Press release

Vienna – 28 February 2022

# Erste Group 2021 results: strong operating performance, low risk costs

- Operating result up 17.1% to EUR 3.4 bn, reflecting modest cost growth
- Net income reaches EUR 1.92 bn as risk costs fall sharply
- CET1 ratio of 14.5% reflects solid capitalization
- Outlook 2022: Current Ukraine crisis involves incalculable consequences for Europe as a whole

**Erste Group posted a 8.2% rise in its operating income to 7.7 billion euros in the 2021 financial year. This strong operating performance reflected higher net interest income on the back of rate hikes in Czechia and Hungary and solid loan volume growth, as well as sharply higher net fee and commission income thanks to the rebound in the region's economies and markets. The benign risk environment during the past year allowed a steep reduction in risk costs from 1.3 billion euros in 2020 to 159 million euros in 2021. These developments led Erste Group to post a net profit of 1.92 billion euros for the financial year 2021 (2020: 783 million euros, 2019: 1.47 billion euros).**

*"The latest developments regarding Russia's war with Ukraine are a shock to everyone who believes in the European idea of peace, democracy and prosperity. As things currently stand, the conflict will have incalculable consequences for the continent – politically, economically, but above all in humanitarian terms.*
*Erste Group has no direct operating subsidiaries in Russia or Ukraine and our direct exposure to these countries is negligible. However, our geographic proximity and deep ties to the entire region bring with them a humanitarian responsibility. As a bank at the heart of Europe, we will stand by the people in the region with support and assistance,"* said **Bernd Spalt**, CEO of Erste Group.

**Stefan Dörfler**, CFO of Erste Group: *"We have a proven business model, attractive footprint in the dynamic economies of Central Europe, and solid capitalization. We are aware of the challenges the latest developments might entail, but are confident that we are very well positioned to meet them.*
*CEE's strong economic upswing last year helped boost our earnings by supporting solid loan demand growth. Combined with a record level fee income and good cost management, this led to a strong rise in our operating result. As our risk costs in 2021 came in far below the Covid-driven levels of 2020, our bottom line rose sharply."*

## Operating income rises 8.2%

**Net interest income** increased to EUR 4,975.7 million (+4.2%; EUR 4,774.8 million), primarily due to rate hikes in the Czech Republic and in Hungary, strong volume growth in all markets and a positive one-off effect resulting from TLTRO III take-up in Austria and Slovakia. **Net fee and commission income** rose to EUR 2,303.7 million (+16.5%; EUR 1,976.8 million) supported by a strong economic recovery and rising equity markets. Increases were posted across all key fee and commission categories and core markets. **Net trading result** declined to EUR 58.6 million (EUR 137.6 million); the line item **gains/losses from financial instruments measured at fair value through profit or loss** rose to EUR 173.2 million (EUR 62.0 million). **Operating income** increased to EUR 7,742.0 million (+8.2%; EUR 7,155.1 million).

## Operating result up 17.1%, reflecting moderate rise in expenses

**General administrative expenses** were up at EUR 4,306.5 million (+2.0%; EUR 4,220.5 million), personnel expenses rose to EUR 2,578.1 million (+2.3%; EUR 2,520.7 million). Headcount declined by 2.4% to reach 44,596. Other administrative expenses increased to EUR 1,180.3 million (+1.9%; EUR 1,158.9 million). Payments into deposit insurance schemes included in other administrative expenses decreased to EUR 122.4 million (EUR 132.2 million). Depreciation and amortisation rose to EUR 548.0 (+1.3%; EUR 540.9 million). The **operating result** was up markedly at EUR 3,435.5 million (+17.1%; EUR 2,934.6 million) and the **cost/income ratio** improved significantly to 55.6% (59.0%).

## Strong rise in net profit on the back of sharply lower risk costs

Due to net allocations, the **impairment result from financial instruments** (“risk costs”) amounted to EUR -158.8 million or 9 basis points of average gross customers loans (EUR -1,294.8 million or 78 basis points). Net allocations to provisions for loans and advances, as well as for commitments and guarantees given, were posted in the Czech Republic, Romania, Croatia, Serbia and Hungary, but generally remained at a very low level. A positive contribution came from income from the recovery of loans already written off, as well as from releases, most notably in Austria (in the Savings Banks segment). In the comparative period, updated risk parameters with forward-looking information related to Covid-19 had resulted in high net allocations to provisions for loans and advances 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 90.9% (88.6%).

**Other operating result** amounted to EUR -310.5 million (EUR -278.3 million). This deterioration was attributable to valuation effects and higher expenses for the annual contributions to resolution funds; the latter rose – most strongly in Austria and Romania – to EUR 108.6 million (EUR 93.5 million). Banking levies declined to EUR 73.5 million (EUR 117.7 million), primarily due to the abolition of banking tax in Slovakia and lower levies in Austria. At present, banking levies are payable in two core markets: in Hungary, banking tax amounted to EUR 15.0 million (EUR 14.5 million) and transaction tax to another EUR 48.0 million (EUR 44.0 million). In Austria, banking tax equalled EUR 10.5 million (EUR 25.5 million). Taxes on income rose to EUR 525.2 million (EUR 342.5 million). The minority charge increased to a record EUR 484.8 million (EUR 242.3 million) due to significantly higher earnings contributions of the savings banks. The **net result attributable to owners of the parent**

rose to EUR 1,923.4 million (EUR 783.1 million) on the back of the strong operating result and low risk costs.

## Loan volume higher by 8.6%

**Total equity** not including AT1 instruments rose to EUR 21.3 billion (December 2020: EUR 19.7 billion). After regulatory deductions and filtering in accordance with the CRR, **common equity tier 1 capital** (CET1, final) rose to EUR 18.8 billion (EUR 17.1 billion), as were total **own funds** (final) to EUR 24.8 billion (EUR 23.6 billion). Total risk – **risk-weighted assets** including credit, market and operational risk (CRR, final) – increased moderately to EUR 129.6 billion (EUR 120.2 billion). The **common equity tier 1 ratio** (CET1, final) rose to 14.5% (14.2%), the **total capital ratio** declined to 19.1% (19.7%), primarily due to the early redemption of a portion of AT1 capital.

**Total assets** increased to EUR 307.4 billion (+10.8%; EUR 277.4 billion). On the asset side, cash and cash balances increased, primarily in Austria, to EUR 45.5 billion (EUR 35.8 billion), loans and advances to banks declined to EUR 21.0 billion (EUR 21.5 billion). **Loans and advances to customers** (net) rose to EUR 180.3 billion (+8.6%; EUR 166.1 billion). On the liability side, deposits from banks grew significantly to EUR 31.9 billion (EUR 24.8 billion) as a result of increased ECB refinancing (TLTRO III). **Customer deposits** rose in all core markets – most strongly in Austria and the Czech Republic – to EUR 210.5 billion (+10.2%; EUR 191.1 billion). **The loan-to-deposit ratio** declined to 85.6% (86.9%).

## Outlook

It is unclear how the war in Ukraine will develop and thus impact the region macroeconomically. Although Russia's economic role as an export market for Erste markets has steadily decreased over the past years, most of the countries are still dependent on imports of Russian energy sources.

Erste Group expects net loan growth in the mid-single digits. Net fee and commission income is expected to rise in the low to mid-single digits. As in 2021, Erste Group aims to achieve a double-digit ROTE. Erste Group’s CET1 ratio is expected to remain strong.

While precise forecasting is hard at current low risk cost levels and given the latest geopolitical developments, Erste Group believes that in 2022 risk costs will be below 20 basis points of average gross customer loans. The NPL ratio is expected below 3.0%.

The evolving Russia-Ukraine situation does not impact Erste Group directly, as it has no operating presence in those countries; exposures to both countries are negligible and no additional meaningful risk provisioning is currently anticipated in this context. Indirect effects, such as financial market volatility or sanctions-related knock-on effects on some of our customers or the occurrence of deposit insurance or settlement cases cannot be ruled out, though.

## FINANCIAL DATA

### Income statement

| in EUR mn | 2020 | 2021 | % change |
|---|---|---|---|
| Net interest income | 4,774.8 | 4,975.7 | 4.2 |
| Net fee and commission income | 1,976.8 | 2,303.7 | 16.5 |
| Net trading result and gains/losses from financial instruments at FVPL | 199.5 | 231.8 | 16.2 |
| Operating income | 7,155.1 | 7,742.0 | 8.2 |
| Operating expenses | -4,220.5 | -4,306.5 | 2.0 |
| Operating result | 2,934.6 | 3,435.5 | 17.1 |
| Impairment result from financial instruments | -1,294.8 | -158.8 | -87.7 |
| Post-provision operating result | 1,639.8 | 3,276.7 | 99.8 |
| **Net result attributable to owners of the parent** | **783.1** | **1,923.4** | 145.6 |

| Key income statement ratios | 2020 | 2021 | change |
|---|---|---|---|
| Earnings per share (in EUR) | 1.57 | 4.17 | 165.6 |
| Return on equity | 4.7% | 11.6% | 6.9 PP |
| Net interest margin (on average interest-bearing assets) | 2.08% | 2.05% | -0.03 PP |
| Cost/income ratio | 59.0% | 55.6% | -3.4 PP |
| Provisioning ratio (on average gross customer loans) | 0.78% | 0.09% | -0.69 PP |

### Balance sheet

| in EUR mn | Dec 20 | Dec 21 | % YTD change |
|---|---|---|---|
| Loans and advances to customers | 166,050 | 180,268 | 8.6 |
| Risk-weighted assets (RWA) | 120,200 | 129,650 | 7.9 |
| Deposits from customers | 191,070 | 210,523 | 10.2 |
| **Total assets** | **277,394** | **307,428** | **10.8** |

| Key balance sheet ratios | Dec 20 | Dec 21 | YTD change |
|---|---|---|---|
| Loan/deposit ratio | 86.9% | 85.6% | -1.3 PP |
| NPL ratio | 2.7% | 2.4% | -0.3 PP |
| NPL coverage ratio (based on AC loans, excl. collateral) | 88.6% | 90.9% | 2.3 PP |
| CET1 ratio (final) | 14.2% | 14.5% | 0.3 PP |

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