Key financial and operating data

Income statement (in EUR million)	2019	2020	2021	2022	2023
Net interest income	4,746.8	4,774.8	4,975.7	5,950.6	7,227.9
Net fee and commission income	2,000.1	1,976.8	2,303.7	2,452.4	2,639.6
Net trading result and gains/losses from financial instruments at FVPL	293.8	199.5	231.8	-47.3	448.6
Operating income	7,255.9	7,155.1	7,742.0	8,570.6	10,551.6
Operating expenses	-4,283.3	-4,220.5	-4,306.5	-4,574.9	-5,019.6
Operating result	2,972.7	2,934.6	3,435.5	3,995.8	5,532.0
Impairment result from financial instruments	-39.2	-1,294.8	-158.8	-299.5	-127.8
Other operating result	-628.2	-278.3	-310.5	-398.5	-467.9
Pre-tax result from continuing operations	2,329.7	1,368.0	2,933.4	3,222.4	4,794.8
Net result attributable to owners of the parent	**1,470.1**	**783.1**	**1,923.4**	**2,164.7**	**2,997.6**

Net interest margin (on average interest-bearing assets)	2.18%	2.08%	2.05%	2.21%	2.50%
Cost/income ratio	59.0%	59.0%	55.6%	53.4%	47.6%
Provisioning ratio (on average gross customer loans)	0.02%	0.78%	0.09%	0.15%	0.06%
Tax rate	18.0%	25.0%	17.9%	17.3%	18.2%
Return on tangible equity	11.2%	5.1%	12.7%	13.8%	17.2%
Earnings per share (in EUR)	3.23	1.57	4.17	4.83	6.80

Balance sheet (in EUR million)	Dec 19	Dec 20	Dec 21	Dec 22	Dec 23
Cash and cash balances	10,693	35,839	45,495	35,685	36,685
Trading, financial assets	44,295	46,849	53,211	59,833	63,690
Loans and advances to banks	23,055	21,466	21,001	18,435	21,432
Loans and advances to customers	160,270	166,050	180,268	202,109	207,828
Intangible assets	1,368	1,359	1,362	1,347	1,313
Miscellaneous assets	6,012	5,830	6,090	6,456	6,206
Total assets	**245,693**	**277,394**	**307,428**	**323,865**	**337,155**
Financial liabilities held for trading	2,421	2,625	2,474	3,264	2,304
Deposits from banks	13,141	24,771	31,886	28,821	22,911
Deposits from customers	173,846	191,070	210,523	223,973	232,815
Debt securities issued	30,371	30,676	32,130	35,904	43,759
Miscellaneous liabilities	5,437	5,840	6,902	6,599	6,864
Total equity	20,477	22,410	23,513	25,305	28,502
Total liabilities and equity	**245,693**	**277,394**	**307,428**	**323,865**	**337,155**

Loan/deposit ratio	92.2%	86.9%	85.6%	90.2%	89.3%
NPL ratio	2.5%	2.7%	2.4%	2.0%	2.3%
NPL coverage ratio (based on AC loans, ex collateral)	77.1%	88.6%	90.9%	94.6%	85.1%
Texas ratio	19.9%	20.3%	18.3%	16.4%	16.6%
Total own funds (CRR final, in EUR million)	21,961	23,643	24,758	26,184	29,094
CET1 capital ratio (CRR final)	13.7%	14.2%	14.5%	14.2%	15.7%
Total capital ratio (CRR final)	18.5%	19.7%	19.1%	18.2%	19.9%

About the share	2019	2020	2021	2022	2023
Shares outstanding at the end of the period	429,800,000	429,800,000	429,800,000	429,800,000	421,662,859
Weighted average number of outstanding shares	426,565,097	426,324,725	426,246,662	427,019,261	425,951,928
Market capitalisation (in EUR billion)	14.4	10.7	17.8	12.9	15.8
High (in EUR)	37.07	35.6	41.95	44.98	37.23
Low (in EUR)	28.23	15.34	24.80	21.66	28.19
Closing price (in EUR)	33.56	24.94	41.35	29.90	36.73
Price/earnings ratio	9.8	13.7	9.2	5.9	5.2
Dividend per share (in EUR)	0.00	1.50	1.60	1.90	2.70
Payout ratio	0.0%	96.4%	38.7%	39.6%	39.3%
Dividend yield	0.0%	6.0%	3.9%	6.4%	7.4%
Book value per share (in EUR)	32.9	34.0	36.7	39.8	45.6
Price/book ratio	1.0	0.7	1.1	0.8	0.8

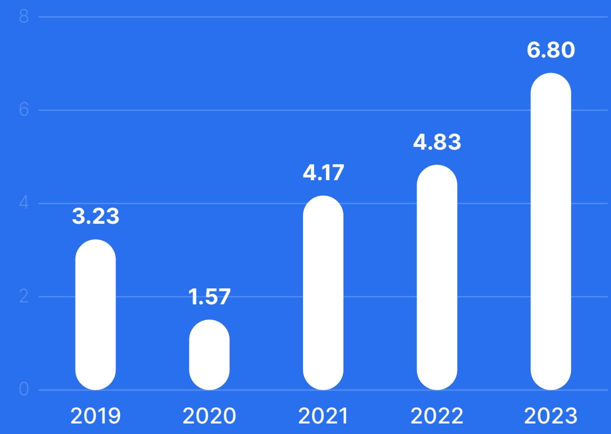
Additional information	Dec 19	Dec 20	Dec 21	Dec 22	Dec 23
Employees (full-time equivalents)	47,284	45,690	44,596	45,485	45,723
Branches	2,373	2,193	2,091	2,029	1,948
Customers (in million)	16.6	16.1	16.1	16.1	16.2

CRR: Capital Requirements Regulation

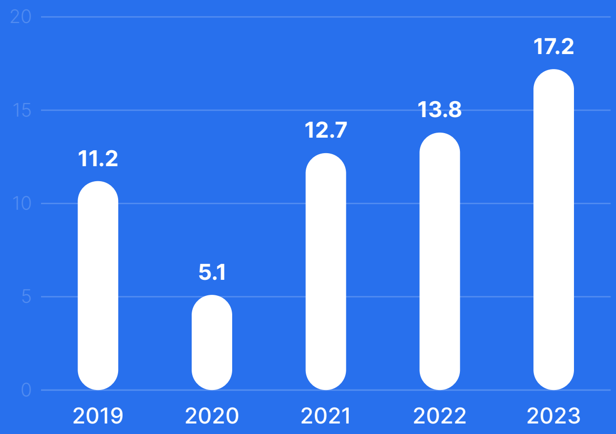
Shares outstanding include Erste Group shares held by savings banks that are members of the Haftungsverbund (cross-guarantee system). At year-end 2023, the shares bought back under the share buyback programme were taken into account.

Financial data

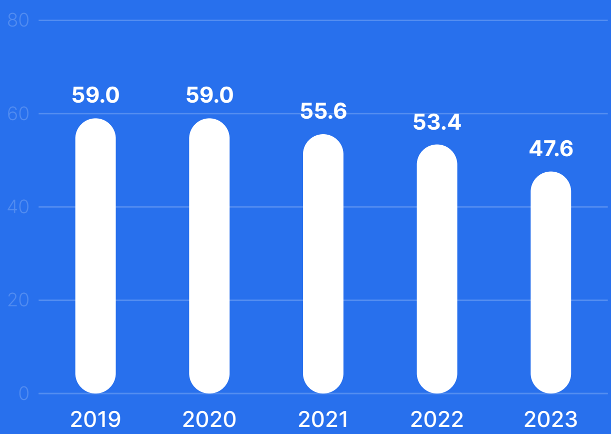
Earnings per share
in €



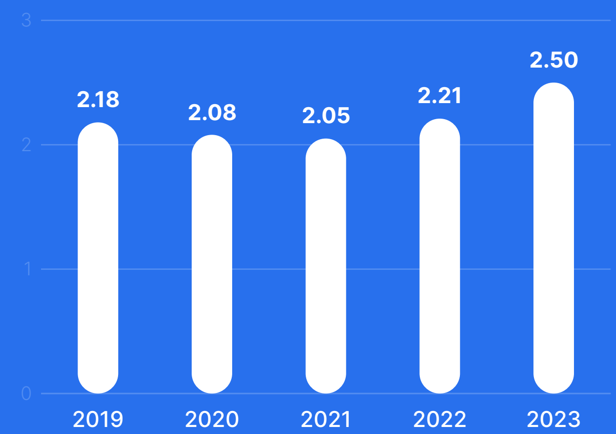
Return on tangible equity, ROTE
in %



Cost/income ratio
in %



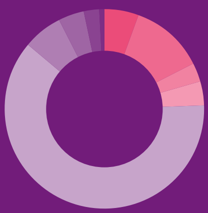
Net interest margin
in %



Shareholder structure

as of 31 December 2023

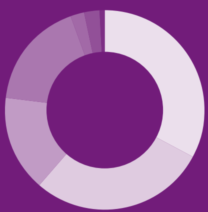
By investors



5.64%	ERSTE Foundation direct
11.90%	Sparkassen Beteiligungs GmbH & Co KG
3.10%	Foundations [1]
4.08%	Wiener Städtische Versicherungsverein

61.41%	Institutional investors
6.60%	Retail investors
4.05%	BlackRock, Inc.
2.65%	Unidentified [2]
0.57%	Identified trading [3]

By region



33.08%	Austria
28.53%	North America
15.39%	UK & Ireland
17.57%	Continental Europe
2.21%	Rest of world
2.65%	Unidentified
0.57%	Identified trading [3]

Financial calendar

30 April	Results for the first quarter 2024
12 May	Record date Annual General Meeting
22 May	Annual General Meeting in Vienna
27 May	Ex-dividend day
28 May	Record date dividend
29 May	Dividend payment
2 August	Half-year financial report 2024
31 October	Results for the first three quarters 2024

The financial calendar is subject to change. The latest updated version is available on Erste Group's website (www.erstegroup.com/investorrelations).

Ratings

as of 31 December 2023

Fitch	
Long-term	A
Short-term	F1
Outlook	Stable

Moody´s	
Long-term	A1
Short-term	P-1
Outlook	Stable

Standard & Poor´s	
Long-term	A+
Short-term	A-1
Outlook	Stable

[1] Erste employees private foundation, syndicated savings banks foundations, own holdings of savings banks
[2] Unidentified institutional and retail investors
[3] Incl. market makers, prime brokerage, proprietary trading, collateral and stock lending positions which are visible through custodian banks.

Non-financial data

Decarbonisation

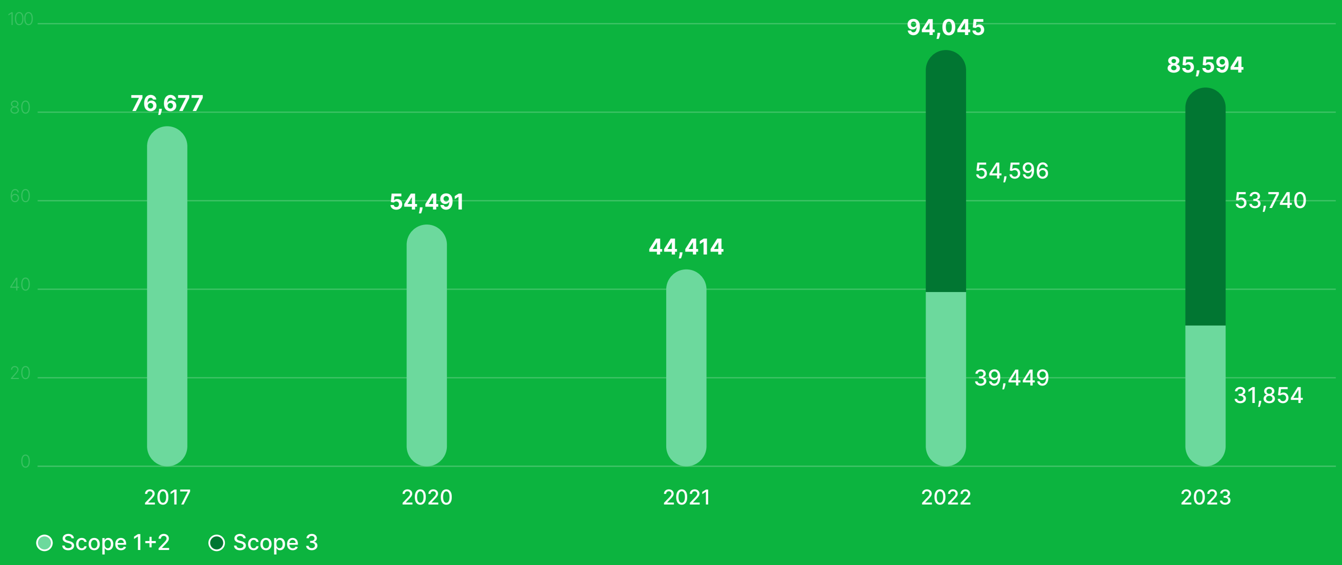
Sector	Objective*
Mortgages	1.75 °C
Commercial real estate	1.75 °C
Electricity production	1.50 °C
Heat & Steam production	1.50 °C
Oil and gas extraction	1.50 °C
Automotive production	1.50 °C
Iron and steel production	1.50 °C
Cement production	1.50 °C
Coal	Exit by 2030

New Sustainable Financing

	in € million
Energy efficient Real Estate	2,096
Renewable Energy	486
Transportation	127
Other Corporate	241
Total	**2,950**

Net-Zero Operations

in tonnes CO_2e



* Emission reduction pathways until 2050 in alignment with the 1.5 or 1.75 °C scenario
CO2e: CO2-equivalents are the sum of all greenhouse gas emissions, e.g. carbon dioxide, methane and nitrogen oxide

Social Banking

€ 585 million
Social Banking financing provided

65,000
Financial education participants

99,000
preserved or created jobs

ESG Ratings

as of 31 December 2023

AA	MSCI
Low Risk	Sustainalytics
C "Prime"	ISS ESG
B	CDP

Your notes

Highlights

Sustainable profitability
_ Net result of EUR 2,997.6 million
_ Local banks in all core markets are profitable
_ Dividend of EUR 2.7 per share proposed to AGM

Operating performance improves substantially
_ Operating revenues increase by 23.1%
_ Inflation drives operating expenses up by 9.7%
_ Cost/income ratio improves to 47.6%

Customer business on continued growth path
_ Net customer loans grow by 2.8% to EUR 207.8 billion
_ Customer deposits grow by 3.9% to EUR 232.8 billion
_ Favourable loan-to-deposit ratio at 89.3%

Sound asset quality
_ NPL ratio at moderate 2.3%
_ NPL provision coverage at strong 85.1%
_ Risk costs of 6 basis points
(on average gross customer loans)

Favourable capitalisation
_ CET1 ratio (CRR final) increases to 15.7%
_ Capital significantly above regulatory requirements and internal target

Excellent funding and liquidity position
_ Strong retail deposit base in all core countries is key trust indicator and competitive advantage
_ All local banks successfully placed MREL-related issuances

Table of contents

Editorial deadline: 29 February 2024, unless stated otherwise

Management board

Maurizio Poletto   Ingo Bleier   Willi Cernko

Stefan Dörfler Alexandra Habeler-Drabek David O’Mahony

Letter from the CEO

Dear shareholders,

The 2023 fiscal year was again a very successful one for Erste Group. With a net profit of EUR 2,998 million, we posted an excellent result. Dynamic growth of our key income components – net interest income and net fee and commission income – more than offset the inflation-induced rise in costs and resulted in a significant improvement in the cost/income ratio. Major contributions to this development came from the growth in customer loans – up a notable 3.7% in the retail business and 5.6% in the corporate business – as well as from the normalisation of the interest rate environment: after years of negative interest rates, the ECB finally raised its rates to combat inflation. Continued solid asset quality and low risk costs also contributed to Erste Group's profitability. This resulted in a further strong improvement in capitalisation: at year-end, the common equity tier 1 ratio stood at 15.7%. Overall, we significantly exceeded almost all financial goals we had set ourselves at the beginning of 2023.

Before going into the details of our economic performance, let me briefly outline the economic environment.

A year marked by subdued growth

2023 saw a slowdown in global economic growth. In our region of Central and Eastern Europe, economic activity was likewise impacted by subsiding, yet still elevated inflation and, along with it, a restrictive monetary policy environment. Household consumption was muted throughout the year. Exports were adversely affected by the weak growth of the main trading partners of the region, which took a toll on industry output. The decline in foreign demand was most pronounced in countries that are strongly dependent on the German economy such as the Czech Republic and Hungary. In Romania and Hungary, positive momentum came from agricultural production. Croatia benefited again from the excellent development of its tourism industry and recorded the best economic performance in the region. Overall, the 2023 GDP growth rates of CEE countries ranged between -0.9% in Hungary and 2.5% in Serbia.

Despite the weak economy, labour markets remained very robust, with Hungary and the Czech Republic reporting the lowest unemployment rates within the European Union. The Hungarian National Bank and the Czech National Bank started to cut interest rates in the last quarter of the year. In the eurozone, policy rates stood at 4.5% at year-end. While the Czech koruna depreciated against the euro, most CEE currencies were relatively stable throughout the year. On 1 January 2023, Croatia joined the euro zone as its 20th member, as a result of which three out of Erste Group's seven core markets are now part of the eurozone.

Excellent operating result

What was the effect of these fundamentals on our result? In a nutshell: net interest income rose by more than 21% to EUR 7.2 billion driven by tailwinds that came, most importantly, from the rate cycle in the eurozone and customer loan growth in our CEE markets. At the same time, net fee and commission income reached a record high at EUR 2.6 billion. The 7.6% rise is all the more remarkable as the baseline had already been elevated due to strong growth in previous years. Growth was achieved in all core markets and across almost all product categories, with particularly strong performance in payment services and asset management. Overall, we posted EUR 10.6 billion in operating income, an increase by more than 23% year on year. As expected, operating expenses were likewise up, however, – by almost 10% – to EUR 5 billion. Inflationary pressure also had an impact on collective salary negotiations, with personnel expenses rising to nearly EUR 3 billion. Another block of costs – the regulatory costs typical of a bank (payments to resolution funds and deposit insurance systems as well as banking and transaction taxes) – amounted to some EUR 411 million. Overall, the strong operating result enabled us to achieve a cost/income ratio of 47.6% in 2023, which is excellent for our business model.

Risk costs remain at a low level

Asset quality remained very good in 2023. The NPL ratio rose only moderately from its historic low to 2.3% at the end of the year. Overall, (net) allocations to provisions amounted to EUR 128 million in 2023, which equals a provisioning ratio of 6 basis points of average gross customer loans. In addition to solid asset quality, another positive contribution came from the release of provisions for credit risks driven by updated forward looking economic indicators (FLIs) as well as stage overlays for cyclical industries and energy-intensive sectors.

Moderate loan growth

Given the rise in interest rates and stricter regulations for mortgage loans in Austria, it is not surprising that in 2023 loan growth was registered mainly in the CEE core markets. In retail business, growth momentum was seen mainly in the Czech Republic and in Croatia. In 2023, lending to corporate customers did not show the same strong performance as in the previous year, mostly due to the fact that investment sentiment had been adversely affected by the macroeconomic environment. Overall, net loan growth therefore came in lower, with volume up 2.8% to EUR 233 billion.

Solid deposit base, low reliance on money and capital market funding

Deposit inflow continued in 2023, with customer deposits growing by close to 4%. At a time of elevated inflationary pressure and increasing availability of higher-yielding alternative investment options, the stability of deposits from retail customers and SMEs is particularly remarkable. Because of its business model and solid market positions, Erste Group has a large proportion of granular retail customer deposits. At year-end 2023, this group of customers again accounted for more than two-thirds of all customer deposits. The changed interest rate environment resulted in a partial shift from demand deposits to term deposits. At the end of December 2023, the loan-to-deposit ratio stood at 89.3%.

Similarly encouraging were funding activities in the capital markets. Not only the parent company, but also a number of local subsidiaries in CEE countries successfully issued benchmark bonds in a variety of asset classes and placed these issues both locally and internationally.

Digital progress

As this topic is very important to me, a few words on the focal theme of digitalisation: George plays an important role in promoting digital growth and the digital transformation. The number of digital users of our digital platform George and digital transactions have been rising continuously. Across Erste Group, nearly 10 million customers were using George at year-end 2023. By now, almost half of all retail business products are distributed digitally. The roll-out of George Business, our solution for corporate customers, has been continued. In upgrading IT, the focus will remain on the automation of transactions and processes and digital data analysis.

Solid capitalisation and dividend proposal

Erste Group's strong capitalisation is another point that I wish to highlight once again. In addition to sustainable profitability, a strong capital base is essential as it is the precondition for growth and the Bank's ability to pay dividends and secure and/or expand the range of activities it is able to pursue. At 15.7% as of the end of December 2023, the common equity tier 1 ratio (final) was substantially above the regulatory minimum requirement and our target of 14%. For the 2023 fiscal year, the management board will propose a dividend of EUR 2.70 per share at the annual general meeting. In addition, after the successful completion of a share buyback programme with a volume of EUR 300 million in February 2024, Erste Group is seeking to launch another such programme with a volume of EUR 500 million (subject to regulatory approval).

Sustainability and growth are no contradiction

Where sustainability is concerned, our strategic priorities are based on the conviction that the green transition and social inclusion are crucial to the long-term prosperity of our region. We report on our strategy, goals, achievements, opportunities and risks in the field of sustainability annually in conformity with the GRI Standards 2021 and comply with the recommendations of the Task Force on Climate Related Financial Disclosures (TCFD). At this point, I should like to name at least two environment-related ESG goals: we are working to achieve net-zero operations by 2030. Achieving a net-zero portfolio will take a little more time, until 2050.

Further information on Erste Group's targets and emission reduction pathways as well as numerous sustainability initiatives and a wide range of ESG performance indicators are provided in our non-financial report.

Outlook for 2024

In the current fiscal year of 2024, we expect loan growth of about 5% on the back of a moderate acceleration of economic growth. Combined with negative impacts (depending on the extent and timing of central bank rate cuts), we expect for 2024 a moderate decline of net interest income, by about 3%, after two years of enormous growth. Net fee and commission income is projected to continue its positive trend and increase by about 5%. Assuming a rise in operating expenses by about 5%, we believe that we will be able to achieve a cost/income ratio of around 50%. In a largely stable environment, we do not expect risk costs to exceed 25 basis points in 2024. In aggregate, this should yield a continued solid return on tangible equity (ROTE) of approximately 15%.

Time-tested business model and strong strategic alignment

Since Erste Group's foundation more than 200 years ago, it has been our stated goal to help our customers achieve financial independence and build up prosperity. As a leading banking group, we continuously develop our offerings in line with our mission: from socially and ecologically responsible financial services to financial health and security. I am convinced of Erste Group's potential, its capacity for innovation and its resilience in the face of challenges of all kinds. You may trust that my designated successor, Peter Bosek, who will take over the helm at the Bank in July, will be working with the well-trained and committed employees of Erste Group to keep driving the customer business forward in our core markets while also pushing ahead with digitalisation and innovation.

It is of special importance to me to thank the employees of Erste Group once again for their personal commitment. Our joint efforts have helped us to further strengthen Erste Group's position in the CEE region. The employee share programme offers the opportunity to participate in the future success of Erste Group like all of our shareholders.

Willi Cernko mp

Supervisory board

Markus Haag, Mariana Kühnel, Jozef Pinter, Christiane Tusek, Martin Grießer, Henrietta Egerth-Stadlhuber, Friedrich Santner, Karin Zeisel, Elisabeth Krainer Senger-Weiss, Barbara Pichler (f.l.t.r.)

Michèle F. Sutter-Rüdisser, Friedrich Rödler, Christine Catasta, Marion Khüny, András Simor, Alois Flatz, Maximilian Hardegg, Regina Haberhauer, Andreas Lachs, Michael Schuster (f.l.t.r.)

Report of the supervisory board

Dear shareholders,

In the 2023 fiscal year, Erste Group achieved an excellent result. Despite the macroeconomic slowdown, Erste Group posted a net profit of nearly three billion euro on the back of solid operating performance and a favourable interest rate and risk environment. This performance was supported by Erste Group's strong market position in its seven core markets in Central and Eastern Europe – Austria, Czech Republic, Slovakia, Romania, Hungary, Croatia and Serbia – as well as the commitment and customer service mindset of its employees. Erste Group's digital services successfully evolved further: almost ten million users value our digital platform George, and customers benefit from ongoing innovative developments, including those relating to financial health. The range of digital services for corporate customers has likewise been expanded with the continued rollout of George Business.

I am particularly pleased that the green transformation and social and societal commitment constitute integral parts of our overall corporate strategy. And we have not only been setting targets, but also ambitiously implementing specific measures. Given the rapid evolution of artificial intelligence, it is also important to include this aspect in strategic planning to be able to make optimal use of the opportunities being offered by new technologies.

Let me also mention another topic – Erste Group's excellent capitalisation, which is not only essential for securing the Bank's future growth but also provides various options. In 2023, the first share buyback programme with a volume of EUR 300 million was adopted (and recently completed). For 2024, another share buy-back programme in the amount of EUR 500 million is being targeted. Paying dividends to our shareholders remains important as well. For the 2023 fiscal year, a dividend of EUR 2.70 per share is being proposed. This will also benefit thousands of employees who in 2023 took part for the first time – or again – in the We-Share by Erste Group employee share programme.

The composition of the management board remained unchanged in 2023, with Willi Cernko as CEO. With the management board mandates of Chief Financial Officer Stefan Dörfler, Chief Risk Officer Alexandra Habeler-Drabek and Chief Platform Officer Maurizio Poletto having been extended until 31 December 2027, Erste Group Bank AG has been able to retain successful managers who have contributed significantly to Erste Group Bank AG's very positive performance in recent years. The supervisory board is looking forward to continuing this successful collaboration in the years ahead.

As CEO Willi Cernko's mandate as chairman of the board is due to expire in 2024, the supervisory board, having conducted an international search and a careful and competitive selection process, resolved in October 2023 to appoint a renowned manager as his successor: as of 1 July 2024, Peter Bosek, a banker with extensive experience, will take over the position of CEO from Willi Cernko. In his professional career to date, Peter Bosek has already held various management positions both at Erste Group's Holding and at Erste Bank Oesterreich. Most recently, he gained international experience serving as CEO of a European credit institution.

Erste Group's supervisory board currently consists of eighteen members (twelve shareholder representatives elected by the shareholders and six employee representatives delegated by the employees' council). The members of the supervisory board contribute extensive experience gained across a variety of industries and come with a wide range of professional knowledge, international experience and practical expertise. I am particularly pleased that at present more women than men are holding mandates (ten versus eight).

2023 saw a number of changes on the supervisory board: Christiane Tusek was newly elected to the supervisory board by the 2023 annual general meeting. In addition, the 2023 annual general meeting resolved to extend the mandate of András Simor until the 2026 annual general meeting and that of Friedrich Santer until the 2027 annual general meeting.

Hikmet Ersek resigned from his supervisory board mandate as of 11 October 2023. András Simor left Erste Group's supervisory board as of 15 January 2024, thus already in the current fiscal year. The delegation of Jozef Pinter as an employees' representative on the supervisory board was therefore revoked by the employees' council as of January 2024. I wish to thank all three former supervisory board members most cordially for their dedicated work. With their experience and their expertise, they have contributed to the development of Erste Group as a leading bank in Central Europe.

For further information about the composition and independence of the supervisory board, the criteria for its independence, its working procedures, the number and type of committees and their decision-making powers, the meetings of the supervisory board and the main focus of its activities, please refer to the (consolidated) corporate governance report drawn up by the management board and reviewed by the supervisory board.

As regards the activities of the audit committee, please also refer to its separate report. In the course of a total of 49 supervisory board and committee meetings, the management board promptly and comprehensively informed the supervisory board. This allowed us to act in accordance with the mandate laid down in the law, the articles of association and the Austrian Code of Corporate Governance, as well as to ascertain the proper conduct of business.

The financial statements (consisting of the balance sheet, income statement and notes) and the management report as well as the consolidated financial statements and the group management report for 2023 were audited by Sparkassen-Prüfungsverband, the legally mandated auditor, and by PwC Wirtschaftsprüfung GmbH, the elected supplementary auditor, and received an unqualified audit opinion. Representatives of both auditors attended the financial statements review meetings of the audit committee and the supervisory board and presented their comments on the audits they had conducted. Based upon its own review, the supervisory board endorsed the findings of these audits and agreed to the proposal for appropriation of the profit of the 2023 fiscal year.

PwC Wirtschaftsprüfung GmbH was also mandated with the voluntary audit of the (consolidated) corporate governance report for 2023 as well as with the audit of the (consolidated) non-financial report for 2023.

The supervisory board has approved the financial statements, and these have thereby been duly endorsed in accordance with section 96 para 4 of the Austrian Stock Corporation Act (Aktiengesetz). The management report, consolidated financial statements, group management report, (consolidated) corporate governance report and the (consolidated) non-financial report have also been reviewed by the supervisory board and accepted on the basis of the audit reports received by the supervisory board.

We thank the management board and all employees of Erste Group for their great dedication and exceptional commitment, which enabled Erste Group to offer our customers the best possible support and to post a very successful result for the year 2023.

For the supervisory board,
Friedrich Rödler mp, Chairman of the supervisory board
Vienna, March 2024

Report of the audit committee

Dear shareholders,

The audit committee is one of seven committees established by the supervisory board. Its mandate is derived from the law, the rules of the Austrian Code of Corporate Governance and its rules of procedure. As of 31 December 2023, the audit committee comprised six shareholder representatives and three members delegated by the employees' council.

In 2023, the audit committee met seven times and, in addition, held one informal meeting to prepare the meeting on the audit of the (consolidated) financial statements. The meetings were attended by those management board members responsible for accounting, controlling and risk management as well as the representatives of Erste Group Bank AG's auditors and, as required, representatives of the auditors of key (foreign) subsidiaries. The appropriate division heads were invited to attend as permanent guests or to attend as guests in discussions on specific agenda items. The chair of the audit committee and the financial expert regularly conducted one-on-one meetings with, amongst others, the auditors (Sparkassen-Prüfungsverband as the legally mandated bank auditor and PwC as additional auditor elected by the annual general meeting), members of the management board, the head of internal audit, the head of group compliance and with other division heads as required. The supervisory board was informed of the committee's activities and the subject matters of its meetings and discussions at the respective subsequent supervisory board meetings.

For Erste Group, 2023 was a highly successful year despite the challenging environment. It was marked by geopolitical conflicts, continuing elevated inflation rates and consequently high interest rates as well as dampened economic growth. All this had an impact on the work of the audit committee and was considered by the audit committee members with the required care and diligence in exercising their duties. Among other things, the supervisory board also tasked the audit committee with reviewing the (consolidated) non-financial report.

In 2023, the audit committee specifically considered the following topics: after receipt of the auditors' report on the (Group) financial statements for 2022, the audit committee held the final discussion, reviewed the (Group) financial statements and the (Group) management report, the (consolidated) non-financial report as well as the (consolidated) corporate governance report and recommended to the supervisory board the approval of the annual financial statements and distribution of a dividend as proposed by the management board. The additional report of the auditors pursuant to Article 11 of Regulation (EU) No 537/2014 was taken note of.

With regard to non-financial reporting, the audit committee prepared a proposal for the engagement of an external auditor and the subjects to be reviewed by such auditor. The audit committee moreover satisfied itself that the measures needed for meeting CSRD requirements had been taken and appropriate procedures had been established.

The head of the internal audit department reported on the audit subjects and material audit findings for the year 2022 and, on an ongoing basis, about audit-relevant matters in the Group. The effectiveness of the Anti Money Laundering compliance function was acknowledged by the audit committee for the first time and the first BCBS 239 (data quality management) report was issued. The audit committee continuously reviewed and monitored the independence of the auditors of the (consolidated) financial statements with a particular focus on non-audit services rendered for Erste Group. The audit committee gave pre-approval to permissible non-audit services provided by the (Group) auditor and received reports on their current status.

Key audit matters relating to subsidiaries were likewise discussed in depth and commented on with regard to their impact on the Group financial statements. In its additional function as audit committee of Erste Digital GmbH pursuant to Section 30g para 4a(3) GmbHG (Austrian Act on Limited Liability Companies), it recommended that the supervisory board of Erste Digital GmbH advise the shareholders' meeting of Erste Digital GmbH to approve the annual financial statements, give its consent to the management board's proposal for the appropriation of profit and take note of the management report of the shareholders' meeting of Erste Digital GmbH.

After on-site inspections conducted by supervisory authorities, the audit committee took note of the respective audit reports and the plan to address the supervisory authorities' findings and, where necessary, requested to be briefed on the current status of implementation. The joint supervisory team of the regulatory authorities was informed about the audit committee's work in a meeting with the chair of the audit committee and the chair of the supervisory board.

Further information on the activities of the audit committee and its composition is contained in the (consolidated) corporate governance report prepared by the management board and reviewed by the supervisory board.

For the audit committee,
Christine Catasta mp

Erste Group on the capital markets

International equity markets closed the year 2023 with significant gains. The previous year had seen high inflation rates driven by rising price levels and supply bottlenecks in commodities as well as continued rate hikes by central banks. In 2023, the financial markets were again affected by geopolitical events, interest rate policies, inflation and economic development. The major central banks (US Federal Reserve, Fed, and the European Central Bank, ECB) continued their rate hikes well into the third quarter. Slowly but steadily subsiding inflation rates and expectations of moderate global growth had a positive impact on equity markets while geopolitical conflicts (most notably the war in Ukraine and the conflict in the Middle East) and soaring government bond yields in the US and in Europe had an adverse effect. Expectations that a recession would not materialise and declining inflation rates raised hopes for an imminent end to the central banks' rate hike cycles, triggering a year-end rally in the equity markets that pushed a number of indices to new highs.

EQUITY MARKET REVIEW

Equity markets solidly up

After the setbacks in the previous year, the equity markets covered posted double-digit gains, with just a few exceptions. Indices rose significantly, most notably in the fourth quarter, as the rate-hike cycle had peaked, rate cuts were being anticipated in the near future and companies released solid revenues and earnings forecasts for 2024. In the US, the Dow Jones Industrial Average Index was boosted by the year-end rally, hitting a new all-time high and ending the reporting period at 37,689.54 points, up 13.7% versus year-end 2022. The broader Standard & Poor's 500 Index advanced 24.2% to 4,769.83 points year-on-year. In Europe, the Euro Stoxx 600 Index increased by 12.7% in the course of 2023, closing the year at 479.02 points. The German DAX equity market index likewise marked an all-time high at year-end, having risen by 20.3% to 16,751.64 points. Over the past year, it was primarily technology shares that recorded significant gains. The US technology index Nasdaq was up 43.4% to 15,011.35. In Asia, the picture was mixed. While the Japanese Nikkei Index advanced by approximately 28%, the Chinese Shanghai Shenzen CSI300 Index declined by about 11%.

Tight monetary policies expected to end

In response to inflationary pressure, the central banks had phased out their zero-rate policies already before 2023 and taken resolute action to contain historically strong increases of price levels, which were fuelled primarily by the high cost of energy and food. Leading central banks kept hiking their rates well into the third quarter of the 2023 reporting year. In its last rate hike to date in late July, the eleventh within 16 months, the US Fed set the range for its effective policy rate at 5.25% to 5.50% and has since left it unchanged. The ECB raised its policy rate in a total of ten rate hikes – the final one in September – to 4.50%. As inflationary pressure subsided, the Fed signalled an end to its rate hike cycle and hinted at first rate cuts in 2024. The ECB will wait and see how inflation is going to develop before announcing any future moves.

Global economy growing moderately

The global economy proved more resilient than expected in the first half of 2023, but slowed down later in the year amid tighter funding conditions, lacklustre trade growth and lower business and consumer confidence. Risks to short-term forecasts include increased geopolitical tensions and stronger-than-expected impacts of monetary tightening. Global growth furthermore still depends heavily on the development of Asian economies (most importantly China). The International Monetary Fund (IMF) has forecast worldwide economic growth of 3.1% in 2023 and in 2024. With inflation continuing to subside and real incomes going up, the IMF expects global growth of 3.2% in 2025. For the eurozone countries, the IMF projected a growth rate of 0.5% for 2023 (2024: 0.9%, 2025: 1.7%); for the US, growth of 2.5% for 2023 (2024: 2.1%, 2025: 1.7%). The German economy, whose performance continues to be a major factor for the economies of Central and Eastern Europe, slightly contracted in 2023, and is expected to grow by 0.5% in 2024 and 1.6% in 2025.

2023 was a good year for bank shares

After the losses sustained in the markets in the previous year, banks were among the preferred industries in 2023. Despite a slowing economy and tighter financing conditions, banks benefited from higher interest rates. Rising rates supported the deposit and lending business, leading to wider margins and improved profitability. Uncertainty in the banking sector stemming from the insolvencies of three US credit institutions and turmoil surrounding Credit Suisse in the first quarter of 2023 were only short-lived due to quick intervention by the supervisory authorities. In the year ended, the Dow Jones Euro Stoxx Bank Index, which is composed of the leading European bank shares, rose by 23.5% to 118.38 points.

Vienna Stock Exchange lagging behind global equity markets

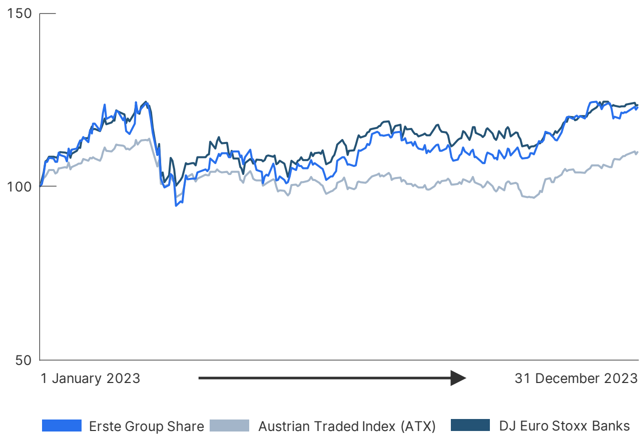
After the Austrian equity market had lost around 19% in the previous year, the Austrian Traded Index (ATX) gained 9.9% in the course of 2023 and ended the trading year at 3,434.97 points, thus underperforming international indices. Geopolitical tensions, most notably the ongoing war in Ukraine, led to more caution among international investors and hence a more subdued development of share prices.

ERSTE GROUP SHARE

Double-digit gains

After the setbacks suffered in the previous year, the Erste Group share posted significant gains in the year ended and closed the reporting period at EUR 36.73, up 22.8%. The Erste Group share marked its 2023 high at EUR 37.23 on 4 December and its low at EUR 28.19 on 24 March. The key factors driving the share price were a positive view of the industry, results beating analysts' expectations as well as an upward revision of targets for the year 2023. The focus of market participants was also on forecasts for 2024, including the return on tangible equity (ROTE), future banking taxes and, last but not least, expectations about capital distributions.

Performance of the Erste Group share and major indices (indexed)



Employee share programme

After the successful implementation of the employee share programme in the previous year, Erste Group employees again had the opportunity to buy Erste Group shares under the employee share programme in 2023. In 2023, approximately 35,000 employees participated in this programme (previous year: 30,000). The successful continuation of the programme resulted in a further strengthening of Erste Mitarbeiterbeteiligung Privatstiftung (Erste Employee Foundation), in which the voting rights of the shares acquired under the employee share programme are combined and exercised in a uniform manner.

Performance of the Erste Group share versus indices

	Erste Group share	ATX	DJ Euro Stoxx Banks Index
Since IPO (Dec 1997)	231.4%	169.2%	-
Since SPO (Sep 2000)	212.6%	194.0%	-66.3%
Since SPO (Jul 2002)	110.8%	181.6%	-52.9%
Since SPO (Jan 2006)	-18.4%	-11.8%	-68.8%
Since SPO (Nov 2009)	26.7%	31.8%	-48.0%
2023	22.8%	9.9%	23.5%

IPO … initial public offering, SPO … secondary public offering.

Share buyback programme

On 12 May 2023, the annual general meeting of Erste Group decided on a share buyback programme with a volume of up to EUR 300 million. After the ECB had given its approval in early August, the buyback of own shares started on 16 August 2023 and was completed on 16 February 2024. A total of 8,887,092 own shares were repurchased. The cancellation of the repurchased own shares in the companies register took effect on 24 February 2024. The number of own shares decreased accordingly.

Number of shares, market capitalisation and trading volume

In the year ended, the number of shares of Erste Group Bank AG remained unchanged at 429,800,000. At year-end 2023, Erste Group's market capitalisation stood at EUR 15.8 billion, up 22.5% on year-end 2022 (EUR 12.9 billion). In February 2024, the number of shares following the completed share buyback programme changed to 420,912,908.

Erste Group is listed on the stock exchanges of Vienna, Prague and Bucharest. Its main stock exchange is Vienna, where in the year ended its trading volume averaged 1,169,113 shares per day.

Sustainability indices and ratings

The Erste Group share has been part of VÖNIX, the Vienna Stock Exchange's sustainability index, since its launch in 2005. Since 2011, the Erste Group share has been included in the STOXX Global ESG Leaders Index, which represents the best sustainable companies worldwide on the basis of the STOXX Global 1800. Since 2016, the Erste Group share has been included in the FTSE4Good Index Series, since 2017 in the Euronext Vigeo Index (since 2023: Moody's Analytics) Eurozone 120. In addition, Erste Group has held prime status in the ISS ESG corporate ratings since 2018. MSCI has rated Erste Group with AA. Sustainalytics has assessed Erste Group to be at low risk of experiencing material financial impacts from ESG factors. In 2023, Erste Group participated in the CDP (Carbon Disclosure Project) rating for the second time; its sustainability measures were affirmed at B.

Dividend

Erste Group's dividend policy is guided by the Bank's profitability, growth outlook and capital requirements. We target a payout ratio in the range of 40-50% based on reported net profit, net of AT1 coupons. The 30th annual general meeting that took place on 12 May 2023 was held with in-person attendance. The annual general meeting resolved to distribute a dividend of EUR 1.90 per share for the 2022 fiscal year, which was paid out on 19 May 2023. For the 2023 fiscal year, the management is planning a dividend of EUR 2.70 per share.

RATINGS OF ERSTE GROUP BANK AG

Moody's upgraded Erste Group's rating to A1/P-1 in 2023, confirming a stable outlook. Standard & Poor's (A+/A-1) and Fitch (A/F1) left their ratings unchanged in 2023, each with a stable outlook.

FUNDING ACTIVITIES

As it had done in the previous year, Erste Group opened up the capital markets for financial institutions by issuing a covered bond. The EUR 1 billion mortgage covered bond with a 6-year tenor priced at MS+20bps was followed, just one week later, by a EUR 750 million 8NC7 callable Green Senior Preferred note (MS+125bps).

After the capital markets' turmoil of March 2023, Erste Group issued a EUR 1 billion mortgage-covered bond with a 4.5-year tenor priced at MS+20bps, thereby proving its solid access to the capital markets. In May, Erste Group returned to the capital markets with a EUR 750 million Senior Preferred note. The 7NC6 transaction was priced at MS+125bps.

The peak of the funding year was the new issuance of a EUR 500 million perpNC5.6 8.5% transaction, which was announced at the same time as a buyback offer for an existing AT1 issue. The buyback offer was taken up by 66% of investors and contributed significantly to the optimisation of the debt structure.

The funding year 2023 closed in November upon issuance of a EUR 750 million mortgage-covered bond with a 5.5-year tenor (MS+40bps).

INVESTOR RELATIONS

Open an regular communication with investors and analysts

In the year ended, the management and the investor relations team met with investors in a total of 244 one-on-one and group meetings. Questions raised by investors and analysts were answered both at events with in-person attendance and virtually during telephone or video conferences. For the first time since 2019, the presentation of the 2022 annual result in Vienna was again followed by an analysts' dinner and a road show day with investor meetings in London. Road shows were likewise conducted in Europe and the US after the release of first and third quarter results. Erste Group presented its performance and strategy against the backdrop of the current environment at international banking and investor conferences organised by the Vienna Stock Exchange, HSBC, PKO, Morgan Stanley, Concorde, RCB, UBS, Deutsche Bank, Bank of America, Goldman Sachs, Barclays, mBank and Wood. 63 meetings were held to intensify the dialogue with bond investors. A large number of face-to-face meetings with analysts and portfolio managers were held at conferences, road shows and investors' days hosted by the European Covered Bond Council (ECBC), LBBW, UBS, Citigroup, Danske Bank and Barclays. The website https://www.erstegroup.com/en/investors provides comprehensive information on Erste Group and the Erste Group share. Investors and the broader public can follow the investor relations team on the social media platform X (formerly Twitter) at https://www.x.com/ErsteGroupIR. This site provides users with the latest news on Erste Group on the social web. More details on the social media channel, the news/reports subscription and reminder service are available at https://www.erstegroup.com/en/investors/ir-service.

Analyst recommendations

In 2023, 21 analysts regularly released research reports about Erste Group. The Erste Group Bank AG share was covered by financial analysts at the following national and international firms: Autonomous, Bank of America, Barclays, Carraighill, Citigroup, Concorde, Deutsche Bank, Exane BNP, Goldman Sachs, HSBC, JP Morgan, JT Banka, KBW, Kepler Cheuvreux, mBank, Mediobanca, PKO, RBI, Société Générale, UBS and Wood. As of the end of the year, 17 analysts had issued buy recommendations, three had rated the Erste Group share as neutral and one as underperform. The average year-end target price stood at EUR 46.3. The latest updates on analysts' estimates for the Erste Group share are posted at https://www.erstegroup.com/en/investors/share/analyst-estimates.

Strategy

We strive to be the leading retail and corporate bank in the eastern part of the European Union, including Austria. To achieve this goal, we aim to support our 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.

As a competent and reliable partner for our customers and with our business activities anchored in the real economy, we will continue to contribute to economic growth and financial stability and thus to the prosperity of our region. Accordingly, we take our social responsibility seriously, and we are also firmly determined to take a leading role in the green transformation of the economy.

In all of our core markets in the eastern part of the European Union, we pursue a balanced business model focused on providing the best banking services to each of our customers. In this respect, digital innovations are playing an increasingly important and inclusive role.

Sustainability of the business model is reflected in our ability to fund customer loans by customer deposits, with most customer deposits being stable retail deposits. Sustainability of our strategy is reflected in long-term client trust, which underpins strong market shares in almost all of our 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, we pursue the banking business in a socially responsible manner and aim to earn an adequate premium on the cost of capital.

Banking leadership in Central and Eastern Europe

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

FINANCIAL HEALTH – Bringing advice to all customers to improve their financial health

GREEN TRANSITION – Being a financial leader in the green transition in CEE

PRIORITIES in DIGITALISATION – Invest in data analytics and innovate George

CORPORATE RESPONSIBILITY – Operating sustainably and profitably

STRATEGY IN DETAIL

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

Long-standing tradition in customer banking

Erste Group has been active in retail business since 1819. This is where the largest part of our capital is tied up, where we generate most of our income and where we fund the overwhelming part of our core activities by drawing on our customers' deposits. 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.

RETAIL BUSINESS

Our key business is retail business, and it represents our strength. It is our top priority when developing products such as modern digital banking that enable us to meet customers' expectations more effectively.

Our retail business covers the entire spectrum from lending, deposit and investment products to current accounts and credit cards. Our 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, we serve a total of approximately 16.2 million customers in our markets and operate about 1,950 branches. Wealthy private clients, trusts and foundations are served by our private banking staff and benefit from services that are tailored to the needs of this target group.

In addition, we use and promote digital distribution channels such as the Internet and mobile banking, not only to meet the increasing importance of digital banking, but to actively shape the digital future. George plays an important role in this.

Retail banking is attractive to us 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. We take advantage of these factors in all core markets and make best use of our resulting position of strength by pursuing a hybrid business model. 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 (e.g. housing financing) mainly from deposits made in the same currency. Therefore, our 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 our earnings, is business with small and medium-sized enterprises, regional and multinational groups and real estate companies. Our goal is to enhance relationships with our clients beyond pure lending business. Specifically, our goal is for SMEs and large corporate customers to choose Erste Group as their principal bank and also route their payment transfers through our 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, we serve 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 us to combine industry-specific and product expertise with an understanding of regional needs and the experience of our 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 we offer to our retail and corporate customers. The strategic significance of our 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 our customers with professional access to the financial markets. We therefore view our capital markets business as a link between financial markets and our customers. As a key capital markets player in the region, we also perform important functions such as market making, capital market research and product structuring.

Capital markets business serves the needs of our retail and corporate customers as well as those of government entities and financial institutions. Due to our strong network in the eastern part of the European Union, we have a thorough understanding of local markets and customer needs. In our capital markets business, too, we concentrate on core markets of 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 we operate, the local capital markets are not yet as highly developed as in Western Europe or in the United States of America. That means our banking subsidiaries are pioneers in some of these markets. Therefore, building more efficient capital markets in the region is another strategic objective of our capital markets activities.

PUBLIC SECTOR BUSINESS

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

Adequate transport and energy infrastructure and municipal services are absolutely key prerequisites for sustainable economic growth in the long term. Therefore, we view infrastructure finance and all associated financial services to be of extreme importance.

INTERBANK BUSINESS

Interbank business is an integral part of our business model that performs the strategic function of ensuring that the liquidity needs of our customer business are met. In particular, this involves short-term borrowing and lending of liquid funds 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. This part of Europe offered, and still offers, the best structural, and therefore long-term, growth prospects.

Today, we have 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 our subsidiaries, we hold considerable market positions in these countries. In Serbia, which has been granted European Union candidate status, we maintain 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 our core markets, we also hold direct and indirect majority and minority banking participations in Slovenia, Montenegro, Bosnia and Herzegovina and North Macedonia.

Growing importance of innovation and digitalisation

The pace of digital transformation has accelerated considerably due to technological changes, demographic developments and regulatory interventions. As a result, customer behaviour and customer expectations towards financial products have also changed significantly. We are convinced that digital banking business will continue to gain in importance and will be essential for the economic success in the long term, and we therefore foster digital innovation with the aim of digitalising our banking products and processes end-to-end.

Our hybrid business model integrates 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.

Our digital strategy is based on our digital platform George. It aims to provide customers access to personalised products from Erste Group. Through application programming interfaces (APIs), a wide range of co-operations – whether with fintechs, start-ups or across industries – is available and can therefore help open up new markets and attract new customers.

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. It will also be rolled out in Serbia. The range of digitally available products and services is being constantly expanded. Customers can activate applications via plug-ins and use them to manage their finances. George Business was developed to provide our corporate customers with excellent digital banking as well. It was implemented in Austria in 2022 and in Romania in 2023. The completion of the roll-out in the Czech Republic is scheduled for 2024, the implementation in the other local banking subsidiaries will follow. The aim is to offer an outstanding digital user experience on a group-wide basis across all customer segments on one platform.

Intra-group, interdisciplinary teams are developing innovative solutions and new, AI-supported interaction options in George, such as a modernised ecosystem for securities trading or George Junior, a digital offering for children and their parents with a financial solution that is attractive for the entire family and was implemented in Romania in 2023.

It is our unequivocal ambition to be the key contact for our customers. This means that we must also continue to focus on the prerequisites in order to meet this requirement. Two core areas are of particular importance:
_ Improving data analysis so that we can better understand the needs of our customers and offer appropriate solutions with pinpoint accuracy.

_ Further simplifying our digital offerings, with a focus on ensuring the perfect user journey, and expanding these offerings to include new products.

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 customers with products and services 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 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 our business activities, we value 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 operating our 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 on a long-term basis. 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 efficiency measures. When the operating environment improves, more time will be devoted to capturing growth in a responsible way. Irrespective of the environment, we should benefit materially from operating in the region of Europe that offers the best structural growth opportunities for some time to come.

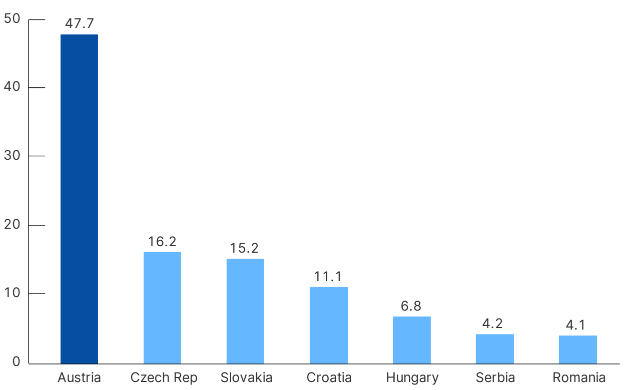
LONG-TERM GROWTH TRENDS IN CENTRAL AND EASTERN EUROPE

The economic catch-up process across the countries of Central and Eastern Europe and the underlying convergence trend continue. This is due, on the one hand, to the fact that the region has to make up for almost half a century of the shortfalls of the socialistic planned economy and, on the other hand, 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.

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.

Disposable income has risen strongly on the back of growing gross domestic product. 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.

Customer loans/capita in CEE (2023) in EUR thousand



Source: Local central banks, Erste Group

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. We firmly believe 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.

Over the coming 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.

OUR ESG STRATEGY

Since Erste Group was founded, the idea of sustainability has been an integral part of our business activities. Today, the green transition and social inclusion are the pillars of our ESG strategy.

For us, the green transition means providing financial resources to limit climate change and global warming. Our goal is to bring the carbon footprint of our portfolio to a net-zero status by 2050. We specify our efforts and thus their implementation with specific, science-based goals for each defined sector. The net-zero status of banking operations should be achieved by 2030. We are one of the first banking groups in the region to join the Net-Zero Banking Alliance.

For us, social inclusion means more than providing financial services; it also includes financial literacy, social banking, affordable housing and gender equality. We are convinced that a good socio-economic environment forms the basis for solid banking business and has a positive impact on our economic development.

The strategic pillars of the green transition and social inclusion are supported by best-in-class governance. Our ESG strategy is anchored in the governing bodies, the Management Board and the Supervisory Board. This ensures that our ESG strategy is established at all levels of the Group and comprehensively integrated into the business processes.

BUILDING ON A STRONG BRAND

Just over 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 oesterreichische Spar-Casse contributed substantially to making financial services available for all segments to the population across 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, we are one of the largest banking groups and employers in Central and Eastern Europe. The trust that we and our local banks have enjoyed stems from the fact that we have truly been putting the founding principle into practice.

A brand is a consistent promise. It is more than a logo – it is about the perception that people have when they think about or hear of an organisation, its products and its 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. We are one of these and have been benefitting from a high degree of brand awareness and trustworthiness.

Over the last years, we have transformed our brand communication from being category- and product-driven to having a purpose-driven approach. To this end, we have established a Statement of Purpose as the main group-wide pillar of our 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 an individual's personal 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 us and our 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 we have been firmly committed for more than 200 years. #believeinyourself is more than a lead narrative. It encourages people to pursue their aspirations, to create something, and embodies our promise to assist them along the way to financial health.

Business overview

PERFORMANCE ANALYSIS

P&L 2023 compared with 2022; balance sheet as of 31 December 2023 compared with 31 December 2022

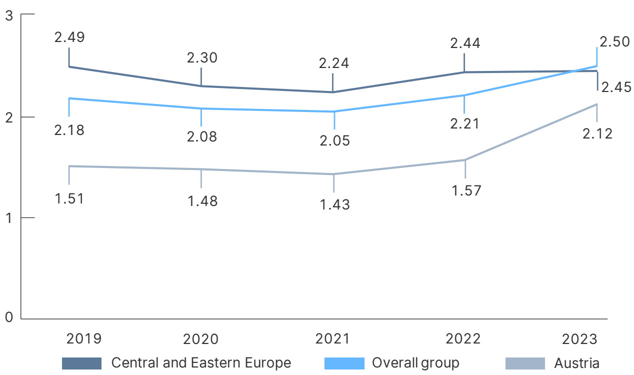
Profit and loss statement

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 retail and in 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.

Net interest margin in %

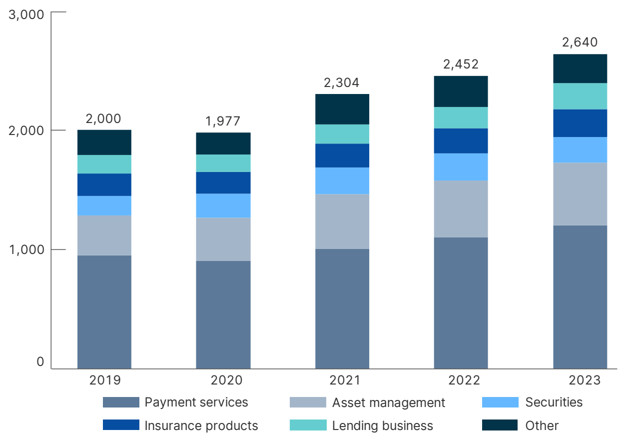


The net interest margin (calculated as the annualised sum of net interest income, dividend income and net result from equity method investments over average interest-bearing assets) widened markedly to 2.50% (2.21%).

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 fee and commission income, structure and trend in EUR million



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.

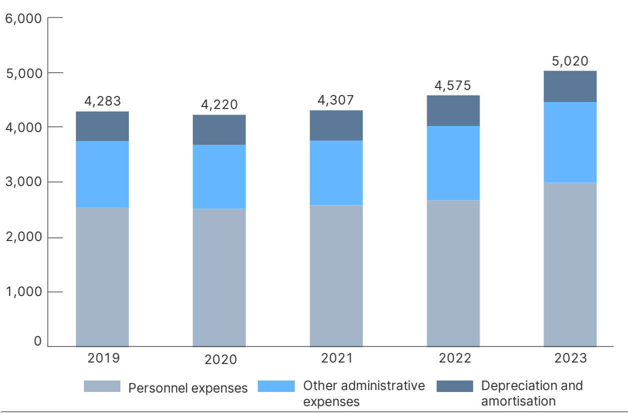
Net trading result turned positive to EUR 754 million (EUR -779 million) due to valuation effects resulting from interest rate moves in the securities and derivatives business as well as higher income from foreign currency transactions. Gains/losses from financial instruments measured at fair value through 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 and 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%**

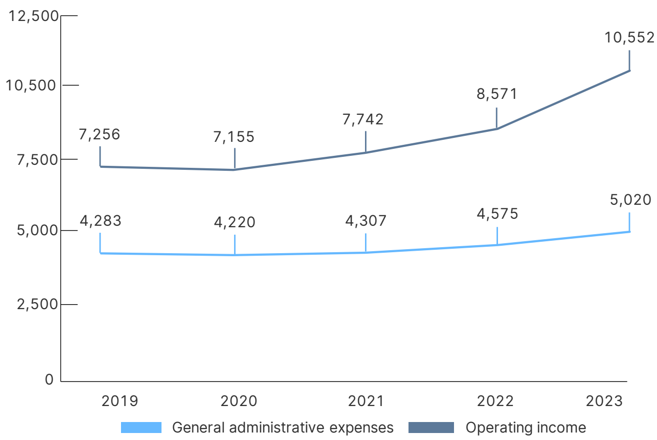
Personnel expenses increased in all core markets – most significantly in Austria, the Czech Republic and Romania – driven mostly by higher collective salary agreements. The increase in other administrative expenses was primarily attributable to higher IT, marketing and office-related expenses. By contrast, 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).

General administrative expenses, structure and trend, in EUR million



The cost/income ratio improved to 47.6% (53.4%).

Operating income and operating expenses in EUR million



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 most notably includes 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).

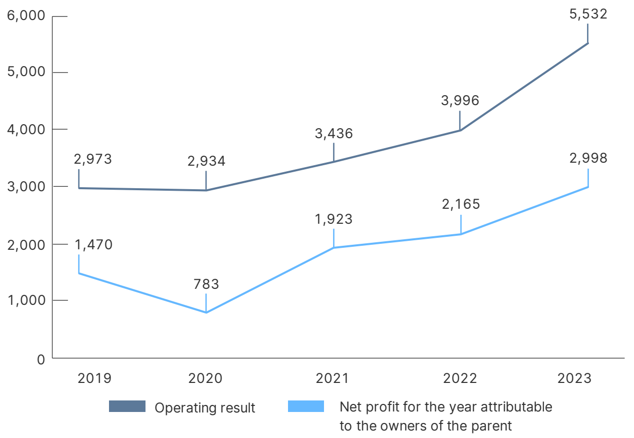
Other operating result

Other operating result was 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) was 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).

Net result

The rise in the minority charge to EUR 923 million (EUR 502 million) was attributable to significantly better results from the savings banks – primarily due to higher net interest income. The net result attributable to owners of the parent rose to EUR 2,998 million (EUR 2,165 million) on the back of the strong operating result and low risk costs.

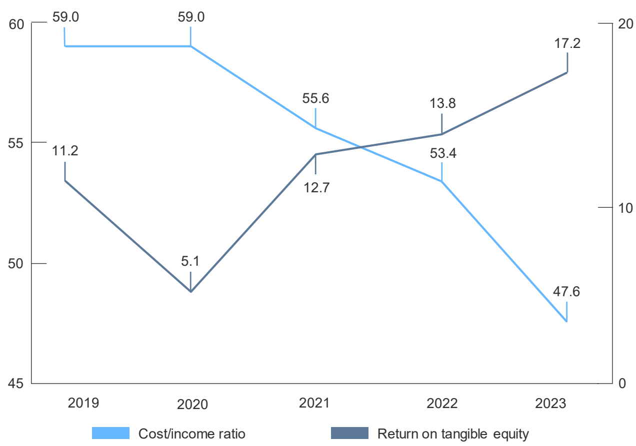
Operating result and net profit/loss for the year attributable to owners of the parent in EUR million



Cash earnings per share in 2023 amounted to EUR 6.82 (EUR 4.85). Earnings per share were 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 amortisation and straight-line depreciation for customer relationships, was 15.9% (return on equity: 15.9%) after 12.7% (return on equity: 12.6%) last year.

Key profitability ratios in %



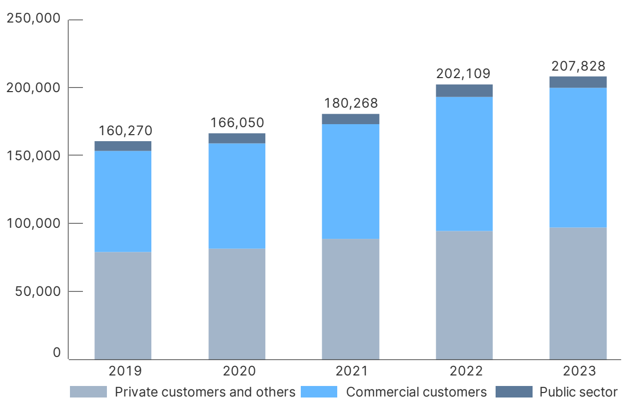
Balance sheet

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.

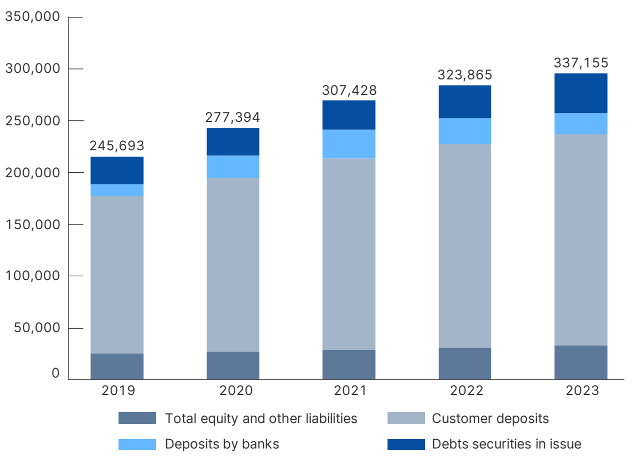
Loans and advances to customers, structure and trend, in EUR million



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.

Balance sheet structure/liabilities and total equity in EUR million

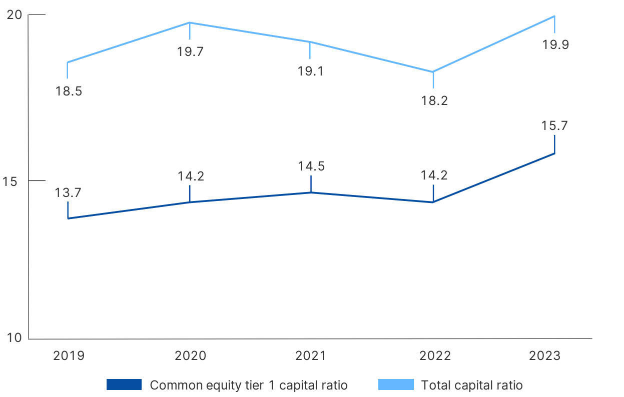


The loan-to-deposit ratio stood at 89.3% (90.2%). Debt securities in issue increased to EUR 43.8 billion (EUR 35.9 billion).

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 in accordance with the Capital Requirements Regulation (CRR) common equity tier 1 capital (CET1, CRR final) rose to EUR 22.9 billion (EUR 20.4 billion) as did 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).

Total capital ratio and common equity tier 1 capital ratio in %



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).

OUTLOOK

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 the 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 at a solid 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 risk costs in 2024 will be below 25 basis points of average gross customer loans. While a forecast for the 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 and/or M&A 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 Middle 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.

Development in the core markets

This chapter provides an overview of the developments in our seven core markets (by segments). In addition to economic reviews, we provide updates on the banking markets. Interviews with the CEOs of our local banks and board members of the Holding provide further insights to the respective business environment.

The descriptions of the core markets are supplemented by financial and credit reviews. For more details, please see Note 1 Segment Reporting. Additional information is available in Excel format at https://www.erstegroup.com/en/investors/reports/financial-reports.

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

Austria

Economic review

Austria's well diversified, open and developed economy performed weaker than expected in 2023. The slight economic decline was driven by weak performance of both private consumption and investment activity. Private consumption was negatively impacted by still elevated inflation, which eroded disposable household income. The slowdown of investment activity was particularly pronounced in the construction sector. Exports, with a share of 48% of the country's GDP, were strong at the beginning of the year. Although exports slowed down in the second half of the year, they still contributed positively to economic performance, driven mainly by machinery, chemical and food products. Austria's tourism sector boomed in 2023. The summer season's overnight stays posted the highest figure for decades. In general, the labour market remained strong with an unemployment rate of 5.1%. Overall, real GDP declined by 0.7%. GDP per capita amounted to EUR 52,400.

The general government deficit decreased from 3.5% of GDP in 2022 to 2.5% in 2023. This improvement was mainly driven by the phase-out of COVID-19 measures as well as the relatively moderate level of unemployment benefit payments due to the robust labour market. On the other hand, measures to mitigate the impact of high energy prices such as increased family allowances, tax benefits or electricity price caps were maintained. Anti-inflation and climate-supporting measures alone accounted for more than EUR 6.4 billion in 2023. Public debt as a percentage of GDP decreased to 76.4%.

Inflation in Austria started to decline after it peaked in January 2023, mainly as a result of declining food and energy prices. Driven by significant nominal wage growth and high energy costs, inflation remained elevated in the services sector, especially in the hospitality industry. Overall, average inflation amounted to 7.7%, substantially higher than the EU average of 3.4%. Core inflation, excluding food and energy prices, increased by 7.3%. Residential property prices decreased slightly. Austria's monetary policy is set by the ECB which increased the key policy rate of the monetary union from 2.50% to 4.50% in six steps during the year.

All three major rating agencies affirmed Austria's high credit ratings, which are supported by the country's resilient economic structure. In August 2023, Fitch upgraded Austria's outlook from negative to stable due to diminished risks in relation to energy supplies. The rating agency maintained its credit rating at AA+. Moody's and Standard & Poor's affirmed their credit ratings for Austria at Aa1 and AA+, respectively, both with a stable outlook.

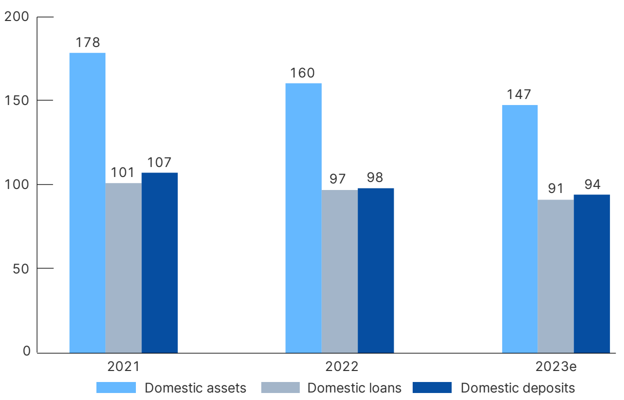
Key economic indicators – Austria	2020	2021	2022	2023e
Population (average, million)	8.9	9.0	9.1	9.1
GDP (nominal, EUR billion)	380.9	405.2	447.2	478.3
GDP/capita (in EUR thousand)	42.7	45.3	49.4	52.4
Real GDP growth	-6.6	4.2	4.8	-0.7
Private consumption growth	-8.5	4.2	5.7	-0.4
Exports (share of GDP)	41.2	43.4	47.5	47.7
Imports (share of GDP)	42.7	47.2	50.1	49.3
Unemployment (Eurostat definition)	6.0	6.2	4.8	5.1
Consumer price inflation (average)	1.4	2.8	8.6	7.7
Short term interest rate (3 months average)	-0.4	-0.6	0.4	3.4
Current account balance (share of GDP)	3.4	1.6	-0.3	2.4
General government balance (share of GDP)	-8.0	-5.8	-3.5	-2.7

Source: Erste Group

Market review

Austria's banking sector, with total (domestic) assets of 147.0% of GDP, strengthened capitalisation levels and maintained a very solid funding base. In contrast, macroeconomic conditions resulted both in muted lending and deposit volume growth in 2023. On the asset side, higher interest rates and regulatory measures led to weak customer loan growth of 0.7%. Corporate loans outgrew retail loans driven mainly by financing needs for inventories and working capital. Overall, corporate loans increased by 2.1%. Reflecting the low demand for housing and consumer loans, lending to households decreased by 1.9%. The share of variable rate loans continued to decline further. Customer deposits increased slightly by 1.8%, mainly due to the higher cost of living. Overall, the banking system's loan to deposit ratio stood at 97.1% by year-end.

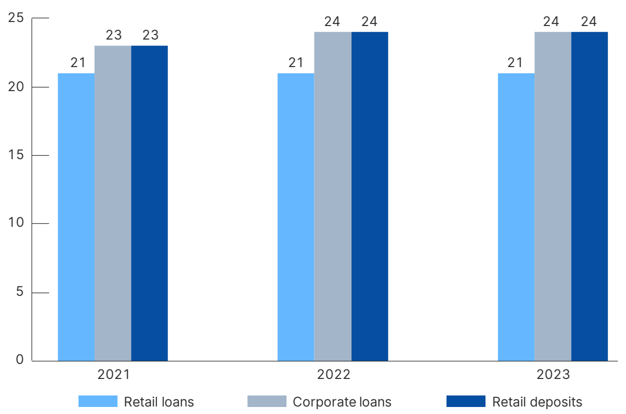
Financial intermediation – Austria (in % of GDP)



Source: National Bank of Austria, Erste Group

Stress test results, published annually by the Austrian National Bank, again confirmed that the domestic banking sector's risk-bearing capacity was adequate. Funding and liquidity profiles remained strong. The Austrian banking sector's liquidity ratios were high and comfortably above minimum requirements. Macro-prudential measures for residential real estate financing remained unchanged. These regulations, issued by the Austrian Financial Market Authority (FMA), include upper limits for loan-to-value ratios (90%), debt-service-to-income ratios (40%) and a maximum tenor of 35 years. These thresholds were applied to new mortgage lending to households exceeding EUR 50,000 and visibly impacted new business volumes. In addition, the systemic risk buffer (SRB) and the other systemically important institutions (OSII) buffer were increased by 50 basis points as of December 2022. The Austrian Financial Market Stability Board (FMSB) decided in October 2023 that the gradual increase in the combined requirements of the SRB and O-SII buffer was to be maintained.

Market shares – Austria (in %)



Source: National Bank of Austria, Erste Group

The Austrian banking sector's profitability rose in 2023. Operating income, especially net interest income, benefited from higher ECB rates. The net interest margin of Austrian banks increased. Net fee and commission income grew mainly on the back of higher payment fees. Administrative expenses rose on higher wage settlements. Asset quality remained strong, risk provisions were low. Austrian banks continued to pay banking tax. Overall, in 2023, the Austrian banking sector posted one of its most profitable years.

Despite its large number of banks, the Austrian sector remained highly concentrated, with the top three banking groups accounting for more than half of total assets. Erste Bank Oesterreich and the savings banks defended their combined market shares in both retail and corporate business. Benefitting from their balanced business model, the market shares ranged from 20% to 24%. Erste Group's market share in the domestic asset management business stood at 28%. George, Erste Group's market-leading digital banking platform, continued to be very popular. The number of customers using George grew by more than 200,000. With 2.5 million users and a digital sales ratio of 41%, more than a third of Austrian online banking customers used George.

ERSTE BANK OESTERREICH & SUBSIDIARIES

Business review

Interview with Gerda Holzinger-Burgstaller, CEO of Erste Bank Oesterreich

How did the competitive environment change?
As in previous years, the market environment was again marked by challenging economic developments. In 2023, lower real incomes due to persistently high inflation and weak industrial activity resulted in a decline in economic output. The loss of purchasing power and shrinking liquidity had a negative impact on savings and investment activity on the part of consumers and corporates. The ECB's rate hikes, the changed situation in the real estate sector and stricter rules for new real estate loans imposed by the Financial Market Authority led to a significant decline in demand for retail housing loans. As a result, lending volume to private households went down in Austria. At the same time, bank customers benefited from higher interest on their savings. Demand for investment products such as bonds was also stronger than in previous years when interest rates were at all-time lows. Because of the high density of banks in Austria, price competition remained fierce.

Buzzwords such as the green transition or financial health have become more and more important in sustainability reporting. Which developments would you highlight?
Supporting and financing the green transition is a core element of our strategy. This is also underscored by Erste Group's membership in the Net-Zero Banking Alliance. In 2023, we set additional CO_2 reduction targets for high-emission industries such as automotive and cement producers and successfully expanded the identification of green financing. In addition to target setting and reporting, the focus of our ESG efforts is on consistent action. Our activities in this area have already been recognised: in the Sustainability Perception Values Ranking compiled by the brand rating company "Brand Report", we were ranked second.

Ecological, social and economic sustainability have been an integral part of our advisory services and customer dialogue for several years. We offer our customers comprehensive sustainable financing concepts, including areas of great significance for the green transition such as real estate, heat and energy production and mobility. In asset management we offer a wide range of sustainable products.

In accordance with our founding mission, financial literacy is part of our societal and social commitment. For more than 200 years, we have been helping customers to gain a better understanding of their own financial situation by providing financial education and continuously pursuing innovation. With our social banking activities and through Zweite Sparkasse, we also help those to get back on their feet who are in financial difficulties.

How did you manage to successfully differentiate your business activities from those of your competitors?
Our newly launched advisory tool "Financial Health Check" takes an even more comprehensive look at our customers' financial health and offers our retail customers an innovative and holistic advisory experience. As a result of our advisory service, customers obtain a detailed picture of their financial situation and proposals for potential improvements. At the same time, we champion innovation: In 2023, we were the first Austrian bank to present an AI chatbot that uses artificial intelligence to build financial literacy in a manner that is simple and easy to understand.

We regard the use of innovative technologies combined with our hybrid service concept as a material contribution to the enhancement of our portfolio of services and products and hence to the improvement of our customers' financial health. For basic services and day-to-day financial matters, we encourage use of our digital channel George, through which customers' needs can be met quickly and efficiently. If required, we also support customers in person at the branches and assist them in using our digital services. For more complex needs, such as matters of financing and investment, we take ample time and provide advice at the branch and/or remotely, depending on preferences. We are pleased that our consistently customer-centric approach is being recognised across all channels: a survey conducted by Finnoconsult among 230 financial institutes confirmed that Erste Bank offers the best digital customer experience in German-speaking countries.

Looking back at the year, what major achievements or challenges were especially noteworthy?
With more than 95,000 new retail customers in 2023, we continued the success of previous years. This steady growth has been attributable to well-targeted measures as well as a strong brand. The prestigious brand ranking by Brand Finance repeatedly named Erste Bank and Sparkassen as the strongest brand in Austria. From the brand value analysis, Erste Bank emerged

as the second most valuable brand in Austria with a brand value of EUR 3.5 billion.

We have also been recognised for our strategy of consistent customer focus. In 2023, for example, we were pleased to receive awards as Best Major Bank in the Recommender Awards, Best Domestic Private Bank in Austria from Euromoney and Best Private Bank from PWM/The Banker. In the private banking segment, this distinction can be attributed, among other things, to a host of measures taken on the product side. We are the leading innovator in private equity. By creating a digital platform for our private banking customers with assets of EUR 50,000 or more, we have enabled them to easily invest in an asset class that in the past was mainly reserved for institutional investors. With this approach, we have become a pioneer at the European level. And what is even better: these investments can be held in a securities account and are eligible for final taxation.

For us, customer focus means meeting customers' individual needs. In the currently challenging environment, we help young people to make their dream of home ownership come true. With a "2% start bonus", we support the purchase or refurbishment of owner-occupied properties with an amount of up to EUR 4,000. To customers aged 50 or above we offer home equity loans that are tailored to the needs at that stage of life.

In 2023, we launched George Business, Austria's most advanced banking platform for corporates. With the integrated Financial Health Zone, we show corporate customers the financial situation of their enterprise from our perspective.

How did the cooperation with the savings banks develop, and what were the major achievements in this area?
In 2023, the Savings Banks Group again expanded its market position across Austria – by now, almost one in three Austrians trusts the Savings Banks Group when it comes to their financial affairs. The large number of new customers is proof of the attractiveness of their services, the professional quality of service and the significance of a regional approach.

The previously mentioned Financial Health Check has also been rolled out across the Savings Banks Group. With this approach to advisory services, we successfully provide added value across a range of needs and make it accessible to everyone. This unique offering makes us more relevant, differentiates us from our peers and, ultimately, often leads to new business and a larger share of the wallet. In this context, more than 400 coaches and managerial staff were trained in 2023 and more than 1,000 relationship managers were instructed in implementing the new support tool. As a next step, the tool will be optimised by sharing best practices within the Savings Banks Group.

Another focus was on optimising financing processes. Access to consumer loans was made simpler and easier both online and at the branches by means of what we call the Klick-Kredit (click a loan) option.

Financial review

in EUR million	2022	2023	Change
Net interest income	708.9	1,200.0	69.3%
Net fee and commission income	480.1	504.6	5.1%
Net trading result and gains/losses from financial instruments at FVPL	-0.8	8.5	n/a
Operating income	1,250.4	1,778.5	42.2%
Operating expenses	-688.6	-747.5	8.5%
Operating result	561.7	1,031.0	83.5%
Cost/income ratio	55.1%	42.0%	
Impairment result from financial instruments	-31.1	-53.3	71.1%
Other result	-35.8	-68.1	90.1%
Net result attributable to owners of the parent	320.1	681.2	>100.0%
Return on allocated capital	14.6%	32.6%	

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

Net interest income increased due to higher market interest rates and higher customer loan volumes, only partially offset by higher interest expenses for repriced customer deposits and a moderate shift from current accounts to term deposits and savings accounts. Net fee and commission income rose mainly on the back of higher payment fees. Net trading result and gains/losses from financial instruments at FVPL improved on valuation effects. The increase in operating expenses was driven by higher personnel, IT and marketing expenses. The deposit insurance contribution decreased to EUR 27 million (EUR 32 million). Consequently, operating result and the cost/income ratio improved notably. Impairment result from financial instruments worsened due to negative changes in customer creditworthiness. Other result deteriorated mainly due to lower real estate selling gains. The banking tax decreased to EUR 16 million (EUR 23 million). The payment into the resolution fund decreased to EUR 16 million (EUR 17 million). Overall, the net result attributable to owners of the parent increased.

Credit risk

Credit risk exposure in the Erste Bank Oesterreich & Subsidiaries segment rose to EUR 52.5 billion (+1.9%), customer loans increased to EUR 41 billion (+2.3%). This segment accounted for 19.3% (19.4%) of Erste Group's total loan portfolio. The share of retail private individual customers in total loan volume slightly declined to 36.5% (37.2%), while the share of corporates, including self-employed individuals and small businesses, went up insignificantly to 58.6% (58.0%). Loans to professionals, other self-employed individuals and small businesses are less significant than they are for Austrian savings banks. Lending to the public sector increased in more pronounced manner and is slightly above EUR 2.0 billion (+6.2%), thus reversing the declining trend of its share of the total portfolio. Non-performing loans increased by EUR 137 million and as a percentage of total loans to customers to 1.8% (1.5%). The development was slightly positive only in the public sector segment. The NPL coverage ratio based on loan loss provisions declined to 55.6% (61.7%).

SAVINGS BANKS

Financial review

in EUR million	2022	2023	Change
Net interest income	1,222.5	1,891.7	54.7%
Net fee and commission income	623.1	656.1	5.3%
Net trading result and gains/losses from financial instruments at FVPL	-53.4	64.4	n/a
Operating income	1,843.9	2,659.7	44.2%
Operating expenses	-1,143.4	-1,258.9	10.1%
Operating result	700.5	1,400.7	100.0%
Cost/income ratio	62.0%	47.3%	
Impairment result from financial instruments	-62.2	-182.2	>100.0%
Other result	-24.8	-38.6	55.7%
Net result attributable to owners of the parent	56.9	122.3	>100.0%
Return on allocated capital	9.8%	20.6%	

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

Net interest income increased due to higher market interest rates and higher customer loan volumes, only partially offset by higher interest expenses for repriced customer deposits and a moderate shift from current accounts to term deposits and savings accounts. Net fee and commission income increased mainly on the back of higher payment fees. Valuation effects led to the improvement of the net trading result and gains/losses from financial instruments at FVPL. Operating expenses increased due to higher personnel, IT and marketing expenses, partially compensated for by a lower contribution to the deposit insurance fund of EUR 41 million (EUR 48 million). Consequently, operating result as well as the cost/income ratio improved notably. Impairment result from financial instruments deteriorated mainly due to negative changes in customer creditworthiness observed in the fourth quarter of 2023. Other result deteriorated due to lower real estate selling gains and higher provisions for legal cases. Banking tax decreased to EUR 5 million (EUR 18 million) due to a one-off payment in 2022. Overall, the net result attributable to the owners of the parent increased.

Credit risk

Credit risk exposure in the Savings Banks segment increased slightly to EUR 79.9 billion (+0.7%), while loans to customers rose to EUR 58.9 billion (+1.7%). Their share in Erste Group's total loans to customers decreased to 27.8% (28.1%). Lending to private households registered below-average growth, and its share in the Savings Banks' total customer loan portfolio decreased to 37.7% (38.8%). Loans to professionals, other self-employed persons and small businesses decreased to EUR 6.5 billion (-3.7%). Despite a continuing decline of its share to 11.0% (11.6%) of total loans, the share of this customer segment was again significantly larger than in Erste Group's subsidiaries in Central and Eastern Europe. This reflects the Savings Banks' predominantly local and regional operations as well as the different structure of the Austrian economy, with a higher percentage of small and medium-sized enterprises than in Central and Eastern Europe. The share of non-performing loans in total loan volume to customers in the Savings Banks rose to 2.9% (2.2%). Coverage of non-performing loans with loan loss provisions declined to 64.8% (73.6%).

OTHER AUSTRIA

Business review

Interview with Ingo Bleier, Chief Corporates and Markets Officer

How did the competitive environment change?
The markets in CEE were characterised by interest rate levels that most likely achieved their peaks in the cycle across all currencies. The first central banks started to decrease the interest rates already in the fourth quarter. The interest rate development was a reaction to the high single – and in many countries even double – digit inflation scenario that shaped economies across Europe mainly in the first half of 2023.

On the back of the moderate economic growth and the inflationary environment, the corporate banking market developed positively, albeit at a lower pace compared to the previous year. Weakening credit demand increased pressure on margins.

Capital markets were very active in 2023, in particular through the strong issuance business across customer segments and products. Thanks to our superior rating we benefited from advantageous institutional funding throughout the year.

Buzzwords such as the green transition or financial health have become more and more important in sustainability reporting. Which developments would you highlight?
Sustainable finance is a core element in our strategy in corporates and markets. It translates into ambitious targets in business origination but also into an intensive mandatory training and development programme for our colleagues. Thanks to the focused approach, the volume of new specifically sustainable finance achieved EUR 2.95 billion in 2023, which is a plus of 34% compared to 2022.

Growth of "green funds" pursuant to Article 8 and 9 of the Sustainable Finance Disclosure Regulation (SFDR) outperformed the overall growth of funds in assets under management. With a plus of EUR 2.31 billion in volume, the share of "green funds" in the total portfolio of Erste Asset Management grew to 22.2% in 2023.

How did you manage to successfully differentiate your business activities from those of your competitors?
We are maintaining our focused digitalisation path built on the George brand. The corporate banking platform 'George Business' was rolled out in Austria. Agile adoption of the platform with new features as well as value-chain-enhancing co-operations is the future position of George Business that we are aiming to achieve. We launched the roll out of George Business in Romania and started the groundwork for further expansion in CEE.

In addition, several thousand financial health dialogues with our customers in and outside of our George Business platform confirm the added value of the rating transparency between the bank and our customers, thus positively impacting the customer experience. We are convinced that sharing our analytical know-how with our customers will further improve their financial health in the long run.

To grow our business, new customer acquisition is essential. The first contact and experience with Erste needs to be easy and modern. Digital onboarding for corporate customers in Austria, Romania and the Czech Republic already provides this experience for businesses with simple structures today. We will continue to expand this feature across our regional footprint.

Looking back at the year, what major achievements or challenges were especially noteworthy?
Overall, we achieved very good results in terms of financial performance as well as customer satisfaction across all our markets and business lines. To name a few highlights:

Erste Group played the key role in the Hidroelectrica IPO in summer 2023. This was the year's largest IPO in Europe. We were named 'Best bank for distribution', 'Best ESG Deal' and 'Best debut deal' by Global Capital for our covered bonds business. The roll-out of George Business in Austria was accompanied by a fantastic marketing campaign, which stands for the platform's modernity and its future orientation. In Serbia, we changed our core banking system to enable further organic growth. The new core banking system is the basis for the divisionalisation of markets business in the country.

In terms of private equity investment in the DACH and CEE regions, we successfully placed a new fund of funds for institutional and qualified private investors.

Financial review

in EUR million	2022	2023	Change
Net interest income	634.3	622.9	-1.8%
Net fee and commission income	293.1	321.4	9.7%
Net trading result and gains/losses from financial instruments at FVPL	-21.7	15.9	n/a
Operating income	953.9	1,020.6	7.0%
Operating expenses	-363.2	-394.3	8.5%
Operating result	590.6	626.3	6.0%
Cost/income ratio	38.1%	38.6%	
Impairment result from financial instruments	-64.3	134.6	n/a
Other result	4.0	16.7	>100.0%
Net result attributable to owners of the parent	401.7	586.2	45.9%
Return on allocated capital	15.7%	23.0%	

The Other Austria segment comprises the Corporates and Group Markets business of Erste Group Bank AG (Holding), Erste Group Immorent, Erste Asset Management and Intermarket Bank.

Net interest income decreased moderately due to a lower contribution of money market and interest-related derivatives in Group Markets, only partially compensated for by a one-off payment related to a successful restructuring case and higher customer deposit margins in Corporates business. Net fee and commission income improved due to higher asset management fees, higher lending fees in the Corporates business and higher fees from origination business in Group Markets. Net trading result and gains/losses from financial instruments at FVPL improved on valuation effects. Overall, operating income increased. Higher operating expenses on the back of higher personnel and project-related costs led to a slight increase in the cost/income ratio. The impairment result from financial instruments improved significantly; rating upgrades and recoveries as well as muted NPL inflows resulted in a net release. This was supported by improved risk parameters and reviewed criteria for collective SICR assessment (mainly for energy-intensive industries). Other result improved mainly on a lower level of litigation provisions; it included the resolution fund contribution of EUR 8 million (EUR 8 million). Overall, the net result attributable to owners of the parent improved.

Credit risk

The credit risk exposure in the Other Austria segment, almost completely related to Holding and Erste Group Immorent business, increased substantially to EUR 57.7 billion (+13.7%). Its share in Erste Group's total credit risk exposure increased to 15.8% (14.5%). A large proportion of risk positions was related to securities and cash balances held with other banks. At EUR 20.9 billion, the share of loans to customers in Erste Group's total loan portfolio amounted to 9.9% (10.4%) and was significantly lower than its contribution to credit risk exposure. This decrease in total loans to customers was driven primarily by large corporates business and by lending to the public sector. The improvement in asset quality continued, with the NPL ratio reaching 1.7% (2.0%). This was primarily attributable to the significantly decreasing unsecured non-performing loan portfolio. Coverage of non-performing loans with loan loss provisions also decreased to 54.0% (72.2%), primarily due to the release of overlay provisions for certain industries.

Czech Republic

Economic review

Economic performance in the Czech Republic remained subdued throughout 2023. Household demand was weak due to elevated inflation, declining real wages and negative household sentiment. Exports were negatively impacted by a deterioration in foreign demand, most pronounced in the case of Germany, the country's key trading partner. The automotive sector, one of the most important industries in the Czech Republic, employed 180,000 people and accounted for approximately 10% of the country's economy. Production of passenger vehicles increased by 14.8% due to a substantial volume of backlogs. Inventories declined after pronounced accumulation in the last couple of years. Investments benefited from inflows of European Union structural funds and Recovery and Resolution Facility funds but remained weak in some sectors, especially in the construction industry. The unemployment rate increased slightly to 2.6% but remained among the lowest in the European Union. Overall, real GDP decreased by 0.4%, and GDP per capita amounted to EUR 28,200.

Following parliamentary elections in October 2022, a new coalition government was formed, consisting of five political parties. In 2023, the country's budget deficit rose slightly to 3.6%. This development was mainly driven by rising expenditures due to the automatic indexation of pensions to inflation, various measures to mitigate the impact of elevated energy prices and defence donations to the Ukraine. The total budgetary cost of energy-related measures accounted for 1.2% of GDP. To improve public finances, the government approved a consolidation package including measures such as an increased personal and corporate income tax, higher real estate tax, limitations to tax deductibility, and higher social security contributions. At 44.8%, public debt as a percentage of GDP remained one of the lowest in the European Union.

Inflation in the Czech Republic remained relatively high. After a peak in headline inflation of 17.5% in January 2023, price levels started to decline significantly, mainly driven by lower energy and food prices. Average consumer price inflation stood at 10.7%, while core inflation amounted to 7.6%. The Czech koruna weakened against the euro, reflecting subdued economic performance, negative market sentiment and the unexpected end of the Czech National Bank's foreign exchange intervention regime in August 2023. By the end of the year the koruna traded at CZK 24.70 against the euro. The Czech National Bank (CNB) kept its policy rate at 7.0% until December 2023. Importantly, the CNB started the interest rate-easing cycle in December with a 25 basis-point reduction, the first cut in more than three years. At year-end, the repo rate was 6.75%.

In November 2023, Moody's upgraded the country's outlook from negative to stable while affirming its credit rating at Aa3. Moody's noted that the Czech Republic had become independent of Russian gas in 2023 when it completely replaced it with gas from alternative sources. Standard & Poor's confirmed its rating at AA- with a stable outlook. Fitch kept its rating at AA- with a negative outlook. (In February 2024, Fitch upgraded the outlook from negative to stable).

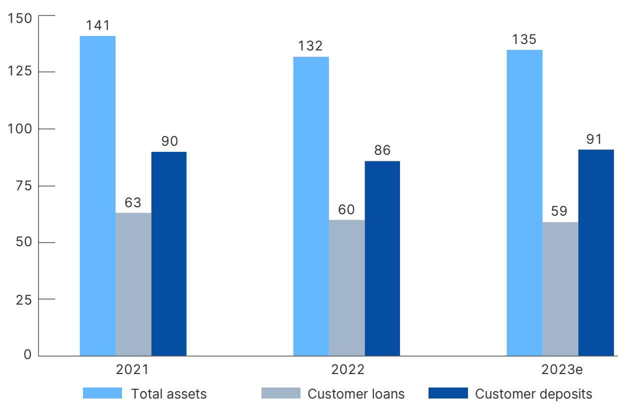
Key economic indicators – Czech Republic	2020	2021	2022	2023e
Population (average, million)	10.7	10.5	10.7	10.9
GDP (nominal, EUR billion)	215.8	238.1	276.3	306.0
GDP/capita (in EUR thousand)	20.2	22.7	25.8	28.2
Real GDP growth	-5.5	3.5	2.4	-0.4
Private consumption growth	-7.4	4.1	-0.8	-3.2
Exports (share of GDP)	61.1	64.1	59.9	57.4
Imports (share of GDP)	57.9	64.2	60.3	55.5
Unemployment (Eurostat definition)	2.6	2.8	2.2	2.6
Consumer price inflation (average)	3.2	3.8	15.1	10.7
Short term interest rate (3 months average)	0.9	1.1	6.3	7.1
EUR FX rate (average)	26.5	25.6	24.6	24.0
EUR FX rate (eop)	26.2	24.9	24.2	24.7
Current account balance (share of GDP)	2.0	-2.8	-6.1	1.2
General government balance (share of GDP)	-5.8	-5.1	-3.2	-3.6

Source: Erste Group

Market review

Despite the weak macroeconomic backdrop, the Czech banking sector continued to perform well in 2023. The central bank's annual stress test confirmed the resilience of the sector, highlighting high capitalisation and robust profitability. In 2023, customer loans grew by 7.0%, driven mainly by corporate lending. Retail loans increased by 4.7%. Corporate loans grew by 9.8%, with euro-denominated investment-related and working capital loans being key drivers. To support lending, the Czech central bank loosened rules on mortgage lending by abandoning regulatory limits for the debt-to-income ratio and debt-service-to-income ratio for mortgage applicants. The upper limit on the loan-to-value ratio remained at 80%, and 90% for applicants younger than 36 years. The central bank also decided to decrease the counter-cyclical buffer from 2.5% to 2.0% effective from October 2023. Customer deposit inflows remained strong with a growth rate of 14.4%. Growth was almost equally distributed between retail and corporate business. At year-end, the banking sector's loan-to-deposit ratio stood at 65.0%, while the total capital ratio exceeded 20%.

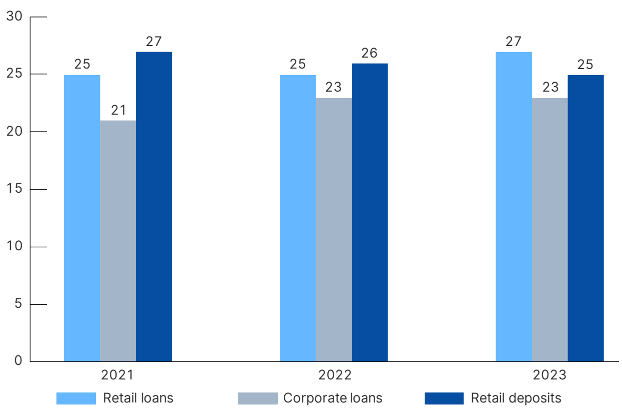
Financial intermediation – Czech Republic (in % of GDP)



Source: Czech National Bank, Erste Group

With a return on equity of 14.3%, sector profitability remained strong in 2023. While net interest income decreased due to higher cost of funding and the discontinuation of minimum reserve remuneration as of October 2023, net fee and commission income rose on the back of higher income from card transactions, asset management and insurance business. Cost management remained strict, with banks further reducing their numbers of branches. Asset quality remained very good, and low risk provisions also contributed to the banking sector's profitability. Consolidation of the banking sector continued throughout the year. In April 2023, Česká spořitelna successfully completed the purchase of the loan portfolio of the Czech subsidiary of Sberbank Europe. After signing an agreement with BNP Paribas and receiving all regulatory approvals, Česká spořitelna concluded the purchase of the consumer loan portfolio of Hello Bank in November 2023. Customer deposits of Hello Bank were taken over by Komerční Banka. The three largest banks continued to command a combined market share of approximately 60% in customer loans and deposits.

Market shares – Czech Republic (in %)



Source: Czech National Bank, Erste Group

Česká spořitelna maintained leading market positions across all product categories. Retail lending market shares ranged from 25% to 27%, while market shares in corporate lending rose to 23%. At 28%, the bank also retained the top position in consumer lending, including credit card business. Česká spořitelna maintained its market leadership position in asset management products with a market share of 26%. George mobile banking was the most used banking app on the market, both in terms of number of users and transaction volume. Česká spořitelna had almost 3 million George users by the end of 2023. Overall, Česká spořitelna's market share in terms of total assets stood at 18.0%.

Business review

Interview with Tomáš Salomon, CEO of Česká spořitelna

How did the competitive environment change?
The economic landscape underwent a notable transformation, primarily driven by persistently high inflation. This financial pressure compelled corporate clients to reassess and bolster their operational efficiency. Simultaneously, households found themselves navigating the challenges posed by inflation, leading them to significantly rationalise their budgets. In response to these shifting dynamics, financial institutions, including Česká spořitelna, observed an increasing demand for comprehensive advisory services addressing clients' financial conditions in both the retail and corporate sectors.

Buzzwords such as the green transition or financial health have become more and more important in sustainability reporting. Which developments would you highlight?
Financial health is no longer a mere buzzword; it has evolved into Česká spořitelna's strategic approach. Monitoring and improving clients' financial health have become paramount. Improving our clients' social situation inevitably leads to strengthening of overall sustainability. Our approach integrates the green transition not as a standalone process, but as an inseparable part of a holistic transformation strategy. This comprehensive approach includes technological transformation, ultimately leading to enhanced efficiency and competitiveness.

In the current context of the energy crisis and geopolitical tensions, the costs associated with the green transition may appear to outweigh the immediate benefits. However, we firmly believe that in due course there will be a significant surge in investments toward sustainable energy sources, and we perceive these investments as inherent business opportunities.

The acknowledgment of ESG transformation as a business opportunity by our clients is underscored by Česká spořitelna's annual financing level in renewable energy sources, which now approaches nearly ten billion Czech crowns and is swiftly reaching parity with financing for conventional energy sources. The growing confidence in the green transition is evidenced by escalating interest in green investments, both from retail and institutional investors.

How did you manage to successfully differentiate your business activities from those of your competitors?
Česká spořitelna has achieved a ground-breaking milestone by becoming the first bank in the Czech market to actively manage clients' financial health. Our strategic focus revolves around guiding both individuals and companies in the Czech Republic towards their financial well-being through a distinctive, personalised advisory concept based on tailor-made solutions provided through traditional or digital channels. Robust digital solutions allow scaling to serve millions of clients efficiently. Our commitment extends beyond financial health, encompassing initiatives to increase housing affordability, guide companies through the green transformation and steer them towards the creation of higher-value products and services.

Even before this, Česká spořitelna had made specific commitments to clients in key areas such as supporting the creation of financial reserves, facilitating retirement savings, providing financial education for children, and actively contributing to job creation and the competitiveness of companies. The aim is to realise these commitments by 2025, coinciding with Česká spořitelna's 200th anniversary.

Last year also witnessed distinctive activities, including Česká spořitelna's direct investment in a joint venture investment fund dedicated to supporting the development of new pharmaceutical products, diagnostic methods, and medical technologies. Additionally, we pioneered online dividend payments through a special web application utilising Bank iD, reinforcing our commitment to cutting-edge financial solutions.

Looking back at the year, what major achievements or challenges were especially noteworthy?
Already at the end of the third quarter, the value of loans granted surpassed one trillion Czech crowns, marking a historic achievement. The volume of investments managed for retail investors exceeded CZK 300 billion, solidifying Česká spořitelna's position as the largest provider of investment services in the Czech Republic. Addressing a critical societal issue, the affordability of housing, Česká spořitelna's subsidiary, Affordable Housing, successfully adopted a model from its parent company Erste Group Bank. This resulted in the initiation of the construction of more than 650 affordable rental apartments, for employees in key social professions.

Furthermore, throughout the year, Česká spořitelna successfully completed strategic acquisitions, securing loan portfolios from Sberbank CZ and Hello Bank. These acquisitions underscored our bank's commitment to growth and innovation in the financial sector, positioning Česká spořitelna as a leader in navigating the evolving competitive landscape.

Financial review

in EUR million	2022	2023	Change
Net interest income	1,416.7	1,319.6	-6.9%
Net fee and commission income	386.9	454.0	17.3%
Net trading result and gains/losses from financial instruments at FVPL	134.4	100.6	-25.1%
Operating income	1,952.3	1,893.9	-3.0%
Operating expenses	-868.5	-964.5	11.0%
Operating result	1,083.8	929.4	-14.2%
Cost/income ratio	44.5%	50.9%	
Impairment result from financial instruments	-25.9	-34.4	32.8%
Other result	-143.4	-82.9	-42.2%
Net result attributable to owners of the parent	758.5	679.2	-10.4%
Return on allocated capital	19.7%	15.4%	

The segment analysis is done on a constant currency basis. The CZK appreciated by 2.3% against the EUR in the reporting period. Net interest income in the Czech Republic segment (comprising Česká spořitelna Group) decreased on the back of higher funding costs – customer deposit repricing combined with a shift of volumes from current accounts towards term and savings deposits. The increase in net fee and commission income was mainly driven by higher securities fees as well as higher payment fees.

Valuation effects led to the reduction of net trading result and gains/losses from financial instruments at FVPL. Operating expenses increased mainly due to higher personnel as well as IT costs. Contributions to the deposit insurance fund rose to EUR 20 million (EUR 13 million). Overall, the operating result decreased, and the cost/income ratio worsened. Impairment result from financial instruments was impacted by provisions related to the newly integrated Sberbank and Hello bank portfolios, whereby risk costs related to the existing portfolio decreased. Other result improved on significantly lower selling losses from bonds. Contribution to the resolution fund decreased to EUR 32 million (EUR 39 million). Altogether, these developments led to a decline in the net result attributable to the owners of the parent.

Credit risk

Credit risk exposure in the Czech Republic segment rose to EUR 81.2 billion (+6.0%), loans to customers increased to EUR 41.7 billion (+7.7%). Retail business volume registered above-average growth mainly due to new loans and the consolidation of the Sberbank CZ portfolio. Large corporate business also expanded significantly. Customer loan volume as a percentage of Erste Group's total loans to customers increased to 19.7% (18.8%). In terms of business volume, the Czech Republic is by far the second most important market for Erste Group after Austria. The quality of customer loans improved slightly. Non-performing loans as a percentage of total loans to customers declined to 1.8% (1.9%). Loan loss provisions decreased slightly leading to a decline in the coverage of non-performing loans to a still comfortable level of 111.1% (117.4%).

Slovakia

Economic environment

In 2023, the Slovak economy – with its strong automotive and services sectors – posted real GDP growth of 1.1%. Elevated inflation resulted in a drop of real wages. In contrast to the previous year, household and government consumption decreased. Investment activity rose less than expected. The most significant contributor to economic growth was foreign trade, boosted primarily by the car industry. The Slovak car industry produced around 1.1 million vehicles in 2023, plus 10% compared to 2022. Slovakia's labour market remained solid. The unemployment rate declined to 6.0%, driven in particular by a persisting structural shortage of qualified labour. GDP per capita amounted to EUR 22,400.

After a period of political uncertainty, a new government was formed under the leadership of the social democratic party Smer in October 2023. The budget for 2024 included a number of consolidation measures to compensate for further substantial government spending, such as extra taxation of banks, an extended solidarity tax on excess oil profits, higher alcohol and tobacco taxes, reduced contribution to the second pension pillar, as well as making Constitution Day (1 September) a work day again. In 2023, the general government deficit increased to 6.0% of GDP. Measures to mitigate the impact of high energy prices also contributed significantly to the increase in the deficit. The combined budgetary cost of the energy measures accounted for 2.1% of GDP. The country's public debt as a percentage of GDP increased slightly to 58.2%.

Slovakia experienced double-digit inflation in 2023. Similar to other countries in CEE, the main drivers of the price increase were energy and food prices. Inflation peaked at 15% in February 2023 and declined to the single-digit area by the end of the year. To mitigate inflation, Slovakia's previous government decided to cap the increase of energy prices for households for 2023. This measure was part of a EUR 6 billion package and kept residential prices for electricity unchanged during the year. The price of natural gas and heat, on the other hand, increased by 12% and 22%, respectively. Overall, average consumer price inflation amounted to 10.5%. Slovakia adopted the euro in 2009. The ECB increased the key policy rate of the monetary union from 2.50% to 4.50% in six steps during the year.

Rating agencies reacted differently with their actions during 2023. Standard & Poor's affirmed its credit rating for Slovakia at A+ and upgraded its outlook from negative to stable before the elections. Moody's credit rating for Slovakia was maintained at A2 with a negative outlook. Fitch's credit rating for Slovakia was downgraded from A to A- with the outlook being kept at stable.

Key economic indicators – Slovakia	2020	2021	2022	2023e
Population (average, million)	5.5	5.4	5.4	5.4
GDP (nominal, EUR billion)	93.4	100.3	109.6	121.8
GDP/capita (in EUR thousand)	17.1	18.4	20.2	22.4
Real GDP growth	-3.3	4.8	1.8	1.1
Private consumption growth	-1.1	2.7	5.8	-2.5
Exports (share of GDP)	84.6	92.4	99.4	94.6
Imports (share of GDP)	82.5	92.2	104.5	92.2
Unemployment (Eurostat definition)	6.7	6.8	6.1	6.0
Consumer price inflation (average)	1.9	3.2	12.8	10.5
Current account balance (share of GDP)	0.5	-4.1	-7.4	0.2
General government balance (share of GDP)	-5.4	-5.4	-2.0	-6.0

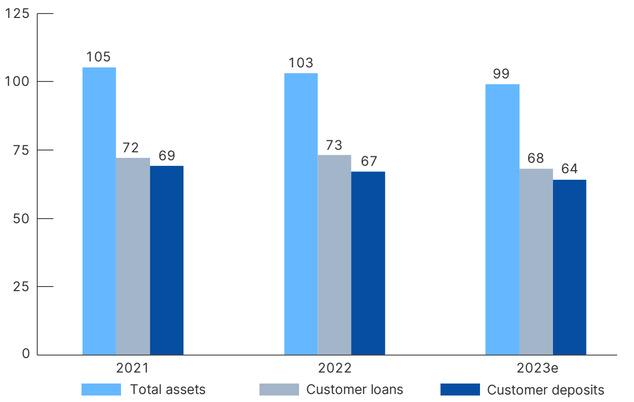
Source: Erste Group

Market review

The Slovak banking market posted its most profitable year ever, despite loan demand being impacted by the higher interest rate environment. Accordingly, customer loans grew by just 3.4%. Retail loans were up by 4.3%, driven almost equally by housing and consumer lending. Corporate loans grew by 1.1%, driven by declining demand for investment and working capital loans. The National Bank of Slovakia maintained macroprudential measures unchanged, including limits for debt-service-to-income (DSTI), debt-to-income (DTI) and loan-to-value (LTV) ratios. The countercyclical buffer was increased further from 1.00% to 1.50% as of August 2023. Customer deposits grew by 5.0%, mainly driven by corporate business. Asset management business performed very well and grew by 13%. The banking system's loan-to-deposit ratio decreased to 107.0%.

Operating income, especially net interest income, benefited significantly from the higher interest rate environment, while fee and commission income increased only moderately. Despite rising personnel expenses, operating expenses remained under control. Banks continued to reduce their branch networks, although at a slower pace compared to previous years. Risk costs were low and asset quality remained very solid. The sector's NPL ratio decreased further to 1.9%, the NPL coverage ratio stood at 107.7%.

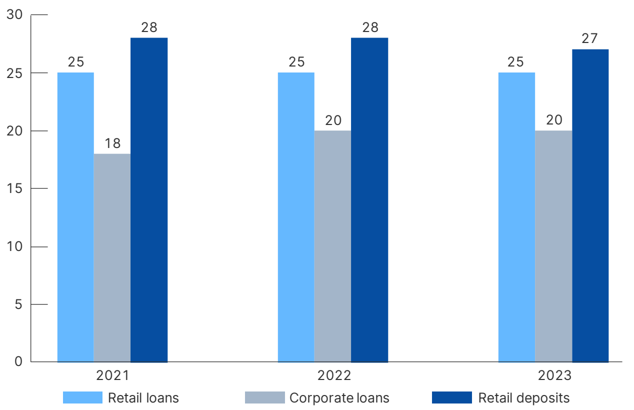
Financial intermediation – Slovakia (in % of GDP)



Source: National Bank of Slovakia, Erste Group

After ongoing political discussions, windfall taxes were introduced. Effective as of 1 January 2024, banks will have to pay a special tax of 30% of their pre-tax profits. The tax rate is expected to gradually decline in the coming years though. To compensate customers for high interest rates, new measures were introduced, such as direct payments and tax reliefs for qualified borrowers. The banking sector remained well capitalised. Overall, the sector's return on equity stood at 11.2%.

Market shares – Slovakia (in %)



Source: National Bank of Slovakia, Erste Group

Slovenská sporiteľňa remained the country's largest bank. It controls more than one fifth of the country's banking market in terms of total assets and led the market in retail loans and deposits. The bank held a leading 21.0% market share in asset management. Market shares were higher in the retail segment than in the corporate segment. In retail business, the bank's market shares stood between 25% and 28%. Slovenská sporiteľňa also maintained its leadership position in digital banking with 1.2 million registered George users.

Business review

Interview with Peter Krutil, CEO of Slovenská sporiteľňa

How did the competitive environment change?
By far the most dominant change was the tightening of the ECB's monetary policy, bringing two significant changes for Slovak banks. Firstly, the era of cheap mortgages is – at least for now – over. Demand for housing loans fell noticeably, and the previously very popular habit of switching between banks for better interest rates has dried out. Secondly, profitability of the sector recovered after years of subdued returns on equity. And it is not just about higher rates on loans. Banks can finally do their job on the deposit side as well, which had become almost irrelevant in times of zero rates. It is also very important that despite high energy prices, asset quality remains resilient, and we have not seen an increasing volume of non-performing loans.

Buzzwords such as the green transition or financial health have become more and more important in sustainability reporting. Which developments would you highlight?
I hope it can be directly observed, even from the outside, that both the green transition and financial health are not just buzzwords for us. In terms of financial health, we are continuously improving the dedicated app on our branch advisors' tablets, allowing us to identify our clients' financial needs. The process has been changed based on the feedback from clients and is oriented on their life events instead of products. The number of clients which we categorise as financially healthy rose by almost 20% in 2023, although the country's economic situation did not improve as significantly as everyone had hoped.

In terms of sustainability, we have become the leader in green bonds in Slovakia, as we successfully issued EUR 300 million in green bonds in 2023, in addition to the EUR 750 million issued the year before that. Moreover, we prioritise green investments in our portfolio while concurrently developing decarbonisation targets which will be followed by detailed strategies to achieve our defined sustainability goals. As part of our own green transformation, we are continuously implementing measures to reduce the energy consumption and the carbon footprint of our own operations, in line with the commitment to our environmental responsibility.

How did you manage to successfully differentiate your business activities from those of your competitors?
Honestly, it is quite difficult to pinpoint one or even several innovative solutions we brought to our retail customers in 2023. The last year was about continuous improvements in financial health advisory, digital solutions, cyber security, investments and savings, or processes with a focus on customer experience. For me, the definitive differentiation was our approach to client deposits. We were the first bank among the large ones which

increased rates on retail deposits, and we still had the highest rates among the relevant peers as of year-end 2023.

Differentiation is probably more visible in the corporate segment. Over the years, Slovenská sporiteľňa has transformed from an almost purely retail bank to a balanced universal bank also catering for the corporate clientele. Thanks to the excellent work of our relationship managers, quick and transparent processes, as well as digital innovations we attracted business customers. In 2023, two unique solutions stood out in the market specifically. With what is known as the Financial Health Advisory app, firms can see how we evaluate them from the bank's perspective and how they compare to peers in their industry. In addition, Slovenská sporiteľňa was the first bank with a full standalone mobile app for businesses.

Looking back at the year, what major achievements or challenges were especially noteworthy?
Last year was indeed very successful in terms of numerous awards. I see this as external confirmation that we are doing the right things in the right way. Slovenská sporiteľňa became the best bank in Slovakia according to the prestigious British magazine The Banker. It was also awarded the prize for the winner of the Euromoney Awards for Excellence 2023 and, from the local Trend magazine, we took home silver from the Trend Top Bank of the Year award. The efforts of our Erste Private Banking were recognised by major foreign institutions such as Global Finance Magazine and The Banker magazine.

But it was not just about the traditional banking services. In the Best Employer Survey, the local benchmark for the most attractive employers in Slovakia, we won first place in the category of financial services. The George mobile app became the highest-rated banking app on both Google Play and Apple Store. And, last but not least, in 2023, we also received the Global Capital Covered Bonds Award in the category of Best Debut Deal for the EUR 500 million green covered bond issued in October 2022.

Financial review

in EUR million	2022	2023	Change
Net interest income	449.5	514.4	14.4%
Net fee and commission income	192.2	207.5	8.0%
Net trading result and gains/losses from financial instruments at FVPL	25.9	23.7	-8.5%
Operating income	671.3	750.9	11.9%
Operating expenses	-307.1	-332.1	8.1%
Operating result	364.2	418.9	15.0%
Cost/income ratio	45.8%	44.2%	
Impairment result from financial instruments	-32.1	-15.2	-52.7%
Other result	-11.9	-8.8	-25.9%
Net result attributable to owners of the parent	249.3	306.9	23.1%
Return on allocated capital	16.8%	20.1%	

Net interest income in the Slovakia segment (comprising Slovenská sporiteľňa Group) increased due to higher customer loan volumes and higher market interest rates leading to a repricing of loans, which was only partially offset by the repricing of liabilities and higher expenses for issued bonds. Net fee and commission income increased on the back of higher income from lending, payment and insurance brokerage fees. Net trading result and gains/losses from financial instruments at FVPL decreased slightly on valuation effects. Operating expenses increased due to higher personnel and IT expenses, partially compensated for by lower contributions to the deposit insurance fund of EUR 2 million (EUR 10 million). Consequently, operating result increased and the cost/income ratio improved. Impairment result from financial instruments improved due to rating upgrades for corporate customers as well as net releases driven by the review of criteria for collective SICR assessment (stage overlays, mainly for energy-intensive industries). Other result improved slightly due to the lower contribution to the resolution fund of EUR 4 million (EUR 6 million) and lower impairments of participations. Overall, the net result attributable to the owners of the parent increased.

Credit risk

Credit risk exposure in the Slovakia segment increased to EUR 28.1 billion (+4.5%), while loans to customers rose a bit faster to EUR 19.2 billion (+5.2%). Their share of Erste Group's total loan portfolio went up slightly to 9.1% (8.9%). Loan volume growth was driven mostly by large corporate customers, while business growth of retail customers was more moderate. The share of loans to private households was again significantly larger in the Slovakia segment than in Erste Group's other core markets and accounted for 67.3% (67.6%) of total loans to customers. This customer mix with a substantial proportion of retail mortgage loans also explains the large share of secured business. At year-end, it increased slightly to 53.1% (52.2%), exceeding that of other Central and Eastern European core markets. The NPL ratio increased to 1.9% (1.6%). The NPL ratio trend is also mirrored in the NPL coverage ratio, which decreased significantly but remained at a comfortable level of 101.7% (121.3%).

Romania

Economic review

Romania's economic growth was one of the strongest among European Union countries in 2023. The main contributor was investment activity related to infrastructure projects funded by the European Union. Inflows of EU funds from the regular Multiannual Financial Framework and NextGenerationEU amounted to EUR 10.8 billion in 2023. Household consumption was sound, supported by a strong labour market. Unlike previous years, net exports also contributed positively to real GDP growth. Imports of commodities dropped. Change in inventories, however, were a negative contributor to real GDP growth. The unemployment rate remained stable at 5.5%, while real wage growth strengthened and the employment rate hit a record high. Overall, real GDP increased by 2.0%, GDP per capita amounted to EUR 16,600.

At 5.7%, Romania's budget deficit did not change significantly. In the second half of the year, the government announced a set of fiscal consolidation measures to reduce the deficit in the coming years. These measures include an increase in corporate tax, a partial phasing-out of preferential tax for the construction and agriculture sectors, the elimination of reduced VAT rates for selected goods and services, and the digital transformation of the national tax authority. The government also introduced new sectoral taxes starting from 2024. For financial institutions, the tax rate has been set at 2% of gross revenues for 2024 and 2025 and 1% from 2026 onwards. Romania's current account deficit improved. Foreign direct investments covered approximately one third of the current account deficit. Public debt to GDP increased to 48.4%.

Inflation continued to decline throughout the year, reaching 6.6% at year-end. Core inflation was higher than headline inflation. The average consumer price inflation declined from 13.7% in 2022 to 10.5%, mainly due to easing energy and food prices. The Romanian leu was stable against the euro and traded in a narrow range around 4.95 throughout the year. The National Bank of Romania raised its key rate by 25 basis points in January 2023 and kept it unchanged at 7.00% for the remainder of the year. The central bank indicated that rate cuts could begin once inflation falls below the key rate level.

Based on the stabilisation of public debt, gradual fiscal consolidation and resilience to the shock from the war in Ukraine, Fitch upgraded Romania's sovereign rating outlook to stable from negative in March 2023, while keeping the rating unchanged at BBB-. Standard & Poor's maintained the rating unchanged at BBB- with a stable outlook. Moody's also kept Romania's sovereign rating unchanged at Baa3 with a stable outlook.

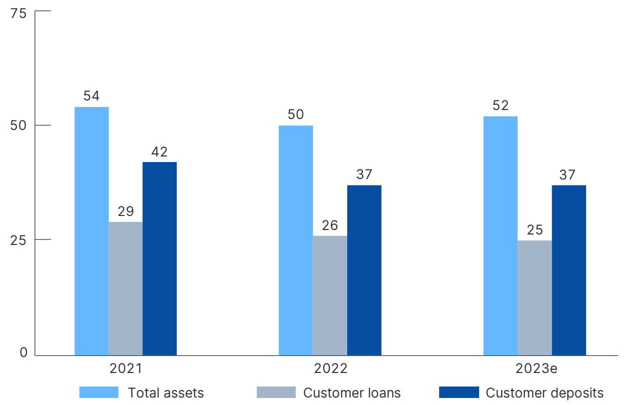
Key economic indicators – Romania	2020	2021	2022	2023e
Population (average, million)	19.3	19.2	19.0	19.0
GDP (nominal, EUR billion)	220.5	241.7	284.2	315.3
GDP/capita (in EUR thousand)	11.4	12.6	14.9	16.6
Real GDP growth	-3.7	5.7	4.1	2.0
Private consumption growth	-3.9	7.5	5.8	3.0
Exports (share of GDP)	28.2	30.9	32.4	29.5
Imports (share of GDP)	36.5	40.7	44.4	38.7
Unemployment (Eurostat definition)	6.1	5.6	5.6	5.5
Consumer price inflation (average)	2.7	5.1	13.7	10.5
Short term interest rate (3 months average)	2.4	1.8	6.2	6.6
EUR FX rate (average)	4.8	4.9	4.9	4.9
EUR FX rate (eop)	4.9	4.9	4.9	5.0
Current account balance (share of GDP)	-4.9	-7.2	-9.2	-7.2
General government balance (share of GDP)	-9.2	-7.1	-6.2	-6.0

Source: Erste Group

Market review

The Romanian banking market registered volume growth in 2023. Customer loans increased by 6.5%, and customer deposits were up by 11.8%. On the lending side, growth was driven by corporate loans, which rose by 10.9%. Retail loans increased by 1.6%. Housing loans, impacted by high interest rates, declined by 0.4% while consumer loans rose by 4.7%. The significant growth in customer deposits was almost equally distributed between retail and corporate business, rising by 11.6% and 12.1%, respectively. Overall, the banking system's loan-to-deposit ratio decreased marginally to 67.5%. The Romanian National Bank increased the countercyclical capital buffer from 0.5% to 1% as of October 2023. The Romanian banking sector remained strongly capitalised, with a capital adequacy ratio of 22.3%.

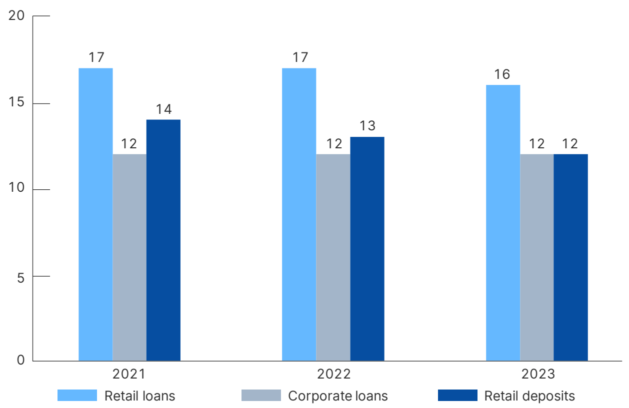
Financial intermediation – Romania (in % of GDP)



Source: National Bank of Romania, Erste Group

The profitability of the Romanian banking system was strong in 2023. Net interest income was supported by the interest rate environment and volume growth. Fee and commission income also rose, driven mainly by securities business and insurance-related fees. Expenses were impacted by elevated inflation. Banks continued to adjust their branch networks and workforce. Asset quality improved further, and risk provisions were low. Financial institutions did not yet have to pay banking tax in 2023. Overall, the Romanian banking sector achieved a return on equity of 21.3%.

Market shares – Romania (in %)



Source: National Bank of Romania, Erste Group

The Romanian banking market's consolidation continued. UniCredit and Alpha Bank announced their plan to merge their Romanian subsidiaries creating the third-largest bank of the country by total assets. Intesa Sanpaolo announced it would acquire Romania's First Bank from US-based private investment fund J.C. Flowers & Co., strengthening its presence in CEE and doubling the group's presence in the country. Finally, OTP Bank sold its Romanian subsidiary to Banca Transilvania, with OTP Bank Romania being the fourth bank taken over by Banca Transilvania in less than a decade, after Volksbank Romania, Bancpost and Idea Bank.

Banca Comercială Română (BCR) remained the second largest bank in the country both in terms of customer loans and deposits. The bank's customer loan market share stood at 14.1%. Its retail loan market share amounted to 16.3%, while in the corporate sector it was 12.2%. At 21.4%, the bank maintained its market-leading position in asset management business. Banca Comercială Română kept its second place in the country by total assets, with a market share of 13.4% in December 2023.

Business review

Interview with Sergiu Manea, CEO of Banca Comercială Română

How did the competitive environment change?
Adapting to the high interest rate environment was the theme of last year. The National Bank kept the monetary policy rate at 7.00% throughout the year. Commercial banks had to navigate through the changed interest rate environment, adjusting to slower lending and higher appetite for term deposits. Loan growth in the mid-single digits was mainly supported by corporate demand, while retail was negatively affected, especially on the mortgage side. The NPL ratio remained low given the prudent lending standards and tight macroprudential policies.

The Romanian banking system saw a flurry of M&A deals in 2023, eventually leading to further consolidation, while the competition between banks remained fierce. Weaker lending demand meant a smaller piece of the pie for everyone, while retaining customer deposits with attractive rates and offers was challenging. The task of attracting human talent and high inflation continued to put pressure on personnel expenses.

Buzzwords such as the green transition or financial health have become more and more important in sustainability reporting. Which developments would you highlight?
We remain dedicated to financing a more sustainable, less carbon-intense and more equitable and inclusive society while also investing in the financial education of our communities. We set our targets and actions as we transit towards a net-zero operations and loan portfolio by 2050. We financed and co-financed the real economy through strategic sustainable projects alongside EU funds, the NRRP (National Recovery and Resilience Plan) and other governmental programmes.

In 2023, BCR confirmed its green transition commitments by issuing its first green eurobond. Furthermore, we have constantly increased our green loans portfolio. The Casa Mea Natura mortgage product – loans for class A energy-efficient homes – accounted for more than half of the bank's new mortgage volume granted in 2023. Also, we have financed renewable energy projects, sustainable transportation infrastructure, energy efficiency industrial projects, as well as circular economy and recycling projects. We thus support the climate transition efforts of our emission-intensive customers.

How did you manage to successfully differentiate your business activities from those of your competitors?
In 2023, we continued our financial health roadshow, covering eight of Romania's largest cities and meeting more than 4,000 customers. We also continued to scale up our flagship financial literacy programmes and reached one million Romanians who have received free financial education through Money School and Financial Coach. Money School exceeded 650,000 people trained online and offline in the last seven years, with more than 1,500 BCR colleagues being involved in this initiative. We also delivered 400,000 financial coaching sessions, offering tailored financial solutions based on the customer's life plans and individual goals. BCR's Financial Coach service was launched in 2022 as an innovative, self-developed data analytics platform, available free of charge to any interested individual, BCR client or not.

Another step forward was the launch of BCR Seed Starter, the first corporate venture capital company investing in technology start-ups to be set up by a bank in Romania. BCR Seed Starter provides equity to start-ups developing innovative fintech solutions. By using these solutions, we look to optimise our internal banking processes, diversify services and also support our ESG goals. Furthermore, the well-established InnovX-BCR business accelerator currently works with 190 companies.

We enhanced the capabilities of ADA, the first chatbot for retail and corporate clients on the local banking market, integrated in George, our digital banking system. ADA is a gamechanger in terms of virtual banking assistance, with over 40 financing programmes mapped in and over 850,000 client interactions in 2023.

Looking back at the year, what major achievements or challenges were especially noteworthy?
In 2023, as just mentioned, BCR marked its debut on the international capital markets by becoming the first bank in Romania to issue a green eurobond. This was also the largest corporate bond in Romania, amounting to EUR 700 million. Over the past five years, BCR has issued senior preferred and non-preferred bonds totalling 8.7 billion in RON equivalent, being one of the most active issuers on the Bucharest Stock Exchange.

We have also played an important role in the listing of Hidroelectrica, the largest electricity producer in Romania, with a 100% renewable portfolio. BCR acted as joint bookrunner in the IPO, the third largest in CEE to date, and offered retail investors fully digital trading options in George through BCR Broker.

Over 140,000 companies have so far enrolled in our digital business offering George Pro. On the retail side, we have almost 1.9 million active George users. In 2023, almost 90% of new cash loans, credit cards and overdrafts were granted on a fully digital flow through George. We also launched the first fully online mortgage loan in Romania, accessible directly in George.

Last but not least, BCR remained one of the most efficient banks in Romania by further improving its cost/income ratio to 39.2% in 2023.

Financial review

in EUR million	2022	2023	Change
Net interest income	530.0	637.0	20.2%
Net fee and commission income	191.5	204.7	6.9%
Net trading result and gains/losses from financial instruments at FVPL	127.8	111.5	-12.7%
Operating income	867.9	964.4	11.1%
Operating expenses	-381.2	-417.9	9.6%
Operating result	486.7	546.5	12.3%
Cost/income ratio	43.9%	43.3%	
Impairment result from financial instruments	-79.8	-9.4	-88.3%
Other result	-37.3	-33.8	-9.2%
Net result attributable to owners of the parent	296.6	383.0	29.1%
Return on allocated capital	16.5%	20.7%	

The segment analysis is done on a constant currency basis. The RON depreciated by 0.3% against the EUR in the reporting period. Net interest income in the Romania segment (comprising Banca Comercială Română Group) was positively impacted by higher market interest rates combined with higher business volumes. Net fee and commission income increased mainly on higher lending fees. The decline of the net trading result and gains/losses from financial instruments at FVPL was attributable to lower trading result from bonds, money market instruments and interest rate derivatives. Operating expenses went up mainly due to higher personnel expenses, contributions to the deposit insurance fund decreased to EUR 5 million (EUR 9 million). Overall, operating result increased and the cost/income ratio improved moderately. Impairment result from financial instruments improved due to lower allocations on the back of methodological changes and net releases caused by refinancing in the fourth quarter. Other result improved mainly on lower provisions for other commitments. The contribution to the resolution fund amounted to EUR 10 million (EUR 12 million). Overall, the net result attributable to the owners of the parent increased.

Credit risk

Credit risk exposure in the Romania segment rose visibly to EUR 23.5 billion (+8.2%). Loans to customers increased to EUR 12.4 billion (+5.8%). Their share in Erste Group's total customer loan portfolio is largely stable at 5.8% (5.7%). An expansion of lending volume was seen primarily in corporate business, specifically in large corporates. Non-performing loans increased to EUR 353 million (+8.2%), mainly attributable to the corporate segment. As a result of this development and the growth of the loan portfolio, non-performing loans as a percentage of total loans to customers remained by and large stable at 2.9% (2.8%). Loan loss provisions decreased slightly, but the coverage of non-performing loans remained high at 168.5% (171.4%).

Hungary

Economic review

In 2023, Hungary's economy declined due to weaker domestic demand and investments on the back of high inflation, tighter fiscal and monetary policies and lower disposable income. Exports did not contribute to growth either. Agriculture, on the other hand, performed very well. Foreign direct investment amounted to a little over EUR 13 billion in 2023, doubling from 2022 levels. Most investments came from China, and Hungary became China's top investment destination in Central Europe. China was also the second-largest importer to Hungary after Germany. One third of the country's manufacturing output was produced by carmakers. Hungary's labour market remained tight. The unemployment rate increased slightly to 4.0%, low compared to many other European countries. Overall, real GDP decreased by 0.9%, GDP per capita amounted to EUR 20,200.

The general government deficit remained elevated at 6.0% of GDP. The deficit was mainly driven by higher interest-related expenses and pension payments. The lack of European Union fund inflows also contributed to the deficit. Public expenditure was impacted by the continuation of various state subsidies for retail and corporate loan programmes, a 15% pension increase and increased family allowances. Public debt to GDP improved to 73.0%.

Inflation in Hungary declined significantly, in particular in the second half of the year, but still remained above the CEE average. Average consumer price inflation stood at 17.6%. The Hungarian forint appreciated 4.5% against the euro. The strengthening of the forint was supported by the release of EUR 10.2 billion in cohesion funds for Hungary, almost a year after the funds were frozen by the EU. Starting in October, the Hungarian National Bank began cutting its key policy rate. Over the year, the central bank reduced the policy rate in three steps by a total of 225 basis points to 10.75%.

In January 2023, Standard & Poor's downgraded Hungary's sovereign rating to BBB- with a stable outlook. The downgrade was a result of the economic slowdown, high energy prices and the suspension of European Union funds. Fitch left the country's long-term credit rating unchanged at BBB but revised its outlook from stable to negative. Moody's kept the country's long-term credit rating unchanged at Baa2 with a stable outlook.

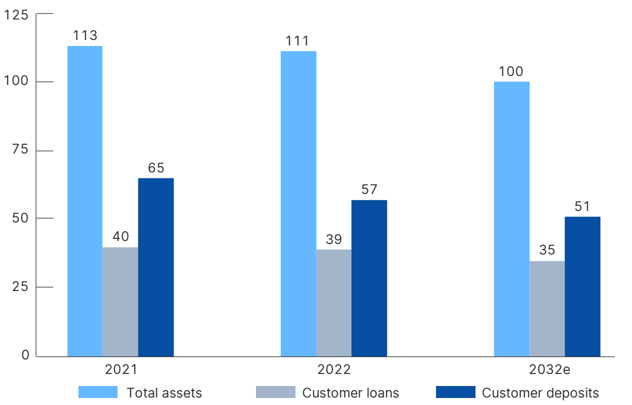
Key economic indicators – Hungary	2020	2021	2022	2023e
Population (average, million)	9.8	9.7	9.7	9.7
GDP (nominal, EUR billion)	137.9	154.0	168.8	195.4
GDP/capita (in EUR thousand)	14.1	15.8	17.4	20.2
Real GDP growth	-4.5	7.1	4.6	-0.9
Private consumption growth	-1.8	4.0	6.4	-1.6
Exports (share of GDP)	79.3	76.6	73.3	73.0
Imports (share of GDP)	81.1	84.9	89.0	88.0
Unemployment (Eurostat definition)	4.1	4.0	3.6	4.0
Consumer price inflation (average)	3.3	5.1	14.5	17.6
Short term interest rate (3 months average)	0.7	1.4	10.0	14.4
EUR FX rate (average)	351.2	358.5	391.3	381.7
EUR FX rate (eop)	365.1	369.0	400.3	382.8
Current account balance (share of GDP)	-1.1	-4.2	-8.2	0.2
General government balance (share of GDP)	-7.5	-7.1	-6.2	-6.0

Source: Erste Group

Market review

The Hungarian banking market enjoyed record profitability in 2023. Customer loans grew by 2.7%, mainly due to a relatively strong demand for corporate lending. Corporate loan growth amounted to 4.0%, driven by inventory and working capital loans, supported by loan programmes for SMEs and for dedicated sectors. At 1.1%, retail loans increased at a slower pace, mainly driven by consumer loans. The demand for housing loans slowed down visibly. The government extended the very popular baby loan and the state-guaranteed mortgage programme for families with children with updated conditions. The 5% preferential VAT rate for home construction was also extended until the end of 2024. Customer deposits increased by 0.3% and were almost entirely driven by corporate deposits. Premium Hungarian State Securities (PMAP) played an important role in the development of savings. As of 1 July 2023, the government imposed a 13% social contribution tax on income from private savings on top of the 15% personal income tax. In addition, securities funds were ordered to keep a minimum level of 60% in equity holdings. Overall, the banking system's loan-to-deposit ratio stood at 69.6%.

Financial intermediation – Hungary (in % of GDP)

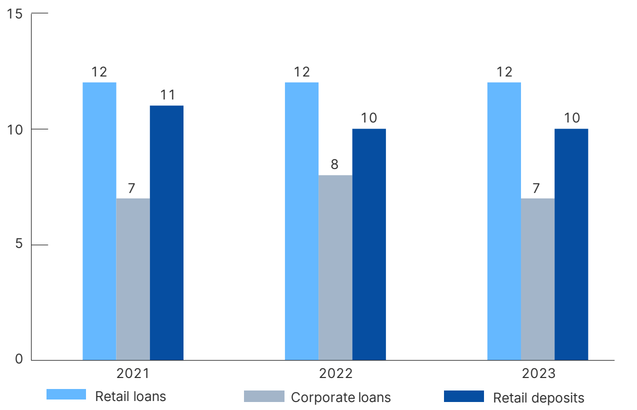


Source: Hungarian National Bank, Erste Group

Net interest income grew significantly on the back of rising interest rates. The government extended the interest rate cap for variable and fixed rate residential mortgages until 30 June 2024. This regulation limits the reference interest rate of qualifying mortgages at the levels of 27 October 2021. The government also extended the interest rate cap for SME loans for non-subsidised, forint-based credit set at levels on 28 June 2022. This measure runs until 1 April 2024. In addition, a voluntary interest rate cap was introduced in October 2023 for newly disbursed loans to support lending. A payment moratorium for agricultural enterprises was introduced between 1 September and 31 December 2023. The Hungarian National Bank increased the mandatory reserve requirement from 5% to 10%. Net fee and commission income benefited significantly from asset management business. Administrative expenses remained under control, although the increase in personnel expenses was visible. The number of branches decreased further. Asset quality developed favourably, and risk costs were low. Banks continued to pay banking and transaction taxes. In addition, the windfall tax, which was originally implemented for 2022 and 2023, was extended until 2024. The Hungarian National Bank increased the countercyclical capital buffer for the first time since its introduction seven years ago to 0.5% as of 1 July 2023. Overall, the banking sector's return on equity stood at 19.7%. The Hungarian banking sector continued to be well capitalised, with a capital adequacy ratio of around 19%.

Consolidation of the Hungarian banking market continued. The merger of Budapest Bank, MKB Bank and the Takarék Group was completed in May 2023. This triple bank merger was led by Magyar Bank Holding (MBH), which is the second-largest universal bank in the country. MBH announced that it had signed an agreement to buy 76% of Fundamenta, a local building society company. Among the smaller transactions, Cofidis SA signed an agreement to purchase Cetelem Bank, the local subsidiary of BNP Paribas. Erste Group bought back the 30% stake held by the Hungarian state and EBRD and again became 100% owner of its local subsidiary.

Market shares – Hungary (in %)



Source: Hungarian National Bank, Erste Group

Erste Bank Hungary remained one of the major market players in the country. Its market share in customer loans stood at 9.0%, with retail business remaining more dominant than corporate business. The customer deposit market share declined slightly to 8.7%. Erste Bank Hungary closed 2023 with a 20.0% market share in asset management. The number of George users increased further and exceeded 700,000 by the end of the year. At 6.4%, Erste Bank Hungary was the fourth-largest bank in the country in terms of total assets.

Business review

Interview with Radován Jelasity, CEO of Erste Bank Hungary,

How did the competitive environment change?
The economic performance, the significant inflationary pressure and the monetary policy response to them determined the general macroeconomic framework for the banking sector in 2023. The fair value and increased income from money market placements due to higher average market rates provided significant additional income. Inflation well above expectations and attractive investment alternatives in government bonds contributed to declining deposits. Due to economic recession, loan growth was modest. Government measures – in particular extra profit tax, loan interest rate caps and loan moratoria – again had a negative impact. Nonetheless, the last quarter of 2023 gave us good reasons for optimism: modest economic growth, sharply falling inflation and a stable exchange rate despite the central bank's rate cuts.

The sector's consolidation continued, most visibly the merger of the Hungarian Banking Holding (Magyar Bankholding, MBH) with Takarékbank was completed at the end of April. In addition, MBH announced the acquisition of Fundamenta Zrt, Hungary's largest building society, in November.

Erste Group Bank AG, our parent, repurchased a 15% stake in Erste Bank Hungary from the Hungarian state-owned Corvinus International Investment Ltd in November. In December, Erste Group also repurchased the 15% stake held by the EBRD (European Bank for Reconstruction and Development), thus again becoming the sole shareholder of our bank.

Buzzwords such as the green transition or financial health have become more and more important in sustainability reporting. Which developments would you highlight?
I would highlight two environmental topics: The first one is financing the green transition via green loans. Last year, we increased our green corporate book by EUR 100 million, financing mainly green commercial real estate and renewable energy projects. And we have even more ambitious targets for 2024 by widening our scope of green financing. The other topic is decarbonisation. After publishing our Science Based Targets initiative-aligned decarbonisation pathways, we put in motion our action plans to halve our emission intensity by 2030.

Last but not least, financial health is also a priority for us. We continued our "We speak your language" programme, communicating with customers in a clear, understandable and customer-centric way. 24% of our clients hold investment accounts and 7.4% are Erste Future Invest customers as well. We have also launched the Portfolio Health Index, which helps clients to improve the health and diversification of their investments. In addition, the Corporate business line implemented financial health focused customer meetings for SME clients.

How did you manage to successfully differentiate your business activities from those of your competitors?
In 2023, we have welcomed 65,000 new retail clients, our highest number of new clients ever. Next to a strong customer acquisition focus, our strategy remained unchanged, with customer satisfaction as one of our key KPIs. We consider this component in everything we do, be it a digital development, a new solution, or a product launch. We have a well-established, stable branch network with nationwide presence, which is easily accessible to customers, despite the wave of branch closures in the market.

We are constantly striving to advance digital development. To this end, we are continuously improving George, our end-to-end sales capabilities, servicing functionalities and functions, such as the Portfolio Health Index. More than 70% of our retail customers are digitally active, that is more than 607,000, and more than 42,000 customers already use George Micro, available since the end of July.

Looking back at the year, what major achievements or challenges were especially noteworthy?
The economic situation brought significant challenges for the sector, including us, which we had to address effectively. In addition to our high customer satisfaction , we maintained the high level of employee engagement score at 78%. Our efforts were rewarded by numerous awards. We ranked second in the employer branding category from Mastercard and were also named as one of the 10 best places to work in Hungary. We not only won the Visa #1 Loyalty Programme Award but also received the Visa Portfolio ESG Banking Award for our significant sustainability efforts. We published a comprehensive carbon reduction and net-zero strategy in our 2023 climate report. In addition to developing green banking activities and operations, it also incorporates a social perspective, focusing on financial awareness, promoting inclusion and supporting gender equality.

Financial review

in EUR million	2022	2023	Change
Net interest income	395.8	356.9	-9.8%
Net fee and commission income	222.8	254.7	14.4%
Net trading result and gains/losses from financial instruments at FVPL	-72.5	141.7	n/a
Operating income	553.8	763.4	37.9%
Operating expenses	-246.8	-269.6	9.2%
Operating result	306.9	493.8	60.9%
Cost/income ratio	44.6%	35.3%	
Impairment result from financial instruments	-18.4	1.4	n/a
Other result	-137.9	-191.6	38.9%
Net result attributable to owners of the parent	125.1	264.9	>100.0%
Return on allocated capital	10.0%	17.3%	

The segment analysis is done on a constant currency basis. The HUF appreciated by 2.3% against the EUR in the reporting period. Net interest income in the Hungary segment (comprising Erste Bank Hungary Group) was negatively impacted by a P&L neutral shift from net trading result to interest expense (mainly intra-group transactions) as well as modification losses related to the mortgage interest cap prolongation. These developments were only partially offset by significantly higher interest rates supported by money market placements. Net fee and commission income rose on higher payment and securities fees. Net trading result and gains/losses from financial instruments at FVPL improved due to valuation effects as well as the positive impact of the P&L neutral shift to net interest income. Operating expenses increased due to higher personnel and IT expenses, partially compensated for by lower contributions to the deposit insurance fund of EUR 5 million (EUR 18 million, predominantly driven by last year's Sberbank Europe deposit insurance case). Consequently, both operating result and the cost/income ratio improved notably. Impairment result from financial instruments improved due to parameter updates. The deterioration of other result was driven by selling losses from bonds, impairment of non-financial assets, provisions for legal expenses and a higher financial transaction tax of EUR 71 million (EUR 59 million), partially offset by releases of provisions for other commitments. The banking tax remained by and large stable at EUR 66 million (EUR 65 million); it included the regular banking tax and a windfall profit tax of EUR 48 million (EUR 50 million). The contribution to the resolution fund decreased to EUR 2 million (EUR 4 million). Overall, the net result attributable to the owners of the parent increased.

Credit risk

Credit risk exposure in the Hungary segment decreased to EUR 12.6 billion (-3.0%). This decline was mainly attributable to a decline in corporate business. On the other hand, loans to customers increased to EUR 6.1 billion (+3.3%). The share of the Hungary segment in Erste Group's total loans to customers remained stable at 2.9%. While loans in the retail segment increased substantially to EUR 3.2 billion (+11.3%), loans to corporates decreased to EUR 2.9 billion (-4.4%). Non-performing loans as a percentage of total loans to customers again decreased to 2.6% (2.8%). The loan loss provision coverage of non-performing loans increased to 110.6% (102.8%).

Croatia

Economic review

The Croatian economy performed well in 2023, benefiting primarily from euro adoption and strong performance of the tourist sector. Economic growth was broad-based, driven primarily by strong household consumption and booming exports. Private consumption was supported by rising disposable income. Investments significantly benefited from the inflow of European Union funds. Tourism, accounting for approximately one fifth of Croatia's GDP, performed well again. Overnight stays increased by 2.8% compared to 2022. Croatia's labour market remained strong, and the unemployment rate declined further to 6.3%. Overall, real GDP increased by 2.4%. GDP per capita amounted to EUR 19,500.

Croatia's public finances improved further. Croatia's fiscal revenues grew markedly. Significant wage increases, higher pensions and numerous social benefits were more than offset by windfall tax revenues. EU funds inflows also supported revenues. On the expense side, the government extended support measures for households, such as a freeze of gas and electricity prices. The government also continued the country's green transition including renovation of buildings. Overall, Croatia maintained fiscal discipline with a general government deficit of just 0.5% of GDP. Public debt as a percentage of GDP decreased further to 61.4%.

Inflation moderated significantly after peaking at 13.5% in November 2022 and, despite significant wage inflation, Croatia was among the few CEE countries with a single-digit consumer price increase in 2023. Inflation declined significantly in the service sector, and food prices moderated following supply-chain disruptions a year ago. Average consumer prices increased by 8.1%. On 1 January 2023, Croatia became the 20th member of the eurozone and joined the Schengen area. In 2023, the ECB increased the key policy rate in six steps from 2.50% to 4.50%.

All three major rating agencies kept their ratings unchanged but upgraded their outlook from stable to positive. Fitch and Standard & Poor's maintained Croatia's long-term credit rating at BBB+, Moody's at Baa2.

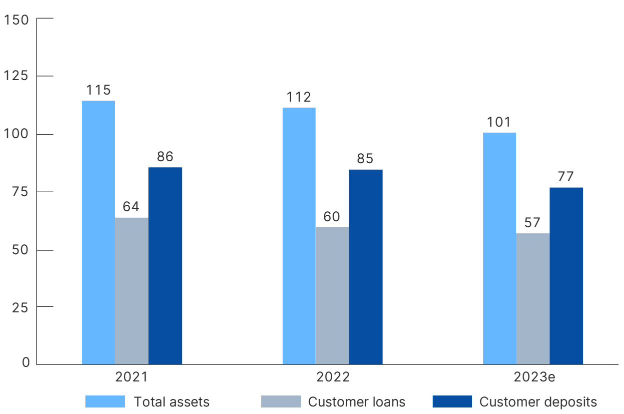
Key economic indicators – Croatia	2020	2021	2022	2023e
Population (average, million)	4.1	4.0	3.9	3.9
GDP (nominal, EUR billion)	50.6	58.4	68.0	75.8
GDP/capita (in EUR thousand)	12.5	14.5	17.5	19.5
Real GDP growth	-8.6	13.8	6.3	2.4
Private consumption growth	-5.2	10.7	6.7	2.7
Exports (share of GDP)	23.8	25.3	30.2	25.4
Imports (share of GDP)	41.3	44.9	56.9	49.0
Unemployment (Eurostat definition)	7.5	7.6	7.0	6.3
Consumer price inflation (average)	0.1	2.6	10.8	8.1
EUR FX rate (average)	7.5	7.5	7.5	-
EUR FX rate (eop)	7.6	7.5	7.5	-
Current account balance (share of GDP)	-1.0	1.0	-2.8	1.0
General government balance (share of GDP)	-7.3	-2.5	0.1	-0.5

Source: Erste Group

Market review

In 2023, the most important development in the Croatian banking system was the adoption of the euro. Financial institutions made major adjustments to their IT systems and ATM networks while clients converted their cash reserves denominated in kuna into euro. As early as September 2022, dual-price listings began and remained mandatory throughout 2023. Customer loans grew by 5.6%, mainly driven by retail loans, which increased by 9.0%. Demand for housing loans was relatively strong compared to other CEE countries. As expected, corporate lending growth moderated after the significant pick-up in the previous year. Corporate loans grew by 5.8%.

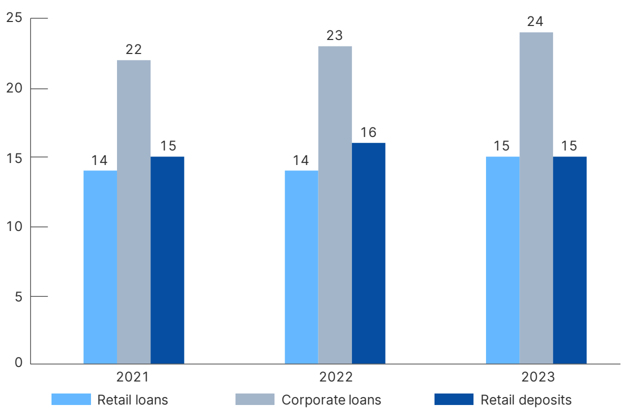
Financial intermediation – Croatia (in % of GDP)



Source: National Bank of Croatia, Erste Group

Deposit growth was muted after the very strong development of the previous year ahead of the euro adoption. Customer deposits increased by 1.2%. While retail deposits decreased by 0.5%, corporate deposits rose by 4.1%. The Croatian National Bank increased the countercyclical capital buffer by 50 basis points to 1.0% as of 1 January 2023, and by another 50 basis points for 2024. The only noteworthy banking sector transaction was the acquisition of the local Sberbank subsidiary by the Croatian Postal Bank in July 2023. At year-end, the banking system's loan-to-deposit ratio stood at 73.4%.

Market shares – Croatia (in %)



Source: National Bank of Croatia, Erste Group

The profitability of the Croatian banking sector increased mainly on rising revenues and low risk provisions. Revenues benefited significantly from the normalised interest rate environment. Operating expenses increased on the back of elevated inflation. The cost/income ratio stood at 41.0%. Asset quality improved further. The share of non-performing loans (NPL) as a percentage of gross loans declined to 2.6%. This development was attributable to both loans to non-financial corporations as well as loans to households. The coverage ratio stood at 69.0% at the end of the year. A one-off windfall tax of 33% was introduced for all companies having an annual turnover above EUR 40 million, with the excess profit defined as the profit higher than 120% of the average between 2018 and 2021. The windfall tax has not been extended to 2024. The capital adequacy ratio of the banking system remained robust at 23.6%. At the end of the year, all credit institutions met the minimum liquidity requirements, with the average liquidity coverage ratio standing at an impressive 238.1%. Overall, the country's banking sector achieved a return on equity of 15.6%.

Erste Bank Croatia remained among the three largest banks in the country. In terms of total assets, the bank had a market share of 16.8%. It continued to benefit from its very strong brand and the digital platform George, which was introduced in 2020. In addition to George, the digital platform KEKS Pay reached more than 410,000 users, of which 70% were not customers of Erste Bank Croatia. The bank's customer loan and customer deposit market shares stood at 18.7% and 16.8%, respectively. The bank's market share in asset management equalled 10.3%. The bank's loan-to-deposit ratio amounted to 80.3%.

Business review

Interview with Christoph Schöfböck, CEO of Erste Bank Croatia,

How did the competitive environment change?
The past year was primarily marked by Croatia's entry into the eurozone and the Schengen area. This was the fulfilment of two crucial strategic goals for the country, which will result in very positive effects in the medium and long term. A major challenge in 2023 was rising interest rates in the eurozone.

Credit activity remained solid overall – against the international trend – especially the retail segment showed healthy lending growth, while corporate lending delivered lower growth.

We benefited from the high proportion of fixed interest rate products as well as from variable rates using slower-moving benchmarks compared to Euribor, such as the National Reference Rate, which we have offered to retail clients during the past years. This resulted in an overall lower interest rate sensitivity of the banks' lending portfolio, especially during the ECB rate hike cycle.

Buzzwords such as the green transition or financial health have become more and more important in sustainability reporting. Which developments would you highlight?
Erste Bank Croatia places a significant focus on ESG topics and environmentally responsible business practices. More favourable conditions were offered for products related to improved energy efficiency or the use of renewable energy sources such as solar panels. Lectures and panel discussions on the impact of ESG transformation were organised for corporate clients, and an online energy efficiency calculator was introduced. An updated version of the Financial Health Zone tool for corporate clients was published, which provides our clients with a better insight into the indicators of the financial success of their business. In the retail segment, the primary focus was on the development of a modern, improved overall advisory process, with calculations and presentations of key indicators of financial health along with the identification of the current financial situation and future financial plans of the clients.

How did you manage to successfully differentiate your business activities from those of your competitors?
Our business was characterised by continued growth of total loans and partnership co-operation with our clients resulting in very high customer experience ratings. Our digital channels have also recorded continued and stable growth – the total number of active users of George online banking was around 410,000 at year-end, while the number of KEKS Pay users reached 411,000. Last year was also marked by the continuing downward trend of non-performing loans, from 3.6% to 3.0% at the end of 2023. Finally, we have once again confirmed our position as the most active bond issuer among financial institutions in Croatia, by issuing a preferred senior bond as part of meeting the minimum requirements for own funds and eligible liabilities (MREL) in June. We were one of the leading agents in the issuing of the Republic of Croatia bond (national bond) on the domestic capital market, thus continuing our efforts to support the development of the local capital market.

Looking back at the year, what major achievements or challenges were especially noteworthy?
In general, our bank's position on the Croatian market is solid and stable. We hold a leading position in many business segments, have the highest rating from credit rating agencies (here, I am referring to our A-rating by Fitch Ratings) among banks and other companies on the domestic market. We also won our ninth Golden Kuna award for the most successful Croatian bank. We benefit from a strong capital position, high level of liquidity, high degree of trust by our clients, and the fact that we belong to a strong parent group that regards the CEE region as its core market. We put the focus of our business operations on efficiency, innovation and striving for excellence, through which we want to contribute to the growth and development of the Croatian economy, encouraging and promoting the prosperity of all of our employees, clients and Croatian society as a whole.

Financial review

in EUR million	2022	2023	Change
Net interest income	284.7	403.4	41.7%
Net fee and commission income	117.2	124.1	5.9%
Net trading result and gains/losses from financial instruments at FVPL	37.9	16.3	-57.0%
Operating income	448.7	552.5	23.1%
Operating expenses	-239.6	-263.5	10.0%
Operating result	209.2	288.9	38.1%
Cost/income ratio	53.4%	47.7%	
Impairment result from financial instruments	42.2	45.9	8.7%
Other result	-27.0	-42.9	59.2%
Net result attributable to owners of the parent	120.4	164.5	36.6%
Return on allocated capital	14.2%	22.3%	

Net interest income in the Croatia segment (comprising Erste Bank Croatia Group) increased due to higher market interest rates and customer loan volumes as well as higher income from securities. Net fee and commission income went up due to higher payments, securities and documentary fees. Net trading result and gains/losses from financial instruments at FVPL deteriorated, driven by lower foreign currency transactions as a result of the introduction of the euro. Operating expenses went up on the back of higher personnel and IT costs. The contribution to the deposit insurance fund rose to EUR 9 million (EUR 8 million). Overall, operating result increased and the cost/income ratio improved. Impairment result from financial instruments benefited from net releases driven by the implementation of a new rating model and parameter updates as well as the review of rules for collective SICR assessment (stage overlays). Other result worsened, mainly on selling losses from bonds. The resolution fund contribution decreased to EUR 0.3 million (EUR 5 million). Consequently, the net result attributable to the owners of the parent increased.

Credit risk

In the Croatia segment, credit risk exposure rose to EUR 14.9 billion (+6.0%), while loans to customers grew even more dynamically, reaching EUR 9.4 billion (+9.7%). Customer loan volume as a percentage of Erste Group's total loans to customers increased slightly to 4.5% (4.2%). The share of the retail segment of the loan portfolio stood at 42.9%, the share of the corporate segment amounted to 57.1%. Croatia introduced the euro as of 1 January 2023. At year-end, loans denominated in euro represented 99.8% of the total portfolio. The NPL ratio decreased to 3.0% (3.6%). The NPL coverage ratio based on loan loss provisions slightly increased to 107.6% (105.9%).

Serbia

Economic review

The Serbian economy performed better than expected and outperformed the CEE average. In fact, Serbia was one of a very few European countries that showed higher GDP growth than in the previous year. After a relatively slow start to the year, the country's economy substantially regained strength in the second half of 2023, mainly driven by household consumption and investments, especially in the construction sector. The inflow of foreign direct investments, most notably to the manufacturing industry, was substantial. In addition, agricultural output was very strong. The contribution of exports to economic growth was only moderate. External demand was relatively weak, driven by slow growth of the country's main trading partners, especially Germany. Serbia's unemployment rate remained unchanged compared to the previous year, at 9.4%. Overall, real GDP increased by 2.5%, and GDP per capita amounted to EUR 10,500.

Serbia maintained a sound fiscal stance. The general government deficit decreased further to 2.2% in 2023, from 3.1% a year ago. Lower-than-planned capital transfers to state-owned enterprises in the energy sector and higher revenues from increased excise duties offset higher discretionary expenditures. These included higher subsidies for agriculture, one-off lump-sum payments to retirees and families with children, an extraordinary pension increase and additional wage increases in the education and health sectors. Public debt as a percentage of GDP decreased to 52.7%.

Inflation was among the highest in CEE. After peaking at 16.2% in March 2023, inflation started to decline and by the end of the year it reached the single-digit area. The decline in inflation was mainly driven by base effects in energy and transport prices, falling food prices and the solid local agricultural season. Average consumer prices increased by 12.5%. The Serbian dinar was again among the most stable currencies in CEE, trading at around RSD 117 against the euro throughout the year. In 2023, the National Bank of Serbia (NBS) increased its key policy rate in six steps by a total of 150 basis points to 6.50% and has kept the base rate unchanged since July 2023.

Rating agencies affirmed Serbia's long-term credit ratings. Standard & Poor's and Fitch kept their rating unchanged at BB+ with a stable outlook. Moody's kept the country's long-term credit rating at Ba2, also with a stable outlook.

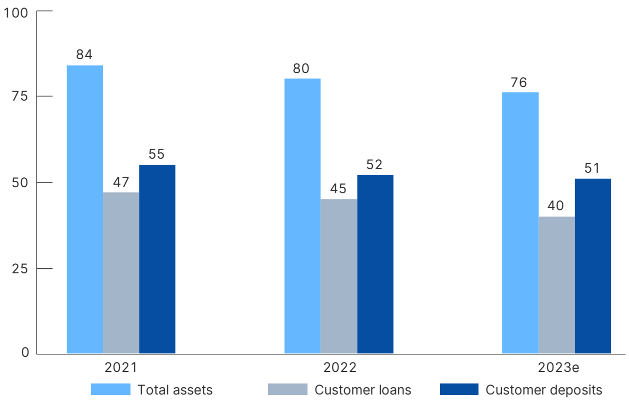
Key economic indicators – Serbia	2020	2021	2022	2023e
Population (average, million)	6.9	6.8	6.6	6.6
GDP (nominal, EUR billion)	46.8	53.3	60.4	69.2
GDP/capita (in EUR thousand)	6.8	7.8	9.1	10.5
Real GDP growth	-0.9	7.7	2.5	2.5
Private consumption growth	-1.9	7.9	3.9	0.4
Exports (share of GDP)	36.4	40.5	45.7	41.4
Imports (share of GDP)	49.0	53.6	64.6	53.3
Unemployment (Eurostat definition)	9.7	11.0	9.4	9.4
Consumer price inflation (average)	1.6	4.0	11.9	12.5
Short term interest rate (3 months average)	1.2	0.9	2.5	5.6
EUR FX rate (average)	117.6	117.6	117.5	117.3
EUR FX rate (eop)	117.6	117.6	117.3	117.2
Current account balance (share of GDP)	-4.1	-4.2	-6.9	-2.6
General government balance (share of GDP)	-8.0	-4.1	-3.1	-2.2

Source: Erste Group

Market review

The Serbian banking market grew moderately in 2023. At 1.2%, customer loan growth was significantly impacted by the high interest rate environment. Both retail and corporate loans grew only marginally. In the retail sector, consumer lending proved to be the bright spot, while demand in mortgage business was low. The latter continued to be dominated by euro-indexed loans. At 12.6%, customer deposit growth was significantly higher than that of customer loans, driven mainly by corporate business. Overall, the banking system's loan to deposit ratio decreased significantly to 77.5%.

Financial intermediation – Serbia (in % of GDP)

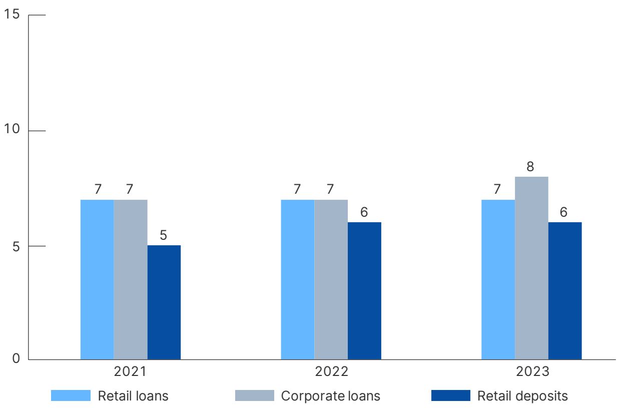


Source: National Bank of Serbia, Erste Group

Despite low loan demand and the introduction of a temporary interest rate cap for mortgage loans, Serbia's banking system continued to be profitable. Operating revenues were mainly driven by rising interest rates. Fee and commission income grew significantly. Operating expenses increased moderately despite rising personnel expenses. The number of branches declined further. Digitalisation was boosted significantly due to the banks' continuous efforts to migrate customers to digital channels. Asset quality trends remained favourable, and risk costs were low. The national bank did not change capital requirements throughout the year and kept the countercyclical buffer at 0%. The banking system's capital adequacy remained strong at above 22%, its return on equity improved to 18%.

Consolidation of the Serbian banking market continued. Privately owned AIK Banka signed a purchase agreement to buy Eurobank Direktna Srbija (in March 2023) and completed its merger with the former local subsidiary of Sberbank. With these transactions AIK Banka became the third-largest bank of the country, with a total asset market share of around 13%. In April 2023, Montenegro-based and privately owned Adriatic Banka acquired 100% of the shares of Expobank. The merger between Raiffeisen Bank and RBA Banka, formerly a subsidiary of Crédit Agricole, was completed in May 2023. Following this acquisition, Raiffeisen Bank became Serbia's fourth-largest bank in terms of total assets.

Market shares – Serbia (in %)



Source: National Bank of Serbia, Erste Group

Erste Bank Serbia remained among the ten largest banks in the country. With 6.3% in terms of total assets, the bank further strengthened its market position. Its market share in customer loans increased to 7.3%. At 7.6%, the bank's market share in corporate loans was marginally higher than in retail loans. Erste Bank Serbia's customer deposit market share increased to 6.5%. Euro-denominated deposits significantly outgrew deposits denominated in Serbian dinar. Overall, the bank's loan-to-deposit ratio stood at a healthy 90.4%.

Business review

Interview with Jasna Terzić, CEO of Erste Bank Serbia

How did the competitive environment change?
In 2023, the Serbian banking sector navigated through a challenging economic environment, grappling with a slow recovery from pandemic-related issues, and geopolitical challenges. The first half of the year saw modest economic performance, hindered by high inflation, which impacted disposable income and domestic demand. High interest rates and regulatory measures, including interest rate caps on mortgages, also impacted banking business.

Despite these challenges, the credit landscape experienced slight growth, influenced by the unwinding of corporate sector liquidity support initiated during the Covid period. Mortgage lending faced constraints due to interest rate caps, while cash lending showed expansion towards year-end, aligning with a recovery in household real income.

All three major credit rating agencies, Standard & Poor's, Fitch Ratings, and Moody's, affirmed Serbia's ratings, maintaining its position at the threshold of investment grade.

Buzzwords such as the green transition or financial health have become more and more important in sustainability reporting. Which developments would you highlight?
At Erste Bank Serbia, we recognise the urgency of addressing climate change. We are taking meaningful action in responsible financing and supporting renewable energy sources aiming at lower carbon dioxide emissions. Our collaboration with the European Bank for Reconstruction and Development (EBRD) through the Green Economy Financing Facility (GEFF) for the Western Balkans reflects our active promotion of energy efficiency in households.

We took some pioneering steps in our market by supporting larger joint investments in buildings through pilot projects. The recent approval of the first loan to a residential building community in Svilajnac will result in a remarkable 55% decrease in both primary energy consumption and CO2 emissions.

We have maintained the leading role in financing renewable energy projects in the country. We emphasise environmental benefits of harnessing wind potential, underlining the production of electricity without harmful gas emissions. In our operational efforts to contribute to decarbonisation, we have made significant progress by improving the energy usage of our buildings and reducing our transport emissions. In addition, we promote a culture of sustainability among our employees, through ESG-related education and the launch of a dedicated page on the intranet. In 2023, we offset our Scope 1 and 2 emissions using high-quality carbon credits to achieve climate neutrality.

How did you manage to successfully differentiate your business activities from those of your competitors?
Our main goal was to successfully complete the migration to a new information system, a comprehensive and demanding project which required a huge amount of resources and energy. The migration is part of our goal to provide state-of-the-art digital solutions to our clients, and we continue to work in this direction. Despite having anticipated some decrease in customer satisfaction across all client segments, we have managed to maintain a strong and competitive position relative to the top three market competitors. Understanding the evolving needs and expectations of our diverse client base, we remain dedicated to enhancing our products, services and overall customer experience.

Looking back at the year, what major achievements or challenges were especially noteworthy?
Looking back, 2023 was clearly a challenging year. Yet, in addition to achieving solid financial results, with increased volumes of both total loans and deposits to customers at the end of the year, we strengthened our efforts in ESG-related fields.

I am proud that our efforts have been duly recognised, as we received the "Champions of Sustainability" award for our contribution to the Agenda 2030 in the field of Gender Equality from the Sustainable Business Forum.

Financial review

in EUR million	2022	2023	Change
Net interest income	83.0	101.2	21.9%
Net fee and commission income	23.0	23.8	3.5%
Net trading result and gains/losses from financial instruments at FVPL	5.6	7.5	34.5%
Operating income	111.9	134.2	19.9%
Operating expenses	-74.4	-90.8	22.1%
Operating result	37.5	43.4	15.5%
Cost/income ratio	66.5%	67.7%	
Impairment result from financial instruments	-20.0	-9.2	-53.9%
Other result	-2.9	0.9	n/a
Net result attributable to owners of the parent	11.2	25.9	>100.0%
Return on allocated capital	4.7%	10.3%	

The segment analysis is done on a constant currency basis. The Serbian dinar (RSD) appreciated by 0.2% against the EUR in the reporting period. Net interest income in the Serbia segment (comprising Erste Bank Serbia Group) increased due to higher loan volumes and market interest rates, partially offset by a modification loss related to the newly introduced interest cap on housing loans. Net fee and commission income increased marginally. The net trading result and gains/losses from financial instruments at FVPL improved on a higher contribution of foreign currency transactions. Operating expenses rose mainly due to higher personnel and IT costs. Contributions to the deposit insurance fund amounted to EUR 5 million (EUR 5 million). Although the operating result improved, the cost/income ratio worsened. Impairment result from financial instruments improved on lower allocations driven by a review of rules for collective SICR assessment (stage overlays). Other result improved on lower provisions for legal expenses. Overall, the net result attributable to owners of the parent increased notably.

Credit risk

Credit risk exposure in the Serbia segment increased significantly to EUR 3.9 billion (+9.2%). Loans to customers increased to EUR 2.2 billion (+5.0%). Retail loans grew at a faster pace (+5.3%) than corporate loans (+4.7%). Non-performing loans increased slightly to 2.7% (2.4%) of total loans to customers. Loan loss provisions declined to 108.8% (119.8%) of non-performing loans.