

Erste Group
Annual Report 2019

THE FUTURE IS YOURS.

200
YEARS
#BELIEVEINYOURSELF



Extensive presence in Central and Eastern Europe



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 €

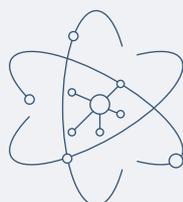


Return on tangible equity, ROTE

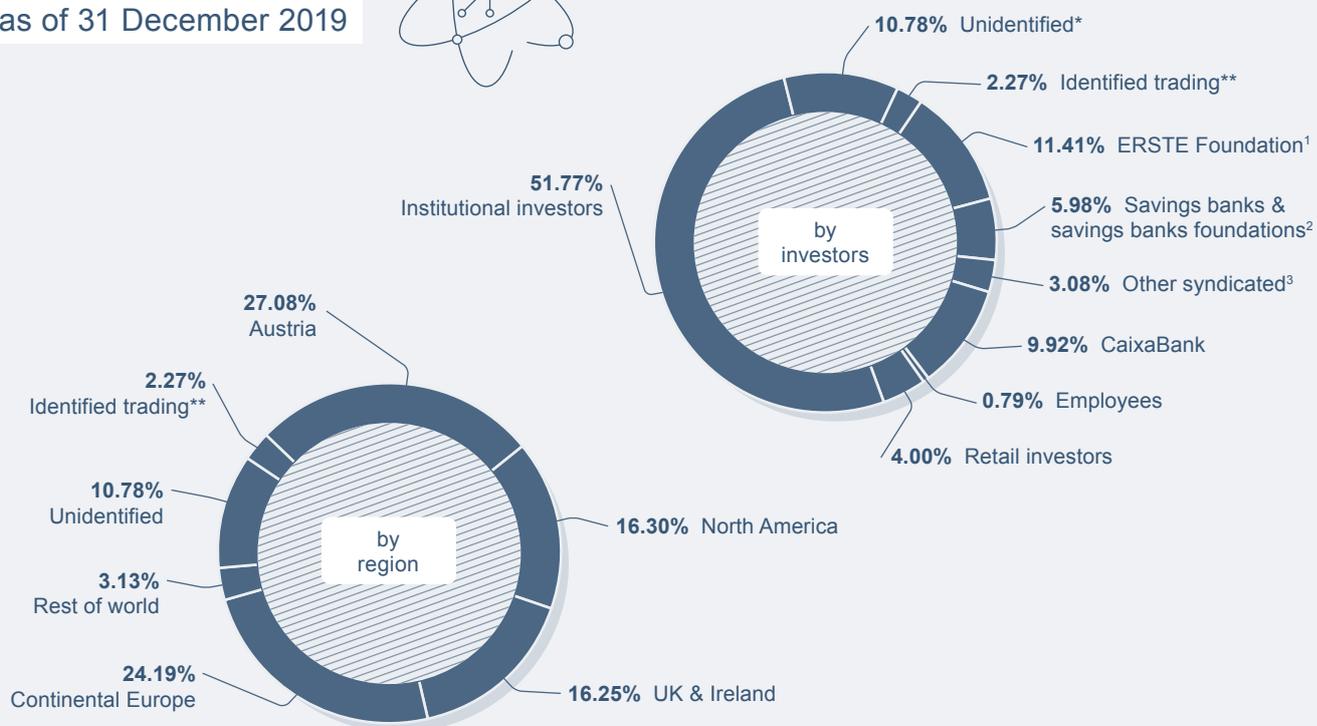
in %



Shareholder structure as of 31 December 2019



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

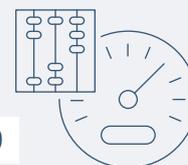
31 July Half-year financial report 2020

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

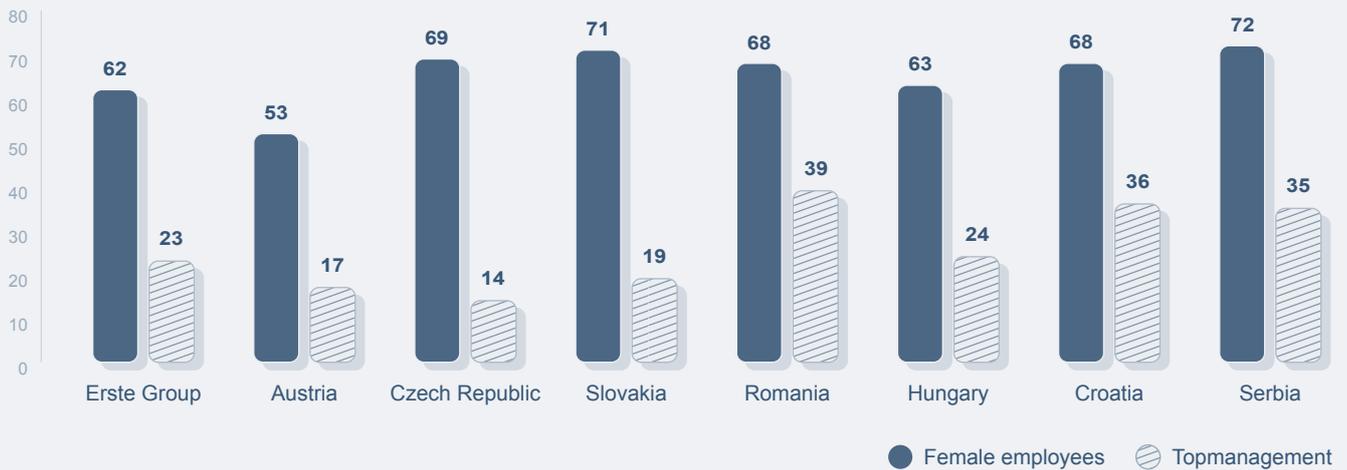
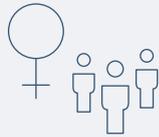
Long-term	A2
Short-term	P-1
Outlook	Positive

Standard & Poor's

Long-term	A
Short-term	A-1
Outlook	Positive

Non-financial data

Share of women in 2019
in %



Social Banking until 2019



15,000

customers received education and mentoring



● 29,500 preserved ● 15,500 newly created



67% improved their economic situation

230 million €

disbursed loans

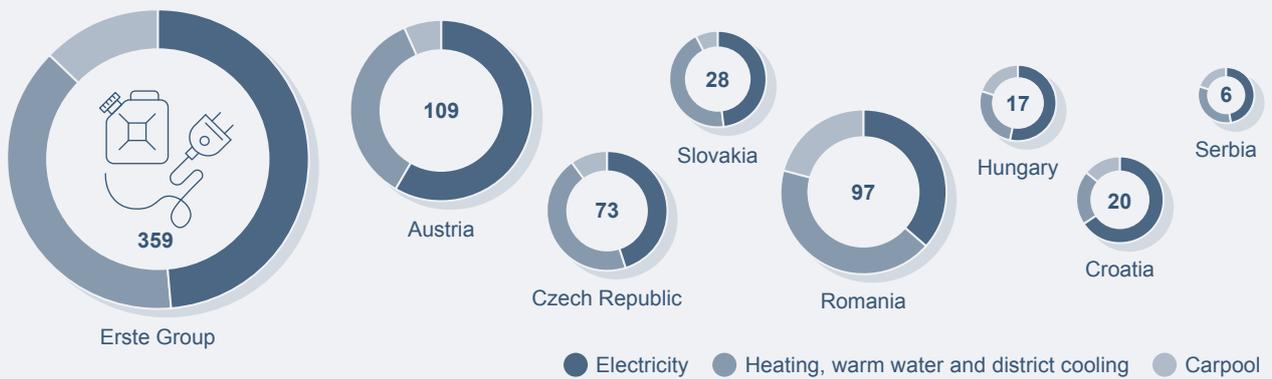
Copy paper consumption in 2019

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}: CO₂-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)

Your Notes

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

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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-Rüdissler, 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 Sikela for their many years of successful service for Erste Group.

I am pleased to welcome Matthias Bulach, Henrietta Egerth-Stadlhuber and Michèle F. Sutter-Rüdiger, 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 Wirtschaftsprüfung 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

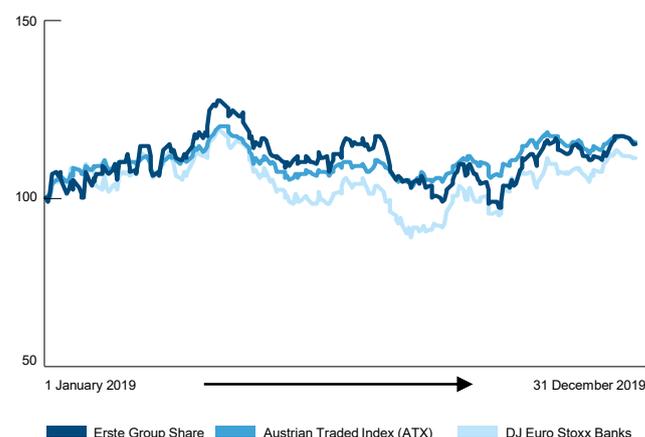
The domestic stock market reflected the developments in international markets. 16 of the 20 ATX (Austrian Traded Index) stocks ended the year higher. By rising 16.1% to 3,186.94 points, the ATX closed 2019 on a double-digit gain, but still lagged behind the performance of the European Stoxx 600 Index (+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 forbore 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.

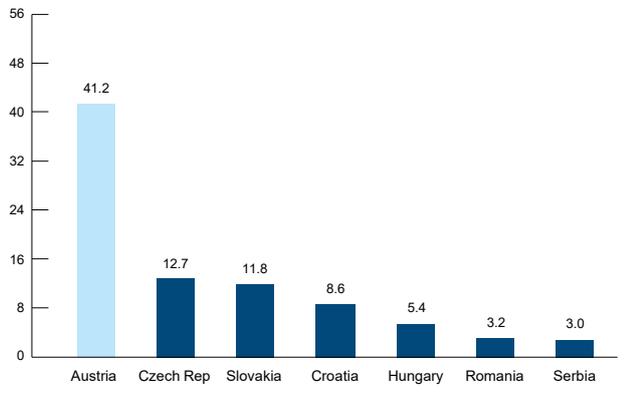
Regulation (EU) 2019/2088 on sustainability - related disclosures in the financial services sector was published in the EU's Official Journal at the end of the year. Among other things, financial market participants are required – mostly as of March 2021 – to provide comprehensive information on their 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).

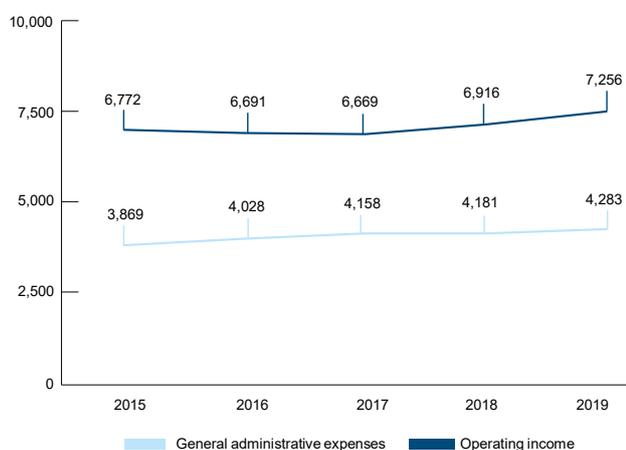
The increase in **general administrative expenses** to EUR 4,283.3 million (+2.4%; EUR 4,181.1 million) was mainly attributable to a rise in personnel expenses to EUR 2,537.1 million (+2.5%; EUR 2,474.2 million). Payments to deposit insurance systems included in other administrative expenses rose to 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%).

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%).

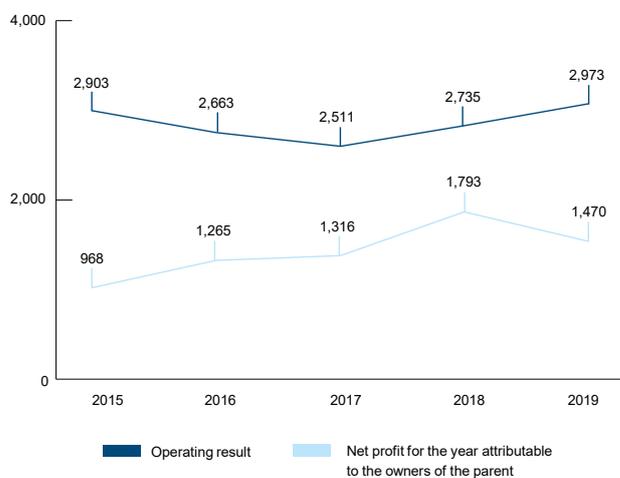
Other operating result amounted to EUR -628.2 million (EUR 304.5 million). The deterioration is attributable to a provision in the amount of EUR 153.3 million set aside for losses expected from a supreme court decision concerning the business activities of a Romanian subsidiary as well as goodwill impairment 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 income and operating expenses in EUR million



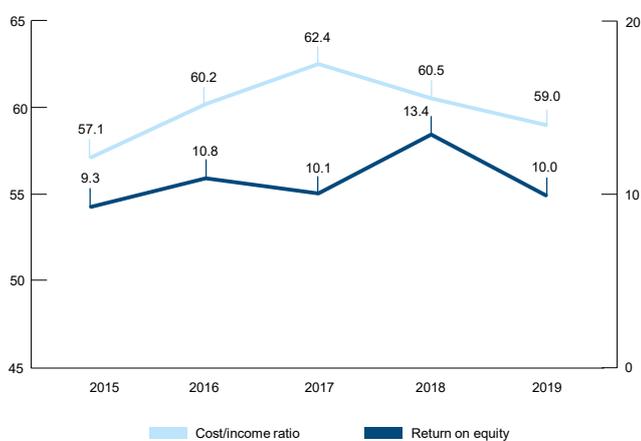
Operating result and net profit/loss for the year attributable to owners of the parent in EUR million



Cash earnings per share (see glossary for definition) amounted to EUR 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, macro-economic 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%.

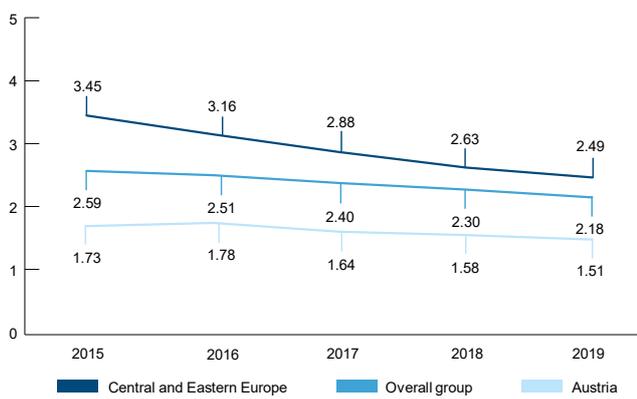
Potential risks to the guidance are interest rate trends that differ from expectations, political or regulatory measures targeting banks, geopolitical and global economic developments as well as potential negative economic effects from the spreading of the corona virus.

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%).

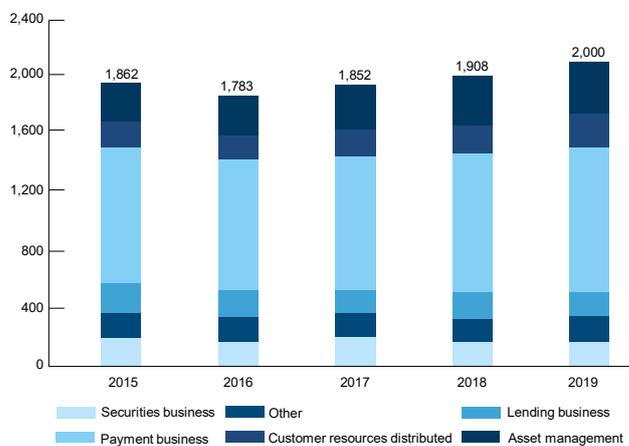
Net interest margin in %



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

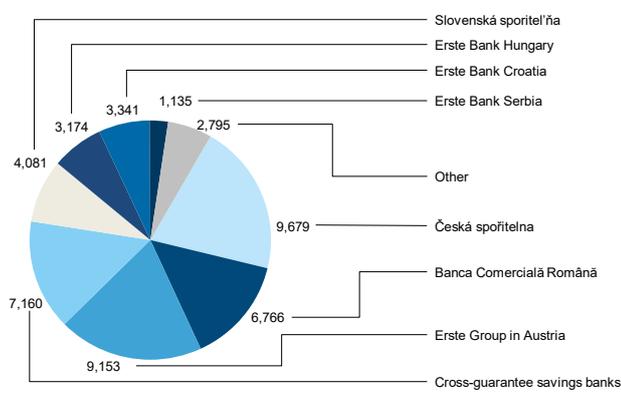
Valuation effects have a substantial impact on both positions – net trading result and gains/losses from financial instruments measured at fair value through profit or loss. Debt securities issued measured at FV through profit or loss are particularly impacted – related valuation results are shown in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

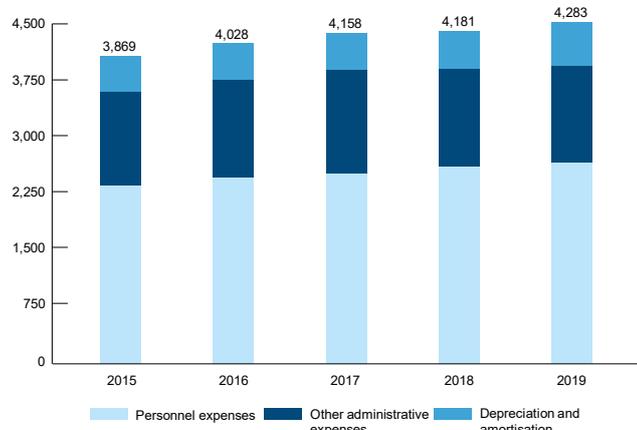
Employees as of 31 December 2019



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

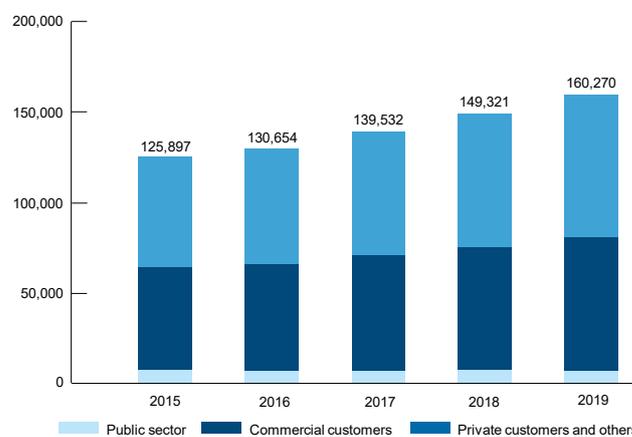
The decline in **cash and cash balances** to EUR 10.7 billion (EUR 17.5 billion) was primarily due to a significant reduction of cash balances held at central banks.

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).

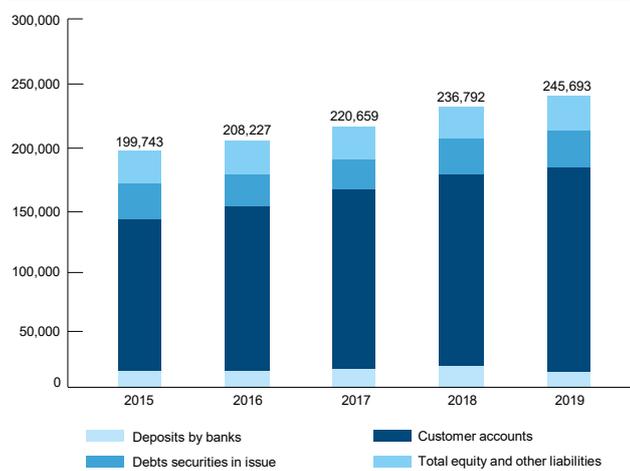
Deposits from banks, primarily overnight deposits and term deposits, decreased to EUR 13.1 billion (EUR 17.7 billion).

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.

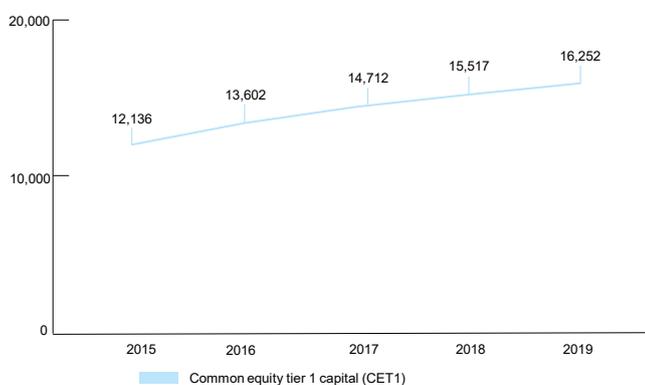
Miscellaneous liabilities amounted to EUR 5.4 billion (EUR 5.4 billion).

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

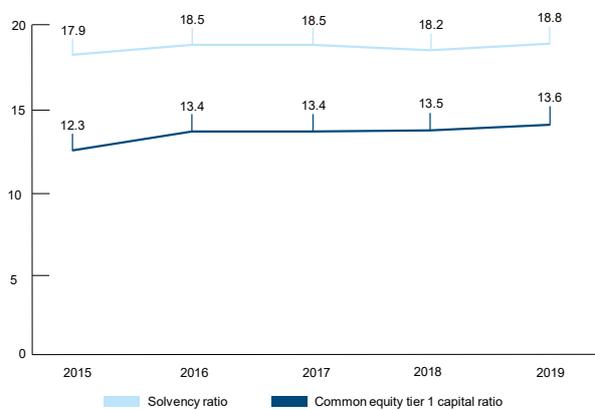


After regulatory deductions and filtering according to the Capital Requirements Regulation (CRR), **common equity tier 1 capital (CET1, CRR final)** rose to EUR 16.3 billion (EUR 15.5 billion). **Total own funds (CRR final)** went up to EUR 22.0 billion (EUR 20.9 billion). **Total risk (risk-weighted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



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 allocat-

ed 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 interest 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 valua-

tion 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. inter-company 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 expansion-

ary 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

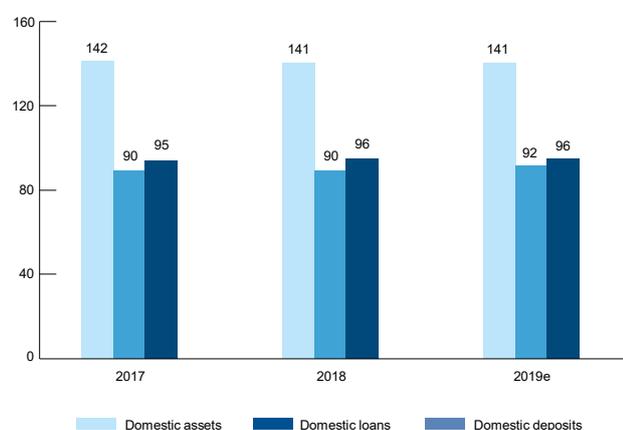
Source: Erste Group

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.

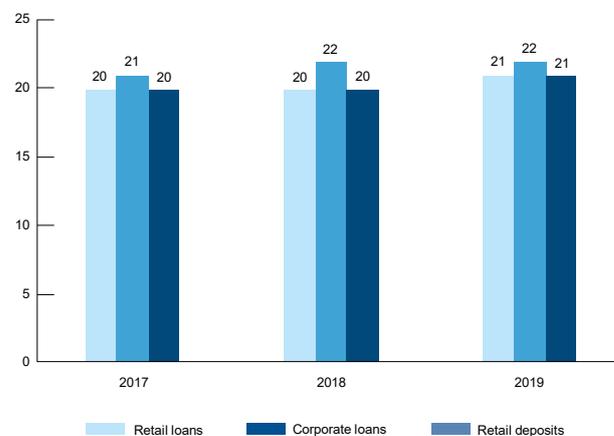
Austrian banks continued to benefit from the benign domestic and CEE economic conditions. Loan growth remained above real GDP growth with both retail and corporate loans rising considerably. Customer deposits grew less than loans. The banking system's loan-to deposit-ratio stood at 95.3% at the end of 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 mar-

ket 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 ex-

ecute 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. Conse-

quently, 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.

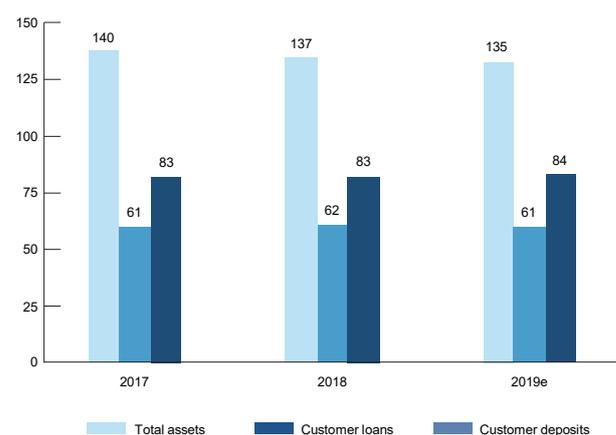
Key economic indicators – Czech Republic	2016	2017	2018	2019e
Population (ave, million)	10.6	10.6	10.6	10.6
GDP (nominal, EUR billion)	176.3	191.9	208.0	220.2
GDP/capita (in EUR thousand)	16.7	18.1	19.6	20.7
Real GDP growth	2.4	4.5	2.9	2.4
Private consumption growth	3.5	4.4	3.3	2.8
Exports (share of 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.

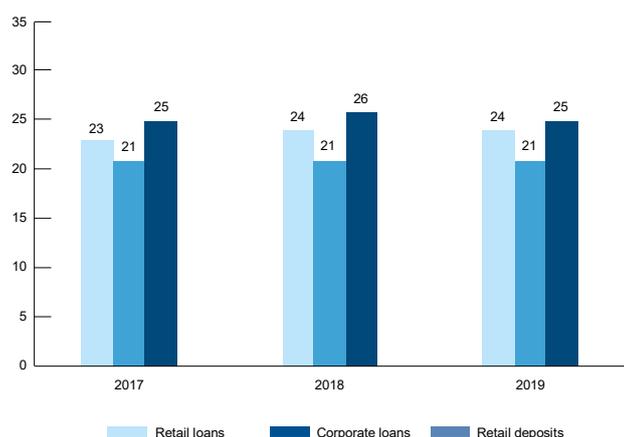
Financial intermediation – Czech Republic (in % of GDP)



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 prizes. 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 addi-

tion, 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.

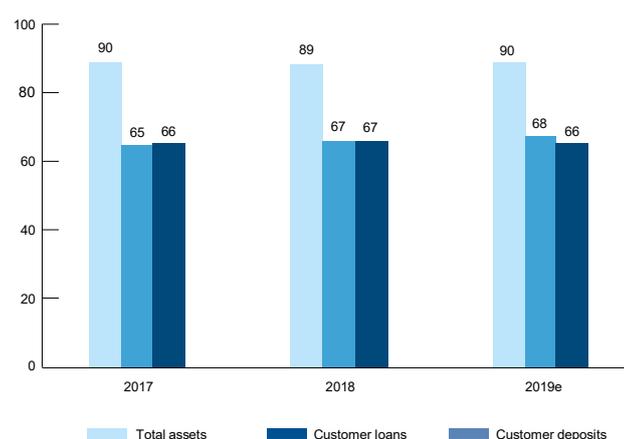
Key economic indicators – Slovakia	2016	2017	2018	2019e
Population (ave, million)	5.4	5.4	5.5	5.5
GDP (nominal, EUR billion)	81.0	84.5	89.7	94.2
GDP/capita (in EUR thousand)	14.9	15.5	16.5	17.3
Real GDP growth	2.1	3.0	4.0	2.3
Private consumption growth	3.9	4.4	3.9	2.1
Exports (share of GDP)	82.3	83.4	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)

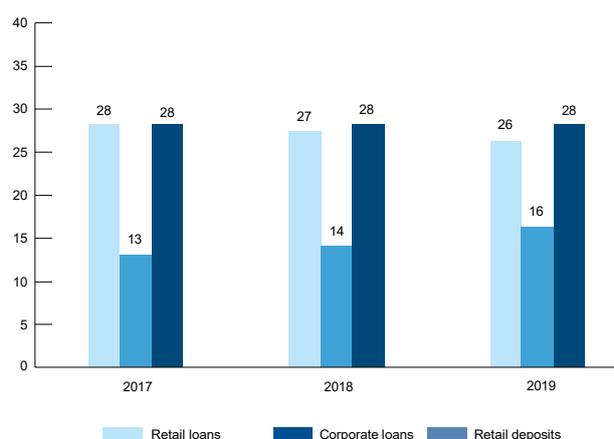


Source: National Bank of Slovakia, Erste Group

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 sporiteľňa 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

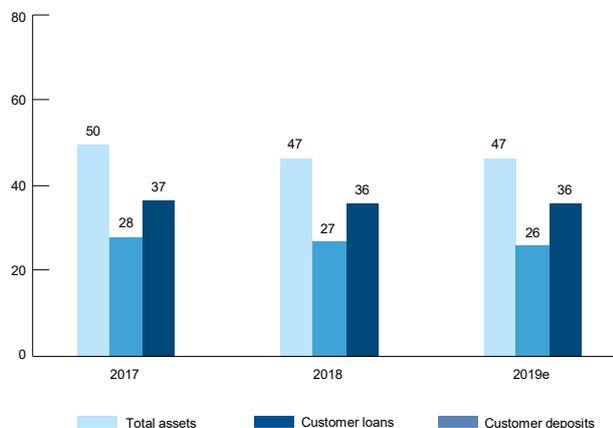
Source: Erste Group

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.

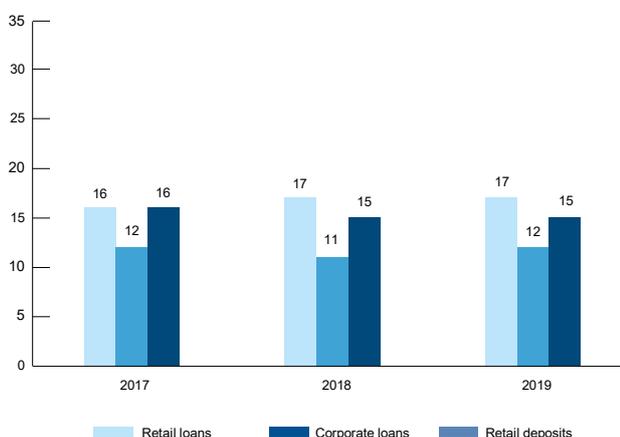
Financial intermediation – Romania (in % of GDP)



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 gov-

ernment 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 inter-bank 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

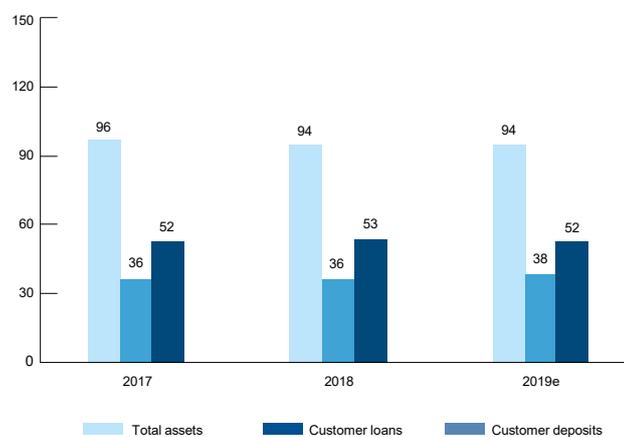
Source: Erste Group

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.

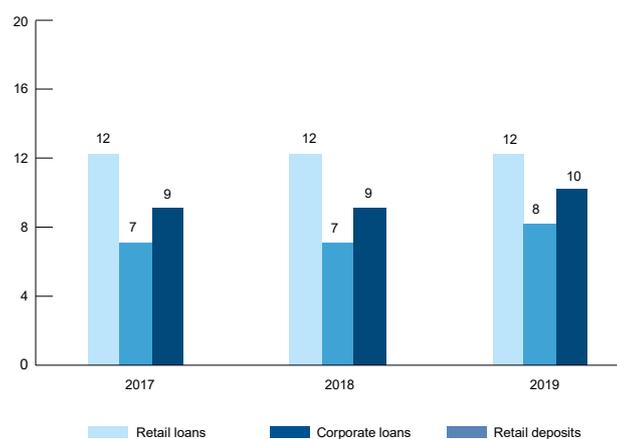
Financial intermediation – Hungary (in % of GDP)



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 cus-

tomers 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 Jelasić

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 choose 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 Brillit, 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.

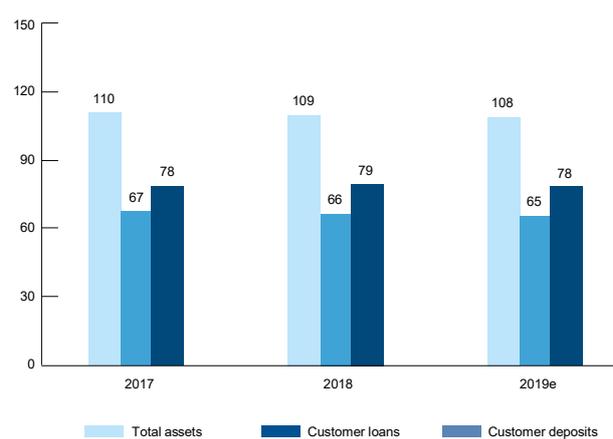
Key economic indicators – Croatia	2016	2017	2018	2019e
Population (ave, million)	4.2	4.1	4.1	4.1
GDP (nominal, EUR billion)	46.6	49.1	51.7	54.0
GDP/capita (in EUR thousand)	11.2	11.9	12.6	13.2
Real GDP growth	3.5	3.1	2.7	3.0
Private consumption growth	3.1	3.2	3.2	3.4
Exports (share of GDP)	22.5	23.8	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.

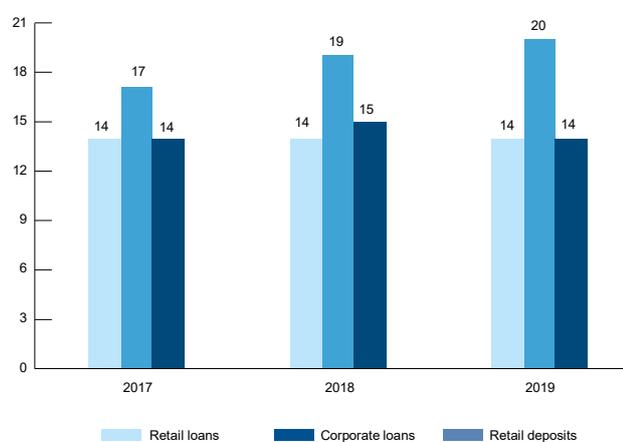
Financial intermediation – Croatia (in % of GDP)



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 busi-

ness 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 to 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.

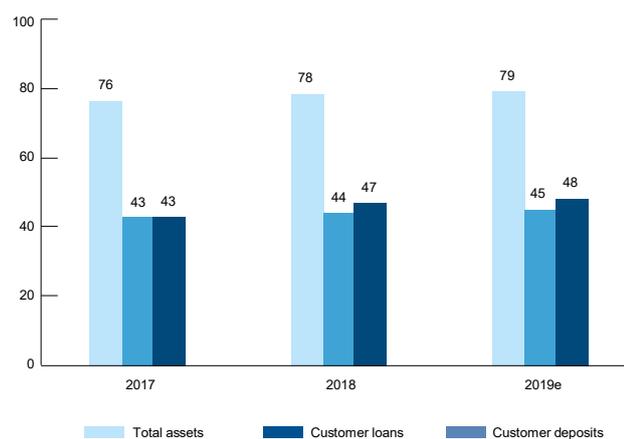
Key economic indicators – Serbia	2016	2017	2018	2019e
Population (ave, million)	7.1	7.0	7.0	7.0
GDP (nominal, EUR billion)	36.7	39.2	42.9	45.8
GDP/capita (in EUR thousand)	5.2	5.6	6.1	6.6
Real GDP growth	3.3	2.0	4.4	4.2
Private consumption growth	1.3	2.0	3.0	3.2
Exports (share of GDP)	36.6	38.4	38.0	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 subsidiary 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 sporiteľňa 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 follow-

ing 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 particularly 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 conse-

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

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 *ExtraVALUE* 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 *ExtraVALUE* programme. Regional focus, cross-thematic initiatives and cooperation within related fields characterise the programme. Erste Group's *ExtraVALUE* 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 im-

plement 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/unterrichtsmateriale/n/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 *ExtraVALUE* 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 *ExtraVALUE* Film Prize and the *ExtraVALUE* Design Prize for social design as part of the Vienna Design Week as well as the Erste Bank *ExtraVALUE* 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!* music 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 Česká 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 vary 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 Investment* (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 CO₂ 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 CO₂ emissions of its assets measured and to disclose its CO₂ 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 CO₂ 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 Non-profit 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 CO₂-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 insur-

ance provisions are according to local laws, regulations and market practice.

EMPLOYEE HEALTH & WORK-LIFE BALANCE

Respecting and promoting work-life balance has been a long-standing priority of Erste Group, and it offers a wide variety of family-friendly measures and evaluates them on a regular basis to ensure that they meet the employees' needs. These measures differ from country to country and include flexible work arrangements, 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 %						
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 %								
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-CO₂ 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 m²) 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/m²
- _ average heating energy usage in kWh/m²
- _ 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. CO₂ 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 CO₂ 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 CO₂ 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 CO₂e 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 Spar-

kasse 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 collect-

ed 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 con-

tributes 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 m ²	kWh/m ²	-	104	103	85	79	125	163	106
Average heating energy usage per m ²	kWh/m ²	-	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 m ²	kWh/m ²	110	111	109	86	93	129	192	109
Average heating energy usage per m ²	kWh/m ²	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 m ²	kWh/m ²	107.8	115.3	105.9	88.6	89.5	139.0	185.5	118.7
Average heating energy usage per m ²	kWh/m ²	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 CO₂ 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 seq.	(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 seq.	(consolidated) non-financial report with reference to the sustainability board, (consolidated) corporate governance report
5. Stakeholder engagement					
GRI 102	General Disclosures	102-40	List of stakeholder groups	p. 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 disadvantaged 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 ₂ e-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. 62 et 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 Wirtschaftstreuhänderberufe", "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 Corporate Governance Report has been prepared in accordance with sections 243c and 267b of the Austrian Commercial Code and Rules 60 et seq. of the Austrian CCG and combines the corporate governance report of Erste Group Bank AG, the parent, and the consolidated corporate governance report in one single report. The management board has also prepared a (consolidated) non-financial report in accordance with sections 243b and 267a of the Austrian Commercial Code, which is released as part of the annual report.

In the financial year 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 Sikela	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 Sikela 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 Sikela	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-Rüdissler	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 Elisabeth 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-Rüdissler 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-Rüdissler	-	-	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 České 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 České 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 partici-

pations 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 re-

ports 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 decisions 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 inter-

nal 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 subsid-

aries 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 coun-

tries 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.

AUDITED FINANCIAL REPORTING

as of 28 February 2020

Management report

Consolidated financial statements

Your Notes

Management report

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%¹ and 4.8%², 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%³.

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%⁴ 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%⁵.

At 1.2%⁶, 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 the 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%⁷. Average consumer prices remained well under control, with an inflation rate of 1.5%⁸. The general government surplus stood at 0.3%⁹. Public debt as a percentage of GDP significantly decreased to 69.6%¹⁰. Overall, real GDP growth stood at 1.6%¹¹, with GDP per capita rising to EUR 45,000¹².

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

¹ IMF: <https://www.imf.org/en/Publications/WEO/Issues/2020/01/20/weo-update-january2020> (Download on 19 February 2020)

² IMF: <https://www.imf.org/en/Publications/WEO/Issues/2020/01/20/weo-update-january2020> (Download on 19 February 2020)

³ IMF: <https://www.imf.org/en/Publications/WEO/Issues/2020/01/20/weo-update-january2020> (Download on 19 February 2020)

⁴ US Bureau of Labor Statistics: <https://data.bls.gov/timeseries/LNS14000000> (Download on 19 February 2020)

⁵ IMF: <https://www.imf.org/en/Publications/WEO/Issues/2020/01/20/weo-update-january2020> (Download on 19 February 2020)

⁶ IMF: <https://www.imf.org/en/Publications/WEO/Issues/2020/01/20/weo-update-january2020> (Download on 19 February 2020)

⁷ Statistik Austria: http://www.statistik.at/web_de/statistiken/menschen_und_gesellschaft/arbeitsmarkt/arbeitslose_arbeitssuchende/arbeitslose_int_definitionen_ms/055370.html (Download on 19 February 2020)

⁸ Statistik Austria: http://www.statistik.at/web_de/statistiken/wirtschaft/preise/verbraucherpreisindex_vpi_hvpi/022835.html

(Download am 19. Februar 2020)

⁹ European Commission: https://ec.europa.eu/economy_finance/forecasts/2019/autumn/ecfin_forecast_autumn_2019_at_en.pdf (Download on 19 February 2020), adjusted for expected development until year-end 2019

¹⁰ European Commission: https://ec.europa.eu/economy_finance/forecasts/2019/autumn/ecfin_forecast_autumn_2019_at_en.pdf (Download on 19 February 2020), adjusted for expected development until year-end 2019

¹¹ WIFO: https://www.wifo.ac.at/jart/prj3/wifo/resources/person_dokument/person_dokument_jart?publikationsid=65634&mime_type=application/pdf (Download on 19 February 2020)

¹² Statistik Austria: https://www.statistik.at/web_de/statistiken/wirtschaft/volkswirtschaftliche_gesamtrechnungen/index.html (Download on 19 February 2020), adjusted for economic growth and inflation for 2019

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 in 2019 between 4.9%¹³ in Hungary and 2.3%¹⁴ in Slovakia.

PERFORMANCE IN 2019

P&L data of 2019 is compared with 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%).

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.

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.

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).

¹³ Kőzponti Statisztikai Hivatal: <https://www.ksh.hu/docs/hun/xftp/gyor/gde/gde1912.html> (Download on 19 February 2020)

¹⁴ Štatistický úrad Slovenskej republiky: <http://statdat.statistics.sk/cognosexxt-gi->

bin/cognos.cgi?b_action=cognosViewer&ui.action=run&ui.object=storeID%22iC20449D1FEFE41C0B10E2AC7A4F5A4E4%22)

&ui.name=Flash%20estimate%20of%20GDP%20and%20Total%20Employment%20according%20to%20ESA%2095%20%5bnu001q%5d&run.outputFormat=&run.prompt=true&cv.header=false&ui.backURL=%2fcognosexxt%2ffps4%2ffortlets%2fcommon%2fclose.html&run.outputLocale=en (Download on 19 February 2020)

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%).

Dividend

A dividend distribution of EUR 1.50 per share will be proposed at the annual general meeting (2018: EUR 1.40 per share).

Outlook

Erste Group targets a return on tangible equity (ROTE) of above 10% in 2020. The expected positive, albeit moderating, macro-economic 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 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 trading result & 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 & 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). **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).

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 the 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.

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).

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. 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 the 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%).

EVENTS AFTER BALANCE SHEET DATE

There were no significant events after the balance sheet date.

RISK MANAGEMENT

With respect to the explanations on substantial financial and non-financial risks at Erste Group as well as the goals and methods of risk management, we would like to draw the reader's attention to the information in Notes 46, 47 and 51 to the consolidated financial statements.

RESEARCH AND DEVELOPMENT

Erste Group does not engage in any research activities pursuant to section 243 (3) no. 3 UGB, but in 2019 development costs in the amount of EUR 76 million (EUR 61 million) were capitalised in connection with software developed in-house. In order to drive improvements for retail customers and in the ongoing services, Erste Group launched the Innovation Hub. Its purpose is to initiate and coordinate cross-the-board initiatives with a strong focus on customer experiences. As a multi-disciplinary team consisting of marketing, product and IT as well as design experts, the Innovation Hub is tasked with creating innovations and managing new programme initiatives.

CAPITAL, SHARE, VOTING AND CONTROL RIGHTS

Investor information pursuant to section 243a (1) of the Austrian Commercial Code (UGB)

With regard to the statutory disclosure requirements related to the composition of the capital, the class of shares as well as own shares, special reference is made to the relevant information in the notes to the financial statements, in section C 38.

As of 31 December 2019, together with its syndicate partners, DIE ERSTE oesterreichische Spar-Casse Privatstiftung (ERSTE Stiftung), a foundation, controls 30.39% (prior year: 29.99%) of the shares in Erste Group Bank AG and with 16.46% (prior year: 16.21%) is the main shareholder. ERSTE Stiftung holds 6.37% (prior year: 6.49%) of the shares directly; the indirect participation of the ERSTE Stiftung amounts to around 10.09% (prior year: 9.72%) of the shares held by Sparkassen Beteiligungs GmbH & Co KG, which is an affiliated undertaking of the ERSTE Stiftung. 0.93% (prior year: 0.78%) are held directly by savings bank foundations (Sparkassenstiftungen) respectively saving banks foundations acting together with the ERSTE Stiftung and affiliated with Erste Group Bank AG through the Haftungsverbund/IPS fund. 9.92% (prior year: 9.92%) of the subscribed capital is controlled by ERSTE Stiftung on the basis of a shareholder agreement with Caixabank S.A.. 3.08% (prior year: 3.08%) are held by other partners to the shareholder agreement.

Furthermore, it should be noted that in addition to the joint liability scheme in place since 2001, from 1 January 2014 onwards Erste Group Bank AG has formed a recognized institutional protection scheme in accordance with article 113 (7) CRR together with the Austrian savings banks. The joint liability scheme complies with the requirements of article 4 (1) Z 127 CRR, whereby the required individual services of the individual members of the scheme are subject to an individual and general ceiling. The applicable amounts are determined by the steering company and made known to the paying members. Due to the requirements for an IPS, the ceilings for individual members' support measures were raised and an ex-ante fund established which was endowed beginning in 2014 for the following 10 years.

In the financial statements, the payments by the individual members are recognised as participations in IPS GesbR – which is in charge to manage the ex-ante-fund. Furthermore retained earnings are built, whereby a shift from untied reserves to tied reserves was conducted in 2014. On the basis of the contractual provisions, these retained earnings represent a restricted reserve. These tied retained earnings may be released only in case of a drawdown of the ex-ante-fund due to a triggering event. Internally, this reserve may therefore not be used to cover a loss and, at member level, it does not qualify as capital under the definition of CRR; on a consolidated level, however, the ex-ante-fund qualifies as capital.

Additional disclosures pursuant to section 243a (1) UGB

All restrictions on voting rights or the transfer of shares, even if they are included in agreements between shareholders, insofar as they are known to the Management Board pursuant to section 243a (1) no. 2 UGB: In shareholder agreements ERSTE Stiftung agreed with its partners the following: concerning the appointment of the members of the supervisory board the partners are obliged to vote as required by ERSTE Stiftung. The partners can dispose of shares according to a predefined sale procedure and can purchase shares only within the quotas agreed with ERSTE Stiftung (of a maximum of 2% within 12 months in total); with this regulation an unwanted creeping-in according to takeover law shall be prevented. In addition, the partners have committed themselves not to make a hostile takeover bid, nor to participate in a hostile takeover bid nor to act together with a hostile bidder in any other way.

The Articles of Association contain no restrictions in respect of voting rights or the transfer of shares.

Pursuant to section 243a (1) no. 6 UGB not directly prescribed by the law regarding the appointment and dismissal of members of management and supervisory boards as well as on the amendment of the Articles of Association:

This concerns:

- Art. 15.1 of the Articles of Association, which provides that ERSTE Stiftung will be granted the right to nominate up to one third of the members of the Supervisory Board to be elected by the shareholders' meeting, as long as ERSTE Stiftung is liable or all present and future liabilities of the company in the case of its insolvency pursuant to Section 92 (9) Banking Act and
- Art. 15.4 of the Articles of Association, which provides that a three-quarter majority of valid votes cast and a three-quarter majority of the subscribed capital represented at the meeting considering the proposal are required to pass a motion for removal of Supervisory Board members
- Art. 19.9 of the Articles of Association, which provides that the Articles of Association, in so far as they do not alter the business purpose, may be passed by simple majority of votes cast and simple majority of the subscribed capital represented at the meeting considering the amendment. Where higher majority votes are required by individual provisions of the Articles of Association, these provisions can only be amended with the same higher majority vote. Moreover, amendments to Art. 19.9 require a three-quarter majority of the votes cast and a three-quarter majority of the subscribed capital represented at the meeting considering the proposal.

Pursuant to section 243a (1) no. 7 UGB, members of the Management Board have the right to issue or repurchase shares, where such a right is not prescribed by statutory law:

As per decision of the Annual General Meeting of 15 May 2019:

- The Management Board is entitled to purchase up to 10% of the subscribed capital in treasury shares for trading purposes

according to section 65 (1) no. 7 Austrian Stock Corporation Act (AktG). However, the trading portfolio of these shares may not exceed 5% of the subscribed capital at the end of any calendar day. The consideration for the shares to be purchased must not be less than 50% of the closing price at the Vienna Stock Exchange on the last trading day prior to the purchase and must not exceed 20% of the closing price at the Vienna Stock Exchange on the last trading day prior to the purchase. This authorisation is valid for a period of 30 months, i.e. until 14 November 2021.

– The Management Board is entitled, pursuant to section 65 (1) no. 8 as well as (1a) and (1b) Stock Exchange Act and for a period of 30 months from the date of the resolution, i.e. until 14 November 2021, to acquire own shares of up to 10% of the subscribed capital, subject to approval by the Supervisory Board, with the option of making repeated use of the 10% limit, either at the stock exchange or over the counter, likewise to the exclusion of the shareholders' right to tender proportional payment. The authorisation may be exercised in whole or in part or in several instalments and in pursuit of one or several purposes. The market price per share must not be below EUR 2.00 or above EUR 120.00. Pursuant to section 65 (1b) in conjunction with sec. 171 Stock Corporation Act, the Management Board is authorised, from the date of the resolution, i.e. until 14 May 2024, on approval by the Supervisory Board, to sell or use the company's own shares, also by means other than the stock exchange or a public offering for any purpose allowed by the law, particularly as consideration for the acquisition and financing of the acquisition of companies, businesses, business divisions or shares in one or several businesses in Austria or abroad to the exclusion of the shareholders' proportional purchase option. The authorisation may be exercised in whole or in part or in several instalments and in pursuit of one or several purposes. The Management Board is authorised to redeem own shares subject to the Supervisory Board's approval without requiring the Annual General Meeting to adopt any further resolution.

– The Management Board is authorised to redeem shares without further resolution at the Annual General Meeting with the approval of the Supervisory Board.

– According to section 65 paragraph 1 Z 4 as well as paragraph 1a and 1b Stock Exchange Act, the Management Board is authorised for the duration of 30 months following the date of resolution, hence until 14 November 2021, and with the approval of the Supervisory Board to purchase own shares at an amount equaling up to 10% of share capital of the company also under repeated utilisation of the 10% limit both via the stock market as well as off-market under exclusion of the pro rata tender rights of shareholders for the purpose of granting shares for free or at concessionary terms to Erste Mitarbeiterbeteiligung Privatstiftung, their beneficiaries, employees, executive employees and members of the board at Erste Group Bank AG as well as affiliated group companies or other companies according to section 4d paragraph 5 Z 1 Income Tax

Act. The value per share may neither be lower than the floor value of two Euros nor higher than the ceiling of 120 Euros.

All sales and purchases were carried out as authorised at the Annual General Meeting.

According to section 8.3 of the Articles of Association, the Management Board is authorized, until 24 May 2023 and with the approval of the Supervisory Board, to issue convertible bonds (including conditional compulsory convertible bonds according to section 26 Austrian Banking Act (BWG)), which grant subscription or conversion rights to the acquisition of company shares, while paying due consideration or excluding the subscription right of shareholders. The terms of issue can also set out a conversion obligation at the end of the term or at another point in time in addition or instead of subscription or conversion rights. The issue of convertible bonds may only take place to the extent that guarantees the fulfilment of agreed conversion or subscription rights and, in the case of a conversion obligation set out in the conditions of issue, the fulfilment of the corresponding conversion obligations from the conditional capital increase. The issue amount, conditions of issue and the exclusion of shareholders' subscription rights are to be determined by the Management Board with consent of the Supervisory Board.

Significant agreements to which the company is party, and which become effective, are amended or are rendered ineffective when there is a change in the control of the company as a result of a takeover bid, as well as their effects [section 243a (1) no. 8 UGB]:

Haftungsverbund

The agreement in principle of the Haftungsverbund provides for the possibility of early cancellation for good cause. Good cause allowing the respective other contracting parties to cancel the agreement is deemed to exist if:

- one contracting party grossly harms the duties resulting from the present agreement
- the ownership structure of a party to the contract changes in such a way – particularly by transfer or capital increase – that one or more third parties from outside the savings bank sector directly and/or indirectly gain a majority of the equity capital or voting rights in the contracting party or
- one contracting party resigns from the savings bank sector irrespective of the reason.

The Haftungsverbund's agreement in principle and supplementary agreement expire if and as soon as any entity that is not a member of the savings bank sector association acquires more than 25% of the voting power or equity capital of Erste Group Bank AG in any manner whatsoever and a member savings bank notifies the Haftungsverbund's steering company and Erste Group Bank AG by registered letter within twelve weeks from the change of control that it intends to withdraw from the Haftungsverbund.

Directors and Officers Insurance

Changes in control: In the event that any of the following transactions or processes occur during the term of the insurance policy (each constituting a 'change in control') in respect of the insured:

- the insured ceases to exist as a result of a merger or consolidation, unless the merger or consolidation occurs between two insured parties, or
- another company, person or group of companies or persons acting in consent, who are not insured parties, acquire more than 50% of the insured's outstanding equity or more than 50% of its voting power (resulting in the right to control the voting power represented by the shares, and the right to appoint the Management Board members of the insured),

then the insurance cover under this policy remains in full force and effect for claims relating to unlawful acts committed or alleged to have been committed before this change in control took effect. However, no insurance cover is provided for claims relating to unlawful acts committed or allegedly committed after that time (unless the insured and insurer agree otherwise). The premium for this insurance cover is deemed to be completely earned.

In the event that a subsidiary ceases to be a subsidiary during the insurance period, the insurance cover under this policy shall remain in full force and effect for that entity for the remainder of the insurance period or (if applicable) until the end of the extended discovery period, but only in respect of claims brought against an insured in relation to unlawful acts committed or alleged to have been committed by the insured during the existence of this entity as a subsidiary. No insurance cover is provided for claims brought against an insured in relation to unlawful acts committed or allegedly committed after this entity ceased to exist.

Cooperation between Erste Group Bank AG and Vienna Insurance Group (VIG)

Erste Group Bank AG and Vienna Insurance Group AG Wiener Versicherung Gruppe (VIG) are contractual partners of a general sales agreement regarding the sales cooperation between Erste Group Bank AG and VIG in Austria and CEE. The contract, which was originally entered into in 2008 (between Erste Bank der österreichischen Sparkassen AG and Vienna Insurance Group der WIENER STÄDTISCHE Versicherung AG), was renewed and extended in 2018 until the end of 2033. The objective of the renewal and extension of the general sales agreement was mainly the modification of the agreement to fit the company restructurings of the original parties, the change to several business parameters and the adaptation of the agreement to the recent developments of the legal framework on the regulatory front. The parties already determined in the first agreement that each party had the right to terminate the agreement in the case of a takeover. In the case of a takeover of Erste Group Bank AG, VIG has the right to terminate the general sales agreement. If a takeover occurs at VIG, Erste Group Bank AG has the reciprocal right. Regarding Erste Group Bank AG, a takeover is deemed to occur if a shareholder or third party holding less than 50% of the total shares or the voting rights in Erste Group Bank AG so far, holds more than 50% of the total

shares or the voting rights in Erste Group Bank AG for the first time. Share purchases by shareholders/buyers of DIE ERSTE oesterreichische Spar-Casse Privatstiftung and/or Austrian savings banks are excluded from this ruling. With regard to VIG, the aforementioned rules also apply – share purchases by the shareholder Wiener Städtische Wechselseitiger Versicherungsverein Vermögensverwaltung – Vienna Insurance Group are excluded from this ruling.

Aside from this contract termination possibility, upon renewal and extension of this contract the contractual parties agreed that in case changed legal or other regulatory requirements significantly impact the defined business models in the respective so-called country sales agreements between the contractual partners, a termination of the respectively affected country sales agreements for good cause is possible as long as the presence of such a good cause is confirmed by a court of arbitration appointed in accordance with the rules of the general sales agreement.

Furthermore, Erste Group Bank AG and VIG are parties to an Asset Management Agreement, pursuant to which Erste Group Bank AG undertakes to manage certain parts of VIG's and its group companies' securities assets. In case of a change of control (as defined above), each party has a termination right. The Asset Management Agreement was extended until 2033 at the same time as the renewal of the aforementioned contract.

INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM FOR THE GROUP FINANCIAL REPORTING PROCEDURES

Control environment

The management board is responsible for the establishment, structure and application of an appropriate internal control and risk management system that meets the company's needs in its group accounting procedures.

The management in each group unit is responsible for implementing group-wide instructions. Compliance with group rules is monitored as part of the audits performed by internal and local auditors.

Consolidated financial statements are prepared by the Group Consolidation department. The assignment of powers, the process description and the necessary control procedure are defined in the operating instructions.

Risks relating to the financial reporting procedures

The main risk in the financial reporting procedures is that errors or deliberate action (fraud) prevent facts from adequately reflecting the company's financial position and performance. This is the case whenever the data provided in the financial statements and notes is essentially inconsistent with the correct figures, i.e. whenever, alone or in aggregate, they are apt to influence the decisions made by the users of financial statements. Such a decision may incur serious damage, such as financial loss, the imposition of sanctions by the banking supervisor or reputational harm.

Furthermore, especially estimates for the determination of the fair value of financial instruments for which no reliable market value is available, estimates for the accounting of risk provisions for loans and advances and for provisions, complex measurement requirements for accounting as well as a difficult business environment bear the risk of significant financial reporting errors.

Controls

Group Accounting and Group Performance Management are responsible for group reporting and report to Erste Group's CFO. Erste Group issues group policies used for preparation of consolidated financial statements in accordance with IFRS. A summary description of the accounting process is provided in Erste Group's IFRS Accounting Manual. All transactions have to be recorded, posted and accounted for in accordance with the accounting and measurement methods set out in this manual. The management of each subsidiary is responsible for the implementation of group policies.

The basic components of the internal control system (ICS) at Erste Group are:

- _ Controlling as a permanent financial/business analysis (e.g. comparison of target and actual data between Accounting and Controlling) and control of the company and/or individual corporate divisions.
- _ Systemic, automatic control systems and measures in the formal procedure and structure, e.g. programmed controls during data processing.
- _ Principles of functional separation and checks performed by a second person (the four-eye principle).
- _ Internal Audit, as a separate organisational unit, is charged with monitoring all corporate divisions in an independent yet proximate manner, particularly with regard to the effectiveness of the components of the internal control system. The Internal Audit unit is monitored and/or checked by the management board, the audit committee/supervisory board, by external parties (bank supervisor, in individual cases also by an external auditor) as well as through audit's internal quality assurance measures (self-assessments, peer reviews).

Group Consolidation

The data provided by the group entities is checked for plausibility by the Group Consolidation department. The subsequent consolidation steps are then performed using the consolidation system (TAGETIK). These include consolidation of capital, expense and income consolidation, and debt consolidation. Lastly, possible intragroup gains are eliminated. At the end of the consolidation process, the notes to the financial statements are prepared in accordance with IFRS, BWG and UGB.

The consolidated financial statements and the group management report are reviewed by the audit committee of the supervisory board and are also presented to the supervisory board for approval. They are published as part of the annual report, on Erste Group's

website and in the Official Journal of Wiener Zeitung and finally filed with the Commercial Register.

Information and communication

Each year, the annual report shows the consolidated results in the form of a complete set of consolidated financial statements. In addition, the management summary provides verbal comments on the consolidated results in accordance with the statutory requirements.

Throughout the year, the group produces consolidated monthly reports for group management. Statutory interim reports are produced that conform to the provisions of IAS 34 and are also published quarterly in accordance with the Austrian Stock Corporation Act. Before publication, the consolidated financial statements are presented to senior managers and the Chief Financial Officer for final approval and then submitted to the supervisory board's audit committee.

Reporting is almost fully automated, based on source systems and automated interfaces, and guarantees up-to-date data for controlling, segment reporting and other analyses. Accounting information is derived from the same data source and is reconciled monthly for reporting purposes. Close collaboration between accounting and controlling permits continual target/actual comparisons for control and reconciliation purposes. Monthly and quarterly reports to the management board and the supervisory board ensure a regular flow of financial information and monitoring of the internal control system.

Responsibilities of Internal Audit

Internal Audit is in charge of auditing and evaluating all areas of the bank based on risk-oriented audit areas (according to the annual audit plan as approved by the management board and reported to the audit committee). The main focus of audit reviews is to monitor the completeness and functionality of the internal control system. Internal Audit has the duty of reporting its findings to the group's management board, supervisory board and audit committee several times within one year.

According to section 42 BWG, Internal Audit is a control body that is directly subordinate to the management board. Its sole purpose is to comprehensively verify the lawfulness, propriety and expediency of the banking business and banking operation on an on-going basis. The mandate of Internal Audit is therefore to support the management board in its efforts to secure the bank's assets and promote economic and operational performance and thus in the management board's pursuit of its business and operating policy. The activities of Internal Audit are governed in particular by the currently applicable Rules of Procedure, which were drawn up under the authority of all management board members and approved as well as implemented by them. The Rules of Procedure are reviewed on a regular basis and whenever required and adapted should the need arise.

Audit activities of Internal Audit

In its auditing activities, Internal Audit puts a special focus on:

- _ operating and business areas of the bank;
- _ operating and business processes of the bank;
- _ internal bank standards (policies, guidelines, operating instructions), also with regard to their compliance and up-to-dateness;
- _ audit areas stipulated by the law as they inter alia result from the rules of the Austrian Banking Act (BWG) and the Capital Requirements Regulation (CRR).

Internal Audit performs its responsibilities based on its own discretion and in compliance with the annual audit plan as approved by the management board. Once approved, the audit plan is also reported to the audit committee.

CORPORATE GOVERNANCE

The (consolidated) corporate governance report is part of the annual report of Erste Group (www.erstegroup.com/investor-relations).

(CONSOLIDATED) NON-FINANCIAL DECLARATION

Erste Group decided to prepare and publish a separate non-financial report – integrated in the annual report– in line with an option provided for in the Austrian Sustainability and Diversity Improvement Act (NaDiVeG).

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

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Consolidated statement of income

in EUR thousand	Notes	1-12 18	1-12 19
Net interest income	1	4,581,977	4,746,850
Interest income	1	5,174,274	5,543,983
Other similar income	1	1,772,606	1,655,214
Interest expenses	1	-1,003,447	-1,054,859
Other similar expenses	1	-1,361,456	-1,397,488
Net fee and commission income	2	1,908,449	2,000,131
Fee and commission income	2	2,377,020	2,373,502
Fee and commission expenses	2	-468,571	-373,370
Dividend income	3	29,043	27,881
Net trading result	4	-1,697	318,342
Gains/losses from financial instruments measured at fair value through profit or loss	5	195,406	-24,508
Net result from equity method investments		13,102	17,093
Rental income from investment properties & other operating leases	6	189,368	170,143
Personnel expenses	7	-2,474,238	-2,537,127
Other administrative expenses	7	-1,234,893	-1,205,146
Depreciation and amortisation	7	-471,966	-540,979
Gains/losses from derecognition of financial assets measured at amortised cost	8	58	921
Other gains/losses from derecognition of financial instruments not measured at fair value through profit or loss	9	5,658	23,475
Impairment result from financial instruments	10	59,253	-39,193
Other operating result	11	-304,549	-628,152
Levies on banking activities	11	-112,221	-127,990
Pre-tax result from continuing operations		2,494,972	2,329,731
Taxes on income	12	-332,439	-418,674
Net result for the period		2,162,533	1,911,057
Net result attributable to non-controlling interests		369,087	440,924
Net result attributable to owners of the parent		1,793,446	1,470,133

Earnings per share

Earnings per share constitute net profit/loss for the year attributable to owners of the parent divided by the average number of ordinary shares outstanding. Diluted earnings per share represent the maximum potential dilution (through an increase in the average number of shares) that would occur if all subscription and conversion rights granted were exercised (also see Note 38 Total equity). As in the previous year no subscription and conversion rights were outstanding during the financial year. Diluted earnings per share were equal to the undiluted.

		1-12 18	1-12 19
Net result attributable to owners of the parent	in EUR thousand	1,793,446	1,470,133
Dividend on AT1 capital	in EUR thousand	-76,856	-92,081
Net result for the period attributable to owners of the parent after deduction of AT1 capital dividend	in EUR thousand	1,716,590	1,378,052
Weighted average number of outstanding shares		426,696,221	426,565,097
Earnings per share	in EUR	4.02	3.23
Weighted average diluted number of outstanding shares		426,696,221	426,565,097
Diluted earnings per share	in EUR	4.02	3.23

Consolidated statement of comprehensive income

in EUR thousand	1-12 18	1-12 19
Net result for the period	2,162,533	1,911,057
Other comprehensive income		
Items that may not be reclassified to profit or loss	122,218	-70,143
Remeasurement of defined benefit plans	-127,413	-139,949
Fair value reserve of equity instruments	36,740	54,148
Own credit risk reserve	226,932	-17,506
Deferred taxes relating to items that may not be reclassified	-14,041	33,165
Items that may be reclassified to profit or loss	-191,755	-22,825
Fair value reserve of debt instruments	-152,264	44,609
Gains/losses during the period	-152,484	46,341
Reclassification adjustments	3,508	-6,075
Credit loss allowances	-3,288	4,343
Cash flow hedge reserve	-2,890	-54,421
Gains/losses during the period	28,025	-29,415
Reclassification adjustments	-30,915	-25,006
Currency reserve	-72,079	-13,519
Gains/losses during the period	-72,079	-13,519
Income tax relating to items that may be reclassified	35,479	370
Gains/losses during the period	30,321	-6,211
Reclassification adjustments	5,158	6,581
Share of other comprehensive income of associates and joint ventures accounted for by the equity method	0	136
Total other comprehensive income	-69,537	-92,968
Total comprehensive income	2,092,996	1,818,089
Total comprehensive income attributable to non-controlling interests	322,652	394,459
Total comprehensive income attributable to owners of the parent	1,770,344	1,423,630

For a detailed split of income tax items within other comprehensive income please refer to Note 12 Taxes on income.

Consolidated balance sheet

in EUR thousand	Notes	Dec 18	Dec 19
Assets			
Cash and cash balances	14	17,549,181	10,693,301
Financial assets held for trading	15, 16	5,584,460	5,759,602
Derivatives	15	3,037,413	2,805,447
Other financial assets held for trading	16	2,547,047	2,954,155
Pledged as collateral	44	162,856	429,799
Non-trading financial assets at fair value through profit or loss	17	3,310,046	3,208,269
Pledged as collateral	44	37,237	38,639
Equity instruments	17	372,297	390,080
Debt securities	17	2,651,166	2,334,757
Loans and advances to customers	17	286,583	483,432
Financial assets at fair value through other comprehensive income	18	9,271,881	9,046,504
Pledged as collateral	44	212,439	603,241
Equity instruments	18	238,876	210,117
Debt securities	18	9,033,005	8,836,388
Financial assets at amortised cost	20	189,106,358	204,162,083
Pledged as collateral	44	959,617	2,141,960
Debt securities	20	26,050,153	26,763,789
Loans and advances to banks	20	19,102,754	23,054,595
Loans and advances to customers	20	143,953,451	154,343,699
Finance lease receivables	21	3,762,767	4,034,425
Hedge accounting derivatives	22	132,411	130,118
Fair value changes of hedged items in portfolio hedge of interest rate risk	47	0	-3,766
Property and equipment	28	2,292,792	2,629,247
Investment properties	28	1,159,330	1,265,916
Intangible assets	29	1,507,082	1,368,320
Investments in associates and joint ventures	25	198,093	162,984
Current tax assets	30	101,315	80,715
Deferred tax assets	30	402,190	477,063
Assets held for sale	31	213,127	268,860
Trade and other receivables	23	1,318,411	1,408,069
Other assets	32	882,387	1,001,137
Total assets		236,791,833	245,692,847

in EUR thousand	Notes	Dec 18	Dec 19
Liabilities and equity			
Financial liabilities held for trading	15, 33	2,508,250	2,421,082
Derivatives	15	2,000,173	2,005,403
Other financial liabilities held for trading	33	508,077	415,679
Financial liabilities at fair value through profit or loss	34	14,121,895	13,494,319
Deposits from customers	34	211,810	264,837
Debt securities issued	34	13,445,678	13,010,530
Other financial liabilities	34	464,407	218,953
Financial liabilities at amortised cost	35	196,862,845	204,143,420
Deposits from banks	35	17,657,544	13,140,590
Deposits from customers	35	162,426,423	173,066,149
Debt securities issued	35	16,292,610	17,360,340
Other financial liabilities		486,268	576,341
Lease liabilities		6	515,068
Hedge accounting derivatives	22	276,968	269,189
Fair value changes of hedged items in portfolio hedge of interest rate risk	47	48	11
Provisions	36	1,704,526	1,918,740
Current tax liabilities	30	99,234	60,586
Deferred tax liabilities	30	22,886	17,905
Liabilities associated with assets held for sale	31	3,310	6,169
Other liabilities	37	2,323,146	2,369,033
Total equity	38	18,868,719	20,477,324
Equity attributable to non-controlling interests	38	4,494,030	4,857,496
Additional equity instruments	38	993,242	1,490,367
Equity attributable to owners of the parent	38	13,381,447	14,129,461
Subscribed capital	38	859,600	859,600
Additional paid-in capital	38	1,476,689	1,477,719
Retained earnings and other reserves	38	11,045,159	11,792,141
Total liabilities and equity		236,791,833	245,692,847

Consolidated statement of changes in equity

in EUR million	Subscribed capital	Additional paid-in capital	Retained earnings	Cash flow hedge reserve	Fair value reserve	Own credit risk reserve	Currency reserve	Remeasurement of defined benefit plans	Equity attributable to owners of the parent	Additional equity instruments	Equity attributable to non-controlling interests	Total equity
As of 1 January 2019	860	1,477	12,280	-3	229	-435	-598	-428	13,381	993	4,494	18,869
Changes in treasury shares	0	0	-13	0	0	0	0	0	-13	0	0	-13
Dividends paid	0	0	-663	0	0	0	0	0	-663	0	-41	-705
Capital increase/decrease	0	1	0	0	0	0	0	0	1	497	4	502
Changes in scope of consolidation and ownership interest	0	0	0	0	0	0	0	0	0	0	0	6
Reclassification from other comprehensive income to retained earnings	0	0	21	0	-48	27	0	0	0	0	0	0
Other changes	0	0	-1	0	0	0	0	0	-1	0	0	0
Total comprehensive income	0	0	1,470	-42	80	9	-12	-81	1,424	0	394	1,818
Net result for the period	0	0	1,470	0	0	0	0	0	1,470	0	441	1,911
Other comprehensive income	0	0	0	-42	80	9	-12	-81	-47	0	-46	-93
Change from remeasurement of defined benefit plans	0	0	0	0	0	0	0	-81	-81	0	-41	-123
Change in fair value reserve	0	0	0	0	80	0	0	0	80	0	-4	76
Change in cash flow hedge reserve	0	0	0	-42	0	0	0	0	-42	0	0	-43
Change in currency reserve	0	0	0	0	0	0	-12	0	-12	0	-2	-14
Change in own credit risk reserve	0	0	0	0	0	9	0	0	9	0	1	10
As of 31 December 2019	860	1,478	13,095	-45	260	-399	-610	-509	14,129	1,490	4,857	20,477

In the column 'Additional equity instruments', Erste Group reports additional tier 1 bonds issued in June 2016, April 2017 and March 2019, each with a nominal value of EUR 500 million. After deduction of costs directly attributable to each capital increase EUR 3 million (per issue), the net increase in capital amounted to EUR 497 million respectively. Additional tier 1 bonds are unsecured and subordinated bonds which are classified as equity under IFRS. For further details, see Note 38 Total equity.

In the line 'Changes in scope of consolidation and ownership interest' the acquisition of Ohridska Banka AD Skopje is disclosed. The consideration for the acquisition of 91.57% of the shares amounted to EUR 31 million. As a consequence, a non-controlling interest in the amount of EUR 5 million was considered. For further details, see chapter B. SIGNIFICANT ACCOUNTING POLICIES.

in EUR million	Subscribed capital	Additional paid-in capital	Retained earnings	Cash flow hedge reserve	Available for sale reserve	Fair value reserve	Own credit risk reserve	Currency reserve	Re-measurement of defined benefit plans	Income tax	Equity attributable to owners of the parent	Additional equity instruments	Equity attributable to non-controlling interests	Total equity
As of 1 January 2018	860	1,477	10,918	4	545	0	0	-503	-364	-57	12,879	993	4,416	18,288
Changes initial application of IFRS 9	0	0	254	0	-545	418	-734	0	0	55	-551	0	-122	-673
Restated as of 1 January 2018	860	1,477	11,172	4	0	418	-734	-503	-364	-2	12,328	993	4,294	17,615
Changes in treasury shares	0	0	-20	0	0	0	0	0	0	0	-20	0	0	-20
Dividends paid	0	0	-588	0	0	0	0	0	0	0	-588	0	-44	-612
Capital increase/decrease	0	0	0	0	0	0	0	0	0	0	0	0	0	11
Changes in scope of consolidation and ownership interest	0	0	-134	0	0	0	0	0	0	0	-134	0	-93	-226
Reclassification from other comprehensive income to retained earnings	0	0	32	0	0	-42	11	0	0	0	0	0	0	0
Other changes	0	0	6	0	0	0	0	0	0	0	6	0	3	9
Total comprehensive income	0	0	1,793	-7	0	-147	288	-95	-64	2	1,770	0	323	2,093
Net result for the period	0	0	1,793	0	0	0	0	0	0	0	1,793	0	369	2,163
Other comprehensive income	0	0	0	-7	0	-147	288	-95	-64	2	-23	0	-46	-70
Changes in presentation of income tax	0	0	0	-6	0	-89	59	0	34	2	0	0	0	0
Change from remeasurement of defined benefit plans	0	0	0	0	0	0	0	0	-97	0	-97	0	-40	-138
Change in fair value reserve	0	0	0	0	0	-59	0	0	0	0	-59	0	-30	-89
Change in cash flow hedge reserve	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Change in currency reserve	0	0	0	0	0	0	0	-95	0	0	-95	0	23	-72
Change in own credit risk reserve	0	0	0	0	0	0	229	0	0	0	229	0	1	230
As of 31 December 2018	860	1,477	12,280	-3	0	229	-435	-598	-428	0	13,381	993	4,494	18,869

In 2018, in the line 'Changes in scope of consolidation and ownership interest' the purchase of non-controlling interests in Banca Comercială Română SA and Česká spořitelna a.s. is disclosed. The consideration for the acquisition of 6.30% of the shares in Banca Comercială Română SA amounted to EUR 140 million, the purchase price for 1.03% of the shares in Česká spořitelna a.s. was EUR 81 million.

From 1 January 2018 components of other comprehensive income are disclosed net of income tax. The corresponding allocation of the restated opening balance of income tax in other comprehensive income is disclosed in the line 'Changes in presentation of income taxes'.

Consolidated statement of cash flows

in EUR million	Notes	1-12 18	1-12 19
Net result for the period		2,163	1,911
Non-cash adjustments for items in net profit/loss for the year			
Depreciation, amortisation and net impairment of non-financial assets	28, 29	571	738
Net allocation of credit loss allowances and other provisions	11	63	400
Gains/losses from measurement and derecognition of financial assets and financial liabilities	8, 9	161	-89
Other adjustments		-138	113
Changes in assets and liabilities from operating activities after adjustment for non-cash components			
Financial assets held for trading	15, 16	1,468	-147
Non-trading financial assets at fair value through profit or loss	17		
Equity instruments	17	-99	-17
Debt securities	17	-95	489
Loans and advances to customers	17	185	-194
Financial assets at fair value through other comprehensive income: debt securities	18	939	289
Financial assets at amortised cost	20	0	
Debt securities	20	-2,956	-687
Loans and advances to banks	20	-10,103	-3,957
Loans and advances to customers	20	-9,559	-10,169
Finance lease receivables	21	-245	-269
Hedge accounting derivatives	22	-11	-40
Other assets from operating activities	23, 32	-562	-306
Financial liabilities held for trading	15, 33	-997	-83
Financial liabilities at fair value through profit or loss	34	-300	-757
Financial liabilities measured at amortised cost	35	0	
Deposits from banks	35	1,455	-4,611
Deposits from customers	35	11,466	10,128
Debt securities issued	35	3,966	1,068
Other financial liabilities		-85	89
Hedge accounting derivatives	22	-25	-8
Other liabilities from operating activities	37	-169	-83
Finance lease liabilities		0	0
Cash flow from operating activities		-2,907	-6,194
Proceeds of disposal			
Financial assets at fair value through other comprehensive income: equity instruments	18	50	43
Investments in associates and joint ventures	25	17	4
Property and equipment and intangible assets	28, 29	52	69
Investment properties	28	10	18
Acquisition of		0	
Financial assets at fair value through other comprehensive income: equity instruments	18	0	0
Investments in associates and joint ventures	25	0	0
Property and equipment and intangible assets	28, 29	-541	-591
Investment properties	28	-78	-120
Acquisition of subsidiaries (net of cash and cash equivalents acquired)		0	142
Disposal of subsidiaries		0	0
Cash flow from investing activities		-490	-433
Capital increase	38	11	502
Capital decrease	38	0	0
Changes in ownership interests that do not result in a loss of control	38	-226	1
Dividends paid to equity holders of the parent	38	-568	-663
Dividends paid to non-controlling interests	38	-44	-41
Other financing activities	38	0	5
Cash flow from financing activities		-828	-197
Cash and cash equivalents at the beginning of the period	14	21,796	17,549
Cash flow from operating activities		-2,907	-6,194
Cash flow from investing activities		-490	-433
Cash flow from financing activities		-828	-197
Effect of currency translation		-21	-32
Cash and cash equivalents at the end of period	14	17,549	10,693
Cash flows related to taxes, interest and dividends (included in cash flow from operating activities)			
Payments for taxes on income	12	-457	-468
Interest received	1	7,044	7,801
Dividends received	3	29	28
Interest paid	1	-2,848	-3,055

Cash and cash equivalents are equal to cash in hand, cash balances at central banks and other demand deposits.

Notes to the group financial statements of Erste Group

A. GENERAL INFORMATION

Erste Group Bank AG is Austria's oldest savings bank and listed on the Vienna Stock Exchange. It is also quoted on the Prague Stock Exchange and on the Bucharest Stock Exchange. The registered office of Erste Group Bank AG is located at Am Belvedere 1, 1100 Vienna, Austria.

The group of Erste Group Bank AG (hereinafter referred to as 'Erste Group' or 'Group') offers a complete range of banking and other financial services, such as savings accounts, asset management (including investment funds), consumer credit and mortgage lending, investment banking, securities and derivatives trading, portfolio management, project finance, foreign trade financing, corporate finance, capital market and money market services, foreign exchange trading, leasing and factoring.

These consolidated financial statements have been prepared and authorised for issue by the management board as at the signing date of this report. Both, the supervisory board (26 March 2020) and the annual general meeting (13 May 2020) may amend the individual financial statements of Erste Group Bank AG, which in turn may have an impact on these consolidated financial statements.

Erste Group is subject to the regulatory requirements of Austrian and European supervisory bodies (National Bank, Financial Market Authority, Single Supervisory Mechanism). These regulations include those pertaining to minimum capital adequacy requirements, categorisation of exposures and off-balance sheet commitments, credit risk connected with clients of the Group, market risk (including interest rate and foreign exchange risk), and operational risk.

In addition to the banking entities, some Group companies are subject to regulatory requirements, specifically in relation to asset management.

B. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of preparation

The consolidated financial statements of Erste Group for the financial year ending on 31 December 2019 and the related comparative information were prepared in compliance with applicable International Financial Reporting Standards (IFRS) as adopted by the European Union on the basis of IAS Regulation (EC) No. 1606/2002. The requirements of Section 59a of the Austrian Banking Act and Section 245a of the Austrian Commercial Code are fulfilled.

The consolidated financial statements have been prepared on a going concern basis.

Except for regulatory restrictions on capital distributions stemming from the EU-wide capital requirements regulations applicable to all credit institutions based in the EU, Erste Group does not have any other significant restrictions on its ability to access or use the assets and settle the liabilities of the Group. Also, the owners of non-controlling interests in Group subsidiaries do not have rights that can restrict the Group's ability to access or use the assets and settle the liabilities of the Group.

Except as otherwise indicated, all amounts are stated in millions of euro. The tables in this report may contain rounding differences. The abbreviations used in the consolidated financial statements of Erste Group are explained in the appendix 'Abbreviations' at the end of this report.

The consolidated financial statements have not been accepted by the supervisory board and the financial statements of Erste Group Bank AG have not been approved by the supervisory board at the date of this report.

b) Basis of consolidation

Subsidiaries

All entities directly or indirectly controlled by Erste Group Bank AG are consolidated in the Group financial statements on the basis of their annual accounts as of 31 December 2019, and for the year then ended.

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

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of income and consolidated statement of comprehensive income from the date of acquisition or up to the date of disposal. The financial statements of the bank's

subsidiaries are prepared for the same reporting year as that of Erste Group Bank AG and using consistent accounting policies. All intra-Group balances, transactions, income and expenses as well as unrealised gains and losses and dividends are eliminated.

Non-controlling interests represent those portions of total comprehensive income and net assets that are neither directly nor indirectly attributable to the owners of Erste Group Bank AG. Non-controlling interests are presented separately in the consolidated statement of income, in the consolidated statement of comprehensive income and within equity on the consolidated balance sheet. Acquisitions of non-controlling interests as well as disposals of non-controlling interests that do not lead to a change of control are accounted for as equity transactions, whereby the difference between the consideration transferred and the share in the carrying amount of the net assets acquired is recognised in equity.

Investments in associates and joint ventures

Investments in associates and joint ventures are accounted for using the equity method. Under the equity method, an interest in an associate or joint venture is recognised on the consolidated balance sheet at cost plus post-acquisition changes in the Group's share of the net assets of the entity. The Group's share of the associate's or joint venture's result is recognised in the consolidated statement of income and comprehensive income. Entities accounted for using the equity method are recognised on the basis of annual financial statements as of 31 December 2019 and for the year then ended.

Associates are entities over which Erste Group exercises significant influence ('associates'). Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies. As a general rule, significant influence is presumed to mean an ownership interest of between 20% and 50%.

Joint ventures are joint arrangements over which Erste Group exercises control jointly with one or more other venturers, with the venturers having rights to the net assets of the arrangement, rather than to the assets and liabilities relating to the arrangement. Joint control exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. Erste Group is not involved in joint arrangements which take form of joint operations.

Scope of consolidation

As at 31 December 2019, Erste Group Bank AG, as parent entity of Erste Group, includes in its IFRS scope of consolidation a total of 379 subsidiaries (31 December 2018: 399). This includes a total of 47 local savings banks which, alongside Erste Group Bank AG and Erste Bank der oesterreichischen Sparkassen AG, are members of the Haftungsverbund (cross-guarantee system) of the Austrian savings bank sector (please refer to 'd) Significant accounting judgements, assumptions and estimates' for further details).

In 2014, following the implementation of the new agreements of the cross-guarantee system (please refer to chapter 'd) Significant accounting judgements, assumptions and estimates') and the related financial support of the members, an 'ex-ante fund' was established. The fund is managed by a civil law company named IPS GesbR. The assets of the fund – the members of the cross-guarantee system are required to pay into the fund over a period of ten years - are bound and can be used solely for the purpose to cover loss events of members of the cross-guarantee system. The company IPS GesbR was included in the scope of consolidation in year 2014.

Additions in 2019

On 28 February 2019 Steiermärkische Bank und Sparkassen AG signed a share purchase agreement with Société Générale S.A. (SocGen) for the acquisition of 74.53% of the share capital (384,844 shares) of Ohridska Banka AD Skopje (OBS) in North Macedonia. OBS is a North Macedonian based business bank, which offers a range of services in corporate and retail business as well as brokerage services. This transaction enables Steiermärkische Sparkasse to significantly strengthen its existing market position in North Macedonia.

After approval by the European Central Bank (ECB) and the National Bank of the Republic of North Macedonia, the application for the acquisition to the Macedonian Securities and Markets Authority (SEC) was filed, the acquisition process was started and a purchase offer was made to all shareholders. The closing took place on 4 November 2019. On this reporting date, the OBS was included in Erste Group's consolidated financial statements. Additionally taking into account the shares from free float, a total of 91.57% of share capital with voting rights (472,839 shares) were acquired. Furthermore, supplementary capital of OBS was taken over from SocGen.

As of the reporting date, the measurement period for the business combination has not yet been completed. Due to the complexity of the analyses to be performed and the focus on the rapid implementation of immediately necessary integration steps, the purchase price allocation was carried out on a preliminary basis. An extensive data analysis, especially regarding a potential recognition of intangible assets, is expected to be completed by the end of the third quarter of 2020. As a consequence, the amounts recognised are provisional and could be adjusted based on new information. The identifiable assets acquired and liabilities assumed, measured at fair value as part of the preliminary purchase price allocation, had the following composition from the time of initial consolidation:

in EUR million	Carrying amount	Fair value adjustment	Fair value
Cash and cash balances	173.5	0.0	173.5
Financial assets at fair value through other comprehensive income	10.9	0.0	10.9
Financial assets at amortised cost	489.0	-6.3	482.7
Property and equipment	13.2	-2.1	11.1
Intangible assets	1.3	0.0	1.3
Current tax assets	0.6	0.0	0.6
Other assets	1.5	0.0	1.5
Total assets	690.0	-8.4	681.6
Financial liabilities measured at amortised cost	608.4	0.0	608.4
Provisions	1.7	3.7	5.4
Tax liabilities	0.0	0.0	0.0
Other liabilities	3.7	0.0	3.7
Total liabilities	613.9	3.7	617.6
Subscribed capital	22.2	0.0	22.2
Additional paid-in capital	5.7	0.0	5.7
Retained earnings and other reserves	41.8	-12.1	29.7
Net result attributable to owners of the parent	6.4	0.0	6.4
Total equity	76.2	-12.1	64.0
Total liabilities and equity	690.0	-8.4	681.6

The fair value adjustments relate to credit risk valuations and the land and buildings acquired in the course of the OBS acquisition, which were valued on the basis of an appraisal report. The fair value of the acquired loans at the acquisition date amounted to EUR 455.2 million. The total gross contractual amount of these receivables was EUR 491.9 million. The best estimate at the acquisition date of the contractual cash flows not expected to be collected amounts to EUR 36.5 million. The proportionate share of non-controlling interests in the fair value of the acquired net assets amounted to EUR 5.4 million.

The cash consideration transferred for the shares acquired totaled EUR 31.9 million. In addition, acquisition related costs of EUR 2.2 million were recognised as expenses. Taking into account the fair value adjustments to the net assets, the transaction resulted in a gain from bargain purchase as follows:

in EUR million	2019
Purchase price excl. acquisition related expenses	31.9
Direct own interest of Steiermärkische Sparkasse in the net assets	-58.6
Bargain purchase gain	26.7

The bargain purchase gain is presented in the statement of income under line item 'Other operating result'.

The opportunity for this bargain purchase arose due to the decision of SocGen to dispose of bank investments in Southeastern Europe in order to concentrate its international activities as a retail bank on markets with higher market shares and greater synergy potential.

Since the acquisition date, OBS's contribution to Erste Group's operating income amounted to EUR 4.3 million. The contribution to the net result for the period after taking into account the non-controlling interests amounted to EUR 4.0 million. If OBS had already been included in Erste Group's consolidated financial statements as of 1 January 2019, the contribution to the operating income would have been EUR 27.1 million and the contribution to net result for the period after taking into account the non-controlling interests would have been EUR 10.4 million.

Further additions to the consolidation scope had no material impact on the financial position and performance of the Group.

Disposals in 2019. The disposals had no material impact on the financial position and performance of the Group.

For further details regarding the scope of consolidation please refer to Note 56 Details of the companies wholly or partly owned by Erste Group as of 31 December 2019.

c) Accounting and measurement methods

IFRS 16 Leases

As of 1 January 2019, Erste Group has adopted IFRS 16 'Leases' as issued by IASB in January 2016. IFRS 16 replaced existing guidance for accounting for leases in IAS 17 'Leases', IFRIC 4 'Determining whether an Arrangement Contains a Lease', SIC-15 'Operating Leases – Incentives' and SIC-27 'Evaluation the Substance of Transactions Involving the Legal Form of a Lease'.

IFRS 16 introduced a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases (less than 12 months) and leases of low-value items.

At inception date of a contract, the contract is assessed for whether it contains a lease, i.e. whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for a consideration. A right-of-use asset and a lease liability are recognised at the lease commencement date. The right-of-use asset is initially measured at cost and subsequently depreciated from the commencement date to the earlier of the end of its useful life or the end of the lease term. The cost of the right-of-use asset comprises: the present value of the lease liability, any lease payments made at or before the commencement date, less any lease incentives received, any initial direct costs incurred by the lessee and an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset. Erste Group uses the straight-line method of depreciation. Right-of-use assets are subject to the impairment regulations of IAS 36.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if the rate cannot be readily determined, the lessee's incremental borrowing rate. Lease payments comprise fixed lease payments, variable lease payments that depend on an index or a rate and amounts expected to be payable under a residual value guarantee. Additionally, the exercise price under a purchase option if the lessee is reasonably certain to exercise the options and payments of penalties for terminating the lease are considered.

Subsequently, the carrying amount of the lease liability is increased by interest accrued using the applicable discount rate, reduced by lease payments made and remeasured to reflect any reassessment or lease modification. The incremental borrowing rate for movables consists of Euribor as a base rate, adjusted by a surcharge based on the entity's rating, the term of the lease and the collateral provided. The determination of the incremental borrowing rate for property leases is based on two components, the market rate and the single property rate. The market rate considers the lease term, creditworthiness and the base rate (e.g. Euribor) and is derived from existing bank data. The single property rate represents a surcharge to the market rate based on the quality of the single property.

Lessor accounting remains similar to the IAS 17 standard, i.e. the lessor continues to classify leases as finance or operating leases. Compared to IAS 17 the disclosure requirements are more comprehensive under IFRS 16. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as finance lease. All other leases are classified as operating leases. When Erste Group is an intermediate lessor, it accounts for the head lease and the sublease as two separate contracts. The sublease is classified as a finance or operating lease by reference to the right-of-use assets arising from the head lease, not with reference to the underlying asset.

Erste Group transitioned to IFRS 16 using the modified retrospective approach according to IFRS 16.C5 (b) whereby comparative information was not restated. All contracts which were previously identified as leases applying IAS 17 and IFRIC 4 were taken over into IFRS 16. Erste Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases'. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The right-of-use assets were recognised at an amount equal to the lease liabilities (IFRS 16.C8 (b)(ii)). Erste Group's equity was not impacted by the initial application. Erste Group does not apply IFRS 16 to any leases on intangible assets. Erste Group uses the exemption for short-term leases and leases of low-value items whereby the right-of-use asset is not recognised.

In the statement of financial position, right-of-use assets have been included in the line item 'Property and equipment', except for those meeting the definition of investment property.

The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 is about 6%. The decrease of the CET 1 ratio is immaterial.

For leases previously classified as finance leases the entity recognised the carrying amount of the lease asset and lease liability as the carrying amount of the right-of-use asset and the lease liability at the date of initial application.

The application of IFRS 16 will have an impact on future profit or loss. While the total amount of the expenses charged over the lease term remains the same, the distribution in time and the disclosure of the related expenses in profit or loss change. According to IAS 17, expenses for operating leases are recognised on a straight-line basis. According to IFRS 16 expenses are to be split between interest expenses and depreciation. Interest expenses decrease over the lease term, but depreciation is generally carried out on a straight-line basis, which results in a shift of expenses into the earlier periods of the lease term.

In the context of transition to IFRS 16, right-of-use assets and lease liabilities in the amount of EUR 431 million were recognised as at 1 January 2019. Mainly land and buildings are subject to lease at Erste Group.

Reconciliation of total lease commitments to lease liabilities

in EUR million

Operating lease commitments (IAS 17) undiscounted as of 31 December 2018	371.7
(-) Discounting (using incremental borrowing rates as of 1 January 2019)	-79.8
Discounted operating lease commitments as of 1 January 2019	291.9
Recognition exemption for:	
Less: short-term leases	-4.5
Less: leases of low-value assets	-8.1
Add/Less: extension and termination options reasonably certain to be exercised	136.8
Add/Less: other	14.5
Lease liabilities recognised as of 1 January 2019	430.6

For details on the non-cancellable operating leases as of 31 December 2018 please refer to Note 41 Leases.

Financial instruments

A financial instrument is any contract giving rise to a financial asset of one party and a financial liability or equity instrument of another party. In accordance with IFRS 9, all financial assets and liabilities – which also include derivative financial instruments – have to be recognised on the balance sheet and measured in accordance with their assigned categories.

Measurement methods for financial instruments

Measurement of financial assets and financial liabilities is subject to two primary measurement methods.

i. Amortised cost and effective interest rate

Amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount. For financial assets the amount is adjusted for any loss allowance.

The effective interest rate ('EIR') is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of the financial asset (i.e. its amortised cost before adjusting for any loss allowance) or to the amortised cost of the financial liability. The estimated cash flows consider all the contractual terms of the financial instrument but disregard the expected credit losses. The calculation includes transaction costs, origination fees that are an integral part of the EIR and all other premiums and discounts to the par amount.

For purchased or originated credit-impaired financial assets ('POCI', see part 'Impairment of financial instruments'), credit-adjusted EIR is used. It is the rate that exactly discounts the estimated future cash flows which consider expected credit losses to the amortised cost of a financial asset.

The EIR is used for recognition of interest income and interest expense. Interest income is calculated in the following way:

- _ EIR applied to the gross carrying amount for financial assets that are not credit-impaired (Stage 1 and Stage 2, see part 'Impairment of financial instruments');
- _ EIR applied to the amortised cost for financial assets that are credit-impaired (Stage 3, see part 'Impairment of financial instruments');
- _ credit-adjusted EIR applied to the amortised cost for POCI financial assets.

Interest expense is calculated by applying the EIR to the amortised cost of a financial liability.

ii. Fair value

Fair value is the price that would be received if an asset were sold or paid if a liability were transferred in an orderly transaction between market participants on the measurement date. The definition also applies to fair value measurements of non-financial assets and liabilities. Details on valuation techniques applied for fair value measurement and on the fair value hierarchy are disclosed in Note 48 Fair value of financial instruments.

Initial recognition and measurement

i. Initial recognition

Financial instruments are initially recognised when Erste Group becomes a party to the contractual provisions of the instrument. Regular way (spot) purchases and sales of financial assets are recognised at the settlement date, which is the date that an asset is delivered.

ii. Initial measurement

Financial instruments are measured initially at their fair value including transaction costs (except for financial instruments at fair value through profit or loss, for which transaction costs are recognised directly in profit or loss). In most cases, the fair value at initial recognition equals the transaction price, i.e. the price transferred to originate or acquire a financial asset or the price received to issue or incur a financial liability.

Classification and subsequent measurement of financial assets

In accordance with IFRS 9, the classification and subsequent measurement of financial assets depend on the following two criteria:

- (i) The business model for managing the financial assets – the assessment is focused on whether the financial asset is part of a portfolio in which the assets are held in order to collect contractual cash flows, to both collect the contractual cash flows and sell the assets or they are held in other business models.
 - (ii) The cash flow characteristics of the financial assets – the assessment is focused on whether the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest ('SPPI') on the principal amount outstanding.
- Application of these criteria leads to classification of financial assets into three measurement categories described in the following sections.

i. Financial assets at amortised cost

Financial assets are measured at amortised cost if they are held in a business model whose objective is to collect contractual cash flows, and their contractual cash flows are SPPI.

On the balance sheet, these assets are carried at amortised cost, i.e. the gross carrying amount net of the credit loss allowance. They are presented under the line 'Financial assets at amortised cost', 'Trade and other receivables' and 'Cash and cash balances'. Cash balances include only claims (deposits) against central banks and credit institutions that are repayable on demand. Repayable on demand means that they may be withdrawn at any time or with a term of notice of only one business day or 24 hours. Mandatory minimum reserves are also shown under this item.

Interest income on these assets is calculated by effective interest method and is included under the line 'Interest income' under 'Net interest income' in the statement of income. Impairment gains or losses are included in the line 'Impairment result from financial instruments'. Gains and losses from derecognition (such as sales) of the assets are reported under the line item 'Gains/losses from derecognition of financial assets measured at amortised cost'.

At Erste Group, financial assets at amortised cost constitute the largest measurement category, which includes the vast majority of loan business to customers (except for certain loans measured at fair value through profit or loss), interbank lending business (including reverse repo transactions), deposits with central banks, investments in debt securities, amounts in the course of settlement, trade and other receivables.

Investments in debt securities measured at amortised cost may be acquired with different business objectives (such as fulfilling internal/external liquidity risk requirements and efficient placement of the structural liquidity surplus, strategic positions decided by the board of directors, initiation and fostering of client relationships, substitution of loan business or other yield generating activities). Their common attribute is that significant and frequent sales of such securities are not expected. For a description of what sales are considered as compliant with the held to collect contractual cash flows business model, see the 'Business model assessment' part in chapter 'd) Significant accounting judgements, assumptions and estimates'.

ii. Financial assets at fair value through other comprehensive income

Debt instrument financial assets are measured at fair value through other comprehensive income (FVOCI) if their contractual cash flows are SPPI-compliant and they are held within a business model whose objective is achieved by both to collect contractual cash flows and sell the assets. On the balance sheet, they are included as 'Debt securities' under the line 'Financial asset at fair value through other comprehensive income'.

Interest income on these assets is calculated using the effective interest method and is included in the line 'Interest income' under 'Net interest income' in the statement of income. Impairment gains and losses are recognised in profit or loss in the line 'Impairment result from financial instruments' with opposite loss allowance entry in OCI rather than against the asset value. As a result, the measurement impact recognised in profit or loss is the same as for financial assets measured at amortised cost.

The difference between the fair value at which the assets are carried in the balance sheet and the amortised cost component is recognised as accumulated OCI in equity specifically under 'Fair value reserve' in the statement of changes in equity. The change for the period is reported as OCI in the statement of comprehensive income in the line 'Fair value reserve of debt instruments' which also includes the loss allowance OCI entry. When the financial asset is derecognised, the amount previously accumulated in OCI is reclassified to profit or loss and reported under the line 'Other gains/losses from derecognition of financial instruments not measured at fair value through profit or loss'.

Erste Group classifies investments in debt securities as measured at FVOCI, i.e. no loan business is included in this measurement category. Similarly to investments in debt securities measured at amortised cost, they relate to various business objectives such as fulfilling internal/external liquidity risk requirements and efficient placement of the structural liquidity surplus, strategic positions decided by the board of directors, initiation and fostering of client relationships, substitution of loan business or other yield-enhancement activities. The common attribute for investments in debt instruments at FVOCI is that an active yield optimisation via sales is integral to achieving the objectives. The sales are carried out in order to optimise the liquidity position or to realise fair value gains or losses. As a result, the business objectives are achieved through both collecting contractual cash flows and sales of the securities.

For certain investments in equity instruments that are not held for trading, Erste Group makes use of the option to measure them at FVOCI. This election is applied to strategic, significant banking business relationship investments (except for insurance business). The fair value gains or losses for the period are reported as OCI in the line 'Fair value reserve of equity instruments' of the statement of comprehensive income. The cumulative gains or losses are included under 'Fair value reserve' in the statement of changes in equity. The amount recognised in OCI is never reclassified to profit or loss. However, upon derecognition of the investments in equity instruments at FVOCI the amount accumulated in OCI is transferred to retained earnings. Dividends received on these investments are reported under the line 'Dividend income' of the statement of income. On the balance sheet, financial assets measured at fair value through OCI are included as 'Equity instruments' under the line 'Financial asset at fair value through other comprehensive income'.

iii. Financial assets at fair value through profit or loss

There are various reasons for assigning the fair value through profit or loss (FVPL) measurement category to financial assets:

Financial assets whose contractual cash flows are not considered as SPPI have to be measured at FVPL. At Erste Group, this concerns certain debt securities and loans to customers. Other source of FVPL measurement relates to financial assets that are part of residual business models, i.e. they are neither held to collect contractual cash flows nor held to either collect contractual cash flows or sell the assets. These financial assets are generally expected to be sold before their maturity or they are managed and their performance is evaluated on a fair value basis. In the business of Erste Group, such business models are typical of assets that are held for trading (i.e. financial assets held by the trading function of the bank), of assets whose value is expected to be primarily realised through sales, such as investments in securitisations or of failed loan syndications when the loan is offered for sale on the market. Further subject to FVPL measurement are financial assets held by funds consolidated by Erste Group since they are managed and their performance is evaluated on a fair value basis.

Erste Group also makes use of the option to designate some financial assets as measured at FVPL at initial recognition. Such a classification is used if it eliminates or significantly reduces an accounting mismatch between fixed interest rate financial assets, which in the absence of such a classification would be measured at amortised cost or at FVOCI, and related derivatives measured at FVPL.

On the balance sheet, debt instrument financial assets measured at FVPL are presented as 'Financial assets held for trading', sub-items 'Other financial assets held for trading' and 'Non-trading financial assets at fair value through profit or loss', sub-items 'Debt securities' and 'Loans and advances to customers'. Non-trading financial assets consist of two sub-categories disclosed in Note 17 which are 'mandatorily at fair value through profit or loss' and 'designated at fair value through profit or loss'. Financial assets are mandatorily measured at fair value through profit or loss either because their contractual cash flows are not SPPI or they are held as part of residual business models that are other than held for trading.

Investments in equity instruments that are held for trading (i.e. financial assets held by the trading function of the bank) are measured at FVPL. They are included in the balance sheet under the line 'Financial assets held for trading', sub-item 'Other financial assets held for trading'. Investments in equity instruments that are not held for trading are also measured at FVPL (unless they are designated at FVOCI). They are presented in the balance sheet under 'Non-trading financial assets at fair value through profit or loss', sub-item 'Equity instruments', sub-category 'mandatorily at fair value through profit or loss' in Note 17.

In the statement of income, the profit or loss effects of financial assets measured at FVPL are split into interest income or dividend income and fair value gains and losses. The interest income on debt instruments is presented in the line 'Other similar income' under 'Net interest income' and is calculated by applying the EIR to the amortised cost component of the financial assets. The dividend income on equity instruments is presented in the line 'Dividend income'. The fair value gains or losses are calculated net of the interest or dividend income, and they also include transaction costs and origination fees. They are reported in the line 'Net trading result' for financial assets held for trading and in the line 'Gains/losses from financial instruments measured at fair value through profit or loss' in case of non-trading financial assets at FVPL. For investments in funds, which are not consolidated by Erste Group, the interest or dividend component is not separated from the fair value gains or losses.

Classification and subsequent measurement of financial liabilities

Financial liabilities are classified as measured at amortised cost unless they are measured at fair value through profit or loss.

i. Financial liabilities at amortised cost

For presentation on the balance sheet, the line item 'Financial liabilities measured at amortised cost' is used. The liabilities are further broken down into 'Deposits from banks', 'Deposits from customers', 'Debt securities issued' and 'Other financial liabilities'.

Interest expenses incurred are calculated using effective interest method are reported in the line item 'Interest expenses' under 'Net interest income' in the statement of income. Gains and losses from derecognition (mainly repurchase) are reported under the line item 'Other gains/losses from derecognition of financial instruments not measured at fair value through profit or loss'.

ii. Financial liabilities at fair value through profit or loss

Financial liabilities at FVPL consist of financial liabilities held for trading and financial liabilities designated at FVPL.

Non-derivative financial liabilities held for trading are those which are incurred principally for the purpose of repurchasing them in the near term. In the business of Erste Group non-derivative held for trading liabilities largely comprise short sales. These arise from obligations to return securities, which are purchased under agreements to resell or are borrowed through securities lending transactions and subsequently sold to third parties. On the balance sheet such liabilities are presented under the line 'Financial liabilities held for trading', sub-item 'Other financial liabilities'. The gains or losses on financial liabilities held for trading are reported in the line 'Net trading result' in the statement of income.

Erste Group makes use of the option to designate some financial liabilities as measured at FVPL at initial recognition (referred to as fair value option) if:

- _ such classification eliminates or significantly reduces an accounting mismatch between fixed interest rate financial liabilities otherwise measured at amortised cost and related derivatives measured at FVPL. Erste Group assesses quantitatively that the designation actually eliminates or significantly reduces the accounting mismatch in respect of fair value changes attributable to interest rate risk; or
- _ the entire hybrid contract contains a non-closely related embedded derivative.

Financial liabilities designated at FVPL are reported on the balance sheet under the line item 'Financial liabilities at fair value through profit or loss' and are further broken down into 'Deposits from customers', 'Debt securities issued' and 'Other financial liabilities'. Other financial liabilities relate to fund units issued by funds consolidated by Erste Group. Interest incurred is calculated by applying the EIR to the amortised cost of the financial liability and is reported in the statement of income under in line item 'Other similar expenses' under 'Net interest income'. Gains and losses resulting from changes in fair value are recognised net of the interest expense under the line item 'Gains/losses from financial instruments measured at fair value through profit or loss'.

The amount of the fair value change resulting from the credit risk of the financial liability for the period is presented as OCI in the statement of comprehensive income in the line 'Own credit risk reserve'. The cumulative amount is recognised as accumulated OCI, specifically under 'Own credit risk reserve' in the statement of changes in equity. The amount recognised in OCI is never reclassified to profit or loss. However, upon derecognition (mainly repurchases) of the financial liabilities designated at FVPL the amount accumulated in OCI is transferred to retained earnings.

The cumulative amount of the credit risk recognised as accumulated OCI is calculated as the difference between the present value of the liability determined by using the original credit spread and the fair value of the liability. The amount of fair value change attributable to changes in credit risk of the liability for the period which is recognised in OCI is the difference between the cumulative amount of the credit risk at the end of the period and at the beginning of the period. When calculating the present value of the liability by using the original credit spread, the rate used for discounting is the sum of the observed interest rate (swap yield curve) and the original credit spread. The original credit spread is determined at initial recognition of the liability and it equals the difference between the total yield of the liability and the observed interest rate (swap yield curve) at that time.

Impairment of financial instruments

Erste Group recognises loss allowances for impairment on its debt instrument financial assets, other than those measured at FVPL, its lease receivables, and its off-balance credit risk exposures arising from financial guarantees and certain loan commitments. The impairment is based on expected credit losses whose measurement reflects:

- _ an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- _ the time value of money; and
- _ reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The amount of the impairment loss is recognised as a loss allowance. For the purpose of the measurement of the amount of expected credit loss and recognition of interest income, Erste Group distinguishes between three stages of impairment.

Stage 1 relates to financial instruments for which no significant increase in credit risk has been recorded since their initial recognition. The impairment is measured in the amount of the 12-month expected credit loss. Interest income is recognised by EIR applied to the gross carrying amount of the financial asset.

Financial instruments in Stage 2 are subject to significant increase in credit risk since their initial recognition. The impairment is measured in the amount of the lifetime expected credit loss. Interest income is recognised by EIR applied to the gross carrying amount of the financial asset (as for Stage 1).

Financial assets in Stage 3 are credit-impaired. In respect of applying the 'credit-impaired' concept of IFRS 9, Erste Group generally adopted the approach of aligning it with the regulatory concept of 'default' for lending exposures. The impairment for such financial assets is measured in the amount of lifetime expected credit loss. Interest income is recognised by EIR applied to the amortised cost (i.e. the net carrying amount) of the financial asset. From a balance sheet perspective, interest is accrued based on the financial assets' gross carrying amount. The difference between the interest accrued on the assets and the interest income recognised is reflected through the allowance account (without impacting the impairment loss).

More detailed information about identification of significant increases in credit risk including collective assessment, estimation techniques used to measure 12-month and lifetime expected credit losses and definition of default is provided in Note 46 Risk management, part Credit risk.

For financial assets measured at amortised cost, the net carrying amount of the financial asset presented on the balance sheet is the difference between the gross carrying amount and the cumulative loss allowance. However, for financial assets measured at FVOCI, the loss allowance is recognised in the accumulated OCI, specifically under 'Fair value reserve' in the statement of changes in equity. Loss allowances for loan commitments and financial guarantees are presented under the balance sheet line item 'Provisions'.

For financial assets that are credit-impaired at initial recognition (POCI financial assets) lifetime expected credit losses are initially reflected in the credit-adjusted EIR. As a result, no loss allowance is recognised at inception. Subsequently, only adverse changes in lifetime expected credit losses after the initial recognition are recognised as loss allowance, whilst favourable changes are recognised as impairment gains increasing the gross carrying amount of the POCI financial assets. No impairment stages are distinguished for the POCI financial assets.

In the statement of income, impairment losses and their reversals (gains) on all kinds of financial instruments are presented in the line item 'Impairment result from financial instruments'.

Write-offs

Erste Group writes off a financial asset or a part of it when it has no reasonable expectations of recovering the respective cash flows. When performing the write-off, the gross carrying amount of the asset is reduced simultaneously with the related loss allowance balance.

Erste Group has specified criteria for writing off the unrecoverable balances in its loan business. Write-off can result from forbearance measures whereby the bank contractually waives part of the existing balance in order to help the customers overcome financial difficulties and thus improve the prospects of recovering the remaining loan balance (normally this relates to going concern scenarios for corporate customers). In gone concern scenarios with corporate customers, write-offs of the unrecoverable exposure parts are triggered by enforcement activities such as filing or termination of legal proceedings (bankruptcy, liquidation, court case). Other write-off triggers may result from decisions about no enforcement due to worthlessness of the claim/collateral or generally from assessment that the receivable is economically lost. For retail customers, the non-recoverability and the timing and amounts of write-off crystallise during the collection process when it becomes evident that the amount due cannot be collected, e.g. due to ongoing bankruptcy proceedings. Residual uncollectable balances are written off after the collection process.

Derecognition of financial instruments including treatment of contractual modifications

i. Derecognition of financial assets

A financial asset (or, where applicable, part of a financial asset or part of a group of similar financial assets) is derecognised when:

- _ the contractual rights to receive cash flows from the asset have expired; or
- _ Erste Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement and either:
 - _ it has transferred substantially all risks and rewards connected with ownership of the asset; or
 - _ has neither transferred nor retained substantially all risks and rewards connected with ownership of the asset but has transferred control of the asset.

The difference between the carrying amount of the derecognised asset and the consideration received is presented in the statement of income in the line 'Gains/losses from derecognition of financial assets measured at amortised cost' or, for financial assets at FVOCI, in the line 'Other gains/losses from derecognition of financial instruments not measured at fair value through profit or loss'. For financial assets measured at FVPL the derecognition gains or losses are recognised together with the measurement result in the lines 'Net trading result' or 'Gains/losses from financial instruments measured at fair value through profit or loss'.

ii. Derecognition criteria with respect to contractual modifications of financial assets

In the normal course of running its lending business and in agreement with the respective debtors, Erste Group may renegotiate or otherwise modify some terms or conditions of the underlying contracts. This can involve either market-driven commercial renegotiations or contractual changes aimed at alleviating or preventing borrower's financial difficulty. For the purpose of capturing the economic substance and financial effect of such contractual modifications, Erste Group has developed a set of criteria to assess whether or not the modified terms are substantially different from the original terms.

Substantial modifications lead to derecognition of the original financial asset and initial recognition of the modified financial asset as a new financial instrument. They include following events:

- _ change of the contractual counterparty (unless this is a formal change such as changes in legal name);
- _ change in the currency of the contract (unless the change results from exercising an embedded option in the original contract with pre-agreed conditions of the change, or if the new currency is pegged to the original currency);
- _ introduction of a non-SPPI contractual feature (unless it is intended to improve recoveries from debtors by granting concessions supporting them to recover from financial difficulties); and
- _ removal of a non-SPPI contractual feature.

Some derecognition criteria distinguish whether contractual modifications are applied to debtors facing financial difficulties. Application of certain modifications to debtors in financial difficulties is not considered as substantial since they are aimed at improving the prospects of the bank to recover the claims by tailoring the repayment schedules to specific financial conditions of those debtors. On the other hand, such contractual modifications applied to performing debtors may be considered as substantial enough to warrant the derecognition, as further detailed below.

From this perspective, the following criteria lead to derecognition unless they are considered as forbearance measures or they are applied to customers in default or they trigger default (i.e. the derecognition occurs if the modification does not relate to financial difficulties):

- _ repayment schedule changed in a way that the weighted remaining maturity of the assets is modified by more than 100% and at least two years compared to the original asset;
- _ change in timing/amount of contractual cash flows resulting in the present value of the modified cash flows (discounted at pre-modification effective interest rate) being different by more than 10% of the gross carrying amount of the asset immediately before the modification (cumulative assessment considering all modifications occurring over the last twelve months); or
- _ commercial renegotiations initiated by a debtor seeking better terms as an alternative to re-financing while a prepayment/early termination option and a sufficiently competitive refinancing market exist. Furthermore, the costs that the debtor would incur in case of prepayment/early termination would have to be assessed as sufficiently low for not deterring it. This derecognition trigger rarely applies to loan assets in Stage 2 and never in Stage 3.

If contractual modifications that qualify as forbearance measures or they are applied to customers in default or they trigger default (i.e. they relate to customers in financial difficulties) are so significant that they are qualitatively assessed as an extinguishment of original contractual rights, they result in derecognition. Examples of such modifications are:

- _ a new agreement with materially different terms signed up as part of distressed restructuring following a standstill agreement suspending the rights of the original assets;
- _ consolidation of multiple original loans into one with substantially different terms; or
- _ transformation of a revolving loan into non-revolving.

Contractual modifications leading to derecognition of the related original assets result in the initial recognition of new financial assets. If the debtor is in default or the significant modification leads to the default, then the new asset will be treated as POCI. The difference between the carrying amount of the derecognised asset and initial fair value of the new POCI asset is presented in the statement of income in the line 'Impairment result from financial instruments'.

If the debtor is not in default or the significant modification does not lead to default, the new asset recognised after derecognition of the original asset will be in Stage 1. For loans measured at amortised cost, the unamortised balance of the origination fees/transaction costs considered in the effective interest rate is presented in the line item 'Interest income' under 'Net interest income' at the derecognition date. The release of the credit loss allowance attached to the original asset at the date of that significant modification as well as the credit loss allowance recognised for the new asset are presented in the line 'Impairment result from financial instruments'. The remaining difference is presented in the line 'Gains/losses from derecognition of financial assets measured at amortised cost'.

For financial assets measured at FVPL, irrespective of whether they are in default, the derecognition gains and losses are included in the same line items of the statement of income as their measurement result, i.e. in 'Gains/losses from financial instruments measured at fair value through profit or loss'.

For debt instrument assets not measured at FVPL that are subject to contractual modifications that do not result in derecognition, the gross carrying amount of the asset is adjusted against recognising a modification gain or loss in profit or loss. The modification gain or loss equals the difference between the gross carrying amount before the modification and the present value of the cash flows based on the modified terms discounted with the original EIR. In the statement of income, the modification gain or loss is presented in the line 'Interest income' under 'Net interest income' if the modification relates to financial assets in Stage 1. For financial assets in Stage 2 and 3 and POCI financial assets, the modification gain or loss is presented in the line 'Impairment result from financial instruments'. However, to the extent that the contractual modification involves the bank giving up its rights of collecting cash flows in respect of an outstanding amount of the asset, such as waiving (part of) principal or accrued interest amount, it is treated as a write-off.

iii. Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. This normally occurs when the liability is repaid or repurchased. In the statement of income, the difference between the carrying amount of the derecognised financial liability and the consideration paid is presented in the line 'Other gains/losses from financial instruments not measured at fair value through profit or loss', 'Gains/losses from financial instruments measured at fair value through profit or loss' and 'Net trading result' depending on the measurement category of the derecognised financial liability.

Derivative financial instruments

Derivative financial instruments are used by Erste Group to manage exposures to interest rates, foreign currencies and other market price risks. Derivatives used by Erste Group include mainly interest rate swaps, futures, forward rate agreements, interest rate options, currency swaps and currency options as well as credit default swaps.

For presentation purposes, derivatives are split into:

- _ Derivatives – held for trading; and
- _ Derivatives – hedge accounting.

Derivative financial instruments are carried at fair value (dirty price) on the balance sheet. Derivatives are carried as assets if their fair value is positive and as liabilities if their fair value is negative.

Derivatives – held for trading are those that are not designated as hedging instruments for hedge accounting. They are presented in the line item ‘Derivatives’ under the heading ‘Financial assets/Financial liabilities held for trading’. All kinds of non-hedging derivatives without regard to their internal classification, i.e. both derivatives held in the trading book and banking book, are presented in this line item.

Derivatives – hedge accounting are those that are designated as hedging instruments in hedge accounting relationships fulfilling the conditions of IAS 39 (please refer to the Hedge Accounting part). On the balance sheet, they are presented in the line item ‘Hedge accounting derivatives’ on the asset or liability side.

Changes in the fair value (clean price) of derivatives – held for trading as well as of derivatives designated as hedging instruments in fair value hedges are reported in the statement of income in the line item ‘Net trading result’. Interest income/expense related both to held for trading and hedging derivatives is presented in the statement of income in the line item ‘Other similar income’ or ‘Other similar expenses’ under ‘Net interest income’. Interest income/expense recognition is based on EIR-like accruals in respect of the derivative notional amount and includes amortisation of the inception value of the derivative (e.g. upfront fees, if any).

The effective part of changes in the fair value (clean price) of derivatives in cash flow hedges is reported as OCI in the line item ‘Cash flow hedge reserve’ of the statement of comprehensive income. The accumulated OCI is presented under ‘Cash flow hedge reserve’ in the statement of changes in equity. The ineffective part of changes in the fair value (clean price) of derivatives in cash flow hedges is reported in the statement of income under the line item ‘Net trading result’.

Embedded derivatives

Erste Group issues certain financial liabilities which contain structured features. Structured features mean that a derivative is embedded in non-derivative host instruments. Embedded derivatives are separated from the host instruments if

- _ the economic characteristics of the derivatives are not closely related to the economic characteristics and risks of the host debt instruments;
- _ the embedded derivative meets the definition of a derivative; and
- _ the hybrid instrument is not a financial asset or liability held for trading or designated at fair value through profit or loss.

Embedded derivatives that are separated are accounted for as stand-alone derivatives and presented on the balance sheet under the line item ‘Derivatives’ in financial assets held for trading and financial liabilities held for trading. At Erste Group, these relate to bonds and deposits whose payments are linked to equity prices or FX rates.

In the business of Erste Group, majority of non-closely related embedded derivatives relates to bonds issued for which fair value option has been applied since 2018. As a result, these embedded derivatives are part of the measurement of the entire hybrid instrument at FVPL and thus are not separated.

Repurchase and reverse repurchase agreements

Transactions involving sales of securities under an agreement to repurchase them at a specified future date are also known as ‘repos’ or ‘sale and repurchase agreements’. Securities sold in such transactions are not derecognised from the balance sheet, as Erste Group retains substantially all risks and rewards of ownership, because the securities are repurchased at a fixed price when the transaction ends. Furthermore, Erste Group is the beneficiary of all coupons and other income payments received on the transferred assets over the period of the transactions. These payments are remitted to Erste Group or are reflected in the repurchase price.

The cash received upon sale of securities is recognised on the balance sheet with a corresponding obligation to return under the line item ‘Financial liabilities at amortised cost’, sub-items ‘Deposits from banks’ or ‘Deposits from customers’ reflecting the transaction’s economic substance as a loan to Erste Group. The difference between the sale and repurchase prices is treated as interest expense which is accrued over the life of the agreement and recorded in the statement of income in the line item ‘Interest expenses’ under ‘Net interest income’. Financial assets transferred out by Erste Group under repurchase agreements remain on the Group’s balance sheet and are presented separately under the original balance sheet items in the ‘thereof pledged as collateral’ lines. The measurement category of the transferred financial assets does not change.

Conversely, securities purchased under agreements to resell at a specified future date are not recognised on the balance sheet. Such transactions are also known as 'reverse repos'. The consideration paid is recorded on the balance sheet under the line item 'Financial assets at amortised cost', sub-items 'Loans and advances to banks' and 'Loans and advances to customers' reflecting the transaction's economic substance as a loan by Erste Group. The difference between the purchase and resale prices is treated as interest income and is accrued over the life of the agreement and recorded in the statement of income in the line item 'Interest income' under 'Net interest income'.

Securities lending and borrowing

In securities lending transactions, the lender transfers ownership of securities to the borrower on the condition that the borrower will re-transfer, at the end of the agreed loan term, ownership of instruments of the same type, quality and quantity and will pay a fee determined by the duration of the lending. The transfer of the securities to counterparties via securities lending does not result in derecognition. Substantially all the risks and rewards of ownership are retained by Erste Group as a lender because the securities are received at the end of the securities lending transaction. Furthermore, Erste Group is the beneficiary of all the coupons and other income payments received on the transferred assets over the period of the securities lending. Securities lent are presented separately under the original balance sheet items in the 'thereof pledged as collateral' lines. Fee income from securities lending transactions is presented in the statement of income in the line 'Fee and commission income' under 'Net fee and commission income'.

Securities borrowed are not recognised on the balance sheet unless they are then sold to third parties. If such sales occur, the obligation to return the securities is recorded on the balance sheet as a short sale within 'Financial liabilities held for trading', sub-item 'Other financial liabilities'. Fee expense incurred on securities borrowing transactions is presented in the statement of income in the line 'Fee and commission expenses' under 'Net fee and commission income'.

Hedge accounting

Erste Group makes use of derivative instruments to hedge exposures to interest rate risk and foreign currency risk. In order for the derivatives and the exposures to qualify for hedge accounting, at inception of a hedge relationship, the bank formally documents the relationship between the hedged item and the hedging instrument, including the nature of the risk, the objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship. A hedge is considered to be highly effective if the changes in fair value or cash flows attributable to the hedged risk offset the fair value changes of the hedging instrument in a range of 80% to 125%. This is assessed both prospectively, i.e. whether the results are expected to be in the range, and retrospectively, i.e. whether the actual results are in the range. Hedge effectiveness is assessed at inception and throughout the term of each hedging relationship. Exact conditions for particular types of hedges and for testing the hedge effectiveness by Erste Group are specified internally in the hedge accounting guidance. As permitted by the transitional provisions of IFRS 9, Erste Group has elected to continue to apply the hedge accounting requirements of IAS 39.

i. Fair value hedges

For qualifying and designated fair value hedges, the change in the fair value (clean price) of a hedging instrument is recognised in the statement of income under the line item 'Net trading result'. Interest income and expenses on hedging derivatives are reported in the line item 'Other similar income' or 'Other similar expenses' under 'Net interest income'. The change in the fair value of the hedged item attributable to the hedged risk is also recognised in the statement of income under the line item 'Net trading result' and adjusts the carrying amount of the hedged item.

Erste Group also applies portfolio fair value hedges of interest rate risk as regulated by IAS 39.AG114-AG132. For this purpose, Erste Group makes use of the relaxation provided by the EU-carve out and hedges the interest rate risk of prepayable loans in respect of the so called 'bottom layer' amount. With this approach, prepayments, other derecognitions and impairments are considered as not affecting the hedge effectiveness unless their amount hits the designated hedged bottom layer level. The change in the fair value of the hedged items attributable to the hedged interest risk is presented on the balance sheet under the line item 'Fair value changes of hedged items in portfolio hedge of interest rate risk'. Further information about the bottom layer portfolio fair value hedges is provided in Note 47 Hedge accounting.

If the hedging instrument expires, is sold, is terminated or is exercised, or when the hedge no longer meets the criteria for hedge accounting, the hedge relationship is terminated. In this case, the fair value adjustment of the hedged item is amortised until maturity of the financial instrument. In the statement of income the amortisation is presented under 'Net interest income' in the line item 'Interest income' if the hedged item was a financial asset or in the line item 'Interest expenses' if the hedged item was a financial liability. For portfolio fair value hedges of interest rate risk the fair value adjustment related to the terminated hedge is amortised to the statement of income on a straight-line basis in the line item 'Other similar income' under 'Net interest income'.

ii. Cash flow hedges

For designated and qualifying cash flow hedges, the effective portion of the gain or loss on the hedging instrument is recognised as OCI in the line 'Cash flow hedge reserve' of the statement of comprehensive income. The accumulated other comprehensive income is presented under 'Cash flow hedge reserve' in the statement of changes in equity. The ineffective portion of the gain or loss on the hedging instrument is recognised in the statement of income under the line item 'Net trading result'. For determination of the effective and ineffective portions, the derivative is considered at its clean price, i.e. excluding the interest component. When the hedged cash flow affects the statement of income, the gain or loss on the hedging instrument is reclassified from other comprehensive income on the corresponding income or expense

line item in the statement of income (mainly 'Other similar income' or 'Other similar expenses' under 'Net interest income'). As far as accounting for hedged items in cash flow hedges is concerned, there is no change compared to the situation when no hedging is applied.

When a hedging instrument expires, is sold, is terminated, is exercised, or when a hedge no longer meets the criteria for hedge accounting, the hedge relationship is terminated. In this case, the cumulative gain or loss on the hedging instrument that has been recognised in other comprehensive income remains in 'Cash flow hedge reserve' until the transaction occurs.

Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount is reported on the balance sheet if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously. Erste Group undertakes interest rate derivative transactions via London Clearing House and credit derivative transactions via ICE Clear Europe Ltd by fulfilling all offsetting requirements according to IAS 32. Offsetting is carried out between asset and liability derivative positions, while the net position is further offset with variation margin amounts. The amounts offset are disclosed in Note 15 Derivatives held for trading and Note 22 Hedge accounting derivatives as well as in Note 45 Offsetting of financial instruments.

Financial guarantees

In the ordinary course of business, Erste Group provides financial guarantees, consisting of various types of letters of credit and guarantees. A financial guarantee is a contract that requires the guarantor to make specified payments to reimburse the holder for a loss it incurs in case a specified debtor fails to make a payment when due in accordance with the original or modified terms of a debt instrument.

Erste Group as a guarantor recognises financial guarantees as soon as it becomes a contracting party. Financial guarantees are initially measured at fair value. Generally, the initial measurement is the premium received for a guarantee. This amount is subsequently amortised to fee income. If no premium is received at contract inception (i.e. the initial transaction price is zero), this is the price that would be paid to transfer the liability in an orderly transaction between market participants. As a result, the fair value of such a financial guarantee and thus the initial measurement is nil. Subsequent to initial recognition, provisions are recognised based on the expected credit loss impairment model if the amount is higher than the unamortised balance of the initial premium. They are presented on the balance sheet under the line 'Provisions'. The premium received is recognised in the statement of income under the line item 'Fee and commission income' under 'Net fee and commission income' on a straight-line basis over the life of the guarantee.

If Erste Group is a guarantee holder, the treatment depends on whether the financial guarantee is considered as integral to the contractual terms of financial assets whose risk is guaranteed. Erste Group considers as integral those guarantees which are entered into at or close to the inception of the guaranteed financial assets. If the bank has in a loan contract an option to require provision of a guarantee, it is also considered as integral.

Integral financial guarantees are included in the estimates of expected credit losses from the related financial assets. Premiums paid for integral financial guarantees and other credit enhancements are considered in the EIR of the related financial assets.

Financial guarantees which are not considered integral are recognised as reimbursement assets under 'Other assets' in the balance sheet. In the statement of income they reduce the impairment loss incurred on guaranteed financial assets under 'Impairment result from financial instruments'. A precondition for this treatment is that it must be virtually certain that the guarantee would reimburse the bank for the loss. Premiums paid for non-integral financial guarantees are presented in the statement of income under the line item 'Fee and commission expense' under 'Net fee and commission income'.

Leasing

A lease is a contract, or part of a contract, that conveys the right to use an asset for a period of time in exchange for consideration.

i. Erste Group as a lessor

A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. In the case of a finance lease, the lessor reports a receivable from the lessee under the line item 'Finance lease receivables'. The receivable is equal to the present value of the contractually agreed payments taking into account any residual value. Interest income on the receivable is reported in the statement of income in the line item 'Other similar income' under 'Net interest income'.

In the case of operating leases, which are leases other than finance leases, the leased asset is reported by the lessor in 'Property and equipment' or in 'Investment properties' and is depreciated in accordance with the principles applicable to the assets involved. Lease income is recognised on a straight-line basis over the lease term in the statement of income under the line item 'Rental income from investment properties and other operating leases'. Operating leases mainly include the leasing of commercial real estate, automobiles and small trucks.

The lessor is mitigating the risk associated with any rights it retains in underlying assets. This is achieved especially by means of residual value guarantees, variable lease payments for use in excess of specified limits and buy-back agreements with third parties.

The vast majority of lease agreements in which Erste Group operates as a lessor are finance leases.

ii. Erste Group as a lessee

Under IFRS 16, a lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases (less than 12 months) and leases of low-value items.

The right-of-use asset is initially measured at cost. The cost comprises the amount of the initial measurement of the lease liability and also includes other elements such as initial direct costs incurred by the lessee. Subsequently, the right-of-use asset is depreciated to the earlier of the end of its useful life or the end of the lease term. Erste Group uses the straight-line method of depreciation. The right-of-use assets are presented on the balance sheet as part of 'Property and equipment' or, if they are subleased to third parties, for operating leases as part of 'Investment properties' and for finance leases as a 'Finance lease receivable'.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if the rate cannot be readily determined, the lessee's incremental borrowing rate. Lease payments comprise fixed lease payments, variable lease payments that depend on an index or a rate, amounts expected to be payable under a residual value guarantee. Additionally, the exercise price under a purchase option and lease payments in an optional renewal period are considered if the lessee is reasonably certain to exercise the options. Extension and termination options are included in a number of real estate leases across Erste Group. The use of extension and termination options gives Erste Group added flexibility in case more suitable premises in terms of costs and/or location are identified or in case it is considered favourable to remain in a location beyond the original lease term.

Subsequently, the carrying amount of the lease liability is increased by interest accrued using the applicable discount rate, reduced by lease payments made and remeasured to reflect any reassessment or lease modification. The incremental borrowing rate for movables consists of Euribor as a base rate, adjusted by a surcharge based on the entity's rating, the amount of funds borrowed, the term of the lease and the collateral provided. The determination of the incremental borrowing rate for property leases is based on two components, the market rate and the single property rate. The market rate considers the lease term, creditworthiness and the base rate Euribor and is derived from existing bank data. The single property rate represents a surcharge to the market rate based on the quality of the single property. On the balance sheet the lease liabilities are presented in the line item 'Lease liabilities'.

In the comparative period when IAS 17 Leases was applied, Erste Group has not entered into any leases meeting the conditions of finance leases. Operating lease payments are recognised as an expense in the statement of income on the line item 'Other administrative expenses' on a straight-line basis over the lease term.

Foreign currency translation

The consolidated financial statements are presented in euro, which is the functional currency of Erste Group Bank AG. The functional currency is the currency of the primary business environment in which an entity operates. Each entity in Erste Group determines its own functional currency, and items included in the financial statements of each entity are measured using that functional currency.

For foreign currency translation, exchange rates quoted by the central banks in each country are used. For Erste Group entities with the euro as functional currency, these are the European Central Bank reference rates.

i. Transactions and balances in foreign currency

Transactions in foreign currencies are initially recorded at the functional currency exchange rate effective as of the date of the transaction. Subsequently, monetary assets and liabilities denominated in foreign currencies are translated at the functional currency exchange rate as of the balance sheet date. All resulting exchange differences that arise are recognised in the statement of income under the line item 'Net trading result'. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as of the dates of the initial transactions, i.e. they do not give rise to exchange differences. Non-monetary items that are measured at fair value (such as equity investments) in a foreign currency are translated using the exchange rates at the date when the fair value is measured, thus the exchange differences are part of the fair value gains or losses.

ii. Translation of the statements of Group companies

Assets and liabilities of foreign operations (foreign subsidiaries and branches) are translated into Erste Group's presentation currency, the euro, at the rate of exchange as of the balance sheet date (closing rate). Their consolidated statement of income and consolidated statement of comprehensive income are translated at the average exchange rate of the respective reporting period calculated on the basis of daily rates. Goodwill, intangible assets (i.e. customer relationships and brand) and fair value adjustments to the carrying amounts of assets and liabilities recognised on acquisition of foreign subsidiaries on the acquisition are treated as assets and liabilities of the foreign subsidiaries and are translated at the closing rate. Exchange differences arising on translation are recognised in OCI in the line 'Currency reserve' of the statement of comprehensive income. The accumulated OCI is presented in equity, specifically under 'Currency reserve' in the statement of changes in equity. On disposal of a foreign subsidiary, the cumulative amount of translation differences recognised in other comprehensive income is recognised in the statement of income under the line item 'Other operating result'.

Business combinations and goodwill

i. Business combinations

Business combinations are accounted for using the acquisition method. Goodwill represents the future economic benefits resulting from the business combination arising from assets that are not individually identified and separately recognised. Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests, and the fair value of the previously held equity interest over the net of the acquisition date amounts of the identifiable assets acquired as well as the liabilities assumed. At the acquisition date, the identifiable assets acquired and the liabilities assumed are generally recognised at their fair values.

If, after reassessment of all components described above, the calculation results in a negative amount, it is recognised as a bargain purchase gain and reported in the statement of income under the line item 'Other operating result' in the year of acquisition.

Non-controlling interests that are present ownership interests in the acquiree are measured at the proportionate share of the acquiree's identifiable net assets. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS. Acquisition costs incurred are expensed and included under the statement of income line item 'Other operating result'.

ii. Goodwill and goodwill impairment testing

Goodwill arising on acquisition of a business is carried at cost as established on the acquisition date, less accumulated subsequent impairment losses, if any. Goodwill is tested for impairment annually in November, or whenever there is an indication of possible impairment during the year, with any impairment determined recognised in profit or loss. The impairment test is carried out for each cash-generating unit (CGU) to which goodwill has been allocated. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Goodwill is tested for impairment by comparing the recoverable amount of each CGU to which goodwill has been allocated with its carrying amount. The carrying amount of a CGU is based on the amount of net asset value allocated to the CGU taking into account any goodwill and intangible assets recognised at the time of business combination if they are allocated to the CGU.

The recoverable amount is the higher of a CGU's fair value less costs of disposal and its value in use. When available, the fair value less costs of disposal is determined based on recent transactions, market quotations or appraisals. The value in use is determined using a discounted cash flow model (DCF model), which incorporates the specifics of the banking business and its regulatory environment. In determining value in use, the present value of future earnings distributable to shareholders is calculated.

The estimation of future earnings distributable to shareholders is based on financial plans for the CGUs as agreed by the management while taking into account the fulfilment of the respective regulatory capital requirements. The planning period is five years. Any forecasted earnings beyond the planning period are derived on the basis of the last year of the planning period and a long-term growth rate. The present value of such perpetual earnings growing at a stable rate (referred to as terminal value) takes into consideration macroeconomic parameters and economically sustainable cash flows for each CGU. Values for the long-term growth rates are disclosed in Note 29 Intangible assets in the subsection 'Development of goodwill'.

The cash flows are determined by subtracting the annual capital requirement generated by a change in the amount of risk-weighted assets from the estimated future earnings. The capital requirement was defined through the target tier 1 ratio in light of the expected future minimum regulatory capital requirements.

The value in use is determined by discounting the cash flows at a rate that takes into account present market rates and the specific risks of the CGU. The discount rates have been determined based on the capital asset pricing model (CAPM). According to the CAPM, the discount rate comprises a risk-free interest rate together with a market risk premium that itself is multiplied by a factor that represents the systematic market risk (beta factor). Furthermore, a country-risk premium component is considered in calculation of the discount rate. The values used to establish the discount rates are determined using external sources of information. Discount rates applied to determine the value in use are disclosed in Note 29 Intangible assets in the subsection 'Development of goodwill'.

When the recoverable amount of a CGU is less than its carrying amount, the difference is recognised as an impairment loss in the statement of income under the line item 'Other operating result'. The impairment loss is allocated first to write down the CGU's goodwill. Any remaining impairment loss reduces the carrying amount of the remaining individual assets of the CGU, though not to an amount lower than their fair value less costs of disposal. No impairment loss is recognised if the recoverable amount of the CGU is higher than or equal to its carrying amount. Impairment losses relating to goodwill cannot be reversed in future periods.

The goodwill included in the acquisition cost of investments in associates and joint ventures is not tested separately. Instead, the entire carrying amount of the investment is tested for impairment as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount (after application of the equity method) whenever relevant objective evidence of impairment is identified. Such evidence includes information about significant changes with an adverse effect that have taken place in the technological, market, economic or legal environments in which associates and joint ventures operate, indicating that the cost of the investment may not be recovered.

Property and equipment

Property and equipment is measured at cost less accumulated depreciation and accumulated impairment. Borrowing costs for qualifying assets are capitalised into the costs of property and equipment. Depreciation is calculated using the straight-line method to write down the cost of property and equipment to their residual values over their estimated useful lives. Depreciation is recognised in the statement of income in the line item 'Depreciation and amortisation' and impairment in the line item 'Other operating result'.

	Useful lives in years
Buildings	30-50
Re-buildings on own and foreign real estates	15-50
Office furniture and equipment	4-10
Passenger cars	4-8
Computer hardware	4-6

Land is not depreciated.

Property and equipment is derecognised on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on disposal of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in the statement of income under the line item 'Other operating result'.

Investment properties

Investment property is property (land and buildings or part of a building or both) held for the purpose of earning rental income or for capital appreciation or both. In the case of partial own use, the property is investment property only if the owner-occupied portion is insignificant. Investments in land and buildings under construction when the future use is expected to be the same as for investment property are treated as investment property.

Investment property is measured initially at cost, including transaction costs. Subsequent to initial recognition, investment property is measured at cost less accumulated depreciation and impairment. Investment property is presented on the balance sheet in the line item 'Investment properties'.

Rental income is recognised in the statement of income in the line item 'Rental income from investment properties and other operating leases'. Depreciation is presented in the statement of income in the line item 'Depreciation and amortisation' using the straight-line method over an estimated useful life. The useful lives of investment properties are in the range of 15-100 years. Any impairment losses, as well as their reversals, are recognised under the line item 'Other operating result'.

Intangible assets

In addition to goodwill, Erste Group's intangible assets include computer software and customer relationships, the brand and other intangible assets. An intangible asset is recognised only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the bank.

Intangible assets are measured on initial recognition at cost, including transaction costs. Costs of internally generated software are capitalised if Erste Group can demonstrate the technical feasibility and intention of completing the software, the ability to use it, how it will generate probable economic benefits, the availability of resources and the ability to measure the expenditures reliably. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

The cost of intangible assets acquired in a business combination is their fair value as of the acquisition date. In the case of Erste Group, these are brands and customer relationships, and they are capitalised on acquisition if they can be measured with sufficient reliability.

Intangible assets with finite lives are amortised over their useful economic lives using the straight-line method. The amortisation period and method are reviewed at least at each financial year-end and adjusted if necessary. The amortisation expense on intangible assets with finite lives is recognised in the statement of income under the line item 'Depreciation and amortisation'.

	Useful lives in years
Computer software	4-8
Customer relationships	10-20

Brands have been impaired to nil carrying amount.

Impairment of non-financial assets (property and equipment, investment properties, intangible assets, right-of-use assets)

The bank assesses at each reporting date whether there is an indication that a non-financial asset may be impaired. Testing for impairment is done at individual asset level if the asset generates cash inflows that are largely independent of those from other assets. The typical case is investment property. Otherwise, the impairment test is carried out at the level of the cash-generating unit (CGU) to which the asset belongs.

A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. For specific rules related to impairment of goodwill and impairment allocation rules for CGUs, please see the chapter 'Business combinations and goodwill', part ii. Goodwill and goodwill impairment testing.

If any indication of impairment exists or when annual impairment testing for an asset is required, the bank estimates the asset's recoverable amount. An asset's recoverable amount is the higher of the asset's or the CGU's fair value less costs of disposal and its value in use. If the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In measuring the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

At each reporting date, an assessment is made as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the bank estimates the asset's or the CGU's recoverable amount. The previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount or does not exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years.

Impairments and their reversals are recognised in the statement of income under the line item 'Other operating result'.

Non-current assets and disposal groups held for sale

Non-current assets are classified as held for sale if they can be sold in their present condition and the sale is highly probable within 12 months of classification as held for sale. If assets are to be sold as part of a group that may also contain liabilities (e.g. a subsidiary), they are referred to as disposal group held for sale.

Assets classified as held for sale and assets belonging to disposal groups held for sale are reported under the balance sheet line item 'Assets held for sale'. Liabilities belonging to the disposal groups held for sale are presented on the balance sheet under the line item 'Liabilities associated with assets held for sale'.

Non-current assets and disposal groups that are classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. Should the impairment loss in a disposal group exceed the carrying amount of the assets that are within the scope of IFRS 5 measurement requirements, there is no specific guidance on how to treat such a difference. Erste Group recognises this difference as a provision under the balance sheet line item 'Provisions'.

Defined employee benefit plans

Defined employee benefit plans operated by Erste Group are for pensions, severance and jubilee benefits. From IAS 19 categorisation perspective, pension and severance benefits qualify as post-employment defined benefits plans whereas jubilee benefits are other long-term employee benefits.

In Austria, the defined benefit pension plans relate largely to retired employees. The pension obligations for current employees were transferred to external pension funds. Remaining with Erste Group is a defined benefit obligation for entitlements of former employees who were already retired as of 31 December 1998 before the pension reform took effect and for those former employees who retired only in 1999 but remained entitled to a direct pension from Erste Group under individual agreements. Also included are entitlements to resulting survivor pensions. In addition, an already closed plan for a small number of active entitled employees exists entitling them to defined benefits from Erste Group upon reaching pension age.

In the case of defined benefit pension plans in other countries, the commitments for active employees are primarily dependent on future salary increases, as well as on the expected entitlement date. Due to the nature of the commitment to the defined benefit pensioners, the future, regularly expected pension adjustments according to the collective agreement and the state pension are estimated and taken into consideration as deduction from the total pension. The inflation rate is not indicated separately, but implicitly represented in the assumption for the future collective agreement development.

Employees of Austrian entities who started their employment before 1 January 2003, are entitled to receive a severance payment if their employment is terminated by the employer or if they retire. The amount to be paid depends on the number of years of service and the employee's salary at termination of the employment. For employees who started their employment after 31 December 2002, a contribution-based system is provided. The contributions to external employee pension funds are recognised as expenses.

Defined benefit plans include jubilee benefits. Jubilee provisions are special one-off payments stipulated in the collective agreement which are dependent on remuneration and duration of service. Eligibility is conditioned on a certain minimum duration of the employment.

In addition, there are defined employee benefit plans for foreign subsidiaries and branches, mainly in Romania, Croatia, Serbia and Slovakia.

Obligations ensuing from defined employee benefit plans are determined using the projected unit credit method. Future obligations are determined based on actuarial expert opinions. The calculation takes into account not only those salaries, pensions and vested rights to future pension payments known as of the balance sheet date but also anticipated future rates of increase in salaries and pensions.

The liability recognised under a defined benefit plan represents the present value of the defined benefit obligation less the fair value of the plan assets available for the direct settlement of obligations. For all plans, the present value of the obligation exceeds the fair value of the plan assets. The resulting defined benefit liability is reported on the balance sheet under the line item 'Provisions'. At Erste Group, the plan assets consist of qualifying insurance policies purchased to back severance and jubilee benefit provisions. Plan assets for pension provision are held by a long-term employee benefit fund.

Remeasurements consist of actuarial gains and losses on the defined benefit obligations and the return on plan assets. Remeasurements of pension and severance defined benefit plans are recognised as accumulated OCI in equity specifically under 'Remeasurement of defined benefit plans' in the statement of changes in equity. The change for the period is reported as OCI in the statement of comprehensive income in the line 'Remeasurement of defined benefit plans'. Remeasurements of jubilee defined benefit plans are recognised in the statement of income under the line item 'Personnel expenses'.

Erste Group board members bonus program

Every year Erste Group grants to its board members a bonus program. It relates to the services rendered by the board members in that year. The actual payments are conditional on Erste Group's performance in that year and the following five years. In this respect, they are split into an upfront tranche and five deferred tranches. Fifty percent of the bonuses are paid out in cash and meet the definition other long-term employee benefits in IAS 19. The remaining fifty percent depend on changes in the average share price of Erste Group Bank AG and thus meet the conditions of cash-settled share-based payment in IFRS 2.

For both parts of the program, the full bonus is recognised as an expense against a liability. The liability from the cash-settled share-based payment part is recognised in the balance sheet under 'Other liabilities'. The liability from the employee benefit part is recognised in the balance sheet under 'Provisions'. The expenses, including any subsequent adjustments to the liabilities, reflecting the decisions about the actual amount of the bonuses, fulfilment of performance conditions and share price changes are presented in the statement of income under 'Personnel expenses'.

Further details about the bonus program are disclosed in Note 42 Related-party transactions and principal shareholders, section 'Performance-linked remuneration'.

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and the amount of the obligation can be estimated reliably. On the balance sheet, provisions are reported under the line item 'Provisions'. They include credit risk loss provisions (particularly for financial guarantees and loan commitments) as well as provisions for litigations and restructuring. Expenses or income related to provisions for loan commitments and financial guarantees are reported in the statement of income under the line item 'Impairment result from financial instruments'. Expenses or income related to other provisions are reported in the statement of income under the line item 'Other operating result'.

Levies

Erste Group recognises a liability or a provision for the levy when the activity that triggers payment, as identified by the relevant legislation, occurs. In the statement of income levies are reported in under 'Other operating result'.

Income taxes

i. Current tax

Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amounts are those enacted by the balance sheet date.

ii. Deferred tax

Deferred tax is recognised for temporary differences between the tax bases of assets and liabilities and their carrying amounts as of the balance sheet date. Deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences and unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and carry forward of unused tax losses can be utilised. Deferred taxes are not recognised on temporary differences arising from the initial recognition of goodwill.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates (and tax laws) that have been enacted or substantively enacted as at balance sheet date and are expected to apply when the temporary differences are reversed. For subsidiaries, the local tax environments are considered.

Deferred tax relating to items recognised in other comprehensive income is recognised in other comprehensive income and not in the statement of income.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right to offset exists and the deferred taxes relate to the same taxation authority.

Treasury shares and contracts on treasury shares

Equity instruments of Erste Group that it or any of its subsidiaries acquire (referred to as treasury shares) are deducted from equity. Consideration paid or received on the purchase, sale, issue or cancellation of Erste Group's own equity instruments, including transaction costs, is recognised directly in equity. No gain or loss is recognised in profit or loss or OCI on the purchase, sale, issue or cancellation of own equity instruments.

Fiduciary assets

The Group provides trust and other fiduciary services that result in the holding or investing of assets on behalf of its clients. Assets held in a fiduciary capacity are not reported in the financial statements, as they are not the assets of Erste Group.

Distributions on own equity instruments

Distributions on own equity instruments are recognised as a liability and deducted from equity when their payment is confirmed. For dividends on common shares the decision is taken by the Annual General Meeting. For coupons on Additional Tier 1 instruments the payouts do not need approvals but an event of non-payment would require a decision of Erste Group Bank AG Board.

Items of the statement of income

The description and recognition criteria of the line items reported in the statement of income are as follows:

i. Net interest income

Net interest income is broken down into line items of interest income, other similar income, interest expenses and other similar expenses. The distinguishing factor is whether the EIR method is mandatorily applied for recognition of interest income or expense in accordance with IFRS 9.

'Interest income' relates to interest revenue from financial assets measured at amortised cost and at fair value through other comprehensive income. It is calculated using the EIR method as discussed in chapter 'Financial instruments', 'Measurement methods for financial instruments', part 'i. Amortised cost and effective interest rate'.

'Other similar income' captures interest-like sources of income resulting from non-derivative financial assets measured at fair value through profit or loss, held for trading derivatives, hedge accounting derivatives, finance lease receivables and negative interest on financial liabilities.

'Interest expenses' relate to interest expense from financial liabilities measured at amortised cost calculated using effective interest rate as discussed in chapter 'Financial instruments', 'Measurement methods for financial instruments', part 'i. Amortised cost and effective interest rate'.

'Other similar expenses' capture interest-like sources of expense resulting from non-derivative financial liabilities measured at fair value through profit or loss, held for trading derivatives, hedge accounting derivatives, negative interest on financial assets, lease liabilities, provisions recognised under IFRS 9 and IAS 37 (unwinding of the time value of the money effect due to passage of time) and net defined liabilities (net interest cost on severance payments, pensions and jubilee obligations) under IAS 19.

As regards types of financial instruments, interest income and other similar income include interest income on loans and advances to banks and customers, on cash balances, on debt securities in all measurement categories of financial assets, on trade and other receivables and on finance lease receivables. Interest expenses and other similar expenses include interest paid on deposits from customers, deposits from banks, debt securities issued and other financial liabilities in all measurement categories of financial liabilities and interest paid on lease liabilities. Net interest income also includes interest on derivative financial instruments.

Interest income also includes modification gains and losses recognised on financial assets in Stage 1. Further, the unamortised balance of the origination fees/transaction costs upon derecognition of assets in Stage 1 and 2 considered in the effective interest rate is presented as interest income at the derecognition date.

ii. Net fee and commission income

Erste Group earns fee and commission income from a diverse range of services that it provides to its customers. The determination of the timing and amount of income recognition follows the five step model of IFRS 15.

Fee and commission income is measured based on the consideration specified in the contract with a customer. Erste Group recognises revenue when it transfers control over a service to a customer.

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commitment fees, guarantee fees and other fees from lending business, commission income from asset management, custody and other management and advisory fees as well as fees from insurance brokerage, building society brokerage and foreign exchange transactions. Payment services partly include fees for services satisfied over a period of time like periodic card fees.

Fee income earned from providing transaction services, such as arranging the acquisition and sale of shares or other securities on behalf of customers or foreign exchange transactions, as well as commission income earned from services such as the sale of collective investments and insurance products, are recognised upon completion of the underlying transaction. Payment services partly include transaction based fees like withdrawal fees.

A contract with a customer that results in the recognition of a financial instrument in the Group's financial statements may be partially in the scope of IFRS 9 and partially in the scope of IFRS 15. If this is the case, then Erste Group first applies IFRS 9 to separate and measure the part of the contract that is in the scope of IFRS 9 and then applies IFRS 15 to the residual. Fees and commission income that are integral to the effective interest rate of a financial instrument are in the scope of IFRS 9 and are included in the net interest income.

iii. Dividend income

Dividend income is recognised when the right to receive the payment is established. This line item includes dividends from all shares and other equity investments, i.e. from those that are held for trading, non-trading equity instruments at FVPL and at FVOCI.

iv. Net trading result

Results arising from trading activities include all gains and losses from changes in the fair value (clean price) of financial assets and financial liabilities classified as held for trading, including all derivatives not designated as hedging instruments. Further, the net trading result includes any ineffective portions recorded in fair value and cash flow hedge transactions. Also, foreign exchange gains and losses on all monetary assets and liabilities and from spot currency conversions are included here.

v. Gains/losses from financial instruments measured at fair value through profit or loss

Changes in fair value (clean price) of non-trading financial assets at fair value through profit or loss, including gains and losses on their derecognition, are presented under this line item. This concerns both non-trading financial assets designated and those mandatorily measured at FVPL. Gains and losses (clean price) of financial liabilities designated at FVPL, including gains and losses on their derecognition, are also presented under this line item. However, the fair value changes resulting from credit risk of the liability are recognised in OCI.

vi. Net result from equity method investments

The line item contains the result from associates and joint ventures recorded by applying the equity method (measured as the investor's share of profit or loss in the associates and joint ventures).

However, impairment losses, reversal of impairment losses and realised gains and losses on investments in associates or joint ventures accounted for using the equity method are reported under the line item 'Other operating result'.

vii. Rental income from investment properties and other operating leases

Rental income from investment properties and other operating leases is recognised on a straight-line basis over the lease term.

viii. Personnel expenses

Personnel expenses include wages and salaries, bonuses, statutory and voluntary social security contributions, staff-related taxes and levies. They also include service costs for severance payments, pension and jubilee obligations and remeasurements of jubilee obligations. Furthermore, restructuring provision expenses may be part of personnel expenses.

ix. Other administrative expenses

Other administrative expenses include primarily information technology expenses, expenses for office space, office operating expenses, advertising and marketing, and expenditures for legal and other consultants. Furthermore, the line item contains deposit insurance contributions. Restructuring provision expenses may also be presented in other administrative expenses.

x. Depreciation and amortisation

This line item comprises depreciation of property and equipment, depreciation of investment property and amortisation of intangible assets.

xi. Gains/losses from derecognition of financial assets measured at amortised cost

This line item includes selling and other derecognition gains or losses on financial assets measured at amortised cost. However, if such gains/losses relate to derecognition of financial assets in Stage 3, they are included in the line item 'Impairment result from financial instruments'.

xii. Other gains/losses from derecognition of financial instruments not measured at fair value through profit or loss

This line item includes selling and other derecognition gains or losses on financial assets at FVOCI, financial liabilities measured at amortised cost and other financial instruments not measured at FVPL, such as finance lease receivables or financial guarantees. However, if such gains/losses relate to financial assets in Stage 3 they are included in the line item 'Impairment result from financial instruments'.

xiii. Impairment result from financial instruments

Net impairment losses on financial instruments comprise impairment losses and reversals of impairment on all kinds of financial instruments, to which the IFRS 9 expected credit loss impairment model applies. The impairment result also includes recoveries on written-off financial assets. Modification gains and losses recognised on financial assets in Stage 2 and Stage 3 and POCI assets are also included in this line item. Moreover, gains/losses from derecognition of financial assets in Stage 3 and POCI assets are presented as part of the impairment result.

xiv. Other operating result

The other operating result reflects all other income and expenses not directly attributable to Erste Group's ordinary activities. Furthermore, levies on banking activities are considered as part of the other operating result.

The other operating result includes impairment losses or any reversal of impairment losses as well as results on the sale of property and equipment, investment property and intangible assets. Any impairment losses on goodwill are also included in this line item.

In addition, the other operating result encompasses the following: expenses for other taxes; income from the release of and expenses for allocations to provisions; impairment losses (and their reversal, if any); selling gains and losses on equity investments accounted for using the equity method; and gains or losses from derecognition of subsidiaries.

d) Significant accounting judgements, assumptions and estimates

The consolidated financial statements contain amounts that have been determined on the basis of judgements and by the use of estimates and assumptions. The estimates and assumptions used are based on historical experience and other factors, such as planning as well as expectations and forecasts of future events that are currently deemed to be reasonable. As a consequence of the uncertainty associated with these assumptions and estimates, actual results could in future periods lead to adjustments in the carrying amounts of the related assets or liabilities. The most significant uses of judgements, assumptions and estimates are as follows:

SPPI assessment

The assessment of whether the contractual cash flows of financial assets give rise to cash flows that are solely payments of principal and interest (SPPI) is subject to the application of significant judgements which rely on the guidance in IFRS 9. These judgements are crucial in the IFRS 9 classification and measurement process, as they determine whether the asset must be measured at FVPL or, depending on the business model assessment, at amortised cost or at FVOCI. When taking into consideration specific features of loans in the business of Erste Group, significant areas of judgement are prepayment fees, project financing loans and the benchmark test for loans with interest mismatch features.

The assessment whether the prepayment fees applied to loans can be considered as a reasonable compensation for early terminations or prepayments is based on comparing the level of the fees with the economic costs incurred by the bank upon the early termination. For these purposes, Erste Group uses a quantitative test where the costs relate to the lost interest margin and the lost interest differential due to a potential decrease in the interest rates upon early termination or prepayment. The adequacy of the fees can also be defended on a qualitative basis, such as common market practice regarding the level of prepayment fees and their acceptance by authorities.

For project financing loans Erste Group assesses whether they represent basic loan agreements rather than investments in the financed projects. In this respect, credit rating, level of collateralisation, existing sponsor guarantees and the extent of equity funding of the financed projects are considered.

The most critical area of SPPI judgements in the business of Erste Group comprises loans with interest mismatch features. Interest mismatches relate to floating rate financial assets (loans and some debt securities, also referred to as 'deals') where: - the reference rate's (such as Euribor) tenor is different to the rate reset frequency (such as 3-year rate reset every year or interest rate 'basket' consisting of short and long-term interest rates reset every 3 months, also referred to as 'tenor mismatch'), - the interest rate is fixed prior to the start of the interest period (such as 3-month Euribor fixed 2 months before the interest period starts), or - time lags arise from average rates over previous periods or - combinations of these features. For this purpose, Erste Group has developed a so called 'benchmark test' to assess whether the interest mismatch feature could result in contractual (undiscounted) cash flows that are significantly different from the benchmark deal.

Apart from the interest mismatch features, the terms of this benchmark deal correspond to the asset in the test (i.e. if the floating rate reset frequency is 3 months then the floating rate would be the 3-month Euribor and/or no time lag exists in the floating rate fixation).

For assets with interest mismatches resulting only from prior and average rates (i.e. with no tenor mismatches), SPPI compliance is considered to be met based on a qualitative assessment if the time lag between the fixation of the rate and the start of the interest period does not exceed one month.

The quantitative benchmark test is performed at the deal's initial recognition and uses 250 forward-looking simulations of future market interest rates over the life of the deal. Ratios between the simulated cash flows from the actual deal and the benchmark deal are calculated for each quarter (the 'periodic cash flow ratio') and cumulatively over the life of the deal (the 'cumulative cash flow ratio'). The 5% of outcomes with the highest deviations are considered as extreme and are disregarded. The significance threshold for the periodic cash flow ratio is set to 10%. If simulated cash flows of the tested deal in a specific quarter are less than 1% of the total cash flows over the life of the deal ('de minimis threshold'), they are disregarded. For the cumulative cash flow ratio, the quantitative significance threshold is set to 5%. If any of the two significance thresholds is breached, the benchmark test is not passed, and the financial asset must be measured at fair value through profit or loss.

Generally, the quantitative benchmark test results are more sensitive to the level of the periodic quantitative significance threshold compared to the cumulative one. Decreasing the periodic cash flow ratio threshold to 5% could lead to a significant increase in the volume of loans measured at fair value through profit or loss. Erste Group does not consider that lowering the threshold would properly capture those interest mismatch features that should lead to FVPL measurement since, based on a quantitative study performed for this purpose, it could lead to fair value measurement even for loans that are generally deemed as basic lending agreements.

Upon transition to IFRS 9 for loans and debt securities assets with an overall carrying amount of around EUR 19 billion, the benchmark test was performed with respect to the interest conditions at their initial recognition. The carrying amount of loans with interest mismatch features which failed in the test at the transition and had to be measured at FVPL was below EUR 150 million. During 2018 and 2019 intensive mitigation activities were carrying out and no new loans with interest mismatch features failing the benchmark test have been provided. As a result, the volume have decreased to around EUR 10 million.

Business model assessment

For each SPPI-compliant financial asset at initial recognition, Erste Group must assess whether it is part of a business model where the assets are held in order to collect contractual cash flows, to both collect the contractual cash flows and sell the assets, or they are held in other business models. As a consequence, the critical aspect in distinguishing the business models is frequency and significance of sales of assets in the respective business model. Since asset allocation to business models is based on the initial assessment, it may happen that in subsequent periods cash flows are realised differently than originally expected, and a different measurement method may seem to be appropriate. In accordance with IFRS 9, such subsequent changes do not generally lead to reclassifications or prior period error corrections in respect of existing financial assets. The new information on how cash flows are realised may, however, indicate that the business model, and thus the measurement method changes for newly acquired or newly originated financial assets.

At Erste Group, certain sales or other derecognition events are considered as not contradicting the held to collect contractual cash flows business model. Examples are sales due to increases in credit risk, sales close to assets' maturity, infrequent sales triggered by a non-recurring event (such as changes in regulatory or tax environment, major internal reorganisation or a business combination, severe liquidity crisis, etc.) or derecognitions resulting from replacements of bonds based on an issuer's offer. Other kinds of sales carried out in the 'held to collect' business model are assessed retrospectively, and if they exceed certain quantitative thresholds, or whenever it is considered necessary with regard to new expectations, Erste Group performs a prospective test. If the outcome was that the carrying amount of assets expected to be sold over the expected life of the current business model portfolio, for reasons other than the cases above, exceeds 10% of the carrying amount of the portfolio, any new acquisitions or originations of assets would be classified in a different business model.

Impairment of financial instruments

The expected credit loss impairment model is inherently based on judgement since it requires assessment of significant increases in credit risk and measurement of expected credit losses without providing detailed guidance. In respect of significant increases in credit risk, Erste Group has determined specific assessment rules consisting of qualitative information and quantitative thresholds. Another area of complexity relates to establishing groups of similar assets when credit risk deterioration has to be assessed on a collective basis before specific information is available at individual instrument level. Measurement of expected credit losses involves complex models relying on historical statistics of probabilities of default and loss rates in case of defaults, their extrapolations in case of insufficient observations, individual estimates of credit-adjusted cash flows and probabilities of various scenarios including forward-looking information. In addition, the life of the instruments has to be modelled in respect of behavioural life of revolving credit facilities.

Detailed disclosures about identification of significant increases in credit risk including collective assessment, estimation techniques used to measure 12-month and lifetime expected credit losses and definition of default is provided in Note 46 Risk management, part Credit risk. The development of loan loss provisions is described in Note 18 Financial assets at fair value through other comprehensive income, Note 20 Financial assets at amortised cost, and Note 21 Finance lease receivables.

Control

IFRS 10 'Consolidated Financial Statements' defines the investor's control over an investee in terms of the investor having all of the following:

- _ power to direct the relevant activities of the investee, i.e. activities that significantly affect the investee's returns;
- _ exposure, or rights, to variable returns from its involvement with the investee; and
- _ the ability to use its power over the investee to affect the amount of the investor's returns.

Hence, assessing the existence of control under this definition may require considerable accounting judgements, assumptions and estimates, notably in non-standard situations such as:

- _ power stemming both from voting rights and from contractual arrangements (or mostly from the latter);
- _ exposure stemming both from on-balance investments and from off-balance commitments or guarantees (or mostly from the latter); or
- _ variable returns stemming both from readily identifiable income streams (e.g. dividends, interest, fees) and from cost savings, economies of scale and/or operational synergies (or mostly from the latter).

In the case of Erste Group, such accounting judgements, assumptions and estimates have been primarily relevant for the assessment of the following cases:

i. The savings bank members of the Austrian cross-guarantee system (Haftungsverbund)

Erste Group Bank AG is a member of the Haftungsverbund (cross-guarantee system) of the Austrian savings bank sector. As of the balance sheet date, all of Austria's savings banks, in addition to Erste Group Bank AG and Erste Bank der oesterreichischen Sparkassen AG, formed part of this cross-guarantee system. The provisions of the agreement governing the Haftungsverbund are implemented by the steering company Haftungsverbund GmbH. Erste Group Bank AG always holds directly and indirectly at least 51% of the voting rights of the steering company. The indirect voting rights are held through Erste Bank der oesterreichischen Sparkassen AG and through other savings banks in which companies of Erste Group hold the majority of voting rights.

For all savings banks in which Erste Group holds less than 50% of the voting rights, an assessment of whether control is achieved through the provisions of the Haftungsverbund agreement has been performed.

Based on the contractual agreement, Haftungsverbund GmbH as the steering company is vested with the following substantive rights related to the savings banks:

- _ participation in the appointment of board members;
- _ approval of budgets including capital decisions;
- _ provision of binding guidelines in the areas of risk and liquidity management as well as internal audit; and
- _ determination of thresholds for capital requirement including the payment of dividends.

Furthermore, taking into account the magnitude of Erste Group's involvement with the member banks – whether in the form of synergies, investments, commitments, guarantees, or access to common resources – the Group has significant exposure to each of the member banks' variable returns. As Haftungsverbund GmbH is able to affect the variable returns through its power, it has been assessed that Haftungsverbund GmbH has control over the savings banks.

As Erste Group Bank AG controls the steering company, it exercises control over the members of the cross-guarantee system.

ii. Investment funds under own management

The Group has assessed whether the investment funds it manages through its asset management subsidiaries are controlled and hence shall be consolidated. This assessment has been made on the basis that power over such investment funds is generally conferred based on the contractual arrangements appointing an Erste Group subsidiary as fund manager without any substantive removal rights by fund's investors. Furthermore, Erste Group made the conclusive judgement that its exposure to such own-managed funds' variable returns is basically considered as significant if, additionally to the exposure through management fees, Erste Group is also exposed in the form of at least 20% investment in the fund. Furthermore, in its capacity as fund manager, Erste Group is also able to affect the returns of the funds through its power. Following this assessment, investment funds under own management in which Erste Group – directly or through its subsidiaries – has significant unit holdings (i.e. holds at least 20% of the units issued by the fund) are deemed to be controlled and included in the scope of consolidation.

iii. Pension funds under own management

The Group has assessed whether the contractual arrangements appointing an Erste Group subsidiary as pension fund manager (with no substantive removal rights by the fund's participants) are generally expected to confer power over such funds, followed by an assessment of the Group's exposure/rights to the pension fund's variable returns. The relevant legal requirements regulating the activities of such pension funds in their respective jurisdictions were also considered, notably in assessing the significance of the rights to variable returns from management fees, as well as of the exposure to losses from any guarantees that the fund manager may be legally bound to. As a result of this review, the Czech pension fund 'Transformovaný fond penzijního připojištění se státním příspěvkem Česká spořitelna – penzijní společnost, a.s.' (the 'Transformed pension fund') is not consolidated. There are no further cases of application in Erste Group.

Significant influence

IAS 28 'Investments in Associates and Joint Ventures' defines significant influence as the power to participate in the financial and operating policy decisions of the investee without having control or joint control of those policies. Furthermore, IAS 28 indicates that if an entity holds, directly or indirectly 20% or more of the voting power of the investee, it is presumed that the entity has significant influence unless it can be clearly demonstrated that this is not the case.

In the case of Erste Group, all equity method investments are direct or indirect investments in associates and joint ventures over which the Group exercises significant influence or joint control stemming from voting power greater than 20% up to 50%.

Interests in structured entities

IFRS 12 'Interests in Other Entities' defines structured entities as entities that have been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to the administrative tasks only, and the relevant activities are directed by means of contractual arrangements. IFRS 12 defines the interests as contractual and non-contractual involvements exposing an entity to the variability of returns from the performance of the other entity.

Assessing which entities are structured entities, and which involvements in such entities are interests, may require considerable accounting judgements and assumptions. In the case of Erste Group, such accounting judgements, assumptions and estimates have been primarily relevant for assessing involvements with investment funds and securitisation vehicles.

For investment funds, Erste Group reached the conclusion that direct Group exposure would typically indicate an interest in these structured entities, irrespective of whether such exposure comes from on-balance financial assets – mostly in the form of units held in such funds, off-balance commitments given or management fees varying in relation to the assets under management (for own-managed funds in general). As described under the paragraph 'Investment funds under own management' above, own-managed funds where the Group cumulatively holds less than 20% of the related fund units in issue are not consolidated due to lack of control and thus are subject to specific disclosures for unconsolidated structured entities.

For the IFRS 12-driven disclosures applicable to structured entities, please refer to Note 26 Unconsolidated structured entities.

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded on the balance sheet cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data is not available judgement is required to establish fair values. Using of unobservable inputs is particularly relevant for models used for valuations of loans and unquoted equity investments. Disclosures on valuation models, the fair value hierarchy and fair values of financial instruments can be found in Note 48 Fair value of financial instruments. Based on an analysis carried out by Erste Group it was decided that for the valuation of OTC derivatives no Funding Value Adjustment (FVA) would be considered.

Impairment of non-financial assets

Erste Group reviews its non-financial assets at each balance sheet date to assess whether there is an indication of impairment loss that should be recorded in the statement of income. Furthermore, cash-generating units to which goodwill is allocated are tested for impairment on a yearly basis. Judgement and estimates are required to determine the value in use and fair value less costs of disposal by estimating the timing and amount of future expected cash flows and the discount rates. Assumptions and estimates used in the calculation of impairment of non-financial asset are described in the parts 'Business combinations and goodwill' and 'Impairment of non-financial assets (property and equipment, investment property, intangible assets)' in the Accounting Policies. Inputs used for goodwill impairment testing and their sensitivities can be found in Note 29 Intangible assets in the section 'Development of goodwill'.

Taxes on income and deferred tax assets

The determination of tax bases are underlying a general level of uncertainty by nature, as interpretation of tax legislation might require judgement. Deferred tax assets are recognised in respect of tax losses and deductible temporary differences to the extent that it is probable that taxable profit will be available against which they can be utilised. Judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax planning strategies. For this purpose a planning period of 5 years is used. Disclosures concerning deferred taxes are in Note 30 Tax assets and liabilities.

Defined benefit obligation plans

The cost of the defined benefit pension plan is determined using an actuarial valuation. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Assumptions, estimates and sensitivities used for the defined benefit obligation calculations, as well as related amounts are disclosed in Note 36 Provisions in the section 'Long-term employee provisions'.

Provisions

Recognition of provisions requires judgement with respect to whether Erste Group has a present obligation as a result of a past event and whether it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. Furthermore, estimates are necessary with respect to the amount and timing of future cash flows when determining the amount of provisions. Provisions are disclosed in Note 36 Provisions, and further details on provisions for off-balance credit risk exposures in Note 46 Risk Management, part Credit risk. Legal proceedings that do not meet the criteria for recognition of provisions are described in Note 51 Contingent liabilities.

e) Application of amended and new IFRS/IAS

The accounting policies adopted are consistent with those used in the previous financial year except for standards and interpretations that became effective for financial years beginning after 1 January 2019. As regards new standards and interpretations and their amendments, only those that are relevant for the business of Erste Group are listed below.

Effective standards and interpretations

The following standards, their amendments and interpretation have become mandatory for the financial year 2019 and have been endorsed by the EU:

- _ IFRS 16: Leases
- _ Amendments to IFRS 9: Prepayment features with negative compensation
- _ Amendments to IAS 19: Plan Amendment, Curtailment or Settlement
- _ Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures
- _ Annual Improvements to IFRSs 2015-2017 Cycle (amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23)
- _ IFRIC 23: Uncertainty over Income Tax Treatments

The effects of application of IFRS 16 are described in chapter 'c) Accounting and measurement methods' above. Otherwise application of the above mentioned amendments and interpretation did not have a significant impact on Erste Group's financial statements.

Standards and interpretations not yet effective

The standards, amendments and interpretations shown below were issued by the IASB but are not yet effective.

Following standards, amendments and interpretations are already endorsed by the EU:

- _ Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform
- _ Amendments to IAS 1 and IAS 8: Definition of Material

Following standards, amendments and interpretations have not yet been endorsed by the EU until 21 February 2020:

- _ IFRS 17: Insurance contracts
- _ Amendments to IFRS 3: Definition of a Business

Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform. Amendments to IFRS 9, IAS 39 and IFRS 7 were issued in September 2019 and are effective for annual periods beginning on or after 1 January 2020 with earlier application permitted. The amendments bring reliefs enabling not to discontinue hedge accounting for hedges exposed to uncertainties arising from the reform. Erste Group has decided to apply the amendments to IAS 39 and related IFRS 7 disclosures early. For details refer to Note 47 Hedge accounting which provides related disclosures and also describes specific requirements of the amendments relevant for Erste Group.

IFRS 17: Insurance contracts. IFRS 17 was issued in May 2017 and is effective for annual periods beginning on or after 1 January 2021. IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard. The objective of IFRS 17 is to ensure that an entity provides relevant information that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that insurance contracts have on the entity's financial position, financial performance and cash flows. Application of IFRS 17 is not expected to have a significant impact on Erste Group's financial statements due to very limited activities which could fall in scope of the standard.

Amendments to IFRS 3: Definition of a Business. Amendments to IFRS 3 were issued in October 2018 and are effective for annual periods beginning on or after 1 January 2020. The amendments clarify the three elements, i.e. inputs, process and outputs in the definition of a business. To be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs. Also, the amendments include an optional concentration test to permit a simplified assessment of whether an acquired set of activities and assets is an asset acquisition rather than a business combination. The test is met if substantially all of the fair value of the gross assets is concentrated in a single identifiable asset or a group of similar identifiable assets. Application of these amendments is not expected to have a significant impact on Erste Group's financial statements.

Amendments to IAS 1 and IAS 8: Definition of Material. Amendments to IAS 1 and IAS 8 were issued in October 2018 and are effective for annual periods beginning on or after 1 January 2020. The amendments clarify that information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. Application of these amendments is not expected to have a significant impact on Erste Group's financial statements.

C. NOTES TO THE STATEMENT OF COMPREHENSIVE INCOME AND THE BALANCE SHEET OF ERSTE GROUP

1. Net interest income

in EUR million	1-12 18	1-12 19
Financial assets at AC	4,955.4	5,342.1
Financial assets at FVOCI	218.9	201.9
Interest income	5,174.3	5,544.0
Non-trading financial assets at FVPL	67.6	63.4
Financial assets HfT	1,570.4	1,479.7
Hedge accounting derivatives, interest rate risk	-20.5	-59.1
Other assets	105.5	123.0
Negative interest from financial liabilities	49.5	48.2
Other similar income	1,772.6	1,655.2
Interest and other similar income	6,946.9	7,199.2
Financial liabilities at AC	-1,003.4	-1,054.9
Interest expenses	-1,003.4	-1,054.9
Financial liabilities at FVPL	-421.8	-411.5
Financial liabilities HfT	-976.0	-1,010.2
Hedge accounting derivatives, interest rate risk	151.6	152.2
Other liabilities	-26.5	-52.5
Negative interest from financial assets	-88.8	-75.5
Other similar expenses	-1,361.5	-1,397.5
Interest and other similar expenses	-2,364.9	-2,452.3
Net interest income	4,582.0	4,746.8

An amount of EUR 80.9 million (2018: EUR 77.9 million) relating to impaired financial assets is included in interest income. In addition modification gains or losses of financial instruments allocated to Stage 1 in the amount of EUR 4.7 million (2018: EUR 1.8 million) is reported in line item 'Financial assets at AC'.

Since December 2014, important benchmark interest rates – particularly Euribor – turned negative. As Euro is the functional currency for Erste Group, this development affects the net interest income of the Group. The amounts relate to the interbank business and deposits with central banks only.

2. Net fee and commission income

in EUR million	1-12 18		1-12 19	
	Income	Expenses	Income	Expenses
Securities	201.7	-43.7	206.5	-40.1
Issues	38.4	-11.5	45.5	-8.5
Transfer orders	152.3	-30.4	147.2	-30.3
Other	11.0	-1.8	13.8	-1.4
Clearing and settlement	5.2	-2.3	1.5	-2.4
Asset management	381.6	-57.8	376.0	-41.7
Custody	99.2	-21.4	107.0	-20.0
Fiduciary transactions	3.0	0.0	2.1	0.0
Payment services	1,118.3	-204.4	1,137.4	-187.6
Card business	342.9	-138.5	374.3	-148.4
Other	775.4	-65.9	763.1	-39.1
Customer resources distributed but not managed	199.2	-19.6	241.4	-14.9
Collective investment	13.5	-4.4	11.3	-1.6
Insurance products	142.2	-3.1	186.9	-2.6
Building society brokerage	15.6	-8.5	14.5	-7.5
Foreign exchange transactions	26.7	-1.4	27.4	-1.5
Other	1.1	-2.2	1.4	-1.7
Structured finance	0.4	-0.2	0.0	-0.1
Servicing fees from securitization activities	0.0	0.0	0.0	-0.2
Lending business	261.2	-86.4	197.1	-41.4
Guarantees given, guarantees received	70.7	-3.7	71.4	-4.4
Loan commitments given, loan commitments received	27.1	-0.9	21.7	-0.5
Other lending business	163.4	-81.8	104.1	-36.4
Other	107.2	-32.8	104.3	-24.9
Total fee and commission income and expenses	2,377.0	-468.6	2,373.5	-373.4
Net fee and commission income	1,908.4		2,000.1	

Asset management, custody and fiduciary transactions fees relate to fees earned by Erste Group on trust and other fiduciary activities in which Erste Group holds or invests assets on behalf of its customers and amount to EUR 423.4 million (2018: EUR 404.6 million). Net fee and commission income above include income of EUR 354.6 million (2018: EUR 372.3 million) relating to financial assets and financial liabilities not measured at FVPL. These figures exclude amounts incorporated in determining the effective interest rate on such financial assets and financial liabilities.

3. Dividend income

in EUR million	1-12 18	1-12 19
Financial assets HFT	2.0	3.4
Non-trading financial assets at FVPL	16.1	15.5
Financial assets at FVOCI	11.0	9.0
Dividend income	29.0	27.9

4. Net trading result

in EUR million	1-12 18	1-12 19
Securities and derivatives trading	-219.0	103.8
Foreign exchange transactions	221.1	208.3
Result from hedge accounting	-3.7	6.2
Net trading result	-1.7	318.3

Additional information relating to hedge accounting are described in Note 47 Hedge accounting.

5. Gains/losses from financial instruments measured at fair value through profit or loss

in EUR million	1-12 18	1-12 19
Result from measurement/sale of financial assets designated at FVPL	-14.6	10.4
Result from measurement/repurchase of financial liabilities designated at FVPL	154.1	-138.8
Result from financial assets and liabilities designated at FVPL	139.5	-128.3
Result from measurement/sale of financial assets mandatorily at FVPL	56.0	103.8
Gains/losses from financial instruments measured at fair value through profit or loss	195.4	-24.5

In the reporting period, a loss of EUR 36.1 million (2018: EUR 13.5 million) (before taxes) was transferred from own credit risk reserve to retained earnings due to the repurchase of debt securities (own issues) issued.

6. Rental income from investment properties & other operating leases

in EUR million	1-12 18	1-12 19
Investment properties	88.3	83.8
Other operating leases	101.1	86.3
Rental income from investment properties & other operating leases	189.4	170.1

7. General administrative expenses

in EUR million	1-12 18	1-12 19
Personnel expenses	-2,474.2	-2,537.1
Wages and salaries	-1,880.9	-1,924.2
Compulsory social security	-460.3	-471.3
Long-term employee provisions	-28.0	-30.6
Other personnel expenses	-105.0	-111.0
Other administrative expenses	-1,234.9	-1,205.1
Deposit insurance contribution	-88.6	-104.8
IT expenses	-395.6	-389.1
Expenses for office space	-239.2	-162.8
Office operating expenses	-112.4	-117.9
Advertising/marketing	-175.5	-200.1
Legal and consulting costs	-134.4	-137.0
Sundry administrative expenses	-89.1	-93.5
Depreciation and amortisation	-472.0	-541.0
Software and other intangible assets	-184.0	-188.8
Owner occupied real estate	-73.4	-139.6
Investment properties	-25.5	-28.8
Customer relationships	-8.9	-8.7
Office furniture and equipment and sundry property and equipment	-180.3	-175.1
General administrative expenses	-4,181.1	-4,283.3

In the line item 'Depreciation and amortisation', also the depreciation of right-of-use assets according to IFRS 16 is disclosed.

Personnel expenses include expenses of EUR 45.3 million (2018: EUR 43.9 million) for defined contribution plans, of which EUR 1.6 million (2018: EUR 1.3 million) relate to members of the management board.

Employee Share Program 2019 and Erste Mitarbeiterbeteiligung Privatstiftung

Under the Employee Share Program 2019, Erste Group Bank AG has transferred treasury shares free of charge to employees of Erste Group Bank AG, Erste Bank der oesterreichischen Sparkassen AG and the majority-owned Austrian subsidiaries. The shares were granted under the condition that the employees transfer their shares of Erste Group Bank AG under an escrow agreement to the Erste Mitarbeiterbeteiligung Privatstiftung and leave them there for the duration of their employment contract. Erste Group Bank AG limited the grant to one share for each 10 shares transferred by the employee and up to a value of EUR 7,500 per employee.

Erste Group Bank AG awarded a total number of 9,603 shares to employees and incurred expenses in the amount of EUR 0.4 million. The average share price of Erste Group Bank AG was EUR 32.69 during the registration period. In 2019, Erste Mitarbeiterbeteiligung Privatstiftung has received 5,400 additional treasury shares under an escrow agreement from employees of a subsidiary. It was agreed that employees shall not have access to the shares for a certain period. The majority of the shares have been purchased with a payment of EUR 0.2 million made by the subsidiary to settle an obligation under a defined benefit plan. The settlement did not result in a gain or loss.

Employee Share Programme 2018

Under the Employee Share Programme 2018, Erste Group Bank AG has transferred treasury shares to employees of Erste Group Bank AG, Erste Bank der oesterreichischen Sparkassen AG and their majority-owned Austrian subsidiaries. The allocation happened under the condition that employees transfer their shares of Erste Group Bank AG to the Erste Mitarbeiterbeteiligung Privatstiftung and do not request the return of the shares until their employment contracts are terminated. Erste Group Bank AG limited the allocation of treasury shares to 10% of the shares transferred by each employee and up to a value of EUR 4,500 for each employee.

Erste Group Bank AG allocated a total number of 52,909 treasury shares to employees and incurred personnel expenses in the amount of EUR 1.9 million. The share price of Erste Group Bank AG at the beginning of the registration period was EUR 34.99.

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

	1-12 18	1-12 19
Austria	16,221	16,293
Erste Group Bank AG, Erste Bank Oesterreich and subsidiaries	9,052	9,107
Haftungsverbund savings banks	7,169	7,187
Outside Austria	31,312	31,210
Česká spořitelna Group	10,148	9,873
Banca Comercială Română Group	7,228	6,951
Slovenská sporiteľňa Group	4,147	4,068
Erste Bank Hungary Group	3,130	3,134
Erste Bank Croatia Group	3,170	3,300
Erste Bank Serbia Group	1,094	1,143
Savings banks subsidiaries	1,192	1,610
Other subsidiaries and foreign branch offices	1,202	1,130
Total	47,533	47,503

8. Gains/losses from derecognition of financial assets measured at amortised cost

in EUR million	1-12 18	1-12 19
Gains from derecognition of financial assets at AC	2.1	5.1
Losses from derecognition of financial assets at AC	-2.1	-4.1
Gains/losses from derecognition of financial assets measured at amortised cost	0.1	0.9

9. Other gains/losses from derecognition of financial instruments not measured at fair value through profit or loss

in EUR million	1-12 18	1-12 19
Sale of financial assets at FVOCI	-3.5	6.2
Sale of financial lease receivables	0.0	0.1
Derecognition of financial liabilities at AC	9.1	17.2
Other gains/losses from derecognition of financial instruments not measured at fair value through profit or loss	5.7	23.5

10. Impairment result from financial instruments

in EUR million	1-12 18	1-12 19
Financial assets at FVOCI	3.5	-4.2
Financial assets at AC	38.6	-112.5
Net allocation to credit loss allowances	-71.5	-227.8
Direct write-offs	-47.9	-35.7
Recoveries recorded directly to the income statement	162.9	154.0
Modification gains or losses	-4.9	-3.0
Finance lease receivables	10.6	7.4
Credit loss allowances for loan commitments and financial guarantees given	6.6	70.0
Impairment result from financial instruments	59.3	-39.2

11. Other operating result

in EUR million	1-12 18	1-12 19
Other operating expenses	-258.1	-748.3
Allocation to other provisions	-76.6	-366.0
Levies on banking activities	-112.2	-128.0
Banking tax	-66.8	-80.4
Financial transaction tax	-45.4	-47.6
Other taxes	1.0	-14.0
Recovery and resolution fund contributions	-70.3	-75.3
Impairment of goodwill	0.0	-165.0
Other operating income	89.9	159.1
Release of other provisions	89.9	159.1
Result from properties/movables/other intangible assets other than goodwill	-78.0	3.3
Result from other operating expenses/income	-58.3	-42.1
Other operating result	-304.5	-628.2

Operating expenses (including repair and maintenance) for investment properties not held for rental income totalled to EUR 0.4 million (2018: EUR 0.5 million). Operating expenses (including repair and maintenance) for investment properties held for rental income totalled to EUR 14.1 million (2018: EUR 13.0 million). Income from reversal of impairment for assets held for sale in the amount of EUR 0.2 million (2018: Impairment EUR 9.3 million) is recognised under ‘Result from other operating expenses/income’.

In line item ‘Result from properties/movables/other intangible assets other than goodwill’ extraordinary expenses for the impairment of property plant and equipment, investment properties, intangible assets and foreclosed assets are included.

The main reasons for impairment losses to be recognized are summarized hereinafter:

- _ the intention to sell fixed assets and accordingly their re-measurement before reclassifying them based on IFRS 5,
- _ not fully occupied buildings that triggered a lower recoverable amount
- _ recurring measurement for foreclosed assets at the balance sheet date and
- _ recurring measurement for own used items of property at the balance sheet date and
- _ concessions and other intangibles for which measurable economic benefits are no longer expected in the future

Recovery and Resolution Fund

In the line ‘Recovery and resolution fund contributions’ contributions to the national resolution funds in amount of EUR 75.3 million (2018: EUR 70.3 million) are disclosed. The contributions are based on the European Recovery and Resolution Directive, which, inter alia, establishes a financing mechanism for the resolution of credit institutions. As a consequence, banks are required to contribute annually to a resolution fund, which in a first step is installed on a national level. According to these regulations, until 31 December 2024 the available financial means of the resolution funds shall reach at least 1% of the amount of covered deposits of all the credit institutions authorized within the European Union. Therefore the resolution funds have to be built over a period of 10 years, during which the contributions shall be spread out as even as possible until the target level is reached.

Impairment of Goodwill

In Slovakia, the extension and increase of banking tax due to an amendment of the respective law during the year 2019 leads to higher future expenses. This resulted in a decrease of the budgeted results and consequently the goodwill for Slovenská sporiteľňa was fully impaired in the amount of EUR 165.0 million.

Provision in BCR Banca pentru Locuinte SA. (BPL)

An allocation of provision is disclosed in the line ‘Allocation of other provisions’ in amount of EUR 153.3 million for losses expected from a decision of the Romanian High Court in relation to the business activities of a Romanian subsidiary BPL. For more details please refer to Note 36 Provisions.

Provision for litigations in Romania

As of 31 December 2019 a release of provision is shown in the line 'Release of other provisions' for risks related to Romanian consumer protection claims Act amounting to EUR 6.1 million (2018: EUR 23.8 million).

12. Taxes on income

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.

in EUR million	1-12 18	1-12 19
Current tax expense/income	-415.0	-465.7
current period	-424.4	-461.9
prior period	9.4	-3.8
Deferred tax expense/income	82.5	47.0
current period	78.1	51.4
prior period	4.5	-4.4
Total	-332.4	-418.7

The following table reconciles the income taxes reported in the income statement to the pre-tax result from continuing operations multiplied by the nominal Austrian tax rate.

in EUR million	1-12 18	1-12 19
Pre-tax result from continuing operations	2,495.0	2,329.7
Income tax expense for the financial year at the Austrian statutory tax rate (25%)	-623.7	-582.4
Impact of different foreign tax rates	139.2	135.9
Impact of tax-exempt earnings of investments and other tax-exempt income	161.9	258.7
Tax increases due to non-deductible expenses, additional business tax and similar elements	-124.8	-139.3
Impact on deferred taxes from topics on Group level	-18.8	-171.4
Tax loss carry-forward non-recoverable at the end of the prior period, reducing the current tax expense for the current period	7.2	6.9
Current period's impairment of DTA recognized in prior periods through P&L	-2.7	-4.0
Current period's recognition/reversal of impairment through P&L of DTA non-recoverable at the end of the prior period	187.6	137.1
Impact of current non-recoverable fiscal losses and temporary differences for the year	-69.3	-28.0
Tax expense/income not attributable to the reporting period	28.2	-29.9
Tax expense/income from changes of the tax rate or the imposition of new taxes	0.0	2.4
Tax expense/income attributable to other effects	-17.4	-4.7
Total	-332.4	-418.7

The following table shows the income tax effects relating to each component of other comprehensive income:

in EUR million	1-12 18			1-12 19		
	Pre-tax amount	Income tax	Net-of-tax amount	Pre-tax amount	Income tax	Net-of-tax amount
Fair value reserve of equity instruments	36.7	-6.4	30.4	54.1	-11.2	42.9
Fair value reserve of debt instruments	-152.3	33.1	-119.2	44.6	-11.5	33.1
Own credit risk reserve	226.9	2.8	229.7	-17.5	27.3	9.8
Cash flow hedge reserve	-2.9	2.4	-0.5	-54.4	11.8	-42.6
Remeasurement of defined benefit plans	-127.4	-10.4	-137.8	-139.9	17.2	-122.8
Currency reserve	-72.1	0.0	-72.1	-13.5	0.0	-13.5
Other comprehensive income	-91.0	21.4	-69.5	-126.6	33.6	-93.0

Taxes on income within other comprehensive income are influenced by the consideration of impairment effects allocated against OCI-related deferred tax assets. The allocation of such impairment effects is based on Erste Group's methodology of deferred tax assets impairment allocation per P&L and OCI. This approach proportionately reflects how the underlying temporary differences arose from IFRS-based adjustments of the accounting values of the related items.

Besides, the income tax related to the fair value reserve and the cash flow hedge reserve is influenced by differences of tax rates applicable on contrary changes within the fair value reserve.

13. Appropriation of profit

In the reporting period, Erste Group Bank AG posted a post-tax profit of EUR 1,327.1 million under the Austrian accounting regulations, which increased its distributable capital accordingly (2018: EUR 937.0 million). The equity increased accordingly.

A dividend distribution amounting to EUR 1.50 per share will be proposed at the forthcoming annual general meeting of Erste Group Bank AG (2018: EUR 1.40 per share).

14. Cash and cash balances

in EUR million	Dec 18	Dec 19
Cash on hand	5,688	6,032
Cash balances at central banks	10,853	3,466
Other demand deposits at credit institutions	1,009	1,195
Cash and cash balances	17,549	10,693

A part of 'Cash balances at central banks' represents the mandatory minimum reserve requirement deposits which amounted to EUR 2,975.6 million (2018: EUR 3,255.7 million) at the reporting date. The mandatory minimum reserve requirement is calculated from defined balance sheet items and has to be fulfilled in average through an extended period of time. Therefore, the mandatory minimum reserve requirement deposits are not subject to any restraints.

15. Derivatives held for trading

in EUR million	Dec 18			Dec 19		
	Notional value	Positive fair value	Negative fair value	Notional value	Positive fair value	Negative fair value
Derivatives held in the trading book	179,098	3,011	2,871	189,747	3,068	3,305
Interest rate	114,275	2,544	2,453	122,129	2,609	2,728
Equity	330	8	10	311	11	3
Foreign exchange	63,941	432	405	66,888	423	571
Credit	341	7	3	226	3	3
Commodity	11	0	0	10	0	0
Other	199	21	0	183	23	0
Derivatives held in the banking book	28,035	1,191	331	28,048	1,353	341
Interest rate	16,597	1,077	152	16,891	1,254	226
Equity	5,501	77	76	5,823	52	36
Foreign exchange	5,335	32	100	4,812	41	78
Credit	382	5	3	348	6	1
Commodity	0	0	0	0	0	0
Other	220	1	0	174	1	0
Total gross amounts	207,133	4,202	3,202	217,794	4,422	3,646
Offset		-1,165	-1,202		-1,616	-1,640
Total		3,037	2,000		2,805	2,005

Erste Group undertakes a part of interest rate derivative and credit derivative transactions via Clearing Houses. These derivatives and related cash margin balances fulfil the requirements for balance sheet offsetting. For more details on balance sheet offsetting please refer to Note 45 Offsetting of financial instruments.

16. Other financial assets held for trading

in EUR million	Dec 18	Dec 19
Equity instruments	68	65
Debt securities	2,479	2,889
General governments	1,698	1,918
Credit institutions	540	803
Other financial corporations	68	57
Non-financial corporations	172	111
Other financial assets held for trading	2,547	2,954

17. Non-trading financial assets at fair value through profit or loss

in EUR million	Dec 18		Dec 19	
	Designated	Mandatorily	Designated	Mandatorily
Equity instruments	0	372	0	390
Debt securities	672	1,979	664	1,671
General governments	188	565	77	258
Credit institutions	424	296	563	160
Other financial corporations	60	973	25	1,062
Non-financial corporations	0	146	0	191
Loans and advances to customers	0	287	0	483
General governments	0	8	0	2
Other financial corporations	0	15	0	1
Non-financial corporations	0	102	0	137
Households	0	161	0	344
Financial assets designated and mandatorily at FVPL	672	2,638	664	2,544
Non-trading financial assets at fair value through profit or loss		3,310		3,208

Erste Group has designated debt securities at FVPL. The maximum exposure to credit risk on these securities is its fair value. At the reporting date the change in fair value that is attributable to changes in credit risk amounts to EUR 1.4 million (2018: EUR -3.0 million) cumulatively and EUR 3.4 million (2018: EUR -2.4 million) for the reporting period.

18. Financial assets at fair value through other comprehensive income

Equity instruments

The carrying amount of Erste Group's equity instruments at FVOCI as at 31 December 2019 amounts to EUR 210.1 million (2018: EUR 238.9 million), the cumulative fair value change for equity instruments FVOCI before taxes recognized in other comprehensive income amounted to EUR 166.1 million (2018: EUR 172.2 million). During the year 2019, the sales of such instruments amounted to EUR 43.6 million (2018: EUR 52.0 million) and were triggered by strategic business decisions. The cumulative gain (net of tax) that was transferred from accumulated other comprehensive income into retained earnings upon such sales amounted to EUR 48.9 million (2018: EUR 42.1 million).

Debt instruments

Gross carrying amounts and credit loss allowances per impairment buckets

in EUR million	Gross carrying amount				Credit loss allowances				Accumulated fair value changes	Fair value
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total		
Dec 19										
Central banks	0	0	0	0	0	0	0	0	0	0
General governments	6,232	8	0	6,240	-3	0	0	-3	186	6,426
Credit institutions	1,073	27	0	1,099	-1	-1	0	-2	17	1,116
Other financial corporations	135	46	0	181	0	-1	0	-2	7	188
Non-financial corporations	933	137	0	1,070	-2	-5	0	-7	37	1,107
Total	8,373	217	0	8,590	-6	-8	0	-14	247	8,836

in EUR million	Gross carrying amount				Credit loss allowances				Accumulated fair value changes	Fair value
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total		
Dec 18										
Central banks	5	0	0	5	0	0	0	0	0	5
General governments	6,685	8	0	6,693	-3	0	0	-3	164	6,857
Credit institutions	894	17	0	911	-3	0	0	-3	9	921
Other financial corporations	175	6	0	182	0	0	0	-1	4	186
Non-financial corporations	965	72	0	1,037	-2	-2	0	-4	28	1,065
Total	8,724	104	0	8,827	-8	-2	0	-10	206	9,033

As defined in IFRS 9, the gross carrying amount of debt instruments at FVOCI equals the amortised cost before deducting any credit loss allowances. There are no purchased or originated credit-impaired (POCI) debt securities at FVOCI as of 31 December 2019.

Movement in credit loss allowances

in EUR million	As of	Additions	Derecognitions	Transfers between stages	Other changes in credit risk (net)	Other	As of
	Jan 19						Dec 19
Stage 1	-8	-3	2	0	3	0	-6
Stage 2	-2	-1	0	-5	0	0	-8
Stage 3	0	0	0	0	0	0	0
Total	-10	-4	2	-5	3	0	-14

in EUR million	As of	Additions	Derecognitions	Transfers between stages	Other changes in credit risk (net)	Other	As of
	Jan 18						Dec 18
Stage 1	-12	-2	1	0	4	0	-8
Stage 2	-1	0	0	-1	0	0	-2
Stage 3	0	0	0	0	0	0	0
Total	-13	-2	1	-1	4	0	-10

In column 'Additions' increases of CLA due to the initial recognition of debt securities at FVOCI during the current reporting period are disclosed. Releases of CLA following the derecognition of the related debt securities at FVOCI are reported in column 'Derecognitions'. In column 'Transfers between stages' CLA net changes due to changes in credit risk that triggered re-assignments of the related FVOCI debt securities from Stage 1 (at 1 January 2019 or initial recognition date) to Stages 2 or 3 at 31 December 2019 or vice-versa are reported. The effects of transfers from Stage 1 to Stages 2 or 3 on the related CLAs are adverse and presented in lines attributable to Stages 2 or 3. The effects of transfers from Stages 2 or 3 to Stage 1 on the related CLAs are favourable and presented in line 'Stage 1'. The P&L-neutral effect

from cross-stage transferring of the related CLA amounts recognized prior to stage re-assignments are presented above in column 'Other changes in credit risk (net)'. Any other changes in credit risk which do not trigger a transfer between Stage 1 and Stage 2 or 3 or vice-versa are disclosed in column 'Other changes in credit risk (net)'.

One significant driver of the above presented CLA movements for the year has been the transfer of the related instruments across different stages. The year-end GCAs of FVOCI debt securities that were assigned at 31 December 2019 to a different stage compared to 1 January 2019 (or to the initial recognition date, if purchased during the year) are summarized in the table below:

Transfers between Stage 1 and Stage 2

in EUR million	Dec 18	Dec 19
To Stage 2 from Stage 1	85	98
To Stage 1 from Stage 2	67	7

19. Securities

in EUR million	Dec 18					Dec 19				
	At AC	Trading assets	Financial assets			At AC	Trading assets	Financial assets		
			Mandatorily at FVPL	Designated at FVPL	At FVOCI			Mandatorily at FVPL	Designated at FVPL	At FVOCI
Bonds and other interest-bearing securities	26,050	2,479	1,979	672	9,033	26,764	2,889	1,671	664	8,836
Listed	24,534	1,788	1,286	599	7,577	25,663	2,114	844	620	7,123
Unlisted	1,516	691	694	73	1,456	1,101	774	826	44	1,714
Equity-related securities	0	68	372	0	239	0	65	390	0	210
Listed	0	64	121	0	96	0	62	142	0	120
Unlisted	0	4	252	0	142	0	4	248	0	90
Total	26,050	2,547	2,352	672	9,272	26,764	2,954	2,061	664	9,047

Investment funds units are reported within bonds and other interest bearing securities.

20. Financial assets at amortised cost

Debt securities at amortised cost

Gross carrying amounts and credit loss allowances per impairment buckets

in EUR million	Gross carrying amount				Credit loss allowances				Carrying amount
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	
Dec 19									
Central banks	53	0	0	53	-1	0	0	-1	52
General governments	22,483	29	0	22,512	-4	0	0	-4	22,508
Credit institutions	3,287	1	0	3,288	-2	0	0	-2	3,286
Other financial corporations	136	7	0	143	0	-1	0	-1	142
Non-financial corporations	760	17	3	780	-1	-2	-2	-4	776
Total	26,718	53	4	26,774	-7	-2	-2	-11	26,764

in EUR million	Gross carrying amount				Credit loss allowances				Carrying amount
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	
Dec 18									
Central banks	12	0	0	12	0	0	0	0	12
General governments	22,373	26	1	22,400	-4	0	0	-4	22,396
Credit institutions	2,752	1	0	2,752	-1	0	0	-1	2,751
Other financial corporations	144	1	0	145	0	0	0	0	145
Non-financial corporations	739	7	3	749	-1	0	-2	-3	746
Total	26,020	34	4	26,059	-6	0	-2	-8	26,050

There are no purchased or originated credit-impaired (POCI) debt securities at AC as of 31 December 2019.

Movement in credit loss allowances

in EUR million	As of	Additions	Derecognitions	Transfers between stages	Other changes in credit risk (net)	Other	As of
	Jan 19						Dec 19
Stage 1	-6	-3	0	0	1	0	-7
Stage 2	0	0	0	-1	-1	0	-2
Stage 3	-2	0	0	0	1	0	-2
Total	-8	-3	0	-1	1	0	-11

in EUR million	As of	Additions	Derecognitions	Transfers between stages	Other changes in credit risk (net)	Other	As of
	Jan 18						Dec 18
Stage 1	-6	-1	0	0	1	0	-6
Stage 2	-3	-2	2	0	3	0	0
Stage 3	0	0	0	0	-2	0	-2
Total	-9	-3	3	0	1	0	-8

In column 'Additions' increases of CLA due to the initial recognition of debt securities at AC during the current reporting period are disclosed. Releases of CLA following the derecognition of the related debt securities at AC are reported in column 'Derecognitions'.

In column 'Transfers between stages' CLA net changes due to changes in credit risk that triggered re-assignments of the related AC debt securities from Stage 1 (at 1 January 2019 or initial recognition date) to Stages 2 or 3 at 31 December 2019 or vice-versa are reported. The effects of transfers from Stage 1 to Stages 2 or 3 on the related CLAs are adverse and presented in lines attributable to Stages 2 or 3. The effects of transfers from Stages 2 or 3 to Stage 1 on the related CLAs are favourable and presented in line 'Stage 1'. The P&L-neutral effect from cross-stage transferring of the related CLA amounts recognized prior to stage re-assignments are presented above in column 'Other changes in credit risk (net)'.

Any other changes in credit risk which do not trigger a transfer between Stage 1 and Stage 2 or 3 or vice-versa are disclosed in column 'Other changes in credit risk (net)'.

The year-end total GCAs of AC debt securities that were initially recognized (purchased) during the year 2019 and not fully derecognized by 31 December 2019 amounts to EUR 4,133.8 million (2018: EUR 4,142.0 million.) The GCA of AC debt securities that were held at 1 January 2019 and derecognized during the year 2019 amounts to EUR 3,257.4 million (2018: EUR 1,465.7 million).

Loans and advances to banks at amortised cost

Gross carrying amounts and credit loss allowances per impairment buckets

in EUR million	Gross carrying amount				Credit loss allowances				Carrying amount
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	
Dec 19									
Central banks	16,109	0	0	16,109	0	0	0	0	16,108
Credit institutions	6,936	17	2	6,955	-6	0	-2	-9	6,946
Total	23,045	17	2	23,063	-7	0	-2	-9	23,055

in EUR million	Gross carrying amount				Credit loss allowances				Carrying amount
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	
Dec 18									
Central banks	14,939	0	0	14,939	0	0	0	0	14,938
Credit institutions	3,956	215	2	4,172	-2	-3	-2	-8	4,165
Total	18,894	215	2	19,111	-3	-3	-2	-8	19,103

There are no purchased or originated credit-impaired (POCI) AC loans and advances to banks at 31 December 2019.

Movement in credit loss allowances

in EUR million	As of	Additions	Derecognitions	Transfers between stages	Other changes in credit risk (net)	Other	As of
	Jan 19						Dec 19
Stage 1	-3	-29	27	0	-1	0	-7
Stage 2	-3	0	0	0	3	0	0
Stage 3	-2	0	0	0	0	0	-2
Total	-8	-30	27	0	2	0	-9

in EUR million	As of	Additions	Derecognitions	Transfers between stages	Other changes in credit risk (net)	Other	As of
	Jan 18						Dec 18
Stage 1	-5	-21	18	1	4	1	-3
Stage 2	0	-2	2	-2	-1	0	-3
Stage 3	-2	0	0	0	-1	0	-2
Total	-8	-24	21	-1	3	1	-9

In column 'Additions' increases of CLA due to the initial recognition of loans and advances to banks at AC during the current reporting period are disclosed. Releases of CLA following the derecognition of the related loans and advances to banks at AC are reported in column 'Derecognitions'.

In column 'Transfers between stages' CLA net changes due to changes in credit risk that triggered re-assignments of the related AC loans and advances to banks from Stage 1 at 1 January 2019 (or initial recognition date, if later) to Stages 2 or 3 at 31 December 2019 or vice-versa are reported. The effects of transfers from Stage 1 to Stages 2 or 3 on the related CLAs are adverse (incremental year-on-year allocations) and presented in lines attributable to Stages 2 or 3. The effects of transfers from Stages 2 or 3 to Stage 1 on the related CLAs are favourable (incremental year-on-year releases) and presented in line 'Stage 1'. The P&L-neutral effect from cross-stage transferring of the related CLA amounts recognized prior to stage re-assignments are presented above in column 'Other changes in credit risk (net)'.

Any other changes in credit risk which do not trigger a transfer between Stage 1 and Stage 2 or 3 or vice-versa are disclosed in column 'Other changes in credit risk (net)'.

One significant driver of the CLA movements for the year has been the transfer of the related instruments across different impairment stages. The year-end GCAs of AC loans and advances to banks that were assigned at 31 December 2019 to a different stage compared to 1 January 2019 (or to the initial recognition date, if originated during the year) are summarized below:

Transfers between Stage 1 and Stage 2

in EUR million	Dec 18	Dec 19
To Stage 2 from Stage 1	198	7
To Stage 1 from Stage 2	3	0

The year-end total GCA of AC loans and advances to banks that were initially recognized during the year 2019 and not fully de-recognized by 31 December 2019 amounts to EUR 21,878.5 million (2018: EUR 15,754.5 million). The GCA of AC loans and advances to banks that were held as of 1 January 2019 and fully de-recognized during the year 2019 amounts to EUR 17,928.4 million (2018: 7,143.5 million).

Loans and advances to customers at amortised cost

Gross carrying amounts and credit loss allowances per impairment buckets

in EUR million	Gross carrying amount					Credit loss allowances					Carrying amount
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	
Dec 19											
General governments	6,449	325	3	4	6,781	-17	-3	-2	-1	-23	6,757
Other financial corporations	3,342	244	12	13	3,612	-5	-9	-8	0	-22	3,590
Non-financial corporations	60,331	5,618	1,584	242	67,774	-176	-243	-965	-96	-1,479	66,296
Households	70,577	6,538	1,886	145	79,146	-122	-251	-1,029	-43	-1,445	77,701
Total	140,699	12,725	3,484	404	157,312	-320	-506	-2,003	-139	-2,969	154,344

in EUR million	Gross carrying amount					Credit loss allowances					Carrying amount
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	
Dec 18											
General governments	6,729	324	2	3	7,059	-16	-10	-2	0	-28	7,030
Other financial corporations	3,166	127	47	15	3,355	-8	-5	-40	-3	-56	3,298
Non-financial corporations	56,377	3,616	1,869	345	62,207	-169	-191	-1,133	-97	-1,590	60,617
Households	66,271	6,151	2,031	171	74,623	-128	-249	-1,166	-73	-1,615	73,008
Total	132,544	10,217	3,949	533	147,243	-321	-455	-2,341	-173	-3,290	143,953

Movement in credit loss allowances

in EUR million	As of	Additions	Derecognitions	Transfers between stages	Other changes in credit risk (net)	Insignificant modifications (net)	Write-offs	Other	As of
	Jan 19								Dec 19
Stage 1	-321	-255	75	280	-98	0	0	-1	-320
General governments	-16	-4	1	1	1	0	0	0	-17
Other financial corporations	-8	-8	7	2	2	0	0	0	-5
Non-financial corporations	-169	-160	50	104	-1	0	0	0	-176
Households	-128	-83	17	174	-101	0	0	-1	-122
Stage 2	-455	-34	79	-486	382	0	3	4	-506
General governments	-10	0	0	-1	8	0	0	0	-3
Other financial corporations	-5	-1	1	-7	1	0	0	3	-9
Non-financial corporations	-191	-15	44	-185	107	-1	0	-1	-243
Households	-249	-17	35	-293	266	1	3	3	-251
Stage 3	-2,341	-131	362	-111	-272	0	491	-3	-2,003
General governments	-2	0	0	0	0	0	0	0	-2
Other financial corporations	-40	-9	4	-1	0	0	9	28	-8
Non-financial corporations	-1,133	-78	135	-42	-117	0	300	-30	-965
Households	-1,166	-44	223	-68	-155	0	182	-1	-1,029
POCI	-173	0	28	0	-10	-4	18	1	-139
General governments	0	0	0	0	1	0	0	-2	-1
Other financial corporations	-3	0	0	0	3	0	0	0	0
Non-financial corporations	-97	0	17	0	-25	-3	11	1	-96
Households	-73	0	11	0	11	-1	7	1	-43
Total	-3,290	-419	545	-316	2	-3	512	1	-2,969

in EUR million	As of	Additions	Derecognitions	Transfers between stages	Other changes in credit risk (net)	Insignificant modifications (net)	Write-offs	Other	As of
	Jan 18								Dec 18
Stage 1	-345	-205	94	329	-196	2	1	-1	-321
General governments	-16	-10	9	2	-1	0	0	0	-16
Other financial corporations	-17	-10	12	4	2	0	0	0	-8
Non-financial corporations	-181	-124	59	160	-84	1	0	1	-169
Households	-131	-61	14	163	-112	1	1	-2	-128
Stage 2	-496	-95	77	-298	336	6	9	6	-455
General governments	-26	0	8	-2	10	0	0	0	-10
Other financial corporations	-3	-12	7	-5	7	0	1	1	-5
Non-financial corporations	-217	-53	42	-117	142	4	0	8	-191
Households	-249	-29	20	-175	177	2	8	-3	-249
Stage 3	-2,825	-89	260	-99	-154	10	539	16	-2,341
General governments	-1	0	0	0	-1	0	0	0	-2
Other financial corporations	-89	0	19	-9	12	0	27	1	-40
Non-financial corporations	-1,449	-59	148	-39	-59	10	302	13	-1,133
Households	-1,286	-30	94	-51	-105	0	210	2	-1,166
POCI	-210	0	39	0	-22	0	23	-4	-173
General governments	0	0	0	0	0	0	0	0	0
Other financial corporations	-7	0	0	0	4	0	0	0	-3
Non-financial corporations	-108	0	31	0	-30	0	14	-4	-97
Households	-94	0	8	0	3	0	9	1	-73
Total	-3,876	-388	471	-69	-35	17	573	18	-3,290

In column 'Additions' increases of CLA due to the initial recognition of loans and advances to customers at AC during the current reporting period are disclosed. CLAs recognized against drawings from non-revolving loan commitments are deemed as additions for the purpose of presenting current period's movement in CLA. Therefore, additions in Stages 2 and 3 reflect transfers from Stage 1 having occurred between commitment and drawing dates of related credit facilities. Releases of CLA following the derecognition of the related loans and advances to customers at AC are reported in column 'Derecognitions'.

In column 'Transfers between stages' CLA net changes due to changes in credit risk that triggered re-assignments of the related AC loans and advances to customers from Stage 1 at 1 January 2019 (or initial recognition date, if later) to Stages 2 or 3 at 31 December 2019 or vice-versa are reported. The effects of transfers from Stage 1 to Stages 2 or 3 on the related CLAs are adverse (incremental year-on-year allocations) and presented in lines attributable to Stages 2 or 3. The effects of transfers from Stages 2 or 3 to Stage 1 on the related CLAs are favourable (incremental year-on-year releases) and presented in line 'Stage 1'. The P&L-neutral effect from cross-stage transferring of the related CLA amounts recognized prior to stage re-assignments are presented above in column 'Other changes in credit risk (net)'.

Any other changes in credit risk which do not trigger a transfer between Stage 1 and Stage 2 or 3 or vice-versa are disclosed in column 'Other changes in credit risk (net)'. This column also captures the passage-of-time adverse effect ('unwinding correction') over the lifetime expected cash shortfalls of AC loans and advances to customers that were assigned to Stage 3 for any period throughout the year, as well as of any POCI loans and advances to customers. This adverse effect amounted to EUR 71.1 million (2018: EUR 87.7 million) cumulatively

for the year 2019, which also reflects the unrecognized interest income out of the related AC loans and advances to customers throughout the year.

The column ‘Insignificant modifications (net)’ reflects the effect on CLA arising from contractual modifications of loans and advances to customers at AC which do not trigger their full derecognition. The use of CLA triggered by full or partial write-offs of AC loans and advances to customers is reported in column ‘Write-offs’.

One significant driver of the CLA movements for the year has been the transfer of the related instruments across different impairment stages. The year-end GCA of AC loans and advances to customers that were assigned at 31 December 2019 to a different stage compared to 1 January 2019 (or to the initial recognition date, if originated during the year) are summarized below:

Dec 19	Transfers between Stage 1 and Stage 2		Transfers between Stage 2 and Stage 3		Transfers between Stage 1 and Stage 3		POCI	
	To Stage 2 from Stage 1	To Stage 1 from Stage 2	To Stage 3 from Stage 2	To Stage 2 from Stage 3	To Stage 3 from Stage 1	To Stage 1 from Stage 3	To Defaulted from Non-Defaulted	To Non-Defaulted from Defaulted
	in EUR million							
General governments	120	69	0	0	1	0	0	0
Other financial corporations	157	107	0	1	2	0	0	14
Non-financial corporations	3,925	933	130	37	204	14	10	9
Households	2,928	1,464	269	92	303	51	2	11
Total	7,131	2,572	399	130	509	64	12	34

Dec 18	Transfers between Stage 1 and Stage 2		Transfers between Stage 2 and Stage 3		Transfers between Stage 1 and Stage 3		POCI	
	To Stage 2 from Stage 1	To Stage 1 from Stage 2	To Stage 3 from Stage 2	To Stage 2 from Stage 3	To Stage 3 from Stage 1	To Stage 1 from Stage 3	To Defaulted from Non-Defaulted	To Non-Defaulted from Defaulted
	in EUR million							
General governments	173	91	1	0	0	0	0	0
Other financial corporations	85	55	2	0	1	0	0	0
Non-financial corporations	1,855	1,467	133	102	227	11	83	16
Households	2,432	1,470	215	110	254	51	6	15
Total	4,546	3,084	351	213	482	63	88	30

The year-end total GCA of the AC loans and advances to customers that were initially recognized during the reporting period and not fully de-recognized by 31 December 2019 amounts to EUR 38,982.9 million (2018: EUR 34,479.9 million). The GCA of the AC loans and advances to customers that were held at 1 January 2019 and fully de-recognized during the reporting period amounts to EUR 16,425.7 million (2018: EUR 20,500.0 million).

The undiscounted amount of the lifetime expected credit losses considered in the initial measurement of the AC loans and advances to customers initially recognized and identified as POCI during the year 2019 amounted to EUR 32.4 million (2018: EUR 44.4 million).

21. Finance lease receivables

Gross carrying amounts and credit loss allowances per impairment buckets

in EUR million	Gross carrying amount					Credit loss allowances					Carrying amount
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	
	Dec 19										
General governments	363	0	16	0	379	-2	0	0	0	-2	377
Credit institutions	1	0	0	0	1	0	0	0	0	0	1
Other financial corporations	71	0	0	0	71	0	0	0	0	0	71
Non-financial corporations	2,585	96	253	0	2,934	-10	-4	-106	0	-121	2,813
Households	747	21	15	0	783	-3	-1	-7	0	-11	772
Total	3,768	117	284	0	4,169	-15	-5	-114	0	-134	4,034

in EUR million	Gross carrying amount					Credit loss allowances					Carrying amount
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	
	Dec 18										
General governments	387	1	19	0	407	-2	0	-1	0	-3	405
Credit institutions	2	0	0	0	2	0	0	0	0	0	2
Other financial corporations	62	0	0	0	63	0	0	0	0	0	62
Non-financial corporations	2,415	73	253	0	2,742	-12	-2	-124	0	-139	2,604
Households	669	19	12	0	700	-3	-1	-6	0	-10	690
Total	3,535	94	284	0	3,914	-18	-3	-130	0	-151	3,763

Movement in credit loss allowances

in EUR million	As of	Additions	Derecognitions	Transfers between stages	Other changes in credit risk (net)	Insignificant modifications (net)	Write-offs	Other	As of
	Jan 19								Dec 19
Stage 1	-18	-6	0	4	5	0	0	0	-15
Stage 2	-3	0	0	-4	1	0	0	0	-5
Stage 3	-130	0	3	-5	5	0	15	-1	-114
POCI	0	0	0	0	0	0	0	0	0
Total	-151	-6	3	-5	11	0	15	-1	-134

in EUR million	As of	Additions	Derecognitions	Transfers between stages	Other changes in credit risk (net)	Insignificant modifications (net)	Write-offs	Other	As of
	Jan 18								Dec 18
Stage 1	-18	-6	1	9	-8	0	0	5	-18
Stage 2	-4	-1	0	-2	3	0	0	1	-3
Stage 3	-149	-1	1	-4	13	0	10	-1	-130
POCI	-1	0	0	0	1	0	0	0	0
Total	-172	-7	2	3	9	0	10	4	-151

In column 'Additions' increases of CLA due to the initial recognition of finance lease receivables during the current reporting period are disclosed. Releases of CLA following the derecognition of the related finance lease receivables are reported in column 'Derecognitions'.

In column 'Transfers between stages' CLA net changes due to changes in credit risk that triggered re-assignments of the related finance lease receivables from Stage 1 as of 1 January 2019 or initial recognition date to Stages 2 or 3 as of 31 December 2019 or vice-versa are reported. The effects of transfers from Stage 1 to Stages 2 or 3 on the related CLAs are adverse and presented in lines attributable to Stages 2 or 3. The effects of transfers from Stages 2 or 3 to Stage 1 on the related CLAs are favourable and presented in line 'Stage 1'. The P&L-neutral effect from cross-stage transferring of the related CLA amounts recognized prior to stage re-assignments are presented above in column 'Other changes in credit risk (net)'.

Any other changes in credit risk which do not trigger a transfer between Stage 1 and Stage 2 or 3 or vice-versa are disclosed in column 'Other changes in credit risk (net)'. This column also captures the passage-of-time adverse effect ('unwinding correction') over the lifetime expected cash shortfalls of finance lease receivables that were assigned to Stage 3 for any period throughout the year, as well as of any POCI finance lease receivables. This adverse effect amounted to EUR 5.7 million (2018: EUR 5.0 million) cumulatively for the year 2019, which also reflects the unrecognized interest income out of the related finance lease receivables throughout the year.

The column 'Insignificant modifications (net)' reflects the effect on CLA arising from contractual modifications of finance lease receivables which do not trigger their full derecognition. The use of CLA triggered by full or partial write-offs of finance lease receivables is reported in column 'Write-offs'.

One significant driver of the CLA movements for the year has been the transfer of the related instruments across impairment stages. The year-end GCA of finance lease receivables that were assigned at 31 December 2019 to a different stage compared to 1 January 2019 (or to the initial recognition date, if originated during the year) are summarized below:

Transfers between stages

in EUR million	Dec 18	Dec 19
Transfers between Stage 1 and Stage 2		
To Stage 2 from Stage 1	68	92
To Stage 1 from Stage 2	74	49
Transfers between Stage 2 and Stage 3		
To Stage 3 from Stage 2	7	57
To Stage 2 from Stage 3	1	51
Transfers between Stage 1 and Stage 3		
To Stage 3 from Stage 1	9	15
To Stage 1 from Stage 3	44	2

The year-end total GCA of the finance lease receivables that were initially recognized during the reporting period and not fully de-recognized by 31 December 2019 amounts to EUR 1,017.2 million (2018: EUR 439.6 million). The GCAs of the finance lease receivables that were held at 1 January 2019 and fully de-recognized during the year 2019 amounts to EUR 62.2 million (2018: EUR 64.3 million).

22. Hedge accounting derivatives

in EUR million	Dec 18			Dec 19		
	Notional value	Positive fair value	Negative fair value	Notional value	Positive fair value	Negative fair value
Fair value hedges	11,510	373	295	11,234	460	296
Interest rate	11,510	373	295	11,234	460	296
Equity	0	0	0	0	0	0
Foreign exchange	0	0	0	0	0	0
Credit	0	0	0	0	0	0
Commodity	0	0	0	0	0	0
Other	0	0	0	0	0	0
Cash flow hedges	3,632	36	72	3,532	21	81
Interest rate	3,574	36	71	3,280	20	79
Equity	0	0	0	0	0	0
Foreign exchange	57	0	1	252	1	2
Credit	0	0	0	0	0	0
Commodity	0	0	0	0	0	0
Other	0	0	0	0	0	0
Total gross amounts	15,142	410	367	14,766	481	377
Offset		-277	-90		-350	-107
Total		132	277		130	269

Erste Group undertakes a part of interest rate derivative and credit derivative transactions via Clearing Houses. These derivatives and related cash margin balances fulfil the requirements for balance sheet offsetting. For more details on balance sheet offsetting please refer to Note 45 Offsetting of financial instruments.

23. Trade and other receivables

Gross carrying amounts and credit loss allowances per impairment buckets

in EUR million	Gross carrying amount					Credit loss allowances					Carrying amount
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	
Dec 19											
Central banks	1	0	0	0	1	0	0	0	0	0	1
General governments	44	18	0	0	63	0	0	0	0	0	62
Credit institutions	22	2	0	0	25	0	-1	0	0	-1	24
Other financial corporations	24	5	0	0	30	0	0	0	0	0	29
Non-financial corporations	500	680	50	10	1,240	-3	-2	-41	-1	-47	1,193
Households	70	33	19	0	122	-3	-7	-13	0	-23	99
Total	661	738	70	10	1,480	-6	-10	-55	-1	-72	1,408

in EUR million	Gross carrying amount					Credit loss allowances					Carrying amount
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	
Dec 18											
General governments	28	22	0	0	49	0	-6	0	0	-6	43
Credit institutions	25	21	0	0	47	0	-1	0	0	-1	46
Other financial corporations	38	3	1	0	42	0	0	-1	0	-1	41
Non-financial corporations	482	591	100	2	1,176	-2	-3	-81	-1	-87	1,089
Households	76	31	20	0	126	-2	-9	-16	0	-27	99
Total	649	668	121	2	1,441	-5	-19	-98	-1	-122	1,318

Movement in credit loss allowances

in EUR million	As of	Additions	Derecognitions	Transfers between stages	Other changes in credit risk (net)	Insignificant modifications (net)	Write-offs	Other	As of
	Jan 19								Dec 19
Stage 1	-5	-5	1	1	0	0	0	0	-6
Stage 2	-19	0	1	-1	4	0	6	0	-10
Stage 3	-98	-1	9	-3	1	0	37	0	-55
POCI	-1	0	0	0	0	0	0	0	-1
Total	-122	-6	11	-3	5	0	43	0	-72

in EUR million	As of	Additions	Derecognitions	Transfers between stages	Other changes in credit risk (net)	Insignificant modifications (net)	Write-offs	Other	As of
	Jan 18								Dec 18
Stage 1	-5	-5	4	1	1	0	0	-1	-5
Stage 2	-5	-11	1	-2	5	0	0	-6	-19
Stage 3	-105	-3	9	-1	-29	0	48	-17	-98
POCI	-1	0	0	0	0	0	0	0	-1
Total	-116	-19	15	-2	-24	0	48	-24	-122

24. Debt instruments subject to contractual modifications

Impact of non-significant contractual modifications of debt instruments AC assigned to Stage 2 and 3

in EUR million	Dec 18		Dec 19	
	Amortised cost before the modification	Net modification gains/losses	Amortised cost before the modification	Net modification gains/losses
Loans and advances				
General governments	57	0	12	0
Other financial corporations	61	0	11	0
Non-financial corporations	924	-1	615	-3
Households	602	-3	489	1
Total	1,644	-4	1,128	-2

As at 31 December 2019, the total GCA of Erste Group's debt instruments measured at AC, which were impacted by non-significant contractual modifications while they were assigned to Stage 2 or 3 and re-assigned to Stage 1 during the year 2019 amounted to EUR 306.2 million (2018: EUR 266.6 million).

25. Investments in associates and joint ventures

in EUR million	Dec 18	Dec 19
Credit institutions	87	47
Financial institutions	58	60
Others	53	56
Total	198	163

Aggregated financial information of companies accounted for using the equity method

in EUR million	Dec 18	Dec 19
Total assets	4,884	4,870
Total liabilities	4,330	4,284
Income	297	306
Profit/loss	37	48

None of Erste Group's investments accounted for using the equity method published price quotations.

Selected equity method investments where the Erste Group has strategic interest

in EUR million	Dec 18			Dec 19		
	Prvá stavebná	Global Payments s.r.o.	VBV - Betriebliche Altersvorsorge AG	Prvá stavebná	Global Payments s.r.o.	VBV - Betriebliche Altersvorsorge AG
Country of Incorporation	Slovakia	Czech Republic	Austria	Slovakia	Czech Republic	Austria
Place of business	Slovakia	Czech Republic	Austria	Slovakia	Czech Republic	Austria
Main business activity	Financing building society	Payment services	Insurance	Financing building society	Payment services	Insurance
Ownership held %	35%	49%	30%	35%	49%	30%
Voting rights held %	35%	49%	27%	35%	49%	27%
IFRS Classification (JV/A)	Associate	Associate	Associate	Associate	Associate	Associate
Reporting currency	EUR	CZK	EUR	EUR	CZK	EUR
Investee's financial information for the reporting year						
Cash and cash balances	0	4	5	1	13	6
Other current assets	639	59	13	583	47	13
Non-current assets	2,396	55	43	2,411	52	43
Current liabilities	762	52	0	693	38	0
Non-current liabilities	2,032	0	4	2,043	0	2
Operating Income	66	33	0	71	40	0
Post-tax result from continuing operations	15	4	8	17	8	10
Other comprehensive income	0	0	0	0	0	0
Total comprehensive income	15	4	8	17	8	10
Depreciation and amortization	-4	-7	0	-5	-6	0
Interest income	95	0	0	93	0	0
Interest expense	-43	-1	0	-35	-1	0
Tax expense/income	-5	-2	0	-5	-3	0
Reconciliation of investee's net assets against equity investment's carrying amount						
Net assets attributable to Erste Group	84	32	17	90	37	18
Accumulated impairment	0	0	0	-46	0	0
Carrying amount	84	32	17	45	37	18

The classification of current and non-current financial assets and liabilities is based on the expected remaining maturities of assets and liabilities.

The carrying amount of Prvá stavebná was impaired in the amount of EUR 46 million as a consequence of the extension and increase of the Slovak banking tax. The impairment loss is disclosed in line item 'Other operating result'.

Other equity method investments

in EUR million	Dec 18		Dec 19	
	Associates	Joint Ventures	Associates	Joint Ventures
Investees' aggregated key financial information				
Post-tax result from continuing operations	4	6	6	6
Other comprehensive income	0	0	0	0
Total comprehensive income	4	6	6	6
Loan commitments, financial guarantees and other commitments given	0	0	0	0
Carrying amount	40	24	40	24

26. Unconsolidated structured entities

Erste Group uses structured entities in the course of its business activity. The definition of structured entities as well as of interests in structured entities is outlined in chapter 'B. Significant Accounting Policies'.

Investment funds

Direct investments in own-managed and third-party-managed investment funds as well as management fees earned for the management of investment funds by subsidiaries of Erste Group are classified as interests in unconsolidated structured entities, if they are not consolidated.

Direct investments in investment funds. Erste Group is invested in several mutual funds as well as in private investment funds which are registered in Austria, Central- and Eastern Europe or other countries. The majority of those funds is managed by subsidiaries of Erste Group, the smaller part of the funds being managed by independent third parties. The investments in funds held by Erste Group do not constitute material investments (basically below 20%) and mostly take the form of redeemable fund unit investments. They are measured at fair value on the Group's balance sheet, and are disclosed as debt securities either under line item 'Non-trading financial assets at fair value through profit or loss' or 'Financial assets held for trading'.

Management fees. Moreover, Erste Group earns management fees for providing investment management services as fund manager (by subsidiaries of Erste Group); meaning for making the investment decision for the funds under management of the relevant investment fund.

Beside the management fees for the services as fund manager Erste Group also receives distributions for their investments in fund units. On the other side stand expenses for the administration of investment funds and fees for the business activity of investment funds, especially custodian fees and fees for securities trading transactions. In the normal course of business activity Erste Group enters into derivative transactions with own-managed unconsolidated investment funds. Moreover, own-managed unconsolidated investment funds are also invested - over different time periods - in debt securities issued by or deposits of Erste Group. In restricted cases Erste Group offers capital guarantees for own-managed unconsolidated investment funds.

The magnitude of the Group's equity interests in unconsolidated investment funds may vary in the future depending on the future performance of their respective underlying assets, relevant market circumstances and opportunities, or regulatory requirements.

Securitization vehicles

Erste Group is also involved as an investor in a number of unconsolidated securitization vehicles sponsored and managed by unrelated third parties in foreign jurisdictions. These interests are asset backed securities with the purpose to securitize certain assets, usually loan receivables, into tradeable interest-bearing securities. The securitization vehicles are financed by the issuance of different tranches of asset backed securities. Investors of those securities cover the default risk of the underlying assets. Erste Group is invested in tranches with investment grade, which are measured at fair value on the balance sheet. All investments in unconsolidated securitizations relates to bond investments maturing beyond 1 year. At year end the remaining, weighted average maturity of those debt securities is slightly more than 12.2°years. The interests in securitization vehicles include Collateralized Mortgage Obligations (CMO) and securitized student loans from the US, which will be disposed in the next years.

Others

To a lesser extent, Erste Group is also exposed (notably as lender) to unconsolidated structured entities having other business activities. The respective loans and advances are either measured at amortised cost or at fair value through profit or loss, depending whether they are SPPI-compliant or not.

Maximum exposure to unconsolidated structured entities

Erste Group's maximum exposure to losses from its interests in unconsolidated structured entities is equal to the total fair value of its fund units, bond investments, trading derivative assets, provided loans and off-balance sheet commitments and guarantees as of the respective balance sheet date. The maximum exposure corresponds to the carrying amounts after risk provisions as of the balance sheet date. For off-balance sheet loan commitments and guarantees the maximum exposure corresponds to the respective nominal value.

The table below summarises the Group's business relations to unconsolidated structured entities per balance sheet line item, business activity and business location. The summary includes the assets identified as impaired at year-end, as well as related net impairment losses/gains incurred during the year. The carrying amounts of the exposures summarized below are mostly referring to assets already measured at fair value in the balance sheet of the Group. The carrying amounts of the remaining exposures (notably 'Loans and advances') are materially similar to their fair values.

Dec 19	Investment Funds			Securitization vehicles			Other	Total
	Own-managed	Third-party managed	Total	Own-managed	Third-party managed	Total		
in EUR million								
Assets								
Equity instruments, thereof:	0	0	0	0	0	0	9	9
at FVPL	0	0	0	0	0	0	9	9
Debt securities, thereof:	649	46	695	0	59	59	0	754
Financial assets HFT	6	8	14	0	0	0	0	14
at FVPL	643	39	681	0	59	59	0	741
Loans and advances	78	0	78	0	0	0	55	133
Trading derivatives	5	0	5	0	0	0	0	5
Total assets	732	46	778	0	59	59	64	901
thereof impaired	0	0	0	0	0	0	0	0
On-balance sheet exposure analysis per jurisdiction								
Austria	685	0	685	0	0	0	0	685
Central and Eastern Europe	47	5	52	0	0	0	64	116
Other jurisdictions	0	41	41	0	59	59	0	100
Liabilities								
Equity instruments	100	0	100	0	0	0	0	100
Debt securities issued	214	0	214	0	0	0	0	214
Deposits	1,785	0	1,785	0	0	0	2	1,787
Trading derivatives	47	0	47	0	0	0	0	47
Total liabilities	2,146	0	2,146	0	0	0	2	2,148
Off balance-sheet commitments	26	0	26	0	0	0	0	26
Dec 18								
in EUR million								
Assets								
Equity instruments, thereof:	0	0	0	0	0	0	15	15
at FVPL	0	0	0	0	0	0	15	15
Debt securities, thereof:	579	62	641	0	73	73	0	714
Financial assets HFT	10	9	19	0	0	0	0	19
at FVPL	569	53	622	0	73	73	0	695
Loans and advances	4	0	4	0	0	0	49	53
Trading derivatives	25	0	25	0	0	0	0	25
Total assets	608	62	670	0	73	73	63	807
thereof impaired	0	0	0	0	0	0	0	0
On-balance sheet exposure analysis per jurisdiction								
Austria	569	0	569	0	0	0	0	569
Central and Eastern Europe	40	3	42	0	0	0	63	106
Other jurisdictions	0	60	60	0	73	73	0	133
Liabilities								
Equity instruments	97	0	97	0	0	0	0	97
Debt securities issued	278	0	278	0	0	0	0	278
Deposits	1,516	0	1,516	0	0	0	0	1,517
Trading derivatives	23	0	23	0	0	0	0	23
Total liabilities	1,914	0	1,914	0	0	0	0	1,914
Off balance-sheet commitments	122	0	122	0	0	0	0	122

27. Non controlling interest

Dec 19	Haftungsverbund Savings Banks, thereof:			
	Total	Sparkasse Oberösterreich	Sparkasse Steiermark	Sparkasse Kärnten
in EUR million				
Country of incorporation	Austria	Austria	Austria	Austria
Place of business	Austria	Austria	Austria	Austria
Main business activity	Banking	Banking	Banking	Banking
Ownership% held by NCI	50.1%-100%	60%	75%	75%
Reporting currency	EUR	EUR	EUR	EUR
Dividends paid to equity holders of the parent	33	5	9	4
Net result attributable to non-controlling interests	356	30	73	13
Accumulated NCI	4,317	508	1,018	228
Subsidiary-level stand-alone key financial information				
Current assets	23,561	5,203	5,003	1,236
Non-current assets	46,391	8,062	9,376	3,154
Current liabilities	49,396	7,865	11,339	3,076
Non-current liabilities	14,238	4,449	1,575	967
Operating income	1,710	307	352	112
Profit or loss from continuing operations	584	79	154	35
Total comprehensive income	493	64	118	35

Dec 18	Haftungsverbund Savings Banks, thereof:			
	Total	Sparkasse Oberösterreich	Sparkasse Steiermark	Sparkasse Kärnten
in EUR million				
Country of incorporation	Austria	Austria	Austria	Austria
Place of business	Austria	Austria	Austria	Austria
Main business activity	Banking	Banking	Banking	Banking
Ownership% held by NCI	50.1%-100%	60%	75%	75%
Reporting currency	EUR	EUR	EUR	EUR
Dividends paid to equity holders of the parent	29	4	7	1
Net result attributable to non-controlling interests	291	34	70	15
Accumulated NCI	4,022	485	947	218
Subsidiary-level stand-alone key financial information				
Current assets	20,931	4,640	4,331	1,093
Non-current assets	44,946	8,097	9,386	3,066
Current liabilities	47,964	8,747	10,392	3,008
Non-current liabilities	12,100	3,094	1,969	832
Operating income	1,557	283	327	104
Profit or loss from continuing operations	568	78	188	45
Total comprehensive income	228	11	113	20

28. Property, equipment and investment properties

Acquisition and production costs

Own property, equipment and investment properties

in EUR million	Land and buildings	Office and plant equipment/other fixed assets	IT assets (hardware)	Movable other property	Property and equipment	Investment properties
Jan 18	2,802	1,109	553	606	5,070	1,501
Additions	76	66	70	139	352	84
Disposals	-98	-111	-37	-125	-370	-35
Acquisition of subsidiaries	0	0	12	4	17	0
Disposal of subsidiaries	0	0	0	-25	-25	-14
Reclassification	-40	4	0	0	-36	37
Assets held for sale	-67	0	0	0	-67	-3
Currency translation	-6	-2	-2	10	0	-2
Dec 18	2,668	1,067	597	610	4,941	1,568
Additions	109	74	63	148	395	120
Disposals	-100	-74	-131	-332	-637	-26
Acquisition of subsidiaries	11	3	4	0	18	0
Disposal of subsidiaries	0	0	0	0	0	-7
Reclassification	-32	0	7	-1	-26	26
Assets held for sale	-120	-19	0	0	-138	-3
Currency translation	4	-1	-1	2	3	-1
Dec 19	2,540	1,050	538	427	4,555	1,678

Rights of use: property, equipment and investment properties

in EUR million	Land and buildings	Office and plant equipment/other fixed assets	IT assets (hardware)	Movable other property	Property and equipment	Investment properties
Jan 19	404	2	1	2	410	21
Additions	152	1	1	1	155	6
Disposals	-13	-1	-1	-2	-17	0
Acquisition of subsidiaries	1	2	0	0	3	0
Disposal of subsidiaries	0	0	0	0	0	0
Reclassification	0	0	0	0	0	0
Assets held for sale	-2	0	0	0	-2	0
Currency translation	0	0	0	0	0	0
Dec 19	541	5	2	2	550	27

Accumulated depreciation

Own property, equipment and investment properties

in EUR million	Land and buildings	Office and plant equipment/other fixed assets	IT assets (hardware)	Movable other property	Property and equipment	Investment properties
Jan 18	-1,217	-822	-420	-225	-2,684	-390
Amortisation and depreciation	-73	-57	-51	-72	-254	-25
Disposals	71	106	35	53	266	13
Acquisition of subsidiaries	0	0	0	-2	-2	0
Disposal of subsidiaries	0	0	0	25	25	6
Impairment	-61	0	0	0	-61	-3
Reversal of impairment	1	0	0	0	2	2
Reclassification	12	9	-8	0	13	-12
Assets held for sale	46	0	0	0	46	1
Currency translation	4	1	1	-4	2	1
Dec 18	-1,217	-763	-443	-225	-2,648	-409
Amortisation and depreciation	-70	-58	-58	-58	-243	-27
Disposals	69	65	133	161	427	9
Acquisition of subsidiaries	-3	-2	-3	0	-8	0
Disposal of subsidiaries	0	0	0	0	0	7
Impairment	-9	-4	0	-8	-22	-6
Reversal of impairment	2	0	0	0	2	1
Reclassification	14	3	-4	1	14	-13
Assets held for sale	59	18	0	0	77	1
Currency translation	-4	1	1	-1	-3	0
Dec 19	-1,159	-740	-374	-131	-2,404	-436

Rights of use: property, equipment and investment properties

in EUR million	Land and buildings	Office and plant equipment/other fixed assets	IT assets (hardware)	Movable other property	Property and equipment	Investment properties
Jan 19	0	0	0	0	0	0
Amortisation and depreciation	-70	-1	0	0	-72	-2
Disposals	2	0	0	0	2	0
Acquisition of subsidiaries	-2	0	0	0	-2	0
Disposal of subsidiaries	0	0	0	0	0	0
Impairment	0	0	0	0	0	0
Reversal of impairment	0	0	0	0	0	0
Reclassification	0	0	0	0	0	0
Assets held for sale	0	0	0	0	0	0
Currency translation	0	0	0	0	0	0
Dec 19	-70	-1	0	0	-72	-2

Carrying amounts

Own property, equipment and investment properties

in EUR million	Land and buildings (used by the Group)	Office and plant equipment/other fixed assets	IT assets (hardware)	Movable other property	Property and equipment	Investment properties
Dec 18	1,450	304	154	385	2,293	1,159
Dec 19	1,381	310	165	296	2,152	1,241

Rights of use: property, equipment and investment properties

in EUR million	Land and buildings (used by the Group)	Office and plant equipment/other fixed assets	IT assets (hardware)	Movable other property	Property and equipment	Investment properties
Jan 19	404	2	1	2	410	21
Dec 19	471	4	1	1	478	25

Total carrying amounts

in EUR million	Land and buildings (used by the Group)	Office and plant equipment/other fixed assets	IT assets (hardware)	Movable other property	Property and equipment	Investment properties
Dec 18	1,450	304	154	385	2,293	1,159
Dec 19	1,852	314	166	298	2,629	1,266

The carrying amount of investment properties include properties subject to operating leases in the amount of EUR 1,200.4 million (2018: EUR 1,125.7 million). Investment properties with a carrying amount of EUR 551.4 million (2018: EUR 475.4 million) are subject to the Austrian Non-Profit Housing Act (Wohnungsgemeinnützigkeitsgesetz) and investment properties with a carrying amount of EUR 429.4 million (2018: EUR 363.5 million) are pledged as collaterals. The carrying amount of property and equipment includes properties subject to operating leases in the amount of EUR 411.1 million (2018: EUR 522.5 million).

In the reporting period, expenditures in the amount of EUR 93.2 million (2018: EUR 67.3 million) are capitalised in the carrying amount of fixed assets and investment properties during their construction. The contractual commitments for purchase of fixed assets are EUR 82.6 million (2018: EUR 13.2 million).

For details relating to the fair value of investment properties, see Note 49 Fair value of non-financial instruments.

In 2019, land and buildings were impaired in the amount of EUR 7.2 million (in Romania and Slovakia 2018: EUR 56.9 million in Czech Republic, Austria and Romania). As of 31 December 2019, the recoverable amount of these impaired assets amounted to EUR 26.8 million (2018: EUR 118.2 million).

29. Intangible assets

Acquisition and production costs

in EUR million	Goodwill	Customer relationships	Brand	Software acquired	Self-constructed software within the Group	Others (licenses, patents, etc.)	Total
Jan 18	3,869	756	278	1,517	648	312	7,379
Additions	0	0	0	144	61	11	216
Disposals	0	0	0	-122	-255	-11	-388
Acquisition of subsidiaries	0	0	0	0	0	0	0
Disposal of subsidiaries	0	0	0	0	0	0	0
Reclassification	0	0	0	-21	0	21	0
Assets held for sale	0	0	0	0	0	0	0
Currency translation	-2	-2	0	-9	0	-1	-14
Dec 18	3,867	755	277	1,509	453	333	7,194
Additions	0	0	0	146	76	12	233
Disposals	0	0	0	-83	-15	-4	-102
Acquisition of subsidiaries	0	0	0	0	0	5	5
Disposal of subsidiaries	0	0	0	0	0	0	0
Reclassification	0	0	0	-2	-1	3	0
Assets held for sale	0	0	0	0	0	0	0
Exchange-rate changes	-53	-16	-7	-1	-1	0	-78
Dec 19	3,814	739	270	1,569	511	349	7,252

Accumulated depreciation

in EUR million	Goodwill	Customer relationships	Brand	Software acquired	Self-constructed software within the Group	Others (licenses, patents, etc.)	Total
Jan 18	-3,156	-686	-278	-1,135	-398	-202	-5,855
Amortisation and depreciation	0	-9	0	-112	-52	-20	-193
Disposals	0	0	0	122	255	10	388
Acquisition of subsidiaries	0	0	0	0	0	0	0
Disposal of subsidiaries	0	0	0	0	0	0	0
Impairment	0	0	0	-9	-28	0	-36
Reversal of impairment	0	0	0	0	0	0	0
Reclassification	0	0	0	29	-3	-25	1
Assets held for sale	0	0	0	0	0	0	0
Currency translation	2	1	0	6	0	1	10
Dec 18	-3,154	-694	-277	-1,099	-226	-236	-5,687
Amortisation and depreciation	0	-9	0	-114	-52	-23	-197
Disposals	0	0	0	80	15	3	98
Acquisition of subsidiaries	0	0	0	0	0	-4	-4
Disposal of subsidiaries	0	0	0	0	0	0	0
Impairment	-165	0	0	-2	-3	0	-170
Reversal of impairment	0	0	0	0	0	0	0
Reclassification	0	0	0	0	0	-1	-1
Assets held for sale	0	0	0	0	0	0	0
Currency translation	53	15	7	0	0	0	76
Dec 19	-3,267	-687	-270	-1,134	-266	-260	-5,884

Carrying amounts

in EUR million	Goodwill	Customer relationships	Brand	Software acquired	Self-constructed software within the Group	Others (licenses, patents, etc.)	Total
Dec 18	712	61	0	410	227	97	1,507
Dec 19	547	51	0	435	246	89	1,368

The contractual commitments for the purchase of intangible assets amounted to EUR 11.2 million (2018: EUR 0.9 million). As of 31 December 2019 the customer relationship Ringturm Kapitalanlagegesellschaft m.b.H. amounted to EUR 36.2 million (2018: EUR 40.4 million). The remaining amortization period of the customer relationship in Ringturm Kapitalanlagegesellschaft m.b.H. was 8.8 years.

Development of goodwill

The changes in the carrying amount of goodwill, as well as gross amounts and accumulated impairment losses of goodwill, of the respective subsidiaries (cash generating units, CGU) are shown by country of domicile of the relevant subsidiary in the following table.

in EUR million	Romania	Czech Republic	Slovakia	Hungary	Croatia	Austria	Other countries	Total
Jan 18	0	546	165	0	0	0	0	712
Acquisitions	0	0	0	0	0	0	0	0
Disposals	0	0	0	0	0	0	0	0
Impairment losses	0	0	0	0	0	0	0	0
Exchange rate changes	0	0	0	0	0	0	0	0
Dec 18	0	546	165	0	0	0	0	712
Gross amount	2,251	546	226	313	114	363	120	3,933
Accumulated impairment	-2,251	0	-61	-313	-114	-363	-120	-3,222
Jan 19	0	546	165	0	0	0	0	712
Acquisitions	0	0	0	0	0	0	0	0
Disposals	0	0	0	0	0	0	0	0
Impairment losses	0	0	-165	0	0	0	0	-165
Exchange rate changes	0	0	0	0	0	0	0	0
Dec 19	0	546	0	0	0	0	0	546
Gross amount	2,251	546	226	313	114	363	120	3,931
Accumulated impairment	-2,251	0	-226	-313	-114	-363	-120	-3,387

The gross amount of goodwill is the amount as determined at the time of the related acquisition, less accumulated impairment until 31 December 2019, including the effects of exchange rate changes.

Goodwills having a carrying amount other than zero as of 31 December 2018 have been assessed for objective evidence of impairment on a quarterly basis throughout the year 2019. The goodwill of Slovenská sporiteľňa a.s. ('SLSP') was impaired as of 31 December 2019. This impairment was triggered by an extension and increase of the Slovak banking tax which led to a decline in projected results. For Česká spořitelna a.s. ('CSAS') no objective evidence of impairment was identified during the year, therefore the annual goodwill impairment assessment for the year 2019 was carried out for this CGU.

Carrying amount and material parameters used for the impairment test per subsidiary (CGU) for significant goodwills

	CSAS	SLSP
Carrying amount of goodwill as of 1 January 2019	544	165
Effect of exchange rate changes for the year 2019	0	0
Basis upon which recoverable amount has been determined	Value in Use (discounted cash flow model based)	
Key interest input parameters into the discounted cash flow model	Risk Free Rate, Terminal Growth Rate, β Factor, Market Risk Premium	
Description of approach to determining value assigned to risk free rate	Risk Free Rate has been set at 0.13% p.a. throughout relevant Group's CGUs based on relevant financial statistics published by Deutsche Bundesbank as at the reference date 31 October 2019.	
Description of approach to determining values assigned to terminal growth rate	For non-Austrian (CEE) CGUs: Terminal Growth Rate has been equated to 3.00%, representing the recommended cap level for the Terminal Growth Rate, as per the report ESMA/2013/2 'European Enforcers Review of Impairment of Goodwill and Other Intangible Assets in the IFRS Financial Statements' published by the European Securities and Markets Authority (ESMA).	
Description of approach to determining values assigned to β factor	Set as the median value of a group of levered β factors attributable to a sample of 'peer banks' representative of the tested banks (CGUs), as published by Capital IQ as of the reference date 31 October 2019.	
Description of approach to determining values assigned to market risk premium	Set at 7.88% throughout relevant Group's CGUs based on published evaluations by the Austrian Chamber of Commerce (Kammer der Steuerberater und Wirtschaftsprüfer).	
Period of cash flow projection (years)	5 years (2020 - 2024); extrapolation to perpetuity based on Terminal Growth Rate	
Discount rate applied to cash flow projections (pre-tax)	13.7%	13.7%
The value assigned to β Factor	1.18	1.18
Amount of goodwill impairment loss recognised in profit or loss for the year 2019	0	165
Post-impairment carrying amount of goodwill as of 31 December 2019	544	0

	CSAS	SLSP
Carrying amount of goodwill as of 1 January 2018	544	165
Effect of exchange rate changes for the year 2018	0	0
Basis upon which recoverable amount has been determined	Value in Use (discounted cash flow model based)	
Key interest input parameters into the discounted cash flow model	Risk Free Rate, Terminal Growth Rate, β Factor, Market Risk Premium	
Description of approach to determining value assigned to risk free rate	Risk Free Rate has been set at 1.12% p.a. throughout relevant Group's CGUs based on relevant financial statistics published by Deutsche Bundesbank as at the reference date 31 October 2018	
Description of approach to determining values assigned to terminal growth rate	For non-Austrian (CEE) CGUs: Terminal Growth Rate has been equated to 3.00%, representing the recommended cap level for the Terminal Growth Rate, as per the report ESMA/2013/2 'European Enforcers Review of Impairment of Goodwill and Other Intangible Assets in the IFRS Financial Statements' published by the European Securities and Markets Authority (ESMA).	
Description of approach to determining values assigned to β factor	Set as the median value of a group of levered β factors attributable to a sample of 'peer banks' representative of the tested banks (CGUs), as published by Capital IQ as of the reference date 31 October 2018.	
Description of approach to determining values assigned to market risk premium	Set at 7.25% throughout relevant Group's CGUs based on published evaluations by the Austrian Chamber of Commerce (Kammer der Steuerberater und Wirtschaftsprüfer).	
Period of cash flow projection (years)	5 years (2019 - 2023); extrapolation to perpetuity based on Terminal Growth Rate	
Discount rate applied to cash flow projections (pre-tax)	12.7%	13.1%
The value assigned to β Factor	1.19	1.19
Amount of goodwill impairment loss recognised in profit or loss for the year 2018	0	0
Post-impairment carrying amount of goodwill as of 31 December 2018	544	165

For cash generating units outside the euro-zone, an inflation differential has been considered when determining the discount rates applicable to the related 2020-2024 cash flow projections.

In respect to tested cash-generating units for which no goodwill impairment loss was determined as of 31 December 2019, the table below summarizes the outcome of the sensitivity analysis performed to determine by how much the key input parameters into the applied discounted cash flow models would need to vary in order to cause the unit's calculated recoverable amount to equal its related carrying amount:

Dec 19	CSAS	SLSP
Amount by which recoverable amount exceeds/fall short the carrying amount	734	n.a.
Risk free rate increase/decrease that would cause recoverable amount to equal carrying amount (basis points)	131	n.a.
Terminal growth rate increase/decrease that would cause recoverable amount to equal carrying amount (basis points)	-2,011	n.a.
β factor increase/decrease that would cause recoverable amount to equal carrying amount (coefficient value)	0.167	n.a.
Market risk premium increase/decrease that would cause recoverable amount to equal carrying amount (basis points)	111	n.a.

Dec 18	CSAS	SLSP
Amount by which recoverable amount exceeds/fall short the carrying amount	1,698	293
Risk free rate increase/decrease that would cause recoverable amount to equal carrying amount (basis points)	239	112
Terminal growth rate increase/decrease that would cause recoverable amount to equal carrying amount (basis points)	-982	-441
β factor increase/decrease that would cause recoverable amount to equal carrying amount (coefficient value)	0.352	0.164
Market risk premium increase/decrease that would cause recoverable amount to equal carrying amount (basis points)	200	94

30. Tax assets and liabilities

Major components of deferred tax assets and deferred tax liabilities

in EUR million	Tax assets		Tax liabilities		Net variance 2019		Other comprehensive income
	Dec 19	Jan 19	Dec 19	Jan 19	Total	Profit or loss	
Temporary differences related to the following items:							
Financial assets and liabilities HFT and non-trading financial assets at FVPL	390	371	-337	-341	24	5	18
Financial assets at FVOCI	6	8	-74	-105	30	41	-11
Financial assets at AC and finance lease receivables	191	199	-34	-11	-31	-31	0
Hedge accounting derivatives	126	161	-22	-46	-11	-22	12
Property, plant and equipment	35	47	-126	-26	-111	-111	0
Amortisation of investments in subsidiaries (tax-effective in subsequent years)	93	232	-3	-2	-139	-139	0
Financial liabilities at AC (deposits and debt securities issued)	185	37	-3	-1	146	146	0
Long-term employee provisions (tax valuation different)	151	122	-4	-3	28	11	17
Other provisions (tax valuation different)	67	75	-4	-4	-8	-8	0
Accumulated tax loss carried forward	108	29	0	0	79	79	0
Customer relationships, brands and other intangibles	17	18	-84	-73	-12	-12	0
Other	104	142	-108	-134	-11	-11	0
Non-recoverable tax position from temporary differences	-217	-314	0	0	97	97	0
Effect of netting according IAS 12.71	-780	-724	780	724	0	0	0
Total deferred taxes	477	402	-18	-23	80	44	36
Current taxes	81	101	-61	-99	-466	-466	0
Total taxes	558	504	-78	-122	-386	-422	36

in EUR million	Tax assets		Tax liabilities		Net variance 2018		Other comprehensive income
	Dec 18	Jan 18	Dec 18	Jan 18	Total	Profit or loss	
Temporary differences relate to the following items:							
Financial assets and liabilities HFT	371	461	-341	-299	-132	-132	0
Loans and advances to credit institutions and customers	8	27	-105	-167	43	9	34
Financial assets AfS	199	218	-11	-27	-3	-3	0
Hedge accounting derivatives	161	64	-46	-20	71	69	2
Property, plant and equipment	47	34	-26	-26	13	13	0
Amortisation of investments in subsidiaries (tax-effective in subsequent years)	232	211	-2	-2	21	21	0
Financial liabilities measured at AC (deposits and debt securities issued)	37	62	-1	-49	23	23	0
Long-term employee provisions (tax valuation different)	122	99	-3	-4	25	35	-10
Other provisions (tax valuation different)	75	63	-4	-6	14	14	0
Accumulated tax loss carried forward	29	78	0	0	-49	-49	0
Customer relationships, brands and other intangibles	18	75	-73	-67	-63	-63	0
Other	142	124	-134	-143	27	27	0
Non-recoverable tax position from temporary differences	-314	-444	0	0	130	130	0
Effect of netting according IAS 12.71	-724	-773	724	773	0	0	0
Total deferred taxes	402	299	-23	-38	119	93	26
Current taxes	101	108	-99	-101	-415	-415	0
Total taxes	504	407	-122	-139	-296	-322	26

The deferred tax assets and liabilities are presented prior to subsidiary-level balance-sheet netting of attributable gross deferred tax assets and gross deferred tax liabilities. The amounts shown in the table are gross amounts before impairment consideration except for the position deferred tax assets resulting from tax loss carry-forward. The remainder of the impairment recordings is considered in line 'Non-recoverable tax position from temporary differences' in the table. The position 'Other' comprises all deferred tax positions not being shown as separate positions in the table above.

Out of the total net deferred tax variance of EUR 80 million (2018: EUR 119 million) an amount of EUR 47 million (2018: EUR 83 million) is reflected as net deferred tax expense in the Group's income statement for the year 2019, whilst an income amount of EUR 34 million (2018: expense EUR 23 million) represents the impact in the Group's other comprehensive income for the year. Furthermore, deferred tax income in the amount of EUR 9 million (2018: EUR 3 million) representing accumulated OCI in respect of deferred tax recognized for cumulative changes in own credit risk attributable to own issues repurchased during the year has been transferred into retained earnings, consequent to the related temporary differences reversing upon repurchase. Similarly, a deferred tax expense of EUR 11 million (2018: EUR 7 million) representing accumulated OCI in respect of deferred tax recognized for cumulative changes in the fair value of FVOCI equity instruments sold during the year has been transferred into retained earnings, consequent to the related temporary differences reversing upon sale. In addition to this, further tax expense in amount of EUR 3 million (2018: tax income EUR 10 million) were recognised directly in retained earnings and reported in column 'Profit or loss'.

The Group's consolidated deferred tax asset position in amount of EUR 475 million as of 31 December 2019 (2018: EUR 402 million) is expected to be recoverable in the foreseeable future. This is also expected to be the case for deferred tax assets exceeding their deferred tax liabilities by an amount of EUR 11 million as of 31 December 2019 (2018: EUR 17 million) incurred by subsidiaries reporting losses in the current or prior period. These expectations result from year-end recoverability assessments undertaken by the Group's entities, either at individual level, or at relevant tax group level. Such assessments are comparing net temporary deductible differences and available fiscal losses at year-end - after offsetting with deferred tax liabilities at individual level or at relevant tax group level - with fiscal profit forecasts for a group-wide unified and unchanged time horizon of a maximum 5 years depending on the fiscal jurisdiction and applicable facts and circumstances. If the result of these assessments is negative, the deferred tax asset positions are correspondingly not recorded and the already existing deferred tax asset positions are correspondingly depreciated.

Further information on total tax expense is provided in Note 12 Taxes on income.

In accordance with IAS 12.39, no deferred tax liabilities were recognized for temporary differences relating to investments in subsidiaries with an amount of EUR 1,990 million (2018: EUR 1,585 million), as they are not expected to reverse in the foreseeable future. As of 31 December 2019, no deferred tax assets were recognized for tax loss carry-forward and deductible temporary differences with a total amount of EUR 4,060 million (2018: EUR 4,750 million), of which EUR 3,023 million (2018: EUR 3,499 million) relates to tax loss carry-forward, as they are not expected to be realized in the foreseeable future. The figure comprises an amount of EUR 508 million (2018: EUR 273 million) representing temporary differences in connection with investments in subsidiaries no deferred tax assets have been recognized for in accordance with IAS 12.44.

From the total of the not recorded deferred tax assets related to tax loss carry-forward in the following period EUR 8 million will expire (2018: EUR 6 million) and in later periods EUR 35 million (2018: EUR 50 million), EUR 669 million (2018: EUR 753 million) will not expire.

31. Assets held for sale and liabilities associated with assets held for sale

in EUR million	Dec 18	Dec 19
Assets held for sale	213	269
Liabilities associated with assets held for sale	3	6

As of the end of 2019, 'Assets held for sale' include mainly land and buildings in amount of EUR 180.9 million (2018: EUR 126.7 million).

In 2018, for assets classified as held for sale, the twelve-month period was exceeded. Despite of intense sales negotiations and the related sales intentions, circumstances beyond the control of Erste Group had occurred, that prevented the sale of the assets until the end of the twelve-month period. The sales process could not be completed in 2018. For this reason, the classification has been reversed. The assets concerned, with a carrying amount of EUR 42.1 million were reclassified to the original balance sheet items. In 2018, the effect of the adjustment of the carrying amount of the assets upon the reclassification resulted in a gain of EUR 15.7 million, which was reported under line item 'Other operating result'.

32. Other assets

in EUR million	Dec 18	Dec 19
Prepayments	110	123
Inventories	187	198
Sundry assets	585	680
Other assets	882	1,001

In the line 'Inventories' real estate project developments are disclosed.

The impairment of inventories, shown as expense in the reporting period amounts to EUR 2.0 million (2018: EUR 1.9 million). The carrying amount of inventories carried at fair value less costs to sell amounts to EUR 20.4 million (2018: EUR 23.5 million).

33. Other financial liabilities held for trading

in EUR million	Dec 18	Dec 19
Short positions	463	368
Equity instruments	77	35
Debt securities	387	333
Debt securities issued	45	48
Other financial liabilities held for trading	508	416

34. Financial liabilities at fair value through profit or loss

in EUR million	Carrying amount		Amount repayable		Delta between carrying amount and amount repayable	
	Dec 18	Dec 19	Dec 18	Dec 19	Dec 18	Dec 19
Deposits	212	265	194	248	18	17
Debt securities issued	13,446	13,011	12,706	12,415	740	596
Other financial liabilities	464	219	464	219	0	0
Financial liabilities at FVPL	14,122	13,494	13,364	12,882	758	613

Fair value changes that are attributable to changes in own credit risk

in EUR million	For reporting period		Cumulative amount	
	1-12 18	1-12 19	Dec 18	Dec 19
Deposits	-1	-1	4	2
Debt securities issued	-226	19	502	484
Other financial liabilities	0	0	0	0
Financial liabilities at FVPL	-227	18	505	486

The line 'Other financial liabilities' contains fund units issued by investment funds fully consolidated by Erste Group. Their fair value changes are subject to asset-specific performance risk only and are not dependent on changes in the individual own credit risk of the respective investment funds.

Debt securities issued

in EUR million	Dec 18	Dec 19
Subordinated debt securities issued	4,879	4,539
Other debt securities issued	8,567	8,471
Bonds	5,469	5,386
Other certificates of deposits/name certificates	771	872
Mortgage covered bonds	1,945	1,961
Public sector covered bonds	381	252
Debt securities issued	13,446	13,011

35. Financial liabilities at amortised costs

Deposits from banks

in EUR million	Dec 18	Dec 19
Overnight deposits	4,280	1,951
Term deposits	11,985	9,613
Repurchase agreements	1,392	1,577
Deposits from banks	17,658	13,141

Deposits from customers

in EUR million	Dec 18	Dec 19
Overnight deposits	110,201	121,651
Savings deposits	27,693	31,476
Other financial corporations	180	150
Non-financial corporations	1,771	1,992
Households	25,742	29,334
Non-savings deposits	82,508	90,174
General governments	4,943	5,339
Other financial corporations	5,465	5,705
Non-financial corporations	24,916	27,245
Households	47,184	51,886
Term deposits	50,743	49,910
Deposits with agreed maturity	44,800	43,508
Savings deposits	29,720	28,248
Other financial corporations	964	1,098
Non-financial corporations	1,339	1,323
Households	27,418	25,826
Non-savings deposits	15,080	15,261
General governments	3,760	3,294
Other financial corporations	2,418	2,488
Non-financial corporations	3,081	3,493
Households	5,821	5,985
Deposits redeemable at notice	5,942	6,402
General governments	13	12
Other financial corporations	102	86
Non-financial corporations	109	163
Households	5,719	6,140
Repurchase agreements	1,483	1,505
General governments	31	9
Other financial corporations	1,452	1,431
Non-financial corporations	0	65
Deposits from customers	162,426	173,066
General governments	8,747	8,655
Other financial corporations	10,581	10,958
Non-financial corporations	31,215	34,281
Households	111,884	119,173

Debt securities issued

in EUR million	Dec 18	Dec 19
Subordinated debt securities issued	951	1,439
Senior non-preferred bonds	0	505
Other debt securities issued	15,341	15,417
Bonds	3,073	2,929
Certificates of deposit	864	81
Other certificates of deposits/name certificates	267	237
Mortgage covered bonds	9,112	10,796
Public sector covered bonds	10	0
Other	2,016	1,374
Debt securities issued	16,293	17,360

In 1998, Erste Group Bank AG launched a EUR 30 billion Debt Issuance Programme (DIP). The current DIP is a programme for issuing debt instruments in various currencies and maturities with a limited range of interest rate structures. In 2019, 49 DIP new bonds (2018: 37) with a total volume of approximately EUR 1.8 billion (2018: EUR 2.8 billion) were issued under the DIP. In November 2018 the Covered Bonds Programme was implemented, under which 3 new bonds with a total volume of EUR 1.0 billion were issued.

In 2019, 3 new bonds (2018: 4) with a total volume of EUR 3 million (2018: EUR 4 million) were issued under Credit Linked Notes Programme. In 2019, 173 (2018: 179) new bonds with a total volume of EUR 414 million (2018: EUR 539 million) were issued out of the Structured Notes Programme. In June 2019, the Capital Guaranteed Structured Notes Programme was implemented. Until year-end, 16 new bonds with a total volume of EUR 70 million were issued.

Furthermore, secured and senior unsecured registered notes ('Namenspfandbriefe' and 'Namensschuldverschreibungen'), were issued with a volume of EUR 107 million (2018: EUR 40 million).

Starting with August 2008, the Euro Commercial Paper and Certificates of Deposit Programme has an overall volume of EUR 10.0 billion. In total, 34 issues (2018: 24) amounting to EUR 1.4 billion (2018: EUR 1.2 billion) were placed in 2019. Issues totalling approximately EUR 1.8 billion (2018: EUR 753 million) were redeemed over the same period.

Erste Group Bank AG, through its branch in NY and through its fully consolidated subsidiary Erste Finance Delaware LLC, issues commercial papers and certificates of deposit into the US money market. The total balance as of 31 December 2019 of the Dollar Certificate of Deposit Program of the New York branch amounted to EUR 38 million (USD 43 million) and as of 31 December 2018 EUR 0.4 billion (USD 0.5 billion). The Dollar Commercial Paper Program of Erste Finance Delaware LLC has a maximum issuance volume of EUR 6.7 billion (USD 7.5 billion), with a total balance as of 31 December 2019 of EUR 1.4 billion (USD 1.5 billion) and EUR 2.0 billion (USD 2.3 billion) as of 31 December 2018.

36. Provisions

in EUR million	Dec 18	Dec 19
Long-term employee provisions	981	1,054
Pending legal issues and tax litigation	332	353
Loan commitments and financial guarantees given	329	293
CLA for loan commitments and financial guarantees in Stage 1	76	64
CLA for loan commitments and financial guarantees in Stage 2	58	75
CLA for loan commitments and financial guarantees - Defaulted	196	154
Other provisions	62	219
Provisions for onerous contracts	3	3
Other	60	216
Provisions	1,705	1,919

Long-term employee provisions

in EUR million	Pensions	Severance payments	Jubilee benefits	Total
Present value of long-term employee benefit obligations – Dec 15	741	430	87	1,258
Present value of long-term employee benefit obligations – Dec 16	714	446	90	1,250
Present value of long-term employee benefit obligations – Dec 17	700	431	88	1,219
Increase	0	0	0	0
Decrease	0	0	0	0
Settlements/curtailments	2	0	0	2
Service cost	2	11	5	18
Interest cost	14	8	2	24
Payments	-61	-29	-6	-96
Exchange rate difference	0	0	0	0
Other changes	0	0	0	0
Actuarial gains/losses recognised in OCI				
Adjustments in financial assumptions	19	9	0	28
Adjustments in demographic assumptions	52	6	0	58
Experience adjustments	22	9	0	31
Actuarial gains/losses recognised in PL				
Adjustments in financial assumptions	0	0	9	9
Adjustments in demographic assumptions	0	0	-3	-3
Experience adjustments	0	0	2	2
Present value of long-term employee benefit obligations – Dec 18	750	445	97	1,292
Obligations covered by plan assets	22	235	54	311
Obligations covered by provisions	728	210	43	981
Less fair value of plan assets	22	235	54	311
Provisions – Dec 18	728	210	43	981
Present value of long-term employee benefit obligations – Dec 18	750	445	97	1,292
Increase	1	0	0	1
Decrease	0	0	0	0
Settlements/curtailments	0	0	0	0
Service cost	1	15	7	23
Interest cost	15	4	1	20
Payments	-64	-34	-5	-103
Exchange rate difference	1	0	0	0
Other changes	-1	5	0	4
Actuarial gains/losses recognised in OCI				
Adjustments in financial assumptions	81	57	0	137
Adjustments in demographic assumptions	0	0	0	0
Experience adjustments	8	6	0	14
Actuarial gains/losses recognised in PL				
Adjustments in financial assumptions	0	0	14	14
Adjustments in demographic assumptions	0	0	0	0
Experience adjustments	0	0	-2	-2
Present value of long-term employee benefit obligations – Dec 19	791	497	113	1,400
Obligations covered by plan assets	27	258	62	347
Obligations covered by provisions	764	239	51	1,054
Less fair value of plan assets	27	258	62	347
Provisions – Dec 19	764	239	51	1,054

Actuarial assumptions

For Austrian entities the actuarial calculation of pension obligations is based on the following assumptions:

in %	Dec 18	Dec 19
Interest rate	1.92	0.95
Expected increase in retirement benefits	1.80	2.00

The expected retirement age for each employee was individually calculated on the basis of the changes set out in the Budget Implementation Act of 2003 (Austrian Federal Law Gazette Vol. I No. 71/2003) regarding the increase in the minimum retirement age. The currently applicable legislation on the gradual raising of the retirement age for men and women to 65 was taken into consideration.

For Austrian entities the actuarial calculation of severance payment and jubilee benefits is based on the following assumptions:

in %	Dec 18	Dec 19
Interest rate	1.92	0.95
Average increase in salary (incl. career trend and collective agreement trend)	2.70	2.90

The interest rate applied for the calculation of the long-term employee provisions is derived from the yield of a portfolio of AA-rated corporate bonds. For this purpose the weighted average yield of the underlying portfolio with a corresponding duration is determined.

For the non-Austrian subsidiaries and branches interest rates between 0.4% (2018: 1.45%) and 4.45% (2018: 4.70%) were used. The legal retirement age is in a range between 61 years for women and 65 years for men.

Obligations were calculated based on mortality tables entitled 'AVÖ 2018-P – Rechnungsgrundlagen für die Pensionsversicherung' or comparable mortality tables.

Movements in plan assets

in EUR million	Pensions	Severance payments	Jubilee benefits	Total
Fair value of plan assets – Dec 17	22	233	49	304
Addition	0	0	0	0
Interest income on plan assets	1	4	1	6
Contributions by the employer	1	22	10	33
Benefits paid	1	-17	-5	-21
Actuarial gains/losses recognised in OCI	-3	-7	0	-10
Actuarial gains/losses recognised in PL	0	0	-1	-1
Fair value of plan assets – Dec 18	22	235	54	311
Addition	0	0	0	0
Interest income on plan assets	0	4	1	5
Contributions by the employer	1	33	11	45
Benefits paid	-1	-21	-6	-27
Actuarial gains/losses recognised in OCI	5	7	0	12
Actuarial gains/losses recognised in PL	1	0	1	2
Fair value of plan assets – Dec 19	27	258	62	347

In 2020, the expected contributions for the severance and jubilee benefit obligations will amount to EUR 9.6 million (2019: EUR 9.6 million). The contributions shown in the table include not only regular contributions but also one-time payments at the end of the year. The total gain on plan assets amounted to EUR 18.8 million (2018: loss EUR -4.2 million).

Investment strategy

The primary investment strategy of Erste Group is the continuous optimization of plan assets and the effective coverage of existing entitlements. The Group works with professional fund managers for the investment of plan assets. The Investment Fund Act applies as a requirement with respect to specific investment guidelines relating to the investment of plan assets. Additionally, the Investment Committee which is composed of senior staff in the financial sector and representatives of the S-Versicherung and Erste Asset Management meets once a year.

Erste Group's severance payments and jubilee payments are partially covered by the fair value of plan assets, while defined benefit pension plans are not financed with segregated assets. Majority of defined benefit pension plans only exist for already retired employees. Majority of pension plans are dedicated to former employees of Austrian entities of Erste Group and are unfunded. Major part of the plans (sum over severance payments, defined benefit pension plans and jubilee payments) are not matched with dedicated assets.

For the yearly pension payments of the unfunded defined benefit plans and the unfunded part of severance payments Erste Group generally takes care within its asset-liability management strategy covering the funding plan and interest rate risk position of the Group. The payments for 2020 are expected with EUR 85.7 million (2019: EUR 81.0 million) for both plans.

The average duration of these provisions are assumed to be 8.89 years (2017: 8.57 years) for severance payments and 11.51 years (2018: 11.32 years) for defined benefit pension plans.

Control and risk

The effective allocation of plan assets is determined by the administering body including the relevant existing economic and market conditions as well as considering specific risks of the individual asset classes and the risk profile. Moreover the Investment Committee is responsible for monitoring the mandate guidelines and the investment structure, the supervision, which may arise from regulatory or other legal requirements, as well as the monitoring of demographic changes. As an additional steering tool the fund management generates a report, which is transmitted on a quarterly basis to the Group. Overall, the Group tries to minimize the impact caused by market movements on the pension plans.

Asset allocation in the different asset classes

in EUR million	Dec 18					Dec 19				
	Europe-EMU	Europe-non EMU	USA	Other countries	Total	Europe-EMU	Europe-non EMU	USA	Other countries	Total
Cash and cash equivalents					50					20
Equity instruments	0	0	13	3	16	5	5	40	11	61
Investment-grade bonds										
Government	4	0	1	0	5	56	23	5	29	113
Non-government bonds	16	6	9	6	36	16	10	19	11	55
Non-investment-grade bonds										
Government	33	0	8	0	41	0	1	14	22	37
Non-government bonds	96	29	23	11	159	17	5	14	8	45
Alternatives										
Commodities					0					
Other	0	0	0	0	0	0	0	1	8	8
Derivatives (market risk)										
Interest rate risk	0	0	0	0	0	0	0	0	0	0
Credit risk	0	0	0	0	0	0	0	0	0	0
Equity price risk	0	0	0	0	0	0	0	0	0	0
Foreign exchange risk	0	0	0	0	0	0	0	0	0	0
Other	0	0	0	0	4	0	0	0	0	7
Plan assets	0	0	0	0	311	0	0	0	0	347

In the table above, Investment-grade refers to BBB and above. The plan assets shown in the table above include mainly assets that are quoted and traded on active markets. As of 31 December 2019, the plan assets did not include material amounts of securities issued by the Group or other claims upon it. Moreover none of the mortgage securities used by the Group are included.

Effects of defined post-employment benefit plans in profit or loss

in EUR million	Dec 18	Dec 19
Settlements/curtailments	-2	0
Service cost	-18	-23
Net interest	-18	-15
Total	-38	-38

Settlements and curtailments as well as service costs are included in the income statement in the line item 'Personnel expenses'. Net interest includes interest expenses for long-term employee benefits as well as the expected return on plan assets. These are disclosed in the income statement in the line item 'Other similar income' and 'Other similar expense' under 'Net interest income'. As of 31 December 2019, the cumulative amount of remeasurement from defined benefit plans, recognised in other comprehensive income amounted to EUR -782.9 million before tax (2018: EUR -642.9 million).

Sensitivity to key assumption

The following table presents a sensitivity analysis for each significant actuarial assumptions showing how the defined benefit obligation would have been affected by changes in the relevant actuarial assumptions that were reasonably possible at the balance sheet.

in EUR million	Dec 18			Dec 19		
	Pensions	Severance payments	Total	Pensions	Severance payments	Total
Change in discount rate +1.0% (2018) / +0.5%	692	400	1,092	758	470	1,228
Change in discount rate -1.0% (2018) / -0.5%	817	498	1,315	827	526	1,353
Change in future salary increases +0.5%	750	470	1,220	791	526	1,317
Change in future salary increases -0.5%	750	422	1,172	791	470	1,261
Change in future benefit increases +0.5%	804	445	1,249	849	497	1,346
Change in future benefit increases -0.5%	699	445	1,144	737	497	1,234
Increase in survival rate by approx. 10%	803	0	803	853	0	853

Impact on cash flows

Benefits expected to be paid by the defined benefit plans in each of the respective periods

in EUR million	Pensions	Severance payments	Total
2020	61	25	86
2021	57	19	76
2022	54	21	75
2023	50	28	78
2024	47	24	71
2025-2029	191	128	319

Duration

Weighted average duration of the defined-benefit obligations

in years	Dec 18			Dec 19		
	Pensions	Severance payments	Total	Pensions	Severance payments	Total
Duration	8.57	11.32	9.57	8.89	11.51	9.84

The weighted average duration is affected by changes in longevity and in the mortality table.

Sundry provisions

Movement in credit loss allowances for loan commitments and financial guarantees

in EUR million	As of	Additions	Derecognitions	Transfers between stages	Other changes in credit risk (net)	Other	As of
	Jan 19						Dec 19
Stage 1	76	148	-56	-54	-49	-2	64
Stage 2	58	0	-29	78	-34	2	75
Defaulted	196	1	-102	8	51	0	154
Total	329	149	-186	33	-31	0	293

in EUR million	As of	Additions	Derecognitions	Transfers between stages	Other changes in credit risk (net)	Other	As of
	Jan 18						Dec 18
Stage 1	66	131	-66	-117	64	-2	76
Stage 2	57	0	-38	47	-5	-4	58
Defaulted	183	2	-121	24	107	0	196
Total	307	132	-225	-46	166	-5	329

In column 'Additions' increases of CLA due to the initial recognition of loan commitments and financial guarantees during the current reporting period are disclosed. Releases of CLA following the derecognition of the related loan commitments and financial guarantees are reported in column 'Derecognitions'.

In the column 'Transfers between stages' CLA net changes due to changes in credit risk that triggered re-assignments of the related loan commitments and financial guarantees from Stage 1 (at 1 January 2019 or initial recognition date) to Stages 2 or Defaulted at 31 December 2019 or vice-versa are reported. The effects of transfers from Stage 1 to Stages 2 or Defaulted on the related CLAs are adverse and presented in lines attributable to Stages 2 or Defaulted. The effects of transfers from Stages 2 or Defaulted to Stage 1 on the related CLAs are favourable and presented in line 'Stage 1'. The P&L-neutral effect from cross-stage transferring of the related CLA amounts recognized prior to stage re-assignments are presented above in column 'Other changes in credit risk (net)'. This column also captures the passage-of-time adverse effect ('unwinding') over the lifetime expected cash shortfalls of defaulted loan commitments and financial guarantees.

One significant driver of the CLA movements for the year has been the transfer of the related instruments across different stages. The year-end notional amounts of loan commitments and financial guarantees that were assigned at 31 December 2019 to a different stage compared to 1 January 2019 (or to the initial recognition date, if originated during the year) are summarized below:

Transfers between stages

in EUR million	Dec 18	Dec 19
Transfers between Stage 1 and Stage 2	927	1,644
To Stage 2 from Stage 1	521	1,044
To Stage 1 from Stage 2	405	600
Transfers between Stage 2 and Defaulted	128	19
To Defaulted from Stage 2	104	12
To Stage 2 from Defaulted	24	8
Transfers between Stage 1 and Defaulted	60	99
To Defaulted from Stage 1	54	79
To Stage 1 from Defaulted	6	20

The year-end nominal amounts of unused off-balance commitments and financial guarantees that were initially recognized during the year 2019 and not fully de-recognized by 31 December 2019 amounts to EUR 11,918.6 million (2018: EUR 11,486.3 million). The nominal amounts of unused off-balance commitments or financial guarantees that were held at 1 January 2019 and fully de-recognized during the year 2019 amounts to EUR 7,397.3 million (2018: EUR 6,867.9 million).

Sundry provisions 2019

in EUR million	Jan 19	Allocations	Use	Releases	Unwind of discount	Exchange rate and other changes	Dec 19
Pending legal issues and tax litigation	332	73	-13	-37	0	-2	353
Commitments and guarantees given out of scope of IFRS9	14	19	-1	-17	0	1	17
Other provisions	48	277	-18	-105	0	-1	202
Provisions for onerous contracts	3	0	0	0	0	0	3
Other	46	277	-18	-105	0	-1	199
Provisions	394	369	-32	-159	0	-1	571

Sundry provisions 2018

in EUR million	Jan 18	Allocations	Use	Releases	Unwind of discount	Exchange rate and other changes	Dec 18
Pending legal issues and tax litigation	351	64	-11	-72	0	0	332
Commitments and guarantees given out of scope of IFRS9	0	15	0	-11	0	11	14
Other provisions	60	6	-7	-10	0	-2	48
Provisions for onerous contracts	4	0	0	-1	0	0	3
Other	57	6	-7	-9	0	-2	46
Provisions	411	85	-18	-93	0	9	394

Under position 'Pending legal issues and tax litigation' provisions related to litigations from lending business, asset management or litigations with customer protection associations, which normally occur in banking business, are disclosed. In 2019, a provision for risks related to Romanian Consumer Protection Claims Act was partially released in amount of EUR 6.1 million (2018: EUR 23.8 million). The total amount of the provision as of 31 December 2019 was EUR 118.8 million (2018: EUR 133.5 million).

The level of other provisions is the best possible estimate of expected outflow of economic benefits at the reporting date, while taking into account the risks and uncertainties underlying the commitment to fulfill the obligation. Risks and uncertainties are taken into account in the estimate. During 2019 a provision in the amount of EUR 153.3 million was allocated for losses expected from a decision of the Romanian High Court in relation to the business activities of the Romanian building society subsidiary BCR Banca pentru Locuinte SA. (BPL). The related provision is disclosed in line 'Other provisions'. This case is about whether state subsidies had been disbursed to building society clients in accordance with the applicable legal provisions. The provision was determined based on the expected amount that should be returned to the Romanian State, consisting of state premiums, interest and penalties. The total amount of the provision as of 31 December 2019 was EUR 144.3 million.

37. Other liabilities

in EUR million	Dec 18	Dec 19
Deferred income	131	117
Sundry liabilities	2,193	2,252
Other liabilities	2,323	2,369

Deferred income outstanding at 31 December 2019 includes 'contract liabilities' in accordance with IFRS 15 in amount of EUR 107 million (2018: EUR 111 million). Revenue recognised in the reporting year 2019 that was included in the contract liability balance at the beginning of the period amounts to EUR 38 million (2018: EUR 32 million).

The item 'Sundry liabilities' mainly contains outstanding settlement liabilities as well as other liabilities from employee benefits.

38. Total equity

in EUR million	Dec 18	Dec 19
Subscribed capital	860	860
Additional paid-in capital	1,477	1,478
Retained earnings and other reserves	11,045	11,792
Owners of the parent	13,381	14,129
Additional equity instruments	993	1,490
Non-controlling interests	4,494	4,857
Total	18,869	20,477

As of 31 December 2019, subscribed capital (also known as registered capital) consists of 429,800,000 (2018: 429,800,000) voting bearer shares (ordinary shares). The pro rata amount of registered capital, per no-par value share, was EUR 2.00. Additional paid-in capital (or share premium) represents the amount by which the issue price of the shares exceeded their par value. Retained earnings and other reserves represent accumulated net profit brought forward, as well as income and expenses recognised in other comprehensive income.

Additional equity instruments

In addition Erste Group Bank AG issued additional tier 1 capital (AT1 bonds). AT1 bonds are perpetual and can be cancelled only by the issuer at predetermined dates. The bonds include discretionary non-cumulative coupon payments. Details related to each tranche are disclosed in the following table.

Nominal value	Currency	Issue month	Initial fixed rate	Reset rate after the first call date	Coupon payments	First and subsequent calls dates
500 million	EUR	June 2016	8.875%	5Y swap +9.02%	Semi-annually on 15th April & 15th October	15.10.2021 + coupon dates thereafter
500 million	EUR	April 2017	6.5%	5Y swap +6.204%		15.04.2024 + coupon dates thereafter
500 million	EUR	March 2019	5.125%	5Y swap +4.851%		15.10.2025 + coupon dates thereafter

If common equity tier 1 ratio of Erste Group or Erste Group Bank AG falls below 5.125% (i.e. a trigger event occurs) the principal amount will be written down (fully or partially) on a temporary basis. The issuer may, at its sole discretion, write up the amount (fully or partially) provided a positive profit has been recorded and the trigger event no longer exists.

Changes in number of outstanding shares

	Dec 18	Dec 19
Shares outstanding as of 1 January	409,206,906	408,617,137
Acquisition of treasury shares	-11,126,627	-7,677,249
Disposal of treasury shares	10,536,858	7,187,249
Shares outstanding as of 31 December	408,617,137	408,127,137
Treasury shares	21,182,863	21,672,863
Number of shares issued as of 31 December	429,800,000	429,800,000
Weighted average number of outstanding shares	426,696,221	426,565,097
Weighted average diluted number of outstanding shares	426,696,221	426,565,097

In addition to the calculation of the annual average number of shares outstanding by incorporation of acquisitions and disposals of treasury shares during the year, the line items 'weighted average number of outstanding shares' and 'weighted average diluted number of outstanding shares' consider a proportionate allocation of the treasury shares held by non-controlling interests.

Transactions and shares held by the management board and supervisory board

The shares of management- and supervisory board member, whose office term began or ended during the financial year, held as at the date of inception or termination of their term in office were recognized as additions or disposals.

Shares and related dividends held by management board

Managing board member	Dec 18	Additions	Disposals	Dec 19	Dividends received in 2019 (in EUR)
Bleier Ingo (since 1 July 2019)	0	3,111	0	3,111	155
Bosek Peter	1,000	500	0	1,500	1,400
Brávek Petr	600	0	0	600	840
Cernko Willibald (until 30 June 2019)	0	0	0	0	0
Dörfler Stefan (since 1 July 2019)	0	800	0	800	1,120
Habeler-Drabek Alexandra (since 1 July 2019)	0	72	0	72	101
Mittendorfer Gernot (until 30 June 2019)	10,000	0	10,000	0	14,000
Síkela Jozef (until 30 June 2019)	6,300	0	6,300	0	8,820
Spalt Bernhard (since 1 July 2019)	0	5,000	0	5,000	0
Treichl Andreas	164,640	0	0	164,640	230,496

Shares and related dividends held by supervisory board

Supervisory board member	Dec 18	Additions	Disposals	Dec 19	Dividends received in 2019 (in EUR)
Bleyleben-Koren Elisabeth (until 15 May 2019)	10,140	0	10,140	0	14,196
Bulach Matthias (since 15 May 2019)	0	0	0	0	0
Egerth-Stadlhuber Henrietta (since 26 June 2019)	0	0	0	0	0
Grießer Martin (since 26 June 2019)	0	14	0	14	20
Griss Gunter	0	0	0	0	0
Gual Solé Jordi	0	0	0	0	0
Haag Markus	176	0	0	176	246
Haberhauer Regina	188	0	0	188	263
Hardegg Maximilian	240	0	0	240	336
Homan Jan	4,400	0	0	4,400	6,160
Khüny Marion	0	0	0	0	0
Krainer Senger-Weiss Elisabeth	0	0	0	0	0
Lachs Andreas	0	0	0	0	0
O'Neill Brian D. (until 20 December 2019)	0	0	0	0	0
Pichler Barbara	309	0	0	309	433
Pinter Jozef	0	0	0	0	0
Rasinger Wilhelm	22,303	2,000	0	24,303	32,624
Rödler Friedrich	1,702	500	0	2,202	2,383
Stack John James	32,761	0	0	32,761	45,865
Sutter-Rüdisser Michèle F. (since 15 May 2019)	0	0	0	0	0
Zeisel Karin	38	0	0	38	53

As of 31 December 2019, supervisory board members did not hold options in Erste Group Bank AG shares. Persons related to members of the management board or supervisory board held 3,412 shares (2018: 3,366 shares) of Erste Group Bank AG.

Remaining authorised and contingent capital as of 31 December 2019

Clause 5 of the articles of association authorises the management board to increase the registered capital with the consent of the supervisory board until 24 May 2023 - also in several tranches - by an amount of up to EUR 343,600,000 by issuing up to 171,800,000 voting no-par value bearer shares in return for contributions in cash and/or in kind, with the issue price and the issuing conditions being determined by the management board with the consent of the supervisory board. Furthermore, the management board is authorized to fully or partly exclude the statutory subscription right of the shareholders with the consent of the supervisory board if the capital increase is in return for a cash contribution and the shares issued while excluding the subscription right of the shareholders, taken together, do not exceed EUR 43,000,000; and/or if the capital increase is in return for contributions in kind.

The measures in sections 5.1.1 (capital increase against cash contribution) to 5.1.2 (capital increase against contributions in kind) can also be combined. The aggregate pro rata amount of registered capital represented by shares in respect of which the shareholders' subscription rights are excluded under this authorization in section 5.1 (authorized capital), together with the pro rata amount of registered capital attributable to shares to which conversion or subscription rights or obligations relate under bonds which were issued and sold on the basis of the authorization in section 8.3, subject to an exclusion of subscription rights, on or after 24 May 2018 must not, however, exceed the proportionate amount of EUR 171,920,000.

Clause 6.3 of the articles of association states that conditional capital based on the resolutions of the management board in 2002 and 2010 (both approved by the supervisory board) with a nominal value of EUR 21,923,264 persists that can be consumed by issuing up to 10,961,632 ordinary bearer shares or ordinary registered shares (ordinary share) with an issue price of at least EUR 2.00 per share against cash contribution and by excluding the subscription rights of the current shareholders. This conditional capital is used for granting options to staff, management and members of the management board of the entity of one of its related undertakings.

Under clause 6.4 of the articles of association, the company has conditional capital of EUR 124,700,000.00 available, which may be utilized by issuing up to 62,350,000 pieces bearer shares. This conditional capital can be used for granting conversion or subscription rights to holders of convertible bonds. In case the terms and conditions of the convertible bonds provide for a mandatory conversion, it shall also serve to cover the mandatory conversion. The issue price and exchange ratio shall be determined pursuant to a recognized pricing method on the basis of accepted finance-mathematical methods and the share price of the company.

According to clause 7 of the articles of association, currently no authorized conditional capital exists.

39. Segment reporting

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

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

Business segmentation

The segment reporting comprises six business segments reflecting Erste Group's management structure and its internal management reporting in 2019.



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

Corporates. The Corporates segment comprises business done with corporate customers of different turnover size (small and medium-sized enterprises, Local Large Corporate and Group Large Corporate customers) as well as commercial real estate and public sector business. Small and medium-sized enterprises (SME) are clients which 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) which 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, the majority of municipalities are also segmented as Public Sector clients.

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

Asset/Liability Management & Local Corporate Center. The Asset/Liability Management & Local Corporate Center (ALM & LCC) segment includes all asset/liability management functions – local and of Erste Group Bank AG (Holding) – as well as the local corporate centers which comprise 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.

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

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

Intragroup Elimination. Intragroup Elimination (IC) is not defined as a segment but is the reconciliation to the consolidated accounting result. It includes 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.

Dividend elimination between Erste Group Bank AG and its fully consolidated subsidiaries is performed in Group Corporate Center. Consolidation differences arising between the segments, which are eliminated over the lifespan of the underlying transaction, are part of Group Corporate Center.

Geographical segmentation

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

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



The geographical area Austria consists of the following three segments:

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

In 2019 the goodwill impairment of Slovenská sporiteľňa in the amount of EUR 165.0 million was recognized in business segment GCC/geographical segment Other.

Measurement

The profit and loss statement of the segment report is based on the measures reported to the Erste Group management board for the purpose of allocating resources to the segments and assessing their performance. Management reporting as well as the segment report of Erste Group are based on IFRS. Accounting standards and methods as well as measurements used in segment reporting are the same as for the consolidated financial statements of accounting.

Interest revenues are not reported separately from interest expenses for each reportable segment. Those measures are reported on the net basis within the position 'Net interest income' as interest revenues and interest expenses are neither included into the measure of segment profit or loss reviewed by the chief operating decision maker nor otherwise regularly provided to the chief operating decision maker. Chief operating decision maker relies solely on net interest income to assess the performance of the segments and make decisions about resources to be allocated to the segments. Net fee and commission income and Other operating result are reported on a net basis according to the regular reporting to the chief operating decision maker.

Capital consumption per segment is regularly reviewed by the management of Erste Group to assess the performance of the segments. The average allocated capital is determined by the credit risk, market risk, operational risk and business strategic risk. According to the regular internal reporting to Erste Group management board, total assets and total liabilities as well as risk weighted assets and allocated capital are disclosed per segment. Total average allocated capital for the Group equals average total equity of the Group. For measuring and assessing the profitability of segments within Erste Group, such key measures as return on allocated capital and cost/income ratio are used.

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

Business segments (1)

in EUR million	Retail		Corporates		Group Markets		ALM&LCC	
	1-12 18	1-12 19	1-12 18	1-12 19	1-12 18	1-12 19	1-12 18	1-12 19
Net interest income	2,267.5	2,290.1	1,032.2	1,098.7	252.6	257.2	-91.6	-104.3
Net fee and commission income	1,054.4	1,094.5	283.1	301.1	226.5	228.3	-102.8	-84.5
Dividend income	0.4	3.6	1.0	1.6	1.5	3.0	11.7	7.6
Net trading result	118.0	112.0	70.6	95.5	60.1	19.9	-206.8	117.3
Gains/losses from financial instruments at FVPL	-1.7	0.5	17.7	5.4	-7.0	28.5	174.7	-78.7
Net result from equity method investments	6.8	6.1	0.0	0.0	0.0	0.0	3.4	4.8
Rental income from investment properties & other operating leases	22.4	23.0	119.6	100.8	0.0	0.0	33.0	30.8
General administrative expenses	-2,030.9	-2,096.2	-572.3	-575.3	-241.3	-240.2	-67.8	-110.9
thereof depreciation and amortization	-213.0	-273.8	-72.2	-70.7	-15.6	-14.3	-11.8	-12.3
Gains/losses from derecognition of financial assets at AC	0.0	-0.3	0.0	-1.1	0.0	0.0	-0.1	5.6
Other gains/losses from derecognition of financial instruments not at FVPL	1.1	0.0	10.0	21.3	0.0	0.0	-5.8	-2.3
Impairment result from financial instruments	-24.7	-74.6	59.4	32.9	-0.4	5.1	12.4	13.0
Other operating result	-54.0	-226.1	-3.0	-22.5	-21.3	-18.4	-125.4	-93.3
Levies on banking activities	-60.4	-69.2	-21.5	-27.6	-3.6	-4.1	-7.2	-6.4
Pre-tax result from continuing operations	1,359.3	1,132.5	1,018.2	1,058.4	270.7	283.4	-365.1	-295.0
Taxes on income	-253.7	-223.3	-180.0	-202.5	-51.5	-52.8	69.9	46.8
Net result for the period	1,105.6	909.2	838.2	855.9	219.1	230.6	-295.2	-248.1
Net result attributable to non-controlling interests	40.7	42.8	36.7	41.0	3.5	6.0	-6.1	-10.9
Net result attributable to owners of the parent	1,064.9	866.4	801.5	814.9	215.7	224.6	-289.1	-237.3
Operating income	3,467.8	3,529.7	1,524.0	1,603.1	533.7	536.9	-178.5	-107.1
Operating expenses	-2,030.9	-2,096.2	-572.3	-575.3	-241.3	-240.2	-67.8	-110.9
Operating result	1,436.9	1,433.5	951.8	1,027.8	292.4	296.7	-246.3	-218.0
Risk-weighted assets (credit risk, eop)	20,199	19,053	38,702	42,693	3,985	3,321	5,298	5,739
Average allocated capital	3,145	3,446	3,989	4,567	800	958	2,773	3,037
Cost/income ratio	58.6%	59.4%	37.5%	35.9%	45.2%	44.7%	-38.0%	>100%
Return on allocated capital	35.2%	26.4%	21.0%	18.7%	27.4%	24.1%	-10.6%	-8.2%
Total assets (eop)	62,434	65,277	52,710	57,342	46,257	31,394	49,155	60,971
Total liabilities excluding equity (eop)	86,252	91,572	27,044	28,210	37,207	31,802	47,746	49,244
Impairments	-35.4	-74.4	57.2	20.6	-0.4	5.1	-46.9	-4.6
Net impairment loss on financial assets AC	-32.4	-80.9	53.9	-26.1	-1.7	4.6	1.0	10.2
Net impairment loss on financial assets FVOCI	0.0	-0.1	-0.9	-3.6	0.0	0.0	2.2	-0.2
Net impairment loss on finance lease receivables	-0.2	-1.7	10.4	9.2	0.0	0.0	0.1	0.3
Net impairment loss on commitments and guarantees given	7.9	8.0	-4.1	53.5	1.3	0.5	9.2	2.6
Impairment of goodwill	-2.6	0.0	0.0	0.0	0.0	0.0	2.6	0.0
Net impairment on investments in subsidiaries, joint ventures and associates	0.0	0.0	-0.3	-1.3	0.0	0.0	0.3	1.3
Net impairment on other non-financial assets	-8.1	0.2	-1.9	-11.0	0.0	0.0	-62.2	-18.8

Business segments (2)

in EUR million	Savings Banks		Group Corporate Center		Intragroup Elimination		Total Group	
	1-12 18	1-12 19	1-12 18	1-12 19	1-12 18	1-12 19	1-12 18	1-12 19
Net interest income	1,016.4	1,052.1	77.9	70.6	27.0	82.5	4,582.0	4,746.8
Net fee and commission income	459.8	490.6	-12.5	-1.3	0.0	-28.5	1,908.4	2,000.1
Dividend income	8.9	6.1	5.6	6.0	0.0	0.0	29.0	27.9
Net trading result	1.9	26.8	-0.8	17.7	-44.5	-70.9	-1.7	318.3
Gains/losses from financial instruments at FVPL	-28.9	25.2	40.7	-5.5	0.0	0.0	195.4	-24.5
Net result from equity method investments	0.0	0.0	2.9	6.2	0.0	0.0	13.1	17.1
Rental income from investment properties & other operating leases	39.4	39.3	10.4	-22.9	-35.4	-0.9	189.4	170.1
General administrative expenses	-1,073.3	-1,120.1	-980.4	-1,023.9	784.8	883.4	-4,181.1	-4,283.3
thereof depreciation and amortization	-70.4	-83.2	-89.0	-116.6	0.0	29.9	-472.0	-541.0
Gains/losses from derecognition of financial assets at AC	1.3	2.3	0.7	0.4	-1.8	-6.0	0.1	0.9
Other gains/losses from derecognition of financial instruments not at FVPL	0.6	-0.5	-0.3	-1.1	0.0	6.1	5.7	23.5
Impairment result from financial instruments	19.8	0.7	-7.3	-16.4	0.0	0.0	59.3	-39.2
Other operating result	-6.4	24.5	635.6	573.3	-730.1	-865.6	-304.5	-628.2
Levies on banking activities	-4.1	-4.3	-15.4	-16.4	0.0	0.0	-112.2	-128.0
Pre-tax result from continuing operations	439.4	547.1	-227.5	-396.8	0.0	0.0	2,495.0	2,329.7
Taxes on income	-106.0	-127.8	188.9	141.0	0.0	0.0	-332.4	-418.7
Net result for the period	333.4	419.2	-38.6	-255.8	0.0	0.0	2,162.5	1,911.1
Net result attributable to non-controlling interests	279.8	354.5	14.4	7.5	0.0	0.0	369.1	440.9
Net result attributable to owners of the parent	53.6	64.8	-53.0	-263.3	0.0	0.0	1,793.4	1,470.1
Operating income	1,497.4	1,640.2	124.2	70.9	-52.9	-17.7	6,915.6	7,255.9
Operating expenses	-1,073.3	-1,120.1	-980.4	-1,023.9	784.8	883.4	-4,181.1	-4,283.3
Operating result	424.1	520.1	-856.2	-953.0	731.9	865.6	2,734.6	2,972.7
Risk-weighted assets (credit risk, eop)	23,334	24,670	1,691	1,417	0	0	93,209	96,894
Average allocated capital	2,741	3,218	4,685	4,561	0	0	18,133	19,788
Cost/income ratio	71.7%	68.3%	>100%	>100%	>100%	>100%	60.5%	59.0%
Return on allocated capital	12.2%	13.0%	-0.8%	-5.6%			11.9%	9.7%
Total assets (eop)	63,364	67,360	5,178	4,081	-42,305	-40,732	236,792	245,693
Total liabilities excluding equity (eop)	58,648	62,276	3,380	2,869	-42,354	-40,759	217,923	225,216
Impairments	20.2	1.8	-37.0	-231.3	0.0	0.0	-42.3	-282.8
Net impairment loss on financial assets AC	-8.1	-12.1	25.9	-8.2	0.0	0.0	38.6	-112.5
Net impairment loss on financial assets FVOCI	1.4	-0.2	0.9	-0.1	0.0	0.0	3.5	-4.2
Net impairment loss on finance lease receivables	0.3	-0.4	0.0	0.0	0.0	0.0	10.6	7.4
Net impairment loss on commitments and guarantees given	26.3	13.4	-34.1	-8.1	0.0	0.0	6.6	70.0
Impairment of goodwill	0.0	0.0	0.0	-165.0	0.0	0.0	0.0	-165.0
Net impairment on investments in subsidiaries, joint ventures and associates	0.0	0.3	0.0	-46.1	0.0	0.0	0.0	-45.8
Net impairment on other non-financial assets	0.4	0.8	-29.7	-3.9	0.0	0.0	-101.6	-32.8

Geographical segmentation – overview

in EUR million	Austria		Central and Eastern Europe		Other		Total Group	
	1-12 18	1-12 19	1-12 18	1-12 19	1-12 18	1-12 19	1-12 18	1-12 19
Net interest income	2,049.6	2,101.1	2,418.7	2,549.7	113.7	96.0	4,582.0	4,746.8
Net fee and commission income	1,070.8	1,130.1	896.1	955.6	-58.4	-85.6	1,908.4	2,000.1
Dividend income	18.4	17.6	5.1	4.3	5.6	6.0	29.0	27.9
Net trading result	-16.8	-1.5	270.8	268.9	-255.6	50.9	-1.7	318.3
Gains/losses from financial instruments at FVPL	-25.9	69.6	10.4	8.7	210.9	-102.8	195.4	-24.5
Net result from equity method investments	0.6	-0.4	9.6	11.3	2.9	6.2	13.1	17.1
Rental income from investment properties & other operating leases	137.2	131.3	45.5	50.4	6.7	-11.5	189.4	170.1
General administrative expenses	-2,121.6	-2,215.3	-1,823.2	-1,900.2	-236.3	-167.8	-4,181.1	-4,283.3
thereof depreciation and amortization	-151.4	-177.1	-231.0	-276.8	-89.5	-87.0	-472.0	-541.0
Gains/losses from derecognition of financial assets at AC	0.9	1.2	0.6	0.0	-1.4	-0.3	0.1	0.9
Other gains/losses from derecognition of financial instruments not at FVPL	2.1	-0.9	5.6	-1.4	-2.0	25.8	5.7	23.5
Impairment result from financial instruments	121.8	-12.5	-55.9	-11.9	-6.6	-14.8	59.3	-39.2
Other operating result	-21.2	54.4	-183.4	-365.8	-100.0	-316.8	-304.5	-628.2
Levies on banking activities	-7.6	-8.0	-89.2	-103.6	-15.4	-16.4	-112.2	-128.0
Pre-tax result from continuing operations	1,215.7	1,274.7	1,599.8	1,569.5	-320.6	-514.5	2,495.0	2,329.7
Taxes on income	-264.1	-280.7	-281.7	-307.1	213.4	169.2	-332.4	-418.7
Net result for the period	951.6	994.0	1,318.1	1,262.4	-107.2	-345.4	2,162.5	1,911.1
Net result attributable to non-controlling interests	306.7	387.7	47.9	45.7	14.4	7.5	369.1	440.9
Net result attributable to owners of the parent	644.9	606.3	1,270.2	1,216.7	-121.6	-352.8	1,793.4	1,470.1
Operating income	3,233.8	3,447.8	3,656.1	3,848.8	25.8	-40.7	6,915.6	7,255.9
Operating expenses	-2,121.6	-2,215.3	-1,823.2	-1,900.2	-236.3	-167.8	-4,181.1	-4,283.3
Operating result	1,112.2	1,232.5	1,832.9	1,948.6	-210.5	-208.4	2,734.6	2,972.7
Risk-weighted assets (credit risk, eop)	50,053	51,812	40,914	43,021	2,242	2,060	93,209	96,894
Average allocated capital	6,143	7,131	6,400	7,025	5,590	5,632	18,133	19,788
Cost/income ratio	65.6%	64.3%	49.9%	49.4%	>100%	>100%	60.5%	59.0%
Return on allocated capital	15.5%	13.9%	20.6%	18.0%	-1.9%	-6.1%	11.9%	9.7%
Total assets (eop)	156,325	158,921	107,377	112,600	-26,910	-25,828	236,792	245,693
Total liabilities excluding equity (eop)	126,772	126,184	96,790	101,011	-5,639	-1,979	217,923	225,216
Impairments	105.9	-12.2	-111.3	-38.8	-37.0	-231.7	-42.3	-282.8
Net impairment loss on financial assets AC	28.8	-58.0	-16.2	-47.9	25.9	-6.7	38.6	-112.5
Net impairment loss on financial assets FVOCI	0.6	-3.7	1.9	-0.1	1.0	-0.3	3.5	-4.2
Net impairment loss on finance lease receivables	11.2	16.5	-0.5	-9.0	-0.1	0.0	10.6	7.4
Net impairment loss on commitments and guarantees given	81.2	32.7	-41.2	45.1	-33.5	-7.8	6.6	70.0
Impairment of goodwill	0.0	0.0	0.0	0.0	0.0	-165.0	0.0	-165.0
Net impairment on investments in subsidiaries, joint ventures and associates	0.0	0.3	0.0	0.0	0.0	-46.1	0.0	-45.8
Net impairment on other non-financial assets	-15.9	0.0	-55.4	-27.0	-30.3	-5.8	-101.6	-32.8

Geographical area – Austria

in EUR million	EBOe & Subsidiaries		Savings Banks		Other Austria		Austria	
	1-12 18	1-12 19	1-12 18	1-12 19	1-12 18	1-12 19	1-12 18	1-12 19
Net interest income	644.3	642.1	1,016.4	1,052.1	388.9	406.9	2,049.6	2,101.1
Net fee and commission income	386.4	398.9	459.8	490.6	224.6	240.7	1,070.8	1,130.1
Dividend income	6.8	6.9	8.9	6.1	2.7	4.5	18.4	17.6
Net trading result	7.3	16.9	1.9	26.8	-25.9	-45.2	-16.8	-1.5
Gains/losses from financial instruments at FVPL	3.3	12.2	-28.9	25.2	-0.3	32.2	-25.9	69.6
Net result from equity method investments	1.3	1.7	0.0	0.0	-0.7	-2.2	0.6	-0.4
Rental income from investment properties & other operating leases	38.7	39.2	39.4	39.3	59.1	52.7	137.2	131.3
General administrative expenses	-678.9	-717.1	-1,073.3	-1,120.1	-369.4	-378.1	-2,121.6	-2,215.3
thereof depreciation and amortization	-43.2	-55.1	-70.4	-83.2	-37.9	-38.8	-151.4	-177.1
Gains/losses from derecognition of financial assets at AC	-0.5	0.0	1.3	2.3	0.0	-1.1	0.9	1.2
Other gains/losses from derecognition of financial instruments not at FVPL	1.5	-0.3	0.6	-0.5	0.0	0.0	2.1	-0.9
Impairment result from financial instruments	14.3	-6.0	19.8	0.7	87.7	-7.3	121.8	-12.5
Other operating result	-40.6	-18.6	-6.4	24.5	25.9	48.5	-21.2	54.4
Levies on banking activities	-3.5	-3.6	-4.1	-4.3	0.0	-0.1	-7.6	-8.0
Pre-tax result from continuing operations	383.8	375.9	439.4	547.1	392.5	351.7	1,215.7	1,274.7
Taxes on income	-88.0	-88.4	-106.0	-127.8	-70.1	-64.4	-264.1	-280.7
Net result for the period	295.8	287.5	333.4	419.2	322.4	287.3	951.6	994.0
Net result attributable to non-controlling interests	17.6	24.3	279.8	354.5	9.3	9.0	306.7	387.7
Net result attributable to owners of the parent	278.2	263.2	53.6	64.8	313.2	278.3	644.9	606.3
Operating income	1,088.1	1,117.9	1,497.4	1,640.2	648.3	689.7	3,233.8	3,447.8
Operating expenses	-678.9	-717.1	-1,073.3	-1,120.1	-369.4	-378.1	-2,121.6	-2,215.3
Operating result	409.2	400.8	424.1	520.1	278.9	311.6	1,112.2	1,232.5
Risk-weighted assets (credit risk, eop)	12,162	12,536	23,334	24,670	14,557	14,607	50,053	51,812
Average allocated capital	1,582	1,756	2,741	3,218	1,820	2,157	6,143	7,131
Cost/income ratio	62.4%	64.1%	71.7%	68.3%	57.0%	54.8%	65.6%	64.3%
Return on allocated capital	18.7%	16.4%	12.2%	13.0%	17.7%	13.3%	15.5%	13.9%
Total assets (eop)	44,948	46,504	63,364	67,360	48,012	45,057	156,325	158,921
Total liabilities excluding equity (eop)	43,013	44,320	58,648	62,276	25,111	19,588	126,772	126,184
Impairments	14.5	-7.1	20.2	1.8	71.2	-6.9	105.9	-12.2
Net impairment loss on financial assets AC	4.0	-20.7	-8.1	-12.1	32.9	-25.1	28.8	-58.0
Net impairment loss on financial assets FVOCI	0.0	0.0	1.4	-0.2	-0.8	-3.5	0.6	-3.7
Net impairment loss on finance lease receivables	-0.6	0.5	0.3	-0.4	11.5	16.3	11.2	16.5
Net impairment loss on commitments and guarantees given	10.8	14.2	26.3	13.4	44.1	5.0	81.2	32.7
Impairment of goodwill	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net impairment on investments in subsidiaries, joint ventures and associates	0.0	0.0	0.0	0.3	0.0	0.0	0.0	0.3
Net impairment on other non-financial assets	0.2	-1.2	0.4	0.8	-16.5	0.4	-15.9	0.0

Geographical area – Central and Eastern Europe

in EUR million	Czech Republic		Slovakia		Romania		Hungary		Croatia		Serbia		Central and Eastern Europe	
	1-12 18	1-12 19	1-12 18	1-12 19	1-12 18	1-12 19	1-12 18	1-12 19	1-12 18	1-12 19	1-12 18	1-12 19	1-12 18	1-12 19
Net interest income	1,062.2	1,141.1	438.7	433.6	394.5	428.0	198.8	213.5	273.7	275.1	50.7	58.4	2,418.7	2,549.7
Net fee and commission income	332.9	334.7	128.8	145.2	151.9	164.5	170.2	188.3	98.9	108.2	13.4	14.7	896.1	955.6
Dividend income	3.0	2.5	1.0	1.0	0.8	0.5	0.1	0.1	0.1	0.2	0.0	0.0	5.1	4.3
Net trading result	83.8	104.0	9.7	20.7	92.0	71.0	50.4	36.4	29.8	31.5	5.1	5.4	270.8	268.9
Gains/losses from financial instruments at FVPL	8.7	5.7	2.1	-2.0	4.0	3.2	-4.9	0.6	0.5	1.2	0.0	0.0	10.4	8.7
Net result from equity method investments	2.1	4.1	5.5	6.1	0.6	-0.1	0.0	0.0	1.4	1.2	0.0	0.0	9.6	11.3
Rental income from investment properties & other operating leases	8.6	8.4	0.3	1.2	16.8	20.8	3.8	7.0	15.8	12.9	0.1	0.1	45.5	50.4
General administrative expenses	-714.5	-753.9	-279.6	-288.7	-354.6	-359.0	-212.4	-216.9	-212.5	-223.1	-49.6	-58.7	-1,823.2	-1,900.2
thereof depreciation and amortization	-78.0	-101.4	-42.8	-46.9	-42.5	-51.0	-34.2	-39.2	-30.7	-33.5	-2.8	-4.9	-231.0	-276.8
Gains/losses from derecognition of financial assets at AC	0.6	0.3	0.0	0.1	0.0	-0.1	0.0	0.0	0.0	-0.1	0.0	-0.2	0.6	0.0
Other gains/losses from derecognition of financial instruments not at FVPL	0.3	-1.1	-0.1	-0.5	0.5	-6.2	1.1	6.0	3.7	0.2	0.1	0.1	5.6	-1.4
Impairment result from financial instruments	-11.2	6.2	-23.5	-42.7	-26.0	13.0	36.3	18.2	-33.1	-5.8	1.7	-0.8	-55.9	-11.9
Other operating result	-50.4	-26.8	-40.2	-38.7	-18.9	-194.5	-68.2	-67.3	-5.1	-38.3	-0.6	-0.3	-183.4	-365.8
Levies on banking activities	0.0	0.0	-30.3	-32.5	0.0	-11.0	-58.9	-60.2	0.0	0.0	0.0	0.0	-89.2	-103.6
Pre-tax result from continuing operations	726.2	825.3	242.8	235.3	261.5	141.2	175.1	185.9	173.3	163.2	20.8	18.7	1,599.8	1,569.5
Taxes on income	-144.0	-158.7	-53.4	-47.5	-41.3	-56.1	-8.3	-12.7	-33.2	-30.8	-1.5	-1.1	-281.7	-307.1
Net result for the period	582.3	666.5	189.4	187.7	220.2	85.1	166.8	173.2	140.1	132.3	19.4	17.6	1,318.1	1,262.4
Net result attributable to non-controlling interests	-0.5	0.0	0.0	0.0	0.3	0.1	0.0	0.0	44.4	42.0	3.8	3.5	47.9	45.7
Net result attributable to owners of the parent	582.8	666.5	189.4	187.7	219.9	85.0	166.8	173.2	95.7	90.3	15.5	14.0	1,270.2	1,216.7
Operating income	1,501.4	1,600.5	586.1	605.7	660.6	688.0	418.4	445.8	420.3	430.3	69.3	78.5	3,656.1	3,848.8
Operating expenses	-714.5	-753.9	-279.6	-288.7	-354.6	-359.0	-212.4	-216.9	-212.5	-223.1	-49.6	-58.7	-1,823.2	-1,900.2
Operating result	786.9	846.6	306.6	317.0	306.0	329.0	206.0	229.0	207.8	207.2	19.7	19.9	1,832.9	1,948.6
Risk-weighted assets (credit risk, eop)	18,373	17,815	6,310	7,209	5,954	6,521	3,816	4,226	5,005	5,638	1,456	1,612	40,914	43,021
Average allocated capital	2,492	2,504	914	1,066	1,266	1,452	802	977	734	790	191	237	6,400	7,025
Cost/income ratio	47.6%	47.1%	47.7%	47.7%	53.7%	52.2%	50.8%	48.6%	50.6%	51.9%	71.6%	74.7%	49.9%	49.4%
Return on allocated capital	23.4%	26.6%	20.7%	17.6%	17.4%	5.9%	20.8%	17.7%	19.1%	16.8%	10.1%	7.4%	20.6%	18.0%
Total assets (eop)	55,455	57,412	17,435	18,614	15,340	15,673	7,987	8,932	9,378	9,905	1,782	2,064	107,377	112,600
Total liabilities excluding equity (eop)	50,685	52,004	15,930	16,999	13,546	13,902	6,872	7,715	8,179	8,601	1,580	1,790	96,790	101,011
Impairments	-36.8	4.8	-24.2	-41.8	-49.0	-9.3	32.2	16.8	-35.2	-8.5	1.7	-0.8	-111.3	-38.8
Net impairment loss on financial assets AC	13.9	-24.4	-26.0	-45.1	-11.2	3.6	35.1	18.8	-28.7	-0.1	0.7	-0.7	-16.2	-47.9
Net impairment loss on financial assets FVOCI	2.1	-0.3	0.0	0.0	-0.2	0.1	0.0	-0.1	-0.3	0.2	0.4	0.0	1.9	-0.1
Net impairment loss on finance lease receivables	-1.6	0.8	0.1	-3.6	-0.2	-3.9	0.9	-2.3	0.4	-0.1	0.0	0.2	-0.5	-9.0
Net impairment loss on commitments and guarantees given	-25.6	30.2	2.4	6.0	-14.4	13.3	0.2	1.9	-4.5	-5.8	0.7	-0.3	-41.2	45.1
Impairment of goodwill	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net impairment on investments in subsidiaries, joint ventures and associates	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net impairment on other non-financial assets	-25.6	-1.4	-0.7	0.9	-23.0	-22.4	-4.1	-1.4	-2.0	-2.6	0.0	0.0	-55.4	-27.0

40. Assets and liabilities denominated in foreign currencies and outside Austria and return on assets

Assets and liabilities not denominated in EUR

in EUR million	Dec 18	Dec 19
Assets	83,389	86,290
Liabilities	67,582	64,877

Assets and liabilities outside Austria

in EUR million	Dec 18	Dec 19
Assets	137,639	147,865
Liabilities	101,897	104,816

Return on assets (net profit for the year divided by average total assets) was 0.79% at 31 December 2019 (2018: 0.95%).

41. Leases

Leases where the Group is a lessor

Finance leases

Erste Group leases both movable property and real estate to other parties under finance lease arrangements. For finance lease receivables included in this item, the reconciliation of the gross investment in leases to the present value of the minimum lease payments is as follows:

in EUR million	Dec 18	Dec 19
Outstanding lease payments	3,392	4,082
Non-guaranteed residual values	598	200
Gross investment	3,990	4,283
Unrealised financial income	303	316
Net investment	3,688	3,967
Present value of non-guaranteed residual values	563	181
Present value of outstanding lease payments	3,125	3,786

In 2019, Erste Group reviewed the estimated unguaranteed residual values and reassessed a residual value risk which is taken by the lessee or a third party. As a consequence, the allocated non-guaranteed residual values decreased.

For details related to credit loss allowance of finance lease receivables please refer to Note 21 Finance lease receivables.

Maturity analysis of leases by residual maturities under IFRS 16

in EUR million	Dec 19	
	Gross investment	Present value of outstanding lease payments
< 1 year	984	892
1-2 years	859	793
2-3 years	744	683
3-4 years	580	532
4-5 years	393	361
> 5 years	722	525
Total	4,283	3,786

During 2019, Erste Group recognised interest income on lease receivables in the amount of EUR 118.3 million (2018: EUR 98.3 million). Income from variable lease payments not included in the net investment was recognised in the amount of EUR 0.2 million.

Maturity analysis of leases by residual maturities under IAS 17

in EUR million	Dec 18	
	Gross investment	Present value of minimum lease payments
< 1 year	852	664
1-5 years	2,340	1,947
> 5 years	798	514
Total	3,990	3,125

The total amount of contingent rents from finance leases recognised as income during 2018 was EUR 1.2 million.

Operating leases

Under operating leases, Erste Group leases both real estate and movable property to other parties.

Maturity analysis of lease payments from operating leases under IFRS 16

in EUR million	Dec 19
< 1 year	129
1-2 years	106
2-3 years	93
3-4 years	75
4-5 years	63
> 5 years	137
Total	603

During 2019, Erste Group recognised income relating to variable lease payments in the amount of EUR 4.8 million. For information about rental income please refer to Note 6 Rental income from investment properties and other operating leases.

Minimum lease payments from non-cancellable operating leases under IAS 17

in EUR million	Dec 18
< 1 year	47
1-5 years	160
> 5 years	54
Total	261

The total amount of contingent rents from operating leases recognised as income during 2018 amounted to EUR 11.4 million.

Leases where the Group is a lessee

Erste Group primarily rents real estate's such as buildings and land for headquarters, branches and parking lots. In addition, movables such as IT equipment and ATMs are rented for business operations. For details related to right of use assets capitalized in balance sheet arising from leases where Erste Group is lessee, please see Note 28 Property, plant and equipment.

Maturity analysis of lease liabilities under IFRS 16 on the basis of undiscounted cash flows

in EUR million	Dec 19
< 1 year	85
1-5 years	275
> 5 years	198
Total	558

During 2019, interest expenses on lease liabilities were recognised in the amount of EUR 24.6 million. In addition expenses in the amount of EUR 6.4 million relating to short term leases and expenses amounting to EUR 5.3 million relating to leases of low value items, for which the recognition exemption of IFRS 16 applies, were recognised. Gains arising from sale and leaseback transactions in the amount of EUR 3,5 million were recognised. Total cash outflow for leases in 2019 was EUR 100.0 million.

The Group has commitments for future cash outflows which are not reflected in the measurement of lease liabilities as of 31 December 2019. The Group signed rental agreement during 2019 with commencement date February 2021 and lease term 15 years. The total undiscounted cash flow amounts to EUR 71,0 million (without considering consumer price indexation).

Minimum lease payments from non-cancellable operating leases under IAS 17

in EUR million	Dec 18
< 1 year	78
1-5 years	202
> 5 years	92
Total	372

In 2018, lease payments from operating leases recognised as expense in the period amounted to EUR 85.4 million.

42. Related-party transactions and principal shareholders

In addition to principal shareholders, Erste Group also defines as related parties subsidiaries that are not consolidated due to non-materiality and associates that are included in the consolidated financial statements by the equity method. Furthermore, related parties consist of management and supervisory board members of Erste Group Bank AG. Moreover, Erste Group defines close family members of management and supervisory board members of Erste Group Bank AG, as well as companies over which management and supervisory board members of Erste Group Bank AG have significant influence, as other related parties.

Transactions between Erste Group Bank AG and fully consolidated companies are not recognised in the consolidated financial statements as they have been eliminated.

Principal shareholders

As of 31 December 2019, DIE ERSTE oesterreichische Spar-Casse Privatstiftung (ERSTE Foundation), a foundation, holds together with its partners to shareholder agreements approximately 30.39% (2018: 29.99%) of the shares in Erste Group Bank AG and is with 16.46% (2018:16.21%) main shareholder. The ERSTE Foundation is holding 6.37% (2018: 6.49%) of the shares directly, the indirect participation of the ERSTE Foundation amounts to 10.09% (2018: 9.72%) of the shares held by Sparkassen Beteiligungs GmbH & Co KG, which is an affiliated company of the ERSTE Foundation. 0.93% (2018: 0.78%) are held directly by saving banks foundations acting together with the ERSTE Foundation and affiliated with Erste Group Bank AG through the Haftungsverbund/IPS Fonds. 9.92% (2018: 9.92%) of the subscribed capital is held by the ERSTE Foundation on the basis of a shareholder agreement with CaixaBank S.A. 3.08% (2018: 3.08%) are held by other partners to other shareholder agreements.

In 2019 (for the financial year 2018), ERSTE Foundation received a dividend of EUR 67.5 million (2017: EUR 57.5 million) on its stake in Erste Group Bank AG. The purpose of the ERSTE Foundation, to be achieved notably by way of the participating interest in Erste Group Bank AG, is to support social, scientific, cultural and charitable institutions as well as to generally promote the guiding principles of the savings bank philosophy. As of 31 December 2019, Mario Catasta (chairman), Boris Marte (vice chairman) and Franz Portisch were members of ERSTE Foundation's management board. The supervisory board of ERSTE Foundation had eight members at the end of 2019, two of whom are also members of the supervisory board of Erste Group Bank AG.

Under article 15.1 of the articles of association, for the duration of its assumption of liability for all current and future debts in the event of default on payment by the company, the ERSTE Foundation is entitled, pursuant to Section 92 (9) of the Austrian Banking Act, to delegate up to one-third of the supervisory board members to be elected at the Annual General Meeting. Until now, the ERSTE Foundation has not exercised this right.

As of 31 December 2019, Erste Group had in relation to the ERSTE Foundation accounts payable of EUR 8.2 million (2018: EUR 25.4 million). In addition, ERSTE Foundation held bonds issued by Erste Group Bank AG in the amount of EUR 7.3 million (2018: EUR 9.7 million). The above-mentioned transactions resulted in interest expenses of EUR 0.3 million (2018: EUR 0.3 million).

As of 31 December 2019 CaixaBank S.A. with headquarters in Valencia, Spain held a total of 42,634,248 (2018: 42,634,248) Erste Group Bank AG shares, equivalent to 9.92% (2018: 9.92%) of the share capital of Erste Group Bank AG. One seat, for which CaixaBank S.A. has a nomination right according to the shareholders agreement, is occupied by Jordi Gual Sole (chairman of the board of CaixaBank S.A.), since the annual general meeting from 2017. The second seat for which CaixaBank S.A. has a nomination right according to the shareholders agreement is occupied by Matthias Bulach (member of the management board of CaixaBank S.A.) since the annual general meeting from 2019.

In addition, the shareholders' agreement between CaixaBank S.A. and the ERSTE Foundation which had been in effect since 2009, was renewed on 15 December 2014 (Preferred Partnership Agreement). On the basis of this agreement, CaixaBank S.A. joined the ranks of the core shareholders, which include ERSTE Foundation as well as the savings banks, their foundations as well as Wiener Städtische Wechselseitige Versicherungsverein – Vermögensverwaltung – Vienna Insurance Group. As member of this syndicate, CaixaBank S.A. will abide by the recommendations of the ERSTE Foundation when electing new supervisory board members. Moreover CaixaBank S.A. gets the right to nominate a second member of the supervisory board.

In 2019 (for the financial year 2018), CaixaBank S.A. received a dividend of EUR 59.7 million (2017: EUR 51.2 million) based on its stake in Erste Group Bank AG.

Balances and off-balance exposures with related parties

in EUR million	Dec 18			Dec 19		
	Subsidiaries - not consolidated	Associated entities	Joint ventures	Subsidiaries - not consolidated	Associated entities	Joint ventures
Selected financial assets	88	521	184	143	555	209
Equity instruments	3	45	0	97	74	11
Debt securities	5	15	0	0	6	0
Loans and advances	79	461	184	45	474	198
Loans and advances credit institutions	0	22	0	0	1	0
Loans and advances customers	79	439	184	45	473	198
of which impaired	14	0	0	1	0	0
Selected financial liabilities	53	109	13	28	119	10
Deposits	53	109	13	28	119	10
Deposits from banks	0	7	0	0	10	0
Deposits from customers	53	102	12	28	109	10
Loan commitments, financial guarantees and other commitments given (notional amount)	16	155	98	20	190	51
of which defaulted	2	0	0	1	0	0
Loan commitments, financial guarantees and other commitments received (notional amount)	1	0	0	0	0	0
Derivatives (notional amount)	0	53	0	0	0	0
Credit loss allowances and provisions	7	0	0	13	0	0

Expenses/Income generated by transactions with related parties

in EUR million	1-12 18			1-12 19		
	Subsidiaries - not consolidated	Associated entities	Joint ventures	Subsidiaries - not consolidated	Associated entities	Joint ventures
Interest income	1	6	3	1	7	3
Fee and commission income	0	1	0	0	1	1
Dividend income	1	6	3	3	6	1
Rental income from operating leasing	0	0	0	0	0	0
Interest expenses	0	-1	0	0	0	0
Fee and commission expenses	-1	-2	0	-1	-2	0
Expenses from impairment of financial instruments	0	-1	0	-15	0	0
Income from impairment of financial instruments	2	0	0	0	0	0

Transactions with related parties are done at arm's length.

Remuneration of management and supervisory board members

The remuneration paid to the management board in 2019 is as follows:

Fixed salaries

in EUR thousand	1-12 18	1-12 19
Bleier Ingo (since 1 July 2019)	0	350
Bosek Peter	700	700
Brávek Petr	700	700
Cernko Willibald (until 30 June 2019)	700	350
Dörfler Stefan (since 1 July 2019)	0	350
Habeler-Drabek Alexandra (since 1 July 2019)	0	350
Mittendorfer Gernot (until 30 June 2019)	700	350
Síkela Jozef (until 30 June 2019)	700	350
Spalt Bernhard (from 1 July 2019 Deputy CEO)	0	350
Treichl Andreas (CEO)	1,475	1,475
Total	4,975	5,325

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.

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

In 2019, performance-linked remuneration and share-equivalents were paid out or vested for the financial year 2018 and for previous financial years.

Performance-linked remuneration

	1-12 18				1-12 19			
	Upfront bonus for performance period 2017		Deferred bonus for previous performance periods		Upfront bonus for performance period 2018		Deferred bonus for previous performance periods	
	cash	share-equivalents	cash	share-equivalents	cash	share-equivalents	cash	share-equivalents
	in EUR tsd	in units	in EUR tsd	in units	in EUR tsd	in units	in EUR tsd	in units
Bleier Ingo (since 1 July 2019)	0	0	0	0	0	0	0	0
Bosek Peter	128	4,853	84	3,387	161	4,446	132	4,843
Brávek Petr	158	4,853	84	3,387	164	4,446	132	4,843
Cernko Willibald (until 30 June 2019)	160	4,853	0	0	164	4,446	48	1,456
Dörfler Stefan (since 1 July 2019)	0	0	0	0	0	0	0	0
Habeler-Drabek Alexandra (since 1 July 2019)	0	0	0	0	0	0	0	0
Mittendorfer Gernot (until 30 June 2019)	160	4,853	110	4,762	164	4,446	141	5,213
Síkela Jozef (until 30 June 2019)	135	4,853	84	3,387	139	4,446	132	4,843
Spalt Bernhard (from 1 July 2019 Deputy CEO)	0	0	0	0	0	0	0	0
Treichl Andreas (CEO)	317	10,738	277	12,245	365	10,845	326	12,146
Total	1,058	35,003	639	27,168	1,157	33,075	911	33,344

The share-equivalents were firmly promised due to the performance of the previous year. Pay-outs will be made in the year 2019 after the one-year vesting period. The valuation is based on the average weighted daily share price of Erste Group Bank AG of the year 2019 in the amount of EUR 32.08 (2018: EUR 36.88) per share.

Erste Group offers to its board members the bonus program in each year. It relates to the services rendered by the board members in that year (further 'performance period'). The actual bonus payments are divided into an upfront tranche in the following year and five deferred tranches in the subsequent years. The decision to pay out the upfront and the deferred tranches to board members in a given year depends on the results and the capital ratios of Erste Group Bank AG (further 'performance conditions') in the performance period. This decision is taken by a remuneration committee (further 'the Committee'). If in a specific year the Committee decides that the performance conditions in the performance period have not been fulfilled the first and the deferred tranches for the current year are cancelled. Also, the deferred tranches related to previous service periods may be cancelled.

The total amount of the bonus related to a particular service year is decided by the Committee in April of the following year. This decision also means that the upfront tranche will be paid out. The upfront tranche, depending on the bonus amount granted to a board member, accounts for 40% or 60% of the total volume. The remaining part is split into 5 deferred tranches, each covering 8% or 12%. The payout decision for the first deferred tranche is taken in April two years after the performance period and it depends on the performance in the previous year (i.e. one year after the performance period). The same logic applies to the remaining deferred tranches. Both the upfront tranche and the deferred tranches are split into two equal parts. 50% of the bonuses are paid out in cash in May after the bonus payout decision is taken by the Committee in a specific year (the 'cash part'). 50% of the bonuses are paid with one year delay after the payout decision and they depend on the changes in the average Erste Group Bank, AG share price between the year in which the payout decision of the tranche is taken and the performance period (the 'share-equivalents part'). E.g. if the second deferred tranche is 10,000 share equivalents (the number of the share equivalents is determined based on the average share price in the performance period) then the actual amount of cash paid would be 10,000 times the average price of the shares in the year the payout decision is taken (e.g. share price of EUR 30 would result in EUR 300,000 cash amount). The cash amount is paid out in the next year.

The share equivalent part meets the definition of the cash-settled share based payment in IFRS 2. Under the standard an entity shall recognise an expense and a liability in a cash-settled share-based payment transaction services are received. With the deferred tranches the bank remunerates sustainable decisions taken by the board member in the performance period that impact the later business years. Thus the bank receives the full service that is compensated with the upfront and the deferred tranches and recognises the full bonus in the performance period as a liability in the estimated amount which will be decided by the Committee in April of the following year. After the performance period the liability is measured by using the average stock price of the performance year.

The cash part of the bonuses meets the definition of other long-term employee benefits in IAS 19. Under the standard the current service cost is attributed to the periods in which the obligation to provide benefits arises which is the period in which services are rendered by the employees, i.e. the performance period. As for the share-payment part, the full amount of bonus is recognised in the performance period in the estimated amount. The amount of the liability is fixed in the next year. If the effect is significant, the liability is measured at present value discounted at a market yield of high quality corporate bonds.

The outstanding amount of liability related to the performance period 2018 and unpaid deferred tranches from the previous years was EUR 33.8 million (2018: EUR 38.8 million) for the share-equivalents part (IFRS 2). For the performance period 2019 there is no IFRS 2 liability assigned to the share-equivalents part as the decision about the payment and the amount will be taken by the Committee in April 2020. A provision is recognised instead.

Other remuneration

in EUR thousand	1-12 18	1-12 19
Bleier Ingo (since 1 July 2019)	0	64
Bosek Peter	138	140
Brávek Petr	139	371
Cernko Willibald (until 30 June 2019)	134	72
Dörfler Stefan (since 1 July 2019)	0	65
Habeler-Drabek Alexandra (since 1 July 2019)	0	65
Mittendorfer Gernot (until 30 June 2019)	140	76
Síkela Jozef (until 30 June 2019)	138	75
Spalt Bernhard (from 1 July 2019 Deputy CEO)	0	65
Treichl Andreas (CEO)	644	644
Total	1,333	1,637

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

The members of the management board of Erste Group were granted a remuneration of 0.4% (2018: 0.4%) of the total personnel expenses for their activities in the financial year 2019.

In 2019 EUR 1,941,320.82 (2018: EUR 1,081,648.86) was paid in cash and EUR 4,862 (2018: EUR 8,392) share-equivalents were assigned to former board members and their dependents.

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

Principles governing vested benefits and entitlements of management board members in case of termination of the position. Regarding vested benefits and entitlements of management board members in the event of termination of their position, the standard legal severance benefit provisions of section 23 of the Austrian Salaried Employees Act (Angestelltengesetz) still apply to one member of the management board. All other members of the management board are not entitled to receive any severance benefits.

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

Breakdown of supervisory board remuneration

in EUR thousand	1-12 18	1-12 19
Supervisory board compensation	860	840
Meeting fees	240	235
Total	1,100	1,075

The members of the supervisory board of Erste Group Bank AG were granted a total remuneration of EUR 1,075 thousand (2018: EUR 1,100 thousand) for their activities in the financial year 2018. The following members of the supervisory board received the following remuneration for their board function in fully consolidated subsidiaries of Erste Group Bank AG: Friedrich Rödler EUR 106,000.00, Jan Homan EUR 17,300.00, Gunter Griss EUR 24,000.00, Maximilian Hardegg EUR 63,490.00, Elisabeth Krainer Senger-Weiss EUR 55,000.00, Brian D. O'Neill EUR 50,000.00 und John James Stack EUR 98,324.00.

Pursuant to the decision at the Annual General Meeting of 15 May 2019, the supervisory board adopted in its meeting immediately held after the end of the Annual General Meeting the following remuneration structure for the financial year 2019 and the following years:

in EUR	Number	Allowance per person	Total allowance
Chairperson	1	150,000	150,000
1st Vice Chairperson	1	90,000	90,000
2nd Vice Chairperson	1	80,000	80,000
Members	10	60,000	600,000
Total	13		920,000

Furthermore the chairmen of the risk committee, the audit committee and the IT committee are granted an additional yearly remuneration of EUR 10,000 for each person, the chairmen of the remuneration committee and the nomination committee of EUR 5,000 for each person.

The supervisory board consists of at least three and a maximum of fourteen members elected by the Annual General Meeting. Unless the Annual General Meeting has determined a shorter term of office for individual, several or all supervisory board members on the occasion of their appointment, the term of office of the members of the supervisory board ends at the close of the Annual General Meeting that

resolves on the approvals of their actions for the fourth business year following their election; re-election is permitted. In addition, membership of the supervisory board ceases upon death, revocation, resignation or in the event of an impediment defined in the Articles of Association. Revocation requires a majority of three quarter of valid votes cast and a majority of three quarters of the registered capital represented at the time of the resolution.

Banking transactions with key management employees and persons and companies related to key management employees

As of the end of 2019, loans and advances granted to members of the management board and supervisory board totalled EUR 2,674 thousand (2018: EUR 3,348 thousand). Deposits of members of the management board and supervisory board at Erste Group amounted to EUR 10,596 thousand (2018: EUR 3,971 thousand) in total. Members of the management and supervisory board held bonds issued by Erste Group in the amount of EUR 253 thousand (2018: EUR 332 thousand). Loan commitments and financial guarantees, issued in favour of members of the management and supervisory board totalled EUR 4,136 thousand (2018: EUR 3,819 thousand) as of the end of 2019. From banking transactions with members of the management board and supervisory board Erste Group received interest income and fee income of EUR 23 thousand (2018: EUR 37 thousand) in total, and paid interest expense of EUR 7 thousand (2018: EUR 4 thousand).

Loans and advances to close family members of key management employees and companies over which key management employees have control or significant influence (hereinafter referred to 'other related parties') totalled EUR 34,639 thousand (2018: EUR 7,671 thousand) as of 31 December 2019. As of the end of 2019, deposits of other related parties at Erste Group amounted to EUR 38,641 thousand (2018: EUR 4,463 thousand) in total. As of 31 December 2019 other related parties held bonds issued by companies of Erste Group in the total amount of EUR 12,060 thousand (2018: EUR 11,090 thousand). Loan commitments and financial guarantees, issued in favour of other related parties totalled EUR 1,782 thousand (2018: EUR 287 thousand) as of the end of 2019. From banking transactions with other related parties Erste Group received interest income and fee income of EUR 1,005 thousand (2018: EUR 1,383 thousand) in total, and paid interest and fee expenses of EUR 15 thousand (2018: EUR 642 thousand).

The applicable interest rates and other terms (maturity dates and collateral) represent market conditions.

43. Collaterals

Carring amount of financial assets pledged as collaterals

in EUR million	Dec 18	Dec 19
Financial assets at AC	18,278	24,390
Trading assets	186	430
Non-trading financial assets at FVPL	121	97
Financial assets at FVOCI	562	862
Total	19,147	25,780

The financial assets pledged as collateral consist of loans and advances to customers, bonds and other interest-bearing securities. Collaterals were pledged as a result of repurchase transactions, refinancing transactions with the respective National Bank, loans backing issued mortgage bonds and other collateral arrangements.

The fair value of collateral received which may be repledged or resold even without the collateral provider's default was EUR 23,776.3 million (2018: EUR 18,726.0 million). Collateral with fair value of EUR 1.654.5 million (2018: EUR 1,511.0 million) was resold. Collateral with fair value of EUR 400.6 million (2018: EUR 563.9 million) was repledged. The bank is obliged to return the resold and repledged collateral.

44. Transfers of financial assets – repurchase transactions and securities lending

in EUR million	Dec 18		Dec 19	
	Carrying amount of transferred assets	Carrying amount of associated liabilities	Carrying amount of transferred assets	Carrying amount of associated liabilities
Repurchase agreements	931	890	1,703	1,645
Financial assets at AC	634	612	741	717
Trading assets	85	71	383	381
Non-trading financial assets at FVPL	0	0	2	2
Financial assets at FVOCI	212	207	578	545
Securities lendings	441	168	1,510	0
Financial assets at AC	325	168	1,401	0
Trading assets	78	0	47	0
Non-trading financial assets at FVPL	37	0	37	0
Financial assets at FVOCI	0	0	26	0
Total	1,372	1,058	3,214	1,645

The transferred financial instruments consist of bonds and other interest-bearing securities. The total amount of transferred financial assets represent the carrying amount of financial assets in the respective balance sheet positions for which the transferee has a right to sell or repledge. The associated liabilities from repo transaction, which are measured at amortised cost, represent an obligation to repay the borrowed funds.

The following table shows fair values of the transferred assets and associated liabilities for repo transactions with an existing recourse right only on the transferred assets:

in EUR million	Dec 18			Dec 19		
	Fair value of transferred assets	Fair value of associated liabilities	Net position	Fair value of transferred assets	Fair value of associated liabilities	Net position
Financial assets at AC	646	612	34	791	718	73
Trading assets	85	71	14	383	381	2
Non-trading financial assets at FVPL	0	0	0	2	2	0
Financial assets at FVOCI	212	207	5	578	545	32
Total	943	890	53	1,753	1,646	107

45. Offsetting of financial instruments

The following table shows netting effects on the balance sheet of Erste Group as well as the impacts of offsetting financial instruments which are subject to offsetting agreements.

Financial assets subject to offsetting and potential offsetting agreements

in EUR million	Financial assets (gross)	Amounts offset (gross)	Financial assets in balance sheet (net)	Potential effects of netting agreements not qualifying for balance sheet offsetting			Net amount after potential offsetting
				Financial instruments	Cash collateral received	Other financial collateral received	
Derivatives	4,902	1,967	2,936	1,520	849	0	567
Reverse repurchase agreements	20,778	0	20,778	0	7	20,604	167
Total	25,680	1,967	23,713	1,520	856	20,604	734

Financial liabilities subject to offsetting and potential offsetting agreements

in EUR million	Financial liabilities (gross)	Amounts offset (gross)	Financial liabilities in balance sheet (net)	Potential effects of netting agreements not qualifying for balance sheet offsetting			Net amount after potential offsetting
				Financial instruments	Cash collateral pledged	Other financial collateral pledged	
Derivatives	4,022	1,748	2,275	1,520	270	5	479
Repurchase agreements	3,082	0	3,082	0	14	2,859	209
Total	7,104	1,748	5,357	1,520	284	2,865	688

Financial assets subject to offsetting and potential offsetting agreements

in EUR million	Financial assets (gross)	Amounts offset (gross)	Financial assets in balance sheet (net)	Potential effects of netting agreements not qualifying for balance sheet offsetting			Net amount after potential offsetting
				Financial instruments	Cash collateral received	Other financial collateral received	
Derivatives	4,612	1,442	3,170	1,627	1,133	0	409
Reverse repurchase agreements	16,621	0	16,621	0	29	16,495	97
Total	21,232	1,442	19,790	1,627	1,163	16,495	506

Financial liabilities subject to offsetting and potential offsetting agreements

in EUR million	Financial liabilities (gross)	Amounts offset (gross)	Financial liabilities in balance sheet (net)	Potential effects of netting agreements not qualifying for balance sheet offsetting			Net amount after potential offsetting
				Financial instruments	Cash collateral pledged	Other financial collateral pledged	
Derivatives	3,568	1,291	2,277	1,627	265	3	382
Repurchase agreements	2,875	0	2,875	0	4	2,846	26
Total	6,444	1,291	5,153	1,627	269	2,849	407

Erste Group undertakes a part of interest rate derivative and credit derivative transactions via Clearing Houses. These derivatives and related variation margin balances fulfil the requirements for balance sheet offsetting in accordance with the criteria described in chapter 'B. Significant accounting policies'. The impact of offsetting is shown in the column 'Amounts offset (gross)'. The net position between the offset derivative amounts EUR 219 million (2018: EUR 151 million) is further offset with variation margin balances presented under balance

sheet items 'Cash and cash balances' in amount EUR 58 million (2018: EUR 38 million) and 'Financial liabilities measured at amortised cost', sub-item 'Deposits from banks' in amount of EUR 277 million (2018: EUR 189 million).

Erste Group employs repurchase agreements and master netting agreements as a means of reducing credit risk of derivative and financing transactions. They qualify as potential offsetting agreements. Master netting agreements are relevant for counterparties with multiple derivative contracts. They provide for the net settlement of all the contracts in the event of default of any counterparty. For derivatives transactions the values of assets and liabilities that would be set off as a result of master netting agreements are presented in the column 'Financial instruments'. If the net position is further secured by cash collateral or other financial collaterals the effects are disclosed in columns 'Cash collateral received / pledged' and 'Other financial collateral received / pledged' respectively.

Repurchase agreements are primarily financing transactions. They are structured as a sale and subsequent repurchase of securities at a pre-agreed price and time. This ensures that the securities remain in the hands of the lender as collateral in case the borrower defaults on fulfilling any of its obligations. Offsetting effects from repurchase agreements are disclosed in the column 'Other financial collateral received / pledged' respectively. Collateral is presented at the fair value of the transferred securities. However, if the fair value of collateral exceeds the carrying amount of the receivable/liability from the repo transaction the value is capped at the level of the carrying amount. Remaining position may be secured by cash collateral. Cash and other financial collateral involved in these transactions is restricted from being used it by the transferor during the time of the pledge.

46. Risk management

Risk policy and strategy

A core function of a bank is taking risks in a conscious and selective manner and professionally steering those risks. Adequate risk policy and risk strategy is essential to a bank's fundamental financial health and operational business success.

Erste Group has developed a risk management framework that is forward-looking and tailored to its business and risk profile. This framework is based on a clear risk strategy that sets out general principles according to which risk taking must be performed across the group. The risk strategy is consistent with the business strategy and incorporates the expected impact of external environment on the planned business and risk development.

The risk strategy describes the current risk profile, defines risk management principles, strategic goals and initiatives for the main risk types as well as sets strategic limits for the significant financial and non-financial risk types as defined in the Risk Materiality Assessment. The risk strategy is executed within a clear defined governance structure. This structure also applies to monitoring risk appetite, additional metrics, as well as to the escalation of limit breaches.

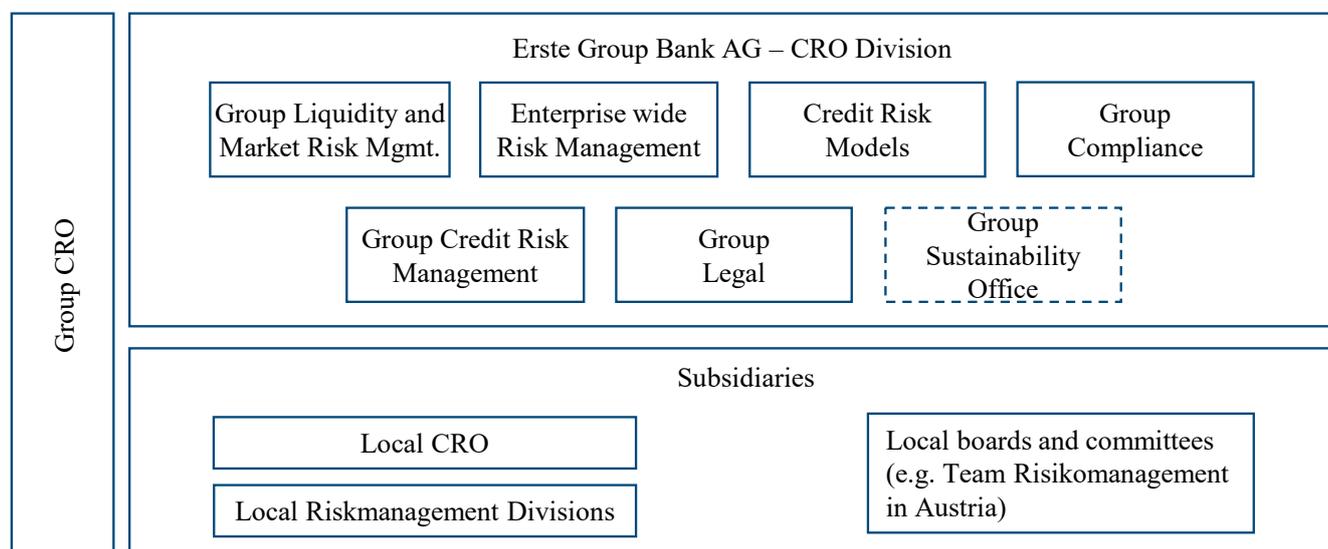
In 2019, management has continued to steer credit portfolios, including active management of non-performing exposures to further strengthen the risk profile (e.g. enhanced workout measures, monitoring and reporting of long-term operational plans for legacy stock of non-performing loans and inflow of new non-performing loans etc.). This has been demonstrated in particular by the continuous improvement of credit quality and the ongoing decrease of non-performing loans and low risk costs.

Erste Group Bank AG uses the Internet as the medium for publishing its disclosures under Article 434 of the Regulation (EU) No. 575/2013 on prudential requirements for credit institutions and investment firms (Capital Requirements Regulation - CRR) and Regulation (EU) No. 876/2019 amending Regulation (EU) No. 575/2013. Details are available on the website of Erste Group at www.erstegroup.com/ir. Relevant disclosures are included in the annual report in the section 'Reports' or published as separate documents in the section 'Regulatory disclosure'.

Risk management organisation

Risk monitoring and control is achieved through a clear organisational structure with defined roles and responsibilities, delegated authorities and risk limits.

The following chart presents an overview of Erste Group's risk management organisation:



In 2019, it was decided to adjust the Group CRO area's structure. The changes addressed the following:

- _ the division Group Non Financial Risk with the related Operational Risk tasks were integrated into Enterprise wide Risk Management;
- _ the staff unit 'Executive Divisional Director Strategic Risk' was dissolved.

Risk management structure

The management board and in particular Erste Group's Chief Risk Officer (Group CRO) perform the oversight function within Erste Group's risk management structure. Risk control and risk steering within Erste Group are performed based on the business strategy and risk appetite approved by the management board. The Group CRO, working together with the chief risk officers of the subsidiaries, is responsible for the implementation and adherence to the risk control and risk management strategies across all risk types and business lines.

The management board and, in particular, the Group CRO ensure the availability of appropriate infrastructure and staff as well as methods, standards and processes to that effect; the actual identification, measurement, assessment, approval, monitoring, steering and limit setting for the relevant risks are performed on the operating entity level within Erste Group.

At group level, the management board is supported by several divisions established to perform operating risk control functions and exercise strategic risk management responsibilities. The following risk management functions report directly to the Group CRO:

- _ Group Liquidity and Market Risk Management;
- _ Enterprise wide Risk Management;
- _ Credit Risk Models;
- _ Group Compliance;
- _ Group Credit Risk Management;
- _ Group Legal;
- _ Group Sustainability Office;
- _ Local Chief Risk Officers.

Group Liquidity and Market Risk Management

The division Group Liquidity and Market Risk Management (GLMRM) comprises all market and liquidity risk functions in Erste Group. This division is responsible for steering, measuring, and controlling liquidity and market risk of Erste Group. It covers both banking book and trading book and comprises the departments Banking Book Risk Management, Trading Book Risk Management, Market and Liquidity Risk Methods and Models and Market and Liquidity Risk Model Validation.

Banking Book Risk Management is responsible for the group-wide governance of market and liquidity risk of the banking book. This includes the identification, measurement and controlling of market and liquidity risk. Furthermore, the department is responsible for setting, controlling, and monitoring group-wide liquidity and market risk limits in the banking book and respective limit escalation procedures.

Trading Book Risk Management is responsible for the group-wide governance of market risk of the trading book. It acts independently of the trading units and takes responsibility for identifying, measuring, and monitoring all market risks arising from capital market business. The scope of this department also comprises setting, controlling, and monitoring of group-wide market risk limits in the trading book and respective limit escalation procedures.

Market and Liquidity Risk Methods and Models covers the development of risk models related to Pillar 1 (i.e. the calculation of the regulatory capital requirements for market risk in the trading book) and Pillar 2 capital requirements as well as valuation and various internal steering purposes.

Market and Liquidity Risk Model Validation is responsible for the independent review and validation of market and liquidity risk related methods and models for Pillar 1 and Pillar 2 purposes. Furthermore, the validation unit is responsible for the verification of the valuation models. The review of the implementation of the developed methods and models in the respective systems is also covered by the validation unit.

Enterprise wide Risk Management

Enterprise wide Risk Management (ERM) focuses on holistic risk management and ensures comprehensive cross-risk group-wide risk portfolio steering, monitoring, analysis, and reporting. ERM drives key strategic initiatives to establish greater cohesion between risk strategy (including risk appetite and limit steering) and operational execution. Furthermore, ERM works together with all risk functions and key divisions to strengthen oversight group-wide risk to cover capital, credit, liquidity, market, operational, and business risk. The Enterprise wide Risk Management division consists of the departments Credit RWA Management and Stresstesting, Group ICAAP, Group Risk Reporting, Planning & Risk Cost Management and Group Operational & Non-Financial Risk.

The Credit RWA Management and Stresstesting department is responsible for the group-wide management and steering of risk-weighted assets for credit risk (credit RWA) according to the Basel framework as well as for conducting both internal and regulatory stress testing and maintaining the Group's stress testing framework. In terms of RWA the department is responsible for the methodology and infrastructure of the credit RWA calculation as well as the implementation of changes in the regulatory framework. In stress testing the department oversees the design, governance, organisation and implementation of the macro stress testing processes as well as the credit risk calculation. Further, the credit risk simulation tools are used to provide estimated impacts resulting from planned changes in the RWA calculation. In addition, the department is responsible for the design and governance of risk concentration analyses and forward-looking information (FLI).

The department Group ICAAP covers ICAAP methods, limit steering, as well as the Group's recovery and resolution planning activities. The department supports the management in ensuring adequate capital capacity that reflects the nature and magnitude of the Group's risk portfolio. The mission is to maintain and further enhance a robust enterprise-wide risk management framework as well as to compile the operational components of the Group's risk strategy. Furthermore, the department is responsible for the annual update of the recovery plan of Erste Group and coordinates the departments involved in such update. It also supports local entities in recovery planning and aligns local recovery plans with the group recovery plan. Moreover, it provides information required for the resolution plan to the resolution authorities.

Group Risk Reporting, Planning & Risk Cost Management is in charge of data extraction, consistency and plausibility checks, analysis and reporting to senior management, regulators, auditors, and rating agencies. Its tasks also comprise in coordination and preparation of comprehensive risk reports covering all risk types and it is involved in the implementation of regulatory and financial reporting requirements. Furthermore, it is responsible for the maintenance of the Group's standardised credit risk reporting systems and also takes responsibility for the technical implementation of new regulatory and financial reporting requirements. In terms of planning activities, the responsibilities of the department include the design, governance, organisation and implementation of risk planning processes that ensure the contribution of risk-side input to regular planning rounds and that cover monthly and quarterly forecasts of selected key risk indicators. In terms of risk cost management, it takes care of group-wide standards for determining credit loss allowances and pricing for credit risk as well as for determining and monitoring credit loss allowances at Erste Group Bank AG. It draws up group policies for those areas as well as performs validations of expected credit loss models for all Group entities, of stress test models and of the Advanced Measurement Approach (AMA) model for operational risks.

The Group Operational & Non-Financial Risk department ensures the effective, integrative and holistic implementation of the operational risk objectives, including the support of risk mitigating measures. The department acts as the central and independent risk management unit for identification, measurement and steering of operational risk within Erste Group and is responsible for maintaining the model for the calculation of capital requirements relating to operational risk.

Credit Risk Models

The Credit Risk Models area consists of Model Development, Model Validation and Model Landscape units. The area has responsibility for the overall model governance across the model lifecycle.

The model development follows a subsidiarity model approach, which means responsibilities are assigned to the lowest level that can effectively execute. Local models are developed locally in line with group standards and group-wide models are developed centrally. The function is responsible for development and maintenance of models, including coordination of model approval process and oversight of the implementation steps.

The model validation is organized as a Hub-and-Spoke model, which means that all validation responsibilities are bundled within the Holding unit Model Validation, however local banks remain responsible for the sign-off of the results and for taking appropriate action. Model validation is responsible to independently challenge model development and make certain that all IRB approach models (models according to the internal ratings-based approach) used within the Group are suitable for the purpose they were created for. It verifies that models are performing as expected, in line with their design objectives and intended business uses, as well as in line with regulatory requirements and internal group standards.

The ongoing monitoring of the models in use follows a subsidiarity model analogue to model development: Local banks are monitoring local models in local banks and Holding monitors group-wide models and any local models used by the group. Holding remains responsible for setting the standards and approach for model monitoring to ensure a consistent application throughout the Group.

Model Landscape plays a key role in the centralized model reporting, across the entire model lifecycle. The unit is responsible for the model risk governance role within the Credit Risk Models area, including project management of model change and other initiatives in the area. Model Landscape deals with strategic planning of model changes (e.g. IRB Models stock-take planning, IRB Rollout plan), oversight of model lifecycle process execution and management and maintenance of Model Inventory. In addition, the unit acts as an operative owner of the Holding Model Committee (HMC) and internal model risk governance related regulations.

Group Compliance

In line with Austrian Securities Supervision Act, the Austrian Stock Exchange Act, the Financial Market Money Laundering Act, the Beneficial Owner Registry Act, the Sanctions Act, the General Data Protection Regulation (GDPR) and the Austrian Banking Act, as well as the respective supranational and EU laws, the following departments are responsible for compliance risks.

The responsibilities of Group AML (Anti-Money Laundering), CTF (Counter-Terrorist Financing) and Fraud Prevention are to ensure group steering and implementation of measures to prevent money laundering, terrorism financing (supported by group-wide systems) and fraud (especially related to all areas such as credit, payments, cards, cash, securities and trading, procurement, payroll and embezzlement) to comply with applicable laws and regulations within Erste Group including all group members, branch offices and branch establishments in Austria and abroad. In addition, its staff unit Group Correspondent Banking Compliance supports and controls the international payment hub function of Erste Group and fosters correspondent banking relationships with international banks by supervising and controlling customer and transactions in accordance with Erste Group's risk ambition and to be furthermore in compliance with internationally accepted standards.

Group Financial Sanctions is responsible for the group management and implementation of relevant statutory provisions, internationally recognized risk management standards and measures to comply with financial sanctions and embargoes. All necessary measures for compliance with financial sanctions and embargo guidelines within Erste Group, including all Group members, branches of Erste Group and branches in Austria and abroad, are also defined by Group Financial Sanctions. Monitoring and control activities relate in particular to customer relationships, business partners and transactions of all kinds within the scope of the Bank's business and non-business activities.

Group Securities Compliance and its staff unit Group Markets Compliance is in charge of implementing the provisions of relevant legislation (e.g. MAR/MAD II, MiFIR/MiFID II), guidelines of regulatory authorities and standards applicable for the banking industry to prevent, on a group-wide level, insider trading, market manipulation and other misconduct in securities business. Among others, the key tasks of both units are: group-wide identification and management of conflicts of interest when providing investment services utilising local contacts with system support; market manipulation surveillance for Erste Group Bank AG, savings banks (Sparkassen) and other Austrian entities; aligning market manipulation suspicions group-wide with system support; and personal account controls for entities in Austria.

The Group Data Protection Office function and the Data Protection Officer (DPO) as stipulated by GDPR both for the Group as well as locally for Erste Group Bank, Erste Bank Oesterreich, and the savings banks (Sparkassen). Its tasks include advising the data controller and other stakeholders; monitoring data protection and GDPR compliance, both as regards to the organisation as such and the governance framework; and proper legal, organisational and technical implementation of specific data processing. Finally the DPO is the single point of contact to the Data Protection Authority.

Group Central Compliance and Strategy is a department in Group Compliance which acts as overarching management unit between compliance functions as well as governance function towards Erste Group subsidiaries and branches. Its responsibilities include the definition and management of the Group Compliance Strategy and Compliance Plan, the definition and management of the compliance governance framework as well as the development and performance of the data analytics and risk assessment capability.

Group Credit Risk Management

The newly organised Group Credit Risk Management manages operative risk in underwriting and workout activities for both retail and non-retail portfolios (medium-sized enterprises, large corporate and real estate customers, as well as institutional clients and counterparties). In addition, the division is responsible for setting standards and steering the group's non-retail and retail lending portfolios. It ensures that only credit risk which is in line with the risk appetite, risk strategy, and limits set by ERM are taken on the books of Erste Group.

The decision to integrate Group Workout into Group Credit Risk Management was taken in Q4 2018 under consideration of the successful run-down of the NPL portfolio over the past years and the limited stock size. The new set-up allows for full capitalization of the internally available knowledge of the customers and their business challenges throughout the full credit cycle and fosters exchange of viable information and lessons learned. In order to mitigate any potential conflict of interests, appropriate provisions have been made, including clear responsibilities in line with the three lines of defence model, dedicated decision-making governance for performing and non-performing clients and clearly defined transfer criteria and the client management model for clients in workout.

Group Credit Risk Management consists of seven departments: Group EBA - Erste Business Analysis, Credit Underwriting Corporates, Credit Underwriting Financial Institutions and Sovereigns, Credit Underwriting Real Estate, Group Corporate Workout, Corporate Portfolio Monitoring and Management, and Group Portfolio Steering Corporate and Retail.

The department Group EBA - Erste Business Analysis is responsible for group-wide standards for company analyses and preparing these analyses. In addition, Group EBA performs assessments of the market value for all commercial real estate collateral for Erste Group Bank AG and Erste Group Immorent GmbH, produces regular real estate market research reports for Erste Group's core markets, and is responsible for the group financial analysis tool SABINE. The Central Corporate Rating Unit Desk, as part of Group EBA, acts as single point of contact for all operative issues related to corporate and specialised lending ratings within Group Credit Risk Management.

Credit Underwriting Corporates is responsible for the group-wide underwriting of credit risks associated with large corporate customers, for the management of respective credit applications and related training activities. It is the first line risk management unit for all corporate business at Erste Group Bank AG and, above defined thresholds, the second line risk management unit for corporate business at Erste Group's subsidiaries and the 'Haftungsverbund'.

Credit Underwriting Financial Institutions and Sovereigns is responsible for ratings, analysis, operative credit risk management (risk assessment, approval of transactions and limits, policies, watch lists and early warning system) and workout activities related to financial institutions (banks, insurance companies and funds), regional governments, sovereigns, and structured products.

Credit Underwriting Real Estate is responsible for credit underwriting in real estate business. The area of responsibility includes all real estate customers doing international business and large-volume credit business of Erste Group's subsidiaries with corporate customers in the real estate segment. This organisational unit is the first line risk management unit for all real estate business of Erste Group Bank AG and Erste Group Immorent GmbH as well as the second line risk management unit for business at Erste Group's banking subsidiaries above defined thresholds. In addition, this unit covers underwriting for specific types of project finance (i.e. renewable energy, Private Public Partnership projects (transport infrastructure), etc.) as a first-line and second-line risk management, respectively.

Group Corporate Workout assumes group-wide responsibility for management of clients allocated to the business segments large corporates, commercial real estate, and other corporates that are rated non-performing or are specifically defined as workout clients. It undertakes the direct workout management function for corporate workout clients of Erste Group Bank AG and Erste Group Immorent GmbH. Additionally, Group Corporate Workout acts as the second line risk management unit, above defined thresholds, for workout clients at Erste Group's

banking subsidiaries. Furthermore it is the competence centre for managing the divestment processes of NPLs and the management of repossessed assets.

Corporate Portfolio Monitoring and Management is responsible for corporate risk policies and procedures along the credit process, the optimisation of corporate credit processes and the operative monitoring of credit risk (counterparty and country limit management). In addition, this department is responsible for group-wide credit collateral management. This includes the set-up of standards for the credit collateral management, the framework for a Group credit collateral catalogue, and principles for credit collateral evaluation and revaluation.

Group Credit Portfolio Steering Corporate and Retail is responsible for the group-wide steering of the corporate and retail lending and workout portfolios. This includes the definition of the retail lending and analytical framework as well as portfolio reporting framework and early warning system for the corporate portfolio. In addition, this department conducts regular in-depth portfolio reviews together with risk management units of subsidiaries in order to identify and analyse portfolio dynamics. These frameworks serve as a basis for monitoring lending and workout practices of local banks and for identifying potential adverse portfolio developments early on.

Group Legal

Group Legal acts as the central legal department of Erste Group Bank AG. This division provides legal support and counsel for the management board, the business units and the central functions, and mitigates legal risk. It also attends to legal sourcing and to dispute resolution and litigation.

Legal support for the business activities of the banking subsidiaries in the respective jurisdictions in which they operate is performed by separate locally established legal departments. While reporting to the local management, typically the local CRO, the heads of the local legal department also report to the head of Group Legal in a functional dotted line matrix responsibility.

Group Sustainability Office

The main tasks of the Group Sustainability Office (GSO) are development and implementation of Erste Group's environmental policy, adapting and communicating of Erste Group's 'Code of Conduct' and responsible for 'Time Bank' in Austria (a corporate volunteering platform for co-operation between NGOs and Erste employees). GSO is responsible for preparation and compilation of the '(consolidated) non-financial information Report (NFI-Report)' integrated into the Annual Report and is involved in the evaluation of non-financial risks in connection with corporate businesses and is main contact for sustainability ratings.

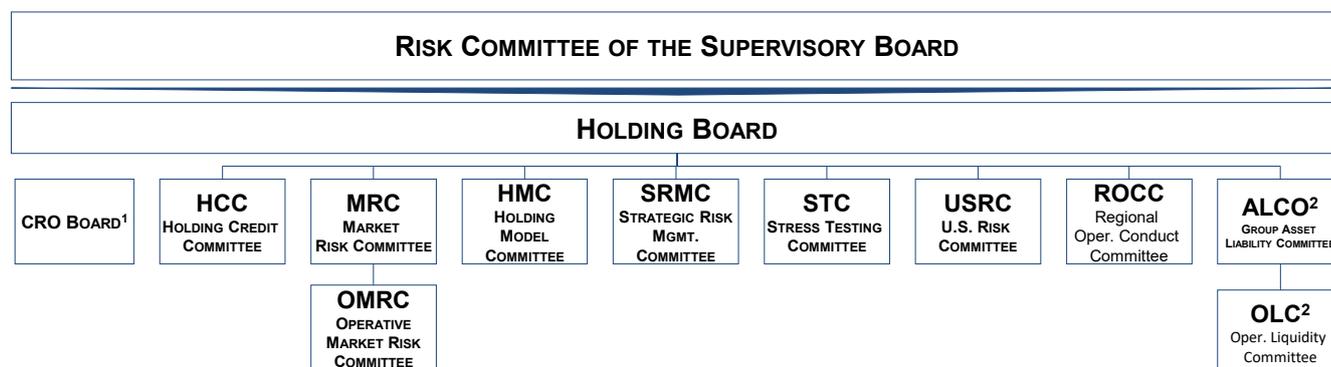
Local Chief Risk Officers

Each subsidiary has separate risk control and management units with responsibilities tailored to the local requirements, which are headed by the respective local chief risk officer (Local CRO).

Group coordination of risk management activities

The management board regularly deals with risk issues of all risk types in its regular board meetings. Actions are discussed and taken when needed.

Furthermore, certain cross-divisional committees were established with the purpose of carrying out risk management activities in Erste Group. They are shown in the following diagram:



The **Risk Committee of the Supervisory Board** is responsible for granting approval in all cases in which loans and exposures reach an amount exceeding the approval authority of the management board according to the Credit Risk Approval Authority Regulations. It is in charge of granting approval to large exposures pursuant to Article 392 CRR, if such a claim is equal to or exceeds 10% of the eligible capital of a credit institution. Within the competence assigned to it, the committee may grant advance approvals to the extent permitted by law.

In addition, it is responsible for supervising the risk management of Erste Group Bank AG. The risk committee meets regularly. As the central risk control body, the risk committee is regularly briefed on the risk status across all risk types.

The **CRO Board** is responsible for the consistent coordination and implementation of risk management activities within Erste Group. The CRO Board consists of the Group CRO, the chief risk officers of major subsidiaries within Erste Group and the senior area managers of the CRO division of Erste Group Bank AG. Chaired by the Group CRO, the CRO Board is the primary body for aligning on strategically relevant topics of the risk division across Erste Group entities, including (but not limited to) the group-wide strategic planning, the project portfolio and Change the Bank (CtB) investments. The CRO Board ensures a consistent flow of information from and to the group functions and supports the setting of the overall risk agenda.

The **Holding Credit Committee (HCC)** is the highest operative decision-making body for approvals of credit risks according to the valid credit risk approval authority regulations. Based on the advice of HCC, decisions of significant exposures and extended risks are decided by the risk management board of the supervisory committee. It also approves the relevant corporate industry strategies. The HCC is headed by the Group CRO and comprises the board member of Corporates & Markets, the head of Group Credit Risk Management and the head of the requesting business line. Each subsidiary has their own local credit committee established by the same principles.

The **Market Risk Committee (MRC)** is the main steering body for market risk and trading book related issues of Erste Group. MRC approves group-wide market risk limits and elaborates on the current market situation. Furthermore, it approves market risk methodologies and models, model changes, and related validation results.

The **Operative Market Risk Committee (OMRC)** prepares decisions for the MRC and approves sensitivity and notional limits which do not require VaR/SVaR limit adjustments.

The **Holding Model Committee (HMC)** is the steering and control body for IRB approach and Pillar 2 model development, validation and monitoring. All new or changed models and model related aspects (e.g. risk parameters, group-wide methodology standards) are reviewed by the Holding Model Committee and require its approval.

The **Strategic Risk Management Committee (SRMC)** holds the delegated decision authority from the management board with respect to strategic risk management functions. Its responsibility area covers the approach to credit RWA calculation and economic capital calculation methodology, the back-testing of credit loss allowances, the remedy actions resulting from reporting of credit risk control units on rating system performance.

The **Stress Testing Committee (STC)** is the sole forum for all joint resolutions, decisions and acknowledgements in the stress testing area for group-wide stress testing activities.

The **United States Risk Committee (USRC)** has been established to meet the requirements of the United States Federal Reserve Board (FRB) regulation, which has been in force since 1 July 2016. The objective is to involve the management board as key governance and control function for the U.S. trade portfolio which has been specified in the Combined U.S. Operations (CUSO) guidance.

The **Regional Operational Conduct Committee (ROCC)** holds delegated decision authority from the Holding Board with respect to Operational and Non-Financial Risk decisions, which may be represented as NFR decisions based on the predefined Risk Appetite Statement (RAS). The committee (a) decides on strategic steering topics based on NFR reporting (holistic risk overview), (b) serves as a sounding board on business risk decisions concerning non-financial risks and (c) decides on escalations to Holding Board. It facilitates lessons learned, initiates focus areas and decides on the implementation of corresponding group-wide measures. It acts as a Reputational Risk Committee.

The **Group Asset/Liability Committee (ALCO)** manages the consolidated Erste Group balance sheet, focusing on trade-offs between all affected consolidated balance sheet risks (interest rate, exchange rate and liquidity risks), and takes care of the setting of group standards and limits for the members of Erste Group. In addition, it approves policies and strategies for controlling liquidity risk as well as interest rate risk (net interest income) and examines proposals, statements and opinions of ALM, risk management, controlling and accounting functions. The approved investment strategy complies with the guidelines agreed with Risk Management.

The **Operational Liquidity Committee (OLC)** is responsible for the day-to-day management of the global liquidity position of Erste Group. It analyses the liquidity situation of Erste Group on a regular basis and reports directly to the ALCO. It also proposes measures to ALCO within the scope of the management policies and principles laid down in the Liquidity Risk Management Rule Book. Furthermore, members of the OLC are points of contact for other departments or Erste Group members for liquidity-related matters. Each local bank has its own local operational liquidity committee.

In addition, committees are established at local level, such as the 'Team Risikomanagement' in Austria. It is responsible for a common risk approach with the Austrian savings banks.

Group-wide risk and capital management

Enterprise wide Risk Management (ERM) includes as its fundamental component the Internal Capital Adequacy Assessment Process (ICAAP) required under Pillar 2 of the Basel framework.

The ERM framework is designed to support the bank's management in managing the risk portfolios as well as the coverage potential to ensure that the bank holds adequate capital for the nature and magnitude of its risk profile at all times. The framework is tailored to the Erste Group's business and risk profile and reflects the strategic goal of protecting shareholders and senior debt holders while ensuring the sustainability of the organisation.

ERM framework is a modular and comprehensive management and steering system within Erste Group as well as an essential part of the overall steering and management instruments. The ERM components necessary to ensure all aspects, in particular to fulfil regulatory requirements and to provide an effective internal steering tool, can be clustered as follows:

- _ Risk Appetite Statement (RAS), limits and risk strategy;
- _ portfolio and risk analytics including Risk Materiality Assessment (RMA), concentration risk management, and stress testing;
- _ Risk-bearing Capacity Calculation (RCC);
- _ planning of key risk indicators;
- _ recovery and resolution planning.

In addition to the ICAAP's ultimate goal of assuring capital adequacy and sustainability at all times, the ERM components serve to support the bank's management in pursuing its strategy.

Risk appetite

Erste Group defines the maximum level of risk it is willing to accept in order to meet its business objectives within the Group's risk appetite (Group RAS). The Group RAS acts as a binding constraint to Erste Group's business activities within its overall risk appetite via triggers and limits approved by the management board. It is integrated and embedded into Erste Group's structural processes; including business and risk strategy, budget process, capital and liquidity planning, recovery plan, stress testing and remuneration framework. The Group RAS consists of a set of core risk metrics providing quantitative direction for overall risk-return steering and qualitative statements in the form of key risk principles that are part of the guidelines for managing risks. The core risk metrics are set as ultimate boundaries for the group risk-return target setting. They are also a key part of the annual strategic planning / budgeting process and give an overall picture of capital, liquidity and risk-return trade-offs. The key objective of the RAS is to:

- _ ensure that Erste Group has sufficient resources to support its business at any given point in time and absorb stress events;
- _ set boundaries for the group's risk target setting;
- _ support the group's financial strength and the robustness of its systems and controls.

To foster risk-return steering and ensure proactive management of the risk profile, Erste Group creates its RAS on a forward-looking basis. External constraints such as regulatory requirements create the floor and ceiling for the RAS and therefore the amount of risk Erste Group is willing to accept. In order to ensure that the group remains within the targeted risk profile, a traffic light system was established and assigned to the core metrics. This approach allows a timely delivery of information to the respective governance and the implementation of effective remediation measures. The RAS traffic light system is defined as follows:

- _ RAS is green: The target risk profile is within the specified boundaries.
- _ RAS is amber: The undershooting or overshooting of a pre-defined threshold leads to an escalation to the designated governance and the discussion of potential remediation actions.
- _ RAS is red: The undershooting or overshooting of a pre-defined limit initiates an immediate escalation to the designated governance and a prompt implementation of remediation actions.

Moreover, stress indicators are defined for selected core metrics and integrated into the assessment of the stress test results. They are reported as early warning signals to the management board to support proactive management of the risk and capital profile.

In addition, supporting metrics and principles are defined by material risk type in the Group Risk Strategy based on Group RAS. These support implementation of the mid- to long-term strategy. Risk management governance ensures full oversight of risk decisions and sound execution of the group risk strategy. Mitigating actions are undertaken as part of the regular risk management process to ensure that the group remains within its RAS.

Group RAS for 2019 was approved by the management board and acknowledged by the risk committee of supervisory board and supervisory board. The group further developed an aggregated and consolidated risk appetite dashboard (Risk Dashboard) illustrating the group's and local entities' risk profile developments by comparing the risk exposure and risk limits. The Risk Dashboard is regularly presented to the management board and to the supervisory board to support its review, oversight, and monitoring of the group risk profile and the risk profile of its local entities.

Group RAS is also broken down into local entities. Local RAS is approved by the management board to ensure compliance with the Group RAS and also approved by the local management board to ensure alignment with local regulatory requirements. The group may also decide to include further compulsory constraints and limits in local RAS to ensure alignment with Group RAS and Group Risk Strategy.

Portfolio and risk analytics

Erste Group uses dedicated infrastructure, systems and processes to actively identify, measure, control, report and manage risks within its portfolio. Portfolio and risk analytics processes are designed to quantify, qualify and discuss risks in order to raise awareness to management in a timely manner.

Risk materiality assessment

The Risk Materiality Assessment (RMA) determines the materiality of risk types and consequently the risk profile across Erste Group and its entities. RMA is an annual process with the purpose of systematically identifying new and assessing all existing material risks for Erste Group. As such, the RMA is an integral part of the ICAAP and serves as a steering tool for senior management.

Insights generated by the assessment are used to improve risk management practices and further mitigate risks within the group. The assessment also serves as input for the design and definition of the group's Risk Strategy and Risk Appetite Statement. Key outputs and recommendations of the RMA are considered in the scenario design and selection of the comprehensive and reverse stress tests.

Risk concentration analysis

Erste Group has implemented a process to identify measure, control and manage risk concentrations. This process is important to ensure the long-term viability of Erste Group, especially in times of an adverse business environment and stressed economic conditions.

The risk concentration analysis at Erste Group is performed on an annual basis covering credit risk, market risk, operational risk, liquidity risk and inter-risk concentrations. Identified risk concentrations are considered in the scenario design of the comprehensive stress test and measured under stressed conditions. The output of the risk concentration analysis additionally contributes to the identification of material risks within the RMA and to the setting/calibration of Erste Group's limit system.

Stress testing

Modelling sensitivities of the group's assets, liabilities and profit or loss provide management steering information and help to optimise Erste Group's risk-return profile. Stress tests help to factor in severe but plausible scenarios providing further robustness to measurement, steering and management. Risk modelling and stress testing are vital forward-looking elements of the ICAAP. Finally, sensitivities and stress scenarios are considered within the group's planning process.

Erste Group's most complex stress testing activities are scenario stress tests that take a comprehensive account of the impact of various economic scenarios, including second-round effects on all risk types (credit, market, liquidity and operational) and effects on the associated volumes of assets and liabilities as well as on profit and loss sensitivities. In addition to the standard scenario-driven stress testing exercises, reverse stress tests are performed to identify a scenario or a combination of scenarios in which viability of the current business model can be questioned.

Erste Group has developed specific tools to translate macroeconomic variables (e.g. GDP or unemployment rate) into risk parameters in order to support the stress testing process, which combines bottom-up and top-down approaches. For adapting the stress parameters, Erste Group additionally leverages the experience of its local professionals and uses, where appropriate, their statistical models to simulate the impacts of macroeconomic variables on the probabilities of default in the respective markets. Special attention is given to account for adequate granularity and special characteristics (i.e. countries and industries) when determining the segmentation in which the stressed parameters are defined.

Results from Erste Group's internal stress tests are analysed in order to decide on appropriate measures. The internal comprehensive stress tests performed in 2019 indicated no breach of stressed RAS triggers after the application of scenario contingent measures in the last year of adverse scenario.

Risk-bearing capacity calculation

The Risk-bearing Capacity Calculation (RCC) defines the level of capital adequacy required by the ICAAP. In contrast to the regulatory view of Pillar 1, starting with 2019 the RCC is based on an economic view assuming continuation of Erste Group (as expected by ECB Guide to ICAAP) and determines whether the bank has sufficient capital for covering all risks it is exposed to. Based on the results of the RMA, economic capital is considered for relevant risk types as approved by the management board. The aggregated capital requirements are then compared to internally available capital, as reflected by the coverage potential.

The management board, risk management committees and supervisory board are briefed quarterly on the results of the ICAAP capital adequacy through the Group Risk Report and the Risk Dashboard. The former includes risks movements, available capital (coverage potential), consideration of potential losses in stress situations, the degree of the risk limit utilisation and the overall status of capital adequacy. The latter outlines risk profile development in relation to risk appetite.

Besides the Pillar 1 risk types (credit, market and operational risks), interest rate risk in the banking book, foreign exchange risk arising from equity investments, credit spread risk in the banking book, risk from foreign currency loans (i.e. FX induced credit risk), risk from repayment vehicles as well as business risk are explicitly considered within the economic capital requirements via internal models in the

context of Pillar 2. At the end of 2019, the economic capital adequacy was at 57.9%. The methodologies applied to the different risk types are diverse and range from value at risk approaches to the regulatory approach. Moreover, calculations for most of the portfolios under the standardised approach for credit risk are extended by risk parameters from the internal ratings-based approach in order to provide a more risk sensitive economic view.

Credit risk accounts for 73.4% of total economic capital requirements at the end of 2019. Reflecting Erste Group’s conservative risk management policy and strategy, the group does not offset diversification effects between the risk types. Starting with 2019, the economic capital requirements for unexpected losses are computed on a one-year time horizon with a 99.92% confidence level, ensuring group-wide consistency (group and local entities) and coherence between ICAAP and processes where ICAAP is integrated.

The internal capital or coverage potential required to cover Pillar 2 risks and unexpected losses is based on CRR and CRR II (Regulation (EU) No. 575/2013 and Regulation (EU) No. 876/2019 amending Regulation (EU) No. 575/2013) fully loaded regulatory own funds adjusted by Pillar 2 add-ons (e.g. year-to-date profit (if not already considered in Pillar 1 capital), exclusion of Tier 2 capital instruments, IRB expected loss excess/shortfall add-on, etc.). The coverage potential must be sufficient to absorb unexpected losses resulting from the group’s operations at any point in time, as reflected in the Group’s Risk Appetite through the limits set for utilisation of coverage potential.

Risk planning

Group Risk Planning framework is essential for the capital allocation and overall financial planning processes and supports the adequate reflection of risks within the strategy, steering and management processes of the group.

Methods and instruments applied

Key risk indicators covered by the Risk Planning framework include indicators that provide an overview of incurred or potential risks, with respect to both portfolio and economic environment developments. Indicators include RWA (and related indicators), portfolio quality indicators (impairments, NPL/NPE and relevant performance indicators etc.), as well as indicators required by the regulatory authorities under the responsibility of the Risk division.

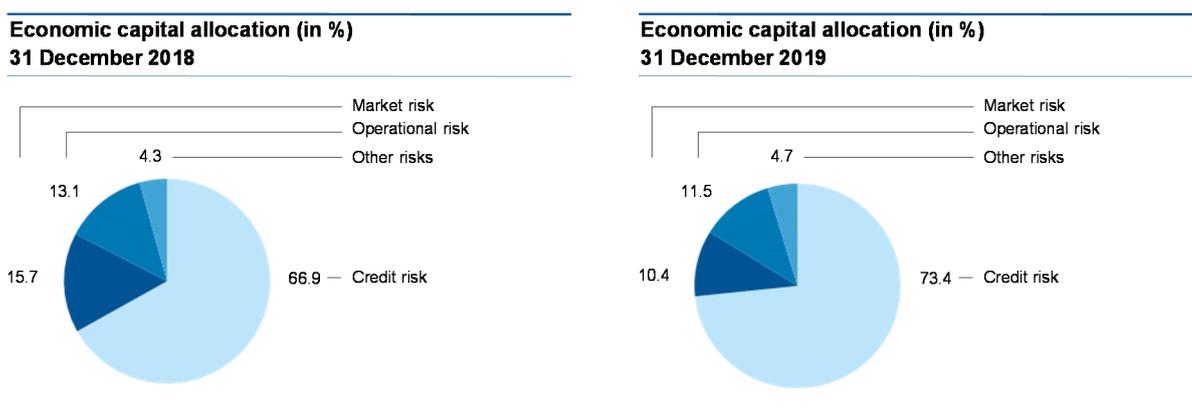
Planning activities are performed in close cooperation with all stakeholders in the group’s overall process, and follow a clear governance structure to ensure sound risk planning process.

Capital allocation

An important task integral to the risk planning process is the allocation of capital to entities, business lines and segments. This is done with close cooperation between Risk Management and Controlling. Methodology for allocation reflects risk and controlling processes in order to allocate capital with risk-return considerations.

Erste Group’s aggregate capital requirements by risk type

The following diagrams present the composition of the economic capital requirements according to type of risk:



Other risks include business risk.

Leverage ratio

The leverage ratio represents the relationship between core capital (tier 1) and leverage exposure according to Article 429 CRR. Essentially, the leverage exposure represents the sum of unweighted on- and off-balance-sheet positions considering valuation and risk adjustments as defined within the CRR. The calculation and disclosure of the leverage ratio is based on the European Commission's delegated regulation ((EU) 2015/62 of 10 October 2014), which was published in the Official Journal of the European Union on 17 January 2015.

Recovery and resolution plans

In compliance with the Austrian Banking Recovery and Resolution Law ('Bundesgesetz über die Sanierung und Abwicklung von Banken – BaSAG') Erste Group submits an updated Group Recovery Plan to ECB every year.

The Group Recovery Plan identifies options for restoring financial strength and viability in case Erste Group comes under severe economic stress. The plan specifies potential options for the replenishment of capital and liquidity resources of the bank in order to cope with a range of scenarios including both idiosyncratic and market-wide stress. The recovery governance described in the plan ensures timely identification and proper management of any recovery situation. Furthermore, the assessment of the Group Recovery Plan and the recently addressed assessment of the overall recovery capacity are part of the Supervisory Review and Evaluation Process (SREP) assessment. It is relevant to demonstrate that, in a severe stress which is close to a failing or likely to fail situation, there is sufficient recovery capacity available.

Erste Group collaborates with the resolution authorities in the drawing up of resolution plans based on BaSAG and EU Regulation No 806/2014 establishing the Single Resolution Mechanism (SRM Regulation). Erste Group prefers the Multiple Point of Entry (MPE) resolution strategy on cross-country level, but a Single Point of Entry (SPE) resolution strategy within a country.

The Bank Recovery and Resolution Directive (BRRD) introduced the Minimum Requirement for own funds and Eligible Liabilities (MREL). MREL has to be met at any time once it is a binding requirement. MREL is expressed as the amount of own funds and eligible liabilities expressed as a percentage of the total liabilities and own funds (TLOF) of the institution. As of December 2019, Erste Group has not yet received the binding targets for its Resolution Groups. Nevertheless, expected MREL requirements have been considered within the strategic planning and budgeting process on local and Group level.

In June 2019 the new banking reform package was published, which includes the Bank Recovery and Resolution Directive (BRRD2). The transposition into national law (BaSAG) is set with up to 18 months and is expected by the end of 2020. Beside the introduction of the term 'resolution group' and the concept of internal MREL, further criteria for bail-in eligible liabilities and MREL eligible liabilities are set.

Credit risk

Credit risk arises in Erste Group's traditional lending and investment businesses. It involves both credit losses incurred as a result of borrowers' default (Stage 3) and credit losses expected if default occurs either within 1 year (Stage 1) or at any time until maturity (Stage 2).

Stage 1 credit losses apply to non-defaulted credit risk exposures without significant increase in credit risk (SICR) since inception, whilst Stage 2 credit losses apply to non-defaulted credit risk exposures for which SICR is observed at the reporting date. It also involves credit losses due to counterparty risk from trading in instruments and derivatives bearing market risk. Country risk and related macro-economic forward-looking information is also recognised in the calculation of credit risk.

Operative credit decisions are made by the credit risk management units in each of the banking subsidiaries locally and by Group Credit Risk Management at group level. A detailed explanation of the role and responsibilities of Group Credit Risk Management is covered in the section 'Risk management organisation'.

In contrast to large corporates, banks and governments managing credit risk in retail and SME involves dealing with a large number of relatively small exposures extended to private individuals, free professionals, entrepreneurs, or micro and small companies. Credit risk related to retail and SME loan portfolios is managed at group and at local entity level with a common interest in order to ensure regulatory compliant risk management practices and to provide customers with manageable loan facilities that are within their financial capacities and supported by underlying profitability.

The central database used for credit risk management is the Business Intelligence data warehouse (BI-DWH). All data relevant to credit risk management, performance management, and determination of risk-weighted assets and regulatory capital requirements is regularly loaded into this database. Relevant subsidiaries not yet integrated into the Group data pool regularly deliver reporting packages.

The Group Risk Reporting, Planning and Risk Cost Management department uses the BI-DWH in particular for centralised credit risk reporting. This ensures centralised analysis and application of ratios according to unified methods and segmentation across Erste Group as a whole. Credit risk reporting comprises regular reports on Erste Group's credit portfolio for external and internal recipients and permits continuous monitoring of credit risk developments, thus enabling management to take control measures. In-house recipients of these reports include, above all, the supervisory and management boards of Erste Group Bank AG as well as the risk managers, business unit directors and internal audit staff.

Internal rating system

Erste Group has business and risk strategies in place that govern policies for lending and credit approval processes. These policies are reviewed and adjusted regularly, at a minimum on an annual basis. They cover the entire lending business, taking into account the nature, scope and risk level of the transactions and the counterparties involved. Credit approval considers individual information on the creditworthiness of the customer, the type of credit, collateral, covenant package and other risk mitigation factors involved.

The assessment of counterparty default risk within Erste Group is based on the customer's probability of default (PD). For each credit exposure and lending decision, Erste Group assigns an internal rating, which is a unique measure of the counterparty default risk. The internal rating of each customer is updated event-specific, however, at least once a year (annual rating review). Ratings of workout customers are reviewed with more frequently.

The main purpose of the internal ratings is to support the decision-making for lending and for the terms of credit facilities. Internal ratings also determine the level of credit approval authority within Erste Group and the monitoring procedures for existing exposures. At a quantitative level, internal ratings influence the level of required risk pricing, loss allowances and risk-weighted assets under Pillar 1 or 2.

For entities of Erste Group that use the internal ratings-based (IRB) approach, internal ratings are key input for the risk-weighted assets calculation. They are also used in the group's assessment of the economic capital requirements according to Pillar 2. For these purposes, a distinct PD value is assigned to each rating grade for its IRB portfolios within a calibration process that is performed individually for each rating method and each regional portfolio. PD values reflect a 12-month probability of default based on long-term average default rates per rating grade. The bank assigns margins of conservatism to the calculated PDs.

Internal ratings take into account all available significant information for the assessment of counterparty default risk. For non-retail borrowers, internal ratings take into account the financial strength of the counterparty, the possibility of external support, flexibility in corporate financing, general company information and external credit history information, where available. For retail clients, internal ratings are based mainly on payment behaviour versus the bank and, where applicable, credit bureau information, supplemented with information provided by the respective client and general demographic information. Rating ceiling rules on credit quality are applied based on membership in a group of economically related entities and the country of main economic activity (applicable to cross-border financing facilities).

Internal specialist teams develop and improve internal rating models and risk parameters in cooperation with risk managers. Model development follows an internal group-wide methodological standard and utilises relevant data covering the respective market. In this way, Erste Group ensures the availability of rating models with the best possible prediction across its core regions.

All rating models and their components (scorecards), whether retail or non-retail, are regularly validated by the central validation unit based on a group-wide standard methodology. Validation uses statistical techniques to evaluate the accuracy of default prediction, rating stability, data quality, completeness and relevance and reviews the quality of documentation and degree of user acceptance. The results of this validation process are reported to the management and regulatory bodies. In addition to the validation process, the group applies a regular monitoring process on the performance of rating tools, reflecting developments in new defaults and early delinquencies.

The Holding Model Committee (HMC) holds delegated approval authorities of the Erste Holding Management Board, and is established as the steering and oversight body for the model development and validation process. Approvals of all new models, model changes, changes to risk parameters within the group, changes in group-wide methodological standards and other model-related aspects are carried following dual approval process within the Group – corresponding Holding and local model committee structures reflect joint responsibilities for decisions on IRB models. Responsibilities are assigned depending on model perimeter (Group-wide or locally developed model). Ultimate responsibility for all models used within the Group (at consolidated level) lies with the Group CRO. All model governance, development and validation activities are coordinated by the Credit Risk Models division.

Credit risk classification

For the disclosure of asset quality Erste Group assigns each customer to one of the following four risk categories:

Low risk. Typically regional customers with well-established and rather long-standing relationships with Erste Group or large internationally recognised customers. Very good to satisfactory financial position and low likelihood of financial difficulties relative to the respective market in which the customers operate. Retail clients having long relationships with the bank, or clients with a wide product pool use. No relevant late payments currently or in the most recent 12 months. New business is generally done with clients in this risk category.

Management attention. Vulnerable non-retail clients, who may have overdue payments or defaults in their credit history or may encounter debt repayment difficulties in the medium term. Retail clients with possible payment problems in the past triggering early collection reminders. These clients typically have a good recent payment history.

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

Non-performing. One or more of the default criteria under Article 178 of the CRR are met, which include full repayment unlikely, interest or principal payments on a material exposure more than 90 days past due, restructuring resulting in a loss to the lender, realisation of a loan loss, or initiation of bankruptcy proceedings. Erste Group applies the customer view for all customer segments, including retail clients; if an obligor defaults on one deal then the customer's performing transactions are classified as non-performing as well. All non-performing exposures are also defaulted.

Based on the calibration of internal PDs (probabilities of default) for regulatory purposes to the default rates published by rating agencies, the equivalent external customer rating was used for the assignment to risk categories. For the agency ratings, average one-year default rates resulting from long-term time series were applied.

Credit risk review and monitoring

Group Credit Risk Management conducts periodical reviews of the loan portfolio for each local entity to ensure an adequate portfolio quality and to monitor the compliance of local portfolios with the principles and parameters as stipulated by Erste Group's credit risk policies.

All credit limits and the transactions booked within the limits are reviewed at least once a year. Counterparty credit risk limits are monitored daily in an internal limit management system with remedial actions taken in case limits are exceeded.

A group-wide standardised early warning monitoring process is implemented to proactively identify negative developments. The early warning signals are monitored at group level by Group Credit Risk Management and, at subsidiary level, by the local units responsible for corporate risk management, and retail risk and collections management, for respective segments. When early warning signals are identified and validated, the overall client exposure and creditworthiness is reviewed and adequate risk mitigating actions are taken if deemed necessary. Watch list meetings are held on a regular basis to monitor customers with a poor credit standing and to discuss pre-emptive measures. For smaller enterprises (micro) and retail customers, the monitoring and credit review are based on an automated early warning system. In retail risk management, the early warning signals for adverse portfolio developments include, for instance, quality deterioration in new business or a decreasing collections effectiveness and require appropriate countermeasures. Additionally, the monitoring is performed for clients where early warning signals have been identified, even if they are still fulfilling their contractual repayment obligations.

Adverse portfolio developments regarding the non-performing and substandard loans portfolio of Erste Group are monitored, discussed and reported. In case of further negative developments clients are handled in specialized workout units aiming to minimize potential losses.

Credit risk exposure

Credit risk exposure relates to the sum of the following balance sheet items:

- _ cash and cash balances - demand deposits to credit institutions;
- _ debt instruments held for trading;
- _ non-trading debt instruments at fair value through profit or loss (FVPL);
- _ debt instruments at fair value through other comprehensive income (FVOCI);
- _ debt instruments at amortised cost (AC), other than trade and other receivables;
- _ trade and other receivables (for disclosure purposes in the tabular summaries below, any contract assets are also included in this category);
- _ finance lease receivables;
- _ debt instruments held for sale in disposal groups;
- _ positive fair value of hedge accounting derivatives;
- _ off-balance sheet exposures (primarily financial guarantees and undrawn loan commitments).

The credit risk exposure equates the gross carrying amount (or nominal value in the case of off-balance sheet positions) excluding:

- _ credit loss allowances for financial assets;
- _ credit loss allowances for loan commitments and financial guarantees;
- _ provisions for other commitments;
- _ any collateral held (including risk transfer to guarantors);
- _ netting effects;
- _ other credit enhancements;
- _ credit risk mitigating transactions.

Between 31 December 2018 and 31 December 2019, credit risk exposure increased from EUR 255,864 million to EUR 273,778 million. This is an increase of 7.0% or EUR 17,914 million.

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

in EUR million	Credit risk exposure	Credit loss allowances	Adjustments	Net carrying amount
Dec 19				
Cash and cash balances - demand deposits to credit institutions	1,196	0	0	1,195
Debt instruments held for trading	5,694	0	0	5,694
Non-trading debt instruments at FVPL	2,818	0	0	2,818
Debt securities	2,335	0	0	2,335
Loans and advances to banks	0	0	0	0
Loans and advances to customers	483	0	0	483
Debt instruments at FVOCI	8,590	-14	247	8,836
Debt securities	8,590	-14	247	8,836
Loans and advances to banks	0	0	0	0
Loans and advances to customers	0	0	0	0
Debt instruments at AC	207,150	-2,988	0	204,162
Debt securities	26,774	-11	0	26,764
Loans and advances to banks	23,063	-9	0	23,055
Loans and advances to customers	157,312	-2,969	0	154,344
Trade and other receivables	1,480	-72	0	1,408
Finance lease receivables	4,169	-134	0	4,034
Debt instruments held for sale in disposal groups	0	0	0	0
Positive fair value of hedge accounting derivatives	130	0	0	130
Off-balance sheet exposures	42,552	-310	0	-
Total	273,778	-3,518	247	228,279
Dec 18				
Cash and cash balances - demand deposits to credit institutions	1,009	0	0	1,009
Debt instruments held for trading	5,516	0	0	5,516
Non-trading debt instruments at FVPL	2,938	0	0	2,938
Debt securities	2,651	0	0	2,651
Loans and advances to banks	0	0	0	0
Loans and advances to customers	287	0	0	287
Debt instruments at FVOCI	8,828	-10	205	9,033
Debt securities	8,828	-10	205	9,033
Loans and advances to banks	0	0	0	0
Loans and advances to customers	0	0	0	0
Debt instruments at AC	192,413	-3,307	0	189,106
Debt securities	26,059	-8	0	26,050
Loans and advances to banks	19,111	-8	0	19,103
Loans and advances to customers	147,243	-3,290	0	143,953
Trade and other receivables	1,441	-122	0	1,318
Finance lease receivables	3,914	-151	0	3,763
Debt instruments held for sale in disposal groups	0	0	0	0
Positive fair value of hedge accounting derivatives	132	0	0	132
Off-balance sheet exposures	39,673	-343	0	-
Total	255,864	-3,933	205	212,816

Credit loss allowances comprise impairments for financial assets measured at amortised cost (including finance lease and trade and other receivables) and at fair value through other comprehensive income (FVOCI), as well as credit loss allowances and provisions for off-balance sheet exposures. Adjustments refer to the fair value changes of the carrying amount for financial assets at FVOCI.

Breakdown of credit risk exposure

On the next pages the credit risk volume is categorised in the following way:

- _ counterparty sector and financial instrument;
- _ contingent liabilities / off-balance sheet exposure by product;
- _ risk category;
- _ industry and financial instrument;
- _ industry and IFRS 9 treatment;
- _ industry and risk category;
- _ region and risk category;
- _ region and IFRS 9 treatment;
- _ business segment and risk category;
- _ business segment and IFRS 9 treatment;
- _ geographical segment and risk category;
- _ geographical segment and IFRS 9 treatment;
- _ non-performing credit risk exposure by business segment and coverage by credit loss allowances and collateral;
- _ non-performing credit risk exposure by geographical segment and coverage by credit loss allowances and collateral;
- _ relative thresholds for significant increase in credit risk assessment by geographical segments;
- _ composition of credit loss allowances;
- _ credit risk exposure, forbearance exposure and credit loss allowances;
- _ types of forbearance exposure;
- _ credit quality of forbearance exposure by geographical segment;
- _ business segment and collateral;
- _ geographical segment and collateral;
- _ financial instrument and collateral;
- _ credit risk exposure past due and not covered by credit loss allowances by financial instrument and collateralisation.

Credit risk exposure by counterparty sector and financial instrument

in EUR million	At amortised cost											Total	
	Cash and cash balances - demand deposits to credit institutions held for trading	Debt instruments held for trading	Non-trading debt instruments at FVPL	Debt instruments at FVOCI	Debt securities	Loans and advances to banks	Loans and advances to customers	Trade receivables and other receivables	Finance lease receivables	Debt instruments held for sale in disposal groups	Positive fair value of hedge accounting derivatives		Off-balance sheet exposures
Dec 19													
Central banks	0	19	0	19	50	16,109	0	1	0	0	0	21	16,218
General governments	0	2,037	336	6,221	22,514	0	6,781	63	379	0	0	2,098	40,429
Credit institutions	1,196	3,059	723	1,099	3,288	6,955	0	25	1	0	129	955	17,429
Other financial corporations	0	98	1,088	181	143	0	3,612	30	71	0	0	1,513	6,735
Non-financial corporations	0	481	328	1,070	780	0	67,774	1,240	2,934	0	1	26,493	101,099
Households	0	1	344	0	0	0	79,146	122	783	0	0	11,472	91,868
Total	1,196	5,694	2,818	8,590	26,774	23,063	157,312	1,480	4,169	0	130	42,552	273,778
Dec 18													
Central banks	0	20	0	3	25	14,939	0	0	0	0	0	17	15,004
General governments	0	1,819	761	6,694	22,387	0	7,059	49	407	0	0	1,958	41,134
Credit institutions	1,009	3,062	721	912	2,752	4,172	0	47	2	0	125	668	13,470
Other financial corporations	0	132	1,048	182	145	0	3,355	42	63	0	5	1,389	6,361
Non-financial corporations	0	482	248	1,037	749	0	62,207	1,176	2,742	0	2	24,282	92,926
Households	0	1	161	0	0	0	74,623	126	700	0	0	11,358	86,968
Total	1,009	5,516	2,938	8,828	26,059	19,111	147,243	1,441	3,914	0	132	39,673	255,864

Contingent liabilities/ Off-balance sheet exposures by product

in EUR million	Dec 18	Dec 19
Financial guarantees	7,378	7,190
Loan commitments	28,802	31,225
Other commitments	3,493	4,137
Total	39,673	42,552

Credit risk exposure by risk category

in EUR million	Low risk	Management attention	Substandard	Non-performing	Total
Dec 19	243,042	19,936	6,338	4,463	273,778
Share of credit risk exposure	88.8%	7.3%	2.3%	1.6%	
Dec 18	224,125	20,293	6,130	5,315	255,864
Share of credit risk exposure	87.6%	7.9%	2.4%	2.1%	
Change in credit risk exposure	18,917	-358	207	-852	17,914
Change	8.4%	-1.8%	3.4%	-16.0%	7.0%

Credit risk exposure by industry and financial instrument

in EUR million	At amortised cost											Total	
	Cash and cash balances - demand deposits to credit institutions	Debt instruments held for trading	Non-trading debt instruments at FVPL	Debt instruments at FVOCI	Debt securities	Loans and advances to banks	Loans and advances to customers	Trade and other receivables	Finance lease receivables	Debt instruments held for sale in disposal groups	Positive fair value of hedge accounting derivatives		Off-balance sheet exposures
Dec 19													
Agriculture and forestry	0	1	0	0	7	0	2,688	28	137	0	0	389	3,250
Mining	0	0	9	0	0	0	267	15	21	0	0	496	807
Manufacturing	0	74	22	181	77	0	11,587	522	519	0	0	6,293	19,274
Energy and water supply	0	58	17	90	44	0	3,204	69	77	0	0	859	4,418
Construction	0	11	22	3	4	0	6,935	71	281	0	0	5,005	12,332
Development of building projects	0	7	18	3	4	0	4,128	0	6	0	0	1,395	5,559
Trade	0	7	26	42	8	0	8,286	378	522	0	0	4,488	13,757
Transport and communication	0	46	125	524	224	0	3,950	74	696	0	1	2,159	7,798
Hotels and restaurants	0	4	1	1	3	0	4,312	7	86	0	0	712	5,126
Financial and insurance services	1,191	3,182	1,850	1,351	3,498	23,057	3,876	56	62	0	129	2,595	40,848
Holding companies	0	10	4	115	71	0	1,752	0	8	0	0	790	2,749
Real estate and housing	0	150	107	63	102	0	26,093	7	168	0	0	3,513	30,203
Services	0	109	58	143	121	0	9,216	79	533	0	0	3,779	14,038
Public administration	0	2,040	237	6,110	22,477	0	5,597	42	266	0	0	1,826	38,595
Education, health and art	0	8	4	0	0	0	2,833	7	335	0	0	580	3,767
Households	0	0	340	0	0	5	68,449	104	465	0	0	9,834	79,198
Other	5	4	0	82	210	2	20	21	2	0	0	23	368
Total	1,196	5,694	2,818	8,590	26,774	23,063	157,312	1,480	4,169	0	130	42,552	273,778
Dec 18													
Agriculture and forestry	0	1	5	0	0	0	2,562	21	148	0	0	359	3,096
Mining	0	5	8	2	4	0	242	10	20	0	0	425	717
Manufacturing	0	86	28	162	62	0	10,781	490	440	0	0	5,983	18,032
Energy and water supply	0	68	21	90	32	0	3,014	50	69	0	1	803	4,147
Construction	0	7	20	19	6	0	6,248	78	237	0	0	4,803	11,417
Development of building projects	0	4	14	3	4	0	3,704	0	4	0	0	1,358	5,090
Trade	0	9	31	40	0	0	7,993	394	536	0	0	3,689	12,692
Transport and communication	0	81	168	558	253	0	3,634	52	642	0	0	2,090	7,479
Hotels and restaurants	0	5	4	1	4	0	4,020	6	74	0	0	662	4,776
Financial and insurance services	1,009	3,213	1,747	1,145	2,932	19,111	3,821	91	50	0	130	2,221	35,471
Holding companies	0	19	16	92	77	0	1,993	0	4	0	0	545	2,747
Real estate and housing	0	119	58	95	89	0	24,045	6	171	0	0	3,322	27,904
Services	0	89	73	141	174	0	8,304	78	467	0	0	3,608	12,935
Public administration	0	1,819	622	6,459	22,306	0	5,748	30	296	0	0	1,425	38,705
Education, health and art	0	8	7	0	0	0	2,626	5	336	0	1	553	3,536
Households	0	0	146	0	0	0	64,198	118	423	0	0	9,698	74,584
Other	0	5	0	117	196	0	8	13	3	0	0	32	373
Total	1,009	5,516	2,938	8,828	26,059	19,111	147,243	1,441	3,914	0	132	39,673	255,864

Credit risk exposure by industry and IFRS 9 treatment

in EUR million	Stage 1	Stage 2	Stage 3	POCI	Credit risk exposure (AC and FVOCI)	Not subject to IFRS 9 impairment	Total
Dec 19							
Agriculture and forestry	2,849	265	111	11	3,236	14	3,250
Mining	680	52	27	23	781	26	807
Manufacturing	16,043	1,805	431	46	18,324	951	19,274
Energy and water supply	3,657	558	75	4	4,294	124	4,418
Construction	10,160	862	389	31	11,441	890	12,332
Development of building projects	4,908	327	71	9	5,314	245	5,559
Trade	11,290	1,363	396	41	13,091	666	13,757
Transport and communication	6,934	462	104	5	7,506	292	7,798
Hotels and restaurants	4,314	503	243	26	5,086	41	5,126
Financial and insurance services	34,931	515	27	13	35,486	5,362	40,848
Holding companies	2,406	189	5	13	2,614	136	2,749
Real estate and housing	27,130	2,031	316	134	29,611	592	30,203
Services	11,709	1,322	243	6	13,279	759	14,038
Public administration	35,748	385	1	3	36,137	2,459	38,595
Education, health and art	3,097	417	216	0	3,730	37	3,767
Households	71,273	5,715	1,511	136	78,636	562	79,198
Other	361	0	0	0	361	7	368
Total	240,176	16,256	4,087	480	260,999	12,779	273,778
Dec 18							
Agriculture and forestry	2,571	327	134	44	3,077	19	3,096
Mining	616	34	28	20	697	20	717
Manufacturing	15,160	1,265	523	49	16,997	1,036	18,033
Energy and water supply	3,611	324	77	8	4,019	128	4,147
Construction	9,259	786	502	25	10,572	845	11,417
Development of building projects	4,508	272	56	2	4,839	251	5,090
Trade	10,935	982	449	55	12,420	272	12,692
Transport and communication	6,687	343	111	12	7,152	327	7,479
Hotels and restaurants	3,924	500	278	29	4,731	44	4,775
Financial and insurance services	29,535	515	63	15	30,127	5,339	35,467
Holding companies	2,424	102	44	14	2,584	162	2,747
Real estate and housing	25,561	1,227	427	157	27,372	532	27,904
Services	11,083	948	300	18	12,348	586	12,934
Public administration	35,793	381	1	3	36,179	2,526	38,705
Education, health and art	2,912	349	226	1	3,488	48	3,536
Households	67,276	5,212	1,584	162	74,233	351	74,584
Other	370	1	0	0	371	6	377
Total	225,292	13,193	4,704	595	243,784	12,079	255,864

Credit risk exposure by industry and risk category

in EUR million	Low risk	Management attention	Substandard	Non-performing	Total
Dec 19					
Agriculture and forestry	2,063	851	214	122	3,250
Mining	713	33	11	50	807
Manufacturing	16,376	1,942	483	474	19,274
Energy and water supply	3,654	485	199	79	4,418
Construction	9,867	1,612	435	418	12,332
Development of building projects	4,586	784	109	79	5,559
Trade	10,906	1,979	434	438	13,757
Transport and communication	6,669	712	309	108	7,798
Hotels and restaurants	3,662	928	285	251	5,126
Financial and insurance services	39,692	884	244	27	40,848
Holding companies	2,558	164	22	5	2,749
Real estate and housing	24,692	3,747	1,326	438	30,203
Services	12,202	1,245	335	254	14,038
Public administration	38,218	292	85	1	38,595
Education, health and art	2,982	413	155	216	3,767
Households	71,039	4,813	1,759	1,587	79,198
Other	306	0	61	0	368
Total	243,042	19,936	6,338	4,463	273,778
Dec 18					
Agriculture and forestry	2,026	753	136	180	3,096
Mining	620	39	11	48	717
Manufacturing	15,127	1,856	470	580	18,033
Energy and water supply	3,408	498	157	85	4,147
Construction	8,878	1,546	467	525	11,417
Development of building projects	4,180	683	169	58	5,090
Trade	9,806	1,887	489	510	12,692
Transport and communication	6,485	685	186	123	7,479
Hotels and restaurants	3,433	767	262	313	4,775
Financial and insurance services	34,271	885	231	79	35,467
Holding companies	2,501	157	30	59	2,747
Real estate and housing	23,163	3,130	1,035	576	27,904
Services	11,058	1,256	293	327	12,934
Public administration	38,236	254	209	6	38,705
Education, health and art	2,736	424	149	228	3,536
Households	64,557	6,314	1,980	1,734	74,584
Other	321	1	55	0	377
Total	224,125	20,293	6,130	5,315	255,864

Credit risk exposure by region and risk category

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

in EUR million	Low risk	Management attention	Substandard	Non-performing	Total
Dec 19					
Core markets	208,069	18,042	5,869	4,023	236,003
Austria	100,495	8,357	1,816	1,687	112,355
Czech Republic	52,422	4,515	1,147	673	58,757
Slovakia	18,851	1,305	1,544	479	22,180
Romania	15,908	1,407	559	407	18,281
Hungary	9,475	1,030	471	157	11,134
Croatia	8,506	1,093	274	598	10,472
Serbia	2,411	335	57	22	2,824
Other EU	24,839	837	226	296	26,198
Other industrialised countries	5,334	123	34	14	5,504
Emerging markets	4,800	934	210	130	6,074
Southeastern Europe/CIS	2,698	571	64	116	3,449
Asia	1,576	152	21	4	1,754
Latin America	156	18	10	9	193
Middle East/Africa	370	193	114	1	678
Total	243,042	19,936	6,338	4,463	273,778
Dec 18					
Core markets	195,827	18,419	5,790	4,757	224,792
Austria	96,632	7,692	2,065	1,953	108,342
Czech Republic	50,840	4,220	1,256	697	57,013
Slovakia	15,941	2,812	1,242	553	20,549
Romania	13,903	1,485	473	565	16,426
Hungary	8,762	832	426	198	10,218
Croatia	7,789	1,087	291	767	9,934
Serbia	1,960	291	37	23	2,311
Other EU	19,788	894	156	408	21,245
Other industrialised countries	4,807	142	35	37	5,022
Emerging markets	3,704	839	149	113	4,804
Southeastern Europe/CIS	1,798	425	77	94	2,395
Asia	1,497	138	14	3	1,653
Latin America	56	16	13	10	96
Middle East/Africa	352	260	44	5	661
Total	224,125	20,293	6,130	5,315	255,864

Credit risk exposure by region and IFRS 9 treatment

in EUR million	Stage 1	Stage 2	Stage 3	POCI	Credit risk exposure (AC and FVOCI)	Not subject to FRS 9 impairment	Total
Dec 19							
Core markets	210,624	14,007	3,715	417	228,762	7,240	236,003
Austria	97,589	9,071	1,652	30	108,343	4,012	112,355
Czech Republic	55,975	1,678	648	27	58,328	428	58,757
Slovakia	20,865	666	384	116	22,031	149	22,180
Romania	15,377	1,661	335	110	17,483	798	18,281
Hungary	9,454	295	111	94	9,955	1,179	11,134
Croatia	9,004	530	565	37	10,137	335	10,472
Serbia	2,360	105	19	2	2,486	338	2,824
Other EU	20,390	1,608	237	49	22,283	3,914	26,198
Other industrialised countries	4,601	234	14	13	4,862	643	5,504
Emerging markets	4,561	408	122	1	5,091	982	6,074
Southeastern Europe/CIS	2,928	267	114	1	3,310	138	3,449
Asia	949	34	4	0	987	767	1,754
Latin America	142	25	2	0	169	24	193
Middle East/Africa	543	81	1	0	625	53	678
Total	240,176	16,256	4,087	480	260,999	12,779	273,778
Dec 18							
Core markets	201,888	11,378	4,244	519	218,028	6,764	224,792
Austria	94,756	7,446	1,847	49	104,097	4,244	108,342
Czech Republic	54,230	1,614	672	17	56,533	479	57,013
Slovakia	19,441	441	432	133	20,448	101	20,549
Romania	14,417	1,073	450	134	16,075	351	16,426
Hungary	8,786	169	127	120	9,202	1,016	10,218
Croatia	8,276	580	696	62	9,615	319	9,934
Serbia	1,982	54	20	3	2,058	253	2,311
Other EU	15,558	1,085	338	56	17,037	4,208	21,245
Other industrialised countries	4,414	199	23	15	4,651	371	5,022
Emerging markets	3,431	531	101	6	4,069	735	4,804
Southeastern Europe/CIS	2,039	213	88	6	2,345	50	2,395
Asia	1,032	18	2	0	1,053	600	1,653
Latin America	54	14	5	0	73	22	96
Middle East/Africa	307	286	5	0	598	63	661
Total	225,292	13,193	4,704	595	243,784	12,079	255,864

Stage 1 and Stage 2 comprise not impaired credit risks while Stage 3 includes impaired credit risks. POCI (purchased or originated credit impaired) consists of credit risks already impaired when purchased or originated.

The defaulted part of POCI amounted to EUR 339 million (2018: EUR 471 million), the non-defaulted part to EUR 141 million (2018: EUR 124 million).

The credit risk exposure increased by EUR 4,013 million, or 3.7% in Austria, and by EUR 7,197 million, or 6.2% in the CEE core markets. In the other EU member states (EU 28 excluding core markets), the credit risk exposure increased by EUR 4,953 million, or 23.3%. Growth was recorded as well in other industrialised countries (EUR 482 million) and in emerging markets (EUR 1,269 million). In total, Erste Group's core markets and the EU accounted for 95.8% (2018: 96.2%) of credit risk exposure as of 31 December 2019. At 2.2% (2018: 1.9%), the share of emerging markets remained of minor importance.

Credit risk exposure by reporting segment and risk category

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

Credit risk exposure by business segment and risk category

in EUR million	Low risk	Management attention	Substandard	Non-performing	Total
Dec 19					
Retail	58,616	5,977	2,512	1,474	68,579
Corporates	67,378	6,807	2,189	1,467	77,841
Group Markets	17,962	346	133	3	18,444
ALM & LCC	41,554	121	92	75	41,842
Savings Banks	57,280	6,673	1,403	1,431	66,786
GCC	252	13	9	13	287
Total	243,042	19,936	6,338	4,463	273,778
Dec 18					
Retail	54,909	7,216	2,520	1,583	66,228
Corporates	60,200	6,353	1,973	2,048	70,573
Group Markets	25,366	389	62	2	25,819
ALM & LCC	28,769	136	89	12	29,005
Savings Banks	54,210	6,192	1,468	1,666	63,536
GCC	673	8	19	3	703
Total	224,125	20,293	6,130	5,315	255,864

Credit risk exposure by business segment and IFRS 9 treatment

in EUR million	Stage 1	Stage 2	Stage 3	POCI	Credit risk exposure (AC and FVOCI)	Not subject to IFRS 9 impairment	Total
Dec 19							
Retail	61,886	4,613	1,398	139	68,036	543	68,579
Corporates	67,684	5,489	1,203	294	74,671	3,170	77,841
Group Markets	12,199	126	2	0	12,327	6,116	18,444
ALM & LCC	41,380	78	75	0	41,533	309	41,842
Savings Banks	56,822	5,945	1,397	47	64,210	2,576	66,786
GCC	205	3	13	0	222	65	287
Total	240,176	16,256	4,087	480	260,999	12,779	273,778
Dec 18							
Retail	60,043	4,113	1,428	161	65,746	482	66,228
Corporates	62,338	3,819	1,691	372	68,219	2,354	70,573
Group Markets	19,678	290	2	0	19,970	5,849	25,819
ALM & LCC	28,668	55	12	0	28,735	271	29,005
Savings Banks	53,921	4,913	1,569	62	60,465	3,071	63,536
GCC	645	2	3	0	650	53	703
Total	225,292	13,193	4,704	595	243,784	12,079	255,864

Credit risk exposure by geographical segment and risk category

in EUR million	Low risk	Management attention	Substandard	Non-performing	Total
Dec 19					
Austria	134,745	10,174	2,309	2,324	149,551
EBOe & Subs.	41,074	2,788	584	529	44,975
Savings Banks	57,280	6,673	1,403	1,431	66,786
Other Austria	36,391	713	323	364	37,790
CEE	102,434	9,749	4,019	2,126	118,328
Czech Republic	53,611	4,596	1,161	556	59,924
Slovakia	16,553	1,291	1,541	473	19,859
Romania	13,926	1,430	559	441	16,356
Hungary	7,883	1,014	403	133	9,432
Croatia	8,649	1,102	299	501	10,551
Serbia	1,812	316	57	21	2,206
Other	5,863	13	9	13	5,899
Total	243,042	19,936	6,338	4,463	273,778
Dec 18					
Austria	123,157	9,491	2,491	2,786	137,925
EBOe & Subs.	39,353	2,547	750	636	43,286
Savings Banks	54,210	6,192	1,468	1,666	63,536
Other Austria	29,594	752	273	484	31,103
CEE	95,417	10,760	3,620	2,498	112,297
Czech Republic	51,499	4,317	1,216	561	57,594
Slovakia	14,115	2,744	1,250	487	18,596
Romania	12,917	1,485	475	603	15,480
Hungary	7,634	797	310	166	8,907
Croatia	7,734	1,126	332	660	9,852
Serbia	1,518	291	37	22	1,868
Other	5,551	42	19	30	5,642
Total	224,125	20,293	6,130	5,315	255,864

Credit risk exposure by geographical segment and IFRS 9 treatment

in EUR million	Stage 1	Stage 2	Stage 3	POCI	Credit risk exposure (AC and FVOCI)	Not subject to IFRS 9 impairment	Total
Dec 19							
Austria	124,594	11,625	2,245	69	138,534	11,017	149,551
EBOe & Subs.	39,844	3,553	523	6	43,926	1,049	44,975
Savings Banks	56,822	5,945	1,397	47	64,210	2,576	66,786
Other Austria	27,928	2,127	326	17	30,398	7,392	37,790
CEE	109,787	4,627	1,829	411	116,653	1,674	118,328
Czech Republic	57,259	1,746	525	32	59,562	362	59,924
Slovakia	18,774	511	360	135	19,780	79	19,859
Romania	14,020	1,551	370	110	16,052	303	16,356
Hungary	8,360	264	87	94	8,806	626	9,432
Croatia	9,499	488	468	37	10,493	59	10,551
Serbia	1,875	66	18	2	1,961	246	2,206
Other	5,795	3	13	0	5,811	88	5,899
Total	240,176	16,256	4,087	480	260,999	12,779	273,778
Dec 18							
Austria	115,410	9,247	2,606	102	127,365	10,560	137,925
EBOe & Subs.	38,838	2,926	597	17	42,378	908	43,286
Savings Banks	53,921	4,913	1,569	62	60,465	3,071	63,536
Other Austria	22,650	1,409	439	24	24,522	6,580	31,103
CEE	104,388	3,903	2,068	493	110,851	1,446	112,297
Czech Republic	54,940	1,728	532	21	57,220	374	57,594
Slovakia	17,666	347	347	152	18,512	85	18,596
Romania	13,760	1,052	489	134	15,435	45	15,480
Hungary	7,869	128	94	121	8,211	696	8,907
Croatia	8,549	596	589	62	9,796	57	9,852
Serbia	1,604	52	18	2	1,677	190	1,868
Other	5,495	43	30	0	5,568	74	5,642
Total	225,292	13,193	4,704	595	243,784	12,079	255,864

Non-performing credit risk exposure and credit loss allowances

For the definition of credit risk exposure classified as non-performing, please refer to the description of risk categories in the subsection 'Credit risk classification'. Credit risk allowances include credit loss allowances for financial assets, credit loss allowances for loan commitments and financial guarantees (all allowances within the scope of IFRS 9) and provisions for other commitments.

Credit loss allowances (all stages combined) covered 79.1% (2018: 74.4%) of the reported non-performing on-balance and off-balance credit risk exposure as of 31 December 2019. For the portion of the non-performing credit risk exposure that is not covered by allowances, Erste Group assumes there are sufficient levels of collateral and expected other recoveries.

During 2019, the non-performing credit risk exposure decreased by EUR 852 million, or 16.0%. The substantial improvement of asset quality resulted on one side from a strong decline of new non-performing loans, and on the other side from high recoveries and write-offs, including sales of non-performing loans. The credit loss allowances for loans and advances together with credit loss allowances for loan commitments and financial guarantees decreased by EUR 418 million, or 10.7%. The decrease of the non-performing exposure at a higher rate compared with the decrease of credit loss allowances resulted in a substantial increase of 4.7 percentage points in the coverage of the non-performing credit risk exposure by credit risk allowances.

The following tables show the coverage of the non-performing credit risk exposure by credit loss allowances (without taking into consideration collateral) as of 31 December 2019 and 31 December 2018. The differences in the credit allowance levels between the reporting segments result from the risk situation in the respective markets, different levels of collateralisation as well as the local legal environment and regulatory requirements.

The non-performing exposure ratio (NPE ratio) is calculated as the non-performing credit risk exposure divided by total credit risk exposure while the NPE coverage ratio is computed as total credit loss allowances (all allowances within the scope of IFRS 9) divided by non-performing credit risk exposure at AC and FVOCI. Collateral is not taken into account in the NPE coverage ratio.

Non-performing credit risk exposure by business segment and coverage by credit loss allowances and collateral

in EUR million	Non-performing		Credit risk exposure			Collateral for NPE		NPE ratio		NPE coverage ratio		NPE collateralisation ratio	
	Total	AC and FVOCI	Total	AC and FVOCI	AC and FVOCI	Total	AC and FVOCI	Total	AC and FVOCI	AC and FVOCI	Total	AC and FVOCI	
Dec 19													
Retail	1,474	1,472	68,579	68,036	-1,234	619	618	2.1%	2.2%	83.8%	42.0%	42.0%	
Corporates	1,467	1,441	77,841	74,671	-1,227	508	506	1.9%	1.9%	85.2%	34.6%	35.1%	
Group Markets	3	2	18,444	12,327	-13	0	0	0.0%	0.0%	>500.0%	0.0%	0.0%	
ALM & LCC	75	75	41,842	41,533	-53	48	48	0.2%	0.2%	71.6%	64.7%	64.9%	
Savings Banks	1,431	1,424	66,786	64,210	-961	707	705	2.1%	2.2%	67.5%	49.5%	49.5%	
GCC	13	11	287	222	-13	5	3	4.6%	5.1%	115.1%	39.8%	29.0%	
Total	4,463	4,425	273,778	260,999	-3,502	1,888	1,881	1.6%	1.7%	79.1%	42.3%	42.5%	
Dec 18													
Retail	1,583	1,581	66,228	65,746	-1,341	639	638	2.4%	2.4%	84.8%	40.4%	40.4%	
Corporates	2,048	2,017	70,573	68,219	-1,475	699	694	2.9%	3.0%	73.1%	34.1%	34.4%	
Group Markets	2	2	25,819	19,970	-13	0	0	0.0%	0.0%	>500.0%	0.0%	0.0%	
ALM & LCC	12	12	29,005	28,735	-33	1	1	0.0%	0.0%	285.0%	8.4%	8.8%	
Savings Banks	1,666	1,655	63,536	60,465	-1,054	803	800	2.6%	2.7%	63.7%	48.2%	48.4%	
GCC	3	1	703	650	-2	3	1	0.4%	0.1%	199.8%	98.2%	93.6%	
Total	5,315	5,268	255,864	243,784	-3,919	2,145	2,134	2.1%	2.2%	74.4%	40.4%	40.5%	

Non-performing credit risk exposure by geographical segment and coverage by credit loss allowances and collateral

in EUR million	Non-performing		Credit risk exposure		Credit loss allowances		Collateral for NPE		NPE ratio		NPE coverage ratio	NPE collateralisation ratio	
	Total	AC and FVOCI	Total	AC and FVOCI	AC and FVOCI	AC and FVOCI	Total	AC and FVOCI	Total	AC and FVOCI	AC and FVOCI	Total	AC and FVOCI
Dec 19													
Austria	2,324	2,294	149,551	138,534	-1,543	1,143	1,141	1.6%	1.7%	67.3%	49.2%	49.7%	
EBOe & Subs.	529	527	44,975	43,926	-326	289	289	1.2%	1.2%	61.7%	54.6%	54.7%	
Savings Banks	1,431	1,424	66,786	64,210	-961	707	705	2.1%	2.2%	67.5%	49.5%	49.5%	
Other Austria	364	342	37,790	30,398	-256	147	147	1.0%	1.1%	74.7%	40.3%	42.8%	
CEE	2,126	2,120	118,328	116,653	-1,945	740	737	1.8%	1.8%	91.7%	34.8%	34.8%	
Czech Republic	556	555	59,924	59,562	-534	129	129	0.9%	0.9%	96.3%	23.2%	23.3%	
Slovakia	473	473	19,859	19,780	-351	169	169	2.4%	2.4%	74.2%	35.8%	35.8%	
Romania	441	440	16,356	16,052	-497	151	151	2.7%	2.7%	112.9%	34.2%	34.2%	
Hungary	133	130	9,432	8,806	-123	78	78	1.4%	1.5%	94.6%	59.1%	59.6%	
Croatia	501	501	10,551	10,493	-409	207	205	4.7%	4.8%	81.7%	41.3%	41.0%	
Serbia	21	21	2,206	1,961	-30	5	5	1.0%	1.0%	148.5%	23.0%	23.0%	
Other	13	11	5,899	5,811	-14	5	3	0.2%	0.2%	124.8%	39.8%	29.0%	
Total	4,463	4,425	273,778	260,999	-3,502	1,888	1,881	1.6%	1.7%	79.1%	42.3%	42.5%	
Dec 18													
Austria	2,786	2,748	137,925	127,365	-1,748	1,287	1,284	2.0%	2.2%	63.6%	46.2%	46.7%	
EBOe & Subs.	636	629	43,286	42,378	-405	311	311	1.5%	1.5%	64.3%	48.9%	49.4%	
Savings Banks	1,666	1,655	63,536	60,465	-1,054	803	800	2.6%	2.7%	63.7%	48.2%	48.4%	
Other Austria	484	464	31,103	24,522	-289	173	173	1.6%	1.9%	62.2%	35.8%	37.3%	
CEE	2,498	2,491	112,297	110,851	-2,154	855	849	2.2%	2.2%	86.5%	34.2%	34.1%	
Czech Republic	561	559	57,594	57,220	-560	101	101	1.0%	1.0%	100.2%	18.1%	18.1%	
Slovakia	487	487	18,596	18,512	-367	228	228	2.6%	2.6%	75.3%	46.7%	46.7%	
Romania	603	601	15,480	15,435	-570	186	184	3.9%	3.9%	94.9%	30.8%	30.7%	
Hungary	166	163	8,907	8,211	-138	87	86	1.9%	2.0%	84.9%	52.8%	53.0%	
Croatia	660	660	9,852	9,796	-488	248	244	6.7%	6.7%	73.9%	37.5%	37.0%	
Serbia	22	21	1,868	1,677	-31	5	5	1.2%	1.3%	144.9%	23.3%	23.9%	
Other	30	28	5,642	5,568	-17	3	1	0.5%	0.5%	59.4%	9.6%	2.8%	
Total	5,315	5,268	255,864	243,784	-3,919	2,145	2,134	2.1%	2.2%	74.4%	40.4%	40.5%	

Expected credit loss measurement

The general principles and standards for credit loss allowances are governed by internal policies in Erste Group. According to IFRS 9, credit loss allowances are calculated for all components of credit risk exposures which are measured at amortised cost (AC) or at fair value through other comprehensive income. They include debt securities, loans and advances, demand deposits on nostro accounts with commercial banks as well as finance lease and trade receivables. Also, credit loss allowances are calculated for loan commitments and financial guarantees if they meet the applicable IFRS 9 definitions.

According to IFRS 9, there are three main stages outlined for expected credit loss (ECL) determination. Stage 1 includes financial instruments which are not credit-impaired at initial recognition and for which credit risk has not increased significantly since initial recognition. In Stage 1, credit loss allowances are calculated as twelve-month ECL.

If a significant increase in credit risk (SICR) since initial recognition is identified but the financial instrument is not yet deemed to be credit-impaired, it is moved to Stage 2. For financial instruments in Stage 2 the ECL is measured on a lifetime (LT) basis. If the financial instrument is credit-impaired, the financial instrument is then moved to Stage 3. For financial instruments in Stage 3 the ECL is measured on a LT basis.

Purchased or originated credit-impaired (POCI) financial instruments are those financial instruments that are credit-impaired on initial recognition. Their ECL is always measured on LT basis.

For more information about classification into stages refer to part 'Classification into stages and definition of credit-impaired financial instruments' below.

Key judgments, inputs and assumptions adopted by the Group in addressing the IFRS 9 requirements of the standard are presented below.

Significant increase in credit risk determination

Assessment of significant increase in credit risk of financial instruments as at the reporting date since initial recognition is one of the key drivers affecting the amount of the ECL recognised based on IFRS 9 requirements. In this respect, across portfolios and product types, quantitative and qualitative indicators are defined for assessing SICR, including the indicator of 30 days-past-due (DPD).

Quantitative criteria

Quantitative SICR indicators include adverse changes in annualised lifetime probability of default and in lifetime probability of default with significance being assessed by reference to a mix of relative and absolute change thresholds. The bank has established thresholds for significant increases in credit risk based on both a percentage (relative) and absolute change in PD compared to initial recognition. In order for the SICR to occur for a particular financial instrument, both the relative and absolute thresholds need to be breached.

The relative measure is calculated as a ratio between current annualised PD and annualised PD value on initial recognition. The breach means that such ratio has reached or is higher than the established threshold. These relative thresholds for SICR assessment are established at PD segment level or client rating level for each consolidated entity, as necessary, and are subject to initial and on-going validation. The absolute threshold refers to difference of LT PD on initial recognition and current LT PD. It is set to a maximum of 50 bps and serves as a back-stop for migrations between the best ratings (LT PDs considered for remaining maturity). In such cases, relative thresholds may be breached, however overall PD is very low, and therefore SICR is not positively concluded.

Sensitivity of ECL on relative threshold changes

The table below presents relative threshold intervals as applied at Erste Group and a sensitivity analysis on how changes in the relative thresholds would affect ECL per geographical segment.

Relative thresholds for SICR assessment by geographical segment

in EUR million	Threshold interval (x times)		Threshold change +/-0.5		Threshold change +/-1	
	Min	Max	ECL impact decrease	ECL impact increase	ECL impact decrease	ECL impact increase
Dec 19						
Austria	1.13	2.37	+50.3	-28.9	+69.9	-73.4
EBOe & Subs.	1.13	2.37	+11.7	-6.0	+16.9	-13.8
Savings Banks	1.13	2.37	+28.4	-17.4	+38.5	-44.2
Other Austria	1.13	2.37	+10.2	-5.6	+14.4	-15.5
CEE	1.03	4.41	+22.1	-32.4	+37.1	-79.3
Czech Republic	1.13	3.59	+4.2	-13.5	+8.9	-35.7
Slovakia	1.13	4.41	+3.6	-5.0	+6.0	-12.8
Romania	1.13	3.36	+9.1	-8.6	+14.5	-16.7
Hungary	1.13	3.21	+3.1	-2.7	+4.1	-3.1
Croatia	1.13	3.13	+1.1	-1.9	+2.2	-7.5
Serbia	1.03	3.47	+1.1	-0.7	+1.3	-3.5
Total	1.03	4.41	+72.4	-61.4	+107.0	-152.7
Dec 18						
Austria	1.13	2.37	+36.1	-19.9	+42.6	-32.1
EBOe & Subs.	1.13	2.37	+11.6	-4.9	+13.3	-8.6
Savings Banks	1.13	2.37	+23.7	-11.5	+28.4	-18.0
Other Austria	1.13	2.37	+0.8	-3.5	+0.9	-5.5
CEE	1.03	4.41	+28.7	-17.1	+62.5	-29.4
Czech Republic	1.13	3.59	+14.7	-6.9	+29.9	-11.5
Slovakia	1.13	4.41	+4.1	-2.1	+8.4	-3.6
Romania	1.13	3.36	+5.4	-4.8	+9.6	-9.3
Hungary	1.13	3.57	+1.0	-0.9	+3.3	-1.5
Croatia	1.13	3.13	+2.7	-0.8	+9.7	-1.8
Serbia	1.03	3.47	+0.8	-1.6	+1.6	-1.7
Total	1.03	4.41	+64.8	-37.0	+105.1	-61.5

Sensitivity is calculated by adding/subtracting the values indicated from the current threshold level. The ECL impact increase/decrease refers to increasing/lowering the threshold (i.e. if the current threshold is 2.37 and the sensitivity is 0.5, then the increase refers to a threshold of 2.87 and the decrease to a threshold of 1.87, so an increase leads to release of ECL and a decrease to additional allocation). Effects of the threshold changes by +/- 0.5 and +/- 1 are shown, however the threshold is floored to 1, since values of the ratio below 1 indicate creditworthiness improvement (i.e. if the threshold is 1.13, values used for sensitivity analysis for +/- 0.5 would decrease the threshold to 1 and increase the threshold to 1.63).

Thresholds might seem to show high dispersion, but they are driven mainly by regional and rating diversity. Regions with higher credit quality portfolios have lower thresholds than those with lower credit quality portfolios. The minimal threshold in almost all regions of 1.13 refers to sovereign rating classes that are centrally established. The average threshold of the Group is between 2 and 3.

There are certain portfolios where SICR quantitative criteria are assessed based on the ratings rather than PDs. The main rule in those cases is that downgrading of the ratings would lead to a positive conclusion on SICR. These rules are applied primarily to leasing and factoring business receivables.

For migration back to Stage 1 there are no additional cure periods established for quantitative criteria other than those already established in general credit risk practice (e.g. for rating improvement).

Qualitative criteria

Qualitative SICR indicators include forbearance-type flags (identification of regulatory forbearance), work-out transfer flags (when the account starts being monitored by the work-out department), information from the early-warning system (if it is not sufficiently considered in the rating) and fraud indicators. The assignment of some of the qualitative indicators inherently relies on experienced credit risk judgment being exercised adequately and in a timely manner. The related group-wide and entity-level credit risk controlling policies and procedures (adapted as necessary in the light of transition to IFRS 9) ensure the necessary governance framework. These indicators are used internally for identification of insolvency or increased probability that a borrower will enter bankruptcy and there is increased risk of default in the foreseeable future.

Besides the qualitative indicators defined on a client level, the assessment of a significant increase in credit risk is performed on a portfolio level if the increase in credit risk on individual instruments or at a client level is available only with a certain time lag or is observable exclusively on a portfolio level.

Examples are stage 2 overrides for parts of Swiss franc retail portfolio or in case of high LTV loans resulting from a specific law in Romania (clients are allowed to give up on real estate collateral against waiver of principal).

For migration back to Stage 1 there are no additional cure periods established for qualitative criteria other than those already established in general credit risk practice for the above-mentioned flags (forbearance, watch lists).

Backstop

A backstop is applied and the financial instruments are considered to have experienced a SICR if the borrower is more than 30 days past due on contractual payments. As observed during validation, this does not represent a major trigger for Stage 2 classification.

Low credit risk exemption

The 'low credit risk exemption' allowed by IFRS 9 for 'investment grade' assets or other assets deemed 'low risk' (and resulting in 12 months expected credit losses being calculated irrespective of SICR quantitative measures) has been implemented with limitations in Erste Group. Thus, the potential activation of this exemption is limited to particular types of debt instruments and counterparty categories, and only if supported by sufficient 'low risk' evidence. On this basis, the 'low risk exemption' is expected to occasionally apply to some debt security exposures and only exceptionally to loans.

As of 31 December 2019, low credit risk exemption is applied only to debt securities in the Czech subsidiary (Česká spořitelna) and sovereign exposures in the Romanian subsidiary (Banca Comercială Română). In Česká spořitelna, the corresponding exposure amounted to EUR 10.2 billion (2018: EUR 10.3 billion) with PDs interval of 0.01%-0.5%. In Banca Comercială Română, the respective exposure amounted to EUR 4.3 billion (2018: not existing) with PD interval of 0.01%-0.5%.

Measuring ECL – explanation of inputs and measurement

Credit loss allowances are calculated individually or collectively.

The individual calculation approach is applied in case of exposures to significant defaulted customers in Stage 3 or POCI. It consists in the individual assessment of the difference between the gross carrying amount and the present value of the expected cash flows, which are estimated by workout or risk managers. The discounting of the cash flows is based on the effective interest rate (POCI: credit-adjusted effective interest rate). However, the discount rate for financial guarantees shall reflect the current market assessment of the time value of money and the risks that are specific to the cash flows which in Erste Group's implementation means using a risk free rate as a proxy.

A defaulted customer is classified as individually significant if the total on- and off-balance exposure exceeds a predefined materiality limit. Otherwise, the customer is considered insignificant and a rule-based (collective) approach is used for the calculation of the related credit loss allowance as the product of gross carrying amount and LGD, where the LGD depends on characteristics such as time in default or the stage of the workout process.

For exposures to non-defaulted customers (i.e. in Stage 1 and Stage 2), collective allowances are calculated according to a rule-based approach irrespective of the significance of the customer. The calculation of collective allowances requires grouping the related exposures into homogenous clusters on the basis of shared risk characteristics. The grouping criteria may differ based on the customer segment (retail, corporate) and include product type, collateral type, repayment type, loan to value band, and credit rating band.

The calculation of credit loss allowances is done on a monthly basis on a single exposure level and in the contractual currency of the exposure. To compute the collective credit loss allowance, Erste Group applies an expected credit loss (ECL) model based on a three-stage approach that leads to either a 12-month ECL or to a lifetime ECL. ECL is the discounted product of exposure at default (EAD) that also includes a credit conversion factor in the case of off-balance sheet exposures, probability of default (PD) and loss given default (LGD), defined as follows:

- _ PD represents the likelihood of a borrower defaulting on its financial obligation (per definition of default below), either over next 12 months (1Y PD) for Stage 1 exposures or over the remaining lifetime (LT PD) for Stage 2 and 3 and POCI exposures.
- _ EAD is based on the amounts Erste Group expects to be owed at the time of default, over next 12 months (1Y EAD) for Stage 1 exposures, or over the remaining lifetime (LT EAD) for Stage 2 and 3 and POCI exposures. The estimation includes current balance, expected repayments and expected drawings up to the current contractual limit by the time of default.
- _ LGD represents the Erste Group's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit exposure at the time of default (EAD).

Life-time parameters

The LT PD is developed through observation of historical defaults from initial recognition through the life-time of the loans. It is assumed to be the same across all assets in the same portfolio and rating band.

The 1Y and LT EADs are determined based on the expected payment profiles, which vary by product type. The LT EAD calculation utilises repayment schedule or repayment type (annuity, linear, bullet). In the case of undrawn commitments, credit conversion factor is estimated for reflecting the expected credit exposure in the EAD.

The LGD is estimated as a lifetime curve for any point in time, based on historical loss observations.

The risk parameters used in the ECL calculation take into account available information at the reporting date about past events, current conditions and forecasts on future economic trends. Generally, the risk parameters applied in the calculation of collective allowances differ from the risk parameters compliant with capital requirement regulations, calculated on a through-the-cycle basis, if the characteristics of the respective portfolio in combination with IFRS standards necessitate this.

Incorporation of forward-looking information

Parameters are determined to reflect the risk as a 'point-in-time' measure and with consideration of forward-looking information (FLI). This results in using a baseline forecast and a number of alternative scenarios for selected macroeconomic variables. The alternative scenarios are derived, together with their probabilities of occurrence, as a deviation from baseline forecasts, where the baseline forecasts are, with a few exceptions, internally determined by Erste Group's research department. Given multiple scenarios, the 'neutral' PDs (and, with a few exceptions, also LGDs) are adjusted using macro models that link relevant macroeconomic variables with risk drivers. The same macro-shift models as for external and internal stress test are used. Forward-looking information is incorporated for first three years of ECL measurement. Measurement of the parameters for the remaining lifetime returns back to through-the-cycle observations immediately in year four.

Thus, the unbiased probability-weighted ECL considering FLI is derived using the weights representing the probability of occurrence of each macroeconomic scenario. Typical macroeconomic variables may include real gross domestic product, unemployment rate, inflation rate, production index as well as market interest rates. The selection of variables also depends on the availability of reliable forecasts for the given local market. Nevertheless, the main indication of estimated economic development is the GDP development.

Baseline, upside and downside scenarios of GDP growth by geographical segment

GDP growth in %	Scenario	Probability weight	2019	2020	2021	2022
Dec 19						
Austria	Upside	11%	1.7	3.1	3.2	3.1
	Baseline	50%	1.7	1.6	1.7	1.6
	Downside	39%	1.7	-0.2	-0.1	-0.2
Czech Republic	Upside	13%	2.6	4.6	4.7	4.8
	Baseline	50%	2.6	2.6	2.7	2.8
	Downside	37%	2.6	0.1	0.2	0.3
Slovakia	Upside	12%	3.4	5.7	5.3	5.2
	Baseline	50%	3.4	3.3	2.9	2.8
	Downside	38%	3.4	0.1	-0.3	-0.4
Romania	Upside	10%	4.5	6.9	6.5	5.0
	Baseline	50%	4.5	3.8	3.4	1.9
	Downside	40%	4.5	0.3	-0.1	-1.6
Hungary	Upside	7%	4.1	5.0	4.4	4.3
	Baseline	50%	4.1	3.2	2.6	2.5
	Downside	43%	4.1	0.6	0.0	-0.1
Croatia	Upside	10%	3.2	4.1	5.3	6.3
	Baseline	50%	3.2	2.5	2.4	2.4
	Downside	40%	3.2	0.9	-0.5	-1.5
Serbia	Upside	10%	3.3	5.7	6.2	n/a
	Baseline	50%	3.3	3.5	4.0	n/a
	Downside	40%	3.3	1.1	1.6	n/a
			2018	2019	2020	2021
Dec 18						
Austria	Upside	34%	2.8	3.7	3.3	3.1
	Baseline	50%	2.8	2.2	1.8	1.6
	Downside	16%	2.8	0.4	0.0	-0.2
Czech Republic	Upside	14%	3.6	5.1	4.9	4.8
	Baseline	50%	3.6	3.1	2.9	2.8
	Downside	36%	3.6	0.8	0.6	0.5
Slovakia	Upside	25%	3.9	6.2	5.6	5.5
	Baseline	50%	3.9	4.2	3.6	3.5
	Downside	25%	3.9	1.6	1.0	0.9
Romania	Upside	34%	4.0	6.3	6.8	6.4
	Baseline	50%	4.0	3.4	3.9	3.5
	Downside	16%	4.0	0.5	0.9	0.5
Hungary	Upside	41%	4.7	4.6	3.8	3.8
	Baseline	50%	4.1	3.3	2.5	2.5
	Downside	9%	3.0	1.1	0.3	0.3
Croatia	Upside	32%	2.8	4.2	5.5	5.3
	Baseline	50%	2.8	2.7	2.6	2.7
	Downside	18%	2.8	1.2	-0.3	0.1
Serbia	Upside	25%	2.9	4.8	n/a	n/a
	Baseline	50%	2.9	3.0	n/a	n/a
	Downside	25%	2.9	1.1	n/a	n/a

In order to show impact of the macro scenarios on the stage composition and ECL development we present sensitivity analyses of the applied shifts in the table below. We show split of the current exposure and ECL on the performing portfolio and movements in exposures between stages and resulted changes in ECL.

Sensitivity Analysis

in EUR million	Current status parameters (FLI shifted)				Point in time parameters (before FLI shift)			
	Risk relevant exposure		ECL		Risk relevant exposure change		ECL change	
	Stage 1	Stage 2	Stage 1	Stage 2	Stage 1	Stage 2	Stage 1	Stage 2
Dec 19								
Austria	124,594	11,625	-173	-290	+1,159.5	-1,159.5	+2.2	+42.2
EBOe & Subs	39,844	3,553	-37	-69	+264.8	-264.8	+1.0	+8.0
Savings Banks	56,822	5,945	-108	-179	+632.7	-632.7	+1.5	+22.8
Other Austria	27,928	2,127	-28	-42	+261.9	-261.9	-0.3	+11.3
CEE	109,787	4,627	-252	-317	+444.3	-444.3	+24.3	+48.5
Czech Republic	57,259	1,746	-78	-84	+82.3	-82.3	+1.1	+4.7
Slovakia	18,774	511	-39	-38	+21.8	-21.8	-0.3	+2.4
Romania	14,020	1,551	-47	-135	+251.1	-251.1	+4.5	+32.1
Hungary	8,360	264	-16	-27	+58.2	-58.2	+5.1	+7.8
Croatia	9,499	488	-61	-27	+23.1	-23.1	+11.7	+1.0
Serbia	1,875	66	-10	-6	+7.7	-7.7	+2.2	+0.6
Other	5,795	3	0	0	-	-	-	-
Total	240,176	16,256	-425	-607	+1,603.8	-1,603.7	+26.4	+90.7
Dec 18								
Austria	115,410	9,247	-175	-244	+153.2	-153.2	+1.6	+10.2
EBOe & Subs	38,838	2,926	-44	-64	+28.2	-28.2	+0.6	+1.9
Savings Banks	53,921	4,913	-100	-152	+93.6	-93.6	+0.6	+5.8
Other Austria	22,650	1,409	-31	-28	+31.3	-31.3	+0.4	+2.5
CEE	104,388	3,903	-261	-294	+156.6	-156.6	+4.0	+25.2
Czech Republic	54,940	1,728	-98	-92	+97.5	-97.5	+1.4	+8.1
Slovakia	17,666	347	-39	-35	-27.0	+27.0	+0.0	-2.4
Romania	13,760	1,052	-38	-113	+69.5	-69.5	+4.3	+19.0
Hungary	7,869	128	-18	-17	-1.9	+1.9	-0.2	-0.2
Croatia	8,549	596	-58	-31	+9.5	-9.5	-3.6	+0.4
Serbia	1,604	52	-9	-8	+8.9	-8.9	+2.1	+0.3
Other	5,495	43	0	-1	-	-	-	-
Total	225,292	13,193	-436	-540	+309.8	-309.8	+5.6	+35.4

In the ECL change from the above table the positive sign (+) means a release while the negative sign (-) means an allocation. Values presented as sensitivities are results of the internal simulations.

Erste Group forecast led to the higher effects of the FLI adjustments on the credit risk parameters as depicted in the sensitivity tables. It is as well visible in threshold sensitivity, where comparatively more conservative risk parameters led to higher sensitivity to threshold stages as depicted in threshold sensitivity table above.

Classification into stages and definition of credit-impaired financial instruments

The three-stage approach applies to financial instruments within the scope of the impairment requirements of IFRS 9 and those that are not categorised as purchased or originated credit-impaired financial assets (POCI), which form a category of their own. Depending on the impairment status and the assessment of the development of credit risk, these financial instruments are assigned to one of the three stages.

Stage 1 includes not credit-impaired financial instruments at initial recognition and not credit-impaired financial instruments without a significant increase in credit risk since initial recognition, irrespective of their credit quality, or subject to the 'low risk exemption' allowed by IFRS 9. Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months.

Stage 2 includes not credit-impaired financial instruments with a significant increase in credit risk since initial recognition and not subject to the 'low credit risk exemption' allowed by IFRS 9. Also, Stage 2 includes trade receivables without significant financing component to which the 'simplified approach' is applied mandatorily based on IFRS 9 requirements. In stage 2, the credit loss allowances are calculated as lifetime ECL. In the case of drawings by non-defaulted customers on previously committed credit lines, the whole exposure (on-balance and off-balance) is categorised as either Stage 1 or Stage 2 depending on the development of credit risk between the commitment date and the drawing date.

Stage 3 includes financial instruments that are credit-impaired at the reporting date but were not credit-impaired at initial recognition. In principle, a financial instrument becomes credit-impaired when the customer defaults. The default definition applied in Erste Group has been developed in accordance with EBA/GL/2016/07 'Guidelines on the application of the definition of default under Article 178 of Regulation (EU) No 575/2013' and 'Commission Delegated Regulation (EU) 2018/171 of 19 October 2017 on supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards for the materiality threshold for credit obligations past due'. The definition specifies the rules for default contagion across groups of connected clients and clarifies the concept of technical default. Erste Group generally applies a customer view in applying the default definition, which leads to an impairment of all claims even if the customer

defaults only on one of several transactions ('pulling effect'). On the other hand, an upgrade to a non-defaulted rating grade implies that the total exposure ceases to be impaired. In stage 3, credit loss allowances are calculated as lifetime ECLs.

POCI includes financial instruments that were credit-impaired at initial recognition, irrespective of whether they are still credit-impaired at the reporting date. Expected credit losses against POCI exposures are always calculated on a lifetime basis (cumulative changes in lifetime ECL since initial recognition), and are reflected in the credit-adjusted effective interest rate at initial recognition. As a result, no loss allowance is recognised at inception. Subsequently, only adverse changes in lifetime expected credit losses after the initial recognition are recognised as loss allowance, whilst favourable changes are recognised as impairment gains increasing the gross carrying amount of the POCI financial assets.

Composition of credit loss allowances

in EUR million	Dec 18	Dec 19
Credit loss allowances	-3,590	-3,209
Credit loss allowances for loan commitments and financial guarantees	-329	-293
Provisions for other commitments	-14	-17
Total	-3,933	-3,518

Credit loss allowances are computed based on IFRS 9 requirements, while provisions for other commitments are subject to IAS 37.

Restructuring, renegotiation and forbearance

Restructuring means contractual modification of any of the customer's loan repayment conditions including tenor, interest rate, fees, principal amount due or a combination thereof. Restructuring can be business restructuring (in the retail segment), commercial renegotiation (in the corporate segment), or forbearance (e.g. concession due to financial difficulties) in line with EBA requirements in both segments.

Restructuring and renegotiation

Restructuring as business restructuring in the retail segment or as commercial renegotiation in the corporate segment is a potential and effective customer retention tool involving re-pricing or the offering of an additional loan or both in order to maintain the bank's valuable, good clientele.

Forbearance

The definition of 'forbearance' is included in Regulation (EU) 2015/227. A restructuring is considered 'forbearance' if it entails a concession towards a customer facing or about to face financial difficulties in meeting their contractual financial commitments. A borrower is in financial difficulties if any of the following conditions are met:

- _ the customer was more than 30 days past due in the past 3 months;
- _ the customer would be 30 days past due or more without receiving forbearance;
- _ the customer is in default;
- _ the customer would default without receiving forbearance.

Additional criteria for non-retail segment:

- _ early warning signals for this customer identified;
- _ customer has deteriorated financial figures, which led to decline of the rating grade;
- _ customer has increased probability of default.

Forborne exposure is assessed at loan contract level and means only the exposure to which forbearance measures have been extended and excludes any other exposure the customer may have, as long as no forbearance was extended to these.

Concession means that any of the following conditions are met:

- _ modification/refinancing of the contract would not have been granted, had the customer not been in financial difficulty;
- _ there is a difference in favour of the customer between the modified/refinanced terms of the contract and the previous terms of the contract;
- _ the modified/refinanced contract includes more favourable terms than other customers with a similar risk profile would have obtained from the same institution;
- _ the contract modification involves total or partial cancellation of the debt by (partial) write-off;
- _ activation of embedded forbearance clause of the contract;
- _ any waiver of a material financial or non-financial covenant.

Forbearance can be initiated by the bank or by the customer (on account of loss of employment, illness etc.). Components of forbearance can be instalment reduction, tenor extension, interest reduction or forgiveness, principal reduction or forgiveness, revolving exposure change to instalment and/or others.

Forbearance measures are divided and reported as:

- _ performing forbearance (incl. performing forbearance under probation that was upgraded from non-performing forbearance);
- _ non-performing forbearance (incl. defaulted forbearance; since 10/2019 the definition of non-performing status is aligned with default).

Forborne exposures are considered performing when:

- _ the exposure did not have non-performing status at the time the extension of or application for forbearance was approved;
- _ granting the forbearance has not led to classifying the exposure as non-performing/default.

Performing forborne exposures become non-performing when one of the following forbearance classifications is fulfilled during the monitoring period of a minimum two years:

- _ an additional forbearance measure is extended;
- _ the customer becomes more than 30 days past due on forborne exposure and in the past the customer was in the non-performing forbearance category;
- _ the customer meets any of the default event criteria defined in the default definition;
- _ for corporate customers, when a final restructuring agreement cannot be concluded within 18 months after the first forbearance measure.

The performing forbearance classification can be discontinued and the account can become a non-forborne account when all of the following conditions are met:

- _ a minimum of two years have passed from the date of classifying the exposure as performing forbearance (probation period);
- _ under the forborne payment plan, at least 50% of the original (pre-forbearance) instalment has been regularly repaid (significant repayment) at least during half of the probation period (in the case of retail customers);
- _ regular repayments in a significant amount during at least half of the probation period have been made (in the case of non-retail customers);
- _ significant repayment includes amount previously past-due (if any) or written-off (if no-past due amounts) for both segments retail and non-retail;
- _ none of the exposure of the customer is more than 30 days past due at the end of the probation period.

The non-performing forbearance classification can be discontinued and reclassified as performing under probation when all of the following conditions are met:

- _ one year has passed from the date of classifying the exposure as non-performing forbearance or from the latest of the following events:
 - _ the moment of extending the restructuring measure;
 - _ the end of the grace period included in the restructuring agreement;
 - _ the moment when the exposure has been classified as defaulted.
- _ the forbearance has not led the exposure to be classified as non-performing;
- _ the customer is not classified as defaulted according to the definition of default;
- _ retail customers: the customer has demonstrated the ability to comply with the post-forbearance conditions by either of the following:
 - _ the customer has never been more than 30 days past due during the 12 months prior to the reclassification and there is no delinquent amount;
 - _ the customer has repaid the full past due amount or the written-off amount (if there was any).
- _ corporate customers: significant amount has been paid in regular repayments, analysis of financial development that leaves no concern about future compliance with post-forbearance terms and conditions. Furthermore, the customer has never been more than 30 days past due during the 12 months prior to the reclassification and there is no delinquent amount.

In the corporate segment, recognition of forbearance measures typically leads to the involvement of the responsible local workout unit. The largest part of the forbearance measures are set and monitored within the responsibility of the local workout units according to the internal regulations and standards for the workout involvement. Forbearance measures are defined as qualitative trigger events in the SICR concept according to the internal regulations of Erste Group.

Default definition

Since October 2019 Erste Group has implemented the new definition of default, based on regulatory joint decision, in all entities using IRB approach to comply with the EBA 'Guidelines on the application of the definition of default under Art.178 of Regulation (EU) No 575/2013' and 'Commission Delegated Regulation (EU) 2018/171 of 19 October 2017 on supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards for the materiality threshold for credit obligations past due'. The impact of the modified default definition is immaterial. Erste Group follows the two-step approach of the European Central Bank which requires the adjustment of the risk parameters and recalibration of rating systems as a second step afterwards.

Entities with standardized approach have to implement the new Group Forbearance, Non-performing and Default Definition Policy latest by end of 2020. The group requirements stipulated in the Group policy cover the EBA requirements given in the Guidelines on the application of default definition (EBA GL 2016-07). Deviations to the group requirements are allowed only if are triggered by local regulatory requirements.

The definitions of non-performing and default are aligned within Erste Group.

The materiality of 90 days past due credit obligation is applied for on-balance exposure at client level and assessed daily against the group-wide defined materiality threshold (except the local regulator has defined different thresholds) for the:

- _ retail exposure: as an absolute limit on client level of 100 EUR and relative 1% on client level;
- _ non-retail exposure: as an absolute limit on client level of 500 EUR and relative 1% on client level.

Credit risk exposure, forbearance exposure and credit loss allowances

in EUR million	Loans and advances	Debt securities	Other positions	Loan commitments	Total
Dec 19					
Gross exposure	186,507	37,699	18,347	31,225	273,778
thereof gross forbome exposure	2,213	3	0	96	2,313
Performing exposure	182,363	37,695	18,147	31,110	269,316
thereof performing forbome exposure	910	0	0	30	939
Credit loss allowances for performing exposure	-869	-23	-72	-79	-1,042
thereof credit loss allowances for performing forbome exposure	-33	0	0	-4	-37
Non-performing exposure	4,144	4	200	115	4,463
thereof non-performing forbome exposure	1,303	3	0	67	1,373
Credit loss allowances for non-performing exposure	-2,315	-2	-128	-32	-2,476
thereof credit loss allowances for non-performing forbome exposure	-662	-2	0	-11	-675
Dec 18					
Gross exposure	171,996	37,537	17,528	28,802	255,864
thereof gross forbome exposure	2,486	3	0	95	2,584
Performing exposure	167,133	37,508	17,241	28,667	250,549
thereof performing forbome exposure	857	0	0	27	884
Credit loss allowances for performing exposure	-825	-16	-73	-70	-984
thereof credit loss allowances for performing forbome exposure	-42	0	0	-2	-44
Non-performing exposure	4,862	30	288	135	5,315
thereof non-performing forbome exposure	1,629	3	0	68	1,700
Credit loss allowances for non-performing exposure	-2,748	-2	-153	-47	-2,951
thereof credit loss allowances for non-performing forbome exposure	-764	-2	0	-16	-781

Types of forbearance exposure

in EUR million	Gross forbome exposure	Modification in terms and conditions	Refinancing
Dec 19			
Loans and advances	2,213	1,933	280
Debt securities	3	3	0
Loan commitments	96	82	14
Total	2,313	2,019	294
Dec 18			
Loans and advances	2,486	2,188	298
Debt securities	3	3	0
Loan commitments	95	79	16
Total	2,584	2,271	314

Loans and advances also include lease, trade and other receivables.

Credit quality of forbearance exposure by geographical segment

in EUR million	Gross forbore exposure	Neither past due nor credit impaired	Past due but not credit impaired	Credit impaired	Collateral	Credit loss allowances
Dec 19						
Austria	1,476	686	41	749	796	-354
EBOe & Subs.	337	177	13	147	212	-57
Savings Banks	953	476	28	449	538	-208
Other Austria	187	33	1	153	45	-89
CEE	837	220	28	588	218	-358
Czech Republic	136	29	2	105	35	-67
Slovakia	257	75	15	167	76	-93
Romania	227	56	2	169	53	-112
Hungary	41	15	2	24	25	-12
Croatia	159	41	1	117	25	-70
Serbia	17	6	6	6	4	-5
Other	0	0	0	0	0	0
Total	2,313	906	69	1,337	1,014	-712
Dec 18						
Austria	1,597	642	42	913	851	-428
EBOe & Subs.	368	185	7	176	212	-84
Savings Banks	945	437	26	482	528	-233
Other Austria	284	20	9	256	112	-112
CEE	987	248	30	709	338	-397
Czech Republic	124	41	0	83	35	-53
Slovakia	271	69	10	192	135	-99
Romania	298	72	10	216	73	-147
Hungary	48	18	6	24	23	-16
Croatia	233	41	3	189	71	-78
Serbia	13	7	1	5	2	-4
Other	0	0	0	0	0	0
Total	2,584	890	72	1,622	1,190	-825

Collateral

Recognition of credit collateral

The Collateral Management department is a staff unit within the Corporate Portfolio Monitoring and Management Department. The Group Collateral Management Policy Part 1 defines, among other things, uniform valuation standards for credit collateral across the entire group. It ensures that the credit risk decision processes are standardised with respect to accepted collateral values.

All collateral types acceptable within the group are contained in the Group Collateral Catalogue. Locally permitted collateral is defined by the respective bank in accordance with applicable national legal provisions. The valuation and revaluation of collateral is done according to the principles defined in the Group Collateral Catalogue broken down by collateral type and based on the internal work instructions in accordance with the individual supervisory requirements. Whether a type of collateral or a specific collateral asset is accepted for credit risk mitigation is decided by Enterprise-wide Risk Management after determining if the applicable regulatory requirements are met. Credit underwriting monitors adherence to the standard work processes stipulated for assigning the acceptable collateral assets to the categories available.

Main types of credit collateral

The following types of credit collateral are accepted:

- _ real estate: residential and commercial real estate;
- _ financial collateral: securities, cash deposits and life insurance policies;
- _ guarantees: given by sovereigns, public sector entities, financial institutes, companies and individuals. All guarantors must have a minimum credit rating, which is reviewed annually;
- _ movables: equipment, investment goods, machinery and motor vehicles;
- _ claims and rights: trade account receivables, leasehold rights and shares in a company's capital.

Collateral valuation and management

Collateral valuation is based on current market prices while taking into account an amount that can be recovered within a reasonable period. The valuation processes are defined and their IT-supported technical application is performed by Collateral Management at group level and by authorised staff in each country with the assistance of software applications. The allocated collateral values are capped by the amount of the secured transaction. Therefore, imputed excess collateral values are not possible. Only independent appraisers not involved in the lending decision process are permitted to conduct real estate valuations, and the valuation methods to be applied are defined by the bank. For quality assurance purposes, the real estate evaluation mechanism and real estate valuations are validated on an ongoing basis.

The methods and discounts used for valuations are based on empirical data representing past experience of the workout departments and on the collected data on recoveries from realising collateral. The valuation methods are adjusted regularly – at least once a year – to reflect current recoveries.

The revaluation of collateral is done periodically and is automated as far as possible. In the case of external data sources, the appropriate interfaces are used. The maximum periods for the revaluation of individual collateral assets are predefined and compliance is monitored by risk management using software applications. Apart from periodic revaluations, collateral is assessed when information becomes available that indicates a decrease in the value of the collateral for exceptional reasons.

Concentration risks resulting from credit risk mitigation techniques may affect a single customer, but also a portfolio defined by region, industry, or type of collateral. Erste Group is a retail bank, and, due to its customer structure and the markets in which it operates, it does not have any concentrations with respect to collateral from customers. All guarantee liabilities and loans of a corporate guarantee provider are taken into consideration in the credit application process in order to prevent possible concentrations. Guarantees provided by sovereigns, a public sector entity or financial institutions have to lie within the approved limit of the guarantor. Concerning other areas of a potentially detrimental correlation of risks, the collateral portfolios are analysed using statistical evaluations for, among other things, regional or industry-specific concentrations within the scope of portfolio monitoring. The response to those risks identified includes, above all, the adjustment of volume targets, setting of corresponding limits and modification of the staff's discretionary limits for lending.

Collateral obtained in foreclosure proceedings is made available for sale in an orderly fashion, with the proceeds used to reduce or repay the outstanding claim. Generally, Erste Group does not occupy repossessed properties for its own business use. The main part of assets taken onto its own books is commercial land and buildings. In addition, residential real estate properties and transport vehicles are taken into Erste Group's possession. As of 31 December 2019, the carrying value of these assets obtained during the reporting period amounted to EUR 9 million (2018: EUR 488 million).

Treasury collateral

The department Trading Book Risk Management is responsible for treasury collateral. The Group Collateral Management Policy Part 2 defines, among other things, uniform valuation standards for treasury collateral across the entire group.

Under the framework of treasury collateral, netting agreements (international framework agreements for derivatives of the International Swap and Derivatives Association (ISDA), Austrian or German framework agreements, framework agreements for securities lending transactions and repurchase deals) as well as collateral agreements (e.g. ISDA Credit Support Annex) are used for reducing the credit risk from derivatives.

Netting agreements make it possible to net all amounts due or payable for each individual transaction under a framework agreement in the case of a credit default, with the result that only the net receivables vis-à-vis the business partner are of relevance for credit risk. Within the scope of these collateral agreements, the portfolio with the respective counterparty is revalued periodically, usually daily, and in case of insufficient coverage additional collateral is requested. The policy restrictions on collateral types ensure that collateral received predominantly consists of cash or securities of investment grade quality. In the case of securities used as collateral, an additional valuation discount (haircut) depending on credit quality and residual maturity is applied.

The following tables compare the credit risk exposure broken down by business and geographical segments to the allocated collateral. The amount of allocated collateral corresponds to the accepted value after internal haircuts capped by the exposure amount.

Credit risk exposure by business segment and collateral

in EUR million	Total credit risk exposure	Collateral total	Collateralised by			Credit risk exposure net of collateral
			Guarantees	Real estate	Other	
Dec 19						
Retail	68,579	39,853	1,568	35,357	2,928	28,725
Corporates	77,841	27,408	4,459	17,738	5,211	50,433
Group Markets	18,444	7,408	1,719	11	5,678	11,036
ALM & LCC	41,842	16,392	1,322	31	15,038	25,450
Savings Banks	66,786	31,117	1,529	26,343	3,244	35,669
GCC	287	30	0	6	23	257
Total	273,778	122,208	10,597	79,488	32,123	151,570
Dec 18						
Retail	66,228	37,338	1,338	33,081	2,918	28,890
Corporates	70,573	24,543	4,468	14,930	5,145	46,030
Group Markets	25,819	14,238	923	28	13,287	11,581
ALM & LCC	29,005	4,522	1,189	6	3,327	24,484
Savings Banks	63,536	29,264	1,440	24,426	3,398	34,272
GCC	703	425	0	18	407	278
Total	255,864	110,330	9,358	72,489	28,482	145,534

Credit risk exposure by geographical segment and collateral

in EUR million	Total credit risk exposure	Collateral total	Collateralised by			Credit risk exposure net of collateral
			Guarantees	Real estate	Other	
Dec 19						
Austria	149,551	68,928	5,643	50,022	13,264	80,623
EBOe & Subs.	44,975	25,424	2,142	20,617	2,665	19,551
Savings Banks	66,786	31,117	1,529	26,343	3,244	35,669
Other Austria	37,790	12,387	1,972	3,061	7,354	25,403
CEE	118,328	52,273	4,348	29,459	18,466	66,055
Czech Republic	59,924	30,798	1,167	13,704	15,927	29,126
Slovakia	19,859	8,887	80	8,343	463	10,972
Romania	16,356	5,355	1,548	3,040	767	11,001
Hungary	9,432	3,269	1,006	1,707	555	6,163
Croatia	10,551	3,308	535	2,134	639	7,243
Serbia	2,206	657	10	532	115	1,550
Other	5,899	1,006	607	6	393	4,893
Total	273,778	122,208	10,597	79,488	32,123	151,570
Dec 18						
Austria	137,925	62,400	5,454	46,242	10,703	75,525
EBOe & Subs.	43,286	24,048	2,137	19,165	2,746	19,239
Savings Banks	63,536	29,264	1,440	24,426	3,398	34,272
Other Austria	31,103	9,088	1,878	2,651	4,559	22,014
CEE	112,297	47,042	3,456	26,229	17,358	65,254
Czech Republic	57,594	27,848	1,078	11,797	14,973	29,745
Slovakia	18,596	8,117	93	7,651	373	10,479
Romania	15,480	5,034	1,460	2,710	864	10,446
Hungary	8,907	2,397	307	1,690	400	6,509
Croatia	9,852	3,091	511	1,933	647	6,762
Serbia	1,868	555	7	447	101	1,313
Other	5,642	888	448	18	421	4,755
Total	255,864	110,330	9,358	72,489	28,482	145,534

Credit risk exposure by financial instrument and collateral

in EUR million	Total credit risk exposure	Collateralised by				Credit risk exposure net of collateral	IFRS 9 impairment relevant		
		Collateral total	Guarantees	Real estate	Other		Neither past due nor credit impaired	Past due but not credit impaired	Credit impaired
Dec 19									
Cash and cash balances - demand deposits to credit institutions	1,196	189	0	0	189	1,007	1,139	56	0
Debt instruments held for trading	5,694	1,022	153	1	868	4,672	0	0	0
Non-trading debt instruments at FVPL	2,818	437	289	136	12	2,381	0	0	0
Debt instruments at FVOCI	8,590	925	925	0	0	7,664	8,587	3	0
Debt instruments at AC	207,150	112,644	8,310	76,360	27,973	94,507	200,902	2,486	3,762
Debt securities	26,774	1,144	1,141	0	3	25,631	26,771	0	4
Loans and advances to banks	23,063	20,811	822	0	19,990	2,252	23,064	0	2
Loans and advances to customers	157,312	90,689	6,348	76,360	7,981	66,624	151,067	2,486	3,757
Trade and other receivables	1,480	6	2	1	3	1,473	1,317	85	78
Finance lease receivables	4,169	2,322	57	350	1,915	1,847	3,763	122	284
Debt instruments held for sale in disposal groups	0	0	0	0	0	0	0	0	0
Positive fair value of hedge accounting derivatives	130	0	0	0	0	130	0	0	0
Off-balance sheet exposures	42,552	4,662	861	2,640	1,162	37,889	38,077	35	302
thereof other commitments	4,137	314	21	71	222	3,823	0	0	0
Total	273,778	122,208	10,597	79,488	32,123	151,570	253,786	2,787	4,426
Dec 18									
Cash and cash balances - demand deposits to credit institutions	1,009	68	0	0	68	941	1,003	6	0
Debt instruments held for trading	5,516	1,116	79	0	1,037	4,401	0	0	0
Non-trading debt instruments at FVPL	2,938	223	48	159	16	2,715	0	0	0
Debt instruments at FVOCI	8,828	782	782	0	0	8,045	8,828	0	0
Debt instruments at AC	192,413	101,123	7,180	69,552	24,390	91,290	186,196	1,862	4,354
Debt securities	26,059	778	778	0	0	25,281	26,055	0	4
Loans and advances to banks	19,111	16,656	358	0	16,299	2,455	19,108	0	2
Loans and advances to customers	147,243	83,689	6,045	69,552	8,092	63,555	141,033	1,862	4,348
Trade and other receivables	1,441	17	5	1	11	1,423	1,236	84	121
Finance lease receivables	3,914	2,239	61	500	1,677	1,676	3,462	168	284
Debt instruments held for sale in disposal groups	0	0	0	0	0	0	0	0	0
Positive fair value of hedge accounting derivatives	132	41	0	0	41	91	0	0	0
Off-balance sheet exposures	39,673	4,721	1,203	2,277	1,241	34,952	35,719	69	393
thereof other commitments	3,493	317	157	67	93	3,176	0	0	0
Total	255,864	110,330	9,358	72,489	28,482	145,534	236,444	2,189	5,152

The collateral attributable to exposures that are credit-impaired at 31 December 2019 amounts to EUR 1,881 million (2018: EUR 2,134 million).

Loans and advances to customers

The tables on the following pages present the structure of the customer loan book, excluding loans to central banks and credit institutions broken down by different categories. Loans and advances to customers comprise:

- _ loans to customers at FVPL;
- _ loans and advances to customers at AC;
- _ finance lease receivables;
- _ trade and other receivables.

The presentation is by gross carrying amount excluding loan loss allowances and collateral.

On the following pages, loans and advances to customers are presented by:

- _ business segment and risk category;
- _ business segment and IFRS 9 treatment;
- _ geographical segment and risk category;
- _ geographical segment and IFRS 9 treatment;
- _ business segment and coverage of non-performing loans and advances to customers by loan loss allowances and collateral;
- _ business segment and coverage by loan loss allowances and IFRS 9 treatment;
- _ geographical segment and coverage of non-performing loans and advances to customers by loan loss allowances and collateral;
- _ geographical segment and coverage by loan loss allowances and IFRS 9 treatment;
- _ business segment and currency;
- _ geographical segment and currency.

Loans and advances to customers by business segment and risk category

in EUR million	Low risk	Management attention	Substandard	Non-performing	Total
Dec 19					
Retail	50,297	5,385	2,277	1,454	59,413
Corporates	46,518	5,308	1,759	1,266	54,851
Group Markets	896	33	5	0	934
ALM & LCC	199	15	77	59	351
Savings Banks	39,959	5,319	1,196	1,349	47,823
GCC	24	7	2	13	46
Total	137,892	16,066	5,317	4,142	163,417
Dec 18					
Retail	46,081	6,542	2,350	1,560	56,533
Corporates	41,998	4,844	1,568	1,721	50,131
Group Markets	1,097	107	1	0	1,205
ALM & LCC	126	41	73	11	251
Savings Banks	36,944	4,881	1,236	1,586	44,647
GCC	57	3	7	3	69
Total	126,303	16,418	5,234	4,881	152,836

Loans and advances to customers by business segment and IFRS 9 treatment

in EUR million	Stage 1	Stage 2	Stage 3	POCI	Customer loans (AC)	Not subject to IFRS 9 impairment	Total
Dec 19							
Retail	53,491	4,067	1,379	136	59,073	340	59,413
Corporates	49,049	4,371	1,066	233	54,719	132	54,851
Group Markets	888	46	0	0	934	0	934
ALM & LCC	274	17	59	0	351	0	351
Savings Banks	41,373	5,074	1,320	46	47,814	9	47,823
GCC	27	3	13	0	43	3	46
Total	145,104	13,578	3,837	415	162,934	483	163,417
Dec 18							
Retail	51,191	3,631	1,411	158	56,391	142	56,533
Corporates	45,262	3,039	1,431	316	50,047	84	50,131
Group Markets	1,190	15	0	0	1,205	0	1,205
ALM & LCC	225	15	11	0	251	0	251
Savings Banks	38,767	4,257	1,499	61	44,586	61	44,647
GCC	64	1	3	0	69	0	69
Total	136,700	10,958	4,355	536	152,549	287	152,836

Stage 1 and Stage 2 comprise not credit impaired loans and advances while Stage 3 includes credit impaired loans and advances. POCI (purchased or originated credit impaired) consists of loans already credit impaired when purchased or originated.

The defaulted part of POCI loans amounted to EUR 281 million (2018: EUR 418 million), the non-defaulted part to EUR 134 million (2018: EUR 117 million).

Loans and advances to customers by geographical segment and risk category

in EUR million	Low risk	Management attention	Substandard	Non-performing	Total
Dec 19					
Austria	85,578	7,958	1,912	2,191	97,639
EBOe & Subs.	31,302	2,303	540	500	34,645
Savings Banks	39,959	5,319	1,196	1,349	47,823
Other Austria	14,317	337	177	341	15,172
CEE	52,268	8,101	3,403	1,938	65,709
Czech Republic	23,703	3,909	1,057	519	29,188
Slovakia	11,540	1,175	1,296	426	14,437
Romania	6,890	1,073	448	359	8,771
Hungary	3,534	866	307	124	4,831
Croatia	5,451	817	242	489	6,999
Serbia	1,149	261	52	20	1,483
Other	46	7	2	13	69
Total	137,892	16,066	5,317	4,142	163,417
Dec 18					
Austria	79,323	7,323	2,132	2,635	91,413
EBOe & Subs.	29,870	2,104	682	601	33,256
Savings Banks	36,944	4,881	1,236	1,586	44,647
Other Austria	12,510	339	214	448	13,511
CEE	46,803	9,058	3,095	2,216	61,172
Czech Republic	22,308	3,612	1,054	492	27,466
Slovakia	9,204	2,601	1,095	438	13,337
Romania	6,279	1,109	396	476	8,260
Hungary	3,055	646	257	152	4,109
Croatia	4,996	847	257	638	6,739
Serbia	961	244	36	21	1,262
Other	177	36	7	30	250
Total	126,303	16,418	5,234	4,881	152,836

Loans and advances to customers by geographical segment and IFRS 9 treatment

in EUR million	Stage 1	Stage 2	Stage 3	POCI	Customer loans (AC)	Not subject to IFRS 9 impairment	Total
Dec 19							
Austria	85,639	9,700	2,123	68	97,530	109	97,639
EBOe & Subs.	31,130	3,001	496	6	34,633	12	34,645
Savings Banks	41,373	5,074	1,320	46	47,814	9	47,823
Other Austria	13,136	1,624	307	16	15,084	88	15,172
CEE	59,415	3,875	1,701	347	65,338	372	65,709
Czech Republic	27,169	1,467	489	32	29,157	31	29,188
Slovakia	13,519	474	358	85	14,437	0	14,437
Romania	7,102	1,272	300	97	8,770	1	8,771
Hungary	4,071	247	80	94	4,491	340	4,831
Croatia	6,154	352	456	37	6,999	0	6,999
Serbia	1,399	63	18	2	1,482	0	1,482
Other	50	3	13	0	66	3	69
Total	145,104	13,578	3,837	415	162,934	483	163,417
Dec 18							
Austria	80,911	7,771	2,478	101	91,261	153	91,413
EBOe & Subs.	30,136	2,503	568	17	33,224	32	33,256
Savings Banks	38,767	4,257	1,499	61	44,586	61	44,647
Other Austria	12,007	1,011	410	22	13,451	60	13,511
CEE	55,612	3,145	1,847	435	61,038	134	61,172
Czech Republic	25,598	1,380	464	21	27,463	3	27,466
Slovakia	12,561	330	343	103	13,337	0	13,337
Romania	6,905	853	372	128	8,259	1	8,260
Hungary	3,656	121	83	119	3,979	130	4,109
Croatia	5,699	411	567	62	6,739	0	6,739
Serbia	1,192	50	18	2	1,262	0	1,262
Other	177	43	30	0	250	0	250
Total	136,700	10,958	4,355	536	152,549	287	152,836

In the following tables, the non-performing loans and advances to customers divided by reporting segment are contrasted with allowances for customer loans (all allowances for loans and advances to customers within the scope of IFRS 9) and the collateral for non-performing loans (NPL). The NPL ratio, the NPL coverage ratio (excluding collateral), and the NPL collateralisation ratio are also included.

Non-performing loans and advances to customers by business segment and coverage by loan loss allowances and collateral

in EUR million	Non-performing		Customer loans		Loan loss allowances	Collateral for NPL		NPL ratio		NPL coverage ratio		NPL collateralisation ratio	
	Total	AC	Total	AC	AC	Total	AC	Total	AC	AC	AC	Total	AC
Dec 19													
Retail	1,454	1,452	59,413	59,073	-1,202	617	616	2.4%	2.5%	82.8%	42.4%	42.4%	
Corporates	1,266	1,247	54,851	54,719	-1,069	481	481	2.3%	2.3%	85.7%	38.0%	38.5%	
Group Markets	0	0	934	934	-2	0	0	0.0%	0.0%	>500.0%	0.0%	0.0%	
ALM & LCC	59	59	351	351	-26	48	48	16.9%	16.9%	44.0%	81.5%	81.5%	
Savings Banks	1,349	1,347	47,823	47,814	-861	695	693	2.8%	2.8%	63.9%	51.5%	51.5%	
GCC	13	11	46	43	-13	5	3	28.4%	25.6%	115.3%	40.4%	29.5%	
Total	4,142	4,117	163,417	162,934	-3,174	1,847	1,842	2.5%	2.5%	77.1%	44.6%	44.7%	
Dec 18													
Retail	1,560	1,557	56,533	56,391	-1,310	637	636	2.8%	2.8%	84.2%	40.9%	40.9%	
Corporates	1,721	1,701	50,131	50,047	-1,256	621	620	3.4%	3.4%	73.8%	36.1%	36.5%	
Group Markets	0	0	1,205	1,205	-4	0	0	0.0%	0.0%	>500.0%	0.0%	0.0%	
ALM & LCC	11	11	251	251	-19	1	1	4.3%	4.3%	180.6%	9.4%	9.4%	
Savings Banks	1,586	1,583	44,647	44,586	-971	785	782	3.6%	3.6%	61.4%	49.5%	49.4%	
GCC	3	1	69	69	-2	3	1	4.1%	1.0%	237.5%	99.8%	99.2%	
Total	4,881	4,853	152,836	152,549	-3,563	2,046	2,041	3.2%	3.2%	73.4%	41.9%	42.1%	

Total gross customer loans, total non-performing loans, and total collateral include both AC and FVPL portfolios.

Loans and advances to customers at AC and coverage by loan loss allowances by business segment and IFRS 9 treatment

in EUR million	Loans to customers				Loan loss allowances				Coverage ratio		
	Stage 1	Stage 2	Stage 3	POCI	Stage 1	Stage 2	Stage 3	POCI	Stage 2	Stage 3	POCI
Dec 19											
Retail	53,491	4,067	1,379	136	-116	-214	-827	-44	5.3%	60.0%	32.8%
Corporates	49,049	4,371	1,066	233	-137	-157	-682	-93	3.6%	64.0%	40.1%
Group Markets	888	46	0	0	-1	-1	0	0	3.1%	98.7%	100.0%
ALM & LCC	274	17	59	0	-1	-5	-20	0	29.9%	34.5%	0.0%
Savings Banks	41,373	5,074	1,320	46	-86	-143	-629	-3	2.8%	47.7%	5.5%
GCC	27	3	13	0	0	0	-13	0	0.1%	96.6%	0.0%
Total	145,104	13,578	3,837	415	-341	-520	-2,172	-140	3.8%	56.6%	33.9%
Dec 18											
Retail	51,191	3,631	1,411	158	-124	-203	-913	-71	5.6%	64.7%	45.0%
Corporates	45,262	3,039	1,431	316	-138	-131	-900	-87	4.3%	62.9%	27.4%
Group Markets	1,190	15	0	0	-3	0	0	0	0.9%	87.0%	100.0%
ALM & LCC	225	15	11	0	0	-11	-8	0	68.4%	79.0%	0.0%
Savings Banks	38,767	4,257	1,499	61	-78	-131	-747	-16	3.1%	49.8%	25.5%
GCC	64	1	3	0	0	0	-1	0	1.2%	46.4%	0.0%
Total	136,700	10,958	4,355	536	-344	-476	-2,570	-174	4.3%	59.0%	32.4%

Non-performing loans and advances to customers by geographical segment and coverage by loan loss allowances and collateral

in EUR million	Non-performing		Customer loans		Loan loss allowances	Collateral for NPL		NPL ratio		NPL coverage ratio	NPL collateralisation ratio	
	Total	AC	Total	AC	AC	Total	AC	Total	AC	AC	Total	AC
Dec 19												
Austria	2,191	2,171	97,639	97,530	-1,367	1,128	1,126	2.2%	2.2%	63.0%	51.5%	51.9%
EBOe & Subs.	500	500	34,645	34,633	-290	286	286	1.4%	1.4%	58.0%	57.2%	57.3%
Savings Banks	1,349	1,347	47,823	47,814	-861	695	693	2.8%	2.8%	63.9%	51.5%	51.5%
Other Austria	341	323	15,172	15,084	-216	147	147	2.2%	2.1%	66.8%	43.0%	45.3%
CEE	1,938	1,935	65,709	65,338	-1,794	713	712	2.9%	3.0%	92.7%	36.8%	36.8%
Czech Republic	519	519	29,188	29,157	-500	124	124	1.8%	1.8%	96.3%	24.0%	24.0%
Slovakia	426	426	14,437	14,437	-344	169	169	3.0%	3.0%	80.8%	39.7%	39.7%
Romania	359	359	8,771	8,770	-417	138	138	4.1%	4.1%	116.3%	38.5%	38.5%
Hungary	124	122	4,831	4,491	-115	74	73	2.6%	2.7%	93.8%	59.8%	59.8%
Croatia	489	489	6,999	6,999	-390	203	203	7.0%	7.0%	79.7%	41.4%	41.4%
Serbia	20	20	1,482	1,482	-29	5	5	1.4%	1.4%	140.3%	22.9%	22.9%
Other	13	11	69	66	-13	5	3	19.0%	16.8%	115.5%	40.4%	29.5%
Total	4,142	4,117	163,417	162,934	-3,174	1,847	1,842	2.5%	2.5%	77.1%	44.6%	44.7%
Dec 18												
Austria	2,635	2,617	91,413	91,261	-1,591	1,265	1,263	2.9%	2.9%	60.8%	48.0%	48.3%
EBOe & Subs.	601	600	33,256	33,224	-368	308	308	1.8%	1.8%	61.4%	51.3%	51.3%
Savings Banks	1,586	1,583	44,647	44,586	-971	785	782	3.6%	3.6%	61.4%	49.5%	49.4%
Other Austria	448	434	13,511	13,451	-251	173	173	3.3%	3.2%	57.9%	38.6%	39.8%
CEE	2,216	2,208	61,172	61,038	-1,956	778	777	3.6%	3.6%	88.6%	35.1%	35.2%
Czech Republic	492	492	27,466	27,463	-497	101	101	1.8%	1.8%	101.2%	20.6%	20.6%
Slovakia	438	438	13,337	13,337	-354	192	192	3.3%	3.3%	80.9%	44.0%	44.0%
Romania	476	469	8,260	8,259	-477	159	159	5.8%	5.7%	101.7%	33.5%	34.0%
Hungary	152	150	4,109	3,979	-128	86	85	3.7%	3.8%	85.3%	56.6%	56.4%
Croatia	638	638	6,739	6,739	-469	234	234	9.5%	9.5%	73.5%	36.6%	36.6%
Serbia	21	21	1,262	1,262	-29	5	5	1.7%	1.7%	139.4%	23.9%	23.9%
Other	30	28	250	250	-16	3	1	12.1%	11.3%	56.9%	9.3%	2.5%
Total	4,881	4,853	152,836	152,549	-3,563	2,046	2,041	3.2%	3.2%	73.4%	41.9%	42.1%

Total gross customer loans, total non-performing loans, and total collateral include both AC and FVPL portfolios.

The NPL ratio of loans and advances to customers is calculated by dividing the gross carrying amount of non-performing loans and advances to customers by the total gross carrying amount of loans and advances to customers. Consequently, it differs from the NPE ratio in section 'Credit risk exposure'. Collaterals for non-performing loans mainly consist of real estates.

The NPL coverage ratio is calculated by dividing total loss allowances by the gross carrying amount of the non-performing loans and advances to customers. Collateral is not taken into account.

Loans and advances to customers at AC and coverage by loan loss allowances by geographical segment and IFRS 9 treatment

in EUR million	Loans to customers				Loan loss allowances				Coverage ratio		
	Stage 1	Stage 2	Stage 3	POCI	Stage 1	Stage 2	Stage 3	POCI	Stage 2	Stage 3	POCI
Dec 19											
Austria	85,639	9,700	2,123	68	-130	-230	-1,004	-3	2.4%	47.3%	3.8%
EBOe & Subs.	31,130	3,001	496	6	-29	-55	-206	0	1.8%	41.5%	0.0%
Savings Banks	41,373	5,074	1,320	46	-86	-143	-629	-3	2.8%	47.7%	5.5%
Other Austria	13,136	1,624	307	16	-16	-31	-169	0	1.9%	54.9%	0.0%
CEE	59,415	3,875	1,701	347	-210	-290	-1,155	-138	7.5%	67.9%	39.8%
Czech Republic	27,169	1,467	489	32	-68	-77	-335	-19	5.3%	68.4%	60.1%
Slovakia	13,519	474	358	85	-35	-36	-220	-53	7.6%	61.6%	62.2%
Romania	7,102	1,272	300	97	-37	-122	-229	-29	9.6%	76.3%	29.9%
Hungary	4,071	247	80	94	-13	-25	-55	-21	10.3%	69.4%	22.8%
Croatia	6,154	352	456	37	-48	-24	-303	-15	6.8%	66.4%	39.3%
Serbia	1,399	63	18	2	-9	-6	-13	-1	9.0%	73.6%	38.1%
Other	50	3	13	0	0	0	-13	0	0.1%	96.6%	0.0%
Total	145,104	13,578	3,837	415	-341	-520	-2,172	-140	3.8%	56.6%	33.9%
Dec 18											
Austria	80,911	7,771	2,478	101	-132	-204	-1,231	-24	2.6%	49.7%	24.1%
EBOe & Subs.	30,136	2,503	568	17	-34	-53	-273	-9	2.1%	48.1%	50.3%
Savings Banks	38,767	4,257	1,499	61	-78	-131	-747	-16	3.1%	49.8%	25.5%
Other Austria	12,007	1,011	410	22	-21	-20	-211	0	1.9%	51.4%	0.0%
CEE	55,612	3,145	1,847	435	-211	-271	-1,324	-149	8.6%	71.7%	34.3%
Czech Republic	25,598	1,380	464	21	-77	-85	-326	-9	6.2%	70.2%	46.1%
Slovakia	12,561	330	343	103	-36	-34	-233	-51	10.3%	68.0%	49.9%
Romania	6,905	853	372	128	-30	-100	-301	-47	11.7%	80.8%	36.4%
Hungary	3,656	121	83	119	-14	-16	-63	-35	13.4%	76.5%	29.1%
Croatia	5,699	411	567	62	-46	-29	-389	-6	7.0%	68.5%	10.1%
Serbia	1,192	50	18	2	-8	-8	-13	-1	15.1%	72.1%	40.6%
Other	177	43	30	0	-1	-1	-15	0	2.3%	47.9%	0.0%
Total	136,700	10,958	4,355	536	-344	-476	-2,570	-174	4.3%	59.0%	32.4%

The NPL exposures above exclude any write-offs recognised in accordance with IFRS 9. Erste Group distinguishes between contractual write-offs (debt forgiveness towards the defaulted client, either unconditional or subject to conditions) and technical write-offs (claim removal from the books due to no reasonable expectation of recovery, whereby the legal claim towards the customer still remains). Both types of write-offs have as a pre-condition that all reasonable workout measures and late collections tools have been applied for optimal recovery. In case of collateralised loans, write-off prior to the realisation of the collateral is not allowed unless specific circumstances apply. Additional technical write-off triggers include enforcement, worthlessness of claim/collateral, legally binding bankruptcy/liquidation or other economic loss of the rights to claim/sale. The amount written off during 2019, which is still subject to enforcement activity, totals EUR 253 million (2018: 266 million).

Loans and advances to customers by business segment and currency

in EUR million	EUR	CEE-LCY	CHF	USD	Other	Total
Dec 19						
Retail	31,789	25,790	1,211	20	603	59,413
Corporates	40,293	10,300	193	2,684	1,381	54,851
Group Markets	656	148	0	100	29	934
ALM & LCC	196	114	0	40	0	351
Savings Banks	44,643	708	1,809	87	575	47,823
GCC	22	24	0	0	0	46
Total	117,599	37,084	3,214	2,931	2,589	163,417
Dec 18						
Retail	31,111	23,548	1,340	15	519	56,533
Corporates	36,134	9,963	205	2,738	1,091	50,131
Group Markets	890	209	0	103	3	1,205
ALM & LCC	153	93	0	4	0	251
Savings Banks	41,462	457	2,013	98	617	44,647
GCC	34	21	0	14	0	69
Total	109,784	34,291	3,558	2,972	2,231	152,836

Loans and advances to customers by geographical segment and currency

in EUR million	EUR	CEE-LCY	CHF	USD	Other	Total
Dec 19						
Austria	89,317	0	3,185	2,637	2,500	97,639
EBOe & Subs.	33,167	0	1,325	60	93	34,645
Savings Banks	44,643	0	1,809	87	1,284	47,823
Other Austria	11,507	0	51	2,490	1,124	15,172
CEE	28,261	37,042	28	289	90	65,709
Czech Republic	3,822	25,155	0	151	60	29,188
Slovakia	14,391	0	0	16	30	14,437
Romania	3,192	5,471	0	108	0	8,771
Hungary	1,282	3,541	6	2	0	4,831
Croatia	4,426	2,544	22	7	0	6,999
Serbia	1,147	331	0	4	0	1,482
Other	22	42	0	5	0	69
Total	117,599	37,084	3,214	2,931	2,589	163,417
Dec 18						
Austria	83,141	0	3,512	2,646	2,114	91,413
EBOe & Subs.	31,641	0	1,455	57	103	33,256
Savings Banks	41,462	0	2,013	98	1,074	44,647
Other Austria	10,039	0	45	2,490	937	13,511
CEE	26,448	34,255	45	307	117	61,172
Czech Republic	3,628	23,659	1	101	78	27,466
Slovakia	13,282	0	0	25	30	13,337
Romania	3,308	4,843	0	109	0	8,260
Hungary	1,041	3,059	7	2	0	4,109
Croatia	4,222	2,413	28	67	9	6,739
Serbia	968	281	10	4	0	1,262
Other	195	36	0	19	0	250
Total	109,784	34,291	3,558	2,972	2,231	152,836

'CEE-LCY' refers to the CEE geographical segment view where the local currency is the currency of the respective country (e.g. CZK in Czech Republic, RON in Romania etc.).

Securitisations

As of 31 December 2019, Erste Group held a further reduced residual portfolio of securitisations; there were no new investments undertaken and all repayments were made as scheduled in 2019.

As of year-end 2019, the carrying amount of Erste Group's securitisation portfolio totalled EUR 21.8 million. The entire exposure consists of three individual transactions, which are triple-, double- and single-A rated.

Market risk

Market risk is the risk of loss that may arise due to adverse changes in market prices and to the parameters derived from them. These market value changes might appear in the profit and loss account, in the statement of comprehensive income or in hidden reserves. At Erste Group, market risk is divided into interest rate risk; credit spread risk, currency risk, equity risk, commodity risk, and volatility risk. This concerns both trading and banking book positions.

Methods and instruments employed

At Erste Group, potential losses that may arise from market movements are assessed using the value at risk (VaR). The VaR describes what level of losses may be expected as a maximum at a defined probability – the confidence level – within a certain holding period of the positions under historically observed market conditions.

The calculation is done according to the method of historic simulation with a one-sided confidence level of 99%, a holding period of one day and a simulation period of two years. The VaR describes what level of losses may be expected as a maximum at a defined probability – the confidence level – within a certain holding period of the positions under historically observed market conditions.

Back-testing is used to constantly monitor the validity of the statistical methods. This process is conducted with a one-day delay to monitor if the model projections regarding losses have actually materialised. At a confidence level of 99%, the actual loss on a single day should exceed the VaR statistically only two to three times a year (1% of around 250 workdays).

This shows one of the limits of the VaR approach: on the one hand, the confidence level is limited to 99%, and on the other hand, the model takes into account only those market scenarios observed in each case within the simulation period of two years, and calculates the VaR for the current position of the bank on this basis. In order to investigate any extreme market situations beyond this, stress tests are conducted at Erste Group. These events include mainly market movements of low probability.

The stress tests are carried out according to several methods: stressed VaR (SVaR) is derived from the normal VaR calculation. But instead of simulating only over the two most recent years, an analysis of a much longer period is carried out in order to identify a one-year period that constitutes a relevant period of stress for the current portfolio mix. According to the legal framework, that one-year period is used to calculate a VaR with a 99% confidence level. This enables Erste Group on the one hand to hold sufficient own funds available for the trading book even in periods of elevated market volatility, while on the other hand also enabling it to incorporate these resulting effects into the management of trading positions.

Standard scenarios are calculated in which the individual market factors are exposed to extreme movements. Such scenarios are calculated at Erste Group for interest rates, stock prices, exchange rates and volatilities. Historic scenarios are a modification of the concept of standard scenarios. In this case, risk factor movements after certain events such as '9/11' or the 'Lehman bankruptcy' form the basis of the stress calculation. In order to calculate historical probabilistic scenarios, the most significant risk factors for the current portfolio are determined and their most adverse movement in recent years is applied. For the probabilistic scenarios, shifts of important market factors are determined for various quantiles of their distributions, and these values are then used to calculate stress results. These analyses are made available to the management board within the scope of the regular market risk reporting.

The implemented market risk model was approved by the ECB in December 2016 as an internal model to determine the own funds requirements for the trading books of Erste Group Bank AG and Česká spořitelna, a.s. on an individual level and additionally for the trading books of Slovenská sporiteľňa a.s., Erste Bank Hungary Zrt., and Erste Befektetési Zrt. on consolidated basis. The infrastructure brought significant improvements with regards to flexible shift methodologies of historical scenarios, product- and market data coverage, and the reporting infrastructure.

Methods and instruments of risk mitigation

At Erste Group, market risks are controlled in the trading book by setting several layers of limits. The overall limit on the basis of VaR for the trading book is allocated by the management board in the Risk Appetite Statement while taking into account the risk-bearing capacity and projected earnings. A further breakdown is done by the Market Risk Committee (MRC) on the basis of a proposal from the Trading Book Risk Management unit.

All market risk activities of the trading book are assigned risk limits that are statistically consistent in their entirety with the overall VaR limit. The VaR limit is assigned in a top-down procedure to the individual trading units. This is done down to the level of the individual trading groups or departments. Additionally, in a bottom-up procedure, sensitivity limits are assigned to even smaller units all the way down to the desk level. These are then aggregated and applied as a second-limit layer to the VaR limits.

Limit compliance is verified at two levels: by the appropriate local decentralised risk management unit and by the Trading Book Risk Management unit. The monitoring of sensitivity limits is performed on both intraday and end-of-day basis. On demand, limit reports can also be triggered by individual traders or chief traders on an ad-hoc basis.

The VaR is calculated every day at group level and made available to the individual trading units as well as to the superior management levels all the way up to the management board.

Banking book positions are measured with a long horizon risk measure, covering interest rate risk, credit spread risk of the banking book and foreign exchange risk of equity participations. In 2019, the methodology for this calculation was changed, allowing Erste Group to calculate 250,000 historical scenarios. This methodology is used to calculate the capital requirements according to the ICAAP with a theoretical holding period of 1 year and a confidence level of 99.92%. In addition, the same methodology is used to calculate the VaR, consistent to the trading book methodology, with a 1 day holding period and a 99% confidence level. The result of these calculations is presented in the Group ALCO to the management board.

Analysis of market risk

The following tables show the VaR amounts at the 99% confidence level using equally weighted market data and with a holding period of one day:

Value at Risk of banking book and trading book

in EUR thousand	Total	Interest	Credit spread	Currency	Shares	Commodity	Volatility
Dec 19							
Erste Group	34,079	22,960	11,195	775	370	133	747
Banking book	30,985	19,790	11,195	-	-	-	-
Trading book	3,094	3,170	-	775	370	133	747
Dec 18							
Erste Group	37,335	25,353	11,967	536	637	91	330
Banking book	31,741	19,774	11,967	-	-	-	-
Trading book	5,594	5,579	-	536	637	91	330

The table above is adjusted compared to the annual report 2018. This is because the calculation methodology for the 99% VaR for the banking book was adjusted in order to be harmonized with the new methodology to calculate the capital requirement according to the ICAAP. With this methodology it is now possible to show the total 99% VaR for the banking book as well as the 99% VaR for the interest rate risk and the 99% VaR for the credit spread risk. The figures for 2018 are re-stated reflecting the new methodology in order to be comparable.

The method used is subject to limitations that may result in the information not fully reflecting the fair value of the assets and liabilities involved. This restriction applies to the inclusion of credit spreads in the calculation of the VaR. Credit spreads are applied to sovereign issuers only. For all other positions, only the general market risk is considered.

Interest rate risk in the banking book

Interest rate risk is the risk of an adverse change in the fair value of financial instruments caused by a movement in market interest rates. This type of risk arises when mismatches exist between assets and liabilities, including derivatives, in respect of their maturities or of the timing of interest rate adjustments.

In order to identify interest rate risk, all financial instruments, including transactions not recognised on the balance sheet, are grouped into maturity bands based on their remaining terms to maturity or terms to an interest rate adjustment. Positions without a fixed maturity (e.g. demand deposits) are included on the basis of modelled deposit rates that are determined by means of statistical methods.

Erste Group responded to the low or even negative interest rate environment since 2015, which poses a challenge for the interest rate risk measurement and management of banks, in recent years by adjusting its methodologies for measuring the interest rate risk. For internal risk calculations and for the regulatory interest rate risk measures, the maximum downward shock is floored according to the Annex III of the EBA guidelines on the management of interest rate risk arising from non-trading activities (EBA/GL/2018/02).

The following tables list the open fixed-income positions held by Erste Group in the four currencies that carry a significant interest rate risk: EUR, CZK, HUF and RON.

Only the open fixed-income positions that are not allocated to the trading book are presented. Positive values indicate fixed-income risks on the asset side, i.e. a surplus of asset items; negative values represent a surplus on the liability side.

Open fixed-income positions not assigned to the trading book

in EUR million	1-3 years	3-5 years	5-7 years	7-10 years	Over 10 years
Dec 19					
Fixed-interest gap in EUR positions	1,889.7	4,018.4	2,928.4	2,128.5	1,088.8
Fixed-interest gap in CZK positions	3,890.6	2,748.6	3,147.9	2,128.1	945.7
Fixed-interest gap in HUF positions	1,040.9	646.5	443.9	-32.9	33.4
Fixed-interest gap in RON positions	1,683.2	879.2	292.4	267.2	0.2
Dec 18					
Fixed-interest gap in EUR positions	1,187.8	2,949.0	2,317.9	3,115.9	1,119.1
Fixed-interest gap in CZK positions	3,528.2	2,826.9	2,809.1	1,813.0	734.9
Fixed-interest gap in HUF positions	538.3	939.8	432.5	-78.9	7.8
Fixed-interest gap in RON positions	1,502.8	728.2	581.6	243.8	0.3

Exchange rate risk

The bank is exposed to several types of risks related to exchange rates. These concern risks from open foreign exchange positions and others.

Risk from open foreign exchange positions is the risk related to exchange rates that derives from the mismatch between assets and liabilities, or from currency-related financial derivatives. These risks might originate from customer-related operations or proprietary trading and are monitored and managed on a daily basis. Foreign currency exposure is subject to regulatory and internal limits. The internal limits are set by the Market Risk Committee.

Erste Group separately measures and manages other types of risks relating to the group's balance sheet and earnings structure. The translation risk related to the valuation of the balance sheet items, earnings, dividends and participations/net investments in local currency or foreign exchange has an impact on consolidated earnings and consolidated capital. Erste Group is also reducing the negative impact related to volatility of foreign exchange rates on asset performance (for example as a result of foreign exchange lending in the CEE countries that was stopped for clients not having sufficient regular income in the respective loan currency).

In order to manage its multi-currency earnings structure, Erste Group regularly discusses hedging opportunities and takes decisions in the Group Asset Liability Committee (ALCO). Asset Liability Management (ALM) uses as the usual source of information the current financial results and the financial budget prepared for the upcoming period to obtain as much information as possible on the future foreign currency cash flows. The proposal, which mainly includes the volume, hedging level, hedge ratio and timeline of the hedging,

is submitted by ALM to ALCO. The impact of translation on consolidated capital is monitored and reported to ALCO. The ALCO decisions are then implemented by ALM and the implementation status is reported on a monthly basis to ALCO.

The following table shows the largest open foreign currency positions of Erste Group as of 31 December 2019 and the corresponding open positions of these currencies as of 31 December 2018 (excluding foreign currency positions arising from equity participation).

Open foreign currency positions

in EUR thousand	Dec 18	Dec 19
Czech Koruna (CZK)	9,494	-61,217
Hungarian Forint (HUF)	-4,076	-18,943
Swiss Franc (CHF)	797	-18,262
Romanian Leu (RON)	14,427	12,494
Croatian Kuna (HRK)	-6,186	11,570
US Dollar (USD)	45,123	11,014
British Pound (GBP)	7,087	9,919
Japanese Yen (JPY)	-8,103	2,485
Polish Zloty (PLN)	4,365	-2,137
Canadian Dollar (CAD)	8,110	-1,135

Credit spread risk

Credit spread risk is the risk of an adverse movement in the fair value of financial instruments caused by a change in the creditworthiness of an issuer perceived by the market. Erste Group is exposed to credit spread risk with respect to its securities portfolio, both in the trading as well as in the banking book.

For the trading book, credit spread risk for government bonds is part of the general market risk covered by VaR and SVaR. Corporate bonds are allocated to benchmark spread curves depending on sector, rating, and currency as part of the general risk covered by VaR and SVaR. The issuer specific risk is covered by the standardised approach for Pillar 1 of regulatory capital requirements. For the issuer specific risk of the trading book in Pillar 2, the spread risk is broken down into a systematic and a residual part risk and reported on an aggregated level. In the above VaR table, credit spread risk for the trading book is part of the interest component.

Quantifying the credit spread risk of the securities in the banking book is based on a historical simulation. The maximum (hypothetical) drawdown that can be attributed to credit related risk factors over one-year horizon is calculated. It is based on credit spread sensitivities (CR01) and the risk factors used are mainly asset swap spreads for sovereigns and iTRAXX CDS indices for financials and corporates. The resulting amount is used as part of the ICAAP calculations to determine the capital consumption of the banking book portfolio.

Hedging

Banking book market risk management consists of optimising Erste Group's risk position by finding the proper trade-off between the economic value of the balance sheet and forecasted earnings. Decisions are based on balance sheet development, economic environment, competitive landscape, fair value of risk, effect on net interest income and appropriate liquidity position. The steering body responsible for interest rate risk management is ALCO. ALM submits proposals for actions to steer the interest rate risk to ALCO and implements ALCO's decisions.

In order to achieve the goals of risk management, hedging activities focus on the two main control variables: net interest income and market value of equity risk. In a broader sense, hedging refers to an economic activity that mitigates risk but does not necessarily qualify for hedge accounting under IFRS rules. IFRS hedge accounting is applied, if possible, to avoid accounting mismatches due to hedging activity. Within the scope of IFRS-compliant hedge accounting, fair value hedges and cash flow hedges are used. In addition the fair value option is used for hedging the market risk from the economic perspective. Most of the hedging within Erste Group concerns hedging of interest rate risk. The remainder is hedging of foreign exchange rate risk.

Liquidity risk

The liquidity risk in Erste Group is defined in line with the principles set out by the Basel Committee on Banking Supervision as well as the European and Austrian regulations (Capital Regulations Requirement (CRR) - Regulation (EU) No 575/2013, Delegated Regulation (EU) 2015/61, Kreditinstitute-Risikomanagement-Verordnung - KI-RMV). Accordingly, a distinction is made between market liquidity risk, which is the risk that the group entities cannot easily offset or close a position at the market price because of inadequate market depth or market disruption, and funding liquidity risk, which is the risk that the banks in the group will not be able to meet efficiently both expected and unexpected current and future cash flow and collateral needs without affecting either daily operations or the financial condition of the group members.

Funding liquidity risk is further divided into insolvency risk and structural liquidity risk. The former is the short-term risk that current or future payment obligations cannot be met in full and on time in an economically justified manner, while structural liquidity risk is the long-term risk of losses due to a change in the Group's own refinancing cost or spread.

Liquidity strategy

In 2019, customer deposits remained the primary source of funding for Erste Group. The growth in loan volume was in line with inflows of customer deposits, and the excess liquidity was mainly placed with central banks.

With regards its own issuance, Erste Group Bank AG issued EUR 4.0 billion in bonds in 2019 (2018: EUR 3.4 billion) which in net terms was in accordance with the size of the budgeted figure. EUR 1.0 billion (2018: EUR 2.5 billion) was collected via two mortgage covered bonds in benchmark size. EUR 1.3 billion (2018: EUR 808 million) was collected by issuing senior preferred bonds, of which EUR 0.5 billion were printed via one benchmark sized transaction and the rest via private placements or the retail network. Moreover, an inaugural senior non-preferred transaction was issued which made up additional EUR 0.5 billion. Tier 2 subordinated debt issuance amounted to EUR 0.6 billion (2018: EUR 108 million). Furthermore, an additional tier 1 benchmark bond (EUR 0.5 bn) was issued. This was offset by repurchases of EUR 266 million (2018: EUR 116 million). The average tenor of all new issues in 2019 is approximately 7.1 years (2018: 7.2 years).

Erste Group's total TLTRO participation in 2019 was reduced to EUR 1.9 billion (2018: 3.5 billion).

Liquidity ratios

The regulatory liquidity ratios Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) are well implemented in Erste Group. The LCR is calculated in Erste Group according to the Delegated Regulation (EU) 2015/61 (LCR DA). In 2019, the calculation of the NSFR was adjusted in order to be aligned with the requirements as defined in the proposal for amending the Directive 2013/36/EU (Draft CRR 2).

Methods and instruments employed

Short-term insolvency risk is monitored by calculating the survival period on both entity and group levels. This analysis determines the maximum period during which the entity can survive a set of defined scenarios, including a severe combined market and idiosyncratic crisis while relying on its pool of liquid assets. The monitored worst-case scenario simulates very limited money market and capital market access and at the same time significant client deposit outflows. Furthermore, the simulation assumes increased drawdown on guarantees and loan commitments dependent on the type of customer, as well as the potential outflows from collateralised derivative transactions estimating the effect of collateral outflows in the case of adverse market movements. Starting with 2018, an updated version of the survival period analysis came into force. It contained, among other improvements, an extension of the stress horizon up to 12 months, dependent on the stress scenario.

Erste Group calculates the Liquidity Coverage Ratio according to the Delegated Regulation (EU) 2015/61 and reports this ratio on a monthly basis to the authorities on a solo and group level. Furthermore, the LCR is part of the internal Risk Appetite Statement (RAS). LCR limits are defined in the RAS targeting to be well above the regulatory requirement of 100%. Additionally, Erste Group implemented the NSFR according to the Draft CRR 2 requirements. Internally, these ratios (LCR and NSFR) are monitored on entity level as well as on a group level. For regulatory purposes Erste Group is reporting the NSFR according to the Basel rules in the quarterly SREP Exercise (Short Term Exercise).

Legal lending limits exist in all CEE countries where Erste Group is represented. As they restrict liquidity flows between Erste Group's subsidiaries in different countries they are taken into account for the assessment of liquidity risk in the survival period model as well as in the calculation of the Liquidity Coverage Ratio at group level.

Additionally, the structural liquidity gaps (depicting the going concern maturity mismatches) of the subsidiaries and the group as a whole are reported and monitored regularly. Concentration risks in the funding structure and 'Counterbalancing Capacity' (CBC) are regularly monitored and reported to the regulator. Erste Group's funds transfer pricing (FTP) system has also proven to be an efficient tool for structural liquidity risk management.

Methods and instruments of risk mitigation

Short-term liquidity risk is managed by limits resulting from the survival period model, internal stress testing and by internal LCR targets at both entity and group level. Limit breaches are reported to the Group Asset Liability Committee (ALCO). Another important instrument for managing the liquidity risk within Erste Group Bank AG and in relation to its subsidiaries is the FTP system. Important information for liquidity management can be obtained by the process of planning funding needs. Therefore, a detailed overview of funding needs is prepared on a quarterly basis for the planning horizon across Erste Group.

The Comprehensive Contingency Plan of the Erste Group ensures the necessary coordination of all parties involved in the liquidity management process in case of crisis and is reviewed on a regular basis. The contingency plans of the subsidiaries are coordinated as part of the plan for Erste Group Bank AG.

Analysis of liquidity risk

In Erste Group, the liquidity risk is analysed by the following methods.

Liquidity coverage ratio. Erste Group uses the regulatory liquidity coverage ratio for internal monitoring and steering of the liquidity position as well. In order to keep the LCR according LCR DA above both limits, the regulatory limit and the internal limit, Erste Group closely monitors its short-term liquidity inflows and outflows as well as its available counterbalancing capacity.

Liquidity coverage ratio

in EUR million	Dec 18	Dec 19
Liquidity buffer	47,678	46,315
Net liquidity outflow	31,763	31,299
Liquidity coverage ratio	150.1%	148.0%

Structural liquidity gaps. The long-term liquidity position is managed using structural liquidity gaps on the basis of contractual and partially behavioural cash flows of all liquidity relevant components of the balance sheet (on-balance and off-balance). This liquidity position is calculated for each material currency.

Cash flows are broken down by contractual maturities in accordance with the amortisation schedule and arranged in maturity ranges. All customer products without contractual maturities (such as demand deposits and overdrafts) are included according to a going concern maturity profile using model based on statistically observed client behaviour.

Structural liquidity gap

in EUR million	0-12 months		1-3 years		3-5 years		> 5 years	
	Dec 18	Dec 19	Dec 18	Dec 19	Dec 18	Dec 19	Dec 18	Dec 19
Liquidity gap	4,902	13,548	-12,101	-5,321	-10,915	-3,360	17,367	-6,465

An excess of assets over liabilities is indicated by a positive value, while an excess of liabilities over assets is indicated by a negative value. The cash inflows from liquid securities amounting to EUR 33.6 billion (2018: EUR 30.4 billion), which are accepted as collateral by the central banks to which Erste Group has access, are taken into account in the first time bucket rather than considering them at their contractual maturity.

In 2019, Erste Group updated the behavioral model for sight deposits. This change in modelling shifted significant volume of out-flows from the time buckets below 5 years to the >5 years bucket.

Counterbalancing capacity. Erste Group regularly monitors its counterbalancing capacity, which consists of cash, excess minimum reserves at the central banks as well as unencumbered central bank eligible assets and other liquid securities, including impacts from repos, reverse repos and securities lending transactions. These assets can be mobilised in the short term to offset potential cash outflows in a crisis situation.

Term structure of counterbalancing capacity

in EUR million	< 1 week	1 week-1 month	1-3 months	3-6 months	6-12 months
Dec 19					
Cash, excess reserve	5,831	0	0	0	0
Liquid assets	36,499	-2,998	-1,634	-2,523	-2,037
Other central bank eligible assets	5,096	-298	1,059	526	-121
Thereof retained covered bonds	1,330	0	1,296	750	0
Thereof credit claims	1,709	0	0	0	18
Counterbalancing capacity	47,426	-3,297	-575	-1,997	-2,158
Dec 18					
Cash, excess reserve	11,641	-233	0	0	0
Liquid assets	38,659	-6,848	-1,750	-1,961	-2,523
Other central bank eligible assets	3,531	-119	1,094	349	-41
Thereof retained covered bonds	1,232	0	1,265	490	0
Thereof credit claims	658	0	0	0	0
Counterbalancing capacity	53,831	-7,199	-656	-1,612	-2,564

The figures above show the total amount of potential liquidity available for the group in a going concern situation, taking into account the applicable central bank haircuts. In a crisis situation, adverse market movements can decrease this amount. The initial counterbalancing capacity available at group level is reduced by additional stressed haircuts. Negative figures are maturing positions of the counterbalancing capacity. Positive figures after one week are positions not immediately available as counterbalancing capacity.

Financial liabilities. Maturities of contractual undiscounted cash flows from financial liabilities (interest payments only considered for derivative liabilities) were as follows:

Financial liabilities

in EUR million	Carrying amounts	Contractual cash flows	< 1 month	1-12 months	1-5 years	> 5 years
Dec 19						
Non-derivative liabilities	216,842	217,231	147,320	28,535	25,571	15,805
Deposits by banks	13,141	13,765	5,758	2,487	3,852	1,667
Customer deposits	173,331	174,770	141,406	23,449	8,010	1,906
Debt securities in issue	23,888	23,546	151	2,134	11,273	9,988
Subordinated liabilities	6,482	5,149	5	465	2,435	2,244
Derivative liabilities	2,275	2,126	6	576	1,034	508
Derivatives liabilities with netted Cash Flows	-	2,043	128	413	986	516
Derivatives liabilities with gross Cash Flow (net)	-	82	-122	163	48	-8
Outflows	-	63,199	46,724	9,451	6,146	878
Inflows	-	-63,117	-46,846	-9,288	-6,098	-886
Contingent liabilities	-	42,552	42,552	0	0	0
Financial guarantees	-	7,190	7,190	0	0	0
Commitments	-	35,362	35,362	0	0	0
Other financial liabilities	1,211	1,211	1,211	0	0	0
Total	220,328	263,119	191,089	29,111	26,605	16,313
Dec 18						
Non-derivative liabilities	210,034	209,701	139,456	29,933	25,738	14,573
Deposits by banks	17,658	18,710	8,581	2,469	5,967	1,693
Customer deposits	162,638	164,503	130,726	24,781	7,349	1,647
Debt securities in issue	23,908	21,467	147	2,385	9,731	9,204
Subordinated liabilities	5,830	5,021	2	299	2,691	2,029
Derivative liabilities	2,277	2,129	270	462	952	444
Contingent liabilities	-	39,673	39,673	0	0	0
Financial guarantees	-	7,378	7,378	0	0	0
Commitments	-	32,295	32,295	0	0	0
Other financial liabilities	1,459	1,459	1,459	0	0	0
Total	213,770	252,961	180,858	30,396	26,691	15,017

As of year-end 2019, the currency composition of the non-derivative liabilities consisted of approximately 69% EUR, 18% CZK, 4% USD, 4% RON, and 5% in other currencies (2018: 68% EUR, 18% CZK, 5% USD, 4% RON and 5% in other currencies).

Besides the contingent liabilities from unused credit lines and guarantees, material potential cash outflow is calculated from the collateralised derivative transactions for the stress testing, following a historical lookback approach, which amounted to EUR 960.0 million (2018: EUR 864.4 million) in the worst-case scenario as of 31 December 2019.

As of 31 December 2019, the volume of customer deposits due on demand amounted to EUR 121.6 billion (2018: EUR 110.2 billion). According to customer segments, the customer demand deposits are composed as follows: 65% private individuals, 15% large corporates, 14% small and medium-sized enterprises, 4% public sector, and 2% non-banking financial institutions (2018: 64% private individuals, 15% large corporates, 14% small and medium-sized enterprises, 4% public sector, and 2% non-banking financial institutions).

Operational risk

In line with Article 4 Section 52 of regulation (EU) 575/2013 (CRR), Erste Group defines operational risk as the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events, including legal risks. Both quantitative and qualitative methods are used to identify operational risks. Consistent with international practice, the responsibility for managing operational risk rests with the line management.

Methods and instruments employed

The quantitative measurement methods are based on internal loss experience data, which are collected across Erste Group using a standard methodology and entered into a central data pool. Additionally, in order to be able to model losses that have not occurred in the past but are nonetheless possible, scenarios and external data are also used. Erste Group sources external data from a leading non-profit risk-loss data consortium.

Erste Group calculates capital requirements for operational risk based on the Advanced Measurement Approach (AMA) that is subject to regulatory approval. AMA is a sophisticated approach for measuring operational risk. Pursuant to AMA, the required capital is calculated using an internal VaR model, taking into account internal data, external data, scenario analysis, business environment and internal risk control factors. Additionally, Erste Group received the approval to use insurance contracts for mitigation within the AMA pursuant to Article 323 CRR.

Methods and instruments of risk mitigation

In addition to quantitative methods, qualitative methods are also used to determine operational risk, such as risk and control assessments through expert panels. Additional methods include setting of key risk indicators and risk assessments in connection with product approvals, outsourcing assessments and risk return decisions. The results of these assessments and processes are reported to line management along with

mitigation measures and thus help to reduce operational risks. In order to ensure early detection of changes in the risk profile that may lead to losses, Erste Group monitors a number of key risk indicators such as system availability, staff turnover, and customer complaints.

Erste Group uses a group-wide insurance program that has reduced the cost of meeting Erste Group's traditional property insurance needs. Freed-up resources made it possible to buy additional insurance for previously uninsured bank-specific risks. This program uses a captive reinsurance entity as a vehicle to share losses within the group and access the external market.

The quantitative and qualitative methods used, together with the insurance strategy and the modelling approaches described above, form the operational risk framework of Erste Group. Information on operational risk is periodically communicated to the management board via various reports, including the quarterly top management reports, which describe the recent loss history, loss development, qualitative information from risk assessments and key risk indicators as well as the operational VaR for Erste Group.

47. Hedge accounting

Hedges of interest rate risk

As an inherent part of its business Erste Group is exposed to interest rate risk arising from the interest characteristics and behavior of assets, liabilities and off balance sheet items. This relates to the existing balance sheet items as well as to expected development of the balance sheet and banking activities. Interest rate risk can generally be defined as a potential deterioration of a bank's financial condition in reaction to adverse movements in market interest rates.

Hedge accounting activities relate to interest risk bearing exposures in the banking book. The interest rate risk of the banking book is managed by Group Asset Liability Management (ALM). Interest rate risk management actions of ALM are approved as part of the ALM strategy by Group Asset Liability Committee (ALCO). For hedging relationships qualifying for hedge accounting hedge effectiveness is measured by risk management unit which is independent from ALM as the risk taker.

The objective of the interest rate risk management in the banking book is to optimise the risk and return of interest rate risk exposures. For this purpose and for compliance with external and internal regulations and limitations Erste Group manages the interest rate risk from the earnings and economic value perspectives. The focal point of the interest rate risk analysis from the earnings perspective is the variation in earnings, i.e. the net interest income. The changes in interest rates have an impact on the bank's earnings via its distinct impact on interest income and interest expenses accrued on assets and liabilities respectively. The economic value perspective views the interest rate risk as changes in the economic value of equity. It can be identified as the present value of cash-flows arising from asset, liability and off-balance-sheet items. Change in interest rates alters both the size of future cash-flows and the value of discount rates applied in the calculation.

Existing balance sheet items and contributions of planned or forecast transactions are analysed through the earnings and economic value based metrics. Erste Group keeps the risk within predefined limits. When actively managing interest rate risk ALM gives preference to entering into bonds and derivatives. In general, the policy of Erste Group is to swap all substantial fixed or structured issued bonds to floating items. In addition of managing the interest rate risk using derivative transactions and investments in bonds, also the intended non-hedging of benchmark issues with derivatives is used for managing the interest rate risk.

Interest rate swaps are the most common derivatives used to manage interest rate. If fixed rate repricing profiles of assets or liabilities do not fit to the interest rate risk management strategy they are swapped into variable rate items (usually 3-month money market rate such as Euribor). In other cases, variable rate repricing profiles of assets or liabilities may need to be swapped into fixed rate items.

Erste Group employs hedge accounting to address accounting mismatches resulting from different measurement requirements for derivatives which are measured at fair value through profit or loss and financial assets and liabilities in the banking book measured at amortised cost or at fair value through other comprehensive income. Some of the accounting mismatches are addressed by designating financial assets or financial liabilities as measured at FVPL (fair value option) without the need to use hedge accounting.

Fair value hedges address the risk management activities of swapping fixed rate assets or liabilities into variable rate. On the other hand, cash flow hedges are used when floating rates assets or liabilities are swapped into fixed ones (please refer also to the discussion of proxy hedges below).

For hedges of interest rate risk of portfolios of prepayable fixed rate loans Erste Group applies requirements for portfolio fair value hedges of interest rate risk as regulated by IAS 39.AG114-AG132. For this purpose, Erste Group makes use of the relaxation provided by the EU-carve out and hedges the interest rate risk in respect of so called bottom layer amount. The bottom layer amount is expected not to be affected by prepayments of loans (including a margin of conservatism). Thus, it represents a stable fixed interest rate exposure which is hedged by using interest rate swaps. With this approach, any prepayments, other derecognitions and impairments are attributed to the unhedged buffer amount above the designated bottom layer. Thus, they do not affect the hedge effectiveness unless their amount hits the designated hedged bottom layer level.

Fair value hedges are designated in respect of the interest rate risk component of the fair value changes of the hedged fixed rate items. The hedged interest rate risk portion in fair value hedges relates to the observed interest rate (swap yield curve) component. I.e. the fair value volatility resulting from changes in the spread of the hedged fixed rate instrument swap yield curve is excluded from hedge accounting and is not accounted for.

Similarly, in cash flow hedges the hedged risk is designated in respect of the variable cash flows portion equal to the interest index of the swap (such as Euribor, Libor). The credit spreads over the swap index are excluded from hedge accounting.

The hedging interest derivatives are economically related to the hedged interest rate risk component of the hedged item. The non-interest components (such as credit spreads) of the hedged items are outside the hedging relationship. As a result, comparable valuation inputs are applied on both sides of the hedging relationship. Thus offsetting effects are recognised to the extent the economic relationship exists without giving rise to artificial volatility in profit or loss. The hedged interest rate risk component is the most significant factor affecting fair value changes of the hedged item.

The designated hedging relationships normally correspond to the economic hedges set up by ALM when managing the interest rate risk. However, in some cases, the hedging derivatives may not be directly related to specific assets or liabilities but they manage the overall interest risk position. Also, the derivatives may relate to instruments which do not qualify as hedged items under the IFRS hedge accounting requirements. In order to account for risk mitigating effects of such derivatives Erste Group searches for suitable hedged items providing the best fit to the terms of the derivative and designates an effective hedging relationship (so called proxy hedges). Typically cash flow hedges of variable rate assets are designated on such a basis whereby the actual economically hedged risk may result from modelled fixed rate profile of demand deposit liabilities.

Erste Group has following types of hedged items in hedges of interest rate risk as of 31 December 2019:

in EUR million	Type of hedged items	Hedged notional amount	
		Dec 18	Dec 19
Fair value hedges			
Assets	Portfolios of client loans	455	319
Assets	Single loans	390	383
Assets	Bonds at FVOCI	693	543
Assets	Bonds at AC	641	600
Liabilities	Issued bonds	9,221	9,412
Liabilities	Other liabilities/repos	200	54
Cash flow hedges			
Assets	Interbank loans/repos	1,561	1,580
Assets	Client loans	1,876	1,608
Assets	Corporate/government bonds	93	94

Portfolio hedges of defined bottom layer amounts (bottom layer hedges) are disclosed in the table with the nominal hedged bottom layer amounts.

The hedge ratio is chosen in compliance with the rules defined in IAS 39. The volume of the hedging instrument which is designated for the hedge relation can never be greater than the volume of the hedged item. If the notional of a hedging derivative is greater than the notional of the hedged item the respective proportion of the derivative is designated as hedging instrument. Further, the tenor of the hedging instrument is never longer than the tenor of the hedged item.

Sources of hedge ineffectiveness can result from:

- _ designation of hedging instruments and hedged items during their life rather than from their inception
- _ different discounting curves applied for hedged item and hedging instrument
- _ different interest tenors of hedging swaps and hedged variable rate items in cash flow hedges
- _ volatility of present value of floating leg of hedging swaps in fair value hedges
- _ different trade dates for the hedging instrument and the hedged item
- _ real prepayments of a loan portfolio deviating from expected prepayments
- _ credit risk adjustments (CVA, DVA) on the hedging derivatives

Foreign exchange risk

The objective of foreign exchange risk management in the banking book is to avoid unfavorable market movements of foreign exchange rates which could impact profit or loss of Erste Group. Only a minor part of foreign exchange risk management activities requires using of hedge accounting. Currently fixed rate corporate or government bonds with notional amount of EUR 57 million are hedged in cash flow hedges by using cross currency swaps as hedging instruments.

Quantitative disclosures

In the tables below, detailed information related to hedging instruments and hedged items in fair value and cash flow hedges as of 31 December 2019 are reported. The indicated values for fair value hedges include single hedges as well as portfolio hedges, which due to immateriality are not shown separately.

Hedging instruments

Dec 19	Carrying amount		Change in FV for the period used for calculating hedge ineffectiveness	Notional	Timing of the nominal amounts of the instruments			
	Assets	Liabilities			≤ 3 m	> 3 m and ≤ 1 y	> 1 y and ≤ 5 y	> 5 y
in EUR million								
Fair value hedges								
Interest rate risk	110	188	181	11,234	33	1,093	4,952	5,155
Cash flow hedges								
Interest rate risk	20	79	-20	3,280	0	39	2,094	1,147
Foreign exchange risk	1	2	-4	252	10	21	68	152
Total	130	269	156	14,766	43	1,154	7,114	6,455

Dec 18	Carrying amount		Change in FV for the period used for calculating hedge ineffectiveness	Notional	Timing of the nominal amounts of the instruments			
	Assets	Liabilities			≤ 3 m	> 3 m and ≤ 1 y	> 1 y and ≤ 5 y	> 5 y
in EUR million								
Fair value hedges								
Interest rate risk	96	205	9	11,510	104	611	4,761	6,033
Cash flow hedges								
Interest rate risk	36	71	28	3,574	4	0	1,874	1,697
Foreign exchange risk	0	1	-1	57	0	0	0	57
Total	132	277	37	15,142	108	611	6,635	7,788

The hedging instruments are presented in the line 'Hedge accounting derivatives' in the balance sheet.

Hedged items in fair value hedges

Dec 19	Carrying amount	Hedge adjustments		
		included in the carrying amount	Thereof: for the period used for recognition of hedge ineffectiveness	Remaining adjustments for terminated hedges
in EUR million				
Financial assets at FVOCI				
Interest rate risk	600	91	0	25
Financial assets at AC				
Interest rate risk	1,632	115	20	24
Financial liabilities at AC				
Interest rate risk	9,900	361	-199	148

Dec 18	Carrying amount	Hedge adjustments		
		included in the carrying amount	Thereof: for the period used for recognition of hedge ineffectiveness	Remaining adjustments for terminated hedges
in EUR million				
Financial assets at FVOCI				
Interest rate risk	765	101	-11	22
Financial assets at AC				
Interest rate risk	1,513	115	-11	5
Financial liabilities at AC				
Interest rate risk	9,914	282	10	47

The hedged items are disclosed in the following line items in the balance sheet:

- _ Financial assets at fair value through other comprehensive income / debt securities
- _ Financial assets at amortised cost / loans and advances to customers
- _ Financial assets at amortised cost / debt securities
- _ Financial liabilities at amortised cost / debt securities issued

Hedged items in cash flow hedges

Dec 19	Change in FV for the period used for calculating hedge ineffectiveness	Cash flow hedge reserve for continuing hedges	Cash flow hedge reserve for terminated hedges
in EUR million			
Interest rate risk	25	-65	18
Foreign exchange risk	5	-6	0
Total	29	-71	18

Dec 18	Change in FV for the period used for calculating hedge ineffectiveness	Cash flow hedge reserve for continuing hedges	Cash flow hedge reserve for terminated hedges
in EUR million			
Interest rate risk	-29	-40	42
Foreign exchange risk	1	-1	0
Total	-28	-41	42

Effects of hedge accounting in profit or loss and other comprehensive income

Dec 19	Hedge ineffectiveness recognised in P&L	Hedging gains/losses recognised in OCI	Cash flow hedge reclassified to profit or loss because	
			the hedged item has affected profit or loss	the hedged future cash flows are no longer expected to occur
in EUR million				
Fair value hedges				
Interest rate risk	2	0	0	0
Cash flow hedges				
Interest rate risk	4	-25	-25	0
Foreign exchange risk	0	-4	0	0
Total	6	-29	-25	0

Dec 18	Hedge ineffectiveness recognised in P&L	Hedging gains/losses recognised in OCI	Cash flow hedge reclassified to profit or loss because	
			the hedged item has affected profit or loss	the hedged future cash flows are no longer expected to occur
in EUR million				
Fair value hedges				
Interest rate risk	-3	0	0	0
Cash flow hedges				
Interest rate risk	-1	29	-31	0
Foreign exchange risk	0	-1	0	0
Total	-4	28	-31	0

Ineffectiveness from both fair value and cash flow hedges is presented under 'Net trading result' in the statement of income. The amounts reclassified from the cash flow hedge reserve are presented in the line 'Other similar income' under 'Net interest income' for hedges of interest rate risk and 'Net trading result' for hedges of foreign exchange risk.

Application of the Interest Rate Benchmark Reform IAS 39 amendments

Erste Group considers that it is exposed to uncertainties resulting from interest rate benchmark reform in respect of its hedges of CHF LIBOR interest risk. Hedging instruments with nominal amount of CHF 200 million (EUR 184,3 million) designated in fair value hedges of debt securities issued are affected. Their hedging period reaches beyond 2021 when uncertainties about existence of CHF LIBOR rates arise.

If CHF LIBOR rates cease to be quoted they are assumed to be replaced by SARON (Swiss Average Rate Overnight) rates. There are significant differences between these rates. CHF LIBOR is a forward looking 'term rate' published at a start of a borrowing period with certain tenor (such as 3 months), i.e. it is 'forward-looking'. SARON is an overnight rate resulting from actual transactions. The term structure of SARON rate is expected to be developed on a 'backward-looking' basis, e.g. a 3-month SARON would be based on a compounded average of overnight SARON rates over the 3-month period calculated at its end. Moreover, LIBOR rates in general include a credit spread component reflecting the riskiness of an interbank market for respective tenors. As a result, the replacement rates will have as a foundation the term SARON rate and on top a spread adjustment to ensure economic equivalence addressing the tenor, credit risk and other differences.

When it comes to the replacement, the CHF interest rate swap hedging instruments will be affected both by replacements of the reference rate used for their floating legs and the change in the discounting curve. On the hedged items side, the hedged benchmark interest rate risk portion will be affected only by change in the discounting curve. Further, the switch to the new discounting curves may occur at different points in time for the hedging instruments and the hedged items.

As a result, of these uncertainties, Erste Group decided to apply early the amendments to IAS 39 Interest Rate Benchmark Reform which bring some reliefs enabling not to discontinue these hedges as long as uncertainties arising from the reform exist. More specifically, it is necessary to prove that the non-contractually specified benchmark portion of interest rate risk (resulting from the CHF LIBOR curve) is separately identifiable only at the hedge inception and not during the hedge life. For testing of prospective effectiveness it is assumed that the hedging instrument and the hedged risk of the hedged item do not change as a result of the reform. If the retrospective effectiveness requirements were not met the hedges would not need to be discontinued. However, any hedge ineffectiveness would be accounted for in profit or loss. Application of these reliefs will cease when there is no longer uncertainty about the CHF LIBOR-based cash flows of the hedging instruments and the hedged benchmark interest rate risk portion.

Erste Group also hedges interest rate risks in EUR, CZK and USD. However, for these currencies it does not consider to be exposed to uncertainties resulting from the reform. For EUR all the hedges relate to EURIBOR interest rates which have been reformed and are EU Benchmark Regulation compliant. The same applies in CZK for PRIBOR, whose calculation methodology is expected to be strengthened in 2020 while continuing to measure the same underlying interest. Erste Group has designated one hedge of USD LIBOR interest risk which will expire in 2020. Thus, it is not deemed to be exposed to uncertainties around the reform since LIBOR rates will not be ceased before 2022.

Erste Group has established an internal project led by Asset-Liability Management to oversee the interest benchmark transition with the aim to minimize the potential disruption to business and to mitigate operational and conduct risks and possible financial losses. This transition project will include changes to systems, processes, risk management and valuation models, as well as managing related tax and accounting implications.

48. Fair value of financial instruments

For all financial instruments the fair value is measured on recurring basis.

Financial instruments carried at fair value

The measurement of fair value at Erste Group is based primarily on external sources of data (stock market prices or broker quotes in highly liquid market segments). Financial instruments for which the fair value is determined on the basis of quoted market prices are mainly listed securities and derivatives as well as liquid OTC bonds.

Description of valuation models and parameters

Erste Group uses valuation models that have been tested internally and for which the valuation parameters (such as interest rates, exchange rates, volatilities and credit spreads) have been determined independently. In 2015, as a consequence of the negative interest environment, valuation models of interest rate options for the respective currencies were adjusted. Log-normal valuation models were replaced by standard market models which are based on a shifted log-normal distribution or a standard distribution. For such models negative interest rates are no restriction.

Loans. Not SPPI (solely payments of principal and interest) compliant loans are to be valued at fair value. The methodology to compute fair value of these loans corresponds to the basic present value technique where expected cash flows of assets are discounted by the full rate including risk premium required for non-market risk based part of the interest rate to be compliant with fair value definition. The credit risk is recognized by adjusting contractual cash flows to come to expected cash flows accounting for customer's probability of default and loss given default. These adjusted cash flows are then discounted by a yield curve which consists of a risk free rate and a funding spread.. The complex loan products are valued by Monte Carlo simulation approach to include convexity correction and time value of embedded options.

Debt securities. For plain vanilla (fixed and floating rate) debt securities the fair value is calculated by discounting the future cash flows using a discounting curve depending on the interest rate for the respective issuance currency and a spread adjustment. The spread adjustment is usually derived from the credit spread curve of the issuer. If no issuer curve is available the spread is derived from a proxy instrument and adjusted for differences in the risk profile of the instruments. If no close proxy is available, the spread adjustment is estimated using other information, including estimation of the credit spread based on internal ratings and PDs or management judgment. For more complex debt securities (e.g. including option-like features such as callable, cap/floor, index-linked) the fair value is determined using combinations of discounted cash flow models and more sophisticated modeling techniques including methods described for OTC-derivatives.

Equity instruments. Non-trading equity instruments which have quoted market prices in an active market are valued by using the quoted market price. For other investments in non-trading equity instruments the fair value is determined by standard valuation models using also unobservable input parameters. These models include the adjusted net asset value method, the simplified income approach, the dividend discount model and the comparable company multiple method. The adjusted net asset method requires an investor to measure the fair value of the individual assets and liabilities recognized in an investee's statement of financial position as well as the fair value of any unrecognized assets and liabilities at the measurement date. The resulting fair values of the recognized and unrecognized assets and liabilities should therefore represent the fair value of the investee's equity. The dividend discount model assumes that the price of equity instruments issued by an entity equals the present value of all its expected future dividends in perpetuity. Similar to the dividend discount model, the simplified income approach estimates the fair value based on the future income. However, it can be used also when only one year planned income is

available. The simplified income approach and the dividend discount model discount future income and dividends using the cost of equity. The cost of equity is dependent on the risk-free rate, the market risk premium, the levered beta and the country risk premium. The levered beta is derived from the industry classification which is published and maintained by Damodaran. In rare cases, techniques for non-trading equity instruments may also include models based on multiples. The comparable company multiple method is a valuation technique within the market approach that uses prices and other relevant information generated by market transactions involving comparable company peers of an investee to derive a valuation multiple from which the indicated fair value of the investee's equity or enterprise value can be inferred.

Liabilities. The fair value of financial liabilities designated at fair value through profit or loss under the fair value option is determined in line with similar instruments held as assets. Erste Group derives its own credit spread for the respective seniority class according to the principle of market opportunity cost and the cost of issuing primary benchmark bonds in the capital market. An important input factor for the spread levels are indications from external investment banks, which Erste Group receives on a regular basis. For every seniority of issued bonds with accounting treatment FVO, a specified valuation curve is applied. The spreads are validated on a regular basis from an independent Risk Management unit.

OTC-derivative financial instruments. Derivative instruments traded in liquid markets (e.g. interest rate swaps and options, foreign exchange forward and options, options on listed securities and indices, credit default swaps and commodity swaps) are valued by using standard valuation models. These models include discounting cash flow models, option models of the Black-Scholes and Hull-White type as well as hazard rate models. Models are calibrated on quoted market data (including implied volatilities). Valuation models for more complex instruments also use Monte-Carlo simulation. For instruments in less liquid markets, data obtained from less frequent transactions or extrapolation techniques are used. For determining the fair value of derivatives collateralised in Euro, EONIA (Euro Over Night Index Average) is used as the discounting interest rate, since this index corresponds to the interest rate for cash collaterals. As a result of the IBOR reform it has been decided that EONIA will be replaced by ESTER (Euro Short-Term Rate) with a transition phase until 31. December 2021. For existing derivatives the switch to the new interbank rate has to be renegotiated with all CSA contract partner on a bilateral basis. Since London Clearing House has announced to switch to ESTER in June 2020 Erste Group expects that all bilateral contracts will be changed after that date. The transition of all CSA's from EONIA to ESTER will change the discounting method as well. Any change in valuation caused by this transition shall be offsetted by a compensation payment.

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

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

According to the described methodology the accumulated CVA-adjustments amounted to EUR 15.7 million (2018: EUR 15.1 million) and the total DVA-adjustment amounted to EUR 2.8 million (2018: EUR 4.1 million).

Validation and control

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

Fair value hierarchy

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

Level 1 of the fair value hierarchy

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

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

Level 2 of the fair value hierarchy

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

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

Level 3 of the fair value hierarchy

In some cases, the fair value can be determined neither on the basis of sufficiently frequent quoted market prices nor on the basis of valuation models that rely entirely on observable market data. In these cases individual valuation parameters which are not observable in the market are estimated on the basis of reasonable assumptions. If any unobservable input in the valuation model is significant or the price quote used is updated infrequently the instrument is classified as Level 3 of the fair value hierarchy. For Level 3 valuations besides observable parameters typically credit spreads derived from internally calculated historical probability of default (PD) and loss given default (LGD) measures are used as unobservable parameters. Furthermore, internally calculated cost of equity and adjustments made on the equity (in the adjusted net asset value method) are unobservable parameters for the valuation of non-trading equity instruments.

These include shares, participations and funds not quoted, illiquid bonds as well as collateralized mortgage obligations (CMO) as well as loans. Furthermore, fund units issued by investment funds fully consolidated by Erste Group as well as own issues are reported in this category.

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

Classification of financial instruments carried at fair value by levels of the fair value hierarchy

in EUR million	Dec 18				Dec 19			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets								
Financial assets HFT	1,419	4,085	80	5,584	2,209	3,457	93	5,760
Derivatives	2	2,974	61	3,037	7	2,720	79	2,805
Other financial assets held for trading	1,417	1,111	19	2,547	2,202	737	14	2,954
Non-trading financial assets at FVPL	2,239	293	778	3,310	1,985	302	922	3,208
Equity instruments	31	24	317	372	55	5	330	390
Debt securities	2,208	268	174	2,651	1,929	297	109	2,335
Loans and advances	0	0	287	287	0	0	483	483
Financial assets at FVOCI	7,707	1,063	502	9,272	7,745	845	457	9,047
Equity instruments	0	0	239	239	1	0	209	210
Debt securities	7,707	1,063	263	9,033	7,744	845	247	8,836
Hedge accounting derivatives	0	131	1	132	0	129	1	130
Total assets	11,365	5,573	1,361	18,299	11,939	4,733	1,473	18,144
Liabilities								
Financial liabilities HFT	465	2,030	14	2,508	371	2,045	5	2,421
Derivatives	2	1,985	14	2,000	3	1,997	5	2,005
Other financial liabilities held for trading	463	45	0	508	368	48	0	416
Financial liabilities at FVPL	618	12,943	561	14,122	366	12,821	308	13,494
Deposits from customers	0	212	0	212	0	265	0	265
Debt securities issued	618	12,731	96	13,446	366	12,556	89	13,011
Other financial liabilities	0	0	464	464	0	0	219	219
Hedge accounting derivatives	0	277	0	277	0	269	0	269
Total liabilities	1,083	15,249	574	16,907	736	15,135	313	16,185

Derivatives transacted via Clearing Houses are presented after netting in compliance with their balance sheet treatment. The netted derivatives are allocated to Level 2.

The allocation of the appropriate level of positions is determined at the end of the reporting period.

Valuation process for financial instruments categorised as Level 3

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

Changes in volumes of Level 1 and Level 2

Changes in Level 1 and Level 2 volumes of financial instruments carried at fair value in the balance sheet

in EUR million	Dec 18		Dec 19	
	Level 1	Level 2	Level 1	Level 2
Securities				
Net transfer from Level 1		525		-60
Net transfer from Level 2	-525		60	
Net transfer from Level 3	1	-76	3	146
Purchases/sales/expiries	-4,234	-648	507	-670
Changes in derivatives	-7	-1,081	4	-256
Total year-to-date change	-4,765	-1,280	574	-840

Movements in 2019. The total amount of Level 1 financial assets increased by EUR 574 million compared to last year. The volume of Level 1 securities increased by EUR 569 million. The main changes are caused by matured or sold assets in the amount of EUR 3,164 million and by new investments in the amount of EUR 2,530 million. Furthermore, the increase in volume for securities that were allocated to Level 1 at both reporting dates (2019 and 2018) amounted to EUR 1,125 million (due to partial purchases and sales and fair value changes caused by market movements). Due to improved market liquidity, assets in the amount of EUR 79 million could be reclassified from Level 2 to Level 1. This applied mainly to securities issued by governments (EUR 32 million), but also to securities issued by other corporates (EUR 24 million) and financial institutions (EUR 23 million). Due to lower market activity and changes to modelled fair value, securities in total of EUR 19 million have been moved from Level 1 to Level 2. This applies mainly to securities issued by governments (EUR 13 million), other corporates (EUR 4 million) as well as securities issued by financial institutions (EUR 2 million). Level 3 instruments in the amount of EUR 2 million were reclassified to Level 1. The remaining positive change in the amount of EUR 16 million was due to partial sales and fair value changes of reclassified instruments. The volume of derivatives increased by EUR 5 million.

Movements in 2018. The total amount of Level 1 financial assets decreased by EUR 4,765 million compared to last year. The change in volume of Level 1 securities (decreased by EUR 4,758 million) was determined on the one hand by matured or sold assets in the amount of EUR 2,985 million and on the other hand by new investments in the amount of EUR 2,064 million. The decrease in volume for securities that were allocated to Level 1 at both reporting dates (2018 and 2017) amounted to EUR 3,397 million (due to partial purchases and sales and fair value changes caused by market movements). Due to improved market liquidity, assets in the amount of EUR 93 million could be reclassified from Level 2 to Level 1. This applied mainly to securities issued by financial institutions (EUR 72 million), but also to securities issued by governments (EUR 19 million) and other corporates (EUR 2 million). Due to lower market activity and changes to modelled fair value, securities in total of EUR 618 million have been moved from Level 1 to Level 2. This applies mainly to securities issued by governments (EUR 535 million), other corporates (EUR 58 million) as well as securities issued by financial institutions (EUR 25 million). Level 3 instruments in the amount of EUR 2 million were reclassified to Level 1. Deteriorated availability of market-observable prices led to a reclassification of EUR 1 million from Level 1 to Level 3. The remaining positive change in the amount of EUR 83 million was due to partial sales and fair value changes of reclassified instruments. The volume of derivatives decreased by EUR 7 million.

Relassification between Level 1 and Level 2 based on balance sheet positions and instruments

in EUR million	Dec 18		Dec 19	
	Level 1 to Level 2	Level 2 to Level 1	Level 1 to Level 2	Level 2 to Level 1
Financial assets HfT	247	2	14	11
Bonds	247	1	14	9
Funds	0	1	0	2
Non-trading financial assets at FVPL	5	90	3	4
Bonds	5	25	3	4
Funds	0	65	0	0
Financial assets at FVOCI	366	2	2	64
Bonds	366	1	2	64
Funds	0	1	0	0
Total	618	94	19	79

Movements in 2019: Financial Assets. The total value of Level 2 financial assets decreased between 2019 and 2018 by EUR 840 million. The Level 2 fair value change of securities and other receivables (down by EUR 584 million) can be explained for the most part by matured or sold positions in the amount of EUR 1,472 million and new investments in the amount of EUR 793 million. The increase in volume for securities that have been allocated to Level 2 at both reporting dates 2019 and 2018 amounted to EUR 21 million due to purchases or sales in volumes and changes in market values. Due to reduced market depth a total volume of EUR 19 million was reclassified from Level 1 to Level 2 in 2018. This applies mainly to securities issued by governments (EUR 13 million), securities issued by other corporates (EUR 4 million)

and financial institutions (EUR 2 million). Securities in the amount of EUR 79 million were reclassified from Level 2 to Level 1 for the reporting date. Due to the use of significant non-observable valuation parameters a total volume of EUR 4 million was reclassified from Level 2 to Level 3. Due to a change to valuation models with significant observable parameters a total volume of EUR 150 million was reclassified from Level 3 to Level 2. The remaining decrease in the amount of EUR 12 million was due to partial sales and fair value changes of reclassified instruments. The decrease on the asset side derivatives in Level 2 by EUR 256 million are caused by changes in market values and by netting effects.

Movements in 2019: Financial Liabilities. The total Level 2 financial liabilities decreased by EUR 114 million. Whereas the fair value of derivatives increased by EUR 4 million, the portfolio of securities decreased by EUR 171 million. The fair value of client deposits increased by EUR 53 million.

Movements in 2018: Financial Assets. The total value of Level 2 financial assets decreased between 2018 and 2017 by EUR 1,280 million. The Level 2 fair value change of securities and other receivables (down by EUR 199 million) can be explained for the most part by matured or sold positions in the amount of EUR 1,130 million and new investments in the amount of EUR 721 million. The reduction in volume for securities that have been allocated to Level 2 at both reporting dates 2018 and 2017 amounted to EUR 207 million due to purchases or sales in volumes and changes in market values. Due to reduced market depth a total volume of EUR 618 million was reclassified from Level 1 to Level 2 in 2018. This applies mainly to securities issued by governments (EUR 535 million), securities issued by other corporates (EUR 58 million) and financial institutions (EUR 25 million). Securities in the amount of EUR 93 million were reclassified from Level 2 to Level 1 for the reporting date. Due to the use of significant non-observable valuation parameters a total volume of EUR 103 million was reclassified from Level 2 to Level 3. Due to a change to valuation models with significant observable parameters a total volume of EUR 27 million was reclassified from Level 3 to Level 2. The remaining decrease in the amount of EUR 32 million was due to partial sales and fair value changes of reclassified instruments. The decrease on the asset side derivatives in Level 2 by EUR 1,081 million are caused by changes in market values and by netting effects.

Movements in 2018: Financial Liabilities. Following the reclassification of own issues from an amortized cost treatment to a valuation at fair value, the total Level 2 financial liabilities increased by EUR 10 billion. Whereas the fair value of derivatives decreased by EUR 1 billion, the portfolio of securities increased by EUR 11 billion. The fair value of client deposits increased by EUR 163 million.

Movements in Level 3 of financial instruments carried at fair value

Development of fair value of financial instruments in Level 3

in EUR million												
		Gains/ losses profit or loss	Gains/ losses OCI	Purch- ases	Sales	Settle- ments	Addition to Group	Disposal out of Group	Transfer into Level 3	Transfer out of Level 3	Currency trans- lation	
	Dec 18										Dec 19	
Assets												
Financial assets HFT	80	25	0	4	-5	-2	0	0	2	-11	0	93
Derivatives	61	26	0	3	-5	-1	0	0	2	-7	0	79
Other financial assets held for trading	19	0	0	2	-1	-1	0	0	0	-5	0	14
Non-trading financial assets at FVPL	778	23	0	768	-298	-182	0	0	1	-162	-6	922
Equity instruments	317	5	0	40	-5	-9	0	0	1	-20	0	330
Debt securities	174	14	0	55	-4	-15	0	0	0	-116	0	109
Loans and advances	287	4	0	672	-290	-158	0	0	0	-26	-6	483
Financial assets at FVOCI	502	1	66	6	-50	-59	19	0	21	-47	-2	457
Equity instruments	239	0	53	0	-43	-47	0	0	9	-1	0	209
Debt securities	263	1	13	6	-7	-11	19	0	12	-46	-2	247
Hedge accounting derivatives	1	0	0	1	0	0	0	0	0	-1	0	1
Total assets	1,361	50	66	779	-354	-242	19	0	24	-222	-8	1,473
Liabilities												
Financial liabilities HFT	14	-7	0	0	0	-1	0	0	0	0	0	5
Derivatives	14	-7	0	0	0	-1	0	0	0	0	0	5
Financial liabilities at FVPL	561	22	0	143	-85	-6	0	-318	87	-96	-1	308
Deposits from customers	0	0	0	0	0	0	0	0	0	0	0	0
Debt securities issued	96	5	0	0	0	-2	0	0	87	-96	-1	89
Other financial liabilities	464	17	0	143	-85	-4	0	-318	0	0	0	219
Total liabilities	574	15	0	143	-85	-7	0	-318	87	-96	-1	313
Jan 18												
Assets												
Financial assets HFT	68	5	0	7	-25	-7	0	0	40	-8	0	80
Derivatives	25	5	0	0	0	-3	0	0	40	-5	0	61
Other financial assets held for trading	43	0	0	7	-25	-4	0	0	1	-2	0	19
Non-trading financial assets at FVPL	859	56	0	112	-159	-117	2	-1	74	-43	-5	778
Equity instruments	230	65	0	50	-39	0	2	0	19	-10	0	317
Debt securities	150	-4	0	6	-6	-14	0	-1	53	-11	1	174
Loans and advances	479	-5	0	55	-114	-104	0	0	3	-22	-6	287
Financial assets at FVOCI	446	0	25	12	-4	-21	0	0	165	-119	-2	502
Equity instruments	167	0	28	0	-2	0	0	0	46	0	0	239
Debt securities	278	0	-3	12	-2	-21	0	0	120	-119	-1	263
Hedge accounting derivatives	0	1	0	0	0	0	0	0	0	0	0	1
Total assets	1,373	62	25	131	-188	-146	2	-1	280	-169	-7	1,361
Liabilities												
Financial liabilities HFT	5	2	0	2	0	-1	0	0	6	0	0	14
Derivatives	5	2	0	2	0	-1	0	0	6	0	0	14
Financial liabilities at FVPL	1,128	15	0	3	0	-80	0	-4	160	-660	0	561
Deposits from customers	137	0	0	0	0	0	0	0	0	-137	0	0
Debt securities issued	456	0	0	3	0	0	0	0	160	-523	0	96
Other financial liabilities	534	15	0	0	0	-80	0	-4	0	0	0	464
Total liabilities	1,132	17	0	5	0	-82	0	-4	166	-660	0	574

Movements in 2019. The reclassification of securities to Level 3 was caused by a decrease in market liquidity and was based on an in-depth analysis of broker quotes. Based on the described analysis securities in the amount of EUR 4 million were reclassified from Level 2 to Level 3. The change is coming from securities issued by financial institutions (EUR 4 million). On the other hand securities in the amount of EUR 150 million were reclassified from Level 3 to Level 2. Thereof EUR 113 million are securities issued by financial institutions, EUR 34 million are securities issued by other corporates and EUR 3 million are issued by central governments. The movement from Level 3 to Level 1 amounted to EUR 2 million. Loans and advances which are measured at fair value under IFRS 9 increased by EUR 197 million. The additional change in Level 3 positions was on the one hand caused by a increase in derivative exposure of EUR 17 million and on the other hand by an increase caused by the purchase, sale and market value change of securities in the amount of EUR 46 million.

Movements in 2018. The reclassification of securities to Level 3 was caused by a decrease in market liquidity and was based on an in-depth analysis of broker quotes. In addition to the assessment of the parameters used for the fair value determination, the external market values of securitizations were subject to an internal validation process, which is based on observable market inputs. Based on the described analysis securities in the amount of EUR 103 million were reclassified from Level 2 to Level 3. The change is coming from securities issued by financial institutions (EUR 53 million) and securities from other corporates in the amount of EUR 50 million. On the other hand securities in the amount of EUR 27 million were reclassified from Level 3 to Level 2. Thereof EUR 18 million are securities issued by other corporates, EUR 5 million by financial institutions and EUR 4 million are securities issued by sovereigns. The movement from Level 3 to Level 1 amounted to EUR 2 million, while EUR 1 million were reclassified from Level 1 to Level 3. The main driver for the increase in Level 3 instruments of EUR 284 million can be allocated to loans and advances which are measured at fair value under IFRS 9. The additional change in Level 3 positions was on the one hand caused by an increase in derivative exposure of EUR 40 million and on the other hand by an increase caused by the purchase, sale and market value change of securities in the amount of EUR 108 million.

Gains/losses in profit or loss on Level 3 instruments held at the end of the reporting period

in EUR million	1-12 18	1-12 19
Assets		
Financial assets HFT	8.1	26.4
Derivatives	8.3	26.6
Other financial assets held for trading	-0.2	-0.2
Non-trading financial assets at FVPL	54.2	24.5
Equity instruments	63.9	6.0
Debt securities	-2.9	14.8
Loans and advances	-6.8	3.7
Financial assets at FVOCI	-1.1	-2.7
Debt securities	-1.1	-2.7
Hedge accounting derivatives	1.3	0.0
Total	62.4	48.1

For financial liabilities designated at FVPL in Level 3 a valuation of EUR -6.7 million was posted via income statement for the end of the reporting period (2018: EUR -17.0 million).

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

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

Unobservable inputs and sensitivity analysis for Level 3 measurements

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

Range of unobservable valuation parameters used in Level 3 measurements

Financial assets	Type of instrument	Fair value in EUR million	Valuation technique	Significant unobservable inputs	Range of unobservable inputs (weighted average)
Dec 19					
Positive fair value of derivatives	Forwards, swaps, options	75.8	Discounted cash flow and option models with CVA adjustment based on potential future exposure	PD LGD	0.66%-100% (4.40%) 60%
Financial assets at FVPL	Fixed and variable coupon bonds	6.1	Discounted cash flow	Credit Spread	0.81%-6.21% (3.29%)
	Loans	483.4	Discounted cash flow	PD LGD	0%-39.70% (0.81%) 0%-79.30% (25.18%)
Financial assets at FVOCI	Fixed and variable coupon bonds	140.9	Discounted cash flow	Credit Spread	1.23%-7.27% (4.31%)
Financial assets at FVOCI / at FVPL	Non-trading equity instruments (participations)	214.8	Dividend Discount Model; Simplified Income Approach	Beta relevered	Industries: Insurance (General) 0.92-0.96 Recreation 0.93 Real Estate (General/Diversified) 0.75 Financial Svcs. (Non-bank & Insurance) 0.93-1.02 Banks (Regional) 0.58
				Country risk premium	Croatia 2.79%, Austria 0.37% Czech Republic 0.65% Romania 2.04%, Russia 2.04%, Slovakia 0.79%, Spain 1.48%, Hungary 2.04% Resulting cost of equity based on above inputs: 6.32%-11.01%
		191.7	Adjusted Net Asset Value	Adjusted Equity	Depending on accounting equity of investment.
		159.0	Market comparable companies	EV / SALES EV / EBITDA EV / EBIT P/E P/E (implicit) P/B	Depending on industry classification according to Damodaran.
Dec 18					
Positive fair value of derivatives	Forwards, swaps, options	54.9	Discounted cash flow and option models with CVA adjustment based on potential future exposure	PD LGD	0.59%-100% (5.59%) 60%
Financial assets at FVPL	Fixed and variable coupon bonds	91.6	Discounted cash flow	Credit Spread	0.81%-4.87% (3.53%)
	Loans	286.6	Discounted cash flow	PD LGD	0%-43.38% (0.98%) 0%-85.69% (19.14%)
Financial assets at FVOCI	Fixed and variable coupon bonds	75.1	Discounted cash flow	Credit Spread	1.95%-7.27% (4.39%)
Financial assets at FVOCI / at FVPL	Non-trading equity instruments (participations)	174.6	Dividend Discount Model; Simplified Income Approach	Beta relevered	Industries: Insurance (General) 1.22-1.25 Recreation 0.95 Real Estate (General/Diversified) 0.82 Financial Svcs. (Non-bank & Insurance) 0.94-1.04 Banks (Regional) 0.74
				Country risk premium	Croatia 3.47%, Austria 0.41%-0.46% Czech Republic 0.81% Romania 2.26%, Russia 2.89%, Slovakia 0.98%, Spain 1.85% Resulting cost of equity based on above inputs: 7.42%-13.73%
		162.8	Adjusted Net Asset Value	Adjusted Equity	Depending on accounting equity of investment.
		40.4	Market comparable companies	EV / SALES EV / EBITDA EV / EBIT P/E P/E (implicit) P/B	Depending on industry classification according to Damodaran.

Equity instruments with a fair value in amount of EUR 147.9 million are assessed on the basis of expert opinions.

For equity instruments other than participations classified as Level 3, the amount of EUR 25.6 million (2018: EUR 23.4 million) is presented in the statement of financial position using the criteria of availability and quality of broker quotes.

Sensitivity analysis using reasonably possible alternatives per product type

in EUR million	Dec 18		Dec 19	
	Fair value changes		Fair value changes	
	Positive	Negative	Positive	Negative
Derivatives	2.2	-2.8	2.4	-3.2
Income statement	2.2	-2.8	2.4	-3.2
Debt securities	45.3	-60.3	11.6	-15.5
Income statement	23.7	-31.5	2.4	-3.2
Other comprehensive income	21.6	-28.8	9.2	-12.3
Equity instruments	71.6	-52.8	106.5	-67.6
Income statement	36.2	-31.6	62.7	-42.5
Other comprehensive income	35.4	-21.2	43.8	-25.1
Loans and advances	9.5	-24.8	10.8	-29.7
Income statement	9.5	-24.8	10.8	-29.7
Total	128.6	-140.7	131.3	-116.0
Income statement	71.6	-90.7	78.3	-78.6
Other comprehensive income	57.0	-50.0	53.0	-37.4

In estimating these impacts, mainly changes in credit spreads (for bonds), PDs, LGDs (for CVA of derivatives) and market values of comparable equities were considered. An increase (decrease) of spreads, PDs and LGDs result in a decrease (increase) of the corresponding fair values. Positive correlation effects between PDs and LGDs were not taken into account in the sensitivity analysis. For non-trading equity instruments increases (decreases) in any of the inputs used for the cost of equity calculation in isolation would result in a lower (higher) fair value.

The following ranges of reasonably possible alternatives of the unobservable inputs were considered in the sensitivity analysis table:

- _ for debt securities range of credit spreads between +100 basis points and -75 basis points
- _ for equity related instruments the price range between -10% and +5%
- _ for unquoted equity instruments measured by the adjusted net asset value the price range between -10% and +10%
- _ for unquoted equity instruments measured by dividend discount model/simplified income approach the cost of equity range between -2% and +2%
- _ for CVA on derivatives PDs rating upgrade/downgrade by one notch, as well as the change of LGD by -5% and +10%.
- _ for loans, the PDs rating upgrade/downgrade by 1%, the change of LGD by -5% and +10% and a range of credit spreads between +100 basis points and -75 basis points

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

in EUR million	Carrying amount	Fair Value	Level 1	Level 2	Level 3
Dec 19					
Assets					
Cash and cash balances	10,693	10,693	0	0	0
Financial assets at AC	204,162	208,412	25,273	2,637	180,503
Loans and advances to banks	23,055	23,072	0	0	23,072
Loans and advances to customers	154,344	157,342	0	0	157,342
Debt securities	26,764	27,998	25,273	2,637	89
Finance lease receivables	4,034	4,024	0	0	4,024
Assets held for sale	0	0	0	0	0
Trade and other receivables	1,408	1,412	0	0	1,412
Liabilities					
Financial liabilities at AC	204,143	204,392	10,472	6,631	187,289
Deposits from banks	13,141	13,337	0	0	13,337
Deposits from customers	173,066	172,948	0	0	172,948
Debt securities issued	17,360	17,531	10,472	6,631	428
Other financial liabilities	576	577	0	0	577
Financial guarantees and commitments					
Financial guarantees	n/a	82			82
Irrevocable commitments	n/a	357			357

in EUR million	Carrying amount	Fair Value	Level 1	Level 2	Level 3
Dec 18					
Assets					
Cash and cash balances	17,549	17,549	0	0	0
Financial assets at AC	189,106	192,194	25,146	1,761	165,288
Loans and advances to banks	19,103	19,098	0	0	19,098
Loans and advances to customers	143,953	146,096	0	0	146,096
Debt securities	26,050	27,000	25,146	1,761	93
Finance lease receivables	3,763	3,775	0	0	3,775
Assets held for sale	11	11	0	0	11
Trade and other receivables	1,318	1,315	0	0	1,315
Liabilities					
Financial liabilities at AC	196,863	196,895	6,761	9,544	180,589
Deposits from banks	17,658	17,752	0	0	17,752
Deposits from customers	162,426	162,179	0	0	162,179
Debt securities issued	16,293	16,478	6,761	9,544	172
Other financial liabilities	486	486	0	0	486
Financial guarantees and commitments					
Financial guarantees	n/a	201			201
Irrevocable commitments	n/a	102			102

In the table above, positive fair values of financial guarantees and commitments are shown with a positive sign whereas negative fair values are shown with a negative sign.

The fair value of loans and advances to customers and credit institutions has been calculated by discounting future cash flows while taking into consideration interest and credit spread effects. The interest rate impact is based on the movements of market rates, while credit spread changes are derived from PDs and LGDs used for internal risk calculations. For the calculation of fair value loans and advances were grouped into homogeneous portfolios based on rating method, rating grade, maturity and the country where they were granted. The fair values of debt securities at amortised cost are either taken directly from the market or they are determined by directly observable input parameters (i.e. yield curves).

The fair value of deposits and other liabilities, measured at amortised cost, is estimated by taking into account the current interest rate environment, as well as the own credit spreads. These positions are assigned to the Level 3 category. For liabilities without contractual maturities (e.g. demand deposits), the carrying amount represents the minimum of their fair value. The fair value of issued securities and subordinated liabilities measured at amortized cost is based on market prices or on observable market parameters, if these are available. For issued securities where the fair value cannot be retrieved from quoted market prices, the fair value is calculated by discounting the future cash flows. The spread adjustment for Erste Group's own credit risk is derived from buy-back levels of own issuances. Moreover optionality is taken into account when calculating the fair value.

For off-balance sheet liabilities (i.e. financial guarantees and unused loan commitments) the following fair value approaches are applied: the fair value of unused loan commitments is estimated using regulatory credit conversion factors. The resulting loan equivalents are treated like other on-balance sheet assets. The difference between the calculated total fair value and the notional amount of the hypothetical loan equivalents represents the fair value of the unused loan commitments. In case of the total fair value being higher than the notional amount of the hypothetical loan equivalents the unused loan commitments have a positive fair value. The fair value of financial guarantees is estimated in analogy to credit default swaps. The fair value of the guarantee is the sum of the present value of the protection leg and the present value of the premium leg. The value of the protection leg is estimated using the PDs and LGDs of the respective customers, whereas the value of the premium leg is estimated by the present value of the future fee payments to be received. If the protection leg is higher than the premium leg, financial guarantees have a negative fair value.

49. Fair value of non-financial assets

Fair values and fair value hierarchy of non-financial instruments

in EUR million	Carrying amount	Fair value	Level 1	Level 2	Level 3
Dec 19					
Assets for which the FV is disclosed in the notes					
Investment property	1,061	1,205	0	0	1,205
Assets for which the FV is presented in the balance sheet					
Assets held for sale	133	134	0	0	134
Dec 18					
Assets for which the FV is disclosed in the notes					
Investment property	959	1,082	0	0	1,082
Assets for which the FV is presented in the balance sheet					
Assets held for sale	90	103	0	0	103

Investment properties are measured at fair value on recurring basis. Assets held for sale, which consist mainly of property, are measured at fair value on non-recurring basis when their carrying amount is impaired down to fair value less costs to sell. The fair values of non-financial assets are determined by experts with recognised and relevant professional qualification.

Fair values of commercial real estate in Austria and CEE owned by Erste Group through Austrian companies are based on valuation reports relying essentially, but not solely, on observable market inputs (such as selling price per square meter charged in recent market observable transactions for similar assets). For all other property owned by Erste Group through subsidiaries located in CEE countries the valuations are carried out mainly using the comparative and investment methods. Assessment is made on the basis of a comparison and analysis of appropriate comparable investment and rental transactions, together with evidence of demand within the vicinity of the relevant property. The characteristics of such similar transactions are then applied to the asset, taking into account size, location, terms, covenant and other material factors.

The book value related to investment properties for which no disclosure according to IFRS 13 is required amounts to EUR 205 million as of 31 December 2019 (2018: EUR 200 million). The corresponding fair value amounts to EUR 209 million (2018: EUR 216 million).

The book value related to assets held for sale for which no disclosure according to IFRS 13 is required amounts to EUR 48 million (2018: EUR 76 million) as of 31 December 2019. The corresponding fair value amounts to EUR 68 million (2018: EUR 88 million).

50. Audit fees and tax consultancy fees

The following table contains fees charged by the auditors of Erste Group Bank AG and subsidiaries for the financial years 2019 and 2018; the auditors being Sparkassen-Prüfungsverband (auditing agency) and Price Waterhouse Coopers. The values for PricewaterhouseCoopers comprise the services of 'PwC Wirtschaftsprüfung GmbH' as well as the PwC network.

in EUR thousand	Dec 18	Dec 19
Statutory audit of financial statements/consolidated financial statements	12,084	13,187
Audit fees - PwC	5,505	5,855
Audit fees - Sparkassen-Prüfungsverband	6,579	7,332
Other assurance services	2,152	1,933
Other assurance services - PwC	921	845
Other assurance services - Sparkassen-Prüfungsverband	1,232	1,088
Tax consulting	2	17
Tax consulting - PwC	2	17
Tax consulting - Sparkassen-Prüfungsverband	0	0
Other services	401	423
Other services - PwC	344	372
Other services - Sparkassen-Prüfungsverband	57	51
Total	14,639	15,560

The Sparkassen-Prüfungsverband (Austrian Savings Bank Auditing Association) provided audit services for an amount of EUR 1,669 thousand (2018: EUR 1,257 thousand) to Erste Group Bank AG and EUR 5,545 thousand (2018: EUR 5,247 thousand) for the subsidiaries. For other assurance services EUR 58 thousand (2018: EUR 49 thousand) were charged to the subsidiaries of Erste Group Bank AG while EUR 11 thousand (2018: EUR 18 thousand) is the amount for other services provided to the subsidiaries. The amounts in the table above include also fees for services provided by SPV GmbH.

The auditor 'PwC Wirtschaftsprüfung GmbH' provided audit services to Erste Group Bank AG for EUR 1,057 thousand (2018: EUR 1,074 thousand) and to the subsidiaries for EUR 921 thousand (2018: EUR 930 thousand). An amount of EUR 3,877 thousand (2018: EUR 3,501 thousand) was charged for audit services of the PricewaterhouseCoopers network to the subsidiaries.

The total amount for other assurance services provided by 'PwC Wirtschaftsprüfung GmbH' is EUR 338 thousand (2018: EUR 355 thousand).

51. Contingent liabilities

To meet the financial needs of customers, the bank enters into various irrevocable commitments and contingent liabilities. Even though these obligations may not be recognised on the balance sheet, they do involve credit risk and are therefore part of the overall risk of the Bank (see Note 46 Risk management).

Legal proceedings

Erste Group Bank AG and some of its subsidiaries are involved in legal disputes, most of which have arisen in the course of ordinary banking business. These proceedings are not expected to have a significant negative impact on the financial position or profitability of Erste Group or Erste Group Bank AG. Erste Group is also subject to the following ongoing proceedings, some of which, if adversely adjudicated, may have a significant impact on the financial position or profitability of Erste Group or Erste Group Bank AG.

Consumer protection claims

Several banking subsidiaries of Erste Group have been named in their respective jurisdictions as defendants in a number of lawsuits and in regulatory proceedings, filed by individual customers, regulatory authorities or consumer protection agencies and associations. Some of the lawsuits are class actions. The lawsuits mainly relate to allegations that certain contractual provisions, particularly in respect of consumer loans, violate mandatory consumer protection laws and regulations and principles of general civil law and that certain fees or parts of interest payments charged to customers in the past must be repaid. The allegations relate to the enforceability of certain fees as well as to contractual provisions for the adjustment of interest rates and currencies. In some jurisdictions, the legal risks in connection with loans granted in the past are also increased by the enactment of politically-motivated laws impacting existing lending relationships, which may result in repayment obligations towards customers, as well as a level of unpredictability of judicial decisions beyond the level of uncertainty generally inherent in court proceedings. The following consumer protection issues are deemed particularly noteworthy.

In Romania, BCR is, aside from being a defendant in a substantial number of individual law suits filed by consumers, among several local credit institutions pursued by the consumer protection authority for allegedly abusive clauses pertaining to pre-2010 lending practices. In connection therewith, BCR is currently a defendant in individual litigation claims filed by the local consumer protection authority, in each case on behalf of a single or several borrowers. Only a part of these cases have so far been finally decided by the courts, only few of them with an adverse result for BCR. Adverse judgments on the validity of certain clauses may have the impact of invalidating such clauses also in other similar agreements concluded by BCR with other consumers.

In Croatia, the Supreme Court of Croatia, in a proceeding initiated by a local consumer protection association against several credit institutions, among them Erste Bank Croatia, declared in 2015 that Swiss Franc (CHF) clauses in loan agreements with consumers are valid, but contractual provisions permitting unilateral change of the variable interest rates in CHF denominated consumer loans, used by the majority of credit institutions until 2008, are null and void. In late 2016, the Croatian Constitutional Court rescinded the part of the Supreme Court of Croatia decision relating to the validity of CHF clauses. After the case had been returned for a retrial with respect to the CHF clause to the court of second instance, such court delivered its decision in June 2018, declaring in essence the nullification of the CHF currency clause, holding that collective and individual consumer rights were breached. However, no specific obligation of the bank was ordered by the verdict. In September 2019 the Supreme Court rejected the appeal of the credit Institutions against the 2018 decision. The impact of this decision on legal disputes with individual clients related to CHF denominated loan agreements is difficult to predict, especially in light of the laws enacted in 2015 that forced credit institutions to accept requests from clients that are consumers or individual professionals to convert their CHF denominated loans into EUR with retroactive effect. In December 2019 the Supreme Court decided to resolve the preliminary legal issue as to whether consumers who converted their loans have any rights to a further compensation, as there are numerous individual cases pending at lower courts. Such legal holding by the Supreme Court is expected for 2020 and shall be binding for all lower instance courts when deciding on such cases.

In Austria, the Verein für Konsumenteninformation ('VKI') has in 2019 started legal proceedings against Erste Bank der oesterreichischen Sparkassen AG ('EBOe'), challenging in a collective action (Verbandsklage) the validity of a number of clauses in EBOe's general terms for a number of bank products, claiming that they are not transparent or violate other provisions of consumer protection laws or general principles of civil law and EBOe should discontinue the use of these clauses or of synonymous clauses and should no longer invoke these clauses. EBOe is defending the case.

Corporate bond investors' prospectus claims

Since 2014, a number of investors in corporate bonds, issued by a large Austrian construction group in the years 2010, 2011 and 2012, have filed claims with the courts of Vienna against Austrian credit institutions, among them Erste Group Bank AG, requesting compensation for their losses as bondholders following the bankruptcy of the issuer of such corporate bonds in 2013. The plaintiffs argue in essence that the defendant credit institutions, who acted as joint-lead managers in the issuing of the respective bond, already knew of the insolvency status of the issuer at such time and should be liable for the issuing prospectus failing to state this. Erste Group Bank AG, together with a second Austrian credit institution, acted as joint-lead manager of the bond issuance in 2011. Erste Group Bank AG rejects the claims.

CSAS minority shareholders claims

Following the completion of a squeeze-out procedure in CSAS resulting in Erste Group Bank AG becoming the sole shareholder of CSAS, some former minority shareholders of CSAS have filed legal actions with the courts in Prague. In the case against CSAS the plaintiffs aim in essence at invalidating the shareholders' resolution approving the squeeze-out. In the proceedings against Erste Group Bank AG the plaintiffs allege in essence that the share price of 1.328 CZK (then ca. 51 Euro per share) paid by Erste Group Bank AG in the squeeze-out of the CSAS minority shareholders in fall 2018 was unfair and too low and should be increased. In case the courts find there should be an increase, this would affect all minority shareholders squeezed-out. In the squeeze-out performed in fall 2018 Erste Group Bank AG acquired a total of 1.03 % of minority shares for a consideration of ca. EUR 80 million. Erste Group Bank AG views that the purchase price, established by a valuation done by professional external experts, was correct and fair.

52. Analysis of remaining maturities

Expected remaining maturities of assets and liabilities

in EUR million	Dec 18		Dec 19	
	< 1 year	> 1 year	< 1 year	> 1 year
Cash and cash balances	17,549	0	10,693	0
Financial assets HFT	1,378	4,206	1,864	3,895
Derivatives	722	2,316	608	2,197
Other financial assets held for trading	657	1,890	1,256	1,698
Non-trading financial assets at FVPL	314	2,324	1,140	2,009
Equity instruments	17	355	39	352
Debt securities	273	1,706	1,055	1,220
Loans and advances to customers	23	264	47	437
Financial assets at FVOCI	2,210	7,062	1,784	7,336
Equity instruments	25	213	6	277
Debt securities	2,185	6,848	1,777	7,059
Financial assets at AC	49,930	139,176	55,636	148,526
Debt securities	3,209	22,841	21,802	1,252
Loans and advances to banks	18,429	674	31,224	123,120
Loans and advances to customers	28,292	115,661	2,610	24,153
Finance lease receivables	751	3,012	392	3,643
Hedge accounting derivatives	59	74	33	97
Property and equipment	0	2,293	0	2,629
Fair value changes of hedged items in portfolio hedge of interest rate risk	0	0	0	-4
Investment properties	0	1,159	0	1,266
Intangible assets	0	1,507	0	1,368
Investments in associates and joint ventures	0	198	0	163
Current tax assets	101	0	81	0
Deferred tax assets	0	402	0	475
Assets held for sale	213	0	269	0
Trade and other receivables	1,211	107	1,384	24
Other assets	705	177	736	265
Total Assets	74,550	162,242	74,012	171,692
Financial liabilities HFT	756	1,752	733	1,688
Derivatives	502	1,498	673	1,332
Other trading liabilities	254	254	60	356
Financial liabilities at FVPL	1,736	12,386	1,925	11,569
Deposits	75	137	140	125
Debt securities issued	1,197	12,249	1,566	11,444
Other financial liabilities	464	0	219	0
Financial liabilities at AC	149,090	47,773	145,649	58,495
Deposits from banks	11,915	5,743	7,113	6,028
Deposits from customers	132,406	30,021	135,323	37,743
Debt securities issued	4,312	11,981	2,673	14,688
Other financial liabilities	458	28	540	36
Lease liabilities	0	0	92	423
Hedge accounting derivatives	242	35	250	19
Fair value changes of hedged items in portfolio hedge of interest rate risk	0	0	0	0
Provisions	339	0	696	1,223
Current tax liabilities	0	1,365	61	0
Deferred tax liabilities	99	0	0	18
Liabilities associated with assets held for sale	0	23	6	0
Other liabilities	1,805	521	1,628	742
Total Liabilities	154,067	63,856	151,039	74,177

53. Own funds and capital requirements

Among others, Erste Group fulfils hereinafter the disclosure requirements according to the Capital Requirements Regulation (CRR), in detail Art. 437 para 1 (a), (d) and (e) CRR. References to chapters refer to the financial statement.

Regulatory Requirements

Since 1 January 2014, Erste Group has been calculating the regulatory capital and the regulatory capital requirements according to the CRR and the Capital Requirement Directive (CRD IV). The CRD IV was enacted in national law in the Austrian Banking Act (ABA). Erste Group applies these rules and calculates the capital ratios on the one hand by taking into consideration the Austrian transitional provisions which are defined in the CRR 'Begleitverordnung', published by the Austrian regulator. On the other hand Erste Group also applies the European Regulation on the exercise of options and discretions available in Union law which entered into force 1 October 2016. All requirements as defined in the CRR, the ABA, in technical standards issued by the European Banking Authority (EBA) and EBA guidelines are applied by Erste Group for regulatory purposes and for the disclosure of regulatory information.

Accounting Principles

The financial and regulatory figures published by Erste Group are based on IFRS. Eligible capital components are derived from the balance sheet and income statement which were prepared in accordance with IFRS. Adjustments to the accounting figures are considered due to the different definitions in the scopes of consolidation. Further details are explained in the section 'Regulatory scope of consolidation and institutional protection scheme'. The uniform closing date of the consolidated regulatory figures of Erste Group is the 31 December of the respective year.

Comparison of consolidation for accounting purposes and regulatory purposes

Disclosure requirements: Art. 436 (b) CRR

Scope of Consolidation

Further details regarding the IFRS scope of consolidation are disclosed in chapter 'B. Significant accounting policies' under the section 'scope of consolidation'.

The regulatory scope of consolidation is used as a synonym for the scope of consolidation that follows the regulatory requirements for consolidation as defined by the CRR and the ABA, which introduces the requirements of the CRD IV into national law.

An entity by entity view with detailed information on the consolidation method applied for each entity within the accounting and the regulatory scopes of consolidation are disclosed in connection with the disclosure requirements according to part 8 of the CRR.

Regulatory scope of consolidation and institutional protection scheme

The consolidated regulatory own funds and the consolidated regulatory capital requirements are calculated based on the scope of consolidation stipulated in the CRR. Based on Art. 4 para 1 (3), (16) to (27) CRR in line with Art. 18 and 19 CRR and para 30 ABA, the scope consists of credit institutions, investment firms, financial institutions and ancillary service undertakings. This definition differs from the scope of consolidation according to IFRS, which also includes insurance companies and other entities.

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

Main differences between the IFRS- and the regulatory scope of consolidation based on the different requirements as defined in IFRS and CRR as well as the ABA

- _ Based on the CRR and ABA, mainly credit institutions pursuant to Art. 4 para 1 (1) CRR, investment firms pursuant to Art. 4 para 1 and 2 CRR, ancillary services undertakings pursuant to Art. 4 para 1 and 18 CRR and financial institutions pursuant to Art. 4 para 1 26 CRR have to be considered within the regulatory scope of consolidation. On the contrary under IFRS all controlled entities, irrespectively of their business purpose, have to be consolidated.
- _ Exclusion of entities from the regulatory scope of consolidation can be applied based on Art. 19 CRR. According to Art. 19 para 1 CRR, entities can be excluded from the regulatory scope if their total assets and off-balance sheet items are less than the lower amount of either EUR 10 million or 1% of the total amount and off-balance sheet items of the parent company. Erste Group applies Art. 19 para 1 CRR.
- _ According to Art. 19 para 2 CRR, entities can also be excluded if the limits defined in Art. 19 para 1 CRR are exceeded, but are not relevant for regulatory purposes. Exclusion of entities based on Art. 19 para 2 CRR needs the prior approval of the competent authorities. For entities that exceed the limits as defined in Art. 19 para 1 CRR by insignificant amounts, Erste Group applies Art. 19 para 2 CRR and follows the requirements for the approval process as defined within this article. Erste Group does not apply Art. 19 para 1 and 2 CRR for credit institutions and investment firms.

Consolidation methods

Main differences between the IFRS- and the regulatory consolidation method, considering regulatory adjustments

For the calculation of consolidated own funds, Erste Group generally applies the same consolidation methods as used for accounting purposes. The difference relates to Art. 18 para 4 CRR only, which requires proportional consolidation of entities and financial institutions managed by an undertaking included in the consolidation together with one or more undertakings not included in the consolidation, where the liability of those undertakings is limited to the share of the equity held by the institution. Based on Art. 18 para 4 CRR, Erste Group applies proportional consolidation for one entity.

Consideration of consolidation methods for the calculation of consolidated own funds according to the CRR

The amounts used for the calculation of consolidated own funds derive from the balance sheet according to IFRS. The amounts that are used as the basis for the calculation of consolidated own funds are recalculated based on the definition of the regulatory scope of consolidation according to the CRR. The difference between the IFRS balance sheet and the regulatory balance sheet arises from the different scopes of consolidation (see table regarding balance sheet reconciliation). Amounts that relate to the own shares as well as to the minority interests in fully consolidated entities are therefore determined based on the regulatory scope of consolidation according to CRR. Minority interests are calculated based on the requirements as defined in Art. 81 to 88 CRR. Minority interests that relate to entities other than credit institutions are excluded from the own funds. Minority interests that relate to credit institutions are limited to capital requirements that relate to the minority interests in the relevant credit institutions. Erste Group applies Art. 84 CRR.

Consideration of non-consolidated financial sector entities and deferred tax assets that rely on future profitability arising from temporary differences within the calculation of consolidated common equity tier 1 of Erste Group

Carrying amounts representing the investments in financial sector entities as defined in Art. 4 (27) CRR that are not fully consolidated or considered by using the at equity method for regulatory purposes have to be deducted from the own funds based on the requirements as defined in Art. 36 (1) (h), 45 and 46 CRR for non-significant investments and Art. 36 (1) (i) CRR, Art. 43, 45, 47 and 48 CRR for significant investments. For these purposes, non-significant investments are defined as investments in financial sector entities in which the participation is equal to or less than 10% of common equity tier 1 (CET1) of the relevant financial sector entities, while significant investments are defined as investments that are above 10% of the CET1 of the relevant financial sector entities. To determine the participation in the relevant financial sector entities, these participations are calculated based on the direct, indirect and synthetic holdings in the relevant entities.

According to Art. 46 para 1 (a) CRR, holdings in non-significant investments have to be deducted only if the total amount for such investments, including additional tier 1 items according to Art. 56 (c) and 59 CRR and tier 2 items according to Art. 66 (c) and 70 CRR, exceeds a defined threshold of 10% in relation to CET1 of the reporting institution. The deduction shall be applied to the amount that exceeds the 10% threshold. Amounts that are equal to or less than 10% of the CET1 of the reporting institution are considered with the applicable risk weights according part 3, title II, chapter 2 respectively chapter 3 and if necessary according to the requirements of part 3, title IV within the Risk Weighted Assets (RWAs) based on the requirements according to Art. 46 para 4 CRR.

For the deduction of significant investments in the CET1 of financial sector entities, a threshold is defined in Art. 48 para 2 CRR. According to Art. 48 para 2 CRR, significant investments in the CET1 of financial sector entities have to be deducted only if they exceed 10% of the CET1 of the reporting institution. If the 10% threshold is exceeded, the deduction is limited to the amount by which the defined threshold is exceeded. The remaining amount has to be considered within the calculation of the RWAs. The risk weight (RW) is defined at 250% according to Art. 48 para 4 CRR.

In addition to the aforementioned threshold, a combined threshold for the deduction of significant investments according to Art. 36 para 1 (i) CRR and for deferred tax assets that rely on future profitability and arise from temporary differences according to Art. 36 para 1 (c) CRR as well as according to Art. 38 CRR is defined in Art. 48 para 2 CRR. The combined threshold according to Art. 48 para 2 CRR is defined at 17.65% of the CET1 of the reporting institution. If the threshold is exceeded, the exceeding amount has to be deducted from the CET1 of the reporting institution. The remaining amount has to be considered within the RWAs. A 250% RW shall be applied for the amount not exceeding the 17.65% threshold according to Art. 48 para 4 CRR.

Beside the 17.65% combined threshold, a 10% threshold related to the CET1 capital of the reporting institution is applied for deferred tax assets that rely on future profitability and arise from temporary differences according to Art. 48 para 3 CRR. In case the amount for deferred tax assets that rely on future profitability and which arise from temporary differences exceeds the threshold of 10% of CET1 of the reporting institution the exceeding amount has to be deducted from the CET1 of the reporting institution. The amount that is equal to or less than the threshold as defined in Art. 48 para 3 CRR has to be considered within the calculation of RWAs with a 250% RW according to Art. 48 para 4 CRR.

At the reporting date, Erste Group did not exceed any of the aforementioned thresholds. Hence, direct, indirect and synthetic investments in financial sector entities were not deducted from the consolidated own funds of Erste Group and therefore are considered in RWAs.

Threshold calculations according to Art. 46 and 48 CRR

in EUR million	Dec 18	Dec 19
Non-significant investments in financial sector entities		
Threshold (10% of CET1)	1,552	1,625
Holdings in CET1	-235	-181
Holdings in AT1	0	-113
Holdings in T2	-331	-192
Distance to threshold	985	1,139
Significant investments in financial sector entities		
Threshold (10% of CET1)	1,552	1,625
Holdings in CET1	-318	-281
Distance to threshold	1,233	1,344
Deferred tax assets		
Threshold (10% of CET1)	1,552	1,625
DTA that are dependent on future profitability and arise from temporary differences	-376	-373
Distance to threshold	1,175	1,252
Combined threshold for DTA and significant investments		
Threshold (17.65% of CET1)	2,739	2,869
DTA that are dependent on future profitability and arise from temporary differences and CET1 instruments of financial sector entities where the institution has a significant investment	-695	-654
Distance to threshold	2,044	2,214

Presentation of the scope of consolidation

Entities within the different scopes of consolidation

Dec 19	IFRS		CRR			
	Full	Equity	Full	Proportional	De Minimis	Equity
Credit institutions	67	2	67	0	1	1
Financial institutions, financial holding companies and mixed financial holding companies	145	29	144	1	29	15
Ancillary service undertakings, investment firms and asset management companies	63	1	37	0	41	1
Others	105	15	0	0	0	0

Dec 18	IFRS		CRR			
	Full	Equity	Full	Proportional	De Minimis	Equity
Credit institutions	66	2	66	0	1	1
Financial institutions, financial holding companies and mixed financial holding companies	159	33	158	1	36	16
Ancillary service undertakings, investment firms and asset management companies	64	2	37	0	42	2
Others	111	12	0	0	0	0

As of 31 December 2019 the number of companies consolidated according to IFRS was 427. The number of companies consolidated according to regulatory capital requirements, except those entities which are covered by Art. 19 para 1 and 2 CRR was 266.

Impediments to the transfer of own funds

Disclosure requirement: Art. 436 (c) CRR

Currently there are no restrictions or significant impediments to the transfer of financial funds or regulatory capital known for Erste Group. Further details are disclosed in chapter 'B. Significant accounting policies'.

Total capital shortfall of all subsidiaries not included in the consolidation

Disclosure requirement: Art. 436 (d) and (e) CRR

As of 31 December 2019, there was no capital shortfall at any of the companies included in Erste Group's consolidation.

Consolidated own funds

Own funds according to CRR consist of CET1, additional tier 1 (AT1) and tier 2 (T2). In order to determine the capital ratios, each respective capital component – after application of all regulatory deductions and filters – is considered in relation to the total risk amount.

The items of own funds as disclosed are also used for internal capital management purpose. Erste Group fulfilled the capital requirements.

The regulatory minimum capital ratios including the capital buffers as of 31 December 2019 amount to

- _ 9.4% for CET1 (4.5% CET1, +2.5% capital conservation buffer, +2.0% buffer for systemic vulnerability and for systemic concentration risk and +0.41% countercyclical capital buffer),
- _ 10.9% for tier 1 capital (sum of CET1 and AT1) and
- _ 12.9% for total own funds.

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

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

Sections 23, 23a, 23b and 23c ABA as well as the capital buffers regulation entered into force on 1 January 2016. The capital buffers regulation was amended on 23 May 2016 to include requirements for O-SII buffers.

As of the reporting date 31 December 2019, Erste Group has to fulfil the following capital buffer requirements (last year's amounts are shown in parentheses).

According to section 23 para 1 ABA, Erste Group has to establish a capital conservation buffer in the amount of 2.5% (2018: 1.875%). The transitional provisions for capital conservation buffers, by way of derogation from the requirements under section 23 ABA, are regulated in section 103q para 11 ABA.

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

- _ The institution specific requirement for the countercyclical buffer in accordance with section 23a para 1 ABA results from the weighted average of the rates of the countercyclical capital buffer that apply in the jurisdictions where significant credit risk positions are situated in accordance with section 5 of the credit institution, multiplied by the total amount of risk in accordance with Art. 92 para 3, of the CRR
- _ For the calculation of the weighted average according to para 1 capital buffer requirement, the countercyclical buffer quota for the national area as defined by the respective authority is multiplied with the result out of the comparison of the capital requirement related to significant credit risk positions within the national area and the total capital requirement as defined within Part 3, Title II and IV of the CRR.
- _ Starting from 1 January 2016 is for the purposes of section 23a para 3 clause 2 ABA the capital buffer rate for the home country allocated, significant credit risk positions is 0%.
- _ If the competent authority of another member state or a third country for the national legal area determines a rate of over 2.5% for the purposes of section 23a para 1 for significant credit risk positions in this legal area, a rate of 2.5% has to be applied.
- _ If the responsible third country authority establishes a national buffer rate, this rate is valid twelve months after the date on which the relevant third country authority has announced a change in the buffer rate.

According to section 23a ABA the capital buffer requirement for the countercyclical buffer amounts to a maximum of 2.5% (2018: a maximum of 1.875%).

Erste Group is not obliged to establish a G-SII buffer in line with section 23b ABA. According to Section 7b of the capital buffers regulation, Erste Group has to establish an O-SII buffer under section 23c ABA in the amount of 2%. However, Erste Group is only required to hold the higher of the O-SII and the systemic risk buffer under section 23d ABA. As the size of the O-SII buffer is identical to the provisions for the systemic risk buffer as set out below, no additional buffer requirements arise for Erste Group.

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

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

In accordance with section 10 capital buffers regulation the buffer rates for systemic vulnerability and for systemic concentration risk 2% (2018: 1%) is applied.

As a result of the 2018 SREP performed by the European Central Bank (ECB), Erste Group on a consolidated level is required to meet a transitional common equity tier 1 (CET1) ratio of 6.25% as of 31 December 2019. This minimum CET1 ratio of 6.25% includes Pillar 1 minimum requirement (4.5%) and Pillar 2 requirement (P2R, 1.75% valid as of 1 January 2019). In addition, Erste Group is subject to combined buffer requirement consisting of phasing in capital conservation buffer (2.5%), the institution specific countercyclical capital buffer (0.41%) and the systemic risk buffer (2.0%) requirements. Thus, overall CET1 capital requirement amount to 11.16%. In addition, ECB expects Erste Group to meet a Pillar 2 Guidance (P2G) of 1.0% valid as of 1 January 2019), fully in CET1 capital. The Pillar 2 Guidance is not MDA (maximum distributable amount) relevant.

Overview of capital requirements and capital buffers

	Dec 18	Dec 19
Pillar 1		
Minimum CET 1 requirement	4.50%	4.50%
Minimum Tier 1 requirement	6.00%	6.00%
Minimum Own Funds requirement	8.00%	8.00%
Combined buffer requirement	3.19%	4.91%
Capital conservation buffer	1.88%	2.50%
Countercyclical capital buffer	0.31%	0.41%
Systemic risk buffer	1.00%	2.00%
O-SII capital buffer	1.00%	2.00%
Pillar 2		
Pillar 2 requirement (P2R)	1.75%	1.75%
Total CET 1 requirement for Pillar 1 and Pillar 2	9.44%	11.16%
Total Tier 1 requirement for Pillar 1 and Pillar 2	10.94%	12.66%
Total Capital requirement for Pillar 1 and Pillar 2	12.94%	14.66%

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

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

Capital structure according to EU regulation 575/2013 (CRR)

in EUR million	CRR articles	Dec 18		Dec 19	
		Phased-in	Final	Phased-in	Final
Common equity tier 1 capital (CET1)					
Capital instruments eligible as CET1	26(1)(a)(b), 27-30, 36(1)(f), 42	2,336	2,336	2,337	2,337
Retained earnings	26(1)(c), 26(2)	11,541	11,541	12,238	12,238
Accumulated other comprehensive income	4(1)(100), 26(1)(d)	-1,342	-1,342	-1,458	-1,458
Minority interest recognised in CET1	4(1)(120), 84	4,322	4,322	4,448	4,448
Transitional adjustments due to additional minority interests	479, 480	0	0	0	0
Common equity tier 1 capital (CET1) before regulatory adjustments		16,857	16,857	17,565	17,565
Own CET1 instruments	36(1)(f), 42	-114	-114	-68	-68
Prudential filter: cash flow hedge reserve	33(1)(a)	3	3	45	45
Prudential filter: cumulative gains and losses due to changes in own credit risk on fair valued liabilities	33(1)(b)	443	443	406	406
Prudential filter: fair value gains and losses arising from the institution's own credit risk related to derivative liabilities	33(1)(c), 33(2)	-4	-4	-3	-3
Value adjustments due to the requirements for prudent valuation	34, 105	-78	-78	-85	-85
Regulatory adjustments relating to unrealised gains (0%)	468	0	0	0	0
Regulatory adjustments relating to unrealised losses (0%)	467	0	0	0	0
Securitized assets with a risk weight of 1,250%	36(1)(k)	-32	-32	-45	-45
Goodwill	4(1)(113), 36(1)(b), 37	-710	-710	-544	-544
Other intangible assets	4(1)(115), 36(1)(b), 37(a)	-726	-726	-741	-741
DTA that rely on future profitability and do not arise from temporary differences net of associated tax liabilities	36(1)(c), 38	-21	-21	-102	-102
IRB shortfall of credit risk adjustments to expected losses	36(1)(d), 40, 158, 159	-102	-102	-158	-158
Development of unaudited risk provisions during the year (EU No 183/2014)		0	0	-17	-17
Other transitional adjustments CET1	469-472, 478, 481	0	0	0	0
Goodwill (0%)		0	0	0	0
Other intangible assets (0%)		0	0	0	0
IRB shortfall of provisions to expected losses (0%)		0	0	0	0
DTA allocated up to Dec 2013, that rely on future profitability and do not arise from temporary differences net of associated tax liabilities (0%)		0	0	0	0
DTA allocated on or after Jan 2014 that rely on future profitability and do not arise from temporary differences net of associated tax liabilities (0%)		0	0	0	0
Own CET1 instruments (0%)	36(1)(f)	0	0	0	0
Common equity tier 1 capital (CET1)	50	15,517	15,517	16,252	16,252
Additional tier 1 capital (AT1)					
Capital instruments eligible as AT1	51(a), 52-54, 56(a), 57	993	993	1,490	1,490
Instruments issued by subsidiaries that are given recognition in AT1	85, 86	7	7	8	8
Additional tier 1 capital (AT1) before regulatory adjustments		1,000	1,000	1,498	1,498
Own AT1 instruments	52(1)(b), 56(a), 57	-2	-2	-2	-2
Transitional adjustments due to grandfathered AT1 instruments	483(4)(5), 484-487, 489, 491	0	0	0	0
AT1 instruments of financial sector entities where the institution has a significant investment	4(1)(27), 56(d), 59, 79	0	0	0	0
Other transitional adjustments AT1	474, 475, 478, 481	0	0	0	0
Goodwill (0%)		0	0	0	0
Other intangibles (0%)		0	0	0	0
IRB shortfall of provisions to expected losses (0%)		0	0	0	0
Own CET1 instruments (0%)	36(1)(f)	0	0	0	0
Additional tier 1 capital (AT1)	61	999	999	1,497	1,497
Tier 1 capital = CET1 + AT1	25	16,516	16,515	17,749	17,749

The table will be continued on the subsequent page.

Continuation of the table:

in EUR million	CRR articles	Dec 18		Dec 19	
		Phased-in	Final	Phased-in	Final
Tier 1 capital = CET1 + AT1	25	16,516	16,515	17,749	17,749
Tier 2 capital (T2)					
Capital instruments and subordinated loans eligible as T2	62(a), 63-65, 66(a), 67	3,797	3,797	3,660	3,660
Instruments issued by subsidiaries recognised in T2	87, 88	241	241	267	267
Transitional adjustments due to additional recognition in T2 of instruments issued by subsidiaries	480	0	0	0	0
Transitional adjustments due to grandfathered T2 instruments and subordinated loans	483(6)(7), 484, 486, 488, 490, 491	0	0	0	0
IRB excess of provisions over expected losses eligible	62(d)	371	371	328	328
Tier 2 capital (T2) before regulatory adjustments		4,410	4,410	4,255	4,255
Own T2 instruments	63(b)(i), 66(a), 67	-34	-34	-44	-44
Standardised approach general credit risk adjustments	62(c)	0	0	0	0
Other transitional adjustments to T2	476, 477, 478, 481	0	0	0	0
IRB shortfall of provisions to expected losses (0%)		0	0	0	0
T2 instruments of financial sector entities where the institution has a significant investment	4(1)(27), 66(d), 68, 69, 79	0	0	0	0
Tier 2 capital (T2)	71	4,375	4,375	4,211	4,211
Total own funds	4(1)(118) and 72	20,891	20,891	21,961	21,961
Capital requirement	92(3), 95, 96, 98	9,168	9,228	9,448	9,484
CET1 capital ratio	92(2)(a)	13.5%	13.5%	13.8%	13.7%
Tier 1 capital ratio	92(2)(b)	14.4%	14.3%	15.0%	15.0%
Total capital ratio	92(2)(c)	18.2%	18.1%	18.6%	18.5%

In accordance with Art. 26 (2) CRR the item retained earnings only includes the interim profits of EUR 659 million approved by the ECB by decision of 6 February 2020. Minority interest recognised in CET1 includes interim result from saving banks in an amount of EUR 36 million.

The capital structure table above is based on the Commission Implementing Regulation (EU) No 1423/2013 laying down implementing technical standards with regard to disclosure of own funds requirements, enlarged by the EBA GL 2014/14. Positions, which are not relevant for Erste Group are not disclosed. Figures shown under full implementation of Basel 3 considered the current CRR.

Changes are possible due to final Regulatory Technical Standards (RTS) that are not yet available.

For 2018 the following percentages applied for CET1: Deferred tax assets that rely on future profitability and do not arise from temporary differences net of associated tax liabilities until December 2013 (80%).

The consolidated financial statements have not been reviewed and noticed by the supervisory board and the financial statements of Erste Group Bank AG have not been reviewed by the supervisory board yet.

Likewise financial statements of single entities within the group have not been noticed by the supervisory board yet. In addition, no resolution on the appropriation of the profit has yet been made by the general meeting of the single entity.

Erste Group reports since the end of the second quarter of 2017 on consolidated level an RWA-add-on in view of the calculation of risk-weighted assets for credit risk in Banca Comercială Română (BCR) in the amount of around EUR 2.4 billion. This RWA increase front-loads the expected difference in BCR between the treatments of exposures under the Standardised Approach compared to the treatment under IRB and is limited in time until the authorization of the IRB-approach in BCR

Furthermore Erste Group reports on consolidated level since Q3 2017 - due to a decision of the European Central Bank in the context of its supervisory assessments in view of deficiencies in credit risk models – a RWA-Add-On of around EUR 1.7 billion until these deficiencies will be addressed in the course of an update of these models.

Erste Group was informed by the ECB in the third quarter of 2018 about a final decision in view of credit risk models, which became effective at the end of September 2018. This decision had an effect on risk weighted assets (RWA) on consolidated level of around EUR 300 million. As pre-emption of the expected effects from the implementation of the new loss given default (LGD) estimation methodology, Erste Group incorporated a RWA add-on in the amount of EUR 514 million as of the first quarter 2019.

Erste Group's AMA model change obtained regulatory approval in October 2018 under the condition of an add-on in the amount of 7% and became applicable in the fourth quarter of 2018.

The approval of the new group-wide PD estimation methodology was approved by the ECB in December 2019 with a limitation related to an application of a RWA add-on in the volume of EUR 289 million as of December 2019. With the approval of the updated group wide default definition an additional add-on was imposed in the amount of EUR 138 million as of December 2019.

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

in EUR million	CRR articles	Dec 18		Dec 19	
		Total risk (phased-in)	Capital requirement (phased-in)	Total risk (phased-in)	Capital requirement (phased-in)
Total Risk Exposure Amount	92(3), 95, 96, 98	114,599	9,168	118,105	9,448
Risk weighted assets (credit risk)	92(3)(a)(f)	92,549	7,404	96,325	7,706
Standardised approach		16,547	1,324	18,007	1,441
IRB approach		76,002	6,080	78,318	6,265
Settlement Risk	92(3)(c)(ii), 92(4)(b)	0	0	0	0
Trading book, foreign FX risk and commodity risk	92(3)(b)(i) and (c)(i) and (iii), 92(4)(b)	3,434	275	2,795	224
Operational Risk	92(3)(e), 92(4)(b)	15,241	1,219	14,934	1,195
Exposure for CVA	92(3)(d)	661	53	569	46
Other exposure amounts (incl. Basel 1 floor)	3, 458, 459, 500	2,715	217	3,483	279

in EUR million	CRR articles	Dec 18		Dec 19	
		Total risk (final)	Capital requirement (final)	Total risk (final)	Capital requirement (final)
Total Risk Exposure Amount	92(3), 95, 96, 98	115,354	9,228	118,556	9,484
Risk weighted assets (credit risk)	92(3)(a)(f)	93,303	7,464	96,776	7,742
Standardised approach		17,301	1,384	18,458	1,477
IRB approach		76,002	6,080	78,318	6,265
Settlement Risk	92(3)(c)(ii), 92(4)(b)	0	0	0	0
Trading book, foreign FX risk and commodity risk	92(3)(b)(i) and (c)(i) and (iii), 92(4)(b)	3,434	275	2,795	224
Operational Risk	92(3)(e), 92(4)(b)	15,241	1,219	14,934	1,195
Exposure for CVA	92(3)(d)	661	53	569	46
Other exposure amounts (incl. Basel 1 floor)	3, 458, 459, 500	2,715	217	3,483	279

Own funds reconciliation

For the disclosure of own funds, Erste Group follows the requirements according to Art. 437 CRR as well as the requirements defined in the Implementing Technical Standards (EU) No 1423/2013. Furthermore Erste Group applies the EBA Guideline No 2014/14 of more frequent disclosure regarding own funds.

Based on the requirements defined by the EBA in the Implementing Technical Standards, the following information must be provided:

- A full reconciliation of CET1 items - additional tier 1 (AT1) items, tier 2 (T2) items, filters and deductions applied pursuant to Art. 32 to 35, 36, 56, 66 and 79 CRR- to the own funds of the institution's balance sheet in accordance with Art. 437 para 1 (a) CRR (see the following tables: Balance sheet, Total equity, Intangible assets, Tax assets and liabilities, Subordinated liabilities).
- A table designed by the EBA in order to show the capital structure of regulatory capital. The table includes details on the capital structure of Erste Group including the capital components as well as any regulatory deductions and prudential filters. Disclosures in this table cover the disclosure requirements as defined in Art. 437 para 1 (d) CRR, separate disclosure of the nature and amounts of each prudential filter applied pursuant to Art. 32 to 35 CRR, each deduction according to Art. 36, 56 and 66 CRR as well as items not deducted in accordance with Art. 47, 48, 56, 66 and 79 CRR.

The following tables show in line with Art. 437 para 1 (a) CRR the difference between the IFRS and the regulatory scope of consolidation and as well the reconciliation to the regulatory own funds.

The tables may contain rounding differences.

Balance Sheet reconciliation

in EUR million	Dec 18			Dec 19		
	IFRS	Effects - scope of consolidation	CRR	IFRS	Effects - scope of consolidation	CRR
Assets						
Cash and cash balances	17,549	-6	17,543	10,693	-10	10,683
Financial assets held for trading	5,584	-3	5,581	5,760	-3	5,757
Derivatives	3,037	1	3,039	2,805	2	2,807
Other financial assets held for trading	2,547	-5	2,542	2,954	-5	2,949
Pledged as collateral	163	0	163	430	0	430
Financial assets at fair value through profit or loss	0	0	0	0	0	0
Non-trading financial assets at fair value through profit or loss	3,310	-440	2,870	3,208	-256	2,952
Pledged as collateral	37	0	37	39	9	47
Equity instruments	372	-11	362	390	-9	381
Debt securities	2,651	-429	2,222	2,335	-247	2,088
Loans and advances to banks	0	0	0	0	0	0
Loans and advances to customers	287	0	287	483	0	483
Financial assets available for sale	0	0	0	0	0	0
Pledged as collateral	0	0	0	0	0	0
Financial assets at fair value through other comprehensive income	9,272	0	9,272	9,047	0	9,047
Pledged as collateral	212	0	212	603	0	603
Equity instruments	239	0	239	210	0	210
Debt securities	9,033	0	9,033	8,836	0	8,836
Financial assets held to maturity	0	0	0	0	0	0
Pledged as collateral	0	0	0	0	0	0
Loans and receivables to credit institutions	0	0	0	0	0	0
Loans and receivables to customers	0	0	0	0	0	0
Financial assets at amortised cost	189,106	549	189,655	204,162	522	204,684
Pledged as collateral	960	0	960	2,142	0	2,142
Debt securities	26,050	-1	26,049	26,764	-1	26,763
Loans and advances to banks	19,103	-10	19,092	23,055	-1	23,054
Loans and advances to customers	143,953	560	144,514	154,344	524	154,868
Finance lease receivables	3,763	-36	3,727	4,034	-16	4,019
Hedge accounting derivatives	132	0	132	130	0	130
Fair value changes of the hedged items in portfolio hedge of interest rate risk	0	0	0	-4	0	-4
Property and equipment	2,293	-256	2,037	2,629	-204	2,426
Investment properties	1,159	-373	787	1,266	-170	1,096
Intangible assets	1,507	-11	1,496	1,368	-11	1,358
Investments in associates and joint ventures	198	312	510	163	273	436
Current tax assets	101	-1	100	81	-1	80
Deferred tax assets	402	-5	397	477	-2	475
Assets held for sale	213	-110	103	269	-122	146
Trade and other receivables	1,318	-14	1,305	1,408	-1	1,407
Other assets	882	-136	746	1,001	-153	848
Total assets	236,792	-531	236,261	245,693	-153	245,540
Liabilities and equity						
Financial liabilities held for trading	2,508	1	2,509	2,421	1	2,423
Derivatives	2,000	1	2,001	2,005	1	2,007
Other financial liabilities held for trading	508	0	508	416	0	416
Financial liabilities at fair value through profit or loss	14,122	-450	13,672	13,494	-206	13,289
Deposits from customers	212	0	212	265	0	265
Debt securities issued	13,446	14	13,460	13,011	13	13,024
Other financial liabilities	464	-464	0	219	-219	0
Financial liabilities at amortised cost	196,863	110	196,973	204,143	283	204,426
Deposits from banks	17,658	-20	17,638	13,141	62	13,203
Deposits from customers	162,426	156	162,583	173,066	224	173,290
Debt securities issued	16,293	-19	16,274	17,360	1	17,361
Other financial liabilities	486	-7	479	576	-4	572
Finance lease liabilities	0	0	0	515	4	520
Hedge accounting derivatives	277	0	277	269	0	269
Fair value changes of hedged items in portfolio hedge of interest rate risk	0	0	0	0	0	0
Provisions	1,705	-9	1,696	1,919	-4	1,915
Current tax liabilities	99	-2	97	61	-5	55
Deferred tax liabilities	23	-15	7	18	-14	4
Liabilities associated with assets held for sale	3	0	3	6	-2	4
Other liabilities	2,323	-133	2,190	2,369	-131	2,238
Total equity	18,869	-33	18,836	20,477	-80	20,397
Equity attributable to non-controlling interests	4,494	34	4,528	4,857	17	4,874
Additional equity instruments	993	0	993	1,490	0	1,490
Equity attributable to owners of the parent	13,381	-67	13,315	14,129	-97	14,033
Subscribed capital	860	0	860	860	0	860
Additional paid-in capital	1,477	0	1,477	1,478	0	1,478
Retained earnings and other reserves	11,045	-67	10,978	11,792	-97	11,695
Total liabilities and equity	236,792	-531	236,261	245,693	-153	245,540

The following tables represent, as far as possible, a reconciliation between the IFRS balance sheet items to the items of CET1, AT1 and T2, as well as information on the regulatory adjustments arising from correction items in accordance with Art. 32 to 35 CRR and the deductions according to Art. 36, 56, 66 and 79 CRR.

The letter in the last column sets the derived amount from IFRS figures with the appropriate eligible amount of own funds presentation in conjunction.

Total equity

in EUR million	IFRS	Effects - scope of consolidation	CRR	IPS adjustments	Regulatory adjustments	Own funds	Own funds disclosure table - reference
Dec 19							
Subscribed capital	860	0	860	0	0	860	
Additional paid-in capital	1,478	0	1,478	0	0	1,477	
Capital instruments and the related share premium accounts	2,337	0	2,337	0	0	2,337	a
Retained earnings	13,095	-89	13,007	0	-769	12,238	b
Accumulated other comprehensive income (OCI)	-1,303	-8	-1,311	-149	3	-1,458	c
Cash flow hedge reserve	-45	0	-45	0	0	-45	g
Available for sale reserve							
Fair value reserve	260	0	260	48	21	329	
Own credit risk reserve	-399	0	-399	-6	0	-406	o
Currency translation reserve	-610	-8	-618	0	-14	-632	
Remeasurement of defined benefit plans	-509	1	-509	-191	-4	-704	
Deferred tax							
Equity attributable to owners of the parent	14,129	-97	14,033	-149	-766	13,117	
Additional equity instruments	1,490	0	1,490	0	-1,490	0	
Equity attributable to non-controlling interests	4,857	17	4,874	-274	-153	4,448	d
Total equity	20,477	-80	20,397	-423	-2,410	17,565	

in EUR million	IFRS	Effects - scope of consolidation	CRR	IPS adjustments	Regulatory adjustments	Own funds	Own funds disclosure table - reference
Dec 18							
Subscribed capital	860	0	860	0	0	860	
Additional paid-in capital	1,477	0	1,477	0	-1	1,476	
Capital instruments and the related share premium accounts	2,336	0	2,336	0	-1	2,336	a
Retained earnings	12,280	-60	12,220	0	-679	11,541	b
Accumulated other comprehensive income (OCI)	-1,235	-6	-1,242	-11	-89	-1,342	c
Cash flow hedge reserve	-3	0	-3	0	0	-3	g
Available for sale reserve							
Fair value reserve	229	0	229	59	14	302	i
Own credit risk reserve	-435	-1	-436	-7	0	-443	h
Currency translation reserve	-598	-6	-604	0	-13	-617	
Remeasurement of defined benefit plans	-428	0	-428	-63	-91	-582	
Deferred tax							
Equity attributable to owners of the parent	13,381	-67	13,315	-11	-768	12,535	
Additional Tier 1 (AT1)	993	0	993	0	-993	0	
Equity attributable to non-controlling interests	4,494	34	4,528	-66	-140	4,322	d
Total equity	18,869	-33	18,836	-77	-1,902	16,857	

IPS adjustments include the amounts for entities that are consolidated due to the Institutional Protections Scheme according to Art. 113 (7) CRR. Further details regarding the development of IFRS equity are disclosed under section Group Statement of Changes in Total Equity.

Intangible assets

in EUR million	IFRS	Effects - scope of consolidation	CRR	Regulatory adjustments	Own funds	Own funds disclosure table - reference
Dec 19						
Intangible assets	1,368	-11	1,358	-73	1,285	e
Dec 18						
Intangible assets	1,507	-11	1,496	-60	1,436	

Details regarding the development of intangible assets are disclosed under Note 29 Intangible assets.

Deferred Taxes

in EUR million	IFRS	Effects - scope of consolidation	CRR	Regulatory adjustments	Own funds	Own funds disclosure table - reference
Dec 19						
DTA that rely on future profitability and do not arise from temporary differences net of associated tax liabilities	103	-1	102	0	102	f
Related DTA allocated on or after Jan 14 for which 100% CET1 deduction is required			101	0	101	
Related DTA allocated up to Dec 13 for which 100% deduction from CET1 is required			1	0	1	
DTA that rely on future profitability and arise from temporary differences	374	-1	373	-373	0	
Deferred tax assets	477	-2	475	-373	102	

in EUR million	IFRS	Effects - scope of consolidation	CRR	Regulatory adjustments	Own funds	Own funds disclosure table - reference
Dec 18						
DTA that rely on future profitability and do not arise from temporary differences net of associated tax liabilities	23	-3	21	0	20	f
Related DTA allocated on or after Jan 14 for which 100% CET1 deduction is required			19	0	19	
Related DTA allocated up to Dec 13 for which 80% deduction from CET1 is required according to CRR transitional provisions			2	0	1	
DTA that rely on future profitability and arise from temporary differences	379	-2	376	-376	0	
Deferred tax assets	402	-5	397	-377	20	

Details regarding deferred tax assets are disclosed under Note 30 Tax assets and liabilities.

Based on the threshold definition according to Art. 48 CRR deferred tax assets that rely on future profitability and arise from temporary differences are not deductible for Erste Group as of 31 December 2019. In accordance with Art. 48 para 4 CRR the non-deductible amount is risk weighted with 250% and considered within the credit risk.

Subordinated liabilities and additional tier 1 issuances

in EUR million	IFRS	Effects - scope of consolidation	CRR	Regulatory adjustments	Own funds	Own funds disclosure table - reference
Dec 19						
Subordinated issues, deposits and supplementary capital	6,566	2	6,568	-2,684	3,883	
Tier 2 capital instruments (including related share premium) issued by the parent company	0	0	0	0	3,617	l
Qualifying own funds instruments included in consolidated tier 2 capital issued by subsidiaries and held by third parties	0	0	0	0	267	m
thereof instruments issued by subsidiaries subject to phase-out	0	0	0	0	0	
Additional Tier 1 (AT1) issuances	1,490	0	1,490	-2	1,489	j
Subordinated liabilities	8,056	2	8,058	-2,686	5,372	

in EUR million	IFRS	Effects - scope of consolidation	CRR	Regulatory adjustments	Own funds	Own funds disclosure table - reference
Dec 18						
Subordinated issues, deposits and supplementary capital	5,915	2	5,916	-1,912	4,004	
Tier 2 capital instruments (including related share premium) issued by the parent company	0	0	0	0	3,763	l
Qualifying own funds instruments included in consolidated tier 2 capital issued by subsidiaries and held by third parties	0	0	0	0	241	m
thereof instruments issued by subsidiaries subject to phase-out	0	0	0	0	0	
Additional Tier 1 (AT1) issuances	1,005	0	1,005	-7	999	j
Subordinated liabilities	6,920	2	6,921	-1,919	5,003	

Details regarding subordinated liabilities are disclosed under Note 34 Financial liabilities-at fair value through profit or loss and Note 35 Financial liabilities measured at amortised cost. EUR 84 million subordinated debt in form of deposits are included in the balance sheet position Financial liabilities measured at amortised cost and are not explicitly shown in Note 43. Details for AT1 issuances can be found under section III Group Statement of Changes in Total Equity. In addition to EUR 2 million AT1 from Bausparkasse der österreichischen Sparkassen Aktiengesellschaft considered in 2017, EUR 10 million AT1 from SPARKASSE NIEDERÖSTERREICH MITTE WEST AKTIENGESELLSCHAFT were taken into account in 2018. Whereas Sparkasse Niederösterreich Mitte West's AT1 is eligible with EUR 8 million, former's AT1 does not allow a regulatory consideration.

Transitional provisions

The Transitional Provisions which are applied by Erste Group, are based on CRR-Supplementary Regulation according to BGBl II Nr. 425/2013, and the regulation of the European Central Bank on the exercise of options and discretions, ECB/2016/4. Starting 1 January 2019 the application of transitional provisions has expired.

Own funds template

Disclosure requirements: Art. 437 para 1 (d) and (e) CRR

Erste Group does not consider Art. 437 para 1 (f) CRR for the calculation of consolidated own funds.

The tables below present the composition of the regulatory capital based on the Implementing Technical Standards (EU) No 1423/2013 on the disclosure of own funds.

Shown are the current amount, references to the respective CRR articles and referenced to the above shown tables (equity, intangible assets, deferred tax assets and subordinated liabilities).

in EUR million		Dec 19	Regulation (EU) No 575/2013	Reference to tables
1	Capital instruments and the related share premium accounts	2,337	26(1), 27, 28, 29, EBA list 26(3)	a
	of which: ordinary shares	2,337	EBA list 26(3)	a
2	Retained earnings	12,238	261)(c)	b
3	Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	-1,458	26(1)	c
3a	Fund for general banking risk	0	26(1)(f)	
4	Amount of qualifying items referred to in Article 484-3 and the related share premium accounts subject to phase out from CET1	0	486(2)	
	Public sector capital injections grandfathered until Jan 18	0	483(2)	
5	Minority interests (amount allowed in consolidated CET1)	4,448	84, 479, 480	d
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	0	26(2)	
6	CET1 capital before regulatory adjustments	17,565		
Common Equity Tier 1 (CET1): regulatory adjustments				
7	Additional value adjustments (negative amount)	-85	34, 105	
8	Intangible assets (net of related tax liability) (negative amount)	-1,285	36(1)(b), 37, 472(4)	e
9	Empty set in the EU			
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38-3 are met) (negative amount)	-102	36(1)(c), 38, 472(5)	f
11	Fair value reserves related to gains or losses on cash flow hedges	45	33(a)	g
12	Negative amounts resulting from the calculation of expected loss amounts	-158	36(1)(d), 40, 159, 472(6)	
13	Any increase in equity that results from securitised assets (negative amount)	0	32(1)	
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	403	33(b)	o
15	Defined-benefit pension fund assets (negative amount)	0	36(1)(e), 41, 472(7)	
16	Direct and indirect holdings by an institution of own CET1 instruments (negative amount)	-68	36(1)(f), 42, 472(8)	
17	Holdings of the CET1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	0	36(1)(g), 44, 472(9)	
18	Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	0	36(1)(h), 43, 45, 46, 49(2)(3), 79, 472(10)	
19	Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	0	36(1)(i), 43, 45, 47, 48(1)(b), 49(1)-(3), 79, 470, 472(11)	
20	Empty set in the EU			
20a	Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative	-45	36(1)(k)	
20b	of which: qualifying holdings outside the financial sector (negative amount)	0	36(1)(k)(i), 89-91	
20c	of which: securitisation positions (negative amount)	-45	36(1)(k)(ii), 243(1)(b), 244(1)(b), 258	
20d	of which: free deliveries (negative amount)	0	36(1)(k)(iii), 379(3)	
21	Deferred tax assets arising from temporary difference (amount above 10 % threshold, net of related tax liability where the conditions in Article 38-3 are met) (negative amount)	0	36(1)(c), 38, 48(1)(a), 470, 472(5)	
22	Amount exceeding the 15% threshold (negative amount)	0	48(1)	
23	of which: direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities	0	36(1)(i), 48(1)(b), 470, 472(11)	
24	Empty set in the EU			
25	of which: deferred tax assets arising from temporary differences	0	36(1)(c), 38, 48(1)(a), 470, 472(5)	
25a	Losses for the current financial year (negative amount)	-17	36(1)(a), 472(3)	
25b	Foreseeable tax charges relating to CET1 items (negative amount)	0	36(1)(l)	
26	Regulatory adjustments applied to Common Equity Tier 1 in respect of amounts subject to pre-CRR treatment	0		
26a	Regulatory adjustments relating to unrealised gains and losses pursuant to Articles 467 and 468	0		
	of which: unrealised losses	0	467	
	of which: unrealised gains	0	468	
26b	Amount to be deducted from or added to Common Equity Tier 1 capital with regard to additional filters and deductions required pre CRR	0	481	
27	Qualifying AT1 deductions that exceeds the AT1 capital of the institution (negative amount)	0	36(1)(j)	
28	Total regulatory adjustments to Common Equity Tier 1 (CET1)	-1,313		
29	CET1 capital	16,252		

The table is continued on the next page.

in EUR million		Dec 19	Regulation (EU) No 575/2013	Reference to tables
Additional Tier 1 (AT1) capital: instruments				
30	Capital instruments and the related share premium accounts	1,490	51, 52	
31	of which: classified as equity under applicable accounting standards	1,490		
32	of which: classified as liabilities under applicable accounting standards	0		
Amount of qualifying items referred to in Article 484 -4 and the related share premium accounts subject to phase out from AT1				
33	Public sector capital injections grandfathered until Jan 18	0	486(3)	
	Qualifying Tier 1 capital included in consolidated AT1 capital	0	483(3)	
34	(including minority interest not included in row 5) issued by subsidiaries and held by third parties	8	85, 86, 480	
35	of which: instruments issued by subsidiaries subject to phase-out	0	486(3)	
36	AT1 capital before regulatory adjustments	1,498		j
Additional Tier 1 (AT1) capital: regulatory adjustments				
37	Direct and indirect holdings by an institution of own AT1 instruments (negative amount)	-2	52(1)(b),56(a),57,475(2)	j
38	Holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	0	56(b), 58, 475(3)	
39	Holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	0	56(c), 59, 60, 79, 475(4)	
40	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	0	56(d), 59, 79, 475(4)	
41	Regulatory adjustments applied to AT1 in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase-out as prescribed in Regulation (EU) No 585/2013 (i.e. CRR residual amounts)	0		
41a	Residual amounts deducted from AT1 with regard to deduction from CET1 during the transitional period pursuant to article 472 of Regulation (EU) No 575/2013	0	472, 472(3)(a), 472(4), 472(6),472(8)(a), 472(9), 472(10)(a), 472(11)(a)	
	of which: interim loss	0		
	of which: intangible assets	0		
	of which: shortfall of provisions to expected loss	0		
	of which: own CET1 Instruments	0		
41b	Residual amounts deducted from AT1 with regard to deduction from T2 capital during the transitional period pursuant to article 475 of Regulation (EU) No 575/2013	0	477, 477(3), 477(4)(a)	
	of which: reciprocal cross holdings in T2 instruments	0		
	of which: direct holdings of non-significant investments in the capital of other financial sector entities	0		
41c	Amount to be deducted from or added to AT1 with regard to additional filters and deductions required pre-CRR	0	467, 468, 481	
	of which: possible filter to unrealised losses	0	467	
	of which: possible filter to unrealised gains	0	468	
42	Qualifying T2 deductions that exceed the T2 capital of the institution (negative amount)	0	56(e)	
43	Total regulatory adjustments to Additional Tier 1 (AT1) capital	-2		
44	Additional Tier 1 (AT1) capital	1,497		
45	Tier 1 capital (T1 = CET1 + AT1)	17,749		
Tier 2 (T2) capital: instruments and provisions				
46	Capital instruments and the related share premium accounts	3,660	62, 63	l
47	Amount of qualifying items referred to in Article 484 -5 and the related share premium accounts subject to phase out from T2	0	486(4)	
	Public sector capital injections grandfathered until Jan 18	0		
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interest and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties	267		m
49	of which: instruments issued by subsidiaries subject to phase-out	0	486(4)	
50	Credit risk adjustments	328	62(c)(d)	
51	Tier 2 (T2) capital before regulatory adjustment	4,255		0
T2 capital: regulatory adjustments				
52	Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)	-44		l
53	Holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	0		
54	Direct, indirect and synthetic holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10 % threshold and net of eligible short positions) (negative amount)	0	66(c), 69, 70, 79, 477(4)	
54a	of which: new holdings not subject to transitional arrangements	0		
54b	of which: holdings existing before 1 Jan 2013 and subject to transitional arrangements	0		
55	Direct, indirect and synthetic holdings of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amounts)	0.0	66(d), 69, 79, 477(4)	

The table is continued on the next page.

in EUR million		Dec 19	Regulation (EU) No 575/2013	Reference to tables
56	Regulatory adjustments applied to T2 in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amounts)	0		
56a	Residual amounts deducted from T2 with regard to deduction from CET1 during the transitional period pursuant to article 472 of Regulation (EU) No 575/2013	0	472, 472(3)(a), 472(4), 472(6), 472(8)(a), 472(9), 472(10)(a), 472(11)(a)	
	of which: shortfall of provisions to expected loss	0	472(6)	
	of which: non-significant investments	0	472(10)	
56b	Residual amounts deducted from T2 with regard to deduction from AT1 during the transitional period pursuant to article 475 of Regulation (EU) No 575/2013	0	475, 475(2)(a), 475(3), 475(4)(a)	
	of which: reciprocal cross holdings in T1 instruments	0		
	of which: direct holdings of non-significant investments in the capital of other financial sector entities	0		
56c	Amounts to be deducted from or added to T2 with regard to additional filters and deductions required pre-CRR	0	467, 468, 481	
	of which possible filter to unrealised losses	0	467	
	of which: possible filter to unrealised gains	0	468	
57	Total regulatory adjustments to Tier 2 (T2) capital	-44		
58	Tier 2 (T2) capital	4,211		
59	Total capital (TC = T1 + T2)	21,961		
59a	Risk weighted assets in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amount)	0		
	of which: items not deducted from CET1 (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line, e.g. Reciprocal cross holdings in T2 instruments, direct holdings of related tax liability, indirect holdings of own CET1, etc.)	0	472, 472(5), 472(8)(b), 472(10)(b), 472(11)(b)	
	of which: items not deducted from AT1 items (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line, e.g. Reciprocal cross holdings in T2 instruments, direct holdings of non-significant investments in the capital of other financial sector entities, etc.)	0	475, 475(2)(b), 475(2)(c), 475(4)(b)	
	of which: items not deducted from T2 items (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line, e.g. Indirect holdings of own T2 instruments, indirect holdings of non-significant investments in the capital of other financial sector entities, indirect holdings of significant investments in the capital of other financial sector entities etc.)	0	477, 477(2)(b), 477(2)(c), 477(4)(b)	
60	Total risk-weighted assets	118,105		
Capital ratios and buffers				
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	13.8%	92(2)(a), 465	
62	Tier 1 (as a percentage of total risk exposure amount)	15.0%	92(2)(b), 465	
63	Total capital (as a percentage of total risk exposure amount)	18.6%	92(2)(c)	
64	Institution specific buffer requirement (CET1 requirement in accordance with article 92 -1 (a) plus capital conservation and countercyclical buffer requirements plus a systemic risk buffer, plus systemically important institution buffer expressed as a percentage of total risk exposure amount)	4.91%	CRD 128, 129, 130	
65	of which: capital conservation buffer requirement	2.50%		
66	of which: countercyclical buffer requirement	0.41%		
67	of which: systemic risk buffer requirement	2.00%		
67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	2.00%	CRD 131	
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	7.5%	CRD 128	
Amounts below the thresholds for deduction (before risk-weighting)				
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	1,625	36(1)(h), 45, 46, 472(10), 56(c), 59, 60, 475(4), 66(c), 69, 70, 477(4)	
73	Direct and indirect holdings of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	192	36(1)(i), 45, 48, 470, 472(11)	
75	Deferred tax assets arising from temporary difference (amount below 10 % threshold, net of related tax liability where the conditions in Article 38 -3 are met)	1,625	36(1)(c), 38, 48, 470, 472(5)	
Applicable caps on the inclusion of provisions in Tier 2				
76	Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)	0	62	
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	225	62	
78	Credit risk adjustments included in T2 in respect of exposures subject to internal rating-based approach (prior to the application of the cap)	328	62	
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	470	62	
Capital instruments subject to phase-out arrangements (only applicable between Jan 2013 and Jan 2022)				
80	Current cap on CET1 instruments subject to phase-out arrangements	30%	484(3), 486(2)&(5)	
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	0	484(3), 486(2)&(5)	
82	Current cap on AT1 instruments subject to phase-out arrangements	30%	484(4), 486(3)&(5)	
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	0	484(4), 486(3)&(5)	
84	Current cap on T2 instruments subject to phase-out arrangements	30%	484(5), 486(4)&(5)	
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	0	484(5), 486(4)&(5)	

in EUR million		Dec 2018	Regulation (EU) No 575/2013	Reference to tables
1	Capital instruments and the related share premium accounts	2,336	26(1), 27, 28, 29, EBA list 26(3)	a
	of which: ordinary shares	2,336	EBA list 26(3)	a
2	Retained earnings	11,541	261(c)	b
3	Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	-1,342	26(1)	c
3a	Fund for general banking risk	0	26(1)(f)	
4	Amount of qualifying items referred to in Article 484-3 and the related share premium accounts subject to phase out from CET1	0	486(2)	
	Public sector capital injections grandfathered until Jan 18	0	483(2)	
5	Minority interests (amount allowed in consolidated CET1)	4,322	84, 479, 480	d
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	0	26(2)	
6	CET1 capital before regulatory adjustments	16,857		
Common Equity Tier 1 (CET1): regulatory adjustments				
7	Additional value adjustments (negative amount)	-78	34, 105	
8	Intangible assets (net of related tax liability) (negative amount)	-1,436	36(1)(b), 37, 472(4)	e
9	Empty set in the EU			
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38-3 are met) (negative amount)	-20	36(1)(c), 38, 472(5)	f
11	Fair value reserves related to gains or losses on cash flow hedges	3	33(a)	g
12	Negative amounts resulting from the calculation of expected loss amounts	-102	36(1)(d), 40, 159, 472(6)	
13	Any increase in equity that results from securitised assets (negative amount)	0	32(1)	
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	439	33(b)	o
15	Defined-benefit pension fund assets (negative amount)	0	36(1)(e), 41, 472(7)	
16	Direct and indirect holdings by an institution of own CET1 instruments (negative amount)	-114	36(1)(f), 42, 472(8)	
17	Holdings of the CET1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	0	36(1)(g), 44, 472(9)	
18	Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	0	36(1)(h), 43, 45, 46, 49(2)(3), 79, 472(10)	
19	Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	0	36(1)(i), 43, 45, 47, 48(1)(b), 49(1)-(3), 79, 470, 472(11)	
20	Empty set in the EU			
20a	Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative	-32	36(1)(k)	
20b	of which: qualifying holdings outside the financial sector (negative amount)	0	36(1)(k)(i), 89-91	
20c	of which: securitisation positions (negative amount)	-32	36(1)(k)(ii), 243(1)(b), 244(1)(b), 258	
20d	of which: free deliveries (negative amount)	0	36(1)(k)(iii), 379(3)	
21	Deferred tax assets arising from temporary difference (amount above 10 % threshold, net of related tax liability where the conditions in Article 38-3 are met) (negative amount)	0	36(1)(c), 38, 48(1)(a), 470, 472(5)	
22	Amount exceeding the 15% threshold (negative amount)	0	48(1)	
23	of which: direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities	0	36(1)(i), 48(1)(b), 470, 472(11)	
24	Empty set in the EU			
25	of which: deferred tax assets arising from temporary differences	0	36(1)(c), 38, 48(1)(a), 470, 472(5)	
25a	Losses for the current financial year (negative amount)	0	36(1)(a), 472(3)	
25b	Foreseeable tax charges relating to CET1 items (negative amount)	0	36(1)(l)	
26	Regulatory adjustments applied to Common Equity Tier 1 in respect of amounts subject to pre-CRR treatment	0		
26a	Regulatory adjustments relating to unrealised gains and losses pursuant to Articles 467 and 468	0		
	of which: unrealised losses	0	467	
	of which: unrealised gains	0	468	
26b	Amount to be deducted from or added to Common Equity Tier 1 capital with regard to additional filters and deductions required pre-CRR	0	481	
27	Qualifying AT1 deductions that exceeds the AT1 capital of the institution (negative amount)	0	36(1)(j)	
28	Total regulatory adjustments to Common Equity Tier 1 (CET1)	-1,340		
29	CET1 capital	15,517		

The table is continued on the next page.

Continuation of the table

in EUR million		Dec 2018	Regulation (EU) No 575/2013	Reference to tables
Additional Tier 1 (AT1) capital: instruments				
30	Capital instruments and the related share premium accounts	993	51, 52	
31	of which: classified as equity under applicable accounting standards	993		
32	of which: classified as liabilities under applicable accounting standards	0		
33	Amount of qualifying items referred to in Article 484 -4 and the related share premium accounts subject to phase out from AT1	0	486(3)	
	Public sector capital injections grandfathered until Jan 18	0	483(3)	
34	Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interest not included in row 5) issued by subsidiaries and held by third parties	7	85, 86, 480	
35	of which: instruments issued by subsidiaries subject to phase-out	0	486(3)	
36	AT1 capital before regulatory adjustments	1,000		j
Additional Tier 1 (AT1) capital: regulatory adjustments				
37	Direct and indirect holdings by an institution of own AT1 instruments (negative amount)	-2	52(1)(b), 56(a), 57, 475(2)	j
38	Holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	0	56(b), 58, 475(3)	
39	Holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	0	56(c), 59, 60, 79, 475(4)	
40	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	0	56(d), 59, 79, 475(4)	
41	Regulatory adjustments applied to AT1 in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase-out as prescribed in Regulation (EU) No 585/2013 (i.e. CRR residual amounts)	0		
41a	Residual amounts deducted from AT1 with regard to deduction from CET1 during the transitional period pursuant to article 472 of Regulation (EU) No 575/2013	0	472, 472(3)(a), 472(4), 472(6), 472(8)(a), 472(9), 472(10)(a), 472(11)(a)	
	of which: interim loss	0		
	of which: intangible assets	0		
	of which: shortfall of provisions to expected loss	0		
	of which: own CET1 Instruments	0		
41b	Residual amounts deducted from AT1 with regard to deduction from T2 capital during the transitional period pursuant to article 475 of Regulation (EU) No 575/2013	0	477, 477-3, 477(4)(a)	
	of which: reciprocal cross holdings in T2 instruments	0		
	of which: direct holdings of non-significant investments in the capital of other financial sector entities	0		
41c	Amount to be deducted from or added to AT1 with regard to additional filters and deductions required pre-CRR	0	467, 468, 481	
	of which: possible filter to unrealised losses	0	467	
	of which: possible filter to unrealised gains	0	468	
42	Qualifying T2 deductions that exceed the T2 capital of the institution (negative amount)	0	56(e)	
43	Total regulatory adjustments to Additional Tier 1 (AT1) capital	-2		
44	Additional Tier 1 (AT1) capital	999		
45	Tier 1 capital (T1 = CET1 + AT1)	16,516		
Tier 2 (T2) capital: instruments and provisions				
46	Capital instruments and the related share premium accounts	3,797	62, 63	i
47	Amount of qualifying items referred to in Article 484 -5 and the related share premium accounts subject to phase out from T2	0	486(4)	
	Public sector capital injections grandfathered until Jan 18	0		
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interest and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties	241		m
49	of which: instruments issued by subsidiaries subject to phase-out	0	486(4)	
50	Credit risk adjustments	371	62(c)(d)	
51	Tier 2 (T2) capital before regulatory adjustment	4,410		0
T2 capital: regulatory adjustments				
52	Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)	-34		i
53	Holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	0		
54	Direct, indirect and synthetic holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10 % threshold and net of eligible short positions) (negative amount)	0	66(c), 69, 70, 79, 477(4)	
54a	of which: new holdings not subject to transitional arrangements	0		
54b	of which: holdings existing before 1 Jan 2013 and subject to transitional arrangements	0		
55	Direct, indirect and synthetic holdings of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amounts)	0	66(d), 69, 79, 477(4)	

The table is continued on the next page.

Continuation of the table

in EUR million		Dec 2018	Regulation (EU) No 575/2013	Reference to tables
56	Regulatory adjustments applied to T2 in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amounts)	0		
56a	Residual amounts deducted from T2 with regard to deduction from CET1 during the transitional period pursuant to article 472 of Regulation (EU) No 575/2013	0	472, 472(3)(a), 472(4), 472(6), 472(8)(a), 472(9), 472(10)(a), 472(11)(a)	
	of which: shortfall of provisions to expected loss	0	472(6)	
	of which: non-significant investments	0	472(10)	
56b	Residual amounts deducted from T2 with regard to deduction from AT1 during the transitional period pursuant to article 475 of Regulation (EU) No 575/2013	0	475, 475(2)(a), 475(3), 475(4)(a)	
	of which: reciprocal cross holdings in T1 instruments	0		
	of which: direct holdings of non-significant investments in the capital of other financial sector entities	0		
56c	Amounts to be deducted from or added to T2 with regard to additional filters and deductions required pre- CRR	0	467, 468, 481	
	of which possible filter to unrealised losses	0	467	
	of which: possible filter to unrealised gains	0	468	
57	Total regulatory adjustments to Tier 2 (T2) capital	-35		
58	Tier 2 (T2) capital	4,375		
59	Total capital (TC = T1 + T2)	20,891		
59a	Risk weighted assets in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amount)	0		
	of which: items not deducted from CET1 (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line, e.g. Reciprocal cross holdings in T2 instruments, indirect holdings of related tax liability, indirect holdings of own CET1, etc.)	0	472, 472(5), 472(8)(b), 472(10)(b), 472(11)(b)	
	of which: items not deducted from AT1 items (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line, e.g. Reciprocal cross holdings in T2 instruments, direct holdings of non-significant investments in the capital of other financial sector entities, etc.)	0	475, 475(2)(b), 475(2)(c), 475(4)(b)	
	of which: items not deducted from T2 items (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line, e.g. Indirect holdings of own T2 instruments, indirect holdings of non-significant investments in the capital of other financial sector entities, indirect holdings of significant investments in the capital of other financial sector entities etc.)	0	477, 477(2)(b), 477(2)(c), 477(4)(b)	
60	Total risk-weighted assets	114,599		
Capital ratios and buffers				
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	13.5%	92(2)(a), 465	
62	Tier 1 (as a percentage of total risk exposure amount)	14.4%	92(2)(b), 465	
63	Total capital (as a percentage of total risk exposure amount)	18.2%	92(2)(c)	
64	Institution specific buffer requirement (CET1 requirement in accordance with article 92 -1 (a) plus capital conservation and countercyclical buffer requirements plus a systemic risk buffer, plus systemically important institution buffer expressed as a percentage of total risk exposure amount)	3.19%	CRD 128, 129, 130	
65	of which: capital conservation buffer requirement	1.88%		
66	of which: countercyclical buffer requirement	0.31%		
67	of which: systemic risk buffer requirement	1.00%		
67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	1.00%	CRD 131	
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	7.3%	CRD 128	
Amounts below the thresholds for deduction (before risk-weighting)				
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	567	36(1)(h), 45, 46, 472(10), 56(c), 59, 60, 475(4), 66(c), 69, 70, 477(4)	
73	Direct and indirect holdings of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	318	36(1)(i), 45, 48, 470, 472(11)	
75	Deferred tax assets arising from temporary difference (amount below 10 % threshold, net of related tax liability where the conditions in Article 38 -3 are met)	376	36(1)(c), 38, 48, 470, 472(5)	
Applicable caps on the inclusion of provisions in Tier 2				
76	Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)	0	62	
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	207	62	
78	Credit risk adjustments included in T2 in respect of exposures subject to internal rating-based approach (prior to the application of the cap)	371	62	
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	456	62	
Capital instruments subject to phase-out arrangements (only applicable between Jan 2013 and Jan 2022)				
80	Current cap on CET1 instruments subject to phase-out arrangements	40%	484(3), 486(2)&(5)	
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	0	484(3), 486(2)&(5)	
82	Current cap on AT1 instruments subject to phase-out arrangements	40%	484(4), 486(3)&(5)	
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	0	484(4), 486(3)&(5)	
84	Current cap on T2 instruments subject to phase-out arrangements	40%	484(5), 486(4)&(5)	
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	0	484(5), 486(4)&(5)	

54. Events after the balance sheet date

There are no significant events after the balance sheet date.

55. Country by country reporting

Starting with 2014 Erste Group publishes information about Group's country by country relevant activities as required by Article 89 of the EU Capital Requirements Directive IV.

in EUR million	Operating income	Pre-tax result from continuing operations	Taxes on income	Taxes paid
Dec 19				
Austria	3,169	620	-71	-136
Croatia	424	182	-30	-40
Czech Republic	1,641	914	-168	-142
Hungary	434	192	-13	-14
Romania	711	207	-64	-80
Serbia	103	40	-2	-3
Slovakia	613	108	-50	-46
Other locations	161	66	-22	-7
Total	7,256	2,330	-419	-468
Dec 18				
Austria	2,923	543	-28	-142
Croatia	425	215	-33	-36
Czech Republic	1,584	853	-146	-144
Hungary	421	189	-9	-28
Romania	681	322	-49	-55
Serbia	90	38	-2	-3
Slovakia	628	290	-57	-46
Other locations	163	45	-8	-4
Total	6,916	2,495	-332	-457

For information regarding the country of residence of each fully consolidated entity refer to Note 56 Details of the companies wholly or partly owned by Erste Group as of 31 December 2019.

For the periods reported above, Erste Group did not receive any kind of public or state subsidies.

Information about the geographical split of the average number of headcounts employed in Erste Group throughout 2019 is disclosed in Note 7 General administrative expenses.

56. Details of the companies wholly or partly owned by Erste Group as of 31 December 2019

The table below presents material, fully consolidated subsidiaries, investments in associates accounted for at equity and other investments.

Company name, registered office	Interest of Erste Group in %		
	Dec 18	Dec 19	
Fully consolidated subsidiaries			
Credit institutions			
Allgemeine Sparkasse Oberösterreich Bankaktiengesellschaft	Linz	39.2	39.2
Banca Comerciala Romana Chisinau S.A.	Chisinau	99.9	99.9
Banca Comerciala Romana SA	Bucharest	99.9	99.9
Banka Sparkasse d.d.	Ljubljana	28.0	28.0
Bankhaus Krentschker & Co. Aktiengesellschaft	Graz	25.0	25.0
Bausparkasse der österreichischen Sparkassen Aktiengesellschaft	Wien	95.1	95.1
BCR Banca pentru Locuinte SA	Bucharest	99.9	99.9
Ceska sporitelna, a.s.	Praha	100.0	100.0
Die Zweite Wiener Vereins-Sparcasse	Wien	0.0	0.0
Dornbirner Sparkasse Bank AG	Dornbirn	0.0	0.0
Erste & Steiermärkische Bank d.d.	Rijeka	69.3	69.3
ERSTE BANK AD PODGORICA	Podgorica	69.3	69.3
ERSTE BANK AKCIONARSKO DRUŠTVO, NOVI SAD	Novi Sad	80.5	80.5
Erste Bank der oesterreichischen Sparkassen AG	Wien	100.0	100.0
Erste Bank Hungary Zrt	Budapest	100.0	100.0
Erste Group Bank AG	Wien	0.0	0.0
ERSTE Jelzalogbank Zártkörűen Működő Részvénytársaság	Budapest	100.0	100.0
Erste Lakas-Takarekpenztar Zartkoruen Mukodo Reszvenytarsasag	Budapest	100.0	100.0
Kärntner Sparkasse Aktiengesellschaft	Klagenfurt	25.0	25.0
KREMSER BANK UND SPARKASSEN AKTIENGESELLSCHAFT	Krems	0.0	0.0
Lienzer Sparkasse AG	Lienz	0.0	0.0
Ohridska Banka AD Skopje	Skopje	0.0	22.9
Salzburger Sparkasse Bank Aktiengesellschaft	Salzburg	100.0	100.0
Slovenska sporitelna, a. s.	Bratislava	100.0	100.0
Sparkasse Baden	Baden	0.0	0.0
Sparkasse Bank dd Bosna i Hercegovina	Sarajevo	25.0	25.0
SPARKASSE BANK MAKEDONIJA AD SKOPJE	Skopje	24.9	24.9
Sparkasse Bludenz Bank AG	Bludenz	0.0	0.0
Sparkasse Bregenz Bank Aktiengesellschaft	Bregenz	0.0	0.0
Sparkasse der Gemeinde Egg	Egg	0.0	0.0
Sparkasse der Stadt Amstetten AG	Amstetten	0.0	0.0
Sparkasse der Stadt Feldkirch	Feldkirch	0.0	0.0
Sparkasse der Stadt Kitzbühel	Kitzbühel	0.0	0.0
Sparkasse Eferding-Peuerbach-Waizenkirchen	Eferding	0.0	0.0
Sparkasse Feldkirchen/Kärnten	Feldkirchen	0.0	0.0
SPARKASSE FRANKENMARKT AKTIENGESELLSCHAFT	Frankenmarkt	0.0	0.0
Sparkasse Hainburg-Bruck-Neusiedl Aktiengesellschaft	Hainburg	75.0	75.0
Sparkasse Haugsdorf	Haugsdorf	0.0	0.0
Sparkasse Herzogenburg-Neulengbach Bank Aktiengesellschaft	Herzogenburg	0.0	0.0
Sparkasse Horn-Ravelsbach-Kirchberg Aktiengesellschaft	Horn	0.0	0.0
Sparkasse Imst AG	Imst	0.0	0.0
Sparkasse Korneuburg AG	Korneuburg	0.0	0.0
Sparkasse Kufstein Tiroler Sparkasse von 1877	Kufstein	0.0	0.0
Sparkasse Lambach Bank Aktiengesellschaft	Lambach	0.0	0.0
Sparkasse Langenlois	Langenlois	0.0	0.0
Sparkasse Mittersill Bank AG	Mittersill	0.0	0.0
Sparkasse Mühlviertel-West Bank Aktiengesellschaft	Rohrbach	40.0	40.0
Sparkasse Mürrzuschlag Aktiengesellschaft	Mürrzuschlag	0.0	0.0
Sparkasse Neuhofen Bank Aktiengesellschaft	Neuhofen	0.0	0.0
Sparkasse Neunkirchen	Neunkirchen	0.0	0.0
SPARKASSE NIEDERÖSTERREICH MITTE WEST AKTIENGESELLSCHAFT	St. Pölten	0.0	0.0
Sparkasse Pöllau AG	Pöllau	0.0	0.0
Sparkasse Pottenstein N.Ö.	Pottenstein	0.0	0.0
Sparkasse Poysdorf AG	Poysdorf	0.0	0.0
Sparkasse Pregarten - Unterweißenbach AG	Pregarten	0.0	0.0
Sparkasse Rattenberg Bank AG	Rattenberg	0.0	0.0
Sparkasse Reutte AG	Reutte	0.0	0.0
Sparkasse Ried im Innkreis-Haag am Hausruck	Ried	0.0	0.0
Sparkasse Salzkammergut AG	Bad Ischl	0.0	0.0
Sparkasse Scheibbs AG	Scheibbs	0.0	0.0
Sparkasse Schwaz AG	Schwaz	0.0	0.0
Sparkasse Voitsberg-Köflach Bankaktiengesellschaft	Voitsberg	4.2	4.2
Stavebni sporitelna Ceske sporitelny, a.s.	Praha	100.0	100.0
Steiermärkische Bank und Sparkassen Aktiengesellschaft	Graz	25.0	25.0
Tiroler Sparkasse Bankaktiengesellschaft Innsbruck	Innsbruck	75.0	75.0
Waldviertler Sparkasse Bank AG	Zwettl	0.0	0.0
Wiener Neustädter Sparkasse	Wiener Neustadt	0.0	0.0

Company name, registered office	Interest of Erste Group in %		
	Dec 18	Dec 19	
Financial institutions			
"DIE EVA" Grundstückverwaltungsgesellschaft m.b.H.	Wien	100.0	100.0
"Die Kärntner" Trust- Vermögensverwaltungsgesellschaft m.b.H. & Co KG	Klagenfurt	25.0	25.0
"Die Kärntner" Trust-Vermögensverwaltungsgesellschaft m.b.H.	Klagenfurt	25.0	25.0
"Nare" Grundstücksverwertungs-Gesellschaft m.b.H.	Wien	100.0	100.0
"SELIMMO" - Sparkasse Mühlviertel-West - DIE ERSTE Leasing - Immobilienvermietung GmbH	Rohrbach	69.4	69.4
ACP Financial Solutions GmbH	Wien	75.0	75.0
Alea-Grundstückverwaltung Gesellschaft m.b.H.	Wien	100.0	100.0
Altstadt Hotelbetriebs GmbH	Wien	100.0	100.0
AS-Alpha Grundstücksverwaltung Gesellschaft m.b.H.	Wien	39.2	39.2
AVION-Grundverwertungsgesellschaft m.b.H.	Wien	51.0	51.0
AWEKA - Kapitalverwaltungsgesellschaft m.b.H.	Graz	25.0	25.0
BCR Leasing IFN SA	Bucharest	99.9	99.9
BCR Payments Services SRL	Sibiu	99.9	99.9
BCR Social Finance IFN S.A.	Bucharest	60.0	79.5
BOOTES-Immorent Grundverwertungs-Gesellschaft m.b.H.	Wien	100.0	100.0
CS Property Investment Limited	Nicosia	100.0	100.0
DENAR-Immorent Grundverwertungsgesellschaft m.b.H.	Wien	62.5	62.5
DIE ERSTE Leasing Grundaufschließungs- und Immobilienvermietungsgesellschaft m.b.H.	Wien	100.0	100.0
DIE ERSTE Leasing Grundbesitzgesellschaft m.b.H.	Wien	100.0	100.0
DIE ERSTE Leasing Grundstückverwaltungsgesellschaft m.b.H.	Wien	100.0	100.0
DIE ERSTE Leasing Immobilienbesitzgesellschaft m.b.H.	Wien	100.0	100.0
DIE ERSTE Leasing Immobilienverwaltungs- und -vermietungsgesellschaft m.b.H.	Wien	100.0	100.0
DIE EVA - Liegenschaftsverwaltungsgesellschaft m.b.H.	Wien	100.0	100.0
DIE EVA-Gebäudeleasinggesellschaft m.b.H.	Wien	100.0	100.0
DIE EVA-Immobilienleasing und -erwerb Gesellschaft m.b.H.	Wien	100.0	100.0
Diners Club International Mak d.o.o.e.l. in Skopje	Skopje	69.3	69.3
Drustvo za lizing nekretnina, vozila, plovila i masina "S-Leasing" doo Podgorica	Podgorica	62.5	62.5
EB Erste Bank Internationale Beteiligungen GmbH	Wien	100.0	100.0
EBB Beteiligungen GmbH	Wien	100.0	100.0
EB-Grundstücksbeteiligungen GmbH	Wien	100.0	100.0
EKZ-Immorent Vermietung GmbH	Wien	100.0	100.0
Epsilon Immorent s.r.o.	Praha	100.0	100.0
Erste & Steiermärkische S-Leasing drustvo s ogranicenom odgovornoscu za leasing vozila i strojeva	Zagreb	47.1	47.1
Erste Bank und Sparkassen Leasing GmbH	Wien	100.0	100.0
ERSTE CARD CLUB d.o.o.	Zagreb	69.3	69.3
ERSTE CARD poslovanje s kreditnimi karticama, d.o.o.	Ljubljana	69.3	69.3
ERSTE FACTORING d.o.o.	Zagreb	69.3	69.3
Erste Group Immorent CR s.r.o.	Praha	100.0	100.0
Erste Group Immorent GmbH	Wien	100.0	100.0
Erste Group Immorent International Holding GmbH	Wien	100.0	100.0
Erste Group Immorent Lizing Zártkörűen Működő Részvénytársaság	Budapest	100.0	100.0
ERSTE GROUP IMMORANT LJUBLJANA, financne storitve, d.o.o.	Ljubljana	100.0	100.0
ERSTE GROUP IMMORANT SRL	Bucharest	100.0	100.0
Erste Leasing, a.s.	Znojmo	100.0	100.0
Erste Social Finance Holding GmbH	Wien	60.0	60.0
Eva-Immobilienverwaltungsgesellschaft m.b.H.	Wien	100.0	100.0
Eva-Realitätenverwaltungsgesellschaft m.b.H.	Wien	100.0	100.0
F & S Leasing GmbH	Klagenfurt	100.0	100.0
Factoring Ceske sporitelny a.s.	Praha	100.0	100.0
FUKO-Immorent Grundverwertungsgesellschaft m.b.H.	Wien	100.0	100.0
GIROLEASING-Mobilienvermietungsgesellschaft m.b.H.	Wien	62.5	62.5
HBF Eins Holding GmbH	Wien	100.0	100.0
Holding Card Service s.r.o.	Praha	100.0	100.0
Hotel- und Sportstätten-Beteiligungs-, Errichtungs- und Betriebsgesellschaft m.b.H.	Wien	38.0	38.0
Hotel- und Sportstätten-Beteiligungs-, Errichtungs- und Betriebsgesellschaft m.b.H. Leasing KG	St. Pölten	54.5	54.5
ILGES - Immobilien- und Leasing - Gesellschaft m.b.H.	Rohrbach	40.0	40.0
Immo Smaragd GmbH	Schwaz	0.0	0.0
Immorent - Immobilienleasing Gesellschaft m.b.H.	Wien	100.0	100.0
Immorent - Weiko Grundverwertungsgesellschaft m.b.H.	Wien	100.0	100.0
IMMORENT DELTA, leasing druzba, d.o.o.	Ljubljana	50.0	50.0
ImmoRent Einkaufszentren Verwaltungsgesellschaft m.b.H.	Wien	100.0	100.0
IMMORENT EPSILON, leasing druzba, d.o.o.	Ljubljana	50.0	50.0
Immorent Oktatási Ingatlanhasznosító és Szolgáltató Kft.	Budapest	56.0	56.0
IMMORENT PPP Ingatlanhasznosító és Szolgáltató Korlátolt Felelősségű Társaság	Budapest	100.0	100.0
IMMORENT PTC, s.r.o.	Praha	100.0	100.0
IMMORENT RIED GmbH	Wien	100.0	100.0
IMMORENT-ANUBIS Grundverwertungsgesellschaft m.b.H.	Wien	100.0	100.0
IMMORENT-ASTRA Grundverwertungsgesellschaft m.b.H.	Wien	100.0	100.0
Immorent-Clio-Grundverwertungsgesellschaft m.b.H.	Wien	100.0	100.0
Immorent-Gamma-Grundstücksverwertungsgesellschaft m.b.H.	Wien	100.0	100.0
IMMORENT-GREKO Grundverwertungsgesellschaft m.b.H.	Wien	100.0	100.0
Immorent-Grundverwertungsgesellschaft m.b.H.	Wien	100.0	100.0

Company name, registered office	Interest of Erste Group in %		
	Dec 18	Dec 19	
IMMORENT-JULIA Grundverwertungsgesellschaft m.b.H.	Wien	100.0	100.0
Immorent-Kappa Grundverwertungsgesellschaft m.b.H.	Wien	100.0	100.0
IMMORENT-LEANDER Grundverwertungsgesellschaft m.b.H.	Wien	100.0	100.0
IMMORENT-MOMO Grundverwertungsgesellschaft m.b.H.	Wien	100.0	100.0
IMMORENT-MÖRE Grundverwertungsgesellschaft m.b.H.	Wien	69.5	69.5
IMMORENT-NERO Grundverwertungsgesellschaft m.b.H.	Wien	100.0	100.0
IMMORENT-Objektvermietungsgesellschaft m.b.H.	Wien	100.0	100.0
IMMORENT-OSIRIS Grundverwertungsgesellschaft m.b.H.	Wien	100.0	100.0
IMMORENT-PAN Grundverwertungsgesellschaft m.b.H.	Wien	100.0	100.0
IMMORENT-Raiffeisen Fachhochschule Errichtungs- und BetriebsgmbH	Wien	55.0	55.0
IMMORENT-RAMON Grundverwertungsgesellschaft m.b.H.	Wien	62.5	62.5
IMMORENT-RASTA Grundverwertungsgesellschaft m.b.H.	Wien	100.0	100.0
IMMORENT-REMUS Grundverwertungsgesellschaft m.b.H.	Wien	100.0	100.0
IMMORENT-RIALTO Grundverwertungsgesellschaft m.b.H.	Wien	100.0	100.0
IMMORENT-RIO Grundverwertungsgesellschaft m.b.H.	Wien	55.0	55.0
IMMORENT-RIWA Grundverwertungsgesellschaft m.b.H.	Wien	100.0	100.0
IMMORENT-RONDO Grundverwertungsgesellschaft m.b.H.	Wien	100.0	100.0
IMMORENT-RUBIN Grundverwertungsgesellschaft m.b.H.	Wien	100.0	100.0
IMMORENT-SARI Grundverwertungsgesellschaft m.b.H.	Wien	100.0	100.0
Immorent-Theta-Grundverwertungsgesellschaft m.b.H.	Wien	100.0	100.0
IMMORENT-TRIAS Grundverwertungsgesellschaft m.b.H.	Wien	62.5	62.5
Immorent-WBV Grundverwertungsgesellschaft m.b.H.	Wien	50.0	50.0
IMNA-Immorent Immobilienleasing GmbH	Wien	100.0	100.0
Imobilija Kik s.r.o.	Praha	100.0	100.0
Intermarket Bank AG	Wien	93.8	93.8
IR Beteiligungsverwaltungsgesellschaft mbH	Wien	100.0	100.0
IR Domestic Project Development Holding GmbH	Wien	100.0	100.0
IR REAL ESTATE LEASING d.o.o. u likvidaciji	Zagreb	92.5	92.5
Kärntner Sparkasse Vermögensverwaltungsgesellschaft m.b.H.	Klagenfurt	25.0	25.0
MEKLA Leasing Gesellschaft m.b.H.	Wien	100.0	100.0
MOPET CZ a.s.	Praha	100.0	100.0
NAXOS-Immorent Immobilienleasing GmbH	Wien	100.0	100.0
NÖ-Sparkassen Beteiligungsgesellschaft m.b.H.	Wien	2.5	2.5
Ölim-Grundverwertungsgesellschaft m.b.H.	Graz	25.0	25.0
OMEGA IMMORENT s.r.o.	Praha	100.0	100.0
OREST-Immorent Leasing GmbH	Wien	100.0	100.0
Österreichisches Volkswohnungswerk, Gemeinnützige Gesellschaft mit beschränkter Haftung	Wien	100.0	100.0
PAROS-Immorent Grundverwertungsgesellschaft m.b.H.	Wien	100.0	100.0
Pischeldorfer Straße 221 Liegenschaftsverwertungs GmbH	Wien	100.0	100.0
PREDUZECE ZA FINANSIJSKI LIZING S-LEASING DOO, BEOGRAD	Belgrade	66.6	66.6
RHEA-Immorent Holding GmbH	Wien	100.0	100.0
s Autoleasing a.s.	Praha	100.0	100.0
s Autoleasing SK, s.r.o.	Bratislava	100.0	100.0
S IMMORENT OMIKRON društvo s ograničenom odgovornošću za poslovanje nekretninama	Zagreb	100.0	100.0
S Slovensko, spol. s r.o.	Bratislava	100.0	100.0
s Wohnbaubank AG	Wien	100.0	100.0
SCIENTIA Immorent GmbH	Wien	100.0	100.0
S-Factoring, faktoring družba d.d.	Ljubljana	28.0	28.0
Sieben-Tiroler-Sparkassen Beteiligungsgesellschaft m.b.H.	Kufstein	0.0	0.0
S-Leasing Gesellschaft m.b.H.	Kirchdorf	69.6	69.6
S-Leasing Immobilienvermietungsgesellschaft m.b.H.	Wiener Neustadt	33.3	33.3
Sluzby SLSP, s.r.o.	Bratislava	100.0	100.0
Sparfinanz-, Vermögens-, Verwaltungs- und Beratungs- Gesellschaft m.b.H.	Wiener Neustadt	0.0	0.0
SPARKASSE IMMORENT Grundverwertungsgesellschaft m.b.H.	Wien	100.0	100.0
Sparkasse Leasing d.o.o., Sarajevo	Sarajevo	25.0	25.0
Sparkasse Leasing d.o.o., Skopje	Skopje	25.0	25.0
Sparkasse Leasing S, družba za financiranje d.o.o.	Ljubljana	28.0	28.0
Sparkasse Mühlviertel-West Holding GmbH	Rohrbach	40.0	40.0
Sparkassen IT Holding AG	Wien	31.1	31.1
Sparkassen Leasing Süd GmbH	Graz	25.0	25.0
Sparkassen Leasing Süd GmbH & Co KG	Graz	25.0	25.0
Strabag Oktatási PPP Ingatlanhasznosító és Szolgáltató Korlátolt Felelősségű Társaság	Budapest	70.0	70.0
Subholding Immorent GmbH	Wien	100.0	100.0
TAURIS-Immorent Grundverwertungsgesellschaft m.b.H.	Wien	100.0	100.0
Theta Immorent s.r.o.	Praha	100.0	100.0
Theuthras-Immorent Grundverwertungsgesellschaft m.b.H.	Wien	62.5	62.5
TIPAL Immobilien GmbH in Liquidation	Bozen	92.5	92.5
UBG-Unternehmensbeteiligungsgesellschaft m.b.H.	Wien	100.0	100.0
VIA Immobilien Errichtungsgesellschaft m.b.H.	Wien	100.0	100.0
Vorarlberger Sparkassen Beteiligungs GmbH	Dornbirn	0.0	0.0
WIESTA-Immorent Immobilienleasing GmbH	Wien	100.0	100.0
XENIA-Immorent Grundverwertungsgesellschaft m.b.H.	Wien	100.0	100.0
Zeta Immorent s.r.o.	Praha	100.0	100.0

Company name, registered office	Interest of Erste Group in %		
	Dec 18	Dec 19	
Other			
"SGL" Grundstücksverwaltungs- und Leasing Gesellschaft m.b.H.	Wien	100.0	100.0
Asset Management Slovenskej sporitelne, správ. spol., a. s.	Bratislava	91.1	91.1
BCR Fleet Management SRL	Bucharest	99.9	99.9
BCR Pensii, Societate de Administrare a Fondurilor de Pensii Private SA	Bucharest	99.9	99.9
BGA Czech, s.r.o. v likvidaci	Praha	100.0	100.0
brokerjet České sporitelny, a.s. v likvidaci	Praha	100.0	100.0
BRS Büroreinigungsgesellschaft der Steiermärkischen Bank und Sparkassen Aktiengesellschaft Gesellschaft m.b.H.	Graz	25.0	25.0
BTV-Beteiligungs-, Treuhand-, Vermögens-Verwaltungsgesellschaft m.b.H.	Klagenfurt	25.0	25.0
Budejovicka development, s. r. o.	Praha	0.0	100.0
C&C Atlantic Limited	Dublin	100.0	100.0
CEE Property Development Portfolio 2 a.s.	Praha	100.0	100.0
CEE Property Development Portfolio B.V.	Amsterdam	20.0	20.0
Ceska sporitelna - penzijni spolecnost, a.s.	Praha	100.0	100.0
Cinci-Immorent Grundverwertungsgesellschaft m.b.H.	Wien	100.0	100.0
CIT ONE SRL	Bucharest	99.9	99.9
Collat-real Korlátolt Felelősségű Társaság	Budapest	100.0	100.0
CP Praha s.r.o., v likvidaci	Praha	20.0	20.0
CPDP 2003 s.r.o.	Praha	100.0	100.0
CPP Lux S. 'ar.l.	Luxembourg	20.0	20.0
CS NHQ, s.r.o.	Praha	100.0	100.0
Czech and Slovak Property Fund B.V.	Amsterdam	100.0	100.0
Czech TOP Venture Fund B.V.	Groesbeek	84.0	84.0
DIE ERSTE Leasing Immobilien Vermietungsgesellschaft m.b.H.	Wien	100.0	100.0
Dienstleistungszentrum Leoben GmbH	Wien	51.0	51.0
EB-Restaurantsbetriebe Ges.m.b.H.	Wien	100.0	100.0
Energie CS, a.s.	Praha	100.0	100.0
Erste Asset Management d.o.o.	Zagreb	91.1	91.1
Erste Asset Management GmbH	Wien	91.1	91.1
Erste Asset Management Ltd. (vm Erste Alapkezekelo Zrt.)	Budapest	91.1	91.1
Erste Befektetesi Zrt.	Budapest	100.0	100.0
ERSTE CAMPUS Immobilien GmbH & Co KG	Wien	100.0	100.0
Erste Campus Mobilien GmbH & Co KG	Wien	100.0	100.0
Erste Finance (Delaware) LLC	Wilmington	100.0	100.0
Erste Grantika Advisory, a.s.	Brno	100.0	100.0
Erste Group Card Processor d.o.o.	Zagreb	100.0	100.0
ERSTE GROUP IMMORENT HRVATSKA drustvo s ogranicenom odgovornoscju za upravljanje	Zagreb	100.0	100.0
ERSTE GROUP IMMORENT POLSKA SPOLKA Z OGRANICZONA ODPOWIEDZIALNOSCIA	Warsaw	100.0	100.0
Erste Group Immorent Slovensko s.r.o.	Bratislava	100.0	100.0
Erste Group IT HR društvo s ogranicenom odgovornošću za usluge informacijskih tehnologija	Bjelovar	75.4	75.4
Erste Group IT International GmbH	Wien	99.9	99.9
Erste Group Services GmbH	Wien	100.0	100.0
Erste Group Shared Services (EGSS), s.r.o.	Hodonin	100.0	100.0
ERSTE Immobilien Kapitalanlagegesellschaft m.b.H.	Wien	68.7	68.7
Erste Ingatlan Fejlesztő, Hasznosító és Mernoki Kft.	Budapest	100.0	100.0
ERSTE NEKRETNINE d.o.o. za poslovanje nekretninama	Zagreb	69.3	69.3
Erste Reinsurance S.A.	Luxembourg	100.0	100.0
Erste Securities Polska S.A.	Warsaw	100.0	100.0
EVA-Immobilienvermietungs- und -verwertungsgesellschaft m.b.H. in Liqu.	Wien	100.0	100.0
Flottenmanagement GmbH	Wien	51.0	51.0
George Labs GmbH	Wien	100.0	100.0
GLADIATOR LEASING IRELAND LIMITED	Dublin	100.0	100.0
Gladiator Leasing Limited	Pieta	100.0	100.0
GLL 1551 TA Limited	Pieta	100.0	100.0
GLL A319 AS LIMITED	Pieta	100.0	100.0
GLL A330 Designated Activity Company	Dublin	100.0	100.0
GLL MSN 2118 LIMITED	Dublin	100.0	100.0
Haftungsverbund GmbH	Wien	63.9	63.9
HBM Immobilien Kamp GmbH	Wien	100.0	100.0
HP Immobilien Psi GmbH	Wien	100.0	100.0
HT Immobilien Tau GmbH	Wien	100.0	100.0
HT Immobilien Theta GmbH	Wien	100.0	100.0
HV Immobilien Hohenems GmbH	Wien	100.0	100.0
IBF-Anlagenleasing 95 Gesellschaft m.b.H.	Wien	100.0	100.0
IGP Industrie und Gewerbepark Wörgl Gesellschaft m.b.H.	Kufstein	0.0	0.0
Immobilienverwertungsgesellschaft m.b.H.	Klagenfurt	25.0	25.0
IMMORENT - ANDROMEDA Grundverwertungsgesellschaft m.b.H.	Wien	41.9	41.9
IMMORENT Alpha Ingatlanbérbeadó és Üzemeltető Korlátolt Felelősségű Társaság "végelszámolás alatt"	Budapest	100.0	100.0
Immorent Lehrbauhofeerrichtungsgesellschaft m.b.H.	Wien	100.0	100.0
IMMORENT Orion, s.r.o.	Praha	100.0	100.0
IMMORENT Österreich GmbH	Wien	100.0	100.0
Immorent Singidunum d.o.o.	Belgrade	100.0	100.0
IMMORENT SPARKASSE ST. PÖLTEN Leasinggesellschaft m.b.H. in Liqu.	St. Pölten	50.0	50.0
IMMORENT Térinvest Ingatlanhasznosító és Szolgáltató Korlátolt Felelősségű Társaság	Budapest	100.0	100.0

Company name, registered office	Interest of Erste Group in %		
	Dec 18	Dec 19	
IMMORENT Vega, s.r.o.	Praha	100.0	100.0
IMMORENT-BRAUGEBÄUDE-Leasinggesellschaft m.b.H.	Wien	100.0	100.0
IMMORENT-CHEMILEN Grundverwertungsgesellschaft m.b.H. in Liqu.	Wien	100.0	100.0
IMMORENT-HATHOR Grundverwertungsgesellschaft m.b.H.	Wien	62.5	62.5
IMMORENT-KRABA Grundverwertungsgesellschaft m.b.H.	Wien	100.0	100.0
IMMORENT-MARCO Grundverwertungsgesellschaft m.b.H. in Liqu.	Wien	100.0	100.0
Immorent-Mytho Grundverwertungsgesellschaft m.b.H.	Wien	50.0	50.0
Immorent-Sigre Grundverwertungsgesellschaft m.b.H. in Liqu.	Wien	100.0	100.0
IMMORENT-STIKÓ Leasinggesellschaft m.b.H.in Liqu.	Wien	100.0	100.0
IMMORENT-UTO Grundverwertungsgesellschaft m.b.H.	Wien	100.0	100.0
Invalidovna centrum s.r.o.	Praha	100.0	100.0
IPS Fonds Gesellschaft bürgerlichen Rechts	Wien	63.8	63.6
IR CEE Project Development Holding GmbH	Wien	100.0	100.0
IZBOR NEKRETNINA D.O.O. ZA USLUGE	Zagreb	69.3	69.3
Jersey Holding (Malta) Limited	Pieta	100.0	100.0
Jura GrundverwertungsgmbH	Graz	25.0	25.0
K1A Ingatlankezelő Korlátolt Felelőségi Társaság vegelszámolás alatt	Budapest	100.0	100.0
KS - Dienstleistungsgesellschaft m.b.H.	Klagenfurt	25.0	25.0
KS-Beteiligungs- und Vermögens-Verwaltungsgesellschaft m.b.H.	Klagenfurt	25.0	25.0
KS-Immo Italia GmbH	Klagenfurt	25.0	25.0
LANED a.s.	Bratislava	100.0	100.0
Lassallestraße 7b Immobilienverwaltung GmbH	Wien	100.0	100.0
LBG 61 LiegenschaftsverwaltungsgmbH	Wien	100.0	100.0
LEDA-Immorent Grundverwertungsgesellschaft m.b.H. "in Liqu."	Wien	69.6	69.6
LIEGESA Immobilienvermietung GmbH Nfg OG	Graz	25.0	25.0
MCS 14 Projektentwicklung GmbH & Co KG	Wien	100.0	100.0
OM Objektmanagement GmbH	Wien	100.0	100.0
Österreichische Sparkassenakademie GmbH	Wien	45.6	45.6
ÖVW Bauträger GmbH	Wien	100.0	100.0
PONOS-Immorent Immobilienleasing GmbH	Graz	62.5	62.5
Procurement Services CZ s.r.o.	Praha	99.9	99.9
Procurement Services GmbH	Wien	99.9	99.9
Procurement Services HR d.o.o.	Zagreb	99.9	99.9
Procurement Services HU Kft.	Budapest	99.9	99.9
Procurement Services RO srl	Bucharest	99.9	99.9
Procurement Services SK, s.r.o.	Bratislava	99.9	99.9
Project Development Vest s.r.l	Bucharest	100.0	100.0
Proxima IMMORENT s.r.o.	Praha	100.0	100.0
QBC Management und Beteiligungen GmbH	Wien	65.0	65.0
QBC Management und Beteiligungen GmbH & Co KG	Wien	65.0	65.0
Realia Consult Magyarország Beruházás Szervezési KFT „végelszámolás alatt“	Budapest	100.0	100.0
Realitna spolnost Slovenskej sporitelne, a.s. v likvidaciji	Bratislava	100.0	100.0
Real-Service für oberösterreichische Sparkassen Realitätenvermittlungsgesellschaft m.b.H.	Linz	68.6	68.6
Real-Service für steirische Sparkassen, Realitätenvermittlungsgesellschaft m.b.H.	Graz	61.7	61.7
REICO investicni spolnost Ceske sporitelny, a.s.	Praha	100.0	100.0
s ASG Sparkassen Abwicklungs- und Servicegesellschaft mbH	Graz	25.0	25.0
S IMMORENT LAMBDA drustvo s ogranicenom odgovornoscu za poslovanje nekretninama	Zagreb	100.0	100.0
s IT Solutions AT Spardat GmbH	Wien	72.7	72.7
s REAL Immobilienvermittlung GmbH	Wien	100.0	100.0
s ServiceCenter GmbH	Wien	58.4	58.4
s Wohnbauträger GmbH	Wien	100.0	100.0
s Wohnfinanzierung Beratungs GmbH	Wien	95.1	95.1
SAI Erste Asset Management S.A.	Bucharest	91.1	91.1
Salzburger Sparkasse Leasing Gesellschaft m.b.H. "in Liqu."	Wien	100.0	100.0
sBAU Holding GmbH	Wien	100.0	100.0
Schauersberg Immobilien Gesellschaft m.b.H.	Graz	25.0	25.0
sDG Dienstleistungsgesellschaft mbH	Linz	58.7	58.7
S-Invest Beteiligungsgesellschaft m.b.H.	Wien	70.0	70.0
Sio Ingatlan Invest Kft.	Budapest	100.0	100.0
SK - Immobiliengesellschaft m.b.H.	Krems	0.0	0.0
SK Immobilien Epsilon GmbH	Wien	100.0	100.0
SKT Immobilien GmbH	Kufstein	0.0	0.0
SKT Immobilien GmbH & Co KG	Kufstein	0.0	0.0
sMS Marktservice für Sparkassen GmbH	Krems	0.0	0.0
SOLARIS City Ingatlanfejlesztő Korlátolt Felelőségi Társaság vegelszámolás alatt	Budapest	100.0	100.0
Solaris Park Kft. "v.a."	Budapest	100.0	100.0
SPARDAT - Bürohauserichtungs- und Vermietungsgesellschaft m.b.H.	Wien	100.0	100.0
Sparkasse Oberösterreich Kapitalanlagegesellschaft m.b.H.	Linz	37.9	37.9
SPARKASSEN LEASING druzba za financiranje d.o.o.	Ljubljana	50.0	50.0
Sparkassen Real Vorarlberg Immobilienvermittlung GmbH	Dornbirn	50.0	50.0
Sparkassen-Haftungs GmbH	Wien	63.9	63.9
Sparkassen-Real-Service für Kärnten und Osttirol Realitätenvermittlungs-Gesellschaft m.b.H.	Klagenfurt	57.6	57.6

Company name, registered office	Interest of Erste Group in %		
	Dec 18	Dec 19	
Sparkassen-Real-Service -Tirol Realitätenvermittlungs-Gesellschaft m.b.H.	Innsbruck	68.7	68.7
S-Real, Realitätenvermittlungs- und -verwaltungs Gesellschaft m.b.H.	Wiener Neustadt	0.0	0.0
S-RENT DOO BEOGRAD	Belgrade	35.5	35.5
Steiermärkische Verwaltungssparkasse Immobilien & Co KG	Graz	25.0	25.0
STRAULESTI PROPERTY DEVELOPMENT SRL	Bucharest	100.0	100.0
Suport Colect SRL	Bucharest	99.9	99.9
Toplice Sveti Martin d.o.o.	Sveti Martin	100.0	100.0
VERNOSTNI PROGRAM IBOD, a.s.	Praha	100.0	100.0
Wallgasse 15+17 Projektentwicklungs GmbH in Liqu.	Wien	100.0	100.0
Wirtschaftspark Siebenhirten Entwicklungs- und Errichtungs GmbH	Wien	100.0	100.0
ZWETTLER LEASING Gesellschaft m.b.H.	Zwettl	0.0	0.0
Funds			
Bee First Finance S.A. acting for and on behalf of its compartment Edelweiss 2013-1	Luxembourg	0.0	0.0
ERSTE BOND EURO TREND	Wien	0.0	0.0
ERSTE RESERVE CORPORATE	Wien	0.0	0.0
ESPA CORPORATE BASKET 2020	Wien	0.0	0.0
SPARKASSEN 19	Wien	0.0	0.0
SPARKASSEN 2	Wien	0.0	0.0
SPARKASSEN 21	Wien	0.0	0.0
SPARKASSEN 26	Wien	0.0	0.0
SPARKASSEN 4	Wien	0.0	0.0
SPARKASSEN 5	Wien	0.0	0.0
SPARKASSEN 8	Wien	0.0	0.0
SPARKASSEN 9	Wien	0.0	0.0

Company name, registered office	Interest of Erste Group in %		
	Dec 18	Dec 19	
Equity method investments			
Credit institutions			
Prva stavebna sporitelna, a.s.	Bratislava	35.0	35.0
SPAR-FINANZ BANK AG	Salzburg	50.0	50.0
Financial institutions			
Adoria Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	24.5	24.5
Aventin Grundstücksverwaltungs Gesellschaft m.b.H.	Horn	24.5	24.5
Epsilon - Grundverwertungsgesellschaft m.b.H.	Wien	50.0	50.0
Esquilin Grundstücksverwaltungs Gesellschaft m.b.H.	St. Pölten	24.5	24.5
Fondul de Garantare a Creditului Rural IFN SA	Bucharest	33.3	33.3
FORIS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	24.5	24.5
Global Payments s.r.o.	Praha	49.0	49.0
HOSPES-Grundstückverwaltungs Gesellschaft m.b.H.	St. Pölten	33.3	33.3
Immorent-Hypo-Rent Grundverwertungsgesellschaft m.b.H.	Innsbruck	49.0	49.0
LITUS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	24.5	24.5
N.Ö. Kommunalgebäudeleasing Gesellschaft m.b.H.	Wien	28.4	33.4
Neue Eisenstädter gemeinnützige Bau-, Wohn- und Siedlungsgesellschaft m.b.H.	Eisenstadt	50.0	50.0
NÖ Bürgschaften und Beteiligungen GmbH	Wien	14.4	14.4
NÖ-KL Kommunalgebäudeleasing Gesellschaft m.b.H.	Wien	28.4	28.4
O.Ö. Kommunalgebäude-Leasing Gesellschaft m.b.H.	Linz	40.0	40.0
Quirinal Grundstücksverwaltungs Gesellschaft m.b.H.	Wien	33.3	33.3
Steirische Gemeindegebäude Leasing Gesellschaft m.b.H.	Wien	50.0	50.0
Steirische Kommunalgebäudeleasing Gesellschaft m.b.H.	Wien	50.0	50.0
Steirische Leasing für Gebietskörperschaften Gesellschaft m.b.H.	Wien	50.0	50.0
Steirische Leasing für öffentliche Bauten Gesellschaft m.b.H.	Wien	50.0	50.0
STUWO Gemeinnützige Studentenwohnbau Aktiengesellschaft	Wien	50.5	50.5
SUPRIA Raiffeisen-Immobilien-Leasing Gesellschaft m.b.H.	Wien	50.0	50.0
SWO Kommunalgebäudeleasing Gesellschaft m.b.H.	Wien	50.0	50.0
TKL V Grundverwertungsgesellschaft m.b.H.	Innsbruck	33.3	33.3
TKL VIII Grundverwertungsgesellschaft m.b.H.	Innsbruck	24.5	24.5
TRABITUS Grundstückvermietungs Gesellschaft m.b.H.	Wien	25.0	25.0
VALET-Grundstückverwaltungs Gesellschaft m.b.H.	St. Pölten	24.5	24.5
VOLUNTAS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	35.0	35.0
Vorarlberger Kommunalgebäudeleasing Gesellschaft m.b.H.	Dornbirn	33.3	33.3
Other			
APHRODITE Bauträger Aktiengesellschaft	Wien	50.0	50.0
Bio-Wärme Scheifling GmbH	Scheifling	49.0	49.0
CALDO Grundstücksverwertungsgesellschaft m.b.H. in Liqu.	Wien	31.2	31.2
ERSTE d.o.o.	Zagreb	45.2	45.2
Erste ÖSW Wohnbauträger GmbH	Wien	50.5	50.5
GELUP GmbH	Wien	33.3	33.3
Gemdat Niederösterreichische Gemeinde-Datenservice Gesellschaft m. b. H.	Korneuburg	0.8	0.8
Hochkönig Bergbahnen GmbH	Mühlbach	47.4	47.4
KWC Campus Errichtungsgesellschaft m.b.H.	Klagenfurt	13.6	13.6
MELIKERTES Raiffeisen-Mobilien-Leasing GmbH	Wien	20.0	20.0
SILLO DREI next LBG 57 Liegenschaftsverwertung GmbH & Co KG	Wien	49.0	49.0
SILLO II LBG 57 – 59 Liegenschaftsverwertung GmbH & Co KG	Wien	49.0	49.0
Slovak Banking Credit Bureau, s.r.o.	Bratislava	33.3	33.3
VBV - Betriebliche Altersvorsorge AG	Wien	27.9	27.9
Viminal Grundstückverwaltungs Gesellschaft m.b.H.	Wien	25.0	25.0
VKL III Gebäudeleasing-Gesellschaft m.b.H.	Dornbirn	33.3	33.3
Other investments			
Credit institutions			
EUROAXIS BANK AD Moskva	Moscow	1.6	1.6
JUBMES BANKA AD BEOGRAD	Belgrade	0.0	0.0
Oesterreichische Kontrollbank Aktiengesellschaft	Wien	12.9	12.9
Public Joint-stock company commercial Bank "Center-Invest"	Rostov	9.1	9.1
Südtiroler Sparkasse AG	Bozen	0.1	0.1
Swedbank AB	Stockholm	0.1	0.1
Financial institutions			
"Österreichisches Siedlungswerk" Gemeinnützige Wohnungsaktiengesellschaft	Wien	1.0	1.0
"Wohnungseigentum", Tiroler gemeinnützige Wohnbaugesellschaft m.b.H.	Innsbruck	19.1	19.1
"Wohnungseigentümer" Gemeinnützige Wohnbaugesellschaft m.b.H.	Mödling	20.3	20.3
ARWAG Holding-Aktiengesellschaft	Wien	19.3	19.3
CaixaBank Electronic Money E.D.E., S.L.	Barcelona	10.0	10.0
CONATUS Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	24.5	24.5
CULINA Grundstücksvermietungs Gesellschaft m.b.H.	St. Pölten	25.0	25.0
Diners Club BH d.o.o. Sarajevo	Sarajevo	69.3	69.3
Diners Club Bulgaria AD	Sofia	3.6	3.6
Diners Club International Belgrade d.o.o. Beograd	Belgrade	69.3	69.3
Diners Club International Montenegro d.o.o. in Podgorica	Podgorica	69.3	69.3

Company name, registered office	Interest of Erste Group in %		
	Dec 18	Dec 19	
Erste Asset Management Deutschland GmbH	Vaterstetten	91.1	91.1
Erste Corporate Finance, a.s.	Praha	100.0	100.0
EUROPEAN INVESTMENT FUND	Luxembourg	0.1	0.1
EWU Wohnbau Unternehmensbeteiligungs-GmbH	St. Pölten	20.2	20.2
Fondul Roman de Garantare a Creditorilor pentru Intreprinzatorii Privati SA	Bucharest	9.5	9.5
Garantiqa Hitelgarancia Zrt.	Budapest	1.8	1.8
GEBAU-NIOBAU Gemeinnützige Baugesellschaft m.b.H.	Mödling	19.2	19.2
Gemeinnützige Bau- und Siedlungsgenossenschaft "Waldviertel" registrierte Genossenschaft mit beschränkter Haftung	Raabs	0.0	0.0
Gemeinnützige Wohn- und Siedlungsgesellschaft Schönerer Zukunft, Gesellschaft m.b.H.	Wien	15.0	15.0
Gemeinnützige Wohnungsgesellschaft "Austria" Aktiengesellschaft	Mödling	20.0	20.0
GWG - Gemeinnützige Wohnungsgesellschaft der Stadt Linz GmbH	Linz	5.0	5.0
GWS Gemeinnützige Alpenländische Gesellschaft für Wohnungsbau und Siedlungswesen m.b.H.	Graz	7.5	7.5
GZ-Finanz Leasing Gesellschaft m.b.H.	Wien	100.0	100.0
IMMORENT S-Immobilienmanagement GesmbH	Wien	100.0	100.0
Immorent-Hackinger Grundverwertungsgesellschaft m.b.H.	Wien	10.0	11.3
KERES-Immorent Immobilienleasing GmbH	Wien	25.0	25.0
LBH Liegenschafts- und Beteiligungsholding GmbH	Innsbruck	75.0	75.0
Lorit Kommunalgebäudeleasing Gesellschaft m.b.H.	Wien	26.7	26.7
LV Holding GmbH	Linz	35.4	35.4
MIGRA Gemeinnützige Wohnungsges.m.b.H.	Wien	19.8	19.8
O.Ö. Kommunal-Immobilienleasing GmbH	Linz	40.0	40.0
O.Ö. Leasing für öffentliche Bauten Gesellschaft m.b.H.	Linz	33.3	33.3
Oberösterreichische Kreditgarantiegesellschaft m.b.H.	Linz	5.6	5.6
ÖSW Wohnbauvereinigung Gemeinnützige Gesellschaft m.b.H.	Salzburg	15.6	15.6
ÖWB Gemeinnützige Wohnungsaktiengesellschaft	Innsbruck	25.6	25.6
ÖWGES Gemeinnützige Wohnbaugesellschaft m.b.H.	Graz	2.5	2.5
PSA Payment Services Austria GmbH	Wien	18.5	18.5
Salzburger Kreditgarantiegesellschaft m.b.H.	Salzburg	18.2	18.2
Seilbahnleasing GmbH	Innsbruck	33.3	33.3
SREDISNJE KLIRINSKO DEPOZITARNO DRUSTVO D.D.(CENTRAL DEPOZITORY & CLEARING COMPANY Inc.)	Zagreb	0.1	0.1
TKL II. Grundverwertungsgesellschaft m.b.H.	Wien	26.7	26.7
TKL VI Grundverwertungsgesellschaft m.b.H.	Innsbruck	28.2	28.2
TKL VII Grundverwertungsgesellschaft m.b.H.	Innsbruck	28.4	28.4
Trziste novca d.d.	Zagreb	8.6	8.6
UNDA Grundstückvermietungs Gesellschaft m.b.H.	St. Pölten	25.0	25.0
WBV Beteiligungs- und Vermögensverwaltungsgesellschaft m.b.H.	Feldkirch	0.0	0.0
WKBG Wiener Kreditbürgschafts- und Beteiligungsbank AG (vorm.Kapital-Beteiligungs Aktiengesellschaft)	Wien	14.4	14.4
WNI Wiener Neustädter Immobilienleasing Ges.m.b.H.	Wiener Neustadt	0.0	0.0
Other			
"Die Kärntner" - Förderungs- und Beteiligungsgesellschaft für die Stadt Friesach Gesellschaft m.b.H.	Friesach	25.0	25.0
"Die Kärntner" - Förderungsgesellschaft für das Gurktal Gesellschaft m.b.H.	Gurk	25.0	25.0
"Die Kärntner"-BTWF-Beteiligungs- und Wirtschaftsförderungsgesellschaft für die Stadt St. Veit/Glan Gesellschaft m.b.H.	St. Veit	25.0	25.0
"Die Kärntner"-Förderungs- und Beteiligungsgesellschaft für den Bezirk Wolfsberg Gesellschaft m.b.H.	Wolfsberg	25.0	25.0
"Gasthof Löwen" Liegenschaftsverwaltung GmbH & Co., KG	Feldkirch	0.0	0.0
"Photovoltaik-Gemeinschaftsanlage" der Marktgemeinde Wolfurt	Wolfurt	0.0	0.0
"SIMM" Liegenschaftsverwertungsgesellschaft m.b.H. in Liquidation	Graz	25.0	25.0
"S-PREMIUM" Društvo sa ogranicenom odgovornoscu za posredovanje i zastupanje u osiguranju d.o.o. Sarajevo	Sarajevo	25.0	25.0
"TBG" Thermenzentrum Geinberg Betriebsgesellschaft m.b.H.	Geinberg	1.5	1.5
"THG" Thermenzentrum Geinberg Errichtungs-GmbH	Linz	1.5	1.5
AB Banka, a.s. v likvidaci	Mladá Boleslav	4.5	4.5
Achenseebahn-Aktiengesellschaft	Jenbach	0.0	0.0
Achtundsechzigste Sachwert Rendite-Fonds Holland GmbH & Co KG	Hamburg	0.0	0.0
AD SPORTSKO POSLOVNI CENTAR MILLENNIUM VRŠAC	Vršac	0.2	0.2
Agrargemeinschaft Kirchschlag	Kirchschlag	0.0	0.0
AKCIONARSKO DRUŠTVO ZA PROIZVODNJU DELOVA ZA MOTORE GARANT, FUTOG - U STECAJU	Futog	6.2	6.2
ALBA Services GmbH	Wien	50.0	50.0
Alpbacher Bergbahn Gesellschaft m.b.H. & Co.KG.	Alpbach	0.0	0.0
ALPENDORF BERGBAHNEN AG	St. Johann	0.0	0.0
AREALIS Liegenschaftsmanagement GmbH	Wien	50.0	50.0
Argentum Immobilienverwertungs Ges.m.b.H.	Linz	39.2	39.2
ÄRZTEHAUS GMUNDEN IMMOBILIEN GmbH	Bad Wimsbach-Neydharting	0.0	0.0
AS LEASING Gesellschaft m.b.H.	Linz	39.2	39.2
AS-WECO Grundstückverwaltung Gesellschaft m.b.H.	Linz	39.2	39.2
Austrian Reporting Services GmbH	Wien	14.3	14.3
AWEKA-Beteiligungsgesellschaft m.b.H.	Graz	25.0	25.0
aws Gründerfonds Beteiligungs GmbH & Co KG	Wien	5.1	5.1
Bäuerliches Blockheizkraftwerk reg. Gen.m.b.H.	Kautzen	0.0	0.0
BCR Asigurari de Viata Vienna Insurance Group SA	Bucharest	5.5	5.5
Beogradska Berza, Akcionarsko Društvo Beograd	Belgrade	12.6	12.6

Company name, registered office	Interest of Erste Group in %		
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Berg- und Schilift Schwaz-Pill Gesellschaft m.b.H.	Schwaz	0.0	0.0
Bergbahn Aktiengesellschaft Kitzbühel	Kitzbühel	0.0	0.0
Bergbahn Lofer GmbH	Lofer	7.9	7.9
Bergbahnen Oetz Gesellschaft m.b.H.	Oetz	0.0	0.0
Bergbahnen Westendorf Gesellschaft m.b.H.	Westendorf	0.0	0.0
BGM - Erste Group Immorent GmbH & Co KG	Wien	0.0	0.0
Biogenrohstoffgenossenschaft Kamptal und Umgebung registrierte Genossenschaft mit beschränkter Haftung	Maiersch	0.0	0.0
Biomasse Heizwerk Zürs GmbH	Zürs	0.0	0.0
Biroul de Credit SA	Bucharest	19.4	19.4
Biroul de Credit SRL	Chisinau	6.7	6.7
Brauerei Murau eGen	Murau	0.6	0.6
Bregenz Tourismus & Stadtmarketing GmbH	Bregenz	0.0	0.0
Budapesti Értéktözsde Zártkörűen Működő Részvénytársaság	Budapest	2.0	2.0
Burza cenných papierov v Bratislave, a.s.	Bratislava	3.9	3.9
Business Capital for Romania - Opportunity Fund Coöperatief UA	Amsterdam	77.4	77.4
Camelot Informatik und Consulting Gesellschaft m.b.H.	Wien	3.6	3.6
CAMPUS 02 Fachhochschule der Wirtschaft GmbH	Graz	3.8	3.8
capital300 EuVECA GmbH & Co KG	Linz	3.2	2.6
Cargo-Center-Graz Betriebsgesellschaft m.b.H.	Werndorf	1.6	1.6
Cargo-Center-Graz Betriebsgesellschaft m.b.H. & Co KG	Werndorf	1.6	1.6
Carlyle Europe Partners, L.P. (in Liquidation)	Vale	0.6	0.6
Casa Romana de Compensatie Sibiu	Sibiu	0.4	0.4
CBCB-Czech Banking Credit Bureau, a.s.	Praha	20.0	20.0
CEESEG Aktiengesellschaft	Wien	11.8	11.8
CRNOMEREC CENTAR D.O.O. ZA PROJEKTIRANJE GRADENJE I NADZOR	Zagreb	0.0	0.0
D.C. Travel d.o.o Beograd	Belgrade	69.3	69.3
Dachstein Tourismus AG	Gosau	0.0	0.0
Dateio s.r.o.	Praha	0.0	22.2
Die Kärntner Sparkasse - Förderungsgesellschaft für den Bezirk Hermagor Gesellschaft m.b.H.	Hermagor	25.0	25.0
DINESIA a.s.	Praha	100.0	100.0
Dolomitencenter Verwaltungs GmbH	Lienz	50.0	50.0
Dolomitengolf Osttirol GmbH	Lavant	0.0	0.0
Dornbirner Seilbahn AG	Dornbirn	0.0	0.0
DRUŠTVO ZA KONSALTING I MENADŽMENT POSLOVE TRŽIŠTE NOVCA A.D. BEOGRAD (SAVSKI VENA	Belgrade	0.8	0.8
EBB-Delta Holding GmbH	Wien	100.0	100.0
EBV-Leasing Gesellschaft m.b.H.	Wien	51.0	51.0
EC Energie Center Lipizzanerheimat GmbH	Bärnbach	0.0	0.0
Egg Investment GmbH	Egg	0.0	0.0
E-H Liegenschaftsverwaltungs-GmbH	Etsdorf	0.0	0.0
Einlagensicherung AUSTRIA Ges.m.b.H.	Wien	0.5	0.6
Einlagensicherung der Banken und Bankiers Gesellschaft m.b.H. in Liqu.	Wien	0.1	0.1
ELAG Immobilien AG	Linz	1.5	1.5
Energie AG Oberösterreich	Linz	0.2	0.2
Erste Campus Mobilien GmbH	Wien	100.0	100.0
ERSTE Immobilien Alpha "WE-Objekte" GmbH & Co KG	Wien	0.0	0.0
ERSTE Immobilien Alpha APS 85 GmbH & Co KG	Wien	0.0	0.0
ERSTE Immobilien Alpha Baufeld Omega GmbH & Co KG	Wien	0.0	0.0
ERSTE Immobilien Alpha Brünner Straße 124 Liegenschaftsverwaltung GmbH & Co KG	Wien	0.0	0.0
ERSTE Immobilien Alpha Eggenberger Gürtel GmbH & Co KG	Graz	0.0	0.0
ERSTE Immobilien Alpha GmbH	Wien	68.7	68.7
ERSTE Immobilien Alpha Kerensstraße GmbH & Co KG	Wien	0.0	0.0
ERSTE Immobilien Alpha Lastenstraße GmbH & Co KG	Wien	0.0	0.0
ERSTE Immobilien Alpha Monte Laa GmbH & Co. KG	Wien	0.0	0.0
ERSTE Immobilien Alpha Paragonstraße GmbH & Co KG	Wien	0.0	0.0
ERSTE Immobilien Alpha Ulmgasse GmbH & Co. KG	Wien	0.0	0.0
ERSTE Immobilien Alpha W175 GmbH & Co KG	Wien	0.0	0.0
ERSTE Immobilien Aspernbrückengasse 2 GmbH & Co KG	Wien	0.1	0.1
ERSTE Immobilien Beta GmbH	Wien	68.7	68.7
ERSTE Immobilien Beta GS 131 GmbH & Co KG	Wien	0.0	0.0
ERSTE Immobilien Gamma GmbH	Wien	68.7	68.7
ERSTE Immobilien Gamma Hilde-Spiel-Gasse GmbH & Co KG	Wien	0.0	0.0
ERSTE Immobilien Gamma Lemböckgasse GmbH & Co KG	Wien	100.0	0.0
ERSTE Immobilien Gamma Seepark Campus West GmbH & Co KG	Wien	0.0	0.0
FINAG D.D. INDUSTRIJA GRADJEVNOG MATERIJALA BANKRUPTCY	Garesnica	18.2	18.2
Finanzpartner GmbH	Wien	51.1	51.1
Fortenova Group STAK Stichting	Amsterdam	0.0	0.3
FRC2 Croatia Partners SCSp	Luxembourg	0.0	5.6
Freizeitpark Zell GmbH	Zell	0.0	0.0
Freizeitzentrum Zillertal GmbH	Fügen	0.0	0.0
Fund of Excellence Förderungs GmbH	Wien	49.0	45.0
FWG-Fernwärmeversorgung Engelbrechts registrierte Genossenschaft mit beschränkter Haftung	Kautzen	0.0	0.0
FWG-Fernwärmeversorgung Raabs a.d. Thaya registrierte Genossenschaft mit beschränkter Haftung	Raabs	0.0	0.0
Gasteiner Bergbahnen Aktiengesellschaft	Bad Hofgastein	13.4	13.4
GELDSERVICE AUSTRIA Logistik für Wertgestionierung und Transportkoordination G.m.b.H.	Wien	1.0	1.0

Company name, registered office	Interest of Erste Group in %		
	Dec 18	Dec 19	
GEMDAT OÖ GmbH	Linz	10.6	10.6
GEMDAT OÖ GmbH & Co KG	Linz	11.8	11.8
Gerlitzten - Kanzelbahn - Touristik Gesellschaft m.b.H. & Co KG	Sattendorf	0.0	0.0
Gewerbe- und Dienstleistungspark der Stadtgemeinde Bad Radkersburg KG	Bad Radkersburg	12.5	12.5
Gladiator Aircraft Management Limited	Pieta	100.0	100.0
Golf Resort Kremstal GmbH	Kematen	0.0	0.0
Golf Resort Kremstal GmbH & Co. KG.	Kematen	0.0	0.0
Golfclub Bludenz-Braz GmbH	Bludenz-Braz	0.0	0.0
Golfclub Brand GmbH	Brand	0.0	0.0
Golfclub Pfarrkirchen im Mühlviertel GesmbH	Pfarrkirchen	0.2	0.2
Golfplatz Hohe Salve - Brixental Errichtergesellschaft m.b.H. & Co KG	Westendorf	0.0	0.0
Golfresort Haugschlag GmbH & Co KG	Litschau	0.0	0.0
Graben 21 Liegenschaftsverwaltung GmbH	Wien	100.0	100.0
Großarler Bergbahnen Gesellschaft mit beschränkter Haftung & Co. KG.	Großarl	0.5	0.5
GW St. Pölten Integrative Betriebe GmbH	St. Pölten	0.0	0.0
GXT Vermögensverwaltung GmbH & Co KG	Wien	0.0	0.0
HAPIMAG AG	Baar	0.0	0.0
Harkin Limited	Dublin	100.0	100.0
Hauser Kaibling Seilbahn- und Liftgesellschaft m.b.H. & Co. KG.	Haus	0.4	0.4
HDL Fiecht GmbH	Vomp	0.0	0.0
Health and Fitness International Holdings N.V.	Willemstad	3.5	4.6
Heiltherme Bad Waltersdorf GmbH	Bad Waltersdorf	4.5	4.5
Heiltherme Bad Waltersdorf GmbH & Co KG	Bad Waltersdorf	4.1	4.1
Hinterstoder-Wurzeralm Bergbahnen Aktiengesellschaft	Hinterstoder	0.4	0.4
Hrvatski olimpijski centar Bjelolica d.o.o. (Kroatisches Olympiazentrum) in bankruptcy	Jesenak	1.2	1.2
Hrvatski registar obveza po kreditima d.o.o. (HROK)	Zagreb	7.3	7.3
HV-Veranstaltungsservice GmbH	St. Lorenzen	100.0	100.0
ILGES - Liegenschaftsverwaltung G.m.b.H.	Rohrbach	40.0	40.0
IMMO Primum GmbH	St. Pölten	0.0	0.0
Informativni centar Bjelovar d.o.o.	Bjelovar	1.4	1.4
JAVNO SKLADIŠTE SLOBODNA CARINSKA ZONA NOVI SAD AD NOVI SAD	Novi Sad	5.2	4.1
JUGOALAT-JAL AD NOVI SAD	Novi Sad	5.0	1.7
Kaiser-Ebersdorfer Straße 8 GmbH & Co KG	Wien	0.0	0.0
Kapruner Freizeitzentrum Betriebs GmbH	Kaprun	0.0	0.0
Kapruner Promotion und Lift GmbH	Kaprun	6.5	6.5
Kitzbüheler Anzeiger Gesellschaft m.b.H.	Kitzbühel	0.0	0.0
Kleinkraftwerke-Betriebsgesellschaft m.b.H.	Wien	100.0	100.0
Kommanditgesellschaft MS "SANTA LORENA" Offen Reederei GmbH & Co.	Hamburg	0.0	0.0
Kommanditgesellschaft MS "SANTA LUCIANA" Offen Reederei GmbH & Co.	Hamburg	0.0	0.0
KOOPERATIVA poistovna, a.s. Vienna Insurance Group	Bratislava	1.5	1.5
Kooperativa pojistovna, a.s. Vienna Insurance Group	Praha	1.6	1.6
Kreco Realitäten Aktiengesellschaft	Wien	19.8	25.0
'KULSKI ŠTOFOVI' FABRIKA ZA PROIZVODNJU VUNENIH TKANINA I PREDIVA AKCIONARSKO DRUŠTVO IZ KULE - U STECAJU	Kula	6.1	0.2
ländleticket marketing gmbh	Dornbirn	0.0	0.0
Langenloiser Liegenschaftsverwaltungs-Gesellschaft m.b.H.	Langenlois	0.0	0.0
Lantech Innovationszentrum GesmbH	Landeck	0.0	0.0
Lebens.Resort & Gesundheitszentrum GmbH	Ottenschlag	0.0	0.0
Lebensquell Bad Zell Gesundheits- und Wellnesszentrum GmbH & Co KG	Bad Zell	0.0	0.0
Lienzer-Bergbahnen-Aktiengesellschaft	Gaimberg	0.0	0.0
Liezener Bezirksnachrichten Gesellschaft m.b.H.	Liezen	1.1	1.1
LOCO 597 Investment GmbH	Egg	0.0	0.0
Luitpoldpark-Hotel Betriebs- und Vermietungsgesellschaft mbH in Liquidation	Füssen	75.0	75.0
M Schön Wohnen Immorent GmbH	Wien	100.0	100.0
Maissauer Amethyst GmbH	Maissau	0.0	0.0
MAJEVICA HOLDING AKCIONARSKO DRUŠTVO, BACKA PALANKA	Bacčka Palanka	5.2	0.6
MasterCard Incorporated	Wilmington	0.0	0.0
Mayer Property Alpha d.o.o.	Zagreb	100.0	100.0
Mayrhofner Bergbahnen Aktiengesellschaft	Mayrhofen	0.0	0.0
MCG Graz e.gen.	Graz	1.4	1.4
MEG Hausgemeinschaft "Bahnhofstraße 1, 4481 Asten"	Asten	0.0	0.0
Mittersiller Golf- und Freizeitanlagen Gesellschaft m.b.H.	Mittersill	0.0	0.0
Montfort Investment GmbH	Götzis	0.0	0.0
MPC Rendite-Fonds Leben plus spezial III GmbH & Co KG	Quickborn	0.0	0.0
Mühlbachgasse 8 Immobilien GmbH	Langenlois	0.0	0.0
MUNDO FM & S GmbH	Wien	100.0	100.0
Murauer WM Halle Betriebsgesellschaft m.b.H.	Murau	3.1	3.1
Musikkonservatoriumerrichtungs- und vermietungsgesellschaft m.b.H.	St. Pölten	0.0	0.0
Nahwärme Frankenmarkt eGen	Frankenmarkt	0.0	0.0
Neo Investment B.V.	Amsterdam	0.0	0.0
Neubruck Immobilien GmbH	Scheibbs	0.0	0.0
Neuhofner Bauträger GmbH	Neuhofen	0.0	0.0
Oberösterreichische Unternehmensbeteiligungsgesellschaft m.b.H.	Linz	5.6	5.6

Company name, registered office	Interest of Erste Group in %		
	Dec 18	Dec 19	
Oberpinzgauer Fremdenverkehrsförderungs- und Bergbahnen - Aktiengesellschaft	Neukirchen	0.0	0.0
Obertillacher Bergbahnen-Gesellschaft m.b.H.	Obertillach	0.0	0.0
Öhlnknecht-Hof Errichtungs- und Verwaltungsgesellschaft m.b.H.	Horn	0.0	0.0
ÖKO-Heizkraftwerk Pöllau GmbH	Pöllau	0.0	0.0
ÖKO-Heizkraftwerk Pöllau GmbH & Co KG	Pöllau	0.0	0.0
Old Byr Holding ehf.	Reykjavik	1.5	1.5
Omniasig Vienna Insurance Group SA	Bucharest	0.1	0.1
OÖ HightechFonds GmbH	Linz	7.8	7.8
Ortswärme Fügen GmbH	Fügen	0.0	0.0
Österreichische Wertpapierdaten Service GmbH	Wien	32.7	32.7
Osttiroler Wirtschaftspark GesmbH	Lienz	0.0	0.0
Planai - Hochwurzen - Bahnen Gesellschaft m.b.H.	Schladming	0.7	0.7
Planung und Errichtung von Kleinkraftwerken Aktiengesellschaft	Wien	98.9	98.9
POSLOVNO UDRUŽENJE DAVAOCA LIZINGA "ALCS" BEOGRAD	Belgrade	8.3	8.3
PREDUZECE ZA PRUŽANJE CONSULTING USLUGA BANCOR CONSULTING GROUP DOO NOVI SAD	Novi Sad	2.6	2.6
Prvni certifikační autorita, a.s.	Praha	23.3	23.3
Radio Osttirol GesmbH	Lienz	0.0	0.0
Rätikon-Center Errichtungs- und Betriebsgesellschaft m.b.H.	Bludenz	0.0	0.0
Realitäten und Wohnungsservice Gesellschaft m.b.H.	Köflach	4.0	4.0
Realitni společnost Ceske sportitelny, a.s.	Praha	100.0	100.0
REGIONALNA AGENCIJA ZA RAZVOJ MALIH I SREDNJIH PREDUZECA ALMA MONS D.O.O.	Novi Sad	3.3	3.3
REICO nemovitostni fond SICAV a.s.	Praha	0.0	100.0
Riesneralm - Bergbahnen Gesellschaft m.b.H. & Co. KG.	Donnersbach	0.0	0.0
ROMANIAN EQUITY PARTNERS COÖPERATIEF U.A.	Amsterdam	77.4	77.4
RTG Tiefgaragenerrichtungs und -vermietungs GmbH	Graz	25.0	25.0
RVG Czech, s.r.o. v likvidaci	Praha	100.0	100.0
S - Leasing und Vermögensverwaltung - Gesellschaft m.b.H.	Peuerbach	0.0	0.0
S IMMOKO Leasing GesmbH	Korneuburg	0.0	0.0
S Rail Lease s.r.o.	Bratislava	100.0	100.0
S Servis, s.r.o.	Znojmo	100.0	100.0
SALIX-Grundstückserwerbs Ges.m.b.H.	Eisenstadt	50.0	50.0
SALZBURG INNENSTADT, Vereinigung zur Förderung selbständiger Unternehmer der Salzburger Innenstadt, registrierte Genossenschaft mit beschränkter Haftung	Salzburg	2.0	2.0
S-AMC1 DOOEL Skopje	Skopje	24.9	24.9
Schweighofer Gesellschaft m.b.H. & Co KG	Friedersbach	0.0	0.0
S-City Center Wirtschaftsgütervermietungsgesellschaft m.b.H.	Wiener Neustadt	0.0	0.0
S-Commerz Beratungs- und Handelsgesellschaft m.b.H.	Neunkirchen	0.0	0.0
SEG Sport Event GmbH	Hohenems	0.0	0.0
Seniorenresidenz "Am Steinberg" GmbH	Graz	25.0	25.0
S-Finanzservice Gesellschaft m.b.H.	Baden	0.0	0.0
SIL0 DREI Komplementärgesellschaft m.b.H.	Wien	49.0	49.0
SIL0 II Komplementärgesellschaft m.b.H.	Wien	49.0	49.0
Silvrettaseilbahn Aktiengesellschaft	Ischgl	0.0	0.0
SK 1 Properties s.r.o.	Bratislava	0.0	0.0
SK 2 Properties s.r.o.	Bratislava	0.0	0.0
Skilifte Unken - Heutal Gesellschaft m.b.H. & Co, KG	Unken	0.0	0.0
Skilifte Unken Heutal Gesellschaft m.b.H.	Unken	2.2	2.2
Smart City GmbH	Eferding	0.0	0.0
SM-Immobilienengesellschaft m.b.H.	Melk	0.0	0.0
SOCIETATEA DE TRANSFER DE FONDURI SI DECONTARI TRANSFOND SA	Bucharest	3.2	3.2
Society for Worldwide Interbank Financial Telecommunication scrl	La Hulpe	0.3	0.3
Sparkasse Amstetten Service- und Verwaltungsgesellschaft m. b. H.	Amstetten	0.0	0.0
Sparkasse Bludenz Beteiligungsgesellschaft mbH	Bludenz	0.0	0.0
Sparkasse Bludenz Immobilienverwaltungsgesellschaft mbH	Bludenz	0.0	0.0
Sparkasse Imst Immobilienverwaltung GmbH	Imst	0.0	0.0
Sparkasse Imst Immobilienverwaltung GmbH & Co KG	Imst	0.0	0.0
Sparkasse Niederösterreich Mitte West Beteiligungsgesellschaft m.b.H.	St. Pölten	0.0	0.0
Sparkasse Niederösterreich Mitte West Stadtentwicklungs GmbH	St. Pölten	0.0	0.0
Sparkassen - Betriebsgesellschaft mbH.	Linz	39.1	39.2
Sparkassen Bankbeteiligungs GmbH	Dornbirn	0.0	0.0
Sparkassen Beteiligungs GmbH & Co KG	Wien	8.0	7.8
Sparkassen Facility Management GmbH	Innsbruck	75.0	75.0
Sparkassengarage Imst Errichtungs- und Betriebs GmbH	Imst	0.0	0.0
Sparkassengarage Imst Errichtungs- und Betriebs GmbH & Co KG	Imst	0.0	0.0
SPES GmbH & Co. KG	Schlierbach	0.0	0.0
SPKB Beteiligungs- und Verwaltungsgesellschaft m.b.H.	Bregenz	0.0	0.0
SPKR Liegenschaftsverwertungs GmbH	Reutte	0.0	0.0
Sport- und Freizeitanlagen Gesellschaft m.b.H.	Schwanenstadt	12.9	12.9
SPRON ehf.	Reykjavik	4.9	4.9
Stadtgemeinde Weiz - Wirtschaftsentwicklung KG	Weiz	0.0	0.0
Stadtmarketing-Ternitz GmbH	Ternitz	0.0	0.0

Company name, registered office	Interest of Erste Group in %		
	Dec 18	Dec 19	
Sternstein Sessellift Gesellschaft m.b.H.	Bad Leonfelden	7.2	7.2
Stoderzinken - Liftgesellschaft m.b.H. & Co. KG.	Gröbming	0.4	0.4
Studiengesellschaft für Zusammenarbeit im Zahlungsverkehr (STUZZA) G.m.b.H.	Wien	10.7	10.7
SVB Lambach Versicherungsmakler GmbH	Lambach	0.0	0.0
SZG-Dienstleistungsgesellschaft m.b.H.	Salzburg	100.0	100.0
Tannheimer Bergbahnen GmbH & Co KG	Tannheim	0.0	0.0
Tauern SPA World Betriebs- GmbH & Co KG	Kaprun	11.0	11.1
Tauern SPA World Betriebs-GmbH	Kaprun	12.2	12.2
Tauern SPA World Errichtungs- GmbH & Co KG	Kaprun	11.0	11.1
Tauern SPA World Errichtungs-GmbH	Kaprun	12.2	12.2
TAUROS Capital Investment GmbH & Co KG	Wien	48.1	40.4
TAUROS Capital Management GmbH	Wien	49.0	49.0
TDG Techn. Dienstleistungs- und Objektservicegesellschaft m.b.H.	Wien	0.0	100.0
TDZ Technologie- und Dienstleistungszentrum Donau-Böhmerwald Bezirk Rohrbach GmbH.	Neufelden	1.0	1.0
TECH21 Bürohaus und Gewerbehof Errichtungs- und Betriebsgesellschaft mbH & Co KG	Wien	0.1	0.1
Technologie- und Dienstleistungszentrum Ennstal GmbH	Reichraming	0.0	0.0
TECHNOLOGIE- und GRÜNDERPARK ROSENTAL GmbH	Rosental	0.3	0.3
Technologie- und Innovationszentrum Kirchdorf GmbH	Schlierbach	0.0	0.0
Technologiezentrum Inneres Salzkammergut GmbH	Bad Ischl	0.0	0.0
Technologiezentrum Salzkammergut GmbH	Gmunden	0.6	0.6
Technologiezentrum Salzkammergut-Bezirk Vöcklabruck GmbH	Attnang-Puchheim	0.0	0.0
Techno-Z Ried Technologiezentrum GmbH	Ried	0.0	0.0
Tennis-Center Hofkirchen i. M. GmbH	Hofkirchen	7.3	7.3
TGZ Technologie- und Gründerzentrum Schärding GmbH	Schärding	3.9	3.9
Thermalquelle Loipersdorf Gesellschaft m.b.H. & Co KG	Loipersdorf	0.0	0.0
Therme Wien Ges.m.b.H.	Wien	15.3	15.3
Therme Wien GmbH & Co KG	Wien	15.3	15.3
Tiefgarage Anger, Gesellschaft m.b.H. & Co. KG.	Lech	0.0	0.0
TIZ Landl - Grieskirchen GmbH	Grieskirchen	0.0	0.0
Tourismus- u. Freizeitanlagen GmbH	Hinterstoder	0.0	0.0
TPK-18 Sp. z o.o.	Warsaw	100.0	100.0
Transformovany fond penzijnho pripojsteni se statnim prispevkem Ceska sporitelna - penzijni spolecnost, a.s.	Praha	0.0	0.0
TSG EDV-Terminal-Service Ges.m.b.H.	Wien	0.1	0.1
UNION Vienna Insurance Group Biztosito Zrt.	Budapest	1.2	1.2
Unzmarkter Kleinkraftwerk-Aktiengesellschaft	Wien	99.3	99.2
Valtecia Achizitii S.R.L.	Bucharest	100.0	100.0
VERMREAL Liegenschaftserwerbs- und -betriebs GmbH	Wien	25.6	25.6
VISA INC.	San Francisco	0.0	0.0
VIVEA Bad Schönau GmbH	Bad Schönau	0.0	0.0
VMG Versicherungsmakler GmbH	Wien	5.0	5.0
Waldviertler Leasing s.r.o.	Jindrichuv Hradec	0.0	0.0
Wassergenossenschaft Mayrhofen	Mayrhofen	0.0	0.0
WE.TRADE INNOVATION DESIGNATED ACTIVITY COMPANY	Dublin	8.5	4.5
WEB Windenergie AG	Pfaffenschlag	0.0	0.0
Weißsee-Gletscherwelt GmbH	Uttendorf	0.0	0.0
WEVA - Veranlagungs- und Beteiligungsgesellschaft m.b.H.	Linz	39.2	39.2
WG PROJEKTIRANJE, investiranje in inženiring d.o.o.	Ljubljana	100.0	100.0
Wien 3420 Aspern Development AG	Wien	24.5	24.5
Wiener osiguranje Vienna Insurance Group dionicko društvo za osiguranje	Zagreb	1.1	1.1
WIENER STÄDTISCHE VERSICHERUNG AG Vienna Insurance Group	Wien	2.2	2.2
WIEPA-Vermögensverwaltungsgesellschaft m.b.H.	Dornbirn	0.0	0.0
Wirtschaftspark Kleinregion Fehring Errichtungs- und Betriebsgesellschaft m.b.H.	Fehring	2.0	1.3
WW Wohnpark Wehlstraße GmbH	Wien	100.0	100.0
Zagreb Stock Exchange, Inc.	Zagreb	2.3	2.3
Zelina Centar d.o.o.	Sveta Helena	100.0	100.0
Zweite Beteiligungsgesellschaft Reefer-Flottenfonds mbH & Co KG	Hamburg	0.0	0.0

Additional information

GLOSSARY

Book value per share

Equity (attributable to owners of the parent) divided by the number of outstanding shares at the end of the period.

Cash return on equity (cash RoE)

Net profit for the period attributable to the owners of the parent less dividends for Additional Tier 1 capital (AT1), adjusted for non-cash items such as goodwill amortisation and amortisation of customer relationship as a percentage of the average equity attributable to the owners of the parent. The average is calculated on the basis of final quarterly values.

Cash earnings per share

Net profit for the period attributable to owners of the parent, less dividends for Additional Tier 1 capital (AT1), adjusted for non-cash items such as goodwill impairment and amortisation of customer relationship divided by the weighted average number of outstanding shares.

CEE (Central and Eastern Europe)

Abbreviation for the economic area Central and Eastern Europe. Includes the new EU member states of the enlargement rounds 2004 and 2007 as well as the successor states of Yugoslavia and the Soviet Union as well as Albania.

CET1

Common equity Tier 1.

CET1 ratio

Common equity Tier 1 as a percentage of the total risk (according to CRR).

CRR

Capital Requirements Regulation: one of the two legal acts containing the new Capital Requirements.

Cost/income ratio

General administrative expenses or operating expenses as a percentage of operating income.

Dividend yield

Dividend distribution of the financial year as a percentage of the year-end closing price or the most recent price of the share.

Earnings per share

Net profit for the period attributable to owners of the parent, less dividends for Additional Tier 1 capital (AT1), divided by the weighted average number of outstanding shares.

Interest-bearing assets

Total assets less cash and cash balances, derivatives – held for trading, hedge accounting derivatives, property and equipment, investment properties, intangible assets, current and deferred tax assets, assets held for sale and other assets.

Loan to deposit ratio

Loans and receivables to customers (net) in relation to deposits from customers

Miscellaneous assets

The total of hedge accounting derivatives, property and equipment, investment properties, investments in associates and joint ventures associates, current and deferred tax assets, assets held for sale and other assets,

Miscellaneous liabilities

The total of other financial liabilities at fair value through profit or loss, other financial liabilities at amortised cost, hedge accounting derivatives, changes in fair value of portfolio hedged items, provisions, current and deferred tax liabilities, liabilities associated with assets held for sale and other liabilities.

Net interest margin

Net interest income as a percentage of average interest-bearing assets. The average is calculated on the basis of quarterly values.

Operating expenses (general administrative expenses)

The total of personnel expenses, other administrative expenses and depreciation and amortisation.

Operating income

Total of net interest income, net fee and commission income, dividend income, net trading result, gains/losses from financial instruments measured at fair value through profit or loss, net result from equity method investments and rental income from investment properties & other operating leases.

Operating result

Operating income less operating expenses.

Own funds

Own funds according to CRR consist of Common equity Tier 1 (CET1), Additional Tier 1 capital (AT1) and the supplementary capital (T2).

Price/earnings ratio

Ratio between closing price of the financial year and earnings per share of the financial year.

Market capitalisation

Total value of a company which results from multiplying the share price by the number of shares outstanding (share capital).

Non-performing exposure (NPE) collateralisation ratio

Collateral for non-performing credit risk exposure as a percentage of non-performing credit risk exposure.

Non-performing exposure (NPE) coverage ratio

Credit risk allowances for credit risk exposure (all allowances in scope of IFRS 9 and provisions for other commitments) as a percentage of non-performing credit risk exposure.

Non-performing exposure (NPE) ratio

Non-performing credit risk exposure as a percentage of total credit risk exposure.

Non-performing loans (NPL) collateralisation ratio

Collateral for non-performing loans and advances to customers as a percentage of non-performing loans and advances to customers.

Non-performing loans (NPL) coverage ratio

Credit risk allowances for loans and advances to customers as a percentage of non-performing loans and advances to customers.

Non-performing loans (NPL) ratio

Non-performing loans and advances to customers as a percentage of total loans and advances to customers.

Return on equity (RoE)

Net profit for the period attributable to owners of the parent, less dividends for Additional Tier 1 capital (AT1) as a percentage of the average equity attributable to the owners of the parent. The average is calculated on the basis of final quarterly figures.

Return on equity excluding intangible assets (ROTE)

Net profit for the period attributable to owners of the parent, less dividends for Additional Tier 1 capital (AT1) as a percentage of average equity attributable to owners of the parent and adjusted for intangible assets. The average is calculated on the basis of quarterly final values.

Risk Appetite Statement (RAS)

The RAS is a strategic document, which concludes the maximum risk an organization is willing to take in order to reach any given target.

Risk categories

Risk categories classify the risk exposures of Erste Group based on the internal ratings of Erste Group. There exist three risk categories for performing risk exposures and one risk category for non-performing risk exposures.

Risk category – low risk

Typically regional customers with well-established and rather long-standing relationships with Erste Group or large, internationally recognised customers. Very good to satisfactory financial position and low likelihood of financial difficulties relative to the respective market in which the customers operate. Retail clients having long relationships with the bank, or clients with a wide product pool use. No relevant late payments currently or in the most recent 12 months. New business is generally done with clients in this risk category.

Risk category – management attention

Vulnerable non-retail clients, which may have overdue payments or defaults in their credit history or may encounter debt repayment difficulties in the medium term. Retail clients with possible payment problems in the past triggering early collection reminders. These clients typically have a good recent payment history.

Risk category – substandard

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

Risk category – non-performing

One or more of the default criteria under Article 178 of the CRR are met: among others, full repayment unlikely, interest or principal payments on a material exposure more than 90 days past due, restructuring resulting in a loss to the lender, realisation of a loan loss, or initiation of bankruptcy proceedings. Erste Group applies the customer view for all customer segments, including retail clients; if an obligor defaults on one deal then the customer's performing transactions are classified as non-performing as well. Furthermore, non-performing exposures also comprise non-performing forbore transactions even in cases where the client has not defaulted.

Share capital

Total equity attributable to owners of the parent subscribed by the shareholders.

Tax ratio

Taxes on income as a percentage of pre-tax profit from continuing operations.

Texas ratio

Total capital according to IFRS dividends for Additional Tier 1 capital (AT1), and intangible assets plus allowances for loans and advances to customers as a percentage of non-performing loans.

T 1 ratio

Tier 1 as a percentage of the total risk (according to CRR).

Total capital ratio

Total of own funds as a percentage of the total risk (according to CRR).

Total risk (risk-weighted assets, RWA)

Includes credit, market and operational risk (according to CRR).

Total shareholder return

Performance of an investment in Erste Group Bank AG shares within one year including all distributions, such as dividends, as a percentage of the share price at the end of the previous year.

ABBREVIATIONS

ABA	Austrian Banking Act
AC	Amortized cost
ACC	Austrian Commercial Code
AFS	Available for sale
ALM	Asset Liability Management
ALCO	Asset Liability Committee
AMA	Advanced Measurement Approach
AT1	Additional Tier 1
BCR	Banca Comercială Română S.A.
BSM & LCC	Balance sheet management & Local Corporate Center
CBCR	Country-by-Country-Reporting
CCF	Credit Conversion Factor
CEE	Central and Eastern Europe
CGU	Cash-Generating Unit
CRD	Capital Requirements Directive
CRR	Capital Requirements Regulation
CRO	Chief Risk Officer
CSAS	Česká spořitelna, a.s.
CVA	Credit Value Adjustments
DIP	Debt Issuance-Programme
DVA	Debit Value Adjustment
EBA	European Banking Authority
EBC	Erste Bank Croatia
EBH	Erste Bank Hungary Zrt.
EBOe	Erste Bank Oesterreich
ECL	Expected Credit Loss
ECJ	European Court of Justice
EIR	Effective interest rate
ERM	Enterprise wide Risk Management
FVO	Fair value option-designated at fair value
FVOCI	Fair value through other comprehensive income
FVPL	Fair value through profit or loss
FX	Foreign exchange
GDPR	General Data Protection Regulation
G-SII	Global Systemic Important Institution
GLMRM	Group Liquidity and Market Risk Management
HFT	Held for trading
HTM	Held to maturity
IAS	International Accounting Standards
ICAAP	Internal Capital Adequacy Assessment Process
IFRS	International Financial Reporting Standards
LGD	Loss Given Default
L&R	Loans and receivables
LT PD	Lifetime Probability of Default
MDA	Maximum distributable amount
OCI	Other comprehensive income
O-SII	Other Systemic Important Institution
P2G	Pillar 2 Guidance
P2R	Pillar 2 Requirement
P&L	Profit or loss
PD	Probability of Default
POCI	Purchased or originated credit impaired
RAS	Risk Appetite Statement
RTS	Regulatory Technical Standards
RW	Risk weight
RWA	Risk Weighted Assets
SICR	Significant increase in credit risk
SLSP	Slovenská sporiteľňa
Sparkasse Oberösterreich	Allgemeine Sparkasse Oberösterreich Bankaktiengesellschaft
Sparkasse Steiermark	Erste & Steiermärkische Bank d.d.
Sparkasse Kärnten	Kärntner Sparkasse Aktiengesellschaft
SPPI	Solely payments of principal and interest
SREP	Supervisory Review and Evaluation Process
T1	Tier 1
T2	Tier 2
VAR	Value at Risk

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

We draw attention to the fact that the English translation of this auditor's report according to Section 274 of the Austrian Commercial Code (UGB) is presented for the convenience of the reader only and that the German wording is the only legally binding version.

Auditor's report

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

Audit Opinion

Sparkassen-Prüfungsverband (Prüfungsstelle) and PwC Wirtschaftsprüfung GmbH, Vienna, – hereinafter referred to as 'we' – have audited the consolidated financial statements of Erste Group Bank AG, Vienna, and its subsidiaries (the Group), which comprise the Group balance sheet as at December 31, 2019, the Group statement of comprehensive income, the Group statement of changes in total equity and the Group cash flow statement for the fiscal year then ended, and the notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements comply with legal requirements and give a true and fair view of the financial position of the Group as at December 31, 2019, and of its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRSs) as adopted by the EU and the additional requirements under Section 59a Austrian Banking Act (BWG) in conjunction with Section 245a Austrian Commercial Code (UGB).

Basis for Opinion

We conducted our audit in accordance with Regulation (EU) No. 537/2014 (hereinafter EU Regulation) and Austrian generally accepted auditing standards. Those standards require the application of the International Standards on Auditing (ISAs). Our responsibilities under those provisions and standards are further described in the 'Auditor's Responsibilities for the Audit of the Consolidated Financial Statements' section of our report.

We are independent of the Group in accordance with Austrian Generally Accepted Accounting Principles, the provisions of the Austrian Banking Act and professional requirements and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the fiscal year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have structured key audit matters as follows:

- _ Description
- _ Audit approach
- _ Reference to related disclosures

1. Loss allowances for Loans and Advances to Customers (Expected Credit Losses)

Description

Loss allowances represent management's best estimate of the credit losses expected with respect to the loan portfolio at balance sheet date. As at 31 December, 2019, Erste Group Bank AG, Vienna, set up impairment allowances in the amount of EUR 3 billion for a volume of loans at amortised cost of EUR 157 billion. Due to the underlying assumptions and estimations, the determination of expected credit losses is inherently subject to substantial judgement applied by management.

Erste Group Bank AG, Vienna, has implemented internal guidelines and specific processes to identify significant increases in credit risk and loss events. These processes rely significantly on quantitative criteria and involve management judgement.

To determine the level of loss allowances using scenario-based discounted cash flow methods as required by IFRS 9 the following methods are applied:

- _ For non-defaulted loans loss allowances are generally collectively measured at an amount equal to 12-month expected credit loss. If a significant increase in credit risk has occurred loss allowances are measured as lifetime expected credit losses. For defaulted loans with a comparable risk profile, that are considered not to be individually significant, expected credit losses are collectively assessed as well.
- _ The collectively measured loss allowances are calculated considering the probability of default, the impact of forward looking information and parameters that reflect the expected cash flows as well as the expected proceeds from the realization of collateral. The applied parameters are estimated based on statistical models.
- _ For defaulted loans considered to be significant at customer level, loss allowances are determined on a case-by-case basis. These loss allowances are calculated considering scenario probabilities, expected cash flows as well as expected proceeds from the realization of collateral (where applicable). This process involves significant judgement and management estimates.

The models used for determining loss allowances are specific to the types of loan portfolios. There are country-specific features both with regard to products and economic environment that are relevant to the respective loss estimate leading to increased complexity of models and input factors.

Due to the uncertainty of estimates in the determination of expected credit losses as well as to the amounts involved, we identified this area to be a key audit matter.

Audit Approach

To assess the appropriateness of the expected credit losses, we:

- _ Updated our understanding of the Expected Credit Loss calculation methodology applied by Erste Group Bank AG, Vienna, based on policies, documentation and interviews and re-assessed its compliance with the requirements of IFRS 9.
- _ Evaluated control activities in credit risk management and lending business processes and tested key controls, notably with respect to the approval of loans, ongoing monitoring and early warning.
- _ Evaluated control activities and tested key controls in the area of rating models and collateral valuation.
- _ Evaluated model governance and validation processes and critically reviewed the information brought to the attention of the management as well as, using our credit risk modelling experts, the results of back-testing and model validations.
- _ Assessed the appropriateness and reasonableness of forward-looking information incorporated in the estimates.
- _ Analysed sensitivities and impacts of IFRS 9 specific model aspects.
- _ Evaluated whether key components of ECL calculation are correctly incorporated in the models by performing walkthroughs and reviewing steering tables.
- _ Tested, on a sample basis, the correct stage allocation according to the relevant policies.
- _ Tested, on a sample basis, whether loss events were identified according to the applicable policies and assessed whether events occurred that significantly affect the borrower's repayment ability with regard to loans and advances. We also tested, on a sample basis, the adequacy of individual loan loss allowances, assessing the presumed scenarios and the expected cash flows estimated by the Group to be received.

Reference to related disclosures

For further details regarding the process of determining loss allowances as well as regarding the design of the models involved we refer to the management's disclosures in the Notes to the consolidated financial statements in section B. significant accounting policies and section 46. Measuring ECL – explanation of inputs and measurement of the Notes.

2. Goodwill amortization for Slovenská Sporiteľňa, a.s.

Description

Goodwill of EUR 712 million was reported in the item 'Intangible assets' in the previous year, of which EUR 165 million was attributable to the subsidiary Slovenská Sporiteľňa, a. s., Bratislava (SLSP).

At the end of 2019, a new law came into force in Slovakia that extended the existing banking tax, which should have expired at the end of 2020, indefinitely and doubled the tax rate. This has an impact on the profitability of the SLSP; management considered this as a trigger to test whether the goodwill is impaired. For this purpose, the 'recoverable amount', i.e. the higher of the fair value less costs to sell, and the value in use for SLSP were determined and compared to the book value of SLSP's net assets.

The recoverable amount was determined using the dividend discount method ('DDM'), which is used for the valuation of financial services companies. At DDM, expected future dividends that are available for the distribution to the shareholders ('flow-to-equity') are capitalized in compliance with the capital requirements. Management's estimates and assumptions are required with regard to both future earnings expectations and discounting parameters.

The determination of future distributions from SLSP was based on the current business plan which the management of SLSP has drawn up and which was approved by the supervisory board of SLSP. The business plan covers the years 2020 to 2024 (5 years) and includes profit and loss accounts, balance sheets and own funds planning. A permanent perpetual annuity was derived for the period not covered by the business plan, assuming a constant growth rate. The flows-to-equity were discounted taking into account the group-wide capital requirements with the group-specific cost of equity for Slovakia.

This resulted in an impairment loss in the amount of total goodwill of EUR 165 million. The goodwill for the SLSP was therefore fully written-off as of December 31, 2019.

Due to the importance for the consolidated financial statements, the existing estimation uncertainties as well as the level of management judgement and assumptions required, we identified this area to be a key audit matter.

Audit approach

In order to assess the appropriateness of the carrying value for goodwill of SLSP, using specialists with the required industry and regional knowledge in the field of business valuation, we

- _ discussed with management the assessment of the reasonableness of key assumptions in the business plan and
- _ checked the reasonableness of main value drivers (using benchmarking);
- _ checked planning accuracy for past planning periods by inquiry of persons responsible for variance analyses (comparison budget versus actual figures).
- _ challenged the appropriateness of the cost of equity used to discount the resulting expected dividend by developing our own estimate of the base interest rate, the beta factor, the market risk premium, the country risk premium and the inflation differential.
- _ compared, by using samples, if the target figures and parameters used in the valuation model concur with the approved budget figures as well as with the evaluated parameters of the valuation model. Here, our focus was in particular on the assumptions on perpetual annuity (most notably on the growth rate and retention).
- _ evaluated, on a sample basis, the valuation methods used with regard to their technical and mathematical correctness to determine whether the valuation method applied is in line with the business model of the participating interest as well as with the information available to Erste Group Bank AG, Vienna.

Reference to related disclosures

We refer to management's disclosures in section 11. Other operating result and section 29. Intangible assets in the notes.

3. Ongoing litigation between Banca pentru Locuințe SA, subsidiary, and Romanian Court of Accounts

Description

Banca pentru Locuințe SA, ('BpL') is a fully consolidated subsidiary of Erste Group Bank AG.

BpL is a 'bauspar' bank (building society). The Romanian state pays BpL's clients a state subsidy of 25% applied to their savings, but not more than 250 euro per year, under the condition they are related to housing projects.

The Romanian Court of Accounts ('the CoA') identified several deficiencies following an inspection in 2015. The majority were grounded on differing interpretations of applicable legal provisions in areas where the law was not very specific. In essence, the CoA was of the opinion that BpL paid out the state subsidy to clients not meeting the conditions for receiving this subsidy.

BpL challenged the decision of the COA in court, arguing that they acted in good faith and that its interpretation and application of the law were correct.

In March 2017, the Court of Appeal ruled in favor of BpL for most claims. The impact of the remaining claims was not material as of 31 December 2018. However, on 24 June 2019, the High Court of Justice ruled in favor of CoA for almost all claims. BpL is therefore obliged to compensate the Romanian state for compensation resulting from the improper use of the State subsidies. The total amount of compensation has not yet been determined by the court.

During 2019 the profit and loss of BpL was charged with EUR 153 million in respect of the compensation. As at 31 December 2019, a provision in the amount of EUR 144 million has been created, the difference as compared to total charge in the profit and loss account being the amounts already paid by BpL to state authorities during 2019.

There is considerable legal uncertainty regarding the scope of the obligation to pay compensation. BpL has obtained the opinion of various tax and legal experts. On this basis, BpL has made corresponding assumptions and developed a list of criteria that it then used to cluster the portfolio of clients' contracts based on the individual facts and circumstances of each contract. The amount of compensation for each contract was estimated based on the cluster that it was allocated to using an IT-supported calculation model. The total amount of compensation was determined as the total of these estimates, taking the withholding tax due into account.

This approach requires significant judgments based on the interpretation of the current Romanian tax and trade laws and is therefore subject to considerable uncertainties; that is why we have identified this as a key audit matter.

Audit Approach

To assess the adequacy of the provision for BpL's financial obligation resulting from the Court's ruling, we have:

- _ Obtained and critically assessed the relevant documents related to BpL litigation in cooperation with our legal and tax specialists;
- _ Involved these specialists in checking the appropriateness of the methodology used in determining the compensation;
- _ Tested the relevant IT-controls for the calculation of compensation based on the criteria list;
- _ Recalculated the estimated amount of compensation along with the associated withholding tax for a sample of contracts in order to validate the results of the automatic calculation performed by the system;
- _ Tested the completeness of the contracts included in the assessment of compensation as well as the accuracy of key data used in the calculation;

_ Reconciled the provision calculated by the system with the balance sheet and tested the payments already made by vouching them to the bank extracts.

Reference to related disclosure

We refer to management's disclosures in section 11. Other operating result and section 36. Provisions in the notes.

Responsibilities of Management and the Audit Committee for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU, and the additional requirements under Section 59a BWG in conjunction with Section 245a UGB, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The audit committee is responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the EU Regulation and with Austrian generally accepted auditing standards, which require the application of ISAs, will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with the EU Regulation and with Austrian generally accepted auditing standards, which require the application of ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- _ identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risks of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- _ obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- _ evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- _ conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- _ evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- _ obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the audit committee with a statement that we have complied with all relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated to the audit committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a

matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

COMMENTS ON THE MANAGEMENT REPORT FOR THE GROUP

Pursuant to the Austrian Commercial Code, the management report for the Group is to be audited as to whether it is consistent with the consolidated financial statements and as to whether the management report for the Group was prepared in accordance with the applicable legal requirements.

Management is responsible for the preparation of the management report for the Group in accordance with the Austrian Commercial Code and the special legal requirements.

We conducted our audit in accordance with Austrian Standards on Auditing for the audit of the management report for the Group.

Opinion

In our opinion, the management report for the Group was prepared in accordance with the applicable legal requirements, includes accurate disclosures pursuant to Section 243a UGB and is consistent with the consolidated financial statements.

Statement

Based on the findings during the audit of the consolidated financial statements and due to the obtained understanding concerning the Group and its circumstances no material misstatements in the management report for the Group came to our attention.

Other Information

Management is responsible for other information. Other information comprises any information included in the annual report, but does not include the consolidated financial statements, the management report for the Group and the auditor's report. The annual report is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

Additional Information in accordance with Article 10 of the EU Regulation

Pursuant to Sections 23 and 24 Austrian Savings Bank Act (SpG), Sparkassen-Prüfungsverband (Prüfungsstelle) is the statutory auditor of Erste Group Bank AG, Vienna. In accordance with Section 23 (3) SpG in conjunction with Sections 60 and 61 BWG, the Company is subject to an audit, the consolidated financial statements are also subject to a statutory audit.

At the ordinary general meeting dated May 24, 2018 and pursuant to Section 1 (1) of the Auditing Rules for Savings Banks, Annex to Section 24 SpG, PwC Wirtschaftsprüfung GmbH, Vienna, was appointed as additional auditor for the financial year 2019 and, subsequently, was engaged by the supervisory board. At the ordinary general meeting dated May 15, 2019 PwC Wirtschaftsprüfung GmbH, Vienna, was appointed as additional auditor for the financial year 2020. Since 2017 PwC Wirtschaftsprüfung GmbH, Vienna, has constantly been appointed as additional auditor.

We confirm that the audit opinion in the 'Report on the Consolidated Financial Statements' section is consistent with the additional report to the audit committee referred to in Article 11 of the EU Regulation.

We declare that we did not provide any prohibited non-audit services (Article 5 (1) of the EU Regulation) and that we remained independent of the audited company in conducting the audit.

Responsible Engagement Partner

Responsible for the proper performance of the engagement are Mr. Gerhard Margetich, Austrian Certified Public Accountant (Sparkassen-Prüfungsverband), and Ms. Dorotea-E. Rebmann, Austrian Certified Public Accountant (PwC Wirtschaftsprüfung GmbH, Vienna).

Vienna, 28 February 2020

Sparkassen-Prüfungsverband
(Prüfungsstelle)
(Bank Auditor)

Gerhard Margetich
Austrian Certified Public Accountant

Stephan Lugitsch
Austrian Certified Public Accountant

PwC Wirtschaftsprüfung GmbH

Timo Steinmetz
Austrian Certified Public Accountant

Dorotea-E. Rebmann
Austrian Certified Public Accountant

This report is a translation of the original report in German, which is solely valid. Publication and sharing with third parties of the consolidated financial statements together with our auditor's opinion is only allowed if the consolidated financial statements and the management report for the Group are identical with the German audited version. This audit opinion is only applicable to the German and complete consolidated financial statements with the management report for the Group. For deviating versions, the provisions of Section 281 (2) UGB apply.

STATEMENT OF ALL MEMBERS OF THE MANAGEMENT BOARD

We confirm that to the best of our knowledge the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group as required by the applicable accounting standards and that the Group management report gives a true and fair view of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties to which the Group is exposed.

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

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IMPORTANT INFORMATION:

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

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

