



# Corporate governance

## (Consolidated) corporate governance report

In 2003, Erste Group Bank AG declared its commitment to comply with the rules of the Austrian Code of Corporate Governance (Austrian CCG – see [www.corporate-governance.at](http://www.corporate-governance.at)) with the objective of ensuring responsible and transparent corporate governance. In addition, the management board adopted a Statement of Purpose in 2015. This statement reaffirms and states in more detail the purpose of Erste Group Bank AG to promote and secure prosperity throughout the region, in which Erste Group is active. Building on this Statement of Purpose, a Code of Conduct defines binding rules for the day-to-day business. Erste Group values responsibility, respect and sustainability in pursuing its business activities. The Code of Conduct hence helps to protect the reputation of Erste Group and to strengthen stakeholder confidence. The (consolidated) corporate governance report has been prepared in accordance with sections 243c and 267b of the Austrian Commercial Code and Rules 60 et seq. of the Austrian CCG and also complies with sustainability reporting guidelines ([www.globalreporting.org](http://www.globalreporting.org)).

The Austrian CCG is a set of self-regulation rules for Austrian listed companies supplementing Austrian laws on stock markets and capital markets. The aim is to establish responsible corporate management and control to create long-term value. Application of the Austrian CCG guarantees a high degree of transparency for all stakeholders including investors, customers and employees. The Code contains the following sets of rules: L-Rules (Legal Requirements – mandatory legal norms), C-Rules (Comply-or-Explain – deviations are permitted but must be explained) and R-Rules (Recommendations – these rules are more similar to recommendations; non-compliance does not need to be disclosed or explained).

In the financial year 2016, Erste Group Bank AG complied with all L-Rules and R-Rules as well as – with two exceptions – all C-Rules of the Austrian CCG. The two deviations are described and explained below: Pursuant to C-Rule 2 of the Austrian CCG, shares are to be construed in accordance with the principle of one share – one vote, i.e. investors have one vote per share and no right to nominate members to the supervisory board. Under Erste

Group Bank AG's articles of association (Art. 15.1), DIE ERSTE österreichische Spar-Casse Privatstiftung is, however, granted the right to nominate up to one third of the members of the supervisory board to be elected by the shareholder meeting as long as it is liable for all present and future liabilities of Erste Group Bank AG in case of its insolvency according to section 92 para. 9 of the Austrian Banking Act. The Privatstiftung has not exercised this right to date. Pursuant to C-Rule 52a of the Austrian CCG, the number of supervisory board members (without employees' representatives) shall be ten at most. At present, though, Erste Group Bank AG's supervisory board consists of eleven shareholder representatives elected by the annual general meeting. The deviation from C-Rule 52a of the Austrian CCG is due to the size of Erste Group and its market position in seven core markets in Central and Eastern Europe as well as to the fact that Erste Group is subject to a multitude of financial market and prudential regulations, which have increased in recent years and will continue to increase in the future. In addition, the supervisory board has to meet a rising number of additional review and control requirements under current laws and regulations.

### Working methods of the management board and the supervisory board

Erste Group Bank AG is a stock corporation established according to Austrian law with a management board and a supervisory board as management bodies (two-tier system). The management board is responsible for managing the company as required for the benefit of the company taking into account the interests of the shareholders and the employees as well as public interest. The management board develops the strategic orientation of the company and aligns it with the supervisory board. It ensures effective risk management and risk control. The management board takes its decisions in compliance with all relevant legal provisions, the articles of association and its internal rules of procedure. The supervisory board appoints the members of the management board, decides on the remuneration of the management board and monitors and evaluates on a yearly basis its activity. The supervisory board advises the management board on the determination of the business strategy. It takes part in making decisions as provided for by law, the articles of association and its internal rules of procedure.

## Selection and assessment of members of management bodies

The qualification requirements for members of the management bodies (management board and supervisory board) of Erste Group Bank AG are governed by the internal guidelines for the selection and assessment of members of the management and supervisory boards. These guidelines define, in accordance with applicable legal provisions, the internal framework for the selection and assessment of members of the management bodies. The assessment of proposed and appointed members of management bodies is based on the following criteria: personal reputation, professional qualifications

and experience as well as governance criteria (potential conflicts of interest, independence, time availability, overall composition of the management or supervisory board and diversity).

## Training and development

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

## MANAGEMENT BOARD

Management board member	Year of birth	Date of initial appointment	End of current period of office
Andreas Treichl (Chairman)	1952	1 October 1994	30 June 2020
Peter Bosek	1968	1 January 2015	31 December 2020
Petr Brávek	1961	1 April 2015	31 December 2020
Willibald Cernko	1956	1 January 2017	31 December 2020
Andreas Gottschling	1967	1 September 2013	31 December 2016
Gernot Mittendorfer	1964	1 January 2011	31 December 2020
Jozef Sikela	1967	1 January 2015	31 December 2020

In the financial year 2016, the management board consisted of six members. Andreas Gottschling resigned as of 31 December 2016. The supervisory board appointed Willibald Cernko as new member of the management board effective 1 January 2017.

As of 1 January 2017, the allocation of duties among the members of the management board is as follows:

Management board member	Areas of responsibility
Andreas Treichl (Chairman)	Group Strategy, Group Secretariat, Group Communications, Group Investor Relations, Group Human Resources, Human Resources, Group Audit, Social Banking Development
Peter Bosek	Erste Hub, Digital Sales, Group Retail Strategy
Petr Brávek	Holding IT, Holding Banking Operations, Group COO Governance, Group Architecture and Portfolio Management
Willibald Cernko	Liquidity and Market Risk Management, Enterprise wide Risk Management, Risk Methods and Models, Non Financial Risk, Group Workout, Group Credit Risk Management
Gernot Mittendorfer	Group ALM, Group Data Management and Reporting, Group Accounting and Controlling, Group Services
Jozef Sikela	Group Corporates, Group Commercial Real Estate, Group Markets, Operating Office C and M, Group Research

## Supervisory board mandates and similar functions, management roles in subsidiaries

As of 31 December 2016, the management board members held the following supervisory board mandates or similar functions in domestic or foreign companies or material subsidiaries of Erste Group Bank AG (the latter are marked with \*). No management board member holds a management position in a material subsidiary of Erste Group Bank AG.

### Andreas Treichl

Sparkassen Versicherung AG Vienna Insurance Group (Chair), Leoganger Bergbahnen Gesellschaft m.b.H. (Member), Erste Bank der oesterreichischen Sparkassen AG\* (Member), Banca Comercială Română S.A.\* (Vice Chair), Česká spořitelna, a.s.\* (Vice Chair)

### Peter Bosek

Wiener Städtische Versicherung AG Vienna Insurance Group (2nd Vice Chair), Sparkassen Versicherung AG Vienna Insurance Group (Member), Česká spořitelna, a.s.\* (Member)

### Petr Brávek

Česká spořitelna, a.s.\* (Member), s IT Solutions AT Spardat GmbH\* (Vice Chair), Erste Group IT International GmbH\* (Chair)

### Andreas Gottschling

Erste Group Immorent AG\* (Vice Chair), Erste & Steiermärkische Bank d.d.\* (Erste Bank Croatia) (Chair)

### Gernot Mittendorfer

Banca Comercială Română S.A.\* (Member), Erste Bank Hungary Zrt.\* (Member), Erste Bank a.d. Novi Sad\* (Chair), Erste Bank der oesterreichischen Sparkassen AG\* (Member), Slovenská sporiteľňa, a.s.\* (Chair), Erste Group IT International GmbH\* (Vice Chair)

## Jozef Sikela

Oesterreichische Kontrollbank Aktiengesellschaft (Member),  
Erste Group Immorent AG\* (Chair), Prvá stavebná sporiteľňa,  
a.s.\* (Member)

Andreas Gottschling resigned from the supervisory boards of Erste Group Immorent AG\* und Erste & Steiermärkische Bank d.d.\* as of 31 December 2016. Willibald Cernko was elected to the supervisory board of Erste Group Immorent AG\* (Vice Chair) in February 2017 and holds a supervisory board mandate in Mobilux Acquisition SAS.

## SUPERVISORY BOARD

In the financial year 2016, the following persons were members of the supervisory board.

Position	Name	Year of birth	Occupation	Date of initial appointment	End of the current period of office
Chairman	Friedrich Rödler	1950	Auditor and tax advisor	4 May 2004	AGM 2019
1st Vice Chairman	Jan Homan	1947	General Manager, ret.	4 May 2004	AGM 2019
2nd Vice Chairwoman	Bettina Breiteneder	1970	Entrepreneur	4 May 2004	AGM 2019
Member	Elisabeth Bleyleben-Koren	1948	General Manager, ret.	21 May 2014	AGM 2019
Member	Gonzalo Gortázar Rotaeché	1965	CEO, CaixaBank	12 May 2015	27 October 2016
Member	Gunter Griss	1945	Lawyer	21 May 2014	AGM 2019
Member	Maximilian Hardegg	1966	Entrepreneur	12 May 2015	AGM 2020
Member	Elisabeth Krainer Senger-Weiss	1972	Lawyer	21 May 2014	AGM 2019
Member	Antonio Massanell Lavilla	1954	Deputy Chairman, CaixaBank	12 May 2015	AGM 2020
Member	Brian D. O'Neill	1953	Senior Advisor, Lazard Frères & Co	31 May 2007	AGM 2017
Member	Wilhelm Rasinger	1948	Consultant	11 May 2005	AGM 2020
Member	John James Stack	1946	CEO, ret.	31 May 2007	AGM 2017
<b>Delegated by the employees' council</b>					
Member	Markus Haag	1980		21 November 2011	until further notice
Member	Regina Haberhauer	1965		12 May 2015	until further notice
Member	Andreas Lachs	1964		9 August 2008	until further notice
Member	Barbara Pichler	1969		9 August 2008	until further notice
Member	Jozef Pinter	1974		25 June 2015	until further notice
Member	Karin Zeisel	1961		9 August 2008	until further notice

Changes in the supervisory board in the financial year 2016: Regina Habenauer's delegation to the supervisory board was temporarily revoked by the employees' council as of 14 March 2016. As of 1 November 2016 she was delegated to the supervisory board again.

Gonzalo Gortázar Rotaeché resigned as member of the supervisory board with effect from 27 October 2016.

## Membership in supervisory board committees

Committee membership as of 31 December 2016:

Name	Executive committee	Nomination committee	Audit committee	Risk committee	Remuneration committee	IT committee
Friedrich Rödler	Chairman	Chairman	Member*	Chairman	Chairman**	Vice Chairman
Jan Homan	Vice Chairman	Vice Chairman	Chairman	Vice Chairman	Vice Chairman	Substitute
Bettina Breiteneder	Member	Member	-	Member	-	Chairwoman
Elisabeth Bleyleben-Koren	-	-	Member	Member	-	-
Gonzalo Gortázar Rotaeché	-	-	-	-	-	-
Gunter Griss	-	-	-	-	Member	-
Maximilian Hardegg	Member	Member	Vice Chairman	Member	Substitute	Member
Elisabeth Krainer Senger-Weiss	-	-	-	Substitute	-	Member
Antonio Massanell Lavilla	-	-	Member	-	-	Member
Brian D. O'Neill	-	-	-	-	Member	-
Wilhelm Rasinger	Substitute	-	Member	Member	-	-
John James Stack	-	-	-	-	Member	-
<b>Delegated by the employees' council</b>						
Markus Haag	-	-	-	Member	Substitute	Substitute
Regina Haberhauer	-	-	Member	Substitute	-	-
Andreas Lachs	Substitute	Substitute	Substitute	Member	Member	Member
Barbara Pichler	Member	Member	Member	-	Member	Member
Jozef Pinter	Substitute	Substitute	Member	Substitute	Substitute	Substitute
Karin Zeisel	Member	Member	Substitute	Member	Member	Member

\*Financial expert, \*\*Remuneration expert

## Mandates on supervisory boards or similar functions

As of 31 December 2016, the supervisory board members held the following additional supervisory board mandates or similar functions in domestic or foreign companies. Material subsidiaries of Erste Group Bank AG are marked with \*, listed companies are marked with \*\*.

### Friedrich Rödler

Erste Bank der oesterreichischen Sparkassen AG\*, Erste Bank Hungary Zrt.\*, Sparkassen-Prüfungsverband (Chair), Abschlussprüferaufsichtsbehörde (Austrian authority responsible for the supervision of statutory auditors and audit firms)

### Jan Homan

Billerud Korsnäs AB\*\*, Constantia Flexibles Holding GmbH, Frapag Beteiligungsholding AG (Chair), Slovenská sporiteľňa, a.s.\*

### Bettina Breiteneder

Generali Holding Vienna AG, ZS Einkaufszentren Errichtungs- und Vermietungs-Aktiengesellschaft, Best in Parking – Holding AG

### Gonzalo Gortázar Rotaeché

VidaCaixa, S.S. Seguros y Reaseguros (Chair), Repsol S.A.\*\* (1<sup>st</sup> Vice Chair)

### Gunter Griss

AVL List GmbH (Chair), Bankhaus Krentschker & Co. Aktiengesellschaft\* (2nd Vice Chair), Steiermärkische Bank und Sparkassen Aktiengesellschaft\* (Chair)

### Maximilian Hardegg

DIE ERSTE österreichische Spar-Casse Privatstiftung, Česká spořitelna, a.s.\*

### Antonio Massanell Lavilla

Repsol S.A.\*\*, SAREB, S.A., Telefónica, S.A.\*, Cecabank, S.A. (Chair)

### Brian D. O'Neill

Emigrant Bank, Banca Comercială Română S.A.\*, Aqua Venture Holdings, LLC

### Wilhelm Rasinger

Friedrichshof Wohnungsgenossenschaft reg. Gen. mbH (Chair), Gebrüder Ulmer Holding GmbH, Haberkorn Holding AG, Haberkorn GmbH, S IMMO AG\*\*, Wienerberger AG\*\*

### John James Stack

Ally Bank, Ally Financial Inc.\*\*, Česká spořitelna, a.s.\* (Chair), Mutual of America Capital Management

Elisabeth Bleyleben-Koren and Elisabeth Krainer Senger-Weiss did not hold any mandates on supervisory boards or similar functions in domestic or foreign companies as of 31 December 2016.

Delegated by the employees' council:

### Regina Haberhauer

ERSTE-SPARINVEST Kapitalanlagegesellschaft m.b.H.\*, Erste Asset Management GmbH\* (from January 2017)

### Barbara Pichler

DIE ERSTE österreichische Spar-Casse Privatstiftung

## Andreas Lachs

VBV-Pensionskasse Aktiengesellschaft

Markus Haag, Jozef Pinter and Karin Zeisel did not hold any mandates on supervisory boards or similar functions in domestic or foreign companies.

## Mechanism for shareholders and employees to provide recommendations and direction to the supervisory board

In accordance with the law and the articles of association, the Employees' Council has the right 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 to avoid conflicts of interest

The members of the supervisory board are annually obligated to consider the regulations of the Austrian CCG 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.

## Independence of the supervisory board

Pursuant to C-Rule 53 of the Austrian CCG, the majority of the members of the supervisory board elected by the annual general meeting or delegated by shareholders in accordance with the articles of association shall be independent of the company and its management board. 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 that would constitute a material conflict of interest and, therefore, might influence the member's conduct. The supervisory board adheres to the independence criteria guidelines as set out in Annex I of the Austrian CCG.

- \_ The supervisory board member shall not have been a member of the management board or a managing employee of the company or of a subsidiary of the company in the past five years.
- \_ The supervisory board member shall not have or not have had 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 significant economic interest but not to positions held in the Group's managing bodies. 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 shall not have served as auditor for the company or been involved in an audit or worked as an employee of the audit firm that audited the company in the past three years.

- \_ The supervisory board member shall not serve as a management board member at another company in which a member of the company's management board is a supervisory board member.
- \_ The supervisory board member shall not serve on the supervisory board for more than 15 years. This shall not apply to members of the supervisory board that hold investments with a business interest or that represent the interests of such a shareholder.
- \_ The supervisory board member shall not be a close family member (child, spouse, life partner, parent, uncle, aunt, sibling, niece, nephew) of a member of the management board or of persons holding one of the positions described in the points above.

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

No member of the supervisory board holds directly or indirectly more than 10% of the shares of Erste Group Bank AG. In 2016, two members of the supervisory board (Maximilian Hardegg and Barbara Pichler) served on a management body of a company holding more than 10% of the shares of Erste Group Bank AG. One member (Wilhelm Rasinger) represented in particular the interests of retail shareholders.

#### **Attendance of supervisory board meetings**

In 2016, all members of the supervisory board attended more than half of the supervisory board meetings that took place after their election or delegation to the supervisory board.

#### **Self-evaluation of the supervisory board**

The supervisory board performed a self-evaluation of its activity pursuant to C-Rule 36 of the Austrian CCG. In the supervisory board meeting of 15 December 2016, it considered the efficiency of its activity, including in particular its organisation and methods of work.

#### **Contracts subject to approval pursuant to section 95 para. 5 no 12 Austrian Stock Corporation Act (C-Rule 49 Austrian CCG)**

In 2016, the firm Griss & Partner Rechtsanwälte, in which Gunter Griss is a senior partner, invoiced companies of Erste Group for legal representation and consulting services in the total amount of EUR 1,601.68.

## **SUPERVISORY BOARD COMMITTEES AND THEIR DECISION-MAKING POWERS**

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

#### **Risk committee**

The risk committee advises the management board with regard to the bank's current and future risk appetite and risk strategy and monitors the implementation of this risk strategy. The committee

also reviews whether the services and products offered are adequately priced in accordance with the bank's business model and risk strategy. Without prejudice to the duties of the remuneration committee, the risk committee is also responsible for reviewing whether the incentives offered by the internal remuneration system adequately take into account risk, capital, liquidity and the probability and timing of profit realisation. The risk committee is responsible for granting approval in all those cases in which loans and exposures or large exposures reach an amount exceeding the approval authority of the management board defined in the approval authority regulation. The approval of the risk committee is required for any exposure or large exposure as defined in section 28a of the Austrian Banking Act if the carrying value of such an investment exceeds 10% of the company's eligible own funds or of the banking group's eligible consolidated own funds. In addition, it may grant advance approvals to the extent permitted by law. The risk committee is responsible for monitoring the risk management of Erste Group Bank AG. A report providing key information about the organisation, structure and operation of the risk management system in place for the company and major subsidiaries has to be submitted to the committee at least once a year. The supervisory board has delegated to the risk committee the right to approve the establishment and closure of branches and to grant special statutory power of attorney (Prokura) or commercial power (Handlungsvollmacht) for all business operations. The committee is responsible for monitoring the Group's portfolio of participations except in cases where this is the responsibility of the audit committee. The tasks of the risk committee include the acknowledgement of reports on legal disputes and on the risk impact and costs of major IT projects as well as of reports on important audits of subsidiaries conducted by regulatory authorities.

#### **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 overseeing the accounting process; monitoring the effectiveness of the company's internal control system, internal audit system and risk management system; overseeing the annual audit of single-entity and consolidated financial statements; reviewing and supervising the independence of the auditor (Group auditor), in particular with respect to the additional services rendered to the audited company and the group companies; submitting a report on the results of the annual audit to the supervisory board and explaining how the annual audit has affected the reliability of financial reporting and the role of the audit committee in doing so; reviewing the annual financial state-



ments and preparing its approval; reviewing the proposal for the allocation of profits, the management report and the (consolidated) corporate governance report and submitting a report on the results of the review to the supervisory board; reviewing the consolidated financial statements of the group and the group management report and submitting the report on the results of the review to the supervisory board; carrying out the procedure for the selection of the auditor (group auditor), taking into account the appropriateness of the fees and recommending the appointment of the auditor (group auditor) to the supervisory board; recommending the renewal of the auditor's (group auditor's) mandate to the supervisory board; acknowledging the additional report of the auditor and deliberating on this report; acknowledging timely information on the focal points of the audit and submitting proposals for additional focal points of the audit; taking note of the annual financial statements of material subsidiaries and of the participations report; acknowledging the audit plan of the company's internal audit function; acknowledging information on current matters relevant for the internal audit of the Group and on the efficiency and effectiveness of the internal audit; acknowledging the internal auditors' report on the audit areas and material audit findings and the activity report pursuant to section 20 in connection with section 21 (2) of the Austrian Securities Supervisory Act (Wertpapier-aufsichtsgesetz); acknowledging immediate information on material findings of the auditor, the internal audit function or an audit conducted by a regulatory authority; acknowledging immediate information on loss events that could exceed 5% of 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 rules; acknowledging the compliance activity report pursuant to section 18 in connection with section 21 (2) of the Austrian Securities Supervisory Act.

### **Nomination committee**

Meetings of the nomination committee are held as needed (beginning with 1 January 2014 at least once a year) or when a member of the committee or of 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 decides on the 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 revoke such appointments and on the granting of company stock options. Furthermore, the nomination committee supports the supervisory board in making proposals to the annual general meeting for filling supervisory board mandates that have become vacant. In filling vacant management board and supervisory board mandates, the focus is in particular on the members' personal and professional qualifications, a well-balanced board composition in terms of expertise, a well-balanced and broad range of knowledge, skills and experience of the members on each body and on aspects of diversity. The nomination committee also defines a target quota for the underrepresented gender and

develops a strategy to achieve this target. Furthermore, the nomination committee has to ensure that the management board's and the supervisory board's decision-making processes are not dominated by one single person or a small group of persons. The nomination committee periodically assesses the management board's and the supervisory board's structure, size, composition and performance and submits proposals for changes to the supervisory board, if necessary. In addition, the nomination committee has to conduct periodic assessments of the expertise, skills and experience of both the management board members and the individual members of the supervisory board as well as of each body in its entirety and to report its findings to the supervisory board. As regards the selection for senior management positions, the nomination committee has to review the course of action adopted by the management board and supports the supervisory board in making recommendations to the management board.

### **Remuneration committee**

The remuneration committee prepares resolutions on remuneration matters, including resolutions that have an impact on the bank's risk and risk management and have to be passed by the supervisory board. The remuneration committee approves the general principles of remuneration policy, reviews them regularly and is also responsible for their implementation. The committee monitors remuneration policy, remuneration practices and remuneration-linked incentive programmes in relation to the control, monitoring and containment of risks, the capital base and liquidity, with due regard to the long-term interests of the bank's shareholders, investors and employees as well as the national interest in a well-functioning banking system and financial market stability. The committee monitors the payment of variable remuneration to members of the management board and to the company's second management level as well as to management board members of major subsidiaries. Furthermore, the remuneration of senior managers 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.

### **IT committee**

The IT committee monitors and supervises IT-related issues and IT strategy in general. In addition, the IT committee is also responsible for taking note of IT reports, of reports on the IT outsourcing strategy and on the outsourcing of IT-related functions; taking note of the Group IT budget; of reports on the status of the IT support function and on the development of key IT initiatives and projects; monitoring the capacity and performance of systems, operating continuity and crisis management, data security, computer and network security and taking note of critical changes in the organisational structure and responsibilities of the IT department. The IT committee is also responsible for rendering advice to the management board and for the preparation of resolutions of the supervisory board relating to Erste Campus.

## MEETINGS OF THE SUPERVISORY BOARD AND REPORT ON PRINCIPAL ACTIVITIES

Six meetings of the supervisory board were held in the financial year 2016.

At each ordinary meeting of the supervisory board, with the exception of the meeting of 11 May 2016, the monthly developments of the balance sheet and the income statement were presented and reports were given on individual risk types and the bank's total risk; the status of individual banking subsidiaries in Central and Eastern Europe was discussed and quarterly reports were delivered on the areas audited and on the internal audit department's material audit findings according to section 42 para. 3 of the Austrian Banking Act. The chairpersons of the committees reported on the main topics dealt with by the committees since the last supervisory board meeting. A recurring topic at the supervisory board meetings in the financial year 2016 was reports on current regulatory developments in the banking environment and their impacts on Erste Group, including in particular the status of the banking supervisory regime at the European level and in Austria. The management board regularly presented proposals to the supervisory board that require its approval under the law, the articles of association and the internal rules.

On 15 March 2016, the financial statements and the management report 2015, the consolidated financial statements and consolidated management report 2015 as well as the corporate governance report 2015 were reviewed; the auditors' reports were discussed and the financial statements 2015 were adopted in accordance with the recommendation of the audit committee. Furthermore, the resolutions proposed for the annual general meeting were discussed and approved. It was also decided to propose PwC Wirtschaftsprüfung GmbH to the annual general meeting on 11 May 2016 as an additional auditor of the (consolidated) financial statements for the financial year 2017. In addition, a report was delivered on current developments at Erste Bank Hungary Zrt., the supervisory board's report to the annual general meeting, the re-organisation of Group Retail and of Group Risk Strategy were each approved and the annual report of the supervisory board on loans to board members pursuant to section 28 para. 4 of the Austrian Banking Act was taken note of.

At the meeting of 21 April 2016, a report was delivered on the current status and the development of the business of Erste & Steiermärkische Bank d. d. (Erste Bank Croatia). In addition, a capital measure concerning Erste Bank Hungary Zrt. was approved and the annual report on OpRisk, Compliance and Security was discussed.

At the meeting of 11 May 2016 held after the annual general meeting, Friedrich Rödler informed those present that he was resigning from his position as chairman of the audit committee. Bettina Breiteneder resigned as member of the audit committee at her own request. Jan Homan was elected vice chairman of the audit commit-

tee. In addition, the distribution key for the remuneration of supervisory board members approved by the annual general meeting was adopted for 2015.

At the meeting of 23 June 2016, which was also attended by staff members of the European Central Bank (ECB) and the Austrian Financial Market Authority (FMA), who gave presentations and answered questions raised by supervisory board members, matters of strategy relating to retail and corporate business, IT and risk were discussed and the management board's report in this regard was taken note of. A report was delivered on the current status of the 2016 EBA stress test. The meeting discussed the participations report for 2015 and the first quarter of 2016, the report on the development of risk and credit risk, the report on AT1 issuance, the report on legal changes relating to directors' dealings and the report on current developments at Erste Bank Hungary Zrt. In addition, the framework plan for the issuance of certificates and warrants was adopted.

At the meeting of 15 September 2016, Gernot Mittendorfer, Jozef Síkela, Peter Bosek and Petr Brávek were each reappointed early as members of the management board for a term ending 31 December 2020. The chairman informed of the resignation of Andreas Gottschling from the management board effective 31 December 2016. Willibald Cernko was appointed as a member of the management board with effect from 1 January 2017 until 31 December 2020. Reports were delivered on the savings banks and Haftungsverbund GmbH, on current developments at Slovenská sporiteľňa, a.s., on the current status of the Group Recovery Plan 2016 and on the development of risk. Changes to the audit committee's rules of procedure were also approved.

At the meeting of 15 December 2016, the strategy of Group Retail was approved and the reports on the rights and duties of the supervisory board, on large exposures pursuant to section 28b of the Austrian Banking Act, on committee activities and the annual plan for the financial year 2017 were discussed and taken note of. The findings of the supervisory board's self-evaluation were discussed; the re-organisation of Holding Org/IT and Risk, the allocation of duties as well as the rules of replacements from 1 January 2017 were approved and an anticipatory resolution was taken pursuant to section 95 para. 5 no. 12 of the Austrian Stock Corporation Act.

## MEETINGS OF THE COMMITTEES AND REPORT ON ACTIVITIES

The risk committee held seventeen meetings in 2016, 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 of the individual risk types, risk-bearing capacity and large exposures. Furthermore, reports were given on the situation of specific sectors and industries and resulting effects on the risk strategy, on the audits con-

ducted by supervisory authorities, on various legal disputes and on risk development in certain countries and subsidiaries. In 2016, reports were delivered repeatedly on recent developments in ongoing IT projects. Among the matters discussed and reported on were the impacts of Brexit and cyber security. Regulatory developments at the European level and in Austria were also considered.

The executive committee did not meet in 2016.

The audit committee met five times in 2016. Among other things, the auditors reported on the audit of the single-entity and consolidated financial statements for 2015, and the audit committee subsequently conducted the final discussion. The financial statements and the management report, the consolidated financial statements and the consolidated management report as well as the corporate governance report were audited and recommended to the supervisory board the approval of the financial statements. The head of the internal audit department reported on the audit subjects and material audit findings for the year 2015 as well as the current matters relevant for the internal audit of the Group and explained the audit plan for 2016. The internal audit department presented its reports pursuant to section 42 para. 3 of the Austrian Banking Act. In addition a report was delivered on the assessment of the functionality of the risk management system pursuant to Rule 83 of the Austrian CCG and on the effectiveness of the internal control system and a report on Erste Campus was discussed. The audit committee also discussed its work plan for 2017 and defined agenda topics for the meetings. It was decided to propose to the supervisory board to renew the audit mandate of PwC Wirtschaftsprüfung GmbH as additional auditor of the (consolidated) financial statements for the financial year 2018. The auditors provided information about the preliminary audit of the single-entity and consolidated financial statements for 2016. Besides, discussions were held on the reports on the development of participations, on the half year review as of 30 June 2016, on current legal developments impacting audit committee activities, on reviews conducted by the European Central Bank, on the processes for preparing the taxation data for the annual financial statements and on the 2015 management letter. Furthermore, the audit committee did a self-evaluation in one of its meetings and regularly approved permissible non-audit services rendered by the (group) auditor.

The nomination committee met four times in 2016 and dealt with various personnel matters relating to the management board. The nomination committee assessed the qualifications of Gernot Mittendorfer, Jozef Sikela, Peter Bosek and Petr Brávek for their early re-appointment to the management board and recommended that the supervisory board approve their respective appointments. The nomination committee also assessed the qualifications of a candidate nominated for a first-time appointment to the management board and recommended that the supervisory board appoint Willibald Cernko as an additional member of the management board. In addition, the nomination committee reviewed the evalua-

tion pursuant to C-Rule 36 of the Austrian CCG and evaluation of the management board and the supervisory board pursuant to section 39 no. 6 and 7 of the Austrian Banking Act.

The remuneration committee met four times in 2016 and discussed various remuneration topics relating to Erste Group Bank AG and its subsidiaries including the structure of key performance indicators, the bonus policy concerning the requirements for the payment of variable remuneration components and the remuneration rules for Material Risk Takers. In addition, the remuneration of members of the supervisory board was discussed, and decisions regarding the remuneration of management board members were made. Information was provided about regulatory developments concerning remuneration and their implementation by Erste Group.

The IT committee met four times in 2016. Its main topics were an IT project portfolio for Erste Group, risk management relating to IT and an IT audit plan, which was discussed on an ongoing basis. Reports were delivered on the final phase of the Erste Campus project, on IT security, on the strategic direction on data transmission and digitalisation, on the current status of various infrastructure projects and on IT strategy. In addition, the IT budget was discussed and organisational changes in the Holding Org/IT division were presented.

## **REMUNERATION OF THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD**

### **Principles governing the remuneration policy**

The principles governing the remuneration of the management boards of Erste Group Bank AG and of material subsidiaries are specified in the remuneration policy of Erste Group Bank AG at Group level, including in particular the definition and evaluation of performance criteria. The contractual maximum value of performance-linked payments to management board members shall not exceed 100% of the fixed salaries.

The method for determining whether the performance criteria have been met by the board members of Erste Group Bank AG is defined at the beginning of the year by the supervisory board of Erste Group Bank AG following a proposal of the responsible organisational units (Group Performance Management, Group Risk Management and Group Human Resources). Management board members have to achieve defined performance criteria at both company level and individual level. The first criterion is Erste Group's overall performance. For the year 2016, this criterion is measured by reference to three indicators: operating result minus risk cost, return on equity and cost optimisation. The second performance criterion is the achievement of individual objectives. These are, for example, operating result, return on tangible equity, risk costs to customer loans, customer satisfaction index, data quality, NPL coverage ratio and the NPL ratio.



The method for determining whether the performance criteria have been met by the board members of material subsidiaries is defined at the beginning of the year by the relevant supervisory boards or councils following a proposal of the responsible organisational units (Group Performance Management, Group Risk Management and Group Human Resources). Management board members have to achieve defined performance criteria at both company level and individual level.

## Remuneration of management board members

### Remuneration in 2016

in EUR thousand	Fixed salaries	Other remuneration	Performance-linked remuneration		Total
			for 2015	for previous years	
Andreas Treichl	1,475.0	1,132.4	218.7	156.8	2,982.9
Peter Bosek	700.0	132.4	96.8	0.0	929.2
Petr Brávek	700.0	132.7	111.6	0.0	944.3
Andreas Gottschling	700.0	164.2	118.4	4.0	986.6
Gernot Mittendorfer	700.0	133.8	120.0	27.2	981.0
Jozef Sikela	700.0	152.9	102.0	0.0	954.9
<b>Total</b>	<b>4,975.0</b>	<b>1,848.3</b>	<b>767.5</b>	<b>188.0</b>	<b>7,778.9</b>

Until 31 January 2016, Peter Bosek was a management board member of Erste Group Bank AG as well as of Erste Bank der oesterreichischen Sparkassen AG. Therefore, the remuneration was split equally between both entities for that period.

The item "Other remuneration" comprises pension fund contributions, contributions to employee provision funds (for new-type severance payments) and remuneration in kind. In 2016, performance-linked remuneration and share equivalents were paid out or vested for previous years. No performance-linked remuneration was paid to members of the management board for the financial years 2014 and 2011.

### Non-cash performance-linked remuneration in 2016

Share equivalents (in units)	for 2015	for previous years
Andreas Treichl	10,505	6,953
Peter Bosek	4,775	0
Petr Brávek	4,775	0
Andreas Gottschling	5,094	168
Gernot Mittendorfer	4,775	1,424
Jozef Sikela	4,775	0
<b>Total</b>	<b>34,699</b>	<b>8,545</b>

Pay-outs will be made in 2017 after the one-year vesting period. Share equivalents are valued at the average weighted daily share price of Erste Group Bank AG in 2016 in the amount of EUR 24.57 per share.

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

In 2016, EUR 2,892.9 thousand was paid in cash and 8,390 share-equivalents were assigned to former members of management bodies and their dependants.

### Principles governing the pension scheme for management board members

Members of the management board participate in the defined contribution pension plan of Erste Group on the basis of the same principles as employees. For one member of the management board, compensatory payments have to be made to the pension fund in case the management board member's tenure ends before the member reaches the age of 65 by no fault of the member.

### Principles governing vested benefits and entitlements of management board members in case of termination of the position

Regarding vested benefits and entitlements of management board members in the event of termination of their position, the standard legal severance benefit provisions of section 23 of the Austrian Salaried Employees Act (Angestelltengesetz) still apply to one member of the management board.

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

## Remuneration of members of the supervisory board

in EUR thousand	Meeting fees for 2016	Supervisory board compensation for 2015	Total
Friedrich Rödler	41.0	100.0	141.0
Georg Winckler	0.0	27.3	27.3
Jan Homan	29.0	75.0	104.0
Bettina Breiteneder	21.0	66.1	87.1
Elisabeth Bleyleben-Koren	27.0	50.0	77.0
Gonzalo Gortázar Rotaèche	5.0	32.0	37.0
Gunter Griss	11.0	50.0	61.0
Maximilian Hardegg	33.0	32.0	65.0
Elisabeth Krainer Senger-Weiss	17.0	50.0	67.0
Antonio Massanell Lavilla	11.0	32.0	43.0
Brian D. O'Neill	10.0	50.0	60.0
Wilhelm Rasinger	28.0	50.0	78.0
John James Stack	10.0	50.0	60.0
Markus Haag	0.0	0.0	0.0
Regina Haberhauer	0.0	0.0	0.0
Andreas Lachs	0.0	0.0	0.0
Barbara Pichler	0.0	0.0	0.0
Jozef Pinter	0.0	0.0	0.0
Karin Zeisel	0.0	0.0	0.0
<b>Total</b>	<b>243.0</b>	<b>664.4</b>	<b>907.4</b>

The 2016 annual general meeting granted the members of the supervisory board remuneration totalling EUR 664,400 for the financial year 2015. The distribution of this remuneration is at the supervisory board's discretion and was approved at the meeting of the supervisory board on 11 May 2015. In addition, attendance fees paid to the members of the supervisory board were set at EUR 1,000 per meeting of the supervisory board or one of its committees.

### Directors' and officers' liability 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, of the supervisory board, of the administrative board and of the advisory board as well as senior management, holders of statutory powers of attorney (Prokuristen) 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.

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

Erste Group's diversity and inclusion principles are reflected both in its statement of purpose and in its code of conduct, which emphasise a work environment free of discrimination and harassment and value the work and worth of each and every person regardless of gender, age, disability, marital status, sexual orientation, skin colour, religious or political affiliation, ethnic background, nationality or any other aspect unrelated to their employment.

In December 2016, the management board approved the group-wide diversity policy framework. It provides the formal structures

and processes for diversity management across the group and will be adopted by the local banking subsidiaries in 2017.

At the beginning of 2014, Erste Group set a group-wide internal target of having 35% of positions in top management and on supervisory boards filled by women by 2019. This target applies to the local banking subsidiaries (excluding the savings banks in Austria). At the end of 2016, 29% of positions in top management were filled by women, up one percentage point versus 2015. The share of female supervisory board members went up by 10 percentage points to 34% in 2016. To increase the number of women in senior management positions, Erste Group aims for a greater gender and age balance in its talent pools.

The *Erste Women Hub* focuses on female customers, the advancement of women's careers and a work environment that supports diversity and inclusion. Among the initiatives launched in Austria are *WoMentoring*, *Women Financial Lifetime* and *Securities Dialogue for Women*, were launched. Česká spořitelna continued its comprehensive diversity and inclusion programme *Diversitas*. The programme is focused on all aspects of diversity management, such as supporting the career advancement of women through mentoring, coaching, leadership development and networking, offering flexible work arrangements and a parental support programme as well as age management and an intergenerational dialogue. Slovenská sporiteľňa, Banca Comercială Română and Erste Bank Croatia implemented initiatives to foster diversity with a special focus on woman.

## EXTERNAL EVALUATION

Erste Group Bank AG commissioned an external evaluation of compliance with the Austrian Code of Corporate Governance in accordance with C-Rule 62 of the Austrian CCG at least every three years, most recently in 2015, for the respective preceding

business years. All evaluations reached the conclusion that Erste Group Bank AG had met all requirements of the Code. The deviations of C-Rules were described and explained. Summary reports on these evaluations are available at the website of Erste Group Bank AG. An external evaluation for 2017 is scheduled for spring 2018. A summary report of this evaluation will also be available at the website.

## SHAREHOLDERS' RIGHTS

Erste Group Bank AG has no rights arising from its own shares. Neither a subsidiary nor a third party holding shares on behalf of Erste Group Bank AG or of a subsidiary may exercise its voting rights and its rights for subscription of these shares.

### 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 by a resolution of the annual general meeting. Provided that such amendment does not concern the business purpose, this requires a simple majority of the votes cast and a simple majority of the share capital present at such meeting. Third, any 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 repayment of supplementary capital as well as additional tier 1 capital will be distributed pro rata to the shareholders. 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

All 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 said subscrip-

tion rights do not apply if the respective shareholder does not exercise these subscription rights or subscription rights are excluded in certain cases by a resolution of the annual general meeting or 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 be treated equally under equal circumstances unless the shareholders affected 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, 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 (ordinary shareholders' meeting) per year, which must be held within the first eight months of any financial year and cover at least the following items:

- \_ Presentation of certain documents
- \_ Appropriation of profit
- \_ Discharge of the members of the management board and the supervisory board for the financial year ended.

At annual general meetings, shareholders may ask for information about the company's affairs to the extent that this is required for the proper assessment of an agenda item.

Vienna, 28 February 2017

### Management board

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