

Strategy

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

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

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

Long-standing tradition in customer banking

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

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

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

Core markets in the eastern part of the European Union

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

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

Growing importance of innovation and digitalisation

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

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

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

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

Focus on sustainability and profitability

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

The management board adopted a Statement of Purpose to reaffirm and state in more detail the purpose of Erste Group to promote and secure prosperity across the region. Building on this

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

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

Erste Group's strategy

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

THE STRATEGY IN DETAIL

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

Retail business

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

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

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

Corporate business

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

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

Capital markets business

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

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

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

Public sector business

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

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

Interbank business

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

REGULATORY CHANGES IN BANKING

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

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

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

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

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

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

At its meeting of 13 December 2021, the Financial Market Stability Board (FMSB) stated that rising systemic risks from residential property financing may be of relevance to financial market stability in Austria. In case of a property crisis, there would be a risk of a disruption of the financial system with negative impacts on the real economy. Therefore, these systemic risks should be

addressed adequately and in time. The FMSB has requested the Austrian Financial Markets Authority and the Austrian National Bank to elaborate the implementation of this recommendation.

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

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

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

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

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

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

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

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

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

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

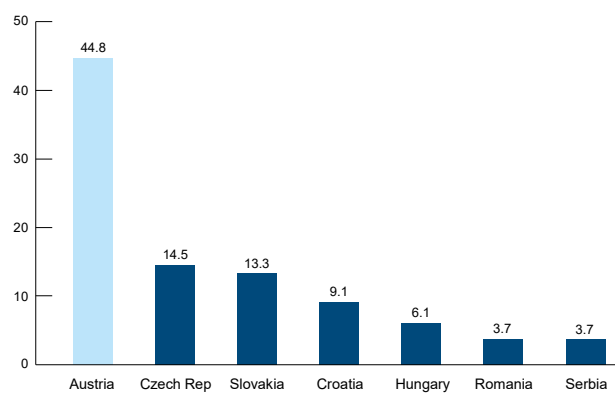
LONG-TERM GROWTH TRENDS IN CENTRAL AND EASTERN EUROPE

The economic catch-up process across the countries of Central and Eastern Europe and the underlying convergence trend continues. This is on the one hand due to the fact that the region has to make up for almost half a century of communist mismanagement of the economy, and on the other hand, due to the fact that banking activities were largely non-existent during that time. With the exception of deposit-taking, modern banking services

were largely unknown in these countries after the fall of communism. On the lending side, this was due to high nominal and real interest rates and also to disposable incomes that did not support household credit growth. In addition, a healthy competitive environment was lacking due to extensive state ownership. All this has changed. Disposable income has risen strongly on the back of growing gross domestic product. Most formerly state-owned banks have been sold to strategic investors that have fostered product innovation and competition. Economic growth, which temporarily declined substantially in some countries in CEE following the economic and financial crisis, recovered again. Despite such economic slowdowns and potential temporary negative impacts on the banking markets in Central and Eastern Europe, these factors will remain the driving force behind future development.

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

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



Source: Local central banks, Erste Group

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

BUILDING ON A STRONG BRAND

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

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

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

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

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

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

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