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's segment reporting is based on the matrix organisation (business and geographical information) and provides comprehensive information to assess the performance of the business and geographical segments.

The tables and information below provide a brief overview and focus on selected and summarised items. For more details, please see Note 39. Additional information is available in Excel format at www.erstegroup.com/investorrelations.

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

Business segments

Erste Group – business segments

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

The **Retail** segment comprises 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.

The **Corporates** segment comprises business done with corporate customers of different turnover sizes (small and medium-sized enterprises, Local Large Corporate and Group Large Corporate customers) as well as commercial real estate and public sector business. Small and medium-sized enterprises (SME) are clients that are under the responsibility of the local corporate commercial center network, mainly consisting of companies within defined annual turnover thresholds. Local Large Corporates (LLC) are clients with specific annual turnover thresholds (lying above SME thresholds) that are not defined as Group Large Corporate customers according to the Group Large Corporate client list. Group Large Corporates (GLC) are large corporate customers/client groups with substantial operations in core markets/extended core markets of Erste Group. GLC clients are included on the GLC client list. Commercial Real Estate (CRE) covers, for example, investors in real estate for the purpose of generating income from the rental of individual properties or portfolios of properties, developers of individual properties or portfolios of properties for the purpose of generating capital gains through sale. Public Sector consists of three sets of customers: public sector, public corporations and non-profit sector. In addition, a majority of municipalities are also segmented as Public Sector clients.

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 including custody, depository services, commercial business (loans, cash management, trade & export finance).

The **Asset/Liability Management and 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 that 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.

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

The **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), non-profit 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 (IC) is not defined as a segment but is the reconciliation to the consolidated accounting result. It includes all 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.

RETAIL

Financial review

in EUR million	2018	2019	Change
Net interest income	2,267.5	2,290.1	1.0%
Net fee and commission income	1,054.4	1,094.5	3.8%
Net trading result and gains/losses from financial instruments at FVPL	116.3	112.5	-3.2%
Operating income	3,467.8	3,529.7	1.8%
Operating expenses	-2,030.9	-2,096.2	3.2%
Operating result	1,436.9	1,433.5	-0.2%
Cost/income ratio	58.6%	59.4%	
Impairment result from financial instruments	-24.7	-74.6	>100.0%
Other result	-52.9	-226.4	>100.0%
Net result attributable to owners of the parent	1,064.9	866.4	-18.6%
Return on allocated capital	35.2%	26.4%	

The increase in net interest income was primarily driven by higher contributions from deposit business in the Czech Republic, Romania and Hungary. While lending business in Croatia, Serbia and Hungary developed positively, contribution from lending business in Czech Republic, Slovakia and Romania decreased on the back of declining margins. The impact was mitigated though by the higher interest rate environment in the Czech Republic and Romania. Net fee and commission income increased mainly due to higher insurance brokerage fees in Slovakia and Hungary, higher payment fees in Austria, Hungary and Croatia, higher fees from loan business in Slovakia, Hungary and Croatia as well as higher fees from securities business in Hungary. Net trading result and gains/losses from financial instruments FVPL decreased primarily due to a lower result from foreign exchange business in Romania. Operating expenses increased on the back of higher personnel expenses as well as higher IT expenses in a majority of the countries. Overall, operating result decreased and the cost/income ratio increased slightly. The deterioration of impairment result from financial instruments was primarily driven by higher provisioning in Romania, the Czech Republic, Austria and Serbia, while risk costs in Croatia, Slovakia and Hungary declined. A provision in the amount of EUR 153.3 million in Romania as a result of a Romanian High Court decision in relation to the business activities of a local subsidiary (building society) led to a worsening of the other result. Consequently, the net result attributable to the owners of the parent decreased.

Credit risk

Credit risk exposure in the Retail segment rose to EUR 68.6 billion (+3.5%). The customer loan portfolio increased to EUR 58.3 billion (+5.1%). The share of the retail business in Erste Group's total customer loans declined marginally to 36.4% (37.0%). The collateralisation ratio, which reflects the ratio of collateral to loan volume, stood at 64.9% (64.0%). The quality of the retail customer loan portfolio improved again. Non-performing loans declined by EUR 105 million and, as a percentage of total retail customer loans, decreased to 2.4% (2.8%). In terms of the NPL ratio (non-performing loans as a percentage of total loans) the Retail segment thus continued to feature the highest quality of all business segments with a significant loan portfolio. Low-risk loans as a percentage of total retail customer loans rose significantly to 84.7% (81.5%) The NPL coverage ratio based on loan loss provisions amounted to 82.7% (84.0%).

CORPORATES

Financial review

in EUR million	2018	2019	Change
Net interest income	1,032.2	1,098.7	6.4%
Net fee and commission income	283.1	301.1	6.4%
Net trading result and gains/losses from financial instruments at FVPL	88.2	101.0	14.4%
Operating income	1,524.0	1,603.1	5.2%
Operating expenses	-572.3	-575.3	0.5%
Operating result	951.8	1,027.8	8.0%
Cost/income ratio	37.5%	35.9%	
Impairment result from financial instruments	59.4	32.9	-44.5%
Other result	7.1	-2.3	n/a
Net result attributable to owners of the parent	801.5	814.9	1.7%
Return on allocated capital	21.0%	18.7%	

Net interest income increased primarily due to positive contribution of lending business in Austria and higher loan and deposit volumes as well as higher deposit margins in the Czech Republic supported by the higher interest rate environment. These effects were partially offset by the lower contribution of lending business in Romania due to a one-off income in 2018. Net fee and commission income increased predominantly in Erste Bank Oesterreich and Czech Republic but also in Hungary and Slovakia. Net trading result and gains/losses from financial instruments at FVPL increased mainly in the Czech Republic due to positive development in interest rate derivatives and in Slovakia due to valuation of cross-currency derivatives. Overall, operating income improved. Although operating expenses increased moderately, the operating result as well as the cost/income ratio improved. The net release of risk provisions (line item impairment result from financial instruments) resulted from a further improvement in asset quality, lower default rates, higher recoveries as well as releases of specific provisions. However, the net releases year-on-year decreased, mainly in the Holding, Slovakia and Hungary. Other result worsened on the back of higher provisions for legal expenses in Croatia. The net result attributable to the owners of the parent increased.

Credit risk

Credit risk exposure in the Corporates segment rose to EUR 77.8 billion (+10.3%), loans to customers increased to EUR 54.9 billion (+9.4%). As a percentage of Erste Group's total loans to customers they stood at 33.6% (32.8%). The 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. Active management of non-performing loans by restructuring economically viable businesses and writing off uncollectible accounts resulted in another significant improvement of asset quality in the Corporates segment. The NPL ratio declined to 2.5% (3.4%). As non-performing loans fell much more sharply than risk provisions, the NPL coverage ratio based on loan loss provisions rose by more than eleven percentage points to 84.5% (73.0%).

GROUP MARKETS

Financial review

in EUR million	2018	2019	Change
Net interest income	252.6	257.2	1.9%
Net fee and commission income	226.5	228.3	0.8%
Net trading result and gains/losses from financial instruments at FVPL	53.1	48.4	-8.8%
Operating income	533.7	536.9	0.6%
Operating expenses	-241.3	-240.2	-0.5%
Operating result	292.4	296.7	1.5%
Cost/income ratio	45.2%	44.7%	
Impairment result from financial instruments	-0.4	5.1	n/a
Other result	-21.3	-18.4	-13.4%
Net result attributable to owners of the parent	215.7	224.6	4.2%
Return on allocated capital	27.4%	24.1%	

Net interest income increased primarily on the back of higher volumes of reverse repo business in the Holding. Net fee and commission income went up slightly due to higher origination fees and business with institutional clients. Net trading result and gains/losses from financial instruments at FVPL decreased due to valuation effects. Overall, operating income increased. As operating expenses declined moderately, operating result increased, and the cost/income ratio improved. Impairment result from financial instruments turned positive as a result of provision releases in the Holding. Other result improved mainly due to valuation effects. Consequently, the net result attributable to the owners of the parent increased.

ASSET/LIABILITY MANAGEMENT & LOCAL CORPORATE CENTER

Financial review

in EUR million	2018	2019	Change
Net interest income	-91.6	-104.3	13.8%
Net fee and commission income	-102.8	-84.5	-17.8%
Net trading result and gains/losses from financial instruments at FVPL	-32.1	38.6	n/a
Operating income	-178.5	-107.1	-40.0%
Operating expenses	-67.8	-110.9	63.5%
Operating result	-246.3	-218.0	-11.5%
Cost/income ratio	-38.0%	>100%	
Impairment result from financial instruments	12.4	13.0	4.3%
Other result	-131.2	-90.0	-31.4%
Net result attributable to owners of the parent	-289.1	-237.3	-17.9%
Return on allocated capital	-10.6%	-8.2%	

Net interest income deteriorated primarily due to lower income from the investment portfolio and liquidity positions in the Holding as well as lower contribution from balance sheet management in Erste Bank Oesterreich. These developments were partially compensated by higher interest rates in the Czech Republic, higher contribution from balance sheet management in Slovakia and maturity of deposits with high interest expense in Romania. Net fee and commission income improved mainly due to lower fee expenses in Romania. Net trading result and gains/losses from financial instruments at FVPL improved primarily due to valuation results in the Holding, in Erste Bank Oesterreich, and in the Czech Republic. Operating expenses increased on the back of higher IT costs in Erste Bank Oesterreich and methodological changes affecting cost allocation between business segments in Romania and Hungary. Overall, operating result improved. Other result improved primarily due to the non-recurrence of last year's real estate impairments in the Czech Republic and Immorent, lower provisions for legal expenses in Erste Bank Oesterreich and a real estate selling gain in Romania. The net result attributable to the owners of the parent improved.

SAVINGS BANKS

Financial review

in EUR million	2018	2019	Change
Net interest income	1,016.4	1,052.1	3.5%
Net fee and commission income	459.8	490.6	6.7%
Net trading result and gains/losses from financial instruments at FVPL	-27.1	52.0	n/a
Operating income	1,497.4	1,640.2	9.5%
Operating expenses	-1,073.3	-1,120.1	4.4%
Operating result	424.1	520.1	22.6%
Cost/income ratio	71.7%	68.3%	
Impairment result from financial instruments	19.8	0.7	-96.3%
Other result	-4.5	26.3	n/a
Net result attributable to owners of the parent	53.6	64.8	20.9%
Return on allocated capital	12.2%	13.0%	

The increase in net interest income was primarily driven by higher customer loan volumes. Net fee and commission income increased on the back of higher payment, lending, and insurance brokerage fees. The improvement of net trading result and gains/losses from financial instruments at FVPL was driven by valuation effects. Operating expenses rose mainly due to increased IT, personnel and marketing expenses. In addition, deposit insurance contributions increased to EUR 33.4 million (EUR 27.9 million). Operating result as well as the cost/income ratio improved markedly. A lower net release of risk provisions was reflected in the impairment result from financial instruments. Other result improved mainly due to a booking of a badwill for a new subsidiary of a savings bank. Payment into the resolution fund decreased to EUR 7.9 million (EUR 9.0 million). Banking tax amounted to EUR 4.3 million (EUR 4.0 million). Overall, the net result attributable to the owners of the parent increased.

Credit risk

Credit risk exposure in the Savings Banks segment increased to EUR 66.8 billion (+5.1%), while loans to customers rose to EUR 47.8 billion (+7.1%). Their share in Erste Group's total customer loans was nearly unchanged at 29.3% (29.2%). Lending to private households showed slightly better-than-average growth, raising its share in the Savings Banks' total customer loan portfolio to 39.2% (39.0%). Loans to professionals, other self-employed persons and small businesses stagnated at EUR 6.6 billion. At 13.9% (14.8%) 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 structure of the Austrian economy with a very high percentage of small and medium-sized businesses compared with other countries. Swiss franc denominated foreign-currency loans declined further to EUR 1.8 billion (-10.1%).

Non-performing loans as a percentage of total loans to customers decreased again to 2.8% (3.6%). The development was positive among both retail and corporate clients. The NPL coverage ratio based on loan loss provisions rose to 63.8% (61.2%).

GROUP CORPORATE CENTER

Financial Review

in EUR million	2018	2019	Change
Net interest income	77.9	70.6	-9.4%
Net fee and commission income	-12.5	-1.3	-89.9%
Net trading result and gains/losses from financial instruments at FVPL	39.9	12.2	-69.4%
Operating income	124.2	70.9	-42.9%
Operating expenses	-980.4	-1,023.9	4.4%
Operating result	-856.2	-953.0	11.3%
Cost/income ratio	>100.0%	>100.0%	
Impairment result from financial instruments	-7.3	-16.4	>100.0%
Other result	636.0	572.6	-10.0%
Net result attributable to owners of the parent	-53.0	-263.3	>100.0%
Return on allocated capital	-0.8%	-5.6%	

Operating income deteriorated mainly due to lower rental income triggered by methodological changes as well as lower net trading result and gains/losses from financial instruments at FVPL on lower valuation effects. Operating expenses increased due to methodological effects in internal service providing entities. Consequently, operating result deteriorated. Other result declined mainly on the goodwill impairment of Slovenská sporiteľňa in the amount of EUR 165.0 million only partially offset by higher income in the service entities. Overall, the net result attributable to the owners of the parent decreased considerably.

Geographical segments

For the purpose of segment reporting by geographical areas, the information is presented based on the location of the booking entity (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 country 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 three 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 is identical to the business segment Savings Banks.
_ 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 segments covering Erste Group's banking subsidiaries located in the respective CEE countries:

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

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

Austria

Economic review

Austria is a well-diversified, developed and open economy benefitting from a high value-adding industrial base, an educated workforce and a strong tourism and service sector. In 2019, economic growth was mainly driven by domestic demand, especially consumer spending. Investments were also robust, especially in the first half of the year. In addition, the service sector, in particular tourism, continued to perform well. With 153 million overnight stays, tourism reached a new record in 2019. Net exports, on the other hand, slowed down and did not contribute to economic growth. Germany remained the most important trading partner of Austria and accounted for almost one third of the Austrian exports. The favourable economic environment resulted in a further decline of the unemployment rate to 4.5%. At EUR 44,900 GDP per capita, Austria remained one of the wealthiest countries in the euro zone. Overall, real GDP grew by 1.6%.

The favourable economic performance led to a further improvement in the general government balance to 0.3%. This positive development was mainly due to increasing revenues from personal and corporate income taxes and value added taxes. Government expenditure as a percentage of GDP declined mainly due to declining interest payments, pension-related spending and lower unemployment benefits. Public debt as a percentage of GDP improved further to 69.6%, the lowest since 2008, partly driven by a reduction of bad bank assets of the former Hypo Alpe Adria bank and lower interest payments.

Inflation decelerated and, at 1.5%, remained well under control. Core inflation, which represents price development excluding food and energy prices, amounted to 1.7%. Public and private sector wages increased by 2.8%, resulting in real wage growth. As Austria is part of the euro zone its monetary policy is set by the European Central Bank. The ECB maintained its expansionary monetary policy by keeping the base rate unchanged at 0%. In 2019, the ECB cut the interest rate on the deposit facility further by 10 basis points to -0.50%, restarted in November its asset purchase programme at a monthly volume of up to EUR 20 billion and also introduced a new series of longer-term refinancing operations (TLTRO III).

The three main rating agencies affirmed their credit ratings for Austria. Standard & Poor's credit rating for Austria stood at AA+ with a stable outlook. Moody's credit rating for Austria was at Aa1 also with stable outlook, while Fitch's credit rating stood at AA+ with a positive outlook.

Key economic indicators – Austria	2016	2017	2018	2019e
Population (ave, million)	8.7	8.8	8.8	8.9
GDP (nominal, EUR billion)	356.2	369.9	386.1	398.5
GDP/capita (in EUR thousand)	40.8	42.1	43.7	44.9
Real GDP growth	2.1	2.5	2.4	1.6
Private consumption growth	1.4	1.5	1.1	1.5
Exports (share of GDP)	39.5	41.1	42.6	43.0
Imports (share of GDP)	41.5	43.0	44.0	44.6
Unemployment (Eurostat definition)	6.0	5.5	4.9	4.5
Consumer price inflation (ave)	1.0	2.2	2.1	1.5
Short term interest rate (3 months average)	-0.3	-0.3	-0.3	-0.4
EUR FX rate (ave)	1.0	1.0	1.0	1.0
EUR FX rate (eop)	1.0	1.0	1.0	1.0
Current account balance (share of GDP)	2.7	1.6	2.3	1.9
General government balance (share of GDP)	-1.5	-0.7	0.2	0.3

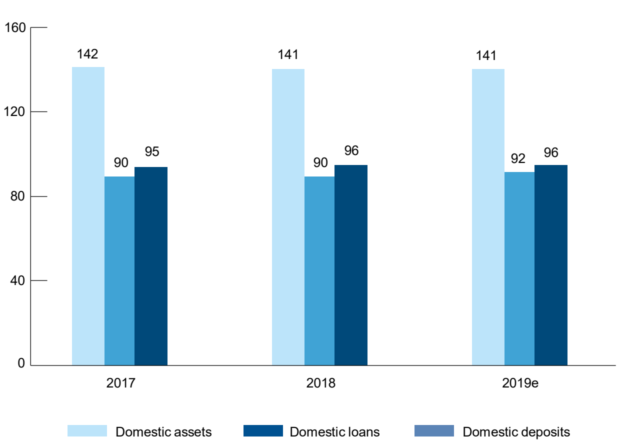
Source: Erste Group

Market review

The Austrian banking market is a highly competitive and developed market. With total assets of 222% of GDP, this metric is significantly higher than in Central and Eastern Europe. The Austrian banking market continued to be characterised by significantly lower margins than in CEE and, like all other markets Erste Group operates in, benefitted from low risk costs. The Financial Markets Authority (FMA) had introduced a systemic risk buffer for a number of Austrian credit institutions and a buffer for other systemically important institutions in December 2015. For Erste Group, the buffer increased to 2% of risk weighted assets as of 1 January 2019. Capitalisation of the banking system also improved further in 2019.

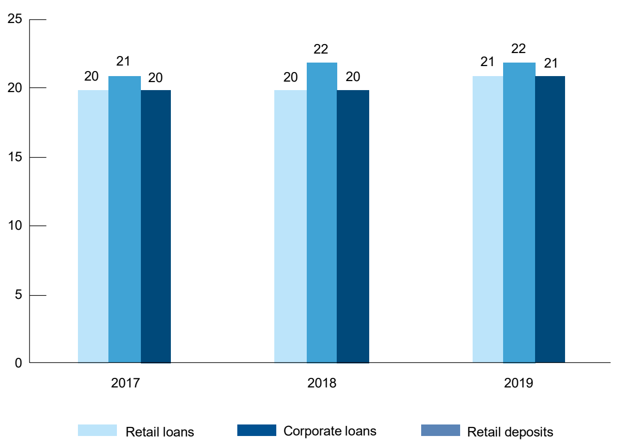
Austrian banks continued to benefit from the benign domestic and CEE economic conditions. Loan growth remained above real GDP growth with both retail and corporate loans rising considerably. Customer deposits grew less than loans. The banking system's loan-to deposit-ratio ratio stood at 95.3% at the end of the year. Digital financial services and products have continuously been improved and digital penetration increased further. 63% of the Austrian banking customers are actively using digital banking products and services. The banking tax remained nearly unchanged at EUR 235 million in 2019. On the back of loan growth coupled with low risk costs, the banking system's profitability improved.

Financial intermediation – Austria (in % of GDP)



Source: Oesterreichische Nationalbank, Erste Group

Market shares – Austria (in %)



Source: Oesterreichische Nationalbank, Erste Group

The three largest banking groups kept a combined market share of approximately 60% in customer loans and deposits. Erste Bank Oesterreich and the savings banks succeeded in further increasing their combined market shares to between 20% and 22% in both retail and corporate business, benefitting from their balanced business model. George, the digital banking platform of Erste Group, has defended its position as the country's most modern and popular banking platform. Its 1.9 million users in the country represent more than every third online banking user in Austria.

ERSTE BANK OESTERREICH & SUBSIDIARIES

Business review 2019 – three questions to the CEO of Erste Bank Oesterreich, Peter Bosek

How did the competitive environment change? Due to persistently low interest rates and regulatory pressure the environment remained challenging, with weakening economic momentum also showing its first impacts. Overall, the market environment in Austria did not change materially: bank and branch density remained high, and some market participants, typically those who due to their ownership structure are less capital market- and efficiency-driven, conducted very aggressive campaigns.

The retail business has been posting steady growth, primarily in lending and, due to recent innovations, also in payment services. We see an increasing reduction of banks' physical footprints and the expansion of digital offerings. Solid growth in the real estate market keeps driving strong demand for loans. The asset management business was again marked by the effective absence of yields on lower-risk investments. Given the rather risk averse customer preferences in Austria, these account for a major share of the market. Digitalisation remains the key challenge for all market participants in the years ahead, as only successful end-to-end digitalisation and process optimisation will offset at least part of the sustained adverse impacts of the current interest rate landscape. Digitalisation and optimisation are accordingly in the focus of all major market participants.

The corporate business enjoyed robust demand despite the decelerating economy. Price competition was again intense. Here, too, lending growth was attributable to the currently very strong demand for properties, partially commercial real estate.

How did you manage to successfully differentiate your bank from its competition? In the past year, we were able to increase the number of customers in the retail segment beyond the mark of one million for the first time, which we believe was due to our clear positioning as a leading innovator combined with the strong Erste Bank, Sparkassen and George brands. The market launch of Apple Pay enabled us to enhance this image on the products side as well. With sFondsplan, we were able to also offer an attractive digital investment product, which will help specifically the young generation to attain prosperity by building up personal wealth and retirement provisions, as is called for by our Statement of Purpose. In addition to our range of digital products and services, we will continue to focus on the optimisation of our service processes and the implementation of advanced technologies. We are convinced that the purpose-driven design of digital and analogue product and service offerings will be the key to success in the future.

In the corporate business we were able to keep growing and position ourselves as a strong local partner for all businesses. By continuing to optimise our service models and strengthening industry specialisation in the sales force, we seek to become an even better partner for our customers in various sub-segments of the corporate business. Through more intense cooperation – including a performance network formed with the savings banks – we have been and will continue to be able to increasingly exploit growth potential. Our close relations with non-profit building associations help us to work together in addressing one of the most urgent challenges in the real estate segment, i.e. the provision of new, affordable housing.

Looking back at the year, what were the major challenges and key achievements? We have further pursued our transformation in both the retail and the corporate segments and expanded our portfolio of products and services. The ongoing optimisation of our processes remains a key factor contributing to the future development of our business model and the necessary skills among our employees.

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? 2019 was a record year for the savings banks group in terms of new customer growth: Never before have we been able to gain so many new customers, thanks primarily to the popularity of George, the launch of Apple Pay and our strong regional presence. Progress has also been achieved in digitalising our product offerings, including the introduction of sFondsplan in the investments segment. On the operational side, the focus was on two key topics: standardisation and harmonisation as well as digitalisation. After harmonising products for retail customers within the savings bank group in the past, a uniform product portfolio was rolled out in the corporate segment in 2019. As a next step, product-specific processes are to be standardised within the savings banks group.

Financial review

in EUR million	2018	2019	Change
Net interest income	644.3	642.1	-0.3%
Net fee and commission income	386.4	398.9	3.2%
Net trading result and gains/losses from financial instruments at FVPL	10.6	29.1	>100.0%
Operating income	1,088.1	1,117.9	2.7%
Operating expenses	-678.9	-717.1	5.6%
Operating result	409.2	400.8	-2.0%
Cost/income ratio	62.4%	64.1%	
Impairment result from financial instruments	14.3	-6.0	n/a
Other result	-39.6	-18.9	-52.2%
Net result attributable to owners of the parent	278.2	263.2	-5.4%
Return on allocated capital	18.7%	16.4%	

Net interest income decreased only moderately as higher loan and deposit volumes largely compensated the non-recurrence of last year's positive one-off effect of the changed disclosure for brokerage fee expenses in the building society. Net fee and commission income increased on the back of higher payment and lending fees. The improvement in net trading result and gains/losses from financial instruments at FVPL was driven by the valuation of a participation. Operating expenses increased mainly due to higher IT, marketing and personnel costs. The deposit insurance contribution increased to EUR 25.0 million (EUR 23.3 million). Overall, operating result decreased and the cost/income ratio went up. The deterioration of impairment result from financial instruments was driven by corporate and retail business. Other result improved mainly due to lower provisions for legal expenses and a higher selling gain for real estate, which was partially offset by the non-recurrence of an insurance reimbursement. Payments into the resolution fund decreased to EUR 7.8 million (EUR 10.2 million). Banking tax amounted to EUR 3.6 million (EUR 3.5 million). Overall, the net result attributable to the owners of the parent declined.

Credit risk

Credit risk exposure in the Erste Bank Oesterreich & Subsidiaries segment rose to EUR 45.0 billion (+3.9%) while the volume of customer loans increased to EUR 34.6 billion (+4.2%). As this segment grew at a slower pace than the group average, its share in Erste Group's total loan portfolio declined to 21.0% (21.8%). The share of retail customers in total loan volume amounted to 40.1% (39.9%). The share of corporates, including self-employed individuals and small businesses, rose to 54.0% (53.4%). Loans to professionals, other self-employed persons and small businesses are less significant than they are for other Austrian savings banks. Lending to the public sector declined to EUR 2.0 billion (-9.2%). The share of Swiss franc denominated loans in the total loan portfolio decreased further to 3.8% (4.4%). The quality of the loan portfolio improved again. While low-risk loans increased by EUR 1.4 billion, non-performing loans decreased by EUR 100 million and, as a percentage of total loans to customers, declined to 1.4% (1.8%). The development was positive across all customer segments, but most visibly among medium-sized and larger enterprises. The NPL coverage ratio based on loan loss provisions stood at 58.0% (61.3%).

SAVINGS BANKS

The geographical segment Savings Banks is identical to the business segment Savings Banks (see page 30).

OTHER AUSTRIA

Business review 2019 – three questions to Chief Corporates and Markets Officer, Ingo Bleier

How did the competitive environment change? Overall, the environment continued to be challenging. Loan margins and fees – especially fees in the Group Markets business – remained under pressure. As a result, certain investors have directed their attention to real estate and private equity opportunities. While the impact on us was limited, we benefitted from the increased activity in the capital markets business. Activities in the equity capital markets were mainly concentrated on Austria and CEE, and we acted as book runner for two out of three IPOs on the Vienna Stock Exchange.

In line with economic growth, client hedging volumes have grown across the CEE region. We have also experienced increased demand for interest rate hedging, primarily from new business in the real estate business. The FX market showed rather low levels of volatility in our markets.

How did you manage to successfully differentiate your business activities from those of your competition? We focused on the key elements of our SME and large corporates strategy: close co-operation between the banks of our group, engaging customers in strategic dialogues based on our sector expertise and a strong product focus on supply chain finance and structured finance solutions.

In the Group Markets business we have extended the scope of product offerings. In addition to wholesale issues we have advised our financial institutions customers on several non-preferred senior and subordinated transactions. We have also focused on providing our corporate client base with more tailor-made solutions to hedge interest rate and foreign exchange risk. To reach all potential customers and investors we are working on the continuous improvement of distribution channels.

Owing to the expertise in the corporate business and our understanding of the local capital markets in our region, we are recognised as a leading capital markets franchise in CEE.

Looking back at the year, what were the major challenges and key achievements? Major achievements in the Corporates business were the largest ever underwriting for a CEE logistics sector portfolio transaction of more than EUR 600 million (prior to syndication) and the substantial increase of our overall loan volume to the real economy in CEE.

We increased the number of transactions on a year-on-year basis and won joint bookrunner mandates with new international client groups. On the private placement side, we increased the number of executed deals to around 70, an all-time record on our MTN (mid-term note) desk. In 2019, we managed to successfully execute the first IPO of the year in Europe, Marinomed, on the Vienna Stock Exchange.

As a result of our efforts, we were named Number 1 covered bond book runner in the category covered bond market by Global Capital. In addition, the CMD (Collaborative Market Data Network) Portal awarded the debt capital markets business of Erste Group as Best Emerging Markets Dealer as well as Best Austrian Domestic Bond Dealer of the year.

Ringing the closing bell at Nasdaq Stock Exchange in December 2019 as a new member with primary dealership in selected Nasdaq market places, allowing us to present Erste Group in its 200th anniversary year, was also one of the highlights of the year. The ceremony was broadcast on Times Square in New York.

Financial review

in EUR million	2018	2019	Change
Net interest income	388.9	406.9	4.6%
Net fee and commission income	224.6	240.7	7.1%
Net trading result and gains/losses from financial instruments at FVPL	-26.2	-13.0	-50.3%
Operating income	648.3	689.7	6.4%
Operating expenses	-369.4	-378.1	2.3%
Operating result	278.9	311.6	11.7%
Cost/income ratio	57.0%	54.8%	
Impairment result from financial instruments	87.7	-7.3	n/a
Other result	25.9	47.4	82.9%
Net result attributable to owners of the parent	313.2	278.3	-11.1%
Return on allocated capital	17.7%	13.3%	

Net interest income increased primarily due the growth of corporate lending volumes in the Holding and higher volumes of reverse repo business in Group Markets. Net fee and commission income increased on higher asset management fees and institutional sales activities in Group Markets. The improvement of net trading result and gains/losses from financial instruments at FVPL was driven by higher market valuation result of securities, partially offset by lower valuation of derivatives. Despite an increase of operating expenses driven by higher personnel and IT costs, operating result and cost/income ratio improved. Impairment result from financial instruments deteriorated significantly due to lower net releases of risk provisions and increased provision coverage for non-performing portfolio in Holding. Other result improved mostly due to higher selling gains. Other result also included the resolution fund contribution of EUR 6.6 million (EUR 6.1 million). Overall, the net result attributable to the owners of the parent deteriorated.

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, widened to EUR 37.8 billion (+21.5%), due to a significant increase in money and capital markets business. Its share in Erste Group's total credit risk exposure increased to 13.8% (12.2%). A large share of the business was accounted for by securities and investments with banks. Consequently, loans to customers as a percentage of Erste Group's total loan portfolio were significantly lower than the contribution to credit risk exposure. At year-end it amounted to 9.3% (8.8%). Growth was registered mainly in the Corporates segment and in real estate financing, while lending to the public sector declined. Continuing portfolio clean-up through sales of loans and, most importantly, write-downs, reduced the share of non-performing loans in the total loan portfolio significantly to 2.2% (3.3%). Within the category of performing loans, the share of loans in the best risk category rose substantially. Loan loss provisions amounted to 63.3% (56.1%) 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 and continued to perform well. In 2019, GDP growth was mainly driven by household consumption and, to a much lesser extent, by investments. Household consumption was supported by the continuing real wage growth as well as the lowest unemployment in the EU. Industrial production benefitted significantly from the strong performance of the automotive industry. Net exports, however, did not contribute to economic growth mainly due to the declining demand from the main euro area trading partners. Based on the diversity of exports, the Czech economy is among the most complex in the world. Reflecting the solid economic performance, the unemployment rate decreased further to 2.1%. Overall, real GDP grew by 2.4% and GDP per capita increased to EUR 20,700.

Fiscal prudence prevailed as expressed by a general government budget surplus for the fourth consecutive year. In 2019, it stood at 0.6%. State revenues were positively impacted by growing tax income and higher social contributions. On the expense side, public wages, higher pensions and state subsidies were the main drivers. Public debt as a percentage of GDP fell further and was again one of the lowest in the European Union at 30.8%.

Inflation increased mainly due to rising domestic demand and higher wages, but remained within the Czech National Bank's (CNB) range of 1-3%. Average consumer price inflation amounted to 2.8%. The Czech koruna was broadly stable against the euro. The Czech National Bank increased its key policy rate by 25 basis points in May 2019 to 2.00%. In February 2020, the CNB unexpectedly decided to increase the rate by another 25 basis points to 2.25%, the highest level since 2009.

The positive economic developments were also acknowledged by Moody's, which upgraded the country's long-term credit rating to Aa3 with a stable outlook. Standard and Poor's and Fitch kept their ratings unchanged at AA- with a stable outlook.

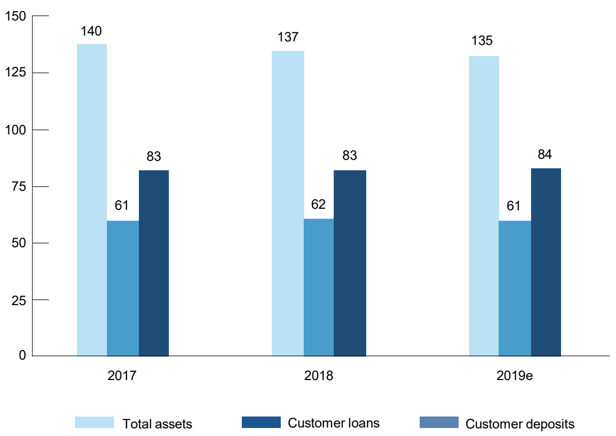
Key economic indicators – Czech Republic	2016	2017	2018	2019e
Population (ave, million)	10.6	10.6	10.6	10.6
GDP (nominal, EUR billion)	176.3	191.9	208.0	220.2
GDP/capita (in EUR thousand)	16.7	18.1	19.6	20.7
Real GDP growth	2.4	4.5	2.9	2.4
Private consumption growth	3.5	4.4	3.3	2.8
Exports (share of GDP)	75.2	75.9	75.1	72.4
Imports (share of GDP)	69.2	69.4	69.6	66.8
Unemployment (Eurostat definition)	4.0	2.9	2.3	2.1
Consumer price inflation (ave)	0.7	2.4	2.2	2.8
Short term interest rate (3 months average)	0.3	0.4	1.3	2.1
EUR FX rate (ave)	27.0	26.3	25.6	25.7
EUR FX rate (eop)	27.0	25.5	25.7	25.5
Current account balance (share of GDP)	1.6	1.7	0.3	-0.1
General government balance (share of GDP)	0.7	1.6	1.1	0.6

Source: Erste Group

Market review

Based on its solid fundamentals and positive macroeconomic developments, the Czech banking sector continued to be very successful in 2019. The deceleration of lending growth was mainly related to the introduction of even tighter regulatory limits for debt-to-income and debt-service-to-income ratios in the last quarter of 2018. Overall, customer loans grew by 4.4%, with retail loans outgrowing corporate loans. Retail lending was mainly driven by housing loans, while the growth in the corporate sector benefitted from lending to small and medium size enterprises. Customer deposits increased by 6.6%, mainly driven by retail deposits. The Czech banking market remained one of the most liquid in Central and Eastern Europe. At year-end, the loan-to-deposit ratio across the banking sector stood at 72.8%. The solid fundamentals were also confirmed by the banking sector's total capital ratio of 20.2%. Consolidation of the banking sector continued with Moneta Money Bank, the fourth largest bank in the country, acquiring Wüstenrot's Czech business.

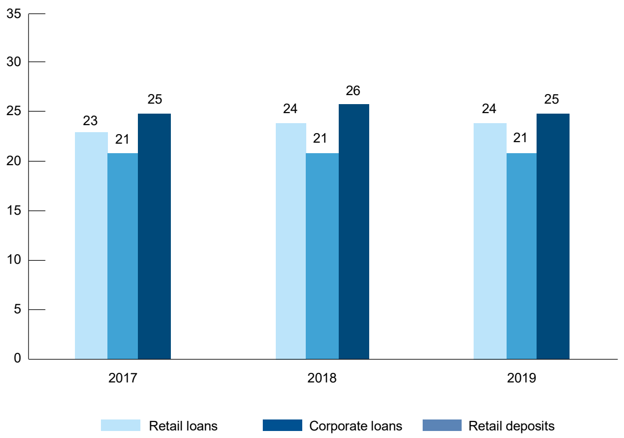
Financial intermediation – Czech Republic (in % of GDP)



Source: Czech National Bank, Erste Group

Despite the decelerated growth, the Czech banking sector closed 2019 as one of its most successful years. Supported by higher interest rates and very low risk provisions, the sector's net profit reached EUR 3.5 billion in 2019. The share of non-performing loans decreased further to 1.7% in the retail and to 3.2% in the corporate business. Regulatory and political topics played a significant role in the development of the Czech banking market throughout the year. The Czech government and the country's four largest commercial banks signed a memorandum of cooperation in September to create a National Development Fund aimed at investing in projects in infrastructure, education and healthcare. The National Development Fund, backed by Česká spořitelna, Komerční banka, CSOB and UniCredit's Czech subsidiary, is expected to start its operation in the second half of 2020 with initial financing of CZK 7 billion. The government expects other companies, also outside the banking industry, to join the fund in 2020.

Market shares – Czech Republic (in %)



Source: Czech National Bank, Erste Group

Česká spořitelna continued to grow broadly in line with the competition in 2019 and maintained market leadership positions across all product categories. Its retail market shares ranged from 23% to 28%, while its market shares in the corporate business remained above 20%. With a market share of 27.5% 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 27.1%. Overall, its market share in terms of total assets stood at 20.0%. The three largest banks have a combined market share of approximately 60% in customer loans and deposits.

Business review 2019 – three questions to the CEO of Česká spořitelna, Tomáš Salomon

How did the competitive environment change? Consolidation pressure continued, and we naturally evaluate such emerging opportunities on a regular basis but haven't found a strategically fitting asset yet.

For the whole sector as such, 2019 was a success from many angles. We experienced solid asset growth stemming from mortgages, consumer lending and the corporate business. In most of these business lines Česká spořitelna roughly kept or even improved its market position. Looking at digital banking, I want to particularly highlight Apple Pay. It has become a huge success right from the beginning, and Česká spořitelna was among the first to offer this mobile payment solution to its customers. We see that people are becoming more and more attached to their mobile phones, and naturally, we have to adopt to that. How? Via enabling more and more products but also services in our George app.

The PSD2 regulation that came into force in January 2018 opened the banking market to even more market participants. Nonetheless, initial fears that smaller fintech companies would take over banking business at the expense of the strictly regulated banking industry have not materialised. Banks are investing heavily in digital innovations, and the digital environment appears to be the main arena that will decide about the future success of financial institutions. Efficient data mining and data utilisation have become another key topic. In addition, a stronger emphasis has been put on customer care rather than on individual products.

How did you manage to successfully differentiate your bank from its competition? We were the first bank on the market that decided to extend individual financial advisory services to the mass market. As a result, services that used to be available for more affluent customers only are now provided to all customers, regardless of the balance on their accounts. We believe this is how banking will look like in the future, and so we have started to build up this service model.

In addition, we continuously upgrade our state-of-the-art digital platform George. Our ambition is to shape up the mobile George app into a real-time digital advisor. If a customer crosses the state border, the mobile George could, for example, inform her or him about missing travel insurance etc. In the future, we'd like to see George to be able to communicate in real time with customers to help them tackle their immediate needs.

Looking back at the year, what were the major challenges and key achievements? Most business segments performed quite strongly and delivered impressive results. We outperformed the market and grew quickly in both retail and corporate loans. In asset management, Česká spořitelna once again confirmed its position as undisputed market leader in mutual funds.

Česká spořitelna further lived up to its role as the market's innovation leader. We were, for instance, the first bank to put contactless ATMs into operation and to launch instant payments via ATMs. Our bank earned recognition in various banking competitions in 2019. In the Golden Crown competition, Česká spořitelna received several prices. We were awarded gold for our mortgage business, the Visa Infinite credit card that comes with the Premier Account and the New Blood programme for start-ups. In addition, the bank's subsidiaries – Stavební spořitelna České spořitelny (building society) and Česká spořitelna penzijní společnost (pension funds) – also won prizes in several categories. Česka spořitelna won the *Bank without Barriers* category in the 18th annual *Bank of the Year* competition. In the main category of *Bank of the Year 2019*, we came in second, as we did in the *Mortgage of the Year* category. We were also selected as the second-most interesting employer in the banking and finance sector in the Top Employers survey.

Financial review

in EUR million	2018	2019	Change
Net interest income	1,062.2	1,141.1	7.4%
Net fee and commission income	332.9	334.7	0.5%
Net trading result and gains/losses from financial instruments at FVPL	92.5	109.7	18.5%
Operating income	1,501.4	1,600.5	6.6%
Operating expenses	-714.5	-753.9	5.5%
Operating result	786.9	846.6	7.6%
Cost/income ratio	47.6%	47.1%	
Impairment result from financial instruments	-11.2	6.2	n/a
Other result	-49.5	-27.6	-44.2%
Net result attributable to owners of the parent	582.8	666.5	14.4%
Return on allocated capital	23.4%	26.6%	

The segment analysis is done on a constant currency basis. The CZK depreciated by 0.1% against the EUR in the reporting period. Net interest income in the Czech Republic segment (comprising Česká spořitelna Group) increased primarily due to rising interest rates and higher deposit and loan volumes. Net fee and commission income increased on the back of higher insurance brokerage fees. The improvement of net trading result and gains/losses from financial instruments at FVPL was driven by higher contribution from interest rate derivatives and foreign currency transactions. Higher personnel and IT costs led to an increase in operating expenses. Deposit insurance contribution amounted to EUR 10.4 million (EUR 9.6 million). Overall, operating result increased markedly, the cost/income ratio improved. The improvement in the line item 'impairment result from financial instruments', leading to a net release, was mostly attributable to significant releases of risk provisions in corporate business. The other result improved mainly due to non-recurrence of buildings impairment, in spite of a higher contribution to the resolution fund of EUR 26.6 million (EUR 19.0 million). Altogether, these developments led to an increase in the net result attributable to the owners of the parent.

Credit risk

Credit risk exposure in the Czech Republic segment rose to EUR 59.9 billion (+4.0%) This growth was mainly attributable to the rise in loans to customers to EUR 29.2 billion (+6.3%), most significantly in the retail business. Customer loan volume as a percentage of Erste Group's total loans to customers was nearly unchanged at 17.9% (18.0%). In terms of business volume, the Czech Republic is thus still by far the second most important market for Erste Group after Austria. The quality of customer loans was again significantly better than in Erste Group's other core markets in Central and Eastern Europe. Non-performing loans as a share of total loans to customers were unchanged at 1.8%. The development was most solid in loans to medium-sized and large corporates as well as in commercial real estate financing. The lowest default rates were seen in the public sector and in lending to private households. Non-performing loans were covered 96.3% (101.2%) by loan loss provisions, not including collateral.

SLOVAKIA

Economic review

The Slovak economy performed well but expanded at a slower pace than a year ago. Further improvements in the labour market, growing real wages and moderate inflation supported the positive development in household consumption. Exports benefited from the traditionally strong car industry but slowed down significantly due to weaker demand from the country's main trading partners in Western Europe. Slovakia, with more than one million cars produced in 2019, remained the world's top car producer per capita. The unemployment rate declined further to a historically low level of 5.8%. Overall, real GDP grew by 2.3%, and GDP per capita amounted to EUR 17,300.

The fiscal position of Slovakia remained solid. Buoyant private consumption and the strong labour market supported revenues through higher tax collection and social contributions. Revenues from value-added taxes rose as well. Expenses also increased, with employee compensation and social benefits being the largest items. The fiscal deficit remained at 1.1%. The country's public debt as a percentage of GDP declined to 48.3%, the lowest level since 2011.

Inflation in Slovakia increased but remained under control. Average consumer price inflation rose by 2.7% driven mainly by food and services prices. Price levels in the service industry were visibly pushed upwards by higher salaries while food prices rose on the back of a newly introduced levy on retailers. Reflecting the tightening labour market, nominal wage growth accelerated to 7.6% in 2019.

Moody's changed its outlook for Slovakia from positive to stable with a long-term credit rating of A2. Standard & Poor's and Fitch kept their ratings at A+, also with a stable outlook.

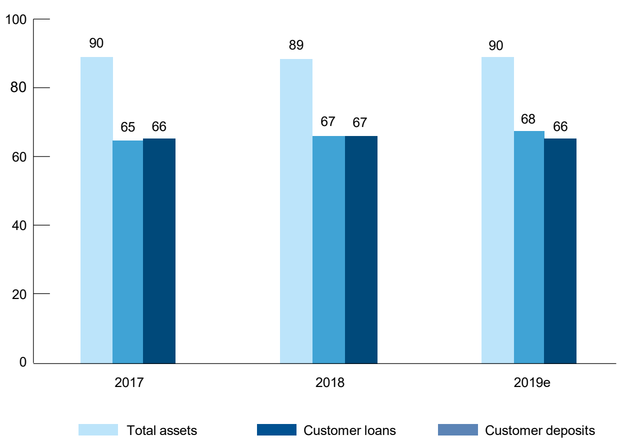
Key economic indicators – Slovakia	2016	2017	2018	2019e
Population (ave, million)	5.4	5.4	5.5	5.5
GDP (nominal, EUR billion)	81.0	84.5	89.7	94.2
GDP/capita (in EUR thousand)	14.9	15.5	16.5	17.3
Real GDP growth	2.1	3.0	4.0	2.3
Private consumption growth	3.9	4.4	3.9	2.1
Exports (share of GDP)	82.3	83.4	84.4	82.7
Imports (share of GDP)	80.7	82.7	84.6	83.2
Unemployment (Eurostat definition)	9.6	8.1	6.6	5.8
Consumer price inflation (ave)	-0.5	1.3	2.5	2.7
Short term interest rate (3 months average)	-0.3	-0.3	-0.3	-0.4
Current account balance (share of GDP)	-2.7	-1.9	-2.6	-2.9
General government balance (share of GDP)	-2.5	-1.0	-1.1	-1.1

Source: Erste Group

Market review

The Slovak banking system reflected the macroeconomic developments and grew at a slower, in comparison with other markets, still solid, pace. Customer loans increased by 6.2%.Retail loans grew by a healthy 8.0% despite the introduction of macro prudential measures by the Slovak National Bank during the year. Housing loans clearly outgrew consumer loans. Corporate lending also increased, but to a lesser extent. The main growth driver was lending to small- and medium-sized enterprises. Customer deposits rose by 4.8%, resulting in a loan-to-deposit ratio of 102.6%. Asset management was the bright spot of the banking market, with an annual growth rate of 14%. The three largest banks continued to have a combined market share of approximately 60% in customer loans and deposits. Consolidation in the Slovak banking market remained a topic throughout the year, with a number of assets being offered for sale. The banking sector remained well capitalised in 2019.

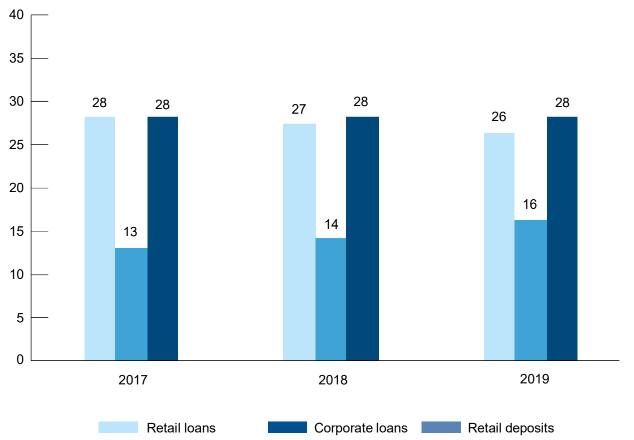
Financial intermediation – Slovakia (in % of GDP)



Source: National Bank of Slovakia, Erste Group

While the low interest rate environment, banking tax and regulatory changes adversely affected the Slovak banking sector's profitability, net profit benefitted from higher fee income and low risk costs. Positive asset quality trends continued. The NPL ratio decreased further to 2.9%. Banks continued to pay banking tax at 0.2% of total liabilities, excluding equity and subordinated debt. The Slovak government unexpectedly announced in the last quarter of the year that the banking tax would double from 2020 onwards and raised the rate from 0.2% to 0.4%. Overall, the sector's return on equity stood at 7.7% at the end of 2019.

Market shares – Slovakia (in %)



Source: National Bank of Slovakia, Erste Group

Slovenská sporiteľňa remained the country's largest bank. It continues to control approximately one fifth of the country's banking market in terms of total assets and led the market in retail loans and deposits. Slovenská sporiteľňa continued to have significantly higher market shares in the retail sector than in the corporate sector. In the retail loan business, the bank's market share amounted to 26.2%, while for corporate lending it stood at 15.6%. At 14.9%, its market share in corporate deposits was also significantly lower than in retail deposits, at 28.1%. Slovenská sporiteľňa maintained its strong position in asset management products with a market share of above 25%.

Business review 2019 – three questions to the CEO of Slovenská sporiteľňa, Peter Krutil

How did the competitive environment change? The operating environment did not change much. Interest margins stayed under pressure, resulting in a decline of the sector's net interest income. Retail loans grew by a strong 8%, and housing loans alone increased by 10%.

The Central Bank scaled up its efforts to curb the increasing indebtedness of households with various macro-prudential measures: in addition to already introduced debt-to-income and loan-to-value limits, stricter debt-service-to-income measures have come into effect as of 2020. At the end of 2019, another politically and fiscally motivated change in legislature was executed: The bank levy, which was supposed to end in 2020, has been extended and doubled as of 2020. Consequently, the profit of the sector will come under additional stress. Slovak banks will pay almost 50% of their pre-tax, pre-bank-levy profit, which is roughly twice as much as common corporations pay in Slovakia.

How did you manage to successfully differentiate your bank from its competition? We aspire to be the best financial advisor for our clients, providing them with additional value through a multi-faceted approach to financial health and prosperity. We did particularly well in banc-assurance where our provisions grew by almost 20%. Asset management, which still has a huge potential in Slovakia, also contributed positively.

Slovenská sporiteľňa continued in its endeavour of digitalisation. We expanded the range of products offered in George (e.g. asset management, savings and insurance) as well as in Internet banking for corporates (Business24). Among other significant innovations, the introduction of the feature-rich Business24 mobile application and the switch from SMS to push notifications in George stand out as success stories. Tablets at branches remained an important selling tool for advisors. Currently, the majority of key products are already included, enabling personalised offers to our customers. We were among the first to introduce Apple Pay in Slovakia, and we added Garmin and Fitbit Pay as well. With Google Pay available already for some time, we have – until now – become the only major bank with the full offer of mobile payments available in our market. Thanks to our focus at younger customers, we achieved an inflow of new clients in this segment.

Through Slovenská sporiteľňa Foundation, we again proved our commitment as a leading responsible company and provided financial support to more than 100 projects in education, social assistance, environmental protection, culture, sports and civil society. The Foundation supported 35 projects from the first year of the #mamnato grant programme with a sum of EUR 250,000. Grants were awarded to non-profit organisations in community development and environmental protection. In addition, Slovenská sporiteľňa Foundation developed a unique programme of financial literacy, aimed at improving critical and systemic thinking in finance.

Looking back at the year, what were the major challenges and key achievements? With more than 750 thousand digital customers and half a million mobile app users, Slovenská sporiteľňa is the Slovak market leader in digital banking in terms of number of clients. We defended the leading position in retail banking and significantly improved our market share in corporate loans. This was a result of both strong organic growth and the acquisition of S Slovensko, a local leasing company.

Our bank received the Bank of the Year award of the magazines The Banker and Euromoney and, for the seventh time in the last eight years, of the weekly TREND. Slovenská sporiteľňa also ranked first in the survey conducted by the portal Profesia.sk as the best employer in banking, finance and insurance. As a signatory of the Diversity Charter, we were recognised for multiple activities against discrimination with a diversity award.

Financial review

in EUR million	2018	2019	Change
Net interest income	438.7	433.6	-1.2%
Net fee and commission income	128.8	145.2	12.7%
Net trading result and gains/losses from financial instruments at FVPL	11.8	18.8	58.8%
Operating income	586.1	605.7	3.3%
Operating expenses	-279.6	-288.7	3.3%
Operating result	306.6	317.0	3.4%
Cost/income ratio	47.7%	47.7%	
Impairment result from financial instruments	-23.5	-42.7	81.3%
Other result	-40.3	-39.1	-2.9%
Net result attributable to owners of the parent	189.4	187.7	-0.9%
Return on allocated capital	20.7%	17.6%	

Net interest income in the Slovakia segment (comprising Slovenská sporitel'ňa Group) decreased on the back of lower loan margins in the retail business. Net fee and commission income improved mainly due to higher insurance brokerage and lending fees. Net trading result and gains/losses from financial instruments at FVPL increased due to valuation effects. Operating expenses increased mainly due to higher personnel expenses. Deposit insurance contribution amounted to EUR 1.0 million (EUR 0.9 million). Overall, operating result increased and the cost/income ratio remained stable. Impairment result from financial instruments deteriorated due to higher provisions in corporate business. Other result remained largely stable although banking tax increased to EUR 32.5 million (EUR 30.3 million), and payment into the resolution fund went up to EUR 3.1 million (EUR 2.7 million). Overall, the net result attributable to the owners of the parent declined.

Credit risk

Credit risk exposure in the Slovakia segment increased to EUR 19.9 billion (+6.8%), while loans to customers rose to EUR 14.4 billion (+8.2%). This growth rate was slightly above the group average. As a result, their share in Erste Group's entire loan portfolio increased to 8.8% (8.7%). Due to strong demand for loans from the prospering industrial sector, a breakdown of the portfolio by customer segment shows a shift from retail towards corporate loans. The share of loans to private households amounted to 68.8% (70.5%) of total customer loans and was again significantly larger than in other core markets. This customer mix also explains the large share of secured business of 60.0% (59.3%) in the entire loan portfolio, which exceeds that of other Central and Eastern European core markets. The NPL ratio declined further to 3.0% (3.3%), with asset quality improving across almost all business segments, but most notably among large corporate customers. The NPL coverage ratio based on loan loss provisions was nearly unchanged at 80.8% (80.9%).

ROMANIA

Economic review

The Romanian economy grew at a solid, but slower, pace than last year. Private consumption remained the main growth driver due to higher wages. Investments recovered on the back of the strong increase in the construction sector. Net exports, on the other hand, did not contribute to economic growth as the weaker external environment led to a contraction of industrial output. Dacia, the Romanian car producer owned by Renault, was an exception and closed 2019 with increasing production and record sales abroad. The agricultural production, accounting for about 4% of the economy, suffered from weak autumn crops (harvests). Agriculture is still highly important to the Romanian labour market as more than 20% of the country's workforce is employed in this sector, significantly more than the EU average of about 4%. The unemployment rate declined further and reached a new historic low of 3.9%. Overall, the country's real GDP increased by 4.1% and GDP per capita stood at EUR 11,400.

The political environment remained volatile. Ahead of the scheduled general elections in 2020, the government was reluctant to implement fiscal consolidation measures in 2019. As a result, the budget deficit remained high. It stood at 4.6% of GDP, above the target of 3%. At 4.7%, the current account deficit was one of the highest in the European Union, exposing the country to potential external shocks. Public debt to GDP increased to 36.1%, but remained among the lowest in the European Union.

Inflation declined from the exceptionally high levels in the previous year. Overall, average consumer prices increased by 3.8%, above the National Bank's target range of 1.5% to 3.5%. Core inflation, which excludes food and fuel prices, went up by 3.7%. Wages and pensions continued to grow. The Romanian leu was relatively stable against the euro, trading between 4.7 and 4.8 throughout the year. The Romanian National Bank kept its policy rate unchanged at 2.50% in 2019.

Standard & Poor's confirmed the country's long-term credit risk rating at BBB-, but revised Romania's outlook from stable to negative due to its rising fiscal deficit risk. Fitch and Moody's left their credit ratings and outlook unchanged. Moody's has a Baa3 rating on the country's credit risk and Fitch's BBB-, both with a stable outlook.

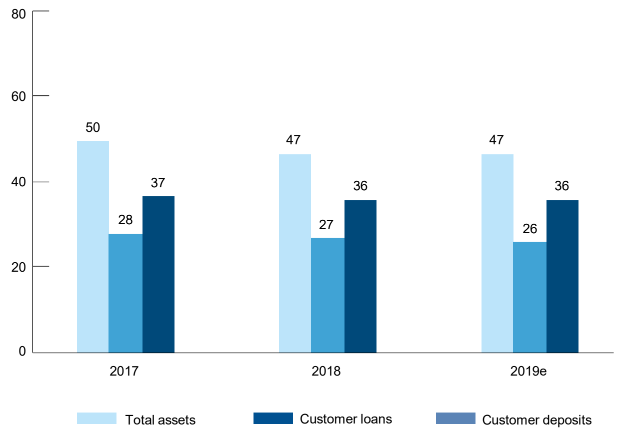
Key economic indicators – Romania	2016	2017	2018	2019e
Population (ave, million)	19.7	19.6	19.5	19.4
GDP (nominal, EUR billion)	170.4	187.8	204.7	221.4
GDP/capita (in EUR thousand)	8.6	9.6	10.5	11.4
Real GDP growth	4.8	7.1	4.4	4.1
Private consumption growth	8.3	10.1	7.2	5.5
Exports (share of GDP)	33.7	33.4	33.1	31.2
Imports (share of GDP)	39.5	40.3	40.5	39.0
Unemployment (Eurostat definition)	5.9	4.9	4.2	3.9
Consumer price inflation (ave)	-1.5	1.3	4.6	3.8
Short term interest rate (3 months average)	0.8	1.2	2.8	3.1
EUR FX rate (ave)	4.5	4.6	4.7	4.7
EUR FX rate (eop)	4.4	4.4	4.4	4.4
Current account balance (share of GDP)	-1.4	-2.8	-4.4	-4.7
General government balance (share of GDP)	-2.6	-2.6	-2.9	-4.6

Source: Erste Group

Market review

The Romanian banking market faced uncertainties and further regulatory changes throughout the year. A new banking tax was introduced as of January 1, 2019. For large banks operating in Romania, this special tax amounts to 0.4% of financial assets (the contribution of smaller banks is set at 0.2%), and it can be reduced by 50% for those banks meeting either a lending growth target or an interest spread reduction target set by the government. Two banks were also negatively affected by a Romanian High Court decision in relation to business activities of their local building societies In addition, stricter debt-service-to-income levels and a benchmark rate for new retail loans with variable rates in local currency were introduced.

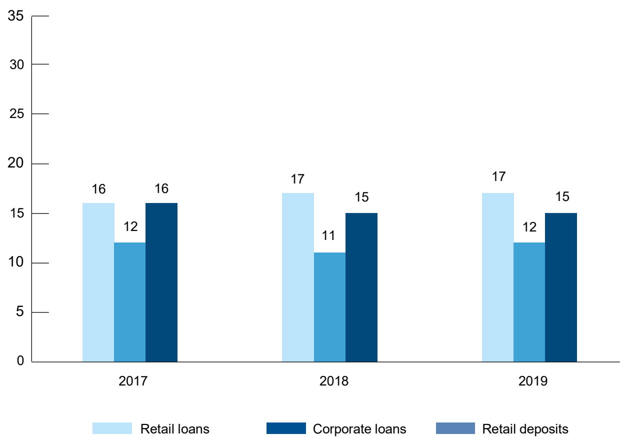
Financial intermediation – Romania (in % of GDP)



Source: National Bank of Romania, Erste Group

The Romanian banking market continued to grow. Customer loans increased by 6.6%, while customer deposits rose by 11.1%. Retail loan growth was mainly supported by housing loans and outperformed corporate loan growth. The state-guaranteed Prima Casa (first home) programme remained one of the key lending products in the market, although the amount allocated by the government was set to gradually decline. Demand for consumer loans, on the other hand, remained subdued. Corporate lending benefitted from the rapidly growing SME sector and was also supported by a surge in private investments, especially in commercial and residential constructions. The banking system's loan-to-deposit ratio declined further to 72.8%. The profitability of the country's banking market was significantly impacted by the new regulatory changes, which were only partially balanced by low risk provisions. Asset quality improved further. Overall, the sector achieved a return on equity of 12.3%. The Romanian banking sector continued to be strongly capitalised, with a total capital ratio of 20% at the end of the year.

Market shares – Romania (in %)



Source: National Bank of Romania, Erste Group

Banca Comercială Română remained the second largest bank of the country based on its total asset market share. At year-end, Banca Comercială Română was also ranked number two by customer loans and customer deposits as well as in asset management. With a market share of approximately 19%, the bank defended its leading position in Prima Casa. The bank's customer loan market share increased to 14.4%, while its retail loan market share remained broadly unchanged at 16.6%. Corporate loan market share increased to 12.1%. The customer deposit market share declined further to 14.5%. In terms of total assets, Banca Comercială Română had a market share of 14.4%.

Business review 2019 – three questions to the CEO of Banca Comercială Română, Sergiu Manea

How did the competitive environment change? Last year, the Romanian banks continued to invest in digitalisation and in enhancing customer experience. Considering the impact of new technologies and fintechs, the main market participants have taken the first steps in connecting their Application Programming Interfaces (APIs) to third-party suppliers. We were among the first ones to do so. The investments in digital transformation will remain a strategic focus for banks in the years to come.

At the same time, market consolidation is expected to continue.

How did you manage to successfully differentiate your bank from its competition? We remained committed to support the real economy, promote financial education and disseminate prosperity. We strive to create a full financial life advisory service and to be a reliable partner to our customers. In 2019, we made important steps in offering convenient omni-channel access to significantly improve customer journeys.

Our efforts were focused on building digital processes, implemented through an omni-channel strategy. Our front office colleagues provided support for the online onboarding of new customers, guiding them through a fully digitalised process and thus introducing a new, simple and fast way to become a Banca Comercială Română customer. The number of George users has quadrupled, reaching 720,000 customers. I am very happy that George has expanded its functionalities with the first end-to-end digital consumer unsecured lending process in the market. In just three months after the roll-out, we have already granted more than 3,800 cash loans online. Another well-received feature is the availability of Apple Pay for iOS and George Pay developed for Android. Overall, the number of active digital clients rose by 34% to 577,000.

We have started to implement a new branch concept, creating flagship service outlets and extending the cashless branch type to currently 25% of our network. In 2019, we also launched the Casa Mea App, a shared online platform for our mortgage lending business. Over 1,000 housing loans that used the app for the related document workflow have been granted in just seven months, which amounts to one in four disbursed mortgages.

We also positioned ourselves as the main supporter of tech-driven companies and start-ups, initiating BCR-InnovX Accelerator and building a network of talented IT entrepreneurs ready to scale up their business.

Looking back at the year, what were the major challenges and key achievements? Despite the extremely challenging market environment, we have managed to further grow our revenues while keeping the cost line almost flat, resulting in a high-single digit increase in our operating performance. Our bank has achieved a good bottom line result despite some politically motivated interventions that impacted our activity in 2019. More specifically, I am referring to the bank levy on financial assets, stricter debt-to-income levels for retail lending and the significant one-off provision booked as a result of the court ruling in the case of our building society subsidiary.

I am proud that at the end of 2019 Banca Comercială Română successfully issued the first ever senior non-preferred bond in the country and the CEE region. Our objective is to further strengthen our balance sheet and diversify funding sources and instruments.

On the business side, we have defended our leading position in lending to private individuals in local currency. We have increased the market share in corporate lending, with the SME segment remaining the main growth driver. We have stayed strongly committed to support entrepreneurs through the Start-Up Nation governmental programme. In 2019, we granted financing to about 2,500 start-ups in co-operation with the European Investment Fund. By adding new features to George, we have achieved substantial customer experience improvements. In terms of brand awareness, George became the best known digital banking platform in Romania. George strongly differentiates us from the competition, being perceived as a modern and intelligent service and rated 5 percentage points higher than other solutions offered by competitors.

To enhance financial education, we have continued our Money School programme, reaching a total of more than 370,000 adults and children over the last three years. Last but not least, we have launched the Romania Tech Nation initiative, aiming to place IT and technology educational programmes on the public agenda. The ambition of the project is that Banca Comercială Română, alongside other major private companies, will support one million teenagers graduating from alternative technology schools in the next five years.

Financial review

in EUR million	2018	2019	Change
Net interest income	394.5	428.0	8.5%
Net fee and commission income	151.9	164.5	8.3%
Net trading result and gains/losses from financial instruments at FVPL	96.0	74.2	-22.7%
Operating income	660.6	688.0	4.1%
Operating expenses	-354.6	-359.0	1.2%
Operating result	306.0	329.0	7.5%
Cost/income ratio	53.7%	52.2%	
Impairment result from financial instruments	-26.0	13.0	n/a
Other result	-18.4	-200.8	>100.0%
Net result attributable to owners of the parent	219.9	85.0	-61.4%
Return on allocated capital	17.4%	5.9%	

The segment analysis is done on a constant currency basis. The RON depreciated by 2.0% against the EUR in the reporting period. Net interest income in the Romania segment (comprising Banca Comercială Română Group) improved on the back of higher market interest rates, higher customer deposit volumes as well as lower funding costs. Net fee and commission income increased on higher payment, card, insurance brokerage and securities fees. Net trading result and gains/losses from financial instruments at FVPL decreased primarily due to a lower result from foreign exchange business. Operating expenses increased mainly due to higher deposit insurance contributions of EUR 12.7 million (EUR 4.4 million) and higher IT expenses. Overall, operating result increased, and the cost/income ratio improved. Impairment result from financial instruments improved mainly in corporate business resulting in overall net releases of risk provisions. A provision in the amount of EUR 153.3 million as a result of a Romanian High Court decision in relation to the business activities of a subsidiary, the local building society, led to a worsening of the other result. A newly introduced banking tax amounted to EUR 11.0 million. The resolution fund contribution amounted to EUR 6.6 million (EUR 5.5 million). Consequently, the net result attributable to the owners of the parent decreased.

Credit risk

Credit risk exposure in the Romania segment increased to EUR 16.4 billion (+5.7%) in the reporting period. A key contribution to growth came from loans to customers, which rose by EUR 0.5 billion to EUR 8.8 billion. This represented an unchanged share of 5.4% of Erste Group's total loans to customers. Lending volume growth was attributable in almost equal parts to the expansion of the retail business and the corporate business. The share of foreign currency loans decreased to 37.6% (41.4%) and was almost completely denominated in euro. Due to the ongoing clean-up of the portfolio and a comparatively low inflow of new non-performing loans, the NPL ratio declined again substantially to 4.1% (5.8%), with non-performing corporate and commercial real estate loans down even more sharply. NPLs were fully covered by loan loss provisions.

HUNGARY

Economic review

The Hungarian economy was among the best performers in the European Union in 2019. The contribution of net exports turned positive, reflecting the solid performance of the country's automotive industry. The main growth driver, however, remained household consumption, benefitting from higher consumer confidence, increasing real wages and continued positive trends in the labour market. Investments were also strong, supported mainly by construction and infrastructure related projects. The car industry remained significant with an annual production of 500,000 vehicles. Construction, services, and the agricultural sector also performed well. As a result of the improved labour market, the unemployment rate improved to a historical low of 3.4%, the third lowest in the European Union. Overall, real GDP grew by 4.9%, GDP per capita increased to EUR 14,700.

The fiscal position of Hungary remained solid. The general government deficit shrank and stayed well within the Maastricht criteria. On the expense side, the minimum wage increased again, government spending on investments was substantial. The government also introduced a new scheme, the baby loan, to support childbirth with subsidised loans for families. In addition, a new village development programme was introduced with a budget of HUF 150 billion in 2019. These measures were to a large extent offset by higher revenues from a larger tax base and relatively low interest payments. Overall, the budget deficit stood at 2.0%. Public debt as a percentage of GDP decreased to 66.9%.

Inflation increased to 3.4%, within the National Bank's target range of 2% to 4%. Surging wages and strong consumer demand kept prices high. The Hungarian forint remained relatively weak against the euro, trading between 320 and 340 during most of the year. The National Bank continued its expansionary monetary policy and kept the base rate at a record low of 0.90%. The interbank interest rates (BUBOR) stayed well below the level of the policy rate during the year.

Rating agencies also recognised the positive development of the economy, with Fitch and Standard & Poor's upgrading Hungary's long-term credit ratings to BBB with a stable outlook. Moody's kept its rating unchanged at Baa3 with a stable outlook.

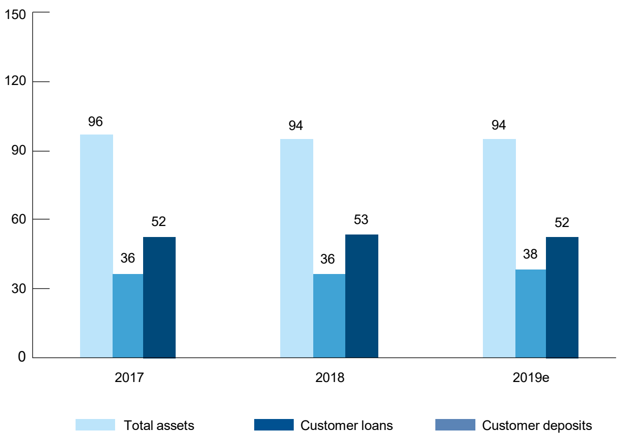
Key economic indicators – Hungary	2016	2017	2018	2019e
Population (ave, million)	9.8	9.8	9.8	9.8
GDP (nominal, EUR billion)	115.3	125.6	133.8	143.7
GDP/capita (in EUR thousand)	11.7	12.8	13.7	14.7
Real GDP growth	2.2	4.3	5.1	4.9
Private consumption growth	4.2	4.2	4.0	4.6
Exports (share of GDP)	68.2	68.1	66.2	65.5
Imports (share of GDP)	64.8	66.6	67.5	66.8
Unemployment (Eurostat definition)	5.1	4.2	3.7	3.4
Consumer price inflation (ave)	0.4	2.4	2.8	3.4
Short term interest rate (3 months average)	1.0	0.1	0.1	0.2
EUR FX rate (ave)	311.5	309.2	318.9	325.4
EUR FX rate (eop)	311.0	310.1	321.5	330.5
Current account balance (share of GDP)	4.5	2.3	-0.5	-0.4
General government balance (share of GDP)	-1.8	-2.4	-2.3	-2.0

Source: Erste Group

Market review

Hungary's banking market continued to perform well, reflecting the favourable macroeconomic environment. Customer loan growth amounted to 13.9%, among the strongest in Europe. Retail loans rose by 17.0%, mainly driven by the increase of consumer lending, which was largely attributable to the newly introduced baby-loan. Under this programme, married couples are offered an interest-free loan of HUF 10 million (around EUR 30,000), which they do not have to pay back if they commit to having three children. Mortgage lending also grew impressively partially due to the extension of the Home Purchase Subsidy Scheme for families. In corporate lending, a new Funding for Growth Scheme for small and medium sized enterprises was introduced by the Central Bank. Overall, corporate loans increased by 11.3%, mainly driven by lending to SMEs. At 8.0%, customer deposits grew less than customer loans. The introduction of the Hungarian Government Securities Plus (MÁP+), offering preferential yields to Hungarian citizens, was extremely well received. This instrument supports the strategic goal of the Hungarian government to finance a significant part of the public debt from domestic household savings. Overall, the banking system's loan-to-deposit ratio stood at 71.7% at year-end.

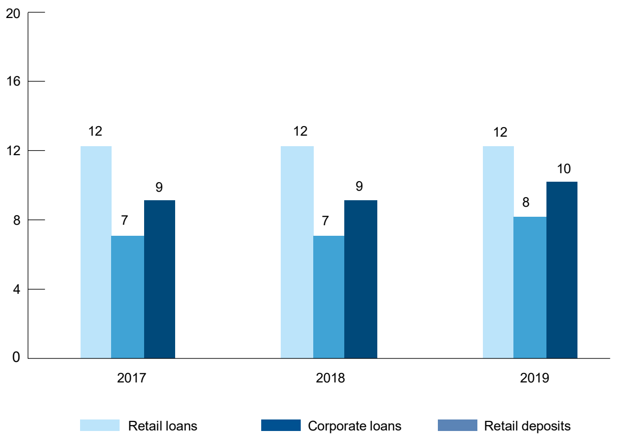
Financial intermediation – Hungary (in % of GDP)



Source: National Bank of Hungary, Erste Group

In 2019, the Hungarian banking sector increased its profitability further. While the low interest rate environment continued to weigh on revenues, risk provisions remained very low on the back of favourable macroeconomic indicators. The banking tax was calculated on the basis of total assets of 2016, with a tax rate of 20 basis points, down from 21 basis points a year earlier. Consolidation of the sector continued as TakarékBank merged with savings co-operatives and became a universal bank with a market share of about 7%. Overall, the banking sector's return on equity rose to 13.9%. The Hungarian banking sector continued to be well capitalised, with a capital adequacy ratio of around 18%.

Market shares – Hungary (in %)



Source: National Bank of Hungary, Erste Group

Erste Bank Hungary is one of the major market players in the country and increased its market shares in most product categories. In 2019, Erste Bank Hungary acquired the building society business from Aegon Hungary. The bank's market share in customer loans increased slightly to 9.6%, with the retail business remaining more important than the corporate business. The customer deposit market share increased to 8.3%. In terms of total assets, Erste Bank Hungary's market share went up to 6.5%.

Business review 2019 – three questions to the CEO of Erste Bank Hungary, Radován Jelasity

How did the competitive environment change? Last year, the Hungarian government introduced new products leaving only a few months preparation time for the banks. The so-called baby loan significantly impacted the market. Since its launch, new disbursements of the baby loan almost equalled new mortgage disbursements. This is an impressive figure, taking into account that neither mortgage volumes nor new consumer loan disbursements decreased significantly. As a result, total new lending volume increased, and its structure changed substantially.

In addition, the government introduced a new retail bond with very preferential yields, called MÁP+. As a risk-free instrument offering a yield above the inflation rate, it instantly became a huge success among retail clients. The subscribed volume was three times the original plan for 2019, 80% was distributed by banks. The Central Bank introduced a new Bond Funding for Growth Scheme for non-financial companies by offering 10-year, bullet type, unsecured financing. These bonds offer higher yields at higher risk levels. The volume of bonds issued by non-financial companies rose substantially. 60% of the issued securities were subscribed by the Central Bank, most of the remaining amount was subscribed by banks.

And last, but not least, TakarékBank merged with the Hungarian savings co-operatives and became Hungary's fifth largest bank based on the 2018 balance sheet.

How did you manage to successfully differentiate your bank from its competition? Our focus remained on unsecured lending (consumer loans and credit cards) in retail and on SME lending in the corporate segment. We also strive to increase our mortgage stock further while becoming the leading market player in wealth management.

We continued the branch transformation and opened two new branches based on the new branch concept to provide the best service for our retail customers. We renewed our previous discount programme with Wizz Air and were the first bank in Hungary to offer Apple Pay and Android NFC payment for both MasterCard and Visa cardholders. In addition, we launched a new asset management product called Erste Future. Customers can chose between twelve investment portfolios that fit their risk appetite or their vision of the future. Through this programme customers have access to higher yield and higher risk instruments, such as shares, by setting aside smaller monthly amounts.

For private banking customers, we launched a new multi-advisor service model: To get support in trading, private banking customers are offered direct contact to the capital market traders of our investment company.

We added Power Network to Erste Power Business, introduced last year for SMEs and micro enterprises. It offers access to Brillit, a Hungarian business social platform that helps companies find and connect to potential business partners. Furthermore, in cooperation with Billingo, we launched PowerBill, an online invoicing service for our clients.

Looking back at the year, what were the major challenges and key achievements? In all key customer segments, our bank was able to grow twice as fast as the rest of the market. We were also the first bank in the country to offer the new baby loan, and we gained a 15% market share in this segment. Following the new PSD2 directive, we implemented a new and convenient NetBank log-in process for clients that complies with the Strong Customer Authentication requirements. Thanks to the Open Banking initiative, our customers can manage their accounts in one place. We were also ready with the Instant Payment solution before the originally set deadline.

Furthermore, we successfully migrated the building society portfolio of Aegon. As a result of the transaction, 57,000 contracts were transferred to Erste Bank Hungary, and our market share increased to 14%.

Our efforts were rewarded by several external awards. We won the *Real Estate financing bank of the year* award of the Construction & Investment Journal and the *Real Estate financing company of the year award* of Iroda.hu. We also won the *Financial enterprise of the year* award by the local business magazine Figyelő and the *Retail savings product of the year* award by Mastercard for our new Erste Future Investment Programme.

Financial review

in EUR million	2018	2019	Change
Net interest income	198.8	213.5	7.4%
Net fee and commission income	170.2	188.3	10.6%
Net trading result and gains/losses from financial instruments at FVPL	45.4	36.9	-18.7%
Operating income	418.4	445.8	6.6%
Operating expenses	-212.4	-216.9	2.1%
Operating result	206.0	229.0	11.2%
Cost/income ratio	50.8%	48.6%	
Impairment result from financial instruments	36.3	18.2	-49.8%
Other result	-67.2	-61.2	-8.8%
Net result attributable to owners of the parent	166.8	173.2	3.8%
Return on allocated capital	20.8%	17.7%	

The segment analysis is done on a constant currency basis. The HUF depreciated by 2.0% against the EUR in the reporting period. Net interest income in the Hungary segment (comprising Erste Bank Hungary Group) increased, driven by higher customer loan and deposit volumes. Net fee and commission income rose due to higher securities and insurance brokerage fees. Net trading result and gains/losses from financial instruments at FVPL declined due to the non-recurrence of the last year's high contribution of derivatives. Operating expenses went up on the back of higher personnel and IT costs. Deposit insurance contributions decreased to EUR 6.0 million (EUR 7.5 million). Overall, operating result and the cost/income ratio improved. Lower net releases of risk provisions (reflected in the impairment result from financial instruments) were caused by provisioning requirements in corporate business. Other result improved on selling gains from securities not measured at fair value through profit and loss. This line item also included the banking tax of EUR 12.6 million (EUR 13.5 million), transaction tax of EUR 47.6 million (EUR 45.4 million) and the contribution to the resolution fund of EUR 2.8 million (EUR 2.6 million). Overall, the net result attributable to the owners of the parent increased.

Credit risk

Credit risk exposure in the Hungary segment rose to EUR 9.4 billion (+5.9%). Loans to customers registered very strong growth, rising to EUR 4.8 billion (+17.6%). As a result, the share of the Hungary segment in Erste Group's total loans to customers rose to 3.0% (2.7%). While loans to private households increased by 14.3% to EUR 2.5 billion, loans to corporates rose more sharply to EUR 2.2 billion (+20.8%). The share of loans denominated in Hungarian forint stood at 73.3% (74.5%). Asset quality improved again substantially. Non-performing loans as a percentage of total loans to customers declined to 2.6% (3.7%). Asset quality in the corporates segment was again excellent, with an NPL ratio of 0.8% (0.7%) The NPL coverage ratio based on loan loss provisions rose significantly to 92.5% (84.6%).

CROATIA

Economic review

The Croatian economy continued to perform well. Economic growth was mainly driven by household consumption, which benefitted from higher employment rates and wages. Investments, backed by European Union funds, remained strong. In addition, Croatia's well-developed tourism industry posted another excellent year, with a 1.8% plus in overnight stays. Favourable financing conditions also supported economic growth. Net exports, with improving dynamics in the second half of the year, supported economic growth to a much lesser extent. The unemployment rate declined further and reached a multi-year low of 6.8%, still high compared to other countries in CEE. Overall, real GDP growth amounted to 2.5%, GDP per capita increased to EUR 13,200.

Public finances remained solid. Revenues grew strongly on the back of positive labour market developments, higher wages and consumer spending. Expenses were impacted by a further increase in pensions and public sector wage hikes, which were partly offset by declining debt service costs. The general government balance remained very stable, and public debt as a percentage of GDP declined to 71.4%. Inflation remained well under control, reaching a three-year low in the last quarter of the year. Average consumer prices rose by a moderate 0.8% on the back of lower energy prices. The significant reduction in the value-added tax rate on certain goods also supported the decline in inflation. The Croatian kuna remained broadly stable against the euro at around 7.4 throughout the year. Given the country's very high use of the euro, the National Bank of Croatia's objective to preserve nominal exchange rate stability remained unchanged, and it kept its accommodative monetary stance throughout the year.

Based on the positive economic trajectory, robust fiscal performance and fading external vulnerabilities, Standard & Poor's upgraded Croatia's long term credit rating to BBB- with a stable outlook in March. In June, Fitch upgraded the country's credit rating to BBB- with a positive outlook. Moody's kept its rating unchanged at Ba2 with a stable outlook.

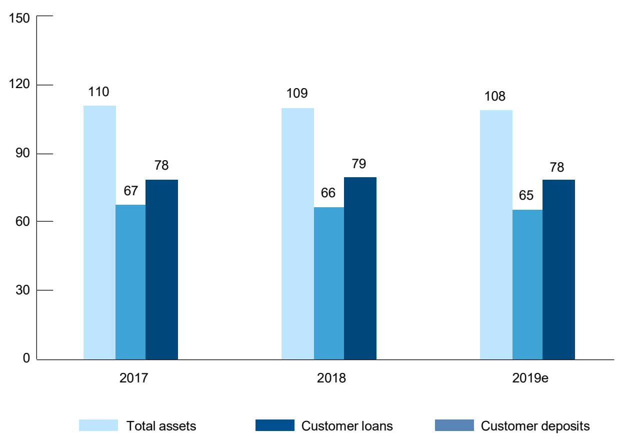
Key economic indicators – Croatia	2016	2017	2018	2019e
Population (ave, million)	4.2	4.1	4.1	4.1
GDP (nominal, EUR billion)	46.6	49.1	51.7	54.0
GDP/capita (in EUR thousand)	11.2	11.9	12.6	13.2
Real GDP growth	3.5	3.1	2.7	3.0
Private consumption growth	3.1	3.2	3.2	3.4
Exports (share of GDP)	22.5	23.8	23.7	24.0
Imports (share of GDP)	38.9	41.0	42.3	43.5
Unemployment (Eurostat definition)	13.1	11.3	8.4	6.8
Consumer price inflation (ave)	-1.1	1.2	1.5	0.8
Short term interest rate (3 months average)	0.6	0.5	0.5	0.5
EUR FX rate (ave)	7.5	7.5	7.4	7.4
EUR FX rate (eop)	7.6	7.5	7.4	7.4
Current account balance (share of GDP)	2.1	3.4	1.9	2.0
General government balance (share of GDP)	-1.1	0.8	0.3	0.0

Source: Erste Group

Market review

Croatia's banking market continued to perform well. Lending growth, however, remained below CEE average, with customer loans growing by 3.3%. Retail lending again outperformed corporate lending. In general, demand for local currency based lending remained strong. Customer deposits increased by 3.8%, mainly driven by corporate deposits. The banking system's loan-to-deposit ratio declined to 82.9% at the end of the year. With about 80% of deposits in euros, the Croatian economy is already the most reliant on the currency of all the European countries that have not formally adopted the euro. With total banking assets at 108% of GDP, Croatia's level of financial intermediation remained among the highest in the region.

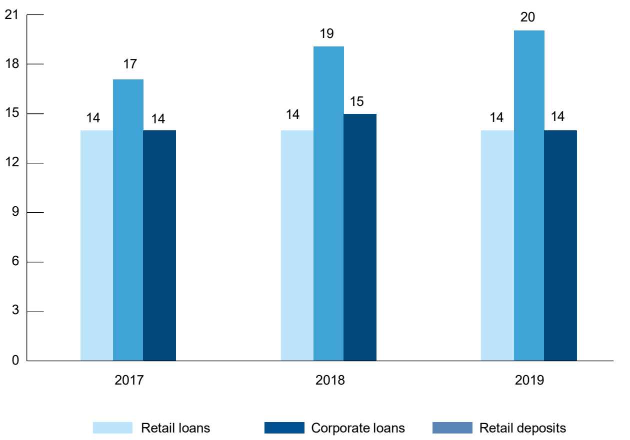
Financial intermediation – Croatia (in % of GDP)



Source: National Bank of Croatia, Erste Group

Consolidation of Croatia's banking market continued, with the number of banks declining to twenty by the end of the year. The state-owned Croatian Postal Bank (HPB) merged with Jadranska banka. Profitability of the banking sector improved further, supported by revived lending and lower risks costs. The NPL ratio declined to around 6%. The capital adequacy ratio in excess of 20% underpins the high robustness of the local banking system. Overall, the country's banking sector achieved a double-digit return on equity.

Market shares – Croatia (in %)



Source: National Bank of Croatia, Erste Group

Erste Bank Croatia's leading brand position contributed to the improving market shares in both the lending and savings businesses. The bank's customer loans and customer deposits market shares stood at 16.2% and 14.5%, respectively. The bank's loan-to-deposit ratio stood at 93%. In terms of total assets, the bank remained among the top three players in the market, with a market share of 15%.

Business review 2019 – three questions to the CEO of Erste Bank Croatia, Christoph Schöfböck

How did the competitive environment change? Positive trends in 2019 were related to the continuation of the fiscal consolidation process, which resulted in a higher long-term credit rating of the Republic of Croatia and the acceptance of the letter of intent to join the European Exchange Rate Mechanism.

Croatia has relatively healthy economic growth. Some further acceleration of convergence towards EU averages, e.g. in income levels, is still important. With a strong orientation and a clear strategy for the introduction of the euro and efforts to increase investment security – provided that fiscal discipline is maintained and structural reforms mandatorily implemented – Croatia has a chance to attain stable and increasing growth rates in the medium term and position itself as a financial and business centre of the region. The decline of interest margins, positive trends in the transactions business, lower risk costs, and a focus on operating efficiency remain the main characteristics of the banking market.

How did you manage to successfully differentiate your bank from its competition? A total of HRK 5.6 billion of new loans were approved in the retail segment, which translates into a 6% growth rate of the loan portfolio. Housing loans posted a stronger growth rate, their portfolio grew by about 9%. On the other hand, growth of the cash loan portfolio slowed down to about 3%, partially due to the alignment with the recommendations of the Croatian National Bank aiming to curb consumer lending by imposing stricter creditworthiness standards. The corporate sector saw healthy growth, too. Small and medium-sized companies account for about 60% of a total of HRK 7.7 billion of loans to corporate customers. The bank has diversified its credit portfolio. Tourism plays an important, but not dominant, role with a share of about 20%, in line with the segmentation of the economy in general.

We recently signed an agreement on a new credit line with the EBRD amounting to EUR 100 million for financing tourism in Croatia and Montenegro. This has made us the first partner bank in this programme in the entire Eastern Mediterranean. We provide adequate support to other sectors as well, ranging from retail and industry to agriculture. We are also happy to see another positive trend, the launch of an increasing number of infrastructural projects financed from EU funds. We try to support such projects to the maximum extent possible.

Looking back at the year, what were the major challenges and key achievements? With PSD2 regulations entering into force – the full effects of which will become apparent only in the coming years – we have taken a proactive approach to the development of digital solutions within the framework of open banking. The KeksPay app, whose primary purpose is to allow users to send and receive money free of charge, is a very successful example. A bit more than a year after its launch, the app has around 100,000 users, 75% of whom are not customers of Erste Bank Croatia. We also take pride in the fact that more than 6,000 persons have attended our financial literacy workshops, offered free of charge, in the Smart Finances School that we launched in early 2019.

In addition, we were named the best private banking service in Croatia for the third time in the past five years by international magazines from The Financial Times Group, The Banker and PWM (Private Wealth Management). We also received the award for the most active EBRD partner bank in financing international trade in Croatia for the second consecutive year, and our subsidiary Erste Card Club received the Diners Club International award for the best large franchise in the EMEA region.

Financial review

in EUR million	2018	2019	Change
Net interest income	273.7	275.1	0.5%
Net fee and commission income	98.9	108.2	9.5%
Net trading result and gains/losses from financial instruments at FVPL	30.3	32.7	8.0%
Operating income	420.3	430.3	2.4%
Operating expenses	-212.5	-223.1	5.0%
Operating result	207.8	207.2	-0.3%
Cost/income ratio	50.6%	51.9%	
Impairment result from financial instruments	-33.1	-5.8	-82.3%
Other result	-1.3	-38.2	>100.0%
Net result attributable to owners of the parent	95.7	90.3	-5.7%
Return on allocated capital	19.1%	16.8%	

The segment analysis is done on a constant currency basis. The Croatian Kuna remained stable against the EUR in the reporting period. Net interest income in the Croatia segment (comprising Erste Bank Croatia Group) increased moderately as higher contributions from consumer and housing loans in the retail business combined with higher contribution from balance sheet management offset lower margins on corporate loans. Net fee and commission income increased due to higher payment fees in retail business as well as one-off bond origination fees. Net trading result and gains/losses from financial instruments at FVPL increased on the back of a higher result from foreign exchange transactions. Operating expenses went up due to higher personnel and IT costs and included a EUR 11.6 million (EUR 11.1 million) deposit insurance fund contribution. Overall, operating result decreased slightly, and the cost/income ratio went up. The improvement of impairment result from financial instruments was driven by lower provisioning needs in both corporate and retail business. Other result deteriorated mainly due to higher provisions for legal expenses. This line item included resolution fund contribution in the amount of EUR 2.9 million (EUR 3.8 million). Consequently, the net result attributable to the owners of the parent decreased.

Credit risk

In the Croatia segment, credit risk exposure rose to EUR 10.6 billion (+7.1%), while loans to customers increased at a slightly below-average rate to EUR 7.0 billion (+3.9%). The share of this segment in Erste Group's total loans to customers decreased slightly to 4.3% (4.4%). The composition of the loan portfolio by customer segment shifted slightly from retail to corporate loans. The share of local currency loans rose to 36.3% (35.8%) of total loans to customers. Most loans were still denominated in euro. The volume of Swiss franc-denominated loans was down to 0.3% (0.4%). 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. Asset quality improved again significantly. The NPL ratio decreased to 7.0% (9.5%). The NPL coverage ratio based on loan loss provisions rose notably to 79.7% (73.5%).

SERBIA

Economic review

The Serbian economy continued to perform well. Robust domestic demand remained the main pillar of growth, with strong investment activity as well as solid private and public consumption. Retail sales were particularly strong, with a growth rate of 9.7%. Labour market conditions improved further, with rising wages and higher employment. Favourable financing conditions also supported economic growth. In addition, construction activity grew significantly and the agricultural sector also performed well. Net exports, on the other hand, remained a drag on growth. The unemployment rate declined further to 10.7%, still high compared to other CEE countries. Overall, real GDP grew by 4.2%, and GDP per capita improved tot EUR 6,600.

Fiscal consolidation continued, with a minor general government deficit of 0.2% in 2019. This positive development was supported by robust consumption, more efficient tax collection and an improved labour market. Public debt as a percentage of GDP improved to 52.1%. Inflation remained well under control, with average consumer prices increasing by only 1.9%. The Serbian dinar remained broadly stable versus the euro throughout the year. Owing to the stable currency and improved fiscal performance, the National Bank of Serbia cut the base rate in three steps by a total of 75 basis points to 2.25%.

Rating agencies acknowledged the positive macroeconomic developments. Fitch upgraded the country's long-term credit rating from BB to BB+ with a stable outlook, while Moody's changed its outlook from stable to positive and left its credit rating unchanged at Ba3. Standard & Poor's kept its credit rating at BB+ with a positive outlook.

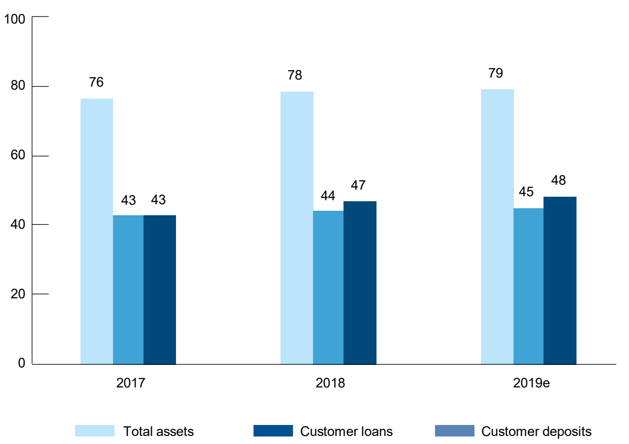
Key economic indicators – Serbia	2016	2017	2018	2019e
Population (ave, million)	7.1	7.0	7.0	7.0
GDP (nominal, EUR billion)	36.7	39.2	42.9	45.8
GDP/capita (in EUR thousand)	5.2	5.6	6.1	6.6
Real GDP growth	3.3	2.0	4.4	4.2
Private consumption growth	1.3	2.0	3.0	3.2
Exports (share of GDP)	36.6	38.4	38.0	38.0
Imports (share of GDP)	46.5	49.5	51.1	51.6
Unemployment (Eurostat definition)	15.3	13.5	12.7	10.7
Consumer price inflation (ave)	1.1	3.2	2.0	1.9
Short term interest rate (3 months average)	3.4	3.4	3.0	2.5
EUR FX rate (ave)	123.1	121.3	118.3	117.9
EUR FX rate (eop)	123.4	118.2	118.3	117.6
Current account balance (share of GDP)	-2.9	-5.2	-5.2	-6.5
General government balance (share of GDP)	-1.2	1.1	0.6	-0.2

Source: Erste Group

Market review

The positive macroeconomic development was also reflected in the performance of the Serbian banking market. The lending market rose by 9.1%, driven by both retail and corporate loans. Corporate loan growth continued to recover to 8.9%, while retail loans increased by 9.3%. Customer deposits increased by 8.5%, mainly attributable to the retail business. At year-end, the banking sector's loan-to-deposit ratio stood at 95%. Consolidation of the sector continued. Many of the country's largest banks are owned by foreign parent companies, controlling around 60% of total assets. OTP was again among the most active banks in terms of acquisitions. It acquired Vojvođanska Banka and the local subsidiary of Société Générale. Serbia's banking sector remained well capitalised, with a total capital ratio of above 20%.

Financial intermediation – Serbia (in % of GDP)



Source: National Bank of Serbia, Erste Group

The Serbian banking sector performed well and posted another highly profitable year. The operating result of the banking sector improved further on higher net interest income and fee and commission income as well as strict cost control. Profitability was also supported by low risk provisions. Asset quality improved mainly on the back of the low interest rate environment and favourable development of the labour market. The NPL ratio in the retail business continued to be significantly lower than in the corporate segment. Overall, the sector's return on equity stood at 9.8%.

Erste Bank Serbia further strengthened its market position. Based on total assets, it is the sixth largest bank in the country. Erste Bank Serbia continued to gain market share in both retail and corporate business. Its market share of customer loans increased to 6.7% with the retail and corporate lending market shares amounting to 7.2% and 6.2%, respectively. The bank's market share for customer deposits increased to 5.1% at the end of the year.

Business review 2019 – three questions to the CEO of Erste Bank Serbia, Slavko Carić

How did the competitive environment change? The consolidation wave in the Serbian banking sector created a new number two: Following the acquisition of Vojvodjanska Banka and the local subsusidiary of Société Générale, OTP Bank Group controls a market share of 13.6% in terms of total assets, right behind Banca Intesa with 15.9%. The total number of banks remained high at 25, and more consolidation is expected in the future. Nova Ljubljanska Banka is expected to acquire state-owned Komercijalna banka. With a combined market share of 12.2%, this transaction would make them the new number three on the market.

Business-wise, banks maintained their focus on retail loans, split between cash loans and mortgages. Nonetheless corporate lending is gradually becoming a significant growth driver, in particular investment loans.

How did you manage to successfully differentiate your bank from its competition? In 2019, we underlined our position as the bank of choice for housing loans. As we kept customers' initial costs at a minimum and due to quick and easy credit approval processes, our customer experience results improved. Owing to the improvement of credit offerings for our customers with better ratings (unsecured lending and micro strategy), we managed to increase the number of new disbursements. In addition, customer deposits increased by more than 9%, and our customer base rose by 50,000 to approximately 500,000.

In retail as well as in corporate business we continued to focus on customer relations instead of products only. This approach is more and more recognised on the market and we expect good results in future years. According to a survey conducted by PWC last year we hold the market's leading position in long-term loans which underlines that we are building long-term relationship with our customers.

In 2019, we continued to expand our network and opened three new branches. The total branch network comprises 89 branches as of year-end.

Looking back at the year, what were the major challenges and key achievements? Last year, we continued our dynamic growth. With a total of more than EUR 300 million newly disbursed loans we outperformed the market by approximately 10%. With a market share of 7.3% in terms of total loans, we are already ranked sixth in the market. In the corporate business, we managed to grow across all major parameters, with guarantees growing most dynamically. Our transaction business was equally successful, and our Telekom transaction was ranked first within Erste Group as the best transaction deal of the year – alongside a transaction of Česká spořitelna.

2019 was the second-most profitable year in our history. All major components of operating income improved, and we continued to invest in transforming the bank.

We are the first bank in Serbia that launched financial education as a full-scale programme. #ErsteZnali strives to improve the financial well-being of the people in Serbia and society as a whole. The programme includes an online platform as well as workshops.

Erste Bank Serbia received the prestigious award in the Internal Communications category for the *Link to the future* project, changing the bank's core system, from the Public Relations Society of Serbia.

Financial review

in EUR million	2018	2019	Change
Net interest income	50.7	58.4	15.1%
Net fee and commission income	13.4	14.7	10.0%
Net trading result and gains/losses from financial instruments at FVPL	5.1	5.3	4.1%
Operating income	69.3	78.5	13.3%
Operating expenses	-49.6	-58.7	18.2%
Operating result	19.7	19.9	1.1%
Cost/income ratio	71.6%	74.7%	
Impairment result from financial instruments	1.7	-0.8	n/a
Other result	-0.5	-0.4	-32.5%
Net result attributable to owners of the parent	15.5	14.0	-9.8%
Return on allocated capital	10.1%	7.4%	

The segment analysis is done on a constant currency basis. The Serbian dinar (RSD) appreciated by 0.3% against the EUR in the reporting period. Net interest income in the Serbia segment (comprising Erste Bank Serbia Group) increased on the back of higher loan volumes in retail and corporate business. Net fee and commission income went up due to higher payment and lending fees. Net trading result and gains/losses from financial instruments at FVPL remained largely stable. The increase in operating expenses was mainly driven by IT and personnel costs, both primarily related to the planned implementation of a new core banking system. Deposit insurance contribution rose to EUR 4.7 million (EUR 4.0 million). Operating result remained largely stable, and the cost/income ratio went up. The deterioration of impairment result from financial instruments was primarily driven by lower releases and a higher allocation of risk provisions in retail business. Overall, the net result attributable to the owners of the parent decreased.

Credit risk

As in previous years, credit risk exposure in the Serbia segment increased again substantially and stood at EUR 2.2 billion (+18.1%). The customer loan portfolio also registered strong growth. Loans to customers increased to almost EUR 1.5 billion (+17.5%). This dynamic development was primarily attributable to volume growth in the retail business. The share of foreign-currency loans, denominated almost exclusively in euro, in the total loan portfolio stood at 77.7% (77.8%). This very large share of foreign-currency loans is mainly attributable to the widespread use of the euro in Serbia due to the weakness of the local currency. Euro loans are usually matched by corresponding income or deposits in euro. Non-performing loans as a percentage of the total loan portfolio declined to 1.4% (1.7%) and were fully covered by loan loss provisions.

OTHER

Financial review

in EUR million	2018	2019	Change
Net interest income	113.7	96.0	-15.5%
Net fee and commission income	-58.4	-85.6	46.6%
Net trading result and gains/losses from financial instruments at FVPL	-44.7	-51.9	15.9%
Operating income	25.8	-40.7	n/a
Operating expenses	-236.3	-167.8	-29.0%
Operating result	-210.5	-208.4	-1.0%
Cost/income ratio	>100.0%	>100.0%	
Impairment result from financial instruments	-6.6	-14.8	>100.0%
Other result	-103.4	-291.3	>100.0%
Net result attributable to owners of the parent	-121.6	-352.8	>100.0%
Return on allocated capital	-1.9%	-6.1%	

Operating income decreased mainly due to lower fees as well as lower rental income on the back of lower operating lease volumes. Operating expenses decreased on higher intercompany eliminations. Other result deteriorated mainly on the goodwill impairment of Slovenská sporiteľňa in the amount of EUR 165.0 million. Overall the net result attributable to the owners of the parent declined.