Key financial and operating data

Income statement (in EUR million)	2015	2016	2017	2018	2019
Net interest income	4,444.7	4,374.5	4,353.2	4,582.0	4,746.8
Net fee and commission income	1,861.8	1,783.0	1,851.6	1,908.4	2,000.1
Net trading result and gains/losses from financial instruments at FVPL	210.1	272.3	210.5	193.7	293.8
Operating income	6,771.8	6,691.2	6,669.0	6,915.6	7,255.9
Operating expenses	-3,868.9	-4,028.2	-4,158.2	-4,181.1	-4,283.3
Operating result	2,902.9	2,663.0	2,510.8	2,734.6	2,972.7
Impairment result from financial instruments	-729.1	-195.7	-132.0	59.3	-39.2
Other operating result	-635.6	-665.0	-457.4	-304.5	-628.2
Pre-tax result from continuing operations	1,639.1	1,950.4	2,077.8	2,495.0	2,329.7
Net result attributable to owners of the parent	**968.2**	**1,264.7**	**1,316.2**	**1,793.4**	**1,470.1**

Net interest margin (on average interest-bearing assets)	2.59%	2.51%	2.40%	2.30%	2.18%
Cost/income ratio	57.1%	60.2%	62.4%	60.5%	59.0%
Provisioning ratio (on average gross customer loans)	0.56%	0.15%	0.09%	-0.03%	0.07%
Tax rate	22.2%	21.2%	19.7%	13.3%	18.0%
Return on tangible equity	10.8%	12.3%	11.5%	15.2%	11.2%
Earnings per share (in EUR)	2.27	2.93	2.94	4.02	3.23

Balance sheet (in EUR million)	Dec 15	Dec 16	Dec 17	Dec 18	Dec 19
Cash and cash balances	12,350	18,353	21,796	17,549	10,693
Trading, financial assets	47,542	48,320	42,752	43,930	44,295
Loans and advances to banks	4,805	3,469	9,126	19,103	23,055
Loans and advances to customers	125,897	130,654	139,532	149,321	160,270
Intangible assets	1,465	1,390	1,524	1,507	1,368
Miscellaneous assets	7,685	6,775	5,929	5,382	6,012
Total assets	**199,743**	**208,227**	**220,659**	**236,792**	**245,693**
Financial liabilities held for trading	5,867	4,762	3,423	2,508	2,421
Deposits from banks	14,212	14,631	16,349	17,658	13,141
Deposits from customers	127,946	138,013	150,969	162,638	173,846
Debt securities issued	29,654	27,192	25,095	29,738	30,371
Miscellaneous liabilities	7,257	7,027	6,535	5,381	5,437
Total equity	14,807	16,602	18,288	18,869	20,477
Total liabilities and equity	**199,743**	**208,227**	**220,659**	**236,792**	**245,693**

Loan/deposit ratio	98.4%	94.7%	92.4%	91.8%	92.2%
NPL ratio	7.1%	4.9%	4.0%	3.2%	2.5%
NPL coverage ratio (based on AC loans, ex collateral)	64.5%	69.1%	68.8%	73.4%	77.1%
Texas ratio	48.1%	34.6%	29.2%	24.5%	19.9%
Total own funds (CRR final, in EUR million)	17,284	18,893	20,337	20,891	21,961
CET1 capital ratio (CRR final)	12.0%	12.8%	12.9%	13.5%	13.7%
Total capital ratio (CRR final)	17.2%	18.2%	18.2%	18.1%	18.5%

About the share	2015	2016	2017	2018	2019
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	426,726,297	426,668,132	426,679,572	426,696,221	426,565,097
Market capitalisation (in EUR billion)	12.4	12.0	15.5	12.5	14.4
High (in EUR)	29.04	29.59	37.99	42.38	37.07
Low (in EUR)	18.97	18.87	27.46	28.10	28.23
Closing price (in EUR)	28.91	27.82	36.105	29.05	33.56
Price/earnings ratio	12.8	9.5	11.8	7.0	9.8
Dividend per share (in EUR)	0.50	1.00	1.20	1.40	1.50
Payout ratio	22.2%	34.0%	39.2%	33.6%	43.9%
Dividend yield	1.7%	3.6%	3.3%	4.8%	4.5%
Book value per share	25.6	27.8	30.0	31.1	32.9
Price/book ratio	1.1	1.0	1.2	0.9	1.0

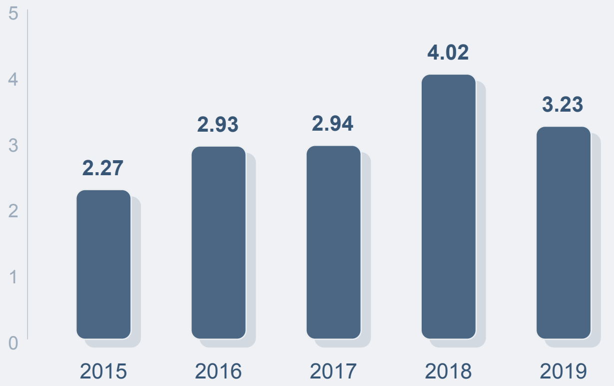
Additional information	Dec 15	Dec 16	Dec 17	Dec 18	Dec 19
Employees (full-time equivalents)	46,467	47,034	47,702	47,397	47,284
Branches	2,735	2,648	2,565	2,507	2,373
Customers (in million)	15.8	15.9	16.1	16.2	16.6

Data as of 28 February 2020
CRR: Capital Requirements Regulation
Shares outstanding include Erste Group shares held by savings banks that are members of the Haftungsverbund (cross-guarantee system).

Financial data

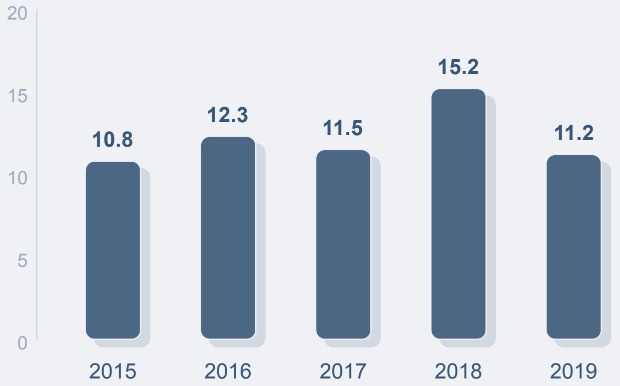
Earnings per share

in €

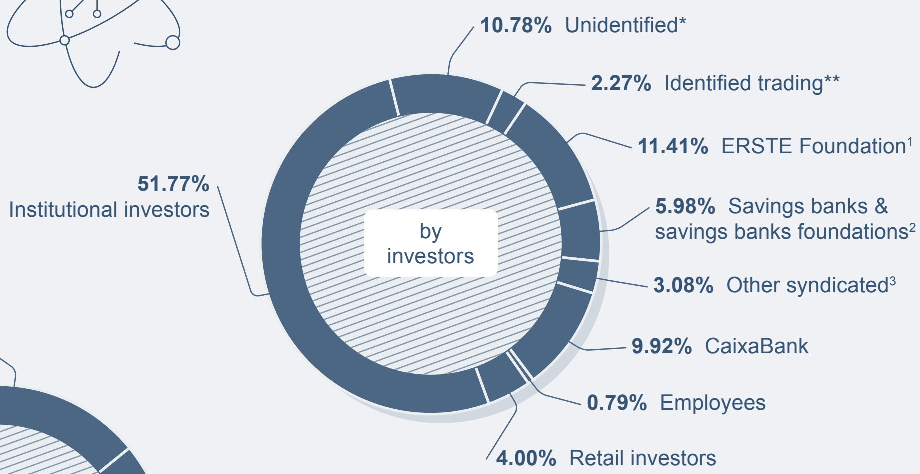


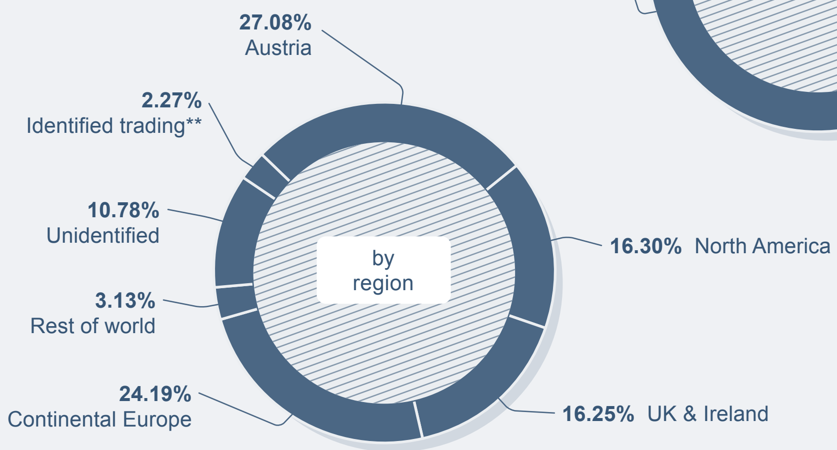
Return on tangible equity, ROTE

in %



Shareholder structure as of 31 December 2019

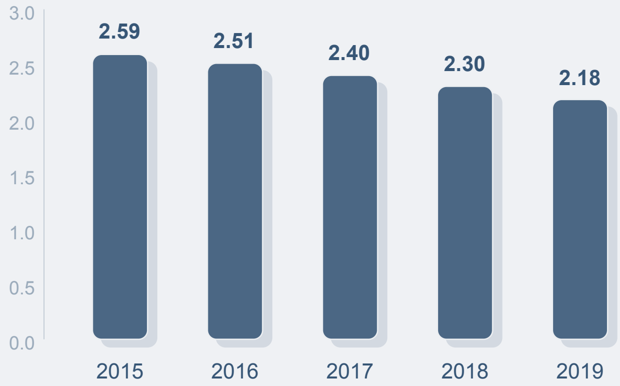




[1] Economic interest ERSTE Foundation, incl. Erste Employees Foundation
[2] Economic interest savings banks and savings banks foundations
[3] Other parties to the shareholder agreement of ERSTE Foundation, savings banks and CaixaBank
* Unidentified institutional and retail investors
** Incl. market makers, prime brokerage, proprietary trading, collateral and stock lending; position reported through custodian banklists

Cost/income ratio
in %

Net interest margin
in %



Financial calendar 2020

30 April	Results for the first quarter 2020
*	Record date Annual General Meeting
*	Annual General Meeting in Vienna
*	Ex-dividend day
*	Record date dividend
*	Dividend payment
31 July	Half-year financial report 2020
2 November	Results for the first three quarters 2020

* These dates will be determined at a later point in time.

Ratings
as of 31 December 2019

Fitch	
Long-term	A
Short-term	F1
Outlook	Stable

Moody´s	
Long-term	A2
Short-term	P-1
Outlook	Positive

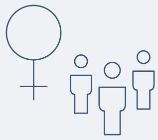
Standard & Poor´s	
Long-term	A
Short-term	A-1
Outlook	Positive

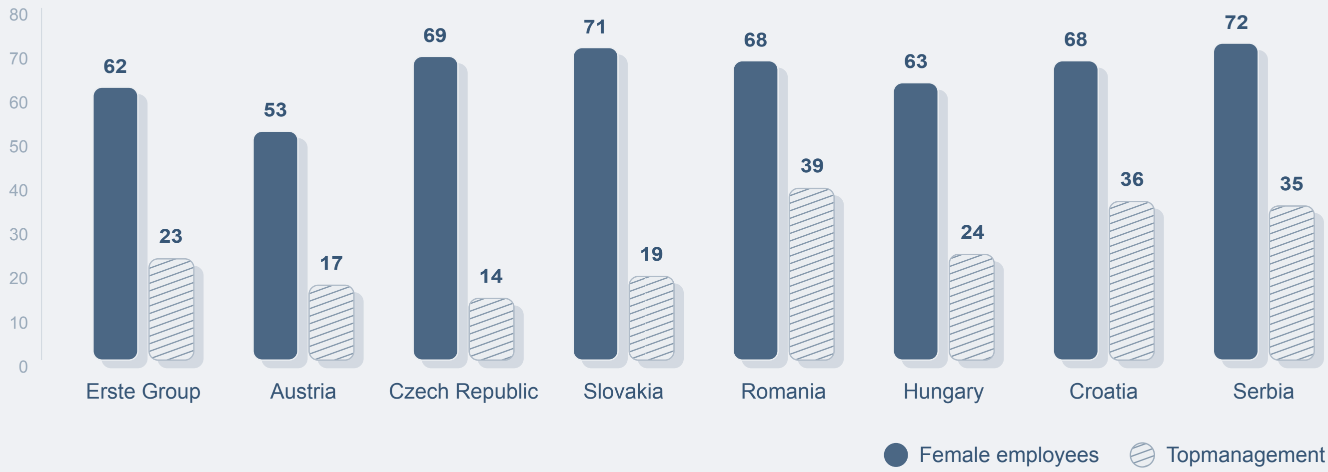
The financial calendar is subject to change.
The latest updated version is available on Erste Group's website (www.erstegroup.com/investorrelations).

Non-financial data

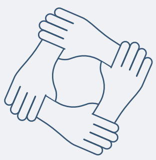
Share of women in 2019

in %



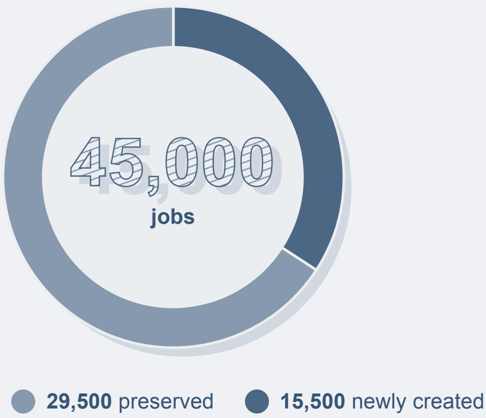


Social Banking until 2019



15,000

customers received education and mentoring



230 million €

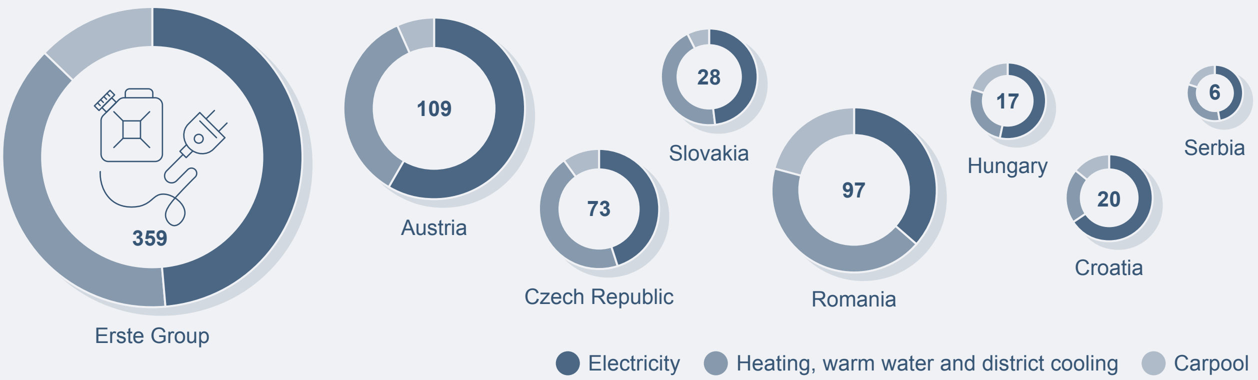
disbursed loans

Copy paper consumption in 2019

in tonnes

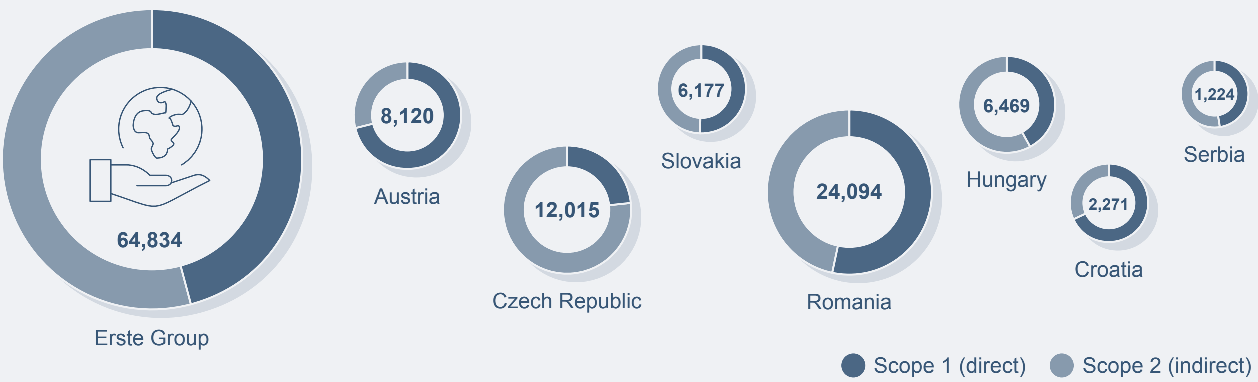
Energy consumption in 2019

in GWh



Greenhouse gas emissions in 2019

in tonnes CO_{2e}



Total data (Erste Group) include data of direct and indirect holdings of Erste Group outside its core markets.
CO_{2e}: CO_2-equivalents are the sum of all greenhouse gas emissions, e.g. carbon dioxide, methane and nitrogen oxide
Scope 1: Direct greenhouse gas emissions from burnt natural resources (e.g. heating oil, petrol)
Scope 2: Indirect greenhouse gas emissions from energy production (e.g. electric energy, district heating)

Highlights

Solid result in 2019

_ Net result of EUR 1,470.1 million despite significant negative one-offs
_ At 11.2%, fifth consecutive year of double-digit ROTE

Operating revenues rise stronger than costs

_ Operating revenues increase by 4.9%
_ Despite wage inflation costs only up by 2.4%
_ Operating result up by 8.7%
_ Cost/income ratio improves to 59.0%

Healthy loan growth continues

_ Net loans increase by 7.3%
_ NPL ratio improves to 2.5%
_ NPL provision coverage at 77.1%
_ Risk costs at low 7 basis points (on average gross customer loans)

Favourable capitalisation

_ CET1 ratio (CRR final) increases to 13.7%, exceeding regulatory requirements and internal target
_ Third successful AT1 issuance

Excellent funding and liquidity position

_ Strong retail deposit base in all core countries is key trust indicator and competitive advantage
_ Loan-to-deposit ratio at 92.2%
_ First Non-Preferred Senior (NPS) issuances in Austria and Romania

Editorial deadline: 28 February 2020, unless stated otherwise

Table of contents

Management board

Peter Bosek, Stefan Dörfler, Ingo Bleier

Ara Abrahamyan, Bernhard Spalt, David O'Mahony, Alexandra Habeler-Drabek

Letter from the CEO

Dear shareholders,

Since January 2020, I and my management team have been leading Erste Group, a bank that in the course of 200 years has evolved from what, at the time, was a highly innovative regional savings bank into one of the leading financial institutions in Central and Eastern Europe. In all of its seven core markets – Austria, the Czech Republic, Slovakia, Romania, Hungary, Croatia and Serbia – its employees have never ceased focusing on the bank's original purpose, which has remained unchanged since it was founded in 1819: creating and disseminating prosperity.

I am pleased to present to you for the first time the financial result of Erste Group and the key developments of the business in its bicentennial year: In 2019, the 200th year of its existence, Erste Group posted a net profit of EUR 1,470.1 million. On the back of a strong operating result, we earned a return on tangible equity (ROTE) of 11.2% despite substantial negative one-off effects. The common equity tier 1 ratio (CRR final) stood at 13.7%, which means that Erste Group not only complied with all regulatory requirements but also slightly exceeded its own capitalisation target of 13.5%.

The encouraging development of the operating result, an increase of 8.7%, was supported by sustained and well-balanced economic growth in our core markets in Central and Eastern Europe. This contributed significantly to an increase in customer lending across all seven countries and all portfolios by a total of more than 7%. As well as net interest income, net fee and commission income also developed solidly, surpassing EUR 2 billion for the first time. Costs were adversely impacted primarily by the rise in personnel expenses, which must be seen in the context of low unemployment in our region. On the other hand, the more robust positive development of operating income improved the cost/income ratio of Erste Group to 59.0% in 2019. At EUR 39.2 million, risk costs were once again at a historically low level. In this benign economic environment, asset quality again improved slightly for the sixth consecutive year, with the NPL ratio dropping from 3.2% to 2.5%.

Growth drivers in all core markets

In 2019, Erste Group benefited from its geographical focus on the eastern part of the European Union and thus sustained positive economic momentum in Central and Eastern Europe. Amid low unemployment rates, rising real wages and relatively low inflation rates, domestic demand remained the region's main growth driver. The CEE economies in which we operate reported solid economic growth of between 2.3% in Slovakia and 4.9% in Hungary. Austrian GDP rose by 1.6% and thus also at a faster rate than the euro zone average of 1.2%. The resulting demand for loans led to net lending growth of 7.3%, driven by both retail and corporate business. The local banks were able to expand their corporate lending market shares across all core markets. Another trend also remained strong despite an interest rate environment that has become notoriously unfavourable for savers: customer deposits increased again, by 6.9%. For Erste Group, this resulted in a loan-to-deposit ratio of 92.2%.

The European Central Bank (ECB), under its new president, maintained its expansionary monetary policy and left its policy rate unchanged at 0%. In the Czech Republic, on the other hand, the trend continued in the opposite direction, with the base rate raised in May 2019 and, most recently, in February 2020, to 2.25%.

Significant increase in operating income

While in 2019 the interest rate environment remained for Erste Group as challenging as it had been in previous years in most of its core markets, the rate hikes in the Czech Republic along with robust lending growth supported the 3.6% rise in net interest income to EUR 4.7 billion. This compensated lower interest income from investments in government bonds. In a very positive development, net fee and commission income was up almost 5% in 2019, coming in at slightly above EUR 2 billion. Growth was registered in all core markets, most notably in Austria, Hungary and Slovakia. Major contributions came not only from customers' increased interest in asset management products, but also from insurance brokerage. Due to interest rate and market developments, net trading result and gains/losses from financial instruments, measured at fair value through profit or loss were significantly above the long-term average.

Cost discipline without slowing down digitalisation

In 2019, Erste Group's income grew at a faster pace than expenses for the second year in a row. Strict cost management greatly contributed to containing the rise in administrative expenses to 2.4% overall. Costs were up primarily due to wage increases driven last, but not least, by low unemployment rates in most of our core markets. Even against this backdrop, it was vital for Erste Group to continue pushing IT investment as planned, including the further roll-out and addition of extra features to George. Due to its open API-based architecture, our digital platform George is flexible and customisable. George is PSD2-ready and supports cooperation with fintechs and other third-party providers. By year-end 2019, George was already operational in four core markets – Austria, the Czech Republic, Slovakia and Romania – with the roll-out launched in Hungary and Croatia. Group-wide, more than 5.4 million people are currently using George, with about 5,000 users being added each day.

Risk costs at historically low level

At EUR 39.2 million, or 7 basis points of average gross customer loans, risk costs remained at a historically low level, again supported by releases, and thus contributed substantially to the financial result. The interrelation is well-known: Painful as the low-interest-rate environment may be where income is concerned, it does have a positive impact on asset quality and the NPL ratio, i.e. non–performing loans as a percentage of gross loans to customers. The trend of improving asset quality continued, and the NPL ratio fell to

2.5%. Given that the entire CEE region is often indiscriminately considered to be particularly risky, I should like to specifically highlight a number of segments. At 1.8%, the NPL ratio of the Czech Republic segment is now only slightly above the 1.4% reported by Erste Bank Oesterreich and subsidiaries. Asset quality also improved significantly in Hungary (to 2.6%) and in Romania (to 4.1%). While, overall, NPL volume shrank by 15.1% to EUR 4.1 billion in 2019, Erste Group's performing loan portfolio grew by 7.7% to EUR 159.3 billion.

Solid return on tangible equity despite substantial one-offs

In 2019, Erste Group posted a double-digit return on tangible equity (ROTE) – 11.2% – for the fifth time in a row and thus achieved solid profitability despite two significant negative one-off effects affecting the other operating result. Already in the first half of the year, a supreme court decision concerning the business activities of a Romanian subsidiary had a negative impact of EUR 153.3 million. In addition, the announced doubling of banking tax in Slovakia starting from 2020 finally resulted in goodwill impairment of EUR 165 million in the fourth quarter.

At this point, I wish to draw attention to the regulatory cost components: In 2019, the burden resulting from sector-specific taxes and levies increased slightly across the group to EUR 128.0 million. As well as in Austria, Hungary and Slovakia, a banking tax was also levied in Romania (EUR 11.0 million) for the first time. In addition, annual contributions were paid to resolution funds in the total amount of EUR 75.3 million. Contributions to deposit insurance systems included in other administrative expenses rose by 18.3% to EUR 104.8 million last, but not least on the back of steady, strong deposit growth.

Excellent capital and liquidity position

Erste Group's total equity rose to EUR 20.5 billion as of 31 December 2019, including additional tier 1 capital from three issuances of EUR 500 million each. This does not yet include the most recent EUR 500 AT1 issue placed in the first quarter of 2020. Regulatory common equity tier 1 capital (CET1, final) rose to EUR 16.3 billion in 2019. The common equity tier 1 ratio (CET1 ratio, final) improved to 13.7% and was hence comfortably above the regulatory requirements and our own CET1 target of 13.5%.
In line with our business model, customer deposits are the key pillar of funding. Bond investor interest remained high, though, in 2019, and Erste Group successfully placed benchmark issuances at various levels of seniority with international investors. In summary: Erste Group's short- and long-term funding and liquidity position remained excellent throughout the year.

Non-financial reporting

Dealing with customers, employees and investors in a responsible manner has been a defining feature and common business practice of Erste Group since its foundation in 1819. There has never been any need to adjust the strategy or develop a new vision. Based on this understanding of our business, we have again incorporated Erste Group's non-financial report into the 2019 Annual Report. I invite you to learn more about the numerous sustainability initiatives of Erste Group. Use this opportunity to find out how we deal with ecological, social and governance matters that we deem to be of relevance to us.

A bank with a history, fit for the future

In the course of the past year, you have heard and read a great deal about the development and the history of Erste Group, to which we have also dedicated a separate chapter in this annual report. Going beyond the outlook for 2020, I would like to take this opportunity to look even further into the future while also returning once again to our basis, the purpose of our business. Erste Group was founded with the clear goal of generating and disseminating prosperity, which we continue to pursue today for our retail and corporate clients, our investors, but also society at large. We – the new management team and our employees – take this mission seriously. We are convinced that sustainable, healthy growth is possible in Central and Eastern Europe. We view digitalisation as an opportunity: In addition to advice provided by qualified staff, George, our pan-European platform, will be a key instrument in enhancing our customers' prosperity. Digitalisation will also help us to become more efficient, with cost and process efficiency remaining key priorities.

Current developments

In the wake of the worldwide spread of the corona virus, the economic and social environment have been changing drastically both globally and regionally since beginning of the year 2020. Erste Group initiated various measures to protect the health of our customers and employees while at the same time ensuring and keeping up the banking operations to provide practical support to retail and business customers in our core markets. Our local banks can and will make a contribution to stabilise the economy and communities. Over the course of the last 200 years, we overcame a wide variety of challenges and are, therefore, confident that we are well equipped to cope together with our customers with the economic implications of the spreading of the coronavirus.

Bernhard Spalt mp
Vienna, 25 March 2020

Supervisory board

Wilhelm Rasinger, Matthias Bulach, Karin Zeisel, Jordi Gual, Andreas Lachs, Maximilian Hardegg,
Elisabeth Krainer Senger-Weiss, John James Stack, Brian D. O'Neill †

Friedrich Rödler, Barbara Pichler, Jan Homan, Regina Haberhauer, Michèle F. Sutter-Rüdisser, Markus Haag, Marion Khüny, Henrietta Egerth-Stadlhuber, Gunter Griss, Jozef Pinter, Martin Grießer

Report of the supervisory board

Dear shareholders,

My original draft for this letter was focused exclusively on the past year, but given the exceptional current situation caused by the Corona virus, it is important to me to address this topic. In addition to the health of our customers and employees, the focus for all of our local banks in Austria, the Czech Republic, Slovakia, Romania, Hungary and Serbia is firmly on one task: to provide our private and corporate customers with the best possible support in this challenging time.

Now let me come to the past year. In the financial year 2019, Erste Group celebrated its 200th anniversary. The key focus was on the unchanged, still up-to-date purpose of the bank: to disseminate prosperity for its customers and the region. Many customers appreciate these efforts: In 2019, Erste Bank has become number one on the Vienna market for the first time in its history. In total, the employees serve 16.6 million private and business customers in the seven core markets in CEE.

In 2019, the supervisory board was tasked with initiating change in the management board. After serving more than 26 years in top management positions, Andreas Treichl has resigned as CEO of Erste Group. This marks the end of an era in which Erste Group evolved from a local savings bank to one of the leading financial institutions in the eastern part of the European Union. The supervisory board has appointed a new team around his successor, Bernhard Spalt, which is charged with the mission of leading the bank into the future. The fact that this team is composed exclusively of individuals who have already been working for Erste Group, many of them for the better part of their professional careers, demonstrates once again that Erste Group is excellently positioned in terms of human resources. The new management team around Bernhard Spalt, which includes Ara Abrahamyan, Ingo Bleier, Peter Bosek, Stefan Dörfler, Alexandra Habeler-Drabek and David O'Mahony, enjoys the full confidence of the supervisory board. We wish them every success. At the same time I also wish to thank outgoing management board members Petr Brávek, Gernot Mittendorfer and Jozef Síkela for their many years of successful service for Erste Group.

I am pleased to welcome Matthias Bulach, Henrietta Egerth-Stadlhuber and Michèle F. Sutter-Rüdisser, proven financial, digitalisation and governance experts, as new members of the supervisory board. They are excellently placed to support the supervisory board in its future work and its role as a critical partner of the management board. My cordial thanks go to Elisabeth Bleyleben-Koren for her many years of valuable service as a member of the supervisory board. She was no longer available for re-election after the expiry of her mandate. It was with great sadness that we learned of the passing of our long-standing supervisory board member Brian D. O'Neill, who died on 20 December 2019 after a short and serious illness. Brian was not only an internationally renowned financial expert who always enriched us with his knowledge, but also a dear and loyal friend whom we will sincerely miss.

As regards 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, which has been 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 38 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 in the 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 2019 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 annual 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. PwC Wirtschaftsprüfung GmbH was also mandated for the voluntary audit of the (consolidated) corporate governance report for 2019. Deloitte Audit Wirtschaftsprüfungs GmbH was contracted to perform an audit of the (consolidated) non-financial report for 2019. 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. Today, as in the previous 200 years, together they ensure that the bank's operations are maintained for the customers and the broader communities.

For the supervisory board
Friedrich Rödler mp, Chairman of the supervisory board
Vienna, 25 March 2020

Report of the audit committee

Dear shareholders,

The audit committee is one of six committees established by Erste Group Bank AG's supervisory board. Its mandate is derived from the law, the rules of the Austrian Code of Corporate Governance (CCG) and its internal rules. The audit committee currently comprises six shareholder representatives and three members delegated by the employees' council.

The audit committee met five times in 2019 and, in addition, held one informal meeting to prepare the meeting on the audit of the (consolidated) financial statements. The meetings were attended by those management board members responsible for accounting, controlling and risk management as well as the representatives of Erste Group Bank AG's auditors and, as required, representatives of the auditors of key (foreign) subsidiaries. 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, also the financial expert, regularly conducted one-on-one meetings with, amongst others, the auditors (Sparkassen-Prüfungsverband as the legally mandated bank auditor and PwC as additional auditor elected by the annual general meeting), members of the management board, the head of internal audit, the head of group compliance and with other division heads as required. The chairman of the audit committee informed the supervisory board on the committee's activities and the subject matters of its meetings and discussions at the respective subsequent supervisory board meetings.

Following the transposition of the Shareholder Rights Directive (EU) 2017/828 into Austrian law, the audit committee intensified its focus on transactions with related entities and individuals in 2019. For this purpose, the supervisory board established an internal procedure under which the audit committee is tasked with preparing the supervisory board's decision on the approval of material transactions pursuant to section 95a Stock Corporation Act (AktG) and with monitoring and regularly assessing such transactions. In addition, internal processes were set up to ensure the flow of information required by the audit committee in the performance of these tasks.

In 2019, the audit committee also considered the following topics: After receipt of the auditors' report on the (Group) financial statements for 2018, the audit committee held the final discussion, reviewed the (Group) financial statements and the (Group) management report, the (consolidated) non-financial report as well as the (consolidated) corporate governance report and recommended to the supervisory board the approval of the annual financial statements, setting out how the annual audit had strengthened the reliability of financial reporting and describing the role played by the audit committee. Furthermore, the additional report of the auditors pursuant to Article 11 of Regulation (EU) 537/2014 was taken note of. Key audit matters were discussed with the auditors in the course of audit planning and are covered in the auditors' report. The findings and status of the annual audit were discussed with representatives of the auditors in an ongoing process. Key audit matters relating to subsidiaries were likewise discussed in depth and commented on with regard to their impact on the consolidated financial statements. The findings of the review of the half-year financial statements were taken note of. The exchange of views between the audit committee and the (Group) auditors in the absence of the management board (Rule 81a Austrian CCG) was conducted in December 2019. The auditors' report on the assessment of the effectiveness of risk management was delivered. The auditors' observations and recommendations (management letter) and the respective views of the management board were discussed comprehensively. To monitor the auditor's independence, group accounting regularly reported to the audit committee and non-audit services rendered by the auditors were approved by the audit committee in advance after careful review and consideration of internally defined threshold values. In December 2019, 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 2021. The annual report of group regulatory compliance was taken note of. The audit committee was presented with reports on the current status of major projects on data management, credit risk models and IT matters of relevance to the audit committee in an ongoing process. After on-site inspections conducted by supervisory authorities, the audit committee acknowledged the audit report and the report on the contents of the plan to address the supervisory authorities' findings and, where necessary, requested to be briefed on the current status of implementation, also within Erste Group. In addition, internal audit submitted a report on the result of the (internal) quality assurance programme. The joint supervisory team of the regulatory authorities was informed about the audit committee's work in a personal meeting with the chairman of the audit committee and the supervisory board.

The audit committee was furthermore included in the process of filling the position of head of internal audit. The new head assumed this role as of 1 January 2019. The positive result of the suitability test of the head of internal audit was communicated to the audit committee in 2019.

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,
Friedrich Rödler mp

200 years Erste Group

For Erste Group, 2019 was marked by events commemorating its 200th anniversary. On 4 October 1819, Erste österreichische Spar-Casse opened its doors in the Vienna suburb of Leopoldstadt, Vienna's poorest neighbourhood at the time. The founding principle of this first savings bank was as simple as it was revolutionary: "No age, no gender, no social class or nationality" shall be excluded from the benefits that the Spar-Casse offers every depositor." This excerpt from the founding charter expresses the underlying idea in a nutshell. Back then, like today, the bank's inclusion-driven strategy is critical to the achievement of its purpose of attaining and securing prosperity.

Whether it is in people's private lives, in a business start-up or long-established enterprise, in business or in society at large – trust and confidence in the future, believing in oneself and others, the belief in ideas and entrepreneurship are key prerequisites for personal growth and a prosperous society. Erste Group was founded on this basis of personal trust and the belief in ideas, plans for the future, and people's capabilities and potential. From our 200 years of experience we know that to attain prosperity our region needs people who believe in themselves. And a bank that believes in them – and continues to do so for the next 200 years.

The celebrations surrounding the anniversary kicked off with a birthday party the like of which had hardly ever been seen before: 12,000 employees of the Holding, Erste Bank Oesterreich, the savings banks and CEE subsidiaries gathered to celebrate at Wiener Stadthalle. On the subsequent weekend, customers attended four concerts ranging from classical to jazz music at Wiener Konzerthaus. The celebratory events were rounded off by a concert performed at Wiener Musikverein in the presence of some 1,500 public figures, among them interim Austrian chancellor Brigitte Bierlein, Serbian prime minister Ana Brnabić, Austria's EU commissioner Johannes Hahn and other high-ranking representatives from the worlds of politics, business and culture.

Andreas Treichl, until year-end 2019 CEO of Erste Group, took the occasion to underline that the founding idea – to contribute to financial health and thereby lay the foundation for prosperity – continues to be of relevance today. Friedrich Rödler, Chairman of the Supervisory Board of Erste Group, added: "Faith in the potential that all individuals possess is at the very core of Erste Bank's founding principle. Nowadays, one would call it a start-up that has created an innovative financial product: the savings book. This principle has survived intact through periods of war and peace, through the collapse of societies and their reconstruction, and is as important today as it was in the past – because confidence and trust are prerequisites for personal growth and for a prosperous society." Among the speakers at the festive event was also the President of Austria, Alexander Van der Bellen, who stressed the significance of the savings bank idea for ensuring cohesion within society and, specifically, for Austria.

200 years – a brief history

Founded as Erste österreichische Spar-Casse in 1819, Erste Group is still living up to the savings bank idea in seven markets across Central Europe today. It all started with what was an innovative idea at the time, conceived by a churchman of vision, Johann Baptist Weber: the savings book – a first and therefore all the more important step towards increasing prosperity among the broader public. A few years later, the first small loans were granted to tradespeople and craftsmen as a form of microfinancing almost 200 years ago.

From 1822 onwards, hundreds of savings banks were founded in cities such as Bregenz, Prague and Lviv. Allgemeine Versorgungsanstalt, founded in 1825, was the prototype of a social insurance institution and another milestone in the endeavour to serve the people in the region. And, importantly, when stock exchanges crashed world-wide in 1873, many banks went out of business, while savings banks survived the crisis.

Technical revolutions shaped the further course of Erste's history: in 1907, the Burroughs adding machine, a first predecessor to the computer, arrived in Vienna. In 1937, Girozentrale was founded as a hub for cashless payment transfers. The mid-1960s witnessed the second technological revolution – and here again, Erste Group was at the forefront: savings and payment transactions were automated, and the first cash dispenser was installed in 1968.

In the late 1990s, after the fall of the Iron Curtain, a new chapter in the history of Erste Group opened when Austria joined the European Union: In 1997, Erste Group started to expand into the markets of Central and Eastern Europe after completing what had been the largest ever initial public offering by an Austrian company. In 2008, Erste Group was finally formed following the separation of the Holding and Erste Bank Oesterreich. Despite all the expansion and restructuring, its mission – to disseminate and secure prosperity – remains unchanged, but with fresh opportunities for the future.

Erste Group on the capital markets

In the year ended, international equity markets were again driven by geopolitical tensions and their impacts on global economic growth. Especially the US-China trade disputes and the risk of the United Kingdom leaving the European Union without a deal increased stock market index volatility throughout the year. In response to the resulting concerns about the economy, both the European Central Bank (ECB) and the US central bank, the Federal Reserve (Fed), eased their expansionary monetary policies even further. This, along with an improved global corporate earnings growth outlook, provided a substantial boost to the stock markets. The covered stock indices finally benefited from an easing of these risks in the fourth quarter and ended the year with increases of more than 20% after having in some cases posted sometimes substantial losses in the preceding year. In this environment, Erste Group's share gained 15.5%, and the European banking index advanced by 11.1%.

EQUITY MARKET REVIEW

Focus on geopolitical developments

The focus of market participants was on the trade conflicts triggered by protectionist US trade policies, the resulting slowdown of global economic growth, uncertainty surrounding the planned Brexit and the major central banks' monetary policies. Economic growth expectations were revised downwards. Concerns about an imminent recession, particularly in the European automotive sector, proved to be unfounded. The central banks' accommodating monetary policies and corporate earnings expectations, on the other hand, had a positive effect on the covered stock market indices. The Dow Jones Industrial Average Index rose to 28,538.44 points, up 22.3% year-on-year. The broader Standard & Poor's 500 Index hit new highs in the fourth quarter and advanced by 28.9% to 3,230.78 points. The European indices saw a similarly solid performance with double-digit growth year-on-year. The Euro Stoxx 600 Index ended the reporting period 23.2% higher at 415.84 points while the Euro Stoxx 50 Index closed at 3,745.15 points, up 24.8%.

Monetary policies in Europe and the US

Against the backdrop of the economic slowdown, the central banks continued their expansionary monetary policies as expected. In mid-September, the ECB lowered its deposit facility rate for banks from previously -0.4% to -0.5% and, as an additional measure, decided to resume, as of the beginning of November 2019, the bond purchases it had ended at year-end 2018. The Fed cut its policy rate three times by 25 basis points each to a range of 1.50 to 1.75% to maintain economic growth.

Global economy growing at slower pace

The International Monetary Fund (IMF) further downgraded its global growth outlook in the reporting year. This was mainly attributable to the US-China trade dispute and the resulting uncertainties. Economic growth has weakened not only in the US, but also in the euro zone and in key emerging markets such as Brazil, China, India and Russia. The IMF lowered its global growth forecast for 2019 to 2.9%, the slowest growth rate for a decade. For the euro zone, the IMF has reduced its projection to 1.2% for 2019. In the US, economic growth is expected to run at a rate of 2.3% in 2019.

Volatile development in the European banking sector

After dipping in the previous year, some European bank shares rebounded markedly in 2019 but lagged behind the gains posted by the broad European indices. Positive momentum coming from the performance of international stock markets was curbed by the downward revision of euro zone economic growth, the impact of negative deposit facility rates for banks with the ECB and the influence of low interest rate margins on European banks' net interest income fuelled volatility in the course of the year. Overall, the Dow Jones Euro Stoxx Bank Index increased by 11.1% to 96.71 points, mainly due to gains in the fourth quarter of 2019.

ATX posts double-digit gain in 2019

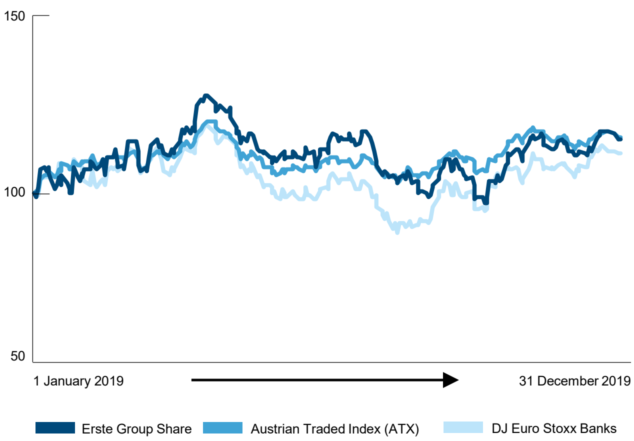
The domestic stock market reflected the developments in international markets. 16 of the 20 ATX (Austrian Traded Index) stocks ended the year higher. By rising 16.1% to 3,186.94 points, the ATX closed 2019 on a double-digit gain, but still lagged behind the performance of the European Stoxx 600 Index (+23.2%). The ATX posted its annual high at 3,301.38 points on 18 April, its annual low at 2,827.36 points on 15 August.

ERSTE GROUP SHARE

Positive development in a challenging environment

After having declined in the previous year, the Erste Group share advanced by 12.8% in the first quarter of 2019 and hit its annual high at EUR 37.07 on 17 April. Despite the continued positive development of the operating result, risks costs remaining at a historical low and the strong outlook based on the continuing solid economy in CEE, the share price was volatile later in the year.

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



Against the backdrop of the Euro Stoxx Banks Index, which was weighed down by rising concerns over the profitability of a number of European banks, the Erste Group share likewise suffered setbacks and recorded its lowest closing price of the year at EUR 28.23 on 8 October.

In the fourth quarter, the Erste Group share recovered lost ground in lockstep with the general uptrend in international stock markets. At a closing price of EUR 33.56 at year-end 2019, the share was up 15.5% year-on-year, with 10.6% gained in the fourth quarter. By comparison, the European Bank Index was up 11.1% over the reporting period.

Performance of the Erste Group share versus indices

	Erste Group share	ATX	DJ Euro Stoxx Banks Index
Since IPO (Dec 1997)	202.8%	144.2%	-
Since SPO (Sep 2000)	185.6%	172.7%	-72.5%
Since SPO (Jul 2002)	92.6%	161.3%	-61.5%
Since SPO (Jan 2006)	-25.4%	-18.2%	-74.5%
Since SPO (Nov 2009)	15.7%	22.3%	-57.5%
2019	15.5%	16.1%	11.1%

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

Number of shares, market capitalisation and trading volume

In the year ended, the number of shares of Erste Group Bank AG remained unchanged at 429,800,000. At year-end 2019, the Erste Group's market capitalisation stood at EUR 14.4 billion, 15.2% up on year-end 2018 (EUR 12.5 billion).

In the reporting year, trading volume on the three stock exchanges (Vienna, Prague, Bucharest) on which the Erste Group share is listed averaged 798,335 shares per day and accounted for about 53% of the total trading volume in Erste Group shares.

Sustainability indices and ratings

The Erste Group share has been part of VÖNIX, the Vienna Stock Exchange's sustainability index, since its launch in 2008. Since 2011, the Erste Group share has been included in the STOXX Global ESG Leaders Index, which represents the best sustainable companies on the basis of the STOXX Global 1800. Since 2016, the Erste Group share has been included in the FTSE4Good Index Series, since 2017 in the Euronext Vigeo Index: Eurozone 120. Since 2019, Erste Group has been included in the Bloomberg Gender Equality Index as the first and – to date – only Austrian company and as one of only three companies in the CEE region.

In 2019, MSCI ESG Research upgraded Erste Group to AA. imug raised Erste Group's rating in March 2019 to positive (B) and confirmed that level in March 2020; in addition it awarded ratings to Erste Group's covered bonds, the mortgage covered bonds are currently rated positive (BB), the public sector covered bonds very positive (A). Since October 2018, Erste Group is rated Prime by ISS ESG.

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 15 May 2019, it was decided to pay a dividend of EUR 1.40 per share for the financial year 2018. This was an increase of EUR 0.20 per share versus 2017.

RATINGS AND FUNDING ACTIVITIES

In view of the solid development in recent years, Fitch raised Erste Group's rating to A/F1 with a stable outlook. Moody's and Standard & Poor's left their ratings unchanged with a positive outlook: Moody's at A2/P-1 and Standard & Poor's at A/A-1.

In 2019, Erste Group placed a total volume of EUR 2.5 billion in five benchmark-size issuances at all levels of seniority except tier 2. In September 2019, a 10-year mortgage covered bond priced at MS + 6bp was issued, which resulted in a negative yield of -0.16%. This transaction was the longest EUR denominated bond with a negative yield at this seniority level. The successful issuing activity was continued in the first quarter of 2020. In January, a volume of EUR 500 million in CRD IV/CRR-compliant additional tier-1 capital (AT1) was placed with a coupon of 3.375%. This is currently the second-lowest coupon of a euro-denominated AT1 issue.

INVESTOR RELATIONS

Open and regular communication with investors and analysts

In 2019, Erste Group's management and the investor relations team met with investors in a total of 278 one-on-one and group meetings and conducted a large number of teleconferences with analysts and investors. The presentation of the 2018 annual result in Vienna was followed by the annual analysts' dinner and a road show day with investor meetings in London. In addition, a spring road show was conducted in 2019 in Europe and in the US after the release of the first-quarter results. On 21 November 2019, Erste Group Bank AG held its 9th Capital Markets Day for institutional investors and analysts in Vienna, where the management announced its short- and medium-term financial goals. The Capital Markets Day was followed by a road show for stock and bond investors in Asia. 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, Autonomous, PKO, Morgan Stanley, RCB, HSBC, mBank, Concorde, Deutsche Bank, Bank of America Merrill Lynch, Barclays, Société Générale, Goldman Sachs, Citigroup, and Wood. Another

61 meetings were held to intensify 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 UBS, Bank of America Merrill Lynch, Intesa and the European Covered Bond Council.

The website https://www.erstegroup.com/en/investors 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 2019, 21 analysts regularly 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, Kepler Cheuvreux, mBank, Mediobanca, Morgan Stanley, PKO, RCB, SocGen, UBS and Wood.

As of the end of the year, 17 analysts had issued buy recommendations, three had rated the Erste Group share neutral and one had issued a sell recommendation. The average year-end target price stood at EUR 38.0. 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 creates value only 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 should also reflect its corporate responsibility towards all material stakeholders, in particular customers, employees, society and the environment. Therefore, Erste Group pursues the 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. In the meantime, it is 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 countries**		
Retail banking	**SME/Corporate banking**	**Capital markets**	**Public sector**	**Interbank business**
Focus on local currency mortgage and consumer loans funded by local deposits FX loans (in Euro) only where funded by local FX deposits (Croatia and Serbia) Savings products, asset management and pension products Expansion of digital banking offering	SME and local corporate banking Advisory services, with focus on providing access to capital markets and corporate finance Real estate business that goes beyond financing	Focus on customer business, incl. customer-based trading activities In addition to core markets, presences in Poland, Germany, London, New York and Hongkong with institutional client focus and selected product mix Building debt and equity capital markets in CEE	Financing sovereigns and municipalities with focus on infrastructure development in core markets Any sovereign holdings are held for market-making, liquidity or balance sheet management reasons	Focus on banks that operate in the core markets Any bank exposure is only held for liquidity or balance sheet management reasons or to support client business

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 about 2,350 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 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 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 focuses on Central and Eastern Europe equally. 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. The final texts were published in the Official Journal of the European Union in June 2019. Most of the rules will be applicable as of June 2021 (in some exceptional cases, at a later date).

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%. In January 2019, the Basel Committee furthermore released the revised version of the new market risk standard (Fundamental Review of the Trading Book, FRTB). In 2020, an implementation proposal is expected in the EU for the final part of the reform package. The package is scheduled for implementation by 1 January 2022 and will be fully applicable after a transition period of up to five years.

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 2019. The final requirement is expected in 2020. As part of the Commission's package of measures for the reduction of non-performing loans (NPLs), the so-called prudential backstop for non-performing loans entered into force on 25 April 2019 following an amendment to the CRR that provides for a tiered statutory minimum loss coverage level (backstop) for non-performing loans. Institutions that fail to meet the minimum loss coverage required under the backstop will have to deduct any shortfall of loan loss provisions over regulatory expected losses from their common equity tier 1 capital from 2021 onwards. The ECB issued an updated NPL Guidance on this matter in late August 2019. In addition, EBA Guidelines on management of non-performing and forborne exposures have been in force since 30 June 2019. The guidelines incorporate the provisions of CRD IV, CRR and accounting relating to NPE management. The continuing development of secondary markets for NPLs and the proposals for a directive on credit servicers and credit purchasers on the one hand and the accelerated extrajudicial collateral enforcement procedure on the other are further – not yet completed – measures of the package aimed at reducing NPLs.

As of 14 September 2019, the Delegated Regulation (EU) 2018/389 of 27 November 2017 supplementing Directive (EU) 2015/2366, with regard to regulatory technical standards for strong customer authentication and common and secure open standards of communication, became effective. Since that date, account servicing payment service providers (within the European Union) have to provide a standardised interface that enables certain third party providers to offer payment services to customers of banks. These have to comply with particularly strict requirements regarding the safe exchange of data between banks and third-party providers.

The ESA Review (amendments to the founding regulations of the European Supervisory Authorities – EBA, EIOPA and ESMA) was formally adopted in April 2019 and is applicable as of the beginning of 2020. This has strengthened the ESAs' supervisory powers. The EBA has been given the mandate of coordinating and overseeing the national supervisory authorities with regard to measures aimed at preventing and combating money laundering and terrorist financing. As regards sustainability matters, the ESAs will strongly integrate environmental, social and governance (ESG) criteria into their work (such as guidelines) and further strengthen proportionality.

In 2019, the systemic risk buffers defined by the FMA on the basis of the Capital Buffer Regulation and buffers for Other Systemically Important Institutions (O-SIIs) amounted to 2% of RWA for Erste Group. Since 2018, Erste Group Bank AG has been obliged to hold the systemic risk buffer also at single-entity level. It is expected that the buffer regime will be updated in 2020 as the CRD is transposed into national law.

The amendments to the Financial Markets Anti-Money Laundering Act (FM-GwG, Finanzmarkt-Geldwäschegesetz) and the Beneficial Owners Register Act (WiEReG, Wirtschaftliche Eigentümer Registergesetz) were adopted in July 2019, thereby implementing the 5th Money Laundering Directive while at the same time including a compliance package. The new rules entered into force on 10 January 2020, while the provisions of the compliance package will not take effect until 10 November 2020. The compliance package facilitates the identification of beneficial owners.

The transition provisions of Regulation (EU) 2016/1011 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds (Benchmark Regulation) has been extended by two years (LIBOR, EONIA, EURIBOR). As a result, those benchmarks that are not yet in conformity with the criteria of this Regulation may be used until year-end 2021 instead of only until December 2019. This should enable market participants to complete the complex transition to the new benchmarks (€STR, SARON) that meet the criteria of the Regulation. In addition, two new types of benchmarks (EU Climate Transition Benchmark and EU Paris Aligned Benchmark) were created to reflect sustainability aspects and promote investment in sustainable enterprises.

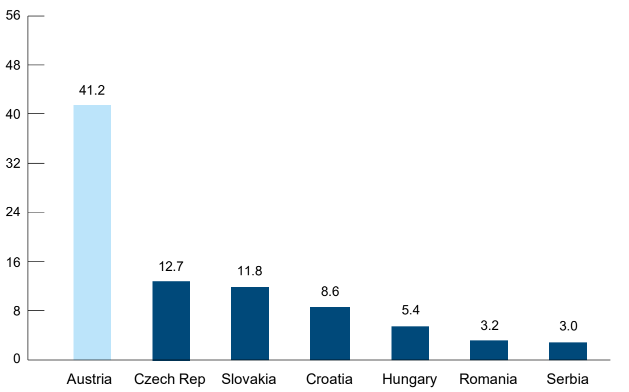
Regulation (EU) 2019/2088 on sustainability - related disclosures in the financial services sector was published in the EU's Official Journal at the end of the year. Among other things, financial market participants are required – mostly as of March 2021 – to provide comprehensive information on their management of sustainability risks and strategies in addition to existing disclosure obligations. Furthermore, the proposed Taxonomy Regulation designed to govern the concept of sustainability in finance is being finalised. The publication of the final version is expected in the first quarter of 2020. It is expected that additional extensive legislative measures will be adopted in the years ahead with the aim of strengthening sustainability in the financial and banking sector.

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 (2019) 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.

BUILDING A STRONG BRAND

Slightly more than 200 years ago, our founding fathers wrote: "No age, gender, social class, or nationality shall be excluded from the benefits that a savings bank offers every depositor." With this founding principle – which was revolutionary at the time – Erste Österreichische Spar-Casse contributed substantially to more democracy in finance in our region.

Erste Group was founded to give everyone access to financial services and has developed into an institution that has an impact on the prosperity and the future of a region. Today, it is one of the largest banking groups and employers in Central and Eastern Europe. The trust that Erste Group and its local banks have been enjoying stems from the fact that they have actually been putting the founding principle into practice.

A brand is a consistent promise. It is more than a logo – it is about the perception of people when they think 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 businesses were founded with the aspiration of achieving more than just making profit. Erste Group is one of these and has been benefitting from a high degree of brand awareness and trustworthiness.

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 established a 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."

200 years ago, a success story started that continues until the present day. The savings banks were founded on this basis of personal trust and the belief in ideas, plans for the future, and people's capabilities and potential. Whether it is in any individual's own life, in a business start-up or a long-established enterprise, in business or in society at large – trust and confidence in the future, believing in oneself and others, the belief in ideas and entrepreneurship are the key prerequisites for personal growth and social well-being.

Therefore, it is not products and services that mark the beginning of the relationship between Erste Group and its customers, but ideas, goals, needs, dreams and plans. It all starts with people who believe in their ability to attain prosperity and shape the future. The future is created by people who believe in themselves and their ideas – their visions of the future.

"Our region needs people who believe in themselves. And a bank that believes in them" is the key sentence that stands for the approach to which Erste Group has been firmly committed for 200 years. #believeinyourself is more than a lead narrative. It encourages people to pursue their aspirations, to create something, and embodies Erste Group's promise to assist them along the way.

Financial and operating performance

ECONOMIC ENVIRONMENT

In 2019, global economic growth decelerated to its slowest pace for more than a decade. Rising trade and geopolitical tensions increased uncertainty and adversely affected business confidence, investment decisions and global trade. Consequently, manufacturing activity weakened substantially. Private consumption, on the other hand, remained resilient and was supported by employment creation and higher wages. In advanced economies, GDP growth slowed down, with the United States outperforming both Japan and the euro zone. Economic performance in the euro zone was particularly impacted by weaker exports. In Japan, strong private consumption and public spending outweighed the weaker export performance. Among emerging and developing regions, China and India, the world's two most populated countries, continued to grow significantly with GDP reaching approx. 6.1% and 4.8%, respectively. Declining commodity prices throughout the year impacted the development of Russia and Brazil, both countries grew at a significantly slower pace than in 2018. Central and Eastern Europe was again among the best performing regions of global economy. Most CEE countries, in particular Hungary and Poland, experienced very solid growth rates on the back of resilient domestic demand and rising wages. Overall, global economic growth stood at 2.9%.

Among major central banks, monetary policies continued to diverge. To stimulate economic activity the US Federal Reserve (Fed) cut its key rate to 1.75%. The European Central Bank (ECB), the Bank of Japan, and the Swiss National Bank left their key interest rates unchanged throughout the year, the ECB at 0%, the Bank of Japan at -0.10% and the Swiss National Bank at -0.75%.

The United States' economy continued its solid economic performance. GDP growth, however, slowed down as business investment weakened against the backdrop of intensifying US-China trade tensions. Robust consumer spending was a stabilising factor for the economy. The labour market was again characterised by rising employment rates. The unemployment rate declined further to 3.5% at year-end 2019. Both public spending and tax cuts supported economic growth, albeit at a lesser extent than 2018. Inflation declined and fell below the 2% target set by the Fed. In 2019, the budget deficit widened due to lower taxes and increased public spending. To reduce negative implications from the global economic slowdown on the US economy and also due to muted inflation pressure, the Fed decided to lower its key rate in three steps by a total of 75 basis points to 1.75%. Overall, the US economy grew by 2.3%.

At 1.2%, economic growth in the euro zone was weaker than that of other advanced regions of the world, mainly due to a decline in exports. Domestic demand stayed firm. Germany (particularly its manufacturing sector) and Italy weighed on growth, while France and Spain reported a solid performance. The growth momentum of consumer spending remained stable. The Brexit-related uncertainty did not significantly impact economic performance in 2019. After more than three years of negotiations and two general elections, the United Kingdom left the European Union at the end of January 2020. The ECB maintained its expansionary monetary policy. It kept the base rate unchanged, cut the interest rate on the deposit facility further by 10 basis points to -0.50% and restarted in November its asset purchase programme at a monthly volume of up to EUR 20 billion. The ECB also introduced a new series of longer-term refinancing operations (TLTRO III) to preserve bank lending conditions and further support the accommodative stance of monetary policy.

After posting solid GDP growth in the past two years, the Austrian economy slowed down in 2019. Domestic demand, especially consumer spending, continued to be the main driver of growth, while manufacturing and investments declined. Exports also declined after the particularly strong development in 2018. The performance of the construction sector was again solid. In addition, the traditionally strong service and tourism sectors continued to perform well. Austria benefitted from the solid economic performance of Central and Eastern Europe. The average unemployment rate dropped further to a multiple-year low of 4.5%. Average consumer prices remained well under control, with an inflation rate of 1.5%. The general government surplus stood at 0.3%. Public debt as a percentage of GDP significantly decreased to 69.6%. Overall, real GDP growth stood at 1.6%, with GDP per capita rising to EUR 45,000.

The economies of Central and Eastern Europe continued their robust performance and again outperformed the euro zone. Household consumption remained the main driver, supported by higher wages and growing employment levels. Within the CEE countries, Poland, Hungary and the Czech Republic performed particularly well. The automotive 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 inflation rates rose towards the upper bounds of the central banks' targets in most of the CEE economies, the average increase of inflation was rather moderate. CEE currencies remained on average fairly stable against the euro throughout the year. Among the region's central banks, policies varied in 2019, with the Czech National Bank further increasing its key rate while the Serbian National Bank cut its policy rate. Public deficits in the region remained low. The favourable economic performance was also recognised by the rating agencies, which upgraded the Czech, Hungarian, Croatian and Serbian credit ratings during the year. Overall, CEE economies grew between 4.9% in Hungary and 2.3% in Slovakia in 2019.

PERFORMANCE IN 2019

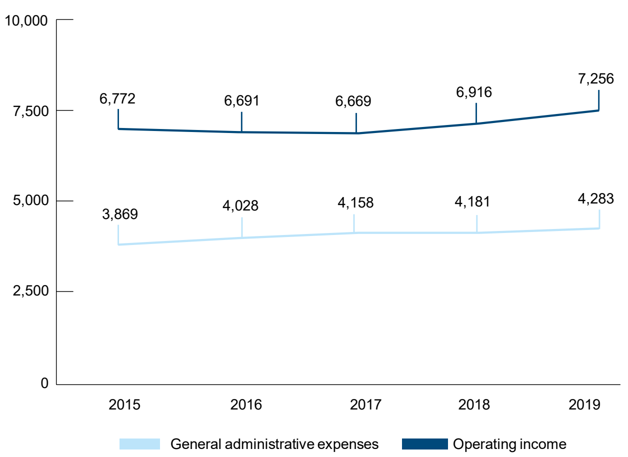
P&L data of 2019 is compared to data of 2018, balance sheet data as of 31 December 2019 is compared to data as of 31 December 2018.

Overview

Net interest income increased – mainly in the Czech Republic, but also in Romania and Hungary – to EUR 4,746.8 million (+3.6%; EUR 4,582.0 million). **Net fee and commission income** rose to EUR 2,000.1 million (+4.8%; EUR 1,908.4 million), driven mainly by higher payment fees, insurance brokerage fees and asset management fees. While **net trading result** improved significantly to EUR 318.3 million (EUR 1.7 million), the line item **gains/losses from financial instruments measured at fair value through profit or loss** declined to EUR 24.5 million (EUR 195.4 million). The development of both line items was driven by valuation effects due to market interest rate volatility. **Operating income** increased to EUR 7,255.9 million (+4.9%; EUR 6,915.6 million).

The increase in **general administrative expenses** to EUR 4,283.3 million (+2.4%; EUR 4,181.1 million) was mainly attributable to a rise in personnel expenses to EUR 2,537.1 million (+2.5%; EUR 2,474.2 million). Payments to deposit insurance systems included in other administrative expenses rose to EUR 104.8 million (EUR 88.6 million). The increase in amortisation and depreciation to EUR 541.0 million (EUR 472.0 million) is attributable to the first-time application of the new financial reporting standard for leases (IFRS 16) as of 1 January 2019, while a corresponding positive effect was recorded in other administrative expenses. Overall, the **operating result** increased to EUR 2,972.7 million (+8.7%; EUR 2,734.6 million) and the **cost/income ratio** improved to 59.0% (60.5%).

Operating income and operating expenses in EUR million

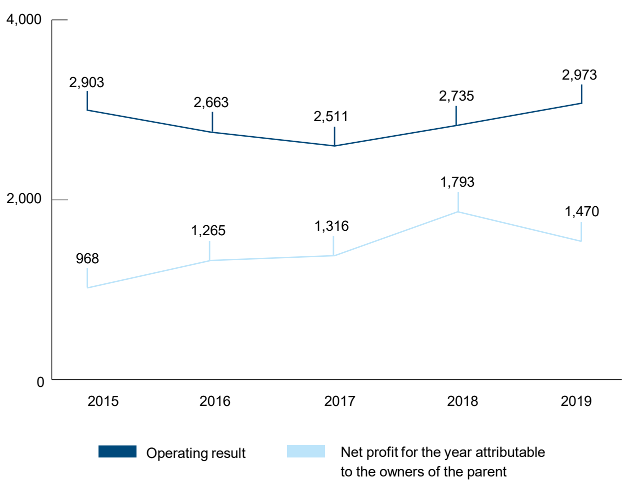


Due to net allocations in Austria and Slovakia in both the retail and the corporate segments, the **impairment result from financial instruments** amounted to EUR -39.2 million or, adjusted for net allocations to provisions for commitments and guarantees given, 7 basis points of average gross customer loans (net releases of EUR 59.3 million or 3 basis points). Positive effects came from substantial income from the recovery of loans already written off, primarily in the Czech Republic, Hungary and Romania, as well as from releases of provisions for commitments and guarantees given in Austria, the Czech Republic and Romania. The **NPL ratio** based on gross customer loans improved again to 2.5% (3.2%), the **NPL coverage ratio** to 77.1% (73.4%).

Other operating result amounted to EUR -628.2 million (EUR 304.5 million). The deterioration is attributable to a provision in the amount of EUR 153.3 million set aside for losses expected from a supreme court decision concerning the business activities of a Romanian subsidiary as well as goodwill impairment in Slovakia in the amount of EUR 165.0 million. The expenses for the annual contributions to resolution funds included in this line item rose – in particular in the Czech Republic – to EUR 75.3 million (EUR 70.3 million). Levies on banking activities increased to EUR 128.0 million (EUR 112.2 million), including a EUR 11.0 million banking tax payable in Romania for the first time in the reporting year.

The minority charge rose due to significantly better results from the savings banks to EUR 440.9 million (EUR 369.1 million). The **net result attributable to owners of the parent** declined to EUR 1,470.1 million (-18.0%; EUR 1,793.4 million) due to the one-off effects.

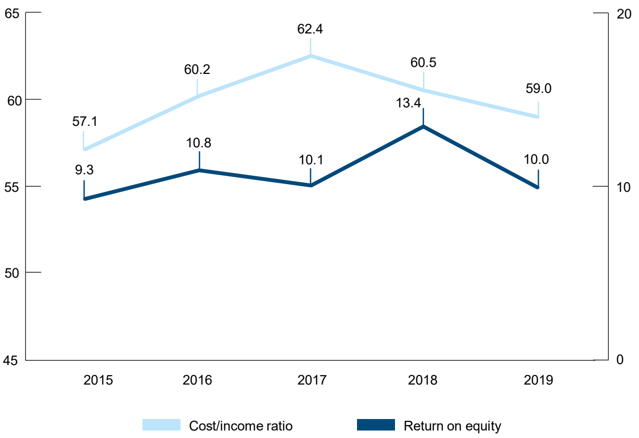
Operating result and net profit/loss for the year attributable to owners of the parent in EUR million



Cash earnings per share (see glossary for definition) amounted to EUR 3.25 (reported EPS: EUR 3.23) versus EUR 4.04 (reported EPS: 4.02) 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 10.1% (reported ROE: 10.1%) versus 13.5% (reported ROE: 13.4%) in the previous year.

Key profitability ratios in %



Total assets rose to EUR 245.7 billion (EUR 236.8 billion). On the asset side, cash and cash balances decreased substantially to EUR 10.7 billion (EUR 17.5 billion), while loans and advances to credit institutions increased to EUR 23.1 billion (EUR 19.1 billion). On the back of continuing loan growth in all core markets, **loans and advances to customers** rose to EUR 160.3 billion (+7.3%; EUR 149.3 billion). On the liability side, deposits from banks declined to EUR 13.1 billion (EUR 17.7 billion) while **customer deposits** increased again markedly – across all Erste Group markets – to EUR 173.8 billion (+6.9%; EUR 162.6 billion). The **loan-to-deposit ratio** stood at 92.2% (91.8%).

The **common equity tier 1 ratio** (CET 1, CRR final, see glossary for definition) stood at 13.7% (13.5%), the **total capital ratio** (see glossary for definition) at 18.5% (18.1%).

Outlook

Erste Group targets a return on tangible equity (ROTE) of above 10% in 2020. The expected positive, albeit moderating, macroeconomic development in the core markets Czech Republic, Slovakia, Hungary, Romania, Croatia, Serbia and Austria as well as an improvement in other operating result that was negatively impacted by one-off effects in 2019 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 2020, the positive development of the economy should be reflected in growth rates (real GDP growth) of 2% to 4% 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 1.3%. 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. Despite negative interest rates in the euro zone but supported by moderately increasing short term market rates in Czech Republic and Hungary net interest income should thus increase further in 2020. The second key income component, net fee and commission income, is also expected to rise. As in 2019, some positive momentum should again come from asset management, insurance brokerage and payment services. Most of the other income components are expected to remain stable, by and large. Considering the good performance in 2019, net trading and fair value results are expected to be lower. Overall, operating income should continue to grow in 2020. Operating expenses are expected to rise in 2020, partly due to anticipated further wage increases in all core markets of Erste Group. However, Erste Group will continue to invest in IT and thereby its future competitiveness in 2020. The focus will be on progressive IT modernisation, back office digitalisation 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 2020. Positive jaws is the ambition for 2020, even though it will be tougher to achieve than in 2019 as revenue pressures increase. Overall, the operating result is projected to rise in 2020.

Risk costs should remain low in 2020 on the back of the low interest rate environment. While precise forecasts are difficult in the current environment, Erste Group projects for 2020 risk costs of below 20 basis points of average gross customer loans. The solid, albeit slowing, macro environment should support asset quality as will the well-balanced diversified loan portfolio.

We do expect an improvement in other operating result due to the non-recurrence of the significant one-off negative effects of 2019. Assuming a tax rate of below 20% and a similar high level of minority charges, Erste Group aims to achieve a return on tangible equity (ROTE) of above 10%.

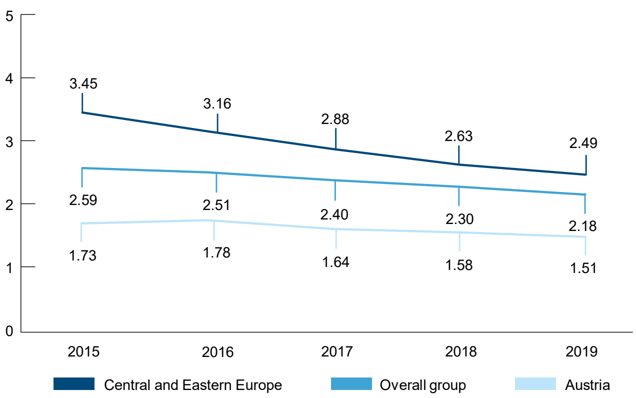
Potential risks to the guidance are interest rate trends that differ from expectations, political or regulatory measures targeting banks, geopolitical and global economic developments as well as potential negative economic effects from the spreading of the corona virus.

ANALYSIS OF PERFORMANCE

Net interest income

Net interest income rose to EUR 4,746.8 million (EUR 4,582.0 million). The marked increase in the Czech Republic was attributable to the benign interest rate environment and sustained growth in lending to customers. Higher net interest income was also posted in Romania driven primarily by higher market interest rates and in Hungary on the back of lending growth. The implementation of IFRS 16 led to a negative impact of EUR 24.6 million on net interest income. Year on year, interest-bearing assets rose faster than net interest income, not least because of a marked increase in interbank assets, which resulted in the net interest margin (net interest income as a percentage of average interest-bearing assets) slightly narrowing to 2.18% (2.30%).

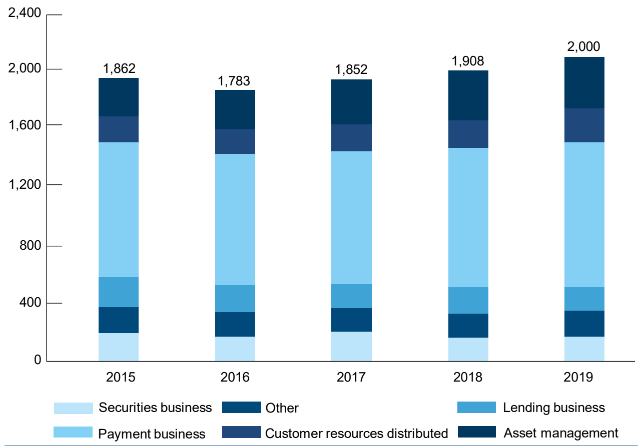
Net interest margin in %



Net fee and commission income

Net fee and commission income increased to EUR 2,000.1 million (EUR 1,908.4 million). Growth was registered in all core markets, most notably in Austria, Hungary and Slovakia. In Austria, growth was driven mainly by payment fees and asset management fees, while Slovakia saw primarily a rise in insurance brokerage fees.

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



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

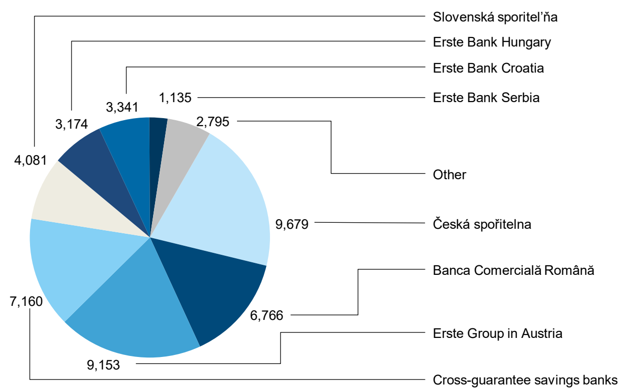
Valuation effects have a substantial impact on both positions – net trading result and gains/losses from financial instruments measured at fair value through profit or loss. Debt securities issued measured at FV through profit or loss are particularly impacted – related valuation results are shown in the line gains/losses from financial instruments measured at fair value through profit or loss while valuation results of corresponding hedges are shown in net trading result – as are financial assets in the fair value and trading portfolios.

Due to the interest rate development, net trading result improved significantly to EUR 318.3 million (EUR -1.7 million). On the other hand, gains/losses from financial instruments measured at fair value through profit or loss declined to EUR -24.5 million (EUR 195.4 million).

General administrative expenses

General administrative expenses amounted to EUR 4,283.3 million (EUR 4,181.1 million).

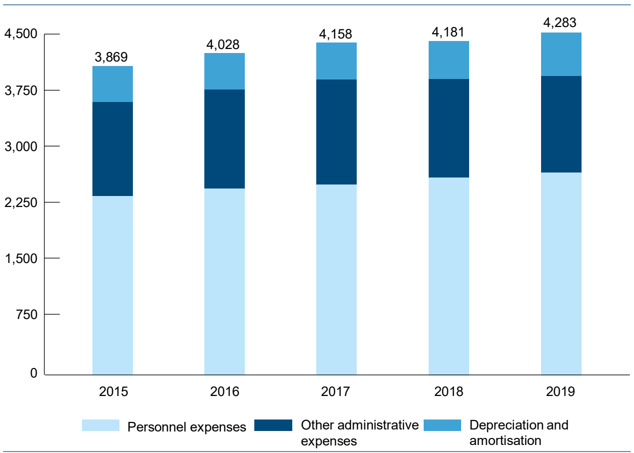
Employees as of 31 December 2019



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 and the Czech Republic – to EUR 2,537.1 million (EUR 2,474.2 million). **Other administrative expenses** declined to EUR 1,205.1 million (EUR 1,234.9 million). Contributions to deposit insurance systems increased to EUR 104.8 million (EUR 88.6 million) on the back of continued strong deposit growth. Contributions were up most sharply in Romania (to EUR 12.7 million from previously EUR 4.4 million) and Austria (EUR 58.4 million versus EUR 51.2 million). The first-time application of the new financial reporting standard for leases (IFRS 16) as of 1 January 2019 had a positive impact on other administrative expenses – through lower rental expenses – in the amount of EUR 81.5 million, but negatively impacted **depreciation and amortisation** by EUR 74.0 million, pushing the latter to EUR 541.0 million (EUR 472.0 million).

General administrative expenses, structure and trend, in EUR million



Operating result

Operating income rose to EUR 7,255.9 million (+4.9%; EUR 6,915.6 million) on the back of significantly improved net interest and net trading income and a rise in net fee and commission income. General administrative expenses increased to EUR 4,283.3 million (+2.4%; EUR 4,181.1 million) due to a rise in personnel expenses and higher depreciation and amortisation while other administrative expenses declined. The operating result improved to EUR 2,972.7 million (+8.7%; EUR 2,734.6 million). The cost/income ratio improved likewise to 59.0% (60.5%).

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) increased to EUR 23.5 million (EUR 5.7 million). This item includes primarily gains/losses from the sale of securities and the derecognition of financial liabilities.

Impairment result from financial instruments

Due to net allocations, the impairment result from financial instruments amounted to EUR -39.2 million (net releases of EUR 59.3 million). The negative balance of the allocation/release of provisions for the lending business was partly offset by continued high income received from the recovery of loans already written off in the amount of EUR 154.0 million (EUR 162.9 million) as well as the release of provisions for commitments and guarantees given in the amount of EUR 70.0 million (EUR 6.6 million).

Other operating result

Other operating result amounted to EUR -628.2 million (EUR -304.5 million). Levies on banking activities rose to EUR 128.0 million (EUR 112.2 million), including a EUR 11.0 million banking tax payable in Romania for the first time in the reporting year. Levies payable in Austria rose slightly to EUR 24.3 million (EUR 23.0 million) and in Slovakia increased to EUR 32.5 million (EUR 30.3 million). Hungarian banking tax declined to EUR 12.6 million (EUR 13.5 million). Including financial transaction tax of EUR 47.6 million (EUR 45.4 million), bank levies in Hungary totalled EUR 60.2 million (EUR 58.9 million).

In view of the expected negative impact on future income resulting from a change in the law on banking tax in Slovakia, the goodwill in Slovakia in the amount of EUR 165.0 million was written down completely and posted to other operating result. Allocations/release of other provisions amounted to EUR -207.0 million (net releases of EUR 13.3 million). The significant deterioration is attributable to a provision in the amount of EUR 153.3 million set aside for losses expected from a decision of the Romanian High Court in relation to the business activities of a local subsidiary. In addition, other operating result also reflects the annual contributions to resolution funds in the amount of EUR 75.3 million (EUR 70.3 million). The steepest rise, to EUR 26.6 million (EUR 19.0 million), was recorded in the Czech Republic.

Profit/loss for the year

The pre-tax result from continuing operations amounted to EUR 2,329.7 million (EUR 2,495.0 million). Taxes on income increased to EUR 418.7 million (EUR 332.4 million) as the positive impact of deferred taxes that were recognised resulting in deferred tax income was lower than in 2018. In addition, neither the goodwill write-down in Slovakia nor the extraordinary provisions in Romania were tax deductible in 2019. The minority charge rose to EUR 440.9 million (EUR 369.1 million) due to solid results of the savings banks. The net result attributable to owners of the parent amounted to EUR 1,470.1 million (EUR 1,793.4 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 2019. The current tax loss carried forward increased in 2019.

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 418.7 million (EUR 332.4 million).

BALANCE SHEET DEVELOPMENT

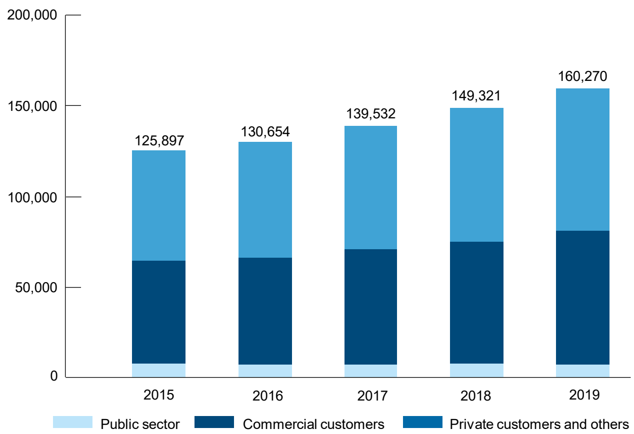
The decline in **cash and cash balances** to EUR 10.7 billion (EUR 17.5 billion) was primarily due to a significant reduction of cash balances held at central banks.

Trading and investment securities held in various categories of financial assets increased to EUR 44.3 billion (EUR 43.9 billion).

Loans and advances to credit institutions (net), including demand deposits other than overnight deposits, increased primarily in the Czech Republic and in the Holding to EUR 23.1 billion (EUR 19.1 billion).

Loans and receivables to customers (net) rose in all core markets – most notably in Hungary and Serbia as well as in the Czech Republic, Austria and Slovakia – to EUR 160.3 billion (EUR 149.3 billion) driven by retail and corporate loan growth.

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



Loan loss allowances for loans to customers declined to EUR 3.2 billion (EUR 3.6 billion), mostly due to continuing asset quality improvement. The **NPL ratio** (non–performing loans as a percentage of gross customer loans) improved again to 2.5% (3.2%). The **NPL coverage ratio** (based on gross customer loans) rose to 77.1% (73.4%).

Intangible assets amounted to EUR 1.4 billion (EUR 1.5 billion).

Miscellaneous assets were up at EUR 6.0 billion (EUR 5.4 billion).

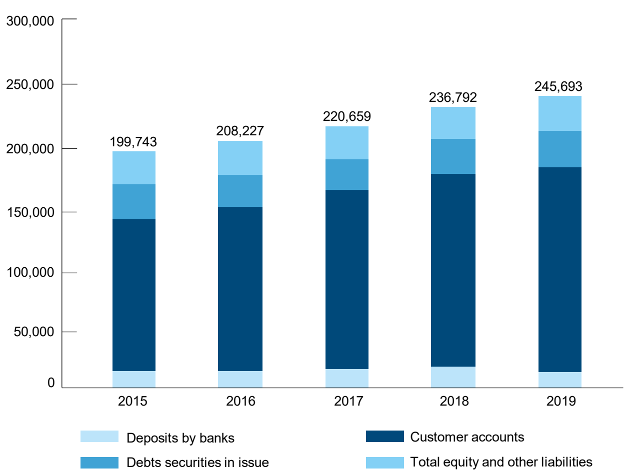
Financial liabilities – held for trading declined to EUR 2.4 billion (EUR 2.5 billion).

Deposits from banks, primarily overnight deposits and term deposits, decreased to EUR 13.1 billion (EUR 17.7 billion).
Deposits from customers increased to EUR 173.8 billion (EUR 162.6 billion) due to strong growth in retail overnight deposits in all core markets. The **loan-to-deposit ratio** stood at 92.2% (91.8%).

Debt securities in issue rose to EUR 30.4 billion (EUR 29.7 billion) on the back of increased issuing activity.

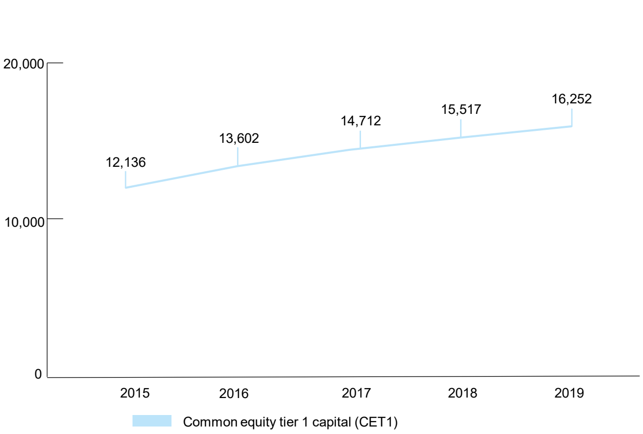
Miscellaneous liabilities amounted to EUR 5.4 billion (EUR 5.4 billion).

Balance sheet structure/liabilities and total equity in EUR million



Total assets grew to EUR 245.7 billion (+3.8%; EUR 236.8 billion). **Total equity** increased to EUR 20.5 billion (+8.6%; EUR 18.9 billion) including additional tier 1 (AT1) instruments in the amount of EUR 1,490.4 million.

Common equity tier 1 capital (CET1) in EUR million

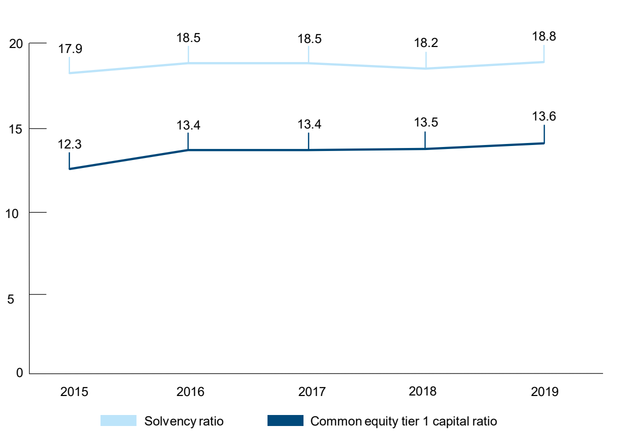


After regulatory deductions and filtering according to the Capital Requirements Regulation (CRR), **common equity tier 1 capital** (CET1, CRR final) rose to EUR 16.3 billion (EUR 15.5 billion). **Total own funds** (CRR final) went up to EUR 22.0 billion (EUR 20.9 billion). **Total risk** (risk-weighted assets including credit, market and operational risk, CRR final) increased to EUR 118.6 billion (EUR 115.4 billion).

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**, total eligible qualifying capital in relation to total risk pursuant to CRR (final), was 18.5% (18.1%), well above the legal minimum requirement.

The **tier 1 ratio** (CRR final) stood at 15.0% (14.3%), the **common equity tier 1 ratio** (CRR final) at 13.7% (13.5%).

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 39. Additional information is available in Excel format at www.erstegroup.com/investorrelations.

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 and 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 summarized under one position. Operating expenses correspond to the position general administrative expenses. Operating result is the net amount of operating income and operating expenses. Risk provisions for loans and receivables as well as impairments and provisions for commitments and guarantees given are included in the position 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

Erste Group – business segments						
Retail	Corporates	Group Markets	Asset/Liability Management & Local Corporate Center	Savings Banks	Group Corporate Center	Intragroup Elimination

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 sizes (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 markets/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 and 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 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 that 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	2018	2019	Change
Net interest income	2,267.5	2,290.1	1.0%
Net fee and commission income	1,054.4	1,094.5	3.8%
Net trading result and gains/losses from financial instruments at FVPL	116.3	112.5	-3.2%
Operating income	3,467.8	3,529.7	1.8%
Operating expenses	-2,030.9	-2,096.2	3.2%
Operating result	1,436.9	1,433.5	-0.2%
Cost/income ratio	58.6%	59.4%	
Impairment result from financial instruments	-24.7	-74.6	>100.0%
Other result	-52.9	-226.4	>100.0%
Net result attributable to owners of the parent	1,064.9	866.4	-18.6%
Return on allocated capital	35.2%	26.4%	

The increase in net interest income was primarily driven by higher contributions from deposit business in the Czech Republic, Romania and Hungary. While lending business in Croatia, Serbia and Hungary developed positively, contribution from lending business in Czech Republic, Slovakia and Romania decreased on the back of declining margins. The impact was mitigated though by the higher interest rate environment in the Czech Republic and Romania. Net fee and commission income increased mainly due to higher insurance brokerage fees in Slovakia and Hungary, higher payment fees in Austria, Hungary and Croatia, higher fees from loan business in Slovakia, Hungary and Croatia as well as higher fees from securities business in Hungary. Net trading result and gains/losses from financial instruments FVPL decreased primarily due to a lower result from foreign exchange business in Romania. Operating expenses increased on the back of higher personnel expenses as well as higher IT expenses in a majority of the countries. Overall, operating result decreased and the cost/income ratio increased slightly. The deterioration of impairment result from financial instruments was primarily driven by higher provisioning in Romania, the Czech Republic, Austria and Serbia, while risk costs in Croatia, Slovakia and Hungary declined. A provision in the amount of EUR 153.3 million in Romania as a result of a Romanian High Court decision in relation to the business activities of a local subsidiary (building society) led to a worsening of the other result. Consequently, the net result attributable to the owners of the parent decreased.

Credit risk

Credit risk exposure in the Retail segment rose to EUR 68.6 billion (+3.5%). The customer loan portfolio increased to EUR 58.3 billion (+5.1%). The share of the retail business in Erste Group's total customer loans declined marginally to 36.4% (37.0%). The collateralisation ratio, which reflects the ratio of collateral to loan volume, stood at 64.9% (64.0%). The quality of the retail customer loan portfolio improved again. Non-performing loans declined by EUR 105 million and, as a percentage of total retail customer loans, decreased to 2.4% (2.8%). 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. Low-risk loans as a percentage of total retail customer loans rose significantly to 84.7% (81.5%) The NPL coverage ratio based on loan loss provisions amounted to 82.7% (84.0%).

CORPORATES

Financial review

in EUR million	2018	2019	Change
Net interest income	1,032.2	1,098.7	6.4%
Net fee and commission income	283.1	301.1	6.4%
Net trading result and gains/losses from financial instruments at FVPL	88.2	101.0	14.4%
Operating income	1,524.0	1,603.1	5.2%
Operating expenses	-572.3	-575.3	0.5%
Operating result	951.8	1,027.8	8.0%
Cost/income ratio	37.5%	35.9%	
Impairment result from financial instruments	59.4	32.9	-44.5%
Other result	7.1	-2.3	n/a
Net result attributable to owners of the parent	801.5	814.9	1.7%
Return on allocated capital	21.0%	18.7%	

Net interest income increased primarily due to positive contribution of lending business in Austria and higher loan and deposit volumes as well as higher deposit margins in the Czech Republic supported by the higher interest rate environment. These effects were partially offset by the lower contribution of lending business in Romania due to a one-off income in 2018. Net fee and commission income increased predominantly in Erste Bank Oesterreich and Czech Republic but also in Hungary and Slovakia. Net trading result and gains/losses from financial instruments at FVPL increased mainly in the Czech Republic due to positive development in interest rate derivatives and in Slovakia due to valuation of cross-currency derivatives. Overall, operating income improved. Although operating expenses increased moderately, the operating result as well as the cost/income ratio improved. The net release of risk provisions (line item impairment result from financial instruments) resulted from a further improvement in asset quality, lower default rates, higher recoveries as well as releases of specific provisions. However, the net releases year-on-year decreased, mainly in the Holding, Slovakia and Hungary. Other result worsened on the back of higher provisions for legal expenses in Croatia. The net result attributable to the owners of the parent increased.

Credit risk

Credit risk exposure in the Corporates segment rose to EUR 77.8 billion (+10.3%), loans to customers increased to EUR 54.9 billion (+9.4%). As a percentage of Erste Group's total loans to customers they stood at 33.6% (32.8%). 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 economically viable businesses and writing off uncollectible accounts resulted in another significant improvement of asset quality in the Corporates segment. The NPL ratio declined to 2.5% (3.4%). As non-performing loans fell much more sharply than risk provisions, the NPL coverage ratio based on loan loss provisions rose by more than eleven percentage points to 84.5% (73.0%).

GROUP MARKETS

Financial review

in EUR million	2018	2019	Change
Net interest income	252.6	257.2	1.9%
Net fee and commission income	226.5	228.3	0.8%
Net trading result and gains/losses from financial instruments at FVPL	53.1	48.4	-8.8%
Operating income	533.7	536.9	0.6%
Operating expenses	-241.3	-240.2	-0.5%
Operating result	292.4	296.7	1.5%
Cost/income ratio	45.2%	44.7%	
Impairment result from financial instruments	-0.4	5.1	n/a
Other result	-21.3	-18.4	-13.4%
Net result attributable to owners of the parent	215.7	224.6	4.2%
Return on allocated capital	27.4%	24.1%	

Net interest income increased primarily on the back of higher volumes of reverse repo business in the Holding. Net fee and commission income went up slightly due to higher origination fees and business with institutional clients. Net trading result and gains/losses from financial instruments at FVPL decreased due to valuation effects. Overall, operating income increased. As operating expenses declined moderately, operating result increased, and the cost/income ratio improved. Impairment result from financial instruments turned positive as a result of provision releases in the Holding. Other result improved mainly due to valuation effects. Consequently, the net result attributable to the owners of the parent increased.

ASSET/LIABILITY MANAGEMENT & LOCAL CORPORATE CENTER

Financial review

in EUR million	2018	2019	Change
Net interest income	-91.6	-104.3	13.8%
Net fee and commission income	-102.8	-84.5	-17.8%
Net trading result and gains/losses from financial instruments at FVPL	-32.1	38.6	n/a
Operating income	-178.5	-107.1	-40.0%
Operating expenses	-67.8	-110.9	63.5%
Operating result	-246.3	-218.0	-11.5%
Cost/income ratio	-38.0%	>100%	
Impairment result from financial instruments	12.4	13.0	4.3%
Other result	-131.2	-90.0	-31.4%
Net result attributable to owners of the parent	-289.1	-237.3	-17.9%
Return on allocated capital	-10.6%	-8.2%	

Net interest income deteriorated primarily due to lower income from the investment portfolio and liquidity positions in the Holding as well as lower contribution from balance sheet management in Erste Bank Oesterreich. These developments were partially compensated by higher interest rates in the Czech Republic, higher contribution from balance sheet management in Slovakia and maturity of deposits with high interest expense in Romania. Net fee and commission income improved mainly due to lower fee expenses in Romania. Net trading result and gains/losses from financial instruments at FVPL improved primarily due to valuation results in the Holding, in Erste Bank Oesterreich, and in the Czech Republic. Operating expenses increased on the back of higher IT costs in Erste Bank Oesterreich and methodological changes affecting cost allocation between business segments in Romania and Hungary. Overall, operating result improved. Other result improved primarily due to the non-recurrence of last year's real estate impairments in the Czech Republic and Immorent, lower provisions for legal expenses in Erste Bank Oesterreich and a real estate selling gain in Romania. The net result attributable to the owners of the parent improved.

SAVINGS BANKS

Financial review

in EUR million	2018	2019	Change
Net interest income	1,016.4	1,052.1	3.5%
Net fee and commission income	459.8	490.6	6.7%
Net trading result and gains/losses from financial instruments at FVPL	-27.1	52.0	n/a
Operating income	1,497.4	1,640.2	9.5%
Operating expenses	-1,073.3	-1,120.1	4.4%
Operating result	424.1	520.1	22.6%
Cost/income ratio	71.7%	68.3%	
Impairment result from financial instruments	19.8	0.7	-96.3%
Other result	-4.5	26.3	n/a
Net result attributable to owners of the parent	53.6	64.8	20.9%
Return on allocated capital	12.2%	13.0%	

The increase in net interest income was primarily driven by higher customer loan volumes. Net fee and commission income increased on the back of higher payment, lending, and insurance brokerage fees. The improvement of net trading result and gains/losses from financial instruments at FVPL was driven by valuation effects. Operating expenses rose mainly due to increased IT, personnel and marketing expenses. In addition, deposit insurance contributions increased to EUR 33.4 million (EUR 27.9 million). Operating result as well as the cost/income ratio improved markedly. A lower net release of risk provisions was reflected in the impairment result from financial instruments. Other result improved mainly due to a booking of a badwill for a new subsidiary of a savings bank. Payment into the resolution fund decreased to EUR 7.9 million (EUR 9.0 million). Banking tax amounted to EUR 4.3 million (EUR 4.0 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 66.8 billion (+5.1%), while loans to customers rose to EUR 47.8 billion (+7.1%). Their share in Erste Group's total customer loans was nearly unchanged at 29.3% (29.2%). Lending to private households showed slightly better-than-average growth, raising its share in the Savings Banks' total customer loan portfolio to 39.2% (39.0%). Loans to professionals, other self-employed persons and small businesses stagnated at EUR 6.6 billion. At 13.9% (14.8%) 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 the Austrian economy with a very high percentage of small and medium-sized businesses compared with other countries. Swiss franc denominated foreign-currency loans declined further to EUR 1.8 billion (-10.1%).

Non-performing loans as a percentage of total loans to customers decreased again to 2.8% (3.6%). The development was positive among both retail and corporate clients. The NPL coverage ratio based on loan loss provisions rose to 63.8% (61.2%).

GROUP CORPORATE CENTER

Financial Review

in EUR million	2018	2019	Change
Net interest income	77.9	70.6	-9.4%
Net fee and commission income	-12.5	-1.3	-89.9%
Net trading result and gains/losses from financial instruments at FVPL	39.9	12.2	-69.4%
Operating income	124.2	70.9	-42.9%
Operating expenses	-980.4	-1,023.9	4.4%
Operating result	-856.2	-953.0	11.3%
Cost/income ratio	>100.0%	>100.0%	
Impairment result from financial instruments	-7.3	-16.4	>100.0%
Other result	636.0	572.6	-10.0%
Net result attributable to owners of the parent	-53.0	-263.3	>100.0%
Return on allocated capital	-0.8%	-5.6%	

Operating income deteriorated mainly due to lower rental income triggered by methodological changes as well as lower net trading result and gains/losses from financial instruments at FVPL on lower valuation effects. Operating expenses increased due to methodological effects in internal service providing entities. Consequently, operating result deteriorated. Other result declined mainly on the goodwill impairment of Slovenská sporiteľňa in the amount of EUR 165.0 million only partially offset by higher income in the service entities. Overall, the net result attributable to the owners of the parent decreased considerably.

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 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 2019, economic growth was mainly driven by domestic demand, especially consumer spending. Investments were also robust, especially in the first half of the year. In addition, the service sector, in particular tourism, continued to perform well. With 153 million overnight stays, tourism reached a new record in 2019. Net exports, on the other hand, slowed down and did not contribute to economic growth. Germany remained the most important trading partner of Austria and accounted for almost one third of the Austrian exports. The favourable economic environment resulted in a further decline of the unemployment rate to 4.5%. At EUR 44,900 GDP per capita, Austria remained one of the wealthiest countries in the euro zone. Overall, real GDP grew by 1.6%.

The favourable economic performance led to a further improvement in the general government balance to 0.3%. This positive development was mainly due to increasing revenues from personal and corporate income taxes and value added taxes. Government expenditure as a percentage of GDP declined mainly due to declining interest payments, pension-related spending and lower unemployment benefits. Public debt as a percentage of GDP improved further to 69.6%, the lowest since 2008, partly driven by a reduction of bad bank assets of the former Hypo Alpe Adria bank and lower interest payments.

Inflation decelerated and, at 1.5%, remained well under control. Core inflation, which represents price development excluding food and energy prices, amounted to 1.7%. Public and private sector wages increased by 2.8%, resulting in real wage growth. As Austria is part of the euro zone its monetary policy is set by the European Central Bank. The ECB maintained its expansionary monetary policy by keeping the base rate unchanged at 0%. In 2019, the ECB cut the interest rate on the deposit facility further by 10 basis points to -0.50%, restarted in November its asset purchase programme at a monthly volume of up to EUR 20 billion and also introduced a new series of longer-term refinancing operations (TLTRO III).

The three main rating agencies affirmed their credit ratings for Austria. Standard & Poor's credit rating for Austria stood at AA+ with a stable outlook. Moody's credit rating for Austria was at Aa1 also with stable outlook, while Fitch's credit rating stood at AA+ with a positive outlook.

Key economic indicators – Austria	2016	2017	2018	2019e
Population (ave, million)	8.7	8.8	8.8	8.9
GDP (nominal, EUR billion)	356.2	369.9	386.1	398.5
GDP/capita (in EUR thousand)	40.8	42.1	43.7	44.9
Real GDP growth	2.1	2.5	2.4	1.6
Private consumption growth	1.4	1.5	1.1	1.5
Exports (share of GDP)	39.5	41.1	42.6	43.0
Imports (share of GDP)	41.5	43.0	44.0	44.6
Unemployment (Eurostat definition)	6.0	5.5	4.9	4.5
Consumer price inflation (ave)	1.0	2.2	2.1	1.5
Short term interest rate (3 months average)	-0.3	-0.3	-0.3	-0.4
EUR FX rate (ave)	1.0	1.0	1.0	1.0
EUR FX rate (eop)	1.0	1.0	1.0	1.0
Current account balance (share of GDP)	2.7	1.6	2.3	1.9
General government balance (share of GDP)	-1.5	-0.7	0.2	0.3

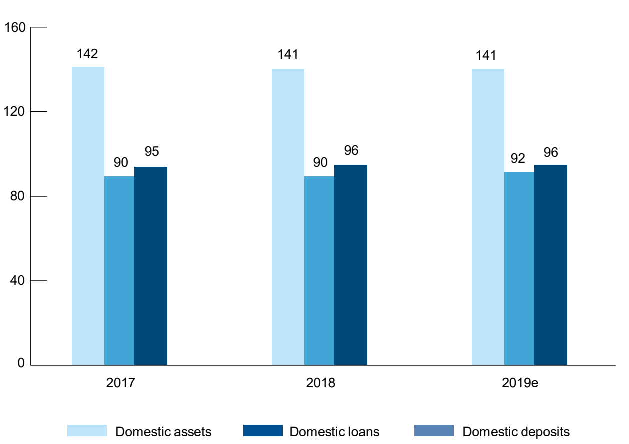
Source: Erste Group

Market review

The Austrian banking market is a highly competitive and developed market. With total assets of 222% of GDP, this metric is significantly higher than in Central and Eastern Europe. The Austrian banking market continued to be characterised by significantly lower margins than in CEE and, like all other markets Erste Group operates in, benefitted from low risk costs. The Financial Markets Authority (FMA) had 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 increased to 2% of risk weighted assets as of 1 January 2019. Capitalisation of the banking system also improved further in 2019.

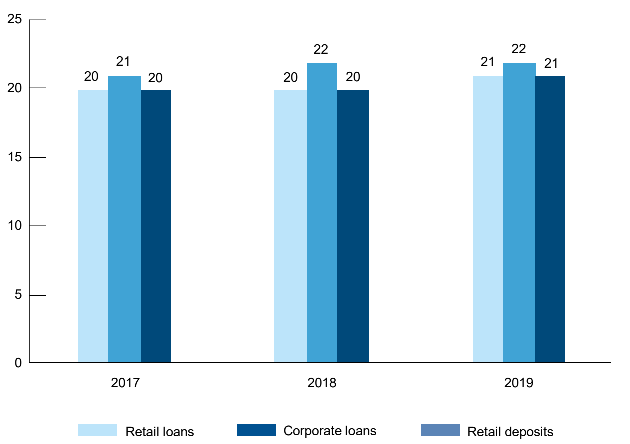
Austrian banks continued to benefit from the benign domestic and CEE economic conditions. Loan growth remained above real GDP growth with both retail and corporate loans rising considerably. Customer deposits grew less than loans. The banking system's loan-to deposit-ratio ratio stood at 95.3% at the end of the year. Digital financial services and products have continuously been improved and digital penetration increased further. 63% of the Austrian banking customers are actively using digital banking products and services. The banking tax remained nearly unchanged at EUR 235 million in 2019. On the back of loan growth coupled with low risk costs, the banking system's profitability improved.

Financial intermediation – Austria (in % of GDP)



Source: Oesterreichische Nationalbank, Erste Group

Market shares – Austria (in %)



Source: Oesterreichische Nationalbank, Erste Group

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. George, the digital banking platform of Erste Group, has defended its position as the country's most modern and popular banking platform. Its 1.9 million users in the country represent more than every third online banking user in Austria.

ERSTE BANK OESTERREICH & SUBSIDIARIES

Business review 2019 – three questions to the CEO of Erste Bank Oesterreich, Peter Bosek

How did the competitive environment change? Due to persistently low interest rates and regulatory pressure the environment remained challenging, with weakening economic momentum also showing its first impacts. Overall, the market environment in Austria did not change materially: bank and branch density remained high, and some market participants, typically those who due to their ownership structure are less capital market- and efficiency-driven, conducted very aggressive campaigns.

The retail business has been posting steady growth, primarily in lending and, due to recent innovations, also in payment services. We see an increasing reduction of banks' physical footprints and the expansion of digital offerings. Solid growth in the real estate market keeps driving strong demand for loans. The asset management business was again marked by the effective absence of yields on lower-risk investments. Given the rather risk averse customer preferences in Austria, these account for a major share of the market. Digitalisation remains the key challenge for all market participants in the years ahead, as only successful end-to-end digitalisation and process optimisation will offset at least part of the sustained adverse impacts of the current interest rate landscape. Digitalisation and optimisation are accordingly in the focus of all major market participants.

The corporate business enjoyed robust demand despite the decelerating economy. Price competition was again intense. Here, too, lending growth was attributable to the currently very strong demand for properties, partially commercial real estate.

How did you manage to successfully differentiate your bank from its competition? In the past year, we were able to increase the number of customers in the retail segment beyond the mark of one million for the first time, which we believe was due to our clear positioning as a leading innovator combined with the strong Erste Bank, Sparkassen and George brands. The market launch of Apple Pay enabled us to enhance this image on the products side as well. With sFondsplan, we were able to also offer an attractive digital investment product, which will help specifically the young generation to attain prosperity by building up personal wealth and retirement provisions, as is called for by our Statement of Purpose. In addition to our range of digital products and services, we will continue to focus on the optimisation of our service processes and the implementation of advanced technologies. We are convinced that the purpose-driven design of digital and analogue product and service offerings will be the key to success in the future.

In the corporate business we were able to keep growing and position ourselves as a strong local partner for all businesses. By continuing to optimise our service models and strengthening industry specialisation in the sales force, we seek to become an even better partner for our customers in various sub-segments of the corporate business. Through more intense cooperation – including a performance network formed with the savings banks – we have been and will continue to be able to increasingly exploit growth potential. Our close relations with non-profit building associations help us to work together in addressing one of the most urgent challenges in the real estate segment, i.e. the provision of new, affordable housing.

Looking back at the year, what were the major challenges and key achievements? We have further pursued our transformation in both the retail and the corporate segments and expanded our portfolio of products and services. The ongoing optimisation of our processes remains a key factor contributing to the future development of our business model and the necessary skills among our employees.

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? 2019 was a record year for the savings banks group in terms of new customer growth: Never before have we been able to gain so many new customers, thanks primarily to the popularity of George, the launch of Apple Pay and our strong regional presence. Progress has also been achieved in digitalising our product offerings, including the introduction of sFondsplan in the investments segment. On the operational side, the focus was on two key topics: standardisation and harmonisation as well as digitalisation. After harmonising products for retail customers within the savings bank group in the past, a uniform product portfolio was rolled out in the corporate segment in 2019. As a next step, product-specific processes are to be standardised within the savings banks group.

Financial review

in EUR million	2018	2019	Change
Net interest income	644.3	642.1	-0.3%
Net fee and commission income	386.4	398.9	3.2%
Net trading result and gains/losses from financial instruments at FVPL	10.6	29.1	>100.0%
Operating income	1,088.1	1,117.9	2.7%
Operating expenses	-678.9	-717.1	5.6%
Operating result	409.2	400.8	-2.0%
Cost/income ratio	62.4%	64.1%	
Impairment result from financial instruments	14.3	-6.0	n/a
Other result	-39.6	-18.9	-52.2%
Net result attributable to owners of the parent	278.2	263.2	-5.4%
Return on allocated capital	18.7%	16.4%	

Net interest income decreased only moderately as higher loan and deposit volumes largely compensated the non-recurrence of last year's positive one-off effect of the changed disclosure for brokerage fee expenses in the building society. Net fee and commission income increased on the back of higher payment and lending fees. The improvement in net trading result and gains/losses from financial instruments at FVPL was driven by the valuation of a participation. Operating expenses increased mainly due to higher IT, marketing and personnel costs. The deposit insurance contribution increased to EUR 25.0 million (EUR 23.3 million). Overall, operating result decreased and the cost/income ratio went up. The deterioration of impairment result from financial instruments was driven by corporate and retail business. Other result improved mainly due to lower provisions for legal expenses and a higher selling gain for real estate, which was partially offset by the non-recurrence of an insurance reimbursement. Payments into the resolution fund decreased to EUR 7.8 million (EUR 10.2 million). Banking tax amounted to EUR 3.6 million (EUR 3.5 million). Overall, the net result attributable to the owners of the parent declined.

Credit risk

Credit risk exposure in the Erste Bank Oesterreich & Subsidiaries segment rose to EUR 45.0 billion (+3.9%) while the volume of customer loans increased to EUR 34.6 billion (+4.2%). As this segment grew at a slower pace than the group average, its share in Erste Group's total loan portfolio declined to 21.0% (21.8%). The share of retail customers in total loan volume amounted to 40.1% (39.9%). The share of corporates, including self-employed individuals and small businesses, rose to 54.0% (53.4%). Loans to professionals, other self-employed persons and small businesses are less significant than they are for other Austrian savings banks. Lending to the public sector declined to EUR 2.0 billion (-9.2%). The share of Swiss franc denominated loans in the total loan portfolio decreased further to 3.8% (4.4%). The quality of the loan portfolio improved again. While low-risk loans increased by EUR 1.4 billion, non-performing loans decreased by EUR 100 million and, as a percentage of total loans to customers, declined to 1.4% (1.8%). The development was positive across all customer segments, but most visibly among medium-sized and larger enterprises. The NPL coverage ratio based on loan loss provisions stood at 58.0% (61.3%).

SAVINGS BANKS

The geographical segment Savings Banks is identical to the business segment Savings Banks (see page 30).

OTHER AUSTRIA

Business review 2019 – three questions to Chief Corporates and Markets Officer, Ingo Bleier

How did the competitive environment change? Overall, the environment continued to be challenging. Loan margins and fees – especially fees in the Group Markets business – remained under pressure. As a result, certain investors have directed their attention to real estate and private equity opportunities. While the impact on us was limited, we benefitted from the increased activity in the capital markets business. Activities in the equity capital markets were mainly concentrated on Austria and CEE, and we acted as book runner for two out of three IPOs on the Vienna Stock Exchange.

In line with economic growth, client hedging volumes have grown across the CEE region. We have also experienced increased demand for interest rate hedging, primarily from new business in the real estate business. The FX market showed rather low levels of volatility in our markets.

How did you manage to successfully differentiate your business activities from those of your competition? We focused on the key elements of our SME and large corporates strategy: close co-operation between the banks of our group, engaging customers in strategic dialogues based on our sector expertise and a strong product focus on supply chain finance and structured finance solutions.

In the Group Markets business we have extended the scope of product offerings. In addition to wholesale issues we have advised our financial institutions customers on several non-preferred senior and subordinated transactions. We have also focused on providing our corporate client base with more tailor-made solutions to hedge interest rate and foreign exchange risk. To reach all potential customers and investors we are working on the continuous improvement of distribution channels.

Owing to the expertise in the corporate business and our understanding of the local capital markets in our region, we are recognised as a leading capital markets franchise in CEE.

Looking back at the year, what were the major challenges and key achievements? Major achievements in the Corporates business were the largest ever underwriting for a CEE logistics sector portfolio transaction of more than EUR 600 million (prior to syndication) and the substantial increase of our overall loan volume to the real economy in CEE.

We increased the number of transactions on a year-on-year basis and won joint bookrunner mandates with new international client groups. On the private placement side, we increased the number of executed deals to around 70, an all-time record on our MTN (mid-term note) desk. In 2019, we managed to successfully execute the first IPO of the year in Europe, Marinomed, on the Vienna Stock Exchange.

As a result of our efforts, we were named Number 1 covered bond book runner in the category covered bond market by Global Capital. In addition, the CMD (Collaborative Market Data Network) Portal awarded the debt capital markets business of Erste Group as Best Emerging Markets Dealer as well as Best Austrian Domestic Bond Dealer of the year.

Ringing the closing bell at Nasdaq Stock Exchange in December 2019 as a new member with primary dealership in selected Nasdaq market places, allowing us to present Erste Group in its 200th anniversary year, was also one of the highlights of the year. The ceremony was broadcast on Times Square in New York.

Financial review

in EUR million	2018	2019	Change
Net interest income	388.9	406.9	4.6%
Net fee and commission income	224.6	240.7	7.1%
Net trading result and gains/losses from financial instruments at FVPL	-26.2	-13.0	-50.3%
Operating income	648.3	689.7	6.4%
Operating expenses	-369.4	-378.1	2.3%
Operating result	278.9	311.6	11.7%
Cost/income ratio	57.0%	54.8%	
Impairment result from financial instruments	87.7	-7.3	n/a
Other result	25.9	47.4	82.9%
Net result attributable to owners of the parent	313.2	278.3	-11.1%
Return on allocated capital	17.7%	13.3%	

Net interest income increased primarily due the growth of corporate lending volumes in the Holding and higher volumes of reverse repo business in Group Markets. Net fee and commission income increased on higher asset management fees and institutional sales activities in Group Markets. The improvement of net trading result and gains/losses from financial instruments at FVPL was driven by higher market valuation result of securities, partially offset by lower valuation of derivatives. Despite an increase of operating expenses driven by higher personnel and IT costs, operating result and cost/income ratio improved. Impairment result from financial instruments deteriorated significantly due to lower net releases of risk provisions and increased provision coverage for non-performing portfolio in Holding. Other result improved mostly due to higher selling gains. Other result also included the resolution fund contribution of EUR 6.6 million (EUR 6.1 million). Overall, the net result attributable to the owners of the parent deteriorated.

Credit risk

Credit risk exposure in the Other Austria segment, which is almost completely made up of Erste Group Bank AG and Erste Group Immorent GmbH, widened to EUR 37.8 billion (+21.5%), due to a significant increase in money and capital markets business. Its share in Erste Group's total credit risk exposure increased to 13.8% (12.2%). A large share of the business was accounted for by securities and investments with banks. Consequently, loans to customers as a percentage of Erste Group's total loan portfolio were significantly lower than the contribution to credit risk exposure. At year-end it amounted to 9.3% (8.8%). Growth was registered mainly in the Corporates segment and in real estate financing, while lending to the public sector declined. Continuing 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 2.2% (3.3%). Within the category of performing loans, the share of loans in the best risk category rose substantially. Loan loss provisions amounted to 63.3% (56.1%) of non-performing loans.

Central and Eastern Europe

CZECH REPUBLIC

Economic review

The Czech Republic is among the most open economies in the CEE region and continued to perform well. In 2019, GDP growth was mainly driven by household consumption and, to a much lesser extent, by investments. Household consumption was supported by the continuing real wage growth as well as the lowest unemployment in the EU. Industrial production benefitted significantly from the strong performance of the automotive industry. Net exports, however, did not contribute to economic growth mainly due to the declining demand from the main euro area trading partners. Based on the diversity of exports, the Czech economy is among the most complex in the world. Reflecting the solid economic performance, the unemployment rate decreased further to 2.1%. Overall, real GDP grew by 2.4% and GDP per capita increased to EUR 20,700.

Fiscal prudence prevailed as expressed by a general government budget surplus for the fourth consecutive year. In 2019, it stood at 0.6%. State revenues were positively impacted by growing tax income and higher social contributions. On the expense side, public wages, higher pensions and state subsidies were the main drivers. Public debt as a percentage of GDP fell further and was again one of the lowest in the European Union at 30.8%.

Inflation increased mainly due to rising domestic demand and higher wages, but remained within the Czech National Bank's (CNB) range of 1-3%. Average consumer price inflation amounted to 2.8%. The Czech koruna was broadly stable against the euro. The Czech National Bank increased its key policy rate by 25 basis points in May 2019 to 2.00%. In February 2020, the CNB unexpectedly decided to increase the rate by another 25 basis points to 2.25%, the highest level since 2009.

The positive economic developments were also acknowledged by Moody's, which upgraded the country's long-term credit rating to Aa3 with a stable outlook. Standard and Poor's and Fitch kept their ratings unchanged at AA- with a stable outlook.

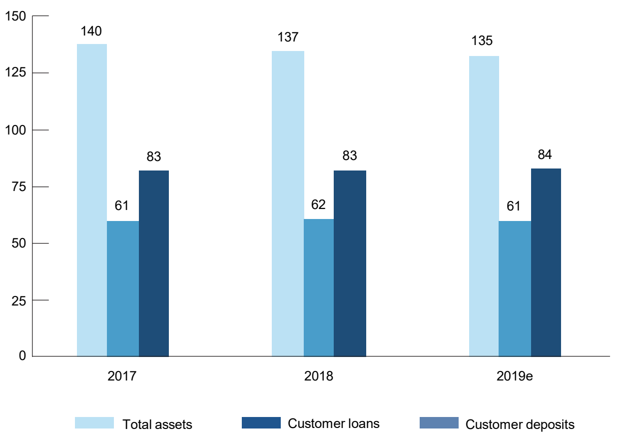
Key economic indicators – Czech Republic	2016	2017	2018	2019e
Population (ave, million)	10.6	10.6	10.6	10.6
GDP (nominal, EUR billion)	176.3	191.9	208.0	220.2
GDP/capita (in EUR thousand)	16.7	18.1	19.6	20.7
Real GDP growth	2.4	4.5	2.9	2.4
Private consumption growth	3.5	4.4	3.3	2.8
Exports (share of GDP)	75.2	75.9	75.1	72.4
Imports (share of GDP)	69.2	69.4	69.6	66.8
Unemployment (Eurostat definition)	4.0	2.9	2.3	2.1
Consumer price inflation (ave)	0.7	2.4	2.2	2.8
Short term interest rate (3 months average)	0.3	0.4	1.3	2.1
EUR FX rate (ave)	27.0	26.3	25.6	25.7
EUR FX rate (eop)	27.0	25.5	25.7	25.5
Current account balance (share of GDP)	1.6	1.7	0.3	-0.1
General government balance (share of GDP)	0.7	1.6	1.1	0.6

Source: Erste Group

Market review

Based on its solid fundamentals and positive macroeconomic developments, the Czech banking sector continued to be very successful in 2019. The deceleration of lending growth was mainly related to the introduction of even tighter regulatory limits for debt-to-income and debt-service-to-income ratios in the last quarter of 2018. Overall, customer loans grew by 4.4%, with retail loans outgrowing corporate loans. Retail lending was mainly driven by housing loans, while the growth in the corporate sector benefitted from lending to small and medium size enterprises. 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 72.8%. The solid fundamentals were also confirmed by the banking sector's total capital ratio of 20.2%. Consolidation of the banking sector continued with Moneta Money Bank, the fourth largest bank in the country, acquiring Wüstenrot's Czech business.

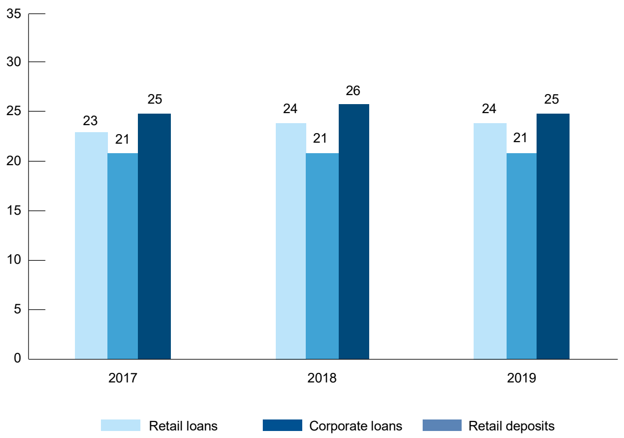
Financial intermediation – Czech Republic (in % of GDP)



Source: Czech National Bank, Erste Group

Despite the decelerated growth, the Czech banking sector closed 2019 as one of its most successful years. Supported by higher interest rates and very low risk provisions, the sector's net profit reached EUR 3.5 billion in 2019. The share of non-performing loans decreased further to 1.7% in the retail and to 3.2% in the corporate business. Regulatory and political topics played a significant role in the development of the Czech banking market throughout the year. The Czech government and the country's four largest commercial banks signed a memorandum of cooperation in September to create a National Development Fund aimed at investing in projects in infrastructure, education and healthcare. The National Development Fund, backed by Česká spořitelna, Komerční banka, CSOB and UniCredit's Czech subsidiary, is expected to start its operation in the second half of 2020 with initial financing of CZK 7 billion. The government expects other companies, also outside the banking industry, to join the fund in 2020.

Market shares – Czech Republic (in %)



Source: Czech National Bank, Erste Group

Česká spořitelna continued to grow broadly in line with the competition in 2019 and maintained market leadership positions across all product categories. Its retail market shares ranged from 23% to 28%, while its market shares in the corporate business remained above 20%. With a market share of 27.5% the bank also retained the top position in consumer lending, including the credit card business. Česká spořitelna built on its market leadership position in asset management products, pushing its market share to 27.1%. Overall, its market share in terms of total assets stood at 20.0%. The three largest banks have a combined market share of approximately 60% in customer loans and deposits.

Business review 2019 – three questions to the CEO of Česká spořitelna, Tomáš Salomon

How did the competitive environment change? Consolidation pressure continued, and we naturally evaluate such emerging opportunities on a regular basis but haven't found a strategically fitting asset yet.

For the whole sector as such, 2019 was a success from many angles. We experienced solid asset growth stemming from mortgages, consumer lending and the corporate business. In most of these business lines Česká spořitelna roughly kept or even improved its market position. Looking at digital banking, I want to particularly highlight Apple Pay. It has become a huge success right from the beginning, and Česká spořitelna was among the first to offer this mobile payment solution to its customers. We see that people are becoming more and more attached to their mobile phones, and naturally, we have to adopt to that. How? Via enabling more and more products but also services in our George app.

The PSD2 regulation that came into force in January 2018 opened the banking market to even more market participants. Nonetheless, initial fears that smaller fintech companies would take over banking business at the expense of the strictly regulated banking industry have not materialised. Banks are investing heavily in digital innovations, and the digital environment appears to be the main arena that will decide about the future success of financial institutions. Efficient data mining and data utilisation have become another key topic. In addition, a stronger emphasis has been put on customer care rather than on individual products.

How did you manage to successfully differentiate your bank from its competition? We were the first bank on the market that decided to extend individual financial advisory services to the mass market. As a result, services that used to be available for more affluent customers only are now provided to all customers, regardless of the balance on their accounts. We believe this is how banking will look like in the future, and so we have started to build up this service model.

In addition, we continuously upgrade our state-of-the-art digital platform George. Our ambition is to shape up the mobile George app into a real-time digital advisor. If a customer crosses the state border, the mobile George could, for example, inform her or him about missing travel insurance etc. In the future, we'd like to see George to be able to communicate in real time with customers to help them tackle their immediate needs.

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

Česká spořitelna further lived up to its role as the market's innovation leader. We were, for instance, the first bank to put contactless ATMs into operation and to launch instant payments via ATMs. Our bank earned recognition in various banking competitions in 2019. In the Golden Crown competition, Česká spořitelna received several prices. We were awarded gold for our mortgage business, the Visa Infinite credit card that comes with the Premier Account and the New Blood programme for start-ups. In addition, the bank's subsidiaries – Stavební spořitelna České spořitelny (building society) and Česká spořitelna penzijní společnost (pension funds) – also won prizes in several categories. Česka spořitelna won the *Bank without Barriers* category in the 18th annual *Bank of the Year* competition. In the main category of *Bank of the Year 2019*, we came in second, as we did in the *Mortgage of the Year* category. We were also selected as the second-most interesting employer in the banking and finance sector in the Top Employers survey.

Financial review

in EUR million	2018	2019	Change
Net interest income	1,062.2	1,141.1	7.4%
Net fee and commission income	332.9	334.7	0.5%
Net trading result and gains/losses from financial instruments at FVPL	92.5	109.7	18.5%
Operating income	1,501.4	1,600.5	6.6%
Operating expenses	-714.5	-753.9	5.5%
Operating result	786.9	846.6	7.6%
Cost/income ratio	47.6%	47.1%	
Impairment result from financial instruments	-11.2	6.2	n/a
Other result	-49.5	-27.6	-44.2%
Net result attributable to owners of the parent	582.8	666.5	14.4%
Return on allocated capital	23.4%	26.6%	

The segment analysis is done on a constant currency basis. The CZK depreciated by 0.1% 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 deposit and loan volumes. Net fee and commission income increased on the back of higher insurance brokerage fees. The improvement of net trading result and gains/losses from financial instruments at FVPL was driven by higher contribution from interest rate derivatives and foreign currency transactions. Higher personnel and IT costs led to an increase in operating expenses. Deposit insurance contribution amounted to EUR 10.4 million (EUR 9.6 million). Overall, operating result increased markedly, the cost/income ratio improved. The improvement in the line item 'impairment result from financial instruments', leading to a net release, was mostly attributable to significant releases of risk provisions in corporate business. The other result improved mainly due to non-recurrence of buildings impairment, in spite of a higher contribution to the resolution fund of EUR 26.6 million (EUR 19.0 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 to EUR 59.9 billion (+4.0%) This growth was mainly attributable to the rise in loans to customers to EUR 29.2 billion (+6.3%), most significantly in the retail business. Customer loan volume as a percentage of Erste Group's total loans to customers was nearly unchanged at 17.9% (18.0%). 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 again significantly better than in Erste Group's other core markets in Central and Eastern Europe. Non-performing loans as a share of total loans to customers were unchanged at 1.8%. The development was most solid in loans to medium-sized and large corporates as well as in commercial real estate financing. The lowest default rates were seen in the public sector and in lending to private households. Non-performing loans were covered 96.3% (101.2%) by loan loss provisions, not including collateral.

SLOVAKIA

Economic review

The Slovak economy performed well but expanded at a slower pace than a year ago. Further improvements in the labour market, growing real wages and moderate inflation supported the positive development in household consumption. Exports benefited from the traditionally strong car industry but slowed down significantly due to weaker demand from the country's main trading partners in Western Europe. Slovakia, with more than one million cars produced in 2019, remained the world's top car producer per capita. The unemployment rate declined further to a historically low level of 5.8%. Overall, real GDP grew by 2.3%, and GDP per capita amounted to EUR 17,300.

The fiscal position of Slovakia remained solid. Buoyant private consumption and the strong labour market supported revenues through higher tax collection and social contributions. Revenues from value-added taxes rose as well. Expenses also increased, with employee compensation and social benefits being the largest items. The fiscal deficit remained at 1.1%. The country's public debt as a percentage of GDP declined to 48.3%, the lowest level since 2011.

Inflation in Slovakia increased but remained under control. Average consumer price inflation rose by 2.7% driven mainly by food and services prices. Price levels in the service industry were visibly pushed upwards by higher salaries while food prices rose on the back of a newly introduced levy on retailers. Reflecting the tightening labour market, nominal wage growth accelerated to 7.6% in 2019.

Moody's changed its outlook for Slovakia from positive to stable with a long-term credit rating of A2. Standard & Poor's and Fitch kept their ratings at A+, also with a stable outlook.

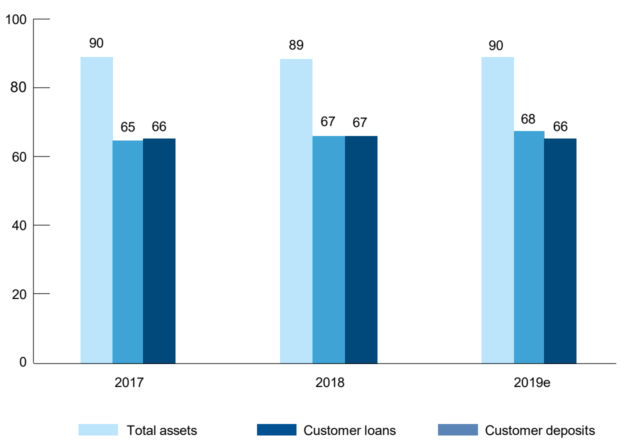
Key economic indicators – Slovakia	2016	2017	2018	2019e
Population (ave, million)	5.4	5.4	5.5	5.5
GDP (nominal, EUR billion)	81.0	84.5	89.7	94.2
GDP/capita (in EUR thousand)	14.9	15.5	16.5	17.3
Real GDP growth	2.1	3.0	4.0	2.3
Private consumption growth	3.9	4.4	3.9	2.1
Exports (share of GDP)	82.3	83.4	84.4	82.7
Imports (share of GDP)	80.7	82.7	84.6	83.2
Unemployment (Eurostat definition)	9.6	8.1	6.6	5.8
Consumer price inflation (ave)	-0.5	1.3	2.5	2.7
Short term interest rate (3 months average)	-0.3	-0.3	-0.3	-0.4
Current account balance (share of GDP)	-2.7	-1.9	-2.6	-2.9
General government balance (share of GDP)	-2.5	-1.0	-1.1	-1.1

Source: Erste Group

Market review

The Slovak banking system reflected the macroeconomic developments and grew at a slower, in comparison with other markets, still solid, pace. Customer loans increased by 6.2%.Retail loans grew by a healthy 8.0% despite the introduction of macro prudential measures by the Slovak National Bank during the year. Housing loans clearly outgrew consumer loans. Corporate lending also increased, but to a lesser extent. The main growth driver was lending to small- and medium-sized enterprises. Customer deposits rose by 4.8%, resulting in a loan-to-deposit ratio of 102.6%. Asset management was the bright spot of the banking market, with an annual growth rate of 14%. The three largest banks continued to have a combined market share of approximately 60% in customer loans and deposits. Consolidation in the Slovak banking market remained a topic throughout the year, with a number of assets being offered for sale. The banking sector remained well capitalised in 2019.

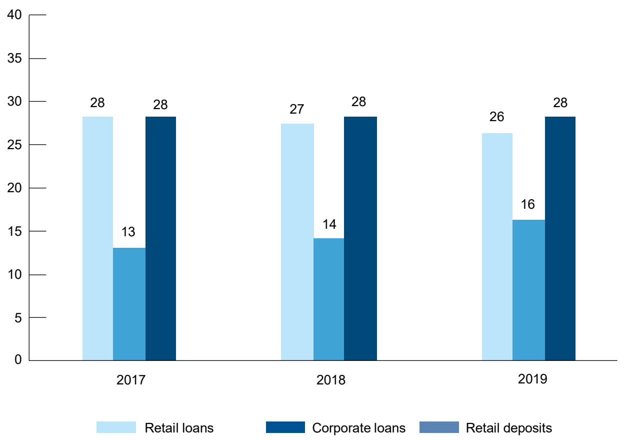
Financial intermediation – Slovakia (in % of GDP)



Source: National Bank of Slovakia, Erste Group

While the low interest rate environment, banking tax and regulatory changes adversely affected the Slovak banking sector's profitability, net profit benefitted from higher fee income and low risk costs. Positive asset quality trends continued. The NPL ratio decreased further to 2.9%. Banks continued to pay banking tax at 0.2% of total liabilities, excluding equity and subordinated debt. The Slovak government unexpectedly announced in the last quarter of the year that the banking tax would double from 2020 onwards and raised the rate from 0.2% to 0.4%. Overall, the sector's return on equity stood at 7.7% at the end of 2019.

Market shares – Slovakia (in %)



Source: National Bank of Slovakia, Erste Group

Slovenská sporiteľňa remained the country's largest bank. It continues 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. Slovenská sporiteľňa continued to have significantly higher market shares in the retail sector than in the corporate sector. In the retail loan business, the bank's market share amounted to 26.2%, while for corporate lending it stood at 15.6%. At 14.9%, its market share in corporate deposits was also significantly lower than in retail deposits, at 28.1%. Slovenská sporiteľňa maintained its strong position in asset management products with a market share of above 25%.

Business review 2019 – three questions to the CEO of Slovenská sporiteľňa, Peter Krutil

How did the competitive environment change? The operating environment did not change much. Interest margins stayed under pressure, resulting in a decline of the sector's net interest income. Retail loans grew by a strong 8%, and housing loans alone increased by 10%.

The Central Bank scaled up its efforts to curb the increasing indebtedness of households with various macro-prudential measures: in addition to already introduced debt-to-income and loan-to-value limits, stricter debt-service-to-income measures have come into effect as of 2020. At the end of 2019, another politically and fiscally motivated change in legislature was executed: The bank levy, which was supposed to end in 2020, has been extended and doubled as of 2020. Consequently, the profit of the sector will come under additional stress. Slovak banks will pay almost 50% of their pre-tax, pre-bank-levy profit, which is roughly twice as much as common corporations pay in Slovakia.

How did you manage to successfully differentiate your bank from its competition? We aspire to be the best financial advisor for our clients, providing them with additional value through a multi-faceted approach to financial health and prosperity. We did particularly well in banc-assurance where our provisions grew by almost 20%. Asset management, which still has a huge potential in Slovakia, also contributed positively.

Slovenská sporiteľňa continued in its endeavour of digitalisation. We expanded the range of products offered in George (e.g. asset management, savings and insurance) as well as in Internet banking for corporates (Business24). Among other significant innovations, the introduction of the feature-rich Business24 mobile application and the switch from SMS to push notifications in George stand out as success stories. Tablets at branches remained an important selling tool for advisors. Currently, the majority of key products are already included, enabling personalised offers to our customers. We were among the first to introduce Apple Pay in Slovakia, and we added Garmin and Fitbit Pay as well. With Google Pay available already for some time, we have – until now – become the only major bank with the full offer of mobile payments available in our market. Thanks to our focus at younger customers, we achieved an inflow of new clients in this segment.

Through Slovenská sporiteľňa Foundation, we again proved our commitment as a leading responsible company and provided financial support to more than 100 projects in education, social assistance, environmental protection, culture, sports and civil society. The Foundation supported 35 projects from the first year of the #mamnato grant programme with a sum of EUR 250,000. Grants were awarded to non-profit organisations in community development and environmental protection. In addition, Slovenská sporiteľňa Foundation developed a unique programme of financial literacy, aimed at improving critical and systemic thinking in finance.

Looking back at the year, what were the major challenges and key achievements? With more than 750 thousand digital customers and half a million mobile app users, Slovenská sporiteľňa is the Slovak market leader in digital banking in terms of number of clients. We defended the leading position in retail banking and significantly improved our market share in corporate loans. This was a result of both strong organic growth and the acquisition of S Slovensko, a local leasing company.

Our bank received the Bank of the Year award of the magazines The Banker and Euromoney and, for the seventh time in the last eight years, of the weekly TREND. Slovenská sporiteľňa also ranked first in the survey conducted by the portal Profesia.sk as the best employer in banking, finance and insurance. As a signatory of the Diversity Charter, we were recognised for multiple activities against discrimination with a diversity award.

Financial review

in EUR million	2018	2019	Change
Net interest income	438.7	433.6	-1.2%
Net fee and commission income	128.8	145.2	12.7%
Net trading result and gains/losses from financial instruments at FVPL	11.8	18.8	58.8%
Operating income	586.1	605.7	3.3%
Operating expenses	-279.6	-288.7	3.3%
Operating result	306.6	317.0	3.4%
Cost/income ratio	47.7%	47.7%	
Impairment result from financial instruments	-23.5	-42.7	81.3%
Other result	-40.3	-39.1	-2.9%
Net result attributable to owners of the parent	189.4	187.7	-0.9%
Return on allocated capital	20.7%	17.6%	

Net interest income in the Slovakia segment (comprising Slovenská sporitel'ňa Group) decreased on the back of lower loan margins in the retail business. Net fee and commission income improved mainly due to higher insurance brokerage and lending fees. Net trading result and gains/losses from financial instruments at FVPL increased due to valuation effects. Operating expenses increased mainly due to higher personnel expenses. Deposit insurance contribution amounted to EUR 1.0 million (EUR 0.9 million). Overall, operating result increased and the cost/income ratio remained stable. Impairment result from financial instruments deteriorated due to higher provisions in corporate business. Other result remained largely stable although banking tax increased to EUR 32.5 million (EUR 30.3 million), and payment into the resolution fund went up to EUR 3.1 million (EUR 2.7 million). Overall, the net result attributable to the owners of the parent declined.

Credit risk

Credit risk exposure in the Slovakia segment increased to EUR 19.9 billion (+6.8%), while loans to customers rose to EUR 14.4 billion (+8.2%). This growth rate was slightly above the group average. As a result, their share in Erste Group's entire loan portfolio increased to 8.8% (8.7%). 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 68.8% (70.5%) 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 60.0% (59.3%) in the entire loan portfolio, which exceeds that of other Central and Eastern European core markets. The NPL ratio declined further to 3.0% (3.3%), with asset quality improving across almost all business segments, but most notably among large corporate customers. The NPL coverage ratio based on loan loss provisions was nearly unchanged at 80.8% (80.9%).

ROMANIA

Economic review

The Romanian economy grew at a solid, but slower, pace than last year. Private consumption remained the main growth driver due to higher wages. Investments recovered on the back of the strong increase in the construction sector. Net exports, on the other hand, did not contribute to economic growth as the weaker external environment led to a contraction of industrial output. Dacia, the Romanian car producer owned by Renault, was an exception and closed 2019 with increasing production and record sales abroad. The agricultural production, accounting for about 4% of the economy, suffered from weak autumn crops (harvests). Agriculture is still highly important to the Romanian labour market as more than 20% of the country's workforce is employed in this sector, significantly more than the EU average of about 4%. The unemployment rate declined further and reached a new historic low of 3.9%. Overall, the country's real GDP increased by 4.1% and GDP per capita stood at EUR 11,400.

The political environment remained volatile. Ahead of the scheduled general elections in 2020, the government was reluctant to implement fiscal consolidation measures in 2019. As a result, the budget deficit remained high. It stood at 4.6% of GDP, above the target of 3%. At 4.7%, the current account deficit was one of the highest in the European Union, exposing the country to potential external shocks. Public debt to GDP increased to 36.1%, but remained among the lowest in the European Union.

Inflation declined from the exceptionally high levels in the previous year. Overall, average consumer prices increased by 3.8%, above the National Bank's target range of 1.5% to 3.5%. Core inflation, which excludes food and fuel prices, went up by 3.7%. Wages and pensions continued to grow. The Romanian leu was relatively stable against the euro, trading between 4.7 and 4.8 throughout the year. The Romanian National Bank kept its policy rate unchanged at 2.50% in 2019.

Standard & Poor's confirmed the country's long-term credit risk rating at BBB-, but revised Romania's outlook from stable to negative due to its rising fiscal deficit risk. Fitch and Moody's left their credit ratings and outlook unchanged. Moody's has a Baa3 rating on the country's credit risk and Fitch's BBB-, both with a stable outlook.

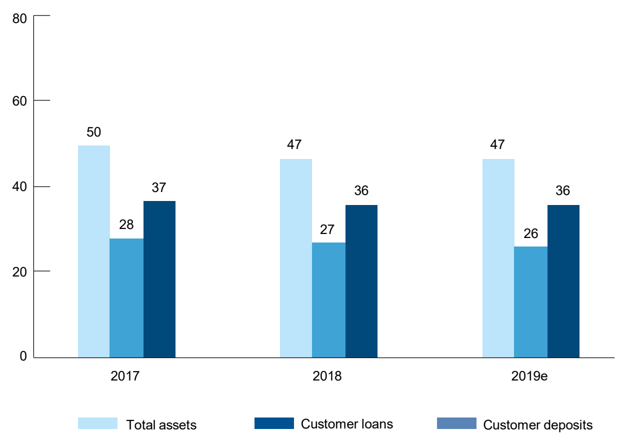
Key economic indicators – Romania	2016	2017	2018	2019e
Population (ave, million)	19.7	19.6	19.5	19.4
GDP (nominal, EUR billion)	170.4	187.8	204.7	221.4
GDP/capita (in EUR thousand)	8.6	9.6	10.5	11.4
Real GDP growth	4.8	7.1	4.4	4.1
Private consumption growth	8.3	10.1	7.2	5.5
Exports (share of GDP)	33.7	33.4	33.1	31.2
Imports (share of GDP)	39.5	40.3	40.5	39.0
Unemployment (Eurostat definition)	5.9	4.9	4.2	3.9
Consumer price inflation (ave)	-1.5	1.3	4.6	3.8
Short term interest rate (3 months average)	0.8	1.2	2.8	3.1
EUR FX rate (ave)	4.5	4.6	4.7	4.7
EUR FX rate (eop)	4.4	4.4	4.4	4.4
Current account balance (share of GDP)	-1.4	-2.8	-4.4	-4.7
General government balance (share of GDP)	-2.6	-2.6	-2.9	-4.6

Source: Erste Group

Market review

The Romanian banking market faced uncertainties and further regulatory changes throughout the year. A new banking tax was introduced as of January 1, 2019. For large banks operating in Romania, this special tax amounts to 0.4% of financial assets (the contribution of smaller banks is set at 0.2%), and it can be reduced by 50% for those banks meeting either a lending growth target or an interest spread reduction target set by the government. Two banks were also negatively affected by a Romanian High Court decision in relation to business activities of their local building societies In addition, stricter debt-service-to-income levels and a benchmark rate for new retail loans with variable rates in local currency were introduced.

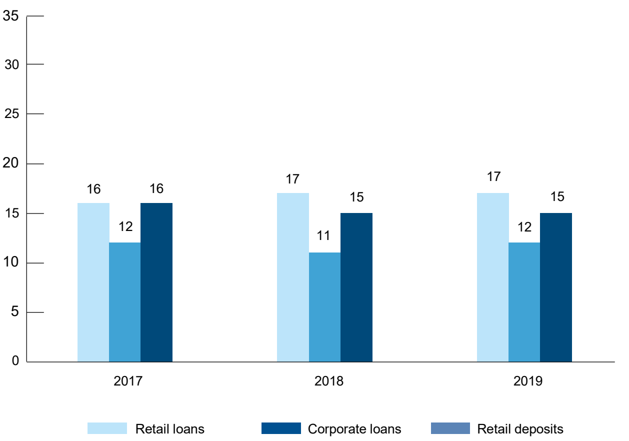
Financial intermediation – Romania (in % of GDP)



Source: National Bank of Romania, Erste Group

The Romanian banking market continued to grow. Customer loans increased by 6.6%, while customer deposits rose by 11.1%. Retail loan growth was mainly supported by housing loans and outperformed corporate loan growth. The state-guaranteed Prima Casa (first home) programme remained one of the key lending products in the market, although the amount allocated by the government was set to gradually decline. Demand for consumer loans, on the other hand, remained subdued. Corporate lending benefitted from the rapidly growing SME sector and was also supported by a surge in private investments, especially in commercial and residential constructions. The banking system's loan-to-deposit ratio declined further to 72.8%. The profitability of the country's banking market was significantly impacted by the new regulatory changes, which were only partially balanced by low risk provisions. Asset quality improved further. Overall, the sector achieved a return on equity of 12.3%. The Romanian banking sector continued to be strongly capitalised, with a total capital ratio of 20% at the end of the year.

Market shares – Romania (in %)



Source: National Bank of Romania, Erste Group

Banca Comercială Română remained the second largest bank of the country based on its total asset market share. At year-end, Banca Comercială Română was also ranked number two by customer loans and customer deposits as well as in asset management. With a market share of approximately 19%, the bank defended its leading position in Prima Casa. The bank's customer loan market share increased to 14.4%, while its retail loan market share remained broadly unchanged at 16.6%. Corporate loan market share increased to 12.1%. The customer deposit market share declined further to 14.5%. In terms of total assets, Banca Comercială Română had a market share of 14.4%.

Business review 2019 – three questions to the CEO of Banca Comercială Română, Sergiu Manea

How did the competitive environment change? Last year, the Romanian banks continued to invest in digitalisation and in enhancing customer experience. Considering the impact of new technologies and fintechs, the main market participants have taken the first steps in connecting their Application Programming Interfaces (APIs) to third-party suppliers. We were among the first ones to do so. The investments in digital transformation will remain a strategic focus for banks in the years to come.

At the same time, market consolidation is expected to continue.

How did you manage to successfully differentiate your bank from its competition? We remained committed to support the real economy, promote financial education and disseminate prosperity. We strive to create a full financial life advisory service and to be a reliable partner to our customers. In 2019, we made important steps in offering convenient omni-channel access to significantly improve customer journeys.

Our efforts were focused on building digital processes, implemented through an omni-channel strategy. Our front office colleagues provided support for the online onboarding of new customers, guiding them through a fully digitalised process and thus introducing a new, simple and fast way to become a Banca Comercială Română customer. The number of George users has quadrupled, reaching 720,000 customers. I am very happy that George has expanded its functionalities with the first end-to-end digital consumer unsecured lending process in the market. In just three months after the roll-out, we have already granted more than 3,800 cash loans online. Another well-received feature is the availability of Apple Pay for iOS and George Pay developed for Android. Overall, the number of active digital clients rose by 34% to 577,000.

We have started to implement a new branch concept, creating flagship service outlets and extending the cashless branch type to currently 25% of our network. In 2019, we also launched the Casa Mea App, a shared online platform for our mortgage lending business. Over 1,000 housing loans that used the app for the related document workflow have been granted in just seven months, which amounts to one in four disbursed mortgages.

We also positioned ourselves as the main supporter of tech-driven companies and start-ups, initiating BCR-InnovX Accelerator and building a network of talented IT entrepreneurs ready to scale up their business.

Looking back at the year, what were the major challenges and key achievements? Despite the extremely challenging market environment, we have managed to further grow our revenues while keeping the cost line almost flat, resulting in a high-single digit increase in our operating performance. Our bank has achieved a good bottom line result despite some politically motivated interventions that impacted our activity in 2019. More specifically, I am referring to the bank levy on financial assets, stricter debt-to-income levels for retail lending and the significant one-off provision booked as a result of the court ruling in the case of our building society subsidiary.

I am proud that at the end of 2019 Banca Comercială Română successfully issued the first ever senior non-preferred bond in the country and the CEE region. Our objective is to further strengthen our balance sheet and diversify funding sources and instruments.

On the business side, we have defended our leading position in lending to private individuals in local currency. We have increased the market share in corporate lending, with the SME segment remaining the main growth driver. We have stayed strongly committed to support entrepreneurs through the Start-Up Nation governmental programme. In 2019, we granted financing to about 2,500 start-ups in co-operation with the European Investment Fund. By adding new features to George, we have achieved substantial customer experience improvements. In terms of brand awareness, George became the best known digital banking platform in Romania. George strongly differentiates us from the competition, being perceived as a modern and intelligent service and rated 5 percentage points higher than other solutions offered by competitors.

To enhance financial education, we have continued our Money School programme, reaching a total of more than 370,000 adults and children over the last three years. Last but not least, we have launched the Romania Tech Nation initiative, aiming to place IT and technology educational programmes on the public agenda. The ambition of the project is that Banca Comercială Română, alongside other major private companies, will support one million teenagers graduating from alternative technology schools in the next five years.

Financial review

in EUR million	2018	2019	Change
Net interest income	394.5	428.0	8.5%
Net fee and commission income	151.9	164.5	8.3%
Net trading result and gains/losses from financial instruments at FVPL	96.0	74.2	-22.7%
Operating income	660.6	688.0	4.1%
Operating expenses	-354.6	-359.0	1.2%
Operating result	306.0	329.0	7.5%
Cost/income ratio	53.7%	52.2%	
Impairment result from financial instruments	-26.0	13.0	n/a
Other result	-18.4	-200.8	>100.0%
Net result attributable to owners of the parent	219.9	85.0	-61.4%
Return on allocated capital	17.4%	5.9%	

The segment analysis is done on a constant currency basis. The RON depreciated by 2.0% against the EUR in the reporting period. Net interest income in the Romania segment (comprising Banca Comercială Română Group) improved on the back of higher market interest rates, higher customer deposit volumes as well as lower funding costs. Net fee and commission income increased on higher payment, card, insurance brokerage and securities fees. Net trading result and gains/losses from financial instruments at FVPL decreased primarily due to a lower result from foreign exchange business. Operating expenses increased mainly due to higher deposit insurance contributions of EUR 12.7 million (EUR 4.4 million) and higher IT expenses. Overall, operating result increased, and the cost/income ratio improved. Impairment result from financial instruments improved mainly in corporate business resulting in overall net releases of risk provisions. A provision in the amount of EUR 153.3 million as a result of a Romanian High Court decision in relation to the business activities of a subsidiary, the local building society, led to a worsening of the other result. A newly introduced banking tax amounted to EUR 11.0 million. The resolution fund contribution amounted to EUR 6.6 million (EUR 5.5 million). Consequently, the net result attributable to the owners of the parent decreased.

Credit risk

Credit risk exposure in the Romania segment increased to EUR 16.4 billion (+5.7%) in the reporting period. A key contribution to growth came from loans to customers, which rose by EUR 0.5 billion to EUR 8.8 billion. This represented an unchanged share of 5.4% of Erste Group's total loans to customers. Lending volume growth was attributable in almost equal parts to the expansion of the retail business and the corporate business. The share of foreign currency loans decreased to 37.6% (41.4%) 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 again substantially to 4.1% (5.8%), with non-performing corporate and commercial real estate loans down even more sharply. NPLs were fully covered by loan loss provisions.

HUNGARY

Economic review

The Hungarian economy was among the best performers in the European Union in 2019. The contribution of net exports turned positive, reflecting the solid performance of the country's automotive industry. The main growth driver, however, remained household consumption, benefitting from higher consumer confidence, increasing real wages and continued positive trends in the labour market. Investments were also strong, supported mainly by construction and infrastructure related projects. The car industry remained significant with an annual production of 500,000 vehicles. Construction, services, and the agricultural sector also performed well. As a result of the improved labour market, the unemployment rate improved to a historical low of 3.4%, the third lowest in the European Union. Overall, real GDP grew by 4.9%, GDP per capita increased to EUR 14,700.

The fiscal position of Hungary remained solid. The general government deficit shrank and stayed well within the Maastricht criteria. On the expense side, the minimum wage increased again, government spending on investments was substantial. The government also introduced a new scheme, the baby loan, to support childbirth with subsidised loans for families. In addition, a new village development programme was introduced with a budget of HUF 150 billion in 2019. These measures were to a large extent offset 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 to 66.9%.

Inflation increased to 3.4%, within the National Bank's target range of 2% to 4%. Surging wages and strong consumer demand kept prices high. The Hungarian forint remained relatively weak against the euro, trading between 320 and 340 during most of 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 the policy rate during the year.

Rating agencies also recognised the positive development of the economy, with Fitch and Standard & Poor's upgrading Hungary's long-term credit ratings to BBB with a stable outlook. Moody's kept its rating unchanged at Baa3 with a stable outlook.

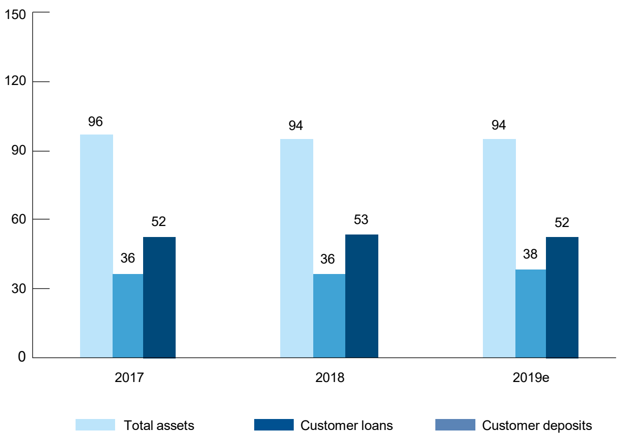
Key economic indicators – Hungary	2016	2017	2018	2019e
Population (ave, million)	9.8	9.8	9.8	9.8
GDP (nominal, EUR billion)	115.3	125.6	133.8	143.7
GDP/capita (in EUR thousand)	11.7	12.8	13.7	14.7
Real GDP growth	2.2	4.3	5.1	4.9
Private consumption growth	4.2	4.2	4.0	4.6
Exports (share of GDP)	68.2	68.1	66.2	65.5
Imports (share of GDP)	64.8	66.6	67.5	66.8
Unemployment (Eurostat definition)	5.1	4.2	3.7	3.4
Consumer price inflation (ave)	0.4	2.4	2.8	3.4
Short term interest rate (3 months average)	1.0	0.1	0.1	0.2
EUR FX rate (ave)	311.5	309.2	318.9	325.4
EUR FX rate (eop)	311.0	310.1	321.5	330.5
Current account balance (share of GDP)	4.5	2.3	-0.5	-0.4
General government balance (share of GDP)	-1.8	-2.4	-2.3	-2.0

Source: Erste Group

Market review

Hungary's banking market continued to perform well, reflecting the favourable macroeconomic environment. Customer loan growth amounted to 13.9%, among the strongest in Europe. Retail loans rose by 17.0%, mainly driven by the increase of consumer lending, which was largely attributable to the newly introduced baby-loan. Under this programme, married couples are offered an interest-free loan of HUF 10 million (around EUR 30,000), which they do not have to pay back if they commit to having three children. Mortgage lending also grew impressively partially due to the extension of the Home Purchase Subsidy Scheme for families. In corporate lending, a new Funding for Growth Scheme for small and medium sized enterprises was introduced by the Central Bank. Overall, corporate loans increased by 11.3%, mainly driven by lending to SMEs. At 8.0%, customer deposits grew less than customer loans. The introduction of the Hungarian Government Securities Plus (MÁP+), offering preferential yields to Hungarian citizens, was extremely well received. This instrument supports the strategic goal of the Hungarian government to finance a significant part of the public debt from domestic household savings. Overall, the banking system's loan-to-deposit ratio stood at 71.7% at year-end.

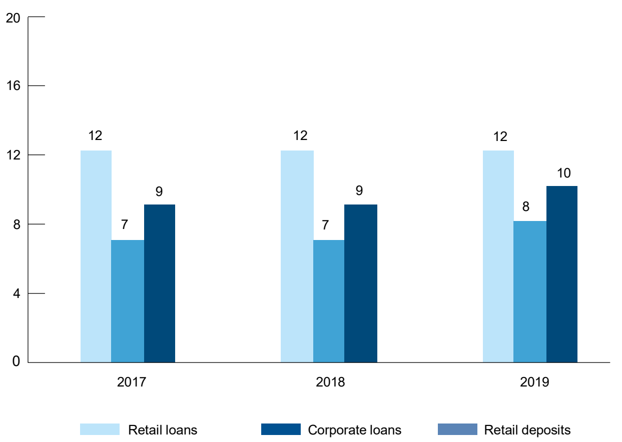
Financial intermediation – Hungary (in % of GDP)



Source: National Bank of Hungary, Erste Group

In 2019, the Hungarian banking sector increased its profitability further. While the low interest rate environment continued to weigh on revenues, risk provisions remained very low on the back of favourable macroeconomic indicators. The banking tax was calculated on the basis of total assets of 2016, with a tax rate of 20 basis points, down from 21 basis points a year earlier. Consolidation of the sector continued as TakarékBank merged with savings co-operatives and became a universal bank with a market share of about 7%. Overall, the banking sector's return on equity rose to 13.9%. The Hungarian banking sector continued to be well capitalised, with a capital adequacy ratio of around 18%.

Market shares – Hungary (in %)



Source: National Bank of Hungary, Erste Group

Erste Bank Hungary is one of the major market players in the country and increased its market shares in most product categories. In 2019, Erste Bank Hungary acquired the building society business from Aegon Hungary. The bank's market share in customer loans increased slightly to 9.6%, with the retail business remaining more important than the corporate business. The customer deposit market share increased to 8.3%. In terms of total assets, Erste Bank Hungary's market share went up to 6.5%.

Business review 2019 – three questions to the CEO of Erste Bank Hungary, Radován Jelasity

How did the competitive environment change? Last year, the Hungarian government introduced new products leaving only a few months preparation time for the banks. The so-called baby loan significantly impacted the market. Since its launch, new disbursements of the baby loan almost equalled new mortgage disbursements. This is an impressive figure, taking into account that neither mortgage volumes nor new consumer loan disbursements decreased significantly. As a result, total new lending volume increased, and its structure changed substantially.

In addition, the government introduced a new retail bond with very preferential yields, called MÁP+. As a risk-free instrument offering a yield above the inflation rate, it instantly became a huge success among retail clients. The subscribed volume was three times the original plan for 2019, 80% was distributed by banks. The Central Bank introduced a new Bond Funding for Growth Scheme for non-financial companies by offering 10-year, bullet type, unsecured financing. These bonds offer higher yields at higher risk levels. The volume of bonds issued by non-financial companies rose substantially. 60% of the issued securities were subscribed by the Central Bank, most of the remaining amount was subscribed by banks.

And last, but not least, TakarékBank merged with the Hungarian savings co-operatives and became Hungary's fifth largest bank based on the 2018 balance sheet.

How did you manage to successfully differentiate your bank from its competition? Our focus remained on unsecured lending (consumer loans and credit cards) in retail and on SME lending in the corporate segment. We also strive to increase our mortgage stock further while becoming the leading market player in wealth management.

We continued the branch transformation and opened two new branches based on the new branch concept to provide the best service for our retail customers. We renewed our previous discount programme with Wizz Air and were the first bank in Hungary to offer Apple Pay and Android NFC payment for both MasterCard and Visa cardholders. In addition, we launched a new asset management product called Erste Future. Customers can chose between twelve investment portfolios that fit their risk appetite or their vision of the future. Through this programme customers have access to higher yield and higher risk instruments, such as shares, by setting aside smaller monthly amounts.

For private banking customers, we launched a new multi-advisor service model: To get support in trading, private banking customers are offered direct contact to the capital market traders of our investment company.

We added Power Network to Erste Power Business, introduced last year for SMEs and micro enterprises. It offers access to Billit, a Hungarian business social platform that helps companies find and connect to potential business partners. Furthermore, in cooperation with Billingo, we launched PowerBill, an online invoicing service for our clients.

Looking back at the year, what were the major challenges and key achievements? In all key customer segments, our bank was able to grow twice as fast as the rest of the market. We were also the first bank in the country to offer the new baby loan, and we gained a 15% market share in this segment. Following the new PSD2 directive, we implemented a new and convenient NetBank log-in process for clients that complies with the Strong Customer Authentication requirements. Thanks to the Open Banking initiative, our customers can manage their accounts in one place. We were also ready with the Instant Payment solution before the originally set deadline.

Furthermore, we successfully migrated the building society portfolio of Aegon. As a result of the transaction, 57,000 contracts were transferred to Erste Bank Hungary, and our market share increased to 14%.

Our efforts were rewarded by several external awards. We won the *Real Estate financing bank of the year* award of the Construction & Investment Journal and the *Real Estate financing company of the year award* of Iroda.hu. We also won the *Financial enterprise of the year* award by the local business magazine Figyelő and the *Retail savings product of the year* award by Mastercard for our new Erste Future Investment Programme.

Financial review

in EUR million	2018	2019	Change
Net interest income	198.8	213.5	7.4%
Net fee and commission income	170.2	188.3	10.6%
Net trading result and gains/losses from financial instruments at FVPL	45.4	36.9	-18.7%
Operating income	418.4	445.8	6.6%
Operating expenses	-212.4	-216.9	2.1%
Operating result	206.0	229.0	11.2%
Cost/income ratio	50.8%	48.6%	
Impairment result from financial instruments	36.3	18.2	-49.8%
Other result	-67.2	-61.2	-8.8%
Net result attributable to owners of the parent	166.8	173.2	3.8%
Return on allocated capital	20.8%	17.7%	

The segment analysis is done on a constant currency basis. The HUF depreciated by 2.0% against the EUR in the reporting period. Net interest income in the Hungary segment (comprising Erste Bank Hungary Group) increased, driven by higher customer loan and deposit volumes. Net fee and commission income rose due to higher securities and insurance brokerage fees. Net trading result and gains/losses from financial instruments at FVPL declined due to the non-recurrence of the last year's high contribution of derivatives. Operating expenses went up on the back of higher personnel and IT costs. Deposit insurance contributions decreased to EUR 6.0 million (EUR 7.5 million). Overall, operating result and the cost/income ratio improved. Lower net releases of risk provisions (reflected in the impairment result from financial instruments) were caused by provisioning requirements in corporate business. Other result improved on selling gains from securities not measured at fair value through profit and loss. This line item also included the banking tax of EUR 12.6 million (EUR 13.5 million), transaction tax of EUR 47.6 million (EUR 45.4 million) and the contribution to the resolution fund of EUR 2.8 million (EUR 2.6 million). Overall, the net result attributable to the owners of the parent increased.

Credit risk

Credit risk exposure in the Hungary segment rose to EUR 9.4 billion (+5.9%). Loans to customers registered very strong growth, rising to EUR 4.8 billion (+17.6%). As a result, the share of the Hungary segment in Erste Group's total loans to customers rose to 3.0% (2.7%). While loans to private households increased by 14.3% to EUR 2.5 billion, loans to corporates rose more sharply to EUR 2.2 billion (+20.8%). The share of loans denominated in Hungarian forint stood at 73.3% (74.5%). Asset quality improved again substantially. Non-performing loans as a percentage of total loans to customers declined to 2.6% (3.7%). Asset quality in the corporates segment was again excellent, with an NPL ratio of 0.8% (0.7%) The NPL coverage ratio based on loan loss provisions rose significantly to 92.5% (84.6%).

CROATIA

Economic review

The Croatian economy continued to perform well. Economic growth was mainly driven by household consumption, which benefitted from higher employment rates and wages. Investments, backed by European Union funds, remained strong. In addition, Croatia's well-developed tourism industry posted another excellent year, with a 1.8% plus in overnight stays. Favourable financing conditions also supported economic growth. Net exports, with improving dynamics in the second half of the year, supported economic growth to a much lesser extent. The unemployment rate declined further and reached a multi-year low of 6.8%, still high compared to other countries in CEE. Overall, real GDP growth amounted to 2.5%, GDP per capita increased to EUR 13,200.

Public finances remained solid. Revenues grew strongly on the back of positive labour market developments, higher wages and consumer spending. Expenses were impacted by a further increase in pensions and public sector wage hikes, which were partly offset by declining debt service costs. The general government balance remained very stable, and public debt as a percentage of GDP declined to 71.4%. Inflation remained well under control, reaching a three-year low in the last quarter of the year. Average consumer prices rose by a moderate 0.8% on the back of lower energy prices. The significant reduction in the value-added tax rate on certain goods also supported the decline in inflation. 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 nominal exchange rate stability remained unchanged, and it kept its accommodative monetary stance throughout the year.

Based on the positive economic trajectory, robust fiscal performance and fading external vulnerabilities, Standard & Poor's upgraded Croatia's long term credit rating to BBB- with a stable outlook in March. In June, Fitch upgraded the country's credit rating to BBB- with a positive outlook. Moody's kept its rating unchanged at Ba2 with a stable outlook.

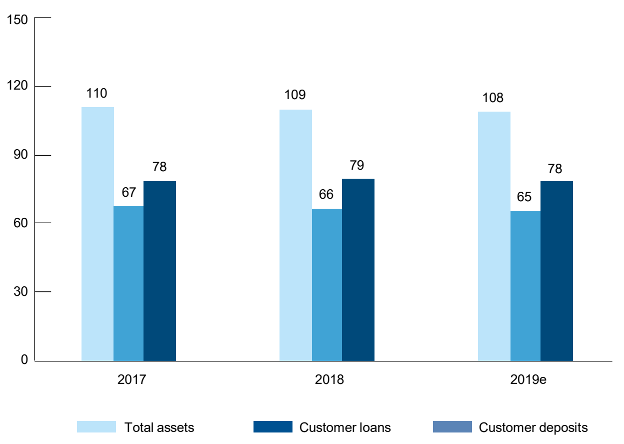
Key economic indicators – Croatia	2016	2017	2018	2019e
Population (ave, million)	4.2	4.1	4.1	4.1
GDP (nominal, EUR billion)	46.6	49.1	51.7	54.0
GDP/capita (in EUR thousand)	11.2	11.9	12.6	13.2
Real GDP growth	3.5	3.1	2.7	3.0
Private consumption growth	3.1	3.2	3.2	3.4
Exports (share of GDP)	22.5	23.8	23.7	24.0
Imports (share of GDP)	38.9	41.0	42.3	43.5
Unemployment (Eurostat definition)	13.1	11.3	8.4	6.8
Consumer price inflation (ave)	-1.1	1.2	1.5	0.8
Short term interest rate (3 months average)	0.6	0.5	0.5	0.5
EUR FX rate (ave)	7.5	7.5	7.4	7.4
EUR FX rate (eop)	7.6	7.5	7.4	7.4
Current account balance (share of GDP)	2.1	3.4	1.9	2.0
General government balance (share of GDP)	-1.1	0.8	0.3	0.0

Source: Erste Group

Market review

Croatia's banking market continued to perform well. Lending growth, however, remained below CEE average, with customer loans growing by 3.3%. Retail lending again outperformed corporate lending. In general, demand for local currency based lending remained strong. Customer deposits increased by 3.8%, mainly driven by corporate deposits. The banking system's loan-to-deposit ratio declined to 82.9% at the end of the year. With about 80% of deposits in euros, the Croatian economy is already the most reliant on the currency of all the European countries that have not formally adopted the euro. With total banking assets at 108% of GDP, Croatia's level of financial intermediation remained among the highest in the region.

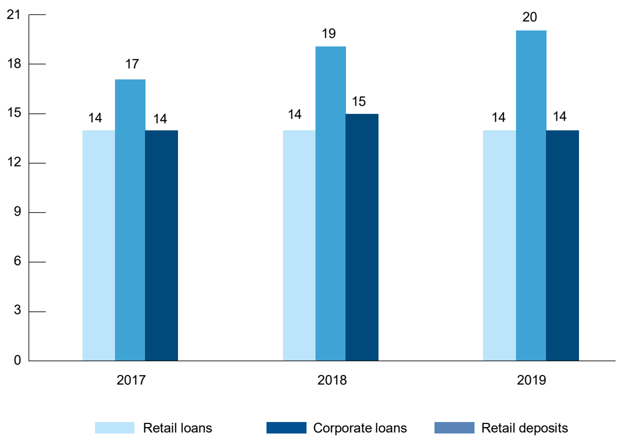
Financial intermediation – Croatia (in % of GDP)



Source: National Bank of Croatia, Erste Group

Consolidation of Croatia's banking market continued, with the number of banks declining to twenty by the end of the year. The state-owned Croatian Postal Bank (HPB) merged with Jadranska banka. Profitability of the banking sector improved further, supported by revived lending and lower risks costs. The NPL ratio declined to around 6%. 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 double-digit return on equity.

Market shares – Croatia (in %)



Source: National Bank of Croatia, Erste Group

Erste Bank Croatia's leading brand position contributed to the improving market shares in both the lending and savings businesses. The bank's customer loans and customer deposits market shares stood at 16.2% and 14.5%, respectively. The bank's loan-to-deposit ratio stood at 93%. In terms of total assets, the bank remained among the top three players in the market, with a market share of 15%.

Business review 2019 – three questions to the CEO of Erste Bank Croatia, Christoph Schöfböck

How did the competitive environment change? Positive trends in 2019 were related to the continuation of the fiscal consolidation process, which resulted in a higher long-term credit rating of the Republic of Croatia and the acceptance of the letter of intent to join the European Exchange Rate Mechanism.

Croatia has relatively healthy economic growth. Some further acceleration of convergence towards EU averages, e.g. in income levels, is still important. With a strong orientation and a clear strategy for the introduction of the euro and efforts to increase investment security – provided that fiscal discipline is maintained and structural reforms mandatorily implemented – Croatia has a chance to attain stable and increasing growth rates in the medium term and position itself as a financial and business centre of the region. The decline of interest margins, positive trends in the transactions business, lower risk costs, and a focus on operating efficiency remain the main characteristics of the banking market.

How did you manage to successfully differentiate your bank from its competition? A total of HRK 5.6 billion of new loans were approved in the retail segment, which translates into a 6% growth rate of the loan portfolio. Housing loans posted a stronger growth rate, their portfolio grew by about 9%. On the other hand, growth of the cash loan portfolio slowed down to about 3%, partially due to the alignment with the recommendations of the Croatian National Bank aiming to curb consumer lending by imposing stricter creditworthiness standards. The corporate sector saw healthy growth, too. Small and medium-sized companies account for about 60% of a total of HRK 7.7 billion of loans to corporate customers. The bank has diversified its credit portfolio. Tourism plays an important, but not dominant, role with a share of about 20%, in line with the segmentation of the economy in general.

We recently signed an agreement on a new credit line with the EBRD amounting to EUR 100 million for financing tourism in Croatia and Montenegro. This has made us the first partner bank in this programme in the entire Eastern Mediterranean. We provide adequate support to other sectors as well, ranging from retail and industry to agriculture. We are also happy to see another positive trend, the launch of an increasing number of infrastructural projects financed from EU funds. We try to support such projects to the maximum extent possible.

Looking back at the year, what were the major challenges and key achievements? With PSD2 regulations entering into force – the full effects of which will become apparent only in the coming years – we have taken a proactive approach to the development of digital solutions within the framework of open banking. The KeksPay app, whose primary purpose is to allow users to send and receive money free of charge, is a very successful example. A bit more than a year after its launch, the app has around 100,000 users, 75% of whom are not customers of Erste Bank Croatia. We also take pride in the fact that more than 6,000 persons have attended our financial literacy workshops, offered free of charge, in the Smart Finances School that we launched in early 2019.

In addition, we were named the best private banking service in Croatia for the third time in the past five years by international magazines from The Financial Times Group, The Banker and PWM (Private Wealth Management). We also received the award for the most active EBRD partner bank in financing international trade in Croatia for the second consecutive year, and our subsidiary Erste Card Club received the Diners Club International award for the best large franchise in the EMEA region.

Financial review

in EUR million	2018	2019	Change
Net interest income	273.7	275.1	0.5%
Net fee and commission income	98.9	108.2	9.5%
Net trading result and gains/losses from financial instruments at FVPL	30.3	32.7	8.0%
Operating income	420.3	430.3	2.4%
Operating expenses	-212.5	-223.1	5.0%
Operating result	207.8	207.2	-0.3%
Cost/income ratio	50.6%	51.9%	
Impairment result from financial instruments	-33.1	-5.8	-82.3%
Other result	-1.3	-38.2	>100.0%
Net result attributable to owners of the parent	95.7	90.3	-5.7%
Return on allocated capital	19.1%	16.8%	

The segment analysis is done on a constant currency basis. The Croatian Kuna remained stable against the EUR in the reporting period. Net interest income in the Croatia segment (comprising Erste Bank Croatia Group) increased moderately as higher contributions from consumer and housing loans in the retail business combined with higher contribution from balance sheet management offset lower margins on corporate loans. Net fee and commission income increased due to higher payment fees in retail business as well as one-off bond origination fees. Net trading result and gains/losses from financial instruments at FVPL increased on the back of a higher result from foreign exchange transactions. Operating expenses went up due to higher personnel and IT costs and included a EUR 11.6 million (EUR 11.1 million) deposit insurance fund contribution. Overall, operating result decreased slightly, and the cost/income ratio went up. The improvement of impairment result from financial instruments was driven by lower provisioning needs in both corporate and retail business. Other result deteriorated mainly due to higher provisions for legal expenses. This line item included resolution fund contribution in the amount of EUR 2.9 million (EUR 3.8 million). Consequently, the net result attributable to the owners of the parent decreased.

Credit risk

In the Croatia segment, credit risk exposure rose to EUR 10.6 billion (+7.1%), while loans to customers increased at a slightly below-average rate to EUR 7.0 billion (+3.9%). The share of this segment in Erste Group's total loans to customers decreased slightly to 4.3% (4.4%). The composition of the loan portfolio by customer segment shifted slightly from retail to corporate loans. The share of local currency loans rose to 36.3% (35.8%) of total loans to customers. Most loans were still denominated in euro. The volume of Swiss franc-denominated loans was down to 0.3% (0.4%). The share of foreign currency loans is still high due to the widespread use of the euro in Croatia. Euro loans are usually matched by corresponding income or deposits in euro. Asset quality improved again significantly. The NPL ratio decreased to 7.0% (9.5%). The NPL coverage ratio based on loan loss provisions rose notably to 79.7% (73.5%).

SERBIA

Economic review

The Serbian economy continued to perform well. Robust domestic demand remained the main pillar of growth, with strong investment activity as well as solid private and public consumption. Retail sales were particularly strong, with a growth rate of 9.7%. Labour market conditions improved further, with rising wages and higher employment. Favourable financing conditions also supported economic growth. In addition, construction activity grew significantly and the agricultural sector also performed well. Net exports, on the other hand, remained a drag on growth. The unemployment rate declined further to 10.7%, still high compared to other CEE countries. Overall, real GDP grew by 4.2%, and GDP per capita improved tot EUR 6,600.

Fiscal consolidation continued, with a minor general government deficit of 0.2% in 2019. This positive development was supported by robust consumption, more efficient tax collection and an improved labour market. Public debt as a percentage of GDP improved to 52.1%. Inflation remained well under control, with average consumer prices increasing by only 1.9%. The Serbian dinar remained broadly stable versus the euro throughout the year. Owing to the stable currency and improved fiscal performance, the National Bank of Serbia cut the base rate in three steps by a total of 75 basis points to 2.25%.

Rating agencies acknowledged the positive macroeconomic developments. Fitch upgraded the country's long-term credit rating from BB to BB+ with a stable outlook, while Moody's changed its outlook from stable to positive and left its credit rating unchanged at Ba3. Standard & Poor's kept its credit rating at BB+ with a positive outlook.

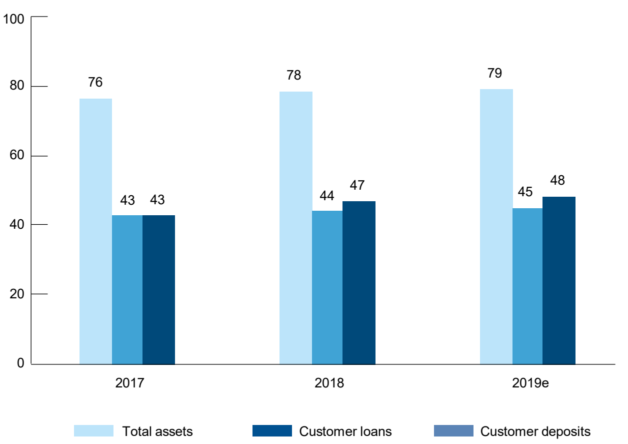
Key economic indicators – Serbia	2016	2017	2018	2019e
Population (ave, million)	7.1	7.0	7.0	7.0
GDP (nominal, EUR billion)	36.7	39.2	42.9	45.8
GDP/capita (in EUR thousand)	5.2	5.6	6.1	6.6
Real GDP growth	3.3	2.0	4.4	4.2
Private consumption growth	1.3	2.0	3.0	3.2
Exports (share of GDP)	36.6	38.4	38.0	38.0
Imports (share of GDP)	46.5	49.5	51.1	51.6
Unemployment (Eurostat definition)	15.3	13.5	12.7	10.7
Consumer price inflation (ave)	1.1	3.2	2.0	1.9
Short term interest rate (3 months average)	3.4	3.4	3.0	2.5
EUR FX rate (ave)	123.1	121.3	118.3	117.9
EUR FX rate (eop)	123.4	118.2	118.3	117.6
Current account balance (share of GDP)	-2.9	-5.2	-5.2	-6.5
General government balance (share of GDP)	-1.2	1.1	0.6	-0.2

Source: Erste Group

Market review

The positive macroeconomic development was also reflected in the performance of the Serbian banking market. The lending market rose by 9.1%, driven by both retail and corporate loans. Corporate loan growth continued to recover to 8.9%, while retail loans increased by 9.3%. Customer deposits increased by 8.5%, mainly attributable to the retail business. At year-end, the banking sector's loan-to-deposit ratio stood at 95%. Consolidation of the sector continued. Many of the country's largest banks are owned by foreign parent companies, controlling around 60% of total assets. OTP was again among the most active banks in terms of acquisitions. It acquired Vojvođanska Banka and the local subsidiary of Société Générale. Serbia's banking sector remained well capitalised, with a total capital ratio of above 20%.

Financial intermediation – Serbia (in % of GDP)



Source: National Bank of Serbia, Erste Group

The Serbian banking sector performed well and posted another highly profitable year. The 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 low risk provisions. Asset quality improved mainly on the back of the low interest rate environment and favourable development of the labour market. 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 9.8%.

Erste Bank Serbia further strengthened its market position. Based on total assets, it is the sixth largest bank in the country. Erste Bank Serbia continued to gain market share in both retail and corporate business. Its market share of customer loans increased to 6.7% with the retail and corporate lending market shares amounting to 7.2% and 6.2%, respectively. The bank's market share for customer deposits increased to 5.1% at the end of the year.

Business review 2019 – three questions to the CEO of Erste Bank Serbia, Slavko Carić

How did the competitive environment change? The consolidation wave in the Serbian banking sector created a new number two: Following the acquisition of Vojvodjanska Banka and the local subsusidiary of Société Générale, OTP Bank Group controls a market share of 13.6% in terms of total assets, right behind Banca Intesa with 15.9%. The total number of banks remained high at 25, and more consolidation is expected in the future. Nova Ljubljanska Banka is expected to acquire state-owned Komercijalna banka. With a combined market share of 12.2%, this transaction would make them the new number three on the market.

Business-wise, banks maintained their focus on retail loans, split between cash loans and mortgages. Nonetheless corporate lending is gradually becoming a significant growth driver, in particular investment loans.

How did you manage to successfully differentiate your bank from its competition? In 2019, we underlined our position as the bank of choice for housing loans. As we kept customers' initial costs at a minimum and due to quick and easy credit approval processes, our customer experience results improved. Owing to the improvement of credit offerings for our customers with better ratings (unsecured lending and micro strategy), we managed to increase the number of new disbursements. In addition, customer deposits increased by more than 9%, and our customer base rose by 50,000 to approximately 500,000.

In retail as well as in corporate business we continued to focus on customer relations instead of products only. This approach is more and more recognised on the market and we expect good results in future years. According to a survey conducted by PWC last year we hold the market's leading position in long-term loans which underlines that we are building long-term relationship with our customers.

In 2019, we continued to expand our network and opened three new branches. The total branch network comprises 89 branches as of year-end.

Looking back at the year, what were the major challenges and key achievements? Last year, we continued our dynamic growth. With a total of more than EUR 300 million newly disbursed loans we outperformed the market by approximately 10%. With a market share of 7.3% in terms of total loans, we are already ranked sixth in the market. In the corporate business, we managed to grow across all major parameters, with guarantees growing most dynamically. Our transaction business was equally successful, and our Telekom transaction was ranked first within Erste Group as the best transaction deal of the year – alongside a transaction of Česká spořitelna.

2019 was the second-most profitable year in our history. All major components of operating income improved, and we continued to invest in transforming the bank.

We are the first bank in Serbia that launched financial education as a full-scale programme. #ErsteZnali strives to improve the financial well-being of the people in Serbia and society as a whole. The programme includes an online platform as well as workshops.

Erste Bank Serbia received the prestigious award in the Internal Communications category for the *Link to the future* project, changing the bank's core system, from the Public Relations Society of Serbia.

Financial review

in EUR million	2018	2019	Change
Net interest income	50.7	58.4	15.1%
Net fee and commission income	13.4	14.7	10.0%
Net trading result and gains/losses from financial instruments at FVPL	5.1	5.3	4.1%
Operating income	69.3	78.5	13.3%
Operating expenses	-49.6	-58.7	18.2%
Operating result	19.7	19.9	1.1%
Cost/income ratio	71.6%	74.7%	
Impairment result from financial instruments	1.7	-0.8	n/a
Other result	-0.5	-0.4	-32.5%
Net result attributable to owners of the parent	15.5	14.0	-9.8%
Return on allocated capital	10.1%	7.4%	

The segment analysis is done on a constant currency basis. The Serbian dinar (RSD) appreciated by 0.3% against the EUR in the reporting period. Net interest income in the Serbia segment (comprising Erste Bank Serbia Group) increased on the back of higher loan volumes in retail and corporate business. Net fee and commission income went up due to higher payment and lending fees. Net trading result and gains/losses from financial instruments at FVPL remained largely stable. The increase in operating expenses was mainly driven by IT and personnel costs, both primarily related to the planned implementation of a new core banking system. Deposit insurance contribution rose to EUR 4.7 million (EUR 4.0 million). Operating result remained largely stable, and the cost/income ratio went up. The deterioration of impairment result from financial instruments was primarily driven by lower releases and a higher allocation of risk provisions in retail business. Overall, the net result attributable to the owners of the parent decreased.

Credit risk

As in previous years, credit risk exposure in the Serbia segment increased again substantially and stood at EUR 2.2 billion (+18.1%). The customer loan portfolio also registered strong growth. Loans to customers increased to almost EUR 1.5 billion (+17.5%). This dynamic development was primarily attributable to volume growth in the retail business. The share of foreign-currency loans, denominated almost exclusively in euro, in the total loan portfolio stood at 77.7% (77.8%). This very large share of foreign-currency loans is mainly attributable to the widespread 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. Non-performing loans as a percentage of the total loan portfolio declined to 1.4% (1.7%) and were fully covered by loan loss provisions.

OTHER

Financial review

in EUR million	2018	2019	Change
Net interest income	113.7	96.0	-15.5%
Net fee and commission income	-58.4	-85.6	46.6%
Net trading result and gains/losses from financial instruments at FVPL	-44.7	-51.9	15.9%
Operating income	25.8	-40.7	n/a
Operating expenses	-236.3	-167.8	-29.0%
Operating result	-210.5	-208.4	-1.0%
Cost/income ratio	>100.0%	>100.0%	
Impairment result from financial instruments	-6.6	-14.8	>100.0%
Other result	-103.4	-291.3	>100.0%
Net result attributable to owners of the parent	-121.6	-352.8	>100.0%
Return on allocated capital	-1.9%	-6.1%	

Operating income decreased mainly due to lower fees as well as lower rental income on the back of lower operating lease volumes. Operating expenses decreased on higher intercompany eliminations. Other result deteriorated mainly on the goodwill impairment of Slovenská sporitel'ňa in the amount of EUR 165.0 million. Overall the net result attributable to the owners of the parent declined.

(Consolidated) non-financial report

The exclusive focus on profit and shareholder value has undergone some critical re-evaluation. In summer 2019, for example, 200 US top managers announced that they would no longer be guided solely by shareholder value in future but would also take into account the public's social and ecological interests. Central banks from all over the world have joined together to form the *Network for Greening the Financial System (NGFS).* The European Commission published the key documents of its EU Action Plan on Sustainable Finance. 2019 was also marked by initiatives such as *Fridays for Future*. It is, most prominently, the younger generation that voices its discontent with economic policies that do not aim at the long-term preservation of an intact environment.

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 principles to which Erste österreichische Spar-Casse committed itself when it was founded 200 years ago.

Resolving the conflicting targets of profitability and the ecological and social impact of its business is therefore 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

Two key questions must be answered every time a business decision is taken: "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 social responsibility: "Is it the right thing to do?" This is the question that every employee has to answer whenever they take a business decision. This awareness and the mindset behind it are firmly embedded at 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 NFI report in conformity with the Global Reporting Initiative (GRI standard: core option). Non-financial reporting 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 statutory requirements for non-financial reporting and the non-financial data disclosed. The following areas have been subjected to a more detailed review: environmental data, staff indicators, anti-corruption measures, and anti-competitive behaviour.

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

The NFI report has 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 (full-time equivalent; FTE), is based on all material Erste Group entities that have at least one employee. For the 2019 NFI report, human resources data was captured at single-entity level.

Environmental data of all premises used for banking operations was captured for all entities in the scope of consolidation, except the Austrian savings banks with fewer than 150 employees. The data of all consolidated companies (including all Austrian savings banks in the cross-guarantee system) will be included in the non-financial report as of 2020.

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 local suppliers.

According to Erste Group's own definition, sustainability means "operating 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 that meets the needs of the present without compromising the ability of future generations to meet their own needs".

The Group Sustainability Office – a staff unit reporting to the Chief Risk Officer – is responsible for developing and implementing group-wide policies on the environment, corporate volunteering and corporate social responsibility as well as implementing the group-wide Code of Conduct and drawing up the NFI report. In 2019, a staff unit for diversity was created, reporting to the CEO.

The Sustainability Board is responsible for the group-wide ongoing development and monitoring of sustainability matters. Created in 2017, it is composed of one board member from each of the local banking subsidiaries and the head of the Group Sustainability Office.

Erste Group supports the 17 *Sustainable Development Goals (SDGs)* that were adopted by the UN General Assembly and have meanwhile been ratified by almost all member nations. The materiality analysis highlights those SDGs that are particulary supported by Erste Group based on its strategy and business operations. Given its regional footprint and business model, Erste Group is in fact able to make notable contributions to the achievement of the following SDGs:

- SDG 1 – No poverty
- SDG 3 – Good health and well-being
- SDG 4 – Quality education
- SDG 5 – Gender equality
- SDG 8 – Decent work and economic growth
- SDG 10 – Reduced inequalities
- SDG 11 – Sustainable cities and communities
- SDG 13 – Climate action
- SDG 16 – Peace, justice and strong institutions
- SDG 17 – Partnerships for the goals

Materiality Analysis

The starting point of non-financial reporting is a materiality analysis to identify those non-financial material topics that have social and ecological impacts of relevance to both Erste Group and its stakeholder groups.

These matters were identified specifically on the basis of the following principles:

- Materiality for the bank's business operations
- Involvement/inclusion of stakeholder groups
- Inclusion of sustainability in the business strategy

In 2017, the validity of material topics was evaluated in a group-wide survey. In the reporting year 2019, another group-wide survey was conducted, in which a total of 1,173 employees and members of the management and supervisory boards and 1,676 customers from Erste Group's seven core countries took part. The aim of the survey was to identify activities that are of particular relevance for Erste Group's long-term economic performance and for society at large.

Both target groups confirmed the validity of the material aspects proposed. Therefore, these aspects represent the material topics of the non-financial report, no additional material topics were included. The following table presents the result of the survey (ranked by relevance):

Material topics	For employees	For customers
Anti-corruption measures	1	3
Data security	2	1
Customer satisfaction	3	2
Ethical conduct of employees in banking operations	4	4
Employee health & work-life balance	5	5
Diversity and equal opportunity	6	6
Ecological impact of banking operations	7	7
Responsible financing	8	8
Financial literacy	9	9
Responsible investment	10	10
Social commitment	11	11
Social banking.	12	12

To make the context of the material topics 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, our customers, suppliers and supply chain, employees and environment of the NFI report. Anti-corruption measures may affect all stakeholders, but usually address 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

Ethically correct conduct of business of employees in their daily work (relates to all SDGs to which Erste Group makes notable contributions). The values and attitudes demonstrated by employees in their work determine how Erste Group is perceived in public. This way, respect and reputation may be earned but, in the case of misconduct, also lost again. Erste Group encourages a culture of fair and mutually respectful interaction. Respecting human rights and zero tolerance for child labour and discrimination are fundamental principles of Erste Group.

Financial literacy (SDG 1/4/8). For Erste Group, financial literacy 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 many spheres of life.

Social commitment (SDG 4/5/10). Erste Group aims to be not only commercially successful but also to act in a socially responsible manner. It 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 and 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 and work-life balance (SDG 3/5). Erste Group is convinced that employees perform better and are more motivated when their work and private lives are well balanced and 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 healthcare system.

Our customers

Customer satisfaction (SDG 8). High levels of customer satisfaction and the resulting customer loyalty safeguard 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 measures (SDG 16). Corruption and bribery may be 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. When taking business decisions, social and/or ecological criteria are increasingly taken into account in addition to the traditional financial risk aspects. Erste Group is steadily expanding its range of responsible investment and finance products.

Social banking (SDG 1/8). For a variety of reasons, even today many people 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 (not assigned to a specific SDG). 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 therefore 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 cyber-attacks requires ongoing investment to maintain and improve data security.

Environment

Ecological impact of banking operations (SDG 13). Protecting the environment and the climate are currently 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 and supply chain

Responsible criteria in the supply chain (SDG 10/13). In the light of interrelated economic activities, companies must consider not only the ecological and social impacts 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.

Erste Group's view of climate risk

Recent studies predict that an increase in average global temperatures by more than 2°C is likely to lead to uncontrollable climate change. For Austria, the loss and damage caused by climate change is estimated by the Environment Agency Austria (Umweltbundesamt) to amount to at least EUR 1 billion per annum. It is expected that in the years ahead the banks' supervisory authorities will increase their focus on this issue.

The European Union plans to decide on a classification for capital markets products in 2020. It aims at supporting the financial industry in identifying those business activities that can make a substantial contribution to the achievement of the goals of the Paris Agreement. The aim is to draw up a catalogue of sustainable financial products (e.g. green bonds), which may be used as a basis for further regulatory action.

Even though banks are not yet required to extend this classification system for capital markets products to their loan portfolios, Erste Group has performed a baseline analysis of its loan portfolio. At present, about one-third of corporate financing would be subject to such a sustainability categorisation. Financing relating to the trade in, transfer, refining or sale of or energy generation from fossil fuels accounts for only between two and three percent of Erste Group's total assets.

Opportunities and risks arising from material topics

Consideration of the identified material topics opens up opportunities for improving customer relationships, attracting new customers, improving the ecological 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 broad range of activities, 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 suitable 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 loss of reputation and higher costs due to lower resource efficiency. In the lending business, the value of collateral may decline. Failure to respect human rights may adversely affect the working or living conditions of people in a producer's or supplier's country of origin, just as neglecting environmental matters may adversely affect the ecological footprint. In this context, Erste Group is faced with supply risk, reputation risk and the risk of losing customers.

The following materiality table provides an overview of the stakeholder groups, the material topics of the materiality analysis assigned to them, references to GRI standards and references to the chapters 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 _ Anti-corruption measures _ Responsible investment and finance _ Social banking _ Data security	_ Customer privacy (GRI 418-1) _ Anti-corruption (GRI 205-3) _ Anti-competitive behaviour (GRI 206-1) _ Indirect economic impact (GRI 203-2)	_ Our customers _ (outside the non-financial report: Corporate governance)
Employees	_ Diversity and equal opportunity _ Employee health & work-life balance _ Respect for human rights	_ Employment (GRI 401-1, 401-3) _ Training and education (GRI 404-1) _ Diversity and equal opportunity (GRI 401-3, 405-1) _ Non-discrimination (GRI 406-1)	_ Employees _ (outside the non-financial report: Corporate governance)
Governance bodies (members of the management board and supervisory board)	_ Diversity and equal opportunity	_ Employment (GRI 401-1, 401-3) _ Diversity and equal opportunity (GRI 401-3, 405-1) _ Non-discrimination (GRI 406-1)	_ Employees _ (outside the non-financial report: Corporate governance)
Investors		_ Economic performance (GRI 201-1)	_ (outside the non-financial report: Consolidated financial statements)
Society	_ Financial literacy _ Social commitment _ Social banking	_ Indirect economic impact (FS14 of GRI G4) _ Anti-corruption (GRI 205-3) _ Socioeconomic compliance (GRI 419-1) _ Economic performance (GRI 201-1)	_ Commitment to society _ Customers _ (outside the non-financial report: Consolidated financial statements)
Environment	_ Sustainability criteria in the supply chain & ecological impacts of banking operations	_ Materials (GRI 301-1, 301-2) _ Energy (GRI 302-1, 302-4) _ Emissions (GRI 305-1, 305-2)	_ Environment _ Suppliers and supply chain
Suppliers	_ Sustainability criteria in the supply chain & ecological impacts of banking operations _ Respect for human rights	_ Supplier environmental assessment (GRI 308-1) _ Supplier social assessment (GRI 414-1)	_ Suppliers and supply chain

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 various educational initiatives.

Erste Bank Oesterreich has supported annual domestic aid campaigns, the *youngCaritas* initiative for children 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 healthcare, 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 founding member of *Youth Capital* in Romania. The aim of this initiative is to implement community youth projects and work with local authorities to solve youth problems. *Brutaria de Fapte Bune* encourages employees to propose social projects that are eligible for support. Of these, projects are selected to receive financial support from Banca Comercială Română. *Salvati Copiii* supports children from disadvantaged regions.

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 Croatia supports projects that aim at strengthening and developing society, such as *SOS Children's Villages*. This organisation offers children without or with inadequate parental care a permanent home and education, regardless of their ethnic, religious or national background.

Erste Bank Hungary regularly supports several social organisations such as *NIOK*, an umbrella organisation that offers programmes designed to promote private charities in Hungary. By supporting the *NIOK* programmes, Erste Bank Hungary enabled several social institutions to conduct crowdfunding campaigns. *Cseperedő*, a charity organisation providing services for children with autism, was supported by a fund-raising campaign.

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 empowers 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 47,000 visitors have taken part in more than 2,500 tours conducted at FLiP.

Several successful financial education formats were continued:
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 December 2019, the second 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 (in German only): https://www.financiallifepark.at/de/fuerlehrer/unterrichtsmaterialen/geld-im-griff
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. In November 2019, *Investment Challenge* was added to the programme with the aim of educating about the capital markets and facilitating access to it. Users learn that investing in the capital markets is a sensible alternative in the current interest rate and inflation environment. (www.flipchallenge.at).

Since 2019, the year in which the Savings Banks Group marked its 200-year anniversary, a mobile *FLiP* version – *FLiP2Go* – has been on tour across all federal states of Austria with support from Erste Bank Oesterreich and regional savings banks, contributing to financial literacy. Educational content is provided at seven interactive stations and designed for two target groups: an easy-to-understand format for 10-to-14-year old children and a more complex one for those aged 15 or older. Like *FLiP* at Erste Campus, *FLiP2Go* is free of charge. Bookings are co-ordinated by the local savings banks' relationship managers. In its first year, *FLiP2Go* already attracted some 10,000 visitors.

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.

Already in 2018, the Slovenská sporiteľňa a 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 3,000 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. In April 2019, the Internet platform *#Erste-Znali* was launched, which offers a wide range of financial literacy resources – from text to videos and a quiz.

Banca Comercială Română is now regarded as the most important provider of financial education in Romania. More than 1,500 employees have been trained as financial literacy coaches under the *Scoala 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 370,000 people. Great popularity is also enjoyed by the *FLiP Truck*, which tours across Romania teaching children aged 6 to 14 how to use money responsibly.

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 *Hunger auf Kunst und Kultur* (Hunger for Art and Culture) campaign.

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 supports *Snétberger Music Talent Center* with the aim of offering disadvantaged Roma youths a musical education in jazz, classical or contemporary styles.

Slovenská sporiteľňa is most notably associated with the *Bratislava Jazz Days* and the *Viva Musica! m*usic festival, but also supports the international *One World* documentary film festival with a focus on diversity, politics and ecology. Česká spořitelna is the exclusive partner of *Colours of Ostrava* and supports Ceská filharmonie as well as the *Smetanova Litomyšl* music festival. In addition to a wide range of arts-related activities, co-operation was continued with *Designblok*, the largest design show in Central Europe.

For 15 years, Erste Bank Croatia has been organising a competition for emerging Croatian artists and art students, called *Erste Fragmenti*. The bank buys works of art, organises an exhibition and awards an art scholarship.

Erste Bank Serbia's cultural sponsorship focused on the *Guitar Art Festival* and the *Beogradskje jazz festival.* Together with ERSTE Foundation the bank supported the *Marina Abramovic* exhibition *The Cleaner* in 2019.

Banca Comercială Română supports the *Romanian Design Week*, a multidisciplinary event dedicated to local creative industries. The festival was staged in a building in the historical city centre, presenting more than 200 design and architectural projects. Banca Comercială Română sponsors the *Jazz in the Park Festival* in Cluj-Napoca.

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 60 partner organisations. Overall, more than 1,200 employees in Austria 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.

2019 saw keen interest and participation in social mentoring programmes. A number of partner organisations have been offering a combination of volunteering and mentoring training since 2012. Youth and school mentoring and buddy programmes assist in particular educationally disadvantaged children and young people in and out of school. Mentoring programmes build social and leadership skills that are also useful on the job.

Another activity of *Time Bank* is fostering social awareness as a contribution to civil society. As part of the global campaign *16 Days of Activism Against Gender-based Violence*, *Time Bank* organised an informational event jointly with its partner organisation *Verein Autonome Österreichische Frauenhäuser* (Austrian Women's Shelter Network).

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.

SPONSORING SPORTS

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

Erste Bank Oesterreich's sport sponsoring activities 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 it covers ivary from small running events in the countryside up to the Vienna City Marathon – Austria's biggest sports event with more than 40,000 participants.

Since 2013 (until the 2019/20 season), Erste Bank Oesterreich has been the name-giving main sponsor of the national ice hockey league and 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 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 Hungary signed a sponsorship agreement with the Hungarian water polo association as the main sponsor of the Hungarian women's water polo national team.

Erste Bank Croatia promotes sports activities for children such as the *Erste handball league* for children between the age of 7 and 12 years, and the *Erste Blue league* – an athletic competition for school children in eight Croatian cities. Traditionally, Erste Bank Croatia also supports the water polo club of Rijeka, *Club Primorje Erste Bank Rijeka,* and the basketball club *Cibona Zagreb.*

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.

Our customers

FOCUS ON CUSTOMER RELATIONS

Erste Group puts customers and their needs at the centre of its business activities. Only a bank that understands the motives of its customers' financial needs can offer the right solutions at the right time. Special attention is devoted to approaching customers proactively, handling customers' requests quickly and with professional care and providing exactly those solutions that meet customers' needs at an adequate level of risk. This is a key factor in building and maintaining long-term customer relations.

Erste Group ensures high-quality advisory services by continuously training its employees, focusing on the relationship with the customer.

Advisory concept

Erste Group's retail business reflects its approach of taking the customers' perspective into account. Only a bank that understands its customers' needs and motives is able to develop appropriate solutions for them. Customer behaviour is changing, with online and mobile channels increasing in importance. Erste Group is therefore working to adapt the accessibility of its services by offering advice not only face-to-face but also via chat, audio and video communication.

The advisory concept is supported by a sales incentive scheme that emphasises quality criteria such as the quality of customer relationships and the active use of digital channels rather than product-driven targets.

Products and processes

Product development is likewise driven by customers' needs and the ways customers carry out their banking activities. Products and services are designed for flexibility, life-cycle changes, simplicity, security, transparency and ease of use. Erste Group focuses on simplifying its current product portfolios and develops new products and services to meet customers' needs in the best possible manner.

OMNI-CHANNEL APPROACH

Erste Group allows its customers to choose between new and traditional sales and communication channels.

It is especially basic financial needs, such as money transfers, that customers increasingly wish to handle through digital channels. Erste Group therefore invests in building sales and servicing capabilities to be able to offer end-to-end digital banking. At the same time, for more complex needs, most customers prefer a seamless switch between different channels, with personal contact and advisory services in branches remaining essential touch-points.

Branches

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

The roll-out of this new branch concept was continued. In total, Erste Group has refurbished or newly opened more than 160 branches in Austria, the Czech Republic, Croatia, Romania, Serbia and Hungary.

Digital banking

Not only Internet-savvy but also traditional customers expect an ever-widening range of digital banking services. Digital banking is more than being able to transfer cash by computer or a mobile device. It also includes competent advice and simpler handling of all banking transactions as well as tools providing a quick overview of all transactions done.

Under the George digital banking brand, Erste Group offers a unique digital experience spanning multiple markets and comprising a wide range of services. George enables customers to access products and services of the bank and third parties in a secure IT environment and use the platform for managing their finances. Following the successful roll-out in Austria, Slovakia, the Czech Republic and Romania, George already serves more than five million users. George will shortly also be available to Erste Group customers in Croatia and Hungary. The implementation in Serbia will follow after that.

Contact Center

Customers expect easy service interactions when they need assistance with digital banking. Their first point of contact is Erste Group's contact center, which is available around the clock. Qualified employees not only answer questions regarding products and services and assist users of self-service terminals, but also help customers navigate the digital sales process. In addition, they handle customer complaints and respond to emergencies such as requests to block credit cards and debit cards.

The contact center has become an integral touch-point facilitating a seamless omni-channel journey. It not only takes an increasingly active part in advisory and sales processes, but, where regulations permit, also supports end-to-end digital banking services such as unsecured loans, insurance, credit cards and online banking.

Customers may also contact Erste Group's contact center by email or via chats, with voice recognition systems and chat-bots complementing the services on offer.

ACCESSIBILITY

Erste Group defines accessibility as designing the real-world and digital environments as well as information and product offerings in such a way that they can also 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 also offers a variety of functions on its digital platform, the George Go app: 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.

DATA SECURITY

Securing customers' trust also includes 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 and 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 2019, 48 such notifications were sent to the authorities (thereof no such notification for the Holding). If a breach involves a high risk, the persons affected have to be notified as well. In 2019, five such notifications were sent (thereof no such notification for the Holding).

CUSTOMER SATISFACTION

The quality of customer relations depends ultimately on the customers' experiences in their day-to-day dealings with the bank. To maintain its 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 strategies to process design and governance.

Against the backdrop of their local environments and as in the past, Erste Group's banking subsidiaries have launched various initiatives to provide the best customer experiences possible in a consistent manner. The impact of these activities is measured by the Net Promoter Score (NPS). This indicator evaluates the customers' willingness to recommend the bank. Measuring and consistently monitoring NPS performance enables the bank to invest more efficiently in customer experience projects.

In 2019, Erste Group's local banking subsidiaries recorded stable performance of customer satisfaction at a high level, as the focus on excellence in advisory services and personalised services to retail and corporate customers was duly rewarded. NPS levels were outstanding in several markets: In the private individuals segment, all banks improved or maintained their position well ahead of the competitors in the countries. The improvements in the SME segments were substantial: Erste Bank Oesterreich, Česká spořitelna and Erste Bank Hungary increased their scores significantly and reduced the gap to the top three ranked banks. Erste Bank Croatia again improved its scores and is clearly positioned ahead of the other local banks.

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 Investmen*t (PRI). Erste AM has been offering investors a large range 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 banned from investing in companies earning more than 30% of their total revenues from coal mining, coal trading or the production of coal-based fuels. Furthermore, 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 AM is a leading provider of sustainable investment funds in Austria and in the CEE region. At year-end 2019, Erste AM managed assets worth approximately EUR 64.2 billion. These assets of sustainably managed investment funds, including sustainable real estate assets, amounted to EUR 6.4 billion at year-end 2019, held in a total of 33 investment funds in the public funds and special funds/externally mandated portfolio categories.

Managed sustainable public funds comprised eight bond funds, including a global sustainable emerging markets corporate bond fund, four regional stock funds, a global stock fund focused on a dividend-based strategy, a real estate fund, a micro-finance fund of funds, a theme fund investing in the environment and climate protection (jointly managed with WWF Austria) as well as an asset allocation fund of funds. In 2019, 11 sustainable funds were awarded the FNG label: seven funds were awarded three stars and four funds received two stars. The FNG label is the quality standard for sustainable financial investment in German-speaking countries and was first awarded by Forum Nachhaltige Geldanlagen (FNG) in 2015. 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 Sustainalytics) continued in 2019. Since November

2017, Erste AM has been supporting the Climate Action 100+ involvement process as a founding member. This is a five-year initiative led by investors to engage with the world's top 100 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 combat 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 holders by voting at a large number of annual general meetings in 2019.

The quarterly online blog published by Erste AM's Responsible Investment Team (https://blog.de.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 addition, a water footprint was again disclosed for the ERSTE RESPONSIBLE equity fund in 2019.

In December 2019, an ethics advisory board was newly created, composed of five external experts, to complement the expertise of Erste AM in the field of ethical investment.

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 its Statement of Purpose, Erste Group's finance policies also define exclusion criteria to ensure the ecologically and socially responsible conduct of the business. These exclusion criteria are set out in a separate policy disclosed on Erste Group's website, the Responsible Finance Policy. Rules and exclusion criteria 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 financing projects providing ecological benefits are mentioned in the chapter on the environment, in the priorities section.

SOCIAL BANKING

Offering basic banking services to the unbanked part of the population was one of the main reasons for the foundation of Erste österreichische Spar-Casse in 1819. Since then, the founding principle – to make financial products and services accessible for everyone and to disseminate prosperity – has not changed.

For a variety of reasons more than 14 million people in Erste Group's core markets of Austria, the Czech Republic, Slovakia, Romania, Hungary, Croatia and Serbia are still at risk of poverty or social exclusion and even today, some segments of the population do not have access to basic financial services. Erste Group believes that economic growth should be inclusive and that basic financial products and financial advice must be available to everyone. Erste Group's social banking initiative *Step-by-Step*, launched in 2016, aims at financial inclusion of low-income individuals, starting entrepreneurs and social organisations by offering 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 social sector organisations. Erste Social Banking operates with the social entrepreneurship guarantee umbrella agreement that provides funding to social organisations under the EU Programme for Employment and Social Innovation (EaSI). Since the launch, social banking has supported 32,500 clients, granted EUR 230 million of loans and additionally provided educational support to 15,000 clients.

Financial inclusion empowers people to cope with unexpected financial shock. Since its foundation in 2006, Zweite Sparkasse has supported a total of 19,000 people in financial difficulties in Austria and currently serves about 8,000 customers. In addition, in 2019, more than 440 teenagers participated in I Can financial literacy workshops in Austria with support from volunteers of Zweite Sparkasse and Erste Bank Oesterreich. In Slovakia, Slovenská sporiteľňa's social banking has piloted its debt advisory programme supporting approx. 630 low-income clients in taking control of their debts and improving their household financial management skills.

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 income for themselves and their families, but they often expand their businesses in their communities and, consequently, create new jobs. Erste Group offers access to start-up micro loans, business training, e-learning tools, mentoring sessions and networking to these customers. In Austria, the *Mikrokredit* initiative of Erste Bank Oesterreich and the Austrian Federal Ministry of Labour, Social Affairs, Health and Consumer Protection was extended by adding mentoring support (since 2020 in cooperation with the Federal Ministry of Social Affairs, Health, Care and Consumer Protection). Erste Bank Croatia, with funding from ERSTE Foundation and the European Fund for South East Europe, kicked off an innovative programme to identify and help businesses owners to strengthen their business model and increase the impact on beneficiaries, such as long-term or young unemployed or disabled people. Overall, Erste Group financed 2,724 starting entrepreneurs with a total volume of EUR 78.4 million in 2019.

Very often, even a small working capital loan can be sufficient to scale micro business and successfully fight poverty. BCR Social Finance (formerly good.bee Credit) was founded in October 2009 to offer micro loans to farmers and small entrepreneurs in Romania. In 2019, it granted 1,294 loans with a total volume of EUR 12.7 million and reached a total loan balance of approx. EUR 23 million.

Non-profit organisations and social enterprises often deal with some of the most challenging issues in society such as youth unemployment, social integration and poverty reduction. For these clients, Erste Group offers a bundle of working capital loans, bridge loans and investment loans. Together with ERSTE Foundation and financial support from the European Commission, Erste Bank Hungary completed its three-year programme SEEDS to help social organisations in strengthening their financial independence and enabling them to scale up their social business. In 2019, Česká spořitelna launched unique education courses for executives in social services accredited by the Ministry of Labour and Social Affairs. Erste Bank Serbia launched an advisory programme for NGOs and social enterprises. In 2019, Erste Group financed 134 social organisations, NGOs and social entrepreneurs with a total volume of EUR 27.8 million.

For more information and details about Erste Group's social banking or to read some client stories, please visit: 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 the impact assessment was to identify and quantify positive changes that occurred following the support of social banking services and products.

The latest impact assessment of Erste Group's social banking activities across its CEE markets showed that over 3,000 starting entrepreneurs, 600 social organisations and 7,000 small farmers benefitted from its offering and contributed to the creation of almost 16,000 new jobs and the preservation of 30,000 jobs in CEE. Every second start-up entrepreneur mentioned that they could not have started or expanded their business without social banking loans and support, and 66% of NGOs succeeded in launching additional or new projects or service offers after having been supported by Erste Group's social banking.

Suppliers and supply chain

Erste Group views suppliers as partners in shaping its business to be more sustainable. 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. This includes, most importantly, meeting all the needs of Erste Group's entities for goods and services on time and in accordance with all quality requirements with the best possible terms (e.g. price, terms of payment, guarantees and liability) by purchasing locally or across borders. Erste Group's suppliers must meet defined standards of business ethics, environmental protection and human rights.

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

These principles are also reflected in the supplier code of conduct, which 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 provide relevant courses in-house. Currently, 95% of all employees of Erste Group Procurement have obtained individual certification on ethical behaviour in procurement.

SUPPLY CHAIN

Erste Group's supply chain mainly involves indirect expenses that support the group's core business. In 2019, the total amount paid to companies outside Erste Group was slightly above EUR 1.1 billion, mostly linked to IT (42% of the total spend), followed by expenses for services, operations and marketing (37%) and facility management (21%). Out of a total of 22,904 suppliers at group level, 767 suppliers accounted for 80% of total procurement expenses.

94.7% of suppliers (reflecting 95% of expenses) are located in the European Union, highlighting Erste Group's focus on its markets in Central and Eastern Europe including Austria. 0.4% of suppliers are located in North America, 4.7% in other European countries and the rest (0.2%) are based on other continents.

Only 14% of Erste Group's purchases were made across borders. The 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. In addition to group standards for social responsibility, these strategies also include defined technical specifications. Since 2016, sustainability criteria drafted with the Group Sustainability Office of Erste Group have been a mandatory element of the selection process.

To ensure that Erste Group's suppliers meet the group's corporate responsibility standards, audit questionnaires have to be completed for any purchase worth more than EUR 100,000, and regular supplier business reviews have to be performed.

The supplier audit questionnaire is IT-based and an integral part of Erste Group Procurement's supply chain. This ensures full transparency and allows a timely assessment of suppliers and risks before entering into contracts with suppliers. The results of the audits form the basis for supplier classification.

To ensure correct procedures, all relevant steps have been integrated into the electronic tendering system. The IT application blocks the entry of further data, and thus collaboration with a supplier, if there is not enough information available or a supplier classified as critical has not been explicitly approved. Any non-compliance with the supplier code of conduct is brought forward to compliance delegates, who decide on further action, if required. In addition to the initial evaluation, follow-up reviews are performed regularly on the most important suppliers or those having the most significant risk profile.

Environmental aspects

As part of Erste Group's efforts in environmental protection, ecological aspects are also included in Erste Group Procurement's supplier selection process. The supplier audit questionnaire specifically addresses the following topics:

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

In the procurement of goods, tender documents include additional questions relating to potentially hazardous chemicals, recycling capabilities of products, return policies for products at the end of their useful lives and compliance with *ENERGY STAR* or similar standards.

A supplier sustainability scorecard was introduced in 2017. Suppliers are required to disclose their ecological footprint (energy consumption, waste and emissions) for the previous two years, either at an aggregate level or related to their activities for Erste Group. In 2019, 63 suppliers with resource-intensive operations such as data centres or transport services were selected to provide scorecard data. As these criteria are relevant to the supplier selection process, developments are continuously monitored and assessed.

In 2019, 847 contracts with suppliers were concluded or renewed. Of these, 11 suppliers were screened according to environmental standards. No supplier was subject to any environmental impact assessment beyond the standard audit questionnaire, nor was any supplier identified as having had a significant actual or potentially negative environmental impact. No actual or 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 or potentially negative environmental impact.

Social aspects

As the supplier selection process also encompasses social aspects, the supplier audit questionnaire also comprises relevant criteria such as:

- effective abolition of child labour
- elimination of all forms of forced or 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 2019, Erste Group co-operated with 22,904 suppliers. 338 suppliers were screened according to both labour practice standards and human rights criteria. No supplier was subject to any specific labour practices or human rights impact assessment beyond the standard audit questionnaire, nor was any supplier identified as having had a significant actual or potentially negative impact on labour practices or human rights. There was no actual or potentially negative impact on labour practices or human rights identified in the supply chain and no supplier contract had to be terminated as a result of a significant actual or potentially negative impact on labour practices or human rights.

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

Employees

Erste Group is convinced that the current and future staff-related goals can be achieved by focusing on the following three pillars of its human resources strategy:
_ Corporate culture
_ Competence
_ Competitiveness

Human capital is the key element for successful organisational, corporate cultural and competence building. 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, both in the financial and in the IT sector, by offering various learning opportunities, diverse and international teams and challenging tasks in a flexible organisation.

Developing future leaders and experts 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 three to four years, around 40% of today's competences are expected to become obsolete and will be replaced with completely new skillsets. Building future-fit competence is thus an essential element of Erste Group's day-to-day human resources work. Learning initiatives go well beyond banking knowledge and also cover the broad economic and social issues facing the region.

Erste Group's cultural transformation aims at linking performance management and rewards to 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 takes the prosperity and satisfaction of the customers into account.

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

Erste Group defines diversity and inclusion as an integral part of its corporate strategy. Owing to its diversity principles, Erste Group benefits from highly motivated employees, innovative teams and higher customer satisfaction.

The employees of Erste Group represent more than 50 nationalities. Erste Group's diversity and inclusion policy provides the framework for local diversity managers to define priorities and implement initiatives across the group. The bank's code of conduct also emphasises that the work environment must be free from discrimination and harassment. 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 is convinced that diversity promotes operating excellence, as diverse teams achieve better results. The diversity priorities for 2019 were the following:
_ to increase the number of women in management positions across the group
_ to make careers in the field of IT more attractive for women through *Erste WIT* (Women in IT)
_ to develop and promote further LGBTIQ inclusion initiatives
_ to implement local initiatives to promote diversity in CEE

In appreciation of its involvement in promoting women, Erste Group was the first Austrian company to be included in the Bloomberg Gender Equality Index (GEI) in 2019. The Index recognises 325 companies across 10 sectors worldwide for their transparency in gender-specific reporting and the promotion of gender equality.

In 2019, 49.0% of all management positions in the Holding and the local banking subsidiaries were held by women (2018: 46.2%). The proportion of women in top management declined to 27.4% (2018: 30.0%), the highest shares were in Banca Comercială Română, Erste Bank Serbia and Erste Bank Oesterreich The target to reach a share of at least 35% women in top management across Erste Group until 2019 was thus not reached. The results of the analysis of this negative development will be incorporated in the measures to reach the targeted level. A new medium-term goal will be defined in 2020.

At year-end 2019, the share of women on the Holding's supervisory board stood at 38.9% (2018: 35.3%). The target to reach 35% female representation at supervisory board level was also reached in Erste Bank Oesterreich, Erste Bank Hungary, Banca Comercială Română and Slovenská sporiteľňa. Taking into account all banking subsidiaries across Erste Group, 34.3% of all supervisory board seats were held by women.

In addition, Erste Group aims for a balanced gender and age structure in its talent pools. The International Talent Pool is made up of 39.8% women, 34.8% of the Key Positions Pool is female, and the share of women in the Executive Pool is 33.3%. Erste Group also 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 and networking events for female employees and created new information exchange forums for parents on parental leave. As part of the *Daughters' Day* initiative, *Women in IT (Erste WIT)* invited girls of school age to visit Erste Campus and informed them about career opportunities in project management and IT. Several networking and information events on how to increase the overall proportion of women in IT were also organised. Last but not least, the *Marie* initiative was launched with the objective of developing an advisory and financial education strategy that takes into account the specific career, life-cycle and income developments of women to better meet the needs of the bank's female customers.

In 2019, Česká spořitelna implemented mentoring programmes for women and rolled out an initiative to facilitate the job re-entry of women after parental leave. Banca Comercială Română supported an initiative to better integrate disadvantaged persons into the labour market, paying particular attention to the diversity dimensions of gender, age, nationality and ethnicity. In Croatia, specific training courses for management and employees focused on supporting diversity by tackling unconscious bias. Erste Bank Hungary implemented a flexible work programme and defined measures to improve parental leave management in the bank.

Erste Group was awarded the *Meritus* for its LGBTIQ – lesbian, gay, bisexual, transgender, intersex, queer – inclusion efforts and activities. The bank's *ErsteColours* initiative was present at the *EuroPride* 2019 in Vienna and established a contact person for employees regarding all LGBTIQ topics. Erste Bank Croatia was a partner of *Zagreb Pride*, and Slovenská sporiteľňa supported the *Dúhový Pride* 2019 in Bratislava.

For 2020, the following diversity priorities were set:

_ to reach the target of 35% women in top management across the group and to maintain at least 35% women on supervisory boards
_ to develop more group-wide initiatives to support female leadership
_ to promote specific financial literacy initiatives tailor-made 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 COMPETENCE 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 2019, the main focus was on further developing the group-wide talent management strategy, the leadership development roadmap and job-specific competence building. 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 consolidated the programme offering of the Finance College in the four key areas of controlling, asset/liability management, accounting and data excellence. The offering of the Risk Management College reflects the changes in the regulatory framework and contributes to closing functional competence gaps of employees. The Corporates & Markets College's initiatives focus on specific product knowledge and corporate sales abilities. In addition to project management, the Business Transformation College further expanded its focus on business analysis, business architecture 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 internationally mobile high-potential employees through three talent pools. The International Talent Pool targets high-performing professionals up to board minus 3 management levels. The next level, the Group Key Positions Pool, aims at preparing managerial talents for roles at division head level. The Executive Pool identifies and develops top executive level talent.

In addition, Erste Group 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 Graduate Programme, 48.3% of the participants are women.

In 2019, each employee of Erste Group had on average 29.8 training hours for professional development (women 29.4 and men 30.4 training hours). Employees in managerial positions had on average 36.5 training hours. Each employee of the Holding had on average 21.5 training hours for professional development (21.2 hours for women and 21.9 hours for men).

In 2020, Erste Group plans to expand its digital learning offering for employees by introducing Degreed, a new learning experience platform. Employees will have access to learning tools around the clock and at any place.

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*, 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 contribution 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 allows Erste Group to operate 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 and corporate business lines 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. The benefits offered include 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 laws, regulations and market practice.

EMPLOYEE HEALTH & WORK-LIFE BALANCE

Respecting and promoting work-life balance has been a longstanding 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, a company kindergarten, short sabbaticals and regular meetings for employees on parental leave.

One of the priority measures ensuing from the Career and Family (*Beruf & Familie*) Certification Audit in Austria is to develop effective interim management models for persons on parental leave that address career disruptions with flexibility and a clear focus on the development opportunities for women and men on parental leave. In 2019, one key initiative focused on encouraging more men to take full advantage of parental leave options. As of the end of 2019, a total of 2,366 employees were on parental leave, thereof 2,213 women (93.5%) and 153 men (6.5%). At 14.4%, the share of men on parental leave is highest in Austria; in the Holding, 17 men (30.9%) were on parental leave.

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 supporting 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, work-place psychologists and physiotherapists assists Erste Group's employees in any matters of health and well-being.

In 2019, the health centre at Erste Group's headquarters carried out a measles antibody titre determination for those employees interested in the offer and subsequently vaccinated those with insufficient antibody formation. This process helped minimise the risk of a measles outbreak, which was one of the top health objectives at EU level in 2019. The health centre also focuses 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, melanoma screenings, colon cancer prevention and early detection measures, 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 re-integration ensures that employees can gradually return to work after an extended sickness. Erste Group is one of only a few companies with such an agreement, which has resulted in a significant decline in long-term illness over the past years.

As mental health is increasingly important for the labour market the health centre had made it one of its priorities. 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 hotline free of charge where they can anonymously seek advice from qualified professionals.

Staff indicators

Staff indicators refer to the end of the reporting period. Total data (50,245 employees; headcount) include data from direct and indirect holdings of Erste Group outside its above-mentioned core markets.

Overview and age structure 2019

	Total		<30 years		30-50 years		>50 years	
	Women	Men	Number	in %	Number	in %	Number	in %
Erste Group	**31,211**	**19,034**	**8,623**	**17.2%**	**30,081**	**59.9%**	**11,541**	**23.0%**
Austria incl. Holding	10,091	9,086	3,289	17.2%	10,142	52.9%	5,746	30.0%
thereof Holding	968	1,095	264	12.8%	1,272	61.7%	527	25.5%
Czech Republic	6,949	3,140	2,064	20.5%	5,836	57.8%	2,189	21.7%
Slovakia	2,979	1,195	689	16.5%	2,663	63.8%	822	19.7%
Romania	4,777	2,215	1,142	16.3%	4,398	62.9%	1,452	20.8%
Hungary	2,070	1,238	546	16.5%	2,373	71.7%	389	11.8%
Croatia	2,273	1,058	493	14.8%	2,359	70.8%	479	14.4%
Serbia	823	327	166	14.4%	781	67.9%	203	17.7%

Mode of employment

	Full-time employees				Part-time employees			
	2019		2018		2019		2018	
	Women	Men	Women	Men	Women	Men	Women	Men
Erste Group	**24,773**	**17,927**	**25,085**	**17,846**	**6,444**	**1,101**	**6,191**	**1,031**
Austria incl. Holding	5,217	8,271	5,178	8,190	4,872	817	4,797	778
thereof Holding	639	991	637	996	329	104	326	83
Czech Republic	6,024	3,032	6,421	3,167	925	108	742	79
Slovakia	2,883	1,180	2,942	1,192	96	15	80	11
Romania	4,508	2,138	4,858	2,199	271	75	309	76
Hungary	1,873	1,159	1,872	1,117	197	79	190	75
Croatia	2,218	1,058	2,107	1,006	55	0	45	1
Serbia	820	326	784	323	3	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	
	2019	2018	2019	2018	2019	2018	2019	2018
Erste Group	**23.4%**	**24.7%**	**41.2%**	**38.6%**	**9.0**	**8.9**	**677**	**582**
Austria incl. Holding	16.8%	15.7%	24.6%	23.0%	7.6	7.6	330	308
thereof Holding	22.5%	17.9%	25.2%	26.0%	6.1	6.0	15	13
Czech Republic	14.4%	23.4%	56.8%	42.2%	13.2	12.4	128	143
Slovakia	19.4%	23.4%	58.4%	58.1%	9.2	9.7	154	77
Romania	38.6%	43.5%	55.3%	54.7%	8.0	8.2	34	33
Hungary	24.4%	25.0%	41.9%	47.8%	9.1	9.6	9	3
Croatia	35.7%	35.0%	60.4%	57.2%	5.0	5.4	14	11
Serbia	34.8%	40.9%	50.9%	53.2%	9.6	3.2	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 (consolidated) Corporate Governance Report. As of year-end 2019, one woman and six men were members of the management board, three of them were between 30 and 50 years old, and four of them were older than 50 years. 39% of the members of the supervisory board were women, 61% were men.

Parental leave (return to work after parental leave)

	2019				2018			
	Women		Men		Women		Men	
	Number	in %	Number	in %	Number	in %	Number	in %
Erste Group	**1,009**	**77.7%**	**139**	**97.9%**	**929**	**75.5%**	**82**	**90.1%**
Austria incl. Holding	300	89.6%	82	97.6%	235	79.1%	57	95.0%
thereof Holding	37	94.9%	16	94.1%	20	90.9%	9	90%
Czech Republic	131	44.4%	1	100.0%	150	54.2%	1	100%
Slovakia	80	96.4%	25	100.0%	44	61.1%	8	67%
Romania	244	97.2%	22	95.7%	249	83.8%	12	85.7%
Hungary	51	46.4%	0	n/a	84	100.0%	2	100%
Croatia	109	87.2%	6	100.0%	105	77.2%	1	100%
Serbia	36	94.7%	0	n/a	22	88.0%	0	n/a

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 in 2019

	Women		Men		<30 years		30-50 years		>50 years	
	Number	in %	Number	in %	Number	in %	Number	in %	Number	in %
Erste Group	**3,876**	**7.7%**	**2,285**	**4.5%**	**2,939**	**5.8%**	**2,923**	**5.8%**	**299**	**0.6%**
Austria incl. Holding	939	4.9%	794	4.1%	854	4.5%	789	4.1%	90	0.5%
thereof Holding	61	3.0%	75	3.6%	45	2.2%	89	4.3%	2	0.1%
Czech Republic	910	9.0%	430	4.3%	748	7.4%	534	5.3%	58	0.6%
Slovakia	385	9.2%	159	3.8%	272	6.5%	257	6.2%	15	0.4%
Romania	696	10.0%	410	5.9%	426	6.1%	598	8.6%	82	1.2%
Hungary	346	10.5%	209	6.3%	221	6.7%	305	9.2%	29	0.9%
Croatia	319	9.6%	151	4.5%	227	6.8%	226	6.8%	17	0.5%
Serbia	135	11.7%	48	4.2%	92	8.0%	89	7.7%	2	0.2%

The percentages refer to the total headcount.

Fluctuation in 2019

	Women		Men		<30 years		30-50 years		>50 years	
	Number	in %	Number	in %	Number	in %	Number	in %	Number	in %
Erste Group	**4,400**	**12.3%**	**2,480**	**11.7%**	**1,989**	**17.0%**	**3,663**	**10.8%**	**1,228**	**10.8%**
Austria incl. Holding	828	7.6%	721	7.4%	449	11.1%	587	5.4%	513	9.0%
thereof Holding	56	5.5%	83	7.2%	30	10.0%	73	5.3%	36	7.2%
Czech Republic	1,202	14.9%	680	18.8%	616	20.9%	983	14.5%	283	14.5%
Slovakia	394	11.7%	145	10.9%	174	19.4%	303	10.3%	62	7.1%
Romania	1,189	20.0%	500	18.6%	411	22.6%	1,037	19.3%	241	16.7%
Hungary	354	14.7%	198	14.0%	154	22.8%	349	12.9%	49	11.4%
Croatia	192	7.4%	96	8.2%	74	10.3%	178	7.0%	36	7.5%
Serbia	93	9.5%	48	12.8%	40	16.7%	74	8.3%	27	12.2%

This table presents the number of employees who left Erste Group (including retirement) 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 men and women), fluctuation stood at 12.10 (2018: 12.2%).

Environment

In recent years, ecological sustainability has developed from a marginal topic into a major one that is of relevance not only to experts and environmental activists. Stakeholders – employees, customers and last, but not least, investors – are increasingly taking a closer look at the ecological footprint of every company, including banks.

The Paris Agreement of 2015, the United Nations' Sustainable Development Goals and the Special Report of the Intergovernmental Panel on Climate Change of October 2018 have one thing in common: they call for accelerated and more decisive action to reduce greenhouse gases and transition to a low-CO_2 climate-neutral economy. The European Commission estimates that up to the year 2030 additional annual funding of approx. EUR 200 billion will be needed for a significant transition of the economy to renewable energy sources. This means that banks, insurers and other financial institutions will also play a key role in combating climate change.

Under the EU Action Plan on Sustainable Finance, the European Commission aims to create a legal framework under which aspects such as the environment, social responsibility and governance are to become key decision criteria for the financial system.

Banks are service providers whose business operations have only a modest direct impact on the environment, mostly through their consumption of energy and paper. A bank may, however, have a substantial indirect impact on the environment through its business operations. Becoming aware of this impact and taking appropriate action are among the main challenges facing financial institutions. Erste Group has therefore been pursuing ecological goals already for many years and understands sustainability as part of its corporate responsibility, building on its 200-year history.

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 non-governmental organisations

Environmental targets
For the years 2019 to 2021, new targets for the use of energy and other resources have been agreed individually for each of the local banking subsidiaries. This time, relative targets (e.g. consumption of electrical energy per m^2) were agreed instead of absolute targets set for the years 2012 to 2016 (such as a reduction of the total consumption of electrical energy).

Through relative targets, local banking subsidiaries may be compared with each other. In the past, this was only partially possible due to the increasing number of entities included in the report and the ongoing reduction in the number of branches.

The six key indicators for environmental targets are:
_ average electricity consumption in kWh/m^2
_ average heating energy usage in kWh/m^2
_ share of hybrid/ e-cars in carpool in %
_ copy paper consumption per employee in kg/FTE
_ share of recycled copy paper in %
_ CO_{2e} emissions (Scope 1+Scope 2) per employee in tonnes/FTE

The targets for each core market were based on their 2018 levels.

The targets are – as well as the environmental data for the reporting period – listed at the end of the chapter.

CO_{2e} Scope 3 emissions (e.g. CO_2 emissions of kilometres travelled by air, train or rental car for business purposes) are not captured as the effort involved in recording such data in detail is disproportionate to the information gained and there are no generally accepted criteria for calculating CO_{2e} emissions.

Overall, Erste Group increased its CO_2e emissions by 2,446 tonnes (+3.9%). The increase in Austria (+14%) is solely due to the expanded scope of companies.

Ecological footprint

	2018	2019
Electricity consumption	181 GWh	175 GWh
Heating/cooling energy consumption	140 GWh	138 GWh
Fuel consumption	45 GWh	46 GWh
Total energy consumption	366 GWh	359 GWh
CO_2e-emissions (Scope 1 and 2)	62,410 t	64,856 t
Copy paper consumption	1,705 t	1,615 t

The 2019 NFI report captured environmental data of Austrian savings banks with more than 150 employees (2018: >300). The inclusion of 8 additional Austrian savings banks resulted in the following total increases in the environmental data: energy consumption +12,163 MWh, electricity consumption +5,628 MWh, heating/cooling energy consumption +6,307 MWh, copy paper consumption +56 t (thereof 35.5 t of recycled paper), CO_{2e} emissions +1,500 t).

For 2020 it is planned to capture the environmental data of all entities that are included in the scope of consolidation.

Implementation of environmental management systems
While the implementation of environmental management systems has been postponed at the Holding and Erste Bank Oesterreich, ISO 14001 and/or ISO 50001 certifications have been completed in Croatia, Slovakia and Hungary. Of the Austrian savings banks, Steiermärkische Sparkasse has been ISO 14001 certified and Allgemeine Sparkasse Oberösterreich ISO 50001 certified. Dornbirner Sparkasse has been conducting ÖKOPROFIT certification on an annual basis since 2012.

It is planned that the main local banking subsidiaries will implement a certified energy management system in the years ahead. Use of just one energy management system (ISO 50001) is due to the fact that financial service providers do not consume any other resources apart from energy and paper, and their use of water or waste disposal is of no relevance.

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 fully in Austria and Croatia and completed it partially in Hungary and the Czech Republic.

The consumption of electrical energy, heating and hot water is largely reduced by the construction and use of new energy-efficient main office buildings. Bank branches are mostly located at rented premises and therefore have limited ability to choose their own heating systems.

The following newly constructed Erste Group headquarters meet strict ecological criteria and thus contribute substantially to a reduced consumption of resources:

- Erste Campus in Vienna holds platinum certification from Deutsche Gesellschaft für Nachhaltiges Bauen (DGNB, the German Sustainable Building Council)
- The Bridge, the headquarters of Banca Comercială Română in Bucharest, holds *LEEDS Platinum* (Leadership in Energy and Environmental Design) certification
- Sirius (Erste Bank Serbia) in Belgrade holds BREEAM Gold (Building Research Establishment Environmental Assessment Method) certification

Erste Campus, for example, is supplied exclusively with non-fossil energy (district heating and cooling and green electricity). In 2019, the use of district cooling was reduced significantly by 27.7% to 1.7 GWh through improved use of cold groundwater for cooling.

Erste Bank Serbia has been able to cut its CO_2 emissions to 1.08 t/FTE (from 2.37 t/FTE) by switching to a new supplier that produces electricity exclusively from renewable sources. Slovenská sporiteľňa has commissioned an external consultant with monitoring the bank's energy consumption to identify potential energy savings. In addition, branches are being continually refurbished and equipped with energy-efficient devices. These measures resulted in a decline of the total energy consumption by 7.6%.

Banca Comercială Română operates a programme (APIA loans) dedicated to financing projects relating to environmental protection and energy efficiency. Funding is provided, for example, for ecological and climate-friendly practices in agriculture and rural development measures with a focus on sustainability.

For its employees, Erste Bank Hungary has developed an e-learning programme (ISO ILearning training) offering practical tips on how to handle daily tasks in an energy-efficient manner.

Allgemeine Sparkasse Oberösterreich, with support from OÖ Energiesparverband, launched a pilot project in 2019 with the aim of achieving the transition to sustainable energy and the vision of operating in a climate-neutral manner. The focus of the project is on measuring the company's climate footprint and defining a roadmap to carbon neutrality. Technical branch monitoring is an important part of this project. Automatic meter readings facilitate energy consumption and trend reports. If the assessment of the pilot project is positive, further branches will follow.

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. The environmental targets for 2021 include for the first time a target percentage for hybrid and e-cars. With a share of 6.6% in 2019, the target of 5% for Austria was already surpassed. At Erste Campus in Vienna, an e-car sharing system has been set up on the initiative of s Leasing. The 36 e-car charging stations located in the parking garage of Erste Campus have been received very well, most notably by customers. Allgemeine Sparkasse Oberösterreich has expanded its mobility options for employees by also providing e-bikes for business travel. At selected branch locations, the savings bank offers its customers charging stations for e-cars free of charge. Compared with 2018, Erste Bank Hungary reduced its car pool from 165 to 150 vehicles. In addition to this reduction, co-operation agreements have been concluded with two operators of e-car sharing schemes under which vehicles are made available to employees. In case taxis are still required, these can be used under a cooperation scheme with taxi operators whose fleets consist exclusively of hybrid and e-vehicles. The parking garage of Erste Bank Hungary's headquarters offers parking for 150 bicycles and six charging stations for e-bikes and e-scooters.

Reduction of paper consumption

To minimise its environmental impact, Erste Group preferably buys recycled copy paper and continuously runs paper-saving initiatives in its banking operations. The trend towards digitalisation helps to reduce paper consumption. On the online platform George, customers may choose to waive printouts of account statements as Erste Group's mobile banking offers an easy-to-use archive of all account transactions.

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. The savings banks also took action to reduce office paper consumption. These measures included in particular the *paperless office* project.

sDG Dienstleistungsgesellschaft mbH – with 225 tonnes the main consumer of printed paper in Austria – reduced its consumption by 12.4 tonnes in 2019.

Erste Bank Serbia prints its internal newsletter *Puls* and the corporate social responsibility report *The Bank Is the People* on sustainable FSC-certified paper. Slovenská sporiteľňa has also reduced its paper consumption by no longer offering brochures in its branches and dispensing cash from ATMs without receipts.

Other environmental initiatives

At Erste Campus, the use of water from rainwater cisterns for watering green spaces and flushing toilets has proved a success.

EB Restaurantbetriebe GmbH, responsible for the food catering for about 5,000 employees, has taken further steps towards sustainability. For example, approximately 50,000 kg of organic potatoes are annually processed. In 2019, its operations at Erste Campus were organic-certified and they were awarded the Austrian Ecolabel for *Green Meetings & Events*.

In July 2019, the cooperation between the start-up Hut & Stiel and sOM started at Erste Campus. In the first five months of the collaboration, 8.7 t of coffee grounds from break rooms were collected for usage in their regional mushroom production. This translates to an annual reduction of residual waste of more than 20 t.

In sponsoring, strategies were developed for avoiding plastics in promotional materials and environmentally friendly alternatives were adopted in 2019.

Another element of Erste Group's environmental strategy is co-operation with environmental NGOs. They 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. A good example in this regard is the close co-operation between Erste Asset Management and WWF on ecologically highly sustainable investment funds. By gaining 30% in value, the ERSTE WWF Stock Environment Fund underlined that sustainability and financial performance can be combined.

Erste Bank Serbia encourages its employees to take an active part in environmental initiatives and strengthens environmental awareness, for example, by supporting volunteers cleaning the fortress of Petrovaradin. It also participated in the WWF-initiated Earth Hour, the largest climate protection initiative worldwide.

Erste Bank Hungary's measures to reduce energy consumption are continued as part of branch refurbishments, but also at the Budapest headquarters and include the switch to LED systems as well as the installation of smart energy control systems.

Slovenská sporiteľňa and Allgemeine Sparkasse Oberösterreich keep 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. As this initiative has been well received by employees, additional bicycle parking is planned. Erste Bank Serbia has launched a similar initiative promoting the use of bicycles by customers and employees.

Details on ecological criteria in procurement are provided in the chapter on suppliers and supply chain.

Environmental data

Erste Group uses the software tool of CRedit360 for capturing environmental data group-wide. The energy consumption of approximately 2,600 business locations is recorded and analysed individually. For conversion into greenhouse gas equivalents, cr360 uses emission factors provided by the UK Department for Environment, Food & Rural Affairs (DEFRA) and the International Energy Agency (IEA).

Environmental indicators

Total figures for Erste Group shown in the following tables also include data of direct and indirect holdings of Erste Group outside its core markets. A separate presentation of Holding data is not provided, as a meaningful segregation of environmental indicators is not possible due to the shared usage of the location (Erste Campus in Vienna) with other entities. The environmental indicators for 2019 refer to 44,315 full-time equivalents (FTEs), thus to 93.7% of Erste Group's FTEs Environmental data was captured for all group entities, except the locations of the savings banks in Austria with fewer than 150 employees.

For further details on environmental data, please visit Erste Group's website: https://www.erstegroup.com/en/about-us/sustainability/environment.

Environmental targets for 2021

	Measure	Erste Group	AT	CZ	SK	RO	HU	HR	RS
Average electricity consumption per m²	kWh/m²	-	104	103	85	79	125	163	106
Average heating energy usage per m²	kWh/m²	-	60	95	81	85	60	60	77
Share of hybrid/e-cars in carpool	%	-	5%	3%	1%	0%	10%	1%	3%
Copy paper consumption per employee	kg/FTE	-	34	23	25	59	30	33	46
Share of recycled copy paper	%	-	90%	95%	100%	95%	100%	95%	100%
Scope 1 and 2 emissions per employee	tCO_{2e}/FTE	-	0.53	1.40	1.50	2.55	1.20	0.75	1.95

Environmental data

2019	Measure	Total	AT	CZ	SK	RO	HU	HR	RS
Full-time equivalents (FTE)	**Number**	**44,315**	**14,962**	**9,780**	**4,133**	**6,795**	**3,230**	**3,134**	**1,136**
Net floor area	**m²**	**1,591,455**	**573,036**	**301,629**	**155,036**	**376,953**	**68,192**	**68,133**	**24,226**
Total energy consumption	**MWh**	**358,563**	**109,096**	**73,466**	**27,979**	**96,959**	**16,985**	**20,352**	**5,598**
Total electricity consumption (including ATMs and own electricity production)	MWh	174,588	63,419	32,928	13,272	35,244	8,767	13,059	2,638
Total heating, warm water and district cooling consumption	MWh	138,361	38,407	32,756	12,495	41,677	4,937	4,472	1,838
Total diesel consumption for electricity generation	MWh	301	192	41	20	16	22	5	4
Total carpool consumption (converted to MWh)	MWh	45,313	7,078	7,740	2,193	20,022	3,258	2,815	1,118
Share of hybrid/e-cars in carpool	%	1.4%	6.6%	0.3%	1.1%	0.1%	1.0%	0.0%	0.0%
Average electricity consumption per m²	kWh/m²	110	111	109	86	93	129	192	109
Average heating energy usage per m²	kWh/m²	87	67	109	81	111	72	66	76
Total paper usage	**t**	**1,615**	**575**	**211**	**101**	**397**	**102**	**102**	**69**
Paper consumption per employee	kg/FTE	36	38	22	25	58	31	33	60
Non-recycled copy paper	t	432	360	12	1	3	1	5	0
Recycled copy paper	t	1,184	215	199	100	394	101	97	69
Share of recycled copy paper	%	73.3%	37.5%	94.4%	98.9%	99.1%	99.0%	95.2%	99.9%
Scope 1 and 2 emissions	**tCO_{2e}**	**64,834**	**8,120**	**12,015**	**6,177**	**24,094**	**6,469**	**2,271**	**1,224**
Scope 1 emissions	tCO_{2e}	29,950	5,799	2,813	3,155	12,899	2,738	1,561	582
Scope 2 emissions	tCO_{2e}	34,884	2,321	9,203	3,021	11,195	3,731	710	643
Scope 1 and 2 emissions per employee	tCO_{2e}/FTE	1.46	0.54	1.23	1.49	3.55	2.00	0.72	1.08

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**	**366,021**	**101,188**	**95,101**	**30,163**	**93,020**	**17,343**	**19,689**	**5,564**
Total electricity consumption (including ATMs and own electricity production)	MWh	181,294	59,815	44,911	14,230	35,936	9,701	12,408	2,587
Total heating, warm water and district cooling consumption	MWh	139,769	34,261	42,466	13,031	37,936	4,703	4,309	1,884
Total diesel consumption for electricity generation	MWh	265	153	56	22	19	2	9	3
Total carpool consumption (converted to MWh)	MWh	44,697	6,960	7,668	2,879	19,128	2,937	2,962	1,090
Share of hybrid-/e-cars in carpool	%	0.8%	3.6%	0.1%	1.1%	0.0%	0.5%	0.5%	0.0%
Average electricity consumption per m²	kWh/m²	107.8	115.3	105.9	88.6	89.5	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	40	25	26	66	33	38	54
Non-recycled copy paper	t	497	388	13	1	34	-	8	-
Recycled copy paper	t	1,208	152	235	108	443	106	104	60
Share of recycled copy paper	%	70.9%	28.1%	94.6%	99.0%	92.9%	100.0%	92.5%	100.0%
Scope 1 and 2 emissions	**tCO_{2e}**	**62,410**	**7,140**	**15,133**	**6,443**	**22,502**	**4,587**	**2,013**	**2,559**
Scope 1 emissions	tCO_{2e}	27,297	4,993	3,237	3,253	12,070	1,149	1,402	591
Scope 2 emissions	tCO_{2e}	35,114	2,147	11,896	3,190	10,432	3,438	611	1,968
Scope 1 and 2 emissions per employee	tCO_{2e}/FTE	1.44	0.53	1.50	1.54	3.10	1.44	0.68	2.31

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 Romania (RO), the 2018 electricity consumption was corrected by +2,998 MWh, the energy consumption in Slovakia (SK) in 2018 by -108 MWh. As a result, CO_{2e} emissions in 2018 increased in Romania by 3.5% and declined in Slovakia by -0.8%. The total CO_{2e} emissions (Scope 1+2) of Erste Group increased by 1.4%, the total energy consumption increased by 0.8%.

In Austria (AT), 8 savings banks with FTEs of >150 but <300 were included in the scope of the report in 2019.

Management board	
Bernhard Spalt mp, Chairman	
Ara Abrahamyan mp, Member	Stefan Dörfler mp, Member
Ingo Bleier mp, Member	Alexandra Habeler-Drabek mp, Member
Peter Bosek mp, Member	David O'Mahony mp, Member

Vienna, 17 March 2020

GRI Content Index

GRI Standard Number	GRI+ Standard Title	Disclosure Number	Disclosure Titel	Reference to Annual Report 2019	Chapter reference / Comments / Reasons for omission
Based on GRI Standard 2016, (Option: Core), partly GRI G4 Sector Disclosures Financial Services. Reported data and comments refer to 2019.					
GRI 102 General Disclosures 2016					
1. Organisational profile					
GRI 102	General Disclosures	102-1	Name of the organisation	p. 302	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. 302	Erste Campus, Am Belvedere 1, 1100 Vienna
GRI 102	General Disclosures	102-4	Location of operations	p. 15, 19	Strategy
GRI 102	General Disclosures	102-5	Ownership and legal form	p. 81	Ownership: introduction/presentation of key data (shareholder structure). Legal form: (consolidated) corporate governance report
GRI 102	General Disclosures	102-6	Markets served	p. 15, Note 39	Strategy, Group consolidated financial statements: Note 39 (segment reporting)
GRI 102	General Disclosures	102-7	Scale of the organisation	Note 39	Cover (inner face: branches, employees), Group consolidated financial statements: Note 39 (segment reporting)
GRI 102	General Disclosures	102-8	Information on employees and other workers	p. 69 et seq.	Number of employees (headcount): 50,245 thereof 62.1% women. (Holding: total 2,063 thereof 46.9% women). Full-time equivalents at the end of the period: 47,283. The staff indicators provide information on gender distribution per country, share of part-time staff per country, gender distribution in part-time staff per country, share and gender distribution of executive and other managerial positions per country, average number of sick leave days per employee per country, number of employees with health disabilities per country, turnover rates per gender and country, return rates after parental leave per gender and country, number of newly hired employees per gender and age group per country. The share of leased personnel was not significant. The total number of employees is not subject to seasonal changes.
GRI 102	General Disclosures	102-9	Supply chain	p. 64 et seq.	(consolidated) non-financial report: suppliers and supply chain
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. 15, 54 et seq.	Strategy, (consolidated) non-financial report; 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. 62 et seq., 70	(consolidated) non-financial report: our customers, environment; Erste Asset Management: UN Principles of Responsible Investment (2012), Bangladesh Memorandum (2015), Montreal Carbon Pledge (201%), Erste Group: Nestor Gold Charta (2015), Austrian Diversity Charter (2016)
GRI 102	General Disclosures	102-13	Membership of associations	n.a.	Erste Group Bank AG has the following significant memberships: 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 (Wirtschaftsforschungsinstitut 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., 15	Letter of the CEO, strategy
GRI 102	General Disclosures	102-15	Key impacts, risks and opportunities	p. 55 et seqq.	(consolidated) non-financial report: materiality analysis
3. Ethics and integrity					
GRI 102	General Disclosures	102-16	Values, principles, standards, and norms of behaviour	p. 15, 81	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 and internal guidelines)
4. Governance					
GRI 102	General Disclosures	102-18	Governance structure	p. 54 et seq., 81 et seqq.	(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. 55 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 87.9% of all employees. 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: 90.4%)
GRI 102	General Disclosures	102-42	Identifying and selecting stakeholders	p. 55 et seq.	(consolidated) non-financial report: materiality analysis; employees, our customers, management (supervisory board, management board), investors and public (authorities, supervisors, policy-makers)
GRI 102	General Disclosures	102-43	Approach to stakeholder engagement	p. 55 et seq.	(consolidated) non-financial report: materiality analysis
GRI 102	General Disclosures	102-44	Key topics and concerns raised	p. 55 et seq.	(consolidated) non-financial report: materiality analysis

GRI Standard Number	GRI+ Standard Title	Disclosure Number	Disclosure Titel	Reference to Annual Report 2019	Chapter reference / Comments / Reasons for omission
6. Reporting practice					
GRI 102	General Disclosures	102-45	Entities included in the consolidated financial statements	p. 54	Non-financial reports have to be prepared for the same scope of consolidation that is covered by the financial reporting. 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 150 employees and that are not majority-owned by Erste Group Bank AG. It should be noted that in some cases several companies are located in one building (e.g. Erste Campus Vienna), which is why environmental data cannot be allocated to individual companies in these cases. 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. Personnel data are captured at the level of the respective single entity. It is the aim to incorporate the environmental data of all consolidated companies (including all Austrian savings banks of the Haftungsverbund) in the non-financial report.
GRI 102	General Disclosures	102-46	Defining report content and topic boundaries	p. 55 et seq.	(consolidated) non-financial report: materiality analysis
GRI 102	General Disclosures	102-47	List of material topics	p. 55 et seq.	(consolidated) non-financial report: materiality analysis
GRI 102	General Disclosures	102-48	Restatements of information	n.a.	At BCR (Romania) the data for the consumption of electric energy in 2018 was corrected from 32,936 MWh to 35,372 MWh.
GRI 102	General Disclosures	102-49	Changes in reporting	p. 54	Additional entities from the scope of consolidation were included in the non-financial reporting in 2019. (Dornbirner Sparkasse Bank AG, Sparkasse Kufstein Tiroler Sparkasse von 1877, Sparkasse der Stadt Feldkirch, Wiener Neustädter Sparkasse, Sparkasse Schwaz AG, Sparkasse Imst AG, Sparkasse Baden, Sparkasse Neunkirchen).
GRI 102	General Disclosures	102-50	Reporting period	n.a.	From 1 January 2019 to 31 December 2019
GRI 102	General Disclosures	102-51	Date of most recent report	n.a.	Annual report 2018
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. 302	Important addresses, Imprint (contact)
GRI 102	General Disclosures	102-54	Claims of reporting in accordance with GRI Standards	p. 54	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. 75 et seqq.	(consolidated) non-financial report; Also available on the company's website: http://www.erstegroup.com/en/investors/reports
GRI 102	General Disclosures	102-56	External assurance	p. 79 et seq	Independent assurance statement; The (consolidated) non-financial report is compliant with the Austrian Commercial Code (Unternehmensgesetz; UGB) sections 243b and 267a. 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. 14 et seqq., 55 et seqq.	Strategy, (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. 14 et seqq., 55 et seqq.	Strategy, (consolidated) non-financial report: materiality analysis, our customers
GRI 103	Management Approach	103-3	Evaluation of the management approach	p. 559 et seq., 81	(consolidated) non-financial report: materiality analysis, (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 39, Note 55	Group consolidated financial statements: Note 39 (segment reporting), Note 55 (country by country reporting) Commitment to society: In 2019, Erste Group provided approximately EUR 10.7 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 of GRI G4	Initiatives to improve access to financial services for disadvantages peoples	p. 58 et seq., 63 et seq.	(consolidated) non-financial report: commitment to society, our 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. 95 et seq.	Additional (consolidated) corporate governance principles. In 2019, 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 2019	Chapter reference / Comments / Reasons for 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 51	Group consolidated financial statements: Note 51 (contingent liabilities); no legal actions for anti-competitive behaviour, anti-trust, or monopoly practices have been initiated against Erste Group Bank AG. During the reporting period, subsidiaries of Erste Group were directly or indirectly involved in five such cases, but one of these cases was resolved in January 2020 in favour of the concerned subsidiary bank, so there are now only four pending cases. We do not expect these cases to lead to any fines or sanctions that would have a material effect on 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. 74	(consolidated) non-financial report: environment. The focus lies on copy paper consumption (1,615 t).
GRI 103	Management Approach	103-2	The management approach and its components	p. 74	(consolidated) non-financial report: environment; only captured for copy paper (1,184 t of recycled 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. 71, 74	(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_2e-emissions. Total energy consumption in 2019: 358,563 MWh
GRI 302	Energy	302-4	Reduction of energy consumption	p. 71, 74	(consolidated) non-financial report: environment; reduction of total energy consumption by 2 % to 358 GWh (despite the consumption of 12.2 GWh by the entities that were included for the first time in 2019)
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. 74	(consolidated) non-financial report: environment; in total 29,950 t There are no biogenic CO_2 emissions to report (GRI 305-1c) - these are emissions from the direct use of biomass. The use of biomass for district heating is recorded under Scope 2.
GRI 305	Emissions	305-2	Energy indirect (Scope 2) GHG emissions	p. 74	(consolidated) non-financial report: environment; in total 34,884 t. If market-based indirect energy-related GHG emissions (GRI 305-2b) are taken into account for electricity and district heating instead of specific emission factors, the Scope 2 emissions would amount to 62,781 t or 180% of the reported data of 34,884 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. 65	(consolidated) non-financial report: suppliers and supply chain
Material topic: Diversity and equal opportunity (GRI 401 Employment 2016)					
GRI 401	Employment	401-1	New employee hires and employee turnover	p. 70	(consolidated) non-financial report: employees; 6,161 employees were hired; 6,880 employees left the company (including retirement); turnover rate for Erste Group: 12.1% (Holding: 6.4%) pursuant to 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. 70	(consolidated) non-financial report: employees; a) 401-3a) All employees (women and men) are entitled to take parental leave; b) 401-3d) The inclusion of employees who were still employed by the company 12 months after returning from maternity leave was deleted. This was due to data that could not be clearly distinguished.
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. 69	(consolidated) non-financial report: employees. All sickness figures are recorded, regardless of the cause; on average 9 sick-days per employee (Holding: 8 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. 67	(consolidated) non-financial report: employees; on average 29.8 hours per employee (Holding: 21.5 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. 66 et seq	(consolidated) non-financial report: employees; At Erste Group Bank AG, the parent company of Erste Group, employees represent more than 50 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 2019, 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. 65	(consolidated) non-financial report: suppliers and supply chain

GRI Standard Number	GRI+ Standard Title	Disclosure Number	Disclosure Titel	Reference to Annual Report 2019	Chapter reference / Comments / Reasons for omission
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 2019, 48 such reports were submitted to the authorities (thereof 0 for the Holding). In addition, 5 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 2019, there were neither significant fines nor non-monetary sanctions for non-compliance with laws and/or regulations in the social and economic area.
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. 58 et seq.	(consolidated) non-financial report: materiality analysis, commitment to society (financial literacy)
Material topic: Customer satisfaction					
	Information on customer satisfaction			p. 62	(consolidated) non-financial report: customers
Material topic: Responsible investment and finance					
	Information on responsible investment and financing			p. 62et seq.	Reference to the relevant chapter and explanation that there is no corresponding GRI standard. 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 department in charge of the Holding 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. 55 et seq., 61 et seq.	(consolidated) non-financial report: materiality analysis, our customers
GRI 103	Management Approach	103-3	Evaluation of the management approach	p. 55 et seq.	(consolidated) non-financial report: materiality analysis; compliance with the existing exclusion criteria for investments and financing is 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 205-3, GRI 206-1, GRI 302-4, GRI 305-1, GRI 401-1, GRI 405-1

Independent Assurance Report

To the Management Board of Erste Group Bank AG

AUDIT REPORT OF THE INDEPENDENT ASSURANCE ON NON-FINANCIAL REPORTING

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 performed procedures to obtain limited assurance on the following information stated in the (consolidated) non-financial report as of 31 December 2019: the management approach regarding responsible investment as well as the GRI Standard disclosures "205-3 (2016) Confirmed incidents of corruption and actions taken," "206-1 (2016) Legal actions for anti-competitive behaviour, anti-trust, and monopoly practices," "302-4 (2016) Reduction of energy consumption", "305-1 (2016) Direct (Scope 1) GHG emissions," "401-1 (2016) New employee hires and employee turnover" and "405-1 (2016) Diversity of governance bodies and employees". Furthermore, we performed procedures to obtain limited assurance on whether the reported information meets the reporting requirements of §§ 243b and 267a UGB (Austrian Commercial Code) (NaDiVeG).

Responsibility of the management

The preparation of the report in accordance with the reporting principles as well as the selection of the scope of the engagement is the responsibility of the management of Erste Group Bank AG. The reporting principles include the Sustainability Reporting Standards (GRI Standards: Core option) issued by the Global Sustainability Standards Board (GSSB), the G4 Sector Disclosures "Financial Services" issued by the Global Reporting Initiative and the reporting requirements mentioned in §§ 243b and 267a UGB (NaDiVeG).
This responsibility includes the selection and application of appropriate methods for preparing the report as well as the usage of assumptions and estimates of individual non-financial disclosures that are appropriate under the given circumstances. The responsibility of the management includes further designing, implementing and maintaining internal controls which they have determined necessary for the preparation of a report that is free from material – intended or unintended – misrepresentations.

Responsibility of the auditor

Our responsibility is to express an opinion with limited assurance on whether, based on our audit procedures, matters have come to our attention that cause us to believe that the non-financial information in the (consolidated) non-financial report as of 31 December 2019 has not been prepared, in all material respects, in accordance with the reporting criteria.

We conducted our engagement 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) in order to obtain limited assurance on the subject matters.

ISAE 3000 (Revised) requires us to plan and perform the engagement in a way that enables us to obtain limited assurance that nothing has come to our attention that causes us to believe that the non-financial indicators stated in the (consolidated) non-financial report as of 31 December 2019 have not, in any material aspect, been prepared in accordance with the reporting criteria.

In a limited assurance engagement, the evidence-gathering procedures are more limited than in a reasonable assurance engagement, and therefore less assurance can be obtained. The choice of audit procedures lies in the due discretion of the auditor.

As part of our audit, we have performed, among others, the following audit procedures and other activities to the extent that they are relevant to the limited assurance engagement:

- Interview of the employees named by Erste Group Bank AG regarding the sustainability strategy, sustainability principles and sustainability management
- Interview of employees of Erste Group Bank AG to assess the methods of data collection, data processing and internal controls
- Interview of employees of Erste Group Bank AG regarding the management approach for responsible investment
- Execution of a media analysis
- Site-Visits in Bucharest, Linz and St. Pölten
- Comparison of the non-financial disclosures shown in the (consolidated) non-financial report with the calculation documents provided

_ Furthermore, we conducted procedures regarding whether the reporting requirements of §§ 243b and 267a UGB (NaDiVeG) were met with the (consolidated) nonfinancial report.

Summarised Conclusion

Based on our work, nothing has come to our attention that causes us to believe that the non-financial information relevant to the audit and disclosed in the (consolidated) non-financial report as of 31 December 2019 have not, in any material aspects, been prepared in accordance with the reporting criteria.

Engagement approach

The basis for this engagement are the "General Conditions of Contract for the Public Accounting Professions,"("Allgemeine Auftragsbedingungen für Wirtschaftstreuhandberufe", "AAB 2018") as issued by the Austrian Chamber of Tax Advisers and Auditors on 18 April 2018. In accordance with chapter 7 of the AAB 2018, our liability shall be limited to intent and gross negligence. In cases of gross negligence, our liability is limited to a maximum of five times the auditor's fee. This amount constitutes a total maximum liability cap, which may only be utilized once up to this maximum amount, even if there is more than one claimant or more than one claim has been asserted.

Vienna, 17 March 2020

Deloitte Audit Wirtschaftsprüfungs GmbH

Gerhard Marterbauer
Austrian Certified Public Accountant

Christof Wolf
Austrian Certified Public Accountant

Corporate Governance

(Consolidated) corporate governance report

Erste Group Bank AG is a stock corporation established according to Austrian law and declare since 2003 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 Corpo-rate 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 2019, 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 2019, the supervisory board of Erste Group Bank AG comprised until the death of Brian O'Neill, thus until 20 December 2019, thirteen then twelve 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.

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 takes its decisions in compliance with the articles of association and its internal rules as well as the Statement of Purpose.

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 required experience as well as 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 and facilitates their participation in external training events on relevant topics. An in-house training programme for members of the supervisory board covered the following matters, for example: the capital situation of Erste Group compared with its peers, management board and supervisory board remuneration in the context of the implementation of the Shareholder Rights Directive in Austria, the development of Europe through the combined actions of the European Commission and the European Parliament.

MANAGEMENT BOARD

In 2019, the management board consisted of up to seven members.

Management board member	Year of birth	Date of initial appointment	End of current period in office
Andreas Treichl (Chairman until 31 December 2019)	1952	1 October 1994	31 December 2019
Bernhard Spalt (Chairman since 1 January 2020, Vice-Chairman until 31 December 2019)	1968	1 July 2019	30 June 2023
Ingo Bleier	1970	1 July 2019	30 June 2022
Peter Bosek	1968	1 January 2015	30 June 2023
Petr Brávek	1961	1 April 2015	31 December 2019
Willibald Cernko	1956	1 January 2017	30 June 2019
Stefan Dörfler	1971	1 July 2019	31 December 2023
Alexandra Habeler-Drabek	1970	1 July 2019	30 June 2022
Gernot Mittendorfer	1964	1 January 2011	30 June 2019
Jozef Síkela	1967	1 January 2015	30 June 2019

Andreas Treichl resigned from the management board as of 31 December 2019, Bernhard Spalt was appointed by the supervisory board as an additional member of the management board in September 2018 with effect from 1 July 2019 to 31 December 2022. On 25 April 2019, the supervisory board extended Bernhard Spalt's management board mandate until 30 June 2023.

Bernhard Spalt initially served as Vice Chairman of the management board before assuming the role of Chief Executive Officer as of 1 January 2020.

Gernot Mittendorfer and Jozef Síkela left the management board effective 1 July 2019. Petr Brávek resigned from the management board as of 31 December 2019.

On 25 April 2019, the supervisory board appointed Alexandra Habeler-Drabek, Ingo Bleier and Stefan Dörfler as management board members as of 1 July 2019 and Ara Abrahamyan and David O'Mahony as of 1 January 2020. On 25 April 2019, Peter Bosek was reappointed as member of the management board before the expiry of his term of office.

Management board member	Areas of responsibility
1 January until 30 June 2019	
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
1 July until 31 December 2019	
Andreas Treichl (Chairman)	Brand Management and Company Transformation, Group Investor Relations, Group Human Resources, Human Resources, Group Board Support & Stakeholder Management, Social Banking Development
Bernhard Spalt (Vice Chairman)	Group Strategy, Group Secretariat, Group Audit, Group Architecture and Portfolio Management
Ingo Bleier	Group Corporates, GCRE & Leasing, Group Markets, Group Product and Business Management C. and M., Group Research
Peter Bosek	Erste Hub, Digital Governance, Group Retail Strategy
Petr Brávek	Holding Banking Operations, Holding IT, Group COO Governance
Stefan Dörfler	Group ALM, Group Data Management and Reporting, Group Accounting and Group Controlling, Group Services
Alexandra Habeler-Drabek	Group Liquidity and Market Risk Management, Enterprise wide Risk Management, Credit Risk Models, Group Compliance, Group Credit Risk Management, Group Legal
Since 1 January 2020	
Bernhard Spalt (Chairman)	Group Strategy, Group Secretariat, Brand Management and Company Transformation, Group Investor Relations, Group Human Resources, Human Resources, Group Audit, Group Board Support & Corporate Affairs, Social Banking Development
Ara Abrahamyan	Group Portfolio Management, Group Architecture, Digital Initiatives
Ingo Bleier	Group Corporates, GCRE & Leasing, Group Markets, Group Product and Business Management C. and M., Group Research
Peter Bosek	Erste Hub, Digital Governance, Group Retail Strategy
Stefan Dörfler	Group ALM, Group Data Management and Reporting, Group Accounting and Group Controlling
Alexandra Habeler-Drabek	Group Liquidity and Market Risk Management, Enterprise wide Risk Management, Credit Risk Models, Group Compliance, Group Credit Risk Management, Group Legal
David O'Mahony	Holding Banking Operations, CIO Group Functions, Governance and Steering

Supervisory board mandates and similar functions, management roles in subsidiaries

As of 31 December 2019, 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

Banca Comercială Română S.A.*, Vice Chair
Česká spořitelna, a.s.*, Vice Chair until 31 December 2019
Die Zweite Wiener Vereins-Sparcasse*, Chair
Leoganger Bergbahnen Gesellschaft m.b.H., Member

Bernhard Spalt

Česká spořitelna, a.s.*, Vice Chair
Banca Comercială Română S.A.*, Member
(since 26 February 2020)

Ingo Bleier

Erste Bank der oesterreichischen Sparkassen AG*, Member
Erste & Steiermärkische Bank d.d.* (Erste Bank Croatia), Member
Erste Bank a.d. Novi Sad*, Chair
Oesterreichische Kontrollbank Aktiengesellschaft, Member

Peter Bosek

Wiener Städtische Versicherung AG Vienna Insurance Group, 2nd Vice Chair
Sparkassen IT Holding AG*, Member
Wien 3420 Aspern Development AG, Member
s IT Solutions AT Spardat GmbH*, Chair

Petr Brávek

s IT Solutions AT Spardat GmbH*, 2nd Vice Chair
(until 31 December 2019)
Erste Group IT International GmbH*, Chair
(until 31 December 2019)

Stefan Dörfler

Česká spořitelna, a.s.*, Member
CEESAG Aktiengesellschaft, Member
Erste Group IT International GmbH*, Vice Chair
Slovenská sporiteľňa, a.s.*, Chair
Sparkassen-Haftungs GmbH*, Member
Wiener Börse AG, Member

Alexandra Habeler-Drabek

Erste Bank der oesterreichischen Sparkassen AG*, Member
Erste Bank Hungary Zrt.*, Member
Prvá stavebná sporiteľňa, a.s.*, Member
Banca Comercială Română S.A.*, Vice Chair
(since 21 February 2020)

In addition, since 1 January 2020 the following mandates have been held:

Ara Abrahamyan

Erste Bank Hungary Zrt.*, Member
Erste Group IT International GmbH*, Member

David O'Mahony

s IT Solutions AT Spardat GmbH*, 2nd Vice Chair
Erste Group IT International GmbH*, Chair
Erste Bank a.d. Novi Sad*, Member

SUPERVISORY BOARD

In the financial year 2019, 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	Matthias Bulach	1976	Head of Financial Accounting, Control and Capital, CaixaBank	15 May 2019	AGM 2022
Member	Henrietta Egerth-Stadlhuber	1971	Managing Director	26 June 2019	AGM 2022
Member	Gunter Griss	1945	Lawyer	21 May 2014	AGM 2020
Member	Jordi Gual Solé	1957	Chairman, CaixaBank	17 May 2017	AGM 2022
Member	Marion Khüny	1969	Consultant	17 May 2017	AGM 2022
Member	Elisabeth Krainer Senger-Weiss	1972	Lawyer	21 May 2014	AGM 2024
Member	Brian D. O'Neill	1953	Executive Vice-President, Inter-American Development Bank	31 May 2007	20 Dec 2019
Member	Wilhelm Rasinger	1948	Consultant	11 May 2005	AGM 2020
Member	John James Stack	1946	CEO, ret.	31 May 2007	AGM 2021
Member	Michèle F. Sutter-Rüdisser	1979	Adjunct Professor, University of St. Gallen	15 May 2019	AGM 2022
Delegated by the employees' council					
Member	Martin Grießer	1969		26 June 2019	21 Jan 2020
Member	Markus Haag	1980		21 Nov 2011	until further notice
Member	Regina Haberhauer	1965		12 May 2015	until further notice
Member	Andreas Lachs	1964		9 Aug 2008	until further notice
Member	Barbara Pichler	1969		9 Aug 2008	until further notice
Member	Jozef Pinter	1974		25 June 2015	until further notice
Member	Karin Zeisel	1961		9 Aug 2008	until further notice

In the financial year 2019, the composition of the supervisory board changed as follows: the supervisory board mandate of Elisa-beth Bleyleben-Koren expired as of the end of the annual general meeting on 15 May 2019. Elisabeth Bleyleben-Koren was not available for re-election. Matthias Bulach and Michèle F. Sutter-Rüdisser were elected to the supervisory board at the annual general meeting with immediate effect, Henrietta Egerth-Stadlhuber with effect from the registration of the amendment to the articles of association adopted at the annual general meeting in the companies' register, i.e. as of 26 June 2019. Martin Grießer was delegated to the supervisory board as of 26 June 2019. On 20 December 2019, the long-standing supervisory board member Brian D. O'Neil passed away after a short and serious illness. Following the death of Brian D. O'Neill, Martin Grießer's delegation to the supervisory board was revoked pursuant to section 110 of the Labour Relations Act (ArbVG) on 21 January 2020.

Membership in supervisory board committees

Committee membership as of 26 June 2019:

Name	Executive committee	Nomination committee	Audit committee	Risk committee	Remuneration committee	IT committee
Friedrich Rödler	Chairman	Chairman	Chairman*	Member	Chairman**	Vice Chairman
Jan Homan	Vice Chairman	Vice Chairman	Member	Vice Chairman	Vice Chairman	-
Maximilian Hardegg	Member	Member	Vice Chairman	Chairman	Substitute	Chairman
Matthias Bulach	-	-	Member	-	-	-
Henrietta Egerth-Stadlhuber	-	-	-	Substitute	-	Member
Gunter Griss	-	-	-	-	-	-
Jordi Gual Solé	-	-	-	-	Member	-
Marion Khüny	-	-	-	Member	-	Member
Elisabeth Krainer Senger-Weiss	Member	Member	-	Member	-	Substitute
Brian D. O'Neill (until 20 December 2019)	-	-	-	-	Member	-
Wilhelm Rasinger	Substitute	-	Member	Member	-	-
John James Stack	-	-	-	-	Member	-
Michèle F. Sutter-Rüdisser	-	-	Member	-	-	-
Delegated by the employees' council						
Martin Grießer (until 21 January 2020)	-	-	Member	Substitute		Member
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	Substitute	Member	Substitute	Substitute
Karin Zeisel	Member	Member	-	-	Member	-

*Financial expert, **Remuneration expert

Mandates on supervisory boards or similar functions

As of 31 December 2019, 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
Audit Oversight Body of Austria

Jan Homan

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

Maximilian Hardegg

DIE ERSTE österreichische Spar-Casse Privatstiftung
Česká spořitelna, a.s.*
TIROLER SPARKASSE Bankaktiengesellschaft Innsbruck*
Nadace Česke spořitelny

Matthias Bulach

CaixaBank Payments & Consumer Finance E.F.C., S.A.U.
CaixaBank Asset Management SGIIC, S.A.U.
BuildingCenter, S.A.U.

Gunter Griss

AVL List GmbH, Chair
Bankhaus Krentschker & Co. Aktiengesellschaft*, 1st 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.*

Wilhelm Rasinger

Friedrichshof Wohnungsgenossenschaft reg. Gen. mbH, Chair
Gebrüder Ulmer Holding GmbH
S IMMO AG**, 2nd Vice Chair

John James Stack

Ally Bank
Ally Financial Inc.**
Česká spořitelna, a.s.*, Chair
Mutual of America Capital Management
Nadace Česke spořitelny

Michèle F. Sutter-Rüdisser

BÜCHI Labortechnik AG
Privatbank IHAG Zürich AG
Spital Thurgau AG

Henrietta Egerth-Stadlhuber did not hold any mandates on supervisory boards or similar functions in domestic or foreign companies as of 31 December 2019.

Delegated by the employees' council:

Regina Haberhauer

Erste Asset Management GmbH*

Andreas Lachs

VBV-Pensionskasse Aktiengesellschaft

Barbara Pichler

DIE ERSTE österreichische Spar-Casse Privatstiftung

Martin Grießer, 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 supervisory board members have declared their independence with the exception of Friedrich Rödler and Jan Homan. Friedrich Rödler and Jan Homan have been serving on the supervisory board for more than 15 years.

No member of the supervisory board holds directly or indirectly more than 10% of the shares of Erste Group Bank AG. In 2019, two members of the supervisory board (Maximilian Hardegg and Barbara Pichler) served on a management body of DIE ERSTE österreichische Spar-Casse Privatstiftung, which holds more than 10% of the shares of Erste Group Bank AG.

Attendance of supervisory board meetings

In 2019, 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 or before their resignation from their mandate or revocation of their delegation.

Furthermore, in 2019, the ordinary members of the supervisory board or their substitutes, if applicable, attended in person, by videoconferencing or teleconferencing more than half of the committee meetings held after their election or delegation to the supervisory board or before resigning from their mandate or their delegation being revoked. The following table shows the attendance of meetings by ordinary members without accounting for the attendance of substitute members.

Name	Supervisory board (7 meetings)	Nomination committee (2 meetings)	Audit committee (5 meetings)	Risk committee (14 meetings)	Remuneration committee (4 meetings)	IT committee (4 meetings)
Friedrich Rödler	100%	100%	100%	100%	100%	100%
Jan Homan	86%	100%	80%	86%	75%	
Maximilian Hardegg	100%	100%	100%	93%		100%
Elisabeth Bleyleben-Koren	100%		100%[2]	100%[2]		
Matthias Bulach	100%		100%[1]			
Henrietta Egerth-Stadlhuber	100%					100%[3]
Gunter Griss	100%				100%[2]	
Jordi Gual Solé	86%				75%	
Marion Khüny	100%			86%		75%
Elisabeth Krainer Senger-Weiss	100%	100%[1]		79%[1]		100%[4]
Brian D. O'Neill	57%				50%	
Wilhelm Rasinger	86%		100%	93%		
John James Stack	86%				100%	
Michèle F. Sutter-Rüdisser	100%		100%[1]			
Delegated by the employees' council						
Martin Grießer	75%		100%[3]			100%[3]
Markus Haag	100%			93%		
Regina Haberhauer	100%		60%			
Andreas Lachs	100%			79%	100%	75%
Barbara Pichler	100%	100%	60%		100%	
Jozef Pinter	71%		100%[4]	71%		
Karin Zeisel	100%	100%			100%	0%[4]

[1] since 15 May 2019 member, [2] until 15 May 2019 member, [3] since 26 June 2019 member. [4] until 26 June 2019 member

Self-evaluation of the supervisory board

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. The supervisory board discussed afterwards the results of this evaluation pursuant to C-Rule 36 of the Austrian CCG at its meeting of 28 March 2019 and concluded the evaluation for 2018 with a positive assessment. The self-evaluation of the supervisory board for 2019 will be performed at its meeting on 26 March 2020.

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

In 2019, „Am Klimtpark" LiegenschaftsverwaltungsgmbH, an entity in which Wilhelm Rasinger has a significant economic interest, signed a loan agreement with Erste Group for the amount of EUR 18 million.

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 loans 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. It 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. The audit committee is also responsible for preparing supervisory board decisions concerning the approval of the conclusion of a material transaction pursuant to section 95a of the Austrian Stock Corporation Act (AktG) and overseeing its execution as well as overseeing and periodically (re-)assessing this material transaction; taking note of cases of damage or loss at Erste Group that are reported to the audit committee by internal audit as part of significant audit findings provided they exceed thresholds previously defined by the audit committee; pre-consenting to the removal of the head of internal audit from their position and involvement in the process of filling the position of head of internal audit.

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 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. For the very first time, the nomination committee also prepared for 2020 the principles for the remuneration of management and supervisory board members pursuant to sections 78a and 98a of the Austrian Stock Corporation Act (Remuneration Policy according to Austrian Stock Corporation Act). In addition, it is responsible for preparing the report on the remuneration of management and supervisory board pursuant to sections 78a and 98a of the Austrian Stock Corporation Act (Remuneration Report according to Austrian Stock Corporation Act).

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

Seven meetings of the supervisory board were held in the financial year 2019.

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 2019 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 28 March 2019, the financial statements and the management report 2018, the consolidated financial statements and consolidated management report as well as the (consolidated) corporate governance report 2018 and the (consolidated) non-financial report 2018 were reviewed; the auditors' reports as well as the report of the audit committee pursuant to section 63a para 4 (5) of BWG were discussed and the financial statements for 2018 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 15 May 2019 as an additional auditor of the (consolidated) financial statements for the financial year 2020. In addition, a report on Erste Group's real estate was presented and relevant decsions were taken. In addition, 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 pursuant to C-Rule 36 of the Austrian CCG and took note of an evaluation of the management board performed by the nomination committee pursuant to section 29 of the Austrian Banking Act. Reports were delivered on the issuance of additional core capital (additional tier 1 bonds), the capital strategy and the potential cooperation with and challenges posed by fintechs.

At the meeting of 25 April 2019, note was taken of the annual report of Group Compliance, the report on the collective suitability of the supervisory board and the annual report on conflicts of interest. The variable remuneration of members of the management board for the financial year 2018 was adopted. Management board matters were discussed in depth and taken note of and management board members were appointed or re-appointed taking into account the recommendations of the nomination committee.

At the constituent meeting of 15 May 2019 held after the annual general meeting, Friedrich Rödler, Jan Homan and Maximilian Hardegg were re-elected to their positions and the members of the supervisory board were elected to the respective supervisory board committees and the committees thus newly formed.

At the meeting of 27 June 2019, which was also attended by members of the supervisory authorities' Joint Supervisory Team, who gave presentations and answered questions raised by supervisory board members, a project of Česká spořitelna was discussed and a report on the status of Social Banking was taken note of. In addition, the extension of Bernhard Spalt's management board mandate was approved, Peter Bosek's conflicts of interest due to his dual role as CEO of Erste Bank Oesterreich were discussed and new rules of representation for management board members, a new allocation of responsibilities, framework plans for the issuance of certificates and warrants as well as the acquisition of own shares, changes in the internal rules of the audit committee and a related party transaction of a member of the supervisory board were approved.

At the meeting of 3 October 2019, the supervisory board took note of reports on sustainable finance and directors' dealings; the Group Recovery Plan was presented. In addition, Erste Group Bank AG's self-evaluation pursuant to the savings banks' governance code was approved.

At the meeting of 12 December 2019, reports on a project, on large exposures pursuant to section 28b of the Austrian Banking Act and the budget and the capital plan for the financial year 2019 were discussed, approved and taken note of. New representation rules for the management board and a new allocation of responsibilities were adopted. Pursuant to section 95a of the Austrian Stock Corporation Act, a procedure was defined for dealings with related entities and individuals. In addition, a framework programme for the acquisition of own shares for the employee share programme, an anticipatory resolution 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 2020 were adopted and changes to the internal rules of the supervisory board, the remuneration committee and the audit committee were approved.

At a strategy retreat held from 15 to 17 May 2019, the supervisory board considered strategic topics of Erste Group comprehensively and in great depth; the management board and other experts were invited to join in more detailed debates.

MEETINGS OF THE COMMITTEES AND REPORT ON ACTIVITIES

The risk committee held fourteen meetings in 2019, at which it regularly took decisions on exposures and loans exceeding the powers of the management board, was briefed on loans granted within the scope of authorisation of the management board and approved the granting of statutory powers of attorney (Prokuren). 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 current regulatory risk topics, 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 and the Graben project (former headquarters). 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 2019.

The audit committee met five times in 2019 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 2018 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 2018 and, on an ongoing basis, about audit-relevant matters in the group and explained the audit plan for 2019. The internal audit department presented its reports pursuant to section 42 para 3 of the Austrian Banking Act and to the quality assurance programme as well as – 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 2020 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 2021 to the supervisory board. The auditors provided information about the preliminary audit of the single-entity and consolidated financial statements for 2019. Besides, discussions were held on the reports on the development of participations, on the half-year report as of 30 June 2019, as well as on the 2018 management letter. Audit reports on on-site inspections conducted by supervisory authorities were taken note of, as were reports on the contents of the plan to address the findings made. 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 2018 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 of the Austrian CCG was conducted in December 2019. Besides, 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 annual report of Group Regulatory Compliance and the letter from the Financial Market Authority including the circular on specific issues in relation to the appointment of statutory auditors at public-interest entities were taken note of.

The nomination committee met twice in 2019, and, in addition, held one informal meeting to prepare management board matters. At one meeting the nomination committee assessed the qualification of Peter Bosek, Stefan Dörfler, Ingo Bleier, Alexandra Habeler-Drabek, David O'Mahony and Ara Abrahamyan for their (re-)appointment as members of the management board of Erste Group Bank AG and recommended that the supervisory board approve their appointments. The review of whether the requirements for the extension of the contract and early re-appointment of Bernhard Spalt were met ended with a positive result and hence a recommendation to this effect was made to the supervisory board. The nomination committee furthermore conducted a fit and proper assessment of Henrietta Egerth-Stadlhuber 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 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 at meetings by supervisory board members. The collective suitability of the management board was likewise established and the report on the collective suitability of the management board and the supervisory board was discussed, with a special focus on members' time availability. The report on the selection of senior management pursuant to section 28 of the Austrian Banking Act was taken note of.

The remuneration committee met four times in 2019. The supervisory board's resolution on the variable remuneration of members of the management 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 2018 remuneration report was presented. Reports were delivered on the complexity assessment of George Labs GmbH, the recruiting of IT experts in Austria and management remuneration in countries in which Erste Group operates. The report on the review of the remuneration policy by internal audit was acknowledged.

The IT committee met four times in 2019. The main topics were a periodic update on a project, infrastructure strategy and the timeline set for its implementation as well as the presentation of the Book of Architecture and its impact on processes. Also presented were a George update and news on the entities s IT Solutions AT Spardat GmbH and Erste Group IT International GmbH. The implementation of requirements regarding IT set by the supervisory authorities was also discussed. The IT project portfolio and IT governance for Erste Group as well as IT risk management were considered on an ongoing basis. Reports were also delivered on IT security, on the strategy concerning use of data while handling data and digitalisation, on the current status of various infrastructure projects and on IT strategy. In addition, the IT budget and IT costs were discussed and the new organisational structure for 2020 including key performance indicators for management board members was 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 board of Erste Group Bank AG and of the management boards 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 is 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 2019, target achievement is measured by reference to the following indicators: compliance with capital and liquidity requirements, net profit and operating result minus risk cost, cost/income ratio and customer experiences. The second performance criterion is the achievement of individual objectives. For 2019, these are, for example, operating result, return on tangible equity, risk costs, NPL ratio, risk-weighted assets 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.

At the annual general meeting of Erste Group Bank AG in May 2020, the principles governing the remuneration of members of the management board and the supervisory board (remuneration policy) drawn up pursuant to sections 78a et seq., 98a Austrian Stock Corporation Act will be put to the vote for the first time for the year 2020.

Remuneration of management board members

Remuneration in 2019

in EUR thousand	Fixed salaries	Other remuneration	Performance-linked remuneration		Total
			for 2018	for previous years	
Bleier Ingo (since 1 July 2019)	350.0	64.4	0.0	0.0	414.4
Bosek Peter	700.0	140.3	160.9	132.0	1.133.1
Bravek Petr	700.0	370.9	164.0	132.0	1.366.9
Cernko Willibald (until 30 June 2019)	350.0	72.0	164.0	48.0	634.0
Dörfler Stefan (since 1 July 2019)	350.0	65.1	0.0	0.0	415.1
Habeler-Drabek Alexandra (since 1 July 2019)	350.0	64.9	0.0	0.0	414.9
Mittendorfer Gernot (until 30 June 2019)	350.0	76.1	164.0	140.8	730.9
Sikela Jozef (until 30 June 2019)	350.0	74.8	138.8	132.0	695.6
Spalt Bernhard (since 1 July 2019)	350.0	65.1	0.0	0.0	415.1
Treichl Andreas	1,475.0	643.8	365.0	326.2	2.810.0
Total	**5,325.0**	**1,637.4**	**1,156.6**	**911.0**	**9,030.0**

The item "Other remuneration" comprises pension fund contributions, contributions to employee provision funds (for new-type severance payments) and remuneration in kind. In 2019, 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.

In addition to his role as board member in the Holding, Peter Bosek assumed the position as CEO of Erste Bank Oesterreich as of 1 July 2019. A portion of his remuneration is charged out to this entity. From 1 January 2015 to 31 January 2016, he had likewise held board positions at both Erste Bank Oesterreich and the Holding.

Where remuneration had been paid in 2018 to management board members for supervisory board or similar mandates in entities outside the Haftungsverbund (cross-guarantee system) or other subsidiaries majority-owned by Erste Group, the first cash tranche of the bonus for the year 2018 was reduced by the same amount.

Non-cash performance-linked remuneration in 2019

Share equivalents (in units)	for 2018	for previous years
Bleier Ingo (since 1 July 2019)	0	0
Bosek Peter	4,446	4,843
Bravek Petr	4,446	4,843
Cernko Willibald (until 30 June 2019)	4,446	1,456
Dörfler Stefan (since 1 July 2019)	0	0
Habeler-Drabek Alexandra (since 1 July 2019)	0	0
Mittendorfer Gernot (until 30 June 2019)	4,446	5,213
Sikela Jozef (until 30 June 2019)	4,446	4,843
Spalt Bernhard (since 1 July 2019)	0	0
Treichl Andreas	10,845	12,146
Total	**33,075**	**33,344**

Pay-outs will be made pro rata in 2020 after the one-year vesting period. Share equivalents are valued at the average weighted daily share price of Erste Group Bank AG in 2019 in the amount of EUR 32.08 per share.

In 2019, EUR 1,941.3 thousand was paid in cash and 4,862 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. If a management board member's tenure ends before they reach the age of 65 by no fault of the member, compensatory payments will be made to the pension fund for such management board member. Pension plan expenses are shown in "other remuneration".

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 2019	Supervisory board compensation for 2018	Total
Friedrich Rödler	37	170	207
Jan Homan	29	100	129
Maximilian Hardegg	33	90	123
Elisabeth Bleyleben-Koren	10	60	70
Matthias Bulach	8	-	8
Henrietta Egerth-Stadlhuber	8	-	8
Gunter Griss	10	60	70
Jordi Gual Solé	10	60	70
Marion Khüny	22	60	82
Elisabeth Krainer Senger-Weiss	23	60	83
Brian D. O´Neill	2	60	62
Wilhelm Rasinger	25	60	85
John James Stack	10	60	70
Michèle F. Sutter-Rüdisser	8	-	8
Martin Grießer	-	-	-
Markus Haag	-	-	-
Regina Haberhauer	-	-	-
Andreas Lachs	-	-	-
Barbara Pichler	-	-	-
Jozef Pinter	-	-	-
Karin Zeisel	-	-	-
Total	**235**	**840**	**1,075**

The annual general meeting granted the members of the supervisory board for the financial year 2017 and the following years annual remuneration based on the following fixed scale: in accordance with this resolution, the chairperson of the supervisory board receives remuneration of EUR 150,000, the 1st vice chairperson EUR 90,000, the 2nd vice chairperson EUR 80,000 and ordinary members of the supervisory board EUR 60,000 each. The chairpersons of the risk, audit and IT committees receive additional remuneration of EUR 10,000 each, the chairpersons of the remuneration and nomination committees EUR 5,000. Total remuneration for supervisory board members for the financial year 2018 thus totalled EUR 840,000. 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. Unless otherwise provided by local law, 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.

In 2019, 49.0% of all management positions in the Holding and the local banking subsidiaries were held by women (2018: 46.2%). The proportion of women in top management positions in the Holding and the local banking subsidiaries declined to 27.4% (2018: 30.0%), the highest shares were in Banca Comercială Română, Erste Bank Serbia and Erste Bank Oesterreich. The target to reach a share of at least 35% women in top management was thus not reached. The results of the analysis of this negative development will be incorporated in the measures to reach the targeted level. A new medium-term goal will be defined in 2020. With Alexandra Habeler-Drabek, a woman was appointed as board member of Erste Group Bank AG in 2020.

At year-end 2019, the share of women on the Holding's supervisory board stood at 38.9% (2018: 35.3%). The target to reach 35% female representation at supervisory board level was also reached in Erste Bank Oesterreich, Erste Bank Hungary, Banca Comercială Română and Slovenská sporiteľňa. Taking into account all banking subsidiaries across Erste Group, 34.3% of all supervisory board seats were held by women.

Erste Group organised a variety of initiatives to support female leadership in 2019. An important instrument is the more balanced gender and age structure in its talent and succession pools. 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. *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's *Erste Nő* (Women's Club) focused on promoting a family friendly organisation, the work-life balance of working women and supporting mothers returning from maternity leave. In 2019, Česká spořitelna set a focal point on mentoring activities and rolled out an initiative to facilitate the job re-entry of women after parental leave.

DIVERSITY

Erste Group's diversity and inclusion principles are reflected in its Statement of Purpose and Code of Conduct, which both emphasise that the work environment must be free of discrimination and harassment and must value the work 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. As of year-end 2019, all local Erste banks were signatories to their respective national Diversity Charters. The Policy also defines the diversity concepts applicable in appointing management board and supervisory board members with regard to age, gender, education and professional career. In addition to setting group-wide targets for the share of women in top management and on the supervisory board, it also requires that all positions, including management positions, have to be advertised internally (unless candidates from a succession pool are already available for a position). Selection processes and criteria must be transparent and job offers have to be worded in a gender-neutral manner: Talent pools and programmes must be open to suitable employees of any age group, gender or origin; when filling top management positions, at least one candidate per gender must be short-listed; when filling supervisory board mandates, the nomination committees (Holding and local banks) must consider female candidates.

In 2019, Erste Group pursued the following diversity priorities: to increase the number of women in management positions group-wide; to make careers in the field of IT more attractive for women through Erste WIT (Women in IT); to develop and encourage more initiatives for LGBTIQ inclusion in the CEE region; and to implement local initiatives promoting diversity in CEE.

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 from 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	
Bernhard Spalt mp, Chairman	
Ara Abrahamyan mp, Member	Stefan Dörfler mp, Member
Ingo Bleier mp, Member	Alexandra Habeler-Drabek mp, Member
Peter Bosek mp, Member	David O'Mahony mp, Member

Vienna, 28 February 2020

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 financial 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 2019.

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 training is mandatory.

Activities in 2019

_ Continued optimisation of the compliance strategy with an increased strategic focus on improvements in anti-money laundering, financial sanctions and the uniform establishment of group-wide standards.
_ Improvement of the monitoring systems to combat money laundering
_ Annual or periodic reviews of policies including the group-wide AML, KYC, CTF, FATCY and CSR policies, the Financial Sanctions and Embargoes Policy, the Securities Compliance Manual, and the Anti-Corruption and Conflicts of Interest Policy
_ Regular compliance and anti-corruption training

Activities continuing in 2020

_ Strengthening process and technical improvements in anti-money laundering, financial sanctions and data analyses to combat financial crime
_ Further improvement of the monitoring systems to combat money laundering

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 192. In addition, credit risk is analysed in detail in a separate section starting on page 27, in the Segments section of this report.

Directors' dealings

In accordance with the Article 19 of the Market Abuse Regulation, 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.