SUMMARY OF THE MANAGEMENT REPORT

(ENGLISH COMPREHENSIVE VERSION)

as of December 31, 2023

SPARKASSE Oberösterreich

CONSOLIDATED FINANCIAL STATEMENTS FOR 2023

The attached Income Statement and Balance Sheet are part of the Consolidated Financial Statement. It also includes statements of changes in equity and of cash flows and notes. The financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU and audited by the Sparkassen-Prüfungsverband (Savings Banks Audit Association). The Financial Statements are available in German language.

TREND OF BUSINESS

With persistently high inflation, Austria's economy was in a recession in 2023. As a result of weak developments in wholesale and industry, the Gross Domestic Product (GDP) fell (preliminarily) by up to 0.8%. In the Eurozone, however, GDP increased by 0.6%.

The annual inflation rate in Austria averaged 7.8%, down from 8.6% in 2022. Over the course of 2023, inflation fell from 11.2% in January to 5.3% in November, only to rise to 5.6% in December. More than half of the 2023 inflation rate of 7.8% can be attributed to strong price increases in the catering industry, food, household energy, and home maintenance. According to Statistics Austria, lower fuel prices had a price-dampening effect.

In 2023, the added value of Austrian sectors developed negatively with a total of -0.6%. A declining industrial production (-1.7%, of which -1.5% construction) was contrasted by an expansive service sector (+1.7%, of which +3.0% financial and insurance services). The declining development of the industry also pulled industry-related sectors, such as the transport sector (-6.0%), into recession. Trade (-5.5%) and agriculture and forestry (-6.0%) also developed negatively.

Tourism (+3.5%) recovered from the slump during the pandemic and benefited from increasing demand from abroad.

The weak global economy also burdened Austria's foreign trade, so that exports (+1.2%) recorded only slight increases and imports (-1.3%) were declining. The current account balance was positive again at 2.6% of GDP, compared to -0.3% of GDP in the previous year.

A generally high level of uncertainty, as well as significantly increased interest rates, inhibited corporate investments, which were 2.0% below the previous year. Consumption (0.0%) stagnated due to decreased purchasing power.

The negative economic development also impacted the Austrian labor market. Although the number of actively employed persons increased by 1.1% to 3,956,271, the number of unemployed and people in training also noticeably increased by 6.4% to 399,005. The Austrian unemployment rate (according to the Eurostat definition) rose from an average of 4.8% in 2022 to a preliminary average of 5.1% in 2023 (as of November) and remained below the comparative value of the European Union (with a preliminary 6.0%).

In 2023, the number of corporate bankruptcies in Austria was significantly higher than in 2022, with 5,401 cases, an increase of 13%. The construction industry was the main concern of this rising trend. The number of opened personal bankruptcies also increased, with 8,956 cases, 9.5% higher than the previous year. However, according to Kreditschutzverband (KSV), a wave of insolvencies was not in sight even at the end of 2023, which means that the Austrian economy remained resilient in the face of major challenges.

The high rates of price increases led to increased tax revenues for the state, while pandemic-related expenditures were eliminated. Although the electricity price brake and the compensation for bracket creep burdened the budget, the budget balance and public debt (as a percentage of the forecast GDP) improved overall. In 2023, Austria's public debt, according to the currently available figures from the third quarter of 2023, was 78.2% of GDP or EUR 369.4 billion. Thus, the Maastricht target of 60% of GDP was not achieved, as in previous years. According to forecasts, the state's budget deficit in 2023 is likely to have fallen to a (provisional) 2.3% to 2.8% of GDP, thus complying with the Maastricht limit of a maximum of 3.0% of GDP after three years.

To counteract high inflation, the European Central Bank (ECB) has further increased the key interest rates. Since July 21, 2022, the main refinancing rate has been raised in ten steps from 0% to 4.5%. Similarly, the deposit rate for banks which park money overnight at the ECB was increased from -0.5% to 4.0%.

In 2023, the interest rates of Austrian credit institutions increased in both the credit and deposit businesses.

Despite tightening credit guidelines, banks were able to expand their lending. In the rising interest rate environment, domestic credit volume increased by 0.5%. Corporate financing increased (+2.2%) while personal loans decreased (-2.1%, of which housing loans -2.7%). This development was accompanied by falling real estate prices, as can be seen from the residential real estate index of the Austrian National Bank (OeNB) (-2.9% as of the 3rd quarter of 2023).

The savings rate decreased from 9.2% in the previous year to a (preliminary) 8.9% of the disposable income of private households, but remained above the levels before the pandemic. Accordingly, the development of private customer bank deposits was down until November 2023 with -1.2%. For companies, an even larger decrease in deposits (3.7%) was observed.

The Loan-to-Deposit Ratio of Austrian banks (domestic customer loans as a percentage of domestic customer deposits) increased compared to the previous year and was 100.2% in November 2023 (2022: 96.9%).

In its December meeting, the Financial Market Stability Board (FMSG) recommended to the Financial Market Authority to keep the countercyclical capital buffer at 0% of risk-weighted assets. However, the board urged banks to use their currently high profits to improve their capitalization. By improving their capital base, it is intended to ensure that banks are prepared for increasing risks against the backdrop of higher interest rates and economic cooling. In the case of commercial real estate financing, the board of the Austrian National Bank agreed with the assessment of the Financial Market Authority, the European Central Bank, and the European Council for Systemic Risks, which warn of vulnerabilities in the commercial real estate market. Regarding the KIM regulation, the board noted that an disproportionate restriction of lending due to unused exception quotas could not be identified.

For the Vienna Stock Exchange, 2023 was a positive year and the Austrian Traded Index (ATX) increased by 9.9% to 3,434.97, measured at closing prices and starting from an index level of 3,126.39 at the end of 2022.

As of the third quarter of 2023, the operating result of Austrian banks was EUR 10.2 billion. The net interest income amounted to EUR 11.9 billion and the commission balance was EUR 3.6 billion. Administrative and other expenses were EUR 8.4 billion, of which EUR 4.5 billion were personnel expenses. With a balance sheet total of EUR 1,021.4 billion, the period result (after taxes and minority interests) was EUR 9.0 billion.

The Corporate COVID-19 Act (COVID-19-GesG) expired on June 30, 2023. The Virtual Shareholder Meetings Act (VirtGesG) came into effect on July 14, 2023. This established a permanent legal basis for virtual and hybrid shareholder meetings of a company. The Corporate Digitalization Act 2023 (GesDigG) will come into effect on January 1, 2024.

In the area of banking supervision law, the Whistleblower Protection Act (HSchG) came into effect in the fiscal year 2023. In addition, the Accessibility Act was passed, which generally obliges companies to only bring accessible products and services to the market from June 28, 2025, provided they are covered by the scope of the law. In particular, banking services for consumers and self-service terminals are covered by the new accessibility requirements. Furthermore, to facilitate lending to seniors, Section 9 (5) of the Mortgage and Real Estate Credit Act (HIKrG) was amended; this change came into effect on May 1, 2023.

In March 2023, the Financial Market Authority (FMA) published the new circular on the suitability test for managing directors, supervisory board members, and key function holders (FMA Fit & Proper Circular). The Credit Institutions Real Estate Financing Measures Regulation (KIM-VO) of the FMA, which prescribes borrower-based lending quotas for private residential real estate financing to banks, has been in effect since August 1, 2022.

According to the Financial Market Stability Board (FMSG), the lower new lending has a dampening effect on the increased systemic risk, but this effect is more than compensated by other developments, such as the decline in real estate prices, the rise in interest rates, and the poorer development of income. A massive slump in new lending volume has already demonstrably occurred.

At the EU level, draft reports of the Economic and Monetary Affairs Committee (ECON) of the European Parliament were published at the end of September regarding the legislative proposals of the EU Commission for the small investor strategy (Omnibus Directive [MiFID/IDD] and PRIIPs Amendment Regulation), which were published in May 2023. In addition, the EU Commission has published a legislative proposal for the digital Euro as well as for the Financial Data Access Regulation (FIDAR) and for the revision of the second Payment Services Directive (PSD 2). Furthermore, the trilogue conversations concerning the legislative proposal for the regulation on real-time transfers were concluded and a preliminary agreement was reached. Additionally, the revision of the EU Consumer Credit Directive was completed and the new directive (Directive (EU) 2023/2225) was published in the Official Journal on 30.10.2023; the implementation deadline here is 20.11.2025. Also, the Directive on Representative Actions for the Protection of the Collective Interests of Consumers (Directive (EU) 2020/1828) has to be implemented into Austrian law; the implementation has not yet taken place (the directive had provided for an implementation deadline of 25.12.2022 (with application from 25.06.2023)). Furthermore, Basel IV is supposed to be implemented in the EU by 01.01.2025 – with some specific transition periods, especially for the output floor for IRB banks and new equity participations.

The topic of sustainability will continue to accompany Sparkasse Oberösterreich: from a regulatory perspective (in general regulations, but also in legal bases such as the Taxonomy Regulation, the delegated regulations to the EU Taxonomy Regulation from 2023 (delegated environmental law act, extension of the delegated climate law act), Disclosure Regulation, Corporate Sustainability Reporting Directive (CSRD), Eco Label Regulation, the ECB Guide on climate and environmental risks, the EBA guidelines on credit granting and monitoring, and the EBA discussion paper on ESG risks).

The European Securities and Markets Authority (ESMA) published its examination priorities for the 2024 examination season in October 2023. In an economic context characterized by high inflation, heightened geopolitical tensions, and rapid technological changes, ESMA plans to ensure precise market and risk monitoring and support the effective implementation of the European regulatory framework in relation to digital change and sustainability.

For the year 2024, the European Banking Authority (EBA) will particularly focus on the implementation of the banking package (Basel IV) and the development of Level 2 measures for MiCAR (Regulation on Markets in Crypto-Assets) and DORA (Digital Operational Resilience Act). The EBA identifies the following five priorities for 2024:

1) Implementation of the EU banking package (CRR III / CRD VI – i.e., Basel IV);
2) Monitoring of financial stability and sustainability against the backdrop of rising interest rates and uncertainty;
3) Provision of a data infrastructure for the various stakeholders;
4) Development of supervisory and monitoring capacities for DORA and MiCAR;
5) Increased focus on innovation and consumers (including access to financial services) while simultaneously preparing for the transition to the new anti-money laundering regime (EU-AML-Package with EU Anti-Money Laundering Authority).

The Sparkasse Oberösterreich will engage with the following supervisory and audit priorities of the FMA and the OeNB for the year 2024:

1) Resilience and Stability: Strengthening the crisis resilience of the supervised financial service providers and maintaining the stability of the Austrian financial market as a whole.
2) Digital Transformation: leveraging the opportunities of digitalization while consistently addressing the associated risks.
3) New Business Models: to supervise innovative business models as early as possible, in order to promote the innovative strenght of the Austrian financial market, ensure fair competitive conditions and adequate consumer protection.
4) Collective consumer protection: further developing the protection of consumers in a rapidly changing environment - keywords: digital transformation, changing consumer behavior, demographic development, interest rate turnaround.
5) Sustainability: regulatorily and supervisory supporting the financial market and all its participants in the transition to a sustainable economic model.
6) Clean Austrian Financial Center: ensuring the cleanliness and reputation of the Austrian financial center at all levels.

The ECB has published its three main supervisory priorities for the period 2023 to 2025:

i) strengthening resilience to immediate macro-financial and geopolitical shocks,
ii) overcoming the challenges of digitalization and strengthening the governance capabilities of the executive bodies and
iii) the intensification of efforts to combat climate change.

Sparkasse Oberösterreich actively and vigilantly monitors the legislative processes on an ongoing basis to identify trends at an early stage and to be able to meet all regulatory challenges promptly in the future.

BUSINESS PERFORMANCE

Sparkasse Oberösterreich Bank AG (hereinafter referred to as Sparkasse Oberösterreich) continued to successfully implement its strategies in the past fiscal year, which are intended to provide guidelines for action in a complex economic environment. The increases in interest rates and inflation rates, the economic downturn, geopolitical tensions, rapid technological changes, and the implementation of regulatory requirements characterized the year 2023.

The entrepreneurial focus remains on acquiring new customers, a balanced ratio between deposits and loans, as well as qualitative and sustainable growth.

The uncertain market environment led to a restraint in investments by companies, which was noticeable in a decline in the volume of investment loans. The residential construction business continues to be weak due to the current economic environment and new regulatory requirements. The stagnation in consumption also continues to lead to declining financing volumes in this area. Conversely, the liquidity needs of companies led to significant growth in working capital loans.

In connection with the slight decline in customer loan volume, special attention was paid to the management of customer deposits. Here, too, a decline was recorded, so that overall an improvement in the loan-to-deposit ratio could be achieved.

Associated with the development of reference and market interest rates and the related interest on interbank volumes, the net interest income was significantly increased from EUR 189.2 million to 255.1 million compared to the previous year.

Overall, the commission income increased by 0.6% compared to the previous year to EUR 130.5 million, with higher increases in payment transaction commissions and credit business commissions offsetting a slightly declining securities business.

Developments on the financial markets ensured that the trading and fair value result was once again significantly positive at EUR 14.5 million, while a loss of EUR -7.5 million was recorded in the previous year. In contrast, dividend income fell from EUR 17.9 million to EUR 5.6 million, which is due to a sale of indirectly held shares in Erste Group Bank AG to the Anteilsverwaltung Allgemeine Sparkasse on the one hand and to additional dividends paid out by Erste Group Bank AG in the previous year on the other hand.

The significant increase in personnel expenses is due to the impact of collective-contractual adjustments, the introduction of additional social benefits, and effects from social capital. The increase in operating expenses relates to additional marketing measures, the development of maintenance and energy costs, as well as higher IT, consulting, and sector costs.

Overall, the operating result was able to be increased by almost 40% from EUR 125.8 million to EUR 174.8 million.

Despite the challenging economic environment, risk costs were kept within a manageable limits and decreased from EUR -23.8 million to EUR -9.1 million. The NPL ratio increased from 2.2 to 2.9% due to the difficult macroeconomic environment (interest rate increases, general cost increases/inflation, weak economic growth).

Thus, Sparkasse Oberösterreich was able to achieve a periodic result of EUR 121.3 million, which was significantly above the plan.

The business activities of Sparkasse Oberösterreich continue to be characterized by the implementation of many initiatives as part of the multi-year strategy #agenda 2025. A special measure concerns the establishment of an investment company, through which equity investments are to be made in companies in growth industries and transformation phases. Another focus is on the sustainability strategy, including measures for decarbonization, as well as the implementation of the requirements of the Corporate Sustainability Reporting Directive (CSRD). All initiatives are aimed at strengthening the resilience and future viability of the bank in a dynamically changing environment.

Total assets decreased by EUR 331.7 million to EUR 15,070.9 million (previous year: EUR 15,402.7 million), corresponding to a reduction of 2.2%. This is largely due to the partial repayment of the ECB tender volume (TLTRO III). The total equity (excluding retained earnings) increased by 10.7% to EUR 1,114.2 million (previous year: EUR 1,006.9 million).

The planned dividend amounts to EUR 57.9 million (previous year: EUR 22.8 million).

Financial situation

The liquidity complied with the regulations of Art 411ff VO (EU) No. 575/2013 (CRR) and the delegated regulation (EU) 2015/61 of the Commission dated October 10, 2014.

Net assets

Net assets of Sparkasse Oberösterreich has continued to develop as follows:

Sparkasse Oberösterreich's equity capital sums to EUR 1,206.8 million (previous year: EUR 1,158.3 million). The equity capital consists of core capital and supplementary capital. Core Equity Tier 1 Capital (CET 1) amounts to EUR 913.2 million (previous year: EUR 848.9 million) and the Additional Tier 1 Capital (AT 1) amounts to EUR 80.0 million (previous year: EUR 80.0 million). The Supplementary Capital (T2) totals to EUR 213.6 million (previous year: EUR 229.3 million).

The equity capital ratios according to Art 92 CRR are as follows:

Core Equity Tier 1 (CET1) Ratio is 16.39% (previous year: 15.16%).

Core Capital Ratio is 17.82% (previous year: 16.59%).

Total Capital Ratio is 21.66% (previous year: 20.69%).

The Sparkasse Oberösterreich’s Anteilsverwaltung bears unlimited liability for Sparkasse Oberösterreich.

Governance

During the fiscal year, the Supervisory Board held 4 meetings (including 2 extraordinary and 2 constitutive meetings), the Audit Committee held 3, the Executive Committee held 6, the Loan Committee held 7, the Compensation Committee held 2, the Risk Committee held 3, the Strategy Committee held 3, and the Construction Committee held 1 meeting(s). The following personnel changes took place in the governing bodies of Sparkasse Oberösterreich: At the constitutive meeting of the Supervisory Board on July 26, 2023, Ms. Mag. Dr. Kornelia Waitz-Ramsauer was elected as the 1st Deputy Chairperson and Mr. Mag. Norbert Jungreithmayr was elected as the 2nd Deputy Chairperson.

During the constitutive meeting of the Supervisory Board on July 26, 2023, the chairmen, deputies, and committee members of the Supervisory Board were elected. Mr. Mag. Wolfgang Sonnleitner resigned from his mandate as a member of the Audit Committee of Sparkasse Oberösterreich by letter dated October 20, 2023. At the extraordinary general meeting on October 24, 2023, Mr. Mag. Michael Nösslböck was elected to the Supervisory Board until the annual general meeting in 2028. In the constitutive session of the Supervisory Board on October 24, 2023, Mr. Mag. Michael Nösslböck was elected as a member of all Supervisory Board committees.

By resolution of the Supervisory Board on June 21, 2023, Mr. Mag. Manuel Molnar, MBA and Mr. Mag. Martin Punzenberger were appointed as members of the Executive Board effective from January 1, 2024. The executive contract of Mr. Herbert Walzhofer ended on December 31, 2023.

Report on Branches

During the fiscal year, Sparkasse Oberösterreich did not establish or relocate any new branches. Three branches were closed and five others were converted into self-service sites. One self-service branch was also closed. As of December 31, 2023, Sparkasse Oberösterreich operated a total of 142 locations, of which 106 were branches and 36 were self-service sites. By the end of the year, Sparkasse Oberösterreich employed 972 staff members across its branches (compared to 968 in the previous year).

Financial and Non-financial Performance Indicators

Key figures

The return on equity has improved compared to the previous year and is 11.4% (previous year: 7.3%). It is calculated from the period result after taxes divided by the average balance sheet equity.

The Cost-Income Ratio, the ratio of operating expenses to operating income, is significantly below the average of recent years at 57.3% (previous year: 62.2%).

Profit-oriented employee productivity is derived from the operating result divided by the average weighted number of employees and could be increased from TEUR 88.9 by around 40% to TEUR 124.1.

The net interest margin, the ratio between net interest income and the average gross balance sheet total, stands at 1.67% (previous year: 1.19%).

Environmental aspects

Sparkasse Oberösterreich's business activities do not have a direct negative impact on the environment.

Employee aspects

At the end of the fiscal year, Sparkasse Oberösterreich employed 1,717 employees (previous year: 1,683), representing an increase of 34 employees or a 2.02% growth compared to the previous year. As of December 31, 2023, there were 41 apprentices employed. 16 young individuals initiated an apprenticeship. The female representation stood at 61%, and the part-time employment rate was at 38%. In 2023, the employees of Sparkasse Oberösterreich completed a total of 5,866 training days. In terms of voluntary social benefits, food allowances were introduced for the employees.

Apart from minor adjustment to the Sparkasse-collective-agreement, the service law remained essentially unchanged.

In 2023, the employees of Sparkasse Oberösterreich had the opportunity to participate in the employee participation program "WeShare Participation by Erste Group" and to contribute sustainably to the success of the Sparkasse Group. A total of around TEUR 560 was received by 97% of the employees of Sparkasse Oberösterreich in the form of a share package.

Fulfillment of the founding mission

Throughout its history, Sparkasse Oberösterreich has consistently upheld its humanitarian responsibility. Alongside its majority shareholder, Anteilsverwaltung Allgemeine Sparkasse, Sparkasse Oberösterreich invested approximately 2 million euros in public welfare in 2023.

To support the OÖ Kinder-Krebs-Hilfe (Upper Austrian Children's Cancer Aid), Sparkasse Oberösterreich and its majority shareholder, Anteilsverwaltung Allgemeine Sparkasse, donated a substantial amount to the Upper Austrian Children's Cancer Aid instead of giving World Savings Day gifts to adults. Sparkasse Oberösterreich supports vital treatments, psychological help, and ensures that parents of sick children can always be present.

In terms of social sustainability, Zweite Sparkasse serves as an example of how individuals facing financial difficulties are given a second chance. It does not have profit targets, does not operate with a profit-oriented approach, but is committed to the public welfare-oriented Sparkasse philosophy. The employees of Zweite Sparkasse are voluntary, retired Sparkasse employees.

In the area of financial education, Sparkasse Oberösterreich offered not only two online events on current market developments, but also a specially created platform called the "Finanz dich Fit-Challenge" (Finance Yourself Fit Challenge), where participants can accumulate knowledge throughout the year and also demonstrate it.

With the financial education initiative "she invests", Erste Bank and Sparkassen are responding to the greatly increased awareness of financial independence and the desire for personal consultation or exchange of views among many women.

Through the "FLiP2Go" tour and the modules of the FLiP Digi Tour, as well as presentations and the provision of educational materials, the financial knowledge of approximately 4,000 students was fostered in a playful and age-appropriate manner. Additionally, Sparkasse Oberösterreich supports further initiatives at schools in Upper Austria, such as the European Quiz, the Philosophy or Chemistry Olympics, or the Penguin Cup.

Enabling art and culture and making it accessible to a wide audience has always been a goal of Sparkasse Oberösterreich. The bank has lived up to its reputation as a promoter of culture by renewing its support of the Klangwolke. Other initiatives that have been supported include the Opera Festival in Schärding, the TheaterSPECTACEL in Wilhering, the Steyr Music Festival, and the open-air LIDO SOUNDS in Linz. The cultural commitment was rounded off by the "Day of Monuments" and exhibitions showcasing pieces from the art collection of Sparkasse Oberösterreich.

With the aim of inspiring young people for culture, the Young Theater of the Landestheater Linz offers an extensive performance and theater education program each year, primarily for schools. In collaboration with Sparkasse Oberösterreich, they have launched a special cooperation to provide free "Spark(l)assenticket" to students who cannot afford a theatre visit as part of a school excursion.

In addition to promoting financial well-being, Sparkasse Oberösterreich is also committed to enhancing the physical and mental health of individuals in the region. Therefore, Sparkasse Oberösterreich annually supports grassroots sports, and sponsors popular sporting and running events.

In partnership with the Naturschutzbund Oberösterreich (Nature Conservation Association of Upper Austria), Sparkasse Oberösterreich customers were able to invest wisely and actively protect nature through the 'Naturfreikauf' (Nature Redemption) project. This was part of the "20 years of sustainable funds" anniversary campaign. On the occasion of its 25th anniversary, Sparkasse Oberösterreich Kapitalanlagegesellschaft (KAG) donated EUR 25 to Naturschutzbund Oberösterreich and its "Naturfreikauf" campaign for investors in sustainable funds, whether they invest once or monthly.

Conscious use of water, how this valuable resource can be saved in daily life, and how to easily avoid plastic waste - all this and much more was learned by students from Upper Austria and the Mostviertel region during the "Water Days" initiative. Invited by the "Pure Water for Generations" association and Sparkasse Oberösterreich, the initiative made 15 stops at bathing lakes in Upper Austria, where more than 800 children and teenagers had to master interesting knowledge stations. The aim is to collaboratively develop ideas for the sustainable use of water and immediately put them into action.

Participants in the "Tour de Herz", supported by the Anteilsverwaltung Allgemeine Sparkasse and Sparkasse OÖ, set a new donation record to raise funds for children with heart diseases in developing countries.

RISK MANAGEMENT

Risk Policy and Strategy

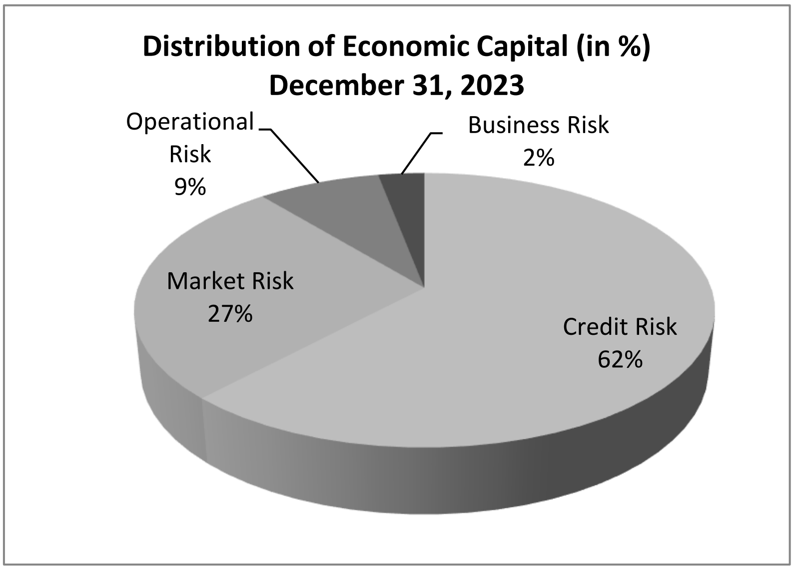
The conscious and selective assumption of risks and their professional management is a core competence of every bank. An appropriate risk policy and strategy is an essential basis for maintaining the bank's financial stability and provides the framework for operational success.

Sparkasse Oberösterreich has developed a forward-looking risk management framework tailored to its business and risk profile. This framework is based on a clear risk strategy and defines general principles according to which risks are taken. The risk strategy is consistent with the business strategy.

The risk strategy describes the actual risk profile, defines the risk management principles, the strategic objectives and sets strategic limits for the material financial and non-financial risk types, which are indicated in the risk materiality assessment. The risk strategy is implemented within a clearly defined governance structure. This is used to monitor risk appetite, supplementary key figures as well as to escalate limit breaches.

Regarding the disclosure requirements under Part 8 of Regulation (EU) No. 575/2013 CRR, please refer to the notes to the consolidated financial statements of Erste Group as well as to the homepage of Erste Group Bank AG.

The following chart illustrates the distribution of regulatory capital needs by risk categories as of December 31, 2023.



Credit Risk

Environmental- social- and governance risks (ESG) remain key priorities also in the year 2023.

Main focus in the risk area was the progress of implementing initiatives in order to fulfill regulatory requirements and expectations, like calculation of CO_2-footprint, development of methods to determine goals on decarbonization for leading sectors, improvement of risk assessments and reporting systems and to integrate climate and environmental risks into the credit risk process.

Credit risks arise in the traditional lending and investment business. These are both credit losses due to defaults by the borrower (Level 3) and expected credit losses if the default occurs either within one year (Level 1) or at any time up to maturity (Level 2).

Level 1 credit losses apply to non-defaulted credit risk exposures with no significant increase in credit risk (SICR) since origination, while Level 2 credit losses apply to non-defaulted credit risk exposures for which SICR was observed at the reporting date. It also includes credit losses due to counterparty risk arising from trading in instruments and derivatives that carry market risk. Country risk and related macroeconomic forward-looking information are also considered in the calculation of credit risk.

Operational credit decisions are made on a decentralized basis by the responsible units.

In contrast to large corporations, banks and sovereigns, the management of credit risk in the retail and SME business includes the processing of a very large number of relatively low loan amounts granted to private customers, freelancers, self-employed persons or small businesses. In compliance with EU-wide and local regulatory requirements, credit risk management in the retail and SME business takes into account the strategic orientation of Sparkasse Oberösterreich to provide loans to private individuals and small and medium-sized enterprises within its financial capacities.

The Business Intelligence Data Warehouse (BI-DWH) primarily serves as the central database for credit risk management. All data relevant for credit risk management, performance management and the calculation of risk-weighted assets and regulatory capital requirements are regularly fed into this database.

The BI-DWH is the basis for central credit risk reporting. This enables centralized evaluations and the application of key figures according to uniform methods and segmentations. The credit risk reporting system comprises regular reports on the credit portfolio for external and internal recipients and enables ongoing monitoring of risk developments and the derivation of control measures by management. Internal recipients primarily include the Supervisory Board and the Management Board as well as risk managers, business unit managers, and Internal Audit.

Internal Rating System

Sparkasse Oberösterreich regulates its credit guidelines and credit approval procedures within the framework of business and risk policies. The guidelines are regularly reviewed and adjusted at least once a year. They cover the entire lending business, considering the nature, scope and risk content of the transactions and counterparties concerned. Individual information such as the creditworthiness of the customer, the type of loan, the collateral, the contractual arrangement and other risk-mitigating factors are taken into account when approving loans.

Counterparty default risk is assessed at Sparkasse Oberösterreich based on the customer's probability of default. Sparkasse Oberösterreich assigns a rating for each credit exposure and each credit decision as a specific measure of counterparty default risk (internal rating). The internal rating of all customers is updated on an ad hoc basis, but at least once a year (annual rating review). For customers in workout, this is done at correspondingly shorter intervals.

Credit Risk Exposure by Industry and Risk Category

This table illustrates the total credit risk exposure of Sparkasse Oberösterreich divided by industry and by risk category as of December 31, 2023 compared with the results as of December 31, 2022.

in EUR million	Low Risk	Management attention	Sub-standard	Non-perfoming	Total
Dec 2023					
Natural Resources & Commodities	690.6	26.4	13.5	5.4	735.9
Energy	370.5	42.1	8.1	3.6	424.3
Construction and building materials	1,136.0	81.5	34.9	17.4	1,269.8
Automotive	370.2	45.9	45.9	26.4	488.3
Cyclical Consumer Products	384.1	38.2	9.6	34.4	466.3
Non-Cyclical Consumer Products	592.0	38.1	16.9	5.9	652.8
Machinery	777.4	64.7	11.0	10.6	863.7
Transportation	182.3	6.6	1.9	3.0	193.8
TMT and paper & packaging	207.0	32.8	23.1	4.0	266.9
Healthcare & Services	443.3	47.1	23.5	11.8	525.6
Hotels & Leisure	191.4	21.4	3.8	18.0	234.6
Real Estate	2,550.3	324.1	23.5	106.3	3,004.1
Public Sector	1,352.6	0.0	0.0	0.0	1,352.6
Financial Institutions	4,266.6	11.4	0.4	0.1	4,278.5
Private Households	3,379.2	74.9	75.8	51.3	3,581.1
Other	41.9	0.1	5.6	0.0	47.6
Total	**16,935.4**	**855.2**	**297.1**	**298.2**	**18,385.9**
Dec 2022					
Natural Resources & Commodities	671.7	69.4	7.4	6.1	754.7
Energy	406.0	9.6	4.2	9.0	428.8
Construction and building materials	1,143.9	77.6	22.1	15.7	1,259.3
Automotive	345.6	100.2	13.2	40.9	499.9
Cyclical Consumer Products	389.6	39.8	11.8	31.0	472.2
Non-Cyclical Consumer Products	629.6	16.0	3.9	6.0	655.5
Machinery	808.7	37.1	4.4	7.7	858.0
Transportation	160.1	21.2	6.1	3.8	191.2
TMT and paper & packaging	217.6	43.4	4.7	4.2	269.9
Healthcare & Services	472.4	57.7	25.0	9.8	565.0
Hotels & Leisure	185.5	36.9	7.5	16.8	246.7
Real Estate	2,639.6	233.4	34.4	28.2	2,935.6
Public Sector	1,281.3	0.0	0.0	0.0	1,281.3
Financial Institutions	3,992.8	21.4	3.9	6.5	4,024.6
Private Households	3,744.2	57.2	68.2	45.3	3,914.9
Other	58.5	0.1	8.1	0.0	66.7
Total	**17,147.2**	**820.9**	**224.8**	**231.2**	**18,424.2**

Loans are classified as non-performing loans when at least one of the default criteria under Article 178 CRR applies to the borrower, including: improbable full repayment; interest or principal payments on a material exposure are more than 90 days past due; restructuring resulting in a loss to the lender; realization of a loan loss; or initiation of insolvency proceedings.

For purposes of defining and recognizing non-performing positions, Sparkasse Oberösterreich applies the "customer view" to all customer segments, including retail customers. Accordingly, if a certain Austrian customer defaults on one product, then all performing products of that certain customer are classified as non-performing.

Net Exposure to Selected Regions

The following tables present the volumes of credit risk for selected countries and regions:

in EUR million	Low Risk	Management attention	Sub-standard	Non-perfoming	Total
Dec 2023					
Core Markets	**15,714.9**	**845.3**	**296.9**	**295.5**	**17,152.6**
Austria	14,297.7	734.1	232.7	263.8	15,528.3
Germany	1,417.2	111.2	64.2	31.6	1,624.3
Other EU	**945.2**	**7.4**	**0.2**	**2.3**	**955.2**
Other	**275.3**	**2.4**	**0.1**	**0.4**	**278.1**
Total	**16,935.4**	**855.2**	**297.1**	**298.2**	**18,385.9**
Dec 2022					
Core Markets	**15,879.3**	**790.1**	**221.3**	**218.9**	**17,109.6**
Austria	14,521.7	708.8	187.9	190.7	15,609.1
Germany	1,357.6	81.3	33.4	28.2	1,500.5
Other EU	**1,015.8**	**9.3**	**3.0**	**6.8**	**1,034.9**
Other	**252.1**	**21.6**	**0.6**	**5.5**	**279.7**
Total	**17,147.2**	**820.9**	**224.8**	**231.2**	**18,424.2**

Market Risk

Market risk is the risk of loss resulting from adverse changes in market prices and parameters derived from them. At Sparkasse Oberösterreich, they are segmented into interest rate risk, credit spread risk, currency risk, equity risk and volatility risk. Both trading and banking book transactions are affected.

In our bank, potential losses that may arise from market movements are assessed by using the “value-at-risk” (VaR) measure. The calculation is based on the historical simulation method with a one-sided confidence level of 99%, a holding period of one or ten days and a simulation period of two years. VaR describes the maximum loss to be expected with a given probability - the confidence level - within a certain holding period of the positions under historically observed market conditions.

Back testing is used to constantly monitor the validity of the statistical methods. This involves checking, with a delay of one day, whether the model predictions of loss have materialized. At a confidence level of 99%, the loss actually incurred on a given day should statistically exceed the VaR only two to three times per year (1% of approximately 250 working days).

Liquidity Risk

Sparkasse Oberösterreich considers liquidity risk in alignment with the principles of the Basel Committee on Banking Supervision as well as the European and Austrian legal frameworks (Capital Regulations Requirement (CRR) - Regulation (EU) No. 575/2013, Delegated Regulation (EU) 2015/61, Credit Institutions Risk Management Regulation - KI RMV). Accordingly, a distinction is made between market liquidity risk (the risk of not being able to close a position due to insufficient market depth or market disruptions) and refinancing risk (the risk that a bank will not be able to efficiently meet expected or unexpected obligations arising from current and future cash flows and securities without adversely affecting its daily operations or financial position).

Refinancing risk is further divided into insolvency risk and structural liquidity risk. Insolvency risk is the short-term risk that current or future payment obligations cannot be met in full, on time and in an economically justified manner. Structural liquidity risk concerns the long-term risk of losses due to changes in the refinancing costs or solvency premium of Sparkasse Oberösterreich.

Liquidity Strategy

In 2023, customer deposits remained the primary source of funding for Sparkasse Oberösterreich.

Sparkasse Oberösterreich issued (own issues) around EUR 244 million in 2023 (2022: EUR 279 million). In 2023, Moody's rating agency rated Sparkasse Oberösterreich's covered bonds for the first time, awarding the best-rating AAA. Covered bonds of EUR 118 million were issued in 2023.

The bank’s participation in TLTROs decreased to EUR 350 million in 2023 (2022: EUR 750 million).

Liquidity Ratios

The supervisory liquidity ratios of LCR and NSFR are successfully embedded in Sparkasse Oberösterreich. The LCR in accordance with Delegated Regulation (EU) 2015/61 and the NSFR in accordance with the Amendment of the Delegated Regulation (EU) 575/2013 are calculated on the platform already described above.

Method and Instruments

Short-term liquidity risk (insolvency risk) is measured and limited through a "Survival Period" analysis (SPA). This analysis specifies the maximal time in which a bank can survive in various defined scenarios, including a severe combined systematic and company-specific crisis, with the inclusion of liquid assets. The underlying assumptions include drastic restrictions on the availability of short- and long-term capital market financing with simultaneous significant outflows of customer deposits. Furthermore, an increased utilization of guarantees and loan commitments per customer group is simulated and the possible additional outflow of collateral from secured derivatives in stress scenarios is modeled. The SPA covers a stress scenario period of up to 12 months. It is calculated on a weekly and monthly basis.

The "structural liquidity gaps" are regularly reported and monitored using the internal liquidity ratio "Structural Liquidity Ratio" (STRL). The STRL is calculated on a monthly basis.

All of the above metrics and reports (LCR, NSFR, SPA and STRL) are regularly reported to the Risk Committee.

The concentration risk regarding the financing structure as well as the "Counterbalancing Capacity" (CBC) is periodically monitored and reported to the regulator. Sparkasse Oberösterreich’s "Funds Transfer Pricing" (FTP) is used as a control instrument for the management of structural liquidity risk.

Risk Mitigation Methods and Instruments

The controlling of the short-term liquidity risk is assured by limits, which result from the "Survival Period" Model, the internal stress test and the internal LCR goals. Limit excesses are reported to the Management Board by the Risk Committee. A further tool to control the liquidity risk is the FTP system. A comprehensive and regularly updated contingency plan ensures the coordination of all participants of the liquidity crisis management.

Analysis of Liquidity Risk

Liquidity risk at Sparkasse Oberösterreich is analyzed using the following methods:

Liquidity Coverage Ratio: At Sparkasse Oberösterreich, the supervisory Liquidity Coverage Ratio is used by for internal monitoring and controlling of the liquidity position. To guarantee that the LCR (according to LCR Delegated Act) remains above both the regulatory limit and the internal limit, Sparkasse Oberösterreich monitors the short-term liquidity in- and outflows as well as the counterbalancing capacity.

The following table shows the Liquidity Coverage Ratio per 31st of December 2022 and 2023:

in EUR million	Dec 2022	Dec 2023
Liquidity Buffer	4.128	3.913
Net Liquidity Outflow	1.778	1.386
Liquidity Coverage Ratio	**232.1%**	**282.3%**

Structural Liquidity Gaps: Long-term liquidity positions are controlled by means of structural liquidity gaps based on contractual and partly modeled cash flows of all liquidity-relevant positions on the balance sheet (both on- and off-balance). It is calculated in every relevant currency. In general, the cash flows are assigned based on the contractual maturity.

Feasible Liquidity: Sparkasse Oberösterreich regularly monitors its feasible liquidity, which consists of cash on hand, surplus reserves at central banks, and unencumbered central bank-eligible assets and other liquid securities. The effects of repo transactions are appropriately considered.

The following table shows the feasible liquidity as of the end of 2023 and also refers to the allocation to highly liquid assets (HQLA) in line with the regulatory requirements from the LCR.

Feasible Liquidity (in EUR million)			2022				2023			
Overview 1: Collateral			**market value (*)**	**used**	**avaliable**		**market value (*)**	**used**	**avaliable**	
Total bonds (c,d,e,f)			2,206	213	1,983	90%	2,287	266	2,021	88%
Thereof collateral (c,d,e)			1,825	50	1,775	97%	1,979	148	1,831	93%
ECB eligible credit claims			1,070	750	320	30%	1,065	350	715	67%
Total collateral			2,895	800	2,095	72%	3,045	498	2,547	84%
Overview 2: Bonds & HQLA			**market value (*)**	**used**	**avaliable**		**market value (*)**	**used**	**avaliable**	
Level 1	Liquidity reserve(**)	a	1,467	0	1,467	100%	1,399	0	1,399	100%
	Cash	b	1,273	0	1,273	100%	1,100	0	1,100	100%
	Bonds	c	1,294	40	1,254	97%	1,349	52	1,297	96%
Level 2	Bonds	d	122	10	112	92%	201	65	136	68%
Other ECB eligible securities		e	409	0	490	100%	430	31	399	93%
Non ECB eligible securities		f	381	163	218	57%	308	118	190	62%

(*) Market value corresponds to effective collateral value of credit claims
(**) Liquidity reserve according to section 27 BWG

Operational Risk

In line with Article 4 Para. 52 of the EU Regulation No. 575/2013 (CRR), Sparkasse Oberösterreich defines operational risk as the risk of loss resulting from inadequacy or failure of internal processes, personnel or systems or from external events, including legal risks. Both quantitative and qualitative methods are used to identify operational risks. Responsible for the management of the operational risks is - as is customary internationally - the line management.

Methods and Procedures

The basis of the quantitative measurement methods (compiles with abatement in the risk-taking capability calculation) is capital adequacy according to the conservative basis indicator approach. In addition to the quantitative approach, the filling of the loss database is the focus of the qualitative approach.

Each month, information on the registration to the loss database is presented to senior managers and to the Management Board within the meetings of the Risk Committee. Registrations of bigger losses are forwarded to Internal Audit Department for review of operations.

Expected Development of Sparkasse Oberösterreich

As a result of declining inflation rates in the eurozone and the US, the banking market assumed that the interest rate cycle had reached its peak in 2023. Accordingly, Sparkasse Oberösterreich's planning was based on the assumption that there would be no further interest rate steps by the ECB in the first half of 2024. However, the ambiguous data situation made it difficult to determine the timing and extent of interest rate cuts.

The assumption of up to six rounds of interest rate cuts in 2024 had initially boosted the stock markets in the previous year. However, due to increasing geopolitical uncertainties towards the end of the year, this assumption became unlikely. As of the balance sheet date, Sparkasse Oberösterreich's expectations had settled on three interest rate cuts by the ECB from the second half of 2024, totalling minus 75 basis points.

The current trend in interest rates has had a positive impact on both securities investors and savers. Sparkasse Oberösterreich will continue to offer attractive options for fixed and overnight deposits to its customers, and expects competition in the banking market to remain strong. Assuming a continued favorable development of the securities markets, Sparkasse Oberösterreich predicts good commission results for 2024.

For residential construction loans, there is no expected regulatory easing in lending and no expected increase in demand for loan. Sparkasse Oberösterreich intends to maintain its central role in financing the real economy for corporate customers. However, the overall loan volume is likely to grow only in the low single-digit percentage range.

The Credit Protection Association has forecasted an increase in insolvencies among private individuals and companies. As a result, Sparkasse Oberösterreich anticipates a more challenging year for credit risk in 2024. However, it remains confident that crises and disruptions in the real estate market can be well managed. Accordingly, it has only moderately increased the value adjustments in its own books, and portfolio deteriorations are expected to remain manageable.

Securing Sparkasse Oberösterreich's position as a regional universal bank will remain the top priority in the coming years. Cost management and process optimization will continue to be an important task. A major challenge for 2024 is the high inflation rate of 7.8% in the previous year, which will impact administrative expenses in the following year's collective bargaining negotiations.

A potential negative scenario for 2024 would involve a continuation of the recession, coupled with an escalation of the conflicts in Ukraine and the Middle East. However, Sparkasse Oberösterreich's strong capitalization and excellent liquidity position will enable it to navigate these uncertain conditions and continue to be a dependable partner for its customers and the people in the region. Additionally, the possibility of a more relaxed monetary policy points to additional growth impulses and a moderate economic recovery.

GROUP BALANCE SHEET
AS OF DECEMBER 31, 2023

Sparkasse Oberösterreich Bank AG

according to IFRS

I. GROUP PROFIT AND LOSS ACCOUNT 2023

in EUR million	1-12 2022	1-12 2023
Net interest income	189.2	255.1
Interest income	221.8	478.3
Other similar income	21.7	26.1
Interest expenses	-41.2	-194.1
Other similar expenses	-13.0	-55.2
Net fee and commission income	129.7	130.5
Fee and commission income	145.4	147.4
Fee and commission expenses	-15.7	-16.9
Dividend income	17.9	5.6
Net trading result	-97.5	34.0
Gains/losses from financial instruments measured at fair value through profit or loss	90.0	-19.5
Rental income from investment properties & other operating leases	3.4	4.3
Personnel expenses	-112.0	-123.8
Other administrative expenses	-79.3	-94.5
Depreciation and amortization	-15.7	-16.8
Gains/losses from financial assets and liabilities not measured at fair value through profit or loss (net)	0.0	0.0
Other gains/losses from derecognition of financial instruments not measured at fair values through profit or loss	0.1	0.2
Impairment result from financial instruments	-23.8	-9.1
Other operating result	-7.7	-10.2
Levies on banking activities	-3.1	-2.1
Pre-tax result from continuing operations	**94.4**	**155.7**
Taxes on income	-16.6	-34.4
Net result for the period	**77.8**	**121.3**
Net result attributable to non-controlling interests	-0.6	-0.6
Net result attributable to owners of the parent	**77.2**	**120.6**

II. GROUP BALANCE SHEET AS OF DECEMBER 31, 2023

in EUR million	Dec 2022	Dec 2023
Assets		
Cash and cash balances	1,335.8	1,155.4
Financial assets held for trading	61.3	54.1
Derivatives	22.0	22.3
Other financial assets held for trading	39.3	31.8
Non-trading financial assets at fair value through profit or loss	119.0	122.3
Equity instruments	20.8	21.6
Debt securities	97.8	100.5
Loans and advances to customers	0.4	0.2
Financial assets at fair value through other comprehensive income	351.6	241.4
Equity instruments	70.4	84.3
Debt securities	281.2	157.1
Financial assets at amortized costs	13,345.6	13,309.8
Debt securities	1,971.7	2,103.2
Loans and advances to banks	1,635.7	1,539.5
Loans and advances to customers	9,738.2	9,667.2
Helge accounting derivatives	6.1	4.9
Property and equipment	92.5	103.7
Investment properties	45.8	39.3
Intangible assets	6.9	4.6
Investments in associates and joint ventures	1.4	1.4
Current tax assets	1.3	4.6
Deferred tax assets	3.1	0.0
Assets held for sale	0.0	0.0
Trade and other receivables	2.8	2.9
Other assets	29.6	26.5
Total assets	**15,402.7**	**15,070.9**

	Dec 2022	Dec 2023
Liabilities and equity		
Financial liabilities held for trading	43.5	28.8
Derivatives	43.5	28.8
Other financial liabilities held for trading	0.0	0.0
Financial liabilities at fair value through profit or loss	515.6	547.6
Deposits from customers	53.6	55.5
Debt securities issued	462.0	492.1
Financial liabilities amortized cost	13,564.8	13,123.1
Deposits from banks	1,244.9	949.9
Deposits from customers	11,429.3	11,148.4
Debt securities issued	887.3	1,021.4
Other financial liabilities	3.3	3.5
Lease liabilities	28.8	34.9
Hedge accounting derivatives	20.5	11.8
Provisions	138.5	140.0
Current tax liabilities	0.1	8.1
Deferred tax liabilities	0.0	4.4
Other liabilities	83.9	57.9
Total equity	**1,006.9**	**1,114.2**
Equity attributable to non-controlling interests	1.0	1.1
Additional Tier 1 capital - AT1	80.0	80.0
Equity attributable to owners of the parent	925.9	1,033.1
Subscribed capital	52.9	52.9
Additional paid-in capital	124.6	124.6
Retained earnings and other reserves	748.3	855.6
Total liabilities and equity	**15,402.7**	**15,070.9**

Sparkasse Oberösterreich Bank AG
Promenade 11–13, 4020 Linz

www.sparkasse-ooe.at