Investor information

Vienna, 2 August 2024

Erste Group posts net profit of EUR 1,629 million in the first half-year of 2024

Financial data

Income statement					
in EUR million	Q2 23	Q1 24	Q2 24	1-6 23	1-6 24
Net interest income	1,792	1,852	1,835	3,561	3,687
Net fee and commission income	632	712	711	1,275	1,423
Net trading result and gains/losses from financial instruments at FVPL	171	139	109	207	248
Operating income	2,662	2,788	2,734	5,161	5,522
Operating expenses	-1,230	-1,283	-1,265	-2,472	-2,548
Operating result	1,432	1,505	1,468	2,689	2,974
Impairment result from financial instruments	8	-95	-31	29	-126
Post-provision operating result	1,441	1,411	1,437	2,718	2,848
Net result attributable to owners of the parent	**896**	**783**	**846**	**1,490**	**1,629**
Net interest margin (on average interest-bearing assets)	2.45%	2.49%	2.43%	2.48%	2.47%
Cost/income ratio	46.2%	46.0%	46.3%	47.9%	46.1%
Provisioning ratio (on average gross customer loans)	-0.02%	0.18%	0.06%	-0.03%	0.12%
Tax rate	17.7%	20.0%	21.0%	18.0%	20.5%
Return on equity	18.7%	16.0%	16.1%	16.2%	16.2%

Balance sheet					
in EUR million	Jun 23	Mar 24	Jun 24	Dec 23	Jun 24
Cash and cash balances	32,810	29,425	26,231	36,685	26,231
Trading, financial assets	64,946	66,630	64,161	63,690	64,161
Loans and advances to banks	33,454	30,874	34,966	21,432	34,966
Loans and advances to customers	204,881	208,086	211,276	207,828	211,276
Intangible assets	1,328	1,281	1,282	1,313	1,282
Miscellaneous assets	6,573	6,404	6,225	6,206	6,225
Total assets	**343,993**	**342,699**	**344,141**	**337,155**	**344,141**
Financial liabilities held for trading	2,788	1,805	2,003	2,304	2,003
Deposits from banks	25,669	19,737	17,484	22,911	17,484
Deposits from customers	241,082	235,336	240,238	232,815	240,238
Debt securities issued	40,646	48,566	47,917	43,759	47,917
Miscellaneous liabilities	7,072	7,932	7,527	6,864	7,527
Total equity	26,735	29,322	28,973	28,502	28,973
Total liabilities and equity	**343,993**	**342,699**	**344,141**	**337,155**	**344,141**
Loan/deposit ratio	85.0%	88.4%	87.9%	89.3%	87.9%
NPL ratio	2.0%	2.3%	2.4%	2.3%	2.4%
NPL coverage ratio (based on AC loans, ex collateral)	96.7%	83.7%	80.6%	85.1%	80.6%
Texas ratio	15.2%	16.6%	17.6%	16.6%	17.6%
CET1 ratio (final)	14.9%	15.2%	15.5%	15.7%	15.5%

HIGHLIGHTS

P&L: 1-6 2024 compared with 1-6 2023
Balance sheet: 30 June 2024 compared with 31 December 2023

Net interest income increased to EUR 3,687 million (+3.5%; EUR 3,561 million), in all core markets except Austria, on the back of higher market interest rates in the euro zone and larger loan volume. **Net fee and commission income** rose to EUR 1,423 million (+11.6%; EUR 1,275 million). Growth was registered across all core markets, most notably in asset management and payment services. **Net trading result** declined to EUR 137 million (EUR 270 million); the line item **gains/losses from financial instruments measured at fair value through profit or loss** increased to EUR 111 million (EUR -64 million). The development of these two line items was mostly attributable to valuation effects. **Operating income** increased to EUR 5,522 million (+7.0%; EUR 5,161 million). **General administrative expenses** were up at EUR 2,548 million (+3.1%; EUR 2,472 million). Personnel expenses rose to EUR 1,534 million (+5.1%; EUR 1,459 million) driven by salary increases. Other administrative expenses were up at EUR 745 million (+0.9%; EUR 738 million). While contributions to deposit insurance schemes included in other administrative expenses – mostly already posted upfront for the full year of 2024 – declined to EUR 69 million (EUR 114 million), IT expenses increased to EUR 301 million (EUR 265 million). Amortisation and depreciation amounted to EUR 270 million (-1.9%; EUR 275 million). Overall, the **operating result** increased markedly to EUR 2,974 million (+10.6%; EUR 2.689 million), the **cost/income ratio** improved to 46.1% (47.9%).

The **impairment result from financial instruments** amounted to EUR -126 million or 12 basis points of average gross customer loans (EUR 29 million or 3 basis points). Allocations to provisions for loans and advances were posted primarily in Austria and Romania. Positive contributions came from the recovery of loans already written off, most notably in Austria. The **NPL ratio** based on gross customer loans increased slightly to 2.4% (2.3%). The **NPL coverage ratio** (excluding collateral) declined to 80.6% (85.1%).

Other operating result amounted to EUR -254 million (EUR -283 million). This includes an allocation in the amount of EUR 90 million to a provision relating to the interbank exemption pursuant to Art 6 sec 1 subsec 28 (2^{nd} sentence) Austrian VAT Act. This exemption might be classified by the European Court of Justice or the EU Commission as aid that is not compatible with EU law and might therefore have to be refunded. Expenses for annual contributions to resolution funds included in this line item already for the full year of 2024 declined significantly to EUR 28 million (EUR 114 million), as no regular annual contributions will be collected in the euro zone in 2024. Banking levies are currently payable in four core markets. EUR 134 million (EUR 121 million) are reflected in other operating result: thereof, EUR 96 million (EUR 101 million) were charged in Hungary. In Austria, banking tax equaled EUR 20 million (EUR 20 million), in Romania EUR 18 million (newly introduced in 2024). The banking tax in Slovakia of EUR 46 million is posted in the line item taxes on income.

Taxes on income amounted to EUR 531 million (EUR 439 million). The decline in the minority charge to EUR 431 million (EUR 508 million) was attributable to lower contributions from the savings banks. **The net result attributable to owners of the parent** rose to EUR 1,629 million (EUR 1,490 million) on the back of the strong operating result and improved other operating result.

Total equity not including AT1 instruments rose to EUR 26.3 billion (EUR 26.1 billion). After regulatory deductions and filtering in accordance with the Capital Requirements Regulation (CRR), **common equity tier 1 capital** (CET1, final) equalled EUR 23.7 billion (EUR 22.9 billion), total **own funds** (final) EUR 30.1

billion (EUR 29.1 billion). Interim profit for the first half of the year is included in the above figures. Total risk (**risk-weighted assets** including credit, market and operational risk, CRR final) rose to EUR 153.2 billion (EUR 146.5 billion). The **common equity tier 1 ratio** (CET1, final) stood at 15.5% (15.7%), the **total capital ratio** at 19.6% (19.9%).

Total assets increased to EUR 344.1 billion (+2.1%; EUR 337.2 billion). On the asset side, cash and cash balances declined to EUR 26.2 billion (EUR 36.7 billion); loans and advances to banks rose – most notably in Austria and the Czech Republic – to EUR 35.0 billion (EUR 21.4 billion). **Loans and advances to customers** were higher at EUR 211.3 billion (+1.7%; EUR 207.8 billion). On the liability side, deposits from banks declined to EUR 17.5 billion (EUR 22.9 billion). **Customer deposits** rose – most strongly in the Czech Republic and Austria – to EUR 240.2 billion (+3.2%; EUR 232.8 billion). **The loan-to-deposit ratio** stood at 87.9% (89.3%).

OUTLOOK 2024

Following the good business development in the first half of the year, Erste Group upgrades the outlook. Erste Group now expects to achieve a return on tangible equity (ROTE) of more than 15% in 2024. 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 could be the magnitude and timing of the expected central bank rate cuts in all of Erste Group's markets. Overall, Erste Group now expects a by and large stable operating result and consequently, again a cost/income ratio below 50%.

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 economic backdrop, Erste Group expects net loan growth of about 5%. Retail and corporate business should contribute in all markets towards the achievement of this goal. Loan growth is projected to offset some of the interest rate headwinds detailed above. Supported by the later than expected first rate cut of the ECB, net interest income should rather remain stable versus 2023 (instead declining by about 3% as originally expected). The second most important income component – net fee and commission income – is expected to rise by approximately 10% (originally expected: 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 anticipated to remain, by and large, stable. Overall, operating income is therefore now expected to increase slightly in 2024, from a historic high in 2023. Operating expenses are expected to rise by approximately 5%. With this the cost/income ratio should once again be at a solid level of below 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, considering the developments in the first half of the year Erste Group believes that in 2024 risk costs will be below 20 basis points (instead as originally assumed 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 around 20% and lower minority charges compared to 2023, Erste Group aims to achieve a ROTE of above 15% in 2024. The CET1 ratio is expected to remain strong, providing enhanced capital return and/or M&A flexibility, despite Erste Group currently ongoing execution of a share buyback in the amount of EUR 500 million.

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 disruptions 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.

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