ERSTE Group

Press release

Further insights will follow at ca.11:30 CEST 2 November 2021

Results for 1-9/2021:

Good results reflect strong operating performance

- **Operating income rises, as macro upswing supports fee income and trading result gains**
- **Flat expenses contribute to solid rise in operating result to 2.59 billion euros**
- **Sharp year-on-year decline in risk costs helps boost net income to 1.45 billion euros**
- **Lending growth remains substantial alongside continuing deposit inflows**

Erste Group, the leading lender in Central and Eastern Europe, continued its strong business performance in 2021 by posting a 20% year-on-year rise in its operating result to 2.59 billion euros for the first nine months of the year (1-9/2020: 2.16 billion euros). This positive operating development came on the back of solid net interest income, significantly improved net fee and commission income and a sharply higher net trading and fair value result compared to the same period a year earlier. With the risk environment in the CEE region remaining benign, the banking group booked risk costs of 52 million euros in the first three quarters of 2021, compared to 870 million euros a year earlier. These developments led Erste Group to post a net profit of 1.45 billion euros for the reporting period (1-9/2020: 637 million euros; 1-9/2019: 1.22 billion euros).

Erste Group CFO Stefan Dörfler: "*The macro rebound in CEE is continuing, with both the region's growth rates and rate hikes in some of its markets beating expectations. That favourable environment has provided the framework in which Erste Group has managed to post strong earnings growth while keeping its expenses flat and sharply lowering its risk provisioning. Our performance at both the operating and net levels is obviously much improved compared to the Covid year 2020 -- but we've also performed well compared to the same period in 2019. The exact course of the pandemic over the winter months and its medium-term impact on CEE are still open. The proven resilience of the economies in our region and the strength of the Erste business model, however, make us optimistic going into year-end 2021 and further into the next year.*"

Operating income rises 8.5%

Net interest income increased by 2.2% year-on-year to 3.67 billion euros, primarily due to one-off effects resulting from TLTRO III take-up in Austria and Slovakia. **Net fee and commission income** rose by 16.7% to 1.69 billion euros. Increases were posted across all fee and commission categories and core markets, with significant growth seen in particular in payment services, as well as in asset management and in the securities business. The lines items **net trading result** and **gains/losses from financial instruments measured at fair value through profit or loss** collectively rose -- driven mostly by valuation effects -- to 201.0 million euros, compared to 90.4 million euros a year earlier. **Operating income** increased by 8.5% to 5.74 billion euros.

Operating result up 20% as expenses remain under control

General administrative expenses rose by 0.6% year-on-year to 3.14 billion euros. Personnel expenses declined by 1.1% to 1.88 billion euros, while other administrative expenses were 3.4% higher at 846.6 million euros. Headcount (on a FTE basis) declined by 1.8% YTD to 44,878 at the end of September 2021. Payments into deposit insurance schemes included in other administrative expenses rose by 12.8% to 113.1 million euros. Almost all payments expected for 2021 have already been posted. Depreciation and amortisation increased by 2.8% to 413.2 million euros. The **operating result** was up 20% at 2.59 billion euros and the **cost/income ratio** improved significantly to 54.8% (59.1%).

Sharply lower risk costs contribute to strong rise in net profit

Due to net allocations, the **impairment result from financial instruments** ("risk costs") amounted to -51.6 million euros or 4 basis points of average gross customers loans (1-9/2020: -870.1 million euros or 70 basis points). Net allocations to provisions for loans, as well as for commitments and guarantees, were posted in the Czech Republic, Romania, Serbia and Hungary, but remained generally at a very low level. A positive contribution came from income related to the recovery of loans already written off, as well as from releases, most notably in Austria (in the Savings Banks segment). During the comparison period in 2020, updated risk parameters with forward looking information related to Covid-19 had resulted in high net allocations to provisions for loans, as well as for commitments and guarantees given. The **NPL ratio** based on gross customer loans improved to a historic low at 2.4% (2.7%). The **NPL coverage ratio** (excluding collateral) increased to 92.7% (88.6%).

Other operating result amounted to -243.3 million euros (-213.6 million euros). Expenses for the annual contributions to resolution funds for the full year 2021 included in this line item rose – most strongly in Austria and Romania – to 108.5 million euros (93.7 million euros). The decline in banking levies to 71.6 million euros (100.3 million euros) is primarily attributable to the abolition of banking tax in Slovakia. At present, banking levies are payable in two core markets: in Hungary, banking tax for the full financial year amounted to 14.9 million euros (14.4 million euros) and transaction tax for the first three quarters to another 35.7 million euros (33.1 million euros). In Austria, banking tax equalled 20.9 million euros (19.0 million euros). Taxes on income increased to 433.6 million euros (264.2 million euros). The minority charge rose to 397.2 million euros (177.1 million euros) due to significantly higher earnings contributions from the savings banks. The **net result attributable to owners of the parent** rose to 1.45 billion euros (637.1 million euros) on the back of the strong operating result and low risk costs.

Loan volume increases by 5.9% during first three quarters

Total equity not including AT1 instruments rose to 21.2 billion euros (December 2020: 19.7 billion euros). After regulatory deductions and filtering in accordance with the CRR, **common equity tier 1 capital** (CET1, final) rose to 18.3 billion euros (17.1 billion euros), as were total **own funds** (final) to 23.9 billion euros (23.6 billion euros), both figures include the interim profit for the first half of the year, but not for the third quarter. Total risk – **risk-weighted assets** including credit, market and operational risk (CRR, final) – increased moderately to 128.5 billion euros (120.2 billion euros). The **common equity tier 1 ratio** (CET1, final) stood at 14.2% (14.2%), the **total capital ratio** at 18.6% (19.7%).

Total assets increased by 11.5% YTD to 309.2 billion euros. On the asset side, cash and cash balances increased, primarily in Austria, to 47.1 billion euros (35.8 billion euros), loans and advances to banks to 27.7 billion euros (21.5 billion euros). **Loans and advances** to customers rose by 5.9% YTD to 175.9 billion euros. On the liability side, deposits from banks grew significantly to 35.4 billion euros (24.8 billion euros) as a result of increased ECB refinancing (TLTRO III). **Customer deposits** rose in all core markets – most strongly in Austria and in the Czech Republic – to 207.5 billion euros (+8.6% YTD compared to 191.1 billion euros in December 2020). **The loan-to-deposit ratio** declined significantly to 84.8% (86.9%).

Catch-up dividend to be put forward at extraordinary general meeting

As the European Central Bank lifted its **dividend** recommendation, an additional 1.00 euro per share is expected to be paid in the fourth quarter of 2021 following approval by an extraordinary general meeting that will be held on 25 November 2021. For the 2021 fiscal year, Erste Group targets a dividend of 1.60 euro per share, thereby returning to its progressive dividend policy.

Financial results from January-September 2021 are compared with those from January-September 2020 and balance sheet positions as of 30 September 2021 with those as of 31 December 2020.

FINANCIAL DATA

Income statement

in EUR mn	1-9 2020	1-9 2021	%change
Net interest income	3,589.3	3,669.5	2.2
Net fee and commission income	1,448.3	1,690.4	16.7
Net trading result and gains/losses from financial instruments at FVPL	90.4	201.0	122.3
Operating income	5,285.8	5,735.0	8.5
Operating expenses	-3,123.2	-3,141.0	0.6
Operating result	**2,162.7**	**2,594.0**	**19.9**
Impairment result from financial instruments ("risk costs")	-870.1	-51.6	-94.1
Post-provision operating result	1,292.6	2,542.4	96.7
Net result attributable to owners of the parent	**637.1**	**1,451.4**	127.8

Key income statement ratios	1-9 2020	1-9 2021	change
Earnings per share (in EUR)	1.37	3.24	136.5%
Return on equity	5.5%	12.1%	6.6 PP
Net interest margin (on average interest-bearing assets)	2.09%	2.04%	-0.05 PP
Cost/income ratio	59.1%	54.8%	-4.3 PP
Provisioning ratio (on average gross customer loans)	0.70%	0.04%	-0.66 PP

Balance sheet

in EUR mn	Dec 20	Sep 21	% YTD change
Loans and advances to customers	166,050	175,929	5.9
Risk-weighted assets (RWA)	120,200	128,500	6.9
Deposits from customers	191,070	207,506	8.6
Total assets	**277,394**	**309,240**	**11.5**

Key balance sheet ratios	Dec 20	Sep 21	YTD change
Loan/deposit ratio	86.9%	84.8%	-2.1 PP
NPL ratio	2.7%	2.4%	-0.3 PP
NPL coverage ratio (based on AC loans, excl. collateral)	88.6%	92.7%	4.1 PP
CET1 ratio (final)	14.2%	14.2%	-

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