Erste Group Bank AG

Financial Statements 2020

ERSTE Group

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I. Balance Sheet of Erste Group Bank AG as of 31 December 2020

in EUR or in EUR thousand	Dec 20	Dec 19
Assets		
1. Cash in hand, balances with central banks	**17,420,984,212.98**	**1,625,618**
2. Treasury bills and other bills eligible for refinancing with central banks	**4,898,136,114.11**	**3,851,263**
a) treasury bills and similar securities	4,898,136,114.11	3,851,263
b) other bills eligible for refinancing with central banks	0.00	0
3. Loans and advances to credit institutions	**21,368,923,815.14**	**25,578,852**
a) repayable on demand	1,260,580,310.95	1,392,111
b) other loans and advances	20,108,343,504.19	24,186,742
4. Loans and advances to customers	**16,792,699,565.89**	**16,237,043**
5. Debt securities and other fixed-income securities	**3,874,931,874.99**	**6,370,039**
a) issued by public bodies	845,796,159.14	885,411
b) issued by other borrowers	3,029,135,715.85	5,484,628
of which: own debt securities	846,778,042.27	2,426,985
6. Shares and other variable-yield securities	**1,186,460,781.55**	**1,115,631**
7. Participating interests	**137,101,592.14**	**127,363**
of which: in credit institutions	55,246,589.50	41,306
8. Shares in affiliated companies	**7,366,746,216.39**	**7,389,378**
of which: in credit institutions	6,656,012,917.73	6,609,983
9. Intangible fixed assets	**23,341,536.65**	**23,177**
10. Tangible fixed assets	**98,543,371.05**	**58,521**
of which: land and buildings used by the credit institution for its own business operations	3,485,435.92	3,373
11. Shares in a controlling company	**0.00**	**0**
of which: par value	0.00	0
12. Other assets	**3,691,226,883.17**	**3,593,788**
13. Subscribed capital called but not paid	**0.00**	**0**
14. Prepayments and accrued income	**116,568,745.27**	**143,156**
15. Deferred tax assets	**79,758,963.69**	**150,349**
Total assets	**77,055,423,673.02**	**66,264,178**
Off-balance sheet items		
1. Foreign assets	**43,671,770,415.01**	**46,583,644**

in EUR or in EUR thousand	Dec 20	Dec 19
Liabilities and equity		
1. Liabilities to credit institutions	**32,144,836,425.08**	**22,214,674**
a) repayable on demand	5,658,088,170.24	4,924,575
b) with agreed maturity dates or periods of notice	26,486,748,254.84	17,290,099
2. Liabilities to customers (non-banks)	**5,891,720,982.93**	**6,589,589**
a) savings deposits	0.00	0
aa) repayable on demand	0.00	0
bb) with agreed maturity dates or periods of notice	0.00	0
b) other liabilities	5,891,720,982.93	6,589,589
aa) repayable on demand	4,510,246,066.19	3,044,180
bb) with agreed maturity dates or periods of notice	1,381,474,916.74	3,545,408
3. Securitised liabilities	**18,897,749,758.94**	**18,154,418**
a) debt securities issued	18,380,222,033.55	18,076,020
b) other securitised liabilities	517,527,725.39	78,398
4. Other liabilities	**3,784,127,032.76**	**3,689,892**
5. Accruals and deferred income	**237,694,212.13**	**207,465**
6. Provisions	**523,191,645.74**	**490,194**
a) provisions for severance payments	0.00	0
b) provisions for pensions	310,596,181.29	317,037
c) provisions for taxes	8,241,922.53	9,082
d) other	204,353,541.92	164,075
6a. Special fund for general banking risks	**0.00**	**0**
7. Tier 2 capital pursuant to Part 2 Title I Chapter 4 of Regulation (EU) No 575/2013	**4,583,910,778.52**	**5,064,549**
8. Additional Tier 1 capital pursuant to Part 2 Title I Chapter 3 of Regulation (EU) No 575/2013	**2,778,909,242.11**	**1,521,760**
of which: Compulsory convertible bonds pursuant to § 26 Austrian Banking Act (BWG)	0.00	0
8b Instruments without a vote pursuant to § 26a Austrian Banking Act (BWG)	**0.00**	**0**
9. Subscribed capital	**859,600,000.00**	**859,600**
10. Capital reserves	**1,628,104,885.97**	**1,628,105**
a) committed	1,628,104,885.97	1,628,105
b) uncommitted	0.00	0
11. Retained earnings	**4,229,878,708.84**	**4,348,234**
a) statutory reserve	1,537,900,000.00	1,537,900
b) reserves provided for by the articles	0.00	0
c) other reserves	2,557,081,483.52	2,612,310
d) blocked reserves	134,897,225.32	198,024
12. Reserve pursuant to section 57 (5) of Austrian Banking Act (BWG)	**851,000,000.00**	**851,000**
13. Net profit or loss for the year	**644,700,000.00**	**644,700**
Total Liabilities and equity	**77,055,423,673.02**	**66,264,178**
Off-balance sheet items		
1. Contingent liabilities of which	**3,753,048,433.45**	**3,663,354**
a) acceptances and endorsements	0.00	0
b) guarantees and assets pledged as collateral security	3,185,793,478.68	3,236,677
c) credit derivatives	567,254,954.77	426,677
2. Commitments	**9,940,427,325.67**	**9,151,755**
of which: commitments arising from repurchase agreements	0.00	0
3. Liabilities arising out of fiduciary activities	**147,056.00**	**186**
4. Own funds pursuant to Part 2 of Regulation (EU) No 575/2013	**13,225,984,969.07**	**12,505,350**
of which: Tier 2 capital pursuant to Part 2 Title I Chapter 4 of Regulation (EU) No 575/2013	3,075,183,933.13	3,496,562
5. Own funds requirements pursuant to Art 92 of Regulation (EU) No 575/2013 of which: capital required pursuant to Art 92 (1) of Regulation (EU) No 575/2013	**33,611,086,639.51**	**32,819,608**
a) Common Equity Tier 1 capital ratio	22.02%	22.88%
b) Tier 1 capital ratio	30.20%	27.45%
c) Total capital ratio	39.35%	38.10%
6. Foreign liabilities	**8,337,707,549.31**	**11,982,988**

II. Income Statement of Erste Group Bank AG for the Year ended 31 December 2020

in EUR or in EUR thousand	1-12 20	1-12 19
1. Interest and similar income	2,098,617,915.99	2,575,434
of which: from fixed-income securities	208,164,997.96	234,861
2. Interest and similar expenses	-1,867,176,409.40	-2,363,638
I. NET INTEREST INCOME	**231,441,506.59**	**211,796**
3. Income from securities and participating interests	421,312,063.78	815,843
a) income from shares, other ownership interests and variable-yield securities	68,279,491.76	64,281
b) income from participating interests	6,482,910.03	8,714
c) income from shares in affiliated companies	346,549,661.99	742,848
4. Commissions income	171,844,463.78	157,532
5. Commissions expenses	-154,956,988.16	-128,525
6. Net profit or loss on financial operations	-4,766,640.19	-69,346
7. Other operating income	91,813,312.20	230,976
II. OPERATING INCOME	**756,687,718.00**	**1,218,275**
8. General administrative expenses	-570,260,998.31	-660,820
a) staff costs	-295,722,000.58	-345,024
aa) wages and salaries	-207,871,280.48	-226,373
bb) expenses for statutory social security contributions and compulsory contributions related to wages and salaries	-42,995,318.34	-45,352
cc) other social expenses	-2,026,314.34	-3,147
dd) expenses for pensions and assistance	-10,190,399.17	-13,815
ee) release / allocation to the provision of pensions	-17,956,789.80	-39,750
ff) expenses for severance payments and contributions to severnace and retirement funds	-14,681,898.45	-16,587
b) other administrative expenses	-274,538,997.73	-315,796
9. Value adjustments in respect of assets items 9 and 10	-7,261,973.18	-10,085
10. Other operating expenses	-32,362,813.76	-59,917
III. OPERATING EXPENSES	**-609,885,785.25**	**-730,822**
IV. OPERATING RESULT	**146,801,932.75**	**487,453**
11./12. Income/expenses from value adjustments of loans and advances as well as individual provisions for liabilities and credit risks	-230,252,054.96	-17,427
13./14. Income/expenses from value adjustments of transferable securities held as financial fixed assets, participating interests and shares in affiliated companies	-5,838,828.13	696,366
V. PROFIT OR LOSS ON ORDINARY ACTIVITIES	**-89,288,950.34**	**1,166,392**
15. Extraordinary income	0.00	5,000
of which: withdrawals from the special fund for general banking risks	0.00	0
16. Extraordinary expenses	0.00	0
of which: allocation to the special fund for general banking risks	0.00	0
17. Extraordinary result (sub-total of items 15 and 16)	0.00	5,000
18. Tax on profit or loss	-10,944,564.33	173,412
19. Other taxes not reported under item 18	-18,121,318.24	-17,701
VI. PROFIT OR LOSS FOR THE YEAR AFTER TAX	**-118,354,832.91**	**1,327,102**
20. Changes in reserves	118,354,832.91	-682,706
of which: allocation to liability reserve pursuant to section 23 (6) of the Austrian Banking Act (BWG)	0.00	0
of which: reversal of liability reserve pursuant to section 23 (6) of the Austrian Banking Act (BWG)	0.00	0
VII. PROFIT OR LOSS FOR THE YEAR AFTER DISTRIBUTION ON CAPITAL	**0.00**	**644,396**
21. Profit brought forward from previous year	644,700,000.00	304
22. Profit transferred on the basis of profit transfer agreement	0.00	0
VIII. PROFIT OR LOSS FOR THE YEAR	**644,700,000.00**	**644,700**

III. Notes to the Financial Statements 2020

A. GENERAL INFORMATION

Erste Group Bank AG is listed on the Vienna Stock Exchange. It is also quoted on the Prague Stock Exchange and on the Bucharest Stock Exchange. Erste Group Bank AG is registered in the company register at the Commercial Court of Vienna under FN 33209m. The address of its registered office is: Am Belvedere 1, 1100 Vienna, Austria.

The 2020 financial statements of Erste Group Bank AG have been prepared in accordance with the regulations of the Commercial Code (Unternehmensgesetzbuch, UGB) and in conjunction with the applicable provisions of the Austrian Banking Act (Bankwesengesetz, BWG).

Pursuant to section 59a Austrian Banking Act (BWG), Erste Group prepared the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) on the same balance sheet date. The Erste Group's consolidated financial statements are filed with the commercial register at the Commercial Court of Vienna.

It should also be noted that in addition to the joint liability scheme in place since 2001, from 1.1.2014 onwards Erste Group Bank AG has formed a recognised institutional protection scheme in accordance with article 113 (7) CRR together with the Austrian savings banks. The joint liability scheme complies with the requirements of article 4 (1) Z 127 CRR, whereby the required individual services of the individual members of the scheme are subject to an individual and general ceiling. The applicable amounts are determined by the steering company and made known to the paying members. Due to the requirements for an IPS (Institutional Protection Scheme), the ceilings for individual members' support measures were raised and an ex-ante fund established which was endowed beginning in 2014 for the following 10 years.

The payments of the individual members are recognised in the balance sheet as a share in IPS GesbR, which manages the ex-ante fund and are accounted for as revenue reserve. Due to the contractual terms, this revenue reserve represents a blocked reserve. The writing off of this blocked reserve may only take place as a result of the mobilisation of the ex-ante fund due to a claim. This reserve can therefore not be utilised internally to cover losses and on member level does not qualify as capital according to the CRR; on a consolidated level, the ex-ante fund does qualify, however.

Furthermore, Erste Group Bank AG is the central institution for the associated Austrian savings banks, and together they form a cash pool pursuant to section 27a Austrian Banking Act (BWG). Where necessary, Erste Group Bank AG must supply liquidity to an associated savings bank in accordance with legal and contractual provisions.

Ongoing legal cases

Erste Group Bank AG is party to lawsuits that, for the most part, relate to ordinary banking business. The outcome of these proceedings is not expected to have a significant negative impact on the financial position and profitability of Erste Group Bank AG. Erste Group Bank AG is currently also involved in the following legal case:

Lawsuit filed by minority shareholders in Česká Spořitelna a.s.: Following the completion of a squeeze-out procedure in Česká Spořitelna a.s. resulting in Erste Group Bank AG becoming the sole share-holder of Česká Spořitelna a.s., some former minority shareholders of Česká Spořitelna a.s. filed a lawsuit with the courts in Prague. In the case against Česká Spořitelna a.s., the plaintiffs aim in essence a declaration that the shareholders´ resolution approving the squeeze-out is invalid. In the proceedings against Erste Group Bank AG, the plaintiffs allege in essence that the share price of CZK 1,328.00 (at that time around EUR 51.00) paid by Erste Group Bank AG in the squeeze-out of the Česká Spořitelna a.s. minority shareholders in 2018 was unfair and too low and should be increased. If the courts were to decide there ought to be an increase, this would affect all minority shareholders squeezed-out. In the squeeze-out performed in 2018, Erste Group Bank AG acquired a total of 1.03% of minority shares for a consideration of EUR 80,327,547.67. Erste Group Bank AG views that the purchase price, established by a valuation carried out by professional external experts, was correct and fair.

Disclosure

Erste Group Bank AG uses the internet as the medium for publishing disclosure requirements according to Part 8 of the regulation (EU) No 575/2013 on prudential requirements for credit institutions and investment firms (Capital Requirements Regulation – CRR). Details are available on the website of Erste Group at www.erstegroup.com/ir. Relevant disclosures are included in the annual report in the section 'reports' or published as separate documents in the section 'regulatory disclosure'.

Size according to section 221 Commercial Code (UGB)
Pursuant to section 221 (3) in connection with section 189a Commercial Code (UGB), the legal regulations for large companies are valid for the financial year ending 31 December 2020.

B. NOTES ON ACCOUNTING AND MEASUREMENT METHODS

Generally accepted accounting principles
The financial statements were prepared in accordance with the generally accepted accounting principles and according to the standard principle that the financial statements should provide a fair and accurate view of the company's financial position, income and expenses. In the preparation of the financial statements, the principle of completeness was applied. The principle of individual measurement was applied in assessing the company’s assets and liabilities, and the assumption was that the company would continue to operate (going concern). In applying the principle of prudence, the particularities of the banking business were taken into account.

Receivables and liabilities in foreign currency
Receivables and liabilities in foreign currencies were measured at the ECB reference rates applicable at the balance sheet date. The currencies for which ECB did not publish a reference rate were recognised at the mid-rate applicable at the balance sheet date of Erste Group Bank AG. Foreign exchange forward transactions and FX swaps were principally rated at the forward exchange rate.

Participating interests and shares in affiliated companies
The valuation approach for participating interests and shares in affiliated companies is the modified lower of cost or market principle.

The fair value is determined based on expert assessments of the corporate value and recent transactions or market values. In general, the value is determined using a discounted cash flow model (DCF model), which incorporates the specifics of the banking business and its regulatory environment. For this purpose, Erste Group Bank AG performs an annual impairment test at the balance sheet date, although an impairment test is also carried out during the year if evidence exists that might indicate depreciation. Methodologically, this is carried out following IAS 36.

The estimation of future earnings distributable to shareholders is based on financial plans (budgets) as agreed by the management of the subsidiaries while taking into account the fulfilment of the respective regulatory capital requirements. The calculation of corporate value is based upon three different budget scenarios, in order to demonstrate the future macro-economic development and the development of risk costs. The base scenario utilises the budgets agreed upon. The worst-case scenario evaluates the macro-economic data more conservatively, which results in higher risk costs and lower income. The best-case scenario evaluates the macro-economic data more optimistically, which results in lower risk costs and higher income. All scenarios are weighted with their probability of occurrence, whereby the base scenario is assigned a 50% probability of occurrence.

Any forecast beyond the planning period are derived based on the last year of the planning period and a long-term growth rate (perpetual annuity). As long as the implicit return on equity is higher than the equity capital costs at the end of the planning period, the return on equity for the perpetuities is aligned with the equity capital costs. The present value of perpetual earnings growing at a stable rate (referred to as terminal value) takes macro-economic parameters and economically sustainable cash flows into consideration.

The interest rate used for calculation was determined on the basis of the CAPM (Capital Asset Pricing Model). Key input factors include:
- A risk-free interest rate (Source: Svensson yield curve method for 30-year German government bonds)
- Market risk premium
- Beta factor
- Weighted country risk premium (Source: Damodaran).

Dividend earnings from participating interests and shares in affiliated companies are reported according to the resolution on dividend payouts and shown in item 3 Income from securities and participating interests.

Loans and advances to credit institutions and customers
Credit loans and advances to credit institutions and customers were measured in accordance with the provisions set out in the common position paper by the AFRAC (Austrian Financial Reporting and Auditing Committee) and FMA (Financial Market Authority) concerning the subsequent valuation of financial institutions using the effective interest rate method.

Default risks, which were recognised at the balance sheet date, were covered by loan loss provisions. Write-ups from the release of loan loss provisions were carried out. Methodologically, the calculation of loan loss provisions is conducted using the IFRS 9 impairment models set out in the Commercial Code (UGB).

Securities

Depending on their classification, securities (debt securities, other fixed-income securities, shares and other variable-yield securities) are held either as trading assets, current assets or financial assets. According to the classification they are measured as specified below:

- trading assets at market value, even when acquisition costs are exceeded
- current assets at amortised acquisition cost or at the lower market value (strict application of valuation rule "whichever is lowest out of market value or acquisition costs"), or
- bonds admitted to trading on stock exchanges at market values, even when acquisition costs are exceeded (in accordance with section 207 Commercial Code in connection with section 56 (5) Austrian Banking Act (BWG)), repurchased own listed bonds (retained covered bonds) at the settlement amount
- fixed assets at amortised acquisition cost and where permanent impairment can be presumed, at the lower market value (discretionary application of the valuation rule "whichever is lowest out of market value or acquisition costs"). As long as there is no evidence of permanent impairment, no impairment loss is recognised. Securities in item 6 are valued according to the strict lowest value principle without exception.

Securities were allocated to trading assets, current assets or to financial assets in accordance with the organisational policies adopted by the management board. The fair value, or market price, is the price that can be achieved by selling a financial instrument or the price payable for its purchase, in an active market. Where available, market prices were used for asset valuation. Valuation methods, especially the present value method, were used for assets without market prices.

Amortised Costs and Effective Interest Rate Method

Pursuant to section 56 (2) and (3) Austrian Banking Act (BWG) and section 198 (7) Commercial Code, the difference between acquisition cost and redemption amount for fixed-income securities with the characteristics of financial investments as well as for securitised liabilities is amortised on a pro rata basis. The distribution of the difference takes place in line with AFRAC (Austrian Financial Reporting and Auditing Committee – AFRAC) statement 14 “Accounting of non-derivative financial instruments” according to the effective interest rate method either until the first possibility for termination by the issuer, or until the redemption date

The amortised acquisition costs of financial assets or liabilities are the amount, which the asset or liability is valued at when initially recognised, minus redemptions, plus or minus the cumulated amortisation of any difference between the original amount and the amount redeemable at maturity using the effective interest rate method. In the lending business, fees and commission similar in nature to interest as well as changes in estimates are amortised on a pro rata basis using the effective interest method.

The effective interest rate is the interest rate with which the estimated future in- and outflows over the expected life of the asset or liability are discounted exactly at the amortised costs of an asset or a liability. The estimated cash flows take into consideration all conditions set out in the contract for the asset or liability; expected credit losses, however, are not taken into consideration. Furthermore, the calculation includes transaction costs and handling fees, if these are distributable, as well as all other premiums and discounts on the nominal value.

Lending Business

Should the base interest rate change during the life of a variable interest rate loan and this change is not due to contractual modification, the changes to the expected future in/outflows are taken into consideration by recalculating the EIR. Any caps and floors agreed on the base interest rate are also taken into account.

If the expected future in/outflows of a loan change during the contract term and the change is neither due to contractual modification nor to an adjustment to the nominal interest rate, nor to deterioration of credit rating, the amortised costs of the asset are adjusted by recording a changed estimate. This changed estimate corresponds to the difference between the amortised acquisition costs before the change in the expected in/outflows and the cash value of the newly expected in/outflows, discounted by the original effective interest rate. In the profit and loss statement the change in estimates is reflected in the interest income.

Handling of contractual modifications

A contractual modification occurs when a contract is modified without such a possibility to modify it having been specified previously in the contract. Most contractual adjustments are carried out in the lending business. These contractual adjustments are assessed according to qualitative and quantitative aspects. If, according to qualitative and/or quantitative assessment, there is a significant change, it is referred to as a significant contractual adjustment. If there is no significant change according to both qualitative and quantitative assessments, it is referred to as a non-significant contractual adjustment. The utilisation of the legal moratorium in accordance with 2.Covid-19 Accompanying Act is not treated as a significant contractual modification. Deviating agreements are treated as significant or non-significant contractual modifications in line with their qualitative and quantitative aspects. Loans of customers, who have not utilised the legal moratorium, are continued without balancing a contractual modification.

Significant contractual modifications lead to the derecognition of the original financial asset and to the initial recognition of a new financial asset in accordance with the contractual modifications. If the debtor has defaulted or the significant contractual modification leads to a default, the new asset is treated as a defaulted asset. The difference between the carrying value of the derecognised asset and the fair value of the new asset is initially recognised in item 11/12 of the profit and loss statement. If the debtor has not defaulted and the significant contractual modification does not lead to default, the new asset is recorded in stage 1 following the derecognition of the original asset. The non-amortised amount of processing fees/transaction costs, which are taken into account in the effective interest rate, is recognised at the time of derecognition in the interest result. The reversal of impairments, which were recorded for the original asset until the contract was significantly modified, as well as the recording of impairments for the new asset are shown in item 11/12 in the profit and loss statement. The remaining difference is shown in other operating income or expenses.

Non-significant contractual modifications are accounted for according to general corporate law principles.

Market-based adjustments to interest conditions, which fulfil specific conditions, are no longer treated as contractual modifications from the financial year 2020 onwards. Such changes to the interest conditions usually concern loans, which have no forbearance status and for which there is a prepayment option and a sufficiently competitive refinancing market. Moreover, the costs, which are incurred by the debtor in the case of prepayment or early termination, must be considered to be low. Such changes to interest conditions are no longer treated as contractual modifications from the financial year 2020 onwards, but are taken into account within the framework of the recalculation of the effective interest rate. This change took place at the end of 2020 and there were no significant impacts on the annual financial statements.

Impairment for Credit Risks

Impairments or provisions for credit risks to loan receivables and off-balance sheet credit risk arising from financial guarantee contracts and certain loan commitments are recorded.

For loan receivables, the book value of the asset recorded in the balance sheet corresponds to the difference between the amortised acquisition costs and the cumulated impairments. Impairments for loan commitments and financial guarantee contracts are reported in the balance sheet item other provisions. In the profit and loss statement, impairment losses and income are recorded in items 11/12 for all assets in accordance with section 53 Austrian Banking Act (BWG).

The calculation of impairments is carried out in line with the FMA (Finance Market Authority) and AFRAC's common position paper concerning the subsequent valuation in financial institutions by using the IFRS 9 model in the Commercial Code. The impairment model is based on expected credit loss and considers the "statistically determined empirical values from similar facts and circumstances" in Section 201 (2) Z 7 Commercial Code, which are also necessary for the valuation of expected credit loss in the Commercial Code.
Expected credit loss (ECL) reflects the following:

- an undistorted and probability-weighted amount, which is determined by a series of possible scenarios;
- the time value of money; and
- plausible and comprehensible information about past events and current conditions as well as prognoses about future economic developments.

Three Stage Model

An impairment model based upon a three stage approach is used for the calculation of risk provisioning:

- Stage 1 includes financial assets at initial recognition (as long as these are not already impaired) and financial assets which have not significantly shown increased credit risk since initial recognition, independent of their creditworthiness.
- Stage 2 includes financial assets which have shown significantly increased credit risk since initial recognition, however for which there is not yet any impairment at the time of report. Stage 2 also includes non-impaired assets, which could not be assigned with a credit risk at the time of acquisition due to missing data in the framework of the IFRS 9 transition.
  Specific rules for the classification of initial utilisations of approved lines of credit exist. Dependent on the development of credit risk between confirmation and initial utilisation, the loan is classified at stage 1 or stage 2.
- Stage 3 includes financial assets that are impaired on the reporting date. A financial asset is principally impaired if the customer defaults.

Across the Group, the definition used for loan default is based on EBA/GL/2016/07 guide to using the definition of default in accordance with Article 178 of EU regulation number 575/2013 and delegated regulation EU/2018/171 “on supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards for the materiality threshold for credit obligations past due.”

In stage 1 risk provisions are calculated in the amount of the expected losses over 12 months. In stages 2 and 3 risk provisions are calculated in the amount of the expected credit losses over the (remaining) duration.

Significant Increase in Credit Risk

Concerning the modelling of the expected credit loss (ECL) and the calculation of the risk provisions for credit risks resulting therefrom, the identification of a significant increase in credit risk (SICR) since the recognition of the loan receivable is one of the substantial determinants for the expected impact. For this purpose, quantitative and qualitative indicators for the estimation of a SICR are defined for all portfolios and product types, including receivables overdue by more than 30 days.

Quantitative indicators include adverse changes in the probability of default (PD) over the total (remaining) duration, whereby the significant increase is determined by means of a combination of relative and absolute change threshold levels. Generally, the indicators for the PD are defined in order to represent the risk in consideration of forward-looking information (“forward looking-information”, FLI) as a point-in-time measurement. The PD threshold values are defined for customer segments or (individual) customer rating and are subject to continuous validation.

Qualitative indicators for calculating an SICR include forbearance measures and the transfer of the customer to the workout department as well as early warning indicators (if these are not already sufficiently considered in the rating) and indications of fraud. The setting of qualitative indicators is based inherently on the expert evaluation of credit risks, which is to be carried out in an appropriate and timely manner. The group-wide and institution-specific guidelines and processes concerning this ensure the required governance framework. Besides the qualitative determinants on a customer level, the calculation of an SICR is carried out at portfolio level if the increase to the credit risk on a business or customer level occurs only after some delay or if the increase is only noticeable at portfolio level. In the financial year 2020, additional rules came into effect in the determination of an SICR, which are described in the “Covid-19” section.

Calculation of Risk Provisions

The calculation of risk provisions for defaulted customers is generally carried out on an individual level. The individual method is used for defaulted customers and comprises an individual definition of those restructuring or liquidation scenarios deemed currently possible, the probability of them occurring and the expected recoveries per scenario (amortisations and collateral proceeds) by the workout-risk manager. The cash value comes from the discounting of the expected cash flows based on the original effective interest rate. The required risk provision is the difference between the gross book value and the cash value of the expected cash flows in a scenario, calculated over all probability-weighted scenarios.

Regardless of their significance, rule-based risk provisions are calculated on the basis of a rule-based approach for non-defaulted customers. The amount of portfolio risk provisions depends on the gross book value, the probability of default (PD), the losses given default (LGD) and the credit conversion factor (CCF) for off-balance sheet items. For the calculation of loss given default, the impact of the discounting of future cash flows on the cash value is considered.

Covid-19

Erste Group Bank AG concluded that the majority of moratoria introduced prior to 31 December 2020 fulfil the conditions defined in the EBA guidelines published throughout 2020. The relief offered to borrowers therefore did not cause an automatic shift from stage 1 to stage 2. Nevertheless, Erste Group Bank AG will continue to make individual estimates to determine whether other factors would lead to a forbearance or default classification. To this effect, risk recognition was adapted in 2020 in order to identify customers, who have financial difficulties or consideration in light of the concessions included in the EBA-guidelines, in accordance with the forbearance or default definitions (check for improbability of repayment).

On the basis of new, future-oriented macro-economic information, a revaluation of the risk parameters was carried out. The special situation due to the Covid-19 pandemic and the comprehensive support measures lead to a delay in the presentation of macro-economic indicators in the credit risk parameters. Therefore, macro-economic variables for 2020 were included as additional predictors for future values of credit risk parameters. Macro-economic developments and prognoses continue to be observed, to draw conclusions from the information obtained in connection with the credit risk parameters.

For the recognition of a significant increase in credit risk following the outbreak of the Covid-19 pandemic, portfolio shifts (overlays) were carried out on the basis of professional estimates. As a basis for this, branches and sub-branches were categorised in view of the expected impact of Covid-19 as significantly, strongly, mildly or hardly affected. The evaluation of customers was carried out afterwards investigating whether Covid-19-related help measures were utilised, which branch category they belonged to and how likely the customer-specific default probability was according to IFRS. Based upon this information and in combination with an individual assessment, customers were additionally shifted into stage 2, meaning a calculation was carried out of the expected credit loss over the entire term.

Intangible and tangible assets

Intangible and tangible assets were measured at purchase or production cost less depreciation and impairment. Straight-line depreciation was applied as scheduled. The useful life is 25 to 50 years for buildings and 4 to 20 years for fixtures and fittings; the amortisation period for intangible assets is 4 to 15 years. Low-value assets were fully written off in the year of acquisition.

Liabilities

Liabilities were recognised in the balance sheet at their settlement values or the pro rata annual values (zero coupon bonds).

Issuing costs for securities were expensed immediately; premiums and discounts on issues were amortised on a pro rata temporis basis using the effective interest rate method. Distribution is described in "Amortised Costs and Effective Interest Rate Method."

Provisions

Defined benefit plan

Defined benefit plans of Erste Group AG comprise provisions for pension, severance and jubilee benefits. In Austria, defined pension plans now only apply to retired employees. In previous years, pension obligations for active employees were transferred to VBV-Betriebliche Altersvorsorge AG. Remaining with Erste Group Bank AG is a defined-benefit obligation for entitlements of former employees who had already retired by 31 December 1998 before the pension reform took effect, and for those former employees who did not retire until 1999 but continued to be entitled to a direct pension from Erste Group Bank AG under individual agreements. Entitlements to resulting survivor pensions also remained with the Erste Group Bank AG. Severance entitlements continue to be applicable for employees whose employment contract with Erste Group Bank AG commenced prior to 1 January 2003. Severance pay is a one-off payment which employees are entitled to when their employment is terminated. Entitlement to this severance pay arises after three years of employment. Defined benefit plans include jubilee benefits. The amount of jubilee benefits (payments for long-term service/loyalty to the company) is determined by the length of employment with the employer. The entitlement to jubilee benefits is established by a collective agreement, which defines both the conditions and amount of the entitlement.

Obligations under defined benefit plans for employees are determined using the projected unit credit method. Future obligations are determined based on actuarial reports. The calculation takes into account not only the known salaries, pensions and entitlements to future pension payments but also salary and pension increases expected in the future.

The interest rate applied for the calculation of long-term personnel provisions is derived from the current interest rate of a portfolio of high-quality (AA-rating) corporate bonds. For this purpose, the weighted average of the yield of the underlying portfolio is determined with a corresponding duration.

Tax provisions and other provisions

Unless the amounts were small, provisions were set aside on a best estimate basis. Tax provisions and other provisions with a term of more than a year were discounted at a customary market interest rate of corporate bonds with an AA rating as at the closing day. Depending on the applicable remaining duration, interest rates between 0.0% and 1.6% were applied.

Assets held in trust

Recoverable trust assets were declared off-balance sheet in accordance with section 48 (1) Austrian Banking Act (BWG).

Derivative business

Derivatives in a hedge relationship under AFRAC-statement 15 (September 2017) are treated as a valuation unit, thus the fair value neither of the derivative nor of the hedged item is part of the balance sheet. Derivatives in the Banking Book, which are not in a hedge relationship under AFRAC statement 15 (September 2017) are recognised based on the imparity principle in profit and loss as provisions for contingent losses with the expected loss exceeding the book value. The interest income/expenses as well as possible financial compensation from the current period are accrued based on the effective interest rate. These are shown in the interest result.
Depending on the contract, derivatives in the trading book are shown in the balance sheet based on mark-to-market valuations.

The attributed fair value is the amount which could be achieved in an active market from the sale of a financial instrument, or the amount which would need to be paid for a relevant acquisition. As long as market rates were available, these are used for valuation. If market rates were not available, valuation models were used, which included the present value method in particular. Fair values for options are calculated with recognised option price models. Amongst others, the valuation models include the Black-Scholes model, binomial model, Hull-White model, local volatility model and Vanna-Volga model

Credit Value Adjustment (CVA) and Debt Value Adjustment (DVA) are used for the calculation of the market values of derivatives. For derivatives in hedge relationships, the CVA is reported as an inefficient part in the balance sheet and income statement as provision for contingent losses.

Deferred tax assets

Deferred tax assets are recognised to the extent of convincing substantial evidence that sufficient taxable income will be available in future against which tax-deductible temporary differences and tax losses can be offset. The valuation methods were based on expected results for all larger incorporated companies in the tax group.

The calculation of deferred tax assets of Erste Group Bank AG as group parent of the group of companies, which includes only group members in Austria, was completed in accordance with Statement 30 Deferred Tax Assets in single and consolidated financial statements issued by AFRAC (December 2020).

Securities lending and repurchase transactions

In repurchase agreements / securities lending transactions, the assets assigned are still recognised in the balance sheet. A liability is presented against the pledgee in the amount received for the transfer. In reverse repurchase agreements / securities lending transactions, the assets taken over are not part of the balance sheet. The amount owed by the pledgor is recognised as a receivable in the amount paid for the transfer.

Changes in accounting and measurement methods

Further to the already mentioned adaptions in other chapters, the following change was applied. In the financial year 2020, in accordance with section 53 (3) Austrian Banking Act the profit and loss items "11. Value adjustments of loans and advances and allocations to provisions for contingent liabilities, commitments and securities held in the financial current assets" and "12. Value re-adjustments of loans and advances and provisions for contingent liabilities, commitments and securities held in the financial current assets" and in accordance with section 54 (2) Austrian Banking Act the items "13. Value adjustments of transferable securities held as financial fixed assets, participating interests and shares in affiliated companies" and "14. Value re-adjustments of transferable securities held as financial fixed assets, participating interests and shares in affiliated companies" are summarised as one item each. This was carried out both for the current and the prior year. This change in presentation occurred because of a technical change in the bank IT system. The determination of a true and fair view of the assets, financial and profit position is not compromised by this summarisation.

C. NOTES ON THE BALANCE SHEET AND INCOME STATEMENT

Unless otherwise indicated, amounts for the reporting year are stated in Euros, for the previous year in thousand Euros. The tables in this report may contain rounding differences.

1. Maturity structure of loans and advances as well as liabilities to credit institutions and customers (by residual time to maturity)

Loans and Advances

in EUR or in EUR thousand	Dec 20	Dec 19
Loans and advances to credit institutions	**21,368,923,815.14**	**25,578,852**
payable on demand	1,260,580,310.95	1,392,111
0-3 months	10,357,594,316.59	13,921,556
3-12 months	2,862,566,947.15	4,188,388
1-5 years	5,400,516,936.10	4,527,797
>5 years	1,487,665,304.35	1,549,001
Loans and advances to customers	**16,792,699,565.89**	**16,237,043**
payable on demand	663,096,108.53	482,424
0-3 months	1,637,408,724.88	1,204,994
3-12 months	1,215,998,469.79	1,266,122
1-5 years	7,768,966,976.47	7,030,680
>5 years	5,507,229,286.22	6,252,822

Liabilities

in EUR or in EUR thousand	Dec 20	Dec 19
Liabilities to credit institutions	**32,144,836,425.08**	**22,214,674**
payable on demand	5,658,088,170.24	4,924,575
0-3 months	13,215,244,002.18	13,745,432
3-12 months	828,962,997.12	728,952
1-5 years	10,996,795,460.27	1,926,010
>5 years	1,445,745,795.27	889,705
Liabilities to customers (non-banks)	**5,891,720,982.93**	**6,589,589**
Other Liabilities	**5,891,720,982.93**	**6,589,589**
payable on demand	4,510,246,066.19	3,044,180
0-3 months	1,223,908,185.83	3,285,571
3-12 months	5,537,500.00	36,540
1-5 years	103,000,424.09	139,600
>5 years	49,028,806.82	83,697

2. Debt securities due within one year

Purchased debt securities worth EUR 817,428,781.00 (prior year: EUR 767,565 thousand) and issued debt securities worth EUR 2,438,998,504.00 (prior year: EUR 1,357,070 thousand) are scheduled to mature in the year following 31 December 2020.

3. Assets and liabilities in foreign currencies

in EUR or in EUR thousand	Dec 20	Dec 19
Assets	19,266,534,765.22	22,359,436
Liabilities	7,607,016,651.15	10,270,108

4. Loans and advances as well as liabilities to affiliated companies and companies in which participating interests are held

in EUR or in EUR thousand	Loans and advances to affiliated companies		Loans and advances to participating interests	
	Dec 20	Dec 19	Dec 20	Dec 19
Treasury bills and other bills eligible for refinancing with central banks	0.00	0	0.00	0
Loans and advances to credit institutions	16,069,416,403.59	18,104,979	0.00	0
Loans and advances to customers	1,189,995,772.96	1,526,815	4,546,665.49	3,269
Debt securities and other fixed-income securities (incl. securitised loans and advances to credit institutions)	494,795,012.61	583,710	0.00	4,483
Shares and other variable-yield securities	1,107,034,486.61	980,141	3,523,845.51	26,327

in EUR or in EUR thousand	Liabilities to affiliated companies		Liabilities to participating interests	
	Dec 20	Dec 19	Dec 20	Dec 19
Liabilities to credit institutions	17,071,599,383.02	15,124,030	401,406.08	1,769
Liabilities to customers (non-banks)	649,402,465.73	1,495,752	2,212,358.04	1,065
Securitised liabilities	419,131,733.02	534,420	0.00	0
Tier 2 capital pursuant to Part 2 Title I Chapter 4 of Regulation (EU) No 575/2013	1,500,000.00	1,506	0.00	0

Business with affiliated companies is conducted at arm's length.

5. Subordinated assets

in EUR or in EUR thousand	Dec 20	Dec 19
Loans and advances to credit institutions, thereof	**729,952,081.10**	**744,177**
to affiliated companies	708,509,510.16	701,115
to companies with participating interests	0.00	0
Loans and advances to customers, thereof	**76,956.06**	**535**
to affiliated companies	0.00	0
to companies with participating interests	76,956.06	535
Shares and other fixed-income securities, thereof	**32,281,119.60**	**53,709**
to affiliated companies	0.00	0
to companies with participating interests	0.00	0

6. Fiduciary business

No fiduciary business without the right of disposal was disclosed as of the balance sheet date.

7. Securities

Breakdown of securities admitted to trading on stock exchange items A5 to A8

pursuant to section 64 (1) no. 10 Austrian Banking Act (BWG) in EUR or in EUR thousand	Listed		Not listed	
	Dec 20	Dec 19	Dec 20	Dec 19
Debt securities and other fixed-income securities	3,874,931,874.99	6,370,039	0.00	0
Shares and other variable-yield securities	68,776,562.56	63,249	6,372,493.27	39,887
Participating interests	0.00	1,440	0.00	0
Shares in affiliated companies	0.00	0	0.00	0
Total	**3,943,708,437.55**	**6,434,729**	**6,372,493.27**	**39,887**

Breakdown of securities admitted to trading on stock exchange items A5 to A6

pursuant to section 64 (1) no. 11 Austrian Banking Act (BWG) in EUR or in EUR thousand	Fixed assets		Current assets	
	Dec 20	Dec 19	Dec 20	Dec 19
Debt securities and other fixed-income securities	2,054,258,423.91	2,610,038	829,075,148.42	2,379,940
Shares and other variable-yield securities	51,757.95	10,802	11,488,212.09	47,437
Total	**2,054,310,181.86**	**2,620,840**	**840,563,360.51**	**2,427,376**

Securities that are listed on a non-regulated market, for example those on the third market of the Vienna Stock Exchange, are considered as approved for trading on the stock market, yet they are not publicly listed.

Allocation pursuant to section 64 (1) no. 11 Austrian Banking Act (BWG) was carried out in accordance with the organisational policies adopted by the management board, with positions being included under fixed assets that are held for strategic purposes of liquidity. As of 31 December 2020, the difference to the redemption value – items A2 to A6 - resulting from the pro rata write-downs pursuant to section 56 (2) Austrian Banking Act (BWG) amounts to EUR 156,959,753.15 (prior year: EUR 75,285 thousand), whereas the difference to the redemption value from the pro-rata write-ups pursuant to section 56 (3) Austrian Banking Act (BWG) amounts to EUR 33,706,567.18 (prior year: EUR 35,374 thousand).

Repurchase agreements

The carrying amount of assets subject to sale and repurchase agreements amounts to EUR 622,717,296.95 on the balance sheet date (prior year: EUR 1,584,619 thousand).

Differences of the securities listed for trade on the stock exchange not held as financial fixed assets

The difference between the higher market value on the balance sheet date and the cost of purchase pursuant to section 56 (5) Austrian Banking Act (BWG) amounts to EUR 2.024.866,25 (prior year: EUR 2,242 thousand).

Breakdown of debt securities and other fixed-income securities

in EUR or in EUR thousand	Dec 20	Dec 19
Issued by public-sector issuers	845,796,159.14	885,411
Own issues	846,778,042.27	2,426,985
Bonds - domestic credit institutions	30,938,749.21	9,097
Bonds - foreign credit institutions	1,076,553,770.43	1,754,788
Mortgage and municipal securities	899,794,972.10	1,024,302
Convertible bonds	0.00	0
Other bonds	175,070,181.88	269,456
Total position A5	**3,874,931,874.99**	**6,370,039**

8. Trading book

Erste Group Bank AG kept a trading book pursuant to Art. 102 CRR throughout the financial year. As of 31 December 2020, the securities portfolio assigned to the trading book was EUR 9,021,733,257.08 (prior year: EUR 2,735,257 thousand). Money market instruments worth EUR 9,254,385,868.30 (prior year: EUR 20,112,932 thousand) were assigned to the trading book as of 31 December 2020.

The volume of other financial instruments included in the trading book had a par value of EUR 254,349,173,762.64 as of 31 December 2020 (prior year: EUR 243,304,254 thousand):

The disclosure of other financial instruments includes external transactions as well as booked internal transactions concerning hedge relationships. Further information on internal transactions can be found in section 28 of this chapter.

9. Participating interests and shares in affiliated companies

The amounts for equity and result are denominated in euro and, as a rule, are derived from the IFRS financial statements prepared to consolidate the consolidated financial statements according to uniform group guidelines. The share indicated below represents direct and indirect shares.

Holdings as of 31 December 2020

Company name, registered office	Interest of Erste Group in %	Equity	Result	Balance sheet date
Credit institutions according to CRR				
Banca Comerciala Romana SA, Bucharest	99.88	1,879,787,010.00	161,211,676.00	31.12.2020
Banka Sparkasse d.d., Ljubljana	4.00	123,708,832.00	3,033,883.00	31.12.2020
Ceska sporitelna, a.s., Prague	100.00	5,410,339,643.00	332,363,256.00	31.12.2020
Erste & Steiermärkische Bank d.d., Rijeka	59.02	1,156,916,524.00	51,672,106.00	31.12.2020
ERSTE BANK AKCIONARSKO DRUŠTVO, NOVI SAD, Novi Sad	74.00	280,127,867.00	11,342,720.00	31.12.2020
Erste Bank der oesterreichischen Sparkassen AG, Vienna	100.00	1,730,475,915.00	162,612,983.00	31.12.2020
Erste Bank Hungary Zrt, Budapest	85.00	1,113,383,824.00	53,822,324.00	31.12.2020
Prva stavebna sporitelna, a.s., Bratislava	25.02	266,448,761.45	8,316,486.24	31.12.2020
Public Joint-stock company commercial Bank "Center-Invest", Rostowam Don	9.09	157,610,277.36	40,399,983.08	31.12.2019
Slovenska sporitelna, a. s., Bratislava	100.00	1,760,003,940.00	114,633,191.00	31.12.2020
SPAR-FINANZ BANK AG, Salzburg	50.00	5,337,209.40	105,592.57	31.12.2020
Financial institutions				
EB Erste Bank Internationale Beteiligungen GmbH, Vienna	100.00	35,814,952.00	9,654,398.00	31.12.2020
Erste Group Immorent GmbH, Vienna	100.00	317,951,301.00	27,490,105.00	31.12.2020
ERSTE GROUP IMMORENT LJUBLJANA, financne storitve, d.o.o., Ljubljana	25.00	52,830.00	-97,960.00	31.12.2020
EUROPEAN INVESTMENT FUND, Luxembourg	0.11	1,990,071,052.00	175,668,122.00	31.12.2019
Intermarket Bank AG, Vienna	92.63	60,050,461.00	4,387,449.00	31.12.2020
VBV - Betriebliche Altersvorsorge AG, Vienna	27.96	58,747,165.81	6,597,693.17	31.12.2020

Company name, registered office	Interest of Erste Group in %	Equity	Result	Balance sheet date
Other holdings				
Austrian Reporting Services GmbH, Vienna	14.00	100,481.91	13,961.59	31.12.2019
aws Gründerfonds Beteiligungs GmbH & Co KG, Vienna	5.11	36,163,010.56	-1,145,147.98	31.12.2019
Dateio s.r.o., Prague	22.23	2,522,711.66	-66,316.74	31.12.2019
EB-Restaurantsbetriebe Ges.m.b.H., Vienna	100.00	419,798.00	-3,926,903.00	31.12.2020
Erste Asset Management GmbH, Vienna	64.67	118,385,691.00	49,041,009.00	31.12.2020
ERSTE CAMPUS Immobilien AG & Co KG, Vienna	-	99,201,067.00	2,424,815.00	31.12.2020
ERSTE d.o.o., Zagreb	10.79	14,469,711.61	2,237,844.21	31.12.2020
Erste Finance (Delaware) LLC, Wilmington	100.00	49,392.00	-25,575.00	31.12.2020
Erste Group Card Processor d.o.o., Zagreb	100.00	18,170,394.00	1,196,558.00	31.12.2020
Erste Group IT International GmbH, Vienna	99.90	66,913,449.00	5,552,591.00	31.12.2020
Erste Group Services GmbH, Vienna	100.00	317,358.00	171,847.00	31.12.2020
Erste Group Shared Services (EGSS), s.r.o., Hodonin	60.00	472,275.00	230,683.00	31.12.2020
Erste Reinsurance S.A., Luxembourg	100.00	56,362,088.00	5,531,815.00	31.12.2020
FRC2 Croatia Partners SCSp, Luxembourg	5.59	6,272,546.00	-1,095,604.00	31.12.2019
George Labs GmbH, Vienna	100.00	3,011,372.00	1,519,220.00	31.12.2020
Graben 21 Liegenschaftsverwaltung GmbH, Vienna	100.00	29,710.41	-1,711.48	31.12.2019
Haftungsverbund GmbH, Vienna	0.97	722,143.00	1,803.00	31.12.2020
IPS Fonds Gesellschaft bürgerlichen Rechts, Vienna	31.51	175,011,731.00	5,258.00	31.12.2020
OM Objektmanagement GmbH, Vienna	100.00	42,723,098.00	847,350.00	31.12.2020
Österreichische Wertpapierdaten Service GmbH, Vienna	32.50	239,425.95	36,645.22	31.12.2019
Procurement Services GmbH, Vienna	99.80	1,042,905.00	361,199.00	31.12.2020
ROMANIAN EQUITY PARTNERS COÖPERATIEF U.A., Amsterdam	77.38	8,273,009.00	562,215.00	31.12.2019
s IT Solutions AT Spardat GmbH, Wien	25.00	45,721,521.00	10,173,550.00	31.12.2020
Society for Worldwide Interbank Financial Telecommunication scrl, La Hulpe	0.20	469,587,748.00	53,207,710.00	31.12.2019
Speedinvest III EuVECA GmbH & Co KG, Vienna	2.50	6,787,735.74	-1,087,267.26	31.12.2019
TAUROS Capital Investment GmbH & Co KG, Vienna	40.00	2,997,609.78	-384,036.74	31.12.2019
Therme Wien GmbH & Co KG, Vienna	15.00	28,850,694.44	2,197,205.62	31.12.2019
WE.TRADE INNOVATION DESIGNATED ACTIVITY COMPANY, Dublin	4.06	2,350,506.00	-6,829,707.00	31.12.2019
Wiener Börse AG, Vienna	11.30	30,668,513.95	18,800,937.31	31.12.2019
WIENER STÄDTISCHE VERSICHERUNG AG Vienna Insurance Group, Vienna	2.15	539,291,509.22	80,137,942.99	31.12.2019

In 2016, the European Bank for Reconstruction and Development (EBRD) and Corvinus Nemzetközi Befektetési Zártkörüen Müködö Részvénytársaság (Corvinus) each acquired 15% of the shares in Erste Bank Hungary Zrt. (EBH) from Erste Group Bank AG. At the same time, call-put option agreements were entered into for the acquisition of the overall 30% of the shares between Erste Group Bank AG and the EBRD and with Corvinus. Due to the different structures of these option agreements, 15% of the shares that were sold to the EBRD are still included as investments in affiliated companies in the Erste Group Bank AG's annual financial report, at the same time a financial liability in the value of the expected exercise price is accounted for. For the remaining part (Corvinus), the put-call agreements were recognised off-balance as options.

There are open payment obligations to the nominal capital amounting to EUR 4,000,000.00 EUR (prior year: EUR 4,000 thousand) to the EUROPEAN INVESTMENT FUND, Luxembourg.

10. Fixed assets

The carrying amount of developed land was EUR 6,725,907.35 as of 31 December 2020 (prior year: EUR 6,726 thousand). The carrying amount as of 31 December 2020 did not include leased assets. For the next financial year, Erste Group Bank AG will have expenses from the use of tangible assets not disclosed in the balance sheet (rental and leasing contracts) of EUR 16,483,807.63 (prior year: EUR 16,774 thousand), and of EUR 83,052,052.46 for the next five financial years (prior year: EUR 82,959 thousand). Intangible fixed assets include assets with a value of EUR 22,689,247.00 (prior year adjusted: EUR 17,030 thousand) that were acquired from an affiliated company. During the reporting year, assets were acquired in the value of EUR 5,872,434.02 (prior year adjusted: EUR 3,928 thousand).

Statement of changes in fixed and long-term assets 2020

At cost

in EUR	As of 1 January 2020	Additions	Disposals	Reclassification	Currency translation (+/-)	As of 31 December 2020
Participating interests	211,136,378.15	6,486,261.85	10,380,985.53	0.00	0.00	207,241,654.47
Shares in affiliated companies	10,861,491,383.30	11,884,686.69	1,206,843.11	0.00	0.00	10,872,169,226.88
Intangible assets	99,560,582.42	5,872,434.02	6,325,098.48	-1,270,000.00	-4,040.26	97,833,877.70
Tangible assets	93,562,689.31	41,736,918.03	4,099,310.87	1,270,000.00	-344,281.51	132,126,014.96
Securities	**8,592,154,427.72**	**3,044,758,567.76**	**1,963,333,839.53**	**0.00**	**12,938,588.74**	**9,686,517,744.69**
Treasury bills and similar securities	3,386,941,352.66	1,762,782,972.06	1,026,543,734.77	0.00	0.00	4,123,180,589.95
Loans and advances to credit institutions	626,832,796.32	221,148,200.51	171,325,233.93	440,294,893.59	6,566,808.75	1,123,517,465.24
Loans and advances to customers	983,533,351.48	309,126,834.62	128,926,245.47	46,012,372.54	2,808,934.36	1,212,555,247.53
Bonds and other fixed-income securities	2,583,767,705.57	451,700,560.57	428,909,470.85	-486,307,266.13	3,562,845.63	2,123,814,374.80
Shares and other non-fixed-income securities	1,011,079,221.69	300,000,000.00	207,629,154.52	0.00	0.00	1,103,450,067.17
Total	**19,857,905,460.90**	**3,110,738,868.35**	**1,985,346,077.52**	**0.00**	**12,590,266.97**	**20,995,888,518.70**

Accumulated depreciation

in EUR	Accumulated write ups / downs As of 1 January 2020	Write-ups (-)	Write-downs (+)	Accumulated write ups / downs Additions / Disposals (-/+)	Currency translation (+/-)	Accumulated write ups / downs As of 31 December 2020
Participating interests	83,773,117.89	16,800,000.00	5,279,967.61	-2,113,023.17	0.00	70,140,062.33
Shares in affiliated companies	3,472,113,659.22	144,158,570.10	178,674,762.48	-1,206,841.11	0.00	3,505,423,010.49
Intangible assets	76,383,768.40	208,844.00	4,644,848.04	6,325,098.48	-2,332.91	74,492,341.05
Tangible assets	35,041,553.66	0.00	2,825,969.14	4,078,493.67	-206,385.22	33,582,643.91
Securities	**85,898,751.65**	**7,356,742.14**	**25,537,798.67**	**-76,430,559.90**	**188,405,861.59**	**216,055,109.88**
Treasury bills and similar securities	103,225,567.38	2,404,792.18	18,781,760.59	-66,750,876.87	1,954,319.27	54,805,978.19
Loans and advances to credit institutions	9,804,362.80	605,135.52	410,137.94	-8,606,326.96	47,902,558.13	48,905,596.39
Loans and advances to customers	-17,770,564.31	2,737,604.91	3,525,685.88	-1,045,187.83	48,979,305.46	30,951,634.30
Bonds and other fixed-income securities	-9,684,751.88	1,201,439.83	2,819,203.11	-84,146.54	89,569,678.73	81,418,543.59
Shares and other non-fixed-income securities	324,137.66	407,769.70	1,011.15	55,978.29	0.00	-26,642.60
Total	**3,753,210,850.82**	**168,524,156.24**	**216,963,345.94**	**-69,346,832.03**	**188,197,143.46**	**3,899,693,167.66**

Carrying amount

in EUR	Clean Price	Contractual interest accrual	As of 31 December 2020	As of 1 January 2020
Participating interests	137,101,592.14	0.00	137,101,592.14	127,363,260.26
Shares in affiliated companies	7,366,746,216.39	0.00	7,366,746,216.39	7,389,377,724.08
Intangible assets	23,341,536.65	0.00	23,341,536.65	23,176,814.02
Tangible assets	98,543,371.05	0.00	98,543,371.05	58,521,135.65
Securities	**9,470,462,634.82**	**67,219,593.40**	**9,537,682,228.22**	**8,578,658,125.69**
Treasury bills and similar securities	4,068,374,611.76	36,856,782.99	4,105,231,394.75	3,324,406,851.77
Loans and advances to credit institutions	1,074,611,868.84	3,380,012.96	1,077,991,881.80	618,170,222.53
Loans and advances to customers	1,181,603,613.23	8,184,712.72	1,189,788,325.95	1,008,928,776.27
Bonds and other fixed-income securities	2,042,395,831.21	11,881,849.39	2,054,277,680.60	2,610,037,684.84
Shares and other non-fixed-income securities	1,103,476,709.77	6,916,235.34	1,110,392,945.11	1,017,114,590.29
Total	**17,096,195,351.05**	**67,219,593.40**	**17,163,414,944.45**	**16,177,097,059.70**

Due to improved master data quality, there were reclassifications between listed and non-listed securities.

11. Other assets

in EUR or in EUR thousand	Dec 20	Dec 19
Securities transactions	5,836,101.95	27,800
Derivatives	3,523,729,532.01	3,322,937
Accrued income	9,785,834.90	7,266
Receivables from participating interests and affiliated companies	62,744,285.83	74,178
Other payments and settlements	89,131,128.48	161,606
Other assets	**3,691,226,883.17**	**3,593,788**

The carrying amounts for derivatives are shown post offsetting with central counterparties. Derivative assets and liabilities as well as provided and received cash collateral to cover the market values of outstanding derivatives are included in offsetting. Offsetting is carried out according to clearing agent, central clearer and currency.

The balance sheet item other assets includes derivatives with a reduced carrying amount of EUR 2,001,083,480.90 (prior year: EUR 1,688,564 thousand). In the balance sheet item loans to credit institutions, the carrying amounts were reduced by EUR 59,041,892.87 (prior year: EUR 57,398 thousand).

12. Accrued and deferred items

Prepayments and accrued income decreased to EUR 116,568,745.27 as of 31 December 2020 (prior year: EUR 143,156 thousand). Of these, EUR 74,664,434.61 (prior year: EUR 90,237 thousand) were accruals in connection with securities and derivative instruments and EUR 35,409,834.45 (prior year: EUR 47,213 thousand) were prepayments on commissions.

13. Deferred tax assets

In accordance with Section 198 Paragraph 9 of the Austrian Commercial Code (UGB) an amount of EUR 79,758,963.69 (prior year: EUR 150,349 thousand) deferred tax assets were accounted for in 2020 based on recognition of tax losses EUR 32,607,609.88 (prior year: EUR 86,847 thousand) and temporary differences between the book values EUR 47,151,353.81 (prior year: EUR 63,501 thousand). The decline in deferred tax assets in comparison to the prior year is attributable to lower anticipated tax results in the plan years. For the calculation of the anticipated tax results, a linear release of the general value adjustments and provisions as of 31 December 2020 was planned over a period of five years in accordance with the Covid-19 Measures Act. The option to recognise tax losses carried forward was exercised, as according to the multiannual plan, future taxable profits are expected against which tax loss carryforwards can be offset and therefore from today`s perspective a tax benefit seems to be feasible. To calculate deferred taxes, the local tax rate in Austria in the amount of 25.0% is applied for the parent company as well as for the branch with the tax credit method according to the double taxation agreement. For the branch in Hong Kong (double taxation agreement with tax exemption method), the local tax rate in the amount of 16.5% is applied.

14. Securitised liabilities

in EUR or in EUR thousand	Dec 20	Dec 19
Non-covered loans and bank bonds	7,565,131,705.04	5,856,441
Mortgage and municipal bonds	10,815,090,328.51	12,219,579
Certificates of deposits	517,527,725.39	78,398
Securitised liabilities	**18,897,749,758.94**	**18,154,418**

Erste Group Bank AG issues commercial papers and certificates of deposit for the US money market via the New York branch and the fully consolidated subsidiary Erste Finance Delaware LLC. The New York branch`s Dollar Certificates of Deposit Program had reached EUR 517,527,725.39 on 31 December 2020 (prior year: EUR 38,292 thousand). The Dollar Commercial Paper Program of Erste Finance Delaware LLC is fully secured by Erste Group Bank AG. The framework program amounted to EUR 6,111,971,314.48 on 31 December 2020 (prior year: EUR 6,676,162 thousend), of which commercial papers are in circulation in the amount of EUR 519,213,955.55 (prior year: EUR 1,373,349 thousand) for which the issue amount was immediately transferred to Erste Group Bank AG and are recognised in the item liabilities to customers.

15. Other liabilities

in EUR or in EUR thousand	Dec 20	Dec 19
Securities transactions	21,937,713.94	9,284
Derivatives	2,996,151,362.29	2,995,772
Accrued income	2,760,752.04	2,357
Other liabilities and settlements	763,277,204.49	682,479
Other liabilities	**3,784,127,032.76**	**3,689,892**

The carrying amounts for derivatives are shown post offsetting with central counterparties. Derivative assets and liabilities as well as provided and received cash collateral to cover the market values of outstanding derivatives are included in offsetting. Offsetting is carried out according to clearing agent, central clearer and currency.

The balance sheet item other assets includes derivatives with a reduced carrying amount of EUR 2,021,349,076.34 (prior year: EUR 1,715,001 thousand). In the balance sheet item loans to credit institutions, the carrying amounts were reduced by EUR 38,776,297.43 (prior year: EUR 30,961 thousand).

16. Provisions

in EUR or in EUR thousand	Dec 20	Dec 19
Provisions for pensions	310,596,181.29	317,037
Provisions for taxation	8,241,922.53	9,082
Provisions for contingent liabilities	77,344,475.45	33,247
Provisions for negative market values of standalone derivatives without hedge relationships	91,193.99	100
Other	126,917,872.48	130,728
Provisions	**523,191,645.74**	**490,194**

Assumptions for the actuarial calculation of pension entitlements

	Dec 20	Dec 19
Interest rate	0.50%	0.95%
Expected increase in pension benefits (including career- and collective agreement trend)	2.00%	2.00%

The expected retirement age was individually calculated per employee due to the amendments determined in the Ancillary Budget Act 2003 (BGBl I 71/2003) concerning the raising of the earliest possible retirement age. The currently applicable legislation specifiying a gradual rise of the retirement age for men and women to 65 was taken into consideration.

An interest rate of 2.60% (prior year: 3.37%) was used for the calculation of pension obligations in the New York branch.

Assumptions for the actuarial calculation of severance entitlements and jubilee benefits

	Dec 20	Dec 19
Interest rate	0.50%	0.95%
Average salary rise (including career- and collective agreement trend)	2.90%	2.90%

The obligations were calculated in accordance with the Association of Actuaries' (AVÖ) mortality table "AVÖ 2018 – Rechnungsgrundlagen für die Pensionsversicherung".

Severance and anniversary entitlements are outsourced to Wiener Städtische Versicherung AG. Severance entitlements measured in accordance with commercial law and based on the above parameters amount to EUR 44,870,051.77 (prior year: EUR 49,742 thousand), respectively EUR 18,549,108.02 (prior year: EUR 17,124 thousand) for jubilee benefits obligations, and are posted as a contingent liability off-balance. The credit intended for the performance of outsourced severance entitlements with the insurer as of 31 December 2020 amounted to EUR 44,870,051.77 (prior year: EUR 49,742 thousand) and the amount defined for jubilee benefits obligations is EUR 18,549,108.02 (prior year: EUR 17,124 thousand).

The outsourcing of severance/jubilee benefits entitlements to Wiener Städtische Versicherung AG has not resulted in any change to employee claims against Erste Group Bank AG, which continues to be liable for the severance entitlements of eligible employees.

17. Subordinated liabilities

Subordinated debt (subordinated liabilities and supplementary capital) amounted to EUR 7,881,921,765.83 as of 31 December 2020 (prior year: EUR 7,105,392 thousand). No subordinated liability taken by Erste Group Bank AG (including supplementary capital) was above the 10% limit for total subordinated liabilities. The terms of all subordinated liabilities in the value of EUR 4,583,910,778.52 (prior year: EUR 5,064,549 thousand) are in compliance with the requirements set forth in section 62 until 71 CRR (corresponds to Part 2 Title I Chapter 4 of Regulation (EU) No 575/2013). In 2020, no non-preferred senior bonds were issued (prior year: 502,654 thousand), which are recognised under securitised liabilities.

Movements in total subordinated liabilities were as follows:

in EUR or in EUR thousand	1-12 20	1-12 19
Opening balance	**7,105,391,684.75**	**5,815,840**
Increase due to new issues	1,888,002,695.59	1,637,389
Decrease due to redemption	-1,123,753,919.56	-228,699
Decrease due to partial extinguishment	-28,793,302.50	-266,513
Changes in carrying amount of bonds, of accrued interest and of FX valuation	41,074,607.55	147,374
Closing balance	**7,881,921,765.83**	**7,105,392**

Supplementary capital liabilities are primarily issued in the form of securities. The securities are due at the end of the term. Supplementary capital bonds are sold to international institutional customers and private customers.

In the upcoming year, securitised supplementary capital liabilities in the value of EUR 432,986,420.86 (prior year: EUR 656,359 thousand) are due for repayment due to maturity.

The weighted average interest rate of supplementary capital bonds was 3.4% on 31 December 2020 (prior year: 4.4%) and the average remaining term was 4.9 years (prior year: 4.6 years).

The term “subordinated” is defined in accordance with section 45 paragraph 4 and section 51 paragraph 9 of the Austrian Banking Act.

In 2020, Erste Group Bank AG's expenses for subordinated liabilities were EUR 293,175,416.03 (prior year: EUR 316,965 thousand).

18. Tier 2 capital pursuant to Part 2 Title I Chapter 4 of Regulation (EU) No 575/2013

As of the 2020 balance sheet date, the carrying amount of supplementary capital is EUR 4,583,910,778.52 (prior year: EUR 5,064,549 thousand). Thereof the repurchased supplementary capital from own issues of Erste Group Bank AG with a carrying amount including accrued interest receivables in the amount of EUR 18,647,501.50 (prior year: EUR 29,360 thousand).

19. Additional core capital

In the reporting year 2020, Erste Group Bank AG issued two further bonds totaling EUR 1,250,000,000.00 (prior year: EUR 500,000 thousand) as part of its Additional Tier 1 programme from 20 April 2016.

Article 52 (1) lit n CRR provides for the loss absorbency of financial instruments of additional core capital (write-down or conversion). A trigger event for the write-off or conversion of additional core capital is deemed to occur according to Article 54 Section 1 lit a CRR if the core capital ratio of the issuer falls below 5.125% or below another higher value defined by the issuer. In 2020 no write-downs occured.

20. Subscribed capital

Subscribed capital on 31 December 2020 was EUR 859,600,000.00 (prior year: EUR 859,600 thousand), represented by 429,800,000 voting bearer shares (ordinary shares). Erste Group Bank AG held no own shares on the balance sheet date.

21. Authorised and conditional capital as of 31 December 2020

Authorised capital

According to clause 5 of the Articles of Association, the management board is authorised to increase the registered capital of the Company until 24 May 2023 subject to the supervisory board's consent - also in several tranches - by an amount of up to EUR 343,600,000.00 by issuing up to 171,800,000 voting no-par value bearer shares in return for contributions in cash and/or in kind, with the issue price and issuing conditions being determined by the management board subject to the supervisory board's consent.

Furthermore, the management board is authorised to fully or partly exclude the shareholders' statutory subscription right subject to the supervisory board's consent (exclusion of the subscription right):

- if the capital increase is in return for a cash contribution and the shares issued to the exclusion of the subscription right of the shareholders, taken together, do not exceed EUR 43,000,000.00; and/or
- if the capital increase is in return for contributions in kind.

These two measures may also be combined. However, the aggregate pro rata amount of registered capital represented by shares for which the shareholders' subscription rights are excluded under the referenced authorisation, together with the pro rata amount of registered capital attributable to shares issued to creditors of convertible bonds, which had been issued and sold after the beginning of 24 May 2018, in order to grant conversion or subscription rights or fulfil obligations must not exceed the amount of EUR 171,920,000.00.

Conditional Capital

Pursuant to clause 6.3 of the Articles of Association, conditional capital based on the management board resolutions in 2002 and 2010 (both approved by the supervisory board) with a nominal value of EUR 21,923,264.00 persists, which can be consumed by issuing up to 10,961,632 ordinary bearer shares or ordinary registered shares with an issue price of at least EUR 2.00 per share against cash contribution and by excluding the subscription rights of the current shareholders. According to clause 6.4 of the Articles of Association, the Company has additional conditional capital from the general meeting's resolution of 12 May 2009 of EUR 124,700,000.00 from the issuance of up to 62,350,000 ordinary bearer shares. This conditional capital serves to grant conversion or subscription rights to investors of convertible bonds. In the case of a specified conversion obligation in the terms of issue of convertile bonds, it should also serve to fulfil this conversion obligation. The issue amount and conversion ratio are to be determined according to financial calculation methods as well as the company's share prices in a recognised pricing procedure.

Authorized conditional capital

According to clause 7 of the Articles of Association no authorisation currently exists to grant conditional capital.

22. Major shareholders

As of 31 December 2020, together with its syndicate partners, DIE ERSTE oesterreichische Spar-Casse Privatstiftung ("ERSTE Stiftung"), a foundation, controls approx. 31.17% (prior year: 30.39%) of the shares in Erste Group Bank AG and with 16.50% (prior year adjusted: 15.96%) is the main shareholder. The ERSTE Stiftung holds 5.90% (prior year: 6.37%) of the shares directly; the indirect participation of the ERSTE Stiftung amounts to around 10.60% (prior year adjusted: 9.59%) of the shares held by Sparkassen Beteiligungs GmbH & Co KG, which is an affiliated undertaking of the ERSTE Stiftung. 1.67% (prior year adjusted: 1.43%) are held directly by savings bank foundations (Sparkassenstiftungen) respectively saving banks foundations acting together with the ERSTE Stiftung and affiliated with Erste Group Bank AG through the joint liability scheme/IPS fund. 9.92% (prior year: 9.92%) of the subscribed capital is controlled by the ERSTE Stiftung on the basis of a shareholder agreement with Caixabank S.A. 3.08% (prior year: 3.08%) are held by other partners to the shareholder agreement.

As described in chapter E concerning the appropriation of profit, no dividends were paid out in 2020, therefore in 2020 the participation of the ERSTE Stiftung in Erste Group Bank AG did not receive any dividends for the financial year 2019 (prior year: EUR 67,497 thousand).

The purpose of the ERSTE Stiftung, to be achieved notably by way of holding interests in Erste Group Bank AG, is to support social, scientific, cultural as well as charitable institutions and to promote the guiding principles of the savings bank philosophy. As of 31 December 2020, Mario Catasta (chairman), Boris Marte (deputy chairman), Eva Höltl and Franz Portisch were appointed as board members of the ERSTE Stiftung. The ERSTE Stiftung's supervisory board had nine members at the end of 2020, two of whom also serve as members of the supervisory board of Erste Group Bank AG.

In accordance with clause 15.1 of the Articles of Association, and for the time in which the ERSTE Stiftung assumes liability for all current and future debts in the event of their default on payment, it is entitled, pursuant to section 92 (9) Austrian Banking Act, to nominate up to one-third of the supervisory board members for election at the annual general meeting. So far, the ERSTE Stiftung has not exercised this right.

The ERSTE Stiftung held as of 31 December 2020 bonds of Erste Group Bank AG in the amount of EUR 6,633,291.67 (prior year: EUR 6,634 thousand). In 2020, the interest expenses of Erste Group Bank AG from announced bonds held amounted to EUR 215,916.67 (prior year EUR 304 thousand) for the reporting period. With the exception of the facts already mentioned in this section, there were, as in the prior year, no further business relations between Erste Group Bank AG and ERSTE Stiftung.

As of 31 December 2020, CaixaBank S.A., which is based in Valencia, Spain held a total of 42,634,248 Erste Group Bank AG shares (prior year: 42,634,248 shares), which is equivalent to 9.92% (prior year: 9.92%) of the subscribed capital of Erste Group Bank AG. In accordance with the syndicate agreement with the other major shareholders of the bank, CaixaBank may nominate two supervisory board members. Mr. Jordi Gual Solé (chairman of the board at CaixaBank S.A.) has held one of these seats since the general meeting in 2017, while the second supervisory board mandate has been exercised by Mr. Matthias Bulach (Head of Financial Accounting, Control and Capital, CaixaBank S.A.) since the general meeting.

For the financial year 2019, CaixaBank S.A. did not receive a dividend (prior year: EUR 59,688 thousand) in 2020.

23. Reserves

In 2020, the reserves of Erste Group Bank AG developed as follows:

in EUR	As of Dec 19	Addition / Allocations (+)	Releases (-)	As of Dec 20
Capital reserves	**1,628,104,885.97**	**0.00**	**0.00**	**1,628,104,885.97**
committed	1,628,104,885.97	0.00	0.00	1,628,104,885.97
uncommitted	0.00	0.00	0.00	0.00
for own shares and shares in a controlling company	0.00	0.00	0.00	0.00
Retained earnings	**4,348,233,541.75**	**0.00**	**-118,354,832.91**	**4,229,878,708.84**
statutory reserve	1,537,900,000.00	0.00	0.00	1,537,900,000.00
reserves provided for by the articles	0.00	0.00	0.00	0.00
other reserves	2,612,309,642.74	0.00	-55,228,159.22	2,557,081,483.52
blocked reserves	198,023,899.01	0.00	-63,126,673.69	134,897,225.32
Reserve pursuant to section 57 (5) of the Austrian Banking Act (BWG)	**851,000,000.00**	**0.00**	**0.00**	**851,000,000.00**

From the purchase and sale of treasury shares in the long position, Erste Group Bank AG did not achieve any capital gains (prior year: EUR 1,085 thousand), which are recorded as an addition under committed capital reserves pursuant to section 229 (1) sentence 3 of the Commercial Code (UGB).

The release of retained earnings amounted to EUR 118,354,832.91 (prior year:allocation EUR 682,706 thousand) and concerned other reserves amounting to EUR 55,228,159.22 (prior year: allocation EUR 581,795 thousand) as well as blocked reserves amounting to EUR 63,126,673.69 (prior year: allocation EUR 100,910 thousand). The latter includes allocation the ex-ante-fund (see note 24) in the amount of EUR 7,462,949.17 (prior year: EUR 7,572 thousand) as well as deferred tax assets from New York branch of EUR 74,647.20 (prior year: EUR 823 thousand), release deferred tax assets from Hong Kong branch of EUR 718,874.72 (prior year: allocation EUR 558 thousand) and release domestic deferred tax assets of EUR 69,945,395.34 (prior year: allocation EUR 91,957 thousand).

The capital contributed to the ex-ante fund is reported under blocked reserves, which, on a member level, does not qualify as own funds according to article 26 (1) CRR. The amounts subject to distribution resreictions in accordance with section 235 (2) Commercial Code (UGB) are also included in this item. Due to the restricted right of disposal, disclosure is carried out separately to the remaining equity items.

24. Recovery & Resolution Fund, deposit guarantee fund, IPS fund

Recovery & Resolution Fund

EU directive 2014/59/EU (Bank Recovery and Resolution Directive, BRRD) was transposed into Austrian law via the Austrian Banking Restructuring and Resolution Act (BaSAG). BaSAG became effective on 1 January 2015. The law governs a number of aspects, including the creation of financing mechanisms for the resolution of credit institutions that provide for the annual payment of contributions by banks to a joint European recovery and resolution fund (Single Resolution Fund, SRF).

BaSAG defines the target level of the Austrian Recovery & Resolution Fund and the contribution payable by the Austrian credit institutions. The law requires that the Recovery & Resolution Fund be endowed with at least 1% of the secured deposits of all credit institutions authorised in Austria by 31 December 2024. Therefore, the fund shall be set up over a period of 10 years and, to the extent practicable, contributions will be equally distributed over the entire period.

The contributions to be made by the credit institutions are calculated as a ratio of their respective liabilities (exclusive of own funds) less secured deposits to the aggregate liabilities (exclusive of own funds) less secured deposits of all institutions authorised in Austria, distributed over a period of 10 years. Furthermore, these contributions will be weighted in accordance with the risk profile of the credit institution. The amount payable as contribution is thus determined not only by the respective credit institution's unsecured liabilities, but also significantly influenced by the unsecured liabilities held by all Austrian institutions and the risk weighting. The resolution authority is tasked with determining the risk weighting. In 2020, Erste Group Bank AG paid EUR 23,594,523.30 (prior year: EUR 17,602 thousand), which is included in the item other operating expenses.

Deposit guarantee fund

The deposit guarantee scheme, based on an EU directive (2014/49/EU), serves to protect customer deposits held at credit institutions. This EU directive was transposed into national law in Austria by way of the Act on Deposit Guarantee Schemes and Investor Compensation (ESAEG), and came into effect on 14 August 2015.

Every guarantee scheme has its own deposit guarantee fund consisting of available financial resources amounting to no less than 0.8% of the sum total of covered deposits held at the member institutions (target level). This target level is to be achieved over a period of 10 years.

As long as the target level has not been reached, the guarantee schemes will require their member institutions to pay an annual contribution. The contributions payable by the member institutions are calculated on the basis of the volume of covered deposits (0.8% of the covered deposits distributed over a 10-year period) and are determined in relation to the nature of the risks to which each relevant member institution is specifically exposed. The method used to determine the risk weighting must be approved by the FMA. In 2020, Erste Group Bank AG paid a total of EUR 58,057.00 (prior year: EUR 45 thousand), which is included in the item other administrative expenses.

IPS fund (ex-ante-fund)

The IPS fund is an ex-ante-fund of joint liability scheme's institutional guarantee system (IPS) that is intended to secure financial support to joint liability scheme members facing economic difficulties. The IPS fund is a "Gesellschaft bürgerlichen Rechts" (IPS Fonds GesBR - a partnership under civil law) – the low-risk, readily available investment of the ex-ante-fund is recognised as a special asset. Shareholders with a stake in the assets are Erste Group Bank AG, Erste Bank der oesterreichischen Sparkassen AG and all other savings banks that subscribe to the institutional guarantee system. Joint liability scheme GmbH is an active partner but not obliged to make a capital contribution.

The plan is to provide the ex-ante-fund with EUR 250 million over a period of 10 years, i.e. by 30 September 2024. Partners are obliged to pay EUR 25 million a year, payable in quarterly installments. Joint liability scheme GmbH is tasked with determining the amount of the respective payment due. The schedule of contributions as defined in the second Supplementary Agreement has been set up both on the basis of the distribution key specified under sec. 7 (1) Agreement in Principle (total risk) and on the basis of the distribution key specified under sec. 12 (1) Agreement in Principle ("Amounts owed to customers" plus 50% of the item "Securitised liabilities"), in equal terms. The contributions (deposits) are to be taken from the annual financial result, with other reserves being released where necessary. Erste Group Bank AG created a reserve of EUR 7,462,949.17 (prior year: EUR 7,572 thousand) in 2020, which corresponds to the amount of the contributions made (deposits).

25. Own funds and capital requirement

These unconsolidated financial statements of Erste Group Bank AG have yet to be approved by the supervisory board. Erste Group Bank AG is in compliance with the transitional provisions concerning capital requirements, market risk and credit risk set forth by Austria's accompanying CRR ordinance as well as EU Regulation No. 2016/445 of the European Central Bank concerning the use of options and discretions available in European Union Law, EZB/2016/4.

Own funds

Capital structure according to Regulation (EU) No 575/2013 (CRR)			CRR
in EUR or in EUR thousand	**Article pursuant to CRR**	**Dec 20**	**Dec 19**
Common equity tier 1 capital (CET1)			
Capital instruments eligible as CET1	26 (1) (a) (b), 27-30, 36 (1) (f), 42	2,487,194,885.97	2,486,620
Own CET1 instruments	36 (1) (f), 42	-7,385,360.19	-2,616
Retained earnings	26 (1) (c), 26 (2)	5,025,740,447.21	5,151,558
Interim loss	36 (1) (a)	0.00	0
Other reserves	4 (117), 26 (1) (e)	0.00	0
Prudential filter: cash flow hedge reserve	33 (1) (a)	0.00	0
Prudential filter: cumulative gains and losses due to changes in own credit risk on fair valued liabilities	33 (1) (b)	0.00	0
Prudential filter: fair value gains and losses arising from the institution's own credit risk related to derivative liabilities	33 (1) (c), 33 (2)	-1,712,170.85	-1,661
Value adjustments due to the requirements for prudent valuation	34, 105	-16,631,367.74	-11,524
Regulatory adjustments relating to unrealised gains and losses	467, 468	0.00	0
Other intangible assets	4 (115), 36 (1) (b), 37 (a)	-23,341,536.65	-23,177
Deferred tax assets dependent upon future profitability and not temporary differences net of associated tax liabilities	36 (1) (c), 38	-32,607,609.88	-86,847
IRB shortfall of credit risk adjustments to expected losses	36 (1) (d), 40, 158, 159	0.00	-2,065
Excess of deduction from AT1 items over AT1	36 (1) (j)	0.00	0
Other components or deductions of the CET1	47 (c)	-28,956,251.93	0
Common equity tier 1 capital (CET1)	**50**	**7,402,301,035.94**	**7,510,288**
Additional tier 1 capital (AT1)			
Capital instruments eligible as AT1	51 (a), 52-54, 56 (a), 57	2,750,000,000.00	1,500,000
Own AT1 instruments	52 (1) (b), 56 (a), 57	-1,500,000.00	-1,500
Instruments issued by subsidiaries that are given recognition in AT1	85, 86	0.00	0
Transitional adjustments due to grandfathered AT1 instruments	483 (4) (5), 484-487, 489, 491	0.00	0
AT1 instruments of financial sector entities where the institution has a significant investment	4 (27), 56 (d), 59, 79	0.00	0
Excess of deduction from AT1 items over AT1	36 (1) (j)	0.00	0
Additional tier 1 capital (AT1)	**61**	**2,748,500,000.00**	**1,498,500**
Tier 1 capital - total amount of common equity tier 1 (CET1) and additional tier1 (AT1)		**10,150,801,035.94**	**9,008,788**
Tier 2 capital (T2)			
Capital instruments and subordinated loans eligible as T2	62 (a), 63-65, 66 (a), 67	2,993,508,041.68	3,458,264
Own T2 instruments	63 (b) (i), 66 (a), 67	-46,209,001.89	-38,737
Instruments issued by subsidiaries recognised in T2	87, 88	0.00	0
Transitional adjustments due to additional recognition in T2 of instruments issued by subsidiaries	480	0.00	0
Transitional adjustments due to grandfathered T2 instruments and subordinated loans	483 (6) (7), 484, 486, 488, 490, 491	19,413,117.36	29,120
IRB excess of provisions over expected losses eligible	62 (d)	108,471,775.98	47,916
Standardised approach general credit risk adjustments	62 (c)	0.00	0
T2 instruments of financial sector entities where the institution has a significant investment	4 (27), 66 (d), 68, 69, 79	0.00	0
Tier 2 capital (T2)	**71**	**3,075,183,933.13**	**3,496,562**
Total own funds		**13,225,984,969.07**	**12,505,350**
Total Risk Exposure Amount	**92 (3), 95, 96, 98**	**33,611,086,639.51**	**32,819,608**
Common Equity Tier 1 capital ratio	**92 (2) (a)**	**22.02%**	**22.88%**
Tier 1 capital ratio	**92 (2) (b)**	**30.20%**	**27.45%**
Total capital ratio	**92 (2) (c)**	**39.35%**	**38.10%**

Capital Requirements

Risk structure according to Regulation (EU) No 575/2013 (CRR) in EUR or in EUR thousand	Article pursuant to CRR	Dec 20 Calculation base /total risk (phased-in)	Dec 20 Capital requirement (phased-in)	Dec 19 Calculation base /total risk	Dec 19 Capital requirement
Total Risk Exposure Amount	92 (3), 95, 96, 98	33,611,086,639.51	2,688,886,931.16	32,819,608	2,625,569
Risk weighted assets (credit risk)	92 (3) (a) (f)	28,351,311,363.13	2,268,104,909.05	27,879,827	2,230,386
Standardised approach		4,714,132,737.94	377,130,619.04	6,102,959	488,237
IRB approach		23,621,688,492.06	1,889,735,079.36	21,775,238	1,742,019
Default fund contributions to a central counterparty		15,490,133.13	1,239,210.65	1,630	130
Settlement Risk	(3) (c) (ii), 92 (4) (b)	865,118.13	69,209.45	164	13
Trading book, foreign FX risk and commodity risk	92 (3) (b) (i) und (iii), 92 (4) (b)	4,168,381,128.26	333,470,490.26	3,245,855	259,668
Operational Risk	92 (3) (e), 92 (4) (b)	687,397,782.75	54,991,822.62	1,067,925	85,434
Exposure for CVA	92 (3) (d)	402,866,053.50	32,229,284.28	625,560	50,045
Other amounts receivable (regulatory Add-On)		265,193.74	21,215.50	277	22
Other exposure amounts incl. Basel 1 floor	3, 458, 459, 500	0.00	0.00	0	0

For the preparation of consolidated capital and consolidated capital requirements, reference is made to the respective statements in the 2020 consolidated financial statements of Erste Group.

26. List of assets pledged as collateral for liabilities (acc. to section 64 [1] no. 8 Austrian Banking Act)

Assets in EUR or in EUR thousand	Dec 20	Dec 19	Liability description	Balance sheet item
OeNB asset pool (tender)				
Fixed-income securities	9,379,277,777.79	500,000	Refinancing by OeNB / ECB	Liability 1
Total	**9,379,277,777.79**	500,000		
Collateral pool for covered Erste Bank bonds				
Loans and advances to customers (prior year adjusted)	173,264,197.68	754,066	Covered Erste Bank bonds	Liability 3
Collateral pool for municipal and mortgage bonds				
Loans and advances to customers	586,810,446.19	648,319	Issued municipal and mortgage bonds	Liability 3
Fixed-income securities	220,707,584.07	120,867	Issued municipal and mortgage bonds	Liability 3
Total	**980,782,227.94**	1,523,252		
Cash Collateral for OTC-derivatives	453,646,668.48	391,516	Other liabilities	Liability 4
Cash Collateral for exchange traded derivatives	4,483,894.47	19,732	margin requirement	
Blocked securities account as collateral for OTC- and exchange traded derivatives	546,606,300.09	285,944	Other liabilities / margin requirement	Liability 4
Total	**1,004,736,863.04**	697,192		
Coverage for the pension provisions				
Pension provisions § 11 BPG	188,937,349.63	158,518	Coverage for the pension provisions	Liability 6
Total	**188,937,349.63**	**158,518**		
Pledge agreements				
Money market loan	64,900,000.00	120,000	Guarantees and contingent liabilities pledged as collateral	
Securities loan	259,901,383.84	162,570	Guarantees and contingent liabilities pledged as collateral	
Total	**324,801,383.84**	282,570		
Aggregate Total	**11,878,535,602.24**	3,161,532		

27. Total volume of unsettled derivatives

Dec 20 in EUR	Time to maturity for notional amounts < 1 years	1-5 years	> 5 years	Total
Interest rate contracts	**62,097,848,962.72**	**77,551,827,559.31**	**48,882,992,854.98**	**188,532,669,377.01**
OTC products	61,923,250,818.41	77,551,827,559.31	48,882,992,854.98	188,358,071,232.70
Options	2,088,668,017.65	4,643,357,240.04	2,679,700,162.16	9,411,725,419.85
Other (f.i.: Interest rate swaps)	59,834,582,800.76	72,908,470,319.27	46,203,292,692.82	178,946,345,812.85
Exchange-traded products	174,598,144.31	0.00	0.00	174,598,144.31
Options	0.00	0.00	0.00	0.00
Other (f.i.: Futures)	174,598,144.31	0.00	0.00	174,598,144.31
Securities related contracts	**6,135,467,570.71**	**9,712,521,854.20**	**1,128,808,626.29**	**16,976,798,051.20**
OTC products	5,762,382,185.10	9,711,017,806.73	1,128,808,626.29	16,602,208,618.12
Options	2,099,211,491.46	3,123,003,188.06	322,639,956.38	5,544,854,635.90
Other (f.i.: Stock swaps)	3,663,170,693.64	6,588,014,618.67	806,168,669.91	11,057,353,982.22
Exchange-traded products	373,085,385.61	1,504,047.47	0.00	374,589,433.08
Options	132,236,468.47	859,137.47	0.00	133,095,605.94
Other (f.i.: Futures)	240,848,917.14	644,910.00	0.00	241,493,827.14
Currency contracts	**58,682,727,462.12**	**12,579,765,059.08**	**2,158,386,367.94**	**73,420,878,889.14**
OTC products	58,635,379,876.25	12,579,765,059.08	2,158,386,367.94	73,373,531,303.27
Options	1,482,279,978.18	294,438,120.95	0.00	1,776,718,099.13
Other (f.i.: Currency swap)	57,153,099,898.07	12,285,326,938.13	2,158,386,367.94	71,596,813,204.14
Exchange-traded products	47,347,585.87	0.00	0.00	47,347,585.87
Options	0.00	0.00	0.00	0.00
Other (f.i.: Futures)	47,347,585.87	0.00	0.00	47,347,585.87
Credit derivatives	**292,853,323.29**	**1,434,383,197.91**	**32,780,000.00**	**1,760,016,521.20**
OTC products	292,853,323.29	1,434,383,197.91	32,780,000.00	1,760,016,521.20
Credit Default Options	0.00	0.00	0.00	0.00
Other (f.i.: Credit Default Swaps)	292,853,323.29	1,434,383,197.91	32,780,000.00	1,760,016,521.20
Exchange-traded products	0.00	0.00	0.00	0.00
Options	0.00	0.00	0.00	0.00
Other	0.00	0.00	0.00	0.00
Commodity contracts	**16,288,933.26**	**0.00**	**0.00**	**16,288,933.26**
OTC products	0.00	0.00	0.00	0.00
Options	0.00	0.00	0.00	0.00
Other (f.i.: Commodity swaps)	0.00	0.00	0.00	0.00
Exchange-traded products	16,288,933.26	0.00	0.00	16,288,933.26
Options	0.00	0.00	0.00	0.00
Other (f.i.: Futures)	16,288,933.26	0.00	0.00	16,288,933.26
Other	**14,000,000.00**	**77,500,000.00**	**879,858,207.30**	**971,358,207.30**
OTC products	14,000,000.00	77,500,000.00	879,858,207.30	971,358,207.30
Options	2,000,000.00	52,500,000.00	165,000,000.00	219,500,000.00
Other (f.i.: Inflation swaps)	12,000,000.00	25,000,000.00	714,858,207.30	751,858,207.30
Exchange-traded products	0.00	0.00	0.00	0.00
Options	0.00	0.00	0.00	0.00
Other	0.00	0.00	0.00	0.00
Total	**127,239,186,252.10**	**101,355,997,670.50**	**53,082,826,056.51**	**281,678,009,979.11**
OTC products	**126,627,866,203.05**	**101,354,493,623.03**	**53,082,826,056.51**	**281,065,185,882.59**
Exchange-traded products	**611,320,049.05**	**1,504,047.47**	**0.00**	**612,824,096.52**

The presentation of nominal values was made without offsetting the transactions with central counterparties.

Dec 19 in EUR thousand	Time to maturity for notional amounts < 1 years	 1-5 years	 > 5 years	 Total
Interest rate contracts	**43,748,258**	**80,682,201**	**44,760,428**	**169,190,887**
OTC products	43,580,803	80,682,201	44,760,428	169,023,432
Options	2,616,423	5,911,248	2,405,981	10,933,652
Other (f.i.: Interest rate swaps)	40,964,380	74,770,953	42,354,446	158,089,780
Exchange-traded products	167,455	0	0	167,455
Options	0	0	0	0
Other (f.i.: Futures)	167,455	0	0	167,455
Securities related contracts	**2,095,893**	**14,728,463**	**1,150,598**	**17,974,955**
OTC products	1,993,915	14,689,888	1,150,598	17,834,402
Options	1,850,635	4,743,253	413,688	7,007,576
Other (f.i.: Stock swaps)	143,280	9,946,635	736,910	10,826,826
Exchange-traded products	101,978	38,575	0	140,553
Options	43,969	38,575	0	82,544
Other (f.i.: Futures)	58,010	0	0	58,010
Currency contracts	**64,624,144**	**13,817,554**	**1,726,523**	**80,168,221**
OTC products	64,579,298	13,817,554	1,726,523	80,123,375
Options	4,062,923	453,191	0	4,516,114
Other (f.i.: Currency swap)	60,516,375	13,364,362	1,726,523	75,607,260
Exchange-traded products	44,846	0	0	44,846
Options	0	0	0	0
Other (f.i.: Futures)	44,846	0	0	44,846
Credit derivatives	**196,142**	**957,283**	**146,102**	**1,299,527**
OTC products	196,142	957,283	146,102	1,299,527
Credit Default Options	0	0	0	0
Other (f.i.: Credit Default Swaps)	196,142	957,283	146,102	1,299,527
Exchange-traded products	0	0	0	0
Options	0	0	0	0
Other	0	0	0	0
Commodity contracts	**9,745**	**0**	**0**	**9,745**
OTC products	0	0	0	0
Options	0	0	0	0
Other (f.i.: Commodity swaps)	0	0	0	0
Exchange-traded products	9,745	0	0	9,745
Options	0	0	0	0
Other (f.i.: Futures)	9,745	0	0	9,745
Other	**94,518**	**78,500**	**869,390**	**1,042,408**
OTC products	94,518	78,500	869,390	1,042,408
Options	94,518	54,500	165,000	314,018
Other (f.i.: Inflation swaps)	0	24,000	704,390	728,390
Exchange-traded products	0	0	0	0
Options	0	0	0	0
Other	0	0	0	0
Total	**110,768,700**	**110,264,001**	**48,653,042**	**269,685,743**
OTC products	**110,444,676**	**110,225,426**	**48,653,042**	**269,323,144**
Exchange-traded products	**324,025**	**38,575**	**0**	**362,600**

28. Derivative financial instruments and fixed-asset financial instruments

Derivative financial instruments

Dec 20	Notional amount		Carrying amount	Fair value	
in EUR thousand		thereof sells	Assets (+) / Liabilities (-)	Positive	Negative
Interest rate contracts	**188,532,669,377.01**	**4,964,346,157.94**	**311,394,428.94**	**5,081,881,187.51**	**-4,157,405,517.93**
OTC products	188,358,071,232.70	4,964,346,157.94	311,394,428.94	5,081,881,187.51	-4,157,405,517.93
Options	9,411,725,419.85	4,964,346,157.94	12,321,176.74	287,519,405.21	-274,472,657.76
Other (f.i.: Interest rate swaps)	178,946,345,812.85	0.00	299,073,252.20	4,794,361,782.30	-3,882,932,860.17
Exchange-traded products	174,598,144.31	0.00	0.00	0.00	0.00
Options	0.00	0.00	0.00	0.00	0.00
Other (f.i.: Futures)	174,598,144.31	0.00	0.00	0.00	0.00
Securities related contracts	**16,976,798,051.20**	**2,391,378,851.94**	**16,620,677.38**	**141,618,495.07**	**-165,515,335.17**
OTC products	16,602,208,618.12	2,314,999,875.33	17,238,205.32	140,074,734.88	-163,354,047.04
Options	5,544,854,635.90	2,314,999,875.33	24,736,124.38	105,012,028.27	-129,775,194.10
Other (f.i.: Stock swaps)	11,057,353,982.22	0.00	-7,497,919.06	35,062,706.61	-33,578,852.94
Exchange-traded products	374,589,433.08	76,378,976.61	-617,527.94	1,543,760.19	-2,161,288.13
Options	133,095,605.94	76,378,976.61	-617,527.94	1,543,760.19	-2,161,288.13
Other (f.i.: Futures)	241,493,827.14	0.00	0.00	0.00	0.00
Currency contracts	**73,420,878,889.14**	**909,933,766.31**	**39,548,540.43**	**865,029,938.15**	**-833,615,650.40**
OTC products	73,373,531,303.27	909,933,766.31	39,548,540.43	865,029,938.15	-833,615,650.40
Options	1,776,718,099.13	909,933,766.31	2,127,302.88	17,353,842.94	-14,983,527.02
Other (f.i.: Currency swap)	71,596,813,204.14	0.00	37,421,237.55	847,676,095.21	-818,632,123.38
Exchange-traded products	47,347,585.87	0.00	0.00	0.00	0.00
Options	0.00	0.00	0.00	0.00	0.00
Other (f.i.: Futures)	47,347,585.87	0.00	0.00	0.00	0.00
Credit derivatives	**1,760,016,521.20**	**23,943,182.79**	**-4,508,039.85**	**25,564,277.62**	**-33,005,635.20**
OTC products	1,760,016,521.20	23,943,182.79	-4,508,039.85	25,564,277.62	-33,005,635.20
Credit Default Options	0.00	0.00	0.00	0.00	0.00
Other (f.i.: Credit Default Swaps)	1,760,016,521.20	23,943,182.79	-4,508,039.85	25,564,277.62	-33,005,635.20
Exchange-traded products	0.00	0.00	0.00	0.00	0.00
Options	0.00	0.00	0.00	0.00	0.00
Other	0.00	0.00	0.00	0.00	0.00
Commodity contracts	**16,288,933.26**	**0.00**	**0.00**	**0.00**	**0.00**
OTC products	0.00	0.00	0.00	0.00	0.00
Options	0.00	0.00	0.00	0.00	0.00
Other (f.i.: Commodity swaps)	0.00	0.00	0.00	0.00	0.00
Exchange-traded products	16,288,933.26	0.00	0.00	0.00	0.00
Options	0.00	0.00	0.00	0.00	0.00
Other (f.i.: Futures)	16,288,933.26	0.00	0.00	0.00	0.00
Other	**971,358,207.30**	**26,250,000.00**	**-41,871,073.65**	**90,678,287.83**	**-68,698,731.26**
OTC products	971,358,207.30	26,250,000.00	-41,871,073.65	90,678,287.83	-68,698,731.26
Options	219,500,000.00	26,250,000.00	15,012.78	15,012.78	0.00
Other (f.i.: Inflation swaps)	751,858,207.30	0.00	-41,886,086.43	90,663,275.05	-68,698,731.26
Exchange-traded products	0.00	0.00	0.00	0.00	0.00
Options	0.00	0.00	0.00	0.00	0.00
Other	0.00	0.00	0.00	0.00	0.00
Total	**281,678,009,979.11**	**8,315,851,958.98**	**321,184,533.25**	**6,204,772,186.18**	**-5,258,240,869.96**
thereof external/internal deals					
External	249,752,875,139.13	6,539,572,146.53	647,873,650.17	5,264,985,813.76	-4,318,454,497.54
Internal	31,925,134,839.98	1,776,279,812.45	-326,689,116.92	939,786,372.42	-939,786,372.42
thereof OTC/Exchange-traded products					
OTC products	281,065,185,882.59	8,239,472,982.37	321,802,061.19	6,203,228,425.99	-5,256,079,581.83
Exchange-traded products	612,824,096.52	76,378,976.61	-617,527.94	1,543,760.19	-2,161,288.13
thereof trading book/banking book					
Trading book	254,349,173,762.64	7,652,764,553.78	348,521,627.70	5,163,400,028.80	-4,935,960,115.59
Banking book	27,328,836,216.47	663,087,405.20	-27,337,094.45	1,041,372,157.38	-322,280,754.37
thereof hedges	27,143,681,216.47	487,932,405.20	-27,238,489.59	1,041,372,157.38	-322,184,435.89

The presentation of nominal values was made without offsetting the transactions with central counterparties.

The carrying amounts for derivatives are shown in the balance sheet following the balancing of transactions with central counterparties. The balancing includes derivatives classified as assets or liabilities, as well as cash collateral taken to cover market values of still outstanding derivatives. The extent of the net carrying amounts is included either under other assets or other liabilities.

Fair values for options are calculated using recognised option pricing models. Amongst others, the valuation models include the Black-Scholes model, binomial model, Hull-White model, local volatility model and Vanna-Volga model.

Dec 19	Notional amount		Carrying amount	Fair value	
in EUR thousand		thereof sells	Assets (+) / Liabilities (-)	Positive	Negative
Interest rate contracts	**169,190,887**	**5,642,338**	**266,311**	**4,957,820**	**-4,088,090**
OTC products	169,023,432	5,642,338	266,311	4,957,820	-4,088,090
Options	10,933,652	5,642,338	-9,074	338,663	-347,074
Other (f.i.: Interest rate swaps)	158,089,780	0	275,385	4,619,157	-3,741,015
Exchange-traded products	167,455	0	0	0	0
Options	0	0	0	0	0
Other (f.i.: Futures)	167,455	0	0	0	0
Securities related contracts	**17,974,955**	**2,905,342**	**20,499**	**111,470**	**-100,605**
OTC products	17,834,402	2,905,342	20,080	109,980	-99,533
Options	7,007,576	2,905,342	31,661	81,713	-68,550
Other (f.i.: Stock swaps)	10,826,826	0	-11,581	28,267	-30,983
Exchange-traded products	140,553	0	419	1,490	-1,071
Options	82,544	0	419	1,490	-1,071
Other (f.i.: Futures)	58,010	0	0	0	0
Currency contracts	**80,168,221**	**2,360,617**	**-109,492**	**543,734**	**-661,593**
OTC products	80,123,375	2,360,617	-109,492	543,734	-661,593
Options	4,516,114	2,360,617	-7,488	18,905	-26,782
Other (f.i.: Currency swap)	75,607,260	0	-102,004	524,830	-634,810
Exchange-traded products	44,846	0	0	0	0
Options	0	0	0	0	0
Other (f.i.: Futures)	44,846	0	0	0	0
Credit derivatives	**1,299,527**	**27,741**	**-3,024**	**18,820**	**-13,652**
OTC products	1,299,527	27,741	-3,024	18,820	-13,652
Credit Default Options	0	0	0	0	0
Other (f.i.: Credit Default Swaps)	1,299,527	27,741	-3,024	18,820	-13,652
Exchange-traded products	0	0	0	0	0
Options	0	0	0	0	0
Other	0	0	0	0	0
Commodity contracts	**9,745**	**0**	**0**	**0**	**0**
OTC products	0	0	0	0	0
Options	0	0	0	0	0
Other (f.i.: Commodity swaps)	0	0	0	0	0
Exchange-traded products	9,745	0	0	0	0
Options	0	0	0	0	0
Other (f.i.: Futures)	9,745	0	0	0	0
Other	**1,042,408**	**65,588**	**-37,864**	**87,027**	**-64,963**
OTC products	1,042,408	65,588	-37,864	87,027	-64,963
Options	314,018	65,588	351	31	0
Other (f.i.: Inflation swaps)	728,390	0	-38,216	86,996	-64,963
Exchange-traded products	0	0	0	0	0
Options	0	0	0	0	0
Other	0	0	0	0	0
Total	**269,685,743**	**11,001,626**	**136,431**	**5,718,871**	**-4,928,902**
thereof external/internal deals				0	0
External	235,262,009	8,719,345	542,264	4,723,104	-3,933,211
Internal	34,423,734	2,282,281	-405,834	995,767	-995,691
thereof OTC/Exchange-traded products				0	0
OTC products	269,323,144	11,001,626	136,012	5,717,381	-4,927,831
Exchange-traded products	362,600	0	419	1,490	-1,071
thereof trading book/banking book				0	0
Trading book	243,304,254	10,393,009	117,576	4,656,742	-4,624,727
Banking book	26,381,489	608,617	18,854	1,062,129	-304,175
thereof hedges	26,174,489	421,617	18,785	1,060,739	-304,076

The figures concerning fair values for 2019 were adapted for the presentation in the year 2020. The reported fair values for the years 2020 and 2019 now concern fair values prior to offsetting transactions with central counterparties.

The book values are presented in following balance sheet items:

in EUR or in EUR thousand	Dec 20	thereof internal trades	Dec 19
A12 Other assets	3,523,729,532.01	550,508,889.23	3,322,937
A14 Prepayments and accrued income	6,458,383.21	6,457,805.32	7,701
L04 Other liabilities	2,996,151,362.29	717,109,869.79	2,995,772
L05 Accruals and deferred income	212,760,825.69	166,545,941.68	198,336
L06 Provisions	91,193.99	0.00	100

Fixed-asset instruments

In the following table the figures are displayed without contractual interest accruals.

	Dec 20			
in EUR	Carrying amount	Positive fair value	Hidden losses	Hidden reserves
Treasury bills	70,343,173.19	69,902,393.42	-440,779.77	
	3,998,031,438.57	4,321,165,807.00		323,134,368.43
Loans and advances to credit institutions	181,478,081.07	181,223,355.86	-254,725.21	
	893,133,787.77	914,028,006.05		20,894,218.28
Loans and advances to customers	405,463,463.47	402,379,689.37	-3,083,774.11	
	776,140,149.76	841,718,064.83		65,577,915.07
Debt securities	166,499,356.66	166,012,462.09	-486,894.57	
	1,875,896,474.54	1,962,292,280.78		86,395,806.24
Shares and other non-fixed-income securities	300,000,000.00	297,806,400.00	-2,193,600.00	
	803,476,709.77	812,270,644.86		8,793,935.09
Financial instruments carried as fixed assets	**1,123,784,074.40**	**1,117,324,300.74**	**-6,459,773.66**	
	8,346,678,560.41	**8,851,474,803.52**		**504,796,243.11**

	Dec 19			
in EUR thousand	Carrying amount	Positive fair value	Hidden losses	Hidden reserves
Treasury bills	176,307	173,425	-2,882	
	3,107,409	3,359,954		252,545
Loans and advances to credit institutions	89,789	88,211	-1,577	
	527,240	536,018		8,779
Loans and advances to customers	416,848	414,706	-2,143	
	584,455	622,544		38,088
Debt securities	270,065	267,990	-2,075	
	2,323,387	2,382,061		58,674
Shares and other non-fixed-income securities	0	0	0	
	1,010,755	1,019,932		9,177
Financial instruments carried as fixed assets	**953,009**	**944,332**	**-8,677**	
	7,553,246	**7,920,509**		**367,263**

Assets were not impaired, since impairment is not presumed to be permanent. The fair value is the amount that could be obtained in an active market through the sale of a financial instrument, or correspondingly the amount that would be payable for its purchase. Market prices were used to determine fair value where available. Where no market price was available, valuation models were used, particularly the net present value method.

29. Market value for securities in inactive markets

Erste Group Bank AG calculates theoretical prices for securities in an inactive market. A market is assumed to be inactive when prices for the relevant security are formed only sporadically, there is only small-volume trading or no current prices are available.

Of the securities allocated to trading on stock exchanges and valued to market price, theoretical prices were used for the following volumes.

In the following tables the figures are shown without contractual interest accruals:

Carrying amount of securities not marked on the basis of market prices in EUR	Fair value on the basis of the price in the inactive market	Difference 2020
670,366,199.88	657,443,182.34	-12,923,017.54

Carrying amount of securities not marked on the basis of market prices in EUR thousand	Fair value on the basis of the price in the inactive market	Difference 2019
2,493,954	2,483,909	-10,045

The last available rates are used as rates for inactive markets. Of the differential amount in the reporting year in the value of EUR 12,923,017.54 (prior year: EUR 10,045 thousand), EUR 11,304,775.68 (prior year: EUR 9,276 thousand) can be attributed to a zero-coupon bond with a term of 30 years.

30. Reclassification in securities positions

In 2020 no need for reclassification of security positions to the current asset portfolio occurred.

31. Hedging transactions

Erste Group Bank AG uses interest swaps, currency swaps, credit derivatives and options in order to to hedge against the market risk (interest-change risk and price risk) from balance sheet assets (bonds, repurchase agreements on asset side) and liabilities (own issues) either individually or as a group.

Derivatives are used as specified by the hedging strategy in accordance with the Commercial Code (UGB) to hedge the fair value of underlying transactions (e.g. by swapping fixed for variable interest payments) and thereby reducing the interest rate risk of Erste Group Bank AG to the level defined under the interest risk strategy.

in EUR	Dec 20	Dec 19	Change
Fair Value Hedge			
Positive market value fair value hedge	856,876,528.55	872,262,292.58	-15,385,764.03
Negative market value fair value hedge	-211,266,436.65	-193,507,237.83	-17,759,198.82

The figures for 2020 represent the proportion of the fair value (Dirty Price) of derivatives in a hedging relationship that were not recognized in the balance sheet. As of 31 December 2020 fair value hedges with maturity up to 2051 were held.

The disclosure for 2019 was adjusted in line with the presentation in 2020. The disclosed values concern fair values prior to offsetting with central counterparties for 2019 and 2020.

The Commercial Code hedging efficiency measurement is carried out for Erste Group Bank AG for the year 2020 in form of a critical terms match.

For derivatives in the banking book, compensation fees had to be paid in connection with the change to the reference rates. These were immediately recognised in profit and loss (other operating income and expenses). These compensation fees were not significant.

Two hedging derivatives with CHF-LIBOR interest rates with a notional value of EUR 185,150,897.98 and 19 hedging derivatives with USD-LIBOR interest rates with a notional value of EUR 11,160,549.62 serve to hedge the fair value of several issues. A further 77 hedging derivates with USD-LIBOR interest rates with a notional value of EUR 252,416,265.99 serve to hedge the fair value of bonds held as assets. These hedging relationships currently subject to uncertainty in connection with the exact structure of the successor rate.

32. Consideration of CVA/DVA in derivative valuation

Credit value adjustments (CVA) for counterparty default risk and debt value adjustments (DVA) for own credit risk are applied for all OTC derivatives. The CVA adjustment depends on the expected positive exposure and the counterparty's credit worthiness. DVA is determined by the expected negative exposure and by the credit quality of Erste Group Bank AG. The calculation of expected exposure is based on a model that relies on replicated options and on a Monte Carlo simulation, respectively, the probability of default is based on market-based information. No CVA was recognised for counterparties fully backed by Credit support annex – agreements (CSA).

For portfolios that are marked-to-market, both a CVA and a DVA in the amount of EUR -7,124,699.89 (prior year: EUR -6,867 thousand) and EUR 1,712,170.85 (prior year: EUR 1,661 thousand), respectively, were recognised. For the banking book portfolio as in prior years no CVA (prior year: EUR 0 thoursand) was recognised, due to the fact that hedging transactions are carried out via a central counterparty whereby trades are collateralised.

33. Risk provisions

Changes in risk provisions (loans and advances to credit institutions and to customers as well as contingent liabilities):

in EUR or in EUR thousand	Dec 20	Dec 19
Opening balance	**204,147,271.82**	**219,549**
Allocations / Releases (-)	234,402,587.61	32,489
Use	-14,357,592.78	-50,123
Reclassification	0.00	0
Exchange rate changes	-3,380,949.09	2,232
Closing balance	**420,811,317.56**	**204,147**

34. Contingent liabilities

Within the off-balance item contingent liabilities in the amount of EUR 3,753,048,433.45 (prior year: EUR 3,663,354 thousand) necessary provisions were deducted. The largest part of the amount totalling EUR 3,185,793,478.68 (prior year: EUR 3,236,677 thousand) relates to liabilities and guarantees from collateralization. This amount also includes comfort letters in the amount of EUR 454,124,827.00 (prior year: EUR 474,549 thousand). A large part of this sum totalling EUR 324,967,923.00 (prior year: 346,407 thousand) was issued by Erste Group Bank AG in 2015 for affiliated companies in case they do not meet their rent payment obligations for the Erste Campus. Moreover, this item also includes credit derivatives in the amount of EUR 567,254,954.77 (prior year: EUR 426,677 thousand).

35. Credit Risk

There is credit risk in the amount of EUR 9,638,806,751.35 (prior year: EUR 8,793,434 thousand) primarily for loan and guarantee commitments which have not yet been exercised. These amounts are net of the appropriate provisions.

36. Gross income – regional breakdown

Gross income of Erste Group Bank AG was broken down as follows (according to the location of branches):

	1-12 20			1-12 19		
in EUR or in EUR thousand	Domestic	Abroad	Total	Domestic	Abroad	Total
Interest and similar income	1,985,207,375.25	113,410,540.74	2,098,617,915.99	2,318,028	257,406	2,575,434
Income from securities and participating interests	421,312,063.78	0.00	421,312,063.78	815,843	0	815,843
Commission income	171,390,527.16	453,936.62	171,844,463.78	156,355	1,177	157,532
Net profit or loss on financial operations	-3,495,674.77	-1,270,965.42	-4,766,640.19	-69,358	11	-69,346
Other operating income	89,561,866.36	2,251,445.84	91,813,312.20	219,670	11,306	230,976
Gross income	**2,663,976,157.78**	**114,844,957.78**	**2,778,821,115.56**	**3,440,538**	**269,900**	**3,710,438**

37. Net interest income

Erste Group Bank AG recognises negative interest charged on loans (assets) in the amount of EUR 71,342,051.81 (prior year: EUR 72,826 thousand) under interest and similar expenses and negative interest paid for deposits (liabilities) in the amount of EUR 69,125,713.66 (prior year: EUR 43,884 thousand) as interest and similar income.

38. Income from participating interests and shares in affiliated companies

The balance sheet item income from participating interests and shares in affiliated companies includes EUR 268,273,552.67 (prior year: EUR 35,577 thousand) and the balance sheet item extraordinary income includes EUR 0 (prior year: EUR 5,000 thousand) from group members, which are subsidiaries belonging to the fiscal group of Erste Group Bank AG within the framework of the group taxation regulations which came into power in 2005.

39. Other operating income

Other operating income of EUR 91,813,312.20 (prior year: EUR 230,976 thousand) included income from personnel and other administrative expenses passed on to group members in the value of EUR 70,586,718.76 (prior year: EUR 78,907 thousand). In the prior year, income in the amount of EUR 114,087 thousand from the early termination of two derivatives, which were in a hedge relationship, was included in this item.

40. Personnel expenses

In terms of personnel expenses, expenses for severance payments and payments to severance-payment funds included expenses for severance payments in the amount of EUR 12,418,927.83 (prior year: income EUR 14,351 thousand).

Expenses for pensions are accounted for as follows:
- Costs for defined pension payments in the amount of EUR 17,956,789.80 (prior year: EUR 39,750 thousand) as personnel costs and interest expenses in the amount of EUR 4,051,264.13 (prior year: EUR 6,626 thousand) as interest costs;
- Costs for pension fund contributions in the amount of EUR 9,648,090.03 (prior year: EUR 12,928 thousand) also as personnel costs.

41. Other administrative expenses

Other administrative expenses include fees paid for auditing and tax advisory services. The table below lists the fees or charges charged by the external auditors (Sparkassen-Prüfungsverband and PwC Wirtschaftprüfung GmbH):

in EUR or in EUR thousand	1-12 20	1-12 19
Fees charged for auditing the financial statements	2,710,360.00	2,727
Fees charged for audit-related services	1,203,547.01	1,025
Fees charged for tax advisory services	0.00	0
Fees charged for other services	5,285.99	78
Total	**3,919,193.00**	**3,830**

As statutory auditors, Sparkassen-Prüfungsverband (auditing agency) provided auditing services for affiliated companies of Erste Group Bank AG in the value of EUR 5,343,169.79 (prior year: EUR 5,545 thousand). Other advisory services were charged to other affiliated companies in the value of EUR 18,497.13 (prior year: EUR 58 thousand). The amount charged for other services for affiliated companies came up to EUR 2,136.56 (prior year: EUR 12 thousand).

PwC Wirtschaftsprüfung GmbH provided auditing services for affiliated companies of Erste Group Bank AG in the value of EUR 681,702.00 (prior year adjusted: EUR 921 thousand). Other advisory services were charged to other affiliated companies in the value of EUR 289,360.00 (prior year: EUR 338 thousand).

42. Other operating expenses

Other operating expenses amounting to EUR 32,362,813.76 (prior year: EUR 59,917 thousand) primarily concerned expenses for the Recovery & Resolution fund in the amount of EUR 23,594,523.30 (prior year: EUR 17,602 thousand) as well as expenses for the Operational Risk Insurance Programme in the value of EUR 6,549,465.58 (prior year: EUR 6,175 thousand). In the prior year, this item also included expenses for the partial closure of a fixed rate subordinate Erste Group Bank bond in the value of EUR 40,475 thousand.

43. Value adjustments as well as results from purchases and sales in respect of participating interests and shares in affiliated companies

In 2020, the balance from value adjustments as well as results from sales of participating interests and shares in affiliated companies resulted in a write-off of EUR 9,459,801.52 (prior year: write-up EUR 687,524 thousand). This was largely attributable to the write-off of Erste Bank Hungary Zrt.at EUR 84,300,000.00 (prior year: write-up EUR 214,800 thousand) and Erste Group Immorent GmbH at EUR 81,900,000.00 (prior year: 0 thousand) as well as the write-up of Banca Comercială Română S.A. at EUR 129,858,570.10 (prior year: EUR 499,500 thousand) and Prva stavebna sporitelna a.s.at EUR 16,800,000.00 (prior year: write-off EUR 36,826 thousand). Moreover, a gain of EUR 11,166,753.67 resulted from the sale of Swedbank AB (prior year: S Slovensko s.r.o. EUR 9,848 thousand).

For group members (subsidiaries that are considered a tax group with Erste Group Bank AG under the group taxation regulations of 2005) revaluation requirements in the amount of EUR 87,874,762.48 (prior year: write-up EUR 8,217 thousand) are included in this item. As in the prior year, no group members were sold in the reporting year.

44. Taxes on profit and loss

The item taxes on profit or loss shows expenses amounting to EUR 10,944,564.33 (prior year: income EUR 173,412 thousand). This includes income in the amount of EUR 65,304,633.21 (prior year: EUR 87,469 thousand) from the current tax allocation, income of EUR 734,146.01 (prior year: expense EUR 7,566 thousand) from the retroactive accounting of the prior years according to section 9 Corporate Tax Act (Körperschaftssteuergesetz) on group taxation, as well as expenses of EUR 70,444,020.13 (prior year: income EUR 93,332 thousand) from the write-off of deferred tax assets.

Since 2005, Erste Group Bank AG and its main domestic subsidiaries have formed a tax group in accordance with section 9 Corporate Tax Act, with Erste Group Bank AG as parent of the group ("Gruppenträger"). Group and tax equalisation agreements were concluded with all affiliated companies. Under these agreements, affiliated companies allocate amounts equivalent to the corporation tax on taxable profits to Erste Group Bank AG. Since tax losses from prior years are recorded and offset against their current tax liability by the affiliated companies themselves, there is no obligation to make tax allocation payments to Erste Group Bank AG. Moreover, Erste Group Bank AG undertakes to make compensatory payments for any tax losses utilised up to that point to any affiliated companies leaving the Group.

Foreign income tax and other foreign income-related taxes were expenses of EUR 7,145,756.83 (prior year: EUR 5,007 thousand).

45. Other taxes

The balance sheet item other taxes not shown under item 18 in the amount of EUR 18,121,318.24 (prior year: EUR 17,701 thousand) includes the bank levy to the amount of EUR 17,018,552.67 (prior year: EUR 16,392 thousand).

46. Branches on a consolidated basis

Due to its improved rating, Erste Group Bank AG New York branch was able to attract more external funding at favorable levels (commercial papers/deposits), which was placed partley with the Head Office in Vienna. This had an overall positive effect for Erste Group Bank AG, however from a consolidated perspective it led to a negative result for the New York branch in 2019 and 2020 (as the interest earned from intra-group placements was eliminated).

Dec 20 Business		Commercial lending to foreign banks, leasing companies and sovereign debtors		Institutional sales-business
Branches	**London**	**New York**	**Hong Kong**	**Berlin, Stuttgart**
Country of domicile	**Great Britain**	**USA**	**China**	**Germany**
Net interest income in EUR	16,609,885.21	22,388,561.31	20,977,751.45	-635.38
Operating result in EUR	18,758,918.42	22,652,859.62	20,259,747.98	526.23
Headcount / as of reporting date	26	21	24	12
Profit or loss from ordinary activities in EUR	2,052,478.57	-3,603,503.09	13,302,669.38	-3,287,197.62
Taxes on income in EUR	124,286.61	-5,788,486.82	-1,948,391.10	-33,509.34
Public benefits received	None	None	None	None

Dec 19 Business		Commercial lending to foreign banks, leasing companies and sovereign debtors		Institutional sales-business
Branches	**London**	**New York**	**Hong Kong**	**Berlin, Stuttgart**
Country of domicile	**Great Britain**	**USA**	**China**	**Germany**
Net interest income in EUR	34,443,403.14	-39,235,265.72	11,486,929.83	0.00
Operating result in EUR	46,209,628.50	-38,897,527.43	11,051,159.58	-786.73
Headcount / as of reporting date	29	23	23	12
Profit or loss from ordinary activities in EUR	27,216,471.11	-53,884,940.66	2,968,116.31	-3,381,723.50
Taxes on income in EUR	-1,113,587.23	-658,667.41	-1,830,889.94	-27,197.90
Public benefits received	None	None	None	None

47. Return on assets

Profit or loss for the year after tax before changes in reserves expressed in proportion to the average total assets was at balance sheet date -0.2% in 2020 (prior year: 1.9%).

48. Events after balance sheet date

Due to the ECB's recommendation of 15 December 2020, the pay-out conditions for a dividend in the amount of EUR 0.75 were not fulfilled on the balance sheet date (8 February 2021), therefore no dividend was paid out for the financial year 2019.

D. INFORMATION ON BOARD MEMBERS AND EMPLOYEES

Employees

The average number of employees at Erste Group Bank AG (weighted, excluding employees on leave and management board members) was 1,948 during the financial year 2020 (prior year: 1,982).

In 2020, 159 employees (prior year: 164) worked at other companies against reimbursement of expenses. The reimbursement costs of EUR 19,262,555.85 (prior year: EUR 19,103 thousand) are included in other operating income.

Board members

Neither in 2020 nor in the previous year did Erste Group Bank AG grant loans directly to members of the board or supervisory board.

Management board members

Remuneration paid to board members, who left during this financial year, is reported as active board members.

The following table displays the total remuneration of the management board and the supervisory board. This was recognised on an accrued basis. The amounts indicated correspond to the expected payments on the balance sheet date and can deviate from those amounts, which are actually paid out.

The distribution of remuneration to active members of the management and supervisory boards is as follows:

			1-12 20			1-12 19
in EUR or in EUR thousand	Management Board	Supervisory Board	Total	Management Board	Supervisory Board	Total
Short-term benefits	5,952,452.93	1,635,539.00	7,587,991.93	6,114	1,489	7,603
Post-employment benefits	889,243.33	0.00	889,243.33	1,983	0	1,983
Other long-term benefits	7,470.74	0.00	7,470.74	249	0	249
Termination benefits	0.00	0.00	0.00	0	0	0
Share-based payments	4,421,324.28	0.00	4,421,324.28	5,302	0	5,302
Total	**11,270,491.28**	**1,635,539.00**	**12,906,030.28**	**13,648**	**1,489**	**15,137**

Short-term benefits

This category includes salaries, payments in kind, social security contributions and other short-term benefits. The supervisory board remuneration indicated includes supervisory board remuneration, attendance fees and remuneration for serving on the boards of affiliated companies.

Post-employment beneftis

The members of the management board participate in the defined contribution pension plan of Erste Group Bank AG according to the same principles as the employees of the Group. Termination benefits primarily include contributions paid to pension funds and employee provision funds.

Other long-term benefits

These primarily include expenses for provisions for jubilee benefits.

Share-based payments

Share-based payments represent variable elements of remuneration, which are spread over 5 years in accordance with Erste Group Bank AG's remuneration policy. They are only paid out if the regulatory equity and liquidity requirements are fulfilled. The amount depends on Erste Group Bank AG's average share price in the year of payment (phantom shares). In line with the European Banking Authority's recommendation in relation to the distribution of dividends, share buybacks and variable remuneration and on the basis of appropriate consideration of the risks resulting from the Covid-19 pandemic, a significant part of the variable remuneration was retained for a long period and granted as share equivalents, dependent on the achievement of the minimum requirements. For the performance year 2019, 100% of the variable remuneration of Erste Group Bank AG's management board was granted in share equivalents. The total bonus is recorded as a provision in the balance sheet item Provisions at the estimated value expected to be determined by the remuneration committee in the April of the following year. The amount of the liability is determined in the next year. Following the performance period, the liability is valued according to the applicable average share price. Changes due to share price changes are recognised in profit and loss. The valuation as of 31 December 2020 is based on the average, volume-weighted, daily share-price of Erste Group Bank AG in 2020 at EUR 21.81 (2019: EUR 32.08) per share. The pay-out of granted share equivalents starts after a one-year retention period.

The outstanding amount for the performance year 2020 and unpaid accrued tranches from the prior years is EUR 8,697,836.01 (prior year: EUR 17,809 thousand).

For the financial year 2014 no performance-linked remuneration was paid out to board members.

In addition to his position on the Holding board, Mr. Bosek took over the chairmanship in the EBOe from 1 July 2019 until 31 December 2020. Proportional remuneration is charged to EBOe.

In 2020, EUR 9,205,553.01 (prior year: EUR 1,941 thousand) was paid in cash and 83,569 share-equivalents (prior year: 4,862) were assigned to former members of the management bodies and their dependants.

The remuneration granted was in line with the banking regulations on the remuneration of management board members.

Supervisory board members

The supervisory board consists of at least three and a maximum of fourteen members elected in the annual general meeting. Unless the annual general meeting has determined a shorter term of the mandate for individual, several or all supervisory board members on the occasion of their appointment, the term of office of the members of the supervisory board ends at the close of the annual general meeting that resolves on the approvals of their actions for the fourth financial business year following their election; re-election is permitted. In addition, membership of the supervisory board ceases upon death, revocation, resignation or in the event of a defined impediment. Revocation requires a majority of three quarters of valid votes cast and a majority of three-quarters of the registered capital represented at the time of the resolution.

Breakdown of supervisory board remuneration

Pursuant to the decision passed at the annual general meeting of 24 May 2018, the supervisory board adopted in its constituent meeting the following yearly remuneration structure for the financial year 2017 and the following years:

in EUR	Number	Allowance per person	Total allowance
Chairman	1	150,000.00	150,000.00
1st Vice Chairmen	1	90,000.00	90,000.00
2nd Vice Chairmen	1	80,000.00	80,000.00
Members	9	60,000.00	540,000.00
Total	**12**		**860,000.00**

In addition, the chairmen of the risk, audit and IT committee each receive further annual compensation of EUR 10,000.00 (prior year: EUR 10 thousand) and the chairmen of the remuneration and nomination committee each receive further annual compensation of EUR 5,000.00 (prior year: EUR 5 thousand).

The additional attendance fee to be paid to the members of the Supervisory Board was set at EUR 1,000 per meeting of the Supervisory Board or one of its committees

Erste Group Bank AG did not conclude other legal transactions with its members of the supervisory board.

Transactions and shares held by management board and supervisory board members

The tables below provide information on Erste Group Bank AG shares held by management board and supervisory board members as well as transactions carried out with Erste Group Bank AG shares (numbers of shares). Erste Group Bank AG shares held by management board and supervisory board members, whose office term began or ended during the financial year, as at the date of inception or termination of their term in office were recognised as additions or disposals.

Management board member	As of 31 December 2019	Additions	Disposals	As of 31 December 2020
Abrahamyan Ara	0	510	0	510
Bleier Ingo	3,111	0	0	3,111
Bosek Peter	1,500	0	0	1,500
Dörfler Stefan	800	700	0	1,500
Habeler-Drabek Alexandra	72	0	0	72
O'Mahony David	0	0	0	0
Spalt Bernhard	5,000	5,000	0	10,000

Supervisory board members did not receive any options on Erste Group Bank AG shares for exercising their mandate.

Members of the supervisory board	As of 31 December 2019	Additions	Disposals	As of 31 December 2020
Bulach Matthias	0	0	0	0
Egerth-Stadlhuber Henrietta	0	0	0	0
Grießer Martin (until 21January 2020)	14	0	14	0
Griss Gunter (until 10 November 2020)	0	0	0	0
Gual Solé Jordi	0	0	0	0
Haag Markus	176	0	0	176
Haberhauer Regina	188	0	0	188
Hardegg Maximilian	240	0	0	240
Homan Jan	4,400	0	0	4,400
Khüny Marion	0	0	0	0
Krainer Senger Weiss Elisabeth	0	0	0	0
Lachs Andreas	0	0	0	0
Pichler Barbara	309	0	0	309
Pinter Jozef	0	0	0	0
Rasinger Wilhelm (until 10 November 2020)	24,303	500	24,803	0
Rödler Friedrich	2,202	300	0	2,502
Santner Friedrich (as of 10 November 2020)	0	0	0	0
Simor András (as of 10 November 2020)	0	0	0	0
Stack John James	32,761	0	0	32,761
Sutter-Rüdisser Michèle F.	0	0	0	0
Zeisel Karin	38	0	0	38

Persons related to management board or supervisory board members held 111 Erste Group Bank AG shares as of 31 December 2020 (prior year: 3,412).

Severance payments and pensions

Expenses for severance payments and pensions for members of the management board and managers amounted to EUR 2,110,065.85 (prior year: EUR 6,193 thousand). Expenses for severance payments and pensions for other employees amounted to EUR 40,719,020.77 (prior year: EUR 63,959 thousand). Expenses for surviving dependents and pensioners are included in the reported amounts. In accordance with section 239 (2) Commercial Code, statements regarding members of the executive and supervisory boards are disclosed separately in the annex 1.

E. APPROPRIATION OF PROFIT

On 15 December 2020, the European Central Bank (ECB) published a recommendation concerning the distribution of dividends. The management board of Erste Group Bank AG will propose a 2020 dividend, in line with the ECB recommendation, of EUR 0.50 per share (prior year: EUR 1.50 per share) to the 2021 annual general meeting (AGM) for payment in May 2021. Furthermore, an additional reserve of EUR 1.00 per share was created, for payment once the ECB recommendation is withdrawn and subject to profitability and capital performance. According to section 235 (1) Corporate Code (UGB), the amount restricted from distribution is EUR 0.00 (prior year: EUR 0 thousand).

In the annual general meeting held on 10 November 2020, it was decided for the appropriation of profit from the financial year 2019 that a dividend of EUR 0.75 would be paid out per eligible share if, on 8 February 2021(balance sheet date), there is neither a mandatory statutory prohibition on the distribution of dividends nor an applicable recommendation from the European Central Bank precluding the distribution of dividends from the perspective of the company. Due to the ECB's recommendation, the pay-out conditions for a dividend in the amount of EUR 0.75 were not fulfilled on the balance sheet date (8 February 2021), therefore no dividend was paid out for the financial year 2019. In the absence of the option to distribute, the dividend is shown in the profit carried forward in accordance with the resolution of the general meeting as of 10 November 2020.

F. APPENDIX 1: MANAGEMENT BODIES OF ERSTE GROUP BANK AG AS OF 31 DECEMBER 2020

Supervisory board

Position	Name	Year of birth	Occupation	Date of initial appointment	End of the current period of office
Chairman	Rödler Friedrich	1950	Auditor and tax advisor	4 May 2004	AGM 2022
1st Vice Chairman	Homan Jan	1947	General Manager, ret.	4 May 2004	AGM 2022
2nd Vice Chairman	Hardegg Maximilian	1966	Entrepreneur	12 May 2015	AGM 2025
Member	Bulach Matthias	1976	Head of Financial Accounting, Control and Capital, Caixa Bank	15 May 2019	AGM 2022
Member	Egerth-Stadlhuber Henrietta	1971	General Manager	15 May 2019	AGM 2022
Member	Griss Gunter	1945	Lawyer	21 May 2014	AGM 2020
Member	Gual Solé Jordi	1957	Chairman Board of Directors, Caixa Bank	17 May 2017	AGM 2022
Member	Khüny Marion	1969	Advisor	17 May 2017	AGM 2022
Member	Krainer Senger-Weiss Elisabeth	1972	Lawyer	21 May 2014	AGM 2024
Member	Rasinger Wilhelm	1948	Advisor	11 May 2005	AGM 2020
Member	Santner Friedrich	1960	General Manager	10 November 2020	AGM 2023
Member	Simor András	1954	Senior Vice President, EBRD i.R.	10 November 2020	AGM 2023
Member	Stack John James	1946	CEO i.R.	31 May 2007	AGM 2021
Member	Sutter-Rüdisser Michèle F.	1979	Honorary Professor, University of St. Gallen	15 May 2019	AGM 2022
Delegated by the employees' council					
Member	Grießer Martin	1969		26 June 2019	21 January 2020
Member	Haag Markus	1980		21 November 2011	Until further notice
Member	Haberhauer Regina	1965		12 Mai 2015	Until further notice
Member	Lachs Andreas	1964		9 August 2008	Until further notice
Member	Pichler Barbara	1969		9 August 2008	Until further notice
Member	Pinter Jozef	1974		25 June 2015	Until further notice
Member	Zeisel Karin	1961		9 August 2008	Until further notice

Representatives of the supervisory authority

Name	Position
Bartsch Wolfgang	State Commissioner
Kremser Michael	Deputy State Commissioner.
Maca Silvia	State Controller for Premium Reserve
Moser Erhard	Deputy State Controller for Premium Reserve
Kienzl Irene	Trustee under the Mortgage Bank Act (Hypothekenbank- und Pfandbriefgesetz)
Offner Gabriela	Deputy trustee under the Mortgage Bank Act

Management board

Board member	Year of birth	Date of initial appointment	End of current period of office
Spalt Bernhard (Vorsitzender)	1968	1 July 2019	30 June 2023
Abrahamyan Ara	1972	1 January 2020	31 December 2020
Bleier Ingo	1970	1 July 2019	30 June 2022
Bosek Peter	1968	1 January 2015	31 December 2020
Dörfler Stefan	1971	1 July 2019	31 December 2023
Habeler-Drabek Alexandra	1970	1 July 2019	31 December 2023
O'Mahony David	1965	1 January 2020	31 December 2022
Poletto Maurizio	1973	1 January 2021	31 December 2023
Schaufler Thomas	1970	1 January 2021	31 December 2023

Vienna, 26 February 2021

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

IV. Management Report

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[1], 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[2] 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%[3], 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 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%[4]. All other major emerging markets' economies, such as India, Brazil, Russia or 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 3.54%[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[6]. 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%[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 Treasury's and mortgage-backed securities as a response to the slowing economy. Overall, the US economy contracted by 3.4%[8] in 2020.

The euro area was also significantly impacted. At 7.2%[9], 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 or 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[10] and was extended until March 2022. The ECB also increased its targeted longer-term refinancing operations (TLTROs) to provide low interest rate loans to credit institutions. Overall, EUR 1.7 trillion[11] were taken up by 388 banks. The ECB kept its discount rate at zero.

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[1] IMF: https://www.imf.org/-/media/Files/Publications/GFSR/2020/October/English/foreword.ashx (Download on 19 February 2021, applied exchange rate: 1 EUR=1,147 USD)
[2] IMF: https://www.imf.org/-/media/Files/Publications/GFSR/2020/October/English/foreword.ashx (Download on 19 February 2021, applied exchange rate: 1 EUR=1,147 USD)
[3] IMF: https://www.imf.org/en/Publications/WEO/Issues/2021/01/26/2021-world-economic-outlook-update (Download on 19 February 2021)
[4] IMF: https://www.imf.org/en/Publications/WEO/Issues/2021/01/26/2021-world-economic-outlook-update (Download on 19. February 2021)
[5] IMF: https://www.imf.org/en/Publications/WEO/Issues/2021/01/26/2021-world-economic-outlook-update (Download on 19. February 2021)

[6] US Labor Statistics: https://www.bls.gov/news.release/pdf/empsit.pdf (Download on 19 February 2021), page 1

[7] US Labor Statistics: https://www.bls.gov/news.release/pdf/empsit.pdf (Download on 19 February 2021), page 9
[8] IMF: https://www.imf.org/en/Publications/WEO/Issues/2021/01/26/2021-world-economic-outlook-update (Download on 19 February 2021)
[9] IMF: https://www.imf.org/en/Publications/WEO/Issues/2021/01/26/2021-world-economic-outlook-update (Download on 19 February 2021)
[10] ECB: https://www.ecb.europa.eu/mopo/implement/pepp/html/index.en.html (Download am 19 February 2021)
[11] Euromoney: https://www.euromoney.com/article/280nvn47uuu2gasjb5534/banking/european-banks-head-for-a-funding-cliff-thanks-to-tltro-iii (Download on 19 February 2021)
[12] Statistik Austria: http://www.statistik.at/wcm/idc/idcplg?IdcService=GET_PDF_FILE&RevisionSelectionMethod=LatestReleased&dDocName=055370 (Download on 19 February 2021)

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 a 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%[12]. 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 e.g. 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%[13] of GDP. Public debt as a percentage of GDP significantly increased to 84.4%[14]. 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%[15] at year end. Overall, average inflation stood at 1.4%[16] in 2020. Real GDP declined by 7.2%[17], with GDP per capita falling to EUR 42,000[18] 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%[19] in Croatia and 1.1%[20] in Serbia in 2020.

FINANCIAL PERFORMANCE INDICATORS

Explanatory notes on the balance sheet

As of 31 December 2020, total assets had increased by 16.3% from EUR 66.3 billion to EUR 77.1 billion in comparison to the end of 2019. The individual items developed as follows:

The item **cash in hand, balances with central banks** increased elevenfold from EUR 1.6 billion to EUR 17.4 billion as of 31 December 2020, which is attributable to the increase in amounts payable on demand in Euros at the Austrian National Bank (OeNB), not least because of the increased TLTRO (targeted longer-term refinancing operation)-funds. Fixed asset acquisitions in particular led to a 27.2% increase in **treasury bills** from EUR 3.9 billion to EUR 4.9 billion. As only part of the decrease in repurchase agreements with foreign banks in foreign currencies could be compensated for with the acquisition of unlisted securities in the trading portfolio, the **loans and advances to credit institutions** reduced by 16.5% from EUR 25.6 billion in the prior year to EUR 21.4 billion in the reporting year. New business with domestic customers in Euros contributed in particular to an increase in **customer deposits** by 3.4% in comparison to the end of 2019 from EUR 16.2 billion to EUR 16.8 billion. Compared to the prior year, **debt securities** decreased by 39.2% from EUR 6.4 billion to EUR 3.9 billion, which is attributable to significantly fewer repurchased covered bonds. The book values of **participating interest and shares in affiliated companies** remained unchanged at EUR 7.5 billion. The item **other assets** in the amount of EUR 3.7 billion (prior year: EUR 3.6 billion) includes around 95.5% (prior year: 92.5%) derivatives.

Due to time deposits connected to the utilisation of TLTRO III totalling EUR 8.9 billion as of the end of December 2020 in particular, **liabilities to credit institutions** rose by 44.7% to EUR 32.1 billion (prior year: EUR 22.2 billion). The decrease in time deposits in

[13] OeNB: https://www.oenb.at/dam/jcr:370f2792-c563-4471-93d7-f6530d6c29e0/facts-on-austria_oct-2020.pdf (Download on 19 February 2021), page 4
[14] OeNB: https://www.oenb.at/dam/jcr:370f2792-c563-4471-93d7-f6530d6c29e0/facts-on-austria_oct-2020.pdf (Download on 19 February 2021), page 4
[15] Statistik Austria: http://www.statistik.at/wcm/idc/idcplg?IdcService=GET_PDF_FILE&RevisionSelectionMethod=LatestReleased&dDocName=022832 (Download on 19 February 2021)
[16] Statistik Austria: http://www.statistik.at/wcm/idc/idcplg?IdcService=GET_PDF_FILE&RevisionSelectionMethod=LatestReleased&dDocName=022832 (Download on 19 February 2021)
[17] OeNB: https://www.oenb.at/dam/jcr:370f2792-c563-4471-93d7-f6530d6c29e0/facts-on-austria_oct-2020.pdf (Download on 19 February 2021), page 4
[18] OeNB: https://www.oenb.at/dam/jcr:370f2792-c563-4471-93d7-f6530d6c29e0/facts-on-austria_oct-2020.pdf (Download on 19 February 2021) and Statistik Austria: https://stat-cube.at/statistik.at/ext/statcube/jsf/tableView/tableView.xhtml (Download on 19 February 2021)
[19] European Commission: https://ec.europa.eu/eurostat/databrowser/view/NAMQ_10_GDP__custom_589433/default/table?lang=en (Download on 19. February 2019), calculation based on Q1-Q3 2020 data
[20] Statistical Office of the Republic of Serbia: https://www.stat.gov.rs/en-US/vesti/20201230-ekonomska-kretanja-2020 (Download on 19. February 2021)

foreign currencies in New York was compensated by domestic giro deposits in Euros, however repurchase agreements in foreign currencies matured, which led to a decrease of 10.6% in the item **amounts owed to customers** to EUR 5.9 billion (prior year: EUR 6.6 billion). In 2020, the New York branch once again issued more certificates of deposit, which explains the increase of 4.1% in **securitised liabilities** to EUR 18.9 billion (prior year: EUR 18.2 billion). In January and November 2020, Erste Group Bank AG issued two further bonds in the framework of its Additional Tier 1 Program, therefore the items **subordinated** and **additional tier capital** increased by 11.8% to EUR 7.4 billion (prior year: EUR 6.6 billion). The item **other liabilities** in the value of EUR 3.8 billion (prior year: EUR 3.7 billion) includes approx. 79.2% derivatives (prior year: 80.0%).

After deduction and filtering as specified in the CRR, **Tier 1 Capital** (CET 1 and AT1) amounted to EUR 10.2 billion (prior year: EUR 9.0 billion); **Common Equity Tier 1 Capital** (CET 1) amounted to EUR 7.4 billion (prior year: EUR 7.5 billion). **Own Funds** of Erste Group Bank AG pursuant to Part 2 of Regulation (EU) No 575/2013 (primarily core and supplementary capital) amounted to EUR 13.2 billion on 31 December 2020 (prior year: EUR 12.5 billion). The **Common Equity Tier 1 Capital Ratio** (CET 1) was 22.0% (prior year: 22.9%), whereas the **Total Capital Ratio** was 39.4% (prior year: 38.1%)

Details on Earnings

Erste Group Bank AG's **net interest income** improved by 9.3% to EUR 231.4 million (prior year: EUR 211.8 million), which can be particularly attributed to favourable ECB-refinancing and the higher interest applied to deposits at the ECB. Largely due to the lack of dividend payments from Ceska sporitelna, a.s. as well as Banca Comerciala Romana SA – both affiliated companies - the **income from securities and participating interests** reduced by 48.4% to EUR 421.3 million (prior year: EUR 815.8 million). The balance from **fee and commission income and expenses** worsened by 41.8% to EUR 16.9 million (prior year: EUR 29.0 million), mainly due to transaction costs in the securities business driven by increased issuing business. Due to the fact that the losses in trading with derivatives and securities could not be compensated for with gains from foreign exchange trading and coin trading, the item **net profit or loss on financial operations** continues to be negative at EUR 4.8 million (prior year: EUR 69.3 million), although it did improve by 93.1%. In 2019, Erste Group Bank AG gained EUR 114.1 million from the early termination of two derivatives in a hedge relationship, which did not reoccur in the reporting year. This is why the **other operating income** sank by 60.2% to EUR 91.8 million (prior year: EUR 231.0 million). All in all, this resulted in a 37.9% deterioration in **operating income** in 2020 to EUR 756.7 million (prior year: EUR 1,218.3 million).

In addition to salaries (both fixed and variable) and statutory charges, **personnel expenses** also include expenses for long-term employee provisions and pension fund contributions. Personnel expenses decreased by a total of 14.3% to EUR 295.7 million (prior year: EUR 345.0 million). The actuarial losses recognised on the balance sheet (in particular as a result of the discount rate being lowered from 0.95% to 0.50%) from compensation related liabilities of EUR 18.5 million (prior year: EUR 47.0 million) as well as the reduced number of employees were the drivers for this.

The **number of employees** at Erste Group Bank AG (weighted according to the extent of employment) went down slightly by 4.3% compared to 31.12.2019 and compares to the previous year as follows:

	As of 31 December 2020	As of 31 December 2019
Domestic	**2,006.4**	**2,097.1**
Foreign branches	**83.0**	**87.0**
London	26.0	29.0
New York	21.0	23.0
Hong Kong	24.0	23.0
Berlin, Stuttgart	12.0	12.0
Total	**2,089.4**	**2,184.1**
thereof maternity/paternity leave	138.0	121.5

Due to cost savings particularly in IT and consulting as well as advertising (2019 saw intensified advertising measures in connection with the bank's 200 year anniversary), **other administrative expenses** decreased by 13.1% to EUR 274.5 million (prior year: EUR 315.8 million). The item **depreciation and amortization on fixed assets and intangible assets** was also 28.0% lower at EUR 7.3 million (prior year: EUR 10.1 million). As the costs (EUR 40.5 million) for the partial closure of a fixed interest subordinated bond were no longer incurred in the reporting year 2020, other operating expenses decreased by 46.0% to EUR 32.4 million (prior year: EUR 59.9 million). As a result, **operating expenses** decreased by 16.5% to EUR 609.9 million (prior year: EUR 730.8 million).

After deduction of all operating expenses from operating income, net operating income amounted to EUR 146.8 million in the financial year 2020 (prior year: EUR 487.5 million). At 80.6%, the cost-income ratio (operating expenses as a percentage of operating income) was above the prior year's figure of 60.0%.

Reflecting the deterioration of the macro-economic outlook due to the Covid-19 pandemic, Erste Group Bank AG reports **net expenses for provisions for risks to loan receivables** (including write-offs offset against income from written off loans) in the amount of EUR 229.3 million (prior year: EUR 20.2 million). The successful balance from current securities (valuation and gains) as well as the result and value adjustment positions on participating interests and fixed-asset securities was a negative EUR 6.8 million in 2020 (prior year: positive EUR 699.2 million). Participation valuations (primarily the appreciation of Banca Comercială Română S.A. and depreciation of Erste Bank Hungary Zrt. and Erste Group Immorent GmbH) in particular had a negative impact on the results in the reporting year.

Accordingly, profit or loss on ordinary income was a negative EUR 89.3 million in the year 2020 (prior year: positive EUR 1,166.4 million in the year 2019).

As Erste Group Bank AG did not receive any dividends (not resulting from operative income), the dividend revenue is zero in the reporting year 2020 (prior year: EUR 5.0 million). Taxes on profit or loss reduced to an expense of EUR 10.9 million (prior year: income EUR 173.4 million), particularly following the release of capitalised deferred taxes. Due to the high proportion of tax-exempt income as well as the obligation of depreciating participation over 7 years, no Austrian corporate income tax was payable in the financial year 2020. Driven by the banking levy, other taxes increased by 2.4% from EUR 17.7 million to EUR 18.1 million.

After accounting for the changes in reserves (see Annex chapter C note 23), which resulted in the net release of EUR 118.4 million (prior year: allocation of EUR 682.7 million), there was an annual profit of EUR 0.0 million (prior year: EUR 644.4 million). As no dividend was paid out for the financial year 2019 due to the ECB's recommendation, this remained in the retained income, whereby the net profit, as in the prior year, was EUR 644.7 million.

OUTLOOK

Since Erste Group Bank AG's economic success is substantially determined by Erste Group's profitability, the Erste Group's outlook is presented below.

Erste Group Bank AG'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 Bank AG'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 Bank AG 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. Positive momentum should come from fund management, the securities business and insurance brokerage. Given the average result seen in 2020, the net trading 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 Bank AG markets. In addition, Erste Group Bank AG 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 Bank AG is striving to make operating income grow faster than costs. This leads Erste Group Bank AG to project a rise in the operating result in 2021.

Based on the scenario described above, risks costs should decline again in 2021.

Erste Group Bank AG'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 1.00 per share has been reserved for potential payment later in the year.

Potential risks to the guidance are besides other than expected (geo)political, economic (monetary and fiscal policies) und regulatory measures and developments also global health risks or 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 Bank AG is moreover exposed to non-financial and legal risks that may materialise regardless of the economic environment. Worse than expected economic development may put write-offs of participating interests and shares in affiliated companies at risk.

OWN SHARES

Month	Purchase/Sale	Portfolio as of	Purchase price	Selling price	Par value in share capital
January	Purchase	127,057	4,292,750		254,114
January	Sale	82.224		2,807,155	164,448
February	Purchase	97,685	3,200,279		195,370
February	Sale	119,048		3,836,456	238,096
March	Purchase	334,154	6,951,446		668,308
March	Sale	369,187		7,717,048	738,374
April	Purchase	253,094	4,485,732		506,188
April	Sale	280,122		4,814,454	560,244
May	Purchase	197,452	3,790,248		394,904
May	Sale	184,170		3,607,015	368,340
June	Purchase	265,151	5,861,141		530,302
June	Sale	894,696		19,577,352	1,789,392
July	Purchase	152,730	3,283,057		305,460
July	Sale	81,584		1,784,574	163,168
August	Purchase	111,175	2,282,902		222,350
August	Sale	474,538		9,510,956	949,076
September	Purchase	312,434	6,055,404		624,868
September	Sale	282,146		6,911,495	564,292
October	Purchase	255,162	4,568,326		510,324
October	Sale	219,595		3,875,773	439,190
November	Purchase	146,855	3,108,788		293,710
November	Sale	439,433		9,342,613	878,866
December	Purchase	650,666	16,246,053		1,301,332
December	Sale	111,645		2,787,218	223,290

The primary purpose of the transactions was market making and hedging of ATX positions. As of 31 December 2020, other liabilities include a short position in Erste Group Bank AG shares amounting to 857,356 units with a carrying amount of EUR 21,382,458.64 (prior year: 222,583 units, carrying amount EUR 7,469,887.01), which is covered by securities lending deals.

RESEARCH AND DEVELOPMENT

Erste Group Bank AG ´s business purpose is to provide banking services. The production process of a bank is therefore not connected with research and development in an industrial sense. However, development work impacts permanently the current business of the bank.

BRANCHES

Erste Group Bank AG maintains branches in London, New York, Hong Kong and Germany (Berlin and Stuttgart) that provide commercial lending to foreign banks, leasing companies and sovereign debtors as well as institutional sales. The London branch is expected to be closed in the financial year 2021.

SHARE, VOTING AND CONTROL RIGHTS

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

With regard to the statutory disclosure requirements in the Management Report, special reference is made to the relevant information in the notes to the financial statements, in section C 22.

As of 31 December 2020, together with its syndicate partners, DIE ERSTE oesterreichische Spar-Casse Privatstiftung ("ERSTE Stiftung"), a foundation, controls approx. 31.17% (prior year: 30.39%) of the shares in Erste Group Bank AG and with 16.50% (prior year adjusted: 15.96%) is the main shareholder. The ERSTE Stiftung holds 5.90% (prior year: 6.37%) of the shares directly; the indirect participation of the ERSTE Stiftung amounts to around 10.60% (prior year adjusted: 9.59%) of the shares held by Sparkassen Beteiligungs GmbH & Co KG, which is an affiliated undertaking of the ERSTE Stiftung. 1.67% (prior year adjusted: 1.43%) are held directly by savings bank foundations (Sparkassenstiftungen) respectively saving banks foundations acting together with the ERSTE Stiftung and affiliated with Erste Group Bank AG through the joint liability scheme/IPS fund. 9.92% (prior year: 9.92%) of the subscribed capital is controlled by the ERSTE Stiftung on the basis of a shareholder agreement with Caixabank S.A. 3.08% (prior year: 3.08%) are held by other partners to the shareholder agreement.

It should also be noted that in addition to the joint liability scheme in place since 2001, from 1.1.2014 onwards Erste Group Bank AG has formed a recognised institutional protection scheme (IPS) in accordance with article 113 (7) CRR together with the Austrian savings banks. The joint liability scheme complies with the requirements of article 4 (1) Z 127 CRR, whereby the required individual services of the individual members of the scheme are subject to an individual and general ceiling. Furthermore, starting in 2014 an IPS ex-ante fund was established and endowed for the following 10 years.

The payments of the individual members are recognised in the balance sheet as a share in IPS GesbR, which manages the ex-ante fund and are accounted for as revenue reserve. Due to the contractual terms, this revenue reserve represents a blocked reserve. The writing off of this blocked reserve may only take place as a result of the mobilisation of the ex-ante fund due to a claim. This reserve can therefore not be utilised internally to cover losses and on member level does not qualify as capital according to the CRR; on a consolidated level, the ex-ante fund does qualify, however.

Furthermore, Erste Group Bank AG is the central institution for the associated Austrian savings banks, and together they form a cash pool pursuant to section 27a Austrian Banking Act (BWG). Where necessary, Erste Group Bank AG must supply liquidity to an associated savings bank in accordance with legal and contractual provisions.

Additional disclosures pursuant to section 243a (1) UGB

All restrictions on voting rights or the transfer of shares, even if they are included in agreements between shareholders, insofar as they are known to the Management Board pursuant to section 243a (1) no. 2 UGB:

In shareholder agreements ERSTE Stiftung agreed with its partners the following: concerning the appointment of the members of the supervisory board the partners are obliged to vote as required by ERSTE Stiftung. The partners can dispose of shares according to a predefined sale procedure and can purchase shares only within the quotas agreed with ERSTE Stiftung (of a maximum of 2% within 12 months in total); with this regulation an unwanted creeping-in according to takeover law shall be prevented. In addition, the partners have committed themselves not to make a hostile takeover bid, nor to participate in a hostile takeover bid nor to act together with a hostile bidder in any other way.

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

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

This concerns:

_ Art. 15.1 of the Articles of Association, which provides that ERSTE Stiftung will be granted the right to nominate up to one third of the members of the Supervisory Board to be elected by the shareholders' meeting, as long as ERSTE Stiftung is liable or all present and future liabilities of the company in the case of its insolvency pursuant to Section 92 (9) Banking Act and

_ Art. 15.4 of the Articles of Association, which provides that a three-quarter majority of valid votes cast and a three-quarter majority of the subscribed capital represented at the meeting considering the proposal are required to pass a motion for removal of Supervisory Board members

_ Art. 19.9 of the Articles of Association, which provides that the Articles of Association, in so far as they do not alter the business purpose, may be passed by simple majority of votes cast and simple majority of the subscribed capital represented at the meeting considering the amendment. Where higher majority votes are required by individual provisions of the Articles of Association, these provisions can only be amended with the same higher majority vote. Moreover, amendments to Art. 19.9 require a three-quarter majority of the votes cast and a three-quarter majority of the subscribed capital represented at the meeting considering the proposal.

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

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

_ the Management Board is entitled to purchase up to 10% of the subscribed capital in treasury shares for trading purposes according to section 65 (1) no. 7 Austrian Stock Corporation Act ("AktG"). However, the trading portfolio of these shares may not exceed 5% of the subscribed capital at the end of any calendar day. The consideration for the shares to be purchased must not be less than 50% of the closing price at the Vienna Stock Exchange on the last trading day prior to the purchase and must not exceed 20% of the closing price at the Vienna Stock Exchange on the last trading day prior to the purchase. This authorisation is valid for a period of 30 months, i.e. until 14 November 2021.

_ the Management Board is entitled, pursuant to section 65 (1) no. 8 as well as (1a) and (1b) Stock Exchange Act and for a period of 30 months from the date of the resolution, i.e. until 14 November 2021, to acquire own shares of up to 10% of the subscribed capital, subject to approval by the Supervisory Board, with the option of making repeated use of the 10% limit, either at the stock exchange or over the counter, likewise to the exclusion of the shareholders' right to tender proportional payment. The authorisation may be exercised in whole or in part or in several instalments and in pursuit of one or several purposes. The market price per share must not be below EUR 2.00 or above EUR 120.00. Pursuant to section 65 (1b) in conjunction with sec. 171 Stock Corporation Act, the Management Board is authorised, from the date of the resolution, i.e. until 14 May 2024, on approval by the Supervisory Board, to sell or use the company's own shares, also by means other than the stock exchange or a public offering for any purpose allowed by the law, particularly as consideration for the acquisition and financing of the acquisition of companies, businesses, business divisions or shares in one or several businesses in Austria or abroad to the exclusion of the shareholders' proportional purchase option.

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

_ According to section 65 (1) Z 4 as well as (1a) and (1b) Stock Exchange Act, the Management Board is authorised for the duration of 30 months following the date of resolution, hence until 14 November 2021, and with the approval of the Supervisory Board to purchase own shares at an amount equalling up to 10% of share capital of the company also under repeated utilisation of the 10% limit both via the stock market as well as off-market under exclusion of the pro rata tender rights of shareholders for the purpose of granting shares for free or at concessionary terms to Erste Mitarbeiterbeteiligung Privatstiftung, their beneficiaries, employees, executive employees and members of the board at Erste Group Bank AG as well as affiliated group companies or other companies according to section 4d (5) Z 1 Income Tax Act. The authorisation may be exercised in whole or in part or in several installments and in pursuit of one or several purposes. The value per share may neither be lower than the floor value of two Euros nor higher than the ceiling of 120 Euros.

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

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

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

Agreement in principle of the joint liability scheme

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

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

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

Directors and Officers Insurance
Changes in control

In the event that any of the following transactions or processes occur during the term of the insurance policy (each constituting a "change in control") in respect of the insured:
_ the insured ceases to exist as a result of a merger or consolidation, unless the merger or consolidation occurs between two insured parties, or
_ another company, person or group of companies or persons acting in consent, who are not insured parties, acquire more than 50% of the insured's outstanding equity or more than 50% of its voting power (resulting in the right to control the voting power represented by the shares, and the right to appoint the Management Board members of the insured),

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

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

Co-operation between Erste Group Bank AG and Vienna Insurance Group (VIG)
Erste Group Bank and VIENNA INSURANCE GROUP AG Wiener Versicherung Gruppe ("VIG") are parties to a general distribution agreement (the "Agreement") concerning the framework of the cooperation of Erste Group and VIG in Austria and CEE with respect to bank and insurance products. Originally concluded in 2008 (between Erste Group Oesterreich and WIENER STÄDTISCHE Versicherung AG Vienna Insurance Group), the Agreement was renewed and extended in 2018 until the end of 2033. The objective for the renewal and extension was in particular to adapt the Agreement to the corporate restructuring of the original parties, to amend some commercial parameters and to align the Agreement with recent developments in the legal framework. Already in the original Agreement the parties stipulated that both parties have the right to terminate the Agreement in case of a change of control of one of the parties. A change of control is defined, with respect to Erste Group Bank, as the acquisition of Erste Group Bank by any person/entity other than DIE ERSTE österreichische Spar-Casse Privatstiftung or Austrian savings banks of 50% plus one share of Erste Group Bank's voting shares, and with respect to VIG, as the acquisition of VIG by any person/entity other than Wiener Städtische Wechselseitiger Versicherungsverein – Vermögensverwaltung – Vienna Insurance Group of 50% plus one share of VIG's voting shares. Apart from this regulation on the termination of the Agreement, the parties agreed in the renewal and extension of the Agreement for an additional termination for cause if based on new legal or regulatory provisions, the continuation of the Agreement is unreasonable for each or both of the parties.
Erste Group Bank and VIG are furthermore parties to an asset management agreement, pursuant to which Erste Group undertakes to manage certain parts of VIG's and its group companies' securities assets. In case of a change of control (as described above), each party has the termination right. The asset management agreement has been renewed and extended until 2033 concurrently with the renewal and extension of the Agreement outlined above.

INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM CONTROL RIGHTS FOR FINANCIAL REPORTING PROCEDURES

IKS Framework Requirements

The IKS policy provides the framework conditions for the internal control system (IKS) at Erste Group. It defines current standards concerning general tasks and responsibilities as well as minimum criteria for IKS documentation. In Erste Group, a top-down, risk adjusted and decentralised IKS approach is to be applied with a focus on the material risks identified within the framework of the ICAAP process.

The IKS process of Erste Group is based on the framework conditions and minimum criteria of the introduction of group-wide internal policies (Group Policy Framework – GPF). All key controls for the control and monitoring of group-wide material risks are laid down in specific internal policies that have to be implemented group-wide. The definition and documentation of key controls has to be duly carried out by traceable means by the policy owner on group level. The control of the roll-out of individual policies is part of the general GPF process.

The monitoring of the efficiency and effectiveness of the IKS is ensured and validated by regularly conducted monitoring activities (control indicators) and individual sample inspections. This is done in order to guarantee that the key controls fulfil their objectives, reduce the probability of other risks occurring and to keep the other remaining risks in line with the risk-return. The risk profile, which includes the current and target situation, is monitored by each individual risk function unit and is illustrated in the framework of the consolidated risk reporting (GRR) for the management or relevant risk committee.

Control environment

The control environment provides the framework for the introduction, implementation and monitoring of IKS principles, procedures and measures. The Management Board of Erste Group Bank AG is responsible for the establishment, structure and application of an appropriate internal control and risk management system that meets the company's needs in its accounting procedures.

Holding Finance & Accounting Competence Center, which are part of the Group Accounting & Group Controlling division, coordinate and verify the final accounts' compilation for Erste Group Bank AG. The assignment of powers, account responsibilities and the necessary control procedure are defined in the operating instructions.

Risk assessment

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

Controls

The relevant units are obliged to comply with the accounting and measurement principles that are applicable for capturing, posting and accounting transactions and laid out in the operating instructions relating to the UGB and in the IFRS Accounting Manual.

The basic components of the internal control system (IKS) at Erste Group Bank AG are:

- Controlling as a permanent financial/business analysis (e.g. comparison of target and actual data between Accounting and Controlling) and control of the company and/or individual corporate divisions.
- Systemic, automatic control systems and measures in the formal procedure and structure e.g. programmed controls during data processing.
- Principles of functional separation and the four-eye principle.
- Internal Audit – as a separate organisational unit – is charged with monitoring all corporate divisions in an independent yet proximate manner, particularly with regard to the effectiveness of the internal control system. The functionality of the Internal Audit unit is monitored by quality assurance measures (self-assessments, peer reviews, external quality assessments) by the Management Board, the Audit Committee/Supervisory Board and by external parties (e.g. bank auditor, bank supervisor).

Information and communication
In accordance with Austrian Commercial Code (UGB) / Austrian Banking Act (BWG), the final accounts are prepared in a standardised format and in compliance with the control measures described above. Before being passed on to the Audit Committee of the Supervisory Board, the financial statements to be published are submitted to the managers and CFO for approval. During the year the UGB-result is presented to the responsible board member (CFO) on a quarterly basis.

Reporting is nearly fully automated using input systems and automatic interfaces. This warrants that the data for controlling, (segment) and earnings accounting as well as other evaluations are always up to date. The information used by the accounting department is derived from the same database and reconciled monthly for reporting. Close collaboration between Accounting and Controlling ensures that target and actual data are constantly compared, allowing for effective control and harmonization.

Responsibilities of Internal Audit
Internal Audit is in charge of auditing and evaluating all areas of the bank at appropriate intervals based on legally required and on risk oriented planned audits (according to the annual audit plan as approved by the Management Board and reported to the Audit Committee). The main focus of audit reviews is to monitor the functionality of the internal control system. Internal Audit reports its findings to the Group's Management Board and Audit Committee several times a year.

According to section 42 BWG, Internal Audit is a control body that is directly subordinate to the Management Board. It serves the exclusive purpose of ongoing and comprehensive reviews of the legal compliance, appropriateness and suitability of the banking business and banking operation. The mandate of Internal Audit is therefore to support the Management Board in its efforts to secure the bank's assets and promote economic and operational performance and thus in the Management Board's pursuit of its business and operating policy. The activities of Internal Audit are guided in particular by the the law, guidelines and minimum standards of the authority, by the professional standards for internal audits and their policy, which is checked regularly and adapted if necessary.

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

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

RISK MANAGEMENT

Comments on the risk profile of Erste Group Bank AG
In light of the business strategy of Erste Group Bank AG, besides participation risk, the main risks included credit risk, market risk, interest-change risk in the banking book, liquidity risk and non-financial risks. In addition, a risk materiality assessment is undertaken on an annual basis. It is ensured that all relevant material risks are covered by Erste Group Bank AG’s control and risk management framework. This entails a set of different tools and governance to ensure adequate oversight of the overall risk profile and sound execution of the risk strategy, including appropriate monitoring and escalation of issues that could materially impact the risk profile of the group. The main types of risk can be summarised as follows:

- *Credit risk:* is the risk of loss from the potential collapse of counterparties, particularly of borrowers in the conventional lending business, and any related credit losses.
- *Market risk:* describes the risk of loss from unfavourable price changes in marketable and traded products, such as shares, fixed-income securities and derivatives, as well as from interest and foreign exchange volatility and fluctuations in raw material prices.
- *Interest rate risk in the banking book, including net interest income risk:* is the risk of an adverse change in the market value of financial instruments or in net interest income due to market interest rate movements. This type of risk arises due to differences in maturities, interest rate linkages, and interest rate reset periods between assets and liabilities including derivatives.
- *Liquidity risk:* describes the risk of the bank's insufficient liquidity or inability to make funds available in a timely manner to service its debts.
- *Non-financial risk:* includes reputational and operational risks. Operational risks are risks of losses due to mistakes or failures linked to internal processes, people and systems, or external events.

Participation Risks

Participation risks are risks of potential value losses from providing equity, as current-value write-offs, capital losses from sales, omissions of dividends or decline of hidden reserves as well liability risks from letters of comfort or capital payment commitments. The majority of direct and indirect participations are fully consolidated in the group balance sheet and thus these risks are recorded ascertained. Consequently potential risks of investments are usually covered by other types of risks and correspondingly considered in their monitoring and control methods.

The participations entered into by Erste Group Bank AG took place in line with the strategic objective to invest in retail banking whereby own experience and expertise could be contributed. In order to participate more in growth markets, geographic diversification was increased by investing in central and eastern European states. In order to reduce the political, legal and economic risks, the management focuses on countries within the EU or on potential EU candidate countries.

Risk management objectives and methods

Taking risks in a conscious and selective manner and to manage such risks professionally is one of the core functions of a bank. Adequate risk policy and risk strategy is essential to a bank's fundamental financial health and operational business success.

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

The risk strategy describes the current risk profile, defines the principles of risk management, the strategic goals as well as initiatives for the most important types of risk and sets strategic limits for the significant types of financial and non-financial risk, which are considered in the risk materiality assessment. The risk strategy is implemented within the framework of a clearly defined governance structure. This also serves to observe the risk appetite and complementary measures as well as for the escalation of exceeded limits.

In the year 2020, the COVID-19 pandemic became a global issue, therefore the management of loan portfolios, including the active management of non-performing loans, was continued in order to further strengthen the risk profile. For Erste Group Bank AG and at group level, the prognoses were adapted to this crisis situation and significant risk provisions carried out to deal with the expected distinct decrease in credit quality.

For credit risk, by far the most important risk category, Erste Group Bank AG has been using the internal ratings-based (IRB) approach according to the Capital Requirements Regulation (CRR) and adopts this approach also for the assessment of economic capital requirements according to Pillar 2. Furthermore, all methods and processes affiliated with and necessary for this approach are applied. At Erste Group Bank AG, the internal models are validated annually and revised if necessary, whereby both observations made by the supervisory authorities and foreseeable future amendments to the legal requirements are taken into consideration.

The market risks in the trading book are backed by equity capital on the basis of an internal model. In order to hedge the market risk from balance sheet assets (bonds, repurchase agreements on the asset side) and liabilities (own issues), the bank uses interest swaps, currency swaps, credit derivatives and options as hedging instruments in micro-hedge relationships. Together with the hedged underlying transaction, these hedging instruments are recorded in the balance sheet as a valuation unit based on section 201 Commercial Code (UGB). A fair view of the impacts of the continuing low level of interest rates is provided in the "Outlook" chapter.

The requirements for the generation of valuation units are fulfilled by the fair value hedge accounting processes which are applied at Erste Group Bank AG. Details on these processes are presented in the notes to the financial statement, section C note 31.

In accordance with the Advanced Measurement Approach (AMA), operational risk for Erste Group Bank AG is backed by equity.

In order to provide a comprehensive overview of current and future risk and the cover pools of the Bank, the bank's risk-bearing capacity is determined by the Internal Capital Adequacy Assessment Process (ICAAP). The risk-bearing capacity provides regular updates on the risk profile and capital adequacy, forming the basis for defining and implementing any measures that may be necessary.

Erste Group Bank AG defines its risk strategy and risk appetite within the framework of the annual strategic planning process, during which adequate orientation of the risk, capital and results and earnings targets is ensured. Strategic limits and principles are defined for all types of risk on the basis of the RAS in the risk strategy. These limits and principles support the implementation of the medium and long-term risk decisions. Risk Management governance ensures the comprehensive overview of all risk decisions and the proper execution of the risk strategy. Risk-reducing measures are carried out as part of the ordinary risk management process in order to make sure that the Group acts in accordance with the defined risk appetite.

Risk management organization

Risk control and risk steering are performed based on the business strategy and the risk appetite approved by the Management Board. Together with the chief risk officers of the subsidiaries, the chief risk officer of Erste Group Bank AG (Group CRO) is responsible for implementation of and adherence to the risk control and risk management strategies across all risk types and business lines.

Committees with explicit strategic and operative controlling functions have been set up to ensure the Bank's effective and optimal management. At the top of the risk committee hierarchy within Erste Group Bank AG is the Risk Committee of the Supervisory Board. It 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 according to the internal approval authority policies. Furthermore, it is charged with granting approval to large exposures pursuant to Article 392 CRR, if such a claim is equal or exceeds 10% of the eligible capital of a credit institution. Within the competence assigned to it, the Committee may grant advance approvals to the extent permitted by law.

The Management Board and in particular, the Group CRO ensure the availability of appropriate infrastructure and staff as well as methods, standards and processes. The actual identification, measurement, assessment, approval, monitoring, steering and limit setting for the relevant risks are performed at the operating entity level within Erste Group Bank AG. The management board is supported by several divisions established to perform operating risk control functions and exercise strategic risk management responsibilities.

At the beginning of 2020, the management boards of Erste Group Bank AG and Erste Bank der oesterreichischen Sparkassen AG (EBOe) decided to consolidate the risk management structures of Erste Group Bank AG and EBOe in order to improve further processes and collaboration within Erste Group. In April 2020, the common structure was implemented for the operative credit risk management comprising the Corporate Risk Management, Retail Risk Management and Credit Risk Portfolio divisions.

As of 1 October 2020, Erste Group Bank AG and EBOe merged their strategic risk management units and also formed a uniform compliance function. The reorganisation included the merger of the enterprise-wide risk management functions and security risk management units as well as the merger of the credit risk methods and models. This step will improve the cooperation and ensures coordinated processes and standards being implemented. In addition, the new structure will enable a standardised data collection and processing and target a harmonized IT infrastructure.

The staff unit Group Sustainability Office was transferred to the area of responsibility of the Chief Executive Officer and the new staff unit Cyber Risk Management was created.

The following risk management functions report directly to the Group CRO:

- Group Liquidity and Market Risk Management;
- Enterprise wide Risk Management;
- Credit Risk Methods;
- Retail Risk Management:
- Credit Risk Portfolio;
- Corporate Risk Management;
- Group Compliance;
- Group Legal;
- Cyber Risk Management.

The division Group Liquidity and Market Risk Management comprises all market and liquidity risk functions in Erste Group. This division is responsible for steering, measuring, and controlling liquidity and market risk. It covers both banking book and trading book and ensures the development and validation of liquidity and market risk models for regulatory as well as for internal steering purposes.

Enterprise wide Risk Management (ERM) focuses on holistic risk management and ensures comprehensive cross-risk group-wide risk portfolio steering, monitoring, analysis, and reporting. ERM drives key strategic initiatives to establish greater cohesion between risk strategy (including risk appetite and limit steering) and operational execution. It includes the preparation of recovery and wind-down plans as well as the management of non-financial risks.

The responsibilities of Credit Risk Methods comprise the development, maintenance and validation of credit risk models in accordance with the regulatory requirements for the internal ratings-based approach. A dedicated organisational unit takes care of model risk governance and the strategic planning of model changes.

Retail Risk Management covers the operational credit decisions and the collection and workout activities for retail clients of EBOe. In order to ensure the sustained profitability of the retail loan portfolio in Erste Group, Retail Risk Management defines group-wide framework conditions and requirements for lending within the Group's risk/return profile.

Credit Risk Portfolio monitors the development of the overall loan portfolio in Erste Group Bank AG with a specific focus on non-retail clients. Active steering ensures the operative implementation of the Group's credit risk strategies. The division is also in charge of continuously improving underwriting processes as well as for corporate and retail risk management projects with a particular focus on digital initiatives.

Corporate Risk Management is responsible for credit underwriting and restructuring (including sales of non-performing loans) for corporate and real estate clients, financial institutions, sovereigns and municipalities in EBOe and Erste Group Bank AG as well as group-wide for local customers if their local credit limits are exceeded.

In line with Austrian and European Union legislations, Group Compliance ensures the implementation and steering of measures to prevent money laundering, terrorism financing and fraud. Furthermore, it is responsible for standards and measures to comply with financial sanctions and embargoes. Another central task consists in the implementation and enforcement of regulatory provisions for insider trading, market manipulation and other misconduct in securities business.

Group Legal acts as the central legal department of Erste Group Bank AG. This division provides legal support and counsel for the management board, the business units and the central functions, and mitigates legal risk. It also attends to legal sourcing and to dispute resolution and litigation.

Cyber Risk Management is a risk control unit segregated from IT and security operations, responsible for managing and overseeing cyber risks as well as for monitoring and controlling adherence to cyber risk management framework.

Statements concerning value adjustments for credit risks can be found in Annex section C note 33 and concerning off-balance sheet risk items in Annex section C note 34 of this financial statement. Litigations are dealt with in Annex section A (Ongoing legal cases).

CORPORATE GOVERNANCE

Compliance with laws and international initiatives against bribery and corruption is a matter of fact. Erste Group Bank AG places particular emphasis on continuous training of employees. A particular point of focus is on the strict requirements regarding whether gifts may be accepted at all from customers, or where appropriate the size of the gift. Another such point is the whistleblowing office. The Erste Integrity Line promotes lawful and fair behaviour, enabling all employees to report suspicious events. A detailed corporate governance report can be found in the annual report of Erste Group. This is published on the website of Erste Group at www.erstegroup.com/ir.

Erste Group Bank AG decided to prepare and publish a separate non-financial report – integrated in the annual report– in line with an option provided for in the Austrian Sustainability and Diversity Improvement Act (NaDiVeG).
With regard to non-financial risks related to the topics environment, social and employee matters, respect for human rights and measures against corruption and bribery, reference is made to the respective sections in the non-financial report; these are summarised under opportunities and risks arising from material topics.
Upcoming new regulations on sustainability disclosures and risk management obligations: the EU Taxonomy Regulation (EC 2020/852) Sustainability Disclosure Regulation (EC 2019/2088), EBA Guideline on Loan Origination and Monitoring, ECB Guide on climate-related and Environmental Risks are properly taken into account and will be integrated with due care into the business model of Erste Group Bank AG.

CLAIM PURSUANT TO SECTION 243B COMMERCIAL CODE (UGB)

Non-financial reporting for Erste Group Bank AG pursuant to Section 243b of the Commercial Code (UGB) is published together with the Group's separately consolidated non-financial report in the financial statement of Erste Group. The separate non-financial report is disclosed in the financial statement on the homepage at www.erstegroup.com/ir.

GLOSSARY

Operating Income
Sum of net interest income, net commissions income, income from securities and participating interests, net profit or loss on financial operations and other operating income.

Operating Expenses
Sum of general administrative expenses, value adjustments in respect of assets items 9 and 10 as well as other operating expenses.

Operating Result
Operating income less operating expenses.

CEE (Central and Eastern Europe)
English abbreviation also commonly used in German applied to the economic area of Central and Eastern Europe. Includes the new EU member states from expansion in 2004 and 2007 as well as the successor states to Yugoslavia and the Soviet Union and Albania.

Total Capital Ratio
The total eligible own capital according to Article 72 CRR expressed in % of the total risk amount according to Article 92 (3) CRR.

Forbearance
Concessions to the debtor due to financial difficulties.

Return on Assets
The annual net profit before allocation to reserves divided by the average balance sheet total (average of the last 5 quarterly cut-off dates).

Common Equity Tier 1 Capital Ratio
Common Equity Tier 1 capital (CET1) according to Article 50 CRR expressed in % of the total risk amount according to Article 92 (3) CRR.

Tier 1 Capital Ratio
Tier 1 Capital according to Article 25 CRR in % of the total risk amount according to Article 92(3) CRR.

Cost-Income Ratio
Operating expenses as a % of the operating income.

Risk Appetite Statement (RAS)
The RAS is a strategic explanation that describes the maximum risk that a company is prepared to take to achieve its goals.

Vienna, 26 February 2021

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

We draw attention to the fact that the English translation of this auditor's report according to Section 274 of the Austrian Commercial Code (UGB) is presented for the convenience of the reader only and that the German wording is the only legally binding version.

V. Auditors' Report

REPORT ON FINANCIAL STATEMENTS

Audit opinion

The Sparkassen-Prüfungsverband (Prüfungsstelle) and PwC Wirtschaftsprüfung GmbH, Vienna, – hereinafter referred to as "we" – have audited the financial statements of Erste Group Bank AG, Vienna, which comprise the balance sheet as at December 31, 2020, the income statement for the fiscal year then ended, and the notes.

In our opinion, the accompanying financial statements comply with legal requirements and give a true and fair view of the financial position of the Company as at December 31, 2020, and of its financial performance for the fiscal year then ended in accordance with the Austrian Company Code and the special legal requirements.

Basis for opinion

We conducted our audit in accordance with Regulation (EU) No. 537/2014 (hereinafter EU Regulation) and Austrian generally accepted auditing standards. Those standards require the application of the International Standards on Auditing (ISAs). Our responsibilities under those provisions and standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report.

We are independent of the Company in accordance with Austrian Generally Accepted Accounting Principles, the provisions of the Austrian Banking Act and professional requirements and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained until the date of this auditor's report is sufficient and appropriate to provide a basis for our opinion by this date.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the fiscal year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have structured key audit matters as follows:

- Description
- Audit approach
- Reference to related disclosures

1. Loss allowances for Loans and Advances to Customers (expected credit losses)

Description

Loss allowances represent management's best estimate of the credit losses expected with respect to the loan portfolio at balance sheet date.

The calculation of impairments is carried out in line with the FMA (Finanzmarktaufsicht – FMA) and AFRAC`s common position paper concerning the subsequent valuation in credit institutions by using the IFRS 9 model in the Commercial Code (UGB).

For loans and advances to customers in the amount of EUR 38 billion Erste Group Bank AG has recognised as of 31. December 2020 credit loss allowances in the amount of EUR 0.3 billion. Due to the underlying assumptions and estimates, determining of expected credit losses is inherently subject to substantial judgement applied by management.

Erste Group has implemented internal guidelines and specific processes to identify significant increases in credit risk as well as loss events. These processes rely significantly on quantitative criteria and involve management judgement.

The following methods are applied to determine the level of loss allowances using scenario-based discounted cash flow methods as required by IFRS 9:

_ For non-defaulted loans, loss allowances are generally determined collectively and measured at an amount equal to 12-month expected credit loss. If a significant increase in credit risk has occurred, loss allowances are measured as lifetime expected credit losses. Similarly, the lifetime expected credit losses are measured for those non-defaulted loans and advances whose credit risk at initial recognition could not be determined due to missing data at the IFRS 9 first-time adoption.
_ The collectively measured loan loss allowances are calculated considering the probability of default, the impact of forward-looking information and parameters that reflect the expected cash flows as well as the expected proceeds from the realisation of collateral. The applied parameters are estimated based on statistical models.
_ For defaulted loans considered to be significant at customer level, loss allowances are determined on a case-by-case basis. These loss allowances are calculated considering scenario probabilities, expected cash flows as well as expected proceeds from the realisation of collateral. This process involves significant judgement and management estimates.

The models used for determining loss allowances are specific to the types of loan portfolios. There are country-specific features both with regard to products and economic environment that are relevant to the respective loss estimate resulting in heightened complexity of models and input factors.

The uncertainty which is inherent to estimating expected credit losses significantly increased due to the imponderability of economic consequences of the Covid-19 pandemic.

To reduce the adverse economic consequences of the Covid-19 pandemic, numerous states have introduced relief programs in a variety of forms (e.g. moratoria, deferral options, support programs, hardship funds etc.). Those programs complicate a timely reflection of a potential deterioration of the loan portfolio and result in artificially low observed default rates. This has a negative effect on the predictive power of statistically determined default rates and the perceptibility of a significant increase in credit risk.

Erste Group Bank AG therefore introduced additional criteria on the basis of which customer groups were identified that potentially were specifically affected by the economic consequences of the pandemic, and individually assessed the customers within those groups as to whether a significant increase in credit risk occurred (Post Model Adjustment). Method and impacts of this portfolio stage transfer due to the Covid-19 pandemic are presented in note 34 of the consolidated financial statements.

With respect to the forward-looking information used for modelling expected credit losses, the heightened uncertainty about the future economic developments that results from the pandemic was reflected by using up-to-date macroeconomic assumptions and adapting the relative weight of the scenarios applied.

In addition to the adjustment of forward looking information, further adjustments to the estimation methodology applied for estimating credit risk parameters were required in Erste Group Bank AG's view with respect to the Covid-19 pandemic and the state relief packages.

Due to

_ the substantial judgement to be applied by management in defining of the Post Model Adjustments and determining and weighting macro-economic future scenarios,
_ a high degree of uncertainty due to the economic impact of the Covid-19 pandemic which led toa high degree of the auditor judgement,
_ the complexity of models and interdependent assumptions and the resulting audit effort and
_ the significance of credit loss allowances

we identified this area to be a key audit matter.

Audit approach

To assess the appropriateness of the expected credit losses, we:

_ updated our understanding of the Expected Credit Loss calculation methodology applied by Erste Group Bank AG based on policies, documentation and interviews and re-assessed its compliance with the requirements of IFRS 9. We focused on adjustments to methods and processes made in order to capture the increased uncertainties of the present and future environment due to the Covid-19 pandemic in expected credit losses.

_ evaluated control activities in credit risk management and lending business processes and tested key controls, notably with respect to the approval of loans, ongoing monitoring and early warning, especially the changes of processes made by management with respect to the early identification of defaults as well as the assessment of unlikeness to pay.
_ evaluated control activities and tested key controls in the area of rating models and collateral valuation.
_ evaluated model governance and validation processes and critically reviewed the information brought to the attention of the management. We have evaluated, with the help of our credit risk modelling experts, the model governance and validation processes as well as the results of back-testing and model validations.
_ evaluated the adequacy of credit risk parameters and models taking into consideration possible distortions of currently observed data due to state or private relief programs (e.g. low default rates due to payment moratoria) and local specifics, and critically assessed the plausibility of expectations and estimates, that have been introduced due to aforementioned distortions in order, to identify significant increases in credit risk of single customers or customer groups.
_ assessed the correctness of the stage allocation for a sample of loans based on applicable policies.
_ analyzed impacts of accounting specific model aspects.
_ evaluated whether the data for calculating expected credit losses are correctly incorporated in the impairment calculation by performing audit procedures on key controls and interfaces.
_ assessed the appropriateness and reasonableness of forward-looking information incorporated in the estimates. In this context, we have specifically compared the underlying macro-economic forecasts with external sources of information and critically assessed the individual weights attribute to scenarios.
_ tested, on a sample basis, whether default events have been identified in accordance with applicable policies and evaluated whether events occurred that significantly affect the borrower's ability to repay loans and advances. Furthermore, we tested, on a sample basis, the adequacy of individual loan loss allowances assessing the scenarios adopted and the estimates of expected cash flows made.

Reference to related disclosures:

For further details regarding the process of determining loss allowances as well as regarding the design of the models involved we refer to the management board's disclosures under item B. Credit Loss Allowances.

2. Total recoverability of deferred tax assets

Description

Erste Group Bank AG, together with its major domestic subsidiaries, forms a corporate tax group in accordance with Section 9 of the Corporate Income Tax Act (KStG). Erste Group Bank AG makes use of the option to capitalize deferred taxes on tax loss carry-forwards. The deferred tax assets as of December 31, 2020 consist of deferred tax assets for future claims from tax loss carry-forwards in the amount of EUR 32.6 million and temporary book value differences of EUR 47.2 million.

To determine the value of deferred tax assets, tax planning calculations, which are largely based on assumptions and estimates for the future development of the corporate tax group's tax results, are prepared together with the entities in the group.

The assumptions and estimates made in the context of preparing the budget are determined by future developments. The uncertainties inherent in the estimates when determining the recoverability of the deferred tax assets have increased significantly due to the uncertainties of the economic implications of the Covid-19 pandemic.

Due to
_ management's discretion in determining which future scenarios flow into the budget,
_ the complexity of determining the tax results at the level of the Austrian corporate tax group and the manual steps and adjustments involved, and
_ the high level of uncertainty due to the economic effects of the Covid-19 pandemic, which involves a high degree of auditor judgment,

we have identified this area as a key audit matter.

Audit approach

In order to assess the appropriateness of the recognition of deferred tax assets of Erste Group Bank AG, we have used tax specialists with the necessary industry knowledge and

- verified the changes (additions and disposals) of group members in the tax group.
- assessed the completeness of the main group members in the summarized tax plan.
- identified and assessed the process for determining the temporary differences between the corporate and tax balance sheets from which the deferred tax assets / liabilities arise.
- analyzed the timing of the reversal of the identified temporary differences.
- reconciled the profit-and-loss forecasts on which the above-mentioned impairment considerations are based for all material companies in the corporate tax group with budgets approved by the responsible oversight bodies and analyzed the assumptions and significant influencing factors regarding future developments underlying these forecasts , by means of benchmarking in order to judge the appropriateness and feasibility of the budget.
- reviewed the process and the documentation for reviewing historical adherence to budgets and the resulting adjustments of future budgets for selected companies.
- analyzed, understood, and critically assessed the adjustments made to the budget for tax planning.
- retraced book-to-tax calculation between the planned UGB and tax results.
- analyzed the recognition of losses incurred before the tax group was established for individual group members.
- critically assessed and reconciled the determination of the recoverable deferred tax assets with the calculation documents.
- reconciled the determined recoverable deferred tax assets with posted values.
- assessed the appropriateness and accuracy of the presentations and explanations of deferred taxes in the notes.

Reference to further information

We refer to the management board's disclosure under III.C.13 in the notes.

3.Recoverability of participating interests and shares in affiliated companies

Description

As of December 31, 2020, the book value of participating interests and shares in affiliated companies (hereinafter referred to as "participating interests") amounted to EUR 7.5 billion, with historical acquisition costs amounting to EUR 11.1 billion. The recoverability of these participations depends on expectations of the economic development of the respective companies as well as on the assumptions and parameters used in the measurement of the participating interests. Valuation results may lead to write-downs and write-ups.

Annual impairment tests are carried out to check the recoverability of existing book values.

When determining the current value using the discounted cash flow model - which is the predominantly used model - the future distributable profits are calculated based on planned results (budgets) approved by the relevant supervisory bodies of the associated companies, considering compliance with regulatory capital requirements. The existing uncertainties in the estimation of valuation of participating interests have increased significantly due to the imponderables of the economic implications of the Covid-19 pandemic.

Due to

- the discretion of the management in determining the future scenarios that flow into the budget,
- the high level of uncertainty due to the economic effects of the Covid-19 pandemic, which is accompanied by a high degree of auditing judgment,
- the complexity of the models and interdependent assumptions and the associated testing effort and
- the volume of participating interests

we have identified this area as a key audit matter.

Audit approach

In order to assess the appropriateness of the book values of participating interests and shares in affiliated companies of Erste Group Bank AG, we have with the support of valuation specialists with the necessary industry knowledge and regional expertise

- examined the key business processes in participation management. This also included the budget planning process at Erste Group Bank AG, Vienna, and major subsidiaries
- inquired and evaluated the internal process for approval and review of the valuation model parameters (e.g. risk-free interest rate, market risk premium, beta factors) as well as the valuations

- tested, on a sample basis, the valuation method used with regard to its technical and mathematical correctness to determine whether the valuation method used is in line with the business model of the affiliated company and the information available to Erste Group Bank AG, Vienna.
- Evaluated, on a sample basis, a summary of planning data for the three budget scenarios (base, best and worst case) that were used as a basis for the calculation of the appraised value,
  - understood and assessed the steps that were carried out to ensure the mathematical accuracy of budget data;
  - analyzed the key assumptions in the business plan and
    - verified plausibility of the derivation of key value drivers (by means of benchmarking),
    - compared the macroeconomic assumptions used for the future with independent economic forecasts,
    - reviewed the planning accuracy for past planning periods by comparing plan vs. actual values and interviewing employees responsible for variance analyses.
  - critically assessed probability weighting of the three scenarios.
- examined the derivation of key valuation model parameters as well as their up-to-dateness and checked their appropriateness using our own independently determined benchmarks by making an independent estimate of the base interest rate, the beta factor, the market risk premium, the country risk premium and the inflation differential.
- compared, on a sample basis, the appropriateness of planning figures and model parameters used in the valuation model with the approved budget figures and model parameters. Our focus here was particularly on the assumptions related to the perpetuity (especially growth rate and retention).
- reconciled determined impairments or appreciation in value with the posted write downs or write-ups, taking care that the acquisition cost principle is observed in the case of write-ups.
- evaluated the appropriateness and accuracy of the representations and explanations in the notes.

Reference to related disclosures

We refer to the management board's disclosure under III.B. and C.43 in the notes.

Other Information

Management is responsible for other information. Other information comprises any information included in the annual report, but does not include the financial statements, the management report and the auditor's report.

We obtained the corporate governance report in accordance with Section 243c UGB prior to the date of this auditor`s report, the rest of the annual report is expected to be made available to us after that date.

Our opinion on the financial statements does not cover other information and we will not express any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and the Audit Committee for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Austrian Company Code and the special legal requirements, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The audit committee is responsible for overseeing the Company's financial reporting process.

Auditor’s Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the EU Regulation and with Austrian generally accepted auditing standards, which require the application of ISAs, will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the EU Regulation and with Austrian generally accepted auditing standards, which require the application of ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit.
We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risks of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the audit committee with a statement that we have complied with all relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated to the audit committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor’s report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

Comments on the Management Report for the Company

Pursuant to the Austrian Company Code, the management report is to be audited as to whether it is consistent with the financial statements and as to whether the management report was prepared in accordance with the applicable legal requirements.

Management is responsible for the preparation of the management report in accordance with the Austrian Commercial Code and the special legal requirements.

We conducted our audit in accordance with Austrian Standards on Auditing for the audit of the management report.

Opinion

In our opinion, the management report for the Company was prepared in accordance with the applicable legal requirements, includes accurate disclosures pursuant to Section 243a UGB and is consistent with the financial statements.

Statement

Based on the findings during the audit of the financial statements and the obtained understanding concerning the Company and its circumstances no material misstatements in the management report came to our attention.

Additional Information in accordance with Article 10 of the EU Regulation

Pursuant to Sections 23 and 24 Austrian Savings Bank Act (SpG), the Sparkassen-Prüfungsverband (Prüfungsstelle) is the statutory auditor of Erste Group Bank AG, Vienna.

At the ordinary general meeting dated May 15, 2019 and pursuant to Section 1 (1) of the Auditing Rules for Savings Banks, Annex to Section 24 SpG, PwC Wirtschaftsprüfung GmbH, Vienna, was appointed as additional auditor for the financial year 2020 and, subsequently, was engaged by the supervisory board. At the ordinary general meeting dated November 10, 2020 PwC Wirtschaftsprüfung GmbH, Vienna, was appointed as additional auditor for the financial year 2021 and was engaged by the supervisory board. Since 2017 PwC Wirtschaftsprüfung GmbH, Vienna, has constantly been appointed as additional auditor.

We confirm that the audit opinion in the "Report on the Financial Statements" section is consistent with the additional report to the audit committee referred to in Article 11 of the EU Regulation.

We declare that we did not provide any prohibited non-audit services (Article 5 (1) of the EU Regulation) and that we remained independent of the audited company in conducting the audit.

Responsible Engagement Partner

Responsible for the proper performance of the engagement are Mr. Gerhard Margetich, Austrian Certified Public Accountant (Sparkassen-Prüfungsverband (Prüfungsstelle)), and Ms. Dorotea-E. Rebmann, Austrian Certified Public Accountant (PwC Wirtschaftsprüfung GmbH, Vienna).

Vienna, 26 February 2021

Sparkassen-Prüfungsverand
(Prüfungsstelle)

(Bank Auditor)

Gerhard Margetich mp
Austrian Certified Public Accountant

Stephan Lugitsch mp
Austrian Certified Public Accountant

PwC Wirtschaftsprüfung GmbH

Timo Steinmetz mp
Austrian Certified Public Accountant

Dorotea-E. Rebmann mp
Austrian Certified Public Accountant

This report is a translation of the original report in German, which is solely valid. Publication and sharing with third parties of the consolidated financial statements together with our auditor’s opinion is only allowed if the financial statements and the management report are identical with the German audited version. This audit opinion is only applicable to the German and complete financial statements with the management report. For deviating versions, the provisions of Section 281 (2) UGB apply.

VI. Statements of all members of the management board

We confirm to the best of our knowledge that the separate financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the parent company as required by the applicable accounting standards and that the management report gives a true and fair view of the development and performance of the business and the position of the company, together with a description of the principal risks and uncertainties the company faces.

Vienna, 26 February 2021

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