Management report

Business performance and economic situation

Economic environment

In 2023, global economic growth slowed down mainly due to ongoing disruptions, albeit at a lower pace, in energy and food markets and further tightening of monetary conditions to curb high inflation. Inflation rates declined but still remained above targets in many economies. The year was also characterised by heightened geopolitical tensions and natural disasters. In addition to military conflicts, in particular the ongoing Russia-Ukraine war and the Israeli-Palestinian conflict, the failures of several regional banks in the US and the bankruptcy of Switzerland's second largest and globally systemic important bank Credit Suisse weakened investors' confidence. Against the backdrop of these events the global economy achieved a growth rate of 3.1%.

Among advanced economies, the United States surprised on the upside, with resilient consumption and investments. The US economy grew by 2.5% despite elevated trade tensions with China, bank failures, and its debt-ceiling crisis which led to the country's first credit rating downgrade since 2011. Expectations for the eurozone were revised downward during the year, at year-end GDP stood at 0.5% . Strong demand for services supported service-oriented economies including important tourism destinations such as France, Spain or Croatia, while Germany's economy weakened slightly. In Japan, growth bounced back driven by pent-up demand and a rebound in automobile exports and tourism. Many emerging market economies proved quite resilient, with the notable exception of China which grew at a lower pace than anticipated. India, once again, outperformed other major emerging markets. Labour markets, especially in advanced economies, remained solid with historically low unemployment rates.

The world's major central banks continued their measures to curb inflation. The US Federal Reserve (Fed) increased the federal funds rate further in four steps from 4.00% to 5.50% but indicated in December 2023 that the key interest rate were at or close to its peak. The European Central Bank (ECB) likewise continued to raise the key policy rate of the monetary union, from 2.50% to 4.50% in six steps during the year. Unlike the Fed, the ECB Council has not given any precise indication for upcoming interest rate cuts. While the ECB's Asset Purchase Programme (APP) portfolio has continued to decline at a steady pace, the Pandemic Emergency Purchase Programme (PEPP) portfolio will be reduced by EUR 7.5 billion monthly from mid 2024. Other major central banks, such as the Bank of England and the Swiss National Bank also increased their key policy rates in 2023. At year-end 2023 global headline inflation was down from its peak in 2022 driven mainly by over the year finally declining energy and food prices. All euro zone member states posted single digit inflation rates at year-end 2023.

Austria's economic performance was weaker than originally expected and the country's economy underperformed the European Union average. The economic decline was broad based with particularly weak performance in private consumption and investment activity. Private consumption was negatively impacted by declining households' disposable income – although partly offset by various subsidies. The slowdown of investment activity was particularly pronounced in the construction sector, with the exception of infrastructure related construction. Exports, mainly driven by machinery, chemical and food products, were stronger in the beginning of the year and contributed to economic growth. Tourism boomed with summer season's overnight stays reaching the highest levels for decades. The agricultural sector, although not a major contributor to GDP, also performed well. Overall, the Austrian economy shrank by 0,7%.

Inflation in Austria started to decline in early 2023. Annual inflation peaked in January 2023 at 11.2% while average inflation amounted to 7.7%, above the EU average. Austria's labour market remained stable throughout the year, the unemployment rate stood at 5.1%. The general government deficit decreased from 3.5% of GDP to 2.7% mainly due to the phase-out of COVID-19 measures and a dynamic growth in tax revenues.

Central and Eastern European economies experienced a significant slowdown compared to the prior year. Growth expectations were moderately revised down during the year as economic activity was impacted by declining but still elevated inflation and tight monetary conditions. Household consumption was muted throughout the year. Exports were negatively impacted by limited growth of the region's main trading partners which took a toll on production output. Deterioration of foreign demand was most pronounced in countries with high dependency on Germany's economy, such as the Czech Republic and Hungary. Whereas exports developed well in Slovakia following the easing of supply chain disruptions and further investments in the automotive industry. Inventories declined in most CEE countries after the strong accumulation in the previous year. Agricultural output was supportive in Romania and Hungary. Croatia, which proved to be one of the best performing economies in the region, was supported again by its booming tourism sector. Overall, CEE economies achieved GDP growth rates ranging from –0.9% in Hungary to 2.5% in Serbia in 2023.

Despite the economic slowdown, labour markets remained very strong with countries like Hungary and the Czech Republic posting the lowest unemployment rates among the European Union countries. In response to elevated inflation rates, central banks continued with monetary tightening and, consequently, inflation dropped to single-digits in all CEE countries by the end of the year. Such a dynamic decline supported monetary easing scenarios in some non-euro countries, and the Hungarian and Czech central banks started to cut interest rates in the last quarter of the year. CEE governments implemented a range of measures to support households and businesses such as caps on electricity and fuel prices and direct energy subsidies. Windfall and special banking taxes were introduced in a number of CEE countries, e.g. Hungary, Slovakia and Romania. While the Czech koruna depreciated against the euro, most CEE currencies were relatively stable during the year. On 1 January 2023, Croatia became the 20th member of the eurozone.

Analysis of performance

In the group management report P&L data of 2023 is compared with data of 2022, balance sheet data as of 31 December 2023 is compared to data as of 31 December 2022. The entire development is presented in detail in the notes to the consolidated financial statements.

Profit and Loss Statement.

in EUR million	2022	2023	Change
Net interest income	5.951	7.228	21,5%
Net fee and commission income	2.452	2.640	7,6%
Net trading result and gains/losses from financial instruments at FVPL	-47	449	n/a
Operating income	8.571	10.552	23,1%
Operating expenses	-4.575	-5.020	9,7%
Operating result	**3.996**	**5.532**	**38,4%**
Impairment result from financial instruments	-300	-128	-57,3%
Other operating result	-399	-468	17,4%
Levies on banking activities	-187	-183	-1,9%
Pre-tax result from continuing operations	**3.222**	**4.795**	**48,8%**
Taxes on income	-556	-874	57,2%
Net result for the period	**2.666**	**3.921**	**47,0%**
Net result attributable to non-controlling interests	502	923	84,0%
Net result attributable to owners of the parent	**2.165**	**2.998**	**38,5%**

Net interest income
Net interest income rose significantly both in the retail and in the corporate business. This marked increase was due to higher market rates most notably in Austria, Hungary, Croatia and Romania as well as higher loan volumes in nearly all core markets. In the Czech Republic, net interest income was negatively impacted by higher interest expense on deposits and slow repricing of retail loans. The net interest margin (calculated as the annualised sum of net interest income, dividend income and net result from equity method investments over average interest-bearing assets) widened markedly to 2.50% (2.21%).

Net fee and commission income
Growth was achieved across all core markets and nearly all fee and commission categories. Significant rises were recorded most notably in payment services in nearly all segments, with the exception of Serbia, driven by a larger number of transactions as well as repricing. Income from asset management and lending continued its positive trend.

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

Net trading result turned positive to EUR 754 million (EUR -779 million) due to valuation effects resulting from interest rate moves in the securities and derivatives business as well as higher income from foreign currency transactions. Gains/losses from financial instruments measured at fair value through profit or loss trended in the opposite direction and deteriorated to EUR -306 million (EUR 731 million). While the valuation of debt securities in issue resulted in losses, gains were posted from the valuation of the loan portfolio measured at fair value in Hungary as well as from the valuation of the securities portfolio in Austria (in the Savings Banks segment).

General administrative expenses

in EUR million	2022	2023	Change
Personnel expenses	2.668	2.991	12,1%
Other administrative expenses	1.356	1.468	8,3%
Depreciation and amortisation	551	560	1,7%
General administrative expenses	**4.575**	**5.020**	**9,7%**

Personnel expenses increased in all core markets – most significantly in Austria, the Czech Republic and Romania – driven mostly by higher collective salary agreements. The increase in other administrative expenses was primarily attributable to higher IT, marketing and office-related expenses. By contrast, contributions to deposit insurance schemes declined to EUR 114.0 million (EUR 143 million). In Hungary, expenses dropped to EUR 5 million (EUR 18 million) as contributions in the comparative period had been higher due to a deposit insurance case (Sberbank Europe). In Austria, contributions declined to EUR 68 million (EUR 80 million), in Slovakia to EUR 2 million (EUR 10 million). The cost/income ratio improved to 47.6% (53.4%).

Gains/losses from derecognition of financial instruments not measured at fair value through profit or loss

Gains/losses from derecognition of financial instruments not measured at fair value through profit or loss amounted to EUR 141 million (EUR 75 million). This includes most notably negative results from the sale of securities in Austria.

Impairment result from financial instruments

The impairment result from financial instruments amounted to EUR -128 million (EUR -300 million). Net allocations to provisions for loans and advances declined to EUR 264 million (EUR 336 million), primarily on the back of releases in Romania. Positive contributions came from income from the recovery of loans already written off, most notably in Austria, the Czech Republic and Croatia, in the amount of EUR 80 million (EUR 82 million) as well as from net releases of provisions for loan commitments and financial guarantees in the amount of EUR 70 million (net allocations of EUR 28 million).

Other operating result

Other operating result is significantly affected by contributions to resolution funds and taxes and levies on banking activities. Contributions to resolution funds declined in all markets to EUR 113 million (EUR 139 million). The most notable decline was recorded in Austria, to EUR 65 million (EUR 74 million). Taxes and levies on banking activities were lower at EUR 183 million (EUR 187 million). Thereof, EUR 46 million (EUR 63 million) were payable by Austrian entities. In Hungary, banking levies rose to a total of EUR 137 million (EUR 124 million): in addition to regular Hungarian banking tax of EUR 17 million (EUR 15 million), a windfall tax based on the previous year's net revenues was posted in the amount of EUR 48 million (EUR 50 million). Financial transaction tax amounted to EUR 71 million (EUR 59 million). The balance of allocations/releases of other provisions deteriorated to EUR -23 million (EUR 46 million). In addition, impairment losses on tangible and intangible assets were recognised in the amount of EUR 70 million (EUR 44 million).

Balance sheet

in EUR million	Dec 22	Dec 23	Change
Assets			
Cash and cash balances	35.685	36.685	2,8%
Trading, financial assets	59.833	63.690	6,4%
Loans and advances to banks	18.435	21.432	16,3%
Loans and advances to customers	202.109	207.828	2,8%
Intangible assets	1.347	1.313	-2,5%
Miscellaneous assets	6.456	6.206	-3,9%
Total assets	**323.865**	**337.155**	**4,1%**
Liabilities and equity			
Financial liabilities held for trading	3.264	2.304	-29,4%
Deposits from banks	28.821	22.911	-20,5%
Deposits from customers	223.973	232.815	3,9%
Debt securities issued	35.904	43.759	21,9%
Miscellaneous liabilities	6.599	6.864	4,0%
Total equity	25.305	28.502	12,6%
Total liabilities and equity	**323.865**	**337.155**	**4,1%**

Cash and cash balances amounted to EUR 36.7 billion (EUR 35.7 billion). Trading and investment securities held in various categories of financial assets increased to EUR 63.7 billion (EUR 59.8 billion).

Loans and advances to credit institutions (net), including demand deposits other than overnight deposits, grew – primarily in Austria and in the Czech Republic – to EUR 21.4 billion (EUR 18.4 billion). Loans and advances to customers (net) increased to EUR 207.8 billion (EUR 202.1 billion), most notably due to organic growth in Slovakia and Croatia as well as inorganic growth in the Czech Republic. Both retail and corporate loan volumes increased.

Loan loss allowances for loans to customers were nearly unchanged at EUR 4.1 billion (EUR 4.0 billion). The NPL ratio – non-performing loans as a percentage of gross customer loans – deteriorated slightly to 2.3% (2.0%), the NPL coverage ratio (based on gross customer loans) slipped to 85.1% (94.6%).

Financial liabilities – held for trading amounted to EUR 2.3 billion (EUR 3.3 billion). Deposits from banks, including term deposits in an amount of EUR 6.4 billion (EUR 15.6 billion) carrying amount of TLTRO III funds, declined to EUR 22.9 billion (EUR 28.8 billion); deposits from customers rose to EUR 232.8 billion (EUR 224.0 billion) due to strong growth in term deposits of financial institutions. The loan-to-deposit ratio stood at 89.3% (90.2%). Debt securities in issue increased to EUR 43.8 billion (EUR 35.9 billion).

Total assets rose to EUR 337.2 billion (EUR 323.9 billion). Total equity increased to EUR 28.5 billion (EUR 25.3 billion). This includes AT1 instruments in the amount of EUR 2.4 billion. After regulatory deductions and filtering according to the Capital Requirements Regulation (CRR) common equity tier 1 capital (CET1, CRR final) rose to EUR 22.9 billion (EUR 20.4 billion) as were total own funds (CRR final) to EUR 29.1 billion (EUR 26.2 billion). Total risk – risk-weighted assets including credit, market and operational risk (CRR final) – increased to EUR 146.5 billion (EUR 143.9 billion).

The total capital ratio, total eligible qualifying capital in relation to total risk (CRR final), rose to 19.9% (18.2%), well above the legal minimum requirement. The tier 1 ratio increased to 17.3% (15.8%), the common equity tier 1 ratio advanced to 15.7% (14.2%) (both ratios CRR final).

Cash earnings per share amounted to EUR 6.82 in 2023 (EUR 4.85). Earnings per share are EUR 6.80 (EUR 4.83).

The cash return on equity, i.e. the return on equity adjusted for non-cash expenses such as goodwill amortization and straight-line depreciation for the customer relationships, was 15.9% (return on equity: 15.9%) after 12.7% (return on equity: 12.6%) last year.

Branches

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

Expected development and risks of the Group

Long-term growth trends in Central and Eastern Europe

In line with growing economic performances disposable income have risen significantly in recent decades compared to Western Europe. In addition, most countries of Central and Eastern Europe 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 Western economies reveals the gap that exists between these markets. Private debt levels, and particularly household debt, are substantially lower than in the advanced economies. Erste Group firmly believes that credit expansion accompanied by economic growth in this region will prove to be a lasting trend.

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

Customer banking in Central and Eastern Europe

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

Retail business

Erste Group's key business is the retail business, covering the entire spectrum from lending, deposit and investment products to current accounts and credit cards. Erste Group's core competence in retail banking has historical roots. In 1819, wealthy Viennese citizens donated funds to establish Erste Group's predecessor, the first savings bank in Central Europe. It was their aim to bring basic banking services such as safe savings accounts and mortgage loans to wide sections of the population. Today, the bank serves some 16.2 million customers in its markets and operates about 1,950 branches. Wealthy private clients, trusts and foundations are served by the bank's private banking staff and benefit from services that are tailored to the needs of this target group.

In addition, the bank uses and promotes digital distribution channels such as internet and mobile banking not only to meet the increasing importance of digital banking but to actively shape the digital future. George, Erste Group's digital platform, is already available in Austria, the Czech Republic, Slovakia, Romania, Croatia and Hungary. It will also be rolled out in Serbia.

Retail banking is attractive to Erste Group for a number of reasons: It offers a compelling business case that is built on market leadership, an attractive risk-reward profile and the principle of self-funding. In addition, it benefits from a comprehensive range of products that are simple and easy to understand and provide substantial cross-selling potential. Erste Group takes advantage of these factors in all core markets and makes best use of its resulting position of strength by pursuing a hybrid business model . Erste Group's omni-channel approach 10 integrates the various sales and communication channels. Customers decide on how, when and where they do their banking business. Contact centers serve as interfaces between digital banking and traditional branch business. These contact centers offer advice and sales, thus going far beyond the traditional help desk function.

In addition to the expansion of digital sales channels, the branch network remains an important component of the business strategy. Only a retail bank that offers modern digital services and operates an extensive distribution network is able to offer tailor-made solutions and 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.

Outlook statement

OUTLOOK FOR 2024

Erste Group's goal for 2024 is to achieve a return on tangible equity (ROTE) of about 15%. Three key factors will support achievement of this goal: firstly, a moderate improvement in economic growth compared to 2023 in Erste Group's seven core markets (Austria, Czech Republic, Slovakia, Romania, Hungary, Croatia and Serbia) despite continued geopolitical risks, which, should they materialise, would likely negatively impact economic performance; secondly, a continued broadly positive, even if slightly deteriorating credit risk environment; and, finally, the continuous ability of Erste Group to attract new and retain existing customers through continuous development of its product portfolio and its brand. The key headwind to achievement of this goal is the magnitude and timing of the expected central bank rate cuts in all of Erste Group's markets. Overall Erste Group expects a slight decline in operating result, which hit a historic high in 2023, and, consequently, a moderate deterioration in the cost/income ratio to a level of about 50%, also from a historic best in 2023 of 47.6%.

The expectation by economists is for Erste Group's core markets to post improved real GDP growth in 2024. Inflationary pressures are expected to continue their downward trend in 2024. Continued strong labour markets should be supportive of economic performance in all of Erste Group's markets. Current account balances are projected to remain at sustainable levels in most countries, while fiscal deficits should continue their path of consolidation. Public debt to GDP in all Erste Group markets is projected to be broadly stable, and hence remain materially below the euro zone average.

Against this backdrop, Erste Group expects net loan growth of about 5%. Retail and corporate business should contribute in all markets towards achievement of this goal. Loan growth is projected to offset some of the interest rate headwinds detailed above, resulting in a moderate decline of about 3% in net interest income versus 2023, following a historic upswing over the past two years. The second most important income component – net fee and commission income – is expected to rise by about 5%. As in 2023, growth momentum should again come from payment services, insurance brokerage fees as well as asset management and securities business with the latter being dependent on a constructive capital markets environment. The net trading and fair value result, which recovered significantly in 2023, is expected to normalise at historically observed levels in 2024. This, however, will depend substantially on the actual short- and long-term interest rate environment.

The remaining income components are forecast to remain, by and large, stable. Overall, operating income is therefore expected to decrease slightly in 2024, albeit from a historic high in 2023. Operating expenses are expected to rise by approximately 5%. With this the cost/income ratio should remain solid at a level of about 50%.

Based on the macro outlook presented above, risk costs should remain at a low level in 2024. While precise forecasting is hard at current low risk cost levels, Erste Group believes that in 2024 risk costs will be below 25 basis points of average gross customer loans.

While a forecast for other operating result and various categories of gains and losses from financial instruments not measured at fair value is challenging, this combined item is likely to improve versus 2023 in the absence of significant one-off effects. Assuming an effective group tax rate of below 20% and lower minority charges compared to 2023, Erste Group aims to achieve a ROTE of about 15% in 2024. The CET1 ratio is expected to remain strong providing enhanced capital return M&A and/ or flexibility, despite Erste Group targeting the execution of a share buyback in the amount of EUR 500 million in 2024.

Potential risks to the guidance include (geo)political and economic (including monetary and fiscal policy impacts) developments, regulatory measures as well as changes to the competitive environment. International (military) conflicts, such as the war in Ukraine and in the Mid East do not impact Erste Group directly, as it has no operating presence in the regions involved. Indirect effects, such as financial markets volatility, sanctions-related knock-on effects, supply chain disruption or the emergence of deposit insurance or resolution cases cannot be ruled out, though. Erste Group is moreover exposed to non-financial and legal risks that may materialise regardless of the economic environment. Worse than expected economic development may put goodwill at risk.

ANALYSIS OF MEDIUM AND LONG-TERM BUSINESS DRIVERS

Erste Group operates a universal bank business model on consolidated level, as well as on local country level in seven core markets: Austria, Czechia, Slovakia, Romania, Croatia, Hungary and Serbia. In all of these countries it holds leadership positions in the markets of retail and corporate banking as well as asset management. Consequently, the performance of Erste Group is tied to the overall

economic development in those countries, specifically, to economic growth, labour market trends, as well as fiscal and monetary policy; in addition, it is tied to the competitive environment and Erste Group's ability to attract new clients and qualified staff.
Erste Goup's main source of income is net interest income, contributing approximately two thirds to total revenues. Net interest income is primarily derived from the difference between interest paid on customer deposits as well as issued bonds, and interest received from customer loans and from bond investments. It is also materially influenced by monetary policy, which determines short-term market interest rates, and long-term interest rates, which are a function of economic outlook, creditworthiness of the respective issuer as well as market risk perception. The resulting shape of the yield curve and the bank's ability to anticipate certain market developments also influence net interest income. Generally speaking, very low interest rates paired with flat or downward-sloping yield curves put pressure on net interest income generation, while upward-sloping yield curves and positive short-term market interest rates are supportive of net interest income generation. A further key growth driver of net interest income is volume growth – of both customer loans and customer deposits. Erste Group is particularly well positioned to benefit from volume growth as it operates in CEE markets that are still underpenetrated across all categories of banking services and products.

Erste Group's second key income stream is net fee and commission income, which usually accounts for more than a quarter of total revenues. It is Erste Group's goal to expand the share of net fee and commission income in the medium and long term to lessen the dependency on net interest income. This should be supported by the CEE markets becoming wealthier, resulting in increased demand for fee-generating products, such as asset management. Within net fee and commission income, net fees generated from payments services, such as current account fees, transaction fees or credit card fees, account for less than one half of net fee revenues. The growth in payment service fees is primarily driven by economic activity and the ability of the bank to attract new customers by profitably providing services and products at competitive prices. The key growth driver within net fee income is income from securities business, comprising revenues from asset management as well as from securities-related services, such as transfer orders or securities issuance fees. Erste Group expects that this fee category will be a continued source of dynamic growth as customers seek to diversify and expand their investments as they grow wealthier. Income from insurance brokerage fees should also make a noticeable contribution to the expansion of the fee revenue pool.

The remainder of revenues is made up by net trading and fair value result, which – depending on market volatility-induced valuations – can be volatile, rental income from properties which constitutes a stable income source, as well as various categories of gains and losses from financial assets not measured at fair value, which tends to be a minor P&L item and typically one-off in character.

General administrative or operating expenses constitute the cost of doing business. Personnel expenses account for approximately three fifths of total operating expenses. Another 30% is contributed by other administrative expenses, encompassing items that primarily relate to infrastructure but also marketing, legal and consultancy costs as well as deposit insurance contributions. The remainder of operating expenses is made up by depreciation and amortisation charges, primarily for real estate and office equipment but also for intangible assets, such as software and customer relationships. In the medium and long term Erste Group aims to maintain a healthy balance between operating costs and operating income, as expressed by the cost/income ratio.

Net impairment loss on financial assets or risk costs are related to impairments for on- and off-balance sheet financial assets, primarily customer loans. Erste Group aims to keep such impairments at low levels by applying sound underwriting standards.

Other operating result relates to expenses and provisions for such items as banking taxes and resolution fund contributions, goodwill impairments and provisions for items other than financial assets. Accordingly, other operating result usually is, and is expected to remain in the medium and long term a significantly negative P&L item, even though Erste Group aims to minimise those other operating expenses it directly controls.

Taxes on income reduce net result for the period, with the actual consolidated tax charge being dependent on the profitability mix between the various geographies. Generally speaking, the consolidated tax rate tends to be lower if profits in lower corporate tax countries contribute a higher share to total profit.

Minority charges result primarily from profits generated at the savings banks, in which Erste Group has limited or no ownership but due to the cross-guarantee system that governs the Austrian savings banks sector, are fully consolidated. When profits at the savings banks are higher these minority charges are higher and conversely lower if savings banks profits decline. Historically, minority charges always had a negative impact on consolidated net profit, as the savings banks have a solid profitability track record. This trend is expected to continue in the medium to long term.

Overall, Erste Group's medium and long term financial goal is to achieve a return on tangible equity that comfortably exceeds the cost of capital.

Risk management

With respect to the explanations on substantial financial risks at Erste Group as well as the goals and methods of risk management, we would like to draw the reader's attention to the information provided in the Notes 27, 32, 34 et seq, 44, 45, 46 and 54 of the consolidated financial statements.

Research and development

Digitalisation

The pace of digital transformation has accelerated considerably as a result of technological changes, demographic developments, regulatory interventions and also due to the pandemic in recent years. As a result, customer behavior and customer expectations towards financial products have also changed significantly. Erste Group is convinced that the digital banking business will continue to gain in importance and will be essential for the economic success in the long term and therefore fosters digital innovation with the aim to digitalise banking products end-to-end including associated processes (e.g. onboarding of corporate customers).

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

The digital platform George was implemented for retail customers in Austria in 2015. In the meantime, it is also running in the Czech Republic, Slovakia, Romania, Croatia and Hungary and is actively used by almost 9 million customers. It will also be rolled out in Serbia. The range of digitally available products and services is being constantly expanded. Customers can activate applications of Erste Group or third parties via plug-ins and use them to manage their finances. In 2022, George reached another evolutionary level. George Business was implemented for corporate customers in Austria, and it was rolled out in Romania in 2023. The implementation in the Czech Republic should be finalized in 2024 and it will be rolled out in the local banking subsidiaries successively. It aims at offering group-wide an outstanding digital user experience across all customer segments on one platform.

In 2023, software development costs of EUR 33 million (EUR 42 million) were capitalised.

Reporting on material characteristics of the internal control and risk management system with regard to the accounting process

Internal Control System Framework Requirements

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

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

— Completeness: The process landscape as well as policies and procedures issued within the Group Policy Framework ensure that all identified risks and potential risk scenarios are considered, regulated and managed, aiming to set up a comprehensive and integrated control environment throughout the entity. All material risks must be covered with key controls, to demonstrate the importance at local level.

— Effectiveness and traceability: The functionality of key controls are regularly checked, the optimal control environment is reviewed and challenged during monitoring activity of risk appetite/tolerance.
— Comprehensibility: The process landscape together with local policies and procedures constitute documentation of identified key controls, which ensures that relevant employees are aware of all key controls and their role in the internal control process is transparent and accountable within the entire local entity.

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

Control environment

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

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

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

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

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

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

Risk assessment and controls measures

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

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

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

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

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

Group consolidation

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

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

Information and communication

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

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

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

Monitoring

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

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

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

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

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

Holdings, purchase and sale of own shares

The presentation of own shares as of trade date follows the disclosure requirements in accordance with the Austrian Stock Corporation Act (AktG).

Holdings of own shares

Number of shares	Dec 22	Dec 23
Erste Group Bank AG	-650,932	7,762,984
Affiliates	1,568,971	1,106,329
thereof pledged	0	0

As of 31 December 2023, Erste Group Bank AG's own holdings of shares amounted to 7,792,984 shares, of which 8,137,141 resulted from the share buyback program that started on 16 August 2023. The remaining short position in Erste Group Bank AG shares amounting to 374,157 shares (2022: 650,932 shares) is covered by securities lending deals.

The acquisition costs from the purchase of own shares relating to the share buyback program (long position) amount to EUR 270 million. Both the sales losses incurred from the purchase and sale as part of the employee share program (free shares) and from the share buyback program amounted to EUR 1 million (2022: EUR 2.5 million) were recorded as disposals in other retained earnings.

Purchase of own shares

	Erste Group Bank AG				Affiliates of Erste Group Bank AG			
	Number of shares	Par value of the share capital in EUR million	Purchase price in EUR million	Purpose of transaction	Number of shares	Par value of the share capital in EUR million	Purchase price in EUR million	Purpose of transaction
January	86,636	0.17	2.80	trading				
February	125,326	0.25	4.93	trading				
March					245,000	0.49	7.28	principle shareholder programm
March	591,409	1.18	18.23	trading				
April	77,212	0.15	2.49	trading				
May	113,519	0.23	3.61	trading				
May	66,762	0.13	2.09	employee share programm				
June	342,312	0.68	10.76	trading				
June	899,751	1.80	28.27	employee share programm				
July	103,782	0.21	3.50	trading				
August	68,387	0.14	2.28	trading				
August	1,065,698	2.13	35.60	share buyback				
September	395,915	0.79	13.09	trading				
September	3,014,812	6.03	98.82	share buyback				
October	156,880	0.31	5.11	trading				
October	2,440,490	4.88	80.09	share buyback				
November	102,977	0.21	3.59	trading				
November	1,297,439	2.59	44.42	share buyback				
December	242,607	0.49	8.74	trading				
December	318,702	0.64	11.45	share buyback				
Total	**11,510,616**	**23.02**	**379.88**		**245,000**	**0.49**	**7.28**	

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

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

For further details on the employee share program, we refer to Note 61 Share-based payments.

Sale of own shares

	Erste Group Bank AG			Affiliates of Erste Group Bank AG		
	Number of shares	Par value of the share capital in EUR million	Selling price in EUR million	Number of shares	Par value of the share capital in EUR million	Selling price in EUR million
January	149,140	0.30	4.88			
February	185,635	0.37	7.19			
March	303,063	0.61	9.45	406,640	0.81	12.28
April	67,669	0.14	2.16			
May	232,737	0.47	7.40			
June	1,258,792	2.52	39.05	501,002	1.00	15.00
July	90,695	0.18	3.03			
August	44,108	0.09	1.49			
September	391,572	0.78	12.75			
October	128,672	0.26	4.25			
November	146,544	0.29	5.19			
December	98,073	0.20	3.48			
Total	**3,096,700**	**6.19**	**100.31**	**907,642**	**1.82**	**27.28**

Of the 406,640 shares shown in the table above that were sold by affiliated companies in March 2023, 200,000 were lent as of 31 December 2022 and are not included in the holdings as of 31 December 2022.

Capital, share, voting and control rights and associated agreements

For details in respect of capital structure, class of shares and treasury shares please refer to Note 55 of the consolidated financial statements. The mandatory disclosure requirements of Section 243a (1) UGB are met as follows:

1. Capital structure and class of shares

As of 31 December 2023, together with its syndicate partners (savings banks, share management savings banks – "Anteilsverwaltungssparkassen", and savings bank foundations – "Sparkassenstiftungen"), DIE ERSTE oesterreichische Spar-Casse Privatstiftung ("ERSTE Stiftung"), a foundation, controls 24.11% (prior year: 24.16%) of the shares in Erste Group Bank AG and with 17.54% (prior year: 17.30%) is the main shareholder. The ERSTE Stiftung holds 5.65% (prior year: 5.78%) of the shares directly; the indirect participation of the ERSTE Stiftung amounts to 11.89% (prior year: 11.52%) of the shares held by Sparkassen Beteiligungs GmbH & Co KG, which is an affiliated undertaking of the ERSTE Stiftung. 2.49% (prior year: 2.78%) are held directly by savings bank foundations, savings banks, and the Erste employee share participation foundation (Erste Mitarbeiterbeteiligungsstiftung), acting together with the ERSTE Stiftung. 4.08% (prior year: 4.08%) are held by a syndicate partner, Wiener Städtische Versicherungsverein.

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

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

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

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

The Articles of Association do not contain any restrictions affecting voting rights or the transfer of shares.

In shareholder agreements ERSTE Stiftung - which, together with its syndicate partners, held 24.11% as at 31 December 2023 (previous year: 24.16%) agreed the following: concerning the appointment of the members of the supervisory board the partners are obliged to vote as required by ERSTE Stiftung. The partners can dispose of shares according to a predefined sale procedure and can purchase shares only within the quotas agreed with ERSTE Stiftung (of a maximum of 3% per calendar year); with this regulation an unwanted creeping-in according to takeover law shall be prevented. In addition, the partners have committed themselves not to make a hostile takeover bid, nor to participate in a hostile takeover bid nor to act together with a hostile bidder in any other way.

3. Direct or indirect shareholdings amounting at least 10%

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

4. Special rights of control associated with holding shares

There are no shareholders with special control rights.

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

The voting rights of shares held by Erste Mitarbeiterbeteiligung Privatstiftung in trust or by proxy for the employees of employer companies participating in employee share programs according to section 4d (5) (1) Income Tax Act (EStG) are exercised by the Board of Directors of Erste Mitarbeiterbeteiligung Privatstiftung. The members of the Board of Directors are appointed and dismissed by the Advisory Board through resolution with simple majority, whereby the delegation rights of.Erste Group Bank AG as well as the existing statutory employee representatives of Erste Group Bank AG and Erste Bank der oesterreichischen Sparkassen AG shall be taken into account. A further member of the Board of Directors to be appointed by the Advisory Board shall be a former member of the management board or a former (freelance) employee of an employer company pursuant to section 4d (5) (1) Income Tax Act (EStG). The Advisory Board of Erste Mitarbeiterbeteiligung Privatstiftung consists of up to five members.

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

This concerns:
- Art. 15.1 of the Articles of Association, which provides that ERSTE Stiftung will be granted the right to nominate up to one third of the members of the Supervisory Board to be elected by the shareholders' meeting, as long as ERSTE Stiftung is liable for all present and future liabilities of the company in the case of its insolvency pursuant to Section 92 (9) Banking Act,
- Art. 15.4 of the Articles of Association, which provides that a three-quarter majority of valid votes cast and a three-quarter majority of the subscribed capital represented at the meeting considering the proposal are required to pass a motion for removal of Supervisory Board members, and
- Art. 19.9 of the Articles of Association, which provides that amendments to the Articles of Association, in so far as they do not alter the business purpose, may be passed by simple majority of votes cast and simple majority of the subscribed capital represented at the shareholders meeting considering the amendment. Where higher majority votes are required by individual provisions of the Articles of Association, these provisions can only be amended with the same higher majority vote. Moreover, amendments to Art. 19.9 require a three-quarter majority of the votes cast and a three-quarter majority of the subscribed capital represented at the meeting considering the proposal.

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

As per decision of the General Meeting of 12 May 2023:

- The Management Board is entitled to purchase up to 10% of the share capital in own shares for the purpose of securities trading according to section 65 (1) (7) Austrian Stock Corporation Act (AktG). However, the trading volume of shares acquired may not exceed 5% of the share capital at the end of each day. The consideration for the shares to be purchased must not be less than 50% of the closing price at the Vienna Stock Exchange on the last trading day prior to the purchase and must not exceed the closing price at the Vienna Stock Exchange on the last trading day prior to the purchase by more the 20%. This authorization is valid for a period of 30 months from the date of the resolution, i.e. until 12 November 2025.
- The Management Board is entitled, pursuant to section 65 (1) (8) as well as (1a) and (1b) Stock Corporation Act and for a period of 30 months from the date of the resolution, i.e. until 12 November 2025, to acquire own shares in the amount of up to 10% of the share capital, subject to approval by the Supervisory Board and without any further resolution of the General Meeting at a lowest consideration of EUR 2.00 per share and a highest consideration not exceeding 50% above the average Vienna Stock Exchange price, weighted according to trading volumes, of the last 20 trading days prior to the respective acquisition of the shares; in the case of a public offer, the cut-off date for the end of the calculation period shall be the day on which the intention to make a public offer is announced (sec 5 (2) and (3) Austrian Takeover Act [ÜbG]). The acquisition may, at the discretion of the Management Board and with the consent of the Supervisory Board, be effected on the stock exchange or by means of a public offer or in any other legally permissible and expedient manner, in particular also off the stock exchange and/or from individual shareholders and excluding the pro rata tender right (reverse subscription right). The authorization may be exercised in whole or in part or in several partial amounts and in pursuit of one or more purposes by the Company, its affiliated companies (sec. 189a (8) Commercial Code [UGB]) or for their account by third parties. Pursuant to section 65 (1b) Stock Corporation Act, the Management Board is authorized for a period of five years from the date of the resolution, i.e. until 12 May 2028, with the consent of the Supervisory Board, to sell or dispose the company's own shares, also in a way other than via the stock exchange or by means of a public offer for any legally permissible purpose, to determine the terms and conditions of the sale and to decide on the exclusion of the shareholders' subscription rights. These authorizations include the sale of own shares in particular for the following purposes: (i) in order to be able to sell the shares for a consideration other than cash, provided that this serves the purpose of acquiring (also indirectly) companies, businesses, parts of businesses, shares in one or more companies domestically or abroad; (ii) to transfer shares free of charge or at a reduced price to employees, executives and members of the Management Board of the Company or of an affiliated company (sec 189a (8) Commercial Code [UGB]) or of any other company within the meaning of sec 4d (5) (1) Austrian Income Tax Act (EStG), as well as to Erste Mitarbeiterbeteiligung Privatstiftung and its beneficiaries; and (iii) to resell own shares with partial or full exclusion of the subscription rights in any manner permitted by law, including over-the-counter. The authorizations in this resolution may be exercised once or several times, in whole or in part, individually or jointly.
- The Management Board is authorized to redeem shares without further resolution at the General Meeting with the approval of the Supervisory Board.

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

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

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

According to section 8.3 of the Articles of Association, the Management Board is authorized to issue until 18 May 2027, with the consent of the Supervisory Board, convertible bonds (including Contingent Convertible Bonds according to section 26 Austrian Banking Act), which have the conversion or subscription right for shares of the Company, observing or excluding the subscription rights of the shareholders. The terms and conditions may, in addition or instead of a conversion or subscription right, also provide for the mandatory conversion at the end of the term or at any other time. The issuance of convertible bonds is limited to the extent that all conversion or subscription rights, and in case of a mandatory conversion stipulated in the terms and conditions, the mandatory conversion, are covered by conditional capital. Section 5.3 shall apply to the issue of convertible bonds without subscription rights. The issue amount, the terms and conditions of the issue of the convertible bonds and the exclusion of the subscription rights for the shareholders will be determined by the Management Board with the consent of the Supervisory Board.

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

CROSS-GUARANTEE SCHEME AGREEMENT

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

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

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

DIRECTORS & OFFICERS-INSURANCE

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

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

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

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

COOPERATION BETWEEN ERSTE GROUP BANK AG AND VIENNA INSURANCE GROUP (VIG)

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

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

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

9. Indemnification agreements

In the event of a public takeover offer, there are no compensation agreements between Erste Group Bank AG and its executive board and supervisory board members or employees.

Non-financial declaration

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

Subsequent events after balance sheet date

For events of particular importance after balance sheet date, we refer to the disclosures in Note 66 in the consolidated financial statements.

Management Board	
Willibald Cernko mp, Chairman	Ingo Bleier mp, Member
Stefan Dörfler mp, Member	Alexandra Habeler-Drabek mp, Member
David O'Mahony mp, Member	Maurizio Poletto mp, Member

Vienna, 29 February 2024