Press release

Vienna – 1 August 2022

Strong operating performance and rising demand for loans in the first half of the year

- Loan volume growth of +6.3% YTD to 191.5 billion euros
- Low risk costs in all markets, NPL ratio at 2.2%
- Strong net interest income reflects lending growth and changing interest rate environment
- Erste aims to finance up to 15,000 affordable housing units in CEE

Erste Group Bank AG reported a strong operating result of 1.86 billion euros in the first half of 2022 (up 10.3% year-on-year). Net interest income increased by 15.9% to 2.84 billion euros on the back of continued solid loan volume growth, especially in the corporate segment and for mortgage loans, as well as further interest rate increases in Czechia, Hungary and Romania. Net fee and commission income increased by 10.5% year-on-year to 1.21 billion euros. The banking group generated a net profit of 1.14 billion euros in the first six months of 2022 (H1 2021: 918 million euros). Erste Group's strategy focuses on the financial health of its customers. A first part of this approach involves a broadly based initiative to create affordable housing in the region. By 2030, the group plans to finance a total of up to 15,000 apartments in the subsidized affordable segment in CEE.

"The geopolitical situation and high inflation are clouding the outlook in Europe. Nevertheless, the economies in the Eastern part of the EU have so far shown resilience - with comparably solid public finances, an unbroken willingness to invest on the part of companies, as well as a labor market development that remains so far and consumer confidence that continues to be positive," said **Willi Cernko**, CEO of Erste Group Bank AG.

"Our task as a bank will be to stand by the people in our region even in difficult situations and to address their financial health. Our solid business model and strong capitalization prove that we are able to do this. As a first step, we will send out a clear signal in this regard by pursuing an extensive housing initiative through which we intend to finance a total of up to 15,000 affordable rental apartments in our CEE markets over the next years."

Strategic focus on Financial Health

High inflation rates and rising real estate prices are increasingly posing a challenge for people in Europe. Not least against this backdrop, Erste Group is implementing strategic initiatives over the coming years to further secure and promote the financial health of the people in Erste's core markets.

With affordable housing in particular becoming a serious challenge for more and more people in the region, Erste Group is putting housing at the very top of its agenda within the framework of its financial health strategy. Already, the banking group provides about one billion euros per year in financing for the

Erste Group is the leading financial services provider in the eastern part of the EU. Its ca. 45,000 employees (FTE) serve nearly 16 million customers in over 2,000 branches in 7 countries (Austria, Czechia, Slovakia, Romania, Hungary, Croatia and Serbia). In the first half of 2022, Erste Group had EUR 327 billion in total assets, posted a net profit of 1.14 billion euros and had a common equity tier 1 ratio (CRR, final) of 14.2%.

construction of more than 6,000 subsidized affordable housing units in Austria. Erste Group will use this experience in other markets to create affordable housing there as well.

By 2030, Erste Group's CEE subsidiaries -- in close cooperation with the public sector -- aim to develop up to **15,000 affordable apartments and to offer them up for rent**. To this end, a separate subsidiary, CS Affordable Housing, has already been established in Czechia to build affordable rental housing. In Slovakia, around 200 apartments are to be made available still this year, with the Slovakian state serving as a partial investor. Similar concepts are being developed in Hungary, Romania and Croatia.

In the interim management report, financial results from January-June 2022 are compared with those from January-June 2021 and balance sheet positions as of 30 June 2022 with those as of 31 December 2021.

Gains in NII and fees income offset losses in net trading result

Net interest income increased to EUR 2,837.0 million (+15.9%; EUR 2,448.7 million) driven by rate hikes outside the euro zone – mainly in the Czech Republic, Hungary and Romania – as well as significant loan growth across all markets. **Net fee and commission income** rose to EUR 1,214.9 million (+10.5%; EUR 1,099.0 million). Increases were posted across nearly all fee and commission income categories and all core markets, with significant growth seen in particular in payment services and asset management. **Net trading result** declined to EUR -532.5 million (EUR 43.1 million); the line item **gains/losses from financial instruments measured at fair value through profit or loss rose** to EUR 516.8 million (EUR 83.6 million). The development of these two line items was mostly attributable to valuation effects. **Operating income** increased to EUR 4,146.7 million (+9.4%; EUR 3,790.7 million).

Strong operating result and improved cost/income ratio

General administrative expenses rose to EUR 2,285.4 million (+8.7%; EUR 2,103.0 million). Personnel expenses were higher at EUR 1,294.7 million (+3.7%; EUR 1,248.9 million). The headcount remained virtually unchanged compared with year-end 2021, with a change of +0.4% to 44,773 (on a FTE basis). The marked rise in other administrative expenses to EUR 717.7 million (+23.5%; EUR 581.3 million) is mainly due to a substantial rise in payments into deposit insurance schemes to EUR 156.7 million (EUR 109.2 million) – most of the regular contributions expected for 2022 have already been posted upfront – as well as higher IT expenses in Austria. Depreciation and amortisation amounted to EUR 273.0 million (+0.1%; EUR 272.8 million). The **operating result** increased markedly to EUR 1,861.3 million (+10.3%; EUR 1,687.7 million). The **cost/income ratio** improved to 55.1% (55.5%).

NPL ratio of 2.2% marks historic low since IPO

Due to net releases, the **impairment result from financial instruments** (“risk costs”) amounted to EUR 26.0 million or -3 basis points of average gross customer loans (EUR -82.9 million or 10 basis points). Net allocations to provisions for loans as well as for commitments and guarantees were posted in Romania, Slovakia and Serbia. Positive contributions came from income from the recovery of loans already written off in all segments as well as from releases, most notably in Croatia, the Czech Republic, Hungary and Austria. A review of the general provisioning related to Covid-19 developments as well as the geopolitical and economic situation in the second quarter led to a net release of EUR 132 million. Overall, end of June crises-related general provisions amounted to approximately EUR 500 million. The **NPL ratio** based on gross customer loans improved to 2.2% (2.5%), the lowest level recorded since the IPO. The NPL coverage ratio (excluding collateral) was up at 91.8% (91.4%).

Net result rises to 1.14 billion euros in first half-year

Other operating result amounted to EUR -199.2 million (EUR -172.4 million). Expenses for the annual contributions to resolution funds for the full year of 2022 included in this line item rose – most strongly in Austria and the Czech Republic – to EUR 139.0 million (EUR 108.2 million). Banking levies – currently payable in two core markets – increased to EUR 110.9 million (EUR 52.2 million). Thereof, EUR 94.6 million were charged in Hungary, including regular banking tax for the full financial year in the amount of EUR 17.7 million (EUR 14.9 million), transaction tax for the first half of 2022 in the amount of EUR 27.0 million (EUR 23.3 million) and a new windfall profit tax of EUR 49.9 million for the full year of 2022 based on the net revenues of the preceding year. In Austria, banking tax equaled EUR 16.3 million (EUR 13.9 million). A positive contribution came from the release of provisions for potential legal risks relating to Romanian consumer protection legislation in the amount of EUR 41.8 million also reflected in other operating income.

Taxes on income were up at EUR 315.2 million (EUR 287.3 million). The minority charge decreased to EUR 207.0 million (EUR 229.8 million) due to lower earnings contributions of the savings banks. The **net result attributable to owners of the parent** rose to EUR 1,137.0 million (EUR 918.0 million) on the back of the strong operating result and the net release of provisions.

Strong growth in lending volumes, CET1 stands at 14.2%

Total equity not including AT1 instruments rose to EUR 21.7 billion (EUR 21.3 billion). After regulatory deductions and filtering in accordance with the Capital Requirements Regulation (CRR), **common equity tier 1 capital** (CET1, final) rose to EUR 19.6 billion (EUR 18.8 billion), total own funds (final) to EUR 25.6 billion (EUR 24.8 billion). The interim profit for the first two quarters of the year is included in the above figures. Total risk (**risk-weighted assets** including credit, market and operational risk, CRR final) rose to EUR 138.2 billion (EUR 129.6 billion). The **common equity tier 1 ratio** (CET1, final) stood at 14.2% (14.5%), the total capital ratio at 18.5% (19.1%).

Total assets increased to EUR 327.1 billion (+6.4%; EUR 307.4 billion). On the asset side, cash and cash balances declined to EUR 42.8 billion (EUR 45.5 billion), loans and advances to banks increased – most notably in the Czech Republic – to EUR 28.7 billion (EUR 21.0 billion**). Loans and advances to customers** were up at EUR 191.5 billion (+6.3%; EUR 180.3 billion), most significantly in Austria and in the Czech Republic. On the liability side, deposits from banks grew to EUR 36.7 billion (EUR 31.9 billion). **Customer deposits** rose in nearly all core markets – most strongly in Austria and the Czech Republic – to EUR 225.5 billion (+7.1%; EUR 210.5 billion). The **loan-to-deposit** ratio declined to 84.9% (85.6%).

Outlook: net loan growth rate seen in the high single-digit range

All forward-looking statements in this outlook are based on the assumption that the Erste Group core markets will be able to import adequate quantities of gas from Russia at least in 2022.

Real GDP growth of approximately 2% to 5% is forecast for Erste Group's core markets in 2022. At the same time, year-on-year inflation being further fuelled by the geopolitical conflict surrounding Ukraine will remain a key issue throughout the year. **Unemployment rates** are nonetheless expected to remain low (approximately 3% to 7%). **Current account balances** will deteriorate in most countries due to higher prices of energy imports. The fiscal situation will remain tight amid a variety of fiscal policy challenges. Public debt levels will be significantly below the EU average, though.

Against this backdrop, Erste Group expects net loan growth in the high single-digit percentage range for 2022. **Risk costs** for 2022 should not exceed 20 basis points of average gross customer loans. On this basis, Erste Group is again pursuing the goal of generating a double-digit **return on tangible equity (ROTE)**. Erste Group's CET1 ratio should remain above 14%. For the 2022 financial year, Erste Group is planning to pay a **dividend** of EUR 1.90 per share.

FINANCIAL DATA

Income statement

in EUR mn	1-6 21	1-6 22	% change
Net interest income	2,448.7	2,837.0	15.9
Net fee and commission income	1,099.0	1,214.9	10.5
Net trading result and gains/losses from financial instruments at FVPL	126.7	-15.7	
Operating income	3,790.7	4,146.7	9.4
Operating expenses	-2,103.0	-2,285.4	8.7
Operating result	**1,687.7**	**1,861.3**	**10.3**
Impairment result from financial instruments	-82.9	26.0	.
Post-provision operating result	1,604.8	1,887.3	17.6
Net result attributable to owners of the parent	**918.0**	**1,137.0**	23.9

Key income statement ratios	1-6 21	1-6 22	change
Earnings per share (in EUR)	1.98	2.54	0.56
Return on equity	11.3%	13.5%	2.2 PP
Net interest margin (on average interest-bearing assets)	2.07%	2.16%	0.09 PP
Cost/income ratio	55.5%	55.1%	-0.4 PP
Provisioning ratio (on average gross customer loans)	0.10%	-0.03%	-0.13 PP

Balance sheet

in EUR mn	Dec 21	Jun 22	% YTD change
Loans and advances to customers	180.268	191.543	6.3
Risk-weighted assets (RWA)	129,650	138,200	6.6
Deposits from customers	210.523	225.515	7.1
Total assets	**307.428**	**327,093**	**6.4**

Key balance sheet ratios	Dec 21	Jun 22	YTD change
Loan/deposit ratio	85.6%	84.9%	-0.7 PP
NPL ratio	2.4%	2.2%	-0.2 PP
NPL coverage ratio (based on AC loans, excl. collateral)	90.9%	91.8%	0.9 PP
CET1 ratio (final)	14.5%	14.2%	-0.3 PP

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