Interim Report

First Quarter 2017

ERSTE Group

Key financial data

Income statement

in EUR million	Q1 16	Q4 16	Q1 17	1-3 16	1-3 17
Net interest income	1,092.2	1,107.0	1,051.3	1,092.2	1,051.3
Net fee and commission income	443.1	463.2	457.7	443.1	457.7
Net trading result	51.2	65.1	48.6	51.2	48.6
Operating income	1,629.3	1,731.5	1,617.5	1,629.3	1,617.5
Operating expenses	-1,008.8	-1,065.1	-1,018.3	-1,008.8	-1,018.3
Operating result	**620.5**	**666.4**	**599.2**	**620.5**	**599.2**
Net impairment loss on financial assets	-56.4	-132.5	-65.8	-56.4	-65.8
Post-provision operating result	**564.1**	**533.9**	**533.4**	**564.1**	**533.4**
Other operating result	-139.5	-412.5	-127.1	-139.5	-127.1
Levies on banking activities	-62.8	-237.1	-35.8	-62.8	-35.8
Pre-tax result from continuing operations	427.0	121.7	434.7	427.0	434.7
Taxes on income	-104.5	-9.7	-95.6	-104.5	-95.6
Net result for the period	**322.6**	**112.0**	**339.0**	**322.6**	**339.0**
Net result attributable to non-controlling interests	47.8	26.4	76.8	47.8	76.8
Net result attributable to owners of the parent	**274.7**	**85.6**	**262.2**	**274.7**	**262.2**
Earnings per share	0.64	0.20	0.61	0.64	0.61
Cash earnings per share	0.65	0.34	0.62	0.65	0.62
Return on equity	9.8%	2.8%	8.7%	9.8%	8.7%
Cash return on equity	9.9%	4.9%	8.7%	9.9%	8.7%
Net interest margin (on average interest-bearing assets)	2.51%	2.52%	2.33%	2.51%	2.33%
Cost/income ratio	61.9%	61.5%	63.0%	61.9%	63.0%
Provisioning ratio (on average gross customer loans)	0.17%	0.39%	0.19%	0.17%	0.19%
Tax rate	24.5%	8.0%	22.0%	24.5%	22.0%

Balance sheet

in EUR million	Mar 16	Dec 16	Mar 17	Dec 16	Mar 17
Cash and cash balances	14,641	18,353	24,731	18,353	24,731
Trading, financial assets	48,680	47,586	46,145	47,586	46,145
Loans and receivables to credit institutions	6,680	3,469	10,448	3,469	10,448
Loans and receivables to customers	126,740	130,654	132,992	130,654	132,992
Intangible assets	1,447	1,390	1,378	1,390	1,378
Miscellaneous assets	8,182	6,775	7,105	6,775	7,105
Total assets	**206,369**	**208,227**	**222,798**	**208,227**	**222,798**
Financial liabilities - held for trading	6,612	4,762	4,314	4,762	4,314
Deposits from banks	17,330	14,631	22,935	14,631	22,935
Deposits from customers	128,640	138,013	144,707	138,013	144,707
Debt securities issued	30,060	27,192	27,127	27,192	27,127
Miscellaneous liabilities	8,509	7,027	6,822	7,027	6,822
Total equity	15,218	16,602	16,894	16,602	16,894
Total liabilities and equity	**206,369**	**208,227**	**222,798**	**208,227**	**222,798**
Loan/deposit ratio	98.5%	94.7%	91.9%	94.7%	91.9%
NPL ratio	6.7%	4.9%	4.9%	4.9%	4.9%
NPL coverage (exc collateral)	66.5%	69.1%	67.6%	69.1%	67.6%
CET 1 ratio (phased-in)	12.1%	13.4%	13.0%	13.4%	13.0%

Ratings	Mar 16	Dec 16	Mar 17
Fitch			
Long-term	BBB+	BBB+	A-
Short-term	F2	F2	F1
Outlook	Stable	Stable	Stable
Moody´s			
Long-term	Baa2	Baa1	Baa1
Short-term	P-2	P-2	P-2
Outlook	Positive	Stable	Stable
Standard & Poor´s			
Long-term	BBB+	BBB+	A-
Short-term	A-2	A-2	A-2
Outlook	Negative	Stable	Positive

Letter from the CEO

Dear shareholders,

Erste Group posted a net profit of EUR 262.2 million after a strong first quarter of 2017. This successful start to the financial year was driven largely by the benign economic environment in the CEE region and the significant decline in banking tax in Austria after a substantial one-off tax payment made in late 2016. We are hence well positioned to meet the target set for 2017 – a return on tangible equity (ROTE) of above 10%.

Growth expectations for our core markets – 1.5% for Austria and significantly more dynamic growth rates in CEE ranging from 2.7% in the Czech Republic to 4.3% in Romania – should certainly offer potential for solid lending growth in 2017. The ongoing positive development in our core markets continues to be supported by robust domestic demand on the back of declining unemployment. In the Czech Republic, the national bank removed its currency's cap versus the euro in a long-awaited move in April 2017. To date, impacts on the Czech koruna and hence on Erste Group have been negligible though.

In the first three months of the financial year, the development of Erste Group was marked by already familiar trends. Net interest income remained under pressure, last but not least due to lower interest income from government bond investments and lower unwinding contributions. Growth in the traditional lending and low-margin money market business was not sufficient to stabilise net interest income. The increase in net fee and commission income was primarily attributable to higher income from the securities business and asset management. Overall, operating income amounted to EUR 1.6 billion, operating expenses to EUR 1 billion. That regulatory costs remained a key issue did not come as a major surprise. General administrative expenses already included almost all deposit insurance contributions projected for 2017 (with the exception of Croatia and Serbia) in the amount of EUR 64.7 million. Current IT projects relating to regulatory requirements and digitalisation resulted in a rise in personnel and other administrative expenses. I cannot overemphasise the fact, however, that these projects are an absolute necessity; on the one hand, to meet the steadily increasing reporting obligations that we have to fulfil as a European bank; on the other hand, to secure the basis for the future success of our business. At the same time, rising IT costs – EUR 91.6 million in just the first three months of the financial year 2017 – are currently an obstacle to an improvement in the operating result and hence in the cost/income ratio.

The impact of banking and transaction taxes has decreased significantly from EUR 62.8 million to EUR 35.8 million. This was largely attributable to the declining banking tax in Austria from a hefty EUR 29.5 million posted in the first quarter of the previous year to EUR 5.6 million. In Slovakia, banking tax was slightly up at EUR 6.6 million. Another positive impact came from a further reduction of the full-year banking tax in Hungary, by almost 25%, to EUR 13.2 million, while Hungarian transaction tax rose slightly. Other operating result also included the annual contributions to resolution funds in the total amount of EUR 77.5 million.

The level of risk costs remained at a historically low level. At 19 basis points of average gross customer loans, they remained below the long-term average and thus contributed substantially to the solid result of the quarter. The NPL ratio – non-performing loans as a percentage of loans to customers – was stable at 4.9%. The NPL coverage ratio excluding collateral receded slightly to 67.6%. In view of the continuing positive economic trends in our core markets and the significance of mortgage lending to retail clients, we expect an ongoing improvement in asset quality. In addition, the central banks' zero or low interest rate policies certainly benefit all debtors, whether private persons, businesses or governments, as they help borrowers to make the contractually agreed payments of interest and principal. Erste Group's performing loans have consequently grown by 1.7% so far this year, to EUR 130.8 billion, most robustly in the retail business in the Czech Republic, in Slovakia and in Hungary. The extraordinarily high deposit growth of 4.9% should also be seen against the backdrop of the temporarily expanded money market business volume particularly in the Czech Republic. In CEE, a region with only scant capital market activity, many savers are still very reluctant to use alternative investment options and thus necessarily accept the substantial downside of low interest rates. For Erste Group, this resulted in a loan-deposit ratio of 91.9%.

At EUR 19.0 billion (Basel 3 phased-in), own funds reached a new high at the end of March. They were further strengthened by the successful placement of another EUR 500 million in additional tier 1 capital in April. Excluding interim profit and after the deduction of risk costs, common equity tier 1 capital (CET 1) stood at EUR 13.4 billion. The CET1 ratio (again Basel 3 phased-in) amounted to 13.0% due to a higher level of risk-weighted assets. The excellent funding basis of Erste Group – including, importantly, its subsidiaries in the core markets – as well as the marked improvement in asset quality and capital position were acknowledged by rating agencies in March, with Fitch and Standard & Poor's raising their long-term ratings to A- (Stable) and A- (Positive), respectively.

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Erste Group on the capital markets

EQUITY MARKET REVIEW

International equity markets continued the rally that had started in the second half of 2016 and remained on an uptrend in the reporting period. This development was attributable to positive earnings expectations worldwide and upward revisions of listed companies' revenues forecasts.

The International Monetary Fund projects global economic growth of 3.4% this year, supported largely by emerging markets, among them most importantly China. The US economy is expected to grow by 2.5%, the euro zone by 1.6%. The first quarter of 2017 did not see any notable economic policy surprises. The US central bank's Federal Open Market Committee (FOMC) decided to raise the range of its benchmark rate, as had been expected, while the European Central Bank's monetary policy stance remained highly expansionary. At the beginning of April, the Czech National Bank ended its currency cap of previously CZK 27/EUR. Following this move, the Czech koruna appreciated slightly against the euro, as had been expected, with little volatility.

Against the backdrop of the expected economic upswing, solid corporate earnings and attractive dividends in a low-interest-rate environment, leading US indices rose to new record highs. The European indices covered were likewise up across the board. After registering some substantial losses in the preceding year, the Dow Jones Euro Stoxx Bank Index, which is composed of the leading European bank shares, increased by 8.4% in the first quarter to 127.52 points. The broader indices – the Euro Stoxx 600 Index (381.14 points as of 31 March) and the US Standard & Poor's 500 Index (2,362.72 points as of 31 March) – each gained 5.5% in the first quarter. The Austrian Traded Index (ATX) broke through the 2,800 points mark for the first time since July 2011 and ended the reporting period up 8.0% at 2,828.79 points.

SHARE PERFORMANCE

Moving in line with trends in the European banking sector and international markets, the Erste Group share continued its upward trend. Increasing 9.7% in the first quarter to EUR 30.52 as of 31 March, the Erste Group share outperformed the European banking index. This development was supported by the improved stock market environment and market participants' positive reaction to the release of the 2016 annual results. Positive momentum came from the raising of price targets by a number of analysts and, above all, from the upgrading of Erste Group's ratings by Standard & Poor's to A-/A-2 and a positive outlook and by Fitch to A-/F1 with a stable outlook.

In the first quarter of 2017, trading volume on the three stock exchanges (Vienna, Prague, Bucharest) on which the Erste Group share is listed averaged 834,791 shares per day. More than half of the trading activity was executed over the counter (OTC) or through electronic trading systems.

FUNDING AND INVESTOR RELATIONS

In January 2017, Erste Group issued a EUR 750 million 10-year mortgage covered bond that fits into its maturity profile well. At the beginning of the second quarter, Erste Group placed EUR 500 million in CRD VI/CRR-compliant additional tier 1 capital. This issue strengthens Erste Group's already comfortable capital position further and contributes to the further optimisation of the capital structure in terms of CRR compliance.

In the first quarter of 2017, Erste Group's management and the investor relations team met with investors in a large number of one-on-one and group meetings, in which questions raised by investors and analysts were answered. The presentation of the 2016 annual results in Vienna was followed by a one-day road show with investor meetings in London. Erste Group also presented the development of its business and its strategy in the current operating environment at international banking and investor conferences organised, amongst others, by the Vienna Stock Exchange, Kepler Cheuvreux, PKO, and Morgan Stanley.

Interim management report

In the interim management report, financial results from January-March 2017 are compared with those from January-March 2016 and balance sheet positions as of 31 March 2017 with those as of 31 December 2016.

EARNINGS PERFORMANCE IN BRIEF

Net interest income declined to EUR 1,051.3 million (-3.7%; EUR 1,092.2 million) despite lending growth mostly due to lower interest income from the government bond portfolio and a lower unwinding effect. **Net fee and commission income** increased to EUR 457.7 million (+3.3%; EUR 443.1 million). Income from the securities business and from asset management was up, while income from lending business declined. The **net trading result** decreased to EUR 48.6 million (-5.1%; EUR 51.2 million). **Operating income** was almost stable at EUR 1,617.5 million (-0.7%; EUR 1,629.3 million). **General administrative expenses** rose to EUR 1,018.3 million (+0.9%; EUR 1,008.8 million), which was mainly attributable to higher personnel expenses of EUR 571.7 million (+1.1%; EUR 565.4 million). This item already includes the upfront booking of almost all projected full-year deposit insurance payments for 2017 in the amount of EUR 64.7 million (EUR 71.7 million). The **operating result** consequently decreased to EUR 599.2 million (-3.4%; EUR 620.5 million). The **cost/income ratio** stood at 63.0% (61.9%).

Net impairment loss on financial assets remained close to historical lows at EUR 65.8 million or 19 basis points of average gross customer loans (EUR 56.4 million or 17 basis points). The **NPL ratio** remained at 4.9% (4.9%). The **NPL coverage ratio** declined slightly to 67.6% (69.1%).

Other operating result amounted to EUR -127.1 million (EUR -139.5 million). This includes expenses for the annual contributions to resolution funds in the amount of EUR 77.5 million (EUR 64.7 million). Banking and financial transaction taxes amounted to EUR 35.8 million (EUR 62.8 million). The decline was primarily due to the significantly lower Austrian banking tax in the amount of EUR 5.6 million (EUR 29.5 million) after a substantial one-off payment of banking tax in the fourth quarter of 2016. Banking levies in Hungary declined to EUR 23.6 million (EUR 26.9 million) and in Slovakia amounted to EUR 6.6 million (EUR 6.2 million).

The minority charge rose to EUR 76.8 million (+60.6%; EUR 47.8 million) due to a rise in the earnings contributions of the savings banks. The **net result attributable to owners of the parent** declined to EUR 262.2 million (-4.6%; EUR 274.7 million).

Total equity not including AT1 instruments rose to EUR 16.4 billion (EUR 16.1 billion). After regulatory deductions and filtering according to the CRR, **common equity tier 1 capital** (CET1, Basel 3 phased-in) slipped to EUR 13.4 billion (EUR 13.6 billion). Total **own funds** (Basel 3 phased-in) increased to EUR 19.0 billion (EUR 18.8 billion). Interim profit is not included in the above figures but first-quarter risk costs are deducted. Total risk (**risk-weighted assets** including credit, market and operational risk, Basel 3 phased-in) rose to EUR 103.6 billion (EUR 101.8 billion). The **common equity tier 1 ratio** (CET1, Basel 3 phased-in) stood at 13.0% (13.4%), the **total capital ratio** (Basel 3 phased-in) at 18.4% (18.5%).

Total assets increased to EUR 222.8 billion (+7.0%; EUR 208.2 billion). On the asset side, cash and cash balances were up at EUR 24.7 billion (EUR 18.4 billion), likewise, loans and receivables to credit institutions at EUR 10.4 billion (EUR 3.5 billion). **Loans and receivables to customers** rose to EUR 133.0 billion (+1.8%; EUR 130.7 billion). On the liability side, deposits from banks increased to EUR 22.9 billion (EUR 14.6 billion) and **customer deposits** grew again – most notably in the Czech Republic and in Austria – to EUR 144.7 billion (+4.9%; EUR 138.0 billion). The **loan-to-deposit ratio** stood at 91.9% (94.7%).

OUTLOOK 2017

Operating environment anticipated to be conducive to credit expansion. Real GDP growth is expected to be between 1.5% and 4.5% in Erste Group's CEE core markets, including Austria, in 2017. Real GDP growth should primarily be driven by solid domestic demand, whereby real wage growth and declining unemployment should support economic activity in CEE. Fiscal discipline is expected to be maintained across CEE.

Business outlook. Erste Group aims to achieve a return on tangible equity (ROTE) of more than 10% (based on average tangible equity in 2017). The underlying assumptions are: at best flat revenues (assuming 5%+ net loan growth); cost inflation of 1–2% due to regulatory projects and digitalisation; increase in risk costs, albeit remaining at historically low levels; positive swing in other operating result due to lower Austrian banking tax.

Risks to guidance. Impact of expansionary monetary policies by central banks including negative interest rates; political risks such as various elections in key EU economies; geopolitical risks and global economic risks; consumer protection initiatives.

PERFORMANCE IN DETAIL

in EUR million	1-3 16	1-3 17	Change
Net interest income	1,092.2	1,051.3	-3.7%
Net fee and commission income	443.1	457.7	3.3%
Net trading result	51.2	48.6	-5.1%
Operating income	1,629.3	1,617.5	-0.7%
Operating expenses	-1,008.8	-1,018.3	0.9%
Operating result	**620.5**	**599.2**	**-3.4%**
Net impairment loss on financial assets	-56.4	-65.8	16.7%
Other operating result	-139.5	-127.1	-8.9%
Levies on banking activities	-62.8	-35.8	-42.9%
Pre-tax result from continuing operations	**427.0**	**434.7**	**1.8%**
Taxes on income	-104.5	-95.6	-8.4%
Net result for the period	**322.6**	**339.0**	**5.1%**
Net result attributable to non-controlling interests	47.8	76.8	60.6%
Net result attributable to owners of the parent	**274.7**	**262.2**	**-4.6%**

Net interest income

Net interest income declined to EUR 1,051.3 million (EUR 1,092.2 million) despite lending growth mostly due to lower interest income from the government bond portfolio and a lower unwinding effect in a persistently challenging market interest rate environment. Interest-bearing assets rose by a significant 4.7% year-to-date on the back of balance sheet expansion, which was primarily due to temporarily expanded money market business with banks and other customers. Accordingly, the net interest margin (net interest income as a percentage of average interest-bearing assets) declined materially from 2.59% to 2.33%.

Net fee and commission income

Net fee and commission income rose to EUR 457.7 million (EUR 443.1 million). While income from the securities business and from asset management saw significant growth, income from lending declined, mainly in the Czech Republic and in Slovakia. Other fee and commission income was largely stable.

Net trading result

Net trading declined to EUR 48.6 million (EUR 51.2 million). While the contribution of the result from hedge accounting decreased substantially, the result from securities and derivatives business improved.

General administrative expenses

in EUR million	1-3 16	1-3 17	Change
Personnel expenses	565.4	571.7	1.1%
Other administrative expenses	333.5	332.4	-0.3%
Depreciation and amortisation	109.8	114.2	4.0%
General administrative expenses	**1,008.8**	**1,018.3**	**0.9%**

General administrative expenses amounted to EUR 1,018.3 million (EUR 1,008.8 million). While **personnel expenses** increased to EUR 571.7 million (EUR 565.4 million), largely due to continuing elevated staffing needs in IT and in projects linked to increased regulatory requirements, **other administrative expenses** were stable at EUR 332.4 million (EUR 333.5 million). IT expenditure increased to EUR 91.6 million (EUR 75.8 million). With the exception of Croatia and Serbia, all deposit insurance contributions expected in 2017 have already been posted in the amount of EUR 64.7 million (EUR 71.7 million). In Romania, contributions declined to EUR 2.2 million (EUR 14.5 million). **Depreciation and amortisation** increased to EUR 114.2 million (EUR 109.8 million).

Headcount as of end of the period

	Dec 16	Mar 17	Change
Domestic	**16,029**	**16,042**	**0.1%**
Erste Group, EB Oesterreich and subsidiaries	8,835	8,871	0.4%
Haftungsverbund savings banks	7,194	7,171	-0.3%
Abroad	**31,004**	**31,308**	**1.0%**
Česká spořitelna Group	10,299	10,213	-0.8%
Banca Comercială Română Group	7,078	7,042	-0.5%
Slovenská sporiteľňa Group	4,232	4,257	0.6%
Erste Bank Hungary Group	2,873	3,257	13.4%
Erste Bank Croatia Group	2,952	3,103	5.1%
Erste Bank Serbia Group	1,005	1,010	0.5%
Savings banks subsidiaries	1,249	1,239	-0.8%
Other subsidiaries and foreign branch offices	1,316	1,187	-9.8%
Total	**47,034**	**47,350**	**0.7%**

Operating result

Operating income declined moderately to EUR 1,617.5 million (-0.7%; EUR 1,629.3 million), primarily due to the decrease in net interest income. With general administrative expenses up at EUR 1,018.3 million (+0.9%; EUR 1,008.8 million), mainly on the back of higher personnel expenses, the operating result came in at EUR 599.2 million (-3.4%; EUR 620.5 million). The cost/income ratio stood at 63.0% (61.9%).

Gains/losses from financial assets and liabilities not measured at fair value through profit or loss (net)

Gains from financial assets and liabilities not measured at fair value through profit or loss (net) increased significantly to EUR 28.3 million (EUR 2.4 million). This rise is attributable to gains from the sale of bonds in Austria and in the Czech Republic shown in income from financial assets – available for sale.

Net impairment loss on financial assets

Net impairment loss on financial assets rose to EUR 65.8 million (EUR 56.4 million) and hence remained at a historically low level. This development was mostly attributable to the rise in the balance of 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 to EUR 61.7 million (EUR 50.5 million). Net impairment loss on financial assets based on the average volume of gross customer loans hence amounted to 19 basis points (17 basis points). In addition, this line item included a net impairment loss on financial assets – held-to-maturity and financial assets – available-for-sale in the amount of EUR 4.1 million (EUR 5.9 million).

Other operating result

Other operating result amounted to EUR -127.1 million (EUR -139.5 million). **Levies on banking activities** declined to EUR 35.8 million (EUR 62.8 million). As banking tax rates have been reduced in Austria from 2017 onwards, banking levies payable by the Austrian subsidiaries decreased significantly to EUR 5.6 million (EUR 29.5 million). This line item was also positively impacted by another reduction of Hungarian banking tax, which has already been booked for the full year 2017. Due to a lower tax rate and an adjustment of the assessment base, the tax charge declined to EUR 13.2 million (EUR 17.5 million). Together with the financial transaction tax of EUR 10.4 million (EUR 9.6 million), bank levies in Hungary thus totalled EUR 23.6 million (EUR 26.9 million). In Slovakia, banking tax rose slightly to EUR 6.6 million (EUR 6.2 million).

Allocation/release of other provisions, including for commitments and guarantees given, decreased to EUR -1.3 million (EUR -6.3 million). In addition, other operating result also includes the annual contributions to resolution funds in the amount of EUR 77.5 million (EUR 64.7 million) shown in the line item result from other operating expenses/income. In Romania, these increased to EUR 14.4 million (EUR 5.6 million).

Net result

The pre-tax result from continuing operations amounted to EUR 434.7 million (EUR 427.0 million). The minority charge rose to EUR 76.8 million (EUR 47.8 million) due to solid earnings contributions of savings banks. The net result attributable to owners of the parent declined to EUR 262.2 million (EUR 274.7 million). The lower tax rate was mainly attributable to lower income tax charges in Hungary and Romania.

FINANCIAL RESULTS – QUARTER-ON-QUARTER COMPARISON

First quarter of 2017 compared to fourth quarter of 2016

in EUR million	Q1 16	Q2 16	Q3 16	Q4 16	Q1 17
Income statement					
Net interest income	1,092.2	1,101.9	1,073.4	1,107.0	1,051.3
Net fee and commission income	443.1	441.8	434.9	463.2	457.7
Dividend income	2.6	28.8	4.8	9.0	3.7
Net trading result	51.2	68.8	98.7	65.1	48.6
Result from financial assets and liabilities designated at fair value through profit or loss	-7.7	-4.8	-14.6	15.6	3.0
Net result from equity method investments	1.9	3.7	0.2	3.1	3.2
Rental income from investment properties & other operating leases	45.9	47.1	45.7	68.6	50.1
Personnel expenses	-565.4	-587.2	-572.0	-614.6	-571.7
Other administrative expenses	-333.5	-276.6	-299.9	-325.8	-332.4
Depreciation and amortisation	-109.8	-107.7	-110.8	-124.7	-114.2
Gains/losses from financial assets and liabilities not measured at fair value through profit or loss, net	2.4	146.0	-0.7	0.3	28.3
Net impairment loss on financial assets	-56.4	30.6	-37.4	-132.5	-65.8
Other operating result	-139.5	-52.6	-60.3	-412.5	-127.1
Levies on banking activities	-62.8	-44.9	-44.0	-237.1	-35.8
Pre-tax result from continuing operations	**427.0**	**839.7**	**562.0**	**121.7**	**434.7**
Taxes on income	-104.5	-174.3	-125.1	-9.7	-95.6
Net result for the period	**322.6**	**665.3**	**436.9**	**112.0**	**339.0**
Net result attributable to non-controlling interests	47.8	98.4	99.4	26.4	76.8
Net result attributable to owners of the parent	**274.7**	**567.0**	**337.4**	**85.6**	**262.2**

Net interest income declined to EUR 1,051.3 million (-5.0%; EUR 1,107.1 million) due to the non-recurrence of positive one-off effects in the Czech Republic and in Austria and the continued low interest rate environment. **Net fee and commission income** decreased to EUR 457.7 million (-1.2%; EUR 463.2 million), mainly due to lower income from the lending business, while income from the securities business was up. Rental income amounted to EUR 50.1 million (EUR 68.6 million); in the previous quarter, two new entities and their total 2016 income had been included in the scope of consolidation for the first time. The **net trading result** declined to EUR 48.6 million (EUR 65.1 million), mainly due to lower income from the securities and derivatives business.

General administrative expenses decreased to EUR 1,018.3 million (-4.4%; EUR 1,065.1 million), personnel expenses declined to EUR 571.7 million (-7.0%; EUR 614.6 million). Other administrative expenses rose to EUR 332.4 million (+2.0%; EUR 325.8 million), mainly as a result of the upfront booking of almost all full-year deposit insurance contributions for 2017 in the amount of EUR 64.7 million (EUR 5.4 million). Amortisation and depreciation went down to EUR 114.2 million (-8.4%; EUR 124.7 million). The cost/income ratio was higher at 63.0% (61.5%).

Gains from financial assets and liabilities not measured at fair value through profit or loss (net) increased significantly to EUR 28.3 million (EUR 0.3 million). This rise is attributable to gains from the sale of bonds in Austria and in the Czech Republic shown in income from financial assets – available for sale.

Net impairment loss on financial assets amounted to EUR 65.8 million (EUR 132.5 million).

Other operating result improved to EUR -127.1 million (EUR -412.5 million) as **levies on banking activities** decreased substantially to EUR 35.8 million (EUR 237.1 million). Banking tax in Austria amounted to EUR 5.6 million (EUR 221.1 million). In the fourth quarter of 2016, income had been impacted by a one-off payment in the amount of EUR 200.9 million pursuant to the Austrian Bank Tax Act (Stabilitätsabgabengesetz). Banking levies were also charged in Hungary in the amount of EUR 23.6 million (EUR 9.6 million), including the upfront booking of the total banking tax for the year of 2017 in the amount of EUR 13.2 million and a financial transaction tax in the amount of EUR 10.4 million, and in Slovakia in the amount of EUR 6.6 million (EUR 6.5 million).

The **pre-tax result** rose to EUR 434.7 million (EUR 121.7 million). Taxes on income increased correspondingly to EUR 95.6 million (EUR 9.7 million). In the fourth quarter of 2016, the recognition of deferred tax assets in Austria had had a positive impact on the tax rate. The **net result attributable to owners of the parent** amounted to EUR 262.2 million (EUR 85.6 million).

DEVELOPMENT OF THE BALANCE SHEET

in EUR million	Dec 16	Mar 17	Change
Assets			
Cash and cash balances	18,353	24,731	34.8%
Trading, financial assets	47,586	46,145	-3.0%
Loans and receivables to credit institutions	3,469	10,448	>100.0%
Loans and receivables to customers	130,654	132,992	1.8%
Intangible assets	1,390	1,378	-0.9%
Miscellaneous assets	6,775	7,105	4.9%
Total assets	**208,227**	**222,798**	**7.0%**
Liabilities and equity			
Financial liabilities - held for trading	4,762	4,314	-9.4%
Deposits from banks	14,631	22,935	56.8%
Deposits from customers	138,013	144,707	4.9%
Debt securities issued	27,192	27,127	-0.2%
Miscellaneous liabilities	7,027	6,822	-2.9%
Total equity	16,602	16,894	1.8%
Total liabilities and equity	**208,227**	**222,798**	**7.0%**

The rise in **cash and cash balances** to EUR 24.7 billion (EUR 18.4 billion) was primarily due to larger cash balances held at central banks on the back of continued strong customer deposit inflows. **Trading and investment securities** held in various categories of financial assets declined to EUR 46.1 billion (EUR 47.6 billion), driven by sales of available-for-sale securities.

Loans and receivables to credit institutions (net), including demand deposits other than overnight deposits, increased significantly to EUR 10.4 billion (EUR 3.5 billion), supported by temporarily expanded money market activities. **Loans and receivables to customers (net)** rose – mainly in Austria and the Czech Republic – to EUR 133.0 billion (EUR 130.7 billion) due to growth in retail mortgages in Central and Eastern Europe and temporarily higher money market business volumes. **Allowances for loans and receivables to customers** declined to EUR 4.5 billion (EUR 4.6 billion), mostly on the back of the continuing improvement in asset quality. The **NPL ratio** – non–performing loans as a percentage of loans to customers – remained unchanged at 4.9% (4.9%). The **NPL coverage ratio** declined to 67.6% (69.1%).

Intangible assets were stable at EUR 1.4 billion (EUR 1.4 billion). **Miscellaneous assets** rose to EUR 7.1 billion (EUR 6.8 billion). **Financial liabilities – held for trading** decreased to EUR 4.3 billion (EUR 4.8 billion).

Deposits from banks, primarily in the form of repurchase transactions, rose to EUR 22.9 billion (EUR 14.6 billion); **deposits from customers** were up at EUR 144.7 billion (EUR 138.0 billion) due to increased savings and overnight deposits mainly in Austria and in the Czech Republic. The **loan-to-deposit ratio** stood at 91.9% (94.7%). **Debt securities in issue** declined marginally to EUR 27.1 billion (EUR 27.2 billion). **Miscellaneous liabilities** decreased to EUR 6.8 billion (EUR 7.0 billion).

Total assets increased to EUR 222.8 billion (+7.0%; EUR 208.2 billion). Erste Group's **total equity** increased to EUR 16.9 billion (+1.8%; EUR 16.6 billion). Since June 2016, this has included AT1 instruments in the amount of EUR 497 million. After regulatory deductions and filtering according to the Capital Requirements Regulation (CRR), **common equity tier 1 capital** (CET1, Basel 3 phased-in) decreased to EUR 13.4 billion (EUR 13.6 billion), total **own funds** (Basel 3 phased-in) rose to EUR 19.0 billion (EUR 18.8 billion). **Total risk** (**risk-weighted assets** including credit, market and operational risk, Basel 3 phased-in) increased to EUR 103.6 billion (EUR 101.8 billion).

Consolidated regulatory capital is calculated in accordance with CRR taking into consideration transitional provisions as defined in the Austrian CRR Supplementary Regulation. These transitional provisions define the percentages applicable to eligible capital instruments and regulatory deduction items as well as filters. The **total capital ratio** (Basel 3 phased-in), total eligible qualifying capital in relation to total risk pursuant to CRR, was 18.4% (18.5%), well above the legal minimum requirement. The **tier 1 ratio** (Basel 3 phased in) stood at 13.2% (13.4%), the **common equity tier 1 ratio** (Basel 3 phased-in) at 13.0% (13.4%).

SEGMENT REPORTING

January-March 2017 compared with January-March 2016

Erste Group's segment reporting is based on a matrix organisation. It provides comprehensive information to assess the business line and geographic performance. The tables and information below provide a brief overview and focus on selected and summarised items. For more details please see Note 26. At www.erstegroup.com additional information is available in Excel format.

Operating income consists of net interest income, net fee and commission income, net trading and fair value result as well as dividend income, net result from equity method investments and rental income from investment properties & other operating leases. The latter three listed items are not separately disclosed in the tables below. Operating expenses equal the position general administrative expenses. Operating result is the net amount of operating income and operating expenses. Risk provisions for loans and receivables are included in the position net impairment loss on financial assets. Other result summarises the positions other operating result and gains/losses from financial assets and liabilities not measured at fair value through profit or loss. The cost/income ratio is calculated as operating expenses in relation to operating income. The return on allocated equity is defined as the net result after tax/before minorities in relation to the average allocated equity.

BUSINESS SEGMENTS

Retail

in EUR million	1-3 16	1-3 17	Change
Net interest income	538.8	527.9	-2.0%
Net fee and commission income	233.8	249.3	6.7%
Net trading and fair value result	21.9	26.3	20.4%
Operating income	802.0	811.7	1.2%
Operating expenses	-459.2	-486.4	5.9%
Operating result	342.8	325.3	-5.1%
Cost/income ratio	57.3%	59.9%	
Net impairment loss on financial assets	-28.2	-3.5	-87.7%
Other result	-10.3	-22.8	>100.0%
Net result attributable to owners of the parent	232.3	233.3	0.4%
Return on allocated capital	41.4%	40.8%	

The Retail segment comprises the entire business with private individuals, free professionals and micros in the responsibility of account managers in the retail network of the local banks cooperating with their specialised subsidiaries (such as leasing and asset management companies).

The net interest income declined on the back of lower contributions from deposit business in Austria and the Czech Republic as well as lower contributions from lending business in Slovakia and Romania. These developments were partially mitigated by an increasing secured loan portfolio in Austria and improved performance of deposit business in Slovakia. Net fee and commission income increased primarily due to higher securities and payments fees in Austria. The newly acquired retail business of Citibank in Hungary also contributed positively. Net trading and fair value result went up due to the higher income from investment products in the Czech Republic and the increased client base in Hungary. Operating expenses increased primarily due to higher IT and project costs in Austria and the Czech Republic as well as higher costs in Hungary driven by the newly acquired retail business of Citibank. Operating result thus declined, the cost/income ratio went up. The significant improvement of net impairment loss on financial assets was driven by releases of risk provisions in Hungary and Austria. Other result deteriorated due to the higher contribution to the resolution funds as well as provisions for contingent liabilities in Hungary and Austria. Overall, the net result attributable to the owners of the parent went up.

Corporates

in EUR million	1-3 16	1-3 17	Change
Net interest income	241.5	232.8	-3.6%
Net fee and commission income	62.9	60.4	-3.9%
Net trading and fair value result	15.2	23.7	55.6%
Operating income	346.2	349.3	0.9%
Operating expenses	-131.8	-132.7	0.7%
Operating result	214.4	216.6	1.0%
Cost/income ratio	38.1%	38.0%	
Net impairment loss on financial assets	34.9	-41.7	n/a
Other result	-20.0	-1.9	-90.7%
Net result attributable to owners of the parent	175.1	136.4	-22.1%
Return on allocated capital	23.0%	18.3%	

The Corporates segment comprises business done with SMEs (small and medium sized enterprises), Local Large Corporate and Group Large Corporate customers, as well as commercial real estate and public sector business.

Net interest income decreased primarily due to the decreased contribution from deposit business in Austria. Net fee and commission income was affected by the sale of a card-acquiring business in Slovakia. Improvement of net trading and fair value result was attributable to increased hedging activities of customers expecting the termination of the National Bank's FX interventions in the Czech Republic. Operating income went up on the back of higher net trading result and rental income. Although operating expenses increased slightly, operating result improved and the cost/income ratio remained stable. Net impairment loss on financial assets increased significantly on the back of lower income from insurance claims in Romania as well as downgrading of one customer in Croatia. Other result improved due to lower provisions for contingent liabilities. Consequently, the net result attributable to the owners of the parent decreased.

Group Markets

in EUR million	1-3 16	1-3 17	Change
Net interest income	55.7	49.6	-10.9%
Net fee and commission income	48.9	53.5	9.4%
Net trading and fair value result	14.2	32.6	>100.0%
Operating income	119.0	136.2	14.4%
Operating expenses	-52.2	-51.8	-0.7%
Operating result	66.8	84.3	26.2%
Cost/income ratio	43.9%	38.1%	
Net impairment loss on financial assets	2.1	-0.6	n/a
Other result	0.6	-6.6	n/a
Net result attributable to owners of the parent	52.6	60.0	14.0%
Return on allocated capital	32.0%	35.1%	

The Group Markets segment comprises trading and markets services as well as business done with financial institutions.

Net interest income decreased primarily due to the generally low interest rate environment and lower margins on sight deposits of financial institutions. Net fee and commission income increased on the back of higher assets under management and arrangement fees related to debt issuance. The increase in net trading and fair value result was attributable to positive market developments affecting fixed income, money market and credit trading products. Therefore, operating income increased. As operating expenses decreased slightly, this led to an improvement in operating result as well as in the cost/income ratio. Other result deteriorated due to the booking of one-off income from the resolution of a claim last year. Overall, the net result attributable to the owners of the parent increased.

Asset/Liability Management & Local Corporate Center

in EUR million	1-3 16	1-3 17	Change
Net interest income	4.5	-12.7	n/a
Net fee and commission income	-10.9	-20.4	86.7%
Net trading and fair value result	6.7	-21.6	n/a
Operating income	6.9	-45.5	n/a
Operating expenses	-48.9	-33.9	-30.8%
Operating result	-42.1	-79.4	88.7%
Cost/income ratio	>100%	-74.4%	
Net impairment loss on financial assets	-21.0	-17.2	-17.9%
Other result	-71.7	-51.1	-28.6%
Net result attributable to owners of the parent	-113.8	-124.8	9.6%
Return on allocated capital	-21.6%	-22.9%	

The ALM & LCC segment includes all asset/liability management functions – local and of Erste Group Bank AG (Holding) – as well as the local corporate centers which comprise non-profit service providers and reconciliation items to local entity results.

Net interest income declined mainly due to a lower ALM contribution on the back of an unfavourable yield curve development. The decrease in net fee and commission income was primarily related to lower fee income in Erste Bank Oesterreich. Net trading and fair value result deteriorated mainly due to lower valuation results in the Holding. The decrease in operating expenses was mainly attributable to the lower deposit insurance fund contribution in Romania as well as lower IT expenses in Slovakia and Erste Bank Oesterreich. Overall, operating result deteriorated. Other result improved on the back of selling gains from AfS securities in the Holding, in the Czech Republic and in Erste Bank Oesterreich. The net result attributable to the owners of the parent decreased.

Savings Banks

in EUR million	1-3 16	1-3 17	Change
Net interest income	231.7	238.2	2.8%
Net fee and commission income	108.1	114.6	6.1%
Net trading and fair value result	-5.5	-0.2	-96.1%
Operating income	345.0	363.7	5.4%
Operating expenses	-257.6	-268.7	4.3%
Operating result	87.4	95.0	8.7%
Cost/income ratio	74.7%	73.9%	
Net impairment loss on financial assets	-23.9	-1.5	-93.6%
Other result	-9.8	-5.8	-40.5%
Net result attributable to owners of the parent	6.8	13.9	>100.0%
Return on allocated capital	6.1%	13.0%	

The Savings Banks segment includes those savings banks which are members of the Haftungsverbund (cross-guarantee system) of the Austrian savings banks sector and in which Erste Group does not hold a majority stake but which are fully controlled according to IFRS 10. The fully or majority owned savings banks Erste Bank Oesterreich, Tiroler Sparkasse, Salzburger Sparkasse, and Sparkasse Hainburg are not part of the Savings Banks segment.

The increase in net interest income was mainly attributable to the re-pricing of deposits due to the persistently low interest rate environment. Net fee and commission income increased mostly due to higher fees from securities business. Net trading and fair value result improved on the back of positive valuation results. Operating expenses went up due to higher IT expenses. The booking of deposit insurance contributions for the full year amounted to EUR 23.3 million (EUR 22.2 million). Therefore, operating result increased and the cost/income ratio improved. Net impairment loss on financial assets decreased. Other result improved due to selling gains on AfS securities and valuation effects. The banking tax decreased to EUR 1.0 million (EUR 3.6 million). The positive effects were partially offset by higher provisions for contingent liabilities. The payment into the resolution fund amounted to EUR 8.6 million (EUR 8.0 million). Overall, the net result attributable to the owners of the parent increased.

Group Corporate Center

in EUR million	1-3 16	1-3 17	Change
Net interest income	18.7	15.6	-16.7%
Net fee and commission income	2.5	0.3	-86.0%
Net trading and fair value result	-10.6	-9.6	-9.8%
Operating income	22.8	10.7	-52.8%
Operating expenses	-190.0	-208.5	9.7%
Operating result	-167.3	-197.7	18.2%
Cost/income ratio	>100.0%	>100.0%	
Net impairment loss on financial assets	-20.3	-1.3	-93.8%
Other result	92.6	144.6	56.2%
Net result attributable to owners of the parent	-78.3	-56.6	-27.7%
Return on allocated capital	-6.2%	-3.3%	

The Group Corporate Center segment covers mainly centrally managed activities and items that are not directly allocated to other segments. It includes the Corporate Center of Erste Group Bank AG as well as internal non-profit service providers, therefore, in particular the line items "other operating result" and "general administrative expenses" should be considered together with intragroup eliminations. Furthermore, the free capital of Erste Group is included.

Operating income declined mainly due to the changed disclosure of rental income of one of the internal service provider entities under other result. The increase in operating expenses was mainly driven by higher IT costs. Net impairment loss on financial assets decreased substantially. The significant improvement of other result was mainly driven by lower Austrian banking tax and higher income from IT companies. Consequently, the net result attributable to the owners of the parent improved.

GEOGRAPHICAL SEGMENTS

Erste Bank Oesterreich & Subsidiaries

in EUR million	1-3 16	1-3 17	Change
Net interest income	158.7	155.3	-2.1%
Net fee and commission income	87.7	93.5	6.6%
Net trading and fair value result	-5.7	4.3	n/a
Operating income	245.9	263.3	7.1%
Operating expenses	-172.8	-176.1	1.9%
Operating result	73.1	87.2	19.3%
Cost/income ratio	70.3%	66.9%	
Net impairment loss on financial assets	-8.9	11.4	n/a
Other result	-6.2	-9.1	46.9%
Net result attributable to owners of the parent	41.6	62.9	51.2%
Return on allocated capital	14.2%	22.8%	

The Erste Bank Oesterreich & Subsidiaries (EBOe & Subsidiaries) segment comprises Erste Bank der oesterreichischen Sparkassen AG (Erste Bank Oesterreich) and its main subsidiaries (e.g. sBausparkasse, Salzburger Sparkasse, Tiroler Sparkasse, Sparkasse Hainburg).

Net interest income decreased mainly due to a change in the scope of consolidation, while the positive effect from higher customer loan volumes and slightly improved margins was offset by the lower number of days. Net fee and commission income increased due to higher securities fees and lower fee expenses in a building society. The net trading and fair value result went up primarily due to valuation effects of derivatives. Operating expenses increased on the back of higher IT costs. The booking of deposit insurance contributions for the full year amounted to EUR 18.9 million (EUR 18.5 million). As a result, operating result increased and the cost/income ratio improved. Net impairment loss on financial assets decreased substantially on the back of lower risk provisions in corporate and retail business. The deterioration of other result was mainly driven by higher provisions for contingent liabilities. Banking tax decreased to EUR 0.8 million (EUR 3.6 million). Payment into the resolution fund increased to EUR 6.4 million (EUR 4.7 million). Overall, the net result attributable to the owners of the parent went up.

Savings Banks

The geographical segment Savings Banks is identical to the business segment Savings Banks (see page 10).

Other Austria

in EUR million	1-3 16	1-3 17	Change
Net interest income	96.5	93.0	-3.6%
Net fee and commission income	47.5	50.4	6.2%
Net trading and fair value result	-0.8	13.7	n/a
Operating income	155.4	171.9	10.6%
Operating expenses	-83.9	-83.7	-0.1%
Operating result	71.5	88.1	23.2%
Cost/income ratio	54.0%	48.7%	
Net impairment loss on financial assets	-4.1	-39.7	>100.0%
Other result	6.5	4.8	-26.2%
Net result attributable to owners of the parent	54.4	37.6	-31.0%
Return on allocated capital	13.5%	10.4%	

The Other Austria segment comprises the Corporates and Group Markets business of Erste Group Bank AG (Holding), Erste Group Immorent AG, Erste Asset Management GmbH and Intermarket Bank AG.

Net interest income decreased primarily in group markets business as a result of lower income from government bonds and money market products, as well as lower lending business margins in Immorent. Net fee and commission income increased due to higher asset management volumes of institutional customers, as well as the inclusion of Intermarket Bank (part of EBOe & Subsidiaries segment in 2016). The increase of net trading and fair value result was predominantly attributable to the positive impact of mark-to-market valuations and better performance of credit trading products. Overall, operating income improved, while costs remained stable. Operating result and cost/income ratio thus improved. Net impairment loss on financial assets increased significantly on the back of higher provisioning requirements in the corporate business of the Holding and Immorent. Other result deteriorated slightly due to a non-recurring positive effect from the resolution of a claim in the previous year. This line item also included a resolution fund contribution of EUR 4.8 million (EUR 7.3 million). Overall, the net result attributable to the owners of the parent deteriorated.

Czech Republic

in EUR million	1-3 16	1-3 17	Change
Net interest income	226.9	222.9	-1.7%
Net fee and commission income	84.4	84.9	0.6%
Net trading and fair value result	23.4	29.3	25.2%
Operating income	339.6	339.9	0.1%
Operating expenses	-161.6	-170.7	5.7%
Operating result	178.0	169.2	-5.0%
Cost/income ratio	47.6%	50.2%	
Net impairment loss on financial assets	-17.0	-6.8	-59.9%
Other result	-14.6	-5.1	-64.8%
Net result attributable to owners of the parent	115.7	124.8	7.8%
Return on allocated capital	26.8%	26.6%	

Net interest income in the Czech Republic segment (comprising Česká spořitelna Group) declined primarily due to maturing high-yielding government bonds and declining assets margins. Net fee and commission income increased slightly on the back of higher asset management and insurance fees. Net trading and fair value result increased notably on the back of increased hedging activities of corporate customers expecting the termination of the National Bank's FX interventions. A higher deposit insurance fund contribution for the full year of EUR 8.1 million (EUR 3.5 million) as well as a higher software depreciation charge and higher personnel costs led to an increase in operating expenses. Operating result thus decreased, the cost/income ratio went up. The decline of net impairment loss on financial assets was attributable to an improvement in corporate portfolio quality. Other result improved on the back of the AfS securities selling gains. The resolution fund contribution amounted to EUR 16.4 million (EUR 14.3 million). Overall, these developments led to an increase in the net result attributable to the owners of the parent.

Slovakia

in EUR million	1-3 16	1-3 17	Change
Net interest income	113.3	107.8	-4.8%
Net fee and commission income	30.9	26.5	-14.2%
Net trading and fair value result	4.6	3.5	-23.0%
Operating income	150.5	140.3	-6.8%
Operating expenses	-67.5	-68.2	1.0%
Operating result	83.0	72.1	-13.1%
Cost/income ratio	44.9%	48.6%	
Net impairment loss on financial assets	-11.5	-9.4	-17.7%
Other result	-12.5	-9.2	-26.1%
Net result attributable to owners of the parent	45.2	41.3	-8.7%
Return on allocated capital	27.5%	26.7%	

Net interest income in the Slovakia segment (comprising Slovenská sporiteľňa Group) decreased mainly due to a lower asset/liability management contribution driven by the low interest rate environment and lower loan margins in retail business that could not be fully compensated by higher loan volumes and repricing of deposits. Net fee and commission income went down due to lower account maintenance fees, lending and PoS maintenance fees due to the sale of the card-acquiring business in 2016. The decline in the net trading and fair value result was driven by the valuation of derivatives. Operating expenses increased moderately mainly due to higher personnel and IT costs. The deposit insurance contribution for the full year decreased to EUR 0.8 million (EUR 2.5 million). Overall, operating result decreased, the cost/income ratio went up. Net impairment loss on financial assets decreased due to lower provisioning requirements in corporate business. The other result improved due to a release of provisions for contingent liabilities. The payment into the resolution fund decreased to EUR 5.0 million (EUR 6.5 million). Banking tax amounted to EUR 6.6 million (EUR 6.2 million). Overall, the net result attributable to the owners of the parent deteriorated.

Romania

in EUR million	1-3 16	1-3 17	Change
Net interest income	97.1	91.1	-6.2%
Net fee and commission income	39.4	36.4	-7.8%
Net trading and fair value result	19.6	17.6	-10.3%
Operating income	158.7	148.2	-6.7%
Operating expenses	-90.3	-78.1	-13.5%
Operating result	68.4	70.1	2.4%
Cost/income ratio	56.9%	52.7%	
Net impairment loss on financial assets	29.4	-0.7	n/a
Other result	-18.2	-21.3	17.0%
Net result attributable to owners of the parent	61.5	36.8	-40.2%
Return on allocated capital	26.9%	14.7%	

Net interest income in the Romania segment (comprising Banca Comercială Română Group) decreased mainly due to lower income from lending business, lower unwinding effects and lower deposit margins. Net fee and commission income decreased on the back of lower transaction, account maintenance and lending fees in the retail business. The decline in net trading and fair value result was mostly attributable to the revaluation of foreign currency positions. Operating expenses decreased markedly on the back of the significantly lower deposit insurance fund contribution for the full year of EUR 2.2 million (EUR 14.5 million). Consequently, operating result increased and the cost/income ratio improved. Despite the non-recurrence of last year's high net provision releases, net impairment loss on financial assets remained low. Other result worsened mainly due to a higher resolution fund contribution of EUR 14.4 million (EUR 5.6 million) and higher provisions for contingent liabilities. Overall, the net result attributable to the owners of the parent decreased.

Hungary

in EUR million	1-3 16	1-3 17	Change
Net interest income	45.9	46.7	1.8%
Net fee and commission income	33.1	37.3	12.9%
Net trading and fair value result	2.7	7.5	>100.0%
Operating income	82.6	92.6	12.1%
Operating expenses	-49.9	-56.7	13.7%
Operating result	32.7	35.9	9.7%
Cost/income ratio	60.4%	61.2%	
Net impairment loss on financial assets	14.1	22.4	58.8%
Other result	-44.3	-27.6	-37.7%
Net result attributable to owners of the parent	-0.2	27.8	n/a
Return on allocated capital	-0.2%	21.1%	

Net interest income in the Hungary segment (comprising Erste Bank Hungary Group) increased slightly due to improved performance of the unsecured portfolio boosted by the newly acquired retail business of Citibank partially offset by a lower contribution from derivatives as well as the secured portfolio and a lower unwinding contribution. Net fee and commission income increased on the back of higher card and distribution fees in retail business supported by the former Citibank portfolio. Net trading and fair value result improved mainly due to the higher contribution of derivatives. Operating expenses increased primarily due to additional costs related to the former Citibank business and IT expenses. The contribution to the deposit insurance fund for the full year amounted to EUR 7.8 million (EUR 7.1 million). Consequently, operating result improved and the cost/income ratio went up. The net release of risk provisions (net impairment loss on financial assets) was largely driven by retail business on the back of portfolio quality improvement. Other result improved on lower banking levies of EUR 23.6 million (EUR 26.9 million) and a decline in provisions for contingent liabilities. This line item also included the contribution to the resolution fund of EUR 1.8 million (EUR 2.1 million). Overall, the net result attributable to the owners of the parent improved substantially.

Croatia

in EUR million	1-3 16	1-3 17	Change
Net interest income	66.7	67.8	1.5%
Net fee and commission income	19.2	21.6	12.1%
Net trading and fair value result	8.8	7.1	-19.7%
Operating income	101.4	102.4	1.0%
Operating expenses	-46.3	-49.8	7.6%
Operating result	55.1	52.6	-4.6%
Cost/income ratio	45.7%	48.7%	
Net impairment loss on financial assets	-10.7	-37.4	>100.0%
Other result	-3.3	-6.6	>100.0%
Net result attributable to owners of the parent	22.9	4.8	-79.2%
Return on allocated capital	24.7%	5.3%	

Net interest income in the Croatia segment (comprising Erste Bank Croatia Group) increased moderately due to exchange rate movements. It was positively impacted by improved liability margins in retail business. Lower income in corporate business due to public sector exposure reduction was offset by the positive effect of an optimised funding structure. Net fee and commission income went up due to higher fees from payment transfers in retail business as well as fees related to debt issuance. The net trading and fair value result was negatively affected by the foreign exchange valuation. Operating expenses included a EUR 2.7 million (EUR 2.7 million) pro rata deposit insurance fund contribution and increased due to consolidation of an IT service entity and higher personnel costs. Overall, the operating result declined and the cost/income ratio went up. The deterioration of net impairment loss on financial assets was primarily driven by the downgrading of one customer in corporate business. Other result deteriorated mainly due to higher provisions for contingent liabilities and full-year booking of the resolution fund contribution of EUR 5.3 million (EUR 4.2 million). Consequently, the net result attributable to the owners of the parent decreased.

Serbia

in EUR million	1-3 16	1-3 17	Change
Net interest income	11.2	12.4	10.9%
Net fee and commission income	2.6	2.6	1.4%
Net trading and fair value result	1.0	0.9	-7.6%
Operating income	14.8	16.0	7.7%
Operating expenses	-9.7	-10.0	2.9%
Operating result	5.1	6.0	16.9%
Cost/income ratio	65.5%	62.6%	
Net impairment loss on financial assets	-1.1	0.4	n/a
Other result	0.2	0.0	n/a
Net result attributable to owners of the parent	3.3	4.8	43.8%
Return on allocated capital	14.5%	18.6%	

Net interest income in the Serbia segment (comprising Erste Bank Serbia Group) increased mainly due to higher loan and deposit volumes despite decreasing margins. Net fee and commission income as well as net trading and fair value result remained unchanged. The increase in operating expenses was driven partly by higher personnel costs. Operating result as well as cost/income ratio improved. Net impairment loss on financial assets declined on the back of improved portfolio quality in corporate business. Overall, the net result attributable to the owners of the parent improved, return on allocated capital reached an all time high.

Other

in EUR million	1-3 16	1-3 17	Change
Net interest income	44.3	16.1	-63.7%
Net fee and commission income	-9.7	-10.1	3.4%
Net trading and fair value result	-4.4	-32.0	>100.0%
Operating income	35.3	-20.7	n/a
Operating expenses	-69.2	-56.2	-18.7%
Operating result	-33.9	-76.9	>100.0%
Cost/income ratio	>100.0%	>100.0%	
Net impairment loss on financial assets	-22.7	-4.4	-80.7%
Other result	-35.1	-18.9	-46.1%
Net result attributable to owners of the parent	-76.6	-92.3	20.5%
Return on allocated capital	-5.1%	-4.9%	

The residual segment Other consists mainly of centralised service providers, the Group Asset/Liability Management and the Corporate Center of Erste Group Bank AG as well as the reconciliation to the consolidated accounting result (e.g. intercompany elimination, dividend elimination) and free capital.

Net interest income declined mainly due to a lower ALM result in the Holding on the back of an unfavourable yield curve development. Net trading and fair value result declined on the back of valuation effects. The improvement in operating expenses could not compensate for the decline in operating income, thus operating result declined. Net impairment loss decreased significantly. The net result attributable to the owners of the parent declined.

Group condensed consolidated financial statements of Erste Group Bank AG

Interim report – first quarter of 2017

I. Group statement of comprehensive income

Income statement

in EUR thousand	Notes	1-3 16	1-3 17
Net interest income	1	1,092,215	1,051,296
Interest income	1	1,525,844	1,397,772
Interest expenses	1	-433,629	-346,476
Net fee and commission income	2	443,073	457,685
Fee and commission income	2	552,417	571,179
Fee and commission expenses	2	-109,344	-113,493
Dividend income	3	2,636	3,730
Net trading result	4	51,191	48,592
Result from financial assets and liabilities designated at fair value through profit or loss	4	-7,653	2,974
Net result from equity method investments		1,949	3,197
Rental income from investment properties & other operating leases	5	45,860	50,065
Personnel expenses	6	-565,438	-571,687
Other administrative expenses	6	-333,514	-332,388
Depreciation and amortisation	6	-109,828	-114,246
Gains/losses from financial assets and liabilities not measured at fair value through profit or loss, net	7	2,421	28,301
Net impairment loss on financial assets	8	-56,354	-65,776
Other operating result	9	-139,522	-127,085
Levies on banking activities	9	-62,751	-35,819
Pre-tax result from continuing operations		**427,035**	**434,659**
Taxes on income	10	-104,454	-95,645
Net result for the period		**322,581**	**339,014**
Net result attributable to non-controlling interests		47,839	76,818
Net result attributable to owners of the parent		**274,742**	**262,195**

Statement of comprehensive income

in EUR thousand	1-3 16	1-3 17
Net result for the period	**322,581**	**339,014**
Other comprehensive income		
Items that may not be reclassified to profit or loss	**-58,632**	**-36**
Remeasurement of net liability of defined benefit plans	-77,871	-61
Deferred taxes relating to items that may not be reclassified	19,238	24
Items that may be reclassified to profit or loss	**139,671**	**-73,583**
Available for sale reserve (including currency translation)	112,660	-90,597
Gain/loss during the period	110,445	-69,435
Reclassification adjustments	2,215	-21,161
Cash flow hedge reserve (including currency translation)	41,463	-15,345
Gain/loss during the period	48,847	-2,593
Reclassification adjustments	-7,383	-12,753
Currency translation	22,548	15,042
Gain/loss during the period	22,548	15,042
Reclassification adjustments	0	0
Deferred taxes relating to items that may be reclassified	-37,000	17,317
Gain/loss during the period	-38,383	9,509
Reclassification adjustments	1,383	7,808
Total other comprehensive income	**81,039**	**-73,619**
Total comprehensive income	**403,620**	**265,395**
Total comprehensive income attributable to non-controlling interests	87,767	37,308
Total comprehensive income attributable to owners of the parent	**315,853**	**228,087**

Earnings per share

		1-3 16	1-3 17
Net result attributable to owners of the parent	in EUR thousand	274,742	262,195
Dividend on AT1 capital	in EUR thousand	0	0
Net result for the period attributable to owners of the parent after deduction of AT1 capital dividend	in EUR thousand	274,742	262,195
Weighted average number of outstanding shares		426,669,230	426,665,391
Earnings per share	**in EUR**	**0.64**	**0.61**
Weighted average diluted number of outstanding shares		426,669,230	426,665,391
Diluted earnings per share	**in EUR**	**0.64**	**0.61**

Changes in number of shares

	1-3 16	1-3 17
Shares outstanding at the beginning of the period	410,487,814	409,497,646
Acquisition of treasury shares	-1,488,061	-2,204,610
Disposal of treasury shares	1,513,167	2,201,122
Shares outstanding at the end of the period	410,512,920	409,494,158
Treasury shares	19,287,080	20,305,842
Number of shares issued at the end of the period	**429,800,000**	**429,800,000**
Weighted average number of outstanding shares	426,669,230	426,665,391
Weighted average diluted number of outstanding shares	426,669,230	426,665,391

Quarterly results

in EUR million	Q1 16	Q2 16	Q3 16	Q4 16	Q1 17
Income statement					
Net interest income	1,092.2	1,101.9	1,073.4	1,107.0	1,051.3
Net fee and commission income	443.1	441.8	434.9	463.2	457.7
Dividend income	2.6	28.8	4.8	9.0	3.7
Net trading result	51.2	68.8	98.7	65.1	48.6
Result from financial assets and liabilities designated at fair value through profit or loss	-7.7	-4.8	-14.6	15.6	3.0
Net result from equity method investments	1.9	3.7	0.2	3.1	3.2
Rental income from investment properties & other operating leases	45.9	47.1	45.7	68.6	50.1
Personnel expenses	-565.4	-587.2	-572.0	-614.6	-571.7
Other administrative expenses	-333.5	-276.6	-299.9	-325.8	-332.4
Depreciation and amortisation	-109.8	-107.7	-110.8	-124.7	-114.2
Gains/losses from financial assets and liabilities not measured at fair value through profit or loss, net	2.4	146.0	-0.7	0.3	28.3
Net impairment loss on financial assets	-56.4	30.6	-37.4	-132.5	-65.8
Other operating result	-139.5	-52.6	-60.3	-412.5	-127.1
Levies on banking activities	-62.8	-44.9	-44.0	-237.1	-35.8
Pre-tax result from continuing operations	**427.0**	**839.7**	**562.0**	**121.7**	**434.7**
Taxes on income	-104.5	-174.3	-125.1	-9.7	-95.6
Net result for the period	**322.6**	**665.3**	**436.9**	**112.0**	**339.0**
Net result attributable to non-controlling interests	47.8	98.4	99.4	26.4	76.8
Net result attributable to owners of the parent	**274.7**	**567.0**	**337.4**	**85.6**	**262.2**

Statement of comprehensive income					
Net result for the period	**322.6**	**665.3**	**436.9**	**112.0**	**339.0**
Other comprehensive income					
Items that may not be reclassified to profit or loss					
Remeasurement of net liability of defined benefit plans	-77.9	-3.8	-27.6	73.1	-0.1
Deferred taxes relating to items that may not be reclassified	19.2	2.3	7.0	-37.7	0.0
Total	**-58.6**	**-1.5**	**-20.6**	**35.5**	**0.0**
Items that may be reclassified to profit or loss					
Available for sale reserve (including currency translation)	112.7	-92.6	112.1	-136.8	-90.6
Gain/loss during the period	110.4	60.7	117.8	-146.1	-69.4
Reclassification adjustments	2.2	-153.3	-5.7	9.3	-21.2
Cash flow hedge reserve (including currency translation)	41.5	-30.4	-9.1	-15.3	-15.3
Gain/loss during the period	48.8	10.3	-0.9	-39.9	-2.6
Reclassification adjustments	-7.4	-40.7	-8.1	24.6	-12.8
Currency translation	22.5	-34.4	69.5	-28.8	15.0
Gain/loss during the period	22.5	-34.4	69.5	-28.8	15.0
Reclassification adjustments	0.0	0.0	0.0	0.0	0.0
Deferred taxes relating to items that may be reclassified	-37.0	22.1	-21.8	45.5	17.3
Gain/loss during the period	-38.4	-15.0	-24.7	44.6	9.5
Reclassification adjustments	1.4	37.1	2.9	0.9	7.8
Total	**139.7**	**-135.4**	**150.8**	**-135.4**	**-73.6**
Total other comprehensive income	**81.0**	**-136.9**	**130.3**	**-100.0**	**-73.6**
Total comprehensive income	**403.6**	**528.5**	**567.1**	**12.0**	**265.4**
Total comprehensive income attributable to non-controlling interests	87.8	109.2	119.0	-8.1	37.3
Total comprehensive income attributable to owners of the parent	**315.9**	**419.3**	**448.1**	**20.1**	**228.1**

II. Group balance sheet

in EUR thousand	Notes	Dec 16	Mar 17
Assets			
Cash and cash balances	11	18,352,596	24,730,520
Financial assets - held for trading		7,950,401	7,827,250
Derivatives	12	4,474,783	4,101,429
Other trading assets	13	3,475,618	3,725,821
Financial assets - at fair value through profit or loss	14	479,512	518,468
Financial assets - available for sale	15	19,885,535	17,886,928
Financial assets - held to maturity	16	19,270,184	19,912,070
Loans and receivables to credit institutions	17	3,469,440	10,447,856
Loans and receivables to customers	18	130,654,451	132,991,954
Derivatives - hedge accounting	19	1,424,452	1,296,514
Property and equipment		2,476,913	2,441,435
Investment properties		1,022,704	1,025,004
Intangible assets		1,390,245	1,378,394
Investments in associates and joint ventures		193,277	199,904
Current tax assets		124,224	117,481
Deferred tax assets		233,773	238,065
Assets held for sale		279,447	261,674
Other assets	20	1,019,916	1,524,845
Total assets		**208,227,070**	**222,798,362**
Liabilities and equity			
Financial liabilities - held for trading		4,761,782	4,314,060
Derivatives	12	4,184,508	3,854,933
Other trading liabilities	21	577,273	459,126
Financial liabilities - at fair value through profit or loss		1,763,043	1,905,573
Deposits from banks		0	0
Deposits from customers		73,917	63,682
Debt securities issued	22	1,689,126	1,841,891
Other financial liabilities		0	0
Financial liabilities measured at amortised cost		178,908,933	193,523,117
Deposits from banks	23	14,631,353	22,935,413
Deposits from customers	23	137,938,808	144,642,852
Debt securities issued	23	25,502,621	25,284,791
Other financial liabilities		836,150	660,062
Derivatives - hedge accounting	19	472,675	439,239
Changes in fair value of portfolio hedged items		942,028	862,661
Provisions	24	1,702,354	1,811,724
Current tax liabilities		65,859	61,108
Deferred tax liabilities		67,542	76,882
Liabilities associated with assets held for sale		4,637	4,576
Other liabilities	25	2,936,220	2,905,487
Total equity		**16,601,996**	**16,893,936**
Equity attributable to non-controlling interests		4,142,054	4,208,721
Equity attributable to owners of the parent		12,459,942	12,685,216
Total liabilities and equity		**208,227,070**	**222,798,362**

III. Group statement of changes in total equity

	Subscribed capital	Capital reserves	Retained earnings	Cash flow hedge reserve	Available for sale reserve	Currency translation	Remeasurement of net liability of defined pension plans	Deferred tax	Equity attributable to owners of the parent	Additional components of equity	Equity attributable to non-controlling interests	Total equity
As of 1 January 2017	**860**	**1,478**	**10,090**	**107**	**632**	**-734**	**-357**	**-112**	**11,963**	**497**	**4,142**	**16,602**
Changes in treasury shares	0	0	-5	0	0	0	0	0	-5	0	0	-5
Dividends paid	0	0	0	0	0	0	0	0	0	0	-6	-6
Capital increases	0	0	0	0	0	0	0	0	0	0	0	0
Participation capital	0	0	0	0	0	0	0	0	0	0	0	0
Changes in scope of consolidation	0	0	0	0	0	0	0	0	0	0	35	35
Other changes	0	0	0	0	0	0	0	0	0	0	0	0
Acquisition of non-controlling interest	0	0	2	0	0	0	0	0	2	0	0	2
Total comprehensive income	0	0	262	-15	-40	11	0	10	228	0	37	265
Net result for the period	0	0	262	0	0	0	0	0	262	0	77	339
Other comprehensive income	0	0	0	-15	-40	11	0	10	-34	0	-40	-74
As of 31 March 2017	**860**	**1,478**	**10,349**	**92**	**592**	**-723**	**-357**	**-103**	**12,188**	**497**	**4,209**	**16,894**
As of 1 January 2016	**860**	**1,478**	**9,071**	**115**	**688**	**-759**	**-334**	**-112**	**11,005**	**0**	**3,802**	**14,808**
Changes in treasury shares	0	0	8	0	0	0	0	0	8	0	0	8
Dividends paid	0	0	0	0	0	0	0	0	0	0	-2	-2
Capital increases	0	0	0	0	0	0	0	0	0	0	0	0
Participation capital	0	0	0	0	0	0	0	0	0	0	0	0
Changes in scope of consolidation	0	0	0	0	0	0	0	0	0	0	0	0
Other changes	0	0	0	0	0	0	0	0	0	0	0	0
Acquisition of non-controlling interest	0	0	-1	0	0	0	0	0	-1	0	1	0
Total comprehensive income	0	0	275	40	40	18	-46	-11	316	0	88	404
Net result for the period	0	0	275	0	0	0	0	0	275	0	48	323
Other comprehensive income	0	0	0	40	40	18	-46	-11	41	0	40	81
As of 31 March 2016	**860**	**1,478**	**9,353**	**154**	**727**	**-741**	**-380**	**-123**	**11,329**	**0**	**3,889**	**15,218**

In the column additional components of equity, Erste Group reports additional tier 1 bonds issued in June 2016 with a nominal value of EUR 500 million. After deduction of costs directly attributable to the capital increase, the net increase in capital amounted to EUR 497 million. The costs of the capital increase reduced the capital by EUR 3 million.

Additional tier 1 bonds are unsecured and subordinated bonds which are classified as equity under IFRS.

IV. Group cash flow statement

in EUR million	1-3 16 Restated	1-3 17
Net result for the period	**323**	**339**
Non-cash adjustments for items in net profit/loss for the year		
Depreciation, amortisation, impairment and reversal of impairment, revaluation of assets	119	119
Allocation to and release of provisions (including risk provisions)	57	150
Gains from the measurement and sale of assets	-4	-40
Other adjustments	43	-2
Changes in assets and liabilities from operating activities after adjustment for non-cash components		
Financial assets - held for trading	-1,235	106
Financial assets - at fair value through profit or loss	-53	-34
Financial assets - available for sale: debt instruments	16	1,935
Financial assets - held to maturity	128	-639
Loans and advances to credit institutions	-1,925	-6,979
Loans and advances to customers	-844	-2,484
Derivatives - hedge accounting	-116	113
Other assets from operating activities	-279	-479
Financial liabilities - held for trading	745	-438
Financial liabilities - at fair value through profit or loss	11	141
Financial liabilities measured at amortised cost		
Deposits from banks	3,118	8,304
Deposits from customers	721	6,704
Debt securities issued	366	-218
Other financial liabilities	33	-176
Derivatives - hedge accounting	58	-33
Other liabilities from operating activities	1,099	12
Cash flow from operating activities	**2,381**	**6,397**
Financial assets - available for sale: equity instruments	-48	45
Proceeds of disposal		
Associated companies	0	-3
Property and equipment, intangible assets and investment properties	714	733
Acquisition of		
Associated companies	0	0
Property and equipment, intangible assets and investment properties	-773	-792
Acquisition of subsidiaries (net of cash and cash equivalents acquired)	0	0
Disposal of subsidiaries	0	0
Cash flow from investing activities	**-107**	**-17**
Capital increases	0	0
Capital decrease	0	0
Acquisition of non-controlling interest	0	2
Dividends paid to equity holders of the parent	0	0
Dividends paid to non-controlling interests	-2	-6
Other financing activities	0	0
Cash flow from financing activities	**-2**	**-4**
Cash and cash equivalents at the beginning of the period	**12,350**	**18,353**
Cash flow from operating activities	2,381	6,397
Cash flow from investing activities	-107	-17
Cash flow from financing activities	-2	-4
Effect of currency translation	19	1
Cash and cash equivalents at the end of period	**14,641**	**24,731**
Cash flows related to taxes, interest and dividends	**1,014**	**1,043**
Payments for taxes on income (included in cash flow from operating activities)	-76	-102
Interest received	1,511	1,562
Dividends received	3	4
Interest paid	-424	-422

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

V. Condensed notes to the group financial statements of Erste Group for the period from 1 January to 31 March 2017

BASIS OF PREPARATION

The condensed consolidated interim financial statements ("interim financial statements") of Erste Group for the period from 1 January to 31 March 2017 were prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU") and are presented in accordance with the requirements of IAS 34 "Interim Financial Reporting". The group's application of IFRS resulted in no differences between IFRS as issued by the International Accounting Standards Board ("IASB") and IFRS as endorsed by the EU.

These interim financial statements were neither audited nor reviewed by an auditor.

BASIS OF CONSOLIDATION

Subsidiaries are consolidated from the date when control is obtained until the date when control is lost. Control is achieved when Erste Group is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power to direct the relevant activities of the investee. Relevant activities are those which most significantly affect the variable returns of an entity.

Evolvement of number of entities and funds included in Erste Group's IFRS consolidation scope

As of 31 December 2016	**448**
Additions	
Entities newly added to the scope of consolidation	2
Disposals	
Companies sold or liquidated	-6
Mergers	-2
As of 31 March 2017	**442**

ACCOUNTING AND MEASUREMENT METHODS

The interim financial statements do not include all the information and disclosures required in the annual consolidated financial statements. Therefore, the interim financial statements should be read in conjunction with Erste Group's consolidated financial statements as of 31 December 2016. The interim financial statements have been prepared in accordance with IAS 34 'Interim Financial Reporting' (IAS 34) and are presented in Euro, which is the functional currency of the parent company.

When preparing the interim financial statements, management undertakes a number of judgements, estimates and assumptions about recognition and measurement of assets, liabilities, income and expenses. The actual results may differ from the judgements, estimates and assumptions made by management, and will seldom equal the estimated results. The judgements, estimates and assumptions applied in the interim financial statements, including the key sources of estimation uncertainty, were the same as those applied in the group's last annual financial statements for the year ended 31 December 2016, with the exception of the calculation of the current income taxes for the interim reporting period for which the estimated effective tax rate for the group is applied. For the restatement of the comparative figures of Group cash flow statement please refer to the consolidated financial statement of Erste Group as of 31 December 2016.

APPLICATION OF AMENDED AND NEW IFRS/IAS

The following standards, interpretations and their amendments which are relevant for the business of Erste Group became effective as of 1 January 2017 but are not yet endorsed by the EU:

- Amendments to IAS 12: Recognition of deferred tax assets for unrealised losses
- Amendments to IAS 7: Disclosure Initiative
- Amendments to IFRS 12 as part of Annual Improvements to IFRS Standards 2014-2016 Cycle

Compared to the annual group financial statements as of 31 December 2016, no material changes in accounting policies were resulting from new or amended standards.

1. Net interest income

in EUR million	1-3 16	1-3 17
Interest income		
Financial assets - held for trading	198.6	158.4
Financial assets - at fair value through profit or loss	2.0	3.5
Financial assets - available for sale	110.8	91.9
Financial assets - held to maturity	139.6	137.7
Loans and receivables	1,053.1	993.3
Derivatives - hedge accounting, interest rate risk	10.6	-5.9
Other assets	5.4	9.9
Total interest income	**1,520.0**	**1,388.8**
Interest expenses		
Financial liabilities - held for trading	-128.1	-101.2
Financial liabilities - at fair value through profit or loss	-13.6	-13.4
Financial liabilities measured at amortised cost	-375.7	-305.1
Derivatives - hedge accounting, interest rate risk	95.5	91.4
Other liabilities	-6.5	-5.6
Total interest expense	**-428.4**	**-333.9**
Negative interest from financial liabilities	5.8	9.0
Negative Interest from financial assets	-5.2	-12.5
Net interest income	**1,092.2**	**1,051.3**

2. Net fee and commission income

in EUR million	1-3 16	1-3 17
Securities	46.2	53.6
Own issues	6.0	6.0
Transfer orders	37.7	46.0
Other	2.5	1.6
Clearing and settlement	0.9	2.0
Asset management	60.1	68.7
Custody	18.4	19.8
Fiduciary transactions	0.7	0.8
Payment services	209.6	212.1
Card business	45.4	44.1
Other	164.1	168.0
Customer resources distributed but not managed	39.8	45.1
Collective investment	3.9	3.3
Insurance products	28.1	29.8
Building society brokerage	2.8	5.5
Foreign exchange transactions	4.6	5.9
Other	0.4	0.5
Structured finance	0.0	0.0
Servicing fees from securitization activities	0.0	0.0
Lending business	43.9	33.7
Guarantees given, guarantees received	13.4	13.7
Loan commitments given, loan commitments received	7.8	5.2
Other lending business	22.7	14.8
Other	23.6	22.1
Net fee and commission income	**443.1**	**457.7**

3. Dividend income

in EUR million	1-3 16	1-3 17
Financial assets - held for trading	0.1	0.3
Financial assets - at fair value through profit or loss	0.5	0.8
Financial assets - available for sale	2.9	2.5
Dividend income from equity investments	-0.8	0.1
Dividend income	**2.6**	**3.7**

4. Net trading and result from financial assets and liabilities designated at fair value through profit or loss

Net trading result

in EUR million	1-3 16	1-3 17
Securities and derivatives trading	-22.7	-14.6
Foreign exchange transactions	57.7	65.5
Result from hedge accounting	16.3	-2.3
Net trading result	**51.2**	**48.6**

Result from financial assets and liabilities designated at fair value through profit or loss

in EUR million	1-3 16	1-3 17
Result from measurement/sale of financial assets designated at fair value through profit or loss	3.5	4.8
Result from measurement/sale of financial liabilities designated at fair value through profit or loss	-11.2	-1.8
Result from financial assets and liabilities designated at fair value through profit or loss	**-7.7**	**3.0**

5. Rental income from investment properties & other operating leases

in EUR million	1-3 16	1-3 17
Investment properties	18.7	21.2
Other operating leases	27.2	28.9
Rental income from investment properties & other operating leases	**45.9**	**50.1**

6. General administrative expenses

in EUR million	1-3 16	1-3 17
Personnel expenses	**-565.4**	**-571.7**
Wages and salaries	-421.0	-427.3
Compulsory social security	-108.9	-114.0
Long-term employee provisions	-11.9	-7.6
Other personnel expenses	-23.6	-22.8
Other administrative expenses	**-333.5**	**-332.4**
Deposit insurance contribution	-71.7	-64.7
IT expenses	-75.8	-91.6
Expenses for office space	-63.9	-60.2
Office operating expenses	-24.7	-27.5
Advertising/marketing	-34.8	-33.3
Legal and consulting costs	-28.5	-30.2
Sundry administrative expenses	-34.0	-24.9
Depreciation and amortisation	**-109.8**	**-114.2**
Software and other intangible assets	-40.6	-41.8
Owner occupied real estate	-19.7	-19.7
Investment properties	-26.2	-26.5
Customer relationships	-1.3	-2.0
Office furniture and equipment and sundry property and equipment	-22.0	-24.3
General administrative expenses	**-1,008.8**	**-1,018.3**

7. Gains/losses from financial assets and liabilities not measured at fair value through profit or loss, net

in EUR million	1-3 16	1-3 17
From sale of financial assets available for sale	3.8	25.6
From sale of financial assets held to maturity	0.0	2.4
From sale of loans and receivables	0.0	0.7
From repurchase of liabilities measured at amortised cost	-1.4	-0.4
Gains/losses from financial assets and liabilities not measured at fair value through profit or loss, net	**2.4**	**28.3**

8. Net impairment loss on financial assets not measured at fair value through profit or loss

in EUR million	1-3 16	1-3 17
Financial assets - available for sale	-6.0	-4.1
Loans and receivables	-50.5	-61.7
Allocation to risk provisions	-484.2	-592.0
Release of risk provisions	401.9	461.5
Direct write-offs	-16.5	-17.7
Recoveries recorded directly to the income statement	48.4	86.5
Financial assets - held to maturity	0.1	0.0
Net impairment loss on financial assets	**-56.4**	**-65.8**

9. Other operating result

in EUR million	1-3 16	1-3 17
Other operating expenses	**-222.5**	**-257.2**
Allocation to other provisions	-9.6	-83.1
Allocation to provisions for commitments and guarantees given	-79.9	-55.2
Levies on banking activities	-62.8	-35.8
Banking tax	-53.2	-25.4
Financial transaction tax	-9.6	-10.4
Other taxes	-5.6	-5.6
Recovery and resolution fund contributions	-64.7	-77.5
Impairment of goodwill	0.0	0.0
Other operating income	**83.0**	**130.0**
Release of other provisions	6.1	13.2
Release of provisions for commitments and guarantees given	77.0	123.7
Result from properties/movables/other intangible assets other than goodwill	-1.4	10.2
Result from other operating expenses/income	1.2	-17.0
Other operating result	**-139.5**	**-127.1**

In the line item “result from other operating expenses/income” the contributions to national resolution funds for the full-year 2017 (according to the Bank Recovery and Resolution Directive) of EUR 77.5 million (EUR 64.7 million) are included.

10. Taxes on income

The consolidated net tax expense for the reporting period amounted to EUR 95.6 million (EUR 104.4 million), thereof EUR 23.7 million (EUR 10.8 million) net deferred tax expense.

11. Cash and cash balances

in EUR million	Dec 16	Mar 17
Cash on hand	3,738	3,717
Cash balances at central banks	13,333	19,022
Other demand deposits	1,282	1,992
Cash and cash balances	**18,353**	**24,731**

12. Derivatives – held for trading

in EUR million	Dec 16 Notional value	Dec 16 Positive fair value	Dec 16 Negative fair value	Mar 17 Notional value	Mar 17 Positive fair value	Mar 17 Negative fair value
Derivatives held in the trading book	**160,050**	**4,364**	**3,754**	**189,243**	**3,984**	**3,438**
Interest rate	119,263	3,940	3,503	119,889	3,548	3,183
Equity	685	25	8	547	14	5
Foreign exchange	39,538	386	225	68,187	416	236
Credit	324	1	5	383	0	7
Commodity	240	13	12	236	6	7
Other	0	0	0	0	0	0
Derivatives held in the banking book	**32,436**	**916**	**1,407**	**32,171**	**867**	**1,305**
Interest rate	16,347	675	902	15,238	634	873
Equity	2,820	113	76	2,907	104	65
Foreign exchange	12,328	87	418	13,056	87	355
Credit	460	11	10	466	12	11
Commodity	1	0	0	1	0	0
Other	480	31	1	504	30	1
Total gross amounts	**192,486**	**5,281**	**5,161**	**221,414**	**4,851**	**4,743**
Offset		-806	-977		-750	-888
Total		**4,475**	**4,185**		**4,101**	**3,855**

Erste Group undertakes a part of its interest rate derivative transactions via London Clearing House. Therefore, those derivatives are shown net of the respective cash collaterals in the group balance sheet.

13. Other trading assets

in EUR million	Dec 16	Mar 17
Equity instruments	80	110
Debt securities	3,128	3,616
General governments	2,322	2,727
Credit institutions	496	617
Other financial corporations	141	68
Non-financial corporations	169	204
Loans and advances	268	0
Other trading assets	**3,476**	**3,726**

14. Financial assets – at fair value through profit or loss

in EUR million	Dec 16	Mar 17
Equity instruments	144	145
Debt securities	333	371
General governments	31	63
Credit institutions	298	308
Other financial corporations	5	0
Non-financial corporations	0	0
Loans and advances	2	2
Financial assets - at fair value through profit or loss	**480**	**518**

15. Financial assets – available for sale

in EUR million	Dec 16	Mar 17
Equity instruments	1,364	1,313
Debt securities	18,522	16,574
General governments	12,778	11,293
Credit institutions	2,478	2,234
Other financial corporations	742	577
Non-financial corporations	2,524	2,469
Loans and advances	0	0
Financial assets - available for sale	**19,886**	**17,887**

16. Financial assets – held to maturity

in EUR million	Gross carrying amount		Collective allowances		Net carrying amount	
	Dec 16	Mar 17	Dec 16	Mar 17	Dec 16	Mar 17
General governments	17,700	18,182	-2	-2	17,699	18,181
Credit institutions	1,022	1,195	-1	-1	1,021	1,194
Other financial corporations	177	155	0	0	177	155
Non-financial corporations	375	383	-1	-1	374	382
Financial assets - held to maturity	**19,274**	**19,916**	**-4**	**-4**	**19,270**	**19,912**

17. Loans and receivables to credit institutions

Loans and receivables to credit institutions

in EUR million	Gross carrying amount	Specific allowances	Collective allowances	Net carrying amount
As of 31 March 2017				
Debt securities	176	0	-1	175
Central banks	0	0	0	0
Credit institutions	176	0	-1	175
Loans and receivables	10,281	-2	-6	10,273
Central banks	6,362	0	0	6,362
Credit institutions	3,919	-2	-6	3,911
Total	**10,456**	**-2**	**-6**	**10,448**
As of 31 December 2016				
Debt securities	199	0	-1	198
Central banks	0	0	0	0
Credit institutions	199	0	-1	198
Loans and receivables	3,279	-2	-5	3,272
Central banks	666	0	0	665
Credit institutions	2,614	-2	-5	2,606
Total	**3,478**	**-2**	**-6**	**3,469**

Allowances for loans and receivables to credit institutions

in EUR million	As of	Allocations	Use	Releases	Interest income from impaired loans	Exchange-rate and other changes (+/-)	As of	Amounts written off	Recoveries of amounts previously written off
	Dec 16						Mar 17		
Specific allowances	**-2**	**-1**	**0**	**1**	**0**	**0**	**-2**	**0**	**0**
Debt securities	0	0	0	0	0	0	0	0	0
Central banks	0	0	0	0	0	0	0	0	0
Credit institutions	0	0	0	0	0	0	0	0	0
Loans and receivables	-2	-1	0	1	0	0	-2	0	0
Central banks	0	0	0	0	0	0	0	0	0
Credit institutions	-2	-1	0	1	0	0	-2	0	0
Collective allowances	**-5**	**-4**	**0**	**3**	**0**	**1**	**-6**	**0**	**0**
Debt securities	-1	0	0	0	0	0	-1	0	0
Central banks	0	0	0	0	0	0	0	0	0
Credit institutions	-1	0	0	0	0	0	-1	0	0
Loans and receivables	-5	-4	0	3	0	1	-5	0	0
Central banks	0	0	0	0	0	0	0	0	0
Credit institutions	-5	-4	0	3	0	1	-6	0	0
Total	**-7**	**-5**	**0**	**4**	**0**	**1**	**-8**	**0**	**0**
	Dec 15						Mar 16		
Specific allowances	**-8**	**0**	**6**	**0**	**0**	**-1**	**-3**	**0**	**0**
Debt securities	0	0	0	0	0	0	0	0	0
Central banks	0	0	0	0	0	0	0	0	0
Credit institutions	0	0	0	0	0	0	0	0	0
Loans and receivables	-8	0	6	0	0	-1	-3	0	0
Central banks	0	0	0	0	0	0	0	0	0
Credit institutions	-8	0	6	0	0	-1	-3	0	0
Collective allowances	**-5**	**-1**	**0**	**2**	**0**	**1**	**-4**	**0**	**0**
Debt securities	-2	0	0	0	0	0	-1	0	0
Central banks	0	0	0	0	0	0	0	0	0
Credit institutions	-2	0	0	0	0	0	-1	0	0
Loans and receivables	-3	-1	0	1	0	1	-3	0	0
Central banks	0	0	0	0	0	0	0	0	0
Credit institutions	-4	-1	0	1	0	0	-3	0	0
Total	**-13**	**-2**	**6**	**2**	**0**	**0**	**-6**	**0**	**0**

18. Loans and receivables to customers

Loans and receivables to customers

in EUR million	Gross carrying amount	Specific allowances	Collective allowances	Net carrying amount
As of 31 March 2017				
Debt securities with customers	89	0	-1	88
General governments	55	0	0	55
Other financial corporations	0	0	0	0
Non-financial corporations	34	0	-1	33
Loans and advances to customers	137,429	-3,806	-719	132,904
General governments	7,302	-4	-13	7,286
Other financial corporations	4,580	-94	-31	4,456
Non-financial corporations	58,898	-2,184	-405	56,309
Households	66,649	-1,524	-270	64,854
Total	**137,518**	**-3,806**	**-720**	**132,992**
As of 31 December 2016				
Debt securities with customers	92	0	-1	91
General governments	58	0	0	58
Other financial corporations	0	0	0	0
Non-financial corporations	34	0	-1	33
Loans and advances to customers	135,175	-3,887	-725	130,564
General governments	7,350	-6	-13	7,332
Other financial corporations	3,643	-94	-23	3,526
Non-financial corporations	58,273	-2,207	-401	55,664
Households	65,909	-1,580	-288	64,042
Total	**135,267**	**-3,887**	**-726**	**130,654**

Allowances for loans and receivables to customers

in EUR million	As of	Allocations	Use	Releases	Interest income from impaired loans	Exchange-rate and other changes (+/-)	As of	Amounts written off	Recoveries of amounts previously written off
	Dec 16						Mar 17		
Specific allowances	**-3,887**	**-440**	**212**	**301**	**16**	**-8**	**-3,806**	**-18**	**86**
Debt securities with customers	0	0	0	0	0	0	0	0	0
General governments	0	0	0	0	0	0	0	0	0
Other financial corporations	0	0	0	0	0	0	0	0	0
Non-financial corporations	0	0	0	0	0	0	0	0	0
Loans and advances to customers	-3,887	-440	212	301	16	-8	-3,806	-18	86
General governments	-6	0	0	2	0	0	-4	0	0
Other financial corporations	-94	-6	1	5	1	0	-94	0	0
Non-financial corporations	-2,207	-213	72	156	8	0	-2,184	-13	51
Households	-1,580	-221	140	137	7	-8	-1,524	-5	36
Collective allowances	**-726**	**-148**	**0**	**157**	**0**	**-3**	**-720**	**0**	**0**
Debt securities with customers	-1	0	0	0	0	0	-1	0	0
General governments	0	0	0	0	0	0	0	0	0
Other financial corporations	0	0	0	0	0	0	0	0	0
Non-financial corporations	-1	0	0	0	0	0	-1	0	0
Loans and advances to customers	-725	-148	0	157	0	-3	-719	0	0
General governments	-13	-1	0	1	0	0	-13	0	0
Other financial corporations	-23	-8	0	6	0	-5	-31	0	0
Non-financial corporations	-401	-76	0	72	0	0	-405	0	0
Households	-288	-63	0	78	0	2	-270	0	0
Total	**-4,613**	**-587**	**212**	**458**	**16**	**-12**	**-4,526**	**-18**	**86**
	Dec 15						Mar 16		
Specific allowances	**-5,276**	**-372**	**182**	**289**	**35**	**-14**	**-5,157**	**-16**	**48**
Debt securities with customers	-14	0	0	0	0	0	-14	0	0
General governments	0	0	0	0	0	0	0	0	0
Other financial corporations	0	0	0	0	0	0	0	0	0
Non-financial corporations	-14	0	0	0	0	0	-14	0	0
Loans and advances to customers	-5,262	-372	182	289	35	-15	-5,144	-16	48
General governments	-7	-3	0	1	0	0	-8	0	0
Other financial corporations	-154	-3	3	4	1	-1	-150	0	0
Non-financial corporations	-3,195	-181	112	161	17	-2	-3,089	-14	19
Households	-1,907	-185	67	123	17	-12	-1,897	-2	29
Collective allowances	**-733**	**-110**	**0**	**111**	**0**	**-1**	**-733**	**0**	**0**
Debt securities with customers	-2	0	0	0	0	0	-2	0	0
General governments	-2	0	0	0	0	0	-1	0	0
Other financial corporations	0	0	0	0	0	0	0	0	0
Non-financial corporations	0	0	0	0	0	0	-1	0	0
Loans and advances to customers	-731	-110	0	111	0	0	-731	0	0
General governments	-14	-2	0	4	0	0	-12	0	0
Other financial corporations	-26	-4	0	4	0	-1	-26	0	0
Non-financial corporations	-424	-44	0	47	0	1	-419	0	0
Households	-268	-61	0	56	0	-1	-273	0	0
Total	**-6,009**	**-483**	**182**	**400**	**35**	**-15**	**-5,891**	**-16**	**48**

19. Derivatives – hedge accounting

in EUR million	Dec 16			Mar 17		
	Notional value	Positive fair value	Negative fair value	Notional value	Positive fair value	Negative fair value
Fair value hedges	**22,378**	**1,980**	**586**	**22,815**	**1,750**	**550**
Interest rate	22,378	1,980	586	22,815	1,750	550
Equity	0	0	0	0	0	0
Foreign exchange	0	0	0	0	0	0
Credit	0	0	0	0	0	0
Commodity	0	0	0	0	0	0
Other	0	0	0	0	0	0
Cash flow hedges	**987**	**14**	**3**	**1,163**	**11**	**8**
Interest rate	987	14	3	1,163	11	8
Equity	0	0	0	0	0	0
Foreign exchange	0	0	0	0	0	0
Credit	0	0	0	0	0	0
Commodity	0	0	0	0	0	0
Other	0	0	0	0	0	0
Total gross amounts	**23,365**	**1,994**	**589**	**23,977**	**1,760**	**558**
Offset		-570	-116		-464	-119
Total		**1,424**	**473**		**1,297**	**439**

Erste Group undertakes a part of its interest rate derivative transactions via London Clearing House. Therefore, those derivatives are shown net of the respective cash collaterals in the group balance sheet.

20. Other assets

in EUR million	Dec 16	Mar 17
Prepayments and accrued income	177	209
Inventories	253	310
Sundry assets	590	1,006
Other assets	**1,020**	**1,525**

21. Other trading liabilities

in EUR million	Dec 16	Mar 17
Short positions	366	403
Equity instruments	240	60
Debt securities	126	343
Debt securities issued	59	56
Sundry trading liabilities	152	0
Other trading liabilities	**577**	**459**

22. Financial liabilities – at fair value through profit and loss

Debt securities issued

in EUR million	Dec 16	Mar 17
Subordinated liabilities	556	830
Subordinated issues and deposits	556	830
Hybrid issues	0	0
Other debt securities issued	1,133	1,012
Bonds	763	641
Certificates of deposit	0	0
Other certificates of deposits/name certificates	69	63
Mortgage covered bonds	302	309
Public sector covered bonds	0	0
Other	0	0
Debt securities issued	**1,689**	**1,842**

23. Financial liabilities measured at amortised costs

Deposits from banks

in EUR million	Dec 16	Mar 17
Overnight deposits	3,557	5,440
Term deposits	9,540	10,493
Repurchase agreements	1,534	7,002
Deposits from banks	**14,631**	**22,935**

Deposits from customers

in EUR million	Dec 16	Mar 17
Overnight deposits	**85,707**	**90,135**
Savings deposits	21,873	22,930
General governments	0	0
Other financial corporations	267	264
Non-financial corporations	1,344	1,496
Households	20,262	21,170
Non-savings deposits	63,834	67,205
General governments	4,637	5,164
Other financial corporations	4,774	5,916
Non-financial corporations	19,288	19,696
Households	35,135	36,428
Term deposits	**52,076**	**52,049**
Deposits with agreed maturity	46,925	46,833
Savings deposits	32,091	31,486
General governments	0	0
Other financial corporations	757	607
Non-financial corporations	1,333	1,376
Households	30,001	29,503
Non-savings deposits	14,834	15,347
General governments	1,740	1,695
Other financial corporations	2,460	2,805
Non-financial corporations	3,214	3,477
Households	7,420	7,369
Deposits redeemable at notice	5,151	5,216
General governments	1	1
Other financial corporations	70	81
Non-financial corporations	69	97
Households	5,011	5,037
Repurchase agreements	**156**	**2,459**
General governments	52	606
Other financial corporations	0	1,752
Non-financial corporations	104	101
Households	0	0
Deposits from customers	**137,939**	**144,643**
General governments	**6,429**	**7,467**
Other financial corporations	**8,327**	**11,425**
Non-financial corporations	**25,353**	**26,243**
Households	**97,829**	**99,507**

Debt securities issued

in EUR million	Dec 16	Mar 17
Subordinated liabilities	5,542	5,588
Subordinated issues and deposits	5,542	5,588
Hybrid issues	0	0
Other debt securities issued	19,960	19,696
Bonds	9,762	8,937
Certificates of deposit	441	97
Other certificates of deposits/name certificates	847	853
Mortgage covered bonds	7,351	7,984
Public sector covered bonds	1,456	1,418
Other	103	406
Debt securities issued	**25,503**	**25,285**

24. Provisions

in EUR million	Dec 16	Mar 17
Long-term employee provisions	969	958
Pending legal issues and tax litigation	332	401
Commitments and guarantees given	339	271
Provisions for guarantees - off balance sheet (defaulted customers)	208	137
Provisions for guarantees - off balance sheet (non-defaulted customers)	131	134
Other provisions	62	182
Provisions for onerous contracts	4	4
Other	58	177
Provisions	**1,702**	**1,812**

For the calculation of the defined benefit obligation for pension and severance payment provisions as well as for jubilee provisions, the interest rate used remained unchanged compared to the previous year (1.80%).All other valuation parameters remained unchanged.

25. Other liabilities

in EUR million	Dec 16	Mar 17
Deferred income and accrued fee expenses	220	216
Sundry liabilities	2,716	2,689
Other liabilities	**2,936**	**2,905**

26. Segment reporting

Erste Group’s segment reporting is based on IFRS 8 Operating Segments, which adopts the management approach. Accordingly, segment information is prepared on the basis of internal management reporting that is regularly reviewed by the chief operating decision maker to assess the performance of the segments and make decisions regarding the allocation of resources. Within Erste Group the function of the chief operating decision maker is exercised by the management board.

Erste Group’s segment reporting is based on the matrix organisation (business and geographical information) and provides comprehensive information to assess the performance of the business and geographical segments.

Business segmentation

The segment reporting comprises six business segments reflecting Erste Group’s management structure and its internal management reporting in 2017.

Retail

The Retail segment comprises the business with private individuals, micros and free professionals within the responsibility of account managers in the retail network. This business is operated by the local banks in cooperation with their subsidiaries such as leasing and asset management companies with a focus on simple products ranging from mortgage and consumer loans, investment products, current accounts, savings products to credit cards and cross selling products such as leasing, insurance and building society products.

Corporates

The Corporates segment comprises business activities with corporate customers of different turnover size (small and medium-sized enterprises, Local Large Corporate and Group Large Corporate customers) as well as commercial real estate and public sector business. Small and medium-sized enterprises are customers within the responsibility of the local corporate commercial center network, in general companies with an annual turnover ranging from EUR 1-3 million to EUR 50-75 million, the thresholds vary by country. Local Large Corporate customers are local corporates with a consolidated annual turnover exceeding a defined threshold between EUR 50 million to EUR 75 million, depending on the country, which are not defined as Group Large Corporate customers. Group Large Corporate customers are corporate customers/client groups with substantial operations in core markets of Erste Group with a consolidated annual turnover of generally at least EUR 500 million. Commercial Real Estate (CRE) covers business with real estate investors generating income from the rental of individual properties or portfolios of properties, project developers generating capital gains through sale, asset management services, construction services (applicable only for EGI) and own development for business purpose. Public Sector comprises business activities with three types of customers: public sector, public corporations and the non-profit sector.

Group Markets
The Group Markets (GM) segment comprises trading and markets services as well as customer business with financial institutions. It includes all activities related to the trading books of Erste Group, including the execution of trade, market making and short-term liquidity management. In addition, it comprises business connected with servicing financial institutions as clients including custody, depository services, commercial business (loans, cash management, trade & export finance).

Asset/Liability Management & Local Corporate Center
The Asset/Liability Management & Local Corporate Center (ALM & LCC) segment includes all asset/liability management functions – local and of Erste Group Bank AG (Holding) – as well as the local corporate centers which comprise internal service providers that operate on a non-profit basis and reconciliation items to local entity results. The corporate center of Erste Group Bank AG is included in the Group Corporate Center segment.

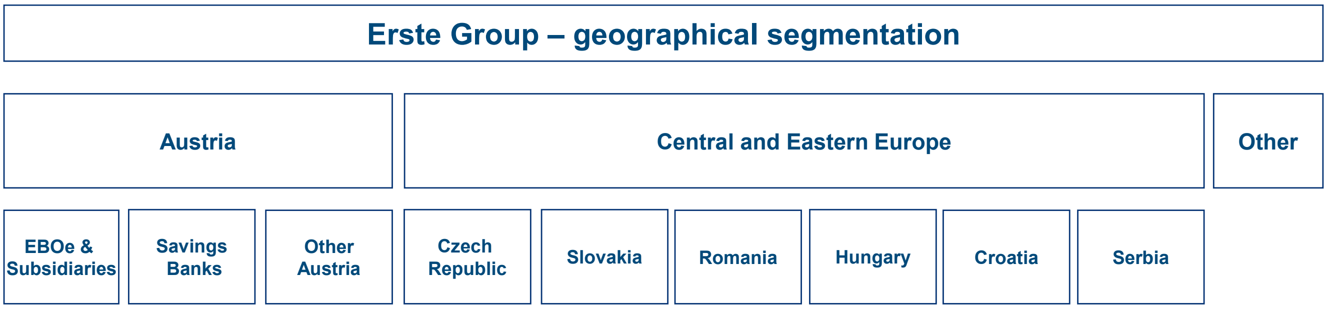
Savings Banks
The Savings Banks segment includes those savings banks which are members of the Haftungsverbund (cross-guarantee system) of the Austrian savings banks sector and in which Erste Group does not hold a majority stake but which are fully controlled according to IFRS 10. The fully or majority owned Erste Bank Oesterreich, Tiroler Sparkasse, Salzburger Sparkasse, and Sparkasse Hainburg are not part of the Savings Banks segment.

Group Corporate Center
The Group Corporate Center (GCC) segment covers mainly centrally managed activities and items that are not directly allocated to other segments. It comprises the corporate center of Erste Group Bank AG (and thus dividends and the refinancing costs from participations, general administrative expenses), non-profit internal service providers (facility management, IT, procurement), the banking tax of Erste Group Bank AG as well as free capital of Erste Group (defined as the difference of the total average IFRS equity and the average economical equity allocated to the segments).

Intragroup Elimination
Intragroup Elimination (IC) is not defined as a segment but is the reconciliation to the consolidated accounting result. It includes all intragroup eliminations between participations of Erste Group (e.g. intragroup funding, internal cost charges). Intragroup eliminations within partial groups are disclosed in the respective segments.

Geographical segmentation
For the purpose of segment reporting by geographical areas the information is presented based on the location of the booking entity (not the country of risk). In case of information regarding a partial group, the allocation is based on the location of the respective parent entity according to the local management responsibility.

Geographical areas are defined according to the country markets in which Erste Group operates. Based on the locations of the banking and other financial institution participations, the geographical areas consist of two core markets, Austria and Central and Eastern Europe and a residual segment Other that comprises the remaining business activities of Erste Group outside its core markets as well as the reconciliation to the consolidated accounting result.



The geographical area Austria consists of the following three segments:

- The **Erste Bank Oesterreich & Subsidiaries** (EBOe & Subsidiaries) segment comprises Erste Bank der oesterreichischen Sparkassen AG (Erste Bank Oesterreich) and its main subsidiaries (e.g. sBausparkasse, Salzburger Sparkasse, Tiroler Sparkasse, Sparkasse Hainburg).
- The **Savings banks** segment is identical to the business segment Savings banks.
- The **Other Austria** segment comprises Erste Group Bank AG (Holding) with its Corporates and Group Markets business, Erste Group Immorent AG, Erste Asset Management GmbH and Intermarket Bank AG.

The geographical area Central and Eastern Europe (CEE) consists of six segments covering Erste Group's banking subsidiaries located in the respective CEE countries:

- **Czech Republic** (comprising Česká spořitelna Group)
- **Slovakia** (comprising Slovenská sporiteľňa Group)
- **Romania** (comprising Banca Comercială Română Group)
- **Hungary** (comprising Erste Bank Hungary Group)
- **Croatia** (comprising Erste Bank Croatia Group), and
- **Serbia** (comprising Erste Bank Serbia Group).

The residual segment **Other** covers mainly centrally managed activities and items that are not directly allocated to other segments. It comprises the corporate center of Erste Group Bank AG (and thus dividends and the refinancing costs from participations, general administrative expenses), internal non-profit service providers (facility management, IT, procurement), the banking tax of Erste Group Bank AG as well as free capital of Erste Group (defined as the difference of the total average IFRS equity and the average economical equity allocated to the segments). Asset/Liability Management of Erste Group Bank AG as well as the reconciliation to the consolidated accounting result (e.g. intercompany eliminations, dividend eliminations) are also part of the segment Other.

Measurement

The profit and loss statement of the segment report is based on the measures reported to the Erste Group management board for the purpose of allocating resources to the segments and assessing their performance. Capital consumption per segment is regularly reviewed by the management of Erste Group to assess the performance of the segments. The average allocated capital is determined by the credit risk, market risk and operational risk.

According to the regular internal reporting to Erste Group management board, total assets and total liabilities as well as risk weighted assets and allocated capital are disclosed per segment. For measuring and assessing the profitability of segments within Erste Group, such key measures as return on allocated capital and cost/income ratio are used.

Return on allocated capital is defined as net result for the period before minorities in relation to the average allocated capital of the respective segment. Cost/income ratio is defined as operating expenses (general administrative expenses) in relation to operating income (total of net interest income, net fee and commission income, dividend income, net trading and fair value result, net result from equity method investments, rental income from investment properties and other operating lease).

Business segments (1)

in EUR million	Retail		Corporates		Group Markets		ALM&LCC	
	1-3 16	1-3 17	1-3 16	1-3 17	1-3 16	1-3 17	1-3 16	1-3 17
Net interest income	538.8	527.9	241.5	232.8	55.7	49.6	4.5	-12.7
Net fee and commission income	233.8	249.3	62.9	60.4	48.9	53.5	-10.9	-20.4
Dividend income	0.5	0.2	0.0	0.1	0.3	0.5	0.3	1.0
Net trading and fair value result	21.9	26.3	15.2	23.7	14.2	32.6	6.7	-21.6
Net result from equity method investments	1.5	2.5	0.0	0.0	0.0	0.0	0.0	0.2
Rental income from investment properties & other operating leases	5.5	5.4	26.5	32.3	0.0	0.0	6.3	8.1
General administrative expenses	-459.2	-486.4	-131.8	-132.7	-52.2	-51.8	-48.9	-33.9
Gains/losses from financial assets and liabilities not measured at fair value through profit or loss, net	0.0	0.0	0.0	0.1	0.4	0.0	-0.1	22.6
Net impairment loss on financial assets	-28.2	-3.5	34.9	-41.7	2.1	-0.6	-21.0	-17.2
Other operating result	-10.3	-22.8	-20.0	-1.9	0.1	-6.6	-71.6	-73.8
Levies on banking activities	-10.1	-11.6	-3.6	-3.6	-0.4	-0.4	-22.6	-15.4
Pre-tax result from continuing operations	**304.3**	**299.0**	**229.2**	**173.0**	**69.5**	**77.2**	**-134.7**	**-147.8**
Taxes on income	-61.5	-54.2	-47.7	-31.4	-15.5	-16.4	20.9	20.9
Net result for the period	**242.8**	**244.7**	**181.5**	**141.6**	**54.0**	**60.7**	**-113.8**	**-126.9**
Net result attributable to non-controlling interests	10.5	11.4	6.4	5.2	1.4	0.8	0.0	-2.1
Net result attributable to owners of the parent	**232.3**	**233.3**	**175.1**	**136.4**	**52.6**	**60.0**	**-113.8**	**-124.8**
Operating income	802.0	811.7	346.2	349.3	119.0	136.2	6.9	-45.5
Operating expenses	-459.2	-486.4	-131.8	-132.7	-52.2	-51.8	-48.9	-33.9
Operating result	**342.8**	**325.3**	**214.4**	**216.6**	**66.8**	**84.3**	**-42.1**	**-79.4**
Risk-weighted assets (credit risk, eop)	18,012	17,588	34,020	34,250	4,279	4,620	5,355	4,471
Average allocated capital	2,358	2,433	3,177	3,143	678	701	2,119	2,250
Cost/income ratio	57.3%	59.9%	38.1%	38.0%	43.9%	38.1%	>100.0%	-74.4%
Return on allocated capital	41.4%	40.8%	23.0%	18.3%	32.0%	35.1%	-21.6%	-22.9%
Total assets (eop)	50,830	55,163	46,637	47,166	34,387	41,077	49,934	56,102
Total liabilities excluding equity (eop)	70,468	75,883	22,638	26,620	26,599	34,501	53,726	51,897
Impairments and risk provisions	**-28.1**	**-8.9**	**19.6**	**28.9**	**1.7**	**-0.3**	**-15.7**	**-17.1**
Net impairment loss on loans and receivables to credit institutions/customers	-28.2	-3.5	35.0	-41.6	2.0	-0.5	-20.9	-17.4
Net impairment loss on other financial assets	0.0	0.0	-0.1	-0.1	0.1	0.0	-0.1	0.1
Allocations/releases of provisions for contingent liabilities	0.4	-4.4	-10.6	72.7	-0.4	0.2	3.6	-0.3
Impairment of goodwill	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net impairment loss on other non-financial assets	-0.2	-1.1	-4.8	-2.0	0.0	0.0	1.7	0.4

Business segments (2)

in EUR million	Savings Banks 1-3 16	Savings Banks 1-3 17	Group Corporate Center 1-3 16	Group Corporate Center 1-3 17	Intragroup Elimination 1-3 16	Intragroup Elimination 1-3 17	Total Group 1-3 16	Total Group 1-3 17
Net interest income	231.7	238.2	18.7	15.6	1.3	0.0	1,092.2	1,051.3
Net fee and commission income	108.1	114.6	2.5	0.3	-2.1	-0.1	443.1	457.7
Dividend income	0.9	1.4	0.6	0.6	0.0	-0.1	2.6	3.7
Net trading and fair value result	-5.5	-0.2	-10.6	-9.6	1.7	0.4	43.5	51.6
Net result from equity method investments	0.0	0.0	0.4	0.5	0.0	0.0	1.9	3.2
Rental income from investment properties & other operating leases	9.8	9.7	11.1	3.3	-13.4	-8.8	45.9	50.1
General administrative expenses	-257.6	-268.7	-190.0	-208.5	131.0	163.7	-1,008.8	-1,018.3
Gains/losses from financial assets and liabilities not measured at fair value through profit or loss, net	2.1	5.5	0.0	0.1	0.0	0.0	2.4	28.3
Net impairment loss on financial assets	-23.9	-1.5	-20.3	-1.3	0.0	0.0	-56.4	-65.8
Other operating result	-11.8	-11.4	92.6	144.5	-118.5	-155.2	-139.5	-127.1
Levies on banking activities	-3.6	-1.0	-22.5	-3.8	0.0	0.0	-62.8	-35.8
Pre-tax result from continuing operations	**53.8**	**87.7**	**-95.0**	**-54.4**	**0.0**	**0.0**	**427.0**	**434.7**
Taxes on income	-22.9	-19.3	22.2	4.8	0.0	0.0	-104.5	-95.6
Net result for the period	**30.9**	**68.4**	**-72.8**	**-49.6**	**0.0**	**0.0**	**322.6**	**339.0**
Net result attributable to non-controlling interests	24.1	54.5	5.5	7.0	0.0	0.0	47.8	76.8
Net result attributable to owners of the parent	**6.8**	**13.9**	**-78.3**	**-56.6**	**0.0**	**0.0**	**274.7**	**262.2**
Operating income	345.0	363.7	22.8	10.7	-12.5	-8.5	1,629.3	1,617.5
Operating expenses	-257.6	-268.7	-190.0	-208.5	131.0	163.7	-1,008.8	-1,018.3
Operating result	**87.4**	**95.0**	**-167.3**	**-197.7**	**118.5**	**155.2**	**620.5**	**599.2**
Risk-weighted assets (credit risk, eop)	21,774	20,905	1,494	1,336	0	0	84,933	83,169
Average allocated capital	2,048	2,137	4,698	6,150	0	0	15,078	16,813
Cost/income ratio	74.7%	73.9%	>100.0%	>100.0%	>100.0%	>100.0%	61.9%	63.0%
Return on allocated capital	6.1%	13.0%	-6.2%	-3.3%			8.6%	8.2%
Total assets (eop)	57,991	58,462	4,297	3,697	-37,707	-38,868	206,369	222,798
Total liabilities excluding equity (eop)	53,770	54,076	1,713	1,759	-37,763	-38,831	191,152	205,904
Impairments and risk provisions	**-15.4**	**-2.8**	**-24.3**	**2.8**	**0.0**	**0.0**	**-62.3**	**2.5**
Net impairment loss on loans and receivables to credit institutions/customers	-18.2	-1.6	-20.2	2.9	0.0	0.0	-50.5	-61.7
Net impairment loss on other financial assets	-5.7	0.0	-0.1	-4.1	0.0	0.0	-5.9	-4.1
Allocations/releases of provisions for contingent liabilities	8.5	0.4	-4.4	-0.1	0.0	0.0	-2.8	68.6
Impairment of goodwill	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net impairment loss on other non-financial assets	0.0	-1.8	0.3	4.1	0.0	0.0	-3.1	-0.3

Geographical segmentation - overview

in EUR million	Austria 1-3 16	Austria 1-3 17	Central and Eastern Europe 1-3 16	Central and Eastern Europe 1-3 17	Other 1-3 16	Other 1-3 17	Total Group 1-3 16	Total Group 1-3 17
Net interest income	486.9	486.5	561.0	548.7	44.3	16.1	1,092.2	1,051.3
Net fee and commission income	243.2	258.5	209.6	209.2	-9.7	-10.1	443.1	457.7
Dividend income	1.7	2.5	0.3	0.6	0.6	0.6	2.6	3.7
Net trading and fair value result	-12.1	17.7	60.0	65.9	-4.4	-32.0	43.5	51.6
Net result from equity method investments	0.1	0.7	1.4	2.0	0.4	0.5	1.9	3.2
Rental income from investment properties & other operating leases	26.4	32.8	15.3	13.0	4.1	4.3	45.9	50.1
General administrative expenses	-514.3	-528.5	-425.3	-433.6	-69.2	-56.2	-1,008.8	-1,018.3
Gains/losses from financial assets and liabilities not measured at fair value through profit or loss, net	2.4	8.4	1.2	10.2	-1.2	9.8	2.4	28.3
Net impairment loss on financial assets	-36.9	-29.8	3.2	-31.6	-22.7	-4.4	-56.4	-65.8
Other operating result	-11.7	-18.4	-93.8	-80.0	-34.0	-28.7	-139.5	-127.1
Levies on banking activities	-7.2	-1.8	-33.1	-30.2	-22.5	-3.8	-62.8	-35.8
Pre-tax result from continuing operations	**185.7**	**230.5**	**333.0**	**304.4**	**-91.7**	**-100.2**	**427.0**	**434.7**
Taxes on income	-57.2	-53.7	-67.8	-56.8	20.6	14.9	-104.5	-95.6
Net result for the period	**128.5**	**176.7**	**265.2**	**247.6**	**-71.2**	**-85.3**	**322.6**	**339.0**
Net result attributable to non-controlling interests	25.7	62.3	16.7	7.5	5.5	7.0	47.8	76.8
Net result attributable to owners of the parent	**102.9**	**114.4**	**248.5**	**240.1**	**-76.6**	**-92.3**	**274.7**	**262.2**
Operating income	746.2	798.8	847.7	839.4	35.3	-20.7	1,629.3	1,617.5
Operating expenses	-514.3	-528.5	-425.3	-433.6	-69.2	-56.2	-1,008.8	-1,018.3
Operating result	**232.0**	**270.3**	**422.4**	**405.8**	**-33.9**	**-76.9**	**620.5**	**599.2**
Risk-weighted assets (credit risk, eop)	49,506	46,389	33,445	34,819	1,982	1,962	84,933	83,169
Average allocated capital	4,893	4,888	4,550	4,856	5,636	7,069	15,078	16,813
Cost/income ratio	68.9%	66.2%	50.2%	51.7%	>100.0%	>100.0%	61.9%	63.0%
Return on allocated capital	10.6%	14.7%	23.4%	20.7%	-5.1%	-4.9%	8.6%	8.2%
Total assets (eop)	143,955	148,517	81,544	96,256	-19,129	-21,975	206,369	222,798
Total liabilities excluding equity (eop)	117,672	122,913	72,419	86,363	1,060	-3,372	191,152	205,904
Impairments and risk provisions	**-24.3**	**-27.5**	**-13.9**	**36.0**	**-24.1**	**-6.0**	**-62.3**	**2.5**
Net impairment loss on loans and receivables to credit institutions/customers	-31.1	-29.8	3.3	-31.7	-22.7	-0.3	-50.5	-61.7
Net impairment loss on other financial assets	-5.8	0.0	0.0	0.0	-0.1	-4.1	-5.9	-4.1
Allocations/releases of provisions for contingent liabilities	14.1	3.5	-15.3	66.8	-1.6	-1.7	-2.8	68.6
Impairment of goodwill	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net impairment loss on other non-financial assets	-1.6	-1.3	-1.8	0.9	0.3	0.1	-3.1	-0.3

Geographical area - Austria

in EUR million	EBOe & Subsidiaries 1-3 16	EBOe & Subsidiaries 1-3 17	Savings Banks 1-3 16	Savings Banks 1-3 17	Other Austria 1-3 16	Other Austria 1-3 17	Austria 1-3 16	Austria 1-3 17
Net interest income	158.7	155.3	231.7	238.2	96.5	93.0	486.9	486.5
Net fee and commission income	87.7	93.5	108.1	114.6	47.5	50.4	243.2	258.5
Dividend income	0.5	0.7	0.9	1.4	0.3	0.5	1.7	2.5
Net trading and fair value result	-5.7	4.3	-5.5	-0.2	-0.8	13.7	-12.1	17.7
Net result from equity method investments	-0.1	0.3	0.0	0.0	0.1	0.4	0.1	0.7
Rental income from investment properties & other operating leases	4.8	9.2	9.8	9.7	11.8	13.9	26.4	32.8
General administrative expenses	-172.8	-176.1	-257.6	-268.7	-83.9	-83.7	-514.3	-528.5
Gains/losses from financial assets and liabilities not measured at fair value through profit or loss, net	0.1	2.3	2.1	5.5	0.2	0.5	2.4	8.4
Net impairment loss on financial assets	-8.9	11.4	-23.9	-1.5	-4.1	-39.7	-36.9	-29.8
Other operating result	-6.3	-11.4	-11.8	-11.4	6.4	4.4	-11.7	-18.4
Levies on banking activities	-3.6	-0.8	-3.6	-1.0	0.0	0.0	-7.2	-1.8
Pre-tax result from continuing operations	**58.0**	**89.5**	**53.8**	**87.7**	**73.9**	**53.3**	**185.7**	**230.5**
Taxes on income	-14.1	-20.0	-22.9	-19.3	-20.3	-14.5	-57.2	-53.7
Net result for the period	**44.0**	**69.5**	**30.9**	**68.4**	**53.7**	**38.8**	**128.5**	**176.7**
Net result attributable to non-controlling interests	2.3	6.6	24.1	54.5	-0.8	1.2	25.7	62.3
Net result attributable to owners of the parent	**41.6**	**62.9**	**6.8**	**13.9**	**54.4**	**37.6**	**102.9**	**114.4**
Operating income	245.9	263.3	345.0	363.7	155.4	171.9	746.2	798.8
Operating expenses	-172.8	-176.1	-257.6	-268.7	-83.9	-83.7	-514.3	-528.5
Operating result	**73.1**	**87.2**	**87.4**	**95.0**	**71.5**	**88.1**	**232.0**	**270.3**
Risk-weighted assets (credit risk, eop)	12,478	11,160	21,774	20,905	15,254	14,324	49,506	46,389
Average allocated capital	1,245	1,238	2,048	2,137	1,600	1,514	4,893	4,888
Cost/income ratio	70.3%	66.9%	74.7%	73.9%	54.0%	48.7%	68.9%	66.2%
Return on allocated capital	14.2%	22.8%	6.1%	13.0%	13.5%	10.4%	10.6%	14.7%
Total assets (eop)	41,252	42,390	57,991	58,462	44,712	47,665	143,955	148,517
Total liabilities excluding equity (eop)	39,791	40,571	53,770	54,076	24,112	28,266	117,672	122,913
Impairments and risk provisions	**-7.2**	**10.4**	**-15.4**	**-2.8**	**-1.7**	**-35.1**	**-24.3**	**-27.5**
Net impairment loss on loans and receivables to credit institutions/customers	-8.7	11.5	-18.2	-1.6	-4.2	-39.7	-31.1	-29.8
Net impairment loss on other financial assets	-0.2	0.0	-5.7	0.0	0.1	0.0	-5.8	0.0
Allocations/releases of provisions for contingent liabilities	1.8	-1.7	8.5	0.4	3.8	4.7	14.1	3.5
Impairment of goodwill	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net impairment loss on other non-financial assets	-0.2	0.6	0.0	-1.8	-1.4	-0.1	-1.6	-1.3

Geographical area - Central and Eastern Europe

in EUR million	Czech Republic		Romania		Slovakia		Hungary		Croatia		Serbia		Central and Eastern Europe	
	1-3 16	1-3 17	1-3 16	1-3 17	1-3 16	1-3 17	1-3 16	1-3 17	1-3 16	1-3 17	1-3 16	1-3 17	1-3 16	1-3 17
Net interest income	226.9	222.9	97.1	91.1	113.3	107.8	45.9	46.7	66.7	67.8	11.2	12.4	561.0	548.7
Net fee and commission income	84.4	84.9	39.4	36.4	30.9	26.5	33.1	37.3	19.2	21.6	2.6	2.6	209.6	209.2
Dividend income	0.1	0.2	0.1	0.1	0.1	0.2	0.0	0.1	0.0	0.0	0.0	0.0	0.3	0.6
Net trading and fair value result	23.4	29.3	19.6	17.6	4.6	3.5	2.7	7.5	8.8	7.1	1.0	0.9	60.0	65.9
Net result from equity method investments	0.0	-0.4	-0.1	-0.2	1.2	2.1	0.0	0.0	0.3	0.3	0.0	0.0	1.4	2.0
Rental income from investment properties & other operating leases	4.8	3.0	2.6	3.2	0.5	0.1	1.0	1.0	6.4	5.6	0.1	0.1	15.3	13.0
General administrative expenses	-161.6	-170.7	-90.3	-78.1	-67.5	-68.2	-49.9	-56.7	-46.3	-49.8	-9.7	-10.0	-425.3	-433.6
Gains/losses from financial assets and liabilities not measured at fair value through profit or loss, net	0.1	8.5	0.0	0.0	0.0	0.3	1.0	1.3	0.1	0.0	0.0	0.0	1.2	10.2
Net impairment loss on financial assets	-17.0	-6.8	29.4	-0.7	-11.5	-9.4	14.1	22.4	-10.7	-37.4	-1.1	0.4	3.2	-31.6
Other operating result	-14.6	-13.7	-18.2	-21.3	-12.5	-9.5	-45.3	-28.9	-3.4	-6.6	0.2	0.0	-93.8	-80.0
Levies on banking activities	0.0	0.0	0.0	0.0	-6.2	-6.6	-26.9	-23.6	0.0	0.0	0.0	0.0	-33.1	-30.2
Pre-tax result from continuing operations	**146.5**	**157.3**	**79.7**	**48.0**	**59.1**	**53.5**	**2.5**	**30.7**	**41.2**	**8.6**	**4.1**	**6.4**	**333.0**	**304.4**
Taxes on income	-29.5	-31.2	-13.9	-8.8	-13.9	-12.2	-2.7	-2.9	-7.8	-1.3	0.0	-0.4	-67.8	-56.8
Net result for the period	**117.0**	**126.1**	**65.7**	**39.2**	**45.2**	**41.3**	**-0.2**	**27.8**	**33.4**	**7.3**	**4.1**	**5.9**	**265.2**	**247.6**
Net result attributable to non-controlling interests	1.3	1.3	4.2	2.4	0.0	0.0	0.0	0.0	10.4	2.5	0.8	1.2	16.7	7.5
Net result attributable to owners of the parent	**115.7**	**124.8**	**61.5**	**36.8**	**45.2**	**41.3**	**-0.2**	**27.8**	**22.9**	**4.8**	**3.3**	**4.8**	**248.5**	**240.1**
Operating income	339.6	339.9	158.7	148.2	150.5	140.3	82.6	92.6	101.4	102.4	14.8	16.0	847.7	839.4
Operating expenses	-161.6	-170.7	-90.3	-78.1	-67.5	-68.2	-49.9	-56.7	-46.3	-49.8	-9.7	-10.0	-425.3	-433.6
Operating result	**178.0**	**169.2**	**68.4**	**70.1**	**83.0**	**72.1**	**32.7**	**35.9**	**55.1**	**52.6**	**5.1**	**6.0**	**422.4**	**405.8**
Risk-weighted assets (credit risk, eop)	14,715	15,472	5,324	5,393	4,960	4,845	3,323	3,870	4,288	4,270	835	968	33,445	34,819
Average allocated capital	1,755	1,924	984	1,081	662	626	494	534	542	563	114	129	4,550	4,856
Cost/income ratio	47.6%	50.2%	56.9%	52.7%	44.9%	48.6%	60.4%	61.2%	45.7%	48.7%	65.5%	62.6%	50.2%	51.7%
Return on allocated capital	26.8%	26.6%	26.9%	14.7%	27.5%	26.7%	-0.2%	21.1%	24.7%	5.3%	14.5%	18.6%	23.4%	20.7%
Total assets (eop)	36,867	48,496	14,120	14,831	14,219	15,307	6,465	7,607	8,851	8,800	1,022	1,216	81,544	96,256
Total liabilities excluding equity (eop)	32,306	43,888	12,740	13,290	12,631	13,714	5,954	6,666	7,901	7,745	887	1,061	72,419	86,363
Impairments and risk provisions	**-11.5**	**-5.7**	**22.0**	**2.7**	**-11.1**	**-7.0**	**-1.6**	**84.1**	**-10.6**	**-38.6**	**-1.1**	**0.5**	**-13.9**	**36.0**
Net impairment loss on loans and receivables to credit institutions/customers	-17.0	-7.0	29.5	-0.7	-11.5	-9.4	14.1	22.4	-10.7	-37.3	-1.1	0.4	3.3	-31.7
Net impairment loss on other financial assets	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.1	0.0	0.0	0.0	0.0
Allocations/releases of provisions for contingent liabilities	1.1	0.5	-1.5	2.5	0.2	2.5	-15.5	62.0	0.4	-0.8	0.1	0.1	-15.3	66.8
Impairment of goodwill	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net impairment loss on other non-financial assets	4.5	0.6	-5.9	0.9	0.2	0.0	-0.2	-0.3	-0.3	-0.4	0.0	0.0	-1.8	0.9

27. Risk management

It is a core function of every bank to take risks in a conscious and selective manner and to manage such risks professionally. Erste Group's proactive risk policy and strategy aims at achieving balanced risk and return in order to generate a sustainable and adequate return on equity. Concerning risk policy and strategy as well as regarding risk management organisation, reference is made to the note of the same name in the annual report 2016.

Credit risk

The classification of credit assets into risk grades is based on Erste Group's internal ratings. For the purpose of external reporting, internal rating grades of Erste Group are grouped into the following four risk categories:

Low risk

Typically regional customers with well-established and rather long-standing relationships with Erste Group or large internationally recognised customers. Very good to satisfactory financial position and low likelihood of financial difficulties relative to the respective market in which the customers operate. Retail clients having long relationships with the bank, or clients with a wide product pool use. No relevant 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 possible payment problems in the past triggering early collection reminders. These clients typically have a good recent payment history.

Substandard

The borrower is vulnerable to short term negative financial and economic developments and shows an elevated probability of failure. In some cases, restructuring measures are possible or already in place. As a rule, such loans are managed in specialised risk management departments.

Non-performing

One or more of the default criteria under Article 178 of the CRR are met: among others, 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. Erste Group applies the customer view for all customer segments, including retail clients; if an obligor defaults on one deal then the customer's performing transactions are classified as non-performing as well. Furthermore, non-performing exposures also comprise non-performing forborne transactions even in cases where the client has not defaulted.

Credit risk exposure

Credit risk exposure relates to the following balance sheet items:

- cash and cash balances - other demand deposits;
- financial assets - held for trading (without equity instruments);
- financial assets - at fair value through profit or loss (without equity instruments);
- financial assets - available for sale (without equity instruments);
- financial assets - held to maturity;
- loans and receivables to credit institutions;
- loans and receivables to customers;
- derivatives - hedge accounting;
- contingent liabilities (primarily financial guarantees and undrawn irrevocable credit commitments).

The credit risk exposure comprises the gross carrying amount (or nominal value in the case of off-balance-sheet positions) without taking into account loan loss allowances, provisions for guarantees, any collateral held (including risk transfer to guarantors), netting effects, other credit enhancements or credit risk mitigating transactions.

The gross carrying amount of the credit risk exposure increased to EUR 223.8 billion (+4.1%; EUR 214.9 billion).

Reconciliation between gross carrying amount and carrying amount of the separate components of the credit risk exposure

in EUR million	Gross carrying amount	Credit risk provisions	Net carrying amount
As of 31 March 2017			
Cash and cash balances - other demand deposits	1,992	0	1,992
Loans and receivables to credit institutions	10,456	9	10,448
Loans and receivables to customers	137,518	4,526	132,992
Financial assets - held to maturity	19,916	4	19,912
Financial assets - held for trading	3,616	0	3,616
Financial assets - at fair value through profit or loss	373	0	373
Financial assets - available for sale	16,574	0	16,574
Positive fair value of derivatives	5,398	0	5,398
Contingent liabilities	27,961	0	--
Total	**223,804**	**4,538**	**191,305**
As of 31 December 2016			
Cash and cash balances - other demand deposits	1,282	0	1,282
Loans and receivables to credit institutions	3,478	8	3,469
Loans and receivables to customers	135,267	4,613	130,654
Financial assets - held to maturity	19,274	4	19,270
Financial assets - held for trading	3,396	0	3,396
Financial assets - at fair value through profit or loss	336	0	336
Financial assets - available for sale	18,522	0	18,522
Positive fair value of derivatives	5,899	0	5,899
Contingent liabilities	27,484	0	--
Total	**214,938**	**4,625**	**182,829**

Concerning contingent liabilities the gross carrying amount refers to the nominal value, while credit risk provisions refer to provisions for guarantees. A net carrying amount is not presented in the case of contingent liabilities.

On the next pages the credit risk volume is presented by:

- Basel 3 exposure class and financial instrument,
- industry and risk category;
- country of risk and risk category;
- business segment and risk category;
- geographical segment and risk category.

Furthermore, a breakdown of loans and receivables to customers is presented according to the following criteria:

- business segment and risk category;
- geographical segment and risk category;
- business segment and coverage of non-performing loans and receivables by allowances;
- geographical segment and coverage of non-performing loans and receivables by allowances;
- geographical segment and currency.

Credit risk exposure by Basel 3 exposure class and financial instrument

in EUR million	Cash and cash balances - other demand deposits	Loans and receivables to credit institutions	Loans and receivables to customers	Debt securities: Financial assets - held to maturity	Debt securities: Financial assets - held for trading	Debt securities: Financial assets - at fair value through profit or loss	Debt securities: Financial assets - available-for-sale	Positive fair value of derivatives	Contingent liabilities	Total credit risk exposure
		At amortised cost			At fair value					
Mar 17										
Sovereigns	3	4,108	7,319	18,949	2,732	75	13,149	300	1,637	48,273
Institutions	1,984	5,764	134	691	548	116	1,460	4,685	237	15,619
Corporates	5	584	60,502	276	336	182	1,965	411	18,922	83,183
Retail	0	0	69,563	0	0	0	0	1	7,165	76,729
Total	**1,992**	**10,456**	**137,518**	**19,916**	**3,616**	**373**	**16,574**	**5,398**	**27,961**	**223,804**
Dec 16										
Sovereigns	6	680	7,347	18,459	2,549	42	14,823	330	1,639	45,876
Institutions	1,270	2,080	149	538	467	139	1,646	5,120	251	11,659
Corporates	6	717	59,010	277	380	155	2,053	448	19,002	82,048
Retail	0	0	68,761	0	0	0	0	1	6,592	75,354
Total	**1,282**	**3,478**	**135,267**	**19,274**	**3,396**	**336**	**18,522**	**5,899**	**27,484**	**214,938**

The assignment of obligors to Basel 3 exposure classes is based on legal regulations. For reasons of clarity, individual Basel 3 exposure classes are presented in aggregated form. 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. Institutions include banks and recognised investment firms.

Credit risk exposure by industry and risk category

in EUR million	Low risk	Management attention	Substandard	Non-performing	Total credit risk exposure
As of 31 March 2017					
Agriculture and forestry	1,946	510	28	156	2,640
Mining	727	54	3	69	853
Manufacturing	12,447	1,403	195	868	14,913
Energy and water supply	3,357	353	31	107	3,849
Construction	8,074	1,232	101	654	10,061
Development of building projects	3,955	410	22	212	4,599
Trade	8,450	1,395	309	833	10,987
Transport and communication	5,795	504	33	153	6,485
Hotels and restaurants	2,661	897	146	393	4,097
Financial and insurance services	28,185	917	60	131	29,293
Holding companies	2,519	98	39	91	2,749
Real estate and housing	21,241	2,614	226	921	25,002
Services	8,458	1,134	175	385	10,152
Public administration	39,036	283	3	11	39,333
Education, health and art	2,414	417	28	241	3,100
Households	54,058	5,618	555	2,116	62,347
Other	351	1	332	10	694
Total	**197,200**	**17,333**	**2,225**	**7,046**	**223,804**
As of 31 December 2016					
Agriculture and forestry	1,966	495	28	149	2,638
Mining	704	60	4	112	880
Manufacturing	12,422	1,389	190	895	14,895
Energy and water supply	3,352	351	29	111	3,843
Construction	7,994	1,251	100	657	10,002
Development of building projects	3,875	437	20	220	4,553
Trade	8,524	1,568	160	693	10,945
Transport and communication	5,957	455	36	164	6,612
Hotels and restaurants	2,787	852	150	405	4,193
Financial and insurance services	20,503	881	61	146	21,592
Holding companies	2,453	126	41	114	2,734
Real estate and housing	20,563	2,770	238	966	24,537
Services	8,397	1,069	140	354	9,960
Public administration	39,403	500	7	24	39,935
Education, health and art	2,433	431	28	244	3,136
Households	52,632	5,658	574	2,174	61,037
Other	393	1	330	10	734
Total	**188,031**	**17,733**	**2,072**	**7,102**	**214,938**

Credit risk exposure by region and risk category

in EUR million	Low risk	Management attention	Substandard	Non-performing	Total credit risk exposure
As of 31 March 2017					
Core markets	**168,845**	**15,316**	**2,029**	**6,295**	**192,485**
Austria	84,125	7,960	1,266	2,337	95,688
Czech Republic	39,415	2,541	184	815	42,954
Romania	12,287	1,985	92	1,031	15,394
Slovakia	16,653	1,160	111	633	18,557
Hungary	8,048	657	143	349	9,197
Croatia	7,178	893	227	1,005	9,304
Serbia	1,139	121	5	126	1,392
Other EU	**21,208**	**1,227**	**138**	**557**	**23,130**
Other industrialised countries	**4,095**	**132**	**5**	**54**	**4,286**
Emerging markets	**3,054**	**658**	**53**	**139**	**3,903**
Southeastern Europe/CIS	1,401	396	48	116	1,961
Asia	1,064	172	2	0	1,238
Latin America	79	30	1	17	127
Middle East/Africa	510	60	1	5	577
Total	**197,200**	**17,333**	**2,225**	**7,046**	**223,804**
As of 31 December 2016					
Core markets	**160,052**	**15,679**	**1,914**	**6,409**	**184,055**
Austria	84,766	8,035	1,233	2,400	96,435
Czech Republic	32,414	2,441	177	910	35,942
Romania	12,059	1,891	82	1,058	15,090
Slovakia	16,282	1,184	128	629	18,222
Hungary	6,592	683	140	453	7,868
Croatia	7,075	1,035	142	821	9,073
Serbia	865	410	12	138	1,425
Other EU	**20,744**	**1,299**	**91**	**455**	**22,590**
Other industrialised countries	**4,176**	**167**	**5**	**58**	**4,406**
Emerging markets	**3,059**	**588**	**61**	**180**	**3,888**
Southeastern Europe/CIS	1,400	376	54	156	1,986
Asia	1,099	124	4	0	1,228
Latin America	61	33	2	18	114
Middle East/Africa	499	54	1	6	560
Total	**188,031**	**17,733**	**2,072**	**7,102**	**214,938**

The geographic analysis of credit exposure is based on the country of risk of borrowers and counterparties and also includes obligors domiciled in other countries if the economic risk exists in the respective country of risk. Accordingly, the distribution by regions differs from the composition of the credit risk exposure by geographical segments of Erste Group.

Credit risk exposure by reporting segment and risk category

The segment reporting of Erste Group is based on the matrix organisation by business segment as well as by geographical segment. The geographical segmentation follows the country markets in which Erste Group operates and the locations of the banking and other financial institutions participations.

Credit risk exposure by business segment and risk category

in EUR million	Low risk	Management attention	Substandard	Non-performing	Total credit risk exposure
As of 31 March 2017					
Retail	47,217	5,508	533	1,883	55,141
Corporates	53,040	4,690	578	3,061	61,370
Group Markets	20,423	557	5	4	20,988
Asset/Liability Management and Local Corporate Center	29,719	135	195	22	30,071
Savings Banks	46,737	6,350	838	2,075	56,000
Group Corporate Center	65	92	77	1	235
Total	**197,200**	**17,333**	**2,225**	**7,046**	**223,804**
As of 31 December 2016					
Retail	46,061	5,428	512	1,971	53,972
Corporates	53,019	4,906	438	3,048	61,411
Group Markets	14,839	664	36	4	15,542
Asset/Liability Management and Local Corporate Center	27,234	260	173	16	27,682
Savings Banks	46,827	6,384	849	2,062	56,122
Group Corporate Center	51	91	65	1	208
Total	**188,031**	**17,733**	**2,072**	**7,102**	**214,938**

Credit risk exposure by geographical segment and risk category

in EUR million	Low risk	Management attention	Substandard	Non-performing	Total credit risk exposure
As of 31 March 2017					
Austria	110,028	10,074	1,373	3,696	125,171
EBOe & Subsidiaries	34,440	2,648	438	750	38,276
Savings Banks	46,737	6,350	838	2,075	56,000
Other Austria	28,850	1,076	97	872	30,895
Central and Eastern Europe	80,696	7,166	775	3,289	91,927
Czech Republic	40,061	2,578	150	650	43,438
Romania	11,177	2,025	90	974	14,266
Slovakia	14,617	1,028	118	532	16,297
Hungary	6,658	507	116	294	7,575
Croatia	7,129	907	296	788	9,120
Serbia	1,054	121	5	51	1,231
Other	6,477	92	77	60	6,706
Total	**197,200**	**17,333**	**2,225**	**7,046**	**223,804**
As of 31 December 2016					
Austria	109,040	10,272	1,362	3,616	124,291
EBOe & Subsidiaries	35,090	2,713	394	827	39,025
Savings Banks	46,827	6,384	849	2,062	56,122
Other Austria	27,124	1,174	119	727	29,144
Central and Eastern Europe	71,867	7,364	645	3,453	83,329
Czech Republic	33,144	2,509	146	747	36,546
Romania	11,071	1,937	81	1,010	14,097
Slovakia	14,032	1,035	132	525	15,723
Hungary	5,660	544	111	396	6,711
Croatia	7,167	978	164	717	9,025
Serbia	794	362	12	59	1,227
Other	7,124	96	65	33	7,318
Total	**188,031**	**17,733**	**2,072**	**7,102**	**214,938**

Loans and receivables to customers

The tables on the following pages present the structure of the customer loan book, excluding loans to financial institutions and commitments, broken-down by different categories.

Loans and receivables to customers by business segment and risk category

in EUR million	Low risk	Management attention	Substandard	Non-performing	Gross customer loans
As of 31 March 2017					
Retail	41,701	5,082	506	1,859	49,149
Corporates	37,989	3,858	484	2,829	45,160
Group Markets	1,996	254	4	0	2,254
Asset/Liability Management and Local Corporate Center	102	26	42	12	182
Savings Banks	32,689	5,381	687	1,996	40,753
Group Corporate Center	17	0	2	1	21
Total	**114,494**	**14,601**	**1,725**	**6,698**	**137,518**
As of 31 December 2016					
Retail	41,013	5,034	487	1,946	48,480
Corporates	37,692	3,956	334	2,738	44,721
Group Markets	975	285	5	0	1,265
Asset/Liability Management and Local Corporate Center	97	23	38	13	171
Savings Banks	32,504	5,417	710	1,980	40,611
Group Corporate Center	15	1	2	1	19
Total	**112,297**	**14,715**	**1,577**	**6,678**	**135,267**

Loans and receivables to customers by geographical segment and risk category

in EUR million	Low risk	Management attention	Substandard	Non-performing	Gross customer loans
As of 31 March 2017					
Austria	71,139	8,469	1,015	3,544	84,167
Erste Bank Oesterreich & Subsidiaries	27,310	2,321	273	711	30,615
Savings Banks	32,689	5,381	687	1,996	40,753
Other Austria	11,140	767	56	836	12,799
Central and Eastern Europe	43,168	6,131	708	3,094	53,101
Czech Republic	20,633	2,128	135	600	23,496
Romania	5,314	1,668	74	902	7,958
Slovakia	9,368	944	96	484	10,893
Hungary	2,742	463	115	286	3,606
Croatia	4,440	817	282	773	6,312
Serbia	671	111	5	50	838
Other	187	1	2	60	250
Total	**114,494**	**14,601**	**1,725**	**6,698**	**137,518**
As of 31 December 2016					
Austria	71,069	8,668	1,003	3,447	84,186
Erste Bank Oesterreich & Subsidiaries	27,705	2,316	244	781	31,046
Savings Banks	32,504	5,417	710	1,980	40,611
Other Austria	10,859	936	48	686	12,529
Central and Eastern Europe	41,159	6,047	572	3,198	50,975
Czech Republic	19,067	2,046	130	695	21,939
Romania	5,297	1,594	71	928	7,890
Slovakia	9,028	948	102	475	10,552
Hungary	2,552	476	111	339	3,478
Croatia	4,563	870	147	704	6,285
Serbia	653	111	12	56	832
Other	70	1	2	33	105
Total	**112,297**	**14,715**	**1,577**	**6,678**	**135,267**

Non-performing loans and receivables to customers by business segment and coverage by allowances

in EUR million	Non-performing loans	Gross customer loans	Allowances for customer loans	NPL ratio	NPL coverage (exc collateral)
As of 31 March 2017					
Retail	1,859	49,149	1,397	3.8%	75.1%
Corporates	2,829	45,160	1,972	6.3%	69.7%
Group Markets	0	2,254	4	0.0%	3480.9%
Asset/Liability Management and Local Corporate Center	12	182	22	6.6%	183.0%
Savings Banks	1,996	40,753	1,131	4.9%	56.7%
Group Corporate Center	1	21	0	6.5%	18.0%
Total	**6,698**	**137,518**	**4,526**	**4.9%**	**67.6%**
As of 31 December 2016					
Retail	1,946	48,480	1,462	4.0%	75.2%
Corporates	2,738	44,721	1,979	6.1%	72.3%
Group Markets	0	1,265	3	0.0%	4949.4%
Asset/Liability Management and Local Corporate Center	13	171	18	7.3%	142.5%
Savings Banks	1,980	40,611	1,150	4.9%	58.1%
Group Corporate Center	1	19	0	7.3%	21.6%
Total	**6,678**	**135,267**	**4,613**	**4.9%**	**69.1%**

Non-performing loans and receivables to customers by geographical segment and coverage by allowances

in EUR million	Non-performing loans	Gross customer loans	Allowances for customer loans	NPL ratio	NPL coverage (exc collateral)
As of 31 March 2017					
Austria	3,544	84,167	2,016	4.2%	56.9%
Erste Bank Oesterreich & Subsidiaries	711	30,615	423	2.3%	59.5%
Savings Banks	1,996	40,753	1,131	4.9%	56.7%
Other Austria	836	12,799	462	6.5%	55.2%
Central and Eastern Europe	3,094	53,101	2,464	5.8%	79.6%
Czech Republic	600	23,496	503	2.6%	83.9%
Romania	902	7,958	789	11.3%	87.5%
Slovakia	484	10,893	364	4.4%	75.2%
Hungary	286	3,606	212	7.9%	74.3%
Croatia	773	6,312	544	12.2%	70.4%
Serbia	50	838	52	6.0%	104.2%
Other	60	250	45	24.1%	75.5%
Total	**6,698**	**137,518**	**4,526**	**4.9%**	**67.6%**
As of 31 December 2016					
Austria	3,447	84,186	2,051	4.1%	59.5%
Erste Bank Oesterreich & Subsidiaries	781	31,046	463	2.5%	59.3%
Savings Banks	1,980	40,611	1,150	4.9%	58.1%
Other Austria	686	12,529	438	5.5%	63.9%
Central and Eastern Europe	3,198	50,975	2,530	6.3%	79.1%
Czech Republic	695	21,939	575	3.2%	82.8%
Romania	928	7,890	792	11.8%	85.3%
Slovakia	475	10,552	343	4.5%	72.1%
Hungary	339	3,478	254	9.7%	75.0%
Croatia	704	6,285	510	11.2%	72.4%
Serbia	56	832	56	6.8%	99.1%
Other	33	105	32	31.3%	96.7%
Total	**6,678**	**135,267**	**4,613**	**4.9%**	**69.1%**

The NPL ratio is calculated by dividing non-performing loans and receivables by total loans and receivables. The NPL coverage ratio (excluding collateral) is calculated by dividing risk allowances (specific and collective allowances) by non-performing loans and receivables to customers. Collateral or other recoveries are not taken into account.

Loans and receivables to customers by geographical segment and currency

in EUR million	EUR	CEE-LCY	CHF	USD	Other	Gross customer loans
As of 31 March 2017						
Austria	75,441	0	5,006	2,083	1,637	84,167
Erste Bank Oesterreich & Subsidiaries	28,399	0	2,002	72	143	30,615
Savings Banks	36,944	0	2,861	58	891	40,753
Other Austria	10,098	0	144	1,954	603	12,799
Central and Eastern Europe	23,369	29,127	128	386	91	53,101
Czech Republic	3,084	20,235	1	109	67	23,496
Romania	3,787	3,972	0	199	0	7,958
Slovakia	10,836	0	0	34	23	10,893
Hungary	615	2,951	35	5	0	3,606
Croatia	4,407	1,791	79	34	1	6,312
Serbia	641	178	13	5	0	838
Other	205	37	0	8	0	250
Total	**99,014**	**29,164**	**5,134**	**2,478**	**1,728**	**137,518**
As of 31 December 2016						
Austria	75,200	0	5,205	2,261	1,521	84,186
Erste Bank Oesterreich & Subsidiaries	28,729	0	2,089	86	142	31,046
Savings Banks	36,662	0	2,988	80	881	40,611
Other Austria	9,810	0	128	2,095	497	12,529
Central and Eastern Europe	22,823	27,487	149	421	96	50,975
Czech Republic	2,846	18,930	1	96	65	21,939
Romania	3,807	3,875	0	208	0	7,890
Slovakia	10,487	0	0	42	23	10,552
Hungary	638	2,765	52	24	0	3,478
Croatia	4,405	1,744	82	45	8	6,285
Serbia	641	172	14	5	0	832
Other	51	46	0	8	0	105
Total	**98,075**	**27,533**	**5,353**	**2,690**	**1,617**	**135,267**

Market risk

The following table shows the value at risk of the trading book at the 99% confidence level using equally weighted market data and with a holding period of one day.

in EUR million	Dec 16	Mar 17
Interest	3.0	4.3
Currency	0.9	1.4
Shares	1.4	0.5
Commodity	0.3	0.3
Volatility	0.3	0.6
Total	**3.4**	**4.3**

The method used is subject to limitations that may result in the information 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. Issuer specific spreads are applied to sovereign issuers, while sector specific spreads are applied to non-sovereign issuers.

Liquidity risk

Due to the comfortable liquidity position and the usage of the TLTRO II programme (Targeted Longer-Term Refinancing Operations II) of the European Central Bank, Erste Group Bank AG has budgeted record low long term issuance for 2017 in the amount of EUR 1.45 billion. In the first three months of 2017, EUR 1.06 billion were issued in net terms (incl. EUR 52 million buybacks), including a EUR 750 million benchmark covered bond. Favorable market conditions enabled Erste Group Bank to issue EUR 500 million additional tier 1 capital (AT1) in April 2017. At group level, Erste Group's total TLTRO II participation increased in 2017 to EUR 3.5 billion (EUR 2.3 billion).

Leverage ratio

The leverage ratio represents the relationship between core capital (tier 1) and the leverage exposure according to Article 429 Capital Requirements Regulation (CRR). Essentially, the leverage exposure represents the sum of unweighted on- and off-balance-sheet positions considering valuation and risk adjustments as defined within the CRR.

As of 31 March 2017, the leverage ratio for Erste Group Bank AG at consolidated level amounted to 5.8% (Basel 3 final), comfortably above the 3.0% minimum requirement expected to apply from 2018. Tier 1 capital amounted to EUR 13.7 billion at the reference date, while total leverage exposure stood at EUR 237.8 billion.

The calculation and disclosure of the leverage ratio are based on the European Commission's delegated regulation ((EU) 2015/62 of 10 October 2014), which was published in the Official Journal of the European Union on 17 January 2015.

28. Related party transactions

The foundation DIE ERSTE oesterreichische Spar-Casse Privatstiftung (Privatstiftung) controls a total of 29.15% interest in Erste Group Bank AG. Privatstiftung is therefore the largest single investor in Erste Group Bank AG. At the end of the reporting period, Erste Group had, in relation to Privatstiftung, accounts payable of EUR 1.5 million (EUR 3.0 million) and no accounts receivable. In addition, standard derivative transactions for hedging purposes were in place between Erste Group and Privatstiftung, namely interest rate swaps with caps in the notional amount of EUR 3.0 million (EUR 103.0 million). Furthermore, Privatstiftung held bonds issued by Erste Group Bank AG in the amount of EUR 9.6 million (EUR 10.2 million). Erste Group held debt securities issued by Privatstiftung in the amount of EUR 0.3 million (EUR 0.3 million). The interest income of Erste Group in the reporting period amounted to EUR 0.3 million (total in 2016: EUR 6.3 million) while the interest expenses amounted to EUR 0.2 million (total in 2016: EUR 3.9 million), resulting from the above mentioned accounts payable and receivable as well as derivative transactions and debt securities.

29. Contingent liabilities - legal proceedings

There have not been any material changes with regard to legal disputes in which Erste Group Bank and some of its subsidiaries are involved or their impact on the financial position or profitability of Erste Group compared to the annual report 2016.

30. Fair value of financial instruments

All financial instruments are measured at fair value on recurring basis.

Financial instruments carried at fair value

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). Financial instruments for which the fair value is determined on the basis of quoted market prices are mainly listed securities and derivatives as well as liquid OTC bonds.

Description of valuation models and parameters

Erste Group uses valuation models that have been tested internally and for which the valuation parameters (such as interest rates, exchange rates, volatilities and credit spreads) have been determined independently. In case of a negative interest rate environment Erste Group uses models which are able to deal sufficiently with the presented market conditions. Consequently, such negative interest rates do not restrict the valuation models.

Securities. For plain vanilla (fixed and floating) debt securities the fair value is calculated by discounting the future cash-flows using a discounting curve depending on the interest rate for the respective issuance currency and a spread adjustment. The spread adjustment is usually derived from the credit spread curve of the issuer. If no issuer curve is available the spread is derived from a proxy instrument and adjusted for differences in the risk profile of the instruments. If no close proxy is available, the spread adjustment is estimated using other information, including estimation of the credit spread based on internal ratings and PDs or management judgment. Techniques for equity securities may also include models based on earnings multiples. For more complex debt securities (e.g. including option-like features such as callable, cap/floor, index-linked) the fair value is determined using combinations of discounted cash-flow models and more sophisticated modeling techniques including methods described for OTC-derivatives. The fair value of financial liabilities designated at fair value through profit or loss under the fair value option is determined in consistency with similar instruments held as assets. The spread adjustment for Erste Group's own credit risk is derived from buy-back levels of own issuances.

OTC-derivative financial instruments. Derivative instruments traded in liquid markets (e.g. interest rate swaps and options, foreign exchange forward and options, options on listed securities and indices, credit default swaps and commodity swaps) are valued by using standard valuation models. These models include discounting cash flow models, option models of the Black-Scholes- and Hull-White-type as well as hazard rate models. Models are calibrated on quoted market data (including implied volatilities). Valuation models for more complex instruments also use Monte-Carlo-techniques. For instruments in less liquid markets, data obtained from less frequent transactions or extrapolation techniques are used.

Erste Group values derivatives at mid-market levels. To reflect the potential bid-ask-spread of the relevant positions an adjustment based on market liquidity is performed. The adjustment parameters depend on product type, currency, maturity and notional size. Parameters are reviewed on a regular basis or in case of significant market moves. Netting is not applied when determining the bid-ask-spread adjustments.

Credit value adjustments (CVA) for counterparty risk and debit value adjustments (DVA) for own default credit risk are applied to OTC derivatives. For the CVA the adjustment is driven by the expected positive exposure of all derivatives and the credit quality of the counterparty. DVA is driven by the expected negative exposure and Erste Group's credit quality. Erste Group has implemented an approach, where the modeling of the expected exposure is based on option replication strategies. For products where an option replication is not feasible the exposure is computed with Monte-Carlo simulation techniques. One of the two modeling approaches is considered for the most relevant portfolios and products. The methodology for the remaining entities and products is determined by market value plus add-on considerations. The probability of default by counterparties that are not traded in an active market is determined from internal PDs mapped to a basket of liquid titles present in the central European market. Market based valuation concepts are incorporated for this. Counterparties with liquid bond or CDS markets are valued by the respective single-name market based PD derived from the prices. Erste Group's probability of default has been derived from the buy-back levels of Erste Group's issuances. Netting has only been considered for a few counterparties where the impact was material. In these cases, netting has been applied for both CVA and DVA. For counterparties with CSA-agreements in place no CVA was taken into account for all cases with immaterial threshold amounts.

According to the described methodology the accumulated CVA-adjustments amounts to EUR 20.8 million (EUR 26.0 million) and the total DVA-adjustment amounts to EUR 5.3 million (EUR 8.2 million).

Validation and control

The responsibility for valuation of financial instruments measured at fair value is independent of the trading units. In addition, Erste Group has implemented an independent validation function in order to ensure separation between units responsible for model development, fair value measurement and validation. The aim of independent model validation is to evaluate model risks arising from the models' theoretical foundation, the appropriateness of input data (market data) and model calibration.

Fair value hierarchy

Financial assets and financial liabilities measured at fair value are categorized under the three levels of the IFRS fair value hierarchy.

Level 1 of the fair value hierarchy

The fair value of financial instruments assigned to Level 1 of the fair value hierarchy is determined based on quoted prices in active markets for identical financial assets and liabilities. More particular, the evaluated fair value can qualify as Level 1 if transactions occur with sufficient frequency, volume and pricing consistency on an ongoing basis.

These include exchange traded derivatives (futures, options), shares, government bonds as well as other bonds and funds, which are traded in highly liquid and active markets.

Level 2 of the fair value hierarchy

In case a market quote is used for valuation but due to restricted liquidity the market does not qualify as active (derived from available market liquidity indicators) the instrument is classified as Level 2. If no market prices are available the fair value is measured by using valuation models which are based on observable market data. If all the significant inputs in the valuation model are observable the instrument is classified as Level 2 of the fair value hierarchy. For Level 2 valuations typically yield curves, credit spreads and implied volatilities are used as observable market parameters.

These include OTC derivatives, less liquid shares, bonds and funds as well as collateralized debt obligations (CDO) and own issues.

Level 3 of the fair value hierarchy

In some cases, the fair value can be determined neither on the basis of sufficiently frequent quoted market prices nor of valuation models that rely entirely on observable market data. In these 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 or the price quote used is updated infrequently the instrument is classified as Level 3 of the fair value hierarchy. For Level 3 valuations besides observable parameters typically credit spreads derived from internally calculated historical probability of default (PD) and loss given default (LGD) measures are used as unobservable parameters

These include shares and funds not quoted, illiquid bonds as well as illiquid asset backed securities (ABS) and collateralized debt obligations (CDO) as well as loans, participations, own issues and deposits.

A reclassification from Level 1 into Level 2 or Level 3 as well as vice versa will be performed if the financial instrument does no longer meet the criteria described above for the respective level.

The table below shows the classification of financial instruments carried at fair value with respect to levels of the fair value hierarchy.

	Dec 16				Mar 17			
in EUR million	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets								
Financial assets - held for trading	2,335	5,477	138	7,950	2,726	5,005	96	7,827
Derivatives	3	4,376	96	4,475	14	4,027	61	4,101
Other trading assets	2,332	1,102	42	3,476	2,712	979	35	3,726
Financial assets - at fair value through profit or loss	385	66	28	480	440	50	29	518
Financial assets - available for sale	16,774	2,208	867	19,850	14,768	2,209	874	17,851
Derivatives - hedge accounting	0	1,424	0	1,424	0	1,296	0	1,297
Assets held for sale	0	0	0	0	0	0	0	0
Total assets	**19,494**	**9,176**	**1,034**	**29,704**	**17,934**	**8,560**	**999**	**27,494**
Liabilities								
Financial liabilities - held for trading	378	4,382	1	4,762	417	3,896	1	4,314
Derivatives	13	4,171	1	4,185	14	3,840	1	3,855
Other trading liabilities	366	211	0	577	403	56	0	459
Financial liabilities - at fair value through profit or loss	0	1,673	90	1,763	0	1,898	8	1,906
Deposits from customers	0	74	0	74	0	64	0	64
Debt securities issued	0	1,599	90	1,689	0	1,834	8	1,842
Other financial liabilities	0	0	0	0	0	0	0	0
Derivatives - hedge accounting	0	472	0	473	0	439	0	439
Total liabilities	**378**	**6,528**	**91**	**6,997**	**417**	**6,233**	**9**	**6,659**

According to the chosen method for the allocation of positions to levels all the Levels and Level changes are reflected at the end of the reporting period.

Valuation process for financial instruments categorised as Level 3

The valuation of financial instruments categorized as Level 3 involves one or more significant inputs that are not directly observable on the market. Additional price verification steps need to be done. These may include reviewing relevant historical data and benchmarking for similar transactions, among others. This involves estimation and expert judgment.

Changes in volumes of Level 1 and Level 2

The following table shows the changes in volumes of Level 1 and Level 2 of financial instruments carried at fair value in the balance sheet.

	Dec 16		Mar 17	
in EUR million	Level 1	Level 2	Level 1	Level 2
Securities				
Net transfer from Level 1	0	247	0	-161
Net transfer from Level 2	-247	0	161	0
Net transfer from Level 3	-23	-208	-6	3
Purchases/sales/expiries	-1,017	333	-1,726	3,710
Changes in derivatives	1	-1,549	11	-477
Total year-to-date change	**-1,286**	**-1,177**	**-1,560**	**3,075**

Level 1 movements. The total amount of Level 1 financial assets decreased by EUR 1,560 million. The change in volume of Level 1 securities (decreased by EUR 1,571 million) was determined on the one hand by matured or sold assets in the amount of EUR 2,082 million and on the other hand by new investments in the amount of EUR 787 million. The decrease in volume for securities that were allocated to Level 1 at both reporting dates (2017 and 2016) amounted to EUR 364 million (due to partial purchases and sales and fair value changes caused by market movements). Due to improved market liquidity, assets in the amount of EUR 326 million could be reclassified from Level 2 to Level 1. This applied mainly to securities issued by financial institutions (EUR 83 million), but also to securities issued by governments (EUR 71 million) and other corporates (EUR 172 million). Due to lower market activity and change to modelled fair value, securities in total of EUR 164 million have been moved from Level 1 to Level 2. This applies mainly to securities issued by other corporates

(EUR 16 million), financial institutions (EUR 96 million) and as well as securities issued by governments (EUR 52 million). Level 1 instruments in the amount of EUR 6 million were reclassified to Level 3. The remaining decrease in the amount of EUR 67 million was due to partial sales and fair value changes of reclassified instruments.

Level 2 movements. The total value of Level 2 financial assets decreased by EUR 616 million. The Level 2 fair value change of securities and other receivables (down by EUR 745 million) can be explained for the most part by matured or sold positions in the amount of EUR 409 million and new investments in the amount of EUR 400 million. The increase in volume for securities that have been allocated to Level 2 at both reporting dates 2017 and 2016 amounted to EUR 310 million. Due to reduced market depth a total volume of EUR 164 million was reclassified from Level 1 to Level 2 in 2017. This applies mainly to securities issued by other corporates (EUR 16 million) and financial institutions (EUR 96 million) as well as securities issued by gov-ernments (EUR 52 million). Securities in the amount of EUR 326 million were reclassified from Level 2 to Level 1 for the reporting date. Due to the use of significant non-observable valuation parameters a total volume of EUR 124 million was reclassified from Level 2 to Level 3. Due to a change to valuation models with significant observable parameters a total volume of EUR 127 million was reclassified from Level 3 to Level 2. The remaining decrease in the amount of EUR 14 million was due to partial sales and fair value changes of reclassified instruments. The holding of loans and advances which are measured at fair value decreased by EUR 268 million in the current reporting period. The decrease on the asset side derivatives in Level 2 by EUR 477 million are caused by changes in market values and by netting effects.

On the liability side, as far as securities are concerned, there were no significant movements between the levels. Changes in the amounts were caused either by purchases, sales or changes in market value. The changes of derivatives were mainly caused by changes in the market value and netting effects.

Movements in Level 3 of financial instruments carried at fair value

The following table shows the development of fair value of financial instruments in Level 3 category.

in EUR million	As of	Gain/loss in profit or loss	Gain/loss in other compre-hensive income	Purchases	Sales	Settlem ents	Additions to the group	Disposals out of the group	Transfers into Level 3	Transfers out of Level 3	Currency translation	As of
Assets	**Dec 16**											**Mar 17**
Financial assets - held for trading	138	-13	0	10	-8	0	0	0	15	-47	0	96
Derivatives	96	-15	0	0	0	0	0	0	0	-20	0	61
Other trading assets	42	2	0	10	-7	0	0	0	15	-27	0	35
Financial assets - at fair value through profit or loss	28	0	0	0	0	0	0	0	0	0	0	29
Financial assets - available-for-sale	867	18	4	46	-1	-49	0	-2	76	-84	0	876
Derivatives - hedge accounting	0	0	0	0	0	0	0	0	0	0	0	0
Total assets	**1,034**	**6**	**4**	**56**	**-9**	**-49**	**0**	**-2**	**91**	**-130**	**0**	**1,001**
Assets	**Dec 15**											**Mar 16**
Financial assets - held for trading	150	22	0	13	-1	-1	0	0	37	-5	0	214
Derivatives	143	22	0	1	-1	-1	0	0	37	-5	0	195
Other trading assets	7	0	0	12	0	0	0	0	0	0	0	19
Financial assets - at fair value through profit or loss	50	0	0	0	-1	0	0	0	0	0	0	49
Financial assets - available-for-sale	627	-2	-1	65	-77	-1	0	0	57	-12	1	659
Derivatives - hedge accounting	0	0	0	0	0	0	0	0	0	0	0	0
Total assets	**827**	**20**	**-1**	**78**	**-80**	**-2**	**0**	**0**	**94**	**-17**	**1**	**921**

The profit or loss of Level 3 financial instruments classified as 'Financial assets – held for trading', 'Financial assets – at fair value through profit or loss' and 'Derivatives – hedge accounting' is disclosed in the income statement line item 'Net trading and fair value result'. Profit or loss from derecognition of 'Financial assets – available for sale' is shown in the income statement line item 'Gains/Losses from financial assets and liabilities not measured at fair value through profit or loss, net'. Impairments of 'Financial assets – available for sale' is disclosed in the line item 'Net impairment loss on financial assets'. Gains or losses in other comprehensive income of Level 3 financial instruments disclosed in the balance sheet line item 'Financial assets – available for sale' are reported directly in equity under 'Available for sale reserve'.

Level 3 Movements. The reclassification of securities to Level 3 was caused by a decrease in market liquidity and was based on an in-depth analysis of broker quotes. In addition to the assessment of the parameters used for the fair value determination, the external market values of securitizations were subject to an internal validation process, which is based on observable market inputs. Based on the described analysis securities in the amount of EUR 124 million were reclassified from Level 2 to Level 3. The change is coming from securities issued by financial institutions (EUR 112 million), securities from corporates (EUR 6 million) and securities from sovereigns in the amount of EUR 6 million. On the other hand securities in the amount of EUR 127 million were reclassified from Level 3 to Level 2. Therefore EUR 64 million are securities issued by financial institutions, EUR 26 million are securities issued by sovereigns and EUR 37 million by other coporates. Out of Level 1 EUR 6 million were reclassified to Level 3. The additional change in Level 3 positions was on the one hand caused by a decrease in derivative exposure of EUR 35 million and on the other hand by a decrease caused by the purchase, sale and market value change of securities in the amount of EUR 2 million.

The change in Level 3 debt securities issued on the liabilities side is caused by sold and matured position in the amount of EUR 90 million on the one hand and movement from Level 2 to Level 3 of EUR 8 million on the other hand.

Gains or losses on Level 3 instruments held at the reporting period's end and which are included in profit or loss are as follow:

	Gain/loss in profit or loss	
in EUR million	**1-3 16**	**1-3 17**
Assets		
Financial assets - held for trading	21.2	-6.0
Derivatives	20.9	-6.0
Other trading assets	0.4	0.0
Financial assets - at fair value through profit or loss	0.0	0.0
Financial assets - available for sale	-5.4	0.1
Derivatives - hedge accounting	0.0	0.0
Total	**15.8**	**-6.0**

The volume of Level 3 financial assets can be allocated to the following two categories:

- Market values of derivatives where the credit value adjustment (CVA) has a material impact and is calculated based on unobservable parameters (i.e. internal estimates of PDs and LGDs).
- Illiquid bonds, shares and funds not quoted in an active market where either valuation models with non-observable parameters have been used (e.g. credit spreads) or broker quotes have been used that cannot be allocated to Level 1 or Level 2.

Unobservable inputs and sensitivity analysis for Level 3 measurements

In case the fair value of a financial asset is retrieved from input parameters which are not observable in the market, those parameters can be retrieved from a range of alternative parameters. For the preparation of the balance sheet the parameters where chosen to reflect the market situation at the reporting date.

The range of unobservable valuation parameters used in Level 3 measurements is shown in the following table.

Financial assets	Type of instrument	Fair value in EUR million	Valuation technique	Significant unobservable inputs	Range of unobservable inputs (weighted average)
As of 31 March 2017					
Positive fair value of derivatives	Forwards, swaps, options	60.1	Discounted cash flow and option models with CVA adjustment based on potential future exposure	PD	1.08% – 100% (9.6%)
				LGD	60%
Financial assets - at fair value through profit or loss	Fixed and variable coupon bonds	3.6	Discounted cash flow	Credit spread	0.1% – 1.5% (0.4%)
Financial assets - available for sale	Fixed and variable coupon bonds	142.8	Discounted cash flow	Credit spread	0.1% – 5.3% (1.6%)
As of 31 December 2016					
Positive fair value of derivatives	Forwards, swaps, options	95.8	Discounted cash flow and option models with CVA adjustment based on potential future exposure	PD	0.78% – 100% (8.0%)
				LGD	60%
Financial assets - at fair value through profit or loss	Fixed and variable coupon bonds	3.4	Discounted cash flow	Credit spread	0.1% – 1.5% (0.4%)
Financial assets - available for sale	Fixed and variable coupon bonds	149.4	Discounted cash flow	Credit spread	0.1% – 5.3% (1.8%)

The following table shows the sensitivity analysis using reasonably possible alternatives per product type:

in EUR million	Dec 16 Fair value changes Positive	Dec 16 Fair value changes Negative	Mar 17 Fair value changes Positive	Mar 17 Fair value changes Negative
Derivatives	5.4	-5.3	8.2	-9.3
Income statement	5.4	-5.3	8.2	-9.3
Other comprehensive income	0.0	0.0	0.0	0.0
Debt securities	29.5	-39.4	41.2	-54.9
Income statement	1.7	-2.3	3.2	-4.2
Other comprehensive income	27.9	-37.1	38.0	-50.7
Equity instruments	9.8	-19.5	13.2	-26.4
Income statement	0.4	-0.8	0.4	-0.8
Other comprehensive income	9.4	-18.7	12.8	-25.6
Total	**44.7**	**-64.2**	**62.5**	**-90.6**
Income statement	**7.5**	**-8.3**	**11.7**	**-14.3**
Other comprehensive income	**37.2**	**-55.9**	**50.8**	**-76.3**

In estimating these impacts, mainly changes in credit spreads (for bonds), PDs, LGDs (for CVA of derivatives) and market values of comparable equities were considered. An increase (decrease) of spreads, PDs and LGDs result in a decrease (increase) of the corresponding market values. Positive correlation effects between PDs and LGDs were not taken into account in the sensitivity analysis.

The following ranges of reasonably possible alternatives of the unobservable inputs were considered in the sensitivity analysis table:
_ for debt securities range of credit spreads between +100 basis points and -75 basis points,
_ for equity related instruments the price range between -10% and +5%,
_ for CVA on derivatives PDs rating upgrade/downgrade by one notch, as well as the change of LGD by -5% and +10%.

Financial instruments not carried at fair value with fair value disclosed in the notes

The following table shows fair values and the fair value hierarchy of financial instruments for which fair value is disclosed in the notes.

in EUR million	Dec 16 Carrying amount	Dec 16 Fair value	Mar 17 Carrying amount	Mar 17 Fair value
Assets				
Cash and cash balances	18,353	18,353	24,731	24,731
Financial assets - held to maturity	19,270	20,918	19,912	21,346
Loans and receivables to credit institutions	3,469	3,489	10,448	10,515
Loans and receivables to customers	130,654	132,855	132,992	135,538
Liabilities				
Financial liabilities measured at amortised cost	178,909	180,618	193,523	196,226
Deposits from banks	14,631	14,622	22,935	23,012
Deposits from customers	137,939	138,165	144,643	145,324
Debt securities issued	25,503	27,010	25,285	27,228
Other financial liabilities	836	820	660	662
Financial guarantees and commitments				
Financial guarantees	n/a	-92	n/a	-55
Irrevocable commitments	n/a	-124	n/a	-91

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 and credit spread effects. The interest rate impact is based on the movements of market rates, while credit spread changes are derived from PDs and LGDs used for internal risk calculations. For the calculation of fair value loans and advances were grouped into homogeneous portfolios based on rating method, rating grade, maturity and the country where they were granted.

The fair values of financial assets held to maturity are either taken directly from the market or they are determined by directly observable input parameters (i.e. yield curves).

For liabilities without contractual maturities (e.g. demand deposits), the carrying amount represents the minimum of their fair value.

The fair value of issued securities and subordinated liabilities measured at amortized cost is based on market prices or on observable market parameters, if these are available. For issued securities where the fair value cannot be retrieved from quoted market prices, the fair value is calculated by discounting the future cash flows. The applied discount rate is based on the interest rates at which instruments with comparable characteristics could have been issued at the balance sheet date. Moreover optionality is taken into account when calculating the fair value. The fair value of other liabilities, measured at amortised cost, is estimated by taking into account the current interest rate environment, as well as the own credit spreads. These positions are assigned to the Level 3 category.

The fair value of off-balance sheet liabilities (i.e. financial guarantees and unused loan commitments) is estimated with the help of regulatory credit conversion factors. The resulting loan equivalents are treated like other on-balance sheet assets. The difference between the calculated market value and the notional amount of the hypothetical loan equivalents represents the fair value of these contingent liabilities. In case of the total market value being higher than the notional amount of the hypothetical loan equivalents the fair value of these contingent liabilities is presented with a negative sign.

31. Average number of employees during the financial period (weighted according to the level of employment)

	1-3 16	1-3 17
Domestic	**15,720**	**15,978**
Erste Group, EB Oesterreich and subsidiaries	8,398	8,798
Haftungsverbund savings banks	7,322	7,180
Abroad	**30,917**	**31,167**
Česká spořitelna Group	10,468	10,222
Banca Comercială Română Group	7,100	7,065
Slovenská sporiteľňa Group	4,208	4,241
Erste Bank Hungary Group	2,872	3,135
Erste Bank Croatia Group	2,843	3,065
Erste Bank Serbia Group	996	1,011
Savings banks subsidiaries	1,220	1,243
Other subsidiaries and foreign branch offices	1,209	1,185
Total	**46,638**	**47,145**

32. Regulatory capital and capital requirements

Regulatory scope of consolidation and institutional protection scheme

The consolidated regulatory capital and the consolidated regulatory capital requirements are calculated based on the scope of consolidation stipulated in the Capital Requirements Regulation (CRR). Based on Article 4 (1) (3), (16) to (27) CRR in line with Articles 18 and 19 CRR, the scope consists of credit institutions, investment firms, financial institutions and ancillary service undertakings. This definition differs from the scope of consolidation according to IFRS, which also includes insurance companies and other entities.

Regulatory capital

Since 1 January 2014, Erste Group has been calculating the regulatory capital and the regulatory capital requirements according to Basel 3. The requirements are implemented within the European Union via the Capital Requirements Directive (CRD IV) and the Capital Requirements Regulation (CRR), as well as within the regulatory technical standards. Furthermore, the Austrian Banking Act (ABA) applies in connection with the CRR. Erste Group applies these rules and calculates the capital ratios according to Basel 3, taking into consideration the Austrian transitional provisions which are defined in the CRR 'Begleitverordnung', published by the Austrian regulator.

Own funds according to CRR consist of common equity tier 1 (CET 1), additional tier 1 (AT1) and tier 2 (T2). In order to determine the capital ratios, each respective capital component – after application of all regulatory deductions and filters – is considered in relation to the total risk.

The regulatory minimum capital ratios including the regulatory buffers as of 31 March 2017 amount to 6.4% for CET1 (4.5% CET1, +1.25% capital conservation buffer, +0.5% buffer for systemic vulnerability and for systemic concentration risk and +0.105% institution specific countercyclical capital buffer), 7.9% for tier 1 capital (sum of CET1 and AT1) and 9.9% for total own funds.

In addition to minimum capital ratios and capital buffer requirements, institutions also have to fulfil additional capital requirements determined in the Supervisory Review and Evaluation Process (SREP).

Capital buffer requirements are set out in sections 23 (capital conservation buffer), 23a (countercyclical buffer), 23b (buffer for global systemically important institutions – G-SII buffer), 23c (buffer for other systemically important institutions – O-SII buffer) and 23d (systemic risk buffer) of the ABA and further specified in the regulation of the Financial Market Authority (FMA) on the establishment and recognition of the countercyclical buffer rate in accordance with section 23a para 3 ABA, on the establishment of the systemic risk buffer in accordance with section 23d para 3 ABA as well as on the detailed definition of the bases of calculation in accordance with section 23a para 3 clause 1 ABA and section 24 para 2 ABA (capital buffers regulation). All capital buffers have to be met entirely with CET1 capital and relate, accept the countercyclical buffer, to total risk.

Sections 23, 23a, 23b and 23c of the ABA as well as the capital buffers regulation entered into force on 1 January 2016. The capital buffers regulation was amended on 23 May 2016 to include requirements for O-SII buffers. As of the reporting date 30 September 2016, Erste Group has to fulfill the following capital buffer requirements.

According to section 23 para 1 ABA, Erste Group has to establish a capital conservation buffer in the amount of 2.5%.

The transitional provisions for capital conservation buffers are regulated in section 103q para 11 of the ABA as follows

- For the period from 1 January 2016 until 31 December 2016 by way of derogation from the requirements under section 23 ABA the capital buffer requirement for the capital conservation buffer amounts to 0.625%;
- For the period from 1 January 2017 until 31 December 2017 by way of derogation from the requirements under section 23 ABA, the capital buffer requirement for the capital conservation buffer amounts to 1.25%;
- For the period from 1 January 2018 until 31 December 2018 by way of derogation from the requirements under section 23 ABA, the capital buffer requirement for the capital conservation buffer amounts to 1.875%.

According to section 23a ABA the capital buffer requirement for the countercyclical capital buffer is regulated in section 4 capital buffers regulation as follows

- The institution specific requirement for the countercyclical buffer in accordance with section 23a para 1 ABA results from the weighted average of the rates of the countercyclical capital buffer that apply in the jurisdictions where significant credit risk positions of the credit institution are situated in accordance with section 5 of the capital buffer regulation, multiplied by the total amount of risk in accordance with Art. 92 (3), of the Regulation (EU) no. 575/2013
- For the calculation of the weighted average according to para 1, the countercyclical buffer quota for the national area as defined by the respective authority is multiplied with the result out of the comparison of the capital requirement related to significant credit risk positions within the national area and the total capital requirement as defined within Part 3, Title II and IV of Regulation (EU) no. 575/2013.
- Starting from 1 January 2016 is for the purposes of section 23a para 3 clause 2 ABA the capital buffer rate for the home country allocated, significant credit risk positions 0%.
- If the competent authority of another member state or a third country for the national legal area determines a rate of over 2.5% for the purposes of para 1 for significant credit risk positions in this legal area, a rate of 2.5% has to be applied.
- If the responsible third country authority establishes a national buffer rate, this rate is valid twelve months after the date on which the relevant third country authority has announced a change in the buffer rate.

The transitional provisions for the countercyclical buffer are regulated in section 103q para 11 of the ABA as follows

- For the period from 1 January 2016 until 31 December 2016 by way of derogation from the requirements under section 23a ABA the capital buffer requirement for the countercyclical buffer amounts to a maximum of 0.625%;
- For the period from 1 January 2017 until 31 December 2017 by way of derogation from the requirements under section 23a ABA, the capital buffer requirement for the countercyclical buffer amounts to a maximum of 1.25%;
- For the period from 1 January 2018 until 31 December 2018 by way of derogation from the requirements under section 23a ABA, the capital buffer requirement for the countercyclical buffer amounts to a maximum of 1.875%.

Erste Group is not obliged to establish a G-SII buffer in line with section 23b ABA. According to Section 7b of the amended capital buffers regulation, Erste Group has to establish an O-SII buffer under section 23c ABA in the amount of 2%. However, Erste Group is only required to hold the higher of the O-SII and the systemic risk buffer under section 23d ABA. As the size of the O-SII buffer as well as the transitional arrangements for its introduction are identical to the provisions for the systemic risk buffer as set out below, the amendment to the capital buffers regulation does not lead to additional buffer requirements for Erste Group.

With respect to the systemic risk buffer under section 23d ABA, the capital buffers regulation specifies

- According to section 7 para 1 (2) capital buffers regulation, Erste Group has to establish a capital buffer for systemic vulnerability in the amount of 1%.
- According to section 7 para 2 (1) capital buffers regulation, Erste Group has to establish a capital buffer for the systemic concentration risk in the amount of 1%.

In accordance with section 10 capital buffers regulation the buffer rates for systemic vulnerability and for systemic concentration risk respectively are phased in according to the schedule below

_ from 1 January to 31 December 2016 with 0.25%,
_ from 1 January to 31 December 2017 with 0.5%,
_ from 1 January to 31 December 2018 with 1%.

As a result of the 2016 SREP performed by the European Central Bank (ECB), Erste Group on a consolidated level is required to meet a transitional common equity tier 1 (CET 1) ratio of 8.1% as of 1 January 2017. This minimum CET 1 ratio of 8.1% includes Pillar 1 and Pillar 2 (P2R, 1.75%) requirements as well as the phasing in capital conservation buffer (1.25%), the institution specific countercyclical capital buffer (0.105%) and the systemic risk buffer (0.5%) requirements. In addition, ECB expects Erste Group to meet a Pillar 2 Guidance (P2G) of 1.66%, fully in CET1 capital. The Pillar 2 Guidance is not MDA (maximum distributable amount) relevant.

Overview of capital requirements and capital buffers

	Dec 16	Mar 17
Pillar 1		
Minimum CET 1 requirement	4.50%	4.50%
Capital conservation buffer	0.63%	1.25%
Countercyclical capital buffer	0.00%	0.11%
O-SII capital buffer	0.25%	0.50%
Systemic risk buffer (SRB)	0.25%	0.50%
Combined buffer requirement (CBR)	0.88%	1.86%
Pillar2		
Pillar 2 requirement (P2R)	4.38%	1.75%
Total CET 1 requirement for Pillar 1 and Pillar 2	**9.75%**	**8.11%**
Total Tier 1 requirement for Pillar 1 and Pillar 2	**n.a**	**9.61%**
Total Capital requirement for Pillar 1 and Pillar 2	**n.a**	**11.61%**

The combined buffer requirement is the sum of the capital conservation buffer, the countercyclical capital buffer and the maximum of the O-SII capital buffer or the systemic risk buffer.

The Pillar 2 requirement has to be fulfilled with CET 1 capital and excludes the P2G.

The Pillar 2 requirement of 4.38% for 2016 % (without the Pillar 1 requirement of 4.5% and the capital conservation buffer requirement of 0.625%) is calculated based on the CET 1 requirement of 9.5% defined by ECB.

The Austrian savings banks are included as subsidiaries in Erste Group's regulatory scope of consolidation based on the cross-guarantee contract of the 'Haftungsverbund'. Furthermore, Erste Group Bank AG together with the savings banks forms an institutional protection scheme (IPS) according to Article 113 (7) CRR. Disclosure requirements for the institutional protection scheme according to Article 113 (7) e CRR are met by the publication of the consolidated financial statements, which cover all entities included in the institutional protection scheme.

Capital structure according to the EU directive 575/2013 (CRR)

in EUR million	Article pursuant to CRR	Dec 16 Phased-in	Dec 16 Final	Mar 17 Phased-in	Mar 17 Final
Common equity tier 1 capital (CET1)					
Capital instruments eligible as CET1	26 (1) (a) (b), 27 to 30, 36 (1) (f), 42	2,336	2,336	2,337	2,337
Retained earnings	26 (1) (c), 26 (2)	9,518	9,518	9,540	9,540
Interim profit	26 (2)	0	0	0	0
Accumulated other comprehensive income	4 (1) (100), 26 (1) (d)	-276	-276	-338	-338
Minority interest recognised in CET1	4 (1) (120) 84	3,581	3,581	3,570	3,570
Transitional adjustments due to additional minority interests	479, 480	72	0	38	0
Common equity tier 1 capital (CET1) before regulatory adjustments		15,232	15,160	15,146	15,108
Own CET1 instruments	36 (1) (f), 42	-35	-35	-34	-34
Prudential filter: cash flow hedge reserve	33 (1) (a)	-88	-88	-76	-76
Prudential filter: cumulative gains and losses due to changes in own credit risk on fair valued liabilities	33 (1) (b)	-57	-57	-76	-76
Prudential filter: fair value gains and losses arising from the institution's own credit risk related to derivative liabilities	33 (1) (c), 33 (2)	-8	-8	-5	-5
Value adjustments due to the requirements for prudent valuation	34, 105	-90	-90	-88	-88
Regulatory adjustments relating to unrealised gains (20%)	468	-346	0	-173	0
Regulatory adjustments relating to unrealised losses (20%)	467	43	0	23	0
Securitisations with a risk weight of 1,250%	36 (1) (k)	-29	-29	-29	-29
Goodwill	4 (1) (113), 36 (1) (b), 37	-709	-709	-714	-714
Other intangible assets	4 (1) (115), 36 (1) (b), 37 (a)	-646	-646	-633	-633
Deferred tax assets dependent upon future profitability and not temporary differences net of associated tax liabilities	36 (1) (c), 38	-74	-74	-84	-84
IRB shortfall of credit risk adjustments to expected losses	36 (1) (d), 40, 158, 159	-168	-168	-157	-157
Development of unaudited risk provisions during the year (EU No 183/2014)		0	0	-7	-7
Other transitional adjustments CET1	469 to 472, 478, 481	659	0	339	0
Goodwill (20%)		284	0	143	0
Other intangible assets (20%)		258	0	127	0
IRB shortfall of provisions to expected losses (20%)		67	0	31	0
Deferred tax assets allocated up to December 2013, that rely on future profitability and do not arise from temporary differences net of associated tax liabilities (70%)		33	0	29	0
Deferred tax assets allocated on or after January 2014 that rely on future profitability and do not arise from temporary differences net of associated tax liabilities (20%)		13	0	7	0
Own CET1 instruments (20%)	36 (1) (f)	3	0	2	0
Excess of deduction from AT1 items over AT1	36 (1) (j)	-82	0	0	0
Common equity tier 1 capital (CET1)	**50**	**13,602**	**13,256**	**13,431**	**13,204**
Additional tier 1 capital (AT1)					
Capital instruments eligible as AT1	51 (a), 52 to 54, 56 (a), 57	497	497	497	497
Instruments issued by subsidiaries that are given recognition in AT1	85, 86	2	2	2	2
Additional tier 1 capital (AT1) before regulatory adjustments		499	499	499	499
Own AT1 instruments	52 (1) (b), 56 (a), 57	-2	-2	-2	-2
Transitional adjustments due to grandfathered AT1 instruments	483 (4)(5), 484 to 487, 489, 491	0	0	0	0
AT1 instruments of financial sector entities where the institution has a significant investment	4 (1) (27), 56 (d), 59, 79	0	0	0	0
Other transitional adjustments AT1	474, 475, 478, 481	-579	0	-287	0
Goodwill (20%)		-284	0	-143	0
Other intangible assets (20%)		-258	0	-127	0
IRB shortfall of provisions to expected losses (10%)		-34	0	-16	0
Own CET1 instruments (20%)	36 (1) (f)	-3	0	-2	0
Excess of deduction from AT1 items over AT1	36 (1) (j)	82	0	0	0
Additional tier 1 capital (AT1)	**61**	**0**	**497**	**210**	**497**
Tier 1 capital - total of common equity tier 1 (CET1) and additional tier 1 (AT1)	**25**	**13,602**	**13,753**	**13,642**	**13,702**

The table will be continued on the subsequent page.

Continuation of the table:

in EUR million	Article pursuant to CRR	Dec 16 Phased-in	Dec 16 Final	Mar 17 Phased-in	Mar 17 Final
Tier 1 capital - total of common equity tier 1 (CET1) and additional tier 1 (AT1)	**25**	**13,602**	**13,753**	**13,642**	**13,702**
Tier 2 capital (T2)					
Capital instruments and subordinated loans eligible as T2	62 (a), 63 to 65, 66 (a), 67	4,580	4,580	4,762	4,762
Instruments issued by subsidiaries recognised in T2	87, 88	217	217	220	220
Transitional adjustments due to additional recognition in T2 of instruments issued by subsidiaries	480	128	0	63	0
Transitional adjustments due to grandfathered T2 instruments and subordinated loans	483 (6) (7), 484, 486, 488, 490, 491	0	0	0	0
IRB excess of provisions over expected losses eligible	62 (d)	402	402	403	403
Tier 2 capital (T2) before regulatory adjustments	**62 (c)**	**5,326**	**5,199**	**5,448**	**5,385**
Own T2 instruments	63 (b) (i), 66 (a), 67	-58	-58	-50	-50
Standardised approach general credit risk adjustments	62 (c)	0	0	0	0
Other transitional adjustments to T2	476, 477, 478, 481	-34	0	-16	0
IRB shortfall of provisions to expected losses (10%)		-34	0	-16	0
T2 instruments of financial sector entities where the institution has a significant investment	4 (1) (27), 66 (d), 68, 69, 79	-1	-1	-1	-1
Tier 2 capital (T2)	**71**	**5,234**	**5,140**	**5,382**	**5,335**
Total own funds	**4 (1) (118) and 72**	**18,836**	**18,893**	**19,023**	**19,036**
Capital requirement	**92 (3), 95, 96, 98**	**8,145**	**8,291**	**8,287**	**8,424**
CET1 capital ratio	**92 (2) (a)**	**13.4%**	**12.8%**	**13.0%**	**12.5%**
Tier 1 capital ratio	**92 (2) (b)**	**13.4%**	**13.3%**	**13.2%**	**13.0%**
Total capital ratio	**92 (2) (c)**	**18.5%**	**18.2%**	**18.4%**	**18.1%**

The capital structure table above is based on EBA´s final draft for implementing technical standards on disclosure for own funds published in the Official Journal of the European Union on 20 December 2013. Positions, which are not relevant for Erste Group are not disclosed. Basel 3 final figures (fully loaded) are calculated based on the current requirements according to CRR. Changes are possible due to final Regulatory Technical Standards (RTS) that are not yet available. The percentage rates of the transitional provisions refer to the current year.

By the end of the second quarter of 2017, Erste Group will report to the supervisory authority an RWA-add-on in view of the calculation of risk-weighted assets for credit risk in Banca Comercială Română (BCR) on the consolidated level in the amount of EUR 2.419 billion. This RWA increase front-loads the expected difference in RWA between the treatments of exposures in BCR in the Standardised Approach compared to the treatments in IRB. This is the reason for the time limit of the RWA-Add-On, which is interlinked with the authorisation of the IRB-approach in BCR.

This RWA-Add-On will have an impact on capital ratios. As it is expected that with the roll-out of IRB in BCR the risk-weighted assets will increase approximately in the same amount, the effect is deemed to be permanent.

Furthermore internal models adopted to compute credit RWA in Pillar 1 and respective validations have been assessed by the competent authorities. These models are planned to be made subject to a revision in the near future with the specific view of addressing identified findings and incorporating regulatory changes.

In the context of these assessments EGB has been informed about supervisory measures, whereas details of these measures are not fully known yet to EGB and depend on the concrete supervisory specification. Such measures could lead to a further net increase of RWA in 2017 impacting the CET1 ratio by less than 15 bps.

With a CET1 ratio as of 31 March 2017 of 13.0% on consolidated level, Erste Group Bank AG is robustly capitalized to absorb such a potential RWA increase.

Risk structure according to EU directive 575/2013 (CRR)

in EUR million	Article pursuant to CRR	Dec 16		Mar 17	
		Calculation base/total risk	Capital requirement	Calculation base/total risk (phased-in)	Capital requirement (phased-in)
Total risk exposure amount	92 (3), 95, 96, 98	101,809	8,145	103,589	8,287
Risk-weighted assets (credit risk)	92 (3) (a) (f)	81,915	6,553	82,228	6,578
Standardised approach		14,998	1,200	15,026	1,202
IRB approach		66,918	5,353	67,202	5,376
Settlement risk	92 (3) (c) (ii), 92 (4) (b)	0	0	1	0
Trading book, foreign FX risk and commodity risk	92 (3) (b) (i), (c) (i) and (iii), 92 (4) (b)	3,612	289	3,858	309
Operational risk	92 (3) (e) 92 (4) (b)	15,140	1,211	16,561	1,325
Exposure for CVA	92 (3) (d)	1,141	91	941	75
Other exposure amounts (including Basel 1 floor)	3, 458, 459, 500	0	0	0	0

in EUR million	Article pursuant to CRR	Dec 16		Mar 17	
		Calculation base/total risk	Capital requirement	Calculation base/total risk (final)	Capital requirement (final)
Total risk exposure amount	92 (3), 95, 96, 98	103,639	8,291	105,298	8,424
Risk-weighted assets (credit risk)	92 (3) (a) (f)	83,746	6,700	83,937	6,715
Standardised approach		14,998	1,200	15,026	1,202
IRB approach		68,748	5,500	68,911	5,513
Settlement risk	92 (3) (c) (ii), 92 (4) (b)	0	0	1	0
Trading book, foreign FX risk and commodity risk	92 (3) (b) (i), (c) (i) and (iii), 92 (4) (b)	3,612	289	3,858	309
Operational risk	92 (3) (e) 92 (4) (b)	15,140	1,211	16,561	1,325
Exposure for CVA	92 (3) (d)	1,141	91	941	75
Other exposure amounts (including Basel 1 floor)	3, 458, 459, 500	0	0	0	0

33. Events after the reporting date

There are no significant events after the balance sheet date.

Your Notes

We have prepared this report with the greatest possible care and have thoroughly checked the data presented in it. However, we cannot rule out errors associated with rounding, transmission, typesetting or printing. The English version of the report is a translation.

Note regarding forward-looking statements

This report contains forward-looking statements. These statements are based on current estimates, assumptions and projections of Erste Group Bank AG and currently available public information. They are not guarantees of future performance and involve certain known and yet unknown risks and uncertainties and are based upon assumptions as to future events that may not prove to be accurate. Many factors could cause the actual results or performance to be materially different from those that may be expressed or implied by such statements. Erste Group Bank AG does not assume any obligation to update the forward-looking statements contained in this report.

Shareholder Events

17 May 2017	Annual general meeting
4 August 2017	Half year financial report 2017
3 November 2017	Results for the first three quarters of 2017

The financial calendar is subject to change. The latest updated version is available on Erste Group's website:

www.erstegroup.com/investorrelations

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