Management report

BUSINESS PERFORMANCE AND ECONOMIC SITUATION

Economic environment

After a robust rebound in 2021 economic growth slowed markedly in 2022 primarily on the energy supply shock resulting from the Russia-Ukraine war, fiscal measures to curb inflation and China's ongoing Covid restrictions. Inflation soared to multidecade highs leading to monetary policy tightening across the world. In addition, Covid remained a headwind to growth, even after most countries lifted restrictions on economic and social activities in the course of the year. Supply chain issues continued to impact the recovery of manufacturing production, albeit to a diminishing extent. Labour markets, on the other hand, remained robust. Overall, global real GDP increased by 3.4%, at the beginning of 2022 it had been forecast at 4.4%.

Among the world's advanced economies, both the United States and the euro zone saw declining real GDP growth rates. Economic effects of Russia's invasion of Ukraine, a short-lived hit from the Omicron wave, tighter financing conditions, declining real disposable income driven by fiscal normalisation and high inflation all had an impact on the global economic performance.

The military conflict between Russia and Ukraine and resulting sanctions disrupted exports from the region for commodities like metals, food, oil and gas, pushing up inflation to levels not seen in decades. Against the backdrop of the high dependency of Austria and some core markets on Russian gas natural gas prices declined after summer due to high levels of gas storage and reduced supply from Russian gas. As a response to high inflation non euro central banks already started monetary tightening in 2021, the European Central Bank (ECB) followed in 2022. In addition, governments implemented measures such as price caps, subsidies and tax cuts. Similar to other advanced economies, labour markets in the euro zone remained very strong with unemployment rates declining in most countries. Overall, the euro area economy grew by 3.5%.

Central banks have to cope with the trade-off – intensified by the ongoing geopolitical crisis – between fighting inflation and working to stabilise the economy, financial and public debt. To bring down persistently high inflation rates, the central banks issued clear signals and ended their previously expansionary monetary policies. After rates had been raised in a number of CEE countries and in the United Kingdom, the US Federal Reserve (Fed) likewise started its rate-hike cycle in mid-March. With some time lag, the European Central Bank (ECB) likewise ended its zero-interest-rate policy after more than six years in July by embarking on its first rate hike in 11 years. Overall, the ECB raised its benchmark rate four times to 2.5% at year-end and revised the terms of the targeted longer-term refinancing operations (TLTROs). Rising interest rates and higher volumes in its markets had a positive impact on Erste Group's net interest income. The revised terms and conditions of TLTRO resulted in an adverse impact on net interest income.

Austria's economic performance was better than expected during the year, it outperformed the European Union average. Economic growth, visibly more pronounced in the first half of the year, was supported by almost all sectors of the economy, in particular transportation, hospitality, services and manufacturing. In most sectors pre-pandemic levels were reached or even exceeded. Austria's well developed tourism sector continued to recover as travel restrictions significantly eased. Trade was also a key contributor to this development. The second half of the year, however, saw an economic slowdown in Austria. Growth was significantly impacted by a decline in disposable income due to high inflation. In addition, supply chain disruptions had a negative impact on investments and industrial activity. While most Covid related measures expired during the year, the government launched support packages aimed at easing the effects of surging inflation. Measures included in particular tax benefits and one-off payments, such as climate bonuses. Austria's gas storage level increased rapidly and was among the highest in the European Union by the start of the winter. Inflation peaked in October at 11.0% while average inflation amounted to 8.6% in 2022. The Austrian labour market proved its resilience once again, the unemployment rate stood at 5.8% and the number of registered long-term unemployed people by the end of 2022 was the lowest since 2014. Overall, the Austrian economy grew by 4.7%.

The Central and Eastern European economies also performed better than expected. Growth expectations were upgraded during the year including countries with – prior to the Russian-Ukrainian war – heavy dependencies from Russian gas, such as the Czech Republic, Slovakia or Hungary. Romania and Croatia, on the other hand, which rely significantly less on Russian natural gas, achieved highest growth rates in the region. Household consumption, which was one of the main drivers of the economic growth, slowed down visibly in the second half of the year. Despite supply chain disruptions, exports grew dynamically. The automotive sector, with its significant volume of backlogs, contributed visibly to economic growth. Croatia was supported by the rebound of its tourism sector.

Inflation rates continued to climb throughout the year with many of the CEE countries exceeding 15% in autumn. In response to soaring prices, central banks moved forward with monetary tightening. Key interest rates went up by more than 3% points in the Czech Republic, almost 5% points in Romania and Poland and 15% points in Hungary. Monetary conditions were also affected through other tools such as reduction of balance via FX intervention in case of the Czech Republic or stricter liquidity management and higher reserve requirements in case of Hungary. Labour markets remained very robust in the region, with unemployment rates at or close to historically low levels in most of the CEE countries. Czech Republic and Hungary were among the countries with the lowest unemployment rates in the European Union.

CEE governments introduced a range of measures to support households and businesses. These measures included a cap on electricity prices or direct energy subsidies. Windfall profits taxes were also introduced in a number of CEE countries, such as Hungary and Croatia. As for the currency market, the Hungarian forint clearly underperformed regional peers, weakening more than 10% in 2022. Other CEE currencies, such as the Romanian leu or the Czech korona remained broadly stable against the euro. On 1 January 2023, Croatia became the 20th member of the eurozone. Overall, CEE economies achieved GDP growth rates ranging from 1.7% in Slovakia to 6.0% in Croatia in 2022.

Analysis of performance

In the group management report P&L data of 2022 is compared with data of 2021, balance sheet data as of 31 December 2022 is compared to data as of 31 December 2021. The entire development is presented in detail in the notes to the consolidated financial statements.

Profit and Loss Statement

in EUR million	2021	2022	Change
Net interest income	4,975.7	5,950.6	19.6%
Net fee and commission income	2,303.7	2,452.4	6.5%
Net trading result and gains/losses from financial instruments at FVPL	231.8	-47.3	n/a
Operating income	7,742.0	8,570.6	10.7%
Operating expenses	-4,306.5	-4,574.9	6.2%
Operating result	**3,435.5**	**3,995.8**	**16.3%**
Impairment result from financial instruments	-158.8	-299.5	88.6%
Other operating result	-310.5	-398.5	28.3%
Levies on banking activities	-73.5	-187.1	>100.0%
Pre-tax result from continuing operations	**2,933.4**	**3,222.4**	**9.9%**
Taxes on income	-525.2	-556.1	5.9%
Net result for the period	**2,408.1**	**2,666.3**	**10.7%**
Net result attributable to non-controlling interests	484.8	501.6	3.5%
Net result attributable to owners of the parent	**1,923.4**	**2,164.7**	**12.5%**

Net interest income

Net interest income rose significantly in both private and corporate business. The increase in retail business was due to higher market rates in the Czech Republic, Hungary, Romania, Austria and Slovakia as well as growth of loan volumes predominantly in the Czech Republic, Slovakia and Austria driven by housing loans. In the corporate business it improved markedly on the back of continued loan growth in all markets and, most importantly, higher interest rates in particular in the Czech Republic, Hungary and Romania. Group Market's net interest income also increased due to higher market interest rates, favorable market positioning in interest rate derivatives and higher volumes of money market placements.

Despite one-off effects from the take-up of TLTRO III funds in the amount of EUR -123.2 million (EUR +93.0 million), net interest income was also up in Austria and Slovakia. 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 2.21% (2.05%).

Net fee and commission income

Growth was recorded across all core markets and nearly all fee and commission categories. In all markets, the strongest rises were seen in payment services (based on a higher number of trans-actions as well as price increases) and in asset management, most significantly in Austria and the Czech Republic.

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

Net trading result as well as the line item gains/losses from financial instruments measured at fair value through profit or loss (fair value result) are materially affected by the fair value measurement of debt securities issued. The related valuation is shown in the fair value result, while the valuation of corresponding hedges is shown in the net trading result.

Due to valuation effects resulting from interest rate developments in the derivatives business, net trading result deteriorated to EUR 778.6 million (EUR 58.6 million). Gains/losses from financial instruments measured at fair value through profit or loss trended in the opposite direction and rose to EUR 731.3 million (EUR 173.2 million). With long-term interest rates up, losses from the valuation of the securities portfolio in Austria (in the Savings Banks segment) and 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

in EUR million	2021	2022	Change
Personnel expenses	2,578.1	2,668.0	3.5%
Other administrative expenses	1,180.3	1,356.2	14.9%
Depreciation and amortisation	548.0	550.7	0.5%
General administrative expenses	**4,306.5**	**4,574.9**	**6.2%**

Personnel expenses increased most significantly in the Czech Republic but also in Romania and Croatia. General administrative expenses rose across all cost categories. In addition to markedly higher IT expenses in Austria on the back of continuing digitalisation efforts, expenses for office space were up in all core markets due to significantly higher energy costs. Contributions to deposit insurance systems increased to EUR 142.9 million (EUR 122.4 million). In Hungary, expenses rose to EUR 18.2 million (EUR 7.1 million) mainly due to a deposit insurance case (Sberbank Europe AG). In Romania, contributions increased to EUR 9.3 million (EUR 3.4 million), in Croatia to EUR 7.5 million (EUR 1.9 million). In Austria, contributions declined to EUR 79.7 million (EUR 85.5 million). The cost/income ratio improved to 53.4% (55.6%).

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 75.3 million (EUR 32.8 million). This line item includes primarily losses from the sale of securities in the Czech Republic.

Impairment result from financial instruments

The impairment result from financial instruments amounted to EUR -299.5 million (EUR -158.8 million). Net allocations to provisions for loans and advances rose, primarily on the back of allocations in Austria, to EUR 336.4 million (EUR 119.1 million). Positive contributions came from continued high income from the recovery of loans already written off in all segments – primarily in the Czech Republic, Austria and Croatia – in the amount of EUR 82.1 million (EUR 90.8 million). Net allocations for commitments and guarantees declined to EUR 27.6 million (EUR 104.8 million). Net allocations to credit loss allowances were driven mainly by updated credit risk parameters based on the latest macro-scenarios (FLIs) as well as portfolio stage overlays for cyclical and energy intense industries. At the end of December, crisis-induced performing risk provisions stood at EUR 928 million.

Other operating result

Other operating result was largely affected by levies on banking activities in the amount of EUR 187.1 million (EUR 73.5 million). Banking levies payable in Austria were up at EUR 63.0 million (EUR 10.5 million). Half of this rise is due to a one-off effect in 2022. Regular Hungarian banking tax rose marginally to EUR 15.1 million (EUR 15.0 million). Together with financial transaction tax in the amount of EUR 59.1 million (EUR 47.9 million) and a new windfall profit tax of EUR 49.9 million based on the net revenues of the preceding year, banking levies in Hungary totalled EUR 124.1 million (EUR 63.0 million).

The balance of allocations/releases of other provisions improved to EUR 46.3 million (EUR 5.1 million). Legal risks relating to the Romanian building society resulted in expenses in the amount of EUR 46.9 million. In addition, a provision in the amount of EUR 20.1 million was set aside following the held-for-sale classification of a Romanian subsidiary. These negative effects in Romania were partly offset by the release of provisions in the amount of EUR 54.3 million for risks resulting from consumer protection claims. In addition, other operating result also reflects the annual contributions to resolution funds in the amount of EUR 139.1 million (EUR 108.6 million). Increases were recorded above all in Austria, to EUR 73.9 million (EUR 51.5 million), and in the Czech Republic, to EUR 39.2 million (EUR 31.9 million).

Balance sheet

in EUR million	Dec 21	Dec 22	Change
Assets			
Cash and cash balances	45,495	35,685	-21.6%
Trading, financial assets	53,211	59,833	12.4%
Loans and advances to banks	21,001	18,435	-12.2%
Loans and advances to customers	180,268	202,109	12.1%
Intangible assets	1,362	1,347	-1.1%
Miscellaneous assets	6,090	6,456	6.0%
Total assets	**307,428**	**323,865**	**5.3%**
Liabilities and equity			
Financial liabilities held for trading	2,474	3,264	31.9%
Deposits from banks	31,886	28,821	-9.6%
Deposits from customers	210,523	223,973	6.4%
Debt securities issued	32,130	35,904	11.7%
Miscellaneous liabilities	6,902	6,599	-4.4%
Total equity	23,513	25,305	7.6%
Total liabilities and equity	**307,428**	**323,865**	**5.3%**

Cash and cash balances declined to EUR 35.7 billion (EUR 45.5 billion), mostly due to the early repayment of TLTRO III funds. Trading and investment securities held in various categories of financial assets increased to EUR 59.8 billion (EUR 53.2 billion).

Loans and advances to banks (net), including demand deposits other than overnight deposits, declined to EUR 18.4 billion (EUR 21.0 billion). Loans and advances to customers (net) increased – primarily in Austria and the Czech Republic – to EUR 202.1 billion (EUR 180.3 billion). Loan loss allowances for loans to customers amounted to EUR 4.0 billion (EUR 3.9 billion). The NPL ratio – non-performing loans as a percentage of gross customer loans – improved to 2.0% (2.4%), the NPL coverage ratio (based on gross customer loans) rose to 94.6% (90.9%)

Financial liabilities – held for trading increased to EUR 3.3 billion (EUR 2.5 billion). The decline in de-posits from banks to EUR 28.9 billion (EUR 31.9 billion) is primarily due to the early repayment of TLTRO III liabilities, the end-of-year carrying value of which was

EUR 15.6 billion (EUR 20.9 billion). Deposits from customers rose to EUR 224.0 billion (EUR 210.5 billion), mostly on the back of strong growth in term deposits. The loan-to-deposit ratio stood at 90.2% (85.6%). Debt securities in issue increased to EUR 35.9 billion (EUR 32.1 billion).

Total assets rose to EUR 323.9 billion (EUR 307.4 billion). Total equity increased to EUR 25.3 billion (EUR 23.5 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 20.4 billion (EUR 18.8 billion) as were total own funds (CRR final) to EUR 26.2 billion (EUR 24.8 billion). Total risk – risk-weighted assets including credit, market and operational risk (CRR final) – increased to EUR 143.9 billion (EUR 129.6 billion).

The total capital ratio, total eligible qualifying capital in relation to total risk (CRR final), declined to 18.2% (19.1%), but remained well above the legal minimum requirement. The tier 1 ratio stood at 15.8% (16.2%), the common equity tier 1 ratio stood at 14.2% (14.5%) (both ratios CRR final).

Cash earnings per share amounted to EUR 4.85 in 2022 (EUR 4.18). Earnings per share are EUR 4.83 (EUR 4.17).

The cash return on equity, i.e. the return on equity adjusted for non-cash expenses such as goodwill amortization and straight-line depreciation for the customer relationships, was 12.7% (return on equity: 12.6%) after 11.7% (return on equity: 11.6%) last year.

Branches

Erste Group Bank AG maintains branches in New York, Hong Kong and Germany (Berlin and Stuttgart) that provide commercial lending to foreign banks, leasing companies and sovereign debtors as well as institutional sales.

EXPECTED DEVELOPMENT AND RISKS OF THE GROUP

Long-term growth trends in Central and Eastern Europe

In line with growing economic performances disposable income have risen significantly, in particular in the Czech Republic. In addition, most countries of Central and Eastern Europe have human resources that are at least equivalent to those of Western European countries 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 the gap that exists between these markets. Private debt levels, and particularly household debt, are substantially lower than in the advanced economies. Erste Group 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.

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.

Customer banking in Central and Eastern Europe

The of Erste Group's banking business are essentially the business segments of retail business, corporate business and the capital markets business. For further information on the business segments, we refer to Note 1 in the consolidated financial statements.

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 some 16.1 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. George, Erste Group’s digital platform, is already available in Austria, the Czech Republic, Slovakia, Romania, Croatia and Hungary. 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. Erste Group’s omni-channel approach 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.

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 develop-ment, 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 prod-uct 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.

Outlook

Erste Group's goal for 2023 is to achieve a return on tangible equity (ROTE) in the range of 13 to 15%. Four key factors will support achievement of this goal: firstly, positive economic growth in all core markets (Austria, Czech Republic, Slovakia, Romania, Hungary, Croatia and Serbia) despite significant geopolitical and political risks, which, should they materialise, would likely negatively impact economic performance; secondly, an interest rate environment that is characterised by broadly stable central bank rates in such countries as the Czech Republic, Romania and Hungary, as well as euro zone interest rates that rise in line with market expectations (as per mid-February 2023); thirdly, a credit risk environment marked by low default rates as in 2022; and, finally, the continuous ability of Erste Group to innovate and successfully expand its digital offering. Assuming that these conditions are met, operating result and the cost/income ratio are projected to improve, putting Erste Group on a path to achieve its cost/income ratio target of approximately 52% by 2024.

The current expectation (as per mid-February 2023) by economists is for Erste Group's core markets to avoid recession in 2023 and, in fact, to post real GDP growth in the order of 0 to 3% in 2023. Inflation-ary pressures are expected to subside in 2023, following double digit-levels in 2022 as a result of exceptionally high energy prices. Continued strong labour markets should be supportive of economic performance in all of Erste Group's markets. Current account balances, which suffered significantly during 2022 on the back of exceptionally high energy prices, are expected to improve again in 2023 benefiting from a reversal in energy prices. Fiscal balances should likewise consolidate again after significant budget deficits in 2022. Public debt to GDP in all Erste Group markets is projected to be broadly stable, and hence remain materially below the euro zone average.

Against this backdrop, Erste Group expects net loan growth in the mid-single digits. Retail and corporate business should contribute in all markets of Erste Group towards the aim to grow in line with the banking markets. Loan growth as well as interest rate tailwinds, as detailed above, should result in an increase of net interest income of approximately 10%. The second most important income component – net fee and commission income – is expected to rise in the mid-single digits. As in 2022, positive growth momentum should again come from payment services and insurance brokerage fees, while additional contributions form asset management and securities business are dependent on a constructive capital markets environment. The net trading and fair value result, which suffered significantly in 2022 from negative valuation effects tied to strongly rising interest rates mostly in the CEE region but also in the eurozone, should normalise again in 2023 due to less steep interest rate increases in the eurozone. This, however, will depend substantially on the actual interest rate environment. The remaining income components are forecast to remain, by and large, stable. Overall, op6,1erating income should increase in 2023. Operating expenses are expected to rise by 7-8%, and thus at a lower level than operating income – although this is dependent on the foreign-currency developments in the CEE region – resulting in a further cost/income ratio improvement compared to 2022.

Based on the robust macro outlook described above, risk costs should remain at a low level in 2023. While precise forecasting is hard at current low risk cost levels, Erste Group believes that in 2023 risk costs will be below 35 basis points of average gross customer loans.

Other operating result is expected to remain by and large unchanged in the absence of significant one-off effects. Assuming an effective group tax rate of below 20% and similar minority charges as in 2022, Erste Group aims to achieve a ROTE in the range of 13 to 15%. Erste Group's CET1 ratio is expected to remain strong. Consequently, Erste Group will propose a dividend of EUR 1.90 per share for the 2022 fiscal year to the 2023 AGM. In addition, Erste Group targets a share buy-back in a volume of up to EUR 300 million in 2023, subject to regulatory approval.

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. The evolving Russia-Ukraine conflict does not impact Erste Group directly, as it has no operating presence in those countries. Indirect effects, such as financial market volatility, sanctions-related knock-on effects or the emergence of deposit insurance or resolution cases cannot be ruled out, though. 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.

Risk management

With respect to the explanations on substantial financial risks at Erste Group as well as the goals and methods of risk management, we would like to draw the reader's attention to the information provided in the Notes 27, 32, 34 et seq, 45, 46, 47 and 55 of the consolidated financial statements.

RESEARCH AND DEVELOPMENT

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 with the aim to digitalise banking products end-to-end including associated processes (e.g. onboarding of corporate customers).

Erste Group's digital strategy is based on its own digital platform, George, including digital market places (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, start-ups or across industries, and can therefore help open up new markets and attract new customers.

The digital platform George was implemented for retail customers in Austria in 2015. In the meantime, it is also running in the Czech Republic, Slovakia, Romania, Croatia and Hungary and is actively used by almost 9 million customers. 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. In 2022, George reached another evolutionary level. George Business was implemented for corporate customers in Austria, and it will be rolled out in the local banking subsidiaries, by 2024 in Romania and the Czech Republic. It aims at offering group-wide an outstanding digital user experience across all customer segments on one platform.

In 2022, software development costs of EUR 42 million (EUR 51 million) were capitalised.

REPORTING ON MATERIAL CHARATERISTICS OF THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM WITH REGARD TO THE ACCOUNTING PROCESS

Internal Control System Framework Requirements

The internal control system (ICS) is an essential element of the corporate governance system of Erste Group contributing to the safeguarding of shareholders' investments and company's assets. Erste Group's ICS plays a key role in identifying risks associated with the respective internal processes.

The ICS policy provides the framework conditions for the internal control system at Erste Group. It defines current standards concerning general tasks and responsibilities as well as minimum criteria for ICS documentation. In Erste Group, a top-down, risk oriented, decentralised ICS approach is applied, designed based on the local process map, which promotes adequacy by focusing on all material risks. This means, that all material risks identified must be mitigated by key controls which are involved in the ICS process. The following criteria are applied for an adequate ICS:

- Completeness: The process landscape as well as policies and procedures issued within the Group Policy Framework ensure that all identified risks and potential risk scenarios are considered, regulated and managed, aiming to set up a comprehensive and integrated control environment throughout the entity. All material risks must be covered with key controls, to demonstrate the importance at local level.
- Effectiveness and traceability: The functionality of key controls are regularly checked, the optimal control environment is reviewed and challenged during monitoring activity of risk appetite/tolerance.
- Comprehensibility: The process landscape together with local policies and procedures constitute documentation of identified key controls, which ensures that relevant employees are aware of all key controls and their role in the internal control process is transparent and accountable within the entire local entity.

The risk profile, which includes the current and target situation, is monitored by each individual risk function unit and is illustrated in the framework of the consolidated risk reporting (GRR) for the management or relevant risk committee.

Control environment

The Code of Conduct provides orientation for all employees of Erste Group, defines mandatory rules for day-to-day business life, describes the corporate values, affirms the obligation to act responsibly as a company and ensures compliance with legal provisions and internal guidelines (compliance).

The awareness of potential compliance issues and a sustainable risk culture enable risks to be identified quickly and well-considered decision-making when dealing with existing regulations. The main component of the risk culture are internal guidelines and, above all, open communication in order to create the broadest possible awareness of all employees for all risks that Erste Group is confronted with.

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

Erste Group's IFRS Accounting Manual provides a comprehensive methodological basis for the preparation and submission of the monthly, quarterly and annual IFRS Group Reporting Packages by Erste Group's subsidiaries.

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

Group Accounting and Group Controlling are responsible for preparing the consolidated financial reporting. Both divisions are assigned to the CFO of Erste Group. The preparation of the consolidated financial statements is the responsibility of the Group Accounting department. The assignment of competencies, the process description and the necessary control procedures are defined in the working instructions.

Risk assessment and controls measures

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

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

Erste Group issues group policies used for preparation of consolidated financial statements in accordance with IFRS. A summary description of the accounting process is provided in Erste Group's IFRS Accounting Manual. All transactions in subsidiaries have to be recorded, posted and accounted for in accordance with the accounting and measurement methods set out in this manual.

The basic components of the internal control system (ICS) within Erste Group are:
_ systemic, automatic control systems and measures in the formal procedure and structure, e.g. programmed controls during data processing
_ principles of functional separation and checks performed by a second person (the four-eye principle)
_ Controlling as a permanent financial/business analysis (e.g. comparison of target and actual data between accounting and controlling) and control of the company and/or individual corporate divisions
_ highly automated data validation in the group consolidation process

The areas of responsibility assigned to the individual positions are documented and are continuously updated. Special attention is paid to a functioning deputy regulation in order not to jeopardize the ability to meet deadlines if one person is absent.

Group consolidation
The individual financial statements reported by the subsidiaries in the consolidation system are checked by the person responsible for the individual financial statements in Group Accounting as part of the data release process, which provides for extensive, largely automated check routines, and - if necessary - adjustments to the individual financial statements are made in coordination with the individual entities or the auditors. The subsequent consolidation steps are then performed using the consolidation system. These include consolidation of capital, expense and income consolidation, and debt consolidation, any intragroup gains are eliminated. At the end of the consolidation process, the notes to the consolidated financial statements are prepared in accordance with IFRS and BWG/UGB.

The consolidated financial statements and the group management report are reviewed by the audit committee of the supervisory board and are also presented to the supervisory board for approval. They are published as part of the annual report, on Erste Group's website and in the Official Journal of Wiener Zeitung and finally filed with the Commercial Register.

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

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

In addition, when introducing new core banking systems and implementing new products, accounting is in contact with the relevant departments in order to provide information at an early stage on accounting-specific aspects and implications for new product launches.

Monitoring
In order to monitor and at the same time support strong governance and risk management, Erste Group applies three lines of defence to review the structures and processes that enable the achievement of the objectives for their effectiveness.

The first line of defence includes the business lines in which the department heads are responsible for monitoring including internal controls of their business areas. This line is in constant dialogue with the business areas and reports on planned, actual and expected results in connection with the goals of the organisation as well as on risks.

The role of the second line of defence is covered by specific areas of expertise, in addition to providing expertise, support, monitoring and risk management tasks. At Erste Group, these activities are carried out by the departments Risk Management, BWG Compliance, WAG Compliance, Anti Money Laundering Prevention, Group Data and Reporting Governance and Group Security. Above all, the departments should support the business lines in the control steps, validate the actual controls, bring state-of-the-art practices into the organisation and cover tasks related to risk management.

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

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

HOLDINGS, PURCHASE AND SALE OF OWN SHARES

Holdings of own shares

Portfolio as of	Dec 21	Dec 22
Holding	-339,293	-650,932
Affiliates	1,623,493	1,568,971
thereof pledged	0	0.00

As of 31 December 2022, retained earnings include a short position in Erste Group Bank AG shares amounting to 650,932 units with a carrying amount of EUR 19.5 million (prior year: 339,293 units, carrying amount EUR 14,0 million), which is covered by securities lending deals.

The presentation of purchases and sales of own shares follows the disclosure requirements in accordance with the Austrian Stock Corporation Act (AktG).

Purchase of own shares

	Erste Group Bank AG				Affiliates of Erste Group Bank AG			
	Number of shares	Par value of the share capital EUR million	Purchase price in EUR million	Purpose of transaction	Number of shares	Par value of the share capital EUR million	Purchase price in EUR million	Purpose of transaction
January	29,621	0.06	1.28	trading				
February					310,000	0.62	10.78	principal shareholder program
February	147,363	0.29	5.32	trading				
March					427,833	0.86	12.26	principal shareholder program
March	283,266	0.57	8.65	trading				
April					22,000	0.04	0.67	principal shareholder program
April	85,302	0.17	2.75	trading				
May					797,681	1.60	22.46	principal shareholder program
May	892,100	1.78	26.78	trading				
June					99,587	0.20	2.69	principal shareholder program
June	130,650	0.26	3.47	trading				
July	86,900	0.17	2.09	trading				
August					127,500	0.26	3.10	principal shareholder program
August	107,426	0.21	2.54	trading				
August	1,419,948	2.84	33.59	employee share program				
September					20,000	0.04	0.50	principal shareholder program
September	886,946	1.77	22.60	trading				
September	98,792	0.20	2.17	employee share program				
October	104,120	0.21	2.57	trading				
November					270,000	0.54	7.63	principal shareholder program
November	186,383	0.37	5.29	trading				
December					49,000	0.10	1.38	principal shareholder program
December	105,640	0.21	2.99	trading				
Total	**4,564,457**				**2,123,601**			

The purpose of trading was in particular "market making" and hedging positions in the Austrian Stock Exchange Index (ATX).

The aim of the principal shareholder program is to strengthen the group structure and cooperation with the savings banks.

For further details on the employee share program, we refer to Note 62 Share-based payments.

Sale of own shares

	Erste Group Bank AG			Affiliates of Erste Group Bank AG		
	Number of shares	Par value of the share capital EUR million	Selling price in EUR million	Number of shares	Par value of the share capital EUR million	Selling price in EUR million
January	112,944	0.23	4.84			
February	196,320	0.39	6.80			
March	917,816	1.84	27.73			
April	29,588	0.06	0.96			
May	57,631	0.12	1.68	887,833	1.78	26.97
June	1,126,468	2.25	30.64			
July	102,987	0.21	2.46			
August	39,685	0.08	0.94	761,000	1.52	19.14
September	1,942,437	3.88	44.15			
October	61,258	0.12	1.48			
November	127,021	0.25	3.55			
December	161,941	0.32	4.67	529,290	1.06	15.42
Total	**4,876,096**			**2,178,123**		

CAPITAL, SHARE, VOTING AND CONTROL RIGHTS AND ASSOCIATED AGREEMENTS

For details in respect of capital structure, class of shares and treasury shares please refer to Note 56 of the consolidated financial statements. The mandatory disclosure requirements of Section 243a (1) UGB are met as follows:

1. Capital structure and class of shares

As of 31 December 2022, together with its syndicate partners (savings banks, Anteilsverwaltungssparkassen, savings banks foundations and Wiener Städtische Versicherungsverein), DIE ERSTE oesterreichische Spar-Casse Privatstiftung ('ERSTE Stiftung'), a foundation, controls 24.16% (prior year: 22.25%) of the shares in Erste Group Bank AG and with 17,30% (prior year: 16.50%) is the main shareholder. The ERSTE Stiftung holds 5.78% (prior year: 5.90%) of the shares directly; the indirect participation of the ERSTE Stiftung amounts to around 11.52% (prior year: 10.60%) of the shares held by Sparkassen Beteiligungs GmbH & Co KG, which is an affiliated undertaking of the ERSTE Stiftung. 2.78% (prior year: 1.67%) are held directly by savings bank foundations, savings banks and Erste Mitarbeiter-beteiligung Privatstiftung acting together with the ERSTE Stiftung. 4.08% (prior year: 4.08%) are held by the syndicate partner Wiener Städtische Versicherungsverein.

The Erste Group Bank AG forms a joint liability scheme (Haftungsverbund), together with the Austrian savings banks, in accordance with article 4 (1) Z 127 CRR as well as an institutional protection scheme (IPS) approved by the supervisory authority pursuant to article 113(7) CRR. The required individual services of the individual members of the scheme are in case of an occasion subject to an individual and general ceiling. The applicable amounts are determined by joint liability scheme's steering company and made known to the paying members.

The payments of the individual members in the IPS Ex-Ante Fund established for support measures are recognised in the financial statements as a share in IPS GesbR, which manages the ex-ante fund and are accounted for as retained earnings. Due to the contractual terms, these retained earnings represent a blocked reserve. The release of this blocked reserve may only take place as a result of the utilisation of the ex-ante fund due to a claim. This reserve can therefore not be utilised internally to cover losses and on member level does not qualify as own funds according to the CRR; on a consolidated level, the ex-ante fund does qualify, however. For details, please refer to the section scope of consolidation and Note 33.

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

2. Restrictions of voting rights and of the transfer of shares

In shareholder agreements ERSTE Stiftung agreed with its partners the following: concerning the appointment of the members of the supervisory board the partners are obliged to vote as required by ERSTE Stiftung. The partners can dispose of shares according to a predefined sale procedure and can purchase shares only within the quotas agreed with ERSTE Stiftung (of a maximum of 3% per calendar year); with this regulation an unwanted creeping-in according to takeover law shall be prevented. In addition, the partners have committed themselves not to make a hostile takeover bid, neither to participate in a hostile takeover bid nor to act together with a hostile bidder in any other way.

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

3. Direct or indirect shareholdings amounting at least 10 %

Apart from ERSTE Foundation, the Management Board is not aware of any other direct or indirect shareholdings that amount to at least 10%.

4. Special rights of control associated with holding shares

There are no shareholders with special control rights.

5. Voting rights control in the case of capital participation of employees

The voting rights of shares of employees of corporate employers according to section 4d (5) (1) Income Tax Act (EStG) participating in employee share programs held in trust or by proxy by the Erste Mitarbeiterbeteiligung Privatstiftung are exercised by the Board of Directors of Erste Mitarbeiterbeteiligung Privatstiftung. The members of the Board of Directors are appointed and dismissed by the Advisory Board through resolution with simple majority. Both Erste Group Bank AG as well as the statutory employee representatives of Erste Group Bank AG and Erste Bank der oesterreichischen Sparkassen AG jointly are entitled to appoint a person of their choice to the board of directors. A further member of the Board of Directors to be appointed by the Advisory Board shall be a former member of the management board or a former (freelance) employee of the corporate employers pursuant to section 4d (5) (1) Income Tax Act (EStG). The Advisory Board of Erste Mitarbeiterbeteiligung Privatstiftung comprises of up to five members.

6. Special control rights, bodies and amendments of the articles of association

This concerns:

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

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

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

7. Powers of the Management Board to issue and repurchase shares

As per decision of the Annual General Meeting of 19 May 2021:

_ the Management Board is entitled to purchase up to 10% of the subscribed capital in treasury shares for trading purposes according to section 65 (1) (7) Austrian Stock Corporation Act (AktG). However, the trading portfolio of these shares may not exceed 5% of the subscribed capital at the end of any calendar day. The consideration for the shares to be purchased must not be less than 50% of the closing price at the Vienna Stock Exchange on the last trading day prior to the purchase and must not exceed the closing price at the Vienna Stock Exchange on the last trading day prior to the purchase by more the 20%. This authorisation is valid for a period of 30 months, i.e. until 18 November 2023.

_ the Management Board is entitled, pursuant to section 65 (1) (8) as well as (1a) and (1b) Stock CorporationAct and for a period of 30 months from the date of the resolution, i.e. until 18 November 2023, to acquire own shares of up to 10% of the subscribed capital, subject to approval by the Supervisory Board, with the option of making repeated use of the 10% limit, either at the stock exchange or over the counter, likewise to the exclusion of the shareholders' right to tender proportional payment. The authorization may be exercised in whole or in part or in several instalments and in pursuit of one or several purposes. The market price per share must not be below EUR 2.00 or above EUR 120.00. Pursuant to section 65 (1b) in conjunction with sec. 171 Stock Corporation Act, the Management Board is authorised, from the date of the resolution, i.e. until 18 May 2026, on approval by the Supervisory Board, to sell or use the company's own shares, also by means other than the stock exchange or a public offering for any purpose allowed by the law, particularly as consideration for the acquisition and financing of the acquisition of companies, businesses, business divisions or shares in one or several businesses in Austria or abroad to the exclusion of the shareholders' proportional purchase option.

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

_ according to section 65 (1) (4) as well as (1a) and (1b) Stock Corporation Act, the Management Board is authorised for the duration of 30 months following the date of resolution, hence until 18 November 2023, and with the approval of the Supervisory Board to purchase own shares at an amount equalling up to 10% of share capital of the company also under repeated utilisation of the 10% limit either at the stock exchange or over the counter, likewise to the exclusion of the shareholders' right to tender proportional payment for the purpose of granting shares for free or at concessionary terms to Erste Mitarbeiterbeteiligung Privatstiftung, their beneficiaries, employees, executive employees and members of the board at Erste Group Bank AG or of an affiliated undertaking or of any other undertaking pursuant to section 4d (5) (1) Income Tax Act. The authorisation may be exercised in whole or in part or in several installments and in pursuit of one or several purposes. The value per share may neither be lower than the floor value of two Euros nor higher than the ceiling of 120 Euros.

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

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

8. Significant agreements which become effective, are amended or are rendered ineffective when there is a change in the control of the company and their effects

Cross-guarantee scheme agreement

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

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

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

Directors & Officers Insurance

Changes in control

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

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

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

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

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

Erste Group Bank and Vienna Insurance Group AG Wiener Versicherung Gruppe (VIG) are parties to a general distribution agreement (the Agreement) concerning the framework of the cooperation of Erste Group and VIG in Austria and CEE with respect to bank and insurance products. Originally concluded in 2008 (between Erste Bank der österreichischen Sparkassen AG and Vienna Insurance Group der WIENER STÄDTISCHE Versicherung AG), the Agreement was renewed and extended in 2018 until the end of 2033. The objective for the renewal and extension in particular was to adapt the Agreement to the corporate restructuring of the original parties, to amend some commercial parameters and to align the Agreement with recent developments in the legal framework. Already in the original Agreement the parties stipulated that both parties have the right to terminate the Agreement in case of a change of control of one of the parties. In case of change of control of Erste Group Bank AG, VIG has the right to terminate the Agreement. In case of change of control of VIG, Erste Group Bank AG has the reciprocal right. A change of control is defined, with respect to Erste Group Bank AG, as the acquisition of Erste Group Bank AG by any person/entity other than DIE ERSTE österreichische Spar-Casse Privatstiftung or Austrian savings banks of 50% plus one share of Erste Group Bank AG's shares or voting rights. In respect to VIG, the aforementioned provisions apply analogously, except for share purchases by Wiener Städtische Wechselseitiger Versicherungsverein – Vermögensverwaltung – Vienna Insurance Group.

Apart from this regulation on the termination of the Agreement, the parties agreed in the renewal and extension of the Agreement for an additional termination for cause if based on new legal or regulatory provisions, the continuation of the Agreement is unreasonable for each or both of the parties.

Erste Group Bank and VIG are furthermore parties to an asset management agreement, pursuant to which Erste Group undertakes to manage certain parts of VIG's and its group companies' securities assets. In case of a change of control (as described above), each party has a termination right. The asset management agreement has been renewed and extended until 2033 concurrently with the renewal and extension of the Agreement outlined above.

9. Indemnification agreements

There are no indemnification agreements in accordance with § 243a (1) Z 9 UGB.

NON-FINANCIAL DECLARATION

The consolidated non-financial declaration of Erste Group is issued as separate consolidated non-financial report and contains the information required according to § 243b UGB and according to the Sustainability and Diversity Improvement Act (NaDiVeG) according to § 267a UGB. The consolidated non-financial report of Erste Group is disclosed and published on the website of Erste Group (www.erstegroup.com/investor-relations).

SUBSEQUENT EVENTS AFTER BALANCE SHEET DATE

For events of particular importance after balance sheet date, we refer to the disclosures in Note 67 in the consolidated financial statements.

Management Board	
Willibald Cernko 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 2023