

# Strategy

We strive to be the leading retail and corporate bank in the eastern part of the European Union, including Austria. To achieve this goal, we aim to support our 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. Our business activities will continue to contribute to economic growth and financial stability and thus to prosperity in our region.

In all of our core markets in the eastern part of the European Union, we pursue a balanced business model focused on providing the best banking services to each of our customers. In this respect, digital innovations are playing an increasingly important role. Sustainability of the business model is reflected in our ability to fund customer loans by customer deposits, with most customer deposits being stable retail deposits. Sustainability of our strategy is reflected in long-term client trust, which underpins strong market shares in almost all of our 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, we pursue the banking business in a socially responsible manner and aim 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 our capital is tied up, where we generate most of our income and where we fund the overwhelming part of our core activities by drawing on our customers' deposits. The retail business represents our strength and is our top priority when developing products such as modern digital banking that enable us 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, we serve a total of approximately 16 million customers in seven core markets.

Our core activities also include advisory services and support for our 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, we also operate 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, we have 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 our subsidiaries, we hold considerable market positions in these countries. In Serbia, which has been assigned European Union candidate status, we maintain 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 our core markets, we also hold 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. We are 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 foster digital innovation. Intra-group, interdisciplinary teams are developing innovative solutions with the aim to digitalise banking products end-to-end including associated processes (e.g. onboarding of corporate customers).

Our digital strategy is based on our own digital platform, George, including digital marketplaces (ecosystem). It aims at providing customers access to personalised products from us 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. 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.

Our omni-channel approach integrates 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.

It is our clear ambition to be the key contact for our customers. This means that we must also continue to focus on the prerequisites in order to meet this requirement. Two core areas are of particular importance:

- \_ Improving data analysis so that we can better understand the needs of our clients and offer appropriate solutions with pinpoint accuracy.
- \_ Further simplifying our digital offerings, with a focus on ensuring the perfect user journey, and also expanding these offerings to include new products.

### **Focus on sustainability and profitability**

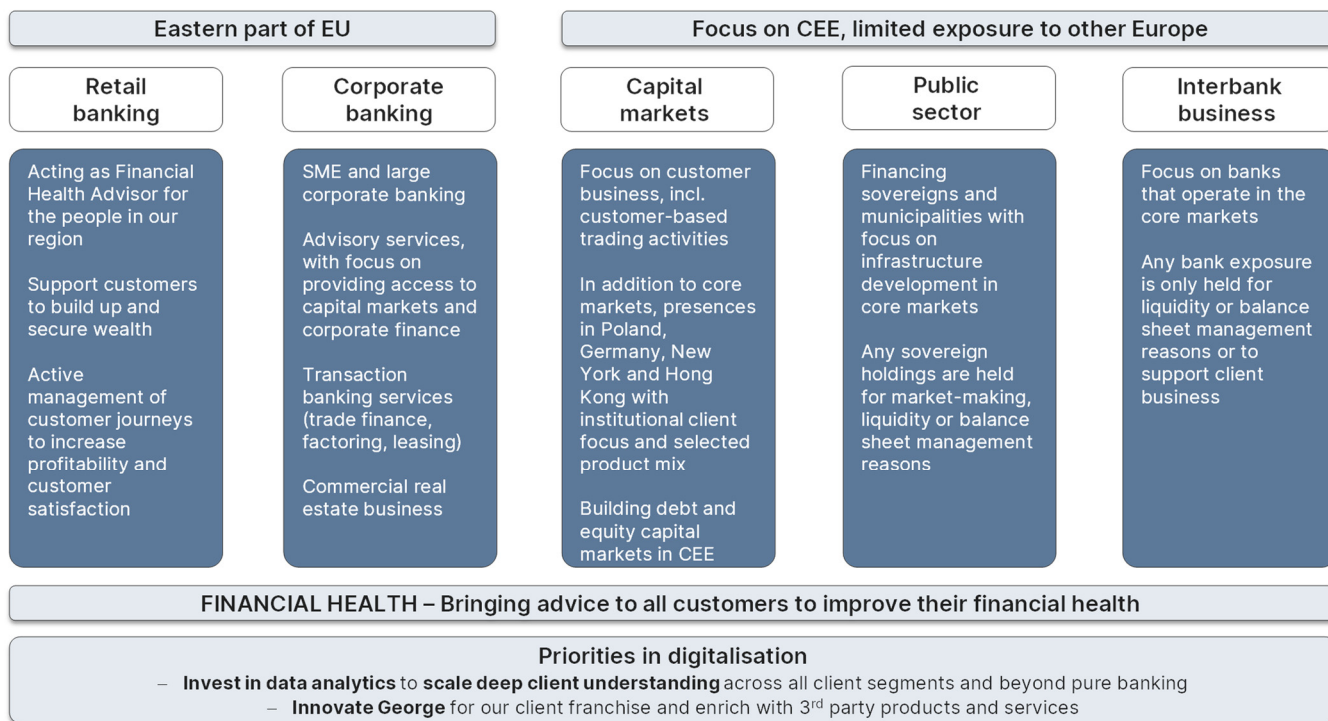
Acting responsibly and earning a premium on the cost of capital is a key prerequisite for the long-term survival of any company and the creation of value for customers, investors and employees. Only a bank that operates in a sustainable manner – balancing the social,

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 our business activities, we value 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, we should benefit materially from operating in the region of Europe that offers the best structural growth opportunities for some time to come.

## Banking leadership in Central and Eastern Europe



## THE STRATEGY IN DETAIL

The basis of our 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 our customers' needs as effectively as possible.

### Retail business

Our key business is the retail business, covering the entire spectrum from lending, deposit and investment products to current accounts and credit cards. Our 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, we serve a total of approximately 16 million customers in our markets and operate about 2,000 branches. Wealthy private clients, trusts and foundations are served by our private banking staff and benefit from services that are tailored to the needs of this target group.

In addition, we use and promote 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, our digital

platform, is available in Austria, the Czech Republic, Slovakia, Romania, Croatia and Hungary. It will also be rolled out in Serbia.

Retail banking is attractive to us 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. We take advantage of these factors in all core markets and make best use of our 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, our 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 our earnings, is business with small and medium-sized enterprises, regional and multi-national groups and real estate companies. Our goal is to enhance relationships with our clients beyond pure lending business. Specifically, our goal is for SMEs and large corporate customers to choose Erste Group as their

principal bank and also route their payment transfers through our 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, we serve 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 us to combine industry-specific and product expertise with an understanding of regional needs and the experience of our 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 we offer to our retail and corporate customers. The strategic significance of our 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 our customers with professional access to the financial markets. We, therefore, view our capital markets business as a link between financial markets and our customers. As a key capital markets player in the region, we also perform important functions such as market making, capital market research and product structuring.

The capital markets business serves the needs of our retail and corporate customers as well as those of government entities and financial institutions. Due to our strong network in the eastern part of the European Union, we have a thorough understanding of local markets and customer needs. In our capital markets business, too, we concentrate 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 we operate, the local capital markets are not yet as highly developed as in Western Europe or in the United States of America. That means our banking subsidiaries are pioneers in some of these markets. Therefore, building more efficient capital markets in the region is another strategic objective of our capital markets activities.

### Public sector business

Solid deposit business is one of the key pillars of our business model. Customer deposits surpass lending volume in many of our geographic markets. Our banking entities make a significant part of this liquidity available as financing to the region's public sector entities. In this way, we facilitate essential public sector investment. Our public sector customers are primarily municipalities, regional entities and sovereigns that we additionally support and advise in capital market issuance, infrastructure financing and

project financing. Furthermore, we cooperate with supranational institutions. In terms of sovereign bond investments, we focus 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, we view 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 Covid-19 development plan (Next Generation EU). This temporary economic stimulus package will focus on the areas of digitalisation, climate policy and strengthening resilience.

### Interbank business

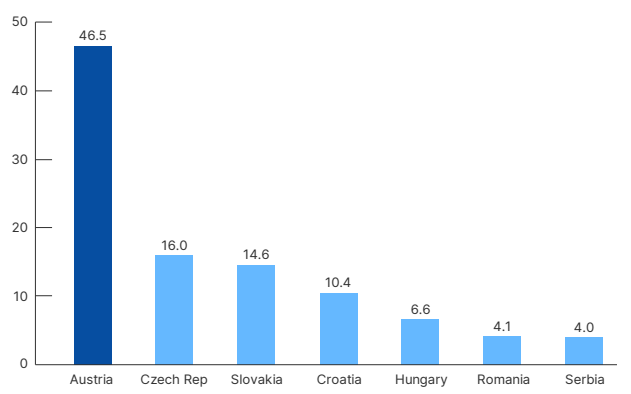
Interbank business is an integral part of our business model that performs the strategic function to ensure that the liquidity needs of our customer business are met. This involves, in particular, short-term borrowing and lending of liquid funds in the interbank market.

## 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, we still firmly believe 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 (2022) 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 making financial services available for all segments of the population across 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, we are one of the largest banking groups and employers in Central and Eastern Europe. The trust that we and our local banks have been enjoying stems from the fact that we 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. We are one of these and have been benefitting from a high degree of brand awareness and trustworthiness.

Over the last years, we have transformed our brand communication from being category- and product-driven to having a purpose-driven approach. To this end, we have established a statement of purpose as the main group-wide pillar of our 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 us and our 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 we have been firmly committed for more than 200 years. #believeinyourself is more than a lead narrative. It encourages people to pursue their aspirations, to create something, and embodies our promise to assist them along the way.