Key financial and operating data

Income statement (in EUR million)	2017	2018	2019	2020	2021
Net interest income	4,353.2	4,582.0	4,746.8	4,774.8	4,975.7
Net fee and commission income	1,851.6	1,908.4	2,000.1	1,976.8	2,303.7
Net trading result and gains/losses from financial instruments at FVPL	210.5	193.7	293.8	199.5	231.8
Operating income	6,669.0	6,915.6	7,255.9	7,155.1	7,742.0
Operating expenses	-4,158.2	-4,181.1	-4,283.3	-4,220.5	-4,306.5
Operating result	2,510.8	2,734.6	2,972.7	2,934.6	3,435.5
Impairment result from financial instruments	-132.0	59.3	-39.2	-1,294.8	-158.8
Other operating result	-457.4	-304.5	-628.2	-278.3	-310.5
Pre-tax result from continuing operations	2,077.8	2,495.0	2,329.7	1,368.0	2,933.4
Net result attributable to owners of the parent	**1,316.2**	**1,793.4**	**1,470.1**	**783.1**	**1,923.4**

Net interest margin (on average interest-bearing assets)	2.40%	2.30%	2.18%	2.08%	2.05%
Cost/income ratio	62.4%	60.5%	59.0%	59.0%	55.6%
Provisioning ratio (on average gross customer loans)	0.09%	-0.03%	0.02%	0.78%	0.09%
Tax rate	19.7%	13.3%	18.0%	25.0%	17.9%
Return on tangible equity	11.5%	15.2%	11.2%	5.1%	12.7%
Earnings per share (in EUR)	2.94	4.02	3.23	1.57	4.17

Balance sheet (in EUR million)	Dec 17	Dec 18	Dec 19	Dec 20	Dec 21
Cash and cash balances	21,796	17,549	10,693	35,839	45,495
Trading, financial assets	42,752	43,930	44,295	46,849	53,211
Loans and advances to banks	9,126	19,103	23,055	21,466	21,001
Loans and advances to customers	139,532	149,321	160,270	166,050	180,268
Intangible assets	1,524	1,507	1,368	1,359	1,362
Miscellaneous assets	5,929	5,382	6,012	5,830	6,090
Total assets	**220,659**	**236,792**	**245,693**	**277,394**	**307,428**
Financial liabilities held for trading	3,423	2,508	2,421	2,625	2,474
Deposits from banks	16,349	17,658	13,141	24,771	31,886
Deposits from customers	150,969	162,638	173,846	191,070	210,523
Debt securities issued	25,095	29,738	30,371	30,676	32,130
Miscellaneous liabilities	6,535	5,381	5,437	5,840	6,902
Total equity	18,288	18,869	20,477	22,410	23,513
Total liabilities and equity	**220,659**	**236,792**	**245,693**	**277,394**	**307,428**

Loan/deposit ratio	92.4%	91.8%	92.2%	86.9%	85.6%
NPL ratio	4.0%	3.2%	2.5%	2.7%	2.4%
NPL coverage ratio (based on AC loans, ex collateral)	68.8%	73.4%	77.1%	88.6%	90.9%
Texas ratio	29.2%	24.5%	19.9%	20.3%	18.3%
Total own funds (CRR final, in EUR million)	20,337	20,891	21,961	23,643	24,758
CET1 capital ratio (CRR final)	12.9%	13.5%	13.7%	14.2%	14.5%
Total capital ratio (CRR final)	18.2%	18.1%	18.5%	19.7%	19.1%

About the share	2017	2018	2019	2020	2021
Shares outstanding at the end of the period	429,800,000	429,800,000	429,800,000	429,800,000	429,800,000
Weighted average number of outstanding shares	426,679,572	426,696,221	426,565,097	426,324,725	426,246,662
Market capitalisation (in EUR billion)	15.5	12.5	14.4	10.7	17.8
High (in EUR)	37.99	42.38	37.07	35.6	41.95
Low (in EUR)	27.46	28.10	28.23	15.34	24.80
Closing price (in EUR)	36.105	29.05	33.56	24.94	41.35
Price/earnings ratio	11.8	7.0	9.8	13.7	9.2
Dividend per share (in EUR)	1.20	1.40	0.00	1.50	1.60
Payout ratio	39.2%	33.6%	0.0%	82.3%	35.8%
Dividend yield	3.3%	4.8%	0.0%	6.0%	3.9%
Book value per share	30.0	31.1	32.9	34.0	36.7
Price/book ratio	1.2	0.9	1.0	0.7	1.1

Additional information	Dec 17	Dec 18	Dec 19	Dec 20	Dec 21
Employees (full-time equivalents)	47,702	47,397	47,284	45,690	44,596
Branches	2,565	2,507	2,373	2,193	2,091
Customers (in million)	16.1	16.2	16.6	16.1	16.1

CRR: Capital Requirements Regulation

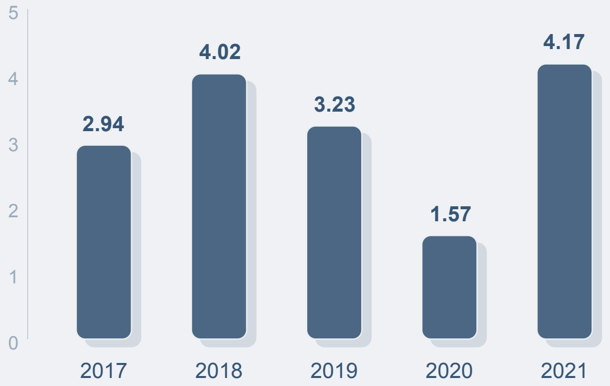
Shares outstanding include Erste Group shares held by savings banks that are members of the Haftungsverbund (cross-guarantee system).

The dividend for the financial year 2020 was paid in two tranches. On 19 May 2021, the annual general meeting resolved to pay a dividend of EUR 0.5 per share. An additional EUR 1 per share was reserved for a potential later payment. After expiry of the ECB recommendation, this dividend was paid in December 2021 as resolved by the extraordinary general meeting of 25 November 2021.

Financial data

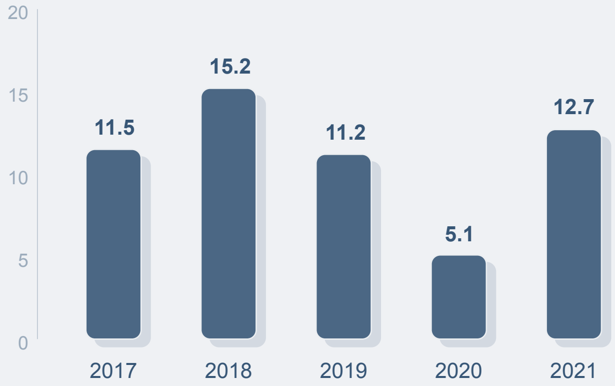
Earnings per share

in €

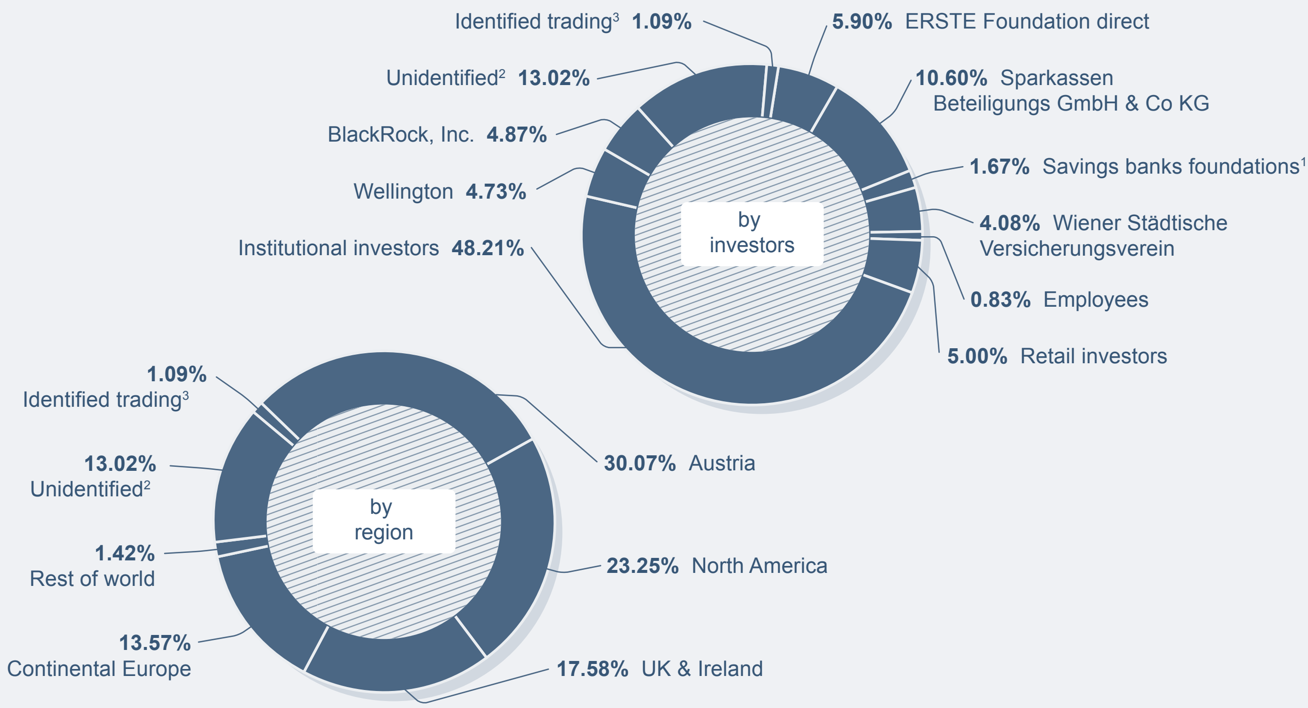


Return on tangible equity, ROTE

in %



Shareholder structure as of 31 December 2021



¹ Syndicated savings banks foundations, own holdings of savings banks, Erste Employees Foundation
² Unidentified institutional and retail investors
³ Incl. market makers, prime brokerage, proprietary trading, collateral and stock lending position reported through custodian banklists

Cost/income ratio

in %

Net interest margin

in %

Financial calendar

29 April	Results for the first quarter 2022
8 May	Record date Annual General Meeting
18 May	Annual General Meeting
23 May	Ex-dividend day
24 May	Record date dividend
25 May	Dividend payment
1 August	Half-year financial report 2022
4 November	Results for the first three quarters 2022

Ratings
as of 31 December 2021

Fitch	
Long-term	A
Short-term	F1
Outlook	Stable

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

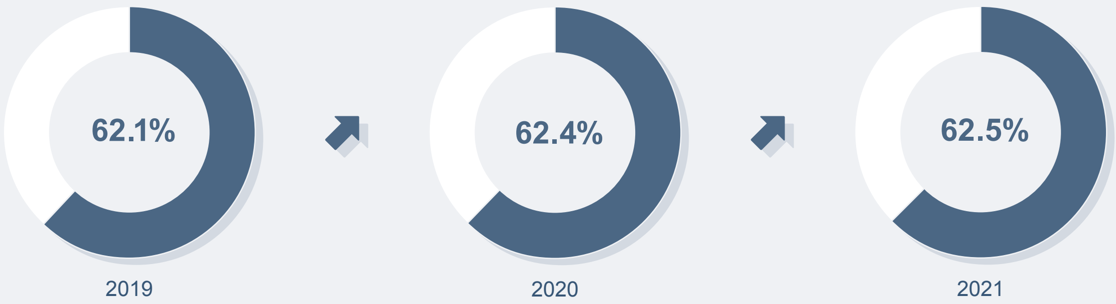
Standard & Poor´s	
Long-term	A+
Short-term	A-1
Outlook	Stable

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

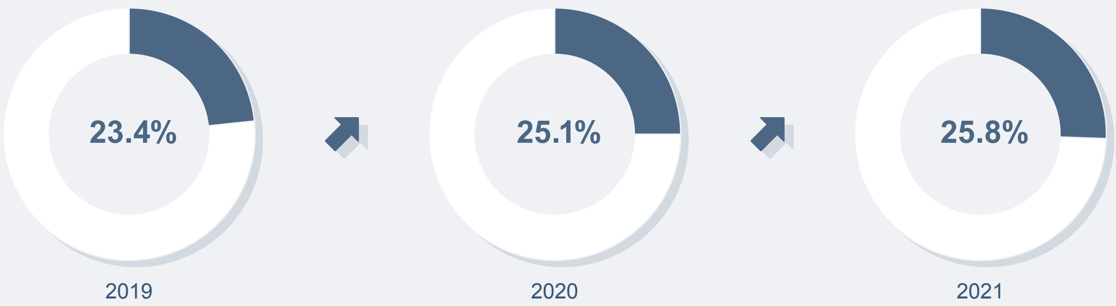
Non-financial data

Share of women

Female employees



Topmanagement



Social Banking until 2021

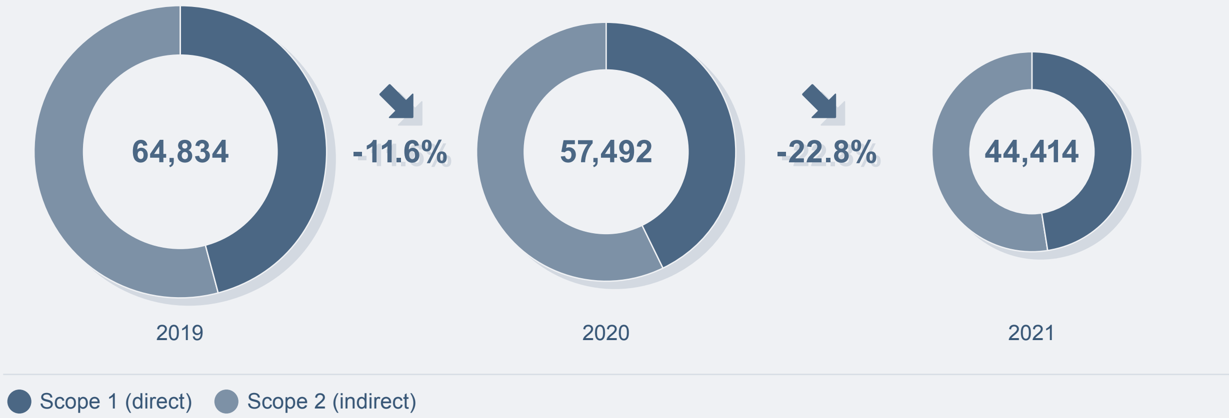
34,000
clients received education and mentoring

38,000
clients supported

417 mln €
disbursed loans

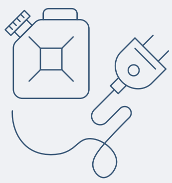
Greenhouse gas emissions

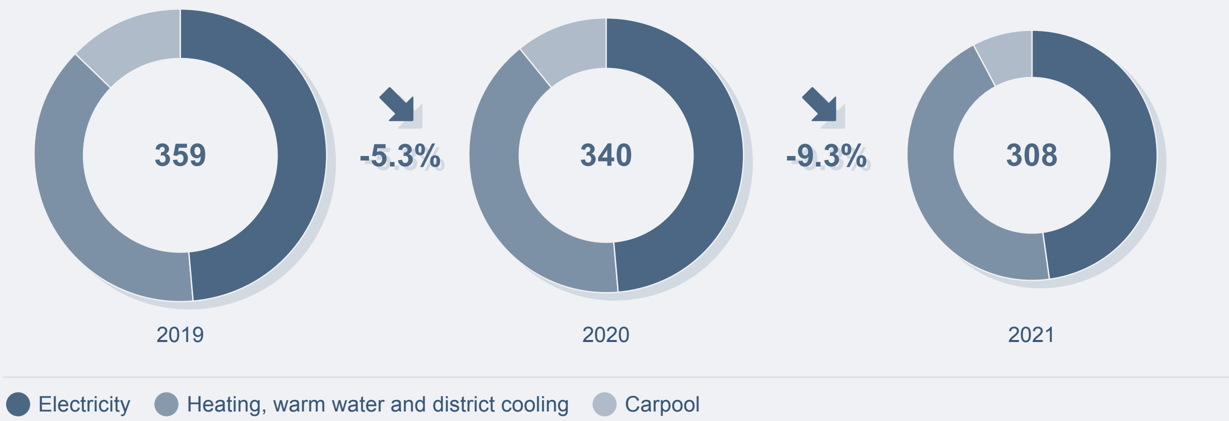
in tonnes CO_2e



Energy consumption

in GWh





CO_2e: CO_2-equivalents are the sum of all greenhouse gas emissions, e.g. carbon dioxide, methane and nitrogen oxide
Scope 1: Direct greenhouse gas emissions from burnt natural resources (e.g. heating oil, petrol)
Scope 2: Indirect greenhouse gas emissions from energy production (e.g. electric energy, district heating)

Highlights

Best result in Erste Group's history

_ Net result of EUR 1,923.4 million
_ Local banks in all core markets are profitable
_ Dividend of EUR 1.6 per share proposed to AGM

Operating result rises significantly by 17.1%

_ Operating revenues increase by 8.2%
_ Net interest income up by 4.2% thanks to loan growth and interest rate hikes in CEE
_ Fee and commission income up by 16.5%, reaches record level
_ Operating expenses increase moderately by 2.0%
_ Cost/income ratio improves to 55.6%

Loan growth continues

_ Net loans increase by 8.6% to EUR 180.3 billion
_ Most visible volume growth in Austria and Czech Republic

Solid asset quality

_ NPL ratio improves to 2.4%, the lowest level since the IPO
_ NPL provision coverage at 90.9%
_ Low risk costs of 9 basis points (on average gross customer loans)

Favourable capitalisation

_ CET1 ratio (CRR final) increases to 14.5%
_ Capital significantly above regulatory requirements and internal target

Excellent funding and liquidity position

_ Strong retail deposit base in all core countries is key trust indicator and competitive advantage
_ Loan-to-deposit ratio at 85.6%
_ Issuance of Erste Group's inaugural sustainability bond
_ All local banks successfully placed MREL-related issuances (Hungary in the first quarter 2022)

Editorial deadline: 28 February 2022, unless stated otherwise

Table of contents

Management board

David O'Mahony

Ingo Bleier

Bernhard Spalt

Stefan Dörfler

Alexandra Habeler-Drabek

Maurizio Poletto

Letter from the CEO

Dear shareholders,

With a net profit of EUR 1,923.4 million, Erste Group posted an excellent result for the year 2021. In our region – Central and Eastern Europe – the year was marked by economic recovery despite Covid-19-induced restrictions imposed by government authorities. The strong pace of the economic rebound enabled us to generate solid operating results in all of our core markets.

Contributions came from all income components: an encouraging rise in net interest income attributable to loan growth (with net loans up 8.6%), interest rate hikes in several CEE core markets as well as record-level net fee and commission income. At the same time, risk costs remained very low. Asset quality was even slightly up and at 2.4%, the NPL ratio was at its lowest level since Erste Group's IPO. With the common equity tier 1 ratio at 14.5% at the end of December, capitalisation was also very good.

Due to temporary restrictions mandated by the ECB, the dividend of EUR 1.5 per share for the 2020 financial year was paid out in two tranches. For the 2021 financial year, the management board will propose a dividend of EUR 1.6 per share at the annual general meeting.

A year marked by economic recovery

In 2021, the overall economic environment developed significantly better in Austria and CEE than originally forecast. Our core markets recorded economic growth of between 3.0% in Slovakia and 10.4% in Croatia. While at the beginning of the year, pandemic-induced restrictions were still delaying the recovery of the economy, their adverse impact on economic performance was less severe than in the previous year. In this context, government support programmes for businesses proved helpful as they averted the much-feared wave of corporate insolvencies in the wake of the Covid-19 crisis. In the course of the year, growth forecasts were raised several times despite challenges such as international supply chain disruptions. Unemployment rates declined in all of the core markets except Serbia. Higher tax revenues driven by the rebound of the economy and the expiry of Covid-19 government support had a beneficial impact on public deficits. In response to rising inflation pressure, the central banks of the Czech Republic, Hungary and Romania started hiking their policy rates earlier than expected already in June. The ECB, on the other hand, confirmed that it would continue its low-interest-rate policy. Lower tax revenues and increased social spending will, however, continue to weigh on national budgets. As the economy performed better than forecast, the NPL ratio reached a historic low at 2.4% at the end of December 2021.

Well-balanced loan growth, digital transformation progressing

All customer segments posted strong growth in 2021. In the retail business, demand for mortgage loans remained very strong while demand for consumer loans was still subdued. The inflow of deposits remained robust. Prosperity advice – Erste Group's financial advisory service designed to help our customers achieve and maintain prosperity – has been enjoying growing popularity amid the euro zone's low-interest-rate environment. Clients were increasingly asking about options for green as well as socially responsible investing. Favourable market conditions supported the positive trend in the securities business and in asset management. Our popular digital platform George can now be accessed in all of our core markets, with the exception of Serbia, and has been recording a steady rise in the number of digital users and digital transactions. Across the Group, nearly eight million clients were using George by year-end 2021. Advisory services offered at the branches also continued to be well received. We are currently working on the rollout of a powerful target-group-specific digital platform for our SME clients. In the corporate segment, loan growth was still seen mainly in the large corporate business. We generally recorded increased interest in the theme of sustainability. Overall, loans to customers were up 8.6% to EUR 180.3 billion. The ongoing strong rise in retail and corporate customers' deposits reduced the loan-to-deposit ratio to 85.6%, though.

Operating result better than expected

Erste Group's traditionally most important income category – net interest income – improved to EUR 4,975.7 million in 2021. Net interest income was driven by solid loan growth across all core markets as well as rate hikes in several CEE countries, most importantly the Czech Republic, our second-largest loan market. Another positive contribution came from favourable ECB funding (TLTROs). I wish to highlight in particular the extremely positive development in net fee and commission income. The broad-based rebound of the economy boosted all major fee and commission income categories in all core markets, with significant double-digit growth in payment services, asset management and brokerage commissions. At the same time, operating expenses were up less sharply, by 2.0%, despite accelerated inflation. Due to strict cost discipline, we did not have to make any cuts in rolling out and developing George, our popular digital platform. At EUR 3,435.5 million, the operating result was up 17.1% year-on-year and better than projected. Regulatory costs (banking and transaction levies, contributions to resolution funds and deposit insurance systems) declined by 11.3% to EUR 304.5 million in 2021. The cost/income ratio improved significantly to 55.6%, thus already coming very close to the target initially set for 2024.

Risk costs at low level

Asset quality improved in 2021 to the best level seen since Erste Group's IPO in 1997. At year-end, the NPL ratio stood at 2.4%. Risk costs were consequently low. Overall, (net) provisions were set aside in the amount of EUR 158.8 million in 2021, which is the equivalent to a provisioning ratio of nine basis points of average gross customer loans.

Solid capitalisation and dividend proposal

I would particularly like to highlight the strong capitalisation of Erste Group: at 14.5% at the end of December 2021, the common equity tier 1 ratio (final) was again excellent and substantially above our target of 13.5% as well as far above the regulatory minimum requirement. In addition to sustainable profitability, a strong capital base is important as it is the precondition for the bank's ability to grow and pay dividends.

The management board and the supervisory board will propose to the annual general meeting, which will be held on 18 May 2022, the distribution of a cash dividend of EUR 1.60 per share for the 2021 financial year.

Financial health is the basis for sustainable prosperity

Erste Group's strategy has not changed since it was founded more than 200 years ago. We consider it our mission to build prosperity, regardless of status, nationality, faith, gender or age. We look after our retail and corporate customers and support the civil society and the economy of the region in which we operate.

We believe in the people, the businesses and our markets in Central and Eastern Europe. This means for us that freedom and prosperity are and must be inseparably connected. We are convinced that strong civil societies are the key to coping with the challenges of our time and pave the way to social stability in our region. This is the basis for sustainable economic activity. It is with this in mind that we keep developing our range of products and services.

ESG is, therefore, more for us than just a catchphrase

Last year also saw increased global awareness that action taken to combat climate change and global warming is needed both for ecological and socio-economic reasons. As we believe that a high degree of attention needs to be paid not only to ecological, but also to social and governance goals, the focus in our social banking will continue to be on themes such as social inclusion, support for the social sector and facilitating job creation.

In 2021, we defined four pillars as a strategic framework for ESG themes – sustainable finance, working together for a sustainable future, good corporate citizenship and operations, and employee engagement – and already launched key activities. We joined the Net-Zero Banking Alliance and announced our goal of becoming climate-neutral by 2023. For the portfolio, we aspire to achieve climate neutrality by 2050.

Further information on Erste Group's numerous sustainability initiatives, climate change indicators and our goals are provided in the non-financial report, which constitutes part of the 2021 annual report. In the future, we are going to brief you in even more depth on the ecological, social and governance themes that are of relevance to us.

It is of special importance to me to thank the employees of Erste Group for their personal commitment. Your dedication and our conviction to support our customers even in challenging times have helped us to strengthen our position in the CEE region. With a new employee share programme we will turn employees of Erste Group into co-owners and thus enable them to participate, like our shareholders, in the future success of Erste Group.

Bernhard Spalt mp

Report of the supervisory board

Dear shareholders,

Despite temporary restrictions due to the pandemic, the economic recovery clearly gathered steam in our core markets in the financial year 2021. In this sometimes volatile environment we as Erste Group, in addition to our core activities, also pursued initiatives addressing environmental and social as well as societal matters. We believe that as a credit institution we not only have the obligation to support our customers' financial health but also have to – and will – give full consideration to the protection of the environment and sustainability in our corporate decision-making. A detailed report on ESG action and activities is provided in the management's non-financial report.

In the financial year ended, the supervisory board extensively discussed and monitored the continuing development of the Group's strategy with a focus on growth, digital transformation and efficiency, both in the course of supervisory board meetings and in dedicated workshops.

In addition, the supervisory board, working with outside consultants, also reflected on its own role, with the findings used as inputs for the supervisory board's work.

The supervisory board approved the launch of a group-wide employee share programme which, in recognition of employee performance, will allow them to directly participate in Erste Group's profit and will support its implementation in 2022.

Despite ongoing obstacles to in-person meetings due to the Covid-19 pandemic, the supervisory board continued its work as usual. All meetings that had been planned or had to be scheduled ad hoc were held virtually or in hybrid format. Matters that required our attention were dealt with in depth and the required resolutions were passed.

In the financial year ended, there was one change in the management board: Thomas Schaufler resigned from the management board as of 31 October 2021 to pursue new challenges abroad. After consideration of the requirements, the nomination committee and the supervisory board will take a decision on a successor at the appropriate time. Until such date Ingo Bleier will be performing the responsibilities of the Retail board member in addition to his own duties. The supervisory board extended the management board mandate of Ingo Bleier in December 2021 until 30 June 2026.

We were pleased to welcome Michael Schuster, a recognised IT and start-up expert who had been elected at the annual general meeting on 19 May 2021, as a new member of the supervisory board. Jack Stack's mandate, on the other hand, expired as of the end of that annual general meeting and was not extended due to the age limit for supervisory board members specified in the articles of association of Erste Group Bank AG. Jack Stack took an active part in shaping Erste Group's fortunes and served it for many years. The successful development of Erste Group is also attributable to his work, for which I wish to thank him very cordially. As chairman of the supervisory board and personally I wish him well for the future.

Matthias Bulach and Jordi Gual Solé resigned from their mandates at year-end 2021 after CaixaBank had sold its stake in Erste Group Bank AG. We also wish to thank these two members very warmly for the many years of support and work on the supervisory board.

As regards the composition and independence of the supervisory board, the criteria for its independence, its working procedures, the number and type of committees and their decision-making powers, the meetings of the supervisory board and the main focus of its activities, please refer to the (consolidated) corporate governance report drawn up by the management board and reviewed by the supervisory board. As regards the activities of the audit committee, please also refer to its separate report. In the course of 47 supervisory board and committee meetings, the management board promptly and comprehensively informed the supervisory board. This allowed us to act in accordance with the mandate laid down in the law, the articles of association and the Austrian Code of Corporate Governance, as well as to ascertain the proper conduct of business.

In 2021, Erste Group made two dividend payouts for the previous financial year: the first one based on the resolution of the annual general meeting of 19 May 2021, and a second one based on the resolution of the extraordinary general meeting of 25 November 2021 after the expiry of the ECB's recommendation to refrain from dividend payouts until 30 September 2021 and/or to limit any distribution of dividends in accordance with set criteria. Both times, the supervisory board approved the proposed appropriation of profit.

The financial statements (consisting of the balance sheet, income statement and notes) and the management report as well as the consolidated financial statements and the group management report for 2021 were audited by Sparkassen-Prüfungsverband, the legally mandated auditor, and by PwC Wirtschaftsprüfung GmbH, the elected supplementary auditor, and received an unqualified audit opinion. Representatives of both auditors attended the financial statements review meetings of the audit committee and the supervisory board and presented their comments on the audits they had conducted. Based upon its own review, the supervisory board endorsed the findings of these audits and agreed to the proposal for appropriation of the profit of the 2021 financial year.

PwC Wirtschaftsprüfung GmbH was also mandated with the voluntary audit of the (consolidated) corporate governance report for 2021. Deloitte Audit Wirtschaftsprüfungs GmbH was contracted to perform an audit of the (consolidated) non-financial report for 2021. The supervisory board has approved the financial statements and these have thereby been duly endorsed in accordance with section 96 para 4 of the Austrian Stock Corporation Act (Aktiengesetz). The management report, consolidated financial statements, group management report, (consolidated) corporate governance report and the (consolidated) non-financial report have also been reviewed by the supervisory board and accepted on the basis of the audit reports received by the supervisory board.

We thank the management board and all employees of Erste Group for their great dedication and exceptional commitment, which enabled Erste Group to offer our customers the best possible support despite the challenges caused by the pandemic and to post a highly satisfactory result for the year 2021.

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

Report of the audit committee

Dear shareholders,

The audit committee is one of six committees established by Erste Group Bank AG's supervisory board. Its mandate is derived from the law, the rules of the Austrian Code of Corporate Governance (CCG) and its internal rules. The audit committee comprised six shareholder representatives and three members delegated by the employees' council as of 31 December 2021.

The audit committee held seven meetings in 2021 and, in addition, held one informal meeting to prepare for the meeting on the audit of the (consolidated) financial statements. The meetings were attended by those management board members responsible for accounting, controlling and risk management as well as the representatives of Erste Group Bank AG's auditors and, as required, representatives of the auditors of key (foreign) subsidiaries. Responsible division heads were also invited to attend as permanent guests or to attend as guests in discussions on specific agenda items.

The chairman of the audit committee, also the financial expert, regularly conducted one-on-one meetings with, amongst others, the auditors (Sparkassen-Prüfungsverband as the legally mandated bank auditor and PwC as additional auditor elected by the annual general meeting), members of the management board, the head of internal audit, the head of group compliance and with other division heads as required. The chairman of the audit committee informed the supervisory board on the committee's activities and the subject matters of its meetings and discussions at the respective subsequent supervisory board meetings.

The Covid-19 pandemic continued to impact the work of the audit committee in 2021. In its meetings, the audit committee again dealt in depth with current developments in Erste Group and in the markets in which it operates. Particular attention was paid to specific legal rules and regulations and the potential impacts of their implementation on the 2021 single-entity and consolidated financial statements (e.g. impact of government support programmes and loan moratoria on the expected level of non-performing loans). Sustainability was likewise another major topic for the audit committee in 2021, which also selected the external auditor of the non-financial report. The requirements of the Regulation (EU) 2020/852 for the assessment of sustainable investment (Taxonomy-Regulation) and their implementation in Erste Group have been intensively discussed with the operating departments. The key performance criteria of the management board now also include strengthened sustainability-related values. In 2022, sustainability reporting and auditing will still be one of the priorities of the audit committee. Pursuant to section 30g para 4a no 3 Austrian Limited Liabilities Companies Act, the audit committee of Erste Group Bank AG also performed the tasks and duties of the audit committee of Erste Digital GmbH, an entity in which Erste Group Bank AG holds an interest of more than 75%, for the first time for the financial year 2021.

In 2021, the audit committee also considered the following topics: After receipt of the auditors' report on the (Group) financial statements for 2020, the audit committee held the final discussion, reviewed the (Group) financial statements and the (Group) management report, the (consolidated) non-financial report as well as the (consolidated) corporate governance report and recommended to the supervisory board the approval of the annual financial statements, setting out how the annual audit had strengthened the reliability of financial reporting and describing the role played by the audit committee.

The decision on a dividend proposal to the supervisory board for the 2020 financial year was initially taken in March 2021 after extensive deliberations and in line with the recommendation issued by the European Central Bank. In October 2021, the audit committee, after careful consideration, recommended to the supervisory board the payment of another dividend.

Furthermore, the additional report of the auditors pursuant to Article 11 of Regulation (EU) 537/2014 was taken note of. Key audit matters were discussed with the auditors in the course of audit planning and are covered in the auditors' report. The findings and status of the annual audit were discussed with representatives of the auditors in an ongoing process. Key audit matters relating to subsidiaries were likewise discussed in depth and commented on with regard to their impact on the consolidated financial statements. The findings of the review of the half-year financial statements were taken note of. The exchange of views between the audit committee and the (Group) auditors in the absence of the management board (Rule 81a of the Austrian CCG) was conducted in December 2021. The auditors' report on the assessment of the effectiveness of risk management was delivered.

The auditors' observations and recommendations (management letter) and the respective views of the management board were discussed comprehensively. To monitor the auditor's independence, group accounting regularly reported to the audit committee, and non-audit services rendered by the auditors were approved in advance after careful review. In December 2021, it was decided to recommend to the supervisory board to propose at the annual general meeting the renewal of the audit mandate of PwC Wirtschaftsprüfung GmbH as additional (Group) auditor for the 2023 financial year. The annual report of group regulatory compliance was taken note of. The audit committee was presented with reports on the current status of major projects on data management, credit risk models and IT matters of relevance to the audit committee in an ongoing process.

After on-site inspections conducted by supervisory authorities, the audit committee acknowledged the audit report and the report on the contents of the plan to address the supervisory authorities' findings and, where necessary, requested to be briefed on the current status of implementation. Internal audit submitted reports on the result of the (internal) quality assurance programme and resolution-related audits. The joint supervisory team of the regulatory authorities was informed about the audit committee’s work in a meeting with the chairman of the audit committee and the supervisory board.

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

For the audit committee,
Friedrich Rödler mp

Erste Group on the capital markets

Most of the global stock markets covered registered double-digit growth in the year ended and were hovering near all-time highs for months. This development was driven by the faster-than-expected recovery of the economy after the crisis year of 2020 and better-than-expected growth of corporate results. Both companies and economists upgraded their revenues and earnings outlooks and economic growth forecasts. Later in the year, as the economy gathered steam, a significant rise in energy prices caused by strong demand and supply chain disruptions, particularly in semi-conductors and raw materials, significantly pushed up inflation. In the euro zone, inflation was running at 4.9%, more than twice the 2% target set by the European Central Bank (ECB) and the highest rate since records started in 1997. US inflation likewise surged to the highest level seen in decades to 6.8%. Expectations of interest rate increases and an early end to the central banks' ultra-loose monetary policies rose due to strong inflation. At year-end, the focus of market participants was again on the continuing Covid-19 pandemic fuelled by a new virus variant and potential containment measures as well as on geopolitical issues, including most prominently the conflict between Russia and the Ukraine.

EQUITY MARKET REVIEW

Solid stock market performance

After the corona-induced crisis, the uptrend in stock markets continued in 2021, resulting in strong gains. Supported by positive corporate news as well as monetary and fiscal policy measures, both the US and a number of European indices hit record levels. The US stock markets closed near their recent record highs. At 36,338.30 points, the Dow Jones Industrial Average Index was up 18.7% year-on-year. The broader Standard & Poor's 500 Index even gained 26.9% in the reporting year, rising to 4,766.18 points. In Europe, the Euro Stoxx 600 Index advanced 22.2%, ending the reporting period at 487.8 points. The Austrian stock market was up even more sharply. Over the past year, the Austrian Traded Index (ATX) beat all stock markets covered by gaining 38.9%.

Central bank's start turnaround in interest rates

In response to the economic impacts of the corona-induced crisis, major central banks provided the markets with large amounts of liquidity by pursuing low-interest-rate policies and massively expanding their balance sheets. As the recovery of the economy has been progressing and, most importantly, inflation is running high, driven in part by supply-chain disruptions caused by the pandemic and soaring energy prices, indications have emerged that the central banks are now ready to gradually phase out the extremely loose monetary policies of the past two years. After first interest rate hikes in Central and Eastern Europe, the Bank of England likewise initiated its interest rate turnaround in December and raised its key rate. The US Federal Reserve (Fed) recently announced the end of its crisis policies. Beginning in January, the Fed started to reduce the volume of its bond purchase programme to support the economy, the economic stimulus is to stop in March 2022. The Fed also announced that it may raise interest rates in 2022. The ECB plans to slow and, in due course, terminate asset purchases under its Pandemic Emergency Purchasing Programme (PEPP). The interest rate of 0.0% is not to be raised for the time being.

Economy on its road to recovery, but risks remain

After the economic downturn of 2020, the global economy continued its recovery in 2021 even though the vigorous rebound seen at the beginning of the year has been slowing in recent months. Supply-chain disruptions, rising energy and commodity prices and the ongoing impacts of measures deployed to contain the pandemic are posing risks. The International Monetary Fund (IMF) expects global economic growth of 5.9% for 2021 and 4.5% for 2022. The Euro zone countries should see growth of 5.2% in the year ended and 4.3% in 2022, while the US is expected to record growth of 5.6% in 2021 and 3.7% in 2022.

Banking index substantially up

In line with international stock markets, bank shares were also trending up, gaining more than 20% in the reporting year, which more than offset the losses previously suffered. The European banking index benefited from the signs of an economic recovery and the prospect of a normalisation of interest rates as well as from the withdrawal of the ECB's recommendation that banks refrain from dividend payouts and share buybacks. In the reporting period, the Dow Jones Euro Stoxx Bank Index, which is composed of the leading European bank shares, rose 36.2% to 100.44 points.

Austrian Stock Market as global leader in its anniversary year

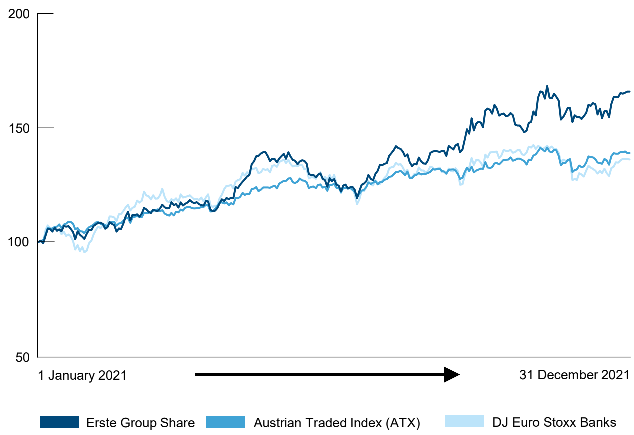
In 2021, the Vienna Stock Exchange celebrated not only its 250th anniversary but also a record year. In the year ended, the ATX gained 38.9%, thus significantly outperforming other capital markets. The index benefited from upbeat international investor sentiment and its strong weighting of financials and cyclicals. Surpassing the 3,800-point mark, the index hit a new 10-year high. At year-end, it closed at 3,861.06 points.

ERSTE GROUP SHARE

Erste Group with second highest price gain since IPO

In the year ended, the Erste Group share rose 65.8% after having lost more than a quarter of its value in the preceding year. This was the second-strongest gain in the share's track record since 1997 – in 2012 it had posted a 76.8% rise. The share price climbed from EUR 24.94 at year-end 2020 to a closing price of EUR 41.35 at year-end 2021. It marked its low at EUR 24.80 on 5 January 2021 and its high of EUR 41.95 on 11 November. In addition to the general uptrend in bank share prices, this performance was driven by an operating result that beat consensus estimates, asset quality development and risk provisions that were significantly better than expected at the onset of the crisis and an improved economic outlook in the Central and Eastern Europe core markets. The return to a progressive dividend policy was also appreciated by market participants.

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



Performance of the Erste Group share versus indices

	Erste Group share	ATX	DJ Euro Stoxx Banks Index
Since IPO (Dec 1997)	273.1%	195.9%	-
Since SPO (Sep 2000)	251.9%	230.4%	-71.4%
Since SPO (Jul 2002)	137.3%	216.6%	-60.0%
Since SPO (Jan 2006)	-8.1%	-0.9%	-73.5%
Since SPO (Nov 2009)	42.6%	48.2%	-55.9%
2021	65.8%	38.9%	36.2%

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

Change in Erste Group's shareholder structure

In early November, CaixaBank sold its 9.92% stake in Erste Group. This move had been expected after CaixaBank's merger with Bankia, which created Spain's biggest financial institution. The syndicate led by ERSTE Foundation and including Sparkassenbeteiligungs GmbH & Co KG, savings banks foundations, Wiener Städtische Wechselseitiger Versicherungsverein and Erste Mitarbeiterbeteiligung Privatstiftung will remain the stable leading shareholder of Erste Group. As of 31 December 2021, the syndicate held a total stake of 22.25%.

Number of shares, market capitalisation and trading volume

In the year ended, the number of shares of Erste Group Bank AG remained unchanged at 429,800,000. At year-end 2021, Erste Group's market capitalisation stood at EUR 17.8 billion, 65.8% up on year-end 2020 (EUR 10.7 billion).

In the reporting year, trading volume on the three stock exchanges (Vienna, Prague, Bucharest) on which the Erste Group share is listed averaged 807,244 shares per day.

Sustainability indices and ratings

The Erste Group share has been part of VÖNIX, the Vienna Stock Exchange's sustainability index, since its launch in 2008. Since 2011, the Erste Group share has been included in the STOXX Global ESG Leaders Index, which represents the best sustainable companies world-wide on the basis of the STOXX Global 1800. Since 2016, the Erste Group share has been included in the FTSE4Good Index Series, since 2017 in the Euronext Vigeo Index: Eurozone 120. In addition, Erste Group has held prime status in the ISS ESG corporate ratings since 2018. MSCI has rated Erste Group with AA. Since February 2021, Sustainalytics has assessed Erste Group to be at low risk of experiencing material financial impacts from ESG factors. As the sole Austrian and one of only three companies in the CEE region, Erste Group was again listed in Bloomberg's Gender Equality Index (GEI) in 2021.

DIVIDEND

Erste Group's dividend policy is guided by the Bank's profitability, growth outlook and capital requirements. Complying with the ECB's recommendation to suspend or limit dividend payments until 30 September 2021, Erste Group did not distribute any dividend for the financial year 2019 and carried its net profit forward. The dividend for the financial year 2020 was paid in two tranches. On 19 May, the annual general meeting agreed to pay a dividend of EUR 0.5 per share. An additional EUR 1 per share was reserved for a potential later payment. After expiry of the ECB recommendation, this dividend was paid in December as resolved by the extraordinary general meeting of 25 November.

RATINGS OF ERSTE GROUP BANK AG

Due to the positive development Standard & Poor's raised the outlook from stable to positive, keeping the rating at A/A-1. In December, it upgraded the rating to A+/A-1 with a stable outlook. Fitch raised the outlook from negative to stable, the rating was left unchanged at A/F1. Moody's kept its rating at A2/P-1 with a stable outlook.

FUNDING ACTIVITIES

In 2021, the focus of the activities was in particular on the issuance of senior preferred bonds. In January 2021, Erste Group started with the placement of a EUR 500 million 10-year senior preferred bond at MS+55bp, with the selected maturity completing the maturity profile at the long end for this seniority. Another highlight followed in May with the issuance of Erste Group's first sustainability bond (EUR 500 million 7-year at MS+35bp). In addition to meeting all the criteria for a green bond, the selected loan portfolio also emphasised Erste Group's social focus. In September, another EUR 500 million 8-year senior preferred bond was issued at MS+45bp. After an absence of almost 10 years, Erste Group returned to the CHF capital markets with the successful placement of a CHF 200 million senior preferred bond (maturity of five years, SARON+41bp). In November, a favourable issuance window was used to place a EUR 500 million Tier 2 bond (11NC6) at MS+110bp.

INVESTOR RELATIONS

Open and regular communication with investors and analysts

Due to continuing Covid-19 induced restrictions, Erste Group's investor relations team conducted its communication activities almost exclusively by means of virtual events. The large number of banking and investor conferences organised by the Vienna Stock Exchange, Autonomous, Bank of America Merrill Lynch, Barclays, Deutsche Bank, Goldman Sachs, HSBC, JP Morgan, KBW, Kepler Cheuvreux, mBank, Mediobanca, Morgan Stanley, PKO, RCB, Unicredit and Wood were held as phone or video conferences, as were the spring and autumn road shows with investors from the United States and Europe after the release of first quarter and third quarter 2021 results. The management and the investor relations team met with investors in a total of 217 one-on-one and group meetings, in which Erste Group's strategy was presented against the backdrop of the current environment and questions raised by investors and analysts were answered. The dialogue with bond investors was further intensified with a total of 62 meetings held via phone and video. A large number of one-on-one meetings with analysts and portfolio managers were held at conferences, virtual road shows and investors' days hosted by Barclays, Bank of America Merrill Lynch, Citigroup, Danske Bank, JP Morgan, SocGen and UBS.

The website http://www.erstegroup.com/ir provides comprehensive information on Erste Group and the Erste Group share. Investors and the broader public can follow the investor relations team on the social media platform Twitter at http://twitter.com/ErsteGroupIR and on Slideshare at http://de.slideshare.net/Erste_Group. These sites provide users with the latest news on Erste Group on the social web. More details on the social media channels, the news/reports subscription and reminder service are available at https://www.erstegroup.com/en/investors/ir-service.

Analyst recommendations

In 2021, 21 analysts regularly released research reports about Erste Group. The Erste Group Bank AG share was covered by financial analysts at the following national and international firms: Autonomous, Bank of America Merrill Lynch, Barclays, Citigroup, Concorde, Deutsche Bank, Exane BNP Paribas, Goldman Sachs, HSBC, JP Morgan, JT Banka, KBW, Kepler Cheuvreux, mBank, Mediobanca, Morgan Stanley, PKO, RBI, SocGen, UBS and Wood.

As of the end of the year, 17 analysts had issued buy recommendations and four had rated the Erste Group share neutral. The average year-end target price stood at EUR 43.60. The latest updates on analysts' estimates for the Erste Group share are posted at https://www.erstegroup.com/en/investors/share/analyst-estimates.

Strategy

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

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

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

Long-standing tradition in customer banking

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

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

The bank's core activities also include advisory services and support for its corporate customers with regard to financing, investment, hedging activities and access to international capital markets. Public sector funding includes providing finance for infrastructure projects and acquiring sovereign bonds issued in the region. To meet the short-term liquidity management needs of the customer business, Erste Group also operates in the interbank market.

Core markets in the eastern part of the European Union

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

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

Growing importance of innovation and digitalisation

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

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

The digital platform George was implemented in Austria in 2015. In the meantime, it is also running in the Czech Republic, Slovakia, Romania, Croatia and Hungary. It will also be rolled out in Serbia. The range of digitally available products and services is being constantly expanded. Customers can activate applications of Erste Group or third parties via plug-ins and use them to manage their finances.

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

Focus on sustainability and profitability

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

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

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

Erste Group’s strategy

Customer banking in Central and Eastern Europe				
Eastern part of the EU		**Focus on CEE, limited exposure to other countries**		
Retail banking	**Corporate banking**	**Capital markets**	**Public sector**	**Interbank business**
Acting as Prosperity Advisor for the people in our region; the result of our advice is the financial health of our customers Support customers to build up and secure wealth Democratising advice via George Active management of customer journeys to increase profitability and customer satisfaction	SME and local corporate banking Advisory services, with focus on providing access to capital markets and corporate finance Transaction banking services (trade finance, factoring, leasing) Commercial Real Estate business	Focus on customer business, incl. customer-based trading activities In addition to core markets, presences in Poland, Germany, New York and Hong Kong with institutional client focus and selected product mix Building debt and equity capital markets in CEE	Financing sovereigns and municipalities with focus on infrastructure development in core markets Any sovereign holdings are held for market-making, liquidity or balance sheet management reasons	Focus on banks that operate in the core markets Any bank exposure is only held for liquidity or balance sheet management reasons or to support client business

THE STRATEGY IN DETAIL

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

Retail business

Erste Group's key business is the retail business, covering the entire spectrum from lending, deposit and investment products to current accounts and credit cards. Erste Group's core competence in retail banking has historical roots. In 1819, wealthy Viennese citizens donated funds to establish Erste Group's predecessor, the first savings bank in Central Europe. It was their aim to bring basic banking services such as safe savings accounts and mortgage loans to wide sections of the population. Today, the bank serves a total of more than 16 million customers in its markets and operates about 2,100 branches. Wealthy private clients, trusts and foundations are served by the bank's private banking staff and benefit from services that are tailored to the needs of this target group.

In addition, the bank uses and promotes digital distribution channels such as internet and mobile banking not only to meet the increasing importance of digital banking but to actively shape the digital future. This has already become visible through the activities of fintech companies, which offer financial services online and typically operate without a banking licence. George, Erste Group's digital platform, is already available in Austria, the Czech Republic, Slovakia, Romania and Croatia and has been available in Hungary since early 2021. It will also be rolled out in Serbia.

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

Corporate business

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

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

Capital markets business

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

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

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

Public sector business

Solid deposit business is one of the key pillars of Erste Group's business model. Customer deposits surpass lending volume in many of its geographic markets. Erste Group's banking entities make a significant part of this liquidity available as financing to the region's public sector entities. In this way, the bank facilitates essential public sector investment. Erste Group's public sector customers are primarily municipalities, regional entities and sovereigns that the bank additionally supports and advises in capital market issuance, infrastructure financing and project financing. Furthermore, Erste Group cooperates with supranational institutions. In terms of sovereign bond investments, Erste Group focuses on Central and Eastern Europe equally.

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

Interbank business

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

REGULATORY CHANGES IN BANKING

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

A banking union has been established as a regulatory framework consisting of a European banking supervision mechanism, a banking resolution mechanism and common standards for deposit insurance.

Due to the outbreak of the Covid-19 pandemic, the Basel Committee on Banking Supervision decided to postpone the implementation of the final part of the Basel 3 reform package by one year. At the end of October 2021, the EU Commission published its proposals for the implementation of the final part of the Basel 3 reform package. The new regulations are designed to strengthen EU banks' resilience to potential future economic shocks while at the same time contributing to Europe's recovery from the Covid-19 pandemic and its transition to climate neutrality. An output floor is intended to ensure that the risk-weighted assets (RWA) determined by using internal models are not lower than a certain percentage of the RWAs calculated on the basis of the standardised approach. The use of internal models to calculate operational risk will be prohibited. In January 2019, the revised version of the new market risk standard (Fundamental Review of the Trading Book, FRTB) was also published.

On the topic of sustainability it is proposed to explicitly call on banks – as a contribution to the green transition – to systematically explore, disclose and control ESG risks as part of their risk management. The rules proposed should not only make the banking sector more resilient, but also ensure that banks take sustainability aspects into account. The Commission proposes an implementation in 2025 with transition rules to apply beyond 2030.

To support the banking sector a Covid-19 banking package was adopted. It includes in particular an Interpretative Communication on the Union's accounting and prudential frameworks as well as targeted quick-fix amendments to EU banking prudential rules (CRR). Member states have also taken action, with support schemes typically involving public guarantee schemes and/or payment deferrals (moratoria) to alleviate liquidity difficulties affecting households and businesses. In this respect, the European Banking Authority (EBA) has published guidelines on legislative and non-legislative moratoria. The European Commission has also adopted a temporary framework to enable member states to use the full flexibility foreseen under state aid rules to support the economy in the context of the Covid-19 outbreak.

In December 2020, the Commission's NPL (non-performing loans) action plan was released. The Secondary Market Directive was published in the Official Journal on 8 December 2021– the local implementation and finalisation of the related EBA ITS (the European Banking Authority's Implementing Technical Standards) is still outstanding. The Directive creates harmonised reporting obligations for credit purchasers and an obligation to appoint a credit service representative for consumers and investors from third countries.

At its meeting of 13 December 2021, the Financial Market Stability Board (FMSB) stated that rising systemic risks from residential property financing may be of relevance to financial market stability in Austria. In case of a property crisis, there would be a risk of a disruption of the financial system with negative impacts on the real economy. Therefore, these systemic risks should be addressed adequately and in time. The FMSB has requested the Austrian Financial Markets Authority and the Austrian National Bank to elaborate the implementation of this recommendation.

The new resolution framework allows for a multiple-point-of-entry (MPE) or a single-point-of-entry (SPE) resolution strategy. The minimum requirement for own funds and eligible liabilities (MREL) should reflect the resolution strategy that is appropriate to a banking group (in case of MPE with different resolution groups and therefore different points of entries) in accordance with the resolution planning.

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

In view of the above-mentioned changes in legislation and the implementation of BRRD 2/SRMR 2 as well as the amended SRB MREL policy for 2021, Erste Group received its MREL target as well as the internal MREL targets for selected relevant subsidiaries based on BRRD II/SRMR II in May and for the first time as a percent ratio of the total risk exposure amount (TREA) and the leverage ratio exposure (LRE). A transitional period is foreseen for the compliance with the final MREL target until 1 January 2024.

In 2021, the systemic risk buffers defined by FMA on the basis of the Capital Buffer Regulation and buffers for Other Systemically Important Institutions (O-SIIs) amounted to 2% of RWA for Erste Group. Since 2018, Erste Group Bank AG has been obliged to hold the systemic risk buffer also at single-entity level.

On 21 January 2021, the Austrian National Council (Nationalrat) concluded amendments to the Account Register Act (KontRegG, Kontenregistergesetz) and FM-GwG, with which, amongst others, lockers (Schließfächer) are included in the account register (reporting date is 1 January 2021). In addition, an exchange of information between parties subject to money laundering provisions was introduced as well as transaction monitoring based on artificial intelligence. On 2 November 2021, an amendment to the Online Identification Regulation entered into force, which allows financial service providers to use purely biometrical processes for the remote identification of new customers for anti-money laundering purposes.

On 20 July 2021, the European Commission presented a bundle of measures to strengthen anti-money laundering and countering the financing of terrorism rules. It comprises amongst others legislative proposals with provisions in the areas of due diligence and transparency regarding beneficial ownership, the sixth Anti-Money Laundering Directive (AMLD) and a review of the regulation on transfers of funds in connection with crypto assets.

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

Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector were published in the Official Journal in December 2019 and it has been applicable for the most part since March 2021. On 22 June 2020, Regulation (EU) 2020/852 on the establishment of a framework to facilitate sustainable investment (Taxonomy Regulation) was published in the Official Journal. Since 1 January 2022, key provisions of the Taxonomy Regulation have become applicable. In addition, on 27 November 2020, ECB published its guide on climate-related and environmental risks. The guide outlines how ECB expects banks to safely and prudently manage and disclose such risks under the current prudential framework.

Since early 2021, the ECB's guidelines have already been serving as a key reference in the prudential dialogue with banks. In April 2021, the European Commission released a comprehensive bundle of measures to shift financial flows towards sustainable economic activities. In July 2021, the European Commission published a set of measures comprising among others its new strategy for a more sustainable European financial system as well as a regulation proposal for a voluntary EU standard on green bonds.

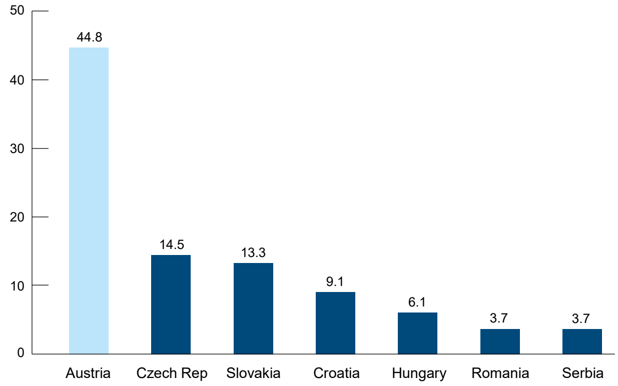
With regard to fit & proper/governance, EBA and ESMA published their guidelines on the assessment of the suitability of members of governing bodies and holders of key positions as well as internal governance guidelines. Both guidelines have been applicable since 31 December 2021. In addition, on 9 December 2021, the ECB issued its guidelines on the assessment of the professional qualifications and personal reliability of members of governing bodies and holders of key positions.

LONG-TERM GROWTH TRENDS IN CENTRAL AND EASTERN EUROPE

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

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

Customer loans/capita in CEE (2021) in EUR thousand



Source: Local central banks, Erste Group

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

BUILDING ON A STRONG BRAND

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

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

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

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

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

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

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

Financial and operating performance

ECONOMIC ENVIRONMENT

The global economy experienced an exceptionally strong recovery in 2021, despite temporary pandemic-related lockdown measures imposed by most countries around the globe. This recovery was characterised by sharp rebounds of most of the major economies, most notably the United States, owing to substantial fiscal support. In many emerging markets and developing economies a slower pace of vaccination – often linked to later availability – and a partial withdrawal of macroeconomic support offset some of the benefits of strengthening external demand and elevated commodity prices. Among emerging and developing markets, China and India again outperformed other major economies. Most industries around the globe performed well, but the services sectors struggled to overcome headwinds from the pandemic-induced lockdown measures. Although labour markets recovered at a faster pace than during the global financial crisis, employment remained below its pre-pandemic level. The broad-based global GDP growth was mainly driven by recovering consumption and investments. Manufacturing was constrained by supply chain disruptions, which were temporarily exacerbated by the blockage of the Suez Canal in March 2021 and by the closure of some of the major harbours in China. Supply chain disruptions were also a main driver of inflation in 2021. The sharp rise in consumer goods prices reflected a huge surge in demand, fuelled by stimulus measures, particularly in the United States. Commodity prices have seen a sharp rise with many well above their pre-pandemic levels. Oil demand continued to remain strong. Metal and agricultural prices increased substantially. Overall, global real GDP increased by 5.9%.

Among the world's major central banks only the Bank of England increased its policy rate in 2021. The Federal Reserve (Fed), the Bank of Japan and the European Central Bank (ECB) left their base rates unchanged throughout the year. While central banks continued their pandemic-era bond buying programmes, both the Fed and the ECB indicated in the second half of the year plans to reduce the monthly asset purchases in the future.

The economic performance of the United States was strong in 2021. The US economy recovered quicker than most advanced economies, supported by greater amounts of fiscal relief. Surging personal income has boosted consumption. The unemployment rate declined significantly to 3.9%. The American Rescue Act, signed in March 2021, offered USD 1.9 trillion in additional fiscal support, bringing the cumulative fiscal relief provided since the beginning of the pandemic to over one-quarter of GDP – an unprecedented level of support in peacetime. The Fed indicated that its expansive monetary policy since the beginning of the pandemic was coming to a close to respond to rising inflation. In December 2021, it announced to end its pandemic-era bond purchases in March 2022, paving the way for interest rate hikes, as policymakers voiced concerns over high inflation against the backdrop of a steady labour market recovery. By the end of 2021, the Fed had bought over USD 4 trillion worth of Treasuries and other securities. Real GDP in the US grew by 5.6% in 2021.

The euro area also rebounded with its real GDP growing by 5.2%. France, Italy, and Spain outperformed Germany as the latter was significantly more impacted by shortages of raw materials, intermediate goods, semiconductors, in particular for the automotive industry, but also lumber for the construction sector. Summer tourism was supported by less strict travel restrictions. Households responded to the temporary relaxations of containment measures with spending sprees that propelled private consumption growth in the European Union. Overall, the rebound of economic activity was broad-based, with all components of domestic demand contributing positively. Growth was also supported by improving labour markets. The Recovery and Resilience Facility of the European Commission, coupled with the NextGenerationEU, a fund created in 2020, is the largest stimulus package ever financed in Europe. Surging energy prices, most notably for natural gas and electricity led to higher inflation, prices for electricity and gas increased fivefold in the course of the year and reached new highs in December 2021. The ECB has maintained an accommodative monetary policy. It confirmed to continue its asset purchases under the Pandemic Emergency Purchase Programme (PEPP) until at least the end of March 2022, and net purchases under the asset purchase programme (APP) continued at a monthly pace of EUR 20 billion. Refinancing operations, notably the third series of the targeted longer-term refinancing operations (TLTRO III), continued to provide liquidity to euro area banks to support the flow of credit to households and enterprises. The ECB kept its discount rate at zero throughout 2021.

In line with the European development, Austria experienced an economic rebound in 2021. Due to the rapid recovery and progress towards normalisation in many sectors, the Austrian government started to adjust its Covid-support programmes from mid-2021 by reducing or withdrawing measures in sectors where conditions improved. In November 2021, however, due to the sharp increase of infection rates and medical capacity being stretched to its limits, the government imposed a new nationwide lockdown until mid-December. As this lockdown lasted only a few weeks it did not have a drastic impact on the overall economic performance. The easing of travel restrictions led to a recovery in the economically important tourism sector. After a very strong start of the year, the Austrian export industry faced headwinds from supply chain disruptions but still contributed to growth. The economic rebound was also supported by private consumption and considerable increases in investments. Rising oil and gas prices drove the noticeable increase of inflation over the course of the year. Overall, average inflation amounted to 2.8% in 2021. Short-time work schemes helped to mitigate the effect of the economic downturn on the labour market. The unemployment rate stood at 6.2%. The Covid-19 crisis management fund set up in March 2020 continued to finance temporary support measures such as fixed cost subsidies as well as various measures to compensate for losses or shortfalls in sales during the various lockdown periods. In 2021, the Austrian economy grew faster than expected and GDP per capita amounted to EUR 45,600 at year-end.

Central and Eastern European economies performed well despite temporary lockdown measures. The fast recovery was mainly driven by household consumption and investments while supply chain disruptions have impacted industrial output and exports. The supply bottlenecks particularly hit the Czech, Slovak and Hungarian automotive industries. The Croatian economy was strongly supported by a better-than-expected performance of the country's dominant tourism industry. In Romania, the country's important agricultural sector also supported economic growth. Government measures helped cushion the negative impact of the periodic restrictions on employment and fiscal packages alleviated negative effects on household incomes.#As a result, unemployment rates in CEE increased only modestly and remained low compared to many Western European countries. In most CEE countries, the total debt relative to the GDP stayed below its pre-crisis peak level. Many of the region's central banks increased their key rates in the course of the year. The interest rate hikes of the Czech National Bank were the most pronounced, but Poland, Hungary and Romania also increased their policy rates numerous times in the second half of the year. Supply-side constraints, higher service and energy price pressures, together with food prices and some local factors such as imputed rents or tightness of the local labour markets contributed to inflationary pressure across the region. The Czech koruna was the only regional currency that appreciated against the euro in 2021, mainly due to monetary tightening of the Czech National Bank. Other CEE currencies, such as the Romanian leu, the Hungarian forint or the Polish zloty slightly depreciated against the euro. Overall, CEE economies developed positively with GDP growth rates ranging from 3.0% in Slovakia to a double-digit figure in Croatia in 2021.

Overall, the Covid-19 pandemic had no material impact on the economic recovery of Erste Group's markets in 2021. The banking sector in the region developed positively. This is reflected in net loan growth as well as in increased operating revenues. Erste Group is of the opinion that the moratoria introduced due to the Covid-19 pandemic in 2020 met the conditions as defined in the EBA guidelines published in the past two years 2020. The relief offered to borrowers therefore did not lead to a significant increase in credit risk.

PERFORMANCE IN 2021

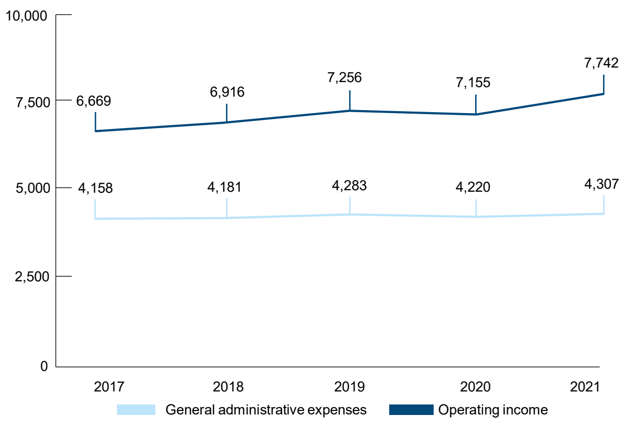
P&L data from 2021 are compared with data from 2020, balance sheet data as of 31 December 2021 are compared to data as of 31 December 2020.

Acquisitions and disposals in Erste Group in 2021 did not have any significant impact and therefore had no effect on the rates of change stated below.

Overview

Net interest income increased to EUR 4,975.7 million (+4.2%; EUR 4,774.8 million), primarily due to rate hikes in the Czech Republic and in Hungary, strong volume growth in all markets and a positive one-off effect resulting from TLTRO III take-up in Austria and Slovakia. **Net fee and commission income** rose to EUR 2,303.7 million (+16.5%; EUR 1,976.8 million) supported by a strong economic recovery and rising equity markets. Increases were posted across all key fee and commission categories and core markets – most notably Austria, with significant growth seen in particular in payment services and in asset management. **Net trading result** declined to EUR 58.6 million (EUR 137.6 million); the line item **gains/losses from financial instruments measured at fair value through profit or loss** rose to EUR 173.2 million (EUR 62.0 million). The development of these two line items was driven mostly by valuation effects, apart from a rise in income from the foreign exchange business in net trading result. **Operating income** increased to EUR 7,742.0 million (+8.2%; EUR 7,155.1 million).

Operating income and operating expenses in EUR million



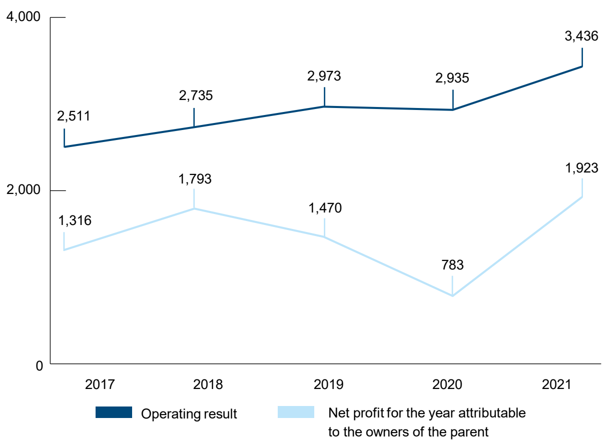
General administrative expenses were up at EUR 4,306.5 million (+2.0%; EUR 4,220.5 million), personnel expenses rose to EUR 2,578.1 million (+2.3%; EUR 2,520.7 million). Other administrative expenses increased to EUR 1,180.3 million (+1.9%; EUR 1,158.9 million). Payments into deposit insurance schemes included in other administrative expenses decreased to EUR 122.4 million (EUR 132.2 million). Depreciation and amortisation rose to EUR 548.0 (+1.3%; EUR 540.9 million). The **operating result** was up markedly at EUR 3,435.5 million (+17.1%; EUR 2,934.6 million) and the **cost/income ratio** (see glossary for definition) improved significantly to 55.6% (59.0%).

Due to net allocations, the **impairment result from financial instruments** amounted to EUR -158.8 million or 9 basis points of average gross customers loans (EUR -1,294.8 million or 78 basis points). Net allocations to provisions for loans and advances as well as for commitments and guarantees given were posted in the Czech Republic, Romania, Croatia, Serbia and Hungary, but generally remained at a very low level. A positive contribution came from income from the recovery of loans already written off as well as from releases, most notably in Austria (in the Savings Banks segment). In the comparative period, updated risk parameters with forward looking information related to Covid-19 had resulted in high net allocations to provisions for loans and advances as well as for commitments and guarantees given.

The **NPL ratio** (see glossary for definition) based on gross customer loans improved to a historic low at 2.4% (2.7%). The **NPL coverage ratio** (see glossary for definition) (excluding collateral) increased to 90.9% (88.6%).

Other operating result amounted to EUR -310.5 million (EUR -278.3 million). This deterioration was attributable to valuation effects and higher expenses for the annual contributions to resolution funds; the latter rose – most strongly in Austria and Romania – to EUR 108.6 million (EUR 93.5 million). Banking levies declined to EUR 73.5 million (EUR 117.7 million), primarily due to the abolition of banking tax in Slovakia and lower levies in Austria. At present, banking levies are payable in two core markets: in Hungary, banking tax amounted to EUR 15.0 million (EUR 14.5 million) and transaction tax to another EUR 48.0 million (EUR 44.0 million). In Austria, banking tax equalled EUR 10.5 million (EUR 25.5 million).

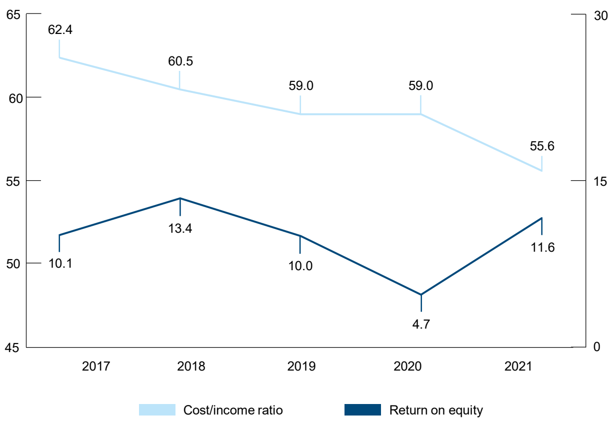
Operating result and net profit/loss for the year attributable to owners of the parent in EUR million



Taxes on income rose to EUR 525.2 million (EUR 342.5 million). The minority charge increased to a record EUR 484.8 million (EUR 242.3 million) due to significantly higher earnings contributions of the savings banks. The **net result attributable to owners of the parent** rose to EUR 1,923.4 million (EUR 783.1 million) on the back of the strong operating result and low risk costs.

Cash earnings per share (see glossary for definition) amounted to EUR 4.18 (reported EPS: EUR 4.17) versus EUR 1.59 (reported EPS: 1.57) in the previous year.

Key profitability ratios in %



Cash return on equity (see glossary for definition), i.e. return on equity adjusted for non-cash expenses such as goodwill impairment and straight-line amortisation of customer relationships, stood at 11.7% (reported ROE: 11.6%) versus 4.7% (reported ROE: 4.7%) in the previous year.

Total assets increased to EUR 307.4 billion (+10.8%; EUR 277.4 billion). On the asset side, cash and cash balances increased, primarily in Austria, to EUR 45.5 billion (EUR 35.8 billion), loans and advances to banks declined to EUR 21.0 billion (EUR 21.5 billion). **Loans and advances to customers** (net) rose to EUR 180.3 billion (+8.6%; EUR 166.1 billion). On the liability side, deposits from banks grew significantly to EUR 31.9 billion (EUR 24.8 billion) as a result of increased ECB refinancing (TLTRO III). **Customer deposits** rose in all core markets – most strongly in Austria and the Czech Republic – to EUR 210.5 billion (+10.2%; EUR 191.1 billion). The **loan-to-deposit ratio** (see glossary for definition) declined to 85.6% (86.9%).

The **common equity tier 1 ratio** (CET1, CRR final, see glossary for definition) stood at 14.5% (14.2%), the **total capital ratio** (see glossary for definition) at 19.1% (19.7%).

OUTLOOK

Erste Group's goal for 2022 is to again achieve a double-digit return on tangible equity (ROTE). Among the factors that will support achievement of this goal is the continued strong economic performance of all core markets – Austria, Czech Republic, Slovakia, Hungary, Romania, Croatia and Serbia – and, on this basis, an improvement in the operating result and a continued benign risk environment. A continuation or further escalation of Covid-19 measures by governments as well as potential – and as yet unquantifiable – (geo-)political, regulatory or economic risks may render meeting these goals more challenging.

Erste Group's core markets are expected to post real GDP growth in the order of 3-5% in 2022. Inflation is set to remain a key theme throughout the year but at the same time is expected to remain broadly stable at elevated 2021 levels. In line with the strong economic outlook unemployment rates are expected to decline from already low levels in all markets. In most countries, sustained competitiveness should again result in sustainable current account balances. The fiscal situation should likewise improve again after significant budget deficits in 2021. Public debt to GDP is projected to improve across the board, albeit from elevated levels.

Against this backdrop, Erste Group expects net loan growth in the mid-single digits. This performance as well as interest rate tailwinds should lead to an at least mid-single-digit increase in net interest income despite negative policy rates in the euro zone. The second most important income component – net fee and commission income is expected to rise in the low to mid-single digits, following the exceptional performance in 2021. As in 2021, positive momentum should again come from asset management and securities business, assuming a continued constructive capital markets environment. Insurance brokerage as well as payment services fees are also expected to contribute. The net trading and fair value result is expected to come in at a similar level as in the previous year. 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 in 2022. Operating expenses are expected to rise at a lower level than operating income, thus resulting in a cost income ratio of below 55% in 2022, significantly earlier than planned (2024). In addition, Erste Group will continue to invest in IT in 2022 and thus strengthen its competitive position, with a focus on progressive IT modernisation, back office digitalisation and further development of the digital platform George.

Based on the robust macro outlook described above, risks costs should remain at a low level in 2022. While precise forecasting is hard at current low risk cost levels, Erste Group believes that in 2022 risk costs will be below 20 basis points of average gross customer loans. The NPL ratio is expected below 3.0%.

Other operating result is expected to remain unchanged in the absence of significant one-off effects. Assuming a low effective group tax rate of about 19% and similar minority charges as in 2021, Erste Group aims to achieve a double-digit ROTE. Erste Group's CET1 ratio is expected to remain strong. Consequently, Erste Group will propose a dividend of EUR 1.6 per share for the 2021 fiscal year to the 2022 AGM.

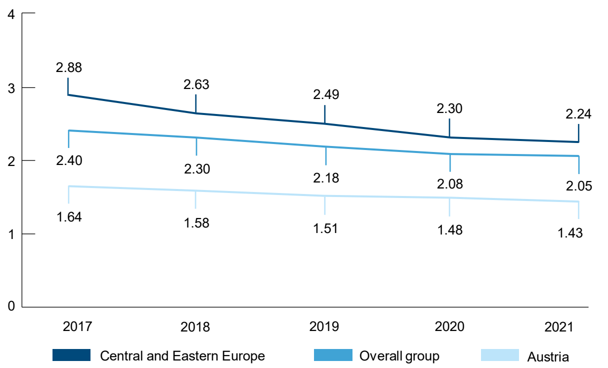
Potential risks to the guidance include (geo)political and economic (including monetary and fiscal policy impacts) developments, regulatory measures as well as global health risks and changes to the competitive environment. In addition, given the Covid-19 governmental measures and their impact on the economic development, financial forecasts are still subject to an elevated level of uncertainty. The evolving Russia-Ukraine situation does not impact Erste Group directly, as it has no operating presence in those countries; exposures to both countries are negligible and no additional risk provisioning is currently required in this context. Indirect effects, such as financial market volatility or sanctions-related knock-on effects on some of our customers cannot be ruled out, though. Further geopolitical developments might lead to economic difficulties and failure of banks based in EU Member States. As a consequence, the possible activation of national or European deposit insurance and resolution systems might have financial impacts on member banks of Erste Group. Any resulting financial effects cannot be assessed at the current point in time. Erste Group is moreover exposed to non-financial and legal risks that may materialise regardless of the economic environment. Worse-than-expected economic development may put goodwill at risk.

ANALYSIS OF PERFORMANCE

Net interest income

Net interest income rose to EUR 4,975.7 million (EUR 4,774.8 million). The benign interest rate environment in the Czech Republic and in Hungary, strong volume growth in all markets and especially in the housing loan segment, and a one-off effect from the take-up of TLTRO III funds in Austria and in Slovakia in the amount of EUR 93.0 million (EUR 8.0 million) were among the key growth drivers.

Net interest margin in %

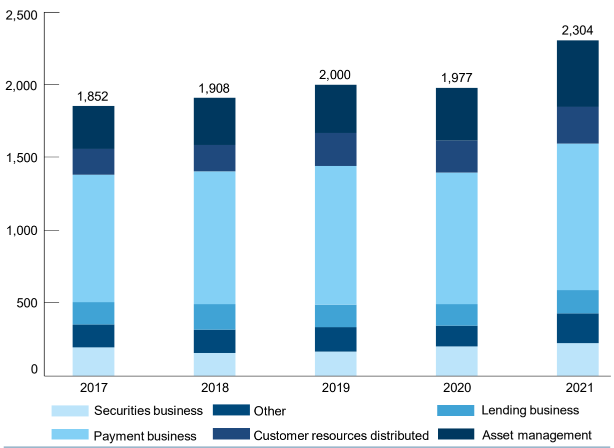


A decline in modification losses from lending, which are reported in net interest income, also had a positive effect. The net interest margin (calculated as the annualised sum of net interest income, dividend income and net result from equity method investments over average interest-bearing assets) stood at 2.05% (2.08%).

Net fee and commission income

Net fee and commission income increased to EUR 2,303.7 million (EUR 1,976.8 million). Significant growth was recorded across all fee and commission categories and all core markets. The most marked rises were seen in payment services and asset management (most notably in Austria). The latter benefitted from strongly performing equity markets. Income from the custody business and brokerage commissions was likewise up substantially.

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



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

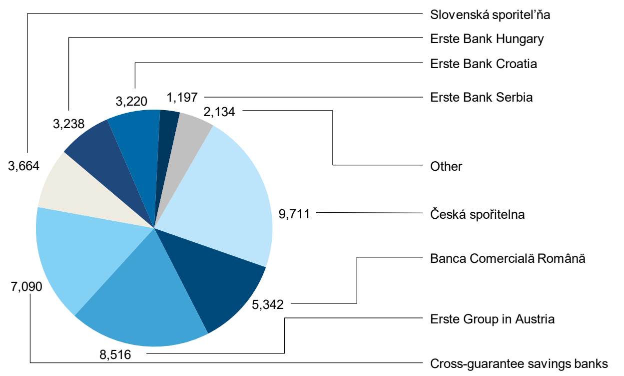
Valuation effects have a substantial impact on the **net trading result** as well as the line item **gains/losses from financial instruments measured at fair value through profit or loss**. Debt securities issued measured at FV through profit or loss have a significant impact on these line items as related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

Due to valuation effects in the derivatives business resulting from interest rate developments, net trading result declined to EUR 58.6 million (EUR 137.6 million) despite continued strong foreign exchange trading. Gains/losses from financial instruments measured at fair value through profit or loss rose to EUR 173.2 million (EUR 62.0 million). Due to the rise in long-term interest rates, lower income from the valuation of the securities portfolio in Austria and losses from the valuation of the loan portfolio measured at fair value in Hungary were offset by significantly higher gains from the valuation of debt securities in issue.

General administrative expenses

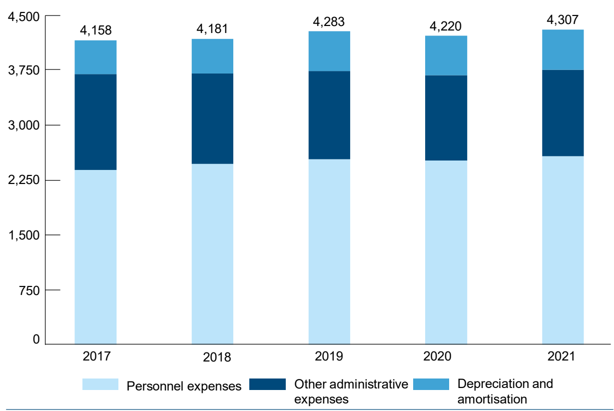
General administrative expenses rose to EUR 4,306.5 million (EUR 4,220.5 million). **Personnel expenses** increased to EUR 2,578.1 million (EUR 2,520.7 million), most notably in the Czech Republic, but also in Hungary and Croatia. On the back of lower average headcounts, cost reductions were achieved primarily in Austria, Romania and Slovakia.

Employees as of 31 December 2021



Other administrative expenses were higher at EUR 1,180.3 million (EUR 1,158.9 million), with marketing and IT expenses up most markedly. Contributions to deposit insurance systems declined to EUR 122.4 million (EUR 132.2 million). In Austria, they decreased to EUR 85.5 million (EUR 95.0 million) after a one-off effect in the previous year. No contributions are currently payable in Croatia. In Slovakia, contributions rose to EUR 9.4 million (EUR 1.1 million). **Depreciation and amortisation** amounted to EUR 548.0 million (EUR 540.9 million).

General administrative expenses, structure and trend, in EUR million



Operating result

Operating income increased to EUR 7,742.0 million (+8.2%; EUR 7,155.1 million), with a marked rise in the key income components, most notably net fee and commission income but also net interest income, and a strong net trading and fair value result. General administrative expenses rose to EUR 4,306.5 million (+2.0%; EUR 4,220.5 million). The operating result rose to EUR 3,435.5 million (+17.1%; EUR 2,934.6 million). The cost/income ratio improved to 55.6% (59.0%).

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

Losses from derecognition of financial instruments not measured at fair value through profit or loss amounted to EUR 32.8 million (EUR 6.5 million). This line item includes primarily one-off losses from derecognition of liabilities and negative results from the sale of securities in the Czech Republic and Austria.

Impairment result from financial instruments

The impairment result from financial instruments amounted to EUR -158.8 million (EUR -1,294.8 million). Net allocations to provisions for loans and advances declined to EUR 119.1 million (EUR 1,231.0 million), those for commitments and guarantees given to EUR 104.8 million (EUR 159.2 million). Positive contributions came from the release of provisions for loans in Austria (Savings Banks segment) as well as from income from the recovery of loans already written off in all segments in the amount of EUR 90.8 million (EUR 145.0 million). In the comparative period, updated risk parameters with forward-looking information as well as stage overlays related to the Covid-19 pandemic had led to a significant rise in allocations to provisions.

Other operating result

Other operating result came in at EUR -310.5 million (EUR -278.3 million). The deterioration was primarily due to valuation effects. Levies on banking activities declined to EUR 73.5 million (EUR 117.7 million). This decline is attributable to the abolition of banking levies in Slovakia, which had amounted to EUR 33.8 million in the comparative period. Banking levies payable in Austria decreased to EUR 10.5 million (EUR 25.5 million) on the back of significantly lower levies payable by the Holding. Hungarian banking tax rose slightly to EUR 15.0 million (EUR 14.5 million). Together with the financial transaction tax of EUR 48.0 million (EUR 44.0 million), banking levies in Hungary totalled EUR 63.0 million (EUR 58.5 million).

The balance of allocations/releases of other provisions improved to EUR 5.1 million (EUR -18.4 million). Other operating result also reflects the annual contributions to resolution funds in the amount of EUR 108.6 million (EUR 93.5 million). Increases were recorded above all in Austria to EUR 51.5 million (EUR 43.6 million) and in Romania to EUR 11.4 million (EUR 7.7 million).

Profit/loss for the year

The pre-tax result from continuing operations amounted to EUR 2,933.4 million (EUR 1,368.0 million). Taxes on income rose to EUR 525.2 million (EUR 342.5 million). The minority charge increased to EUR 484.8 million (EUR 242.3 million) due to higher earnings contributions of savings banks resulting primarily from a significant improvement in the impairment result from financial instruments. The net result attributable to owners of the parent rose to EUR 1,923.4 million (EUR 783.1 million).

Tax situation

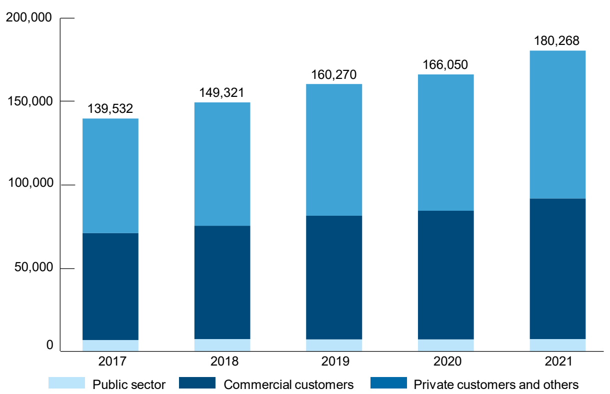
Pursuant to section 9 of the Austrian Corporate Tax Act (KStG), Erste Group Bank AG and its main domestic subsidiaries constitute a tax group. As opposed to previous periods, a significant taxable profit was accounted for in 2021. According to the applicable legal regulations, 75 per cent of the taxable profit was offset with tax loss carryforward, as the remaining 25 per cent current income tax was accounted for. In 2021, the current tax loss carried forward decreased accordingly.

Taxes on income are made up of current taxes on income calculated in each of the Group companies based on the results reported for tax purposes, corrections to taxes on income for previous years, and the change in deferred taxes. The reported total income tax expense amounted to EUR 525.2 million (EUR 342.5 million).

Balance sheet development

The rise in **cash and cash balances** to EUR 45.5 billion (EUR 35.8 billion) was primarily due to rising cash balances held at central banks, not least as a result of increased TLTRO III funds. **Trading and investment securities** held in various categories of financial assets increased to EUR 53.2 billion (EUR 46.8 billion).

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



Loans and advances to credit institutions (net), including demand deposits other than overnight deposits, declined slightly to EUR 21.0 billion (EUR 21.5 billion).

Loans and advances to customers (net) rose – most notably in Austria and the Czech Republic – to EUR 180.3 billion (EUR 166.1 billion) driven by retail and corporate loan growth.

Loan loss allowances for loans to customers amounted to EUR 3.9 billion (EUR 4.0 billion). **The NPL ratio** – non-performing loans as a percentage of gross customer loans – improved to 2.4% (2.7%), the **NPL coverage ratio** (based on gross customer loans) rose to 90.9% (88.6%)

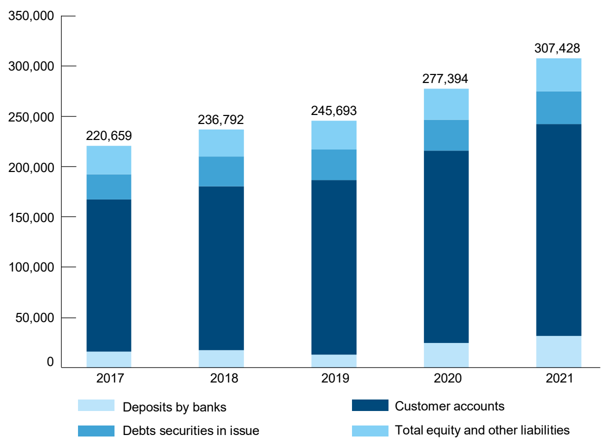
Intangible assets were stable at EUR 1.4 billion (EUR 1.4 billion). **Miscellaneous assets** amounted to EUR 6.1 billion (EUR 5.8 billion).

Financial liabilities – held for trading declined to EUR 2.5 billion (EUR 2.6 billion).

Deposits from banks, primarily in the form of term deposits, rose to EUR 31.9 billion (EUR 24.8 billion), including TLTRO III funds with a carrying amount of EUR 20.9 billion (EUR 14.1 billion); **deposits from customers** increased to EUR 210.5 billion (EUR 191.1 billion) due to strong growth in overnight deposits (leasing liabilities of EUR 0.6 billion are not included in this position). The **loan-to-deposit ratio** declined to 85.6% (86.9%). **Debt securities in issue** increased to EUR 32.1 billion (EUR 30.7 billion). **Miscellaneous liabilities** amounted to EUR 6.9 billion (EUR 5.8 billion).

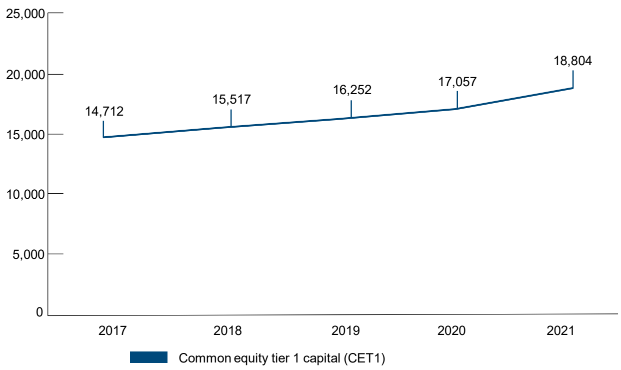
Total assets rose to EUR 307.4 billion (EUR 277.4 billion).

Balance sheet structure/liabilities and total equity in EUR million



Total equity increased to EUR 23.5 billion (EUR 22.4 billion). This includes AT1 instruments in the amount of EUR 2.2 billion from four issuances (April 2017, March 2019, January 2020 and November 2020). After regulatory deductions and filtering according to the Capital Requirements Regulation (CRR) **common equity tier 1 capital** (CET1, CRR final) rose to EUR 18.8 billion (EUR 17.1 billion) as were total **own funds** (CRR final) to EUR 24.8 billion (EUR 23.6 billion). Total risk – **risk-weighted assets** including credit, market and operational risk (CRR final) – increased moderately to EUR 129.6 billion (EUR 120.2 billion).

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

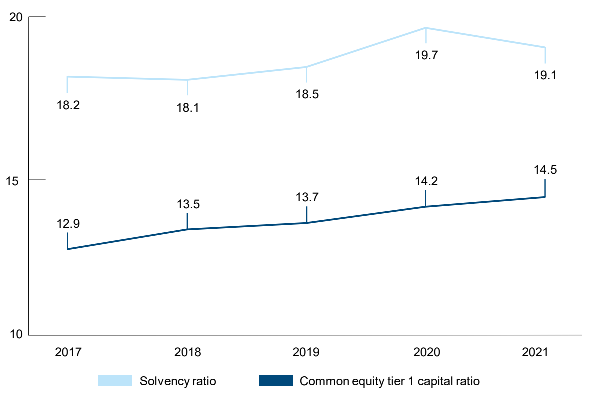


Consolidated regulatory capital is calculated in accordance with CRR taking into consideration transitional provisions as defined in the Austrian CRR Supplementary Regulation and the Regulation (EU) 2016/445 of the European Central Bank on the exercise of options and discretions available in Union law. These transitional provisions define the percentages applicable to eligible capital instruments and regulatory deduction items as well as filters.

The **total capital ratio**, total eligible qualifying capital in relation to total risk (CRR final), declined to 19.1% (19.7%), primarily due to the early redemption of a portion of AT1 capital but remained well above the legal minimum requirement.

The **tier 1 ratio** (CRR final) stood at 16.2% (16.5%), the **common equity tier 1 ratio** (CRR final) at 14.5% (14.2%).

Solvency ratio and common equity tier 1 capital ratio in %



Segments

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

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

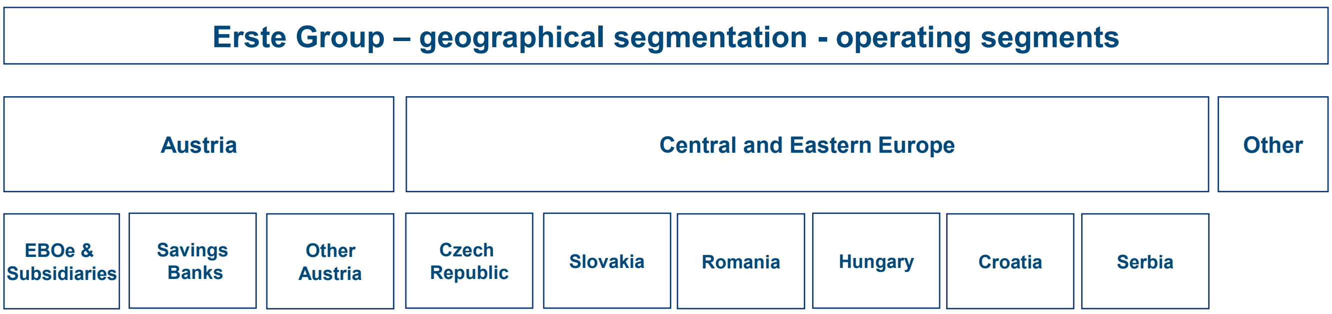
The tables and information below provide a brief overview and focus on selected and summarised items. For more details, please see Note 1. Additional information is available in Excel format at www.erstegroup.com/en/investors/reports/financial-reports.

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

Geographical segmentation – operating segments

For the purpose of segment reporting geographical segments are defined as operating segments, for which the information is presented on the basis of the booking entity's location (not the country of risk). In case of information regarding a partial group, the allocation is based on the location of the respective parent entity according to the local management responsibility.

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



The geographical area Austria consists of the following three operating segments:

_ The **Erste Bank Oesterreich & Subsidiaries** (EBOe & Subsidiaries) segment comprises Erste Bank der oesterreichischen Sparkassen AG (Erste Bank Oesterreich) and its main subsidiaries (e.g. sBausparkasse, Salzburger Sparkasse, Tiroler Sparkasse, Sparkasse Hainburg).

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

_ The **Other Austria** segment comprises Erste Group Bank AG (Holding) with its Corporates and Group Markets business, Erste Group Immorent GmbH, Erste Asset Management GmbH and Intermarket Bank AG.

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

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

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

Austria

Economic review

Austria is a well-diversified, developed and open economy, benefitting from a highly educated workforce. Following the phasing out of Covid-related containment measures the country's economy experienced a strong economic rebound in 2021. Due to the rapid recovery and progress towards normalisation in many sectors, the Austrian government started to adjust the Covid-19 support programmes from mid-2021. In November however, due to the sharp increase of Covid-19 infections, the government imposed a three week nationwide lockdown. This lockdown had a less severe impact on the overall economic performance than the previous lockdowns.

The easing of travel restrictions in the early summer of 2021 led to a partial recovery in the economically important tourism sector. After a very strong start in the year, the Austrian export industry faced headwinds from supply chain disruptions and did not contribute to growth in 2021. The economic rebound was supported by strong private consumption and considerable increases in investments. Short-time work schemes helped to mitigate the effect of the economic downturn on the labour market. The unemployment rate slightly increased to 6.2% in 2021. Overall, real GDP increased by 4.8%, GDP per capita amounted to EUR 45,600.

Austria experienced a volatile political environment resulting in changes in the government in the final quarter of the year. In addition, Austria's public finance remained overstretched with a general government deficit of 6.2% of GDP. The Covid-19 crisis management fund set up in March 2020 continued to finance temporary support measures such as fixed cost subsidies as well as various measures to compensate for losses or shortfalls in sales during the various lockdown periods. In addition, short-time work schemes, tax deferrals and public guarantees for loans were still in place to preserve employment and help companies avoid liquidity constraints. Public debt as a percentage of GDP increased to 83.4%.

Surging energy prices, most notably for oil, natural gas and electricity led to higher inflation. Overall, average inflation amounted to 2.8% in 2021. Core inflation, excluding food and energy prices, increased significantly to 2.3%. As Austria is part of the euro zone, its monetary policy is set by the European Central Bank (ECB). The ECB has maintained an accommodating monetary policy stance to preserve favourable financing conditions for the real economy. The ECB confirmed it would continue asset purchases under the Pandemic Emergency Purchase Programme (PEPP) until at least the end of March 2022. Net purchases under the Asset Purchase Programme (APP) continued at a monthly pace of EUR 20 billion. Refinancing operations, notably the third series of the targeted longer-term refinancing operations (TLTRO III), continued to provide liquidity to euro area banks to support the flow of credit to households and firms. The ECB kept its discount rate at zero throughout the year.

The three main rating agencies affirmed their credit ratings for Austria in 2021. Moody's credit rating for Austria was unchanged at Aa1 with a stable outlook. Fitch and Standard & Poor's affirmed their credit rating for Austria at AA+ with a stable outlook.

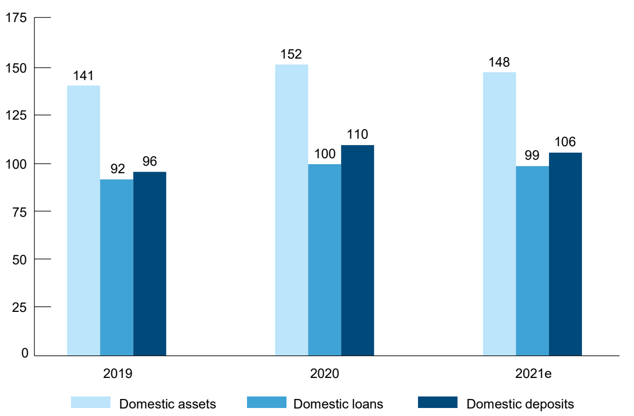
Key economic indicators – Austria	2018	2019	2020	2021e
Population (ave, million)	8.8	8.9	8.9	9.0
GDP (nominal, EUR billion)	385.4	397.5	379.3	408.7
GDP/capita (in EUR thousand)	43.6	44.8	42.5	45.6
Real GDP growth	2.6	1.5	-6.7	4.8
Private consumption growth	1.1	0.7	-8.5	3.3
Exports (share of GDP)	42.1	42.7	40.5	43.1
Imports (share of GDP)	44.1	44.5	42.9	45.9
Unemployment (Eurostat definition)	4.9	4.8	6.1	6.2
Consumer price inflation (ave)	2.1	1.5	1.4	2.8
Short term interest rate (3 months average)	-0.3	-0.4	-0.4	-0.6
EUR FX rate (ave)	1.0	1.0	1.0	1.0
EUR FX rate (eop)	1.0	1.0	1.0	1.0
Current account balance (share of GDP)	1.3	2.1	1.9	-0.8
General government balance (share of GDP)	0.2	0.6	-8.3	-6.2

Source: Erste Group

Market review

Austria's highly competitive banking sector has demonstrated resilience to the Covid-19 induced crisis and continued to significantly support the country's economy. Housing loans grew sharply fuelled by very low interest rates, further rising real estate prices and strong competition among lenders. Overall, customer loan growth amounted to 6.9%, mainly driven by the surging demand for housing loans. Due to low interest rates, the share of variable rate loans continued to decline. In the past two years, Austrian banks have increasingly grown their balance sheets by taking advantage of the TLTROs. At 3.9%, customer deposits increased less than loans. The banking system's loan to deposit ratio stood at 93.3% at the end of the year.

Financial intermediation – Austria (in % of GDP)

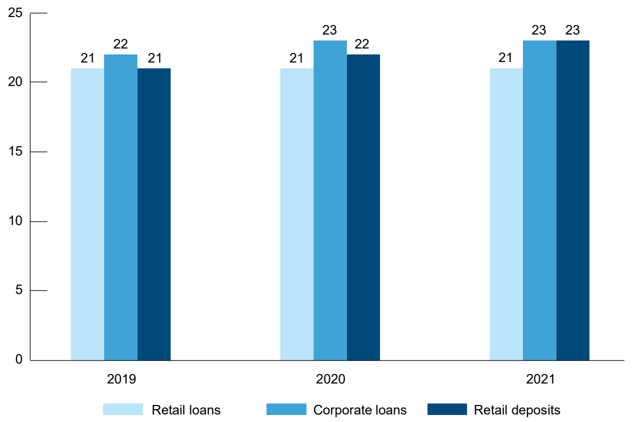


Source: Oesterreichische Nationalbank, Erste Group

Austrian banks' capital ratios remained fundamentally solid, partly reflecting relaxed regulatory requirements and restrictions on dividend payments in response to the Corona induced crisis. Funding and liquidity profiles remained strong. The Systemic Risk (SRB) and the Other Systemically Important Institutions (OSII) buffers were recalibrated to 1% as of December 2020. Starting with 2021, these buffers were cumulative. The Financial Market Stability Board recommended to keep the countercyclical capital buffer at a rate of 0%. Stress test results, published by the Austrian National Bank annually, confirmed again that the domestic banking sector's risk-bearing capacity was adequate.

The Austrian banking sector's profitability rebounded on the back of an economic recovery supported by comprehensive public support measures and ongoing credit growth. The prolongation of the low interest rate environment continued to burden operating revenues and put further pressure on banks' net interest margins. Widely used remote work and subdued business travel continued to have positive effects on administrative costs, while IT investments weighed on overall cost developments. In 2021, banks were mostly able to offset these headwinds on their net interest income through loan growth, as demand for mortgages held up well. The sharp drop in risk costs was attributable to still very low credit default volumes following the substantial risk provisioning of the prior year. The share of nonperforming loans stood at 1.8%. Participation in Covid-19-moratoria remained low. Austrian banks continued to pay a banking tax. Digital financial services and products were improved and digital penetration increased further. Overall, the Austrian banking system profitability increased significantly.

Market shares – Austria (in %)



Source: Oesterreichische Nationalbank, Erste Group

Erste Bank Oesterreich and the savings banks succeeded in further increasing their combined market shares to between 21% and 25%, both in retail and corporate business, benefitting from their balanced business model. George, the digital banking platform of Erste Group, proved its significance during the lockdowns. In 2021, George's product range was again widened. With more than 2 million users and 43 million monthly logins in the country, more than a third of the Austrian online banking customers used George.

ERSTE BANK OESTERREICH & SUBSIDIARIES

Business review 2021 – questions to Gerda Holzinger-Burgstaller, CEO of Erste Bank Oesterreich

How did the competitive environment change?
While the economy recovered in the second year of the Corona pandemic, the market environment remained challenging. High bank density in Austria combined with the low-interest-rate environment that has been persisting for a number of years, resulted in continued fierce price competition, most importantly in real estate financing. While on the one hand a growing number of specialised challengers is entering the market, seeking to target their offerings to specific customer segments, several international competitors also withdrew from the Austrian market last year.

Loan volume increased both in the retail and the corporate sectors. Marked growth was seen in particular in housing loans, which went hand in hand with a sharp rise in real estate prices. Government support measures taken to cope with the effects of the pandemic in Austria, including loan moratoria, had a beneficial impact on the overall economy and the liquidity of private individuals and companies. Due to the pandemic, deposit volume and the savings ratio were up significantly and the strong trend towards cashless payments continued. On the investment side, the interest-rate environment boosted interest in more risky assets. Amid the solid performance of the markets this led to a substantial rise in demand and increased volume.

Which ESG related topics were most relevant for you?
Sustainability is a key topic to us. As a bank, we can and want to play a significant part in the transition towards a sustainable economy. In recognition of this, we at Erste Group have taken on a pioneering role: we offer our customers sustainable investment products and assist them by providing comprehensive advice and sustainable approaches to financing. At the same time we are setting ourselves ambitious goals for our own ecological footprint, a sustainable loan portfolio and progressing decarbonisation.

In line with our founding principles we are also committed to bringing financial education to children and young people as well as to our customers. We want to contribute to their financial health, but also help those who are already experiencing financial difficulties to get back on their feet – most notably through Zweite Wiener Vereins-Sparcasse.

In the context of one of our core tasks, financing and providing housing, we approach the theme of affordable housing also indirectly, through our dedication in the sector of non-profit developers.

How did you manage to successfully differentiate your business activities from those of your competition?
Even in the second year of the pandemic we considered it a key mission to always be available to our customers, true to our motto of "we care". It was last but not least due to our tried-and-tested omni-channel capabilities that we were able to offer customers the contact points, services and advice they required. Based on automated processes combined with high-quality personal advice we provided well-targeted support. We are increasingly successful in offering our customers the tools they need to always have an eye on their financial health and to develop and implement strategies for its improvement.

A well-known and strong brand coupled with leadership on innovation will also help us to further expand our customer base in the future.

Looking back at the year, what major achievements or challenges were especially noteworthy?
Last year, the focus was again on digitalisation and transformation. We are continually working on developing and expanding the omni-channel customer experience mentioned through ongoing innovation, thereby supporting the sustained positive development of the number of customer and customer satisfaction. At the same time, we have been able to offer our customers more options for asset growth in the form of investment plans including equities and certificates. Working with a wider range of sustainable investment products we placed a focus on sustainable advisory services. In 2021, for example, four products specifically designed for sustainability were among the top five investment funds most sold to retail customers. In addition, we were able to boost efficiency and exploit synergies by taking extensive organisational measures.

Last but not least, I am of course also pleased about the awards received by Erste Bank Oesterreich. In 2021, we were named Best Private Bank and Best Bank of the Country by the renowned financial magazine The Banker, and the banking app George received the ÖGVS App Award of the Austrian consumer research association ÖGVS in recognition of its high user-friendliness.

Business review – additional question on cooperation with the savings banks

How did cooperation with the savings banks develop, and what were the major achievements in this area?
In 2021, as in the previous year, the Savings Banks were again a key partner for all retail and corporate customers in dealing with the financial problems induced by the Covid-19 crisis.

To strengthen cooperation even further, a number of projects were pursued internally. The Savings Banks Group agreed, for example, on uniform retail segmentation criteria. These facilitate addressing specific target groups on the various sales channels, optimisation of back office processes and contribute to improving the quality of the customer relationship. In addition, the Value Chain Lending initiative was launched, which combines all efforts of Erste Bank Oesterreich and the Savings Banks Group designed to keep developing both analogue loans, those offered in the branches, as well as digital lending options.

Future participation in Sparkasse Oberösterreich was newly agreed: Erste Bank Oesterreich will gradually reduce its interest in Sparkasse Oberösterreich from 39.19% to 10% by June 2026. This stake will be taken over by Anteilsverwaltung Allgemeine Sparkasse, which will raise its share to 85.7%. At the same time, steps will be taken to include Sparkasse Oberösterreich in the cross-guarantee system. As a result, the entire Austrian Savings Banks Group will be covered by the cross-guarantee system in the future. Sparkasse Oberösterreich had already been a member of the Savings Banks Group's deposit insurance and investor compensation system.

Financial review

in EUR million	2020	2021	Change
Net interest income	638.2	646.4	1.3%
Net fee and commission income	406.6	460.1	13.2%
Net trading result and gains/losses from financial instruments at FVPL	13.8	17.0	23.4%
Operating income	1,126.1	1,193.3	6.0%
Operating expenses	-711.4	-702.7	-1.2%
Operating result	414.7	490.6	18.3%
Cost/income ratio	63.2%	58.9%	
Impairment result from financial instruments	-135.8	-31.5	-76.8%
Other result	-9.5	-34.8	>100.0%
Net result attributable to owners of the parent	222.0	306.6	38.1%
Return on allocated capital	15.6%	16.4%	

Net interest income increased due to the one-off booking related to TLTRO III refinancing with ECB (EUR 20.1 million) and higher loan volumes, which were partially offset by lower margins for customer loans and higher interest expense for the placement of excess liquidity. Net fee and commission income rose on the back of higher income from securities and payment fees. The improvement in net trading result and gains/losses from financial instruments at FVPL was driven by valuation effects. Operating expenses went down due to the decrease of deposit insurance contribution to EUR 33.8 million (EUR 49.9 million) and lower IT expenses, which offset higher personnel, marketing, legal and consulting expenses. Consequently, operating result increased and the cost/income ratio improved. Impairment result from financial instruments improved as last year updated risk parameters with forward looking information and stage overlays related to the Covid-19 crisis led to significantly higher risk provisioning. Other result worsened mainly due to lower selling gains from real estate. Payments into the resolution fund increased to EUR 12.3 million (EUR 10.5 million). Banking tax amounted to EUR 4.3 million (EUR 3.7 million). Overall, the net result attributable to owners of the parent improved significantly.

Credit risk

Credit risk exposure in the Erste Bank Oesterreich & Subsidiaries segment rose to EUR 49.2 billion (+5.9%), customer loans increased to EUR 37.4 billion (+5.0%). This segment accounted for 20.3% (21.0%) of Erste Group's total loan portfolio. The share of retail customers in total loan volume declined to 39.1% (39.5%), while the share of corporates, including self-employed individuals and small businesses, rose to 55.6% (55.1%). Loans to professionals, other self-employed individuals and small businesses are less significant than they are for other Austrian savings banks. Lending to the public sector amounted to EUR 2.0 billion (+1.9%). Its proportion of the total loan portfolio is on a declining trend. The share of Swiss franc-denominated loans in the total loan portfolio declined further to EUR 1.0 billion (-11.1%). Non-performing loans were slightly down and, as percentage of total loans to customers, remained low at 1.5% (1.6%). The development was slightly positive across all customer segments. The NPL coverage ratio based on loan loss provisions decreased marginally to 62.0% (63.4%).

SAVINGS BANKS

Financial review

in EUR million	2020	2021	Change
Net interest income	1,069.4	1,080.3	1.0%
Net fee and commission income	519.6	584.5	12.5%
Net trading result and gains/losses from financial instruments at FVPL	16.6	42.6	>100.0%
Operating income	1,648.6	1,754.3	6.4%
Operating expenses	-1,106.1	-1,108.8	0.2%
Operating result	542.5	645.5	19.0%
Cost/income ratio	67.1%	63.2%	
Impairment result from financial instruments	-267.2	23.8	n/a
Other result	-4.1	-15.9	>100.0%
Net result attributable to owners of the parent	41.6	83.2	99.7%
Return on allocated capital	7.1%	12.5%	

Net interest income increased due to a one-off booking related to TLTRO III refinancing with ECB (EUR 13.6 million) and higher loan volumes, largely offset by lower margins for customer loans and higher interest expense on the placement of excess liquidity. Net fee and commission income increased on the back of higher securities and payment fees. The notable improvement of net trading result and gains/losses from financial instruments at FVPL was primarily driven by valuation effects. Operating expenses remained almost unchanged as lower IT expenses and depreciation largely offset higher payment into deposit insurance fund of EUR 51.6 million (EUR 45.0 million), higher personnel expenses and higher expenses for advertising and marketing. Overall, operating result as well as the cost/income ratio improved. Impairment result from financial instruments also improved and resulted in a net release as last year updated risk parameters with forward looking information and stage overlays related to the Covid-19 crisis led to significantly higher risk provisioning. Other result worsened due to provisions for legal expenses related to a potential client reimbursement for interest payments during loan moratoria (EUR -11.5 million). The resolution fund contribution increased to EUR 11.2 million (EUR 9.5 million), banking tax to EUR 5.1 million (EUR 4.6 million). Overall, the net result attributable to the owners of the parent increased considerably.

Credit risk

Credit risk exposure in the Savings Banks segment increased to EUR 75.1 billion (+5.4%), while loans to customers rose to EUR 53.8 billion (+6.8%). Their share in Erste Group's total loans to customers stood at 29.2% (29.6%). Lending to private households registered slightly above-average growth, raising its share in the Savings Banks' total customer loan portfolio to 39.8% (39.5%). Loans to professionals, other self-employed persons and small businesses amounted to EUR 6.5 billion (-1.7%). Despite a noticeable decline to 12.1% (13.2%) of total loans, the share of this customer segment was again extraordinarily large and, most notably, significantly larger than at Erste Group's subsidiaries in Central and Eastern Europe. This reflects the Savings Banks' predominantly local and regional operations as well as the general structure of the Austrian economy, which has a higher percentage of small and medium-sized businesses than many other countries. Swiss franc-denominated foreign-currency loans declined again significantly to EUR 1.3 billion (-16.5%). Due to extensive government support provided amid the Covid-19 pandemic, non-performing loans as a percentage of total loans to customers declined to 2.4% (2.8%). The NPL coverage ratio based on loan loss provisions was unchanged at 70.2%.

OTHER AUSTRIA

Business review 2021 – questions to Ingo Bleier, Chief Corporates and Markets Officer

How did the competitive environment change?

In 2021, we saw a normalisation after the uncertainties in 2020 due to the outbreak of the Covid-19 pandemic. Corporate clients were less impacted as the liquidity in the market was very strong. This led to an ongoing margin pressure and aggressive deal structures as well as early prepayments of some of our real estate financings. On top of that the supply chains got significantly disrupted and more and more fintechs are entering the market.

Digitalisation is accelerating and our clients are increasingly open to remote services and the usage of digital channels. Thanks to strong ratings and a consistent strategy, Erste Group is perceived as a safe harbour, resulting in a significant inflow of corporate deposits, where we benefited from increased interest rates in our non-EUR core markets.

In the capital markets area, the issuance of ESG-related bonds has increased, and the EU stepped up with first transactions out of its EU SURE and NEXT GEN EU programme.

In addition, we were able to increase the issuance volume for our clients in the commercial real estate sector in the CEE region, who saw a favourable spread development and increasing valuations. The local bond markets showed a solid development, especially in Hungary (supported by a Hungarian National Bank bond purchasing programme), Czech Republic and Croatia, which is important for us, having in mind our mission to develop the local capital markets in CEE. On the Equity Capital Markets side we saw a year of increased deal activity in the CEE, although the region is still lagging behind Western Europe. Poland remained by far the most active country.

Which ESG related topics were most relevant for you?
ESG has become an additional criterion in the process of credit decision making. Although the projected fight for green assets has only just begun, competition in this field will be intense. Therefore, we are constantly improving our governance on ESG asset screening based on the EU taxonomy and are preparing ourselves for the reporting of the Green Asset Ratio.

One of the main drivers in retail investments was the ESG topic. First, driven by the fund industry ESG products became more popular and so issuers of structured notes started to offer green products. Erste Group, in particular Group Markets, recognised this trend early on and broadened its product offering. But more than that we strategically focused on an ESG setup and implemented a group-wide product policy. This internal regulatory framework does not only focus on green investments but also covers social and governance topics.

In our strategic dialogue with clients the topic gained further relevance and our expertise is highly appreciated. We advised corporate clients on establishing their ESG frameworks and strategies. Owing to this cooperation we issued more than EUR 2.5 billion with ESG corporate transactions (bonds and Schuldscheindarlehen) in 2021. On the equity market, ESG reporting and ESG ratings have increased significantly in importance in both primary and secondary markets. Investors in Initial Public Offerings expect companies to talk about their ESG vision and most relevant Key Performance Indicators.

In 2021, nearly 50% of all structured products sold to retail customers were ESG products (by volume) and the share of ESG bonds (by ICMA (International Capital Markets Association) standards) in our bond investment book was already 20% for our financial institutions department in Vienna. As joint bookrunner we placed sustainable bonds with a combined volume of around EUR 4 billion (12 issues in total for FIG & SSA clients). Together with EBRD and other supranational financial institutions we support ESG trade transactions for our clients in our home markets.

How did you manage to successfully differentiate your business activities from those of your competition?
Erste Group is continuously progressing in the digitalisation of its products and offerings. In 2021, we successfully completed the initial phase of our digital onboarding project for corporate clients by launching the process in Austria and Romania. This is the first fully end-to-end digital corporate onboarding in both countries, where corporates can now complete a fully-fledged Know Your Customer process online, including opening an account (and active IBAN) and gaining access to Telebanking Pro or George.

Erste Bank Croatia introduced a new rating advisory project. We are the first bank to make their internal rating available to customers online and to explain the key principles of the rating, rating factors and other KPIs. The tool, a pilot of the Financial Health initiative, also shows peer benchmarking, through which our clients get additional insights.

Despite the Covid-19 pandemic we managed to complete the shift to headquarter IT systems in our New York branch (Hong Kong completed this project already in 2020). In addition, Erste Group closed its branch in London in the context of Brexit and transferred the entire loan portfolio to Vienna. This results in a significant reduction of operational costs in the Holding.

Looking back at the year, what major achievements or challenges were especially noteworthy?
Let me split the answer into two parts: the business and the IT achievements. I am very proud that we were able to support our clients in great numbers to successfully tap the Capital Markets, the highlights definitely being the first EUR 1 billion Schuldscheindarlehen led by Erste Group as well as CTP's EUR 1 billion initial public offering (IPO) – the largest IPO in the European real estate sector since 2014, where Erste Group acted as global coordinator.

In addition, we issued our inaugural sustainable benchmark bond and we were mandated for the first time to place a Eurobond for the republic of Serbia.

Owing to Erste Group's consistent presence and activity in the Corporate Banking market we have become a "go to" name for Large Corporates which is reflected in the strong growth of the business in the past year.

Due to our excellent market position in commercial real estate, we were able to sign EUR 3.4 billion of new loans in 2021 across the Group (on top of residential real estate), almost par to our record year 2019 (EUR 3.5 billion). Backed by this new loan volume, we grew our loan book significantly – despite some larger early prepayments in the first half of the year – and successfully closed financings for some very valuable assets in our region.

Thanks to fruitful cooperation between business and IT, we implemented a new custody web portal for the CEE markets delivering a modern and convenient interface to our custodian clients. The very complex regulatory driven integration of our New York Branch in the Group's reporting environment was completed. Furthermore, we introduced the digital onboarding process for Corporate clients in Romania and made tangible progress in the field of digital lending for small businesses in Croatia and Slovakia with valuable learning effects (especially on data models) for other countries.

Financial review

in EUR million	2020	2021	Change
Net interest income	451.0	417.2	-7.5%
Net fee and commission income	249.9	301.3	20.5%
Net trading result and gains/losses from financial instruments at FVPL	-23.9	48.6	n/a
Operating income	721.8	813.3	12.7%
Operating expenses	-367.2	-352.0	-4.1%
Operating result	354.5	461.3	30.1%
Cost/income ratio	50.9%	43.3%	
Impairment result from financial instruments	-202.3	3.4	n/a
Other result	-14.4	7.1	n/a
Net result attributable to owners of the parent	103.2	351.1	>100.0%
Return on allocated capital	5.2%	14.6%	

Net interest income went down primarily in Holding markets business on the back of unfavourable market interest rate developments, partially compensated by higher result from corporate lending in the Holding. Net fee and commission income increased due to a higher contribution of securities business driven among others by higher assets under management with institutional clients in Austria as well as the good development of corporate lending in the Holding. Net trading result and gains/losses from financial instruments at FVPL improved significantly due to valuation results of interest rate derivatives, equity futures and bonds. Overall, operating income improved notably while operating expenses decreased, mostly on lower costs in foreign branches. Consequently, operating result and the cost/income ratio improved. The impairment result from financial instruments improved and resulted in a net release as last year updated risk parameters with forward looking information and stage overlays related to the Covid-19 crisis led to significant risk provisioning in the corporate portfolio. Other result improved due to higher real estate selling gains and lower provisions for commitments and guarantees, partially offset by breakage costs related to an early loan repayment. Other result included the resolution fund contribution of EUR 8.0 million (EUR 9.6 million). Overall, the net result attributable to owners of the parent improved significantly.

Credit risk

Credit risk exposure in the Other Austria segment, which is almost completely made up of Erste Group Bank AG and Erste Group Immorent GmbH, increased to EUR 40.1 billion (+10.3%). Its share in Erste Group's total credit risk exposure stood at 12.8% (12.7%). A large proportion of risk positions in this business segment was accounted for by securities and cash balances held with other banks. Consequently, the share of loans to customers in Erste Group's total loan portfolio was lower than its contribution to credit risk exposure. At year-end, it stood at 9.4% (9.0%). Robust growth in total loans to customers was driven primarily by the large corporates business while lending to the public sector declined further. The decline in the NPL ratio (non-performing loans as a percentage of the total loan portfolio) to 2.4% (2.8%) was primarily attributable to a significantly reduced inflow of non-performing loans against the backdrop of substantial growth in business volume. Loan loss provisions amounted to 78.2% (78.1%) of non-performing loans.

Central and Eastern Europe

CZECH REPUBLIC

Economic review

The Czech Republic is among the most open economies in the CEE region with well-developed services and industry sectors. The country's economy continued to recover in 2021. Economic growth was mainly driven by domestic demand which remained strong during the year. Private consumption, supported by increased real disposable income, and investments improved visibly. The country's traditionally high savings rate remained at a high level as well. Government spending also contributed to GDP growth. The negative impact of supply-chain disruptions, however, posed significant headwinds for the Czech economy. They had a more significant impact on economic growth than in most of the other CEE countries. Trade was impacted strongly due to the structure of Czechia's exports, in particular the importance of the automotive and engineering industries. Exports were especially affected in the fourth quarter when car production was significantly reduced due to the global chip shortage. Although the unemployment rate increased to 2.9% at the end of the year, it remained the lowest among the European Union countries. Overall, real GDP increased by 3.3% and GDP per capita amounted to EUR 22,300.

After parliamentary elections in the fourth quarter, a new centre right coalition government was formed consisting of five political parties. Traditional left-wing parties failed to reach the 5% threshold. Importantly, the country's budget deficit widened to 6.8% of GDP. The deficit was driven mainly by higher expenditures (in particular the extensive fiscal stimulus including the support measures related to the Covid 19 pandemic), a reduction in personal income taxes as well as further increases in pensions and public wages. The phase-out of Covid 19 support measures started in the second half of 2021. At 42.2%, public debt as a percentage of GDP remained one of the lowest in the European Union.

Inflation in the Czech Republic exceeded the 3% upper end of the central bank's tolerance range, mainly due to a rise in energy and food prices as well as due to solid domestic demand and supply-side factors. Regulated energy prices, on the other hand, had a mitigating impact on inflation. Overall, average consumer price inflation reached 3.8%. The Czech koruna was the only regional currency that appreciated against the euro in 2021, mainly due to monetary tightening of the Czech National Bank. The central bank started to hike interest rates in June and raised its key policy rate in five steps to 3.75% during the year.

Rating agencies did not change their ratings and outlook for the Czech Republic in 2021. Moody's confirmed its long-term credit rating at Aa3 with a stable outlook. Standard and Poor's and Fitch kept their ratings at AA- with a stable outlook.

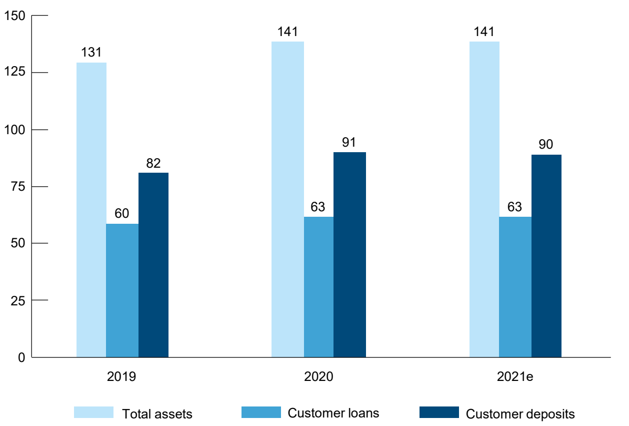
Key economic indicators – Czech Republic	2018	2019	2020	2021e
Population (ave, million)	10.6	10.7	10.7	10.7
GDP (nominal, EUR billion)	211.2	225.7	215.3	238.2
GDP/capita (in EUR thousand)	19.9	21.2	20.1	22.3
Real GDP growth	3.2	3.0	-5.8	3.3
Private consumption growth	3.3	2.6	-7.1	4.5
Exports (share of GDP)	66.8	63.6	61.2	64.1
Imports (share of GDP)	65.0	61.1	58.0	63.8
Unemployment (Eurostat definition)	2.3	2.0	2.6	2.9
Consumer price inflation (ave)	2.2	2.8	3.2	3.8
Short term interest rate (3 months average)	1.3	2.1	0.9	1.1
EUR FX rate (ave)	25.6	25.7	26.5	25.6
EUR FX rate (eop)	25.7	25.4	26.2	24.9
Current account balance (share of GDP)	0.4	0.3	3.6	0.3
General government balance (share of GDP)	0.9	0.3	-5.6	-6.8

Source: Erste Group

Market review

Based on sound fundamentals, the Czech banking sector proved to be resilient to the Covid 19 induced crisis. In 2021, customer loans rose by 7.0% mainly driven by retail loans, growing at 9.9%. Housing loans continued to dominate the retail sector with a growth rate of 11.2%. The volume of new mortgages reached a new record level in 2021. The Czech central bank tightened rules on the issuance of mortgage loans. It reintroduced the debt-to-income ratio and the debt-service-to-income ratio for mortgage applicants, with the limits set at 8.5 and 45%, respectively. In addition, the upper limit on the loan-to-value ratio was reduced to 80%. The new rules will come into force in April 2022. The central bank also increased the countercyclical capital buffer for banks in gradual steps to 2% until 1 January 2023.

Financial intermediation – Czech Republic (in % of GDP)



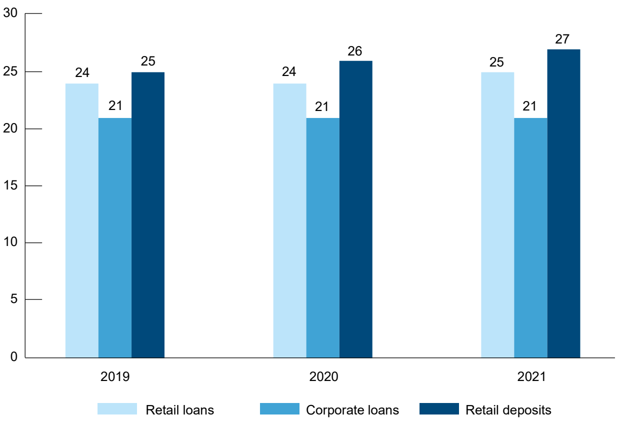
Source: Czech National Bank, Erste Group

Corporate loans grew by 6.0% reflecting a revival in investment activity. Customer deposit inflows remained very strong with a growth rate of 6.6%. Retail and corporate deposits grew similarly, by 6.8% and 7.5% respectively. The Czech banking market remained one of the most liquid in Central and Eastern Europe. At year-end, the banking sector loan-to-deposit ratio stood at 69.9%. The solid fundamentals were confirmed by the banking sector's total capital ratio of well above 20%.

The Czech banking market continued to perform well in terms of profitability. Revenues, especially net interest income, benefitted from loan growth as well as interest rate hikes in the second half of the year. Fee and commission income, driven mainly by asset management and insurance businesses, also supported revenues. Cost management remained strict with banks further reducing their number of branches throughout the year. Risk provisions decreased significantly and hence contributed to rising profits. The share of non-performing loans remained close to historically low levels; the coverage ratio increased significantly. Overall, the banking sector ended the year with a return on equity of 10.2%.

The consolidation of the banking sector continued in 2021. Moneta Money Bank decided to acquire Air Bank Group and the Czech and Slovak Home Credit. Other smaller transactions also took place such as Raiffeisenbank purchasing Equa bank and Česká spořitelna taking over the Czech branches and business of Waldviertler Sparkasse. The three largest banks have a combined market share of approximately 60% in customer loans and deposits.

Market shares – Czech Republic (in %)



Source: Czech National Bank, Erste Group

Česká spořitelna maintained its very strong market positions across all product categories. Retail lending market shares ranged from 24% to 27%, market shares in the corporate lending business remained above 20%. At 26%, the bank also retained the top position in consumer lending, including the credit card business. Česká spořitelna built on its market leadership position in asset management products, pushing its market share to 26%. Overall, its market share in terms of total assets stood at 19.1%.

Business review 2021 – questions to Tomáš Salomon, CEO of Česká spořitelna

How did the competitive environment change?
Looking back at 2021 should fill us with optimism for the future. Even though both we and our clients had to deal with various obstacles in the course of the year together we have managed to overcome most of them and are gradually returning to "normal".

Financial results of Česká spořitelna and also other banks in the market confirm the long-term stability of the banking sector in the region.

It is evident that the new "normal" will differ significantly from the previous one: the economic and social environments have changed by leaps and bounds and all of us need to adapt as rapidly as possible. How we do this will determine our future success. It is not only the form by which traditional banking services are provided and their digitalisation that are undergoing rapid transformation, but also their content.

After a long time, the Czech banking market experienced some M&As. Česká spořitelna took over the branches of Waldviertler Sparkasse located in the Czech Republic, and Raiffeisenbank took over Equa bank. Meanwhile, Moneta announced it will merge with Air Bank and Home Credit (of the PPF Group). The new bank will become the biggest consumer lender and the third biggest in terms of customers (2.5 million) behind Česká spořitelna and ČSOB.

Which ESG related topics were most relevant for you?
We sailed through the year 2021 on a "green wave". Česká spořitelna made the largest-ever issue of green bonds among financial institutions operating on the domestic market, offering international investors bonds in an amount of EUR 500 million. The proceeds will finance projects focused on sustainability and the environment. We also opened three new ESG mixed mutual funds.

Together with nine other banks, Česká spořitelna supported the establishment of the Commission for Sustainable Finance at the Czech Banking Association. The banks also signed a Memorandum for Sustainable Finance.

Česká spořitelna was also among those who initiated an annual Carbon Tracker report that should help companies to track their CO_2 footprint and to transform according to upcoming ESG legislation.

Česká spořitelna defined an ESG, Environmental, Social and Governance, risk policy as its basic framework for identifying and managing sustainability related goals and risks.

How did you manage to successfully differentiate your business activities from those of your competition?
In 2021, Česká spořitelna continued its own strategic transformation. We are again a step further along on our journey, from being a commodity-offering financial services provider to being a trusted partner for our clients. We were able to provide personalised advice to more clients in our branches and corporate centres. We have improved our online advisory services and further developed our digital platform George, which is already used by more than 1.8 million customers. In cooperation with partner firms, we also launched a unique application that allows users to turn their mobile phone into a payment terminal to accept credit cards. Czech retailers were the first in Central Europe to obtain this option. We offered our clients the use of Banking Identity, a solution for online communication with the state and companies. Česká spořitelna's Banking Identity has become the most used Banking Identity for communication with the state and has real potential to drive the much-needed digitalisation of the Czech Republic.

Looking back at the year, what major achievements or challenges were especially noteworthy?
While the focus was heavily on the environmental part of ESG, we did not forget about the social aspects either. In 2021, we continued to help the Czech Republic where it was needed. At the beginning of the year, for example, we set up a special phone line to help seniors register for their coronavirus vaccination. We supported communities with our long standing grant programme, helped tornado-devastated Moravia, and continued the cooperation with dozens of our partners in the non-profit sector.

A tremendous amount of employee work and dedication stands behind these activities and accomplishments. Thanks to their efforts, we earned a number of significant awards in 2021: we defended our victory in the Bank of the Year competition and won four Golden Crowns for our products. Česká spořitelna's customer care scored in the prestigious international competition European Customer Centricity Awards, in which we won the top prize among 210 projects of 86 companies from 26 countries.

Financial review

in EUR million	2020	2021	Change
Net interest income	1,049.0	1,150.5	9.7%
Net fee and commission income	311.6	358.2	14.9%
Net trading result and gains/losses from financial instruments at FVPL	94.7	63.5	-32.9%
Operating income	1,466.6	1,589.9	8.4%
Operating expenses	-722.4	-795.3	10.1%
Operating result	744.2	794.6	6.8%
Cost/income ratio	49.3%	50.0%	
Impairment result from financial instruments	-299.8	-69.4	-76.8%
Other result	-25.6	-75.9	>100.0%
Net result attributable to owners of the parent	334.7	504.1	50.6%
Return on allocated capital	12.9%	16.6%	

The segment analysis is done on a constant currency basis. The CZK appreciated by 3.0% against the EUR in the reporting period. Net interest income in the Czech Republic segment (comprising Česká spořitelna Group) increased on higher business volumes and the non-recurrence of loan repayment moratorium modification losses. The increase in net fee and commission income was mainly driven by higher securities and insurance brokerage fees. Negative valuation effects resulted in a lower net trading result and gains/losses from financial instruments at FVPL. Operating expenses increased due to higher personnel as well as IT and marketing costs. The deposit insurance contribution amounted to EUR 10.8 million (EUR 10.1 million). Overall, the operating result increased while the cost/income ratio deteriorated. Impairment result from financial instruments improved significantly as last year updated risk parameters with forward looking information and stage overlays related to the Covid-19 crisis led to high risk provisioning. Other result deteriorated mainly due to higher impairments of non-financial assets and provisions for legal expenses. Payments into the resolution fund amounted to EUR 31.9 million (EUR 29.1 million). Altogether, these developments led to a significant improvement in the net result attributable to the owners of the parent.

Credit risk

Credit risk exposure in the Czech Republic segment rose to EUR 71.2 billion (+14.8%) while loans to customers increased to EUR 34.5 billion (+16.4%). The strong growth rates were largely driven by the appreciation of the Czech koruna against the euro. Retail business volume registered above-average growth supported mainly by strong demand for mortgage loans, but the large corporates business also expanded significantly. Customer loan volume as a percentage of Erste Group's total loans to customers increased significantly to 18.7% (17.4%). In terms of business volume, the Czech Republic is by far the second most important market for Erste Group after Austria. The quality of customer loans improved slightly and was again better than the average of Erste Group's core markets in Central and Eastern Europe. Non-performing loans as a percentage of total loans to customers declined to 2.1% (2.2%). Loan loss provisions amounted to 111.3% (115.1%) of non-performing loans.

SLOVAKIA

Economic review

Slovakia is an open economy characterised by strong automotive, electronics and services sectors. Economic growth in 2021 was mainly driven by domestic demand, especially private consumption, supported by the easing of Covid-19 containment measures during summer. Economic growth also benefitted from investment activity. The industry-heavy export sector, however, was adversely affected by severe supply-chain disruptions. Global semiconductor shortages persisted throughout the year and constrained the country's automotive industry. Slovakia's labour market showed signs of resilience. The unemployment rate rose moderately to 7.0% supported by government measures to protect jobs. Overall, real GDP increased by 3.0%, and GDP per capita amounted to EUR 17,700.

The general government deficit increased to 6.0% of GDP in 2021, mainly driven by temporary Covid 19 pandemic-related support measures, including short-time work schemes. Tax revenues, especially value added tax and corporate income tax, were positively impacted by the economic rebound. On the other hand, social transfers, subsidies, investments and expenditure on goods and services grew relatively fast. The country's public debt as a percentage of GDP increased further to 62.9%.

Inflationary pressures intensified in the second half of the year and reached a multi-year high in November. Main drivers were oil and commodity prices, higher excise taxes on tobacco, levels of rents and supply-side constraints. Overall, average consumer price inflation amounted to 3.2%. As Slovakia is part of the euro zone, its monetary policy is set by the European Central Bank (ECB) which kept its discount rate at zero throughout the year. In the context of the Covid 19 pandemic, the ECB introduced the Pandemic Emergency Purchase Programme (PEPP) and also used long-term refinancing operations (TLTRO) as important components of its monetary policy.

Rating agencies acknowledged Slovakia's positive macroeconomic developments. Standard & Poor's upgraded its outlook from Negative to Stable and kept its long-term credit rating at A+. Moody's and Fitch confirmed their ratings at A2 and A, respectively, with a stable outlook from Moody's and a negative outlook from Fitch.

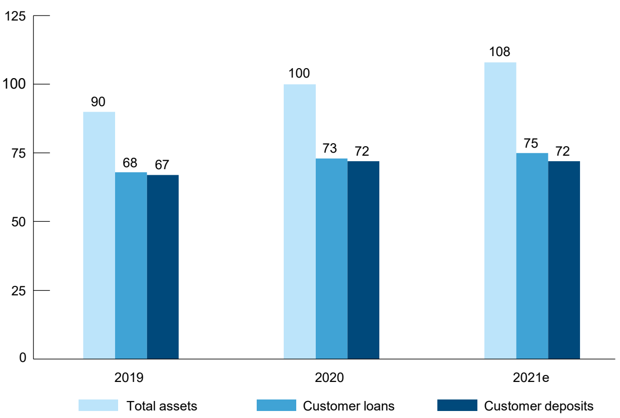
Key economic indicators – Slovakia	2018	2019	2020	2021e
Population (ave, million)	5.5	5.5	5.5	5.5
GDP (nominal, EUR billion)	89.4	94.0	92.1	97.0
GDP/capita (in EUR thousand)	16.4	17.2	16.9	17.7
Real GDP growth	3.8	2.6	-4.4	3.0
Private consumption growth	4.2	2.6	-1.3	1.0
Exports (share of GDP)	84.0	80.3	76.0	83.8
Imports (share of GDP)	84.3	81.5	74.9	84.0
Unemployment (Eurostat definition)	6.5	5.8	6.7	7.0
Consumer price inflation (ave)	2.5	2.7	1.9	3.2
Short term interest rate (3 months average)	-0.3	-0.4	-0.4	-0.6
Current account balance (share of GDP)	-2.2	-3.4	0.1	-1.1
General government balance (share of GDP)	-1.0	-1.3	-5.5	-6.0

Source: Erste Group

Market review

Market loan growth accelerated in 2021. Customer loans increased by 7.5%, driven by surging housing loans, which grew by 11.8%. The substantial increase in housing loans was attributable to the very low interest rate environment, a strong labour market and rising real estate prices. Consumer loans declined further by 6.1%. Up 6.2%, customer deposits rose slower than customer loans, resulting in a system loan-to-deposit ratio of 104.4%. The positive trend in asset management continued with an annual growth rate of 22.5%. The National Bank of Slovakia maintained its macroprudential measures during the pandemic and left the debt-service-to-income (DSTI), debt-to-income (DTI) and loan-to-value (LTV) regulations unchanged throughout the year. The countercyclical buffer remained at 1.00%.

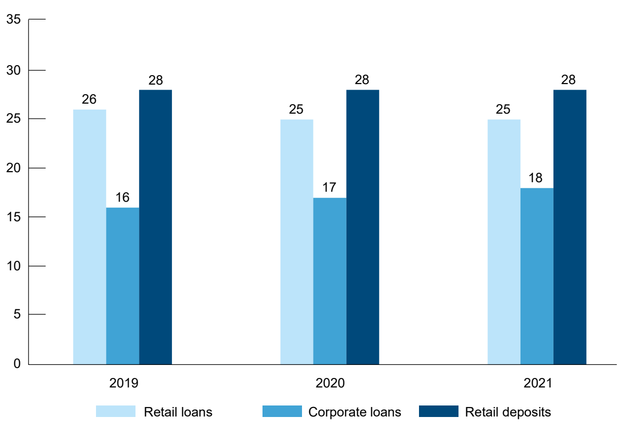
Financial intermediation – Slovakia (in % of GDP)



Source: National Bank of Slovakia, Erste Group

For the Slovak banking sector 2021 was one of its most profitable years. Very low market interest rates continued to weigh on net interest income which was partially offset by TLTRO measures. Fee and commission income was supported by asset management and insurance brokerage business. Expenses remained well under control.

Market shares – Slovakia (in %)



Source: National Bank of Slovakia, Erste Group

Financial institutions further reduced the number of branches and employees. Risk costs significantly declined following substantial risk provisioning of the previous year. Asset quality developed favourably. The NPL ratio decreased further to 2.2%, the NPL coverage ratio stood at 105.2%. The participation rate in Covid 19 moratoria was lower than expected. Banking tax, based on total liabilities, excluding equity and subordinated debt, was discontinued in the second half of 2020. The banking sector remained well capitalised. Overall, the sector's return on equity stood at 7.5%.

Although there was no major acquisition in Slovakia's banking market in 2021, consolidation of the industry is expected to continue in the future. Slovenská sporiteľňa remained the country's largest bank. It continues to control more than one fifth of the country's banking market in terms of total assets and led the market in retail loans and deposits. The bank continued to benefit from its very strong asset management business, holding a 19.5% market share. Slovenská sporiteľňa commands higher market shares in the retail than in the corporate sector. In the retail loan business, the bank's market share was 24.7%, while for corporate lending it was 18.1%. At 13.4%, its market share in corporate deposits was also significantly lower than in retail deposits at 28.3%.

Business review 2021 – questions to Peter Krutil, CEO of Slovenská sporiteľňa

How did the competitive environment change?
Overall, positive factors overweighed the negative ones in 2021. After the initial shock caused by the pandemic, the economic recovery was swift and robust. In addition, the cancellation of the bank levy in 2020 helped as well to reduce uncertainties. On the other hand, the main negative factor – extremely low interest rates – is still present, depleting the main income source of Slovak banks. In the meantime, however, inflation went up so we will see whether the central bank sticks to its plan to increase interest rates only sometime in 2023.

Which ESG related topics were most relevant for you?
Slovenská sporiteľňa, as a responsible and relevant partner for its customers, made three commitments to the public which are meant to move Slovakia towards a better future. We will plant 300,000 trees across the country to fight climate change. We will provide financial education to 200,000 young people through the unique initiative of Slovenská sporiteľňa's foundation FinQ to improve the financial situation of the new generation. And finally, we will support people in challenging social conditions as a thousand of them will be provided with new homes thanks to social housing provided by our bank.

It goes without saying that improving energy efficiency, reducing emissions and paper usage has been on the agenda for 10 years. Among activities in the environmental area, I would like to emphasise the inaugural green bond we issued in 2021 and the signing of the memorandum on sustainable business.

Diversity and inclusion was another key topic for us last year. The human resources department prepared workshops and lectures covering these topics and produced various educational videos.

How did you manage to successfully differentiate your business activities from those of your competition?
It is our basic approach: First of all, it is about the people. Thanks to hardworking and passionate employees, step by step, we turned into the digital leader in the Slovak banking market. The number of George users topped 1 million in 2021 and more than 800,000 already downloaded the mobile application; more than 660,000 of them actively use it. These are significant numbers given a total population of just 5.5 million. The swiftly growing number of users together with the improving digital offering naturally leads to higher digital sales. But for me, it is not just about numbers. I appreciate that our clients enjoy banking in George which is confirmed by the positive feedback from surveys as well as by the app stores ratings.

Financial health of the customers remained the key ambition for our bank. We have enhanced the Financial plan application used in branch tablets. Every customer is provided with individual advice and possibilities to optimise her or his financial wealth. Growth of asset management was another success story. We account for almost 40% of the market net sales and improved the market share on net asset value by superb 2.5 percentage points, becoming the number two on the market.

Looking back at the year, what major achievements or challenges were especially noteworthy?
I would not want to omit the record high net profit we reported in 2021, although we need to look at the result in the context of the risk costs in the past two years. What I am really proud of is that our operating result increased by strong 5%. Fee income was almost 20% higher compared to the previous year, operating expenses remained well under control thanks to the continuation of the internal optimisation programme, and the decline of net interest income was softened by the TLTRO participation.

Retail loans proved to be more challenging than expected. Housing loans, after a gradual growth deceleration in recent years, returned to exceptional growth of almost 12%. It was fuelled by still high demand, surging real estate prices, and persistently low interest rates. Slovenská sporiteľňa stood its ground and defended the market leading position amid an exceptional wave of refinancing, caused by aggressive pricing by some of the market challengers. At the same time, we are getting less dependent on external financial advisors, trying to increase the share of sales from our branch network and digital channels in the process.

Don't let me forget to mention that we kept improving our corporate loans market share also in 2021. The year-end figure of more than 18% is a record high, and it confirmed our ambition to be the bank of first choice also for corporate customers.

As an external appreciation that we are doing things right, our bank received the Via Bona award from the Pontis Foundation for fair, responsible and sustainable business in the category Well-Governed Company.

Financial review

in EUR million	2020	2021	Change
Net interest income	438.4	434.9	-0.8%
Net fee and commission income	147.1	174.3	18.4%
Net trading result and gains/losses from financial instruments at FVPL	11.8	9.0	-23.2%
Operating income	601.2	625.0	4.0%
Operating expenses	-287.1	-292.4	1.9%
Operating result	314.1	332.6	5.9%
Cost/income ratio	47.8%	46.8%	
Impairment result from financial instruments	-107.9	-1.1	-99.0%
Other result	-49.3	-18.2	-63.1%
Net result attributable to owners of the parent	115.8	237.9	>100.0%
Return on allocated capital	10.5%	18.6%	

Net interest income in the Slovakia segment (comprising Slovenská sporiteľňa Group) decreased moderately as the negative impact of lower consumer loan volumes and lower margins for housing loans in the retail business as well as the lower result from bond investments was only partially compensated by a one-off booking related to TLTRO III refinancing with ECB (EUR 12.9 million). Net fee and commission income increased on the back of higher income from payment, securities and insurance brokerage fees. Net trading result and gains/losses from financial instruments at FVPL decreased slightly on valuation effects. Operating expenses increased due to a higher deposit insurance contribution of EUR 9.4 million (EUR 1.1 million) on the back of a methodology change and higher IT costs. This increase was partially compensated by lower depreciation and personnel expenses. Consequently, operating result increased and the cost/income ratio improved. Impairment result from financial instruments improved significantly as last year updated risk parameters with forward looking information and stage overlays related to Covid-19 crisis led to high risk provisioning. Other result improved due to the abolition of the banking tax as of the second half of last year (EUR 33.8 million in the first half year of 2020). Payment into the resolution fund increased slightly to EUR 4.7 million (EUR 4.0 million). Overall, the net result attributable to the owners of the parent increased significantly.

Credit risk

Credit risk exposure in the Slovakia segment amounted to EUR 22.5 billion (+7.3%) while loans to customers rose to EUR 16.2 billion (+6.2%). Their share of Erste Group's total loan portfolio declined to 8.8% (9.0%). Loan volume growth was driven mostly by retail customers and small and medium-sized businesses, while business with large corporates was slightly down. The share of loans to private households was again significantly larger in the Slovakia segment than in other core markets and accounted for 66.8% (67.2%) of total loans to customers. This customer mix with a substantial proportion of retail mortgage loans also explains the large share of secured business of 57.2% (58.7%) in the entire loan portfolio, which exceeds that of other Central and Eastern European core markets. The NPL ratio declined significantly to a historically low level of 1.8% (2.4%). The positive trend was particularly notable in the Corporates business segment. Loan loss provisions exceeded non-performing loans significantly. The NPL coverage ratio rose to 115.9% (107.4%).

ROMANIA

Economic review

Romania's economy is characterised by its dominant services and manufacturing sectors. Following a decline of real GDP by 3.7% due to Covid 19 related measures in the previous year, the economy recovered in 2021. Real GDP expanded by 5.6% driven by domestic demand which was supported by tight labour market conditions and wage increases. GDP per capita increased to EUR 12,400. The services sector remained the main contributor to GDP growth, followed by industry and agriculture. Construction was a minor drag to GDP growth along with net exports. Exports were affected by supply-chain disruptions, with the auto industry output declining in the second half of the year. The Covid 19 pandemic did not weigh too much on the labour market, the unemployment rate declined to 5.5% at the end of the year, marginally above pre-Covid 19 levels.

The Romanian political environment remained volatile in 2021. After the collapse of the centre-right government in September the National Liberal Party and the Social Democratic Party formed a new government. The budget deficit stood at 7.8% of GDP. State revenues improved on the stronger-than-expected GDP development, while expenditures, especially wage related expenditures, were contained. The government introduced measures to dampen the energy prices shock. Public debt to GDP increased to 50.0%. Consumer price inflation increased from 2.7% in 2020 to an average of 5.0% in 2021 mainly due to higher gas, electricity and fuel prices. Core inflation increased to 4.7% on the back of higher processed food prices and higher energy costs, above the central bank target range of 1.5-3.5%. The Romanian leu continued its gradual depreciation against the euro and traded between 4.85 and 4.95 throughout the year. In response to high inflation, the National Bank of Romania increased its key policy rate by 50 basis points in two steps to 1.75% in 2021 and widened its symmetrical standing facilities corridor from ±50 to ±100 basis points, thus hiking the credit facility rate, which is the most relevant instrument under the firm liquidity management policy, by 100 basis points to 2.75%. Romania's long-term credit rating was affirmed at BBB- by Standard & Poor's and Fitch and at Baa3 by Moody's in 2021. Standard & Poor's and Moody's upgraded the outlook to stable from negative, while Fitch kept its negative outlook.

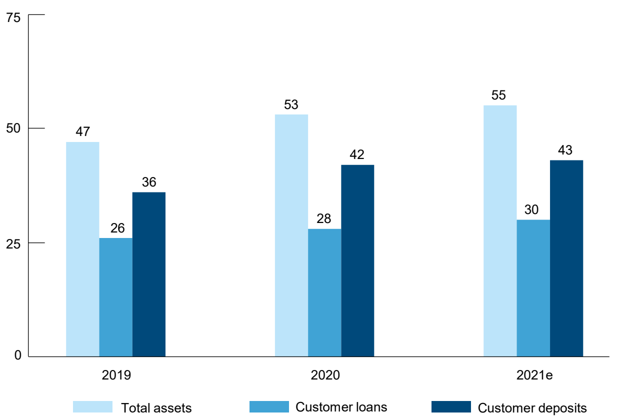
Key economic indicators – Romania	2018	2019	2020	2021e
Population (ave, million)	19.5	19.4	19.3	19.2
GDP (nominal, EUR billion)	204.5	223.2	218.2	238.0
GDP/capita (in EUR thousand)	10.5	11.5	11.3	12.4
Real GDP growth	4.5	4.2	-3.7	5.6
Private consumption growth	7.6	3.8	-5.1	6.0
Exports (share of GDP)	33.1	30.9	28.5	31.4
Imports (share of GDP)	40.5	38.7	36.9	41.3
Unemployment (Eurostat definition)	5.3	4.9	6.0	5.5
Consumer price inflation (ave)	4.6	3.8	2.7	5.0
Short term interest rate (3 months average)	2.8	3.1	2.4	1.8
EUR FX rate (ave)	4.7	4.7	4.8	4.9
EUR FX rate (eop)	4.7	4.8	4.9	4.9
Current account balance (share of GDP)	-4.6	-4.9	-5.0	-7.1
General government balance (share of GDP)	-2.9	-4.4	-9.4	-7.8

Source: Erste Group

Market review

In 2021, the Romanian banking market was characterised by the increasing adoption of green financing frameworks, the continuation of digitalisation efforts and a few smaller acquisitions. Customer loans increased by 18.7%, while customer deposits were up by 14.1%. On the lending side, growth was mainly attributable to corporate loans which expanded by 28.0%. Governmental loans grew rapidly towards the end of the year. Retail loans rose by 9.7%, with housing loans growing by 12.9% year-on-year. The 14.1% increase in customer deposits was driven by the corporate sector. Overall, the banking system's loan-to-deposit ratio increased slightly to 69.6%. The Romanian banking sector remained strongly capitalised with an aggregated capital adequacy ratio of 23.1%.

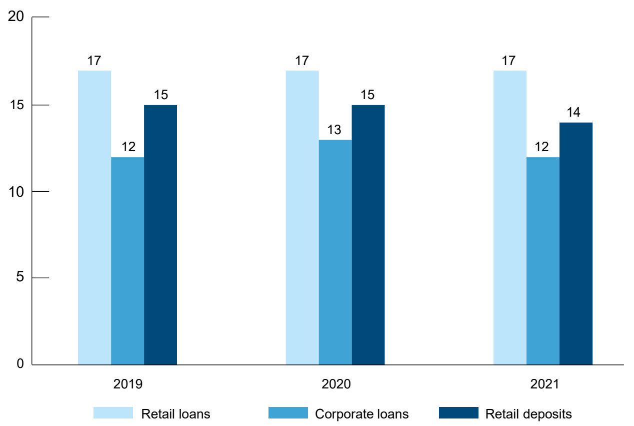
Financial intermediation – Romania (in % of GDP)



Source: National Bank of Romania, Erste Group

The Romanian banking sector increased its profitability in 2021. Net interest income was supported by interest rate hikes in the second half of the year while risk provisions declined significantly. Asset quality did not deteriorate and Covid 19 loan moratoria participation was low. Fee and commission income was significantly supported by asset management related fees. Cost control remained strict and the banking system's cost/income ratio improved to 54.8%. Overall, the Romanian banking sector achieved a return on equity of 13.5% in 2021.

Market shares – Romania (in %)



Source: National Bank of Romania, Erste Group

Banca Comercială Română was the second largest bank in the country based on both customer loan and deposit market shares. The bank kept its market leader position in asset management and in mortgage lending. The bank's customer loan market share was 14.4% at year-end 2021. Its retail loan market share stood at 17.0%, while in the corporate sector it amounted to 12.1%. At 13.9%, the bank remained the second largest bank in Romania in terms of total assets.

Business review 2021 – questions to Sergiu Manea, CEO of Banca Comercială Română

How did the competitive environment change?

Over the last year, Romanian banks accelerated their investments in digitalisation, enabling enhanced customer experience, while adapting their footprint to the change in customer behaviour.

At the same time, green financing gained momentum given the expected lending potential in this segment due to the support by the European policy agenda. We were one of the first banks to provide such products.

Going forward, investments in digital transformation are expected to remain a strategic focus for banks. Market consolidation should continue given the relatively high number of small banks lacking economies of scale to generate sustainable shareholder value and the need to further invest in technology to stay competitive.

Which ESG related topics were most relevant for you?
We are taking our social responsibility and impact on community and environment very seriously by financing projects with both ecological and social value. Last year, Banca Comercială Română set up its own Sustainability Committee and also succeeded to reduce its carbon footprint. Both our headquarters buildings are LEED Platinum certified and switched to 100% renewable energy.

In 2021, we created a mortgage product for acquiring privately owned homes with the best energy labels on the market. It quickly came to represent about 18% of the applications in the second half of the year and even reached a third of the mortgage loans disbursed in December. Our bank also launched a new product dedicated to energy efficiency projects for SMEs.

And last but not least, in 2021, Banca Comercială Română issued its inaugural green bond in an amount of RON 500 million. The funds will be channelled towards financing and refinancing of green mortgage loans, commercial real estate and renewable energy projects.

How did you manage to successfully differentiate your business activities from those of your competition?
Our flexibility and resilience helped us grow on many levels: digitalisation, improved customer experience and financial education. We created SmartWork@BCR, a programme which promotes a hybrid way of working aimed to improve employees' wellbeing and prepare them for future agile competences.

In 2021, we reached two million internet and mobile banking users , of which almost 1.4 million are active customers in George, our intelligent banking ecosystem. George has also become available for businesses, with unique features for microenterprises and SMEs. More than 100,000 companies have been either migrated or newly enrolled. Furthermore, George developed local partnerships beyond the banking realm, introducing new product offers related to health, mobility and technology. By the end of the year, 11 digital labs were actively working to develop new products and services for both private individuals and companies.

Banca Comercială Română continues to be recognised as a leader of financial education in Romania. Our Money School programme is the most comprehensive financial literacy programme for all ages in Romania, with over 500,000 people trained offline and online in the last five years. In addition, BCR Business School, our online platform, offering free access to online courses for entrepreneurs, exceeded 17,000 people enrolled, and our InnovX-BCR business accelerator dedicated to support tech start-ups so far cooperates with 110 companies.

Our bank has further developed the pillar of financial health and was the only bank placing practical advisory tips in a national marketing campaign, with a reach of 11.5 million people. At the same time, our customer satisfaction index for private individuals has improved.

We also further delivered on our omni-channel strategy and created a financial advisory programme based on existing client info, which is used by our colleagues in front office. We also extended the capacities of our Contact Center via online and phone approach.

Last but not least, Banca Comercială Română implemented an innovative near field communication payment solution for public transportation in 16 cities, enabling Romania to rank 2nd in Europe by number of transactions made by card, phone or other devices.

Looking back at the year, what major achievements or challenges were especially noteworthy?
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Financial review

in EUR million	2020	2021	Change
Net interest income	435.7	432.6	-0.7%
Net fee and commission income	146.8	176.4	20.2%
Net trading result and gains/losses from financial instruments at FVPL	73.7	77.9	5.8%
Operating income	678.6	710.9	4.8%
Operating expenses	-344.9	-339.7	-1.5%
Operating result	333.7	371.2	11.3%
Cost/income ratio	50.8%	47.8%	
Impairment result from financial instruments	-107.7	-46.4	-56.9%
Other result	-60.2	-32.8	-45.5%
Net result attributable to owners of the parent	122.4	236.1	92.9%
Return on allocated capital	8.7%	13.7%	

The segment analysis is done on a constant currency basis. The RON depreciated by 1.7% against the EUR in the reporting period. Net interest income in the Romania segment (comprising Banca Comercială Română Group) remained largely stable, as the effect from higher loan volumes was offset by lower result from bond investments and the negative FX translation effect. Net fee and commission income improved mainly due to higher payment fees in retail and corporate business. Securities, insurance brokerage and lending fees went up as well. The increase of net trading result and gains/losses from financial instruments at FVPL was attributable to an improved contribution from FX business. Operating expenses decreased mainly due to lower personnel expenses driven by the deconsolidation of a subsidiary as well as a lower deposit insurance contribution of EUR 3.4 million (EUR 4.4 million). Overall, operating result increased and the cost/income ratio improved. The significant improvement of the impairment result from financial instruments was a consequence of last year's update of risk parameters with forward looking information and stage overlays related to the Covid-19 crisis. Other result improved mainly due to lower impairments and higher selling gains from property. Payment into the resolution fund increased to EUR 11.4 million (EUR 7.7 million). The net result attributable to the owners of the parent increased notably.

Credit risk

Credit risk exposure in the Romania segment increased to EUR 18.9 billion (+5.0%). A key contribution to growth came from loans to customers, which rose by EUR 888 million to EUR 10.2 billion. Their share in Erste Group's total customer loan portfolio stood unchanged at 5.5%. An expansion of lending volume was seen primarily in the Corporates business segment, specifically in large corporates and in the public sector. The share of foreign currency loans decreased further to 30.2% (34.2%) and was almost completely denominated in euro. Non-performing loans were lower at EUR 400 million (-4.5%), with declines registered across all customer segments. As a result of this development and the growth of the loan portfolio, non-performing loans as a percentage of total loans to customers decreased substantially to 3.9% (4.5%). Loan loss provisions increased to 138.2% (122.5%) of non-performing loans.

HUNGARY

Economic review

In 2021, Hungary's economy performed well despite temporary restrictions to contain the Covid 19 pandemic. The country's GDP recovered faster than expected and reached pre-pandemic levels already in the second quarter of the year. Economic performance was mainly driven by strong domestic demand and investments. Household consumption benefited from robust income gains, Covid 19-related government support measures and buoyant consumer confidence. Public investment grew markedly. Exports, on the other hand, performed weaker, mainly due to supply chain disruptions which had a negative impact on the country's strong automotive industry. The unemployment rate remained flat at 4.1%, low compared to many other European countries. Overall, real GDP increased by 7.1%, GDP per capita amounted to EUR 15,600.

The general government deficit stood at 7.3% of GDP. Covid 19-related government measures included a subsidised loan programme for SMEs, a temporary reduction of municipality taxes, support for buying and renovating homes as well as a VAT reduction on newly built houses. Revenue growth was stronger than expected. The public debt to GDP improved to 78.2% in 2021.

Rising commodity prices contributed to the high inflation in 2021. Core inflation rose above the upper end of the central bank's target range of 2% to 4%. Wage growth remained robust and sizeable salary increases took place in the public sector. Regulated prices for energy and a cap on fuel prices mitigated the price increase. Overall, average consumer prices rose by 5.1%. In June, the Hungarian National Bank was the first central bank in CEE to increase its key policy rate. Overall, it increased the key rate in seven steps from 0.6% to 2.4% in 2021. The Hungarian forint depreciated slightly against the euro.

Moody's acknowledged Hungary's economic developments and upgraded the country's long-term credit rating from Baa3 to Baa2 with a stable outlook. Standard & Poor's and Fitch left the country's long-term credit rating at BBB with a stable outlook.

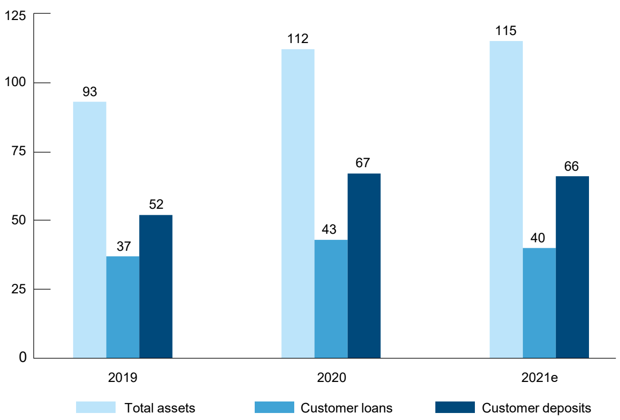
Key economic indicators – Hungary	2018	2019	2020	2021e
Population (ave, million)	9.8	9.8	9.8	9.7
GDP (nominal, EUR billion)	136.1	146.1	136.7	151.7
GDP/capita (in EUR thousand)	13.9	14.9	14.0	15.6
Real GDP growth	5.4	4.6	-4.7	7.1
Private consumption growth	4.2	4.5	-2.0	4.1
Exports (share of GDP)	65.1	63.3	65.3	67.8
Imports (share of GDP)	66.7	65.9	66.3	70.1
Unemployment (Eurostat definition)	3.6	3.3	4.1	4.1
Consumer price inflation (ave)	2.8	3.4	3.3	5.1
Short term interest rate (3 months average)	0.1	0.2	0.7	1.5
EUR FX rate (ave)	318.9	325.4	351.2	358.5
EUR FX rate (eop)	321.5	330.5	365.1	369.0
Current account balance (share of GDP)	0.2	-0.7	-1.6	-2.9
General government balance (share of GDP)	-2.1	-2.1	-8.0	-7.3

Source: Erste Group

Market review

Hungary's banking market performed well in 2021. Customer loans grew by 7.8% mainly driven by the continuous strong demand for housing loans. Retail loans increased by 15.0% and were also supported by consumer lending, largely attributable to the very popular baby-loan programme. The government has further extended its state guaranteed mortgage programme (CSOK), a preferential loan scheme for families with children. This programme was combined with a "green home programme" with additional features available for eligible new apartments and houses. In addition, a preferential loan for home renovation was implemented. On the corporate side, a crisis loan, a compensation loan, and a 0% interest restart programme were introduced during the year. Corporate loan growth amounted to 10.8%. Customer deposits, mainly driven by retail deposits, grew less than loans, at 12.2%. Overall, the banking system's loan-to-deposit ratio declined further to 61.5% at year-end.

Financial intermediation – Hungary (in % of GDP)

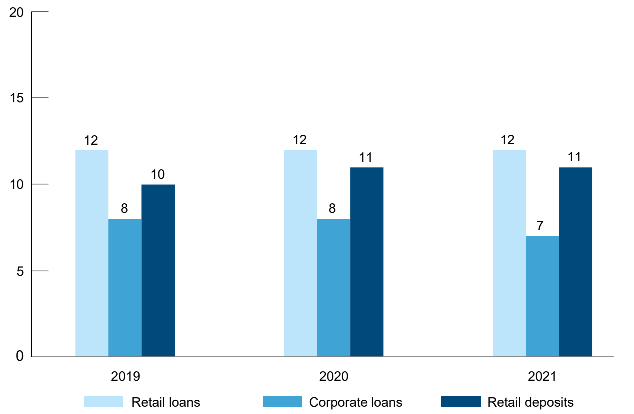


Source: National Bank of Hungary, Erste Group

Hungary's banking market increased its profitability in 2021. Revenues were supported by rising interest rates in the second half of the year while fee and commission income benefitted significantly from the growing asset management business. The government announced an interest rate cap regulation in December 2021 which limits the reference interest rate of qualifying mortgages for the period between 1 January and 30 June 2022 at levels of 27 October 2021. Administrative expenses remained under control although the increase of personnel expenses was already visible. Risk costs were low following the substantial risk provisioning of the previous year. Asset quality developed favourably. The government extended Covid 19 moratoria on loan repayments for vulnerable borrowers until 30 June 2022. In addition, corporate borrowers with a decline in revenue of at least 25% remained also eligible. Participation in the extended moratoria remained low, though. Banks continued to pay banking tax and transaction tax in 2021. Overall, the banking sector's return on equity stood at 11.6%. The Hungarian banking sector continued to be well capitalised, with a capital adequacy ratio of around 18.6%.

The consolidation of the Hungarian banking market continued. Erste Bank Hungary announced the acquisition of the Hungarian subsidiary of Commerzbank, thus strengthening its position in corporate banking. Magnet Bank acquired Sopron Bank, and further details on the merger of MKB Bank, Takarék Bank and Budapest Bank were announced. The newly formed bank will become the second largest bank in the country.

Market shares – Hungary (in %)



Source: National Bank of Hungary, Erste Group

Erste Bank Hungary remained one of the major market players in the country. It introduced George, Erste Group's digital banking platform in February 2021. Erste Bank Hungary's market share in customer loans increased slightly to 9.1%, with the retail business remaining more dominant than the corporate business. The customer deposit market share improved to 8.9%. At 6.7%, Erste Bank Hungary's was the fifth largest bank in the country in terms of total assets.

Business review 2021 – questions to Radován Jelasity, CEO of Erste Bank Hungary,

How did the competitive environment change?
Market consolidation sped up in 2021. Several M&A deals were signed last year which will shape the banking sector in the future. Erste Bank Hungary will take over 100% shares of Commerzbank Zrt., the Hungarian subsidiary of Commerzbank AG. Magnet Bank is going to buy Sopron Bank, the Hungarian subsidiary of Hypo-Bank Burgenland AG. Last, but not least the most transformative transaction on our market: As the first step of creating a new bank, MKB Bank and Budapest Bank will merge in March 2022 and Takarék Bank will join in 2023 according to the plans of the Hungarian Bankholding. Overall, we are well positioned to benefit from this consolidation process.

Which ESG related topics were most relevant for you?
Erste Bank Hungary works on decreasing its ecological footprint, supports the well-being of its employees and customers and aims to maximise its positive effect on society. We are aware that the Bank has the greatest impact on the environment through its customers, that is why we started to assess their indirect impacts, and target setting became one of our short-term goals. 2022 is going to be about implementation already.

Digitalisation is not only about providing the best possible service for our customers, but also about contributing to a more environmental-friendly operation of the Bank.

In order to make our ESG related activities and aspirations more transparent, we have published our first sustainability report in 2021.

How did you manage to successfully differentiate your business activities from those of your competition?
2021 was for our bank about George as it had one of the biggest effects on our operation. The newly rolled-out digital platform has replaced the previous netbanking and mobile banking interfaces. George is continuously improving, each month new features and services become available for the customers. The bank reached 500,000 active clients last year, 60% thereof are retail customers.

To further strengthen our position in the country's securities trading market and to acquire further digital competences, Erste Bank Hungary's Investment subsidiary (Erste Befektetési Zrt.) acquired the online broker Random Capital. The acquisition makes Erste the leading trading firm in Hungary in that area.

As mentioned earlier, Erste Bank acquired 100% of Commerzbank Zrt., the agreement was signed in December 2021. Through the acquisition, we strengthen our corporate banking division, in particular the large corporate segment.

Looking back at the year, what major achievements or challenges were especially noteworthy?
Erste Bank Hungary not only kept its high level of employee engagement score at 77% but also increased its Customer Satisfaction Index (CXI) further in all segments and retained its market leader position in micro and SME.

Our efforts were rewarded by numerous awards. We won silver prizes of Mastercard in the ”Bank of the year”, the ”Best marketing communication campaign of the year” and ”Mobile banking solution of the year” categories. In addition, Social Banking won the golden prize for ”Social initiative of the year” by Mastercard. Erste Bank Hungary was also awarded with several HR awards, such as ”Golden prize in change management category” by PPH Media and „Silver prize for online community building during Covid” by MPRSZ. The premium segment of Erste Bank won the silver prize of Blochamps Capital in the ”Private banking of the year” category. Erste Bank Hungary also received 2 awards of the Budapest Stock Exchange: ”The stock futures trading company with the highest turnover for the year” and ”The stock trading company with the highest turnover for the year”.

Financial review

in EUR million	2020	2021	Change
Net interest income	217.9	257.2	18.1%
Net fee and commission income	181.1	207.4	14.5%
Net trading result and gains/losses from financial instruments at FVPL	24.7	10.0	-59.5%
Operating income	431.4	482.7	11.9%
Operating expenses	-213.3	-230.7	8.1%
Operating result	218.1	252.0	15.6%
Cost/income ratio	49.4%	47.8%	
Impairment result from financial instruments	-78.0	-16.2	-79.3%
Other result	-65.5	-56.9	-13.0%
Net result attributable to owners of the parent	56.1	156.0	>100.0%
Return on allocated capital	5.8%	13.0%	

The segment analysis is done on a constant currency basis. The HUF depreciated by 2.1% against the EUR in the reporting period. Net interest income in the Hungary segment (comprising Erste Bank Hungary Group) increased due to higher customer loan and deposit volumes as well as a positive contribution from securities and money market placements, despite the negative impact from interest refund related to revolving loans in moratoria and modification losses related to the mortgage interest cap. Net fee and commission income rose on higher securities, payment and insurance brokerage fees. Net trading result and gains/losses from financial instruments at FVPL decreased due to valuation effects. Operating expenses went up on the back of higher personnel costs, IT costs and depreciation. Deposit insurance contributions went up to EUR 7.1 million (EUR 5.8 million). Overall, operating result and the cost/income ratio improved. The significant improvement of the impairment result from financial instruments was a consequence of last year's update of risk parameters with forward looking information and stage overlays related to the Covid-19 crisis. Other result improved mainly due to higher property selling gains. This line item also included the banking tax of EUR 15.0 million (EUR 14.5 million), transaction tax of EUR 47.9 million (EUR 44.0 million) and the contribution to the resolution fund of EUR 5.6 million (EUR 3.5 million). Consequently, the net result attributable to the owners of the parent increased significantly.

Credit risk

Credit risk exposure in the Hungary segment rose to EUR 12.2 billion (+16.1%). This very robust growth was mainly attributable to increased investments in the Group Markets business segment. Loans to customers grew at a lesser extent to EUR 5.2 billion (+5.3%). The share of the Hungary segment in Erste Group's total loans to customers declined marginally to 2.8% (2.9%). While loans to private households increased to 3.0 billion (+10.4%), loans to corporates stagnated at EUR 2.2 billion. The share of loans denominated in Hungarian forint rose to 76.0% (73.7%). The quality of the loan portfolio showed a negative trend as a moratorium granted because of the Covid-19 pandemic expired in the fourth quarter of 2021. This affected primarily the Retail business segment. Non-performing loans as a percentage of total loans to customers increased to 3.7% (3.0%). Loan loss provisions declined to 95.4% (111.4%) of non-performing loans.

CROATIA

Economic review

Croatia was among the best performing economies in Central Eastern Europe in 2021. Its economic recovery was broad-based. Strong household consumption and the rebound of Croatia's well-developed tourism sector were the main drivers of growth. Tourism, accounting for approximately one fifth of Croatia's GDP, returned to 80% of 2019 pre-covid 19 levels, which was much better than expected. Overnight stays increased by more than 50% compared to 2020. Private consumption experienced a strong rebound, as labour market conditions improved, and consumer sentiment remained strong. Investments accelerated, supported by the European Union's Multiannual Financial Frameworks. In 2021, exports played a less supportive role in the economic activity. The country's unemployment rate slightly increased to 7.8%. Overall, real GDP increased by 10.4% and GDP per capita amounted to EUR 14,100.

Due to the strong economic recovery and the gradual phasing out of Covid 19 support measures, the general government deficit declined to 4.5% of GDP. Tax revenues were subdued mainly as a result of personal income tax rate cuts and companies offsetting taxable profits by carrying forward losses incurred during the Covid 19 pandemic. VAT revenues, on the other hand, performed well amidst rising household and tourist consumption. Expenses remained under upward pressure mainly due to higher wages in the public sector, pension payments and rising healthcare expenditures. Phasing out of Covid 19 subsidies, however, impacted expenses positively in 2021. Public debt as a percentage of GDP decreased to 81.2%.

Inflation was driven by rising energy and food prices. Average consumer prices increased to 2.6%. Core inflation, excluding food and energy, remained close to 1.6%. The Croatian kuna remained broadly stable against the euro at around 7.45 to 7.55 throughout the year. Given the country's very high use of the euro and the intended euro adoption as of 1 January 2023, the Croatian National Bank's objective to preserve nominal exchange rate stability remained unchanged, and it kept its accommodative monetary stance throughout the year.

In November 2021, Fitch upgraded Croatia's long-term credit rating to BBB and changed its outlook from stable to positive, the country's best rating in history. Fitch confirmed its opinion that Croatia is in the position to join the euro in January 2023 due to its significant progress in meeting convergence and structural reform criteria. Moody's and Standard & Poor's kept Croatia's long-term credit rating at Ba1 and BBB-, respectively, both with a stable outlook.

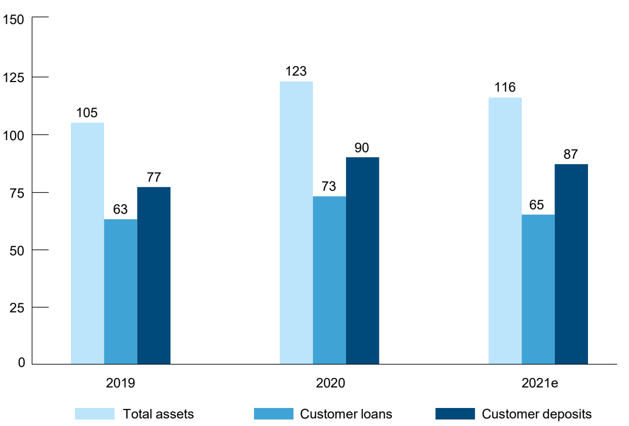
Key economic indicators – Croatia	2018	2019	2020	2021e
Population (ave, million)	4.1	4.1	4.1	4.1
GDP (nominal, EUR billion)	52.7	55.5	50.2	57.5
GDP/capita (in EUR thousand)	12.8	13.6	12.3	14.1
Real GDP growth	2.9	3.5	-8.1	10.4
Private consumption growth	3.3	4.0	-5.3	10.4
Exports (share of GDP)	23.2	23.2	24.3	26.4
Imports (share of GDP)	41.5	42.0	41.6	45.1
Unemployment (Eurostat definition)	8.4	6.6	7.5	7.8
Consumer price inflation (ave)	1.5	0.8	0.1	2.6
Short term interest rate (3 months average)	0.5	0.5	0.5	0.5
EUR FX rate (ave)	7.4	7.4	7.5	7.5
EUR FX rate (eop)	7.4	7.5	7.5	7.5
Current account balance (share of GDP)	1.9	3.0	-0.1	2.9
General government balance (share of GDP)	0.2	0.3	-7.4	-4.5

Source: Erste Group

Market review

Due to the anticipated adoption of the euro Croatia's financial institutions started to make major adjustments in their IT systems and ATM networks and prepared for the imminent conversion of local currency. The Croatian Central Bank urged citizens to convert their cash reserves denominated in kuna into euro. The European Commission will complete its assessment in July 2022. Starting with September 2022, dual-price listings will be used and remain mandatory throughout 2023 to limit effects on the inflation rate.

Financial intermediation – Croatia (in % of GDP)

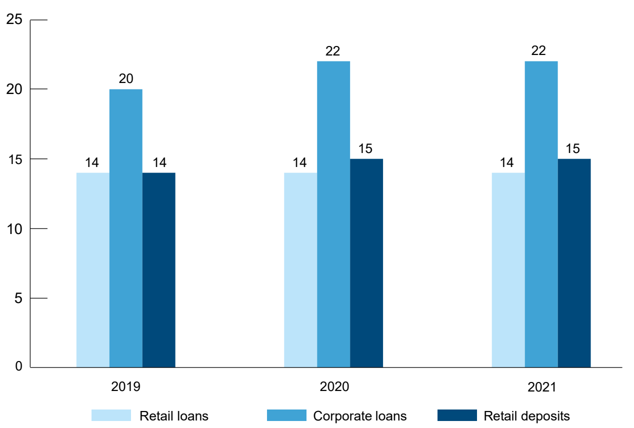


Source: National Bank of Croatia, Erste Group

Despite the country's outstanding economic growth, the Croatian banking market grew less dynamically than most of the CEE countries. Customer loans grew only by 1.5%, driven almost entirely by housing loans which benefitted from the government's subsidised loans scheme and strong demand. Corporate loan volume declined slightly reflecting limited demand during the Covid 19 pandemic. Customer deposits increased by 10.1%, continuously driven mainly by corporate deposits. Retail deposits grew only moderately. The banking system's loan-to-deposit ratio declined further to 74.5% at the end of the year.

Profitability of the Croatian banking system increased significantly in 2021 mainly due to substantially lower risk provisions. Revenues increased only moderately, reflecting relatively low customer loan growth. Operating expenses remained well under control and the banking system's cost/income ratio stood at 48.8% in 2021. Non-performing loans as a percentage of total customer loans decreased to 4.3%, the coverage ratio stood at 63.2%. The capital adequacy ratio of the banking system remained robust at 25.6%. Overall, the country's banking sector achieved an 8.4% return on equity.

Market shares – Croatia (in %)



Source: National Bank of Croatia, Erste Group

Erste Bank Croatia remained among the three largest banks of the country. In terms of total assets, the bank had a market share of

16.6% at the end of the year. It continued to benefit from its very strong brand and the digital platform George which was introduced in the last quarter of 2020. At the end of 2021, Erste Bank Croatia had 370,000 digital customers. In addition to George, the digital platform KEKS Pay reached more than 230,000 users, of which 75% were not customers of Erste Bank Croatia. The bank's customer loans and customer deposits market shares stood at 17.3% and 16.2%, respectively. The bank's loan-to-deposit ratio amounted to 78.8%.

Business review 2021 – questions to Christoph Schöfböck, CEO of Erste Bank Croatia,

How did the competitive environment change?
In 2021, the recovery of the Croatian economy was tremendous driven by a great tourism season and exports, but also strong domestic demand. The Croatian banking system remained stable and well-capitalised. The banking market was highly competitive, characterised by high liquidity, further interest rate decline and continued margin pressure. On the other hand, the level of non-performing loans remained stable. Overall, net profit of the banks marked a significant recovery in 2021.

Croatia has further pursued its path towards euro adoption with 1 January 2023 as the target date. The adjustment process for the adoption of the new currency was started by the banks already during 2021. Our country will also join the Schengen Area.

With positive economic trends, stable public finance and the potential that lies in using European funds under the Next Generation Programme, Croatia can be optimistic about the future. Continuous work on further improvements of the legal framework remains among the fundamental preconditions for long-term sustainable economic growth and development though.

Which ESG related topics were most relevant for you?
We have already started the process of aligning our internal policies with new ESG frameworks and the Taxonomy. Our non-financial reporting has been aligned with international frameworks. We have identified six fundamental Sustainable Development Goals to which we want to contribute: good health and well-being (SDG 3), quality education (SDG 4), gender equality (SDG 5), decent work and economic growth (SDG 8), reducing inequalities (SDG 10) and climate action (SDG 13).

Our market share in renewable energy financing amounts to 20% and the current exposure in the green segment is around EUR 120 million. In addition, the funds raised by our bond issuance in June 2021 are to be used for the promotion of green and sustainable investments as well.

We have continued our free-of-charge School of Smart Finance programme. Due to the epidemiological conditions the programme was offered online. So far, almost 10,000 participants received personal finance training through this programme.

How did you manage to successfully differentiate your business activities from those of your competition?
Our efforts in supporting our clients paid off. In particular customer deposits showed a visible increase, total loans rose only moderately.

A strong emphasis was placed on further developing our digital solutions and the migration of digital service users to Erste Group's digital platform George. At the end of 2021, we recorded more than 413,000 digital users, almost 310,000 of those were active ones, an impressive increase of 21% compared to 2020. Three years after its market launch, KEKS Pay app continued to attract new users at a rapid pace. At the end of year, 75% of its 230,000 users were customers of other banks.

Looking back at the year, what major achievements or challenges were especially noteworthy?
At the end of June, we successfully carried out our first international MREL eligible bonds issuance in the amount of EUR 400 million. This step not only confirmed our position as the most active bond issuer among financial institutions in Croatia, but also allowed us to set new standards in the Croatian banking market. The funds raised by the issue are used for green and sustainable investments, which will, in turn, keep us on the path to a successful and long-term sustainable business in the domestic market.

FitchRatings raised Erste Bank Croatia's long-term credit rating from BBB+ to A-, which represents the best rating of a bank or company on the Croatian market. This excellent rating is the highest possible level, given the ceiling for the Republic of Croatia.

Last but not least, please let me point out that our bank has defended its excellent brand position, with the highest customer satisfaction on the market.

In 2021, Erste Bank Croatia was named best private banking in Croatia awarded by The Banker and PWM Professional Wealth Management, international financial magazines from the Financial Times Group. Winning this award for the fourth time represents an exceptional recognition for the high-quality of private banking services provided by our bank.

Financial review

in EUR million	2020	2021	Change
Net interest income	270.8	269.5	-0.5%
Net fee and commission income	92.0	107.5	16.8%
Net trading result and gains/losses from financial instruments at FVPL	26.2	30.0	14.5%
Operating income	401.5	416.9	3.8%
Operating expenses	-214.6	-217.8	1.5%
Operating result	187.0	199.1	6.5%
Cost/income ratio	53.4%	52.2%	
Impairment result from financial instruments	-104.2	-22.2	-78.7%
Other result	-16.7	5.3	n/a
Net result attributable to owners of the parent	43.9	103.7	>100.0%
Return on allocated capital	7.2%	14.1%	

The segment analysis is done on a constant currency basis. The HRK remained largely stable against the EUR in the reporting period. Net interest income in the Croatia segment (comprising Erste Bank Croatia Group) remained almost unchanged as the effect of the lower interest rate environment was offset by the non-recurrence of modification losses related to loan moratoria booked last year. Net fee and commission income went up due to higher payment, lending and insurance brokerage fees. Net trading result and gains/losses from financial instruments at FVPL improved driven by a higher result from foreign currency transactions and valuation effects. Operating expenses went up on the back of higher personnel and IT costs, partially offset by lower deposit insurance contribution of EUR 1.9 million (EUR 12.3 million). Overall, operating result and the cost/income ratio improved. The significant improvement of the impairment result from financial instruments was a consequence of last year's update of risk parameters with forward looking information and stage overlays related to the Covid-19 crisis which led to high risk provisioning. Other result improved mainly due to releases of provisions for legal expenses and a lower resolution fund contribution of EUR 3.4 million (EUR 5.7 million). Consequently, the net result attributable to the owners of the parent increased significantly.

Credit risk

In the Croatia segment, credit risk exposure rose to EUR 12.1 billion (+6.9%), while loans to customers increased only slightly to EUR 7.6 billion (+1.4%). Customer loan volume as a percentage of Erste Group's total loans to customers consequently fell to 4.1% (4.4%). There was little change in the composition of the loan portfolio by business segments. The share of retail customers stood at 44.2% (44.1%). Local currency loans accounted for 38.4% (38.1%) of total loans to customers. Most loans were denominated in euro. The volume of Swiss franc-denominated loans has practically become irrelevant. The share of foreign currency loans is still high due to the widespread use of the euro in Croatia. Euro loans are usually matched by corresponding income or deposits in euro. Croatia intends to join the eurozone as of 1 January 2013. In line with the trend seen in recent years, loan quality improved once again. The NPL ratio decreased to 5.5% (6.7%). The NPL coverage ratio based on loan loss provisions rose to 102.5% (89.7%).

SERBIA

Economic review

The Serbian economy was again one of the best performers in CEE in 2021. Economic growth was mainly driven by the significant increase of private consumption and investments. Production benefited from the strong rebound of the services sector and large infrastructure projects. Government expenditure and exports contributed to economic growth to a lesser extent. For the first time since 2012, the country's unemployment rate increased, to 11.2% at the end of the year. Overall, real GDP increased by 7.4%, and GDP per capita amounted to EUR 7,800.

The general government deficit decreased to 4.2% of GDP as the economic recovery supported revenues. The decline of the deficit was also attributable to a reduction of the overall expenditure on Covid-19 support measures, despite new measures adopted in April 2021 including wage subsidies, one-off payments to citizens and specific support to the most affected sectors. Public debt as a percentage of GDP decreased slightly to 56.7% in 2021.

Inflation pressures visibly intensified in the second half of the year due to supply-side constraints and higher energy and food prices. Overall, average consumer prices increased by 4.0%. The Serbian dinar was among the most stable currencies in CEE, trading around 117 versus the euro throughout the year. The National Bank of Serbia started to tighten its monetary policy, albeit leaving the key rate unchanged at 1.0%.

Rating agencies acknowledged the country's favourable macroeconomic developments. Moody's upgraded the country's long-term credit rating from Ba3 to Ba2 with a stable outlook. Standard & Poor's kept its rating at BB+ but raised the outlook from stable to positive, bringing the country at the doorstep of an investment grade rating. Fitch left its BB+ rating with a stable outlook unchanged throughout the year.

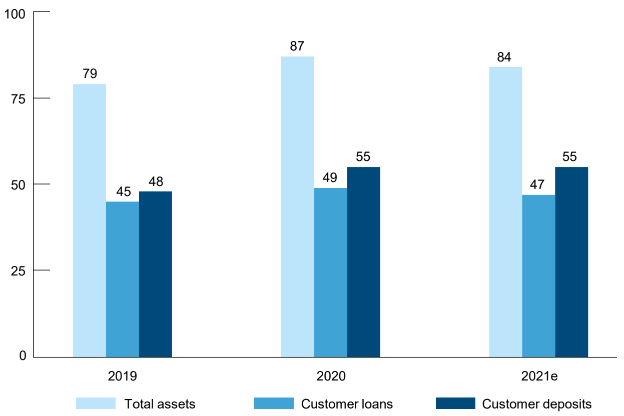
Key economic indicators – Serbia	2018	2019	2020	2021e
Population (ave, million)	7.0	7.0	6.9	6.8
GDP (nominal, EUR billion)	42.9	46.0	46.8	53.2
GDP/capita (in EUR thousand)	6.1	6.6	6.8	7.8
Real GDP growth	4.5	4.3	-0.9	7.4
Private consumption growth	3.1	3.7	-1.9	8.1
Exports (share of GDP)	38.0	38.1	36.4	40.5
Imports (share of GDP)	51.1	51.9	49.1	53.5
Unemployment (Eurostat definition)	13.7	11.2	9.7	11.2
Consumer price inflation (ave)	2.0	1.9	1.6	4.0
Short term interest rate (3 months average)	3.0	2.5	1.2	0.9
EUR FX rate (ave)	118.3	117.9	117.6	117.6
EUR FX rate (eop)	118.3	117.6	117.6	117.6
Current account balance (share of GDP)	-4.8	-6.9	-4.1	-3.5
General government balance (share of GDP)	0.6	-0.2	-8.0	-4.2

Source: Erste Group

Market review

Reflecting the favourable macroeconomic developments, Serbia's banking market performed well in 2021. The banking system's lending activity remained strong with retail loans growing by double digit figures. Retail loans, up by 10.7%, were mainly driven by housing loans which rose by 17.4%. Corporate loans grew by 9.4%. The currency structure of customer loans changed further in favour of loans denominated in Serbian dinar on the back of local currency lending programmes that were introduced a year ago. Customer deposits grew by 13.3%, driven equally by retail and corporate sectors. Overall, the banking system's loan to deposit ratio stood at 86.1% in 2021.

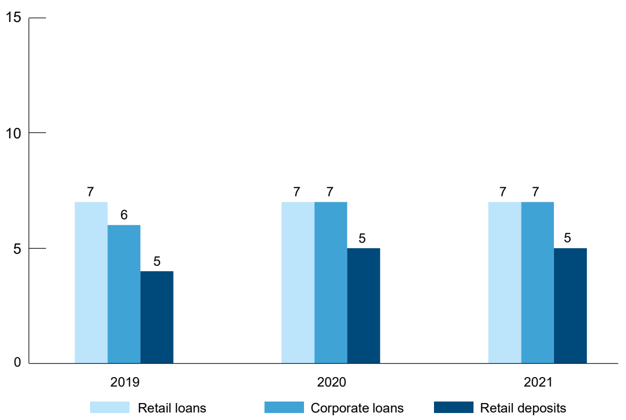
Financial intermediation – Serbia (in % of GDP)



Source: National Bank of Serbia, Erste Group

Serbia's banking system increased its profitability driven mainly by rising revenues and low risk provisions. The NPL ratio remained low at 3.5%, while the coverage ratio stood at 57.6%. Digitalisation was boosted significantly due to the banks' continuous efforts to migrate customers to digital channels. The National Bank of Serbia did not change capital requirements throughout the year and kept the countercyclical buffer at 0%. The banking system's capital adequacy remained strong at 21.7%, its return on equity improved to 7.3%.

Market shares – Serbia (in %)



Source: National Bank of Serbia, Erste Group

Consolidation of the Serbian banking sector accelerated. The Hungarian OTP Group merged its Serbian subsidiaries OTP banka Srbija and Vojvođanska banka, creating the largest bank of the country in terms of customer loans with a market share of 16.6%. State-owned Banka Poštanska štedionica merged with MTS banka, and Greek Eurobank merged with Direktna Banka. Raiffeisen Bank International announced that its Serbian subsidiary signed an agreement to acquire Crédit Agricole's Serbian operation.

Erste Bank Serbia is among the ten largest banks in the country. Based on its total assets of 6.1% the company further strengthened its market position. Its market share in customer loans was unchanged at 7.1%. At 7.3%, the bank's market share in retail loans was more pronounced than in corporate loans (7.0%). The bank's customer deposit market share increased to 6.2%. Overall, the bank's loan-to-deposit ratio stood at 99.1% at the end of 2021.

Business review 2021 – questions to Slavko Carić, CEO of Erste Bank Serbia

How did the competitive environment change?
We can say that 2021 was a dynamic year characterised by further market consolidation. In the Large Corporates segment we see peers aggressively financing both working capital and long term loans at low interest rates. M & A activities led to additional competitive pressure. The historically low interest rates on housing loans combined with a reduction in the obligatory down payment contributed to a significant increase in demand for these loans.

Competitors are improving their digital offerings, rapidly innovating sales channels together with process improvement.

Which ESG related topics were most relevant for you?
ESG in general is extremely important for our bank. If we had to highlight one aspect then that would be, for sure, the environmental part. We follow all guidelines in terms of legislation and the EU Taxonomy, and we are analysing our portfolio to learn more about our current position, while we are also extremely interested in supporting our clients in their projects related to decrease CO_2 emissions. We need to educate ourselves and to support our clients during the transition. In cooperation with EBRD we financed procuring and installing of energy-efficient technologies for households. We are among a few banks in Serbia who offer these loans and the only one that promotes long-term savings through reducing electricity costs with a specific marketing campaign.

We are recognised as a market leader in energy efficiency financing, such as public lightening projects or heating and thermal power saving projects, but we also financed public infrastructure projects or waste management plants. Together with S-Leasing we financed 85 new buses for public transportation for the City of Belgrade. We also plan to replace our own car fleet with full electric or hybrid cars and to install solar panels on our headquarter buildings in Belgrade and possibly also in Novi Sad.

With regard to Social Banking we have become a trusted and valuable partner of the civil society in our country. We achieve our objectives through strengthening and creating new partnerships covering different stakeholders, launching new joint activities and projects, providing greater financial support through social banking lending, and strengthening our capacities for providing non-financial support to social banking clients. So far, we have supported more than 400 start-ups, social enterprises and NGOs. We strongly believe that this is just the beginning of our journey and that we will achieve much higher figures in the following years.

How did you manage to successfully differentiate your business activities from those of your competition?
We are of the opinion that we have a better know-how of the construction industry than peers. This is recognised by the market and our SME guarantees growth figures confirms that. In addition, our willingness and ability to support clients in more complex transactions, both working capital and capex financing, is something that differentiates us. We also put a clear focus on future green projects. Let me mention our success story with Telekom Srbija which was strongly supported by Group Syndication. We could disburse a significant amount in an extremely short period of time. We can offer attractive conditions due to the cooperation with EBRD and KfW (Kreditanstalt für Wiederaufbau).

We are also highly committed to customer satisfaction. We aim to offer suitable personalised solutions. Furthermore, we were especially focused on financial education through various channels, starting at the youngest with the concept of „learning through gaming“ which resulted in creating our Game App “The Guardians of Dragons treasure”. In addition, we provided financial education both to clients and to our employees. Another focus is on raising awareness for the importance of being insured.

We constantly work on the improvement of our digital services. Erste eBiz and mBiz service are available to all entrepreneurs and legal entities. Improvements in the card business also help us stay competitive. Last but not least, we have expanded the self-service zones, and the network of ATMs helps us reduce the number of transactions in the branches and provides our customers with services also outside the bank’s working hours.

Looking back at the year, what major achievements or challenges were especially noteworthy?
We increased our client base by some 46,000 new customers. By growing our loans by 9%, we reached a market share of more than 7%. With an increase of almost 17%, we also had a significant inflow of deposits.

After Covid-19 that strongly affected our promotional activities in 2020, we changed our approach and launched a new image campaign “Our Heroines”, presenting three women who believe in themselves. The campaign is followed by documentaries about each of them. We have invited women, beginners in their private business, to nominate topics that we will elaborate in free webinars to support their first business steps.

#ErsteZnali, one-of-a kind, our comprehensive financial education programme for all age groups launched in 2019, was further developed to engage elementary schools. By signing a cooperation agreement with the Ministry of education in 2021 we started a 4-year project to implement financial education into school’s curriculum named ŠKOLA NOVCA ZA OSNOVCA (The School of Money).

Our efforts were recognised, we won several prizes. The Serbian Responsible Business Forum awarded us as Sustainable Growth Champions for our Step by Step social banking programme. Euromoney named us the Best Cash Management Service Provider in the country. The Association of Business Women in Serbia awarded Erste Bank Serbia for the continuous career development of female managers.

Financial review

in EUR million	2020	2021	Change
Net interest income	63.6	72.8	14.5%
Net fee and commission income	16.1	20.2	25.5%
Net trading result and gains/losses from financial instruments at FVPL	3.9	4.7	18.1%
Operating income	83.8	97.9	16.8%
Operating expenses	-60.3	-65.4	8.4%
Operating result	23.4	32.4	38.4%
Cost/income ratio	72.0%	66.9%	
Impairment result from financial instruments	-13.5	-8.2	-39.1%
Other result	-4.8	-5.8	21.1%
Net result attributable to owners of the parent	4.2	13.9	>100.0%
Return on allocated capital	2.4%	6.7%	

The segment analysis is done on a constant currency basis. The Serbian Dinar (RSD) remained stable against the EUR in the reporting period. Net interest income in the Serbia segment (comprising Erste Bank Serbia Group) increased mainly due to higher loan and deposit volumes in retail and corporate business. Net fee and commission income went up due to higher payment and insurance brokerage fees. Net trading result and gains/losses from financial instruments at FVPL increased driven by a higher result from foreign currency transactions and derivatives. Operating expenses rose mainly due to higher personnel, legal and consultancy costs and depreciation. Deposit insurance contribution rose to EUR 4.3 million (EUR 3.5 million). Operating result increased and the cost/income ratio improved. Impairment result from financial instruments improved as a consequence of last year's update of risk parameters with forward looking information. Other result deteriorated due to higher provisions for litigations. Overall, the net result attributable to owners of the parent increased.

Credit risk

As in previous years, credit risk exposure in the Serbia segment increased again substantially and stood at EUR 2.9 billion (+13.6%). The customer loan portfolio was also up. Loans to customers increased to EUR 1.9 billion (+8.7%), with the Retail and Corporate segments registering similar growth rates. Foreign-currency loans, denominated almost exclusively in euro, accounted for 73.1% (75.3%) of the total loan portfolio. The very large proportion of foreign-currency loans is mainly attributable to the wide-spread use of the euro in Serbia. Euro loans are usually matched by corresponding income or deposits in euro. Non-performing loans rose to 2.1% (1.5%) of total loans to customers, with loans to corporates growing faster than retail loans. Loan loss provisions declined to 124.4% (168.2%) of non-performing loans.

OTHER

Financial review

in EUR million	2020	2021	Change
Net interest income	140.9	214.3	52.1%
Net fee and commission income	-94.1	-86.1	-8.5%
Net trading result and gains/losses from financial instruments at FVPL	-41.9	-71.4	70.6%
Operating income	-4.4	57.8	n/a
Operating expenses	-193.1	-201.7	4.4%
Operating result	-197.5	-143.9	-27.1%
Cost/income ratio	>100.0%	>100.0%	
Impairment result from financial instruments	21.7	9.0	-58.7%
Other result	-21.7	-115.4	>100.0%
Net result attributable to owners of the parent	-260.9	-69.3	-73.5%
Return on allocated capital	-3.4%	-1.1%	

Operating income improved primarily due to one-off booking related to TLTRO III refinancing with ECB partially offset by a lower valuation result. Although operating expenses went up slightly, operating result improved. Other result deteriorated on the back of negative valuation effects. The tax charge developed positively. Consequently, the net result attributable to owners of the parent improved.

Business segments

Erste Group – business segments

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

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

Corporates. The Corporates segment comprises business done with corporate customers of different turnover size (small and medium-sized enterprises and Large Corporate customers) as well as commercial real estate and public sector business.

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

Asset/Liability Management & Local Corporate Center. The Asset/Liability Management & Local Corporate Center (ALM & LCC) segment includes all asset/liability management functions – local and of Erste Group Bank AG (Holding) – as well as the local corporate centers which comprise all non-core banking business activities such as internal service providers and reconciliation items to local entity results. The corporate center of Erste Group Bank AG is included in the Group Corporate Center segment.

Savings Banks. The Savings Banks segment is identical to the operating segment Savings Banks.

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

Intragroup Elimination. Intragroup Elimination (IC) is not defined as a segment but is the reconciliation to the consolidated accounting result. It includes intragroup eliminations between participations of Erste Group (e.g. intragroup funding, internal cost charges). Intragroup eliminations within partial groups are disclosed in the respective segments.

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

RETAIL

Financial review

in EUR million	2020	2021	Change
Net interest income	2,083.7	2,102.4	0.9%
Net fee and commission income	1,047.9	1,206.6	15.1%
Net trading result and gains/losses from financial instruments at FVPL	89.4	90.7	1.5%
Operating income	3,248.8	3,431.1	5.6%
Operating expenses	-2,067.7	-2,111.8	2.1%
Operating result	1,181.2	1,319.3	11.7%
Cost/income ratio	63.6%	61.5%	
Impairment result from financial instruments	-392.2	-122.4	-68.8%
Other result	-68.9	-58.2	-15.5%
Net result attributable to owners of the parent	583.9	889.7	52.4%
Return on allocated capital	18.4%	25.3%	

The increase in net interest income was driven by the growth of customer loan and deposit volumes across all markets. Net interest income improved in the Czech Republic, Hungary and Serbia from loan and deposit business, partially offset by the change in transfer prices related to the deposit business as a response to the lower interest rate environment and a corresponding positive effect in ALM & Local Corporate Center. Contributions from the lending business in Slovakia and Austria declined primarily on the impact of lower market rates. Net fee and commission income increased due to higher fees from securities business, higher payment fees and improved insurance brokerage fees. Net trading result and gains/losses from financial instruments FVPL increased moderately due to higher foreign currency transactions in the Czech Republic, Hungary, Romania, Croatia and Slovakia, partially offset by negative valuation effects in Hungary. Operating expenses increased mainly due to higher personnel and IT expenses, partially offset by lower deposit insurance contributions in Austria and Croatia. Consequently, operating result increased and the cost/income ratio improved. The impairment result from financial instruments improved significantly across all markets as last year updated risk parameters with forward looking information and stage overlays related to the Covid-19 crisis led to high risk provisioning. The main driver of the other result improvement was the abolition of the banking tax in Slovakia as of the second half of last year, partially offset by negative effects in other entities. Overall, the net result attributable to the owners of the parent increased significantly.

Credit risk

Credit risk exposure in the Retail business segment rose to EUR 76.7 billion (+9.8%). The customer loan portfolio increased to EUR 66.7 billion (+9.2%). The share of the retail business (without Savings Banks) in Erste Group's total customer loans was up marginally at 36.2% (35.9%). The collateralisation ratio, which reflects the ratio of collateral to loan volume, stood at 64.9% (65.9%). The quality of the retail customer loan portfolio improved. While non-performing loans saw hardly any change and again amounted to EUR 1.5 billion, their share of total retail customer loans decreased to 2.2% (2.4%). In terms of the NPL ratio (non-performing loans as a percentage of total loans), loan quality was thus again very high in the Retail segment and better than the loan quality in other business segments. The share of low-risk loans as a percentage of total retail customer loans was high at 86.8% (86.0%). Loan loss provisions were again increased and amounted to 101.1% (98.2%) of the total non-performing loans portfolio.

CORPORATES

Financial review

in EUR million	2020	2021	Change
Net interest income	1,109.4	1,190.7	7.3%
Net fee and commission income	282.3	332.5	17.8%
Net trading result and gains/losses from financial instruments at FVPL	64.1	99.8	55.8%
Operating income	1,561.3	1,733.1	11.0%
Operating expenses	-535.7	-543.7	1.5%
Operating result	1,025.6	1,189.4	16.0%
Cost/income ratio	34.3%	31.4%	
Impairment result from financial instruments	-656.0	-60.0	-90.9%
Other result	-65.5	-11.7	-82.1%
Net result attributable to owners of the parent	193.7	858.4	>100.0%
Return on allocated capital	5.1%	16.9%	

Net interest income improved primarily due to higher customer loan volumes as well as higher income from early loan repayments. Net fee and commission income increased mainly because of higher payment and lending fees. Net trading result and gains/losses from financial instruments at FVPL improved significantly due to positive valuation effects mainly in the Holding and the Czech Republic. Operating expenses increased moderately. Consequently, operating result went up and the cost/income ratio improved. The impairment result from financial instruments improved significantly as last year updated risk parameters with forward looking information and stage overlays related to the Covid-19 crisis led to high risk provisioning. Other result improved mainly due to real estate selling gains as well as the release of provisions for legal expenses. Consequently, the net result attributable to the owners of the parent improved significantly.

Credit risk

Credit risk exposure in the Corporates business segment rose to EUR 91.6 billion (+10.5%). Loans to customers increased to EUR 62.7 billion (+9.0%) and accounted for 34.1% (33.9%) of Erste Group's total loans to customers. The big difference between credit risk exposure and the customer loan portfolio in the Corporates segment is primarily due to a large volume of guarantees and unused loan commitments. Within the Corporates business segment, loans to large corporates saw above-average growth (+12.8), while growth rates in the commercial real estate business (+5.8%) and in business with the public sector (+4.5%) were slightly lower. Non-performing loans declined slightly. The NPL ratio decreased to 2.5% (2.8%). The development of credit quality was strong, particularly in the large corporates business. Loan loss provisions amounted to 97.9% (94.8%) of non-performing loans to corporates.

GROUP MARKETS

Financial review

in EUR million	2020	2021	Change
Net interest income	252.2	205.8	-18.4%
Net fee and commission income	240.9	289.9	20.4%
Net trading result and gains/losses from financial instruments at FVPL	38.5	110.1	>100.0%
Operating income	529.7	606.3	14.5%
Operating expenses	-232.0	-237.3	2.3%
Operating result	297.7	369.0	24.0%
Cost/income ratio	43.8%	39.1%	
Impairment result from financial instruments	-0.8	-5.6	>100.0%
Other result	-25.7	-27.6	7.3%
Net result attributable to owners of the parent	211.0	260.6	23.5%
Return on allocated capital	24.4%	24.0%	

Net interest income decreased on the back of lower market interest rates. Net fee and commission income increased mostly due to the higher contribution of the securities business driven among others by higher assets under management with institutional clients in Austria. Net trading result and gains/losses from financial instruments at FVPL improved significantly due to valuation results of interest rate derivatives, equity futures and bonds. Overall, operating income increased notably. As operating expenses went up only slightly, operating result increased significantly and the cost/income ratio improved. Impairment result from financial instruments deteriorated due to higher provisioning requirements in Austria. Other result remained by and large stable. Overall, the net result attributable to the owners of the parent improved significantly.

ASSET/LIABILITY MANAGEMENT & LOCAL CORPORATE CENTER

Financial review

in EUR million	2020	2021	Change
Net interest income	86.2	223.2	>100.0%
Net fee and commission income	-79.3	-85.6	7.9%
Net trading result and gains/losses from financial instruments at FVPL	13.2	-26.5	n/a
Operating income	58.0	155.1	>100.0%
Operating expenses	-107.4	-124.1	15.5%
Operating result	-49.4	31.0	n/a
Cost/income ratio	>100%	80.0%	
Impairment result from financial instruments	-3.0	-2.3	-23.8%
Other result	-111.8	-137.7	23.2%
Net result attributable to owners of the parent	-112.7	-135.6	20.4%
Return on allocated capital	-3.6%	-3.1%	

Net interest income improved primarily due to a one-off booking related to TLTRO III refinancing with ECB (EUR 79.3 million), lower transfer prices that led to a negative impact in the retail segment and a corresponding positive effect in ALM & LCC as well as lower refinancing costs in the Holding and higher income from investments in Czech Republic and Hungary. These effects were partially offset by higher interest expense from the placement of excess liquidity with the ECB. Net fee and commission income decreased mainly due to a higher internal fee recharge between Group Markets and ALM & LCC in the Czech Republic and the Holding. The deterioration of net trading result and gains/losses from financial instruments at FVPL was driven by valuation effects. Operating expenses increased mainly due to higher personnel expenses in Austria and higher property management costs in the Czech Republic. Overall, operating result improved. Other result worsened primarily due to breakage costs in Austria related to an early loan repayment and impairments of buildings and IT in the Czech Republic, partially compensated by higher real estate selling gains in Romania. As the tax charge increased significantly, the net result attributable to the owners of the parent deteriorated.

SAVINGS BANKS

The business segment Savings Banks is identical to the operating segment Savings Banks (see page 32).

GROUP CORPORATE CENTER

Financial Review

in EUR million	2020	2021	Change
Net interest income	89.1	100.5	12.8%
Net fee and commission income	6.6	5.9	-11.8%
Net trading result and gains/losses from financial instruments at FVPL	37.1	-27.8	n/a
Operating income	124.8	76.9	-38.3%
Operating expenses	-1,013.0	-904.2	-10.7%
Operating result	-888.2	-827.3	-6.9%
Cost/income ratio	>100.0%	>100.0%	
Impairment result from financial instruments	24.4	7.7	-68.5%
Other result	829.5	616.3	-25.7%
Net result attributable to owners of the parent	-134.4	-32.9	-75.5%
Return on allocated capital	-2.1%	-0.6%	

Operating income decreased on lower net trading result and gains/losses from financial instruments at FVPL due to valuation effects. Operating expenses decreased on eliminated costs between the two IT entities after their merger – countereffect in intercompany eliminations. Other result deteriorated due to negative valuation effects as well as intercompany effects. The tax charge developed positively. All in all, the net result attributable to owners of the parent improved.

(Consolidated) non-financial report

2021 was a recovery year with old and new challenges. Overall, the economic environment in Austria and CEE developed significantly better than originally forecast. Covid-19 vaccinations, lockdowns and other distancing measures have suppressed the spreading of the virus. While pandemic-induced restrictions were still delaying the recovery of the economy at the beginning of the year, growth forecasts were later raised despite challenges such as the disruptions of international supply chains or the Omicron variant.

The past year was also marked by an increased awareness and consensus that climate change and global warming must be addressed for ecological but also socio-economic reasons. A clear focus was on rethinking the economic growth model and allocating resources to greener, more resource efficient and resilient future economies.

Erste Group considers the transformation necessary and the right thing to do. In 2021, Erste Group joined the Net-Zero Banking alliance and announced its intention to reach climate neutral operations by 2023.

Erste Group further believes that a transition should be executed in a socially fair manner and great deal of attention needs to be paid not only to environmental but also social and governance objectives.

For Erste Group, considering the impact of its entrepreneurial activities on society or the environment is nothing new.

Ongoing focus on social responsibility

Erste Group is built on the inclusive and non-discriminatory belief in people, their ideas and plans for their future as well as their capabilities and potential for personal growth and the promise of a prosperous society. "No age, no gender, no social class or nationality shall be excluded from the benefits that the Spar-Casse offers every depositor" – a declaration in its founding chapter – was as relevant in 1819 as it is today. The Statement of Purpose reaffirms and states in more detail the purpose of Erste Group to promote and secure prosperity across the region. It defines the following tasks and principles:

_ Disseminating and securing prosperity
_ Accessibility, independence and innovation
_ Profitability
_ Financial literacy
_ It is about people
_ Serving civil society
_ Transparency, stability, simplicity

Two key questions must be answered every time a business decision is taken: "Is it profitable?" and "Is it legal?". For Erste Group, this has never been enough. Every employee has to consider a "third question" that arises from the Statement of Purpose: "Is it the right thing to do?"
Building on this Statement of Purpose, our Code of Conduct defines binding rules of the daily business for employees and members of both the management board and supervisory board. At the same time, the Code of Conduct underlines that in pursuing its business activities, Erste Group values responsibility, respect and sustainability.

Today, Erste Group has an extensive presence in the Eastern part of the European Union with considerable market positions in Austria, the Czech Republic, Slovakia, Romania, Hungary and Croatia. The seventh core market is Serbia. In addition, Erste Group holds direct and indirect majority and minority banking participations in Slovenia, Montenegro, Bosnia and Herzegovina, North Macedonia and Moldova.

Looking beyond financial performance has been important for Erste Group since its foundation. Operating in the CEE region with increasing presence from early 2000, we reinforced our commitment to the region and its population by expanding our activities beyond core banking services. Erste Group established the concept of social banking in its core markets with a special focus on

_ Financial inclusion – providing banking services for excluded members of society (e.g. Zweite Sparkasse)
_ Supporting growth of the social sector –banking for NGOs
_ Facilitating job creation – supporting start-ups and vulnerable segments of the population

Ecological developments and the role of banks

As the world heads towards a 2.7° C increase in global warming (according to the updated UN synthesis report of autumn 2021), the ecological, social and economic impact is becoming more pressing. Even Central and Eastern Europe with its comparatively mild climate was hit with several unusual natural disaster events resulting in damaged infrastructure and houses as well as crop failures.

With the new Glasgow Climate Pact, an agreement was reached at the COP 26 Climate Summit. 80% of global emissions are now covered by pledges of countries to achieve net zero emissions. Despite the achievements, the heavily watered-down draft of the final declaration was criticised for not giving a clear signal to stop fossil fuel subsidies.

Europe leads the worldwide effort in terms of climate action. The European Climate Act became a central element of the European Green Deal. It sets a binding EU climate target to reduce net greenhouse gas emissions at least by 55% compared to 1990 levels by 2030.

While Austria has pledged to achieve climate neutrality by 2040, the majority of the countries in CEE are calibrating their net zero policies towards 2050, the final deadline stipulated by the European Climate law. National Recovery and Resilience plans completed in 2021 by the EU member states outline a combined allocation of the NextGenerationEU funds to Erste Group's core markets (except Serbia) in the amount of EUR 61 billion, of which 47% or EUR 28.8 billion are to be invested in environmental initiatives. Most of the projects submitted focus on green mobility and transportation (EUR 9.3 billion), followed by renewable energy and energy infrastructure (EUR 4.5 billion) and building renovations (EUR 4.3 billion).

Banks will have to play an active and fundamental role in utilising these funds and in financing or co-financing projects. Together with their clients, banks will build the green economy of the region.

Accelerating climate action

The exceptional economic development of the last 30 years in the Central and Eastern European region was built on investments and transitioning from an obsolete, unproductive, and inefficient economic model towards higher added value, technology driven production.

Erste Group, in its role as a leading financial institution in the region, is committed to supporting the upcoming green transition. The upcoming decade will bring a lot of opportunities for green investments, including the transition from the high carbon energy sector towards renewable energy sourcing and the low carbon energy grid, the renovation of obsolete buildings and the modernisation and expansion of the region's railway infrastructure. The CEE region will also need to invest in recycling and waste management improvements and further water collection and treatment upgrades.

Taking responsibility seriously

Resolving the conflicting targets of profitability and the ecological and social impact of its business is a key element for the management of Erste Group. We believe that acting responsibly and remaining profitable is a key prerequisite for the long-term survival of any company and the creation of value for customers, investors, employees and the society at large.

In light of the accelerating level of environmental degradation and the urgency of climate change with far-reaching impact on vulnerable parts of the society in the CEE region, Erste Group reshaped its priority ESG objectives in 2021. In the years to come, Erste Group will put particular emphasis on the following United Nations Sustainable Development Goals (SDGs) (here in alphabetical order):

- Affordable housing (SDG 11)
- Climate action (SGD 13)
- Clean water and sanitation (SDG 6)
- Diversity (SDG 5)
- Financial inclusion (SDG 1)
- Financial health and literacy (SDG 4)
- Recycling and waste management (SDG 12)

SDGs provide a framework embedded into wider socio-political efforts of the United Nations to ensure sustainable development at the economic, social and environmental level worldwide.

While Erste Group has a long history of initiatives related to its commitment to social responsibility – the successful step-by-step roll out of the social banking concept is a good example – we believe it is necessary to further strengthen our environmental commitment. As a consequence Erste Group will expand its contribution to the environmental and climate objectives and aims to take a substantial role in the above-mentioned transformation process.

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

To meet the statutory requirement of disclosing non-financial information, Erste Group has decided to include the (consolidated) non-financial report in its annual report, thus fulfilling its obligations under sections 243b and 267a of the Austrian Commercial Code (UGB). Erste Group has drawn up this non-financial report in conformity with the Global Reporting Initiative (GRI standard: core option) and follows the recommendations of the Task Force on Climate Related Financial Disclosures (TCFD). While non-financial reporting is not subject to the audit of the consolidated financial statements, this non-financial report was subject to an independent audit by Deloitte Audit Wirtschaftsprüfungs GmbH in accordance with the GRI standards: Option core and sections 234b and 267a of the Austrian Commercial Code (UGB) to achieve limited assurance. This audit report is available at the end of this non-financial report.

The reporting obligation under UGB requires covering environmental, social and employee matters, respect for human rights and measures against corruption and bribery.

The non-financial report must cover the same scope of consolidation as financial reporting. The calculation of non-financial data, such as energy consumption per employee (full-time equivalent; FTE) is based on all material Erste Group entities that have at least one employee. For the 2021 non-financial report, human resources data was captured at single-entity level. Environmental data of all premises used for banking operations was captured for all entities in the scope of consolidation.

The EU sustainable finance Taxonomy Regulation (Taxonomy (EU) 2020/852) is a classification system to determine whether an economic activity shall qualify as environmentally sustainable. For the reporting year 2021 financial market participants are required to disclose the share of their exposures to taxonomy non-eligible and taxonomy-eligible economic activities in their total assets for the first two environmental objectives pursuant to the regulation, i.e. climate change mitigation and climate change adaption. Erste Group meets those requirements pursuant to Art. 8 Taxonomy (EU) 2020/852.

Materiality Analysis

The starting point of non-financial reporting is a materiality analysis conforming to GRI Standards (GRI 101) to identify those non-financial material topics that have social and ecological impact relevant to both Erste Group and its stakeholders. Erste

Group applies the concept of double materiality as proposed by the European Commission in 2019. From a business perspective a topic is material when it has a (positive or negative) impact on the financial performance and value of the company. But the external impact of Erste Group is also considered, thus a topic is also material when it matters to the society and/or the environment.

Erste Group's first materiality analysis according to GRI was performed in 2016. The scope of relevant topics was based on externally recognised sources like GRI, the SDGs as well as internal documents and discussions with internal stakeholders. In 2021, the material topics were reviewed by both external and internal experts, and a peer research was conducted. In addition, several interviews with Erste Group's investors were held, providing valuable feedback for updating the topics.

The list of the topics has been defined specifically based on the following principles:

_ Materiality for the bank's business operations
_ Involvement/inclusion of stakeholder groups
_ Reflecting the double materiality perspective
_ Inclusion of sustainability in the business strategy

For the online survey in 2021, the scope of relevant stakeholders was extended to investors, NGOs and academic representatives. The material non-financial topics of particular relevance to Erste Group were identified in a workshop with in-house and external experts.

The group-wide survey in 2021 showed a higher participation rate than in 2019. Overall, 1,524 employees and 1,639 customers in Erste Group's seven core countries as well as 59 representatives of investors and NGOs, academics and members of the supervisory board responded to the survey.

The target groups surveyed confirmed the validity of the material aspects in the questionnaire. All pre-defined items asked for in the survey were highly relevant to respondents and also to the long-term economic success of Erste Group. Even the aspects ranked last by the respondents still show high relevance. This was equally confirmed by all target groups covered in the survey.

The highest scores were observed across all stakeholder groups in categories related to anti-corruption and data security while the lowest score was attributed to financial inclusion. The other categories were characterised by different assessments from employees, customers and supervisory board members. These largely correlating groups provided results consistent with previous surveys: high priority topics related to customer care and employee care, followed by sustainable finance and diversity. For these stakeholder groups less material but still relevant topics were limiting financing for high emission sectors, financial inclusion, and ecological impact of banking operations. Investors, academics and NGO representatives – the newly included stakeholder groups– had a different view and ranked sustainable finance together with the limit on financing high emission sectors among their most relevant topics and higher than customer and employee care, which were highly preferred by other stakeholder groups.

To comply with the requirements of the sections 243b and 267a of the Austrian Commercial Code (UGB), the national implementation of the Non-financial Reporting Directive 2014/95/EU and GRI 101, Erste Group conducted an impact analysis in addition to the materiality analysis in 2021. In-house experts assessed the economic, environmental and social impact of the above-mentioned material topics. The result of the impact analysis corresponded to the materiality analysis. The topics with high relevance for the stakeholders show a high economic, environmental or social impact.

The following table presents the result of the materiality analysis (ranked by relevance):

	Employees	Customers	Investors	Academics and NGOs	Supervisory board
Material topics					
Anti-corruption measures	1	3	1	1	2
Data security	2	1	2	2	4
Customer satisfaction	3	2	5	6	1
Ethical conduct of employees in banking operations	4	4	6	5	3
Employee health & work-life balance	5	5	9	9	5
Diversity and equal opportunity	8	6	7	7	8
Financial literacy	10	7	11	11	7
Talent attraction	6	8	10	8	6
Sustainability criteria in financing and investment	7	9	4	3	9
Limit financing of high emission sectors	11	10	3	4	11
Ecological impact of banking operations	9	11	8	10	12
Access to banking products for the socially excluded	12	12	12	12	10

Material topics

To make the context of the material topics more visible, they have been categorised and linked to SDGs. Although Erste Group prioritised seven SDGs in 2021, material topics indicate that notable contributions are made to more SDGs.

Environmental responsibility

Sustainability criteria in investment and finance (SDG 6, 11, 12, 13). Public interest in the indirect impact of bank products on climate, environment and the society is growing significantly. Erste Group is steadily expanding its range of sustainable finance products. Its sustainable finance focuses on critical socio-environmental topics of the CEE region, in particular affordable housing, climate change, clean water, recycling and waste management.

Limiting financing in high emission segments (SDG 13). Global warming is one of the key challenges of our time. Erste Group is committed to aligning its financing policies to the 1.5° C global warming limit of the Paris Agreement.

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

Social responsibility

Ethical conduct of business by employees in their daily work (SDG 5, 8). The values and attitudes demonstrated by employees in their work determine how Erste Group is perceived in the public. Erste Group encourages a culture of fair and mutually respectful interaction. Respecting human rights and zero tolerance for child labour and discrimination are fundamental principles of Erste Group.

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

Access to banking products for socially excluded (SDG 1). For a variety of reasons, many people do not have access to financial services from commercial banks even today. In accordance with its founding principles, Erste Group's social banking programmes help people to help themselves and contribute to positive economic development of the excluded parts of society.

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

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

Talent attraction and retention (SDG 5, 10). Erste Group is convinced that attracting and retaining talented staff through comprehensive learning offers and development opportunities will contribute to the success of the bank.

Our customers

Data security (not assigned to a specific SDG). The security of customer data is a key prerequisite for long-term success in the banking industry and of fundamental importance to Erste Group. Erste Group therefore applies the highest standards in its IT infrastructure and provides ongoing training to its employees to offer maximum protection against the misuse or loss of customer data. The danger of cyber-attacks requires ongoing investment to maintain and improve data security.

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

Governance and anti-corruption measures

Anti-corruption measures (SDG 16). Corruption and bribery may be a problem in many parts of the economy. Erste Group employees are required to attend a customised training programme enabling them to recognise and prevent fraud and corruption. Conflicts of interest between customers, Erste Group and its employees are governed by clear rules such as provisions on employee transactions, the gift policy and research disclaimers.

Responsible criteria in the supply chain (SDGs 10, 13). Against the backdrop of interrelated economic activities, companies must consider not only the ecological and social impacts of their own operations, but also those of their entire supply chain. Through its supply-chain management, Erste Group is making every effort to avoid an undesirable indirect impact on the environment and human rights.

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

Stakeholders	Topics of the materiality analysis	Material topics pursuant to GRI Standard	SDG	Section in the non-financial report
	Customer satisfaction	Customer privacy (GRI 418-1)	SDG 8	Our customers
	Anti-corruption	Anti-corruption (GRI 205-3)	SDG 16	Compliance and management of conflicts of interest
	Highest data security	Substantiated complaints concerning breaches of customer privacy and losses of customer data (GRI 418-1)		Our customers
	Ethical conduct of employees in banking operations	Not assigned to any GRI indicator	SDG 5,8	ESG Strategic Framework
Customers	Access to banking products (Social Banking)	Initiatives to improve access to financial services for disadvantaged people (FS 14 of GRI 4)	SDG 1	Sustainable finance (Social Banking)
	Diversity and equal opportunity	Employment (GRI 401-1, 401-3)	SDG 5	
	Employee health & work-life balance	Training and education (GRI 404-1)	SDG 3, 5	
		Diversity and equal opportunity (GRI 401-3, 405-1)	SDG 5, 10	
	Respect for human rights	Non-discrimination (GRI 406-1)	SDG 5, 10	
Employees	Talent attraction and retention	Training and education (GRI 404-1)	SDG 5,10	Employees
	Customer satisfaction	Customer privacy (GRI 418-1)	SDG 8	Our customers
	Anti-corruption	Anti-corruption (GRI 205-3)	SDG 16	Compliance and management of conflicts of interest
	Ethical conduct of employees in banking operations	Not assigned to any GRI indicator	SDG 5,8	ESG Strategic Framework
	Diversity and equal opportunity	Employment (GRI 401-1, 401-3)	SDG 5	Employees
		Diversity and equal opportunity (GRI 401-3, 405-1)	SDG 5, 10	Outside the non-financial report: corporate governance report
Governance bodies (members of the supervisory board)		Non-discrimination (GRI 406-1)	SDG 5, 10	
		Economic performance (GRI 201-1)		Outside the non-financial report: consolidated financial statements
	Financial literacy	Initiatives to improve access to financial services for disadvantaged people (FS 14 of GRI 4)	SDG 4	Commitment to society (Financial literacy)
	Social commitment		SDG 4, 5,10	Commitment to society
		Anti-corruption (GRI 205-3)	SDG 16	Compliance and management of conflicts of interest
		Socio-economic compliance (GRI 419-1)	SDG 16	GRI Index
Society		Economic performance (GRI 201-1)		Outside the non-financial report: consolidated financial statements
		Economic performance (GRI 201-1)		Outside the non-financial report: consolidated financial statements
	Highest data security	Substantiated complaints concerning breaches of customer privacy and losses of customer data (GRI 418-1)		Our customers
	Anti-corruption	Anti-corruption (GRI 205-3)	SDG 16	Compliance and management of conflicts of interest
Investors	Limiting financing in high emission sectors	Other indirect GHG-emissions (Sope 3) (GRI 305-3)	SDG 13	ESG Strategic Framework and Risk Management
	Anti-corruption	Anti-corruption (GRI 205-3)	SDG 16	Compliance and management of conflicts of interest
	Highest data security	Substantiated complaints concerning breaches of customer privacy and losses of customer data (GRI 418-1)		Our customers
	Limiting financing in high emission sectors	Other indirect GHG-emissions (Sope 3) (GRI 305-3)	SDG 13	ESG Strategic Framework and Risk Management
Academics/NGOs	Sustainability criteria in finance and investment		SDG 6,11,12,13	ESG Strategic Framework and Risk Management
		Materials (GRI 301-1, 301-2)		ESG Strategic Framework (environmental footprint)
		Energy (GRI 302-1, 302-4)		Suppliers and supply chain
Environment	Sustainability criteria in the supply chain & ecological impact of banking operations	Emissions (GRI 305-1, 305-2)	SDG 13	ESG Strategic Framework (environmental footprint)
	Sustainability criteria in the supply chain & ecological impact of banking operations	Supplier environmental assessment (GRI 308-1)		
Suppliers	Respect for human rights	Supplier social assessment (GRI 414-1, 403-7)	SDG 10, 13	Suppliers and supply chain

ESG strategic framework

Erste Group is convinced that considering socio-environmental responsibility, climate change prevention and strong governance aspects in doing business not only support its purpose to disseminate prosperity but also secures the financial resilience of the bank.

Based on Erste Group's legacy of strong focus on social responsibility and its ambition to be the leading financial institution driving the green transition in Central and Eastern Europe, Erste Group implemented its ESG strategic framework in 2021.

It is based on four impact pillars:

Sustainable finance. Erste Group is committed to considering social and environmental aspects in finance, banking and client advisory services in its retail and corporate business. Erste Group aims to reach a share of 25% green investments in its corporate portfolio in five years. It is also committed to increasing the green wholesale funding rates in all its core markets, thus strengthening CEE debt capital markets and defending its leading position in ethical and environmental funds in the CEE region. As Erste Group is convinced that the main challenge will be the transition from today's high emitting sectors, it intends to further develop expertise and support the decarbonisation efforts in the markets it operates in. Erste Group introduces best practise ESG risk management processes.

Working together for a sustainable future. Erste Group believes there is a need to not only raise awareness for green transition and its potentially related impact on society but also to develop new sustainable market standards. Consequently, Erste Group is committed to actively participating in and supporting public initiatives in this field and pursuing collaborations with business partners and NGOs.

In 2021, Erste Group joined several climate related programmes as an active member. As the first financial institution in Europe, Erste Group supported the European Commission's Green Consumption Pledge initiative and is committed to increasing the number and sales of eco-labelled funds, strengthening sustainable reporting and increasing the promotion of sustainable finance to its clients. In addition, Erste Group joined three initiatives of the United Nations Environmental Programme for Financial Institutions (UNEP FI). It became a signatory of the Principles for Responsible Banking, was the first Austian bank to join the Net Zero Banking Alliance and was a founding member of the Financial Health and Inclusion initiative.

Good corporate citizenship and operations. Erste Group is committed to reaching climate neutrality by 2023. After having reduced Scope 1 and Scope 2 emissions by 25% since 2016, Erste Group intends to reduce them by a further 25% by obtaining at least 90% of its electricity from green sources and by implementing further efficiency measures.

Our employees. Erste Group puts emphasis on raising awareness of the importance of a sustainable lifestyle and motivating all its employees to actively support efforts to reach climate neutrality. In addition, Erste Group plans to offer a climate literacy programme to its staff incorporating input from academics of the Vienna University of Economics and Business, environmental experts of the Austrian World Wide Fund for Nature, and climate simulation workshops. The climate literacy programme will familiarise Erste Group's employees with key environmental topics, sustainable finance and expected changes related to the green transition.

ESG responsibilities

Taking into account ESG topics is an integral part of Erste Group's way of doing business. Consequently, this resulted in an integrated organisational model. ESG functions and responsibilities are embedded in its respective corporate and retail business as well as its risk and finance units. An exception to this rule is the Group ESG Office that was set up as an independent unit in the strategy division, reporting to the CEO. It drives the ESG strategy, targets and priorities.

Erste Group considers it essential to align group-wide decision making processes and aims to synchronise initiatives, principles and planned actions across functions and countries taking into account relevant ESG aspects.

Considering the increased importance of managing climate-related risks led to changes in the ESG governance. The Group Sustainability Board received a stronger mandate, an ESG Core Team was established to facilitate the implementation of initiatives across all core markets and a Sustainable Finance Committee was set up to steer green investments.

Erste Group's ESG governance framework includes the following elements:

The **supervisory board** oversees the sustainability strategy, the ESG framework and its implementation. Its members are regularly informed about ESG matters. The (consolidated) non-financial report has to be reviewed and accepted taking into account the external audit report.

The **management board** defines the sustainability strategy and is responsible for the ESG framework, priorities and targets. Furthermore, it ensures the implementation of the sustainability strategy with adequate resource allocation and controls and is regularly informed of status and achievements. These tasks are implemented via the Group Sustainability Board.

For additional information on the activities of the supervisory and management board, please refer to the (consolidated) corporate governance report.

The **Group Sustainability Board** consists of the management board members of Erste Group Bank AG and the CEOs of the local banks. It takes decisions on strategy, priorities, governance and key performance indicators and monitors the implementation progress.

The **ESG core team** is set up as a collaboration platform to develop objectives, targets and corresponding initiatives through senior managers of various areas – business, finance, risk and other support functions. It ensures agreements on initiatives, timelines and other implementation matters. It is organised by the Group ESG Office and holds bi-weekly meetings.

The main objective of the **Group Sustainable Finance Committee** is to ensure coordinated development of ESG principles in steering instruments like portfolio limits, pricing and the ESG Factor Heatmap. It consists of senior managers of Erste Group and is responsible for Erste Group's sustainable finance framework, group-wide sustainable asset eligibility rules, asset allocation and reporting obligations. The ultimate decisions on risk or other methodology topics are delegated to the functional decision-making bodies within the risk management or financial management framework. The committee is organised by the Group ESG Office, its meetings are convened on demand. In 2021, four meetings were held.

The **Group ESG Office** promotes Erste Group's sustainability strategy and acts as the main advisor to the management board on the ESG strategy, targets and priorities. It provides key ESG policies, ensures inhouse expertise on climate, environmental, social and governance objectives, defines ESG governance framework, financing rules and selectively intervenes on single transactions. In addition, it ensures transparency on Erste Group's sustainability impact.

Local ESG Offices develop local sustainability strategies aligned with the group-wide strategy, support the respective local management boards and are tasked with facilitating, organising, and ensuring the information flow on the implementation of initiatives within the local organisation.

Group business divisions are in charge of the business strategy, objectives, targets and developing initiatives and action plans. In addition, they are responsible for defining green/social eligibility rules and ensure their integration into products as well as ESG risk management processes. Group business functions ensure the alignment with local business divisions.

Group risk management functions ensure that ESG aspects are covered in the risk management framework and risk appetite assessment and are properly taken into account in risk control and operative risk management tools and processes.

CLIMATE AND OTHER ESG RISKS MANAGEMENT FRAMEWORK

Climate-related and other ESG risks are an integral part of Erste Group's risk management framework. They are connected to potential losses through additional costs, liabilities, or damages suffered because of climate, environmental, social or governance related adverse events. ESG risks are integrated into the risk taxonomy of Erste Group as transversal and covered by major risk categories in credit, market, liquidity and operational risks. Erste Group's ESG risk definition thus covers a broad range of risk drivers linked to environmental, social and governance factors and also recognises their double materiality. The ESG Risk Definition Policy is available on the website (https://www.erstegroup.com/en/about-us/sustainability-esg).

Erste Group's ESG due diligence process is built along the three lines of defence. Business lines and relationship managers are in charge of identifying, verifying and mitigating potential ESG risks in client relationships, financing transactions or financed assets. Risk management functions, the second line of defence, validate and assess the nature and severity of the ESG risk exposure and provide a risk opinion and an independent recommendation for further mitigation measures or even exercise their veto rights. The third line of defence lies with internal audit.

The Group ESG Office supports this process with its expertise and may exercise its veto rights within the Holding Credit Committee to ensure the alignment of the portfolio and Erste Group's banking practices with the ESG Framework and socio-environmental objectives of the Group. In addition, the Group ESG office is a voting member in the Risk Operational Conduct Committee.

Erste Group's ESG risk management concept is built along risk identification and assessment and is embedded into its Risk Appetite Statement Framework. The ESG risk management concept affects the bank's entire product offering comprising amongst others lending, advisory, investment and asset management services, wholesale funding and even supplier management practices.

Erste Group's Code of Conduct provides a reference point for our actions and behaviour and a set of rules governing our daily business activities. Erste Group expects suppliers to meet standards laid down in Erste Group's Ethical and Environmental Code of Conduct for Suppliers of Goods and Services.

Identifying climate and other ESG risks

Erste Group's risk identification and assessment process is based on an industry sector differentiated approach as the relevance of individual risk drivers may differ depending on the nature of the respective economic activity.

The **loan origination and monitoring process** for large corporate and commercial real estate transactions includes an ESG scorecard-based screening. Critical data on climate risk, exposure to environmental degradation and animal welfare is collected and assessed as are social risk factors like exposure to human rights violations, child labour and forced labour, violation of employee rights or improper customer services and marketing. For segments with lower exposures and more diversified risk, the main instrument used is the ESG Factor Heatmap. It combines the relevance of climate, environmental and social risk factors with a granular industry segmentation of the portfolio. In critical segments, amber or red alerts trigger deep-dive investigations and a reconsideration of industry strategies. Erste Group Credit Collateral Management Policy takes into account ESG factors. To improve the process an extensive ESG data collection has been started.

The **Group Responsible Financing Policy defines harmful socio-environmental activities** that are excluded from financing and banking services. The main focus of the policy is on climate protection through the alignment of Erste Group's energy financing in line with the Paris Agreement, global warming limitation, the prevention of extensive environmental degradation and measures to preserve biodiversity through restraining from artic oil and gas financing and unconventional mining practices but also with very selective participation in hydropower projects. In addition, the policy aims to limit the impact of socially harmful activities e.g. of the weapons and defence industry. In 2021, Erste Group made significant progress by further tightening its coal policy and setting a goal to exit coal financing by 2030. Taking into account that coal still plays an important role in the energy security of the CEE region, the policy allows for a two-year period for customers to prepare credible coal phase-out plans.

Erste Group is going to make another important step forward by introducing a financing policy for the gaming and gambling industry in early 2022. Following the increasing urgency to limit global warming and biodiversity loss Erste Group will further extend its Responsible Finance Policy by measures regarding carbon intensive sectors and industries with high impact on water, soil and air pollution in 2022.

In its **wholesale funding and structuring activities,** Erste Group applies strict rules of asset selection and eligibility with conformity to the EU Taxonomy and is fully aligned to its loan origination standards including the Group Responsible Financing policy. In 2021, Erste Group implemented Sustainable Finance Framework guidelines. Together with the independent second party opinion it is available on our website.

In asset management Erste Group applies a proprietary ESG rating to select best-in-class investees and focuses solely on the top 40% of the best ESG performing investee titles. In addition, it applies exclusion criteria for climate, environmental or socially harmful activities. Erste Asset Management's investment policies and the ESG Handbook for Asset Management are available on its website under sustainability (http:www.erste-am.at).

For **ESG risk screening** Erste Group uses internal and external data. Proprietary client information is sourced through ESG scorecards and combined with relevant external data typically from reputable data providers like S&P, Sustainalytics, ISS ESG or Bloomberg.

ESG risk screening in the supply chain is part of Erste Group's supplier selection process. Specific social and environmental information is requested in a supplier audit questionnaire and checks are done using a sustainability scorecard.

Management of climate and other ESG risks

Erste Group is **committed to achieving portfolio net-zero emissions by 2050** in line with the goal of the Paris Climate Agreement to limit global warming to a maximum of 1.5°C.

Erste Group opted for a carbon accounting methodology aligned with the PCAF (Partnership for Carbon Accounting Financials) standards. This also ensures compliance with the Greenhouse Gas Protocol Corporate Accounting and Reporting Standard. In 2021, Erste Group implemented the methodology for customer loan portfolios across all markets and reached approximately 78% portfolio coverage. In line with the scope of the PCAF standards corporate loans, commercial real estate financing, project finance and mortgages were included. Erste Group will adapt carbon footprint calculations for the remaining segments – unsecured retail loans and financial institutions and sovereigns – as soon as the PCAF standards provide methodological guidance.

Erste Group's goal is to set interim targets for reducing its Scope 3 emissions. In 2021, Erste Group started to build forward looking decarbonisation models for three priority segments – energy, commercial real estate and mortgages – which in total amount to nearly 50% of Erste Group's quantified portfolio carbon footprint. In 2022, the aim is to provide decarbonisation targets for at least 70% of the quantified emissions by addressing further high emission segments. In its forward-looking models Erste Group follows the target setting methodology and embedded scenarios of PACTA (Paris Agreement Capital Transition Assessment) and SBTi (Science Based Targets Initiative). Target setting impacts business planning, and Erste Group will share the knowledge it gained with its customers and support them in their green transition efforts.

In 2021, Erste Group became a signatory member of PCAF and a core member of the PCAF project on 'financing to net-zero buildings' with the aim of developing a methodology and provide an emission factor database for the measurement and modelling of the carbon footprint of real estate portfolios. As signatory member of the Net Zero Banking Alliance, Erste Group is committed to transitioning its operational and financed emissions to net-zero by 2050 and to setting interim targets initially focusing on those portfolios where the biggest impact can be achieved. Within the Net Zero Banking Alliance, Erste Group participates in the formation of standards for the net zero target setting and complementary disclosure standards.

The **business environment assessment** focusing in particular on climate change and socio-environmental challenges of the CEE region was completed in 2021. It is a basis for the long-term strategic considerations of the financial resilience of Erste Group's business model in relation to risks related to sustainability matters. Climate change is considered the most significant long-term challenge across all the core markets but with different starting points to address. The European climate law, EU Green Deal and 'Fit for 55' outline upcoming changes in EU strategy and legislation. The CEE countries will have to align to these European objectives and absorb the impact on their economies and reshape investment and consumption expectations. Erste Group's understanding of the climate related challenges, legislative and economic impact are documented in the internal Climate Change Houseview. Other social and environmental issues were analysed with the support of the Austrian World Wide Fund for Nature including the loss of biodiversity and environmental degradation like water, soil and air pollution. Furthermore, housing status, health care, financial inclusion and education were assessed.

This status analysis provided the basis for Erste Group's long-term ESG strategy, objectives and framework. Furthermore, the identified environmental and social challenges are taken into account in the ESG Heatmap and Group Responsible Finance Policy.

The analysis also identified opportunities related to the total investment need of EUR 470 billion for Erste Group's core countries to tackle climate change and the most pressing clean water and waste management challenges by 2030. A substantial part of these needs will be provided for by the EU or local public funds as shown in the National Recovery and Resilience Plans or the National Energy and Climate Plans. Public funds, however, will have to be supported by private sector funding expected to be approximately EUR 30 billion per annum by 2030.

In 2022, the first **climate stress test** will be conducted according to the specifications and methodology of the European Central Bank and subsequently integrated into Erste Group's stress testing framework. In 2021, intensive preparatory work was carried out for this purpose to translate climate scenarios and industry-specific macro models into concrete effects on the respective customer groups. The results of these stress and scenario analyses will help strengthen Erste Group's knowledge of climate risks and will subsequently be aligned with other activities (e.g. risk materiality analysis, decarbonisation target setting).

ESG Risks are embedded as **Risk Management Principles** in both **Erste Group's Risk Appetite Statement and its Risk Strategy**. Climate and environmental-related risks are also integrated into the Risk Materiality Assessment of Erste Group. The materiality of climate and other environmental risks is assessed within existing main risk types (credit, market, liquidity, operational and strategic risk) by means of qualitative and quantitative indicators. Such indicators are for instance related to greenhouse gas emissions of loan portfolios, energy efficiency or exposures in sectors with potential to environmental degradation. Erste Group has limited exposure to high emission segments and benefits from a granular geographical and industrial portfolio composition. Climate and environmental-related risks are assessed as medium risk and therefore classified as material. In 2022, Erste Group will extend its Risk Materiality Assessment by adding social and governance risk drivers.

Climate Change Metrics and Targets

While measuring and reporting Erste Group's direct impact on the environment advanced over the years, assessing the indirect impact of the bank's business activities was hindered by the still limited availability of client reported emissions in the CEE region. Missing or incomplete data on financed emissions obstructed Erste Group's ability to manage ESG risks and to identify opportunities.

Financed emissions

Focusing the efforts on selected portfolios in line with the PCAF standard, Erste Group achieved coverage of EUR 140.2 billion with calculated financed emissions equalling 78% of total loans to customers of EUR 180.3 billion (i.e. total credit exposure excluding off balance sheet positions, central banks, governments and credit institutions) in 2021. The difference of EUR 40.1 billion is mainly related to consumer loans for which PCAF does not provide a specific calculation methodology yet. Total financed emissions (Scope 1 and Scope 2, for selected industries upstream Scope 3) of the quantified portfolios amounted to 11.1 million tCO_2e and the financed emissions intensity stood at 79 gCO_2e/EUR. The level of financed emissions benefits from a favourable regional distribution of the loan book and a favourable balance between the low financed emissions intensity of real estate and the marginal share of high emissions intense heavy industry and energy sectors. The internal segmentation sectors were used to calculate and disclose financed emissions and to ensure consistency with all internal processes used for decision making. Internal segmentation takes a different view than the external industry one, which is disclosed in the financial statements.

Business loans in the amount of EUR 60.8 billion are a major source of financed emissions, both in absolute terms with 7.3 million t CO_2e as well as by the financed emissions intensity of 119 gCO_2e/EUR. Loans to corporate customers include financing to the whole spectrum of non-financial companies, from large international and national corporates, small and mid-sized enterprises to micro entrepreneurs. For real estate related exposures included in the business loan module (NACE L68), the same financed emission intensity values were applied as for the commercial real estate module, which proved to be more conservative than the PCAF database emission coefficients. These exposures were classified as business loans as the financing was provided through general corporate lines and not a dedicated commercial real estate financing.

In 2021, Erste Group implemented standardised data collection through an ESG questionnaire for its large corporate clients. 158 of the addressed clients were able to report Scope 1 and Scope 2 emissions, 100 reported also Scope 3 emissions. Using the client reported emissions Erste Group achieved coverage of EUR 2.8 billion and 0.8 million tonnes of CO_2e at a high data quality score of 2 (explanation is presented at the end of this section). The calculations included upstream Scope 3 emissions for clients in the oil & gas and the mining sector.

The **project finance** portfolio had a moderate credit exposure of EUR 2.0 billion and 0.4 million tCO_2e financed emissions or an emissions intensity of 203 gCO2e/EUR. Energy projects in the amount of EUR 1.3 billion accounted for the largest share of the project finance portfolio followed by natural resources and commodities projects of EUR 0.2 billion.

Commercial real estate accounted for a credit exposure of EUR 24.0 billion with emissions of 0.9 million tCO_2e and a financed emissions intensity of 38 gCO_2e/EUR. Although buildings are among the highest contributors of absolute emissions in Erste Group's markets, they have a low financed emissions intensity. The calculation of Scope 1 and Scope 2 emissions was generally based on an estimated energy consumption using Efficiency Performance Certificates (EPC), the financed floor area and a typical mix of energy sources. In case of missing EPCs – an exposure of EUR 2.8 billion – data referring to the year of construction and location was used to estimate the energy performance levels. For an exposure of EUR 19.8 billion neither EPCs nor the year of construction were available, hence, respective national average energy performance levels were applied. The estimates will improve in quality over time not only due to additional data collection but mostly due the availability of reported emissions or EPC labels for the financed assets.

Retail mortgages with an exposure of EUR 53.3 billion were the second largest contributor of absolute emissions with 2.5 million tCO_2e, but had a low financed emissions intensity of 46 gCO_2e/EUR. Erste Group's mortgage portfolio may be split into two main types of residential real estate. Flats account for 353 thousand units and EUR 23.1 billion loan volume, family houses for 337 thousand units and EUR 29.0 billion loan volume. The two types of financed assets show different parameters, the lower efficiency family houses with a higher average floor area of 117 m^2 have a higher emissions intensity of 59 kg CO_2e/m^2 compared to flats with a typical floor area of 75 m^2 and an emission intensity of 48 kg CO_2e/m^2. For the Scope 1 and Scope 2 estimates for mortgages the same methodological principles as for commercial real estates were applied – either client reported EPC labels or estimates of EPC labels using property-related information or national average energy performance values. If the intensity based on the national energy performance values was lower than the intensity of the EPC or the property-related approach, the more conservative emission intensity was applied. Reported EPC labels were available for EUR 12.4 billion of the mortgage portfolio and EUR 41.0 billion was covered with estimated EPC labels.

The sector with the highest financed emissions intensity of 575 gCO2/EUR is energy with an exposure of EUR 4.6 billion. Energy has a sizeable share of renewable energy financing of EUR 1.1 billion (24%), and of energy transmission and distribution of EUR 0.4 billion (8%). Erste Group is not only committed to supporting the client transition from coal based energy production to low carbon or renewable energy sources but considers it equally important to finance the necessary investments to a low carbon electricity grid upgrade.

Within the calculation we implemented a categorisation based on the revenue related emission intensity to identify the high and critical emission clients and segments. Everything above 1,000 gCO2e per EUR revenue has been classified as "high emission category" and cases above 6,000 gCO2e as "critical emission category". Altogether, high and critical emission categories make up EUR 2.5 billion in exposure, or 1.4% of the total loans to customers portfolio.

We implemented a data quality score according to the PCAF methodology. 13% of our calculated portfolio has higher data quality scores of 1 to 3. Data quality scores of 1 to 3 represent assets for which reported emissions were available directly (e.g. from clients) or where emissions could be sufficiently inferred via physical data (e.g. EPC labels from buildings).

Financed emissions as of 31 December 2021

Exposure covered by financed emissions calculation

in EUR billion	Credit exposure	Exposure covered by financed emissions calculation	Excluded exposures
Off-balance sheet exposures and derivatives HfT	55.8		55.8
Central banks	16.5		16.5
Central governments	47.3		47.3
Credit institutions	12.5		12.5
Other financial corporations	6.0	4.3	1.7
Non-financial corporations	84.0	78.4	5.6
Households	90.3	57.5	32.8
Total	**312.4**	**140.2**	**172.2**

Financed emissions by type of loan

	Loans to customers (LtC) in EUR billion	Financed emissions in million tonnes CO_2e	Carbon intensity in g CO_2e/ EUR LtC
Business loans	60.8	7.3	119
Project finance	2.0	0.4	203
Mortgages	53.3	2.5	46
Commercial real estate	24.0	0.9	38
Total	**140.2**	**11.1**	**79**

Financed emissions by industry

	in EUR billion	in million tonnes CO_2e	in g CO_2e / EUR LtC
Natural resources & commodities	7.1	2.4	335
Energy	4.6	2.7	575
Construction and building materials	5.3	0.6	109
Automotive	4.0	0.1	32
Cyclical consumer products	4.1	0.3	65
Non-cyclical consumer products	5.0	0.4	77
Machinery	2.5	0.1	45
Transportation	3.0	0.2	55
TMT	2.8	0.1	40
Healthcare & services	5.0	0.2	43
Hotels & leisure industry	6.4	0.2	35
Real estate	32.1	1.2	38
Public sector	0.3	0.0	3
Financial institutions	2.6	0.0	16
Private households	55.1	2.6	46
Other	0.1	0.0	110
Total	**140.2**	**11.1**	**79**

Financed emissions in high and critical emission intensity sectors

	in EUR bn	in % of total LtC
High emission intensity sector	2.3	1.3%
Critical emission intensity sector	0.2	0.1%
Total	**2.5**	**1.4%**

High emission intensity sectors emit between 1-6 kg CO_2e per EUR revenue, critical emission intensity sector emit >6kg CO_2e per EUR revenue.

Financed emissions by data quality score

	in EUR billion	in %
1 to 3	17.5	13%
4 or worse	122.7	87%
Total	**140.2**	**100%**

ENVIRONMENTAL FOOTPRINT

Business operations of financial institutions typically only have limited direct impact on climate change compared to the indirect environmental impact through the loan portfolios. Nevertheless, Erste Group's ambition has been for quite a while to reduce its direct ecological footprint. By setting a climate neutrality target to be reached by 2023, Erste Group confirmed its intention to implement climate mitigation measures across its markets.

Erste Group plans to achieve climate neutrality by reducing its own greenhouse gas emissions wherever possible and compensate all remaining unavoidable emissions by supporting climate protection measures. The most significant reduction potential lies in switching the bank's electricity consumption to low carbon electricity sources, in increasing energy efficiency of the bank's premises and in raising the share of environmentally friendly cars in the carpool.

Emissions of Erste Group's operations have decreased by 25% since 2016. From 2020 to 2021 Erste Group achieved a further reduction of its Scope 1 and 2 emissions by 23% from 57,492 tCO_2e to 44,414 tCO_2e. This reduction was largely driven by switching to green or low emission electricity in Hungary and Romania.

At 48%, **electricity consumption** constitutes the most important form of energy for Erste Group. The bank currently already covers 66% of its electricity need with low carbon energy sources, the renewed target is a 90% low carbon electricity sourcing by 2023.

Energy efficiency is a key long-term factor to minimise Erste Group's emissions. In addition to the focus on electricity sourcing the bank aims to invest further into energy efficiency measures of its premises especially in heating consumption per m^2. In 2021, significant improvement has been made in electricity consumption efficiency by reducing the kWh of electricity used per m^2 by 10% compared to 2020. Overall Erste Group reduced its total energy consumption by 9% from 2020 to 2021.

Raising the share of environmentally friendly cars in the car fleet was one of five environmental targets set for 2021. Over the last years all countries increased the number of hybrid or e-cars in their car fleet. In the last 12 months this number increased from 98 to 182, resulting in a group-wide share of e-/hybrid cars in the total carpool of 7%. The largest share of 17% can be reported for Austria.

In all of Erste Group's subsidiaries significant steps towards emission reduction have already been taken and more are planned for the years to come to meet Erste Group's climate neutrality target.

In **Austria,** the starting position is favourable as a wide variety of efficiency measures were already successfully initiated in the past. The high energy efficiency standards of Erste Campus in Vienna result in very low emissions of 1.2 kg CO_2e/m^2. Across Austria, electricity consumption was reduced by 10 GWh due to the outsourcing of some of our data centres. With the planned extension of our environmental data collection to include operational Scope 3 emissions in 2022, we will also report the consumption and emissions from these outsourced data centres. Another notable operational improvement in Austria is the share of recycled paper used which increased from 34% to 52% in 2021.

In **Romania,** the most effective way to cut CO_2e emissions was the switch to electricity from renewable sources. **Banca Comercială Română** increased its share of electricity from renewable sources to 16 % and aims to increase this share even more in 2022. In 2021, 100% of the electricity used in both headquarters buildings in Bucharest came from renewable sources. Both premises hold a LEED Platinum (Leadership in Energy and Environmental Design) certification. In addition, Banca Comercială Română upgraded old heating and air conditioning systems and installed new sensors for lighting logos on premises used. In 2022, the focus will be on the car fleet strategy and electrification.

In the **Czech Republic,** 78% of the electricity consumed is already from renewable sources. Wherever viable at the headquarters or branches, the bank focuses on natural daylight, LED lighting, light sensors and other energy saving technologies. Furthermore, district heating is preferred to the use of natural gas. The carpool of Česká spořitelna consists almost exclusively of low-emission cars, and the number of electric cars and plug-in hybrids is gradually increased as well as the charging infrastructure at the headquarters.

In the **Slovak Republic**, Slovenská sporiteľňa celebrated its ten-year anniversary of systematic environmentally friendly activities. Almost 30% of them were focused on energy saving. The results are already visible, Scope 1 and 2 emissions were reduced by 10% last year. Measures to improve energy efficiency continued in 2021 as well. Slovenská sporiteľňa plans to plant 300,000 trees across the country in the coming years. In the past, the bank already planted forest in the High Tatras after devastating windstorms hit the country in 2004 and it recently helped to revitalise forests in the Eastern part of Slovakia.

Environmental data

Erste Group uses a software programme from CRedit360 (cr360) to collect environmental data on a group-wide basis. The energy consumption of approximately 2,500 business locations is individually recorded and evaluated. For the conversion to greenhouse gas equivalents (CO_2e), cr360 uses emission factors from DEFRA (UK Department for Environment, Food & Rural Affairs) and the IEA (International Energy Agency).

In 2021, the reporting scope of environmental data covers the whole consolidation scope of Erste Group entities following the financial control approach.

Total figures for Erste Group shown in the following tables also include data of direct and indirect holdings of Erste Group outside its core markets. A separate presentation of Holding data is not provided, as a meaningful segregation of environmental indicators is not possible due to the shared use of the location (Erste Campus in Vienna) with other entities. The environmental indicators for 2021 refer to 44,424 full-time equivalents (FTEs), equalling 100% of all FTEs in Erste Group that relate to banking operations.

Environmental targets in 2019-2021

	Measure	AT	CZ	SK	RO	HU	HR	RS
Average electricity consumption per m²	kWh/m²	104	103	85	79	125	163	106
Average heating energy usage per m²	kWh/m²	60	95	81	85	60	60	77
Share of hybrid/E-cars in carpool	%	5%	3%	1%	0%	10%	1%	3%
Copy paper consumption per employee	kg/FTE	34	23	25	59	30	33	46
Share of recycled copy paper	%	90%	95%	100%	95%	100%	95%	100%
Scope 1 and 2 per employee	tCO_2e/FTE	0.53	1.4	1.5	2.55	1.2	0.75	1.95

Achievement of environmental targets 2021

	Measure	AT	CZ	SK	RO	HU	HR	RS
Average electricity consumption per m²	kWh/m²	84	97	87	63	110	193	96
Average heating energy usage per m²	kWh/m²	75	101	98	87	82	74	83
Share of hybrid/E-cars in carpool	%	17%	1%	3%	10%	2%	3%	2%
Copy paper consumption per employee	kg/FTE	27	13	16	37	23	24	51
Share of recycled copy paper	%	52%	98%	100%	99%	99%	100%	100%
Scope 1 and 2 per employee	tCO_2e/FTE	0.56	0.96	1.51	1.82	0.58	0.68	0.83

Environmental data

2021	Measure	Erste Group	AT	CZ	SK	RO	HU	HR	RS
Full-time equivalents (FTE)	**Number**	**44,424**	**16,023**	**9,861**	**3,680**	**5,381**	**3,298**	**3,023**	**1,199**
Net floor area	**m²**	**1,634,277**	**667,680**	**293,720**	**136,965**	**331,239**	**71,756**	**64,737**	**23,540**
Total energy consumption	**MWh**	**308,036**	**111,871**	**63,480**	**26,710**	**55,121**	**16,056**	**19,144**	**4,930**
Electricity total consumption (with ATM and own electricity production)	MWh	147,521	55,974	28,486	11,961	20,884	7,863	12,470	2,251
Heating, warm water and district cooling total consumption	MWh	136,760	50,090	29,772	13,445	28,928	5,893	4,792	1,946
Total diesel consumption for electricity generation	MWh	243	143	71	18	1	5	0	0
Carpool consumption total (converted to kWh)	MWh	23,512	5,664	5,151	1,286	5,307	2,295	1,882	733
Share of hybrid/e-cars in carpool	%	6.9%	17.4%	1.4%	2.9%	9.6%	2.0%	2.8%	2.5%
Share of green electricity	%	65.5%	93.9%	78.1%	0%	16.0%	88.2%	85.3%	71.0%
Average electricity consumption per m²	kWh/m²	90.3	83.8	97.0	87.3	63.0	109.6	192.6	95.6
Average heating energy usage per m²	kWh/m²	83.7	75.0	101.4	98.2	87.3	82.1	74.0	82.7
Total paper usage	**t**	**1,114**	**431**	**132**	**60**	**201**	**76**	**73**	**61**
Paper consumption per employee	kg/FTE	25.1	26.9	13.4	16.4	37.3	23.0	24.2	50.8
Share of recycled copy paper	%	74.8%	52.3%	98.1%	100%	98.7%	99.5%	99.8%	99.7%
Scope 1 and 2 emissions	**tCO_2e**	**44,414**	**9,083**	**9,488**	**5,560**	**9,991**	**1,912**	**2,054**	**989**
Scope 1 emissions	tCO_2e	21,530	6,082	2,199	3,040	6,881	1,071	1,399	273
Scope 2 emissions	tCO_2e	22,884	3,001	7,289	2,520	3,110	841	655	716
Scope 1 and 2 per employee	tCO_2e/FTE	1.00	0.57	0.96	1.51	1.86	0.58	0.68	0.83

2020	Measure	Erste Group	AT	CZ	SK	RO	HU	HR	RS
Full-time equivalents (FTE)	**Number**	**45,435**	**16,635**	**9,933**	**3,821**	**5,803**	**3,286**	**3,067**	**1,199**
Net floor area	**m²**	**1,654,020**	**663,089**	**301,533**	**143,199**	**356,830**	**61,617**	**67,709**	**23,093**
Total energy consumption	**MWh**	**339,588**	**121,495**	**69,317**	**26,478**	**72,270**	**16,945**	**18,628**	**4,867**
Electricity total consumption (with ATM and own electricity production)	MWh	165,356	65,953	32,145	12,328	25,457	8,232	12,353	2,283
Heating, warm water and district cooling total consumption	MWh	137,449	47,015	31,875	12,502	31,244	6,433	4,598	1,895
Total diesel consumption for electricity generation	MWh	254	177	47	20	5	3	0	0
Carpool consumption total (converted to kWh)	MWh	36,528	8,350	5,251	1,628	15,564	2,277	1,677	690
Share of hybrid/e-cars in carpool	%	3.2%	9.1%	0.4%	1.1%	3.8%	1.0%	0%	0%
Share of green electricity	%	60.0%	89.9%	75.2%	0%	0%	29.2%	84.9%	93.0%
Average electricity consumption per m²	kWh/m²	100.0	99.5	106.6	86.1	71.3	133.6	182.4	98.9
Average heating energy usage per m²	kWh/m²	83.1	70.9	105.7	87.3	87.6	104.4	67.9	82.1
Total paper - usage	**t**	**1,295**	**502**	**158**	**72**	**311**	**84**	**76**	**22**
Paper consumption per employee	kg/FTE	28.5	30.2	15.9	18.8	53.6	25.5	24.7	18.4
Share of recycled copy paper	%	68.9%	33.6%	97.9%	98.9%	99.1%	99.7%	100%	99.5%
Scope 1 and 2 emissions	**tCO_2e**	**57,492**	**9,968**	**10,976**	**6,144**	**18,693**	**4,659**	**1,800**	**648**
Scope 1 emissions	tCO_2e	24,929	6,785	2,160	2,931	9,636	1,603	1,221	212
Scope 2 emissions	tCO_2e	32,562	3,183	8,816	3,214	9,057	3,056	579	436
Scope 1 and 2 per employee	tCO_2e/FTE	1.27	0.60	1.10	1.61	3.22	1.42	0.59	0.54

FTE: full-time equivalent, defined as an employee times his/her employment factor.
The CO_2 equivalents (CO_2e) are the sum of all greenhouse gas emissions, i.e. carbon dioxide, methane and nitrogen oxide.
Green electricity is defined as electricity from low-carbon sources.

Sustainable Finance

In 2021, under the framework of the European Green Deal, the European Commission announced a renewed sustainable finance strategy. It builds on previous initiatives such as the 2018 action plan on financing sustainable growth and the reports of the Technical Expert Group on sustainable finance. The new strategy proposes action in several areas. First, it will consider extending the EU Taxonomy framework and sustainable finance standards and labels to recognise transition efforts. It stresses the importance of financial inclusion and supports SMEs, individuals, and the real economy on the path to sustainability. This should be achieved by providing the right tools and incentives to access transition finance, and by exploring the opportunities of digital technologies to offer sustainable finance possibilities. It also highlights the necessity for the financial system to become more resilient to the risks posed by climate change and environmental degradation – and the steps needed to achieve this. Finally, the strategy presents the European Commission's approach, including work on global convergence on standard setting, such as taxonomy and disclosures.

Erste Group has a strong track record of promoting prosperity through its inclusive banking concept. As early as in 2001, Erste Group became a pioneer of the region and started to offer ethically and environmentally responsible investment products. These days the bank's work in sustainable finance is much broader, covering debt capital market instruments, corporate advisory and structuring services, and Erste Group serves its institutional, corporate as well as retail customers with best of class sustainable investment opportunities.

Erste Group's sustainable finance efforts are guided by its Group Sustainable Finance Framework outlining the asset eligibility and selection rules, governance framework as well as the asset allocation and reporting obligations over the issued green/social/sustainability bonds.

EU Taxonomy related disclosures

The EU Taxonomy Regulation is a classification system to determine whether an economic activity qualifies as environmentally sustainable. The Taxonomy expects that economic activities contribute to one or more of the six environmental objectives (climate change mitigation, climate change adaptation, sustainable use of water and marine resources, transition to a circular economy, pollution prevention and control, and protection and restoration of biodiversity and ecosystems) and do not harm any of the other environmental objectives. The Taxonomy also requires that sustainable activities respect minimum social safeguards.

According to Art. 8 Taxonomy (EU) 2020/852 in connection with Delegated Act (EU) 2021/2178, Art. 10 section 3, financial market participants are required to disclose information on the first two environmental objectives for the reporting year 2021: the share of their exposures to non-taxonomy eligible and taxonomy-eligible economic activities of their total assets, information on the portion of exposures not covered by the Non-Financial Reporting-Directive (NFRD) and the share of the trading portfolio and on-demand interbank loans.

Taxonomy-eligible economic activities are defined in the Delegated Acts of the Taxonomy.

To comply with these new regulatory requirements, Erste Group initiated a portfolio screening. The following table presents quantitative results in terms of the bank's taxonomy-related disclosure requirements (items 1-6 of the subsequent table) as well as an estimated Green Asset Ratio (item 7).

The Green Asset Ratio (GAR) is the share of assets that are aligned with the Taxonomy. It is based on the exposures and balance sheet according to the scope of prudential consolidation in accordance with Regulation (EU) No 575/2013. The following exposures are excluded: exposures to central governments, central banks and supranational issuers and the proportion of derivatives. The source of the data was Erste Group's consolidated financial statements.

	Taxonomy related disclosures	
1	Central governments, central banks, supranational issuers and derivates / Total assets	32.3%
2	SMEs and NFCs not subject to NFRD disclosure obligations / Total assets	12.9%
3	Trading portfolio / Total assets	2.2%
4	On-demand interbank loans / Total assets	0.3%
5	Taxonomy-eligible activities / Total GAR assets	51.2%
6	Non-eligible Taxonomy activities / Total GAR assets	26.7%
7	Estimated green assets / Total GAR assets	6.0%

For items 1-4, the denominator, total assets, is defined as on-balance sheet exposures covering the following accounting categories of financial assets, including loans and advances, debt securities, equity holdings and repossessed collaterals: (a) financial assets at amortised cost, (b) financial assets at fair value through other comprehensive income, (c) investments in subsidiaries, (d) joint ventures and associates, (e) financial assets designated at fair value through profit or loss and non-trading financial assets mandatorily at fair value through profit or loss, (f) real estate collaterals obtained by credit institutions by taking possession in exchange for the cancellation of debts.

For items 5-7, the denominator, total Green Asset Ratio assets, has the same scope as the total assets for items 1-4 excluding exposures to sovereigns, central banks, and trading book. The nominators have an even more narrow scope including only financial corporations, non-financial corporates subject to NFRD disclosure obligations, households, and local governments.

Due to data availability limitations the following assumptions had to be made: non-financial corporates with NFRD disclosure obligations were assumed to be large corporate customers of Erste Group. SME customers were assumed not to have NFRD reporting obligations.

The identification of taxonomy-eligible activities (5) and non-eligible activities (6) is based either on NACE codes (the statistical classification of companies according to their economic activities in the European Community) or, for retail clients who do not have NACE codes, on the transaction level (known use of proceeds). Taxonomy-eligible NACE codes are defined in accordance with the EU Taxonomy Compass published by the European Commission. Residential real estate or housing renovation loans and e-car loans were explicitly defined as taxonomy-eligible products in the case of retail clients, but eligible exposures can be identified only in the case of housing loans.

Item 7 represents an estimate of the Green Asset Ratio aligned with the EU-wide pilot exercise on climate risk by the European Banking Authority (EBA) in May 2021. The housing loan portfolio for retail clients was assumed to be subject to the same Taxonomy alignment as the real estate sector as in the reference exercise of EBA. Only specialised lending exposures, housing loan exposures, and exposure to large corporates were taken into account in our estimate.

Taxonomy-aligned economic activity means an economic activity that is described in the Delegated Acts of the Taxonomy and thus meets all of the technical screening criteria laid down in those Delegated Acts.

The number of taxonomy-eligible and taxonomy-aligned activities is expected to increase in the future due to the ongoing green transition of existing and new customers and improving disclosure standards. In addition, the scope of the Taxonomy will be extended by the remaining four environmental objectives.

In 2021, Erste Group Bank AG made investments in green and social bonds on its own trading account to an extent of 20% of the total bond. As market standards for green and social bonds had no direct linkage to the Taxonomy in 2021, no alignment check was possible.

For the time being, there is no common market standard on how to interpret the Taxonomy.

Corporate sustainable financing

Erste Group believes that sustainable finance benefits from public and entrepreneurial awareness, commitment and specific knowledge. Erste Group set up a dedicated team – Sustainable Finance Corporates – for corporate clients across its core markets. Typically, the process starts with an industry- and client-specific assessment of ESG issues and leads to the identification of sustainable finance instruments that match the clients' sustainability and funding strategy.

In 2021, Erste Group granted and participated in EUR 1 billion of sustainable loans that had an environmentally or socially beneficial impact.

Erste Group sees major opportunities in the CEE region arising from the energy sector transformation towards low-carbon grids. In general, life-cycle costs of renewable energy have become comparable with market levels, making them increasingly affordable. In some countries the transition will also require modernisation of the transmission infrastructure and further legislative changes though. In 2021, Erste Group participated in or arranged transactions predominantly in Austria, Hungary and Romania with wind and solar renewable energy technologies being the prime focus. Across Erste Group's markets in CEE, a shift towards market proximity in terms of renewable energy projects with commercial power purchase agreements and contract for difference schemes was a most notable development in 2021 that will continue in the years to come.

Erste Group´s long-term funding approach and its Sustainable Finance Framework

The idea of embedding sustainable characteristics into capital market instruments has experienced an enormous push over the last years. What started with the Action Plan on Sustainable Finance by the European Commission in March 2018 has emerged as one of the most important topics in European capital markets. Guidelines and rules targeting a carbon-free economy are increasing in numbers and becoming stricter and stricter.

Erste Group finalised and published its own Sustainable Finance Framework in April 2021. This framework enables Erste Group entities to issue sustainable finance instruments to finance new and/or refinance existing loans to their clients and projects with environmental and/or social benefits. Erste Group's sustainable finance framework is in line with the International Capital Market Association (ICMA) Green Bond Principles 2018, the ICMA Social Bond Principles 2020 and the ICMA Sustainability Bond Guidelines 2018. The Sustainable Finance Framework was reviewed by ISS ESG who issued a second party opinion.

In May 2021, Erste Group Bank AG successfully issued its inaugural sustainability senior preferred bond in benchmark size (EUR 500 million). In addition, a EUR 10 million sustainability bond was issued using the blockchain-based issuing platform Dealfabrix of Erste Group. Local banks followed with more inaugural transactions: Slovenská sporiteľňa placed a EUR 100 million green senior preferred bond in June 2021. In September 2021, Česká spořitelna issued a EUR 500 million green senior non-preferred bond and in October 2021, Banca Comercială Română issued its green senior preferred bond of RON 500 million. In December 2021, the mortgage bank of Erste Bank Hungary issued a green covered bond of HUF 10 billion (approx. EUR 28 million).

Debt capital markets business

On the Financial Institutions and Sovereign/ Supra/ Agency Debt Capital Markets side, social bonds caught up with green bonds in 2021, and issuance volumes of both increased compared to the prior year. In 2021, Erste Group acted as bookrunner in a large number of such bonds. For financial institutions, these issues range from covered bonds to capital instruments and there is further potential in CEE. Erste Group arranged a total volume of EUR 4.5 billion and USD 500 million of green/social/sustainable bond transactions in 2021.

The sustainable corporate debt market is no longer dominated by green bonds of utility companies but is already well-diversified and offers a broader variety of instruments from issuers across various industries. Transactions include green bonds in the real estate segment, ESG rating-linked Schuldscheindarlehen for the packaging industry and a combination of KPI-linked and green structure in the utility segment. Erste Group was again very active in the sustainable finance market and arranged transactions at a combined volume of more than EUR 2 billion for corporate issues in 2021.

Erste Group Sustainable Retail Investment Framework

In March 2021, Erste Group implemented a sustainability framework for retail products. The sustainability rules of this framework apply to all structured investment products issued by Erste Group Bank AG for the MiFID target market retail. Furthermore, all structured products issued by third-parties that are actively sold to retail clients by Erste Group should comply with the sustainability rules. The sustainability of structured investment products must be analysed from two sides: first from the perspective of the issuer and second from the perspective of the underlying security or reference index. A structured product must fulfil the relevant ESG criteria on both levels to be classified as a sustainable product.

Erste Group seeks to go beyond products that merely follow ethical minimum product standards by offering dedicated sustainable structured products. Sustainable ESG products follow a predefined ESG-rating methodology and respect ESG exclusion criteria (e.g. nuclear power, child labour) to avoid social, environmental and financial risks.

ASSET MANAGEMENT

Erste Asset Management (Erste AM) is the asset manager of Erste Group. Erste AM has been a PRI signatory (Principles of Responsible Investment) since 2009 and all Erste AM entities are committed to the principles of responsible investment. For years, Erste AM has been offering investors an extensive range of sustainable funds enabling them to consider ecological, social and ethical aspects in their investment decisions. Actively managed mutual funds and asset management portfolios are not allowed to invest in companies involved in banned weapons such as land mines, nuclear weapons or cluster bombs and are likewise banned from investing in companies earning more than 5% of total revenues from coal mining, coal trading, production of coal-based fuels or coal-fired power generation. Furthermore, mutual funds are not allowed to engage in food speculation. The applicable guidelines including further restrictions are available on the website of Erste AM under sustainability (http://www.erste-am.at).

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

Erste AM is a leading provider of sustainable investment funds in Austria and the CEE region. At year-end 2021, Erste AM managed assets worth approximately EUR 76.8 billion. The assets of sustainably managed investment funds, categorised as ESG Impact, ESG Responsible and ESG Integration, including sustainable real estate assets, amounted to EUR 15.5 billion, held in a total of 83 investment funds that are divided into mutual funds and special funds or individual mandates.

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

The managed sustainable retail funds include eight bond funds among them a globally oriented, sustainable emerging market corporate bond fund, a global high-yield fund, a sustainable real estate fund, four regional equity funds, a global equity fund following a dividend strategy, a real estate fund, a microfinance fund of funds, a theme fund in the areas of environment and climate protection (in cooperation with WWF Austria since 2006), an asset allocation fund of funds called Erste Green Invest (in which the investment decisions focus on measurable positive effects on the environment and society) as well as Erste Fair Invest, which was launched in July 2021 and focuses on companies whose actions have a positive impact in the areas of health & well-being, work and society. In 2021, fifteen sustainable funds were awarded the FNG 2022 label with 3 stars. The FNG label is the quality standard for sustainable investments in German-speaking countries and was first awarded by Forum Nachhaltige Geldanlagen (FNG) in 2015. Moreover, fourteen of the sustainable funds were awarded the Austrian Ecolabel for sustainable financial products, most of them for many years in a row.

Cooperation with other international asset managers (organised by PRI and Sustainalytics) continued in 2021. As a founding member of the Climate Action 100+ investor initiative, Erste AM has supported the five-year active dialogue with the world's 100 largest emitters of greenhouse gases from sectors such as oil and gas, electricity, transport and the chemical industry since November 2017. The aim is to make these companies reduce emissions, improve climate-related reporting and to promote measures to combat climate change. In addition to its discussions with companies on controversial topics in the field of sustainability and environmental protection, Erste AM also represented the interests of its customers and fund shareholders at numerous annual general meetings.

The regularly published online blog of the Responsible Investment team of Erste AM (https://blog.de.erste-am.com/dossier-overview/) remained popular in 2021. In addition, brief sustainability profiles (fact sheets) on the investment universe and the sustainability funds are published regularly. Customers are provided with additional details on the selection criteria and their influence on sustainability-relevant key data (such as the funds' CO_2 footprints). In 2015, Erste AM was the first Austrian capital investment company to sign the Montreal Carbon Pledge. Erste AM thus undertakes to measure the CO_2 emissions of its investments and to publish the CO_2 footprint annually. In early 2020, cooperating with the University of Natural Resources and Life Sciences (Universität für Bodenkultur; BOKU) in Vienna and applying international standards, Erste AM was among the first entities in the financial sector to conduct a comprehensive calculation of greenhouse gases emitted by its operations. Calculations were performed for its offices in Austria for 2018 and 2019 and certified by staff of the BOKU CO_2 compensation system. For 2020, the calculations and certifications of greenhouse gases performed by the Environment Agency Austria (Umweltbundesamt) also considered all of Erste AMs subsidiaries in CEE. In 2021, the water footprint for ERSTE RESPONSIBLE bond funds was calculated for the first time, that of ERSTE RESPONSIBLE equity funds for the fourth time. This information is available on the website of Erste AM under sustainability (http://www.erste-am.com).

Green Consumption Pledge

In June 2021, Erste Group was the first financial institution to join the European Commission's Green Consumption Pledge to accelerate its contribution to a sustainable economic recovery. The Green Consumption Pledge is the first initiative under the New Consumer Agenda and part of the European Climate Pact. Erste Group commits to ensure the availability of sustainable investment products and to promote sustainable investments to facilitate the participation of consumers in the green transition. Joining the pledge emphasises the bank's ambitions to continue its efforts towards a more sustainable society and economy. Erste's commitments are implemented through Erste Asset Management (Erste AM) – the banking group's fund and portfolio management subsidiary.

In 2021, Erste AM increased the number of ERSTE-labelled funds awarded with the Austrian Ecolabel UZ49 to 14. Based on the pledge, Erste AM plans to increase the number of ERSTE-labelled funds awarded with the Austrian Ecolabel UZ49 to at least 17 by 2023.

Erste AM will increases the share of its budget dedicated to marketing ESG topics and products to at least 25% by the end of 2023. Goal achievement will be measured based on Erste AM's profit and loss statement for the year 2023 and will be published in the non-financial chapter of Erste Group's annual report.

The ESGenius Newsletter provides a theme-based in-depth analysis of the latest ESG developments. Having started in April 2021, Erste AM published 32 ESG articles on the financial blog and provided clients with information on the latest ESG developments and trends.

Erste AM offered webinars for retail sales advisors of Bank Oesterreich and the savings banks reaching more than 1,000 participants in 2021. With quarterly webinars and its annual outlook scenario analysis that included more and more ESG topics, Erste AM attracts an increasing number of institutional investors as well as distribution partners. Due to Covid-19 measures a planned full-day ESG conference was postponed.

Erste AM developed its SDG methodology to measure SDG contributions on a corporate level and plans to provide SDG-related reports for all ERSTE-labelled mutual funds in 2022.

Erste AM executed its voting rights according to its voting policy and constantly updates its voting decisions on its website.

Erste Group Research – dual approach to ESG analysis

Erste Group's Research holistic approach, combining economic and ESG objectives, is becoming increasingly important for investors. The dual approach comprises a quantitative and a descriptive analysis. In the quantitative analysis step, 41 ESG criteria per company are examined, weighted and benchmarked against the Erste Global 1000 Index (consisting of around 1,000 companies in 20 sectors and 40 countries). The resulting ESG profile of a company shows whether it is in a better, worse or average position in the categories E, S and G in relative comparison to the respective global sector.

In the descriptive analysis step, around 30 areas are prioritised and examined according to a sector-specific relevance matrix. The results of the ESG analysis are incorporated into the bank's publications and can be found on Erste Research Website.

SOCIAL BANKING

Offering basic banking services to the unbanked part of the population was one of the main reasons for the foundation of Erste österreichische Spar-Casse in 1819. Since then, the founding principle – to make financial products and services accessible to all people and to disseminate prosperity – has not changed. For a variety of reasons more than 14 million people in Erste Group's core markets (Austria, Czech Republic, Slovakia, Romania, Hungary, Croatia and Serbia) are still at risk of poverty or social exclusion and even today, some segments of the population do not have access to basic financial services.

Erste Group's social banking initiatives focus on financially excluded or vulnerable private individuals (people at risk of poverty or social exclusion), start-up and micro entrepreneurs and social organisations (non-profit sector, non-governmental organisations and social enterprises) by offering them fair access to financial products, sound financial advice and business training and mentoring. The endeavours intend to achieve three main impact targets – job creation and preservation, financial stability and scaling of social impact. Social banking was rolled out across Erste Group's local banks and was implemented in partnership with ERSTE Foundation and local social sector organisations. Since the launch, 38,000 clients have been supported, loans of EUR 417 million have been granted and, additionally, educational support has been provided to 34,000 clients.

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

Financial inclusion empowers people to better cope with unexpected financial shocks. Since its foundation in 2006, Zweite Sparkasse has helped a total of 21,400 people in financial difficulties in Austria and currently serves about 8,300 customers. In Slovakia, Slovenská sporiteľňa's social banking continued its debt advisory programme supporting approximately 900 low-income clients in taking control of their debts and improving their household financial management skills.

One of the most difficult tasks for starting entrepreneurs is raising financing to start their business. Small entrepreneurs provide not only income for themselves and their families, but they often expand their businesses in their communities and consequently create new jobs. Erste Group offers access to start-up micro loans, business training, e-learning tools, mentoring sessions and networking to these customers. In Austria, the Mikrokredit initiative of Erste Bank Oesterreich and the Austrian Federal Ministry of Social Affairs, Health, Care and Consumer Protection targeting unemployed people starting their own business was extended by adding mentoring support. Overall, Erste Group financed 269 new entrepreneurs with a total volume of EUR 5.5 million in 2021.

Very often, even a small working capital loan can be sufficient to scale micro business and successfully fight poverty. BCR social finance (formerly good.bee Credit) is a Romanian non-banking financing institution established in 2009 with a clear social inclusion mission and reinvesting all earned profits back into the company. It provides tailored financial and non-financial products for micro-businesses, small agricultural producers and individual enterprises, in both rural and urban areas of Romania. In 2021, BCR social finance approved more than 1,500 loans and disbursed EUR 18 million to Romanian micro-businesses.

Non-profit organisations and social enterprises often deal with some of the most challenging issues in society such as youth unemployment, social integration and poverty reduction. The Covid-19-pandemic has triggered funding constraints for many of these organisations. Erste Group Social Banking with the support of ERSTE Foundation continued to provide emergency working capital loans with a zero interest rate in 2021 to non-profit organisations in CEE markets aiming to support the social sector to cover immediate needs and current expenditure. Erste Group's social banking experts and mentors offer innovative advice and dynamic perspectives to support social enterprises and starting entrepreneurs. For these clients, Erste Group offers a bundle of working capital loans, bridge loans and investment loans. Erste Group Social Banking benefits from the social entrepreneurship guarantee umbrella under the EU Programme for Employment and Social Innovation (EaSI). In 2021, Erste Group financed 140 social organisations, NGOs and social entrepreneurs with a total volume of EUR 15 million.

In 2020, Erste Social Finance Holding and ERSTE Foundation teamed up with atempo, an experienced social enterprise in the field of social inclusion, to contribute to solving issues of unemployment of low-skilled women and social exclusion of people with disabilities in a social impact bond scheme initiated by the Austrian Federal Ministry of Social Affairs, Health, Care and Consumer Protection. The goal of this project is to support independence and the quality of life for people with disabilities, and at the same time to empower unemployed women with professional, targeted education and mentoring to enable their re-entry into employment. Pre-financing of the private investor is guaranteed by the ministry. The initiative is planned to run from May 2020 until March 2024 in Vienna, Styria, and Lower and Upper Austria.

In 2021, Erste Social Finance Holding launched quasi-equity, an innovative social finance instrument. This new funding opportunity helps social organisations grow and scale up their impact by strengthening their equity. Provided in the form of a so-called "qualified subordinated loan", equity is made available to social enterprises, non-profit and non-governmental organisations in Austria, the Czech Republic, Slovakia, Serbia and Croatia. The European Union grant will provide social organisations with free non-financial support, such as individual consulting, mentoring, capacity building or technical assistance. These services will be provided by the social innovation incubator Impact Hub Vienna and its partner organisations.

For more information and details about Erste Group's social banking or to read some client stories, please visit: https://www.erstegroup.com/en/about-us/social-banking.

Our customers

FOCUS ON CUSTOMER RELATIONS

Erste Group puts customers and their needs at the centre of its business activities. In conformity with its founding principle, Erste Group aims to offer its customers advice, products and services that help them to achieve and maintain prosperity. Only a bank that understands the motives of its customers' financial needs can offer the right solutions at the right time. Special attention is devoted to approaching customers proactively, handling customers' requests quickly and with professional care and offering exactly those solutions that meet customers' needs at an appropriate level of risk. This is a key factor in building and maintaining long-term customer relations. Erste Group ensures high-quality advisory services by continuously training its employees, focusing on the relationship with the customer.

Prosperity advice – the Erste Group's approach

Erste Group's retail business reflects its customer-centred approach that promotes financial literacy and aims to support its customers to make the right decisions for building and maintaining prosperity. Only a bank that understands its customers' needs and motives is able to develop appropriate solutions for them. Customer behaviour is changing, with online and mobile channels increasing in importance. This development has been further accelerated by the Covid-19 induced crisis and customers' digital activity is increasing steadily. Erste Group therefore offers advice not only face-to-face, but also via chat, audio and video communication and is continuously expanding these services. For example, state-of-the-art remote advisory capabilities were built up in Austria, the Czech Republic, Slovakia and Hungary in 2021, enabling customers to be advised from their home.

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

PRODUCTS AND PROCESSES

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

OMNI-CHANNEL APPROACH

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

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

BRANCHES

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

While branch traffic dropped significantly at the beginning of the Covid-19 induced crisis, the level of branch traffic recovered through the entire region to almost pre-crisis levels. Erste Group therefore updated its group-wide branch concept by adding new technologies (e.g. augmented walls) and allowing more space for personal advice. The roll-out of the group-wide branch concept continued and in total, more than 270 branches operate under the new concept in Erste Group's core markets in Austria, the Czech Republic, Slovakia, Romania, Hungary, Croatia and Serbia.

In addition to providing advice via branches, Erste Group also built up capabilities to provide remote advice. With this, customers can choose whether they want to visit a branch or reach out to an advisor from their home via video.

DIGITAL BANKING

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

Under the George digital banking brand, Erste Group offers a unique digital experience, spanning multiple markets and comprising a wide range of services. George enables customers to access an ecosystem of products and services of the bank and third parties (e.g. Erste Group's strategic partner Vienna Insurance Group) in a secure IT environment and use the platform for managing their finances. Following the successful roll-out in Austria, Slovakia, the Czech Republic, Romania and Croatia, George was successfully launched in Hungary in 2021. The implementation in Serbia will follow next. Overall, George already serves more than 7.5 million users and the digital activity of clients as well as digital sales increase steadily.

CONTACT CENTER

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

The contact center has become an integral touchpoint facilitating a seamless omni-channel journey. It not only takes an increasingly active part in advisory and sales processes, but, where regulations permit, also supports end-to-end digital banking services such as unsecured loans, insurance, credit cards and online banking. Customers may also contact Erste Group's contact center by email or via chats, with voice recognition systems and chat-bots completing the services on offer.

ACCESSIBILITY

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

In addition to barrier-free access for the blind and visually impaired (e.g. cash dispensers equipped to provide audio instructions), Erste Group also offers a variety of functions on its digital platform, the George Go app: zoom, contrast adjustment, very large fonts and speech output. The barrier-free functions were developed in cooperation with blind persons and persons with a variety of visual impairments. In a group-wide endeavour to sustain and further provide the accessibility of products and services with regards to the Web Content Accessibility Guidelines (WACG), Erste Group audited main digital touchpoints of their client base to provide broad web accessibility in the years to come. 2021 was challenging year due to the restrictions imposed in response to the Covid-19 induced crisis. As part of the essential infrastructure, Erste Group branches remained open during the lockdown periods. In consultation with the bank's crisis management team, measures were taken to protect people while maintaining the possibility of face-to-face contact – including the free-of-charge provision of face masks, hand sanitiser dispensers and plexiglas screens in areas with busy customer traffic.

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

DATA SECURITY

The security of customer data is a key prerequisite for long-term success in the banking industry. This requires adequate protection of personal data as it is the personal details that are a significant factor in providing financial advice. Maintaining and improving data security is therefore of vital importance to Erste Group. Erste Group applies the highest standards in its IT infrastructure, provides ongoing training to its employees and has common guidelines in place across the Group to offer maximum protection against the misuse of personal data. Trust is also earned through transparency: Erste Group puts great emphasis on providing customers with clear and understandable information regarding the processing of their personal data.

By sharing and specifying best practices in an ongoing process covering all markets, the Group Data Protection Office ensures a consistently high level of data protection across Erste Group. In 2020 and 2021 a reporting framework including reporting lines and dedicated report content was established across the Group and monitoring activities (auditing) as stipulated by Article 39 General Data Protection Regulation were conducted. It is the aim to not only maintain the high level of security achieved, but to also implement additional technical and organisational measures in response to mounting challenges to preserve customers' trust as the process of digitalisation continues.

In the event that a loss, change or unauthorised disclosure or access to personal data occurs despite these precautions and if such a breach of data security places the rights and freedoms of the natural persons affected at risk, a notification must be submitted to the competent data protection authority. In 2021, 29 such notifications were sent to the authorities (thereof none for the Holding). If a breach involves high risk, the persons affected have to be notified as well. In 2021, 27 such notifications were issued (thereof none for the Holding).

CUSTOMER SATISFACTION

High customer satisfaction and thus customer loyalty ensure the long-term success of a bank. The quality of customer relations depends ultimately on the customers' experiences in their day-to-day dealings with the bank. These can be direct and indirect, significant and less significant experiences. In addition, not only conscious, also the unconscious experiences influence the customer relationship.

To maintain its market-leading position, Erste Group is committed to fully aligning employees, partners, processes, policies and technologies around its customers' needs. The bank approaches this challenge in a holistic way and uses a system of interdependent, self-reinforcing elements defined in the Group's Customer Experience "CX" Framework, ranging from customer experience strategies to process design and corporate governance elements.

As they had done in recent years, Erste Group's banking subsidiaries again launched various initiatives against the backdrop of their local environments to provide the best customer experiences possible in a consistent manner. Erste Group's customer loyalty is determined by means of representative and extensive surveys among private and business customers in all countries.

In the private customer segment, a representative survey called the Banking Market Monitor, is carried out on a quarterly basis. 600 telephone interviews are conducted across Erste Group's markets annually. In the corporate customer segment, an extensive survey with at least 1,500 companies per country is carried out once a year.

These analyses are conducted by an external market research institute on behalf of Erste Group and provide data for a performance comparison both within Erste Group and with the top three competitors in the respective market.

The success of these activities is measured by the CXI (Customer Experience Index). The CXI is determined by the Group Customer Experience department, which is part of the Group Brand Management & Communication division, reporting to the Chief Executive Officer.

The CXI is an index value that is derived from the evaluation of satisfaction, recommendation, readiness to switch to another bank (resistance to bank change), customer effort score and the repurchase rate of the main customers of the individual banks. This value is put in relation to the three best competitors in each country and in each segment and is used to determine the strengths and weaknesses of the local banks compared to the market leaders.

This index is of great relevance for the bank as it is also included in the bonus assessment of the members of the management board of Erste Group, individual local banks and all other employees.

Despite the impacts of the second year of the coronavirus induced crisis, Erste Group maintained its excellent customer satisfaction values of the previous year (the highest since the start of the measurement in 2015). In the private customer segment, Erste Bank Oesterreich and Česká spořitelna showed positive development in relation to the top three banks in their respective countries. Česká spořitelna also improved in the SME segment. In the micro segment, both Banca Comercială Română and Erste Bank Serbia achieved significant improvements compared to the local top three competitors. All other subsidiary banks of Erste Group showed stable development.

Employees

Erste Group is convinced that the current and future success of the company can only be ensured by investing in people, developing them and enabling them to deliver in alignment with Erste Group's future vision. This can be achieved by focusing on the following three pillars of its human resources strategy:

_ Culture: purpose-driven behaviour
_ Competence: a highly skilled professional workforce
_ Competitiveness: business-led priorities and outcomes

Human capital is the key element for successful organisational, corporate cultural and competence building. Modern organisations enable people to work in a more flexible, adaptive and customer-centric way. Attracting, retaining and engaging highly qualified employees is crucial to business success. Erste Group strives to be the employer of choice in the region, both in the financial and in the IT sectors, by offering various learning and development opportunities, diverse and international teams and challenging tasks in a flexible organisation. Furthermore, Erste Group is striving to build a dynamic workforce, which is open to external talents offering complementary skills and competencies, working seamlessly with employees to deliver best-possible solutions and outcomes for the bank's customers.

Developing future leaders and experts in a systematic way is what motivates high-potential employees. Talent management is driven by honest feedback, a fair and transparent assessment of individual potential and quality development activities in partnership with internationally renowned institutions. In the next few years, Erste Group expects that a significant part of today's competences will either become obsolete or will be replaced with different skillsets that are more relevant for an agile and digital workforce. Building future-fit competence and growing leaders according to Erste Group's values and leadership principles is thus an essential element of Erste Group's People & Culture agenda. Learning initiatives go well beyond banking knowledge and also cover the broad economic and social issues facing the region. Erste Group wants to create leaders and employees who distinguish themselves through character and behaviours.

Erste Group's cultural transformation aims to link performance management and rewards to qualitative aspects. This involves moving away from incentive schemes with predominantly sales-driven key performance indicators towards a remuneration philosophy that is more purpose-driven, collaborative and team-oriented, thus taking the prosperity and satisfaction of customers into account.

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

The Erste Future Vision describes how Erste Group will remain relevant and successful in the future, based on its strong purpose. This vision is summarised in five principles.

Creating a shared culture and core values is central to this vision. Crowdsourcing was the first step on this journey to engage Erste Group's people right from the start in shaping the future culture. This is a digital and dynamic approach for engaging and inviting everyone to share their opinions, review and rate what other colleagues have contributed, and express their views of the future.

To understand and evolve Erste Group's brand and culture, we need to discuss much more who we are today, what we like about ourselves and what we can improve. Only then can we talk about what to change and how to align this with the future vision.

We wanted to discover our true and honest culture by asking what good and critical behaviour we experience currently in our organisation. We also received a picture of the behaviour which our people perceive as important for our future success.

We have received 35,000 pieces positive, critical and future-oriented inputs – a wealth of data, insight and thoughts. The results helped us understand what occupies the minds of our people the most, what they cherish and what pain points need to be addressed. This employee feedback is an essential and valued input for our executive leadership team. Throughout the beginning of 2022, the executive leaders of the organisation will derive the core values, behaviour and leadership principles in line with the Erste Future Vision. Cross-functional and cross-border teams will further elaborate how these values and behaviour are activated and brought to life in their respective countries and markets.

Once the core values, behaviour and leadership principles are defined, communicated and well understood, the People & Culture work aims to integrate this framework into everything we do. The crowdsourcing experience itself is a visible manifestation of our desired future culture based on trust, transparency and collaboration. Continuous interaction and co-creation with our people will remain a core element of our culture.

ERSTE GROUP'S RESPONSE TO COVID-19

The Covid-19 Coordination Team continued the work to assess risks for the company related to the spreading of the coronavirus and to coordinate necessary measures in 2021. The aim was again to ensure a maximum of safety for both employees and customers as well as to protect the business interests of Erste Group while supporting governmental efforts.

During the first half of 2021, the share of employees of central buildings working from home was kept between 50 and 70%.

This rate was decreased in the third quarter to between 40 to 50 % and increased again towards year-end.

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

Due to the strict containment and safety measures no infection clusters were identified in branches or central buildings during 2021.

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

DIVERSITY AND EQUAL OPPORTUNITY

Erste Group defines diversity and inclusion as an integral part of its corporate strategy. Owing to its diversity principles, Erste Group benefits from highly motivated employees, innovative teams and higher customer satisfaction. Erste Group is convinced that diversity promotes operating excellence, as diverse teams achieve better results.

In 2021, Erste Group implemented a new group-wide Diversity and Inclusion Policy that defines measures to increase the share of women in management positions. This policy focuses on the following four areas:

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

Erste Group's objective is to reach a share of 37% women in top management positions (i.e. board and board-1) and 40% women in other management positions (i.e. B-2 and B-3) by the end of 2025. Specific targets were defined for each of the local banks, supplemented with an effective monitoring and reporting system. As of year-end 2021, the banking subsidiaries of Erste Group have a share of women in top management of 25.3% (2020: 26.6%), with Erste Bank Serbia as the best-performer with 42.9% (40.0%), followed by Erste Bank Croatia with 33.3% (33.3%) and Banca Comercială Română with 32.1% (41.9%).

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

_ Group-wide focus on creating a level-playing field for people with disabilities with the foundation of a new business resource group called ErsteABILITY
_ Establishment of new communication formats to raise awareness of diversity and equal opportunity among executives, to make existing offers more visible and to provide best practice examples
_ Establishment of a strategic interim management system for persons on parental leave that addresses career disruptions with flexibility and a clear focus on development opportunities for both women and men.

As the sole Austrian company and one of only three companies in the CEE region, Erste Group was again listed in Bloomberg's Gender Equality Index (GEI) in 2021. This index measures disclosure and performance in promoting gender equality in five areas: female leadership and talent pipeline, equal pay and gender pay parity, inclusive culture, sexual harassment policies, and pro-women brand. Another prestigious international benchmark is Erste Group's participation in the EU Diversity Charter platform. All local banks (with the exception of Erste Bank Serbia because it is headquartered in a non-EU member state) are signatories to their national diversity charters in which members commit themselves to establish an inclusive working culture for their employees regardless of gender, ethnicity, religion, age, disability and sexual orientation. In 2021, Erste Group was for the second time a main partner of the United Nations initiative Orange the World. The purpose of the campaign is to raise awareness for violence against women and support women globally to lead a life free from all forms of violence.

ACCESSIBILITY & PEOPLE WITH DISABILITIES

Erste Group's work on accessibility has continued in 2021 and focused on web accessibility and on offering an inclusive workplace for people with disabilities. A taskforce has further worked on matters of diverse gender and inclusive language, both to be continually implemented in communication culture as well as systems. In cooperation with the local diversity managers, data-driven analyses on people with disabilities in Erste Group's workforce were conducted. Attracting people with disabilities to the workforce and sustainable retention will remain a focus part of diversity management of the Group in 2022. Internships especially for young talents with disabilities were introduced and ErsteABILITY, a business resource group for people with disabilities, friends and families, was launched.

ANTI-DISCRIMINATION

Erste Group strives to offer a work environment that is free of discrimination and that values the work of each and every person regardless of gender, age, disability, marital status, family obligations, sexual orientation, religion, political affiliation nationality, skin colour, social or ethnic background, and any other aspects unrelated to their employment. In 2015, a works agreement on Anti-Discrimination and Respectful Behaviour in the Workplace was established to protect against all forms of discrimination, bullying and harassment. In the latest revision of this works agreement it was expanded by active conflict management concepts, in line with Erste Group's goal to deal with conflicts in the Code of Conduct.

An independent anti-discrimination officer provides advice in cases of harassment, discrimination or bullying and mediates in matters concerning harassment and discrimination. Advice for employees is confidential and is accompanied by a structured solution process if required.

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

LEARNING, TALENT MANAGEMENT, LEADERSHIP AND COMPETENCE DEVELOPMENT

Erste Group strives to develop the professional and interpersonal skills of its employees to ensure that they are well prepared to act in a professional and socially responsible manner. Erste Group continuously develops and aligns group-wide training programmes for professionals and managers.

Erste Group employees benefited from the growing range of digital learning formats. By using the latest digital learning formats and continuously updated content, Erste Group is able to quickly integrate the changing structure of learning content into existing offerings. Learning in hybrid settings has taken hold and Erste Group thus offers its employees a wide range of learning opportunities in digital and face-to-face formats.

In the area of People & Culture, all learning & development topics were combined in 2021 to be able to offer all employees a broad range of learning opportunities both nationally and internationally. Accessibility was further expanded due to the massively expanded digital learning formats.

The offerings include expert and management training, tailored programmes for different target groups, human resources development courses and business unit-specific programmes.

Collaborations with renowned institutions such as IESE Business School, IMD Lausanne, WU Executive Academy in Vienna and Ashridge Executive Education underscore the high quality of the training offered.

Erste Group's professional training courses are continuously adapted to the respective business areas and new contents are defined according to demand. The courses offered cover the areas of Corporates & Markets, Finance including Controlling, Asset/Liability Management, Accounting and Data Excellence. The Risk Management College offering reflects the changes in the regulatory framework and helps acquire knowledge in the various areas of risk management. In addition, Erste Group offers training on project management and business analysis, enterprise architecture and the broad integration of agile methodologies.

Erste Group's international leadership development initiatives are continuously developed in cooperation with the regional human resources development managers to meet Erste Group's strategic objectives.

EMPLOYER BRANDING & RECRUITING

Attracting young talent through comprehensive development opportunities remains an ongoing priority across Erste Group. The goal of the annual Group Graduate Programme for university graduates is to attract top international graduates and provide them with fundamental banking and risk management skills. In the current graduate programme, 50% of the participants are women. The current Group Graduate Programme started in January 2022.

In 2021, each of Erste Group's employees completed on average 24.5 professional development training hours (women 24.3 hours and men 24.7 hours). Employees in management positions had on average of 28.5 training hours.

For 2022, Erste Group plans to further expand its forward-looking learning offering and to focus even more on leveraging synergies across the group. In line with the promise to invest in the further training of its employees, further investments and revisions of existing concepts and programmes are also planned for 2022 – aimed at meeting the demand for professional, future-oriented and high-quality employee training.

In 2021, Erste Group won several Best Employer awards reflecting its enormously strong position on the employer market. The Top Employers Institute ranked Erste Group among the top 1% of 40,000 Austrian companies; achieving the top position in banking and second in the overall ranking. The Market Institute ranked Erste Group among the top 10 employers in Vienna. Erste Bank was deemed a "real and fair trainee programme" by the TraineeNet association for the fifth consecutive time. The Universum platform (focusing on employer attractiveness for students) ranks Erste Bank among the top 15 for business students. In addition, Erste Group won two more prestigious awards: At the Financial Times Adviser Awards, Erste Group won the first place in the category *Diversity Marketing and Recruiting Campaign of the Year* and the *Diversity in Finance* award. In addition, Erste Group succeeded in the category *Best Employer Brand on LinkedIn*. And last but not least Erste Group was awarded the *World`s Best Employer* by Forbes.

REMUNERATION AND PEOPLE PERFORMANCE MANAGEMENT

Erste Group's remuneration policy is geared towards an appropriate balance in rewarding performance, competencies and responsibility of its employees. As a signatory of the Austrian Diversity Charter, Erste Group committed itself to the principles of equal opportunity and transparency, especially in remuneration. Consequently, one of the key strategic priorities is to ensure that all reward schemes are transparent, market-driven and linked to performance and personal development. Erste Group's general remuneration philosophy is to neither fall short nor lead the market but to offer competitive remuneration packages.

Therefore, its remuneration policy aims to:

- Create an environment where employees can perform, develop and be involved
- Reward at the right level to attract and retain employees with the required competence and skills
- Be cost-competitive and cost-flexible for a sustainable business
- Support leadership and employee behaviour that creates an engaging and unique customer experience and effective risk management practices

All remuneration schemes are designed to meet the respective European and national regulatory requirements on remuneration, as well as the local banks' national remuneration practices and business line needs. The supervisory boards or, where established remuneration committees, review remuneration policies and practices annually on Group as well as on local level, to ensure compliance with respective international and national legislation.

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

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

EMPLOYEE HEALTH AND WORK-LIFE BALANCE

In 2021, the focus of Erste Group's health centre was set on tackling the pandemic. Erste Group's employees received relevant information on a regular basis, and a dedicated medical hotline for all issues related to Covid-19 was available. In addition, the health centre provided testing in cases of suspected infections and ensured timely in-house contact tracing to prevent infection chains both in central buildings and branches.

Before vaccines were available for everyone, the health centre established a test centre in the entrance hall of Erste Campus in Vienna, giving easy access to rapid antigen tests for employees. From February 2021 to August 2021 a total of 29,239 tests were carried out. Self-tests were provided for all branch employees, with the recommendation to perform a test twice a week.

As soon as the first vaccine received regulatory approval by EMA, the European Medicines Agency, major efforts were made to explain mechanisms of biological action of the new vaccination platforms (vector and mRNA) in order to strengthen health and vaccine literacy and, as result, combat vaccination hesitancy. From March 2021 on, we started organising the corporate vaccination campaign in coordination with the federal authorities and the City of Vienna. The declared goal was to attain high vaccination coverage among all age groups to prevent staff shortage due to quarantine and maintain business continuity.

By the end of September 2021, we had vaccination rate of 94% among the employees on Campus (approx. 5,000) and 85% among the employees in the branches, which is far above the vaccination rate in the rest of Austria (<60% by the end of September).

The development of health literacy, embedded in the UN Sustainable Development Goals (SDG 3), is essential for dealing with illnesses, guaranteeing equal access to health care, and supporting social policies in this area. The pandemic proved that the workplace offers an ideal setting and infrastructure to support and promote health issues to large groups of people, thus making occupational health an important contributor to public health.

Erste Group is committed to a proactive approach to helping its employees to identify and manage health risks. Health promotion activities and topics in Erste Group in 2021 had a special focus on providing comprehensive infection prevention and support for our employees to develop mechanisms for self-organisation and guidance regarding workplace ergonomics when working from home. These activities have been supplemented by the establishment of low-threshold psychological advice and counselling services with different focal areas (such as childcare, home schooling and support during lockdowns) throughout the entire pandemic.

A multi-professional team of occupational physicians, workplace psychologists and physiotherapists assists Erste Group's employees in all matters of health and well-being.

The requirements for occupational safety in Austria are regulated by law (Occupational Health and Safety Act). Erste Group ensures compliance with all legal requirements with its own health centre and covers support for Erste Holding, Erste Bank Oesterreich and almost 30 additional subsidiaries.

Staff indicators

Staff indicators refer to the end of the reporting period. Total data (47,382 employees; headcount) include data from direct and indirect holdings of Erste Group outside its core markets below-mentioned.

Overview and age structure 2021

	Total		<30 years		30-50 years		>50 years	
	Women	Men	Number	in %	Number	in %	Number	in %
Erste Group	**29,621**	**17,761**	**7,302**	**15.4%**	**28,166**	**59.4%**	**11,914**	**25.1%**
thereof Holding	922	966	227	12.0%	1,110	58.8%	551	29.2%
Austria incl. Holding	9,707	8,476	3,052	16.8%	9,293	51.1%	5,838	32.1%
Czech Republic	6,791	3,324	1,675	16.6%	5,992	59.2%	2,448	24.2%
Slovakia	2,572	1,135	505	13.6%	2,404	64.9%	798	21.5%
Romania	4,071	1,456	786	14.2%	3,445	62.3%	1,296	23.4%
Hungary	2,105	1,277	511	15.1%	2,349	69.5%	522	15.4%
Croatia	2,183	1,017	348	10.9%	2,323	72.6%	529	16.5%
Serbia	926	350	187	14.7%	904	70.8%	185	14.5%

Mode of employment

	Full-time employees				Part-time employees			
	2021		2020		2021		2020	
	Women	Men	Women	Men	Women	Men	Women	Men
Erste Group	**23,448**	**16,707**	**24,166**	**17,200**	**6,143**	**1,084**	**6,105**	**1,045**
thereof Holding	594	854	612	921	328	112	312	95
Austria incl. Holding	4,931	7,692	5,106	8,037	4,746	814	4,765	787
Czech Republic	6,028	3,252	6,118	3,227	763	72	777	92
Slovakia	2,496	1,117	2,624	1,133	76	18	81	16
Romania	3,877	1,401	4,114	1,488	194	55	188	52
Hungary	1,884	1,197	1,873	1,200	221	80	213	84
Croatia	2,064	985	2,147	1,038	119	32	54	2
Serbia	922	349	918	338	4	1	5	2

Selected indicators

	Share of women in executive positions		Share of women in other managerial positions		Average number of sick leave days per employee		Number of employees with health disability	
	2021	2020	2021	2020	2021	2020	2021	2020
Erste Group	**25.8%**	**25.1%**	**41.8%**	**43.5%**	**10**	**10**	**852**	**679**
thereof Holding	17.6%	25.5%	30.7%	28.4%	3	4	22	17
Austria incl. Holding	23.3%	19.3%	25.7%	25.6%	6	7	364	338
Czech Republic	16.1%	14.0%	43.7%	54.5%	19	20	130	118
Slovakia	22.2%	22.5%	59.4%	57.6%	10	13	152	164
Romania	34.0%	39.2%	57.4%	55.4%	9	8	37	32
Hungary	23.9%	24.1%	47.2%	48.6%	9	3	147	10
Croatia	27.7%	38.6%	63.9%	64.7%	5	4	15	15
Serbia	35.5%	37.5%	52.5%	53.2%	9	9	1	0

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

Governance bodies: Detailed information about the members of the management board and the supervisory board of the Holding is presented in the (consolidated) Corporate Governance Report. As of year-end 2021, one woman and five men were members of the management board, one of them was between 30 and 50 years old, and five of them were older than 50 years. 39% of the members of the supervisory board were women, 61% were men.

Parental leave (return to work after parental leave)

	2021				2020			
	Women		Men		Women		Men	
	Number	in %	Number	in %	Number	in %	Number	in %
Erste Group	**1,082**	**78.0%**	**114**	**97.4%**	**1,013**	**80.3%**	**120**	**96.0%**
thereof Holding	38	92.7%	5	100%	22	100.0%	7	100%
Austria incl. Holding	307	91.1%	77	101.3%	268	91.4%	81	99.0%
Czech Republic	159	55.2%	1	100%	151	67.4%	0	n.a.
Slovakia	111	70.3%	13	81.3%	94	77.0%	15	93.8%
Romania	223	87.8%	6	85.7%	194	84.0%	11	100%
Hungary	81	62.3%	3	100%	80	61.1%	0	0%
Croatia	112	89.6%	14	100%	123	83.7%	12	100%
Serbia	34	87.2%	0	0%	46	93.9%	0	0%

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

New hires in 2021

	Women		Men		<30 years		30-50 years		>50 years	
	Number	in %	Number	in %	Number	in %	Number	in %	Number	in %
Erste Group	**2,956**	**65.1%**	**1,582**	**34.9%**	**2,211**	**48.7%**	**2,098**	**46.2%**	**229**	**5.0%**
thereof Holding	17	39.5%	26	60.5%	16	37.2%	24	55.8%	3	7.0%
Austria incl. Holding	732	58.2%	525	41.8%	714	56.8%	458	36.4%	85	6.8%
Czech Republic	868	67.3%	421	32.7%	580	45.0%	647	50.2%	62	4.8%
Slovakia	233	70.8%	96	29.2%	150	45.6%	168	51.1%	11	3.3%
Romania	401	71.9%	179	28.1%	331	59.3%	216	38.7%	11	2.0%
Hungary	285	64.8%	155	35.2%	168	38.2%	235	53.4%	37	8.4%
Croatia	132	62.6%	79	37.4%	91	43.1%	109	51.7%	11	5.2%
Serbia	124	70.5%	52	29.5%	73	41.5%	100	56.8%	3	1.7%

The percentages refer to the total of newly hired employees.

Fluctuation in 2021

	Women		Men		<30 years		30-50 years		>50 years	
	Number	in %	Number	in %	Number	in %	Number	in %	Number	in %
Erste Group	**3,843**	**11.6%**	**2,061**	**10.6%**	**1,610**	**16.9%**	**3,087**	**9.9%**	**1,207**	**10.2%**
thereof Holding	53	5.7%	79	7.8%	21	9.2%	68	5.7%	43	8.2%
Austria incl. Holding	989	9.4%	908	10.0%	542	14.5%	680	6.8%	675	11.5%
Czech Republic	972	12.4%	384	10.2%	351	16.1%	821	12.1%	184	7.0%
Slovakia	381	13.0%	102	8.3%	113	15.3%	282	10.7%	88	11.2%
Romania	654	13.8%	248	14.7%	278	23.0%	528	12.7%	96	9.0%
Hungary	312	13.1%	149	10.3%	124	19.6%	293	11.1%	44	7.9%
Croatia	208	9.0%	102	9.8%	78	16.2%	183	7.6%	49	10.2%
Serbia	127	12.1%	48	12.3%	39	14.3%	108	11.1%	28	14.4%

This table presents the number of employees who left Erste Group (including retirement) during the financial year and it does not include employees on parental leave, internal transfers within Erste Group or departing trainees and interns. The fluctuation is calculated pursuant to the Schlüter formula. For Erste Group (total of men and women), fluctuation stood at 11.2% (2020: 10.2%).

Commitment to society

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

As needs and interests vary across Erste Group's markets, depending on local circumstances, specific project sponsorships and initiatives are determined and managed locally. Social and sponsoring activities are combined group-wide under the umbrella of the ExtraVALUE programme. A regional focus, cross-thematic initiatives and cooperations characterise the programme. The guiding principle is supporting personal development and helping people to meet their social and cultural needs. Erste Group's ExtraVALUE programme is therefore a visible sign of the bank's commitment to its responsibility towards society and the individual.

Erste Group believes that this commitment creates far-reaching opportunities for individuals and society at large and, indirectly, also for the bank while not harbouring any significant risks. Assuming societal and social responsibility is not only in line with Erste Group's strategy but also enriches the brand. Opportunities include the transfer of a positive image to the brand, emotional branding and getting employees to identify with the brand. Potential risks may arise from the choice of partners through reputation risk, conflicts of interest, inadequate transparency or inadequate handling of compliance requirements on the part of a partner. Erste Group manages these risks through know-your-customer, anti-money laundering and anti-corruption policies. In addition, Erste Group Bank AG implemented sponsoring guidelines.

Due to the multitude of social and educational initiatives, sponsoring of art and culture, and corporate volunteering, only a few selected projects are highlighted in this non-financial report. More information is available at https://www.erstegroup.com/en/about-us/sustainability-esg/esg-social and on the websites of Erste Group's banking subsidiaries in the respective local language and in some cases in English.

SOCIAL AND EDUCATIONAL ACTIVITIES

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

FINANCIAL LITERACY

Financial literacy is essential for creating equal opportunities, economic well-being and social inclusion. Frequently, financial illiteracy limits what people can achieve. In line with its purpose to foster prosperity, Erste Group is involved in a wide variety of financial education activities, helping people of all ages to acquire the skills and abilities they need. In accordance with a recommendation of the Organisation for Economic Cooperation and Development (OECD) that financial education should start as early as possible, Erste Group places particular emphasis on financial education projects for children and young people. Erste Group empowers young people to participate in economic life actively and with self-confidence and to understand how the financial system works.

Erste Group's Financial Life Park (FLiP) at Erste Campus is one of the largest financial education facilities in Europe. FLiP tours make the importance of finance for personal life tangible. More than 55,000 visitors of all kinds of school types and educational levels took part in interactive tours in Vienna since FLiP opened in October 2016. The mobile FLiP version, FLiP2Go, attracted more than 12,000 visitors all over Austria since its introduction in April 2019. FLiP2Go is supported by Erste Bank Oesterreich and regional savings banks. As a result of Covid-19-induced restrictions, FLiP and FLiP2Go tours were not available for several months both in 2020 and 2021. But the demand for FLiP's digital offerings, comprising FLiP Challenges, FLiP Digi Tours and Online-teaching-resources, increased substantially. Together with the NGO The Connection, FLiP is developing teaching resources Geld in Griff (Money under Control) to be used in German language courses for young migrants with the aim of building financial, consumer and language skills. Banca Comercială Română continued its programme Money School in 2021. The bank organised not only online courses as well as financial literacy summer workshops for children and their parents in shopping centres but also events with financial experts and authors of financial literacy books. More than 50,000 people took part in training courses, 32,000 of them in the Romanian FLiP online version. In addition, a new online course for children called *Smart Financial Decisions for Children* has been launched.

The Slovenská sporiteľňa Foundation focused on its innovative FinQ programme, which offers financial content for interdisciplinary teaching. After a successful pilot phase – despite the pandemic, FinQ was completed in 25 participating primary and secondary schools and 2,500 students received a certificate – the FinQ programme started officially in 85 schools in October 2021.

The *ABC of Money* initiative of Česká spořitelna is the largest financial education programme in the Czech Republic. The programme is now in its fourth year of existence. Since the Czech schools had to close for several weeks during the lockdowns, the *ABC of Money* team switched the entire programme to an online environment. The programme is free of charge and targets not only children, parents and teachers but also elderly people who are invited to develop digital skills.

Erste Bank Hungary's financial literacy activities in 2021 focused on the promotion of financial literacy of disadvantaged groups in society. The bank's Financial Literacy Education Programme was founded in 2019 together with several NGOs. The target groups include children from educationally disadvantaged backgrounds as well as students from vocational schools in Budapest, Roma students and people with limited cognitive abilities. So far, more than 2,500 participants have been reached.

Erste Bank Croatia adapted its Smart Finance School workshops to the Covid-19 situation, offering online workshops. The bank also continued to offer physical workshops in accordance with strict Covid-19 safety standards. The target groups included elementary and high schools, faculties and student associations. In 2021, a total of 97 workshops for more than 1,700 attendants were held.

Erste Bank Serbia further developed its financial education programme *#ErsteZnali* in 2021 and added new content. The platform which is providing online financial education was launched in 2019. Programme activities also included the development of a mobile phone game for 7 to 10-year-olds, an initiative to promote financial literacy in elementary schools in cooperation with the Ministry of Education and a cooperation with social media influencers to target Gen Z to improve their money management.

CORPORATE VOLUNTEERING

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

Time Bank, an electronic volunteering platform of Erste Bank Oesterreich and the Austrian savings banks, was already founded in 2011. Time Bank matches employees who want to donate their free time with currently 65 partner organisations. In 2021, on average, more than 1,300 employees of Erste Group in Austria were registered on this platform. Cooperation partners are carefully selected. Only legal entities may become partner, private individuals are not eligible. Cooperation agreements are reviewed by the legal department. A "Know-your-partner" compliance questionnaire forms part of the cooperation agreement. All of Erste Group's local banks (except in Austria) give to their employees an extra one or two days off each year for volunteering at social welfare institutions. Erste Group thus makes an important contribution to the development of non-profit sectors in CEE.

As well as volunteering, donations in kind also remain important. Despite wide-spread prosperity, people on the fringes of society lack items we take for granted such as toys, clothes and sports equipment for children. Time Bank therefore provides long-term support to partner organisations by orchestrating regular collection and swap activities. When Erste Group's main IT premises relocated in 2021, no longer required IT equipment and office furniture was given to partner organisations. Similarly, Erste Bank Hungary donated used IT equipment to disadvantaged families and NGOs.

Under the motto "taking care instead of disposing", Time Bank has worked together with charitable organisations. Excess food, which is no longer intended for sale, is distributed daily among people in need all-over Austria.

SPONSORING ART AND CULTURE

Sponsoring arts and culture is another tool through which Erste Group's social commitment becomes visible in all its markets. The focus is on supporting projects that address needs of the civil society.

Erste Group understands sponsoring as the voluntary promotion and support of institutions, initiatives and projects. With sponsorship Erste Group intends to support developments in society in the interests of the common good. Our commitment towards the civil society is written down in the Statement of Purpose and in the Code of Conduct. Sponsoring arts and culture is bundled with social activities in the group-wide ExtraVALUE programme.

Sponsoring sports

The ability of sport to connect people and motivate them to achieve common goals reflects to a large extent the corporate philosophy of Erste Group. Sports sponsoring in particular is characterized by an existing relationship between the sponsor and the sponsored with contractually fixed, promotional and other services and supports the communicative goals of Erste Group, with positive brand effects playing a dominant role.

Erste Group's sports sponsorship is classified under three categories with differing objectives: professional sport, amateur sport and young talent. In case of top-class sports sponsorship (e.g. the main sponsorship of the Erste Bank Open tennis tournament or Europe's largest eSports event, the "League of Legends" championships) Erste Group primarily pursues advertising goals thus their suitability as public or customer magnet are assessed. No individual athletes ("testimonials") are sponsored. By sponsoring popular sports other aspects are taken into account as well. Austria's largest running initiative Erste Bank Sparkasse Running or Austrian Women's Run typically attract tens or even hundreds of thousands of participants. Similar to supporting young talent (e.g. the Sparkasse student league in soccer and volleyball) it is about strategically oriented goals towards the common good. The idea is to motivate the population for sports and facilitate access to events. Generally, attention is paid to the popularity of the sport in the relevant market and the associated media effectiveness. Sports sponsorships and the objectives are regularly evaluated. In case the goals are not achieved or if the goals change, a realignment is carried out.

Compliance and the management of conflicts of interest

Erste Group is committed to the highest standards of corporate governance and responsible behaviour of every individual and conducts its business in compliance with applicable laws and regulations. In addition, Erste Group has introduced a compliance programme including targeted policies, guidelines and training initiatives defining rules and principles for its staff. Compliance with external and in-house standards provides the basis for long-term trust. Erste Group is a member of Transparency International (TI), Erste Group's chairman of the supervisory board is a board member of TI.

The Code of Conduct provides the primary guidance for Erste Group's staff and defines binding rules for the day-to-day business. Together with national and international laws and standards it forms the basis for the compliance management system that ensures conduct in conformity with laws and benchmarks.

Relevant legislation includes the Market Abuse Regulation, the Securities Supervision Act, the Criminal Code and the Financial Markets Anti-Money Laundering Act. Erste Group's compliance programme has also laid the basis for a common understanding of values within the Group.

The responsibility for compliance matters lies with the compliance department which is assigned to the Chief Risk Officer's division but reports directly to the entire management board. It covers topics as anti-money laundering (AML), financial sanctions & embargoes, fraud, data protection, securities compliance and conduct compliance (which also includes conflict of interest, anti-bribery and anti-corruption (ABC) agendas).

Conflicts of interest between customers, Erste Group and its staff are governed by clear internal rules. Policies, trainings, and organisational measures have been implemented to identify, avoid or manage various types of conflicts of interest that are relevant to Erste Group's business, including confidentiality, treatment of relationships, secondary activities and accepting and awarding benefits, to name a few. Specific legal provisions apply additionally regarding information barriers, employee transactions, investor protection and research disclaimers.

Establishing and coordinating processes and measures to prevent money laundering and terrorist financing, to comply with financial sanctions and embargoes, and to prevent financial crime are also among the key elements of the compliance agenda. In this area, substantial investments are being made on an ongoing basis to strengthen the monitoring systems. Strong KYC (know your customer) diligence has been put in place, which also enables to detect suspected money laundering through corruption patterns of clients.

To ensure compliance with all laws and regulations, policies and processes are continuously evaluated and reviewed across the Group. Compliance training is mandatory for all new employees and includes awareness building as well as an introduction to the prevention of compliance risks, including corruption. Additional compliance training is required for staff in selected business areas.

ANTI-BRIBERY AND ANTI-CORRUPTION

Based on international anti-bribery and anti-corruption initiatives (e.g. the OECD Anti-Bribery Convention, the United Nations Convention against Corruption), local authorities in many countries have adopted laws and regulations that generally prohibit offering public officials benefits for the purpose of obtaining or retaining business or otherwise securing improper advantages. The laws differ from country to country and are to some extent extremely restrictive. Improper payments or other inducements for the benefit of a public official, even if made indirectly through an intermediary, are prohibited.

Erste Group promotes zero-tolerance towards any form of bribery and corruption. Under no circumstances it offers anything of value to a public official nor to members of a public official's family or any charitable organisation suggested by a public official for the purpose of influencing the recipient to take or refrain from taking any official action or to induce the recipient to conduct business with Erste Group. This also includes facilitating payments. Furthermore, Erste Group set up clear rules and boundaries with respect to treatment of benefits in the private sector.

Preventing and combating corruption is fundamental to Erste Group. The following measures are taken to comprehensively raise awareness among staff (both management and employees) and serve as prevention against bribery and corruption across the Group:

Policy

A group-wide Policy on Conflicts of Interest and Anti-Bribery & Corruption ensures that everyone in Erste Group is familiar with the relevant rules – such as key national provisions, i.e. the Austrian Criminal Code as well as the impact of the UK Bribery Act and the US Foreign Corrupt Practices Act (FCPA) – and knows how to apply them. This policy underwent a major review in 2021, detailing the critical conflicts of interest types including corruption. It represents the minimum standard for the entire Group and all staff members, including the management.

Training and education

All new employees are systematically instructed in the essence and processes of Erste Group's corruption prevention efforts. Specific awareness building initiatives, such as trainings and vivid exchange, are additionally offered to higher-risk business units (e.g. those dealing with large and international clients and public officials, sponsoring units, top management). Regular releases of intranet news on key themes of anti-corruption and proper handling of benefits in both private and public sectors help raise awareness. In 2021, these releases were complemented by a comprehensive, multilingual group-wide campaign on conflicts of interest and anti-bribery and anti-corruption (ABC).

Reporting

Staff members of Erste Group must refrain from any conduct that might give rise to a suspicion of corruption or a biased behaviour. Various reporting duties have to be met, in particular reporting the acceptance or awarding of benefits both in the public and the private sector as well as benefits received from or awarded to third parties within the meaning of MiFID II. While direct line managers represent the first line of defence to assess benefits offered or accepted, and awarded, staff can contact Compliance in case of topics arising in connection with corruption prevention or in case of doubt. This can be done through various channels, e-mail, conflict of interest reporting tool or, anonymously, via whistleblowing.

Group steering

Under a comprehensive communication scheme, Erste Group entities share information intensively at expert and division head levels (e.g. regular expert calls, annual division head conferences). Local compliance officers and Group Compliance hold regular phone conferences to discuss key issues such as ways of providing advice and creating awareness specifically on conflict of interest and anti-bribery and anti-corruption matters including the treatment of benefits and the overall anti-bribery and anti-corruption governance.

Surveillance

All suspicious cases are reviewed, and disciplinary action is taken, if required. Repeated misreporting or failure to abide by the anti-bribery and corruption policies and procedures may lead to disciplinary consequences, regardless any civil and criminal law consequences if applicable. The group-wide oversight of corruption risks did not reveal any significant corruption risks for Erste Group in 2021.

Suppliers and supply chain

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

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

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

- Comply with national and local laws, decrees and regulations
- Fulfil all their legal obligations regarding the health and safety of their employees and their contractors
- Strictly comply with environmental legislation
- Respect and implement the basic principles of corporate social responsibility

These principles are also reflected in the supplier code of conduct, which is publicly available on the website of Erste Group Procurement. Erste Group Procurement holds the CIPS Corporate Ethics Mark, a certification awarded by the Chartered Institute of Procurement and Supply (CIPS). This certificate distinguishes institutions that have committed to high standards in procurement and provide relevant courses in-house. Currently, 100% of all employees of Erste Group Procurement have obtained individual certification on ethical behaviour in procurement.

SUPPLY CHAIN

Erste Group's supply chain mainly involves indirect expenses that support the group's core business. In 2021, the total amount paid to companies outside Erste Group was slightly above EUR 1.17 billion, mostly linked to IT (42% of total spending), followed by expenses for services, operations and marketing (37%) and facility management (21%). Out of a total of 25,172 suppliers at group level, 728 suppliers accounted for 80% of total third party expenditure.

97% of suppliers (reflecting 95% of third party expenditure) are located in the European Union, highlighting Erste Group's focus on its markets in Central and Eastern Europe including Austria. 1% of suppliers are located North America and the rest (2%) are based on other continents.

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

Supplier selection process

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

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

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

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

Environmental aspects

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

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

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

A supplier sustainability scorecard was introduced in 2017. Suppliers are required to disclose their ecological footprint (energy consumption, waste and emissions) for the previous two years, either at an aggregate level or related to their activities for Erste Group. In 2021, 72 suppliers with resource-intensive operations such as data centres and transport services were selected to provide scorecard data. As these criteria are relevant to the supplier selection process, developments are continuously monitored and assessed.

In 2021, 1,131 contracts with suppliers were concluded or renewed. Thereof, 750 suppliers were screened according to environmental standards. No supplier was subject to any environmental impact assessment beyond the standard audit questionnaire, nor was any supplier identified as having had a significant actual or potentially negative environmental impact. No actual or potentially negative environmental impact was identified in the supply chain. Finally, no supplier contract had to be terminated as a result of a significant actual or potentially negative environmental impact.

Social aspects

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

_ Effective abolition of child labour
_ Elimination of all forms of forced or compulsory labour
_ Elimination of discrimination with respect to employment
_ Freedom of association and the right to collective bargaining
_ Reasonable working hours and fair remuneration
_ Health protection
_ Occupational health and safety
_ Job restructuring
_ Remuneration
_ Fair working conditions
_ Other social criteria in the supply chain

In 2021, Erste Group co-operated with 25,172 suppliers, of which 1,802 suppliers had a current supplier audit questionnaire on file. No supplier was subject to any specific labour practices or human rights impact assessment beyond the standard audit questionnaire, nor was any supplier identified as having had a significant actual or potentially negative impact on labour practices or human rights. There was no actual or potentially negative impact on labour practices or human rights identified in the supply chain and no supplier contract had to be terminated as a result of a significant actual or potentially negative impact on labour practices or human rights.

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

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

Vienna, 8 March 2022

GRI Content Index

GRI Standard Number	GRI Standard Title	Disclosure Number	Disclosure Title	Reference to Annual Report 2021	Comments / Reasons for omission
GRI 102 General Disclosures 2016					
1. Organisational profile					
GRI 102	General Disclosures	102-1	Name of the organisation		Erste Group Bank AG
GRI 102	General Disclosures	102-2	Activities, brands, products, and services	p. 14	Strategy
GRI 102	General Disclosures	102-3	Location of headquarters		Erste Campus, Am Belvedere 1, 1100 Vienna
GRI 102	General Disclosures	102-4	Location of operations	p. 13	Strategy
GRI 102	General Disclosures	102-5	Ownership and legal form	p. 95	(consolidated) corporate governance report
GRI 102	General Disclosures	102-6	Markets served	Note 1	Group consolidated financial statements: Note 1 (segment reporting)
GRI 102	General Disclosures	102-7	Scale of the organisation	Note 1	Group consolidated financial statements: Note 1 (segment reporting)
GRI 102	General Disclosures	102-8	Information on employees and other workers	p. 82 et seq	Workers who are not employees do not perform a significant portion of organisation's activities. Therefore does not apply. There are no significant variations in the reported numbers in Disclosures 102-8a, 102-8b and 102-8c. In the initial phase of preparation for HR data collection for the non-financial report, the scope and the reporting categories are based on GRI standards. The data are collected using an Excel template which is sent to those responsible in each institution. Once the completed template has been returned and the data quality has been checked, the data are consolidated and prepared for publication.
GRI 102	General Disclosures	102-9	Supply chain	p. 87	
GRI 102	General Disclosures	102-10	Significant changes to the organisation and its supply chain	n.a.	No significant changes in the organisation (neither in terms of size, structure nor in the supply chain.) Ownership: La Caixa sold its stake in Erste Group Bank AG.
GRI 102	General Disclosures	102-11	Precautionary principle or approach	p. 57	The precautionary principle is reflected in both Erste Group's code of conduct and the statement of purpose.
GRI 102	General Disclosures	102-12	External initiatives	p. 68, 72	(consolidated) non-financial report: our customers, environment; Erste Asset Management: UN Principles of Responsible Investment, Bangladesh Memorandum, Montreal Carbon Pledge, Erste Group: Nestor Gold Charta, Austrian Diversity Charter
GRI 102	General Disclosures	102-13	Membership of associations	n.a.	Erste Group Bank AG has the following significant memberships: WSBI (World Savings Banks Institute), ESBG (European Savings Banks Group), Österreichischer Sparkassenverband, WKO (Austrian Economic Chambers, Industry Sector: Banking and Insurance), OEVFA (Österreichische Vereinigung für Finanzanalyse und Asset Management), BWG (Bankwissenschaftliche Gesellschaft Österreich), WIFO (Wirtschaftsforschungsinstitut Österreich), Österreichische Industriellenvereinigung, respACT (Austrian Business Council for Sustainable Development), Transparency International, UNEP FI, Net Zero Banking Alliance, PCAF; Erste Group's banking subsidiaries in CEE have following important memberships: Erste Bank Croatia: Croatia Green Building Council (CGBC), Croatian Association of Accountants and Financial Experts (CAAFE); Erste Bank Serbia: Association of Banks of Serbia, Chamber of Commerce Serbia; Slovenská sporiteľňa: Slovak Banking Association, Central European Corporate Governance Association; Erste Bank Hungary: Hungarian Banking Association, Budapest Chamber of Commerce and industry; Banca Comercială Română: Romanian Banking Association, Financial Markets Association; Česká spořitelna: Czech Banking Association, Economic chamber of the Czech Republic
2. Strategy					
GRI 102	General Disclosures	102-14	Statement from senior decision maker	p. 4 et seqq	
GRI 102	General Disclosures	102-15	Key impacts, risks and opportunities	p. 63 et seqq	TCFD requirements: Strategy a) Climate related risks and opportunities the organization has identified over the short, medium and long term. b) The impact of climate related risks and opportunities on the organisation's business, strategy and financial planning c) The resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario Risk Management: a) The organisation's processes for identifying and assessing climate-related risks; b) The organisation's processes for managing climate-related risks; c) How the processes for identifying, assessing and managing climate related risks are integrated into the organisation's overall risk management.
3. Ethics and integrity					
GRI 102	General Disclosures	102-16	Values, principles, standards, and norms of behaviour	p. 57	Strategy (reference made to the code of conduct and the statement of purpose), (consolidated) non-financial report, (consolidated) corporate governance report (reference made to Austrian Code of Corporate Governance and internal guidelines)

GRI Standard Number	GRI Standard Title	Disclosure Number	Disclosure Title	Reference to Annual Report 2021	Comments / Reasons for omission
4. Governance					
GRI 102	General Disclosures	102-18	Governance structure	p. 62 et seq	Voluntary disclosure. TCFD requirements: Governance a) Board's oversight of climate related risks and opportunities.
GRI 102	General Disclosures	102-19	Delegating authority	p. 62 et seq	Voluntary disclosure. TCFD requirements: Governance a) Board's oversight of climate related risks and opportunities.
GRI 102	General Disclosures	102-20	Executive level responsibility for economic, environmental and social topic	p. 62 et seq	Voluntary disclosure. TCFD requirements: Governance a) Board's oversight of climate related risks and opportunities. b) Management's role in assessing and managing climate related risks and opportunities
GRI 102	General Disclosures	102-26	Role of highest governance body in setting purpose, values and strategy	p. 62 et seq	Voluntary disclosure. TCFD requirements: Governance a) Board's oversight of climate related risks and opportunities.
GRI 102	General Disclosures	102-27	Collective knowledge of highest governance body	p. 62 et seq	Voluntary disclosure. TCFD requirements: Governance a) Board's oversight of climate related risks and opportunities.
GRI 102	General Disclosures	102-29	Identifying and managing economic, environmental and social impacts	p. 62 et seq	Voluntary disclosure. TCFD requirements: Governance a) Board's oversight of climate related risks and opportunities.
GRI 102	General Disclosures	102-30	Effectiveness of risk management processes	p. 62 et seq	Voluntary disclosure. TCFD requirements: Governance a) Board's oversight of climate related risks and opportunities. b) Management's role in assessing and managing climate related risks and opportunities.
GRI 102	General Disclosures	102-31	Review of economic, environmental and social topics	p. 62 et seq	Voluntary disclosure. TCFD requirements: Governance a) Board's oversight of climate related risks and opportunities. b) Management's role in assessing and managing climate related risks and opportunities.
GRI 102	General Disclosures	102-32	Highest governance body's role in sustainability reporting	p. 62 et seq	Voluntary disclosure. TCFD requirements: Governance a) Board's oversight of climate related risks and opportunities. b) Management's role in assessing and managing climate related risks and opportunities.; CG Report
5. Stakeholder engagement					
GRI 102	General Disclosures	102-40	List of stakeholder groups	p. 61	
GRI 102	General Disclosures	102-41	Collective bargaining agreements	n.a.	Collective agreements apply to a total of 88,1% of all employees. In Hungary, there is no collective agreement as a salary basis. In the other core markets, 90-100% of employees are included in collective agreements (Holding: 96,1%)
GRI 102	General Disclosures	102-42	Identifying and selecting stakeholders	p. 58 et seq	
GRI 102	General Disclosures	102-43	Approach to stakeholder engagement	p. 58 et seq	
GRI 102	General Disclosures	102-44	Key topics and concerns raised	p. 58 et seq	
6. Reporting practice					
GRI 102	General Disclosures	102-45	Entities included in the consolidated financial statements	p. 58	
GRI 102	General Disclosures	102-46	Defining report content and topic boundaries	p. 58 et seq	
GRI 102	General Disclosures	102-47	List of material topics	p. 58 et seq	
GRI 102	General Disclosures	102-49	Changes in reporting	p. 58	All Savings Banks from the scope of consolidation were included in the non-financial reporting in 2021.
GRI 102	General Disclosures	102-50	Reporting period	n.a.	From 1 January 2021 to 31 December 2021
GRI 102	General Disclosures	102-51	Date of most recent report	n.a.	Annual report 2020
GRI 102	General Disclosures	102-52	Reporting cycle	n.a.	Annual
GRI 102	General Disclosures	102-53	Contact point for questions regarding the report	p.302	
GRI 102	General Disclosures	102-54	Claims of reporting in accordance with GRI Standards	p. 58	This report has been prepared in accordance with the requirements of the Global Reporting Initiative (GRI Standard Option: Core).
GRI 102	General Disclosures	102-55	GRI content index	p. 89 et seqq	
GRI 102	General Disclosures	102-56	External assurance	p. 93 et seq	
GRI 103 Management Approach 2016					
GRI 103	Management Approach	103-1	Explanation of the material topic and its boundary	p. 58 et seq	
GRI 103	Management Approach	103-2	The management approach and its components	p. 58 et seq	
GRI 103	Management Approach	103-3	Evaluation of the management approach	p. 58 et seq	
GRI 201 Economic Performance 2016					
GRI 201	Economic performance	201-1	Direct economic value generated and distributed	Note 1, Note 56	Outside the non-finance report. Consolidated financial statements.
GRI 201	Economic performance	201-2	Financial implications and other risks and opportunities due to climate change	p. 63 et seq	Disclosure according to TCFD requirement: Strategy a) Climate related risks and opportunities the organization has identified over the short, medium and long term. b) The impact of climate related risks and opportunities on the organisation's business, strategy and financial planning c) The resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario

GRI Standard Number	GRI Standard Title	Disclosure Number	Disclosure Title	Reference to Annual Report 2021	Comments / Reasons for omission
Social commitment and social banking (FS 14 Initiatives to improve access to financial services for disadvantaged people)					
FS 14 of GRI G4	Initiatives to improve access to financial services for disadvantages people	FS 14	Initiatives to improve access to financial services for disadvantages people	p. 74, 76	
Anti-corruption and compliance (GRI 205 Anti-corruption 2016)					
GRI 205	Anti-Corruption	205-3	Confirmed incidents of corruption and actions taken		In 2021, Erste Group did not discover or record any incident of corruption.
GRI 206 Anti-competitive behaviour 2016					
GRI 206	Anti-competitive behaviour	206-1	Legal actions for anti-competitive behaviour, anti-trust and monopoly practices	Note 50	Group consolidated financial statements: Note 50 (contingent liabilities); No legal actions for anti-competitive behavior, anti-trust, or monopoly practices have been initiated against Erste Group Bank AG. During the reporting period, subsidiaries of Erste Group Bank AG were directly or indirectly involved in three such cases. As one of these cases got resolved in 2021, there remain only two pending cases. We do not expect these cases to lead to any fines or sanctions that would have a material effect on Erste Group.
Responsible criteria in the supply chain and ecological impacts on banking operations (GRI 301 Materials 2016)					
GRI 301	Management Approach	301-1	Materials used by weight and volume	p. 69	.
GRI 301	Management Approach	301-2	Recycled input materials used	p. 69	
Responsible criteria in the supply chain and ecological impacts on banking operations (GRI 302 Energy 2016)					
GRI 302	Energy	302-1	Energy consumption within the organisation	p. 69	TCFD Metrics and Targets; (consolidated) non-financial report: environment; In terms of energy consumption, there is no separate presentation of renewable / non-renewable energy sources. It is included in the determination of the CO_2e-emissions.
GRI 302	Energy	302-4	Reduction of energy consumption	p. 69	TCFD Metrics and Targets
Responsible criteria in the supply chain and ecological impacts on banking operations (GRI 305 Emissions 2016)					
GRI 305	Emissions	305-1	Direct (Scope 1) GHG emissions	p. 69	TCFD Metrics and Targets; 305-1c) There are no biogenic CO_2 emissions to report
GRI 305	Emissions	305-2	Energy indirect (Scope 2) GHG emissions	p. 69	TCFD Metrics and Targets; Gross market-based: 22,884t CO2e; Gross location-based: 50,803t CO2e
GRI 305	Emissions	305-3	Other indirect (Scope 3) emissions	p. 67	TCFD Metrics and Targets
Responsible criteria in the supply chain and ecological impacts on banking operations (GRI 308 Supplier Environmental Assessment 2016)					
GRI 308	Supplier Environmental Assessment	308-1	New suppliers that were screened using environmental criteria	p. 87	
Diversity and equal opportunity (GRI 401 Employment 2016)					
GRI 401	Employment	401-1	New employee hires and employee turnover	p. 83	Pursuant to Schlüter formula: (total of employees leaving) / (number of employees at the beginning of the year + total of newly hired employees)
GRI 401	Employment	401-3	Parental leave	p. 83	a) 401-3a) All employees (women and men) are entitled to take parental leave; b) 401-3d) No information available due to data that could not be clearly distinguished.
Employee health & work-life balance					
	Employment		Information on health & work-life balance	p. 81	
Diversity and equal opportunity (GRI 404 Training and Education 2016)					
GRI 404	Training and Education	404-1	Average hours of training per year per employee	p. 80	
Diversity and equal opportunity (GRI 405 Diversity and Equal Opportunity 2016)					
GRI 405	Diversity and Equal Opportunity	405-1	Diversity of governance bodies and employees	p. 82	At Erste Group Bank AG, the parent company of Erste Group, employees represent more than 50 different nationalities.
Diversity and equal opportunity (GRI 406 Non-Discrimination 2016)					
GRI 406	Non-Discrimination	406-1	Incidents of discrimination and corrective actions taken	n.a.	In 2021, 4 significant incidents were submitted to the anti-discrimination officer.
Responsible criteria in the supply chain and ecological impacts on banking operations (GRI 414 Supplier Social Assessment 2016)					
GRI 414	Supplier Social Assessment	414-1	New suppliers that were screened using social criteria	p. 87	

GRI Standard Number	GRI Standard Title	Disclosure Number	Disclosure Title	Reference to Annual Report 2021	Comments / Reasons for omission
GRI 418 Customer Privacy 2016					
GRI 418	Customer Privacy	418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data	p. 77	
GRI 419 Socioeconomic Compliance 2016					
GRI 419	Socioeconomic compliance	419-1	Non-compliance with laws and regulations in the social and economic area	n.a.	In 2021, there were neither significant fines nor non-monetary sanctions for non-compliance with laws and/or regulations in the social and economic area.
Financial education					
GRI G4 Sector Disclosures Financial Service	Information on Erste Group's engagement to improve financial literacy	GRI G4-DMA (former FS16)	Initiatives to enhance financial literacy by type of beneficiary	p. 84	
Customer satisfaction					
	Information on customer satisfaction			p. 77	
Responsible investment and finance					
	Information on responsible investment and financing			p. 70 et seq	
GRI 103	Management Approach	103-2	The management approach and its components	p. 58, 70 et seq	
GRI 103	Management Approach	103-3	Evaluation of the management approach	p. 58, 70 et seq	Materiality analysis; compliance with the existing exclusion criteria for investments and financing is the responsibility of the respective business units. The exclusion criteria are evaluated on a regular basis to see whether they fulfil the envisaged social and ecological responsibility.

Independent Assurance Report

To the supervisory board of Erste Group Bank AG Vienna

Courtesy Translation of the Audit Report of the Independent Assurance on Non-Financial Reporting

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

Introduction

We have performed procedures to obtain limited assurance as to whether any matters have come to our attention that cause us to believe that the (consolidated) non-financial report as of December 31, 2021 has not been prepared, in all material respects, in accordance with the reporting criteria. The reporting criteria consist of the Sustainability Reporting Standards GRI Standards: Core Option issued by the Global Sustainability Standards Board (GSSB) as well as the requirements for the report stated in § 243b and § 267a UGB (NaDiVeG).

Further, we have performed procedures to obtain limited assurance as to whether any matters have come to our attention that cause us to believe that the EU taxonomy information disclosed is not prepared, in all material respects, in accordance with Regulation (EU) 2020/852 (Taxonomy Regulation) and the accompanying Delegated Regulations (EU)2021/2178 and (EU) 2021/2139.

Responsibility of the management

The legal representatives of Erste Group Bank AG are responsible for the preparation of the report content in accordance with the reporting criteria and for the selection of the disclosures to be verified. The reporting criteria include the Sustainability Reporting Standards (GRI Standards: Core option) issued by the Global Sustainability Standards Board (GSSB) and the reporting requirements mentioned in § 243b and § 267a UGB (NaDiVeG). Furthermore, they are responsible for collecting the disclosed information on the EU taxonomy in accordance with Regulation (EU) 2020/852 (Taxonomy Regulation) and the supplementary Delegated Regulations (EU)2021/2178 and (EU) 2021/2139.

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

Responsibility of the auditor

Our responsibility is to express a limited assurance opinion on whether the (consolidated) non-financial report is prepared, in all material respects, in accordance with the reporting criteria. The reporting criteria consist of the Sustainability Reporting Standards GRI Standards: Core Option issued by the Global Sustainability Standards Board (GSSB) as well as the requirements for the report stated in § 243b and § 267a UGB (NaDiVeG).

Further, based on our audit procedures, our responsibility is to express an opinion with limited assurance as to whether any matters have come to our attention that cause us to believe that the disclosed EU taxonomy information has not been prepared, in all material respects, in accordance with Regulation (EU) 2020/852 (Taxonomy Regulation) and the accompanying Delegated Regulations (EU)2021/2178 and (EU) 2021/2139.

We conducted our engagement in accordance with the International Standard on Assurance Engagements ISAE 3000 (Revised), "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" issued by the International Auditing and Assurance Standards Board (IAASB) in order to obtain limited assurance on the subject matters.

ISAE 3000 (Revised) requires us to plan and perform the engagement in a way that enables us to obtain limited assurance that nothing has come to our attention that causes us to believe that the (consolidated) non-financial report has not, in any material aspect been prepared in accordance with the reporting criteria of GRI Standards: Core option, § 243b and § 267a UGB (NaDiVeG), as well as the disclosed information on the EU taxonomy have been prepared in accordance with Regulation (EU) 2020/852 (Taxonomy Regulation) and the supplementary Delegated Regulations (EU)2021/2178 and (EU) 2021/2139.

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

As part of our audit, we have performed, inter alia, the following audit procedures and other activities as far as they are relevant to the limited assurance engagement:

- Interview of the employees named by Erste Group Bank AG regarding the sustainability strategy, sustainability principles and sustainability management
- Interview of employees named by Erste Group Bank AG to assess the methods of data collection, data processing and internal controls
- Comparison of the non-financial disclosures shown in the (consolidated) non-financial report with the calculation documents provided
- Execution of a media analysis
- Video conference with the people responsible for the non-financial indicators of Erste Bank Hungary Zrt. and Steiermärkische Bank und Sparkassen Aktiengesellschaft
- Review of the disclosed information on the EU taxonomy for compliance with Regulation (EU) 2020/852 (Taxonomy Regulation) and the supplementary Delegated Regulations (EU)2021/2178 and (EU) 2021/2139
- Furthermore, we conducted procedures regarding whether the reporting requirements of § 243b and § 267a UGB (NaDiVeG) were met with the (consolidated) non-financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

The subject matter of our engagement is neither an audit of financial statements nor a review of financial statements. Likewise, neither the detection and clarification of criminal offences, such as embezzlement or other acts of breach of trust and administrative offenses, nor the assessment of the effectiveness and efficiency of the management is the subject of our engagement.

Summarised Conclusion

Based on our work and the evidence we have obtained, nothing has come to our attention that causes us to believe that the (consolidated) non-financial report of Erste Group Bank AG as of December 31, 2021 has not, in any material aspects, been prepared in accordance with the reporting criteria of the Sustainability Reporting Standards (GRI Standards: Core option) issued by the Global Sustainability Board (GSSB).

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

Furthermore, based on our audit procedures, nothing has come to our attention that causes us to believe that the EU taxonomy information disclosed is not prepared, in all material respects, in accordance with Regulation (EU) 2020/852 (Taxonomy Regulation) and the accompanying Delegated Regulations (EU)2021/2178 and (EU) 2021/2139.

Engagement approach

The basis for this engagement are the "General Conditions of Contract for the Public Accounting Professions", as issued by the Chamber of Tax Advisers and Auditors in Austria (refer to appendix). In accordance with chapter 7 of these terms and conditions, our liability shall be limited to intent and gross negligence. In cases of gross negligence, the maximum liability is limited to a maximum of five times the fee. This amount constitutes a total maximum liability cap, which may only be utilised once up to this maximum amount, even if there is more than one claimant or more than one claim has been asserted.

Vienna
March 8, 2022

Deloitte Audit Wirtschaftsprüfungs GmbH

(signed by:)
Mag. Gerhard Marterbauer
Austrian Certified Public Accountant

(signed by:)
Mag. Thomas Becker
Austrian Certified Public Accountant

(Consolidated) corporate governance report

Erste Group Bank AG is a stock corporation established according to Austrian law and since 2003 has declared its commitment to complying with the rules of the Austrian Code of Corporate Governance (Austrian CCG – see www.corporate-governance.at) with the objective of ensuring responsible and transparent corporate governance. In addition, the management board adopted a Statement of Purpose in 2015. This statement reaffirms and states in more detail the purpose of Erste Group Bank AG to promote and secure prosperity throughout the region in which Erste Group is active. Building on this Statement of Purpose, a Code of Conduct defines binding rules for day-to-day business. Erste Group values responsibility, respect and sustainability in pursuing its business activities. The Code of Conduct therefore helps to protect the reputation of Erste Group and to strengthen stakeholder confidence.

The Corporate Governance Report has been prepared in accordance with sections 243c and 267b of the Austrian Commercial Code and Rules 60 et seq. of the Austrian CCG and combines the corporate governance report of Erste Group Bank AG, the parent, and the consolidated corporate governance report in one single report. The management board has also prepared a (consolidated) non-financial report in accordance with sections 243b and 267a of the Austrian Commercial Code for the financial year 2021, which is released as part of the annual report. Beginning with the 2020 financial year, information on the total remuneration of individual members of the management board or the supervisory board and on the principles governing the remuneration policy are no longer disclosed in this consolidated corporate governance report, but in a separate remuneration report pursuant to section 78e Austrian Stock Corporation Act.

In the 2021 financial year, Erste Group Bank AG complied with all L-Rules (Legal Requirements – mandatory legal norms) and R-Rules (Recommendations – these rules are more similar to recommendations; non-compliance does not need to be disclosed or explained) as well as – with two exceptions – all C-Rules (Comply-or-Explain – deviations are permitted but must be explained) of the Austrian CCG. The deviations are described and explained below:

_ Pursuant to C-Rule 2 of the Austrian CCG, shares are to be construed in accordance with the principle of one share – one vote, i.e. investors have one vote per share and no right to nominate members to the supervisory board. Under Erste Group Bank AG's articles of association (Art. 15.1), DIE ERSTE österreichische Spar-Casse Privatstiftung is, however, granted the right to nominate up to one third of the members of the supervisory board to be elected by the shareholder meeting as long as it is liable for all present and future liabilities of Erste Group Bank AG in case of its insolvency according to section 92 para 9 of the Austrian Banking Act. The Privatstiftung has not exercised this right to date.
_ Pursuant to C-Rule 52a of the Austrian CCG, the number of supervisory board members (without employees' representatives) shall be ten at most. In 2021, the supervisory board of Erste Group Bank AG comprised twelve members elected by the annual general meeting. The deviation from C-Rule 52a of the Austrian CCG is due to the size of Erste Group and its market position in seven core markets in Central and Eastern Europe as well as to the fact that the supervisory board must perform a multitude of financial-market-related and prudential review and oversight duties. Moreover, the supervisory board must meet various criteria to comply with diversity requirements.

The management board is responsible for managing the company as required for the benefit of the company taking into account the interests of the shareholders and the employees as well as public interest. The management board takes its decisions in compliance with the articles of association and its internal rules as well as the Statement of Purpose.

Selection and assessment of members of management bodies

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

Training and development

To maintain an appropriate level of professional qualification of members of the management bodies, Erste Group regularly organises events and seminars for members of the management board and supervisory board and facilitates their participation in external training events. The in-house training programme in 2021 covered the following matters, for example: training about the rights and obligations of a supervisory board, specifically the supervisory board of a holding company, crypto-currencies as well as digital currencies in general, the law on banking supervision and the application of acts of law of relevance to banks, cybersecurity and other IT matters, and remuneration systems, including variable remuneration.

MANAGEMENT BOARD

In 2021, the management board consisted initially of seven then six members.

Management board member	Year of birth	Date of initial appointment	End of current period of office
Bernhard Spalt (Chairman)	1968	1 July 2019	30 June 2023
Ingo Bleier	1970	1 July 2019	30 June 2026
Stefan Dörfler	1971	1 July 2019	31 December 2023
Alexandra Habeler-Drabek	1970	1 July 2019	31 December 2023
David O'Mahony	1965	1 January 2020	31 December 2022
Maurizio Poletto	1973	1 January 2021	31 December 2023
Thomas Schaufler	1970	1 January 2021	31 October 2021

Thomas Schaufler resigned from the management board as of 31 October 2021. On 16 December 2021, the supervisory board extended Ingo Bleier's management board mandate until 30 June 2026.

Management board member	Areas of responsibility
1 January to 31 October 2021	
Bernhard Spalt (Chairman)	Group Human Resources, Human Resources, Group Secretariat, Group Audit, Brand Strategy & Communications, Group Investor Relations, Group Strategy, Group Board Support & Corporate Affairs, Group Sustainability Office, Social Banking Development
Ingo Bleier	Group Corporates, Group Commercial Real Estate, Group Markets, Group Product and Business Management C. and M., Group Research
Stefan Dörfler	Group ALM, Group Portfolio Management & Governance, Group Data Management and Reporting, Group Accounting and Group Controlling
Alexandra Habeler-Drabek	Group Compliance, Credit Risk Methods, Retail Risk Management, Credit Risk Portfolio, Group Legal, Corporate Risk Management, Enterprise wide Risk Management, Group Liquidity and Market Risk Management
David O'Mahony	CIO Group Functions, Group Architecture, Banking Services, Group Security, Governance and Steering
Maurizio Poletto	Innovation Hub (Erste Hub), Platform Governance
Thomas Schaufler	Group Retail Strategy
Starting with 1 November 2021	
Bernhard Spalt (Chairman)	Group Human Resources, Human Resources, Group Secretariat, Group Audit, Brand Strategy & Communications, Group Investor Relations, Group Strategy, Group Board Support & Corporate Affairs, Group Sustainability Office, Social Banking Development
Ingo Bleier	Group Corporates, Group Commercial Real Estate, Group Markets, Group Product and Business Management C. and M., Group Research, Group Retail Strategy (temporarily)
Stefan Dörfler	Group ALM, Group Portfolio Management & Governance, Group Data Management and Reporting, Group Accounting and Group Controlling
Alexandra Habeler-Drabek	Group Compliance, Credit Risk Methods, Retail Risk Management, Credit Risk Portfolio, Group Legal, Corporate Risk Management, Enterprise wide Risk Management, Group Liquidity and Market Risk Management
David O'Mahony	CIO Group Functions, Group Architecture, Banking Services, Group Security, Governance and Steering
Maurizio Poletto	Innovation Hub (Erste Hub), Platform Governance

Management positions in subsidiaries

Stefan Dörfler
Erste Bank der oesterreichischen Sparkassen AG, management board member (since 1 January 2022)

Alexandra Habeler-Drabek
Erste Bank der oesterreichischen Sparkassen AG, management board member

Thomas Schaufler
Erste Bank der oesterreichischen Sparkassen AG, management board member (until 31 October 2021)

Supervisory board mandates and similar functions
As of 31 December 2021, the management board members held the following supervisory board mandates or similar functions in domestic or foreign companies or material subsidiaries of Erste Group Bank AG (the latter are marked with *).

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

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

Stefan Dörfler
Banca Comercială Română S.A.*, Member
Česká spořitelna, a.s.*, Member
Erste Digital GmbH*, Member
Slovenská sporiteľňa, a.s.*, Chair (until 31 December 2021)
Sparkassen-Haftungs GmbH*, Member
Wiener Börse AG, Member
Erste Bank der oesterreichischen Sparkassen AG*, Member (until 31 December 2021)

Alexandra Habeler-Drabek
Erste Bank Hungary Zrt.*, Member

David O'Mahony
Erste Digital GmbH*, Chair
Erste Bank a.d. Novi Sad*, Member
Slovenská sporiteľňa, a.s.*, Member (from 1 February 2021)

Maurizio Poletto
Česká spořitelna, a.s.*, Member
Erste Bank Hungary Zrt.*, Member
Erste Digital GmbH*, Member

SUPERVISORY BOARD

In the 2021 financial year, the following persons were members of the supervisory board:

Position	Name	Year of birth	Occupation	Date of initial appointment	End of the current period of office
Chairman	Friedrich Rödler	1950	Auditor and tax advisor	4 May 2004	AGM 2022
1st Vice Chairman	Jan Homan	1947	General Manager, ret.	4 May 2004	AGM 2022
2nd Vice Chairman	Maximilian Hardegg	1966	Entrepreneur	12 May 2015	AGM 2025
Member	Matthias Bulach	1976	Head of Financial Accounting, Control and Capital	15 May 2019	31 December 2021
Member	Henrietta Egerth-Stadlhuber	1971	Managing Director	26 June 2019	AGM 2022
Member	Jordi Gual Solé	1957	Chairman Board od Directors	17 May 2017	31 December 2021
Member	Marion Khüny	1969	Consultant	17 May 2017	AGM 2022
Member	Elisabeth Krainer Senger-Weiss	1972	Lawyer	21 May 2014	AGM 2024
Member	Friedrich Santner	1960	Managing Director	10 November 2020	AGM 2023
Member	Michael Schuster	1980	Managing Director	19 May 2021	AGM 2024
Member	András Simor	1954	Senior Vice President, ret.	10 November 2020	AGM 2023
Member	John James Stack	1946	CEO, ret.	31 May 2007	19 May 2021
Member	Michèle F. Sutter-Rüdisser	1979	Adjunct Professor	15 May 2019	AGM 2022
Delegated by the employees' council					
Member	Markus Haag	1980		21 November 2011	11 January 2022
Member	Regina Haberhauer	1965		12 May 2015	until further notice
Member	Andreas Lachs	1964		9 August 2008	until further notice
Member	Barbara Pichler	1969		9 August 2008	until further notice
Member	Jozef Pinter	1974		25 June 2015	until further notice
Member	Karin Zeisel	1961		9 August 2008	until further notice

In the 2021 financial year, the composition of the supervisory board changed as follows: The supervisory board mandate of John James Stack expired as of the end of the annual general meeting on 19 May 2021 and was not extended due to the age limit for supervisory board members specified in the articles of association of Erste Group Bank AG. Michael Schuster was newly elected to the supervisory board at the annual general meeting. Matthias Bulach und Jordi Gual Solé resigned from the supervisory board as of 31 December 2021. Consequently, Markus Haag's delegation to the supervisory board was revoked pursuant to section 110 of the Labour Constitution Act (ArbVG) on 11 January 2022.

Membership in supervisory board committees

Committee memberships are as follows:

	Executive committee	Nomination committee	Audit committee	Risk committee	Remuneration committee	IT committee
Chairman	Friedrich Rödler	Friedrich Rödler	Friedrich Rödler (financial expert)	Maximilian Hardegg	Friedrich Rödler (remuneration expert)	Maximilian Hardegg
Vice Chairman	Jan Homan	Jan Homan	Maximilian Hardegg	Jan Homan	Jan Homan	Friedrich Rödler
Member	Maximilian Hardegg	Maximilian Hardegg	Matthias Bulach (until 31 Dec 2021)	Henrietta Egerth-Stadlhuber	Jordi Gual Solé (until 31 Dec 2021)	Henrietta Egerth-Stadlhuber
Member	Elisabeth Krainer Senger-Weiss	Elisabeth Krainer Senger-Weiss	Jan Homan	Marion Khüny	Maximilian Hardegg	Marion Khüny
Member	Barbara Pichler	Barbara Pichler	Friedrich Santner	Elisabeth Krainer Senger-Weiss	András Simor	Michael Schuster (from 19 May 2021)
Member	Karin Zeisel	Karin Zeisel	Michèle F. Sutter-Rüdisser	Friedrich Rödler	John James Stack (until 19 May 2021)	Andreas Lachs
Member			Regina Haberhauer	Markus Haag (until 11 Jan 2022)	Michèle F. Sutter-Rüdisser (from 19 May 2021)	Barbara Pichler (from 19 May 2021)
Member			Barbara Pichler	Regina Haberhauer (from 11 Jan 2022)	Andreas Lachs	Karin Zeisel
Member			Jozef Pinter	Andreas Lachs	Barbara Pichler	
Member				Jozef Pinter	Karin Zeisel	
Substitute	Andreas Lachs	Andreas Lachs	Marion Khüny	Regina Haberhauer (until 11 Jan 2022)	Friedrich Santner	Elisabeth Krainer Senger-Weiss
Substitute	Jozef Pinter	Jozef Pinter	Andreas Lachs	Barbara Pichler (from 11 Jan 2022)	Markus Haag (until 11 Jan 2022)	Markus Haag (until 11 Jan 2022)
Substitute			Karin Zeisel	Karin Zeisel	Regina Haberhauer (from 11 Jan 2022)	Regina Haberhauer (from 11 Jan 2022)
Substitute					Jozef Pinter	Jozef Pinter

Mandates on supervisory boards or similar functions

As of 31 December 2021, supervisory board members held the following additional supervisory board mandates or similar functions in domestic or foreign companies. Material subsidiaries of Erste Group Bank AG are marked with *, listed companies are marked with **.

Friedrich Rödler

Erste Bank der oesterreichischen Sparkassen AG*, Chair
Erste Bank Hungary Zrt.*, Member
Sparkassen-Prüfungsverband, Chair
Audit Oversight Body of Austria, Member

Jan Homan

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

Maximilian Hardegg

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

Matthias Bulach

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

Henrietta Egerth-Stadlhuber

NÖ Kulturwirtschaft GesmbH, Member

Jordi Gual Solé

VidaCaixa S.A.U. de Seguros y Reaseguros, Chair
Telefónica S.A.**, Member

Marion Khüny

KA Finanz AG, Member

Elisabeth Krainer Senger-Weiss

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

Friedrich Santner

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

Michèle F. Sutter-Rüdisser

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

Michael Schuster and András Simor did not hold any mandates on supervisory boards or similar functions in domestic or foreign companies as of 31 December 2021.

Member of the supervisory board retiring after the 2021 annual general meeting:

John James Stack
Ally Bank, Member
Ally Financial Inc.**, Member
Česká spořitelna, a.s.*, Chair (until 26 April 2021)
Mutual of America Capital Management, Member

Members delegated by the employees' council:

Regina Haberhauer
Erste Asset Management GmbH*, Member

Andreas Lachs
VBV-Pensionskasse Aktiengesellschaft, Member

Barbara Pichler
DIE ERSTE österreichische Spar-Casse Privatstiftung, Member

Markus Haag (until 11 January 2021), Jozef Pinter and Karin Zeisel did not hold any mandates on supervisory boards or similar functions in domestic or foreign companies.

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

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

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

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

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

No member of the supervisory board holds directly or indirectly more than 10% of the shares of Erste Group Bank AG. In 2021, two members of the supervisory board (Maximilian Hardegg and Barbara Pichler) served on a management body of DIE ERSTE österreichische Spar-Casse Privatstiftung, which holds more than 10% of the shares of Erste Group Bank AG.

Self-evaluation of the supervisory board
At its meetings of 20 January 2021 and 23 March 2021, the nomination committee performed an evaluation of the activities of the supervisory board and its committees for 2020. It discussed, for example, the supervisory board members' attendance at supervisory board and committee meetings in 2020, assessed the efficiency of the supervisory board's activities, organisation and working practice and undertook a critical review of the composition of committees. Potential conflicts of interest of management board and supervisory board members as well as the requirements of section 29 no 6 and no 7 of the Austrian Banking Act were considered, and the number of mandates and secondary activities of management and supervisory board members were reviewed. Taking into account the reports from the meetings of the nomina-

tion committee, the supervisory board announced at its meeting on 25 March 2021 that an external consultant would be called in to support its self-evaluation pursuant to C-Rule 36 of the Austrian CCG. The findings reported by this external consultant were subsequently discussed and the evaluation for 2020 was concluded with a positive assessment on 25 June 2021 in the course of the supervisory board's strategy retreat. At its meeting of 16 February 2022, the nomination committee considered, among other things, potential conflicts of interest of supervisory board members and evaluated the supervisory board's attendance at supervisory board and committee meetings in 2021. The supervisory board's self-evaluation for 2021 will be continued and completed in the course of the year.

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

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

SUPERVISORY BOARD COMMITTEES AND THEIR DECISION-MAKING POWERS

The supervisory board has set up six committees: the risk committee, the executive committee, the audit committee, the nomination committee, the remuneration committee and the IT committee. Some of these committees are required by law and support the supervisory board in preparing and stating its position on all matters that the supervisory board is required to deal with. The supervisory board moreover has the right, within its statutory remit, to transfer decision-making powers to committees or to withdraw powers from the committees.

Risk committee

The risk committee advises the management board with regard to the bank's current and future risk appetite and risk strategy and monitors the implementation of this risk strategy. The committee also reviews whether the services and products offered are adequately priced in accordance with the bank's business model and risk strategy. Without prejudice to the duties of the remuneration committee, the risk committee is also responsible for reviewing whether the incentives offered by the internal remuneration system adequately take into account risk, capital, liquidity and the probability and timing of profit realisation. The risk committee is responsible for granting approval in all those cases in which loans and exposures or large exposures reach an amount exceeding the approval authority of the management board defined in the approval authority regulation. The approval of the risk committee is required for large loans as defined in section 28b of the Austrian Banking Act. In addition, it may grant advance approvals to the extent permitted by law. The risk committee is responsible for monitoring the risk management of Erste Group Bank AG. The supervisory board has delegated to the risk committee the right to approve the establishment and closure of branches and to grant special statutory power of attorney (Prokura) or commercial power (Handlungsvollmacht) for all business operations. The committee is responsible for monitoring the Group's portfolio of participations except in cases where this is the responsibility of the audit committee. The tasks of the risk committee include the acknowledgement of reports on legal disputes as well as on important audits of subsidiaries conducted by regulatory authorities. In addition, the risk committee is responsible for reviewing potential stress scenarios in order to assess how the bank's risk profile reacts to external and internal events. Furthermore, the risk committee assesses recommendations of internal and external auditors and monitors the appropriate implementation of measures taken that are not covered by reports of other committees. It also advises and supports the supervisory board in monitoring current and future risk appetite and the risk strategy and submits recommendations on required adjustments to the risk strategy to the supervisory board. Pursuant to the non-legally binding *Expectations for Banks* document published by the Single Resolution Board (SRB) on 1 April 2020, the risk committee is also tasked with taking note of regular reports on activities relating to Erste Group's resolution planning and resolvability.

Executive committee

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

Audit committee

The audit committee is responsible for overseeing the accounting process; monitoring the implementation of accounting policies; monitoring the effectiveness of the company's internal control system, internal audit system and risk management system; overseeing the annual audit of single-entity and consolidated financial statements; reviewing and supervising the independence of the auditor (Group auditor), in particular with respect to the additional services rendered to the audited company and the group companies; submitting a report on the results of the annual audit to the supervisory board and explaining how the annual audit has affected the reliability of financial reporting and the role of the audit committee in doing so; reviewing the annual financial statements and preparing their approval; reviewing the proposal for the allocation of profits, the management report and the (consolidated) corporate governance report as well as the (consolidated) non-financial report and submitting a report on the results of the review to the supervisory board; reviewing the consolidated financial statements of the group and the group management report and submitting the report on the results of the review to the supervisory board; selecting, if required, an external auditor for auditing the (consolidated) corporate governance report and the (consolidated) non-financial report; carrying out the procedure for the selection of the auditor (group auditor), taking into account the appropriateness of the fees and recommending the appointment of the auditor (group auditor) to the supervisory board; recommending the renewal of the auditor's (group auditor's) mandate to the supervisory board; acknowledging the additional report of the auditor and discussing this report; acknowledging timely information on the focal points of the audit and submitting proposals for additional focal points of the audit; taking note of the annual financial statements of material subsidiaries and of the participations report; acknowledging the audit plan of the company's internal audit function; acknowledging information on current matters relevant to the internal audit of the Group and on the efficiency and effectiveness of the internal audit; acknowledging the internal auditors' report on the audit areas and material audit findings and the activity report pursuant to Article 25 (3) in conjunction with Article 24 of the Delegated Regulation (EU) 2017/565; in the case of on-site inspection conducted by supervisory authorities acknowledging the inspection report, the report on the contents of the plan to address identified findings and/or the result of administrative proceedings initiated on the basis of the identified findings; acknowledging immediate information on material findings of the auditor, the internal audit function or an audit conducted by a regulatory authority; acknowledging immediate information on loss events that could exceed 5% of consolidated equity or 10% of the budgeted net result; acknowledging reports of the management board on current developments and compliance regarding corporate governance and anti-money laundering rules; acknowledging the compliance activity report pursuant to Article 25 (3) in conjunction with Article 22 of the Delegated Regulation (EU) 2017/565. The audit committee is also responsible for preparing supervisory board decisions concerning the approval of the conclusion of a material transaction pursuant to section 95a of the Austrian Stock Corporation Act (AktG) and overseeing its execution as well as overseeing and periodically (re-)assessing this material transaction; taking note of cases of damage or loss at Erste Group that are reported to the audit committee by internal audit as part of significant audit findings provided they exceed thresholds previously defined by the audit committee; pre-consenting to the removal of the head of internal audit from their position and involvement in the process of filling the position of head of internal audit. Pursuant to the – non-legally binding – *Expectations for Banks* document published by the Single Resolution Board (SRB) on 1 April 2020, the audit committee is tasked with monitoring the effectiveness of Erste Group Bank AG's internal quality control with regard to resolution-relevant information, including rules ensuring the completeness and accuracy of data, by regularly receiving, reviewing and taking into account audit reports on this theme. Pursuant to section 92 para 4a no 3 Austrian Stock Corporation Act and section 30g para 4a no 3 Austrian Limited Liability Companies Act, the audit committee may also take on the tasks and other duties of the audit committee for subsidiaries in which Erste Group Bank AG directly or indirectly holds an interest of at least 75%.

Nomination committee

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

Remuneration committee

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

IT committee

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

MEETINGS OF THE SUPERVISORY BOARD AND REPORT ON PRINCIPAL ACTIVITIES

Seven meetings of the supervisory board were held in the 2021 financial year.

At the ordinary meetings of the supervisory board, the respective monthly developments of the balance sheet and the income statement were presented and reports were given on individual risk types and the bank's total risk exposure; the status of individual bank subsidiaries in Central and Eastern Europe was discussed, and quarterly reports were delivered on the areas audited and on the internal audit department's material audit findings pursuant to section 42 para 3 of the Austrian Banking Act. The chairpersons of the committees reported on the main topics dealt with by the committees since the last supervisory board meeting. Recurring topics at supervisory board meetings in 2021 were reports on Erste Group's view of the current Covid-19 situation as well as of current regulatory developments in the banking environment and their impact on Erste Group. The management board regularly presented proposals to the supervisory board that required its approval under the law, the articles of association and internal rules.

At the meeting of 25 March 2021, the 2020 financial statements and management report, the 2020 consolidated financial statements and management report, the 2020 (consolidated) corporate governance report as well as the 2020 (consolidated) non-financial report were extensively discussed and reviewed; the auditors' reports and the audit committee's report pursuant to section 63a para 4 no 5 Austrian Banking Act were discussed and the 2020 financial statements were adopted in accordance with the recommendation of the audit committee. It was also decided to propose PwC Wirtschaftsprüfung GmbH to the annual general meeting in 2021 as an additional auditor of the (consolidated) financial statements for the 2022 financial year. The supervisory board's report pursuant to section 96 Austrian Stock Exchange Act was discussed at length and approved. The report on the assessment of the effectiveness of risk management was submitted to the supervisory board by the chairman of the audit committee, and the list prepared pursuant to C-Rule 82a of the Austrian CCG was taken note of. The annual report of the supervisory board on loans to board members pursuant to section 28 para 4 of the Austrian Banking Act was discussed and approved. In addition, the supervisory board performed a self-evaluation pursuant to C-Rule 36 of the Austrian CCG, took note of the report on the evaluation of the supervisory board by the nomination committee pursuant to section 29 of the Austrian Banking Act and decided to call in an external consultant to continue the evaluation. The rules of procedure of the risk committee were amended.

At the meeting of 14 April 2021, which was also attended by members of the supervisory authorities' Joint Supervisory Team, who gave presentations and answered questions raised by supervisory board members, note was taken of the annual report of Group Compliance, the report on the collective suitability of the supervisory board and the annual report on conflicts of interest. In addition, the group-wide diversity policy and the goals specified for it were defined and approved, reports of management board members on their respective areas of responsibility were taken note of and resolution proposals for the annual general meeting in May 2021 were discussed and approved. The management board's variable remuneration and the remuneration report prepared for the 2020 financial year pursuant to the Austrian Stock Corporation Act as well as the remuneration policy pursuant to the Austrian Stock Corporation Act were adopted.

At the constituent meeting of 19 May 2021 held after the annual general meeting, the members of the supervisory board's remuneration committee and the IT committee were newly elected.

The composition of the other committees of the supervisory board remained unchanged.

At the meeting of 24 June 2021, note was taken of reports delivered by the management board of Erste Group Bank AG. In addition, a report on Erste Group's capital market activities was discussed. The group-wide diversity policy and framework plans for the issuance of certificates and warrants were adopted.

At the meeting of 16 September 2021, the supervisory board took note of the reports of the management board. Erste Group's strategy and a number of key matters were discussed with the management board in great depth. An update on the situation in the capital market and the Group Recovery Plan were taken note of. A bid to be made for the acquisition of a bank was approved and comments were made on an extraordinary general meeting of Erste Group Bank AG to be held in 2021. Resolutions were passed on the procedure to be followed with regard to the external audit of the (consolidated) non-financial report and the remuneration report pursuant to the Austrian Stock Corporation Act. The resignation of Thomas Schaufler from the management board of Erste Group Bank AG as of 31 October 2021 was taken note of.

At the meeting of 19 October 2021, the supervisory board adopted the recommendation to the 2021 general meeting on the appropriation of profit after extensive debate and agreed to convene the general meeting. Reports of the management board, including a strategy update, were taken note of. Succession planning for Retail was discussed. The rules of procedure of the audit committee and the remuneration committee were amended and resolutions were passed on management board remuneration.

At the meeting of 16 December 2021, reports of the management board and on cyber risk were taken note of. Erste Group's strategy was discussed and the status report on a subsidiary bank was taken note of. Ingo Bleier's management board mandate was extended as recommended by the nomination committee. In addition, the supervisory board changed the remuneration policy pursuant to the Austrian Stock Corporation Act and adopted Erste Group's capital plan for the 2022 to 2026 financial years as well as the budget, the investment plan and the capital plan of Erste Group Bank AG for 2022 to 2026, an update of the participation guidelines and general resolutions on the implementation of a new employee share programme. An anticipatory resolution was made pursuant to section 95 para 5 no 12 of the Austrian Stock Corporation Act and a resolution was adopted on long-term funding activities in the 2022 financial year. At the end of December 2021, the rules of procedure of the audit committee were approved by circular resolution.

At a strategy retreat held on 24 and 25 June 2021, the supervisory board considered strategies for Erste Group comprehensively and in great depth. The management board and other experts were invited to join in more detailed debates. In addition, the supervisory board completed its evaluation pursuant to C-Rule 36 Austrian CCG, taking into account the recommendations and findings of the external consultant.

MEETINGS OF THE COMMITTEES AND REPORT ON ACTIVITIES

The risk committee held sixteen meetings in 2021, at which it regularly took decisions on exposures and loans exceeding the powers of the management board, was briefed on loans granted within the scope of authorisation of the management board and approved the granting of statutory powers of attorney (Prokura). The committee was regularly informed on the risk strategy, risk appetite, the monitoring required to comply with these limits, individual risk types, risk-bearing capacity and large exposures. Furthermore, reports were given on current regulatory risk topics, on compliance matters at single-entity and group levels, cyber risk management, the impact on non-financial standards on lending and the situation of specific sectors and industries, including the real estate and automotive industries and the resulting impact on the risk strategy. Further items on the agenda were audits by supervisory authorities, internal risk models, an update on the Graben project and various legal disputes. Reports were regularly delivered on risk development in individual countries and subsidiaries. Without prejudice to the duties of the remuneration committee, the risk committee members were also informed on whether the incentives offered by the internal remuneration system adequately account for risk, capital, liquidity and the probability and timing of profit realisation. Also on the agenda were reports on stress tests. In addition, the members of the risk committee were informed about developments in the corporate workout portfolio in general and major workout cases in particular. A strong focus was also on the economic fallout of the Covid-19 pandemic and its implications for Erste Group.

The executive committee held two meetings in 2021 to consider the fulfilment of conditions for the payout of the dividend for the 2019 financial year as agreed by the annual general meeting on 10 November 2020 and to discuss the potential acquisition of a bank in depth.

The audit committee met seven times in 2021 and, in addition, held one informal meeting to prepare the meeting on the review of the (consolidated) financial statements. The external auditors were present at all meetings. Among other things, the auditors reported on the audit of the single-entity and consolidated financial statements for 2020 and the audit committee subsequently conducted the final discussion. The financial statements and the management report, the consolidated financial statements and the management report as well as the (consolidated) corporate governance report and the (consolidated) non-financial report were reviewed and the financial statements recommended for approval by the supervisory board. The additional report of the auditors pursuant to Article 11 of Regulation (EU) No 537/2014 was taken note of. The head of the internal audit department reported on the audit subjects and material audit findings for the year 2020 and, on an ongoing basis, about audit-relevant matters in the group and explained the audit plan for 2021. The internal audit department presented its reports pursuant to section 42 para 3 of the Austrian Banking Act, on the quality assurance programme and on resolution-related audit findings as well as the compliance department pursuant to Article 25 para 3 in conjunction with Article 24 of the Delegated Regulation (EU) No 565/2017. In addition, a report was delivered on the assessment of the functionality of the risk management system pursuant to Rule 83 of the Austrian CCG and on the effectiveness of the internal control system. Based on these reports, the audit committee monitored the effectiveness of the internal control system, the internal audit system and the risk management system pursuant to section 63a para 4 no 2 of the Austrian Banking Act. The audit committee also discussed its work plan for 2022 and defined agenda topics for the meetings. It was decided to recommend the renewal of the audit mandate of PwC Wirtschaftsprüfung GmbH as additional auditor of the (consolidated) financial statements for the 2023 financial year to the supervisory board. The auditors provided information about the preliminary audit of the single-entity and consolidated financial statements for 2021. In addition, discussions were held on the reports on the development of participations, the half-year report as of 30 June 2021 and the 2020 management letter. Audit reports on on-site inspections conducted by supervisory authorities were taken note of, as were reports on the contents of the plan to address the findings made. The audit committee continuously reviewed and monitored the independence of the auditors of the (consolidated) financial statements with a particular focus on non-audit services rendered for Erste Group pursuant to section 63a para 4 no 4 of the Austrian Banking Act. Among other things, the audit committee gave pre-approval to permissible non-audit services rendered by the (group) auditor and received reports on their current status. The audit committee's report on activities included in the 2020 annual report was discussed and approved. The exchange of views between the audit committee and the auditors in the absence of the management board pursuant to C-Rule 81a of the Austrian CCG was conducted in December 2021. The head of internal audit was also evaluated by the audit committee. The annual report of Group Regulatory Compliance was taken note of. The impact of the Covid-19 pandemic on Erste Group was discussed regularly, particularly from an accounting perspective.

The nomination committee held five meetings in 2021. One of the meetings reviewed whether the requirements for the extension of the contract and early re-appointment of Ingo Bleier had been met. As the result was positive, a recommendation to this effect was made to the supervisory board. In addition, the resignation of Thomas Schaufler as of 31 October 2021 was discussed and the required resolutions were passed. Succession planning for Retail was discussed by the nomination committee at great length. The nomination committee furthermore conducted a fit and proper assessment of Michael Schuster for the elections to the supervisory board at the annual general meeting of Erste Group Bank AG on 19 May 2021. In addition, the nomination committee reviewed the evaluation of the supervisory board and the management board pursuant to C-Rule 36 of the Austrian CCG and section 29 nos 6 and 7 of the Austrian Banking Act and considered, in particular, the possible conflicts of interest and the attendance at meetings by supervisory board members. The collective suitability of the management board was likewise established, and the report on the collective suitability of the management board and the supervisory board was discussed in general, with a special focus on members' time availability. The report on the selection of senior management pursuant to section 28 of the Austrian Banking Act was taken note of.

The remuneration committee met five times in 2021 and, in addition, held one informal meeting to prepare the resolutions on the remuneration policy and the 2020 remuneration report, each pursuant to the Austrian Stock Corporation Act. The supervisory board's resolution on the management board's variable remuneration was prepared and adopted in line with the ECB recommendation. In addition, various remuneration topics relating to Erste Group Bank AG were discussed and approved, including the structure of key performance indicators, the bonus policy, including the requirements for the payment of variable remuneration components, and remuneration rules for Material Risk Takers as well as the question of which employees are subject to these rules. Supervisory board remuneration was discussed and assessed as comprehensively as that of the management board. In addition, changes to the internal remuneration policy of Erste Group Bank AG and Erste Group and the remuneration policy pursuant to section 78a Austrian Stock Corporation Act were approved, and a report was presented on the current status of the 2021 remuneration report being drawn up pursuant to section 78e Austrian Stock Corporation Act. Reports were delivered on the remuneration of directors in countries in which Erste Group operates and on the review of the internal remuneration policy by internal audit. The remuneration committee furthermore discussed a potential new employee share programme and communicated its recommendation to the supervisory board.

The IT committee met four times in 2021. The main topics were periodic updates on IT projects of Erste Group Bank AG and within Erste Group, priorities of IT activities in 2021, the timeline set for their implementation and impacts on ongoing processes. The merger of s IT Solutions AT Spardat GmbH and Erste Group IT International GmbH creating Erste Digital GmbH was supported and its implementation reported on continuously. The IT project portfolio and IT governance for Erste Group as well as IT risk management were considered on an ongoing basis. Reports were also delivered and presented on strategic priorities for 2021 and individual projects were explained in detail. At year-end, a 2021 year-end report was provided along with an outlook on Erste Group IT activities going forward. The advisor of the IT committee presented his view of developments in the banking sector in general. A major subsidiary bank provided an update on its IT development. Reports were also delivered on IT security, outsourcing governance, the strategy concerning use of data while handling data, digitalisation and the current status of various infrastructure projects. In addition, the IT budget and IT costs were discussed, and the impact of the Covid-19 pandemic explained from an IT perspective. The restructured COO organisation was presented.

Attendance of supervisory board meetings

In 2021, all members of the supervisory board attended more than half of the supervisory board and committee meetings that took place after their election or delegation to the supervisory board or before their resignation from their mandate or revocation of their delegation.

Furthermore, in 2021, the ordinary members of the supervisory board or their substitutes, if applicable, attended in person, by videoconferencing or teleconferencing at least half of the committee meetings held after their election or delegation to the supervisory board or before resigning from their mandate or their delegation being revoked.

The following table shows the attendance of meetings by ordinary members without accounting for the attendance of substitute members. In the exceptional circumstances caused by Covid-19 in 2021, members attending virtual meetings only via acoustic channels are still considered to be in regular attendance in all regards under an ordinance issued by the Federal Ministry of Justice.

Meeting attendance

Name	Supervisory board (7 meetings)	Risk committee (16 meetings)	Executive-committee (2 meeting)	Audit committee (7 meetings)	Nomination committee (6 meetings)	Remuneration committee (5 meetings)	IT committee (4 meetings)
Friedrich Rödler	100%	100%	100%	100%	100%	100%	100%
Jan Homan	100%	100%	100%	100%	100%	100%	
Maximilian Hardegg	100%	88%	50%	86%	67%	100%	100%
Matthias Bulach	100%			100%			
Henrietta Egerth-Stadlhuber	100%	81%					100%
Jordi Gual Solé	100%					80%	
Marion Khüny	100%	100%					100%
Elisabeth Krainer Senger-Weiss	100%	100%	100%		100%		
Friedrich Santner	100%			100%			
Michael Schuster	100%[2]						100%[2]
András Simor	100%					100%	
John James Stack	100%[1]					100%[1]	
Michèle F. Sutter-Rüdisser	100%			86%		100%[2]	
Markus Haag	100%	88%					
Regina Haberhauer	71%			86%			
Andreas Lachs	86%	81%				60%	100%
Barbara Pichler	100%		50%	86%	100%	60%	100%[2]
Jozef Pinter	100%	94%		86%			
Karin Zeisel	100%		100%		100%	80%	100%

[1] member until 19 May 2021, [2] member since 19 May 2021

PROMOTING WOMEN TO MANAGEMENT BOARDS, SUPERVISORY BOARDS AND MANAGING POSITIONS

Promoting women and achieving a balanced representation of women and men in management positions has long been a priority within Erste Group. In 2021, women held 48.2% (2020: 50.4%) of all management positions in the Holding and local banking subsidiaries (i.e. the levels 1 to 4). The proportion of women in top management positions (i.e. the levels 1 and 2, board members and board minus 1 level) in the Holding and the local banking subsidiaries stood at 25.3% (2020: 26.6%).The highest shares of women in top positions were reported by Erste Bank Serbia (42.9%), Erste Bank Croatia (33.3%) and Banca Comercială Română (32.1%).

In 2021, Alexandra Habeler-Drabek served as CRO in the management board of Erste Holding, resulting in a 16.7% share of women in the board of six people. At year-end 2021, women accounted for 38.9% of the Holding's supervisory board members (2020: 38.9%). The target of 35% female representation at supervisory board level was also reached in Erste Bank Hungary and Banca Comercială Română. Taking into account all local banking subsidiaries, 33.8% (2020: 37.5%) of all supervisory board seats were held by women.

Erste Group is committed to the target of 37% women in top management by 2025. The corridor of 40 to 60% that had been adopted for all management positions has already been reached. To increase the proportion of women in top management in a sustainable manner, a number of group-wide initiatives were adopted in 2021, including mentoring programmes, structured succession planning for top positions, continuous data monitoring as well as initiatives aiming at a better work-life balance in management positions. Another instrument was the more balanced gender and age structure in talent and succession pools.

In Austria, initiatives such as the Erste Women's Hub employee resource group, the WoMentoring programme, financial education for women, networking events for female employees and clients were continued. The latter was very successfully converted into online formats in response to the work environment induced by Covid. Another focus area in 2021 was again encouraging more men to take advantage of parental leave options and flexible working. Česká spořitelna continued its top management mentoring programme for women in leadership positions and launched a new communication format for women returning from maternity leave. Banca Comercială Română took a multitude of measures to implement the EU Diversity Charter, which focused most notably on training and professional development as well as building employee competencies. Erste Bank Croatia successfully used diversity dashboards and pursued numerous internal and external communication initiatives.

DIVERSITY

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

Erste Group's Diversity and Inclusion Policy provides the framework for local diversity managers to define priorities and initiatives that support the group diversity strategy. The Policy also defines the diversity concepts applicable in appointing management board and supervisory board members with regard to age, gender, education and professional career. In selecting proposed candidates for supervisory board mandates, the focus must be on a well-balanced composition of the board and diversity within the board in terms of educational background and professional expertise. Diversity must be observed in particular with regard to the representation of both genders and age structure. International experience represented on the supervisory board by supervisory board members of different nationalities or persons with a long international track record is to be maintained. In addition, in assessing the qualifications, composition and independence of the supervisory board, the independence criteria defined by Erste Group Bank AG's supervisory board pursuant to Rule 53 of the Austrian CGC must be taken into account. In setting up supervisory board committees, special care must be taken to ensure that each committee will always have adequate expertise as required for its work (e.g. the remuneration committee must have expert knowledge and practical experience in the area of remuneration policy (section 39c para 3 Austrian Banking Act), the risk committee must have the expertise and experience necessary for monitoring the implementation of the bank's risk strategy (section 39d para 3 Austrian Banking Act), the audit committee must possess specific expertise and practical experience in banking finance and accounting (section 63a para 4 Austrian Banking Act), etc.).

In addition to setting group-wide targets for the share of women in top management and on the supervisory board, Erste Group's Diversity and Inclusion Policy also requires that all positions, including management positions, have to be advertised internally (unless candidates from a succession pool are already available for a position). Selection processes and criteria must be transparent, and job offers have to be worded in a gender-neutral manner: Talent pools and programmes must be open to suitable employees of any age group, gender or origin; when filling top management positions, at least one candidate per gender must be short-listed.

In 2021, Erste Group again pursued the following diversity priorities:

_ More networking and best-practice sharing within the group as well as implementation of the group-wide diversity strategy;
_ Further increasing the number of women in management positions;
_ Developing and encouraging further initiatives for people with handicaps;
_ Step-by-step implementation of local initiatives to promote diversity in CEE

DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

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

EXTERNAL EVALUATION

Erste Group Bank AG commissioned an external evaluation of compliance with the Austrian Code of Corporate Governance in accordance with C-Rule 62 of the Austrian CCG at least every three years, most recently for the 2020 fiscal year. All evaluations reached the conclusion that Erste Group Bank AG had met all requirements of the Code. The deviations from C-Rules were described and explained. Summary reports on these evaluations are available on the website of Erste Group Bank AG.

SHAREHOLDERS' RIGHTS

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

Voting rights

Each share of Erste Group Bank AG entitles its holder to one vote at the annual general meeting. In general, shareholders may pass resolutions at an annual general meeting by a simple majority of the votes cast or, in the event that the majority of the share capital present is required to approve a measure, by a simple majority of the share capital present, unless Austrian law or the articles of association require a qualified majority vote.

The articles of association differ from the statutory majority requirements in three cases: First, the appointment of supervisory board members can be revoked before the end of their respective term by a resolution of the annual general meeting that requires a majority of 75% of the votes cast and a majority of 75% of the share capital present at such meeting. Second, the articles of association may be amended by a resolution of the annual general meeting. Provided that such amendment does not concern the business purpose, this requires a simple majority of the votes cast and a simple majority of the share capital present at such meeting. Third, any provision regulating increased majority requirements can only be amended with the same increased majority.

Dividend rights

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

Liquidation proceeds

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

Subscription rights

All holders of shares have subscription rights allowing them to subscribe to any newly issued shares to maintain their existing share in the share capital of Erste Group Bank AG. Such subscription rights are in proportion to the number of shares held by such shareholders prior to the issue of the new shares. The said subscription rights do not apply if the respective shareholder does not exercise these subscription rights or subscription rights are excluded in certain cases by a resolution of the annual general meeting or by a resolution of the management board and the supervisory board.
The Austrian Stock Corporation Act contains provisions that protect the rights of individual shareholders. In particular, all shareholders must be treated equally under equal circumstances unless the shareholders affected have consented to unequal treatment. Furthermore, measures affecting shareholders' rights, such as capital increases and the exclusion of subscription rights, generally require a shareholders' resolution.

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

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

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

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

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

Vienna, 28 February 2022