Key financial and operating data

Income statement (in EUR million)	2016	2017	2018	2019	2020
Net interest income	4,374.5	4,353.2	4,582.0	4,746.8	4,774.8
Net fee and commission income	1,783.0	1,851.6	1,908.4	2,000.1	1,976.8
Net trading result and gains/losses from financial instruments at FVPL	272.3	210.5	193.7	293.8	199.5
Operating income	6,691.2	6,669.0	6,915.6	7,255.9	7,155.1
Operating expenses	-4,028.2	-4,158.2	-4,181.1	-4,283.3	-4,220.5
Operating result	2,663.0	2,510.8	2,734.6	2,972.7	2,934.6
Impairment result from financial instruments	-195.7	-132.0	59.3	-39.2	-1,294.8
Other operating result	-665.0	-457.4	-304.5	-628.2	-278.3
Pre-tax result from continuing operations	1,950.4	2,077.8	2,495.0	2,329.7	1,368.0
Net result attributable to owners of the parent	**1,264.7**	**1,316.2**	**1,793.4**	**1,470.1**	**783.1**

Net interest margin (on average interest-bearing assets)	2.51%	2.40%	2.30%	2.18%	2.08%
Cost/income ratio	60.2%	62.4%	60.5%	59.0%	59.0%
Provisioning ratio (on average gross customer loans)	0.15%	0.09%	-0.03%	0.02%	0.78%
Tax rate	21.2%	19.7%	13.3%	18.0%	25.0%
Return on tangible equity	12.3%	11.5%	15.2%	11.2%	5.1%
Earnings per share (in EUR)	2.93	2.94	4.02	3.23	1.57

Balance sheet (in EUR million)	Dec 16	Dec 17	Dec 18	Dec 19	Dec 20
Cash and cash balances	18,353	21,796	17,549	10,693	35,839
Trading, financial assets	48,320	42,752	43,930	44,295	46,849
Loans and advances to banks	3,469	9,126	19,103	23,055	21,466
Loans and advances to customers	130,654	139,532	149,321	160,270	166,050
Intangible assets	1,390	1,524	1,507	1,368	1,359
Miscellaneous assets	6,775	5,929	5,382	6,012	5,830
Total assets	**208,227**	**220,659**	**236,792**	**245,693**	**277,394**
Financial liabilities held for trading	4,762	3,423	2,508	2,421	2,625
Deposits from banks	14,631	16,349	17,658	13,141	24,771
Deposits from customers	138,013	150,969	162,638	173,846	191,070
Debt securities issued	27,192	25,095	29,738	30,371	30,676
Miscellaneous liabilities	7,027	6,535	5,381	5,437	5,840
Total equity	16,602	18,288	18,869	20,477	22,410
Total liabilities and equity	**208,227**	**220,659**	**236,792**	**245,693**	**277,394**

Loan/deposit ratio	94.7%	92.4%	91.8%	92.2%	86.9%
NPL ratio	4.9%	4.0%	3.2%	2.5%	2.7%
NPL coverage ratio (based on AC loans, ex collateral)	69.1%	68.8%	73.4%	77.1%	88.6%
Texas ratio	34.6%	29.2%	24.5%	19.9%	20.3%
Total own funds (CRR final, in EUR million)	18,893	20,337	20,891	21,961	23,643
CET1 capital ratio (CRR final)	12.8%	12.9%	13.5%	13.7%	14.2%
Total capital ratio (CRR final)	18.2%	18.2%	18.1%	18.5%	19.7%

About the share	2016	2017	2018	2019	2020
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	426,668,132	426,679,572	426,696,221	426,565,097	426,324,725
Market capitalisation (in EUR billion)	12.0	15.5	12.5	14.4	10.7
High (in EUR)	29.59	37.99	42.38	37.07	35.6
Low (in EUR)	18.87	27.46	28.10	28.23	15.34
Closing price (in EUR)	27.82	36.105	29.05	33.56	24.94
Price/earnings ratio	9.5	11.8	7.0	9.8	13.7
Dividend per share (in EUR)	1.00	1.20	1.40	0.00	0.50
Payout ratio	34.0%	39.2%	33.6%	0.0%	27.4%
Dividend yield	3.6%	3.3%	4.8%	0.0%	2.0%
Book value per share	27.8	30.0	31.1	32.9	34.0
Price/book ratio	1.0	1.2	0.9	1.0	0.7

Additional information	Dec 16	Dec 17	Dec 18	Dec 19	Dec 20
Employees (full-time equivalents)	47,034	47,702	47,397	47,284	45,690
Branches	2,648	2,565	2,507	2,373	2,193
Customers (in million)	15.9	16.1	16.2	16.6	16.1

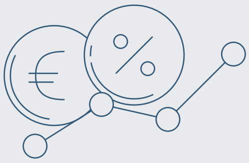
CRR: Capital Requirements Regulation

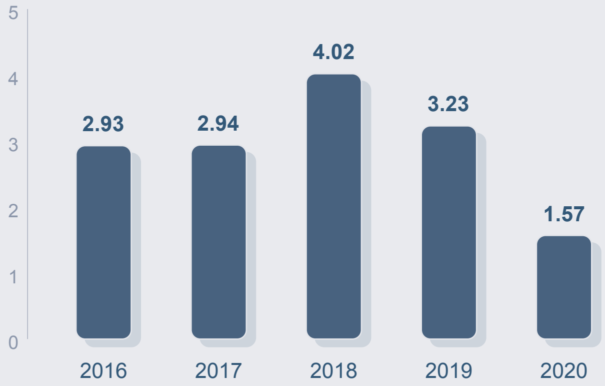
Shares outstanding include Erste Group shares held by savings banks that are members of the Haftungsverbund (cross-guarantee system).

Dividend 2020: The management board proposes to the annual general meeting in May – in line with ECB recommendation – a dividend for 2020 of EUR 0.5 per share. An additional EUR 1 per share has been reserved for a potential later payment.

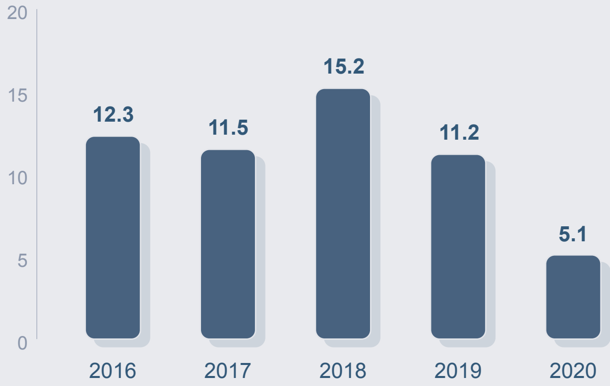
Financial data

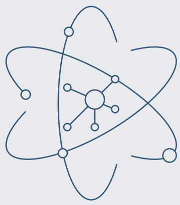
Earnings per share
in €



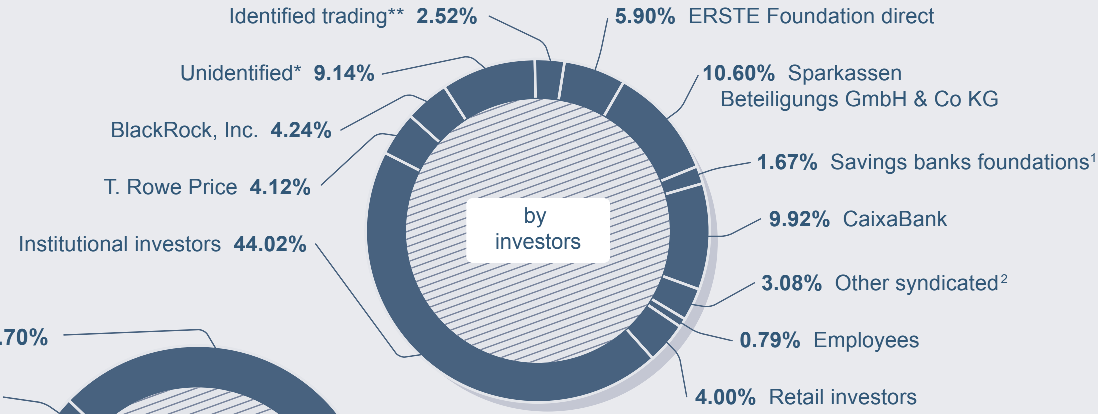


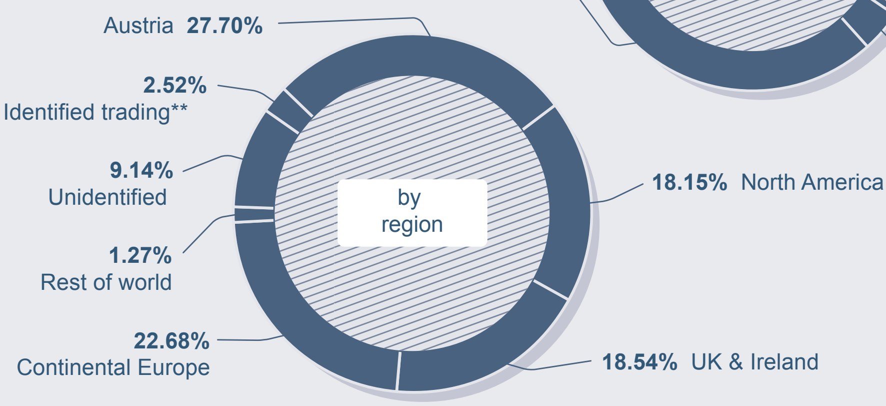
Return on tangible equity, ROTE
in %





Shareholder structure as of 31 December 2020

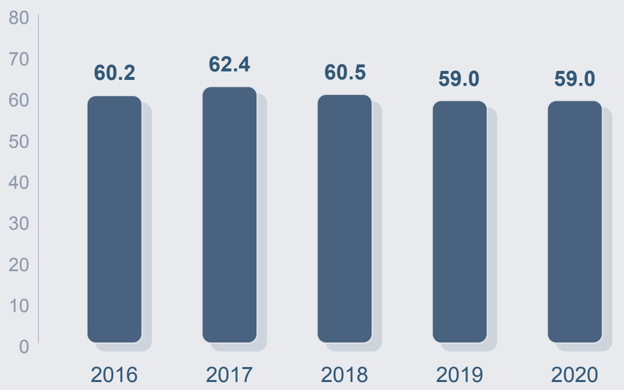




[1] Syndicated savings banks foundations, own holdings of savings banks, Erste Employees Foundation
[2] Other parties to the shareholder agreement of ERSTE Foundation, savings banks and CaixaBank
* Unidentified institutional and retail investors
** Incl. market makers, prime brokerage, proprietary trading,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

Cost/income ratio

in %



Net interest margin

in %

Financial calendar

30 April	Results for the first quarter 2021
9 May	Record date Annual General Meeting
19 May	Annual General Meeting
25 May	Ex-dividend day
26 May	Record date dividend
27 May	Dividend payment
30 July	Half-year financial report 2021
2 November	Results for the first three quarters 2021

Ratings
as of 31 December 2020

Fitch	
Long-term	A
Short-term	F1
Outlook	Negative

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

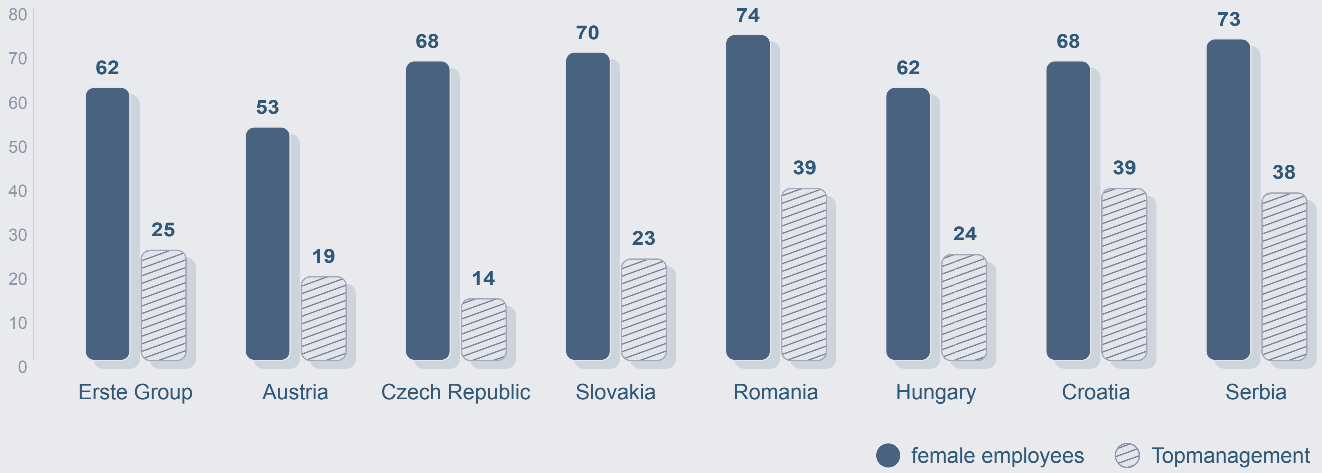
Standard & Poor´s	
Long-term	A
Short-term	A-1
Outlook	Stable

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

Non-financial data

Share of women in 2020

in %



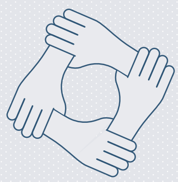
Social Banking until 2020

26,000

clients received education and mentoring

36,000

clients supported



380 mln €

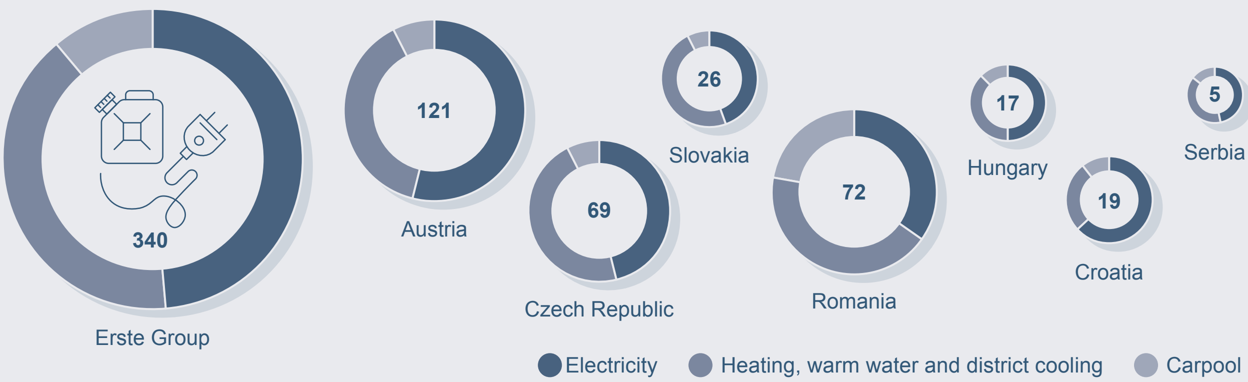
disbursed loans
(at almost 20,000 disbursed loans)

Greenhouse gas emissions in 2020

in tonnes CO_{2e}

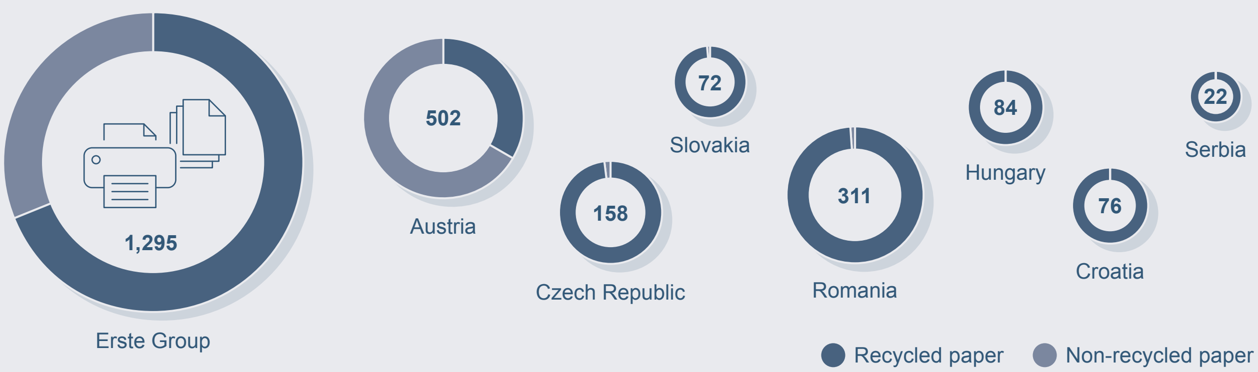
Energy consumption in 2020

in GWh



Copy paper consumption in 2020

in tonnes



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

Your Notes

Highlights

Solid result in 2020

_ Net result of EUR 783.1 million
despite significant risk provisioning due to Covid-19 pandemic and related measures
_ Local banks in all core markets remain profitable

Operating result impacted by lockdowns

_ Operating revenues down by 1.4%
_ Net interest income grows by 0.6% despite further rate cuts in CEE
_ Efficiency efforts support improvement in expenses by 1.5%
_ Operating result declined by 1.3%
_ Cost/income ratio stable at 59.0%

Loan growth continues

_ Net loans increase by 3.6%, organic growth supported by state guarantees and moratoria across the region
_ NPL ratio only moderately up to 2.7%
_ NPL provision coverage at 88.6%
_ risk provisioning on updated risk parameters with forward looking information results in 78 basis points (on average gross customer loans)

Favourable capitalisation

_ CET1 ratio (CRR final) increases to 14.2%, exceeding regulatory requirements and internal target
_ Two successful AT1 issuances

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 86.9%
_ Successful issuance of various asset classes by Holding and subsidiaries, e.g. first Non-Preferred Senior (NPS) issuance in Slovakia

Editorial deadline: 26 February 2021, unless stated otherwise

Table of contents

Letter from the CEO

Dear shareholders,

in 2020, a year in which the Covid-19 pandemic was the central theme worldwide and hence also in our core markets, Erste Group posted a net profit of EUR 783.1 million. The fact that our local subsidiaries remained profitable is validation of Erste Group's strategy and a testament to the fundamental strength of the CEE region. Given the challenging environment, the operating result came in better than expected at EUR 2.9 billion. Although asset quality had hardly deteriorated by the end of the year – at 2.7%, the NPL ratio was barely above the lowest level seen in more than two decades – we had already set aside significant risk provisions of EUR 1.3 billion to brace for potential credit losses going forward. Against the backdrop of a sharp economic downturn, we again registered growth in customer loans and deposits across all core markets in 2020. Another point in our favour is Erste Group's solid capitalisation, with a common equity tier 1 ratio of 14.2% at the end of December. In line with current ECB recommendations, the management board will therefore propose to pay a dividend of EUR 0.5 per share at the annual general meeting. In addition, we have set aside EUR 1 per share for a potential additional dividend to be paid once restrictions have been lifted.

Unexpected change in fundamentals

As the coronavirus was spreading world-wide in 2020, the economic environment changed significantly both globally and regionally. The governments of the CEE region had been quick in implementing sweeping measures to contain the outbreak, but the abrupt temporary lockdown of public life resulted in a significant decline in economic activity. To mitigate the at times dramatic adverse consequences, all governments launched and – later in the year – extended and/or modified substantial relief programmes. Central banks provided support by easing their monetary policies. Regulators and supervisory authorities implemented measures allowing banks more flexibility in terms of capital and liquidity. After a recovery in the third quarter, autumn saw a second wave of the virus. Additional political measures were taken and are still in place to differing degrees. These sometimes vary substantially from region to region, but have one thing in common: to minimise the economic and social consequences as far as possible. Maintaining the maximum of possible economic activity is deemed essential. The restrictions are designed to slow down mobility and social life while keeping up industrial production, a key driver of the economies of our core markets. The tourist industry and the service sector have been hit particularly hard by the lockdowns, though. Overall, the measures taken to contain the Covid-19 pandemic in our core markets led to a significant decline in economic output of between 1.1% in Serbia and 8.8% in Croatia. Unemployment rates also rose in CEE but remained relatively low compared with many western European countries. Employment benefited from government support programmes, including in particular the widely used short-time working schemes. On the back of lower revenues and higher expenses fiscal deficits widened across the region. CEE currencies were weak throughout the year, inflation remained relatively moderate. Many central banks of the region lowered their policy rates in the course of the year, most prominently the Czech National Bank, which cut its rates in three steps from 2.25% to 0.25%.

Growth despite headwinds

In this environment, which proved challenging for all of us, we continued to serve our customers without interruptions, supporting them with help and advice, seeking to find individual solutions whenever necessary. This most certainly contributed to net loan growth of 3.6% to EUR 166.1 billion in a year that witnessed such an extraordinary economic slump. Key momentum came from "genuine" demand for loans from retail and corporate clients, while government measures such as loan moratoria and guaranteed loans boosted volume less strongly than initially anticipated. Our clients' trust in Erste Group was also reflected on the deposit side, with customer deposits rising again, by 9.9%, to EUR 191.1 billion. This resulted in a loan-to-deposit ratio of 86.9%.

Other growth aspects were less unexpected: use of Erste Group's digital channels has intensified, and the number of users of our digital platform George as well as digital transactions have been rising steadily. In an interest rate environment that was unfavourable for savers, interest in investment products increased. Our prosperity advice offering has proved very popular. Clients are happy to use our advisory services not only online but, despite the restrictions due to the pandemic, also face-to-face at the branches.

Operating result better than expected

How did this change in the environment impact the performance of Erste Group in detail? In 2020, net interest income – traditionally the most important income component of Erste Group – improved moderately to EUR 4,774.8 million despite significantly lower interest rates in the Czech Republic. Loan growth as well as access to more favourable ECB funding (TLTRO) were positive drivers. The slowdown of the economy due to Covid-19 reduced net fee and commission income to EUR 1,976.8 million, however, even though substantial growth was recorded in the securities business and in asset management. Cost discipline supported the reduction of operating expenses to EUR 4,220.5 million, even though no cuts were made in rolling out and developing George, our popular digital platform. Considering the business environment, the operating result of EUR 2,934.6 million was better than expected, but slightly lower than in the previous year. Regulatory costs (banking and transaction levies, contributions to resolution funds and deposit insurance systems) rose by 11.5% to EUR 343.4 million.

Focus on risk costs

Unsurprisingly, the most important bottom-line driver was the development of risk costs. Although the NPL ratio remained low at 2.7%, we pursued a forward-looking approach and factored in the expected deterioration in asset quality as far as possible at this stage. Accordingly, provisions of EUR 1.3 billion were set aside in 2020. With a provisioning rate of 78 basis points of average gross customer loans, risk costs remained within the forecast range.

Solid capitalisation and dividend proposal

I would particularly like to highlight the strong capitalisation of Erste Group: at the end of December 2020, the common equity tier 1 ratio (final) was again at an excellent level of 14.2%, and thus substantially above our target of 13.5% and far above the regulatory minimum requirement. In addition to sustainable profitability, a strong capital base is important as it is the precondition for the bank's ability to fund growth and pay dividends. In 2020, recommendations issued by the European Central Bank (ECB) prevented the distribution of a dividend.

In line with the ECB's current recommendation, the management board and the supervisory board will propose the distribution of a cash dividend of EUR 0.5 per share for the fiscal year 2020 to the annual general meeting, which will be held on 19 May 2021. In addition, EUR 1 per share has been set aside for potential payout at a later date.

Erste Group's response to Covid-19

We have basically continued what have been doing for 200 years, since the foundation of Erste Bank: steadily maintaining our business operations while adapting them to the current environment. We have been looking after our retail and corporate clients, civil society and the economy in the region in which we operate. We have, of course, taken extensive measures to protect the health of customers and employees. In this context, I wish to specially highlight our Health Centre in Austria, which, for example, has added a dedicated Covid-19 helpline to its already wide range of physical and mental health services for employees. In all of our seven core markets – Austria, the Czech Republic, Slovakia, Romania, Hungary, Croatia and Serbia – we leveraged the organisations and strong market positions of our local banks to implement government support programmes ranging from moratoria to state-guaranteed loans. At the same time, we expanded our portfolio of products and services and, where desired or required, developed customised solutions to meet our clients' financial needs. Usage of our digital channels soared during the lockdown periods even though we kept branch operations going everywhere, as far as possible. Within a very short time span, we transferred employees from headquarter offices to working from home. True to the purpose of Erste Group – creating and spreading prosperity – our efforts were not confined exclusively to our banking business, as the coronavirus and the measures taken to contain it not only triggered a quite abrupt plunge in economic activity but also had psychosocial and societal impacts. Through financial and in-kind donations, we supported a large number of initiatives in the healthcare sector itself as well as indirectly by cooperating with social and cultural institutions that are important to us.

Responsibility and stability

Hesitating was not an option for us as we, as Erste Bank, are committed to our core region for the long term. Our purpose – to create and secure prosperity in our region – requires us to deal responsibly not only with our customers, employees and investors, but also with the environment and civil society. To provide you with easy access to information about Erste Group's numerous sustainability-related initiatives, we have again incorporated the non-financial report into the Annual Report. Going forward, we are planning to brief you in even more detail on the ecological, social and governance topics that are of relevance to us.

As vaccines become more readily available and economies open up again, opportunities for growth are presenting themselves. With our local banks well positioned, the economic recovery will also offer opportunities for increased action on behalf of the environment and decisive advances in digitalisation. The EU is set to invest major portions of its EUR 700 billion Recovery Fund in climate-friendly and digital projects. As a bank, we wish to support this transformation. We view ourselves as supporters of the businesses and economies in our region.

It was in fact with this in mind that changes were made to the management board in 2020. As Chief Platform Officer, Maurizio Poletto will be advancing the ongoing development of our successful digital platform George, while Thomas Schaufler will be focusing on shaping the retail strategy in the CEE markets. The responsibilities of the other members of my team are unchanged: Chief Risk Officer Alexandra Habeler-Drabek is responsible for risk-related matters, Ingo Bleier for Corporate Banking & Markets, Stefan Dörfler serves as Chief Financial Officer and David O'Mahony as Chief Operating Officer.

After a year like 2020, it is very important to me to thank the employees of Erste Group for their personal commitment. Our common dedication and conviction to support our clients even in times of crisis have helped us to strengthen our position in the CEE region.

Bernhard Spalt mp

Report of the supervisory board

Dear shareholders,

In the 2020 financial year, the key theme world-wide was the Covid-19 pandemic, which posed health as well as economic challenges to many people – including in our core markets. We, as Erste Group, believe that we are not just a financial institution. We see ourselves as an enterprise that wants to make a positive contribution to the development of society. We did this in the past financial year by processing government relief packages, implementing debt moratoria, guarantees and bridge financing as well as individual agreements. We wish to continue on this path as we are committed to supporting our customers also in economically challenging times.

The supervisory board was impressed by the professionalism, the swiftness and flexibility with which Erste Group's management board and employees responded to these challenges. With support from our health centre team, a work environment was created that enabled us to continue operations with just some minor restrictions in a fundamentally different environment. The supervisory board was likewise able to continue its work as usual despite the obstacles to in-person meetings. The communication flow among its members and with the management board was not only maintained, but even intensified. All meetings that had been planned or had to be scheduled ad hoc were held virtually or in hybrid format. The topics that needed to be addressed were dealt with in-depth and the required resolutions passed.

In the financial year ended, there were a number of changes in the management board: After more than 25 years with our banking group, Peter Bosek resigned from the management board as of 31 December 2020 to pursue new challenges abroad. The supervisory board thanks him very cordially for his many years of successful service for Erste Group, to whose development he contributed significantly as one of the fathers of our digital platform George. My heartfelt thanks for his work for Erste Group likewise go to Ara Abrahamyan, who also resigned from the management board as of 31 December 2020. On 15 October 2020, the supervisory board extended the management board mandate of Alexandra Habeler-Drabek until 31 December 2023. In October 2020, the supervisory board appointed Thomas Schaufler and Maurizio Poletto as additional management board members for terms from 1 January 2021 to 31 December 2023.

In the 2020 financial year, the composition of the supervisory board changed as follows: the supervisory board mandates of Maximilian Hardegg, Gunter Griss and Wilhelm Rasinger expired on 10 November 2020, the date of the annual general meeting. The mandate of Maximilian Hardegg was extended. Gunter Griss was no longer eligible for re-election due to the age limit for supervisory board members set in the articles of association. We are pleased to welcome two new and highly experienced members to our team: Friedrich Santner and András Simor, who were elected to the supervisory board at the annual general meeting of 10 November 2020.

In December 2020, Wilhelm Rasinger passed away after serious illness shortly after the end of his term. He had been a member of Erste Group Bank AG's supervisory board for more than 15 years and will be remembered for the way he always made valuable contributions to the supervisory board's work through his expertise, far-sightedness and pithy comments.

As regards the composition and independence of the supervisory board, the criteria for its independence, its working procedures, the number and types of committees and their decision-making powers, the meetings of the supervisory board and the main focus of its activities, please refer to the (consolidated) corporate governance report drawn up by the management board and reviewed by the supervisory board. As regards the activities of the audit committee, please also refer to the separate report of the audit committee. In the course of 43 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.

At its meeting of 15 October 2020, the supervisory board considered the management board's proposal to the annual general meeting regarding the appropriation of profit for the 2019 financial year, taking special note of the ECB's recommendation of 27 July 2020 to refrain from the distribution of dividends until January 2021, for the time being. This was followed by another recommendation issued by the ECB on 15 December 2020 to refrain from or limit dividends based on specified criteria until 30 September 2021. Paying a dividend for the 2019 financial year in the amount approved by the annual general meeting on 10 November 2020 would have contravened the ECB's recommendation. The supervisory board's executive committee therefore, at its meeting of 8 February 2021, endorsed the management board's statement that the condition for distributing dividends for the 2019 financial year has not been met and that, therefore, Erste Group will refrain from paying a dividend for the 2019 financial year in February 2021, and that the profit will be carried forward to new account.

The financial statements (consisting of the balance sheet, income statement and notes) and the management report as well as the consolidated financial statements and the group management report for 2020 were audited by Sparkassen-Prüfungsverband, the legally mandated auditor, and by PwC Wirtschaftsprüfung GmbH, the elected supplementary auditor, and received an unqualified audit opinion. Representatives of both auditors attended the financial statements review meetings of the audit committee and the supervisory board and presented their comments on the audits they had conducted. Based upon its own review, the supervisory board endorsed the findings of these audits and agreed to the proposal for appropriation of the profit of the 2020 financial year.

PwC Wirtschaftsprüfung GmbH was also mandated with the voluntary audit of the (consolidated) corporate governance report for 2020. Deloitte Audit Wirtschaftsprüfungs GmbH was contracted to perform an audit of the (consolidated) non-financial report for 2020. The supervisory board has 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 in providing our customers with the best support possible in the Pandemic Year 2020.

For the supervisory board,
Friedrich Rödler mp, Chairman of the supervisory board

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 held seven meetings in 2020 and, in addition, held one informal meeting to prepare for 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.

In 2020, the Covid-19 pandemic also affected the work of the audit committee. In its meetings, the audit committee dealt in depth with current developments in Erste Group and in the markets in which it operates. Special attention was paid in particular to the new rules and regulations and the potential impacts of their implementation on the 2020 unconsolidated and consolidated financial statements, but also social aspects that were seen in these generally challenging months. Many decisions of the audit committee were taken using modern video conferencing tools; debates could thus be continued in this manner during lockdown periods.

In 2020, the audit committee also considered the following topics: After receipt of the auditors' report on the (Group) financial statements for 2019, 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.

The decision on the recommendation of a dividend proposal to the supervisory board was passed in October 2020 after extensive deliberations and in line with the recommendation issued by the European Central Bank.

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 2020. 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 in advance after careful review. In December 2020, 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 2022 financial year. 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. 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 meeting with the chairman of the audit committee and the supervisory board.

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

Erste Group on the capital markets

In the past year, international financial markets were dominated by the Covid-19 induced crisis and measures taken to contain the virus. Geopolitical risks such as uncertainty over the outcome of the US presidential elections and the drawn-out Brexit negotiations between the European Union and the United Kingdom were, by comparison, relegated to the background. As the coronavirus started spreading worldwide, the first quarter saw a global sell-off in stock markets after an initially promising start to the year. Lockdowns imposing restrictions on social and economic activities in almost all countries slowed the outbreak of the coronavirus, but fears of a world-wide economic downturn of an unquantifiable degree sent share prices plummeting. Massive support measures initiated by policy-makers, central banks and regulators in an effort to cushion adverse impacts on the future development of the economy eased tensions in the markets. The flow of alternately positive and negative news, however, mostly in connection with the Covid-19 pandemic, fuelled volatility. The optimistic outlook on economic growth from 2021 onwards along with lower-than-expected declines in 2020 corporate earnings were offset by a continuing rise in Covid-19 infection rates. These resulted in further lockdowns in the fourth quarter, albeit, in a number of countries, less strict ones than at the beginning of the pandemic. Reports about successful clinical studies of vaccines against Covid-19, the start of vaccinations and the ebbing off of political risks after the United Kingdom's exit from the EU single market boosted share prices significantly, but failed to make up for the losses previously sustained in most of the stock markets covered.

EQUITY MARKET REVIEW

Covid-19 was the predominant theme

After a number of stock markets had still been marking new highs up to mid-February of the past year, the first quarter saw sell-offs with prices sliding by more than 20% in most of the stock markets covered. Against the backdrop of rising Covid-19 infection numbers, most governments around the globe imposed restrictions to slow the pandemic, including social distancing orders and business lockdowns. Policy-makers, central banks and regulators took wide-ranging measures – among them multi-billion support programmes for the social and business sectors, rate cuts, loan moratoria and providing additional liquidity by expanding central banks' balance sheets – to cushion the adverse effects of the lockdowns. While this eased strains on the financial markets, supported by better-than-expected corporate results, volatility remained very high. The US indices hit new highs on the back of the technology and health care sectors while European stock market indices were trailing behind, posting similar double-digit gains only in the last quarter of the year on the back of positive news on Covid-19 vaccines, the US elections and the successful conclusion of Brexit negotiations. The Dow Jones Industrial Average Index rose beyond the 30,000 mark and, at 30,606.48 points, was 7.2% higher year on year. The broader Standard & Poor's 500 Index, which reached a historic high in the fourth quarter, advanced 16.3% to 3,756.07 points at the end of the year. The European Euro Stoxx 600 index closed the reporting period at 399.03 points, down 4.0%.

Central bank support

In response to the crisis, the central banks had significantly eased their policies back in the spring and provided additional liquidity to the financial markets by massively expanding their balance sheets. The US central bank (Fed) cut its policy rates by one percentage point to 0.0% - 0.25%, purchased bonds at a monthly rate of USD 120 billion and launched lending programmes to support the economy. The European Central Bank (ECB) expanded its purchasing programme in two steps to EUR 1,850 billion and extended it until March 2022. Regardless of the beginning of Covid-19 vaccinations and the resulting confidence in the improvement of the economic environment, the central banks, in their final meetings in December 2020, announced they would continue to provide generous liquidity and leave policy rates unchanged for an extended period of time.

Return to growth expected in 2021

The restrictive measures taken to contain the pandemic triggered the biggest economic shock in decades. As a result of the economic stimulus measures and monetary policy support, economic activity is expected to decline less sharply than initially feared. From 2021 onwards, global economic output should rise again. The International Monetary Fund (IMF) forecasts for 2020 a contraction of the global economy by 3.5%, followed by a 5.5% growth in 2021. The euro zone countries are expected to grow by 4.2% after a decline by 7.2% in 2020, while the US is expected to expand by 5.1% after a contraction of 3.4%.

Banks are among the hardest hit industries

The significant deterioration of the economic environment due to measures induced by Covid-19 and the impacts expected, such as lower operating income and higher risk costs for banks, prompted the ECB to recommend that euro zone banks suspend dividend payouts for the fiscal year 2019. Instead, banks should preserve their lending capacity by strengthening their capital positions. In view of continuing state support for the economy, most notably state-guaranteed loans and loan moratoria, and the resulting significant postponement of negative impacts on bank balance sheets, the general ban on dividends was lifted in December, but the ECB still recommends to refrain from dividends and share buy-backs until the end of September 2021 or to meet strict limits on profit distribution. In the year ended, the Dow Jones Euro Stoxx Banks Index, which is composed of the leading European bank shares, declined by 23.7% to 73.77 points.

ATX down by double-digits in 2020

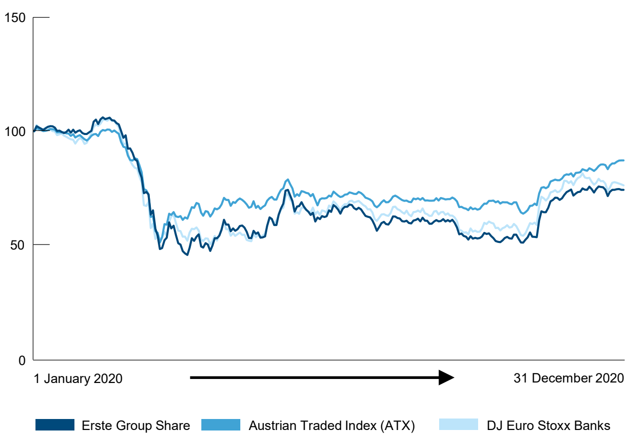
As international stock markets plunged in the first quarter of the year ended, the Austrian Traded Index (ATX) lost nearly 27% of its market capitalisation within just one trading week in mid-March. It dropped to its annual low at 1,630.4 points on 18 March. Due to its cyclical composition with a strong weighting of bank and oil shares, which were hit by the slump in oil prices, the leading Austrian index fluctuated more visibly than other indices. As international stock markets rallied significantly in November and December, the ATX likewise recovered some of the ground lost in the first quarter and closed the year at EUR 2,780.44 points, down by 12.8%.

ERSTE GROUP SHARE

Volatile price performance in lockstep with the European banking index

The start into the year was promising, and the Erste Group share reached its highest closing price at EUR 35.60 on 12 February. As international equity markets and, in particular, bank shares slipped in the first quarter due to the Coved-19 induced crisis, the Erste Group share likewise suffered a setback by more than 50%. The lowest closing price of the Erste Group share in 2020 was at EUR 15.34 on 3 April. The share then recovered half of the losses previously sustained but recorded renewed setbacks in the third quarter. The gains of the two final trading months of the year offset only part of the losses posted previously. The Erste Group share closed the year at a price of EUR 24.94, down 25.7% from year-end 2019. The focus of market participants was on the impacts of the declining economic activity in Central and Eastern Europe amid the pandemic, above all on the development of lending volumes and operating income as well as risk provisions. Covid-19-related factors (including in particular fiscal policy support measures, moratoria on loan repayments, subsidised and guaranteed loans, interest rate cuts, quantitative easing, restrictions on dividend payments, easing of capital requirements) were generally among the key issues of the year.

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



Performance of the Erste Group share versus indices

	Erste Group share	ATX	DJ Euro Stoxx Banks Index
Since IPO (Dec 1997)	125.0%	113.1%	-
Since SPO (Sep 2000)	112.3%	137.9%	-79.0%
Since SPO (Jul 2002)	43.1%	128.0%	-70.6%
Since SPO (Jan 2006)	-44.6%	-28.6%	-80.5%
Since SPO (Nov 2009)	-14.0%	6.7%	-67.6%
2020	-25.7%	-12.8%	-23.7%

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 2020, Erste Group's market capitalisation stood at EUR 10.7 billion, 25.7% down on year-end 2019 (EUR 14.4 billion).

In the reporting year, trading volume on the three stock exchanges (Vienna, Prague, Bucharest) on which the Erste Group share is listed averaged 1,231,504 shares per day and accounted for about 66% 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 world-wide 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. In addition, Erste Group has held prime status in the ISS ESG corporate ratings since 2018. MSCI has rated Erste Group with AA. As the sole Austrian and one of only three companies in the CEE region, Erste Group was again listed in Bloomberg's Gender Equality Index (GEI) in 2020.

DIVIDEND

Erste Group's dividend policy is guided by the bank's profitability, growth outlook and capital requirements. Due to the Covid-19 induced restrictions, the annual general meeting originally scheduled for 13 May was postponed to 10 November 2020 and held virtually. On 10 November 2020, the annual general meeting resolved to pay a dividend of EUR 0.75 per share for the fiscal year 2019, conditional upon no regulatory recommendation to refrain from such payments or no other legal restrictions being in force prohibiting such distributions on 8 February 2021. On 15 December 2020, the ECB asked banks to refrain from or limit dividends until 30 September 2021. As the conditions to pay the dividend were not met, no dividend for the fiscal year 2019 was paid out. The management board proposes to the annual general meeting in May – in line with ECB recommendation – a dividend for 2020 of EUR 0.5 per share. An additional EUR 1 per share has been reserved for a potential later payment.

RATINGS OF ERSTE GROUP BANK AG

Following the changed economic conditions due to the Covid-19 induced crisis rating agencies downgraded their ratings in many cases around the globe. Erste Group's ratings were affirmed, however the outlook was changed. Fitch kept its rating at A/F1 with a negative outlook, Standard & Poor's and Moody's left their ratings unchanged at A/A-1 and A2/P-1, respectively, each with a stable outlook.

FUNDING ACTIVITIES

Regarding capital market activity, 2020 turned out to be one of the most active years in the recent past. Through seven benchmark-sized transactions across various seniorities, EUR 4.5bn were raised in total. Pre-funding activity for 2021 started early with two senior preferred notes in September and November 2020.

Erste Group started with a EUR 750 million 10-year mortgage covered bond at MS+3bp followed by a EUR 500 million (AT1) note (CRD IV-/CRR-compliant Additional Tier 1) with a coupon of 3.375%, representing the second-lowest coupon for a EUR-denominated AT1 at the time of issuance. In May, Erste Group proved its access to capital markets amidst the Covid-19-crisis by placing a EUR 750 million senior preferred note at MS+115bp. September led to further attractive issuance opportunities that were realised with a EUR 500 million Tier 2 instrument at MS+210bp, succeeded by another EUR 500 million 5y senior preferred note issued at MS+52bp. Erste Group was again very active in the fourth quarter by issuing two further benchmarks in November. Its inaugural callable senior preferred note (EUR 750 million at MS+52) – the first of an Austrian issuer – supports the eligibility of outstanding instruments and a diversification of the investor base. Finally, a EUR 750 million AT1 note with a 4.25% coupon was issued mid-November and concluded the funding-year for Erste Group.

INVESTOR RELATIONS

Open and regular communication with investors and analysts

Communication by Erste Group's investor relations team also changed in the past year. Against the backdrop of the Covid-19 induced restrictions, banking and investor conferences were held as virtual rather than in-person events. A large number of conferences organised by the Vienna Stock Exchange, UBS, Goldman Sachs, Deutsche Bank, Citigroup, Morgan Stanley, JP Morgan, Bank of America Merrill Lynch, Autonomous, PKO, mBank and Wood were conducted as phone or video conferences, as were the spring and autumn road shows with investors from the United States and Europe after the releases of first and third quarter 2020 results. The management and the investor relations team met with investors in a total of 218 one-on-one and group meetings, in which Erste Group's strategy was presented against the backdrop of the current environment and questions raised by investors and analysts were answered. The dialogue with bond investors was further intensified with a total of 67 meetings held via phone and video. A large number of meetings with analysts and portfolio managers were held at conferences, virtual road shows and investors' days hosted by UBS, Bank of America Merrill Lynch, Goldman Sachs, HSBC, JP Morgan, ING, Citigroup, Danske Bank and the European Covered Bond Council.

The website http://www.erstegroup.com/ir provides comprehensive information on Erste Group and the Erste Group share. Investors and the broader public can follow the investor relations team on the social media platform Twitter at http://twitter.com/ErsteGroupIR and on Slideshare at http://de.slideshare.net/Erste_Group. These sites provide users with the latest news on Erste Group on the social web. As an additional service for investors and analysts, Erste Group offers an Investor Relations app. This free-of-charge 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/de/investoren/ir-service.

Analyst recommendations

In 2020, 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, RBI, SocGen, UBS and Wood.

As of the end of the year, 15 analysts had issued buy recommendations and six had rated the Erste Group share neutral. The average year-end target price stood at EUR 26.70. 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 and ensuring financial health 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. Erste Group's strategy is based on three pillars:

- Efficiency
- Digital transformation
- Growth

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 of the business model 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 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, Romania, Croatia and Hungary. It will also be rolled out in Serbia. 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 for preserving the reputation of Erste Group and strengthening 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	**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 Transaction banking services (trade finance, factoring, leasing) Commercial Real Estate business	Focus on customer business, incl. customer-based trading activities In addition to core markets, presences in Poland, Germany, 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 not only to meet the increasing importance of digital banking but to actively shape the digital future. 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, Romania and Croatia and has been available in Hungary since early 2021. It will also be rolled out in Serbia.

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 2021 and 2027, the European Union has earmarked EUR 95 billion in funding for the Czech Republic, Slovakia, Croatia, Hungary and Romania through the European Structural and Investment Funds. The share for these five CEE countries is well above their 11% share of the population. Three quarters of the funds for CEE are available for regional development (EFRE, 57% of the funds) and for the Cohesion Fund (19% of the funds). When using EFRE funds, at least 50% of the projects are concentrated on thematic priority areas (research and innovation, digital agenda, support for small and medium-sized enterprises (SMEs) and low-carbon economy). In addition to the classic cohesion policy, a further EUR 36 billion in grants will be available for the region as part of the European Corona Development Plan (Next Generation EU). This temporary economic stimulus package will focus on the areas of digitalisation, climate policy and strengthening resilience.

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 adopted and published the revised risk reduction measure package (RRM-Package) in June 2019 consisting of amended Capital Requirements Regulation (CRR 2), Capital Requirements Directive (CRD 5), Single Resolution Mechanism Regulation (SRMR 2) and Bank Recovery and Resolution Directive (BRRD 2). While CRR 2 became partially applicable in June 2019, the majority of the amended provisions will be applicable as of June 2021. Both directives entered into force 20 days after their publication in the Official Journal of the European Union and had to be transposed by the end of 2020 when SRMR 2 became applicable.

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). Due to the outbreak of the Covid-19 pandemic, the Basel Committee on Banking Supervision decided to postpone the implementation of the final part of the Basel 3 reform package by one year. An EU legislative proposal for the implementation of Basel 3 is now expected in 2021. For the same reasons, the package is scheduled for implementation by 1 January 2023 instead of 1 January 2022 and will be fully applicable after a transition period of up to five years.

As the Covid-19 pandemic has led to a sharp economic downturn, EU regulators and supervisors have taken measures to support the immediate ability of banks to continue lending and absorb losses related to the pandemic. In particular, the European Commission Covid-19 banking package included an Interpretative Communication on the Union's accounting and prudential frameworks as well as targeted quick-fix amendments to EU banking prudential rules (CRR). Member states have also taken decisive action, with support schemes typically involving public guarantee schemes and/or payment deferrals (moratoria) to alleviate liquidity difficulties affecting households and businesses. In this respect, the European Banking Authority (EBA) has published guidelines on legislative and non-legislative moratoria. The European Commission has also adopted a temporary framework to enable member states to use the full flexibility foreseen under state aid rules to support the economy in the context of the Covid-19 outbreak.

In December 2020, the European Commission has published a new version of the Action Plan on Non-performing Loans (NPLs) as a response to the Covid-19 crisis and the expected surge in NPLs on banks' balance sheets. The plan focuses on further developing secondary markets for NPLs as well as establishing a central data hub at EU level. It also puts forward the idea of developing national private or partly publicly funded Asset-Management Companies (AMCs) to buy off bad loans from banks' balance sheets, as well as setting up a cross-border European network of national AMCs. Furthermore, an insolvency law reform is put forward as a priority and how to use state aid in the context of NPLs.

The new resolution framework allows for a multiple-point-of-entry (MPE) or a single-point-of-entry (SPE) resolution strategy. The minimum requirement for own funds and eligible liabilities (MREL) should reflect the resolution strategy that is appropriate to a banking group (in case of MPE with different resolution groups and therefore different points of entries) in accordance with the resolution planning. Under the MPE strategy, more than one group entity may be resolved. Under the SPE strategy, only one group entity, usually the parent undertaking, is the point of entry with the aim to apply resolution actions and tools on this entry level, whereas other group entities, usually operating subsidiaries, are not subject to resolution actions and tools, but upstream their losses and recapitalisation needs (downstream of capital) to the point of entry.

Erste Group received the joint decision signed by the Single Resolution Board (SRB) as Group Resolution Authority, the Croatian Resolution Authority, the Czech Resolution Authority, the Hungarian Resolution Authority and the Romanian Resolution Authority acting within the resolution college upon the MPE approach forming separate resolution groups with Erste Group's core CEE subsidiaries but with SPE approaches on country level (on resolution group level).

In 2020, Erste Group received its MREL target based on BRRD 1 and the SRB MREL 2018 Policy. In the course of 2021, Erste Group will receive a new MREL target, based on BRRD 2 and the SRB MREL Policy. A transitional period is foreseen for the compliance with the final MREL target until 1 January 2024 with two intermediate targets in 2022 and 2023 ensuring a linear MREL build-up.

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. With the EBA Opinion from 16 October 2019, national competent authorities have applied supervisory flexibility as regards the requirement for the application of a strong customer authentication for card-based e-commerce transactions. This initial extension of the implementation period ended on 31 December 2020.

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 since the beginning of 2020. This has strengthened the ESAs' supervisory powers. 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, ESAs will strongly integrate environmental, social and governance (ESG) criteria into their work (such as guidelines) and further strengthen proportionality.

In 2020, the systemic risk buffers defined by 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.

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 took effect on 10 November 2020. The compliance package facilitates the identification of beneficial owners.

On 21 January 2021, the Austrian National Council (Nationalrat) concluded amendments to the Account Register Act (KontRegG, Kontenregistergesetz) and FM-GwG, with which, amongst others, lockers (Schließfächer) are included in the account register (reporting date is 1 January 2021). In addition, an exchange of information between parties subject to money laundering provisions was introduced as well as transaction monitoring based on artificial intelligence. In WiEReG, a regulation has now been included, according to which companies from third countries that acquire land in Austria are subject to the WiEReG reporting obligations. The changes to FM-GwG and WiEReG entered into force on 1 March 2021.

The European Commission presented the proposal for a Capital Markets Recovery Package in July 2020, which includes (i) a short-form prospectus to facilitate new funding in a short time period, (ii) alleviations to the MiFID II framework to encourage investments in the real economy and free up resources for investors and firms and (iii) improvements to securitisation rules to support SME lending and management of NPLs. Additionally, amendments to the Benchmark Regulation to, among others, facilitate the transition from LIBORs to new risk-free rates are part of the package. Amendments to the Prospectus Regulation, MiFID II and the Benchmark Regulation were published in the Official Journal in February 2021, amendments to the securitisation framework will be published between March and June 2021.

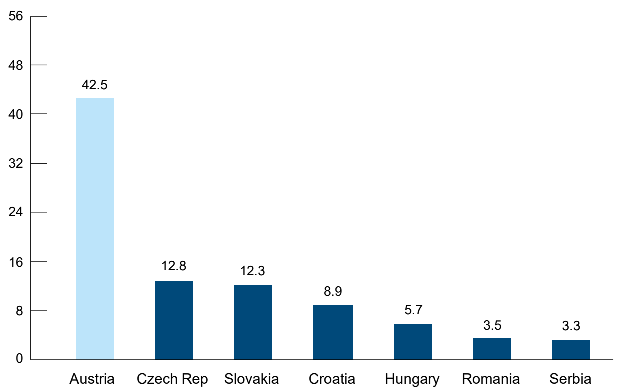
Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector were published in the Official Journal in December 2019. Among others, financial market participants are required – mostly as of March 2021 – to provide comprehensive information on their management of sustainability risks and strategies in addition to existing disclosure obligations. On 22 June 2020, Regulation (EU) 2020/852 on the establishment of a framework to facilitate sustainable investment (Taxonomy Regulation) was published in the Official Journal. This regulation, designed to govern the concept of sustainability in finance, introduces a classification system for determining whether an economic activity qualifies as environmentally sustainable for the purpose of establishing the degree to which an investment is environmentally sustainable. In addition, on 27 November 2020, ECB published its guide on climate-related and environmental risks. The guide outlines how ECB expects banks to safely and prudently manage and disclose such risks under the current prudential framework. 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 (2020) 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 four 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.”

More than 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 2020, Covid-19 has triggered the deepest global recession in decades. The pandemic induced crisis, which drastically impacted both advanced and emerging markets, has led to an unprecedented contraction in economic activity as more than 85 percent of the countries around the globe experienced shrinking economies. Policy makers have taken extraordinary measures to protect people and national health systems, the economy, and the financial system. To prevent the virus from spreading uncontrollably, most countries imposed stringent lockdown measures in the first half of the year, and with rising infection rates in autumn and winter, further lockdowns followed in the last quarter. To contain the immediate economic damage governments introduced various measures including state guaranteed loans, payment moratoria for private individuals and corporates or subsidies from hardship funds. Central banks have eased monetary policies across the globe, with a balance sheet expansion in the G10 countries of nearly EUR 6.5 trillion, and with more than 20 emerging market central banks deploying asset purchases for the first time. In addition, a fiscal policy response of EUR 10.5 trillion globally has provided substantial support to households and corporates.

Most economies faced a substantial slump in economic activity. With its real GDP declining by 3.4%, the United States outperformed both Japan and the European Union. Leading European economies like Italy and France recorded a double-digit decline in their GDP. Among emerging and developing regions, China outperformed other major economies. Following a sharp output contraction in the first quarter of 2020, China's economic activity rebounded stronger than in most other countries following the relaxation of the initial lockdowns. Overall, China's GDP increased by 2.3%. All other major emerging markets' economies, such as India, Brazil, Russia and Turkey declined substantially. India's economy particularly suffered and fell into its first recession in 40 years. In addition to the Covid-19 crisis, the Russian economy was negatively impacted by lower oil prices. Central and Eastern European economies were similarly hit by the virus induced crisis. Overall, global real GDP declined by 3.5%.

The economic development in the United States was mainly characterised by the Covid-19 outbreak, increasing tension between the US and China and the presidential elections in November. The economy plummeted in April and May as a result of the coronavirus induced crisis, and the unemployment rate rose temporarily above 14% in April. The economy, however, recovered quickly mainly due to robust domestic demand, improving labour market, a very accommodative monetary policy and a large fiscal stimulus. Consequently, the unemployment rate stood at 6.7% at the end of the year. Core inflation remained below the Federal Reserve's 2% target. In March 2020, the Fed reduced its benchmark interest rate to zero and launched a new round of quantitative easing. The programme entailed USD 700 billion worth of asset purchases of Treasuries and mortgage-backed securities as a response to the slowing economy. Overall, the US economy contracted by 3.4% in 2020.

The euro area was also significantly impacted. At 7.2%, economic decline in the euro zone was deeper than in other advanced regions of the world. Government measures implemented as a response to the Covid-19 pandemic – such as nationwide lockdowns, school closures and border restrictions – significantly disrupted domestic economic activity. Tourism, a sector that was virtually shut down completely for many months during the year, suffered significantly. Italy, France and Spain with their very important tourist industries, performed poorly with their real GDP declining by double-digit figures. The biggest economy of the euro zone, Germany, on the other hand, posted a markedly better performance mainly due to its prudent crisis management and stronger production output. Unemployment rates rose across countries. Most euro area governments launched large programmes of public loan guarantees to preserve access to bank loans for businesses. The European Central Bank (ECB) introduced a new Pandemic Emergency Purchase Programme (PEPP) to counter the serious risks to the monetary policy transmission mechanism and the outlook for the euro area. The programme amounted to EUR 1.85 trillion and was extended until March 2022. ECB also increased its targeted longer-term refinancing operations (TLTROs) to provide low interest rate loans to credit institutions. Overall, EUR 1.7 trillion were taken up by 388 banks. ECB kept its discount rate at zero.

Against this backdrop, Austria's economy was also hit hard. Reflecting the containment measures and the lockdown in spring, a sharp decline in private consumption led to a fall in GDP. Investments also fell significantly. A solid economic rebound began in the third quarter. The easing of travel restrictions, but most importantly strong domestic summer tourism, led to a partial recovery in the economically important tourism sector, with overnight stays in July and August down 15% from 2019 levels, compared to a decline of 60% to 90% in May and June. The unemployment rate increased visibly in the first half of the year, reaching 6.2% in June. In 2020, it stood on average at 5.3%. Short-time work schemes helped to mitigate the effect of the economic downturn on the labour market. The Covid-19 induced crisis has put an abrupt end to the favourable development of Austria's public finances. A crisis management fund launched in March has been covering financial support, such as to strengthen health care services, fixed cost subsidies or short-time work schemes. Tax deferrals and public guarantees for loans also helped companies to avoid liquidity constraints. The general government deficit stood at 8.9% of GDP. Public debt as a percentage of GDP significantly increased to 84.8%. With the sharp economic downturn and the decrease in energy prices, inflation fell from over 2% in the beginning of the year to 1.2% at year end. Overall, average inflation stood at 1.4% in 2020. Real GDP declined by 7.2%, with GDP per capita falling to EUR 42,000 at year-end.

Central and Eastern European economies struggled as well. Consumption and investments fell visibly, exports and imports posted a double-digit contraction. The large exposure of CEE economies to manufacturing and exports contributed significantly to the economic decline in the spring lockdown. After an unprecedented decline in economic activity, the CEE region saw a very fast economic rebound. The second wave of lockdowns in autumn impacted the regional economies to a much lesser extent, underlying the resilience of CEE industrial production. This time, production was not halted, and foreign demand held up well. Serbia proved to be the best performer, with its GDP contracting only moderately in 2020. Croatia experienced the deepest GDP decline due to the country's heavy dependency on the tourism sector. Unemployment rates in CEE increased but remained still low compared to many Western European countries. The labour markets benefited from government support programmes and widely used short-time work schemes. As a result of lower revenues and higher expenses, public deficits in the region widened. CEE currencies remained weak during the year, with the Hungarian forint testing all-time lows throughout the year. Despite the FX impact, inflation remained relatively moderate. Many of the region's central banks, cut their key rates in the course of the year. The most pronounced were the interest rate cuts of the Czech National Bank. Hungary, Romania, and Serbia also cut their policy rates. Overall, CEE economies shrank between 8.8% in Croatia and 1.1% in Serbia in 2020.

PERFORMANCE IN 2020

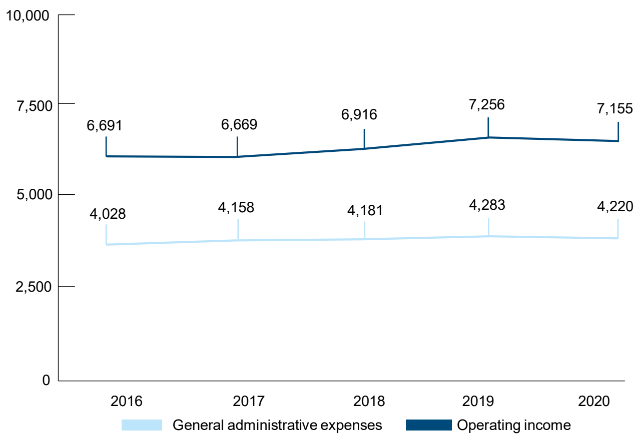
P&L data of 2020 is compared with data of 2019, balance sheet data as of 31 December 2020 is compared to data as of 31 December 2019.

Acquisitions and disposals in Erste Group in 2020 did not have any significant impact and therefore had no effect on the rates of change stated below. Details are provided in the notes to the consolidated financial statements.

Overview

Net interest income increased – mainly in Austria, but also in Romania and Hungary – to EUR 4,774.8 million (+0.6%; EUR 4,746.8 million). **Net fee and commission income** decreased to EUR 1,976.8 million (-1.2%; EUR 2,000.1 million). Higher income from the securities business and asset management did not fully compensate for the declines in other fee and commission income categories – most notably in payment services (thereof EUR 19 million attributable to the impact of the SEPA Payment Services Directive). While **net trading result** declined significantly to EUR 137.6 million (EUR 318.3 million), the line item **gains/losses from financial instruments measured at fair value through profit or loss** improved to EUR 62.0 million (EUR -24.5 million). The development of both line items was driven by valuation effects due to market volatility amid the Covid-19 pandemic. **Operating income** decreased to EUR 7,155.1 million (-1.4%; EUR 7,255.9 million). **General administrative expenses** declined to EUR 4,220.5 million (-1.5%; EUR 4,283.3 million), personnel expenses were slightly lower at EUR 2,520.7 million (-0.6%; EUR 2,537.1 million). Other administrative expenses were reduced to EUR 1,158.9 million (-3.8%; EUR 1,205.1 million). Payments into deposit insurance schemes included in other administrative expenses rose to EUR 132.2 million (EUR 104.8 million). Depreciation and amortisation was unchanged at EUR 540.9 million (EUR 541.0 million). Overall, the **operating result** declined to EUR 2,934.6 million (-1.3%; EUR 2,972.7 million). The **cost/income ratio** was unchanged at 59.0% (59.0%).

Operating income and operating expenses in EUR million



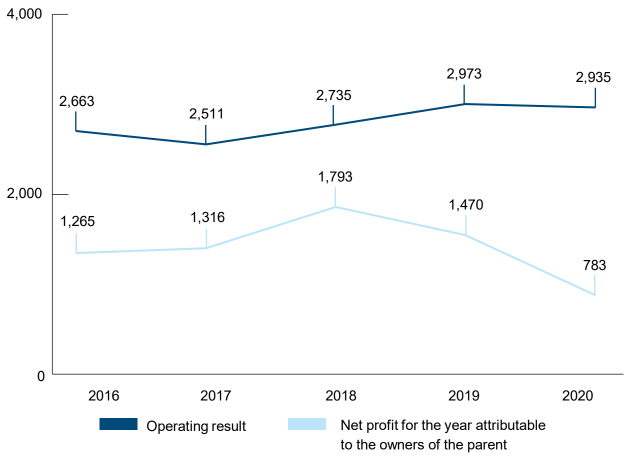
Due to net allocations, the **impairment result from financial instruments** amounted to EUR -1,294.8 million or 78 basis points of average gross customers loans (EUR -39.2 million or 7 basis points). Allocations to provisions for loans as well as for commitments and guarantees given went up in all core markets. The marked rise in allocations to provisions for loans was primarily driven by the deterioration in the macroeconomic outlook due to Covid-19. A positive contribution came from high income from the recovery of loans already written off, primarily in Romania and Hungary.

The **NPL ratio** based on gross customer loans deteriorated to 2.7% (2.5%), the **NPL coverage ratio** rose to 88.6% (77.1%).

Other operating result improved to EUR -278.3 million (EUR -628.2 million). The expenses for the annual contributions to resolution funds included in this line item rose – in particular in Austria – to EUR 93.5 million (EUR 75.3 million). The decline in banking and transaction taxes to EUR 117.7 million (EUR 128.0 million) is primarily attributable to the abolition of banking tax in Romania. In the previous year, other operating result included allocations 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 the write-off of goodwill in Slovakia in the amount of EUR 165.0 million.

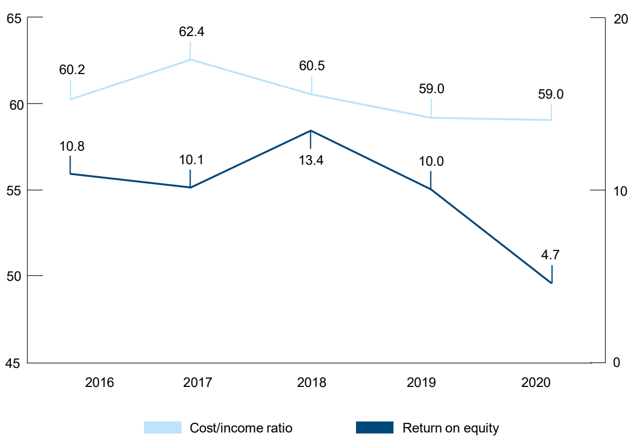
Taxes on income declined to EUR 342.5 million (EUR 418.7 million). The minority charge fell to EUR 242.3 million (EUR 440.9 million) due to significantly lower earnings contribution of the savings banks. The **net result attributable to owners of the parent** declined to EUR 783.1 million (-46.7%; EUR 1,470.1 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 1.59 (reported EPS: EUR 1.57) versus EUR 3.25 (reported EPS: 3.23) in the previous year.

Key profitability ratios in %



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 4.7% (reported ROE: 4.7%) versus 10.1% (reported ROE: 10.1%) in the previous year.

Total assets rose to EUR 277.4 billion (EUR 245.7 billion). On the asset side, cash and cash balances increased, primarily in Austria, to EUR 35.8 billion (EUR 10.7 billion), loans and advances to banks decreased to EUR 21.5 billion (EUR 23.1 billion). **Loans and advances to customers** increased to EUR 166.1 billion (+3.6%; EUR 160.3 billion). On the liability side, deposits from banks grew significantly to EUR 24.8 billion (EUR 13.1 billion) on the back of increased ECB refinancing (TLTROs). **Customer deposits** rose again – in all core markets, primarily in Austria and the Czech Republic – to EUR 191.1 billion (+9.9%; EUR 173.8 billion). **The loan-to-deposit ratio** stood at 86.9% (92.2%).

The **common equity tier 1 ratio** (CET 1, CRR final, see glossary for definition) stood at 14.2% (13.7%), the **total capital ratio** (see glossary for definition) at 19.7% (18.5%).

Dividend

In the reporting period, Erste Group Bank AG posted a post-tax loss of EUR 118.4 million under the Austrian accounting regulations, which increased its distributable capital accordingly (2019 post-tax profit: EUR 1,327.1 million). The equity decreased (2019: increased) accordingly.

On 15 December 2020 the European Central Bank (ECB) has issued a recommendation in respect of dividend payouts. The management board of Erste Group will propose a 2020 dividend, in line with the ECB recommendation, of EUR 0.5 per share to the 2021 AGM for payment in May 2021. Furthermore, an additional reserve of EUR 1.0 per share was created, for payment once the ECB recommendation is withdrawn and subject to profitability and capital performance.

On 10 November 2020, the annual general meeting resolved to pay a dividend of EUR 0.75 per share for the fiscal year 2019 (appropriation of net profit), conditional upon no regulatory ECB recommendation to refrain from such payments or no other legal restrictions being in force prohibiting such distributions on 8 February 2021. Based on the ECB recommendations, conditions to pay a dividend of EUR 0.75 per share had not been met as of 8 February 2021, and no dividend was distributed. As a payout is not possible, the dividend is allocated to retained earnings according to the resolution taken at the annual general meeting on 10 November 2020.

Outlook

Erste Group's goal for 2021 is to increase net profit. Among the factors that will support achievement of this goal are a recovery of the economies of all core markets – the Czech Republic, Slovakia, Hungary, Romania, Croatia, Serbia and Austria – and, on this basis, a reduction of risk costs and an improvement in the operating result. A continuation or further escalation of Covid-19 measures by governments as well as potential – and as yet unquantifiable – political, regulatory or economic risks may render meeting this goal more challenging.

In 2021, the positive development of the economy should be reflected in growth rates (real GDP growth) of between 3% and close to 6% in Erste Group's CEE core markets. The development of other economic indicators should vary depending on Covid-19 policy measures imposed by authorities and/or the phasing out of state support. Unemployment rates are expected to rise but, in the Czech Republic and Hungary, should remain among the lowest in the EU. Inflation rates are forecast to decline in the Czech Republic and Slovakia while the other core markets are likely to see a slight acceleration. In most countries, sustained competitiveness should again result in solid and, in Slovakia and Romania, stronger current account balances. The fiscal situation should likewise improve again after the significant budget deficits posted in the year 2020. Public debt is projected to remain largely stable, albeit at a significantly elevated level.

Against this backdrop, Erste Group expects net loan growth in the low to mid-single digit range. This performance should keep net interest income stable despite negative interest rates in the euro zone. The second most important income component – net fee and commission income – is expected to rise in low single digits. As in 2020, positive momentum should again come from fund management, the securities business and insurance brokerage. Given the average result seen in 2020, the net trading and fair value result is expected to come in higher. This, however, will depend substantially on the financial market environment. The remaining income components are forecast to remain, by and large, stable. Overall, operating income should increase again in 2021. Operating expenses are expected to rise slightly in 2021, partly due to re-emerging wage pressure across all Erste Group markets. In addition, Erste Group will continue to invest in IT in 2021 and thus strengthen its competitive position, with a focus on progressive IT modernisation, back-office digitalisation and expansion of the digital platform George. The rollout of George in Hungary and Croatia should be completed in 2021, as a result of which customers will be able to access George in the six largest core markets. Though faced with more challenges in a largely unpredictable environment, Erste Group is striving to make operating income grow faster than costs. This leads Erste Group to project a rise in the operating result in 2021.

Based on the scenario described above, risks costs should decline again in 2021. While precise forecasting is hard in the current Covid-19 environment, Erste Group believes that in 2021 risk costs will not exceed 65 basis points of average gross customer loans. Due to the expected expiry of state support schemes a rise of the NPL ratio to 3 - 4% is expected though.

Other operating result is expected to remain unchanged in the absence of significant one-off effects. Assuming a tax rate of below 25% and a similar level of minority charges as in the previous year, Erste Group aims to achieve an improvement in net profit. Erste Group's CET1 ratio is expected to remain strong. The management board proposes to the annual general meeting in May – in line with ECB recommendation – a dividend for 2020 of EUR 0.5 per share. An additional EUR 1/share has been reserved for a potential later payment.

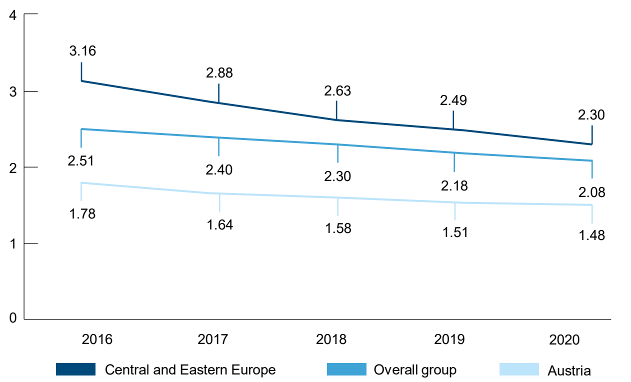
Potential risks to the guidance are besides other than expected (geo)political, economic (monetary and fiscal policies) and regulatory measures and developments also global health risks and changes to the competitive environment. In addition, given the Covid-19 governmental measures and their impact on the economic development, financial forecasts are still subject to an elevated level of uncertainty. Erste Group is moreover exposed to non-financial and legal risks that may materialise regardless of the economic environment. Worse than expected economic development may put goodwill at risk.

ANALYSIS OF PERFORMANCE

Net interest income

Net interest income increased to EUR 4,774.8 million (EUR 4,746.8 million). While in Austria (Holding) positive impacts came from more favourable ECB refinancing and lower negative interest on deposits with the ECB, net interest income in the Czech Republic declined significantly due to lower interest rates. Included in net interest income are modification losses in the amount of EUR 49.5 million mainly resulting from moratoria on loan re-payments due to Covid-19.

Net interest margin in %

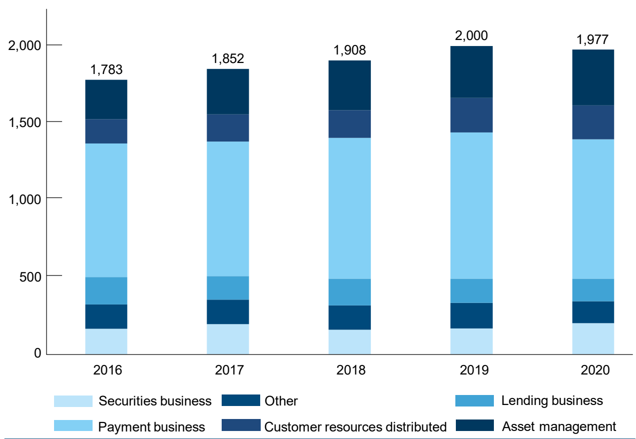


The net interest margin (calculated as the annualised sum of net interest income, dividend income and net result from equity method investments over average interest-bearing assets) stood at 2.08% (2.18%).

Net fee and commission income

Net fee and commission income decreased to EUR 1,976.8 million (EUR 2,000.1 million). Declines were recorded in payment services (thereof EUR 19 million attributable to SEPA, the payment-integration initiative of the European Union) but also in lending business and insurance brokerage commission income. Significant growth was recorded, however – primarily in Austria – in the securities business and in asset management.

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



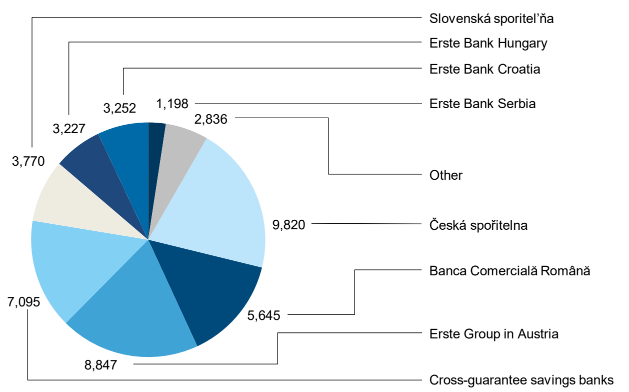
Net trading result & gains/losses from financial instruments measured at fair value through profit or loss

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 valuation effects resulting from interest rate developments, net trading result decreased significantly to EUR 137.6 million (EUR 318.3 million), despite strong income from the foreign exchange business. Conversely, gains/losses from financial instruments measured at fair value through profit or loss improved to EUR 62.0 million (EUR -24.5 million). In addition to gains from the valuation of debt securities in issue due to the development of interest rates, the valuation result of financial assets in the fair value portfolio was, overall, likewise positive. Gains from the valuation of the securities portfolio were significantly higher than the valuation losses in the loan portfolio measured at fair value.

General administrative expenses

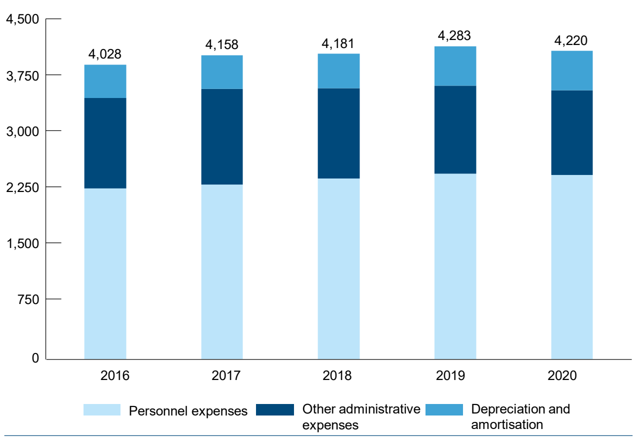
General administrative expenses decreased to EUR 4,220.5 million (EUR 4,283.3 million).

Employees as of 31 December 2020



Personnel expenses declined to EUR 2,520.7 million (EUR 2,537.1 million). While personnel expenses were up in Slovakia as a result of a one-off payment agreed through collective bargaining, they declined in all other core markets, in the Czech Republic and Hungary also due to positive currency effects. **Other administrative expenses** decreased to EUR 1,158.9 million (EUR 1,205.1 million) on the back of a marked reduction of marketing and consulting costs. Contributions to deposit insurance systems rose to EUR 132.2 million (EUR 104.8 million). In Austria, contributions increased substantially to EUR 95.0 million (EUR 58.4 million), driven by a one-off effect as well as continuing strong deposit growth, but declined in Romania to EUR 4.4 million (EUR 12.7 million). IT expenditure was likewise up. **Amortisation and depreciation** amounted to EUR 540.9 million (EUR 541.0 million).

General administrative expenses, structure and trend, in EUR million



Operating result

Due to the significant decline of the net trading and fair value result, operating income decreased to EUR 7,155.1 million (-1.4%; EUR 7,255.9 million). General administrative expenses were reduced to EUR 4,220.5 million (-1.5%; EUR 4,283.3 million). The operating result declined to EUR 2,934.6 million (-1.3%; EUR 2,972.7 million). The cost/income ratio was unchanged at 59.0% (59.0%).

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 amounted to EUR 6.5 million (EUR 23.5 million). This line item includes primarily gains/losses from derecognition of loans and the sale of securities.

Impairment result from financial instruments

Due to net allocations, the impairment result from financial instruments amounted to EUR -1,294.8 million (EUR -39.2 million). Net allocations to provisions for commitments and guarantees given amounted to EUR -159.2 million (net releases of EUR 70.0 million). The significant rise in allocations to provisions was primarily driven by updated risk parameters with forward-looking information as well as experts' estimates on the impacts of the Covid-19 pandemic. Positive contributions came from continued high income from the recovery of loans already written off – primarily in Romania and Hungary – in the amount of EUR 140.4 million (EUR 154.0 million).

Other operating result

Other operating result improved to EUR -278.3 million (EUR -628.2 million). Levies on banking activities declined to EUR 117.7 million (EUR 128.0 million). Banking tax payable in Austria increased moderately to EUR 25.5 million (EUR 24.3 million). Levies in Slovakia, where they were charged for the last time in the first half of the year, rose to EUR 33.8 million (EUR 32.5 million). Hungarian banking tax increased to EUR 14.5 million (EUR 12.6 million). Together with the financial transaction tax of EUR 44.0 million (EUR 47.6 million), banking levies in Hungary were slightly down, totalling EUR 58.5 million (EUR 60.2 million).

The negative balance of allocations/releases of other provisions decreased markedly to EUR -18.4 million (EUR -207.0 million). The comparative period was negatively impacted by extraordinary effects – a provision in the amount of EUR 153.3 million had been set aside for losses expected from a supreme court decision concerning the business activities of a Romanian subsidiary. Furthermore, goodwill in Slovakia in the amount of EUR 165.0 million had been written down. Other operating result also reflects the annual contributions to resolution funds in the amount of EUR 93.5 million (EUR 75.3 million). Increases were recorded across all core markets, but above all in Austria, to EUR 43.6 million (EUR 33.4 million).

Profit/loss for the year

The pre-tax result from continuing operations amounted to EUR 1,368.0 million (EUR 2,329.7 million). Taxes on income declined to EUR 342.5 million (EUR 418.7 million). The minority charge decreased to EUR 242.3 million (EUR 440.9 million) due to substantially lower earnings contributions of savings banks. The net result attributable to owners of the parent amounted to EUR 783.1 million (EUR 1,470.1 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 fiscal year 2020. The current tax loss carried forward increased in 2020.

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 342.5 million (EUR 418.7 million).

Balance sheet development

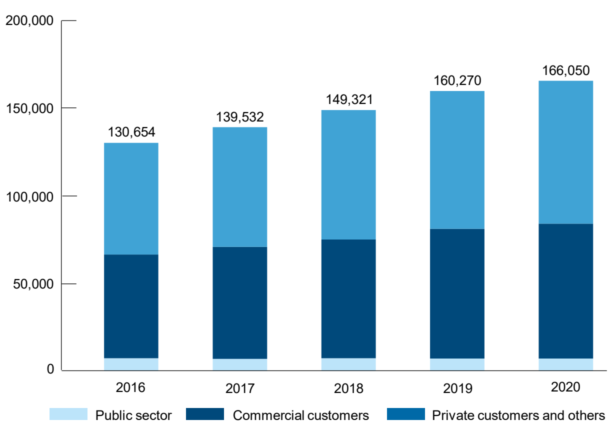
The rise in **cash and cash balances** to EUR 35.8 billion (EUR 10.7 billion) was primarily due to large cash balances held at central banks, not least due to increased TLTRO III funds.

Trading and investment securities held in various categories of financial assets increased to EUR 46.8 billion (EUR 44.3 billion).

Loans and advances to banks (net), including demand deposits other than overnight deposits, declined primarily in Austria to EUR 21.5 billion (EUR 23.1 billion).

Loans and advances to customers (net) rose – most notably in Austria – to EUR 166.1 billion (EUR 160.3 billion) driven by loan growth in the corporate and retail segments. In subsidiaries outside the euro zone, the effect of growth in local currency was offset by the depreciation of the local currencies.

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



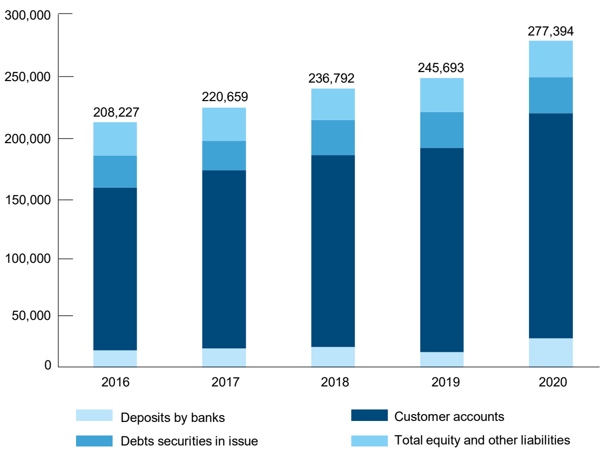
Loan loss allowances for loans to customers rose to EUR 4.0 billion (EUR 3.2 billion). The increase reflected the deterioration in the macroeconomic outlook due to Covid-19.

The **NPL ratio** (non–performing loans as a percentage of gross customer loans) deteriorated to 2.7% (2.5%). The **NPL coverage ratio** (based on gross customer loans) rose to 88.6% (77.1%).

Intangible assets remained unchanged at EUR 1.4 billion (EUR 1.4 billion).

Miscellaneous assets amounted to EUR 5.8 billion (EUR 6.0 billion).

Balance sheet structure/liabilities and total equity in EUR million



Financial liabilities – held for trading increased to EUR 2.6 billion (EUR 2.4 billion).

Deposits from banks, primarily in the form of term deposits, rose to EUR 24.8 billion (EUR 13.1 billion), including EUR 14.1 billion in TLTRO III funds as of the end of December 2020. **Deposits from customers** increased to EUR 191.1 billion (EUR 173.8 billion) due to strong growth in overnight deposits (the leasing liabilities of EUR 0.6 billion were not included in this position). The **loan-to-deposit ratio** stood at 86.9% (92.2%).

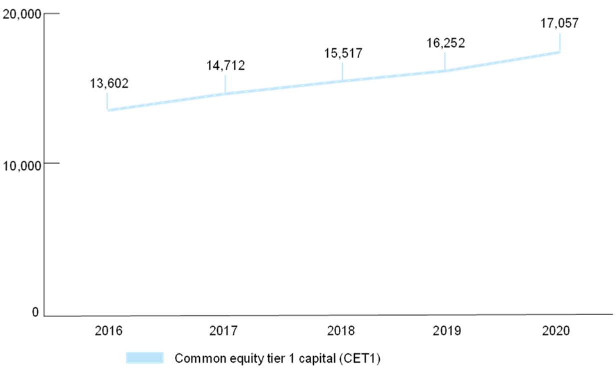
Debt securities in issue increased slightly to EUR 30.7 billion (EUR 30.4 billion).

Miscellaneous liabilities amounted to EUR 5.8 billion (EUR 5.4 billion).

Total assets grew to EUR 277.4 billion (+12.9%; EUR 245.7 billion). **Total equity** increased to EUR 22.4 billion (+9.4%; EUR 20.5 billion) including additional tier 1 (AT1) instruments in the amount of EUR 2,733.0 million from five issuances (June 2016, April 2017, March 2019, January 2020 and November 2020).

After regulatory deductions and filtering according to the Capital Requirements Regulation (CRR), **common equity tier 1 capital** (CET1, CRR final) rose to EUR 17.1 billion (EUR 16.3 billion). Total **own funds** (CRR final) went up to EUR 23.6 billion (EUR 22.0 billion) supported by AT 1 issuances. **Total risk (risk-weighted assets** including credit, market and operational risk, CRR final) rose to EUR 120.2 billion (+1.3%; EUR 118.6 billion) benefitting from a positive impact of the application of the SME support factor in an amount of EUR 4.5 billion.

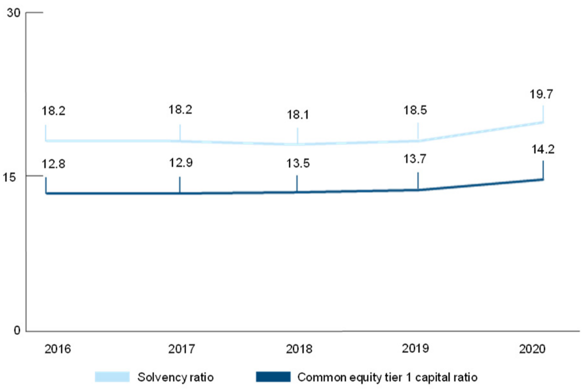
Common equity tier 1 capital (CET 1) according to CRR in EUR million



Consolidated regulatory capital is calculated in accordance with CRR, taking into consideration transitional provisions as defined in the Austrian CRR Supplementary Regulation and 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 19.7% (18.5%), well above the legal minimum requirement.

The **tier 1 ratio** (CRR final) stood at 16.5% (15.0%), the **common equity tier 1 ratio** (CRR final) at 14.2% (13.7%).

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 uses a matrix organisational structure with geographical segmentation and business segments. Since the chief operating decision maker performs the steering primarily based on geographical segments, those are defined as operating segments according to IFRS 8. In order to provide more comprehensive information, the performance of the business segments is reported additionally.

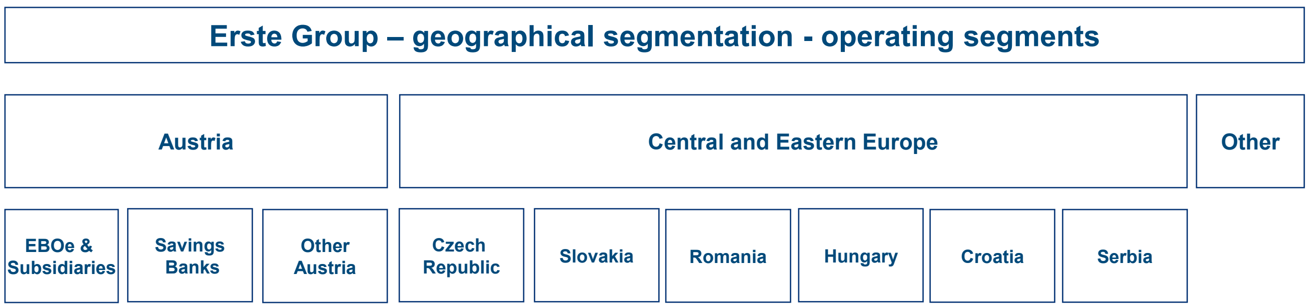
The tables and information below provide a brief overview and focus on selected and summarised items. For more details, please see Note 1. Additional information is available in Excel format at www.erstegroup.com/investorrelations.

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.

Geographical segmentation – operating segments

For the purpose of segment reporting, geographical segments are defined as operating segments, for which the information is presented on the basis of the booking entity's location (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 core 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 operating 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 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 **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 the following six operating segments covering Erste Group's banking subsidiaries located in the respective CEE countries:

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

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

Austria

Economic review

Austria is a well-diversified, developed and open economy, benefitting from a well-educated workforce. In 2020, the country's strong tourism and service sector were particularly hard hit by the Covid-19 containment measures . Despite a solid summer season, mainly attributable to strong domestic tourism, the tourism sector suffered from lockdowns and travel restrictions. Private consumption of services and durable goods as well as exports and investment fell sharply and contributed to the significant drop in GDP. Although short-time work schemes helped to mitigate the effect of the economic downturn on the labour market, the unemployment rate increased strongly in the first half of 2020, reaching 6.2% in June. On average, it amounted to 5.3%. Overall, real GDP declined by 7.2%, with GDP per capita falling to EUR 42,000.

The Covid-19 induced crisis has put an abrupt end to the favourable development of Austria's public finances. The crisis management fund launched in March 2020 provided financial support to strengthen health care services, and included funding for fixed cost subsidies as well as short-time work schemes. Tax deferrals, reduced advance tax payments and state guarantees for loans also helped companies to avoid liquidity shortages. With declining revenues and rising expenses, the general government deficit stood at 9.8% of GDP. Public debt as a percentage of GDP significantly increased to 84.8%.

With the sharp economic downturn and the decrease in energy prices, inflation fell from over 2% in the beginning of the year to 1.1% in the second quarter before rising again to 1.5% in the third quarter. Inflation in services remained especially high, leading to a core inflation rate of 1.8% and 2.2% in the second and third quarters, respectively. Overall, inflation remained almost unchanged at 1.4% in 2020. As Austria is part of the euro zone, its monetary policy is set by the European Central Bank (ECB), which kept its discount rate at zero in 2020. The ECB introduced its new Pandemic Emergency Purchase Programme (PEPP) to counter serious risks to the monetary policy transmission mechanism and the outlook for the euro area and increased its targeted longer-term refinancing operations (TLTRO) to provide low interest rate loans to credit institutions. In addition, ECB recommended banks to refrain from or limit dividend payments until 30 September 2021.

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. Fitch's credit rating stood at AA+ while the outlook was revised from positive to stable in May 2020. The outlook change reflected the significant impact of the global coronavirus pandemic on Austria's economy and public finances.

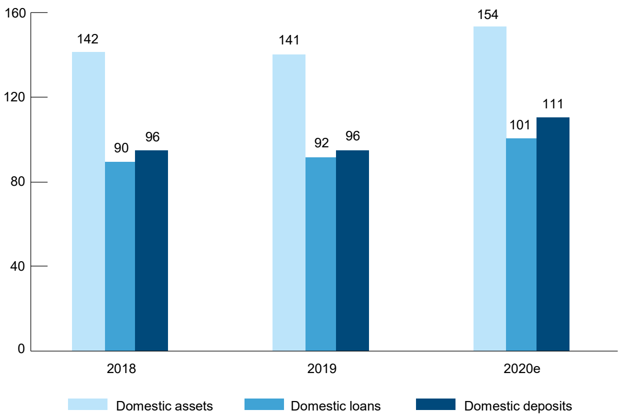
Key economic indicators – Austria	2017	2018	2019	2020e
Population (ave, million)	8.8	8.8	8.9	8.9
GDP (nominal, EUR billion)	369.3	385.4	397.6	374.1
GDP/capita (in EUR thousand)	42.0	43.6	44.8	42.0
Real GDP growth	2.4	2.6	1.4	-7.2
Private consumption growth	1.6	1.1	0.8	-8.8
Exports (share of GDP)	41.1	42.1	42.7	39.9
Imports (share of GDP)	43.1	44.1	44.6	41.9
Unemployment (Eurostat definition)	5.5	4.9	4.5	5.3
Consumer price inflation (ave)	2.2	2.1	1.5	1.4
Short term interest rate (3 months average)	-0.3	-0.3	-0.4	-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)	1.4	1.3	2.8	2.4
General government balance (share of GDP)	-0.8	0.2	0.7	-9.8

Source: Erste Group

Market review

The developed and highly competitive Austrian banking sector entered the Covid-19 induced crisis with solid financial fundamentals. Capitalisation has strengthened significantly in the last decade, and asset quality has improved substantially. Compared with levels before the global financial crisis that started in 2008, the Austrian banking sector has more than doubled its capital ratio in line with tighter prudential requirements. In 2020, banks managed to keep their capital ratios stable, partly due to regulatory relief measures and regulators' recommendations to refrain from or limit dividend payments. The Systemic Risk (SRB) and the Other Systemically Important Institutions (OSII) buffers were recalibrated to 1% as of December 2020. Starting with 2021, these buffers are cumulative. The Financial Market Stability Board recommended to keep the countercyclical capital buffer at a rate of 0%. Stress test results confirmed that the domestic banking sector's risk-bearing capacity was adequate.

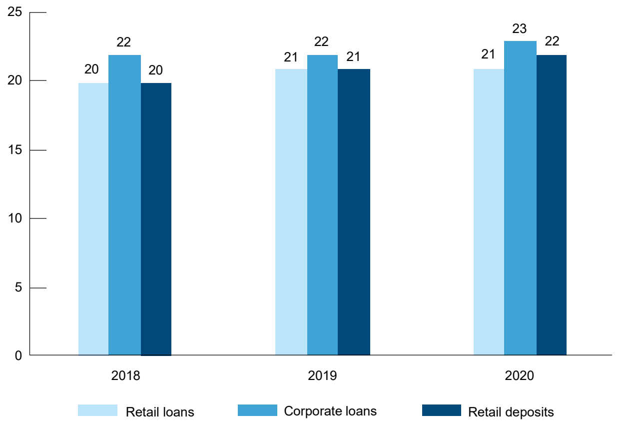
Financial intermediation – Austria (in % of GDP)



Source: Oesterreichische Nationalbank, Erste Group

The banking sectors' profitability was negatively impacted by the pandemic and its implications. On the back of very low interest rates lending activity was healthy with customer loans growing by 3.9% in 2020. The Austrian government adopted a legislative moratorium on credit and interest payments between 1 April 2020 and 31 January 2021, deferring such payments by debtors suffering from income losses in connection with the Covid-19 crisis for a period of ten months and extending loan tenors by the length of the moratorium. Banks were instrumental in paying out state guaranteed loans and, in case of liquidity shortages, bridging loans were made available by the government. Therefore, the impact of the crisis on asset quality was muted in 2020: The ratio of nonperforming loans remained low at year-end. On the savings side, customer deposits grew by 8.6%, driven mainly by the corporate sector. The banking system's loan-to deposit-ratio ratio stood at 91% at the end of the year. Digital financial services and products have continuously been improved and digital penetration increased further. The banking tax remained nearly unchanged in 2020. Overall, the Austrian banking system remained profitable in 2020.

Market shares – Austria (in %)



Source: Oesterreichische Nationalbank, Erste Group

Erste Bank Oesterreich and the savings banks succeeded in further increasing their combined market shares to between 20% and 23% in both retail and corporate business, benefitting from their balanced business model. George, the digital banking platform of Erste Group, proved its reliability during the lockdowns. It has defended its position as the country's most modern and popular banking platform. With 1.9 million users in the country more than a third of the Austrian online banking customers use George. In 2020, George's product range was again widened.

ERSTE BANK OESTERREICH & SUBSIDIARIES

Business review 2020 – three questions to Gerda Holzinger-Burgstaller, CEO of Erste Bank Oesterreich

How did your bank cope with the Covid-19 induced crisis, and how did you support customers and employees?

We put all our efforts into ensuring to stay in touch with our clients via all available channels to help them through these turbulent times. Making sure that we are fully operative and maintain our services was the first and foremost priority. We were permanently challenged to swiftly adapt to changing situations, be that our face-to-face client service in branches or different regulations related to government programmes to keep the economy running, while guiding our clients through these extraordinary times. Looking ahead, we know that significant challenges will remain. The strong economic downturn will, despite substantial state support, take its toll, and companies as well as private individuals will be impacted. It is key that we ensure to keep on servicing our clients, providing solutions to overcome the economic challenges induced by the crisis and to support them on their way back to financial health. We have developed a wide range of initiatives not only to directly support our clients, but also to take this situation as a starting point to increase robustness, be it by participating in activities aimed at improving capital markets in Austria or supporting financial literacy.

Making all of this happen also deeply challenged our employees in an unprecedented manner to adapt to new ways of working. In March 2020, we successfully managed to move the majority of our staff to remote working within a matter of days, demanding changes in leadership and processes. Ensuring the well-being of our employees will remain a key priority.

How did you manage to successfully differentiate your business activities from those of your competition?
The consistent execution of our brand and innovation driven strategy, leveraging the potentials of new technologies not only to improve processes, but also to increase customer proximity has proven to be of special importance in these critical times and helped us again to convince people to choose us as their banking partner. Building an all remote advisory capability for our private clients, whilst at the same time keeping physical service points and our online offering, is key to ensure that we offer banking services whenever and wherever required by customers. Rolling out George to the micro business segment was a further step in extending the offer of our successful online banking platform.

The implementation of our new corporate coverage model helped us to ensure that we can approach our clients in a more targeted manner and deliver even better service to them, leveraging the full potential of our coverage teams.

Despite the crisis, we have managed to improve our online service portfolio further and launched a number of initiatives aimed at increasing the level of straight-through processes and the usage of digital solution to further increase efficiency and effectiveness. We have initiated the transformation of our banking operations focusing on standardised core services to ensure that we do what we know best: banking.

Looking back at the year, what major achievements are especially noteworthy, and which ESG related topics or developments were most relevant for you?
Taking on our responsibility not only towards our shareholders, but also towards society at large remains a key area in our efforts. We believe that ESG not only means that we support the transition to a decarbonised economy, but also to make sure that we support society as a whole by proper corporate responsibility. All of this not only entails offering green investment products to our clients or financing investments that meet our responsible financing requirements. It goes far beyond that, supporting clients to build financial literacy to ensure their financial health and helping those who are in financially unhealthy situations to recover, for example through the Zweite Sparkasse. This is genuinely rooted in Erste Group's Statement of Purpose, which serves as a guiding principle and drives our decision making.

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?
The savings banks group was also an important financial partner in 2020 for all private and commercial customers in dealing with financial problems in the context of the Covid-19-induced crisis. The savings bank group continued to grow in the financing business, in acquiring new customers and in the securities business.

A new customer interface is available to all account managers in sales, making customer-oriented advice much easier. Further progress was made in harmonisation and standardisation: Following the successful harmonisation of the product range for private and commercial customers across the savings banks group, products that were no longer required were removed from the product portfolio and IT systems. This led to a visible reduction in complexity. The next step is to harmonise the processes in lending business and opening accounts. In the area of advice on housing loans, a new, uniform advice interface has been implemented that can be used together with the customer on one screen.

Financial review

in EUR million	2019	2020	Change
Net interest income	642.1	638.2	-0.6%
Net fee and commission income	398.9	406.6	1.9%
Net trading result and gains/losses from financial instruments at FVPL	29.1	13.8	-52.7%
Operating income	1,117.9	1,126.1	0.7%
Operating expenses	-717.1	-711.4	-0.8%
Operating result	400.8	414.7	3.5%
Cost/income ratio	64.1%	63.2%	
Impairment result from financial instruments	-6.0	-135.8	>100.0%
Other result	-18.9	-9.5	-49.7%
Net result attributable to owners of the parent	263.2	222.0	-15.6%
Return on allocated capital	16.4%	15.6%	

Net interest income decreased slightly due to modification losses related to loan moratoria, lower result from debt securities and moderately lower loan margins, which could only partially be compensated by higher loan volumes. Net fee and commission income rose predominantly on the back of higher securities fees. The decline in net trading result and gains/losses from financial instruments at FVPL was driven by valuation effects. Operating expenses decreased mainly due to lower marketing and IT expenses, while the deposit insurance contribution went up to EUR 49.9 million (EUR 25.0 million). Consequently, operating result increased, and the cost/income ratio improved. The deterioration of impairment result from financial instruments was driven by higher provisioning requirements in the retail and corporate business, mainly related to updated risk parameters with forward-looking information and stage overlays. Other result improved due to selling gains for real estate, which were partially offset by a shift of expenses from rental income from investment properties and other operating lease to other result. Payments into the resolution fund increased to EUR 10.5 million (EUR 7.8 million). Banking tax remained largely unchanged at EUR 3.7 million (EUR 3.6 million). Overall, the net result attributable to owners of the parent declined.

Credit risk

Credit risk exposure in the Erste Bank Oesterreich & Subsidiaries segment rose to EUR 46.5 billion (+3.3%), while the volume of customer loans increased to EUR 35.6 billion (+2.9%). The share of this segment in Erste Group's total loan portfolio was unchanged at 21.0%. The share of retail customers in total loan volume declined to 39.5% (40.1%), while the share of corporates, including self-employed individuals and small businesses, rose to 55.1% (54.0%). Loans to professionals, other self-employed individuals and small businesses are less significant than they are for other Austrian savings banks. Lending to the public sector declined to EUR 1.9 billion (-5.1%). The share of Swiss franc denominated loans in the total loan portfolio decreased further to 3.2% (3.8%). The quality of the loan portfolio deteriorated on the back of the Covid-19 induced crisis. At 1.6% (1.4%), non-performing loans as a percentage of total loans to customers were still low, though. The development was slightly negative across all customer segments, but most visibly among larger enterprises in the Corporates business segment. The NPL coverage ratio based on loan loss provisions rose to 63.4% (58.0%).

SAVINGS BANKS

Financial review

in EUR million	2019	2020	Change
Net interest income	1,052.1	1,069.4	1.6%
Net fee and commission income	490.6	519.6	5.9%
Net trading result and gains/losses from financial instruments at FVPL	52.0	16.6	-68.1%
Operating income	1,640.2	1,648.6	0.5%
Operating expenses	-1,120.1	-1,106.1	-1.3%
Operating result	520.1	542.5	4.3%
Cost/income ratio	68.3%	67.1%	
Impairment result from financial instruments	0.7	-267.2	n/a
Other result	26.3	-4.1	n/a
Net result attributable to owners of the parent	64.8	41.6	-35.7%
Return on allocated capital	13.0%	7.1%	

The increase in net interest income was primarily driven by the inclusion of a new subsidiary of a savings bank as well as higher customer loan volumes. Net fee and commission income increased on the back of higher securities as well as payment, lending and documentary fees. The worsening of net trading result and gains/losses from financial instruments at FVPL was primarily driven by valuation effects. Operating expenses decreased mainly due to lower IT, marketing and personnel expenses offsetting the increase in the deposit insurance contribution to EUR 45.0 million (EUR 33.4 million). Consequently, operating result as well as the cost/income ratio improved. Impairment result from financial instruments deteriorated significantly on updated risk parameters with forward looking information and stage overlays. Other result worsened on the non-recurrence of the booking of a badwill for a newly acquired subsidiary of a savings bank last year. Contributions to the resolution fund increased to EUR 9.5 million (EUR 7.9 million). Banking tax remained almost unchanged at EUR 4.6 million (EUR 4.3 million). Overall, the net result attributable to the owners of the parent decreased.

Credit risk

Credit risk exposure in the Savings Banks segment increased to EUR 71.2 billion (+6.7%), while loans to customers rose to EUR 50.4 billion (+5.4%). Their share in Erste Group's total loans to customers was up at 29.6% (29.3%). Lending to private households registered slightly above-average growth, raising its share in the Savings Banks' total customer loan portfolio to 39.5% (39.2%). Loans to professionals, other self-employed persons and small businesses stagnated at EUR 6.6 billion. At 13.2% (13.9%) 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 Savings Banks' predominantly local and regional operations as well as the structure of the Austrian economy, which has a higher percentage of small and medium-sized businesses than many other countries. Swiss franc-denominated foreign-currency loans declined further to EUR 1.5 billion (-16.8%). Due to government support provided amid the outbreak of the Covid-19 pandemic, the share of non-performing loans as a percentage of total loans to customers was unchanged at 2.8%. The NPL coverage ratio based on loan loss provisions rose markedly to 70.2% (63.9%).

OTHER AUSTRIA

Business review 2020 – three questions to Ingo Bleier, Chief Corporates and Markets Officer

How did your teams cope with the Covid-19 induced crisis, and how did you support customers and employees?

Proactive communication via various channels (be it online contact, our call center or calls by relationship managers) enabled us to explore our clients' needs and show our clients alternatives specifically tailored to their individual business requirements. We helped them to choose the most suitable solution to service them not only in accessing the various state support measures with minimal effort. The basis for that was to keep all banking services accessible, uninterrupted and functional as well as an excellent collaboration with risk management.

While real estate was less affected by the public moratoria as most of our clients were able to meet their financial obligations, capital markets business was hit hard in March 2020. Nevertheless, we constantly kept our doors open and provided our customers with liquidity and quick and competitive pricing, which was extremely appreciated.

How did you manage to successfully differentiate your business activities from those of your competition?

The main differentiator in 2020 was our prompt, unbureaucratic and individual client approach. Erste Group clearly proved that we have the expertise to manage a crisis situation by acting in a trustworthy and authentic way. Our underwriting standards and risk policies allowed us to show stability in a very challenging situation, and we were able to quickly take up new business opportunities after the first lockdowns. In the markets area, this is reflected in debt and equity origination mandates of almost EUR 107 billion in volume and in the execution of up to 12,000 orders per day by our clients. In Austria, 50% of our FX deals are traded digitally. Another success factor was the close cooperation between all departments, front-, back- and mid-office, as well as with our asset management company, which was able to rapidly regain volume by acting as a reliable partner and very successful portfolio manager.

Looking back at the year, what major achievements are especially noteworthy, and which ESG related topics or developments were most relevant for you?

We merged the large corporate and the real estate businesses of the Holding and Erste Bank Oesterreich in Austria. In addition, we managed to strengthen relationships to our corporate and institutional clients, and we were able to grow our loan volumes on top of the Covid-19 related liquidity needs.

On the corporate digital side, we improved the offering towards a multifunctional frontend for guarantees and letter of credits and we launched the first fully digital onboarding process for corporates in Austria, which allows opening accounts remotely for new customers to the bank.

We implemented a dedicated, cross-functional ESG team within the large corporates department and, thus, included the increasingly important topics of environment, social affairs and governance in our strategic dialogue with clients. Furthermore, we introduced ESG minimum standards for the underlying selection of our entire retail structured investment product range and continuously trained and certified our sales team to increase the awareness in ESG related matters.

Financial review

in EUR million	2019	2020	Change
Net interest income	406.9	451.0	10.8%
Net fee and commission income	240.7	249.9	3.8%
Net trading result and gains/losses from financial instruments at FVPL	-13.0	-23.9	83.2%
Operating income	689.7	721.8	4.7%
Operating expenses	-378.1	-367.2	-2.9%
Operating result	311.6	354.5	13.8%
Cost/income ratio	54.8%	50.9%	
Impairment result from financial instruments	-7.3	-202.3	>100.0%
Other result	47.4	-14.4	n/a
Net result attributable to owners of the parent	278.3	103.2	-62.9%
Return on allocated capital	13.3%	5.2%	

Net interest income increased primarily due to growth of corporate lending volumes in the Holding. Net fee and commission income increased, backed by increased securities transactions, origination and sales activities in the market business of Holding as well as by increased asset under management volumes and performance of managed funds in Erste Asset Management. Net trading result and gains/losses from financial instruments at FVPL went down due to lower valuation results of interest rate derivatives as well as a decrease in market prices of fair value securities and lower valuation of FV loans portfolio. Overall, operating income improved. Operating expenses decreased, mostly due to lower IT related costs and depreciation. Thus, operating result and the cost/income ratio improved. The impairment result from financial instruments deteriorated significantly due to an increased provisioning level in corporate business, mainly related to updated risk parameters with forward-looking information and stage overlays. Other result deteriorated primarily due to the non-recurrence of last year's selling gains. Other result included also the resolution fund contribution of EUR 9.6

million (EUR 6.6 million). Overall, the net result attributable to owners of the parent deteriorated significantly.

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, was lower at EUR 36.4 billion (-3.6%) due to a decline in money and capital market business. Its share in Erste Group's total credit risk exposure fell to 12.7% (13.8%). A large proportion of risk positions in this business segment was accounted for by securities and cash balances held with other banks. Consequently, the share of loans to customers in Erste Group's total loan portfolio was significantly lower than the contribution to credit risk exposure. At year-end it stood at 9.0% (9.3%). In the Corporates business segment, slight growth was registered in the large corporates business as well as in real estate financing while lending to the public sector declined again. The rise of the NPL ratio (non-performing loans as a percentage of the total loan portfolio) to 2.8% (2.2%) was primarily attributable to the large corporates business. Part of the categorisation of loans as non-performing is in fact based on the assumption of repayment being unlikely rather than loans being actually past due or businesses insolvent. Within the category of performing loans, loans to businesses whose solvency is expected to be seriously impaired by the Covid-19 crisis have been shifted from the low-risk to the management attention category. Loan loss provisions increased substantially to 78.1% (66.8%) 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. The country ranks seventh in the Economic Complexity Index, a holistic measure of the productive capabilities of large economic systems. In 2020, the Czech Republic's economy was hit visibly by the Covid-19 induced crisis. Private consumption, which was the main driver of growth in recent years, dropped by 5.3%, reflecting continued uncertainty and ongoing restrictions. Investments also contracted significantly, by 5.4%, due to supply chain disruptions, high uncertainty and restrictions affecting workforce availability during the first lockdown period.

The majority of exports are related to the automotive and engineering industries. Trade was impacted strongly due to the structure of Czechia's exports. Although net exports did not contribute positively to economic growth, industrial production still benefitted from the relatively good performance of the automotive industry. Reflecting the economic performance, the unemployment rate increased to 2.6%, still very low compared to most of the European Union countries. Overall, real GDP fell by 5.6% and GDP per capita declined to EUR 19,400.

The general government balance ended 2020 with a deficit of 5.8%. On the revenue side, the most visible impact resulted from a decline in corporate income tax followed by a drop in indirect tax revenue due to lower domestic consumption. Government support programmes added up to over 4% of GDP. At 43.7%, public debt as a percentage of GDP increased in 2020 but still remained one of the lowest in the European Union.

Inflation in the Czech Republic was more pronounced in 2020 than in other CEE countries. Overall, average consumer price inflation amounted to 3.2%. The Czech koruna was volatile against the euro, hitting a multiple year low in the first quarter of 2020 before appreciating later in the year. In 2020, the Czech National Bank cut its key rate in three steps by 200 basis points to 0.25%.

Rating agencies did not change their ratings and outlook for the Czech Republic in 2020. Moody's left its long-term credit rating at Aa3 with a stable outlook. Standard and Poor's and Fitch kept their ratings at AA- with a stable outlook.

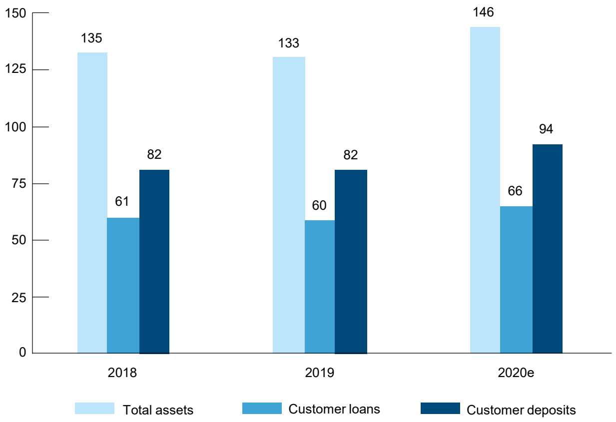
Key economic indicators – Czech Republic	2017	2018	2019	2020e
Population (ave, million)	10.6	10.6	10.7	10.7
GDP (nominal, EUR billion)	194.3	211.1	224.1	207.5
GDP/capita (in EUR thousand)	18.4	19.9	21.0	19.4
Real GDP growth	5.4	3.2	2.3	-5.6
Private consumption growth	4.0	3.3	2.9	-5.3
Exports (share of GDP)	68.6	66.8	64.2	64.2
Imports (share of GDP)	65.5	65.0	61.7	60.8
Unemployment (Eurostat definition)	2.9	2.3	2.0	2.6
Consumer price inflation (ave)	2.4	2.2	2.8	3.2
Short term interest rate (3 months average)	0.4	1.3	2.1	0.9
EUR FX rate (ave)	26.3	25.6	25.7	26.5
EUR FX rate (eop)	25.5	25.7	25.4	26.2
Current account balance (share of GDP)	1.5	0.4	-0.3	2.2
General government balance (share of GDP)	1.5	0.9	0.3	-5.8

Source: Erste Group

Market review

Based on its solid fundamentals, the Czech banking sector proved to be resilient to the Covid-19 induced crisis. Customer loans grew by 4.2%, an impressive performance considering the unfavourable circumstances. As a response to the crisis, the Czech National Bank decided to relax limits on loan-to-value, debt-to-income and debt-service-to-income ratios. In addition, the central bank reduced the counter-cyclical capital buffer from 1.75% to 0.50%. Retail loans outgrew corporate loans mainly driven by mortgage lending. Customer deposits increased by 8.9%, mostly on the back of 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 69.7%. The solid fundamentals were confirmed by the banking sector's total capital ratio of above 20%.

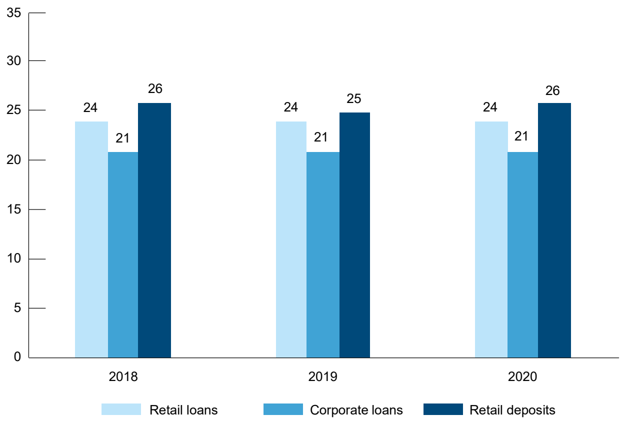
Financial intermediation – Czech Republic (in % of GDP)



Source: Czech National Bank, Erste Group

Despite the very low interest rate environment, the Czech banking market continued to perform well in terms of profitability. Revenues, especially net interest income, were significantly impacted by the 200 basis points interest rate cut in 2020. The lower rate environment was partially compensated by better than expected loan growth. Cost management remained strict. The restrictions imposed to address the pandemic intensified the acceptance of online services and contributed to a further reduction of branches. Risk provisions increased significantly and had a substantial impact on profits. As the share of non-performing loans remained close to historically low levels, the coverage ratio increased significantly. Loan repayment moratoria, one of the shortest in CEE, were in place between April and October with a lower than expected participation rate. Overall, the banking system ended the year with a return on equity of 8%. Consolidation of the banking sector continued, with some smaller acquisitions during 2020.

Market shares – Czech Republic (in %)



Source: Czech National Bank, Erste Group

Česká spořitelna maintained its very strong market positions across all product categories. Its retail lending market shares ranged from 23% to 28%, while its market shares in the corporate lending business remained above 20%. With a market share of 28% 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 28%. Overall, its market share in terms of total assets stood at 19.2%. The three largest banks have a combined market share of approximately 60% in customer loans and deposits.

Business review 2020 – three questions to Tomáš Salomon, CEO of Česká spořitelna

How did your bank cope with the COVID-19 induced crisis, and how did you support customers and employees?

Česká spořitelna was the first Czech bank to offer its clients a postponement on their loan instalments by three to six months after the Covid-19 pandemic started in spring 2020. Our employees cared for our clients over the telephone and online, thereby limiting the adverse impact of restricted opening hours or in some cases, the closure of branches. We capitalised on our market leadership in many areas, for example, in that we are the only bank on the market to use voice biometrics, thanks to which people can be identified and submit payment orders by telephone.

Throughout the year, our bank supported retail clients, entrepreneurs and corporate clients. For example, we started to offer micro and small entrepreneurs payment terminals for fast and contactless acceptance of payments free of charge for eight months. In addition, we participated in Covid programmes aiming at supporting small and medium-sized companies by operating loans on concessional terms. To large corporations, Česká spořitelna offers operating loans with a guarantee by EGAP, the Export Guarantee and Insurance Corporation.

To alleviate the challenging situations of vulnerable clients we did not hesitate to temporarily cancel some fees.

Our bank also offered its facilities to the government. In co-operation with the Ministry of Health and public health stations, Česká spořitelna has formed a specialised tracking team at its client centre, comprised of experienced operators. The team has joined the efforts against the spreading of the Coronavirus, helping public health authorities to track infected persons. Most recently, Česká spořitelna launched a special phone line for seniors over 80, to help them to register for the Covid-19 vaccination.

It goes without saying that Česká spořitelna also paid special attention to its employees. The bank enabled its employees to work from home to the greatest possible extent.

How did you manage to successfully differentiate your business activities from those of your competition?
Česká spořitelna further boosted its market leadership in many fields. After 12 years, Česká spořitelna ranked top in the mortgage market in terms of new sales (plus CZK 66 billion, approximately EUR 2.6 billion, in 2020). Our mortgage portfolio reached CZK 300 billion (approximately EUR 11.4 billion).

We strengthened our leading position in asset and wealth management. In autumn 2020, the volume of assets under management of retail investors reached CZK 200 billion (ca. EUR 7.6 billion). Our share on the mutual funds market grew to 27.6%.

The efforts targeted at further improving our digital solutions were equally successful. The number of mobile George users grew to almost 1 million. Thanks to our initiatives, our overall net promoter score increased by 7 points to 28.

Looking back at the year, what major achievements are especially noteworthy, and which ESG related topics or developments were most relevant for you?
Our bank once again confirmed its position as responsible corporate citizen of the Czech Republic that significantly contributes to the country's growth and prosperity. Apart from the above mentioned efforts targeted to help the government to deal with the Covid-19 induced crisis, we kept on striving to enhance E-government, a modern and efficient administration. Together with ČSOB and Komerční banka, we made it possible for our clients to start using their bank ID for registering to e-government services as of 1 January 2021. Later on, the use of the bank ID as a universal identification tool will be further extended to commercial services providers.

We also initiated the launch of the National Development Fund that is intended to help to finance significant infrastructural projects in the Czech Republic.

We were among the initiators of the ESG platform of the Czech Banking Association. The ambition is to formulate ESG standards for banks and financial institutions operating on the Czech market.

Thanks to our innovation efforts, we won the Bank of the Year trophy awarded by the British magazine The Banker in the Czech Republic.

Financial review

in EUR million	2019	2020	Change
Net interest income	1,141.1	1,049.0	-8.1%
Net fee and commission income	334.7	311.6	-6.9%
Net trading result and gains/losses from financial instruments at FVPL	109.7	94.7	-13.7%
Operating income	1,600.5	1,466.6	-8.4%
Operating expenses	-753.9	-722.4	-4.2%
Operating result	846.6	744.2	-12.1%
Cost/income ratio	47.1%	49.3%	
Impairment result from financial instruments	6.2	-299.8	n/a
Other result	-27.6	-25.6	-7.1%
Net result attributable to owners of the parent	666.5	334.7	-49.8%
Return on allocated capital	26.6%	12.9%	

The segment analysis is done on a constant currency basis. The CZK depreciated by 3.1% against the EUR in the reporting period. Net interest income in the Czech Republic segment (comprising Česká spořitelna Group) de-creased primarily due to significantly lower interest rates as well as a loan repayment moratorium leading to modification losses. Net fee and commission income decreased due to lower maintenance fees for current accounts in the retail segment as well as lower payment fees on the back of the euro cross border payments regulation SEPA and the Covid-19 impact. These developments were partially offset by an increase in securities fees. The lower result from net trading and from gains/losses from financial instruments at FVPL was attributable to negative valuation effects. Personnel costs decreased, and together with lower travel, training and marketing costs, led to a decline in operating expenses, while IT costs and depreciation increased. The deposit insurance contribution amounted to EUR 10.1 million (EUR 10.4 million). Overall, operating result declined, the cost/income ratio worsened. Impairment result from financial instruments deteriorated as a consequence of updates of risk parameters with forward looking information and stage overlays. The other result improved slightly. Contributions to the resolution fund amounted to EUR 29.1 million (EUR 26.6 million).

Altogether, these developments led to a decrease in the net result attributable to the owners of the parent.

Credit risk

Credit risk exposure in the Czech Republic segment rose to EUR 62.0 billion (+3.5%). Compared with previous years, loans to customers grew more slowly and amounted to EUR 29.6 billion (+1.4%), which was largely due to the depreciation of the Czech koruna against the euro. While the retail business posted marginal growth, loans to corporate customers were slightly down. Customer loan volume as a percentage of Erste Group's total loans to customers fell to 17.4% (17.9%). In terms of business volume, the Czech Republic is still by far the second most important market for Erste Group after Austria. Despite a slight downward trend, the quality of customer loans was again better than in Erste Group's other core markets in Central and Eastern Europe. Non-performing loans as a percentage of total loans to customers rose to 2.2% (1.8%). In addition to overdue payments and insolvencies, a major part of defaults in both the Retail and the Corporates business segments was attributable to a critical review of future debt servicing ability against the backdrop of the Covid-19 induced crisis. Loan loss provisions increased significantly to 115.1% (96.3%) of non-performing loans.

SLOVAKIA

Economic review

Slovakia is an open economy characterised by strong automotive, electronics and services sectors. The Covid-19 induced crisis pushed the country's economy into a broad-based recession in 2020. Investment, private consumption and net exports contracted significantly. In the second quarter of 2020, Slovakia saw a historic decline in GDP, followed by a very strong recovery in the third quarter predominantly on the back of a strong export performance. The latter benefited from the traditionally strong car industry. Services related to tourism, accommodation, restaurants and culture were severely hit, while the industry sector performed relatively well. The country's labour market, despite being negatively affected, showed signs of resilience. The unemployment rate rose moderately to 6.8% as government measures protected jobs and mitigated negative impacts. Overall, real GDP fell by 5.2%, and GDP per capita declined to EUR 16,600.

Public finances deteriorated significantly against the backdrop of declining revenues and sizeable fiscal support measures cushioning the economic impact of the pandemic. Revenues were negatively impacted by weak tax revenues and social contributions. The main measures encompassed employment support, sickness and nursing benefits as well as rent subsidies. Consequently, the fiscal deficit deteriorated to 8.0%. The country's public debt as a percentage of GDP increased to 60%.

Inflation slowed down in 2020. Average consumer price inflation eased to 1.9%, mainly driven by lower energy prices. Wage growth was less pronounced than previously expected. As Slovakia is part of the euro zone, its monetary policy is set by the European Central Bank which kept its discount rate at zero in 2020. In the context of the pandemic, the European Central Bank introduced the Pandemic Emergency Purchase Programme and long-term refinancing operations (TLTRO) as important components of its monetary policy.

Moody's kept its long-term credit rating of A2 with a stable outlook for Slovakia. Standard & Poor's also left its rating unchanged at A+ but changed its outlook from stable to negative in July 2020. Fitch downgraded Slovakia's long-term credit rating from A+ to A in May and changed its outlook in another step from stable to negative in November.

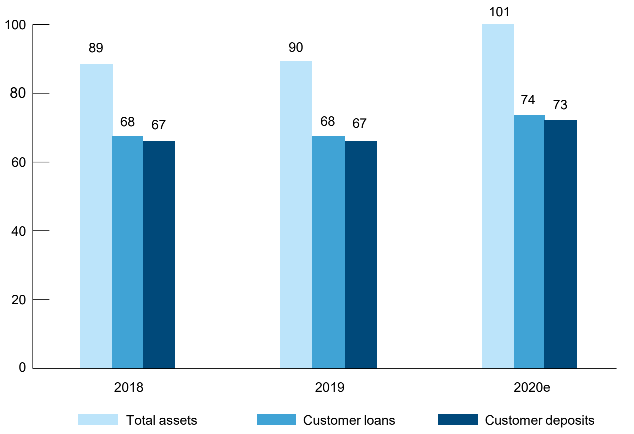
Key economic indicators – Slovakia	2017	2018	2019	2020e
Population (ave, million)	5.4	5.5	5.5	5.5
GDP (nominal, EUR billion)	84.5	89.5	93.9	90.8
GDP/capita (in EUR thousand)	15.5	16.4	17.2	16.6
Real GDP growth	3.0	3.8	2.3	-5.2
Private consumption growth	4.5	4.2	2.2	-0.7
Exports (share of GDP)	83.4	84.0	80.6	72.5
Imports (share of GDP)	82.7	84.2	81.6	73.0
Unemployment (Eurostat definition)	8.1	6.5	5.8	6.8
Consumer price inflation (ave)	1.3	2.5	2.7	1.9
Short term interest rate (3 months average)	-0.3	-0.3	-0.4	0.0
Current account balance (share of GDP)	-1.9	-2.2	-2.7	-2.7
General government balance (share of GDP)	-0.9	-1.0	-1.4	-8.0

Source: Erste Group

Market review

Market loan and deposit growth continued at a solid pace in 2020. Customer loans increased by 5.1%, driven by housing loans, which grew by 9.2%. Consumer loans, on the other hand, declined by 8.2% mainly due to the impact from the Covid-19 induced measures and stricter debt-service-to-income (DSTI) limits from the beginning of 2020. Corporate loans grew by 1.7%, with state guarantees and payment deferrals providing liquidity. At 6.3%, customer deposits rose faster than customer loans, resulting in a system loan-to-deposit ratio of 101.4%. Asset management continued its positive development, with an annual growth rate of 6.0%. Consolidation in the Slovak banking market continued, with KBC acquiring OTP's Slovak subsidiary in February 2020.

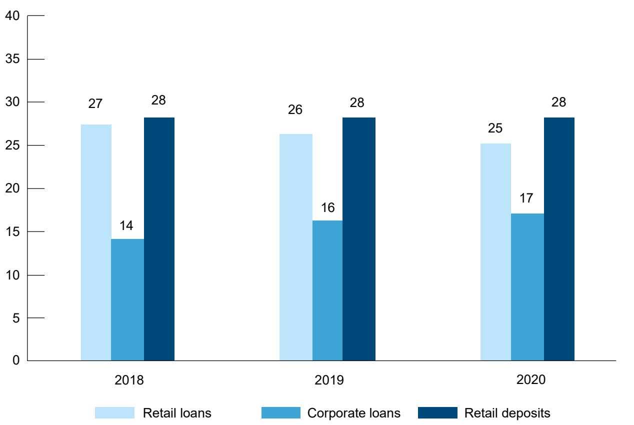
Financial intermediation – Slovakia (in % of GDP)



Source: National Bank of Slovakia, Erste Group

The Slovak banking sector remained profitable in 2020. The very low interest rate environment continued to weigh on net interest income. Fee and commission income benefitted from asset management and insurance brokerage business. Banks started to increase fees for cash transactions. Expenses remained under control, financial institutions reduced their number of branches and employees. Risk provisions increased significantly and became a main factor in reducing the banking sector's profitability. The NPL ratio decreased further to 2.5%, with the rate of defaulted clients in moratoria staying at lower than expected levels. Banking tax, based on total liabilities, excluding equity and subordinated debt, was discontinued after the second quarter of 2020. The banking sector remained well capitalised. Overall, the sector's return on equity stood at 5.4%.

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. In 2020, the bank continued to benefit from its very strong asset management business, holding a 26.4% market share. 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 25.4%, while for corporate lending it stood at 17.3%. At 11.9%, its market share in corporate deposits was also significantly lower than in retail deposits at 28.4%.

Business review 2020 – three questions to Peter Krutil, CEO of Slovenská sporiteľňa

How did your bank cope with the Covid-19 induced crisis, and how did you support customers and employees?

We responded swiftly, and extraordinary measures were taken to save the most precious thing there is – human life. We provided protection equipment in the branch network and the headquarters. Most of the employees worked from home. Together with Slovenská sporiteľňa Foundation, we set up a fund of over EUR 1 million to help fight the pandemic. Half of this amount was earmarked for a specialised testing device that increased the national testing capacity significantly. Starting in the last quarter of 2020, colleagues from the client centre have been helping as operators for state-organised Covid-19 help lines.

To preserve financial health we granted free accounts and fee discounts for six months to vulnerable clients. We participated actively in the state loan moratoria, providing clients with the option to apply for the deferral digitally through George from the first day the moratoria were allowed. The automated process shortened the waiting period significantly. Our help for corporate clients included, among others, an individual approach in case of any difficulties on top of the state moratoria and the First Aid Package with a free-of-charge current account and point of sale terminal for one year. We implemented a variety of useful digital solutions to minimise the need for a visit to a branch or a corporate centre.

How did you manage to successfully differentiate your business activities from those of your competition?

In addition to our exceptional response to the pandemic, confirming our role as a responsible and innovative leader, we focused on business. We rolled out the new Financial Plan enabling clients to see all their assets on a tablet screen, while the branch advisor can easily model optimal allocations to many possible products, e.g. savings account, investments in mutual funds, life and pension insurance. These can be easily set up during the client's visit. Thanks to the Financial Plan the demand for mutual fund investments increased, our market share in this area rose by almost 2 percentage points. Clients also appreciated the various types of insurance products offered.

Over the last years, with more than 650,000 active George users and with the successful corporate banking application Business24, Slovenská sporiteľňa became the digital leader in Slovakia. We introduced new features to support our omnichannel approach, enabling clients to interact with us in any way they feel comfortable with, seamlessly switching between the preferred channels. Yet, we remain the bank with the broadest physical distribution network in Slovakia, while we continuously improve our digital solutions.

Looking back at the year, what major achievements are especially noteworthy, and which ESG related topics or developments were most relevant for you?
The new situation made a new way of working necessary. However, we were on the right path already, with activities focused on an agile approach and on digitalisation. Since April 2020, labs and self-steering teams have been a fully integrated part of the organisational structure. The crisis did not force us to change the path, it just pushed us to follow it faster. We managed to deliver new digital solutions quickly, and the whole bank was able to switch to online working without any significant difficulties.

Although the financial results of 2020 were affected by the Covid-19 induced recession, they were significantly better compared to the initial forecasts made in the first weeks of the pandemic. Operating profit was only slightly lower than a year ago and the net profit was dragged down solely due to prudent provisioning. The continued growth in the corporate segment was a real success as we proved that Slovenská sporiteľňa has become the bank of choice not only for retail, but also for corporate customers. Our balance sheet management contributed to the positive results. We made right investment decisions amid tumbling financial markets and utilised the advantageous TLTRO III funding. In retail banking, the most successful areas were asset management and bancassurance.

We have devoted significant attention to optimising the bank's processes for reducing consumption of energy and paper. We strive for the possibility to issue green bonds already in 2021. Our bank, together with Slovenská sporiteľňa Foundation, supports many initiatives helping Slovakia to become a modern and responsible country. Art and culture, financial education, environmental and social responsibility are the main areas of our sponsoring activities.

Financial review

in EUR million	2019	2020	Change
Net interest income	433.6	438.4	1.1%
Net fee and commission income	145.2	147.1	1.4%
Net trading result and gains/losses from financial instruments at FVPL	18.8	11.8	-37.3%
Operating income	605.7	601.2	-0.7%
Operating expenses	-288.7	-287.1	-0.6%
Operating result	317.0	314.1	-0.9%
Cost/income ratio	47.7%	47.8%	
Impairment result from financial instruments	-42.7	-107.9	>100.0%
Other result	-39.1	-49.3	26.1%
Net result attributable to owners of the parent	187.7	115.8	-38.3%
Return on allocated capital	17.6%	10.5%	

Net interest income in the Slovakia segment (comprising Slovenská sporitel'ňa Group) increased mainly due to the changed disclosure of prepayment fees resulting in a shift from the line item net fee and commission income. As a consequence, net fee and commission income increased only slightly despite higher fees for securities and insurance brokerage. Net trading result and gains/losses from financial instruments at FVPL declined due to valuation effects. Operating expenses decreased on the back of lower depreciation, which offset higher personnel and IT expenses. Deposit insurance contribution amounted to EUR 1.1 million (EUR 1.0 million). Overall, operating result decreased moderately, and the cost/income ratio remained largely stable. Impairment result from financial instruments deteriorated primarily due to higher provisions in retail and corporate business, mainly caused by updated risk parameters and stage overlays as well as new defaults in corporate business. Other result deteriorated mainly due to the impairment of a participation. Banking tax was charged for the last time in the first half of the year and increased slightly to EUR 33.8 million (EUR 32.5 million). Payment into the resolution fund rose to EUR 4.0 million (EUR 3.1 million). Overall, the net result attributable to the owners of the parent decreased.

Credit risk

Credit risk exposure in the Slovakia segment amounted to EUR 21.0 billion (+5.8%), while loans to customers rose to EUR 15.3 billion (+5.9%). On the back of slightly above-average growth rates, their share in Erste Group's total loan portfolio rose to 9.0% (8.8%). As in the previous year, growth was mainly driven by strong demand for loans in the Corporates business segment, especially by large corporates. Despite the increasing proportion of loans to corporate customers, the share of loans to private households was again significantly larger in the Slovakia segment than in other core markets and accounted for 67.2% (68.8%) of total loans to customers. This customer mix with a substantial proportion of retail mortgage loans also explains the large share of secured business of 58.7% (60.0%) in the entire loan portfolio, which exceeds that of other Central and Eastern European core markets. In contrast to the general trend in Erste Group, the quality of the loan portfolio improved significantly. The NPL ratio declined to 2.4% (3.0%). The positive trend was particularly notable in the Retail business segment. Loan loss provisions exceeded non-performing loans. The NPL coverage ratio rose to 107.4% (80.8%).

ROMANIA

Economic review

Romania's economy is characterised by manufacturing, services and agriculture sectors. In 2020, the country's economy contracted by 3.9% as Covid-19 related lockdowns affected both domestic and external demand. The relative outperformance compared to many other CEE countries was mainly due to less severe mobility restrictions. On the supply side, construction, supported by government investments, and the information technology as well as communication sectors made positive contributions. Industry, trade, and agriculture, on the other hand, weighed on economic performance. 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%. On the demand side, gross fixed capital formation had a positive contribution to GDP, while household consumption and net exports had negative contributions to growth. The labour market proved to be resilient. Due to state job-support programmes, the unemployment rate increased only to 4.9%. Overall, the country's real GDP fell by 3.9%, and GDP per capita declined to EUR 11,300.

The political environment remained volatile in 2020. Ahead of the scheduled general elections in December 2020, the government was reluctant to implement fiscal consolidation measures during the year. After years of pro-cyclical fiscal policies with generous government handouts, Romanian public finances entered the current crisis in a weak budget position. Partially due to Covid-19 related measures, the budget deficit widened to 9.8% of GDP. Expenditure on public pensions rose considerably, driven by the full-year effect of a 15% pension increase from September 2019 and a further increase of 14% from September 2020. Moreover, the child allowance increased by 20% in September. Additional spending due to Covid-19 related measures, including employment support schemes and health-related spending, also increased expenses while tax revenues were negatively affected by the economic contraction. At 5.0%, 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 further to 47%.

Consumer price inflation dropped to an average of 2.7% in 2020 from 3.8% in the previous year. Core inflation, remained relatively high at 3.3%, still inside the central bank target range of between 1.5% and 3.5%. The Romanian leu depreciated less than 2% against the euro in 2020, outperforming most of the other CEE currencies. In response to the Covid-19 crisis, the National Bank of Romania cut its policy rate by 100 basis points to 1.50% in several steps. The National Bank also provided liquidity to the banking system mostly via bilateral repo operations as the bond-buying programme was discontinued as of August 2020.

Romania's long-term credit ratings were reaffirmed at BBB- by Standard & Poor's and Fitch, Moody's also kept its Baa3 rating during 2020. As of April 2020, all three major rating agencies had a negative outlook for Romania.

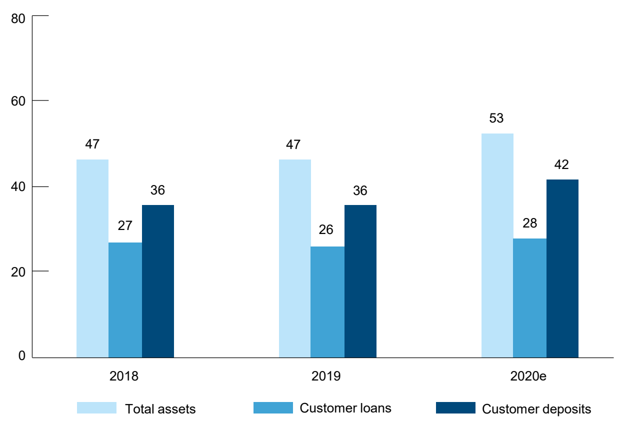
Key economic indicators – Romania	2017	2018	2019	2020e
Population (ave, million)	19.6	19.5	19.4	19.3
GDP (nominal, EUR billion)	187.8	204.5	223.3	217.9
GDP/capita (in EUR thousand)	9.6	10.5	11.5	11.3
Real GDP growth	7.1	4.5	4.1	-3.9
Private consumption growth	10.1	7.2	6.0	-4.7
Exports (share of GDP)	33.4	33.1	30.9	28.5
Imports (share of GDP)	40.3	40.5	38.6	37.0
Unemployment (Eurostat definition)	4.9	4.2	3.9	4.9
Consumer price inflation (ave)	1.3	4.6	3.8	2.7
Short term interest rate (3 months average)	1.2	2.8	3.1	2.4
EUR FX rate (ave)	4.6	4.7	4.7	4.8
EUR FX rate (eop)	4.4	4.4	4.4	4.4
Current account balance (share of GDP)	-2.8	-4.4	-4.7	-5
General government balance (share of GDP)	-2.6	-2.9	-4.3	-9.8

Source: Erste Group

Market review

The Romanian banking market continued to grow in 2020. Customer loans increased by 5.9%, while customer deposits were up by 15.2%. On the lending side, growth was mainly driven by housing loans (+ 9.9%). The Central Bank eased limits on debt-to-income and loan-to-value ratios as a response to the Covid-19 crisis. Corporate loans grew by 7.0% supported by government guarantees. The 15.2% increase in customer deposits reflected the customer behaviour in times of uncertainty. Overall, the banking system's loan-to-deposit ratio declined further to 66.9%. The Romanian banking sector remained strongly capitalised with an aggregated capital adequacy ratio of 23.2%.

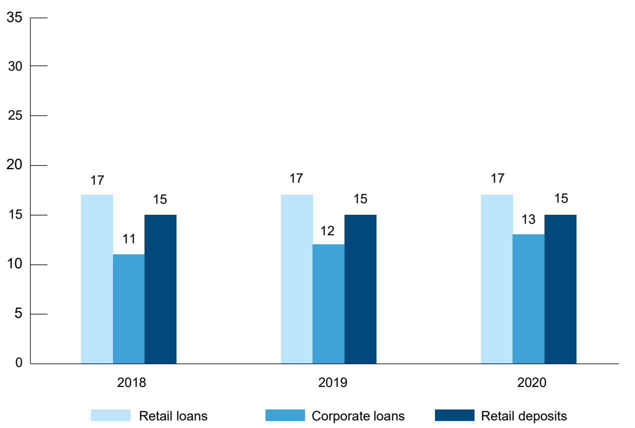
Financial intermediation – Romania (in % of GDP)



Source: National Bank of Romania, Erste Group

Consolidation of the Romanian banking sector was halted due to the uncertainties related to the pandemic. The banking sector remained profitable despite the low interest rate environment and the significant amount of forward-looking risk provisions. Asset quality did not deteriorate. Moratoria for retail and corporate clients were in place between April and December. Cost control remained strict. The banking levy was cancelled. Overall, the Romanian banking sector achieved a return on equity of 8.9% in 2020.

Market shares – Romania (in %)



Source: National Bank of Romania, Erste Group

Banca Comercială Română regained its leading market position in terms of customer loans in 2020, and it remained the second largest bank of the country based on its total asset market share and customer deposits The bank kept its market leader position in asset management and in mortgage lending. The bank's customer loan market share increased to 15.1%. Its retail loan market share amounted to 17.1%, while in the corporate sector it increased to 12.9%. Banca Comercială Română's customer deposit market share remained broadly stable at 14.3%. In terms of total assets, Banca Comercială Română had a market share of 14.2% in 2020.

Business review 2020 – three questions to Sergiu Manea, CEO of Banca Comercială Română

How did your bank cope with the Covid-19 induced crisis, and how did you support customers and employees?

We managed to adapt rapidly to the new reality. Being well aware of our customers' concerns – uncertainty, health, business and job losses – we primarily aimed to remain accessible for our customers and help save as many jobs as possible. The strategy implemented in the past years, which included fast digitalisation and caution in risk assessment, fully proved its validity.

Most of the banking operations can now be done 100% online. Thanks to the fast digitalisation process, our colleagues focused more on one-on-one consulting, accelerating our financial and entrepreneurial education initiatives.

We introduced simplified flows to swiftly and remotely address both retail and corporate clients' needs for payment deferrals, also offering short-term prolongations of revolving facilities and emergency working capital financing to support businesses. Through such measures, we supported and assisted companies that employ more than 300,000 people. Over 4,800 companies were supported through new loans, including the SME Invest programme. We deferred instalments for about 41,000 loans for individuals and 500 loans for companies.

We also took measures to protect our employees and ensure a safe working environment in both headquarters and the branch network. While our colleagues in headquarters have been working mainly from home, branch network staff has worked in shifts to stay close to our customers. We implemented strict rules regarding for working in the office. To ensure further protection and proper traceability branch visits have only been allowed on prior appointment since October.

We also had an active role in supporting the impacted communities. EUR 1.7 million were donated for the national health care system, education and NGOs by our bank.

How did you manage to successfully differentiate your business activities from those of your competition?

We adopted a new way of working based on agile principles. We embraced new technologies and developed new skills and capabilities. George, our banking platform, is one of the most evolved digital banking ecosystems in the market.

We reached 1.8 million users for internet and mobile banking, over 1 million are active George users. As a result, the number of digital transactions more than doubled. In addition, all new savings accounts were opened via George, and 1/3 of the new cash loans were granted end-to-end digitally.

We initiated seven digital labs with dedicated internal teams to develop new digital solutions, an agile working mindset and to better understand customers' needs by analysing their data. Products and services that were usually launched in months or years, have been implemented in a few weeks. As a result, customers' perception towards Banca Comercială Română has significantly improved. On the corporate side, we launched dedicated manuals for entrepreneurs to access state grants (SME Invest, non-reimbursable grants).

Looking back at the year, what major achievements are especially noteworthy, and which ESG related topics or developments were most relevant for you?
We achieved a mid-single digit increase in operating performance and a good bottom line result despite significant forward-looking risk provisioning. As we managed to keep costs stable, our bank was one of the most efficient ones in the country.

We continued to be a leader in local currency lending to private individuals. Banca Comercială Română accounts for about 20% of the mortgage lending in Romania. We also gained market share in consumer and corporate lending. We transformed George by adding new local features, thus achieving substantial customer experience improvements. Nine out of ten users prefer the mobile version, and George received the best app score among all local banks. About 50,000 people were reached last year through mobile offices and online workshops in the context of our newly launched financial advisory programme. Our bank is now recognised as a leader in financial education in Romania. Our Money School programme has been running for four years. More than 430,000 people were trained in offline and online workshops.

In addition, we launched Business School, a financial education online platform for entrepreneurs offering free access to online courses in February 2020. So far, about 10,000 people have enrolled and attended dedicated online sessions.

Last but not least, our bank's InnovX business accelerator programme successfully supported tech start-ups and entrepreneurs.

Financial review

in EUR million	2019	2020	Change
Net interest income	428.0	435.7	1.8%
Net fee and commission income	164.5	146.8	-10.8%
Net trading result and gains/losses from financial instruments at FVPL	74.2	73.7	-0.6%
Operating income	688.0	678.6	-1.4%
Operating expenses	-359.0	-344.9	-3.9%
Operating result	329.0	333.7	1.4%
Cost/income ratio	52.2%	50.8%	
Impairment result from financial instruments	13.0	-107.7	n/a
Other result	-200.8	-60.2	-70.0%
Net result attributable to owners of the parent	85.0	122.4	44.1%
Return on allocated capital	5.9%	8.7%	

The segment analysis is done on a constant currency basis. The RON depreciated by 1.9% against the EUR in the reporting period. Net interest income in the Romania segment (comprising Banca Comercială Română Group) improved on the back of increasing customer loan volumes in retail and corporate business. Net fee and commission income declined due to lower payment fees – affected among others by euro cross border payments regulation SEPA – and lending fees partially mitigated by higher documentary and securities fees. Net trading result and gains/losses from financial instruments at FVPL decreased marginally. Operating expenses decreased mainly due to a lower deposit insurance contribution of EUR 4.4 million (EUR 12.7 million) as well as lower depreciation, legal and consultancy expenses. Overall, operating result increased, and the cost/income ratio improved. Impairment result from financial instruments deteriorated, driven by updated risk parameters and stage overlays. The non-recurrence of a provision in the amount of EUR 153.3 million as a result of a Romanian High Court decision in relation to business activities of the local building society subsidiary led to an improvement of the other result. The resolution fund contribution amounted to EUR 7.7 million (EUR 6.6 million). The net result attributable to the owners of the parent increased considerably.

Credit risk

Credit risk exposure in the Romania segment increased to EUR 18.0 billion (+9.9%). A key contribution to growth came from loans to customers, which rose by EUR 544 million to EUR 9.3 billion. On the back of slightly above-average growth, their share in Erste Group's total loan portfolio rose to 5.5% (5.4%). An expansion of lending volume was seen mostly in the Retail business segment. In the Corporate business segment, growth was registered mostly in loans to small and medium-sized businesses. The share of foreign currency loans decreased further to 34.2% (37.6%) and was almost completely denominated in euro. Non-performing loans rose to 419 million (+16.5%), driven largely by defaults expected to occur amid the Covid-19 crisis rather than actually overdue payments and insolvencies. A breakdown by customer segment shows that asset quality deteriorated primarily in the Corporates segment. As a result of this development, non-performing loans as a percentage of total loans to customers rose to 4.5% (4.1%). Loan loss provisions increased to 122.5% (116.3%) of non-performing loans.

HUNGARY

Economic review

Hungary is an open economy, ranking ninth in the Economic Complexity Index, a holistic measure of the productive capabilities of large economic systems. The Covid-19 crisis interrupted a period of strong economic growth. Although the policy measures to mitigate the first wave of infections were less stringent than the EU average, the country's economy was significantly impacted due to its large exposure to highly cyclical industries, such as the automotive industry and tourism. The recession in the second quarter proved deeper than expected with services, industry, and construction declining by double digit figures. In the second half of the year, economic activity rebounded as the lockdown measures were eased and international supply chains were restored. Economic activity also benefitted from the government's support measures such as the short-time work programme, the extended SME funding scheme, tax incentives, administrative simplifications, and favourable lending conditions for consumer loans. The unemployment rate increased from the third lowest level in the EU to 4.2% in 2020, still low compared to many other European countries. Overall, real GDP fell by 5.1%, GDP per capita decreased to EUR 13,700.

In line with the EU-trend general government deficit rose to 8.7% of GDP in 2020. Revenues, in particular indirect tax receipts and social security contributions, were severely impacted both by the contraction of the tax base and some tax cuts, notably temporary reductions granted to the most affected sectors and a general 2%-point cut of employers' social contributions as of July 2020. On the expenditure side, measures to contain the economic impact of the pandemic, such as a short-time work scheme and other measures aimed at protecting employment, temporary support to specific sectors and a one-off bonus for health workers, resulted in massive spending. The public debt to GDP deteriorated to 79.3% in 2020.

Inflation reached the upper level of the National Bank's target range of 2% and 4% during the summer. It slowed significantly in the second half of the year. Overall, average consumer prices rose by 3.3% in 2020. The Hungarian central bank reduced its policy rate to 0.6% to support economic activity. The forint exchange rate remained volatile, the Hungarian forint reached an all-time low against the euro in the second half of the year.

Rating agencies reacted to the economic developments. Standard & Poor's left the country's long-term credit rating at BBB but revised the outlook from positive to stable in April 2020. Fitch affirmed its long-term credit ratings of BBB with a stable outlook. Moody's kept its long-term credit ratings of Baa3 unchanged but improved the country's outlook from stable to positive in September 2020.

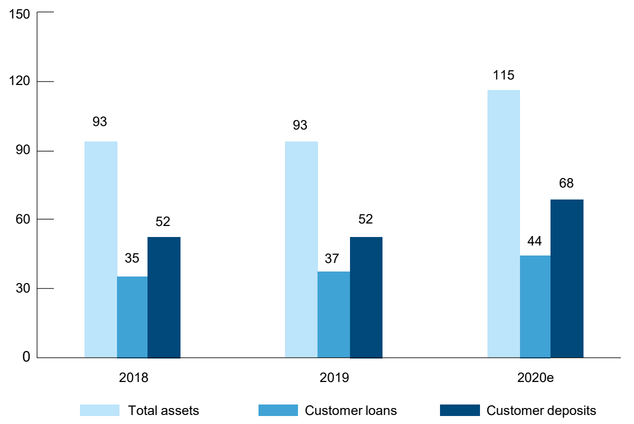
Key economic indicators – Hungary	2017	2018	2019	2020e
Population (ave, million)	9.8	9.8	9.8	9.7
GDP (nominal, EUR billion)	126.9	135.9	146.0	133.5
GDP/capita (in EUR thousand)	13.0	13.9	15.0	13.7
Real GDP growth	4.3	5.4	4.6	-5.1
Private consumption growth	4.4	4.5	4.2	-2.2
Exports (share of GDP)	67.2	65.2	63.7	65.9
Imports (share of GDP)	65.9	66.5	65.8	66.1
Unemployment (Eurostat definition)	4.2	3.7	3.4	4.2
Consumer price inflation (ave)	2.4	2.8	3.4	3.3
Short term interest rate (3 months average)	0.1	0.1	0.2	0.7
EUR FX rate (ave)	309.2	318.9	325.4	351.2
EUR FX rate (eop)	310.1	321.5	330.5	365.1
Current account balance (share of GDP)	2.0	0.3	-0.2	0.4
General government balance (share of GDP)	-2.5	-2.1	-2.0	-8.7

Source: Erste Group

Market review

Despite the deteriorated macroeconomic environment, Hungary's banking market performed relatively well in 2020. At 13.4%, loan growth was among the strongest in CEE. Retail loans rose by 14.0%, mainly driven by the increase of consumer lending, largely attributable to the very popular baby-loan programme and to the interest rate cap of the central bank of the key rate plus 5%-points for any unsecured loans. Mortgage lending growth stood at 10.0% The National Bank extended its Funding for Growth scheme for small and medium-sized enterprises in April 2020. To mitigate the impact of the coronavirus pandemic on the national economy, the Hungarian government introduced an opt-out loan moratorium as of March 2020. The initial expiration date of the moratorium was extended from December 2020 to June 2021. In addition, the Hungarian Development Bank introduced guarantee, loan and capital programmes as a response to the pandemic. Corporate loan growth amounted to 12.8%. Overall, the banking system's loan-to-deposit ratio stood at 64% at year-end.

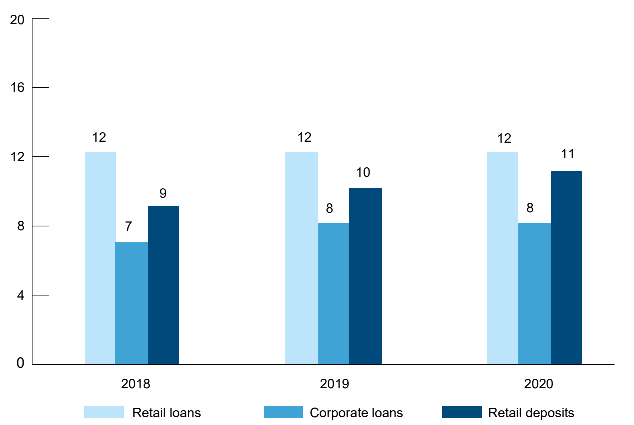
Financial intermediation – Hungary (in % of GDP)



Source: National Bank of Hungary, Erste Group

Hungary's banking market remained profitable in 2020. Although the very low interest rate environment weighed further on revenues, this was partially compensated by the relatively strong loan growth. Administrative expenses remained under control, the increase of personnel expenses was limited. Risk costs increased significantly with forward looking provisioning on expected credit losses. In addition, banks booked front-loaded modification losses in relation to the moratorium. In addition to the annual banking levy, an extra banking tax contribution to the Pandemic Defence Fund was introduced and paid in three instalments in 2020. This extra tax will be deductible from the regular banking tax in equal instalments over the next five years. Overall, the banking sector's return on equity was 6.5%. The Hungarian banking sector continued to be well capitalised, with a capital adequacy ratio of around 18.7%.

Market shares – Hungary (in %)



Source: National Bank of Hungary, Erste Group

Consolidation of the Hungarian banking market continued with the merger of MKB Bank, Takarék Bank and Budapest Bank. Based on its asset size, the new entity, called the Magyar Bankholding Zrt., has become the second largest bank after OTP.

Erste Bank Hungary remained one of the major market players in the country and increased its market shares in most product categories. Erste Bank Hungary's market share in customer loans increased slightly to 9.8%, with the retail business remaining more important than the corporate business. The customer deposit market share remained unchanged at 8.3%. In terms of total assets, Erste Bank Hungary's market share went up to 6.7%.

Business review 2020 – three questions to Radován Jelasity, CEO of Erste Bank Hungary,

How did your bank cope with the Covid-19 induced crisis, and how did you support customers and employees?

We have undertaken substantial efforts to ensure accessibility and to improve customer satisfaction. All our branches remained open during the pandemic, and we reshuffled our resources to cover the increased incoming calls in the call center. As a result of our proactive customer approach the opt-out ratio of the retail moratorium amounted to 60%, well above the market average of 35%.

In corporate business we focused on offering all new products introduced by the National Bank, the Hungarian Development Bank and the Hungarian Export-Import Bank to mitigate the negative effects of the coronavirus-induced crisis and to help our customers to improve their financial situation. When the moratorium was announced we individually provided our corporate customers with all the necessary information which resulted in a 72% opt-out ratio. The market average stood at 30%.

We successfully switched to remote working quickly: 90% of our headquarters staff have been working from home since the beginning of the pandemic. We encouraged colleagues to take some of the necessary infrastructure home from the bank. To avoid the use of public transportation, we offered a shuttle bus service for employees who had to maintain the key infrastructure of the bank at branches or the headquarters.

In addition, Erste Bank Hungary donated more than 30,000 pulse oximeters, thermometers and the like in the amount of HUF 50 million (ca. EUR 140,000) to 39 healthcare centers.

How did you manage to successfully differentiate your business activities from those of your competition?

We speeded up our digitalisation efforts, reaching an impressive share of 54% digitally active clients. We doubled the number of active mobile customers, and 20% of new personal loans were already end-to-end digital. Our tablet based advisory tool was installed in the branches, and we completed the development of George. It was launched in the beginning of 2021 and provides us a competitive advantage in the Hungarian banking market.

Managing the payment moratorium was our largest Prosperity Advisor action so far. We reached 220,000 customers proactively with data-driven personalised advice, and we will continue to work on new solutions for our clients.

Looking back at the year, what major achievements are especially noteworthy, and which ESG related topics or developments were most relevant for you?
New retail lending improved on the back of new housing loans and the excellent performance in the baby-loans programme. Our retail loan volume exceeded HUF 1,000 billion (ca. EUR 2.7 billion) and assets under management surpassed HUF 2,200 billion (ca. EUR 6.0 billion).

We are proud of the additional 9 percentage-point increase of the Employee Engagement Index, which reached 78% at the end of 2020. We also successfully raised the Customer Satisfaction Index (CXI) in each of our segments, ranking top in the micro and SME segments and second in the private individuals segment.

Our efforts were rewarded by numerous awards. Erste Bank Hungary not only won the Golden Prize in the best retail savings product of the year category for the Erste Future Investment Programme, but also the Bronze Prize in the best bank of the year category as well as the Bronze Prize in the best private banking service of the year category by Mastercard. Our private banking segment won further awards, such as The Private Bank of the Year by Blochamps Capital.

Financial review

in EUR million	2019	2020	Change
Net interest income	213.5	217.9	2.1%
Net fee and commission income	188.3	181.1	-3.8%
Net trading result and gains/losses from financial instruments at FVPL	36.9	24.7	-33.1%
Operating income	445.8	431.4	-3.2%
Operating expenses	-216.9	-213.3	-1.6%
Operating result	229.0	218.1	-4.7%
Cost/income ratio	48.6%	49.4%	
Impairment result from financial instruments	18.2	-78.0	n/a
Other result	-61.2	-65.5	6.9%
Net result attributable to owners of the parent	173.2	56.1	-67.6%
Return on allocated capital	17.7%	5.8%	

The segment analysis is done on a constant currency basis. The HUF depreciated by 8.0% against the EUR in the reporting period. Net interest income in the Hungary segment (comprising Erste Bank Hungary Group) increased (also in EUR) driven by higher customer loan and deposit volumes despite the negative effect of loan moratoria leading to modification losses. Net fee and commission income rose in local currency terms predominantly due to higher securities fees. Net trading result and gains/losses from financial instruments at FVPL decreased on a lower valuation result as well as lower result from foreign currency transactions. Operating expenses went up in local currency terms on the back of higher IT expenses and depreciation. Deposit insurance contribution amounted to EUR 5.8 million (EUR 6.0 million). Overall, the operating result and the cost/income ratio deteriorated. Significantly higher risk costs (reflected in the impairment result from financial instruments) were caused by updated risk parameters and stage overlays. Other result deteriorated on lower securities selling gains. This line item also included the banking tax of EUR 14.5 million (EUR 12.6 million), the transaction tax of EUR 44.0 million (EUR 47.6 million) and the contribution to the resolution fund of EUR 3.5 million (EUR 2.8 million). Overall, the net result attributable to the owners of the parent decreased.

Credit risk

Credit risk exposure in the Hungary segment rose to EUR 10.5 billion (+11.7%). This solid growth was mainly attributable to increased investments in the Group Markets business segment. Loans to customers were up slightly at EUR 4.9 billion (+2.4%). The share of the Hungary segment in Erste Group's total loans to customers declined marginally to 2.9% (3.0%). While loans to private households increased to 2.7 billion (+6.6%), loans to corporates declined to EUR 2.2 billion (-2.5%). The share of loans denominated in Hungarian forint was nearly unchanged at 73.7% (73.3%). The quality of the loan portfolio showed a negative trend due to the outbreak of the Covid-19 pandemic. In many cases, particularly in the Corporates segment, loans categorised as non-performing had not yet actually defaulted but were expected to default with high probability. Non-performing loans as a percentage of total loans to customers increased to 3.0% (2.6%). The NPL coverage ratio based on loan loss provisions rose to 111.4% (93.8%).

CROATIA

Economic review

Due to the country's high exposure to the tourism industry, the Croatian economy was among the hardest hit in CEE in 2020 due to the Covid-19 induced crisis. Croatia's well-developed tourism industry, accounting for approximately one fifth of the country's economy, was severely impacted by travel restrictions and recorded one of its worst years in recent history. Domestic demand fell as well as households deferred or cancelled spending. Investments, on the other hand, benefitted from projects financed by EU funds. Following severe earthquakes, the European Union offered financial and other support for a quick recovery in 2021.

Reflecting the economic performance, the unemployment rate increased to 7.7%. Overall, real GDP declined by 8.8%, and GDP per capita fell to EUR 12,000.

Public finances deteriorated in 2020. As a result of the economic contraction and measures aimed at preserving employment and businesses the general government deficit rose to 8.0%. The most significant among these measures, collectively adding up to approximately 3% of GDP, relate to subsidies for employee wages. Tax revenues, especially VAT related income, contracted strongly as household and tourist consumption decreased. The drop in personal income tax revenues was less pronounced, as government measures have protected employment and wages. Wage subsidies and the public wage bill led to growing expenditure, while previously agreed collective agreements were also implemented. The public debt as a percentage of GDP increased to 87.5%.

Average consumer prices did not change significantly in 2020. Core inflation excluding food and energy remained close to 1%. The Croatian kuna remained broadly stable against the euro at around 7.4 to 7.6 throughout the year. Given the country’s very high use of the euro, the Croatian National Bank’s objective to preserve nominal exchange rate stability remained unchanged, and it kept its accommodative monetary stance throughout the year.

Moody’s upgraded Croatia's long-term credit rating to Ba1 with a stable outlook in July. Fitch affirmed its rating at BBB- but revised its outlook from positive to stable in April. Standard & Poor’s left its long-term credit rating unchanged at BBB- with a stable outlook.

Key economic indicators – Croatia	2017	2018	2019	2020e
Population (ave, million)	4.1	4.1	4.1	4.1
GDP (nominal, EUR billion)	49.3	52.0	54.2	48.8
GDP/capita (in EUR thousand)	11.9	12.7	13.3	12.0
Real GDP growth	3.4	2.8	2.9	-8.8
Private consumption growth	3.2	3.3	3.6	-7.0
Exports (share of GDP)	23.8	23.5	23.8	24.3
Imports (share of GDP)	40.9	42.1	43.1	40.7
Unemployment (Eurostat definition)	11.3	8.4	6.6	7.7
Consumer price inflation (ave)	1.2	1.5	0.8	0.1
Short term interest rate (3 months average)	0.5	0.5	0.5	0.0
EUR FX rate (ave)	7.5	7.4	7.4	7.5
EUR FX rate (eop)	7.5	7.4	7.4	7.6
Current account balance (share of GDP)	3.5	1.8	2.7	-1.8
General government balance (share of GDP)	0.8	0.2	0.4	-8.0

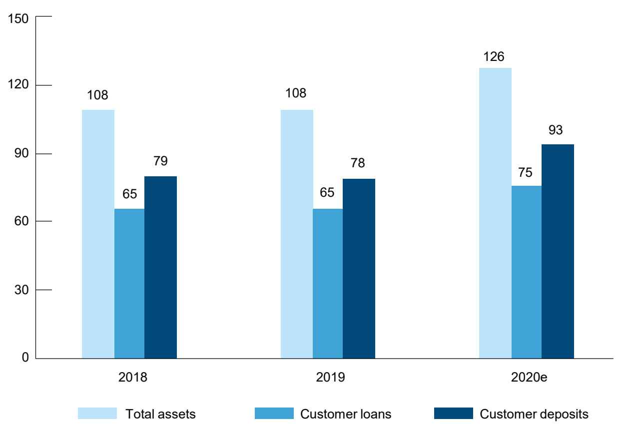
Source: Erste Group

Market review

By entering the Exchange Rate Mechanism II in July 2020, Croatia has committed itself to join the Banking Union. On 1 October 2020, the European Central Bank became the direct supervisor for significant financial institutions in Croatia.

Similar to other sectors, Croatia’s banking sector was significantly impacted by the pandemic and the associated government measures. In response to Covid-19, banks offered households and corporates the possibility of a 6-month opt-in moratorium, with 12 months for the hardest-hit tourism industry. To support the corporate sector, liquidity financing and guarantee schemes were made available through the Croatian Bank for Reconstruction and Development and the Croatian Agency for SMEs, Innovation and Investments. The Croatian National Bank reduced its minimum reserve requirement.

Financial intermediation – Croatia (in % of GDP)

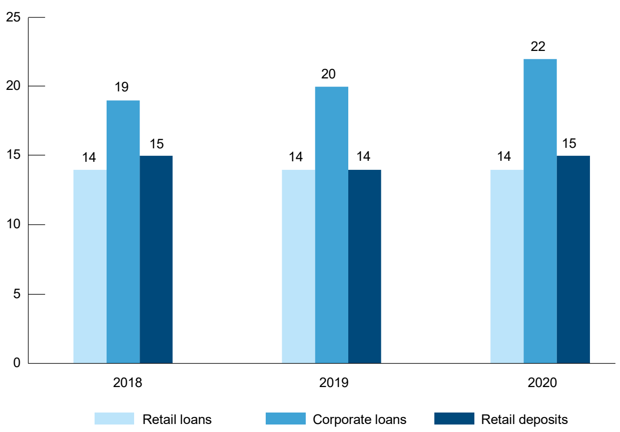


Source: National Bank of Croatia, Erste Group

At 5.9%, customer loan growth remained solid, with corporate loans increasing more than retail loans. Retail loans benefitted from the growth in housing loans, which were backed by the government's subsidised loans scheme. The corporate sector volume growth was mainly due to the public sector. Customer deposits increased by 8.4%, mainly driven by corporate deposits. The banking system's loan-to-deposit ratio declined to 80.8% at the end of the year.

Profitability of the Croatian banking system declined significantly in 2020, reflecting higher forward-looking risk provisions and limited revenue growth. Non-performing loans as a percentage of total customer loans remained flat at around 5.4%, while the coverage ratio on NPLs declined slightly to 64%. The capital adequacy ratio of the banking system remained robust at 24.9%. Overall, the country's banking sector achieved a mid-single digit return on equity.

Market shares – Croatia (in %)



Source: National Bank of Croatia, Erste Group

Erste Bank Croatia benefited from its strong brand throughout the crisis. The bank improved its market shares in both the lending and savings businesses. George, the digital banking platform of Erste Group, was introduced in Croatia in the last quarter of 2020. The bank's customer loans and customer deposits market shares stood at 17.3% and 15.7%, respectively. The bank's loan-to-deposit ratio amounted to 88.7%. In terms of total assets, Erste Bank Croatia affirmed its top three market position with a market share of 15.7%.

Business review 2020 – three questions to Christoph Schöfböck, CEO of Erste Bank Croatia,

How did your bank cope with the Covid-19 induced crisis, and how did you support customers and employees?

As a systemically relevant institution, we have taken a proactive and socially responsible approach from the very beginning of the crisis, investing maximum efforts to ensure that our stakeholders, clients, individuals and companies, are affected as little as possible. There were three key phases: temporarily suspending the activation of forced collection measures, enabling deferred repayment for up to six months (or up to 12 months for clients from industries most affected by the crisis, such as tourism) and granting loans aiming to preserve the liquidity of business entities in cooperation with institutions such as the Croatian Agency for SMEs, Innovations and Investments (HAMAG) and the Croatian Bank for Reconstruction and Development (HBOR) while ensuring adequate guarantee schemes and favourable financing conditions.

The transparent, clear and timely communication with the general public, clients, business partners and employees through all available channels has marked our communication strategy. We quickly adapted to the new circumstances, ensured business continuity and implemented the recommendations given by the authorities, as well as the availability of all services to clients, with a special emphasis on vulnerable groups.

How did you manage to successfully differentiate your business activities from those of your competition?

Due to the impact of the Covid situation on the economy and a significant rise in risk costs, our financial result in 2020 was understandably reduced. However, it is important to stress that our business operations have remained completely stable. Despite challenging times, we maintained the continuity of regular lending activities and a steadily growing deposit base. We have put a strong emphasis on the further development of our digital solutions. We have implemented George, Erste Group's modern pan-European digital platform. In addition to better user experience in mobile and internet banking, it also fosters innovation through which new functionalities will be continuously introduced in the future. Thus, we have managed to fulfil one of our strategic goals – to always be a frontrunner in digital innovations on the Croatian market. We have further improved our very successful and highly recognisable KEKS Pay app, which has been complemented with numerous new functionalities as well. At this moment, the app has 175,000 users, of which more than 75% are not clients of our bank.

Looking back at the year, what major achievements are especially noteworthy, and which ESG related topics or developments were most relevant for you?

As a responsible business entity, we have continued to successfully monitor and manage our loan portfolio in line with all regulatory rules, our business policies and highest standards in the segment of credit risk management and adopting a balanced approach focusing on our clients' needs. We have continued to meet all financial needs of retail and corporate customers through our regular lending activities. We have remained a consistent partner to our clients, offering them adequate financial and advisory support.

Our commitment to support society at large is also reflected by various sponsoring activities. Through initiatives to healthcare institutions, Erste Bank Croatia donated in total HRK 2.5 million (ca. EUR 330,000).

Fitch Ratings affirmed our credit rating at BBB+ with a stable outlook. This investment grade ranking is the best rating of any bank on the Croatian market and two notches above the credit rating currently held by the Republic of Croatia.

Last but not least, we also received our seventh Zlatna Kuna award, which is presented by the Croatian Chamber of Economy to the most successful bank on the Croatian market. We perceive the award as a significant recognition, not just of the quality of our business, but also of our active role in the development of Croatia's economy and fostering the prosperity of the entire community. That is why we will in future continue to be an active participant in seeking and finding adequate solutions, which will ensure the fastest possible recovery of the Croatian economy.

Financial review

in EUR million	2019	2020	Change
Net interest income	275.1	270.8	-1.6%
Net fee and commission income	108.2	92.0	-15.0%
Net trading result and gains/losses from financial instruments at FVPL	32.7	26.2	-20.1%
Operating income	430.3	401.5	-6.7%
Operating expenses	-223.1	-214.6	-3.8%
Operating result	207.2	187.0	-9.7%
Cost/income ratio	51.9%	53.4%	
Impairment result from financial instruments	-5.8	-104.2	>100.0%
Other result	-38.2	-16.7	-56.2%
Net result attributable to owners of the parent	90.3	43.9	-51.4%
Return on allocated capital	16.8%	7.2%	

The segment analysis is done on a constant currency basis. The HRK depreciated by 1.6% against the EUR in the reporting period. Net interest income in the Croatia segment (comprising Erste Bank Croatia Group) decreased, driven by the negative impact from modification losses related to loan moratoria. Net fee and commission income decreased on the back of lower payment fees in retail and corporate business driven by the SEPA regulation on cross border payments and the Covid-19 impact. Net trading result and gains/losses from financial instruments at FVPL declined due to a lower result from foreign exchange transactions and valuation effects. Operating expenses decreased mainly due to lower personnel, travel, training and marketing expenses, while the deposit insurance contribution went up EUR 12.3 million (EUR 11.6 million). Overall, operating result decreased, the cost/income ratio went up. The deterioration of impairment result from financial instruments was predominantly driven by updated risk parameters and stage overlays. Other result improved mainly due to significantly lower provisions for legal expenses. This line item included a resolution fund contribution in the amount of EUR 5.7 million (EUR 2.9 million). Overall, the net result attributable to the owners of the parent decreased.

Credit risk
In the Croatia segment, credit risk exposure rose to EUR 11.4 billion (+7.6%), while loans to customers grew at a similar pace to EUR 7.5 billion (+7.3%). Customer loan volume as a percentage of Erste Group's total loans to customers was slightly up at 4.4% (4.3%). The composition of the loan portfolio by business segment shifted further from Retail to Corporates. The share of local currency loans rose to 38.1% (36.3%) of total loans to customers. Most loans were still denominated in euro. The volume of Swiss franc-denominated loans has practically become irrelevant in the course of recent years. 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. Against the general trend, loan quality improved again. The NPL ratio decreased to 6.7% (7.0%). The NPL coverage ratio based on loan loss provisions rose to 89.7% (79.7%).

SERBIA

Economic review
The Serbian economy was one of the best performers in CEE in 2020. Real GDP contracted only moderately due to the significant policy support to mitigate the Covid-19 crisis impact and very stringent containment measures, resulting in their relatively short duration. The Serbian government introduced a fiscal package of approximately 13% of GDP that significantly limited the adverse impact of the pandemic on the country's private sector. Nevertheless, private consumption and investments were a drag on GDP. Public spending supported growth while the net export contribution was neutral to the economic performance. The country's unemployment rate declined further to 8.8% at the end of the year. Overall, real GDP declined by 1.1%, and GDP per capita amounted to EUR 6,700.

The general government deficit equalled 8.1% of GDP in 2020, mostly as a result of a large package of discretionary fiscal support measures including deferred tax payments, wage subsidies, one-off payments and liquidity-enhancing loan guarantees. Public debt as a percentage of GDP deteriorated to 57.6%.

Inflation remained well under control, with average consumer prices increasing by only 1.6%. As opposed to most of the other CEE currencies, the Serbian dinar remained broadly stable against the euro throughout the year. The National Bank of Serbia cut the key rate in four steps from 2.25% to 1.00% in 2020.

Rating agencies did not change their ratings for Serbia in 2020. Fitch kept the country's long-term credit rating at BB+ with a stable outlook, Moody's left its credit rating unchanged at Ba3 with a positive outlook, and Standard & Poor's also kept its credit rating at BB+. Standard & Poor's, however, revised the country's outlook to stable from positive.

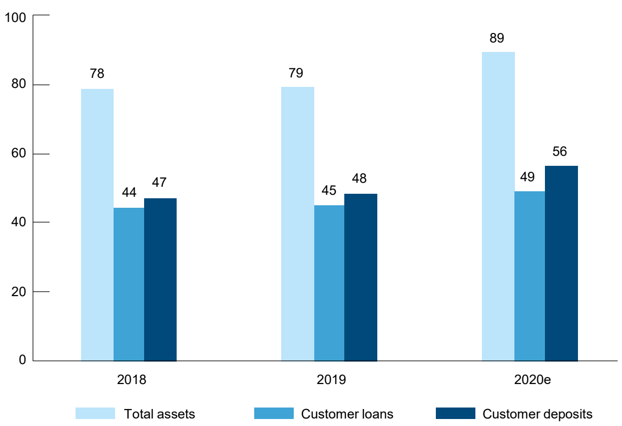
Key economic indicators – Serbia	2017	2018	2019	2020e
Population (ave, million)	7.0	7.0	6.9	6.9
GDP (nominal, EUR billion)	39.2	42.9	46.1	46.2
GDP/capita (in EUR thousand)	5.6	6.2	6.6	6.7
Real GDP growth	2.1	4.5	4.2	-1.1
Private consumption growth	2.2	3.1	3.5	-2.0
Exports (share of GDP)	38.4	38.0	38.0	36.7
Imports (share of GDP)	49.5	51.1	51.8	49.6
Unemployment (Eurostat definition)	13.5	12.7	10.4	8.8
Consumer price inflation (ave)	3.2	2.0	1.9	1.6
Short term interest rate (3 months average)	3.4	3.0	2.5	1.2
EUR FX rate (ave)	121.3	118.3	117.9	117.6
EUR FX rate (eop)	118.2	118.3	117.6	117.6
Current account balance (share of GDP)	-5.2	-4.8	-6.8	-5.6
General government balance (share of GDP)	1.1	0.6	-0.2	-8.1

Source: Erste Group

Market review

Considering the pandemic and its economic and social consequences, Serbia's banking market performed relatively well in 2020. The banking system's lending activity remained strong with retail loans growing by double digit figures. Corporate loans also grew impressively. At 13.9%, consumer loans outgrew housing loans which increased by 12.5%. The currency structure of customer loans changed further in favour of loans denominated in Serbian dinar due to supportive lending programmes that were introduced in 2020. On the savings side, corporate deposits grew by 25.2%, while total retail deposits increased 12.4%. Overall, the banking system's loan to deposit ratio stood at 88.7% in 2020.

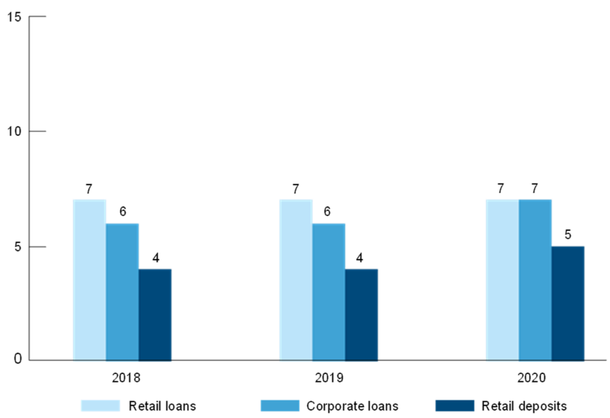
Financial intermediation – Serbia (in % of GDP)



Source: National Bank of Serbia, Erste Group

The consolidation of Serbia's banking market continued, with the number of banks declining further to 24 by the end of the year. Nova Ljubljanska Banka d.d., the Slovenian parent bank of NLB Group obtained all required regulatory approvals in relation to the acquisition of Komercijalna Banka a.d. The transaction was concluded in late December 2020 and created the third largest bank of the country, with a total asset market share of approximately 12%. The country's banking system remained profitable despite significantly higher risk provisions. Rising revenues and cost control supported the banking sectors' profitability. The NPL ratio remained relatively low at 3.7%, while the coverage ratio declined slightly to 58.5%. The banking system experienced a significantly increased usage of digital channels. Digitalisation was boosted by the banks' continuous effort to migrate customers to digital channels. Capital adequacy remained strong at 22.4% in 2020.

Market shares – Serbia (in %)



Source: National Bank of Serbia, Erste Group

Erste Bank Serbia further strengthened its market position in 2020. It is the sixth largest bank in the country in terms of total assets. Erste Bank Serbia continued to gain market share in both retail and corporate business. Its customer loan market share increased to 7.1%, with the retail and corporate lending market shares amounting to 7.4% and 6.8%, respectively. The bank's customer deposit market share increased to 6.0% at the end of the year.

Business review 2020 – three questions to Slavko Carić, CEO of Erste Bank Serbia

How your bank cope with the Covid-19 induced crisis, and how did you support customers and employees?

With the first confirmed coronavirus cases in Serbia we implemented crisis management teams to handle the situation, prepare preventive measures and to establish continuous communication with employees, clients and partners. Quickly our bank was well prepared for approximately 70% remote working regime in the headquarters and working in shifts in the retail network.

Even during the most severe waves that hit Serbia, we succeeded in keeping the business fully up and running, while taking measures to secure the health of our customers and employees. Their safety always comes first. So, one of our priorities was to further improve our e-banking services and to raise the capacity of our contact center to provide the support needed.

We quickly introduced all measures of the Central Bank with special emphasis on the moratoria. To further enable our customers to ease their monthly obligations, we offered the opportunity to consolidate their loan liabilities with a longer tenor of up to nine years. For the micro segment, we participated in the respective state programmes.

Our relationship managers strictly followed the recommendations, moving as much as possible to the digital sphere. Face-to-face meetings were reduced to the absolute minimum. At the beginning, this was a little bit strange to everyone but soon all parties realised that this is the right way to go.

How did you manage to successfully differentiate your business activities from those of your competition?

Our corporate department has always been driven by the idea that we are selling solutions to our clients, not products. Following this approach is reflected in customer proximity, and we believe that this differentiates us from the competition.

Our environmentally conscious lending is a positive differentiator. We are the largest bank in this segment with a significant part of the portfolio invested in wind, solar, hydro and biogas. We are planning not only to keep our leading position, but to build on it as much as possible. In addition, we are working on the implementation of an environmental social management system .

Having further improvement in customer satisfaction in mind, we specifically focused on upgrading our processes and capacity of our contact center. In the unsecured lending business we put special emphasis on less risky segments. In secured lending, we were recognised as the bank of choice due to our competent staff and excellent service. We acquired new customers in the private individual segment thanks to the high results in the customer satisfaction index, among the best on the market.

Our marketing campaign in July, addressing the mass affluent segment, resulted in a significant increase of FX deposits. Our loan/deposit ratio is now below 100%.

Looking back at the year, what major achievements are especially noteworthy, and which ESG related topics or developments were most relevant for you?

We achieved extraordinary growth of more than 50% in corporate deposits due to customer acquisitions of several big retailers and the effects of our SME deposits campaign from the end of 2019 and beginning of 2020. In addition, we acted as agent bank in one of the first corporate bond issuances for privately owned companies in Serbia (Energoprojekt).

We were also successful in our retail business: more than EUR 230 million of new loans were disbursed, pushing our market share further up. We achieved the best customer satisfaction index results, and more than 40,000 new private individuals decided to become clients of our bank.

In light of the crisis, we decided to support domestic companies. We created a TV and online advertising support campaign that lasted a month and a half, aiming to inform the general public about these companies and their products. Owing to the campaign, their visibility has increased, sales have improved, and they have expanded and preserved their business in spite of the crises. Last but not least, we should not forget financial literacy which is significantly growing in importance. Erste Bank Serbia therefore launched a comprehensive, free-of-charge financial education programme called #ErsteZnali. Our programme has been recognised by domestic and international relevant institutions. That is something that we are especially proud of and that inspires us to develop it even more in the future.

Financial review

in EUR million	2019	2020	Change
Net interest income	58.4	63.6	8.9%
Net fee and commission income	14.7	16.1	9.4%
Net trading result and gains/losses from financial instruments at FVPL	5.3	3.9	-25.9%
Operating income	78.5	83.8	6.6%
Operating expenses	-58.7	-60.3	2.9%
Operating result	19.9	23.4	17.8%
Cost/income ratio	74.7%	72.0%	
Impairment result from financial instruments	-0.8	-13.5	>100.0%
Other result	-0.4	-4.8	>100.0%
Net result attributable to owners of the parent	14.0	4.2	-69.9%
Return on allocated capital	7.4%	2.4%	

The segment analysis is done on a constant currency basis. The Serbian dinar (RSD) appreciated by 0.2% against the EUR in the reporting period. Net interest income in the Serbia segment (comprising Erste Bank Serbia Group) increased due to higher loan and deposit volumes in retail and corporate business. Net fee and commission income went up due to higher payment fees. Net trading result and gains/losses from financial instruments at FVPL decreased driven by a lower result from foreign currency transactions and valuation effects. Operating expenses increased due to higher personnel costs and depreciation partially offset by lower IT costs and a lower deposit insurance contribution of EUR 3.5 million (EUR 4.7 million). Operating result thus increased and the cost/income ratio improved. Impairment result from financial instruments deteriorated due to higher provisions in corporate and retail business driven by updated risk parameters and stage overlays. Other result deteriorated due to provisions for legal expenses. Overall, the net result attributable to 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 2.6 billion (+16.4%). The customer loan portfolio also registered strong growth. Loans to customers increased to more than EUR 1.7 billion (+17.7%), with strong momentum in both the Retail and the Corporates segments. The share of foreign-currency loans, denominated almost exclusively in euro, in the total loan portfolio was 75.3% (77.7%). This very large share of foreign-currency loans is mainly attributable to the wide-spread use of the euro in Serbia due to the weakness of the local currency. Euro loans are usually matched by corresponding income or deposits in euro. Non-performing loans were up marginally at 1.5% (1.4%) of total loans to customers. Loan loss provisions increased to 168.2% (140.3%) of non-performing loans.

OTHER

Financial review

in EUR million	2019	2020	Change
Net interest income	96.0	140.9	46.7%
Net fee and commission income	-85.6	-94.1	9.9%
Net trading result and gains/losses from financial instruments at FVPL	-51.9	-41.9	-19.3%
Operating income	-40.7	-4.4	-89.1%
Operating expenses	-167.8	-193.1	15.1%
Operating result	-208.4	-197.5	-5.2%
Cost/income ratio	>100.0%	>100.0%	
Impairment result from financial instruments	-14.8	21.7	n/a
Other result	-291.3	-21.7	-92.5%
Net result attributable to owners of the parent	-352.8	-260.9	-26.1%
Return on allocated capital	-6.1%	-3.4%	

Operating income increased on higher net interest income in the Holding due to positive impacts of more favourable ECB refinancing and lower negative interest on deposits with ECB. Operating expenses went up on higher IT costs. Overall, operating result improved. Other result improved notably on the non-recurrence of last years' good will impairment of Slovenská sporitel'ňa in the amount of EUR 165.0 million and higher valuation results. Overall, the net result attributable to owners of the parent improved.

Business segments

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

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 various turnover size (small and medium-sized enterprises and Large Corporate customers) as well as commercial real estate and public sector business.

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.

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 is identical to the operating segment Savings banks.

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 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.

RETAIL

Financial review

in EUR million	2019	2020	Change
Net interest income	2,290.1	2,083.7	-9.0%
Net fee and commission income	1,094.5	1,047.9	-4.3%
Net trading result and gains/losses from financial instruments at FVPL	112.5	89.4	-20.6%
Operating income	3,529.7	3,248.8	-8.0%
Operating expenses	-2,096.2	-2,067.7	-1.4%
Operating result	1,433.5	1,181.2	-17.6%
Cost/income ratio	59.4%	63.6%	
Impairment result from financial instruments	-74.6	-392.2	>100.0%
Other result	-226.4	-68.9	-69.6%
Net result attributable to owners of the parent	866.4	583.9	-32.6%
Return on allocated capital	26.4%	18.4%	

The decrease in net interest income was primarily driven by a change of transfer prices that led to a negative impact in the retail segment and a corresponding positive effect in ALM & Local Corporate Center. Lending business in the Czech Republic declined primarily on the depreciation of the Czech koruna against the euro and the negative impact of loan repayment moratoria leading to modification losses. These negative effects were partially mitigated by the growth of customer loan volumes in almost all core markets. Net fee and commission income decreased mainly due to lower fees from payments in all core markets as well as lower fees from lending business, mostly on changed disclosure of the fees charged for early loan repayment. Higher fees from securities business in Austria, the Czech Republic, Hungary and Romania and improved fees from insurance brokerage in the Czech Republic and Slovakia could not fully mitigate these developments. Net trading result and gains/losses from financial instruments FVPL decreased due to lower foreign currency transactions in the Czech Republic and negative valuation effects in Hungary. Operating expenses decreased in several core markets, mainly in the Czech Republic, helped by FX translation effects and lower variable remuneration. Consequently, operating result declined, and the cost/income ratio worsened. The deterioration of impairment result from financial instruments was primarily driven by updated risk parameters with forward-looking information and stage overlays. The non-recurrence of a provision in the amount of EUR 153.3 million in Romania as a result of a Romanian High Court decision in relation to business activities of the local building society subsidiary led to an improvement of the other result. Overall, the net result attributable to the owners of the parent decreased.

Credit risk

Credit risk exposure in the Retail business segment rose to EUR 69.8 billion (+1.8%). The customer loan portfolio increased to EUR 61.0 billion (+2.7%). The share of the retail business in Erste Group's total customer loans was down marginally at 35.9% (36.4%). The collateralisation ratio, which reflects the ratio of collateral to loan volume, stood at 65.9% (64.9%). The quality of the retail customer loan portfolio was stable. Non-performing loans increased by EUR 41 million to nearly EUR 1.5 billion but, as a percentage of total retail customer loans, were unchanged at2.4%. In terms of the NPL ratio (non-performing loans as a percentage of total loans), loan quality was thus again very high in the Retail segment and above the average loan quality within Erste Group. The share of low-risk loans as a percentage of total retail customer loans was high at 86.0% (84.7%). As the volume of non-performing loans is expected to go up in the future, particularly due to the Covid-19 crisis, loan loss provisions were strongly increased to 98.2% (82.8%) of the total non-performing loan portfolio.

CORPORATES

Financial review

in EUR million	2019	2020	Change
Net interest income	1,098.7	1,109.4	1.0%
Net fee and commission income	301.1	282.3	-6.2%
Net trading result and gains/losses from financial instruments at FVPL	101.0	64.1	-36.5%
Operating income	1,603.1	1,561.3	-2.6%
Operating expenses	-575.3	-535.7	-6.9%
Operating result	1,027.8	1,025.6	-0.2%
Cost/income ratio	35.9%	34.3%	
Impairment result from financial instruments	32.9	-656.0	n/a
Other result	-2.3	-65.5	>100.0%
Net result attributable to owners of the parent	814.9	193.7	-76.2%
Return on allocated capital	18.7%	5.1%	

Net interest income increased primarily due to higher loan volumes in Austria and positive contributions from lending business in Slovakia, Hungary and Croatia. Net fee and commission income went down as a result of lower payment and lending fees mainly in Romania, the Czech Republic and Croatia. Net trading result and gains/losses from financial instruments at FVPL decreased due to negative valuation effects mainly in the Holding, the Czech Republic and Slovakia. Overall, operating income declined. Operating expenses decreased in the majority of core markets. Operating result thus remained almost unchanged and cost/income ratio improved. The significant increase of risk provisions (line item impairment result from financial instruments) across all core markets resulted from the updated risk parameters with forward-looking information and stage overlays. Other result worsened primarily due to the non-recurrence of selling gains. The net result attributable to the owners of the parent decreased significantly.

Credit risk

Credit risk exposure in the Corporates segment rose to EUR 83.0 billion (+6.5%). Loans to customers increased to EUR 57.6 billion (+5.0%). As a percentage of Erste Group's total loans to customers they stood at 33.9% (33.6%). The big 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. The outbreak of the Covid-19 crisis and its serious economic consequences led to deterioration in asset quality; the NPL ratio rose to 2.8% (2.3%). A significant proportion of growth in non-performing loans resulted from a review of borrowers' expected future solvency. Where repayment appears unlikely, customers are categorised as defaulted even if they were not insolvent nor payments past due for more than 90 days. In view of an expected rise in loan losses, loan loss provisions were also increased substantially and amounted to 94.8% (85.7%) of non-performing loans in the Corporates segment.

GROUP MARKETS

Financial review

in EUR million	2019	2020	Change
Net interest income	257.2	252.2	-2.0%
Net fee and commission income	228.3	240.9	5.5%
Net trading result and gains/losses from financial instruments at FVPL	48.4	38.5	-20.4%
Operating income	536.9	529.7	-1.4%
Operating expenses	-240.2	-232.0	-3.4%
Operating result	296.7	297.7	0.3%
Cost/income ratio	44.7%	43.8%	
Impairment result from financial instruments	5.1	-0.8	n/a
Other result	-18.4	-25.7	39.5%
Net result attributable to owners of the parent	224.6	211.0	-6.1%
Return on allocated capital	24.1%	24.4%	

Net interest income went down mainly due to lower result from repurchase operations as well as decreased contribution of the business with institutional clients in the Czech Republic. Net fee and commission income increased mostly due to higher securities fees driven by increased securities transactions, origination and business with institutional clients in Austria. Net trading result and gains/losses from financial instruments at FVPL decreased due to valuation results of interest rate derivatives as well as a significant decrease in market prices of fair value securities. Overall, operating income decreased. Operating expenses went down, leading to a moderate increase in operating result. Cost/income ratio improved. Impairment result from financial instruments deteriorated due to risk provisioning in several CEE core markets. Other result deteriorated mainly on the back of higher resolution fund contribution and non-recurrence of selling gains in Austria. Overall, the net result attributable to the owners of the parent declined.

ASSET/LIABILITY MANAGEMENT & LOCAL CORPORATE CENTER

Financial review

in EUR million	2019	2020	Change
Net interest income	-104.3	86.2	n/a
Net fee and commission income	-84.5	-79.3	-6.2%
Net trading result and gains/losses from financial instruments at FVPL	38.6	13.2	-65.8%
Operating income	-107.1	58.0	n/a
Operating expenses	-110.9	-107.4	-3.1%
Operating result	-218.0	-49.4	-77.3%
Cost/income ratio	>100%	>100%	
Impairment result from financial instruments	13.0	-3.0	n/a
Other result	-90.0	-111.8	24.2%
Net result attributable to owners of the parent	-237.3	-112.7	-52.5%
Return on allocated capital	-8.2%	-3.6%	

Net interest income improved primarily due to a change of transfer prices that led to a negative impact in the retail and corporate segment and a corresponding positive effect in ALM & LCC as well as a higher contribution from balance sheet management in the Czech Republic. Net fee and commission income improved mainly due to a better result in the Czech Republic. Net trading result and gains/losses from financial instruments at FVPL deteriorated due to valuation results in the Holding. Operating expenses declined mainly on methodological changes resulting in cost allocations to the other business segments in Erste Bank Oesterreich and Slovakia. Overall, operating result improved. Other result worsened mainly due to higher allocations of payment into resolution funds and lower real estate selling gains. The net result attributable to the owners of the parent improved.

SAVINGS BANKS

The business segment Savings Banks is identical to the operating segment Savings Banks (see page 29).

GROUP CORPORATE CENTER

Financial Review

in EUR million	2019	2020	Change
Net interest income	70.6	89.1	26.2%
Net fee and commission income	-1.3	6.6	n/a
Net trading result and gains/losses from financial instruments at FVPL	12.2	37.1	>100.0%
Operating income	70.9	124.8	76.0%
Operating expenses	-1,023.9	-1,013.0	-1.1%
Operating result	-953.0	-888.2	-6.8%
Cost/income ratio	>100.0%	>100.0%	
Impairment result from financial instruments	-16.4	24.4	n/a
Other result	572.6	829.5	44.9%
Net result attributable to owners of the parent	-263.3	-134.4	-49.0%
Return on allocated capital	-5.6%	-2.1%	

The increase in operating income was driven by higher net interest income on decreased funding costs as well as improved net trading result and gains/losses from financial instruments at FVPL. Operating expenses decreased on lower marketing and project related costs. Overall, operating result improved. Other result improved notably on the non-recurrence of last years' good-will impairment of Slovenská sporitel'ňa in the amount of EUR 165.0 million and higher valuation results. Overall, the net result attributable to owners of the parent improved.

(Consolidated) non-financial report

2020 was not only characterised by the Covid-19 induced crisis but also by several initiatives to address environmental topics mostly to curb global warming. On 15 January 2020, the World Economic Forum listed in its Global Risk Report climate change and related environmental risks as the five most likely risks events. While infectious diseases did not make Top 10 in terms of likelihood they ranked tenth in terms of impact. At that time hardly anyone could have imagined how soon such a risk in the form of a new coronavirus would spread worldwide and that in order to protect healthcare systems significant social restrictions and economic lockdowns were to be implemented on a global scale. The Covid-19 induced crisis resulted in significant adverse economic impacts, but it also demonstrated how much can be achieved if policymakers focus on common goals.

Through all the difficulties of 2020, the European Commission adopted several environmentally relevant declarations, including the European Industry Strategy aiming to help Europe's industry in the transition towards climate neutrality and digital leadership, the New Consumer Agenda that plans, among other things, issues such as consumer rights to enable consumers to play their part in the green transition by providing them with information on product sustainability, promoting repair and banning fake green claims. As part of the European Green Deal the Commission proposed in September 2020 to raise the net greenhouse gas emission reduction target to at least 55% compared to 1990. In addition, plans to earmark substantial funds to support the vision of a European Union becoming climate-neutral by 2050 were announced, and it was decided that 30% of the combined EU Budget MFF 2021-2027 and the EU Next Generation funds are to be allocated to climate-related expenditure. Erste Group believes that the aspirations of the European Commission will have a profound transformative impact on European economies and societies in the years to come and that this transformation is necessary and the right thing to do. Such a transition should be executed in a socially fair manner, and equally high attention needs to be paid to environmental, social and governance objectives.

For Erste Group, considering the impact of its entrepreneurial activities on society or the environment 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 more than 200 years ago. 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. It defines 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?" Erste Group pays particular attention to this third question. Therefore, this is the question every employee has to answer whenever they take a business decision. This awareness and the mindset behind it are firmly embedded at Erste Group.

Building on this Statement of Purpose, a Code of Conduct defines binding rules of the daily business for employees and members of both the Management Board and Supervisory Board. 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.

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 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 non-financial 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. This non-financial report was subject to an independent audit by Deloitte Audit Wirtschaftsprüfungs GmbH in accordance with the GRI standards: Option core and sections 234b and 267a of the Austrian Commercial Code (UGB) to achieve limited assurance. This audit report is available at the end of this non-financial report.

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 non-financial report must 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 2020 non-financial 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 one entity with less than 1% of group-wide FTEs. In 2020, the data of all Austrian savings banks in the Haftungsverbund (cross-guarantee system) was included.

Sustainability at Erste Group

The founding concept of Erste österreichische Spar-Casse, the predecessor of Erste Group, was simple and 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 of 1819 expresses the underlying idea that has been valid ever since. Erste Group is built on the inclusive and non-discriminatory belief in people, their ideas and plans for their future as well as their capabilities and their potential for personal growth and a promise for a prosperous society.

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. 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. Sustainability in this context means to operate the core business both in a socially and environmentally responsible manner and economically successfully.

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.

Erste Group’s business is firmly embedded in the real economy, servicing private individuals, corporate customers ranging from SMEs to large corporations, the public sector and NGOs. The bank offers its services through an extensive branch network and digital channels. In addition, Erste Group takes care of persons that do not or no longer have access to traditional banking services and offers them their first, or in some cases second, opportunity to bank. As one of the leading banks in Austria and the eastern part of the European Union, Erste Group is also an important employer, taxpayer and customer of local suppliers.

The Group Sustainability Office reports directly to the Chief Executive Officer and is responsible for developing and implementing group-wide policies regarding environmental topics, corporate volunteering and corporate social responsibility as well as implementing the group-wide Code of Conduct, CSR ratings and drawing up the non-financial report.

Sustainability objectives

Against the backdrop of the increasing importance of overarching societal challenges to cope with social imbalances and climate change, Erste Group has reinforced its commitment and formulated a transparent set of the sustainability objectives and their relation to the 17 UN Sustainable Development Goals (SDGs). These sustainability objectives are an elementary and clear value set to be consistently activated in Erste Group’s business strategies, products and services and, consequently, also in its sustainability risk management principles and in the supplier management principles.

Erste Group’s environmental objectives

- Clean energy & energy security (SDG 7, 13)
- Resource & energy efficient buildings (SDG 13)
- Smart mobility and transportation (SDG 9, 13)
- Resource depletion & waste management (SDG 6, 12)
- Pollution prevention, preservation of water and maritime resources (SDG 14)
- Protective land use, forestry (SDG 15)
- Protection of biodiversity (SDG 14, 15)
- Animal welfare (SDG 14, 15)

Erste Group’s social objectives

- Human rights (SDG 1)
- Healthcare, education and job safety (SDG 3, 4)
- Diversity and equal opportunity (SDG 5, 10)
- Employee attraction, relations and retention, employee rights (SDG 8)
- Customer engagement & financial literacy (SDG 1, 4)
- Product integrity safety and liability (SDG 12)
- Advertising & marketing ethics (SDG 12)

Erste Group’s governance objectives

- Management and ownership structure (SDG 16)
- Corporate governance procedures (SDG 16)
- Executive and employee compensation (SDG 16)
- Supply chain standards (SDG 12)
- Anti-competitive practices (SDG 16)
- Bribery, corruption & ethics (SDG 16)
- Political lobbying & donations (SDG 16)
- Tax & Financial transparency (SDG 16)

Materiality analysis

The starting point of non-financial reporting is a materiality analysis conforming to GRI Standards (GRI 101) to identify those non-financial material topics that have social and ecological impacts of relevance to both Erste Group and its stakeholders. The first materiality analysis according to GRI was performed in 2016. As a result of internal discussions, the following stakeholders were identified as being relevant to Erste Group: employees, customers, governance bodies (supervisory board, management board), investors, society, environment and suppliers. Then, in agreement with in-house experts and in consultation with an external consultant, material non-financial topics of particular relevance to Erste Group were identified.

These topics were defined 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 re-evaluated in a group-wide survey. To review the topics of material relevance, a survey was conducted in autumn 2017 among management board and supervisory board members and employees as proxies of other relevant stakeholders. In 2019, another group-wide survey was conducted. On this occasion, the stakeholders taking part in this process were given the opportunity to name additional topics. Overall, 1,173 employees and members of the management and supervisory boards as well as 1,676 customers from Erste Group's seven core countries took part. No further surveys were conducted among representatives of other stakeholders. 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.

The target groups surveyed confirmed the validity of the material aspects proposed. The 2019 results were assumed to be equally valid for 2020. These topics therefore represent the material aspects for the non-financial report, no additional 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 matters more visible, they have been categorised by higher-level topic areas. Further information on how Erste Group reflects these topics in its strategy and business activities is provided in the sections discussing commitment to society, our customers, suppliers and supply chain, compliance and anti-corruption measures, employees and environment of the non-financial report.

Material topics for Erste Group

Social responsibility

Ethically correct conduct of business by 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, appreciation and reputation may be earned, but in the case of misconduct, may also be 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 (SDs 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.

Governance and anti-corruption measures

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 its employees are governed by clear rules such as provisions on employee transactions, the gift policy and research disclaimers.

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.

Responsible investment and finance (SDG 8, 1, 13). Public interest in the indirect impacts of bank products on the environment and society has been 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 from 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 (SDGs 10/13). Against the backdrop 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

"A decade left" is a clear message of the Global Risk Report 2020 and it is linked to the risk assessment of the Global Risk Perception Survey of the World Economic Forum. Extreme weather, natural disasters and failure in climate action were assigned as most prominent threats in the past years. Correlating to these perceptions, a season of the most destructive and longest wildfires and a record number of severe hurricanes resulted in an estimated bill on global natural disaster damages of EUR 175 billion for 2020, making it the fifth costliest year since 1970 for the insurance industry. Yet, although the need for a combined effort to address global warming is less and less questioned, the world of multilateral policies and the reliance on old economic and production structures are still preventing meaningful actions.

The European Commission took a leading position in these global efforts. The European Green Deal presents an ambitious transformation with a well-framed agenda of fundamental changes in industrial as well as individual behaviour. The aim is clear, to prevent a further increase in global warming, environmental degradation and to protect biodiversity. More than 30% of the combined EU budget of EUR 1.8 trillion shall be allocated to climate aligned activities in the coming years. These funds, combined with private investments, shall provide the basis for the annual funding in the amount of EUR 260 billion for the transformation.

The mobilisation of sustainable finance in this scale is both a substantial opportunity and challenge. Erste Group, as a leading financial institution in CEE, plays an essential role to prepare regional financing solutions for transforming energy and power generation towards low-carbon grids combined with efficient energy storage, the renovation of largely energy inefficient building stocks, the reinvention of mobility and transportation on the basis of hydrogen-powered and electric vehicle solutions, the directional shift of the food chain towards a largely organic and local production format, the conceptual change in product design and industrial production in the spirit of resource efficiency and circular economy, and finally investments into care and restoration of our natural environment.

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 attractiveness as an employer. Ignoring non-financial matters may adversely affect Erste Group's stakeholders. In addition, Erste Group may become exposed to a variety of risks, some of which are interconnected.

Reputation risk exists in all of these matters. In addition, further specific risks may arise. Commitment to society encompasses a broad range of activities, from financial inclusion of low-income or disadvantaged persons to supporting social initiatives, financial literacy as well as art and culture. Reducing the level of involvement in these areas may, for instance, result in financial gaps at co-operation partners and, consequently, the suspension of initiatives or activities. This may harm reputation and, as a consequence, may have a negative impact on customer retention, lead to a loss of customers and make it more difficult to attract new customers.

In this context, consumer protection activities have to be mentioned as well. Offering adequately designed products and services may reduce the adverse impact of such initiatives. Among employees and the public, a loss of reputation as well as inadequate attention to social matters (such as diversity and equal opportunity) may result in a company being less attractive as a preferred employer. This may lead to a decline in employee motivation, extended sick leave and increased employee turnover, and make it harder to recruit suitable staff in the labour market.

In addition, a lack of diversity in management bodies or teams may lead to groupthink or critical blind spots in decision-making processes. Ignoring the risk of corruption may lead not only to a loss of reputation, but may also cause financial harm.

Failure to deal with environmental matters may result in a deterioration of the ecological footprint, a loss of reputation and higher costs due to lower resource efficiency. In the lending business, the value of collateral may decline.

Failure to respect human rights may adversely affect the working or living conditions of people in a producer's or supplier's country of origin, just as neglecting environmental matters may adversely affect the ecological footprint. In this context, Erste Group is faced with supply risk, reputation risk and the risk of losing customers.

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

Materiality table

Stakeholders	Topics of the materiality analysis	Material topics pursuant to GRI Standard	Section in the non-financial report
Customers	Customer satisfaction Responsible investment and finance Social banking Data security	Customer privacy (GRI 418-1) Anti-competitive behaviour (GRI 206-1) Initiatives to improve access to financial services for disadvantaged people (FS 14 of GRI 4)	Our customers
Anti-corruption measures		Anti-corruption (GRI 205-3)	Compliance and anti-corruption measures
Employees	Diversity and equal opportunity Employee health & work-life balance Respect for human rights	Employment (GRI 401-1, 401-3) Training and education (GRI 404-1, 403-6, 403-8) Diversity and equal opportunity (GRI 401-3, 405-1) Non-discrimination (GRI 406-1)	Employees (outside the non-financial report: Corporate governance report)
Governance bodies (members of the management board and supervisory board)	Diversity and equal opportunity	Employment (GRI 401-1, 401-3) Diversity and equal opportunity (GRI 401-3, 405-1) Non-discrimination (GRI 406-1)	Employees (outside the non-financial report: Corporate governance report)
Investors		Economic performance	(outside the non-financial report: Consolidated financial statements)
Society	Financial literacy Social commitment Social banking	Initiatives to improve access to financial services for disadvantaged people (FS 14 of GRI 4) Anti-corruption (GRI 205-3) Socio-economic compliance (GRI 419-1) Economic performance (GRI 201-1)	Commitment to society Our customers (outside the non-financial report: Consolidated financial statements)
Environment	Sustainability criteria in the supply chain & ecological impacts of banking operations	Materials (GRI 301-1, 301-2) Energy (GRI 302-1, 302-4) Emissions (GRI 305-1, 305-2)	Environment Suppliers and supply chain
Suppliers	Sustainability criteria in the supply chain & ecological impacts of banking operations Respect for human rights	Supplier environmental assessment (GRI 308-1) Supplier social assessment (GRI 414-1, 403-7)	Suppliers and supply chain

Commitment to society

Erste Group's commitment to society has never been limited to business activities. This is also reflected in Erste Group's Code of Conduct: We consider financial literacy, community involvement and corporate volunteering as areas where we can generate significant impact on society and contribute to the UN Sustainable Development Goals (SDG). Consequently, by providing funding or in some cases manpower and expertise Erste Group supports institutions, initiatives and projects in the areas of social affairs, art, sports, culture, education and the environment.

At Erste Group Bank AG, the Community Affairs and Sponsoring department is independent of Marketing and forms part of the CEO's division. As needs and interests in the areas of social affairs, sports, culture and education vary greatly across Erste Group's markets, depending on local circumstances, specific project sponsorships and initiatives are determined and managed locally. Social and sponsoring activities are combined group-wide under the umbrella of the *Extra*VALUE programme. Regional focus, cross-thematic initiatives and cooperation within related fields characterise the programme. The guiding principle is supporting personal development and helping people to meet their social and cultural needs. Erste Group's *Extra*VALUE programme is a visible sign of the bank's commitment to its responsibility towards society and the individual.

Erste Group believes that this commitment creates far-reaching opportunities for individuals and society at large and, indirectly, also for the bank while not harbouring any significant risks. As a financial institution Erste Group sets a particular focus on financial literacy initiatives to enable people to build up knowledge to make competent financial decisions in all areas of life, thus improving the financial situation of individuals and indirectly society. Assuming societal and social responsibility is in line with Erste Group's strategy and brand. Opportunities include the transfer of a positive image to the brand, emotional branding and getting employees to identify with the brand. Potential risks may arise from the choice of partners (e.g. reputation risk, conflicts of interest, inadequate transparency or inadequate awareness of compliance requirements on the part of a partner) or in contracting (e.g. inadequate specification of services).

Due to the multitude of social and educational initiatives, sponsoring of art and culture, and corporate volunteering, only a few selected projects are highlighted in this non-financial report. 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 in English.

Erste Group's support during the Covid-19 induced crisis

Flexibility and strong determination were needed in 2020 to launch initiatives in areas such as sponsoring, financial literacy and corporate volunteering in the face of Covid-19 induced restrictions and lockdowns. Cooperation partners in the fields of culture, sports and the third sector (the non-profit sector comprising associations, foundations and other types of non-profit organisations) were forced to cancel numerous events. Erste Group continued its long-standing partnerships, adapting or completely re-designing agreements and activation strategies.

Erste Group has been actively pursuing initiatives to support communities and non-profit organisations in all core markets. These included donations to various health care institutions such as the Austrian Red Cross or Croatian and Romanian hospitals, call centers helping with contact tracing in the Czech Republic, educational webinars in Slovakia, or a special loan programme and donations to health care workers in Hungary. References to some of those activities are provided in the following pages.

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 its 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. In addition, the bank cooperates with a variety of smaller Austrian NGOs. Banca Comercială Română supported the Emergency Fund for hospitals, the fundraising campaign launched by Save the Children to support Romanian doctors with equipment and protection materials in their efforts against the coronavirus epidemic. The bank also provided funds to the health system in Romania to buy equipment and protection materials for hospitals. Likewise, Erste Bank Hungary supported local hospitals. Activities in Hungary also included cooperations with several social organisations, e.g. to provide housing for homeless people or enable crowdfunding campaigns. Erste Bank Croatia focused on projects aiming at strengthening and developing society, such as SOS Children's Villages. In a year in which the country was not only negatively impacted by the Covid-19 pandemic but also strong earthquakes in Zagreb, Erste Bank Croatia donated funds for the Zagreb children's hospital as well as for the university hospital for infectious diseases in Zagreb. The bank also supported various fund raising activities such as Fond 5.5. for earthquake victims. Česká spořitelna enables the Dokážeme víc (We Can Do More) grant programme which encourages citizens, including its own employees, to be active. The bank is also a partner of Festival svobody (Freedom festival) – a platform associating citizen initiatives endorsing the legacy of Czech's state holiday on 17 November.

FINANCIAL LITERACY

Financial literacy is essential 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 Innovation Hub (Erste HUB) is responsible for the financial literacy strategy and the Financial Life Park (FLiP). Since the beginning of 2020, this unit has been reporting to the Chief Platform Officer's division (previously to the Group Retail division).

Erste Group's FLiP at Erste Campus is one of the largest financial education facilities in Europe. Since it opened in October 2016, more than 50,000 visitors have taken part in more than 2,700 (free-of-charge) tours conducted at FLiP. As a result of Covid-19-induced restrictions, FLiP was open for only 15 weeks in 2020, resulting in about 20,000 fewer visitors (about minus 80%) and 900 tours. Since 2019, 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. Here again, educational content is provided at 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. Visits to both FLiP at Erste Campus and FLiP2Go are free of charge. From April 2019 to March 2020, FLiP2Go attracted more than 11,000 visitors. Because of the Covid-19 pandemic, the bus was not allowed to operate from the beginning of March to the end of the year.

During lockdown, demand for FLiP's digital offerings was substantial, though, with visitor numbers more than doubling. FLiP Challenges offer the option of a digital experience of FliP content. With Financial Life Challenge, teachers can assess the financial literacy of their pupils and obtain an automated evaluation of class performance. Investment Challenge helps users to build knowledge about the capital market and the important role it plays. While enjoying the game, users learn about the impacts that the current interest rate and inflation environment has on savings and why investing in the capital markets is a sensible alternative. In September 2020, a third Challenge was released, the FLiP Entrepreneurship Challenge, in which only the first part is played in the web browser. Then, the innovation method Design Thinking is presented by means of an app that guides users through the entire process (www.flipchallenge.at).

Several successful financial education formats were continued in 2020, among them 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 daily challenges in their leisure time, at the workplace and in dealing with authorities. The books are designed for all organisations and, in particular, for NGOs that offer German language courses for migrants. Two parts of a five-volume series have already been released as a teaching and learning resource with a print run of 3,000 copies and made available for download (in German only, https://www.financiallifepark.at/de/fuerlehrer/unterrichtsmaterialen/geld-im-griff).

In all of Erste Group's 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 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 is very popular. Overall, more than 3,100 Slovak pupils have already visited FLiP, guided by employees of Slovenská sporiteľňa. In 2020, these visits were possible only in the months of January and February due to various Covid-19 restrictions.

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. The internet platform #Erste-Znali offers a wide range of financial literacy resources – from text to videos and a quiz. This initiative received multiple awards in 2020.

Banca Comercială Română continued its financial literacy programme even during the pandemic. About 33,000 people were taught online, of which some 20,000 took part in the online version of FLiP. In addition to setting up a new digital teaching platform called Money School, a children's book was published to advance financial literacy.

Working with the non-profit consultancy SIMPACT, Erste Bank Hungary (Social Banking) organised training events for NGOs on cash flow planning to help them to better overcome the crisis.

The bank also organised financial literacy workshops for disadvantaged people and persons with disabilities in cooperation with other NGOs (Salva, Káva, Köz-Pont, Romaversitas, Nemadomfel).

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, the ZOOM Children's Museum, Wiener Festwochen, the International Children's Film Festival and the Hunger auf Kunst und Kultur (Hunger for Art and Culture) campaign. Erste Bank Oesterreich also has a long-standing partnership with Viennale, Austria's largest international film festival. Every year, the bank awards the *Extra*VALUE Film Prize and the *Extra*VALUE Design Prize for social design as part of the Vienna Design Week as well as the Erste Bank *Extra*VALUE Art Prize in collaboration with the art association das weisse haus. Working with Klangforum Wien and the Wien Modern festival, Erste Bank has also been sponsoring the Erste Composition Prize for many years.

Slovenská sporiteľňa went on supporting the museum of modern arts Danubiana. Erste Bank Croatia supported RIJEKA 2020 European Capital of Culture project. During the Croatian EU presidency, Rijeka, as the largest Croatian port, became the centre of a significant and extensive culture and arts programme and the host city for the best and most interesting artists from the global, Croatian and European cultural scenes. For the 16th time in a row, Erste Bank Croatia organised Erste Fragmenti, a competition for emerging Croatian artists and art students. The bank buys artwork, organises an exhibition and awards an art scholarship. In 2020, it was the only contest like this in the country as similar projects were cancelled in this challenging time. Erste Bank Serbia's cultural sponsorship focused on the Guitar Art Festival and the Belgrade Dance Festival. The bank also supported the 54th Belgrade International Theatre Festival.

Banca Comercială Română supported the Bucharest Art Pavilion – Art Safari, the largest event dedicated to Romanian art. Designed as a temporary museum, this event unfolds annually and brings to the public heritage art, contemporary art, performances, workshops for children and guided tours. This year the exhibition took place in former headquarters of the bank. Česká spořitelna continued its support for cultural institutions and events in 2020, however, the whole year looked completely different due to Covid-19. One example were four benefit concerts of the Czech Philharmonic Orchestra, of which it is a partner. Proceeds went to hospitals fighting Covid-19 as well as to others in need. The bank is the general partner of the largest multi-genre festival Colours of Ostrava and partner of Meltingpot, a discussion forum that is part of the festival. Furthermore, it is a long-term partner of the Smetanova Litomyšl classical music festival. The bank has always supported visual art – primarily design – and has operated its own gallery.

Although several festivals such as the Bánkitó civil festival and the Művészetek Völgye Fesztivál (Valley of Arts) – the biggest underground arts festival in Hungary – were cancelled, Erste Bank Hungary as main sponsor provided funds to avoid their bankruptcy and to ensure 2021 planning.

CORPORATE VOLUNTEERING

Erste Group funds, supports and encourages employees to actively contribute to non-profit initiatives and engage in volunteering. Employees and managers of Erste Group prove their commitment by donating their time and expertise and making contributions in kind to partner organisations.

This is done on the basis of our code of conduct: With Erste Group's volunteering programmes, employees can make a contribution to the development of society. We support this by building relationships between Erste Group and social welfare organisations and give employees time off for volunteering.

The Time Bank, the electronic volunteering platform of Erste Bank and the savings banks, was founded in 2010. The Time Bank matches employees who want to donate their free time and skills with more than 60 partner organisations. In 2020, on average, more than 1,200 employees of Erste Group in Austria were registered on this platform. Partner organisations are selected with particular care. Agreements are entered into exclusively with legal entities, not with private individuals. Cooperation agreements are reviewed by the legal department. In addition, the "Know your partner" compliance questionnaire forms part of the cooperation agreement.

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 the Central and East European region. Another focus of volunteering in all core markets is on financial literacy.

As well as volunteering, donations in kind also 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 and swap activities. This way, the Time Bank integrates social and societal commitment and supports the sensible and sustainable management of resources and thus the United Nations' Sustainable Development Goals.

In 2020, three additional campaigns were carried out to collect donations in kind: in addition to collecting men's clothing for people affected by poverty, the Time Bank launched an eyeglasses collection campaign. The prescription glasses and sunglasses donated were passed on to the Archdiocese Vienna's charity for the blind; the glasses were measured and handed out to people in need. In addition, the Time Bank set up a permanent drop-off point for private mobile phones. The proceeds went to the emergency relief fund run by Licht ins Dunkel (Light into the dark) and the emergency help service of Caritas.

Activities to collect donations in kind were also organised in CEE countries. Erste Bank Croatia and Erste Bank Hungary donated used furniture (chairs, tables, cupboards) and IT equipment to public institutions such as schools and kindergartens as well as to disadvantaged families.

SPONSORING SPORTS

In addition to numerous activities promoting amateur and professional sport, Erste Group supports professional athletes, teams or events focusing on running, tennis, soccer and handball, water polo and e-sports.

With more than 220 running events each year, Erste Bank Sparkasse Running is Austria's biggest running initiative and sponsors events from small runs in rural areas to the Vienna City Marathon – Austria's biggest sports event with more than 40,000 participants. The Vienna City Marathon had to be cancelled in 2020. Other major running events – such as the erste bank vienna night run – were held in a different format, with virtual running races organised for the first time under the umbrella of Erste Bank Sparkasse Running. In 2020, Erste Bank Oesterreich also sponsored the Erste Bank Open in Vienna, an ATP World Tour 500 tournament and the most important tennis event in Austria.

As one of the leading brands with a focus on Central and Eastern Europe, Erste Group has also recognised the growing popularity of e-sports and was the main sponsor of the finals of the League of Legends European Championship (LEC). Attracting more than 100 million players per months, the Riot Game League of Legends, a team-based strategy game, is the leading game in the e-sports sector. This sponsorship is a joint project of the local banks in all of Erste Group's core markets.

In addition to group-wide projects, local banks run local sport initiatives. In 2020, Erste Bank Croatia established Erste First League, a new platform to engage and support children in sport. The platform now gathers Erste handball league for children between the age of 7 and 12, and Erste Blue league, an athletic competition for school children across Croatia. In addition, the bank supports the water polo club Primorje Erste Bank based in Rijeka, the football club Rijeka and the basketball club Cibona Zagreb. In June 2020, it backed a fundraising tennis tournament in Osijek featuring the best current Croatian players as well as famous tennis veterans. Money raised through the event was donated to Croatian scientists working on coronavirus research. Erste Bank Hungary prolonged its involvement in ice hockey sponsorship by sponsoring the Ice Hockey League until 2021/22.

Česká spořitelna introduced a sports umbrella programme called Sports with Spořk which consists of 11 separate projects and partnerships focused on health and immunity protection. Currently, nearly one million citizens of the Czech Republic benefit from this programme. The partnerships with Bike for Life (the largest cycling tour) and the Czech Athletics Federation have been part of the sponsoring portfolio for more than 20 years. Other partnerships with Sokol (the oldest Czech sports club) started in November 2019 with a new focus on teaching children and students at over 1,500 kindergartens and schools to enjoy sports via the projects With Sokol into Life, PE online and Coaches in schools. The latest additions were Šlappeto (a mobile cycling application for families) and Healthy player which is designed to make e-sports players combine their gaming with physical activity to support their wellbeing. The central project of this programme is Sports with Spořk in cities in which Česká spořitelna organises sports competitions amongst cities in cooperation with local municipal authorities.

Slovenská sporiteľňa was again the official partner of Slovakia's national soccer team and also continued its partnership with the Slovak Olympic Committee. In November 2017, Banca Comercială Română and the Romanian Olympic Committee 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 Erste Group's claim #believeinyourself.

Our customers

FOCUS ON CUSTOMER RELATIONS

Erste Group puts customers and their needs at the centre of its business activities. In conformity with its founding principle, Erste Group aims to offer its customers advice, products and services that help them to achieve and maintain prosperity. 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 offering exactly those solutions that meet customers' needs at an appropriate 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.

Prosperity advice – the Erste Group's approach

Erste Group's retail business reflects its customer-centred approach that aims to support its customers in building and maintaining prosperity. 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. This development has been further accelerated by the Covid-19 induced crisis. Erste Group therefore offers advice not only face-to-face, but also via chat, audio and video communication and is steadily expanding these services.

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 and the acquisition of products of low complexity that customers increasingly wish to handle through digital channels. Erste Group therefore invests in building sales and servicing capabilities 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 for successful business relations. Branch interiors and infrastructure also 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 230 branches in its seven core markets: Austria, the Czech Republic, Slovakia, Romania, Hungary, Croatia and Serbia.

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, Romania and Croatia, George already serves more than six million users. George has been available in Hungary since February 2021. The implementation in Serbia will follow next.

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 product acquisition processes. In addition, they handle customer complaints or 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 completing the services on offer.

ACCESSIBILITY

Erste Group defines accessibility as designing the real-word 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.

2020 was an exceptional challenge due to the restrictions imposed in response to the Covid-19 induced crisis. As part of the essential infrastructure, Erste Group branches remained open during the lockdown periods. In consultation with the bank's crisis management team, measures were taken to protect people while maintaining the possibility of face-to-face contact – including the free-of-charge provision of face masks, hand sanitiser dispensers and Plexiglas screens in areas with busy customer traffic.

In addition, the capacities of the contact center were substantially expanded. The comprehensive banking offering via George also ensured that the customers of Erste Group could conduct their banking transactions through various channels during the Covid-19 induced crisis and lockdowns. In general, measures were taken to ensure a safe working environment. Wherever possible and practicable, employees were asked to work from home.

DATA SECURITY

The security of customer data is a key prerequisite for long-term success in the banking industry. This requires adequate protection of personal data as it is the personal details that are a significant factor in providing financial advice. Maintaining and improving data security is therefore of vital importance to Erste Group. Erste Group applies the highest standards in its IT infrastructure, provides ongoing training to its employees and has common guidelines in place throughout the Group to offer maximum protection against the misuse of personal data.

By sharing and specifying best practices in an ongoing process covering all markets, the Group Data Protection Office ensures that a consistently high level of data protection is implemented across Erste Group. The development of the Union of Data Protection Officers network and the continuous enhancement of data protection compliance may be regarded as the biggest success stories over the past two years. It is the aim to not only maintain the high level of security achieved, but to also implement additional technical and organisational measures in response to mounting challenges to preserve customers' trust as the process of digitalisation continues.

Trust is also earned through transparency: in the event that a loss, change or unauthorised disclosure or access to personal data occurs despite these precautions and if such 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 2020, 20 such notifications were sent to the authorities (thereof one for the Holding). If a breach involves a high risk, the persons affected have to be notified as well. In 2020, three such notifications were issued (thereof none 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 corporate governance.

As they had done in recent years, Erste Group's banking subsidiaries again launched various initiatives against the backdrop of their local environments to provide the best customer experiences possible in a consistent manner. The success of these activities is measured by the CXI (Customer Experience Index). The CXI is determined by the Group Customer Experience department, which is part of the Brand Strategy & Communications division, which reports to the Chief Executive Officer. The CXI replaces the Net Promoter Score (NPS) as it measures not only the customers' willingness to recommend the bank, but also satisfaction, readiness to switch to another bank, customer loyalty and customer effort and thus provides a more comprehensive picture.

The CXI is considered, for example, in calculating the internal bonus assessments of Erste Group's and local banks' management board members and also helps to determine the market positions as well as the strengths and weaknesses of local banks relative to the market leaders (top three competitors) in each country.

Despite the coronavirus crisis, customer satisfaction of the entire Erste Group developed positively in 2020 and is now at the highest level since the measurement began in 2015. Individual subsidiary banks either show growth in both the retail and the SME segment, or can at least keep the high level. In the retail business, Česká spořitelna, Erste Bank Hungary and Banca Comercială Română stand out for their positive development. In the SME business, Česká spořitelna achieved a significant improvement, both in absolute terms and in relation to the top three banks in the country.

RESPONSIBLE FINANCE AND INVESTMENT

In January 2020, the European Sustainable Investment Plan was presented as the investment pillar of the European Green Deal. To achieve the goals set out by the European Commission, a minimum of EUR 1 trillion in sustainable investments will be mobilised over the next decade to support a just and green transition. In parallel, the legal and regulatory framework was expanded. In July 2020, the Taxonomy Regulation establishing a common language of climate aligned and environmentally friendly activities entered into force. Early on, the European Commission made it clear that the financial sector is expected to play a key role in reaching the objectives of the Green Deal. The efforts of the European banking authorities complemented to the finance initiatives. The European Central Bank published a guidance on climate-related and environmental risk management and the European Banking Authority issued an action plan on sustainable finance and a discussion paper on the integration of ESG risks into the regulatory and supervisory framework.

True to its role as a leading financial institution in CEE, Erste Group is fully committed to take a major share in the transition process towards a sustainable and low carbon economy. Since its foundation, Erste Group has promoted social values and an inclusive banking concept. As early as in 2001, it started to offer ethically and environmentally responsible investment products. Against the backdrop of the rising importance of sustainable finance, the bank has extended its service offering, such as ESG structured investment products or specific corporate advisory and financing solutions.

In line with its Statement of Purpose, Erste Group has defined exclusion criteria to ensure the ecologically and socially responsible conduct of business in its Responsible Financing Policy. Restrictions apply to the critical part of energy and defence sectors. The financing of nuclear and of coal power plants, coal mining and fracking are excluded. Erste Group joined the institutions aligned with the Paris Agreement and is committed to progressively reduce its coal financing down to achieve a net zero exposure by 2030. Naturally, it is a complex commitment balancing social and energy security with the urgency of climate action. The Responsible Financing Policy is available on Erste Group's website (https://www.erstegroup.com/en/about-us/sustainability).

Erste Group's approach in developing sustainable finance reflects its cross-functional view towards sustainability. The Group Sustainability Office is responsible for aligning the key principles and priorities in all involved areas. In 2020, Erste Group's corporate division established an ESG advisory team to develop and promote corporate ESG values and banking solutions and to direct the flow of funds towards a sustainable and low-carbon economy across the CEE region. The debt capital markets and treasury departments aim at providing adequate sustainable funding and refinancing instruments and risk management formed complementary teams fitting to the ESG business initiatives and ensuring a sound implementation of the increasing regulatory requirements.

Erste Group's key investment and lending decisions have to pass several layers of screening to ensure compliance with the internal Responsible Financing Policy and the Code of Conduct. In project finance, Erste Group applies the international standards of the International Finance Corporation and the European Bank for Reconstruction and Development.

Corporate sustainable financing

Erste Group believes that sustainable finance benefits from public and entrepreneurial awareness, commitment and specific knowledge. For historical reasons, some CEE markets are still somewhat lagging behind in terms of pronounced public awareness and consequently prevailing support toward sustainable objectives. Erste Group's corporate ESG advisory team is dedicated to the mission of building the entrepreneurial understanding of enviro-social equity, long-term risk perspectives and advocating sustainable finance and sustainable debt capital markets. Erste Group's main goal in the region is to support its clients to start and progress in their transition process while ensuring private funding or co-funding means.

Erste Group sees major opportunities in the CEE region arising from the energy sector transformation towards low-carbon grids. In general, life-cycle costs of renewable energy have become comparable with market level, making them increasingly affordable. However, in some countries, the transition will also require modernisation of the transmission infrastructure and further legislative changes though. In 2020, Erste Group participated in or arranged transactions of EUR 1,183 million for renewable energy projects regarding wind-power, photovoltaic, small hydro power and biomass/ biogas across Erste Group's markets in CEE.

Erste Group's Sustainable Finance Corporates team supports a dedicated dialogue with Corporate clients. This typically starts with an industry- and client-specific assessment of ESG issues and leads to the identification of sustainable finance instruments that match the clients' sustainability and funding strategy. To date, Erste Group has participated in sustainable financings with environmentally or socially beneficial impacts through green or sustainability linked loans, SSDs (Schuldscheindarlehen) and bonds granted or placed with a total volume in excess of EUR 1,500 million.

Green bonds

Green bonds are a relatively new and fast-growing asset class. They were created to fund projects that have positive environmental and/or climate benefits. The rising demand for this asset class mirrors the increased public awareness about climate change.

Erste Group is about to finalise its internal framework for green or social bond issuances and plans to issue inaugural green or social bonds in 2021. Cross-functional teams comprising debt capital markets, asset/liability management and the Group Sustainability Office ensure that the requirements of all material stakeholders are met. The eligibility criteria are closely linked to the EU taxonomy, and Erste Group's guiding principles are in line with the ICMA (International Capital Markets Association) green and social bond recommendations and the recommendation of the EU technical expert group on the European green bond standard.

Erste Group believes that there will be a discount for green instruments (green premium) both on the primary and secondary markets and that there will be an increasing shift of private funds into the low-carbon economy transformation.

Asset management

Erste Asset Management (Erste AM) is the asset manager of Erste Group. All Erste AM entities are PRI Signatories (Principles of Responsible Investment) and are committed to the principles of responsible investment. For years, Erste AM has been offering investors an extensive range of sustainable funds enabling them to consider ecological, social and ethical aspects in their investment decisions. 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 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 applicable guidelines, including further restrictions are available on the website of Erste AM under sustainability (http://www.erste-am.com). By the end of February 2020, Erste AM took the next step by managing a large number of funds on the basis of integrated ESG criteria.

The Ethics Advisory Board, a body of five external experts, supplements the expertise of the experts at Erste AM in the field of ethical assessment. Erste AM is an active member of the following institutions: Eurosif, FNG (forum for sustainable investments) and CRIC (association for the promotion of ethics and sustainability in investments).

Erste AM is a leading provider of sustainable investment funds in Austria and the CEE region. At year-end 2020, Erste AM managed assets worth approximately EUR 68.2 billion. The assets of sustainably managed investment funds, categorised as ESG Impact, ESG Responsible and ESG Integration, including sustainable real estate assets, amounted to EUR 15.6 billion, held in a total of 78 investment funds that are divided into mutual funds and special funds or individual mandates.

Erste AM believes that a sustainable investment process creates most added value when it combines all available tools and methods. Against this backdrop and to meet strict customer requirements, Erste AM has developed the integrated sustainable approach for its sustainable funds. This approach combines exclusion criteria, positive screening, a best-in-class approach based on the ESG analysis, engagement and voting as well as the design of the investment decisions in line with the desired impact and the assessment of the sustainable yield thus achieved. Furthermore, Erste AM offers tailor-made solutions to its institutional clients.

The managed sustainable retail funds include eight bond funds among them a globally oriented, sustainable emerging market corporate bond fund and a global high-yield fund launched in May 2020, four regional equity funds, a global equity fund following a dividend strategy, a real estate fund, a microfinance fund of funds, a theme fund in the areas of environment and climate protection (in cooperation with WWF Austria), an asset allocation fund of funds as well as Erste Green Invest, launched in August 2020, whose investment decisions focus on measurable positive effects on the environment and society. In 2020, 13 sustainable funds were awarded the FNG label: four funds were awarded three stars and nine funds received two stars. The FNG label is the quality standard for sustainable investments in German-speaking countries and was first awarded by Forum Nachhaltige Geldanlagen (FNG) in 2015. Moreover, eleven of the sustainable funds, most of them for many years, have been awarded the Austrian Ecolabel for sustainable financial products.

Cooperation with other international asset managers (organized by PRI and Sustainalytics) continued in 2020. As a founding member of the Climate Action 100+ investor initiative, Erste AM has supported the five-year active dialogue with the world's 100 largest emitters of greenhouse gases from sectors such as oil and gas, electricity, transport and chemical industry since November 2017. The aim is to make these companies reduce emissions, improve climate-related reporting and to promote measures to combat climate change. In addition to its discussions with companies on controversial topics in the field of sustainability and environmental protection, Erste AM also represented the interests of its customers and fund shareholders at numerous annual general meetings.

The regularly published online blog of the Responsible Investment team of Erste AM (https://blog.de.erste-am.com/dossier-overview/) remained popular in 2020. In addition, brief sustainability profiles (fact sheets) on the investment universe and the sustainability funds are published regularly. Customers are provided with additional details on the selection criteria and their influence on sustainability-relevant key data (such as the funds' CO_2 footprints). In 2015, Erste AM was the first Austrian capital investment company to sign the Montreal Carbon Pledge. Erste AM thus undertakes to measure the CO_2 emissions of its investments and to publish the CO_2 footprint annually. In early 2020, cooperating with the University of Natural Resources and Life Sciences (Universität für Bodenkultur; BOKU) in Vienna and applying international standards, Erste AM was among the first entities in the financial sector to conduct a comprehensive calculation of greenhouse gases emitted by its operations. Calculations were performed for its offices in Austria for 2018 and 2019 and certified by staff of the BOKU CO_2 compensation system. In 2020, the water footprint for ERSTE RESPONSIBLE equity funds was calculated for the third time.

Structured investment products and advisory

Erste Group has already issued several sustainable retail structured investment products in some of its CEE markets. Having long-standing experience in developing structured investment products for its retail clients, Erste Group regards the integration of ESG factors in its product development and offering a commitment to enable its retail clients to invest according to their sustainability-related preferences.

Business responsibility for the development and management of the group-wide sustainability policy for retail structured investment products lies within the central product management unit, which aligns all ESG related topics with the Group Sustainability Office.

In 2020, Erste Group launched a group-wide initiative to introduce a unified Group Markets Retail Responsible Investment Policy for its retail structured investment products. This policy ensures a common understanding of sustainable retail structured investment products and financial advisory services. In addition, it provides transparency on the applied ESG characteristics. The policy has been available on Erste Group's website since March 2021.

Erste Group aims to build-up a client preference-oriented sustainable retail structured investment product offering based on a harmonised ESG methodology and aligned disclosure standards between its entire asset management and advisory universe. To foster the sustainability knowledge of the financial advisors, a growing range of dedicated ESG training sessions and webinars will be available.

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 all people and to disseminate prosperity – has not changed. For a variety of reasons more than 14 million people in Erste Group's core markets (Austria, 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's social banking initiatives focus on financially excluded or vulnerable private individuals (people at risk of poverty or social exclusion) and social organisations (non-profit sector, non-governmental organisations and social enterprises) by offering them fair access to financial products, sound financial advice and business training and mentoring. Social banking was rolled out across all of Erste Group's local banks and was implemented in partnership with ERSTE Foundation and local social sector organisations. Since the launch, 36,000 clients have been supported, loans of EUR 380 million have been granted and, additionally, educational support has been provided to 26,000 clients.

A specific social banking risk policy sets out the key requirements for managing credit risk of social banking in Erste Group. This policy applies to social banking activities to private individuals, micro clients/starting entrepreneurs, social organisations and special projects. The policy provides a framework that is adapted according to local needs and local legal regulations. The responsibility for each transaction lies with the associated local bank of Erste Group.

Financial inclusion empowers people to cope with unexpected financial shock. Since its foundation in 2006, Zweite Sparkasse has helped a total of 20,500 people in financial difficulties in Austria and currently serves about 8,600 customers. In Slovakia, Slovenská sporiteľňa's social banking continued its debt advisory programme supporting approximately 730 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 financing 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 Social Affairs, Health, Care and Consumer Protection targeting unemployed people starting their own business was extended by adding mentoring support. Overall, Erste Group financed 520 starting entrepreneurs with a total volume of EUR 23 million in 2020.

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) is a non-banking financing institution established in 2009 with a clear social inclusion mission and reinvesting all earned profits back into the company. It provides tailored financial and non-financial products for micro-businesses, small agricultural producers and individual enterprises, in both rural and urban areas of Romania. In 2020, BCR social finance approved 1,400 loans and disbursed EUR 15 million to Romanian micro-businesses.

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. The Covid-19-induced crisis has triggered funding constraints for many of these organisations. In addition, the current economic downturn might result in declining future aid budgets, social programmes and donations. In May 2020, Erste Group Social Banking with the support of ERSTE Foundation started to provide emergency working capital loans with a zero interest rate in 2020 to non-profit organisations in the CEE markets aiming to support the social sector to cover immediate needs and current expenditure. Additional consultation is provided to find suitable financing.

Erste Group's social banking experts and mentors offer innovative advice and dynamic perspectives to support social enterprises and starting entrepreneurs. For these clients, Erste Group offers a bundle of working capital loans, bridge loans and investment loans. Erste Group Social Banking benefits from the social entrepreneurship guarantee umbrella under the EU Programme for Employment and Social Innovation (EaSI). In 2020, Erste Group financed 110 social organisations, NGOs and social entrepreneurs with a total volume of EUR 14 million.

Social Impact Bond

Erste Social Finance Holding and ERSTE Foundation teamed up with atempo, an experienced social enterprise in the field of social inclusion, to contribute to solving issues of unemployment of low-skilled women and social exclusion of people with disabilities in a social impact bond scheme initiated by the Austrian Federal Ministry of Social Affairs, Health, Care and Consumer Protection. The goal of this project is to support independence and the quality of life of people with disabilities, and at the same time to empower unemployed women with professional, targeted education and mentoring to enable their re-entry into employment. Pre-financing of the private investor is guaranteed by the Federal Ministry of Social Affairs, Health, Care and Consumer Protection. The initiative is planned to run from May 2020 until December 2023 and will be realised in Vienna, Styria, and Lower and Upper Austria.

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.

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
- 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, 100% 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 2020, the total amount paid to companies outside Erste Group was slightly above EUR 1.15 billion, mostly linked to IT (43% of total spending), followed by expenses for services, operations and marketing (36%) and facility management (21%). Out of a total of 20,556 suppliers at group level, 693 suppliers accounted for 80% of total third party expenditure.

90.7% of suppliers (reflecting 94% of third party expenditure) are located in the European Union, highlighting Erste Group's focus on its markets in Central and Eastern Europe including Austria. 8.6% of suppliers are located in other European countries, 0.5% in North America 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 must 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 an electronic tendering system. The IT application blocks the entry of further data, and thus collaboration with a supplier, if there is not enough information available or a supplier classified as critical has not been explicitly approved. Any non-compliance with the supplier code of conduct is brought forward to compliance delegates, who decide on further action, if required. In addition to the initial evaluation, follow-up reviews are performed regularly on the most important suppliers or those having the most significant risk profile.

Environmental aspects

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

- Existence of an environmental management system
- Existence of a written environmental policy
- Method for measuring CO_2-emissions
- Existence of environmental targets
- Information on fines or charges for environmental infringements
- Description of the supplier's supply chain

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

A supplier sustainability scorecard was introduced in 2017. Suppliers are required to disclose their ecological footprint (energy consumption, waste and emissions) for the previous two years, either at an aggregate level or related to their activities for Erste Group. In 2020, 66 suppliers with resource-intensive operations such as data centres and 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 2020, 20,556 contracts with suppliers were concluded or renewed. Of these, 1,808 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 2020, Erste Group co-operated with 20,556 suppliers, of which 1,808 suppliers had a current supplier audit questionnaire on file. 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.

Compliance and anti-corruption

Erste Group is committed to the highest standards of corporate governance and responsible behaviour of every individual 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. Compliance with external and in-house standards provides the basis for long-term trust in Erste Group.

Erste Group's compliance programme has laid the basis for a common understanding of values within the Group. The Code of Conduct provides guidance for Erste Group's employees. The rules it sets out for dealing with the day-to-day business create the basis for compliance awareness and for the compliance management system that ensures conduct in conformity with laws and policies.

The Compliance department is responsible for the compliance programme and thus for compliance matters within Erste Group. In organisational terms, Compliance is assigned to the Chief Risk Officer's division but reports directly to the entire management board. The compliance programme of Erste Group is based on relevant legislation such as the Market Abuse Regulation and the Securities Supervision Act, the Criminal Code and the Financial Markets Anti-Money Laundering Act as well as international practices and standards.

Conflicts of interest between customers, Erste Group and employees are governed by clear rules. The most frequent types of conflicts of interest have been defined. Policies and organisational measures have been implemented to manage such conflicts of interest, including information barriers and rules on accepting and giving benefits. Additional standards apply, for example, with regard to employee transactions and research disclaimers. Among the key issues are also the establishment and coordination of processes and measures to prevent money laundering and terrorist financing, to comply with financial sanctions and embargoes and to prevent financial crime. In this area, substantial investments are being made on an ongoing basis to strengthen the monitoring systems.

To ensure compliance with all laws and regulations, standards, policies and processes are continuously evaluated and reviewed across the Group.

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

ANTI-CORRUPTION

Based on international anti-bribery and anti-corruption initiatives (e.g. the OECD Anti-Bribery Convention, the United Nations Convention against Corruption), local authorities in many countries have adopted laws and regulations that generally prohibit offering public officials benefits for the purpose of obtaining or retaining business or otherwise securing improper advantages. Offering improper payments or other inducements for the benefit of a public official, even if made indirectly through an intermediary, is 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. All of Erste Group's businesses are subject to the laws and regulations in the countries in which Erste Group operates.

Preventing and combating corruption is fundamental to Erste Group. The following measures are taken to comprehensively raise awareness among and provide information to employees:

Policy. By rolling out a group-wide policy on conflicts of interest and anti-corruption, Compliance educates employees about key national rules as well as the rules of the UK Bribery Act and the US Foreign Corrupt Practices Act (FCPA). This ensures that every employee of Erste Group is familiar with the relevant rules and knows how to apply them. This policy is a minimum standard for the entire banking group.

Training. New employees are systematically instructed in the essence and processes of Erste Group's corruption prevention efforts. Regular releases of intranet news on key themes of anti-corruption efforts such as the proper handling of benefits around Christmas or of monetary or non-monetary benefits help to raise awareness of the anti-corruption agenda.

Reporting. Every employee of Erste Group must refrain from any conduct that might give rise to a suspicion of corruption. In addition, various reporting duties have to be met, including in particular reporting any acceptance or giving of certain benefits in the public and the private sector as well as any benefits they receive from third parties within the meaning of MiFID II or give to such third parties. With all topics arising in connection with corruption prevention, Erste Group's employees may contact Compliance through various channels such as e-mail, reporting tools or, anonymously, by whistle-blowing.

Group steering. Under a comprehensive communication scheme, Erste Group entities share information intensively at the expert and division head levels (e.g. regular expert calls, annual division head conferences). Local compliance officers and Erste Group's Compliance department hold regular phone conferences to discuss key issues such as ways of providing advice and creating awareness specifically on matters such as benefits and side-line activities.

Surveillance. All suspicious cases are reviewed and disciplinary action is taken, if required. The group-wide survey of corruption risks did not reveal any significant corruption risks for Erste Group.

Activities in 2020

_ 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 system to combat money laundering
_ Annual or periodic reviews of policies including the group-wide AML, KYC, CTF, FATCA 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
_ Update of the reporting tool for conflicts of interest (benefits and side-line activities)

Activities continuing in 2021

_ Increased process and technical improvements in anti-money laundering, financial sanctions and data analyses to combat financial crime
_ Further improvement of the monitoring system to combat money laundering
_ Campaigns to strengthen awareness regarding conflicts of interest and anti-corruption

Employees

Erste Group is convinced that current and future staff-related goals can be achieved by focusing on the following three pillars of its human resources strategy:
_ 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-centric way. Attracting, retaining and engaging highly qualified employees 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 sectors, by offering various learning and development 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 the next few years, Erste Group expects that a significant part of today's competences will either become obsolete or will be replaced with different skillsets, more relevant for an agile and digital workforce. 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 purpose-driven, collaborative and team-oriented, thus taking the prosperity and satisfaction of customers into account.

Erste Group contributes 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).

Erste Group's response to Covid-19

At the end of January 2020, a Covid-19 Coordination Team was established to assess risks for the company with the accelerated spreading of the coronavirus and to coordinate necessary measures. The aim was to ensure a maximum of safety for both employees and customers as well as to protect the business interests of Erste Group while supporting governmental efforts.

Starting with the first lockdown in mid-March the share of employees of central buildings working from home rose to over 90% within 36 hours. It proved to be advantageous that employees had already been equipped with laptops and softphones, and in most cases, with mobile phones, for several years to accommodate working in modern open-space working environments and from home in general.

As banking was defined as a part of critical infrastructure, Erste Group's branches were kept open even during complete shutdowns in all of its core markets. In some branches, opening hours were reduced, and a two-team system was introduced for several months to ensure the safe and stable provision of services.

Due to the strict containment and safety measures no infection clusters were identified in branches or central buildings during 2020.

So far, Erste Group Bank AG has not made use of any government subsidies, such as tax deferrals, compensation of wage costs or short-time work in connection with Covid-19.

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. Erste Group is convinced that diversity promotes operating excellence, as diverse teams achieve better results.

The code of conduct also emphasises the respect for human rights and non-discrimination. Erste Group strives to create the best possible work environment, free of discrimination, harassment and intimidation. It values the work of each and every person regardless of gender, age, marital status, family obligations, religion, political conviction, sexual orientation, nationality, social or ethnic background, disability physical appearance and any other aspects unrelated to the bank's business.

Diversity and inclusion

In 2020, Erste Group's Diversity and Inclusion Policy was renewed, defining measures to increase the share of women in management positions. This policy focuses on the following four areas:

_ HR processes including recruitment, retention and promotion
_ The reconciliation of private and professional lives
_ Culture and communication
_ A new set of targets and ways to effectively monitor them

Erste Group did not reach the 35% target for women in top management positions by year-end 2019. Following an in-depth analysis of the process, the management together with experts in the fields of human resources and diversity set the objective to reach a share of 37% women in top management positions (i.e. board and board-1) and 40% women in other management positions (i.e. B-2 and B-3) by the end of 2025. Specific targets were defined for each of the local banks, supplemented with an effective monitoring and reporting system. As of year-end 2020, the banking subsidiaries of Erste Group hold a share of women in top management of 26.6% (2019: 27.4%), with Banca Comercială Română as the best-performer with 41.9% (41.2%), followed by Erste Bank Serbia with 40.0% (38.1%) and Erste Bank Croatia with 33.3% (26.7%).

In addition, Erste Group focused on the group-wide implementation of the following initiatives:

_ Establishment of new communication formats to raise awareness for diversity and equal opportunity among executives, to make existing offers more visible and to provide best practice examples
_ Establishment of a strategic interim management system for persons on parental leave that addresses career disruptions with flexibility and a clear focus on the development opportunities for women and men

As the sole Austrian and one of only three companies in the CEE region, Erste Group was again listed in Bloomberg's Gender Equality Index (GEI). This index measures disclosure and performance in promoting gender equality in five areas: female leadership and talent pipeline, equal pay and gender pay parity, inclusive culture, sexual harassment policies, and pro-women brand. Another prestigious international benchmark is Erste Group's participation in the EU Diversity Charter platform. All local banks (with the exception of Erste Bank Serbia because it is headquartered in a non-EU member state) are signatories to their national diversity charters in which members commit themselves to establish an inclusive working culture for their employees regardless of gender, ethnicity, religion, age, disability and sexual orientation. In 2020, Erste Group was for the first time a main partner of the United Nations initiative Orange the World. The purpose of the campaign is to raise awareness for violence against women and support women globally to lead a life free from all forms of violence.

Antidiscrimination

A company agreement on preventing discrimination and promoting respectful behaviour in the workplace was concluded for Austria in 2015 to protect against all forms of discrimination, bullying and harassment. An independent anti-discrimination officer advises and mediates in matters concerning harassment and discrimination and works with management on awareness and prevention. In 2020, this company agreement was revised and expanded in the direction of active conflict management, as Erste Group set itself the goal of dealing with conflicts in the Code of Conduct.

Advice for employees is confidential and is accompanied in a structured solution process if required.

Experience obtained from such conflict situations are perceived as an opportunity to work on the continuous development of the corporate culture. This development focuses primarily on raising awareness and improving processes, behaviour and organisational matters for management and employees.

Following its successful implementation in Austria, a Group Policy will be drawn up in 2021 that will also offer Erste Group's subsidiaries outside Austria a framework for conflict management and processes to address and deal with discrimination, bullying and harassment.

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 Group's employees benefitted from the expanding offer of digital learning formats. Deploying the latest digital learning platforms with continuously updated content, Erste Group was able to quickly amend the learning content structure to reflect rapidly changing needs of managers and professionals in the unprecedented workplace situation due to Covid-19.

Erste School of Banking and Finance, representing the group's key learning programmes framework, switched most of its professional and leadership training, customised executive training, and personal development training courses as well as business area-specific programmes, to blended or fully virtual formats. This allowed Erste Group to keep its 2020 focus on job-specific competence building as well as on identifying and developing group-wide pools of high potential leaders, continuing its cooperation with renowned institutions such as IESE Business School, IMD Lausanne, WU Executive Academy in Vienna and Ashridge Executive Education.

Erste School of Banking and Finance offers colleges for specific business areas. The Corporates & Markets College focuses on specific product knowledge, corporate analysis and corporate sales abilities. The Finance College covers topics of 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 helps to acquire knowledge in the various areas of risk management. The Business Transformation College provides training on project management and business analysis, enterprise architecture and the broad integration of agile methods.

Erste Group's international leadership development initiatives are structured into a comprehensive roadmap called Erste Leadership Evolution Centre (ELEC), addressing the full range of leadership development. ELEC also includes development programmes for Erste Group's talent pools that aim at developing internationally mobile, high-potential leaders across three seniority levels. 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.

Attracting new generations of workforce through comprehensive development opportunities remains a steady priority across Erste Group. The aim of the annual Group Graduate Programme for university graduates is to attract top international graduates and provide them with fundamental banking and risk management knowledge. In the current Graduate Programme, 50% of the participants are women.

In 2020, each employee of Erste Group had on average 21.5 training hours for professional development (women 21.4 and men 21.7 training hours). Employees in managerial positions had on average 26.0 training hours. Each employee of the Holding had on average 20.2 training hours for professional development (19.6 hours for women and 20.8 hours for men).

In 2021, Erste Group plans to further expand its digital learning offering for employees and managers. Based on the experience during the pandemic, Erste Group decided to continue expanding digital learning formats. In many training courses, online formats proved to add substantial value. The focus will be both on the development of new formats and on the education of internal trainers who need to master a professional approach to the new media.

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 boards or, where established remuneration committees, review remuneration policies and practices annually on Group as well as on local level, to ensure compliance with respective international and national legislation.

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 remuneration are designed in such a way that they do not promote excessive risk-taking. Variable remuneration components may be offered to all employees and are based on company, individual and business line performance. Specific sales incentive schemes are offered to employees working in the retail and corporate business lines and are also based on company, individual and business line performance. Sales incentive schemes are based on quantitative and qualitative criteria. On all these levels, Erste Group uses a balance between financial and business growth, risk, customer satisfaction and cost indicators. The overall performance evaluation also includes the employee's social and business competence.

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

EMPLOYEE HEALTH & WORK-LIFE BALANCE

Respecting and promoting work-life balance has been a longstanding priority of Erste Group, and it offers a wide variety of family-friendly measures and evaluates them on a regular basis to ensure that they meet the employees' needs. These measures differ from country to country and include flexible work arrangements, a company kindergarten, short sabbaticals and regular meetings for employees on parental leave.

One of the priority measures ensuing from the Career and Family (Beruf & Familie) Certification Audit in Austria is to develop effective interim management models for persons on parental leave that address career disruptions with flexibility and a clear focus on the development opportunities for women and men on parental leave. In 2020, Erste Group fostered its initiative on encouraging more men to take full advantage of parental leave options.

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.

The requirements for occupational safety in Austria are regulated by law (Occupational Health and Safety Act). Erste Group ensures compliance with all legal requirements with its own health centre and covers support for the Holding, Erste Bank Oesterreich and almost 30 subsidiaries. In 2020, in the course of the Covid-19 pandemic, almost 7,000 employees received medical treatment in the context of occupational health measures.

To set effective measures for employees within the scope of Covid-19 and to maintain continuous banking operations, the health centre initiated and supervised several very successful approaches: a hotline operating 7 days a week for inquiries from employees regarding related health issues, immediate testing in case of suspected infection, participation in a study led by Medical University of Vienna regarding the immunity situation of employed persons with various demographic factors and employments as well as immediate individual and team support for all employees.

Erste Group's Vienna based health centre 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 ensured quick access to treatment.

A company agreement on re-integration ensures that employees can gradually return to work after an extended sick leave. Erste Group is one of only a few companies with such an agreement, which has resulted in a significant decline in long-term sick leaves over the past years.

As mental health is increasingly important for the labour market, the health centre has 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 (48,516 employees; headcount) include data from direct and indirect holdings of Erste Group outside its below-mentioned core markets.

Overview and age structure 2020

	Total		<30 years		30-50 years		>50 years	
	Women	Men	Number	in %	Number	in %	Number	in %
Erste Group	**30,271**	**18,245**	**7,812**	**16.1%**	**29,097**	**60.0%**	**11,607**	**23.9%**
thereof Holding	924	1,016	213	11.0%	1,184	61.0%	543	28.0%
Austria incl. Holding	9,873	8,822	3,131	16.7%	9,738	52.1%	5,826	31.2%
Czech Republic	6,894	3,320	1,858	18.2%	6,051	59.2%	2,305	22.6%
Slovakia	2,705	1,149	574	14.9%	2,490	64.6%	790	20.5%
Romania	4,301	1,541	871	14.9%	3,724	63.7%	1,247	21.3%
Hungary	2,086	1,284	558	16.6%	2,352	69.8%	460	13.6%
Croatia	2,201	1,040	394	12.2%	2,360	72.8%	487	15.0%
Serbia	923	340	194	15.4%	875	69.3%	194	15.4%

Mode of employment

	Full-time employees				Part-time employees			
	2020		2019		2020		2019	
	Women	Men	Women	Men	Women	Men	Women	Men
Erste Group	**24,166**	**17,200**	**24,773**	**17,927**	**6,105**	**1,045**	**6,444**	**1,101**
thereof Holding	612	921	639	991	312	95	329	104
Austria incl. Holding	5,106	8,037	5,217	8,271	4,765	787	4,872	817
Czech Republic	6,118	3,227	6,024	3,032	777	92	925	108
Slovakia	2,624	1,133	2,883	1,180	81	16	96	15
Romania	4,114	1,488	4,508	2,138	188	52	271	75
Hungary	1,873	1,200	1,873	1,159	213	84	197	79
Croatia	2,147	1,038	2,218	1,058	54	2	55	0
Serbia	918	338	820	326	5	2	3	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	
	2020	2019	2020	2019	2020	2019	2020	2019
Erste Group	**25.1%**	**23.4%**	**43.5%**	**41.2%**	**10**	**9**	**679**	**677**
thereof Holding	25.5%	22.5%	28.4%	25.2%	4	6	17	15
Austria incl. Holding	19.3%	16.8%	25.6%	24.6%	7	8	338	330
Czech Republic	14.0%	14.4%	54.5%	56.8%	20	13	118	128
Slovakia	22.5%	19.4%	57.6%	58.4%	13	9	164	154
Romania	39.2%	38.6%	55.4%	55.3%	8	8	32	34
Hungary	24.1%	24.4%	48.6%	41.9%	3	9	10	9
Croatia	38.6%	35.7%	64.7%	60.4%	4	5	15	14
Serbia	37.5%	34.8%	53.2%	50.9%	9	10	0	1

Executive positions cover all 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 2020, one woman and six men were members of the management board, two of them were between 30 and 50 years old, and five 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)

	2020				2019			
	Women		Men		Women		Men	
	Number	in %	Number	in %	Number	in %	Number	in %
Erste Group	**1,013**	**80.3%**	**120**	**96.0%**	**1,009**	**77.7%**	**139**	**97.9%**
thereof Holding	22	100%	7	100%	37	94.9%	16	94.1%
Austria incl. Holding	268	91.4%	81	99.0%	300	89.6%	82	97.6%
Czech Republic	151	67.4%	0	n.a.	131	44.4%	1	100.0%
Slovakia	94	77.0%	15	93.8%	80	96.4%	25	100.0%
Romania	194	84.0%	11	100%	244	97.2%	22	95.7%
Hungary	80	61.1%	0	0.0%	51	46.4%	0	n.a.
Croatia	123	83.7%	12	100%	109	87.2%	6	100%
Serbia	46	93.9%	0	n.a.	36	94.7%	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 2020

	Women		Men		<30 years		30-50 years		>50 years	
	Number	in %	Number	in %	Number	in %	Number	in %	Number	in %
Erste Group	**2,978**	**63.4%**	**1,722**	**36.6%**	**2,202**	**46.9%**	**1,918**	**40.8%**	**580**	**12.3%**
thereof Holding	38	48.1%	41	51.9%	22	27.8%	46	58.2%	11	13.9%
Austria incl. Holding	745	57.8%	545	42.2%	665	51.6%	520	40.3%	105	8.1%
Czech Republic	945	63.2%	551	36.8%	591	39.5%	487	32.6%	418	27.9%
Slovakia	216	67.5%	104	32.5%	167	52.2%	147	45.9%	6	1.9%
Romania	446	71.4%	179	28.6%	339	54.2%	267	42.7%	19	3.0%
Hungary	234	57.9%	170	42.1%	176	43.6%	210	52.0%	18	4.5%
Croatia	130	68.4%	60	31.6%	90	47.4%	94	49.5%	6	3.2%
Serbia	126	71.6%	50	28.4%	84	47.7%	88	50.0%	4	2.3%

The calculation methodology was changed in 2020. The percentages refer to the total of newly hired employees. In 2019, the percentages referred to the total headcount.

Fluctuation in 2020

	Women		Men		<30 years		30-50 years		>50 years	
	Number	in %	Number	in %	Number	in %	Number	in %	Number	in %
Erste Group	**3,645**	**10.8%**	**1,844**	**9.3%**	**1,502**	**14.5%**	**2,737**	**9.8%**	**1,250**	**8.2%**
thereof Holding	59	5.9%	75	6.7%	27	9.4%	61	4.6%	46	8.9%
Austria incl. Holding	808	7.6%	785	8.2%	395	10.3%	568	5.4%	630	10.8%
Czech Republic	887	11.3%	339	9.3%	340	12.9%	657	22.0%	229	3.9%
Slovakia	512	16.0%	153	11.8%	137	15.9%	368	13.1%	160	19.3%
Romania	720	14.4%	194	11.4%	342	27.4%	465	11.3%	107	8.0%
Hungary	330	14.2%	190	13.4%	143	21.8%	327	12.6%	50	10.1%
Croatia	229	9.6%	81	7.7%	83	14.4%	170	7.1%	57	12.2%
Serbia	77	7.6%	36	9.5%	26	9.6%	75	8.1%	12	6.1%

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 10.2% (2019: 12.1%).

Environment

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

The Paris Agreement of 2015, the United Nations’ Sustainable Development Goals and the Special Report of the Intergovernmental Panel on Climate Change of October 2018 have one thing in common: they call for accelerated and more decisive action to reduce greenhouse gases and transition to a low-CO_2 climate-neutral economy. The European Commission estimates that up to 2030, additional annual funding of approx. EUR 260 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 financial institutions are facing. Erste Group has therefore already been pursuing ecological goals for many years and understands sustainability as part of its corporate responsibility, building on its 200-year history.

Consequently, Erste Group has set ecological targets to minimise its operational environmental footprint. Its direct environmental impact is limited to energy and paper consumption. Since 2016, Erste Group’s published data show a total reduction of more than 21% in Scope 1 and Scope 2 emissions even though the scope of reported entities increased significantly.

ENVIRONMENTAL STRATEGY

Erste Group's environmental strategy is based on four pillars:
_ Establishment of environmental management systems
_ Inclusion of ecological criteria in banking products and services
_ Establishing a supply chain management system for all purchased products and services
_ Cooperation with non-governmental organizations active in the environmental sector

Ecological targets

For 2019 to 2021, targets for the use of energy and other resources have been agreed individually for each of the local subsidiary banks. Following absolute targets set for 2012 to 2016 (e.g. reduction of the total consumption of electrical energy), this time, relative targets (e.g. consumption of electrical energy per m^2) were agreed. Relative targets enable comparability between local subsidiary banks. In the past, comparability was limited due to the increasing number of companies included in the non-financial reports and the continuous reduction in the number of branches.

The six key indicators for the ecological targets are:

_ Average electricity consumption in kWh/m^2
_ Average heating energy consumption in kWh/m^2
_ Share of hybrid/e-cars in the carpool in %
_ Copy paper consumption in kg/employee (FTE)
_ Share of recycled copy paper in %
_ CO_2e emissions (Scope 1 + Scope 2) in tonnes/employee (FTE)

The starting points for the individual targets for each core market were the respective values from 2018. One year after having introduced the ecological targets, Erste Group's subsidiaries in Serbia, Croatia and the Czech Republic already met their targets on Scope 1 and Scope 2 emissions per FTE in 2020. With regard to the share of hybrid/e-cars in the carpool, the entities in Romania, the Czech Republic and in Austria met the set goals in the course of 2020. In addition, the target on the share of recycled copy paper was reached across Erste Group except in Austria due to the increased scope of entities, i.e. the Austrian savings banks that were not part of the non-financial report in 2019. Nonetheless, paper consumption per FTE declined due to the shift towards a higher rate of persons working from home.

The individual environmental targets as well as the environmental data for the reporting period are presented in a table at the end of this section.

Scope 3 emissions associated with Erste Group's investments and financing significantly contribute to total greenhouse gas emissions. For this reason, Erste Group started an initiative to develop a methodology to calculate the point-in-time carbon footprint of its credit portfolio in 2020 and to report it in 2021. CO_2e Scope 3 emissions caused by mobility (e.g. kilometers travelled by air, train or rental car for business purposes) are not reported as they are immaterial compared to emissions due to investment and finance activities.

Overall, Erste Group's reported total CO_2e emissions (Scope 1 + Scope 2) were reduced by 7,518 tonnes (-11.6%), which was mainly attributable to efficiency measures in Romania (-5,401 tonnes CO_2) and Hungary (-1,810 tonnes CO_2). The increase in emissions in Austria (+20.2%) was due to the expanded scope of entities.

Ecological footprint

	2019	2020
Electricity consumption	175 GWh	165 GWh
Heating/cooling energy consumption	138 GWh	137 GWh
Fuel consumption	46 GWh	37 GWh
Total energy consumption	359 GWh	340 GWh
CO_2e-emissions (Scope 1 and 2)	64,834 t	57,492 t
Copy paper consumption	1,615 t	1,295 t

Scope of consolidation

In 2020, the reporting scope of environmental data covers the whole consolidation scope of Erste Group entities except one minor operational entity that accounts for less than 1% of total FTEs.

In 2020, the environmental data of all Austrian savings banks of Erste Group were taken into account, while in 2019 only those with more than 150 employees were covered. The extension of the reporting scope by 30 Austrian savings banks led to the following increases in environmental data: total energy consumption 17,226 MWh (thereof consumption of electrical energy: 6,596 MWh, consumption of heating energy 7,577 MWh), copy paper consumption 55 t (of which 9.4 t recycled paper), CO_2e emissions 2,054 t.

Environmental management systems

Certifications according to ISO 14001 and/or ISO 50001 have been completed in Erste Group's subsidiaries in Croatia, Slovakia and Hungary. Erste Bank Croatia introduced energy management standard ISO 50001 in addition to the ISO 14001 certification that has been in place since 2017. Česká spořitelna is considering the introduction of an EMAS certification in 2021. Of the Austrian savings banks Steiermärkische Sparkasse (ISO 14001) and Allgemeine Sparkasse Oberösterreich (ISO 50001) are already certified. Steiermärkische Sparkasse plans to audit its environmental management system at the beginning of 2021. Dornbirner Sparkasse has been certified ÖKOPROFIT every year since 2012

PRIORITIES

Improving energy efficiency

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

The reduction in energy consumption for electrical energy and for heating and hot water preparation is predominately ensured by new, energy-efficient headquarter administrative buildings. However, branches are mostly located in rented premises and therefore are limited in their choice of heating systems efficiency measures that can lead to improvements.

_ The following newly constructed Erste Group headquarters meet strict ecological criteria and thus contribute substantially to reduced consumption of resources: Erste Campus in Vienna is certified on platinum level by DGBN/ÖGNI Österreichische Gesellschaft für Nachhaltige Immobilienwirtschaft.

_ The Bridge, the headquarters of Banca Comercială Română in Bucharest, holds LEED Platinum (Leadership in Energy and Environmental Design) certification. Office space in the LED technology equipped building was reduced from 21,000 m² of floor area to 14,000 m² compared to the old premises.

Erste Campus, for example, is supplied exclusively with non-fossil energy (district heating and cooling and green electricity). In 2020, the use of district cooling was reduced significantly by 39.2% (2019: 27.7%) to 1.0 GWh (2019: 1.7 GWh) through improved use of cold groundwater for cooling. The construction of a photovoltaic system on the roof of the Erste Campus began in December 2020. The 764 modules covering roughly 2,000 m^2 will supply approximately 250,000 kWh per year, which is roughly equivalent to the consumption of 5 branches or 125 households. This installation is an important step to make the main building of Erste Group even more climate-friendly, in addition to measures already taken, such as the use of 100% green electricity and the use of rainwater and district cooling.

Česká spořitelna's energy management focus was on the implementation of remote monitoring and control of technical building management, e.g. a facility management system enabling digitalisation and technology passporting, control of cleaning and waste management and corresponding documentation of systems. The bank cooperated in this area with the Centre for Energy Efficient Buildings and the Faculty of Mechanical Engineering of the Czech Technical University. Slovenská sporiteľňa achieved a further 10% reduction in electricity consumption by reducing the CO_2 footprint of its branches and optimising data server functions.

At the beginning of 2020, Erste Campus as well the branches of Erste Bank Oesterreich and some savings banks switched to Verbund as their electricity provider. Verbund is Austria's leading electricity company and one of Europe‘s largest producers of electricity from hydropower, making up almost 100% of their electricity generation.

Several savings banks joined the effort and invested both in energy savings and innovation. Kärntner Sparkasse piloted an eco-protective local concept. For the wooden construction of a new branch, wood was sourced locally in the Gurktal region and owing to an innovative heat pump the building's CO_2 emissions are kept at minimum levels. When Wiener Neustädter Sparkasse planned the renovation of both their customer center and the main headquarters, a special emphasis was placed on state-of-the-art technology for ventilation, cooling, heating and lighting.

A project aiming at the transition to sustainable energy and the vision of operating in a climate-neutral manner launched in 2019 by Allgemeine Sparkasse Oberösterreich, with support from OÖ Energiesparverband, proved successful in 2020. The conversion to energy sourcing with zero-carbon electricity led to a reduction of the CO_2 emissions of 59%. Technical monitoring of selected branches is an important part of this project. Automatic meter readings facilitate energy consumption and trend reports. In addition to the main locations of Promenade, sBC and Wels, six additional branches will be integrated into the system in 2020. The project also includes an analysis of the mobility behaviour of employees on their way to work.

Use of electric and hybrid vehicles

An additional measure to reduce CO_2e emissions is the replacement of fossil fuel-powered company cars with e-cars or hybrid cars. Given the cost-efficiency focus in 2020, Erste Group generally did not invest into car-fleet renewals, and its policy was focused mainly towards reduction, phase out or essential replacements. Still, Erste Group made progress towards its goal and increased the share from 1.4% to 3.2% in 2020. Austria reached 9.1% in 2020 (2019: 6.6). Banca Comercială Română improved its share from 0.1% to 3.8% as the net increase of its carpool was fully covered with eco-friendly vehicles. Other entities achieved a reduction of emissions through a decrease of their combustion engine car park – Česká spořitelna by 4.9% and Erste Bank Croatia by 8.9%. A further increase of the share of e-cars or hybrid cars will also depend on the charging station network availability in CEE countries, which is still only a fraction of that in Austria. E-car charging stations were put in place at various sites including Erste Campus in Vienna and several savings banks branches.

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 whenever 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. sDG Dienstleistungsgesellschaft mbH – with 187 tonnes the main consumer of printed paper across Erste Group in Austria – reduced its consumption by 37.5 tonnes in 2020.

Other paper reduction initiatives in 2020 include Erste Bank Croatia introducing electronic delivery of invoices and Česká spořitelna's ongoing Low-paper office operation project with topics such as cashless banking, biometrics and robotics.

Other environmental initiatives

One element of Erste Group's environmental strategy is cooperation with environmental NGOs. They offer access to their local and international expertise and provide Erste Group with valuable support in its efforts to improve its ecological sustainability. An example of this is the close cooperation between Erste Asset

Management and WWF in the area of ecologically particularly sustainable investment funds. With an increase in value of 77% in 2020, the ERSTE WWF Stock Environment Fund underlined that sustainability and financial performance can be combined.

Česká spořitelna is a member of Společenská odpovědnost (the Association of Social Responsibility), the largest Czech CSR initiative, and a founding member of the Změna k lepšímu (Change for the better) initiative. The bank supported the Foundation Partnerství and their project Greenways: 4,200 kilometers of cycling and hiking trails were built. Erste Bank Serbia encourages its employees to take an active part in environmental initiatives and raises awareness, for example by cleaning the Petrovaradin fortress with the help of volunteers. In 2020, Erste Bank Restaurantbetriebe switched to a reusable system for coffee cups at all restaurants it operates at Erste Campus. This initiative will save at least 85,000 disposable coffee to-go cups per year.

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.

Details on ecological criteria for purchasing are presented in the section on suppliers and supply chain.

Environmental data acquisition

Erste Group uses a software program from CRedit360 (cr360) to collect environmental data group-wide. With this tool, the energy consumption of approx. 3,000 business locations is individually recorded and evaluated. For the conversion to greenhouse gas equivalents (CO_2e), cr360 uses emission factors from DEFRA (UK Department for Environment, Food & Rural Affairs) and the IEA (International Energy Agency).

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 use of the location (Erste Campus in Vienna) with other entities. The environmental indicators for 2020 relate to 45,435.27 full-time equivalents (FTEs), that is 99% of all FTEs in Erste Group.

Further details on Erste Group's environmental data are available on the Erste Group website https://www.erstegroup.com/en/about-us/sustainability.

Environmental targets for 2021

	Measure	AT	CZ	SK	RO	HU	HR	RS
Average electricity consumption per m²	kWh/m²	104	103	85	79	125	163	106
Average heating energy usage per m²	kWh/m²	60	95	81	85	60	60	77
Share of hybrid/e-cars in carpool	%	5%	3%	1%	0%	10%	1%	3%
Copy paper consumption per employee	kg/FTE	34	23	25	59	30	33	46
Share recycled copy paper	%	90%	95%	100%	95%	100%	95%	100%
Scope 1 and 2 per employee	tCO_2e/FTE	0.53	1.40	1.50	2.55	1.20	0.75	1.95

Environmental data

2020	Measure	Erste Group	AT	CZ	SK	RO	HU	HR	RS
Full-time equivalents (FTE)	**Number**	**45,435**	**16,635**	**9,933**	**3,821**	**5,803**	**3,286**	**3,067**	**1,199**
Net floor area	**m²**	**1,654,020**	**663,089**	**301,533**	**143,199**	**356,830**	**61,617**	**67,709**	**23,093**
Total energy consumption	**MWh**	**339,588**	**121,495**	**69,317**	**26,478**	**72,270**	**16,945**	**18,628**	**4,867**
Electricity total consumption (with ATM and own electricity production)	MWh	165,356	65,953	32,145	12,328	25,457	8,232	12,353	2,283
Heating, warm water and district cooling total consumption	MWh	137,449	47,015	31,875	12,502	31,244	6,433	4,598	1,895
Total diesel consumption for electricity generation	MWh	254	177	47	20	5	3	-	-
Carpool consumption total (converted to kWh)	MWh	36,528	8,350	5,251	1,628	15,564	2,277	1,677	690
Share of hybrid/e-cars in carpool	%	3.2%	9.1%	0.4%	1.1%	3.8%	1.0%	0.0%	0.0%
Average electricity consumption per m²	kWh/m²	100.0	99.5	106.6	86.1	71.3	133.6	182.4	98.9
Average heating energy usage per m²	kWh/m²	83.1	70.9	105.7	87.3	87.6	104.4	67.9	82.1
Total paper usage	**t**	**1,295**	**502**	**158**	**72**	**311**	**84**	**76**	**22**
Paper consumption per employee	kg/FTE	28.5	30.2	16.0	18.8	53.6	25.5	24.7	18.4
Non-recycled copy paper	t	402	334	3	1	3	0	0	0
Recycled copy paper	t	892	169	155	71	308	84	76	22
Share recycled copy paper	%	68.9%	33.6%	97.9%	98.9%	99.1%	99.7%	100.0%	99.5%
Emissions Scope 1 and 2	**tCO_2e**	**57,492**	**9,968**	**10,976**	**6,144**	**18,693**	**4,659**	**1,800**	**648**
Scope 1-emissions	tCO_2e	24,929	6,785	2,160	2,931	9,636	1,603	1,221	212
Scope 2-emissions	tCO_2e	32,562	3,183	8,816	3,214	9,057	3,056	579	436
Scope 1 and 2 per employee	tCO_2e/FTE	1.27	0.60	1.10	1.61	3.22	1.42	0.59	0.54

2019	Measure	Erste Group	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**
Electricity total consumption (with ATM and own electricity production)	MWh	174,588	63,419	32,928	13,272	35,244	8,767	13,059	2,638
Heating, warm water and district cooling total 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
Carpool consumption total (converted to kWh)	MWh	45,313	7,078	7,740	2,193	20,022	3,258	2,815	1,118
Share of hybrid/e-cars in carpool	%	1.4%	6.6%	0.3%	1.1%	0.1%	1.0%	0.0%	0.0%
Average electricity consumption per m²	kWh/m²	109.7	110.7	109.2	85.6	93.5	128.6	191.7	108.9
Average heating energy usage per m²	kWh/m²	86.9	67.0	108.6	80.6	110.6	72.4	65.6	75.9
Total paper usage	**t**	**1,615**	**575**	**211**	**101**	**397**	**102**	**102**	**69**
Paper consumption per employee	kg/FTE	37	38	22	25	59	31	33	60
Non-recycled copy paper	t	432	360	12	1	3	1	5	-
Recycled copy paper	t	1,184	215	199	100	394	101	97	69
Share recycled copy paper	%	73.3%	37.5%	94.4%	98.9%	99.1%	99.0%	95.2%	99.9%
Emissions Scope 1 and 2	**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 per employee	tCO_2e/FTE	1.46	0.54	1.23	1.49	3.55	2.00	0.72	1.08

FTE: full-time equivalent, defined as an employee times his/her employment factor.

The CO_2 equivalents (CO_2e) are the sum of all greenhouse gas emissions, i.e. carbon dioxide, methane and nitrogen oxide.

Management board	
Bernhard Spalt mp, Chairman	
Ingo Bleier mp, Member	Stefan Dörfler mp, Member
Alexandra Habeler-Drabek mp, Member	David O'Mahony mp, Member
Maurizio Poletto mp, Member	Thomas Schaufler mp, Member

Vienna, 10 March 2021

GRI Content Index

GRI Standard Number	GRI+ Standard Title	Disclosure Number	Disclosure Titel	Reference to Annual Report 2020	Comments / Reasons for omission
GRI 102 General Disclosures 2016					
1. Organisational profile					
GRI 102	General Disclosures	102-1	Name of the organisation		Erste Group Bank AG
GRI 102	General Disclosures	102-2	Activities, brands, products, and services	p. 10 et seq.	Strategy
GRI 102	General Disclosures	102-3	Location of headquarters		Erste Campus, Am Belvedere 1, 1100 Vienna
GRI 102	General Disclosures	102-4	Location of operations	p. 54	
GRI 102	General Disclosures	102-5	Ownership and legal form	p. 85	(consolidated) corporate governance report
GRI 102	General Disclosures	102-6	Markets served	Note 1	Group consolidated financial statements: Note 1 (segment reporting)
GRI 102	General Disclosures	102-7	Scale of the organisation	Note 1	Group consolidated financial statements: Note 1 (segment reporting)
GRI 102	General Disclosures	102-8	Information on employees and other workers	p. 75 et seq.	Workers who are not employees do not perform a significant portion of organization's activities. Therefore does not apply. There are no significant variations in the reported numbers in Disclosures 102-8a, 102-8b and 102-8c. In the initial phase of preparation for HR data collection for the non-financial report, the scope and the reporting categories are based on GRI standards. The data are collected using an Excel template which is sent to those responsible in each institution. Once the completed template has been returned and the data quality has been checked, the data are consolidated and prepared for publication.
GRI 102	General Disclosures	102-9	Supply chain	p. 67	
GRI 102	General Disclosures	102-10	Significant changes to the organisation and its supply chain		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. 53	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. 64 et seq., 75	(consolidated) non-financial report: our customers, environment; Erste Asset Management: UN Principles of Responsible Investment, Bangladesh Memorandum, Montreal Carbon Pledge Erste Group: Nestor Gold Charta, Austrian Diversity Charter
GRI 102	General Disclosures	102-13	Membership of associations		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 (Bankwissen-schaftliche Gesellschaft Österreich), WIFO (Wirtschaftsforschungsinstitut Österreich), Österreichische Industriellenvereinigung, respACT (Austrian Business Council for Sustainable Development) Erste Group's banking subsidiaries in CEE have following important memberships: Erste Bank Croatia: Croatia Green Building Council (CGBC), Croatian Association of Accountants and Financial Experts (CAAFE); Erste Bank Serbia: Association of Banks of Serbia, Chamber of Commerce Serbia; Slovenská sporiteľňa: Slovak Banking Association, Central European Corporate Governance Association; Erste Bank Hungary: Hungarian Banking Association, Budapest Chamber of Commerce and industry; Banca Comercială Română: Romanian Banking Association, Financial Markets Association; Česká spořitelna: Czech Banking Association, Economic chamber of the Czech Republic
2. Strategy					
GRI 102	General Disclosures	102-14	Statement from senior decision maker	p. 2 et seqq.	
GRI 102	General Disclosures	102-15	Key impacts, risks and opportunities	p. 56 et seq.	
3. Ethics and integrity					
GRI 102	General Disclosures	102-16	Values, principles, standards, and norms of behaviour	p. 53, 85 et seqq.	Reference made to the code of conduct and the statement of purpose), (consolidated) non-financial report, (consolidated) corporate governance report (reference made to the Austrian Code of Corporate Governance and internal guidelines)
4. Governance					
GRI 102	General Disclosures	102-18	Governance structure	p. 85 et seqq.	
5. Stakeholder engagement					
GRI 102	General Disclosures	102-40	List of stakeholder groups	p. 57	
GRI 102	General Disclosures	102-41	Collective bargaining agreements		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 seqq.	
GRI 102	General Disclosures	102-43	Approach to stakeholder engagement	p. 55 et seqq.	
GRI 102	General Disclosures	102-44	Key topics and concerns raised	p. 55 et seqq.	

GRI Standard Number	GRI+ Standard Title	Disclosure Number	Disclosure Titel	Reference to Annual Report 2020	Comments / Reasons for omission
6. Reporting practice					
GRI 102	General Disclosures	102-45	Entities included in the consolidated financial statements	p. 53	
GRI 102	General Disclosures	102-46	Defining report content and topic boundaries	p. 55 et seqq.	
GRI 102	General Disclosures	102-47	List of material topics	p. 55 et seqq.	
GRI 102	General Disclosures	102-49	Changes in reporting	p. 53	Additional 30 Savings Banks from the scope of consolidation were included in the non-financial reporting in 2020.
GRI 102	General Disclosures	102-50	Reporting period		From 1 January 2020 to 31 December 2020
GRI 102	General Disclosures	102-51	Date of most recent report		Annual report 2019
GRI 102	General Disclosures	102-52	Reporting cycle		Annual
GRI 102	General Disclosures	102-53	Contact point for questions regarding the report	p. 298	
GRI 102	General Disclosures	102-54	Claims of reporting in accordance with GRI Standards	p. 53	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. 80 et seqq.	
GRI 102	General Disclosures	102-56	External assurance	p. 83 et seq	
GRI 103 Management Approach 2016					
GRI 103	Management Approach	103-1	Explanation of the material topic and its boundary	p. 55 et seqq.	
GRI 103	Management Approach	103-2	The management approach and its components	p. 55 et seqq.	
GRI 103	Management Approach	103-3	Evaluation of the management approach	p. 55 et seqq., 83	
GRI 201 Economic Performance 2016					
GRI 201	Economic Performance	201-1	Direct economic value generated and distributed	Note 1, Note 56	Outside the non-financial report. Consolidated financial statements.
Social commitment and social banking (FS 14 Indirect Economic Impacts 2016)					
FS 14	Indirect Economic Effects	FS14 of GRI G4	Initiatives to improve access to financial services for disadvantages peoples	p. 62 et seq., 66 et seq.	
Anti-corruption and compliance (GRI 205 Anti-corruption 2016)					
GRI 205	Anti-Corruption	205-3	Confirmed incidents of corruption and actions taken		In 2020, Erste Group did not discover or record any incident of corruption.
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 43	Group consolidated financial statements: Note 43 (contingent liabilities); No legal actions for anti-competitive behavior, anti-trust, or monopoly practices have been initiated against Erste Group Bank AG. During the reporting period, subsidiaries of Erste Group Bank AG were directly or indirectly involved in five such cases. As one of these cases got resolved in 2020, there remain 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.
Responsible criteria in the supply chain and ecological impacts on banking operations (GRI 301 Materials 2016)					
GRI 301	Materials	301-1	Materials used by weight and volume	p. 78	
GRI 301	Materials	301-2	Recycled input materials used	p. 78	
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. 76, 78	(consolidated) non-financial report: environment; In terms of energy consumption, there is no separate presentation of renewable / non-renewable energy sources. It is included in the determination of the CO_2e-emissions.
GRI 302	Energy	302-4	Reduction of energy consumption	p. 76, 78 et seq.	
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. 78	GRI 305-1c There are no biogenic CO_2 emissions to report.
GRI 305	Emissions	305-2	Energy indirect (Scope 2) GHG emissions	p. 78	Gross market based: 32,562t; Gross location-based:57,514t or 177% of reported value of 32,562t.
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. 68	

GRI Standard Number	GRI+ Standard Title	Disclosure Number	Disclosure Titel	Reference to Annual Report 2020	Comments / Reasons for omission
Diversity and equal opportunity (GRI 401 Employment 2016)					
GRI 401	Employment	401-1	New employee hires and employee turnover	p. 75	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. 74	401-3a) All employees (women and men) are entitled to take parental leave; 401-3d) No information available due to data that could not be clearly distinguished.
Employee health & work-life balance (GRI 403 Occupational Health and Safety 2018)					
GRI 403	Occupational Health and Safety	403-1	Occupational health and safety management systems		Data not completely available. Group-wide data collection is under development.
GRI 403	Occupational Health and Safety	403-2	Hazard identification, risk assessment and incident investigation		Data not completely available. Group-wide data collection is under development.
GRI 403	Occupational Health and Safety	403-3	Occupational health services		Data not completely available. Group-wide data collection is under development
GRI 403	Occupational Health and Safety	403-4	Worker participation, consultation and communication occupational health and safety		Data not completely available. Group-wide data collection is under development.
GRI 403	Occupational Health and Safety	403-5	Worker training on occupational health and safety		Data not completely available. Group-wide data collection is under development.
GRI 403	Occupational Health and Safety	403-6	Promotion of worker health		Data not completely available. Group-wide data collection is under development
GRI 403	Occupational Health and Safety	403-7	Prevention and mitigation of occupational health and safety impacts directly linked by business relationships		Data not completely available. Group-wide data collection is under development
GRI 403	Occupational Health and Safety	403-8	Workers covered by an occupational health and safety management system.		Data not completely available. Group-wide data collection is under development
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. 72	
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. 74, 85 et seqq.	At Erste Group Bank AG, the parent company of Erste Group, employees represent more than 50 different nationalities.
Diversity and equal opportunity (GRI 406 Non-Discrimination 2016)					
GRI 406	Non-Discrimination	406-1	Incidents of discrimination and corrective actions taken	.	In 2020, one significant incident was submitted to the anti-discrimination officer. The responsible HR and Compliance unit reviewed the incident.. According to their assessment the incident was not qualified as discrimination but rather unprofessional behaviour. In order to solve the conflict a set of recommendations were made to all involved parties. (conflict mediation by HR and compliance), coaching for all involved parties.
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. 68	
GRI 418 Customer Privacy 2016					
GRI 418	Customer Privacy	418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data	p. 63	
GRI 419 Socioeconomic Compliance 2016					
GRI 419	Socioeconomic compliance	419-1	Non-compliance with laws and regulations in the social and economic area		In 2020, 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. 59 et seq.	
Material topic: Customer satisfaction					
	Information on customer satisfaction			p. 63	
Material topic: Responsible investment and finance					
	Information on responsible investment and financing			p. 63et seqq.	
GRI 103	Management Approach	103-2	The management approach and its components	p. 55 et seq., 63 et seq.	
GRI 103	Management Approach	103-3	Evaluation of the management approach	p. 55 et seq., 63 et seqq.	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.

Independent Assurance Report

To the Management Board of Erste Group Bank AG

COURTESY TRANSLATION OF THE 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, if the (consolidated) non-financial report as at December 31, 2020 was prepared in accordance with the reporting criteria. The reporting criteria include the Sustainability Reporting Standards (GRI Standards: Core option) issued by the Global Sustainability Standards Board (GSSB) and the reporting requirements mentioned in §§ 243b and 267a UGB.

Responsibility of the management

The preparation of the report in accordance with the reporting criteria as well as the selection of the scope of the engagement is the responsibility of the management of Erste Group Bank AG. The reporting criteria include the Sustainability Reporting Standards (GRI Standards: Core option) issued by the Global Sustainability Standards Board (GSSB) and the reporting requirements mentioned in §§ 243b and 267a UGB.

This responsibility includes the selection and application of appropriate methods for preparing the report, making assumptions and estimates of individual non-financial disclosures that are plausible under the given circumstances. The responsibility of the management includes further designing, implementing and maintaining internal controls, which have been determined as necessary by management for the preparation of the report free from misstatement, whether due to fraud or error.

Responsibility of the auditor

Our responsibility is to express a limited assurance opinion on the (consolidated) non-financial report based on our review, whether all the reporting requirements mentioned in the Sustainability Reporting Standards (GRI Standards: Core option) issued by the Global Sustainability Standards Board (GSSB) and §§ 243b and 267a UGB are met.

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 (consolidated) non-financial report has not, in any material aspect been prepared in accordance with the reporting criteria of GRI Standards: Core option and §§ 243b and 267a UGB.

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, inter alia, the following audit procedures and other activities as far as they are relevant to the limited assurance engagement:

- Interview of the employees named by Erste Group Bank AG regarding the sustainability strategy, the sustainability principles and the sustainability management
- Interviewing employees of Erste Group Bank AG to assess the methods of data collection, data processing and internal controls
- Video conference with responsible parties for non-financial data of Slovenska sporitelna, a. s. and Dornbirner Sparkasse Bank AG
- Matching the non-financial disclosures shown in the report with the calculation documents provided
- Furthermore, we conducted procedures with regard to whether the reporting requirements of §§ 243b and 267a UGB are met with the (consolidated) nonfinancial report.

We performed the audit mainly at our premises in Vienna using electronic forms of communication.

Summarised Conclusion

Based on our work, nothing has come to our attention that causes us to believe that the (consolidated) non-financial report has not, in any material aspects, been prepared in accordance with the reporting criteria of the Sustainability Reporting Standards (GRI Standards: Core option) issued by the Global Sustainability Board (GSSB).

Furthermore, nothing has come to our attention that causes us to believe that the reporting requirements of §§ 243b and 267a UGB are not met with the (consolidated) non-financial report.

Engagement approach

The basis for this engagement are the "General Conditions of Contract for the Public Accounting Professions", as issued by the Chamber of Tax Advisers and Auditors in Austria (refer to appendix). In accordance with chapter 7, our liability shall be limited to intent and gross negligence. In cases of gross negligence, the maximum liability is limited to a maximum of five times the 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, 10 March 2021

Deloitte Audit Wirtschaftsprüfungs GmbH

Gerhard Marterbauer m.p.
Austrian Certified Public Accountant

Christof Wolf m.p.
Austrian Certified Public Accountant

(Consolidated) corporate governance report

Erste Group Bank AG is a stock corporation established according to Austrian law and since 2003 has declared its commitment to complying with the rules of the Austrian Code of Corporate Governance (Austrian CCG – see www.corporate-governance.at) with the objective of ensuring responsible and transparent corporate governance. In addition, the management board adopted a Statement of Purpose in 2015. This statement reaffirms and states in more detail the purpose of Erste Group Bank AG to promote and secure prosperity throughout the region in which Erste Group is active. Building on this Statement of Purpose, a Code of Conduct defines binding rules for day-to-day business. Erste Group values responsibility, respect and sustainability in pursuing its business activities. The Code of Conduct therefore helps to protect the reputation of Erste Group and to strengthen stakeholder confidence. The Corporate Governance Report has been prepared in accordance with sections 243c and 267b of the Austrian Commercial Code and Rules 60 et seq. of the Austrian CCG and combines the corporate governance report of Erste Group Bank AG, the parent, and the consolidated corporate governance report in one single report. The management board has also prepared a (consolidated) non-financial report in accordance with sections 243b and 267a of the Austrian Commercial Code, which is released as part of the annual report. As from the 2020 financial year, information on the total remuneration of individual members of the management board or the supervisory board and on the principles governing the remuneration policy is no longer required to be disclosed in this consolidated corporate governance report, but instead in a separate remuneration report pursuant to section 78e Austrian Stock Corporation Act.

In the 2020 financial year, 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 five exceptions – all C-Rules (Comply-or-Explain – deviations are permitted but must be explained) of the Austrian CCG. The 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 2020, the supervisory board of Erste Group Bank AG comprised 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 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 diversity requirements.
- Pursuant to C-Rules 30, 31 and 51 of the Austrian CCG, specifically the principles governing the management board's variable remuneration and the ratio of the management board's fixed and variable remuneration have to be stated in the consolidated corporate governance report, and the fixed and variable remuneration of the management board granted in the financial year and the remuneration of the supervisory board members in the reporting period have to be disclosed. Deviations from these rules are attributable to the mandatory application of sections 78a et seq. Austrian Stock Corporation Act. This information is now covered by the remuneration policy pursuant to section 78a Austrian Stock Corporation Act and disclosed in the remuneration report pursuant to section 78e Austrian Stock Corporation Act.

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. The in-house training programme covered the following matters, for example: legal principles defined in the law on banking supervision and the application of acts of law of relevance to banks, cyber-security and other IT matters, and the application of artificial intelligence in financial services.

MANAGEMENT BOARD

In 2020, the management board consisted of seven members.

Management board member	Year of birth	Date of initial appointment	End of current period of office
Bernhard Spalt (Chairman)	1968	1 July 2019	30 June 2023
Ara Abrahamyan	1972	1 January 2020	31 December 2020
Ingo Bleier	1970	1 July 2019	30 June 2022
Peter Bosek	1968	1 January 2015	31 December 2020
Stefan Dörfler	1971	1 July 2019	31 December 2023
Alexandra Habeler-Drabek	1970	1 July 2019	31 December 2023
David O'Mahony	1965	1 January 2020	31 December 2022

On 15 October 2020, the supervisory board extended Alexandra Habeler-Drabek's management board mandate until 31 December 2023. Peter Bosek and Ara Abrahamyan resigned from the management board as of 31 December 2020.

Thomas Schaufler and Maurizio Poletto were appointed by the supervisory board as additional members of the management board in October 2020 with effect from 1 January 2021 to 31 December 2023.

Management board member	Areas of responsibility
Starting with 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
Starting with 1 January 2021	
Bernhard Spalt (Chairman)	Group Human Resources, Human Resources, Group Secretariat, Group Audit, Brand Strategy & Communications, Group Investor Relations, Group Strategy, Group Board Support & Corporate Affairs, Group Sustainability Office, Social Banking Development
Ingo Bleier	Group Corporates, Group Commercial Real Estate, Group Markets, Group Product and Business Management C. and M., Group Research
Stefan Dörfler	Group ALM, Group Portfolio Management & Governance, Group Data Management and Reporting, Group Accounting and Group Controlling
Alexandra Habeler-Drabek	Group Compliance, Credit Risk Methods, Retail Risk Management, Credit Risk Portfolio, Group Legal, Corporate Risk Management, EnterpriseWide Risk Management, Group Liquidity and Market Risk Management
David O'Mahony	CIO Group Functions, Group Architecture, Banking Services, Group Security, Governance and Steering
Maurizio Poletto	Innovation Hub (Erste Hub), Platform Governance
Thomas Schaufler	Group Retail Strategy

Supervisory board mandates and similar functions

As of 31 December 2020, 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 *).

Bernhard Spalt

Česká spořitelna, a.s.*, Vice Chair
Banca Comercială Română S.A.*, Member

Ara Abrahamyan

Erste Bank Hungary Zrt.*, Member
Erste Group IT International GmbH*, Member
(both mandates until 31 December 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
(all mandates until 31 December 2020)

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

Alexandra Habeler-Drabek
Prvá stavebná sporiteľňa, a.s.*, Vice Chair
Banca Comercială Română S.A.*, Vice Chair (until 1 February 2021)

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

On 1 January 2021, the following mandates were assumed by new members of the management board:

Thomas Schaufler
Bausparkasse der österreichischen Sparkassen Aktiengesellschaft*, Chair
Erste Asset Management GmbH*, Vice Chair
Kärntner Sparkasse Aktiengesellschaft*, Member
Salzburger Sparkasse Bank Aktiengesellschaft*, Chair
Steiermärkische Bank und Sparkassen Aktiengesellschaft*, Member

Management positions in subsidiaries
Peter Bosek was a member of the management board of Erste Group Bank AG and of Erste Bank Oesterreich in 2020. Since 1 January 2021, Alexandra Habeler-Drabek and Thomas Schaufler each hold a mandate on the management board of Erste Group Bank AG and on the management board of Erste Bank Oesterreich.

SUPERVISORY BOARD

In the 2020 financial year, the following persons were members of the supervisory board:

Position	Name	Year of birth	Occupation	Date of initial appointment	End of the current period of 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 2025
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	Wilhelm Rasinger	1948	Consultant	11 May 2005	AGM 2020
Member	Friedrich Santner	1960	Managing Director	10. November 2020	AGM 2023
Member	András Simor	1954	Senior Vice President, EBRD, ret.	10. November 2020	AGM 2023
Member	John James Stack	1946	CEO, ret.	31 May 2007	AGM 2021
Member	Michèle F. Sutter-Rüdisser	1979	Adjunct Professor, University of St. Gallen	15 May 2019	AGM 2022
Delegated by the employees' council					
Member	Martin Grießer	1969		26 June 2019	21 January 2020
Member	Markus Haag	1980		21 November 2011	until further notice
Member	Regina Haberhauer	1965		12 May 2015	until further notice
Member	Andreas Lachs	1964		9 August 2008	until further notice
Member	Barbara Pichler	1969		9 August 2008	until further notice
Member	Jozef Pinter	1974		25 June 2015	until further notice
Member	Karin Zeisel	1961		9 August 2008	until further notice

In the 2020 financial year, the composition of the supervisory board changed as follows: the supervisory board mandates of Maximilian Hardegg, Gunter Griss and Wilhelm Rasinger expired as of the end of the annual general meeting on 10 November 2020. Maximilian Hardegg was re-elected. Friedrich Santner und András Simor were elected to the supervisory board at the annual general meeting with immediate effect. Following the death of the then supervisory board member Brian D. O'Neill in December 2019, 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 since 10 November 2020:

	Executive committee	Nomination committee	Audit committee	Risk committee	Remuneration committee	IT committee
Chairman	Friedrich Rödler	Friedrich Rödler	Friedrich Rödler (financial expert)	Maximilian Hardegg	Friedrich Rödler (remuneration expert)	Maximilian Hardegg
Vice Chairman	Jan Homan	Jan Homan	Maximilian Hardegg	Jan Homan	Jan Homan	Friedrich Rödler
Member	Maximilian Hardegg	Maximilian Hardegg	Matthias Bulach	Henrietta Egerth-Stadlhuber	Jordi Gual Solé	Henrietta Egerth-Stadlhuber
Member	Elisabeth Krainer Senger-Weiss	Elisabeth Krainer Senger-Weiss	Jan Homan	Marion Khüny	Maximilian Hardegg	Marion Khüny
Member	Barbara Pichler	Barbara Pichler	Friedrich Santner	Elisabeth Krainer Senger-Weiss	András Simor	Andreas Lachs
Member	Karin Zeisel	Karin Zeisel	Michèle F. Sutter-Rüdisser	Friedrich Rödler	John James Stack	Karin Zeisel
Member			Regina Haberhauer	Markus Haag	Andreas Lachs	
Member			Barbara Pichler	Andreas Lachs	Barbara Pichler	
Member			Jozef Pinter	Jozef Pinter	Karin Zeisel	
Substitute	Andreas Lachs	Andreas Lachs	Marion Khüny	Regina Haberhauer	Friedrich Santner	Elisabeth Krainer Senger-Weiss
Substitute	Jozef Pinter	Jozef Pinter	Andreas Lachs	Karin Zeisel	Markus Haag	Barbara Pichler
Substitute			Karin Zeisel		Jozef Pinter	Jozef Pinter

Mandates on supervisory boards or similar functions

As of 31 December 2020, 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.*, Member
Sparkassen-Prüfungsverband, Chair
Audit Oversight Body of Austria, Member

Jan Homan

Erste Bank der oesterreichischen Sparkassen AG*, Vice Chair
FRAPAG Beteiligungsholding AG, Vice Chair
Slovenská sporiteľňa, a.s.*, 1st Vice Chair
Loparex International Holding B.V., Member

Maximilian Hardegg

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

Matthias Bulach

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

Henrietta Egerth-Stadlhuber

NÖ Kulturwirtschaft GesmbH., Member

Jordi Gual Solé

CaixaBank, S.A.**, Chair
Telefónica S.A.**, Member

Marion Khüny

KA Finanz AG, Member

Elisabeth Krainer Senger-Weiss

Gebrüder Weiss Holding AG, Vice Chair
Gebrüder Weiss Gesellschaft m.b.H., Vice Chair
Banca Comercială Română S.A.*, Member

Friedrich Santner

Steiermärkische Bank und Sparkassen Aktiengesellschaft*, Chair
Styria Media Group AG, Chair
Styria Media Immobilien AG, Chair

John James Stack

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

Michèle F. Sutter-Rüdisser

Spital Thurgau AG, Member
Helsana Versicherungen AG, Member
Graubündner Kantonalbank AG**, Member

András Simor did not hold any mandates on supervisory boards or similar functions in domestic or foreign companies as of 31 December 2020.

Members of the supervisory board retiring after the 2020 annual general meeting:

Gunter Griss

AVL List GmbH, Chair

Wilhelm Rasinger

Gebrüder Ulmer Holding GmbH, Member

Delegated by the employees' council:

Regina Haberhauer
Erste Asset Management GmbH*, Member

Andreas Lachs
VBV-Pensionskasse Aktiengesellschaft, Member

Barbara Pichler
DIE ERSTE österreichische Spar-Casse Privatstiftung, Member

Martin Grießer (until 21 January 2020), 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 2020, 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.

Self-evaluation of the supervisory board
At its meetings of 22 January 2020 and 11 March 2020, the nomination committee performed an evaluation of the activities of the supervisory board and its committees for 2019. It discussed, for example, the supervisory board members' attendance at supervisory board and committee meetings in 2019, 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 as well as the requirements of section 29 no 6 and no 7 of the Austrian Banking Act 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 26 March 2020 and concluded the evaluation for 2019 with a positive assessment. At its meeting of 20 January 2021, the nomination committee considered, among other things, potential conflicts of interest of supervisory board members and evaluated the supervisory board's attendance at supervisory board and committee meetings in 2020. The supervisory board's self-evaluation for 2020 will be continued with support from an external consultant and completed in the course of the year.

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. Some of these committees are required by law and support the supervisory board in preparing and stating its position on all matters that the supervisory board is required to deal with. The supervisory board moreover has the right, within its statutory remit, to transfer decision-making powers to committees or to withdraw powers from the committees.

Risk committee

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

Executive committee

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

Audit committee

The audit committee is responsible for overseeing the accounting process; monitoring the effectiveness of the company's internal control system, internal audit system and risk management system; overseeing the annual audit of single-entity and consolidated financial statements; reviewing and supervising the independence of the auditor (Group auditor), in particular with respect to the additional services rendered to the audited company and the group companies; submitting a report on the results of the annual audit to the supervisory board and explaining how the annual audit has affected the reliability of financial reporting and the role of the audit committee in doing so; reviewing the annual financial statements and preparing its approval; reviewing the proposal for the allocation of profits, the management report and the (consolidated) corporate governance report as well as the (consolidated) non-financial report and submitting a report on the results of the review to the supervisory board; reviewing the consolidated financial statements of the group and the group management report and submitting the report on the results of the review to the supervisory board; carrying out the procedure for the selection of the auditor (group auditor), taking into account the appropriateness of the fees and recommending the appointment of the auditor (group auditor) to the supervisory board; recommending the renewal of the auditor's (group auditor's) mandate to the supervisory board; acknowledging the additional report of the auditor and discussing this report; acknowledging timely information on the focal points of the audit and submitting proposals for additional focal points of the audit; taking note of the annual financial statements of material subsidiaries and of the participations report; acknowledging the audit plan of the company's internal audit function; acknowledging information on current matters relevant to the internal audit of the Group and on the efficiency and effectiveness of the internal audit; acknowledging the internal auditors' report on the audit areas and material audit findings and the activity report pursuant to Article 25 (3) in conjunction with Article 24 of the Delegated Regulation (EU) 2017/565; in the case of on-site inspection conducted by supervisory authorities acknowledging the inspection report, the report on the contents of the plan to address identified findings and/or the result of administrative proceedings initiated on the basis of the identified findings; acknowledging immediate information on material findings of the auditor, the internal audit function or an audit conducted by a regulatory authority; acknowledging immediate information on loss events that could exceed 5% of consolidated equity or 10% of the budgeted net result; acknowledging reports of the management board on current developments and compliance regarding corporate governance and anti-money laundering rules; acknowledging the compliance activity report pursuant to Article 25 (3) in conjunction with Article 22 of the Delegated Regulation (EU) 2017/565. The audit committee is also responsible for preparing supervisory board decisions concerning the approval of the conclusion of a material transaction pursuant to section 95a of the Austrian Stock Corporation Act (AktG) and overseeing its execution as well as overseeing and periodically (re-)assessing this material transaction; taking note of cases of damage or loss at Erste Group that are reported to the audit committee by internal audit as part of significant audit findings provided they exceed thresholds previously defined by the audit committee; pre-consenting to the removal of the head of internal audit from their position and involvement in the process of filling the position of head of internal audit. Pursuant to the – no legally binding – *Expectations for Banks* document published by the Single Resolution Board (SRB) on 1 April 2020, the audit committee is tasked with monitoring the effectiveness of Erste Group Bank AG's internal quality control with regard to resolution-relevant information, including rules ensuring the completeness and accuracy of data, by regularly receiving, reviewing and taking into account audit reports on this theme.

Nomination committee

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

Remuneration committee

The remuneration committee prepares resolutions on remuneration matters, including resolutions that have an impact on the bank's risk and risk management and must be passed by the supervisory board. The remuneration committee approves the general principles of remuneration policy, reviews them regularly and is also responsible for their implementation. The committee monitors remuneration policy, remuneration practices and remuneration-linked incentive programmes in relation to the control, monitoring and containment of risks, the capital base and liquidity, with due regard to the long-term interests of the bank's shareholders, investors and employees as well as the national interest in a well-functioning banking system and financial market stability. The committee approves exceptions from the application of the remuneration policy to individual staff members of the company and monitors the payment of variable remuneration to members of the management board and to the company's second management level as well as to management board members of major subsidiaries. It furthermore reviews the (variable) remuneration of senior managers of the company performing independent control functions such as risk management and compliance and of staff members having a significant impact on the company's risk profile. In addition, it approves the identification of employees having a significant impact on the company's risk profile and reviews the criteria on which the management board's decision is based as well as the procedure used in taking such decisions. The committee also ensures that information on the remuneration policy and practices provided to shareholders is appropriate. Once a year, the committee is presented with a comprehensive report on the remuneration system including key performance indicators as well as a report on the situation regarding personnel and management in the Group. For the very first time, the nomination committee also prepared for 2020 the principles for the remuneration of management and supervisory board members pursuant to sections 78a and 98a of the Austrian Stock Corporation Act (Remuneration Policy according to Austrian Stock Corporation Act). In addition, it is responsible for preparing the report on the remuneration of management and supervisory board pursuant to sections 78a and 98a of the Austrian Stock Corporation Act (Remuneration Report according to Austrian Stock Corporation Act).

IT committee

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

MEETINGS OF THE SUPERVISORY BOARD AND REPORT ON PRINCIPAL ACTIVITIES

Seven meetings of the supervisory board were held in the 2020 financial year.

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. Recurring topics at supervisory board meetings in 2020 were reports on Erste Group's view on the Covid-19 evolution as well as 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 26 March 2020, the financial statements and the 2019 management report, the consolidated financial statements and consolidated management report as well as the 2019 (consolidated) corporate governance report and the 2019 (consolidated) non-financial report were extensively discussed and 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 subsequently the financial statements for 2019 were adopted by circular resolution in accordance with the recommendation of the audit committee. It was also decided – by circular resolution – to propose PwC Wirtschaftsprüfung GmbH to the annual general meeting in 2020 as an additional auditor of the (consolidated) financial statements for the 2021 financial year and to approve the Remuneration Policy according to the Austrian Stock Corporation Act. The further approach to the 2020 annual general meeting was discussed. 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 was discussed and then approved by circular resolution. 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 new organisation of the Risk Management division, and applications were approved by circular resolution.
At the meeting of 23 April 2020, 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 2019 financial year was adopted subsequently by circular resolution. 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, and the list prepared pursuant to the C-Rule 82a of the Austrian CCG was taken note of. Applications were discussed and subsequently approved by circular resolution, among them, for instance, the postponement of the annual general meeting to 10 November 2020 and a change to the internal rules of the management board.

At the meeting of 25 June 2020, which was also attended by members of the supervisory authorities' Joint Supervisory Team, who gave presentations and answered questions raised by supervisory board members, note was taken of reports delivered by the management board of Erste Group Bank AG as well as by management board members of Erste Bank Hungary, Česká spořitelna and Banca Comercială Română, with a special focus on the Covid-19 situation. Also discussed were Peter Bosek's conflicts of interest due to his dual role as CEO of Erste Bank Oesterreich, and note was taken of the result of the re-evaluation by the nomination committee as well as the reorganisation of the internal audit functions of Erste Group Bank AG and Erste Bank Oesterreich. Framework plans were adopted for the issuance of certificates and warrants, and it was decided that in the future the Group Sustainability Office will report to the Chief Executive Officer.

At the meeting of 17 September 2020, the supervisory board approved the resolutions proposed for the 2020 annual general meeting and discussed in depth the supervisory board's supplementary report pursuant to section 96 Austria Stock Corporation Act. Reports were also presented on the half-year results and the closure of the London branch. The changes to the remuneration policy pursuant to section 78a Austrian Stock Corporation Act and the new structure of the strategic risk functions of Erste Group Bank AG and Erste Bank Oesterreich were approved. The supervisory board was informed about the change in the IT committee's external consultant.

At the meeting of 15 October 2020, the supervisory board adopted the recommendation to the 2020 annual general meeting on the appropriation of profit after extensive debate and consultations with the auditor and outside legal advisors. In addition, the issuance of additional core capital (additional tier 1 bonds) was approved, the resignations of Peter Bosek and Ara Abrahamyan from the management board were taken note of, and Maurizio Poletto, Thomas Schaufler and Alexandra Habeler-Drabek were newly appointed or their terms renewed upon consideration of the nomination committee's recommendations and the discussion of potential conflicts of interest.

At the constituent meeting of 10 November 2020 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 was thus newly formed. In addition, a capital increase of a subsidiary was approved.

At the meeting of 10 December 2020, a report on new measures and targets regarding women in management positions was discussed and taken note of. The budget and the capital plan for the 2021 to 2025 financial years, new representation rules for the management board and a new allocation of responsibilities were adopted. In addition, 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 2021 financial year were adopted, and a change to the internal rules of the audit committee was approved.

At a strategy retreat held on 10 and 11 December 2020, 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 sixteen meetings in 2020, 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. 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. Special attention was given to the economic effects of the Covid-19 pandemic and its impact on Erste Group.

The executive committee held one meeting in 2020 to discuss the potential acquisition of a bank. On 8 February 2021, a meeting was held in which the executive committee discussed the fulfilment of conditions for the pay-out of the dividend for the financial year 2019 as decided by the annual general meeting on 10 November 2020.

The audit committee met seven times in 2020 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 2019 and the audit committee subsequently conducted the final discussion. The financial statements and the management report, the consolidated financial statements and the management report as well as the (consolidated) corporate governance report and the (consolidated) non-financial report were reviewed and the financial statements recommended for approval by the supervisory board. The additional report of the auditors pursuant to Article 11 of EU Regulation 2014/537 was taken note of. The head of the internal audit department reported on the audit subjects and material audit findings for the year 2019 and, on an ongoing basis, about audit-relevant matters in the group and explained the audit plan for 2020. 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 2021 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 2022 financial year to the supervisory board. The auditors provided information about the preliminary audit of the single-entity and consolidated financial statements for 2020. In addition, discussions were held on the reports on the development of participations, on the half-year report as of 30 June 2020, as well as on the 2019 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 thus gave 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 2019 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 2020. Also, the head of internal audit was evaluated by the audit committee. The annual report of Group Regulatory Compliance was taken note of. The impact of the Covid-19 pandemic on Erste Group was discussed regularly, taking into account in particular the accounting perspective.

The nomination committee hold four meetings in 2020. At one meeting, the nomination committee assessed the qualifications of Maurizio Poletto and Thomas Schaufler for their 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 Alexandra Habeler-Drabek 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 fit and proper assessments of Friedrich Santner, András Simor and Maximilian Hardegg for the elections to the supervisory board at the annual general meeting of Erste Group Bank AG on 10 November 2020. In addition, the nomination committee reviewed the evaluation of the supervisory board and the management board pursuant to C-Rule 36 of the Austrian CCG as well as 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 2020. The supervisory board's resolution on the management board's variable remuneration was prepared and adopted in line with the ECB recommendation. 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 internal remuneration policy of Erste Group Bank AG and Erste Group and the remuneration policy pursuant to section 78a Austrian Stock Corporation Act were approved, and a report was presented on the current status of the 2020 remuneration report being drawn up pursuant to section 78e Austrian Stock Corporation Act. Reports were delivered on the remuneration of directors in countries in which Erste Group operates and on the review of the internal remuneration policy by internal audit.

The IT committee met four times in 2020. The main topics were periodic updates on IT projects of Erste Group Bank AG and within Erste Group, priorities of IT activities in 2020, the timeline set for their implementation and impacts on ongoing 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 in consultation with the auditor. 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, outsourcing governance, 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 impact of the Covid-19 pandemic explained from an IT perspective, with a special focus on customer behaviour, the increase in working from home arrangements and potential security aspects.

Attendance of supervisory board meetings

In 2020, 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 2020, 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. In the exceptional circumstances caused by Covid-19 in 2020, members attending virtual meetings only via acoustic channels are still considered to be in regular attendance in all regards under an ordinance issued by the Federal Ministry of Justice.

Meeting attendance in 2020

Name	Supervisory board (7 meetings)	Risk committee (16 meetings)	Executive-committee (1 meeting)	Audit committee (7 meetings)	Nomination committee (4 meetings)	Remuneration committee (4 meetings)	IT committee (4 meetings)
Friedrich Rödler	100%	100%	100%	100%	100%	100%	100%
Jan Homan	100%	100%	100%	100%	100%	100%	
Maximilian Hardegg	100%	100%	100%	86%	100%	100%[2]	100%
Matthias Bulach	100%			100%			
Henrietta Egerth-Stadlhuber	100%	100%[2]					100%
Gunter Griss	100%[1]						
Jordi Gual Solé	100%					100%	
Marion Khüny	100%	94%					100%
Elisabeth Krainer Senger-Weiss	100%	100%	100%		100%		
Wilhelm Rasinger	100%[1]	86%[1]		67%[1]			
Friedrich Santner	100%[2]			100%[2]			
András Simor	100%[2]					100%[2]	
John James Stack	100%					100%	
Michèle F. Sutter-Rüdisser	100%			100%			
Delegated by the employees' council							
Markus Haag	100%	94%					
Regina Haberhauer	100%			71%			
Andreas Lachs	100%	88%				100%	100%
Barbara Pichler	100%			71%	100%	100%	
Jozef Pinter	100%	81%		71%			
Karin Zeisel	100%				75%	100%	50%

[1] member until 10 November 2020, [2] member since 10 November 2020

PROMOTING WOMEN TO MANAGEMENT BOARDS, SUPERVISORY BOARDS AND MANAGING POSITIONS

Promoting women and achieving a balanced representation of women and men in management positions has long been a priority within Erste Group. In 2020, 50.4% of all management positions in the Holding and local banking subsidiaries were held by women (2019: 49.0%). The proportion of women in top management positions (board members and board minus 1 level) in the Holding and local banking subsidiaries stood at 26.6% (2019: 27.4%). The highest shares were reported by Banca Comercială Română, Erste Bank Serbia and Erste Bank Oesterreich. With Gerda Holzinger-Burgstaller, the latter has again had a female CEO since 1 January 2021.

As Erste Group had failed to reach its self-declared target of 35% women in top management in the 2019 financial year, the focus in 2020 was on analysis, development of a strategy and a package of measures. At the same time, a new target was defined, and a roadmap was adopted that sets out the path towards this goal. By 2025, 37% of all top management positions group-wide should be held by women. In addition, a corridor of 40 to 60% was adopted for the third and fourth management levels, to be reached by 2025.

At year-end 2020, the share of women on the Holding's supervisory board stood at 38.9% (2019: 38.9%). The target of 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 local banking subsidiaries, 37.5% (2019: 34.3%) of all supervisory board seats were held by women.

Erste Group organised a variety of initiatives to support female leadership in 2020. 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 programme, financial education for women, networking events for female employees and clients were continued. The latter were very successfully converted into online formats in response to the work environment induced by Covid-19. Another focus in 2020 was again on encouraging more men to take advantage of parental leave options and flexible working. Česká spořitelna launched a new top management mentoring program for women in leadership positions, which had a very successful start. Banca Comercială Română took a multitude of measures to implement the EU Diversity Charter, which focused most notably on training and professional development as well as building employee competencies. Further information is provided in the (consolidated) non-financial report.

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. 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 2020, Erste Group pursued the following diversity priorities: more networking and best-practice sharing within the group as well as the joint development of a group-wide diversity strategy; further increasing the number of women in management positions; developing and encouraging more initiatives for LGBT+ inclusion in the CEE region; and implementing local initiatives promoting diversity in CEE.

Further information is provided in the (consolidated) non-financial report.

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.

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 2020 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 on 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 such as 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	
Ingo Bleier mp, Member	Stefan Dörfler mp, Member
Alexandra Habeler-Drabek mp, Member	David O'Mahony mp, Member
Maurizio Poletto mp, Member	Thomas Schaufler mp, Member

Vienna, 26 February 2021