies. Agriculture, on the other hand, was generally weak in the region which had a pronounced impact on the Romanian economy where this sector plays a more important role for the overall economy than in other CEE countries. Reduction of debt levels in the longer term remained one of the key priorities of Central and Eastern European governments leading to austerity packages in a number of countries. Some of the currencies came under downward pressure and were volatile during 2012 due to a combination of contagion from the euro zone, uncertain political environment, and questionable policymaking. In order to promote growth, national banks in the region continued to cut base rates throughout the year. This was most pronounced in the Czech Republic and Romania, where benchmark interest rates reached new historic lows.

PERFORMANCE IN 2012

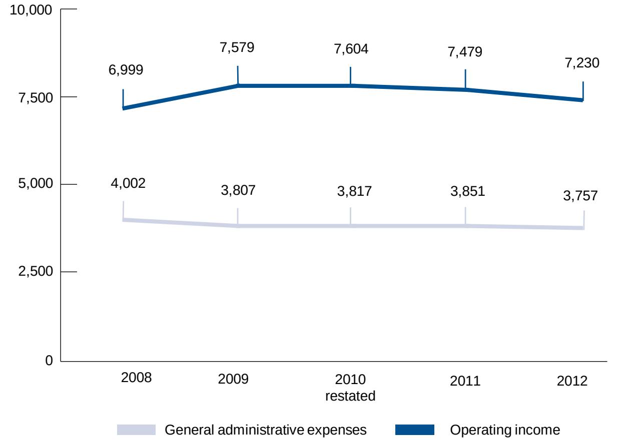
Acquisitions and disposals in Erste Group in 2012 did not have any significant impact and therefore no effects on the rates of changes stated below. Details are provided in the notes to the consolidated financial statements.

Overview

Despite a reduction of operating expenses, the **operating result** declined to EUR 3,472.8 million in the financial year 2012 (-4.3% versus EUR 3,627.6 million in 2011) due to lower operating income.

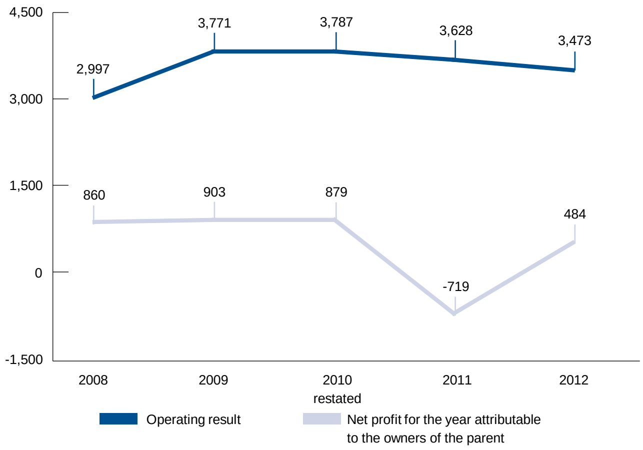
Operating income amounted to EUR 7,229.5 million (2011: EUR 7,478.5 million). The 3.3% decline was mainly due to lower net interest income (-6.0% to EUR 5,235.3 million) and lower net fee and commission income (-3.7% to EUR 1,720.8 million), which was not fully offset by a rise in the net trading result from EUR 122.3 million in 2011 to EUR 273.4 million. **General administrative expenses** declined by 2.4% to EUR 3,756.7 million (2011: EUR 3,850.9 million). This resulted in a **cost/income ratio** of 52.0% (2011: 51.5%).

Operating income and operating expenses in EUR million



Net profit attributable to owner of the parent improved to EUR 483.5 million in the financial year 2012 (2011: EUR -718.9 million).

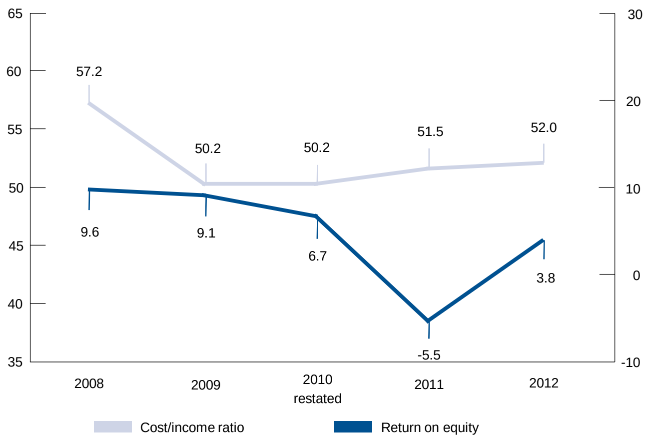
Operating result and net profit/loss for the year attributable to owners of the parent in EUR million



Cash return on equity, i.e. return on equity adjusted for non-cash expenses such as goodwill impairment and straight-line amortisation of customer relationships, was 7.6% (reported ROE: 3.8%) versus 2.3% (reported ROE: -5.5%) in 2011.

Cash earnings per share for the financial year 2012 amounted to EUR 2.17 (reported EPS: EUR 0.87) versus EUR 0.42 (reported EPS: EUR -2.28) in 2011.

Key profitability ratios in %



Total assets, at EUR 213.8 billion, were up 1.8% versus year-end 2011. Risk-weighted assets declined by EUR 8.7 billion, or 7.6%, to EUR 105.3 billion.
The **solvency ratio** improved to 15.5% as of 31 December 2012 (year-end 2011: 14.4%), well above the legal minimum requirement. The **core tier 1 ratio** relating to total risk and as defined by Basel 2.5, was 11.2% as of 31 December 2012.

Dividend
It will be proposed to the Annual General Meeting of Erste Group Bank AG that shareholders will be paid a dividend of EUR 0.40 per share (2011: no dividend was paid). The holders of participation capital will be paid a dividend of 8% on the nominal value.

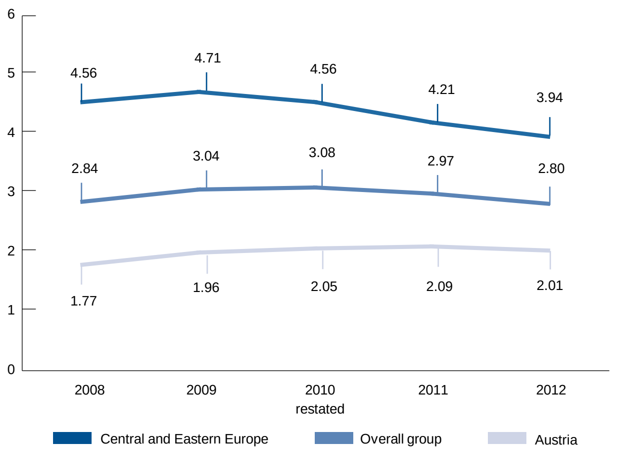
Outlook
Erste Group expects a slight improvement in economic performance for Central and Eastern Europe in 2013, even though growth will remain moderate. Accordingly, Erste Group targets a stable operating result for 2013. This is expected to be achieved by offsetting slightly lower operating income as a result of moderate loan demand and the low interest rate environment with lower operating costs. Erste Group expects to show a better year-on-year operating performance in the last three quarters of 2013 than in the first quarter of 2013.

For group risk costs a double-digit percentage decline is expected for 2013, mainly due to the likely improvement of the risk situation in Romania. Erste Group continues to expect that its Romanian subsidiary BCR will return to profitability in the financial year 2013.

ANALYSIS OF PERFORMANCE

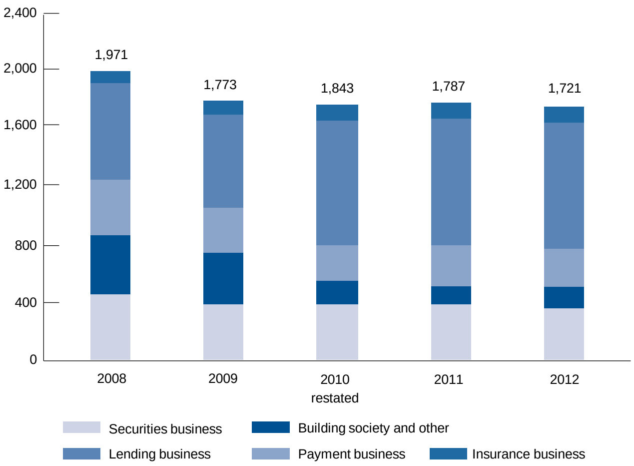
Net interest income
Net interest income declined from EUR 5,569.0 million in 2011 to EUR 5,235.3 million in the financial year 2012, mainly due to a narrowing of the net interest margin (net interest income as a percentage of average interest-bearing assets) from 2.97% to 2.80%. This development was due to the low interest rate environment on the one hand and to subdued credit demand, especially for consumer loans, and the reduction of non-core assets on the other.

Net interest margin in %



Net fee and commission income
Net fee and commission income decreased from EUR 1,787.2 million to EUR 1,720.8 million in the financial year 2012. This development was mostly due to a decline in the securities business (primarily in Austria and the Czech Republic), as well as in lending and insurance brokerage. Positive contributions came from Erste Group's factoring subsidiary Intermarket Bank AG (consolidated since 1 August 2011).

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



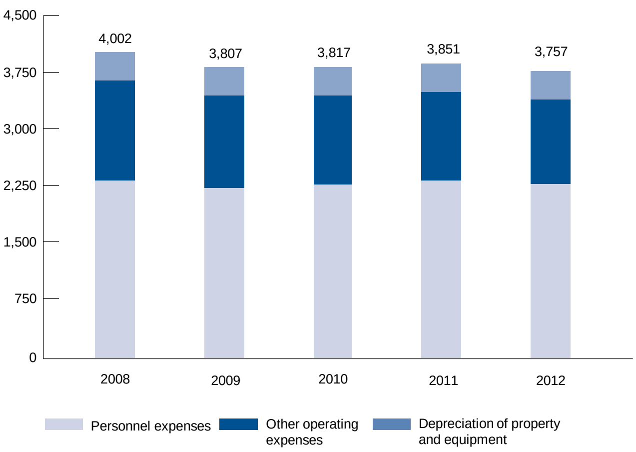
Net trading result

The net trading result improved from EUR 122.3 million in 2011 to EUR 273.4 million in 2012. This was mainly attributable to last year's changes in the fair value of the CDS investment portfolio (closed out in the meantime), which had had a negative impact of EUR -182.6 million, and higher contributions from foreign exchange business.

General administrative expenses

General administrative expenses declined by 2.4% from EUR 3,850.9 million to EUR 3,756.7 million (currency-adjusted: -1.3%) despite increasing inflation rates during 2012.

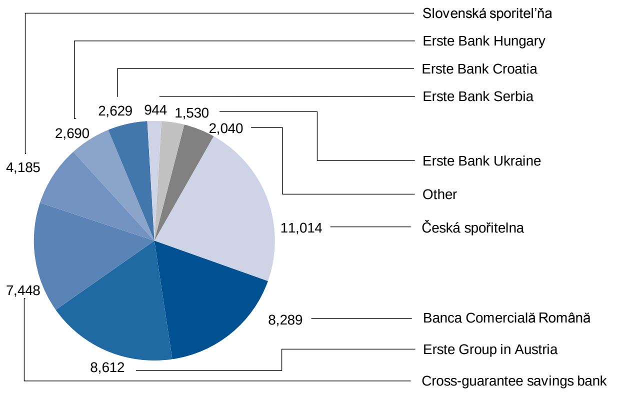
General administrative expenses, structure and trend, in EUR million



Personnel expenses decreased by 1.7% (currency-adjusted -0.8%) from EUR 2,323.7 million to EUR 2,284.1 million due to a lower headcount. Major cost savings were achieved in **other administrative expenses** (mainly IT and office-related expenses), which declined by 4.0% (currency-adjusted: -2.4%) from EUR 1,152.4 million to EUR 1,106.1 million, and in **depreciation and amortisation**, which was down by 2.2% (currency-adjusted: -0.9%) from EUR 374.8 million to EUR 366.5 million.

The **headcount** declined by 2.1% versus year-end 2011 to 49.381 employees. This was mainly due to reorganisation measures in Hungary, Romania and Ukraine

Headcount as of 31 December 2012



Operating result

Driven by declines in net interest income and net fee and commission income, **operating income** decreased by 3.3% to EUR 7,229.5 in 2012 from EUR 7,478.5 million in 2011. **General administrative expenses** were reduced by 2.4% from EUR 3,850.9 million to EUR 3,756.7 million. This led to an **operating result** of EUR 3,472.8 million (2011: EUR 3,627.6 million).

Risk provisions

Risk provisions (i.e. the balance of the allocation and release of provisions for the lending business together with the costs of direct loan write-offs offset by income received from the recovery of loans already written off) decreased by 12.7% versus 2011, from EUR 2,266.9 million to EUR 1,980.0 million. This was mostly attributable to a decline in risk provisions in Hungary (one-off charge of EUR 450.0 million in 2011) and in the Czech Republic, which more than offset the rise in provisioning requirements in Romania and Croatia. In the financial year 2012, risk costs in relation to the average volume of customer loans were 148 basis points (2011: 168 basis points).

Other operating result

Other operating result improved from EUR -1,589.9 million in 2011 to EUR -724.3 million in 2012. This was primarily due to significantly lower goodwill adjustments of EUR 514.9 million of which EUR 469.4 million were for the Romanian subsidiary and EUR 45.5 million mostly for Austrian investments, versus

EUR 1,064.6 million in 2011, of which EUR 699.2 million had been for the Romanian and EUR 312.7 million for the Hungarian subsidiaries, EUR 52.7 million for Austrian investments. Other taxes rose from EUR 163.5 million to EUR 269.1 million. A large proportion of these comprised banking taxes. In Slovakia, a banking tax was newly introduced in 2012 and resulted in a charge of EUR 31.5 million for 2012. In Hungary, the banking tax amounted to EUR 47.3 million in 2012, while in 2011 it was offset against losses resulting from the forced early repayment of foreign-currency loans on preferential terms. In Austria, banking tax was raised by 25% and totalled EUR 165.2 million. In addition, the other operating result was negatively impacted by the agreement on the sale of the Ukrainian subsidiary by EUR 75.0 million.

Other operating result also included straight-line amortisation of intangible assets (i.e. customer relationships) of EUR 69.2 million (2011: EUR 69.0 million) as well as deposit insurance contributions of EUR 80.7 million (2011: EUR 87.2 million). Positive contributions came from the buyback of tier 1 and tier 2 instruments, which generated one-off income of EUR 413.2 million, and gains on the sale of properties and financial assets amounting to EUR 73.7 million

Result from financial instruments

The overall result from all categories of financial assets improved from EUR -93.0 million in 2011 to EUR 32.7 million in the financial year 2012. This positive performance was primarily due to higher gains on sales and lower valuation effects in the available-for-sale portfolio.

Pre-tax profit/loss from continuing operations and net profit/loss for the year attributable to owners of the parent

The **pre-tax profit** for the financial year 2012 amounted to EUR 801.2 million versus a pre-tax loss of EUR 322.2 million in 2011.

Net profit after minorities for the financial year 2012 amounted to EUR 483.5 million versus a net loss after minorities of EUR 718.9 in the financial year 2011

Tax situation

Pursuant to section 9 of the Austrian Corporate Tax Act (KStG), Erste Group Bank AG and its main domestic subsidiaries constitute a tax group. Due to the high proportion of tax-exempt income – particularly income from participating interests – and tax payments for the permanent establishments abroad, no Austrian corporate income tax was payable in fiscal year 2011. The current tax loss carried forward increased in 2011.

Tax on profit mainly comprised expenses from foreign capital gains and other income-related taxes, as well as tax revenue from the tax allocation to subsidiary companies that form a tax group along with Erste Group Bank AG under group taxation regulations.

In 2012 the reported total income tax expense amounted to EUR 170.2 Mio (2011: EUR 240.4 Mio).

The tax rate increased in 2012 to 21.2% (2011 negative).

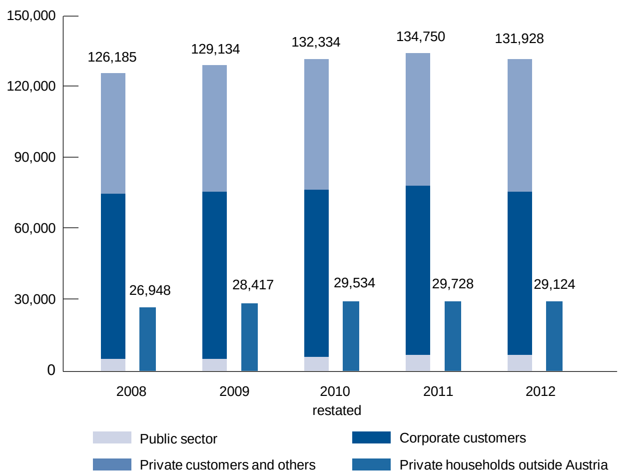
Balance sheet development

Total assets, at EUR 213.8 billion, were up 1.8% versus year-end 2011. Risk-weighted assets declined by EUR 8.7 billion, or 7.6%, to EUR 105.3 billion.

Loans and advances to credit institutions rose from a low level of EUR 7.6 billion as of 31 December 2011 to EUR 9.1 billion as of 31 December 2012. This increase was largely attributable to excess liquidity deposited with central banks.

Loans and advances to customers decreased slightly from EUR 134.8 billion as of 31 December 2011 to EUR 131.9 billion as of 31 December 2012. This was due to declines in lending in Hungary, in the real estate business and in the International Business as well as to the reclassification of loans related to Erste Bank Ukraine as assets held for sale (shown under other assets).

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



Risk provisions increased from EUR 7.0 billion to EUR 7.6 billion due to additional allocations. The NPL ratio (non-performing loans as a percentage of loans to customers) stood at 9.2% as of 31 December 2012 (8.5% as of 31 December 2011). The NPL coverage ratio improved, rising from 61.0% at year-end 2011 to 62.6%.

Investment securities held within the various categories of financial assets rose by 10.4% from EUR 38.1 billion at year-end 2011 to EUR 42.1 billion on the back of increased investments into bonds allocated to the available-for sale and held-to-maturity portfolios. This reflects the acquisition of highly liquid assets in preparing for the new Basel 3 liquidity rules and the investment of excess liquidity.

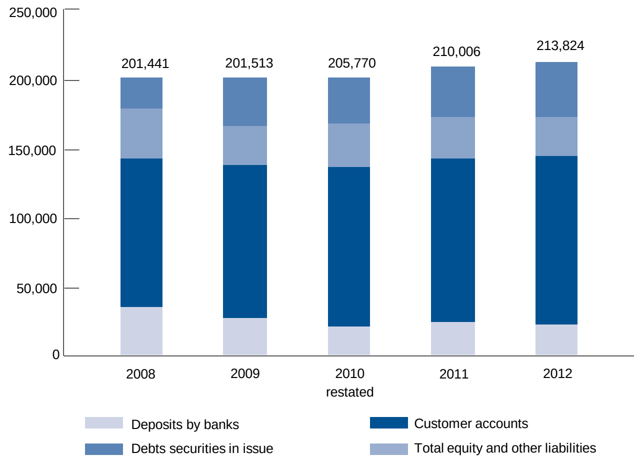
Customer deposits increased by 3.5% from EUR 118.9 billion to EUR 123.1 billion as of 31 December 2012. This development was driven primarily by deposit gains in Austria, in the Czech Republic and in Hungary.

At 107.2%, the **loan-to-deposit ratio** as of 31 December 2012 was lower than it had been as of 31 December 2011 (113.3%).

Debt securities in issue, in particular bonds and certificates of deposit, declined by 4.3% from EUR 30.8 billion to EUR 29.4 billion as of 31 December 2012.

The reduction of **subordinated liabilities** from EUR 5.8 billion to EUR 5.3 billion as of 31 December 2012 resulted primarily from the buyback of tier 1 and tier 2 instruments in a total notional amount of approximately EUR 1.3 billion, which more than offset new issuance of subordinated instruments.

Balance sheet structure/liabilities and total equity in EUR million



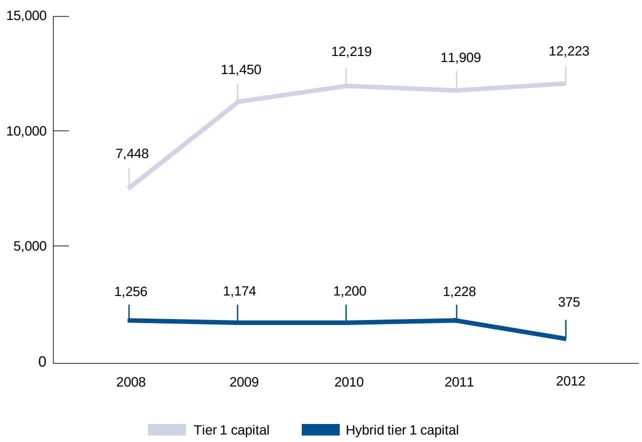
At EUR 105.3 billion, **total risk-weighted assets (RWA)** as of 31 December 2012 were 7.6% lower than as of 31 December 2011 (EUR 114.0 billion). This decline was due to the sale of non-core assets, a changed business mix with a larger proportion of mortgage loans as well as a number of additional measures taken to reduce risk-weighted assets.

Total eligible **qualifying capital** of the Erste Group credit institution group, as defined by the Austrian Banking Act, at EUR 16.3 billion as of year-end 2012 was almost unchanged versus year-end 2011. The coverage ratio with respect to the legal minimum requirement at the reporting date (EUR 8.4 billion) was 193.6% (year-end 2011: 179.9%).

Erste Group's **shareholders' equity** rose to EUR 12.9 billion as of 31 December 2012 (year-end 2011: EUR 12.0 billion). This was attributable to the profit of the year 2012 as well as to an improvement in the available-for-sale reserve. Tier 1 capital after the deductions defined in the Austrian Banking Act increased less due to the buyback of tier 1 instruments and amounted to EUR 12.2 billion (year-end 2011: EUR 11.9 billion).

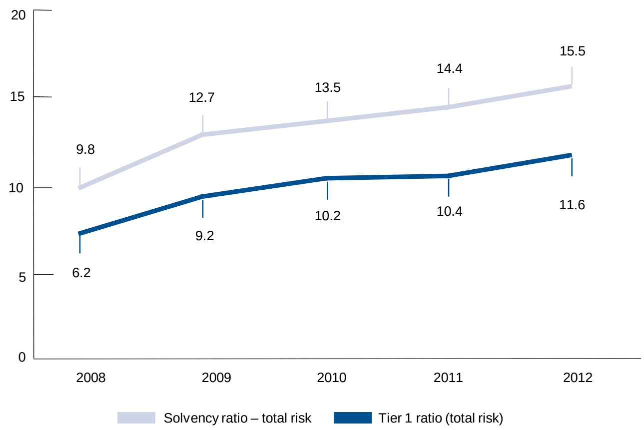
The **tier 1 ratio**, which includes the capital requirements for market and operational risk (total risk), improved to 11.6% (year-end 2011: 10.4%). The core tier 1 ratio rose to 11.2% as of 31 December 2012 (year-end 2011: 9.4%).

Tier 1 capital under ABA and hybrid tier 1 capital in EUR million



The **solvency ratio** in relation to total risk (total eligible qualifying capital as a percentage of the assessment base for total risk pursuant to 22 par. 1 Austrian Banking Act) at 15.5% as of 31 December 2012 (year-end 2011: 14.4%) was well above the legal minimum requirement.

Solvency ratio and tier 1 ratio (total risk) in %



EVENTS AFTER BALANCE SHEET DATE

There were no significant events after the balance sheet date.

RISK MANAGEMENT

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

RESEARCH AND DEVELOPMENT

As Erste Bank Group AG does not conduct any independent and regular research for new scientific and technical findings and no upstream development work for commercial production or use, it does not engage in any research and development activities pursuant to section 243 (3) no. 3 UGB. In order to drive improvements for retail customers and in the on-going services Erste Group Bank AG launched the Innovation Hub in 2012. Its purpose is to initiate and coordinate across-the-board initiatives with a strong focus on "real customer experiences". As a multidisciplinary team consisting of marketing, product and IT as well as design experts, the Innovation Hub is tasked with creating innovations and managing new programme initiatives.

CORPORATE SOCIAL RESPONSIBILITY

Erste Group takes its responsibility towards society very seriously. Its major corporate goal is to enable companies, private individuals and the public sector to lead a financially healthy life. Many of our activities centre on this, others follow the principle of investing part of our profits into the relevant regions and using resources as sparingly as possible.

Customers

The Erste Group branch network remains the most important contact point for customers, in addition to extended mobile banking facilities. Erste Bank Austria offers multilingual consulting services in 22 branches in Vienna, Mödling and Schwechat to ensure sound, individual advice regardless of language barriers. Furthermore, Banca Comercială Română also provides product and service information in Hungarian. Erste Bank Austria ATM cards and Erste Bank Serbia ATM machines now feature information in Braille and six branches of Erste Bank Serbia provide consultation services for the deaf or hard-of-hearing. Not only this, but 86 branches of Erste Bank Hungary use special light and colour scheme functions on their self-service machines. Erste Group's online banking features have been adapted to let visually impaired customers choose between three different font sizes. The modifications at two out of three of Erste Bank Hungary's branches and at all the branches of Erste Bank Serbia guarantee barrier-free access to the buildings.

Customer services need to be improved continuously to deepen relationships with customers. The establishing of the independent "Group Customer Experience" unit has enabled us to get a better picture of customer requirements and needs. Customer satisfaction is evaluated on a Group-wide level with the help of the *Bank Market Monitor*, which includes about 600 telephone interviews in all Erste Group countries per quarter. This study yields data for an international comparison of performance. The quality and sustainability of the products offered is assessed on a regular basis to guarantee quality of service to all customers. Erste Group is also preparing an innovative product approval process that will be undergone by each new product before it is launched.

All our asset management units have been centralized under the umbrella of Erste Asset Management since 2012. The trend towards sustainable investments has been used by Erste Asset Management and a wide range of ethically-friendly funds were developed last year. Thus, Erste Group's Asset Management subsidiary in Austria and the CEE region has become a major provider of sustainable investment funds. The funds managed of approximately 2 billion euros exceeded the 2011 level by more than 20%. Furthermore, the exclusion criterion "outlawed weapons" for all actively managed Erste Asset Management funds and the post of "Chief Sustainability Investment Officer" were introduced at the end of 2011, in addition to the focus on sustainability funds. The goal is to establish sustainable aspects in Erste Asset Management's entire fund range.

Erste Group continued to work on developing solution strategies for the financial integration of social enterprises in 2012. A share in good.bee enabled the Group to provide private customers and companies without access to financial services funding using microbanking. good.bee once again focused on Romania's rural regions last year. Additionally, Erste Bank Serbia has extended its partnership with the Serbian National Employment Service and supported over 67 young entrepreneurs as part of the *supERSTEp* program. The *good.beeginners* program enabled Erste Bank Croatia to support new start-ups on a selective basis. In Austria, Erste Bank started the initiative betreutes Konto (guided account) in cooperation with the Austrian debt counselling organization Schuldnerberatung Wien and also got the student support program *For Best Students* ready for market. Our NGO cooperation was also restructured in 2012. It now focuses on a new support concept and reducing bank fees for such organizations.

Civil Society

Erste Group has always supported social, cultural and educational projects, in line with the founding principle of the "Sparkasse" 200 years ago. Parts of the profits generated in Central and Eastern Europe flow back into regional projects through the Erste Group MehrWERT sponsorship program.

Social Activities

Erste Group encourages long-term support and has been helping Caritas fight poverty in Austria for many years. It centres on helping people in difficult situations in a quick and concrete manner. Thus, underprivileged people are given new opportunities for continuous, long-term development. The focus is on young people, especially in Austria, Hungary, Serbia and Slovakia. These activities include the Eastern European Campaign for Children, the association lobby.16 – which gives young refugees access to education and work – and the talent program Club 27. Educational projects are also funded in the Czech Republic, where NPO employees are taught business know-how to strengthen their autonomy from donors. Young entrepreneurs can put their creative ideas into practice thanks to micro loans by Erste Bank Croatia, as well as receiving additional training and mentoring.

Arts and Culture

Erste Group supported a number of culture projects in its regions in 2012 within its MehrWERT sponsorship program. Young artists receive support via scholarships and the provision of opportunities to perform and exhibit. New concepts enabling underprivileged people to experience music are also part of this commitment. Just as in previous years, Erste Group was the partner of numerous festivals in a variety of countries, such as the Viennale Film Festival, multi-Genre and jazz festivals. Even the trade fair VIENNAFAIR and Vienna Design Week were supported by us.

Education

Spreading finance and business knowledge to the largest possible part of a country's population is a prerequisite for stable economic growth and long-term security of wealth. This is why Erste Group has initiated a number of educational projects in its countries, targeting mainly young people. Children are introduced to the subject of money at the Zoom children's museum. There are educational programs for students and apprentices on income and expenses, financial planning, the role that banks play and financial products and instruments. These materials are also accessible via educational portals and are conveyed with the help of a series of films. In addition, Zweite Sparkasse also offers workshops on debt prevention.

Corporate Volunteering

Voluntary commitment is an important element in the CSR activities of the Erste Group. The Erste Time Bank Placement Portal, which networks employees and retirees from Erste Bank with organizations looking for volunteers, has been running since the beginning of 2012. In addition, Erste Bank loans employees to NGOs for a certain amount of time, usually three to four months. This voluntary commitment includes workshops, waste collection days and handing out food after natural catastrophes.

Staff

Erste Group offers its staff members a number of opportunities for further education and encourages international knowledge transfer. The courses span all levels from one-year on-the-job training for university graduates to courses for managers and presentations giving the latest insights. The Erste School has been offering its own Compliance Certification Program since 2012. Erste Bank is also striving to increase the number of women in management and in specialist positions, offering further education directed at women. Another major concern is the incorporation and re-integration of parents after maternity or paternity leave. Carotid-artery screening was offered in Austria for the prevention of strokes during 2012, as part of a program on cardiovascular health. The screening was well-attended. Erste Group finances comprehensive medical care for its employees and their families, in particular in countries where medical health care does not meet western European standards. This means that Erste Group is a pioneer in health promotion and the company was mentioned by the OECD as a trendsetter in the field of preventing psychological medical problems.

Environment

Erste Group has conducted extensive monitoring of its environmental activities and their impact to be able to carry out its measures successfully. Environmental objectives and activities, categorized into protecting natural resources and waste management, were devised based on the monitoring. Staff involvement is essential for the consistent implementation of the environmental strategy. One sign signalling the success of this approach is that some of the on-going projects derived from national initiatives. The environmental awards given to Erste Bank Austria and Serbia illustrate the right path has been taken with regards to the environment. Important projects in the field of energy saving are replacing light bulbs with LED lights, optimizing heating and cooling systems and limiting lighting. Erste Group is also striving to reduce its paper use drastically. This means that as many bank transactions as possible should be conducted without paper. Thus, Erste Bank Austria has introduced signature pads to achieve this objective.

CAPITAL, SHARE, VOTING AND CONTROL RIGHTS

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

With regard to the statutory disclosure requirements, connected to the composition of the capital as well as the class of shares, a special reference is made to the note 30 in the consolidated financial statements.

As of 31 December 2012, DIE ERSTE österreichische SparCasse Privatstiftung, a foundation, held approximately 20% of the shares in Erste Group Bank AG. This makes the foundation the largest shareholder.

Disclosures pursuant to section 243a UGB

Art. 15.4 of the Articles of Association concerning the appointment and dismissal of members of the Management Board and the Supervisory Board is not directly prescribed by statutory law:

a three-quarter majority of valid votes cast and a three-quarter majority of the subscribed capital represented at the meeting considering the proposal are required to pass a motion for removal of Supervisory Board members.

The Articles of Association contain no restrictions in respect of voting rights or the transfer of shares. A holding period of one year applies with regard to the employee share ownership programmes (MSOP/ESOP).

Art. 19.9 of the Articles of Association concerning amendments to the Articles of Association contains a provision that is not prescribed directly by statutory law: amendments to the Articles of Association, in so far as they do not alter the business purpose, may be passed by simple majority of votes cast and simple majority of the subscribed capital represented at the meeting considering the amendment. Where higher majority votes are required by individual provisions of the Articles of Association, these provisions can only be amended with the same higher majority vote. Moreover, amendments to Art. 19.10 require a three-quarter majority of the votes cast and a three-quarter majority of the subscribed capital represented at the meeting considering the proposal.

Significant agreements pursuant to section 243a no. 8 UGB

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

Preferred co-operation between Erste Foundation and Caixabank S.A.

Erste Foundation and Caixabank S.A. (formerly Criteria CaixaCorp) have concluded a Preferred Partnership Agreement (PPA), by which Erste Foundation gives Caixabank, S.A. ("CaixaBank") the status of a friendly investor and preferred partner for participations. Under this agreement, CaixaBank is authorised to nominate a person for appointment to the Supervisory Board of Erste Group Bank AG. In return, CaixaBank has undertaken not to participate in a hostile takeover bid for Erste Group Bank AG's shares, and to give Erste Foundation the right of pre-emption and an option right to the Erste Group Bank AG shares held by CaixaBank. Under the PPA, Erste Foundation undertakes not to grant any rights to third parties that are more favourable than those granted to CaixaBank, except under certain circumstances. Erste Foundation's and CaixaBank's voting rights at Erste Group Bank AG remain unaffected by the PPA. The PPA has been approved by the Austrian Takeover Commission.

After a number of transactions that aimed to reorganise "la Caixa" Group, Criteria CaixaCorp changed its name to CaixaBank, S.A. as of 30 June 2011. In the course of these transactions, the former Criteria CaixaCorp acquired the operational banking business of "la Caixa", which now continues to do business indirectly through the newly set up company CaixaBank which is listed on the stock exchange. As a consequence, CaixaBank - with its operational banking business in "la Caixa" - holds the portfolio of bank participations, including the holdings in Erste Group Bank AG. The name change has affected neither the "Preferred Partnership Agreement" nor the on-going business cooperation.

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

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

Directors and Officers Insurance

Changes in controlling interests

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

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

(2) In the event that a subsidiary ceases to be a subsidiary during the insurance period, the insurance cover under this policy shall remain in full force and effect for that entity for the remainder of the insurance period or (if applicable) until the end of the extended discovery period, but only in respect of claims brought against an insured in relation to unlawful acts committed or alleged to

have been committed by the insured during the existence of this entity as a subsidiary. No insurance cover is provided for claims brought against an insured in relation to unlawful acts committed or allegedly committed after this entity ceased to exist.

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

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

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

Additional disclosures pursuant to section 243a no. 7 UGB

Pursuant to the following provisions, members of the Management Board have the right to repurchase shares, where such a right is not prescribed by statutory law:

As per decision of the Annual General Meeting of 12 May 2011:

(1) the company is entitled to purchase treasury shares under Section 65 (1) no. 7 of the Austrian Stock Corporation Act (Aktiengesetz, AktG) for trading purpose. However, the trading portfolio of these shares may not exceed five per cent of the subscribed capital at the end of any calendar day The market price for the shares to be purchased must not be lower than 50% of the closing price at the Vienna Stock Exchange on the last trading day prior to the purchase and must not exceed 200% of the closing price at the Vienna Stock Exchange on the last trading day prior to the purchase. This authorisation is valid for 30 months, i.e. until 11 November 2013.

(2) Subject to approval by the Supervisory Board, the Management Board is entitled to purchase treasury shares pursuant to section 65 par. 1 no. 8 AktG. However, the shares purchased under this authorisation and under Section 65 par. 1 no. 1, 4 and 7 AktG may not exceed 10% per cent of the subscribed capital. The market price of each share to be purchased may not be below EUR 2.00 or above EUR 120.00. Upon approval by the Supervisory Board, the shares purchased according to the above can be sold in the form of an issue of shares as consideration and financing for the acquisition of companies, businesses, business units or shares in one or more domestic or foreign companies. Such an offering would be conducted outside the stock markets and would not constitute a public offering. Furthermore, the Management Board is entitled to withdraw shares without resolution at the Annual General Meeting. This authorisation is valid for 30 months, i.e. until 11 November 2013.

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

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

Disclosures pursuant to section 243a (2) Austrian Commercial Code

Risks relating to the financial reporting procedures

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

The internal control system (ICS)

To limit these risks, Erste Group has established and operates an extensive internal control system (ICS) to monitor its business activities. Key components of the ICS include:

(1) Controlling, as a permanent financial/business analysis (e.g. comparison of target and actual data between Accounting and

Controlling) and control of the company and/or individual corporate divisions.

(2) Systemic, automatic control systems and measures in the formal procedure and structure, e.g. programmed controls during data processing.

(3) Principles of functional separation and the four-eye principle.

(4) Internal Audit – as a separate organisational unit – is charged with monitoring all corporate divisions in an independent yet proximate manner, particularly with regard to the effectiveness of the components of the internal control system.

The Internal Audit unit is monitored and/or checked by the Management Board, the Audit Committee/Supervisory Board and/or externally by the bank supervisor. In addition, Internal Audit is responsible for auditing and assessing all business activities. The focus of all audit activities is, however, on monitoring the completeness and effectiveness of the internal control system. Internal Audit reports are presented annually to all members of the Management Board, to the Supervisory Board, and to the Audit Committee.

Organisation and supervision

Group Accounting and Group Performance Management are responsible for group reporting and report to Erste Group's CFO. Erste Group issues group policies used for preparation of consolidated financial statements in accordance with IFRS. A summary description of the accounting process is provided in Erste Group' IFRS Accounting Manual. All transactions have to be recorded, posted and accounted for in accordance with the accounting and measurement methods set out in this manual. The management of each subsidiary is responsible for the implementation of group policies. Audits are conducted by Internal Audit as well as local audit to review compliance with these group policies.
Reporting is almost fully automated, based on source systems and automated interfaces, and guarantees up-to-date data for controlling, segment reporting, and other analyses. Accounting information is derived from the same data source and is reconciled monthly for reporting purposes. Close collaboration between accounting and controlling permits continual target/actual comparisons for control and reconciliation purposes. Monthly and quarterly reports to the Management Board and the Supervisory Board ensure a regular flow of financial information and monitoring of the internal control system.

Consolidation of group accounts

The data provided by the group entities are checked for plausibility by the organisational units Group Reporting, the IFRS Competence Centre, and Group Consolidation. The subsequent consolidation steps are then performed using the consolidation system (ECCS). Those include consolidation of capital, expense and income consolidation, and debt consolidation. Lastly, possible intra Group gains are eliminated. At the end of the consolidation process, the notes to the financial statements are prepared in accordance with IFRS, the BWG and UGB.

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

Vienna, 28 February 2013

Management Board

Andreas Treichl mp Chairman	Franz Hochstrasser mp Vice Chairman
Herbert Juranek mp Member	Gernot Mittendorfer mp Member

Manfred Wimmer mp
Member

Segments

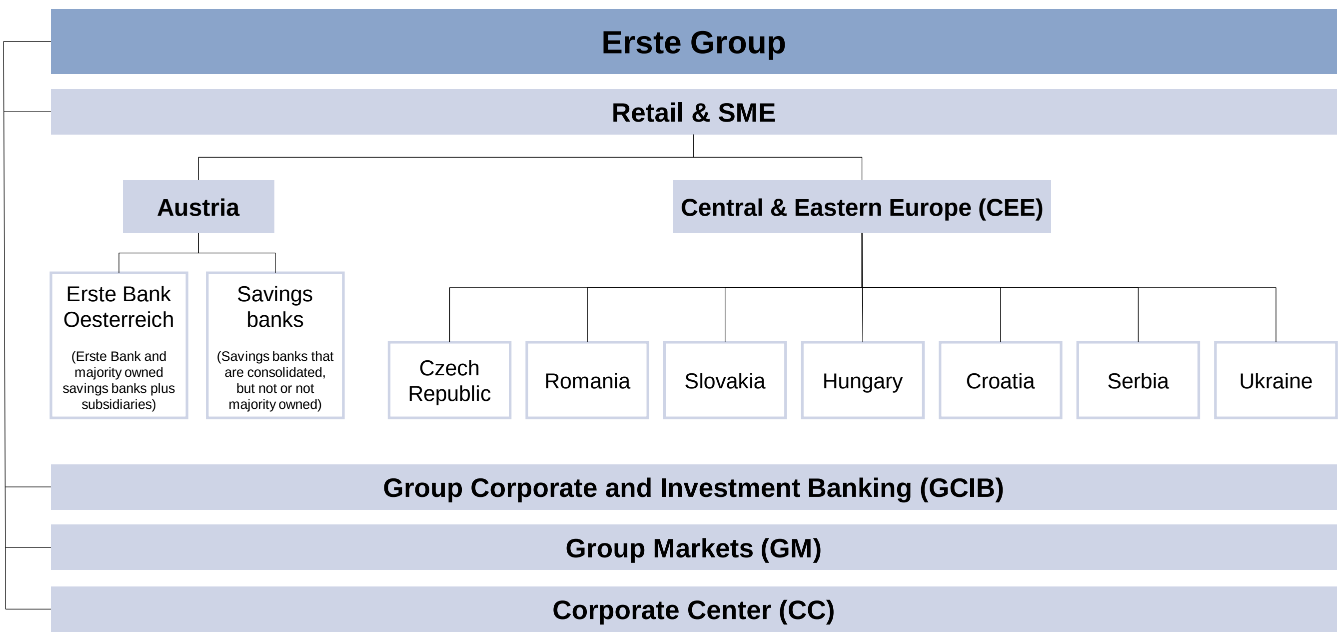
INTRODUCTION

The segment report of Erste Group complies with IFRS presentation and measurement requirements. There are four main segments: Retail & SME, Group Corporate & Investment Banking, Group Markets and Corporate Center. The Retail & SME segment comprises the individual regional units focusing on Erste Group's local customer business. To improve transparency and to be consistent with current reporting, the Austria region is split into the sub-segments Erste Bank Oesterreich (including local subsidiaries) and the savings banks consolidated under the cross-guarantee system (Haftungsverbund). In Central and Eastern Europe, all the subsidiaries are reported individually as sub-segments.

The Group Corporate and Investment Banking (GCIB) segment includes Erste Group's fully divisionalised large corporate, investment banking, real estate, equity capital markets, and international business lines. The Group Markets (GM) segment includes divisionalised business lines, such as Group Treasury and Group Capital Markets. The Corporate Center segment contains Group services such as marketing, organisation and information technology as well as other departments supporting the execution of Group strategy. In addition, consolidation items and selected non-operating items are allocated to this segment. Group balance sheet management is also allocated to the Corporate Center. The result of local asset/liability management units remains part of the respective sub-segments.

The segments are aligned with Erste Group's organisational set-up. This leads to a somewhat lower Group contribution from the CEE subsidiaries, as part of their local results are allocated to the two holding business divisions, GCIB and GM. At the same time, this structure ensures transparency as the subsidiaries' results fully reflect their core business activities and thus allow a better comparison between the regions.

Segment reporting structure at Erste Group



Retail & SME

The Retail & SME segment includes business with private individuals and small and medium-sized enterprises in Austria and Central and Eastern Europe. These regions are further divided into the sub-segments Erste Bank Oesterreich and the savings banks in Austria, and the sub-segments Czech Republic, Romania, Slovakia, Hungary, Croatia, Serbia and Ukraine.

AUSTRIA

Economic review

Although the pace of economic activity slowed in Austria in 2012, GDP growth, at 0.7%, exceeded the euro zone average (-0.6%). The Austrian economy benefited in particular from its broad diversification and well-balanced mix of industries. Exports developed well, and at 42% of GDP, the export ratio was in line with the euro zone average of 44%. Therefore, the marked economic slowdown in some of Austria's major export markets had a noticeable negative impact on economic performance. With a share of approximately 30%, Germany was again Austria's most important export market. Domestic demand components could not sufficiently offset slowing export momentum. Domestic demand was adversely affected by subdued corporate investment activity and a decline in consumer spending. The labour market remained robust despite the economic downtrend: The unemployment rate rose only slightly from 4.2% to 4.3% and remained the lowest in the European Union. At a GDP per capita of around EUR 36,700, Austria was again one of the most prosperous countries in the euro area in 2012.

The rating agencies Moody's and Fitch continued to rank Austria as one of the highest-rated countries of Europe with an AAA rating based in particular on its competitive economy and social and political stability. Only S&P lowered Austria's rating in January 2012 to AA+.

At 74.7% of GDP, government debt remained significantly below the euro zone average of 92%.The budget deficit rose to 3.1%, not least due to transfers to (partially) nationalised banks. To reduce debt long-term, a second consolidation package was adopted in 2012. More than half of its measures refer to planned spending cuts (particularly in pensions and public administration). The plans aimed at increasing revenues focus on raising existing taxes or introducing new ones. Taxes affecting large parts of the population are not being planned, though. The banking tax was again a key source of revenue.

Inflation amounted to 2.5% and reflected the lower economic activity in 2012, while the inflation rate of 3.6% in 2011 was mainly due to one off items, such as the increase in the mineral oil tax. The European Central Bank continued its low-interest policy and cut the key lending rate to 0.75% in July 2012.

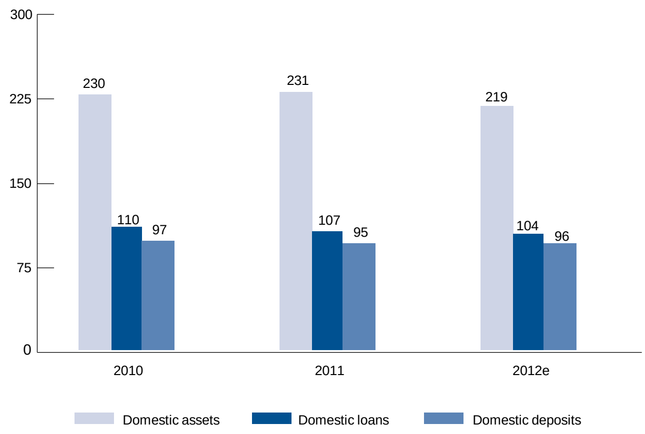
Key economic indicators – Austria	2009	2010	2011	2012e
Population (ave, million)	8.4	8.4	8.4	8.5
GDP (nominal, EUR billion)	276.2	286.4	300.7	310.4
GDP/capita (in EUR thousand)	33.0	34.2	35.8	36.7
Real GDP growth	-3.8	2.1	2.7	0.7
Private consumption growth	-0.3	1.7	0.7	0.4
Exports (share of GDP)	35.1	38.2	40.5	42.0
Imports (share of GDP)	36.0	39.7	43.6	44.2
Unemployment (Eurostat definition)	4.8	4.4	4.2	4.3
Consumer price inflation (ave)	0.4	1.7	3.6	2.5
Short term interest rate (3 months average)	1.2	1.0	1.4	0.6
EUR FX rate (ave)	1.0	1.0	1.0	1.0
EUR FX rate (eop)	1.0	1.0	1.0	1.0
Current account balance (share of GDP)	2.7	3.4	0.6	2.0
General government balance (share of GDP)	-4.1	-4.5	-2.5	-3.1

Source: Erste Group

Market review

The Austrian banking sector, with total domestic assets of 219% of the GDP in 2012, is a well-developed banking market. The market remained very competitive due to the large number of non-listed banks. As a result, margins were significantly lower than in Central and Eastern Europe, as were risk costs. Growth remained subdued throughout the year, with loans to customers remaining flat compared to year-end 2011 and deposits increased by 3.8%. The banking system's loan-to-deposit ratio was approximately 109% at year-end 2012. The special banking tax intended to lower the government deficit was raised by 25% after the partial nationalisation of Österreichische Volksbanken AG (ÖVAG) and totalled EUR 625 million in 2012.

Financial intermediation – Austria (in % of GDP)



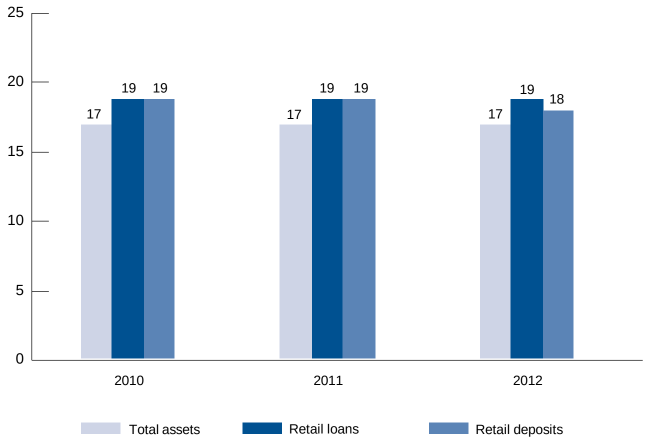
Source: Oesterreichische Nationalbank, Erste Group

In March 2012, the Austrian National Bank (OeNB) and the Austrian Financial Market Authority (FMA) published guidelines aimed at raising the equity capital base of large Austrian banks with international operations over the medium to long term and achieving a more balanced funding structure at exposed subsidiaries. The principal objective is to build up a capital buffer commensurate with risk. Loan growth at the subsidiaries is made conditional on sustainable local refinancing. In countries in which the loan-to-local refinancing ratio (i.e. the loan-to-deposit ratio including local refinancing) exceeds 110%, any new business must be kept below 110%. This reduces dependence on parent company funding, thus limiting potential negative spill-over effects on the Austrian economy. Furthermore, banks will require effective restructuring and resolution regimes for the event of future crises.

In 2012, the capital adequacy of Erste Group and Raiffeisen Zentralbank was audited by the European Banking Authority (EBA). As of 30 June 2012, both systemically relevant banks had an EBA equity ratio (Core Tier 1) higher than the required 9%.

The foreign exposure of Austrian banks is strongly concentrated on the CEE region; risk is broadly diversified. Austrian banks hardly have any exposure in the euro zone's peripheral countries Ireland, Spain, Greece or Portugal.

Market shares – Austria (in %)



Source: Oesterreichische Nationalbank, Erste Group

Erste Bank Oesterreich and the savings banks held onto their strong position in the Austrian banking market in 2012. At year-end 2012, their combined market share as measured by total assets stood at 17%. In the retail business, Erste Bank Oesterreich and the savings banks retained their share at about 19%, while in the corporate business market shares ranged between 17% and 20% depending on the product.

ERSTE BANK OESTERREICH

In addition to Erste Bank Oesterreich itself, this sub-segment includes the three savings banks in which Erste Bank Oesterreich holds majority ownerships: Salzburger Sparkasse, Tiroler Sparkasse and Sparkasse Hainburg-Bruck-Neusiedl. Another component of this sub-segment is Erste Bank Oesterreich's real estate and mortgage business, which encompass retail mortgages and financing for subsidised and non-subsidised housing projects, as well as facility management and real estate brokerage. s Bausparkasse, who is one of the Austrian market leaders in financing for retail customers and for non-profit and commercial developers, is among the bank's key operating entities in this business. Since 2005, s Bausparkasse has also been responsible for the mortgage bond transactions of Erste Bank Oesterreich. The real estate broker s REAL and s Wohnbaubank, a bank specialised in housing loans, also play key roles.

Business review

Strategy. Erste Bank Oesterreich and its three majority-owned savings banks are universal banks focusing on private individuals, free professions and small and medium-sized enterprises as well as large corporate customers, the public sector and non-profit organisations. The strategic focus is on strengthening their market position and achieving market leadership jointly with the other savings banks. The banks aim to grow by acquiring new customers and intensifying existing customer relationships. In its core businesses of deposit-taking and lending, Erste Bank Oesterreich is focused on retail customers, corporate customers, the public sector and non-profit organisations. Through its multiple-award-winning subsidiaries, the bank also offers financial products related to investments, construction, housing and leasing. In private banking, Erste Bank Oesterreich is among the market leaders in Austria. Together with the savings banks, Erste Bank Oesterreich strives to become Austria's strongest and most profitable banking group. To achieve this goal, the bank is optimising its service and advisory standards and consistently improving the customer experience.

Highlights from 2012

Growth driven by new customers. Top quality in client relationship management is key to winning new customers. Despite customers' steadily rising expectations and the general public's critical attitude towards banks, current surveys conducted by the *Banking Market Study 2012* indicate a high degree of satisfaction, a willingness to recommend the bank, and a higher level of trust among customers of Erste Bank Oesterreich as compared to the banking industry as whole.

Accordingly, approximately 25,000 new customers were acquired in 2012. One in four inhabitants of Vienna is already a customer of the bank. Among the efforts contributing to this success was the campaign focusing on the bank's superior service quality and securities expertise. This campaign started in spring 2012 and both existing and potential customers were invited to have their securities accounts analysed to ensure that their financial needs are met. As a result of this campaign the asset volume under management was increased by EUR 80 million.

Focus on innovation. Customers' needs change over the course of time. Customers expect their bank to offer better accessibility and more flexibility than it did a few years ago. Enhancing accessibility to banking services through a variety of channels is among the bank's key business principles. Erste Bank Oesterreich is convinced that individual advice and personal, face-to-face communication will remain crucial to providing its services successfully. In order to meet the various needs of its customers and to facilitate mobile financial transactions, Erste Bank Oesterreich offers device-optimised netbanking as well as a netbanking app for smartphones. More than 180,000 downloads of the netbanking app and positive reviews demonstrate the importance of such products and services.

New and innovative savings products, such as *Impulssparen* (Impulse Savings) and *Rundungssparen (*Keep the Change*)* contributed to the success of Erste Bank's savings offerings. The Impulse Savings app allows the transfer of funds from cash accounts to savings accounts with a mere click. This app was downloaded more than 10,000 times. The *Keep the Change* app, which is being used by more than 20,000 customers, is a new method of savings combined with card payments. The amount due is rounded up to the nearest euro and the difference is transferred directly to the customer's savings account.

Managing CHF loans. Developments in the foreign exchange and financial markets seriously affected Austrian foreign currency borrowers. Through its dedicated *foreign currency loans task forc*e, Erste Bank Oesterreich provides focused advice to customers and supports them in restructuring their foreign currency loans and improving collateral back-up. It is aimed at making customers aware of the current situation and the rise in potential risk, explaining available options and helping in implementing the decisions made.

Erste Bank strongly promotes all measures to reduce risk, recommending primarily transforming foreign currency bullet loans into amortising loans and taking a client's individual situation into account when modelling the repayment schedule. Any action that is proposed and promoted is pursued with due care to legitimate customer interests and the bank's responsibility to advise and support its customers.

Awards for excellent private banking. For the fourth consecutive year, Erste Bank Oesterreich, joined by Erste Bank Hungary and Banca Comercială Română, was recognised with several awards by *Euromoney*. For 20 years, this magazine with a focus on financial markets has been conferring its *Euromoney Awards for Excellence* in major financial markets and product categories to the most successful financial institutions and leading banks across the globe. In addition, the British business magazine *The Banke*r has named Erste Group's Private Banking the best private banking institution in Central and Eastern Europe.

Financial review

in EUR million	2012	2011
Pre-tax profit/loss	255.1	232.2
Net profit/loss after minority interests	192.4	177.6
Operating result	337.9	397.3
Cost/income ratio	64.5%	60.5%
Return on equity	15.0%	16.3%
Customer loans	28,052	28,199
Customer deposits	29,960	28,774

The decline in net interest income from EUR 665.9 million in the financial year 2011 by EUR 48.1 million, or 7.2%, to EUR 617.8 million was primarily due to lower income from financial assets, reflecting the development of interest rates. Net fee and commission income rose from EUR 320.6 million by EUR 18.4 million, or 5.7%, to EUR 339.0 million in the financial year 2012 despite a decline in the securities business. This improvement was mainly a result of higher fees in the retail business as well as the inclusion of Intermarket Bank AG in August 2011. The decline in the net trading result from EUR 20.2 million in the financial year 2011 by EUR 24.4 million to EUR -4.2 million in the financial year 2012 was attributable to negative valuation results in 2012. The slight rise in operating expenses from EUR 609.4 million by EUR 5.3 million, or 0.9%, to EUR 614.7 million resulted from the integration of Intermarket Bank AG in August 2011 and higher IT expenditure. The operating result decreased from EUR 397.3 million in the financial year 2011 by EUR 59.4 million, or 15.0%, to EUR 337.9 million. The cost/income ratio was 64.5% versus 60.5% in the financial year 2011.

The further reduction in risk provisions from EUR 101.4 million in the previous year by EUR 5.2 million, or 5.1%, to EUR 96.2 million in 2012 reflected the continuing stabilisation of the loan portfolio. Improvement in the "other result" by EUR 77.1 million to EUR 13.4 million in the financial year 2012 was mainly driven by valuation gains, income from the sale of securities held in the available-for-sale portfolio and the sale of real estate. In the previous year, other financial assets had been affected significantly by valuation losses. Banking tax amounted to EUR 9.7 million in the financial year 2012 (financial year 2011: EUR 7.7 million). Net profit after minorities rose from EUR 177.6 million by EUR 14.8, or 8.3%, to EUR 192.4 million in the financial year 2012. Return on equity stood at 15.0% versus 16.3% in the previous year.

Credit risk

Total exposure in the Erste Bank Oesterreich sub-segment decreased by 6.8% to EUR 35.2 billion in 2012, while the volume of customer loans barely changed and amounted to approximately EUR 28 billion at the end of 2012. The share of Erste Bank Oesterreich in Erste Group's total loan portfolio was 21.2% at the end of December 2012 and therefore 0.3 percentage points higher than in 2011. The breakdown by customer segments remained stable, retail customers as well as medium-sized and larger companies accounted for 42% each in the total loan portfolio. Loans to self-employed persons, the free professions and micro-businesses play a smaller role than to the savings banks. At the end of 2012, these loans amounted to 9.8% of total loans to customers.

Supported by a specific advisory initiative for the conversion of foreign currency loans, the share of loans denominated in Swiss francs in the total loan portfolio decreased significantly from 14.4% to 11.8%. A decline was also seen in unsecured lending, its share in total lending having dropped by almost 2 percentage points to 29% in 2012.

The quality of the loan portfolio of the Erste Bank Oesterreich sub-segment remained essentially unchanged at a relatively high level. The share of non-performing loans in total loans to customers was 3.8% at the end of 2012 compared to 3.7% at year-end 2011. The development was especially positive in the retail business, with asset quality among the self-employed and small businesses improving remarkably. In addition to the public sector, private households remained the customers showing the fewest defaults.

SAVINGS BANKS

The Savings Banks sub-segment encompasses 44 Austrian savings banks with 744 branches across the country. They are consolidated due to their membership in the Haftungsverbund (cross-guarantee system). Erste Bank Oesterreich and Sparkasse Oberösterreich entered into a separate cross-guarantee agreement. Erste Bank Oesterreich has no or only minor shareholdings in these institutions. Savings banks that are majority owned by Erste Bank Oesterreich, i.e. Salzburger Sparkasse, Tiroler Sparkasse, Sparkasse Hainburg-Bruck-Neusiedl, are included in the Erste Bank Oesterreich sub-segment. The cross-guarantee system covers in total 50 Austrian savings banks and provides a sound legal basis for collaboration with Erste Bank Oesterreich.

Business review

Strategy. The savings banks are classic universal banks serving private individuals, free professions and small and medium-sized enterprises as well as large corporate clients, the public sector and non-profit organisations. The Austrian savings banks and Erste Bank Oesterreich are focused on becoming the market leaders in Austria over the medium term. The savings banks' close collaboration in key business areas is reflected in their common corporate identity and their harmonised business and market approach. Customers benefit from the wide variety of financial products and services developed through coordinated activities. At the same time, these common production and distribution activities, as well as the shared IT platform and applications (e.g. unified management information and control systems), yield synergies and cost advantages for the savings banks and Erste Bank Oesterreich. Providing outstanding quality and acquiring customers continue to be key goals.

Highlights from 2012

Successful customer acquisition. In 2012, all Austrian savings banks gained more than 60,000 new customers. By continuing the upward trend of the previous year, the total number of customers rose to almost 3.3 million. Campaigns such as *Kunden werben Kunden* (tell a friend) contributed significantly to the successful acquisition of new customers. This proved just how much customers appreciate it when services are aimed to satisfy their actual needs.

Mobile banking. Enhancing accessibility to banking services through a variety of channels as well as facilitating mobile financial transactions have become crucial to meeting the changing needs of customers. New and innovative savings products, such as *Impulssparen* (Impulse savings) and *Rundungssparen* (Keep the Change) also complimented the product offerings of the savings banks.

Sales support. The savings banks are supported by a dedicated task-force of Erste Bank Oesterreich. The main priorities are the further optimisation of sales potentials and sales steering. By observing business developments, financial needs can be quickly identified, thus allowing pro-active steps to be taken and continuously improving the service quality of the savings banks.

Cost projects. Further expense-related projects were implemented in 2012 across the savings banks. Initiatives related to the "optimisation of other administrative expenses" and to "personnel benchmarking at savings banks" that enabled the participating institutions to compare their expenses with those of their peers and to identify specific action points. Another initiative supporting the savings banks in identifying further optimisation potentials focused on the analysis of the branch locations, providing information on the performance of the branches and allowing peer comparison. Measures were drawn up to tackle weaknesses and to follow best practice examples. As a result, the savings banks quickly exploited their optimisation potential.

Financial review

in EUR million	2012	2011
Pre-tax profit/loss	202.3	154.7
Net profit/loss after minority interests	21.5	6.0
Operating result	425.7	487.1
Cost/income ratio	68.7%	65.6%
Return on equity	5.8%	2.0%
Customer loans	37,687	37,604
Customer deposits	34,215	33,555

The decline in net interest income from EUR 1,015.6 million by EUR 75.6 million, or 7.4%, to EUR 940.0 million in the financial year 2012 was mainly due to lower income from financial assets due to interest rate developments. Net fee and commission income rose by EUR 7.8 million, or 2.0%, to EUR 398.0 million in 2012, driven by payment transfers and the lending business. The net trading result improved from EUR 12.2 million in the financial year 2011 by EUR 7.7 million to EUR 19.9 million in the financial year 2012, reflecting higher income from foreign exchange trading. Operating expenses rose only slightly by EUR 1.3 million, or 0.1%, to EUR 932.2 million. The operating result decreased from EUR 487.1 million by EUR 61.4 million, or 12.6%, to EUR 425.7 million. The cost/income ratio stood at 68.7% versus 65.6% in the previous year.

Risk provisions fell by EUR 24.5 million, or 9.8%, from EUR 250.4 million in the financial year 2011 to EUR 225.9 million. A significant improvement in the "other result" from EUR -82.0 million by EUR 84.5 million to EUR 2.5 million was largely due to gains on disposal in the available-for-sale portfolio in 2012 and valuation losses in the securities portfolio in 2011. Banking tax amounted to EUR 8.1 million in the financial year 2012 (2011: EUR 6.5 million). Net profit after minorities rose from EUR 6.0 million in the financial year 2011 by EUR 15.5 million, to EUR 21.5 million in the financial year 2012.

Credit risk

Total exposure in the savings banks sub-segment decreased slightly by 1.4% from EUR 52.9 billion to EUR 52.1 billion in 2012. Loans to customers stagnated at almost EUR 37.7 billion, amongst other things due to the subdued demand for loans. The distribution of borrowers by customer segments hardly showed any changes. Business with free professions, self-employed persons and SMEs shows a disproportionately higher importance for the Austrian savings banks as compared to Erste Group overall. Accounting for nearly one-fifth of total loans, the share of this customer segment is significantly larger than at the subsidiaries of Erste Group in Central and Eastern Europe. This reflects the structure of Austria's economy that features in international comparison a very high share of small and medium-sized businesses.

Foreign currency loans denominated in Swiss francs decreased steeply, but at a share of 14.5% of total loans to customers the ratio was still far above Erste Bank Oesterreich's level. The trend for higher collateralisation of loans continued in the past financial year.

The quality of the loan portfolio changed only slightly in the course of 2012 and was satisfactory. The share of non-performing loans in the total loan book was 6.9% both at the beginning and at the end of the year. The migration trend of performing loans to better risk classes continued. Compared by customer segments, the development was particularly positive among retail customers. The NPL coverage improved further and amounted to 60.8% of the total non-performing loans portfolio at the end of 2012.

CZECH REPUBLIC

The Czech Republic sub-segment includes the retail, private banking, and SME business of Česká spořitelna and its subsidiary operations. Česká spořitelna is the leading retail bank in the country and the largest among Erste Group's operations in Central and Eastern Europe. The bank operates a network of 658 branches and 1,466 ATMs. It serves some 5.2 million retail customers, SME customers, large corporate customers and municipality customers. Česká spořitelna has issued almost 3.2 million bank cards, including roughly 350,000 credit cards. The bank's building society, pension fund and factoring subsidiaries also occupy leading positions in their respective fields.

Economic review

Despite strong fundamentals, the Czech economy went into recession in 2012. The uncertainty emanating from the euro zone debt crisis, combined with domestic fiscal restriction, hurt domestic demand, especially its household component. Construction investment fell considerably and, given the nature of the open Czech economy, the slowdown in the key European Union trade partners adversely affected the country's economy. Nevertheless, net exports remained the main contributor to growth, a powerful testament to Czech competitiveness. Following sluggish growth in 2011, real GDP contracted by 1.0% in 2012, while GDP per capita stood at EUR 14,500. The unemployment rate increased slightly to 6.9% in 2012.

After the sizeable reduction achieved in 2011, partly on account of a significant drop in investment, the general government deficit rose slightly to 3.3% of GDP in 2012. The deterioration in the deficit reflects the worsened macroeconomic conditions and weak private consumption. The Czech Republic maintained its traditionally lower public debt relative to its CEE peers at 44% of GDP, and the government abandoned its plans for fiscal restriction in 2014. Rating agencies acknowledged the overall performance of the Czech economy, with S&P, Moody's and Fitch affirming the country's long-term sovereign credit rating at AA−, A1 and A+, respectively, in 2012.

Real disposable income contracted due to sluggish growth in wages and elevated inflation, fuelled by an increase in the lower rate of VAT from 10% to 14%. In 2012 inflation reached 3.3% and was driven by higher energy and food prices, the hike in the lower VAT, and continued price deregulations. The Czech koruna, supported by the country's strong fundamentals, traded within a relatively narrow range versus the euro compared to some of the other regional currencies. The Czech National Bank cut rates in June, September, and finally in October 2012 to 0.05%.

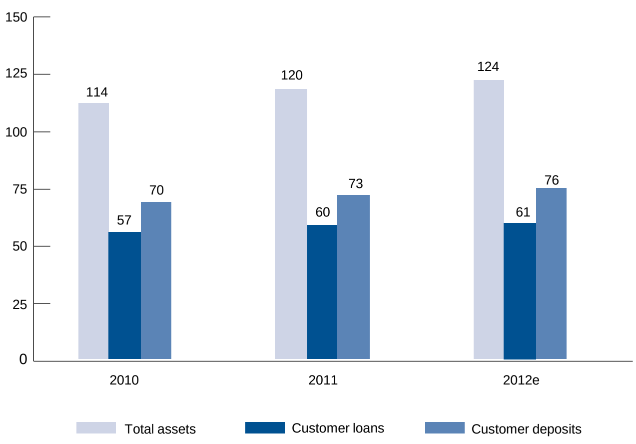
Key economic indicators – Czech Republic	2009	2010	2011	2012e
Population (ave, million)	10.5	10.5	10.5	10.6
GDP (nominal, EUR billion)	142.2	150.1	156.1	153.3
GDP/capita (in EUR thousand)	13.6	14.3	14.9	14.5
Real GDP growth	-4.4	2.3	1.9	-1.0
Private consumption growth	0.3	0.9	0.7	-2.4
Exports (share of GDP)	62.6	65.8	76.0	75.5
Imports (share of GDP)	58.3	62.7	71.8	70.4
Unemployment (Eurostat definition)	6.7	7.3	6.7	6.9
Consumer price inflation (ave)	1.1	1.5	1.9	3.3
Short term interest rate (3 months average)	2.2	1.3	1.2	1.0
EUR FX rate (ave)	26.4	25.3	24.6	25.1
EUR FX rate (eop)	26.5	25.1	25.8	25.2
Current account balance (share of GDP)	-2.4	-3.9	-2.8	-2.3
General government balance (share of GDP)	-5.8	-4.8	-3.3	-5.0

Source: Erste Group

Market review

In 2012, the Czech banking market remained one of the most liquid and well capitalised markets in Central and Eastern Europe. The solid fundamentals of the Czech banking market are demonstrated by a system-wide loan-to-deposit ratio of 76% and a strong capital adequacy of 16%. As a result of the GDP contraction, customer loans grew by only 2%, while the growth in customer deposits of 5% was also driven by the highly developed savings culture in the Czech Republic. Foreign exchange-based lending remained insignificant compared to some other CEE countries. The NPL ratio remained stable at 6% and was lower than elsewhere in the CEE region. The attractiveness of the Czech banking market was also demonstrated by a stable return on equity of approximately 20%.

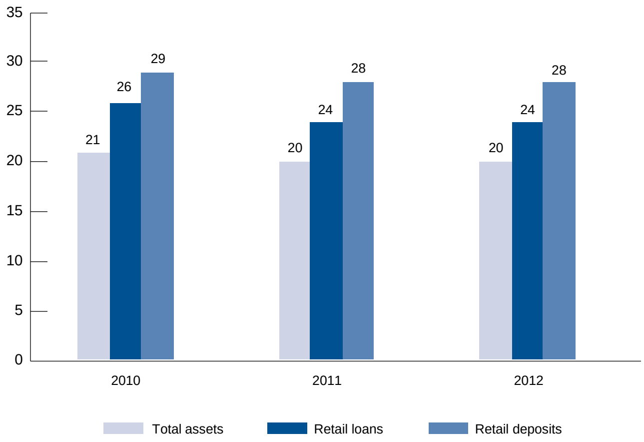
Financial intermediation – Czech Republic (in % of GDP)



Source: Czech National Bank, Erste Group

Česká spořitelna maintained its market leadership positions across all major product categories in 2012. Its retail market shares ranged from 24% to 28% while its share in the corporate segment remained lower at around 20%. Overall, its market share in terms of total assets remained at around 20%. Česká spořitelna also retained its number-one position in the payment card market with a market share of 32%.

Market shares – Czech Republic (in %)



Source: Czech National Bank, Erste Group

Business review

Strategy. Česká spořitelna's strategy is directed towards growing with the evolving needs of a retail customer base that is becoming wealthier. While catering to the mass market, the bank also offers a broad range of services to corporate and public sector customers. In line with this balanced business model that is focused on the real economy, Česká spořitelna aims to retain its leading market positions in all key product segments and to substantially increase its presence in the business with entrepreneurs, SMEs, and local corporate customers while not losing sight of the need to further enhance client satisfaction. The bank aims at sustainable profit growth while maintaining high risk standards.

In 2012, Česká spořitelna continued the transformation process of its retail and private banking business. This will result in different service levels according to the clients' specific financial needs. The first significant step in this process was the successful establishment of Erste Premier and Erste Private Banking as the highest service level in asset management.

Highlights from 2012

Strong position in the mortgage business. Česká spořitelna continued to grow its mortgage book with the volume of new mortgages rising by more than 25%. This development was attributable to well-tailored products and services for customers and the sound development on the Czech real estate market. In 2012, Česká spořitelna provided more than 16,000 new private mortgages totalling CZK 25.8 billion. Česká spořitelna was the market leader in the mortgage business, having a market share of 28%.

Focus on SMEs. Česká spořitelna aims at continuously offering high and well above standard customised services. In order to demonstrate the competence in the SME business, the bank offered different *TOP* programmes for SMEs in agriculture, energy and export-related businesses. *TOP AGRO* addresses farmers, facilitates the bridging of seasonal cash flows and provides financing for necessary investments. In addition, Česká spořitelna introduced the *TOP INOVACE* programme. It specialises in innovation across all industries and focuses on an assessment of the project by independent advisors, financing for innovation projects and consulting during the entire realisation phase. The *TOP ENERGY* programme supports the preparation and implementation of innovative projects in energy savings and production. Reflecting the importance of exports to the Czech economy, the TOP EXPORT programme focuses on SME subcontractors who are active in the export business.

Front-runner in electronic banking. Česká spořitelna maintained its leading position in electronic banking. At the end of August 2012, the well-established and leading electronic banking products *SERVIS 24* (for retail customers) and *BUSINESS 24* (for corporate customers) were redesigned to further improve the already high level of customer satisfaction. The *SERVIS 24* electronic banking product was named product of the decade in the *Zlatá Koruna* (Golden Crown) competition in 2012. In the past 10 years of the competition, *SERVIS 24* has been named the most popular product repeatedly and has obtained the highest number of awards.

International and local recognition. Česká spořitelna was named the *Best Bank in the Czech Republic* in 2012. A professional jury of experts from several countries chooses the winners of the *Euromoney Awards for Excellence*. Česká spořitelna also won the international award *Bank of the Year* in the Czech Republic, annually bestowed by *The Banker Magazine*. The bank received this award for its results achieved last year. For the ninth time in a row, Česká spořitelna was awarded the title *The Most Trustworthy Bank of the Year* in the prestigious Fincentrum Bank of the Year competition in 2012, and Pavel Kysilka, CEO of Česká spořitelna, was again elected *Banker of the Year*. These awards confirmed Česká spořitelna's success in pursuing its strategic approach and highlighted the quality of the services the bank provides.

Financial review

in EUR million	2012	2011
Pre-tax profit/loss	656.2	587.9
Net profit/loss after minority interests	518.0	456.3
Operating result	889.0	920.4
Cost/income ratio	43.8%	43.7%
Return on equity	40.9%	42.8%
Customer loans	17,891	17,187
Customer deposits	25,598	24,296

Net interest income in the Czech Republic sub-segment declined from EUR 1,183.3 million by EUR 69.5 million, or 5.9% (currency-adjusted: -3.7%), to EUR 1,113.8 million. This development was mainly attributable to falling market interest rates and subdued credit demand, especially for consumer loans. Net fee and commission income decreased from EUR 496.5 million in the previous year by EUR 49.3 million, or 9.9% (currency-adjusted: -7.9%), to EUR 447.2 million in 2012 mainly due to lower income from lending business and payment transfers. The net trading result improved from EUR -45.5 million in the financial year 2011 by EUR 65.4 million to EUR 19.9 million, which was attributable to negative valuation effects related to the pension fund in the previous year. Operating expenses declined by EUR 22.0 million, or 3.1% (currency-adjusted: -0.9%), to EUR 691.9 million in the financial year 2012.

The operating result declined from EUR 920.4 million in the financial year 2011 by EUR 31.4 million, or 3.4% (currency-adjusted: -1.2%), to EUR 889.0 million. As portfolio quality continued to stabilise, risk provisions fell by EUR 70.9 million, or 33.7% (currency-adjusted: -32.2%), to EUR 139.6 million in the financial year 2012. Improvement in the "other result" from EUR -122.0 million by EUR 28.8 million to EUR -93.2 million was primarily driven by higher income from financial assets. At EUR 518.0 million, net profit after minorities was EUR 61.7 million, or 13.5% (currency-adjusted: +16.1%) higher than in the previous year (EUR 456.3 million). The cost/income ratio, at 43.8%, was almost unchanged versus 2011 (43.7%). Return on equity declined from 42.8% to 40.9%.

Credit risk

Total exposure in the Czech Republic sub-segment increased by 8.2% to EUR 32.8 billion in 2012. Supported by a 2.5% appreciation of the Czech koruna against the euro, the Czech Republic sub-segment posted the most dynamic development of all sub-segments across Erste Group. Loans to customers increased during the reporting period by 4.1% to EUR 17.9 billion. The loan volume increase was evenly distributed across private households and businesses. In the Czech Republic, loans are almost exclusively granted in local currency. As generally observed at Erste Group, the share of secured loans, in particular retail mortgage loans, also increased in the Czech Republic sub-segment.

The share of the Czech Republic sub-segment in total loans to customers of Erste Group rose to 13.6% in 2012 (2011: 12.8%). Hence, the Czech Republic is the second most important market for Erste Group after Austria.

Even though there was a slight decline in economic activity in 2012, the negative effects of the global financial and economic crisis as well as the European sovereign debt crisis were relatively mild in the Czech Republic compared to other countries of Central and Eastern Europe. This development and an effective credit risk management contributed to the further improvement of the loan portfolio in 2012, therefore continuing the positive trend of the year 2011. The share of non-performing loans to total loans to customers decreased from 5.5% to 5.3%. In contrast to the development in many other CEE markets, mainly the quality of corporate loans improved. Risk provisions in relation to non-performing loans stood at 72.2% at the end of 2012.

ROMANIA

The Romania sub-segment includes the retail and SME business of Banca Comercială Română and its subsidiaries. The bank offers a full array of retail and corporate banking services through a network of 623 branches and 41 commercial centres as well as internet and phone banking. It also operates the largest national network of ATMs and POS terminals, respectively, numbering approximately 2,400 and approximately 14,400 units. Banca Comercială Română is the market leader with total assets of EUR 16.5 billion and 3.5 million customers as of year-end 2012. It is also top ranked in leasing and well positioned in the pension fund and brokerage businesses.

Economic review

After the modest growth in 2011 the Romanian economy stagnated in 2012 with GDP per capita amounting to EUR 6,200. Harsh winter conditions dragged down economic activity at the beginning of the year but growth recovered in the second quarter due to robust infrastructure investments and private consumption. However, the severe summer drought, decreasing consumer confidence, and difficulties in absorbing European Union funds had a negative impact on the economy in the second half of the year. In addition, as one of the least open economies in the region, and with exports accounting for just one-fourth of the country's GDP, Romania benefited less than other CEE countries from Germany's economic performance (even though Germany's real GDP growth was not as pronounced as in 2011). Domestic demand, however, supported economic growth in 2012 as growth of private consumption was driven by higher wages both in the public and in the private sector. The unemployment rate remained stable at 7.4% with an increase in employment in services accompanied by a decline in agriculture.

Despite on-going political uncertainty, Romania continued its highly disciplined fiscal consolidation programme in 2012. In the aftermath of the global financial crisis, Romania had undergone a considerable fiscal consolidation process as a result of a stand-by arrangement with the International Monetary Fund and the European Union. As part of the agreement, most privatisations in the energy and chemical sectors were postponed until after the general parliamentary elections in December 2012. Due to continued fiscal consolidation which included a freeze in pensions, cuts in social benefits, and an increase in excise tax, the budget deficit improved further in 2012 to 3% of GDP. Romania's public debt level to GDP remained one of the lowest in the European Union at 35% at the end of 2012.

After temporary downward pressure on inflation in the first six months, prices climbed significantly in the second part of the year, driven mainly by rising food prices on the back of the severe drought and pass-through effects associated with the Romanian leu's depreciation. In addition, new steps were taken towards the liberalisation of energy prices, which resulted in a gas price increase of 5% for households and 10% for corporates. As a result of these developments the inflation rate exceeded the National Bank target of 3%. The Romanian National Bank cut the base rate three times in the first quarter of the year to a historic low of 5.25%, however, as inflation accelerated later in the year the base rate was left unchanged for the remaining part of the year. Due to political instability, the Romanian leu significantly weakened versus the euro during the summer of 2012 but this trend reversed later in the year.

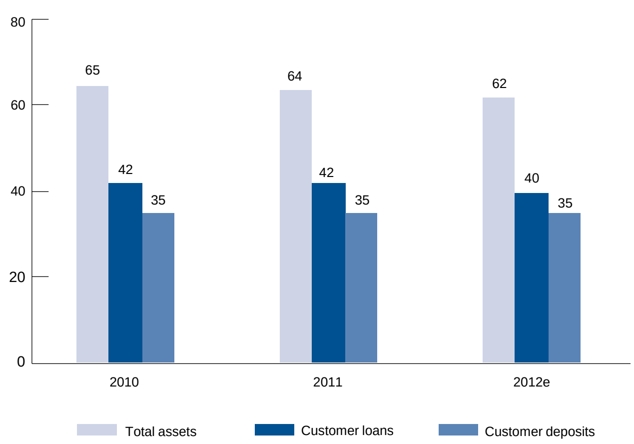
Key economic indicators – Romania	2009	2010	2011	2012e
Population (ave, million)	21.5	21.5	21.4	21.4
GDP (nominal, EUR billion)	118.2	124.4	131.3	131.5
GDP/capita (in EUR thousand)	5.5	5.8	6.1	6.2
Real GDP growth	-6.6	-1.1	2.2	0.0
Private consumption growth	-9.1	-0.2	1.1	0.7
Exports (share of GDP)	24.6	30.1	34.3	34.0
Imports (share of GDP)	33.0	37.7	41.7	39.6
Unemployment (Eurostat definition)	6.9	7.3	7.4	7.4
Consumer price inflation (ave)	5.6	6.1	5.8	5.0
Short term interest rate (3 months average)	11.7	6.8	5.8	5.3
EUR FX rate (ave)	4.2	4.2	4.2	4.5
EUR FX rate (eop)	4.2	4.3	4.3	4.4
Current account balance (share of GDP)	-4.2	-4.4	-4.3	-3.5
General government balance (share of GDP)	-9.0	-6.8	-5.5	-3.0

Source: Erste Group

Market review

The Romanian banking market was characterised by a declining interest rate environment throughout 2012 coupled with low volume growth. The latter was mainly driven by growing corporate lending. The slight increase in customer loans was due to very low demand and to banks being more prudent in their lending policies. The only loan growth driver in the retail segment was *Prima Casa*, a government-guaranteed mortgage programme introduced in 2009. The programme was switched from the euro to a local currency-base in the second half of 2012. Banks' focus turned to other business areas such as cards, digital channels, transaction banking and treasury products. As the profitability of the banking sector was still significantly impacted by high risk costs and lower margins, financial institutions continued to implement cost efficiency measures which included a reduction in workforce and further network optimisation efforts. The banking market maintained sufficient capital buffers and remained liquid in 2012.

Financial intermediation – Romania (in % of GDP)

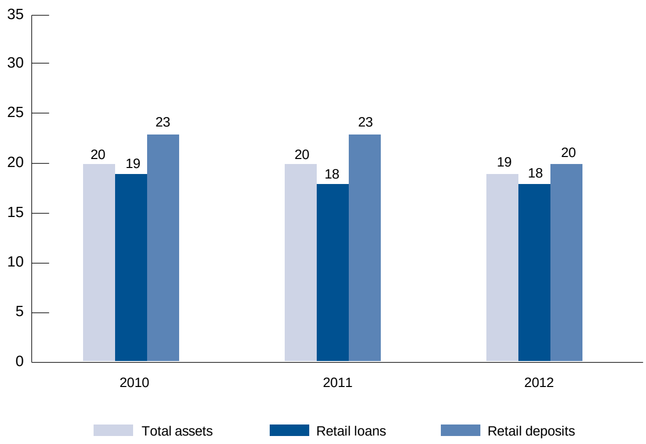


Source: National Bank of Romania, Erste Group

The Romanian National Bank continued to support local funding and local currency-based-lending throughout 2012. Due to the national bank's rules regarding limitations on tenor, debt-to-income ratio, loan-to-value ratio, and collateral coverage, consumer lending was almost exclusively done in local currency. Customers' awareness of the risk and potential disadvantages of foreign-currency-based lending increased. Altogether, customer loans grew by 1% and remained driven by increasing volumes in retail deposits. Customer deposits increased in line with customer loans at 5% in 2012.

Despite losing some market share in the corporate segment as a result of repricing measures, Banca Comercială Română held onto its leadership position in almost all major product categories. By the end of 2012, the bank was ranked number one based on total assets, customer loans, customer deposits and asset management. Overall, Banca Comercială Română had a market share in terms of total assets of 19% at the end of 2012.

Market shares – Romania (in %)



Source: National Bank of Romania, Erste Group

Business review

Strategy. Banca Comercială Română's main strategic objective is to maintain its leading market position and to return to sustainable profitability. Meeting customer needs while providing understandable financial products and high-quality customer service are at the centre of attention. Special emphasis is given to continuously improving risk management and efficiency.

In 2012, a new top management team was appointed aiming at restructuring the bank in order to return to profitability on a sustainable basis. The strategic priorities set their focus on improving the asset quality, optimising the allocation of resources, and further developing the bank's commercial strengths.

Highlights from 2012

Focus on asset quality improvement. While the NPL ratio continued its increase in 2012, Banca Comercială Română managed to substantially strengthen its NPL coverage ratio from a low level of 50.1% at year-end 2011 to 58.6% at year-end 2012. In the fourth quarter of 2012 a new business unit responsible for cleaning up the legacy retail and corporate portfolio was set up to achieve a sustainable turnaround in asset quality. The newly established division sets its focus on restructuring, recovery, and NPL sales. Following the peak in risk provisions in 2012, a significant reduction is planned for 2013.

Reviving top line growth. Banca Comercială Română holds leading market shares in retail deposits and retail loans and operates the largest national network of ATMs and POS terminals. This puts the bank in an excellent position to revive growth. In April 2012, Banca Comercială Română launched the programme *NEXT* which sets its focus on prioritising and structuring a large set of different retail initiatives to one consistent strategy that improves both client activation and client retention. The measures taken include the optimisation of the branch and multichannel network, the redesign of the performance management and the focus on daily banking needs. Beyond the short-term impact, *NEXT* aims at transforming the retail business into a sustainable growth driver. Furthermore, the programme includes measures related to the micro business, such as the automation of overdrafts, launching a new current account package for start-ups and a new assessment tool for loans.

Improving cost efficiency. Significantly reducing the cost base was among the main targets of Banca Comercială Română in 2012. The bank successfully aligned the cost dynamics with the revenue generation capacity. The branch network and the head office functions were critically reviewed. As a consequence, fourty-five retail units and seven corporate centres in areas with low growth potential were closed, and the headcount of the bank was reduced by 8%. Restructuring charges were fully covered by cost savings. The excellent cost efficiency is underlined by the cost income ratio of 41.6% in 2012. The focus is on maintaining the lowered cost base and optimising the allocation of all resources further.

Local-currency lending, improved self-funding. To fully utilise Banca Comercială Română's funding capacity in local currency, the bank intends to modify the currency structure of the balance sheet in the medium term. Hence, in October 2012, foreign-currency lending was cancelled. Since then, only retail customers with foreign-exchange income have been eligible for FX loans. In addition, loans under the *Prima Casa* state-guarantee programme have been available only in local currency since November 2012.

Focus on financial excellence. The design and implementation of a new management information system covering financial, risk and business related indicators is among the key strategic priorities. The improvement of the data integration between capital planning, risk-weighted assets management and liquidity steering of Banca Comercială Română and its subsidiaries will directly impact the bank's performance management capacity. In line with these strategic priorities, the bank also sets a strong focus on proactive balance sheet management.

Financial review

in EUR million	2012	2011
Pre-tax profit/loss	-378.6	-54.9
Net profit/loss after minority interests	-294.3	-22.5
Operating result	407.3	475.3
Cost/income ratio	46.6%	44.2%
Return on equity	na	na
Customer loans	10,682	11,160
Customer deposits	7,595	8,003

The result of the Romania sub-segment was again affected by the adverse economic environment. Net interest income declined by EUR 99.9 million, or 14.9% (currency-adjusted: -10.4%), to EUR 572.4 million. This development was mainly driven by weak consumer credit demand and narrowing margins on retail and corporate business. The decline in net fee and commission income by EUR 9.8 million, or 7.5% (currency-adjusted: -2.7%), from EUR 130.1 million in 2011 to EUR 120.3 million in the financial year 2012 was mainly attributable to lower income from payment transfers. The increase in the net trading result by EUR 21.2 million from EUR 49.3 million in 2011 to EUR 70.5 million resulted largely from revaluation gains on currency positions. Operating expenses declined from EUR 376.4 million in the previous year by EUR 20.5 million, or 5.4%, to EUR 355.9 million in the financial year 2012. Currency-adjusted, operating expenses were stable. Restructuring provisions in the amount of EUR 24.1million created at year-end 2012 were covered by cost savings achieved through optimisation measures.

Additional provisioning requirements in the retail, corporate and real estate business resulted in an increase in risk costs from EUR 499.3 million by EUR 237.9 million, or 47.6% (currency-adjusted: +55.3%), to EUR 737.2 million in the financial year 2012. This led to a rise in the NPL coverage ratio to 58.6% as of 31 December 2012 versus 50.1% at year-end 2011. The decline in the item "other result" from EUR -30.9 million by EUR 17.8 million, or 57.6% (currency-adjusted: -65.8%) to EUR -48.7 million in the financial year 2012 was mainly due to one-off income from the liquidation of the subsidiary Anglo-Romanian Bank Ltd. in 2011. Net loss after minorities rose from EUR 22.5 million in the previous year by EUR 271.8 million to EUR 294.3 million. The cost/income ratio rose from 44.2% in the previous year to 46.6%.

Credit risk

Total exposure in the Romania sub-segment increased from EUR 14.7 billion to EUR 15.0 billion in 2012, while loans to customers decreased by 5.4% to EUR 10.7 billion. At the end of 2012, this equalled 8.1% (year-end 2011: 8.3%) of the total loans to customers of Erste Group. The decrease in the loan portfolio was, on the one hand, due to the depreciation by 2.8% of the Romanian leu against the euro and on the other, to the more restrictive lending policy and the managing of overdrafts. In addition, the sale of smaller portions of the NPL portfolio on the secondary market continued, in particular of unsecured consumer loans.

At the end of 2012, two thirds of the loan portfolio consisted of secured loans. The share of foreign currency loans increased from 62.3% to 62.6% and was almost completely denominated in euros. This development was due to the *Prima Casa* programme, which is subsidised by the state. In the second half of 2012, the programme was switched from euros to local currency.

The country's sluggish economic recovery caused the asset quality to deteriorate further despite the counter measures taken in the form of stricter criteria for assessing creditworthiness. The NPL ratio, which is the share of non-performing loans in total loans to customers, rose significantly from 22.7% to 28.3% with, similar to 2011, most of the deterioration being due to corporate loans. Coping with the economic situation was most difficult for self-employed persons and micro businesses. This customer group accounted for only 5.7% of the loan portfolio at the end of 2012 as compared to 6.9% one year earlier. The development of loans to private households was clearly better and non-performing loans declined. Risk provisions were substantially increased so that the NPL coverage ratio went up from 50.1% at the end of 2011 to 58.6% at the close of the financial year 2012.

SLOVAKIA

The Slovakia sub-segment encompasses the retail, private banking and SME business of Slovenská sporiteľňa and its subsidiaries. Slovenská sporiteľňa is the long-standing retail market leader and is also one of the top players in the corporate business. Slovenská sporiteľňa also occupies leading positions in asset management, leasing and factoring. It serves some 2.4 million clients, or about half of the Slovak population, through a network of 297 branches and 773 ATMs.

Economic review

Following one of the fastest recoveries from the financial crisis in the euro area, the Slovak economy – one of the most open economies in the CEE region – was almost entirely driven by a positive supply shock in the automotive industry in 2012. Other industries, however, stagnated. The construction sector showed signs of weakness and private consumption was negatively affected by a continuing decline of real household disposable income. Altogether, real GDP grew by 2.0% in 2012 while GDP per capita stood at EUR 13,100 at year-end. In the absence of a major improvement in the labour market, the unemployment rate remained high and amounted to 13.9% at the end of 2012, which is approximately 5 percentage points above the pre-crisis level.

The public deficit as a percentage of GDP stood at 52% in 2012. The strong expenditure-based budgetary efforts conducted in 2011 did not continue in 2012. Substantial shortfalls in VAT, excise duties and income tax collection on the revenue side, coupled with higher-than-budgeted growth in expenditure on healthcare subsidies were partly mitigated by higher collection of social contributions and lower-than-expected spending on pensions. The revenue side was further strengthened by a broadening of the base of the bank levy, an additional one-off bank tax, and a special tax for companies operating in a regulated environment. As a result of these measures, the government deficit in relation to GDP remained at 5% in 2012.

After rebounding in the previous year, inflation amounted to 3.6% in 2012. Average consumer prices were largely driven by a continuing increase in energy and commodity prices and by a pick-up in the prices of non-energy industrial goods after two years of stagnation. Having adopted the euro in 2009, Slovakia continued to benefit from low euro zone interest rates.

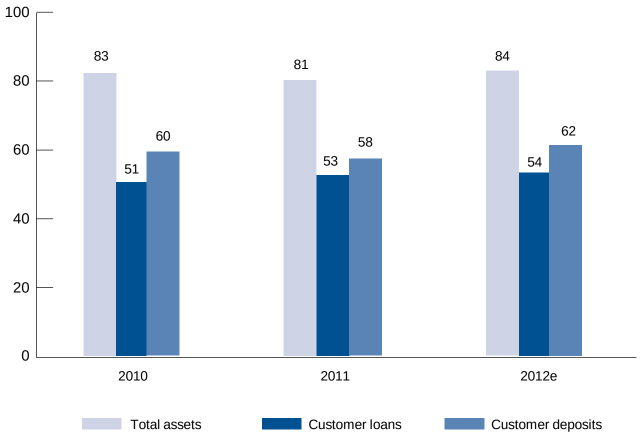
Key economic indicators – Slovakia	2009	2010	2011	2012e
Population (ave, million)	5.4	5.4	5.5	5.5
GDP (nominal, EUR billion)	62.8	65.7	69.1	71.5
GDP/capita (in EUR thousand)	11.6	12.1	12.7	13.1
Real GDP growth	-4.9	4.4	3.2	2.0
Private consumption growth	0.1	-0.8	-0.4	-0.4
Exports (share of GDP)	63.3	73.4	81.7	87.8
Imports (share of GDP)	61.7	72.2	78.1	82.7
Unemployment (Eurostat definition)	12.1	14.4	13.5	13.9
Consumer price inflation (ave)	1.6	1.0	3.9	3.6
Short term interest rate (3 months average)	1.2	1.0	1.4	0.6
EUR FX rate (ave)	1.0	1.0	1.0	1.0
EUR FX rate (eop)	1.0	1.0	1.0	1.0
Current account balance (share of GDP)	-2.6	-2.5	-2.1	2.1
General government balance (share of GDP)	-8.0	-7.7	-4.8	-4.9

Source: Erste Group

Market review

The comparably positive macroeconomic environment continued to impact favourably upon Slovakia's banking market.

Financial intermediation – Slovakia (in % of GDP)



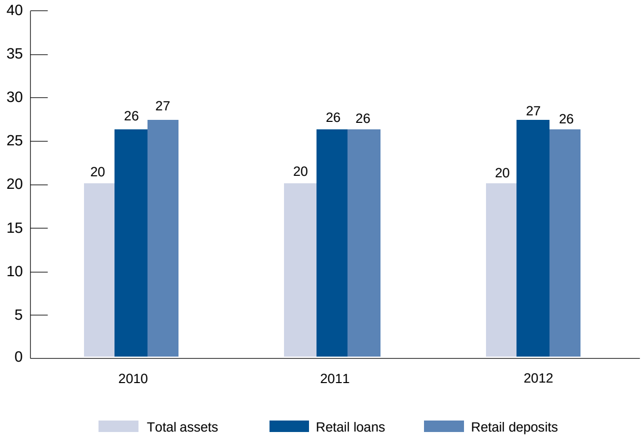
Source: National Bank of Slovakia, Erste Group

Customer loans increased by 3% in 2012, with retail loans (particularly consumer loans) having grown stronger than corporate loans. Foreign currency lending remained insignificant. Customer deposits grew stronger than loans at 6%, driven mainly by retail deposits. With its loan-to-deposit ratio of 88%, Slovakia maintained one of the most liquid and balanced banking sectors in the region.

Slovenská sporiteľňa successfully retained its leading market positions. The bank continued to control one-fifth of the country's banking market in terms of total assets, while it also led the market in retail loans and retail deposits. In the housing loan segment, Slovenská sporiteľňa's market share increased slightly to 27.2%. On the deposit side, its market share was significantly lower in the corporate segment, at 10.9%, than in retail, at 25.7%.

The banking tax, introduced in January 2012 by the previous government at 0.2% of corporate deposits only, was extended to include retail deposits and was also increased to 0.4%. The Slovak government also imposed an additional one-off tax amounting to 0.1% of taxable profits.

Market shares – Slovakia (in %)



Source: National Bank of Slovakia, Erste Group

Business review

Strategy. The strategic focus of Slovenská sporiteľňa remains on maintaining its leading market positions in retail and SME banking by building on its unique strength in retail funding, its trustworthiness and its distribution network. In addition to the core mass segment, the bank targets the growing ranks of mass affluent clients and aims to strengthen its positions in the affluent customers' and corporate banking segments. Special emphasis is is placed on delivering added value to its customers by providing appropriate financial products and services. The bank is also committed to enhancing the customer experience by continuously improving accessibility.

Highlights from 2012

Focus on client activation in retail. In 2012, Slovenská sporiteľňa introduced new loyalty programmes. Customers who have their income transferred to their cash accounts and use payment cards are eligible for premium conditions on loans and deposit products. A majority of the increase in retail deposits was due to the *Savings Account*, a deposit product for regular savings. Supported by an accompanying campaign, the volume of monthly savings increased substantially. Deposits inflows from this campaign amounted to EUR 300 million by December.

Banking for municipalities and corporate customers. In the corporate segment, Slovenská sporiteľňa extended the cooperation with the European Bank for Reconstruction and Development with a second tranche of the *Municipal Sustainable Energy Finance Facility*. Municipalities were eligible to receive funding for energy-efficiency projects, such as the insulation of buildings. Slovenská sporiteľňa also introduced *AGRO PRO*, targeting the agricultural sector and offering pre-financing of direct subsidies from agricultural payments or providing loans for the purchase of agricultural machinery.

Addressing the youth. Putting emphasis on dedicated marketing campaigns resulted in increased product awareness among young people. Slovenská sporiteľňa launched its new *Space* account, specially designed for young people. Approximately 30,000 new accounts for people between the age of fifteen and twenty-six were opened, which translates to an increase of 25% compared to last year. Interactive communication aims at strengthening the relationship between the bank and the customer. Slovenská sporiteľňa also offers premium services for additional fees for the *Space* account to raise the awareness of value and price among younger customers.

International and local recognition. A strong market position, high profitability, an improved asset quality and a strengthened capital position are the main reasons why Slovenská sporiteľňa won prestigious awards in 2012. The bank was named *Best Bank in Slovakia* in 2012. A professional jury of experts from several countries chose the winners of the *Euromoney Awards for Excellence*. Slovenská sporiteľňa also won the international *Bank of the Year* award in the Slovak Republic, annually bestowed by the magazine *The Banker*, as well as the *Bank of the Year* award granted by the local economic magazine *TREND*.

Financial review

in EUR million	2012	2011
Pre-tax profit/loss	210.6	215.5
Net profit/loss after minority interests	169.3	173.2
Operating result	301.7	329.3
Cost/income ratio	43.9%	40.5%
Return on equity	39.4%	43.2%
Customer loans	6,598	6,217
Customer deposits	7,620	7,202

Net interest income in the Slovak Republic sub-segment declined by EUR 20.8 million, or 4.7%, from EUR 445.7 million in the financial year 2011 to EUR 424.9 million in the financial year 2012. This resulted mainly from a change in the investment strategy for financial assets and a slight decline in retail business margins. The slight decline in net fee and commission income by EUR 2.2 million, or 2.0%, from EUR 112.2 million to EUR 110.0 million was mainly attributable to lower asset management commissions. The net trading result improved from EUR -4.6 million in 2011 by EUR 7.4 million to EUR 2.8 million. Operating expenses rose by EUR 12.0 million, or 5.4%, from EUR 224.0 million to EUR 236.0 million due to higher IT depreciation charges.

Risk provisions reflected an improvement in the market environment versus 2011. The SME, retail and real estate businesses benefited, leading to a reduction by EUR 20.2 million, or 27.4%, from EUR 73.6 million in the financial year 2011 to EUR 53.4 million in the financial year 2012. Improvement in the "other result" by EUR 2.5 million versus 2011 was primarily driven by valuation effects from financial assets, lower revaluation of real estate and lower deposit insurance contributions.

Banking tax amounted to EUR 26.5 million in the financial year 2012 (no banking tax in 2011). Net profit after minorities declined by EUR 3.9 million, or 2.3%, to EUR 169.3 million. The cost/income ratio increased from 40.5% in 2011 to 43.9% in 2012. Return on equity decreased from 43.2% to 39.4%.

Credit risk

Total exposure in the Slovakia sub-segment amounted to EUR 10.9 billion at year-end 2012, which is an increase of almost 8% compared to year-end 2011. Loans to customers increased marginally to EUR 6.6 billion as of the end of December 2012. This corresponds to a share of 4.7% of Erste Group's total loans to customers. A breakdown of the portfolio by customer segments showed a continuation of the trend of 2011. The percentage of better rated retail loans – as measured by asset quality – in the total portfolio increased at the expense of corporate loans, which accounted for only 23.7% of total loans to customers at year-end 2012. For those sectors that had been hit particularly hard by the financial and economic crisis, such as commercial real estate, the granting of new loans continued to be restrictive.

Lending was practically completely in euros, and, again, no foreign currency loans were granted to retail customers. Collateral coverage improved further.

The still disproportionately dynamic economic development in Slovakia compared to EU levels had a very positive effect on asset quality. The NPL ratio decreased from 8.0% to 6.6%, with improvements being seen across all customer segments. Asset quality of loans to households was particularly good. In contrast to many other countries of Central and Eastern Europe, the asset quality improved also among small businesses in 2012. The NPL coverage ratio based on risk provisions was exceptionally high at 84.3% at year-end.

HUNGARY

The Hungary sub-segment comprises the retail and SME business of Erste Bank Hungary and its subsidiaries. Erste Bank Hungary operates a network of 141 branches and commercial centres plus approximately 430 ATMs. It uses nearly 350 post offices as an additional sales channel. Erste Bank Hungary serves approximately 900,000 customers and has market shares of 7% to 14%, varying by product category. It also has significant market positions in securities brokerage and in the leasing business.

Economic review

The Hungarian economy continued to struggle in 2012 mainly due to political uncertainty and high industry-specific taxes, most notably very high additional burdens on the financial sector. Furthermore, the economic performance was negatively impacted by weak domestic demand and declining investments. On the production side, GDP was adversely affected by the exceptionally weak agricultural output as a result of a severe drought during the summer. Exports remained the only demand component to grow, although well below the 2011 rate mainly due to the high sensitivity of manufacturing sectors to the global slowdown. Altogether, Hungary's real GDP declined by 1.7% in 2012. GDP per capita stood at EUR 9,800 at year-end. The measures of the Hungarian government aimed at improving the employment-to-population-ratio were – as a result of to the government's Job Protection Act – most notable in the SME sector. Due to these measures and the increased participation in public work programmes, the unemployment rate remained stable at 10.8% at year-end 2012.

After peaking at 81% of GDP in 2010, the public debt ratio continued to improve in the last two years and stood at 78% at the end of 2012. The improvement in 2012 was mainly due to the appreciation of the Hungarian forint and fiscal policy measures. The government reduced the budget deficit target for 2012 from 2.7% to 2.5% of GDP based on the introduction of extraordinary sector taxes and the sale of telecommunication licenses. It also integrated a number of savings measures, such as the reduction of expenditures of budgetary institutions, the reduction of pharmaceutical subsidies and improvements of local governments' balances. In addition, VAT remained at 27% throughout the year, the highest in the European Union. The combined impact of these measures resulted in a government budget deficit of 2.4% in 2012.

Key economic indicators – Hungary	2009	2010	2011	2012e
Population (ave, million)	10.0	10.0	10.0	10.0
GDP (nominal, EUR billion)	91.3	96.6	99.9	98.2
GDP/capita (in EUR thousand)	9.1	9.7	10.1	9.8
Real GDP growth	-6.8	1.3	1.6	-1.7
Private consumption growth	-5.7	-2.7	-1.7	-2.0
Exports (share of GDP)	64.7	72.3	83.9	78.8
Imports (share of GDP)	60.6	68.9	71.8	79.4
Unemployment (Eurostat definition)	10.0	11.2	10.9	10.8
Consumer price inflation (ave)	4.2	4.9	3.9	5.7
Short term interest rate (3 months average)	8.6	5.5	6.2	7.0
EUR FX rate (ave)	280.6	275.4	279.2	289.4
EUR FX rate (eop)	270.8	278.8	311.1	291.3
Current account balance (share of GDP)	-0.2	1.1	0.9	1.7
General government balance (share of GDP)	-4.6	-4.2	4.3	-2.4

Source: Erste Group

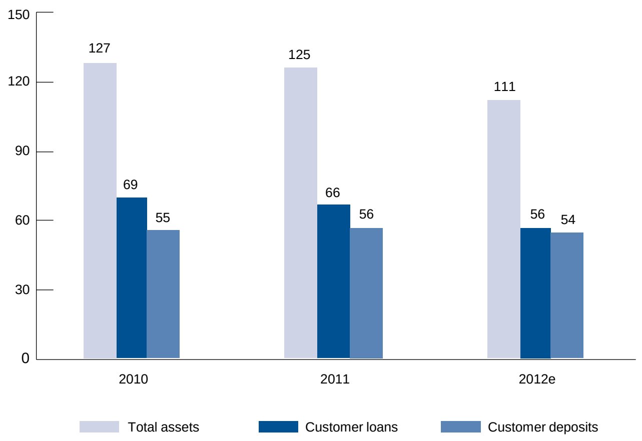
Inflation remained persistently high in 2012 compared to other countries in Central and Eastern Europe. In addition to indirect tax hikes, such as the excise duty hikes on tobacco, the high inflation was also related to increasing food prices due to unusually dry weather conditions. New sectoral taxes on financial institutions, retailers and telecom companies also contributed to rising prices. Despite the unpredictable economic environment throughout the whole year, the Hungarian forint remained relatively stable against the euro. The base rate was cut several times throughout 2012 and dropped from 7% to 5.75% by the end of the year and was further reduced to 5.25% at the end of February 2013.

Market review

For Hungary's banking market, 2012 was another extremely difficult year. The country's banking market was continuously impacted by unorthodox political decisions throughout 2012. As an important part of the government's plans to exit the European Union's excess deficit procedure, it doubled the level of the financial transaction tax as of January 2013 to 0.2% from 0.1%. In addition, the government decided to keep the special banking tax on a permanent basis. Contrary to previously announced official agreements with the Banking Association, the government decided not to halve the banking tax for 2013.

Furthermore, the banking sector had to cope with the uncertainty regarding the takeover and possible haircut on the municipality debt in 2012. Following the law that allowed customers to repay foreign-currency loans at fixed rates below the market exchange rates in 2011, the Hungarian government introduced a new foreign exchange borrower support scheme in 2012. This programme allows indebted households to pay their monthly instalments at a favourable exchange rate, with the government and banks sharing interest payments exceeding the set exchange rate. The difference between the actual and fixed exchange rates of the principal amount will be accumulated and will have to be repaid from 2017 onwards. The law also specifies the highest exchange rate, beyond which the Hungarian State covers the expenses. The participation rate in this programme was at around 26%.

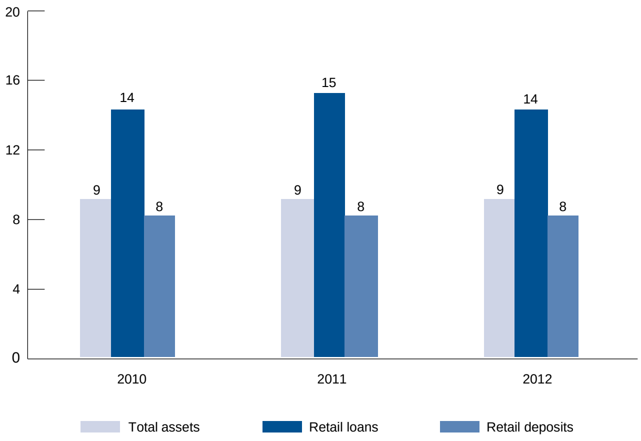
Financial intermediation – Hungary (in % of GDP)



Source: National Bank of Hungary, Erste Group

The unpredictable and unorthodox environment coupled with very low customer demand made Hungarian banks scale down their operations further. Moreover, banks' profits were also adversely affected by a sharp increase in non-performing loans driven by a still high unemployment rate. The rising rate of non-performing loans was also due to the commercial real estate and SME related businesses. As a result of all these factors, the Hungarian banking sector declined in terms of total assets to GDP from 125% to 111% as of year-end 2012.

Market shares – Hungary (in %)



Source: National Bank of Hungary, Erste Group

Despite its significantly shrinking balance sheet, Erste Bank Hungary continued to be a major market player in the country. The bank's market shares for customer loans decreased from 11.6% to 11.0% while market shares for customer deposits increased slightly to 7.7%. The market share decline in customer loans is mainly due to the downsizing of the bank's operations in line with the bank's adapted strategic approach.

Business review

Strategy. Following the changed political and economic situation in Hungary, the bank optimised the size of its operation and improved the efficiency of its processes. The strategic orientation is focused on sustainable growth and returning to profitability. Loans are only granted in local currency funded from local liquidity sources. At the same time, funding through Erste Group Bank AG shall be reduced. Based on a restructured size and strengthened risk management, Erste Bank Hungary aims to position itself as the top relationship bank. It will continue its efforts to further enhance the customer experience for its retail customers and further improve customer satisfaction and customer loyalty. The corporate business will be concentrated on a reduced corporate customer base.

Highlights from 2012

Streamlined business and integration measures. In line with its new strategy Erste Bank Hungary decided on the integration of three leasing and two factoring subsidiaries into the bank. Following the approval of the Hungarian Financial Supervisory Authority, Erste Car Leasing (Erste Leasing Autófinanszírozási Zrt.), Erste Equipment Leasing (Erste Leasing Eszközfinanszírozási Zrt.), and Erste Real Estate Leasing (Erste Ingatlanlízing Zrt.) were merged into Erste Bank Hungary in 2012 to optimise the bank's leasing business. Leasing services are now provided by a specific leasing competence centre of the bank. In addition, Erste Faktor Zrt. and Magyar Factor Zrt., Erste Bank Hungary's factoring entities were also merged with the bank in order to successfully streamline its operations.

Strengthened private banking. Erste Bank Hungary is among the leading retail banks in the country. In 2012, the bank acquired the wealth management unit of BNP Paribas with approximately 400 customers and HUF 60 billion assets under management. With this transaction, Erste Bank Hungary has strengthened its position in private banking and leapt forward to be an advisor of choice for wealthy individuals and families.

Recognition of corporate social responsibility. Erste Bank Hungary supported several NGOs to improve the life of socially disadvantaged people focusing on employment, education and residence. The bank's top sustainability Programme *Romani Design Social Cooperative* was named the *Most Innovative Support Programme of the Year* in the competition of social investment awards established by Hungarian Donors Forum.

Financial review

in EUR million	2012	2011
Pre-tax profit/loss	-46.2	-549.8
Net profit/loss after minority interests	-55.1	-566.6
Operating result	241.7	319.1
Cost/income ratio	41.2%	38.6%
Return on equity	na	na
Customer loans	6,185	7,088
Customer deposits	4,018	3,692

Net interest income in the Hungary sub-segment fell by EUR 67.5 million, or 16.8% (currency-adjusted: -13.8%), from EUR 402.7 million in the financial year 2011 to EUR 335.2 million in the financial year 2012. The decline in net interest income was attributable to falling margins and lending volumes as well as to the government-imposed early repayment of foreign-currency loans at non-market rates. Net fee and commission income decreased by EUR 5.9 million, or 6.0% (currency-adjusted: -2.7%), to EUR 91.9 million. This development was due to lower commission income from the lending business. The drop in the net trading result from EUR 19.1 million by EUR 35.0 million to EUR -15.9 million in the financial year 2012 was largely attributable to a change in reporting of interest income from securities held for trading and lower income from foreign exchange trading. Due to the restructuring measures implemented in the fourth quarter of 2011, operating expenses decreased from EUR 200.5 million in 2011 by EUR 31.0 million, or 15.5% (currency-adjusted: -12.5%), to EUR 169.5 million in 2012. The cost/income ratio rose from 38.6% to 41.2% in 2012.

Risk provisions fell from EUR 812.0 million in the financial year 2011 by EUR 597.0 million to EUR 215.0 million in the financial year 2012. This marked reduction was due to the one-off allocation of additional provisions in the third quarter 2011 triggered by the government-imposed conversion of foreign-currency loans. The item "other result" deteriorated by EUR 16.0 million from

EUR -56.9 million in 2011 to EUR -72.9 million in 2012. The negative effect of the banking tax in the amount of EUR 47.3 million was only partly offset by lower revaluation losses on collateral for loans and the release of restructuring provisions. In 2011, it was possible to offset the banking tax against the costs of repayment of foreign-currency loans at non-market rates. The provisions for future additional tax charges created in the first nine months of 2012 in the amount of EUR 60.6 million in connection with the government-imposed subsidisation of foreign-currency retail mortgage loans were fully released in the fourth quarter 2012. Net loss after minorities was EUR 55.1 million versus EUR 566.6 million in 2011.

Credit risk

Total exposure in the Hungary sub-segment declined by almost 13% to EUR 6.4 billion in 2012. Lending to customers declined at a similar rate from EUR 7.1 billion to EUR 6.2 billion despite the 7.1% appreciation of the Hungarian forint against the euro. As a result, the share of the Hungary sub-segment in the total customer loans portfolio of Erste Group decreased from 5.3% at year-end 2011 to less than 4.7% at the end of 2012. The distribution between retail and corporate loans remained almost unchanged. Loans to retail customers accounted for almost two thirds of the lending volume at the close of the year.

At the beginning of the year, business contracted, above all due to the possibility created by law to prematurely repay foreign currency loans at non-market exchange rates. Lower demand for loans as well as more restrictive lending policies for new loans amplified the downward trend in the further course of the year. The granting of new loans denominated in Swiss francs had already been discontinued in 2009, and in 2012, their share in total loans to customers decreased from 51.6% to 48.8%. In the loan approval process an even greater weighting was given to liquidity, to cash flows of companies and to disposable incomes of private households.

Asset quality continued to deteriorate in 2012, although the increase of the NPL ratio slowed significantly in the second half of the year. At year-end 2012, non-performing loans to customers accounted for 25.4% of the total portfolio. In contrast to preceding years, it was especially the retail business that was affected by the negative trends as regards loans to private customers as well as financing for small businesses. NPL coverage by risk provisions was 64.1% at the end of 2012.

CROATIA

The Croatia sub-segment comprises the retail and SME business of Erste & Steiermärkische Bank, commonly referred to as Erste Bank Croatia, and its subsidiary Erste Bank Montenegro. It serves approximately one million customers through a state-of-the-art network of 150 branches and well developed distribution channels, such as internet and mobile communications and ATMs. With double-digit market shares in all key product categories, Erste Bank Croatia is one of the major banking institutions in Croatia. In addition to banking services, Erste Bank Croatia also occupies strong market positions in a wide range of other financial services, such as fund management, pension funds, brokerage and leasing.

Economic review

Following a temporary stabilisation in the previous year, Croatia's economy faced cyclical and structural headwinds in 2012. Contracting economic activity in many European Union member states adversely affected Croatia's domestic economy. Low private consumption and investment activity weighed on the performance of the economy. Real GDP contracted by 2.0% and GDP per capita stood at EUR 10,300 at the end of 2012. Domestic demand remained weak throughout the year, impacted by low consumer confidence and a further rise in the unemployment rate to 15.4%. While tourism showed gains compared to the already good season in the previous year, the comparably weak international competitiveness was reflected in insignificant net exports. European Union accession negotiations were successfully completed and Croatia is expected to join the European Union on 1 July 2013.

Reflecting higher food prices, a hike in VAT rates, and higher energy costs, inflation rose to 3.4% in 2012. Irrespective of the country's high use of the euro, the nominal exchange rate was kept relatively stable throughout the year. Fiscal policy measures contained the negative budgetary consequences of the recession. The current account deficit remained relatively low at around 0.5% of GDP.

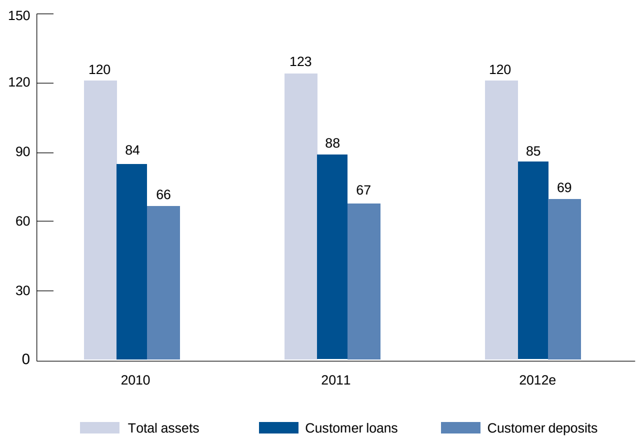
Key economic indicators – Croatia	2009	2010	2011	2012e
Population (ave, million)	4.3	4.3	4.3	4.3
GDP (nominal, EUR billion)	44.8	44.9	44.9	44.3
GDP/capita (in EUR thousand)	10.2	10.2	10.5	10.3
Real GDP growth	-6.9	-1.4	0.0	-2.0
Private consumption growth	-7.6	-0.9	0.2	-2.7
Exports (share of GDP)	17.1	20.2	22.0	22.4
Imports (share of GDP)	33.7	33.5	35.9	36.3
Unemployment (Eurostat definition)	9.1	11.8	13.4	15.4
Consumer price inflation (ave)	2.4	1.1	2.3	3.4
Short term interest rate (3 months average)	8.9	2.4	3.1	3.4
EUR FX rate (ave)	7.3	7.3	7.4	7.5
EUR FX rate (eop)	7.3	7.4	7.5	7.6
Current account balance (share of GDP)	-5.1	-1.1	-0.9	-0.5
General government balance (share of GDP)	-4.6	-5.3	-5.3	-4.0

Source: Erste Group

Market review

Croatia's banking market reflected the macroeconomic development of the country in 2012. While loans to customers declined by more than 2%, customer deposits showed in total a growth of 3%.

Financial intermediation – Croatia (in % of GDP)

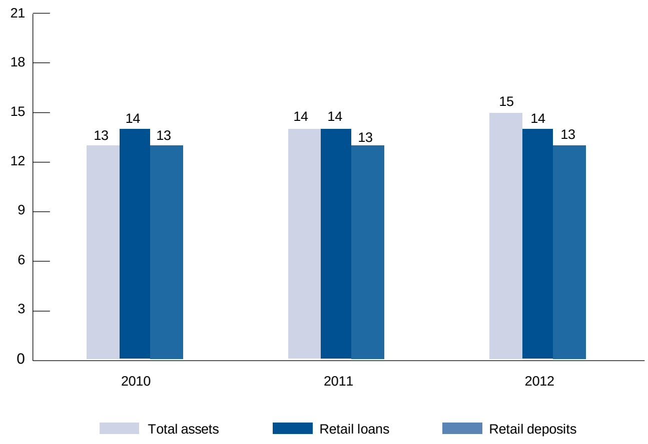


Source: National Bank of Croatia, Erste Group

The modest development of the lending market reflected the on-going labour-market weakness and the uncertainty regarding the crises in the euro-zone in 2012. On the lending side, the corporate sector showed more activity than private households but remained tepid. On the deposit side, households maintained a stable performance and steady growth, while the corporate sector showed a weak performance resulting in a contracting deposit base. Overall, the sector's loan- to-deposit ratio stood at 124% at the end of 2012. Profitability and capital adequacy of the Croatian banking sector remained satisfactory. With total banking assets at 120% of GDP, Croatia's level of financial intermediation remained among the highest in the region.

Erste Bank Croatia performed broadly in line with the overall trends in the country's banking market. Growth in corporate loans was the main driver behind loan expansion, and the positive development in the retail business was reflected in growing customer deposits. The bank's loan-to-deposit ratio amounted to 150% at year-end 2012. Erste Bank Croatia remained among the top three players in the market with a total asset market share of 14.9%.

Market shares – Croatia (in %)



Source: National Bank of Croatia, Erste Group

Business review

Strategy. Erste Bank Croatia's main objective is to further enhance its market positions in the medium and long term by providing simple and transparent products and excellent banking services to retail, SME and large corporate clients with favourable risk profiles. Efficiency remains a top priority. Special emphasis is put on continuous optimisation and the automation of processes and work flows while maintaining high risk management standards. These measures are designed to ensure efficiency in service delivery as well as high service quality and customer satisfaction.

Highlights from 2012

Optimisation of key processes. In 2012, Erste Bank Croatia continued its activities aiming at optimising key processes to strengthen the efficiency in service delivery further. The focus was set on payment transactions, deposits and loan approval processes as well as on non-sales activities that enable higher efficiency and an improvement in service quality and customer satisfaction. Newly implemented features for card payments allow for faster and safer transactions, and, consequently, also contribute to an improvement of the competitiveness of the bank.

Preparations for EU accession. In the light of the upcoming accession to the European Union, Erste Bank Croatia has monitored the development of European policies and has put a strong emphasis on providing its customers with the most relevant information related to this topic through its sales network across the country. As numerous subsidies are granted for the agricultural sector by the European Union, the bank focuses on targeted promotions and tailor-made credit lines for its customer base. In addition to that, customers who are about to enter international markets are supported with transaction banking initiatives. Besides cash management, Erste Bank Croatia started to offer trade finance products for importers and exporters to support this still weak but important economic sector of the country.

International and local recognition. The bank's main strengths compared to its competitors are innovation, a wide range of products and a special emphasis on customer care. Along with satisfied customers, the bank won the prestigious price *Zlatna Kuna* (Golden Weasel) competition in 2012 for the *Best Bank of the Year*, presented by the Croatian Chamber of Commerce in 2012.

Financial review

in EUR million	2012	2011
Pre-tax profit/loss	55.5	89.2
Net profit/loss after minority interests	23.7	43.6
Operating result	195.9	208.6
Cost/income ratio	40.4%	40.3%
Return on equity	8.2%	17.4%
Customer loans	5,909	5,917
Customer deposits	4,156	3,984

Net interest income in the Croatia sub-segment decreased from EUR 261.8 million in the financial year 2011 by EUR 8.1 million, or 3.1% (currency-adjusted: -2.0%) to EUR 253.7 million due to narrowing loans margins. Reflecting the October 2011 transfer of the credit card processing subsidiary to the Corporate Center segment, net fee and commission income declined from EUR 76.7 million in 2011 by EUR 11.1 million, or 14.5% (currency-adjusted: -13.5%), to EUR 65.6 million in 2012. The decrease in the net trading result from EUR 11.2 million by EUR 1.8 million, or 16.1% (currency-adjusted: -15.1%), to EUR 9.4 million was caused by negative valuation effects. Operating expenses were down by EUR 8.3 million, or 5.9% (currency-adjusted: -4.8%), from EUR 141.1 million to EUR 132.8 million, which was attributable to the transfer of the credit card processing business and lower IT expenditure.

The operating result declined by EUR 12.7 million, or 6.1% (currency-adjusted: -5.0%), from EUR 208.6 million in the financial year 2011 to EUR 195.9 million in the financial year 2012. The cost/income ratio was almost unchanged at 40.4%. Increased risk provisioning requirements in the real estate and corporate business led to a rise in risk costs by EUR 28.1 million, or 25.7% (currency-adjusted: +27.1%), from EUR 109.3 million to EUR 137.4 million in the financial year 2012. Net profit after minorities declined from EUR 43.6 million by EUR 19.9 million, or 45.6% (currency-adjusted: -45.0%) to EUR 23.7 million. Return on equity was 8.2% versus 17.4% in the financial year 2011.

Credit risk

Total exposure in the Croatia sub-segment stagnated at around 8.2% in 2012. The volume of loans to customers remained almost unchanged and amounted to EUR 5.9 billion at the end of the financial year. The composition of the loan portfolio by customer segments was equally constant. The share of private and corporate loans accounted for 44% of total loans to customers each, with the rest being loans to municipalities. In terms of Erste Group's total loans to customers, the share of the Croatia sub-segment accounted for 4.5%.

Due to the difficult macroeconomic conditions – as in the previous years, the economy also contracted in 2012 – and the persistent payment difficulties of borrowers, lending criteria remained tight. In addition to the real estate industry, this particularly affected retail customers with lower creditworthiness. In Croatia, the majority of the loans were granted in foreign currency, especially in euro. At the end of 2012, the share of foreign currency loans was 81%. This is due to the high level of "euroisation" in Croatia. As a result, loans denominated in euros are accompanied by income or deposits in euros.

The deterioration of the asset quality continued in 2012. Non-performing loans increased from EUR 795 million to EUR 1,069 million or from 12.8% to 18.1% of the total portfolio. Loans to corporate customers deteriorated in particular, irrespective of the segment (loans to small businesses and to larger companies). NPL coverage by risk provisions was 50% at year-end, and a further 50% was covered by collateral.

SERBIA

The Serbia sub-segment comprises the business of Erste Bank Serbia, which serves some 300,000 customers through a network of 68 branches and commercial centres as well as 104 ATMs. Catering to the needs of a broad retail and mid-market corporate client base, the bank is well represented in all of Serbia's major business centres. While Erste Bank Serbia's current market share amounts to some 3% in key product segments, its position is considerably stronger in other products. For example, it has a 4.7% market share as measured by number of bank cards.

Economic review

After a modest export-led economic recovery in 2011, Serbia entered into recession in 2012. Real GDP declined by 1.9%. GDP per capita stood at EUR 4,100. The contraction of the economy was mainly due to a slowdown in net exports and weak domestic demand. On the positive side, the automotive sector was supportive, with production gaining pace in the second half of 2012. Adverse weather conditions (summer drought) resulted in an agricultural production slump, contributing to the fragile economic development. The weak labour market, along with deteriorating disposable incomes in light of persistent inflationary pressures, resulted in an on-going private consumption weakness. The unemployment rate remained one of the highest in the region with 24% at year-end 2012. The current account deficit widened as automotive exports could not compensate other factors such as the weaker harvest or a steel mill closure that dragged the steel industry down. The fiscal deficit amounted to 6.5% of GDP; the increase versus 2011 was partly due to a pre-election increase in expenditures.

Inflation was on the rise after bottoming out in the second quarter but decreased, nonetheless, compared to 2011 and amounted to 7.4% in 2012. The main drivers of this development were food prices amid adverse weather conditions, oil prices, exchange rate weakness and one-offs coming from tax increases (VAT and excise tax). The exchange rate was volatile despite interventions of the national bank. After considerably depreciating against the euro until August 2012, the Serbian dinar started to strengthen again reflecting an improving trade balance as car export production started and the National Bank of Serbia's tightened reserve requirements. The National Bank of Serbia increased the base rate several times from 9.75% end of 2011 to 11.25% at the end of 2012 and 11.50% in January 2013.

The European Council granted candidate status to Serbia in March 2012, no date has yet been set for starting accession talks. In February 2012, the International Monetary Fund (IMF) suspended a USD 1.3 billion stand-by agreement due to the previous government's relaxation of the fiscal stance; although a supplementary budget was adopted in September, talks will not resume before spring 2013.

Key economic indicators – Serbia	2009	2010	2011	2012e
Population (ave, million)	7.4	7.4	7.3	7.2
GDP (nominal, EUR billion)	29.0	28.0	31.1	29.8
GDP/capita (in EUR thousand)	3.9	3.8	4.3	4.1
Real GDP growth	-3.5	1.0	1.6	-1.9
Private consumption growth	na	na	na	na
Exports (share of GDP)	20.6	26.5	27.1	24.6
Imports (share of GDP)	38.3	43.5	44.6	41.0
Unemployment (Eurostat definition)	16.1	19.2	23.0	24.0
Consumer price inflation (ave)	8.4	6.1	11.2	7.4
Short term interest rate (3 months average)	14.4	10.8	12.9	11.6
EUR FX rate (ave)	94.0	103.1	102.0	113.1
EUR FX rate (eop)	95.9	105.5	104.6	113.7
Current account balance (share of GDP)	-7.1	-7.4	-9.3	-11.3
General government balance (share of GDP)	-4.5	-4.7	-5.0	-6.5

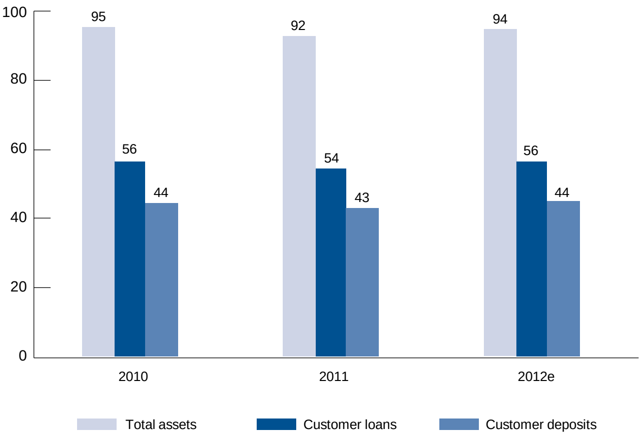
Source: Erste Group

Market review

Due to the high level of the "euroisation", the National Bank of Serbia continued to promote its strategy of encouraging the use of the Serbian dinar. In late July 2012, the new government passed a law restoring parliamentary oversight over the National Bank of Serbia, which has not happened since 2000. The legislation and the perceived weakened independence of the central bank were criticised by the IMF, the European Union and the World Bank.

Despite the weak economic development, the Serbian banking market grew substantially in terms of deposits, loans and total assets, resulting in an improved financial intermediation after the decline in 2011. The rise in lending activity of more than 9% is mainly attributable to subsidised loans.

Financial intermediation – Serbia (in % of GDP)



Source: National Bank of Serbia, Erste Group

Erste Bank Serbia remained among the country's top 15 banks as measured by total assets in 2012. Its market shares for customer loans grew in line with the market, did not change significantly and remained higher in the retail segment, being stable at 3.3%, compared to the corporate segment where market share equalled 2.7%. On the deposit side, Erste Bank Serbia's activities were mainly driven by local currency deposit taking, where its market share in retail deposits increased slightly to 2.5%, whereas its market share in corporate deposits stood at 2.7% at the end of 2012.

Business review

Strategy. Erste Bank Serbia's main objective is to build long-term customer relationships and to become the bank of first choice for its customers. It aims to be recognised for the quality and efficiency of its services and to position itself as a long-term partner of Serbia's growing middle class. The bank strives to continuously increase market shares in the key retail and SME segments. To achieve this goal, the bank has developed a state-of-the-art branch network and digital distribution channels, in addition to a wide range of competitive financial products and services.

Highlights from 2012

Focus on innovation. As the oldest savings bank in the country, Erste Bank Serbia is committed to provide its customers with various ways to fulfil their financial needs. Enhancing accessibility to banking services through a variety of channels is one of the bank's key business principles. Together with other banking subsidiaries of Erste Group, Erste Bank Serbia launched *Keep the Change*, a new savings product, in 2012. Whenever paying a bill with a payment card, the customer may choose to round up the amount due, with the difference being transferred to an interest-bearing savings account.

Supporting corporate customers. Along with its continuing attention to the retail segment, Erste Bank Serbia also set its focus on corporate clients. In 2012 the bank not only participated in various syndicated loans to the largest enterprises in Serbia but also played a leading role in some of them. The European Investment Bank as well as the European Bank for Reconstruction and Development signed agreements with Erste Bank Serbia to provide funds earmarked for supporting lending to local corporates.

Successful bond placement. Erste Bank Serbia offered long-term dinar-denominated bonds on the primary segment of the Belgrade Stock Exchange. This pioneering step did not only contribute to the bank's diversification of funding sources but also had a very positive impact on the Serbian financial market as a whole.

Financial review

in EUR million	2012	2011
Pre-tax profit/loss	8.5	5.0
Net profit/loss after minority interests	7.8	3.4
Operating result	19.2	15.7
Cost/income ratio	63.6%	68.3%
Return on equity	18.8%	8.3%
Customer loans	569	486
Customer deposits	497	483

Net interest income in the Serbia sub-segment increased from EUR 36.4 million in the financial year 2011 by EUR 0.7 million, or 1.9% (currency-adjusted: +13.0%), to EUR 37.1 million in the financial year 2012. This improvement was driven by a rise in lending volumes to retail and corporate clients and wider margins in the retail business. Net fee and commission income improved from EUR 13.0 million by EUR 0.3 million, or 2.3% (currency-adjusted: +13.5%), to EUR 13.3 million. The net trading result rose by EUR 2.3 million on the back of growing income from foreign exchange business.

Operating expenses remained stable at EUR 33.6 million in the financial year 2012. The currency-adjusted rise of 10.2% was mainly attributable to personnel expenses. The cost/income ratio improved significantly from 68.3% in 2011 to 63.6% in 2012. Risk costs declined by EUR 0.5 million to EUR 9.0 million. Net profit after minorities grew by EUR 4.4 million to EUR 7.8 million. Return on equity was 18.8% versus 8.3% in the previous year.

Credit risk

In 2012, total exposure in the Serbia sub-segment increased slightly from EUR 718 million to EUR 736 million. The increase in loans to customers, however, was more pronounced with a rise by EUR 84 million to EUR 569 million. With a share of 0.4% in total customer loans, the Serbia sub-segment was of only minor significance to Erste Group. Viewed by customer segments, business volume growth concentrated on corporate loans. Compared to other markets in Central and Eastern Europe in which Erste Group operates, the share of loans to corporate customers in the total loan portfolio was above average at nearly 64%.

A major share of the loans was denominated in foreign currency. Its share in the total loan portfolio increased from 76.1% to 79.2% in 2012. This is due to the high level of "euroisation" in Serbia. As a result, loans denominated in euros are accompanied by income or deposits in euros. The shift in the breakdown of the portfolio was to some extent also caused by the appreciation of the euro against the Serbian dinar by 5.7%.

Asset quality remained stable in 2012, with the ratio of non-performing loans to the total portfolio rising marginally by 0.1 percentage points to 12.0%. The individual customer segments showed an uneven development: while the quality of loans to private individuals deteriorated, loans to corporate customers improved significantly. Nonetheless, the NPL ratio for loans to corporates (13.6%) at year-end was still much higher than for loans to private households (9.6%). NPL coverage by risk provisions excluding collateral was 84.1% at year-end 2012.

UKRAINE

The Ukraine sub-segment encompasses the business of Erste Bank Ukraine, which served approximately 300,000 customers through a country-wide network of 120 branches in 2012. The bank offers a broad range of standard banking services, including deposit-taking, current accounts, treasury services and loans to its retail and corporate customer base.

As the Ukraine is not seeking European membership in the medium term, Erste Group does not regard the country as a core market. Consequently, in December 2012 Erste Group has entered into an agreement to sell Erste Bank Ukraine. The closing of the transaction is expected to occur in the first half of 2013.

Financial review

in EUR million	2012	2011
Pre-tax profit/loss	-44.1	-23.6
Net profit/loss after minority interests	-44.3	-23.1
Operating result	-26.0	-14.5
Cost/income ratio	215.0%	142.3%
Return on equity	na	na
Customer loans	426	497
Customer deposits	274	190

Declining lending volumes and margins as well as lower income from the securities business caused net interest income in the Ukraine sub-segment to decrease from EUR 32.6 million in the financial year 2011 by EUR 9.0 million, or 27.6% (currency-adjusted: -32.3%), to EUR 23.6 million in the financial year 2012. Increased income from payment transfers led to an improvement in net fee and commission income by EUR 1.3 million to EUR 6.2 million. Impacted by lower income from foreign exchange businesses, the net trading result declined by EUR 4.0 million from EUR -3.2 million to EUR -7.2 million.

Operating expenses decreased by EUR 0.2 million, or 0.4%, to EUR 48.6 million. Currency-adjusted, operating expenses fell by 6.8%. The increase in risk provisions by EUR 5.0 million, or 46.7% (currency-adjusted: +37.2%), to EUR 15.7 million resulted from direct write-offs. The item "other result" deteriorated by EUR 4.0 million to EUR -2.4 million in 2012 due to losses on disposals related to the available-for-sale portfolio. Net loss after minorities was EUR 44.3 million versus EUR 23.1 million in 2011.

Because of growing economic and political uncertainty in Ukraine and the strategic decision to withdraw from Ukraine, Erste Group signed an agreement in December 2012 on the sale of Erste Bank Ukraine to the owners of FIDOBANK. The resulting loss of EUR 75.0 million is reported under "other result" in the Corporate Center segment. The formal approval of the transaction by the market supervisory authorities in Austria and Ukraine, and hence the closing of the transaction, is expected to be effected by the end of the second quarter of 2013.

Group Corporate and Investment Banking (GCIB)

The Group Corporate and Investment Banking segment includes Erste Group's fully divisionalised large corporate (Group Large Corporates), investment banking (Group Investment Banking), real estate (Erste Group Immorent) and the International Business as well as, from the second quarter of 2012 onwards, equity capital markets. These provide the full range of banking services to large corporate customers as well as institutional and public sector customers. The division employs 1,150 professionals, who combine industry and product expertise with local knowledge, and offers services in debt financing, equity capital markets, mergers and acquisitions, debt advice, acquisition finance, infrastructure finance, project finance, syndication, real estate development, lending and leasing, as well as transaction banking. The division cooperates closely with the capital markets as well as the retail and SME business lines.

Business review

Segment strategy. Building on its strong presence in retail and SME banking, Erste Group aims to further expand its footprint in the CEE region's markets for large corporate and investment banking. The GCIB division has continued to pursue a selective growth strategy reflecting the differing market conditions in complex environments due to restrictive banking regulations.

Deepening relationships with core customers by combining a sector-based coverage approach and a broadening the product range to match the customers' needs remains key for the Group Large Corporates business.

Erste Group Immorent (EGI) covers the full real estate value chain (lending, leasing, investment, project development and construction services) for commercial, residential and municipal projects, as well as the infrastructure business across all countries. As a result of a restrictive approach to new business and a focus on core markets and core customers, the size of the portfolio continued to decline.

Erste Group's investment banking business line specialises in corporate finance transactions, merchant banking, and structured trade finance. To utilise synergies between Equity Capital Markets and Mergers & Acquisitions, the local teams were merged and to a large extent restructured. The equity capital markets specialists advise on and execute initial and secondary public offerings, private placements and accelerated book buildings, and also advise on share buy-backs and delistings. The focus of the leveraged finance activities is on providing acquisition finance for leveraged buy-outs by private equity funds in CEE and financing solutions for leveraged corporates as well as on debt restructuring of corporate customers. The specialists for mergers and acquisitions provide buy- or sell-side advisory to corporate or institutional customers seeking to buy or sell companies in CEE. Services include valuations, bidding strategies and process execution. In December 2012 a local Corporate Finance unit was opened in the Hong Kong branch, reflecting the growing importance of Asian customers for the equity capital markets and mergers & acquisitions business.

The International Business unit covers all lending and investing activities outside the Group's core markets (including the branches in London, Hong Kong and New York) and is responsible for business development with, as well as credit line management for, banks and non-banking financial institutions. In accordance with Erste Group's strategic business objective to exit non-core activities, the International Business portfolio will be further reduced. International Business will continue to provide line management activities for financial institutions while taking a proactive approach to risk-reduction activities and capital allocation.

Highlights from 2012

Group Large Corporates aims for balanced portfolio growth. Having successfully implemented the sector-based coverage approach, the Group Large Corporates coverage teams, acting and cooperating across borders, managed to stabilise gross income. The economic environment of 2012 was mainly defined by restrictive banking regulations and an economic downturn. One response to this development was the group-wide product offering in the transactional banking area.

Erste Group demonstrated its syndicated lending capabilities in the CEE region. In addition and among other transactions, Erste Group successfully acted as bookrunner and mandated lead arranger in a 1.5 billion benchmark bond transaction of OMV, the leading Austrian gas and oil company. Acting in the same role, the bank also arranged a EUR 750 million benchmark bond transaction for Telekom Austria Group. Česká spořitelna was joint bookrunner and mandated lead arranger for EP Energy, a Czech producer of electricity and supplier of thermal energy, in a EUR 500 million bond issue as well as a EUR 1 billion club loan. In addition, the German Phoenix Group, one of the most important pharmaceuticals distributors in the region, mandated Erste Group as bookrunner and lead arranger in a EUR 1.35 billion syndicated loan facility.

Erste Group Immorent's focus remains on existing real estate portfolio. In 2012, Erste Group Immorent followed a prudent and selective market approach focusing on core markets and core customers due to the on-going challenging conditions for both the banking industry and the real estate business. As a result, the portfolio did not show significant new business activity. The overall financing exposure decreased to approximately EUR 11.5 billion. More than 90% of EGI's total exposure is located in Erste Group's core region with more than half of it being attributable to Austria, the Czech Republic, and Slovakia. Overall, the majority of EGI's business is located in or in close proximity to the major economic centres of the region.

Benchmark deals regarding real estate financing included the financing of university and research facilities for the government of Lower Austria, the financing of the office building of Manner (a traditional Austrian sweets manufacturer) in Vienna, the financing of the Forum Business centre for HB Reavis in Slovakia as well as the Foreascea Business Park in Romania. EGI generated additional income from project management, such as the office projects Futurama and Moulikova in Prague. The current main project is the development of Quartier Belvedere in Vienna. In June 2012, the cornerstone of Erste Campus (Erste Group's future headquarters in Vienna), which is being constructed and managed by EGI, was laid. As one of 1,000 brands reviewed, EGI won the *Most Valuable Real Estate Brand 2012* award in the category real estate bank from the European Society for Real Estate Brand Monitoring.

Investment Banking franchise is growing. Erste Group's investment banking competitive advantage stems from delivering professional service at an international standard, efficient product organisation that builds upon local expertise, and very close cooperation between GCIB's customer coverage teams and the local corporate banking teams.

Cost reductions were achieved in corporate finance as a result of the integration of Equity Capital Markets and Mergers & Acquisitions. In addition, both business lines successfully closed deals throughout Erste Group's core markets with a particular focus on Austria and Romania. The newly created Merchant Banking unit comprises all activities related to private equity as well as the support for leveraged finance transactions for large corporate customers. Thanks to the establishment of a coverage desk for private equity funds in the London branch, Erste Group ensured a clear focus on targeting its customer base and was able to provide a better service. In line with Erste Group's strategy, new business is exclusively generated in the core region. The Western European LBO loan book was substantially reduced and cleaned up through repayments and selective sales of assets. New leveraged finance transactions are handled by specialised teams in Vienna and Prague in close cooperation with the Group Large Corporates relationship managers. The volume of new transactions amounted to approximately EUR 275 million.

International Business continued portfolio reduction. Traditionally, the business objective has been to provide risk-return diversification to complement Erste Group's performance. As a result of amortisations and through on-going efforts of divestment, the International Business portfolio was significantly reduced in 2012. Given Erste Group's strategic business objective to adjust or exit non-core activities, the International Business unit will continue in its efforts to divest.

Financial review

in EUR million	2012	2011
Pre-tax profit/loss	-58.3	116.4
Net profit/loss after minority interests	-55.6	73.7
Operating result	390.5	341.3
Cost/income ratio	33.5%	35.9%
Return on equity	na	3.8%
Customer loans	17,928	19,805
Customer deposits	5,517	5,493

Net interest income decreased by EUR 47.3 million, or 8.7%, to EUR 495.9 million in the financial year 2012. This development was exclusively attributable to sharply lower volumes in International Business and the real estate and Investment Banking business units, which were not offset by the stable development in the large corporate business. Net fee and commission income decreased by EUR 31.7 million, or 26.7%, to EUR 87.1 million. This was attributable to a reduction in new business and declining income from real estate project development activities. The net trading result rose by EUR 133.6 million to EUR 4.4 million in 2012. In 2011, the net trading result had been impacted by negative valuation results relating to the International Business unit's CDS investment portfolio, which has meanwhile been closed out completely. Operating expenses increased by EUR 5.4 million, or 2.8%, from EUR 191.5 million to EUR 196.9 million. This development was driven primarily by organisational change (i.e. the shifting of units from the Group Markets segment to Group Corporate and Investment Banking).

The operating result improved by EUR 49.2 million, or 14.4%, from EUR 341.3 million in 2011 to EUR 390.5 million in the financial year 2012. Risk provisions increased by EUR 169.0 million, or 94.8%, to EUR 347.2 million. This was mainly due to higher risk provisions in the real estate business and in the large corporate business in Austria and Romania. Negative valuation results and losses on disposals relating to the real estate business and from the continued reduction of International Business assets led to a decline in the "other result" item by EUR 54.9 million to EUR -101.6 million. Net profit after minorities declined by EUR 129.3 million from EUR 73.7 million in the financial year 2011 to EUR -55.6 million in the financial year 2012. The cost/income ratio improved from 35.9% in 2011 to 33.5% in 2012.

Credit risk

As in previous years, total exposure in the Group Corporate & Investment Banking segment decreased in 2012 and amounted to EUR 26.1 billion at the end of 2012. The decline was mainly due to the planned reduction in the International Business, which is not part of Erste Group's core business. Group Real Estate also declined, which reflects the weakness in the real estate industry in most countries of Central and Eastern Europe. Group Large Corporates, which is the most important business area of GCIB, did not show much dynamics during the year. Credit exposure stagnated at EUR 13.6 billion. One reason was the attractive situation on the capital markets, which made it possible for several larger companies to refinance by issuing bonds.

Loans to customers in the GCIB segment decreased quite significantly from EUR 19.8 billion to EUR 17.9 billion in 2012. The share of the GCIB credit portfolio in the total credit portfolio of Erste Group dropped from 14.7% to 13.6%. Group Large Corporates and Group Real Estate accounted for over 95% of total loans to GCIB customers. In International Business, loans to non-banks play only a minor role, with the majority of the portfolio consisting of bonds and financing to credit institutions.

Almost 94% of total loans in GCIB related to corporate lending and project financing at the end of 2012, with the rest being loans to the public sector. 79.2% of the GCIB portfolio was denominated in euros, loans in US dollars continued to decline. The share of secured loans increased.

In 2012, the quality of the portfolio deteriorated and the share of non-performing loans in the total loan portfolio increased from 6.4% to 7.4%. This was mainly attributable to defaults of only a few very large customers in the area of Group Large Corporates, while NPLs in Group Real Estate declined. NPL coverage by risk provisions increased considerably from 54.6% at the end of 2011 to 67.2% at the end of 2012.

Group Markets (GM)

The Group Markets segment comprises the divisionalised business units Group Treasury and Group Capital Markets (GCM). In addition to Erste Group Bank AG's own treasury activities, this segment encompasses the treasury units of the CEE subsidiaries and of the branches in Hong Kong and New York, the branches in Berlin and Stuttgart, the investment banks in Poland, Hungary and Turkey and Erste Asset Management. Group Capital Markets includes the divisionalised customer and proprietary trading activities of Erste Group. Specifically, GCM is responsible for trading in foreign exchange and interest rate products, as well as in securities for all customer groups. Moreover, it designs and develops products that cater to market demand in Erste Group's core markets.

Business review

Strategy. The focus in the Group Markets segment is on client-oriented capital markets business. Group Capital Markets is the link between financial markets, customers and the bank. In an environment of persistent uncertainty, customers benefit from Erste Group's strong network in the CEE region and the resulting solid knowledge of local markets and customer needs. Products are developed jointly with the sales units in an on-going process. The bank's array of standard products is a key contributor to its success, as are the customised products that emphasise simple structure, competitive pricing plus professional and personal advisory services. Corresponding to Erste Group's strategy, treasury products are not only offered to corporate or institutional customers or sovereigns in CEE but also to retail customers. The offered products – especially for the retail business – are easy to understand and have a strong focus on safe investing. To serve institutional customers, designated teams have been established in Vienna and also in Germany, Poland, Turkey and London. These teams offer a selective product range with a clear focus on CEE. The goal is to combine the best of the various core markets while benefiting from synergies. In addition, Erste Group's customers benefit from market reports of Group Research. The research reports complement the comprehensive support offer and address both retail and institutional customers.

Highlights from 2012

Leading position in CEE new issues. Debt Capital Markets managed to continue its success and for the third consecutive year held the number one position for eurobond issuance in Austria and in CEE. Despite the difficult market environment, Debt Capital Markets successfully placed numerous bonds through its well-established sales network. Sales efforts in Poland were particularly successful. Erste Group was the most active foreign market maker and successfully acted as book runner for a benchmark bond issue of EUR 1.5 billion for the Republic of Poland.

New opportunities for growth. In 2012, business activity increased substantially in Germany, where Erste Group serves institutional customers as well as savings banks through the branches in Berlin and Stuttgart. The offer comprises mainly new issues, bonds and promissory notes in Erste Group's core markets. To strengthen institutional customers business in Asia, the focus was also placed on the development of the branch in Hong Kong. The licensing proceedings with the Securities and Futures Commission Hong Kong were successfully completed.

Increased focus on customer relationships. Success is a result of well managed customer relationships. In order to place an even stronger focus on the financial needs and expectations of customers, Erste Group launched the *Customer Orientation Initiative*. This project aims at identifying customer needs and optimally allocating the resources to better meet the respective needs of retail, corporate and institutional customers in the future.

Financial review

in EUR million	2012	2011
Pre-tax profit/loss	297.4	232.6
Net profit/loss after minority interests	227.6	166.6
Operating result	295.4	234.4
Cost/income ratio	42.2%	51.1%
Return on equity	65.0%	53.4%
Customer loans	77	225
Customer deposits	2,768	2,459

Net interest income decreased by EUR 13.7 million, or 6.9%, to EUR 183.7 million in the financial year 2012, which was primarily attributable to the global money market & government bonds business units. Net fee and commission income amounted to EUR 124.7 million. The decline by EUR 1.9 million, or 1.5%, versus 2011 resulted mainly from the asset management business. The net trading result rose by EUR 47.7 million, or 30.7%, to EUR 202.9 million, mostly on the back of the good performance of the credit and rates trading business units. Operating expenses were reduced by EUR 28.9 million, or 11.8%, to EUR 215.9 million. This decline was due to cost-cutting across all business units and to organisational changes (transfer of units from the Group Markets segment to Group Corporate and Investment Banking). Operating result improved by EUR 61.0 million, or 26.0%, to EUR 295.4 million in the financial year 2012. The cost/income ratio improved from 51.1% to 42.2%. Net profit after minorities rose by EUR 61.0 million, or EUR 36.6%, to EUR 227.6 million. Return on equity stood at 65.0% (2011: 53.4%).

Corporate Center (CC)

The Corporate Center segment is divided into two parts. Effects from intragroup eliminations between segments and sub-segments are reported separately as intragroup eliminations. Intragroup eliminations consist of internal revenue and expenses charged between sub-segments and eliminated at group level. The underlying transactions mainly relate to internal services from IT, procurement, facility management services to banking subsidiaries, rental income from operating lease and investment properties and derivative businesses. Intragroup elimination between businesses within the same sub-segment is allocated to the respective sub-segment.

The Corporate Center segment also comprises balance sheet management, dividends (elimination of dividends at group level) and refinancing costs of fully consolidated subsidiaries, general administrative expenses for group center functions that cannot be directly allocated to another sub-segment, and the Austrian banking tax payable by Erste Group Bank AG. In addition, the Corporate Center segment includes the results of non-profit companies (particularly service businesses) and subsidiaries that cannot be directly allocated to another sub-segment, straight-line amortisation of customer relationships (particularly, Banca Comercială Română, Erste Card Club, and Ringturm KAG), as well as one-off effects which, in order to ensure comparability, are not allocated to any particular sub-segment. Moreover, the Corporate Center segment includes the equity that is not allocated to any other segment or sub-segment.

Financial review

in EUR million	2012	2011
Pre-tax profit/loss	-357.2	-1,327.4
Net profit/loss after minority interests	-227.5	-1,207.1
Operating result	-5.5	-86.4
Cost/income ratio	104.5%	274.8%
Return on equity	na	na

The rise in net interest income from EUR 112.1 million to EUR 237.2 million was mainly driven by an increase in structural contributions from asset/liability management. The positive development of net fee and commission income was largely attributable to lower expenditure in connection with own issuance activity. The net trading result dropped from EUR 37.5 million to EUR -31.5 million due to lower valuation effects in asset/liability management.

The item “other result” included amortisation of customer relationships in the amount of EUR 69.2 million, goodwill adjustments for the Romanian subsidiary Banca Comercială Română in the amount of EUR 469.4 million and investments in Austria in the total amount of EUR 45.5 million, proceeds from buying back tier 1 and tier 2 instruments (hybrid capital and subordinated bonds) in the amount of EUR 413.2 million, and gains on the sale of real estate in the amount of EUR 38.2 million. Banking tax paid by the Holding (Erste Group Bank AG) in the amount of EUR 146.9 million (2011: EUR 117.5 million) as well as the loss on the sale of Erste Bank Ukraine in the amount of EUR 75.0 million were also reported in the item “other result”.

Commitment to society

Almost 200 years ago, the very founding concept of Erste österreichische Spar-Casse already embraced the idea of contributing to the common good. Erste Group has expanded its core activities from those of a traditional savings bank focused on retail lending and deposit-taking to include those of an international bank providing financial services to all sectors of the economy. Unlike the operations of investment banks or many other financial institutions, Erste Group's business has always been firmly embedded in the real economy. Customers' savings deposits fund the loans for housing construction or investments by companies. This is how Erste Group creates sustainable value for society.

Erste Group's *MehrWERT* (added value) sponsoring programme is further visible proof of its commitment to society. For Erste Group, sponsoring is the voluntary promotion and support of institutions, initiatives and projects in the areas of social welfare, culture and education. The bank's support for specific sports likewise has a long tradition. Erste Group does not see sponsoring as a covert form of advertising, nor as a marketing instrument or some kind of lobbying intended to generate profits or other advantages of a commercial nature, but as added value that is extracted from business activities and passed on to society. Erste Group's *MehrWERT* sponsoring programme represents its dedication to social responsibility and to values it considers worthy of support above and beyond its business activities.

SOCIAL ACTIVITIES

Erste Group's commitment to social welfare is characterised by long-standing cooperation with established local and international organisations. It focuses on providing practical and swift assistance to people in difficult circumstances, supporting initiatives for the long-term personal development of disadvantaged people and creating new opportunities.

Caritas and Erste Bank Oesterreich have been partnering for many years. In widely ranging joint efforts, the fight against poverty in Austria is one of the key concerns. Erste Bank Oesterreich sponsors, among other things, the annual domestic aid and Eastern Europe campaigns. The *Coffee to Help* campaign has become a regular annual event. In 2012, staff in branches, various departments and savings banks again invited customers and colleagues for coffee and collected donations for the charity *Kinder in Not* (Children in Need). Support for the *youngcaritas.at* project was likewise continued. Young people aged 15 to 24 were acquainted with the work of Caritas and gained experience in social work by, for example, organising school tutoring or collecting food. Since 2003, Erste Bank Oesterreich, the savings banks and s Bausparkasse have been sponsoring Hilfswerk Österreich, one of the largest non-profit providers of health care, social and family services in Austria. Erste Bank Oesterreich again supported the association lobby.16, which works to protect the right to education of unaccompanied young refugees and gives them access to education, employment and participation in social life.

Česká spořitelna partnered with the VIA Foundation to set up a series of seminars for social enterprises and non-profit organisations in efficient and socially responsible business management. The aim is to reduce their reliance on donations and help them achieve the long-term goal of economic independence.

Slovenská sporiteľňa, for several years, has been supporting the Society of Friends of Children from Children's Homes, a non-profit organisation that runs a scholarship programme called *Smile as a gift* which enables children who have grown up in children's homes to go to university. Erste Bank Croatia likewise funds university scholarships for young people from socially disadvantaged backgrounds under the *Stepping into Life* programme.

At Erste Bank Hungary, social activities focused on helping children and adolescents, improving living standards of disadvantaged people and health-related topics (primarily through encouraging healthy lifestyles and initiatives to prevent disease). The bank cooperated with many local partners, among them SOS Children's Villages and the Order of Malta.

BCR launched *www.BursaBinelui.ro*, which in 2012 was the only no-fees platform for donations in Romania. Therefore, even small donations fully benefit the projects selected.

ART AND CULTURE

In 2012, Erste Group again supported and promoted partnerships between cultural and social institutions intended to develop common ideas and strategies for deepening the understanding and appreciation of art.

Erste Bank Oesterreich acted once more as principal sponsor of *Jeunesse*, an organisation that offers an extensive concert programme covering classical, jazz, world and new music as well as children's concerts. The focus of the activities of *Jeunesse* is on actively promoting young artists and giving them opportunities to perform professionally as well as on developing new concepts for teaching music appreciation. One goal of this cooperation is to give socially disadvantaged people a chance to experience music by putting on special workshops for children and young people as well as concerts at retirement homes. Erste Bank Oesterreich also works with charitable organisations such as Caritas to implement specific measures for bringing music to people.

For the ninth time, Erste Bank Oesterreich was the principal sponsor of *Viennale*, Austria's largest international film festival. For the second time, Erste Bank Oesterreich awarded the MehrWERT film prize to a film presented at Viennale by an Austrian film director.

As a long-standing partner of the *festival for fashion & photography* held each spring, Erste Bank confers the Erste Bank Fashion Award to outstanding designers from Central and Eastern Europe. With the support of Erste Bank Oesterreich, each year selected designers are offered the opportunity of working on projects as part of Vienna Design Week. In 2012, five projects were developed with a focus on social networking.

Acting again as principal sponsor in 2012, Erste Bank Oesterreich enabled galleries from Central and Eastern Europe to take part in Viennafair.

Since 2008, Erste Bank Hungary has been sponsoring *Művészetek Palotája* (the *Palace of Arts)*, a centre for arts recognised and acclaimed both in Hungary and internationally. In Hungary, too, the main focus is on young talents. The best in their respective disciplines are awarded prizes: the *Junior Príma Award* for young journalists, *Erste az elsőkért* for students of the Liszt Academy of Music, and *Hungarian Press Photo* for photographers under the age of 30.

Česká spořitelna has for many years been one of the most dedicated sponsors of music in the Czech Republic. The bank has supported classical music festivals such as *Pražské Jaro* (the *Prague Spring Music Festival)* and *Smetana's Litomyšl*, an opera festival, as well as *Colours of Ostrava*, a festival known for its musical diversity and mix of genres from all over the world, the *Mezi ploty (between the fence)* theatre and music festival and the *United Islands* festival. Fashion and design were sponsored through the *Designblok* exhibition and the *Czech Grand Design Award*.

Through its *Centrifuga* cultural programme, Erste Bank Serbia supported a large number of local cultural and social initiatives across the country and also continued its support for talented young people through the *Klub 27* project. Slovenská sporiteľňa sponsored the *Bratislava Jazz Days*, an annual international festival of jazz music, and continued its long-term co-operation with five theatres in Martin, Nitra, Prešov and Bratislava.

Erste Bank Croatia hosted *Erste fragmenti*, an annual competition for up-and-coming artists under the age of 30. The bank also buys award-winning works of art and funds a one-year scholarship for one art student.

Kontakt, the art collection of Erste Group, concentrates mainly on art created in Central, Eastern and Southeast Europe. The collection reflects the political and historical transformation in Europe and the significance of art against the background of specific cultural, social and economic developments in post-communist countries.

FINANCIAL LITERACY

Improving financial literacy is fundamental to economic growth and to the long-term prosperity of communities. The underlying concept is to empower people to make informed decisions about the management of their money. Initiatives to increase the understanding of finance are well aligned with Erste Group's savings bank tradition.

Financial education starts at an early age. Erste Bank Oesterreich initiated a travelling exhibition on the topic of money for a target group of children between 6 and 12. The exhibition explores the basic terms of finance. It explains how money came into being, what it is for and how it is produced. In 2012, it was on display at the Children's Museum in Bratislava and at the National Museum of Romanian History in Bucharest.

Erste Bank Oesterreich has launched a programme for pupils and apprentices that covers and communicates very vividly, by role playing, matters such as financial planning, recording income and expenses, and what banks actually do. To help parents and teachers, Erste Bank Oesterreich has published a pocket money guide and produced *Sparefroh TV*, a film series in three episodes. A pocket-money checking feature allows young people to test their money handling skills online. Slovenská sporiteľňa also promotes educational projects for schools and universities and, since 2012, has been offering the *One Million* online game, which conveys financial know-how in an easy and fun way to pupils and others interested in this subject.

On *www.csas.cz/mladi*, Česká spořitelna provides information about financial products and instruments to young customers. *Moneymanie.cz* is an educational internet portal operated by the bank not only for children and adolescents but also for parents and teachers. Children up to the first level of primary school are the target group of *Spořínkov* (*www.csas.cz/Sporinek*). In collaboration with Terraklub, Česká spořitelna published a school atlas of today's financial world.

Erste Bank Hungary runs a financial literacy programme named *Pénzügyi Kisokos (Financial Guide)* and a non-branded financial guide website explaining the basic terms of finance to pupils.

Erste Bank Croatia and Erste Bank Serbia offer seminars on personal finance management for people who wish to enhance their financial expertise. Banca Comercială Română sponsors a pool of coaches working to advance financial literacy. Erste Group Ukraine supported an awareness-raising campaign on financial literacy.

CORPORATE VOLUNTEERING

All of Erste Group's local subsidiaries support community projects not only through cash contributions, donations in kind and matched giving. In addition, employees are also encouraged and empowered to engage in corporate volunteering, frequently in cooperation with long-term partners or through the banks' financial literacy initiatives. Personal commitment and practical help make a more direct impact than gifts of cash. Donating (free) time means personal confrontation with the lives of other people, often with suffering and injustice, but also with hope, courage and success.

The *Erste Time Bank* initiative has been operating as an exchange portal since early 2012. Through this portal, employees of Erste Group Bank AG and Erste Bank Oesterreich who are interested in voluntary work are matched with organisations that rely heavily on the efforts of volunteers and are regularly looking for support. Staff and pensioners donate their free time to engage in voluntary activities. During the first 12 months, 800 people registered. Actual support was provided in 130 cases. Initial feedback from participating staff and NGOs was very positive. *Erste Time Bank* has been particularly successful in filling short-term needs for volunteers.

In 2012, Erste Bank Oesterreich also continued its collaboration with *Vernetzte Welten* in Austria. Under this programme, employees work for NGOs for three to four months on selected projects at the expense of the bank. Apart from providing staff to organisations, this initiative is also designed to advance personal development. Experience gained in dealing with unusual tasks and working conditions has an indirect positive effect on the bank as a continuously learning organisation.

More than 400 employees of Erste Bank Oesterreich and the savings banks work on a voluntary basis at *Zweite Sparkasse*. People who are in financial difficulties and therefore have no access to banking services can open an account without an overdraft facility. The account is offered only in close cooperation with partners such as Caritas and accompanied by debt counselling services.

In addition, volunteers offer debt prevention workshops for young people under the *I €AN* (I can) initiative with the motto "We come and see you to make sure you will never have to come and see us!" Financial literacy education at schools was also continued successfully, with a large number of workshops held at secondary schools, colleges and vocational schools as well as at businesses that train apprentices. The team of coaches was substantially enlarged at the beginning of the 2012/13 school year.

Česká spořitelna continued its aid programme. In addition, in 2012, more than 2,000 employees used the opportunity to take two days off, with normal pay, to do voluntary work for the community.

In January 2012, Banca Comercială Română and the Mereu Aproape Foundation organised relief shipments to Vrancea, a city that was heavily affected by snowfall. Bank employees distributed 4.8 tonnes of food to about 2,400 people in need. The bank encouraged employees to submit projects proposing voluntary efforts to tackle problems in their local communities. Of the forty projects submitted, five were chosen for implementation in 2013.

Employees of Erste Bank Croatia, Erste Bank Hungary and Erste Bank Serbia supported aid projects, schools and needy families by renovating buildings, cultivating gardens and repairing playgrounds. One key activity in Ukraine was to provide support for orphans, including the organisation of drawing and dancing classes and parties for children.

SPORT

The capacity of sports to bring people together while encouraging them to pursue common goals embodies an idea that is also central to Erste Group's corporate philosophy. Erste Group has been supporting amateur and professional sporting events in Austria and Central Europe for many decades. Projects are carried out in a spirit of close partnership with the organisers and hosts of these events. Ice hockey, running and tennis are given particular emphasis, as is the promotion of activities for young athletes.

In tennis, activities range from support for amateur initiatives such as the *BCR Tennis Partner Circuit* in Romania to professional tennis. In 2012, Erste Bank Oesterreich was again the main, name-giving sponsor of Austria's most important tennis tournament, the Erste Bank Open in Vienna.

In 2012, Erste Group sponsored a large number of running events, including many in support of social projects such as the *Vienna Night Run* in Austria, the *Bratislava Kids Run* in Slovakia and the *Homo si Tec Marathon* in Croatia. By joining in, thousands of entrants promoted their own health while benefiting the common good at the same time. *Erste Bank Sparkasse Running* 2012 comprised more than 200 running events and more than 100,000 participants dashing some million kilometres through Austria. As Austria's largest running initiative, the Erste Bank Sparkasse Running community also maintains its own online presence on Facebook.

Since 2003, Erste Bank Oesterreich has been a sponsor of the professional Austrian Ice Hockey League, the Austrian national ice hockey team as well as the local *Vienna Capitals* team.

For more than 30 years, Erste Bank Oesterreich and the savings banks have supported the school leagues in soccer and volleyball. This commitment represents the longest-standing sponsorship of young athletes in Austrian sports. With more than 1,000 schools participating, these are the largest youth competitions in Austria.

If you are interested in the many other activities being pursued at Erste Group, you will find more information on the subsidiaries' websites in the respective local language and some also in English.

Supporting our customers

RELATIONSHIP BANKING

Erste Group puts customers and their interests at the centre of attention. The bank strives to build and maintain long-term relationships with its customers by offering appropriate and understandable products and advice. This includes constant efforts to improve service quality and to tailor the product portfolio to the demands and requirements of the customers. Among the factors that are taken into account are financial literacy and experience, financial position and risk appetite of the individual customer. Providing reliable, high-quality financial services to all customers characterises the customer relationship concept. The focus is clearly on the relationship with the customer, not on the transaction. With a view to retaining trust and loyalty, Erste Group's approach is to "pull customers" rather than "push products".

ACCESSIBILITY

Customers' expectations are subject to constant change. Erste Group aims at fulfilling the demands that customers place on banks. With social media and virtual contacts gaining in importance, dialogue with customers is no longer limited to the bank's counter in branches or to phone calls. Digital channels have become as natural to many customers as barrier-free access to branches. Personal contact will remain important to clarify questions related to financial topics face-to-face. But it is no longer necessary to go to the bank to carry out each and every financial activity. Customers wish and can perform many banking transactions conveniently without any restrictions in terms of place or time through the use of smartphones or the internet.

Accessibility to various banking services through multiple channels improves the level of convenience for customers. Technology is playing a pivotal role in improving customer satisfaction. At Erste Group great value is attached to technical improvements and innovations to meet customers' expectations even better.

Even at a time when electronic banking is gaining in importance, the branch network with its facilities still remains a key access point for customers. In this context, emphasis is also put on overcoming language barriers. At 22 branches of Erste Bank Oesterreich in Vienna, Mödling and Schwechat, advisory services are provided by multilingual staff. Banca Comercială Română offers product and service information in Hungarian as well.

For blind and partially sighted people, Erste Bank Oesterreich operates at least one self-service machine with auditory instructions in each of its branches and in all VIVA shops of its cooperation partner OMV (in total, approximately 180 at Erste Bank Oesterreich branches and about 175 at VIVA shops). The savings banks are also upgrading their ATMs to include this feature. In addition, blind and partially sighted people are issued with bank cards printed in Braille.

At Erste Bank Serbia, ATMs also have Braille lettering. 86 branches of Erste Bank Hungary are equipped with self-service machines featuring individual control of colour output and light intensity. The websites of Erste Group's local banks Erste Bank Oesterreich, Erste Bank Hungary, Erste Bank Croatia, Erste Bank Serbia, and Banca Comercială Română have been adapted to allow a choice of three character sizes.

Access is now barrier-free at all new or remodelled branches of Erste Bank Serbia and at two out of three branches of Erste Bank Hungary.

In six of its branches, Erste Bank Serbia offers special advisory services to people who are deaf or hearing-impaired.

CUSTOMER SATISFACTION

Erste Group is committed to continuously improve the customer experience and the quality of its services. To put even more emphasis on consumer orientation, the independent Group Customer Experience-Unit was established, combining marketing research, service quality management and complaint-handling functions. This setup has increased Erste Group's ability to understand customer needs and expectations and act upon them in the most timely and effective manner, resulting in an improved customer experience and higher customer satisfaction. Across the Group, more than sixty customer experience projects were successfully completed in 2012.

To assess customer satisfaction, 600 telephone interviews are conducted among local customers in each of Erste Group's markets on a quarterly basis (300 in Ukraine) with the help of *Bank Market Monitor*. This survey provides data for performance comparisons both across Erste Group and with the three leading competitors in each market. To ensure the quality of the customer experience and services, the high standards of the offered products are periodically reviewed. For this purpose, Erste Group is also initiating an innovative product approval process that each newly developed product has to pass before being launched on the market.

In this context, Erste Group is particularly pleased about the awards won by its local banks in Central and Eastern Europe, which demonstrate the high level of customer satisfaction. At the same time, Erste Group regards it as its duty to continuously strive to maintain the status as one of the best and most trusted banks. The fact that all its banking subsidiaries operate under a brand name of very high recognition value and trustworthiness represents a significant competitive advantage in the banking business, which, among other ways, has manifested itself in solid deposit inflows at times of economic uncertainty.

In recognition of the international service requirements of wealthy individuals and families, the private banking strategy has been implemented across Erste Group. The aim is to offer client service excellence for private client investment management, endowments and estates. Erste Group offers private banking in Austria, the Czech Republic, Slovakia, Romania, Hungary and Croatia. The focus of the activities and services offered is on long-term wealth creation and investment management, estate planning, philanthropy, trust and foundation management, corporate asset management and special and wholesale funds. By offering this extensive portfolio, Erste Private Banking successfully positioned itself as market leader in Central and Eastern Europe. Erste Group's private banking is one of the few Central European institutions that – based on forward-looking research and asset analysis – offers individual solutions for complex needs, such as private banking services for the management of family assets, including the development of sustainable long-term wealth management plans.

ETHICAL INVESTING

Erste Asset Management was an early mover in anticipating the growing needs and intentions of investors to increasingly emphasise environmental and socio-ethical aspects in their investment decisions. Over the past decade, Erste Group has used these changes as an opportunity to develop the largest variety of sustainable funds in Austria. Since 2012, all asset management entities have been operating under the umbrella of Erste Asset Management UN PRI Signatories and have committed themselves to acknowledging the United Nations-backed Principles of Responsible Investment (PRI). In 2011, it had already been decided to prohibit investments in companies that are active in the field of controversial weapons such as land mines, nuclear weapons or cluster bombs for all actively managed mutual fund portfolios.

Erste Asset Management is an acknowledged provider of sustainable investment funds in Austria and in the CEE region. In 2012, the total volume of funds under management by Erste Asset Management was EUR 46 billion. Of this, EUR 14.5 billion relate to actively managed funds, which are subject to the screening of banned weapons. In 2012, sustainable assets under management reached EUR 2 billion, an increase of 20% compared to 2011.

At the beginning of 2012, the position of a *Chief Sustainability Investment Officer* was established to embed sustainability aspects even more firmly into Erste Asset Management's range of funds. In 2012, the sustainability specialists managed ten investment funds as well as several externally mandated portfolios. The managed mutual funds comprised three bond funds, four regional stock funds, a microfinance fund of funds and two theme funds for climate protection and the environment (the latter two funds were managed in cooperation with WWF Austria). In 2012 *Erste Responsible Balanced*, a new asset allocation fund with a focus on sustainability, was launched.

FINANCIAL INCLUSION

Offering simple banking services to the otherwise unbanked part of the population was among the main reasons behind the foundation of Erste österreichische Spar-Casse in 1819. For a variety of reasons, even today some sections of the population do not have access to financial services from commercial banks.

good.bee is the financial inclusion joint-venture owned 60% by Erste Group and 40% by ERSTE Stiftung. It was founded in 2008 with the aim of developing innovative solutions for breaking down the barriers to financial inclusion for individuals and enterprises in Central and Eastern Europe. good.bee aims at supporting social integration and the economic development of individuals and communities by extending the reach of responsible and suitable financial services to social enterprises and disadvantaged people.

In 2012, good.bee's business focus was again on microfinance and social enterprise financing geared towards supporting enterprises that address social issues. In addition, local support networks assist social entrepreneurs to help them acquire the knowledge and skills they need to become successful in their ventures. At Erste Bank Oesterreich, a dedicated entity for social banking coordinates all activities related to social issues and enterprises. While there are numerous financing facilities and instruments for commercial enterprises, the social sector is still underbanked.

good.bee Credit was founded in 2009 in partnership with the *Economic Development Centre* (CDE foundation) in Romania. The company offers development-oriented financing products for self-employed persons and small businesses. Smallholdings and micro entrepreneurs are provided with investment loans and working capital loans to develop their businesses on a long-term perspective.

Erste Group's banking subsidiaries have started a number of good.bee initiatives. In 2012, Erste Bank Serbia and the Serbian National Employment Agency continued *supERSTEp*, a programme designed to support unemployed young people and start-ups with capital and training to set up or continue developing their own businesses. Additional cooperation partners joined the programme, among them *Youth Business Serbia*, in 2012. Erste Bank Croatia also supports self-employment by providing investment loans to people and businesses that have difficulties meeting standard requirements for obtaining loans. The good.beginners project initiated in 2011 was expanded to two regions of Croatia that were affected particularly severely by the economic and financial crises.

In 2012, Erste Bank Oesterreich's microfinance initiative was continued in cooperation with the Federal Ministry of Labour, Social Affairs and Consumer Protection. Since October 2012, a guarantee provided by the EIF (European Investment Fund) has also been available in this context. This guarantee may be used as collateral for other loans to small and micro enterprises in amounts of up to EUR 25,000. Erste Bank Oesterreich and the savings banks are the only Austrian banks that are able to offer their customers this guarantee. Working with Vienna's debtor counselling service, the Social Banking staff unit started an initiative called *betreutes Konto* (assisted account). More than 100 active accounts show that a gap may have been filled between customers of full legal capacity and those who have become incapable of handling their own financial affairs. In addition, the student funding scheme *For Best Students* has been made ready to market.

Banca Comercială Română granted several loans to social organisations in 2012 and acquired further experience in cooperating with the social sector. Česká spořitelna was the first bank in the Czech Republic to offer social enterprises loans for business expansion or development under its *Social Enterprise Finance* programme. This offer addresses those enterprises that primarily deal with social problems, offer competitive services or products on the Czech market and use most of their profits for the ongoing development of their business.

Employees

Retaining experienced and committed employees is fundamental to the long-term success of every company. Toward that end, Erste Group – as an organisation with leading market positions – strives to maintain its position as an employer of choice for talented people in Central and Eastern Europe. Erste Group's human resources strategy focuses on effective practices to create and maintain competitive advantages by building an even stronger organisation with highly skilled managers, teams and employees. Erste Group will continue to concentrate on areas such as diversity, organisational effectiveness, knowledge and training, talent management, change management, performance management, leadership development, and succession planning.

DIVERSITY AND INCLUSION

Diversity is a key topic for all international businesses, and for Erste Group diversity goes far beyond the traditional equal opportunities criteria of gender, minority or disability. Erste Group considers diversity a business strategy, embracing the broadest possible spectrum of knowledge, experience and perspective. A diverse workforce consists of people with a broad range of educational backgrounds, professional and other interests, work and life experience, as well as cultural perspectives. To give this strategy a face, the position of a *Group Diversity Manager* was established at the beginning of 2013.

Well-managed diversity is a competitive advantage. The diversity of its employees helps Erste Group to better understand the various needs of its customers and to offer adequate products and services. By optimising the use of social, cultural, gender, and age differences, Erste Group ensures its organisational effectiveness in integrating diversity in staffing, performance appraisals, training, and mentoring. Erste Group strives to establish conditions for greater diversity (gender, age and nationality) in its decision-making bodies to guarantee equal opportunities to employees at all professional levels and in all areas of activity throughout the Group.

Erste Group provides a working environment free of discrimination and harassment, and its corporate culture fosters equal opportunity and respect, as well as the quest for personal and professional growth. Diversity indicators such as a gender diversity index, equal opportunity aspects, percentage of women in managerial positions, age gap indicators, percentage of employees on parental leave by gender, average of training days per employee by gender or the cultural mix of employees are monitored and reported to the management board of Erste Group on an annual basis. Diversity criteria have been included in the key performance indicators of senior management since 2009. Other monitored areas include gender representation in talent programmes and salary discrepancies according to position or gender. An internal ombudsman monitors and handles instances of discrimination or harassment. Diversity topics are also included in regular employee surveys.

At Erste Group, mobility is considered to be fundamental for developing future managers and therefore constitutes a prerequisite for the appointment to group key positions. A *Mobility Polic*y outlines common rules. It includes guidelines for mobility packages; cultural and private backgrounds of expatriates are taken into account. A dedicated integration manager provides personal support for expatriates and their families.

As the population in the European Union is ageing, pension reforms will require the labour force to work longer. Companies that are able to leverage and manage age diversity will have a competitive edge in the future. Older and more senior employees possess a wealth of experience and knowledge, which is essential to on-going business success. Erste Group will expand flexible work arrangements to employees aged 55 years or above, and plans to implement phase-out retirement schemes as well as age management concepts. Benefits of age management include strengthened employee motivation and loyalty, retention of experienced staff, increased team cooperation and solidarity, a better skilled workforce and improved knowledge management. Professional age management generally results in lower turnover costs from severance payments and in a reduction of hiring costs as well as a positive image on the labour market.

Erste Bank Oesterreich initiated the *WoMen Business* project to achieve highly effective mixed-gender teams. This ambitious project is split into four sub-projects (*WoMen in Mind*, *WoMen Potential*, *WoMen Leadership*, and *WoMen Customer Relationship*) focusing on increasing awareness of different behavioural patterns, supporting women in specialist careers, achieving a balanced ratio of women to men at management level and on improving customer relationships with female customers.

At Česká spořitelna *Diversitas* is a comprehensive and systematic approach to diversity and inclusion. The programme focuses on all aspects of diversity management including recruitment, training and professional development of women, mentoring, networking, work-life balance and parental leave measures, age management, and employment opportunities for persons with a disability. The primary objective is to recruit, develop and retain talented employees of all genders, ages and backgrounds, and to provide them with the tools and support to develop professionally and to prepare them for top management positions. In addition, Česká spořitelna has partnered with the British Chamber of Commerce to launch a cross-business mentoring programme in the Czech Republic, providing women with access to international business leaders, creating new networks, and raising awareness of women's contributions to the economy. *Diversitas* also offers soft skills training for women such as assertiveness, presentation and negotiation skills. Together with the US Business School Prague it launched the *Horizons* network, which aims to create a professional network of women from Česká spořitelna and other companies. Another pillar of Česká spořitelna's programme is *Transition*, which was launched in 2011. The bank aims at recruiting more disabled employees not only to create a more diverse and dynamic work environment but also to better reach out to and accommodate the special requirements of customers. These efforts helped Česká spořitelna win the *Barrier-free Workplace Award* in 2012.

PERFORMANCE DIALOGUE/ EMPLOYEE DEVELOPMENT

The *Individual Development Plan* (IDP) is a key instrument in implementing Erste Group's philosophy of providing a working environment where work has a deeper meaning. A deeper meaning can be perceived by employees if they consider their professional tasks and responsibilities or their output important or meaningful, or by pursuing an activity that develops personal and professional skills or provides interesting work-life experiences. The deeper meaning concept also comprises topics such as education, training, job rotation, coaching and career development.

The IDP assists managers and employees in determining current competencies and those required in the future, as well as the needs and aspirations of the employees in connection with personal and company objectives. Based on each employee's individual position and responsibilities, the IDP identifies work-related competencies that need to be strengthened. Individual annual learning and development plans are derived from the IDP and systematically set in place. *Individual Development Plans* constitute a mutual agreement between employee and direct superior and outline knowledge, competency areas, potential career paths and employee mobility.

The IDP is an instrument for each employee, coach and assigned mentor to support the individual's career. Furthermore, the IDP is an important tool for employees participating in Erste Group's talent programmes. In 2012, the new IT-supported *Performance Development System* was successfully implemented in Erste Group. The aim is to document the employee appraisal dialogue electronically and to simplify and support the documentation of the performance dialogue in a more efficient way. The electronic system helps to steer the individual's development progress.

KNOWLEDGE AND TRAINING

Erste Group is dedicated not only to attracting the best employees but also to offering ongoing development opportunities through tailor-made learning activities. Having significant business operations in Central and Eastern Europe, Erste Group strives to be the best and the most competent bank in its region and systematically develops people's competencies towards achieving personal and business targets by providing ample opportunities for continuous education and training. The personal development programme focuses both on closing critical personal or organisational skills gaps and on developing the competencies required to drive strategy execution in the right direction. These programmes equip the employees with the required tools to develop their social and personal skills so that they make a difference on a personal and on a career level. Offering various training courses and encouraging employees to attend them is a key factor in ensuring that the workforce continuously meets and exceeds social and professional standards in a challenging economic environment.

Erste School (the learning hub of Erste Group) established two new business programmes in 2012 targeting professionals from different areas. Developed in co-operation with the respective business lines, the programmes provide expert knowledge and a uniform understanding of standards and processes within Erste Group at fundamental, advanced, and excellence levels. As regulations become more and more demanding on the banking business a *Compliance Certification Programme* was established together with an external international business school to provide compliance professionals with the required knowledge and skills to optimally perform their increasingly challenging role.

In addition to local education and training, each of Erste Group's private bankers has to complete a group-wide private banking certification process. The *Business Analysis Programme* supplements the offering of the *Project Management College* to aid the identification, design and implementation of business and systems solutions in a rapidly growing and evolving business. The *Project Management College* enhances IT-related project skills and change management competencies throughout Erste Group and awards employees with certified diplomas upon graduation. In addition, the colleges for risk management, trading, investment banking, private banking and corporate banking continued their training programmes.

In order to expand the knowledge base of employees and foster organisational development, the well-proven, open-access *Group Lecture Series* were continued in 2012 with 35 lectures presented by outstanding internal and external speakers in Austria and CEE countries. Topics from various areas of banking and beyond were included in order to stimulate strategic, innovative and "out-of-the-box" thinking.

The *Erste Group Graduate Programme* kicked off with a new class of trainees, and 23 young talents graduated from the programme that started in 2011. Each year a group of top university graduates is given the opportunity to participate in the programme. After one year of intensive on-the-job training as well as classroom education, the programme ends with a project presentation and a final evaluation. Hence, trainees acquire a solid understanding of the banking industry and of Erste Group's core business fields.

TALENT DEVELOPMENT

The group-wide *Talent Career Management* (TCM) process – set up to identify, develop and retain employees who demonstrate both high performance and high potential – comprises several initiatives for different target groups. The selection of talent is focused on creating a pool of internationally mobile candidates for key positions across Erste Group.

The *Succession Pooling* process is one of the key pillars of Erste Group's human resources strategy. Ensuring and developing the right strategic competence is essential for Erste Group's future. The first round of the new selection process for managerial talents was completed in 2012.

To be part of TCM initiatives, employees have to meet fundamental criteria of high performance and high potential for further growth, and have to be nominated by the management of the respective entity. On the performance side, both achievement of business goals and leadership competencies are taken into account. In times of potential assessment, the following dimensions are evaluated: international career aspiration and drive, learning and competency development, commitment and values.

Having passed the selection process, successful candidates are offered a development plan addressing the requirements for future key positions. Individual progress of succession pool members is regularly tracked by the respective board members. From 2012 onwards, the well-established *Group Leadership Development Programme* (GLDP) is also closely linked to the *Succession Pooling* process. The current GLDP class of 2012-13 comprises only members of the Group's *Succession Pools*. The second class of *CONNECT* (a development programme for senior professionals) attended six programme modules and successfully graduated from the programme in mid-November 2012. C*ONNECT's* goal is not only to develop high-quality skills but also to boost international knowledge exchange, networking and career support for selected non-managerial talents.

At the end of 2012, the number of active employees who either haven taken part or are taking part in one of the Group TCM development programmes or in a *Succession Pooling* process rose to 230.

HEALTH AND WORK-LIFE BALANCE

Investing in its employees' physical health and psychological well-being and focusing on health prevention is a key priority at Erste Group.

A prominent milestone in 2012 was the continuation of activities relating to the prevention of psychological disorders. This topic gained heavily in importance for individuals, organisations and society. Even during challenging times Erste Group successfully supported employees suffering from mental disorders. The OECD, working on a project referring to *mental health disability and work*, mentioned Erste Group as a role model for strategies concerning prevention, rehabilitation and organisational framework.

In addition, measures to prevent cardiovascular diseases were continued by taking a multi-modal approach (nutrition – exercise – smoking – stress – high blood pressure). The Austrian Vascular Society particularly praised Erste Group's efforts for having offered its employees a medical screening of the carotid artery on top of the well-established, voluntary medical check-up, as a contraction of the carotid artery is considered to be one of the main reasons for suffering a stroke. More than 2,000 employees participated in this carotid artery screening in Austria. Supporting measures, like diet sheets, featured the expertise of health care experts. The focus of these efforts was on enabling, which means helping employees improve their awareness of health care issues and, consequently, take the right decisions for a healthy lifestyle.

The importance of health policies at Erste Group is also reflected in the respective health services offered by Banca Comercială Română to employees and their family members. Banca Comercială Română is the only bank in Romania certified in accordance with OHSAS (Occupational Health and Safety Assessment Series) 18001.

As a supporting measure for a work-life balance, Erste Group strives to fully reintegrate employees returning from parental leave back into the work force by offering flexible work arrangements, the opportunity to work from home and a monthly child-care subsidy. Erste Group encourages communication during paternal leave to keep the employees informed on topics such as organisational changes or vacancies, for example. Information meetings offer parents the opportunity to meet managers and discuss current issues that concern the company or the team. Moreover, flexible work arrangements are offered not only to returning parents – who are empowered to organise their work to fit in better with the current phase of their lives. All employees of Erste Group are entitled to benefit from these opportunities and are encouraged to use them in order to achieve a satisfying work-life balance.

ORGANISATIONAL EFFECTIVENESS AND CHANGE MANAGEMENT

The interests of Erste Group's employees are represented by the respective employees' councils and local trade unions. In addition, the employees' councils are united on a group-wide level in the European Works Council. The respective trade unions together with the local banks periodically review the collective bargaining agreements (CBAs) in order to reach a consensus. The CBAs cover all employees of the respective institutions, meaning a total of more than 49,000 employees. Among other aspects, the CBAs include arrangements on employee benefits, personal development, work-life balance, flexible working hours and education.

In the event of significant operational changes, national legislation provides for minimum notice periods only in cases where the changes might trigger a significant number of dismissals. Trade unions and national labour authorities are consulted with the aim of deciding on the best solutions possible regarding significant dismissals. The complexity of operational changes determines the length of the notice periods. Erste Group's subsidiary Banca Comercială Română plans to optimise its operations and downsize the number of employees to 7,500 by the end of 2013.

Staff indicators *

	Turnover		Sick leave days per employee		Training days per employee	
	2012	2011	2012	2011	2012	2011
Austria	5.4%	4.4%	7.8	7.5	4.6	3.7
Czech Republic	5.2%	7.9%	5.7	6.2	3.2	2.5
Romania	2.0%	3.7%	7.1	11.1	4.0	3.6
Slovakia	6.3%	6.8%	6.4	5.9	7.8	8.9
Croatia	1.2%	1.6%	3.7	4.6	3.6	3.3
Hungary	4.9%	6.9%	6.8	5.5	2.5	3.8
Serbia	7.0%	7.0%	5.8	6.2	2.3	1.3

*) employee turnover = voluntary leave

	Share of female staff		Share of management positions		Women in management positions		Share of part-time staff		Share of female part-time staff	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
Austria	53.4%	52.5%	10.5%	10.7%	29.8%	26.8%	31.0%	25.8%	78.7%	80.4%
Czech Republic	74.5%	75.0%	4.8%	5.4%	35.0%	21.5%	10.6%	9.4%	95.0%	95.0%
Romania	75.6%	75.9%	14.8%	13.1%	62.8%	62.8%	0.3%	0.1%	80.6%	100.0%
Slovakia	78.6%	79.0%	9.7%	9.0%	55.2%	55.7%	0.7%	0.6%	92.0%	75.0%
Croatia	74.0%	73.6%	5.6%	5.3%	50.8%	50.4%	0.9%	0.9%	95.0%	95.0%
Hungary	67.0%	68.6%	15.5%	11.3%	12.0%	14.0%	1.6%	1.8%	86.0%	86.0%
Serbia	71.9%	71.5%	15.4%	14.9%	53.5%	54.9%	4.5%	3.8%	64.4%	73.7%

Environment

ERSTE GROUP'S ENVIRONMENTAL STRATEGY

Respect for the environment, just like respect for individuals, is an integral part of Erste Group's corporate philosophy. Individuals and corporations contribute to climate change. Erste Group believes it is necessary to monitor the impact of its business activity and behaviour on the environment and recognise that commercial activities and environmental responsibility do not exclude each other. As contributing to and supporting climate protection is a global challenge, Erste Group implements and further adapts measures to tackle climate change, in particular by avoiding or reducing green house gas emissions. In order to respond appropriately, Erste Group has to strengthen the awareness of the Group's impact among its employees.

More economical use of resources such as water, heating and cooling energy, electricity and paper results in lower consumption, and that in turn indirectly reduces CO_2 emissions. If the positive ecological contribution translates into an economic benefit, reduced costs represent a welcome side effect. Another priority in environmental management is to assure the ecological quality of those resources used.

Medium-term priorities

In line with the environmental strategy, the following key priorities were determined:

- **Climate protection and sustainable use of natural resources: Increased use of renewable energy sources, improvement of heating and electric energy efficiency at all locations and branches, vehicle fleet management in line with ecological principles, reduction of business trips supported by increased use of telephone and video conferences.**
- **Ecological impact of procured products and services: Development and implementation of internal ecological procurement criteria, development and application of ecological construction methods when renovating or constructing buildings, Green IT, energy- and resource-efficient software solutions, implementation of internal rules for purchasing sustainable hardware, improving the energy efficiency of the data centre.**
- **Waste management: Implementation and optimisation of internal waste management including waste separation.**
- **Sustainable banking products: Definition of criteria for sustainable financing and investment, participation in international environmental agreements.**

ACHIEVEMENTS IN 2012

2012 was a big step forward in Erste Group's implementation of the environmental policy. Several years of continuous work provided a solid foundation for many projects. While the environmental management of Erste Group pursued core initiatives, for example the group wide switch to use only 100% recycled copy paper, a lot of initiatives were developed locally. Many environmental projects were continued or initiated in accordance with the defined priorities.

For the first time, Erste Group's environmental efforts were externally recognised. Erste Group Bank received the *Umweltpreis der Stadt Wien* (the environmental award of the City of Vienna) for the development of a mobile device measuring the electric energy consumption of file servers in the data centre (sIT Solutions GmbH); at approximately 18 GWh, it was responsible for a substantial part of the energy consumption of Erste Group in Austria. Erste Bank Serbia was the only financial institution that received the *ECOprofit* certificate of the City of Novi Sad. SPV Druck, Erste Group's printing company, was officially granted the government-sponsored *Oesterreichisches Umweltzeichen* (Austrian Ecolabel). The ecolabel is a reliable indicator that products and services meet strict ecological criteria.

Greenhouse gas emissions and energy efficiency

In 2012, Erste Group participated in the CDP (Carbon Disclosure Project). While the disclosure score of 56 was better than the Austrian average of 52, the performance band of D was below the Austrian average of C. Only data of the Austrian operations were included in this exercise; as of 2013, the scope will be expanded to cover the whole Group.

An excellent example of a forward-thinking approach to energy efficiency and environmental sustainability is Erste Campus, Erste Group's new headquarters close to Vienna's new central railway station. The modern building complex, scheduled to be ready for occupation in 2016, will provide space for up to 4,000 workplaces and consolidate approximately 20 office sites located throughout Vienna. The features of Erste Campus include district heating/cooling in combination with near-surface geothermal energy, special insulation and automatic shades to reduce heating and cooling energy consumption and lighting with LED-technology. The building complex is expected to be certified with a gold certificate by ÖGNI, the Austrian association for the advancement of sustainability in construction and property development. Even during the construction phase, only electric energy from renewable sources is being used to reduce the negative environmental impact.

The total electric energy consumption of Erste Group (excluding the savings banks) in Austria amounts to more than 40 GWh. As of April 2012, Erste Group switched to Naturkraft Energievertriebsgesellschaft, one of the few certified suppliers selling 100% renewable electric energy only. Due to the supplier change, Erste Group is now one of the biggest users of renewable energy in Austria. Erste Group reduced its carbon footprint in Austria by 57% from 17,332 tonnes in 2011 to 7,441 tonnes in 2012. To further reduce greenhouse gas (GHG) emissions, business travel is avoided as much as possible. In December 2012, a new state-of-the-art video-conference system was introduced at all local headquarters of Erste Group. Easy to use and with high-definition quality, this modern communications technology is a sound alternative to business travels and face-to-face meetings.

To reduce direct adverse effects of traffic on the environment, emission levels of cars are a topic throughout Erste Group. The emissions of Česká spořitelna's fleet are on average 8% below the defined limits (e.g. maximum of 120 g/km for the standard category). Erste Bank Hungary's switch to diesel engine cars resulted in savings of approximately 150,000 litres of petrol annually. The reorganization of the car pool of Banca Comercială Română led to a 15% decrease in fuel consumption.

A special focus in several countries was on replacing existing lighting systems with more efficient ones. In some places at the head office in Vienna (meeting rooms, event centre, car park), the existing lighting system was replaced by LED technology to test the savings potential and the employee acceptance. The calculated pay-back period is close to one year. Česká spořitelna started a pilot project to test a new LED light source in branch halls in the centre of Prague and České Budějovice and in sanitary facilities at its technical centre. Expected benefits are reduced maintenance of lamps, lower energy consumption and better lighting quality. In Hungary and Romania, measures included the installation of movement detectors to control lighting, switching to LED technology for outdoor advertising or reduction of the light intensity in lobbies. Slovenská sporiteľňa achieved a reduction of up to 30% of electrical energy consumption of advertising light panels through decreasing their light intensity by installing special chips inside the panels.

Česká spořitelna concluded the implementation of remote monitoring of building technology for 50 properties. It is planned to gradually connect all office sites. Online access to building technology, electricity and heating energy consumption data allows the use of heating, cooling and ventilation to be controlled and optimised. The effectiveness of heating sources is measured; it is planned to replace heating systems older than 15 years to save energy and costs. The planned optimisation of cooling in the technical centre in Prague will result in further energy savings. Environmental criteria (only products with an energy efficiency label of A+ or better) have been included in the specification of purchased kitchen equipment such as coffee machines.

Slovenská sporiteľňa started to regularly measure the temperature at all premises to ensure that heating and cooling devices are set up correctly to avoid overheating or overcooling of branch space. A project to optimise the energy consumption in 15 high-consumption buildings was continued. To identify energy-saving opportunities, the energy consumption of each location was analysed with a special focus on equipment and technologies with high energy consumption. The action plan involved setting of temperature and time programs of all HVAC equipment (heating, ventilation and air conditioning). Based on this success, the project will be extended to 20 other buildings. Electrical circuits and all PCs are switched off automatically after business hours; the same scheme was introduced in Austria two years ago and resulted in electric energy savings of approximately 5%. At newly refurbished branches, the office ventilation is determined by air quality (CO_2 concentration).

The measures of Erste Bank Hungary to improve the efficiency of branch and head office buildings included changing and optimising server cooling systems, pre-cooling by natural air ventilation and applying more effective temperature control. Whenever investments are necessary, energy-efficient solutions are preferred. At the head office in Budapest, a sensor system for windows (switches off fan coils when windows are open) was installed. The control system of shades and blinds was optimised to reduce daytime use of artificial lights.

Erste Bank Croatia cut its heating costs by installing electronically controlled thermostatic valves on each radiator to turn them off when windows are opened. Each office already has digitally accessible temperature measurement to keep the room temperature at the desired level. Presently at the Bjelovar location, heating costs are distributed by fixed calculation based on the floor space used. As of 2013, it is planned to implement individual heating meters providing exact measurement of the heating consumed by every user. The aim is to create higher awareness and a greater willingness to save energy. Another measure to reduce the costs of electric energy was the installation of a peak-load control system in Zagreb and Rijeka to control and manage peak power by balancing the air-conditioning and ventilation systems.

Erste Bank Serbia optimised the fan coil system at the headquarters in Novi Sad and Belgrade. In addition, an energy management system was set up in all branches. The measured real energy consumption will be analysed with the goal of reducing energy consumption, which will result in lower costs and an improved CO_2 footprint.

Measures to reduce office paper consumption

Erste Group consumes more than 2,000 tons of copy paper per year; each local bank used to have its own paper quality criteria. Erste Group's management board decided to switch as of 2013 to 100% recycled copy paper group wide. This initiative will not only reduce the consumption of natural resources (wood, water, energy) but also result in annual cost savings of more than EUR 100,000 even without a reduction in volume. Although increased awareness among employees and customers has already led to a more conscious and responsible use of paper, the existing initiatives to reduce the total consumption of copy paper will, of course, be continued.

Erste Bank Oesterreich introduced signing pads at bank counters, whereby customers no longer sign on a paper slip but on a touch screen. The increased use of electronic banking automatically results in a decrease in paper consumption (e.g. fewer printed bank statements). In all countries, most of the small office printers are being replaced by multifunctional devices with double-sided printing as standard setting.

Erste Bank Hungary started *Fight paper*, a document management project. The objective is to develop and promote paperless processes such as electronic filing or cash withdrawal at ATMs without printed receipts. At Banca Comercială Română – the local bank with the highest copy paper consumption per employee –, a special programme will start in 2013 to change processes with the aim of significantly reducing copy paper consumption.

Waste management initiatives

Waste separation was introduced in all premises of Slovenská sporiteľňa. Erste Bank Hungary introduced waste separation management in its headquarters. Waste paper collection for recycling was refined by installing shredding machines for confidential or sensitive documents on every floor. Non-sensitive waste paper is collected in separate boxes. Specialised recycling companies handle electronic waste disposal. Computers and furniture no longer used but still in good condition are donated by the bank to educational institutions and foundations.

Erste Bank Croatia installed special devices purifying tap water (applying the reverse osmosis method) to replace water dispensers or PET bottles. This reduced not only the plastic waste of PET bottles but also the costs for drinking water. The bank continued a PET plastic packaging collection initiative to support a local non-government organisation. In addition, all waste paper is separately collected and recycled.

Erste Bank Serbia expanded its waste separation programme and installed designated collection bins for waste paper, PET and glass bottles on each floor. If the initiative proves successful, the scheme will be extended to all branches in 2013. Toners from printers and electronic waste were collected to be recycled by specialised companies.

Ecological impact of procured products and services

Environmental criteria are now included in all sourcing activities of Erste Group's centralised procurement. A screening process of the top 150 suppliers is well under way. Specially developed supply audit questionnaires include questions about the environmental measures of Erste Group's suppliers.

Erste Bank Oesterreich promoted special products to finance energy-efficient investments. s Bausparkasse (Erste Group's Austrian building society) offered a bonus payment of up to EUR 500 for housing loans financing approved energy-efficiency investments. Customers of s Autoleasing (car leasing company) opting for an e-car or hybrid car were also rewarded with a bonus. Both campaigns were promoted with the logo of the *WWF Climate Group*. In December 2012, Erste Bank Oesterreich tested the market with a dedicated renewable energy bond (2% Erste Group Erneuerbare Energieanleihe 2012–2019). All funds raised are exclusively used to finance renewable energy projects such as windmills or photovoltaic generators.

Erste Bank Hungary promoted environment-friendly technologies and provided favourable financing conditions for retail customers investing in properties with an appropriate energy performance certificate. Erste Bank Ukraine signed an agreement with the International Finance Corporation to support energy efficiency projects in the country. Erste Bank Serbia approved a new social and environmental policy for financing that will be implemented in 2013. The aim is to be recognised as the only bank in Serbia focused on environmental protection. All financing will have to meet not only the common risk assessment criteria but also environmental criteria.

Awareness among employees and other stakeholders

In February 2012, Erste Group in Austria participated in an energy-savings campaign organised by the *Austrian WWF Climate Group* partners (www.climategroup.at). This group of leading Austrian companies, also including Allianz insurance, IKEA and the retailers dm and SPAR, support the *WWF Austria*, is committed to climate protection.

The campaign *Energieferien* aimed at creating public awareness for the energy-savings potential by replacing power guzzlers with energy-efficient household appliances, switching to LED lamps and using multiple socket outlets that can be completely switched off. It was supported by TV advertisements, flyers and many individual events. As part of this campaign, Erste Bank Oesterreich financed a smartphone app, *WWF Ratgeber*, which helps people to find the most energy-efficient household appliances and provides useful energy-savings tips.

Erste Bank Hungary encouraged its employees to use bicycles as a healthy and environmentally friendly way of commuting. Two rooms for bicycle storage are dedicated for employees, adjacent to the amenities of a locker room equipped with showers and individual lockers.

Environmental Data

Based on experience gained in Austria, in October 2012 a group wide environmental data collection project was started to collect reliable and comparable environmental data from all Erste Group facilities based on international best practice standards. Some new principles for data collection were introduced. Instead of CO_2 emissions, CO_2 equivalents (CO_2eq) are now calculated. This new calculation of greenhouse gas emissions also takes into account all emissions generated downstream in the production of district heating, electricity and fuel. If no information is made available by the respective local supplier, the database of *ecoinvent* (http://www.ecoinvent.ch/) – *Swiss centre for life cycle inventories* , a provider of consistent and transparent life cycle inventory data is used.

Due to the change in methodology, data reported in previous years cannot be compared with the figures given below. In the following tables, we provide detailed environmental data for 2011 and 2012, with the exception of Erste Bank Hungary and Banca Comercială Română due to major changes in their operations. The missing 2012 data will be available only after the cut-off date for the annual report; these data will be published on Erste Group's website later this year.

Environmental indicators 2012 *

Tonnes CO_2eq	Total	Austria	Croatia	Czech Rep	Hungary	Romania	Serbia	Slovakia
Heating/ warm water	na	3,960	1,106	16,522	na	na	740	5,757
Electricity	na	443	5,977	42,105	na	na	3,207	12,568
Diesel for electricity	na	-	6	21	na	na	4	10
Mobility	na	3,023	712	4,949	na	na	412	1,484
Cooling agents	na	-	215	262	na	na	42	194
Total	na	7,441	8,017	63,859	na	na	4,405	20,013

*) CO_2eq … CO_2 equivalents

Relative values per FTE or m²	Heating kWh/m²	Electricity kWh/m²	Copy paper kg/FTE	Waste kg/FTE	CO_2eq t/FTE
Austria	85.8	198	33	259	0.86
Croatia	60.0	151	44	27	2.84
Czech Republic	121.9	114	22	135	4.13
Hungary	na	na	na	na	na
Romania	na	na	na	na	na
Serbia	131.4	138	68	28	3.66
Slovakia	112.6	130	35	138	3.75

*) FTE (full-time equivalent) … defines an active employee times his/her employment factor
CO_2eq … CO_2 equivalents

Environmental indicators 2011 *

Tonnes CO_2eq	Total	Austria	Croatia	Czech Rep	Hungary	Romania	Serbia	Slovakia
Heating/ warm water	50,715	4,349	1,005	18,060	2,997	17,322	963	6,019
Electricity	117,554	10,168	6,076	46,216	10,481	29,150	3,069	12,393
Diesel for electricity	45	-	7	35	-	-	3	-
Mobility	14,782	2,816	797	4,062	2,024	3,318	338	1,428
Cooling agents	2,080	-	425	585	-	980	46	44
Total	185,177	17,332	8,310	68,958	15,502	50,770	4,419	19,885

*) CO_2eq … CO_2 equivalents

Relative values per FTE or m²	Heating kWh/m²	Electricity kWh/m²	Copy paper kg/FTE	Waste kg/FTE	CO_2eq t/FTE
Austria	102.3	199	38	218	1.88
Croatia	55.1	155	48	52	3.11
Czech Republic	106.3	94	22	103	4.66
Hungary	126.5	163	82	510	3.30
Romania	149.7	84	99	na	4.60
Serbia	176.5	134	66	28	4.66
Slovakia	124.6	136	34	144	4.33

*) FTE (full-time equivalent) … defines an active employee times his/her employment factor
CO_2eq … CO_2 equivalents

Corporate Governance

Corporate Governance Report

of Erste Group Bank AG pursuant to section 243b Austrian Commercial Code and rules 60 et seq of the Austrian Code of Corporate Governance as of 31 December 2012

CODE OF CORPORATE GOVERNANCE

In Austria, the Code of Corporate Governance (Austrian CCG) prepared by the Working Group for Corporate Governance under the leadership of the Special Government Representative for the Capital Market has been widely recognised since 1 October 2002. The Code is based on voluntary self-imposed obligations and its requirements are more stringent than the legal requirements for stock corporations. The aim is to establish responsible corporate management and accounting oriented to long-term growth that regulates all rights and obligations of all stakeholders – management, supervisory board, customers, staff, shareholders and the public – as well as their relations to each other. The Austrian CCG has the objective of guaranteeing a high degree of transparency for all stakeholders. The rules of the Code are grouped into L-Rules, which contain the mandatory legal requirements, C-Rules, which permit a deviation but need to be explained, and R-Rules, which permit a deviation without requiring an explanation.

The current version of the Austrian CCG is available on the website of the Working Group at www.corporate-governance.at. This website also includes an English translation of the Austrian Code of Corporate Governance and the interpretations of the Working Group.

COMMITMENT TO COMPLY WITH THE RULES OF THE AUSTRIAN CCG

(C-Rule 16 Austrian CCG)

In 2003, Erste Group Bank AG declared its commitment to comply with the rules of the Austrian Code of Corporate Governance with the objective of ensuring responsible and transparent corporate governance. In financial year 2012, Erste Group Bank AG complied with all L-Rules (legal requirements) and R-Rules (recommendations). The deviation from two "Comply or Explain" rules (C-Rules) is presented and explained below.

Qualifications, composition and independence of the supervisory board

52a (C) The number of members on the supervisory board (excluding employees' representatives) shall be ten at most. Each new member of the supervisory board is responsible for being duly informed about the organisation and business activities of the company as well as the tasks and responsibilities of the supervisory board members

Due to the size of the company, the supervisory board of Erste Group Bank AG (excluding employees' representatives) consisted until 15 May 2012 of twelve members. At the Annual General Meeting 2012, a resolution was passed to reduce the number of members of the supervisory board to ten.

57 (C) Supervisory board members who are on the management board of a listed company must not exercise more than a total of four supervisory board mandates (chairmanship counts as double) in external limited companies. Companies included in the consolidated financial statements or in which there is a business involvement are not considered as being non-Group limited companies.

Juan María Nin Génova, as a member of the management board of the listed company CaixaBank S.A., held five supervisory board mandates in non-Group limited companies in the financial year 2012. The stock exchange listing of CaixaBank S.A., in which he is acting as a member of the management board, only took place after he had taken up his supervisory board mandates.

INFORMATION IN ACCORDANCE WITH THE SUSTAINABILITY REPORTING GUIDELINES

The sustainability reporting guidelines define standards for the improvement of the reporting and disclosure requirements. The publisher of these guidelines is Global Reporting Initiative (https://www.globalreporting.org), a non-governmental organisation.

Governance structure

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

Mechanisms for shareholders and employees to provide recommendations or direction to the supervisory board

DIE ERSTE österreichische Spar-Casse Privatstiftung (Privatstiftung), a private foundation, is accorded the right by the articles of association (item 15.1) to delegate up to one third of the members of the supervisory board to be elected by the Annual General Meeting. Privatstiftung has not yet exercised this right.

The employees' council, according to the legal stipulations and the articles of association, is authorized to delegate one member from among its ranks for every two members appointed by the Annual General Meeting (statutory one-third parity rule). If the number of shareholder representatives is an odd number, then one more member is appointed as an employee representative.

Measures in place for the supervisory board to ensure conflicts of interest are avoided

The members of the supervisory board are annually obligated to consider the regulations of the Austrian Corporate Governance Code regarding conflicts of interest. Furthermore, new members of the supervisory board receive comprehensive information regarding the avoidance of conflicts of interest when taking up their supervisory board functions.

INFORMATION ON THE MANAGEMENT BOARD

(section 243b par. 2 Austrian Commercial Code)

Name, year of birth, date of initial appointment and end of current period of office of each member of the management board (C-Rule 16 Austrian CCG)

Andreas Treichl (Chairman)

Born 1952
Member of the management board since 1 October 1994
End of the current period of office: 30 June 2017

Franz Hochstrasser (Vice Chairman)

Born 1963
Member of the management board since 1 January 1999
End of the current period of office: 30 June 2017

Herbert Juranek

Born 1966
Member of the management board since 1 July 2007
End of the current period of office: 30 June 2017

Gernot Mittendorfer

Born 1964
Member of the management board since 1 January 2011
End of the current period of office: 30 June 2017

Manfred Wimmer

Born 1956
Member of the management board since 1 September 2008
End of the current period of office: 30 June 2017

Martin Škopek

Born 1967
Member of the management board since 1 July 2010
End of the current period of office: 31 January 2012

Bernhard Spalt

Born 1968
Member of the management board since 1 November 2006
End of the current period of office: 31 January 2012

The mandates of the members of the management board Martin Škopek and Bernhard Spalt were terminated by mutual agreement, effective as of 31 January 2012. The number of management board mandates was thus reduced to five from the previous seven.

Mandates on supervisory boards or similar functions in other domestic or foreign companies not included in the consolidated financial statements for each member of the management board (C-Rule 16 Austrian CCG)

Andreas Treichl

DONAU Versicherung AG (Vienna Insurance Group) (Vice Chairman)
MAK – Österreichisches Museum für angewandte Kunst (Chairman)
Sparkassen Versicherung AG (Vienna Insurance Group) (Chairman)

Franz Hochstrasser
CEESEG Aktiengesellschaft
Oesterreichische Kontrollbank Aktiengesellschaft
(Vice Chairman)
Wiener Börse AG

Herbert Juranek
None

Gernot Mittendorfer
None

Manfred Wimmer
Österreichische Galerie Belvedere

Martin Škopek
None

Bernhard Spalt
None

INFORMATION ON THE SUPERVISORY BOARD

(section 243b par. 2 Austrian Commercial Code)

Position, name, year of birth, occupation, date of initial appointment and end of current period of office of each member of the supervisory board (C-Rule 58 Austrian CCG)

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	4/05/2004	AGM 2014
1st Vice Chairman	Georg Winckler	1943	Former rector of the University of Vienna and Professor emeritus of Economics	27/04/1993	AGM 2015
2nd Vice Chairwoman	Theresa Jordis	1949	Lawyer	26/05/1998	AGM 2013
Member	Bettina Breiteneder	1970	Entrepreneur	4/05/2004	AGM 2014
Member	Jan Homan	1947	General Manager, ret.	4/05/2004	AGM 2014
Member	Brian D. O'Neill	1953	Vice Chairman Lazard International	31/05/2007	AGM 2017
Member	Juan María Nin Génova	1953	Vice Chairman and CEO CaixaBank	12/05/2009	AGM 2014
Member	Wilhelm Rasinger	1948	Consultant	11/05/2005	AGM 2015
Member	John James Stack	1946	President and CEO, ret.	31/05/2007	AGM 2017
Member	Werner Tessmar-Pfohl	1942	Entrepreneur, ret.	6/05/2008	AGM 2013
Chairman	Heinz Kessler*	1938	General Manager, ret.	26/05/1998	AGM 2012
Member	Elisabeth Gürtler**	1950	Entrepreneur	26/05/1998	AGM 2012
Delegated by the employees' council					
Member	Andreas Lachs	1964		9/08/2008	until further notice
Member	Friedrich Lackner	1952		24/04/2007	until further notice
Member	Bertram Mach	1951		9/08/2008	until further notice
Member	Barbara Smrcka	1969		9/08/2008	until further notice
Member	Karin Zeisel	1961		9/08/2008	until further notice
Member	Markus Haag***	1980		21/11/2011	until further notice

* Heinz Kessler resigned from the supervisory board at the end of the annual Annual General Meeting on 15 May 2012. Friedrich Rödler was elected chairman oft he supervisory board.
** Resigned from the supervisory board at the end of the annual Annual General Meeting on 15 May 2012
*** Withdrawal of appointment on 15 May 2012

Membership in the committees of the supervisory board, stating the function as (vice) chairperson (C-Rule 39 Austrian CCG)

Name	Construction committee	Executive committee	Nomination committee	Audit committee	Risk management committee	Remuneration committee
Friedrich Rödler	Vice Chairman	Chairman	Chairman	Member*	Chairman	Chairman**
Georg Winckler	Member	Vice Chairman	Vice Chairman	Chairman	Vice Chairman	Vice Chairman
Theresa Jordis	-	Member	Member	Vice Chairman	Member	Member
Bettina Breiteneder	Chairwoman	-	-	Substitute	Member	-
Jan Homan	-	-	-	Member	Member	Substitute
Brian D. O'Neill	-	-	-	-	-	Member
Juan María Nin Génova	-	Member	-	-	-	Member
Wilhelm Rasinger	-	Substitute	-	Member	Member	Substitute
John James Stack	-	-	-	-	-	Member
Werner Tessmar-Pfohl	Member	-	-	-	Substitute	-
Delegated by the employees' council						
Andreas Lachs	-	Substitute	-	Member	Member	-
Friedrich Lackner	Member	Member	Member	Member	-	Member
Bertram Mach	-	Member	Member	-	Member	Member
Barbara Smrcka	Member	-	-	Substitute	-	Substitute
Karin Zeisel	-	-	Substitute	-	Member	Member

* Financial expert
** Remuneration expert

Mandates in supervisory boards or similar functions in other foreign and domestic companies for each supervisory board member with reference date 31 December 2012 (listed companies are marked with *) (C-Rule 58 Austrian CCG)

Friedrich Rödler
Erste Bank der oesterreichischen Sparkassen AG
Erste Bank Hungary Zrt.

Georg Winckler
Austria Versicherungsverein auf Gegenseitigkeit Privatstiftung (Chair)
DIE ERSTE österreichische Spar-Casse Privatstiftung (Chair)
Educational Testing Service (ETS) (Trustee)
UNIQA Versicherungen AG* (Vice Chair)

Theresa Jordis
Austrian Airlines AG
Miba Aktiengesellschaft* (Chair)
Mitterbauer Beteiligungs-Aktiengesellschaft (Chair)
Prinzhorn Holding GmbH (Chair)
Wolford Aktiengesellschaft* (Chair)
Österreichische Industrieholding AG

Bettina Breiteneder
ZS Einkaufszentren Errichtungs- und Vermietungs-Aktiengesellschaft
Gain Capital SA, SICAV-FIS Real Estate Car Parks I (BoD)

Jan Homan
Allianz Elementar Versicherungs-Aktiengesellschaft
BillerudKorsnäss AB
Constantia Flexibles GmbH (Chair)
Constantia Flexibles Group GmbH (Chair)
Drukkerij Verstraete
European Aluminium Foil Association (Chair)
Flexible Packaging Europe (Chair)
Slovenská sporiteľňa, a.s.

Brian D. O'Neill
Council of the Americas (BoD)
Emigrant Bank (BoD)
Inter-American Dialogue (BoD)

Juan María Nin Génova
APD – Association for the Advancement of Management (Member of the Academic Board)
Banco BPI, S.A.* (Portugal) (BoD)
CaixaBank, S.A.* (Deputy Chairman)
Criteria Caixaholding S.A. (Deputy Chairman)
Gas Natural SDG, S.A.* (BoD)
Grupo Financiero Inbursa, S.A.B. DE C.V. (Mexico)* (BoD)
Repsol YPF* (BoD)
VidaCaixa Grupo, S.A.U. (Insurances) (BoD)
"la Caixa" Foundation (Deputy Chairman)
Circulo Ecuestre (BoD)
Aspen Institute Spain Foundation (Trustee)
CEDE Foundation (BoD)
Deusto University (BoD)
Deusto Business School (BoD)
Esade Business School Foundation (Trustee)

Federico Garcia Lorca Foundation (Trustee)
FUOC-Foundation for the Open University of Catalonia (Member of the Global Strategy Council)
Spain-China Council Foundation (BoD)
Spain-India Council Foundation (BoD)
Spain-United States Council Foundation (BoD)

Wilhelm Rasinger
Friedrichshof Wohnungsgenossenschaft reg. Gen. mbH (Chair)
S IMMO AG*
Wienerberger AG*

John James Stack
Ally Bank (BoD)
Ally Financial Inc.* (BoD)
Mutual of America* (BoD)
CERGE-EI (BoD)

Werner Tessmar-Pfohl
Sattler AG (Chair)
Steiermärkische Bank und Sparkassen Aktiengesellschaft (Chair)
Teufelberger Holding Aktiengesellschaft (Vice Chair)

Heinz Kessler (resigned on 15 May 2012)
Austria Versicherungsverein auf Gegenseitigkeit Privatstiftung (Vice Chair)
Česká spořitelna, a.s.
DIE ERSTE österreichische Spar-Casse Privatstiftung
Erste Bank der oesterreichischen Sparkassen AG (Vice Chair)
Nettingsdorfer Papierfabrik Management AG (Chair)
Rath Aktiengesellschaft* (Chair)
Reform-Werke Bauer & Co. Gesellschaft m.b.H. (Chair)
Reform-Werke Bauer & Co. Holding Aktiengesellschaft (Chair)

Elisabeth Gürtler (resigned on 15 May 2012)
ATP Planungs- und Beteiligungs-Aktiengesellschaft (Vice Chair)
Chokoladefabriken Lindt & Sprüngli AG (BoD)
Oesterreichische Nationalbank
Österreich Werbung
Wiener Kongresszentrum Hofburg Betriebs GmbH

Delegated by the employees' council

Friedrich Lackner
DIE ERSTE österreichische Spar-Casse Privatstiftung

Andreas Lachs
VBV-Pensionskasse AG

Bertram Mach
None

Barbara Smrcka
None

Karin Zeisel
None

Markus Haag (resigned on 15 May 2012)
None

INDEPENDENCE CRITERIA DEFINED BY THE SUPERVISORY BOARD

(C-Rule 53 Austrian CCG)

The supervisory board of Erste Group Bank AG defined the guidelines set out in Annex 1 of the Austrian Code of Corporate Governance as independence criteria at its meeting of 15 March 2006:

Guidelines for independence

A member of the supervisory board is deemed to be independent if such person does not have any business or personal relations with the company or its management board and these relations would constitute a conflict of interest and therefore would be suited to influence the behaviour of a member.

- **The supervisory board member is not permitted to have been a member of the management board or a managing employee of the company or a subsidiary of the company in the past five years.**
- **The supervisory board member should not have or had have in the past year any business relations with the company or a subsidiary of the company to an extent of significance for the supervisory board member. This shall also apply to business relations with companies in which the supervisory board member has a material economic interest, but not for carrying out functions on the bodies of the Group. The approval of individual transactions by the supervisory board pursuant to L-Rule 48 does not automatically qualify the respective supervisory board member as not being independent.**
- **The supervisory board member should not have served as auditor for the company or have been involved in an audit or worked as an employee of the auditing firm in the past three years.**
- **The supervisory board member should not be a management board member at another company in which a member of the management board of the company is a supervisory board member.**
- **The supervisory board member should not have been a member of the supervisory board for more than 15 years. This does not apply to members of the supervisory board that are shareholders with stakes in the company or that represent the interests of such shareholders.**
- **The supervisory board member should not be a close family relation (children, spouse, life partner, parent, uncle, aunt, sibling, niece, nephew) of a member of the management board or of persons that are in one of the aforementioned positions.**

Presentation of the members deemed independent

(C-Rule 53 Austrian CCG)

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

Presentation of which members of the supervisory board meet the criteria of C-Rule 54 Austrian CCG

Until 15 May 2012, three members of the supervisory board held a function on the body of a company that owns over 10% of the shares of Erste Group Bank AG (Kessler, Winckler, Lackner). Since 15 May 2012, there have been only two such members on the supervisory board following the resignation of Heinz Kessler. Additionally, in 2012, one member (Rasinger) represented, above all, the interests of retail shareholders.

Note if a member of the supervisory board failed to personally attend more than half of the meetings of the supervisory board in the reporting year

(C-Rule 58 Austrian CCG)

All members personally attended at least half of the meetings.

Object and remuneration of contracts subject to approval pursuant to section 95 par. 5 fig. 12 Austrian Stock Corporation Act

(C-Rule 49 Austrian CCG)

The firm DORDA BRUGGER JORDIS Rechtsanwälte GmbH, in which Theresa Jordis is a partner, invoiced companies of Erste Group for consulting work totalling EUR 236,418.57 in 2012. Friedrich Rödler is Senior Partner at PricewaterhouseCoopers Austria; companies of this group billed companies of Erste Group for consulting work totalling EUR 501,000.00 in 2012.

INFORMATION ON THE SELF-EVALUATION OF THE SUPERVISORY BOARD

(C-Rule 36 Austrian CCG)

For self-evaluation, the supervisory board created a working group in March 2012 to look at the activities and efficiency of the supervisory board. The supervisory board considered the proposals of the working group and approved them on 27 June 2012.

INFORMATION ON THE WORKING METHODS OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD

(section 243b par. 2 Austrian Commercial Code)

Management board

The management board of Erste Group Bank AG manages the company on its own responsibility. Its purpose is to pursue the welfare of the company and the interests of the shareholders and employees. 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. When reaching its decisions, the management board takes into account all relevant legal provisions, the rules of the articles of association and its internal rules of procedure.

Supervisory board

The supervisory board advises the management board in its strategic planning and actions. It takes part in the decisions as stipulated by law, the articles of association and its internal rules of procedure. The supervisory board has the task of supervising the management board in the management of the company.

DISTRIBUTION OF RESPONSIBILITIES ON THE MANAGEMENT BOARD

(C-Rule 16 Austrian CCG)

As of 1 February 2012

Andreas Treichl (Chairman)

Strategy & Participation Management, Group Secretariat, Group Communications, Group Investor Relations, Group Human Resources, Group Audit, Group Marketing, Employees' Council, Group Retail

Franz Hochstrasser (Vice Chairman)

Group Capital Markets, Group Research, Group Investment Banking, Group Large Corporates Banking, Steering & Services, Erste Group Immorent Client, Industries and Infrastructure

Herbert Juranek

Group Organisation/IT, Group Operations/Markets, Group Operations Retail and Corporate, Group Services

Gernot Mittendorfer

Group Strategic Risk Management, Group Corporate Risk Management, Group Retail Risk Management, Group Corporate Workout, Group Compliance Legal & Security

Manfred Wimmer

Group Accounting, Group Performance Management,
Group Balance Sheet Management

As of 27 November 2012

Andreas Treichl (Chairman)

Group Strategy & Participation Management, Group Secretariat, Group Communications, Group Investor Relations, Group Human Resources, Group Audit, Group Brands, Employees' Council

Franz Hochstrasser (Vice Chairman)

Group Large Corporates Banking, Erste Group Immorent Client, Industries and Infrastructure, Group Capital Markets, Group Research, Group Investment Banking, Steering & Operating Office Markets, Steering & Operating Office Large Corporates/ Erste Group Immorent

Herbert Juranek

Group Organisation/IT, Group Banking Operations, Group Services

Gernot Mittendorfer

Group Strategic Risk Management, Group Corporate Risk Management, Group Retail Risk Management, Group Corporate Workout, Group Compliance Legal & Security, Erste Group Immorent Real Estate Risk Management, Group Risk Governance and Projects, Quantitative Risk Methodologies

Manfred Wimmer

Group Accounting, Group Performance Management, Group Asset Liability Management

NUMBER AND TYPE OF COMMITTEES OF THE SUPERVISORY BOARD AND THEIR DECISION-MAKING POWERS

(C-Rule 34 Austrian CCG)

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

Risk management committee

The risk management 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 according to the approval authority regulation. It is charged with granting approval to exposures or large exposures pursuant to section 27 of the Austrian Banking Act if such an investment in credit institutions exceeds 10% of the own funds of Erste Group Bank AG or if the investment amounts to at least 10% of the consolidated own funds of the banking group. Within the competence assigned to it, the committee may grant advance approvals to the extent permitted by law. In addition, it is responsible for the supervision of the risk management of Erste Group Bank AG. The supervisory board delegated to the committee the right of approval for the establishment of branches and the right of approval for the granting of special statutory power of attorney (Prokura) or commercial power for the entire operation of the business. The committee is also 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 management committee include the acknowledgement of reports on legal disputes and on the risk impact and costs of major IT projects as well as of reports on important audits of subsidiaries conducted by regulatory authorities.

Executive committee

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

Audit committee

The audit committee is responsible for supervising the accounting process; supervising the effectiveness of the internal controlling system, the internal audit system and the risk management system; supervising the annual audit and the annual group audit; reviewing and supervising the qualification and the independence of the auditor (group auditor); reviewing and preparing the approval of annual financial statements, the proposal for the appropriation of profits, the management report and the corporate governance report and submitting a report on the results of the review to the supervisory board; reviewing the consolidated financial statements of Erste Group and the group management report; preparing the supervisory board's proposal for the selection and revocation of the auditor; the conclusion of the contract with the appointed auditor on the execution of the annual audit and the agreement on the auditor's remuneration; acknowledging prompt information on the focal points of the audit and the right to submit proposals for additional focal points of the audit; acknowledging the audit plan of the company's internal audit; acknowledging information on current matters relevant for the internal audit of Erste Group and on the efficiency and effectiveness of the internal audit; acknowledging the internal auditors' report on the audit topics and important findings on the basis of audits made and the activity report pursuant to section 20 in connection with section 21 par. 2 of the Austrian Securities Supervisory Act (Wertpapieraufsichtsgesetz); acknowledging immediate information on important findings of the auditor, the internal audit or an audit by a regulatory authority; acknowledging immediate information on cases of damage that could exceed 5% of the consolidated equity or 10% of the budgeted net result; acknowledging reports of the management board on current developments and compliance regarding corporate governance and anti-money laundering; acknowledging the compliance activity report pursuant to section 18 in connection with section 21 of the Austrian Securities Supervisory Act (Wertpapieraufsichtsgesetz).

Nomination committee

Meetings of the nomination committee are held as needed or when a member of the committee or the management board requests a meeting. The nomination committee submits proposals to the supervisory board for filling management board mandates that become vacant and deals with issues of succession planning. The committee discusses and decides on the content of employment contracts for members of the management board. It deals with and decides on relationships between the company and the members of the management board except for resolutions to appoint members to the management board or to revoke such appointments and on the granting of stock options. Furthermore, the nomination committee submits proposals to the supervisory board for filling supervisory board mandates that become vacant. Particular attention is given to the members' personal and professional qualifications, a well-balanced composition of the supervisory board in terms of expertise and to diversity.

Remuneration committee

The remuneration committee approves the general principles of the remuneration policy, reviews them regularly and is also responsible for their implementation. The committee monitors remuneration policy, remuneration practices and remuneration-linked incentive programmes. The committee monitors the payment of variable remuneration to members of the management board and to the second management level as well as to management board members of major subsidiaries. Furthermore, the remuneration of top management staff in risk management and in compliance functions is reviewed directly by the remuneration committee. Once a year, the committee is presented with a comprehensive report on the remuneration system including key performance indicators as well as a report on the situation regarding personnel and management in the Group.

Construction committee

The construction committee is responsible for advising the management board and for preparing resolutions to be adopted by the supervisory board with respect to Erste Campus, the future headquarters of Erste Group. The supervisory board may assign further tasks to the committee, if necessary.

INFORMATION ON THE NUMBER OF MEETINGS OF THE SUPERVISORY BOARD DURING THE REPORTING YEAR AND REPORT ON THE FOCUS OF ITS ACTIVITIES

(C-Rule 36 Austrian CCG)

Six meetings of the supervisory board were held in the financial year 2012.

At each ordinary meeting of the supervisory board, the monthly developments of the balance sheet and the income statement were presented and reports were given on different types of risk and the bank's overall risk, on the individual status of the banking subsidiaries in Central and Eastern Europe as well as on the audit subjects and the material findings of the internal audit department. The chairpersons of the committees reported on the main topics dealt with by the committees since the last supervisory board meeting. A topic repeatedly discussed at supervisory board meetings was the respective status of the future banking supervisory regime at the European level and in Austria and its implications for Erste Group. Proposals to the management board that require the approval of the supervisory board by law, the articles of association and the rules of procedure are presented regularly to the supervisory board.

At the extraordinary meeting on 30 January 2012, responsibilities were reassigned and new rules of representation defined following the reduction of the management board members from seven to five in accordance with a resolution passed in December 2011.

On 14 March 2012, the financial statements and the management report 2011, the consolidated financial statements and management report 2011 as well as the corporate governance report 2011 were reviewed; the bank auditors' reports were discussed, the financial statements 2011 were adopted in accordance with the recommendation of the audit committee, and the proposal for the distribution of the profit 2011 was approved. The annual compliance report was presented, and the report of the supervisory board and the proposals for resolutions to be taken at the Annual General Meeting were approved.

At the constituent meeting on 15 May 2012 after the Annual General Meeting, the chairman of the supervisory board and the vice chairpersons were elected, the committees of the supervisory board were newly appointed, and the distribution key for the remuneration of supervisory board members resolved at the Annual General Meeting was adopted.

On 27 June 2012, the findings of a working group set up by the supervisory board to deal with the activities and the efficiency of the supervisory board were discussed. The rules of procedure of the supervisory board and its committees were amended in line with these findings and appointments to supervisory board committees adapted accordingly. The report on major participations for 2011 and the first quarter of 2012 were discussed as well.

On 19 September 2012, the situation at three major subsidiaries was discussed in detail and information on directors' dealings was presented.

On 12 December 2012, the budget and the investment plan 2013 of Erste Group Bank AG were approved and a report on the consolidated budget for the year 2013 was presented. Information was provided on anti-corruption measures in the Group and cost reduction plans were discussed. At this meeting, the supervisory board passed the resolution in principle to sell Erste Bank Ukraine and authorised the executive committee to take the final decision within the set price range.

INFORMATION ON THE NUMBER OF MEETINGS OF COMMITTEES DURING THE REPORTING YEAR AND REPORT ON THEIR ACTIVITIES

(C-Rule 39 Austrian CCG)

The risk management committee held seventeen meetings in 2012, at which it regularly took decisions on exposures and loans exceeding the powers of the management board and was briefed on loans granted within the scope of authorisation of the management board. The committee was regularly informed on different types of risk, risk-bearing capacity and large exposures. Special reports were delivered on the situation of specific sectors and industries, on audits conducted by supervisory authorities and various legal disputes as well as on risk development in individual countries and subsidiaries, on the activities of Group Compliance and on the new supervisory regime at the European level and in Austria.

The strategy committee met for the last time in 2012. At this meeting, it focused in particular on the future format of supervisory board and committee meetings.

The executive committee, which was newly set up in 2012, met once in 2012 within the scope of the powers assigned to it by the supervisory board to reach a decision on the sale of Erste Bank Ukraine. Information on the sale was published as an ad hoc release on 20 December 2012.

The audit committee held four meetings in 2012. Among other things, the auditors reported on the status of the audit of the financial statements and consolidated financial statements. After a bidding process, the decision was taken, subject to approval by the supervisory board, to propose Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H. to the Annual General Meeting as an additional auditor of the (consolidated) financial statements for the financial year 2013. The supervisory board approved this proposal at its next meeting. The audit committee conducted its final discussions. The financial statements and the management report, the consolidated financial statements and the consolidated management report as well as the corporate governance report were reviewed and recommended to the supervisory board for adoption, and the proposal of the management board for distribution of the net profit for the financial year 2011 was acknowledged. The head of the internal audit department reported on the audit subjects and the key findings of the audit for the year 2011 and explained the audit plan for 2012. The internal audit department presented its reports pursuant to section 42 par. 3 of the Austrian Banking Act (Bankwesengesetz). The audit committee also discussed its work plan and defined which topics were to be included on the agendas of which of its meetings.

The nomination and remuneration committee was divided into two committees in 2012: into the nomination committee and the remuneration committee. There was no reason that required a meeting of the nomination committee in 2012. The remuneration committee met twice after the separation of the two committees and discussed various remuneration issues relating to Erste Group and its subsidiaries including the structure of key performance indicators and the bonus policy, and was informed on continuing professional development and succession programmes.
The construction committee met four times in 2012. The main topics discussed were project plan, project organisation, budget, costs and risks as well as procedure for tenders, deadlines and connected developments for Erste Campus, the planned new headquarters of Erste Group at the future central station in Vienna.

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

(section 243b Austrian Commercial Code)

Ever since the bank's foundation, diversity has played a major role in its organisation and has been firmly embedded in Erste Group's corporate philosophy. Erste Group promotes equal opportunity and diversity in particular with regard to gender, age and ethnicity.
The representation of women and men in management positions continues to be a key topic. Erste Group has been working consistently and steadily on improving the gender balance in management positions. In 2012, 54% of new appointments to management positions were women. Local initiatives underline the importance of this issue, among them projects initiated by Erste Bank Oesterreich: WoMen Potential (supporting women pursuing specialist careers) and WoMen in Leadership (aimed at raising the proportion of women in management from currently 30% to 40% over the next five years).

Erste Group is committed to continuing to implement measures designed to enhance equality of opportunity. Extensive debates at management board level on the impact of gender diversity on Group management led to the launch of a group-wide Diversity and Inclusion Initiative. It is based in part on experiences and practices at Česká spořitelna, which has received multiple Equal Opportunity and Diversity Awards. To underline the importance of this issue and his personal commitment, Andreas Treichl is supporting the initiative as project sponsor.

DISCLOSURE OF INFORMATION ON THE REMUNERATION OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD

Remuneration of the management board
(C-Rules 30 and 31 Austrian CCG)

Remuneration in the financial year 2012

in EUR thousand	Fixed salaries	Other compensation	Performance-linked compensation for previous years	Total
Andreas Treichl	1,236.7	470.9	0	1,707.6
Franz Hochstrasser	690.6	164.4	0	855.0
Herbert Juranek	631.2	60.9	0	692.1
Manfred Wimmer	631.2	163.4	0	794.6
Gernot Mittendorfer	599.2	55.0	0	654.2
	3,788.9	**914.6**	**0**	**4,703.5**

The item "other compensation" comprises pension fund contributions (at severance payments – new) and various other forms of compensation.

Performance-linked compensation

Since the financial year 2010, the variable part of the compensation of the management board members is distributed over five years in accordance with legal requirements and is paid out only under specific conditions. For the financial year 2011, no performance-linked compensation was paid to the management board. No performance-linked compensation for previous years was paid out in 2012. Neither were any commitments made to pay share-equivalents to management board members.

Long-term incentive programmes

Currently, two long-term incentive programmes (LTI) are run, which are based on changes in the share price of Erste Group Bank AG versus a group of peers and the Dow Jones Euro Stoxx Banks. The final payout under the LTI 2007 programme was made in 2012. The LTI 2010 was started on 1 January 2010 and also runs for four years. In accordance with its terms, the following payments were made in 2012:

in EUR thousand	LTI 2007	LTI 2010	Total
Andreas Treichl	240.9	0	240.9
Franz Hochstrasser	60.2	84.0	144.2
Herbert Juranek	60.2	84.0	144.2
Manfred Wimmer	0	84.0	84.0
Gernot Mittendorfer	0	0	0
	361.3	**252.0**	**613.3**

Bernhard Spalt and Martin Škopek left the management board effective 31 January 2012. Bernhard Spalt received EUR 52,600 in fixed and EUR 5,600 in other compensation. Martin Škopek received EUR 75,000 in fixed and EUR 35,100 in other compensation. Martin Škopek received EUR 42,000 and Bernhard Spalt EUR 144,200 under the LTI programmes.

Principles of the pension scheme for management board members

The members of the management board participate in the defined contribution pension plan of Erste Group according to the same principles as the employees of the Group. If a management board member's tenure ends before he or she reaches the age of 65 by no fault of the member, then for three of the management board members the corresponding compensatory payments are made to the pension fund.

Principles for eligible time periods and benefit entitlements of the management board members in the case of termination of the position

Regarding benefit entitlements of management board members in the event of termination of their position, the standard legal termination benefit conditions of section 23 of the Austrian Salaried Employees Act (Angestelltengesetz) apply for two members of the management board. All other members of the management board are not entitled to receive any termination benefits.

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

Disclosure of remuneration paid to each member of the supervisory board in the financial year
(C-Rule 51 Austrian CCG)

in EUR thousand	Meeting fees for 2012	Supervisory board compensation for 2011	Total
Friedrich Rödler	36.0	50.0	86.0
Georg Winckler	31.0	75.0	106.0
Theresa Jordis	29.0	75.0	104.0
Bettina Breiteneder	19.0	50.0	69.0
Jan Homan	10.0	50.0	60.0
Wilhelm Rasinger	27.0	50.0	77.0
Werner Tessmar-Pfohl	12.0	50.0	62.0
Brian D. O´Neill	7.0	50.0	57.0
John James Stack	6.0	50.0	56.0
Juan María Nin Génova	5.0	50.0	55.0
Heinz Kessler	14.0	100.0	114.0
Elisabeth Gürtler	2.0	50.0	52.0
Friedrich Lackner	0	0	0
Andreas Lachs	0	0	0
Bertram Mach	0	0	0
Barbara Smrcka	0	0	0
Karin Zeisel	0	0	0
Markus Haag	0	0	0
	198.0	**700.0**	**898.0**

The Annual General Meeting 2012 granted the members of the supervisory board compensation totalling EUR 700,000 for the financial year 2011, whereby the distribution of this compensation is at the discretion of the supervisory board. In addition, meeting fees are paid to the members of the supervisory board; these were set at EUR 1,000 per meeting of the supervisory board or one of its committees.

Directors and officers insurance
Erste Group Bank AG has directors and officers liability insurance. The insurance policy covers former, current and future members of the management board or managing directors, the supervisory board, the administrative board, the advisory board and senior employees, authorised signatories and management staff of Erste Group Bank AG and the subsidiaries in which Erste Group Bank AG holds more than 50% of the shares or voting rights either directly or indirectly through one or more subsidiaries. The costs are borne by the company.

REPORT ON THE EXTERNAL EVALUATION
(R-Rule 62 Austrian CCG)

Erste Group Bank AG commissioned an external evaluation of compliance with the Code of Corporate Governance in the years 2006, 2009 and 2012 for the respective preceding business years. All evaluations reached the conclusion that Erste Group Bank AG had met all requirements of the Code. Summary reports on these evaluations are available at the website of Erste Group Bank AG.

SHAREHOLDERS' RIGHTS
Voting rights
Each share of Erste Group Bank AG entitles its holder to one vote at the Annual General Meeting. In general, shareholders may pass resolutions at an Annual General Meeting by a simple majority of the votes cast or, in the event that the majority of the share capital present is required to approve a measure, by a simple majority of the share capital present, unless Austrian law or the articles of association require a qualified majority vote.

The articles of association differ from the statutory majority requirements in three cases. First, the appointment of supervisory board members can be revoked before the end of their respective term by a resolution of the Annual General Meeting that requires a majority of 75% of the votes cast and a majority of 75% of the share capital present at such meeting. Second, the articles of association may be amended, provided that such amendment does not concern the business purpose, by a resolution of the Annual General Meeting that requires a simple majority of the votes cast and a simple majority of the share capital present at such meeting. Third, each provision regulating increased majority requirements can only be amended with the same increased majority.

Dividend rights
Each shareholder is entitled to receive dividends, if and to the extent the distribution of dividends is resolved by the Annual General Meeting.

Liquidation proceeds
In case of dissolution of Erste Group Bank AG, the assets remaining after the discharge of liabilities and supplementary capital will be distributed pro-rata to the shareholders and the holders of participation capital securities. The dissolution of Erste Group Bank AG requires a majority of at least 75% of the share capital present at an Annual General Meeting.

Subscription rights
In principle, holders of shares have subscription rights allowing them to subscribe to any newly issued shares to maintain their existing share in the share capital of Erste Group Bank AG. Such subscription rights are in proportion to the number of shares held by such shareholders prior to the issue of the new shares. The aforementioned subscription rights do not apply if the respective shareholder does not exercise his or her subscription rights, or the subscription rights are excluded by a resolution of the Annual General Meeting or in certain cases by a resolution of the management board and the supervisory board.

The Austrian Stock Corporation Act contains provisions that protect the rights of individual shareholders. In particular, all shareholders must, under equal circumstances, be treated equally, unless the affected shareholders have consented to unequal treatment. Furthermore, measures affecting shareholders' rights, such as capital increases and the exclusion of subscription rights, generally require a shareholders' resolution.

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

Stock corporations like Erste Group Bank AG must hold at least one Annual General Meeting per year (ordinary shareholders' meeting), which must be held within the first eight months of any financial year and cover at least the following issues:
- _Presentation of certain documents
- _Distribution of the annual profit
- _Granting of discharge to the members of the management board and supervisory board for the preceding financial year.

Vienna, 28 February 2013

Management Board

Andreas Treichl mp
Chairman

Franz Hochstrasser mp
Vice Chairman

Herbert Juranek mp
Member

Gernot Mittendorfer mp
Member

Manfred Wimmer mp
Member

ADDITIONAL CORPORATE GOVERNANCE PRINCIPLES

Compliance

The responsibility for all compliance issues at Erste Group rests with Group Compliance, Legal and Security, reporting directly to the Chief Risk Officer. The compliance rules of Erste Group are based on the relevant legislation, such as the Austrian Stock Exchange Act and the Securities Supervision Act; on the Standard Compliance Code of the Austrian banking industry as well as on international practices and standards. Conflicts of interest between our customers, Erste Group and employees are covered by clear rules regarding "Chinese walls", provisions on employee transactions, research disclaimer, gift policy etc. Further key topics are procedures and measures to prevent money laundering and terrorist financing and to monitor sanctions and embargoes, as well as the establishment and coordination of measures to prevent financial crimes within Erste Group.

Directors' dealings

In accordance with the Austrian Stock Exchange Act and the Issuer Compliance Regulation of the Austrian Financial Market Authority (FMA), individual trades by members of the management board and supervisory board in Erste Group shares are published on the websites of Erste Group (www.erstegroup.com/investorrelations) and the FMA.

Transparency

Investor confidence in public companies is essential to the functioning of the global economy. Transparent operations and reporting play a crucial part in establishing and upholding confidence. Accordingly, it is one of the main goals of Erste Group and its investors that the financial results fairly reflect the results of its operations. Erste Group has always been diligent in maintaining compliance with its established financial accounting policies, which are consistent with the requirements of the International Financial Reporting Standards (IFRS), and in reporting its results with objectivity and the highest degree of integrity.

Risk management

Erste Group's approach to risk management seeks to achieve the best balance between risks and returns for earning a sustained high return on equity. A detailed report on risk policy, risk management strategy and organisation, as well as a thorough discussion of the individual risk categories, are included in the Notes beginning on page 147. In addition, credit risk is analysed in detail in a separate section starting on page 27, in the "Segments" section of this report.

Accounting and auditors

The company financial statements, company management report, consolidated financial statements and group management report of Erste Group Bank AG for the financial year 2012 were audited by Sparkassen-Prüfungsverband as the legally mandated auditor and by Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H., appointed by the Annual General Meeting, as the supplementary auditor.

Your Notes

Your Notes

Group Consolidated Financial Statements 2012 (IFRS)

I. Group Statement of Comprehensive Income of Erste Group for the Year ended 31 December 2012

Income statement

in EUR thousand	Notes	2012	2011
Interest and similar income		8,795,123	9,350,593
Interest and similar expenses		(3,576,224)	(3,789,576)
Income from equity method investments		16,403	7,952
Net interest income	1	5,235,302	5,568,969
Risk provisions for loans and advances	2	(1,979,970)	(2,266,877)
Fee and commission income		2,245,712	2,298,233
Fee and commission expenses		(524,878)	(510,997)
Net fee and commission income	3	1,720,834	1,787,236
Net trading result	4	273,410	122,330
General administrative expenses	5	(3,756,673)	(3,850,904)
Other operating result	6	(724,306)	(1,589,851)
Result from financial instruments - at fair value through profit or loss	7	(3,600)	306
Result from financial assets - available for sale	8	56,159	(66,253)
Result from financial assets - held to maturity	9	(19,939)	(27,084)
Pre-tax profit/loss		**801,217**	**(322,128)**
Taxes on income	10	(170,207)	(240,440)
Net profit/loss for the year		**631,010**	**(562,568)**
attributable to			
non-controlling interests		147,533	156,332
owners of the parent	**11**	**483,477**	**(718,900)**

Earnings per share

Earnings per share constitute net profit/loss for the year attributable to owners of the parent - adjusted for dividend on participation capital in the amount of EUR 141.1 million (2011: EUR 141.1 million) - divided by the average number of ordinary shares outstanding. Diluted earnings per share represent the maximum potential dilution (through an increase in the average number of shares) which would occur if all subscription and conversion rights granted were exercised (also see Note 30, Total equity).

		2012	2011
Net profit/loss for the year attributable to owners of the parent	in EUR thousand	483,477	(718,900)
Dividend on participation capital		(141,100)	(141,100)
Net profit/loss for the year attributable to owners of the parent after deduction of dividend on participation capital		342,377	(860,000)
Weighted average number of shares outstanding	Number	391,631,603	377,670,141
Earnings per share	**in EUR**	**0.87**	**(2.28)**
Weighted average number of shares taking into account the effect of dilution	Number	393,823,929	377,670,141
Diluted earnings per share	in EUR	0.87	(2.28)

Statement of comprehensive income

in EUR thousand	2012		2011	
Net profit/loss for the year		**631,010**		**(562,568)**
Other comprehensive income				
Available for sale-reserve (including currency translation)		975,888		(64,617)
Gain/loss during the year	1,237,929		(30,739)	
Reclassification adjustments	(262,041)		(33,878)	
Cash flow hedge-reserve (including currency translation)		(3,411)		30,567
Gain/loss during the year	33,744		67,094	
Reclassification adjustments	(37,155)		(36,527)	
Actuarial gains and losses		(45,911)		(42,651)
Currency translation		16,218		(232,947)
Deferred taxes on items recognised in other comprehensive income		(183,909)		23,049
Gain/loss during the year	(184,396)		23,502	
Reclassification adjustments	487		(453)	
Total other comprehensive income		**758,875**		**(286,599)**
Total comprehensive income		**1,389,885**		**(849,167)**
attributable to				
non-controlling interests		479,077		124,250
owners of the parent		**910,808**		**(973,417)**

II. Group Balance Sheet of Erste Group as of 31 December 2012

in EUR thousand	Notes	2012	2011 amended[1)]	01.01.2011 amended[1)]
ASSETS				
Cash and balances with central banks	12	9,740,458	9,412,879	5,839,384
Loans and advances to credit institutions	13	9,074,069	7,577,654	12,496,460
Loans and advances to customers	14	131,927,528	134,749,509	132,334,114
Risk provisions for loans and advances	15	(7,643,724)	(7,027,331)	(6,119,058)
Derivative financial instruments	16	13,289,392	10,930,814	8,507,929
Trading assets	17	5,177,984	5,875,838	5,535,543
Financial assets - at fair value through profit or loss	17	715,800	1,813,055	2,434,158
Financial assets - available for sale	17	22,417,659	20,245,339	17,751,115
Financial assets - held to maturity	17	18,974,725	16,073,575	14,234,700
Equity method investments	18	174,099	173,116	223,497
Intangible assets	19	2,893,886	3,531,968	4,674,578
Property and equipment	19	2,227,859	2,360,804	2,445,580
Investment property	19	1,022,911	1,139,251	1,163,083
Current tax assets	20	127,634	115,667	116,474
Deferred tax assets	20	657,508	701,886	616,775
Assets held for sale	21	708,119	87,179	52,461
Other assets	22	2,338,089	2,245,131	3,463,245
Total assets		**213,823,996**	**210,006,334**	**205,770,038**
LIABILITIES AND EQUITY				
Deposits by banks	23	21,822,081	23,785,284	20,153,934
Customer deposits	24	123,052,912	118,880,197	117,016,323
Debt securities in issue	25	29,427,347	30,781,595	31,298,536
Value adjustments from Portfolio fair value hedges		1,219,997	914,665	501,955
Derivative financial instruments	16	10,878,380	9,336,614	8,398,818
Trading liabilities	26	480,995	535,552	215,698
Provisions	27	1,487,745	1,580,114	1,544,549
Current tax liabilities	20	53,022	33,729	68,367
Deferred tax liabilities	20	323,507	344,759	328,062
Other liabilities	28	3,077,264	2,851,290	3,847,722
Liabilities associated with assets held for sale	21	338,870	0	0
Subordinated liabilities	29	5,323,358	5,782,574	5,838,041
Total equity	30	16,338,518	15,179,961	16,558,033
attributable to				
non-controlling interests		3,483,213	3,142,895	3,443,621
owners of the parent		12,855,305	12,037,066	13,114,412
Total liabilities and equity		**213,823,996**	**210,006,334**	**205,770,038**

1) Due to reclassification of 'investment property' from 'other assets' and 'value adjustments from portfolio fair value hedges' from 'other liabilities' in separate positions.

III. Group Statement of Changes in Total Equity

A) GROUP STATEMENT OF CHANGES IN TOTAL EQUITY FOR THE YEAR ENDED 31 DECEMBER 2012

in EUR million	Subscribed capital	Additional paid-in capital	Retained earnings	Cash flow hedge reserve	Available for sale reserve	Currency translation	Deferred tax[2]	Total owners of the parent	Non-controlling interests	Total equity
Total equity as of 31 December 2011	**2,539**	**6,413**	**3,830**	**35**	**(316)**	**(541)**	**77**	**12,037**	**3,143**	**15,180**
Changes in treasury shares			(7)					(7)		(7)
Purchase			(455)					(455)		(455)
Sale			466					466		466
Result			(18)					(18)		(18)
Dividends			(141)					(141)	(38)	(179)
Capital increases[1]	8	59						67		67
Participation capital			0					0		0
Purchase			(5)					(5)		(5)
Sale			5					5		5
Result			0					0		0
Change in interest in subsidiaries			0					0	(101)	(101)
Acquisition of non-controlling interest			(12)					(12)		(12)
Total comprehensive income	0	0	457	6	543	(14)	(81)	911	479	1,390
Net profit/loss for the year			483					483	148	631
Other comprehensive income			(26)	6	543	(14)	(81)	428	331	759
Total equity as of 31 December 2012	**2,547**	**6,472**	**4,127**	**41**	**227**	**(555)**	**(4)**	**12,855**	**3,483**	**16,338**

1) Capital increase in connection with the issue of new ordinary shares for the acquisition of additional shares in Banca Comercială Română SA.
2) For disclosure of tax effects relating to each component of other comprehensive income, see Note 10.

For further details, see Note 30 Total equity.

B) GROUP STATEMENT OF CHANGES IN TOTAL EQUITY FOR THE YEAR ENDED 31 DECEMBER 2011

in EUR million	Sub-scribed capital	Addi-tional paid-in capital	Retained earnings	Cash flow hedge reserve	Available for sale reserve	Currency trans-lation	Deferred tax[2]	Total owners of the parent	Non-controlling interests	Total equity
Total equity as of 31 December 2010	**2,513**	**6,177**	**4,939**	**11**	**(278)**	**(312)**	**64**	**13,114**	**3,444**	**16,558**
Changes in treasury shares			(27)					(27)		(27)
Purchase			(731)					(731)		(731)
Sale			681					681		681
Result			23					23		23
Dividends			(405)					(405)	(36)	(441)
Capital increases[1]	26	236						262		262
Participation capital			0					0		0
Purchase			(4)					(4)		(4)
Sale			4					4		4
Result								0		0
Change in interest in subsidiaries								0	(389)	(389)
Acquisition of non-controlling interest			67					67		67
Total comprehensive income	0	0	(744)	24	(38)	(229)	13	(974)	124	(850)
Net profit/loss for the year			(719)					(719)	156	(563)
Other comprehensive income			(25)	24	(38)	(229)	13	(255)	(32)	(287)
Total equity as of 31 December 2011	**2,539**	**6,413**	**3,830**	**35**	**(316)**	**(541)**	**77**	**12,037**	**3,143**	**15,180**

1) Capital increase in connection with ESOP (Employees Share Option Plan) was EUR 8 million and in connection with issuance of new ordinary shares related to acquisition of additional shares in Banca Comercială Română SA was EUR 256 million (see section V.B.). Costs in relation to the capital increase reduced the equity by EUR 2 million.

2) For disclosure of tax effects relating to each component of other comprehensive income, see Note 10.

IV. Group Cash Flow Statement

in EUR million	2012	2011
Net profit/loss for the year	**631**	**(563)**
Non-cash adjustments for items in net profit/loss for the year		
Depreciation, amortisation, impairment and reversal of impairment, revaluation of assets	1,112	1,608
Allocation to and release of provisions (including risk provisions)	2,131	2,400
Gains/(losses) from the sale of assets	227	23
Other adjustments	(416)	(132)
Changes in assets and liabilities from operating activities after adjustment for non-cash components		
Loans and advances to credit institutions	(1,496)	4,529
Loans and advances to customers	2,822	(1,744)
Trading assets and positive market value from derivative financial instruments	(1,660)	(2,763)
Financial assets - at fair value through profit or loss	778	609
Financial assets - available for sale	(1,605)	(2,539)
Other assets from operating activities	(1,645)	17
Deposits by banks	(1,963)	3,457
Customer deposits	4,173	1,803
Debt securities in issue	(1,337)	(517)
Trading liabilities and negative market values from derivative financial markets	1,486	1,228
Other liabilities from operating activities	724	(695)
Cash flow from operating activities	**3,962**	**6,721**
Proceeds of disposal		
Financial assets - held to maturity and associated companies	3,682	2,507
Property and equipment, intangible assets and investment properties	474	171
Acquisition of		
Financial assets - held to maturity and associated companies	(6,842)	(4,573)
Property and equipment, intangible assets and investment properties	(727)	(534)
Acquisition of subsidiaries (net of cash and cash equivalents acquired)	0	(29)
Cash flow from investing activities	**(3,413)**	**(2,458)**
Capital increases	67	8
Acquisition of non-controlling interest	(38)	(88)
Dividends paid to equity holders of the parent	(141)	(405)
Dividends paid to non-controlling interests	(38)	(36)
Other financing activities (mainly changes of subordinated liabilities)	(65)	(55)
Cash flow from financing activities	**(215)**	**(576)**
Cash and cash equivalents[1] at beginning of period	**9,413**	**5,839**
Cash flow from operating activities	3,962	6,721
Cash flow from investing activities	(3,413)	(2,457)
Cash flow from financing activities	(215)	(576)
Effect of currency translation	(7)	(114)
Cash and cash equivalents[1] at end of period	**9,740**	**9,413**
Cash flows related to taxes, interest and dividends	**5,066**	**5,329**
Payments for taxes on income (included in cash flow from operating activities)	(170)	(240)
Interest received	8,691	9,236
Dividends received	121	123
Interest paid	(3,576)	(3,790)

1) Cash and cash equivalents are equal to cash in hand and balances held with central banks.

V. Notes to the Group Financial Statements of Erste Group

A. GENERAL INFORMATION

Erste Group Bank AG is Austria's oldest savings bank and the largest wholly privately owned Austrian credit institution listed on the Vienna Stock Exchange. It is also quoted on the Prague Stock Exchange (since October 2002) and on the Bucharest Stock Exchange (since 14 February 2008). The registered office of Erste Group Bank AG is located at Graben 21, 1010 Vienna, Austria.

Erste Group offers a complete range of banking and other financial services, such as savings accounts, asset management (including investment funds), consumer credit and mortgage lending, investment banking, securities and derivatives trading, portfolio management, project finance, foreign trade financing, corporate finance, capital market and money market services, foreign exchange trading, leasing and factoring.

It is planned for the Management (following a presentation to the supervisory board) to approve the consolidated financial statements for publication on 28 February 2013.

The Group is subject to the regulatory requirements of Austrian (National Bank, FMA) and European supervisory bodies. These regulations include those pertaining to minimum capital adequacy requirements, categorization of exposures and off-balance sheet commitments, credit risk connected with clients of the Group, liquidity, and interest rate risk, foreign currency positions and operating risk.

In addition to the banking entities, other Group companies are subject to regulatory requirements, specifically in relation to retirement and collective investment.

B. SIGNIFICANT ACCOUNTING POLICIES

a) BASIS OF PREPARATION

The consolidated financial statements of Erste Group for the 2012 financial year and the comparative information were prepared in compliance with applicable International Financial Reporting Standards (IFRS) as adopted by the European Union on the basis of IAS Regulation (EC) No. 1606/2002. This satisfies the requirements of Section 59a of the Austrian Banking Act and Section 245a of the Austrian Commercial Code.

The consolidated financial statements have been prepared on a cost basis, except for available-for-sale financial assets, derivative financial instruments, financial assets and liabilities held for trading and financial assets and liabilities designated at fair value through profit or loss, all of which have been measured at fair value.

The consolidated financial statements have been prepared on a going concern basis.

Except as otherwise indicated, all amounts are stated in millions of euro. The tables in this report may contain rounding differences.

b) BASIS OF CONSOLIDATION

Subsidiaries

All subsidiaries directly or indirectly controlled by Erste Group Bank AG are consolidated in the group financial statements on the basis of the subsidiaries' annual accounts as of 31 December 2012 and for the year then ended.

Subsidiaries are consolidated from the date upon which control is transferred to the bank. Control is achieved when the bank has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the date of acquisition or up to the date of disposal. The financial statements of the bank's subsidiaries are prepared for the same reporting year as that of Erste Group Bank AG and using consistent accounting policies. All intra-group balances, transactions, income and expenses as well as unrealised gains and losses and dividends are eliminated. Non-controlling interests represent those portions of total comprehensive income and net assets which are not attributable directly or indirectly to the owners of the Erste Group Bank AG. Non-controlling interests are presented separately in the consolidated statement of comprehensive income and within equity in the consolidated balance sheet.

Acquisitions of non-controlling interests as well as disposals of non-controlling interests that do not lead to a change of control are accounted for as equity transactions, whereby the difference between the consideration transferred and the share in the carrying amount of the net assets acquired is recognised as equity.

Erste Group Bank AG is a member of the Haftungsverbund (cross-guarantee system) of the Austrian savings bank sector. As of the balance sheet date almost all of Austria's savings banks, in addition to Erste Group Bank AG and Erste Bank der oesterreichischen Sparkassen AG, formed part of this Haftungsverbund. The provisions of the agreement governing the Haftungsverbund are implemented by the steering company Haftungsverbund GmbH. Erste Group Bank AG always holds indirectly at least 51% of the subscribed capital of the steering company, through Erste Bank der oesterreichischen Sparkassen AG. Two of the four members of the steering company's management, including the CEO, who has the casting vote, are appointed by Erste Bank der oesterreichischen Sparkassen AG. The steering company is vested with the power to monitor the common risk policies of its members. If a member encounters serious financial difficulties – and specific key indicators are continually monitored – the steering company has the mandate to provide support measures and/or to intervene, as required, in the business management of the affected member savings bank. As Erste Group Bank AG owns the controlling interest in the steering company, it exercises control over the members of the cross-guarantee system. In accordance with IFRS, all Haftungsverbund members are therefore fully consolidated.

Investments in associates

Investments in companies over which Erste Group Bank AG exercises significant influence ('associates') are accounted for under the equity method. As a general rule, significant influence is presumed to mean an ownership interest of between 20% and 50%. Under the equity method, an interest in an associate is recognised in the balance sheet at cost plus post-acquisition changes in the Group's share of the net assets of the entity. The Group's share of the associate's profit or loss is recognised in the income statement. Entities accounted for under the equity method are recognised on the basis of annual financial statements as of 31 December 2012 and for the year then ended.

Acquisitions in 2012

Banca Comercială Română SA

Erste Group raised its participation in Banca Comercială Română SA from 89.9% by 3.4 percentage points to 93.3% by acquisition of shares from owners of non-controlling interests.

Consideration for acquisition of 3.4% of the voting shares paid out to the owners of the non-controlling interests in Banca Comercială Română SA amounted to EUR 75.6 million. Consideration of EUR 8.6 million was settled in cash and EUR 67.0 million was settled by issuance of Erste Group Bank shares.

The carrying amount for the additional acquired shares was EUR 75.5 million. The EUR 0.1 million difference between the costs of acquisition and the carrying amount resulting from the acquired shares was recognised in equity in retained earnings.

Based on written options existing at the end of 2011, in February 2012 a total of 3,801,385 new Erste Group Bank AG shares were issued in the amount of EUR 67 million and the put option in the amount of EUR 29 million was exercised in cash.

Acquisitions in 2011

Intermarket Bank AG

Erste Bank der österreichischen Sparkassen AG, Wien increased its 22.38% share of Intermarket Bank AG, Wien by 66.24% to 88.62%.

With the existing shares of Kärntner Sparkasse Aktiengesellschaft, Klagenfurt of approximately 4.38% and of Steiermärkische Bank und Sparkassen Aktiengesellschaft, Graz of 7.00%, Erste Group owns 100% (91.46% directly) of Intermarket Bank AG, Wien.

Intermarket Bank AG, Wien was fully consolidated in the financial statements of Erste Group with effect from 1 August 2011.

The purchase price for the acquisition of the shares of Intermarket Bank AG, Wien was about EUR 28.9 million and was paid in cash.

Measured at fair value, the identifiable assets acquired and liabilities assumed had the following composition at the time of initial consolidation:

in EUR million	Carrying amount	Fair value adjustment	Fair value
Loans and advances to credit institutions	7.5	0.0	7.5
Loans and advances to customers	276.6	0.0	276.6
Risk provisions for loans and advances	(5.5)	0.0	(5.5)
Property and equipment	2.2	0.0	2.2
Other assets	5.6	1.4	7.0
ASSETS	**286.4**	**1.4**	**287.8**
Deposits by banks	173.6	0.0	173.6
Customer deposits	60.8	0.0	60.8
Other liabilities	10.4	0.0	10.4
Total equity	41.6	1.4	43.0
LIABILITIES AND EQUITY	**286.4**	**1.4**	**287.8**

Taking into account identifiable equity of EUR 43.0 million and the EUR 7.6 million fair value for the share of Intermarket Bank AG, Wien held by Erste Group immediately before the acquisition date the transaction resulted in negative goodwill in the amount of EUR 2.8 million. This was recognised directly in other operating result.

The book value of the non-controlling interest is EUR 3.7 million.

Due to remeasurement to fair value of the equity interest held before the business combination, Erste Group recognised a loss of EUR 1.1 million directly in other operating result.

The contribution of Intermarket Bank AG, Wien to the operating income of Erste Group since the time of initial consolidation was EUR 6.8 million; its contribution to net profit/loss attributable to owners of the parent was EUR (0.8) million. Had Intermarket Bank AG, Wien already been included in Erste Group's consolidated financial statements from 1 January 2011, its contribution to operating income would have been EUR 14.3 million. Likewise, net profit/loss attributable to owners of the parent would have been EUR 6.0 million.

Banca Comercială Română SA

In 2011 Erste Group raised its participation in Banca Comercială Română SA from 69.4% by 20.5 percentage points to 89.9% by capital increase of 6.8% and by acquisition of shares from owners of non-controlling interests of 13.7% .

Consideration for acquisition of 13.7% of the voting shares paid out to the owners of the non-controlling interests in Banca Comercială Română SA amounted to EUR 373 million. Consideration of EUR 88 million was settled in cash and EUR 256 million was settled by issuance of Erste Group Bank shares. Furthermore, a put option for selling additional shares was written to the owners of non-controlling interests. The option resulted in recognition of liability in the amount of EUR 29 million with respect to the cash settlement of the selling price.

The carrying amount for the additional acquired shares was EUR 433 million. The EUR 60 million difference between the costs of acquisition and the carrying amount resulting from the acquired shares was recognised in equity in retained earnings.

c) ACCOUNTING AND MEASUREMENT METHODS

In order to improve transparency, Erste Group has enhanced the balance sheet structure by introducing additional line items 'Investment property and 'Value adjustment for portfolio fair value hedges'. This new presentation is felt to be more appropriate and of greater relevance.

The carrying amount of investment properties previously shown under 'Other assets' is now reported under the single line item 'Investment property'. The comparative figures have been amended as follows:

in EUR million	31.12.2011	01.01.2011
ASSETS		
Other assets	(1,139)	(1,163)
Investment property	1,139	1,163

The carrying amount of value adjustments for portfolio fair value hedges previously shown under 'Other liabilities' is now reported under the single line item 'Value adjustment for portfolio fair value hedges'. The comparative figures have been amended as follows:

in EUR million	31.12.2011	01.01.2011
LIABILITIES AND EQUITY		
Other liabilities	(915)	(502)
Value adjustments from Portfolio fair value hedges	915	502

The changes had no impact on the consolidated statement of comprehensive income.

Foreign currency translation

The consolidated financial statements are presented in euro, which is the functional currency of Erste Group Bank AG. The functional currency is the currency of the primary business environment in which an entity operates. Each entity in the group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

For foreign currency translation, exchange rates quoted by the central banks in each country are used. For group entities with the euro as functional currency, these are the European Central Bank reference rates.

(i) Transactions and balances in foreign currency

Transactions in foreign currencies are initially recorded at the functional currency exchange rate effective as of the date of the transaction. Subsequently, monetary assets and liabilities denominated in foreign currencies are translated at the functional currency exchange rate as of the balance sheet date. All resulting exchange differences that arise are recognised in the income statement in the line 'Net trading result' or in the line 'Result from financial instruments – at fair value through profit or loss'. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as of the dates of the initial transactions.

(ii) Translation of the statements of group companies

Assets and liabilities of foreign operations (foreign subsidiaries and branches) are translated into Erste Group's presentation currency, the euro, at the rate of exchange as of the balance sheet date (closing rate). Their statements of comprehensive income are translated at monthly average exchange rates. Goodwill and intangible assets recognised on acquisition of foreign subsidiaries (i.e. customer relationships and brand) and fair value adjustments to the carrying amounts of assets and liabilities on the acquisition are treated as assets and liabilities of the foreign subsidiaries and are translated at the closing rate. Exchange differences arising on translation are recognised in other comprehensive income. On disposal of a foreign subsidiary, the cumulative amount of translation differences recognised in other comprehensive income is recognised in the income statement in the line 'Other operating result'.

Financial instruments – recognition and measurement

A financial instrument is any contract giving rise to a financial asset of one party and a financial liability or equity instrument of another party. In accordance with IAS 39, all financial assets and liabilities – which also include derivative financial instruments – have to be recognised in the balance sheet and measured in accordance with their assigned categories.

Erste Group uses the following categories of financial instruments:
- financial assets or financial liabilities at fair value through profit or loss
- available-for-sale financial assets
- held-to-maturity investments
- loans and receivables
- financial liabilities measured at amortised cost

IAS 39 categories of financial instruments relevant for measurement are not necessarily the line items presented in the balance sheet. Specific relationships between the balance sheet line items and categories of financial instruments are described in the table at point (xi).

(i) Initial recognition
Financial instruments are initially recognised when Erste Group becomes a party to the contractual provisions of the instrument. Regular way (spot) purchases and sales of financial assets are recognised at settlement date, which is the date that an asset is delivered. The classification of financial instruments at initial recognition depends on their characteristics as well as the purpose and management's intention for which the financial instruments were acquired.

(ii) Initial measurement of financial instruments
Financial instruments are measured initially at their fair value including transaction costs. In the case of financial instruments at fair value through profit or loss, however, transaction costs are not included but are recognised directly in profit or loss. Subsequent measurement is described in the chapters below.

(iii) Cash and balances with central banks
Balances with central banks include only claims (deposits) against central banks which are repayable on demand. Repayable on demand means that they may be withdrawn at any time or with a term of notice of only one business day or 24 hours. Mandatory minimum reserves are also shown under this position.

(iv) Derivative financial instruments
Derivatives used by Erste Group include mainly interest rate swaps, futures, forward rate agreements, interest rate options, currency swaps and currency options as well as credit default swaps. Derivatives are measured at fair value. Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative. All kinds of derivatives without regard to their internal classification are disclosed under the line item 'Derivative financial instruments', which can be found, depending on their fair value as of the balance sheet date, on the assets or liabilities side of the balance sheet. Hence, the line item 'Derivative financial instruments' contains both derivatives held in the trading book and banking book and includes also derivatives designated for hedge accounting.

Changes in fair value (clean price) are recognised in the income statement in the line 'Net trading result', except for those resulting from the effective part of cash flow hedges which are reported in other comprehensive income. Furthermore, changes in fair value (clean price) of derivatives related to financial liabilities designated at fair value through profit or loss are presented in the income statement in the line 'Result from financial instruments – at fair value through profit or loss'. Interest income/expense related to derivative financial instruments is recognised in the income statement in the line 'Net interest income' for those held in the banking book or designated as hedging instruments in fair value hedges or in the line 'Net trading result' for those held in the trading book.

(v) Financial assets and financial liabilities held for trading
Financial assets and financial liabilities held for trading include debt securities as well as equity instruments acquired or issued principally for the purpose of selling or repurchasing in the near term. Financial instruments held for trading are measured at fair value and are presented as 'Trading assets' or 'Trading liabilities' in the balance sheet. Changes in fair value (clean price) resulting from financial instruments held for trading are reported in the income statement in the line 'Net trading result'. Nonetheless, interest income and expenses are reported in the income statement in the line 'Net interest income'.

If securities purchased under agreement to resell are subsequently sold to third parties, the obligation to return the securities is recorded as a short sale within 'Trading liabilities'.

(vi) Financial assets or financial liabilities designated at fair value through profit or loss
Financial assets or financial liabilities classified in this category are those that have been designated by management on initial recognition (fair value option).

Erste Group uses the fair value option in the case of financial assets managed on a fair value basis. In accordance with a documented investment strategy, the performance of the portfolio is evaluated and regularly reported to the management board. The portfolio consists largely of investments in bonds issued by EU governments and EU municipalities.

Financial assets designated at fair value through profit or loss are recorded in the balance sheet at fair value in the line 'Financial assets – at fair value through profit or loss' with changes in fair value recognised in the income statement in the line 'Result from financial instruments – at fair value through profit or loss'. Interest earned on debt instruments as well as dividend income on equity instruments is shown in the position 'Interest and similar income'.

Erste Group uses the fair value option in case of some hybrid financial liabilities, if:

_ such classification eliminates or significantly reduces an accounting mismatch between the financial liability otherwise measured at amortised cost and the related derivative measured at fair value; or
_ the entire hybrid contract is designated at fair value through profit or loss due to existence of an embedded derivative.

The amount of fair value change attributable to changes in own credit risk for financial liabilities designated at fair value through profit or loss is calculated by the method described by IFRS 7. This amount is the difference between the present value of the liability and the observed market price of the liability at the end of the period. The rate used for discounting the liability is the sum of the observed (benchmark) interest rate at the end of the period and the instrument-specific component of the internal rate of return determined at the start of the period.

Financial liabilities designated at fair value through profit or loss are reported under the respective financial liabilities positions 'Customer deposits', 'Debt securities in issue' or 'Subordinated liabilities'. Changes in fair value are recognised in the income statement in the line 'Result from financial instruments – at fair value through profit or loss'. Interest incurred is reported in the line 'Interest and similar expenses'.

(vii) Available-for-sale financial assets

Available-for-sale assets include equity and debt securities as well as other interests in non-consolidated companies. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

Available-for-sale financial assets are subsequently measured at fair value. Unrealised gains and losses are recognised in other comprehensive income and reported in the 'Available-for-sale reserve' until the financial asset is disposed of or impaired. If available-for-sale assets are disposed of or impaired, the cumulative gain or loss previously recognised in other comprehensive income is reclassified to profit or loss and reported under the line item 'Result from financial assets – available for sale'. In the balance sheet, available-for-sale financial assets are disclosed in the line item 'Financial assets – available for sale'.

If the fair value of investments in non-quoted equity instruments cannot be measured reliably, they are recorded at cost less impairment. This is the case when the range of reasonable fair value estimates as calculated by valuation models is significant and the probabilities of the various estimates cannot be reasonably assessed. There is no market for such investments. Erste Group does not have any specific plan to dispose of such investments.
Interest and dividend income on available-for-sale financial assets are reported in the income statement in the line 'Interest and similar income'.

(viii) Held-to-maturity financial investments

Non-derivative financial assets with fixed or determinable payments and fixed maturities are reported in the balance sheet as 'Financial assets – held to maturity' if Erste Group has the intention and ability to hold them until maturity. After initial recognition, held-to-maturity financial investments are subsequently measured at amortised cost. Amortised cost is calculated by taking into account any discount, premium and/or transaction costs that are an integral part of the effective interest rate. Interest earned on financial assets held to maturity is reported in the income statement in the line 'Interest and similar income'. Losses arising from impairment of such investments as well as occasional realised gains or losses from selling are recognised in the income statement in the line 'Result from financial assets – held to maturity'. Provisions for incurred but not reported losses are shown in the position 'Risk provisions for loans and advances'.

(ix) Loans and advances

The balance sheet line items 'Loans and advances to credit institutions' and 'Loans and advances to customers' include assets meeting the definition of loans and receivables. Furthermore, finance lease receivables which are accounted for under IAS 17 are presented in these balance sheet line items.

Loans and receivables are non-derivative financial assets (including debt securities) with fixed or determinable payments that are not quoted in an active market, other than:

_ those that Erste Group intends to sell immediately or in the near term and those that Erste Group upon initial recognition designates as at fair value through profit or loss;
_ those that Erste Group, upon initial recognition, designates as available for sale; or
_ those for which Erste Group may not recover substantially all of its initial investment, other than because of credit deterioration.

After initial measurement, loans and receivables are subsequently measured at amortised cost. Finance lease receivables are subsequently measured as specified in the chapter leasing. Interest income earned is included in the line 'Interest and similar income' in the income statement.

Allowances for impairment and incurred but not reported losses are reported in the balance sheet line 'Risk provisions for loans and advances'. Losses arising from impairment are recognised in the income statement in the line 'Risk provisions for loans and advances'.

(x) Deposits and other financial liabilities

Financial liabilities are measured at amortised cost, unless they are measured at fair value through profit or loss. Except those which are held for trading, financial liabilities are reported in the balance sheet in the lines 'Deposits by banks', 'Customer deposits' 'Debt securities in issue' or 'Subordinated liabilities'. Interest expenses incurred are reported in the line 'Interest and similar expenses' in the income statement.

(xi) Relationships between balance sheet positions and categories of financial instruments:

Balance sheet positions	Measurement value			Financial instrument category
ASSETS	**Fair value**	**At amortised cost**	**Other**	
Cash and balances with central banks		x	Nominal value	n/a / Loans and receivables
Loans and advances to credit institutions		x		Loans and receivables
thereof finance lease			IAS 17	n/a
Loans and advances to customers		x		Loans and receivables
thereof finance lease			IAS 17	n/a
Risk provisions for loans and advances		x		Loans and receivables
Derivative financial instruments	x			Financial assets - at fair value through profit or loss
thereof hedging derivatives	x			n/a
Trading assets	x			Financial assets - at fair value through profit or loss
Financial assets - at fair value through profit or loss	x			Financial assets - at fair value through profit or loss
Financial assets - available for sale	x			Financial assets - available for sale
Financial assets - held to maturity		x		Financial assets - held to maturity
LIABILITIES				
Deposits by banks		x		Financial liabilities at amortised cost
Customer deposits	x	x		Financial liabilities measured at amortised cost/ Financial liabilities - at fair value through profit or loss
Debt securities in issue	x	x		Financial liabilities measured at amortised cost/ Financial liabilities - at fair value through profit or loss
Derivative financial instruments	x			Financial liabilities - at fair value through profit or loss
thereof hedging derivatives	x			n/a
Trading liabilities	x			Financial liabilities - at fair value through profit or loss
Subordinated liabilities	x	x		Financial liabilities measured at amortised cost/ Financial liabilities - at fair value through profit or loss

For purposes of risk disclosures under IFRS 7, Erste Group splits balance sheet positions for financial instruments into classes and also according to industries (see Note 37.5).

Furthermore, two additional classes of financial instruments which are not presented in the table above are part of IFRS 7 disclosures. These are financial guarantees and irrevocable commitments.

Embedded derivatives

Erste Group, as part of its business, is confronted with debt instruments containing structured features. Structured features mean that a derivative is embedded in the host instruments. Embedded derivatives are separated from the host debt instruments if

_ the economic characteristics of the derivatives are not closely related to the economic characteristics and risks of the host debt instruments;
_ the embedded derivative meets the IAS 39 definition of derivative; and
_ the hybrid instrument is not a financial asset or liability held for trading or designated at fair value through profit or loss.

Embedded derivatives which are separated are accounted for as stand-alone derivatives and presented in the balance sheet in the line 'Derivative financial instruments'.

At Erste Group, derivatives which are not closely related and are separated are predominantly embedded in issued host debt instruments recognised as liabilities. The most typical cases are issues of bonds and deposits which contain interest caps, floors or collars which are in the money, contractual features linking payments to non-interest variables such as FX rates, equity, commodity prices and indices or credit risk of third parties.

Derecognition of financial assets and financial liabilities

A financial asset (or where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

_ the contractual rights to receive cash flows from the asset have expired; or
_ Erste Group has transferred its rights to receive cash flows from the asset
_ or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement;
_ and either:
  _ it has transferred substantially all the risks and rewards connected with the ownership of the asset, or
  _ has neither transferred nor retained substantially all the risks and rewards connected with the ownership of the asset but has transferred control of the asset.

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires.

Repurchase and reverse repurchase agreements

Transactions where securities are sold under an agreement to repurchase at a specified future date are also known as 'repos' or 'sale and repurchase agreements'. Securities sold are not derecognised from the balance sheet as Erste Group retains substantially all the risks and rewards of ownership because the securities are repurchased when the repo transaction ends. Furthermore, Erste Group is the beneficiary of all the coupons and other income payments received on the transferred assets over the period of the repo transactions. These payments are remitted to Erste Group or are reflected in the repurchase price.

The corresponding cash received is recognised in the balance sheet with a corresponding obligation to return it as a liability in the respective lines 'Deposits by banks' or 'Customer deposits' reflecting the transaction's economic substance as a loan to Erste Group. The difference between the sale and repurchase prices is treated as interest expense and recorded in the income statement in the line 'Interest and similar expenses' and is accrued over the life of the agreement. Financial assets transferred out by Erste Group under repurchase agreements remain on the Group's balance sheet and are measured according to the rules applicable to the respective balance sheet item.

Conversely, securities purchased under agreements to resell at a specified future date are not recognised in the balance sheet. Such transactions are also known as 'reverse repos'. The consideration paid is recorded in the balance sheet in the respective lines 'Loans and advances to credit institutions' or 'Loans and advances to customers', reflecting the transaction's economic substance as a loan by Erste Group. The difference between the purchase and resale prices is treated as interest income which is accrued over the life of the agreement and recorded in the income statement in the line 'Interest and similar income'.

Securities lending and borrowing

In securities lending transactions, the lender transfers ownership of securities to the borrower on the condition that the borrower will retransfer, at the end of the agreed loan term, ownership of instruments of the same type, quality and quantity and will pay a fee determined by the duration of the lending. The transfer of the securities to counterparties via securities lending does not result in derecognition. Substantially all the risks and rewards of ownership are retained by Erste Group as a lender because the securities are received at the end of the securities lending transaction. Furthermore, Erste Group is the beneficiary of all the coupons and other income payments received on the transferred assets over the period of the securities borrowings.

Securities borrowed are not recognised on the balance sheet, unless they are then sold to third parties. In this case the obligation to return the securities is recorded as a trading liability.

Determination of fair value

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

The best indication of a financial instrument's fair value is provided by quoted market prices in an active market. Where quoted market prices in an active market are available, they are used to measure the financial instrument's value (level 1 of the fair value hierarchy). The measurement of fair value at Erste Group is based primarily on external sources of data (stock market prices or broker quotes in highly liquid market segments). If all the significant inputs in the valuation model are observable the instrument is classified as level 2 of the fair value hierarchy. In some cases, the fair value of financial instruments can be determined neither on the basis of market prices nor of valuation models that rely entirely on observable market data. In such cases, individual valuation parameters not observable in the market are estimated on the basis of reasonable assumptions. If any unobservable input in the valuation model is significant the instrument is classified as level 3 of the fair value hierarchy.

As a consequence of changed market standards for the valuation of collateralized OTC derivatives, - Erste Group changed in 2012 the valuation method for OTC derivatives from Euribor-discounting to Eonia/OIS-discounting. The effect on valuation of the derivative portfolio was immaterial.

Credit value adjustments (CVA) for counterparty credit risk are to applied to all derivatives which are marked to model. The adjustment is driven by the expected positive exposure of all derivatives and the credit quality of the counterparty. In comparison with previous year Erste Group has applied an improved model based on exposures (market value plus add-on) and probability of default (PD). For counterparties with liquid bond or CDS markets a market based PD was used. For determining the exposure, netting was generally disregarded as this had a non-material impact on the results. For counterparties with CSA-agreements in place no CVA was taken into account for all cases with small threshold amounts. Erste Group plans further refinement of the CVA methodology during 2013.

Erste Group employs only generally accepted, standard valuation models. Fair value is determined for non-option derivatives (e.g. interest rate swaps, cross currency swaps, foreign exchange forwards and forward rate agreements) by discounting the respective cash flows. OTC options are valued using appropriate market standard option pricing. Erste Group uses only valuation models which have been tested internally and for which the valuation parameters (such as interest rates, exchange rates and volatility) have been determined independently.

Impairment of financial assets and credit risk losses of contingent liabilities

Erste Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, the probability that they will enter bankruptcy or other financial reorganisation, default or delinquency in interest or principal payments. For assessment at portfolio level, indications of impairment are observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. Erste Group uses Basel 2 definition of default as a primary indicator of loss events. Default occurs when interest or principal payments on a material exposure are more than 90 days past due or full repayment is unlikely for reasons such as restructuring resulting in a loss to the lender or initiation of bankruptcy proceedings.

Credit risk losses resulting from contingent liabilities are recognised if it is probable that there will be an outflow of resources to settle a credit risk bearing contingent liability which will result in a loss.

(i) Financial assets carried at amortised cost

Erste Group first assesses individually for significant loans and held-to-maturity securities whether objective evidence of impairment exists. If no objective evidence of impairment exists for an individually assessed financial asset, Erste Group includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralised financial asset also reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral.

In cases of loans and advances, any impairment is reported in the allowance account referred to as 'Risk provisions for loans and advances' in the balance sheet and the amount of the loss is recognised in the income statement in the line 'Risk provisions for loans and advances'. Risk provisions for loans and advances include specific risk provisions for loans and advances for which objective evidence of impairment exists. In addition, 'Risk provisions for loans and advances' include portfolio risk provisions for incurred but not reported losses. For held-to-maturity investments, impairment is recognised directly by reducing the asset account and in the income statement in the line 'Result from financial assets – held to maturity'. Incurred but not reported losses on held-to-maturity investments recognised at portfolio level are presented both in the balance sheet and in the income statement in the line 'Risk provisions for loans and advances'.

Loans together with the associated allowance are removed from the balance sheet when there is no realistic prospect of future recovery and all collaterals have been realised by Erste Group.

If, in a subsequent year, the amount of the estimated impairment loss increases or decreases, the previously recognised impairment loss is increased or reduced by adjusting the allowance account in case of loans and advances. In case of impaired held-to-maturity investments no allowance account is used, but the carrying amount is increased or decreased directly.

(ii) Available-for-sale financial investments
In cases of debt instruments classified as available for sale, Erste Group assesses individually whether there is objective evidence of impairment based on the same criteria as used for financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement. On recognising impairment, any amount of losses retained in the other comprehensive income item 'Available for sale reserve' is reclassified to the income statement and shown as impairment loss in the line 'Result from financial assets – available for sale'.

If, in a subsequent period, the fair value of a debt instrument increases, the impairment loss is reversed through the income statement in the line 'Result from financial assets – available for sale'. Impairment losses and their reversals are recognised directly against the assets in the balance sheet.

In cases of equity investments classified as available for sale, objective evidence also includes a 'significant' or 'prolonged' decline in the fair value of the investment below its cost. For this purpose at Erste Group, 'significant' decline means a market price below 80% of the acquisition cost and 'prolonged' decline refers to a market price which is permanently below acquisition cost for a period of 9 months up to the reporting date.

Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement, is shown as impairment loss in the income statement in the line 'Result from financial assets – available for sale'. Any amount of losses previously recognised in the other comprehensive income item 'Available for sale reserve' has to be reclassified to the income statement as a part of impairment loss in the line 'Result from financial assets – available for sale'.

Impairment losses on equity investments are not reversed through the income statement; increases in the fair value after impairment are recognised directly in other comprehensive income. Impairment losses and their reversals are recognised directly against the assets in the balance sheet.

(iii) Contingent liabilities
Provisions for credit losses of contingent liabilities (particularly financial guarantees as well as credit commitments) are included in the balance sheet line 'Provisions'. The related expense is reported in the income statement in the line 'Risk provisions for loans and advances'.

Hedge accounting
Erste Group makes use of derivative instruments to manage exposures to interest rate risk and foreign currency risk. At inception of a hedge relationship, the bank formally documents the relationship between the hedged item and the hedging instrument, including the nature of the risk, the objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship. Also at the inception of the hedge relationship, a formal assessment is undertaken to ensure the hedging instrument is expected to be highly effective in offsetting the designated risk in the hedged item. A hedge is expected to be highly effective if the changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated are expected to offset the fair value changes of the hedging instrument in a range of 80% to 125%. Exact conditions for particular types of hedges applied by Erste Group are specified internally in hedge policy.

(i) Fair value hedges
Fair value hedges are employed to reduce market risk. For qualifying and designated fair value hedges, the change in the fair value of a hedging instrument is recognised in the income statement in the line 'Net trading result'. The change in the fair value of the hedged item attributable to the hedged risk is also recognised in the income statement in the line 'Net trading result' and adjusts the carrying amount of the hedged item.

Erste Group also applies portfolio fair value hedges of interest rate risk as regulated by IAS 39.AG114-AG132. Currently only interest rate risk from issued bonds is being hedged (i.e. no assets are included as hedged items). The change in the fair value of the hedged items attributable to the hedged interest risk is presented in the balance sheet in the line 'Value adjustment for portfolio fair value hedges'.

If the hedging instrument expires, is sold, is terminated or is exercised, or when the hedge no longer meets the criteria for hedge accounting, the hedge relationship is terminated. In this case, the fair value adjustment of the hedged item shall be amortised to the income statement in the line 'Net interest income' until maturity of the financial instrument.

(ii) Cash flow hedges
Cash flow hedges are used to eliminate uncertainty in the future cash flows in order to stabilise net interest income. For designated and qualifying cash flow hedges, the effective portion of the gain or loss on the hedging instrument is recognised in other comprehensive income and reported under the 'Cash flow hedge

reserve'. The ineffective portion of the gain or loss on the hedging instrument is recognised in the income statement in the line 'Net trading result'. When the hedged cash flow affects the income statement the gain or loss on the hedging instrument is reclassified from other comprehensive income into the corresponding income or expense line in the income statement (mainly 'Net interest income').

When a hedging instrument expires, is sold, is terminated, is exercised, or when a hedge no longer meets the criteria for hedge accounting, the hedge relationship is terminated. In this case the cumulative gain or loss on the hedging instrument that has been recognised in other comprehensive income shall remain separately in 'Cash flow hedge reserve' until the transaction occurs.

Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the balance sheet if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Leasing

A lease is an agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time. A finance lease at Erste Group is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. All other lease agreements at Erste Group are classified as operating leases.

Erste Group as a lessor

The lessor in the case of finance lease reports a receivable against the lessee in the line 'Loans and advances to customers' or 'Loans and advances to credit institutions'. The receivable is equal to the present value of the contractually agreed payments taking into account any residual value. Interest income on the receivable is reported in the income statement in the line 'Net interest income'.

In the case of operating leases, the leased asset is reported by the lessor in 'property and equipment' or in 'investment property' and is depreciated in accordance with the principles applicable to the assets involved. Lease income is recognised on a straight-line basis over the lease term in the income statement in the line 'Net interest income'.

Lease agreements in which Erste Group is the lessor almost exclusively comprise finance leases.

Erste Group as a lessee

Erste Group has not as a lessee entered into any leases meeting the conditions of finance leases. Operating lease payments are recognised as an expense in the income statement in the line 'General administrative expenses' on a straight-line basis over the lease term.

Business combinations and goodwill

(i) Business combinations

Business combinations are accounted for using the acquisition method of accounting. Goodwill represents the future economic benefits resulting from the business combination, arising from assets that are not individually identified and separately recognised. Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests and the fair value of the previously held equity interest over the net of the acquisition-date amounts of the identifiable assets acquired as well as the liabilities assumed. At the acquisition date, the identifiable assets acquired and the liabilities assumed are generally recognised at their fair values.

If, after reassessment of all components described above, the calculation results in a negative amount, it is recognised as a bargain purchase gain and reported in the income statement in the line 'Other operating result' in the year of acquisition.

Non-controlling interests that are present ownership interests in the acquiree are measured at the proportionate share of the acquiree's identifiable net assets. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS. Acquisition costs incurred are expensed and included in the income statement line 'Other operating result'.

(ii) Goodwill and goodwill impairment testing

Goodwill arising on an acquisition of a business is carried at cost as established as of the date of acquisition of the business less accumulated impairment losses, if any. Goodwill is tested for impairment annually in November, or whenever there is an indication of possible impairment during the year, with any impairment determined recognised in profit or loss. The impairment test is carried out for each cash-generating unit (CGU) to which goodwill has been allocated. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Goodwill is tested for impairment by comparing the recoverable amount of each CGU to which goodwill has been allocated with its carrying amount. The carrying amount of a CGU is based on the amount of net asset value allocated to the CGU taking into account any goodwill and unamortised intangible assets recognised for the CGU at the time of business combination.

The recoverable amount is the higher of a CGU's fair value less costs to sell and its value in use. Where available, the fair value less costs to sell is determined based on recent transactions, market quotations or appraisals. The value in use is determined using a discounted cash flow model (DCF model), which incorporates the specifics of the banking business and its regulatory environment. In determining value in use, the present value of future earnings distributable to shareholders is calculated.

The estimation of future earnings distributable to shareholders is based on financial plans for the CGUs as agreed by the management while taking into account the fulfillment of the respective regulatory capital requirements. The planning period is five years. Any forecasted earnings beyond the planning period are derived on the basis of the last year of the planning period and a long-term growth rate. The present value of such perpetual earnings growing at a stable rate (referred to as terminal value) takes into consideration macroeconomic parameters and economically sustainable cash flows for each CGU. Values for the long term growth rates are disclosed in Note 19.2) Intangible assets in the subsection 'Development of goodwill'.

The cash flows were determined by subtracting the annual capital requirement generated by change in the amount of risk-weighted assets from the net profit. The capital requirement was defined through the target tier 1 ratio in light of the expected future minimum regulatory capital requirements.

The value in use is determined by discounting the cash flows at a rate that takes into account present market rates and the specific risks of the CGU. The discount rates have been determined based on the capital asset pricing model (CAPM). According to the CAPM, the discount rate comprises a risk-free interest rate together with a market risk premium that itself is multiplied by a factor that represents the systematic market risk (beta factor). Furthermore, a country-risk premium component is considered in calculating the discount rate. The values used to establish the discount rates are determined using external sources of information. Discount rates applied to determine the value in use are disclosed in Note 19.2) Intangible assets in the subsection 'Development of goodwill'.

Where the recoverable amount of a CGU is less than its carrying amount, the difference is recognised as an impairment loss in the income statement in the line ‘Other operating result’. The impairment loss is allocated first to write down the CGU’s goodwill. Any remaining impairment loss reduces the carrying amount of the CGU’s other assets, though not to an amount lower than their fair value less costs to sell. There is no need to recognise an impairment loss if the recoverable amount of the CGU is higher than or equal to its carrying amount. Impairment losses relating to goodwill cannot be reversed in future periods.

Property and equipment

Property and equipment is measured at cost less accumulated depreciation and accumulated impairment. Borrowing costs for qualifying assets are capitalised into the costs of property and equipment.

Depreciation is calculated using the straight-line method to write down the cost of property and equipment to their residual values over their estimated useful lives. Depreciation is recognised in the income statement in the line ‘General administrative expenses’ and impairment in the line ‘Other operating result’.

The estimated useful lives are as follow:

	Useful life in years
Buildings	15-50
Office furniture and equipment	4-10
Passenger cars	4-8
Computer hardware	4-6

Land is not depreciated.

Property and equipment is derecognised on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on disposal of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in the income statement in the line ‘Other operating result’ in the year the asset is derecognised.

Investment property

Investment property is property (land and buildings or part of a building or both) held for the purpose of earning rental income or for capital appreciation. In case of partial own use, the property is investment property only if the owner-occupied portion is insignificant. Investments in land and buildings under construction, where the future use is expected to be the same as for investment property, are treated as investment property.

Investment property is measured initially at cost, including transaction costs. Subsequent to initial recognition, investment property is measured at cost less accumulated depreciation and impairment. Together with rental income, depreciation is recognised in the income statement in the line ‘Interest and similar income’ using the straight-line method over an estimated useful life. The useful lives of investment properties are identical to those of buildings reported under property and equipment. Any impairment losses, as well as their reversals, are recognised in the income statement line ‘Other operating result’. Investment property is presented in the balance sheet in the line ‘Investment property’.

Property Held for Sale (Inventory)

The Group also invests in property that is held for sale in the ordinary course of business or property in the process of construction or development for such sale. This property is presented as 'Other assets' and is measured at the lower of cost and net realizable value in accordance with IAS 2 Inventories.

The cost of acquiring inventory not only includes the purchase price but also all other directly attributable expenses, such as transportation costs, customs duties, other taxes and costs of conversion of inventories, etc. Borrowing costs are capitalized to the extent to which they directly relate to the acquisition of real estate.

Sales of these assets/apartments are recognized as revenues in the income statement line 'Other operating result', together with costs of sales and other costs incurred in selling the assets.

Intangible assets

In addition to goodwill, Erste Group's intangible assets include computer software and customer relationships, brand, distribution network and other intangible assets. An intangible asset is recognised only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the bank.

Costs of internally generated software are capitalised if Erste Group can demonstrate technical feasibility and intention of completing the software, ability to use it, how it will generate probable economic benefits, availability of resources and ability to measure the expenditures reliably. Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

The cost of intangible assets acquired in a business combination is their fair value as of the date of acquisition. In the case of Erste Group these are brands, customer relationships and distribution networks and they are capitalised on acquisition if they can be measured with sufficient reliability.

Intangible assets with finite lives are amortised over their useful economic lives using the straight-line method. The amortisation period and method are reviewed at least at each financial year-end and adjusted if necessary. The amortisation expense on intangible assets with finite lives is recognised in the income statement in the line 'General administrative expenses' except for amortisation of customer relationships which is reported in the line 'Other operating result'.

The estimated useful lives are as follow:

	Useful life in years
Computersoftware	4-6
Customer relationships	10-20
Distribution network	5.5

Brands are not amortised as they are assumed to have an indefinite useful life. An intangible asset has an indefinite useful life, if there are no legal, contractual, regulatory or other factors limiting that useful life. Brands are tested for impairment annually within cash-generating unit (CGU) to which they belong and impairment is recognised if appropriate. Furthermore, each period brands are reviewed as to whether current circumstances continue to support the conclusion as to indefinite life. In the event of impairment, impairment losses are recognised in the income statement in the line 'Other operating result'.

Impairment of non-financial assets (property and equipment, investment property, intangible assets)

The bank assesses at each reporting date whether there is an indication that a non-financial asset may be impaired. Testing for impairment is done at individual asset level if the asset generates cash inflows that are largely independent of those from other assets. The typical case is investment property. Otherwise the impairment test is carried out at the level of the cash generating unit (CGU) to which the asset belongs. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. For specific rules related to impairment of goodwill and impairment allocation rules for CGU please see the chapter 'Business combination and goodwill', part (ii) Goodwill and goodwill impairment testing.

If any indication of impairment exists, or when annual impairment testing for an asset is required, the bank estimates the asset's recoverable amount. An asset's recoverable amount is the higher of the asset's or CGU's fair value less costs to sell and its value in use. If the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In measuring value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For non-financial assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the bank estimates the asset's or CGU's recoverable amount. The previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years.

Impairments and their reversals are recognised in the income statement in the line 'Other operating result'.

Non-current assets and disposal groups held for sale

Non-current assets are classified as held for sale if they can be sold in their present condition and the sale is highly probable within 12 months of their being classified as held for sale. If assets are to be sold as a part of a group which may also contain liabilities (e.g. a subsidiary) they are referred to as disposal group held for sale.

Assets classified as held for sale and assets belonging to disposal groups held for sale are reported on the balance sheet line 'Assets held for sale'. Liabilities belonging to the disposal groups held for sale are presented in the balance sheet at the line 'Liabilities associated with assets held for sale'.

Non-current assets and disposal groups that are classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. Should the impairment loss in disposal group exceed the carrying amount of the assets which are within the scope of IFRS 5 measurement requirements, there is no specific guidance on how to treat such difference. Erste Group recognises this difference as a provision in the balance sheet line 'Provisions'.

Financial guarantees

In the ordinary course of business, Erste Group provides financial guarantees, consisting of various types of letters of credit and guarantees. According to IAS 39, a financial guarantee is a contract that requires the guarantor to make specified payments to reimburse the holder for a loss it incurs in case a specified debtor fails to make payment when due in accordance with original or modified terms of a debt instrument.

If Erste Group is in a position of being a guarantee holder, the financial guarantee is not recorded in the balance sheet but is taken into consideration as collateral when determining impairment of the guaranteed asset.

Erste Group as a guarantor recognises financial guarantees as soon as it becomes a contracting party (i.e., when the guarantee offer is accepted). Financial guarantees are initially measured at fair value. Generally the initial measurement is the premium received for a guarantee. If no premium is received at contract inception the fair value of a financial guarantee is nil, as this is the amount at which the guarantee could be settled in an arm's length transaction with an unrelated party. Subsequent to initial recognition the financial guarantee contract is reviewed for the possibility that provisioning will be required under IAS 37.

The premium received is recognised in the income statement in the line 'Net fee and commission income' on a straight-line basis over the life of the guarantee.

Defined employee benefit plans

Defined employee benefit plans operated by Erste Group are for pensions, severance and jubilee benefits.

The defined benefit pension plans relate only to retired employees. The pension obligations for current employees were transferred to external pension funds in previous years. Remaining with Erste Group is a defined-benefit obligation for entitlements of former employees who were already retired as of 31 December 1998 before the pension reform took effect, and for those former employees who retired only in 1999 but remained entitled to a direct pension from Erste Group under individual agreements. Included also are entitlements to resulting survivor pensions.

Severance benefit obligations exist in relation to Austrian employees who entered the Group's employment before 1 January 2003. The severance benefit is a one-time remuneration to which employees are entitled when their employment relationship ends. The entitlement to this severance payment arises after three years of employment.

Defined benefit plans include also jubilee benefits. Jubilee payments (payments long-service and/or loyal-service) are remuneration tied to the length of an employee's service to the employer. The entitlement to jubilee benefits is established by collective agreement, which defines both the conditions and amount of the entitlement.

Obligations ensuing from defined employee benefit plans are determined using the projected unit credit method. Future obligations are determined based on actuarial expert opinions. The calculation takes into account not only those salaries, pensions and vested rights to future pension payments known as of the balance sheet date but also anticipated future rates of increase in salaries and pensions.

As of 31 December 2012, for all domestic subsidiaries, the most important actuarial assumptions used in the computation were adjusted to reflect the situation at year-end 2012. Thus, the actuarial calculation of pension, severance and jubilee benefit obligations is based on a discount rate (long-term capital market interest rate) of 3.65% per annum (previously: 4.65%). The statutory increase in pension benefits is assumed to be 2.0% per year (previously: 2.4%) and severance and jubilee benefits are calculated based on an expected annual increase of 2.9% per year in salaries (previously: 3.4%). Obligations were calculated in accordance with the Pagler & Pagler mortality tables entitled 'AVÖ 2008 P – Rechnungsgrundlagen für die Pensionsversicherung'. The expected retirement age for each employee was individually calculated on the basis of the changes set out in the Budget Implementation Act of 2003 (Austrian Federal Law Gazette Vol. I No. 71/2003) regarding the increase in the minimum retirement age. The currently applicable legislation on the gradual raising of the retirement age for men and women to 65 was taken into consideration. For Central European subsidiaries, depending upon the particular countries, the mandatory retirement ages are used. The discount rates range from 2.51% (previously: 3.4%) to 6.25% (previously: 7.5%).

The liability recognised under a defined-benefit plan represents the present value of the defined benefit obligation less the fair value of the plan assets available for the direct settlement of obligations. For all plans, the present value of the obligation exceeds the fair value of the plan assets. The resulting defined benefit liability is reported in the balance sheet in the line 'Other provisions'. At Erste Group, the plan assets consist of qualifying insurance policies purchased to back severance and jubilee benefit provisions.

Actuarial gains or losses of pension and severance benefit obligations and of plan assets available to settle these obligations are recognised in other comprehensive income for the period in which they occur. Actuarial gains or losses of provisions for jubilee benefits are recognised in the income statement in the line 'General administrative expenses' in the period during which they occur.

Based on actually realised returns of portfolios and forecasts on the development of investments included in these portfolios, as of 31 December 2012 an interest rate of 3.65% (2011: 4.00%) was assumed for the expected return on plan assets.

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. In the balance sheet, provisions are reported in the line 'Other provisions'. They include credit risk loss provisions for contingent liabilities (particularly financial guarantees and loan commitments) as well as provisions for litigations and restructuring. Expenses or income from allocation or release relating to credit risk loss provisions for contingent liabilities are presented in the income statement line 'Risk provisions for loans and advances'. All other expenses or income related to provisions are reported in the line 'Other operating result'.

Share-based payment transactions

Erste Group grants shares and share options to employees and managers as compensation for their services, under the employee stock ownership plan (ESOP) and the management share option (MSOP) plans. Both take the form of equity-settled share-based payment transactions.

The cost of equity-settled share-based payment transactions with employees is measured by reference to the fair value as of the date upon which they are granted. Under ESOP, Erste Group shares are offered to employees at a discounted price; therefore, the fair value results from the discount at which employees purchase Erste Group shares. Any expense incurred from this fair value is immediately recognised in personnel expenses in the income statement in the line 'General administrative expenses'. Under MSOP, Erste Group share options are granted to managers and other key personnel. For MSOP initial fair value of the options granted is determined by means of generally accepted option pricing models (Black and Scholes, binomial model). Expense from this fair value together with corresponding increase in equity is spread over the vesting periods (the period between the granting date and the first permitted exercise date). Expense is recognised in the income statement as personnel expense in the line 'General administrative expenses'.

Taxes

(i) Current tax

Current tax assets and liabilities for the current and prior years are measured as the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amounts are those enacted by the balance sheet date.

(ii) Deferred tax

Deferred tax is recognised for temporary differences between the tax bases of assets and liabilities and their carrying amounts as of the balance sheet date. Deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences and unused tax losses to the extent it is probable that taxable profit will be available against which the deductible temporary differences and carry forward of unused tax losses can be utilised. Deferred taxes are not recognised on temporary differences arising from the initial recognition of goodwill.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted as of the balance sheet date. For the subsidiaries, local tax environments apply.

Deferred tax relating to items recognised in other comprehensive income is also recognised in other comprehensive income and not in the income statement.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right to offset exists and the deferred taxes relate to the same taxation authority.

Treasury shares and contracts on treasury shares

Equity instruments of Erste Group which it or any of its subsidiaries acquire (referred to as treasury shares) are deducted from equity. Consideration paid or received on the purchase, sale, issue or cancellation of Erste Group's own equity instruments is recognised directly in equity. No gain or loss is recognised in the statement of comprehensive income on the purchase, sale, issue or cancellation of its own equity instruments.

Fiduciary assets

The Group provides trust and other fiduciary services that result in the holding or investing of assets on behalf of its clients. Assets held in a fiduciary capacity are not reported in the financial statements, as they are not the assets of the Group.

Dividends on ordinary shares

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by Erste Group's shareholders.

Regarding dividends on participation capital, see Note 30).

Recognition of income and expenses

Revenue is recognised to the extent that it is probable the economic benefits will flow to the entity and the revenue can be reliably measured. Regarding the lines reported in the income statement, their description and revenue recognition criteria are as follows:

(i) Net interest income

Interest income or expense is recorded using the effective interest rate (EIR) method. The calculation includes origination fees resulting from the lending business as well as transaction costs that are directly attributable to the instrument and are an integral part of the EIR (apart from financial instruments at fair value through profit or loss), but no future credit losses. Interest income from individually impaired loans is calculated by applying the original effective interest rate used to discount the estimated cash flows for the purpose of measuring the impairment loss.

Interest and similar income mainly includes interest income on loans and advances to credit institutions and customers, on balances with central banks and on bonds and other interest-bearing securities in all portfolios. Interest and similar expenses mainly include interest paid on deposits by banks and customer deposits, deposits of central banks, debt securities in issue and subordinated debt. In addition, net interest income includes interest on derivative financial instruments held in the banking book.

Also reported in interest and similar income is current income from shares and other equity-related securities (especially dividends) as well as income from other investments in companies categorised as available for sale. Such dividend income is recognised when the right to receive the payment is established.

Net interest income also includes rental income and corresponding depreciation charge from investment properties. Such rental income constitutes income from operating leases and is recognised on a straight-line basis over the lease term.

Income from associates recorded by applying the equity method (share of profit or loss in associates) is also included in the total of the net interest income. Impairment losses, reversal of impairment losses, and realised gains and losses on investments in associates accounted for at equity are reported in the line 'Other operating result'.

(ii) Risk provisions for loans and advances

This item includes allocations to and releases of specific and portfolio risk provisions for loans and advances and for contingent liabilities bearing credit risk. Also reported in this item are direct write-offs of loans and advances as well as recoveries on written-off loans removed from the balance sheet. Furthermore allocations to and releases of portfolio risk provisions for held-to-maturity investments with respect to incurred but not reported losses are part of this item.

(iii) Net fee and commission income

Erste Group earns fee and commission income from a diverse range of services it provides to its customers.

Fees earned for the provision of services over a period of time are accrued over that period. These fees include lending fees, guarantee fees, commission income from asset management, custody and other management and advisory fees as well as fees from insurance brokerage, building society brokerage and foreign exchange transactions.

Fee income earned from providing transaction services, such as arranging the acquisition of shares or other securities or the purchase or sale of businesses, is recognised upon completion of the underlying transaction.

(iv) Net trading result

Results arising from trading activities include all gains and losses from changes in fair value (clean price) on financial assets and financial liabilities classified as held for trading, including all derivatives not designated as hedges. In addition, for derivative financial instruments held in the trading book, 'Net trading result' contains also interest income or expense. However, interest income or expenses on non-derivative trading assets and liabilities and on derivatives held in the banking book are not part of 'Net trading result' as they are reported as 'Net interest income'. It also includes any ineffective portions recorded in hedging transactions as well as foreign exchange gains and losses.

(v) General administrative expenses

General administrative expenses represent the following expenses accrued in the reporting period: personnel and other administrative expenses, as well as depreciation and amortisation, apart from amortisation of customer relationships and impairment of goodwill that are reported under 'Other operating result'.

Personnel expenses include wages and salaries, bonuses, statutory and voluntary social security contributions, staff-related taxes and levies. They also include expenses and income for severance payments, pension and jubilee obligations (covering service cost, interest cost, expected return on plan assets and actuarial gains and losses for jubilee obligations).

Other administrative expenses include information technology expenses, expenses for office space, office operating expenses, advertising and marketing, expenditures for legal and other consultants as well as sundry other administrative expenses.

(vi) Other operating result
Other operating result reflects all other income and expenses not directly attributable to Erste Group's ordinary activities. This includes especially impairment losses or any reversal of impairment losses as well as results on the sale of property and equipment and other intangible assets. Also included here are amortisation and impairment of customer relationships and any impairment losses on goodwill.

In addition, other operating result encompasses the following: expenses for other taxes, including special banking taxes and for deposit insurance contributions; income from the release of and expenses for allocations to other provisions; impairment losses (and their reversal if any) on investments in associates accounted for at equity; and realised gains and losses from the disposal of equity-accounted investments.

In case of sales of non-impaired loans and advances or repurchases of financial liabilities which are measured at amortised cost gains and losses are reported in other operating result.

(vii) Result from financial instruments
Result from financial instruments consists of the following lines in the income statement:

_ Result from financial instruments – at fair value through profit or loss: changes in clean price of assets and liabilities designated at fair value through profit or loss are reported here. Furthermore this position contains changes in clean prices of derivatives which are related to financial liabilities designated at fair value through profit or loss. Designation of such liabilities at fair value was chosen to eliminate or reduce an accounting mismatch between the liability and the derivative.
_ Result from financial assets – available for sale: realised gains and losses from selling as well as impairment losses and reversals of impairment losses from financial assets available for sale are reported in this position. However, interest and dividend elements for these assets and reversals of impairment losses on equity instruments are not part of this position.
_ Result from financial assets – held to maturity: impairment losses and reversals of impairment losses as well as occasional selling gains and losses from financial assets held to maturity are reported in this position. However, this position does not include incurred but not reported losses recognised for financial assets held to maturity on portfolio level which are part of the position 'Risk provisions for loans and advances'.

Result from loans and receivables consists on one side of sales of impaired loans shown under Risk provisions for loans and advances and, on the other side, of sales of non-impaired loans shown in 'Other operating result'.

d) SIGNIFICANT ACCOUNTING JUDGEMENTS, ASSUMPTIONS AND ESTIMATES

The consolidated financial statements contain amounts that have been determined on the basis of judgements and by use of estimates and assumptions. The estimates and assumptions used are based on historical experience and other factors, such as planning as well as expectations and forecasts of future events that are currently deemed to be reasonable. As a consequence of the uncertainty associated with these assumptions and estimates, actual results could in future periods lead to adjustments in the carrying amounts of the related assets or liabilities. The most significant use of judgement, assumption and estimates are as follow:

Fair value of financial instruments
Where the fair values of financial assets and financial liabilities recorded on the balance sheet cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data is not available judgement is required to establish fair values. Disclosures for valuation models, fair value hierarchy and fair values of financial instruments can be found in Note 39) Fair value of financial instruments.

Impairment of financial assets
Erste Group reviews its financial assets not measured at fair value through profit or loss at each balance sheet date to assess whether an impairment loss should be recorded in the income statement. In particular, it is required to determine whether there is objective evidence of impairment as a result of a loss event occurring after initial recognition and to estimate the amount and timing of future cash flows when determining an impairment loss.

Disclosures concerning impairment are provided in Note 37) Risk Management in the 'Credit risk' subsection entitled – 'Non-performing credit risk exposure, risk provisions and collateral'. Development of loan loss provisions is described in Note 15) Risk provisions for loans and advances.

Impairment of non-financial assets
Erste Group reviews its non-financial assets at each balance sheet date to assess whether there is an indication of impairment loss which should be recorded in the income statement. Furthermore, CGUs to which goodwill is allocated are tested for impairment on yearly basis. Judgement and estimates are required to determine the value in use and fair value less costs to sell by estimating the timing and amount of future expected cash flows and the discount rates. Assumptions and estimates used for impairment on non-financial assets calculations are described in the parts 'Business

combinations and goodwill' and 'Impairment of non-financial assets (property and equipment, investment property, intangible assets)' in the Accounting Policies discussion under the Notes. Inputs used for goodwill impairment testing and their sensitivities can be found in Note 19.2) Intangible assets in the section 'Development of goodwill'.

Deferred tax assets
Deferred tax assets are recognised in respect of tax losses and deductible temporary differences to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax planning strategies. Disclosures concerning deferred taxes are in Note 20) Tax assets and liabilities.

Defined benefit obligation plans
The cost of the defined benefit pension plan is determined using an actuarial valuation. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Assumption and estimates used for the defined benefit obligation calculations can be found in 'Defined benefit plans' within the Accounting Policies discussion under the Notes. Quantitative data for long-term employee provisions are in Note 27) Provisions.

Leases
From Erste Group's perspective as a lessor, judgement is required to distinguish whether a given lease is finance or operating lease based on the transfer of substantially all the risk and rewards from the lessor to the lessee.

e) APPLICATION OF AMENDED AND NEW IFRS/IAS

The accounting policies adopted are consistent with those used in the previous financial year except for standards and interpretations which became effective for financial years beginning on or after 1 January 2012. As regards new standards and interpretations and their amendments only those which are relevant for the business of Erste Group are listed below.

Effective standards and interpretations

The following amended standards and interpretations have been mandatory since 2012:

- Amendments to IAS 12 – Deferred Tax: Recovery of Underlying Assets
- Amendments to IFRS 7 – Disclosures–Transfers of Financial Assets

Application of these amended standards and interpretations had no material effect on the recognition and measurement methods of Erste Group. However, amendments to IFRS 7 brought by the Disclosures–Transfers of Financial Assets have resulted in new disclosures mainly related to repo and security lending transactions.

Standards and interpretations not yet effective

The standards and interpretations shown below were issued by IASB but are not yet effective. Thereof, the following standards and amendments have been endorsed by the EU:

Amendments to IAS 1 – Presentation of Items of Other Comprehensive Income
IAS 19 (revised 2011) Employee Benefits
IAS 27 (revised 2011) Separate Financial Statements
IAS 28 (revised 2011) Investments in Associates and Joint Ventures
Amendments to IAS 32 – Offsetting Financial Assets and Liabilities
Amendments to IFRS 7 – Offsetting Financial Assets and Liabilities
IFRS 10 Consolidated Financial Statements
IFRS 11 Joint Arrangements
IFRS 12 Disclosure of Interests in Other Entities
IFRS 13 Fair Value Measurement

Although they have been endorsed by the EU, Erste Group decided not to apply them before they become effective.

Amendments to IAS 1 – Presentation of Items of Other Comprehensive Income
Amendments to IAS 1 were issued in June 2011 and become effective for annual periods beginning on or after 1 July 2012.

The main requirement is to present, by using subtotals, whether the items of other comprehensive income (OCI) are reclassifiable to profit or loss or not. Moreover, if OCI items are presented before tax then the tax related to each of the two categories has to be presented separately.

Application of these amendments will have an impact on presentation of the statement of comprehensive income due to changes in the presentation of OCI items and their tax effects.

IAS 19 (revised 2011) Employee Benefits
The revised IAS 19 was issued in June 2011 and becomes effective for annual periods beginning on or after 1 January 2013.

The revision brought changes mainly in accounting for defined benefit plans. Net interest is recognised in profit or loss by multiplying the net defined liability by the discount rate. As the corridor method is no longer allowed, actuarial gains and losses are treated as remeasurements and are recognised fully in other comprehensive income. Clarifications were made for the area of plan amendments, curtailments and settlements. Past service costs are recognised immediately in profit or loss. Disclosure requirements were revised. New definition and recognition criteria were introduced for the termination benefits.

Application of this standard is not expected to have a significant impact on Erste Group's financial statements. However, it will result in some new disclosures in the Notes.

IAS 27 (revised 2011) Separate Financial Statements
Revised IAS 27 was issued in May 2011 and is effective for annual periods beginning on or after 1 January 2013. As adopted by the European Union, however, IAS 27 revised becomes effective, at the latest, as from the commencement date of its first financial year starting on or after 1 January 2014.

After revision, only the part relevant for individual financial statements was kept in IAS 27. This is due to the fact that IFRS 10 becomes a new standard relevant for consolidated financial statements. This resulted in a change of the name of IAS 27.

The revised IAS 27 is not expected to have a significant impact on Erste Group's financial statements.

IAS 28 (revised 2011) Investments in Associates and Joint Ventures
Revised IAS 28 was issued in May 2011 and is effective for annual periods beginning on or after 1 January 2013. As adopted by the European Union, however, IAS 28 revised becomes effective, at the latest, as from the commencement date of its first financial year starting on or after 1 January 2014.

Joint ventures are added into the scope of the revised IAS 28, which also results in a change in the name of the standard. This is due to the fact that under IFRS 11 the equity method is the only way of including joint ventures into the consolidated financial statements.

IAS 28 revised is not expected to have a significant impact on Erste Group's financial statements.

Amendments to IAS 32 – Offsetting Financial Assets and Liabilities
Amendments to IAS 32 were issued in December 2011 and are effective for annual periods beginning on or after 1 January 2014.

The amendments clarify the meaning of the terms 'currently' and 'settlement on net basis'.

The amendments are not expected to have a significant impact on Erste Group's financial statements.

Amendments to IFRS 7 – Offsetting Financial Assets and Liabilities
Amendments to IFRS 7 were issued in December 2011 and are effective for annual periods beginning on or after 1 January 2013.

Disclosures required by the amendments have to be provided for financial assets and liabilities that are set off in accordance with IAS 32. Furthermore, potential effects of netting and similar agreements which do not result in offsetting under IAS 32 are disclosed.

The amendments will result in new disclosures about the effects of master netting agreements and cash collateral agreements which do not result in offsetting under IAS 32.

IFRS 9: Financial Instruments
IFRS 9 relevant for classification and measurement of financial assets was issued in November 2009 then supplemented by regulation for financial liabilities in October 2011. An amendment issued in December 2011 concerns the mandatory effective date, which was postponed. As a result, IFRS 9 becomes effective for financial years beginning on or after 1 January 2015.

IFRS 9 introduces two classification criteria for financial assets: 1) an entity's business model for managing the financial assets, and 2) the contractual cash flow characteristics of the financial assets. As a result, a financial asset is measured at amortised cost only if both the following conditions are met: a) the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows, and b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. All financial assets which do not fulfil these conditions are measured at fair value with changes recognised in profit or loss. For investments in equity instruments which are not held for trading an entity may make an irrevocable election at initial recognition to measure them at fair value with changes recognised in other comprehensive income.

Based on changes in the business model an entity shall reclassify all affected assets from fair value to amortised cost category or vice versa.

This standard will have a significant effect on balance sheet positions and measurement methods for financial instruments. As IFRS 9 has not yet been published in its final version, its impact cannot be quantified.

IFRS 10 Consolidated Financial Statements
IFRS 10 was issued in May 2011 and is effective for annual periods beginning on or after 1 January 2013. As adopted by the European Union, however, IFRS 10 becomes effective, at the latest, as from the commencement date of its first financial year starting on or after 1 January 2014. It replaces IAS 27, 'Consolidated and Separate Financial Statements' and interpretation SIC-12, 'Consolidation – Special Purpose Entities'.

IFRS 10 defines the principle of control for all entities, including those that were previously considered special purpose entities under SIC-12. An investor controls an investee when it is exposed or has rights to variable returns from the investee and has the ability to affect those returns through its power over the investee. The assessment of control is based on all facts and circumstances, and the conclusion is reassessed if there are changes in those facts and circumstances.

Furthermore, IFRS 10 addresses other issues such as control with less than majority voting rights, control solely through rights other than voting rights, and delegated decision rights. Parts dealing with consolidation procedures, non-controlling interests and loss of control were taken over into IFRS 10 from IAS 27.

IFRS 10 brings clarification in the area of protective rights, which normally do not lead to having control of a subsidiary. Erste Group is presently undertaking a thorough review whether its power over Austrian savings banks does not merely take the form of protective rights. Based on the outcome, IFRS 10 might lead to not consolidating those savings banks united in the Haftungsverbund where Erste Group does not hold more than 50% of ownership interest. In order to continue with consolidation of the savings banks it might be necessary to strengthen the power of Erste Group in the provisions of the agreement governing the Haftungsverbund. Moreover, future consolidation of Austrian savings banks where Erste Group does not hold more than 50% will be influenced by an internal decision with respect to developments in the regulatory environment, namely whether non-controlling interests will be considered as part of the consolidated regulatory capital according to Capital Requirement Regulation after Basel 3 provisions come into force.

IFRS 11 Joint Arrangements
IFRS 11 was issued in May 2011 and is effective for annual periods beginning on or after 1 January 2013. As adopted by the European Union, however IFRS 11 becomes effective, at the latest, as from the commencement date of its first financial year starting on or after 1 January 2014. It supersedes IAS 31, 'Interests in Joint Ventures' and SIC-13, 'Jointly-controlled Entities – Nonmonetary Contributions by Venturers'.

The core principle of IFRS 11 is that a party to a joint arrangement determines the type of joint arrangement in which it is involved by assessing its rights and obligations and accounts for those rights and obligations in accordance with that type of joint arrangement. IFRS 11 classifies joint arrangements as either joint ventures or joint operations. IFRS 11 requires use of the equity method of accounting for joint ventures by eliminating the option to use the proportionate consolidation method. A joint operator recognises its assets, liabilities, revenues and expenses separately in relation to its interest in the arrangement.

As the Erste Group did not apply the proportionate consolidation method allowed in IAS 31, application of this standard is not expected to have a significant impact on Erste Group's financial statements.

IFRS 12 Disclosure of Interests in Other Entities
IFRS 12 was issued in May 2011 and is effective for annual periods beginning on or after 1 January 2013. As adopted by the European Union, however, IFRS 12 becomes effective, at the latest, as from the commencement date of its first financial year starting on or after 1 January 2014.

The objective of IFRS 12 is to require disclosure of information enabling users of financial statements to evaluate the nature of, and risks associated with, an investor's interests in other entities as well as the effects of those interests on the investor's financial position, financial performance and cash flows. Disclosures are provided separately for subsidiaries, joint operations, joint ventures, associates, and unconsolidated structured entities. IFRS 12 is a comprehensive disclosures standard. Therefore, there are no specific disclosure requirements in IFRS 10, IFRS 11 and IAS 28.

Application of this standard is not expected to have a significant impact on Erste Group's financial statements. However, it will result in new disclosures especially in the area of non-controlling interests.

Amendments to IFRS 10, IFRS 11 and IFRS 12 – Transition guidance
Amendments to IFRS 10, IFRS 11 and IFRS 12 were issued in June 2012 and their effectiveness is aligned with the effective date of the standards.

The amendments change the transition guidance to provide further relief from retrospective application.

Application of these amendments is not expected to have a significant impact on Erste Group's financial statements.

Amendments to IFRS 10, IFRS 12 and IAS 27 – Investment entities
Amendments to IFRS 10, IFRS 12 and IAS 27 were issued in October 2012 and are effective for annual periods beginning on or after 1 January 2014.

The amendments provide an exemption from consolidation of subsidiaries under IFRS 10 for entities which meet the definition of an investment entity, such as certain investment funds. Instead, such entities will measure their investments in subsidiaries at fair value through profit or loss.

Application of these amendments is not expected to have a significant impact on Erste Group's financial statements.

IFRS 13 Fair Value Measurement
IFRS 13 was issued in May 2011 and is effective for annual periods beginning on or after 1 January 2013.

It establishes a single source of guidance for fair value measurement and application under IFRS. It applies for fair value measurements which are already required or permitted by other standards. Therefore, IFRS 13 does not increase the scope of assets and liabilities measured at fair value. IFRS 13 also introduces more comprehensive disclosure requirements on fair value measurement (e.g. extending the fair value hierarchy to financial instruments measured at amortised cost).

Application of IFRS 13 will result in enhanced disclosures about fair value measurements.

Annual Improvements to IFRSs (issued in 2012)
In May 2012, IASB issued a set of amendments to various standards. The amendments are effective for annual periods beginning on or after 1 January 2013.

Application of these amendments is not expected to have a significant impact on Erste Group's financial statements.

D. NOTES TO THE STATEMENT OF COMPREHENSIVE INCOME AND THE BALANCE SHEET OF ERSTE GROUP

1) Net interest income

in EUR million	2012	2011
Interest income		
Lending and money market transactions with credit institutions	944.5	1,077.4
Lending and money market transactions with customers	5,957.8	6,426.5
Bonds and other interest-bearing securities	1,383.9	1,331.9
Other interest and similar income	7.3	10.3
Current income		
Equity-related securities	56.1	77.8
Investments		
Non-consolidated subsidiaries	17.4	11.2
Other investments	20.1	19.2
Investment properties	73.2	74.0
Interest and similar income	**8,460.3**	**9,028.3**
Interest income from financial assets - at fair value through profit or loss	334.8	322.3
Total interest and similar income	**8,795.1**	**9,350.6**
Interest expenses		
Deposits by banks	(642.3)	(654.6)
Customer deposits	(1,741.1)	(1,831.8)
Debt securities in issue	(926.5)	(1,032.2)
Subordinated liabilities	(204.9)	(239.5)
Other	(2.8)	(8.9)
Interest and similar expenses	**(3,517.6)**	**(3,767.0)**
Interest expenses from financial liabilities - at fair value through profit or loss	(58.6)	(22.6)
Total interest and similar expenses	**(3,576.2)**	**(3,789.6)**
Income from equity method investments	**16.4**	**8.0**
Total	**5,235.3**	**5,569.0**

Rental income from investment properties which are classified in accordance with IAS 40 totalled EUR 87.6 million (2011: EUR 88.7 million).

For financial assets or liabilities that are not measured at fair value through profit or loss, the total interest income amounted to EUR 7,555.1 million (2011: EUR 7,570.9 million) and the total interest expense to EUR (3,236.5) million (2011: EUR (3,551.6) million). Net interest income for these positions is therefore EUR 4,318.6 million (2011: EUR 4,019.3 million).

2) Risk provisions for loans and advances

in EUR million	2012	2011
Allocation to risk provisions for loans and advances	(3,203.7)	(3,111.8)
Release of risk provisions for loans and advances	1,364.0	1,016.5
Direct write-offs of loans and advances	(237.3)	(223.6)
Recoveries on written-off loans and advances	97.0	52
Total	**(1,980.0)**	**(2,266.9)**

3) Net fee and commission income

in EUR million	2012	2011
Lending business	263.4	279.9
Payment transfers	862.3	863.3
Card business	202.2	205.6
Securities business	356.9	373.4
Investment fund transactions	195.2	205.6
Custodial fees	39.7	36.5
Brokerage	122.0	131.3
Insurance brokerage	99.3	105.0
Building society brokerage	31.2	33.7
Foreign exchange transactions	25.2	24.8
Investment banking business	20.4	13.1
Other	62.1	94.0
Total	**1,720.8**	**1,787.2**

4) Net trading result

in EUR million	2012	2011
Securities and derivatives trading	74.2	(33.4)
Foreign exchange transactions	199.2	155.7
Total	**273.4**	**122.3**

From cash flow and fair value hedges an amount of EUR (21.0) million (2011: EUR (25.1) million) is reported in net trading result.

5) General administrative expenses

in EUR million	2012	2011
Personnel expenses	(2,284.1)	(2,323.7)
Other administrative expenses	(1,106.1)	(1,152.4)
Depreciation and amortisation	(366.5)	(374.8)
Total	**(3,756.7)**	**(3,850.9)**

Personnel expenses

in EUR million	2012	2011
Wages and salaries	(1,737.0)	(1,768.5)
Compulsory social security contributions	(433.3)	(445.5)
Long-term employee provisions	(70.4)	(62.9)
Other personnel expenses	(43.4)	(46.8)
Total	**(2,284.1)**	**(2,323.7)**

Personnel expenses include expenses of EUR 52.0 million (2011: EUR 57.4 million) for defined contribution plans of which EUR 0.9 million (2011: EUR 0.9 million) relates to members of the management board.

Average number of employees during the financial year (weighted according to the level of employment)

	2012	2011
Employed by Erste Group	**49,537**	**50,167**
Domestic	16,111	16,051
Haftungsverbund savings banks	7,433	7,465
Abroad	33,426	34,116
Banca Comercială Română Group	8,690	9,299
Česká spořitelna Group	10,760	10,556
Slovenská sporiteľňa Group	4,200	4,097
Erste Bank Hungary Group	2,639	2,949
Erste Bank Croatia Group	2,615	2,536
Erste Bank Serbia	937	931
Erste Bank Ukraine	1,569	1,716
Other subsidiaries and foreign branch offices	2,016	2,032

Other administrative expenses

in EUR million	2012	2011
IT expenses	(250.0)	(265.9)
Expenses for office space	(280.1)	(295.4)
Office operating expenses	(145.6)	(144.4)
Advertising/marketing	(184.7)	(193.7)
Legal and consulting costs	(130.5)	(115.4)
Sundry administrative expenses	(115.2)	(137.6)
Total	**(1,106.1)**	**(1,152.4)**

Operating expenses (including repair and maintenance) for ‘Investment properties’ held for rental income totalled EUR 3.6 million (2011: EUR 5.1 million).

Depreciation and amortisation

in EUR million	2012	2011
Software and other intangible assets	(149.4)	(139.3)
Real estate used by the Group	(85.7)	(88.8)
Office furniture and equipment and sundry property and equipment	(131.4)	(146.7)
Total	**(366.5)**	**(374.8)**

Amortisation of customer relationships is included not in the item depreciation and amortisation but in other operating result.

6) Other operating result

in EUR million	2012	2011
Other operating income	842.8	195.1
Other operating expenses	(1,567.1)	(1,785.0)
Total	**(724.3)**	**(1,589.9)**
Result from real estates/movables/properties/software	(73.0)	(84.3)
Allocation/release of other provisions/risks	25.9	(35.2)
Expenses for deposit insurance contributions	(80.7)	(87.2)
Amortisation of customer relationships	(69.2)	(69.0)
Other taxes	(269.1)	(163.5)
Impairment of goodwill	(514.9)	(1,064.6)
Result from repurchases of liabilities measured at amortised cost	413.4	0.1
Result from other operating expenses/income	(156.7)	(86.2)
Total	**(724.3)**	**(1,589.9)**

Operating expenses (including repair and maintenance) for 'Investment properties' not held for rental income totalled EUR 24.6 million (2011: EUR 8.9 million).

The amount of impairment on assets held for sale recognised in the result from real estates/moveables/properties/software is EUR (69.8) million (2011: EUR (14.7) million).

7) Result from financial instruments – at fair value through profit or loss

in EUR million	2012	2011
Gain / (loss) from measurement / sale of financial assets designated for fair value through profit or loss	40.0	(49.2)
Gain / (loss) from measurement / sale of financial liabilities designated for fair value through profit or loss	(97.5)	12.1
Gain / (loss) from derivatives used for Fair Value Option	53.9	37.4
Total	**(3.6)**	**0.3**

8) Result from financial assets – available for sale

in EUR million	2012	2011
Gain / (loss) from sale of financial assets available for sale	121.9	64.1
Impairment / reversal of impairment of financial assets available for sale	(65.7)	(130.3)
Total	**56.2**	**(66.2)**

During the reporting period, the amount removed from 'Other comprehensive income' to 'Result from Financial assets – available for sale' was EUR 262.0 million (2011: EUR 33.9 million).

The carrying amount of investments in equity instruments measured at cost which were sold during the period was EUR 9.9 million (2011: EUR 4.4 million). The resulting gain on sale was EUR 6.7 million (2011: EUR 17.3 million).

9) Result from financial assets – held to maturity

in EUR million	2012	2011
Income		
Income from sale of financial assets held to maturity	7.7	8.7
Reversal of impairment loss of financial assets held to maturity	0.0	1.3
Expenses		
Loss from sale of financial assets held to maturity	(14.3)	(27.8)
Impairment of financial assets held to maturity	(13.3)	(9.3)
Total	**(19.9)**	**(27.1)**

10) Taxes on income

Taxes on income are made up of current taxes on income calculated in each of the group companies based on the results reported for tax purposes, corrections to taxes on income for previous years, and the change in deferred taxes.

in EUR million	2012	2011
Current tax expense / income	(314.5)	(308.5)
current period	(294.2)	(302.2)
prior period	(20.3)	(6.3)
Deferred tax expense / income	144.3	68.1
current period	126.2	77.9
prior period	18.1	(9.8)
Total	**(170.2)**	**(240.4)**

The following table reconciles the income taxes reported in the income statement to the pre-tax profit/loss multiplied by the nominal Austrian tax rate.

in EUR million	2012	2011
Pre-tax profit/loss	801.2	(322.2)
Income tax expense for the financial year at the domestic statutory tax rate (25%)	(200.3)	80.6
Impact of different foreign tax rates	43.4	(83.9)
Impact of tax-exempt earnings of investments and other tax-exempt income	131.1	168.5
Tax increases due to non-deductible expenses	(142.3)	(389.5)
Tax income not attributable to the reporting period	(2.2)	(16.1)
Total	**(170.2)**	**(240.4)**

Tax effects relating to each component of other comprehensive income:

	2012			2011		
in EUR million	Before-tax amount	Tax benefit	Net-of-tax amount	Before-tax amount	Tax benefit	Net-of-tax amount
Available for sale-reserve (including currency translation)	975.9	(199.7)	776.2	(64.6)	14.5	(50.1)
Cash flow hedge-reserve (including currency translation)	(3.4)	4.6	1.2	30.6	(6.4)	24.2
Actuarial gains and losses	(45.9)	11.2	(34.7)	(42.7)	15.0	(27.7)
Currency translation	16.2	0.0	16.2	(232.9)	0.0	(232.9)
Other comprehensive income	**942.8**	**(183.9)**	**758.9**	**(309.6)**	**23.1**	**(286.5)**

11) Appropriation of profit

It will be proposed at the Annual General Meeting of Erste Group Bank AG that shareholders be paid a dividend of EUR 0.40 per share or EUR 157,827,458.80 in total. Shareholders of participation capital, will be paid a dividend of 8% on nominal value, this is EUR 141,099,520.00 in total. In 2012 EUR 141,099,520.00 was paid out to shareholders of participation capital and no dividend per share was paid for the financial year 2011. (In 2011, a dividend of EUR 0.70 per share was paid (EUR 264,723,704.70) as well as a dividend to shareholders of participation capital (EUR 141,099,520.00) for the financial year 2010). The total profit of Erste Group Bank AG distributable under Austrian accounting regulations is EUR 298.9 million (2011: EUR 141.1 million).

12) Cash and balances with central banks

in EUR million	2012	2011
Cash in hand	2,342	2,164
Balances with central banks	7,398	7,249
Total	**9,740**	**9,413**

A portion of 'Balances with central banks' represent mandatory reserve deposits that are not available for use in the day-to-day operations of Erste Group.

13) Loans and advances to credit institutions

in EUR million	2012	2011
Loans and advances to domestic credit institutions	1,029	726
Loans and advances to foreign credit institutions	8,045	6,852
Total	**9,074**	**7,578**

14) Loans and advances to customers

in EUR million	2012	2011
Loans and advances to domestic customers		
Public sector	2,873	3,027
Commercial customers	37,132	37,541
Private customers	25,099	25,148
Unlisted securities	256	256
Other	255	268
Total loans and advances to domestic customers	**65,615**	**66,240**
Loans and advances to foreign customers		
Public sector	3,620	3,487
Commercial customers	32,723	34,313
Private customers	29,124	29,728
Unlisted securities	532	689
Other	314	293
Total loans and advances to foreign customers	**66,313**	**68,510**
Total	**131,928**	**134,750**

15) Risk provisions for loans and advances

Development in risk provisions 2012

in EUR million	2011	Acquisition/ disposal of subsidiaries	Currency translation	Allocations	Use	Releases	Interest income from impaired loans	Reclassification[2][3]	2012
Specific loan loss provisions	6,113	12	75	2,785	(1,056)	(738)	(201)	(50)	6,940
Loans and advances to credit institutions	64	0	0	1	(3)	(1)	0	0	61
Loans and advances to customers	6,049	12	75	2,784	(1,053)	(737)	(201)	(50)	6,879
Portfolio loan loss provisions	914	1	6	273	0	(479)	0	(11)	704
Loans and advances to credit institutions	9	0	(1)	13	0	(15)	0	0	6
Loans and advances to customers	891	1	7	260	0	(458)	0	(6)	695
Financial assets - held to maturity	14	0	0	0	0	(6)	0	(5)	3
Risk provisions for loans and advances[1]	**7,027**	**13**	**81**	**3,058**	**(1,056)**	**(1,217)**	**(201)**	**(61)**	**7,644**
Other risk provisions	130	0	2	12	(24)	(24)	0	(67)	29
Provisions for contingent credit risk liabilities	186	0	0	134	(22)	(123)	0	11	186
Total	**7,343**	**13**	**83**	**3,204**	**(1,102)**	**(1,364)**	**(201)**	**(117)**	**7,859**

1) Risk provisions for loans and advances are recognised in the balance sheet as a deduction from assets.
2) Due to classification of Erste Bank Ukraine as disposal group, risk provisions of Erste Bank Ukraine in amount of EUR 67 million are presented within ‘assets held for sale’ in 2012 and accordingly reclassified from risk provisions.
3) Other risk provisions in the amount of EUR 67 million were reclassified into other sundry provisions as a result of an analysis of legal cases related to the lending business.

Development in risk provisions 2011

in EUR million	2010	Acquisition/disposal of subsidiaries	Currency translation	Allocations	Use	Releases	Interest income from impaired loans	Reclassification	2011
Specific loan loss provisions	5,315	16	(75)	2,653	(920)	(712)	(178)	14	6,113
Loans and advances to credit institutions	67	0	0	12	(4)	(11)	0	0	64
Loans and advances to customers	5,248	16	(75)	2,641	(916)	(701)	(178)	14	6,049
Portfolio loan loss provisions	804	0	(12)	335	0	(221)	0	8	914
Loans and advances to credit institutions	18	0	0	2	0	(11)	0	0	9
Loans and advances to customers	785	0	(12)	320	0	(210)	0	8	891
Financial assets - held to maturity	1	0	0	13	0	0	0	0	14
Risk provisions for loans and advances[1)]	**6,119**	**16**	**(87)**	**2,988**	**(920)**	**(933)**	**(178)**	**22**	**7,027**
Other risk provisions[2)]	116	3	(2)	35	(2)	(10)	0	(10)	130
Provisions for contingent credit risk liabilities	186	0	(1)	89	(4)	(74)	0	(10)	186
Total	**6,421**	**19**	**(90)**	**3,112**	**(926)**	**(1,017)**	**(178)**	**2**	**7,343**

1) Risk provisions for loans and advances are recognised in the balance sheet as a deduction from assets.
2) Other risk provisions include mainly provisions for legal proceedings in the course of the lending business.

Impairment loss for financial instruments

in EUR million	2012	2011	Position in Statement of Comprehensive income
Loans and advances to credit institutions	16.6	19.1	Risk provisions for loans and advances (Note 2)[1)]
Loans and advances to customers	3,278.7	3180.2	Risk provisions for loans and advances (Note 2)[1)]
Financial assets - available for sale	75.3	136.1	Result from financial assets - available for sale (Note 8)[2)]
Financial assets - held to maturity	13.3	21.9	Result from financial assets - held to maturity (Note 9)[3),] Risk provisions for loans and advances (Note 2) [1)]
Contingent credit risk liabilities	145.7	123.6	Risk provisions for loans and advances (Note 2)[1)]

1) Amounts presented under this position are not directly reconcilable with Note 2 which presents risk provisions for loans and advances and includes also portfolio provisions for financial assets held to maturity, whereas Note 15 shows impairment loss for all kinds of credit risk bearing exposures (including contingent credit risk bearing exposures). Furthermore, Note 2 presents comprehensive profit or loss impairment effects consisting of allocation, release of risk provisions, direct write off expenses and income on loss and advances written off, whereas Note 15 discloses just effects of impairment loss consisting of allocation of risk provisions and direct write offs.
2) Amounts presented under this position are not directly reconcilable with Note 8 as under Note 15 only impairment loss is considered unlike Note 8 where also reversal of impairment is considered.
3) Amounts presented under this position are not directly reconcilable with Note 9 as under Note 15 only impairment loss is considered unlike Note 9 where also reversal of impairment is considered.

Loans and receivables and investment held to maturity 2012

in EUR million	Balance sheet positions (gross carrying amount)	Specific loan loss provisions	Portfolio loan loss provisions	Net carrying amount
Loans and advances to credit institutions	9,074	(61)	(6)	9,007
Loans and advances to customers	131,928	(6,879)	(695)	124,354
Financial assets - held to maturity	18,975	n/a	(3)	18,972
Risk provisions for loans and advances	(7,644)	6,940	704	0
Total	**152,332**	**0**	**0**	**152,332**

Loans and receivables and investment held to maturity 2011

in EUR million	Balance sheet positions (gross carrying amount)	Specific loan loss provisions	Portfolio loan loss provisions	Net carrying amount
Loans and advances to credit institutions	7,578	(64)	(9)	7,504
Loans and advances to customers	134,750	(6,049)	(891)	127,810
Financial assets - held to maturity	16,074	n/a	(14)	16,060
Risk provisions for loans and advances	(7,027)	6,113	914	0
Total	**151,373**	**0**	**0**	**151,373**

16) Derivative financial instruments

	2012			2011		
	Notional amount	Fair value		Notional amount	Fair value	
in EUR million		Positive	Negative		Positive	Negative
Derivatives held for trading						
Interest rate	235,342	8,655	8,517	314,661	6,906	6,971
Equity	731	22	7	676	5	2
Foreign exchange	33,039	1,083	688	46,948	1,005	690
Credit	606	6	9	986	29	20
Commodity	496	5	8	171	3	7
Other	147	4	0	7	0	0
Total derivatives held for trading	**270,361**	**9,775**	**9,229**	**363,449**	**7,948**	**7,690**
Derivatives held in banking book						
Fair value hedges						
Interest rate	28,450	2,394	695	15,484	1,648	499
Equity	0	0	0	0	0	0
Foreign exchange	321	11	12	583	29	76
Credit	0	0	0	0	0	0
Commodity	0	0	0	0	0	0
Other	27	3	0	20	3	1
Total fair value hedges	**28,798**	**2,408**	**707**	**16,087**	**1,680**	**576**
Cash flow hedges						
Interest rate	2,434	102	0	4,633	97	19
Equity	0	0	0	0	0	0
Foreign exchange	1,553	2	0	1,291	36	4
Credit	0	0	0	0	0	0
Commodity	0	0	0	0	0	0
Other	0	0	0	2	0	0
Total cash flow hedges	**3,987**	**104**	**0**	**5,926**	**133**	**23**
Other derivatives						
Interest rate	15,749	853	719	31,173	884	642
Equity	1,009	37	40	1,096	54	55
Foreign exchange	15,784	89	165	10,436	170	314
Credit	580	10	4	761	56	29
Commodity	56	13	13	206	1	4
Other	106	0	1	50	5	4
Total other derivatives	**33,284**	**1,002**	**942**	**43,722**	**1,170**	**1,048**
Total derivatives in banking book	**66,069**	**3,514**	**1,649**	**65,735**	**2,983**	**1,647**
Total derivatives	**336,430**	**13,289**	**10,878**	**429,184**	**10,931**	**9,337**

17) Securities

in EUR million	Loans and advances to customers and credit institutions		Trading assets		Financial assets – At fair value through profit or loss		Financial assets – Available for sale		Financial assets – Held to maturity		Total	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
Bonds and other interest-bearing securities	**1,312**	**1,705**	**4,872**	**5,461**	**526**	**1,502**	**20,226**	**17,654**	**18,975**	**16,074**	**45,911**	**42,396**
Listed	0	0	4,404	4,253	467	1,375	18,924	16,457	18,216	15,150	42,011	37,235
Unlisted	1,312	1,705	468	1,208	59	127	1,302	1,197	759	924	3,900	5,161
Equity-related securities	**0**	**0**	**306**	**406**	**190**	**311**	**1,725**	**2,109**	**0**	**0**	**2,221**	**2,826**
Listed	0	0	104	119	190	311	573	474	0	0	867	904
Unlisted	0	0	202	287	0	0	1,152	1,635	0	0	1,354	1,922
Equity holdings	0	0	0	0	0	0	467	482	0	0	467	482
Total	**1,312**	**1,705**	**5,178**	**5,867**	**716**	**1,813**	**22,418**	**20,245**	**18,975**	**16,074**	**48,599**	**45,704**

Investment funds are disclosed within equity-related securities.

Held-to-maturity financial assets include bonds and other interest-bearing securities that are quoted in active markets and are intended to be held to maturity.

The carrying amount of investments in equity instruments measured at cost is EUR 376 million (2011: EUR 431 million).

Securities lending and repurchase transactions are disclosed in Note 36.

18) Equity method investments

in EUR million	2012	2011
Credit institutions	94	94
Non-credit institutions	80	79
Total	**174**	**173**

The table below shows the aggregated financial information of companies accounted for at equity:

in EUR million	2012	2011
Total assets	2,662	2,533
Total liabilities	2,262	2,159
Income	350	366
Profit/loss	43	43

As of 31 December 2012 and 31 December 2011, none of Erste Group’s investments accounted for at equity published price quotations.

19) Movements in fixed assets schedule

19.1) Property, equipment and other assets

A) AT COST

in EUR million	Property and equipment: Land and buildings (used by the Group)	Property and equipment: Office and plant equipment/ other fixed assets	Property and equipment: IT assets (hardware)	Property and equipment	Investment properties	Movable other property[1]
Balance as of 1 Jan 2011	**2,865**	**1,250**	**765**	**4,879**	**1,597**	**22**
Additions in current year (+)	92	81	44	218	75	35
Disposals (-)	(72)	(81)	(94)	(248)	(38)	(15)
Acquisition of subsidiaries (+)	5	4	4	14	0	0
Disposal of subsidiaries (-)	(6)	(6)	(1)	(13)	(6)	0
Reclassifications (+/-)	1	(35)	14	(20)	6	20
Assets held for sale (+/-)	64	0	0	64	0	0
Currency translation (+/-)	(33)	(12)	(11)	(57)	(14)	0
Balance as of 31 Dec 2011	**2,917**	**1,200**	**720**	**4,837**	**1,620**	**62**
Additions in current year (+)	128	80	44	253	43	267
Disposals (-)	(110)	(70)	(63)	(243)	(116)	(8)
Acquisition of subsidiaries (+)	0	0	0	0	0	0
Disposal of subsidiaries (-)	0	(1)	0	(2)	(52)	0
Reclassifications (+/-)	4	(5)	6	5	1	0
Assets held for sale (+/-)	(85)	(9)	(5)	(99)	(9)	0
Currency translation (+/-)	8	4	1	14	23	(1)
Balance as of 31 Dec 2012	**2,863**	**1,199**	**704**	**4,766**	**1,510**	**321**

1) Movable other property is part of 'Other Assets' in the balance sheet.

B) ACCUMULATED DEPRECIATION

in EUR million	Property and equipment: Land and buildings (used by the Group)	Property and equipment: Office and plant equipment/ other fixed assets	Property and equipment: IT assets (hardware)	Property and equipment	Investment properties	Movable other property[1]
Balance as of 1 Jan 2011	**(955)**	**(880)**	**(598)**	**(2,434)**	**(434)**	**(12)**
Amortisation and depreciation (-)	(89)	(70)	(76)	(235)	(34)	(9)
Disposals (+)	47	69	91	207	11	5
Acquisition of subsidiaries (+)	(2)	(2)	(3)	(7)	(4)	0
Disposal of subsidiaries (+)	2	3	1	6	0	0
Impairment (-)	(9)	(2)	0	(12)	(23)	0
Reversal of impairment (+)	0	0	0	0	5	1
Reclassifications (+/-)	6	4	0	10	(4)	(4)
Assets held for sale (+/-)	(26)	0	0	(26)	0	0
Currency translation (+/-)	7	0	8	15	1	0
Balance as of 31 Dec 2011	**(1,019)**	**(879)**	**(578)**	**(2,476)**	**(481)**	**(18)**
Amortisation and depreciation (-)	(86)	(80)	(63)	(229)	(34)	(10)
Disposals (+)	37	62	58	158	50	1
Acquisition of subsidiaries (-)	0	0	0	0	(1)	(88)
Disposal of subsidiaries (+)	0	1	0	1	18	5
Impairment (-)	(25)	(1)	0	(26)	(36)	(4)
Reversal of impairment (+)	7	0	0	7	2	3
Reclassifications (+/-)	(4)	0	(3)	(6)	0	0
Assets held for sale (+/-)	31	7	5	43	1	1
Currency translation (+/-)	(4)	(4)	0	(9)	(6)	0
Balance as of 31 Dec 2012	**(1,063)**	**(894)**	**(581)**	**(2,538)**	**(487)**	**(110)**

1) Movable other property is part of 'Other Assets' in the balance sheet.

C) CARRYING AMOUNTS

in EUR million	Property and equipment					
	Land and buildings (used by the Group)	Office and plant equipment/ other fixed assets	IT assets (hardware)	Property and equipment	Investment properties	Movable other property[1)]
Balance as of 31 Dec 2011	**1,897**	**322**	**142**	**2,361**	**1,139**	**44**
Balance as of 31 Dec 2012	**1,800**	**305**	**123**	**2,228**	**1,023**	**211**

1) Movable other property is part of 'Other Assets' in the balance sheet.

The fair value of investment properties totalled EUR 1,047 million (2011: EUR 1,212 million).

The determination of fair values in Austria is mainly conducted by internal experts, while in the CEE countries it is on the basis of external expert opinions. The determined market values are then cross-checked with observed market values.

The amount recorded for investment properties under operating leases includes a carrying amount of EUR 325 million (2011: EUR 157 million).

In the reporting period, borrowing costs of EUR 6.5 million (2011: EUR 6.0 million) were capitalised. The related interest rates ranged from 0.7% to 2.9%. (2011: 1.0% to 3.7%).

The carrying amount of expenditure recognized in the item fixed assets and investment properties during their construction is EUR 39.4 million (2011: EUR 334.9 million). The contractual commitments for purchase of fixed assets and investment properties are EUR 277.2 million (2011: EUR 199.7 million).

Impairment losses recognised in 2012 and 2011 for investment property come from real estate funds managed by Česká spořitelna, a.s.

19.2) Intangible assets

A) AT COST

	Intangible assets						
in EUR million	Goodwill	Customer relationships	Brand	Software acquired	Self-constructed software within the Group	Others (licenses, patents, etc.)	Total
Balance as of 1 Jan 2011	**4,003**	**782**	**303**	**1,160**	**253**	**521**	**7,022**
Additions in current year (+)	0	0	0	178	15	14	207
Disposals (-)	0	0	0	(102)	(16)	(2)	(120)
Acquisition of subsidiaries (+)	0	0	0	6	0	1	7
Disposal of subsidiaries (-)	(2)	0	0	(1)	0	0	(3)
Reclassifications (+/-)	0	0	0	36	0	(29)	7
Assets held for sale (+/-)	0	0	0	0	0	0	0
Currency translation (+/-)	(21)	(6)	(4)	(20)	0	(9)	(60)
Balance as of 31 Dec 2011	**3,981**	**776**	**299**	**1,258**	**251**	**495**	**7,060**
Additions in current year (+)	0	0	0	102	27	34	163
Disposals (-)	0	0	0	(35)	(10)	(2)	(47)
Acquisition of subsidiaries (+)	0	0	0	0	0	0	0
Disposal of subsidiaries (-)	0	0	0	0	0	0	0
Reclassifications (+/-)	0	0	0	9	3	(12)	0
Assets held for sale (+/-)	0	0	0	(27)	0	0	(27)
Currency translation (+/-)	(31)	(4)	(8)	10	2	3	(29)
Balance as of 31 Dec 2012	**3,950**	**772**	**291**	**1,317**	**273**	**518**	**7,120**

B) ACCUMULATED DEPRECIATION

	Intangible assets						
in EUR million	Goodwill	Customer relationships	Brand	Software acquired	Self-constructed software within the Group	Others (licenses, patents, etc.)	Total
Balance as of 1 Jan 2011	**(744)**	**(274)**	**0**	**(821)**	**(224)**	**(284)**	**(2,347)**
Amortisation and depreciation (-)	0	(69)	0	(102)	(16)	(21)	(208)
Disposals (+)	0	0	0	88	19	2	109
Acquisition of subsidiaries (+)	0	0	0	(4)	0	(1)	(5)
Disposal of subsidiaries (+)	0	0	0	1	0	0	1
Impairment (-)	(1,065)	0	0	0	0	(1)	(1,066)
Reversal of impairment (+)	0	0	0	0	0	0	0
Reclassifications (+/-)	0	0	0	0	0	1	1
Assets held for sale (+/-)	0	0	0	0	0	0	0
Currency translation (+/-)	0	0	0	0	0	(14)	(14)
Balance as of 31 Dec 2011	**(1,809)**	**(343)**	**0**	**(838)**	**(221)**	**(317)**	**(3,528)**
Amortisation and depreciation (-)	0	(69)	0	(113)	(18)	(23)	(223)
Disposals (+)	0	0	0	31	10	2	43
Acquisition of subsidiaries (-)	0	0	0	0	0	0	0
Disposal of subsidiaries (+)	0	0	0	0	0	0	0
Impairment (-)	(515)	0	0	0	0	0	(515)
Reversal of impairment (+)	0	0	0	0	0	0	0
Reclassifications (+/-)	0	0	0	0	0	0	0
Assets held for sale (+/-)	0	0	0	10	0	0	10
Currency translation (+/-)	0	0	0	(6)	0	(7)	(13)
Balance as of 31 Dec 2012	**(2,324)**	**(412)**	**0**	**(916)**	**(229)**	**(345)**	**(4,226)**

C) CARRYING AMOUNTS

in EUR million	Goodwill	Customer relationships	Brand	Software acquired	Self-constructed software within the Group	Others (licenses, patents, etc.)	Total
	Intangible assets						
Balance as of 31 Dec 2011	**2,172**	**433**	**299**	**420**	**30**	**178**	**3,532**
Balance as of 31 Dec 2012	**1,626**	**359**	**291**	**401**	**44**	**173**	**2,894**

As of 31 December 2012, customer relationships included the customer relationships of Banca Comercială Română at EUR 253.4 million (2011: EUR 315.2 million), the customer relationship and distribution network of Erste Card Club d.d. Croatia at EUR 10.7 million (2011: EUR 17.4 million), as well as the customer relationships of Ringturm Kapitalanlagegesellschaft m.b.H at EUR 68.5 million (2011: EUR 72.8 million). The remaining amortisation period of customer relationships in Banca Comercială Română is 4.7 years, in Erste Card Club d.d. Croatia 1.6 years and in Ringturm Kapitalanlagegesellschaft m.b.H 15.8 years.

The item 'Brand' as of 31 December 2012 consisted of the brand of Banca Comercială Română, at EUR 290.6 million (2011: EUR 298.7 million).

Development of goodwill

The changes in the carrying amount of goodwill, as well as gross amounts and accumulated impairment losses of goodwill, for the years ended 31 December 2012 and 2011 are shown below by country of subsidiary.

in EUR million	Romania	Czech Republic	Slovakia	Hungary	Croatia	Austria	Other countries	Total
Balance as of 1 Jan 2011	**1,819**	**544**	**226**	**313**	**116**	**240**	**1**	**3,259**
Acquisitions	0	0	0	0	0	0	0	0
Disposals	0	0	0	0	0	0	(1)	(1)
Impairment losses	(699)	0	0	(313)	0	(53)	0	(1,065)
Exchange rate changes	(19)	0	0	0	(2)	0	0	(21)
Balance as of 31 Dec 2011	**1,101**	**544**	**226**	**0**	**114**	**187**	**0**	**2,172**
Gross amount of goodwill	2,280	544	226	313	114	363	141	3,981
Cumulative impairment	(1,179)	0	0	(313)	0	(176)	(141)	(1,809)
Balance as of 1 Jan 2012	**1,101**	**544**	**226**	**0**	**114**	**187**	**0**	**2,172**
Acquisitions	0	0	0	0	0	0	0	0
Disposals	0	0	0	0	0	0	0	0
Impairment losses	(470)	0	0	0	0	(45)	0	(515)
Exchange rate changes	(31)	0	0	0	0	0	0	(31)
Balance as of 31 Dec 2012	**600**	**544**	**226**	**0**	**114**	**142**	**0**	**1,626**
Gross amount of goodwill	2,249	544	226	313	114	363	141	3,950
Cumulative impairment	(1,649)	0	0	(313)	0	(221)	(141)	(2,324)

The gross amount of goodwill is the amount at the time of acquisition, less accumulated amortisation before 2004, including exchange rate changes.

In the development of goodwill, all companies are grouped by the country of subsidiary.

Goodwill as of 31 December 2012 comprised predominantly goodwill of EUR 597.4 million (2011: EUR 1,097.6 million) from Banca Comercială Română S.A, goodwill of EUR 543.1 million (2011: EUR 543.1 million) from Česká spořitelna a.s., and goodwill of EUR 226.3 million (2011: EUR 226.3 million) from Slovenská sporitel'ňa a.s.

Impairment losses recognised for goodwill in 2012 come from Banca Comercială Română S.A. (EUR 469.4 million). Goodwill from Salzburger Sparkasse AG (balance as of 31 Dec 2011: EUR 22.3 million), and that from Sparkasse Oberösterreich AG (balance as of 31 Dec 2011: EUR 22.8 million), were fully impaired in 2012.

Impairment losses recognised for goodwill in 2011 come from Banca Comercială Română S.A. (EUR 692.8 million). Goodwill from Erste Bank Hungary Nyrt., Erste Asset Management GmbH, as well as BCR Leasing IFN S.A. and Tiroler Sparkasse AG was fully impaired in 2011.

All these impairments were allocated based on value in use of the assets.

The carrying amounts of acquired goodwill elements have been assessed for impairment in connection with the following subsidiaries (cash generating units):

_ Allgemeine Sparkasse Oberösterreich Bankaktiengesellschaft ('ASK')
_ Banca Comerciala Romana SA ('BCR')
_ Ceska sporitelna a.s. ('CSAS')
_ Erste & Steiermarkische Bank d.d., Erste Bank Croatia ('EBC')
_ Slovenska sporitelna a.s. ('SLSP')
_ Salzburger Sparkasse ('SSK')
_ Steiermärkische Bank und Sparkassen Aktiengesellschaft ('STMK')

The table below summarizes the key elements of the approach taken in designing and performing the goodwill impairment test:

In EUR million	ASK	BCR	CSAS	EBC	SLSP	SSK	STMK
Carrying amount of goodwill as of 1 January 2012	23	1,101	544	114	226	22	55
Effect of exchange rate changes for the year 2012	0	(31)	0	0	0	0	0
Basis upon which recoverable amount has been determined	Value in use (discounted cash flow model)						
Key input parameters into the discounted cash flow model	Risk free rate, terminal growth rate, β factor, market risk premium						
Description of approach to determining value assigned to risk free rate	Risk free rate has been set at 2.4% p.a. across relevant Erste Group's CGUs based on relevant financial statistics published by Deutsche Bundesbank as of the reference date 30 November 2012						
Description of approach to determining values assigned to terminal growth rate	For Austrian CGUs: Terminal growth rate has been set to 1.0% reflecting expected the Austrian annual average long-term inflation rate. For non-Austrian (CEE) CGUs: Terminal growth rate has been set to expected annual growth rate necessary for convergence to the economic level of the euro area, considering projections for each related national banking system until reaching a mature level similar to that of the euro area's saturated market.						
Description of approach to determining values assigned to β factor	Set as the median value of a group of levered β factors attributable to a sample of 'peer banks' representative of the tested banks (CGUs), as published by Bloomberg as of the reference date 30 November 2012. Thus, the β values used have been set at 1.0922 for Austrian tested entities and 1.2476 for non-Austrian (CEE) tested entities.						
Description of approach to determining values assigned to market risk premium	Set at 6.0% across relevant Group's CGUs based on publicly available evaluations by Austrian Chamber of Commerce (Kammer der Wirtschaftstreuhander).						
Period of cash flow projection (years)	5 years (2013 - 2017); extrapolation to perpetuity based on terminal growth rate						
Terminal growth rate used to extrapolate cash flow projection beyond projection	1.0%	5.1%	2.5%	4.3%	3.0%	1.0%	1.0%
Discount rate applied to cash flow projections (pre-tax)	11.7%	15.8%	14.0%	17.4%	14.8%	11.4%	10.3%
Amount of goodwill impairment loss recognised in profit or loss for the year 2012	(23)	(470)	0	0	0	(22)	0
Post-impairment carrying amount of Goodwill as of 31 December 2012	0	600	544	114	226	0	55

For the purpose of the goodwill impairment assessment undertaken as of 31 December 2011, the key input parameters into the cash flow model and the approach taken in determining their respective values were the same. As a result, a risk-free rate of 3.1% and a market risk premium of 4.5% were used throughout the tested group entities, whereas the β factor values used were 0.9961 for Austrian entities and 1.2710 for non-Austrian entities.

The values of the other key input parameters used as of 31 December 2011 were as follows:

	ASK	BCR	CSAS	EBC	SLSP	SSK	STMK
Terminal growth rate used to extrapolate cash flow projection beyond projection	1.0%	4.7%	2.0%	2.9%	2.6%	1.0%	1.0%
Discount rate applied to cash flow projections (pre-tax)	9.9%	15.3%	12.8%	15.4%	12.8%	9.6%	8.7%

In connection with those tested cash-generating units for which no goodwill impairment loss has been determined as existing as of 31 December 2012, the table below summarizes the outcome of the sensitivity analysis performed to determine by how much the key input parameters into the applied discounted cash flow models would need adversely to vary in order to cause the unit's calculated recoverable amount to decrease down to its related carrying amount.

In EUR million	CSAS	EBC	SLSP	STMK
Amount by which recoverable amount exceeds carrying amount	2,648	3	563	6
Risk free rate increase that would cause recoverable amount to equal carrying amount (basis points)	655	4	363	13
Terminal growth rate decrease that would cause recoverable amount to equal carrying amount (basis points)	(3,799)	(14)	(1,187)	(45)
β factor increase that would cause recoverable amount to equal carrying amount (coefficient value)	1.0913	0.0069	0.6050	0.0283
Market risk premium increase that would cause recoverable amount to equal carrying amount (basis points)	525	3	291	16

As at 31 December 2011, the comparative sensitivity analysis figures were as follows:

In EUR million	CSAS	EBC	SLSP	STMK
Amount by which recoverable amount exceeds carrying amount	4,472	170	1,724	159
Risk free rate increase that would cause recoverable amount to equal carrying amount (basis points)	711	295	725	266
Terminal growth rate decrease that would cause recoverable amount to equal carrying amount (basis points)	(20,538)	(1,490)	(20,149)	(1,247)
β factor increase that would cause recoverable amount to equal carrying amount (coefficient value)	2.6705	0.6560	2.5309	0.9207
Market risk premium increase that would cause recoverable amount to equal carrying amount (basis points)	946	232	896	416

20) Tax assets and liabilities

					Net variance 2012		
in EUR million	Tax assets 2012	Tax assets 2011	Tax liabilities 2012	Tax liabilities 2011	Total	Through profit or loss	Through other comprehensive income
Temporary differences relate to the following items:							
Loans and advances to credit institutions and customers	102	125	(94)	(105)	(11)	(11)	0
Risk provisions for loans and advances	124	143	(169)	(111)	(77)	(77)	0
Financial assets - available for sale	294	246	(236)	(57)	(130)	69	(200)
Property and equipment	36	48	(21)	(22)	(11)	(11)	0
Deposits by banks and customer deposits	2	7	(25)	(27)	(3)	(3)	0
Long-term employee provisions	123	117	0	(2)	8	(3)	11
Sundry provisions	34	41	2	(11)	7	7	0
Carry forward of tax losses	208	185	0	0	23	23	0
Customer relationships and brand	11	12	(117)	(131)	13	13	0
Other	259	278	(202)	(379)	158	136	22
Effect of netting gross deferred tax position	(537)	(502)	537	502	0	0	0
Total deferred taxes	**658**	**702**	**(324)**	**(345)**	**(23)**	**143**	**(166)**
Current taxes	**128**	**116**	**(53)**	**(34)**	**(7)**	**(9)**	**2**
Total taxes	**785**	**818**	**(377)**	**(379)**	**(31)**	**134**	**(164)**

In compliance with IAS 12.39, no deferred tax liabilities were recognised for temporary differences relating to investments in subsidiaries in the amount of EUR 344 million (31 December 2011: EUR 337 million), as they are not expected to reverse in the foreseeable future. No deferred taxes were recognised for tax losses carried forward of EUR 1,821 million (31 December 2011: EUR 1,694 million), as they will not be realised in the foreseeable future.

21) Assets held for sale and liabilities associated with assets held for sale

in EUR million	2012	2011
Assets held for sale	708	87
Liabilities associated with assets held for sale	339	0

Assets held for sale include mainly disposal group held for sale (Erste Bank Ukraine), cars and buildings.

Disposal group held for sale (Erste Bank Ukraine)

Due to growing economic and political uncertainty in Ukraine and in order to concentrate on the key strategic markets in the eastern part of the European Union as well as on those countries with prospects to join the European Union, in December 2012 Erste Group signed an agreement for the sale of its fully owned Ukrainian subsidiary – Public Company 'Erste Bank' (hereafter referred as Erste Bank Ukraine) – to FIDOBANK, an unrelated third party.

The agreed selling price amounts to USD 83 million (approximately EUR 63 million at the USD/EUR exchange rate of 1.3194 from 31 December 2012), of which the amount of USD 25 million (approximately EUR 19 million) has been prepaid as of 31 December 2012. Due to the procedural aspects of obtaining formal approval of the transaction by the market supervising authorities in Austria and Ukraine (Antimonopoly Committee of Ukraine, National Bank of Ukraine, Finanzmarktaufsicht in Austria), its closure date is expected by the end of the 2nd quarter of 2013.

Having met the qualifying criteria of IFRS 5, Erste Bank Ukraine is presented in Erste Group consolidated financial statements for the financial year ending 31 December 2012 as a disposal group held for sale and included in the balance sheet positions 'Assets held for sale' and 'Liabilities associated with assets held for sale'. In accordance with the presentation requirements of IFRS 5, the assets and liabilities of Erste Bank Ukraine are neither reclassified nor re-presented in the statements of financial position of prior years.

As Erste Bank Ukraine does not fulfill any of the criteria stipulated in IFRS 5.32, it is not classified as 'discontinued operation'. Prior to its reclassification as a disposal group held for sale in the consolidated balance sheet of Erste Group, Erste Bank Ukraine performed, as part of preparing its individual financial statements for consolidation purposes, an impairment test of its non-financial assets according to IAS 36. This exercise led to no impairment loss being booked at the individual level, as the estimated value in use of Erste Bank Ukraine's non-financial assets as of 31 December 2012 (considered as a single cash-generating unit) exceeded their carrying amount.

Thereafter, the disposal group was measured at consolidated level according to IFRS 5 at the lower of the carrying amount and fair value less cost to sell. As the selling contract had been signed before the end of 2012, the best indication for fair value of the disposal group is the agreed transaction price. The agreed price of USD 83 million (approximately EUR 63 million) has been found to be lower than the net equity of Erste Bank Ukraine in the amount of EUR 138 million as of 31 December 2012. The resulting impairment loss was first allocated to the non-current assets in the disposal group that are within the scope of the IFRS 5 measurement requirements. For the remaining impairment loss, Erste Group has decided to create a provision for onerous contract according to IAS 37, as the underlying contractual obligation was in existence as of 31 December 2012.

The impairment loss was allocated to the following items, all of which impact the 'Other operating result' in the consolidated income statement:

in EUR million	2012
Impairment on property and equipment	(43)
Impairment on intangible assets	(17)
Allocation of provision for an onerous contract	(15)

After the allocation of impairment loss, the carrying amounts of major classes of assets and liabilities of Erste Bank Ukraine as of 31 December 2012 are as follow:

in EUR million	2012
ASSETS	
Cash and balances with central banks	36
Loans and advances, net	405
Financial assets - at fair value through profit or loss	96
Financial assets - available for sale	47
Intangible assets	0
Property and equipment	0
Other assets	15
Total assets	**599**
LIABILITIES AND EQUITY	
Deposits by banks and customer deposits	312
Other liabilities	7
Other provisions	20
Total liabilities and equity	**339**

The agreed transaction price is subject to pre-closing price adjustments. It is expected that operating business performance of Erste Bank Ukraine in the period from 1 January 2013 until the closing of the transaction will not lead to any deductions from the agreed transaction price, and thus no further material adjustments to the carrying amount of the disposal group are expected. Moreover, there is no uncertainty as to the ability of the buyer to pay the purchase price.

Other comprehensive income includes in total EUR 79 million of cumulative expenses relating to Erste Bank Ukraine, comprising EUR 81 million negative currency translation reserve and EUR 2 million positive Available for Sale reserve.

22) Other assets

in EUR million	2012	2011 amended[1]
Accrued commissions	119	125
Deferred income	198	224
Sundry assets	2,021	1,896
Total	**2,338**	**2,245**

1) Due to reclassification of Investment properties from Sundry assets to a separate position.

Sundry assets consist mainly of clearing items from the settlement of securities and payment transactions and contractual commitments.

23) Deposits by banks

in EUR million	2012	2011
Deposits by banks – domestic credit institutions	8,770	7,865
Deposits by banks – foreign credit institutions	13,052	15,920
Total	**21,822**	**23,785**

24) Customer deposits

in EUR million	Domestic 2012	Domestic 2011	Abroad 2012	Abroad 2011	Total 2012	Total 2011
Savings deposits	41,931	41,508	14,358	13,229	56,289	54,737
Other deposits						
Public sector	985	908	3,353	2,814	4,338	3,722
Commercial customers	12,198	12,450	13,979	12,893	26,177	25,343
Other deposits	6,024	5,505	29,525	28,888	35,549	34,393
Sundry	328	318	372	367	700	685
Total other	**19,535**	**19,181**	**47,229**	**44,962**	**66,764**	**64,143**
Total	**61,466**	**60,689**	**61,587**	**58,191**	**123,053**	**118,880**

Customer deposits include a total of EUR 632 million (2011: EUR 553 million) of liabilities to which the fair value option was applied. As of 31 December 2012 the total amount repayable on these liabilities at maturity at was EUR 629 million (2011: EUR 549 million). The difference between the fair value of the customer deposits to which the fair value option was applied and the amount repayable at maturity totalled EUR 3 million (2011: EUR 4 million). The amount of fair value changes that are attributable to changes in own credit risk amounts to EUR (5,4) million for reporting period 2012; cumulative amount of fair value changes at 31 December 2012 attributable to the changes in own credit risk is EUR (5,4) million.

25) Debt securities in issue

in EUR million	2012	2011
Bonds	17,217	18,656
Certificates of deposit	391	1,420
Other certificates of deposits/ name certificates	2,199	2,033
Mortgage and municipal bonds	11,915	11,652
Other	3	18
Own issues repurchased	(2,298)	(2,997)
Total	**29,427**	**30,782**

In 1998, Erste Group Bank AG launched a debt issuance programme (DIP) amounting to EUR 30 billion. The DIP is a programme for issuing debt instruments in various currencies and with a wide array of available structures and maturities. In 2012, 77 new issues with total volume of about EUR 5.1 billion were issued under the DIP.

Furthermore, in July 2010, a program to offer bonds to retail customers was implemented. In 2012, 151 new issues with total volume of about EUR 1.2 billion were floated.

The Euro Commercial Paper and Certificates of Deposit Programme from August 2008 has an overall size of EUR 10 billion. In all, 147 issues amounting to EUR 9.2 billion were placed in 2012. Issues totalling approximately EUR 9.3 billion were redeemed over the same period.

'Debt securities in issue' include EUR 1,641 million (2011: EUR 781 million) in liabilities to which the fair value option was applied. As of 31 December 2012, the total amount repayable on these liabilities at maturity was EUR 1,552 million (2011: EUR 788 million). The difference between the fair value of the debt securities for which the fair value option was applied and the amount repayable at maturity was EUR 89 million (2011: EUR (7) million). Fair value changes attributable to changes in own credit risk amount to EUR (35.4) million for the reporting period 2012 (2011: EUR 30.0 million), cumulative amount of fair value changes at 31 December 2012 attributable to the changes in own credit risk is EUR (5.4) million (2011: EUR 30.0 million).

26) Trading liabilities

in EUR million	2012	2011
Debt instruments	63	64
Trading liabilities	418	472
Total	**481**	**536**

27) Provisions

in EUR million	2012	2011
Long-term employee provisions	1,096	1,101
Sundry provisions	392	479
Total	**1,488**	**1,580**

a) Long-term employee provisions

in EUR million	Pensions	Severance payments	Jubilee payments	Total
Present value of long-term employee benefit obligations, 31 Dec 2008	**950**	**407**	**70**	**1,427**
Present value of long-term employee benefit obligations, 31 Dec 2009	**887**	**409**	**72**	**1,368**
Present value of long-term employee benefit obligations, 31 Dec 2010	**833**	**405**	**73**	**1,311**
Increase from acquisition of subsidiaries	3	2	0	5
Decrease from acquisition of subsidiaries	0	0	0	0
Settlements	0	0	0	0
Curtailments	0	0	0	0
Service cost	0	14	5	19
Interest cost	35	17	3	55
Payments	72	51	5	128
Exchange rate difference	0	2	0	2
Actuarial gains/losses recognised in other comprehensive income	26	8	0	34
Actuarial gains/losses recognised in income	0	0	3	3
Present value of long-term employee benefit obligations, 31 Dec 2011	**825**	**397**	**73**	**1,295**
Obligations covered by plan assets	0	182	12	194
Obligations covered by provisions	0	215	61	276
Less fair value of plan assets	**0**	**182**	**12**	**194**
Provisions as of 31 Dec 2011	**825**	**215**	**61**	**1,101**
Present value of long-term employee benefit obligations, 31 Dec 2011	**825**	**397**	**73**	**1,295**
Increase from acquisition of subsidiaries	0	0	0	0
Decrease from disposal of subsidiaries	0	0	0	0
Settlements	0	0	0	0
Curtailments	0	0	0	0
Service cost	0	14	4	18
Interest cost	38	18	3	59
Payments	71	39	5	115
Exchange rate difference	0	0	0	0
Actuarial gains/losses recognised in other comprehensive income	31	20	0	51
Actuarial gains/losses recognised in income	0	0	1	1
Present value of long-term employee benefit obligations, 31 Dec 2012	**823**	**410**	**76**	**1,309**
Obligations covered by plan assets	0	184	29	213
Obligations covered by provisions	0	226	47	273
Less fair value of plan assets	**0**	**184**	**29**	**213**
Provisions as of 31 Dec 2012	**823**	**226**	**47**	**1,096**

The movement in plan assets during the reporting period was as follows:

in EUR million	Severance payments	Jubilee payments	Total
Fair value of plan assets as of 31 Dec 2010	190	12	202
Expected return on plan assets	7	1	8
Contributions by the employer	12	1	13
Benefits paid	(18)	(1)	(19)
Actuarial gains/losses recognised in other comprehensive income	(9)	0	(9)
Actuarial gains/losses recognised in income	0	(1)	(1)
Settlements	0	0	0
Fair value of plan assets as of 31 Dec 2011	**182**	**12**	**194**
Addition	0	17	17
Expected return on plan assets	7	0	7
Contributions by the employer	11	1	12
Benefits paid	(22)	(1)	(23)
Actuarial gains/losses recognised in other comprehensive income	6	---	6
Actuarial gains/losses recognised in income	---	0	0
Settlements	---	---	0
Fair value of plan assets as of 31 Dec 2012	**184**	**29**	**213**

In 2012, the expected contributions for the severance and jubilee benefit obligations will amount to EUR 10.8 million (2011: EUR 10.7 million).

The following table presents the portfolio structure of the plan assets.

in EUR million	2012	2011
Debt instruments	200	129
Fixed-term deposits / cash	13	65
Total	**213**	**194**

In 2012, actual gain (loss) on plan assets amounted to EUR 14.5 million (2011: EUR (1.8) million).

The following table presents profit or loss effects for post-employment defined benefits plans (pensions and severance payments).

in EUR million	2012	2011
Service cost	(14)	(14)
Interest cost	(56)	(52)
Expected return on plan assets	7	7
Total	**(63)**	**(59)**

The whole amount is included in the income statement in the line ‘General administrative expenses’.

In 2012 the cumulative amount of actuarial gain and losses recognised in other comprehensive income was EUR (382.1) million (2011: EUR (336.1) million).

b) Sundry provisions

Sundry provisions 2012

in EUR million	2011	Acquisition/ disposal of subsidiaries	Currency translation	Allocations	Use	Releases	Reclassification[2]	2012
Provisions for contingent credit risk liabilities and other risk provisions	316	0	2	146	(46)	(147)	(56)	215
Other provisions[1]	163	0	(2)	20	(26)	(46)	68	177
Total	**479**	**0**	**0**	**166**	**(72)**	**(193)**	**12**	**392**

1) Other provisions consist mainly of provisions for litigation. It is considered highly likely that use will be made next year.
2) Other risk provisions in the amount of EUR 67 million were reclassified into other sundry provisions as a result of an analysis of legal cases related to the lending business.

Sundry provisions 2011

in EUR million	2010	Acquisition/ disposal of subsidiaries	Currency translation	Alloca-tions	Use	Releases	Reclassi-fication	2011
Provisions for contingent credit risk liabilities and other risk provisions	302	3	(3)	124	(6)	(84)	(20)	316
Other provisions[1)]	134	1	(5)	68	(20)	(15)	0	163
Total	**436**	**4**	**(8)**	**192**	**(26)**	**(99)**	**(20)**	**479**

1) Other provisions consist mainly of provisions for litigation. It is considered highly likely that use will be made of other sundry provisions next year.

28) Other liabilities

in EUR million	2012	2011 amended[1)]
Deferred income	326	343
Accrued commissions	17	14
Sundry liabilities	2,734	2,494
Total	**3,077**	**2,851**

1) Due to reclassification of 'Value adjustments from portfolio fair value hedges' from sundry liabilities in a separate line item.

Sundry liabilities consist mainly of clearing items from the settlement of securities and payment transactions.

29) Subordinated liabilities

in EUR million	2012	2011
Subordinated issues and deposits	3,696	3,090
Supplementary capital	1,292	1,510
Hybrid issues	378	1,239
Own issues repurchased	(43)	(56)
Total	**5,323**	**5,783**

Subordinated liabilities include EUR 279 million (2011: EUR 215 million) in liabilities to which the fair value option was applied. As of 31 December 2012 the total amount repayable on these liabilities at maturity was EUR 273 million (2011: EUR 223 million). The difference between the fair value of the subordinated liabilities for which the fair value option was applied and the amount repayable at maturity was EUR 6 million (2011: EUR (8) million). The amount of fair value changes that are attributable to changes in own credit risk amounts to EUR -2.4 million for reporting period 2012 (2011: EUR 17.7 million); cumulative amount of fair value changes at 31 December 2012 attributable to the changes in own credit risk is EUR 15.3 million (2011: EUR 17.7 million).

30) Total equity

in EUR million	2012	2011
Subscribed capital	2,547	2,539
Share capital	790	782
Participation capital	1,757	1,757
Additional paid-in capital	6,472	6,413
Retained earnings	3,836	3,085
Owners of the parent	**12,855**	**12,037**
Non-controlling interests	3,483	3,143
Total[1)]	**16,338**	**15,180**

1) Details on equity are provided in Section III, Statement of Changes in Total Equity.

As of 31 December 2012, subscribed capital (also known as registered capital) consists of 394,568,647 (2011: 390,767,262) voting bearer shares (ordinary shares). The pro-rata amount of registered capital, per no-par value share was EUR 2.00. Additional paid-in capital (or share premium) represents the amount by which the issue price of the shares exceeded their par value. Retained earnings and other reserves represent accumulated net profit brought forward, as well as income and expenses recognised in other comprehensive income.

In April 2009, Erste Group Bank AG issued participation capital for subscription. Within the context of this offer, Erste Group Bank AG placed EUR 540 million of participation capital with private and institutional investors. In March 2009, the Republic of Austria subscribed to EUR 1.0 billion of participation capital and in May 2009, another EUR 224 million of participation certificates. In total, the participation capital issued in measures to strengthen the bank at that time amounts to EUR 1.76 billion. The participation capital securities are perpetual and non-transferable. The notional amount of each participation capital security is EUR 1,000.00. Erste Group is entitled to repay the participation capital securities only if the repayment amount would not be below 100% (or 150% after 1 January 2019) of the nominal amount.

Participation capital participates in losses of Erste Group in the same manner as does share capital, but the holders of participation capital have no voting rights. The participation capital securities confer no conversion right for ordinary shares of Erste Group.

Dividend payments to holders of participation capital securities are made prior to distributions of dividends to shareholders of Erste Group. Erste Group shall not be obliged to make up for any dividends which were not paid as a result of losses. The dividend on the participation capital is 8.0% per annum for the business years 2009 to 2013. For the business years starting from 2014, the dividend is stepped up as follows: 2014, 8.5% p.a.; 2015, 9.0% p.a.; 2016, 9.75%; and from 2017, 1% increase each year. However, the dividend must never exceed 12-month EURIBOR plus 10% per annum.

In the second half of 2011, Erste Group Bank AG negotiated with all five regional Romanian investment funds ('Societati de Investitii Financiare', in short 'SIFs'), namely, SIF Banat-Crisana, SIF Moldova, SIF Muntenia, SIF Oltenia and SIF Transilvania on the acquisition of the shares in Banca Comercială Română (BCR) then held by those funds. Acquisition of the shares will be carried out in several tranches. The last transaction is expected to take place in 2013, which will increase the interest of Erste Group in BCR to around 99.5%.

Prior to the first transaction, the SIFs held a total of 3,257,561,011 shares in BCR (30.0%). Out of those, up to 2,575,523,440 shares of BCR stock will be incorporated into Erste Group Bank AG by means of a capital increase from authorised capital excluding the subscription rights of existing shareholders with a conversion ratio of 1 to 127.9583. The remaining shares of BCR held by the SIFs will be acquired by Erste Group in an all-cash payment.

In 2011, SIF Banat-Crisina, SIF Moldova, SIF Muntenia and SIF Transilvania contributed 1,573,999,761 shares of BCR into Erste Group Bank AG in kind. A total of 12,300,878 new Erste Group Bank AG shares were issued to the four SIFs and the share capital of the company was accordingly increased by EUR 24,601,756.

In February 2012 SIF Muntenia and SIF Banat-Crisana contributed 486,418,882 shares of BCR into Erste Group Bank AG in kind. A total of 3,801,385 new Erste Group Bank AG shares were issued to the two SIFs and the share capital of the company was accordingly increased by EUR 7,602,770.

Moreover in 2011 and 2012 Erste Group Bank AG acquired 545,706,063 of additional shares of BCR held by the 'SIFs' via cash payment. Upon completion of the transactions in 2012, Erste Group owns in total 93.3% of BCR.

Changes in number of shares and participation capital securities

Shares in units	2012	2011
Shares outstanding as of 1 January	**371,443,804**	**361,988,924**
Acquisition of treasury shares	(22,556,758)	(20,634,660)
Disposal of treasury shares	23,026,936	17,498,999
Capital increases due to ESOP and MSOP	0	289,663
Capital increase due to acquisition of non controlling interest in BCR	3,801,385	12,300,878
Shares outstanding as of 31 December	**375,715,367**	**371,443,804**
Treasury shares	18,853,280	19,323,458
Number of shares as of 31 December	**394,568,647**	**390,767,262**
Weighted average number of shares outstanding	391,631,603	377,670,141
Dilution due to MSOP/ESOP	2,192,326	2,085,372
Dilution due to options	0	3,801,386
Weighted average number of shares taking into account the effect of dilution[1]	393,823,929	377,670,141
Participation capital securities in units	**2012**	**2011**
Participation capital securities outstanding as of 1 January	**1,763,274**	**1,763,478**
Acquisition of own participation capital securities	(5,167)	(4,640)
Disposal of own participation capital securities	5,587	4,436
Participation capital securities outstanding as of 31 December	**1,763,694**	**1,763,274**
Participation capital securities	50	470
Number of participation capital securities as of 31 December	**1,763,744**	**1,763,744**

1) Options are anti-dilutive in 2011, and therefore no consideration is given to dilution in relation to them.

Employee share ownership plan and management share option plan

ESOP

There was no subscription for shares under ESOP in 2012. No personnel expenses related to ESOP and profit-sharing occurred in 2012 (prior year: EUR 1.6 million).

MSOP 2005:

The MSOP comprises a maximum of 2,000,000 ordinary shares of Erste Group Bank AG, represented by 2,000,000 options. The distribution of vested options among management board members, managers and eligible other staff of the Erste Group Bank AG group is shown in the tables below.

Terms of MSOP 2005: Each of the options, which are granted free of charge, entitles the holder to receive one share; the transfer of options inter vivos is not permitted. The 2005 option grant dates were as follows: for the management board and other managers, 1 June 2005; for other key personnel, the grants occurred in three tranches, on 1 September 2005, 1 September 2006 and 31 August 2007. For all recipients the options were vested in three tranches, at which time they were credited to recipients' accounts: 1 September 2005, 1 September 2006 and 31 August 2007. The exercise price for all three tranches was set at the average market price of Erste Group Bank AG shares quoted in April 2005 plus a 10% premium, rounded down to the nearest half euro. The resulting exercise price was EUR 43.00 per share. The option term begins at the grant date and ends on the value date of the last exercise window of the fifth calendar year after the year in which the option vested. Every year, notices of intention to exercise may be submitted within 14 days from the day of publication of the quarterly results for the first, second and third quarter of each financial year (three exercise windows per year). The holding period runs for one year from the value date of the share purchase. Up to 25% of the purchased shares may be sold during this holding period.

As per 1.1.2012 there were 534.770 outstanding/exercisable options out of the MSOP 2005 (thereof 19.000 held by the Managing board members). None of them were exercised in 2012 (2011: exercised 0). These options expired and were written-off before the year-end 2012.

The **MSOP 2005** options granted, vested and exercised had the following distribution among recipients:

	Outstanding/ Exercisable 1 Jan 2012	Expired in 2012	Outstanding/ Exercisable 31 Dec 2012
Members of the management board	19,000	19,000	0
Other management	266,500	266,500	0
Other staff	249,270	249,270	0
Total options	**534,770**	**534,770**	**0**

Information on shares held and transactions in Erste Group Bank AG shares by members of the management board and supervisory board (in number of shares):

Members of the management

Managing board member	As of 31 Dec 2011	Additions 2012	Disposals 2012	As of 31 Dec 2012
Andreas Treichl	184,640	0	0	184,640
Franz Hochstrasser	25,260	0	0	25,260
Herbert Juranek	656	0	0	656
Gernot Mittendorfer	2,100	0	0	2,100
Manfred Wimmer	18,132	0	0	18,132

Members of the management board held the following amounts of Erste Group Bank AG participation capital as of the balance sheet date of 31 December 2012:

Managing board member	Notional amount
Andreas Treichl	30,000
Herbert Juranek	30,000
Manfred Wimmer	30,000

Supervisory board members held the following amounts of participation capital as of the balance sheet date of 31 December 2012:

Supervisory board member	Notional amount
Georg Winckler	5,000
Wilhelm Rasinger	20,000
Friedrich Rödler	82,000

As of 31 December 2012 persons related to members of the management board or supervisory board held participation capital of Erste Group Bank AG in notional amount of EUR 30,000.

Supervisory board members held the following numbers of Erste Group Bank AG shares as of the balance sheet date of 31 December 2012:

Supervisory board member	Number
Georg Winckler	2,500
Jan Homan	4,400
Wilhelm Rasinger	15,303
Theresa Jordis	2,900
Friedrich Rödler	1,702
John James Stack	32,761
Werner Tessmar-Pfohl	1,268
Andreas Lachs	52
Friedrich Lackner	500
Bertram Mach	95
Barbara Smrcka	281
Karin Zeisel	35

As of 31 December 2012, supervisory board members did not hold options in Erste Group Bank AG shares. Persons related to members of the management board or supervisory board held 3,786 shares of Erste Group Bank AG as of 31 December 2012.

Remaining authorised and contingent capital and participation capital as of 31 December 2012

Clause 5 of the articles of association authorises the management board until 12 May 2015, subject to approval by the supervisory board, to increase – if necessary in several tranches – the subscribed capital of Erste Group Bank AG up to EUR 167,795,474.00 by issuing up to 83,897,737 shares as follows (type of share, issue price, terms of issue, and – if intended – exclusion of subscription rights are assigned by the management board with approval by the supervisory board): by issuing of shares by cash contributions without exclusion of subscription rights of existing shareholders; if, however, the capital increase is used for the issue of shares to employees, management or members of the Management Board of Erste Group Bank AG or a subsidiary while excluding the subscription rights of existing shareholders; by issuing of shares by contribution in kind while excluding the subscription rights of existing shareholders.

Under clause 6.3 of the articles of association, based on decisions of the management board taken from 2002 to 2010, there exists contingent capital of EUR 21,923,264.00 which may be utilised by issuing up to 10,961,632 bearer or registered shares at an issue price of at least EUR 2.00 (payable in cash) while excluding the subscription rights of existing shareholders. This contingent capital is used for granting options to other staff, other management and members of the management board of the entity or of one of its related undertakings.

Under clause 6.4 of the articles of association, the company has contingent capital of EUR 124,700,000.00 available, which may be utilised by issuing up to 62,350,000 bearer shares. This contingent capital can be used for granting conversion or subscription rights to holders of convertible bonds.

Under clause 7 of the articles of association, currently no authority for granting contingent capital is available.

31) Segment reporting

The segment reporting of Erste Group follows the presentation and measurement requirements of IFRS.

Segment structure

Following the structure of Erste Group, the segment reporting is divided into the segments: Retail & SME, Group Corporate & Investment Banking, Group Markets and Corporate Center. The latter is split into the Corporate Center excluding intra-group eliminations and the intra-group eliminations between the segments.

The regional information regarding segments is based on the internal reporting structure. The Retail & SME segment is split into two regions of which one shows the business in Austria (consisting of the subsegments Erste Bank Oesterreich and Savings Banks) and the other one shows the business in CEE countries (consisting of the subsegments Czech Republic, Romania, Slovakia, Hungary, Croatia, Serbia and Ukraine). The remaining segments are analysed from the Group's perspective and thus are not split into regions.

The basis for Erste Group's management of individual segments and subsegments is the average attributed equity as well as the average risk-weighted assets (credit risk). For measuring and assessing the profitability of segments and subsegments, return on equity as well as cost/income ratio is used.

The return on equity is calculated as net profit/loss attributable to owners of the parent divided by the average attributed shareholder's equity allocated to the segment.

The average attributed equity of each segment represents the economic capital of the segment, which is assigned on the basis of credit risk, market risk and operational risk.

Segment Retail & SME

The Retail & SME segment includes the individual, retail and SME-focused regional banks of Erste Group. To enhance transparency, the region Austria consists of the two subsegments, Erste Bank Oesterreich (including local subsidiaries) and Savings Banks. The latter subsegment includes those savings banks which as a result of their membership are consolidated into the Haftungsverbund. In the region Central and Eastern Europe, the individual subsidiaries are reported separately as subsegments.

Segment Group Corporate & Investment Banking

The Group Corporate & Investment Banking (GCIB) segment includes the large corporate business, the real estate business of Erste Group with large corporate customers, equity capital markets (from the second quarter of 2012 onwards) as well as the investment banking subsidiaries in CEE and the International Business (excluding treasury activities). The leasing subsidiary Erste Group Immorent is also included in this segment. In Erste Group, those corporate customers with turnover of at least EUR 175 million are classified as large corporates.

Segment Group Markets

The Group Markets segment comprises the business Group Treasury and Capital Markets and includes the treasury activities of Erste Group Bank AG, the CEE subsidiaries, the foreign branch offices in Hong Kong, New York, Berlin, and Stuttgart as well as the result of Erste Asset Management.

Segment Corporate Center

The segment Corporate Center is split into two parts, whereas the effects from intra-group eliminations between segments and subsegments are disclosed in the segment 'Intra-group eliminations'.

The segment 'Intra-group eliminations' consists of internal revenues and expenses charged between subsegments and must be eliminated again on group level. These transactions mainly relate to internal services from IT, Procurement and Facility Management to the banking subsidiaries, rental income from operating lease and investment properties, and the derivatives business. Intra-group elimination between business units within the same subsegment is allocated to the respective subsegment.

The segment Corporate Center excluding 'Intra-group eliminations' includes the results of the central business areas of Erste Group Bank AG. This segment consists mainly of the balance sheet management as well as the dividends (elimination of dividends on group level is also allocated to this segment) and refinancing costs of fully consolidated subsidiaries, general administrative expenses for group center functions that cannot be directly allocated to another subsegment and the banking tax of Erste Group Bank AG. In addition, this segment includes the results of non-profit companies (especially service units) and subsidiaries that cannot be directly allocated to another subsegment, straight-line amortization of customer relationships (especially for Banca Comercială Română, Erste Card Club, and Ringturm KAG), as well as one-off effects which are not allocated to any subsegment for the sake of consistency and to assist like-for-like comparisons. Moreover, this segment includes the equity which is not allocated to the other segments/subsegments.

Goodwill impairment in the segment Corporate Centre exclusive of intra-group eliminations in the year 2012 amounted to EUR 514.9 million, of which EUR 469.4 million is accounted for by Banca Comercială Română and EUR 45.5 million by subsidiaries in Austria (2011: total EUR 1,064.6 million, of which EUR 1,058.2 million was goodwill impairment included in the segment Corporate Centre exclusive of intra-group eliminations and EUR 6.4 million was in Romania).

Details regarding impairment of goodwill are included in Note 19. Also recorded in the Corporate Centre is the amortisation of customer relationships at Banca Comercială Română, Erste Card Club d.d. and Ringturm KAG totalling EUR 69.2 million (2011: EUR 66.8 million).

With reference to the selling of Erste Bank Ukraine in Note 21, the impairment loss for non-current assets in the disposal group and the provision for onerous contract which amount to EUR 75 million is allocated to the segment Corporate Centre exclusive of intra-group eliminations.

Segmentation by core business

in EUR million	Retail and SME 2012	Retail and SME 2011	Group Corporate and Investment Banking 2012	Group Corporate and Investment Banking 2011	Group Markets 2012	Group Markets 2011	Group Corporate Centre excl. Intragroup elimination 2012	Group Corporate Centre excl. Intragroup elimination 2011 amended	Intra-group elimination 2012	Intra-group elimination 2011 amended	Total Group 2012	Total Group 2011
Net interest income	4,318.5	4,716.3	495.9	543.2	183.7	197.4	303.9	160.6	(66.7)	(48.5)	5,235.3	5,569.0
Risk provisions for loans and advances	(1,629.4)	(2,076.7)	(347.2)	(178.2)	0.0	(12.0)	(3.4)	0.0	0.0	0.0	(1,980.0)	(2,266.9)
Net fee and commission income	1,591.5	1,642.0	87.1	118.8	124.7	126.6	299.8	248.4	(382.3)	(348.6)	1,720.8	1,787.2
Net trading result	97.6	58.8	4.4	(129.2)	202.9	155.2	(57.0)	34.5	25.5	3.0	273.4	122.3
General administrative expenses	(3,215.2)	(3,278.8)	(196.9)	(191.5)	(215.9)	(244.8)	(550.9)	(547.1)	422.2	411.3	(3,756.7)	(3,850.9)
Other result[1)]	(243.7)	(405.5)	(101.6)	(46.7)	2.0	10.2	(349.6)	(1,223.6)	1.3	(17.2)	(691.6)	(1,682.9)
Pre-tax profit/loss	**919.3**	**656.0**	**(58.3)**	**116.4**	**297.4**	**232.7**	**(357.2)**	**(1,327.2)**	**0.0**	**0.0**	**801.2**	**(322.1)**
Taxes on income	(246.1)	(263.8)	4.4	(31.3)	(61.7)	(55.6)	133.2	110.3	0.0	0.0	(170.2)	(240.4)
Net profit/loss for the year	**673.2**	**392.2**	**(53.9)**	**85.1**	**235.7**	**177.0**	**(224.0)**	**(1,216.9)**	**0.0**	**0.0**	**631.0**	**(562.6)**
attributable to non-controlling interests	134.2	144.4	1.7	11.4	8.1	10.4	3.5	(9.9)	0.0	0.0	147.5	156.3
owners of the parent	**539.0**	**247.7**	**(55.6)**	**73.8**	**227.6**	**166.6**	**(227.5)**	**(1,207.0)**	**0.0**	**0.0**	**483.5**	**(718.9)**
Average risk-weighted assets	70,311	74,934	20,830	24,429	2,697	2,743	9	970	0	0	93,847	103,077
Average attributed equity	4,919	4,117	2,085	1,956	350	312	5,395	6,654	0	0	12,748	13,038
Cost/income ratio	**53.5%**	**51.1%**	**33.5%**	**35.9%**	**42.2%**	**51.1%**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**52.0%**	**51.5%**
ROE[2)]	**11.0%**	**6.0%**	**(2.7)%**	**3.8%**	**65.0%**	**53.4%**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**3.8%**	**(5.5)%**

1) Other result consists of four income statement items: other operating result, result from financial instruments at fair value through profit or loss, result from financial assets available for sale, and result from financial assets held to maturity.

2) ROE = return on equity = Net profit/loss attributable to owners of the parent divided by average attributed equity.

in EUR million	Austria 2012	Austria 2011	Saving Banks (Cross Guarantee System) 2012	Saving Banks (Cross Guarantee System) 2011	Total Austria 2012	Total Austria 2011	Central and Eastern Europe 2012	Central and Eastern Europe 2011 amended	Total Retail & SME 2012	Total Retail & SME 2011 amended
Net interest income	617.8	665.9	940.0	1,015.6	1,557.8	1,681.5	2,760.7	3,034.8	4,318.5	4,716.3
Risk provisions for loans and advances	(96.2)	(101.4)	(225.9)	(250.4)	(322.1)	(351.8)	(1,307.3)	(1,724.9)	(1,629.4)	(2,076.7)
Net fee and commission income	339.0	320.6	398.0	390.2	737.0	710.7	854.5	931.2	1,591.5	1,642.0
Net trading result	(4.2)	20.2	19.9	12.2	15.7	32.4	81.9	26.4	97.6	58.8
General administrative expenses	(614.7)	(609.4)	(932.2)	(930.9)	(1,546.9)	(1,540.3)	(1,668.3)	(1,738.4)	(3,215.2)	(3,278.8)
Other result[1)]	13.4	(63.7)	2.5	(81.9)	15.9	(145.6)	(259.6)	(259.9)	(243.7)	(405.5)
Pre-tax profit/loss	**255.1**	**232.2**	**202.3**	**154.7**	**457.4**	**386.9**	**461.9**	**269.1**	**919.3**	**656.0**
Taxes on income	(55.8)	(50.3)	(61.5)	(40.1)	(117.3)	(90.4)	(128.8)	(173.4)	(246.1)	(263.8)
Net profit/loss for the year	**199.3**	**181.9**	**140.8**	**114.6**	**340.1**	**296.5**	**333.1**	**95.7**	**673.2**	**392.2**
attributable to non-controlling interests	6.9	4.3	119.3	108.7	126.2	113.0	8.0	31.5	134.2	144.4
owners of the parent	**192.4**	**177.6**	**21.5**	**5.9**	**213.9**	**183.5**	**325.1**	**64.2**	**539.0**	**247.7**
Average risk-weighted assets	13,045	13,708	23,444	24,451	36,489	38,159	33,821	36,775	70,311	74,934
Average attributed equity	1,284	1,088	370	304	1,654	1,393	3,264	2,724	4,919	4,117
Cost/income ratio	**64.5%**	**60.5%**	**68.7%**	**65.6%**	**67.0%**	**63.5%**	**45.1%**	**43.5%**	**53.5%**	**51.1%**
ROE[2)]	**15.0%**	**16.3%**	**5.8%**	**1.9%**	**12.9%**	**13.2%**	**10.0%**	**2.4%**	**11.0%**	**6.0%**

1) Other result consists of four income statement items: other operating result, result from financial instruments at fair value through profit or loss, result from financial assets available for sale, and result from financial assets held to maturity.
2) ROE = return on equity = Net profit/loss attributable to owners of the parent divided by average attributed equity.

	Czech Republic		Romania		Slovakia		Hungary		Croatia		Serbia		Ukraine		Total CEE	
in EUR million	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**
Net interest income	1,113.8	1,183.2	572.4	672.3	424.9	445.7	335.2	402.7	253.7	261.8	37.1	36.4	23.6	32.6	2,760.7	3,034.8
Risk provisions for loans and advances	(139.6)	(210.5)	(737.2)	(499.3)	(53.4)	(73.6)	(215.0)	(812.0)	(137.4)	(109.3)	(9.0)	(9.5)	(15.7)	(10.7)	(1,307.3)	(1,724.9)
Net fee and commission income	447.2	496.5	120.3	130.1	110.0	112.2	91.9	97.8	65.6	76.7	13.3	13.0	6.2	4.9	854.5	931.2
Net trading result	19.9	(45.5)	70.5	49.3	2.8	(4.6)	(15.9)	19.1	9.4	11.2	2.4	0.1	(7.2)	(3.2)	81.9	26.4
General administrative expenses	(691.9)	(713.9)	(355.9)	(376.4)	(236.0)	(224.0)	(169.5)	(200.5)	(132.8)	(141.1)	(33.6)	(33.8)	(48.6)	(48.8)	(1,668.3)	(1,738.4)
Other result[1)]	(93.2)	(122.0)	(48.7)	(30.9)	(37.7)	(40.2)	(72.9)	(56.9)	(3.0)	(10.2)	(1.7)	(1.2)	(2.4)	1.6	(259.6)	(259.9)
Pre-tax profit/loss	**656.2**	**587.8**	**(378.6)**	**(54.8)**	**210.6**	**215.5**	**(46.2)**	**(549.8)**	**55.5**	**89.0**	**8.5**	**5.0**	**(44.1)**	**(23.6)**	**461.9**	**269.1**
Taxes on income	(135.7)	(122.4)	65.3	23.7	(41.0)	(42.3)	(8.9)	(16.8)	(9.8)	(16.1)	1.5	0.0	(0.2)	0.5	(128.8)	(173.4)
Net profit/loss for the year	**520.5**	**465.4**	**(313.3)**	**(31.1)**	**169.6**	**173.2**	**(55.1)**	**(566.6)**	**45.7**	**72.9**	**10.0**	**5.1**	**(44.3)**	**(23.2)**	**333.1**	**95.7**
attributable to non-controlling interests	2.5	9.2	(19.0)	(8.7)	0.3	0.0	0.0	0.0	22.0	29.5	2.2	1.5	0.0	0.0	8.0	31.5
owners of the parent	**518.0**	**456.2**	**(294.3)**	**(22.5)**	**169.3**	**173.2**	**(55.1)**	**(566.6)**	**23.7**	**43.4**	**7.8**	**3.6**	**(44.3)**	**(23.2)**	**325.1**	**64.2**
Average risk-weighted assets	12,521	12,951	8,156	9,167	4,148	4,825	3,775	4,147	4,040	4,321	493	606	688	757	33,821	36,775
Average attributed equity	1,266	1,065	779	556	430	401	386	345	288	251	42	41	74	66	3,264	2,724
Cost/income ratio	**43.8%**	**43.7%**	**46.6%**	**44.2%**	**43.9%**	**40.5%**	**41.2%**	**38.6%**	**40.4%**	**40.4%**	**63.6%**	**68.1%**	**215.0%**	**142.4%**	**45.1%**	**43.5%**
ROE[2)]	**40.9%**	**42.8%**	**(37.8)%**	**(4.0)%**	**39.4%**	**43.2%**	**(14.3)%**	**(164.4)%**	**8.2%**	**17.3%**	**18.8%**	**8.7%**	**(60.3)%**	**(35.2)%**	**10.0%**	**2.4%**

1) Other result consists of four income statement items: other operating result, result from financial instruments at fair value through profit or loss, result from financial assets available for sale, and result from financial assets held to maturity.
2) ROE = return on equity = net profit/loss attributable to owners of the parent divided by average attributed equity.

32) Assets and liabilities denominated in foreign currencies and outside Austria

Assets and liabilities not denominated in EUR were as follow:

in EUR million	2012	2011
Assets	89,370	85,662
Liabilities	62,160	57,288

The assets and liabilities outside Austria are given below:

in EUR million	2012	2011
Assets	124,000	116,594
Liabilities	92,568	89,279

33) Leases

a) Finance leases

Finance leases receivables are included in the balance sheet position 'Loans and advances to customers'.
Erste Group leases both movable property and real estate to other parties under finance lease arrangements. For the finance lease receivables included in this item, the reconciliation of the gross investment in leases to the present value of the minimum lease payments is as follows:

in EUR million	2012	2011
Outstanding minimum lease payments	4,855	5,627
Non-guaranteed residual values	1,070	1,118
Gross investment	**5,925**	**6,745**
Unrealised financial income	796	1,114
Net investment	**5,129**	**5,631**
Present value of non-guaranteed residual values	733	745
Present value of minimum lease payments	**4,396**	**4,886**

The maturity analysis of gross investment in leases and present values of minimum lease payments under non-cancellable leases is as follows (residual maturities):

	Gross investment		Present value of non-guaranteed residual values	
in EUR million	2012	2011	2012	2011
< 1 year	932	1,111	824	950
1-5 years	2,803	3,039	2,120	2,344
> 5 years	2,190	2,595	1,452	1,592
Total	**5,925**	**6,745**	**4,396**	**4,886**

In the reporting period, the total amount of accumulated allowance for uncollectable minimum lease payments, presented as risk provisions for loans and advances, was EUR 160 million (2011: EUR 205 million).

The total amount of contingent rents from finance leases recognised as income in the period was EUR 23 million (2011: EUR 31 million).

b) Operating leases

Under operating leases, Erste Group leases both real estate and movable property to other parties.

Operating leases from the view of Erste Group Bank AG as lessor:
Minimum lease payments from non-cancellable operating leases were as follows:

in EUR million	2012	2011
< 1 year	58	22
1-5 years	134	70
> 5 years	55	57
Total	**247**	**149**

The total amount of contingent rents from operating leases recognised as income in the period was EUR 8 million (2011: EUR 0 million).

Operating leases from the view of Erste Group Bank AG as lessee:
Minimum lease payments from non-cancellable operating leases were as follow:

in EUR million	2012	2011
< 1 year	47	31
1-5 years	120	94
> 5 years	74	65
Total	**241**	**190**

Lease payments from operating leases recognised as expense in the period amount to EUR 32.8 million (2011: 35.6 million).

34) Related-party transactions and principal shareholders

In addition to principal shareholders, Erste Group defines as related parties also other investments and associates which are included into the consolidated financial statements by the equity method. Furthermore related parties consist of management and supervisory board members as well as companies over which these persons have control or significant influence. Moreover, Erste Group Bank AG defines also close family members of management and supervisory board members as related parties.

Transactions between Erste Group Bank AG and fully consolidated companies are not recognised in the consolidated financial statements since they are eliminated.

Principal shareholders

As of 31 December 2012, the foundation DIE ERSTE oesterreichische Spar-Casse Privatstiftung (hereinafter referred to as the 'Privatstiftung') controlled a 20.13% interest in Erste Group Bank AG. The Privatstiftung holds 18.52% of the shares directly and further 1.61% of the shares are held by Sparkassen Beteiligungs GmbH & Co KG, which is an affiliated undertaking of the Privatstiftung. Furthermore, 4.34% of the shares are held by Austrian savings banks, which act together and are affiliated with Erste Group by virtue of the Haftungsverbund. This makes the Privatstiftung the largest single investor in Erste Group Bank AG. In addition, the Privatstiftung held participation capital with a notional value of EUR 17.0 million in Erste Group Bank AG as of 31 December 2012.

The Privatstiftung received no dividend (2011: EUR 67.0 million) from its stake in Erste Group Bank AG in 2012 (for the financial year 2011). The dividend for participation capital of Erste Group Bank AG amounted to EUR 1.4 million (2011: EUR 1.4 million). The purpose of the Privatstiftung, to be achieved notably by way of the participating interest in Erste Group Bank AG, is to support social, scientific, cultural and charitable institutions as well as to generally promote the guiding principles of the savings bank philosophy. As of 31 December 2012, Theodora Eberle (chairwoman), Richard Wolf (vice chairman), Franz Karl Prüller and Bernhard Spalt were members of the Privatstiftung Management Board. The Supervisory Board of the Privatstiftung had eight members at the end of 2012, two of whom are also members of the Supervisory Board of Erste Group Bank AG.

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

As of 31 December 2012, Erste Group Bank AG had in relation to the Privatstiftung accounts payable of EUR 200.7 million (2011: EUR 120.1 million) and accounts receivable of EUR 84.2 million (2011: 87.0 million). In addition, standard derivative transactions for hedging purposes were in place between Erste Group Bank AG and the Privatstiftung, namely interest rate swaps with caps in the notional amount of EUR 282.0 million (2011: EUR 185.0 million) and foreign currency swaps in the notional amount of EUR 30.0 million (2011: EUR 29.3 million).

In 2012, the interest income of Erste Group Bank AG resulting from said derivative transactions for the reporting period amounted to EUR 13.8 million (2011: EUR 11.4 million) while interest expenses amounted to EUR 10.9 million (2011: EUR 6.9 million).

As of 31 December 2012, CaixaBank S.A., which is based in Barcelona, Spain, held a total of 39,195,848 (2011: 38,195,848) Erste Group shares, equivalent to 9.93% (2011: 9.77%) of the share capital of Erste Group Bank AG. In addition, CaixaBank S.A. held participation capital with a notional value of EUR 15.0 million in Erste Group Bank AG as at 31 December 2012. Juan Maria Nin, the Deputy Chairman and CEO of CaixaBank S.A. is a member of the Supervisory Board of Erste Group Bank AG.

CaixaBank S.A. received no dividend (2011: EUR 26.7 million) for its interest in Erste Group Bank AG during the year 2012 (for the financial year 2011). Its dividend for the participation capital amounted to EUR 1.2 million.

Loans and advances to and amounts owed to related parties

in EUR million	2012	2011
Loans and advances to credit institutions		
Equity method investments	7	4
Other investments	50	26
Total	**57**	**29**
Loans and advances to customers		
Equity method investments	435	363
Other investments	1,010	1,221
Total	**1,445**	**1,584**
Financial assets - at fair value through profit or loss		
Equity method investments	0	1
Other investments	7	14
Total	**7**	**15**
Financial assets - available for sale		
Equity method investments	0	13
Other investments	36	67
Total	**36**	**80**
Financial assets - held to maturity		
Equity method investments	0	0
Other investments	54	6
Total	**54**	**6**
Deposits by banks		
Equity method investments	5	8
Other investments	6	18
Total	**11**	**26**
Customer deposits		
Equity method investments	13	9
Other investments	221	197
Total	**234**	**207**

Transactions with related parties are done at arm's length.

Compensation to management and supervisory board members

The compensation paid to the management board in 2012 includes the following:

Fixed salaries

in EUR thousand	2012	2011
Andreas Treichl	1,237	1,242
Franz Hochstrasser	691	621
Herbert Juranek	631	621
Manfred Wimmer	631	621
Gernot Mittendorfer	599	600
Total	**3,789**	**3,705**

Since the financial year 2010, the variable part of the compensation to the management board is distributed over five years according to the legal regulations and only disbursed under specific conditions. There was no performance-linked compensation to the management board for the financial year 2011. No performance-linked compensation for previous years was disbursed to the management board in 2012. Also, members of the management board did not receive any share equivalents.

Performance bonus	2012				2011			
	for 2011		for previous years		for 2010		for previous years	
in EUR thousand (unless otherwise stated)	cash	share equivalents in units	cash	share equivalents in units	cash	share equivalents in units	cash	share equivalents in units
Andreas Treichl	0	0	0	0	491	16,362	0	0
Franz Hochstrasser	0	0	0	0	320	10,671	0	0
Herbert Juranek	0	0	0	0	127	4,223	0	0
Manfred Wimmer	0	0	0	0	128	4,283	0	0
Gernot Mittendorfer	0	0	0	0	0	0	0	0
Total	**0**	**0**	**0**	**0**	**1,066**	**35,539**	**0**	**0**

Long-Term Incentive-Programme

Currently ongoing are two Long-Term Incentive-programmes (LTI), which are based on changes in the share price of Erste Group Bank AG in relation to a group of peers and the Dow Jones Euro Stoxx Banks. Under the terms of the LTI 2007, a final pay-out was made in 2012. The LTI 2010 was introduced on 1 January 2010 and runs for four years. In accordance with the conditions, the following payments were made in 2012:

LTI programme in EUR thousand	2012 from 2007	2012 from 2010	2011 from 2007	2011 from 2010
Andreas Treichl	241	0	285	0
Franz Hochstrasser	60	84	71	0
Herbert Juranek	60	84	71	0
Manfred Wimmer	0	84	0	0
Gernot Mittendorfer	0	0	0	0
Total	**361**	**252**	**427**	**0**

The item 'other compensation' includes pension fund contributions, contributions to Vorsorgekasse (for the new severance payments scheme) and various other forms of compensation.

Other compensation

in EUR thousand	2012	2011
Andreas Treichl	471	463
Franz Hochstrasser	164	148
Herbert Juranek	61	60
Manfred Wimmer	163	161
Gernot Mittendorfer	55	55
Total	**914**	**887**

Bernhard Spalt and Martin Skopek resigned from the management board as at 31 January 2012. Mr. Spalt received EUR 53 thousand in fixed compensation (2011: EUR 621 thousand) and EUR 6 thousand in other compensation (2011: EUR 60 thousand). Mr. Skopek received EUR 75 thousand in fixed compensation (2011: EUR 660 thousand) and EUR 35 thousand in other compensation (2011: EUR 130 thousand). Mr. Skopek received EUR 42 thousand from the LTI 2010 programme (2011: EUR 0 thousand). Mr. Spalt received in total EUR 144 thousand from the LTI 2007 and 2010 programmes (2011: EUR 71 thousand).

The compensation to the members of the management board represented 0.2% (prior year: 0.3%) of the total personnel expenses of the Erste Group.

Principles of the company retirement plan for the management board

The members of the management board participate in the defined contribution pension plan of Erste Group according to the same principles as the employees of the Group. If by no fault a management board member that member's tenure ends before he or she reaches the age of 65, then for three of the management board members the corresponding compensatory payments are made to the pension fund.

Principles applicable to eligibility and claims of the management board members in the event of termination of function

Regarding benefit entitlements of management board members in the event of terminating their position, the standard legal termination benefit conditions of Section 23 of the Salaried Employees Act apply for two members of the management board. No other members of the management board are entitled to receive any termination benefits.

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

Breakdown of supervisory board compensation:

in EUR thousand	2012	2011
Supervisory board compensation	700	706
Meeting fees	198	187[1)]
Total	**898**	**893**

1) Correction due to erroneous statement of attendance fees in 2011 (included also employees' representative).

In 2012, the members of the Supervisory Board of Erste Group Bank AG were paid EUR 898 thousand (2011: EUR 893 thousand) for their board function. The following members of the supervisory board received the following compensation for board positions in fully consolidated subsidiaries of Erste Group Bank AG: Heinz Kessler EUR 16,000 and CZK 900,000, Friedrich Rödler EUR 13,550, and Werner Tessmar-Pfohl EUR 28,400.

No other legal transactions were concluded with members of the Supervisory Board.

Pursuant to the decision at the Annual General Meeting of 15 May 2012, the supervisory board adopted in its constituent meeting the following compensation structure for the financial year 2011:

in EUR	Number	Allowance per person	Total allowance
Chairman	1	100,000	100,000
Vice Chairman	2	75,000	150,000
Members	9	50,000	450,000
Total	**12**		**700,000**

The Supervisory Board shall consist of at least three and a maximum of twelve members elected by the Annual General Meeting. DIE ERSTE österreichische Spar-Casse Privatstiftung, a foundation, has the right to delegate up to one-third of the members of the supervisory board for election by the general meeting, as long as the foundation guarantees pursuant to Section 92, para. 9 of the Austrian Banking Act all existing and future liabilities of the company in case of insolvency. Unless the Annual General Meeting has determined a shorter term of office for individual, several or all supervisory board members on the occasion of their appointment, the term of office of the members of the supervisory board shall end at the close of the Annual General Meeting which resolves on the approvals of their actions for the fourth business year following their election; re-election is permitted. In addition, membership in the supervisory board ceases due to death, revocation, withdrawal or in the event of a defined impediment. For a revocation to be valid, a three-fourths majority of validly cast votes and a three-fourths majority of the registered capital represented at the time of approving such resolution shall be required.

Loans and advances to key management employees and persons related to key management employees

As of the end of 2012, loans and advances granted to members of the management board totalled EUR 2,336 thousand (2011: EUR 2,766 thousand). Loans and advances to persons related to members of the management board totalled EUR 10 thousand as of 31 December 2012 (2011: EUR 20 thousand). Loans to members of the supervisory board totalled EUR 189 thousand (2011: EUR 228 thousand). Loans and advances to persons related to members of the supervisory board totalled EUR 310 thousand (2011: EUR 14 thousand). The applicable interest rates and other terms (maturity dates and collateral) are at market conditions.

Other transactions with companies related to key management employees

Companies related to members of the supervisory board invoiced the following amounts from other transactions:

In 2012, DORDA BRUGGER JORDIS Rechtsanwälte GmbH, a law firm in which Theresa Jordis is a partner, invoiced Erste Group Bank AG a total of EUR 236 thousand (2011: EUR 156 thousand) for several contracts.

Friedrich Rödler is senior partner at PricewaterhouseCoopers Austria. During 2012, companies of this group invoiced Erste Group Bank AG in total EUR 501 thousand (2011: 142 thousand) for consultancy contracts.

35) Collateral

The following assets were pledged as security for liabilities:

in EUR million	2012	2011 amended
Loans and advances to credit institutions	915	876
Loans and advances to customers[1)]	19,645	14,874
Trading assets	506	218
Financial assets - at fair value through profit or loss	232	566
Financial assets - available for sale	3,237	3,297
Financial assets - held to maturity	2,711	3,005
Total[1)]	**27,246**	**22,836**

1) The value shown for 2011 was amended for collaterals provided by savings banks against liabilities issued by Erste Group Bank AG.

The financial assets pledged as collateral consist of loan receivables, bonds and other interest-bearing securities.

Collaterals were pledged as a result of repo transactions, refinancing transactions with the European Central Bank, loans backing issued mortgage bonds and other collateral arrangements.

The fair value of collateral received from repo transactions which may be repledged or resold even without the security provider's default was EUR 1,607 million (2011: EUR 940 million). Collateral with fair value of EUR 418 million (2011: EUR 471 million) was resold. The bank is obliged to return the resold collateral.

36) Transfers of financial assets - repurchase transactions and securities lending

	2012		2011	
in EUR million	Carrying amount of transferred assets	Carrying amount of associated liabilities	Carrying amount of transferred assets	Carrying amount of associated liabilities
Repurchase agreements				
Loans and advances to credit institutions	4	4	0	0
Loans and advances to customers	1	1	0	0
Trading assets	461	458	124	128
Financial assets - at fair value through profit or loss	74	73	191	190
Financial assets - available for sale	1,316	1,300	2,225	2,169
Financial assets - held to maturity	161	174	469	377
Total - repurchase agreements	**2,016**	**2,010**	**3,009**	**2,864**
Securities lendings				
Loans and advances to credit institutions	0	0	0	0
Loans and advances to customers	0	0	0	0
Trading assets	9	0	0	0
Financial assets - at fair value through profit or loss	0	0	5	0
Financial assets - available for sale	78	0	0	0
Financial assets - held to maturity	0	0	0	0
Total - securities lendings	**86**	**0**	**5**	**0**
Total	**2,103**	**2,010**	**3,014**	**2,864**

The transferred financial instruments consist of bonds and other interest-bearing securities.

The total amount EUR 2,103 million (2011: EUR 3,014 million) represents the carrying amount of financial assets in the respective balance sheet positions for which the transferee has a right to sell or repledge.

Liabilities from repo transaction in the amount of EUR 2,010 million (2011: EUR 2,864 million), which are measured at amortised cost, represent an obligation to repay the borrowed funds.

The following table shows fair values of the transferred assets and associated liabilities which have recourse only to the transferred assets. In the case of Erste Group these assets and liabilities relate to repo transactions. In case of Erste Group these assets and liabilities relate to repo transactions.

in EUR million	Fair value of transferred assets 2012	Fair value of associated liabilities 2012	Net position 2012
Loans and advances to credit institutions	4	4	0
Loans and advances to customers	1	1	0
Trading assets	461	458	3
Financial assets - at fair value through profit or loss	74	73	1
Financial assets - available for sale	1,316	1,299	16
Financial assets - held to maturity	166	174	(8)
Total	**2,022**	**2,010**	**12**

37) Risk management

37.1) Risk policy and strategy

It is a core function of every bank to take risks in a conscious and selective manner and to professionally manage such risks. Erste Group's proactive risk policy and strategy aims to achieve an optimal balance of risk and return in order to achieve a sustainable, high return on equity.

Erste Group uses a control and risk management 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 control and risk management systems have 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 and operational risk. Erste Group also focuses on managing liquidity, concentration and macroeconomic risks. In addition, Erste Group's control and risk management framework takes into account the range of other significant risks faced by the banking group.

In all areas of risk management, the bank always seeks to enhance and complement existing methods and processes.

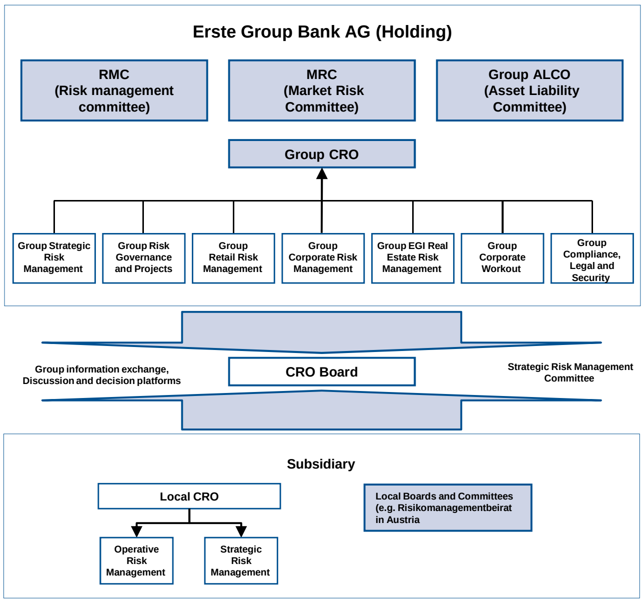
The year 2012 was dominated by preparations for Basel 3 and its impacts. Another point of emphasis was on improving and upgrading the risk-bearing capacity calculation, in particular on reviewing the economic capital calculation and the coverage potential for the risk-bearing capacity calculation not only at Group level but also at subsidiary level. A focus was on continuously incorporating more risk-sensitive measures.

Erste Group Bank AG uses the Internet as the medium for publishing disclosures of Erste Group under Section 26 of the Banking Act and the Disclosure Regulation.
Details are available on the website of Erste Group at www.erstegroup.com/investorrelations.

37.2) 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 diagram presents an overview of Erste Group's risk management and control governance and responsibility.

Risk management organisation and decision bodies



Overview of risk management structure

The management board, and in particular Erste Group's chief risk officer ('Group CRO'), must perform its oversight function within Erste Group's risk management structure. Risk control and management functions within Erste Group are performed based on the business and risk strategies approved by the management board and contained in the strategic risk framework. The Group CRO, working together with the chief risk officers of the subsidiaries, is responsible for implementation of and adherence to the risk control and risk management strategies across all risk types and business lines. While 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 operational risk control functions and exercise strategic management responsibilities:

_ Group Strategic Risk Management;
_ Group Risk Governance and Projects;
_ Group Corporate Risk Management;
_ Group EGI Real Estate Risk Management;
_ Group Retail Risk Management;
_ Group Corporate Workout; and
_ Group Compliance, Legal and Security.

Strategic Risk Management

Group Strategic Risk Management, which exercises the risk control function, is responsible for the provision of adequate risk measurement methodologies and tools as well as an appropriate risk policy and control framework. The Group Strategic Risk Management unit performs the function of the central and independent risk control unit required by Section 39 (2) of the Austrian Banking Act. One objective of Group Strategic Risk Management, a unit that is independent from the business units, is to ensure that all risks measured or taken are within the limits approved by the management board. The division is composed of the departments Group Credit Risk Methods and Reporting, Group Enterprise-wide Risk Management, Group Market and Liquidity Risk Management, and Group Operational Risk Control. Group Credit Risk Methods and Reporting is responsible for credit risk methods and rating models. Another key task of the department is the group-wide credit risk reporting. Group Enterprise-wide Risk Management is in charge of the essential elements of the risk management framework, Erste Group's risk policy principles and the group data pool. The group-wide daily calculation, analysis and reporting of market and liquidity risks is provided by the department Group Market and Liquidity Risk Management. Group Operational Risk Control is responsible for modelling, managing and reporting of operational risks.

Group Risk Governance and Projects

Group Risk Governance and Projects was introduced in 2012 to ensure central management and oversight within risk management on key topics such as risk IT (risk project– portfolio), risk policy framework, risk reporting framework, and change management in the risk area. Key tasks are oversight and control of the group-wide CRO division project portfolio, the role as interface to One IT, Erste Group's IT subsidiary, and the constant improvement of risk IT. Furthermore, the division is responsible for the group-wide risk policy framework, the development of a group-wide integrated risk reporting framework and, change management in those divisions which are reporting to the CRO.

Group Corporate Risk Management

Group Corporate Risk Management is the operative credit risk management function for Erste Group's divisionalised corporate business (GCIB). It is responsible for the formal and material verification, recommendation and approval of all credit risks of Erste Group Bank AG. Group Corporate Risk Management is also responsible for credit risk management for the GCIB 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, large corporates, and real estate risks. Group Corporate Risk Management provides specific credit risk reports on the aforementioned centrally managed portfolios of Erste Group Bank AG as a holding company. It is in charge of process development for credit risk management and implementation of group standards for these exposure classes. It also monitors compliance with relevant credit risk limits.

Group EGI Real Estate Risk Management

Group EGI Real Estate Risk Management was implemented in the course of 2012. The division performs the function of operative risk management for the divisionalised real estate business. In this function the division is responsible for the formal and material assessment, recommendation and approval of all credit risks in the real estate business that Erste Group Bank AG is taking. Furthermore, this organisational unit is responsible for managing credit risk in Erste Group Immorent AG (EGI) and for all credit applications with exposures exceeding the authority levels granted to the respective subsidiaries. The division is structuring and steering the respective alignment and decision processes. Furthermore, in close cooperation with EGI as the defined competence center for real estate business within Erste Group, business and risk policies are prepared and implemented as the basis for business activities and reporting. Additionally, tools and systems for project analyses and valuation are developed in order to standardise the assessment of transactions and risks.

Group Retail Risk Management

Group Retail Risk Management is responsible for monitoring and steering the Group's retail lending portfolio and defining the retail risk management lending framework. It provides an analytical framework to monitor local bank's retail loan portfolios and supplies timely and actionable information for senior management decisions. In addition, the unit ensures knowledge transfer across Erste Group entities. The local chief risk officers and the local retail risk heads assume primary responsibility for credit risk management of retail loan portfolios of their respective local banks and for managing the risk–reward trade-off of their businesses. In line with Group Retail Risk Management policies, local credit policy rules are defined locally in every bank while respecting the local regulatory and business environment.

Group Corporate Workout

Group Corporate Workout is responsible for managing problematic corporate clients of the group-wide Group Corporate and Investment Banking (GCIB) segment as well as of the local corporate segment where the exposure exceeds the authority of the management board of the respective subsidiary. This task includes the operative restructuring as well as workout function for exposures booked in Erste Group Bank AG and the risk management function for all substandard and non-performing clients in the other local SME segments mentioned above. An important task in this regard is also to set up group-wide standards and policies for handling problematic corporate clients. Additionally, this area 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 the 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.

Group Compliance, Legal and Security

Since 1 February 2012, the functions Compliance, Legal and Security have been consolidated in the division Group Compliance, Legal and Security. In essence, the division consists of the three departments: Group Compliance, Group Legal and Group Security Management. Their single tasks are as following:

Group Compliance

Group Compliance includes the departments Central Compliance, Securities Compliance, Anti-Money Laundering (AML) Compliance and Fraud Management, and it is accountable to address compliance risks. Compliance risks are those of legal or regulatory sanctions, material financial loss, or loss of reputation which Erste Group might suffer as a result of failure to comply with laws, regulations, rules and standards.

Group Legal

Group Legal, with its two units 'Legal Corporate' and 'Legal Market', functions as the central legal department of Erste Group Bank, mitigates legal risk by providing legal support and counsel for the business and centre functions, and it attends to dispute resolution and litigation. Group Legal has a group-wide focus on legal risk management and reporting aimed at identifying and then minimising, limiting or avoiding legal risk. Legal support for the business of the banking subsidiaries in those jurisdictions where they operate is performed at the local level.

Group Security Management

Group Security Management is in charge of the strategy, definition of security standards, quality assurance and monitoring, as well as the further development of issues relevant for security at Erste Group.

In addition to the risk management activities performed at the Erste Group Bank level in its special role as a holding company, each subsidiary also has a risk control and management unit, the responsibilities of which are tailored to the applicable local requirements. Each subsidiary's risk control and management unit is headed by the respective entity's chief risk officer.

Group co-ordination of risk management activities

The management board deals with risk issues in its regular board meetings. All types of risks are reported periodically and actions are taken when needed. In addition, the board is concerned with current risk issues and receives through the internal risk reporting ad hoc reports for all types of risk.

With the purpose of carrying out risk management activities within Erste Group, certain committees have been established, including the following:

_ Risk Management Committee,
_ CRO Board,
_ Strategic Risk Management Committee (SRMC),
_ Group Asset/Liability Committee (Group ALCO),
_ Group Operational Liquidity Committee (Group OLC),
_ Market Risk Committee (MRC), and
_ Group Operational Risk Committee (GORCO)

The Risk Management 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 according to the approval authority regulation. It is charged with granting approval to exposures or large exposures pursuant to Section 27 of the Austrian Banking Act, if such an investment in credit institutions exceeds 10% of the entity's own funds or if the investment amounts to at least 10% of the consolidated banking group's own funds. 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 Bank AG. 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 CRO Board and the Strategic Risk Management Committee are responsible for consistent co-ordination and implementation of risk management activities within Erste Group, including the Haftungsverbund. The CRO Board is made up of the Group CRO and the chief risk officers 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 Strategic Risk Management Committee, which is made up of the division heads of the strategic risk management department at each subsidiary, provides support to the CRO Board in decision-making on current risk-related topics.

Erste Group has established committees at the holding level that are specifically responsible for monitoring and managing market and liquidity risk:

_ Group ALCO manages the consolidated group balance sheet, focusing on trade-offs between all consolidated balance sheet risks (interest rate, exchange rate and liquidity risks) as well as taking care of Erste Group Bank's profit and loss account by performing management actions on the holding's balance sheet and by setting the group standards and limits for Erste Group members. Additionally, 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 is within the guidelines agreed with Risk Management.

_ The Group Operational Liquidity Committee (Group OLC) is responsible for 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 Group Asset/Liability Committee (Group ALCO). It also proposes measures to the Group 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 operational liquidity committee.

_ The Market Risk Committee (MRC) is the main steering body for all risks related to capital market trading operations in 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 responsible for Group Capital Markets, the Head of Group Capital Markets, the Head of Group Strategic Risk Management, and the Head of Group Market and Liquidity Risk Management.

The objectives of the Group Operational Risk Committee (GORCO) are to reduce operational risk at group level through decisions on risk mitigation measures, monitor these risks, and handle substantial operational risks within the Group. GORCO has the authority to decide on risk mitigation measures at group level and consists of the following permanent members: Group CRO, the heads of Group Strategic Risk Management and Group Compliance, Legal and Security, as well as the Head of Group Operational Risk. In an advisory function, the Head of Group Audit is also a permanent member.

In addition, committees are established at local level, such as the *Risikomanagementbeirat* in Austria. It implements a common risk approach within the Austrian members of Erste Group (i.e. Erste Bank Austria and the Savings Banks).

As a result of the principle of segregating risk origination and risk control, at every level of the risk management structure of Erste Group – and particularly concerning market and credit risks – the risk control functions are exercised independently of the front office functions.

37.3) Current topics

Current regulatory topics

Activities in the context of changes in regulatory requirements

Since 2010, Erste Group has been scrutinising 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 Capital Requirements Directive IV (CRD IV) and from related national and international regulations are implemented in complete and timely manner across the entire Group. The programme includes a stream covering capital requirements, changes in risk-weighted asset (RWA) calculations, counterparty credit risk (CCR), and the new capital charge for credit value adjustments (CVA). 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.

Due to the established programme structure, Erste Group has an integrated view on all requirements arising from Basel 3. Furthermore, a close alignment is being undertaken with programmes focusing on other internal or regulatory requirements in the areas of risk and accounting, such as the IFRS 9 project.

Regarding changes in risk-weighted assets according to Basel 3, Erste Group has actively participated since 2010 in the semi-annual Quantitative Impact Study (QIS) which is co-ordinated by Austrian and European regulatory authorities. In future, Erste Group will also participate in the quarterly exercises. The bank has completed several calculations to evaluate the impact of the new accord on its risk-weighted assets, both within and beyond the scope of the QIS exercises.

Erste Group calculated as well the Basel 3 compliant liquidity ratios which also will be collected within the scope of the planned exercises. The Group has made several calculations to assess the status of the entities with regards to these ratios, and necessary preparation for the future regulatory reporting is currently underway.

Regulatory changes for the internal model approach to market risk according to the Capital Requirements Directive III (CRD III) became effective for Erste Group at year-end 2011. The inclusion of stressed value-at-risk (VaR) and event risk (for equity-related risks) into the internal model was developed and received approval from regulators after a successful audit by the Austrian regulator in the fourth quarter of 2011.

Capital requirements for systemically relevant European banking groups

In the context of the ongoing sovereign debt crisis the European Banking Authority (EBA) evaluated the capital requirements of systemically relevant banking groups across the European Union. EBA then defined a minimum core tier-1 ratio of 9% (according to the EBA definition) to be fulfilled by 30 June 2012. Based on the calculation methodology defined by EBA, Erste Group had achived a 9.9% core tier-1 ratio as of 30 June 2012. EBA published the result of this exercise on 3 October 2012.

EBA will continue its monitoring of the regulatory capital situation of European banking groups. After final implementation of the new capital requirements directive, CRD IV, European banking groups will need to comply with further requirements, notably in respect of additional minimum requirements for Common Equity Tier-1 (CET-1). Future EBA exercises will then be adopted in light of the new and stricter legal environement in respect of capital and risk specifications.

Changes in the calculation of regulatory capital ratios within first quarter 2013

In September 2012, Erste Group officially informed the Austrian regulatory authorities concerning the change of the valuation method that is used as the basis for calculating regulatory capital ratios. In the first quarter of 2013, Erste Group will calculate consolidated regulatory capital and consolidated regulatory capital requirements for the very first time based on International Financial Reporting Standards (IFRS). Pro-forma figures as of year-end 2012 indicate that no significant impact on regulatory core capital is expected from the first-time application of IFRS.

Capital Requirements Directive IV

The new Capital Requirements Directive IV (CRD IV) did not come into force as planned on 1 January 2013. A new date for implementation of the directive has not yet been communicated. Due to CRD IV's postponement, the requirements for higher capital and liquidity standards as well as for calculation of the maximum leverage ratio were postponed.

Current economic topics

The tables below illustrate that Erste Group's net exposure to European countries which are particularly affected by the sovereign debt crisis was further reduced in the course of 2012. The net exposure to Greece, Ireland, Italy, Portugal and Spain decreased from EUR 3.1 billion at year-end 2011 to roughly EUR 1.9 billion as of 31 December 2012. Since 31 December 2011, the exposure to Italy was reduced by more than one third, or EUR 694 million. The exposure to Spain was decreased by EUR 218 million. The exposure to sovereign obligors in Greece and Portugal was eliminated almost completely. There were no new investments into bonds of sovereign issuers in the aforementioned countries during 2012. Erste Group has an exposure of EUR 60 million to corporate obligors based in Cyprus. There is no related payment risk, however, as all repayments originate from outside Cyprus. There exists neither sovereign nor bank exposure to Cyprus. As of 31 December 2012, Erste Group exhibited a net exposure of EUR 333 million to the Slovenian sovereign and EUR 21 million to Slovenian banks. In total, Erste Group reduced its net exposure to Slovenia by EUR 94 million since 31 December 2011.

The following tables show the net exposure to sovereigns and institutions in selected European countries as of 31 December 2012 and 31 December 2011, respectively. The net exposure includes all on- and off-balance-sheet positions after counterparty netting and risk transfer to guarantors. Derivatives are netted (ISDA Master Agreement with netting agreement) and collateral for derivatives reduces the exposure, provided that respective contracts are in force (Credit Support Annex to ISDA Master Agreement). In the case of repo transactions, the book value of the securities sold under repurchase agreements is recognised as exposure to the issuer. Moreover, an exposure to the counterparty amounting to the difference between the funds received and a potentially higher market value of the securities sold plus a percentage of the nominal value is considered in order to take into account price fluctuations. In the case of reverse repurchase agreements, the respective counterparty risk is considered as for repurchase agreements (the difference between the funds placed and a potentially lower market value of the securities purchased plus a percentage of the nominal value in order to take into account price fluctuations), but the issuer risk is not considered. The net exposure represents the net risk view. It differs from the credit risk exposure, which is treated in the 'Credit risk' chapter, primarily by applying the risk transfer to guarantors, by the deduction of collateral and by taking netting agreements into consideration. Therefore, the two are not comparable. The sovereign net exposure includes central banks, central governments and institutions which are explicitly guaranteed by a central government.

Net exposure to selected European countries

Total in EUR million	Sovereigns 2012	Sovereigns 2011	Banks 2012	Banks 2011	Other[1)] 2012	Other[1)] 2011	Total 2012	Total 2011
Greece	0	4	0	58	5	8	5	70
Ireland	74	47	29	204	36	78	139	329
Italy	100	473	411	807	656	582	1,167	1,861
Portugal	3	6	48	94	10	13	61	113
Spain	13	24	249	282	253	426	515	732
Total	**190**	**553**	**737**	**1,445**	**960**	**1,106**	**1,887**	**3,105**

1) ‘Other’ contains securitisations and receivables from non- banking corporations.

Sovereigns in EUR million	Fair value 2012	Fair value 2011	Available for sale 2012	Available for sale 2011	At amortised cost 2012	At amortised cost 2011	Total 2012	Total 2011
Greece	0	(9)	0	10	0	3	0	4
Ireland	0	0	59	32	15	15	74	47
Italy	(11)	400	100	71	0	2	100	473
Portugal	(16)	0	3	6	0	0	3	6
Spain	(22)	(27)	11	39	2	12	13	24
Total	**(49)**	**364**	**173**	**157**	**17**	**31**	**190**	**553**

The short positions relating to sovereigns in Italy, Portugal and Spain as of 31 December 2012 mature before the corresponding long positions. Therefore, these are not offset in the exposure figures above. If these were considered in the calculations, total exposure would accordingly be lower. The respective positions with a market value of EUR (49) million are CDS positions and are stated in the fair value section as of 31 December 2012 in the table above.

Banks in EUR million	Fair value 2012	Fair value 2011	Available for sale 2012	Available for sale 2011	At amortised cost 2012	At amortised cost 2011	Total 2012	Total 2011
Greece	0	0	0	0	0	58	0	58
Ireland	16	99	5	92	8	13	29	204
Italy	44	234	149	181	218	393	411	807
Portugal	2	9	16	30	30	55	48	94
Spain	69	62	34	65	146	156	249	282
Total	**131**	**404**	**204**	**367**	**402**	**674**	**737**	**1,445**

The following table shows the net exposure to sovereigns and banks in Erste Group's core market as of 31 December 2012 and 31 December 2011, respectively:

Net exposure to sovereigns and banks in the core market

	Sovereigns		Banks		Total	
in EUR million	2012	2011	2012	2011	2012	2011
Austria	13,292	9,797	1,802	1,838	15,094	11,635
Croatia	2,133	2,363	11	75	2,144	2,438
Romania	5,443	5,709	29	73	5,472	5,782
Serbia	180	115	5	0	185	115
Slovakia	6,170	4,838	149	194	6,319	5,032
Slovenia	333	374	21	75	354	449
Czech Republic	11,916	9,438	526	906	12,442	10,344
Hungary	3,884	3,217	2	33	3,886	3,250
Total	**43,351**	**35,851**	**2,545**	**3,194**	**45,896**	**39,045**

37.4) Group-wide risk and capital management

Overview

In light of the lessons learned from recent turbulence on the financial markets, among other reasons, Erste Group's risk management framework has been continuously strengthened. In particular, Group Strategic Risk Management and its Enterprise-wide Risk Management (ERM) have been developed into a comprehensive framework. This includes as its fundamental pillar the Internal Capital Adequacy Assessment Process (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 sustainability of the organisation.

ERM is a modular and comprehensive management and steering system within Erste Group, and it is integral to the bank's and Group's overall steering and management system. The components necessary to ensure all aspects of ERM, regulatory requirements, but particularly internal value adding needs, can be clustered as follows:

- Risk Appetite Statement;
- Portfolio & Risk Analytics, including
  - Risk Materiality Assessment,
  - Concentration Risk Management, and
  - Stress Testing;
- Risk-bearing Capacity Calculation;
- Risk Planning & Forecasting, including
  - RWA Management, and
  - Capital Allocation, as well as
- Emergency Response Plan

In addition to 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 Statement

The Risk Appetite Statement (RAS) is a high-level strategic statement and forms an integral part of Erste Group's business and risk strategy. It also serves as a formalised, high-level steering tool from which top-down targets for the bank's limit system on lower aggregation levels can be derived.

The objective of Erste Group's Risk Appetite Statement is to contain earnings volatility, avoid net losses, ensure a stable target rating for Erste Group (including all associated aspects, e.g. funding costs) and protect external and internal stakeholders. In order to reach those goals, general indicators are defined as well as indicators for credit, market and liquidity risk. To ensure that the RAS is operationally efficient, the indicators are classified as either limits, targets or principles, where the main differences will be in the mechanisms triggered in case of a breach of the RAS.

Exceeding a limit will typically trigger immediate management action. Counterbalancing measures must be taken to close the limit breach as soon as possible. Targets are in general derived as part of the planning process, where the final budget is aligned with the targets set. A significant deviation from a target usually will trigger management action and a 'cure' plan for the next 12 months must be formulated. Principles are the equivalent to a qualitative strategic statement/directive and are monitored ex ante and operationalised (e.g. via guidelines and policies).

The Risk Appetite Statement is part of the yearly planning process. The indicators of the RAS are regularly monitored and reported to the management.

In 2012, additional risk indicators were introduced in RAS to cover more risk types. Tighter limits and targets were defined which serve especially in managing of the economic capital.

Furthermore the strategic pillars were revised in order to optimise the capital allocation.

Portfolio and risk analytics

For the purpose of adequately managing the Group's risk portfolios according to the strategy, risks are systematically analysed within the scope of portfolio and risk analytics. Therefore, Erste Group has developed adequate infrastructure, systems and processes with which extensive analyses are ensured. Risks are quantified, qualified and discussed in a consistent management process in order to decide on appropriate measures on a timely basis.

Risk materiality assessment

For the purpose of systematically and continuously assessing all relevant risk types and identifying risks which are significant for the Group, Erste Group has defined a clear and structured risk materiality assessment approach which is based on defined quantitative and qualitative factors for each risk type and is carried out annually.

This process constitutes the basis for the determination of material risk types to be included into the Risk-bearing Capacity Calculation. Insights generated by the assessment are also used to improve risk management practices per se to further mitigate risks within the Group but also as an input for the design and definition of the Group's Risk Appetite Statement. Furthermore, insights from the risk materiality assessment are considered in the stress test when defining stress parameters.

Concentration risk management

Erste Group has implemented a framework to identify, measure, control, report and manage concentration risks. This is essential to ensuring the long-term viability of Erste Group, and especially in times of stressed economic conditions.

Concentration risk management at Erste Group is based on a framework of processes, methodologies and reports covering both intra- and inter-risk concentrations. Concentration risks also comprise an integral part of stress test analyses. Furthermore, the outcome of a stress test is directly considered in the Risk-bearing Capacity Calculation of the Group

Additionally, the results of concentration risk assessments are used in defining the Risk Appetite Statement, defining stress factors for stress tests, and when setting or calibrating Erste Group's limit system.

Based on the results of concentration risk studies, potential regional, country and industry concentration risks can be identified in the credit portfolio. Country concentration mainly reflects the Group's strategy to operate in its core CEE region.

Stress testing

Modelling sensitivities of the Group's assets, liabilities and profit or loss provide management and steering impulses and help in optimising 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 ICAAP. Finally, sensitivities and stress scenarios are explicitly considered within the Group's planning and budgeting process as well as the Risk-bearing Capacity Calculation and the setting of the Maximum Risk Exposure Limit.

Erste Group's most complex stress tests take comprehensive account of the impact of stress scenarios, including second-round effects on all risk types (credit, market, operational and liquidity) and in addition impacts on the associated volumes (assets/liabilities) as well as on profit and loss sensitivities.

Erste Group has developed specific tools 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 consider adequate granularity and special characteristics when defining the stress parameters (e.g. the particular developments in the respective region, industry, product type or segment). The adequacy of scenarios and stress parameters is reviewed on a quarterly basis.

Results from all of Erste Group's stress tests are checked as to their explanatory power in order to decide on appropriate measures. All stress tests performed in the reporting period clearly showed capital adequacy to be sufficient.

Erste Group additionally participated in a stress test exercise at national level (OeNB). The results of this stress test showed that Erste Group's regulatory capital was adequate. An international stress test (EBA) did not take place in 2012.

Risk-bearing Capacity Calculation (RCC)

The Risk-bearing Capacity Calculation is ultimately the tool to define the capital adequacy required by ICAAP. Within the RCC, all material risks are aggregated and compared to the coverage potential and capital of the bank. The integral forecast, risk appetite limit as well as a traffic light system support management in its discussion and decision process.

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

The management board and risk management committees are briefed regularly (and at least 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 risk-weighted assets and capital adequacy.

Besides the Pillar 1 risk types (credit– , market– and operational risk), in the context of Pillar 2, interest rate risks in the banking book, foreign exchange risks arising from equity investments and credit spread risks in the banking book are explicitly considered within the economic capital via internal models. During 2012 the utilisation of the economic capital was between 67% and 76%. The methodologies which are applied for the different risk types in calculating the economic capital requirement are diverse and range from historic simulations, and value-at-risk approaches to the regulatory approach for residual portfolios. Moreover, additional portfolio calculations can be applied that are utilised under the standard regulatory approach and which are extended by risk parameters from the internal ratings-based approach.

In addition to the Risk-bearing Capacity Calculation, 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 (including a risk buffer of 5.3% of the economic capital requirement), and traffic light systems.

Based on Erste Group's business and risk profile, the three main types of banking risks – credit risk, market risk and operational risk – are currently 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.

The capital or coverage potential required to cover economic risks and unexpected losses is based on equity, considering as well subordinated capital liabilities and regulatory deductibles. The coverage potential must be sufficient to absorb unexpected losses resulting from the Group's operations.

Risk planning and forecasting

The responsibility for strategic risk management within the Group and each subsidiary includes to ensure sound risk planning and forecasting processes. The numbers determined by risk management are a consequence of close co-operation with all stakeholders in the Group's overall planning process, and in particular with Group Performance Management (GPM), Asset/Liability Management and the business lines. The relevant numbers flow directly into the Group steering and planning process, which is hosted by GPM.

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.

RWA management

As risk-weighted assets (RWA) 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.

A major focus during 2012 was on meeting RWA targets. 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. This process is carried out by a task force with dedicated experts from the relevant areas of risk management, controlling, and statutory reporting. The task force's steering committee is co-headed by the CFO and CRO, and its meetings take place at least monthly. 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 Risk Appetite Statement.

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 Strategic Risk Management and Controlling. All insight from the ICAAP and controlling processes is used to allocate capital with a view to risk/return considerations.

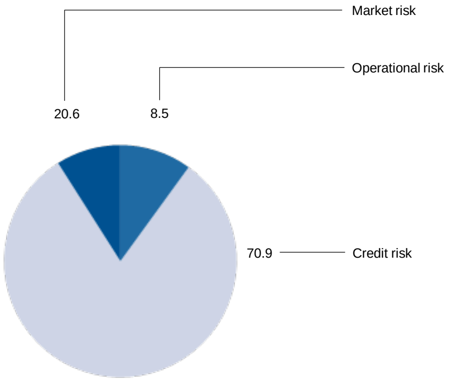
Emergency Response Plan

In order to respond in a timely and effective manner to a crisis situation, the Emergency Response Plan (ERP) provides a general governance framework and action plan for the Group in such eventuality. The ERP is a modular system which can be applied as required by a particular situation. As part of its supervisory guidance for strengthening the sustainability of the business models of large, internationally active Austrian banks, Erste Group is required to prepare recovery and resolution plans for potential crisis situations. The ERP will be incorporated into these recovery and resolution plans.

Erste Group's aggregate capital requirement by risk type

The following diagram presents the composition of the economic capital requirement as of 31 December 2012 according to type of risk:

Economic capital allocation
in %, 31. 12. 2012



37.5) Credit risk

Definition and overview

Credit risk arises in Erste Group's traditional lending and investment businesses. It involves losses incurred as a result of default by borrowers and the need to set aside provisions as a result of the deteriorating credit quality of certain borrowers, as well as due to counterparty risk from trading in instruments and derivatives bearing market risk. Country risk, too, is recognised in the calculation of credit risk. Operative credit decisions are made locally by the credit risk management units at each of the banking subsidiaries, and by Group Corporate Risk Management and Group EGI Real Estate Risk Manangement at group level. For a detailed explanation of the role and responsibilities of Group Corporate Risk Management and Group EGI Real Estate Risk Manangement, see 'Overview of risk management structure' in Note 37.2) Risk management organisation.

The central database used for credit risk management is the group data pool. All data relevant to credit risk management, performance management and determination of risk-weighted assets and the regulatory capital requirement are regularly input to this database. Relevant subsidiaries not yet integrated into the group data pool regularly deliver reporting packages.

The department Group Credit Risk Methods and Reporting uses the group data pool for centralised credit risk reporting. This ensures centralised analysis and application of ratios according to unified methods and segmentation across the entire Erste Group. The credit risk reporting comprises regular reports on Erste Group's credit portfolio for external and internal recipients and permits continuous monitoring of credit risk developments, thus enabling management to take control measures. In-house recipients of these reports include, above all, the supervisory and management boards of Erste Group Bank, as well as the risk managers, business unit directors and internal audit staff.

The Credit Limit System organisational unit is in charge of the roll-out and continuous technical improvement of a group-wide online limit system for capping counterparty risk arising from treasury transactions, as well as for surveillance of credit risk from exposure to clients that fall into the 'financial institutions', 'sovereigns' and 'international large corporates' asset segments and which work with several different members of Erste Group.

Internal rating system

Overview

Erste Group has business and risk strategies in place, as well as policies for lending and credit approval processes, which are reviewed and adjusted regularly (at minimum on a yearly basis). They cover the entire lending business, taking into account the nature, scope and risk level of the transactions and the counterparties involved. Credit approval is also based on the creditworthiness of the customer, the type of credit, collateral, covenant package and other risk mitigation factors involved.

The assessment of counterparty default risk within Erste Group is based on the customer's probability of default (PD). For each credit exposure and lending decision, Erste Group assigns an internal rating which is a unique measure of counterparty default risk. The internal rating of each customer is updated at least on an annual basis (Annual Rating Review). Ratings of customers in weaker rating classes are reviewed with higher frequency than the usual Annual Rating Review.

The main purpose of the internal ratings is to support the decision-making for lending and for the terms of credit facilities to be extended. However, internal ratings also determine the level of decision-making authority within Erste Group and the monitoring procedures for existing exposures. At a quantitative level, internal ratings drive the level of required risk pricing and risk provisions.

For IRB compliant entities of Erste Group, internal ratings are a key element of the risk-weighted assets' calculation. They are also used in the Group's Internal Capital Adequacy Assessment Process (ICAAP). For these purposes, a distinct PD value is assigned to each rating grade for its IRB portfolios within the calibration process. Calibration is performed individually for each rating method. PD values reflect the 12-month probability of default based on long-term average default rates. In addition to the PD values, the bank assigns margins of conservatism dependent on the granularity of portfolios and relevant data history. Calibration of PD values is validated annually in line with all the rating methods validations.

Internal ratings take into account all available essential information for the assessment of counterparty default risk. For non-retail borrowers, internal ratings take into account financial strength of the counterparty, possibility of external support, company information, and external credit history information, where available. For the wholesale segment, internal ratings also take into account market information such as access to capital markets linked to external ratings or credit spreads. The willingness of the market to provide funds to the counterparty can be derived from these variables. For retail clients, internal ratings are based mainly on behavioural and application scoring, but they also utilise demographic and financial information, supplemented by credit bureau information, where available. Rating ceiling rules on credit quality are applied based on membership in a group of economically related entities and country of main economic activity. Country ceilings are applied for cross-border financing facilities.

Internal teams of specialists ('Competence Centers') provide internal rating models and risk parameters and develop them further. Rating development follows an internal methodology that is formalised into a group-wide methodology and documentation standard. Rating models are developed based on relevant and most-accurate data covering the respective market. In such way, Erste Group has established highly predictive rating models covering its entire core region.

All scorecards, whether retail or non-retail, are regularly validated by the central validation unit based on group-wide standard methodology. Validations are provided using statistical techniques in respect to default prediction performance, rating stability, data quality, completeness and relevancy, as well as, last but not least, the review of documentation and user acceptance. The results of this validation process are reported to the management and regulatory bodies. In addition to the validation process, the Group applies a monthly monitoring process on the performance of rating tools, reflecting the month-to-month new defaults and any early delinquencies.

A Holding Model Committee is established as an elementary steering and control body for the model development and maintenance process. The Holding Model Committee reports to the CRO Board. All new models and modifications of existing models in the group (rating models and risk parameters), as well as methodology standards, are reviewed by the Holding Model Committee. The Holding Model Committee ensures group-wide integrity and consistency of models and methodologies. Besides its review function for new models and methodologies, the Holding Model Committee organises the group-wide validation process, reviews validation results, and approves remedial actions. All development and validation activities are coordinated by the Group Credit Risk Methods organisational unit.

Risk grades and categories

The classification of credit assets into risk grades is based on Erste Group's internal ratings. Erste Group uses two internal risk scales for risk classification: for customers that have not defaulted, a risk scale of eight risk grades (for retail) and 13 risk grades (for all other segments) is used. Defaulted customers are classified into a separate risk grade. For newly acquired subsidiaries of Erste Group, the respective local risk classification is mapped to group standard classifications until internal rating systems according to group methodology are introduced.

For the purpose of external reporting, Erste Group has developed a framework to map the risk grades into four different risk categories, as follow:

Low risk: Typically regional customers with well-established and rather long-standing relationships with Erste Group or large internationally recognised customers. Strong and good financial position and no foreseeable financial difficulties. Retail clients having long relationships with the bank, or clients with a wide product pool use. No late payments currently or in the most recent 12 months. New business is generally with clients in this risk category.

Management attention: Vulnerable non-retail clients, which may have overdue payments or defaults in their credit history or may encounter debt repayment difficulties in the medium-term. Retail clients with limited savings or probable payment problems in the past triggering early collection reminders. These clients typically have good recent histories and no current delinquencies.

Substandard: The borrower is vulnerable to negative financial and economic developments. Such loans are managed in specialised risk management departments.

Non-performing: One or more of the default criteria under Basel 2 are met: 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, or initiation of bankruptcy proceedings. For purposes of analysing non-performing positions, Erste Group applies the 'customer view' in Austria. Accordingly, if an Austrian customer defaults on one product then all of that customer's performing products are classified as non-performing. For corporate borrowers in CEE, the customer view is also applied. However, in the retail and SME segment in CEE, Erste Group uses the 'product view', so that only the product actually in default is counted as an NPL whereas the other products of the same customer are considered performing.

Credit risk review and monitoring

Credit monitoring

In order to manage the credit risk for large corporates, banks, sovereigns and country risk, credit limits are established to reflect the maximum exposure Erste Group is willing to take on that particular customer or group of connected customers. All credit limits and the exposures booked within the limits are reviewed at least once a year. For smaller corporates, enterprises and retail customers, monitoring and credit review is based on an automated early warning system and monthly rating model, which is updated monthly. For weaker small companies (with a risk category of 'Management attention' or 'Substandard'), a continuous review process is undertaken.

Credit portfolio reports for asset classes and business lines are prepared on a regular basis. Watch-list meetings or remedial committee meetings are held on a regular basis to discuss customers with poor credit standing or to discuss pre-emptive measures to help a particular debtor avoid default.

For retail businesses, local operational risk management is responsible to undertake these monitoring activities and fulfil the minimum requirements of Group Retail Risk Management.

Credit risk exposure

Credit risk exposure relates to the following balance sheet items:

_ loans and advances to credit institutions;
_ loans and advances to customers;
_ debt securities held for trading, at fair value through profit or loss, available for sale, and held to maturity;
_ derivatives; and
_ credit risks held off balance sheet (primarily financial guarantees and undrawn credit commitments).

The credit risk exposure comprises the gross amount without taking into account loan loss provisions, any collateral held (including risk transfer to guarantors), netting effects, other credit enhancements or other credit risk mitigating transactions.

Due to the sale of the Ukrainian subsidiary Public Company 'Erste Bank' which was agreed in December 2012, Ukraine does not belong to the core market anymore and does not constitute a separate sub-segment of Erste Group. Consequently, in the following tables with figures as of 31 December 2012 Ukraine is no longer presented either as separate sub-segment or as a separate region.

The credit risk exposure of Erste Group increased by 0.1%, or EUR 211 million, from just under EUR 219.5 billion as of 31 December 2011 to approximately EUR 219.7 billion as of 31 December 2012.

Erste Group's credit risk exposure is presented below divided into the following classes:

_ by Basel 2 exposure class and financial instrument,
_ by industry and financial instrument,
_ by risk category,
_ by industry and risk category,
_ by region and risk category, and
_ by business segment and risk category.

Thereafter, a breakdown is presented of

_ contingent credit liabilities by region and risk category,
_ contingent credit liabilities by product,
_ credit risk exposure to sovereigns by region and financial instrument, and
_ credit risk exposure to institutions by region and financial instrument.

This is followed by presentation of

_ non-performing credit risk exposure by business segment and credit risk provisions,
_ credit risk exposure by business segment and collateral,
_ credit risk exposure by financial instrument and collateral,
_ credit risk exposure past due and not covered by specific provisions by Basel 2 exposure class and collateralisation, and
_ credit risk exposure covered by specific provisions by Basel 2 exposure class

and a breakdown of

_ loans and advances to customers by business segment and risk category
_ non-performing loans and advances to customers by business segment and coverage by loan loss provisions and collateral, and
_ loans and advances to customers by business segment and currency.

Credit risk exposure by Basel 2 exposure class and financial instrument

The following tables include Erste Group's credit risk exposure broken down by Basel 2 exposure class and financial instrument as of 31 December 2012 and 31 December 2011, respectively. The assignment of obligors to Basel 2 exposure classes is based on legal regulations. For reasons of clarity, individual Basel 2 exposure classes are presented in aggregated form in the tables below and in other tables in the chapter 'Credit Risk'. The aggregated exposure class 'sovereigns' also contains regional and local governments as well as public sector entities in addition to central governments, central banks, international organisations and multinational development banks.

Credit risk exposure by Basel 2 exposure class and financial instrument in 2012

in EUR million	Loans and advances to credit institutions	Loans and advances to customers	Debt securities: Held to maturity	Debt securities: Trading assets	Debt securities: At fair value through profit or loss	Debt securities: Available for sale	Positive fair value of derivative financial instruments	Contingent credit liabilities	Credit risk exposure
	at amortised cost	at amortised cost	at amortised cost	fair value	fair value	fair value	fair value		
Sovereigns	2,556	7,799	16,371	4,267	236	13,016	623	881	45,748
Institutions	6,504	52	1,720	360	211	4,425	11,806	267	25,346
Corporates	15	60,302	884	245	79	2,784	857	14,640	79,805
Retail	0	63,774	0	0	0	0	4	4,990	68,768
Total	**9,074**	**131,928**	**18,975**	**4,872**	**526**	**20,225**	**13,289**	**20,779**	**219,668**

Credit risk exposure by Basel 2 exposure class and financial instrument in 2011

in EUR million	Loans and advances to credit institutions	Loans and advances to customers	Debt securities: Held to maturity	Debt securities: Trading assets	Debt securities: At fair value through profit or loss	Debt securities: Available for sale	Positive fair value of derivative financial instruments	Contingent credit liabilities	Credit risk exposure
	at amortised cost	at amortised cost	at amortised cost	fair value	fair value	fair value	fair value		
Sovereigns	1,556	8,247	12,427	4,638	928	9,230	166	1,276	38,468
Institutions	6,008	174	2,388	573	309	5,432	9,853	509	25,246
Corporates	13	61,968	1,259	259	265	2,992	904	15,932	83,592
Retail	0	64,361	0	0	0	0	7	7,782	72,150
Total	**7,578**	**134,750**	**16,074**	**5,471**	**1,502**	**17,654**	**10,931**	**25,499**	**219,457**

Credit risk exposure by industry and financial instrument

The following tables present Erste Group's credit risk exposure by industry, broken down by financial instruments, as of each reporting date indicated.

Credit risk exposure by industry and financial instrument in 2012

in EUR million	Loans and advances to credit institutions	Loans and advances to customers	Held to maturity	Trading assets	At fair value through profit or loss	Available for sale	Positive fair value of derivative financial instruments	Contingent credit liabilities	Credit risk exposure
	at amortised cost		Debt securities		fair value				
Agriculture and forestry	0	2,195	0	0	0	0	3	211	2,409
Mining	0	396	0	1	0	0	0	191	588
Manufacturing	0	10,259	54	23	1	146	102	3,770	14,356
Energy and water supply	0	2,387	51	24	0	66	43	847	3,418
Construction	0	7,067	110	4	0	76	36	2,636	9,930
Trade	0	8,903	0	1	0	13	90	2,293	11,300
Transport and communication	0	3,717	185	17	0	446	26	759	5,150
Hotels and restaurants	0	4,048	9	0	0	2	40	461	4,560
Financial and insurance services	9,074	6,208	2,423	1,302	439	7,670	12,039	1,980	41,135
Real estate and housing	0	20,534	28	22	0	225	254	1,640	22,703
Services	0	4,839	164	50	0	293	43	1,061	6,451
Public administration	0	6,615	15,932	3,422	81	10,941	581	758	38,331
Education, health and art	0	2,606	0	0	0	0	9	316	2,931
Private households	0	52,028	0	0	0	0	3	3,225	55,256
Other	0	125	18	6	3	347	20	632	1,151
Total	**9,074**	**131,928**	**18,975**	**4,872**	**526**	**20,225**	**13,289**	**20,779**	**219,668**

Credit risk exposure by industry and financial instrument in 2011

in EUR million	Loans and advances to credit institutions	Loans and advances to customers	Debt securities: Held to maturity	Debt securities: Trading assets	Debt securities: At fair value through profit or loss	Debt securities: Available for sale	Positive fair value of derivative financial instruments	Contingent credit liabilities	Credit risk exposure
	at amortised cost	at amortised cost	at amortised cost	fair value	fair value	fair value	fair value		
Agriculture and forestry	0	2,076	0	0	0	0	2	285	2,362
Mining	0	460	0	0	0	2	0	116	578
Manufacturing	0	10,931	111	20	1	119	125	3,865	15,172
Energy and water supply	0	2,419	51	18	0	68	33	955	3,544
Construction	0	6,745	141	1	0	65	8	3,220	10,179
Trade	0	9,476	0	1	0	9	84	2,458	12,028
Transport and communication	0	3,770	154	12	0	365	26	644	4,970
Hotels and restaurants	0	4,227	10	0	0	2	33	513	4,785
Financial and insurance services	7,578	6,633	3,166	1,931	707	8,511	10,094	2,468	41,088
Real estate and housing	0	20,630	54	9	4	233	224	2,111	23,265
Services	0	5,441	98	33	0	272	61	1,193	7,098
Public administration	0	7,166	12,247	3,442	790	7,768	161	997	32,571
Education, health and art	0	2,498	0	0	0	0	6	452	2,957
Private households	0	52,031	0	0	0	0	5	5,647	57,683
Other	0	247	42	2	0	241	70	575	1,177
Total	**7,578**	**134,750**	**16,074**	**5,471**	**1,502**	**17,654**	**10,931**	**25,499**	**219,457**

Credit risk exposure by risk category

The following table presents the credit risk exposure of Erste Group divided by risk category as of 31 December 2012, compared with the credit risk exposure as of 31 December 2011.

Credit risk exposure by risk category

in EUR million	Low risk	Management attention	Substandard	Non-performing	Credit risk exposure
Total exposure as of 31 Dec 2012	179,455	22,833	4,785	12,595	219,668
Share of credit risk exposure	81.7%	10.4%	2.2%	5.7%	
Total exposure as of 31 Dec 2011	175,425	27,038	5,194	11,800	219,457
Share of credit risk exposure	79.9%	12.3%	2.4%	5.4%	
Change in credit risk exposure in 2012	4,030	(4,204)	(409)	795	211
Change	2.3%	(15.5)%	(7.9)%	6.7%	0.1%

From 31 December 2011 to 31 December 2012, the percentage of credit risk exposure in the best and poorest categories increased, while exposure decreased in the other two categories. Non-performing claims as a share of total credit risk exposure (i.e. the non-performing exposure ratio, NPE ratio) rose from 5.4% to 5.7%. Of Erste Group's total credit exposure, 81.7% constituted the best risk category and 10.4% was in the management attention category. The combined proportion of the two weaker risk categories scarcely changed between 31 December 2011 and 31 December 2012, growing by 0.1 percentage points from 7.8% to 7.9% of total credit risk exposure.

Credit risk exposure by industry and risk category

The following tables present the credit risk exposure of Erste Group broken down by industry and risk category as of 31 December 2012 and 31 December 2011, respectively.

Credit risk exposure by industry and risk category in 2012

in EUR million	Low risk	Management attention	Substandard	Non-performing	Credit risk exposure
Agriculture and forestry	1,529	546	79	255	2,409
Mining	399	110	5	74	588
Manufacturing	9,611	2,436	535	1,773	14,356
Energy and water supply	2,767	340	42	269	3,418
Construction	5,950	1,843	315	1,821	9,930
Trade	7,792	1,810	375	1,324	11,300
Transport and communication	3,890	796	65	399	5,150
Hotels and restaurants	2,447	986	310	816	4,560
Financial and insurance services	39,386	1,276	80	392	41,135
Real estate and housing	17,570	3,267	658	1,208	22,703
Services	4,798	953	161	539	6,451
Public administration	37,476	817	10	28	38,331
Education, health and art	2,024	668	48	191	2,931
Private households	43,337	6,891	1,560	3,468	55,256
Other	478	92	544	37	1,151
Total	**179,455**	**22,833**	**4,785**	**12,595**	**219,668**

Credit risk exposure by industry and risk category in 2011

in EUR million	Low risk	Management attention	Substandard	Non-performing	Credit risk exposure
Agriculture and forestry	1,459	603	60	241	2,362
Mining	439	1. 68	4	67	578
Manufacturing	9,709	3,305	423	1,735	15,172
Energy and water supply	2,722	585	86	151	3,544
Construction	6,670	1,901	477	1,132	10,179
Trade	7,954	2,398	312	1,364	12,028
Transport and communication	3,369	1,017	125	460	4,970
Hotels and restaurants	2,399	1,285	317	784	4,785
Financial and insurance services	39,335	1,224	131	398	41,088
Real estate and housing	17,860	3,562	565	1,278	23,265
Services	5,284	1,040	186	587	7,098
Public administration	31,493	995	36	47	32,571
Education, health and art	2,284	500	41	132	2,957
Private households	44,032	8,447	1,842	3,362	57,683
Other	416	107	591	63	1,177
Total	**175,425**	**27,038**	**5,194**	**11,800**	**219,457**

Credit risk exposure by region and risk category

The geographic analysis of credit exposure is based on the risk country of the borrower. Accordingly, the distribution among Erste Group entities of the credit risk exposure by geography differs from the composition of credit risk exposure in terms of reporting segments of Erste Group.

The following tables present the credit risk exposure of Erste Group divided by region as of 31 December 2012 and 31 December 2011, respectively.

Credit risk exposure by region and risk category in 2012

in EUR million	Low risk	Management attention	Substandard	Non-performing	Credit risk exposure
Core market	**145,789**	**20,790**	**4,564**	**11,661**	**182,803**
Austria	75,642	8,419	1,534	3,423	89,017
Croatia	6,147	1,808	470	1,295	9,720
Romania	10,678	3,113	993	3,346	18,129
Serbia	805	276	49	79	1,209
Slovakia	13,107	1,176	232	502	15,017
Slovenia	1,328	267	127	228	1,951
Czech Republic	31,219	3,961	742	1,063	36,984
Hungary	6,864	1,770	417	1,726	10,777
Other EU	**27,409**	**1,202**	**112**	**559**	**29,283**
Other industrialised countries	**4,096**	**140**	**19**	**143**	**4,398**
Emerging markets	**2,161**	**702**	**90**	**232**	**3,184**
South-Eastern Europe/CIS	1,322	634	87	187	2,230
Asia	510	10	1	24	546
Latin America	86	19	1	8	114
Middle East/Africa	243	38	1	13	294
Total	**179,455**	**22,833**	**4,785**	**12,595**	**219,668**

Credit risk exposure by region and risk category in 2011

in EUR million	Low risk	Management attention	Substandard	Non-performing	Credit risk exposure
Core market	**142,947**	**25,055**	**4,889**	**10,822**	**183,714**
Austria	76,513	9,114	1,686	3,316	90,629
Croatia	5,954	2,417	466	982	9,818
Romania	10,641	4,924	869	2,813	19,247
Serbia	587	365	16	71	1,039
Slovakia	10,299	1,412	260	539	12,509
Slovenia	1,519	264	167	236	2,187
Czech Republic	29,197	4,128	693	1,039	35,058
Ukraine	423	574	136	230	1,362
Hungary	7,812	1,858	598	1,597	11,864
Other EU	**25,336**	**1,466**	**170**	**613**	**27,584**
Other industrialised countries	**4,181**	**204**	**46**	**178**	**4,610**
Emerging markets	**2,960**	**313**	**89**	**186**	**3,549**
South-Eastern Europe/CIS	1,298	222	47	148	1,714
Asia	714	14	40	22	791
Latin America	167	8	2	9	186
Middle East/Africa	782	69	0	7	858
Total	**175,425**	**27,038**	**5,194**	**11,800**	**219,457**

Growing by only EUR 211 million, or 0.1%, the credit risk exposure remained almost unchanged between 31 December 2011 and 31 December 2012. In the CEE core markets, the credit risk exposure increased by EUR 701 million, or 0.8%, whereas it decreased by approximately EUR 1.6 billion, or 1.8%, in Austria. In the other EU member states (EU 27 excluding core markets), the credit risk exposure rose by almost EUR 1.7 billion, or 6.2%, to EUR 29.3 billion between the two balance sheet dates, contrasting with a decrease of EUR 212 million, or 4.6%, in other industrialised countries and of EUR 365 million, or 10.3%, in emerging markets. The countries of Erste Group's core market and the EU accounted for 96.5% of credit risk exposure as of 31 December 2012. At 1.4%, credit risk exposure in emerging markets remained of minor significance.

Credit risk exposure by business segment and risk category

The following tables show the credit risk exposure of Erste Group broken down by reporting segment as of 31 December 2012 and 31 December 2011, respectively. Due to the aforementioned sale, Ukraine is not reported separately as a partial segment as of 31 December 2012.

Credit risk exposure by business segment and risk category in 2012

in EUR million	Low risk	Management attention	Substandard	Non-performing	Credit risk exposure
Retail & SME	**128,207**	**18,548**	**3,590**	**11,069**	**161,413**
Austria	72,950	9,165	1,382	3,816	87,313
EB Österreich	31,244	2,462	329	1,134	35,169
Savings Banks	41,706	6,703	1,054	2,682	52,145
Central and Eastern Europe	55,257	9,383	2,208	7,253	74,100
Czech Republic	28,063	3,107	598	989	32,758
Romania	8,766	2,523	631	3,086	15,007
Slovakia	9,449	877	197	448	10,971
Hungary	2,949	1,510	348	1,575	6,382
Croatia	5,558	1,186	417	1,085	8,246
Serbia	471	180	16	69	736
Group Corporate & Investment Banking	**19,840**	**3,895**	**861**	**1,521**	**26,117**
Group Markets	**22,479**	**186**	**20**	**2**	**22,688**
Corporate Center	**8,929**	**205**	**314**	**3**	**9,450**
Total	**179,455**	**22,833**	**4,785**	**12,595**	**219,668**

Credit risk exposure by business segment and risk category in 2011

in EUR million	Low risk	Management attention	Substandard	Non-performing	Credit risk exposure
Retail & SME	**125,950**	**22,282**	**4,275**	**10,395**	**162,902**
Austria	75,183	9,928	1,632	3,854	90,597
EB Österreich	33,193	2,973	401	1,148	37,716
Savings Banks	41,990	6,955	1,231	2,706	52,881
Central and Eastern Europe	50,767	12,355	2,642	6,541	72,305
Czech Republic	24,962	3,739	608	975	30,284
Romania	7,542	3,844	734	2,579	14,699
Slovakia	8,553	916	223	498	10,189
Hungary	3,655	1,648	517	1,504	7,324
Croatia	5,184	1,825	443	764	8,216
Serbia	416	228	15	59	718
Ukraine	455	155	101	161	873
Group Corporate & Investment Banking	**23,330**	**4,411**	**569**	**1,398**	**29,708**
Group Markets	**18,987**	**176**	**3**	**3**	**19,169**
Corporate Center	**7,158**	**169**	**348**	**4**	**7,679**
Total	**175,425**	**27,038**	**5,194**	**11,800**	**219,457**

Contingent credit liabilities by region and risk category

The following tables present the credit risk exposure of Erste Group's off-balance-sheet positions broken down by region and risk category, as well as by product, as of 31 December 2012 and 31 December 2011, respectively.

Erste Group has introduced a more stringent group-wide differentiation between irrevocable and revocable commitments. Due to this change, irrevocable unused commitments were reduced by approximately EUR 3.5 billion.

Contingent credit liabilities by region and risk category in 2012

in EUR million	Low risk	Management attention	Substandard	Non-performing	Credit risk exposure
Core market	**15,592**	**2,129**	**705**	**394**	**18,820**
Austria	9,976	820	545	240	11,580
Croatia	473	113	17	21	624
Romania	978	367	34	66	1,445
Serbia	129	14	2	0	146
Slovakia	1,042	81	16	16	1,155
Slovenia	74	30	3	8	115
Czech Republic	2,624	642	83	31	3,380
Hungary	295	62	6	12	375
Other EU	**1,290**	**105**	**22**	**13**	**1,431**
Other industrialised countries	**95**	**7**	**0**	**0**	**103**
Emerging markets	**317**	**101**	**4**	**3**	**426**
South-Eastern Europe/CIS	207	78	4	3	291
Asia	24	1	0	0	25
Latin America	3	15	0	0	18
Middle East/Africa	83	8	0	0	91
Total	**17,294**	**2,343**	**731**	**411**	**20,779**

Contingent credit liabilities by region and risk category in 2011

in EUR million	Low risk	Management attention	Substandard	Non-performing	Credit risk exposure
Core market	**19,871**	**2,618**	**716**	**265**	**23,470**
Austria	13,896	846	542	146	15,431
Croatia	550	176	20	14	760
Romania	1,247	757	28	55	2,085
Serbia	74	25	2	1	103
Slovakia	825	110	24	7	966
Slovenia	117	57	2	8	184
Czech Republic	2,773	524	83	26	3,406
Ukraine	0	67	0	0	67
Hungary	389	58	14	8	468
Other EU	**1,324**	**195**	**11**	**22**	**1,552**
Other industrialised countries	**206**	**10**	**10**	**1**	**227**
Emerging markets	**217**	**27**	**2**	**3**	**250**
South-Eastern Europe/CIS	127	12	2	3	144
Asia	12	1	0	0	13
Latin America	17	3	0	0	20
Middle East/Africa	62	12	0	0	73
Total	**21,618**	**2,851**	**739**	**290**	**25,499**

Contingent credit liabilities by product

in EUR million	2012	2011
Financial guarantees	6,363	6,920
Irrevocable commitments	14,415	18,579
Total	**20,779**	**25,499**

Credit risk exposure to sovereigns by region and financial instrument

The following tables show Erste Group's credit risk exposure to sovereigns broken down by region and financial instrument as of 31 December 2012 and 31 December 2011, respectively. The assignment of obligors to sovereigns is based on Basel 2 exposure classes.

Credit risk exposure to sovereigns by region and financial instrument in 2012

			Debt securities						
in EUR million	Loans and advances to credit institutions	Loans and advances to customers	Held to maturity	Trading assets	At fair value through profit or loss	Available for sale	Positive fair value of derivative financial instruments	Contingent credit liabilities	Credit risk exposure
	at amortised cost			fair value					
Core market	**728**	**7,479**	**15,749**	**3,949**	**229**	**10,900**	**623**	**875**	**40,532**
Austria	3	3,631	2,433	33	1	4,656	54	574	11,384
Croatia	690	990	101	111	0	530	0	5	2,427
Romania	5	1,267	2,497	587	5	980	0	85	5,425
Serbia	0	50	51	8	0	10	0	0	119
Slovakia	0	236	3,244	219	29	2,544	1	18	6,291
Slovenia	0	28	47	84	0	162	0	3	323
Czech Republic	0	681	6,175	1,867	194	1,314	567	180	10,978
Hungary	31	597	1,203	1,040	0	704	0	11	3,585
Other EU	**0**	**44**	**607**	**317**	**8**	**1,692**	**0**	**6**	**2,673**
Other industrialised countries	**1,818**	**0**	**0**	**0**	**0**	**276**	**0**	**0**	**2,093**
Emerging markets	**10**	**276**	**15**	**1**	**0**	**148**	**0**	**0**	**450**
South-Eastern Europe/CIS	0	104	15	0	0	142	0	0	262
Asia	0	128	0	0	0	2	0	0	130
Latin America	3	35	0	0	0	1	0	0	39
Middle East/Africa	7	9	0	1	0	3	0	0	19
Total	**2,556**	**7,799**	**16,371**	**4,267**	**236**	**13,016**	**623**	**881**	**45,748**

Credit risk exposure to sovereigns by region and financial instrument in 2011

in EUR million	Loans and advances to credit institutions	Loans and advances to customers	Debt securities: Held to maturity	Debt securities: Trading assets	Debt securities: At fair value through profit or loss	Debt securities: Available for sale	Positive fair value of derivative financial instruments	Contingent credit liabilities	Credit risk exposure
	at amortised cost	at amortised cost	at amortised cost	fair value	fair value	fair value			
Core market	**1,516**	**7,772**	**12,192**	**4,184**	**343**	**7,280**	**166**	**1,257**	**34,709**
Austria	0	3,960	842	58	0	3,511	51	777	9,201
Croatia	642	783	86	138	0	497	0	56	2,202
Romania	166	1,388	1,936	550	6	1,201	0	123	5,371
Serbia	57	66	3	9	0	36	0	1	171
Slovakia	0	235	2,597	552	46	998	2	4	4,435
Slovenia	0	28	47	2	0	168	0	0	246
Czech Republic	620	658	5,671	1,548	112	352	112	256	9,330
Ukraine	0	36	0	0	0	0	0	0	36
Hungary	30	618	1,010	1,326	179	516	0	39	3,718
Other EU	**0**	**122**	**216**	**443**	**585**	**1,450**	**0**	**16**	**2,833**
Other industrialised countries	**23**	**0**	**0**	**4**	**0**	**381**	**0**	**0**	**409**
Emerging markets	**18**	**353**	**19**	**7**	**0**	**119**	**0**	**3**	**518**
South-Eastern Europe/CIS	0	115	18	6	0	112	0	3	254
Asia	0	147	1	0	0	2	0	0	150
Latin America	3	51	0	0	0	1	0	0	54
Middle East/Africa	14	40	0	0	0	4	0	0	60
Total	**1,556**	**8,247**	**12,427**	**4,638**	**928**	**9,230**	**166**	**1,276**	**38,468**

Credit risk exposure to institutions by region and financial instrument

The following tables present Erste Group's credit risk exposure to institutions broken down by region and financial instrument as of 31 December 2012 and 31 December 2011, respectively. The assignment of obligors to institutions is based on Basel 2 exposure classes.

Credit risk exposure to institutions by region and financial instrument in 2012

			Debt securities						
in EUR million	Loans and advances to credit institutions	Loans and advances to customers	Held to maturity	Trading assets	At fair value through profit or loss	Available for sale	Positive fair value of derivative financial instruments	Contingent credit liabilities	Credit risk exposure
	at amortised cost			fair value					
Core market	**2,227**	**52**	**817**	**252**	**83**	**1,810**	**699**	**163**	**6,102**
Austria	1,087	25	285	249	57	1,003	465	98	3,268
Croatia	38	3	0	0	0	0	3	0	44
Romania	37	1	2	2	0	0	15	52	109
Serbia	12	4	0	0	0	1	0	0	17
Slovakia	51	0	2	0	0	62	16	0	131
Slovenia	19	0	0	0	0	4	1	2	27
Czech Republic	883	0	527	0	26	739	194	7	2,376
Hungary	101	20	0	0	0	0	5	3	129
Other EU	**3,625**	**0**	**801**	**101**	**89**	**2,405**	**10,601**	**32**	**17,653**
Other industrialised countries	**236**	**0**	**93**	**8**	**40**	**209**	**504**	**6**	**1,095**
Emerging markets	**416**	**0**	**10**	**0**	**0**	**1**	**2**	**66**	**496**
South-Eastern Europe/CIS	80	0	0	0	0	1	0	32	113
Asia	279	0	10	0	0	0	2	23	315
Latin America	1	0	0	0	0	0	0	2	3
Middle East/Africa	56	0	0	0	0	0	0	9	66
Total	**6,504**	**52**	**1,720**	**360**	**211**	**4,425**	**11,806**	**267**	**25,346**

Credit risk exposure to institutions by region and financial instrument in 2011

in EUR million	Loans and advances to credit institutions	Loans and advances to customers	Debt securities: Held to maturity	Debt securities: Trading assets	Debt securities: At fair value through profit or loss	Debt securities: Available for sale	Positive fair value of derivative financial instruments	Contingent credit liabilities	Credit risk exposure
	at amortised cost			fair value					
Core market	**1,808**	**120**	**890**	**380**	**62**	**2,614**	**588**	**441**	**6,903**
Austria	660	3	307	280	57	1,394	417	337	3,455
Croatia	51	4	0	11	0	0	3	0	68
Romania	28	0	0	2	0	0	2	50	82
Serbia	17	3	0	0	0	0	0	0	20
Slovakia	5	0	2	0	1	75	15	0	98
Slovenia	86	0	10	0	0	85	0	2	184
Czech Republic	871	63	526	0	4	830	143	13	2,450
Ukraine	31	0	0	86	0	227	0	0	344
Hungary	59	48	45	2	0	2	8	38	202
Other EU	**1,879**	**39**	**1,150**	**172**	**198**	**2,494**	**8,753**	**27**	**14,711**
Other industrialised countries	**1,290**	**0**	**164**	**21**	**48**	**318**	**510**	**10**	**2,361**
Emerging markets	**1,031**	**15**	**183**	**0**	**0**	**7**	**3**	**32**	**1,271**
South-Eastern Europe/CIS	138	0	0	0	0	1	0	1	141
Asia	412	0	55	0	0	0	2	11	480
Latin America	32	15	0	0	0	0	0	0	48
Middle East/Africa	448	0	129	0	0	5	0	20	602
Total	**6,008**	**174**	**2,388**	**573**	**309**	**5,432**	**9,853**	**509**	**25,246**

Non-performing credit risk exposure, risk provisions and collateral

For the definition of credit risk exposure classified as non-performing, please refer to the description of risk categories in the section 'Internal rating system' under Note 37.5.

Erste Group allocates provisions for credit risk losses. It has established a common framework referred to as Group IFRS Principles for Credit Risk Loss Provisions which defines minimum standards and principles for credit risk provisioning related to processes and measurement. According to the underlying methodological standards, the policy distinguishes between

- loan loss provisions allocated for financial assets carried at amortised cost according to IAS 39 requirements, and
- contingent credit risk provisions allocated for contingent credit liabilities reflecting IAS 37 principles.

In both areas, risk provisions are further split into specific and portfolio provisions, whereby specific provisions are allocated for defaulted and portfolio provisions for non-defaulted customers or products. Portfolio loan loss provisions are calculated according to the incurred but not reported losses methodology. Specific loan loss provisions are calculated by estimating future cash flows, including collateral recoveries, and discounting these by the original effective interest rate. Contingent credit risk provisions are based on expected loss methodology.

The following table shows the credit risk provisions divided into specific and portfolio provisions and provisions for guarantees as of 31 December 2012 and 31 December 2011, respectively.

in EUR million	2012	2011
Specific provisions	6,940	6,113
Portfolio provisions	704	914
Provision for guarantees	186	186
Total	**7,830**	**7,213**

Credit risk provisions covered 62.2% of the reported non-performing credit risk exposure as of 31 December 2012. For the portion of the non-performing credit risk exposure that is not covered by provisions, Erste Group assumes there are sufficient levels of collateral and expected other recoveries.

In the 12 months ended 31 December 2012, the non-performing credit risk exposure increased by approximately EUR 800 million, or 6.7%, from EUR 11.8 billion as of 31 December 2011 to EUR 12.6 billion as of 31 December 2012. Credit risk provisions were increased by EUR 617 million, or 8.5%, from EUR 7.2 billion as of 31 December 2011 to EUR 7.8 billion as of 31 December 2012. These movements resulted in a net increase in coverage of the non-performing credit risk exposure by 1.1 percentage points from 61.1% to 62.2%.

The following tables show the coverage of the non-performing credit risk exposure across the reporting segments by credit risk provisions (without taking into consideration collateral) as of 31 December 2012 and 31 December 2011, respectively. The differences in provisioning levels for the segments result from the risk situation in the respective markets, different levels of collateralisation, as well as the local legal environment and regulatory requirements.

The non-performing exposure ratio (NPE ratio) is calculated by dividing non-performing credit risk exposure by total credit risk exposure. The non-performing exposure coverage ratio (NPE coverage ratio) is calculated by dividing credit risk provisions by non-performing credit risk exposure. Collateral or other recoveries are not taken into account.

Non-performing credit risk exposure by business segment and credit risk provisions in 2012

	Credit risk exposure				
in EUR million	Non-performing	Credit risk exposure	Credit risk provisions	Non-performing-ratio	Non-performing coverage ratio
Retail & SME	**11,069**	**161,413**	**6,821**	**6.9%**	**61.6%**
Austria	3,816	87,313	2,343	4.4%	61.4%
Erste Bank Oesterreich	1,134	35,169	740	3.2%	65.3%
Haftungsverbund (Cross Guarantee System)	2,682	52,145	1,603	5.1%	59.8%
Central and Eastern Europe	7,253	74,100	4,478	9.8%	61.7%
Czech Republic	989	32,758	707	3.0%	71.4%
Romania	3,086	15,007	1,784	20.6%	57.8%
Slovakia	448	10,971	376	4.1%	83.9%
Hungary	1,575	6,382	1,009	24.7%	64.1%
Croatia	1,085	8,246	543	13.2%	50.0%
Serbia	69	736	59	9.4%	85.7%
Group Corporate and Investment Banking	**1,521**	**26,117**	**1,003**	**5.8%**	**66.0%**
Group Markets	**2**	**22,688**	**0**	**0.0%**	**9.8%**
Corporate Center	**3**	**9,450**	**5**	**0.0%**	**192.1%**
Total	**12,595**	**219,668**	**7,830**	**5.7%**	**62.2%**

Non-performing credit risk exposure by business segment and credit risk provisions in 2011

	Credit risk exposure				
in EUR million	Non-performing	Credit risk exposure	Credit risk provisions	Non-performing ratio	Non-performing coverage ratio
Retail & SME	**10,395**	**162,902**	**6,390**	**6.4%**	**61.5%**
Austria	3,854	90,597	2,346	4.3%	60.9%
Erste Bank Oesterreich	1,148	37,716	735	3.0%	64.0%
Haftungsverbund (Cross Guarantee System)	2,706	52,881	1,611	5.1%	59.5%
Central and Eastern Europe	6,541	72,305	4,044	9.0%	61.8%
Czech Republic	975	30,284	674	3.2%	69.1%
Romania	2,579	14,699	1,283	17.5%	49.8%
Slovakia	498	10,189	399	4.9%	80.2%
Hungary	1,504	7,324	1,055	20.5%	70.2%
Croatia	764	8,216	425	9.3%	55.6%
Serbia	59	718	54	8.3%	91.1%
Ukraine	161	873	154	18.5%	95.3%
Group Corporate and Investment Banking	**1,398**	**29,708**	**818**	**4.7%**	**58.5%**
Group Markets	**3**	**19,169**	**0**	**0.0%**	**1.7%**
Corporate Center	**4**	**7,679**	**6**	**0.1%**	**139.3%**
Total	**11,800**	**219,457**	**7,213**	**5.4%**	**61.1%**

Restructurings
Erste Group focuses on early identification of customers who are facing difficulties with payments or other loan-related obligations with the aim of restructuring their loans if the mid- to long-term outlook is positive. It believes that this can help to build customer loyalty for long-term relationships and co-operation. In principle, Erste Group follows a policy of restructuring by lengthening maturity and/or by deferring capital repayment but insisting on payment of interest. Restructured exposures are deemed to be performing as long as there arises no loss for the bank. If the agreed restructuring measures lead to a forbearance of debts, the borrower is rated as defaulted and the exposure is classified as non-performing. Currently, Erste Group is working on an implementation of the requirements which, for the topic restructurings, arise from the ESMA publication 'Treatment of Forbearance Practices in IFRS Financial Statements of Financial Institutions'.

Recognition of collateral
At the beginning of 2011, the Collateral Management Department was created as a staff unit within the Group Corporate Workout business area. The adopted 'Standards and Rules for Collateral Management' define, among other things, uniform valuation standards for credit collateral across the entire Group. These ensure both that the requirements of credit risk mitigation are met and that the credit risk decision processes are standardised with respect to those assets recognised as collateral.

All the collateral types acceptable within the Group are given in an exhaustive list in the Group Collateral Catalogue. Locally permitted collateral is defined by the respective bank in accordance with applicable national legal provisions. The valuation and revaluation of collateral is done according to the principles defined in the Group Catalogue broken down by class and based on the internal work instructions in accordance with the individual supervisory requirements. Whether a type of security or a specific collateral asset is accepted for credit risk mitigation is decided by Strategic Risk Management after determining if the applicable regulatory capital requirements are met. Adherence to the standard work processes stipulated for assigning the acceptable collateral assets to the categories available is monitored by operative risk management.

Main types of collateral
The following types of collateral are the most frequently accepted:
- Real estate: This includes both private and commercial real estate.
- Financial collateral: This category includes primarily securities portfolios and cash deposits as well as life insurance policies.
- Guarantees: Guarantees are provided mainly by states, banks and companies. All guarantors must have a minimum credit rating that is reviewed annually.

Other types of collateral such as real collateral in the form of movable property or the assignment of receivables are accepted less frequently.

Collateral valuation and management
Collateral valuation is based on current market prices while taking into account an amount that can be recovered within a reasonable period. The valuation processes are defined and technically implemented by authorised staff with the assistance of software applications. Only independent appraisers not involved in the lending decision process are permitted to conduct real estate valuations, and the valuation methods to be applied are defined. For quality assurance purposes, the real estate valuations are validated on an ongoing basis.

The methods and discounts used for valuations are based on empirical data representing past experience of the workout departments and on the collected data on loss recovery from realising collateral. The valuation methods are adjusted regularly – at least once a year – to reflect current recoveries. Financial collateral assets are recognised at market value.

The revaluation of collateral is done periodically and is automated as far as possible. In the case of external data sources, the appropriate interfaces are used. The maximum periods for the revaluation of individual collateral assets are predefined and compliance is monitored by risk management using software applications. Apart from periodic revaluations, collateral is assessed when information becomes available that indicates a decrease in the value of the collateral for exceptional reasons.

Concentration risks resulting from credit risk mitigation techniques may affect a single customer, but also a portfolio defined by region, industry or type of security. Erste Group is a retail bank, and, due to its customer structure and the markets in which it does business, it does not have any concentrations with respect to collateral from customers. Concerning other areas of a potentially detrimental correlation of risks, the collateral portfolios are analysed using statistical evaluations for, among other things, regional or industry-specific concentrations within the scope of portfolio monitoring. Early warning tools play an important role. The response to those risks identified includes, above all, the adjustment of volume targets, setting of corresponding limits and modification of the staff's discretionary limits for lending.

Collateral obtained in foreclosure procedures is made available for sale in an orderly fashion, with the proceeds used to reduce or repay the outstanding claim. Generally, Erste Group does not occupy repossessed properties for its own business use. The main part of assets taken onto its own books are commercial land and buildings. In addition, privately occupied properties and transport vehicles are taken into Erste Group's possession. As of 31 December 2012., the carrying value of these assets amounted to EUR 493 million (2011: EUR 312 million).

The following tables compare the credit risk exposure broken down by business segment as of 31 December 2012 and 31 December 2011, respectively, to the collateral received.

Credit risk exposure by business segment and collateral in 2012

			Collateralised by			
in EUR million	Credit risk exposure	Collaterals total	Guarantees	Real estate	Other	Credit risk exposure excluding collateral
Retail & SME	**161,413**	**74,357**	**5,574**	**57,910**	**10,873**	**87,056**
Austria	87,313	45,061	3,850	34,731	6,480	42,252
EB Österreich	35,169	21,367	1,989	16,464	2,915	13,801
Savings Banks	52,145	23,694	1,861	18,267	3,565	28,451
CEE	74,100	29,296	1,724	23,179	4,393	44,803
Czech Republic	32,758	9,674	658	7,998	1,017	23,084
Romania	15,007	7,456	690	4,483	2,284	7,551
Slovakia	10,971	4,971	58	4,641	272	6,000
Hungary	6,382	3,931	94	3,310	526	2,451
Croatia	8,246	2,995	183	2,569	243	5,251
Serbia	736	269	41	178	51	467
Group Corporate & Investment Banking	**26,117**	**9,144**	**1,817**	**5,664**	**1,663**	**16,974**
Group Markets	**22,688**	**3,502**	**169**	**0**	**3,332**	**19,186**
Corporate Center	**9,450**	**826**	**404**	**55**	**367**	**8,624**
Total	**219,668**	**87,828**	**7,963**	**63,629**	**16,235**	**131,840**

Credit risk exposure by business segment and collateral in 2011

			Collateralised by			
in EUR million	Credit risk exposure	Collaterals total	Guarantees	Real estate	Other	Credit risk exposure excluding collateral
Retail & SME	**162,902**	**74,408**	**5,280**	**57,111**	**12,016**	**88,494**
Austria	90,597	44,083	4,168	33,681	6,234	46,514
EB Österreich	37,716	21,205	2,149	16,290	2,767	16,511
Savings Banks	52,881	22,878	2,019	17,392	3,467	30,003
CEE	72,305	30,325	1,112	23,430	5,782	41,980
Czech Republic	30,284	8,713	549	7,297	867	21,571
Romania	14,699	8,749	185	5,071	3,494	5,949
Slovakia	10,189	4,567	74	4,187	306	5,623
Hungary	7,324	4,485	83	3,673	729	2,840
Croatia	8,216	3,099	181	2,703	215	5,117
Serbia	718	285	41	192	53	433
Ukraine	873	425	0	307	119	448
Group Corporate & Investment Banking	**29,708**	**9,442**	**2,220**	**5,807**	**1,415**	**20,266**
Group Markets	**19,169**	**2,343**	**110**	**0**	**2,233**	**16,826**
Corporate Center	**7,679**	**768**	**570**	**22**	**177**	**6,910**
Total	**219,457**	**86,961**	**8,181**	**62,940**	**15,840**	**132,496**

The following tables compare the credit risk exposure broken down by financial instrument and the received collateral as of 31 December 2012 and 31 December 2011.

Credit risk exposure by financial instrument and collateral in 2012

			Collateralised by			
in EUR million	Credit risk exposure	Collateral total	Guarantees	Real estate	Other	Credit risk exposure net of collateral
Loans and advances to credit institutions	9,074	1,553	119	2	1,432	7,521
Loans and advances to customers	131,928	78,566	5,766	61,503	11,296	53,362
Debt instruments - Held to maturity	18,975	410	373	35	2	18,565
Debt instruments - Trading assets	4,872	165	165	0	0	4,707
Debt instruments - At fair value through profit or loss	526	0	0	0	0	526
Debt instruments - Available for sale	20,225	1,206	1,132	0	74	19,019
Positive fair value of derivative financial instruments	13,289	2,264	0	0	2,264	11,025
Contingent credit liabilities	20,779	3,664	408	2,089	1,167	17,115
Total	**219,668**	**87,828**	**7,963**	**63,629**	**16,235**	**131,840**

Credit risk exposure by financial instrument and collateral in 2011

			Collateralised by			
in EUR million	Credit risk exposure	Collateral total	Guarantees	Real estate	Other	Credit risk exposure net of collateral
Loans and advances to credit institutions	7,578	1,016	157	1	858	6,562
Loans and advances to customers	134,750	77,933	5,311	60,626	11,996	56,817
Debt instruments - Held to maturity	16,074	638	556	73	9	15,436
Debt instruments - Trading assets	5,471	106	106	0	0	5,365
Debt instruments - At fair value through profit or loss	1,502	0	0	0	0	1,502
Debt instruments - Available for sale	17,654	1,499	1,442	57	0	16,155
Positive fair value of derivative financial instruments	10,931	1,528	0	0	1,528	9,403
Contingent credit liabilities	25,499	4,241	609	2,182	1,449	21,258
Total	**219,457**	**86,961**	**8,181**	**62,940**	**15,840**	**132,496**

The following tables show credit risk exposure which was past due but for which specific provisions had not been established as of 31 December 2012 and 31 December 2011, respectively.

Credit risk exposure past due and not covered by specific provisions by Basel 2 exposure class and collateralisation in 2012

	Credit risk exposure			thereof collateralised		
in EUR million	Total	thereof 91-180 days past due	thereof more than 180 days past due	Total	thereof 91-180 days past due	thereof more than 180 days past due
Sovereigns	88	20	68	41	11	30
Institutions	0	0	0	0	0	0
Corporates	258	113	146	171	75	96
Retail	167	65	103	115	35	80
Total	**513**	**197**	**316**	**327**	**121**	**206**

Credit risk exposure past due and not covered by specific provisions by Basel 2 exposure class and collateralisation in 2011

	Credit risk exposure			thereof collateralised		
in EUR million	Total	thereof 91-180 days past due	thereof more than 180 days past due	Total	thereof 91-180 days past due	thereof more than 180 days past due
Sovereigns	5	1	3	2	1	1
Institutions	0	0	0	0	0	0
Corporates	312	126	187	152	49	103
Retail	228	46	181	151	27	124
Total	**545**	**173**	**371**	**304**	**76**	**228**

As of 31 December 2012 and 31 December 2011, specific provisions existed for the following credit risk exposures.

Credit risk exposure covered by specific provisions by Basel 2 exposure class in 2012

in EUR million	Credit risk exposure covered by specific provisions total	thereof 91-180 days past due	thereof more than 180 days past due
Sovereigns	42	1	11
Institutions	84	0	49
Corporates	7,187	400	4,109
Retail	4,899	340	3,346
Total	**12,212**	**741**	**7,515**

Credit risk exposure covered by specific provisions by Basel 2 exposure class in 2011

in EUR million	Credit risk exposure covered by specific provisions total	thereof 91-180 days past due	thereof more than 180 days past due
Sovereigns	17	1	5
Institutions	52	3	49
Corporates	4,609	418	3,149
Retail	4,663	429	3,058
Total	**9,342**	**850**	**6,261**

All claims presented in the tables above were classified as non-performing. Provisions are, as a rule, established for assets that are more than 90 days past due. However, specific provisions are not established if the loans and other advances are covered by adequate collateral.

Loans and advances to customers by business segment

The following tables present the customer loan book as of 31 December 2012 and 31 December 2011, excluding loans to financial institutions and commitments, broken down by business segment and risk category.

Loans and advances to customers by business segment and risk category in 2012

in EUR million	Low risk	Management attention	Substandard	Non-performing	Total loans
Retail & SME	**83,171**	**16,455**	**3,180**	**10,766**	**113,573**
Austria	52,803	8,197	1,095	3,643	65,738
EB Österreich	24,607	2,182	204	1,058	28,052
Savings Banks	28,196	6,014	891	2,585	37,687
Central and Eastern Europe	30,368	8,258	2,085	7,123	47,834
Czech Republic	13,797	2,610	528	956	17,891
Romania	4,856	2,200	605	3,021	10,682
Slovakia	5,137	831	193	437	6,598
Hungary	2,809	1,459	345	1,572	6,185
Croatia	3,373	1,068	399	1,069	5,909
Serbia	397	90	14	68	569
Group Corporate & Investment Banking	**12,557**	**3,261**	**781**	**1,330**	**17,928**
Group Markets	**69**	**7**	**0**	**0**	**77**
Corporate Center	**229**	**102**	**17**	**2**	**350**
Total	**96,027**	**19,825**	**3,978**	**12,098**	**131,928**

Loans and advances to customers by business segment and risk category in 2011

in EUR million	Low risk	Management attention	Substandard	Non-performing	Total loans
Retail & SME	**80,952**	**19,513**	**3,779**	**10,112**	**114,355**
Austria	51,910	8,948	1,287	3,658	65,803
EB Österreich	24,248	2,630	270	1,051	28,199
Savings Banks	27,662	6,318	1,018	2,607	37,604
Central and Eastern Europe	29,042	10,565	2,491	6,454	48,552
Czech Republic	12,733	2,997	511	947	17,187
Romania	4,709	3,204	714	2,533	11,160
Slovakia	4,661	845	215	496	6,217
Hungary	3,461	1,615	513	1,499	7,088
Croatia	3,080	1,654	424	759	5,917
Serbia	316	99	13	58	486
Ukraine	82	152	101	161	497
Group Corporate & Investment Banking	**14,376**	**3,663**	**490**	**1,275**	**19,805**
Group Markets	**204**	**20**	**0**	**0**	**225**
Corporate Center	**313**	**36**	**15**	**1**	**365**
Total	**95,845**	**23,233**	**4,284**	**11,388**	**134,750**

In the tables below the non-performing loans and advances to customers subdivided by business segment are contrasted with loan loss provisions and the collateral for non-performing loans (NPL) as of 31 December 2012 and 31 December 2011, respectively. The NPL ratio, the NPL coverage ratio and the NPL total coverage ratio are also included. The NPL total coverage ratio specifies the coverage of non-performing loans by loan loss provisions and collateral for non-performing loans.

Non-performing loans and advances to customers by business segment and coverage by risk provisions and collateral in 2012

in EUR million	Non-performing	Loans and advances to customers	Loan loss provisions	NPL ratio	NPL coverage ratio	Collateral for NPL	NPL total coverage ratio
Retail & SME	**10,766**	**113,573**	**6,681**	**9.5%**	**62.1%**	**5,107**	**109.5%**
Austria	3,643	65,738	2,251	5.5%	61.8%	1,578	105.1%
EB Österreich	1,058	28,052	696	3.8%	65.7%	442	107.5%
Savings Banks	2,585	37,687	1,556	6.9%	60.2%	1,137	104.2%
Central and Eastern Europe	7,123	47,834	4,429	14.9%	62.2%	3,529	111.7%
Czech Republic	956	17,891	690	5.3%	72.2%	365	110.4%
Romania	3,021	10,682	1,771	28.3%	58.6%	1,630	112.6%
Slovakia	437	6,598	369	6.6%	84.3%	249	141.2%
Hungary	1,572	6,185	1,008	25.4%	64.1%	731	110.7%
Croatia	1,069	5,909	534	18.1%	50.0%	520	98.6%
Serbia	68	569	58	12.0%	84.1%	34	134.0%
Group Corporate & Investment Banking	**1,330**	**17,928**	**893**	**7.4%**	**67.2%**	**494**	**104.3%**
Group Markets	**0**	**77**	**0**	**0.0%**	**6,439.9%**	**0**	**6,439.9%**
Corporate Center	**2**	**350**	**0**	**0.5%**	**26.9%**	**0**	**26.9%**
Total	**12,098**	**131,928**	**7,574**	**9.2%**	**62.6%**	**5,601**	**108.9%**

Non-performing loans and advances to customers by business segment and coverage by risk provisions and collateral in 2011

in EUR million	Non-performing	Loans and advances to customers	Loan loss provisions	NPL ratio	NPL coverage ratio	Collateral for NPL	NPL total coverage ratio
Retail & SME	**10,112**	**114,355**	**6,244**	**8.8%**	**61.7%**	**5,186**	**113.0%**
Austria	3,658	65,803	2,245	5.6%	61.4%	1,540	103.5%
EB Österreich	1,051	28,199	688	3.7%	65.4%	436	106.8%
Savings Banks	2,607	37,604	1,557	6.9%	59.7%	1,104	102.1%
Central and Eastern Europe	6,454	48,552	3,999	13.3%	62.0%	3,647	118.5%
Czech Republic	947	17,187	660	5.5%	69.7%	404	112.3%
Romania	2,533	11,160	1,268	22.7%	50.1%	1,740	118.8%
Slovakia	496	6,217	393	8.0%	79.2%	275	134.6%
Hungary	1,499	7,088	1,054	21.1%	70.3%	731	119.0%
Croatia	759	5,917	419	12.8%	55.2%	363	103.1%
Serbia	58	486	52	11.9%	89.9%	25	132.3%
Ukraine	161	497	154	32.5%	95.3%	109	162.9%
Group Corporate & Investment Banking	**1,275**	**19,805**	**697**	**6.4%**	**54.6%**	**465**	**91.1%**
Group Markets	**0**	**225**	**0**	**0.0%**	**452.4%**	**0**	**452.4%**
Corporate Center	**1**	**365**	**1**	**0.1%**	**179.6%**	**0**	**179.6%**
Total	**11,388**	**134,750**	**6,942**	**8.5%**	**61.0%**	**5,651**	**110.6%**

The ‘NPL ratio’ in this section (‘loans and advances to customers’) is calculated by dividing non-performing loans and advances by total loans and advances to customers. Hence, it differs from the ‘NPE ratio’ in the section credit risk exposure.

The loan loss provisions which are shown in the tables above in the amount of EUR 7,574 million as of 31 December 2012 (2011: EUR 6,942 million) are composed of specific provisions amounting to EUR 6,878 million (2011: EUR 6,051 million) and portfolio provisions amounting to EUR 696 million (2011: EUR 891 million). Collateral for non-performing loans mainly consists of real estate.

The following tables show the loans and advances to customers broken down by business segment and currency as of 31 December 2012 and 31 December 2011, respectively.

Loans and advances to customers by business segment and currency in 2012

in EUR million	EUR	Local currencies	CHF	USD	Other currencies	Total loans
Retail & SME	**74,818**	**24,344**	**12,525**	**345**	**1,540**	**113,573**
Austria	55,277	0	8,782	159	1,520	65,738
Erste Bank Österreich	24,293	0	3,310	58	391	28,052
Savings Banks	30,984	0	5,472	101	1,129	37,687
Central and Eastern Europe	19,541	24,344	3,743	187	20	47,834
Czech Republic	622	17,236	2	26	4	17,891
Romania	6,539	4,001	0	131	12	10,682
Slovakia	6,587	0	0	9	2	6,598
Hungary	1,312	1,849	3,018	5	0	6,185
Croatia	4,052	1,140	705	12	1	5,909
Serbia	429	118	18	4	0	569
Group Corporate & Investment Banking	**14,191**	**1,244**	**275**	**1,263**	**955**	**17,928**
Group Markets	**24**	**11**	**1**	**33**	**8**	**77**
Corporate Center	**347**	**0**	**0**	**0**	**3**	**350**
Total	**89,381**	**25,599**	**12,801**	**1,642**	**2,505**	**131,928**

Loans and advances to customers by business segment and currency in 2011

in EUR million	EUR	Local currencies	CHF	USD	Other currencies	Total loans
Retail & SME	**72,266**	**23,988**	**15,625**	**858**	**1,619**	**114,355**
Austria	52,815	0	11,172	223	1,594	65,803
Erste Bank Österreich	23,598	0	4,061	73	468	28,199
Savings Banks	29,217	0	7,112	150	1,125	37,604
Central and Eastern Europe	19,451	23,988	4,453	636	25	48,552
Czech Republic	637	16,497	2	44	7	17,187
Romania	6,765	4,208	0	176	10	11,160
Slovakia	6,199	0	5	9	4	6,217
Hungary	1,559	1,860	3,654	13	2	7,088
Croatia	3,936	1,192	772	14	2	5,917
Serbia	346	116	18	4	0	486
Ukraine	8	114	0	376	0	497
Group Corporate & Investment Banking	**15,615**	**1,124**	**331**	**1,841**	**894**	**19,805**
Group Markets	**126**	**13**	**22**	**35**	**29**	**225**
Corporate Center	**363**	**0**	**0**	**0**	**2**	**365**
Total	**88,369**	**25,125**	**15,978**	**2,735**	**2,543**	**134,750**

Securitisations

As of 31 December 2012, Erste Group has a conservative portfolio of securitised assets and their derivatives. There were no new investments undertaken and all repayments were made as scheduled in 2012.

As at year-end 2012, the carrying amount of Erste Group's securitisation portfolio totalled EUR 1.5 billion which was EUR 0.3 billion lower than at the end of 2011. Changes in the carrying amount were due to repayments, currency effects, changes in prices and disposals of assets. The proportion of the portfolio which was rated investment grade increased from 85.9% as of 31 December of 2011 to 88.1% as of 31 December 2012. Only 4.2% of the assets are rated CCC or below.

As of 31 December 2012 and 31 December 2011 the composition of the total portfolio of securitised assets according to products and balance sheet line items is as follows:

2012	Financial assets								
	Loans and advances to customers and credit institutions		Held to maturity		At fair value through profit or loss	Available for sale	Trading assets	Total	
in EUR million	carrying amount	fair value	carrying amount	fair value	fair value[1]	fair value[1]	fair value[1]	carrying amount	fair value
Prime RMBS	0	0	207	174	1	129	26	364	331
CMBS	0	0	49	37	1	58	2	110	98
SME ABS	0	0	16	9	1	20	2	38	31
Leasing ABS	0	0	14	14	0	3	0	17	17
Other ABS	0	0	13	13	2	36	1	52	52
CLOs	0	0	0	0	43	754	0	797	797
Other CDOs	0	0	0	0	0	3	0	3	3
Other RMBS	0	0	0	0	1	14	2	17	17
Total ABS / CDO	**0**	**0**	**299**	**247**	**49**	**1,016**	**34**	**1,397**	**1,345**
Student loans	0	0	0	0	1	133	0	134	134
Total securitisations[2]	**0**	**0**	**299**	**247**	**50**	**1,149**	**34**	**1,531**	**1,479**

1) Carrying amount is equal to fair value.
2) Including cash from funds.

2011	Financial assets								
	Loans and advances to customers and credit institutions		Held to maturity		At fair value through profit or loss	Available for sale	Trading assets	Total	
in EUR million	carrying amount	fair value	carrying amount	fair value	fair value[1]	fair value[1]	fair value[1]	carrying amount	fair value
Prime RMBS	9	9	269	201	4	203	15	500	432
CMBS	0	0	81	52	12	94	11	198	169
SME ABS	0	0	19	11	1	40	1	61	53
Leasing ABS	0	0	21	14	0	4	0	25	18
Other ABS	0	0	37	33	8	55	8	108	104
CLOs	0	0	0	0	47	727	1	775	775
Other CDOs	0	0	0	0	0	3	0	3	3
Other RMBS	0	0	0	0	2	13	4	19	19
Total ABS / CDO	**9**	**9**	**427**	**311**	**74**	**1,139**	**40**	**1,689**	**1,573**
Student loans	0	0	0	0	1	154	0	155	155
Total securitisations[2]	**9**	**9**	**427**	**311**	**75**	**1,293**	**40**	**1,844**	**1,728**

1) Carrying amount is equal to fair value.
2) Including cash from funds.

European prime residential mortgage backed securities (Prime RMBS)
Prime RMBS are securitisations which are backed by mortgages on residential real estate. Erste Group is primarily invested in this asset class in British transactions, which were strongly affected by the global economic crisis. Their quotations reached the lowest level in first quarter of 2009. Since that time, prices have recovered by 13%.

Commercial mortgage backed securities (CMBS)
CMBs are transactions which are secured by pools of mortgages on commercial property (i.e. offices, retail and others). Erste Group is mainly invested in British CMBS. After declining until the second half of 2009, prices of commercial property have recovered by around 13%.

European and US collateralised loan obligations (CLOs)
CLOs are securitisations backed by pools of corporate loans. Most CLOs held by Erste Group that were downgraded during the crisis are now back at investment grade. Moody's Investors Service's global speculative-grade default rate stood at 2.6% in December 2012, after having reached the highest level at 13% in December 2009.

Other asset backed securities (ABS)
Erste Group's holding of other ABSs mainly consists of securitisations whereby the underlying assets are lease receivables or loans to small and medium-sized enterprises, or these may be other collateralised debt obligations (CDOs).

Erste Group further holds investments in securitisations of US student loans, all of which are triple-A rated securities. These securitisations carry the guarantee of the US Department of Education for 97% of their value while the remaining 3% is covered by subordination. Their associated credit risk is therefore considered very low.

37.6) Market risk

Definition and overview
Market risk is the risk of loss that may arise due to adverse changes in market prices and to the parameters derived therefrom. At Erste Group, market risk is divided into interest rate risk, currency risk, equity risk, commodity risk and volatility risk. This concerns both trading and bank book positions.

Methods and instruments employed
At Erste Group, potential losses that may arise from market movements are assessed by using the 'value-at-risk' method. The calculation is done according to the method of historic simulation with a unilateral confidence level of 99%, a holding period of one day and a simulation period of two years. Value-at-risk (VaR) describes what level of losses may be expected as a maximum at a defined probability – the confidence level – within a certain holding period of the positions under normal market conditions.

Back-testing is used to constantly monitor the validity of the statistical methods. This process is conducted with a one-day delay to monitor if the model projections regarding losses have actually materialised. At a confidence level of 99%, the actual loss on a single day should exceed the value-at-risk statistically only two to three times a year (1% of around 250 workdays).

This shows one of the limits of the value-at-risk approach: On the one hand, the confidence level is limited to 99%, and on the other hand, the model takes into account only those market scenarios observed respectively within the simulation period of two years, and calculates the value-at-risk for the current position of the bank on this basis. In order to investigate any extreme market situations beyond this, stress tests are conducted at Erste Group. These events include mainly market movements of low probability.

The stress tests are carried out according to several methods: 'Stressed VaR' is derived from the normal value-at-risk calculation. But instead of simulating only over the two most recent years, an analysis of a much longer period is carried out in order to identify a one-year period which constitutes a significant period of stress. According to the legal framework, that one-year period is used to calculate a VaR with a 99% confidence level. This enables Erste Group on the one hand to hold sufficient of its own funds available for the trading book also in periods of elevated market volatility while it also incorporates these resulting effects in the management of trading positions. In the 'extreme value theory', a Pareto distribution is adjusted to the extreme end of the loss distribution. In this manner, a continuous function is created from which extreme confidence levels such as 99.95% can be evaluated. Finally, standard scenarios are calculated in which the individual market factors are exposed to extreme movements. Such scenarios are calculated at Erste Group for interest rates, stock prices, exchange rates and volatilities. Furthermore, since 2009, combination scenarios have been calculated in which the current position of the trading book is subjected to a combination of market data shifts. These analyses are made available to the management board and the supervisory board within the scope of the monthly market risk reports.

The value-at-risk model was approved by the Financial Market Authority (FMA) as an internal market risk model to determine the capital requirements of Erste Group pursuant to the Austrian Banking Act.

Methods and instruments of risk mitigation
At Erste Group, market risks are controlled in the trading book by setting several layers of limits. The overall limit on the basis of value-at-risk for the trading book is decided by the board in the Risk Committee while taking into account the risk-bearing capacity and projected earnings. A further breakdown is done by the Market Risk Committee on the basis of a proposal from the Group Market & Liquidity Risk Management unit.

All market risk activities of the trading book are assigned risk limits that are statistically consistent in their entirety with the value-at-risk overall limit. The value-at-risk limit is assigned in a top–down procedure to the individual trading units. This is done up to the level of the individual trading groups or departments. Additionally, in a bottom–up procedure, sensitivity limits are assigned to even smaller units all the way down to the individual traders. These are then aggregated upwards and applied as a second limit layer to the value-at-risk limits. The consistency between the two limit approaches is verified regularly.

Limit compliance is verified at two levels: by the appropriate local decentralised risk management unit and by Group Market & Liquidity Risk Management. The monitoring of the limits is done within the course of the trading day based on sensitivities. This can also be carried out by individual traders or chief traders on an ad hoc basis.

The value-at-risk is calculated every day at group level and made available to the individual trading units as well as to the superior management levels all the way up to the management board.

Apart from the trading book positions, banking book positions are once monthly also subjected to a value-at-risk analysis. In this manner, the total value-at-risk is determined. In addition to VaR, a long-horizon interest rate risk measure is used to gauge the interest rate risk of the banking book. A historical simulation approach looking back five years and with a one-year holding period was chosen. The result of these calculations is presented in the monthly market risk report that is made available to the management and supervisory boards.

Analysis of market risk

Value at risk of banking book and trading book

The following tables show the VaR amounts as of 31 December 2012 and 31 December 2011 at the 99% confidence level using equally weighted market data and with a holding period of one day.

2012 in EUR thousand	Total	Interest	Currency	Shares	Commodity	Volatility
Erste Group	27,619	25,817	1,170	3,588	471	502
Banking book	25,646	25,280	769	72	0	0
Trading book	4,097	1,994	776	3,516	471	502

2011 in EUR thousand	Total	Interest	Currency	Shares	Commodity	Volatility
Erste Group	42,442	39,013	1,996	4,774	646	1,811
Banking book	36,563	36,276	2,227	1,030	0	0
Trading book	7,779	4,358	1,826	4,071	646	1,811

The method used is subject to limitations that may result in the information's not fully reflecting the fair value of the assets and liabilities involved. This restriction applies to the inclusion of credit spreads in the calculation of the VaR. Credit spreads are only applied to sovereign issuers. For all other positions, only the general market risk is considered.

Interest rate risk of banking book

Interest rate risk is the risk of adverse change in the fair value of financial instruments caused by movement in market interest rates. This type of risk arises when mismatches exist between assets and liabilities, including derivatives, in respect of their maturities or of the timing of interest rate adjustments.

In order to identify interest rate risk, all financial instruments, including transactions not recognised in the balance sheet, are grouped into maturity bands based on their remaining terms to maturity or terms to an interest rate adjustment. Positions without a fixed maturity (e.g. demand deposits) are included on the basis of modelled deposit rates which are determined by means of statistical methods.

The following tables list the open fixed-income positions held by Erste Group in the four currencies that carry significant interest rate risk – EUR, CZK, HUF and RON – as of 31 December 2012 and 31 December 2011.

Only the open fixed-income positions that are not allocated to the trading book are presented. Positive values indicate fixed-income risks on the asset side, i.e., a surplus of asset items; negative values represent a surplus on the liability side.

Open fixed-income positions not assigned to the trading book 2012

in EUR million	1-3 years	3-5 years	5-7 years	7-10 years	over 10 years
Fixed-interest gap in EUR positions as of 31 Dec 2012	(7,489.6)	2,373.8	1,875.7	1,927.0	768.2
Fixed-interest gap in CZK positions as of 31 Dec 2012	(3,759.9)	49.2	1,112.3	1,030.1	776.4
Fixed-interest gap in HUF positions as of 31 Dec 2012	148.5	119.7	(77.9)	(47.5)	0.0
Fixed-interest gap in RON positions as of 31 Dec 2012	505.4	501.0	(30.7)	(118.8)	(102.2)

Open fixed-income positions not assigned to the trading book 2011

in EUR million	1-3 years	3-5 years	5-7 years	7-10 years	over 10 years
Fixed-interest gap in EUR positions as of 31 Dec 2011	(4,048.6)	1,586.1	2,541.1	1,754.7	(205.3)
Fixed-interest gap in CZK positions as of 31 Dec 2011	(2,524.3)	311.6	81.5	164.3	(486.3)
Fixed-interest gap in HUF positions as of 31 Dec 2011	405.9	132.6	(18.1)	(28.9)	0.0
Fixed-interest gap in RON positions as of 31 Dec 2011	97.9	247.6	345.9	(98.1)	(105.0)

Exchange rate risk
The bank is exposed to several types of risks related to exchange rates. These concern risks from open foreign exchange positions and others.

Risk from open currency positions is the risk related to exchange rates that derives from the mismatch between assets and liabilities, or from currency-related financial derivatives. These risks might originate from customer-related operations or proprietary trading and are monitored and managed on a daily basis. Foreign currency exposure is subject to regulatory and internal limits. The internal limits are set by the Market Risk Committee.

Erste Group separately measures and manages other types of risks relating to the Group's balance sheet and earnings structure. The translation risk related to the valuation of the balance sheet positions, earnings, dividends and participations/net investments in local currency or foreign exchange has an impact on consolidated earnings and consolidated capital. Erste Group is also reducing the negative impact related to volatility of foreign exchange on assets' performance (for example as a result of foreign exchange lending in the CEE countries).

In order to manage its multi-currency earnings structure, Erste Group regularly discusses hedging opportunities and takes decisions in the Group Asset/Liability Committee (Group ALCO). Asset/Liability Management (ALM) uses as the usual source of information the current financial results and the financial budget prepared for the upcoming period to obtain as much information as possible on the future foreign cash flows. The proposal, which includes mainly the volume, hedging level, hedge ratio and timeline of the hedging, is submitted by ALM to Group ALCO. The impact of translation on consolidated capital is monitored and reported to Group ALCO. Group ALCO decisions are then implemented by ALM and the implementation status is reported on a monthly basis to Group ALCO.

The following table shows the largest open exchange rate positions of Erste Group per year-end 2012 as of the dates indicated.

Open exchange rate positions

in EUR thousand	31 Dec 2012	31 Dec 2011
US Dollar (USD)	(68,095)	(52,027)
Croatian Kuna (HRK)	41,672	34,943
Hongkong-Dollar (HKD)	38,255	(1,210)
Swiss Frank (CHF)	(36,245)	(28,629)
British Pound (GBP)	32,426	(17,771)
Rumanian Lei (RON)	25,275	(55,789)
Hungarian Forint (HUF)	17,759	(65,737)
Czech Koruna (CZK)	(13,620)	25,536

Hedging
Banking book market risk management consists of optimising Erste Group's risk position by finding the proper trade-off between the economic value of the balance sheet and forecasted earnings. Decisions are based on the balance sheet development, economic environment, competitive landscape, fair value of risk, effect on net interest income and appropriate liquidity position. The steering body responsible for interest rate risk management is the Group ALCO. The ALM submits proposals for actions to steer the interest rate risk to the Group ALCO and implements Group ALCO's decisions.

In order to achieve the goals of risk management, hedging activities focus on the two main control variables: net interest income and market value of equity risk. In a broader sense, hedging refers to an economic activity that mitigates risk but does not necessarily qualify for hedge accounting under IFRS rules. Within the scope of IFRS-compliant hedge accounting, cash flow hedges and fair value hedges are used. If IFRS-compliant hedge accounting is not possible the fair value option is applied, where appropriate, for the hedging of market values. Most of the hedging within Erste Group concerns hedging of interest rate risk. The remainder is hedging foreign exchange rate risk. IFRS hedge accounting is one of the tools for managing the risk.

37.7) Liquidity risk

Definition and overview

The liquidity risk is defined in Erste Group in line with the principles set by the Basel Committee on Banking Supervision and the Austrian regulators ('Liquiditätsriskomanagement-Verordnung - LRMV'). Accordingly, a distinction is made between market liquidity risk, which is the risk that the Group entities cannot easily offset or eliminate a position at the market price because of inadequate market depth or market disruption, and funding liquidity risk, which is the risk that the banks in the Group will not be able to meet efficiently both expected and unexpected current and future cash flow and collateral needs without affecting either daily operations or the financial condition of the Group members.

Funding liquidity risk is further divided into insolvency risk and structural liquidity risk. The former is the short-term risk that current or future payment obligations cannot be met in full and on time in an economically justified manner, while structural liquidity risk is the long-term risk of losses due to a change in the Group's own refinancing cost or spread.

Erste Group's 2012 liquidity strategy was implemented successfully. The original issuance plan of EUR 3.5 billion was increased during the year to EUR 4.6 billion in view of successful EUR and USD subordinated benchmark issues and in light of continuing demand from retail customers. The total amount issued consisted of EUR 2.6 billion in senior bonds, EUR 1.2 billion in Pfandbriefe (covered bonds), and EUR 0.9 billion in subordinated debt. In February 2012, Erste Group participated in its second three-year longer-term refinancing operations (LTRO) of the European Central Bank in an amount of EUR 1.2 billion (raising its total LTRO volume to EUR 4.2 billion). Erste Group's liquidity position continued to improve during 2012, as well functioning capital markets made it possible to cover its refinancing needs at low costs. Consequently, Erste Group is planning to repay the LTRO amount in its entirety during the first quarter of 2013.

Erste Group continues its ongoing project activities to improve the framework for group-wide liquidity risk reporting. One of the goals of the project is to meet the new regulatory requirements from the Basel 3 framework (i.e. the periodic [monthly] monitoring of the liquidity coverage ratio and the net stable funding ratio).

Methods and instruments employed

Short-term insolvency risk is monitored by calculating the survival period for each currency on both entity and group levels. This analysis determines the maximum period during which the entity can survive a serious combined crisis (market crisis plus reputation crisis) while relying on its pool of liquid assets. The monitored worst-case scenario simulates very limited money market and capital market access and at the same time significant client deposit outflow. Furthermore, higher drawing rates of guarantees and credit facilities are assumed while taking into account counterparty type in estimating the probability of drawdown.

Erste Group manages long-term (structural) liquidity risk on both group and individual subsidiary levels through a multiple scenario approach. Dynamic aspects of the renewal of existing balance sheet items are incorporated through a certain set of assumptions describing the going concern situation outside of crisis situations. Similarly, the modelling of customer business is adjusted according to the respective scenario. The purpose of the analysis is to determine Erste Group's ability to withstand distressed situations before they actually occur.

Legal lending limits (LLLs) exist in all CEE countries where Erste Group is represented. They restrict liquidity flows between Erste Group's subsidiaries in different countries. LLLs set limits on a bank's claims against a group of related companies. The limits refer to the bank's own funds and typical amounts are up to 25%. This restriction is taken into account for assessment of liquidity risk in the Survival Period Model.

Additionally, the traditional liquidity gaps (depicting the going concern maturity mismatches on a currency level) of the subsidiaries and the Group as a whole are reported and monitored regularly. Funding concentration risk is continuously analysed in respect to counterparties. Erste Group's fund transfer pricing (FTP) system also has proven to be an efficient tool for structural liquidity risk management.

Methods and instruments of risk mitigation

General standards of liquidity risk controlling and management (standards, limits and analysis) have been defined and are continuously reviewed and improved by Erste Group.

The short-term liquidity risk is managed by the survival period model on both entity and group levels, while the long-term liquidity risk is limited by the traffic light system which takes into account Group entities and currencies. Limit breaches are reported to the Group Asset/Liability Committee. Another important means for managing the liquidity risk within Erste Group Bank and in relation to its subsidiaries is the FTP system. As the process of planning funding needs provides important data for liquidity management, a detailed overview of funding needs is prepared on a quarterly basis for the planning horizon across Erste Group.

The Comprehensive Contingency Plan ensures the necessary co-ordination of all parties involved in the liquidity management process in case of crisis, and it is reviewed on a regular basis. The contingency plans of the subsidiaries are co-ordinated as part of the plan for the Erste Group.

Analysis of liquidity risk

Liquidity gap

The long-term liquidity position is managed using liquidity gaps on the basis of expected cash flows. This liquidity position is calculated for each materially relevant currency and based on the assumption of ordinary business activity.

Expected cash flows are broken out by contractual maturities in accordance with the amortisation schedule and ordered into maturity ranges. For products without contractual maturities (like demand deposits and overdrafts), cash flows are modelled on the basis of statistical analysis.

The following table shows liquidity gaps as of 31 December 2012 and 31 December 2011

	< 1 month		1-12 months		1-5 years		> 5 years	
in EUR million	2012	2011	2012	2011	2012	2011	2012	2011
Liquidity gap	**32,443**	**32,653**	**(38,930)**	**(40,710)**	**(9,717)**	**(5,112)**	**16,204**	**13,168**

An excess of assets over liabilities is indicated by a positive value, while an excess of liabilities over assets is indicated by a negative value.

Counterbalancing capacity

Erste Group regularly monitors its counterbalancing capacity, which consists of cash, excess minimum reserve at the central banks as well as unencumbered central bank eligible assets and other liquid securities, including changes from repos, reverse repos and securities lending transactions. These assets can be mobilised in the short term to offset potential cash outflows in a crisis situation. The term structure of the Group's counterbalancing capacity as of 31 December 2012 and 28 December 2011 is shown in the table below.

2012 in EUR million	< 1 week	1 week-1 month	1-3 months	3-6 months	6-12 months
Cash, excess reserve	6,174	(631)	0	0	0
Liquid assets	33,713	1,217	288	249	561
Counterbalancing capacity	**39,887**	**586**	**288**	**249**	**561**

2011 in EUR million	< 1 week	1 week-1 month	1-3 months	3-6 months	6-12 months
Cash, excess reserve	3,093	0	0	0	0
Liquid assets	35,596	(100)	(420)	(1,599)	(2,247)
Counterbalancing capacity	**38,689**	**(100)**	**(420)**	**(1,599)**	**(2,247)**

Financial liabilities

Maturities of contractual, undiscounted cash flows from financial liabilities as of 31 December 2012 and 31 December 2011, respectively, were as follow:

2012 in EUR million	Carrying amounts	Contractual cash flows	< 1 month	1-12 months	1-5 years	> 5 years
Non-derivative liabilities	**179,626**	**189,407**	**75,324**	**48,965**	**44,879**	**20,240**
Deposits by banks	21,822	22,377	9,770	3,057	7,573	1,977
Customer deposits	123,053	125,793	64,852	40,475	16,131	4,336
Debt securities in issue	29,445	33,746	669	4,971	17,002	11,104
Subordinated liabilities	5,305	7,491	32	462	4,173	2,823
Derivative liabilities	**1,649**	**1,451**	**47**	**444**	**588**	**372**
Derivatives banking book[1]	1,649	1,451	47	444	588	372
Total	**181,275**	**190,858**	**75,371**	**49,409**	**45,467**	**20,612**

1) The maturity analysis of undiscounted contractual cash flows of derivative financial instruments includes only the remaining contractual maturities for derivative financial liabilities in the banking book since these are essential for an understanding as to the timing of the cash flows.

2011 in EUR million	Carrying amounts	Contractual cash flows	< 1 month	1-12 months	1-5 years	> 5 years
Non-derivative liabilities	**179,230**	**189,550**	**74,403**	**51,923**	**41,228**	**21,996**
Deposits by banks	23,785	24,757	10,571	4,764	6,381	3,040
Customer deposits	118,880	121,101	60,704	41,894	13,944	4,558
Debt securities in issue	30,782	35,262	3,100	4,759	16,818	10,586
Subordinated liabilities	5,783	8,430	28	505	4,086	3,812
Derivative liabilities	**1,647**	**1,445**	**156**	**358**	**490**	**441**
Derivatives banking book[1]	1,647	1,445	156	358	490	441
Total	**180,877**	**190,995**	**74,559**	**52,281**	**41,718**	**22,437**

1) The maturity analysis of undiscounted contractual cash flows of derivative financial instruments includes only the remaining contractual maturities for derivative financial liabilities in the banking book since these are essential for an understanding as to the timing of the cash flows.

Contingent credit liabilities arising from financial guarantees amounting to EUR 6,363 million as of 31 December 2012 (2011: EUR 6,920 million) as well as from unused irrevocable commitments amounting to EUR 14,415 million as of 31 December 2012 (2011: EUR 18,579 million) are not included in these tables.

As of 31 December 2012, the volume of customer deposits due on demand amounted to EUR 51.1 billion (2011: EUR 47.9 billion). Observation of customer behaviour has shown that 95% of this volume is stable during the ordinary course of business. This means that only a minor part of the on-demand portfolio is withdrawn by the customer, whereas the major part remains generally in the bank.

37.8) Operational risk

Definition and overview

In line with Section 2, para. 57(d) of the Austrian Banking Act, 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. Consistent with international practice, the responsibility for managing operational risk rests with the line management.

Methods and instruments employed

The quantitative measurement methods are based on internal loss experience data, which is collected across Erste Group using a standard methodology and entered into a central data pool. Additionally, in order to be able to model losses that have not occurred in the past but are nonetheless possible, scenarios and external data are also used. Erste Group sources external data from a leading non-profit risk-loss data consortium.

Erste Group received regulatory approval for the Advanced Measurement Approach (AMA) in 2009. AMA is a sophisticated approach to measuring operational risk. Pursuant to AMA, the required capital is calculated using an internal VaR model, taking into account internal data, external data, scenario analysis, business environment and internal risk control factors. In 2011, Erste Group received approval to use insurance contracts for mitigation within the AMA pursuant to Section 22l of the Austrian Banking Act.

Methods and instruments of risk mitigation

In addition to quantitative methods, qualitative methods are also used to determine operational risk, such as risk assessment surveys (risk and control self-assessments). The results of and suggestions for risk control in these surveys, which are conducted by experts, are reported to the line management and thus help to reduce operational risks. Erste Group also reviews certain key indicators periodically to ensure early detection of changes in risk potential that may lead to losses.

Erste Group uses a group-wide insurance program, which, since its establishment in 2004, has reduced the cost of meeting Erste Group's traditional property insurance needs and made it possible to buy additional insurance for previously uninsured bank-specific risks. This programme uses a captive reinsurance entity as vehicle to share losses within the Group and access the external market.

The quantitative and qualitative methods used, together with the insurance strategy and the modelling approaches described above, form the operational risk framework of Erste Group. Information on operational risk is periodically communicated to the management board via various reports, including the quarterly top management report, which describes recent loss history, loss development, qualitative information from risk assessments and key risk indicators as well as the operational VaR for Erste Group.

Distribution of operational risk events

Detailed below is the percentage composition by type of event of operational risk sources as defined by the Basel 2 Capital Accord. The observation period is from 1 January 2008 to 31 December 2012.

The event type categories are as follow:

Internal fraud:
Losses due to acts of a type intended to defraud, misappropriate property or circumvent regulations, the law or company policy, excluding diversity or discrimination events, which involve at least one internal party.

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

Employment practices and workplace safety:
Losses arising from acts inconsistent with employment, health or safety laws or agreements, from payment of personal injury claims, or from diversity or discrimination events.

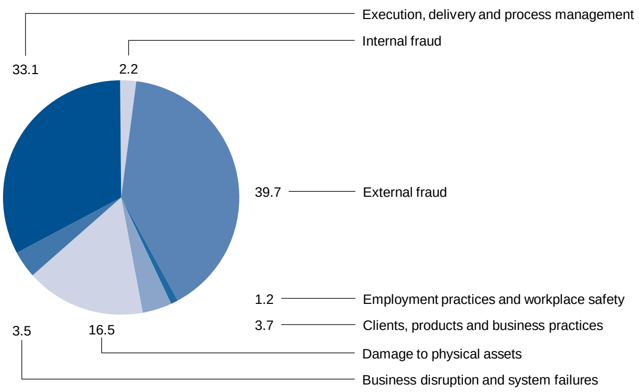
Clients, products and business practices:
Losses arising from unintentional or negligent failure to meet a professional obligation to specific clients (including fiduciary and suitability requirements) or from the nature or design of a product.

Damage to physical assets:
Losses arising from loss or damage to physical assets from natural disaster 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. Losses pertaining to relationships with trading counterparties and vendors or suppliers.

Event type categories (in %)



38) Hedge accounting

The interest rate risk of the banking book is managed by Group ALM. Preference in managing interest rate risk is given to using bonds, loans or derivatives, with hedge accounting for derivatives usually applied in accordance with IFRS. The main guideline for interest rate risk positioning is the Group Interest Rate Risk Strategy that is approved by Group ALCO for the relevant time period.

Fair value hedges are employed to reduce interest rate risk of issued bonds, purchased securities, loans or deposits on the Erste Group balance sheet. In general the Erste Group policy is to swap all substantial fixed or structured issued bonds to floating positions and as such to manage the targeted interest rate risk profile by other balance sheet items. Interest rate swaps are the most common instruments used for fair value hedges. Concerning loans, purchased securities and securities in issuance, fair value is also hedged by means of cross-currency swaps, swaptions, caps, floors and other types of derivative instruments.

Cash flow hedges are used to eliminate uncertainty in future cash flows in order to stabilise net interest income. The most common such hedge in Erste Group consists in interest rate swaps hedging variable cash flows of floating assets into fixed cash flows. Floors or caps are used to secure the targeted level of interest income in a changing interest rate environment.

In the reporting period, EUR 37 million (2011: EUR 37 million) was taken from the cash flow hedge reserve and recognised as income in the consolidated income statement (2011: as income); while EUR 34 million (2011: EUR 67 million) was recognised directly in other comprehensive income. The majority of the hedged cash flows are likely to occur within the next five years and will then be recognised in the consolidated income statement. Ineffectiveness from cash flow hedges amounting to EUR (0.3) million (2011: EUR 3.7 million) is reported in the net trading result.

	2012		2011	
in EUR million	Positive fair value	Negative fair value	Positive fair value	Negative fair value
Hedging instrument – fair value hedge	2,408	707	1,680	576
Hedging instrument – cash flow hedge	105	0	133	23

Fair value hedges resulted during 2012 in gains of EUR 444.9 million (2011: gains of EUR 353.6 million) on hedging instruments and losses of EUR 465.6 million on hedged items (2011: losses of EUR 382.4 million).

39) Fair value of financial instruments

Financial instruments for which fair value is determined on the basis of quoted market prices are mainly listed securities and derivatives as well as liquid OTC bonds.

Erste Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: Financial instruments which are valued based on quoted (unadjusted) prices in active markets for identical assets or liabilities. These includes financial instruments which are traded in sufficient volume on an exchange, debt instruments quoted by several market participants with a sufficient depth, or liquid derivatives which are traded on an exchange.

Level 2: Financial instruments which are valued based on quoted prices (in non-active markets for similar assets or liabilities) or on inputs other than quoted prices that are observable. These includes yield curves derived from liquid underlying instruments or prices from similar instruments.

Level 3: Inputs used are not observable. This includes extrapolation of yield curves or volatilities, usage of historical volatilities, significant adjustment of quoted CDS spreads or equity prices and derivatives where credit value adjustment (CVA) has a material impact and is calculated based on unobservable parameters like internally derived default probabilities.

The table below details the valuation methods used to determine the fair value of financial instruments measured at fair value.

2012 in EUR million	Quoted market prices in active markets Level 1	Marked to model based on observable market data Level 2	Marked to model based on non-observable inputs Level 3	Total
Financial assets - available for sale	14,879	7,016	147	22,042
Financial assets - at fair value through profit or loss	329	364	23	716
Trading assets - securities	2,509	2,660	9	5,178
Positive market value - derivatives	1	13,149	139	13,289
Total assets	**17,718**	**23,189**	**318**	**41,225**
Customer deposits	0	633	0	633
Debt securities in issue	79	1,562	0	1,641
Subordinated liabilities	0	279	0	279
Trading liabilities	0	481	0	481
Negative market value - derivatives	0	10,878	0	10,878
Total liabilities and equity	**79**	**13,833**	**0**	**13,912**

2011 in EUR million	Quoted market prices in active markets Level 1	Marked to model based on observable market data Level 2	Marked to model based on non-observable inputs Level 3	Total
Loans to credit institutions	0	0	4	4
Financial assets - available for sale	13,574	6,092	148	19,814
Financial assets - at fair value through profit or loss	722	1,064	27	1,813
Trading assets - securities	2,087	3,789	0	5,876
Positive market value - derivatives	2	10,929	0	10,931
Total assets	**16,385**	**21,874**	**179**	**38,438**
Customer deposits	0	553	0	553
Debt securities in issue	85	696	0	781
Subordinated liabilities	0	215	0	215
Trading liabilities	0	536	0	536
Negative market value - derivatives	0	9,335	2	9,337
Total liabilities and equity	**85**	**11,335**	**2**	**11,422**

The volume of products whose fair values are determined using valuation models based on non-observable market data is driven in large part by illiquid bonds and securities not quoted in an active market and derivatives where credit value adjustment (CVA) has a material impact.

Movements in Level 3 of financial instruments measured at fair value

The following tables show the development of fair value of securities for which valuation models are based on non-observable inputs.

in EUR million	2011	Gain/loss in profit or loss	Gain/loss in other compre-hensive income	Purchases	Sales/ settlements	Transfers into Level 3	Transfers out of Level 3	Currency translation	2012
Loans to credit institutions	4	0	0	0	(4)	0	0	0	0
Financial assets - available for sale	148	(7)	4	44	(25)	3	(20)	0	147
Financial assets - at fair value through profit or loss	27	(3)	0	0	0	0	0	0	24
Trading assets - securities	0	0	0	9	0	0	0	0	9
Positive market value - derivatives	0	0	0	0	0	139	0	0	139
Total assets	**179**	**(10)**	**4**	**53**	**(29)**	**142**	**(20)**	**0**	**318**
Negative market value - derivatives	2	(2)	0	0	0	0	0	0	0
Total liabilities	**2**	**(2)**	**0**	**0**	**0**	**0**	**0**	**0**	**0**

in EUR million	2010	Gain/loss in profit or loss	Gain/loss in other compre-hensive income	Purchases	Sales/ settle-ments	Transfers into Level 3	Transfers out of Level 3	Currency translation	2011
Loans to credit institutions	0	0	0	4	0	0	0	0	4
Financial assets - available for sale	160	(2)	0	40	(48)	0	(2)	0	148
Financial assets - at fair value through profit or loss	78	(8)	0	0	(43)	0	0	0	27
Total assets	**238**	**(10)**	**0**	**44**	**(91)**	**0**	**(2)**	**0**	**179**
Negative market value - derivatives	2	(1)	0	0	0	1	0	0	2
Total liabilities	**2**	**(1)**	**0**	**0**	**0**	**1**	**0**	**0**	**2**

Gains or losses on Level 3 securities held at the reporting period's end and which are included in comprehensive income are as follow:

	2012		2011	
in EUR million	Gain/loss in profit or loss	Gain/loss in other compre-hensive income	Gain/loss in profit or loss	Gain/loss in other compre-hensive income
Loans to credit institutions	0	0	(0.3)	0
Financial assets - available for sale	(8.0)	4.2	(0.5)	(0.4)
Financial assets - at fair value through profit or loss	(2.2)	0.0	(5.2)	0.0
Trading assets	(0.2)	0.0	0.0	0.0
Positive market value - derivatives	0.4	0.0	0.0	0.0
Negative market value - derivatives	(0.2)	0.0	0.7	0.0
Total	**(10.2)**	**4.2**	**(5.3)**	**(0.4)**

Movements between Level 1 and Level 2

The share of Level 2 assets decreased compared to 2011, which is mainly due to the fact of reinvestment in bonds which are valued via prices. A minor number of securities were reclassified from Level 2 to Level 1 and from Level 1 to Level 2, respectively. The reclassification resulted from increase or decrease in market depth for the relevant securities.

Movements in Level 3 financial instruments measured at fair value

As the portfolio quality in 2012 remained stable, there was no material change in the Level 3 category.

Sensitivity analysis of unobservable parameters

If the value of financial instruments is dependent on unobservable input parameters, the precise level for these parameters could be drawn from a range of reasonably possible alternatives. In preparing the financial statements, levels for the parameters are chosen from these ranges using judgement consistent with prevailing market evidence. Had all these unobservable parameters been moved simultaneously to the extremes of their ranges as of 31 December 2012, it could have increased fair value by as much as EUR 14.4 million (2011: EUR 13.2 million) or decreased fair value by as much as EUR 20.3 million (2011: EUR 20.6 million). In estimating these impacts, mainly probabilities of default and market values for equities were emphasised.

Fair values of financial instruments not measured at fair value

The following table shows fair values of financial instruments not measured at fair value:

	2012		2011	
in EUR million	Fair value	Carrying amount	Fair value	Carrying amount
ASSETS				
Cash and balances with central banks	9,740	9,740	9,413	9,413
Loans to credit institutions	9,054	9,007	7,552	7,506
Loans and advances to customers	127,170	124,354	130,614	127,808
Financial assets - held to maturity	20,292	18,972	16,074	16,060
LIABILITIES				
Deposits by banks	22,042	21,822	24,007	23,785
Customer deposits	122,286	122,421	118,853	118,327
Debt securities in issue	29,340	27,786	30,202	30,001
Subordinated liabilities	5,394	5,044	5,709	5,568

The fair value of loans and advances to customers and credit institutions has been calculated by discounting future cash flows while taking into consideration interest effects. Loans and advances were grouped into homogeneous portfolios based on maturity.

For liabilities without contractual maturities, the carrying amount represents its fair value. The fair value of the other liabilities is estimated by taking into consideration the actual interest rate environment and changes in own credit risk.

40) Financial instruments per category according to IAS 39

	As of 31 December 2012									
	Category of financial instruments									
in EUR million	Loans and receivables	Held to maturity	Trading	Designa-ted at fair value	Available for sale	Financial liabilities at amortised cost	Other financial assets	Derivatives designated as hedging instruments	Finance lease according to IAS 17	Total
ASSETS										
Cash and balances with central banks	7,398	0	0	0	0	0	2,342	0	0	9,740
Loans and advances to credit institutions	9,074	0	0		0	0	0	0	0	9,074
Loans and advances to customers	126,799	0	0	0	0	0	0	0	5,129	131,928
Risk provisions for loans and advances	(7,641)	(3)	0	0	0	0	0	0	0	(7,644)
Derivative financial instruments	0	0	10,777	0	0	0	0	2,512	0	13,289
Trading assets	0	0	5,178	0	0	0	0	0	0	5,178
Financial assets - at fair value through profit or loss	0	0	0	716	0	0	0	0	0	716
Financial assets - available for sale	0	0	0	0	22,418	0	0	0	0	22,418
Financial assets - held to maturity	0	18,975	0	0	0	0	0	0	0	18,975
Total financial assets	**135,630**	**18,972**	**15,955**	**716**	**22,418**	**0**	**2,342**	**2,512**	**5,129**	**203,674**
LIABILITIES										
Deposits by banks	0	0	0	0	0	21,822	0	0	0	21,822
Customer deposits	0	0	0	633	0	122,420	0	0	0	123,053
Debt securities in issue	0	0	0	1,641	0	27,786	0	0	0	29,427
Derivative financial instruments	0	0	10,171	0	0	0	0	707	0	10,878
Trading liabilities	0	0	481	0	0	0	0	0	0	481
Subordinated liabilities	0	0	0	279	0	5,044	0	0	0	5,323
Total financial liabilities	**0**	**0**	**10,652**	**2,553**	**0**	**177,072**	**0**	**707**	**0**	**190,984**

	As of 31 December 2011									
	Category of financial instruments									
in EUR million	Loans and receivables	Held to maturity	Trading	Designa-ted at fair value	Available for sale	Financial liabilities at amortised cost	Other financial assets	Derivatives designated as hedging instruments	Finance lease according to IAS 17	Total
ASSETS										
Cash and balances with central banks	7,249	0	0	0	0	0	2,164	0	0	9,413
Loans and advances to credit institutions	7,574	0	0	4	0	0	0	0	0	7,578
Loans and advances to customers	129,119	0	0	0	0	0	0	0	5,631	134,750
Risk provisions for loans and advances	(7,027)	0	0	0	0	0	0	0	0	(7,027)
Derivative financial instruments	0	0	9,118	0	0	0	0	1,813	0	10,931
Trading assets	0	0	5,876	0	0	0	0	0	0	5,876
Financial assets - at fair value through profit or loss	0	0	0	1,813	0	0	0	0	0	1,813
Financial assets - available for sale	0	0	0	0	20,245	0	0	0	0	20,245
Financial assets - held to maturity	0	16,074	0	0	0	0	0	0	0	16,074
Total financial assets	**136,915**	**16,074**	**14,994**	**1,817**	**20,245**	**0**	**2,164**	**1,813**	**5,631**	**199,653**
LIABILITIES							**0**	**0**	**0**	
Deposits by banks	0	0	0	0	0	23,785	0	0	0	23,785
Customer deposits	0	0	0	553	0	118,327	0	0	0	118,880
Debt securities in issue	0	0	0	781	0	30,001	0	0	0	30,782
Derivative financial instruments	0	0	8,738	0	0	0	0	599	0	9,337
Trading liabilities	0	0	536	0	0	0	0	0	0	536
Subordinated liabilities	0	0	0	215	0	5,568	0	0	0	5,783
Total financial liabilities	**0**	**0**	**9,274**	**1,549**	**0**	**177,681**	**0**	**599**	**0**	**189,103**

41) Audit fees and tax consultancy fees

The following table contains fundamental audit fees and tax fees charged by the auditors (of Erste Group Bank AG and subsidiaries; the auditors primarily being Sparkassen-Prüfungsverband, Ernst & Young and Deloitte) in the fiscal years 2012 and 2011:

in EUR million	2012	2011
Audit fees	15.3	15.6
Other services involving the issuance of a report	5.1	3.1
Tax consultancy fees	3.1	1.9
Other services	2.4	2.0
Total	**25.8**	**22.7**

For auditing services provided by the Group's auditors EUR 9.3 million (2011: EUR 8.6 million) was paid by Erste Group. The Group's auditors also performed tax consultancy for Erste Group with a value of EUR 0.3 million (2011: EUR 0.4 million).

42) Contingent liabilities

To meet the financial needs of customers, the bank enters into various irrevocable commitments and contingent liabilities. Even though these obligations may not be recognised on the balance sheet, they do contain credit risk and are therefore part of the overall risk of the Bank (see Note 37.5 Credit risk).

Legal proceedings

Erste Group Bank and some of its subsidiaries are involved in legal disputes, most of which have arisen in the course of ordinary banking business. These proceedings are not expected to have a significant negative impact on the financial position or profitability of Erste Group or Erste Group Bank. Erste Group is also subject to the following ongoing proceedings:

Hungarian holocaust litigation

In 2010 a group of plaintiffs filed a putative class action complaint, in a Federal court in Chicago, on behalf of alleged victims of the Holocaust or their heirs, alleging that several Hungarian banks improperly benefited from the seizure of assets of Jewish customers during Second World War II. The assets claimed total $2 billion in 1944 dollars. Although Erste Group Bank is not alleged to have participated in the alleged misappropriation of Jewish assets, it is nevertheless named as a defendant in the litigation, as plaintiffs allege that Erste Group Bank is the legal successor to a number of banks that were active during that time in Greater Hungary. Erste Group Bank has denied all of the material allegations against it, including, but not limited to, allegations of successorship. The case is currently in the discovery phase, and Erste Group Bank intends to take all steps necessary to defend itself against this complaint.

Consumer protection claims

Several banking subsidiaries of Erste Group in Central and Eastern Europe have been named in their respective jurisdictions as defendants in a number of lawsuits and in regulatory proceedings filed by individual customers, regulatory authorities or consumer protection agencies and associations. Some of the lawsuits are class actions. The lawsuits mainly relate to allegations that involve mostly claims that certain contractual provisions particularly in respect of consumer loans, violate mandatory consumer protection laws and regulations. The allegations relate to the enforceability of certain fees as well as of contractual provisions for the adjustment of interest rates and currencies.

43) Analysis of remaining maturities

	2012		2011	
in EUR million	**< 1 year**	**> 1 year**	**< 1 year**	**> 1 year**
Cash and balances with central banks	9,740	0	9,413	0
Loans and advances to credit institutions	5,868	3,206	5,483	2,095
Loans and advances to customers	35,404	96,524	35,132	99,618
Risk provisions for loans and advances	(2,011)	(5,633)	(2,129)	(4,898)
Derivative financial instruments	1,496	11,793	9,838	1,093
Trading assets	3,331	1,847	3,272	2,604
Financial assets - at fair value through profit or loss	144	572	841	972
Financial assets - available for sale	4,893	17,525	4,704	15,541
Financial assets - held to maturity	3,401	15,574	3,034	13,040
Other assets	1,153	8,997	599	9,754
Total	**63,419**	**150,405**	**70,187**	**139,819**
Deposits by banks	14,055	7,767	15,288	8,497
Customer deposits	80,200	42,853	96,186	22,694
Debt securities in issue	5,268	24,159	6,772	24,010
Derivative financial instruments	2,267	8,611	1,886	7,451
Trading liabilities	16	465	11	525
Subordinated liabilities	564	4,759	106	5,677
Other liabilities	396	5,767	391	5,332
Total	**102,766**	**94,381**	**120,640**	**74,186**

44) Own funds and capital requirement

Erste Group as a group of credit institutions is subject to the Austrian Banking Act and must comply with the capital requirements set out therein.

Erste Group is subject to regulatory limitations (e.g. concentration risk) that restrict the ability of Erste Group to transfer funds among subsidiaries in different countries.

The items of own funds as disclosed below are used also for internal capital management purposes. As in the previous year, the minimum capital requirements under the Banking Act were at all times fulfilled.

Own funds and capital requirements are as follow:

in EUR million	2012	2011
Subscribed capital	2,553	2,545
Share capital	789	781
Participation capital	1,764	1,764
Reserves	9,320	9,181
Deduction of Erste Group Bank shares held within the Group	(632)	(627)
Consolidation difference	(2,205)	(3,074)
Non-controlling interests (excluding hybrid tier−1 capital pursuant to Section 23 (4a) and (4b) of the Austrian Banking Act)	3,438	3,322
Intangible assets	(507)	(505)
50% deduction for non-consolidated credit and financial institutions pursuant to Section 23 (13) 3 and 4 of the Austrian Banking Act	(107)	(125)
50% deduction of IRB-shortfall pursuant to Section 23 (13) 4c of the Austrian Banking Act	0	0
50% deduction of securitisations pursuant to Section 23 (13) 4d of the Austrian Banking Act	(12)	(36)
Additional deduction for instruments measured at fair value pursuant to Section 23 (13) 4e of the Austrian Banking Act	0	0
Core tier−1 capital	**11,848**	**10,681**
Hybrid tier−1 capital pursuant to Section 23 (4a) and (4b) of the Austrian Banking Act	375	1,228
Tier−1 capital	**12,223**	**11,909**
Eligible subordinated liabilities	4,055	4,018
Revaluation reserve	0	0
Excess risk provisions	19	397
Qualifying supplementary capital (tier−2)	**4,074**	**4,415**
50% deduction for non−consolidated credit and financial institutions pursuant to Section 23 (13) 3 und 4 of the Austrian Banking Act	(107)	(125)
50% deduction of IRB-shortfall pursuant to Section 23 (13) 4c of the Austrian Banking Act	0	0
50% deduction of securitisations pursuant to Section 23 (13) 4d of the Austrian Banking Act	(12)	(36)
100% deductions of holdings in insurances pursuant to Section 23 (13) 4a of the Austrian Banking Act	(164)	(162)
Short-term subordinated capital (tier−3)	**297**	**414**
Total eligible qualifying capital	**16,311**	**16,415**
Capital requirement	8,426	9,122
Surplus capital	7,885	7,293
Cover ratio (in %)	193.6	179.9
Tier− ratio – credit risk (in %)[1]	13.5	12.2
Core tier−1 ratio – total risk (in %)[2]	11.2	9.4
Tier−1 ratio – total risk (in %)[3]	11.6	10.4
Solvency ratio (in %)[4]	15.5	14.4

1) Tier-1 ratio - credit risk is the ratio of tier-1 capital (including hybrid capital pursuant to section 23 (4a) and (4b) of the Austrian Banking Act) to the risk weighted assets pursuant to section 22 (2) of the Austrian Banking Act.
2) Core tier-1 ratio – total risk is the ratio of core tier-1 capital (excluding hybrid capital pursuant to section 23 (4a) and (4b) of the Austrian Banking Act) to the calculation base for the capital requirement pursuant to section 22 (1) of the Austrian Banking Act.
3) Tier-1 ratio – total risk is the ratio of tier-1 capital (including hybrid capital pursuant to section 23 (4a) and (4b) of the Austrian Banking Act) to the calculation base for the capital requirement pursuant to section 22 (1) of the Austrian Banking Act.
4) Solvency ratio is the ratio of total eligible qualifying capital to the calculation base for the capital requirement pursuant to section 22 (1) of the Austrian Banking Act.

The risk-weighted basis pursuant to Section 22 (1) of the Austrian Banking Act and the resulting capital requirement are as follow:

	2012		2011	
in EUR million	Calculation base/total risk[1]	Capital requirement[2]	Calculation base/total risk[1]	Capital requirement[2]
Risk pursuant to Section 22 (1) 1 of the Austrian Banking Act[3]	90,434	7,235	97,630	7,811
a) Standardised approach	22,936	1,835	26,461	2,117
b) Internal ratings based approach	67,498	5,400	71,169	5,694
Risk pursuant to Section 22 (1) 2 of the Austrian Banking Act[4]	3,583	287	5,060	405
Risk pursuant to Section 22 (1) 3 of the Austrian Banking Act[5]	131	10	119	9
Risk pursuant to Section 22 (1) 4 of the Austrian Banking Act[6]	11,175	894	11,210	897
Total	**105,323**	**8,426**	**114,019**	**9,122**

1) Internal calculation base used for calculation of the tier-1 ratio, core tier-1 ratio and the solvency ratio (capital requirement multiplied by 12,5).
2) Capital requirement pursuant to the Austrian Banking Act.
3) Risk weighted assets – credit risk.
4) Market risk (trading book).
5) Commodities risk and foreign exchange-risk, including the risk arising from gold positions, each for positions outside the trading book.
6) Operational risk.

45) Events after the balance sheet date

There were no significant events after the balance sheet date.

46) Details of the companies wholly or partly owned by Erste Group as of 31 December 2012

The tables below present material, fully consolidated subsidiaries, investments in associates accounted for at equity and other investments.

Since Erste Group Immorent AG is disclosed here as a sub-group, the single entities are not listed separately.

Company name, registered office		Interest of Erste Group in %
Fully consolidated subsidiaries		
Credit institutions		
Allgemeine Sparkasse Oberösterreich Bankaktiengesellschaft	Linz	29.8
Banca Comercială Română Chisinau S.A.	Chişinău	93.3
Banca Comercială Română SA	Bucharest	93.3
Banka Sparkasse d.d.	Ljubljana	28.0
Bankhaus Krentschker & Co. Aktiengesellschaft	Graz	25.0
Bausparkasse der österreichischen Sparkassen Aktiengesellschaft	Vienna	95.0
BCR Banca pentru Locuinte SA	Bucharest	93.6
Brokerjet Bank AG	Vienna	100.0
Česká spořitelna, a.s.	Prague	99.0
Die Zweite Wiener Vereins-Sparcasse	Vienna	0.0
Dornbirner Sparkasse Bank AG	Dornbirn	0.0
Erste & Steiermärkische Bank d.d.	Rijeka	69.3
Erste Asset Management GmbH	Vienna	100.0
Erste Bank (Malta) Limited	Pieta	100.0
ERSTE BANK AD NOVI SAD	Novi Sad	80.5
ERSTE BANK AD PODGORICA	Podgorica	69.3
Erste Bank der oesterreichischen Sparkassen AG	Vienna	100.0
Erste Bank Hungary Zrt	Budapest	100.0
ERSTE Immobilien Kapitalanlagegesellschaft m.b.H.	Vienna	74.2
ERSTE-SPARINVEST Kapitalanlagegesellschaft m.b.H.	Vienna	86.5
Intermarket Bank AG	Vienna	91.5
Kärntner Sparkasse Aktiengesellschaft	Klagenfurt	25.0
KREMSER BANK UND SPARKASSEN AKTIENGESELLSCHAFT	Krems an der Donau	0.0
Lienzer Sparkasse AG	Lienz	0.0
Public Company “Erste Bank”	Kiev	100.0
RINGTURM Kapitalanlagegesellschaft m.b.H.	Vienna	95.0
s Wohnbaubank AG	Vienna	90.8
Salzburger Sparkasse Bank Aktiengesellschaft	Salzburg	98.7
Slovenská sporiteľňa, a. s.	Bratislava	100.0
Sparkasse Baden	Baden	0.0
Sparkasse Bank dd	Sarajevo	24.3
SPARKASSE BANK MAKEDONIJA AD SKOPJE	Skopje	24.9
Sparkasse Bank Malta Public Limited Company	Sliema	0.0
Sparkasse Bludenz Bank AG	Bludenz	0.0
Sparkasse Bregenz Bank Aktiengesellschaft	Bregenz	0.0
Sparkasse der Gemeinde Egg	Egg	0.0
Sparkasse der Stadt Amstetten AG	Amstetten	0.0
Sparkasse der Stadt Feldkirch	Feldkirch	0.0
Sparkasse der Stadt Kitzbühel	Kitzbühel	0.0
Sparkasse Eferding-Peuerbach-Waizenkirchen	Eferding	0.0
Sparkasse Feldkirchen/Kärnten	Feldkirchen	0.0
Sparkasse Frankenmarkt Aktiengesellschaft	Frankenmarkt	0.0
Sparkasse Hainburg-Bruck-Neusiedl Aktiengesellschaft	Hainburg an der Donau	75.0
Sparkasse Haugsdorf	Haugsdorf	0.0
Sparkasse Herzogenburg-Neulengbach	Herzogenburg	0.0
Sparkasse Horn-Ravelsbach-Kirchberg Aktiengesellschaft	Horn	0.0

Company name, registered office		Interest of Erste Group in %
Sparkasse Imst AG	Imst	0.0
Sparkasse Korneuburg AG	Korneuburg	0.0
Sparkasse Kremstal-Pyhrn Aktiengesellschaft	Kirchdorf a.d. Krems	30.0
Sparkasse Kufstein, Tiroler Sparkasse von 1877	Kufstein	0.0
Sparkasse Lambach Bank Aktiengesellschaft	Lambach	0.0
Sparkasse Langenlois	Langenlois	0.0
Sparkasse Mittersill Bank AG	Mittersil	0.0
Sparkasse Mühlviertel-West Bank Aktiengesellschaft	Rohrbach	40.0
Sparkasse Mürzzuschlag Aktiengesellschaft	Mürzzuschlag	0.0
Sparkasse Neuhofen Bank Aktiengesellschaft	Neuhofen	0.0
Sparkasse Neunkirchen	Neunkirchen	0.0
SPARKASSE NIEDERÖSTERREICH MITTE WEST AKTIENGESELLSCHAFT	St. Pölten	0.0
Sparkasse Oberösterreich Kapitalanlagegesellschaft m.b.H.	Linz	29.6
Sparkasse Pöllau AG	Pöllau	0.0
Sparkasse Pottenstein N.Ö.	Pottenstein/Triesting	0.0
Sparkasse Poysdorf AG	Poysdorf	0.0
Sparkasse Pregarten - Unterweißenbach AG	Pregarten	0.0
Sparkasse Rattenberg Bank AG	Rattenberg	0.0
Sparkasse Reutte AG	Reutte	0.0
Sparkasse Ried im Innkreis-Haag am Hausruck	Ried im Innkreis	0.0
Sparkasse Salzkammergut AG	Bad Ischl	0.0
Sparkasse Scheibbs AG	Scheibbs	0.0
Sparkasse Schwaz AG	Schwaz	0.0
Sparkasse Voitsberg-Köflach Bankaktiengesellschaft	Voitsberg	5.0
Stavební spořitelna České spořitelny, a.s.	Prague	98.8
Steiermärkische Bank und Sparkassen Aktiengesellschaft	Graz	25.0
Tiroler Sparkasse Bankaktiengesellschaft Innsbruck	Innsbruck	75.0
Tirolinvest Kapitalanlagegesellschaft mbH.	Innsbruck	77.9
Waldviertler Sparkasse Bank AG	Zwettl	0.0
Wiener Neustädter Sparkasse	Wiener Neustadt	0.0

Company name, registered office		Interest of Erste Group in %
Other financial institutions		
Asset Management Slovenskej sporitelne, správ. spol., a. s.	Bratislava	100.0
AVS Beteiligungsgesellschaft m.b.H.	Innsbruck	75.0
BCR Leasing IFN SA	Bucharest	93.2
BCR Partener IFN SA	Bucharest	93.3
BCR Payments Services SRL	Sibiu	93.3
brokerjet České spořitelny, a.s.	Prague	99.5
Brokerjet financne storitve d.d. - v likvidaciji	Ljubljana	100.0
Diners Club BH d.o.o. Sarajevo	Sarajevo	69.3
Drustvo za lizing nekretnina, vozila, plovila i masina “S-Leasing” doo Podgorica	Podgorica	62.5
EB Erste Bank Internationale Beteiligungen GmbH	Vienna	100.0
EB-Malta-Beteiligungen Gesellschaft m.b.H.	Vienna	100.0
EBV - Leasing Gesellschaft m.b.H. & Co. KG.	Vienna	100.0
EGB Ceps Beteiligungen GmbH	Vienna	100.0
EGB Ceps Holding GmbH	Vienna	100.0
EGB e-business Holding GmbH	Vienna	100.0
Erste & Steiermärkische S-Leasing drustvo s ogranicenom odgovornoscu za leasing vozila i strojeva	Zagreb	59.4
Erste Alapkezelo Zrt.	Budapest	100.0
Erste Bank Beteiligungen GmbH	Vienna	100.0
Erste Befektetesi Zrt.	Budapest	100.0
ERSTE CARD CLUB d.o.o.	Zagreb	69.3
ERSTE DELTA DRUSTVO S OGRANICENOM ODGOVORNOSCU ZA POSLOVANJE NEKRETNINAMA	Zagreb	69.3
ERSTE FACTORING d.o.o.	Zagreb	76.9
Erste Faktor Penzügyi Szolgaltato Zrt.	Budapest	100.0
Erste Group Immorent AG	Vienna	100.0
Erste Invest d.o.o.	Zagreb	100.0
Erste Lakas-Takarekpenztar Zartkoruen Mukodo Reszvenytarsasag	Budapest	100.0
Erste Leasing Autofinanszirozasi Penzügyi Szolgaltato Zrt.	Budapest	100.0
Erste Leasing Berlet Szolgaltato Kft. (vm. Erste Leasing Szolgaltato Kft.)	Budapest	100.0
Erste Leasing Eszközfinanszirozasi Penzügyi Szolgaltato Zrt. (vm. Erste S Leasing Pénzügyi Szolgáltató Rt.)	Budapest	100.0
Erste Securities Istanbul Menkul Degerler AS	Istanbul	100.0
Erste Securities Polska S.A.	Warsaw	100.0
Factoring České spořitelny a.s.	Prague	99.0
Factoring Slovenskej sporiteľne, a.s.	Bratislava	100.0
Flottenmanagement GmbH	Vienna	51.0
Immorent - Süd Gesellschaft m.b.H., S - Leasing KG	Graz	46.4
IMMORENT ALFA leasing druzba, d.o.o.	Ljubljana	50.0
IMMORENT BETA, leasing druzba, d.o.o.	Ljubljana	62.5
IMMORENT DELTA, leasing druzba, d.o.o.	Ljubljana	50.0
IMMORENT leasing nepremicnin d.o.o.	Ljubljana	44.9
IMMORENT-RAMON Grundverwertungsgesellschaft m.b.H.	Vienna	62.5
Immorent-Smaragd Grundverwertungsgesellschaft m.b.H.	Schwaz	0.0
Immorent-Süd Gesellschaft m.b.H.	Graz	51.3
IMMORENT-TOPAS Grundverwertungsgesellschaft m.b.H.	Vienna	62.5
Investiční společnost České spořitelny, a.s.	Prague	100.0
Kärntner Sparkasse Vermögensverwaltungsgesellschaft m.b.H.	Klagenfurt	25.0
Leasing Slovenskej sporiteľne, a.s.	Bratislava	100.0
Magyar Factor Penzugyi Szolgaltato Zartkoruen Mukodo Reszvenytarsasag	Budapest	100.0
NÖ-Sparkassen Beteiligungsgesellschaft m.b.H.	Vienna	2.5
Portfolio Kereskedelmi, Szolgaltato es Szamitastechnikai Kft.	Budapest	100.0
PREDUZECE ZA LIZING NEKRETNINA, VOZILA I MASINA S-LEASING DOO BEOGRAD	Belgrade	62.5
REICO investiční společnost České spořitelny,a.s.	Prague	99.0
RUTAR INTERNATIONAL trgovinska d.o.o.	Ljubljana	62.5

Company name, registered office		Interest of Erste Group in %
s Autoleasing a.s.	Prague	99.0
s Autoleasing GmbH	Vienna	100.0
S IMMORENT ZETA drustvo s ogranicenom odgovornoscu za poslovanje nekretninama	Zagreb	84.9
S MORAVA Leasing, a.s.	Znojmo	99.0
S Slovensko, spol. s r.o.	Bratislava	100.0
SAI Erste Asset Management S.A.	Bucharest	100.0
S-Factoring, faktoring druzba d.d.	Ljubljana	53.4
Sieben-Tiroler-Sparkassen Beteiligungsgesellschaft m.b.H.	Kufstein	0.0
S-IMMORENT nepremicnine d.o.o.	Ljubljana	50.0
Sparkasse (Holdings) Malta Ltd.	Sliema	0.0
Sparkasse Leasing S,družba za financiranje d.o.o.	Ljubljana	28.0
SPARKASSEN LEASING druzba za financiranje d.o.o.	Ljubljana	50.0
Sparkassenbeteiligungs und Service AG für Oberösterreich und Salzburg	Linz	69.3
SPK Immobilien- und Vermögensverwaltungs GmbH	Graz	25.0
S-RENT DOO BEOGRAD	Belgrade	62.5

Company name, registered office		Interest of Erste Group in %
Other		
“Die Kärntner” Trust-Vermögensberatungsgesellschaft m.b.H.	Klagenfurt	25.0
“Sparkassen-Haftungs Aktiengesellschaft”	Vienna	43.2
Atrium Center s.r.o.	Bratislava	10.0
AWEKA - Kapitalverwaltungsgesellschaft m.b.H.	Graz	25.0
BCR Finance BV	Amsterdam	93.3
BCR Fleet Management SRL	Bucharest	93.2
BCR Partener Mobil SRL	Bucharest	93.3
BCR PENSII, SOCIETATE DE ADMINISTRARE A FONDURILOR DE PENSII PRIVATE SA	Bucharest	93.3
BCR Procesare SRL	Bucharest	93.3
BCR Real Estate Management SRL	Bucharest	93.3
BECON s.r.o.	Prague	10.0
BELBAKA a.s.	Prague	10.0
Beta-Immobilienvermietung GmbH	Vienna	100.0
BGA Czech, s.r.o.	Prague	10.0
BRS Büroreinigungsgesellschaft der Steiermärkischen Bank und Sparkassen Aktiengesellschaft Gesellschaft m.b.H.	Graz	25.0
Campus Park a.s.	Prague	19.8
Capexit Beteiligungs Invest GmbH	Vienna	100.0
Capexit Private Equity Invest GmbH	Vienna	100.0
CEE Property Development Portfolio 2 B.V.	Amsterdam	19.8
CEE Property Development Portfolio B.V.	Amsterdam	19.8
CP Praha s.r.o.	Prague	19.8
CPDP 2003 s.r.o.	Prague	19.8
CPDP Jungmannova s.r.o.	Prague	19.8
CPDP Logistics Park Kladno I a.s.	Prague	19.8
CPDP Logistics Park Kladno II a.s.	Prague	19.8
CPDP Polygon s.r.o.	Prague	19.8
CPDP Prievozska a.s.	Bratislava	19.8
CPDP Shopping Mall Kladno, a.s.	Prague	19.8
CPP Lux S. 'ar.l.	Luxembourg	19.8
CS Investment Limited	St Peter Port	99.0
CS Property Investment Limited	Nicosia	99.0
CSPF Residential B.V.	Amsterdam	10.0
CSSC Customer Sales Service Center GmbH	Vienna	57.3
Czech and Slovak Property Fund B.V.	Amsterdam	10.0
Czech TOP Venture Fund B.V.	Groesbeek	83.1
Derop B.V.	Amsterdam	100.0
DIE ERSTE Immobilienvermietungsgesellschaft m.b.H.	Vienna	100.0
EBB Beteiligungen GmbH	Vienna	100.0
EB-Beteiligungsservice GmbH	Vienna	99.9
EB-Restaurantsbetriebe Ges.m.b.H.	Vienna	100.0
EGB Capital Invest GmbH	Vienna	100.0
Erste Campus Mobilien GmbH & Co KG	Vienna	100.0
Erste Capital Finance (Jersey) PCC	St. Helier	100.0
ERSTE DMD d.o.o.	Zagreb	69.3
Erste Finance (Delaware) LLC	City of Wilmington	100.0
Erste Finance (Jersey) (6) Limited	St. Helier	100.0
Erste Finance (Jersey) Limited III	St. Helier	100.0
Erste Finance (Jersey) Limited IV	St. Helier	100.0
Erste Finance (Jersey) Limited V	St. Helier	100.0
Erste GCIB Finance I B.V.	Amsterdam	100.0
Erste Group IT International, spol. s.r.o.	Bratislava	100.0
Erste Group IT SK, spol. s r.o.	Bratislava	100.0

Company name, registered office		Interest of Erste Group in %
Erste Group Services GmbH	Vienna	100.0
Erste Group Shared Services (EGSS), s.r.o.	Hodonin	99.6
Erste Ingatlan Fejleszto, Hasznosito es Mernoki Kft. (vm. PB Risk Befektetesi es Szolgaltato Kft).	Budapest	100.0
Erste Ingatlanlizing Penzügyi Szolgaltato Zrt.	Budapest	100.0
Erste Lakaslizing Zrt.	Budapest	100.0
ERSTE NEKRETNINE d.o.o. za poslovanje nekretninama	Zagreb	69.3
Erste ÖSW Wohnbauträger GmbH	Vienna	90.8
Erste Reinsurance S.A.	Luxembourg	100.0
Euro Dotacie, a.s.	Žilina	65.3
Financiara SA	Bucharest	90.9
Gallery MYSAK a.s.	Prague	19.8
Gladiator Leasing Limited	Sliema	99.9
GLL MSN 038 / 043 LIMITED	Sliema	99.9
GRANTIKA Ceske sporitelny, a.s.	Brno	99.0
Haftungsverbund GmbH	Vienna	63.4
HEBRA Holding GmbH	Vienna	100.0
Immobilienverwertungsgesellschaft m.b.H.	Klagenfurt	25.0
IT Centrum s.r.o.	Prague	99.0
Jegeho Residential s.r.o.	Bratislava	10.0
KS - Dienstleistungsgesellschaft m.b.H.	Klagenfurt	25.0
KS-Beteiligungs- und Vermögens-Verwaltungsgesellschaft m.b.H.	Klagenfurt	25.0
LANED a.s.	Bratislava	100.0
LIEGESA Immobilienvermietung GmbH Nfg OHG	Graz	25.0
Lighthouse 449 Limited	Sliema	99.9
MBU d.o.o.	Zagreb	91.3
Nove Butovice Development s.r.o.	Prague	10.0
ÖCI-Unternehmensbeteiligungsgesellschaft.m.b.H.	Vienna	99.6
OM Objektmanagement GmbH	Vienna	100.0
PARTNER CESKE SPORITELNY, A.S.	Prague	99.0
Penzijni fond Ceske sporitelny, a.s.	Prague	99.0
Procurement Services CZ s.r.o.	Prague	99.5
Procurement Services GmbH	Vienna	99.9
Procurement Services HU Kft.	Budapest	99.9
Procurement Services RO srl	Bucharest	99.9
Procurement Services SK, s.r.o.	Bratislava	99.9
Procurement Services Zagreb d.o.o.	Zagreb	99.9
Quest Investment Services Limited	Sliema	0.0
Realitná spoločnosť Slovenskej sporiteľne, a.s.	Bratislava	100.0
Real-Service für oberösterreichische Sparkassen Realitätenvermittlungsgesellschaft m.b.H.	Linz	62.6
Real-Service für steirische Sparkassen, Realitätenvermittlungsgesellschaft m.b.H.	Graz	59.7
s ASG Sparkassen Abwicklungs- und Servicegesellschaft mbH	Graz	25.0
s IT Solutions AT Spardat GmbH	Vienna	82.2
s IT Solutions CZ, s.r.o.	Prague	99.6
s IT Solutions Holding GmbH	Vienna	100.0
s IT Solutions HR drustvo s ogranicenom odgovornoscu za usluge informacijskih tehnologija	Bjelovar	93.9
s IT Solutions SK, spol. s r.o.	Bratislava	99.8
s REAL Immobilienvermittlung GmbH	Vienna	96.1
S Tourismus Services GmbH	Vienna	100.0
s Wohnbauträger GmbH	Vienna	90.8
s Wohnfinanzierung Beratungs GmbH	Vienna	75.4
SATPO Jeseniova, s.r.o.	Prague	5.0
SATPO Kralovska vyhlidka, s.r.o.	Prague	5.0
SATPO Sacre Coeur II, s.r.o.	Prague	5.0
sBAU Holding GmbH	Vienna	95.0
SC Bucharest Financial Plazza SRL	Bucharest	93.3

Company name, registered office		Interest of Erste Group in %
S-Immobilien Weinviertler Sparkasse GmbH	Vienna	100.0
Sio Ingatlan Invest Kft.	Budapest	100.0
Smichov Real Estate, a.s.	Prague	10.0
Sparkasse Kufstein Immobilien GmbH & Co KG	Kufstein	0.0
Sparkasse S d.o.o.	Ljubljana	25.0
Sparkassen Real Vorarlberg Immobilienvermittlung GmbH	Dornbirn	48.1
Sparkassen Zahlungsverkehrsabwicklungs GmbH	Linz	57.8
Sparkassen-Real-Service für Kärnten und Osttirol Realitätenvermittlungs-Gesellschaft m.b.H.	Klagenfurt	55.5
Sparkassen-Real-Service -Tirol Realitätenvermittlungs-Gesellschaft m.b.H.	Innsbruck	66.7
Steiermärkische Verwaltungssparkasse Immobilien & Co KG	Graz	25.0
S-Tourismusfonds Management Aktiengesellschaft	Vienna	100.0
SUPORT COLECT SRL	Bucharest	93.3
SVD-Sparkassen-Versicherungsdienst Versicherungsbörse Nachfolge GmbH & Co. KG	Innsbruck	75.0
TAVARESA a.s.	Prague	1.9
Trencin Retail Park a.s.	Bratislava	9.0

Company name, registered office		Interest of Erste Group in %
Equity method investments		
Credit institutions		
SPAR-FINANZ BANK AG	Salzburg	50.00
Prvá stavebná sporitelna, a.s.	Bratislava	35.00
NÖ Beteiligungsfinanzierungen GmbH	Vienna	30.00
NÖ Bürgschaften GmbH	Vienna	25.00
Other		
APHRODITE Bauträger Aktiengesellschaft	Vienna	45.42
ASC Logistik GmbH	Vienna	23.95
EBB-Gamma Holding GmbH	Vienna	49.00
ERSTE d.o.o.	Zagreb	41.66
FINEP Jegeho alej a.s.	Bratislava	3.30
Gelup GesmbH	Vienna	31.67
Immobilien West Aktiengesellschaft	Salzburg	49.34
KWC Campus Errichtungsgesellschaft m.b.H.	Klagenfurt	12.50
Let's Print Holding AG	Graz	42.00
LTB Beteiligungs GmbH	Vienna	25.00
Office Center Stodulky GAMA a.s.	Prague	39.59
ROMANIAN EQUITY PARTNERS COÖPERATIEF U.A.	Amsterdam	66.67
RSV Beteiligungs GmbH	Vienna	33.33
SATPO Na Malvazinkach, a.s.	Prague	5.50
SATPO Sacre Coeur, s.r.o.	Prague	5.50
SATPO Svedska s.r.o.	Prague	5.50
Slovak Banking Credit Bureau, s.r.o.	Bratislava	33.33
VBV – Betriebliche Altersvorsorge AG	Vienna	26.94

Although Erste Group holds less than 20% of the equity shares in FINEP Jegeho Alej, a.s., SATPO Sacre Coeur, s.r.o., SATPO Na Malvazinkach, s.r.o. and SATPO Svedska, s.r.o., it exercises significant influence over those companies by virtue of significant additional investments in those companies as well as representation on the board of directors.
On the other hand, ROMANIAN EQUITY PARTNERS COÖPERATIEF U.A. is classified as a joint venture even though Erste Group holds more than 50% of the equity shares therein.

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Company name, registered office		Interest of Erste Group in %
Other investments		
Credit institutions		
VBV - Vorsorgekasse AG	Vienna	24.5
Other financial institutions		
AS-WECO 4 Grundstückverwaltung Gesellschaft m.b.H.	Salzburg	29.98
C+R Projekt s r.o.	Prague	100.00
Company for Investment Funds Management “Erste Invest” a.d. Belgrade	Belgrade	100.00
DINESIA a.s.	Prague	98.97
E-C-A-Holding Gesellschaft m.b.H.	Vienna	65.54
E-C-B Beteiligungsgesellschaft.m.b.H.	Vienna	24.67
EFH-Beteiligungsgesellschaft m.b.H.	Vienna	50.00
Fondul de Garantare a Creditului Rural IFN SA	Bucharest	31.09
good.bee Holding GmbH	Vienna	60.00
Grema - Grundstückverwaltung Gesellschaft m.b.H.	Innsbruck	74.99
I+R Projekt Fejlesztési Korlátolt Felelösségü Társaság	Budapest	100.00
ILGES - Immobilien- und Leasing - Gesellschaft m.b.H.	Rohrbach in Upper Austria	40.00
K+R Projekt s.r.o.	Prague	100.00
KERES-Immorent Immobilienleasing GmbH	Vienna	25.00
Lorit Immobilien Leasing Gesellschaft m.b.H.	Vienna	56.24
Neue Eisenstädter gemeinnützige Bau-, Wohn- und Siedlungsgesellschaft m.b.H.	Eisenstadt	49.98
Österreichisches Volkswohnungswerk, Gemeinnützige Gesellschaft mit beschränkter Haftung	Vienna	100.00
ÖWB Gemeinnützige Wohnungsaktiengesellschaft	Salzburg	22.73
REWE Magyarország Ingatlankezelö és - forgalmazó Korlátolt Felelösségü Társaság	Budapest	100.00
s Autoleasing SK, s.r.o.	Bratislava	98.97
S-Leasing d.o.o., Sarajevo	Sarajevo	24.93
S-Leasing d.o.o., Skopje	Skopje	24.99
SPARKASSE Bauholding Gesellschaft m.b.H.	Salzburg	98.69
Sparkasse Bauholding Leasing I GmbH	Salzburg	98.69
Sparkasse Bauholding Leasing V GmbH	Salzburg	98.69
STUWO Gemeinnützige Studentenwohnbau Aktiengesellschaft	Vienna	50.32
T+R Projekt Fejelsztési Korlátolt Felelösségü Társaság	Budapest	100.00
Transfactor Slovakia a.s.	Bratislava	91.47
Other		
“Die Kärntner” - Förderungs- und Beteiligungsgesellschaft für die Stadt Friesach Gesellschaft m.b.H.	Friesach	25.00
“Die Kärntner” - Förderungsgesellschaft für das Gurktal Gesellschaft m.b.H.	Gurk	25.00
“Die Kärntner”-BTWF-Beteiligungs- und Wirtschaftsförderungsgesellschaft für die Stadt St. Veit/Glan Gesellschaft m.b.H.	St. Veit an der Glan	25.00
“Die Kärntner”-Förderungs- und Beteiligungsgesellschaft für den Bezirk Wolfsberg Gesellschaft m.b.H.	Wolfsberg	25.00
“SIMM” Liegenschaftsverwertungsgesellschaft m.b.H.	Graz	25.00
A1KS Beteiligungs GmbH	Klagenfurt	25.00
AGRI-BUSINESS Kft. (in bankruptcy)	Hegyeshalom	100.00
Argentum Immobilienverwertungs Ges.m.b.H.	Linz	28.29
AS LEASING Gesellschaft m.b.H.	Linz	29.78
AS-WECO Grundstückverwaltung Gesellschaft m.b.H.	Linz	28.29
AWEKA-Beteiligungsgesellschaft m.b.H.	Vienna	25.00
Bad Leonfelden Hotelbetriebs Gesellschaft mbH	Bad Leonfelden	63.38
Balance Resort GmbH (vm. Wellness Hotel Stegersbach)	Stegersbach	100.00
BBH Hotelbetriebs GmbH	Vienna	69.02
BeeOne GmbH (EH-Beta Holding)	Vienna	100.00
Betriebliche Altersvorsorge - Software Engineering GmbH	Vienna	24.25
BioEnergie Stainach GmbH	Stainach	25.00
BioEnergie Stainach GmbH & Co KG	Stainach	24.99
Biroul de credit SA	Bucharest	22.64

Company name, registered office		Interest of Erste Group in %
BTV-Beteiligungs-, Treuhand-, Vermögens-Verwaltungsgesellschaft m.b.H.	Klagenfurt	25.00
Business Capital for Romania - Opportunity Fund Cooperatief UA	Amsterdam	77.73
BVP-Pensionsvorsorge-Consult G.m.b.H.	Vienna	26.94
CITY REAL Immobilienbeteiligungs- und Verwaltungsgesellschaft mbH	Graz	25.00
CITY REAL Immobilienbeteiligungs- und Verwaltungsgesellschaft mbH & Co KG	Graz	25.75
Die Kärntner Sparkasse - Förderungsgesellschaft für den Bezirk Hermagor Gesellschaft m.b.H.	Hermagor	25.00
Dolomitencenter Verwaltungs GmbH	Lienz	49.99
EBB Hotelbetriebs GmbH	Imst	100.00
EBB-Delta Holding GmbH	Vienna	100.00
EBG Europay Beteiligungs-GmbH	Vienna	22.41
EB-Grundstücksbeteiligungen GmbH	Vienna	100.00
EBSPK-Handelsgesellschaft m.b.H.	Vienna	29.68
EBV-Leasing Gesellschaft m.b.H.	Vienna	50.00
EGB-Service CEE GmbH	Vienna	100.00
Erste Asset Management Deutschland Ges.m.b.H.	Zorneding	100.00
Erste Bank - Wiener Stadthalle Marketing GmbH	Vienna	60.00
Erste Campus Mobilien GmbH	Vienna	100.00
Erste Corporate Finance GmbH	Vienna	100.00
Erste Corporate Finance, a.s.	Prague	98.97
Erste Energy Services, a.s.	Prague	98.97
Erste Finance Malta Limited	Sliema	100.00
Erste Group Beteiligungen GmbH	Vienna	100.00
Erste Private Equity Limited	London	100.00
ESB Holding GmbH	Vienna	69.27
ESPA- Financial Advisors GmbH	Vienna	84.20
Finanzpartner GmbH	Vienna	50.00
FINTEC-Finanzierungsberatungs- und Handelsgesellschaft m.b.H.	Vienna	25.00
Genesis Private Equity Fund 'B' L.P.	St.Peter Port, Guernsey	98.97
GLL 29235 LIMITED	Pieta	99.89
good.bee credit IFN S.A.	Bucharest	29.40
Grundstücksverwertungsgesellschaft mbH Objekt Oggenhof	Füssen	74.99
Harkin Limited	Dublin 2	100.00
Hochkönig Bergbahnen GmbH	Mühlbach am Hochkönig	45.35
Hollawind - Windkraftanlagenerrichtungs- und Betreibergesellschaft mit beschränkter Haftung	Göllersdorf	25.00
Hotel Corvinus Gesellschaft m.b.H. & Co KG	Vienna	100.00
HV-Veranstaltungsservice GmbH	Stotzing	100.00
ILGES - Liegenschaftsverwaltung G.m.b.H.	Rohrbach in Upper Austria	40.00
Investicniweb s.r.o.	Prague	99.48
ISPA-Beteiligungsgesellschaft m.b.H.	Kempten	74.99
KKT d.o.o. za posredovanje i usluge	Zagreb	69.26
Kleinkraftwerke-Betriebsgesellschaft m.b.H.	Vienna	100.00
Kraftwerksmanagement GmbH	Vienna	100.00
Latifundium Holding Gesellschaft m.b.H.	Vienna	100.00
LBH Liegenschafts- und Beteiligungsholding GmbH	Innsbruck	74.99
LINEA Beteiligungs-Gesellschaft m.b.H.	Vienna	100.00
Luitpoldpark-Hotel Betriebs- und Vermietungsgesellschaft mbH	Füssen	71.24
LV Holding GmbH	Linz	28.49
MEG-Liegenschaftsverwaltungsgesellschaft m.b.H.	Vienna	100.00
MUNDO FM & S GmbH	Vienna	100.00
Österreichische Wertpapierdaten Service GmbH	Vienna	32.69
ÖVW Bauträger GmbH	Vienna	100.00
PARAGON Hotelbetriebs GmbH (vm. REMACO)	Vienna	76.15

Company name, registered office		Interest of Erste Group in %
Planung und Errichtung von Kleinkraftwerken Aktiengesellschaft	Vienna	82.74
První certifikační autorita, a.s.	Prague	23.01
Realitní společnost České spořitelny, a.s.	Prague	98.97
RTG Tiefgaragenerrichtungs und -vermietungs GmbH	Graz	25.00
s Real Sparkasse nepremicnine d.o.o.	Ljubljana	51.48
S Servis, s.r.o.	Znojmo	98.97
SALIX-Grundstückserwerbs Ges.m.b.H.	Eisenstadt	50.00
SBS Beteiligungs GmbH	Graz	25.00
Schauersberg Immobilien Gesellschaft m.b.H.	Graz	25.00
Schmied von Kochel Beteiligungsverwaltungs-GmbH	Füssen	74.99
Seniorenresidenz "Am Steinberg" GmbH	Graz	25.00
SPAKO Holding GmbH	Innsbruck	74.99
Sparkasse Mühlviertel-West Holding GmbH	Rohrbach in Upper Austria	40.00
Sparkasse Nekretnine d.o.o.	Sarajevo	33.67
Sparkassen - Betriebsgesellschaft mbH.	Linz	29.78
Sparkassen - Reisebüro Gesellschaft m.b.H.	Linz	28.29
Sparkassen Facility Management GmbH	Innsbruck	74.99
Sparkassen IT Holding AG	Vienna	29.68
SPV - Druck Gesellschaft m.b.H	Vienna	99.86
students4excellence GmbH	Vienna	20.00
SZG-Dienstleistungsgesellschaft m.b.H.	Salzburg	98.69
TIRO Bauträger GmbH	Innsbruck	74.99
UBG-Unternehmensbeteiligungsgesellschaft m.b.H.	Vienna	100.00
Unzmarkter Kleinkraftwerk-Aktiengesellschaft	Vienna	81.44
Valtecia Achizitii S.R.L.	Voluntari, Ilfov County	100.00
Vasudvar Hotel Kft.1	Budapest	100.00
VERMREAL Liegenschaftserwerbs- und -betriebs GmbH	Vienna	25.60
VBV - Beratungs- und Service GmbH	Vienna	26.94
VBV - Pensionsservice-Center GmbH	Vienna	26.94
VBV-Pensionskasse Aktiengesellschaft	Vienna	26.94
VINIS Gesellschaft für nachhaltigen Vermögensaufbau und Innovation m.b.H.	Vienna	26.94
WECO Treuhandverwaltung Gesellschaft m.b.H.	Salzburg	49.34
WEST CONSULT Bauten- und Beteiligungsverwaltung GmbH	Salzburg	49.34
WEVA - Veranlagungs- und Beteiligungsgesellschaft m.b.H.	Linz	28.29
Wien 3420 Aspern Development AG	Vienna	23.24

Vienna, 28 February 2013

The Management Board

Andreas Treichl mp
Chairman

Franz Hochstrasser mp
Vice Chairman

Herbert Juranek mp
Member

Gernot Mittendorfer mp
Member

Manfred Wimmer mp
Member

AUDITOR'S REPORT (REPORT OF THE INDEPENDENT AUDITORS)[1)]

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

Sparkassen-Prüfungsverband and Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H., Vienna, have audited the accompanying consolidated financial statements of Erste Group Bank AG, Vienna, for the fiscal year from 1 January 2012 to 31 December 2012. These consolidated financial statements comprise the consolidated balance sheet as of 31 December 2012, the consolidated income statement, the consolidated cash flow statement and the consolidated statement of changes in equity for the fiscal year ended 31 December 2012, as well as the Notes.

Management's Responsibility for the Consolidated Financial Statements and for the Group Accounting System

The management of Erste Group Bank AG is responsible for the group accounting system and for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility and Description of the Type and Scope of the Statutory Audit

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with laws and regulations applicable in Austria and Austrian Standards on Auditing, as well as in accordance with International Standards on Auditing (ISAs) issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC). Those standards require that we comply with professional guidelines and that we plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment as to the risks of material misstatement by the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Group's preparation and fair presentation of the consolidated financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a reasonable basis for our audit opinion.

Opinion

Our audit did not give rise to any objections. In our opinion, which is based on the results of our audit, the consolidated financial statements comply with legal requirements and give a true and fair view of the financial position of the Group as of 31 December 2012 and of its financial performance and its cash flows for the fiscal year from 1 January 2012 to 31 December 2012 in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU.

Comments on the Management Report for the Group

Pursuant to statutory provisions, 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 other disclosures are not misleading with respect to the Company's position. The auditor's report also has to contain a statement as to whether the management report for the Group is consistent with the consolidated financial statements and whether the disclosures pursuant to Section 243a UGB (Austrian Commercial Code) are appropriate. In our opinion, the management report for the Group is consistent with the consolidated financial statements. The disclosures pursuant to Section 243a UGB (Austrian Commercial Code) are appropriate.

Vienna, 28. February 2013

Sparkassen-Prüfungsverband
(Prüfungsstelle)
(Austrian Savings Bank Auditing Association)
(Audit Agency)
(Bank Auditor)

Friedrich O. Hief mp Certified Accountant	Herwig Hierzer mp Auditor

Ernst & Young

Wirtschaftsprüfungsgesellschaft m.b.H.

Helmut Maukner mp Certified Accountant	Andrea Stippl mp Certified Accountant

1) The report (in the German language, or translations into another language, including shortened or amended versions) may not be made public or used by third parties, when reference is made in whole or in part to the auditors' report, without the express written consent of the auditors. This report has been translated from German into English for reference purposes only. Please refer to the official legally binding version as written and signed in German. Only the German version is definitive.

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.

Vienna, 28 February 2013

The Management Board

Andreas Treichl mp
Chairman

Franz Hochstrasser mp
Vice Chairman

Herbert Juranek mp
Member

Gernot Mittendorfer mp
Member

Manfred Wimmer mp
Member

Glossary

Book value per share
Total equity attributable to owners of the parent of a public company, excluding participation capital, divided by the number of shares outstanding (excluding treasury shares).

Cash return on equity
Also referred to as cash ROE. Calculated as return on equity, but excluding the impact of non-cash items on net profit/loss for the year attributable to owners of the parent such as goodwill impairment and amortisation of customer relationships.

Cash earnings per share
Calculated as earnings per share based on net profit/loss for the year attributable to owners of the parent, adjusted for dividends on participation capital, excluding goodwill impairments and amortisation of customer relationships.

CEE (Central and Eastern Europe)
Encompasses the new member states of the EU that joined in 2004 and 2007, the CIS countries, states that evolved from the former Yugoslavia, as well as Albania.

Core tier-1 ratio (total risk in %)
The ratio of tier-1 capital (excluding hybrid capital pursuant to section 23 (4a) and (4b) of the Austrian Banking Act) after regulatory deductions to the calculation base for the capital requirement pursuant to Section 22 (1) of the Austrian Banking Act.

Cost/Income Ratio
General administrative expenses as a percentage of operating income.

Coverage ratio (own funds)
Total eligible qualifying capital as a percentage of total capital requirement.

Dividend yield
Dividend payment of the fiscal year as a percentage of the year-end closing price or the most recent price of the share.

Earnings per share
Net profit for the year attributable to owners of the parent adjusted for dividends of participation capital, divided by average shares outstanding.

Interest-bearing assets
Total assets less cash, derivative financial instruments, tangible and intangible assets, tax assets, assets held for sale and other assets.

Net interest margin
Net interest income as a percentage of average interest-bearing assets, calculated on a monthly basis.

Operating income
Consists of net interest income, net commission income and trading result.

Operating result
Operating income less operating expenses (i.e. general administrative expenses).

Price/earnings ratio
Closing share price of the fiscal year divided by earnings per share. Usually used for valuation comparisons.

Market capitalisation
Overall value of a company calculated by multiplying the share price by the number of shares outstanding.

Non-performing coverage ratio
Risk provisions for the credit risk exposure as a percentage of the non-performing credit risk exposure.

Non-performing ratio
Non-performing credit risk exposure as a percentage of total credit risk exposure.

NPL coverage ratio (non-performing loans coverage ratio)
Risk provisions for loans and advances to customers as a percentage of non-performing loans and advances to customers.

NPL ratio
Non-performing loans and advances to customers as a percentage of total loans and advances to customers.

NPL total coverage ratio
Risk provisions and collateral for non-performing loans and advances to customers as a percentage of non-performing loans and advances to customers.

Return on equity
Also referred to as ROE – net profit/loss for the year attributable to owners of the parent, as a percentage of average equity. The average equity is calculated based upon the equity outstanding as of the close of each of the 12 months during the year.

Risk categories
Risk categories are based on internal customer ratings and are used for classification of the bank's assets and contingent credit liabilities. Erste Group applies internal rating systems, which for private individuals comprise eight rating grades for non-defaulted customers and one rating grade for customers in default. For all other customer segments, the Group uses 13 rating grades for non-defaulted customers and one rating grade for defaulted customers.

Risk category – low risk
Typically regional customers with well-established and rather long-standing relationships with Erste Group or large internationally recognised customers. Strong and good financial positions and no foreseeable financial difficulties. Retail clients with long relationships with the bank, or clients with wide product pool use. No late payments currently or in the most recent 12 months. New business is generally with clients in this risk category.

Risk category – management attention
Vulnerable non-retail clients, which may have overdue payments or defaults in their credit history or which may encounter debt repayment difficulties in the medium-term. Retail clients with limited savings or possible payment problems in the past triggering early collection reminders. These clients typically have good recent histories and no current delinquencies.

Risk category – substandard
The borrower is vulnerable to negative financial and economic developments. Such loans are managed in specialised risk management departments.

Risk category – non-performing
One or more of the default criteria under Basel 2 are met: 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, or initiation of bankruptcy proceedings.

Share capital
Total equity attributable to owners of the parent of a company, subscribed by the shareholders at par.

Solvency ratio
The ratio of the sum of tier-1, tier-2 and tier-3 capital, after regulatory deductions, to the calculation base for the capital requirement pursuant to section 22 (1) of the Austrian Banking Act.

Tax rate
Taxes on income/loss as a percentage of pre-tax profit from continuing operations.

Tier-1 ratio (credit risk)
The ratio of tier-1 capital (including hybrid capital pursuant to section 23 (4a) and (4b) Banking Act) after regulatory deductions to risk-weighted assets (pursuant to section 22 (2) of the Austrian Banking Act).

Tier-1 ratio (total risk)
The ratio of tier-1 capital (including hybrid capital pursuant to section 23 (4a) and (4b) of the Austrian Banking Act) after regulatory deductions to the calculation base for the capital requirement pursuant to section 22 (1) of the Austrian Banking Act.

Total shareholder return
Annual performance of an investment in Erste Group Bank AG shares including all income streams (e.g. dividend for the year plus or minus gain or loss in the share price from the beginning to the end of the year).

Your Notes

Your Notes

Your Notes

Important Addresses

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iPad **iPhone** **Android**

Social Media:

To read the QR codes you need a smartphone or a tablet equipped with a camera and a QR code app (free to download). Line up your device with the QR code until the app recognizes the code.

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Czech Republic (Česká spořitelna)

Slovakia (Slovenská sporiteľňa)

Hungary (Erste Bank Hungary)

Croatia (Erste Bank Croatia)

Serbia (Erste Bank Serbia)

Romania (Banca Comercială Română)

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