Half year financial report 2016

ERSTE Group

Key financial data

Income statement					
in EUR million	**Q2 15**	**Q1 16**	**Q2 16**	**1-6 15**	**1-6 16**
Net interest income	1,113.4	1,092.2	1,101.9	2,211.9	2,194.1
Net fee and commission income	456.3	443.1	441.8	917.4	884.9
Net trading and fair value result	64.1	43.5	64.0	136.5	107.5
Operating income	1,710.3	1,629.3	1,687.3	3,399.4	3,316.6
Operating expenses	-948.7	-1,008.8	-971.5	-1,896.8	-1,980.3
Operating result	**761.6**	**620.5**	**715.8**	**1,502.6**	**1,336.3**
Net impairment loss on non-fair value financial assets	-190.8	-56.4	30.6	-373.9	-25.8
Post-provision operating result	**570.8**	**564.1**	**746.4**	**1,128.6**	**1,310.5**
Other operating result	-47.1	-139.5	-52.6	-200.6	-192.2
Levies on banking activities	-45.4	-62.8	-44.9	-137.2	-107.6
Pre-tax result from continuing operations	548.8	427.0	839.7	964.1	1,266.7
Taxes on income	-154.8	-104.5	-174.3	-273.4	-278.8
Net result for the period	**394.0**	**322.6**	**665.3**	**690.7**	**987.9**
Net result attributable to non-controlling interests	132.6	47.8	98.4	203.4	146.2
Net result attributable to owners of the parent	**261.4**	**274.7**	**567.0**	**487.2**	**841.7**
Earnings per share	0.61	0.64	1.32	1.14	1.96
Cash earnings per share	0.61	0.65	1.32	1.15	1.97
Return on equity	10.2%	9.8%	19.7%	9.6%	14.9%
Cash return on equity	10.2%	9.9%	19.8%	9.7%	14.9%
Net interest margin (on average interest-bearing assets)	2.59%	2.51%	2.57%	2.58%	2.54%
Cost/income ratio	55.5%	61.9%	57.6%	55.8%	59.7%
Provisioning ratio (on average gross customer loans)	0.58%	0.17%	-0.09%	0.58%	0.04%
Tax rate	28.2%	24.5%	20.8%	28.4%	22.0%

Balance sheet					
in EUR million	**Jun 15**	**Mar 16**	**Jun 16**	**Dec 15**	**Jun 16**
Cash and cash balances	7,011	14,641	12,982	12,350	12,982
Trading, financial assets	49,044	48,680	49,452	47,542	49,452
Loans and receivables to credit institutions	8,775	6,680	5,626	4,805	5,626
Loans and receivables to customers	123,504	126,740	127,407	125,897	127,407
Intangible assets	1,395	1,447	1,437	1,465	1,437
Miscellaneous assets	7,802	8,182	7,601	7,685	7,601
Total assets	**197,532**	**206,369**	**204,505**	**199,743**	**204,505**
Financial liabilities - held for trading	6,632	6,612	6,146	5,867	6,146
Deposits from banks	15,704	17,330	16,367	14,212	16,367
Deposits from customers	124,534	128,640	130,417	127,946	130,417
Debt securities issued	29,914	30,060	28,014	29,654	28,014
Miscellaneous liabilities	6,732	8,509	7,584	7,257	7,584
Total equity	14,015	15,218	15,977	14,807	15,977
Total liabilities and equity	**197,532**	**206,369**	**204,505**	**199,743**	**204,505**
Loan/deposit ratio	99.2%	98.5%	97.7%	98.4%	97.7%
NPL ratio	7.7%	6.7%	5.8%	7.1%	5.8%
NPL coverage (exc collateral)	68.2%	66.5%	65.6%	64.5%	65.6%
CET 1 ratio (Basel 3 phased-in)	11.6%	12.1%	13.3%	12.3%	13.3%

Ratings	**Jun 15**	**Mar 16**	**Jun 16**
Fitch			
Long-term	BBB+	BBB+	BBB+
Short-term	F2	F2	F2
Outlook	Stable	Stable	Stable
Moody´s			
Long-term	Baa2	Baa2	Baa1
Short-term	P-2	P-2	P-2
Outlook	Stable	Positive	Stable
Standard & Poor´s			
Long-term	BBB+	BBB+	BBB+
Short-term	A-2	A-2	A-2
Outlook	Negative	Negative	Stable

Letter from the CEO

Dear shareholders,

In many ways, the first half of 2016 was an extraordinary and even historic period for Erste Group. The bank posted a net profit of EUR 841.7 million, the highest ever half-year profit in its history. This translates into earnings per share of EUR 1.96 or a return on tangible equity of 17.0%. At EUR 1 billion, Erste Group enjoyed the strongest capital build ever, resulting in a CET1 ratio (Basel 3 fully loaded) of 12.7%, a level that already significantly exceeds all regulatory requirements to be met by 2019. Erste Group also registered the strongest improvement in asset quality ever achieved within six months. The portfolio of non-performing loans (NPLs) declined by almost EUR 1.6 billion or 16.8% during this period. The NPL ratio dropped from 7.1% to 5.8%, even though loan growth was weaker than expected. As a percentage of total exposure, the share of assets in the best risk category has never been higher, at least not since such metrics were first released in 1999. On the back of the improvement in asset quality across all countries, risk provisions – at 4 basis points of average gross customer loans – also hit the lowest and hence best level in recent corporate history.

The question of how such an extraordinarily positive development has been possible is justified, especially against the backdrop of an economic and political environment in Europe that is marked by uncertainty and market volatility, in which banks have been charged extra taxes for many years while at the same time being expected to strengthen their capital base at an ever faster pace; where it is still popular to call for and implement political intervention in private sector pricing policies, where the European Central Bank's zero or even negative interest rate policies – influenced last, but not least by political realities – have made it ever harder for banks to operate profitably, which in turn will make banks more vulnerable to future external shocks; and, where new players compete with banks, frequently still unimpeded by regulatory requirements. So, how was it possible to make such big progress in the first half of 2016? This was attributable above all to the determination with which we have confronted our problems in the past and with which we are addressing the challenges of the future. Specifically, we would never have achieved such a result over the past six months had we not created appropriate provisions for non-performing loans in the years up to 2014. Now we are benefiting from net releases which have admittedly been supported by the zero-interest-rate environment. Of course the sale of VISA shares contributed about EUR 120 million to net profit. This does not change anything that has been said above, though.

Any analysis of the result would be incomplete, however, without a look at the negatives: this was definitely the development of the operating result, which has been impacted particularly by substantial pressure on the income side. While the zero-interest-rate environment had a positive impact on risk provisions in the first half of 2016, its effect on net interest income was negative: interest income from government bond investments and from the customer business has been eroding slowly but steadily. Whereas we are in the fortunate situation that our core markets in Central and Eastern Europe are growing at a solid pace and facing significantly less structural problems than many countries of southern and western Europe, local private loan demand is not everywhere sufficient to keep interest income stable. Another negative factor has been political action seeking to curtail banks' fee and commission income, such as imposing limits on card fees, to name just one example that caused the decline in fee and commission income. The cost base was also impacted by regulatory and hence political factors. For example, EUR 79.3 million were booked in deposit insurance contributions, which will not recur at such levels in the second half of the year. While not inflating operating expenses, contributions to resolution funds in the amount of EUR 64.6 million and banking levies of EUR 107.6 million in Austria, Slovakia and Hungary weighed on other operating result and hence on net profit. Investment into digital banking is currently adversely affecting the cost/income ratio but builds the basis for the future success of our business.

Despite the challenges at operating level, the decline in operating result in the first half of 2016 was compensated by an improvement in risk provisions that was almost twice as high. Taking into account positive as well as negative one-off effects, the clean return on tangible equity stood at approximately 13%. Even if one assumes that the zero-interest-rate environment will persist and risk costs will normalise, Erste Group will be one of the few banks in Europe that will be able to generate a double-digit return on tangible equity for a period of several years and will hence be able to pay stable dividends. All the more so, as the reduction of banking tax to a level comparable with Germany's, as proposed by the Austrian government from 2017 onwards (if adopted by parliament unchanged in autumn), will strengthen the profitability of the entire Austrian banking sector. In return, banks will have to make a significant one-off payment upfront, which – despite raising the guidance for the year 2016 to a return on tangible equity of more than 12% – we budgeted already for this year.

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Erste Group on the capital markets

EQUITY MARKET REVIEW

International stock markets continued the trends seen in the first quarter, with European key indices underperforming their US peers. The main drivers were mounting anxiety among investors and high volatility in European markets in the run-up to the UK referendum on British membership in the European Union and, finally, after the unexpected vote for Brexit. Market participants were also concerned over the future development of the global economy and corporate earnings momentum as well as over the role of the central banks.

In this environment European share prices declined, some quite substantially. In the first half of the year, the Euro Stoxx 600 Index dropped 9.8% to 329.88 points, and the Euro Stoxx 50 Index receded 12.3% to 2,864.74 points. Moving in tandem with the European indices, the Austrian Traded Index (ATX) fell 12.6%, closing at 2,095.96 points on 30 June. The US indices retained their relative strength against the European markets. The Dow Jones Industrial Average Index was 2.9% up at 17,929.99 points. The broader Standard & Poor's 500 Index closed the first half of the year up 2.7% at 2,098.86 points.

Year to date, financials were among the weakest performers in both the US and in Europe. While the Dow Jones US Banks Index rebounded slightly in the second quarter and declined by 11.6% year to date, the Dow Jones Euro Stoxx Bank Index, which is composed of the leading European bank shares, lost 17.9% in the second quarter and, at 83.25 points, was 34.9% lower than at the beginning of the year. This relative weakness is attributable to the uncertainty associated with Brexit and the extremely low level of yields in Europe compared with the US. Since the renewed expansion of bond purchases by the European Central Bank (ECB) yields have been very low or even negative across wide segments of the fixed-income market. The US central bank (Fed), by contrast, had ended its asset purchasing programme already in October 2014 and carried out its first rate increase in December 2015.

SHARE PERFORMANCE

Even a first-quarter profit that was, due to significantly lower risk costs, 25% higher than expected and positive analyst feedback were not enough to curb the downtrend. Mirroring the negative performance of the European banking sector and global stock market weakness, the price of the Erste Group share continued its decline, finishing the second quarter 17.8% down. At EUR 20.31, the Erste Group share traded 29.7% lower on 30 June 2016 than at year-end 2015. The Euro Stoxx Bank Index plunged by almost 35% over the same period. It was only after the Erste Group's net profit guidance for the year 2016 was raised to ROTE (return on tangible equity) of more than 12% (from previously 10 to 11%) on 14 July that the Erste Group share bounced back; on that day, its price rose 13.6% to EUR 23.10. Eight analysts currently recommend the Erste Group share as buy/overweight, two rate it as neutral. The analysts' average target price is EUR 29 per share.

In the first half of 2016, trading volume on the three stock exchanges (Vienna, Prague, Buchar est) on which the Erste Group share is listed averaged 1,076,820 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 2016 Erste Group opened the covered bond market for Austrian issuers with a EUR 750 million 7 year mortgage covered bond, and in May 2016 Erste Group followed with Austria's inaugural CRD IV CRR compliant Additional Tier 1 transaction in an amount of EUR 500 million. The already comfortable capital position of Erste Group was strengthened further and the issue contributes to the transition towards an optimal CRR-compliant capital structure.

In the second quarter of 2016, the management and the investor relations team of Erste Group had a large number of one-on-one and group meetings, in which questions raised by investors and analysts were answered. Erste Group presented its economic performance and strategy against the backdrop of the current environment at a large number of international banking and investors conferences hosted by Deutsche Bank, Wood, Goldman Sachs, Bank of America Merrill Lynch, Autonomous and JP Morgan, as well as at its spring road show staged in Europe and the US following the presentation of the first-quarter results.

Interim management report

In the interim management report, financial results from January-June 2016 are compared with those from January-June 2015 and balance sheet positions as of 30 June 2016 with those as of 31 December 2015.

EARNINGS PERFORMANCE IN BRIEF

In a challenging market environment of persistently low interest rates, **net interest income** was largely stable at EUR 2,194.1 million (-0.8%; EUR 2,211.9 million) on the back of moderate lending growth. **Net fee and commission income** decreased to EUR 884.9 million (-3.5%; EUR 917.4 million), mainly due to lower income from the securities business and payment services. The **net trading and fair value result** declined to EUR 107.5 million (EUR 136.5 million) due to the non-recurrence of positive one-off effects and a negative fair value result. **Operating income** went down to EUR 3,316.6 million (-2.4%; EUR 3,399.4 million). **General administrative expenses** rose to EUR 1,980.3 million (+4.4%; EUR 1.896.8 million), mainly as a result of the advance booking of most of the expected contributions to deposit insurance schemes for 2016 in the total amount of EUR 79.3 million (EUR 38.8 million) and higher personnel expenses of EUR 1,152.7 million (EUR 1,113.9 million). This resulted in a decline of the **operating result** to EUR 1,336.3 million (-11.1%; EUR 1,502.6 million). The **cost/income ratio** stood at 59.7% (55.8%). **Gains from financial assets and liabilities not measured at fair value through profit and loss (net)** include a gain from the sale of shares in VISA Europe in the amount of EUR 138.7 million.

Net impairment loss on financial assets not measured at fair value through profit or loss dropped to EUR 25.8 million or 4 basis points of average gross customer loans (-93.1%; EUR 373.9 million or 58 basis points), due to a substantial decline of non-performing loans and higher income from the recovery of loans already written off in Romania and Hungary. The **NPL ratio** improved further to 5.8% (7.7%). The **NPL coverage ratio** stood at 65.6% (68.2%).

Other operating result amounted to EUR -192.2 million (EUR -200.6 million). This includes expected expenses for the annual contributions to resolution funds in the amount of EUR 64.6 million (EUR 55.2 million). Banking and financial transaction taxes declined to EUR 107.6 million (EUR 137.2 million), which was attributable to the significant reduction of the Hungarian banking levies to EUR 38.2 million (EUR 65.5 million). In Austria, banking levies of EUR 57.1 million (EUR 60.1 million) were at about the same level as in the previous year and in Slovakia amounted to EUR 12.3 million (EUR 11.6 million).

Due to the lower earnings contributions of savings banks covered by the cross-guarantee system, the minority charge declined to EUR 146.2 million (EUR 203.4 million). The **net result attributable to owners of the parent** rose to EUR 841.7 million (EUR 487.2 million).

Total equity increased to EUR 16.0 billion (EUR 14.8 billion). After regulatory deductions and filtering according to the CRR, **common equity tier 1 capital** (CET1, Basel 3 phased-in) rose to EUR 13.4 billion (EUR 12.1 billion); total eligible **own funds** (Basel 3 phased in) amounted to EUR 18.9 billion (EUR 17.6 billion). Interim profit is included in the above figures. Total risk, i.e. **risk-weighted assets** including credit, market and operational risk (Basel 3 phased-in) rose to EUR 101.0 billion (EUR 98.3 billion). The **common equity tier 1 ratio** (CET 1, Basel 3 phased-in) stood at 13.3% (12.3%), the **total capital ratio** (Basel 3 phased-in) at 18.7% (17.9%).

Total assets increased to EUR 204.5 billion (EUR 199.7 billion). **Loans and receivables to customers (net)** were moderately higher at EUR 127.4 billion (+1.2%; EUR 125.9 billion). Securities held for trading rose to EUR 10.4 billion (EUR 8.7 billion). On the liabilities side, deposits from banks rose to EUR 16.4 billion (EUR 14.2 billion) and **customer deposits** increased to EUR 130.4 billion (EUR 127.9 billion). Debt securities in issue, mainly bonds and mortgage covered bonds, declined to EUR 28.0 billion (EUR 29.7 billion). The **loan-to-deposit ratio** stood at 97.7% (98.4%).

OUTLOOK

Operating environment anticipated to be conducive to credit expansion. Real GDP growth in 2016 is expected to be between 1.4% and 4.1% in all major CEE markets, including Austria, driven by solid domestic demand.

Return on tangible equity (ROTE) expected at above 12% in 2016 underpinning continued dividend payout. Support factors include continued loan growth as well as further improvement in asset quality amid a benign risk environment. Headwinds are the persistent low interest rate environment affecting group operating income as well as lower operating results in Hungary (lower volumes) and Romania (following asset re-pricing). Banking levies (comprising banking taxes, financial transaction tax, resolution fund and deposit insurance fund contributions) are expected at about EUR 360 million pre-tax in 2016, prior to a potential banking tax one-off payment in Austria (pending parliamentary approval of the government proposal) of about EUR 200 million. An additional Austrian banking tax one-off payment in 2016 would result in a sustainable reduction from about EUR 130 million to about EUR 20 million pre-tax per annum from 2017. The guidance assumes no material negative one-offs in the second half of 2016.

Risks to guidance. Geopolitical risks and global economic risks, impact from negative interest rates, consumer protection initiatives.

PERFORMANCE IN DETAIL

in EUR million	1-6 15	1-6 16	Change
Net interest income	2,211.9	2,194.1	-0.8%
Net fee and commission income	917.4	884.9	-3.5%
Net trading and fair value result	136.5	107.5	-21.2%
Operating income	3,399.4	3,316.6	-2.4%
Operating expenses	-1,896.8	-1,980.3	4.4%
Operating result	**1,502.6**	**1,336.3**	**-11.1%**
Net impairment loss on financial assets not measured at fair value through profit or loss	-373.9	-25.8	-93.1%
Other operating result	-200.6	-192.2	-4.2%
Levies on banking activities	-137.2	-107.6	-21.6%
Pre-tax result from continuing operations	**964.1**	**1,266.7**	**31.4%**
Taxes on income	-273.4	-278.8	2.0%
Net result for the period	**690.7**	**987.9**	**43.0%**
Net result attributable to non-controlling interests	203.4	146.2	-28.1%
Net result attributable to owners of the parent	**487.2**	**841.7**	**72.8%**

Net interest income

Net interest income was almost stable at EUR 2,194.1 million (EUR 2,211.9 million), as the negative impacts of the persisting low interest rate environment were partly offset by loan growth. While net interest income decreased significantly in Hungary and Romania due to the sale of non-performing loans and narrowing net interest margins, net interest income contracted only marginally in the Austrian segments. The net interest margin (net interest income as a percentage of average interest-bearing assets) declined from 2.58% to 2.64%.

Net fee and commission income

Net fee and commission income decreased to EUR 884.9 million (EUR 917.4 million). This was mainly attributable to declining income from the securities business in Austria and lower income from payment services and lending in the Czech Republic. In the other segments, net fee and commission income was largely stable.

Net trading and fair value result

The net trading and fair value result went down to EUR 107.5 million (EUR 136.5 million). Income from securities and derivatives trading, which improved despite the non-recurrence of extraordinary valuation gains in the Czech Republic, was not sufficient to offset the negative impact of the valuation of financial liabilities – at fair value through profit or loss.

General administrative expenses

in EUR million	1-6 15	1-6 16	Change
Personnel expenses	1,113.9	1,152.7	3.5%
Other administrative expenses	559.6	610.1	9.0%
Depreciation and amortisation	223.3	217.6	-2.6%
General administrative expenses	**1,896.8**	**1,980.3**	**4.4%**

General administrative expenses rose to EUR 1,980.3 million (EUR 1,896.8 million). **Personnel expenses** increased to EUR 1,152.7 million (EUR 1,113.9 million). **Other administrative expenses** amounted to EUR 610.1 million (EUR 559.6 million). This rise was primarily due to deposit insurance contributions in the amount of EUR 79.3 million (EUR 38.8 million). These include projected full-year payments into the deposit insurance schemes of all subsidiaries with the exception of those in Croatia and Serbia. Thereof, EUR 40.9 million were for contributions payable in Austria, where the first payments of this kind had to be made in the second half of 2015. In the Czech Republic, contributions declined to EUR 7.4 million (EUR 17.7 million). IT expenditure rose to EUR 144.5 million (EUR 138.8 million). **Depreciation and amortisation** decreased to EUR 217.6 million (EUR 223.3 million).

Headcount as of end of the period

	Dec 15	Jun 16	Change
Domestic	**15,686**	**15,669**	**-0.1%**
Erste Group, EB Oesterreich and subsidiaries	8,456	8,464	0.1%
Haftungsverbund savings banks	7,230	7,205	-0.4%
Abroad	**30,781**	**30,952**	**0.6%**
Česká spořitelna Group	10,501	10,329	-1.6%
Banca Comercială Română Group	7,065	7,153	1.2%
Slovenská sporiteľňa Group	4,205	4,256	1.2%
Erste Bank Hungary Group	2,813	2,907	3.4%
Erste Bank Croatia Group	2,851	2,941	3.2%
Erste Bank Serbia Group	1,002	985	-1.7%
Savings banks subsidiaries	1,210	1,181	-2.4%
Other subsidiaries and foreign branch offices	1,134	1,199	5.8%
Total	**46,467**	**46,620**	**0.3%**

Operating result

Operating income declined to EUR 3,316.6 million (-2.4%; EUR 3,399.4 million) due to lower net fee and commission income, a decline in the net trading and fair value result and lower net interest income. General administrative expenses rose to EUR 1,980.3 million (+4.4%; EUR 1,896.8 million), mainly as a result of the advance booking of the majority of the deposit insurance contributions in the first half of the year and higher personnel expenses. This led to an operating result of EUR 1,336.3 million (-11.1%; EUR 1,502.6 million). The cost/income ratio stood at 59.7% (55.8%).

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) rose significantly to EUR 148.4 million (EUR 36.0 million). This includes a gain from the sale of shares in VISA Europe Ltd. in the amount of EUR 138.7 million shown in income from financial assets – available for sale.

Net impairment loss on financial assets

Net impairment loss on financial assets declined significantly to EUR 25.8 million (EUR -93.1%; EUR 373.9 million). This development was mostly attributable to the decline in the balance of the allocation and release of provisions for the lending business together with the costs of direct loan write-offs offset by income received from the recovery of loans already written off to EUR 24.8 million (EUR 370.8 million). The main drivers were declining risk costs in all core markets along with substantial recoveries of receivables previously written off in Romania and the improvement of portfolio quality after the conversion of foreign-currency loans in Hungary. Consequently, net impairment loss on financial assets not measured at fair value through profit or loss, based on the average volume of gross customer loans, improved to 4 basis points (58 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 -1.0 million (EUR -3.3 million).

Other operating result

Other operating result amounted to EUR -192.2 million (EUR -200.6 million). **Levies on banking activities** declined to EUR 107.6 million (EUR 137.2 million). The reduction of banking tax in Hungary had a positive impact. Due to a lower tax rate and an adjustment of the assessment base, the tax charge declined to EUR 19.6 million (EUR 46.0 million). Together with the financial transaction tax of EUR 18.6 million (EUR 18.8 million), levies in Hungary hence totalled EUR 38.2 million (EUR 65.6 million). In Austria, banking levies remained high at EUR 57.1 million (EUR 60.1 million); in Slovakia they amounted to EUR 12.3 million (EUR 11.6 million).

Allocation/release of other provisions, including for commitments and guarantees given, amounted to EUR 2.6 million (EUR -19.9 million). Other operating result also includes all expected contributions to resolution funds for 2016 in the amount of EUR -64.6 million (EUR -55.2 million) shown in the line item result from other operating expenses/income.

Net result

The pre-tax result from continuing operations amounted to EUR 1,266.7 million (EUR 964.1 million), mainly due to substantially lower risk costs resulting from the improved quality of the loan portfolio. Because of the weaker results of the Savings Banks, the minority charge declined to EUR 146.2 million (EUR 203.4 million). The net result attributable to owners of the parent rose to EUR 841.7 million (EUR 487.2 million). The lower tax rate was mainly attributable to lower income tax charges in Hungary and Romania.

FINANCIAL RESULTS – QUARTER-ON-QUARTER COMPARISON

Second quarter of 2016 compared to first quarter of 2016

in EUR million	Q2 15	Q3 15	Q4 15	Q1 16	Q2 16
Income statement					
Net interest income	1,113.4	1,112.3	1,120.4	1,092.2	1,101.9
Net fee and commission income	456.3	455.2	489.2	443.1	441.8
Dividend income	24.8	11.2	6.6	2.6	28.8
Net trading and fair value result	64.1	56.4	17.2	43.5	64.0
Net result from equity method investments	5.0	4.7	3.1	1.9	3.7
Rental income from investment properties & other operating leases	46.6	51.7	44.4	45.9	47.1
Personnel expenses	-559.9	-553.6	-577.1	-565.4	-587.2
Other administrative expenses	-278.5	-295.6	-324.1	-333.5	-276.6
Depreciation and amortisation	-110.4	-106.4	-115.3	-109.8	-107.7
Gains/losses from financial assets and liabilities not measured at fair value through profit or loss, net	25.2	22.8	42.1	2.4	146.0
Net impairment loss on financial assets not measured at fair value through profit or loss	-190.8	-144.4	-210.7	-56.4	30.6
Other operating result	-47.1	-176.8	-258.2	-139.5	-52.6
Levies on banking activities	-45.4	-50.5	-48.5	-62.8	-44.9
Pre-tax result from continuing operations	**548.8**	**437.4**	**237.6**	**427.0**	**839.7**
Taxes on income	-154.8	-88.9	-1.6	-104.5	-174.3
Net result for the period	**394.0**	**348.5**	**236.0**	**322.6**	**665.3**
Net result attributable to non-controlling interests	132.6	71.6	32.0	47.8	98.4
Net result attributable to owners of the parent	**261.4**	**276.9**	**204.0**	**274.7**	**567.0**

Net interest income rose marginally to EUR 1,101.9 million (EUR 1,092.2 million). **Net fee and commission income** was almost stable at EUR 441.8 million (EUR 443.1 million) as the significant decline of commission income from the securities business was largely compensated by higher income from payment services. Dividend income amounted to EUR 28.8 million (EUR 2.6 million). The **net trading and fair value result** improved to EUR 64.0 million (EUR 43.5 million) on the back of significantly higher income from the securities and derivatives business.

General administrative expenses decreased to EUR 971.5 million (-3.7%; EUR 1,008.8 million). Personnel expenses were higher at EUR 587.2 million (+3.9%; EUR 565.4 million), partly driven by an increase related to the collective wage agreement in Romania. Other administrative expenses declined to EUR 276.6 million (EUR 333.5 million), primarily on the back of the advance booking of the majority of deposit insurance contributions in the first quarter. Depreciation and amortisation were lower at EUR 107.7 million (-1.9%; EUR 109.8 million). The cost/income ratio went down to 57.6% (61.9%).

Gains from financial assets and liabilities not measured at fair value through profit and loss (net) rose to EUR 146.0 million (EUR 2.4 million) due to the sale of shares in VISA Europe in the amount of EUR 138.7 million in June 2016.

Impairment loss on financial assets not measured at fair value through profit or loss (net) amounted to EUR 30.6 million due to net releases (EUR 56.4 million net allocations).

Other operating result improved to EUR -52.6 million (EUR -139.5 million). In the comparative quarter, this line item had been adversely affected by the advance booking of contributions payable to resolution funds in 2016 in the amount of EUR -64.7. **Levies on banking activities** amounted to EUR 44.9 million (EUR 62.8 million). Thereof, EUR 11.1 million (EUR 27.1 million) were accounted for by Hungary. Banking taxes were also booked in Austria in the amount of EUR 27.7 million (EUR 29.5 million) and in Slovakia in the amount of EUR 6.2 million (EUR 6.2 million).

The **pre-tax result** increased to EUR 839.7 million (EUR 427.0 million). Taxes on income consequently rose to EUR 174.3 million (EUR 104.5 million). The net result attributable to owners of the parent amounted to EUR 567.0 million (EUR 274.7 million).

DEVELOPMENT OF THE BALANCE SHEET

in EUR million	Dec 15	Jun 16	Change
Assets			
Cash and cash balances	12,350	12,982	5.1%
Trading, financial assets	47,542	49,452	4.0%
Loans and receivables to credit institutions	4,805	5,626	17.1%
Loans and receivables to customers	125,897	127,407	1.2%
Intangible assets	1,465	1,437	-1.9%
Miscellaneous assets	7,685	7,601	-1.1%
Total assets	**199,743**	**204,505**	**2.4%**
Liabilities and equity			
Financial liabilities - held for trading	5,867	6,146	4.8%
Deposits from banks	14,212	16,367	15.2%
Deposits from customers	127,946	130,417	1.9%
Debt securities issued	29,654	28,014	-5.5%
Miscellaneous liabilities	7,257	7,584	4.5%
Total equity	14,807	15,977	7.9%
Total liabilities and equity	**199,743**	**204,505**	**2.4%**

The rise in **cash and cash balances** to EUR 13.0 billion (EUR 12.4 billion) was due to larger cash balances held at central banks and other demand deposits, mostly overnight deposits with financial institutions also shown in this line item. **Trading and investment securities** held in various categories of financial assets rose to EUR 49.5 billion (EUR 47.5 billion).

Loans and receivables to credit institutions (net), including demand deposits other than overnight deposits, increased to EUR 5.6 billion (EUR 4.8 billion). **Loans and receivables to customers (net)** rose mainly in Austria and Czech Republic moderately to EUR 127.4 billion (EUR 125.9 billion). **Allowances for loans and receivables to customers** declined to EUR 5.1 billion (EUR 6.0 billion), mostly on the back of the im-provement in asset quality and the sale of non-performing loans.

The **NPL ratio** – non–performing loans as a percentage of loans to customers – declined again significantly to 5.8% (7.1%). The **NPL coverage ratio** stood at 65.6% (64.5%).

Intangible assets amounted to EUR 1.4 billion (EUR 1.5 billion). **Miscellaneous assets** declined to EUR 7.6 billion (EUR 7.7 billion). **Financial liabilities – held for trading** increased to EUR 6.1 billion (EUR 5.9 billion), partly as a result of an increase in the line item derivatives.

Deposits from banks were higher at EUR 16.4 billion (EUR 14.2 billion). **Deposits from customers** rose mainly in Austria and the Czech Republic due to increased savings and overnight deposits to EUR 130.4 billion (EUR 127.9 billion). The **loan-to-deposit ratio** stood at 97.7% (98.4%). **Debt securities in issue**, mainly bonds, declined to EUR 28.0 billion (EUR 29.7 billion). **Miscellaneous liabilities** rose to EUR 7.6 billion (EUR 7.3 billion).

Erste Group's **total equity** increased to EUR 16.0 billion (EUR 14.8 billion). As of June 2016, this includes AT1-instruments in the amount of EUR 497 million. After regulatory deductions and filtering according to the CRR and taking into account the result for the first half of the year 2016, **common equity tier 1 capital** (CET 1, Basel 3 phased-in) rose to EUR 13.4 billion (EUR 12.1 billion), **total own funds** (Basel 3 phased-in) to EUR 18.9 billion (EUR 17.6 billion). **Total risk** (**risk-weighted assets** including credit, market and operational risk, Basel 3 phased-in) increased to EUR 101.0 billion (EUR 98.3 billion).

Consolidated regulatory capital is calculated in accordance with the capital requirements regulation (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) in relation to the total risk (total eligible qualifying capital in relation to total risk pursuant to CRR) was 18.7% (17.9%), well above the legal minimum requirement.

The **tier 1 ratio** (Basel 3 phased in) in relation to total risk stood at 13.4% (12.3%). The **common equity tier 1 ratio** (Basel 3 phased in) amounted to 13.3% (12.3%).

SEGMENT REPORTING

January-June 2016 compared with January-June 2015

Erste Group's segment reporting is based on a matrix organisation. It provides comprehensive information to assess the business line and geographic performance. Following a strategic review related to Erste Group's operating segments and the method used for capital allocation to the segments, changes were introduced in the segment reporting from 1 January 2016. To ensure comparability Erste Group has adjusted the segment reporting for all quarters of the financial year 2015. Details of the new segmentation as well as comparable figures for all the quarters of 2015 were published on 14 April 2016 at www.erstegroup.com.

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 not measured at fair value through P&L. 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	1-6 15	1-6 16	Change
Net interest income	1,105.3	1,075.0	-2.7%
Net fee and commission income	508.5	473.7	-6.8%
Net trading and fair value result	28.3	44.4	57.1%
Operating income	1,658.3	1,609.4	-2.9%
Operating expenses	-902.1	-924.1	2.4%
Operating result	756.2	685.3	-9.4%
Cost/income ratio	54.4%	57.4%	
Net impairment loss on financial assets not measured at fair value through profit or loss	-173.5	-26.6	-84.7%
Other result	-10.0	-2.0	-79.7%
Net result attributable to owners of the parent	450.1	503.9	12.0%
Return on allocated capital	37.8%	45.1%	

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 decrease in net interest income was driven by the impact of the consumer loan law in Hungary as well as lower margins from lending business and unwinding in Romania. These developments were partially mitigated by higher loan volumes in Slovakia and the Czech Republic as well as increased contribution from deposit business in Croatia. Net fee and commission income decreased primarily due to lower card and current account maintenance fees in the Czech Republic, lower securities fees in Austria as well as lower fees from card business in Slovakia. Net trading and fair value result went up as the negative impact of the Swiss franc exchange rate fixing for retail loans required by legislation in Croatia in 2015 did not recur. In addition, net trading and fair value result improved in the Czech Republic. Operating expenses increased primarily due to the upfront booking of deposit insurance contributions, primarily in the first quarter of 2016. Operating result declined, the cost/income ratio went up. The significant improvement of net impairment loss on financial assets not measured at FV through profit and loss was driven by lower risk costs in Hungary, Croatia and Romania due to portfolio quality improvement. Risk costs also decreased in the Czech Republic and Slovakia. Other result improved on the back of the selling gains on property in Austria. Overall, the net result attributable to the owners of the parent went up.

Corporates

in EUR million	1-6 15	1-6 16	Change
Net interest income	503.1	492.9	-2.0%
Net fee and commission income	127.5	128.8	1.1%
Net trading and fair value result	43.2	39.2	-9.2%
Operating income	729.3	715.6	-1.9%
Operating expenses	-268.9	-271.8	1.1%
Operating result	460.3	443.8	-3.6%
Cost/income ratio	36.9%	38.0%	
Net impairment loss on financial assets not measured at fair value through profit or loss	-124.9	35.5	n/a
Other result	-21.5	-2.3	-89.3%
Net result attributable to owners of the parent	231.8	353.8	52.6%
Return on allocated capital	15.2%	23.9%	

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 mainly due to lower income from commercial real estate business in the Holding and lower asset margins in Croatia. These negative effects were partially offset by a higher contribution from investment loans and project finance in Erste Bank Oesterreich. Net fee and commission income improved slightly mainly driven by the higher fees in the Czech Republic. Net trading and fair value result declined as a result of negative impact from derivatives in Austria. Operating expenses went up due to new projects; consequently the cost/income ratio rose. The line item net impairment loss on financial assets not measured at FV through profit and loss improved substantially on the back of net releases of risk provisions in Romania and Hungary as well as lower risk costs in Holding and in Croatia. The other result improved as last year was negatively impacted by the allocations of provisions for contingent credit risk liabilities. The net result attributable to the owners of the parent improved notably.

Group Markets

in EUR million	1-6 15	1-6 16	Change
Net interest income	106.3	110.1	3.6%
Net fee and commission income	101.7	95.7	-5.9%
Net trading and fair value result	47.7	37.5	-21.3%
Operating income	257.1	244.1	-5.1%
Operating expenses	-112.1	-105.9	-5.5%
Operating result	145.0	138.2	-4.7%
Cost/income ratio	43.6%	43.4%	
Net impairment loss on financial assets not measured at fair value through profit or loss	-0.2	6.2	n/a
Other result	-1.8	4.3	n/a
Net result attributable to owners of the parent	114.0	111.6	-2.1%
Return on allocated capital	31.7%	35.0%	

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

Net interest income increased primarily due to the higher contribution of money market and collateral trading products. Net fee and commission income declined on the back of lower average asset under management volumes and decreased institutional sales activities. Net trading and fair value result decreased primarily due to the negative impact of government bonds valuation. As the decline in operating income was not fully compensated by lower operating expenses, the operating result declined. The cost/income ratio remained stable. Other result improved. Overall, net result attributable to the owners of the parent declined.

Asset/Liability Management & Local Corporate Center

in EUR million	1-6 15	1-6 16	Change
Net interest income	34.1	-3.6	n/a
Net fee and commission income	-35.3	-22.7	-35.5%
Net trading and fair value result	-51.3	-4.6	-91.0%
Operating income	-30.4	-5.8	-81.0%
Operating expenses	-37.8	-57.3	51.6%
Operating result	-68.2	-63.0	-7.5%
Cost/income ratio	>100%	>100%	
Net impairment loss on financial assets not measured at fair value through profit or loss	-7.9	-13.9	75.9%
Other result	-120.5	64.2	n/a
Net result attributable to owners of the parent	-176.5	-12.6	-92.8%
Return on allocated capital	-15.8%	-1.0%	

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 considerably mainly due to lower ALM contribution on the back of an unfavourable yield curve development. The increase in net fee and commission income was primarily related to lower fee expenses in Austria and Slovakia. Net trading and fair value result improved mainly due to valuation effects of derivatives. The increase in operating expenses was mainly attributable to the booking of deposit insurance fund contributions for some countries. Overall, operating result improved. Other result improved mostly due to the selling gains of the shares in VISA Europe (EUR 138.7 million) as well as the reduction of the banking tax in Hungary. The net result attributable to the owners of the parent increased substantially.

Savings Banks

in EUR million	1-6 15	1-6 16	Change
Net interest income	452.4	471.8	4.3%
Net fee and commission income	216.6	209.3	-3.4%
Net trading and fair value result	18.3	0.6	-96.9%
Operating income	718.7	712.4	-0.9%
Operating expenses	-475.2	-510.9	7.5%
Operating result	243.5	201.5	-17.2%
Cost/income ratio	66.1%	71.7%	
Net impairment loss on financial assets not measured at fair value through profit or loss	-25.4	-16.2	-36.2%
Other result	5.3	-15.8	n/a
Net result attributable to owners of the parent	28.5	23.6	-17.3%
Return on allocated capital	17.5%	10.6%	

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 attributable to loan growth and the repricing of deposits due to the persistent low interest rate environment. Net fee and commission income declined mainly due to lower fees from securities business. Net trading and fair value result decreased driven by derivatives valuation and FX translation effects. Operating expenses went up due to the booking of the contribution to the deposit insurance fund for the full year in the amount of EUR 22.5 million (EUR 0.6 million) as well as higher personnel and IT expenses. Therefore, operating result decreased, the cost/income ratio went up. Net impairment loss on financial assets not measured at FV through profit and loss decreased. Other result deteriorated due to valuation effects. Banking tax increased slightly to EUR 7.6 million (EUR 7.2 million). The payment into the recovery and resolution fund increased to EUR 8.6 million (EUR 6.8 million). Overall, the net result attributable to owners of the parent decreased.

Group Corporate Center

in EUR million	1-6 15	1-6 16	Change
Net interest income	41.8	36.8	-12.1%
Net fee and commission income	10.0	1.2	-88.0%
Net trading and fair value result	17.4	-12.6	n/a
Operating income	88.2	58.6	-33.5%
Operating expenses	-334.9	-397.0	18.5%
Operating result	-246.7	-338.4	37.2%
Cost/income ratio	>100.0%	>100.0%	
Net impairment loss on financial assets not measured at fair value through profit or loss	-42.0	-10.7	-74.4%
Other result	196.2	176.6	-10.0%
Net result attributable to owners of the parent	-160.7	-138.5	-13.9%
Return on allocated capital	-9.4%	-5.2%	

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, internal non-profit service providers and the free capital of Erste Group.

Net interest income declined. Net fee and commission decreased driven by the lower fees from service providers. Net trading and fair value result decreased due to valuation effects. The increase in operating expenses was mainly due to higher IT expenses and costs related to the move into the new headquarters in Vienna. Other result deteriorated due to higher off-balance sheet provisions. Consequently, the net result attributable to the owners of the parent improved.

GEOGRAPHICAL SEGMENTS

Erste Bank Oesterreich & Subsidiaries

in EUR million	1-6 15	1-6 16	Change
Net interest income	317.9	314.5	-1.1%
Net fee and commission income	176.7	168.5	-4.7%
Net trading and fair value result	0.2	6.9	>100.0%
Operating income	514.3	506.4	-1.5%
Operating expenses	-304.4	-327.5	7.6%
Operating result	209.9	178.9	-14.7%
Cost/income ratio	59.2%	64.7%	
Net impairment loss on financial assets not measured at fair value through profit or loss	-13.7	-2.5	-81.9%
Other result	-24.5	19.7	n/a
Net result attributable to owners of the parent	126.6	135.7	7.2%
Return on allocated capital	20.9%	22.6%	

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

Net interest income decreased slightly as higher loan volumes and repricing of deposits could not fully offset the negative effect from the low interest rate environment. Net fee and commission income decreased mainly due to lower securities fees. Net trading and fair value result increased primarily due to valuation effects of derivatives. Operating expenses increased due to the booking of deposit insurance contributions of EUR 18.5 million for the full year (in 2015, the first payment was due only in the second half of the year) and due to higher IT costs. Therefore, operating result decreased and the cost/income ratio went up. Net impairment loss on financial assets not measured at FV through profit and loss decreased substantially mainly due to lower risk provisions in the corporate business. The improvement of other result was driven by selling gain for buildings and releases of provisions for contingent credit risk liabilities. The selling gains of the shares in VISA Europe contributed with EUR 12.2 million. Banking tax remained almost unchanged at EUR 7.3 million (EUR 7.2 million). Payment into recovery and resolution fund increased to EUR 7.1 million (EUR 4.1 million). Overall, the net result attributable to owners of the parent increased.

Savings Banks

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

Other Austria

in EUR million	1-6 15	1-6 16	Change
Net interest income	212.4	195.8	-7.8%
Net fee and commission income	105.2	97.0	-7.8%
Net trading and fair value result	21.7	5.5	-74.6%
Operating income	361.9	328.4	-9.2%
Operating expenses	-171.3	-171.4	0.0%
Operating result	190.6	157.0	-17.6%
Cost/income ratio	47.3%	52.2%	
Net impairment loss on financial assets not measured at fair value through profit or loss	-73.2	-15.2	-79.2%
Other result	-21.6	29.8	n/a
Net result attributable to owners of the parent	63.0	124.6	97.7%
Return on allocated capital	7.9%	16.3%	

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

Net interest income decreased primarily due to the non-recurrence of one-off income in the real estate business in Austria. Net fee and commission income declined due to lower asset management volumes and a weaker performance of money market and fixed income funds. Lower service related fees in corporates and markets business also contributed to the decline. The decrease of net trading and fair value result was predominantly attributable to the negative impact of mark-to-market valuations due to unfavorable market conditions. Lower operating income resulted in a decline of operating result despite stable operating expenses. Consequently, the cost/income ratio deteriorated. Net impairment loss on financial assets not measured at FV through profit and loss improved significantly on the back of lower provisioning requirements in the corporate business of Holding. Other result improved significantly due to the releases of provisions for contingent credit risk liabilities. This line item included a resolution fund contribution of EUR 3.1 million (EUR 4.2 million). The net result attributable to the owners of the parent increased significantly.

Czech Republic

in EUR million	1-6 15	1-6 16	Change
Net interest income	453.1	455.5	0.5%
Net fee and commission income	186.0	171.8	-7.6%
Net trading and fair value result	52.2	45.8	-12.3%
Operating income	708.0	684.6	-3.3%
Operating expenses	-330.3	-324.8	-1.7%
Operating result	377.7	359.8	-4.7%
Cost/income ratio	46.7%	47.4%	
Net impairment loss on financial assets not measured at fair value through profit or loss	-50.5	-25.7	-49.1%
Other result	-15.8	32.5	n/a
Net result attributable to owners of the parent	249.9	287.3	15.0%
Return on allocated capital	30.7%	34.0%	

Net interest income in the Czech Republic segment (comprising Česká spořitelna Group) benefitted from higher average loan volumes. Net fee and commission income declined mostly due to lower private current account fees and the implementation of debit and credit card fee caps as of the third quarter of 2015. Net trading and fair value result decreased due to lower result from derivatives. Although operating expenses decreased on the back of lower contribution to deposit insurance fund of EUR 7.4 million (EUR 17.7 million), operating result decreased, the cost/income ratio went up. The decline of net impairment loss on financial assets not measured at FV through profit and loss was attributable to an improvement in retail and corporate portfolio quality. Other result improved on the back of the selling gains of the shares in VISA Europe in the amount of EUR 52.6 million. The recovery and resolution fund contribution amounted to EUR 14.7 million (EUR 16.1 million which was subsequently released in the second half of 2015). Overall, these developments led to an increase in the net result attributable to the owners of the parent.

Slovakia

in EUR million	1-6 15	1-6 16	Change
Net interest income	226.1	226.7	0.3%
Net fee and commission income	62.5	64.7	3.5%
Net trading and fair value result	2.7	6.8	>100.0%
Operating income	297.7	302.5	1.6%
Operating expenses	-130.6	-135.0	3.4%
Operating result	167.1	167.5	0.2%
Cost/income ratio	43.9%	44.6%	
Net impairment loss on financial assets not measured at fair value through profit or loss	-31.3	-21.4	-31.8%
Other result	-18.0	25.0	n/a
Net result attributable to owners of the parent	90.0	133.6	48.4%
Return on allocated capital	29.0%	40.3%	

Net interest income in the Slovakia segment (comprising Slovenská sporitel'ňa Group) remained stable mainly due to higher loan volumes, particularly in housing and consumer loans. These effects were partially offset by a lower contribution from asset/liability management due to the low interest rate environment. Net fee and commission income increased slightly on the back of lower fee expenses for card transactions and higher loan prepayment fees, partially offset by lower card and deposit account maintenance fees. The increase in the net trading and fair value result was driven by the valuation of derivatives. Operating expenses increased due to the booking of deposit insurance fund contributions for the full year in an amount of EUR 2.5 million (EUR 1.2 million) as well as higher personnel and IT expenses. Operating result remained stable, the cost/income ratio deteriorated slightly. Net impairment loss on financial assets not measured at FV through profit and loss decreased due to lower provisioning requirements in corporate and retail business. The selling gains of the shares in VISA Europe (EUR 26.8 million) impacted the other result positively, payment into the recovery and resolution fund increased to EUR 4.0 million (2.4 million). Banking tax increased slightly to EUR 12.3 million (EUR 11.6 million). Overall, the net result attributable to the owners of the parent improved.

Romania

in EUR million	1-6 15	1-6 16	Change
Net interest income	224.3	197.3	-12.0%
Net fee and commission income	76.9	78.8	2.5%
Net trading and fair value result	27.7	34.8	25.7%
Operating income	333.8	317.1	-5.0%
Operating expenses	-162.4	-170.9	5.3%
Operating result	171.4	146.1	-14.8%
Cost/income ratio	48.6%	53.9%	
Net impairment loss on financial assets not measured at fair value through profit or loss	-5.9	15.4	n/a
Other result	-10.0	-0.3	-96.6%
Net result attributable to owners of the parent	125.1	124.1	-0.8%
Return on allocated capital	24.0%	27.1%	

Net interest income in the Romania segment (comprising Banca Comercială Română Group) decreased mainly due to a new lending pricing structure, a mortgage loan re-financing campaign and lower unwinding. Net fee and commission income increased due to higher fees from cash transactions. The increase in net trading and fair value result was mostly attributable to the revaluation of some foreign currency denominated participations. Operating expenses increased due to the booking of the contribution to deposit insurance fund for the full year in an amount of EUR 14.5 million (EUR 10.6 million), higher personnel as well as IT costs. Operating result declined and the cost/income ratio deteriorated. Successful insurance claims and lower provisioning requirements led to net provision releases (net impairment loss on financial assets not measured at FV through profit and loss). Other result improved as the negative effect of the impairments related to a real estate project was offset by the selling gains of the shares in VISA Europe in the amount of EUR 24.3 million. Consequently, the net result attributable to the owners of the parent remained nearly stable.

Hungary

in EUR million	1-6 15	1-6 16	Change
Net interest income	112.8	88.0	-22.0%
Net fee and commission income	70.1	68.6	-2.1%
Net trading and fair value result	-3.5	6.5	n/a
Operating income	179.9	165.0	-8.3%
Operating expenses	-87.1	-93.3	7.2%
Operating result	92.8	71.7	-22.7%
Cost/income ratio	48.4%	56.5%	
Net impairment loss on financial assets not measured at fair value through profit or loss	-58.8	71.7	n/a
Other result	-63.3	-37.3	-41.1%
Net result attributable to owners of the parent	-34.6	100.7	n/a
Return on allocated capital	-13.3%	42.1%	

Net interest income in the Hungary segment (comprising Erste Bank Hungary Group) declined considerably mainly due to lower loan volumes and the impact of the consumer loan law. Net fee and commission income decreased slightly due to lower fees from payments and brokerage. Net trading and fair value result improved due to the non-recurrence of the negative impact of the loan conversion booked in 2015. Operating expenses increased due to the booking of the full year contribution to the deposit insurance fund of EUR 7.1 million (EUR 2.3 million) as well as higher personnel costs. Consequently, operating result deteriorated, the cost/income ratio went up. The net release of risk provisions (net impairment loss on financial assets not measured at FV through profit and loss) was driven by the retail and commercial real estate business. Other result improved mainly due to the reduced banking tax of EUR 19.6 million (EUR 46.0 million), although provisions for contingent credit risk liabilities increased. Other result was positively impacted by a gain related to the sale of shares in VISA Europe in the amount of EUR 12.8 million. Other result also included the contribution to the resolution fund of EUR 1.8 million (EUR 1.7 million). Overall, the net result attributable to the owners of the parent improved and turned positive.

Croatia

in EUR million	1-6 15	1-6 16	Change
Net interest income	134.9	132.8	-1.5%
Net fee and commission income	38.7	40.7	5.1%
Net trading and fair value result	2.3	15.1	>100.0%
Operating income	191.3	201.7	5.4%
Operating expenses	-93.8	-94.9	1.2%
Operating result	97.6	106.8	9.4%
Cost/income ratio	49.0%	47.1%	
Net impairment loss on financial assets not measured at fair value through profit or loss	-66.7	-16.4	-75.4%
Other result	-3.6	8.8	n/a
Net result attributable to owners of the parent	14.7	53.4	>100.0%
Return on allocated capital	8.2%	28.5%	

Net interest income in the Croatia segment (comprising Erste Bank Croatia Group) declined mainly due to lower asset margins in the corporate business. Net fee and commission income went up due to higher fees from payment transfers. The net trading and fair value result improved significantly as the negative impact from Swiss franc exchange rate fixing for retail loans required by legislation as well as negative foreign exchange differences on the open position in Swiss francs did not recur. Operating expenses increased due to consolidation of the IT service entity. The operating result improved, as did the cost/income ratio. The decrease in net impairment loss on financial assets not measured at FV through profit and loss was driven by lower provisioning requirements in corporate as well as retail business. Other result improved due to the selling gains on property as well as a gain related to the sale of shares in VISA Europe in the amount of EUR 10.0 million. The line item included the contribution to the resolution fund of EUR 5.2 million (EUR 1.7 million). Consequently, the net result attributable to the owners of the parent improved considerably.

Serbia

in EUR million	1-6 15	1-6 16	Change
Net interest income	20.4	22.5	10.4%
Net fee and commission income	6.0	5.3	-11.7%
Net trading and fair value result	1.9	1.7	-6.6%
Operating income	28.5	29.9	4.7%
Operating expenses	-19.1	-19.9	4.3%
Operating result	9.4	9.9	5.7%
Cost/income ratio	67.1%	66.8%	
Net impairment loss on financial assets not measured at fair value through profit or loss	-4.8	-1.0	-79.8%
Other result	0.2	-0.2	n/a
Net result attributable to owners of the parent	3.8	7.1	83.5%
Return on allocated capital	10.7%	15.4%	

Net interest income in the Serbia segment (comprising Erste Bank Serbia Group) increased due to higher loan and deposit volumes despite decreasing margins. Net fee and commission income declined mostly due to lower fees from lending business. Operating expenses went up due to higher personnel and project related costs. Net impairment loss on financial assets not measured at FV through profit and loss declined on the back of better portfolio quality. Overall, the net result attributable to the owners of the parent improved.

Other

in EUR million	1-6 15	1-6 16	Change
Net interest income	57.7	89.1	54.5%
Net fee and commission income	-21.4	-19.9	-6.8%
Net trading and fair value result	13.1	-16.1	n/a
Operating income	65.3	68.5	5.0%
Operating expenses	-122.7	-131.7	7.3%
Operating result	-57.4	-63.1	9.9%
Cost/income ratio	>100.0%	>100.0%	
Net impairment loss on financial assets not measured at fair value through profit or loss	-43.6	-14.6	-66.4%
Other result	-13.2	-106.1	>100.0%
Net result attributable to owners of the parent	-179.8	-148.3	-17.5%
Return on allocated capital	-7.9%	-4.7%	

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.

While net interest income increased mainly due to a higher capital benefit from the free capital of the group and net fee and commission income improved slightly, net trading and fair value result decreased due to valuation effects. Operating expenses increased due to IT expenses and costs related to the move to the new headquarters in Vienna. Consequently, operating result decreased. Other result deteriorated due to the higher off-balance sheet provisions. Net result attributable to the owners of the parent thus improved.

Group condensed consolidated financial statements of Erste Group Bank AG

Half year financial report 2016

I. Group condensed statement of comprehensive income

Income statement

in EUR thousand	Notes	1-6 15	1-6 16
Net interest income	1	2,211,940	2,194,073
Net fee and commission income	2	917,352	884,869
Dividend income	3	32,110	31,471
Net trading and fair value result	4	136,549	107,546
Net result from equity method investments		9,668	5,696
Rental income from investment properties & other operating leases	5	91,746	92,938
Personnel expenses	6	-1,113,928	-1,152,674
Other administrative expenses	6	-559,587	-610,100
Depreciation and amortisation	6	-223,298	-217,556
Gains/losses from financial assets and liabilities not measured at fair value through profit or loss, net	7	36,029	148,404
Net impairment loss on financial assets not measured at fair value through profit or loss	8	-373,928	-25,771
Other operating result	9	-200,580	-192,165
Levies on banking activities	9	-137,224	-107,649
Pre-tax result from continuing operations		**964,073**	**1,266,731**
Taxes on income	10	-273,416	-278,800
Net result for the period		**690,657**	**987,930**
Net result attributable to non-controlling interests		203,427	146,197
Net result attributable to owners of the parent		**487,230**	**841,733**

Statement of comprehensive income

in EUR thousand	1-6 15	1-6 16
Net result for the period	**690,657**	**987,930**
Other comprehensive income		
Items that may not be reclassified to profit or loss		
Remeasurement of net liability of defined benefit plans	50,848	-81,687
Deferred taxes relating to items that may not be reclassified	-22,995	21,565
Total	**27,854**	**-60,123**
Items that may be reclassified to profit or loss		
Available for sale reserve (including currency translation)	-206,948	20,062
Gain/loss during the period	-193,184	171,098
Reclassification adjustments	-13,763	-151,035
Cash flow hedge reserve (including currency translation)	-55,201	11,021
Gain/loss during the period	-22,867	59,107
Reclassification adjustments	-32,334	-48,086
Currency translation	80,436	-11,892
Gain/loss during the period	80,436	-11,892
Reclassification adjustments	0	0
Deferred taxes relating to items that may be reclassified	79,005	-14,906
Gain/loss during the period	62,074	-53,360
Reclassification adjustments	16,931	38,454
Total	**-102,707**	**4,286**
Total other comprehensive income	**-74,854**	**-55,833**
Total comprehensive income	**615,803**	**932,097**
Total comprehensive income attributable to non-controlling interests	122,146	196,929
Total comprehensive income attributable to owners of the parent	**493,657**	**735,168**

Earnings per share

		1-6 15	1-6 16
Net result attributable to owners of the parent	in EUR thousand	487,230	841,733
Dividend on AT1 capital	in EUR thousand	0	-3,516
Net result for the period attributable to owners of the parent after deduction of AT1 capital dividend	in EUR thousand	487,230	838,217
Weighted average number of outstanding shares		426,774,780	426,667,022
Earnings per share	**in EUR**	**1.14**	**1.96**
Weighted average diluted number of outstanding shares		426,774,780	426,667,022
Diluted earnings per share	**in EUR**	**1.14**	**1.96**

Changes in number of shares

	1-6 15	1-6 16
Shares outstanding at the beginning of the period	409,940,635	410,487,814
Acquisition of treasury shares	-3,858,761	-4,146,809
Disposal of treasury shares	4,013,014	3,322,649
Shares outstanding at the end of the period	410,094,888	409,663,654
Treasury shares	19,705,112	20,136,346
Number of shares issued at the end of the period	**429,800,000**	**429,800,000**
Weighted average number of outstanding shares	426,774,780	426,667,022
Weighted average diluted number of outstanding shares	426,774,780	426,667,022

Quarterly results

in EUR million	Q2 15	Q3 15	Q4 15	Q1 16	Q2 16
Income statement					
Net interest income	1,113.4	1,112.3	1,120.4	1,092.2	1,101.9
Net fee and commission income	456.3	455.2	489.2	443.1	441.8
Dividend income	24.8	11.2	6.6	2.6	28.8
Net trading and fair value result	64.1	56.4	17.2	43.5	64.0
Net result from equity method investments	5.0	4.7	3.1	1.9	3.7
Rental income from investment properties & other operating leases	46.6	51.7	44.4	45.9	47.1
Personnel expenses	-559.9	-553.6	-577.1	-565.4	-587.2
Other administrative expenses	-278.5	-295.6	-324.1	-333.5	-276.6
Depreciation and amortisation	-110.4	-106.4	-115.3	-109.8	-107.7
Gains/losses from financial assets and liabilities not measured at fair value through profit or loss, net	25.2	22.8	42.1	2.4	146.0
Net impairment loss on financial assets not measured at fair value through profit or loss	-190.8	-144.4	-210.7	-56.4	30.6
Other operating result	-47.1	-176.8	-258.2	-139.5	-52.6
Levies on banking activities	-45.4	-50.5	-48.5	-62.8	-44.9
Pre-tax result from continuing operations	**548.8**	**437.4**	**237.6**	**427.0**	**839.7**
Taxes on income	-154.8	-88.9	-1.6	-104.5	-174.3
Net result for the period	**394.0**	**348.5**	**236.0**	**322.6**	**665.3**
Net result attributable to non-controlling interests	132.6	71.6	32.0	47.8	98.4
Net result attributable to owners of the parent	**261.4**	**276.9**	**204.0**	**274.7**	**567.0**

Statement of comprehensive income					
Net result for the period	**394.0**	**348.5**	**236.0**	**322.6**	**665.3**
Other comprehensive income					
Items that may not be reclassified to profit or loss					
Remeasurement of net liability of defined benefit plans	105.6	0.8	49.4	-77.9	-3.8
Deferred taxes relating to items that may not be reclassified	-28.9	-0.3	-10.4	19.2	2.3
Total	**76.7**	**0.5**	**39.0**	**-58.6**	**-1.5**
Items that may be reclassified to profit or loss					
Available for sale reserve (including currency translation)	-410.9	50.8	124.5	112.7	-92.6
Gain/loss during the period	-407.7	96.6	86.5	110.4	60.7
Reclassification adjustments	-3.2	-45.7	38.0	2.2	-153.3
Cash flow hedge reserve (including currency translation)	-66.5	33.0	-5.2	41.5	-30.4
Gain/loss during the period	-44.4	38.5	-4.3	48.8	10.3
Reclassification adjustments	-22.1	-5.5	-0.9	-7.4	-40.7
Currency translation	-1.3	18.9	-8.4	22.5	-34.4
Gain/loss during the period	-1.3	18.9	-8.4	22.5	-34.4
Reclassification adjustments	0.0	0.0	0.0	0.0	0.0
Deferred taxes relating to items that may be reclassified	120.4	-24.5	-18.6	-37.0	22.1
Gain/loss during the period	106.9	-34.4	-21.3	-38.4	-15.0
Reclassification adjustments	13.5	9.9	2.7	1.4	37.1
Total	**-358.3**	**78.2**	**92.4**	**139.7**	**-135.4**
Total other comprehensive income	**-281.6**	**78.7**	**131.4**	**81.0**	**-136.9**
Total comprehensive income	**112.5**	**427.2**	**367.3**	**403.6**	**528.5**
Total comprehensive income attributable to non-controlling interests	9.0	49.4	58.2	87.8	109.2
Total comprehensive income attributable to owners of the parent	**103.4**	**377.8**	**309.2**	**315.9**	**419.3**

II. Group condensed balance sheet

in EUR thousand	Notes	Dec 15	Jun 16
Assets			
Cash and cash balances	11	12,350,003	12,981,615
Financial assets - held for trading		8,719,244	10,373,144
Derivatives	12	5,303,001	5,609,982
Other trading assets	13	3,416,243	4,763,162
Financial assets - at fair value through profit or loss	14	358,959	433,430
Financial assets - available for sale	15	20,762,661	20,822,377
Financial assets - held to maturity	16	17,700,886	17,823,079
Loans and receivables to credit institutions	17	4,805,222	5,625,803
Loans and receivables to customers	18	125,896,650	127,407,364
Derivatives - hedge accounting	19	2,191,175	2,253,413
Property and equipment		2,401,868	2,334,450
Investment properties		753,243	752,666
Intangible assets		1,464,529	1,436,655
Investments in associates and joint ventures		166,541	190,493
Current tax assets		118,786	132,117
Deferred tax assets		310,370	253,152
Assets held for sale		526,451	294,451
Other assets	20	1,216,785	1,390,534
Total assets		**199,743,371**	**204,504,743**
Liabilities and equity			
Financial liabilities - held for trading		5,867,450	6,146,232
Derivatives	12	5,433,865	5,340,772
Other trading liabilities	21	433,586	805,460
Financial liabilities - at fair value through profit or loss		1,906,766	1,765,464
Deposits from banks		0	0
Deposits from customers		148,731	113,430
Debt securities issued	22	1,758,035	1,652,035
Other financial liabilities		0	0
Financial liabilities measured at amortised cost		170,786,703	173,943,464
Deposits from banks	23	14,212,032	16,367,098
Deposits from customers	23	127,797,081	130,303,575
Debt securities issued	23	27,895,975	26,361,555
Other financial liabilities		881,616	911,236
Derivatives - hedge accounting	19	592,891	666,211
Changes in fair value of portfolio hedged items		965,583	1,148,217
Provisions	24	1,736,367	1,714,601
Current tax liabilities		89,956	98,117
Deferred tax liabilities		95,787	132,669
Liabilities associated with assets held for sale		577,953	0
Other liabilities	25	2,316,601	2,913,180
Total equity		**14,807,313**	**15,976,588**
Equity attributable to non-controlling interests		3,801,997	3,947,969
Equity attributable to owners of the parent		11,005,316	12,028,620
Total liabilities and equity		**199,743,371**	**204,504,743**

III. Group condensed 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 2016	**860**	**1,478**	**9,071**	**115**	**688**	**-759**	**-334**	**-112**	**11,005**	**0**	**3,802**	**14,808**
Changes in treasury shares	0	0	4	0	0	0	0	0	4	0	0	4
Dividends paid	0	0	-209	0	0	0	0	0	-209	0	-57	-266
Capital increases	0	0	0	0	0	0	0	0	0	497	0	497
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	-3	0	0	0	0	0	-3	0	6	2
Total comprehensive income	0	0	842	16	-75	-15	-47	14	735	0	197	932
Net result for the period	0	0	842	0	0	0	0	0	842	0	146	988
Other comprehensive income	0	0	0	16	-75	-15	-47	14	-107	0	51	-56
As of 30 June 2016	**860**	**1,478**	**9,704**	**131**	**613**	**-774**	**-382**	**-97**	**11,532**	**497**	**3,948**	**15,978**
As of 1 January 2015	**860**	**1,478**	**8,116**	**140**	**580**	**-849**	**-394**	**-92**	**9,838**	**0**	**3,605**	**13,444**
Changes in treasury shares	0	0	-4	0	0	0	0	0	-4	0	0	-4
Dividends paid	0	0	0	0	0	0	0	0	0	0	-27	-27
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	-14	0	0	0	0	0	-14	0	0	-14
Total comprehensive income	0	0	487	-54	-81	77	31	33	494	0	122	616
Net result for the period	0	0	487	0	0	0	0	0	487	0	203	691
Other comprehensive income	0	0	0	-54	-81	77	31	33	6	0	-81	-75
As of 30 June 2015	**860**	**1,478**	**8,585**	**86**	**499**	**-772**	**-363**	**-59**	**10,314**	**0**	**3,701**	**14,015**

In June 2016 Erste Group increased its capital by issuing Additional Tier 1 bonds 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 of Erste Group Bank AG which are classified as equity under IFRS and are reported under the additional components of equity.

IV. Group cash flow statement

in EUR million	1-6 15	1-6 16
Net result for the period	**691**	**988**
Non-cash adjustments for items in net profit/loss for the year		
Depreciation, amortisation, impairment and reversal of impairment, revaluation of assets	233	278
Allocation to and release of provisions (including risk provisions)	446	22
Gains/(losses) from the sale of assets	-117	-249
Other adjustments	-52	-14
Changes in assets and liabilities from operating activities after adjustment for non-cash components		
Financial assets - held for trading	1,517	-1,618
Financial assets - at fair value through profit or loss	109	-87
Financial assets - available for sale	516	-64
Loans and advances to credit institutions	-1,704	-845
Loans and advances to customers	-2,671	-1,511
Derivatives - hedge accounting	637	-46
Other assets from operating activities	193	249
Financial liabilities - held for trading	-1,114	279
Financial liabilities - at fair value through profit or loss	-192	-141
Financial liabilities measured at amortised cost		
Deposits from banks	902	2,155
Deposits from customers	2,034	2,506
Debt securities issued	-1,112	-1,539
Other financial liabilities	28	30
Derivatives - hedge accounting	-87	73
Other liabilities from operating activities	196	194
Cash flow from operating activities	**453**	**660**
Proceeds of disposal		
Financial assets - held to maturity and associated companies	0	1,683
Property and equipment, intangible assets and investment properties	401	610
Acquisition of		
Financial assets - held to maturity and associated companies	-1,069	-1,823
Property and equipment, intangible assets and investment properties	-634	-773
Acquisition of subsidiaries (net of cash and cash equivalents acquired)	0	0
Disposal of subsidiaries	0	0
Cash flow from investing activities	**-1,303**	**-303**
Capital increases	0	497
Capital decrease	0	0
Acquisition of non-controlling interest	0	0
Dividends paid to equity holders of the parent	0	-209
Dividends paid to non-controlling interests	-27	0
Other financing activities	0	0
Cash flow from financing activities	**-27**	**288**
Cash and cash equivalents at the beginning of the period	**7,835**	**12,350**
Cash flow from operating activities	453	660
Cash flow from investing activities	-1,303	-303
Cash flow from financing activities	-27	288
Effect of currency translation	52	-12
Cash and cash equivalents at the end of period	**7,011**	**12,982**
Cash flows related to taxes, interest and dividends	**2,064**	**1,959**
Payments for taxes on income (included in cash flow from operating activities)	-180	-235
Interest received	3,093	3,095
Dividends received	32	31
Interest paid	-881	-933

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 30 June 2016

BASIS OF PREPARATION

The condensed consolidated interim financial statements ("interim financial statements") of Erste Group for the period from 1 January to 30 June 2016 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 2015	**496**
Additions	
Entities newly added to the scope of consolidation	5
Disposals	
Companies sold or liquidated	-14
Mergers	-8
As of 30 June 2016	**479**

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 2015. 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 2015, 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.

APPLICATION OF AMENDED AND NEW IFRS/IAS

The following standards, interpretations and their amendments which are relevant for the business of Erste Group are applicable for the first time in 2016:

- Amendments to IAS 1 – Disclosure Initiative
- Annual Improvements to IFRSs 2012-2014 Cycle
- Amendments to IAS 16 and IAS 38 – Clarification of acceptable methods of depreciation and amortisation
- Amendments to IFRS 11 – Accounting for acquisitions of interest in joint operations

Compared to the annual group financial statements as of 31 December 2015, no material changes in accounting policies were resulting from new or amended standards.

1. Net interest income

in EUR million	1-6 15	1-6 16
Interest income		
Financial assets - held for trading	238.3	376.5
Financial assets - at fair value through profit or loss	0.6	4.5
Financial assets - available for sale	236.4	226.4
Financial assets - held to maturity	295.6	273.7
Loans and receivables	2,267.0	2,089.0
Derivatives - hedge accounting, interest rate risk	35.3	8.5
Other assets	8.6	19.9
Total interest income	**3,093.3**	**2,998.6**
Interest expenses		
Financial liabilities - held for trading	-130.8	-235.5
Financial liabilities - at fair value through profit or loss	-21.2	-27.1
Financial liabilities measured at amortised cost	-888.2	-731.4
Derivatives - hedge accounting, interest rate risk	179.4	200.5
Other liabilities	-13.9	-15.0
Total interest expense	**-881.4**	**-808.4**
Negative interest from financial liabilities	11.5	21.8
Negative Interest from financial assets	-6.7	-17.8
Net interest income	**2,211.9**	**2,194.1**

2. Net fee and commission income

in EUR million	1-6 15	1-6 16
Securities	106.1	81.8
Own issues	8.9	9.7
Transfer orders	90.1	67.4
Other	7.0	4.7
Clearing and settlement	0.1	1.5
Asset management	117.5	120.9
Custody	38.0	37.3
Fiduciary transactions	1.0	1.2
Payment services	445.7	430.6
Card business	106.4	96.3
Other	339.3	334.2
Customer resources distributed but not managed	79.9	78.8
Collective investment	7.7	8.0
Insurance products	52.1	51.9
Building society brokerage	10.8	7.9
Foreign exchange transactions	9.7	10.5
Other	-0.5	0.5
Structured finance	0.0	0.0
Servicing fees from securitization activities	0.0	0.0
Lending business	100.7	90.7
Guarantees given, guarantees received	30.3	28.6
Loan commitments given, loan commitments received	20.8	13.4
Other lending business	49.6	48.7
Other	28.4	42.1
Net fee and commission income	**917.4**	**884.9**

3. Dividend income

in EUR million	1-6 15	1-6 16
Financial assets - held for trading	0.8	0.3
Financial assets - at fair value through profit or loss	2.1	1.4
Financial assets - available for sale	23.4	25.8
Dividend income from equity investments	5.9	3.9
Dividend income	**32.1**	**31.5**

4. Net trading and fair value result

in EUR million	1-6 15	1-6 16
Net trading result	108.1	120.0
Securities and derivatives trading	-39.4	-6.6
Foreign exchange transactions	122.7	95.6
Result from hedge accounting	24.7	31.0
Result from financial assets and liabilities designated at fair value through profit or loss	28.5	-12.5
Result from measurement/sale of financial assets designated at fair value through profit or loss	-0.6	4.3
Result from measurement/sale of financial liabilities designated at fair value through profit or loss	29.1	-16.8
Net trading and fair value result	**136.5**	**107.5**

5. Rental income from investment properties & other operating leases

in EUR million	1-6 15	1-6 16
Investment properties	41.7	38.7
Other operating leases	50.0	54.2
Rental income from investment properties & other operating leases	**91.7**	**92.9**

6. General administrative expenses

in EUR million	1-6 15	1-6 16
Personnel expenses	**-1,113.9**	**-1,152.7**
Wages and salaries	-833.7	-852.6
Compulsory social security	-218.2	-225.5
Long-term employee provisions	-13.4	-18.0
Other personnel expenses	-48.7	-56.6
Other administrative expenses	**-559.6**	**-610.1**
Deposit insurance contribution	-38.8	-79.3
IT expenses	-138.8	-144.5
Expenses for office space	-124.5	-123.4
Office operating expenses	-58.7	-55.7
Advertising/marketing	-77.2	-75.4
Legal and consulting costs	-59.8	-61.1
Sundry administrative expenses	-61.8	-70.7
Depreciation and amortisation	**-223.3**	**-217.6**
Software and other intangible assets	-80.8	-79.9
Owner occupied real estate	-36.4	-40.5
Investment properties	-54.3	-51.7
Customer relationships	-3.7	-2.5
Office furniture and equipment and sundry property and equipment	-48.0	-42.9
General administrative expenses	**-1,896.8**	**-1,980.3**

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

in EUR million	1-6 15	1-6 16
From sale of financial assets available for sale	30.6	152.5
From sale of financial assets held to maturity	1.6	0.4
From sale of loans and receivables	-1.0	0.1
From repurchase of liabilities measured at amortised cost	4.8	-4.6
Gains/losses from financial assets and liabilities not measured at fair value through profit or loss, net	**36.0**	**148.4**

In June 2016 Erste Group sold its shares in VISA Europe Ltd. which resulted in a gain related to the sale of shares of EUR 138.7 million included in the line item “Gains/losses from sale of financial assets available for sale”.

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

in EUR million	1-6 15	1-6 16
Financial assets - available for sale	-3.3	-1.2
Loans and receivables	-370.8	-24.8
Allocation to risk provisions	-1,219.5	-1,057.4
Release of risk provisions	819.5	941.4
Direct write-offs	-60.5	-134.7
Recoveries recorded directly to the income statement	89.7	225.9
Financial assets - held to maturity	0.2	0.2
Net impairment loss on financial assets not measured at fair value through profit or loss	**-373.9**	**-25.8**

9. Other operating result

in EUR million	1-6 15	1-6 16
Result from properties/movables/other intangible assets other than goodwill	9.2	-46.8
Allocation to/release of other provisions	-10.2	5.1
Allocation to/release of provisions for commitments and guarantees given	-9.7	-2.4
Levies on banking activities	-137.2	-107.6
Banking tax	-117.7	-89.1
Financial transaction tax	-19.5	-18.6
Other taxes	-10.0	-10.4
Impairment of goodwill	0.0	0.0
Result from other operating expenses/income	-42.6	-29.9
Other operating result	**-200.6**	**-192.2**

In the line item "result from other operating expenses/income" the expected contributions to national resolution funds for the full-year 2016 (according to the Bank Recovery and Resolution Directive) of EUR 64.6 million (EUR 55.2 million) are included.

10. Taxes on income

The consolidated net tax expense for the reporting period amounted to EUR 278.8 million (EUR 273.4 million), thereof EUR 101.6 million (EUR 93.1 million) net deferred tax expense.

11. Cash and cash balances

in EUR million	Dec 15	Jun 16
Cash on hand	2,794	2,808
Cash balances at central banks	7,328	7,934
Other demand deposits	2,228	2,239
Cash and cash balances	**12,350**	**12,982**

12. Derivatives – held for trading

in EUR million	Dec 15			Jun 16		
	Notional value	Positive fair value	Negative fair value	Notional value	Positive fair value	Negative fair value
Derivatives held in the trading book	**164,243**	**4,673**	**4,360**	**162,608**	**5,319**	**4,789**
Interest rate	124,450	4,139	4,109	121,770	4,918	4,560
Equity	820	21	6	666	27	8
Foreign exchange	38,073	476	205	39,494	350	196
Credit	532	3	6	474	1	4
Commodity	368	35	35	205	24	20
Other	0	0	0	0	0	0
Derivatives held in the banking book	**36,877**	**1,008**	**1,524**	**35,864**	**1,031**	**1,612**
Interest rate	17,552	737	908	17,620	789	1,012
Equity	2,091	106	68	2,078	96	68
Foreign exchange	16,156	121	534	15,095	89	517
Credit	542	13	11	562	14	13
Commodity	47	1	0	32	1	0
Other	488	30	2	476	43	3
Total gross amounts	**201,119**	**5,682**	**5,884**	**198,473**	**6,350**	**6,401**
Offset		-379	-450		-740	-1,060
Total		**5,303**	**5,434**		**5,610**	**5,341**

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 15	Jun 16
Equity instruments	253	75
Debt securities	3,159	4,223
General governments	2,393	3,249
Credit institutions	393	558
Other financial corporations	120	137
Non-financial corporations	254	280
Loans and advances	4	465
Other trading assets	**3,416**	**4,763**

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

in EUR million	Dec 15	Jun 16
Equity instruments	183	154
Debt securities	176	277
General governments	5	32
Credit institutions	159	240
Other financial corporations	12	5
Non-financial corporations	0	0
Loans and advances	0	2
Financial assets - at fair value through profit or loss	**359**	**433**

15. Financial assets – available for sale

in EUR million	Dec 15	Jun 16
Equity instruments	1,456	1,421
Debt securities	19,307	19,401
General governments	13,169	13,320
Credit institutions	2,779	2,656
Other financial corporations	796	784
Non-financial corporations	2,564	2,641
Loans and advances	0	0
Financial assets - available for sale	**20,763**	**20,822**

16. Financial assets – held to maturity

in EUR million	Gross carrying amount Dec 15	Gross carrying amount Jun 16	Collective allowances Dec 15	Collective allowances Jun 16	Net carrying amount Dec 15	Net carrying amount Jun 16
General governments	16,050	16,254	-1	-1	16,049	16,253
Credit institutions	1,010	976	-1	0	1,009	975
Other financial corporations	194	186	0	0	194	186
Non-financial corporations	449	409	-1	-1	448	408
Financial assets - held to maturity	**17,703**	**17,825**	**-2**	**-2**	**17,701**	**17,823**

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 30 June 2016				
Debt securities	241	0	-1	240
Central banks	0	0	0	0
Credit institutions	241	0	-1	240
Loans and receivables	5,392	-2	-4	5,385
Central banks	772	0	0	771
Credit institutions	4,620	-2	-4	4,614
Total	**5,633**	**-2**	**-5**	**5,625**
As of 31 December 2015				
Debt securities	268	0	-1	267
Central banks	0	0	0	0
Credit institutions	268	0	-1	267
Loans and receivables	4,551	-9	-4	4,538
Central banks	1,260	0	0	1,260
Credit institutions	3,290	-9	-3	3,278
Total	**4,819**	**-9**	**-5**	**4,805**

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 15						**Jun 16**		
Specific allowances	**-8**	**0**	**7**	**0**	**0**	**-1**	**-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	-8	0	7	0	0	-1	-2	0	0
Central banks	0	0	0	0	0	0	0	0	0
Credit institutions	-8	0	7	0	0	-1	-2	0	0
Collective allowances	**-5**	**-4**	**0**	**4**	**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	-4	0	3	0	0	-4	0	0
Central banks	0	0	0	0	0	0	0	0	0
Credit institutions	-4	-4	0	3	0	0	-4	0	0
Total	**-13**	**-4**	**7**	**4**	**0**	**0**	**-7**	**0**	**0**
	Dec 14						**Jun 15**		
Specific allowances	**-15**	**0**	**0**	**0**	**0**	**0**	**-15**	**-6**	**5**
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	-15	0	0	0	0	0	-15	-6	5
Central banks	0	0	0	0	0	0	0	0	0
Credit institutions	-15	0	0	0	0	0	-15	-6	5
Collective allowances	**-3**	**-2**	**0**	**6**	**0**	**-4**	**-2**	**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	-2	-2	0	6	0	-3	-1	0	0
Central banks	0	0	0	0	0	0	0	0	0
Credit institutions	-2	-2	0	6	0	-3	-1	0	0
Total	**-17**	**-2**	**0**	**6**	**0**	**-3**	**-17**	**-6**	**5**

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 30 June 2016				
Debt securities with customers	118	-2	-2	114
General governments	57	0	-1	56
Other financial corporations	0	0	0	0
Non-financial corporations	61	-2	-1	58
Loans and advances to customers	132,372	-4,365	-713	127,294
General governments	7,448	-6	-10	7,432
Other financial corporations	4,578	-126	-22	4,430
Non-financial corporations	56,120	-2,406	-383	53,331
Households	64,227	-1,827	-298	62,102
Total	**132,490**	**-4,367**	**-715**	**127,407**
As of 31 December 2015				
Debt securities with customers	183	-14	-2	167
General governments	67	0	-1	66
Other financial corporations	0	0	0	0
Non-financial corporations	116	-14	-1	102
Loans and advances to customers	131,723	-5,262	-731	125,729
General governments	7,433	-6	-14	7,412
Other financial corporations	5,030	-154	-26	4,849
Non-financial corporations	56,112	-3,194	-423	52,495
Households	63,148	-1,907	-268	60,973
Total	**131,906**	**-5,276**	**-734**	**125,897**

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 15						Jun 16		
Specific allowances	**-5,276**	**-779**	**985**	**636**	**60**	**7**	**-4,367**	**-135**	**226**
Debt securities with customers	-14	0	11	0	0	0	-2	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	11	0	0	0	-2	0	0
Loans and advances to customers	-5,262	-779	974	635	60	7	-4,365	-135	226
General governments	-7	-2	1	2	0	-1	-6	0	0
Other financial corporations	-154	-10	26	12	1	0	-126	0	0
Non-financial corporations	-3,195	-418	806	345	30	25	-2,406	-118	133
Households	-1,907	-349	141	275	30	-17	-1,827	-17	92
Collective allowances	**-733**	**-274**	**0**	**302**	**0**	**-13**	**-718**	**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	-274	0	302	0	-13	-716	0	0
General governments	-14	-8	0	19	0	-6	-10	0	0
Other financial corporations	-26	-8	0	10	0	2	-22	0	0
Non-financial corporations	-424	-104	0	151	0	-8	-385	0	0
Households	-268	-154	0	122	0	0	-299	0	0
Total	**-6,009**	**-1,053**	**985**	**938**	**60**	**-6**	**-5,086**	**-135**	**226**
	Dec 14						Jun 15		
Specific allowances	**-6,723**	**-1,031**	**1,009**	**596**	**86**	**-86**	**-6,147**	**-55**	**85**
Debt securities with customers	-13	-1	0	1	0	-1	-15	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	-13	-1	0	1	0	-1	-15	0	0
Loans and advances to customers	-6,710	-1,029	1,009	596	86	-84	-6,132	-55	85
General governments	-6	0	0	1	0	0	-5	0	0
Other financial corporations	-142	-27	11	11	2	8	-138	-2	2
Non-financial corporations	-4,134	-573	460	348	43	-69	-3,925	-37	70
Households	-2,428	-429	538	237	41	-23	-2,065	-15	12
Collective allowances	**-768**	**-187**	**0**	**217**	**0**	**-1**	**-739**	**0**	**0**
Debt securities with customers	-2	0	0	0	0	0	-2	0	0
General governments	-1	0	0	0	0	-1	-1	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	-766	-187	0	217	0	0	-737	0	0
General governments	-14	-4	0	7	0	0	-12	0	0
Other financial corporations	-25	-22	0	11	0	-32	-67	0	0
Non-financial corporations	-440	-91	0	106	0	33	-392	0	0
Households	-287	-71	0	93	0	-2	-266	0	0
Total	**-7,491**	**-1,218**	**1,009**	**813**	**86**	**-86**	**-6,887**	**-55**	**85**

19. Derivatives – hedge accounting

in EUR million	Dec 15			Jun 16		
	Notional value	Positive fair value	Negative fair value	Notional value	Positive fair value	Negative fair value
Fair value hedges	**25,430**	**2,108**	**601**	**24,741**	**2,428**	**707**
Interest rate	25,430	2,108	601	24,741	2,428	707
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	**4,547**	**161**	**12**	**699**	**21**	**0**
Interest rate	4,000	160	10	699	21	0
Equity	0	0	0	0	0	0
Foreign exchange	547	0	2	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	**29,977**	**2,269**	**614**	**25,440**	**2,449**	**707**
Offset		-77	-21		-195	-41
Total		**2,192**	**593**		**2,253**	**666**

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 15	Jun 16
Prepayments and accrued income	197	209
Inventories	270	286
Sundry assets	750	895
Other assets	**1,217**	**1,391**

21. Other trading liabilities

in EUR million	Dec 15	Jun 16
Short positions	382	297
Equity instruments	191	208
Debt securities	191	89
Debt securities issued	51	55
Sundry trading liabilities	0	453
Other trading liabilities	**434**	**805**

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

Debt securities issued

in EUR million	Dec 15	Jun 16
Subordinated liabilities	423	546
Subordinated issues	423	546
Supplementary capital	0	0
Hybrid issues	0	0
Other debt securities issued	1,335	1,107
Bonds	953	801
Certificates of deposit	0	0
Other certificates of deposits/name certificates	74	74
Mortgage covered bonds	308	231
Public sector covered bonds	0	0
Other	0	0
Debt securities issued	**1,758**	**1,652**

23. Financial liabilities measured at amortised costs

Deposits from banks

in EUR million	Dec 15	Jun 16
Overnight deposits	3,272	5,321
Term deposits	9,665	9,707
Repurchase agreements	1,275	1,339
Deposits from banks	**14,212**	**16,367**

Deposits from customers

in EUR million	Dec 15	Jun 16
Overnight deposits	**73,716**	**77,713**
Savings deposits	19,066	21,146
General governments	0	0
Other financial corporations	191	290
Non-financial corporations	1,154	1,188
Households	17,721	19,668
Non-savings deposits	54,651	56,567
General governments	3,398	3,962
Other financial corporations	4,402	4,501
Non-financial corporations	16,625	16,336
Households	30,225	31,769
Term deposits	**53,671**	**51,996**
Deposits with agreed maturity	48,842	47,099
Savings deposits	34,142	32,502
General governments	0	0
Other financial corporations	1,060	779
Non-financial corporations	1,447	1,371
Households	31,635	30,352
Non-savings deposits	14,700	14,597
General governments	1,764	1,488
Other financial corporations	2,153	2,453
Non-financial corporations	3,006	3,033
Households	7,776	7,623
Deposits redeemable at notice	4,829	4,897
General governments	0	1
Other financial corporations	69	79
Non-financial corporations	163	65
Households	4,597	4,752
Repurchase agreements	**410**	**594**
General governments	304	548
Other financial corporations	11	0
Non-financial corporations	95	46
Households	0	0
Deposits from customers	**127,797**	**130,304**
General governments	**5,466**	**5,999**
Other financial corporations	**7,886**	**8,101**
Non-financial corporations	**22,490**	**22,039**
Households	**91,955**	**94,164**

Debt securities issued

in EUR million	Dec 15	Jun 16
Subordinated liabilities	5,815	5,996
Subordinated issues	5,068	5,252
Supplementary capital	393	390
Hybrid issues	354	354
Other debt securities issued	22,081	20,365
Bonds	11,355	10,207
Certificates of deposit	120	128
Other certificates of deposits/name certificates	1,138	943
Mortgage covered bonds	7,699	7,351
Public sector covered bonds	1,559	1,510
Other	209	227
Debt securities issued	**27,896**	**26,362**

24. Provisions

in EUR million	Dec 15	Jun 16
Long-term employee provisions	1,010	1,057
Pending legal issues and tax litigation	258	248
Commitments and guarantees given	297	310
Provisions for guarantees - off balance sheet (defaulted customers)	179	196
Provisions for guarantees - off balance sheet (non-defaulted customers)	118	115
Other provisions	171	100
Provisions for onerous contracts	5	5
Other	166	95
Provisions	**1,736**	**1,715**

Effects from the change in material valuation parameters

For the calculation of the defined benefit obligation for pension and severance payment provisions as well as for jubilee provisions, the interest rate used has been reduced as of 30 June 2016 to 1.45% (31 December 2015: 2.45%) in order to reflect the lower interest rate levels. In addition, the expected collective agreement trend was reduced to 1.50% (31 December 2015: 1.70%). All other valuation parameters remained unchanged. According to IAS 19 the resulting measurement adjustments for pension and severance payment provisions amounting to EUR -81.8 million (before tax) have been recognised in other comprehensive income and those for jubilee provisions, an amount of EUR -6.3 million, have been considered in the income statement.

25. Other liabilities

in EUR million	Dec 15	Jun 16
Deferred income and accrued fee expenses	232	234
Sundry liabilities	2,084	2,679
Other liabilities	**2,317**	**2,913**

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. Following a strategic review related to Erste Group's operating segments and the method used for capital allocation to the segments, changes were introduced in the segment reporting from 1 January 2016. Details of the new segmentation as well as comparable figures for all the quarters of 2015 were published on 14 April 2016.

Business segmentation

The segment reporting comprises six business segments reflecting Erste Group's management structure and its internal management reporting in 2016.

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 0.7-3 million to EUR 25-75 million, the thresholds vary by country. Local Large Corporate customers are local corporates with a consolidated annual turnover exceeding a defined threshold between EUR 25 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 and Erste Asset Management GmbH.

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)

	Retail		Corporates		Group Markets		ALM&LCC	
in EUR million	1-6 15	1-6 16	1-6 15	1-6 16	1-6 15	1-6 16	1-6 15	1-6 16
Net interest income	1,105.3	1,075.0	503.1	492.9	106.3	110.1	34.1	-3.6
Net fee and commission income	508.5	473.7	127.5	128.8	101.7	95.7	-35.3	-22.7
Dividend income	2.8	1.7	0.5	0.0	1.2	0.8	9.1	8.1
Net trading and fair value result	28.3	44.4	43.2	39.2	47.7	37.5	-51.3	-4.6
Net result from equity method investments	2.2	3.6	0.0	0.0	0.0	0.0	4.8	1.0
Rental income from investment properties & other operating leases	11.3	11.0	54.9	54.6	0.2	0.0	8.2	16.1
General administrative expenses	-902.1	-924.1	-268.9	-271.8	-112.1	-105.9	-37.8	-57.3
Gains/losses from financial assets and liabilities not measured at fair value through profit or loss, net	0.0	0.0	4.8	3.3	1.3	0.6	11.2	137.4
Net impairment loss on financial assets not measured at fair value through profit or loss	-173.5	-26.6	-124.9	35.5	-0.2	6.2	-7.9	-13.9
Other operating result	-10.0	-2.0	-26.3	-5.6	-3.1	3.8	-131.7	-73.3
Levies on banking activities	-21.3	-21.0	-6.9	-7.3	-0.9	-0.8	-55.3	-28.7
Pre-tax result from continuing operations	**572.7**	**656.7**	**314.0**	**477.0**	**143.1**	**148.7**	**-196.6**	**-12.7**
Taxes on income	-110.1	-133.2	-67.9	-100.7	-27.5	-33.5	23.3	2.0
Net result for the period	**462.7**	**523.5**	**246.1**	**376.2**	**115.6**	**115.3**	**-173.3**	**-10.7**
Net result attributable to non-controlling interests	12.6	19.6	14.3	22.4	1.6	3.7	3.2	1.9
Net result attributable to owners of the parent	**450.1**	**503.9**	**231.8**	**353.8**	**114.0**	**111.6**	**-176.5**	**-12.6**
Operating income	1,658.3	1,609.4	729.3	715.6	257.1	244.1	-30.4	-5.8
Operating expenses	-902.1	-924.1	-268.9	-271.8	-112.1	-105.9	-37.8	-57.3
Operating result	**756.2**	**685.3**	**460.3**	**443.8**	**145.0**	**138.2**	**-68.2**	**-63.0**
Risk-weighted assets (credit risk, eop)	18,061	17,335	33,697	34,397	4,264	3,901	5,775	5,268
Average allocated capital	2,466	2,334	3,275	3,159	735	662	2,216	2,161
Cost/income ratio	54.4%	57.4%	36.9%	38.0%	43.6%	43.4%	>100.0%	>100.0%
Return on allocated capital	37.8%	45.1%	15.2%	23.9%	31.7%	35.0%	-15.8%	-1.0%
Total assets (eop)	49,482	51,310	46,034	46,348	22,027	30,205	49,429	49,585
Total liabilities excluding equity (eop)	67,944	71,960	21,726	23,107	17,055	22,498	53,349	50,345
Impairments and risk provisions	**-174.0**	**-28.9**	**-188.7**	**34.0**	**-0.3**	**5.8**	**-18.9**	**-50.0**
Net impairment loss on loans and receivables to credit institutions/customers	-173.5	-26.6	-125.0	35.5	-0.2	6.2	-7.9	-13.9
Net impairment loss on other financial assets not measured at fair value through profit or loss	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0
Allocations/releases of provisions for contingent credit risk liabilities	-0.5	0.1	-64.2	4.1	-0.1	-0.4	-7.1	3.1
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	-0.1	-2.4	0.5	-5.6	0.0	0.0	-3.9	-39.3

Business segments (2)

in EUR million	Savings Banks 1-6 15	Savings Banks 1-6 16	Group Corporate Center 1-6 15	Group Corporate Center 1-6 16	Intragroup Elimination 1-6 15	Intragroup Elimination 1-6 16	Total Group 1-6 15	Total Group 1-6 16
Net interest income	452.4	471.8	41.8	36.8	-31.0	11.1	2,211.9	2,194.1
Net fee and commission income	216.6	209.3	10.0	1.2	-11.7	-1.1	917.4	884.9
Dividend income	11.2	11.0	7.6	10.3	-0.2	-0.4	32.1	31.5
Net trading and fair value result	18.3	0.6	17.4	-12.6	33.1	3.1	136.5	107.5
Net result from equity method investments	0.0	0.0	2.5	1.0	0.0	0.0	9.7	5.7
Rental income from investment properties & other operating leases	20.3	19.8	8.8	22.0	-12.0	-30.5	91.7	92.9
General administrative expenses	-475.2	-510.9	-334.9	-397.0	234.1	286.6	-1,896.8	-1,980.3
Gains/losses from financial assets and liabilities not measured at fair value through profit or loss, net	18.7	7.4	1.0	0.3	-0.9	-0.6	36.0	148.4
Net impairment loss on financial assets not measured at fair value through profit or loss	-25.4	-16.2	-42.0	-10.7	0.0	0.0	-373.9	-25.8
Other operating result	-13.4	-23.2	195.2	176.3	-211.4	-268.2	-200.6	-192.2
Levies on banking activities	-7.2	-7.6	-45.6	-42.3	0.0	0.0	-137.2	-107.6
Pre-tax result from continuing operations	**223.5**	**169.6**	**-92.6**	**-172.5**	**0.0**	**0.0**	**964.1**	**1,266.7**
Taxes on income	-39.8	-59.9	-51.5	46.6	0.0	0.0	-273.4	-278.8
Net result for the period	**183.7**	**109.7**	**-144.0**	**-125.9**	**0.0**	**0.0**	**690.7**	**987.9**
Net result attributable to non-controlling interests	155.1	86.1	16.7	12.6	0.0	0.0	203.4	146.2
Net result attributable to owners of the parent	**28.5**	**23.6**	**-160.7**	**-138.5**	**0.0**	**0.0**	**487.2**	**841.7**
Operating income	718.7	712.4	88.2	58.6	-21.8	-17.8	3,399.4	3,316.6
Operating expenses	-475.2	-510.9	-334.9	-397.0	234.1	286.6	-1,896.8	-1,980.3
Operating result	**243.5**	**201.5**	**-246.7**	**-338.4**	**212.3**	**268.8**	**1,502.6**	**1,336.3**
Risk-weighted assets (credit risk, eop)	22,243	21,306	1,690	1,202	0	0	85,729	83,408
Average allocated capital	2,121	2,071	3,094	4,905	0	0	13,907	15,293
Cost/income ratio	66.1%	71.7%	>100.0%	>100.0%	>100.0%	>100.0%	55.8%	59.7%
Return on allocated capital	17.5%	10.6%	-9.4%	-5.2%			10.0%	13.0%
Total assets (eop)	57,178	58,018	10,361	3,749	-36,979	-34,711	197,532	204,505
Total liabilities excluding equity (eop)	53,212	53,738	7,257	1,625	-37,026	-34,744	183,517	188,528
Impairments and risk provisions	**-21.7**	**-6.6**	**13.3**	**-41.4**	**0.0**	**0.0**	**-390.3**	**-87.2**
Net impairment loss on loans and receivables to credit institutions/customers	-24.5	-15.3	-39.7	-10.6	0.0	0.0	-370.8	-24.8
Net impairment loss on other financial assets not measured at fair value through profit or loss	-0.8	-0.9	-2.4	-0.1	0.0	0.0	-3.1	-1.0
Allocations/releases of provisions for contingent credit risk liabilities	4.1	9.6	58.0	-19.0	0.0	0.0	-9.7	-2.4
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	-0.5	0.0	-2.7	-11.7	0.0	0.0	-6.6	-59.0

Geographical segmentation - overview

	Austria		Central and Eastern Europe		Other		Total Group	
in EUR million	**1-6 15**	**1-6 16**	**1-6 15**	**1-6 16**	**1-6 15**	**1-6 16**	**1-6 15**	**1-6 16**
Net interest income	982.7	982.0	1,171.6	1,122.9	57.7	89.1	2,211.9	2,194.1
Net fee and commission income	498.5	474.8	440.2	429.9	-21.4	-19.9	917.4	884.9
Dividend income	21.4	18.5	3.3	3.0	7.4	10.0	32.1	31.5
Net trading and fair value result	40.3	13.0	83.2	110.6	13.1	-16.1	136.5	107.5
Net result from equity method investments	1.2	0.6	6.0	4.0	2.5	1.0	9.7	5.7
Rental income from investment properties & other operating leases	50.9	58.3	34.9	30.2	6.0	4.4	91.7	92.9
General administrative expenses	-950.9	-1,009.8	-823.2	-838.8	-122.7	-131.7	-1,896.8	-1,980.3
Gains/losses from financial assets and liabilities not measured at fair value through profit or loss, net	24.9	23.6	0.8	127.5	10.4	-2.7	36.0	148.4
Net impairment loss on financial assets not measured at fair value through profit or loss	-112.3	-33.9	-218.0	22.7	-43.6	-14.6	-373.9	-25.8
Other operating result	-65.7	10.1	-111.2	-99.0	-23.6	-103.4	-200.6	-192.2
Levies on banking activities	-14.4	-14.8	-77.1	-50.5	-45.6	-42.3	-137.2	-107.6
Pre-tax result from continuing operations	**490.9**	**537.4**	**587.5**	**913.2**	**-114.3**	**-183.9**	**964.1**	**1,266.7**
Taxes on income	-105.3	-157.3	-119.0	-169.6	-49.1	48.1	-273.4	-278.8
Net result for the period	**385.6**	**380.1**	**468.5**	**743.6**	**-163.4**	**-135.8**	**690.7**	**987.9**
Net result attributable to non-controlling interests	167.5	96.2	19.5	37.4	16.5	12.5	203.4	146.2
Net result attributable to owners of the parent	**218.1**	**283.9**	**449.0**	**706.2**	**-179.8**	**-148.3**	**487.2**	**841.7**
Operating income	1,594.9	1,547.3	1,739.2	1,700.8	65.3	68.5	3,399.4	3,316.6
Operating expenses	-950.9	-1,009.8	-823.2	-838.8	-122.7	-131.7	-1,896.8	-1,980.3
Operating result	**644.0**	**537.5**	**916.0**	**861.9**	**-57.4**	**-63.1**	**1,502.6**	**1,336.3**
Risk-weighted assets (credit risk, eop)	50,640	47,949	32,982	33,770	2,107	1,690	85,729	83,408
Average allocated capital	5,177	4,917	4,573	4,510	4,157	5,866	13,907	15,293
Cost/income ratio	59.6%	65.3%	47.3%	49.3%	>100.0%	>100.0%	55.8%	59.7%
Return on allocated capital	15.0%	15.5%	20.7%	33.2%	-7.9%	-4.7%	10.0%	13.0%
Total assets (eop)	130,822	139,240	76,983	82,280	-10,273	-17,014	197,532	204,505
Total liabilities excluding equity (eop)	108,606	113,561	69,128	73,455	5,784	1,512	183,517	188,528
Impairments and risk provisions	**-181.3**	**3.4**	**-216.2**	**-46.6**	**7.3**	**-44.0**	**-390.3**	**-87.2**
Net impairment loss on loans and receivables to credit institutions/customers	-111.4	-32.9	-218.2	22.6	-41.2	-14.5	-370.8	-24.8
Net impairment loss on other financial assets not measured at fair value through profit or loss	-0.9	-0.9	0.1	0.1	-2.4	-0.1	-3.1	-1.0
Allocations/releases of provisions for contingent credit risk liabilities	-61.8	41.3	-1.5	-26.2	53.5	-17.6	-9.7	-2.4
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	-7.3	-4.1	3.3	-43.2	-2.7	-11.7	-6.6	-59.0

Geographical area - Austria

in EUR million	EBOe & Subsidiaries 1-6 15	EBOe & Subsidiaries 1-6 16	Savings Banks 1-6 15	Savings Banks 1-6 16	Other Austria 1-6 15	Other Austria 1-6 16	Austria 1-6 15	Austria 1-6 16
Net interest income	317.9	314.5	452.4	471.8	212.4	195.8	982.7	982.0
Net fee and commission income	176.7	168.5	216.6	209.3	105.2	97.0	498.5	474.8
Dividend income	8.7	6.5	11.2	11.0	1.5	1.1	21.4	18.5
Net trading and fair value result	0.2	6.9	18.3	0.6	21.7	5.5	40.3	13.0
Net result from equity method investments	0.9	0.4	0.0	0.0	0.3	0.3	1.2	0.6
Rental income from investment properties & other operating leases	9.8	9.7	20.3	19.8	20.8	28.8	50.9	58.3
General administrative expenses	-304.4	-327.5	-475.2	-510.9	-171.3	-171.4	-950.9	-1,009.8
Gains/losses from financial assets and liabilities not measured at fair value through profit or loss, net	0.0	12.3	18.7	7.4	6.2	3.9	24.9	23.6
Net impairment loss on financial assets not measured at fair value through profit or loss	-13.7	-2.5	-25.4	-16.2	-73.2	-15.2	-112.3	-33.9
Other operating result	-24.5	7.4	-13.4	-23.2	-27.8	25.9	-65.7	10.1
Levies on banking activities	-7.2	-7.3	-7.2	-7.6	0.0	0.0	-14.4	-14.8
Pre-tax result from continuing operations	**171.7**	**196.1**	**223.5**	**169.6**	**95.8**	**171.7**	**490.9**	**537.4**
Taxes on income	-39.2	-54.2	-39.8	-59.9	-26.3	-43.2	-105.3	-157.3
Net result for the period	**132.5**	**142.0**	**183.7**	**109.7**	**69.4**	**128.4**	**385.6**	**380.1**
Net result attributable to non-controlling interests	5.9	6.3	155.1	86.1	6.4	3.8	167.5	96.2
Net result attributable to owners of the parent	**126.6**	**135.7**	**28.5**	**23.6**	**63.0**	**124.6**	**218.1**	**283.9**
Operating income	514.3	506.4	718.7	712.4	361.9	328.4	1,594.9	1,547.3
Operating expenses	-304.4	-327.5	-475.2	-510.9	-171.3	-171.4	-950.9	-1,009.8
Operating result	**209.9**	**178.9**	**243.5**	**201.5**	**190.6**	**157.0**	**644.0**	**537.5**
Risk-weighted assets (credit risk, eop)	12,524	12,251	22,243	21,306	15,874	14,391	50,640	47,949
Average allocated capital	1,279	1,264	2,121	2,071	1,777	1,581	5,177	4,917
Cost/income ratio	59.2%	64.7%	66.1%	71.7%	47.3%	52.2%	59.6%	65.3%
Return on allocated capital	20.9%	22.6%	17.5%	10.6%	7.9%	16.3%	15.0%	15.5%
Total assets (eop)	40,288	40,492	57,178	58,018	33,357	40,730	130,822	139,240
Total liabilities excluding equity (eop)	38,815	38,956	53,212	53,738	16,578	20,868	108,606	113,561
Impairments and risk provisions	**-19.3**	**1.3**	**-21.7**	**-6.6**	**-140.3**	**8.7**	**-181.3**	**3.4**
Net impairment loss on loans and receivables to credit institutions/customers	-13.6	-2.3	-24.5	-15.3	-73.2	-15.3	-111.4	-32.9
Net impairment loss on other financial assets not measured at fair value through profit or loss	-0.1	-0.2	-0.8	-0.9	0.1	0.1	-0.9	-0.9
Allocations/releases of provisions for contingent credit risk liabilities	-4.4	4.0	4.1	9.6	-61.5	27.7	-61.8	41.3
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	-1.1	-0.3	-0.5	0.0	-5.7	-3.8	-7.3	-4.1

Geographical area - Central and Eastern Europe

in EUR million	Czech Republic		Romania		Slovakia		Hungary		Croatia		Serbia		Central and Eastern Europe	
	1-6 15	1-6 16	1-6 15	1-6 16	1-6 15	1-6 16	1-6 15	1-6 16	1-6 15	1-6 16	1-6 15	1-6 16	1-6 15	1-6 16
Net interest income	453.1	455.5	224.3	197.3	226.1	226.7	112.8	88.0	134.9	132.8	20.4	22.5	1,171.6	1,122.9
Net fee and commission income	186.0	171.8	76.9	78.8	62.5	64.7	70.1	68.6	38.7	40.7	6.0	5.3	440.2	429.9
Dividend income	2.1	1.9	0.5	0.5	0.5	0.5	0.1	0.0	0.2	0.1	0.0	0.0	3.3	3.0
Net trading and fair value result	52.2	45.8	27.7	34.8	2.7	6.8	-3.5	6.5	2.3	15.1	1.9	1.7	83.2	110.6
Net result from equity method investments	0.0	0.1	0.2	0.2	5.0	3.1	0.0	0.0	0.6	0.5	0.1	0.1	6.0	4.0
Rental income from investment properties & other operating leases	14.6	9.5	4.3	5.5	0.9	0.7	0.4	1.9	14.6	12.4	0.1	0.2	34.9	30.2
General administrative expenses	-330.3	-324.8	-162.4	-170.9	-130.6	-135.0	-87.1	-93.3	-93.8	-94.9	-19.1	-19.9	-823.2	-838.8
Gains/losses from financial assets and liabilities not measured at fair value through profit or loss, net	5.2	52.6	0.0	24.5	0.0	26.8	-4.7	13.9	0.3	9.7	0.0	0.0	0.8	127.5
Net impairment loss on financial assets not measured at fair value through profit or loss	-50.5	-25.7	-5.9	15.4	-31.3	-21.4	-58.8	71.7	-66.7	-16.4	-4.8	-1.0	-218.0	22.7
Other operating result	-21.0	-20.1	-10.0	-24.9	-18.0	-1.7	-58.5	-51.2	-3.9	-0.9	0.2	-0.2	-111.2	-99.0
Levies on banking activities	0.0	0.0	0.0	0.0	-11.6	-12.3	-65.6	-38.2	0.0	0.0	0.0	0.0	-77.1	-50.5
Pre-tax result from continuing operations	**311.3**	**366.7**	**155.6**	**161.2**	**117.8**	**171.2**	**-29.3**	**106.2**	**27.4**	**99.2**	**4.8**	**8.8**	**587.5**	**913.2**
Taxes on income	-59.0	-76.2	-21.8	-28.6	-27.7	-37.5	-5.3	-5.4	-5.1	-21.8	0.0	0.0	-119.0	-169.6
Net result for the period	**252.3**	**290.5**	**133.7**	**132.6**	**90.1**	**133.6**	**-34.6**	**100.7**	**22.2**	**77.4**	**4.8**	**8.8**	**468.5**	**743.6**
Net result attributable to non-controlling interests	2.4	3.2	8.6	8.5	0.0	0.0	0.0	0.0	7.6	24.0	0.9	1.7	19.5	37.4
Net result attributable to owners of the parent	**249.9**	**287.3**	**125.1**	**124.1**	**90.0**	**133.6**	**-34.6**	**100.7**	**14.7**	**53.4**	**3.8**	**7.1**	**449.0**	**706.2**
Operating income	708.0	684.6	333.8	317.1	297.7	302.5	179.9	165.0	191.3	201.7	28.5	29.9	1,739.2	1,700.8
Operating expenses	-330.3	-324.8	-162.4	-170.9	-130.6	-135.0	-87.1	-93.3	-93.8	-94.9	-19.1	-19.9	-823.2	-838.8
Operating result	**377.7**	**359.8**	**171.4**	**146.1**	**167.1**	**167.5**	**92.8**	**71.7**	**97.6**	**106.8**	**9.4**	**9.9**	**916.0**	**861.9**
Risk-weighted assets (credit risk, eop)	14,124	15,266	5,611	5,292	4,688	4,677	3,202	3,400	4,644	4,291	713	845	32,982	33,770
Average allocated capital	1,656	1,718	1,125	985	627	667	525	481	550	545	90	115	4,573	4,510
Cost/income ratio	46.7%	47.4%	48.6%	53.9%	43.9%	44.6%	48.4%	56.5%	49.0%	47.1%	67.1%	66.8%	47.3%	49.3%
Return on allocated capital	30.7%	34.0%	24.0%	27.1%	29.0%	40.3%	-13.3%	42.1%	8.2%	28.5%	10.7%	15.4%	20.7%	33.2%
Total assets (eop)	33,889	38,237	13,763	14,136	13,338	14,378	5,878	5,783	9,229	8,680	886	1,064	76,983	82,280
Total liabilities excluding equity (eop)	30,239	34,032	12,546	12,724	12,083	12,892	5,347	5,189	8,157	7,695	757	924	69,128	73,455
Impairments and risk provisions	**-47.8**	**-70.5**	**-4.3**	**6.1**	**-33.1**	**-18.3**	**-58.7**	**55.1**	**-67.7**	**-17.8**	**-4.6**	**-1.1**	**-216.2**	**-46.6**
Net impairment loss on loans and receivables to credit institutions/customers	-50.7	-25.8	-5.9	15.4	-31.3	-21.3	-58.8	71.7	-66.7	-16.4	-4.8	-1.0	-218.2	22.6
Net impairment loss on other financial assets not measured at fair value through profit or loss	0.2	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1
Allocations/releases of provisions for contingent credit risk liabilities	-2.0	-12.4	2.2	1.5	-0.8	2.5	0.3	-16.3	-1.5	-1.0	0.3	-0.5	-1.5	-26.2
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	4.7	-32.4	-0.6	-10.8	-1.0	0.5	-0.2	-0.3	0.5	-0.5	-0.1	0.4	3.3	-43.2

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 2015.

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, and
- Off balance sheet credit risks (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 by 2.1% or EUR 4.4 billion from EUR 212.2 billion as of 31 December 2015 to EUR 216.6 billion as of 30 June 2016.

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

in EUR million	Gross carrying amount	Allowances	Net carrying amount
As of 30 June 2016			
Cash and cash balances - other demand deposits	2,239	0	2,239
Loans and receivables to credit institutions	5,633	7	5,626
Loans and receivables to customers	132,490	5,083	127,407
Financial assets - held to maturity	17,825	2	17,823
Financial assets - held for trading	4,688	0	4,688
Financial assets - at fair value through profit or loss	279	0	279
Financial assets - available for sale	19,401	0	19,401
Positive fair value of derivatives	7,863	0	7,863
Contingent credit risk liabilities	26,207	310	--
Total	**216,626**	**5,402**	**185,327**
As of 31 December 2015			
Cash and cash balances - other demand deposits	2,228	0	2,228
Loans and receivables to credit institutions	4,819	14	4,805
Loans and receivables to customers	131,906	6,009	125,897
Financial assets - held to maturity	17,703	2	17,701
Financial assets - held for trading	3,163	0	3,163
Financial assets - at fair value through profit or loss	176	0	176
Financial assets - available for sale	19,307	0	19,307
Positive fair value of derivatives	7,494	0	7,494
Contingent credit risk liabilities	25,415	297	--
Total	**212,211**	**6,322**	**180,772**

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

Erste Group’s credit risk exposure is presented below divided into the following classes:

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

Furthermore, a breakdown of loans and receivables to customers is presented as follows:

_ loans and receivables to customers by business segment and risk category,
_ loans and receivables to customers by geographical segment and risk category,
_ non-performing loans and receivables to customers by business segment and coverage by loan loss allowances,
_ non-performing loans and receivables to customers by geographical segment and coverage by loan loss allowances and
_ loans and receivables to customers by 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 credit risk liabilities	Gross exposure
		At amortised cost			At fair value					
Jun 16										
Sovereigns	0	797	7,417	16,990	3,701	45	15,347	383	1,771	46,450
Institutions	2,233	4,156	102	472	571	121	1,877	6,901	341	16,772
Corporates	7	680	57,795	363	417	114	2,178	578	17,833	79,964
Retail	0	0	67,177	0	0	0	0	2	6,261	73,440
Total	**2,239**	**5,633**	**132,490**	**17,825**	**4,688**	**279**	**19,401**	**7,863**	**26,207**	**216,626**
Dec 15										
Sovereigns	11	1,271	7,414	16,479	2,393	13	14,998	338	1,231	44,147
Institutions	2,211	3,008	197	820	398	73	2,151	6,647	333	15,836
Corporates	6	540	58,727	405	373	91	2,158	508	17,738	80,546
Retail	0	0	65,569	0	0	0	0	1	6,113	71,682
Total	**2,228**	**4,819**	**131,906**	**17,703**	**3,163**	**176**	**19,307**	**7,494**	**25,415**	**212,211**

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	Gross exposure
As of 30 June 2016					
Agriculture and forestry	1,888	456	39	170	2,553
Mining	651	40	1	113	804
Manufacturing	11,333	1,353	219	962	13,867
Energy and water supply	3,503	438	28	154	4,123
Construction	7,665	1,250	130	727	9,772
Development of building projects	3,699	418	26	254	4,397
Trade	7,970	1,687	172	788	10,617
Transport and communication	6,184	394	50	165	6,792
Hotels and restaurants	2,582	907	173	535	4,196
Financial and insurance services	27,788	794	87	212	28,881
Holding companies	4,336	109	41	167	4,653
Real estate and housing	19,766	2,779	371	1,027	23,942
Services	6,557	1,078	156	427	8,219
Public administration	39,282	547	12	31	39,872
Education, health and art	2,353	433	39	241	3,066
Households	50,529	5,432	607	2,583	59,151
Other	456	2	300	13	771
Total	**188,505**	**17,589**	**2,384**	**8,148**	**216,626**
As of 31 December 2015					
Agriculture and forestry	1,870	506	44	186	2,606
Mining	601	88	10	121	821
Manufacturing	11,193	1,584	213	1,129	14,120
Energy and water supply	3,616	477	40	178	4,311
Construction	7,537	1,090	195	1,138	9,961
Development of building projects	3,609	411	84	429	4,534
Trade	7,809	1,662	177	1,024	10,673
Transport and communication	6,021	505	56	203	6,785
Hotels and restaurants	2,370	994	213	567	4,144
Financial and insurance services	26,787	710	99	316	27,912
Holding companies	4,853	100	42	253	5,247
Real estate and housing	19,244	2,771	322	1,311	23,649
Services	5,652	1,022	260	499	7,433
Public administration	37,929	602	21	22	38,574
Education, health and art	2,242	414	38	332	3,026
Households	48,356	5,658	648	2,773	57,436
Other	417	7	325	14	763
Total	**181,644**	**18,091**	**2,663**	**9,813**	**212,211**

Credit risk exposure by region and risk category

in EUR million	Low risk	Management attention	Substandard	Non-performing	Gross exposure
As of 30 June 2016					
Core markets	**156,097**	**15,837**	**2,164**	**7,189**	**181,286**
Austria	83,676	7,855	1,251	2,572	95,354
Czech Republic	31,301	2,833	275	966	35,375
Romania	11,462	1,893	167	1,257	14,778
Slovakia	16,060	1,004	92	680	17,836
Hungary	5,946	700	147	621	7,414
Croatia	6,924	1,118	214	949	9,205
Serbia	728	434	18	144	1,325
Other EU	**25,109**	**1,167**	**92**	**573**	**26,941**
Other industrialised countries	**4,319**	**130**	**5**	**58**	**4,511**
Emerging markets	**2,982**	**455**	**123**	**327**	**3,887**
Southeastern Europe/CIS	1,440	265	121	302	2,128
Asia	885	131	1	1	1,018
Latin America	60	27	0	17	104
Middle East/Africa	596	31	1	8	637
Total	**188,505**	**17,589**	**2,384**	**8,148**	**216,626**
As of 31 December 2015					
Core markets	**151,849**	**16,353**	**2,441**	**8,766**	**179,409**
Austria	81,288	8,499	1,440	2,865	94,091
Czech Republic	29,622	2,802	284	1,017	33,725
Romania	11,430	2,022	219	1,927	15,599
Slovakia	15,898	782	131	684	17,495
Hungary	5,758	757	157	856	7,528
Croatia	7,104	1,125	205	1,236	9,670
Serbia	749	366	5	180	1,300
Other EU	**23,255**	**1,080**	**110**	**632**	**25,077**
Other industrialised countries	**3,629**	**144**	**12**	**80**	**3,865**
Emerging markets	**2,912**	**513**	**100**	**335**	**3,860**
Southeastern Europe/CIS	1,328	357	98	321	2,104
Asia	1,054	97	1	1	1,153
Latin America	68	30	0	3	102
Middle East/Africa	461	29	1	10	501
Total	**181,644**	**18,091**	**2,663**	**9,813**	**212,211**

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	Gross exposure
As of 30 June 2016					
Retail	44,650	4,945	590	2,398	52,582
Corporates	50,273	5,317	688	3,583	59,862
Group Markets	19,536	599	1	8	20,143
Asset/Liability Management and Local Corporate Center	27,450	287	136	12	27,886
Savings Banks	46,469	6,405	904	2,141	55,919
Group Corporate Center	127	36	65	5	233
Total	**188,505**	**17,589**	**2,384**	**8,148**	**216,626**
As of 31 December 2015					
Retail	43,519	4,899	599	2,637	51,654
Corporates	49,252	5,510	861	4,756	60,378
Group Markets	19,152	489	7	16	19,664
Asset/Liability Management and Local Corporate Center	24,418	326	131	14	24,890
Savings Banks	44,880	6,837	986	2,381	55,084
Group Corporate Center	423	31	79	9	542
Total	**181,644**	**18,091**	**2,663**	**9,813**	**212,211**

Credit risk exposure by geographical segment and risk category

in EUR million	Low risk	Management attention	Substandard	Non-performing	Gross exposure
As of 30 June 2016					
Austria	112,176	10,352	1,523	4,108	128,159
EBOe & Subsidiaries	34,648	2,612	377	870	38,506
Savings Banks	46,469	6,405	904	2,141	55,919
Other Austria	31,058	1,336	242	1,097	33,733
Central and Eastern Europe	68,558	7,194	796	4,001	80,548
Czech Republic	31,499	2,671	266	818	35,254
Romania	10,487	1,870	139	1,205	13,701
Slovakia	13,693	833	83	549	15,158
Hungary	5,021	522	110	532	6,186
Croatia	7,155	979	181	831	9,147
Serbia	702	319	16	64	1,102
Other	7,772	43	65	39	7,919
Total	**188,505**	**17,589**	**2,384**	**8,148**	**216,626**
As of 31 December 2015					
Austria	107,352	11,030	1,727	4,712	124,821
EBOe & Subsidiaries	33,805	2,839	401	913	37,959
Savings Banks	44,880	6,837	986	2,381	55,084
Other Austria	28,666	1,354	341	1,418	31,779
Central and Eastern Europe	66,143	7,024	857	5,054	79,078
Czech Republic	30,146	2,687	222	856	33,911
Romania	10,019	1,911	176	1,825	13,931
Slovakia	13,341	604	124	565	14,635
Hungary	4,817	530	116	685	6,148
Croatia	7,149	1,013	215	1,046	9,423
Serbia	671	280	3	77	1,031
Other	8,150	36	79	47	8,312
Total	**181,644**	**18,091**	**2,663**	**9,813**	**212,211**

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 30 June 2016					
Retail	39,657	4,613	569	2,378	47,216
Corporates	35,975	4,367	596	3,294	44,232
Group Markets	824	110	0	0	934
Asset/Liability Management and Local Corporate Center	136	20	0	10	165
Savings Banks	31,606	5,457	762	2,064	39,888
Group Corporate Center	49	1	3	2	54
Total	**108,246**	**14,568**	**1,930**	**7,746**	**132,490**
As of 31 December 2015					
Retail	38,818	4,477	578	2,613	46,486
Corporates	35,263	4,562	709	4,469	45,003
Group Markets	510	170	0	0	680
Asset/Liability Management and Local Corporate Center	156	26	3	7	193
Savings Banks	30,451	5,825	830	2,219	39,326
Group Corporate Center	210	1	2	6	219
Total	**105,409**	**15,060**	**2,123**	**9,314**	**131,906**

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 30 June 2016					
Austria	69,145	8,772	1,213	3,928	83,058
Erste Bank Oesterreich & Subsidiaries	27,176	2,306	232	829	30,543
Savings Banks	31,606	5,457	762	2,064	39,888
Other Austria	10,364	1,009	219	1,035	12,627
Central and Eastern Europe	39,005	5,795	714	3,784	49,299
Czech Republic	17,869	2,089	242	765	20,966
Romania	5,239	1,473	121	1,112	7,945
Slovakia	8,545	782	61	530	9,918
Hungary	2,331	476	109	495	3,410
Croatia	4,448	862	165	820	6,297
Serbia	572	113	16	62	763
Other	96	1	3	34	134
Total	**108,246**	**14,568**	**1,930**	**7,746**	**132,490**
As of 31 December 2015					
Austria	67,094	9,316	1,360	4,425	82,195
Erste Bank Oesterreich & Subsidiaries	26,500	2,468	254	861	30,082
Savings Banks	30,451	5,825	830	2,219	39,326
Other Austria	10,143	1,023	276	1,345	12,787
Central and Eastern Europe	38,053	5,744	761	4,848	49,404
Czech Republic	17,153	2,118	198	834	20,303
Romania	5,031	1,574	163	1,712	8,481
Slovakia	8,478	560	93	540	9,671
Hungary	2,236	490	116	655	3,498
Croatia	4,609	904	187	1,032	6,732
Serbia	544	97	3	75	719
Other	262	1	2	41	307
Total	**105,409**	**15,060**	**2,123**	**9,314**	**131,906**

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

in EUR million	Non-performing loans	Gross customer loans	Allowances for customer loans	NPL ratio	NPL coverage (exc collateral)
As of 30 June 2016					
Retail	2,378	47,216	1,711	5.0%	71.9%
Corporates	3,294	44,232	2,144	7.4%	65.1%
Group Markets	0	934	3	0.0%	2766.2%
Asset/Liability Management and Local Corporate Center	10	165	-1	5.8%	-5.5%
Savings Banks	2,064	39,888	1,222	5.2%	59.2%
Group Corporate Center	2	54	4	3.1%	238.6%
Total	**7,746**	**132,490**	**5,083**	**5.8%**	**65.6%**
As of 31 December 2015					
Retail	2,613	46,486	1,730	5.6%	66.2%
Corporates	4,469	45,003	2,966	9.9%	66.4%
Group Markets	0	680	2	0.0%	7240.8%
Asset/Liability Management and Local Corporate Center	7	193	23	3.7%	314.7%
Savings Banks	2,219	39,326	1,281	5.6%	57.7%
Group Corporate Center	6	219	8	2.6%	139.0%
Total	**9,314**	**131,906**	**6,009**	**7.1%**	**64.5%**

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

in EUR million	Non-performing loans	Gross customer loans	Allowances for customer loans	NPL ratio	NPL coverage (exc collateral)
As of 30 June 2016					
Austria	3,928	83,058	2,289	4.7%	58.3%
Erste Bank Oesterreich & Subsidiaries	829	30,543	502	2.7%	60.6%
Savings Banks	2,064	39,888	1,222	5.2%	59.2%
Other Austria	1,035	12,627	565	8.2%	54.6%
Central and Eastern Europe	3,784	49,299	2,757	7.7%	72.9%
Czech Republic	765	20,966	582	3.7%	76.1%
Romania	1,112	7,945	899	14.0%	80.9%
Slovakia	530	9,918	349	5.3%	65.9%
Hungary	495	3,410	315	14.5%	63.7%
Croatia	820	6,297	554	13.0%	67.6%
Serbia	62	763	57	8.1%	91.6%
Other	34	134	36	25.4%	106.9%
Total	**7,746**	**132,490**	**5,083**	**5.8%**	**65.6%**
As of 31 December 2015					
Austria	4,425	82,195	2,535	5.4%	57.3%
Erste Bank Oesterreich & Subsidiaries	861	30,082	539	2.9%	62.6%
Savings Banks	2,219	39,326	1,281	5.6%	57.7%
Other Austria	1,345	12,787	715	10.5%	53.2%
Central and Eastern Europe	4,848	49,404	3,433	9.8%	70.8%
Czech Republic	834	20,303	604	4.1%	72.4%
Romania	1,712	8,481	1,326	20.2%	77.4%
Slovakia	540	9,671	355	5.6%	65.7%
Hungary	655	3,498	386	18.7%	59.0%
Croatia	1,032	6,732	695	15.3%	67.4%
Serbia	75	719	66	10.5%	88.4%
Other	41	307	41	13.5%	99.8%
Total	**9,314**	**131,906**	**6,009**	**7.1%**	**64.5%**

The NPL ratio is calculated by dividing non-performing loans and receivables by total loans and receivables. The NPL coverage ratio 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 30 June 2016						
Austria	73,656	0	5,548	2,215	1,638	83,058
Erste Bank Oesterreich & Subsidiaries	28,108	0	2,207	72	156	30,543
Savings Banks	35,776	0	3,181	49	884	39,888
Other Austria	9,773	0	161	2,095	598	12,627
Central and Eastern Europe	21,764	26,776	194	443	122	49,299
Czech Republic	2,419	18,367	1	95	84	20,966
Romania	4,012	3,750	0	183	0	7,945
Slovakia	9,842	0	0	40	37	9,918
Hungary	537	2,777	71	25	0	3,410
Croatia	4,373	1,720	108	96	0	6,297
Serbia	581	161	15	5	0	763
Other	95	31	0	8	0	134
Total	**95,515**	**26,806**	**5,743**	**2,666**	**1,760**	**132,490**
As of 31 December 2015						
Austria	72,315	0	6,076	2,243	1,562	82,195
Erste Bank Oesterreich & Subsidiaries	27,497	0	2,387	56	143	30,082
Savings Banks	34,918	0	3,531	84	792	39,326
Other Austria	9,900	0	158	2,102	627	12,787
Central and Eastern Europe	21,638	26,571	686	425	84	49,404
Czech Republic	2,095	18,063	1	85	59	20,303
Romania	4,436	3,832	0	213	0	8,481
Slovakia	9,634	0	0	18	19	9,671
Hungary	509	2,807	157	25	0	3,498
Croatia	4,419	1,716	513	79	5	6,732
Serbia	545	152	16	6	0	719
Other	261	35	0	10	0	307
Total	**94,214**	**26,606**	**6,761**	**2,678**	**1,647**	**131,906**

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 15	Jun 16
Interest	2.1	1.7
Currency	0.6	0.5
Shares	1.1	0.6
Commodity	0.1	0.2
Volatility	0.5	0.5
Total	**2.9**	**2.1**

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. Credit spreads are only applied to sovereign issuers. For all other positions, only the general market risk is considered.

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 has reduced its budgeted long term issuance for 2016 from EUR 2.6 billion to 1.85 billion. The planned issuance structure includes the issuance of one benchmark covered bond (EUR 750 million, reduced from 2 billion) while the remaining amount is split between senior unsecured (EUR 400 million), Tier 2 (EUR 200 million) and AT1 capital (EUR 500 million) issues. As year-to-date issuance already amounted to EUR 1.65 billion, only limited issuance activity is planned for the rest of the year.

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 30 June 2016, the leverage ratio for Erste Group Bank AG at consolidated level amounted to 6.2% (Basel 3 final), comfortably above the 3.0% minimum requirement expected to apply from 2018. Core capital amounted to EUR 13.6 billion at the reference date, while total leverage exposure stood at EUR 217.3 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 29.0% 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 3.7 million (EUR 24.8 million). 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 103.0 million (EUR 278.0 million). Furthermore, Privatstiftung held bonds issued by Erste Group Bank AG in the amount of EUR 9.6 million (EUR 9.8 million). Erste Group held debt securities issued by Privatstiftung in the amount of EUR 0.3 million (EUR 2.9 million). The interest income of Erste Group in the reporting period amounted to EUR 4.3 million (cumulated in 2015: EUR 12.2 million) while the interest expenses amounted to EUR 2.8 million (cumulated in 2015: EUR 8.0 million), resulting from the above mentioned accounts payable 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 2015.

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 2015, as a consequence of the negative interest environment, valuation models of interest rate options for the respective currencies were adjusted. Log-normal valuation models were replaced by standard market models which are based on a shifted log-normal distribution or a standard distribution. For such models negative interest rates are no restriction.

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. 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. Techniques for equity securities may also include models based on earnings multiples.

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 collateralised derivatives the effect of collateral received is considered and reduces the amount of CVA accordingly. 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 -40.8 million (EUR -43.9 million) and the total DVA-adjustment amounts to EUR 9.8 million (EUR 12.0 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 asset backed securities (ABS), 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).

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 15				Jun 16			
in EUR million	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets								
Financial assets - held for trading	2,801	5,768	150	8,719	3,402	6,773	197	10,373
Derivatives	2	5,158	143	5,303	19	5,416	175	5,610
Other trading assets	2,798	611	7	3,416	3,383	1,357	22	4,763
Financial assets - at fair value through profit or loss	221	88	50	359	324	59	50	433
Financial assets - available for sale	17,759	2,306	627	20,692	17,504	2,566	691	20,761
Derivatives - hedge accounting	0	2,191	0	2,191	2	2,251	0	2,253
Assets held for sale	0	0	0	0	0	0	0	0
Total assets	**20,780**	**10,353**	**827**	**31,961**	**21,233**	**11,649**	**938**	**33,821**
Liabilities								
Financial liabilities - held for trading	363	5,503	1	5,867	366	5,780	0	6,146
Derivatives	14	5,418	1	5,434	14	5,327	0	5,341
Other trading liabilities	349	85	0	434	352	454	0	805
Financial liabilities - at fair value through profit or loss	0	1,907	0	1,907	0	1,765	0	1,765
Deposits from customers	0	149	0	149	0	113	0	113
Debt securities issued	0	1,758	0	1,758	0	1,652	0	1,652
Other financial liabilities	0	0	0	0	0	0	0	0
Derivatives - hedge accounting	0	593	0	593	0	666	0	666
Total liabilities	**363**	**8,002**	**1**	**8,367**	**366**	**8,212**	**0**	**8,578**

The allocation of the appropriate level of positions is determined 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 15		Jun 16	
in EUR million	Level 1	Level 2	Level 1	Level 2
Securities				
Net transfer from Level 1	0	-839	0	397
Net transfer from Level 2	839	0	-397	0
Net transfer from Level 3	-6	-58	3	-69
Purchases/sales/expiries	617	-2,363	828	649
Changes in derivatives	1	-2,565	19	318
Total year-to-date change	**1,451**	**-5,825**	**453**	**1,296**

Level 1 Movements in the reporting period. Level 1 financial assets increased by EUR 453 million. The change in volume of Level 1 securities (increase by EUR 433 million) was determined on the one hand by matured or sold assets in the amount of EUR 2,415 million and on the other hand by new investments in the amount of EUR 3,240 million. The change in volume for securities that were allocated to Level 1 at both reporting dates amounted to EUR -13 million (due to purchases and partial sales and fair value changes caused by market movements). Due to improved market liquidity, assets in the amount of EUR 27 million could be reclassified from Level 2 to Level 1. This applied to securities issued by financial institutions (EUR 9 million), to securities issued by governments (EUR 2 million) and other corporates (EUR 16 million). Due to lower market activity and change to modelled fair value, securities in total of EUR 425 million have

been moved from Level 1 to Level 2. This applies to securities issued by financial institutions (EUR 39 million) and other corporates (EUR 82 million) as well as securities issued by governments (EUR 304 million). Level 3 instruments in the amount of EUR 3 million were reclassified to Level 1. The remaining increase in the amount of EUR 16 million was due to partial sales and fair value changes of reclassified instruments. Level 1 derivatives increased by EUR 19 million.

Level 2 Movements in the reporting period. The total amount of Level 2 financial assets increased by EUR 1.296 million compared to year end 2015. The change in volume of Level 2 securities (increase by EUR 978 million) was determined on the one hand by matured or sold assets in the amount of EUR 372 million and on the other hand by new investments in the amount of EUR 727 million. The decrease in volume for securities that were allocated to Level 2 at both reporting dates amounted to EUR 10 million (due to partial purchases and sales and fair value changes caused by market movements). Due to lower market activity and change to modelled fair value, securities in total of EUR 425 million have been moved from Level 1 to Level 2. But due to improved market liquidity, assets in the amount of EUR 27 million could be reclassified from Level 2 to Level 1. The usage of significant unobservable input parameter led to the reclassification of securities from Level 2 to Level 3 in the amount of EUR 113 million. On the other hand, securities in the amount of EUR 44 million could be reclassified from Level 3 to Level 2. Loans and advances measured at fair value increased by EUR 461 million in the reporting period. The residual decrease in Level 2 securities, in the amount of EUR 156 million, was caused by partial sales and fair value changes of reclassified instruments. Positive market value of derivatives assigned to Level 2, increased by EUR 318 million.

There were no substantial changes for securities on the liabilities side. The changes in fair value were mainly caused by purchases, sales and changes of market values.

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
	Dec 15											Jun 16
Assets												
Financial assets - held for trading	150	25	0	21	-5	-1	0	0	37	-30	0	197
Derivatives	143	26	0	1	-1	-1	0	0	37	-30	0	175
Other trading assets	7	0	0	20	-4	0	0	0	0	0	0	22
Financial assets - at fair value through profit or loss	50	-1	0	4	-2	0	0	0	0	0	0	50
Financial assets - available-for-sale	627	1	29	181	-208	-80	0	0	154	-13	0	691
Derivatives - hedge accounting	0	0	0	0	0	0	0	0	0	0	0	0
Total assets	**827**	**25**	**29**	**206**	**-216**	**-81**	**0**	**0**	**191**	**-43**	**0**	**938**
	Dec 14											Jun 15
Assets												
Financial assets - held for trading	130	2	0	5	-4	0	0	0	6	-16	1	123
Derivatives	124	1	0	2	-3	0	0	0	6	-16	1	115
Other trading assets	6	0	0	2	-1	0	0	0	0	0	0	8
Financial assets - at fair value through profit or loss	39	0	0	0	-9	0	0	0	14	-2	0	43
Financial assets - available-for-sale	428	1	11	38	-77	0	0	-1	30	-40	0	391
Derivatives - hedge accounting	6	-3	0	0	0	0	0	0	0	-3	0	0
Total assets	**603**	**0**	**11**	**43**	**-90**	**0**	**0**	**-1**	**50**	**-61**	**1**	**557**

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 not measured at fair value through profit or loss'. 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 in the reporting period. 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 113 million were reclassified from Level 2 to Level 3. On the other hand securities in the amount of EUR 44 million were reclassified from Level 3 to Level 2 mainly due to the change of inputs for pricing models. The net movement from Level 3 to Level 1 amounted to EUR 3 million. The residual increase of Level 3 instruments was on the one hand caused by an increase of Level 3 derivatives in the amount of EUR 32 million and on the other hand by purchases, sales and changes in market value of securities amounting to EUR 15 million.

In June 2016, the shares in VISA Europe reported under the position 'Financial assets – available for sale' were sold. The disposal of the related fair value in the amount of EUR 139 million is disclosed in the column 'Sales'.

At the end of the reporting period, no significant liabilities measured at fair value are reported in Level 3.

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	**1-6 15**	**1-6 16**
Assets		
Financial assets - held for trading	5.9	29.2
Derivatives	5.7	29.1
Other trading assets	0.2	0.1
Financial assets - at fair value through profit or loss	0.0	-0.6
Financial assets - available for sale	0.0	-5.4
Derivatives - hedge accounting	0.0	0.0
Total	**5.9**	**23.2**

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 30 June 2016					
Positive fair value of derivatives	Forwards, swaps, options	175.1	Discounted cash flow and option models with CVA adjustment based on potential future exposure	PD	0.04% – 100% (7.6%)
				LGD	60%
Financial assets - at fair value through profit or loss	Fixed and variable coupon bonds	11.5	Discounted cash flow	Credit spread	0.1% – 1.5% (0.4%)
Financial assets - available for sale	Fixed and variable coupon bonds	401.3	Discounted cash flow	Credit spread	0.1% – 4.5% (2.4%)
As of 31 December 2015					
Positive fair value of derivatives	Forwards, swaps, options	142.9	Discounted cash flow and option models with CVA adjustment based on potential future exposure	PD	0.96% – 100% (11.7%)
				LGD	60%
Financial assets - at fair value through profit or loss	Fixed and variable coupon bonds	10.9	Discounted cash flow	Credit spread	0.1% – 1.5% (0.4%)
Financial assets - available for sale	Fixed and variable coupon bonds	270.9	Discounted cash flow	Credit spread	0.1% – 9.9% (2.2%)

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

in EUR million	Dec 15 Fair value changes Positive	Dec 15 Fair value changes Negative	Jun 16 Fair value changes Positive	Jun 16 Fair value changes Negative
Derivatives	10.5	-8.8	8.4	-8.9
Income statement	10.5	-8.8	8.4	-8.9
Other comprehensive income	0.0	0.0	0.0	0.0
Debt securities	13.5	-18.0	26.4	-35.2
Income statement	0.6	-0.8	1.1	-1.4
Other comprehensive income	12.9	-17.2	25.3	-33.7
Equity instruments	9.9	-19.7	11.1	-22.2
Income statement	1.1	-2.3	1.1	-2.3
Other comprehensive income	8.7	-17.4	10.0	-20.0
Total	**33.8**	**-46.5**	**45.9**	**-66.3**
Income statement	**12.2**	**-11.9**	**10.6**	**-5.2**
Other comprehensive income	**21.6**	**-34.7**	**35.3**	**-53.7**

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 15 Carrying amount	Dec 15 Fair value	Jun 16 Carrying amount	Jun 16 Fair value
Assets				
Cash and cash balances	12,350	12,350	12,982	12,982
Financial assets - held to maturity	17,701	19,514	17,823	19,696
Loans and receivables to credit institutions	4,805	4,881	5,626	5,781
Loans and receivables to customers	125,897	129,000	127,407	130,749
Liabilities				
Financial liabilities measured at amortised cost	170,787	173,274	173,943	175,895
Deposits from banks	14,212	14,493	16,367	16,309
Deposits from customers	127,797	128,719	130,304	130,816
Debt securities issued	27,896	29,238	26,362	27,789
Other financial liabilities	882	825	911	980
Financial guarantees and commitments				
Financial guarantees	n/a	-14	n/a	-109
Irrevocable commitments	n/a	-25	n/a	-159

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)

	1-6 15	1-6 16
Domestic	**15,578**	**15,626**
Erste Group, EB Oesterreich and subsidiaries	8,400	8,418
Haftungsverbund savings banks	7,179	7,207
Abroad	**31,037**	**31,066**
Česká spořitelna Group	10,556	10,429
Banca Comercială Română Group	7,073	7,125
Slovenská sporiteľňa Group	4,280	4,260
Erste Bank Hungary Group	2,942	2,912
Erste Bank Croatia Group	2,817	2,928
Erste Bank Serbia Group	969	994
Savings banks subsidiaries	1,196	1,222
Other subsidiaries and foreign branch offices	1,204	1,196
Total	**46,615**	**46,692**

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 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 (CET1), 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 amount to 5.4% for CET1 (4.5% CET 1, +0.625% capital conservation buffer, +0.25% buffer for systemic vulnerability and for systemic concentration risk and +0.001% countercyclical capital buffer), 6.9% for tier 1 capital (sum of CET1 and AT1) and 8.9% 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 (G-SII buffer), 23c (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 June 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 are situated in accordance with section 5 of the credit institution, 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 2015 SREP performed by the European Central Bank (ECB), Erste Group on a consolidated level is required to meet a transitional Common Equity Tier 1 (CET1) ratio of 9.5% as of 1 January 2016. This minimum CET1 ratio of 9.5% includes Pillar 1, Pillar 2 and capital conservation buffer requirements and countercyclical capital buffer requirements. In addition, the systemic risk buffer required by the Austrian Financial Markets Authority (FMA) equals to 0.25% and is applied on top of the SREP ratio. All these buffers resulted in a prudential capital requirement of 9.75% for Erste Group as of Q1 2016.

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 15 Phased-in	Dec 15 Final	Jun 16 Phased-in	Jun 16 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	2,336	2,336
Own CET1 instruments	36 (1) (f), 42	-72	-72	-37	-37
Retained earnings	26 (1) (c), 26 (2)	8,811	8,811	8,806	8,806
Interim profit	26 (2)	0	0	632	632
Accumulated other comprehensive income	4 (1) (100), 26 (1) (d)	-190	-190	-293	-293
Minority interest recognised in CET1	4 (1) (120) 84	3,395	3,395	3,515	3,515
Transitional adjustments due to additional minority interests	479, 480	57	0	38	0
Prudential filter: cash flow hedge reserve	33 (1) (a)	-97	-97	-106	-106
Prudential filter: cumulative gains and losses due to changes in own credit risk on fair valued liabilities	33 (1) (b)	-38	-38	-37	-37
Prudential filter: fair value gains and losses arising from the institution's own credit risk related to derivative liabilities	33 (1) (c), 33 (2)	-9	-9	-8	-8
Value adjustments due to the requirements for prudent valuation	34, 105	-112	-112	-94	-94
Regulatory adjustments relating to unrealised gains and losses (40%)	467, 468	-571	-238	-360	0
Goodwill	4 (1) (113), 36 (1) (b), 37	-771	-771	-771	-771
Other intangible assets	4 (1) (115), 36 (1) (b), 37 (a)	-657	-657	-605	-605
Deferred tax assets dependent upon future profitability and not temporary differences net of associated tax liabilities	36 (1) (c), 38	-93	-93	-53	-53
IRB shortfall of credit risk adjustments to expected losses	36 (1) (d), 40, 158, 159	-220	-220	-210	-210
Development of unaudited risk provisions during the year (EU No 183/2014)		0	0	0	0
Other transitional adjustments CET1	469 to 472, 478, 481	1,030	0	655	0
Goodwill (40%)		462	0	308	0
Other intangible assets (40%)		394	0	242	0
IRB shortfall of provisions to expected losses (40%)		132	0	84	0
Deferred tax assets that rely on future profitability and do not arise from temporary differences (80%)		42	0	21	0
Excess of deduction from AT1 items over AT1	36 (1) (j)	-663	0	0	0
Common equity tier 1 capital (CET1)	**50**	**12,136**	**12,045**	**13,408**	**13,074**
Additional tier 1 capital (AT1)					
Capital instruments eligible as AT1	51 (a), 52 to 54, 56 (a), 57	0	0	497	497
Own AT1 instruments	52 (1) (b), 56 (a), 57	-4	0	-4	-2
Instruments issued by subsidiaries that are given recognition in AT1	85, 86	1	1	1	1
Transitional adjustments due to grandfathered AT1 instruments	483 (4) (5), 484 to 487, 489, 491	263	0	225	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	-923	0	-592	0
Goodwill (40%)		-462	0	-308	0
Other intangible assets (40%)		-394	0	-242	0
IRB shortfall of provisions to expected losses (20%)		-66	0	-42	0
Excess of deduction from AT1 items over AT1	36 (1) (j)	663	0	0	0
Additional tier 1 capital (AT1)	**61**	**0**	**1**	**127**	**496**
Tier 1 capital - total of common equity tier 1 (CET1) and additional tier 1 (AT1)	**25**	**12,136**	**12,046**	**13,534**	**13,570**

Minority interest recognised in CET1 includes interim result of the savings banks in an amount of EUR 75 million.

The table will be continued on the subsequent page.

Continuation of the table:

in EUR million	Article pursuant to CRR	Dec 15 Phased-in	Dec 15 Final	Jun 16 Phased-in	Jun 16 Final
Tier 1 capital - total of common equity tier 1 (CET1) and additional tier 1 (AT1)	**25**	**12,136**	**12,046**	**13,534**	**13,570**
Tier 2 capital (T2)					
Capital instruments and subordinated loans eligible as T2	62 (a), 63 to 65, 66 (a), 67	4,649	4,649	4,666	4,666
Own T2 instruments	63 (b) (i), 66 (a), 67	-50	-50	-71	-71
Instruments issued by subsidiaries recognised in T2	87, 88	233	233	240	240
Transitional adjustments due to additional recognition in T2 of instruments issued by subsidiaries	480	191	0	123	0
Transitional adjustments due to grandfathered T2 instruments and subordinated loans	483 (6) (7), 484, 486, 488, 490, 491	67	0	80	0
IRB excess of provisions over expected losses eligible	62 (d)	408	408	402	402
Standardised approach general credit risk adjustments	62 (c)	0	0	0	0
Other transitional adjustments to T2	476, 477, 478, 481	-66	0	-42	0
IRB shortfall of provisions to expected losses (20%)		-66	0	-42	0
T2 instruments of financial sector entities where the institution has a significant investment	4 (1) (27), 66 (d), 68, 69, 79	0	0	0	0
Tier 2 capital (T2)	**71**	**5,431**	**5,239**	**5,398**	**5,237**
Total own funds	**4 (1) (118) and 72**	**17,566**	**17,284**	**18,933**	**18,807**
Capital requirement	**92 (3), 95, 96, 98**	**7,864**	**8,023**	**8,082**	**8,218**
CET1 capital ratio	**92 (2) (a)**	**12.3%**	**12.0%**	**13.3%**	**12.7%**
Tier 1 capital ratio	**92 (2) (b)**	**12.3%**	**12.0%**	**13.4%**	**13.2%**
Total capital ratio	**92 (2) (c)**	**17.9%**	**17.2%**	**18.7%**	**18.3%**

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. In the position "Regulatory adjustments relating to unrealized gains and losses (40%)" a haircut of 25% was considered on not realized gains in the Basle 3 final scenario in the past. Starting with the first quarter of 2016 Erste Group does not apply this prudent approach, which was going beyond the regulatory requirements, any more. 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.

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

in EUR million	Article pursuant to CRR	Dec 15 Calculation base/total risk	Dec 15 Capital requirement	Jun 16 Calculation base/total risk (phased-in)	Jun 16 Capital requirement (phased-in)
Total risk exposure amount	92 (3), 95, 96, 98	98,300	7,864	101,021	8,082
Risk-weighted assets (credit risk)	92 (3) (a) (f)	83,445	6,676	82,217	6,577
Standardised approach		15,528	1,242	15,185	1,215
IRB approach		67,917	5,433	67,032	5,363
Settlement risk	92 (3) (c) (ii), 92 (4) (b)	0	0	0	0
Trading book, foreign FX risk and commodity risk	92 (3) (b) (i), (c) (i) and (iii), 92 (4) (b)	2,847	228	3,417	273
Operational risk	92 (3) (e) 92 (4) (b)	10,755	860	14,196	1,136
Exposure for CVA	92 (3) (d)	1,252	100	1,191	95
Other exposure amounts (including Basel 1 floor)	3, 458, 459, 500	0	0	0	0

in EUR million	Article pursuant to CRR	Dec 15 Calculation base/total risk	Dec 15 Capital requirement	Jun 16 Calculation base/total risk (final)	Jun 16 Capital requirement (final)
Total risk exposure amount	92 (3), 95, 96, 98	100,281	8,023	102,727	8,218
Risk-weighted assets (credit risk)	92 (3) (a) (f)	85,427	6,834	83,923	6,714
Standardised approach		15,528	1,242	15,185	1,215
IRB approach		69,899	5,592	68,738	5,499
Settlement risk	92 (3) (c) (ii), 92 (4) (b)	0	0	0	0
Trading book, foreign FX risk and commodity risk	92 (3) (b) (i), (c) (i) and (iii), 92 (4) (b)	2,847	228	3,417	273
Operational risk	92 (3) (e) 92 (4) (b)	10,755	860	14,196	1,136
Exposure for CVA	92 (3) (d)	1,252	100	1,191	95
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.

Statement of all Legal Representatives

We confirm to the best of our knowledge that the interim financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the group as required by the applicable accounting standards and that the group management report gives a true and fair view of important events that have occurred during the first six months of the financial year and their impact on the interim financial statements, of the principal risks and uncertainties for the remaining six months of the financial year and of the major related party transactions to be disclosed.

Vienna, 5 August 2016

The management board

Andreas Treichl mp
Chairman

Gernot Mittendorfer mp
Member

Andreas Gottschling mp
Member

Peter Bosek mp
Member

Jozef Síkela mp
Member

Petr Brávek mp
Member

Note regarding forward-looking statements

Shareholder Events

4 November 2016	Interim report Q3 2016
17 May 2017	Annual general meeting

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Ticker Symbols

Reuters:	ERST.VI
Bloomberg:	EBS AV
Datastream:	O:ERS
ISIN:	AT0000652011