# Key financial and operating data

| Income statement (in EUR million) | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|
| Net interest income | 4,495.2 | 4,444.7 | 4,374.5 | 4,353.2 | 4,582.0 |
| Net fee and commission income | 1,869.8 | 1,861.8 | 1,783.0 | 1,851.6 | 1,908.4 |
| Net trading result and gains/losses from financial instruments at FVPL | 242.3 | 210.1 | 272.3 | 210.5 | 193.7 |
| Operating income | 6,877.9 | 6,771.8 | 6,691.2 | 6,669.0 | 6,915.6 |
| Operating expenses | -3,787.3 | -3,868.9 | -4,028.2 | -4,158.2 | -4,181.1 |
| Operating result | 3,090.7 | 2,902.9 | 2,663.0 | 2,510.8 | 2,734.6 |
| Impairment result from financial instruments | -2,083.7 | -729.1 | -195.7 | -132.0 | 59.3 |
| Other operating result | -1,752.9 | -635.6 | -665.0 | -457.4 | -304.5 |
| Pre-tax result from continuing operations | -727.7 | 1,639.1 | 1,950.4 | 2,077.8 | 2,495.0 |
| **Net result attributable to owners of the parent** | **-1,382.6** | **968.2** | **1,264.7** | **1,316.2** | **1,793.4** |

| | | | | | |
|---|---|---|---|---|---|
| Cost/income ratio | 55.1% | 57.1% | 60.2% | 62.4% | 60.5% |
| Tax rate | -71.7% | 22.2% | 21.2% | 19.7% | 13.3% |
| Return on tangible equity | -15.8% | 10.8% | 12.3% | 11.5% | 15.2% |
| Earnings per share (in EUR) | -3.23 | 2.27 | 2.93 | 2.94 | 4.02 |

| Balance sheet (in EUR million) | Dec 14 | Dec 15 | Dec 16 | Dec 17 | Dec 18 |
|---|---|---|---|---|---|
| Cash and cash balances | 7,835 | 12,350 | 18,353 | 21,796 | 17,549 |
| Trading, financial assets | 50,131 | 47,542 | 48,320 | 42,752 | 43,930 |
| Loans and advances to banks | 7,442 | 4,805 | 3,469 | 9,126 | 19,103 |
| Loans and advances to customers | 120,834 | 125,897 | 130,654 | 139,532 | 149,321 |
| Intangible assets | 1,441 | 1,465 | 1,390 | 1,524 | 1,507 |
| Miscellaneous assets | 8,604 | 7,685 | 6,775 | 5,929 | 5,382 |
| **Total assets** | **196,287** | **199,743** | **208,227** | **220,659** | **236,792** |
| Financial liabilities held for trading | 7,746 | 5,867 | 4,762 | 3,423 | 2,508 |
| Deposits from banks | 14,803 | 14,212 | 14,631 | 16,349 | 17,658 |
| Deposits from customers | 122,583 | 127,946 | 138,013 | 150,969 | 162,638 |
| Debt securities issued | 31,140 | 29,654 | 27,192 | 25,095 | 29,738 |
| Miscellaneous liabilities | 6,573 | 7,257 | 7,027 | 6,535 | 5,381 |
| Total equity | 13,443 | 14,807 | 16,602 | 18,288 | 18,869 |
| **Total liabilities and equity** | **196,287** | **199,743** | **208,227** | **220,659** | **236,792** |

| | | | | | |
|---|---|---|---|---|---|
| Loan/deposit ratio | 98.6% | 98.4% | 94.7% | 92.4% | 91.8% |
| NPL ratio | 8.5% | 7.1% | 4.9% | 4.0% | 3.2% |
| NPL coverage (exc collateral) | 68.9% | 64.5% | 69.1% | 68.8% | 73.0% |
| Texas ratio | 55.8% | 48.1% | 34.6% | 29.2% | 24.5% |
| Total own funds (CRR final, in EUR million) | 15,853 | 17,284 | 18,893 | 20,337 | 20,891 |
| CET1 capital ratio (CRR final) | 10.6% | 12.0% | 12.8% | 12.9% | 13.5% |
| Total capital ratio (CRR final) | 15.6% | 17.2% | 18.2% | 18.2% | 18.1% |

| About the share | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|
| Shares outstanding at the end of the period | 429,800,000 | 429,800,000 | 429,800,000 | 429,800,000 | 429,800,000 |
| Weighted average number of outstanding shares | 427,533,286 | 426,726,297 | 426,668,132 | 426,679,572 | 426,696,221 |
| Market capitalisation (in EUR billion) | 8.3 | 12.4 | 12.0 | 15.5 | 12.5 |
| High (in EUR) | 29.71 | 29.04 | 29.59 | 37.99 | 42.38 |
| Low (in EUR) | 17.02 | 18.97 | 18.87 | 27.46 | 28.1 |
| Closing price (in EUR) | 19.24 | 28.91 | 27.82 | 36.105 | 29.05 |
| Price/earnings ratio | n.a. | 12.8 | 9.5 | 11.8 | 7.0 |
| Dividend per share (in EUR) | 0.00 | 0.50 | 1.00 | 1.20 | 1.40 |
| Payout ratio | 0.0% | 22.2% | 34.0% | 39.2% | 33.6% |
| Dividend yield | 0.0% | 1.7% | 3.6% | 3.3% | 4.8% |
| Book value per share | 22.9 | 25.6 | 27.8 | 30.0 | 31.1 |
| Price/book ratio | 0.8 | 1.1 | 1.0 | 1.2 | 0.9 |

| Additional information | Dec 14 | Dec 15 | Dec 16 | Dec 17 | Dec 18 |
|---|---|---|---|---|---|
| Employees (full-time equivalents) | 46,067 | 46,467 | 47,034 | 47,702 | 47,397 |
| Branches | 2,792 | 2,735 | 2,648 | 2,565 | 2,507 |
| Customers (in million) | 16.2 | 15.8 | 15.9 | 16.1 | 16.2 |

The figures for the comparative period 2014 are restated according to IAS 8 (for details about the resulting retrospective changes in the presentation, please refer to chapter B on significant accounting policies in the 2015 consolidated financial statements).

CRR: Capital Requirements Regulation

Shares outstanding include Erste Group shares held by savings banks that are members of the Haftungsverbund (cross-guarantee system).

# Highlights

### Best result in Erste Group's history

_ Net result of EUR 1,793.4 million
_ Operating result improves, net releases of risk provisions
_ Dividend of EUR 1.4 proposed to AGM

### Significant improvement in operating result of 8.9%

_ Net interest income rises visibly by 5.3%
_ Operating expenses almost stable
_ Cost/income ratio at 60.5%

### Loan growth accelerates

_ Net loans increase by 7.0% to EUR 149.3 billion
_ Retail business as growth driver
_ Strongest volume growth in Czech Republic, Slovakia and Austria

### Positive asset quality trend continues

_ NPL ratio improves further to 3.2%
_ Continued improvement across all core markets
_ NPL provision coverage at 73.0%

### Excellent capitalisation

_ CET 1 ratio increased to 13.5% (Basel 3 fully loaded)
_ Internal capital target for 2020 already met

### Favourable funding and liquidity position

_ Strong retail deposit base in all core countries is key trust indicator and competitive advantage
_ Loan-to-deposit ratio at 91.8%

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# Management board

Gernot Mittendorfer, Peter Bosek, Petr Brávek

Andreas Treichl, Willibald Cernko, Jozef Síkela

# Letter from the CEO

**Dear shareholders,**

It is with great pleasure that I present to you our 2018 annual report. 2018 was a very good year with the best pre-tax and after-tax results in our company's history. It is up to you how much you look at our data. What I would like to do instead is write a few lines about what I think is really important and what I wish to convey to you, as the owners of our Group, for the future. I take the liberty of doing this as Erste Group marks its 200th anniversary this year, and I will step down as CEO of our Group after more than 22 years at year-end 2019.

I had the privilege of serving on the Group's management board for 25 years that were exciting and diverse. We started with about 3,000 employees in Austria and now we have more than 47,000 in Central and Eastern Europe. Together, we have gone through all the highs and lows of our industry. We have celebrated great successes and suffered painful defeats; we have been jubilant and desperate; we have taken wrong decisions, but, thank God, a lot more that have proved right.

This year, as we are marking our anniversary, we are stronger than ever before in every way. Not only because we are among the leading financial service providers in the Czech Republic, Slovakia, Austria, Romania, Hungary, Croatia, Serbia and Montenegro, and this region is among the fastest growing in Europe. Not only because we have the best employees that we can hope for and, with George, the best digital platform in our region, but most importantly because we – Erste Group and the savings banks family – have come to the shared conviction that we want to serve our region and its people, businesses and communities for another 200 years in pursuit of our purpose to create and sustain prosperity for our customers.

Many still remember the scares of the financial crisis, but if we look back on the 200 years of our history, we have hardly anything to complain about compared with the terrible experiences and disasters that our predecessors were faced with in the 19th and 20th centuries. We have overcome all of them and we have always kept our doors open for our customers.

This should give us hope and confidence for a future in which coming generations of Erste and savings bank staff will be confronted with major challenges. Will banks in the current form continue to exist; what needs to be done to make sure that future generations will be comfortable managing their financial lives with us; and where is the development of artificial intelligence, robotics and digitalisation leading us? Will blockchain technology become mainstream, and if so, in what areas? What will become of Europe? Where are politics taking us? How can we help our clients prosper without developed capital markets if interest rates simply will not rise?

We must be ready for anything and able to cope with all sorts of situations. We will be able to do so only if we manage to be a truly attractive employer in all of our markets. And we will achieve this only if we can tell our employees with full conviction: they call you bankers and savings bank employees, but in reality, you are the men and women who take care of the second-most important thing in people's lives, namely their financial health.

If the financial crisis has taught us one lesson, it is that we shall never again sell a customer something that he or she does not need. In our Group, sales targets are thus a thing of the past. We must earn money to keep you, our shareholders, happy. We must earn money to build capital that helps our region to grow. We must earn money to be able to afford the best employees and the best technologies. But we must never earn money at the expense of our customers.

We do not need mission statements, we do not need vision statements, and we do not need any commitment to customer centricity and corporate social responsibility. We have a very clear goal, a reason for being, a purpose for which we were founded, a task we have to fulfil: helping the people and the region in which we operate prosper. And we must and want to keep our doors open for everyone, no matter under which political system we happen to be working. We will not get everything right, but we must aspire to do everything right; and even if we make mistakes – which hopefully will happen very, very rarely – we hope that our customers will forgive us.

"Our region needs people who believe in themselves and a bank that believes in them" is our guiding principle and will hopefully remain so forever, even if this means demanding a lot from our staff. Financial service providers belong to a small group of companies who have the obligation to say "no" if we are convinced that it is the right thing to do for our customers: "please do not buy this; may I explain to you why I think you should not take this loan, but I believe in you". By "refusing to lend", we may avoid future risk costs, but we will certainly not earn any profits. But regardless of whether a loan is granted or not – how do our customers benefit if we believe in them, but if, in the future, such decisions will be taken only on the basis of some algorithms without recognising the individual? And as regards loans that even in the future may not be granted by artificial intelligence – what are our beliefs good for if regulatory standards do not allow us to grant loans without collateral and/or guarantees?

We will have to find really good answers to all these questions in the course of the next few years. The better our employees, the greater our customers' confidence in us and the greater the respect of people in our markets for what we do and, most importantly, how we do it, the more we will be able to influence policy-makers and regulators and persuade them to give us enough room to fulfil our purpose – working for growth and employment, wealth creation, providing for old age and making housing dreams come true.

Signs bode well for our Group and there is a good chance that our shareholders will be happy owners in the years ahead. This is my wish for you and, at the same time, for myself. From 2020, as chairman of Erste Foundation's supervisory board, I will be hoping for a rising share price and solid dividends that enable us to keep developing our social banking and financial education activities, which in turn will benefit you as shareholders of Erste Group.

I have high expectations of my successor and his team. He will have to improve greatly on the things I did not do so well and be at least as good as I was in the things I did well. For this I wish him and all men and women of our Group the best of luck and success!

Andreas Treichl mp

# Supervisory board

Gunter Griss, Brian D. O'Neill, Barbara Pichler, Marion Khüny, Elisabeth Bleyleben-Koren, Regina Haberhauer, Maximilian Hardegg, John James Stack, Jan Homan

Friedrich Rödler, Andreas Lachs, Elisabeth Krainer Senger-Weiss, Markus Haag, Karin Zeisel, Wilhelm Rasinger, Jordi Gual Solé, Jozef Pinter

# Report of the supervisory board

**Dear shareholders,**

In the 200th year of its existence, Erste Group looks back on an extraordinarily successful financial year 2018. The operating result increased, and asset quality improved again. Erste Group has stayed firmly on track and continues to be the bank for retail and corporate customers in Central and Eastern Europe. In the course of the celebrations marking Erste Bank's 200th anniversary in 2019, Erste Group will be publicly showcasing its role as a company that from its very beginnings has been committed to creating prosperity for its customers.

In the financial year 2018, key steps were taken to enable profitable future growth. Priority topics included the continuing development of the digital banking platform George, investment in bank services and ongoing staff training as well as strengthening the Erste Group brand in all core markets.

In the previous financial year, Andreas Treichl had announced to resign from his position on the management board after the bicentenary celebrations at year-end 2019. The supervisory board was therefore faced with the task of finding and selecting a suitable successor after Andreas Treichl had led the bank as CEO with extraordinary success for many years. We are very pleased that after screening several suitable candidates in a comprehensive and lengthy process, we found an ideal successor in Bernhard Spalt. As proposed by the nomination committee, the supervisory board therefore appointed Bernhard Spalt as member of the management board of Erste Group Bank AG from 1 July 2019 and as chairman of the management board from 1 January 2020.

In 2018, the supervisory board focused in particular on a thorough self-evaluation with the aim of ensuring a steady improvement in the effectiveness and efficiency of the supervisory board's activities and finding new ways of optimising its own work. Here, the supervisory board took a novel approach and, with support from Univ.-Prof. Werner Hoffman and his team of the Vienna University of Economics and Business and in cooperation with an outside peer, took a close look at its work and developed a number of measures for improvement that are gradually being implemented.

The dialogue with the supervisory authorities was continued. In the reporting financial year, there was again a direct bilateral exchange between the supervisory board and the joint supervisory team of the European Central Bank in which the supervisory board was able to present its view of the challenges facing Erste Group and of its own activities and role.

For the supervisory board, it is essential to have members with an international background that meet diversity criteria and contribute relevant expertise. Reviewing and ensuring this collective suitability is also one of the purposes of the EBA Guidelines on the suitability of members of the management body and key function holders that entered into force in 2018. In future re-appointments or new appointments of supervisory board members, the supervisory board will devote special attention to this collective suitability and diversity aspects. For details regarding the composition and independence of the supervisory board, the criteria for its independence, its working procedures, the number and type of committees and their decision-making powers, the meetings of the supervisory board and the main focus of its activities, please refer to the (consolidated) corporate governance report drawn up by the management board and reviewed by the supervisory board. As regards the activities of the audit committee, please also refer to the separate report of the audit committee.

In the course of 40 supervisory board and committee meetings, the management board promptly and comprehensively informed the supervisory board. This allowed us to act in accordance with the mandate laid down by law, the articles of association and the Austrian Code of Corporate Governance, as well as to ascertain the proper conduct of business.

The financial statements (consisting of the balance sheet, income statement and notes), the management report, the consolidated financial statements and the group management report for 2018 were audited by Sparkassen-Prüfungsverband, the legally mandated auditor, and by PwC Wirtschaftsprüfung GmbH, the elected supplementary auditor, and received an unqualified audit opinion. Representatives of both auditors attended the financial statements review meetings of the audit committee and the supervisory board and presented their comments on the audits they had conducted. Based upon our own review, we endorsed the findings of these audits and agreed with the proposal for appropriation of the profit. PwC Wirtschaftsprüfung GmbH was also mandated for the audit of the (consolidated) corporate governance report for 2018. The audit did not give rise to any qualifications. Deloitte Audit Wirtschaftsprüfungs GmbH was contracted to perform an audit of the (consolidated) non-financial report 2018.

We have approved the financial statements and these have thereby been duly endorsed in accordance with section 96 para 4 of the Austrian Stock Corporation Act (Aktiengesetz). The management report, consolidated financial statements, group management report, (consolidated) corporate governance report and the (consolidated) non-financial report have also been reviewed by the supervisory board and accepted on the basis of the audit reports received by the supervisory board.

We thank the management board and all employees of Erste Group for their great dedication and impressive commitment, without which the success we achieved together in the financial year ended would not have been possible.

For the supervisory board,

Friedrich Rödler mp
Chairman of the supervisory board

# Report of the audit committee

## Dear shareholders,

As chairman of the audit committee I am pleased to provide to you an insight into the duties of Erste Group Bank AG's audit committee and our work in the financial year 2018.

The audit committee is one of six committees established by Erste Group Bank AG's supervisory board. The audit committee's mandate is derived from the law, the rules of the Austrian Code of Corporate Governance (CCG) and its rules of procedure. The audit committee oversees in particular the accounting process, the effectiveness of the internal control system, the internal audit system and the risk management system, and the audit of the (consolidated) financial statements. It reviews and monitors the independence of the (Group) auditor, reports on the results of the audit to the supervisory board, reviews the (consolidated) financial statements and prepares their approval. It furthermore reviews the proposal for the appropriation of profits, the (Group) management report, the (consolidated) non-financial report and the (consolidated) corporate governance report, reports the findings of the review to the supervisory board and conducts the process for the selection of the (Group) auditor. In its report on the findings of the annual audit to the supervisory board, the audit committee also explains in detail how the annual audit has strengthened the reliability of financial reporting and the role played by the audit committee in doing so. In addition, the audit committee regularly considers the results of the reviews conducted by the supervisory authorities' joint supervisory team and their implementation at Erste Group.

Due to legal changes regarding the response to reviews by supervisory authorities and a related reporting duty to the supervisory board, the audit committee is now responsible, in case of on-site inspections conducted by supervisory authorities, for taking note of the inspection report, the report on the contents of the plan for addressing the identified findings and/or the outcome of administrative proceedings conducted on the basis of the identified findings. This development was already discernible in recent years and the audit committee devoted increased and intensified attention to these topics at its meetings in 2018. Where circumstances were particularly complex it voluntarily called for the delivery of extended, combined or periodic reports on measures resulting from findings of the supervisory authorities.

The audit committee currently comprises five shareholder representatives and three members delegated by the employees' council. The audit committee met six times in 2018 and, in addition, held one informal meeting to prepare the meeting on the audit of the (consolidated) financial statements. Those who attended the meetings included the chairman of the management board, the management board members responsible for accounting, controlling and risk as well as the auditors' representatives. Responsible division heads were also invited to attend as permanent guests or to attend as guests in discussions on specific agenda items. The chairman of the audit committee and the financial expert regularly conducted one-on-one meetings with, amongst others, the auditors, members of the management board, the head of group internal audit and, if required, with division heads. The chairman of the audit committee informed the supervisory board on the committee's activities, the subject matters of its meetings and of its discussions at the respective subsequent supervisory board meetings.

In 2018, the audit committee considered topics including the following: after receipt of the auditors' report on the (Group) (consolidated) financial statements for 2017, the audit committee held the final discussion, reviewed the (Group) (consolidated) financial statements and the (Group) management report as well as the (consolidated) non-financial report and the (consolidated) corporate governance report and recommended to the supervisory board the approval of the annual financial statements, setting out towards the supervisory board how the annual audit had strengthened the reliability of financial reporting and describing the role played by the audit committee. The additional report of the auditors pursuant to Article 11 of Regulation (EU) 2014/537 was also taken note of. Key audit matters were discussed with the auditors in the course of audit planning and then on a continuous basis and are covered in the auditors' reports. Monitoring the independence of the auditor was again a key topic in the financial year 2018. The audit committee received regular reports and, after careful examination, pre-approved non-audit services to be performed by the auditor. After the end of the first audit year of Sparkassen-Prüfungsverband and PwC Wirtschaftsprüfung GmbH, the audit committee discussed and considered feedback on the audit of the 2017 financial statements with the auditors, the members of the management board and other guests of the audit committee. The audit committee also considered the implementation of the new financial reporting standard IFRS 9. The findings and status of the annual audit were discussed with representatives of the auditors in an ongoing process. In December 2018, it was decided to recommend to the supervisory board to propose at the annual general meeting the renewal of the audit mandate of PwC Wirtschaftsprüfung GmbH as additional (Group) auditor for the financial year 2020. The head of internal audit was evaluated by the audit committee and the questionnaire of the Audit Oversight Body of Austria on audit committees was discussed, completed and returned. In addition, the joint supervisory team of the supervisory authorities had a personal meeting with the chairmen of the audit committee and the supervisory board to obtain information on the audit committee's work.

Further information on the activities of the audit committee and its composition is contained in the (consolidated) corporate governance report prepared by the management board and reviewed by the supervisory board.

For the audit committee,

Jan Homan mp

# Erste Group on the capital markets

After the gains posted in the previous year, international equity markets registered substantial losses in 2018. Initially, share prices rallied on US markets and, in their wake, also at other international stock exchanges on the back of robust global economic growth, an expected boost from the US tax reform and the prospect of a continuing rise in corporate earnings. Later in the year, however, volatility increased, and share prices declined. This was largely attributable to the trade disputes between the US and its main trading partners, most importantly China and Europe, and their potential impacts on the global economy as well as persistent uncertainty over the terms of the United Kingdom's forthcoming withdrawal from the European Union (Brexit). In addition, forecasts of slowing global economic growth in the years ahead along with concerns over a visible economic downturn in the US and the simultaneous announcement of further rate hikes by the US central bank (Fed) triggered a sell-off in the equity markets in December. The European banking index shed one-third of its value over the past year. Against this backdrop the Erste Group share declined by 19.5%.

## EQUITY MARKET REVIEW

### Volatility in the markets

The focus of market players was on the trade disputes resulting from protectionist US trade policies and the imposition of punitive tariffs on products from key trading partners, the ensuing slowdown of economic growth and the central banks' monetary policies. In the course of the year, stock market volatility was fuelled by the Brexit negotiations as well as disagreement between Italy and the European Union over the former's budget plans. From the start of the year, European stock markets underperformed US markets. This was attributable to the above-mentioned political factors as well as US companies' substantially more dynamic earnings and revenues growth compared with their European peers. While European share prices started their decline already in the third quarter, US stock markets were still on an upward trend during that period before their year-on-year performance also turned negative as a result of the sell-off in December. The Dow Jones Industrial Average Index declined to 23,327.46 points, down 5.6% year on year. The broader Standard & Poor's 500 Index dropped 6.2% to 2,506.85 points while the European indices registered double-digit losses. The Euro Stoxx 600 Index fell 13.6% to 336.23 points. The Euro Stoxx 50 Index ended the year 14.8% lower at 2,986.53 points.

### Monetary policies in Europe and the US

The European Central Bank (ECB) decided to halve its monthly net asset purchases from October and end them in December 2018. It further announced that it would leave interest rates unchanged at least through the summer of 2019. Based on solid economic data, the Fed, by contrast, raised its benchmark rate four times by 25 basis points each to the range of 2.25% to 2.50%. Towards the end of the year, the Fed's announcement of further rate hikes combined with slightly lower expectations for US economic growth triggered a sell-off on the stock markets.

### Global economic growth has peaked

After the global economy's robust growth over the past ten years, the International Monetary Fund (IMF) now expects a slowdown of world-wide economic growth and has revised its forecasts accordingly. The IMF projects global GDP growth of 3.7% for 2019 and 3.9% for 2020. Downside risks include the impact of higher bilateral tariffs as well as a potential cooling off of the Chinese economy. The IMF's forecast for the euro zone was reduced to 1.9% for 2019 and 1.6% for 2020, with additional uncertainty coming from post-Brexit developments. The US economy is expected to decelerate to a growth rate of 2.5% in 2019 and 2.1% in 2020 as the impacts of fiscal stimulus subside and monetary policy will be tightened further.

### European banking index declined by one-third

After the gains posted in 2017, European bank shares were caught in a downward trend, which gained additional momentum in the second half of 2018. Among the factors driving this development were concerns over a dimming economic outlook, which were confirmed by downward revisions of projections for the global economy and euro zone growth. Stock markets were also weighed down by uncertainty over the United Kingdom's exit from the European Union, the economic and currency crises in Turkey and tensions arising from the Italian debt situation. The Dow Jones Euro Stoxx Banks Index fell 33.3% to 87.04 points year-on-year.

### Vienna Stock Exchange sustained heavy losses

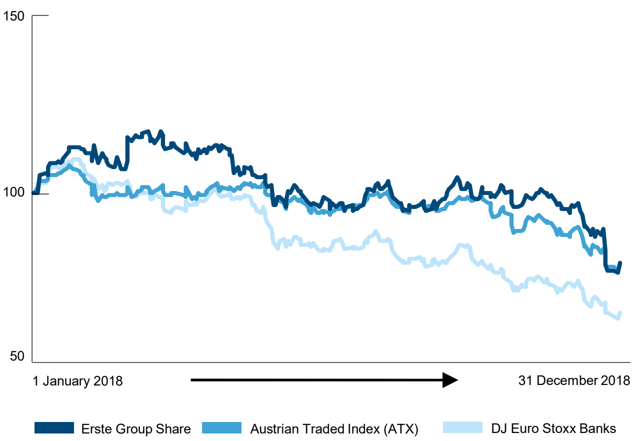
The domestic stock market was unable to escape the negative impacts and developments in international stock markets. After advancing almost 31% the year before, the Austrian Traded Index (ATX) entered a downward trend in 2018 and ended the reporting period down 19.7% at 2,745.78 points. Almost the entire year-on-year loss of the ATX was posted in the fourth quarter, when the leading indicator slipped 17.9%. The domestic stock index hit its annual high on 23 January at 3,688.78 points and saw its annual low on 27 December at 2,681.25 points. Notwithstanding the solid business performance of the companies listed on the Vienna Stock Exchange, almost all of the 20 ATX stocks ended the year in negative territory.

## ERSTE GROUP SHARE

### Share price down in the fourth quarter

In the first quarter of 2018, the Erste Group share continued the strong performance of the previous year, which it had ended with a gain of almost 30%, and remained on an uptrend. The Erste Group share reached its annual high at EUR 42.38 on 12 March. Despite the improvement in its operating result and the positive development of asset quality, the Erste Group share then declined substantially in tandem with the significant losses suffered by European bank shares. At the close of the third quarter, the Erste Group's share was still trading at the level of year-end 2017 on the back of sound fundamental data, while the Dow Jones Euro Stoxx Banks Index had already plunged 18.3%.

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




The sell-off in international stock markets in the last quarter and the Romanian government's announcement of the introduction of a banking levy finally prompted the share price to decline substantially. On 27 December, the Erste Group share posted the lowest price of the reporting period at EUR 28.10. At a closing price of EUR 29.05 on the last day of the year, the share was down 19.5% year-on-year, with 18.8 percentage points of that loss incurred in the fourth quarter. By comparison, the European Bank Index dropped 33.3%.

### Performance of the Erste Group share versus indices

| | Erste Group share | ATX | DJ Euro Stoxx Bank Index |
|---|---|---|---|
| Since IPO (Dec 1997) | 162.1% | 110.4% | - |
| Since SPO (Sep 2000) | 147.2% | 135.0% | -75.2% |
| Since SPO (Jul 2002) | 66.7% | 125.1% | -65.4% |
| Since SPO (Jan 2006) | -35.4% | -29.5% | -77.0% |
| Since SPO (Nov 2009) | 0.2% | 5.4% | -61.8% |
| 2018 | -19.5% | -19.7% | -33.3% |

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

### Number of shares, market capitalisation and trading volume

The number of shares of Erste Group Bank AG remained unchanged at 429,800,000. At year-end 2018, the Erste Group's market capitalisation stood at EUR 12.5 billion, 19.5% down on year-end 2017 (EUR 15.5 billion).

In the reporting year, trading volume on the three stock exchanges (Vienna, Prague, Bucharest) on which the Erste Group share is listed averaged 773,743 shares per day and accounted for about 35% of the total trading volume in Erste Group shares. More than half of the trading activity was executed over the counter (OTC) or through electronic trading systems.

### Erste Group in sustainability indices

The Erste Group share has been included in VÖNIX, the Vienna Stock Exchange's sustainability index, since its launch in 2008. In 2011, the Erste Group share was included in the STOXX Global ESG Leaders Index, which represents the best sustainable companies on the basis of the STOXX Global 1800. In 2016, the Erste Group share was included in the FTSE4Good Index Series, in 2017 in the Euronext Vigeo Index: Eurozone 120. In October 2018, the Erste Group was awarded prime status in the ISS-oekom corporate ratings.

## DIVIDEND

Erste Group's dividend policy is guided by the Bank's profitability, growth outlook and capital requirements. At the annual general meeting held on 24 May 2018 it was decided to pay a dividend of EUR 1.20 per share for the financial year 2017. This was an increase by EUR 0.20 per share versus 2016. In view of a return on tangible equity (ROTE) of 15.2% in 2018 and a common equity tier 1 ratio (CET1 ratio; Basel 3 phased in) of 13.5%, the management board of Erste Group will propose to the annual general meeting a dividend for the financial year 2018 of EUR 1.40 per share. Based on the closing price on the last day of the year, the dividend yield is 4.8%.

## RATINGS AND FUNDING ACTIVITIES

In view of the solid development in recent years, Moody's raised its rating to A2/P-1 with a positive outlook, Standard & Poor's kept the rating at A/A-1, also with a positive outlook. In February 2019, Fitch raised its rating to A/F1 with a stable outlook.

In 2018, Erste Group's capital markets activity was particularly visible in covered bonds, starting with a EUR 1 billion 10-year covered bond at mid-swap minus 6 basis points, which equals the lowest spread of an Austrian covered bond. Erste Group continued to issue in this segment. In April 2018, it issued a EUR 750 million 8-year covered bond at -3 basis points, followed by a EUR 750 million 6-year covered bond at -2 basis points issued in June 2018. The spreads at lower maturities confirm the strategy of having issued higher volumes at the beginning of the year.

Through private placements, Erste Group issued another EUR 810 million of senior debt and EUR 115 million tier 2 instruments.

## INVESTOR RELATIONS

### Open and regular communication with investors and analysts

In 2018, Erste Group's management and the investor relations team met with investors in a total of 345 one-on-one and group meetings and conducted a large number of teleconferences with analysts and investors. The presentation of the 2017 annual result in Vienna was followed by the annual analysts' dinner and a road show day with investor meetings in London. A spring road show was conducted in 2018 after the release of the first-quarter results, and an autumn road show following the release of the third-quarter results was held in Europe and in the US. Erste Group presented its strategy in the current operating environment at international banking and investor conferences as well as road shows organised by the Vienna Stock Exchange, UniCredit, Kepler Cheuvreux, UBS, Autonomous, PKO, Morgan Stanley, RCB, HSBC, mBank, Concorde, KBW, Deutsche Bank, Bank of America Merrill Lynch, Goldman Sachs, Citigroup, and Wood. Another 45 meetings were held to intensify the dialogue with bond investors. A large number of face-to-face meetings with analysts and portfolio managers were held at conferences, road shows and workshops hosted by Credit Suisse, HSBC, Goldman Sachs, UBS, Exane BNP Paribas, Barclays, Bank of America Merrill Lynch and the European Covered Bond Council.

The website http://www.erstegroup.com/ir provides comprehensive information on Erste Group and the Erste Group share. Investors and the broader public can follow the investor relations team on the social media platform Twitter at http://twitter.com/ErsteGroupIR and on Slideshare at http://de.slideshare.net/Erste_Group. These sites provide users with the latest news on Erste Group on the social web. As an additional service for investors and analysts, Erste Group offers a free-of-charge Investor Relations app for iPhone, iPad, and Android devices. This app enables users to access and download Erste Group Bank AG share price information, the latest investor news, multimedia files, financial reports and presentations as well as an interactive financial calendar and contact details for the investor relations team. More details on the Investor Relations app, social media channels, the news/reports subscription and reminder service are available at https://www.erstegroup.com/en/investors/ir-service.

### Analyst recommendations

In 2018, 21 analysts released research reports about Erste Group. The Erste Group Bank AG share was covered by financial analysts at the following national and international firms: Autonomous, Bank of America Merrill Lynch, Citigroup, Commerzbank, Concorde, Deutsche Bank, Exane BNP Paribas, Goldman Sachs, HSBC, JP Morgan, JT Banka, KBW, KeplerCheuvreux, mBank, Mediobanca, Morgan Stanley, PKO, RCB, SocGen, UBS and Wood.

As of the end of the year, fifteen analysts had issued buy recommendations and six had rated the Erste Group share neutral. The average year-end target price stood at EUR 43.0. The latest updates on analysts‘ estimates for the Erste Group share are posted at https://www.erstegroup.com/en/investors/share/analyst-estimates.

# Strategy

Erste Group strives to be the leading retail and corporate bank in the eastern part of the European Union, including Austria. To achieve this goal, Erste Group aims to support its retail, corporate and public sector customers in realising their ambitions by offering excellent financial advice and solutions, lending responsibly and providing a safe harbour for deposits. Erste Group's business activities will continue to contribute to economic growth and financial stability and thus to prosperity in its region.

In all of its core markets in the eastern part of the European Union, Erste Group pursues a balanced business model focused on providing the best banking services to each of its customers. In this respect, digital innovations are playing an increasingly important role. Sustainability is reflected in the bank's ability to fund customer loans by customer deposits, with most customer deposits being stable retail deposits. Sustainability of the bank's strategy is also reflected in long-term client trust, which underpins strong market shares in almost all of Erste Group's core markets. However, market leadership is not an end in itself. Market leadership only creates value when it goes hand in hand with positive economies of scale and contributes to the long-term success of the company.

The banking business, however, should not only be run profitably but also reflect its corporate responsibility towards all material stakeholders, in particular customers, employees, society and the environment. Therefore, Erste Group pursues banking business in a socially responsible manner and aims to earn an adequate premium on the cost of capital.

## Long-standing tradition in customer banking

Erste Group has been active in the retail business since 1819. This is where the largest part of Erste Group's capital is tied up, where Erste Group generates most of its income and where it funds the overwhelming part of its core activities by drawing on its customers' deposits. The retail business represents Erste Group's strength and is its top priority when developing products such as modern digital banking that enable it to meet customers' expectations more effectively.

Offering attractive, easy-to-understand products and services that meet the individual needs and objectives of bank customers is important in building and maintaining strong long-term customer relationships. Today, Erste Group serves a total of more than 16 million customers in seven core markets.

The bank's core activities also include advisory services and support for its corporate customers with regard to financing, investment, hedging activities and access to international capital markets. Public sector funding includes providing finance for infrastructure projects and acquiring sovereign bonds issued in the region.

To meet the short-term liquidity management needs of the customer business, Erste Group also operates in the interbank market.

## Core markets in the eastern part of the European Union

When Erste Group went public as an Austrian savings bank with no meaningful foreign presence in 1997, it defined its target region as consisting of Austria and the part of Central and Eastern Europe that had realistic prospects of joining the European Union. The aim was to benefit from the attractive growth prospects in these countries. Against the backdrop of emerging European integration and limited potential for growth in Austria, Erste Group acquired savings banks and financial institutions in countries adjacent to Austria from the late 1990s onwards. While the financial and economic crisis has slowed the economic catch-up process across the countries of Central and Eastern Europe, the underlying convergence trend continues unabated. This part of Europe offered and still offers the best structural and therefore long-term growth prospects.

Today, Erste Group has an extensive presence in the following core markets: Austria, the Czech Republic, Slovakia, Romania, Hungary and Croatia – all of which are members of the European Union. Following significant investments in its subsidiaries, Erste Group holds considerable market positions in these countries. In Serbia, which has been assigned European Union candidate status, Erste Group maintains a minor market presence but one that may be expanded through acquisitions or organic growth as the country makes progress towards European Union integration. In addition to its core markets, Erste Group also holds direct and indirect majority and minority banking participations in Slovenia, Montenegro, Bosnia and Herzegovina, North Macedonia and Moldova.

## Growing importance of innovation and digitalisation

The pace of digital transformation has accelerated considerably as a result of technological changes, demographic developments and also regulatory interventions in recent years. As a result, customer behaviour and customer expectations towards financial products have also changed significantly. Erste Group is convinced that the digital banking business will continue to gain in importance and will be essential for the economic success in the long term and therefore fosters digital innovation. Intra-group, interdisciplinary teams develop innovative solutions.

Erste Group's digital strategy is based on its own digital ecosystem. It aims at providing customers access to personalised products from Erste Group and also third-party suppliers through application programming interfaces (APIs) in the secure IT environment of a financial platform. APIs enable a wide range of co-operations, whether with fintechs or across industries, and can therefore help open up new markets.

The digital platform George was implemented in Austria in 2015. Since 2018, George has been also running in the Czech Republic, Slovakia and Romania. It will be rolled out successively in all of the other core markets. The range of digitally available products and services is being constantly expanded. Customers can activate applications of Erste Group or third parties via plug-ins and use them to manage their finances.

The omni-channel approach of Erste Group integrates the various sales and communication channels. Customers decide on how, when and where they do their banking business. Contact centers serve as interfaces between digital banking and traditional branch business. These contact centers offer advice and sales, thus going far beyond the traditional help desk function.

### Focus on sustainability and profitability

Acting responsibly and earning a premium on the cost of capital is a key prerequisite for the long-term survival of any company and the creation of value for customers, investors and employees. Only a bank that operates in a sustainable manner – balancing the social, ecological and economic consequences of its business activities – and profitably, can achieve the following: provide products and services to customers that support them in achieving their financial ambitions; deliver the foundation for share price appreciation as well as dividend and coupon payments to investors; create a stable and rewarding work environment for employees and be a reliable contributor of tax revenues to society at large.

The management board adopted a Statement of Purpose to reaffirm and state in more detail the purpose of Erste Group to promote and secure prosperity across the region. Building on this statement of purpose, a Code of Conduct defines binding rules of the day-to-day business for employees and members of both the management and supervisory boards. At the same time, the Code of Conduct underlines that in pursuing its business activities, Erste Group values responsibility, respect and sustainability. The Code of Conduct is an important tool to preserve the reputation of Erste Group and to strengthen stakeholder confidence. Sustainability in this context means to operate the core business both in a socially and environmentally responsible manner and economically successfully.

Through a combination of stable revenues, low loan loss provisions, and cost efficiency, profits can be achieved in the long term. This is helped by a strong retail-based funding profile. When growth opportunities are elusive, as they will be from time to time, or the market environment is less favourable as a result of factors including high taxation, increased regulation or low interest rates, there will be a stronger focus on cost cutting. When the operating environment improves, more time will be devoted to capturing growth in a responsible way. Irrespective of the environment, Erste Group should benefit materially from operating in the region of Europe that offers the best structural growth opportunities for some time to come.

## Erste Group's strategy

| Customer banking in Central and Eastern Europe | | | | |
|---|---|---|---|---|
| Eastern part of the EU | | Focus on CEE, limited exposure to other Europe | | |
| **Retail banking** | **SME/Corporate banking** | **Capital markets** | **Public sector** | **Interbank business** |
| Focus on local currency mortgage and consumer loans funded by local deposits<br><br>FX loans (in Euro) only where funded by local FX deposits (Croatia and Serbia)<br><br>Savings products, asset management and pension products<br><br>Expansion of digital banking offering | SME and local corporate banking<br><br>Advisory services, with focus on providing access to capital markets and corporate finance<br><br>Real estate business that goes beyond financing | Focus on customer business, incl. customer-based trading activities<br><br>In addition to core markets, presences in Poland, Germany and London with institutional client focus and selected product mix<br><br>Building debt and equity capital markets in CEE | Financing sovereigns and municipalities with focus on infrastructure development in core markets<br><br>Any sovereign holdings are held for market-making, liquidity or balance sheet management reasons | Focus on banks that operate in the core markets<br><br>Any bank exposure is only held for liquidity or balance sheet management reasons or to support client business |

## THE STRATEGY IN DETAIL

The basis of Erste Group's banking operations is the retail and corporate customer business in the eastern part of the European Union, including Austria. The capital markets and interbank activities as well as the public sector business are defined more broadly to be able to meet the bank's customer needs as effectively as possible.

### Retail business

Erste Group's key business is the retail business, covering the entire spectrum from lending, deposit and investment products to current accounts and credit cards. Erste Group's core competence in retail banking has historical roots. In 1819, wealthy Viennese citizens donated funds to establish Erste Group's predecessor, the first savings bank in Central Europe. It was their aim to bring basic banking services such as safe savings accounts and mortgage loans to wide sections of the population. Today, the bank serves a total of more than 16 million customers in its markets and operates almost 2,500 branches. Wealthy private clients, trusts and foundations are served by the bank's private banking staff and benefit from services that are tailored to the needs of this target group.

In addition, the bank uses and promotes digital distribution channels such as internet and mobile banking as Erste Group is convinced that the importance of digital banking will further increase and will substantially change the future of retail business. This has already become visible through the activities of fintech companies, which offer financial services online and typically operate without a banking licence. George, Erste Group's digital platform, is already available in Austria, the Czech Republic, Slovakia and Romania, and it will be rolled out successively in all of the other core markets.

Retail banking is attractive to Erste Group for a number of reasons: It offers a compelling business case that is built on market leadership, an attractive risk-reward profile and the principle of self-funding. In addition, it benefits from a comprehensive range of products that are simple and easy to understand and provide substantial cross-selling potential. Erste Group takes advantage of these factors in all core markets and makes best use of its resulting position of strength by pursuing an omni-channel strategy. In addition to the expansion of digital sales channels, the branch network remains an important component of the business strategy. Only a retail bank that offers modern digital services and operates an extensive distribution network is able to fund loans in local currency mainly from deposits made in the same currency. In short, Erste Group's retail banking model supports sustainable and deposit-funded growth even in economically more challenging times. Another positive factor is the diversification of the retail business across countries that are at differing stages of economic development, such as Austria, the Czech Republic, Romania, Slovakia, Hungary, Croatia and Serbia.

### Corporate business

The second main business line, which also contributes significantly to Erste Group's earnings, is the business with small and medium-sized enterprises, regional and multi-national groups and real estate companies. Erste Group's goal is to enhance relationships with its clients beyond pure lending business. Specifically, the bank's goal is for SMEs and large corporate customers to choose Erste Group as their principal bank and also route their payment transfers through the Group's banking entities and, in fact, regard Erste Group as their first point of contact for any kind of banking service.

Catering to their different requirements, Erste Group serves small and medium-sized enterprises locally in branches or separate commercial centres, while multinational groups are serviced by the Group Corporates' units. This approach permits Erste Group to combine industry-specific and product expertise with an understanding of regional needs and the experience of the bank's local customer relationship managers. In view of the regulatory interventions, advising and supporting corporate customers in capital market transactions is becoming increasingly important.

### Capital markets business

Client-driven capital markets activities are also part of the comprehensive portfolio of products and services that Erste Group offers to its retail and corporate customers. The strategic significance of the bank's centrally governed and locally rooted capital markets operations consists in supporting all other business areas in their dealings with the capital markets and, hence, in providing the bank's customers with professional access to the financial markets. Erste Group, therefore, views its capital markets business as a link between financial markets and its customers. As a key capital markets player in the region, Erste Group also performs important functions such as market-making, capital market research and product structuring.

The capital markets business serves the needs of Erste Group's retail and corporate customers as well as those of government entities and financial institutions. Due to Erste Group's strong network in the eastern part of the European Union, the bank has a thorough understanding of local markets and customer needs. In Erste Group's capital markets business, too, the bank concentrates on core markets of the retail, SME and large corporate business: Austria, the Czech Republic, Slovakia, Romania, Hungary, Croatia and Serbia. For institutional customers, specialised teams have been established in Germany and Poland as well as in London, Hong Kong and New York that offer these customers a tailor-made range of products.

In many countries where Erste Group operates, the local capital markets are not yet as highly developed as in Western Europe or in the United States of America. That means Erste Group's banking subsidiaries are pioneers in some of these markets. Therefore, building more efficient capital markets in the region is another strategic objective of Erste Group's capital markets activities.

### Public sector business

Solid deposit business is one of the key pillars of Erste Group's business model. Customer deposits surpass lending volume in many of its geographic markets. Erste Group's banking entities make a significant part of this liquidity available as financing to the region's public sector entities. In this way, the bank facilitates essential public sector investment. Erste Group's public sector customers are primarily municipalities, regional entities and sovereigns that the bank additionally supports and advises in capital market issuance, infrastructure financing and project financing. Furthermore, Erste Group cooperates with supranational institutions. In terms of sovereign bond investments, Erste Group is equally focusing on Central and Eastern Europe. Adequate transport and energy infrastructure and municipal services are absolute key prerequisites for sustainable economic growth in the long term. Therefore, Erste Group views infrastructure finance and all associated financial services to be of extreme importance. Between 2014 and 2020, the European Union has earmarked about EUR 90 billion from structural and investment funds for the Czech Republic, Slovakia, Croatia, Hungary and Romania: This is one quarter of the total allocation under the European Union's cohesion policy. In this context, Erste Group's commitment to infrastructure development in Romania is to be highlighted. The Romanian subsidiary Banca Comercială Română supports investment in essential infrastructure by funding key companies in all sectors.

### Interbank business

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

## REGULATORY CHANGES IN BANKING

In recent years, regulation of the financial sector has been tightened substantially to strengthen the resilience of banks and prevent or at least minimise the adverse impact of any new crises on economies and market participants. The ultimate aim of these reforms has been to largely rule out reliance on state guarantees and taxpayers' money to absorb banks' losses.

A banking union has been established as a regulatory framework consisting of a European banking supervision mechanism, a banking resolution mechanism and common standards for deposit insurance. Implementing the requirements defined by the Basel Committee on Banking Supervision, the European Commission released in November 2016 a proposal for a comprehensive review of the Capital Requirements Directive (CRD IV) and the Capital Requirements Regulation (CRR) as well as of the EU's Bank Recovery and Resolution Directive (BRRD) and the Single Resolution Mechanism (SRM) Regulation. It is expected that the final texts will be published in the Official Journal of the European Union in the first half of 2019.

At the beginning of December 2017, the Basel Committee on Banking Supervision presented the final part of the Basel 3 reform package, which is designed to achieve a transparent and comparable calculation of the capital requirements of each institution. The standardised approaches for the individual risk categories have been revised, and the use of internal models for calculating capital requirements will be restricted in the future. An output floor has been introduced to ensure that banks' calculations of risk-weighted assets (RWAs) generated by internal models cannot, in aggregate, fall below a certain percentage threshold of the risk-weighted assets computed by the standardised approaches; the output floor will be gradually raised to 72.5%. The use of internal models for calculating operational risks will no longer be permitted. The package is scheduled for implementation in the EU by 1 January 2022 and will be fully applicable after a transition period of up to five years. In January 2019, the Basel Committee released the revised version of the new market risk standard (Fundamental Review of the Trading Book). This standard must likewise be implemented by 1 January 2022. The European Single Resolution Board (SRB) is working on developing resolution plans and defining resolution strategies for significant institutions. For Erste Group Bank AG, a specific MREL (minimum requirement for own funds and eligible liabilities) was not yet defined in 2018. As of 1 July 2018, the Payment Services Act 2018 (Zahlungsdienstegesetz 2018, ZaDiG) entered into force in Austria, transposing the revised Payment Services Directive (PSD 2) into Austrian law. ZaDiG 2018 adds payment initiation and account information services to the scope of e-commerce payment services. Another key objective of ZaDiG 2018 is the security of electronic payments. Especially when payments are made via the internet, strong customer authentication is required, based on the use of two or more elements categorised as knowledge (something only the user knows), possession (something only the user possesses) and inherence (something only the user is). As a consequence, the customer's identity must be verified by a combination of features (e.g. password and fingerprint). Under PSD 2 rules, an 18-month transition period is provided for payment initiation and account information services as well as for strong customer authentication, starting from the entry into force of the European Commission's related delegated act.

The amendments to the Capital Market Act (Kapitalmarktgesetz, KMG) and to the Alternative Financing Act (Alternativfinanzierungsgesetz, AltFG) basically cover information duties that issuers have towards the investing public under KMG or AltFG. Apart from applicable threshold values, there is no longer any differentiation between KMG and AltFG. Therefore, under AltFG, even non-SMEs may launch issues (change of personal scope of application), and all types of securities and investments may now be issued (change of substantive scope). The amendment to KMG serves the purpose of incorporating part of Regulation (EU) 2017/1129, the Prospectus Regulation, which is why it entered into force retroactively as of 21 July 2018. The amendment to AltFG entered into force on 1 September 2018.

After the amendments to the Banking Act and the Financial Market Authority Act that entered into force in the course of 2018, 2019 will see a significant reform of the Austrian supervisory architecture. In accordance with a ministerial proposal released in November 2018, all supervisory functions are to be concentrated at the Financial Market Authority (FMA), with the authority to monitor financial market stability to remain with the Austrian National Bank (OeNB). Implementation of the organisational changes at the FMA, the OeNB and the Federal Ministry of Finance (BMF) is to be completed by year-end 2019. Among other things, the reform of the Banking Act that entered into force in January 2018 stipulates rules governing the outsourcing of banks' key operational activities and a related notification requirement and grants some regulatory relief to smaller credit institutions with regard to the creation of supervisory board committees. As part of another amendment to the Banking Act implementing EBA guidelines in September 2018, strict independence criteria were introduced for supervisory board members as well as the obligation to create a regulatory compliance function at institutions of significant importance.

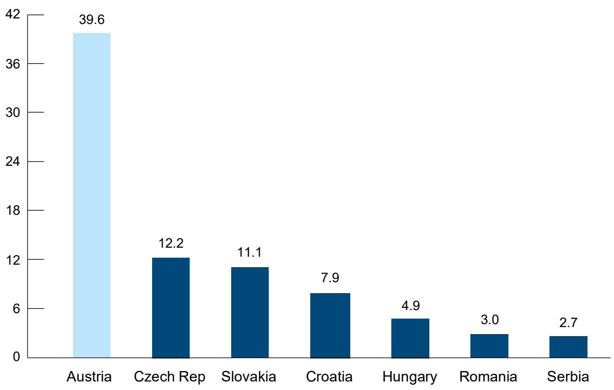
To strengthen the Austrian banking industry, the FMA had already introduced, by way of ordinance (capital buffer ordinance), a systemic risk buffer for a number of Austrian credit institutions and a buffer for other systemically important institutions (O-SIIs) in December 2015. For Erste Group, the buffer amounts to 1% of RWAs as of 1 January 2018 and will be increased to 2% by 1 January 2019. The FMA's amendment to the capital buffer ordinance, which took effect on 1 January 2018, implemented a recommendation of the Financial Market Stability Board. Under the amendment, seven credit institutions, including Erste Group Bank AG, are required to hold systemic risk buffers also at single-entity level.

## LONG-TERM GROWTH TRENDS IN CENTRAL AND EASTERN EUROPE

The economic catch-up process across the countries of Central and Eastern Europe and the underlying convergence trend continues. This is on the one hand due to the fact that the region has to make up for almost half a century of communist mismanagement of the economy, and on the other hand, due to the fact that banking activities were largely non-existent during that time. With the exception of deposit-taking, modern banking services were largely unknown in these countries after the fall of communism. On the lending side, this was due to high nominal and real interest rates and also to disposable incomes that did not support household credit growth. In addition, a healthy competitive environment was lacking due to extensive state ownership. All this has changed. Disposable income has risen strongly on the back of growing gross domestic products. Most formerly state-owned banks have been sold to strategic investors that have fostered product innovation and competition. Economic growth, which temporarily declined substantially in some countries in CEE following the economic and financial crisis, recovered again. Despite such economic slowdowns and potential temporary negative impacts on the banking markets in Central and Eastern Europe, these factors will remain the driving force behind future development.

In addition, most countries of Central and Eastern Europe have human resources that are at least equivalent to those of Western European countries but do not need to struggle with the unaffordable costs in the long term of the western welfare states and have labour markets that are considerably more flexible. These advantages are complemented by – on average – highly competitive export industries that benefit from wage costs that are low relative to workforce productivity and from investor-friendly tax and welfare systems. A comparison of per capita private debt levels in Central and Eastern Europe with those of advanced economies reveals that even today an enormous gap exists between these markets. Countries such as the Czech Republic and Slovakia, but also Croatia and Hungary, are many years away from reaching Austrian or Western European levels of loans per capita; also in relative terms, these countries differ substantially regarding debt levels common in the West. The contrast to Serbia or Romania is even more pronounced – private debt levels, and particularly household debt, are substantially lower than in the advanced economies. Even though the developments of very recent years will probably lead to a reassessment of what constitutes acceptable debt levels and to only a gradual rise in lending in Central and Eastern Europe, Erste Group still firmly believes that credit expansion accompanied by economic growth in this region will prove to be a lasting trend rather than a short-term process that has already peaked.

**Customer loans/capita in CEE (2018) in EUR thousand**




Source: Local central banks, Erste Group

Over the upcoming 15 to 20 years, on average, the countries of the eastern part of the European Union are therefore expected to experience higher growth rates than the countries of Western Europe, even though periods of expansion may alternate with times of economic stagnation or even setbacks on this long-term path of sustainable growth.

# Financial and operating performance

## ECONOMIC ENVIRONMENT

In 2018, global economic developments were characterised by diverging monetary policies among the world's major central banks, trade disputes between the United States and its key trading partners, unresolved negotiations about the United Kingdom's withdrawal from the European Union, US sanctions against emerging countries such as Russia and Iran, and last but not least Italy's budget dispute with the European Union. Economic activity in advanced economies remained solid, with the United States outperforming both the euro zone and Japan. Although growth in Japan slightly decelerated in 2018, overall economic conditions remained favourable as the country benefitted from its lowest unemployment rate since the 1990s. Economic activity in emerging markets continued to show significant divergence across countries and regions. Growth in several emerging markets outside Asia, such as South Africa, Mexico, and Argentina fell short of expectation due to macroeconomic imbalances, domestic policy uncertainty and geopolitical developments. Argentina and Turkey were also impacted by currency turmoil and financial market weaknesses. By contrast, commodity-exporting countries, like Russia, benefitted from higher average oil prices, which boosted exports and improved current account balances and fiscal positions. China and India again outperformed other emerging markets due to their robust private consumption and firm investment activity. Within Europe, the Central and Eastern European (CEE) countries again outperformed the euro zone in terms of GDP growth, mainly driven by a robust domestic demand.

Among major central banks, policies continued to diverge. While the Swiss National Bank, the European Central Bank (ECB) and the Bank of Japan left key interest rates unchanged throughout the year, the Bank of England and the Federal Reserve (Fed) increased their key rates in by 0.25% and by 1.00%, respectively in 2018. Overall, global economic growth continued with 3.7%, in 2018.

The United States' economy continued its good performance. Economic growth was significantly supported by an increased consumer and public spending and a strong labour market as well as the initial impact of personal income tax cuts. In addition, exports performed better than expected and also contributed to economic growth. Employment growth continued to strengthen, pushing the unemployment rate below 4%. The budgetary impact of the fiscal stimulus, however, led to falling revenues and a deterioration in the fiscal position. Inflation increased mainly on the back of rising energy prices and higher wages, which led to core inflation hitting the Fed's 2% target for the first time since 2012. Based on the strong economic performance, the Fed decided to raise its key rate in four steps by 100 basis points, to 2.50% during the year. Overall, the US economy grew by 2.9% in 2018.

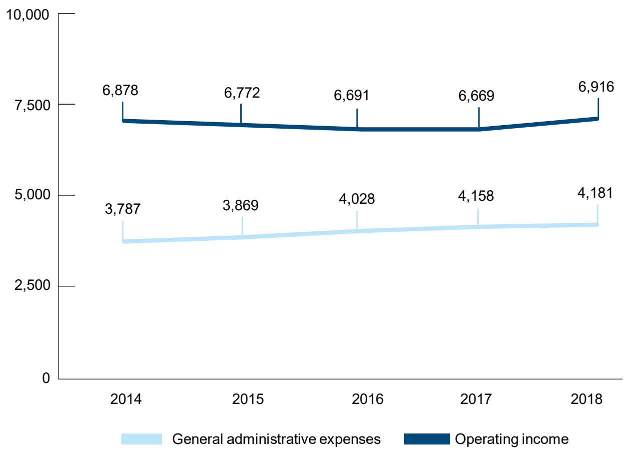
Economic growth in the euro zone slowed down after having grown at its fastest pace a year ago. This was mainly due to the weaker performance of exports, which were impacted by the decline in global trade activity. In addition, several domestic factors, such as strikes, extraordinary weather conditions, and higher tax burdens for consumers, weighed on growth in some member states. Domestic demand and investment activity, on the other hand, remained supportive of growth. Despite the slower pace of economic growth, labour market conditions in the euro area continued to improve, with employment having risen steadily throughout the year. Unemployment fell to the lowest level since 2008; however, it still varied substantially among the member states, with southern countries having significantly higher rates than those in the north. When looking at the bigger economies of the euro zone, Germany and Spain again outperformed France and Italy, and Italy's rising indebtedness led to a reduction of the country's credit ratings. The continued negotiations regarding the United Kingdom exiting the European Union did not significantly impact economic performance. Inflation rose slightly in the euro area, driven mainly by rising average energy prices. Despite higher wage growth, core inflation was rather muted throughout the year. The ECB maintained its expansionary monetary policy by keeping the base rate unchanged. In June 2018, the ECB announced to end its asset purchase programme by cutting its monthly asset purchases in half after September and phase them out entirely by the end of the year. Overall, similarly to the previous year, all euro zone member states saw growing economies in 2018 with an average real GDP growth of 1.8%.

The Austrian economy performed well with real GDP growth of 2.7%, the highest in seven years. With EUR 44,000 GDP per capita, Austria remained one of the most prosperous economies in the euro zone, characterised by its well-educated workforce, stable institutional framework and strong international competitiveness. Economic growth was supported by all GDP components, with domestic demand, particularly consumer spending, having been exceptionally strong. Growth in investment spending remained robust, and exports to almost all important trade destinations accelerated significantly. In addition, the traditionally strong service and tourism sectors continued to perform well. Austria also benefitted from the strong economic performance of Central and Eastern Europe. The favourable economic performance led to a significant decline of the unemployment rate, which dropped below 5% for the first time since 2012. Average consumer prices remained well under control, with an increase of the inflation rate of 2.0%. The favourable economic performance led to a further improvement of the general government deficit to 0.3%. Public debt as a percentage of GDP decreased further to 74.2% (2017: 78.3%).

The economies of Central and Eastern Europe continued their robust performance and again outperformed the euro zone. Within the CEE countries, Poland, Hungary and the Czech Republic performed particularly well, and the rising convergence was demonstrated by significant wage inflation across the region. Although investments and exports also contributed to growth, household consumption remained the main economic driver following higher wages and growing employment levels. In addition, European Union fund absorption rates improved further.

The automobile industry, which was one of the main contributors to exports, again supported the Czech, Slovak, Romanian and Hungarian economies. Unemployment rates in the region declined further. The Czech Republic and Hungary were among the countries showing the lowest unemployment rates in the European Union. Although average consumer prices increased in most CEE countries, inflation remained well under control. CEE currencies remained relatively stable against the euro throughout the year. Among the region's central banks, policies continued to diverge. While the Czech Republic and Romania increased their key rates several times, other central banks kept the base rates at historic low levels. In addition, public deficits in the region remained low. While the underlying convergence trend continues, there are significant differences between the countries in the region. Standard & Poor's, for instance, rates the Czech Republic's long-term credit worthiness at AA- and that of Serbia at BB. Overall, CEE economies grew in 2018. CEE economies grew in 2018, between 4.8% in Hungary and 2.8% in Croatia.

**Operating income and operating expenses in EUR million**




## PERFORMANCE IN 2018

P&L data of 2018 is compared with data of 2017, balance sheet data as of 31 December 2018 is compared to data as of 31 December 2017.

### Overview

**Net interest income** increased – mainly in the Czech Republic and in Romania, but also in Austria – to EUR 4,582.0 million (EUR 4,353.2 million). **Net fee and commission income** rose to EUR 1,908.4 million (EUR 1,851.6 million), primarily on the back of significantly higher income from payment services and asset management Income from the securities business, from asset management and from brokerage was up substantially, while income from the lending business declined. While **net trading** result was down at EUR -1.7 million (EUR 222.8 million), the line item **gains/losses from financial instruments measured at fair value through profit or loss** improved to EUR 195.4 million (EUR -12.3 million). **Operating income** rose to EUR 6,915.6 million (EUR 6,669.0 million).

**General administrative expenses** were nearly stable at EUR 4,181.1 million (EUR 4,158.2 million). This was mostly attributable to the reduction of other administrative expenses to EUR 1,234.9 million (EUR 1,309.6 million). Payments to deposit insurance systems included in this line item amounted to EUR 88.6 million (EUR 82.8 million). This reduction almost fully compensated the rise in personnel expenses to EUR 2,474.2 million (EUR 2,388.6 million) and in depreciation and amortisation. Overall, the **operating result** improved to EUR 2,734.6 million (EUR 2,510.8 million). The **cost/income ratio** improved to 60.5% (62.4%).

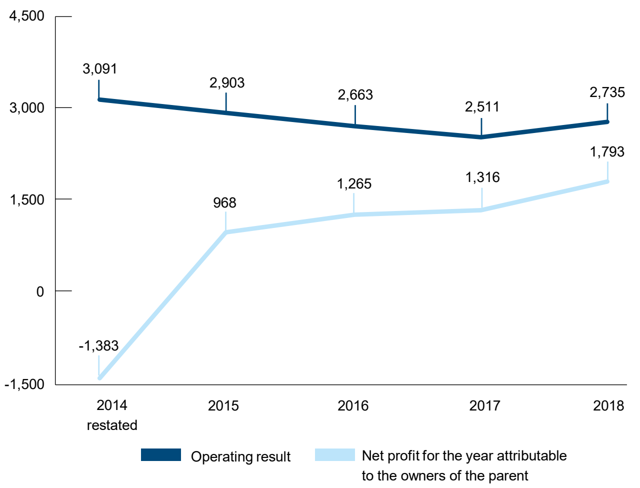
**Net impairment loss on financial assets** amounted to EUR 59.3 million due to net releases on the back of improved asset quality (net allocations of EUR 132.0 million). This was attributable to the substantial improvement in net allocations to risk provisions for the lending business across almost all segments, most notably in Croatia and Austria. The **NPL ratio** based on gross customer loans (see glossary for definition) improved again to 3.2% (4.0%). The **NPL coverage ratio** (see glossary for definition) rose to 73.0% (68.8%).

**Other operating result** improved to EUR -304.5 million (EUR -457.4 million). It included expenses for the annual contributions to resolution funds in the amount of EUR 70.3 million (EUR 65.8 million). Banking and transaction taxes increased to EUR 112.2 million (EUR 105.7 million). Other taxes were positive at EUR 1.0 million (EUR -37.7 million) due to one-off effects. In the financial year 2017, other operating result had included EUR 45.0 million in provisions for losses from loans to consumers resulting from supreme court rulings regarding negative reference interest rates in Austria.

Taxes on income decreased significantly to EUR 332.4 million (EUR 410.1 million) as deferred tax assets were recognised, resulting in deferred tax income.

The minority charge increased to EUR 369.1 million (EUR 351.5 million). The **net result attributable to owners of the parent** rose to EUR 1,793.4 million (EUR 1.316.2 million).

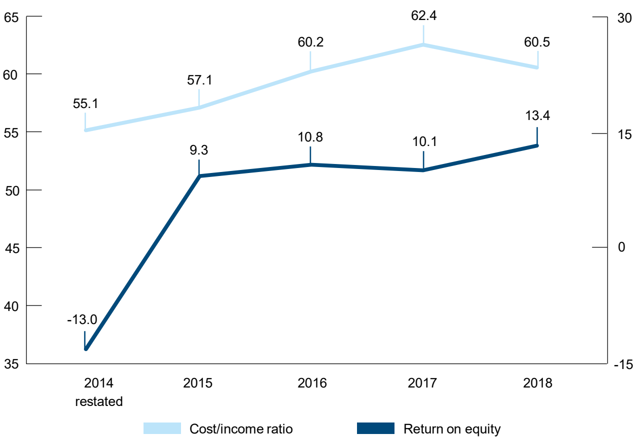
**Operating result and net profit/loss for the year attributable to owners of the parent in EUR million**




**Cash earnings per share** (see glossary for definition) amounted to EUR 4.04 (reported EPS: EUR 4.02) versus EUR 2.96 (reported EPS: 2.94) in the previous year.

**Cash return on equity** (see glossary for definition), i.e. return on equity adjusted for non-cash expenses such as goodwill impairment and straight-line amortisation of customer relationships, stood at 13.5% (reported ROE: 13.4%) versus 10.2% (reported ROE: 10.1%) in the previous year.

**Key profitability ratios in %**




**Total assets** were up at EUR 236.8 billion (EUR 220.7 billion). On the asset side, cash and cash balances decreased to EUR 17.5 billion (EUR 21.8 billion), while loans and advances to credit institutions increased to EUR 19.1 billion (EUR 9.1 billion). **Loans and advances to customers** rose to EUR 149.3 billion (EUR 139.5 billion). On the liability side, deposits from banks increased to EUR 17.7 billion (EUR 16.3 billion), and **customer deposits** grew again – in all core markets – to EUR 162.6 billion (EUR 151.0 billion). The **loan-to-deposit ratio** stood at 91.8% (92.4%).

The **common equity tier 1 ratio** (CET1, CRR; see glossary for definition) remained stable at 13.5% (13.4%), the **total capital ratio** (CRR; see glossary for definition) at 18.2% (18.5%).

## Dividend

A dividend distribution of EUR 1.40 per share will be proposed at the annual general meeting (2017: EUR 1.20 per share).

## Outlook

Erste Group targets a return on tangible equity (ROTE) of above 11% in 2019. The expected solid macro-economic development in the core markets Czech Republic, Slovakia, Hungary, Romania, Croatia, Serbia and Austria, compared to 2018 only moderately rising interest rate levels in several of our markets and still historically low risk costs should be supportive factors to achieve this target. On the other hand, a global or regional slowdown of economic growth as well as potential – and as yet unquantifiable – political or regulatory risks might jeopardize achieving the target.

In 2019, the positive development of the economy should be reflected in growth rates (real GDP growth) of around 3% in Erste Group's CEE core markets. All other economic parameters are currently expected to be similarly robust. Unemployment rates should remain at historic lows – in the Czech Republic and in Hungary, they are already among the lowest in the EU. Inflation is forecast to remain broadly stable. Strong competitive positions should again lead to current account surpluses in most countries. The fiscal situation and public debt levels are also projected to remain sound. Austria should see continued dynamic economic growth at a rate of above 2%. Overall, growth continues to be driven by domestic demand across all economies. The contribution of exports is forecast as neutral.

Against this backdrop, Erste Group expects mid-single digit net loan growth. Net interest income should thus increase further in 2019. The second key income component, net fee and commission income, is also expected to rise moderately. As in 2018, some positive momentum should again come from fund management and payment services. The other income components are expected to remain stable, by and large, despite the volatility of the net trading and fair value results. Consequently, operating income should continue to grow in 2019. Operating expenses are expected to rise in 2019, albeit not to the same extent as operating income, mostly due to anticipated further wage increases in all core markets of Erste Group. However, Erste Group will continue to invest in digitalisation, and thereby its future competitiveness, in 2019. The focus will be on product simplification, process standardisation as well as the group-wide implementation and expansion of the digital platform George. The roll-out of George will continue in Hungary and Croatia in 2019. Overall, the operating result is projected to rise in 2019.

Risk costs should remain low in 2019. Amid a stable low interest rate environment, risk costs should go up only slightly. Further improvements in asset quality, however, should have a dampening effect. Overall, Erste Group does not expect a recurrence of the historically low risk cost level of 2018. While precise forecasts are difficult in the current environment, Erste Group projects for 2019 risk costs of 10 to 20 basis points of average gross customer loans.

The Romanian banking tax will have a negative impact on other operating result in 2019, even though the magnitude remains as yet unclear.

Assuming a tax rate of below 20% and a similar level of minority charges, Erste Group aims to achieve a return on tangible equity (ROTE) of above 11%.

Due to its limited presence in the United Kingdom, Erste Group does not anticipate any material impact from Brexit at the current time. Potential risks to the guidance are interest rate trends that differ from expectations, political or regulatory measures targeting banks as well as geopolitical and global economic developments.

## ANALYSIS OF PERFORMANCE

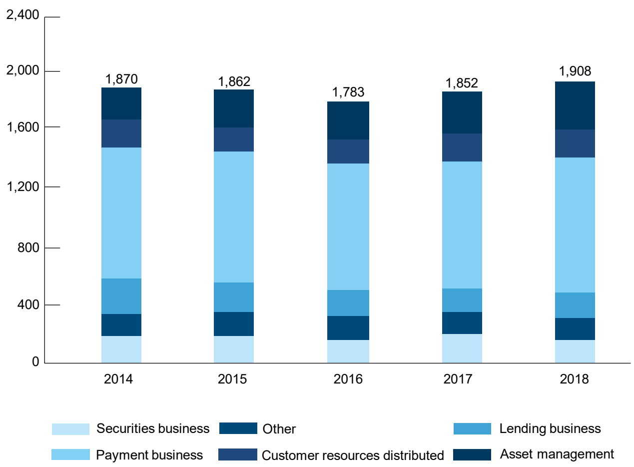
### Net interest income

Net interest income rose to EUR 4,582.0 million (EUR 4,353.2 million). The marked increase in the Czech Republic was attributable to the rising interest rate environment and robust growth in lending to customers. A significant rise in net interest income was also posted in Romania driven by higher market interest rates and in Austria on the back of stronger loan growth. In all other core markets interest income was largely stable. As interest-bearing assets, not least because of the doubling of interbank assets, rose faster than net interest income, the net interest margin (net interest income as a percentage of average interest-bearing assets) narrowed to 2.3% (2.4%).

### Net fee and commission income

Net fee and commission income increased to EUR 1,908.4 million (EUR 1,851.6 million). Solid rises were seen in Austria, specifically in income from payment services, asset management and lending. In Slovakia, income from brokerage commissions was increased significantly. There was also a solid rise in Hungary, while net fee and commission income was largely stable in all other markets.

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



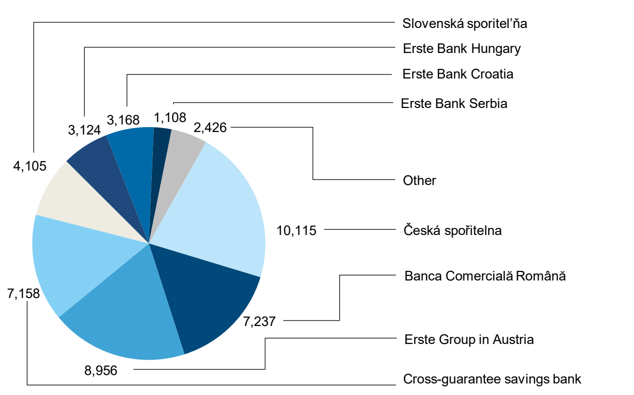

### Net trading result& gains/losses from financial instruments measured at fair value through profit or loss

Net trading result declined substantially to EUR -1.7 million (EUR 222.8 million), due mostly to negative contributions from securities and derivatives trading. On the other hand, gains/losses from financial instruments measured at fair value through profit or loss amounted to EUR 195.4 million (EUR 12.3 million) on the back of positive valuation effects.

### General administrative expenses

General administrative expenses amounted to EUR 4,181.1 million (EUR 4,158.2 million).

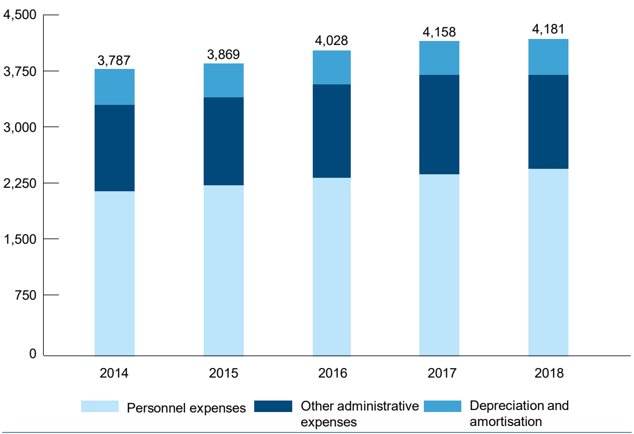
**Employees as of 31 December 2018**




The number of employees is based on full-time equivalents. The data regarding subsidiaries in CEE refers to partial groups.

**Personnel expenses** increased – mainly in Austria – to EUR 2,474.2 million (EUR 2,388.6 million), while **other administrative expenses** were reduced to EUR 1,234.9 million (EUR 1,309.6 million). Contributions to deposit insurance funds increased to EUR 88.6 million (EUR 82.8 million) on the back of continued strong deposit growth. This development was particularly visible in Austria, with expenses rising to EUR 51.2 million (EUR 48.7 million), while in all other core markets contributions were up to a lesser extent. **Depreciation and amortisation** increased to EUR 472.0 million (EUR 460.0 million).

**General administrative expenses, structure and trend, in EUR million**




## Operating result

Operating income rose to EUR 6,915.6 million (EUR 6,669.0 million) on the back of improved net interest and net fee and commission income. General administrative expenses were nearly stable at EUR 4,181.1 million (EUR 4,158.2 million) as the reduction of other administrative expenses offset the increase in personnel expenses and higher depreciation and amortisation. The operating result improved to EUR 2,734.6 million (EUR 2,510.8 million). The cost/income ratio improved likewise to 60.5% (62.4%).

## Gains/losses from derecognition of financial instruments not measured at fair value through profit or loss

Gains from derecognition of financial instruments not measured at fair value through profit or loss (net) amounted to EUR 5.7 million (EUR 156.4 million). This item includes primarily gains from the sale of securities in Austria and Croatia.

## Impairment result from financial instruments

Due to net releases, the impairment result from financial instruments amounted to EUR 59.3 million (net allocations of EUR 132.0 million) and thus remained at a historically benign level. This was mostly attributable to the improvement in net allocations to risk provisions for the lending business, which offset the decline in income received from the recovery of loans already written off. From 1 January 2018, this line item also reflects the balance of allocations/releases for commitments and guarantees given in the amount of EUR 6.6 million (previously shown in the line item other operating result).

## Other operating result

Other operating result improved to EUR -304.5 million (EUR -457.4 million). **Levies on banking** activities rose to EUR 112.2 million (EUR 105.7 million). While levies payable in Austria were unchanged at EUR 23.0 million (EUR 23.0 million), banking tax in Slovakia rose to EUR 30.3 million (EUR 27.4 million). Hungarian banking tax amounted to EUR 13.5 million (EUR 12.8 million). Including financial transaction tax of EUR 45.4 million (EUR 42.4 million), bank levies in Hungary totalled EUR 58.9 million (EUR 55.3 million). Allocation/release of other provisions improved to EUR 13.3 million (EUR 133.7 million). In the comparative period, this line item had included EUR 45.0 million in provisions for losses from loans to consumers resulting from supreme court rulings regarding negative reference interest rates in Austria. In addition, other operating result also reflects the annual contributions to resolution funds in the amount of EUR 70.3 million (EUR 65.8 million). In Austria, contributions increased to EUR 36.7 million (EUR 26.7 million), but declined in Romania to EUR 5.5 million (EUR 14.3 million).

## Profit/loss for the year

The pre-tax result from continuing operations amounted to EUR 2,495.0 million (EUR 2,077.8 million). Taxes on income decreased significantly to EUR 332.4 million (EUR 410.1 million) as deferred tax assets were recognised, resulting in deferred tax income. The minority charge rose to EUR 369.1 million (EUR 351.5 million). The net result attributable to owners of the parent improved to EUR 1,793.4 million (EUR 1,316.2 million).

## Tax situation

Pursuant to section 9 of the Austrian Corporate Tax Act ("KStG"), Erste Group Bank AG and its main domestic subsidiaries constitute a tax group. Due to the high proportion of tax-exempt income – particularly income from participating interests – and tax payments for the permanent establishments abroad, no Austrian corporate income tax was payable for the financial year 2018. The current tax loss carried forward increased in 2018. Taxes on income are made up of current taxes on income calculated in each of the Group companies based on the results reported for tax purposes, corrections to taxes on income for previous years, and the change in deferred taxes. The reported total income tax expense amounted to EUR 332.4 million (EUR 410.1 million).

## Balance sheet development

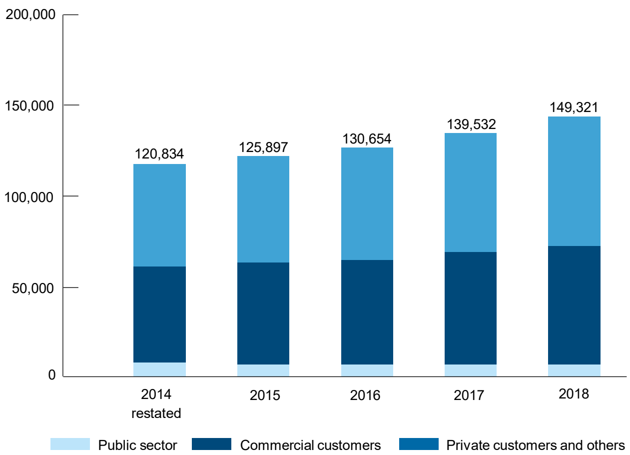
The decline in **cash and cash balances** to EUR 17.5 billion (EUR 21.8 billion) was primarily due to smaller cash balances held at central banks.

**Trading and investment securities** held in various categories of financial assets increased to EUR 43.9 billion (EUR 42.8 billion).

**Loans and receivables to credit institutions (net)**, including demand deposits other than overnight deposits, increased primarily in the Czech Republic and in the Holding to EUR 19.1 billion (EUR 9.1 billion).

**Loans and receivables to customers (net)** rose – mainly in the Czech Republic, but also in Austria and Slovakia – to EUR 149.3 billion (EUR 139.5 billion) driven by retail and corporate loan growth.

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




**Credit loss allowances for loans to customers** declined to EUR 3.6 billion (EUR 4.0 billion), mostly due to continuing asset quality improvement.

**Intangible assets** remained unchanged at EUR 1.5 billion (EUR 1.5 billion).

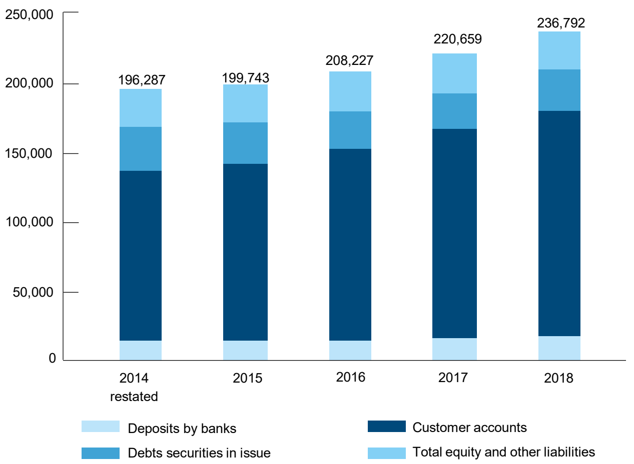
**Miscellaneous assets** amounted to EUR 5.4 billion (EUR 5.9 billion).

**Financial liabilities – held for trading** decreased to EUR 2.5 billion (EUR 3.4 billion).

**Deposits from banks**, primarily term deposits and overnight deposits, rose to EUR 17.7 billion (EUR 16.3 billion); **deposits from customers** increased to EUR 162.6 billion (EUR 151.0 billion), due to strong growth in overnight deposits in all markets. The **loan-to-deposit ratio** stood at 91.8% (92.4%).

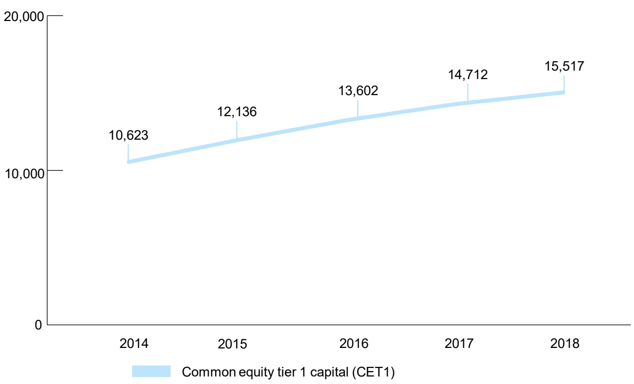
**Debt securities in issue** increased to EUR 29.7 billion (EUR 25.1 billion). **Miscellaneous liabilities** amounted to EUR 5.4 billion (EUR 6.5 billion).

### Balance sheet structure/liabilities and total equity in EUR million




**Total assets** grew to EUR 236.8 billion (EUR 220.7 billion). **Total equity** increased to EUR 18.9 billion (EUR 18.3 billion). Following two issuances in June 2016 and April 2017, this has included AT1 instruments in the amount of EUR 993 million. The transition to IFRS 9 as of 1 January 2018 resulted in a decline of Erste Group's total equity by EUR 0.7 billion due to the mandatory remeasurement of financial assets and the optional remeasurement of financial liabilities (own issues). After regulatory deductions and filtering according to the Capital Requirements Regulation (CRR), **common equity tier 1 capital** (CET1, CRR) rose to EUR 15.5 billion (EUR 14.7 billion). Total **own funds** (CRR) went up to EUR 20.9 billion (EUR 20.3 billion). Total risk **(risk-weighted assets)** including credit, market and operational risk, (CRR) increased to EUR 114.6 billion (EUR 110.0 billion).

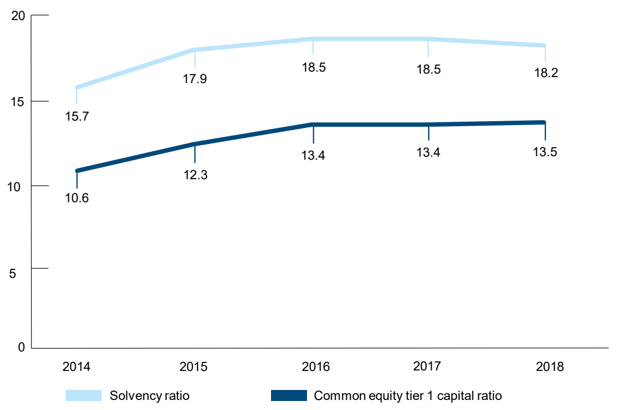
### Common equity tier 1 capital (CET1) according to CRR in EUR million



Consolidated regulatory capital is calculated in accordance with CRR taking into consideration transitional provisions as defined in the Austrian CRR Supplementary Regulation and Regulation (EU) 2016/445 of the European Central Bank on the exercise of options and discretions available in Union law. These transitional provisions define the percentages applicable to eligible capital instruments and regulatory deduction items as well as filters. The **total capital ratio** (CRR) total eligible qualifying capital in relation to total risk pursuant to CRR, was 18.2% (18.5%), well above the legal minimum requirement.

The **tier 1 ratio** (CRR) stood at 14.4% (14.0%), the **common equity tier 1 ratio** (CRR) at 13.5% (13.4%).

**Solvency ratio and common equity tier 1 capital ratio in %**



# Segments

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.

The tables and information below provide a brief overview and focus on selected and summarised items. For more details, please see Note 47. At www.erstegroup.com/investorrelations additional information is available in Excel format.

Operating income consists of net interest income, net fee and commission income, net trading result, gains/losses from financial instruments measured at fair value through profit or loss, dividend income, net result from equity method investments and rental income from investment properties & other operating leases. The latter three listed items are not disclosed in the tables below. Net trading result and gains/losses from financial instruments measured at fair value through profit or loss are summarised under one position. 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 impairment result from financial instruments. Impairments and provisions for commitments and guarantees given were part of other result in 2017 whereas in 2018 this line item is part of impairment result from financial instruments. Other result summarises the positions other operating result and gains/losses from financial instruments not measured at fair value through profit or loss, net. The cost/income ratio is calculated as operating expenses in relation to operating income. The return on allocated capital is defined as the net result after tax/before minorities in relation to the average allocated capital.

## Business segments


The **Retail** segment comprises 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.

The **Corporates** segment comprises business done 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 (SME) are clients that are under the responsibility of the local corporate commercial center network, mainly consisting of companies within defined annual turnover thresholds. Local Large Corporates (LLC) are clients with specific annual turnover thresholds (lying above SME thresholds) that are not defined as Group Large Corporate customers according to the Group Large Corporate client list. Group Large Corporates (GLC) are large corporate customers/client groups with substantial operations in core mar-kets/extended core markets of Erste Group. GLC clients are included on the GLC client list. Commercial Real Estate (CRE) covers, for example, investors in real estate for the purpose of generating income from the rental of individual properties or portfolios of properties, developers of individual properties or portfolios of properties for the purpose of generating capital gains through sale. Public Sector consists of three sets of customers: public sector, public corporations and non-profit sector. In addition, a majority of municipalities are also segmented as Public Sector clients.

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).

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 that comprise all non-core banking business activities, such as 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.

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.

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 (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.

## RETAIL

### Financial review

| in EUR million | 2017 | 2018 | Change |
|---|---|---|---|
| Net interest income | 2,155.7 | 2,267.5 | 5.2% |
| Net fee and commission income | 1,003.8 | 1,054.4 | 5.0% |
| Net trading result and gains/losses from financial instruments at FVPL | 114.0 | 116.3 | 2.0% |
| Operating income | 3,304.4 | 3,467.8 | 4.9% |
| Operating expenses | -1,995.8 | -2,030.9 | 1.8% |
| Operating result | 1,308.6 | 1,436.9 | 9.8% |
| Cost/income ratio | 60.4% | 58.6% | |
| Impairment result from financial instruments | 9.5 | -24.7 | n/a |
| Other result | -60.4 | -52.9 | -12.3% |
| Net result attributable to owners of the parent | 960.7 | 1,064.9 | 10.8% |
| Return on allocated capital | 40.5% | 35.2% | |

The increase in net interest income was driven by higher contributions from deposit business in Romania, the Czech Republic, Croatia, Slovakia and Austria as well as lending business in Croatia, Serbia and Austria. These positive developments were supported by CZK exchange rate appreciation and the higher interest rate environment in the Czech Republic and Romania. The result was negatively impacted by the change of disclosure for brokerage fee expenses in the building society. Net fee and commission income increased substantially mainly due to the shift of brokerage fee expenses to the line item net interest income in Austria as well as higher insurance and asset management fees in Slovakia and increased cards and account-related fees in Hungary. Due to higher foreign exchange income in Romania and Hungary, net trading result and gains/losses from financial instruments at FVPL improved. Operating expenses increased primarily due to higher costs in the Czech Republic driven by higher personnel expenses as well as the CZK appreciation and in Romania due to higher personnel and IT expenses. Costs in Croatia went up as well on the back of higher IT and personnel expenses. Operating result and the cost/income ratio improved. The deterioration in impairment result from financial instruments was driven primarily by higher portfolio provisioning in Romania and the Czech Republic, while risk costs in Slovakia and Serbia declined. Other result improved mainly due to release of provisions for litigation in Romania. Overall, the net result attributable to the owners of the parent increased.

### Credit risk

Credit risk exposure in the Retail segment rose strongly to EUR 66.2 billion (+10.9%). The customer loan portfolio increased to EUR 56.5 billion (EUR +7.2%). The share of the retail business in Erste Group's total customer loans was up marginally at 37.0% (36.7%). The collateralisation ratio, which reflects the ratio of collateral to loan volume, stood at 64.0% (63.0%). The quality of the retail customer loan portfolio improved again. Non-performing loans declined by EUR 132 million and, as a percentage of total retail customer loans, decreased to 2.8% (3.2%). In terms of the NPL ratio (non-performing loans as a percentage of total loans) the Retail segment thus continued to feature the highest quality of all business segments with a significant loan portfolio. After a change in the method used for allocating risk positions to risk categories, low-risk loans as a percentage of total retail customer loans amounted to 81.5% (86.3%). The NPL coverage ratio based on loan loss provisions rose to 84.0% (78.0%).

## CORPORATES

### Financial review

| in EUR million | 2017 | 2018 | Change |
|---|---|---|---|
| Net interest income | 993.9 | 1,032.2 | 3.9% |
| Net fee and commission income | 256.2 | 283.1 | 10.5% |
| Net trading result and gains/losses from financial instruments at FVPL | 93.4 | 88.2 | -5.5% |
| Operating income | 1,469.9 | 1,524.0 | 3.7% |
| Operating expenses | -577.0 | -572.3 | -0.8% |
| Operating result | 892.9 | 951.8 | 6.6% |
| Cost/income ratio | 39.3% | 37.5% | |
| Impairment result from financial instruments | -135.3 | 59.4 | n/a |
| Other result | -13.9 | 7.1 | n/a |
| Net result attributable to owners of the parent | 580.3 | 801.5 | 38.1% |
| Return on allocated capital | 18.8% | 21.0% | |

Net interest income increased primarily due to higher loan volumes and deposit margins in the Czech Republic, supported by CZK appreciation and a higher interest rate environment, as well as higher contribution of lending business in Slovakia and Erste Bank Oesterreich. These effects were partially offset by the lower contribution of lending business in the Holding. A better result from supply chain financing and higher documentary business fees in the Holding largely contributed to the increased net fee and commission income. Fee income in Slovakia and Romania increased as well. Net trading result and gains/losses from financial instruments at FVPL decreased as a result of positive valuation effects in 2017 of a portfolio migrated in 2018 from the corporate business to ALM in Erste Bank Oesterreich as well as higher income from hedging activities in the Czech Republic in 2017. Overall, operating income improved. Moderately reduced operating expenses further contributed to the improvement in operating result and the cost income ratio. The net release of risk provisions (line item impairment result from financial instruments) resulted from improved quality of the loan portfolio, lower default rates, higher recoveries as well as releases of specific provisions. The biggest improvement was posted in Croatia and Austria. Other result improved partly due to the changed off-balance risk provisions disclosure (allocations posted in 2017 were part of the line item other result). The net result attributable to the owners of the parent increased notably.

### Credit risk

Credit risk exposure in the Corporates segment rose to EUR 70.6 billion (+10.9%). At the same time, loans to customers increased to EUR 50.1 billion (+6.1%). As a percentage of Erste Group’s total loans to customers, they were nearly unchanged at 32.8% (32.9%). The difference between credit risk exposure and the customer loan portfolio in the Corporates segment is primarily due to a large volume of guarantees and unused loan commitments. Active management of non-performing loans by restructuring and write-downs again resulted in a significant improvement of asset quality in the Corporates segment. Sales of non-performing loans were at the level of 2017 and played a significantly lesser role than in previous years. The NPL ratio dropped substantially to 3.4% (4.9%). The NPL coverage ratio based on loan loss provisions rose to 73.0% (69.4%).

## GROUP MARKETS

### Financial review

| in EUR million | 2017 | 2018 | Change |
|---|---|---|---|
| Net interest income | 196.8 | 252.6 | 28.3% |
| Net fee and commission income | 223.0 | 226.5 | 1.6% |
| Net trading result and gains/losses from financial instruments at FVPL | 133.0 | 53.1 | -60.1% |
| Operating income | 554.1 | 533.7 | -3.7% |
| Operating expenses | -229.5 | -241.3 | 5.2% |
| Operating result | 324.6 | 292.4 | -9.9% |
| Cost/income ratio | 41.4% | 45.2% | |
| Impairment result from financial instruments | 3.6 | -0.4 | n/a |
| Other result | -11.5 | -21.3 | 84.5% |
| Net result attributable to owners of the parent | 245.7 | 215.7 | -12.2% |
| Return on allocated capital | 36.9% | 27.4% | |

Net interest income increased primarily due to the increased volumes of reverse repo business in the Czech Republic and Austria. Net fee and commission income rose mainly due to the higher asset management and depository services fees in the Czech Republic. Net trading result and gains/losses from financial instruments at FVPL decreased due to last year´s extraordinarily favourable market conditions for interest rate related products and lower valuation results of securities. Consequently, operating income declined. Operating expenses went up on the back of higher IT and project-related costs. Operating result thus declined, and the cost/income ratio deteriorated. Other result slipped primarily due to higher payments into resolution funds and banking taxes. Overall, the net result attributable to the owners of the parent decreased.

## ASSET/LIABILITY MANAGEMENT & LOCAL CORPORATE CENTER

### Financial review

| in EUR million | 2017 | 2018 | Change |
|---|---|---|---|
| Net interest income | -55.4 | -91.6 | 65.4% |
| Net fee and commission income | -87.4 | -102.8 | 17.7% |
| Net trading result and gains/losses from financial instruments at FVPL | -97.7 | -32.1 | -67.1% |
| Operating income | -191.2 | -178.5 | -6.6% |
| Operating expenses | -86.0 | -67.8 | -21.2% |
| Operating result | -277.2 | -246.3 | -11.1% |
| Cost/income ratio | -45.0% | -38.0% | |
| Impairment result from financial instruments | -8.3 | 12.4 | n/a |
| Other result | -142.9 | -131.2 | -8.1% |
| Net result attributable to owners of the parent | -359.3 | -289.1 | -19.5% |
| Return on allocated capital | -17.7% | -10.6% | |

Net interest income decreased primarily due lower contribution from balance sheet management in Romania, Croatia and the Holding that was partially compensated by increased interest rates in the Czech Republic. Net fee and commission income decreased mainly due to lower payment fees in Slovakia and Romania. Net trading result and gains/losses from financial instruments at FVPL improved due to valuation results in the Holding. Operating expenses declined due to a changed cost allocation in Erste Group Immorent, Erste Bank Oesterreich and Czech Republic, resulting in a shift to the Retail and Corporate Segments. Overall, operating result improved. Other result improved mainly due to releases of provisions for litigation in Erste Group Immorent. These effects were partially offset by the non-recurrence of the selling gains from bonds in the Czech Republic, Hungary and the Holding. The net result attributable to the owners of the parent improved.

## SAVINGS BANKS

### Financial review

| in EUR million | 2017 | 2018 | Change |
|---|---|---|---|
| Net interest income | 982.0 | 1,016.4 | 3.5% |
| Net fee and commission income | 446.2 | 459.8 | 3.0% |
| Net trading result and gains/losses from financial instruments at FVPL | 10.2 | -27.1 | n/a |
| Operating income | 1,492.9 | 1,497.4 | 0.3% |
| Operating expenses | -1,051.2 | -1,073.3 | 2.1% |
| Operating result | 441.7 | 424.1 | -4.0% |
| Cost/income ratio | 70.4% | 71.7% | |
| Impairment result from financial instruments | 12.6 | 19.8 | 57.5% |
| Other result | -38.0 | -4.5 | -88.1% |
| Net result attributable to owners of the parent | 51.9 | 53.6 | 3.1% |
| Return on allocated capital | 14.7% | 12.2% | |

The increase in net interest income was primarily attributable to higher customer loan volumes. Net fee and commission income increased on the back of higher lending and payment fees. The deterioration of net trading result and gains/losses from financial instruments at FVPL was driven by valuation effects. Operating expenses rose due to increased personnel expenses. Deposit insurance contributions amounted to EUR 27.9 million (EUR 27.0 million). Operating result thus decreased, and the cost/income ratio deteriorated. A higher net release of risk provisions was reflected in the impairment result from financial instruments. Other result improved due to the non-recurrence of the provisions for expected losses from customer loans due to supreme court rulings regarding negative interest reference rates in 2017 (EUR 31.3 million) as well as changed disclosure of provisions for off-balance exposure, which were partially offset by the non-recurrence of selling gains from bonds. Payments into the resolution fund increased to EUR 9.0 million (EUR 6.4 million). Banking tax amounted to EUR 4.0 million (EUR 4.4 million). Overall, the net result attributable to the owners of the parent increased.

### Credit risk

Credit risk exposure in the Savings Banks segment increased to EUR 63.5 billion (+10.1%), while loans to customers rose to EUR 44.6 billion (+6.0%). Their share in Erste Group's total customer loans was nearly unchanged at 29.2% (29.4%). Lending to private households showed above-average growth, raising its share in the Savings Banks' total customer loan portfolio to 39.0% (38.3%). Loans to professionals, other self-employed persons and small businesses stagnated at EUR 6.6 billion. At 14.8% (15.7%) of total loans, the share of this customer segment was again extraordinarily large and, most notably, significantly larger than at Erste Group's subsidiaries in Central and Eastern Europe. This reflects the structure of Austria's economy with a very high share of small and medium-sized enterprises compared with other countries. Swiss franc denominated foreign-currency loans declined further to EUR 2.0 billion (- 10.0%). The trend towards higher collateralisation of loans continued. Non-performing loans as a percentage of total loans to customers decreased to 3.6% (4.2%). The development was especially positive among corporate clients. The NPL coverage ratio based on loan loss provisions rose to 61.2% (58.3%).

## GROUP CORPORATE CENTER

### Financial Review

| in EUR million | 2017 | 2018 | Change |
|---|---|---|---|
| Net interest income | 74.9 | 77.9 | 4.0% |
| Net fee and commission income | 13.0 | -12.5 | n/a |
| Net trading result and gains/losses from financial instruments at FVPL | -41.5 | 39.9 | n/a |
| Operating income | 73.1 | 124.2 | 69.9% |
| Operating expenses | -996.4 | -980.4 | -1.6% |
| Operating result | -923.3 | -856.2 | -7.3% |
| Cost/income ratio | >100.0% | >100.0% | |
| Impairment result from financial instruments | -14.1 | -7.3 | -48.5% |
| Other result | 709.2 | 636.0 | -10.3% |
| Net result attributable to owners of the parent | -163.2 | -53.0 | -67.5% |
| Return on allocated capital | -2.0% | -0.8% | |

Operating income increased mainly due to improved net trading result and gains/losses from financial instruments measured at FVPL driven by positive valuation effects in the Holding. As operating expenses declined, operating result improved. Other result went down on the non-recurrence of last year's selling gains. Overall the net result attributable to the owners of the parent improved.

## Geographical segments

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 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 GmbH, Erste Asset Management GmbH and Intermarket Bank AG.

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

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

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

## Austria

### Economic review

Austria is a well-diversified, developed and open economy, benefitting from a high value adding industrial base, an educated workforce and a strong tourism and service sector. In 2018, economic growth was better than expected on the back of strong domestic demand, in particular exceptionally strong consumer spending. Growth in investment spending remained robust, and exports accelerated significantly. In addition, the service sector, in particular tourism, continued to perform well. With 150 million overnight stays, tourism reached a new record. The robust economic activity resulted in a decline of the unemployment rate to 4.9% and improved for the second consecutive year. In terms of GDP per capita, at EUR 44,000, Austria remained one of the wealthiest countries in the euro zone. Overall, real GDP grew by 2.7%.

The favourable economic performance led to a further improvement of the general government deficit to 0.3%. This positive development was mainly due to higher-than-expected revenues from personal and corporate income taxes. Government expenditure as a percentage of GDP fell in 2018, mainly due to declining interest payments and lower unemployment benefits. Public debt as a percentage of GDP also decreased further to 74.2%.

At 2.1%, average consumer price inflation remained well under control. Core inflation, which represents price development excluding food and energy prices, amounted to 1.8%. Public and private sector wages increased by 2.4%, resulting in real wage growth. The European Central Bank slightly moderated its extremely expansionary monetary policy by reducing bond purchases but at the same time leaving its key deposit interest rate in negative territory, at -0.4%. At year-end, Standard & Poor's and Moody's had the country's long-term credit rating with a stable outlook at AA+ and Aa1, respectively. Fitch upgraded the outlook to positive and confirmed the rating at AA+.

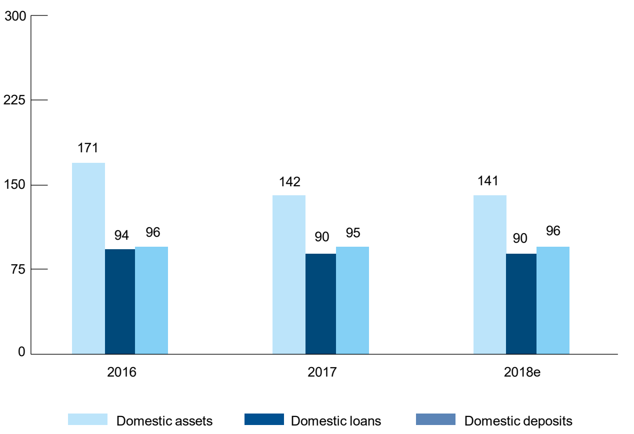
| Key economic indicators – Austria | 2015 | 2016 | 2017 | 2018e |
|---|---|---|---|---|
| Population (ave, million) | 8.6 | 8.7 | 8.8 | 8.8 |
| GDP (nominal, EUR billion) | 344.5 | 353.3 | 369.9 | 386.1 |
| GDP/capita (in EUR thousand) | 39.9 | 40.4 | 42.1 | 43.7 |
| Real GDP growth | 1.1 | 2.0 | 2.6 | 2.7 |
| Private consumption growth | 0.5 | 1.5 | 1.4 | 1.7 |
| Exports (share of GDP) | 39.7 | 39.8 | 41.1 | 42.0 |
| Imports (share of GDP) | 41.2 | 4.2 | 43.0 | 43.3 |
| Unemployment (Eurostat definition) | 5.7 | 6.0 | 5.5 | 4.9 |
| Consumer price inflation (ave) | 0.8 | 1.0 | 2.2 | 2.1 |
| Short term interest rate (3 months average) | 0.0 | -0.3 | -0.3 | -0.3 |
| EUR FX rate (ave) | 1.0 | 1.0 | 1.0 | 1.0 |
| EUR FX rate (eop) | 1.0 | 1.0 | 1.0 | 1.0 |
| Current account balance (share of GDP) | 1.9 | 2.1 | 2.0 | 2.3 |
| General government balance (share of GDP) | -1.0 | -1.6 | -0.8 | -0.3 |

Source: Erste Group

## Market review

The Austrian banking market, with total assets of 221.4% of GDP, is a highly competitive and developed market. It continued to be characterised by significantly lower margins than in Central and Eastern Europe and, like all other markets Erste Group operates in, benefitted from low risk costs. The Financial Markets Authority (FMA) had already introduced a systemic risk buffer for a number of Austrian credit institutions and a buffer for other systemically important institutions in December 2015. For Erste Group, the buffer amounted to 1% of risk-weighted assets as of 1 January 2018. As of 1 January 2019, the buffer increased to 2%.

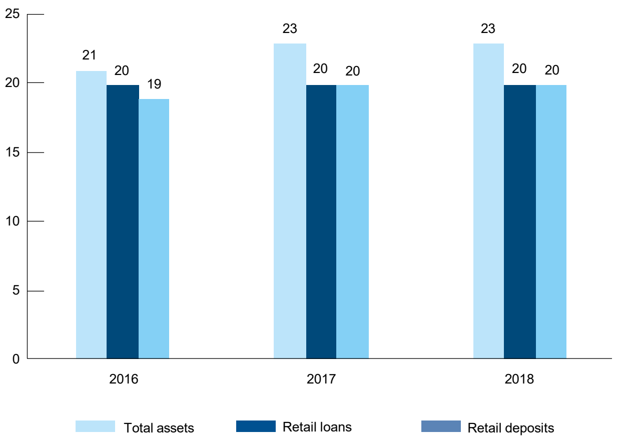
### Financial intermediation – Austria (in % of GDP)




Source: Oesterreichische Nationalbank, Erste Group

Driven by the strong macroeconomic performance, customer loans increased by 4.4%. Both retail and corporate lending rose considerably. Customer deposits grew more than loans, and the banking system's loan-to deposit-ratio ratio stood at 94.4% at the end of the year. The banking tax remained nearly unchanged at EUR 226 million in 2018. On the back of loan growth coupled with low risk costs, the banking system's profitability improved to a return on equity of 9.9%. Capitalisation of the banking system also improved further in 2018.

### Market shares – Austria (in %)




Source: Oesterreichische Nationalbank, Erste Group

Digitalisation remained pivotal for the Austrian financial sector. In 2018, the first entirely blockchain-based capital markets issuance in Europe was successfully launched. A blockchain-based process offers improved speed, lower operational risk and greater transparency. Financial digital services and products have continuously been improved and customer engagement increased further – approximately 60% of the Austrian banking customers are now actively using digital banking products and services.

The three largest banking groups kept a combined market share of approximately 60% in customer loans and deposits. Erste Bank Oesterreich and the savings banks succeeded in further increasing their combined market shares to between 20% and 22% in both retail and corporate business, benefitting from their balanced business model. In terms of total assets, their combined market share stood at 23.1% at year-end. George, the digital banking platform developed by Erste Group's in-house fintech, has defended its position as the country's most modern and popular banking platform. Its 1.7 million users in the country represent more than every third online banking user in Austria.

## ERSTE BANK OESTERREICH & SUBSIDIARIES

### Business review 2018 – three questions to the CEO of Erste Bank Oesterreich, Stefan Dörfler

**How did the competitive environment change?** The competitive environment remained challenging throughout the year, driven by the macro, regulatory and competitive backgrounds.

On the retail side, banks further reduced their regional footprint, particularly larger market participants focused their measures on urban areas. Business has become increasingly digital, main competitors are gradually building up their digital product offering through revamped online banking platforms, as well as offering consumer finance and asset management products online. So far, we have not recognised any disruptive activities by tech companies nor by fintechs. At the same time, some of the mid-sized competitors continued to expand out of their regional home markets into urban areas in Austria as well as into neighbouring countries. Overall, digital adoption rates remained quite low, but growth is high, and building a consistent multi-channel service platform will be a core challenge for all retail banks in Austria.

Corporate business again has seen fierce price-based competition on the lending side, driven by the low interest rate environment, high liquidity levels of banks and favourable development of corporate clients' risk profiles. Full product coverage of corporate clients remains the key asset to ensure sustainable and profitable client relationships.

In addition, cost will remain a core issue for all banks in the market, especially in view of current wage pressure driven by strong economic growth as well as increasing regulatory expenses.

**Considering the strategic focus of your bank, what did you do differently compared to the past?** Continuously expanding our customer base, improving customer experience and staying ahead of the competition in retail will be achieved by further focusing on our key priority of building a seamless omni-channel product offering for our clients. Major focus areas were the expansion of our digital product offering by launching the *klick-kredit*. We strongly believe that building a digital presence is a key driver next to establishing a strong brand and striving for service excellence, in both, our digital and analogue channels.

Corporate business remains one of our core growth potentials, we focus on tailor-made client solutions and coverage models, whilst building a state of the art product and service offering.

Transforming our bank, exploring new ways of doing business, growing our portfolios and focusing on the cost development requires permanent attention to our processes. We are gradually transforming the way we work together, cross-functional teams committed to the clients' needs are getting more and more important.

**Looking back at the year, what were the major challenges and key achievements?** In retail we expanded our digital service offering by introducing an all online consumer finance product, managed to be the first bank in Austria to offer our clients multi-banking capability in our George platform and increased the number of overall clients.

Corporate has seen the introduction of our new online platform *Telebanking Pro*, allowing our customers not only to fulfil day-to-day banking and cash management needs. It will also be enhanced to serve as a platform for related party service offerings.

One major activity was the re-positioning of our brand advertising in line with the #believeinyourself theme. The positive feedback we received reassures us that we are on the right track in spreading our message to customers and the general public.

In addition, we continued to challenge our internal client-facing as well as non-client-facing processes and structures in an effort to optimise cost development. This entailed among other things the re-design of our retail mortgage lending process and the enhancement of our call center operations.

### Business review – Additional question on cooperation with the savings banks

**How did cooperation with the savings banks develop and what were the major achievements in this area?** We again gained a large number of new clients in 2018 and increased our market share in lending. This was largely attributable to our strong regional presence. To further strengthen our market position, we are working with the savings banks to develop a new user interface that enables sales staff to discuss customer needs more individually in face-to-face talks as well as across all channels. The aim is to achieve even greater customer satisfaction.

In our operations we managed to get IT costs better under control. We have also made great progress in improving the customer experience. In the past, the savings banks had considerable freedom in developing and designing new products. We have now agreed on a range of harmonised products. As a result, new retail business is done almost exclusively with these standard products. The harmonisation of products for corporate clients has likewise been started already. We regard this important move towards harmonisation as a key prerequisite for process harmonisation. It enables us to process transactions in accordance with high quality standards while keeping processing time short to ensure better customer experience.

### Financial review

| in EUR million | 2017 | 2018 | Change |
|---|---|---|---|
| Net interest income | 631.2 | 644.3 | 2.1% |
| Net fee and commission income | 353.8 | 386.4 | 9.2% |
| Net trading result and gains/losses from financial instruments at FVPL | 20.1 | 10.6 | -47.6% |
| Operating income | 1,053.7 | 1,088.1 | 3.3% |
| Operating expenses | -679.6 | -678.9 | -0.1% |
| Operating result | 374.1 | 409.2 | 9.4% |
| Cost/income ratio | 64.5% | 62.4% | |
| Impairment result from financial instruments | 26.1 | 14.3 | -45.4% |
| Other result | -27.5 | -39.6 | 44.1% |
| Net result attributable to owners of the parent | 253.2 | 278.2 | 9.9% |
| Return on allocated capital | 21.1% | 18.7% | |

Net interest income increased due to higher loan and deposit volumes in combination with stable margins that offset the negative impact from a change of disclosure for brokerage fee expenses in the building society. Net fee and commission income increased substantially mainly due to the shift of brokerage fee expenses to the line item net interest income as well as higher payment fees, which was partially offset by lower securities fees. The deterioration of net trading result and gains/losses from financial instruments at FVPL was driven by valuation effects. Despite higher deposit insurance contributions of EUR 23.3 million (EUR 21.7 million), operating expenses remained stable. Operating result thus increased, and the cost/income ratio improved. A lower net release of risk provisions (reflected in the impairment result from financial instruments) was mainly driven by corporate business. The worsening of other result was due to higher provisions for legal expenses. The payment into the resolution fund increased to EUR 10.2 million (EUR 6.1 million). Banking tax amounted to EUR 3.5 million (EUR 3.3 million). Overall, the net result attributable to the owners of the parent improved.

### Credit risk

Credit risk exposure in the Erste Bank Oesterreich & Subsidiaries segment rose to EUR 43.3 billion (+10.1%), while the volume of customer loans increased to EUR 33.3 billion (+4.6%). The share of this segment in Erste Group's total loan portfolio declined to 21.8% (22.1%). The share of retail customers in total loan volume was unchanged at 39.9%. The share of corporates, including self-employed individuals and small businesses, was slightly down at 53.4% (53.8%). Loans to professionals, other self-employed persons and small businesses are less significant than they are for other Austrian savings banks and amounted to 10.0% (10.1%) of total loans to customers. Lending to the public sector showed the most dynamic growth and rose to EUR 2.2 billion (+10.6%). Owing to the ongoing campaign promoting the conversion of foreign-currency loans to euro, the share of Swiss franc denominated loans in the total loan portfolio decreased further to 4.4% (5.0%). The quality of the loan portfolio improved again. While low-risk loans grew at a rate of 4.2%, non-performing loans as a percentage of total loans to customers declined to 1.8% (2.0%). The development was positive across all customer segments, but most visible among medium-sized and larger enterprises. Default rates remained lowest in the public sector and private households segments. The NPL coverage ratio based on loan loss provisions rose markedly to 61.3% (57.1%).

## SAVINGS BANKS

The geographical segment Savings Banks is identical to the business segment Savings Banks (see page 28).

## OTHER AUSTRIA

### Business review 2018 – three questions to the board member responsible for Corporates and Markets, Jozef Síkela

**How did the competitive environment change?** Overall, we have seen good development in 2018, mainly as a result of the good economic performance and the clean-up of NPL portfolios of banks in CEE, allowing banks to expand their loan portfolio. Consolidation continued with some banks being active in acquisitions while others were withdrawing. Business-wise, pricing is still under pressure (especially in plain vanilla lending). In all our core countries the growth environment was characterised by an increasing GDP.

**Considering the strategic focus of your bank, what did you do differently compared to the past?** Over the past years, our efforts have been on further strengthening relationships with our customers and on acquiring additional customers. Our focus was on small and medium-sized enterprises and aligned with our SME strategy to provide best in class customer experience. Through small tickets lending, we continued to develop our service and product offering to address additional customer groups. Importantly, we simplified our product offering, increased the efficiency of processes and shortened decision times.

To ensure consistent service coverage for our Large Corporate customers in the CEE region, we focus on the continuous development of the sales force, strengthening the industry specialisation and further rolling out of the parent/local account manager cooperation model. In addition, we emphasised on offering treasury products based on the customers' individual needs. In cooperation with the Corporate and Retail business, we made the first steps to provide treasury products through our digital channels such as George or Telebanking Pro. We invested further into our business system landscape to meet changing demand.

**Looking back at the year, what were the major challenges and key achievements?** We ucceeded in increasing our customer base by roughly 3,000 new SME customers group-wide. Client onboarding, including cross-border onboarding, was further simplified, resulting in a significant reduction of the documentation process.

We again demonstrated our syndicated loan capability domestically and internationally. The acquisition finance of approximately EUR 3 billion for PPF Group to create a significant telecom company in CEE represents the largest loan syndication in our region since 2011. For Erste Group, the transaction was the largest corporate underwriting ever.

Digital transformation has remained one of the key success factors. We saw the first blockchain-based trade finance transaction with Lenzing on the newly developed trade platform *we.trade*, a key milestone in this area. In addition, we launched Europe's first entirely blockchain-based capital markets issuance for Asfinag, the first paperless issue of a Schuldschein transaction.

We continued to provide excellent services to our customers and maintained profitability at a high level. We positioned ourselves as a strong and reliable partner for Austrian and CEE banks as well as non-bank financial institution issuers in many transactions across asset classes. As a result, Erste Group achieved the number 1 league table position as book runner in Austria and the CEE region in 2018.

### Financial review

| in EUR million | 2017 | 2018 | Change |
|---|---|---|---|
| Net interest income | 372.2 | 388.9 | 4.5% |
| Net fee and commission income | 216.6 | 224.6 | 3.7% |
| Net trading result and gains/losses from financial instruments at FVPL | 59.9 | -26.2 | n/a |
| Operating income | 708.0 | 648.3 | -8.4% |
| Operating expenses | -373.8 | -369.4 | -1.2% |
| Operating result | 334.2 | 278.9 | -16.6% |
| Cost/income ratio | 52.8% | 57.0% | |
| Impairment result from financial instruments | -40.0 | 87.7 | n/a |
| Other result | 3.4 | 25.9 | >100.0% |
| Net result attributable to owners of the parent | 228.6 | 313.2 | 37.0% |
| Return on allocated capital | 15.5% | 17.7% | |

Net interest income increased on higher volumes of reverse repo business in Group Markets, partially offset by lower lending margins in corporate business. Net fee and commission income increased due to higher supply chain financing and documentary business. The decrease of net trading result and gains/losses from financial instruments at FVPL was predominantly caused by last year´s extraordinarily favourable market conditions for interest rate related products in Group Markets business and by a weaker valuation result, partially compensated by selling gains from securities. Although operating expenses declined moderately, operating result decreased and the cost/income ratio deteriorated. Impairment result from financial instruments improved markedly as a result of provision releases, while the previous year included provisions for the downgrading of selected corporate customers. Other result improved mostly due to releases of litigation provisions, partially off-set by increased impairments of non-financial assets. Other result also included the resolution fund contribution of EUR 6.1 million (EUR 3.6 million). Overall, the net result attributable to the owners of the parent improved.

### Credit risk

After credit risk exposure in the Other Austria segment, which is almost completely made up of Erste Group Bank AG and Erste Group Immorent GmbH, had fallen for several years, the trend reversed in 2018, raising it to EUR 31.1 billion (+7.9%). At 12.2% (12.7%), however, its share in Erste Group's credit risk exposure still declined. A large share of the business in this segment was accounted for by securities and investments with banks. Consequently, the share of loans to customers as a percentage of Erste Group's total loan portfolio was significantly lower than the contribution to credit risk exposure. In 2018, it decreased to 8.8% (9.1%). While commercial real estate financing declined further to EUR 3.0 billion (-11.2%), loans to large corporates increased. Extensive portfolio clean-up through sales of loans and, most importantly, write-downs, reduced the share of non-performing loans in the total loan portfolio significantly to 3.3% (5.6%). Within the category of performing loans, the share of low-risk loans rose substantially. The NPL coverage ratio based on loan loss provisions increased to 56.1% (50.2%).

# Central and Eastern Europe

## CZECH REPUBLIC

### Economic review

The Czech Republic continued to perform well in 2018, posting real GDP growth of 3.0%. GDP per capita rose to EUR 19,600. Although the Czech Republic is among the most open economies in the region, growth in 2018 was mainly supported by household consumption and investments. Consumption benefitted significantly from higher consumer confidence, lower unemployment and accelerating growth of real wages. Investments were positively impacted by a robust EU funds absorption rate and a labour market characterised by full employment, which incentivised enterprises to invest in automation. Net exports, on the other hand, did not contribute to economic growth mainly due to high imports for consumption and investment purposes. Industrial production benefitted significantly from the strong performance of the automotive industry. Czech passenger car production increased by 1.7% to more than 1.4 million vehicles. Reflecting the strong economic performance, the unemployment rate decreased further to 2.4%, and remained the lowest in the European Union.

Following parliamentary elections in late 2017, a coalition agreement between the ANO movement and the Social Democrats was reached in July 2018. Fiscal prudence prevailed as expressed by a budget surplus of 1.5%. State revenues were positively impacted by growing tax income due to measures addressing tax avoidance and higher social contributions. These developments offset the significant increase of public wages and pensions. Public debt as a percentage of GDP was again one of the lowest in Central and Eastern Europe at 33.2%.

Despite rising domestic demand and higher wages, inflation slightly decreased and remained within the Czech National Bank's range of 1-3%. The Czech koruna appreciated versus 2017, although to a lesser degree than initially expected, as five rate hikes by the Czech National Bank were not enough to offset increased market volatility during the course of the year. Average consumer price inflation amounted to 2.2%.

These economic developments were also acknowledged by Fitch, which upgraded the country's long term credit rating to AA- with a stable outlook and by Moody's, which maintained its A1 rating but changed the outlook to positive. Standard & Poor's kept its AA rating with a stable outlook throughout 2018.

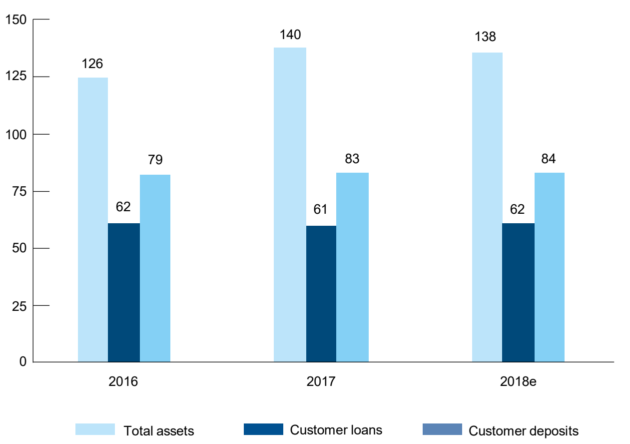
| Key economic indicators – Czech Republic | 2015 | 2016 | 2017 | 2018e |
|---|---|---|---|---|
| Population (ave, million) | 10.5 | 10.6 | 10.6 | 10.6 |
| GDP (nominal, EUR billion) | 168.5 | 176.5 | 191.9 | 207.2 |
| GDP/capita (in EUR thousand) | 16.0 | 16.7 | 18.2 | 19.6 |
| Real GDP growth | 5.4 | 2.4 | 4.5 | 3.0 |
| Private consumption growth | 3.8 | 3.5 | 4.4 | 3.5 |
| Exports (share of GDP) | 74.8 | 75.2 | 76.1 | 75.3 |
| Imports (share of GDP) | 70.0 | 69.5 | 69.5 | 69.7 |
| Unemployment (Eurostat definition) | 4.5 | 3.6 | 2.4 | 2.4 |
| Consumer price inflation (ave) | 0.4 | 0.7 | 2.4 | 2.2 |
| Short term interest rate (3 months average) | 0.3 | 0.3 | 0.4 | 1.3 |
| EUR FX rate (ave) | 27.3 | 27.0 | 26.3 | 25.6 |
| EUR FX rate (eop) | 27.0 | 27.0 | 25.5 | 25.7 |
| Current account balance (share of GDP) | 0.2 | 1.6 | 1.1 | 0.6 |
| General government balance (share of GDP) | -0.6 | 0.7 | 1.5 | 1.5 |

Source: Erste Group

## Market review

The Czech banking sector continued to be very successful. The market significantly benefitted from the positive macroeconomic environment and consequently displayed strong demand for banking products. Lending growth was attributable to both retail and corporate loans. Overall, customer loans grew by 7.2%. Customer deposits increased by 6.6%, mainly driven by retail deposits. The Czech banking market remained one of the most liquid in Central and Eastern Europe. At year-end, the loan-to-deposit ratio across the banking sector stood at 74.4%. The solid fundamentals were also demonstrated by the banking sector's total capital ratio of 19.6%. Moneta Money Bank announced to acquire Air Bank and part of Home Credit in the Czech Republic and Slovakia. The transaction (which would have created the fifth biggest bank by total assets in the country) was not approved by the shareholders in early 2019.

**Financial intermediation – Czech Republic (in % of GDP)**

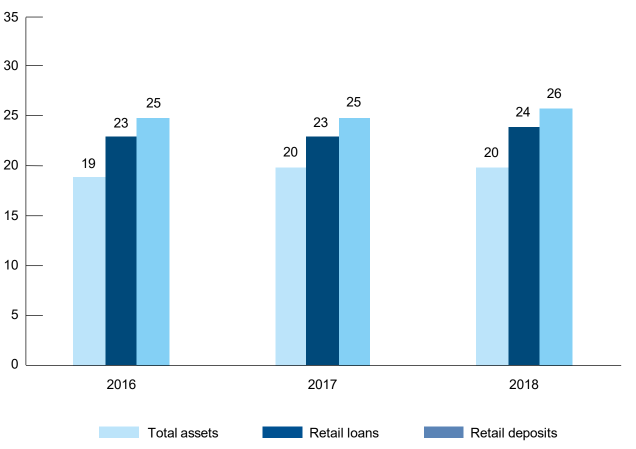



Source: Czech National Bank, Erste Group

The Czech banking sector achieved the best financial results in the last ten years. Benefiting from healthy loan growth, higher interest rates, and very low risk provisions, the sector's net profit reached EUR 3.2 billion in 2018. The share of non-performing loans decreased further to 2.3% in the retail and to 3.6% in the corporate business. Regulatory topics played a significant role in the development of the Czech banking market throughout the year. The Czech National Bank further increased the countercyclical capital buffer from 1.0% to 1.75% as of January 2020 and set stricter lending rules on secured loans, such as loan to value, debt to income, and debt service to income ratios. The stress tests performed by the central bank on the biggest players on the Czech banking market, representing 76% of the assets in the banking sector proved that Czech banks remain resilient to adverse economic conditions.

The three largest banks have a combined market share of approximately 60% in customer loans and deposits. Česká spořitelna maintained its market leadership positions across all product categories. Its retail market shares ranged from 23% to 28%, while its market shares in the corporate segment increased to above 20%. The bank also retained its top position in consumer lending, including the credit card business, with a market share of 28.0%. Česká spořitelna further strengthened its strong position in asset management products, with a market share of 27.3%, the highest in the country. Overall, its market share in terms of total assets stood at 20.3%.

**Market shares – Czech Republic (in %)**




Source: Czech National Bank, Erste Group

## Business review 2018 – three questions to the CEO of Česká spořitelna, Tomáš Salomon

**How did the competitive environment change?** It's clear that in many fields, including financial and banking markets, things accelerated, with more players and fewer barriers to entry. Innovations introduced more recently are being adopted more quickly. Consequently, customers' expectations are also rising — they want the opportunity to benefit as soon as possible from the rapid progress of new technologies. As a result, banks have to move quickly to capture those opportunities.

This trend received another boost after the PSD2 (payment services directive) regulation came into force in January 2018. As a result, our banking market opened to even more players. We saw this as an opportunity to move forward by cooperating with fintech companies on new solutions as well as providing relevant advisory services to our customers and effective guidance for prosperity.

**Considering the strategic focus of your bank, what did you do differently compared to the past?** We strongly emphasised data mining and data utilisation, as we had access to a substantial set of data but couldn't utilise the entire potential for the benefit of our customers. Through better data utilisation, we intend to improve the advisory services of our sales staff and the services incorporated into our digital platform George.

To reflect the fast developing market conditions, we also began changing our organisational structure and culture. Our ultimate goal is to build up a dynamic and flexible organisation that is not only capable of responding to market trends but can also anticipate the changes and development of customers' expectations.

**Looking back at the year, what were the major challenges and key achievements?** Most segments performed quite strongly and delivered impressive results. We outperformed the market and grew quickly in both retail and corporate loans. In investment products, Česká spořitelna boosted its position as undisputed market leader in mutual funds.

With our My Healthy Finances strategic service, we added value to the services for our customers. At year-end, more than one million customers have subscribed to this additional service Also worth mentioning is our effort to modernise the branch network. We refurbished over 50 branches in 2018 to the new format that better supports the role of branches as advisory centers. In addition, we migrated almost 1.5 million customers to the new digital platform George, making it the biggest internet banking migration in the history of the Czech banking market.

Česká spořitelna's outstanding performance in 2018 earned recognition also in prestigious banking competitions. For the first time ever, Česká spořitelna was named the Bank of the Year in a competition held by the leading business daily Hospodářské noviny. On top of that, our bank won the annual Bank of the Year poll of leading banking experts, business leaders and academics.

### Financial review

| in EUR million | 2017 | 2018 | Change |
|---|---|---|---|
| Net interest income | 942.3 | 1,062.2 | 12.7% |
| Net fee and commission income | 334.4 | 332.9 | -0.4% |
| Net trading result and gains/losses from financial instruments at FVPL | 103.6 | 92.5 | -10.7% |
| Operating income | 1,393.4 | 1,501.4 | 7.8% |
| Operating expenses | -692.8 | -714.5 | 3.1% |
| Operating result | 700.6 | 786.9 | 12.3% |
| Cost/income ratio | 49.7% | 47.6% | |
| Impairment result from financial instruments | -1.3 | -11.2 | >100.0% |
| Other result | -35.2 | -49.5 | 40.7% |
| Net result attributable to owners of the parent | 532.9 | 582.8 | 9.4% |
| Return on allocated capital | 26.3% | 23.4% | |

The segment analysis is done on a constant currency basis. The CZK appreciated by 2.6% against the EUR in the reporting period. Net interest income in the Czech Republic segment (comprising Česká spořitelna Group) increased primarily due to rising interest rates and higher loan volumes. Net fee and commission income decreased moderately on the back of lower income from current accounts, which could not be fully compensated by higher fees from asset management and insurance brokerage. The decrease of net trading result and gains/losses from financial instruments at FVPL was driven by a lower contribution from foreign currency transactions. Higher personnel expenses and IT costs led to an increase in operating expenses. Deposit insurance contribution amounted to EUR 9.6 million (EUR 8.3 million). Overall, operating result increased, the cost/income ratio improved. The slightly worse impairment result from financial instruments was mostly attributable to the introduction of new parameters in the retail business. The other result deteriorated mainly due to the non-recurrence of property selling gains. The contribution to the resolution fund amounted to EUR 19.0 million (EUR 16.2 million). Altogether, these developments led to an increase in the net result attributable to the owners of the parent.

### Credit risk

Credit risk exposure in the Czech Republic segment rose substantially to EUR 57.6 billion (+27.5%) on the back of the very benign economic environment and, in particular, a considerable expansion of money market business. In the Group Markets segment, risk positions more than quadrupled to EUR 11.2 billion. Loans to customers increased to EUR 27.5 billion (+7.8%), with growth in the retail business slightly stronger than in the business with corporates. Customer loan volume as a percentage of Erste Group's total loans to customers was slightly up at 18.0% (17.8%). In terms of business volume, the Czech Republic is thus still by far the second most important market for Erste Group after Austria. The quality of customer loans was significantly better than in Erste Group's other core markets in Central and Eastern Europe. Due to proactive and effective credit risk management, non-performing loans as a percentage of the total customer loan portfolio decreased to 1.8% (2.1%), which continued the positive development of recent years. Improvements were identified in all customer segments, but most notably in commercial real estate lending. Default rates were again lowest in the public sector and in lending to private households. NPLs were fully covered by loan loss provisions.

## SLOVAKIA

### Economic review

The Slovak economy performed well in 2018. Economic growth was mainly driven by robust domestic demand. Consumption, especially household consumption, benefitted from a further improvement in the labour market, growing real wages and moderate inflation. Investments contributed significantly to the favourable economic development supported by the expansion and construction of further automotive plants. Exports, although to a lesser extent, also contributed to the economic growth and benefitted from the traditionally strong car industry. A newly built plant in Nitra started production in October 2018. The EUR 1.4 billion manufacturing facility employs 1,500 people and has an annual production capacity of 150,000 cars. Slovakia, with approximately one million cars produced in 2018, remained the world's top car producer per capita. Overall, real GDP grew by 4.1%, and GDP per capita amounted to EUR 16,500 in 2018.

Benefitting from the favourable macroeconomic developments, the fiscal position of Slovakia remained solid. Revenues were significantly supported by higher tax collection both from personal and corporate income taxes as well as from social contributions. Revenues from value-added taxes rose as well. Expenses also increased but remained well under control. Consequently, the fiscal deficit declined to 1.5%. The country's public debt as a percentage of GDP declined to 49.1%, the lowest level since 2012.

Inflation in Slovakia increased and the average consumer price index rose by 2.5% driven mainly by food, services, and energy prices. Higher services prices reflected growing disposable income of households amidst improvement in the labour market. Reflecting the upward pressure of the tightening labour market, nominal wage growth accelerated to 6.2% in 2018. Moody's kept the country's long-term credit rating at A2 with a stable outlook, while Standard & Poor's and Fitch kept their ratings at A+, also with a stable outlook.

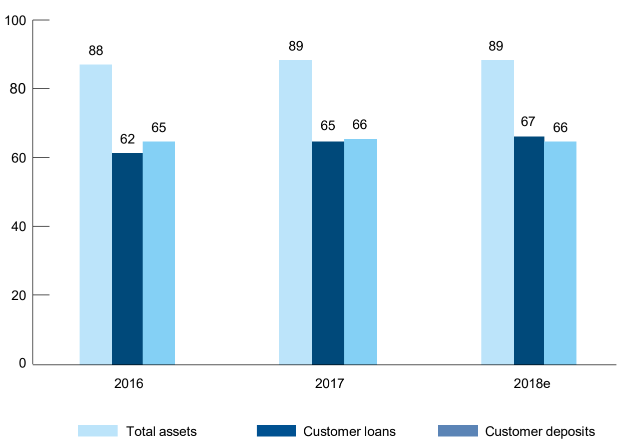
| Key economic indicators – Slovakia | 2015 | 2016 | 2017 | 2018e |
|---|---|---|---|---|
| Population (ave, million) | 5.4 | 5.4 | 5.4 | 5.5 |
| GDP (nominal, EUR billion) | 79.1 | 81.2 | 84.9 | 90.2 |
| GDP/capita (in EUR thousand) | 14.6 | 14.9 | 15.6 | 16.5 |
| Real GDP growth | 4.2 | 3.1 | 3.2 | 4.1 |
| Private consumption growth | 2.3 | 2.9 | 3.5 | 3.0 |
| Exports (share of GDP) | 81.7 | 82.7 | 84.2 | 85.8 |
| Imports (share of GDP) | 80.4 | 80.7 | 83.4 | 84.9 |
| Unemployment (Eurostat definition) | 11.5 | 9.6 | 8.1 | 6.5 |
| Consumer price inflation (ave) | -0.3 | -0.5 | 1.3 | 2.5 |
| Short term interest rate (3 months average) | 0.0 | -0.3 | -0.3 | -0.3 |
| Current account balance (share of GDP) | -0.5 | 0.9 | 1.8 | 1.3 |
| General government balance (share of GDP) | -1.7 | -2.2 | -2.0 | -1.5 |

Source: Erste Group

## Market review

The Slovak banking system benefitted again from the positive macroeconomic backdrop. Customer loans increased by 9.4%, mainly attributable to the retail sector, which grew by 11.5%. Corporate loans also increased, though to a lesser extent, and mainly driven by lending to small-and medium sized enterprises. Customer deposits rose by 7.3%, resulting in a loan-to-deposit ratio of 101.2%. The three largest banks continued to have a combined market share of approximately 60% in customer loans and deposits. Consolidation of the sector continued with a number of smaller transactions throughout the year. The banking sector remained well capitalised with a capital adequacy ratio of 18.2%.

### Financial intermediation – Slovakia (in % of GDP)

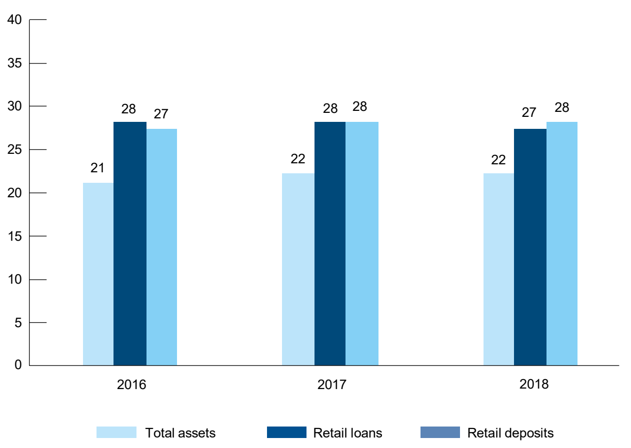



Source: National Bank of Slovakia, Erste Group

The Slovak banking market had another profitable year. While the low interest rate environment, banking tax and regulatory changes impacted its profitability negatively, net profit of the sector benefitted from higher fee income, positive asset quality trends and low risk costs. The NPL ratio decreased further to 3.1%. Banks continued to pay banking tax at 0.2% of total liabilities excluding equity and subordinated debt. Overall, the sector's return on equity stood at 7.9% at the end of the year.

Regulatory changes again played an important role in the development of the banking market. The National Bank of Slovakia introduced new measures regarding debt-to-income limits, and limited loans with a loan-to-value ratio above 80%. Newly granted loans increased visibly just before these new rules came into effect in July 2018, followed by a slowdown in the second half of the year. The national bank increased the countercyclical buffer from 0.5% to 1.25% as of August 2018.

### Market shares – Slovakia (in %)




Source: National Bank of Slovakia, Erste Group

Slovenská sporiteľňa retained its leading market positions. It continued to control approximately one fifth of the country's banking market in terms of total assets and led the market in retail loans and deposits. In the retail loan business, the bank's market share amounted to 26.7%. At 13.4%, its market share in corporate deposits was significantly lower than in retail deposits, which stood at 28.0%. Slovenská sporiteľňa maintained its strong position in asset management products with a market share of above 25%.

## Business review 2018 – three questions to the CEO of Slovenská sporiteľňa, Peter Krutil

**How did the competitive environment change?** Market conditions were favourable last year. Retail loans grew again at a double-digit pace. The Slovak National Bank has further tightened regulations of credit conditions, such as stricter debt-to-income levels. The impact on retail loan growth, however, was not substantial yet and is expected to be more visible in 2019.

The profitability of the sector improved. While robust loan growth off-set shrinking margins in retail, interest rates on corporate loans increased. Consequently, net interest income did not decline further. As a result of the persistently low interest rate environment, fee income gained in importance, in particular selling insurance products and asset management.

**Considering the strategic focus of your bank, what did you do differently compared to the past?** We made a visible leap in insurance intermediation, providing customers with more comprehensive solutions for their financial life and at the same time generating higher fee income.

Digitalisation has been an important topic for the bank in recent years. More and more transactions are shifted to digital channels, resulting in higher convenience for customers and lower transactions costs. Additional features for tablets used by advisors in the branches simplify the sales process and improve the customer experience.

We implemented a new approach to our brand positioning, focusing in addition to our existing customers on new and younger customer segments. At the same time, Slovenska sporitelna communicates its dedication to help make Slovakia a modern country and takes an active role in this context as a responsible leader.

In addition, we started to implement the concept of an agile way of working. We do not employ it at a large scale, but in selected high-priority areas for support in achieving quicker and better-suited client solutions.

**Looking back at the year, what were the major challenges and key achievements?** A major milestone was the launch of the digital platform George. We gradually rolled out new features, while at the same time managing the migration of customers from the previous internet banking. The migration to George was almost finished at year-end. Another challenge was the local launch of Erste Group's marketing concept #believeinyourself, which enjoyed high spontaneous awareness.

While defending the number one position in retail banking, we significantly improved our market share in corporate loans. This was mainly attributable to business with SMEs and large corporate customers.

Slovenská sporiteľňa ranked first in the survey conducted by the portal Profesia.sk as the best employer in banking, finance and insurance, and the bank was also recognised as the Bank of the Year 2018 by the weekly TREND, the sixth award in seven years. The outstanding position in market shares, risk parameters and sound financial results were the key factors for this result. The bank's support for society as a whole was also recognised by the Via Bona Award as the most responsible large company in the country.

## Financial review

| in EUR million | 2017 | 2018 | Change |
|---|---|---|---|
| Net interest income | 434.3 | 438.7 | 1.0% |
| Net fee and commission income | 112.7 | 128.8 | 14.3% |
| Net trading result and gains/losses from financial instruments at FVPL | 13.3 | 11.8 | -10.9% |
| Operating income | 568.7 | 586.1 | 3.1% |
| Operating expenses | -281.1 | -279.6 | -0.6% |
| Operating result | 287.6 | 306.6 | 6.6% |
| Cost/income ratio | 49.4% | 47.7% | |
| Impairment result from financial instruments | -30.1 | -23.5 | -21.8% |
| Other result | -39.5 | -40.3 | 1.9% |
| Net result attributable to owners of the parent | 166.2 | 189.4 | 14.0% |
| Return on allocated capital | 24.7% | 20.7% | |

Net interest income in the Slovakia segment (comprising Slovenská sporiteľňa Group) increased due to higher loan volumes. Net fee and commission income improved on the back of higher insurance brokerage as well as higher lending and payment fees. Net trading result and gains/losses from financial instruments at FVPL remained largely stable in absolute terms. Operating expenses decreased slightly despite higher personnel costs. Deposit insurance contribution amounted to EUR 0.9 million (EUR 0.8 million). Overall, operating result increased, and the cost/income ratio improved. Impairment result from financial instruments improved due to lower provisions in the retail business. Other result remained stable, as the increase of banking tax to EUR 30.3 million (EUR 27.4 million) was offset by the changed disclosure of provisions for commitments and guarantees. In 2017, this line item included a net allocation and was part of other result; from 2018, it is disclosed under impairment result from financial instruments. The payment into the resolution fund amounted to EUR 2.7 million (EUR 2.8 million). Overall, the net result attributable to the owners of the parent increased.

### Credit risk

Credit risk exposure in the Slovakia segment rose to EUR 18.6 billion (+7.4%) while loans to customers increased at a faster pace to EUR 13.3 billion (+10.7%). Slovakia was thus one of the most dynamic geographical segments of Erste Group. Its share of Erste Group's total loan portfolio rose to 8.7% (8.4%). Due to strong demand for loans from the prospering industrial sector, a breakdown of the portfolio by customer segment shows a shift from retail towards corporate loans. The share of loans to private households amounted to 70.5% (72.6%) of total customer loans and was again significantly larger than in other core markets. This customer mix also explains the large share of secured business of 59.3% (58.8%) in the entire loan portfolio, which exceeds that of other Central and Eastern European core markets. The NPL ratio declined further to 3.3% (3.8%), with asset quality improving across all customer segments, but most notably among corporate customers. The NPL coverage ratio based on loan loss provisions rose to 80.9% (79.7%).

## ROMANIA

### Economic review

The Romanian economy expectedly cooled down from its exceptionally high growth level of 7.0% a year ago. In 2018, the country's real GDP growth equalled 4.1% GDP per capita EUR 10,400. As the effects of the fiscal stimulus of 2017 started to fade away, private consumption weakened and supported growth to a much lesser extent. The European Union funds absorption rate did not significantly improve, and investments remained subdued throughout the year. Net exports did not contribute to economic growth, despite the favourable performance of the industrial sector, including the automotive sector. The agricultural sector performed very well again. The unemployment rate declined further and reached a new historic low of 4.2%.

The political environment remained volatile. Necessary structural reforms, especially in tax collection, were not implemented. Public investments remained subdued. The government cut the flat personal income tax rate from 16% to 10% as of 1st January 2018 and shifted social security contributions from employers to employees. At 3.0%, the budget deficit increased but remained within the target of 3% of GDP. The ratio of public sector debt to GDP of 35.1% remained among the lowest in the European Union.

Inflation peaked in the spring of 2018 and slowed down in the second half of the year. As the effects of the cut in VAT and lower excise duties on fuel faded away during the year, average consumer prices increased by 4.6%. Core inflation, which excludes food and fuel prices, went up by 2.5%. Wages and pensions continued to grow. The Romanian leu was relatively stable against the euro, trading between 4.6 and 4.7 throughout the year. The Romanian National Bank increased its policy rate in three steps by 75 basis points to 2.50% in 2018.

The three major rating agencies, Standard & Poor's, Moody's, and Fitch, kept the country's long-term credit ratings unchanged and with a stable outlook throughout the year, Standard & Poor's and Fitch at BBB- and Moody's at Baa3.

| Key economic indicators – Romania | 2015 | 2016 | 2017 | 2018e |
|---|---|---|---|---|
| Population (ave, million) | 19.9 | 19.7 | 19.6 | 19.5 |
| GDP (nominal, EUR billion) | 160.3 | 170.4 | 187.5 | 202.1 |
| GDP/capita (in EUR thousand) | 8.1 | 8.6 | 9.6 | 10.4 |
| Real GDP growth | 3.9 | 4.8 | 7.0 | 4.1 |
| Private consumption growth | 5.9 | 8.3 | 10.1 | 5.2 |
| Exports (share of GDP) | 34.1 | 33.7 | 33.4 | 33.5 |
| Imports (share of GDP) | 39.3 | 39.5 | 40.3 | 41.0 |
| Unemployment (Eurostat definition) | 6.8 | 5.9 | 4.9 | 4.2 |
| Consumer price inflation (ave) | -0.6 | -1.5 | 1.3 | 4.6 |
| Short term interest rate (3 months average) | 1.3 | 0.8 | 1.2 | 2.8 |
| EUR FX rate (ave) | 4.4 | 4.5 | 4.6 | 4.7 |
| EUR FX rate (eop) | 4.5 | 4.4 | 4.4 | 4.4 |
| Current account balance (share of GDP) | -1.2 | -2.1 | -3.2 | -4.7 |
| General government balance (share of GDP) | -0.7 | -2.9 | -2.9 | -3.0 |

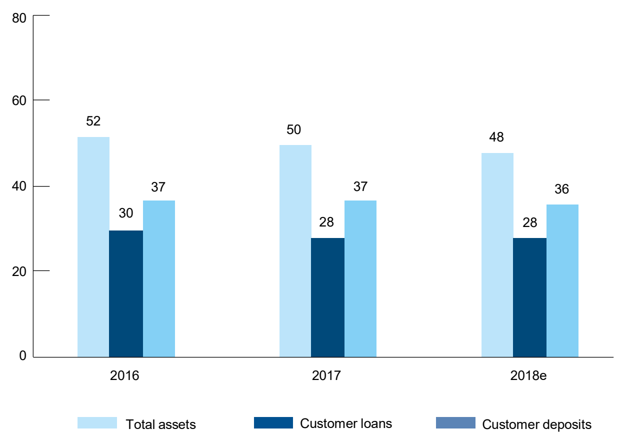
Source: Erste Group

### Market review

Despite the macroeconomic slowdown, the Romanian banking market performed well. Customer loans increased by 7.5%, while customer deposits grew by 8.8%. Retail loans, significantly up by 9.2%, remained the main driver for lending, with housing loans outgrowing consumer loans. The government-guaranteed mortgage programme Prima Casa (first home) remained a key product in the market. In the corporate segment, lending grew mainly as a result of increased demand from large companies and small- and medium size enterprises, while loans to municipalities declined. The banking system's loan-to-deposit ratio dropped further to 75.9% at the end of the year.

The profitability of the country's banking market improved, mainly due to higher net interest income and lower risk provisions. The banking sector's net interest income was clearly supported by volume growth and higher interest rates. Asset quality improved further, mainly as a result of higher wages and the improved job market. Overall, the sector achieved a return on equity of 14.9%. The Romanian banking sector continued to be strongly capitalised with a total capital ratio of 19.7% at the end of the year. The National Bank of Romania decided to adopt stricter debt-to-income limits regarding mortgage and unsecured consumer loans as of January 2019. In addition, the government announced the introduction of a new asset-based banking tax starting in 2019. Consolidation of the banking sector continued, with the number of banks declining to 34 by the end of the year.

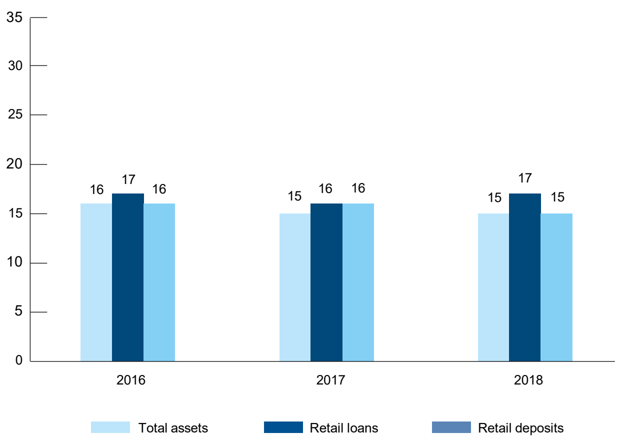
**Financial intermediation – Romania (in % of GDP)**




Source: National Bank of Romania, Erste Group

Banca Comercială Română lost its market leading position following the integration of Bancpost by Banca Transilvania. At year-end, Banca Comercială Română was ranked number two by total assets, customer loans, and customer deposits, but remained the largest in asset management. The bank defended its market leader position in Prima Casa, with a share of approximately 25%. The bank's customer loan market share equalled 14.0%, with the share in corporate business declining to 11.2% while the share in retail business increased to 16.7%. The customer deposit market share declined to 15.2%. In terms of total assets, Banca Comercială Română had a market share of 15.1%.

**Market shares – Romania (in %)**




Source: National Bank of Romania, Erste Group

## Business review 2018 – three questions to the CEO of Banca Comercială Română, Sergiu Manea

**How did the competitive environment change?** The competitive environment in Romania featured further consolidation of the local banking market, driven by mergers and acquisitions.

Competition intensified throughout the year across all client groups, partly as non-financial industry players have entered the market. Consequently, we continue to invest to reach as many customers as possible and to further increase customer satisfaction.

**Considering the strategic focus of your bank, what did you do differently compared to the past?** We are driven by the clear purpose to act as a reliable financial advisor for our clients, providing loans, services and expertise to the real economy. We believe that the measure of that goal will be the level of trust we as a bank and our employees get credit for. We are on a good path: Banca Comercială Română has revamped brand strength, ranking top two in trust, responsibility and innovation.

In the strategic execution of that purpose, we focus on products, services and initiatives based on client feedback and on our commitment to learn and adapt. That also helped us narrow our strategy around seven top priorities that we either have already delivered upon or are in the process of achieving. These efforts entailed several key achievements, in particular efficiency, digitisation and accessibility. The evolution of the bank is technology driven, and this is just the beginning. We adapt relationships with our customers to the digital universe, resulting last year in a very encouraging increase of over 30% in the number of active digital clients. The innovative George platform was launched towards the end of last year, enrolling more than 100,000 users within the first month.

In addition, we have continued to optimise our processes to better serve our customers and improve the customer experience. That will be a relentless focus in the future, with the aim to focus our interaction with clients on first in class advice and seamless experience.

**Looking back at the year, what were the major challenges and key achievements?** In retail, one in five mortgages in Romania has been generated and one in six consumer loans has been serviced by us. On the corporate front, we continued to finance several key sectors such as manufacturing (mainly automotive), energy, agriculture and IT. The main growth driver was the SME segment.

That is why, despite the extremely competitive market environment, in 2018 we achieved a double-digit growth in our top-line revenues. We significantly increased our market penetration and defended our leading position in the retail lending market.

I am also very proud to point out that we have continued our Money School financial education programme, reaching more than 110,000 people in 2018. Our dedication to the programme has also been reflected and internationally acknowledged by setting a new Guinness World Record for the largest financial education lesson taught simultaneously.

### Financial review

| in EUR million | 2017 | 2018 | Change |
|---|---|---|---|
| Net interest income | 365.5 | 394.5 | 7.9% |
| Net fee and commission income | 153.4 | 151.9 | -1.0% |
| Net trading result and gains/losses from financial instruments at FVPL | 77.6 | 96.0 | 23.7% |
| Operating income | 611.5 | 660.6 | 8.0% |
| Operating expenses | -338.0 | -354.6 | 4.9% |
| Operating result | 273.5 | 306.0 | 11.9% |
| Cost/income ratio | 55.3% | 53.7% | |
| Impairment result from financial instruments | -7.1 | -26.0 | >100.0% |
| Other result | -88.9 | -18.4 | -79.3% |
| Net result attributable to owners of the parent | 120.7 | 219.9 | 82.2% |
| Return on allocated capital | 12.5% | 17.4% | |

The segment analysis is done on a constant currency basis. The RON depreciated by 1.9% against the EUR in the reporting period. Net interest income in the Romania segment (comprising Banca Comercială Română Group) increased mainly on the back of sharply increased short-term market interest rates, despite being negatively impacted by a change in the segmental capital benefit calculation methodology. Net fee and commission income rose slightly in local currency terms. Net trading result and gains/losses from financial instruments at FVPL increased predominantly due to strong result from business with financial institutions, revaluation of FX participations and a better result from FX transactions in the retail business. Operating expenses increased due to higher costs related to the move to new headquarters and project costs as well as higher personnel costs. Deposit insurance contributions doubled to EUR 4.4 million (EUR 2.2 million). Overall, operating result increased, and the cost/income ratio improved. Other result improved on the release of provisions for litigations and changed disclosure of provisions for commitments and guarantees given. The resolution fund contribution declined significantly to EUR 5.5 million (EUR 14.2 million). Consequently, the net result attributable to the owners of the parent increased.

### Credit risk

After several years of largely stagnating growth, credit risk exposure in the Romania segment rose to EUR 15.5 billion (+10%) in the reporting period. A key contribution to growth came from loans to customers, which increased by EUR 0.5 billion to EUR 8.3 billion. This represented an unchanged share of 5.4% of Erste Group's total loans to customers. Growth of the loan portfolio was driven by strong momentum in the retail business while the volume of business with corporates was largely unchanged. In this segment, brisk loan growth was offset by repayments and further write-downs and sales of non-performing loans. The share of foreign-currency loans decreased to 41.4% (45.8%) and was almost completely denominated in euro. Due to the ongoing clean-up of the portfolio and a comparatively low inflow of new non-performing loans, the NPL ratio declined further to 5.8% (8.1%), with non-performing corporate loans down even more sharply. The breakdown by customer segment shows that asset quality was again the highest in loans to private households. NPLs were fully covered by loan loss provisions.

## HUNGARY

### Economic review

The Hungarian economy performed strongly in 2018. The main drivers of growth remained household consumption, benefitting from higher consumer confidence, increasing real wages, and continued positive trends in the labour market. Investments soared in 2018, supported mainly by construction and infrastructure related projects. The car industry remained significant, and one of the leading European car producers announced plans to invest EUR 1 billion in a new plant in Debrecen with an annual production capacity of 150,000 cars. Construction and services also performed well. In addition, the performance of agriculture improved significantly year-on-year. The trade deficit shrank versus 2017. As a result of the improved labour market, the unemployment rate fell to the historically low level of 2.8%, the third lowest in the European Union. Overall, real GDP grew by 4.8%, and GDP per capita increased to EUR 13,500.

The fiscal position of Hungary remained solid. The general government balance remained well within the Maastricht limits. The minimum wage was increased again, while government's spending on investments was substantial in 2018. These measures were to a large extent compensated by higher revenues from a larger tax base and relatively low interest payments. Overall, the budget deficit stood at 2.0%. Public debt as a percentage of GDP decreased further to 70.9%.

Inflation increased further but remained within the national bank's target range of 2% to 4%. This development was mainly driven by higher oil prices and the depreciation of the forint. Real wage growth remained high. Overall, average consumer prices increased by 2.8%. The Hungarian forint was relatively weak against the euro, trading between 310 and 330 throughout the year. The National Bank continued its expansionary monetary policy and kept the base rate at a record low of 0.90%. The interbank interest rates (BUBOR) stayed well below the level of policy rate during the year.

The three major rating agencies kept the country's long-term credit rating unchanged and with a stable outlook, Standard & Poor's and Fitch at BBB and Moody's at Baa3.

| Key economic indicators – Hungary | 2015 | 2016 | 2017 | 2018e |
|---|---|---|---|---|
| Population (ave, million) | 9.9 | 9.8 | 9.8 | 9.8 |
| GDP (nominal, EUR billion) | 110.9 | 113.9 | 124.0 | 131.9 |
| GDP/capita (in EUR thousand) | 11.3 | 11.6 | 12.7 | 13.5 |
| Real GDP growth | 3.5 | 2.3 | 4.1 | 4.8 |
| Private consumption growth | 3.7 | 3.4 | 4.1 | 4.6 |
| Exports (share of GDP) | 70.7 | 70.3 | 69.0 | 68.3 |
| Imports (share of GDP) | 67.1 | 66.3 | 67.4 | 68.9 |
| Unemployment (Eurostat definition) | 6.8 | 5.1 | 4.2 | 3.7 |
| Consumer price inflation (ave) | -0.1 | 0.4 | 2.4 | 2.8 |
| Short term interest rate (3 months average) | 1.6 | 1.0 | 0.1 | 0.1 |
| EUR FX rate (ave) | 309.9 | 311.5 | 309.2 | 318.9 |
| EUR FX rate (eop) | 313.1 | 311.0 | 310.1 | 321.5 |
| Current account balance (share of GDP) | 2.8 | 6.2 | 3.2 | 1.2 |
| General government balance (share of GDP) | -1.9 | -1.6 | -2.2 | -2.0 |

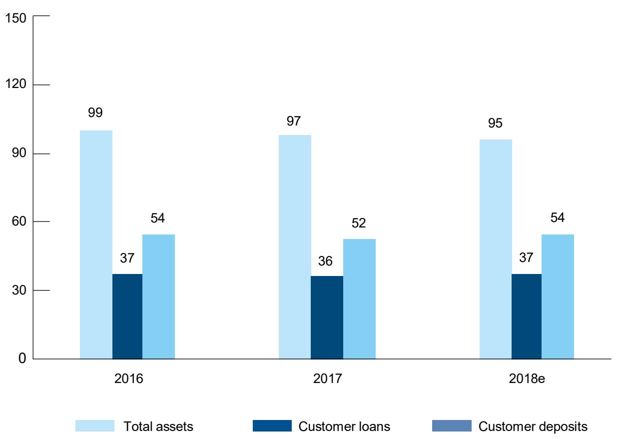
Source: Erste Group

## Market review

Hungary's banking market continued to perform well, reflecting the favourable macroeconomic environment. Customer loan growth accelerated to 10.6%. Growth in the retail sector was mainly driven by the increase in mortgage lending, which was largely attributable to the Home Purchase Subsidy Scheme for families and certified consumer-friendly mortgage products. The latter was modified in 2018, as the National Bank of Hungary introduced a new fifteen-year fixed interest rate facility and terminated the three-year fixation. In addition, the National Bank also modified the payment-to-income limits with the aim of encouraging clients towards loans with longer interest rate fixation periods. In corporate lending, a new funding for growth scheme was introduced with the aim of raising the proportion of fixed-rate lending to SMEs. Overall, corporate loans increased by 14.9%, mainly driven by lending to SMEs. At 14.3%, customer deposits outgrew customer loans. Similar to the lending business, corporate deposits grew more visibly than retail deposits. The banking system's loan-to-deposit ratio stood at 67.6% at year-end.

The Hungarian banking sector increased profitability. While the low interest rate environment continued to weigh on revenues, risk provisions declined substantially on the back of net provision releases and favourable macroeconomic indicators. Banks continued to pay banking tax. It was calculated on the basis of total assets of 2016, with a tax rate of 21 basis points. The government decided to reduce the tax rate to 20 basis points from 2019 onwards. Overall, the banking sector's return on equity rose to 13.4%. The Hungarian banking sector continued to be well capitalised with a capital adequacy ratio of more than 16.8%.

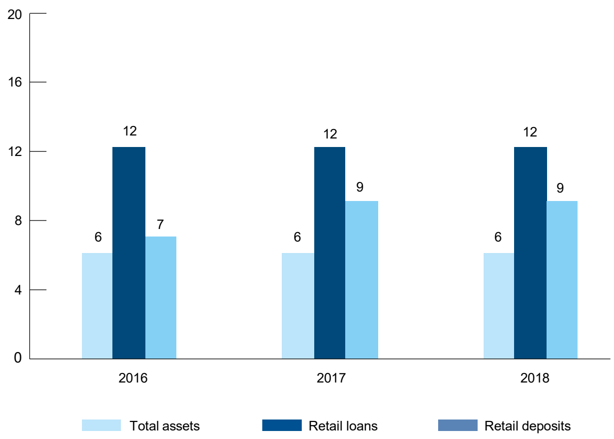
### Financial intermediation – Hungary (in % of GDP)




Source: National Bank of Hungary, Erste Group

Erste Bank Hungary continued to be a major market player in the country. The bank's market share in customer loans was stable at 9.3%, with the retail business remaining at a higher share than the corporate business. Customer deposit market share edged down slightly to 7.4%. In terms of total assets, Erste Bank Hungary's market share increased to 6.1%.

**Market shares – Hungary (in %)**




Source: National Bank of Hungary, Erste Group

## Business review 2018 – three questions to the CEO of Erste Bank Hungary, Radován Jelasity

**How did the competitive environment change?** After years of stagnation and even deleveraging, the Hungarian banking sector was characterised by a double-digit lending growth in 2018. Central bank initiatives influenced business development. The central bank introduced new payment-to-income limits. As a result, customers opted for long-term – at least 10 year – fixations over floating or short-term fixations. Pushing towards fixed loans started in the SME segment as well. The programme *Funding for Growth Scheme Fix (FGS Fix)* was introduced by the central bank; its objective is to raise the proportion of long-term fixed rate lending to SMEs.

**Considering the strategic focus of your bank, what did you do differently compared to the past?** Our focus remained on unsecured lending (consumer loans and credit cards) in retail and on SME lending in the corporate segment. We introduced products for SMEs and micro enterprises under the new brand Erste Power Business. Corporate customers have benefited from our new express loan process, retail customers from automated decision-making for unsecured loans and online personal loan application and disbursement process. In addition, we strengthened our position in the cards business. In asset management, we maintained the second position on the market.

We strive for increasing our mortgage stock further, becoming the leading market player in affluent wealth management and reaching the status as prime relationship bank with local champions in the Large Corporate segment.

**Looking back at the year, what were the major challenges and key achievements?** New loan disbursement increased well above market average, both in retail and in corporate business. In retail, personal loans and micro new lending doubled, and our wealth management division grew by 15%. Lending in the corporate segment grew as well substantially. New loan volumes reached the HUF 600 billion three-year strategic target half a year earlier than planned.

Among the major challenges were the labour market situation and the pace of digitalisation. Labour shortage is a barrier to growth, and the resulting wage pressure weighs on operating expenses.

We have initiated the programme *Erste Care* to recognise the loyalty of our employees. This programme comprises various elements including additional sabbatical days, health and pension insurance for our employees. Last but not least, we started the reconstruction of our headquarters to create a modern workplace.

Erste Bank Hungary has again received several awards. The bank's private banking team won *Blochamps' Business Developer of the Year* award, and among other prizes, our bank received the *ACI's Innovation Award* for a real-time electronic payment and banking solution.

## Financial review

| in EUR million | 2017 | 2018 | Change |
|---|---|---|---|
| Net interest income | 198.4 | 198.8 | 0.2% |
| Net fee and commission income | 157.4 | 170.2 | 8.1% |
| Net trading result and gains/losses from financial instruments at FVPL | 35.1 | 45.4 | 29.4% |
| Operating income | 395.0 | 418.4 | 5.9% |
| Operating expenses | -220.8 | -212.4 | -3.8% |
| Operating result | 174.2 | 206.0 | 18.2% |
| Cost/income ratio | 55.9% | 50.8% | |
| Impairment result from financial instruments | 35.1 | 36.3 | 3.3% |
| Other result | -28.6 | -67.2 | >100.0% |
| Net result attributable to owners of the parent | 164.9 | 166.8 | 1.1% |
| Return on allocated capital | 29.3% | 20.8% | |

The segment analysis is done on a constant currency basis. The HUF depreciated by 3.2% against the EUR in the reporting period. Net interest income in the Hungary segment (comprising Erste Bank Hungary Group) remained stable on the back of higher loan and deposit volumes, although a change in the segmental capital benefit calculation methodology had a negative effect. Net fee and commission income rose due to higher card, payments and securities fees. Net trading result and gains/losses from financial instruments at FVPL improved mainly due to the higher contribution from derivatives. Operating expenses decreased on the back of lower personnel and consultancy expenses. Deposit insurance contributions amounted to EUR 7.5 million (EUR 8.7 million). Consequently, operating result and the cost/income ratio improved. Marginally higher net releases of risk provisions (reflected in the impairment result from financial instruments) were posted in corporate business. Other result deteriorated due to the non-recurrence of provision releases and higher banking levies of EUR 58.9 million (EUR 55.3 million). This line item also included the contribution to the resolution fund of EUR 2.6 million (EUR 1.9 million). Overall, the net result attributable to the owners of the parent increased.

### Credit risk

Credit risk exposure in the Hungary segment rose again significantly to EUR 8.9 billion (+13.1%). Loans to customers likewise registered robust growth, rising to EUR 4.1 billion (+9.1%). The share of the Hungary segment in Erste Group's total loans to customers was largely stable at 2.7% (2.6%). While loans to private households rose at a relatively modest rate, loans to corporates increased significantly to more than EUR 1.8 billion (+18.1%). The share of loans denominated in Hungarian forint stood at 74.5% (75.7%). Asset quality again improved substantially. Non-performing loans as a percentage of total loans to customers declined to 3.7% (5.5%). Asset quality was particularly strong in the corporate business, with an NPL ratio of 0.7% (1.7%). NPL coverage based on loan loss provisions stood at 84.6% (89.3%).

## CROATIA

### Economic review

The Croatian economy performed well again in 2018. Domestic demand remained the main growth driver. Private consumption benefitted from the improving labour market and increasing disposable income. Investments were supported by EU fund absorption. In addition, Croatia's well-developed tourism industry had another excellent year, with overnight stays expanding by 4%. Net exports did not contribute to GDP growth. The restructuring of Agrokor continued and a debt settlement was reached in July 2018. The negative spill-over effects on the economy were largely mitigated. The unemployment rate declined to 8.6%, still high compared to other countries in CEE. Overall, real GDP grew by 2.8% and GDP per capita increased to EUR 12,000.

Croatia recorded its first ever budget surplus in 2017, and public finances remained in good shape throughout 2018. Revenues grew strongly on the back of positive labour market developments, higher wages, and consumer spending. Expenses grew less than revenues and were driven by higher public sector salaries, which were partially offset by declining debt service costs. The general government balance stood at 0.2%, and public debt as a percentage of GDP declined to 74.1%.

Inflation remained well under control. Average consumer prices rose to a moderate 1.5% on the back of higher energy and food prices. The Croatian kuna remained broadly stable against the euro at around 7.4 throughout the year. Given the country's very high use of the euro, the National Bank of Croatia's objective to preserve the nominal exchange rate stability remained in place, and it maintained its accommodative monetary stance throughout 2018.

The favourable economic development was recognised by Fitch and Standard & Poor's. Both rating agencies upgraded the country's long-term credit rating to BB+ with a positive outlook. Moody's kept its rating unchanged at Ba2 with stable outlook. In March 2019, Standard & Poor's further upgraded the rating to BBB- with a stable outlook.

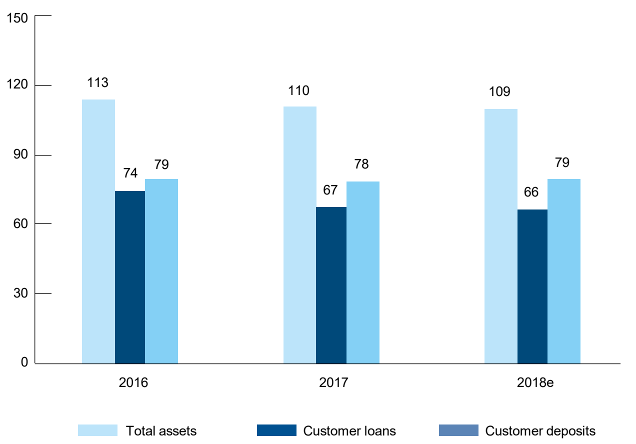
| Key economic indicators – Croatia | 2015 | 2016 | 2017 | 2018e |
|---|---|---|---|---|
| Population (ave, million) | 4.3 | 4.3 | 4.3 | 4.3 |
| GDP (nominal, EUR billion) | 44.6 | 46.7 | 49.0 | 51.5 |
| GDP/capita (in EUR thousand) | 10.4 | 10.8 | 11.4 | 12.0 |
| Real GDP growth | 2.4 | 3.5 | 2.9 | 2.8 |
| Private consumption growth | 1.0 | 3.4 | 3.6 | 3.5 |
| Exports (share of GDP) | 22.8 | 22.5 | 23.9 | 23.4 |
| Imports (share of GDP) | 38.5 | 38.3 | 40.7 | 41.3 |
| Unemployment (Eurostat definition) | 16.3 | 13.1 | 11.3 | 8.6 |
| Consumer price inflation (ave) | -0.5 | -1.1 | 1.1 | 1.5 |
| Short term interest rate (3 months average) | 1.0 | 0.6 | 0.5 | 0.5 |
| EUR FX rate (ave) | 7.6 | 7.5 | 7.5 | 7.4 |
| EUR FX rate (eop) | 7.6 | 7.6 | 7.5 | 7.4 |
| Current account balance (share of GDP) | 4.5 | 2.6 | 4.0 | 2.3 |
| General government balance (share of GDP) | -3.3 | -0.9 | 0.8 | 0.2 |

Source: Erste Group

### Market review

Supported by the strong economic performance, Croatia's banking market revived in 2018. After having suffered from relatively weak demand for banking products for years, the lending market recovered, and customer loans grew by 2.4%. Demand for local currency based lending remained strong. Retail lending outperformed corporate lending. Within corporate business, tourism and export-related lending increased visibly. Customer deposits increased by 5.7%, mainly driven by corporate deposits. The banking system's loan-to-deposit ratio declined to 83.3% at the end of the year. With total banking assets at 109.1% of GDP, Croatia's level of financial intermediation as well as the capital adequacy of the Croatian banking system at 22.9% remained among the highest in the region.

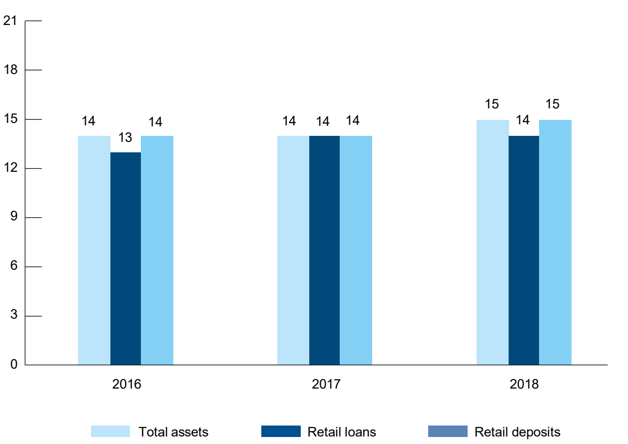
### Financial intermediation – Croatia (in % of GDP)




Source: National Bank of Croatia, Erste Group

Consolidation of the banking sector continued. In terms of total assets, the merger of OTP and Splitska Banka created the fourth-largest bank of the country. Profitability of the banking sector improved visibly, supported by revived lending and lower risks costs. The market was characterised by a shift towards products denominated in local currency.

### Market shares – Croatia (in %)




Source: National Bank of Croatia, Erste Group

The favourable economic environment and further sales of non-performing loans supported asset quality. The NPL-ratio declined to 9.8 % at the end of the year. The capital adequacy ratio in excess of 20% underpins the high robustness of the local banking system. Overall, the country's banking sector achieved a return on equity of 8.4%.

Erste Bank Croatia remained among the top-three players in the market, with a market share in terms of total assets of 14.7%. The bank outperformed the market, with customer loans and customer deposits increasing by 16.5% and 14.4%, respectively. The bank's loan-to-deposit ratio stood at 96.0%.

## Business review 2018 – three questions to the CEO of Erste Bank Croatia, Christoph Schöfböck

**How did the competitive environment change?** The market environment in Croatia exhibited several important characteristics, such as the maintenance of positive trends on the fiscal consolidation side, a continuation of the consolidation trend in the banking sector and further announcements about Croatia joining the euro zone, particularly against a backdrop of a stronger involvement in the European integration space, long-term stability of the economy and a reduction of the currency risk. In this context, implementing true structural reforms, finding an adequate response to the emigration problem, and reinforcing legal and political stability have become even more important.

In spite of maintaining the euro zone course, demand for loans denominated in Croatian kuna continued to increase last year. As local currency sources of finance remain constrained by the traditionally strong preference of depositors' towards foreign currency savings, this poses a significant challenge to the banking system.

We also witnessed the first tangible responses of banks and card companies to the growing challenges of digitalisation. The processes of acceleration of time-to-market, more frequent changes and adaptations of existing products and comprehensive digital business transformation will continue next year at a faster pace.

**Considering the strategic focus of your bank, what did you do differently compared to the past?** Stable operations, loan growth in retail and corporate and responsible risk policy management confirm that we are following the right business model. Lower risk provisions were the main driver of the increase in net profit. This was partly due to the general positive portfolio trends and the lower share of non-performing loans, and partly a result of the elevated risk provisions related to the insolvency of the Agrokor conglomerate and its associate companies.

In addition to loan growth, our focus on SMEs helped us to maintain and strengthen our position as a market leader. On the retail side, consumer lending was the main driver of new loan growth, while mortgages maintained a moderate upward trend. Overall, we strive for sustainable success, and we focus on long-term relations with our customers and other stakeholders in social community.

**Looking back at the year, what were the major challenges and key achievements?** Improved process efficiency and adequate responses to human resources challenges, such as reacting to wage pressure and keeping talent in order to remain a top employer in the country, contributed to the successful business performance. In addition, we remained the market leader in customer satisfaction in the retail and corporate segments and posted stable capital adequacy parameters, a single-digit NPL-ratio and a balanced loan-to-deposit ratio.

We consider the development of digital channels as an important part of our long-term strategy. This made the introduction of the first fully digitalised credit card application procedure in the Croatian market possible and the launch of a mobile app featuring a special functionality to allow users to manage transactions in instalments. In addition, the bank launched another app that allows users to send and receive payments quickly, securely and free of charge. This is the first banking solution in the Croatian market designed for all users, regardless of the bank with which they have their account.

Our bank was named Most Active Partner Bank in Croatia by the EBRD *Trade Facilitation Programme;* its aim is to promote growth through trade finance activities and support exports.

### Financial review

| in EUR million | 2017 | 2018 | Change |
|---|---|---|---|
| Net interest income | 270.5 | 273.7 | 1.2% |
| Net fee and commission income | 95.8 | 98.9 | 3.2% |
| Net trading result and gains/losses from financial instruments at FVPL | 26.6 | 30.3 | 13.8% |
| Operating income | 414.0 | 420.3 | 1.5% |
| Operating expenses | -206.3 | -212.5 | 3.0% |
| Operating result | 207.7 | 207.8 | 0.0% |
| Cost/income ratio | 49.8% | 50.6% | |
| Impairment result from financial instruments | -116.1 | -33.1 | -71.5% |
| Other result | -9.0 | -1.3 | -85.2% |
| Net result attributable to owners of the parent | 37.7 | 95.7 | >100.0% |
| Return on allocated capital | 10.4% | 19.1% | |

The segment analysis is done on a constant currency basis. The HRK appreciated by 0.6% against the EUR in the reporting period. Net interest income in the Croatia segment (comprising Erste Bank Croatia Group) increased as higher contributions from deposits and consumer loans in the retail business offset a lower contribution from balance sheet management and lower corporate lending volumes. Net fee and commission income rose as higher card and payment fees in retail and corporate business entirely compensated non-recurring income from debt issuance realised last year. Net trading result and gains/losses from financial instruments at FVPL increased on the back of higher gains from foreign-exchange transactions. Operating expenses went up due to higher personnel as well as IT costs and included a EUR 11.1 million (EUR 10.9 million) deposit insurance fund contribution. Overall, operating result remained stable, while the cost/income ratio increased. The notable improvement of impairment result from financial instruments was primarily driven by significantly lower provisioning needs in the corporate business. Other result improved on the non-recurrence of last year's impairment of a participation. This line item included resolution fund contribution in the amount of EUR 3.8 million (EUR 4.0 million). Consequently, the net result attributable to the owners of the parent improved significantly.

### Credit risk

In the Croatia segment, credit risk exposure rose to almost EUR 9.9 billion (+5.5%), while loans to customers increased slightly faster to EUR 6.7 billion (+5.8%). The share of this segment in Erste Group's total loans to customers was unchanged at 4.4%. The composition of the loan portfolio by customer segment shifted slightly from corporate to retail loans. At 9.4% (9.5%), the public sector accounted for a significantly larger share in the Croatia portfolio than it did in the group as a whole. The share of local currency loans rose to 35.8% (31.5%) of total loans to customers. Most loans were still denominated in euro. The volume of Swiss franc denominated loans was down to 0.4% (1.0%). Due to the widespread use of the euro in Croatia, the share of foreign-currency loans is still high but has been declining continuously in recent years. Euro loans are usually matched by corresponding income or deposits in euro. Asset quality, which in the previous year had been impaired by the default of one large corporate, improved again significantly. The NPL ratio decreased to 9.5% (12.3%). The NPL coverage ratio based on loan loss provisions rose to 73.5% (70.9%).

## SERBIA

### Economic review

The Serbian economy continued its very good performance in 2018. Economic growth was driven by robust private and public consumption and double-digit investment growth. Consumption benefitted from growing wages, increasing consumer confidence and further improvements in the labour market. In addition, construction activity grew significantly, and the agricultural sector also performed well. Despite the vibrant performance of exports, the trade balance did not contribute to economic growth due to strong import demand. The unemployment rate declined further to 13.3%, still high compared to other CEE markets. Overall, real GDP grew by 4.3%, and GDP per capita stood at EUR 6,100.

Fiscal consolidation in Serbia improved further, and the general government balance again recorded a surplus. The positive development of the fiscal position was a result of robust consumption, more efficient tax collection and an improved labour market. Public debt as a percentage of GDP improved to 53.8%. Inflation decreased and remained within the national bank's target range of 1.5% to 4.5%. Overall, average consumer prices increased by 2.0%. The Serbian dinar remained broadly stable versus the euro throughout the year. The stable currency and improved fiscal performance led the National Bank of Serbia to cut the base rate by 50 basis points to 3.00%. Standard & Poor's upgraded the country's outlook from stable to positive and assessed the country's long-term credit rating at BB. Fitch kept the rating at BB and Moody's at Ba3, both with a stable outlook.

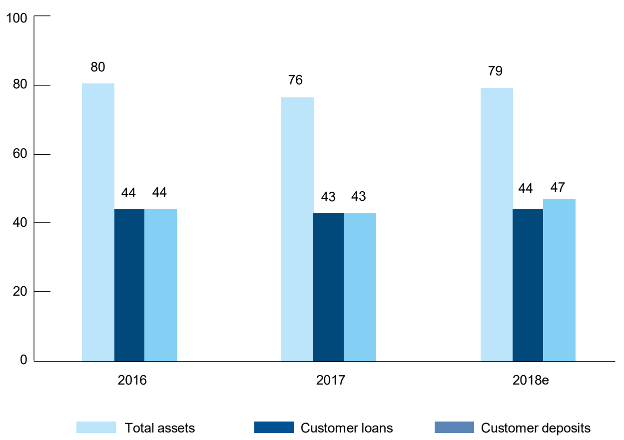
| Key economic indicators – Serbia | 2015 | 2016 | 2017 | 2018e |
|---|---|---|---|---|
| Population (ave, million) | 7.1 | 7.1 | 7.0 | 7.0 |
| GDP (nominal, EUR billion) | 35.7 | 36.7 | 39.2 | 42.8 |
| GDP/capita (in EUR thousand) | 5.0 | 5.2 | 5.6 | 6.1 |
| Real GDP growth | 1.8 | 3.3 | 2.0 | 4.3 |
| Private consumption growth | -1.1 | 1.4 | 2.1 | 3.3 |
| Exports (share of GDP) | 33.7 | 36.6 | 38.4 | 38.0 |
| Imports (share of GDP) | 45.0 | 46.5 | 49.5 | 51.2 |
| Unemployment (Eurostat definition) | 18.2 | 15.9 | 14.1 | 13.3 |
| Consumer price inflation (ave) | 1.4 | 1.1 | 3.1 | 2.0 |
| Short term interest rate (3 months average) | 6.1 | 3.4 | 3.4 | 2.9 |
| EUR FX rate (ave) | 120.7 | 123.1 | 121.3 | 118.3 |
| EUR FX rate (eop) | 121.5 | 123.4 | 118.2 | 118.3 |
| Current account balance (share of GDP) | -3.4 | -2.9 | -5.2 | -5.2 |
| General government balance (share of GDP) | -3.5 | -1.2 | 1.1 | 0.6 |

Source: Erste Group

## Market review

The positive macroeconomic performance was also reflected in the performance of the Serbian banking market. The lending market, similar to the previous year, was largely driven by retail loans, which increased by 12.5%. Corporate loans started to recover and grew by 7.6%. Customer deposits increased by 15.2%, mainly attributable to the retail business. At year-end, the banking sector's loan-to-deposit ratio stood at 94.4%. Consolidation of the sector continued. Many of the country's largest banks were owned by foreign parent companies, among which Italian, French, Austrian and Hungarian banks controlled 58% of total assets. Serbia's banking sector remained well capitalised, with the total capital ratio of above 20%.

**Financial intermediation – Serbia (in % of GDP)**




Source: National Bank of Serbia, Erste Group

The Serbian banking sector posted another highly profitable year. Operating result of the banking sector improved further on higher net interest income and fee and commission income as well as strict cost control. Profitability was also supported by releases in risk provisions. Asset quality improved mainly on the back of the low interest rate environment and favourable labour market development. The NPL ratio in the retail business continued to be significantly lower than in the corporate segment. Overall, the sector's return on equity stood at 11.3%.

Erste Bank Serbia maintained its position among the country's top ten banks and continued to gain market share in both retail and corporate business. Its market share of customer loans increased to 6.3%, retail and corporate market shares stood at 6.5% and 6.1%, respectively. The bank's market share for customer deposits stood at 4.9%. The bank's deposit base remained evenly divided between euro and dinar deposits. Erste Bank Serbia's loan-to-deposit-ratio equalled 121.5%.

### Business review 2018 – three questions to the CEO of Erste Bank Serbia, Slavko Carić

**How did the competitive environment change?** The consolidation wave that started a year ago continued, creating two stronger players. OTP acquired Vojvođanska Banka, pushing total combined assets of OTP's Serbian subsidiary up two and a half times its initial size, and Direktna Banka roughly doubling in size after having acquired Piraeus Bank's Serbian subsidiary, thus creating a strong mid-size player.

Most of the banks have retained their focus on retail business, which was the main growth driver of lending activity. The leading retail banks continued to focus on mortgages and cash loans. The corporate sector has started to recover, particularly in the SME business.

**Considering the strategic focus of your bank, what did you do differently compared to the past?** In 2018, we continued to focus on mortgages. High levels of customer satisfaction combined with favourable conditions based on customer needs resulted in 40% year-on-year growth. We are proud of our customer experience results; 85% of the respondents are satisfied or even completely satisfied with the process of granting mortgages. Our net promoter score in the semi-annual survey confirmed a very high result.

We continued to expand our footprint and opened five new branches. The total branch network comprises 87 branches as of year-end.

We have started a transformation process and aim at becoming the top bank in terms of customer experience, being among the top 3 in terms of profitability, and we want to be the employer of choice in our market.

**Looking back at the year, what were the major challenges and key achievements?** 2018 was characterised by stricter regulatory requirements, and we had to cope with a huge IT migration project. Despite these headwinds, we were particularly successful in the retail area. We achieved retail lending growth of 34%, while the market grew 13%. Growth in the corporate area was not as pronounced, but at 22%, also exceptional. In addition to lending growth in the corporate business, the development in fee income was highly satisfactorily, mainly driven by cash management. The robust performance in lending growth was made possible by our excellent service quality and the expansion of our branch network. Even with lending growth, we kept asset quality at very healthy levels. At year-end, the NPL-ratio stood at 1.7%.

Another highlight of the year was the new marketing campaign focusing on the topic of brain drain in Serbia, winning the *Silver Effie Award 2018* in the Financial Services category for the Housing Loan 2017 campaign. *Effie Worldwide* are globally recognised awards for the efficiency and effectiveness of brand communication, and the precondition are measurable results showing brand achievements of the campaign compared to previously given targets.

## Financial review

| in EUR million | 2017 | 2018 | Change |
|---|---|---|---|
| Net interest income | 51.3 | 50.7 | -1.1% |
| Net fee and commission income | 11.3 | 13.4 | 18.4% |
| Net trading result and gains/losses from financial instruments at FVPL | 4.1 | 5.1 | 23.6% |
| Operating income | 67.0 | 69.3 | 3.4% |
| Operating expenses | -45.1 | -49.6 | 10.1% |
| Operating result | 21.9 | 19.7 | -10.3% |
| Cost/income ratio | 67.3% | 71.6% | |
| Impairment result from financial instruments | 1.2 | 1.7 | 40.6% |
| Other result | -0.3 | -0.5 | 60.9% |
| Net result attributable to owners of the parent | 17.0 | 15.5 | -8.9% |
| Return on allocated capital | 15.5% | 10.1% | |

The segment analysis is done on a constant currency basis. The RSD appreciated by 2.6% against the EUR in the reporting period. Net interest income in the Serbia segment (comprising Erste Bank Serbia Group) decreased due to a lower contribution from the corporate business and balance sheet management despite better performance of the retail business on higher loan and deposit volumes. Net fee and commission income improved due to higher guarantee fees in corporate business and higher payment fees in retail business. Net trading result and gains/losses from financial instruments at FVPL went up on the back of government bond valuation effects. The increase in operating expenses was driven by higher personnel and IT costs. Deposit insurance contribution rose to EUR 4.0 million (EUR 3.2 million). Operating result thus declined, and the cost/income ratio deteriorated. The slight improvement of impairment result from financial instruments was primarily driven by model changes. Overall, the net result attributable to the owners of the parent decreased.

## Credit risk

Credit risk exposure in the Serbia segment increased substantially to nearly EUR 1.9 billion (+24.5%). The customer loan portfolio also registered strong growth. Loans to customers increased to almost EUR 1.3 billion (+30.7%). This very dynamic development was attributable in almost equal parts to the expansion of retail and corporate businesses, while lending to the public sector declined slightly. The share of foreign-currency loans – denominated almost exclusively in euro – in the total loan portfolio stood at 77.8% (78.0%). This very large share of foreign-currency loans is mainly attributable to the wide-spread use of the euro in Serbia due to the weakness of the local currency. Euro loans are usually matched by corresponding income or deposits in euro. Write-downs, partly in connection with the adoption of IFRS 9, and sales of non-performing loans resulted in another visible improvement in asset quality. Non-performing loans as a percentage of the total loan portfolio declined to 1.7% (3.3%). NPLs were fully covered by loan loss provisions.

# OTHER

## Financial review

| in EUR million | 2017 | 2018 | Change |
|---|---|---|---|
| Net interest income | 105.5 | 113.7 | 7.8% |
| Net fee and commission income | -30.0 | -58.4 | 94.8% |
| Net trading result and gains/losses from financial instruments at FVPL | -140.2 | -44.7 | -68.1% |
| Operating income | -35.2 | 25.8 | n/a |
| Operating expenses | -269.6 | -236.3 | -12.4% |
| Operating result | -304.8 | -210.5 | -30.9% |
| Cost/income ratio | >100.0% | >100.0% | |
| Impairment result from financial instruments | -12.6 | -6.6 | -47.5% |
| Other result | -37.5 | -103.4 | >100.0% |
| Net result attributable to owners of the parent | -256.8 | -121.6 | -52.7% |
| Return on allocated capital | -3.0% | -1.9% | |

Operating income improved primarily due to a better valuation result in the line item gains/losses from financial instruments at FVPL. Operating expenses declined despite higher IT costs, and operating result improved. Other result deteriorated on the non-recurrence of last year's selling gains. Overall, the net result attributable to the owners of the parent improved.

# (Consolidated) non-financial report

For Erste Group, considering the impact of its entrepreneurial activities on society is nothing new. On the contrary, looking beyond financial performance is very much in line with the idea of social responsibility to which Erste österreichische Spar-Casse committed itself when it was founded in 1819.

Resolving the conflicting targets of profitability and the ecological and social impact of its business is also a key element for the management of Erste Group. In this regard, Erste Group's Statement of Purpose offers valuable guidance by defining the following tasks and principles:
- Disseminating and securing prosperity
- Accessibility, independence and innovation
- Profitability
- Financial literacy
- It is about people
- Serving civil society
- Transparency, stability, simplicity

Every business has to answer two key questions every time it takes a decision: "Is it profitable?" and "Is it legal?" For Erste Group, this has never been enough. Answering the "third question" that arises from the Statement of Purpose is an expression of its corporate responsibility. "Is it the right thing to do?" is the question that every employee has to answer before taking a business decision. The awareness and the mindset behind it are firmly embedded in Erste Group.

## Implementation of the reporting obligation as a combined non-financial report

To meet the statutory requirement of disclosing non-financial information Erste Group has decided to include the (consolidated) non-financial report (NFI report) in its annual report, thus fulfilling its obligations under sections 243b and 267a of the Austrian Commercial Code (UGB). Erste Group has drawn up this (consolidated) non-financial report in conformity with the Global Reporting Initiative (GRI standard: core option). The non-financial report is not subject to the audit of the consolidated financial statements. Deloitte Audit Wirtschaftsprüfungs GmbH has been mandated with the performance of a voluntary audit of the contents of the non-financial report. The following areas have been subjected to a more detailed review: environmental data, staff indicators, anti-corruption measures and data security

The reporting obligation under UGB covers, as a minimum, the following topics: environmental, social and employee matters, respect for human rights and measures against corruption and bribery.

Non-financial reports have to be prepared for the same scope of consolidation that is covered by financial reporting. The calculation of non-financial data, such as energy consumption per employee, is based on all material Erste Group entities that have at least one employee, with the exception of Austrian savings banks that are included in the scope of consolidation under the Haftungsverbund agreement. In this 2018 NFI report, human resources-relevant data are captured at single entity level. Environmental data are captured on the basis of properties used for banking operations with the exemption of savings banks with a headcount below 300 employees. Over the coming years, the aim is to gradually include the data of all consolidated companies, including the savings banks, in the non-financial report.

## Sustainability at Erste Group

The founding concept of Erste österreichische Spar-Casse, the predecessor of Erste Group, already embraced the idea of contributing to the common good. Erste Group has expanded its core activities from those of a traditional savings bank focused on retail lending and deposit-taking to include those of an international bank providing financial services to all sectors of the economy in its core markets. Unlike the operations of many other financial service providers, Erste Group's business has always been firmly embedded in the real economy. Customer savings deposits fund the loans for housing construction or purchases or investments by companies. This is how Erste Group creates sustainable value for society. As one of the leading banks in Central and Eastern Europe, Erste Group is also an important employer, taxpayer and customer of – mostly local – suppliers.

According to Erste Group's own definition, sustainability means to operate the Bank's core business profitably while also taking into account social and ecological criteria. Erste Group's environmental strategy uses the definition of sustainability as presented in the UN's Brundtland report *Our Common Future* of 1987: "A sustainable development is a development which meets the needs of current generations without compromising the ability of future generations to meet their own needs".

While several generations of savings bankers have been committed to doing business responsibly, the establishment of the Group Sustainability Office underpins the increasing strategic importance of non-financial aspects. This staff position reports to the Chief Risk Officer. Its main focus is on the development and implementation of group-wide policies relating to the environment, diversity, corporate volunteering and corporate social responsibility as well as the implementation of the group-wide Code of Conduct.

The sustainability board, newly created in late 2017, is headed by Erste Group's Chief Risk Officer. It is composed of one board member from each of the local banking subsidiaries and the head of the Group Sustainability. The Sustainability Board is responsible for developing and monitoring sustainability topics across the group.

One of the key tasks in the year ahead will be the further alignment of Erste Group's strategy and business operations with the 17 Sustainable Development Goals (SDGs) adopted by the UN member states. For more information on the *United Nations' SDGs* see http://www.un.org/sustainabledevelopment/. Erste

Group's materiality table highlights the SDGs that are being supported.

In principle, Este Group supports all SDGs. Given its regional footprint and business model, Erste Group is in fact able to make notable contributions to the achievement of the following SDGs:

- No poverty (SDG 1)
- Good health and well-being (SDG 3)
- Quality education (SDG 4)
- Gender equality (SDG 5)
- Decent work and economic growth (SDG 8)
- Reducing inequalities (SDG 10)
- Sustainable cities and communities (SDG 11)
- Climate action (SDG 13)
- Partnerships for the goals (SDG 17).

# MATERIALITY ANALYSIS

The starting point of non-financial reporting is a materiality analysis to identify those material topics that have relevant social and economic impacts from Erste Group's point of view and from environmental and societal perspectives. These matters were identified as a result of in-house discussions, partly in consultation with stakeholders that are relevant to Erste Group: employees, customers, management (supervisory board, management board), investors and authorities/supervisors/policy-makers.

The current report is based on the most recent evaluation of the materiality analysis performed in 2017. In 2018, data security, which was also covered in 2017, was adopted as a material topic. This was in particular due to tighter national and international data protection laws and regulations as well as growing awareness among private individuals and companies of the risks related to the potential abuse of personal data.

To make the context of the material topics more visible, they have been categorised by higher-level topic areas. Further information on how Erste Group reflects these topics in its strategy and business activities is provided in the chapters commitment to society, customers, suppliers, employees and environment of the non-financial report. Anti-corruption measures may affect all stakeholders, but usually address the interaction with customers or suppliers. For further information on this topic, please refer to the additional corporate governance principles presented after the corporate governance report.

## Material topics for Erste Group

### Social responsibility

**Financial literacy (SDG 1/4/8).** For Erste Group, this is a key factor in creating equal opportunities, economic prosperity and social inclusion. In most cases, a lack of financial literacy means fewer opportunities in almost all spheres of life.

**Social commitment (SDGs 4/5/10).** Erste Group aims to be not only commercially successful but to also act in a socially responsible manner. It therefore pursues a multitude of activities that contribute to the cultural and social development of society and also encourages its employees' individual social involvement.

### Employees

**Diversity and equal opportunity (SDG 5/10).** For Erste Group, diversity and equal opportunity are key elements of its human resources strategy. It therefore seeks to offer a work environment that is free of discrimination, that values the work of each and every person regardless of gender, age, disability, marital status, sexual orientation, skin colour, religious or political affiliation, ethnic background, nationality or any other aspect unrelated to their employment.

**Employee health & work-life balance (SDG 3/5).** Erste Group is convinced that employees perform better and are more motivated when their work and private life are well balanced and when the company contributes to their good health. The focus of Erste Group is on fostering an awareness of the importance of a healthy lifestyle and promoting preventive health care as a complementary service to the public health-care system.

### Customers

**Customer satisfaction (SDG 8).** High levels of customer satisfaction and the resulting customer loyalty secure the Bank's long-term success. It is therefore vital to continually adapt products and services to customers' expectations and needs and to ensure high service quality.

**Anti-corruption.** Corruption and bribery are a problem in many parts of the economy. Erste Group employees are required to attend a customised training programme enabling them to recognise and prevent fraud and corruption. Conflicts of interest between customers, Erste Group and employees are governed by clear rules such as provisions on employee transactions, the gift policy and research disclaimers.

**Responsible investment and financing (SDG 8/11/13).** Public interest in the indirect impacts of bank products on the environment and society is growing significantly. Erste Group is therefore steadily expanding its range of responsible investment and finance products. When taking business decisions, social and/or ecological criteria are increasingly taken into account in addition to the traditional financial risk aspects.

**Social banking (SDG 1/8).** For a variety of reasons, even today some parts of the population do not have access to financial services of commercial banks. In accordance with its founding principles, Erste Group's social banking programmes help people to help themselves and contribute to a positive economic development of the excluded parts of society.

**Data security.** The security of customer data is a key prerequisite for long-term success in the banking industry and of fundamental importance to Erste Group. Erste Group applies the highest standards in its IT infrastructure and provides ongoing training to its employees to offer maximum protection against the misuse or loss of customer data. The danger of a misuse of customer data as a result of cyber-attacks is steadily increasing and requires ongoing investment to maintain and improve data security.

### Environment

**Ecological impact of banking operations (SDG 13).** Protecting the environment and the climate are among the most significant global challenges. Erste Group aims to minimise its ecological footprint, specifically its consumption of energy and paper, and to use natural resources responsibly.

### Suppliers

**Responsible criteria in the supply chain (SDGs 1013).** In the light of interrelated economic activities, companies must consider not only the ecological and social impact of their own operations, but also those of their entire supply chain. Through its supply-chain management, Erste Group is making every effort to avoid an undesirable indirect impact on the environment and human rights.

## Opportunities and risks arising from material topics

Consideration of the material topics set out above opens up opportunities for improving customer relationships, attracting new customers, improving the environmental footprint as well as maintaining and increasing the attractiveness as an employer. Ignoring non-financial matters may adversely affect Erste Group’s stakeholders. In addition, Erste Group may become exposed to a variety of risks, some of which are interconnected.

Reputation risk exists in all of these matters. In addition, further specific risks may arise. Commitment to society encompasses a variety of activities ranging from financial inclusion of low-income or disadvantaged persons to supporting social initiatives, financial literacy as well as art and culture. Reducing the level of involvement in these areas may, for instance, result in financial gaps at co-operation partners and, consequently, the suspension of initiatives or activities. This may harm reputation and, as a consequence, may have a negative impact on customer retention, lead to a loss of customers and make it more difficult to attract new customers. In this context, consumer protection activities have to be mentioned as well. Offering adequately designed products and services may reduce the adverse impact of such initiatives. Among employees and the public, a loss of reputation as well as inadequate attention to social matters (such as diversity and equal opportunity) may result in a company being less attractive as a preferred employer. This may lead to a decline in employee motivation, extended sick leave and increased employee turnover, and make it harder to recruit adequate staff in the labour market. In addition, a lack of diversity in management bodies or teams may lead to groupthink or critical blind spots in decision-making processes. Ignoring the risk of corruption may lead not only to a loss of reputation, but may also cause financial harm. Failure to deal with environmental matters may result in a deterioration of the ecological footprint, a reputation risk or higher costs due to lower resource efficiency. In the lending business, the value of collateral may decline. For suppliers, failure to respect human rights may adversely affect the working or living conditions of people in the producer's or supplier's country of origin, just as neglecting environmental matters may adversely affect the supplier’s or producer’s environmental footprint. For Erste Group, dealing with suppliers involves delivery risk, reputation risk and the risk of losing customers.

The following materiality table provides an overview of the stakeholder groups, the material matters of the materiality analysis assigned to them, references to GRI standards and references to the sections of the non-financial report in which these topics are explained.

## Materiality table

| Stakeholders | Topics of the materiality analysis | Material topics pursuant to GRI Standard | Chapter in the non-financial report |
|---|---|---|---|
| Customers | _ Customer satisfaction<br>_ Anti-corruption and compliance<br>_ Responsible investment and finance<br>_ Social banking<br>_ Data security | _ Customer privacy (GRI 418-1)<br>_ Anti-corruption (GRI 205-3)<br>_ Anti-competitive behaviour (GRI 206-1)<br>_ Indirect economic impact (GRI 203-2) | _ Customers<br>_ (outside the non-financial report: Corporate governance) |
| Employees | _ Diversity and equal opportunity<br>_ Employee health & work-life balance | _ Employment (GRI 401-1, 401-3)<br>_ Training and education (GRI 404-1)<br>_ Diversity and equal opportunity (GRI 401-3, 405-1)<br>_ Non-discrimination (GRI 406-1) | _ Employees<br>_ (outside the non-financial report: Corporate governance) |
| Investors | | _ Economic performance (GRI 201-1) | _ (outside the non-financial report: Financial statements) |
| Society | _ Financial literacy<br>_ Social commitment<br>_ Social banking | _ Indirect economic impact (FS14 of GRI G4)<br>_ Anti-corruption (GRI 205-3)<br>_ Socioeconomic compliance (GRI 419-1)<br>_ Economic performance (GRI 201-1) | _ Commitment to society<br>_ Customers<br>_ (outside the non-financial report: Financial statements) |
| Environment | _ Social and ecological criteria in the supply chain & ecological impacts of banking operations | _ Materials (GRI 301-1, 301-2)<br>_ Energy (GRI 302-1, 302-4)<br>_ Emissions (GRI 305-1, 305-2) | _ Environment<br>_ Suppliers |
| Suppliers | _ Social and ecological criteria in the supply chain & ecological impacts of banking operations | _ Supplier environmental assessment (GRI 308-1)<br>_ Supplier social assessment (GRI 414-1) | _ Suppliers |

# Commitment to society

Since the foundation of Erste Group 200 years ago, commitment to society has been an important part of its business activities. It encompasses a variety of activities ranging from financial inclusion of low-income or disadvantaged persons, e.g. through financial education, to supporting social initiatives as well as art and culture.

The *Extra*VALUE programme of Erste Group is based on the bank's commitment to social responsibility and intangible values – human, social, cultural – that go beyond the bank's core business activities. This extra value is created by supporting and promoting institutions, initiatives and projects.

Social and sponsoring activities are combined group-wide under the umbrella of the *Extra*VALUE programme. Regional focus, cross-thematic initiatives and cooperation within related fields characterise the programme. Erste Group's *Extra*VALUE programme is a visible sign of the bank's commitment to its responsibility towards society and the individual. Ultimately, it supports personal development and helps people to meet their social and cultural needs.

Because of the multitude of social and educational initiatives, sponsoring of art and culture and corporate volunteering, only a few selected projects can be highlighted here. More detailed information on various Erste Group initiatives is available at https://www.erstegroup.com/en/about-us/responsibility and on the websites of Erste Group's banking subsidiaries in the respective local language and in some cases English.

## SOCIAL AND EDUCATIONAL ACTIVITIES

Erste Group's long tradition of cooperating with established local and international organisations reflects its commitment to the promotion of social welfare and education. The focus of social activities is on providing practical and swift assistance to people in difficult life situations and on support for initiatives creating new opportunities for disadvantaged people. In all core markets, Erste Group also supports diverse educational initiatives.

Erste Bank Oesterreich has supported annual domestic aid campaigns, the initiative for children, *youngCaritas* and *Kulturbuddy* (a platform coordinating volunteers) for many years as a partner of Caritas. Erste Bank Oesterreich has also been sponsoring *Hilfswerk* Österreich, one of the largest non-profit providers of health care, social and family services in Austria, for many years. Additionally, the bank supports a variety of smaller NGOs, such as *lobby.16*, which offers unaccompanied young refugees access to education and employment and helps them participate in social life.

Banca Comercială Română operates *Bursa Binelui*, a crowd funding platform for NGOs. The bank is also a partner of *Teach for Romania*, an initiative to improve the educational system in Romania. *Brutaria de Fapte Bune* encourages employees to propose social projects that are eligible for support. Of these, five projects are selected to receive financial support from Banca Comercială Română. *Salvati Copiii* supports children from disadvantaged regions.

Slovenská sporiteľňa works with partners to assist disadvantaged people and raise awareness about their problems, among them *Inklúzia* (inclusion of people with disabilities) and *Vagus* (resocialisation of homeless people). Slovenská sporiteľňa also supports the country's largest fundraising campaign to provide financial support to families of cancer patients and the project *Hour for Children*, which aims to offer assistance to children and adolescents.

*Superste.net* is a Serbian online hub where people aged 16 to 35 can access funds, mentors, NGO contacts and leaders for their social responsibility projects in the arts, culture and education. Erste Bank Serbia continues to support two science festivals in Belgrade and Novi Sad, which are well known for making science fun, inspiring and motivating not only for kids but also for adults.

Erste Bank Croatia has likewise been focusing on social projects for many years. *Trans Aid Association* is an initiative that is newly supported by the bank to promote diversity and prevent any kind of discrimination.

Erste Bank Hungary launched a #believeinyourself competition. The winner was "Nem Adom Fel Kávézó és Étterem Budapest" (*I don't give up* coffee-house and restaurant), the first café in Budapest that employs people with disabilities and reduced ability to work.

Erste Group has been supporting amateur sporting events in Austria and Central Europe for many decades and is particularly active in fostering young athletes, such as the soccer school league in Austria or the *Erste Dalmatia handball league* in Croatia for children aged 7 to 12.

## FINANCIAL LITERACY

Financial literacy is important for creating equal opportunities, economic well-being and social inclusion. In almost all spheres of life, financial illiteracy limits what people can achieve.

In line with its mission to foster prosperity, Erste Group is involved in a wide variety of financial education activities, helping people of all ages to acquire the skills and abilities they need to make informed and appropriate financial decisions.

In accordance with a recommendation of the Organisation for Economic Cooperation and Development (OECD) that financial education should start as early as possible, Erste Group places particular emphasis on financial education projects for children and young people. Erste Group wants to empower young people to participate in economic life actively and with self-confidence and to understand how the financial system works.

The *Erste Financial Life Park (FLiP)* at the Erste Campus is one of the largest financial education facilities in Europe. Since it opened in October 2016, some 35,000 visitors have taken part in more than 1,700 tours conducted at FLiP. To meet high demand, the number of tours was raised from four to five per day from December 2018 onwards.

Three new financial education formats were developed and successfully launched in 2018:
*FLiP Lecture* - 60 pupils, 60 minutes, 1 expert, 1 topic. Topics of current interest such as blockchain, crypto-currencies, the cashless society and fintechs are explained, discussed and made available via live stream.
*FLiP Geld im Griff (Money under Control)*: working with the association *The Connection,* FLip develops teaching resources for German language courses specifically for young migrants with the aim of building the financial, consumer and language skills they need for coping with the daily challenges at the workplace, in their private lives and in dealing with authorities. The books are designed for all organisations, and in particular NGOs, that offer German language courses for migrants. In September, the first part of a five-volume series was released as a teaching/learning resource with a print run of 3,000 copies and also made available for downloading.
*FLiP Challenge*: since the start of the 2018/19 school year, *FLiP* content can also be viewed online from a smartphone, tablet or computer, at school or at home. With *FLiP Challenge*, teachers can assess the financial literacy of their pupils and obtain an automated evaluation of class performance. *FLiP Challenge* takes about an hour and is designed for pupils in grade 8 or higher. It is planned to add one or two new modules to *FLiP* challenge every year (www.flipchallenge.at).

In 2018, *FLiP* hosted the *1st Financial Education Summit*, where 200 experts from more than 40 countries shared practical insights and scientific contributions on financial education and deepened their expertise in workshops. The topic areas discussed included financial literacy & migration, financial literacy & gender, financial literacy & longer life expectancy and the measurability of social education initiatives.

From 2019, the year in which the Savings Banks Group marks its 200-year anniversary, a mobile *FLiP* version – *FLiP2Go* – will be on tour across all federal states of Austria with support from the regional savings banks. The slogan on the financial education bus reading *Erste Bank und Sparkassen – 200 Jahre Finanzbildung* (200 years of financial education) – reflects the founding principle (to contribute to prosperity through financial education).

In all of our core markets, the subsidiary banks are committed to promoting financial literacy and pursue this mission by means of a wide variety of initiatives and projects.

In 2018, the Slovenská sporiteľňa foundation launched a three-year programme called *Financial literacy for schools up to 2020* in cooperation with the Slovak Ministry of Education. Its aim is to bring financial education to primary and secondary schools to strengthen the financial literacy of Slovak children and young people by investing in teacher training and in teaching resources and methods.

The offer made to Slovak school classes to book FLiP for three days per month remained popular. Overall, more than 1,500 Slovak pupils have already visited *FLiP*, guided by employees of Slovenská sporiteľňa. Erste Bank Serbia continued its workshops in kindergartens and schools. The children taking part learn what banks do and how banks, the economy and businesses work together.

Banca Comercială Română is now regarded as the most important provider of financial education in Romania. More than 1,000 employees have already been trained as financial literacy coaches under the *Scola de Bani* (School of Money) programme started in 2016. Workshops specially tailored to each age group are held in branches, kindergartens, schools but also at various business locations across Romania. This initiative has already reached as many as 160,000 people. With support from the School of Money's financial coaches, 13,230 people from 25 cities in Romania were able to attend the course held on World Savings Day, winning an entry in the Guinness Book of Records. Great popularity is also enjoyed by the *FLiP Truck*, which tours across Romania teaching children aged 6 to 14 how to use money responsibly.

Erste Group's interactive exhibition *The ABC of Money* was continued successfully in 2018 and attracted more than 12,000 visitors. This time, it was hosted by Česká spořitelna. The number of visitors of this popular travelling exhibition, which to date has been on display at eight different venues in Central and Eastern Europe, has thus risen to more than 162,000.

## ART AND CULTURE

Another important activity is sponsorship of art and culture. As part of its *Extra*VALUE sponsoring programme, Erste Bank Oesterreich is the principal sponsor of *Jeunesse*, whose focus is on the promotion of young artists by giving them opportunities to perform professionally on stage as well as on the development of new concepts for teaching music appreciation. Erste Group also supports the Gustav Mahler Youth Orchestra, Jazz at the Konzerthaus, Secession, Tanzquartier Wien, the *ZOOM* Children's

Museum, Wiener Festwochen, the International Children's Film Festival and the promotion *Hunger auf Kunst und Kultur* (Hunger for Art and Culture).

Erste Bank Oesterreich also has a long-standing partnership with *Viennale*, Austria's largest international film festival. Every year, the bank awards the *Extra*VALUE Film Prize and the *Extra*VALUE Design Prize for social design as part of the Vienna Design Week as well as the Erste Bank *Extra*VALUE Art Prize in collaboration with the art association *das weisse haus*. Working with Klangforum Wien and the *Wien Modern* festival, Erste Bank has also been sponsoring the Erste Composition Prize for many years.

Erste Bank Hungary is a long-standing principal sponsor of the unique Hungarian television contest *Virtuózok*, a talent show for classical musicians.

In Slovakia, Slovenská sporiteľňa is most visibly associated with *Bratislava Jazz Days* and the *Viva Musica!* music festival, but also supports exhibitions at the *Danubiana* modern art museum as well as regional theatres in Bratislava, Martin, Nitra, Prešov and Košice. Česká spořitelna is a long-standing sponsor of several international festivals such as *Pražské jaro* and *Kefír* as well as general partner of *Colours of Ostrava*, Česká filharmonie, *Smetanova Litomyšl* and *Bohemia Jazz Fest*.

For 14 years, Erste Bank Croatia has been organising a competition for emerging Croatian artists and art students, called *Erste Fragmenti*. The bank buys ten works of art and awards an art scholarship. Erste Bank Serbia's cultural sponsorship focused on the *Belgrade Guitar Art Festival*, the *Beogradskje jazz festival, Zmajeve Decije Igre* (children's summer festival) as well as activities promoting the inclusion of people with special needs such as *Nerazumevalica* and *Uhvati film* (inclusion film festival). For the first time, Erste Bank Serbia was the principal sponsor of the *Belgrade dance festival*.

Banca Comercială Română sponsors the *Jazz in the Park Festival* in Cluj Napoca. Due to this financial support, admittance to the festival is free and funding is provided for experimental art projects.

## CORPORATE VOLUNTEERING

Donating money is not the only way of supporting people, communities or non-profit organisations. Erste Group funds, supports and encourages employees to actively contribute and volunteer. Employees and managers of Erste Group prove their commitment by donating their time and expertise to NGOs.

In Austria, the *Time Bank* (the electronic volunteering platform of Erste Bank and the Savings Banks) matches employees who want to donate their free time and skills with more than 50 partner organisations. Overall, more than 1,200 employees are registered on this platform and prove their commitment by donating time, goods or skills.

In addition to volunteering, donations in kind remain important. Despite wide-spread prosperity, people on the fringes of society lack items we take for granted such as toys, clothes and sports equipment for children. The *Time Bank* therefore provides long-term support to its partner organisations by organising regular collection activities. In addition to *Winter Aid for Homeless People* (collection of winter clothes), 2018 saw the first collection campaign for the *Johanniter Christmas Truck*. Working down a shopping list, staff filled more than 140 cardboard boxes that were taken to Romania by Johanniter members.

Since 2018, a *Social Day* has become a fixture in talent and management development. It enables participants to make a contribution to our society and future managers acquire valuable social skills.

Most of Erste Group's local banks successfully support volunteering as a team-building activity. Almost all of Erste Group's local banks (except in Austria) give their employees an extra one or two days off each year for volunteering at social welfare institutions. Erste Group thus makes an important contribution to the development of a non-profit sector in CEE. Erste Bank Croatia, for example, signed the *Charter on recognition of competencies acquired through volunteering*, which means that as a bank it recognises the importance of such skills and considers these skills in the recruiting process and in career progression.

# Customers

## FOCUS ON CUSTOMER RELATIONS

Erste Group puts customers and their interests at the centre of its business activities. Only banks that understand the underlying reasons behind the financial needs of their customers can offer the right solutions at the right time. Special attention is devoted to dealing with customers' requests with a high level of quality, within short response times and to providing exactly those solutions that meet the customers' needs - a vital part of establishing and maintaining long-term customer relations.

Erste Group ensures high-quality advisory services by continuously training its employees, focusing clearly on the relationship with the customer and not the transaction.

### Advisory concept

Erste Group's retail business reflects its approach of thinking from the customers' perspective. Only a bank that understands the customers' needs and the individual motives forming those needs is able to develop specific solutions. Customer behaviour is changing: online and mobile channels are growing in importance which encourages Erste Group to increase the accessibility by offering advice not solely face–to-face but also as integrative part across all touch-points via chat, audio and video communication.

This is also supported by a sales incentive scheme that avoids purely product-driven targets and focuses on quality-driven criteria like the quality of customer relationships and digital active usage.

### Products and processes

Product development is driven by customers' needs and the ways customers carry out their banking activities. Products and services reflect flexibility, life-cycle changes, simplicity, security, transparency and easy-to-understand features. In this respect, Erste Group focuses on simplifying the current product portfolios and aims at developing new products and services to meet customer needs in the best possible manner.

## OMNI-CHANNEL APPROACH

Erste Group aims to become an omni-channel bank, allowing its customers to choose between new and traditional sales and communication channels.

For fulfilling simple financial needs, which generally comprise all solutions with low volume, risk or maturity, customers expect more and more service through digital channels. Therefore, Erste Group invests into building up end-to-end sales and servicing capabilities for those solutions. At the same time, for more complex needs, the majority of customers require a seamless switch between different channels, whereby the personal contact in branches remains a very important touch-point.

### Branches

Direct contact with customers through branches remains a substantial asset, especially for more complex customer needs. Confidence and trust in highly-qualified advisors build the basis for successful business relations. Branch interior and infrastructure have to meet the increased expectations of the customers and enable customers to handle their banking business in the branches easily and quickly.

The roll-out of the new branch concept has continued. In total Erste Group has refurbished or newly opened more than 150 branches in Austria, Czech Republic, Croatia, Romania, Serbia and Hungary. Slovenská sporiteľňa will follow in 2019.

### Digital banking

The digital experience expectations of bank customers are constantly growing. Internet savvy as well as traditional customers cannot longer imagine a bank without a digital presence. Digital banking is more than just enabling a cash transfer by using a computer or mobile device. It has to include suitable advice and a simple handling of every banking transaction and tools to have an overview of all completed transactions.

Erste Group has built a unique cross-country digital experience under the George brand, delivering value and opportunities to all its customers across Erste Group's core markets. George enables customers to activate and manage products and services of the bank and third parties in a secure IT environment to help them in their financial lives. Following the successful implementation in Austria, Slovakia, Czech Republic and Romania, George serves more than four million users. In 2019, it will be launched in Croatia and Hungary. The implementation in Serbia will follow after that.

Erste Group has widened the end-to-end product range from opening an account to investment and lending products. Digital sales contributed to new business development in 2018, with one out of seven consumer loans sold digitally.

### Data security

Securing customers' trust means providing adequate protection for their personal data. Maintaining and improving data security is therefore of vital importance to Erste Group. Erste Group applies the highest standards in its IT infrastructure and provides ongoing training to its employees to offer maximum protection against the misuse of personal data.

Keeping customer data safe means protecting them from loss, manipulation or unauthorised disclosure or access. If a breach of data security places the rights and freedoms of the natural persons affected at risk, a notification must be submitted to the competent data protection authority. In 2018, 23 such notifications were sent to the authorities (thereof one such notification for the Holding). If a breach involves a high risk, the persons affected have to be notified. In 2018, twelve such notifications were sent to these individuals (thereof no such notification for the Holding).

## CONTACT CENTER

Customers expect easy service interactions when they need assistance with digital banking. The first point of contact is Erste Group's contact center, where qualified employees answer questions regarding products, services or self-service terminals. The contact centers' agents help customers navigate the digital sales process. In addition, they handle customer complaints and emergencies, such as requests to block credit cards and debit cards. This requires that the contact center is available around the clock.

The contact center has become an integral touch-point for the seamless omni-channel customer journeys. The contact center is not only increasingly more active in advisory and sales processes, which span across channels, it also offers end-to-end services for selected products whenever regulations make it possible, be it unsecured loans, insurances, credit cards and online banking.

To accommodate shifting preferences of customers, Erste Group's contact centers have introduced non-voice communication means, i.e. e-mails and chats. In addition, the contact center has started to offer voice recognition tools and chat-bots.

## BUILDING A STRONG BRAND

A brand is a consistent promise. It is more than a logo, it is about the perception of people when they think of or hear of an organisation, its products and services. Brands have an important identification and differentiation function, which in turn determines whether a customer chooses one brand over another. Ultimately, companies with strong brands benefit from emotional relationships with their customers. Only a few companies were founded with the underlying purpose of more than just profits. Erste Group is one of these and consequently has been benefiting from a high degree of brand awareness and trustworthiness even in economically challenging years.

Erste Group was founded to give everyone access to financial services and developed into an institution that influences the prosperity and the future of the region in which it operates. It is now one of the largest banking groups and employers in Central and Eastern Europe.

Over the last two years, Erste Group has transformed its brand communication from being category and product-driven to having a purpose-driven approach. To this end, Erste Group has put the statement of purpose as the main group-wide pillar of its brand communication. „Our region needs people who believe in themselves and a bank that believes in them“.

#believeinyourself is a powerful message across the group, one that provides orientation. Erste Group is the bank that believes in people, in ideas, in entrepreneurs, in the future of the region. The bank's lead narrative will remain the core of the brand communication in Erste Group's markets in the coming years.

### Sports

In addition to numerous activities oriented on amateur and professional sport, Erste Group supports professional athletes, teams or events focusing on ice hockey, running, tennis, soccer and sailing.

Since 2013, Erste Bank Oesterreich has been the name-giving main sponsor of the national ice hockey league, sponsor of the Austrian National Ice Hockey team and the local Vienna Capitals team. The *Erste Bank Ice Hockey League* grew beyond borders and includes teams from Austria, the Czech Republic, Hungary, Croatia and Italy. Young Austrian ice hockey players are supported through two youth series, *Erste Bank Young Stars League* and *Erste Bank Juniors League*. Erste Bank Hungary started its involvement in ice hockey sponsorship by sponsoring the *Erste Hungarian League* with teams from Hungary, Austria and Romania for the first time in the 2017/18 season.

Erste Bank Oesterreich's sport sponsoring activities also comprise the *Erste Bank Open* in Vienna, the most important tennis event in Austria, an ATP World Tour 500 tournament. With more than 220 running events each year, *Erste Bank Sparkasse Running* forms Austria's biggest running initiative. The events covered in it vary from small running events at the countryside up to the Vienna City Marathon – Austria's biggest sports event with more than 40,000 participants.

Erste Bank Hungary supported the Hungarian Sailing Association and was the main sponsor of Europe's largest lake circular regatta at Lake Balaton with 526 boats participating. Slovenská sporiteľňa was once again the official partner of Slovakia's National Soccer Team. In November 2017 Banca Comercială Română and the Romanian Olympic Committee (COSR) signed a three-year partnership to support sport and the development of education through sport in Romania. This sponsorship represents a strategic initiative that stands as a benchmark for sport involvement in Romania, anchoring Banca Comercială Română in national aspirations and creating extraordinary content to support the bank's claim #believeinyourself.

## ACCESSIBILITY

Erste Group defines accessibility as designing the real-world and the digital environments as well as information and product offerings in such a way that they can be used by people with disabilities without any additional support. Programmes to this effect are being implemented in all countries.

In addition to barrier-free access for the blind and visually impaired (e.g. cash dispensers equipped to provide audio instructions), Erste Group's digital platform, the George Go app, also offers certain mobile banking features that support a variety of functions: zoom, contrast adjustment, very large fonts and speech output. The barrier-free functions were developed in cooperation with blind persons and persons with a variety of visual impairments.

## CUSTOMER SATISFACTION

The quality of customer relations depends ultimately on the customers' experience in their day-to-day dealings with their bank. To remain in a market leading position, Erste Group is committed to fully aligning employees, partners, processes, policies and technologies around customers. The bank approaches this challenge in a holistic way and uses a system of interdependent, self-reinforcing elements defined in the Group's Customer Experience „CX“ Framework, ranging from customer experience strategy or process design to governance.

Focusing on a local context, Erste Group's banking subsidiaries put various initiatives in place aiming to provide the best customer experiences possible in a consistent manner. The impact of all these activities is measured by the Net Promoter Score (NPS).

This index helps to evaluate customer loyalty based on their willingness to recommend the banks. Measuring and consistently following the NPS development enables more efficient investments into customer experience projects.

In 2018, Erste Group's local banking subsidiaries recorded a stable performance in customer satisfaction, confirming the focus of offering high-quality financial advice and personalised services to retail and corporate customers. The NPS results showed outstanding results in several markets: Erste Bank Oesterreich improved in retail, especially in the private individuals segment, Erste Bank Croatia remained on a positive trend, being clearly positioned ahead of local competition, Erste Bank Serbia maintained a stable retail position and showed a positive result in the SME segment, where it managed to close the gap to the top 3 competitors and Slovenská sporiteľňa recorded a steady evolution and is positioned ahead of other market players.

## RESPONSIBLE INVESTING

All entities of Erste Asset Management (Erste AM) are *PRI Signatories* and have thus committed themselves to complying with the *Principles of Responsible Investment (PRI)*. Erste AM has been offering investors a large variety of sustainable funds for many years to enable them to take investment decisions with due regard to ecological, social and ethical considerations. Actively managed mutual funds and asset management portfolios are not allowed to invest in companies involved in banned weapons (such as land mines, nuclear weapons or cluster bombs) and are likewise barred from investing in companies earning more than 30% of their total revenues from coal mining, coal trading or the production of coal-based fuels. Mutual funds are not allowed to engage in food speculation. The respective guidelines are available on the website of Erste AM (http://www.erste-am.com). ERSTE RESPONSIBLE IMMOBILIENFONDS is an outstanding product. This fund invests exclusively in real estate assets that meet not only economic criteria but also aspects such as environmental compatibility, mobility, social infrastructure, quality of life and future viability of the property. The fund was first awarded the Austrian environmental certificate in December 2018.

Erste AM is a leading provider of sustainable investment funds in Austria and in the CEE region. At year-end 2018, Erste AM managed assets worth approximately EUR 57.8 billion. These included the assets of sustainably managed investment funds, including sustainable real estate assets, which at year-end 2018 amounted to around EUR 5.2 billion, held in a total of 31 investment funds in the public funds and special funds/externally mandated portfolio categories.

The managed sustainable public funds comprised seven bond funds, one global sustainable emerging markets corporate bond fund, four regional stock funds, including the ERSTE ETHIK AKTIEN GLOBAL fund launched in 2018, a global stock fund focused on a dividend-based strategy, one micro-finance fund of funds, a theme fund for environment and climate protection (jointly managed with WWF Austria) as well as one asset allocation fund of funds. In 2018, eleven sustainable funds were awarded the FNG label (previous year: ten funds). Five funds were awarded three stars and seven funds received two stars. Created by Forum Nachhaltige Geldanlagen (FNG) in 2015, the FNG label is the quality standard for sustainable financial investment in German-speaking countries. Moreover, ten of the sustainable funds have been awarded the Austrian environmental certificate for sustainable financial products, some of them for many years.

Cooperation with other international asset managers (organised by PRI and GES) continued in 2018. In November 2017, Erste AM decided to support the Climate Action 100+ involvement process initiated by PRI as a founding member. This is a five-year initiative led by investors to engage with the world's top one hundred corporate greenhouse gas emitters in the oil & gas, electricity, transport and chemicals industries to curb emissions, strengthen climate-related financial disclosures and promote measures to prevent climate change. In addition to engaging in dialogue with companies on controversial issues in the areas of sustainability and environmental protection, Erste AM also represented the interests of its customers and fund share owners at a large number of annual general meetings in 2018.

The quarterly online blog published by Erste AM's Responsible Investment Team (https://blog.en.erste-am.com/dossier-overview/) again met with great interest. Apart from this main publication, specific fact sheets are published regularly on the investment universe and the sustainability funds to inform customers of the selection criteria and their influence on sustainability indicators (such as the $CO_2$ footprint of the funds).

In 2015, Erste AM was the first Austrian asset management company to sign the *Montréal Carbon Pledge*. Erste AM agreed to have the $CO_2$ emissions of its assets measured and to disclose its $CO_2$ footprint every year. In 2018, an Austrian asset manager disclosed a water footprint for the ERSTE RESPONSIBLE equity fund for the first time.

The expertise of Erste AM experts is complemented by that of the Erste Responsible Advisory Board, which is composed of external experts.

Erste AM is an active member of the following organisations: Eurosif, FNG – Forum Nachhaltige Geldanlagen (Forum for Sustainable Financial Investments), and Verein zur Förderung von Ethik und Nachhaltigkeit bei der Geldanlage (Corporate Responsibility Interface Center, CRIC).

## RESPONSIBLE FINANCING

In line with the Statement of Purpose, Erste Group's finance policies also define exclusion criteria to ensure the ecologically and socially responsible conduct of its business. These exclusion criteria are set out in a separate policy, the Responsible Finance Policy, and relate in particular to the energy and weapons sectors, excluding, for instance, the financing of nuclear and coal-fired power plants, coal mining and fracking. Subject to certain conditions, finance may be provided to projects aimed at improving the safety of existing plants or significantly reducing $CO_2$ emissions. Examples of projects financed to provide ecological benefits are mentioned in the chapter on the environment, section priorities.

## SOCIAL BANKING

Part of the population in Erste Group's core markets of Austria, the Czech Republic, Slovakia, Romania, Hungary, Croatia and Serbia is still at risk of poverty or social exclusion. Erste Group believes that economic growth should be inclusive and that basic financial products and financial advice must be available to everyone. Offering basic banking services to the otherwise unbanked part of the population was one of the main reasons for the foundation of Erste oesterreichische Spar-Casse in 1819.

For a variety of reasons, some segments of the population do not have access to financial services of commercial banks even today. Erste Group has launched a social banking initiative called *Step-by-Step* aiming at the financial inclusion of low-income individuals, starting entrepreneurs and social organisations as well as offering them fair access to financial products, sound financial advice and business training and mentoring. Social banking was rolled out across Erste Group's local banks and implemented in partnership with ERSTE Foundation and local organisations and NGOs. It builds on individual programmes that Erste Group's subsidiaries in the CEE region have already launched in previous years and works together with existing local social banking projects.

Financial inclusion empowers people to cope with unexpected financial shock and better manage unexpected events. Zweite Sparkasse has supported a total of 17,500 people in financial difficulties in Austria for more than ten years, and, currently, serves about 8,000 customers. Together with debt counselling services, it also supports 700 customers through caregiver accounts (Betreutes Konto), which are intended for customers with full legal capacity but a lack of control over their money. In addition, more than 500 teenagers participated in iCan financial literacy workshops in Austria with support from volunteers of Zweite Sparkasse and Erste Bank Oesterreich. Slovenská sporiteľňa extended its offer by combining micro savings, financial education and micro loans for housing for socially excluded Roma communities.

One of the most difficult tasks for starting entrepreneurs is raising finance to start their business. Erste Group believes that small entrepreneurs provide not only financial stability for their families, but they often expand their businesses in their communities and create new jobs. Erste Group offers access to loans, business training, e-learning tools, mentoring sessions and networking to these customers. In accordance with the micro guarantee agreements between the European Investment Fund (EIF) and local banks, more micro-loans can be granted under better conditions to start-ups and micro businesses. In Austria, the micro-loans initiative between Erste Bank Oesterreich and the Austrian Federal Ministry of Labour, Social Affairs, Health and Consumer Protection was continued. In 2018, Erste Group financed 1,676 starting entrepreneurs with a total volume of EUR 58 million.

Non-profit organisations and social enterprises deal with some of the most challenging issues in society such as youth unemployment, social integration and poverty. For these social organisations, Erste Group offers a bundle of working capital loans, bridge loans, investment loans and capacity building programmes. Together with ERSTE Foundation and financial support of the EU Commission, Erste Bank Hungary implemented its three-year programme *SEEDS* to help social organisations in strengthening their financial independence and enabling them to scale up their social business. 70 selected participants received extensive support services, know-how transfer and training ranging from business planning to leadership skills and communication support. The most committed organisations received up to EUR 240,000 in form of Seed Grants provided by ERSTE Foundation to support testing prototypes and help new social enterprises. Česká spořitelna strengthened its market leadership in financing the social sector with more than 100 new customers. In June 2018, the European Investment Fund (EIF) and all Erste Group's banking subsidiaries signed the first Social Entrepreneurship Guarantee Umbrella Agreement to provide funding to social organisations under the EU Programme for Employment and Social Innovation (EaSI). This guarantee agreement allows Erste Group's local banks to grant loans totalling EUR 50 million to more than 500 social organisations across Erste Group's markets. In 2018, Erste Group financed 206 social organisations, NGOs and social entrepreneurs with a total volume of EUR 21 million.

Very often, even a small working capital loan can be sufficient to launch a micro business, helping people to pull themselves and their families out of poverty. good.bee Credit offers micro loans to farmers and small entrepreneurs in rural and urban areas in Romania. In 2018, good.bee Credit granted 1,180 loans with a total volume of EUR 11 million and reached an outstanding loan balance of EUR 20 million. For more information on good.bee Credit, please visit http://www.goodbeecredit.ro/, and details on social banking client stories can be found at: https://www.erstegroup.com/en/about-us/social-banking.

### Social impact assessment

Erste Group partnered with the Competence Center for Nonprofit Organisations and Social Entrepreneurship of the Vienna University of Economics and Business to develop an impact assessment methodology for its social banking activities targeting primarily starting entrepreneurs and social organisations. The main objective of this first impact assessment was to identify and quantify positive changes that occurred following the support of social banking services and products.

The first impact assessment of Erste Group's social banking activities across its CEE markets showed that over 2,500 starting entrepreneurs, 400 social organisations and 6,500 small farmers accessed its offering and contributed to the creation of almost 14,000 new jobs. Since the launch of social banking, Erste Group has financed starting and social entrepreneurs with a total volume of almost EUR 60 million and almost 400 non- profit and social organisations with a total volume of EUR 41 million.

Based on the above-mentioned initiatives more than 4,750 new jobs were created in the sector of micro enterprises, while 3,167 newly created and 6,100 retained jobs relate to the cooperation with social organisations.

For its social banking programme, Erste Group was named Central and Eastern Europe's *Best Bank for Corporate Responsibility* by Euromoney. In addition, Erste Bank Oesterreich received the *TRIGOS 2018* award for Social Innovation & Future Challenges.

### PRIVATE BANKING

Despite the persistent low interest-rate environment and volatile markets, Erste Group continued to strengthen its market position in private banking and asset management in Central and Eastern Europe. The focus of the private banking services offered was on long-term wealth accumulation, asset management and investment counselling, as well as estate planning. In addition to the services of a universal bank such as payments or financing solutions, Erste Private Banking offers investments in securities, real estate and gold. Erste Group is committed to offering its customers advisory excellence, sustainability and transparency. A groupwide training programme has been initiated to meet these high quality requirements.

Erste Group was named the *Best Private Bank* in Central and Eastern Europe for the fifth consecutive year and the *Best Private Bank* in Austria in the 2018 Global Private Banking Awards organised by PWM/*The Banker*.

## Suppliers

Erste Group views suppliers as partners in shaping its business to be more sustainable. Therefore, procurement decisions include assessments of the suppliers' social and environmental impact.

Covering the entire supply chain, Erste Group Procurement is the sourcing and procurement company of Erste Group. Its basic objective is to ensure clear and fair sourcing and procurement activities and contracts. Meeting all the needs of Erste Group entities for goods and services on time and in accordance with their particular quality requirements with the best possible terms (e.g. price, terms of payment, guarantees and liability), purchased locally or across borders, is a key element of this. Erste Group's suppliers must meet defined standards in the areas of business ethics, environmental protection and human rights.

In fulfilling their contractual obligations, suppliers of materials, equipment and services, selected as group partners, are expected to:

- comply with national and local laws, decrees and regulations
- fulfil all their legal obligations regarding the health and safety of their employees and their contractors
- strictly comply with environmental legislation
- as well as respect and implement the basic principles of corporate social responsibility

This is also expressed in the supplier code of conduct that is publicly available on the website of Erste Group Procurement. Erste Group Procurement holds the *CIPS Corporate Ethics Mark*, a certification awarded by the *Chartered Institute of Procurement and Supply (CIPS)*. This certificate distinguishes institutions that have committed to high standards in procurement and set up relevant further education courses in-house. Currently, 66% of all employees of Erste Group Procurement have obtained individual certification on ethical behaviour in procurement.

### SUPPLY CHAIN

Erste Group's supply chain consists of mostly indirect expenses that support the group's core business. In 2018, the total amount paid to companies outside Erste Group was slightly above EUR 1.1 billion and the majority of it is linked to IT (amounting to 44% of the total amount spent), followed by expenses for services, operations and marketing (36%) and facility management (21%). Out of a total of 22,260 suppliers at group level, 80% of the total procurement expenses relate to 783 suppliers.

89% of the suppliers (reflecting 95% of the expenses) are located in the European Union, highlighting Erste Group's focus on its markets in CEE including Austria. An additional 1% of the suppliers are located in North America, 5% in other European countries and the rest (5%) are based on other continents.

Only 14% of Erste Group's purchases were made across borders. This focus on local procurement strengthens the local economies of the countries where Erste Group operates and underlines its commitment to support these regions.

### SUPPLIER SELECTION PROCESS

Compliance with sustainability criteria in selecting suppliers is guaranteed at both the strategic and the operational levels. Strategies have been developed for selected groups of goods to help in supplier selection. Apart from group standards on social responsibility, these standards also include defined technical specifications. Since 2016, sustainability criteria have been a mandatory element in these documents drafted with the Group Sustainability Office of Erste Group.

To ensure that Erste Group's suppliers meet the group's corporate responsibility standards at an operational level, audit questionnaires are requested for any purchase of more than EUR 100,000 and regular supplier business reviews are performed.

The supplier audit questionnaire is processed with a special IT tool and is an integral part of Erste Group Procurement's supply chain. This operational tool ensures full transparency and allows timely assessment and risk identification before entering into contracts with suppliers. The results of the audits form the basis for the supplier evaluation in procurement.

To ensure correct procedures, all of the relevant steps have been integrated into the electronic tendering system. The IT application blocks the entry of further data and thus collaboration with the supplier, if there is not enough information or no explicit release has been given for suppliers classified as critical. Any non-compliance with the supplier code of conduct is brought forward to compliance delegates, who decide – if required – on further measures. In addition to the initial evaluation, regular supplier business reviews are performed covering the most important or riskiest suppliers.

### Environmental aspects

Based on Erste Group's efforts in environmental protection, environmental aspects are part of Erste Group Procurement's supplier selection process. The supplier audit questionnaire addresses specific topics such as the:

_ existence of an environmental management system
_ existence of a written environmental policy
_ method of measuring $CO_2$ emissions
_ existence of environmental targets
_ information on fines or charges for environmental infringements
_ description of the supplier's supply chain

The audit questionnaire for procuring goods has additional questions on potentially hazardous chemicals, recycling capabilities of the product, the return policy at the end of the product's useful life and *ENERGY STAR* or similar standards.

A supplier sustainability scorecard was introduced back in 2017: suppliers must provide their ecological footprint (energy usage, waste, and emission) for the last two years – either on a general level or related to their activities for Erste Group. In 2018, 66 suppliers who are involved in resource-intensive operations like data centres or transportation were selected to provide their data for this scorecard. As these areas represent relevant criteria in the supplier selection process, their development will be continuously monitored and assessed.

In 2018, 1,416 contracts with suppliers were concluded or renewed. Of these, 16 suppliers were screened according to environmental standards. No supplier was subject to a specific environmental impact assessment beyond the standard audit questionnaire, nor was any supplier identified as having had a significant actual and potentially negative environmental impact. No actual and potentially negative environmental impact was identified in the supply chain. Finally, no supplier contract had to be terminated as a result of a significant actual and potentially negative environmental impact.

### Social aspects

Since the supplier selection process includes social aspects, the supplier audit questionnaire also comprises specific topics such as the:

_ effective abolition of child labour
_ elimination of all forms of forced and compulsory labour
_ elimination of discrimination with respect to employment
_ freedom of association and the right to collective bargaining
_ reasonable working hours and fair remuneration
_ health protection
_ occupational health and safety
_ job restructuring
_ remuneration
_ fair working conditions
_ other social criteria in the supply chain

In 2018, Erste Group co-operated with 22,260 suppliers. 575 suppliers were screened according to both labour practice standards and human rights criteria. No supplier was subject to specific labour practice or human rights impact assessments beyond the standard audit questionnaire, nor was any supplier identified as having had a significant actual or potentially negative impact on labour practice or human rights. There was no actual and potentially negative impact on labour practice or human rights identified in the supply chain and no supplier contract had to be terminated as a result of a significant actual and potentially negative impact on labour practice or human rights.

Furthermore, no supplier was found in violation of or at risk of violating the right to exercise freedom of association and collective bargaining, nor was any supplier found to have significant risk of child labour, young workers exposed to hazardous work, or risk of incidents of forced or compulsory labour.

## Employees

Erste Group remains convinced that the current and future people-related goals can be achieved by focusing on the three pillars of its human resources strategy:

_ Culture
_ Competence
_ Competitiveness

Human capital is the key element for successful organisational, cultural and competency transformation. Modern organisations enable people to work in a more flexible, adaptive and customer-focused way. Attracting, retaining and engaging top talent is crucial to business success and Erste Group strives to be the employer-of-choice in the region by offering various learning opportunities, diverse and international teams and challenging tasks in a flexible organisation.

Developing future leaders and experts within the company in a systematic way is what motivates high-potential employees. Talent management is driven by honest feedback, a fair and transparent assessment of individual potential and quality development activities in partnership with internationally renowned institutions. In four to five years, around 40% of today's competencies will be obsolete and replaced with completely new skill-sets. Building future-fit competency is thus an essential element of Erste Group's day-to-day human resources work and learning initiatives go well beyond banking knowledge to also cover the broad economic and social issues facing the region.

Erste Group's cultural transformation aims at linking performance management and rewards qualitative aspects. This involves moving away from incentive schemes with predominantly sales-driven key performance indicators towards a remuneration philosophy that is more team-oriented and keeps the prosperity and satisfaction of the customers in constant focus.

Erste Group is contributing to the implementation of the UN Sustainable Development Goals and Agenda 2030. Its diversity strategy and activities support good health and well-being (Goal 3), gender equality (Goal 5), decent work & economic growth (Goal 8) and reduced inequalities (Goal 10).

## DIVERSITY AND EQUAL OPPORTUNITY

A diverse and inclusive workforce is essential for business success. Companies that are committed to diversity and inclusion benefit from more engaged employees, a better brand image and higher customer satisfaction. Erste Group sees diversity and inclusion as a vital part of its human resources strategy and key to attracting and retaining top employees.

Erste Group's diversity and inclusion principles are reflected both in its Statement of Purpose and Code of Conduct, which emphasise a work environment free of discrimination and harassment and values the work and worth of each and every person regardless of gender, age, disability, marital status, sexual orientation, skin colour, religious or political affiliation, ethnic background, nationality or any other aspect unrelated to their employment.
Erste Group Bank AG, the parent company, is a good example for diversity, as its employees represent 46 nationalities.

In Austria, a Company Agreement on Preventing Discrimination and Promoting Respectful Behaviour in the Workplace protects against discrimination, bullying and sexual harassment. An independent Anti-Discrimination Officer advises and mediates in matters concerning harassment and discrimination, and works with management on awareness and prevention. Erste Group's Diversity and Inclusion Policy provides the framework for local diversity managers to define priorities and initiatives that support the group diversity strategy. Every local banking subsidiary of Erste Group is a signatory to its national Diversity Charters.

The diversity priorities for 2018 were the following:

_ to increase the number of women in top management by at least one percentage point and develop more group-wide initiatives to support female leadership
_ to make careers in the field of IT more attractive for women through *Erste WIT ( Women in IT)*
_ to develop and encourage more initiatives in the area of LGBT+ inclusion
_ to further develop local diversity initiatives in CEE
_ to continue monitoring the gender pay gap on a country-by-country basis and identify measures for closing it

Erste Group set a group-wide internal target of having at least 35% of positions in top management and 35% on supervisory boards filled by women by 2019. This target applies to the local banks (excluding other subsidiaries or the savings banks in Austria). The target set for 2018, to raise the share of women in top management by at least one percentage point, was not achieved: As of the end of 2018, 30% of positions in top management were filled by women (2017: 31%). The share of women in supervisory boards decreased slightly by 0.8% percentage points to 35.2%, but remained above the target of at least 35%. The banking subsidiaries of Erste Group showed different developments. Erste Bank Oesterreich, for instance, increased its share of woman in all management positions by one percentage point to 41%, and with 47% women in top management, Banca Comercială Română is the only bank in the Group that is almost at total gender parity.

To increase the number of women in top management, Erste Group aims for a better gender and age balance in its talent pools. The international talent pool is made up of 37% women and 30% of the group's key positions pool is female. In addition, Erste Group implemented a variety of initiatives to support the development of female leadership. In Austria, the Erste Women's Hub employee resource group continued key initiatives such as the *WoMentoring* programme, financial education for women, networking events for female employees and customers, and it focused on encouraging more men to take parental leave options and flexible work hours. The *Erste WIT* initiative organised a discovery day at Erste Campus where school-aged girls were introduced to careers in the fields of project management and IT in the framework of *Daughter's Day*. *ErsteNő* (Erste Women Club), Erste Bank Hungary's employee resource group for women, designed strategies to support work-life balance and mothers returning from parental leave, as well as to promote careers of female managers.

Erste Group believes that diverse teams are more creative and flexible in reacting to changing demands. Valuing and understanding cultural diversity fosters inclusion and integration as well as better teamwork and co-operation. The *ErsteColours* LGBT & Friends network was launched in Austria promoting inclusion by focusing on LGBT (Lesbian, Gay, Bisexual, Transgender) issues in human resources and society. In October 2018, Erste Bank Serbia signed the UN Standards of Conduct for Business on Tackling Discrimination against LGBT people and joined other companies in Serbia in the commitment to implement the standards. Erste Bank Hungary organised workshops for managers to promote inter-generational cooperation and focused on inclusion of both colleagues and customers with disabilities.

The diversity priorities for 2019 are the following:
_ to reach the target of 35% women in top management and to maintain at least 35% women on supervisory boards and develop more group-wide initiatives to support female leadership
_ to promote further financial literacy initiatives both for female employees and customers
_ to further develop local diversity initiatives in CEE
_ to continue monitoring the gender pay gap on a country-by-country basis and identify measures for closing it

## LEARNING, TALENT MANAGEMENT, LEADERSHIP AND COMPETENCY DEVELOPMENT

Erste Group is committed to developing its employees' professional and interpersonal skills to ensure that they are well prepared to perform professionally and in a socially responsible manner. Erste Group continuously develops and aligns group-wide training programmes for senior experts and managers.

Erste School of Banking and Finance, the group's platform for professional and leadership training, offers customised executive training and personal development training courses as well as programmes for specific business areas. In 2018, the main focus was on further developing the group-wide talent management strategy, leadership development roadmap and the concept of functional competency management. Erste Group intensified its cooperation with the renowned IESE Business School. Other cooperation partners are IMD Lausanne, WU Executive Academy in Vienna and Ashridge Executive Education.

In addition, Erste Group further expanded the training part of the Finance College in four key areas: controlling, asset/liability management, accounting and business data excellence. New courses at the Risk Management College reflect the regulatory changes and contribute to bridging functional competency gaps of employees. The Corporates & Markets College's initiatives cover topics such as specific product knowledge or corporate sales abilities. In addition to project management, the Business Transformation College expanded its focus on business analysis and data management.

The two pillars of Erste group's leadership development and talent management strategies are the Erste Leadership Evolution Centre, which structures group-wide leadership development offerings and Erste Group's Talent Management Architecture, which ensures the continuous development of top employees through three talent pools. The International Talent Pool targets high-performing professionals up to board minus 3 management levels. As of the end of 2018, 37% of the International Talent Pool was women. The next level, the Group Key Positions Pool, aims at preparing managerial talents for roles at division head level. This pool comprises 30% women. The Executive Pool, which identifies and develops top executive level talent, comprises 33% women.

Erste Group also offers an annual Graduate Programme for university graduates. The aim of the programme is to attract top graduates and provide fundamental banking and risk management knowledge. In the current programme 50% of the participants are women.

In 2018, each employee of Erste Group had on average 30.4 training hours for professional development – women 31.0 and men 29.4 training hours. Employees in managerial positions had on average 26.7 training hours. Each employee of the Holding had on average 17.8 training hours for professional development –16.7 or women and 18.7 hours for men.

The focus for 2019 is the mobilisation of identified talents within the Group and further development of the digital learning offering.

## REMUNERATION AND PEOPLE PERFORMANCE MANAGEMENT

Erste Group's remuneration policy is geared towards an appropriate balance in rewarding performance, competencies and responsibility of its employees. As a signatory of the *Austrian Diversity Charter* and the *UN Global Compact*, Erste Group committed itself to the principles of equal opportunity and transparency, especially in remuneration. Consequently, one of the key strategic priorities is to ensure that all reward schemes are transparent, market-driven and linked to performance and personal development. Erste Group's general remuneration philosophy is to neither fall short nor lead the market but to offer competitive remuneration packages. Therefore, its remuneration policy aims to:
_ create an environment where employees can perform, develop and be involved
_ reward at the right level to attract and retain employees with the required competence and skills
_ be cost-competitive and cost-flexible for a sustainable business
_ support leadership and employee behaviour that creates an engaging and unique customer experience and effective risk management practices

All remuneration schemes are designed to meet the respective European and national regulatory requirements on remuneration, as well as the local banks' national remuneration practices and business line needs. The supervisory board reviews group and local remuneration policies and practices annually to ensure that remuneration practices comply with respective international and national regulations. The evaluation comprises the entire remuneration process from determining bonus budget pools, target setting, performance evaluation, awarding bonuses in relation to performance and fixed salary, to the actual pay-out of bonuses.

Erste Group's remuneration packages comprise fixed and variable components, benefits and benefits in kind and other individually agreed terms and conditions. Fixed remuneration is the core component of any employee's remuneration and is based on job complexity, individual contributions and local market conditions. The fixed salary represents a sufficiently high proportion of the total remuneration to cover the employees' basic cost of living and allow Erste Group for the operation of a flexible remuneration policy. Variable components of the remuneration are designed in such a way that they do not promote excessive risk-taking. Variable remuneration components may be offered to all employees and are based on company, individual and business line performance. Specific sales incentive schemes are offered to employees working in the retail business line and are also based on company, individual and business line performance. Sales incentive schemes are based on quantitative and qualitative criteria. On all these levels, Erste Group uses a balance between financial and business growth, risk, customer satisfaction and cost indicators. The overall performance evaluation also includes the employee's social and business competence.

Benefits (in kind) are provided as a means to stimulate well-being in the work environment and to support an appropriate work-life balance. Amongst others, some of the benefits offered are flexible working time, study leave, parental leave as well as health centre expertise. Pension and insurance schemes aim at ensuring that employees have an appropriate standard of living after retirement. Pension and insurance provisions are according to local law, regulation and market practice.

## EMPLOYEE HEALTH & WORK-LIFE BALANCE

Respecting and promoting work-life balance among its employees has been a long-standing priority of Erste Group and it offers a wide variety of family-friendly measures and evaluates them on a regular basis to ensure that they meet the employees' needs. These measures differ from country to country and include flexible work arrangements, short sabbaticals and regular meetings for employees on parental leave. In 2018, Česká spořitelna piloted a 4-day work week in some regions, as well as an initiative where mothers returning from leave can work part time in branches.

One of the priority measures ensuing from the Career and Family (*Beruf & Familie*) Certification Audit in Austria is to encourage more men to take full advantage of parental leave options. As of the end of 2018, a total of 2,318 employees were on parental leave, thereof 2,224 women (95.9%) and 94 men (4.1%). With 9.7%, the share of men on parental leave is the highest in Austria – in the Holding 12 men (21.1%) were on parental leave.

As an additional offer, Erste Group opened its *MiniCampus* company kindergarten at Erste Campus in Vienna.

The development of health literacy, embedded in the UN Sustainable Development Goals (SDG 3) is essential for dealing with illnesses, guaranteeing equal access to health care, and advancing of social policies in this area. The workplace offers an ideal setting and infrastructure to support and promote health issues to large groups of people, thus making occupational health an important contributor to public health. Erste Group is committed to a proactive approach to helping its employees to identify and manage health risks. Health promotion activities and topics in Erste Group include lifestyle habits, work-life balance, mental health, stress prevention and nutrition counselling. A multi-professional team of occupational physicians, industrial psychologists and physiotherapists assists Erste Group's employees in any matters of health and well-being.

The Health Centre at Erste Group's headquarters in Vienna focuses primarily on the prevention of chronic diseases which account for 50 – 80% of all global health costs. Erste Group has implemented a wide variety of measures to prevent or at least minimise the impact of chronic illness. These measures include preventive medical examinations (some 45% of employees in Austria take advantage of this), the prevention of cardio-vascular diseases through nutrition consultation, fitness offers, and blood pressure and other screenings. Through close cooperation with local health services providers such as rehabilitation centres, employees are guaranteed access to quick treatment. A company agreement on integration after long-term illness ensures that employees can gradually return to work after an extended sickness. Erste Group is one of very few companies with such an agreement, which has resulted in a significant decline in long-term illness over the past years.

Mental health is increasingly important for the labour market and the Health Centre had made it one of its priorities. It trained all managers on Prevention and Causes of Mental Illness and published a handbook *Leading to Health* which provides managers with advice and support measures on topics such as conflicts, crises, burnout, chronic illness, addiction as well as reintegration after long-term illness. Employees have access to work place psychologists, as well as to an external service that provides support for situations concerning children, school, problems at home and outside the home, and caring for older dependent family members. Employees on Erste Campus also have access to a free hotline where they can anonymously seek advice from qualified professionals.

## Staff indicators

Staff indicators refer to the end of the reporting period. Total data (50,153 employees; headcount) include data from direct and indirect holdings of Erste Group outside its above-mentioned core markets. In 2018, the scope of consolidation was extended. 2018 data are therefore not comparable with 2017 data. Consequently, some indicators are only presented on the basis of 2018 data.

### Overview and age structure 2018

| | Total | | <30 years | | 30-50 years | | >50 years | |
|---|---|---|---|---|---|---|---|---|
| | Females | Males | Number | in % | Number | in % | Number | in % |
| **Erste Group** | **31,281** | **18,872** | **8,906** | **17.8%** | **30,276** | **60.4%** | **10,971** | **21.9%** |
| Austria incl. Holding | 9,977 | 8,966 | 3,256 | 17.2% | 10,182 | 53.8% | 5,505 | 29.1% |
| thereof Holding | 963 | 1,079 | 256 | 12.5% | 1,290 | 63.2% | 496 | 24.3% |
| Czech Republic | 7,164 | 3,245 | 2,180 | 20.9% | 6,035 | 58.0% | 2,194 | 21.1% |
| Slovakia | 3,022 | 1,203 | 740 | 17.5% | 2,698 | 63.9% | 787 | 18.6% |
| Romania | 5,167 | 2,275 | 1,384 | 18.6% | 4,700 | 63.2% | 1,358 | 18.2% |
| Hungary | 2,062 | 1,192 | 558 | 17.1% | 2,425 | 74.5% | 271 | 8.3% |
| Croatia | 2,154 | 1,005 | 458 | 14.5% | 2,247 | 71.1% | 454 | 14.4% |
| Serbia | 786 | 324 | 140 | 12.6% | 753 | 67.8% | 217 | 19.5% |

### Mode of employment

| | Full-time employees | | | | Part-time employees | | | |
|---|---|---|---|---|---|---|---|---|
| | 2018 | | 2017 | | 2018 | | 2017 | |
| | Females | Males | Females | Males | Females | Males | Females | Males |
| **Erste Group** | **25,085** | **17,846** | **24,292** | **16,218** | **6,191** | **1,031** | **4,625** | **942** |
| Austria incl. Holding | 5,178 | 8,190 | 4,203 | 6,525 | 4,797 | 778 | 3,250 | 607 |
| thereof Holding | 637 | 996 | 688 | 1,045 | 326 | 83 | 309 | 61 |
| Czech Republic | 6,421 | 3,167 | 6,563 | 3,162 | 742 | 79 | 739 | 92 |
| Slovakia | 2,942 | 1,192 | 3,028 | 1,257 | 80 | 11 | 58 | 12 |
| Romania | 4,858 | 2,199 | 4,871 | 2,188 | 309 | 76 | 347 | 145 |
| Hungary | 1,872 | 1,117 | 1,828 | 1,095 | 190 | 75 | 159 | 76 |
| Croatia | 2,107 | 1,006 | 2,153 | 1,016 | 45 | 1 | 40 | 0 |
| Serbia | 784 | 323 | 751 | 318 | 2 | 1 | 2 | 1 |

### Selected indicators

| | Share of women in executive positions | | Share of women in other managerial positions | | Average number of sick leave days per employee | | Number of employees with health disability | |
|---|---|---|---|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| **Erste Group** | **24.7%** | **29.9%** | **38.6%** | **43.3%** | **9** | **7.9** | **582** | **394** |
| Austria incl. Holding | 15.7% | 19.3% | 23.0% | 29.2% | 8 | 7.1 | 308 | 138 |
| thereof Holding | 17.9% | 18.9% | 26.0% | 26.7% | 6 | 5.6 | 13 | 23 |
| Czech Republic | 23.4% | 25.6% | 42.2% | 40.5% | 12 | 8.9 | 143 | 109 |
| Slovakia | 23.4% | 26.5% | 58.1% | 56.9% | 10 | 4.5 | 77 | 102 |
| Romania | 43.5% | 50.6% | 54.7% | 55.3% | 8 | 8.4 | 33 | 27 |
| Hungary | 25.0% | 23.8% | 47.8% | 50.8% | 10 | 7.7 | 3 | 8 |
| Croatia | 35.0% | 35.5% | 57.2% | 60.5% | 5 | 12.5 | 11 | 9 |
| Serbia | 40.9% | 40.9% | 53.2% | 53.8% | 3 | 6 | 1 | 1 |

Executive positions cover all the board and board-1 positions. Other managerial positions cover all the board-2, board-3 and board-4 positions.

Governance bodies: Detailed information about the members of the management board and the supervisory board of the Holding is presented in the Corporate Governance Report. As of year-end 2018, only males were members of the management board, and all of them were older than 50 years. 65% of the members of the supervisory board were males, 35% were females.

## Parental leave (return to work after parental leave)

| | 2018 | | | | 2017 | | | |
|---|---|---|---|---|---|---|---|---|
| | Females | | Males | | Females | | Males | |
| | Number | in % | Number | in % | Number | in % | Number | in % |
| **Erste Group** | **929** | **75.5%** | **82** | **90.1%** | **955** | **73.8%** | **83** | **95.4%** |
| Austria incl. Holding | 235 | 79.1% | 57 | 95.0% | 268 | 91.5% | 64 | 98.5% |
| thereof Holding | 20 | 90.9% | 9 | 90.0% | 54 | 96.4% | 18 | 100% |
| Czech Republic | 150 | 54.2% | 1 | 100% | 173 | 53.2% | 1 | 100% |
| Slovakia | 44 | 61.1% | 8 | 66.7% | 54 | 40.9% | 8 | 100% |
| Romania | 249 | 83.8% | 12 | 85.7% | 202 | 86.7% | 7 | 87.5% |
| Hungary | 84 | 100% | 2 | 100% | 121 | 84.0% | 0 | 0% |
| Croatia | 105 | 77.2% | 1 | 100% | 54 | 83.1% | 1 | 100% |
| Serbia | 22 | 88.0% | 0 | 0% | 40 | 72.7% | 0 | 0% |

Every employee in a permanent employment contract is eligible to take parental leave. The ratio (in %) shows the return rate after parental leave has ended.

## New hires 2018

| | Females | | Males | | <30 years | | 30-50 years | | >50 years | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Number | in % | Number | in % | Number | in % | Number | in % | Number | in % |
| **Erste Group** | **4,543** | **9.1%** | **2,440** | **4.9%** | **3,506** | **7.0%** | **3,138** | **6.3%** | **339** | **0.7%** |
| Austria incl. Holding | 882 | 4.7% | 835 | 4.4% | 888 | 4.7% | 730 | 3.9% | 99 | 0.5% |
| thereof Holding | 70 | 3.4% | 94 | 4.6% | 63 | 3.1% | 96 | 4.7% | 5 | 0.2% |
| Czech Republic | 1,321 | 12.7% | 561 | 5.4% | 1,012 | 9.7% | 774 | 7.4% | 96 | 0.9% |
| Slovakia | 461 | 10.9% | 140 | 3.3% | 326 | 4.4% | 250 | 5.9% | 25 | 0.6% |
| Romania | 895 | 12.0% | 398 | 5.3% | 652 | 8.8% | 577 | 7.8% | 64 | 0.9% |
| Hungary | 491 | 15.1% | 255 | 7.8% | 285 | 8.8% | 419 | 12.9% | 42 | 1.3% |
| Croatia | 293 | 9.3% | 128 | 4.1% | 198 | 6.3% | 213 | 6.7% | 10 | 0.3% |
| Serbia | 100 | 9.0% | 53 | 4.8% | 75 | 6.8% | 76 | 6.8% | 2 | 0.2% |

The percentages refer to the total headcount.

## Fluctuation 2018

| | Females | | Males | | <30 years | | 30-50 years | | >50 years | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Number | in % | Number | in % | Number | in % | Number | in % | Number | in % |
| **Erste Group** | **4,525** | **12.6%** | **2,460** | **11.5%** | **2,151** | **17.1%** | **3,697** | **10.9%** | **1,137** | **10.4%** |
| Austria incl. Holding | 734 | 6.7% | 758 | 7.7% | 407 | 9.7% | 653 | 5.9% | 432 | 7.9% |
| thereof Holding | 51 | 4.8% | 84 | 7.1% | 17 | 4.8% | 78 | 5.4% | 40 | 8.6% |
| Czech Republic | 1,410 | 16.4% | 542 | 14.4% | 681 | 21.1% | 963 | 14.0% | 308 | 14.0% |
| Slovakia | 465 | 13.2% | 192 | 13.9% | 240 | 20.7% | 323 | 10.8% | 94 | 12.0% |
| Romania | 955 | 15.7% | 459 | 16.9% | 487 | 23.0% | 794 | 14.4% | 133 | 11.2% |
| Hungary | 487 | 19.7% | 258 | 18.1% | 169 | 21.0% | 528 | 19.0% | 48 | 15.1% |
| Croatia | 318 | 12.9% | 144 | 12.5% | 107 | 18.1% | 264 | 10.5% | 91 | 17.3% |
| Serbia | 59 | 6.6% | 48 | 12.7% | 23 | 11.3% | 64 | 7.6% | 20 | 8.6% |

This table presents the number of employees who left Erste Group (including retirements) during the financial year and it does not include employees on parental leave, internal transfers within Erste Group or departing trainees and interns. The fluctuation is calculated pursuant to the Schlüter formula. For Erste Group (total of males and females), fluctuation stood at 12.17%.

# Environment

In recent years, ecological sustainability has developed from a marginal issue to an important part of business policy called for also by employees, customers and investors.

The European Union has been pursuing sustainable finance activities to contain climate change since 2017. To limit global warming, the economy will have to transition largely to using renewable energy sources within the next three decades. With current estimates forecasting a need for additional funding in the amount of EUR 180 billion per year, banks, insurers and other financial institutions also play a key role in preventing climate change.

Many states – including Austria – have signed the Paris Agreement on climate change, committing themselves to a reduction or even all-out ban on fossil fuels. On the other hand, there is a lack of actual policies for achieving national targets. It is therefore all the more important that companies like Erste Group define their own ecological targets and understand sustainability as part of their corporate responsibility.

Banks are service providers whose business operations have only a modest direct impact on the environment, mostly through their consumption of energy and paper. Regardless of this, Erste Group recognises its responsibility and has implemented a group-wide environmental strategy aiming at minimising both its direct and indirect ecological footprint.

# ENVIRONMENTAL STRATEGY

Erste Group's environmental strategy is built on four pillars:
- implementation of environmental management systems
- integration of ecological criteria into banking products and services
- implementation of a supply chain management system for all products and services needed to run the banking business
- cooperation with environmental NGOs

The following priority areas were defined as part of the environmental strategy to integrate social and ecological aspects more closely into Erste Group's day-to-day business:
- climate protection and sustainable use of natural resources: increased use of energy from renewable sources, improvement of energy efficiency at all office locations, branches and data centres and reduction of business travel by increased reliance on telephone and video conferences.
- include ecological considerations in purchase decisions by supply change management
- expand the range of sustainable banking products, defining additional criteria for responsible financing

## Environmental targets

The reduction targets set for the years 2012 to 2016 led to a notable decline in $CO_2$ emissions. Since then, no new group-wide reduction targets have been defined. Erste Group reduced its $CO_2$e emissions by 15,393 tonnes (-20.0%) year-on-year, of which the most significant reductions were recorded in the Czech Republic and Hungary.

Based on 2018 data, new relative rather than absolute reduction targets, e.g. by recording energy consumption per square metre of office floor space or $CO_2$ emissions per employee, will be set for the upcoming years. Showing the development of energy efficiency also improves comparability. In the past, comparability of energy consumption and efficiency was adversely affected by factors such as the steady increase in the number of entities on which environment data are collected due to new statutory regulations, by branch closures and increasing digitalisation. One of the key questions, however, is not solely how much energy is being used, but whether the energy used comes from renewable energy sources.

Scope 3 emissions (e.g. kilometres travelled by air, train and rental car for business purposes) are no longer captured as the effort involved in recording such data in detail is disproportionate to the information gained by the exercise. Also, there are no generally accepted estimates available for converting distance travelled into $CO_2$ emissions.

## Ecological footprint

| | 2017 | 2018 |
|---|---|---|
| Electricity consumption | 182 GWh | 178 GWh |
| Heating/cooling energy consumption | 171 GWh | 140 GWh |
| Fuel consumption | 38 GWh | 45 GWh |
| Total energy consumption | 391 GWh | 363 GWh |
| $CO_2$e-emissions (Scope 1 and 2) | 76,936 t | 61,543 t |
| Copy paper consumption | 1,733 t | 1,705 t |

2017 data was adapted in line with the extended scope of consolidation

Due to the change in the number of entities covered, a comparison of data with those of the previous year is not meaningful.

## Implementation of environmental management systems

ISO 14001 and/or ISO 50001 certifications in Croatia, Slovakia and Hungary have been completed, while implementation at the Holding and Erste Bank Oesterreich has been postponed to 2019/2020. Of the Austrian savings banks, Steiermärkische Sparkasse has been ISO 14001 certified and Allgemeine Sparkasse Oberösterreich ISO 50001 certified.

All material subsidiaries are expected to implement a certified environmental/energy management system by year-end 2020. This should create the basis for efficient monitoring of environmental data at all material entities.

# PRIORITIES

## Improving energy efficiency

For banks, the most effective approach to cutting $CO_2$-emissions is to switch to electricity from renewable energy sources. Erste Group has completed this change in Austria and Croatia and partially completed it in Hungary and the Czech Republic.

Consumption of electrical energy, heating and hot water is largely reduced by the construction and use of new headquarters buildings, such as in Vienna (Erste Campus), Bucharest (The Bridge) and Belgrade (Sirius Office). Bank branches are mostly located at rented premises, which reduces their ability to control energy consumption.

Erste Campus in Vienna, for example, is being supplied exclusively with non-fossil-fuel energy (district heating and cooling and green electricity). In 2018, energy consumption for heating and cooling was reduced by 27% compared with 2017 by using cold groundwater for cooling and optimising heat pumps combined with geothermal energy.

The new headquarters of Banca Comercială Română has been certified *LEEDS* (Leadership in Energy and Environmental Design) Gold and has replaced old, energy-inefficient buildings. In 2018, the consumption of electrical and heating energy was reduced due to various measures in Romania by 17 GWh (19%). The replacement of old and inefficient heating and cooling systems reduced the consumption of electrical energy for both heating and hot water by 19% in Romania.

At Slovenská sporitelna, the focus was again on raising energy efficiency. The replacement of old IT systems with new equipment reduced total energy consumption by 4.4 GWh (14%) year-on-year.

Česká spořitelna lowered its $CO_2e$ emissions from 2011 to 2017 by 47%. In April 2018, it won the *ZNIZUJEME $CO_2$* (we reduce $CO_2$) award for progress made. Česká spořitelna cut its $CO_2e$ emissions by another 45%year-on-year to 15,133 tonnes, by switching largely to electric power from renewable sources.

Erste Bank Serbia has opened another office location (Aleksandar Building) in addition to the Sirius Office Building. Certification of the Sirius headquarters to *BREEAM* (Building Research Establishment Environmental Assessment Method for Buildings) Gold standards was completed in 2018.

### Use of electric and hybrid vehicles

An additional measure to reduce $CO_2e$ emissions is the replacement of fossil fuel-powered company cars with e-cars or hybrid cars. Erste Group's pioneer in this regard is Waldviertler Sparkasse. Four out of a total of 20 company cars are electric vehicles that run mainly on power generated by photovoltaic systems installed on the rooftops of Sparkassen buildings. Overall, the systems generated 14,738 kWh of electric energy. At Erste Campus in Vienna, a car sharing system was tested at the initiative of s Leasing in late 2017. In addition, the number of charging stations for e-vehicles was increased from 12 to 36 in the publicly accessible car park. Almost all local banks of Erste Group are increasingly using hybrids as company cars.

In Romania, 20 e-cars were placed at the disposal of a car-sharing initiative (eGO) for the exclusive use by customers of Banca Comercială Română. If this initiative proves popular with customers, it will be rolled out to other cities in the country.

### Reduction of paper consumption

To minimise its environmental impact, Erste Group continuously runs paper-saving initiatives and takes into account ecological criteria aiming for the goal of purchasing only 100% recycled paper. The trend towards digitalisation in the banking business also helps to reduce paper consumption. By using 700 electronic signature pads (rather than printed forms) Steiermärkische Sparkasse saves about 50,000 sheets of paper per month. In 2018, Erste Group's copy paper consumption totalled more than 1,700 tonnes, the share of recycled paper stood at 71%.

Current efforts aim at processing all standard banking transactions electronically wherever possible, which will accelerate back office procedures and make customer service more efficient. This improves not only the customer experience but also reduces paper consumption.

Erste Bank Croatia replaced all paper towel dispensers with cloth hand driers, reducing its paper waste by 18 tonnes and cuting costs by 30%.

### Other environmental initiatives

Across the group, existing lighting systems have been replaced with LED systems wherever this made technical and economic sense. At Erste Campus, water from large rainwater cisterns has been used for watering green spaces and flushing toilets since 2018.

More details on ecological criteria related to procurement are provided in the chapter on suppliers.

One element of Erste Group's environmental strategy is cooperation with environmental NGOs that offer access to their local and international know-how and provide valuable assistance to Erste Group in its efforts to become an even more environmentally sustainable company. Even though the partnership between Erste Group and the WWF Climate Group was not renewed for 2018, Erste Asset Management continues to work closely with WWF on ecologically highly sustainable investment funds.

For a number of years, Erste Bank Serbia has been sponsoring a nation-wide *Green Ideas* competition, which gives awards to the best projects related to ecological topics of the participating companies. In addition, Erste Bank Serbia is a partner of the *samo ne autom* project initiated by the Serbian Ministry for the Protection of the Environment, which promotes commuting by environmentally friendly means of transport rather than by car and takes part in the Earth Hour movement initiated by WWF.

Slovenská sporiteľňa and Allgemeine Sparkasse Oberösterreich placed bee hives on the rooftops of their headquarters, following the example of Erste Campus in Vienna. In addition to producing excellent honey, these bee hives also serve as a visible symbol of the need for nature conservation. Slovenská sporiteľňa also contributes to reducing private motor vehicle traffic by supporting the Bike to Work national initiative and encouraging employees to commute to work by bicycle. Erste Bank Serbia has launched a similar initiative promoting the use of bicycles by customers and employees.

### Environmental data

Environmental data are collected group-wide with a software tool (*cr360*), which uses emission factors from the UK Department for Environment, Food & Rural Affairs (DEFRA) and the International Energy Agency (IEA).

### Environmental indicators

Total figures shown in the following tables include data of direct and indirect holdings of Erste Group outside its core markets. A detailed presentation of Holding data is not available, as a meaningful separation of environmental indicators is not possible due to the shared usage of the location (Erste Campus) with other entities. In 2018, the scope of consolidation was extended; the 2018 data are therefore not comparable with the preceding year. Relative environmental data for 2018 refer to 43,345 FTEs.

## Environmental data

| 2018 | Measure | Total | AT | CZ | SK | RO | HU | HR | RS |
|---|---|---|---|---|---|---|---|---|---|
| **Full-time equivalents (FTE)** | **Number** | **43,345** | **13,425** | **10,092** | **4,190** | **7,260** | **3,182** | **2,966** | **1,109** |
| **Net floor area** | **m²** | **1,681,742** | **518,786** | **423,953** | **160,654** | **401,762** | **69,775** | **66,892** | **21,791** |
| **Total energy consumption** | **MWh** | **363,133** | **101,188** | **95,101** | **30,271** | **90,022** | **17,343** | **19,689** | **5,564** |
| Electricity total consumption (with ATM and own electricity production) | MWh | 178,403 | 59,815 | 44,911 | 14,336 | 32,938 | 9,701 | 12,408 | 2,587 |
| Heating, warm water and district cooling total consumption | MWh | 139,769 | 34,261 | 42,466 | 13,033 | 37,936 | 4,703 | 4,309 | 1,884 |
| Total diesel consumption for electricity generation | MWh | 265 | 153 | 56 | 22 | 19 | 2 | 9 | 3 |
| Carpool consumption total (converted to kWh) | MWh | 44,697 | 6,960 | 7,668 | 2,879 | 19,128 | 2,937 | 2,962 | 1,090 |
| Average electricity consumption per m² | kWh/m² | 106.1 | 115.3 | 105.9 | 89.2 | 82.0 | 139.0 | 185.5 | 118.7 |
| Average heating energy usage per m² | kWh/m² | 83.1 | 66.0 | 100.2 | 81.1 | 94.4 | 67.4 | 64.4 | 86.5 |
| **Total paper usage** | **t** | **1,705** | **541** | **248** | **109** | **477** | **106** | **113** | **60** |
| Paper consumption per employee | kg/FTE | 39.34 | 40.26 | 24.59 | 26.00 | 65.74 | 33.32 | 37.98 | 54.19 |
| Non-recycled copy paper | t | 497 | 388 | 13 | 1 | 34 | 0 | 8 | 0 |
| Recycled copy paper | t | 1,208 | 152 | 235 | 108 | 443 | 106 | 104 | 60 |
| Share recycling copy paper | % | 70.9% | 28.1% | 94.6% | 99.0% | 92.9% | 100% | 92.5% | 100% |
| **Emissions Scope 1 and 2** | **$tCO_2e$** | **61,543** | **7,140** | **15,133** | **6,498** | **21,741** | **4,587** | **2,013** | **2,559** |
| Scope 1-emissions | $tCO_2e$ | 27,332 | 4,993 | 3,237 | 3,288 | 12,070 | 1,149 | 1,402 | 591 |
| Scope 2-emissions | $tCO_2e$ | 34,211 | 2,147 | 11,896 | 3,210 | 9,671 | 3,438 | 611 | 1,968 |
| Scope 1 and 2 per employee | $tCO_2e$/FTE | 1.42 | 0.53 | 1.50 | 1.55 | 2.99 | 1.44 | 0.68 | 2.31 |

| 2017 | Measure | Total | AT | CZ | SK | RO | HU | HR | RS |
|---|---|---|---|---|---|---|---|---|---|
| **Full-time equivalents (FTE)** | **Number** | **40,630** | **12,912** | **10,144** | **4,284** | **6,126** | **3,001** | **2,871** | **1,071** |
| **Net floor area** | **m²** | **1,711,273** | **504,681** | **472,149** | **168,549** | **392,967** | **71,942** | **67,612** | **25,778** |
| **Total energy consumption** | **MWh** | **391,056** | **105,102** | **108,001** | **38,856** | **93,198** | **18,024** | **20,045** | **5,757** |
| Electricity total consumption (with ATM and own electricity production) | MWh | 182,361 | 57,885 | 46,572 | 16,582 | 36,078 | 9,471 | 12,193 | 2,735 |
| Heating, warm water and district cooling total consumption | MWh | 170,822 | 39,916 | 50,305 | 15,186 | 51,779 | 5,778 | 4,816 | 1,928 |
| Total diesel consumption for electricity generation | MWh | - | - | - | - | - | - | - | - |
| Carpool consumption total (converted to kWh) | MWh | 37,873 | 7,301 | 11,124 | 7,087 | 5,341 | 2,775 | 3,036 | 1,095 |
| Average electricity consumption per m² | kWh/m² | 106.6 | 114.7 | 98.6 | 98.4 | 91.8 | 131.6 | 180.3 | 106.1 |
| Average heating energy usage per m² | kWh/m² | 99.8 | 79.1 | 106.5 | 90.1 | 131.8 | 80.3 | 71.2 | 74.8 |
| **Total paper - usage** | **t** | **1,733** | **587** | **261** | **123** | **459** | **126** | **120** | **52** |
| Paper consumption per employee | kg/FTE | 42.65 | 45.45 | 25.73 | 28.75 | 74.88 | 41.89 | 41.75 | 48.65 |
| Non-recycled copy paper | t | 449 | 430 | 8 | 1 | 4 | 0 | 0 | 0 |
| Recycled copy paper | t | 1,284 | 157 | 253 | 122 | 455 | 126 | 120 | 52 |
| share recycling copy paper | % | 74.1% | 26.8% | 97.0% | 99.3% | 99.1% | 100% | 99.8% | 100% |
| **Emissions Scope 1 and 2** | **$tCO_2e$** | **76,936** | **8,275** | **27,537** | **7,889** | **21,605** | **6,198** | **2,285** | **2,670** |
| Scope 1 - Emissions | $tCO_2e$ | 27,967 | 5,316 | 3,587 | 3,908 | 11,612 | 1,169 | 1,653 | 550 |
| Scope 2 - Emissions | $tCO_2e$ | 48,969 | 2,959 | 23,950 | 3,981 | 9,993 | 5,029 | 632 | 2,121 |
| Scope 1 and 2 per employee | $tCO_2e$/FTE | 1.89 | 0.64 | 2.71 | 1.84 | 3.53 | 2.07 | 0.80 | 2.49 |

FTE: full-time equivalent, defined as an employee times his/her employment factor).
The $CO_2$ equivalents ($CO_2e$) are the sum of all greenhouse gas emissions, i.e. carbon dioxide, methane and nitrogen oxide.
In 2018, the consumption of diesel for electricity generation was recorded for the first time.
The significant increase in fuel consumption in Romania in 2018 is attributable to one additional entity that was included in the scope of consolidation for the first time.
For further details on environmental data, please visit Erste Group's website: https://www.erstegroup.com/en/about-us/sustainability/environment

| Management board | |
|---|---|
| Andreas Treichl mp, Chairman | Willibald Cernko mp, Member |
| Peter Bosek mp, Member | Gernot Mittendorfer mp, Member |
| Petr Brávek mp, Member | Jozef Síkela mp, Member |

Vienna, 19 March 2019

# GRI Content Index

| GRI Standard Number | GRI Standard Title | Disclosure Number | Disclosure Titel | Reference to Annual Report 2018 | Chapter reference Comments Reasons of omission |
|---|---|---|---|---|---|
| Based on GRI Standard 2016 (Option: Core), partly GRI G4 Sector Disclosures Financial Services. Reported data and comments refer to 2018. | | | | | |
| **GRI 102 General Disclosures 2016** | | | | | |
| **1. Organisational profile** | | | | | |
| GRI 102 | General Disclosures | 102-1 | Name of the organisation | p. 300 | Erste Group Bank AG |
| GRI 102 | General Disclosures | 102-2 | Activities, brands, products, and services | p. 14 | Strategy |
| GRI 102 | General Disclosures | 102-3 | Location of headquarters | p. 300 | Erste Campus, Am Belvedere 1, 1100 Vienna |
| GRI 102 | General Disclosures | 102-4 | Location of operations | p. 14, 17 | Strategy |
| GRI 102 | General Disclosures | 102-5 | Ownership and legal form | p. 78 | Ownership: cover (inner face: shareholder structure).<br>Legal form: (consolidated) corporate governance report |
| GRI 102 | General Disclosures | 102-6 | Markets served | p. 14,<br>Note 47 | Strategy,<br>Group consolidated financial statements: Note 47 (segment reporting) |
| GRI 102 | General Disclosures | 102-7 | Scale of the organisation | Note 47 | Cover (inner face: branches, employees),<br>Group consolidated financial statements: Note 47 (segment reporting) |
| GRI 102 | General Disclosures | 102-8 | Information on employees and other workers | p. 67 et seq. | Number of employees: 50,153 employees thereof 62.4% women<br>(Holding: total 2,042 thereof 47.16% women).<br>Full-time equivalents at the end of the period: 47,397.<br>The staff indicators provide information on<br>gender distribution per country,<br>share of part-time staff per country,<br>gender distribution in part-time staff per country,<br>share and gender distribution of executive and other managerial positions per country,<br>average number of sick leave days per employee per country,<br>number of employees with health disabilities per country,<br>turnover rates per gender and country,<br>return rates after parental leave per gender and country,<br>number of newly hired employees per gender and age group per country.<br>The share of leased personnel was not significant.<br>The total number of employees is not subject to seasonal changes. |
| GRI 102 | General Disclosures | 102-9 | Supply chain | p. 62 | (consolidated) non-financial report: suppliers |
| GRI 102 | General Disclosures | 102-10 | Significant changes to the organisation and its supply chain | n.a. | No significant changes in the organisation (neither in terms of size, structure nor ownership) nor in the supply chain. |
| GRI 102 | General Disclosures | 102-11 | Precautionary principle or approach | p. 14, 51 et seq. | Strategy, (consolidated) non-financial report;<br>The precautionary principle is reflected in both Erste Group's code of conduct and the statement of purpose. |
| GRI 102 | General Disclosures | 102-12 | External initiatives | p. 60 et seq., 68 | (consolidated) non-financial report: customers, environment;<br>UN Principles of Responsible Investment (2012), Bangladesh Memorandum (2015), UN Global Compact (2015), Nestor Gold Charta (2015), Montréal Carbon Pledge (2015), Austrian Diversity Charter (2016) |
| GRI 102 | General Disclosures | 102-13 | Membership of associations | n.a. | There are the following significant memberships for Erste Group Bank AG: WSBI (World Savings Banks Institute), ESBG (European Savings Banks Group), Österreichischer Sparkassenverband, WKO (Austrian Economic Chambers, Industry Sector: Banking and Insurance), OEVFA (Österreichische Vereinigung für Finanzanalyse und Asset Management), BWG (Bankwissenschaftliche Gesellschaft Österreich), WIFO (Wirtschafts-forschungsinstitut Österreich), Österreichische Industriellenvereinigung, respACT (Austrian Business Council for Sustainable Development) |
| **2. Strategy** | | | | | |
| GRI 102 | General Disclosures | 102-14 | Statement from senior decision maker | p. 4 et seq, 13 | Letter of the CEO, strategy |
| GRI 102 | General Disclosures | 102-15 | Key impacts, risks and opportunities | p. 53 | (consolidated) non-financial report: materiality analysis |
| **3. Ethics and integrity** | | | | | |
| GRI 102 | General Disclosures | 102-16 | Values, principles, standards, and norms of behaviour | p. 14, 78 | Strategy (reference made to the code of conduct and the statement of purpose), (consolidated) non-financial report, (consolidated) corporate governance report (reference made to Austrian Code of corporate governance) |
| **4. Governance** | | | | | |
| GRI 102 | General Disclosures | 102-18 | Governance structure | p. 51 et seq., 78 et seq. | (consolidated) non-financial report with reference to the sustainability board, (consolidated) corporate governance report |
| **5. Stakeholder engagement** | | | | | |
| GRI 102 | General Disclosures | 102-40 | List of stakeholder groups | p. 52 et seq. | (consolidated) non-financial report: materiality analysis |
| GRI 102 | General Disclosures | 102-41 | Collective bargaining agreements | n.a. | Collective agreements apply to a total of 87.3% of all employees.<br>In Hungary, there is no collective agreement as a salary basis. In the other core markets, 90-100% of employees are included in collective agreements (Holding: 95.5%) |
| GRI 102 | General Disclosures | 102-42 | Identifying and selecting stakeholders | p. 52 et seq. | (consolidated) non-financial report: materiality analysis; employees, customers, management (supervisory board, management board), investors and public (authorities, supervisors, policy-makers) |
| GRI 102 | General Disclosures | 102-43 | Approach to stakeholder engagement | p. 52 et seq. | (consolidated) non-financial report: materiality analysis |
| GRI 102 | General Disclosures | 102-44 | Key topics and concerns raised | p. 52 et seq. | (consolidated) non-financial report: materiality analysis |

| GRI Standard Number | GRI Standard Title | Disclosure Number | Disclosure Titel | Reference to Annual Report 2018 | Chapter reference Comments Reasons of omission |
|---|---|---|---|---|---|
| **6. Reporting practice** | | | | | |
| GRI 102 | General Disclosures | 102-45 | Entities included in the consolidated financial statements | p. 51 | Non-financial reports have to be prepared for the same scope of consolidation that is covered by the financial reporting.<br>The calculation of non-financial data, such as energy consumption per employee, is based on all Erste Group entities that have at least one full-time equivalent employee. Environmental data is captured from all entities except the Austrian savings banks with fewer than 300 employees that are not majority-owned by Erste Group Bank AG. In some cases several companies are located in one building and environmental data cannot be allocated to individual companies. This applies to all GRI 300 topics. As the Holding is located at Erste Campus, as are other companies, the environmental data for the Holding cannot be reported separately.<br>Personnel data are captured at the level of the respective single entity.<br>The aim is to progressively include the environmental data of all consolidated companies in the non-financial report over the next years. |
| GRI 102 | General Disclosures | 102-46 | Defining report content and topic boundaries | p. 52 et seq. | (consolidated) non-financial report: materiality analysis |
| GRI 102 | General Disclosures | 102-47 | List of material topics | p. 52 et seq. | (consolidated) non-financial report: materiality analysis |
| GRI 102 | General Disclosures | 102-48 | Restatements of information | n.a. | No restatements |
| GRI 102 | General Disclosures | 102-49 | Changes in reporting | p. 52 et seq. | Compared to 2017, data security was included as an additional material topic. Additional entities from the scope of consolidation were included in the non-financial reporting in 2018. This includes in particular the Austrian savings banks with more than 300 employees. |
| GRI 102 | General Disclosures | 102-50 | Reporting period | n.a. | From 1 January 2018 to 31 December 2018 |
| GRI 102 | General Disclosures | 102-51 | Date of most recent report | n.a. | Annual report 2017 |
| GRI 102 | General Disclosures | 102-52 | Reporting cycle | n.a. | Annual |
| GRI 102 | General Disclosures | 102-53 | Contact point for questions regarding the report | p. 300 | Important addresses, Imprint (contact) |
| GRI 102 | General Disclosures | 102-54 | Claims of reporting in accordance with GRI Standards | p. 51 | This report has been prepared in accordance with the requirements of the Global Reporting Initiative (GRI Standard Option: Core). |
| GRI 102 | General Disclosures | 102-55 | GRI content index | p. 72 et seq. | (consolidated) non-financial report;<br>Also available on the company's website:<br>http://www.erstegroup.com/en/investors/reports |
| GRI 102 | General Disclosures | 102-56 | External assurance | p. 76 et seq. | Independent assurance statement;<br>The (consolidated) non-financial report is compliant with the Austrian Commercial Code (Unternehmensgesetz; UGB §243b und §267a).<br>The GRI Standards were applied on a voluntary basis, as was the external assurance of the non-financial reporting by an independent auditor. |
| **GRI 103 Management Approach 2016** | | | | | |
| GRI 103 | Management Approach | 103-1 | Explanation of the material topic and its boundary | p. 13 et seq., 59 et seq. | Strategy,<br>(consolidated) non-financial report: materiality analysis, material topics (financial literacy, social commitment, diversity and equal opportunity, employee health and work-life balance, customer satisfaction, anti-corruption, responsible investment and financing, social banking, data security, ecological impact of banking operations, responsible criteria in the supply chain.) |
| GRI 103 | Management Approach | 103-2 | The management approach and its components | p. 13 et seq., 52 et seq. | Strategy,<br>(consolidated) non-financial report: materiality analysis, customers |
| GRI 103 | Management Approach | 103-3 | Evaluation of the management approach | p. 52 et seq., 78 | (consolidated) non-financial report: materiality analysis,<br>(consolidated) corporate governance report: working methods of the management board and the supervisory board |
| **Material & additional topics** | | | | | |
| **Additional topic: GRI 201 Economic Performance 2016** | | | | | |
| GRI 201 | Economic Performance | 201-1 | Direct economic value generated and distributed | Note 47, Note 64 | Group consolidated financial statements: Note 47 (segment reporting), Note 64 (country by country reporting)<br>(consolidated) non-financial report: commitment to society:<br>In 2018, Erste Group provided approximately EUR 10.4 million in funding in the areas of art and culture, social and educational activities. |
| **Material topics: Social commitment and social banking (GRI 203 Indirect Economic Impacts 2016)** | | | | | |
| GRI G4 - Sector Disclosures Financial Services | Indirect economic effects | FS14 der GRI G4 | Initiatives to improve access to financial services for disadvantages peoples | p. 55, 61 et seq. | (consolidated) non-financial report: commitment to society, customers (social banking) |
| **Material topic: Anti-corruption and compliance (GRI 205 Anti-corruption 2016)** | | | | | |
| GRI 205 | Anti-Corruption | 205-3 | Confirmed incidents of corruption and actions taken | p. 90 | Additional (consolidated) corporate governance principles.<br>In 2018, Erste Group did not discover or record any incident of corruption. |

| GRI Standard Number | GRI Standard Title | Disclosure Number | Disclosure Titel | Reference to Annual Report 2018 | Chapter reference Comments Reasons of omission |
|---|---|---|---|---|---|
| **Additional topic: GRI 206 Anti-competitive behaviour 2016** | | | | | |
| GRI 206 | Anti-competitive behaviour | 206-1 | Legal actions for anti-competitive behaviour, anti-trust and monopoly practices | Note 60 | Group consolidated financial statements: Note 60 (contingent liabilities); There were no legal actions for anti-competitive behaviour, anti-trust, or monopoly practices pending against Erste Group Bank AG. During the reporting period, subsidiary banks of Erste Group in CEE were directly or indirectly involved in five relevant cases that have not yet been completed. We do not expect these investigations to result in any fines or sanctions with material consequences for Erste Group. |
| **Material topic: Responsible criteria in the supply chain and ecological impacts on banking operations (GRI 301 Materials 2016)** | | | | | |
| GRI 103 | Management Approach | 103-1 | Explanation of the material topic and its boundary | p. 71 | (consolidated) non-financial report: environment; The focus lies on the used copy paper (1.705 t). |
| GRI 103 | Management Approach | 103-2 | The management approach and its components | p. 71 | (consolidated) non-financial report: environment; Only captured for copy paper (1.208 t recycling copy paper) |
| **Material topic: Responsible criteria in the supply chain and ecological impacts on banking operations (GRI 302 Energy 2016)** | | | | | |
| GRI 302 | Energy | 302-1 | Energy consumption within the organisation | p. 69, 71 | (consolidated) non-financial report: environment; In terms of energy consumption, there is no separate presentation of renewable/non-renewable energy sources. It is included in the determination of the $CO_2$e-emissions. |
| GRI 302 | Energy | 302-4 | Reduction of energy consumption | p. 69, 71 | (consolidated) non-financial report: environment Reduction of total energy consumption by 7.1% to 363 GWh |
| **Material topic: Responsible criteria in the supply chain and ecological impacts on banking operations (GRI 305 Emissions 2016)** | | | | | |
| GRI 305 | Emissions | 305-1 | Direct (Scope 1) GHG emissions | p. 81 | (consolidated) non-financial report: environment; in total 27,332 t . |
| GRI 305 | Emissions | 305-2 | Energy indirect (Scope 2) GHG emissions | p. 71 | (consolidated) non-financial report: environment; in total 34,211 t |
| **Material topic: Responsible criteria in the supply chain and ecological impacts on banking operations (GRI 308 Supplier Environmental Assessment 2016)** | | | | | |
| GRI 308 | Supplier Environmental Assessment | 308-1 | New suppliers that were screened using environmental criteria | p. 63 | (consolidated) non-financial report: suppliers |
| **Material topic: Diversity and equal opportunity (GRI 401 Employment 2016)** | | | | | |
| GRI 401 | Employment | 401-1 | New employee hires and employee turnover | p. 68 | (consolidated) non-financial report: employees; 6,983 new employees were hired; 6,985 employees left the company (including retirements); turnover rate for Erste Group: 12.17% (Holding: 5.98%) pursuant with Schlüter formula: (total of employees leaving) / (number of employees at the beginning of the year + total of newly hired employees) |
| GRI 401 | Employment | 401-3 | Parental leave | p. 68 | (consolidated) non-financial report: employees; a) 401-3a) All employees (females and males) are entitled to take parental leave; b) 401-3d) The number of employees who were still employed by the company 12 months after returning from maternity leave is no longer reported mainly due to unclear distinction of relevant data. |
| **Material topic: Employee health & work-life balance (GRI 403 Occupational Health and Safety 2016)** | | | | | |
| GRI 403 | Occupational Health and Safety | 403-2 | Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities (Only days of work absence and non-attendance are reported.) | p. 67 | (consolidated) non-financial report: employees. All sickness figures are recorded, regardless of the cause; on average 9 sick-days per employee (Holding: 6 days) |
| **Material topic: Diversity and equal opportunity (GRI 404 Training and Education 2016)** | | | | | |
| GRI 404 | Training and Education | 404-1 | Average hours of training per year per employee | p. 65 | (consolidated) non-financial report: employees; on average 30.4 hours per employee (Holding: 17.8 hours) |
| **Material topic: Diversity and equal opportunity (GRI 405 Diversity and Equal Opportunity 2016)** | | | | | |
| GRI 405 | Diversity and Equal Opportunity | 405-1 | Diversity of governance bodies and employees | p. 64 et seq. | (consolidated) non-financial report: employees; At Erste Group Bank AG, the parent company of Erste Group, employees represent 46 different nationalities. |
| **Material topic: Diversity and equal opportunity (GRI 406 Non-Discrimination 2016)** | | | | | |
| GRI 406 | Non-Discrimination | 406-1 | Incidents of discrimination and corrective actions taken | n.a. | As a preventive measure, an anti-discrimination officer was appointed to foster an environment of mutual respect for all employees. In 2018, no significant incidents were brought forward to the anti-discrimination officer in Austria or the other countries. For the other countries (i.e. except Austria), the local HR departments are in charge in this matter. |
| **Material topic: Responsible criteria in the supply chain and ecological impacts on banking operations (GRI 414 Supplier Social Assessment 2016)** | | | | | |
| GRI 414 | Supplier Social Assessment | 414-1 | New suppliers that were screened using social criteria | p. 63 | (consolidated) non-financial report: suppliers |
| **Additional topic: GRI 418 Customer Privacy 2016** | | | | | |
| GRI 418 | Customer Privacy | 418-1 | Substantiated complaints concerning breaches of customer privacy and losses of customer data | n.a. | In 2018, 23 such reports were submitted to the authorities (thereof one for the Holding). In addition, 12 notifications were made to the affected persons (thereof 0 for the Holding). |
| **Additional topic: GRI 419 Socioeconomic Compliance 2016** | | | | | |
| GRI 419 | Socioeconomic compliance | 419-1 | Non-compliance with laws and regulations in the social and economic area | n.a. | In 2018, there were neither significant fines nor non-monetary sanctions for non-compliance with laws and/or regulations in the social and economic area. |

| GRI Standard Number | GRI Standard Title | Disclosure Number | Disclosure Titel | Reference to Annual Report 2018 | Chapter reference Comments Reasons of omission |
|---|---|---|---|---|---|
| **Material topic: Financial education** | | | | | |
| GRI G4 Sector Disclosures Financial Service | Information on Erste Group's engagement to improve financial literacy | GRI G4-DMA (former FS16) | Initiatives to enhance financial literacy by type of beneficiary | p. 55 et seq. | (consolidated) non-financial report: materiality analysis, commitment to society (financial literacy) |
| **Material topic: Customer satisfaction** | | | | | |
| | Information on customer satisfaction | | | p. 56 et seq. | (consolidated) non-financial report: customers |
| **Material topic: Responsible investment and finance** | | | | | |
| | Information on responsible investment and financing | | | p. 60 et seq. | Reference to the relevant chapter and explanation that there is no corresponding GRI standard.<br>Process description: First it is to be checked if a specific credit request falls within the scope of the local "Responsible Finance Policy". An expert opinion is prepared in the responsible specialist department of the holding company on whether this financing contradicts the Responsible Finance Policy. If this is the case, the application is submitted to a higher decision-making body for a resolution. |
| GRI 103 | Management Approach | 103-2 | The management approach and its components | p. 52 et seq., 60 et seq. | (consolidated) non-financial report: materiality analysis, customers |
| GRI 103 | Management Approach | 103-3 | Evaluation of the management approach | p. 52 et seq. | (consolidated) non-financial report: materiality analysis; compliance with the existing exclusion criteria for investments and financing lies within the responsibility of the respective business units. The exclusion criteria are evaluated on a regular basis to see whether they fulfil the envisaged social and ecological responsibility. |

The following indicators were examined and validated by Deloitte Audit Wirtschaftsprüfungs GmbH:
GRI 301-1, GRI 302-1, GRI 404-1, GRI 405-1, GRI 418-1, GRI G4-DMA

To the Board of Erste Group Bank AG

# INDEPENDENT ASSURANCE REPORT

## Independent auditor's non-financial assurance report

**Attention:** This letter has been translated from German to English for referencing purposes only. Please refer to the officially legally binding version as written and signed in German. Only the German version is the legally binding version.

### Introduction

We have performed procedures to obtain a limited level of assurance over the non-financial performance indicators "GRI 301-1 Materials used by weight or volume", "GRI 302-1 Energy consumption within the organisation", "GRI 401-1 New employee hires and employee turnover", "GRI 405-1 Diversity of governance bodies and employees", "GRI 418-1 Substantiated complaints concerning breaches of customer privacy and losses of customer data" and "GRI G4-DMA (previously FS16) Initiatives to enhance financial literacy by type of beneficiary" in the (consolidated) non-financial report for the year 2018 (hereinafter "Report"). In addition, a procedure was performed to obtain assurance over whether all information called for under sections 243b and 267a UGB (Austrian Commercial Code) has been disclosed in the Report.

### Management responsibilities

The Management of Erste Group Bank AG is responsible for preparing the Report in accordance with the reporting criteria and for the selection of the disclosures to be covered. The reporting criteria comprise the reporting principles included in the GRI Standards 2016 issued by the Global Sustainability Standards Board (GSSB), the G4 Sector Disclosures "Financial Services" issued by the Global Reporting Initiative and the requirements for this Report set out in sections 443b and 267a UGB.

The responsibility of the company's Management includes the selection and application of suitable methods for non-financial reporting and the use of assumptions and estimates for individual non-financial disclosures that are reasonable under the circumstances. The Management is also responsible for internal controls that they have identified as necessary for preparing a non-financial report that is free of intended or un-intended material misstatements.

### The auditor's responsibilities

Our responsibility is to perform procedures to obtain a limited level of assurance ("Limited Assurance") over the non-financial performance indicators "GRI 301-1 Materials used by weight or volume", "GRI 302-1 Energy consumption within the organisation", "GRI 401-1 New employee hires and employee turnover", "GRI 405-1 Diversity of governance bodies and employees", "GRI 418-1 Substantiated complaints concerning breaches of customer privacy and losses of customer data" and "GRI G4-DMA (previously FS16) Initiatives to enhance financial literacy by type of beneficiary" and whether all disclosures called for under sections 243b and 267a UGB are included in the Report.

We have performed these procedures in accordance with the International Standard on Assurance Engagements ISAE 3000 (Revised), Assurance Engagements Other Than Audits or Reviews of Historical Financial Information, issued by the International Auditing and Assurance Standards Board (IAASB) to obtain a limited level of assurance.

Under these standards, we are required to plan and performed procedures in such a way that we are able to state with a limited level of assurance that nothing has come to our attention that would lead us to assume that the non-financial performance indicators "GRI 301-1 Materials used by weight or volume", "GRI 302-1 Energy consumption within the organisation", "GRI 401-1 New employee hires and employee turnover", "GRI 405-1 Diversity of governance bodies and employees", "GRI 418-1 Substantiated complaints concerning breaches of customer privacy and losses of customer data" and GRI G4-DMA (previously FS16) Initiatives to enhance financial literacy by type of beneficiary" have not been prepared, in all material respects, in accordance with the reporting criteria set out in the GRI Standards or do not include all disclosures called for under sections 243b and 267a UGB.

In a limited assurance engagement the procedures performed are more limited than in a reasonable assurance engagement and therefore significantly less assurance is obtained. The selection of procedures is subject to the auditor's professional judgment.

Within the scope of our work we performed amongst others the following procedures and other activities required to obtain a limited level of assurance:

- Interviews of staff named by Erste Group Bank AG concerning the sustainability strategy, the sustainability principles and sustainability management
- Interviews of staff concerning the methods of data collection and processing as well as internal controls
- Site visits at Prague and Klagenfurt
- Reconciliation of the non-financial performance indicators shown in the Report and covered by the scope of the engagement against the documents and materials provided

_ In addition, procedures were performed to obtain assurance over whether all information called for under sections 243b and 267a UGB has been disclosed in the Report.

## Conclusions

Based on our procedures, nothing has come to our attention that would lead us to assume that the non-financial performance indicators "GRI 301-1 Materials used by weight or volume", GRI 302-1 Energy consumption within the organisation", "GRI 401-1 New employee hires and employee turnover", "GRI 405-1 Diversity of governance bodies and employees", "GRI 418-1 Substantiated complaints concerning breaches of customer privacy and losses of customer data" and "GRI G4-DMA (previously FS16) Initiatives to enhance financial literacy by type of beneficiary" have not been prepared, in all material respects, in accordance with the reporting criteria of the GRI Standards.

In addition, the procedures performed by us did not reveal anything that would suggest that not all information called for under sections 243b and 267a UGB has been duly disclosed in the Report.

## Terms of the engagement

This engagement is governed by the "General Conditions of Contract for the Public Accounting Professions" dated 18 April 2018 (AAB 2018 as per Annex) issued by the Austrian Chamber of Public Accountants and Tax Advisors. Chapter 7 of AAB 2018 limits our liability to instances of intent and gross negligence. In cases of gross negligence, the maximum liability is limited to five times the fee received. This amount is the maximum liability amount, which can only be claimed once up to this maximum amount, even if there are several claimants or several claims are being asserted.

Vienna, 19 March 2019

Deloitte Audit Wirtschaftsprüfungs GmbH

Gerhard Marterbauer mp Christof Wolf mp

# Corporate Governance

## (Consolidated) corporate governance report

In 2003, Erste Group Bank AG declared its commitment to complying with the rules of the Austrian Code of Corporate Governance (Austrian CCG – see www.corporate-governance.at) with the objective of ensuring responsible and transparent corporate governance. In addition, the management board adopted a Statement of Purpose in 2015. This statement reaffirms and states in more detail the purpose of Erste Group Bank AG to promote and secure prosperity throughout the region in which Erste Group is active. Building on this Statement of Purpose, a Code of Conduct defines binding rules for day-to-day business. Erste Group values responsibility, respect and sustainability in pursuing its business activities. The Code of Conduct therefore helps to protect the reputation of Erste Group and to strengthen stakeholder confidence. The Corporate Governance Report has been prepared in accordance with sections 243c and 267b of the Austrian Commercial Code and Rules 60 et seq. of the Austrian CCG and combines the corporate governance report of Erste Group Bank AG, the parent, and the consolidated corporate governance report in one single report. The management board has also prepared a (consolidated) non-financial report in accordance with sections 243b and 267a of the Austrian Commercial Code, which is released as part of the annual report.

In the financial year 2018, Erste Group Bank AG complied with all L-Rules (Legal Requirements – mandatory legal norms) and R-Rules (Recommendations – these rules are more similar to recommendations; non-compliance does not need to be disclosed or explained) as well as – with two exceptions – all C-Rules (Comply-or-Explain – deviations are permitted but must be explained) of the Austrian CCG. The two deviations are described and explained below: Pursuant to C-Rule 2 of the Austrian CCG, shares are to be construed in accordance with the principle of one share – one vote, i.e. investors have one vote per share and no right to nominate members to the supervisory board. Under Erste Group Bank AG's articles of association (Art. 15.1), DIE ERSTE österreichische Spar-Casse Privatstiftung is, however, granted the right to nominate up to one third of the members of the supervisory board to be elected by the shareholder meeting as long as it is liable for all present and future liabilities of Erste Group Bank AG in case of its insolvency according to section 92 para 9 of the Austrian Banking Act. The Privatstiftung has not exercised this right to date. Pursuant to C-Rule 52a of the Austrian CCG, the number of supervisory board members (without employees' representatives) shall be ten at most. In 2018, the supervisory board of Erste Group Bank AG comprised eleven members elected by the annual general meeting. The deviation from C-Rule 52a of the Austrian CCG is due to the size of Erste Group and its market position in seven core markets in Central and Eastern Europe as well as to the fact that the supervisory board of Erste Group Bank AG must perform a multitude of financial market related and prudential review and oversight duties. Moreover, the supervisory board must meet various criteria to comply with the diversity requirements.

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

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

### Selection and assessment of members of management bodies

The qualification requirements for members of the management bodies (management board and supervisory board) of Erste Group Bank AG are governed by the internal guidelines for the selection and assessment of members of the management and supervisory boards (Suitability Policy). These guidelines define, in accordance with applicable legal provisions, the internal framework for the selection and assessment of members of the management bodies. The assessment of proposed and appointed members of management bodies is based on the following criteria: personal reputation, professional qualifications and experience, potential conflicts of interest, independence, time availability, overall composition of the management or supervisory board and diversity.

### Training and development

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

# MANAGEMENT BOARD

| Management board member | Year of birth | Date of initial appointment | End of current period in office |
|---|---|---|---|
| Andreas Treichl (Chairman) | 1952 | 1 October 1994 | 31 December 2019 |
| Peter Bosek | 1968 | 1 January 2015 | 31 December 2020 |
| Petr Brávek | 1961 | 1 April 2015 | 31 December 2020 |
| Willibald Cernko | 1956 | 1 January 2017 | 31 December 2020 |
| Gernot Mittendorfer | 1964 | 1 January 2011 | 31 December 2020 |
| Jozef Síkela | 1967 | 1 January 2015 | 31 December 2020 |

In 2018, the management board consisted of six members.

Andreas Treichl resigned from the management board as of 31 December 2019. The supervisory board appointed Bernhard Spalt in September 2018 effective 1 July 2019 to 31 December 2022 as additional member of the management board.

Bernhard Spalt will initially be Vice Chairman of the management board and assume the role of Chairman as of 1 January 2020.

With effect as of 1 January 2018, the allocation of duties among the members of the management board is as follows:

| Management board member | Areas of responsibility |
|---|---|
| Andreas Treichl (Chairman) | Group Strategy, Group Secretariat, Brand Management and Company Transformation, Group Investor Relations, Group Human Resources, Human Resources, Group Audit, Group Board Support & Stakeholder Management, Social Banking Development |
| Peter Bosek | Erste Hub, Digital Sales, Group Retail Strategy |
| Petr Brávek | Holding IT, Holding Banking Operations, Group COO Governance, Group Architecture and Portfolio Management |
| Willibald Cernko | Executive Divisional Director Strategic Risk, Group Liquidity and Market Risk Management, Enterprise wide Risk Management, Credit Risk Models, Group Non Financial Risk, Group Workout, Group Credit Risk Management, Group Legal |
| Gernot Mittendorfer | Executive Divisional Director Strategic Data Program, Group ALM, Group Data Management and Reporting, Group Accounting and Group Controlling, Group Services |
| Jozef Síkela | Group Corporates, GCRE & Leasing, Group Markets, Operating Office C and M, Group Research |

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

As of 31 December 2018, the management board members held the following supervisory board mandates or similar functions in domestic or foreign companies or material subsidiaries of Erste Group Bank AG (the latter are marked with *). No management board member holds a management position in a material subsidiary of Erste Group Bank AG.

### Andreas Treichl

Erste Bank der oesterreichischen Sparkassen AG* (Member), Banca Comercială Română S.A.* (Vice Chair), Česká spořitelna, a.s.* (Vice Chair), Die Zweite Wiener Vereins-Sparcasse* (Chair), Leoganger Bergbahnen Gesellschaft m.b.H. (Member)

### Peter Bosek

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

### Petr Brávek

Česká spořitelna, a.s.* (Member), s IT Solutions AT Spardat GmbH* (2nd Vice Chair), Erste Group IT International GmbH* (Chair)

### Willibald Cernko

Erste Bank der oesterreichischen Sparkassen AG* (Member), Erste & Steiermärkische Bank d.d.* (Erste Bank Croatia) (Chair), Erste Reinsurance S.A. (Chair)

### Gernot Mittendorfer

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

### Jozef Síkela

Oesterreichische Kontrollbank Aktiengesellschaft (Member), Prvá stavebná sporiteľňa, a.s.* (Member)

## SUPERVISORY BOARD

In the financial year 2018, the following persons were members of the supervisory board:

| Position | Name | Year of birth | Occupation | Date of initial appointment | End of the current period in office |
|---|---|---|---|---|---|
| Chairman | Friedrich Rödler | 1950 | Auditor and tax advisor | 4 May 2004 | AGM 2022 |
| 1st Vice Chairman | Jan Homan | 1947 | General Manager, ret. | 4 May 2004 | AGM 2022 |
| 2nd Vice Chairman | Maximilian Hardegg | 1966 | Entrepreneur | 12 May 2015 | AGM 2020 |
| Member | Elisabeth Bleyleben-Koren | 1948 | General Manager, ret. | 21 May 2014 | AGM 2019 |
| Member | Gunter Griss | 1945 | Lawyer | 21 May 2014 | AGM 2019 |
| Member | Jordi Gual Solé | 1957 | Chairman, CaixaBank | 17 May 2017 | AGM 2022 |
| Member | Marion Khüny | 1969 | Consultant | 17 May 2017 | AGM 2019 |
| Member | Elisabeth Krainer Senger-Weiss | 1972 | Lawyer | 21 May 2014 | AGM 2019 |
| Member | Brian D. O'Neill | 1953 | Executive Vice President | 31 May 2007 | AGM 2022 |
| Member | Wilhelm Rasinger | 1948 | Consultant | 11 May 2005 | AGM 2020 |
| Member | John James Stack | 1946 | CEO, ret. | 31 May 2007 | AGM 2021 |
| **Delegated by the employees' council** | | | | | |
| Member | Markus Haag | 1980 | | 21 November 2011 | until further notice |
| Member | Regina Haberhauer | 1965 | | 12 May 2015 | until further notice |
| Member | Andreas Lachs | 1964 | | 9 August 2008 | until further notice |
| Member | Barbara Pichler | 1969 | | 9 August 2008 | until further notice |
| Member | Jozef Pinter | 1974 | | 25 June 2015 | until further notice |
| Member | Karin Zeisel | 1961 | | 9 August 2008 | until further notice |

There were no changes in the supervisory board in 2018.

### Membership in supervisory board committees

Committee membership as of 26 January 2018:

| Name | Executive committee | Nomination committee | Audit committee | Risk committee | Remuneration committee | IT committee |
|---|---|---|---|---|---|---|
| Friedrich Rödler | Chairman | Chairman | Member* | Chairman | Chairman** | Vice Chairman |
| Jan Homan | Vice Chairman | Vice Chairman | Chairman | Vice Chairman | Vice Chairman | Substitute |
| Maximilian Hardegg | Member | Member | Vice Chairman | Member | Substitute | Chairman |
| Elisabeth Bleyleben-Koren | - | - | Member | Member | - | - |
| Gunter Griss | - | - | - | - | Member | - |
| Jordi Gual Solé | - | - | - | - | Member | - |
| Marion Khüny | - | - | - | Member | - | Member |
| Elisabeth Krainer Senger-Weiss | - | Member | - | Substitute | - | Member |
| Brian D. O'Neill | - | - | - | - | Member | - |
| Wilhelm Rasinger | Substitute | - | Member | Member | - | - |
| John James Stack | - | - | - | - | Member | - |
| **Delegated by the employees' council** | | | | | | |
| Markus Haag | - | - | - | Member | Substitute | - |
| Regina Haberhauer | - | - | Member | Substitute | - | - |
| Andreas Lachs | Substitute | Substitute | Substitute | Member | Member | Member |
| Barbara Pichler | Member | Member | Member | - | Member | Substitute |
| Jozef Pinter | Substitute | Substitute | Member | Member | Substitute | Substitute |
| Karin Zeisel | Member | Member | Substitute | Substitute | Member | Member |

*Financial expert, **Remuneration expert

### Mandates on supervisory boards or similar functions

As of 31 December 2018, the supervisory board members held the following additional supervisory board mandates or similar functions in domestic or foreign companies. Material subsidiaries of Erste Group Bank AG are marked with *, listed companies are marked with **.

#### Friedrich Rödler

Erste Bank der oesterreichischen Sparkassen AG* (Chair),
Erste Bank Hungary Zrt.*,
Sparkassen-Prüfungsverband (Chair)

#### Jan Homan

Frapag Beteiligungsholding AG (Chair),
Slovenská sporiteľňa, a.s.* (1st Vice Chair)

#### Maximilian Hardegg

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

#### Gunter Griss

AVL List GmbH (Chair),
Bankhaus Krentschker & Co. Aktiengesellschaft* (2nd Vice Chair)

### Jordi Gual Solé
CaixaBank, S.A.** (Chair),
Telefónica S.A.**

### Marion Khüny
KA Finanz AG

### Elisabeth Krainer Senger-Weiss
Gebrüder Weiss Holding AG (Vice Chair),
Gebrüder Weiss Gesellschaft m.b.H. (Vice Chair),
Banca Comercială Română S.A.*

### Brian D. O'Neill
Emigrant Bank,
Banca Comercială Română S.A.*,
Aqua Venture Holdings Limited (until 19 February 2019)

### Wilhelm Rasinger
Friedrichshof Wohnungsgenossenschaft reg. Gen. mbH (Chair),
Gebrüder Ulmer Holding GmbH,
S IMMO AG** (2nd Vice Chair),
Wienerberger AG**

### John James Stack
Ally Bank,
Ally Financial Inc.**,
Česká spořitelna, a.s.* (Chair),
Mutual of America Capital Management

Elisabeth Bleyleben-Koren did not hold any mandates on supervisory boards or similar functions in domestic or foreign companies as of 31 December 2018.

Delegated by the employees' council:

### Barbara Pichler
DIE ERSTE österreichische Spar-Casse Privatstiftung

### Andreas Lachs
VBV-Pensionskasse Aktiengesellschaft

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

## Mechanism for shareholders and employees to provide recommendations and direction to the supervisory board
In accordance with the law and the articles of association, the Employees' Council has the right to delegate one member from among its ranks for every two members appointed by the annual general meeting (statutory one-third parity rule). If the number of shareholder representatives is an odd number, then one more member is appointed as an employee representative.

## Measures to avoid conflicts of interest
Every year, the members of the supervisory board are obligated to consider the regulations of the Austrian CCG regarding conflicts of interest. Furthermore, new members of the supervisory board receive comprehensive information regarding the avoidance of conflicts of interest when taking up their supervisory board functions.

## Independence of the supervisory board
Pursuant to C-Rule 53 of the Austrian CCG, the majority of the members of the supervisory board elected by the annual general meeting or delegated by shareholders in accordance with the articles of association shall be independent of the company and its management board. A member of the supervisory board is deemed to be independent if such person does not have any business or personal relations with the company or its management that would constitute a material conflict of interest and, therefore, might influence the member's conduct. The supervisory board adheres to the independence criteria guidelines as set out in Annex I of the Austrian CCG.

- The supervisory board member shall not have been a member of the management board or a managing employee of the company or of a subsidiary of the company in the past five years.
- The supervisory board member shall not have or not have had in the past year any business relations with the company or a subsidiary of the company to an extent of significance for the supervisory board member. This shall also apply to business relations with companies in which the supervisory board member has a significant economic interest but not to positions held in the Group's managing bodies. The approval of individual transactions by the supervisory board pursuant to L-Rule 48 does not automatically qualify the respective supervisory board member as not being independent.
- The supervisory board member shall not have served as auditor for the company or been involved in an audit or worked as an employee of the audit firm that audited the company in the past three years.
- The supervisory board member shall not serve as a management board member at another company in which a member of the company's management board is a supervisory board member.
- The supervisory board member shall not serve on the supervisory board for more than 15 years. This shall not apply to members of the supervisory board that hold investments with a business interest or that represent the interests of such a shareholder.
- The supervisory board member shall not be a close family member (child, spouse, life partner, parent, uncle, aunt, sibling, niece, nephew) of a member of the management board or of persons holding one of the positions described in the points above.

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

No member of the supervisory board holds directly or indirectly more than 10% of the shares of Erste Group Bank AG. In 2018, two members of the supervisory board (Maximilian Hardegg and Barbara Pichler) served on a management body of a company holding more than 10% of the shares of Erste Group Bank AG. One member (Wilhelm Rasinger) represented in particular the interests of retail shareholders.

### Attendance of supervisory board meetings

In 2018, all members of the supervisory board attended more than half of the supervisory board and committee meetings that took place after their election or delegation to the supervisory board.

### Self-evaluation of the supervisory board

At its meeting of 24 January 2018, the nomination committee performed an evaluation of the activities of the supervisory board and its committees for the year 2017. The supervisory board discussed afterwards the results of this evaluation pursuant to C-Rule 36 of the Austrian CCG at its meeting of 22 March 2018 and concluded the evaluation for 2017 with a positive assessment. To prepare for its self-evaluation in the year 2018, the supervisory board engaged an external advisor, who supported in drawing up questionnaires, in interviews with selected members of the supervisory board, in an extensive discussion of insights gained and in analysing the results. In addition, an external peer was also included in the discussion, who assessed the results against international standards and contributed impressions gained in serving on supervisory boards. These were presented at the supervisory board meeting of 28 June and 13 September 2018. At its meeting of 30 January 2019, the nomination committee performed an evaluation of the activities of the supervisory board and its committees for the year 2018. It discussed, for example, the supervisory board members' attendance at supervisory board and committee meetings in 2018, assessed the efficiency of the supervisory board's activities, organisation and working practice and undertook a critical review of the composition of committees. Potential conflicts of interest of management board and supervisory board members were considered and the number of mandates and secondary activities of management and supervisory board members were reviewed.

### Contracts subject to approval (C-Rule 49 Austrian CCG)

No contracts have been entered into that would require approval pursuant to section 95 para 5 no 12 Austrian Stock Corporation Act.

## SUPERVISORY BOARD COMMITTEES AND THEIR DECISION-MAKING POWERS

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

### Risk committee

The risk committee advises the management board with regard to the bank's current and future risk appetite and risk strategy and monitors the implementation of this risk strategy. The committee also reviews whether the services and products offered are adequately priced in accordance with the bank's business model and risk strategy. Without prejudice to the duties of the remuneration committee, the risk committee is also responsible for reviewing whether the incentives offered by the internal remuneration system adequately take into account risk, capital, liquidity and the probability and timing of profit realisation. The risk committee is responsible for granting approval in all those cases in which loans and exposures or large exposures reach an amount exceeding the approval authority of the management board defined in the approval authority regulation. The approval of the risk committee is required for large loan as defined in section 28b of the Austrian Banking Act. In addition, it may grant advance approvals to the extent permitted by law. The risk committee is responsible for monitoring the risk management of Erste Group Bank AG. The supervisory board has delegated to the risk committee the right to approve the establishment and closure of branches and to grant special statutory power of attorney (Prokura) or commercial power (Handlungsvollmacht) for all business operations. The committee is responsible for monitoring the Group's portfolio of participations except in cases where this is the responsibility of the audit committee. The tasks of the risk committee include the acknowledgement of reports on legal disputes as well as on important audits of subsidiaries conducted by regulatory authorities. In addition, the risk committee is responsible for reviewing potential stress scenarios in order to assess how the bank's risk profile reacts to external and internal events. Furthermore, the risk committee assesses recommendations of internal and external auditors and monitors the appropriate implementation of measures taken that are not covered by reports of other committees. Is also advises and supports the supervisory board in monitoring current and future risk appetite and the risk strategy and submits recommendations on required adjustments to the risk strategy to the supervisory board.

### Executive committee

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

### Audit committee

The audit committee is responsible for overseeing the accounting process; monitoring the effectiveness of the company's internal control system, internal audit system and risk management system; overseeing the annual audit of single-entity and consolidated financial statements; reviewing and supervising the independence of the auditor (Group auditor), in particular with respect to the additional services rendered to the audited company and the group companies; submitting a report on the results of the annual audit to the supervisory board and explaining how the annual audit has affected the reliability of financial reporting and the role of the audit committee in doing so; reviewing the annual financial statements and preparing its approval; reviewing the proposal for the allocation of profits, the management report and the (consolidated) corporate governance report as well as the (consolidated) non-financial report and submitting a report on the results of the review to the supervisory board; reviewing the consolidated financial statements of the group and the group management report and submitting the report on the results of the review to the supervisory board; carrying out the procedure for the selection of the auditor (group auditor), taking into account the appropriateness of the fees and recommending the appointment of the auditor (group auditor) to the supervisory board; recommending the renewal of the auditor's (group auditor's) mandate to the supervisory board; acknowledging the additional report of the auditor and discussing this report; acknowledging timely information on the focal points of the audit and submitting proposals for additional focal points of the audit; taking note of the annual financial statements of material subsidiaries and of the participations report; acknowledging the audit plan of the company's internal audit function; acknowledging information on current matters relevant to the internal audit of the Group and on the efficiency and effectiveness of the internal audit; acknowledging the internal auditors' report on the audit areas and material audit findings and the activity report pursuant to Article 25 (3) in conjunction with Article 24 of the Delegated Regulation (EU) 2017/565; in the case of on-site inspection conducted by supervisory authorities acknowledging the inspection report, the report on the contents of the plan to address identified findings and/or the result of administrative proceedings initiated on the basis of the identified findings; acknowledging immediate information on material findings of the auditor, the internal audit function or an audit conducted by a regulatory authority; acknowledging immediate information on loss events that could exceed 5% of consolidated equity or 10% of the budgeted net result; acknowledging reports of the management board on current developments and compliance regarding corporate governance and anti-money laundering rules; acknowledging the compliance activity report pursuant to Article 25 (3) in conjunction with Article 22 of the Delegated Regulation (EU) 2017/565.

### Nomination committee

Meetings of the nomination committee are held as needed (at least once a year) or when a member of the committee or of the management board requests a meeting. The nomination committee submits proposals to the supervisory board for filling management board mandates that become vacant and deals with issues of succession planning. The committee decides on the employment contracts for members of the management board. It deals with and decides on relationships between the company and the members of the management board except for resolutions to appoint members to the management board or revoke such appointments and on the granting of company stock options. Furthermore, the nomination committee supports the supervisory board in making proposals to the annual general meeting for filling supervisory board mandates that have become vacant. In filling vacant management board and supervisory board mandates, the focus is in particular on the members' personal and professional qualifications, but also a well-balanced board composition in terms of expertise, a well-balanced and broad range of knowledge, skills and experience of the members on each body (collective suitability) and on aspects of diversity. The nomination committee also defines a target quota for the underrepresented gender and develops a strategy to achieve this target. The nomination committee furthermore adopts the internal policy for dealing with conflicts of interest for the management board and the supervisory board, monitors compliance with it and regularly reports to the supervisory board on existing conflicts of interest and the measures taken to control them. The nomination committee must ensure that the management board's and the supervisory board's decision-making processes are not dominated by one single person or a small group of persons. The nomination committee periodically assesses the management board's and the supervisory board's structure, size, composition and performance and submits proposals for changes to the supervisory board, if necessary. In addition, the nomination committee must conduct periodic assessments of the expertise, skills and experience of both the management board members and the individual members of the supervisory board as well as of each body in its entirety and to report its findings to the supervisory board. As regards the selection for senior management positions, the nomination committee must review actions taken by the management board and supports the supervisory board in making recommendations to the management board.

### Remuneration committee

The remuneration committee prepares resolutions on remuneration matters, including resolutions that have an impact on the bank's risk and risk management and must be passed by the supervisory board. The remuneration committee approves the general principles of remuneration policy, reviews them regularly and is also responsible for their implementation. The committee monitors remuneration policy, remuneration practices and remuneration-linked incentive programmes in relation to the control, monitoring and containment of risks, the capital base and liquidity, with due regard to the long-term interests of the bank's shareholders, investors and employees as well as the national interest in a well-functioning banking system and financial market stability. The committee approves exceptions from the application of the remuneration policy to individual staff members of the company and monitors the payment of variable remuneration to members of the management board and to the company's second management level as well as to management board members of major subsidiaries. It furthermore reviews the (variable) remuneration of senior managers of the company performing independent control functions such as risk management and compliance and of staff members having a significant impact on the company's risk profile. In addition, it approves the identification of employees having a significant impact on the company's risk profile and reviews the criteria on which the management board's decision is based as well as the procedure used in taking such decisions. The committee also ensures that information on the remuneration policy and practices provided to shareholders is appropriate. Once a year, the committee is presented with a comprehensive report on the remuneration system including key performance indicators as well as a report on the situation regarding personnel and management in the Group.

### IT committee

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

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

Six meetings of the supervisory board were held in the financial year 2018.

At the ordinary meetings of the supervisory board the respective monthly developments of the balance sheet and the income statement were presented and reports were given on individual risk types and the bank's total risk; the status of individual bank subsidiaries in Central and Eastern Europe was discussed and quarterly reports were delivered on the areas audited and on the internal audit department's material audit findings pursuant to section 42 para 3 of the Austrian Banking Act. The chairpersons of the committees reported on the main topics dealt with by the committees since the last supervisory board meeting. A recurring topic at supervisory board meetings in 2018 was reports on current regulatory developments in the banking environment and their impacts on Erste Group. The management board regularly presented proposals to the supervisory board that required its approval under the law, the articles of association and internal rules.

At the meeting of 22 March 2018, the financial statements and the management report 2017, the consolidated financial statements and consolidated management report as well as the (consolidated) corporate governance report 2017 and the (consolidated) non-financial report 2017 were reviewed; the auditors' reports as well as the report of the audit committee pursuant section 63a para 4 (5) of BWG were discussed and the financial statements for 2017 were adopted in accordance with the recommendation of the audit committee. It was also decided to propose PwC Wirtschaftsprüfung GmbH to the annual general meeting on 14 May 2018 as an additional auditor of the (consolidated) financial statements for the financial year 2019. In addition, a report was presented on Erste Group's brands, the annual report of Group Compliance and the annual report of the supervisory board on loans to board members pursuant to section 28 para 4 of the Austrian Banking Act as well as the list prepared pursuant to C-Rule 82a of the Austrian CCG were each taken note of. The report on the assessment of the effectiveness of the risk management was submitted to the supervisory board by the chairman of the audit committee. The supervisory board performed a self-evaluation as well as an evaluation of the management board pursuant to section 29 of the Austrian Banking Act and C-Rule 36 of the Austrian CCG and approved changes to the internal rules of the audit committee.

At the meeting of 19 April 2018, the resolutions proposed for the annual general meeting were discussed and approved and the current status of a project was discussed. The variable remuneration of members of the management board for the financial year 2017 was adopted.

At the meeting of 24 May 2018 held after the annual general meeting the report on strategic decisions was taken note of and the framework for the establishment of Erste Mitarbeiterbeteiligung Privatstiftung was approved.

At the meeting of 28 June 2018, which was also attended by members of the supervisory authorities' Joint Supervisory Team, who gave presentations and answered questions raised by supervisory board members, the impacts of Austria's EU presidency were discussed and reports on the performance of Erste Group in the capital market and on the self-evaluation of the supervisory board with the support of an external advisor were taken note of. In addition, the framework plan for the issuance of certificates and warrants and changes in the areas of responsibility of management board members was adopted

At the meeting of 13 September 2018, the supervisory board took note of the resignation of Andreas Treichl as CEO as of 31 December 2019 and appointed Bernhard Spalt as member of the management board of Erste Group Bank AG from 1 July 2019 to 31 December 2022. Bernhard Spalt will serve as deputy chairman from 1 July 2019 to 31 December 2019 and as chairman of the management board of Erste Group Bank AG from 1 January 2020 to 31 December 2022. In addition, reports were presented on the current status of projects and the Group Recovery Plan 2017 was taken note of.

At the meeting of 13 December 2018, preparations of celebrations to mark the 200-year anniversary of Erste Group were discussed. In addition, the reports on capital-related matters, large exposures pursuant to section 28b of the Austrian Banking Act and the annual plan and the capital plan for the financial year 2019 were discussed, approved and taken note of. In addition, an anticipatory resolution was taken pursuant to section 95 para 5 no 12 of the Austrian Stock Corporation Act as well as a resolution on long-term funding activities in the financial year 2018 and changes to the internal rules of the supervisory board, the nomination committee and the risk committee were approved.

## MEETINGS OF THE COMMITTEES AND REPORT ON ACTIVITIES

The risk committee held seventeen meetings in 2018, at which it regularly took decisions on exposures and loans exceeding the powers of the management board and was briefed on loans granted within the scope of authorisation of the management board. The committee was regularly informed on the risk strategy, risk appetite, the monitoring required to comply with these limits, individual risk types, risk-bearing capacity and large exposures. Furthermore, reports were given on the situation of specific sectors and industries, including the real estate and automotive industries and the resulting impacts on the risk strategy. Further items on the agenda were audits by supervisory authorities, internal risk models and various legal disputes. Reports were regularly delivered on risk development in individual countries and subsidiaries. Without prejudice to the duties of the remuneration committee, the risk committee members were also informed on whether the incentives offered by the internal remuneration system adequately account for risk, capital, liquidity and the probability and timing of profit realisation. Also on the agenda were reports on stress tests. A report on a recovery plan required under applicable regulations was also delivered in the risk committee. In addition, the members of the risk committee were informed about developments in the corporate workout portfolio in general and major workout cases in particular.

The executive committee did not meet in 2018.

The audit committee met six times in 2018 and, in addition, held one informal meeting to prepare the meeting on the review of the (consolidated) financial statements. The external auditors were present at all meetings. Among other things, the auditors reported on the audit of the single-entity and consolidated financial statements for 2017 and the audit committee subsequently conducted the final discussion. The financial statements and the management report, the consolidated financial statements and the management report as well as the (consolidated) corporate governance report and the (consolidated) non-financial report were reviewed and the financial statements recommended for approval by the supervisory board. The additional report of the auditors pursuant to Article 11 of EU Regulation 2014/537 was taken note of. The head of the internal audit department reported on the audit subjects and material audit findings for the year 2017 and, on an ongoing basis, about audit-relevant matters in the group and explained the audit plan for 2018. The internal audit department presented its reports pursuant to section 42 para 3 of the Austrian Banking Act and, jointly with the compliance department, a report pursuant to Article 25 (3) in conjunction with Article 24 of the Delegated Regulation (EU) 2017/565. In addition, a report was delivered on the assessment of the functionality of the risk management system pursuant to Rule 83 of the Austrian CCG and on the effectiveness of the internal control system. Based on these reports, the audit committee monitored the effectiveness of the internal control system, the internal audit system and the risk management system pursuant to section 63a para 4 no 2 of the Austrian Banking Act. The audit committee also discussed its work plan for 2019 and defined agenda topics for the meetings. It was decided to recommend the renewal of the audit mandate of PwC Wirtschaftsprüfung GmbH as additional auditor of the (consolidated) financial statements for the financial year 2020 to the supervisory board. In addition, the audit committee also discussed and considered the feedback on the annual audit with the auditors. The auditors provided information about the preliminary audit of the single-entity and consolidated financial statements for 2018. Besides, discussions were held on the reports on the development of participations, on the half year report as of 30 June 2018, the IFRS 9 adoption as well as on reviews conducted by the European Central Bank and on the 2017 management letter. The audit committee continuously reviewed and monitored the independence of the auditors of the (consolidated) financial statements with a particular focus on non-audit services rendered for Erste Group pursuant to section 63a para 4 (4) of the Austrian Banking Act. Among other things, the audit committee gave therefore pre-approval to permissible non-audit services rendered by the (group) auditor, received reports on their current status. The audit committee's report on activities included in the 2017 annual report was discussed and approved. The exchange of views between the audit committee and the auditors in the absence of the management board pursuant to C-Rule 81a Austrian CCG was conducted in December 2018. The head of internal audit was evaluated by the audit committee and the current status of the (consolidated) non-financial report 2018 was discussed. The questionnaire of the auditors' supervisory authority was discussed, completed and returned by the audit committee.

The nomination committee met four times in 2018 and assessed in one meeting the qualification of Bernhard Spalt for his appointment as member and future chairman of the management board of Erste Group Bank AG and recommended that the supervisory board approve his appointment. The nomination committee conducted fit and proper assessments of potential candidates for the elections to the supervisory board at the annual general meeting of Erste Group Bank AG on 15 May 2019. In addition, the nomination committee reviewed the evaluation pursuant to C-Rule 36 of the Austrian CCG and the evaluation of the management board and the supervisory board pursuant to section 29 no 6 and 7 of the Austrian Banking Act and considered, in particular, the possible conflicts of interest and the attendance in meetings by supervisory board members.

The remuneration committee met three times in 2018. The resolution on the variable remuneration of members of the supervisory board was prepared. In addition, various remuneration topics relating to Erste Group Bank AG were discussed and approved, including the structure of key performance indicators, the bonus policy including the requirements for the payment of variable remuneration components and remuneration rules for Material Risk Takers and the question of which employees are subject to these rules. In addition, changes to the remuneration policy of Erste Group Bank AG and Erste Group were approved and the 2017 remuneration report was presented. Reports were delivered on current changes in performance-linked remuneration for employees with sales responsibilities at Erste Group and the report on the review of the remuneration policy by internal audit was acknowledged.

The IT committee met four times in 2018. Its main topics were the IT project portfolio and IT governance for Erste Group, as well as risk management relating to IT. Reports were delivered on IT security, on the strategy concerning using of data while handling data and digitalisation, on the current status of various infrastructure projects and on IT strategy. In addition, the IT budget was discussed and the structure of the organisation considered in more detail.

## REMUNERATION OF THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD

### Principles governing the remuneration policy

The principles governing the remuneration of the management boards of Erste Group Bank AG and of consolidated material subsidiaries are specified in the remuneration policy of Erste Group Bank AG at Group level, including in particular the definition and evaluation of performance criteria.

The contractual maximum value of performance-linked payments to management board members shall not exceed 100% of the fixed salaries.

The performance criteria and their impact on the variable remuneration of the management board of Erste Group Bank AG are defined at the beginning of the year by the supervisory board following consultations with the responsible organisational units (Group Strategy and Group Human Resources). Management board members must achieve defined performance criteria at both company level and individual level. The first criterion is Erste Group's overall performance. For the year 2018, target achievement is measured by reference to the following indicators: compliance with capital and liquidity requirements, net profit and operating result minus risk cost and customer experiences. The second performance criterion is the achievement of individual objectives. For 2018 these are, for example, operating result minus risk cost, return on tangible equity, risk costs, NPL ratio and strategic goals depending on areas of responsibilities.

The performance criteria and their impact on the variable remuneration of the management boards of major consolidated subsidiaries are defined at the beginning of the year by the respective supervisory or advisory boards following consultations with the responsible organisational units (Group Strategy and Group Human Resources). Management board members must achieve the defined performance criteria at both company level and individual level.

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

### Remuneration of management board members

#### Remuneration in 2018

| | | | Performance-linked remuneration | | |
|---|---|---|---|---|---|
| in EUR thousand | Fixed salaries | Other remuneration | for 2017 | for previous years | Total |
| Andreas Treichl | 1,475.0 | 643.8 | 317.5 | 276.8 | 2,713.1 |
| Peter Bosek | 700.0 | 138.4 | 127.6 | 84.0 | 1,049.9 |
| Petr Brávek | 700.0 | 138.8 | 158.4 | 84.0 | 1,081.3 |
| Willibald Cernko | 700.0 | 133.6 | 160.0 | 0.0 | 993.6 |
| Gernot Mittendorfer | 700.0 | 139.9 | 160.0 | 110.0 | 1,109.9 |
| Jozef Síkela | 700.0 | 138.5 | 134.8 | 84.0 | 1,057.3 |
| **Total** | **4,975.0** | **1,333.0** | **1,058.3** | **638.8** | **8,005.0** |

The item "Other remuneration" comprises pension fund contributions, contributions to employee provision funds (for new-type severance payments) and remuneration in kind. In 2018, performance-linked remuneration and share equivalents were paid out or vested for previous years. No performance-linked remuneration was paid to members of the management board for 2014 and 2011.

#### Non-cash performance-linked remuneration in 2018

| Share equivalents (in units) | for 2017 | for previous years |
|---|---|---|
| Andreas Treichl | 10,738 | 12,245 |
| Peter Bosek | 4,853 | 3,387 |
| Petr Brávek | 4,853 | 3,387 |
| Willibald Cernko | 4,853 | 0 |
| Gernot Mittendorfer | 4,853 | 4,762 |
| Jozef Síkela | 4,853 | 3,387 |
| **Total** | **35,003** | **27,168** |

Pay-outs will be made pro rata in 2019 after the one-year vesting period. Share equivalents are valued at the average weighted daily share price of Erste Group Bank AG in 2018 in the amount of EUR 36.88 per share.

In 2018, EUR 1,081.6 thousand was paid in cash and 8,392 share-equivalents were assigned to former members of management bodies and their dependants.

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

Members of the management board participate in the defined contribution pension plan of Erste Group on the basis of the same principles as other employees of the company.

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

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

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

### Remuneration of members of the supervisory board

| in EUR thousand | Meeting fees for 2018 | Supervisory board compensation for 2017 | Total |
|---|---|---|---|
| Friedrich Rödler | 40.0 | 170.0 | 210.0 |
| Jan Homan | 33.0 | 100.0 | 133.0 |
| Bettina Breiteneder | 0.0 | 33.8 | 33.8 |
| Maximilian Hardegg | 33.0 | 78.7 | 111.7 |
| Elisabeth Bleyleben-Koren | 27.0 | 60.0 | 87.0 |
| Gunter Griss | 9.0 | 60.0 | 69.0 |
| Jordi Gual Solé | 6.0 | 37.6 | 43.6 |
| Marion Khüny | 27.0 | 37.6 | 64.6 |
| Elisabeth Krainer Senger-Weiss | 20.0 | 60.0 | 80.0 |
| Antonio Massanell Lavilla | 0.0 | 42.4 | 42.4 |
| Brian D.O´Neill | 9.0 | 60.0 | 69.0 |
| Wilhelm Rasinger | 30.0 | 60.0 | 90.0 |
| John James Stack | 6.0 | 60.0 | 66.0 |
| Markus Haag | 0.0 | 0.0 | 0.0 |
| Regina Haberhauer | 0.0 | 0.0 | 0.0 |
| Andreas Lachs | 0.0 | 0.0 | 0.0 |
| Barbara Pichler | 0.0 | 0.0 | 0.0 |
| Jozef Pinter | 0.0 | 0.0 | 0.0 |
| Karin Zeisel | 0.0 | 0.0 | 0.0 |
| **Total** | **240.0** | **860.2** | **1,100.2** |

The 2018 annual general meeting granted the members of the supervisory board annual remuneration for the financial year 2017 and subsequent years based on the following fixed scale: in accordance with this resolution, the chairman of the supervisory board receives a remuneration of EUR 150,000, the 1st vice chairman EUR 90,000, the 2nd vice chairman EUR 80,000 and ordinary members of the supervisory board EUR 60,000 each. Chairmen of the risk, audit and IT committees receive additional remuneration of EUR 10,000 each, chairmen of the remuneration and nomination committees EUR 5,000. Total remuneration for supervisory board members for the financial year 2017 thus totalled EUR 860,219. In addition, attendance fees paid to the members of the supervisory board were set at EUR 1,000 per meeting of the supervisory board or one of its committees.

### Directors' and officers' liability insurance

Erste Group Bank AG has directors' and officers' liability insurance. The insurance policy covers former, current and future members of the management board or managing directors, of the supervisory board, of the administrative board and of the advisory board as well as senior management, holders of statutory powers of attorney (Prokuristen) and management staff of Erste Group Bank AG and the subsidiaries in which Erste Group Bank AG holds more than 50% of the shares or voting rights either directly or indirectly through one or more subsidiaries. The costs are borne by the company.

## PROMOTING WOMEN TO MANAGEMENT BOARDS, SUPERVISORY BOARDS AND MANAGING POSITIONS

In 2014, the nomination committee of Erste Group Bank AG's supervisory board approved a target for the main banking subsidiaries to have 35% women in board and B-1 positions (combined) by 2019 and a second target of 35% women in supervisory boards by 2019. The following entities contribute to the target: Erste Group Bank AG (Holding), Erste Bank Oesterreich, Česká spořitelna, Slovenská sporiteľňa, Erste Bank Hungary, Erste Bank Croatia, Erste Bank Serbia, Banca Comercială Română. While the target does not apply individually to the aforementioned entities, they are encouraged to align with the group target. A key instrument for increasing the number of women in senior management positions is a better gender and age balance in its talent and succession pools.

At the end of 2018, 30% (31%) of positions in top management in the Group were filled by women. The target to increase the number of women in top management by at least one percentage point in 2018 was not achieved. While the share of female supervisory board members decreased slightly by 0.8 percentage points to 35.2% (36.0%), it remained above the target of at least 35%. But Erste Bank Oesterreich increased in 2018 its percentage of management positions held by women by one percentage point from 40% to 41%. With 47.4% woman in top management Banca Comercială Română is the only local banking subsidiary almost at gender parity.

Erste Group implemented a variety of initiatives to support female leadership. In Austria, initiatives such as the Erste Women's Hub employee resource group, the *WoMentoring* program, financial education for women, networking events for female employees and clients were continued. Another focus was on encouraging more men to take advantage of parental leave options and flexible working. A new initiative focusing on *Erste Women in IT* (*Erste WIT*) was launched to encourage more women to pursue IT careers and develop those who are in IT. Erste Bank Hungary launched *Erste Nő* (Women's Club) which focuses on promoting a family friendly organisation, the work-life balance of working women and supporting mothers returning from maternity leave, as well as on mentoring and networking activities. Slovenská sporiteľňa organised a networking conference for its female managers *ZenyZenam* (women to women) and Česká spořitelna continues to support female leadership through its internal and external mentoring activities.

## DIVERSITY

Erste Group´s diversity and inclusion principles are embedded both in its Statement of Purpose and Code of Conduct, which places emphasis on providing a work environment free of discrimination and harassment and valuing the work and worth of each and every person, regardless of gender, age, marital status, sexual orientation, physical ability, race, skin colour, religious or political affiliation, ethnic background, nationality, citizenship or any other aspect unrelated to employment. An independent Anti-Discrimination Officer advises and mediates in matters concerning harassment and discrimination, and works with management on awareness and prevention.

Erste Group´s Diversity and Inclusion Policy provides the framework for local diversity managers to define priorities and initiatives that support the group diversity strategy. By the end of 2018, all local Erste banks in had become signatories to their national Diversity Charters, with Banca Comercială Română and Slovenská sporiteľňa joining in 2018. The Diversity and Inclusion Policy defines diversity and inclusion principles by which Erste Group is committed to live. It also provides a common understanding on what diversity and inclusion means for Erste Group and outlines roles and responsibilities, as well as general guidelines on how to develop, implement and adjust diversity and inclusion targets and strategy.

The policy also defines diversity concepts applied when appointing members to the management board and supervisory board with respect to age, gender as well as educational and professional background. In addition to setting a Group-wide target for women in top management and supervisory boards, it requires, *inter alia*: that all positions, including managerial positions, shall be advertised on the internal job market (unless there are succession pool candidates in line for that position). The selection process and criteria must be transparent and gender-neutral language must be used in job advertisements; talent pools and programs shall be open to qualified employees of all ages, genders and backgrounds; short lists of candidates for top management positions shall include at least one of each gender; and for candidates to supervisory boards, nominating committees of supervisory boards (Holding and local banks) shall keep short lists of suitable female candidates.

The diversity priorities for 2018 were the following: develop more group-wide initiatives to support female leadership; make careers in the field of IT more attractive for women through *Erste WIT*; develop and encourage more initiatives in the area of LGBT+ inclusion; further develop local diversity initiatives in CEE; and continue monitoring the gender pay gap on a country-by-country basis and identify measures for closing it.

## EXTERNAL EVALUATION

Erste Group Bank AG commissioned an external evaluation of compliance with the Austrian Code of Corporate Governance in accordance with C-Rule 62 of the Austrian CCG at least every three years, most recently for the 2017 fiscal year. All evaluations reached the conclusion that Erste Group Bank AG had met all requirements of the Code. The deviations of C-Rules were described and explained. Summary reports on these evaluations are available at the website of Erste Group Bank AG.

## SHAREHOLDERS' RIGHTS

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

### Voting rights

Each share of Erste Group Bank AG entitles its holder to one vote at the annual general meeting. In general, shareholders may pass resolutions at an annual general meeting by a simple majority of the votes cast or, in the event that the majority of the share capital present is required to approve a measure, by a simple majority of the share capital present, unless Austrian law or the articles of association require a qualified majority vote. The articles of association differ from the statutory majority requirements in three cases: First, the appointment of supervisory board members can be revoked before the end of their respective term by a resolution of the annual general meeting that requires a majority of 75% of the votes cast and a majority of 75% of the share capital present at such meeting. Second, the articles of association may be amended by a resolution of the annual general meeting. Provided that such amendment does not concern the business purpose, this requires a simple majority of the votes cast and a simple majority of the share capital present at such meeting. Third, any provision regulating increased majority requirements can only be amended with the same increased majority.

### Dividend rights

Each shareholder is entitled to receive dividends if and to the extent the distribution of dividends is resolved by the annual general meeting.

### Liquidation proceeds

In case of dissolution of Erste Group Bank AG, the assets remaining after the discharge of liabilities and repayment of supplementary capital as well as additional tier 1 capital will be distributed pro rata to the shareholders. The dissolution of Erste Group Bank AG requires a majority of at least 75% of the share capital present at an annual general meeting.

### Subscription rights

All holders of shares have subscription rights allowing them to subscribe to any newly issued shares to maintain their existing share in the share capital of Erste Group Bank AG. Such subscription rights are in proportion to the number of shares held by such shareholders prior to the issue of the new shares. The said subscription rights do not apply if the respective shareholder does not exercise these subscription rights or subscription rights are excluded in certain cases by a resolution of the annual general meeting or by a resolution of the management board and the supervisory board.

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

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

Stock corporations like Erste Group Bank AG must hold at least one annual general meeting (ordinary shareholders' meeting) per year, which must be held within the first eight months of any financial year and cover at least the following items:

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

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

| Management board | |
|---|---|
| Andreas Treichl mp, Chairman | Willibald Cernko mp, Member |
| Peter Bosek mp, Member | Gernot Mittendorfer mp, Member |
| Petr Brávek mp, Member | Jozef Síkela mp, Member |

Vienna, 28 February 2019

## ADDITIONAL CORPORATE GOVERNANCE PRINCIPLES

Erste Group is committed to the highest standards of corporate governance and responsible behaviour by individuals and conducts its business in compliance with applicable laws and regulations. In addition, Erste Group has introduced various policies and guidelines defining rules and principles for its employees.

### Non Financial Risk

Reflecting Erste Group's integrated view of Compliance, Operational Risk and Security, an increasing number of non-financial risk decisions were taken in dedicated committees, adjusting the corporate governance principles towards a holistic view instead of the silo mentality. The integrated approach offers great potential for improvement regarding completeness, effectiveness and efficiency.

Closely associated with this approach is the constant pursuit of a clear assignment of roles and responsibilities of a first, second and third line of defence (accountability, independent challenge and audit).

#### Compliance and anti-corruption

Key topics are the introduction and coordination of procedures and measures to prevent money laundering, terrorist financing as well as financial crimes and to monitor sanctions and embargoes. Substantial investments are made to enhance adequate monitoring systems.

The responsibility for all compliance issues at Erste Group rests with the Compliance department. In organisational terms, it is assigned to the Chief Risk Officer but reports directly to the management board. The compliance rules of Erste Group are based on the relevant legislation, such as the Austrian Stock Exchange Act and the Securities Supervision Act; on the Standard Compliance Code of the Austrian banking industry as well as on international practices and standards. Conflicts of interest between customers, Erste Group and employees are covered by clear rules such as information barriers, provisions on employee transactions, research disclaimer or gift policy.

Based on international anti-corruption/anti-bribery initiatives (e.g. the OECD Anti-Bribery Convention, the United Nations Convention against Corruption) local authorities in many countries have approved laws and regulations that generally prohibit the acceptance of benefits by public officials for the purpose of obtaining or retaining business, or otherwise securing an improper advantage. All of Erste Group's businesses are subject to the laws and regulations in the countries in which the bank operates. Most laws and regulations cover corruption in both the private and public sector, partly with a global scope. Public officials are subject to respective domestic laws and regulations relating to gifts, hospitality and entertainment. Laws may differ from country to country and are to some extent extremely restrictive. Improper payments or other inducements for the benefit of a public official, even if made indirectly through an intermediary, are prohibited. Erste Group under no circumstances offers anything of value to a public official nor to members of a public official’s family or any charitable organisation suggested by a public official for the purpose of influencing the recipient to take or refrain from taking any official action or to induce the recipient to conduct business with Erste Group. This also includes facilitating payments. Erste Group did not record any cases of corruption in 2018. To ensure compliance with all laws and regulations, group-wide standards, policies and procedures are evaluated and refined continuously.

The mandatory compliance training for all new employees includes awareness training and an introduction to the prevention of corruption. For employees in selected business areas, regular compliance trainings are mandatory.

### Activities in 2018

_ Further improvement of the group-wide concept for Non-Financial Risk management, by embedding the established methodology (Risk Return Decision Procedure) into core business processes, developing a committee structure with Group-, Regional- and Local Operational Conduct Committees and by optimising roles and responsibilities and communication between all stakeholders.
_ Annual or periodic activities included the review of group-wide policies such as the AML, KYC, CTF, FATCA and CRS Policy, Sanctions & Embargoes Policy, Securities Compliance Manual, Anti-Corruption and Conflicts of Interest Policy
_ Further implementation of the new AML onboarding and monitoring system replacing the current Norkom system
_ Group Fraud Risk Management Policy approved and rollout to all entities in finalisation
_ Support of group-wide projects: PSD2 (Payment Services Directive) to cover regulatory requirements for Fraud Monitoring and Reporting
_ Regular anti-corruption training
_ Support of finalising group-wide projects to reach compliance with new or enhanced regulatory requirements such as the Markets in Financial Instruments Directive (MiFID II), consisting of the directive and of a regulation (MiFIR), related Commission Delegated Directive and Commission Delegated Regulations, regulatory and implementing technical standards developed by the European Securities and Markets Authority (ESMA). MiFID II as well as the connected Packaged Retail and Insurance-based Investment Products (PRIIPs) was applicable from 3 January 2018.
_ Further roll-out of Erste Group’s whistleblowing tool in various entities to ensure a state-of-the-art process for potential whistleblowing cases and their documentation. Employees throughout Erste Group can report severe cases of potential misconduct either locally in their respective entity or directly to the Holding. The rollout into the savings banks sector in Austria reached a penetration rate of approximately 80% of the institutes.

### Activities started to be continued in 2019

_ Optimisation of the Group Risk Return Decision Procedure and its rollout to all local banks.
_ Further implementation of the new AML onboarding and monitoring system

## Risk management

Erste Group’s approach to risk management seeks to achieve the best balance between risk and return for earning a sustainable return on equity. A detailed report on risk policy, risk management strategy and organisation, as well as a thorough discussion of the individual risk categories, is included in the Notes beginning on page 194. In addition, credit risk is analysed in detail in a separate section starting on page 30, in the Segments section of this report.

## Directors’ dealings

In accordance with the Market Abuse Regulation Article 19, individual trades by persons discharging managerial responsibilities at an issuer as well as persons closely associated with them involving shares or debt instruments or associated derivatives or other associated financial instruments of an issuer are published by the issuer. Erste Group publishes directors’ dealings through electronic dissemination media and on the website (www.erstegroup.com/investorrelations).

## Transparency

Transparent operations and reporting play a crucial part in establishing and upholding stakeholders’ confidence. Accordingly, it is one of the main goals of Erste Group to provide accurate, timely and comprehensible information about the business development as well as financial and non-financial performance. Erste Group’s disclosure adheres to applicable legal and regulatory requirements and is prepared in line with best practice.