Segments

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

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

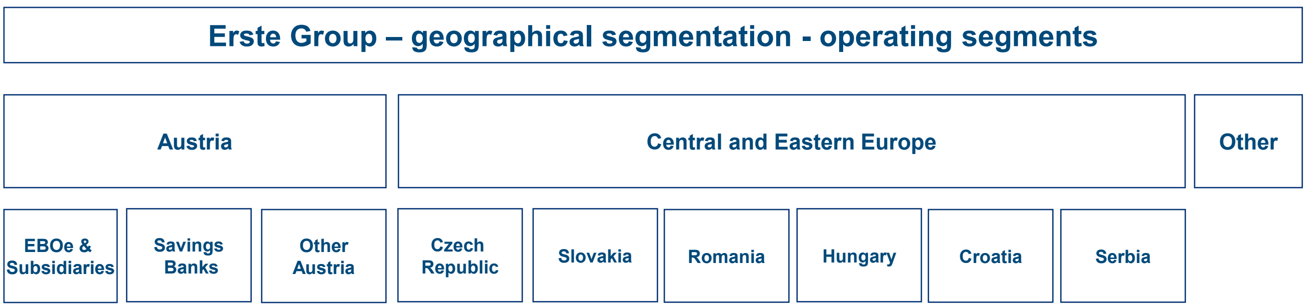
The tables and information below provide a brief overview and focus on selected and summarised items. For more details, please see Note 1. Additional information is available in Excel format at www.erstegroup.com/investorrelations.

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.

Geographical segmentation – operating segments

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

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



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

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

_ The **Savings Banks** segment includes those savings banks 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 **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 the following six operating segments covering Erste Group's banking subsidiaries located in the respective CEE countries:
_ **Czech Republic** (comprising Česká spořitelna Group)
_ **Slovakia** (comprising Slovenská sporiteľňa Group)
_ **Romania** (comprising Banca Comercială Română Group)
_ **Hungary** (comprising Erste Bank Hungary Group)
_ **Croatia** (comprising Erste Bank Croatia Group) 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 well-educated workforce. In 2020, the country's strong tourism and service sector were particularly hard hit by the Covid-19 containment measures . Despite a solid summer season, mainly attributable to strong domestic tourism, the tourism sector suffered from lockdowns and travel restrictions. Private consumption of services and durable goods as well as exports and investment fell sharply and contributed to the significant drop in GDP. Although short-time work schemes helped to mitigate the effect of the economic downturn on the labour market, the unemployment rate increased strongly in the first half of 2020, reaching 6.2% in June. On average, it amounted to 5.3%. Overall, real GDP declined by 7.2%, with GDP per capita falling to EUR 42,000.

The Covid-19 induced crisis has put an abrupt end to the favourable development of Austria's public finances. The crisis management fund launched in March 2020 provided financial support to strengthen health care services, and included funding for fixed cost subsidies as well as short-time work schemes. Tax deferrals, reduced advance tax payments and state guarantees for loans also helped companies to avoid liquidity shortages. With declining revenues and rising expenses, the general government deficit stood at 9.8% of GDP. Public debt as a percentage of GDP significantly increased to 84.8%.

With the sharp economic downturn and the decrease in energy prices, inflation fell from over 2% in the beginning of the year to 1.1% in the second quarter before rising again to 1.5% in the third quarter. Inflation in services remained especially high, leading to a core inflation rate of 1.8% and 2.2% in the second and third quarters, respectively. Overall, inflation remained almost unchanged at 1.4% in 2020. As Austria is part of the euro zone, its monetary policy is set by the European Central Bank (ECB), which kept its discount rate at zero in 2020. The ECB introduced its new Pandemic Emergency Purchase Programme (PEPP) to counter serious risks to the monetary policy transmission mechanism and the outlook for the euro area and increased its targeted longer-term refinancing operations (TLTRO) to provide low interest rate loans to credit institutions. In addition, ECB recommended banks to refrain from or limit dividend payments until 30 September 2021.

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. Fitch's credit rating stood at AA+ while the outlook was revised from positive to stable in May 2020. The outlook change reflected the significant impact of the global coronavirus pandemic on Austria's economy and public finances.

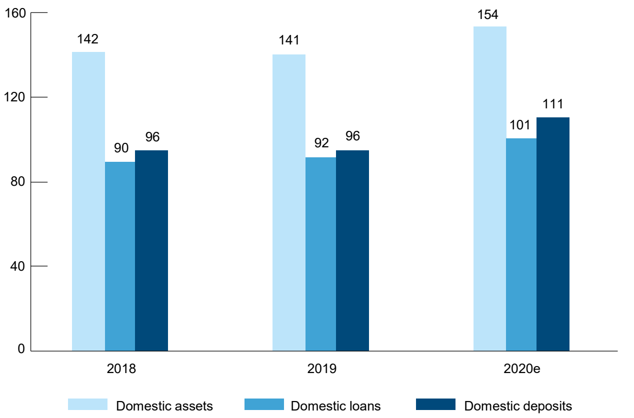
Key economic indicators – Austria	2017	2018	2019	2020e
Population (ave, million)	8.8	8.8	8.9	8.9
GDP (nominal, EUR billion)	369.3	385.4	397.6	374.1
GDP/capita (in EUR thousand)	42.0	43.6	44.8	42.0
Real GDP growth	2.4	2.6	1.4	-7.2
Private consumption growth	1.6	1.1	0.8	-8.8
Exports (share of GDP)	41.1	42.1	42.7	39.9
Imports (share of GDP)	43.1	44.1	44.6	41.9
Unemployment (Eurostat definition)	5.5	4.9	4.5	5.3
Consumer price inflation (ave)	2.2	2.1	1.5	1.4
Short term interest rate (3 months average)	-0.3	-0.3	-0.4	-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)	1.4	1.3	2.8	2.4
General government balance (share of GDP)	-0.8	0.2	0.7	-9.8

Source: Erste Group

Market review

The developed and highly competitive Austrian banking sector entered the Covid-19 induced crisis with solid financial fundamentals. Capitalisation has strengthened significantly in the last decade, and asset quality has improved substantially. Compared with levels before the global financial crisis that started in 2008, the Austrian banking sector has more than doubled its capital ratio in line with tighter prudential requirements. In 2020, banks managed to keep their capital ratios stable, partly due to regulatory relief measures and regulators' recommendations to refrain from or limit dividend payments. The Systemic Risk (SRB) and the Other Systemically Important Institutions (OSII) buffers were recalibrated to 1% as of December 2020. Starting with 2021, these buffers are cumulative. The Financial Market Stability Board recommended to keep the countercyclical capital buffer at a rate of 0%. Stress test results confirmed that the domestic banking sector's risk-bearing capacity was adequate.

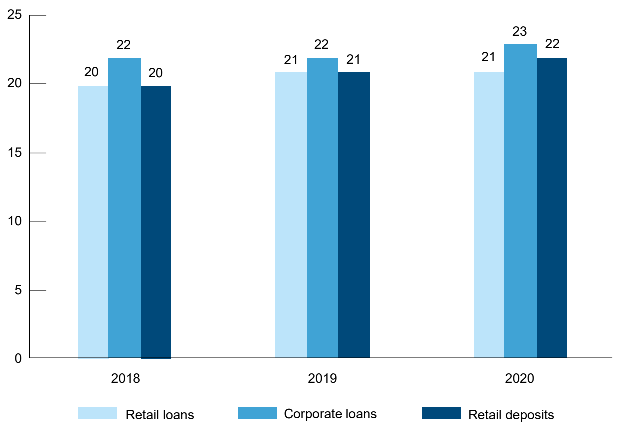
Financial intermediation – Austria (in % of GDP)



Source: Oesterreichische Nationalbank, Erste Group

The banking sectors' profitability was negatively impacted by the pandemic and its implications. On the back of very low interest rates lending activity was healthy with customer loans growing by 3.9% in 2020. The Austrian government adopted a legislative moratorium on credit and interest payments between 1 April 2020 and 31 January 2021, deferring such payments by debtors suffering from income losses in connection with the Covid-19 crisis for a period of ten months and extending loan tenors by the length of the moratorium. Banks were instrumental in paying out state guaranteed loans and, in case of liquidity shortages, bridging loans were made available by the government. Therefore, the impact of the crisis on asset quality was muted in 2020: The ratio of nonperforming loans remained low at year-end. On the savings side, customer deposits grew by 8.6%, driven mainly by the corporate sector. The banking system's loan-to deposit-ratio ratio stood at 91% at the end of the year. Digital financial services and products have continuously been improved and digital penetration increased further. The banking tax remained nearly unchanged in 2020. Overall, the Austrian banking system remained profitable in 2020.

Market shares – Austria (in %)



Source: Oesterreichische Nationalbank, Erste Group

Erste Bank Oesterreich and the savings banks succeeded in further increasing their combined market shares to between 20% and 23% in both retail and corporate business, benefitting from their balanced business model. George, the digital banking platform of Erste Group, proved its reliability during the lockdowns. It has defended its position as the country's most modern and popular banking platform. With 1.9 million users in the country more than a third of the Austrian online banking customers use George. In 2020, George's product range was again widened.

ERSTE BANK OESTERREICH & SUBSIDIARIES

Business review 2020 – three questions to Gerda Holzinger-Burgstaller, CEO of Erste Bank Oesterreich

How did your bank cope with the Covid-19 induced crisis, and how did you support customers and employees?

We put all our efforts into ensuring to stay in touch with our clients via all available channels to help them through these turbulent times. Making sure that we are fully operative and maintain our services was the first and foremost priority. We were permanently challenged to swiftly adapt to changing situations, be that our face-to-face client service in branches or different regulations related to government programmes to keep the economy running, while guiding our clients through these extraordinary times. Looking ahead, we know that significant challenges will remain. The strong economic downturn will, despite substantial state support, take its toll, and companies as well as private individuals will be impacted. It is key that we ensure to keep on servicing our clients, providing solutions to overcome the economic challenges induced by the crisis and to support them on their way back to financial health. We have developed a wide range of initiatives not only to directly support our clients, but also to take this situation as a starting point to increase robustness, be it by participating in activities aimed at improving capital markets in Austria or supporting financial literacy.

Making all of this happen also deeply challenged our employees in an unprecedented manner to adapt to new ways of working. In March 2020, we successfully managed to move the majority of our staff to remote working within a matter of days, demanding changes in leadership and processes. Ensuring the well-being of our employees will remain a key priority.

How did you manage to successfully differentiate your business activities from those of your competition?
The consistent execution of our brand and innovation driven strategy, leveraging the potentials of new technologies not only to improve processes, but also to increase customer proximity has proven to be of special importance in these critical times and helped us again to convince people to choose us as their banking partner. Building an all remote advisory capability for our private clients, whilst at the same time keeping physical service points and our online offering, is key to ensure that we offer banking services whenever and wherever required by customers. Rolling out George to the micro business segment was a further step in extending the offer of our successful online banking platform.

The implementation of our new corporate coverage model helped us to ensure that we can approach our clients in a more targeted manner and deliver even better service to them, leveraging the full potential of our coverage teams.

Despite the crisis, we have managed to improve our online service portfolio further and launched a number of initiatives aimed at increasing the level of straight-through processes and the usage of digital solution to further increase efficiency and effectiveness. We have initiated the transformation of our banking operations focusing on standardised core services to ensure that we do what we know best: banking.

Looking back at the year, what major achievements are especially noteworthy, and which ESG related topics or developments were most relevant for you?
Taking on our responsibility not only towards our shareholders, but also towards society at large remains a key area in our efforts. We believe that ESG not only means that we support the transition to a decarbonised economy, but also to make sure that we support society as a whole by proper corporate responsibility. All of this not only entails offering green investment products to our clients or financing investments that meet our responsible financing requirements. It goes far beyond that, supporting clients to build financial literacy to ensure their financial health and helping those who are in financially unhealthy situations to recover, for example through the Zweite Sparkasse. This is genuinely rooted in Erste Group's Statement of Purpose, which serves as a guiding principle and drives our decision making.

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?
The savings banks group was also an important financial partner in 2020 for all private and commercial customers in dealing with financial problems in the context of the Covid-19-induced crisis. The savings bank group continued to grow in the financing business, in acquiring new customers and in the securities business.

A new customer interface is available to all account managers in sales, making customer-oriented advice much easier. Further progress was made in harmonisation and standardisation: Following the successful harmonisation of the product range for private and commercial customers across the savings banks group, products that were no longer required were removed from the product portfolio and IT systems. This led to a visible reduction in complexity. The next step is to harmonise the processes in lending business and opening accounts. In the area of advice on housing loans, a new, uniform advice interface has been implemented that can be used together with the customer on one screen.

Financial review

in EUR million	2019	2020	Change
Net interest income	642.1	638.2	-0.6%
Net fee and commission income	398.9	406.6	1.9%
Net trading result and gains/losses from financial instruments at FVPL	29.1	13.8	-52.7%
Operating income	1,117.9	1,126.1	0.7%
Operating expenses	-717.1	-711.4	-0.8%
Operating result	400.8	414.7	3.5%
Cost/income ratio	64.1%	63.2%	
Impairment result from financial instruments	-6.0	-135.8	>100.0%
Other result	-18.9	-9.5	-49.7%
Net result attributable to owners of the parent	263.2	222.0	-15.6%
Return on allocated capital	16.4%	15.6%	

Net interest income decreased slightly due to modification losses related to loan moratoria, lower result from debt securities and moderately lower loan margins, which could only partially be compensated by higher loan volumes. Net fee and commission income rose predominantly on the back of higher securities fees. The decline in net trading result and gains/losses from financial instruments at FVPL was driven by valuation effects. Operating expenses decreased mainly due to lower marketing and IT expenses, while the deposit insurance contribution went up to EUR 49.9 million (EUR 25.0 million). Consequently, operating result increased, and the cost/income ratio improved. The deterioration of impairment result from financial instruments was driven by higher provisioning requirements in the retail and corporate business, mainly related to updated risk parameters with forward-looking information and stage overlays. Other result improved due to selling gains for real estate, which were partially offset by a shift of expenses from rental income from investment properties and other operating lease to other result. Payments into the resolution fund increased to EUR 10.5 million (EUR 7.8 million). Banking tax remained largely unchanged at EUR 3.7 million (EUR 3.6 million). Overall, the net result attributable to owners of the parent declined.

Credit risk

Credit risk exposure in the Erste Bank Oesterreich & Subsidiaries segment rose to EUR 46.5 billion (+3.3%), while the volume of customer loans increased to EUR 35.6 billion (+2.9%). The share of this segment in Erste Group's total loan portfolio was unchanged at 21.0%. The share of retail customers in total loan volume declined to 39.5% (40.1%), while the share of corporates, including self-employed individuals and small businesses, rose to 55.1% (54.0%). Loans to professionals, other self-employed individuals and small businesses are less significant than they are for other Austrian savings banks. Lending to the public sector declined to EUR 1.9 billion (-5.1%). The share of Swiss franc denominated loans in the total loan portfolio decreased further to 3.2% (3.8%). The quality of the loan portfolio deteriorated on the back of the Covid-19 induced crisis. At 1.6% (1.4%), non-performing loans as a percentage of total loans to customers were still low, though. The development was slightly negative across all customer segments, but most visibly among larger enterprises in the Corporates business segment. The NPL coverage ratio based on loan loss provisions rose to 63.4% (58.0%).

SAVINGS BANKS

Financial review

in EUR million	2019	2020	Change
Net interest income	1,052.1	1,069.4	1.6%
Net fee and commission income	490.6	519.6	5.9%
Net trading result and gains/losses from financial instruments at FVPL	52.0	16.6	-68.1%
Operating income	1,640.2	1,648.6	0.5%
Operating expenses	-1,120.1	-1,106.1	-1.3%
Operating result	520.1	542.5	4.3%
Cost/income ratio	68.3%	67.1%	
Impairment result from financial instruments	0.7	-267.2	n/a
Other result	26.3	-4.1	n/a
Net result attributable to owners of the parent	64.8	41.6	-35.7%
Return on allocated capital	13.0%	7.1%	

The increase in net interest income was primarily driven by the inclusion of a new subsidiary of a savings bank as well as higher customer loan volumes. Net fee and commission income increased on the back of higher securities as well as payment, lending and documentary fees. The worsening of net trading result and gains/losses from financial instruments at FVPL was primarily driven by valuation effects. Operating expenses decreased mainly due to lower IT, marketing and personnel expenses offsetting the increase in the deposit insurance contribution to EUR 45.0 million (EUR 33.4 million). Consequently, operating result as well as the cost/income ratio improved. Impairment result from financial instruments deteriorated significantly on updated risk parameters with forward looking information and stage overlays. Other result worsened on the non-recurrence of the booking of a badwill for a newly acquired subsidiary of a savings bank last year. Contributions to the resolution fund increased to EUR 9.5 million (EUR 7.9 million). Banking tax remained almost unchanged at EUR 4.6 million (EUR 4.3 million). Overall, the net result attributable to the owners of the parent decreased.

Credit risk

Credit risk exposure in the Savings Banks segment increased to EUR 71.2 billion (+6.7%), while loans to customers rose to EUR 50.4 billion (+5.4%). Their share in Erste Group's total loans to customers was up at 29.6% (29.3%). Lending to private households registered slightly above-average growth, raising its share in the Savings Banks' total customer loan portfolio to 39.5% (39.2%). Loans to professionals, other self-employed persons and small businesses stagnated at EUR 6.6 billion. At 13.2% (13.9%) of total loans, the share of this customer segment was again extraordinarily large and, most notably, significantly larger than at Erste Group's subsidiaries in Central and Eastern Europe. This reflects the Savings Banks' predominantly local and regional operations as well as the structure of the Austrian economy, which has a higher percentage of small and medium-sized businesses than many other countries. Swiss franc-denominated foreign-currency loans declined further to EUR 1.5 billion (-16.8%). Due to government support provided amid the outbreak of the Covid-19 pandemic, the share of non-performing loans as a percentage of total loans to customers was unchanged at 2.8%. The NPL coverage ratio based on loan loss provisions rose markedly to 70.2% (63.9%).

OTHER AUSTRIA

Business review 2020 – three questions to Ingo Bleier, Chief Corporates and Markets Officer

How did your teams cope with the Covid-19 induced crisis, and how did you support customers and employees?

Proactive communication via various channels (be it online contact, our call center or calls by relationship managers) enabled us to explore our clients' needs and show our clients alternatives specifically tailored to their individual business requirements. We helped them to choose the most suitable solution to service them not only in accessing the various state support measures with minimal effort. The basis for that was to keep all banking services accessible, uninterrupted and functional as well as an excellent collaboration with risk management.

While real estate was less affected by the public moratoria as most of our clients were able to meet their financial obligations, capital markets business was hit hard in March 2020. Nevertheless, we constantly kept our doors open and provided our customers with liquidity and quick and competitive pricing, which was extremely appreciated.

How did you manage to successfully differentiate your business activities from those of your competition?

The main differentiator in 2020 was our prompt, unbureaucratic and individual client approach. Erste Group clearly proved that we have the expertise to manage a crisis situation by acting in a trustworthy and authentic way. Our underwriting standards and risk policies allowed us to show stability in a very challenging situation, and we were able to quickly take up new business opportunities after the first lockdowns. In the markets area, this is reflected in debt and equity origination mandates of almost EUR 107 billion in volume and in the execution of up to 12,000 orders per day by our clients. In Austria, 50% of our FX deals are traded digitally. Another success factor was the close cooperation between all departments, front-, back- and mid-office, as well as with our asset management company, which was able to rapidly regain volume by acting as a reliable partner and very successful portfolio manager.

Looking back at the year, what major achievements are especially noteworthy, and which ESG related topics or developments were most relevant for you?

We merged the large corporate and the real estate businesses of the Holding and Erste Bank Oesterreich in Austria. In addition, we managed to strengthen relationships to our corporate and institutional clients, and we were able to grow our loan volumes on top of the Covid-19 related liquidity needs.

On the corporate digital side, we improved the offering towards a multifunctional frontend for guarantees and letter of credits and we launched the first fully digital onboarding process for corporates in Austria, which allows opening accounts remotely for new customers to the bank.

We implemented a dedicated, cross-functional ESG team within the large corporates department and, thus, included the increasingly important topics of environment, social affairs and governance in our strategic dialogue with clients. Furthermore, we introduced ESG minimum standards for the underlying selection of our entire retail structured investment product range and continuously trained and certified our sales team to increase the awareness in ESG related matters.

Financial review

in EUR million	2019	2020	Change
Net interest income	406.9	451.0	10.8%
Net fee and commission income	240.7	249.9	3.8%
Net trading result and gains/losses from financial instruments at FVPL	-13.0	-23.9	83.2%
Operating income	689.7	721.8	4.7%
Operating expenses	-378.1	-367.2	-2.9%
Operating result	311.6	354.5	13.8%
Cost/income ratio	54.8%	50.9%	
Impairment result from financial instruments	-7.3	-202.3	>100.0%
Other result	47.4	-14.4	n/a
Net result attributable to owners of the parent	278.3	103.2	-62.9%
Return on allocated capital	13.3%	5.2%	

Net interest income increased primarily due to growth of corporate lending volumes in the Holding. Net fee and commission income increased, backed by increased securities transactions, origination and sales activities in the market business of Holding as well as by increased asset under management volumes and performance of managed funds in Erste Asset Management. Net trading result and gains/losses from financial instruments at FVPL went down due to lower valuation results of interest rate derivatives as well as a decrease in market prices of fair value securities and lower valuation of FV loans portfolio. Overall, operating income improved. Operating expenses decreased, mostly due to lower IT related costs and depreciation. Thus, operating result and the cost/income ratio improved. The impairment result from financial instruments deteriorated significantly due to an increased provisioning level in corporate business, mainly related to updated risk parameters with forward-looking information and stage overlays. Other result deteriorated primarily due to the non-recurrence of last year's selling gains. Other result included also the resolution fund contribution of EUR 9.6

million (EUR 6.6 million). Overall, the net result attributable to owners of the parent deteriorated significantly.

Credit risk

Credit risk exposure in the Other Austria segment, which is almost completely made up of Erste Group Bank AG and Erste Group Immorent GmbH, was lower at EUR 36.4 billion (-3.6%) due to a decline in money and capital market business. Its share in Erste Group's total credit risk exposure fell to 12.7% (13.8%). A large proportion of risk positions in this business segment was accounted for by securities and cash balances held with other banks. Consequently, the share of loans to customers in Erste Group's total loan portfolio was significantly lower than the contribution to credit risk exposure. At year-end it stood at 9.0% (9.3%). In the Corporates business segment, slight growth was registered in the large corporates business as well as in real estate financing while lending to the public sector declined again. The rise of the NPL ratio (non-performing loans as a percentage of the total loan portfolio) to 2.8% (2.2%) was primarily attributable to the large corporates business. Part of the categorisation of loans as non-performing is in fact based on the assumption of repayment being unlikely rather than loans being actually past due or businesses insolvent. Within the category of performing loans, loans to businesses whose solvency is expected to be seriously impaired by the Covid-19 crisis have been shifted from the low-risk to the management attention category. Loan loss provisions increased substantially to 78.1% (66.8%) 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. The country ranks seventh in the Economic Complexity Index, a holistic measure of the productive capabilities of large economic systems. In 2020, the Czech Republic's economy was hit visibly by the Covid-19 induced crisis. Private consumption, which was the main driver of growth in recent years, dropped by 5.3%, reflecting continued uncertainty and ongoing restrictions. Investments also contracted significantly, by 5.4%, due to supply chain disruptions, high uncertainty and restrictions affecting workforce availability during the first lockdown period.

The majority of exports are related to the automotive and engineering industries. Trade was impacted strongly due to the structure of Czechia's exports. Although net exports did not contribute positively to economic growth, industrial production still benefitted from the relatively good performance of the automotive industry. Reflecting the economic performance, the unemployment rate increased to 2.6%, still very low compared to most of the European Union countries. Overall, real GDP fell by 5.6% and GDP per capita declined to EUR 19,400.

The general government balance ended 2020 with a deficit of 5.8%. On the revenue side, the most visible impact resulted from a decline in corporate income tax followed by a drop in indirect tax revenue due to lower domestic consumption. Government support programmes added up to over 4% of GDP. At 43.7%, public debt as a percentage of GDP increased in 2020 but still remained one of the lowest in the European Union.

Inflation in the Czech Republic was more pronounced in 2020 than in other CEE countries. Overall, average consumer price inflation amounted to 3.2%. The Czech koruna was volatile against the euro, hitting a multiple year low in the first quarter of 2020 before appreciating later in the year. In 2020, the Czech National Bank cut its key rate in three steps by 200 basis points to 0.25%.

Rating agencies did not change their ratings and outlook for the Czech Republic in 2020. Moody's left its long-term credit rating at Aa3 with a stable outlook. Standard and Poor's and Fitch kept their ratings at AA- with a stable outlook.

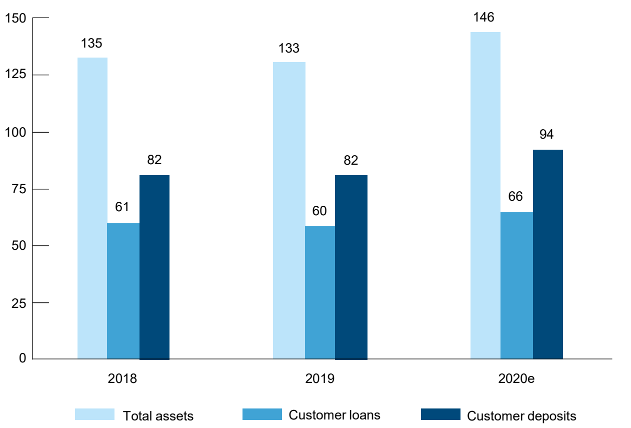
Key economic indicators – Czech Republic	2017	2018	2019	2020e
Population (ave, million)	10.6	10.6	10.7	10.7
GDP (nominal, EUR billion)	194.3	211.1	224.1	207.5
GDP/capita (in EUR thousand)	18.4	19.9	21.0	19.4
Real GDP growth	5.4	3.2	2.3	-5.6
Private consumption growth	4.0	3.3	2.9	-5.3
Exports (share of GDP)	68.6	66.8	64.2	64.2
Imports (share of GDP)	65.5	65.0	61.7	60.8
Unemployment (Eurostat definition)	2.9	2.3	2.0	2.6
Consumer price inflation (ave)	2.4	2.2	2.8	3.2
Short term interest rate (3 months average)	0.4	1.3	2.1	0.9
EUR FX rate (ave)	26.3	25.6	25.7	26.5
EUR FX rate (eop)	25.5	25.7	25.4	26.2
Current account balance (share of GDP)	1.5	0.4	-0.3	2.2
General government balance (share of GDP)	1.5	0.9	0.3	-5.8

Source: Erste Group

Market review

Based on its solid fundamentals, the Czech banking sector proved to be resilient to the Covid-19 induced crisis. Customer loans grew by 4.2%, an impressive performance considering the unfavourable circumstances. As a response to the crisis, the Czech National Bank decided to relax limits on loan-to-value, debt-to-income and debt-service-to-income ratios. In addition, the central bank reduced the counter-cyclical capital buffer from 1.75% to 0.50%. Retail loans outgrew corporate loans mainly driven by mortgage lending. Customer deposits increased by 8.9%, mostly on the back of 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 69.7%. The solid fundamentals were confirmed by the banking sector's total capital ratio of above 20%.

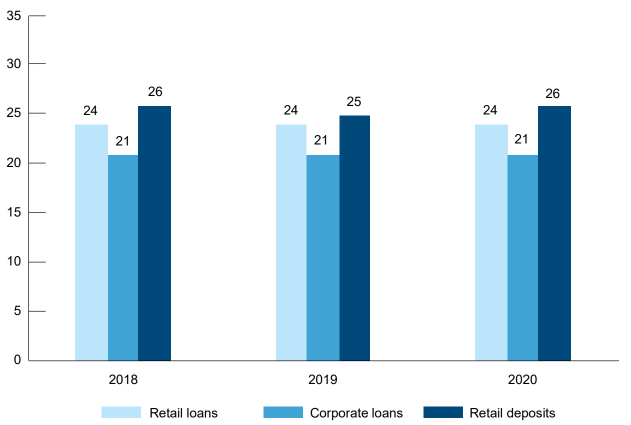
Financial intermediation – Czech Republic (in % of GDP)



Source: Czech National Bank, Erste Group

Despite the very low interest rate environment, the Czech banking market continued to perform well in terms of profitability. Revenues, especially net interest income, were significantly impacted by the 200 basis points interest rate cut in 2020. The lower rate environment was partially compensated by better than expected loan growth. Cost management remained strict. The restrictions imposed to address the pandemic intensified the acceptance of online services and contributed to a further reduction of branches. Risk provisions increased significantly and had a substantial impact on profits. As the share of non-performing loans remained close to historically low levels, the coverage ratio increased significantly. Loan repayment moratoria, one of the shortest in CEE, were in place between April and October with a lower than expected participation rate. Overall, the banking system ended the year with a return on equity of 8%. Consolidation of the banking sector continued, with some smaller acquisitions during 2020.

Market shares – Czech Republic (in %)



Source: Czech National Bank, Erste Group

Česká spořitelna maintained its very strong market positions across all product categories. Its retail lending market shares ranged from 23% to 28%, while its market shares in the corporate lending business remained above 20%. With a market share of 28% 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 28%. Overall, its market share in terms of total assets stood at 19.2%. The three largest banks have a combined market share of approximately 60% in customer loans and deposits.

Business review 2020 – three questions to Tomáš Salomon, CEO of Česká spořitelna

How did your bank cope with the COVID-19 induced crisis, and how did you support customers and employees?

Česká spořitelna was the first Czech bank to offer its clients a postponement on their loan instalments by three to six months after the Covid-19 pandemic started in spring 2020. Our employees cared for our clients over the telephone and online, thereby limiting the adverse impact of restricted opening hours or in some cases, the closure of branches. We capitalised on our market leadership in many areas, for example, in that we are the only bank on the market to use voice biometrics, thanks to which people can be identified and submit payment orders by telephone.

Throughout the year, our bank supported retail clients, entrepreneurs and corporate clients. For example, we started to offer micro and small entrepreneurs payment terminals for fast and contactless acceptance of payments free of charge for eight months. In addition, we participated in Covid programmes aiming at supporting small and medium-sized companies by operating loans on concessional terms. To large corporations, Česká spořitelna offers operating loans with a guarantee by EGAP, the Export Guarantee and Insurance Corporation.

To alleviate the challenging situations of vulnerable clients we did not hesitate to temporarily cancel some fees.

Our bank also offered its facilities to the government. In co-operation with the Ministry of Health and public health stations, Česká spořitelna has formed a specialised tracking team at its client centre, comprised of experienced operators. The team has joined the efforts against the spreading of the Coronavirus, helping public health authorities to track infected persons. Most recently, Česká spořitelna launched a special phone line for seniors over 80, to help them to register for the Covid-19 vaccination.

It goes without saying that Česká spořitelna also paid special attention to its employees. The bank enabled its employees to work from home to the greatest possible extent.

How did you manage to successfully differentiate your business activities from those of your competition?
Česká spořitelna further boosted its market leadership in many fields. After 12 years, Česká spořitelna ranked top in the mortgage market in terms of new sales (plus CZK 66 billion, approximately EUR 2.6 billion, in 2020). Our mortgage portfolio reached CZK 300 billion (approximately EUR 11.4 billion).

We strengthened our leading position in asset and wealth management. In autumn 2020, the volume of assets under management of retail investors reached CZK 200 billion (ca. EUR 7.6 billion). Our share on the mutual funds market grew to 27.6%.

The efforts targeted at further improving our digital solutions were equally successful. The number of mobile George users grew to almost 1 million. Thanks to our initiatives, our overall net promoter score increased by 7 points to 28.

Looking back at the year, what major achievements are especially noteworthy, and which ESG related topics or developments were most relevant for you?
Our bank once again confirmed its position as responsible corporate citizen of the Czech Republic that significantly contributes to the country's growth and prosperity. Apart from the above mentioned efforts targeted to help the government to deal with the Covid-19 induced crisis, we kept on striving to enhance E-government, a modern and efficient administration. Together with ČSOB and Komerční banka, we made it possible for our clients to start using their bank ID for registering to e-government services as of 1 January 2021. Later on, the use of the bank ID as a universal identification tool will be further extended to commercial services providers.

We also initiated the launch of the National Development Fund that is intended to help to finance significant infrastructural projects in the Czech Republic.

We were among the initiators of the ESG platform of the Czech Banking Association. The ambition is to formulate ESG standards for banks and financial institutions operating on the Czech market.

Thanks to our innovation efforts, we won the Bank of the Year trophy awarded by the British magazine The Banker in the Czech Republic.

Financial review

in EUR million	2019	2020	Change
Net interest income	1,141.1	1,049.0	-8.1%
Net fee and commission income	334.7	311.6	-6.9%
Net trading result and gains/losses from financial instruments at FVPL	109.7	94.7	-13.7%
Operating income	1,600.5	1,466.6	-8.4%
Operating expenses	-753.9	-722.4	-4.2%
Operating result	846.6	744.2	-12.1%
Cost/income ratio	47.1%	49.3%	
Impairment result from financial instruments	6.2	-299.8	n/a
Other result	-27.6	-25.6	-7.1%
Net result attributable to owners of the parent	666.5	334.7	-49.8%
Return on allocated capital	26.6%	12.9%	

The segment analysis is done on a constant currency basis. The CZK depreciated by 3.1% against the EUR in the reporting period. Net interest income in the Czech Republic segment (comprising Česká spořitelna Group) de-creased primarily due to significantly lower interest rates as well as a loan repayment moratorium leading to modification losses. Net fee and commission income decreased due to lower maintenance fees for current accounts in the retail segment as well as lower payment fees on the back of the euro cross border payments regulation SEPA and the Covid-19 impact. These developments were partially offset by an increase in securities fees. The lower result from net trading and from gains/losses from financial instruments at FVPL was attributable to negative valuation effects. Personnel costs decreased, and together with lower travel, training and marketing costs, led to a decline in operating expenses, while IT costs and depreciation increased. The deposit insurance contribution amounted to EUR 10.1 million (EUR 10.4 million). Overall, operating result declined, the cost/income ratio worsened. Impairment result from financial instruments deteriorated as a consequence of updates of risk parameters with forward looking information and stage overlays. The other result improved slightly. Contributions to the resolution fund amounted to EUR 29.1 million (EUR 26.6 million).

Altogether, these developments led to a decrease in the net result attributable to the owners of the parent.

Credit risk
Credit risk exposure in the Czech Republic segment rose to EUR 62.0 billion (+3.5%). Compared with previous years, loans to customers grew more slowly and amounted to EUR 29.6 billion (+1.4%), which was largely due to the depreciation of the Czech koruna against the euro. While the retail business posted marginal growth, loans to corporate customers were slightly down. Customer loan volume as a percentage of Erste Group's total loans to customers fell to 17.4% (17.9%). In terms of business volume, the Czech Republic is still by far the second most important market for Erste Group after Austria. Despite a slight downward trend, the quality of customer loans was again better than in Erste Group's other core markets in Central and Eastern Europe. Non-performing loans as a percentage of total loans to customers rose to 2.2% (1.8%). In addition to overdue payments and insolvencies, a major part of defaults in both the Retail and the Corporates business segments was attributable to a critical review of future debt servicing ability against the backdrop of the Covid-19 induced crisis. Loan loss provisions increased significantly to 115.1% (96.3%) of non-performing loans.

SLOVAKIA

Economic review
Slovakia is an open economy characterised by strong automotive, electronics and services sectors. The Covid-19 induced crisis pushed the country's economy into a broad-based recession in 2020. Investment, private consumption and net exports contracted significantly. In the second quarter of 2020, Slovakia saw a historic decline in GDP, followed by a very strong recovery in the third quarter predominantly on the back of a strong export performance. The latter benefited from the traditionally strong car industry. Services related to tourism, accommodation, restaurants and culture were severely hit, while the industry sector performed relatively well. The country's labour market, despite being negatively affected, showed signs of resilience. The unemployment rate rose moderately to 6.8% as government measures protected jobs and mitigated negative impacts. Overall, real GDP fell by 5.2%, and GDP per capita declined to EUR 16,600.

Public finances deteriorated significantly against the backdrop of declining revenues and sizeable fiscal support measures cushioning the economic impact of the pandemic. Revenues were negatively impacted by weak tax revenues and social contributions. The main measures encompassed employment support, sickness and nursing benefits as well as rent subsidies. Consequently, the fiscal deficit deteriorated to 8.0%. The country's public debt as a percentage of GDP increased to 60%.

Inflation slowed down in 2020. Average consumer price inflation eased to 1.9%, mainly driven by lower energy prices. Wage growth was less pronounced than previously expected. As Slovakia is part of the euro zone, its monetary policy is set by the European Central Bank which kept its discount rate at zero in 2020. In the context of the pandemic, the European Central Bank introduced the Pandemic Emergency Purchase Programme and long-term refinancing operations (TLTRO) as important components of its monetary policy.

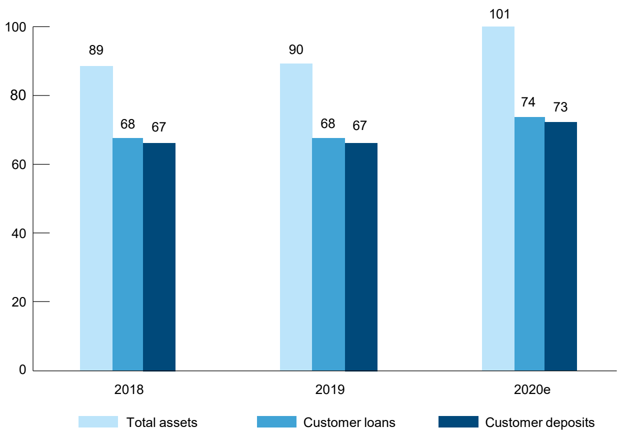
Moody's kept its long-term credit rating of A2 with a stable outlook for Slovakia. Standard & Poor's also left its rating unchanged at A+ but changed its outlook from stable to negative in July 2020. Fitch downgraded Slovakia's long-term credit rating from A+ to A in May and changed its outlook in another step from stable to negative in November.

Key economic indicators – Slovakia	2017	2018	2019	2020e
Population (ave, million)	5.4	5.5	5.5	5.5
GDP (nominal, EUR billion)	84.5	89.5	93.9	90.8
GDP/capita (in EUR thousand)	15.5	16.4	17.2	16.6
Real GDP growth	3.0	3.8	2.3	-5.2
Private consumption growth	4.5	4.2	2.2	-0.7
Exports (share of GDP)	83.4	84.0	80.6	72.5
Imports (share of GDP)	82.7	84.2	81.6	73.0
Unemployment (Eurostat definition)	8.1	6.5	5.8	6.8
Consumer price inflation (ave)	1.3	2.5	2.7	1.9
Short term interest rate (3 months average)	-0.3	-0.3	-0.4	0.0
Current account balance (share of GDP)	-1.9	-2.2	-2.7	-2.7
General government balance (share of GDP)	-0.9	-1.0	-1.4	-8.0

Source: Erste Group

Market review
Market loan and deposit growth continued at a solid pace in 2020. Customer loans increased by 5.1%, driven by housing loans, which grew by 9.2%. Consumer loans, on the other hand, declined by 8.2% mainly due to the impact from the Covid-19 induced measures and stricter debt-service-to-income (DSTI) limits from the beginning of 2020. Corporate loans grew by 1.7%, with state guarantees and payment deferrals providing liquidity. At 6.3%, customer deposits rose faster than customer loans, resulting in a system loan-to-deposit ratio of 101.4%. Asset management continued its positive development, with an annual growth rate of 6.0%. Consolidation in the Slovak banking market continued, with KBC acquiring OTP's Slovak subsidiary in February 2020.

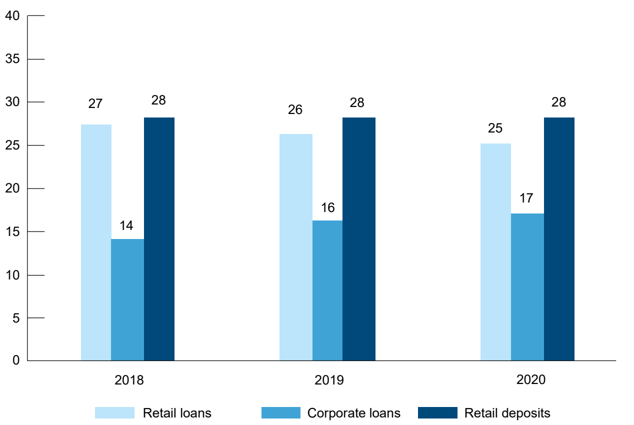
Financial intermediation – Slovakia (in % of GDP)



Source: National Bank of Slovakia, Erste Group

The Slovak banking sector remained profitable in 2020. The very low interest rate environment continued to weigh on net interest income. Fee and commission income benefitted from asset management and insurance brokerage business. Banks started to increase fees for cash transactions. Expenses remained under control, financial institutions reduced their number of branches and employees. Risk provisions increased significantly and became a main factor in reducing the banking sector's profitability. The NPL ratio decreased further to 2.5%, with the rate of defaulted clients in moratoria staying at lower than expected levels. Banking tax, based on total liabilities, excluding equity and subordinated debt, was discontinued after the second quarter of 2020. The banking sector remained well capitalised. Overall, the sector's return on equity stood at 5.4%.

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. In 2020, the bank continued to benefit from its very strong asset management business, holding a 26.4% market share. 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 25.4%, while for corporate lending it stood at 17.3%. At 11.9%, its market share in corporate deposits was also significantly lower than in retail deposits at 28.4%.

Business review 2020 – three questions to Peter Krutil, CEO of Slovenská sporiteľňa

How did your bank cope with the Covid-19 induced crisis, and how did you support customers and employees?

We responded swiftly, and extraordinary measures were taken to save the most precious thing there is – human life. We provided protection equipment in the branch network and the headquarters. Most of the employees worked from home. Together with Slovenská sporiteľňa Foundation, we set up a fund of over EUR 1 million to help fight the pandemic. Half of this amount was earmarked for a specialised testing device that increased the national testing capacity significantly. Starting in the last quarter of 2020, colleagues from the client centre have been helping as operators for state-organised Covid-19 help lines.

To preserve financial health we granted free accounts and fee discounts for six months to vulnerable clients. We participated actively in the state loan moratoria, providing clients with the option to apply for the deferral digitally through George from the first day the moratoria were allowed. The automated process shortened the waiting period significantly. Our help for corporate clients included, among others, an individual approach in case of any difficulties on top of the state moratoria and the First Aid Package with a free-of-charge current account and point of sale terminal for one year. We implemented a variety of useful digital solutions to minimise the need for a visit to a branch or a corporate centre.

How did you manage to successfully differentiate your business activities from those of your competition?

In addition to our exceptional response to the pandemic, confirming our role as a responsible and innovative leader, we focused on business. We rolled out the new Financial Plan enabling clients to see all their assets on a tablet screen, while the branch advisor can easily model optimal allocations to many possible products, e.g. savings account, investments in mutual funds, life and pension insurance. These can be easily set up during the client's visit. Thanks to the Financial Plan the demand for mutual fund investments increased, our market share in this area rose by almost 2 percentage points. Clients also appreciated the various types of insurance products offered.

Over the last years, with more than 650,000 active George users and with the successful corporate banking application Business24, Slovenská sporiteľňa became the digital leader in Slovakia. We introduced new features to support our omnichannel approach, enabling clients to interact with us in any way they feel comfortable with, seamlessly switching between the preferred channels. Yet, we remain the bank with the broadest physical distribution network in Slovakia, while we continuously improve our digital solutions.

Looking back at the year, what major achievements are especially noteworthy, and which ESG related topics or developments were most relevant for you?

The new situation made a new way of working necessary. However, we were on the right path already, with activities focused on an agile approach and on digitalisation. Since April 2020, labs and self-steering teams have been a fully integrated part of the organisational structure. The crisis did not force us to change the path, it just pushed us to follow it faster. We managed to deliver new digital solutions quickly, and the whole bank was able to switch to online working without any significant difficulties.

Although the financial results of 2020 were affected by the Covid-19 induced recession, they were significantly better compared to the initial forecasts made in the first weeks of the pandemic. Operating profit was only slightly lower than a year ago and the net profit was dragged down solely due to prudent provisioning. The continued growth in the corporate segment was a real success as we proved that Slovenská sporiteľňa has become the bank of choice not only for retail, but also for corporate customers. Our balance sheet management contributed to the positive results. We made right investment decisions amid tumbling financial markets and utilised the advantageous TLTRO III funding. In retail banking, the most successful areas were asset management and bancassurance.

We have devoted significant attention to optimising the bank's processes for reducing consumption of energy and paper. We strive for the possibility to issue green bonds already in 2021. Our bank, together with Slovenská sporiteľňa Foundation, supports many initiatives helping Slovakia to become a modern and responsible country. Art and culture, financial education, environmental and social responsibility are the main areas of our sponsoring activities.

Financial review

in EUR million	2019	2020	Change
Net interest income	433.6	438.4	1.1%
Net fee and commission income	145.2	147.1	1.4%
Net trading result and gains/losses from financial instruments at FVPL	18.8	11.8	-37.3%
Operating income	605.7	601.2	-0.7%
Operating expenses	-288.7	-287.1	-0.6%
Operating result	317.0	314.1	-0.9%
Cost/income ratio	47.7%	47.8%	
Impairment result from financial instruments	-42.7	-107.9	>100.0%
Other result	-39.1	-49.3	26.1%
Net result attributable to owners of the parent	187.7	115.8	-38.3%
Return on allocated capital	17.6%	10.5%	

Net interest income in the Slovakia segment (comprising Slovenská sporitel'ňa Group) increased mainly due to the changed disclosure of prepayment fees resulting in a shift from the line item net fee and commission income. As a consequence, net fee and commission income increased only slightly despite higher fees for securities and insurance brokerage. Net trading result and gains/losses from financial instruments at FVPL declined due to valuation effects. Operating expenses decreased on the back of lower depreciation, which offset higher personnel and IT expenses. Deposit insurance contribution amounted to EUR 1.1 million (EUR 1.0 million). Overall, operating result decreased moderately, and the cost/income ratio remained largely stable. Impairment result from financial instruments deteriorated primarily due to higher provisions in retail and corporate business, mainly caused by updated risk parameters and stage overlays as well as new defaults in corporate business. Other result deteriorated mainly due to the impairment of a participation. Banking tax was charged for the last time in the first half of the year and increased slightly to EUR 33.8 million (EUR 32.5 million). Payment into the resolution fund rose to EUR 4.0 million (EUR 3.1 million). Overall, the net result attributable to the owners of the parent decreased.

Credit risk

Credit risk exposure in the Slovakia segment amounted to EUR 21.0 billion (+5.8%), while loans to customers rose to EUR 15.3 billion (+5.9%). On the back of slightly above-average growth rates, their share in Erste Group's total loan portfolio rose to 9.0% (8.8%). As in the previous year, growth was mainly driven by strong demand for loans in the Corporates business segment, especially by large corporates. Despite the increasing proportion of loans to corporate customers, the share of loans to private households was again significantly larger in the Slovakia segment than in other core markets and accounted for 67.2% (68.8%) of total loans to customers. This customer mix with a substantial proportion of retail mortgage loans also explains the large share of secured business of 58.7% (60.0%) in the entire loan portfolio, which exceeds that of other Central and Eastern European core markets. In contrast to the general trend in Erste Group, the quality of the loan portfolio improved significantly. The NPL ratio declined to 2.4% (3.0%). The positive trend was particularly notable in the Retail business segment. Loan loss provisions exceeded non-performing loans. The NPL coverage ratio rose to 107.4% (80.8%).

ROMANIA

Economic review

Romania's economy is characterised by manufacturing, services and agriculture sectors. In 2020, the country's economy contracted by 3.9% as Covid-19 related lockdowns affected both domestic and external demand. The relative outperformance compared to many other CEE countries was mainly due to less severe mobility restrictions. On the supply side, construction, supported by government investments, and the information technology as well as communication sectors made positive contributions. Industry, trade, and agriculture, on the other hand, weighed on economic performance. 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%. On the demand side, gross fixed capital formation had a positive contribution to GDP, while household consumption and net exports had negative contributions to growth. The labour market proved to be resilient. Due to state job-support programmes, the unemployment rate increased only to 4.9%. Overall, the country's real GDP fell by 3.9%, and GDP per capita declined to EUR 11,300.

The political environment remained volatile in 2020. Ahead of the scheduled general elections in December 2020, the government was reluctant to implement fiscal consolidation measures during the year. After years of pro-cyclical fiscal policies with generous government handouts, Romanian public finances entered the current crisis in a weak budget position. Partially due to Covid-19 related measures, the budget deficit widened to 9.8% of GDP. Expenditure on public pensions rose considerably, driven by the full-year effect of a 15% pension increase from September 2019 and a further increase of 14% from September 2020. Moreover, the child allowance increased by 20% in September. Additional spending due to Covid-19 related measures, including employment support schemes and health-related spending, also increased expenses while tax revenues were negatively affected by the economic contraction. At 5.0%, 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 further to 47%.

Consumer price inflation dropped to an average of 2.7% in 2020 from 3.8% in the previous year. Core inflation, remained relatively high at 3.3%, still inside the central bank target range of between 1.5% and 3.5%. The Romanian leu depreciated less than 2% against the euro in 2020, outperforming most of the other CEE currencies. In response to the Covid-19 crisis, the National Bank of Romania cut its policy rate by 100 basis points to 1.50% in several steps. The National Bank also provided liquidity to the banking system mostly via bilateral repo operations as the bond-buying programme was discontinued as of August 2020.

Romania's long-term credit ratings were reaffirmed at BBB- by Standard & Poor's and Fitch, Moody's also kept its Baa3 rating during 2020. As of April 2020, all three major rating agencies had a negative outlook for Romania.

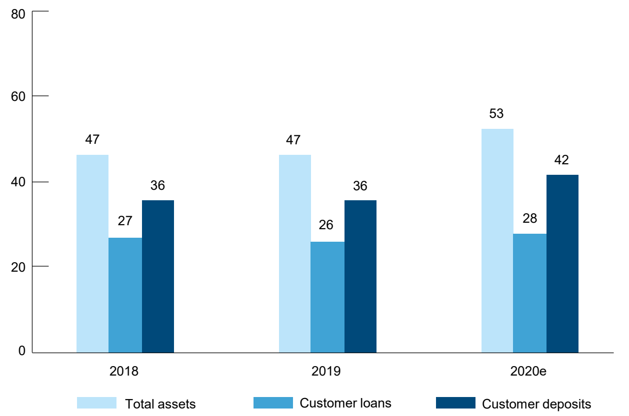
Key economic indicators – Romania	2017	2018	2019	2020e
Population (ave, million)	19.6	19.5	19.4	19.3
GDP (nominal, EUR billion)	187.8	204.5	223.3	217.9
GDP/capita (in EUR thousand)	9.6	10.5	11.5	11.3
Real GDP growth	7.1	4.5	4.1	-3.9
Private consumption growth	10.1	7.2	6.0	-4.7
Exports (share of GDP)	33.4	33.1	30.9	28.5
Imports (share of GDP)	40.3	40.5	38.6	37.0
Unemployment (Eurostat definition)	4.9	4.2	3.9	4.9
Consumer price inflation (ave)	1.3	4.6	3.8	2.7
Short term interest rate (3 months average)	1.2	2.8	3.1	2.4
EUR FX rate (ave)	4.6	4.7	4.7	4.8
EUR FX rate (eop)	4.4	4.4	4.4	4.4
Current account balance (share of GDP)	-2.8	-4.4	-4.7	-5
General government balance (share of GDP)	-2.6	-2.9	-4.3	-9.8

Source: Erste Group

Market review

The Romanian banking market continued to grow in 2020. Customer loans increased by 5.9%, while customer deposits were up by 15.2%. On the lending side, growth was mainly driven by housing loans (+ 9.9%). The Central Bank eased limits on debt-to-income and loan-to-value ratios as a response to the Covid-19 crisis. Corporate loans grew by 7.0% supported by government guarantees. The 15.2% increase in customer deposits reflected the customer behaviour in times of uncertainty. Overall, the banking system's loan-to-deposit ratio declined further to 66.9%. The Romanian banking sector remained strongly capitalised with an aggregated capital adequacy ratio of 23.2%.

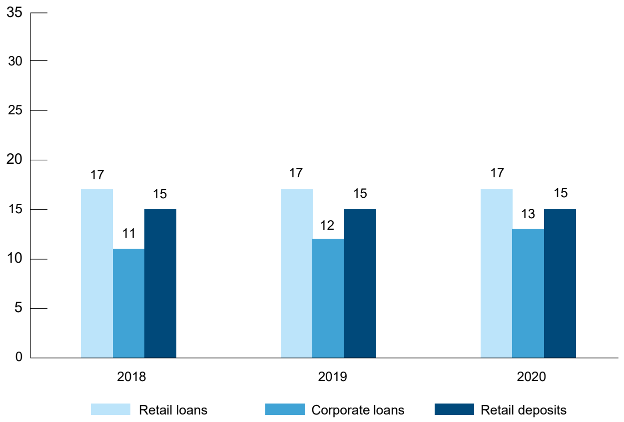
Financial intermediation – Romania (in % of GDP)



Source: National Bank of Romania, Erste Group

Consolidation of the Romanian banking sector was halted due to the uncertainties related to the pandemic. The banking sector remained profitable despite the low interest rate environment and the significant amount of forward-looking risk provisions. Asset quality did not deteriorate. Moratoria for retail and corporate clients were in place between April and December. Cost control remained strict. The banking levy was cancelled. Overall, the Romanian banking sector achieved a return on equity of 8.9% in 2020.

Market shares – Romania (in %)



Source: National Bank of Romania, Erste Group

Banca Comercială Română regained its leading market position in terms of customer loans in 2020, and it remained the second largest bank of the country based on its total asset market share and customer deposits The bank kept its market leader position in asset management and in mortgage lending. The bank's customer loan market share increased to 15.1%. Its retail loan market share amounted to 17.1%, while in the corporate sector it increased to 12.9%. Banca Comercială Română's customer deposit market share remained broadly stable at 14.3%. In terms of total assets, Banca Comercială Română had a market share of 14.2% in 2020.

Business review 2020 – three questions to Sergiu Manea, CEO of Banca Comercială Română

How did your bank cope with the Covid-19 induced crisis, and how did you support customers and employees?

We managed to adapt rapidly to the new reality. Being well aware of our customers' concerns – uncertainty, health, business and job losses – we primarily aimed to remain accessible for our customers and help save as many jobs as possible. The strategy implemented in the past years, which included fast digitalisation and caution in risk assessment, fully proved its validity.

Most of the banking operations can now be done 100% online. Thanks to the fast digitalisation process, our colleagues focused more on one-on-one consulting, accelerating our financial and entrepreneurial education initiatives.

We introduced simplified flows to swiftly and remotely address both retail and corporate clients' needs for payment deferrals, also offering short-term prolongations of revolving facilities and emergency working capital financing to support businesses. Through such measures, we supported and assisted companies that employ more than 300,000 people. Over 4,800 companies were supported through new loans, including the SME Invest programme. We deferred instalments for about 41,000 loans for individuals and 500 loans for companies.

We also took measures to protect our employees and ensure a safe working environment in both headquarters and the branch network. While our colleagues in headquarters have been working mainly from home, branch network staff has worked in shifts to stay close to our customers. We implemented strict rules regarding for working in the office. To ensure further protection and proper traceability branch visits have only been allowed on prior appointment since October.

We also had an active role in supporting the impacted communities. EUR 1.7 million were donated for the national health care system, education and NGOs by our bank.

How did you manage to successfully differentiate your business activities from those of your competition?

We adopted a new way of working based on agile principles. We embraced new technologies and developed new skills and capabilities. George, our banking platform, is one of the most evolved digital banking ecosystems in the market.

We reached 1.8 million users for internet and mobile banking, over 1 million are active George users. As a result, the number of digital transactions more than doubled. In addition, all new savings accounts were opened via George, and 1/3 of the new cash loans were granted end-to-end digitally.

We initiated seven digital labs with dedicated internal teams to develop new digital solutions, an agile working mindset and to better understand customers' needs by analysing their data. Products and services that were usually launched in months or years, have been implemented in a few weeks. As a result, customers' perception towards Banca Comercială Română has significantly improved. On the corporate side, we launched dedicated manuals for entrepreneurs to access state grants (SME Invest, non-reimbursable grants).

Looking back at the year, what major achievements are especially noteworthy, and which ESG related topics or developments were most relevant for you?
We achieved a mid-single digit increase in operating performance and a good bottom line result despite significant forward-looking risk provisioning. As we managed to keep costs stable, our bank was one of the most efficient ones in the country.

We continued to be a leader in local currency lending to private individuals. Banca Comercială Română accounts for about 20% of the mortgage lending in Romania. We also gained market share in consumer and corporate lending. We transformed George by adding new local features, thus achieving substantial customer experience improvements. Nine out of ten users prefer the mobile version, and George received the best app score among all local banks. About 50,000 people were reached last year through mobile offices and online workshops in the context of our newly launched financial advisory programme. Our bank is now recognised as a leader in financial education in Romania. Our Money School programme has been running for four years. More than 430,000 people were trained in offline and online workshops.

In addition, we launched Business School, a financial education online platform for entrepreneurs offering free access to online courses in February 2020. So far, about 10,000 people have enrolled and attended dedicated online sessions.

Last but not least, our bank's InnovX business accelerator programme successfully supported tech start-ups and entrepreneurs.

Financial review

in EUR million	2019	2020	Change
Net interest income	428.0	435.7	1.8%
Net fee and commission income	164.5	146.8	-10.8%
Net trading result and gains/losses from financial instruments at FVPL	74.2	73.7	-0.6%
Operating income	688.0	678.6	-1.4%
Operating expenses	-359.0	-344.9	-3.9%
Operating result	329.0	333.7	1.4%
Cost/income ratio	52.2%	50.8%	
Impairment result from financial instruments	13.0	-107.7	n/a
Other result	-200.8	-60.2	-70.0%
Net result attributable to owners of the parent	85.0	122.4	44.1%
Return on allocated capital	5.9%	8.7%	

The segment analysis is done on a constant currency basis. The RON depreciated by 1.9% against the EUR in the reporting period. Net interest income in the Romania segment (comprising Banca Comercială Română Group) improved on the back of increasing customer loan volumes in retail and corporate business. Net fee and commission income declined due to lower payment fees – affected among others by euro cross border payments regulation SEPA – and lending fees partially mitigated by higher documentary and securities fees. Net trading result and gains/losses from financial instruments at FVPL decreased marginally. Operating expenses decreased mainly due to a lower deposit insurance contribution of EUR 4.4 million (EUR 12.7 million) as well as lower depreciation, legal and consultancy expenses. Overall, operating result increased, and the cost/income ratio improved. Impairment result from financial instruments deteriorated, driven by updated risk parameters and stage overlays. The non-recurrence of a provision in the amount of EUR 153.3 million as a result of a Romanian High Court decision in relation to business activities of the local building society subsidiary led to an improvement of the other result. The resolution fund contribution amounted to EUR 7.7 million (EUR 6.6 million). The net result attributable to the owners of the parent increased considerably.

Credit risk

Credit risk exposure in the Romania segment increased to EUR 18.0 billion (+9.9%). A key contribution to growth came from loans to customers, which rose by EUR 544 million to EUR 9.3 billion. On the back of slightly above-average growth, their share in Erste Group's total loan portfolio rose to 5.5% (5.4%). An expansion of lending volume was seen mostly in the Retail business segment. In the Corporate business segment, growth was registered mostly in loans to small and medium-sized businesses. The share of foreign currency loans decreased further to 34.2% (37.6%) and was almost completely denominated in euro. Non-performing loans rose to 419 million (+16.5%), driven largely by defaults expected to occur amid the Covid-19 crisis rather than actually overdue payments and insolvencies. A breakdown by customer segment shows that asset quality deteriorated primarily in the Corporates segment. As a result of this development, non-performing loans as a percentage of total loans to customers rose to 4.5% (4.1%). Loan loss provisions increased to 122.5% (116.3%) of non-performing loans.

HUNGARY

Economic review

Hungary is an open economy, ranking ninth in the Economic Complexity Index, a holistic measure of the productive capabilities of large economic systems. The Covid-19 crisis interrupted a period of strong economic growth. Although the policy measures to mitigate the first wave of infections were less stringent than the EU average, the country's economy was significantly impacted due to its large exposure to highly cyclical industries, such as the automotive industry and tourism. The recession in the second quarter proved deeper than expected with services, industry, and construction declining by double digit figures. In the second half of the year, economic activity rebounded as the lockdown measures were eased and international supply chains were restored. Economic activity also benefitted from the government's support measures such as the short-time work programme, the extended SME funding scheme, tax incentives, administrative simplifications, and favourable lending conditions for consumer loans. The unemployment rate increased from the third lowest level in the EU to 4.2% in 2020, still low compared to many other European countries. Overall, real GDP fell by 5.1%, GDP per capita decreased to EUR 13,700.

In line with the EU-trend general government deficit rose to 8.7% of GDP in 2020. Revenues, in particular indirect tax receipts and social security contributions, were severely impacted both by the contraction of the tax base and some tax cuts, notably temporary reductions granted to the most affected sectors and a general 2%-point cut of employers' social contributions as of July 2020. On the expenditure side, measures to contain the economic impact of the pandemic, such as a short-time work scheme and other measures aimed at protecting employment, temporary support to specific sectors and a one-off bonus for health workers, resulted in massive spending. The public debt to GDP deteriorated to 79.3% in 2020.

Inflation reached the upper level of the National Bank's target range of 2% and 4% during the summer. It slowed significantly in the second half of the year. Overall, average consumer prices rose by 3.3% in 2020. The Hungarian central bank reduced its policy rate to 0.6% to support economic activity. The forint exchange rate remained volatile, the Hungarian forint reached an all-time low against the euro in the second half of the year.

Rating agencies reacted to the economic developments. Standard & Poor's left the country's long-term credit rating at BBB but revised the outlook from positive to stable in April 2020. Fitch affirmed its long-term credit ratings of BBB with a stable outlook. Moody's kept its long-term credit ratings of Baa3 unchanged but improved the country's outlook from stable to positive in September 2020.

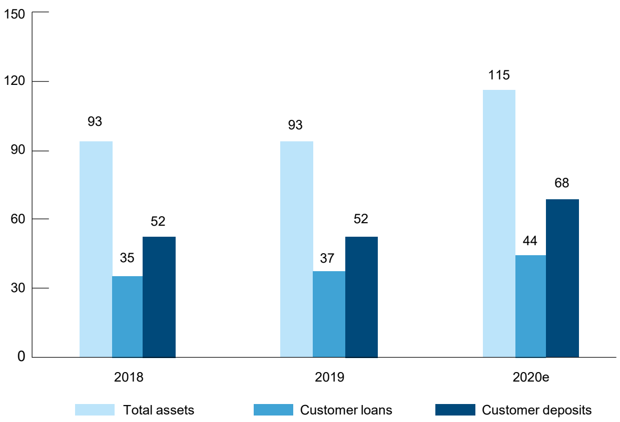
Key economic indicators – Hungary	2017	2018	2019	2020e
Population (ave, million)	9.8	9.8	9.8	9.7
GDP (nominal, EUR billion)	126.9	135.9	146.0	133.5
GDP/capita (in EUR thousand)	13.0	13.9	15.0	13.7
Real GDP growth	4.3	5.4	4.6	-5.1
Private consumption growth	4.4	4.5	4.2	-2.2
Exports (share of GDP)	67.2	65.2	63.7	65.9
Imports (share of GDP)	65.9	66.5	65.8	66.1
Unemployment (Eurostat definition)	4.2	3.7	3.4	4.2
Consumer price inflation (ave)	2.4	2.8	3.4	3.3
Short term interest rate (3 months average)	0.1	0.1	0.2	0.7
EUR FX rate (ave)	309.2	318.9	325.4	351.2
EUR FX rate (eop)	310.1	321.5	330.5	365.1
Current account balance (share of GDP)	2.0	0.3	-0.2	0.4
General government balance (share of GDP)	-2.5	-2.1	-2.0	-8.7

Source: Erste Group

Market review

Despite the deteriorated macroeconomic environment, Hungary's banking market performed relatively well in 2020. At 13.4%, loan growth was among the strongest in CEE. Retail loans rose by 14.0%, mainly driven by the increase of consumer lending, largely attributable to the very popular baby-loan programme and to the interest rate cap of the central bank of the key rate plus 5%-points for any unsecured loans. Mortgage lending growth stood at 10.0% The National Bank extended its Funding for Growth scheme for small and medium-sized enterprises in April 2020. To mitigate the impact of the coronavirus pandemic on the national economy, the Hungarian government introduced an opt-out loan moratorium as of March 2020. The initial expiration date of the moratorium was extended from December 2020 to June 2021. In addition, the Hungarian Development Bank introduced guarantee, loan and capital programmes as a response to the pandemic. Corporate loan growth amounted to 12.8%. Overall, the banking system's loan-to-deposit ratio stood at 64% at year-end.

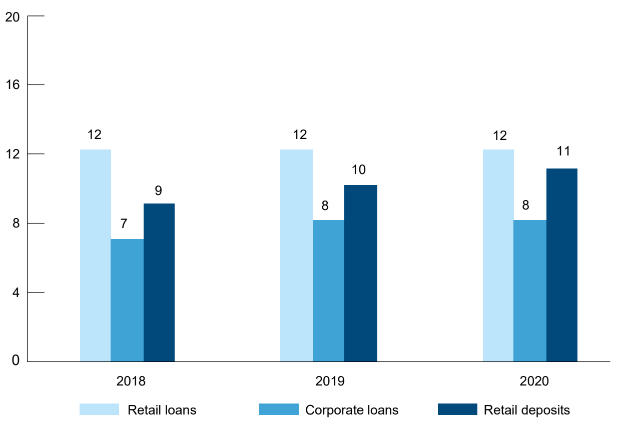
Financial intermediation – Hungary (in % of GDP)



Source: National Bank of Hungary, Erste Group

Hungary's banking market remained profitable in 2020. Although the very low interest rate environment weighed further on revenues, this was partially compensated by the relatively strong loan growth. Administrative expenses remained under control, the increase of personnel expenses was limited. Risk costs increased significantly with forward looking provisioning on expected credit losses. In addition, banks booked front-loaded modification losses in relation to the moratorium. In addition to the annual banking levy, an extra banking tax contribution to the Pandemic Defence Fund was introduced and paid in three instalments in 2020. This extra tax will be deductible from the regular banking tax in equal instalments over the next five years. Overall, the banking sector's return on equity was 6.5%. The Hungarian banking sector continued to be well capitalised, with a capital adequacy ratio of around 18.7%.

Market shares – Hungary (in %)



Source: National Bank of Hungary, Erste Group

Consolidation of the Hungarian banking market continued with the merger of MKB Bank, Takarék Bank and Budapest Bank. Based on its asset size, the new entity, called the Magyar Bankholding Zrt., has become the second largest bank after OTP.

Erste Bank Hungary remained one of the major market players in the country and increased its market shares in most product categories. Erste Bank Hungary's market share in customer loans increased slightly to 9.8%, with the retail business remaining more important than the corporate business. The customer deposit market share remained unchanged at 8.3%. In terms of total assets, Erste Bank Hungary's market share went up to 6.7%.

Business review 2020 – three questions to Radován Jelasity, CEO of Erste Bank Hungary,

How did your bank cope with the Covid-19 induced crisis, and how did you support customers and employees?

We have undertaken substantial efforts to ensure accessibility and to improve customer satisfaction. All our branches remained open during the pandemic, and we reshuffled our resources to cover the increased incoming calls in the call center. As a result of our proactive customer approach the opt-out ratio of the retail moratorium amounted to 60%, well above the market average of 35%.

In corporate business we focused on offering all new products introduced by the National Bank, the Hungarian Development Bank and the Hungarian Export-Import Bank to mitigate the negative effects of the coronavirus-induced crisis and to help our customers to improve their financial situation. When the moratorium was announced we individually provided our corporate customers with all the necessary information which resulted in a 72% opt-out ratio. The market average stood at 30%.

We successfully switched to remote working quickly: 90% of our headquarters staff have been working from home since the beginning of the pandemic. We encouraged colleagues to take some of the necessary infrastructure home from the bank. To avoid the use of public transportation, we offered a shuttle bus service for employees who had to maintain the key infrastructure of the bank at branches or the headquarters.

In addition, Erste Bank Hungary donated more than 30,000 pulse oximeters, thermometers and the like in the amount of HUF 50 million (ca. EUR 140,000) to 39 healthcare centers.

How did you manage to successfully differentiate your business activities from those of your competition?

We speeded up our digitalisation efforts, reaching an impressive share of 54% digitally active clients. We doubled the number of active mobile customers, and 20% of new personal loans were already end-to-end digital. Our tablet based advisory tool was installed in the branches, and we completed the development of George. It was launched in the beginning of 2021 and provides us a competitive advantage in the Hungarian banking market.

Managing the payment moratorium was our largest Prosperity Advisor action so far. We reached 220,000 customers proactively with data-driven personalised advice, and we will continue to work on new solutions for our clients.

Looking back at the year, what major achievements are especially noteworthy, and which ESG related topics or developments were most relevant for you?
New retail lending improved on the back of new housing loans and the excellent performance in the baby-loans programme. Our retail loan volume exceeded HUF 1,000 billion (ca. EUR 2.7 billion) and assets under management surpassed HUF 2,200 billion (ca. EUR 6.0 billion).

We are proud of the additional 9 percentage-point increase of the Employee Engagement Index, which reached 78% at the end of 2020. We also successfully raised the Customer Satisfaction Index (CXI) in each of our segments, ranking top in the micro and SME segments and second in the private individuals segment.

Our efforts were rewarded by numerous awards. Erste Bank Hungary not only won the Golden Prize in the best retail savings product of the year category for the Erste Future Investment Programme, but also the Bronze Prize in the best bank of the year category as well as the Bronze Prize in the best private banking service of the year category by Mastercard. Our private banking segment won further awards, such as The Private Bank of the Year by Blochamps Capital.

Financial review

in EUR million	2019	2020	Change
Net interest income	213.5	217.9	2.1%
Net fee and commission income	188.3	181.1	-3.8%
Net trading result and gains/losses from financial instruments at FVPL	36.9	24.7	-33.1%
Operating income	445.8	431.4	-3.2%
Operating expenses	-216.9	-213.3	-1.6%
Operating result	229.0	218.1	-4.7%
Cost/income ratio	48.6%	49.4%	
Impairment result from financial instruments	18.2	-78.0	n/a
Other result	-61.2	-65.5	6.9%
Net result attributable to owners of the parent	173.2	56.1	-67.6%
Return on allocated capital	17.7%	5.8%	

The segment analysis is done on a constant currency basis. The HUF depreciated by 8.0% against the EUR in the reporting period. Net interest income in the Hungary segment (comprising Erste Bank Hungary Group) increased (also in EUR) driven by higher customer loan and deposit volumes despite the negative effect of loan moratoria leading to modification losses. Net fee and commission income rose in local currency terms predominantly due to higher securities fees. Net trading result and gains/losses from financial instruments at FVPL decreased on a lower valuation result as well as lower result from foreign currency transactions. Operating expenses went up in local currency terms on the back of higher IT expenses and depreciation. Deposit insurance contribution amounted to EUR 5.8 million (EUR 6.0 million). Overall, the operating result and the cost/income ratio deteriorated. Significantly higher risk costs (reflected in the impairment result from financial instruments) were caused by updated risk parameters and stage overlays. Other result deteriorated on lower securities selling gains. This line item also included the banking tax of EUR 14.5 million (EUR 12.6 million), the transaction tax of EUR 44.0 million (EUR 47.6 million) and the contribution to the resolution fund of EUR 3.5 million (EUR 2.8 million). Overall, the net result attributable to the owners of the parent decreased.

Credit risk
Credit risk exposure in the Hungary segment rose to EUR 10.5 billion (+11.7%). This solid growth was mainly attributable to increased investments in the Group Markets business segment. Loans to customers were up slightly at EUR 4.9 billion (+2.4%). The share of the Hungary segment in Erste Group's total loans to customers declined marginally to 2.9% (3.0%). While loans to private households increased to 2.7 billion (+6.6%), loans to corporates declined to EUR 2.2 billion (-2.5%). The share of loans denominated in Hungarian forint was nearly unchanged at 73.7% (73.3%). The quality of the loan portfolio showed a negative trend due to the outbreak of the Covid-19 pandemic. In many cases, particularly in the Corporates segment, loans categorised as non-performing had not yet actually defaulted but were expected to default with high probability. Non-performing loans as a percentage of total loans to customers increased to 3.0% (2.6%). The NPL coverage ratio based on loan loss provisions rose to 111.4% (93.8%).

CROATIA

Economic review
Due to the country's high exposure to the tourism industry, the Croatian economy was among the hardest hit in CEE in 2020 due to the Covid-19 induced crisis. Croatia's well-developed tourism industry, accounting for approximately one fifth of the country's economy, was severely impacted by travel restrictions and recorded one of its worst years in recent history. Domestic demand fell as well as households deferred or cancelled spending. Investments, on the other hand, benefitted from projects financed by EU funds. Following severe earthquakes, the European Union offered financial and other support for a quick recovery in 2021.

Reflecting the economic performance, the unemployment rate increased to 7.7%. Overall, real GDP declined by 8.8%, and GDP per capita fell to EUR 12,000.

Public finances deteriorated in 2020. As a result of the economic contraction and measures aimed at preserving employment and businesses the general government deficit rose to 8.0%. The most significant among these measures, collectively adding up to approximately 3% of GDP, relate to subsidies for employee wages. Tax revenues, especially VAT related income, contracted strongly as household and tourist consumption decreased. The drop in personal income tax revenues was less pronounced, as government measures have protected employment and wages. Wage subsidies and the public wage bill led to growing expenditure, while previously agreed collective agreements were also implemented. The public debt as a percentage of GDP increased to 87.5%.

Average consumer prices did not change significantly in 2020. Core inflation excluding food and energy remained close to 1%. The Croatian kuna remained broadly stable against the euro at around 7.4 to 7.6 throughout the year. Given the country's very high use of the euro, the Croatian National Bank's objective to preserve nominal exchange rate stability remained unchanged, and it kept its accommodative monetary stance throughout the year.

Moody's upgraded Croatia's long-term credit rating to Ba1 with a stable outlook in July. Fitch affirmed its rating at BBB- but revised its outlook from positive to stable in April. Standard & Poor's left its long-term credit rating unchanged at BBB- with a stable outlook.

Key economic indicators – Croatia	2017	2018	2019	2020e
Population (ave, million)	4.1	4.1	4.1	4.1
GDP (nominal, EUR billion)	49.3	52.0	54.2	48.8
GDP/capita (in EUR thousand)	11.9	12.7	13.3	12.0
Real GDP growth	3.4	2.8	2.9	-8.8
Private consumption growth	3.2	3.3	3.6	-7.0
Exports (share of GDP)	23.8	23.5	23.8	24.3
Imports (share of GDP)	40.9	42.1	43.1	40.7
Unemployment (Eurostat definition)	11.3	8.4	6.6	7.7
Consumer price inflation (ave)	1.2	1.5	0.8	0.1
Short term interest rate (3 months average)	0.5	0.5	0.5	0.0
EUR FX rate (ave)	7.5	7.4	7.4	7.5
EUR FX rate (eop)	7.5	7.4	7.4	7.6
Current account balance (share of GDP)	3.5	1.8	2.7	-1.8
General government balance (share of GDP)	0.8	0.2	0.4	-8.0

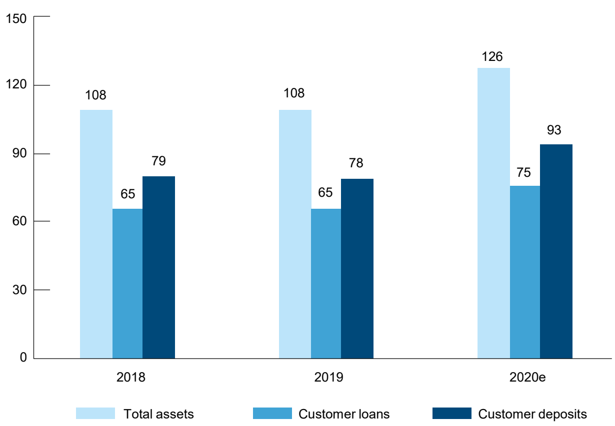
Source: Erste Group

Market review

By entering the Exchange Rate Mechanism II in July 2020, Croatia has committed itself to join the Banking Union. On 1 October 2020, the European Central Bank became the direct supervisor for significant financial institutions in Croatia.

Similar to other sectors, Croatia's banking sector was significantly impacted by the pandemic and the associated government measures. In response to Covid-19, banks offered households and corporates the possibility of a 6-month opt-in moratorium, with 12 months for the hardest-hit tourism industry. To support the corporate sector, liquidity financing and guarantee schemes were made available through the Croatian Bank for Reconstruction and Development and the Croatian Agency for SMEs, Innovation and Investments. The Croatian National Bank reduced its minimum reserve requirement.

Financial intermediation – Croatia (in % of GDP)

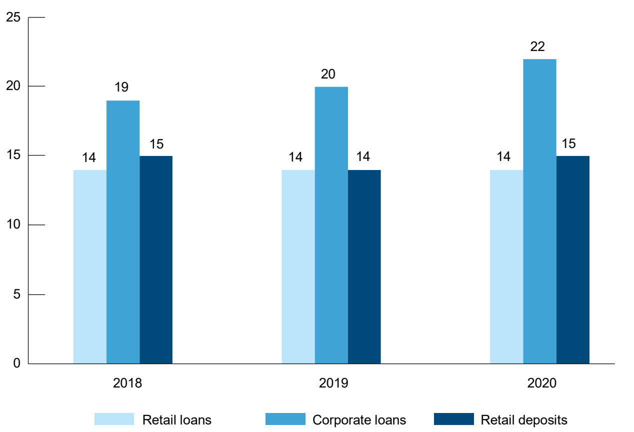


Source: National Bank of Croatia, Erste Group

At 5.9%, customer loan growth remained solid, with corporate loans increasing more than retail loans. Retail loans benefitted from the growth in housing loans, which were backed by the government's subsidised loans scheme. The corporate sector volume growth was mainly due to the public sector. Customer deposits increased by 8.4%, mainly driven by corporate deposits. The banking system's loan-to-deposit ratio declined to 80.8% at the end of the year.

Profitability of the Croatian banking system declined significantly in 2020, reflecting higher forward-looking risk provisions and limited revenue growth. Non-performing loans as a percentage of total customer loans remained flat at around 5.4%, while the coverage ratio on NPLs declined slightly to 64%. The capital adequacy ratio of the banking system remained robust at 24.9%. Overall, the country's banking sector achieved a mid-single digit return on equity.

Market shares – Croatia (in %)



Source: National Bank of Croatia, Erste Group

Erste Bank Croatia benefited from its strong brand throughout the crisis. The bank improved its market shares in both the lending and savings businesses. George, the digital banking platform of Erste Group, was introduced in Croatia in the last quarter of 2020. The bank's customer loans and customer deposits market shares stood at 17.3% and 15.7%, respectively. The bank's loan-to-deposit ratio amounted to 88.7%. In terms of total assets, Erste Bank Croatia affirmed its top three market position with a market share of 15.7%.

Business review 2020 – three questions to Christoph Schöfböck, CEO of Erste Bank Croatia,

How did your bank cope with the Covid-19 induced crisis, and how did you support customers and employees?

As a systemically relevant institution, we have taken a proactive and socially responsible approach from the very beginning of the crisis, investing maximum efforts to ensure that our stakeholders, clients, individuals and companies, are affected as little as possible. There were three key phases: temporarily suspending the activation of forced collection measures, enabling deferred repayment for up to six months (or up to 12 months for clients from industries most affected by the crisis, such as tourism) and granting loans aiming to preserve the liquidity of business entities in cooperation with institutions such as the Croatian Agency for SMEs, Innovations and Investments (HAMAG) and the Croatian Bank for Reconstruction and Development (HBOR) while ensuring adequate guarantee schemes and favourable financing conditions.

The transparent, clear and timely communication with the general public, clients, business partners and employees through all available channels has marked our communication strategy. We quickly adapted to the new circumstances, ensured business continuity and implemented the recommendations given by the authorities, as well as the availability of all services to clients, with a special emphasis on vulnerable groups.

How did you manage to successfully differentiate your business activities from those of your competition?

Due to the impact of the Covid situation on the economy and a significant rise in risk costs, our financial result in 2020 was understandably reduced. However, it is important to stress that our business operations have remained completely stable. Despite challenging times, we maintained the continuity of regular lending activities and a steadily growing deposit base. We have put a strong emphasis on the further development of our digital solutions. We have implemented George, Erste Group's modern pan-European digital platform. In addition to better user experience in mobile and internet banking, it also fosters innovation through which new functionalities will be continuously introduced in the future. Thus, we have managed to fulfil one of our strategic goals – to always be a frontrunner in digital innovations on the Croatian market. We have further improved our very successful and highly recognisable KEKS Pay app, which has been complemented with numerous new functionalities as well. At this moment, the app has 175,000 users, of which more than 75% are not clients of our bank.

Looking back at the year, what major achievements are especially noteworthy, and which ESG related topics or developments were most relevant for you?

As a responsible business entity, we have continued to successfully monitor and manage our loan portfolio in line with all regulatory rules, our business policies and highest standards in the segment of credit risk management and adopting a balanced approach focusing on our clients' needs. We have continued to meet all financial needs of retail and corporate customers through our regular lending activities. We have remained a consistent partner to our clients, offering them adequate financial and advisory support.

Our commitment to support society at large is also reflected by various sponsoring activities. Through initiatives to healthcare institutions, Erste Bank Croatia donated in total HRK 2.5 million (ca. EUR 330,000).

Fitch Ratings affirmed our credit rating at BBB+ with a stable outlook. This investment grade ranking is the best rating of any bank on the Croatian market and two notches above the credit rating currently held by the Republic of Croatia.

Last but not least, we also received our seventh Zlatna Kuna award, which is presented by the Croatian Chamber of Economy to the most successful bank on the Croatian market. We perceive the award as a significant recognition, not just of the quality of our business, but also of our active role in the development of Croatia's economy and fostering the prosperity of the entire community. That is why we will in future continue to be an active participant in seeking and finding adequate solutions, which will ensure the fastest possible recovery of the Croatian economy.

Financial review

in EUR million	2019	2020	Change
Net interest income	275.1	270.8	-1.6%
Net fee and commission income	108.2	92.0	-15.0%
Net trading result and gains/losses from financial instruments at FVPL	32.7	26.2	-20.1%
Operating income	430.3	401.5	-6.7%
Operating expenses	-223.1	-214.6	-3.8%
Operating result	207.2	187.0	-9.7%
Cost/income ratio	51.9%	53.4%	
Impairment result from financial instruments	-5.8	-104.2	>100.0%
Other result	-38.2	-16.7	-56.2%
Net result attributable to owners of the parent	90.3	43.9	-51.4%
Return on allocated capital	16.8%	7.2%	

The segment analysis is done on a constant currency basis. The HRK depreciated by 1.6% against the EUR in the reporting period. Net interest income in the Croatia segment (comprising Erste Bank Croatia Group) decreased, driven by the negative impact from modification losses related to loan moratoria. Net fee and commission income decreased on the back of lower payment fees in retail and corporate business driven by the SEPA regulation on cross border payments and the Covid-19 impact. Net trading result and gains/losses from financial instruments at FVPL declined due to a lower result from foreign exchange transactions and valuation effects. Operating expenses decreased mainly due to lower personnel, travel, training and marketing expenses, while the deposit insurance contribution went up EUR 12.3 million (EUR 11.6 million). Overall, operating result decreased, the cost/income ratio went up. The deterioration of impairment result from financial instruments was predominantly driven by updated risk parameters and stage overlays. Other result improved mainly due to significantly lower provisions for legal expenses. This line item included a resolution fund contribution in the amount of EUR 5.7 million (EUR 2.9 million). Overall, the net result attributable to the owners of the parent decreased.

Credit risk

In the Croatia segment, credit risk exposure rose to EUR 11.4 billion (+7.6%), while loans to customers grew at a similar pace to EUR 7.5 billion (+7.3%). Customer loan volume as a percentage of Erste Group's total loans to customers was slightly up at 4.4% (4.3%). The composition of the loan portfolio by business segment shifted further from Retail to Corporates. The share of local currency loans rose to 38.1% (36.3%) of total loans to customers. Most loans were still denominated in euro. The volume of Swiss franc-denominated loans has practically become irrelevant in the course of recent years. 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. Against the general trend, loan quality improved again. The NPL ratio decreased to 6.7% (7.0%). The NPL coverage ratio based on loan loss provisions rose to 89.7% (79.7%).

SERBIA

Economic review

The Serbian economy was one of the best performers in CEE in 2020. Real GDP contracted only moderately due to the significant policy support to mitigate the Covid-19 crisis impact and very stringent containment measures, resulting in their relatively short duration. The Serbian government introduced a fiscal package of approximately 13% of GDP that significantly limited the adverse impact of the pandemic on the country's private sector. Nevertheless, private consumption and investments were a drag on GDP. Public spending supported growth while the net export contribution was neutral to the economic performance. The country's unemployment rate declined further to 8.8% at the end of the year. Overall, real GDP declined by 1.1%, and GDP per capita amounted to EUR 6,700.

The general government deficit equalled 8.1% of GDP in 2020, mostly as a result of a large package of discretionary fiscal support measures including deferred tax payments, wage subsidies, one-off payments and liquidity-enhancing loan guarantees. Public debt as a percentage of GDP deteriorated to 57.6%.

Inflation remained well under control, with average consumer prices increasing by only 1.6%. As opposed to most of the other CEE currencies, the Serbian dinar remained broadly stable against the euro throughout the year. The National Bank of Serbia cut the key rate in four steps from 2.25% to 1.00% in 2020.

Rating agencies did not change their ratings for Serbia in 2020. Fitch kept the country's long-term credit rating at BB+ with a stable outlook, Moody's left its credit rating unchanged at Ba3 with a positive outlook, and Standard & Poor's also kept its credit rating at BB+. Standard & Poor's, however, revised the country's outlook to stable from positive.

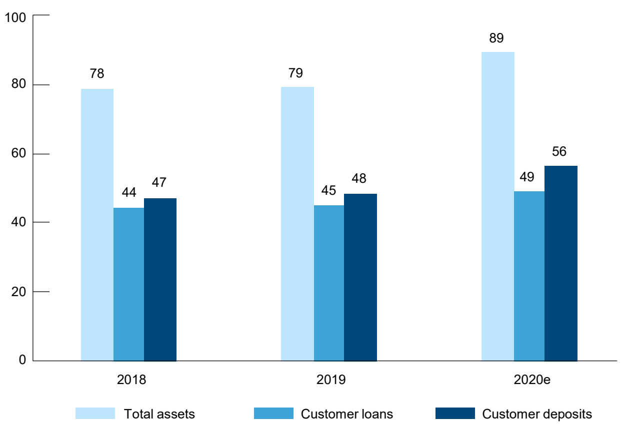
Key economic indicators – Serbia	2017	2018	2019	2020e
Population (ave, million)	7.0	7.0	6.9	6.9
GDP (nominal, EUR billion)	39.2	42.9	46.1	46.2
GDP/capita (in EUR thousand)	5.6	6.2	6.6	6.7
Real GDP growth	2.1	4.5	4.2	-1.1
Private consumption growth	2.2	3.1	3.5	-2.0
Exports (share of GDP)	38.4	38.0	38.0	36.7
Imports (share of GDP)	49.5	51.1	51.8	49.6
Unemployment (Eurostat definition)	13.5	12.7	10.4	8.8
Consumer price inflation (ave)	3.2	2.0	1.9	1.6
Short term interest rate (3 months average)	3.4	3.0	2.5	1.2
EUR FX rate (ave)	121.3	118.3	117.9	117.6
EUR FX rate (eop)	118.2	118.3	117.6	117.6
Current account balance (share of GDP)	-5.2	-4.8	-6.8	-5.6
General government balance (share of GDP)	1.1	0.6	-0.2	-8.1

Source: Erste Group

Market review

Considering the pandemic and its economic and social consequences, Serbia's banking market performed relatively well in 2020. The banking system's lending activity remained strong with retail loans growing by double digit figures. Corporate loans also grew impressively. At 13.9%, consumer loans outgrew housing loans which increased by 12.5%. The currency structure of customer loans changed further in favour of loans denominated in Serbian dinar due to supportive lending programmes that were introduced in 2020. On the savings side, corporate deposits grew by 25.2%, while total retail deposits increased 12.4%. Overall, the banking system's loan to deposit ratio stood at 88.7% in 2020.

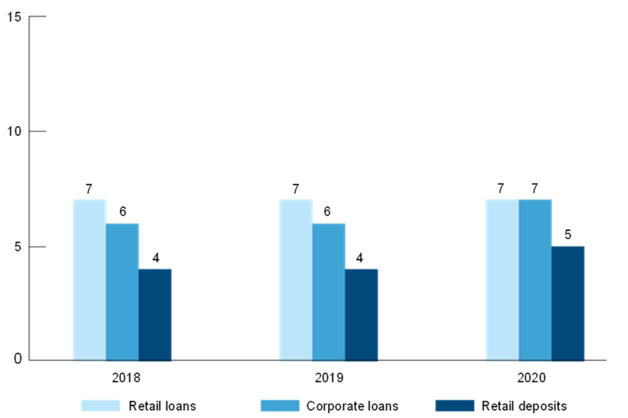
Financial intermediation – Serbia (in % of GDP)



Source: National Bank of Serbia, Erste Group

The consolidation of Serbia's banking market continued, with the number of banks declining further to 24 by the end of the year. Nova Ljubljanska Banka d.d., the Slovenian parent bank of NLB Group obtained all required regulatory approvals in relation to the acquisition of Komercijalna Banka a.d. The transaction was concluded in late December 2020 and created the third largest bank of the country, with a total asset market share of approximately 12%. The country's banking system remained profitable despite significantly higher risk provisions. Rising revenues and cost control supported the banking sectors' profitability. The NPL ratio remained relatively low at 3.7%, while the coverage ratio declined slightly to 58.5%. The banking system experienced a significantly increased usage of digital channels. Digitalisation was boosted by the banks' continuous effort to migrate customers to digital channels. Capital adequacy remained strong at 22.4% in 2020.

Market shares – Serbia (in %)



Source: National Bank of Serbia, Erste Group

Erste Bank Serbia further strengthened its market position in 2020. It is the sixth largest bank in the country in terms of total assets. Erste Bank Serbia continued to gain market share in both retail and corporate business. Its customer loan market share increased to 7.1%, with the retail and corporate lending market shares amounting to 7.4% and 6.8%, respectively. The bank's customer deposit market share increased to 6.0% at the end of the year.

Business review 2020 – three questions to Slavko Carić, CEO of Erste Bank Serbia

How your bank cope with the Covid-19 induced crisis, and how did you support customers and employees?

With the first confirmed coronavirus cases in Serbia we implemented crisis management teams to handle the situation, prepare preventive measures and to establish continuous communication with employees, clients and partners. Quickly our bank was well prepared for approximately 70% remote working regime in the headquarters and working in shifts in the retail network.

Even during the most severe waves that hit Serbia, we succeeded in keeping the business fully up and running, while taking measures to secure the health of our customers and employees. Their safety always comes first. So, one of our priorities was to further improve our e-banking services and to raise the capacity of our contact center to provide the support needed.

We quickly introduced all measures of the Central Bank with special emphasis on the moratoria. To further enable our customers to ease their monthly obligations, we offered the opportunity to consolidate their loan liabilities with a longer tenor of up to nine years. For the micro segment, we participated in the respective state programmes.

Our relationship managers strictly followed the recommendations, moving as much as possible to the digital sphere. Face-to-face meetings were reduced to the absolute minimum. At the beginning, this was a little bit strange to everyone but soon all parties realised that this is the right way to go.

How did you manage to successfully differentiate your business activities from those of your competition?

Our corporate department has always been driven by the idea that we are selling solutions to our clients, not products. Following this approach is reflected in customer proximity, and we believe that this differentiates us from the competition.

Our environmentally conscious lending is a positive differentiator. We are the largest bank in this segment with a significant part of the portfolio invested in wind, solar, hydro and biogas. We are planning not only to keep our leading position, but to build on it as much as possible. In addition, we are working on the implementation of an environmental social management system .

Having further improvement in customer satisfaction in mind, we specifically focused on upgrading our processes and capacity of our contact center. In the unsecured lending business we put special emphasis on less risky segments. In secured lending, we were recognised as the bank of choice due to our competent staff and excellent service. We acquired new customers in the private individual segment thanks to the high results in the customer satisfaction index, among the best on the market.

Our marketing campaign in July, addressing the mass affluent segment, resulted in a significant increase of FX deposits. Our loan/deposit ratio is now below 100%.

Looking back at the year, what major achievements are especially noteworthy, and which ESG related topics or developments were most relevant for you?

We achieved extraordinary growth of more than 50% in corporate deposits due to customer acquisitions of several big retailers and the effects of our SME deposits campaign from the end of 2019 and beginning of 2020. In addition, we acted as agent bank in one of the first corporate bond issuances for privately owned companies in Serbia (Energoprojekt).

We were also successful in our retail business: more than EUR 230 million of new loans were disbursed, pushing our market share further up. We achieved the best customer satisfaction index results, and more than 40,000 new private individuals decided to become clients of our bank.

In light of the crisis, we decided to support domestic companies. We created a TV and online advertising support campaign that lasted a month and a half, aiming to inform the general public about these companies and their products. Owing to the campaign, their visibility has increased, sales have improved, and they have expanded and preserved their business in spite of the crises. Last but not least, we should not forget financial literacy which is significantly growing in importance. Erste Bank Serbia therefore launched a comprehensive, free-of-charge financial education programme called #ErsteZnali. Our programme has been recognised by domestic and international relevant institutions. That is something that we are especially proud of and that inspires us to develop it even more in the future.

Financial review

in EUR million	2019	2020	Change
Net interest income	58.4	63.6	8.9%
Net fee and commission income	14.7	16.1	9.4%
Net trading result and gains/losses from financial instruments at FVPL	5.3	3.9	-25.9%
Operating income	78.5	83.8	6.6%
Operating expenses	-58.7	-60.3	2.9%
Operating result	19.9	23.4	17.8%
Cost/income ratio	74.7%	72.0%	
Impairment result from financial instruments	-0.8	-13.5	>100.0%
Other result	-0.4	-4.8	>100.0%
Net result attributable to owners of the parent	14.0	4.2	-69.9%
Return on allocated capital	7.4%	2.4%	

The segment analysis is done on a constant currency basis. The Serbian dinar (RSD) appreciated by 0.2% against the EUR in the reporting period. Net interest income in the Serbia segment (comprising Erste Bank Serbia Group) increased due to higher loan and deposit volumes in retail and corporate business. Net fee and commission income went up due to higher payment fees. Net trading result and gains/losses from financial instruments at FVPL decreased driven by a lower result from foreign currency transactions and valuation effects. Operating expenses increased due to higher personnel costs and depreciation partially offset by lower IT costs and a lower deposit insurance contribution of EUR 3.5 million (EUR 4.7 million). Operating result thus increased and the cost/income ratio improved. Impairment result from financial instruments deteriorated due to higher provisions in corporate and retail business driven by updated risk parameters and stage overlays. Other result deteriorated due to provisions for legal expenses. Overall, the net result attributable to 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 2.6 billion (+16.4%). The customer loan portfolio also registered strong growth. Loans to customers increased to more than EUR 1.7 billion (+17.7%), with strong momentum in both the Retail and the Corporates segments. The share of foreign-currency loans, denominated almost exclusively in euro, in the total loan portfolio was 75.3% (77.7%). This very large share of foreign-currency loans is mainly attributable to the wide-spread 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 were up marginally at 1.5% (1.4%) of total loans to customers. Loan loss provisions increased to 168.2% (140.3%) of non-performing loans.

OTHER

Financial review

in EUR million	2019	2020	Change
Net interest income	96.0	140.9	46.7%
Net fee and commission income	-85.6	-94.1	9.9%
Net trading result and gains/losses from financial instruments at FVPL	-51.9	-41.9	-19.3%
Operating income	-40.7	-4.4	-89.1%
Operating expenses	-167.8	-193.1	15.1%
Operating result	-208.4	-197.5	-5.2%
Cost/income ratio	>100.0%	>100.0%	
Impairment result from financial instruments	-14.8	21.7	n/a
Other result	-291.3	-21.7	-92.5%
Net result attributable to owners of the parent	-352.8	-260.9	-26.1%
Return on allocated capital	-6.1%	-3.4%	

Operating income increased on higher net interest income in the Holding due to positive impacts of more favourable ECB refinancing and lower negative interest on deposits with ECB. Operating expenses went up on higher IT costs. Overall, operating result improved. Other result improved notably on the non-recurrence of last years' good will impairment of Slovenská sporiteľňa in the amount of EUR 165.0 million and higher valuation results. Overall, the net result attributable to owners of the parent improved.

Business segments

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

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

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

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

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

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

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

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

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

RETAIL

Financial review

in EUR million	2019	2020	Change
Net interest income	2,290.1	2,083.7	-9.0%
Net fee and commission income	1,094.5	1,047.9	-4.3%
Net trading result and gains/losses from financial instruments at FVPL	112.5	89.4	-20.6%
Operating income	3,529.7	3,248.8	-8.0%
Operating expenses	-2,096.2	-2,067.7	-1.4%
Operating result	1,433.5	1,181.2	-17.6%
Cost/income ratio	59.4%	63.6%	
Impairment result from financial instruments	-74.6	-392.2	>100.0%
Other result	-226.4	-68.9	-69.6%
Net result attributable to owners of the parent	866.4	583.9	-32.6%
Return on allocated capital	26.4%	18.4%	

The decrease in net interest income was primarily driven by a change of transfer prices that led to a negative impact in the retail segment and a corresponding positive effect in ALM & Local Corporate Center. Lending business in the Czech Republic declined primarily on the depreciation of the Czech koruna against the euro and the negative impact of loan repayment moratoria leading to modification losses. These negative effects were partially mitigated by the growth of customer loan volumes in almost all core markets. Net fee and commission income decreased mainly due to lower fees from payments in all core markets as well as lower fees from lending business, mostly on changed disclosure of the fees charged for early loan repayment. Higher fees from securities business in Austria, the Czech Republic, Hungary and Romania and improved fees from insurance brokerage in the Czech Republic and Slovakia could not fully mitigate these developments. Net trading result and gains/losses from financial instruments FVPL decreased due to lower foreign currency transactions in the Czech Republic and negative valuation effects in Hungary. Operating expenses decreased in several core markets, mainly in the Czech Republic, helped by FX translation effects and lower variable remuneration. Consequently, operating result declined, and the cost/income ratio worsened. The deterioration of impairment result from financial instruments was primarily driven by updated risk parameters with forward-looking information and stage overlays. The non-recurrence of a provision in the amount of EUR 153.3 million in Romania as a result of a Romanian High Court decision in relation to business activities of the local building society subsidiary led to an improvement of the other result. Overall, the net result attributable to the owners of the parent decreased.

Credit risk

Credit risk exposure in the Retail business segment rose to EUR 69.8 billion (+1.8%). The customer loan portfolio increased to EUR 61.0 billion (+2.7%). The share of the retail business in Erste Group's total customer loans was down marginally at 35.9% (36.4%). The collateralisation ratio, which reflects the ratio of collateral to loan volume, stood at 65.9% (64.9%). The quality of the retail customer loan portfolio was stable. Non-performing loans increased by EUR 41 million to nearly EUR 1.5 billion but, as a percentage of total retail customer loans, were unchanged at2.4%. In terms of the NPL ratio (non-performing loans as a percentage of total loans), loan quality was thus again very high in the Retail segment and above the average loan quality within Erste Group. The share of low-risk loans as a percentage of total retail customer loans was high at 86.0% (84.7%). As the volume of non-performing loans is expected to go up in the future, particularly due to the Covid-19 crisis, loan loss provisions were strongly increased to 98.2% (82.8%) of the total non-performing loan portfolio.

CORPORATES

Financial review

in EUR million	2019	2020	Change
Net interest income	1,098.7	1,109.4	1.0%
Net fee and commission income	301.1	282.3	-6.2%
Net trading result and gains/losses from financial instruments at FVPL	101.0	64.1	-36.5%
Operating income	1,603.1	1,561.3	-2.6%
Operating expenses	-575.3	-535.7	-6.9%
Operating result	1,027.8	1,025.6	-0.2%
Cost/income ratio	35.9%	34.3%	
Impairment result from financial instruments	32.9	-656.0	n/a
Other result	-2.3	-65.5	>100.0%
Net result attributable to owners of the parent	814.9	193.7	-76.2%
Return on allocated capital	18.7%	5.1%	

Net interest income increased primarily due to higher loan volumes in Austria and positive contributions from lending business in Slovakia, Hungary and Croatia. Net fee and commission income went down as a result of lower payment and lending fees mainly in Romania, the Czech Republic and Croatia. Net trading result and gains/losses from financial instruments at FVPL decreased due to negative valuation effects mainly in the Holding, the Czech Republic and Slovakia. Overall, operating income declined. Operating expenses decreased in the majority of core markets. Operating result thus remained almost unchanged and cost/income ratio improved. The significant increase of risk provisions (line item impairment result from financial instruments) across all core markets resulted from the updated risk parameters with forward-looking information and stage overlays. Other result worsened primarily due to the non-recurrence of selling gains. The net result attributable to the owners of the parent decreased significantly.

Credit risk

Credit risk exposure in the Corporates segment rose to EUR 83.0 billion (+6.5%). Loans to customers increased to EUR 57.6 billion (+5.0%). As a percentage of Erste Group's total loans to customers they stood at 33.9% (33.6%). The big difference between credit risk exposure and the customer loan portfolio in the Corporates segment is primarily due to a large volume of guarantees and unused loan commitments. The outbreak of the Covid-19 crisis and its serious economic consequences led to deterioration in asset quality; the NPL ratio rose to 2.8% (2.3%). A significant proportion of growth in non-performing loans resulted from a review of borrowers' expected future solvency. Where repayment appears unlikely, customers are categorised as defaulted even if they were not insolvent nor payments past due for more than 90 days. In view of an expected rise in loan losses, loan loss provisions were also increased substantially and amounted to 94.8% (85.7%) of non-performing loans in the Corporates segment.

GROUP MARKETS

Financial review

in EUR million	2019	2020	Change
Net interest income	257.2	252.2	-2.0%
Net fee and commission income	228.3	240.9	5.5%
Net trading result and gains/losses from financial instruments at FVPL	48.4	38.5	-20.4%
Operating income	536.9	529.7	-1.4%
Operating expenses	-240.2	-232.0	-3.4%
Operating result	296.7	297.7	0.3%
Cost/income ratio	44.7%	43.8%	
Impairment result from financial instruments	5.1	-0.8	n/a
Other result	-18.4	-25.7	39.5%
Net result attributable to owners of the parent	224.6	211.0	-6.1%
Return on allocated capital	24.1%	24.4%	

Net interest income went down mainly due to lower result from repurchase operations as well as decreased contribution of the business with institutional clients in the Czech Republic. Net fee and commission income increased mostly due to higher securities fees driven by increased securities transactions, origination and business with institutional clients in Austria. Net trading result and gains/losses from financial instruments at FVPL decreased due to valuation results of interest rate derivatives as well as a significant decrease in market prices of fair value securities. Overall, operating income decreased. Operating expenses went down, leading to a moderate increase in operating result. Cost/income ratio improved. Impairment result from financial instruments deteriorated due to risk provisioning in several CEE core markets. Other result deteriorated mainly on the back of higher resolution fund contribution and non-recurrence of selling gains in Austria. Overall, the net result attributable to the owners of the parent declined.

ASSET/LIABILITY MANAGEMENT & LOCAL CORPORATE CENTER

Financial review

in EUR million	2019	2020	Change
Net interest income	-104.3	86.2	n/a
Net fee and commission income	-84.5	-79.3	-6.2%
Net trading result and gains/losses from financial instruments at FVPL	38.6	13.2	-65.8%
Operating income	-107.1	58.0	n/a
Operating expenses	-110.9	-107.4	-3.1%
Operating result	-218.0	-49.4	-77.3%
Cost/income ratio	>100%	>100%	
Impairment result from financial instruments	13.0	-3.0	n/a
Other result	-90.0	-111.8	24.2%
Net result attributable to owners of the parent	-237.3	-112.7	-52.5%
Return on allocated capital	-8.2%	-3.6%	

Net interest income improved primarily due to a change of transfer prices that led to a negative impact in the retail and corporate segment and a corresponding positive effect in ALM & LCC as well as a higher contribution from balance sheet management in the Czech Republic. Net fee and commission income improved mainly due to a better result in the Czech Republic. Net trading result and gains/losses from financial instruments at FVPL deteriorated due to valuation results in the Holding. Operating expenses declined mainly on methodological changes resulting in cost allocations to the other business segments in Erste Bank Oesterreich and Slovakia. Overall, operating result improved. Other result worsened mainly due to higher allocations of payment into resolution funds and lower real estate selling gains. The net result attributable to the owners of the parent improved.

SAVINGS BANKS

The business segment Savings Banks is identical to the operating segment Savings Banks (see page 29).

GROUP CORPORATE CENTER

Financial Review

in EUR million	2019	2020	Change
Net interest income	70.6	89.1	26.2%
Net fee and commission income	-1.3	6.6	n/a
Net trading result and gains/losses from financial instruments at FVPL	12.2	37.1	>100.0%
Operating income	70.9	124.8	76.0%
Operating expenses	-1,023.9	-1,013.0	-1.1%
Operating result	-953.0	-888.2	-6.8%
Cost/income ratio	>100.0%	>100.0%	
Impairment result from financial instruments	-16.4	24.4	n/a
Other result	572.6	829.5	44.9%
Net result attributable to owners of the parent	-263.3	-134.4	-49.0%
Return on allocated capital	-5.6%	-2.1%	

The increase in operating income was driven by higher net interest income on decreased funding costs as well as improved net trading result and gains/losses from financial instruments at FVPL. Operating expenses decreased on lower marketing and project related costs. Overall, operating result improved. Other result improved notably on the non-recurrence of last years' good-will impairment of Slovenská sporitel'ňa in the amount of EUR 165.0 million and higher valuation results. Overall, the net result attributable to owners of the parent improved.