Segments

Erste Group's segment reporting is based on IFRS 8 Operating Segments, which adopts the management approach. Accordingly, segment information is prepared on the basis of internal management reporting that is regularly reviewed by the chief operating decision maker to assess the performance of the segments and make decisions regarding the allocation of resources. Within Erste Group the function of the chief operating decision maker is exercised by the management board.

Erste Group uses a matrix organisational structure with geographical segmentation and business segments. Since the chief operating decision maker performs the steering primarily based on geographical segments, those are defined as operating segments according to IFRS 8. In order to provide more comprehensive information, the performance of the business segments is reported additionally.

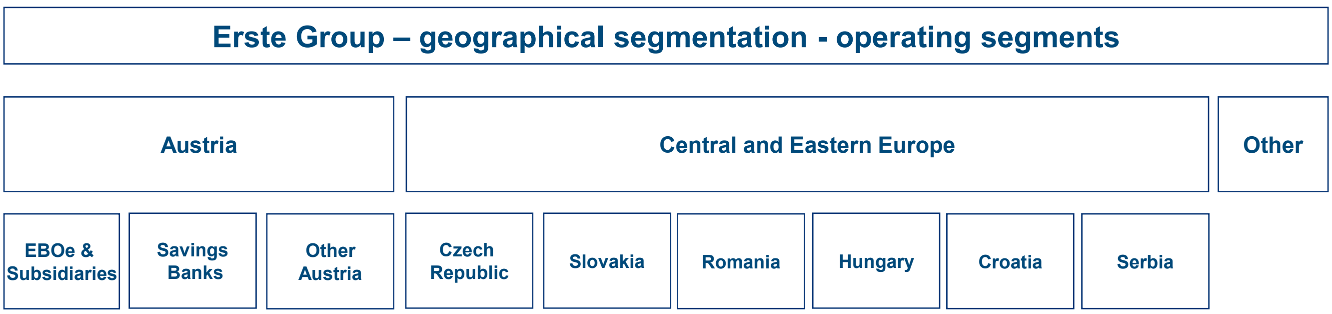
The tables and information below provide a brief overview and focus on selected and summarised items. For more details, please see Note 1. Additional information is available in Excel format at www.erstegroup.com/en/investors/reports/financial-reports.

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 and other operating leases. The latter three listed items are not disclosed 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 as well as impairments and provisions for commitments and guarantees given 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.

Geographical segmentation – operating segments

For the purpose of segment reporting geographical segments are defined as operating segments, for which the information is presented on the basis of the booking entity's location (not the country of risk). In case of information regarding a partial group, the allocation is based on the location of the respective parent entity according to the local management responsibility.

Geographical areas are defined according to the core markets in which Erste Group operates. Based on the locations of the banking and other financial institution participations, the geographical areas consist of two core markets, Austria and Central and Eastern Europe and a residual segment Other that comprises the remaining business activities of Erste Group outside its core markets as well as the reconciliation to the consolidated accounting result.



The geographical area Austria consists of the following three operating segments:

_ 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).
_ 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 Erste Bank Oesterreich, Tiroler Sparkasse, Salzburger Sparkasse, and Sparkasse Hainburg are not part of the Savings Banks segment.
_ The **Other Austria** segment comprises Erste Group Bank AG (Holding) with its Corporates and Group Markets business, Erste Group Immorent GmbH, Erste Asset Management GmbH and Intermarket Bank AG.

The geographical area Central and Eastern Europe (CEE) consists of six operating segments covering Erste Group's banking subsidiaries located in the respective CEE countries:

_ **Czech Republic** (comprising Česká spořitelna Group)
_ **Slovakia** (comprising Slovenská sporiteľňa Group)
_ **Romania** (comprising Banca Comercială Română Group)
_ **Hungary** (comprising Erste Bank Hungary Group)
_ **Croatia** (comprising Erste Bank Croatia Group)
_ **Serbia** (comprising Erste Bank Serbia Group).

The residual segment **Other** covers mainly centrally managed activities and items that are not directly allocated to other segments. It comprises the corporate center of Erste Group Bank AG (and thus dividends and the refinancing costs from participations, general administrative expenses), internal service providers (facility management, IT, procurement), the banking tax of Erste Group Bank AG as well as free capital of Erste Group (defined as the difference of the total average IFRS equity and the average economical equity allocated to the segments). Asset/Liability Management of Erste Group Bank AG as well as the reconciliation to the consolidated accounting result (e.g. intragroup eliminations, dividend eliminations) are also part of the segment Other.

Austria

Economic review

Austria is a well-diversified, developed and open economy, benefitting from a highly educated workforce. Following the phasing out of Covid-related containment measures the country's economy experienced a strong economic rebound in 2021. Due to the rapid recovery and progress towards normalisation in many sectors, the Austrian government started to adjust the Covid-19 support programmes from mid-2021. In November however, due to the sharp increase of Covid-19 infections, the government imposed a three week nationwide lockdown. This lockdown had a less severe impact on the overall economic performance than the previous lockdowns.

The easing of travel restrictions in the early summer of 2021 led to a partial recovery in the economically important tourism sector. After a very strong start in the year, the Austrian export industry faced headwinds from supply chain disruptions and did not contribute to growth in 2021. The economic rebound was supported by strong private consumption and considerable increases in investments. Short-time work schemes helped to mitigate the effect of the economic downturn on the labour market. The unemployment rate slightly increased to 6.2% in 2021. Overall, real GDP increased by 4.8%, GDP per capita amounted to EUR 45,600.

Austria experienced a volatile political environment resulting in changes in the government in the final quarter of the year. In addition, Austria's public finance remained overstretched with a general government deficit of 6.2% of GDP. The Covid-19 crisis management fund set up in March 2020 continued to finance temporary support measures such as fixed cost subsidies as well as various measures to compensate for losses or shortfalls in sales during the various lockdown periods. In addition, short-time work schemes, tax deferrals and public guarantees for loans were still in place to preserve employment and help companies avoid liquidity constraints. Public debt as a percentage of GDP increased to 83.4%.

Surging energy prices, most notably for oil, natural gas and electricity led to higher inflation. Overall, average inflation amounted to 2.8% in 2021. Core inflation, excluding food and energy prices, increased significantly to 2.3%. As Austria is part of the euro zone, its monetary policy is set by the European Central Bank (ECB). The ECB has maintained an accommodating monetary policy stance to preserve favourable financing conditions for the real economy. The ECB confirmed it would continue asset purchases under the Pandemic Emergency Purchase Programme (PEPP) until at least the end of March 2022. Net purchases under the Asset Purchase Programme (APP) continued at a monthly pace of EUR 20 billion. Refinancing operations, notably the third series of the targeted longer-term refinancing operations (TLTRO III), continued to provide liquidity to euro area banks to support the flow of credit to households and firms. The ECB kept its discount rate at zero throughout the year.

The three main rating agencies affirmed their credit ratings for Austria in 2021. Moody's credit rating for Austria was unchanged at Aa1 with a stable outlook. Fitch and Standard & Poor's affirmed their credit rating for Austria at AA+ with a stable outlook.

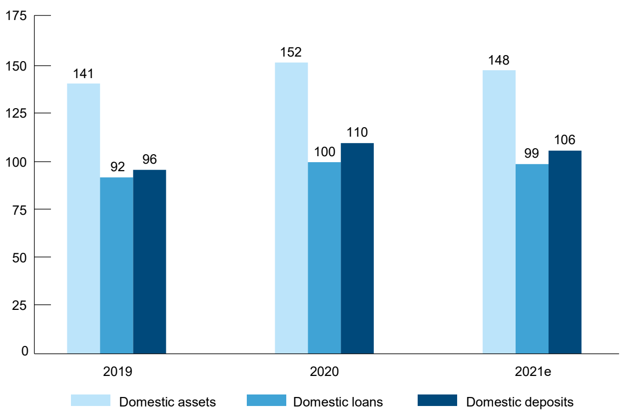
Key economic indicators – Austria	2018	2019	2020	2021e
Population (ave, million)	8.8	8.9	8.9	9.0
GDP (nominal, EUR billion)	385.4	397.5	379.3	408.7
GDP/capita (in EUR thousand)	43.6	44.8	42.5	45.6
Real GDP growth	2.6	1.5	-6.7	4.8
Private consumption growth	1.1	0.7	-8.5	3.3
Exports (share of GDP)	42.1	42.7	40.5	43.1
Imports (share of GDP)	44.1	44.5	42.9	45.9
Unemployment (Eurostat definition)	4.9	4.8	6.1	6.2
Consumer price inflation (ave)	2.1	1.5	1.4	2.8
Short term interest rate (3 months average)	-0.3	-0.4	-0.4	-0.6
EUR FX rate (ave)	1.0	1.0	1.0	1.0
EUR FX rate (eop)	1.0	1.0	1.0	1.0
Current account balance (share of GDP)	1.3	2.1	1.9	-0.8
General government balance (share of GDP)	0.2	0.6	-8.3	-6.2

Source: Erste Group

Market review

Austria's highly competitive banking sector has demonstrated resilience to the Covid-19 induced crisis and continued to significantly support the country's economy. Housing loans grew sharply fuelled by very low interest rates, further rising real estate prices and strong competition among lenders. Overall, customer loan growth amounted to 6.9%, mainly driven by the surging demand for housing loans. Due to low interest rates, the share of variable rate loans continued to decline. In the past two years, Austrian banks have increasingly grown their balance sheets by taking advantage of the TLTROs. At 3.9%, customer deposits increased less than loans. The banking system's loan to deposit ratio stood at 93.3% at the end of the year.

Financial intermediation – Austria (in % of GDP)

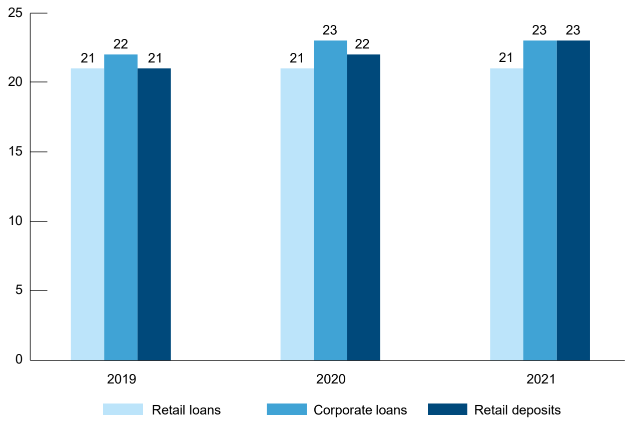


Source: Oesterreichische Nationalbank, Erste Group

Austrian banks' capital ratios remained fundamentally solid, partly reflecting relaxed regulatory requirements and restrictions on dividend payments in response to the Corona induced crisis. Funding and liquidity profiles remained strong. The Systemic Risk (SRB) and the Other Systemically Important Institutions (OSII) buffers were recalibrated to 1% as of December 2020. Starting with 2021, these buffers were cumulative. The Financial Market Stability Board recommended to keep the countercyclical capital buffer at a rate of 0%. Stress test results, published by the Austrian National Bank annually, confirmed again that the domestic banking sector's risk-bearing capacity was adequate.

The Austrian banking sector's profitability rebounded on the back of an economic recovery supported by comprehensive public support measures and ongoing credit growth. The prolongation of the low interest rate environment continued to burden operating revenues and put further pressure on banks' net interest margins. Widely used remote work and subdued business travel continued to have positive effects on administrative costs, while IT investments weighed on overall cost developments. In 2021, banks were mostly able to offset these headwinds on their net interest income through loan growth, as demand for mortgages held up well. The sharp drop in risk costs was attributable to still very low credit default volumes following the substantial risk provisioning of the prior year. The share of nonperforming loans stood at 1.8%. Participation in Covid-19-moratoria remained low. Austrian banks continued to pay a banking tax. Digital financial services and products were improved and digital penetration increased further. Overall, the Austrian banking system profitability increased significantly.

Market shares – Austria (in %)



Source: Oesterreichische Nationalbank, Erste Group

Erste Bank Oesterreich and the savings banks succeeded in further increasing their combined market shares to between 21% and 25%, both in retail and corporate business, benefitting from their balanced business model. George, the digital banking platform of Erste Group, proved its significance during the lockdowns. In 2021, George's product range was again widened. With more than 2 million users and 43 million monthly logins in the country, more than a third of the Austrian online banking customers used George.

ERSTE BANK OESTERREICH & SUBSIDIARIES

Business review 2021 – questions to Gerda Holzinger-Burgstaller, CEO of Erste Bank Oesterreich

How did the competitive environment change?
While the economy recovered in the second year of the Corona pandemic, the market environment remained challenging. High bank density in Austria combined with the low-interest-rate environment that has been persisting for a number of years, resulted in continued fierce price competition, most importantly in real estate financing. While on the one hand a growing number of specialised challengers is entering the market, seeking to target their offerings to specific customer segments, several international competitors also withdrew from the Austrian market last year.

Loan volume increased both in the retail and the corporate sectors. Marked growth was seen in particular in housing loans, which went hand in hand with a sharp rise in real estate prices. Government support measures taken to cope with the effects of the pandemic in Austria, including loan moratoria, had a beneficial impact on the overall economy and the liquidity of private individuals and companies. Due to the pandemic, deposit volume and the savings ratio were up significantly and the strong trend towards cashless payments continued. On the investment side, the interest-rate environment boosted interest in more risky assets. Amid the solid performance of the markets this led to a substantial rise in demand and increased volume.

Which ESG related topics were most relevant for you?
Sustainability is a key topic to us. As a bank, we can and want to play a significant part in the transition towards a sustainable economy. In recognition of this, we at Erste Group have taken on a pioneering role: we offer our customers sustainable investment products and assist them by providing comprehensive advice and sustainable approaches to financing. At the same time we are setting ourselves ambitious goals for our own ecological footprint, a sustainable loan portfolio and progressing decarbonisation.

In line with our founding principles we are also committed to bringing financial education to children and young people as well as to our customers. We want to contribute to their financial health, but also help those who are already experiencing financial difficulties to get back on their feet – most notably through Zweite Wiener Vereins-Sparcasse.

In the context of one of our core tasks, financing and providing housing, we approach the theme of affordable housing also indirectly, through our dedication in the sector of non-profit developers.

How did you manage to successfully differentiate your business activities from those of your competition?
Even in the second year of the pandemic we considered it a key mission to always be available to our customers, true to our motto of "we care". It was last but not least due to our tried-and-tested omni-channel capabilities that we were able to offer customers the contact points, services and advice they required. Based on automated processes combined with high-quality personal advice we provided well-targeted support. We are increasingly successful in offering our customers the tools they need to always have an eye on their financial health and to develop and implement strategies for its improvement.

A well-known and strong brand coupled with leadership on innovation will also help us to further expand our customer base in the future.

Looking back at the year, what major achievements or challenges were especially noteworthy?
Last year, the focus was again on digitalisation and transformation. We are continually working on developing and expanding the omni-channel customer experience mentioned through ongoing innovation, thereby supporting the sustained positive development of the number of customer and customer satisfaction. At the same time, we have been able to offer our customers more options for asset growth in the form of investment plans including equities and certificates. Working with a wider range of sustainable investment products we placed a focus on sustainable advisory services. In 2021, for example, four products specifically designed for sustainability were among the top five investment funds most sold to retail customers. In addition, we were able to boost efficiency and exploit synergies by taking extensive organisational measures.

Last but not least, I am of course also pleased about the awards received by Erste Bank Oesterreich. In 2021, we were named Best Private Bank and Best Bank of the Country by the renowned financial magazine The Banker, and the banking app George received the ÖGVS App Award of the Austrian consumer research association ÖGVS in recognition of its high user-friendliness.

Business review – additional question on cooperation with the savings banks

How did cooperation with the savings banks develop, and what were the major achievements in this area?
In 2021, as in the previous year, the Savings Banks were again a key partner for all retail and corporate customers in dealing with the financial problems induced by the Covid-19 crisis.

To strengthen cooperation even further, a number of projects were pursued internally. The Savings Banks Group agreed, for example, on uniform retail segmentation criteria. These facilitate addressing specific target groups on the various sales channels, optimisation of back office processes and contribute to improving the quality of the customer relationship. In addition, the Value Chain Lending initiative was launched, which combines all efforts of Erste Bank Oesterreich and the Savings Banks Group designed to keep developing both analogue loans, those offered in the branches, as well as digital lending options.

Future participation in Sparkasse Oberösterreich was newly agreed: Erste Bank Oesterreich will gradually reduce its interest in Sparkasse Oberösterreich from 39.19% to 10% by June 2026. This stake will be taken over by Anteilsverwaltung Allgemeine Sparkasse, which will raise its share to 85.7%. At the same time, steps will be taken to include Sparkasse Oberösterreich in the cross-guarantee system. As a result, the entire Austrian Savings Banks Group will be covered by the cross-guarantee system in the future. Sparkasse Oberösterreich had already been a member of the Savings Banks Group's deposit insurance and investor compensation system.

Financial review

in EUR million	2020	2021	Change
Net interest income	638.2	646.4	1.3%
Net fee and commission income	406.6	460.1	13.2%
Net trading result and gains/losses from financial instruments at FVPL	13.8	17.0	23.4%
Operating income	1,126.1	1,193.3	6.0%
Operating expenses	-711.4	-702.7	-1.2%
Operating result	414.7	490.6	18.3%
Cost/income ratio	63.2%	58.9%	
Impairment result from financial instruments	-135.8	-31.5	-76.8%
Other result	-9.5	-34.8	>100.0%
Net result attributable to owners of the parent	222.0	306.6	38.1%
Return on allocated capital	15.6%	16.4%	

Net interest income increased due to the one-off booking related to TLTRO III refinancing with ECB (EUR 20.1 million) and higher loan volumes, which were partially offset by lower margins for customer loans and higher interest expense for the placement of excess liquidity. Net fee and commission income rose on the back of higher income from securities and payment fees. The improvement in net trading result and gains/losses from financial instruments at FVPL was driven by valuation effects. Operating expenses went down due to the decrease of deposit insurance contribution to EUR 33.8 million (EUR 49.9 million) and lower IT expenses, which offset higher personnel, marketing, legal and consulting expenses. Consequently, operating result increased and the cost/income ratio improved. Impairment result from financial instruments improved as last year updated risk parameters with forward looking information and stage overlays related to the Covid-19 crisis led to significantly higher risk provisioning. Other result worsened mainly due to lower selling gains from real estate. Payments into the resolution fund increased to EUR 12.3 million (EUR 10.5 million). Banking tax amounted to EUR 4.3 million (EUR 3.7 million). Overall, the net result attributable to owners of the parent improved significantly.

Credit risk

Credit risk exposure in the Erste Bank Oesterreich & Subsidiaries segment rose to EUR 49.2 billion (+5.9%), customer loans increased to EUR 37.4 billion (+5.0%). This segment accounted for 20.3% (21.0%) of Erste Group’s total loan portfolio. The share of retail customers in total loan volume declined to 39.1% (39.5%), while the share of corporates, including self-employed individuals and small businesses, rose to 55.6% (55.1%). Loans to professionals, other self-employed individuals and small businesses are less significant than they are for other Austrian savings banks. Lending to the public sector amounted to EUR 2.0 billion (+1.9%). Its proportion of the total loan portfolio is on a declining trend. The share of Swiss franc-denominated loans in the total loan portfolio declined further to EUR 1.0 billion (-11.1%). Non-performing loans were slightly down and, as percentage of total loans to customers, remained low at 1.5% (1.6%). The development was slightly positive across all customer segments. The NPL coverage ratio based on loan loss provisions decreased marginally to 62.0% (63.4%).

SAVINGS BANKS

Financial review

in EUR million	2020	2021	Change
Net interest income	1,069.4	1,080.3	1.0%
Net fee and commission income	519.6	584.5	12.5%
Net trading result and gains/losses from financial instruments at FVPL	16.6	42.6	>100.0%
Operating income	1,648.6	1,754.3	6.4%
Operating expenses	-1,106.1	-1,108.8	0.2%
Operating result	542.5	645.5	19.0%
Cost/income ratio	67.1%	63.2%	
Impairment result from financial instruments	-267.2	23.8	n/a
Other result	-4.1	-15.9	>100.0%
Net result attributable to owners of the parent	41.6	83.2	99.7%
Return on allocated capital	7.1%	12.5%	

Net interest income increased due to a one-off booking related to TLTRO III refinancing with ECB (EUR 13.6 million) and higher loan volumes, largely offset by lower margins for customer loans and higher interest expense on the placement of excess liquidity. Net fee and commission income increased on the back of higher securities and payment fees. The notable improvement of net trading result and gains/losses from financial instruments at FVPL was primarily driven by valuation effects. Operating expenses remained almost unchanged as lower IT expenses and depreciation largely offset higher payment into deposit insurance fund of EUR 51.6 million (EUR 45.0 million), higher personnel expenses and higher expenses for advertising and marketing. Overall, operating result as well as the cost/income ratio improved. Impairment result from financial instruments also improved and resulted in a net release as last year updated risk parameters with forward looking information and stage overlays related to the Covid-19 crisis led to significantly higher risk provisioning. Other result worsened due to provisions for legal expenses related to a potential client reimbursement for interest payments during loan moratoria (EUR -11.5 million). The resolution fund contribution increased to EUR 11.2 million (EUR 9.5 million), banking tax to EUR 5.1 million (EUR 4.6 million). Overall, the net result attributable to the owners of the parent increased considerably.

Credit risk

Credit risk exposure in the Savings Banks segment increased to EUR 75.1 billion (+5.4%), while loans to customers rose to EUR 53.8 billion (+6.8%). Their share in Erste Group's total loans to customers stood at 29.2% (29.6%). Lending to private households registered slightly above-average growth, raising its share in the Savings Banks' total customer loan portfolio to 39.8% (39.5%). Loans to professionals, other self-employed persons and small businesses amounted to EUR 6.5 billion (-1.7%). Despite a noticeable decline to 12.1% (13.2%) of total loans, the share of this customer segment was again extraordinarily large and, most notably, significantly larger than at Erste Group's subsidiaries in Central and Eastern Europe. This reflects the Savings Banks' predominantly local and regional operations as well as the general structure of the Austrian economy, which has a higher percentage of small and medium-sized businesses than many other countries. Swiss franc-denominated foreign-currency loans declined again significantly to EUR 1.3 billion (-16.5%). Due to extensive government support provided amid the Covid-19 pandemic, non-performing loans as a percentage of total loans to customers declined to 2.4% (2.8%). The NPL coverage ratio based on loan loss provisions was unchanged at 70.2%.

OTHER AUSTRIA

Business review 2021 – questions to Ingo Bleier, Chief Corporates and Markets Officer

How did the competitive environment change?

In 2021, we saw a normalisation after the uncertainties in 2020 due to the outbreak of the Covid-19 pandemic. Corporate clients were less impacted as the liquidity in the market was very strong. This led to an ongoing margin pressure and aggressive deal structures as well as early prepayments of some of our real estate financings. On top of that the supply chains got significantly disrupted and more and more fintechs are entering the market.

Digitalisation is accelerating and our clients are increasingly open to remote services and the usage of digital channels. Thanks to strong ratings and a consistent strategy, Erste Group is perceived as a safe harbour, resulting in a significant inflow of corporate deposits, where we benefited from increased interest rates in our non-EUR core markets.

In the capital markets area, the issuance of ESG-related bonds has increased, and the EU stepped up with first transactions out of its EU SURE and NEXT GEN EU programme.

In addition, we were able to increase the issuance volume for our clients in the commercial real estate sector in the CEE region, who saw a favourable spread development and increasing valuations. The local bond markets showed a solid development, especially in Hungary (supported by a Hungarian National Bank bond purchasing programme), Czech Republic and Croatia, which is important for us, having in mind our mission to develop the local capital markets in CEE. On the Equity Capital Markets side we saw a year of increased deal activity in the CEE, although the region is still lagging behind Western Europe. Poland remained by far the most active country.

Which ESG related topics were most relevant for you?
ESG has become an additional criterion in the process of credit decision making. Although the projected fight for green assets has only just begun, competition in this field will be intense. Therefore, we are constantly improving our governance on ESG asset screening based on the EU taxonomy and are preparing ourselves for the reporting of the Green Asset Ratio.

One of the main drivers in retail investments was the ESG topic. First, driven by the fund industry ESG products became more popular and so issuers of structured notes started to offer green products. Erste Group, in particular Group Markets, recognised this trend early on and broadened its product offering. But more than that we strategically focused on an ESG setup and implemented a group-wide product policy. This internal regulatory framework does not only focus on green investments but also covers social and governance topics.

In our strategic dialogue with clients the topic gained further relevance and our expertise is highly appreciated. We advised corporate clients on establishing their ESG frameworks and strategies. Owing to this cooperation we issued more than EUR 2.5 billion with ESG corporate transactions (bonds and Schuldscheindarlehen) in 2021. On the equity market, ESG reporting and ESG ratings have increased significantly in importance in both primary and secondary markets. Investors in Initial Public Offerings expect companies to talk about their ESG vision and most relevant Key Performance Indicators.

In 2021, nearly 50% of all structured products sold to retail customers were ESG products (by volume) and the share of ESG bonds (by ICMA (International Capital Markets Association) standards) in our bond investment book was already 20% for our financial institutions department in Vienna. As joint bookrunner we placed sustainable bonds with a combined volume of around EUR 4 billion (12 issues in total for FIG & SSA clients). Together with EBRD and other supranational financial institutions we support ESG trade transactions for our clients in our home markets.

How did you manage to successfully differentiate your business activities from those of your competition?
Erste Group is continuously progressing in the digitalisation of its products and offerings. In 2021, we successfully completed the initial phase of our digital onboarding project for corporate clients by launching the process in Austria and Romania. This is the first fully end-to-end digital corporate onboarding in both countries, where corporates can now complete a fully-fledged Know Your Customer process online, including opening an account (and active IBAN) and gaining access to Telebanking Pro or George.

Erste Bank Croatia introduced a new rating advisory project. We are the first bank to make their internal rating available to customers online and to explain the key principles of the rating, rating factors and other KPIs. The tool, a pilot of the Financial Health initiative, also shows peer benchmarking, through which our clients get additional insights.

Despite the Covid-19 pandemic we managed to complete the shift to headquarter IT systems in our New York branch (Hong Kong completed this project already in 2020). In addition, Erste Group closed its branch in London in the context of Brexit and transferred the entire loan portfolio to Vienna. This results in a significant reduction of operational costs in the Holding.

Looking back at the year, what major achievements or challenges were especially noteworthy?
Let me split the answer into two parts: the business and the IT achievements. I am very proud that we were able to support our clients in great numbers to successfully tap the Capital Markets, the highlights definitely being the first EUR 1 billion Schuldscheindarlehen led by Erste Group as well as CTP's EUR 1 billion initial public offering (IPO) – the largest IPO in the European real estate sector since 2014, where Erste Group acted as global coordinator.

In addition, we issued our inaugural sustainable benchmark bond and we were mandated for the first time to place a Eurobond for the republic of Serbia.

Owing to Erste Group's consistent presence and activity in the Corporate Banking market we have become a "go to" name for Large Corporates which is reflected in the strong growth of the business in the past year.

Due to our excellent market position in commercial real estate, we were able to sign EUR 3.4 billion of new loans in 2021 across the Group (on top of residential real estate), almost par to our record year 2019 (EUR 3.5 billion). Backed by this new loan volume, we grew our loan book significantly – despite some larger early prepayments in the first half of the year – and successfully closed financings for some very valuable assets in our region.

Thanks to fruitful cooperation between business and IT, we implemented a new custody web portal for the CEE markets delivering a modern and convenient interface to our custodian clients. The very complex regulatory driven integration of our New York Branch in the Group's reporting environment was completed. Furthermore, we introduced the digital onboarding process for Corporate clients in Romania and made tangible progress in the field of digital lending for small businesses in Croatia and Slovakia with valuable learning effects (especially on data models) for other countries.

Financial review

in EUR million	2020	2021	Change
Net interest income	451.0	417.2	-7.5%
Net fee and commission income	249.9	301.3	20.5%
Net trading result and gains/losses from financial instruments at FVPL	-23.9	48.6	n/a
Operating income	721.8	813.3	12.7%
Operating expenses	-367.2	-352.0	-4.1%
Operating result	354.5	461.3	30.1%
Cost/income ratio	50.9%	43.3%	
Impairment result from financial instruments	-202.3	3.4	n/a
Other result	-14.4	7.1	n/a
Net result attributable to owners of the parent	103.2	351.1	>100.0%
Return on allocated capital	5.2%	14.6%	

Net interest income went down primarily in Holding markets business on the back of unfavourable market interest rate developments, partially compensated by higher result from corporate lending in the Holding. Net fee and commission income increased due to a higher contribution of securities business driven among others by higher assets under management with institutional clients in Austria as well as the good development of corporate lending in the Holding. Net trading result and gains/losses from financial instruments at FVPL improved significantly due to valuation results of interest rate derivatives, equity futures and bonds. Overall, operating income improved notably while operating expenses decreased, mostly on lower costs in foreign branches. Consequently, operating result and the cost/income ratio improved. The impairment result from financial instruments improved and resulted in a net release as last year updated risk parameters with forward looking information and stage overlays related to the Covid-19 crisis led to significant risk provisioning in the corporate portfolio. Other result improved due to higher real estate selling gains and lower provisions for commitments and guarantees, partially offset by breakage costs related to an early loan repayment. Other result included the resolution fund contribution of EUR 8.0 million (EUR 9.6 million). Overall, the net result attributable to owners of the parent improved significantly.

Credit risk

Credit risk exposure in the Other Austria segment, which is almost completely made up of Erste Group Bank AG and Erste Group Immorent GmbH, increased to EUR 40.1 billion (+10.3%). Its share in Erste Group's total credit risk exposure stood at 12.8% (12.7%). A large proportion of risk positions in this business segment was accounted for by securities and cash balances held with other banks. Consequently, the share of loans to customers in Erste Group's total loan portfolio was lower than its contribution to credit risk exposure. At year-end, it stood at 9.4% (9.0%). Robust growth in total loans to customers was driven primarily by the large corporates business while lending to the public sector declined further. The decline in the NPL ratio (non-performing loans as a percentage of the total loan portfolio) to 2.4% (2.8%) was primarily attributable to a significantly reduced inflow of non-performing loans against the backdrop of substantial growth in business volume. Loan loss provisions amounted to 78.2% (78.1%) of non-performing loans.

Central and Eastern Europe

CZECH REPUBLIC

Economic review

The Czech Republic is among the most open economies in the CEE region with well-developed services and industry sectors. The country's economy continued to recover in 2021. Economic growth was mainly driven by domestic demand which remained strong during the year. Private consumption, supported by increased real disposable income, and investments improved visibly. The country's traditionally high savings rate remained at a high level as well. Government spending also contributed to GDP growth. The negative impact of supply-chain disruptions, however, posed significant headwinds for the Czech economy. They had a more significant impact on economic growth than in most of the other CEE countries. Trade was impacted strongly due to the structure of Czechia's exports, in particular the importance of the automotive and engineering industries. Exports were especially affected in the fourth quarter when car production was significantly reduced due to the global chip shortage. Although the unemployment rate increased to 2.9% at the end of the year, it remained the lowest among the European Union countries. Overall, real GDP increased by 3.3% and GDP per capita amounted to EUR 22,300.

After parliamentary elections in the fourth quarter, a new centre right coalition government was formed consisting of five political parties. Traditional left-wing parties failed to reach the 5% threshold. Importantly, the country's budget deficit widened to 6.8% of GDP. The deficit was driven mainly by higher expenditures (in particular the extensive fiscal stimulus including the support measures related to the Covid 19 pandemic), a reduction in personal income taxes as well as further increases in pensions and public wages. The phase-out of Covid 19 support measures started in the second half of 2021. At 42.2%, public debt as a percentage of GDP remained one of the lowest in the European Union.

Inflation in the Czech Republic exceeded the 3% upper end of the central bank's tolerance range, mainly due to a rise in energy and food prices as well as due to solid domestic demand and supply-side factors. Regulated energy prices, on the other hand, had a mitigating impact on inflation. Overall, average consumer price inflation reached 3.8%. The Czech koruna was the only regional currency that appreciated against the euro in 2021, mainly due to monetary tightening of the Czech National Bank. The central bank started to hike interest rates in June and raised its key policy rate in five steps to 3.75% during the year.

Rating agencies did not change their ratings and outlook for the Czech Republic in 2021. Moody's confirmed its long-term credit rating at Aa3 with a stable outlook. Standard and Poor's and Fitch kept their ratings at AA- with a stable outlook.

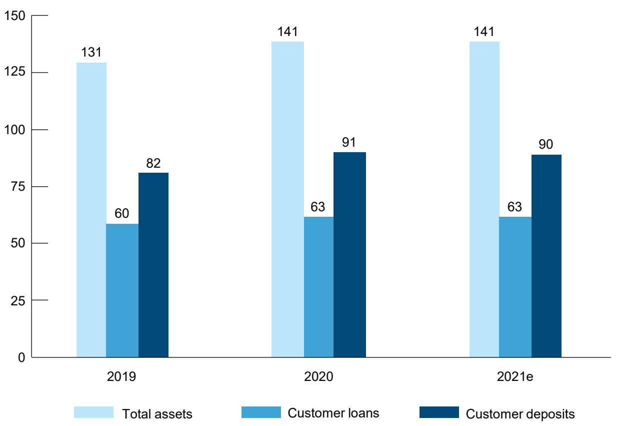
Key economic indicators – Czech Republic	2018	2019	2020	2021e
Population (ave, million)	10.6	10.7	10.7	10.7
GDP (nominal, EUR billion)	211.2	225.7	215.3	238.2
GDP/capita (in EUR thousand)	19.9	21.2	20.1	22.3
Real GDP growth	3.2	3.0	-5.8	3.3
Private consumption growth	3.3	2.6	-7.1	4.5
Exports (share of GDP)	66.8	63.6	61.2	64.1
Imports (share of GDP)	65.0	61.1	58.0	63.8
Unemployment (Eurostat definition)	2.3	2.0	2.6	2.9
Consumer price inflation (ave)	2.2	2.8	3.2	3.8
Short term interest rate (3 months average)	1.3	2.1	0.9	1.1
EUR FX rate (ave)	25.6	25.7	26.5	25.6
EUR FX rate (eop)	25.7	25.4	26.2	24.9
Current account balance (share of GDP)	0.4	0.3	3.6	0.3
General government balance (share of GDP)	0.9	0.3	-5.6	-6.8

Source: Erste Group

Market review

Based on sound fundamentals, the Czech banking sector proved to be resilient to the Covid 19 induced crisis. In 2021, customer loans rose by 7.0% mainly driven by retail loans, growing at 9.9%. Housing loans continued to dominate the retail sector with a growth rate of 11.2%. The volume of new mortgages reached a new record level in 2021. The Czech central bank tightened rules on the issuance of mortgage loans. It reintroduced the debt-to-income ratio and the debt-service-to-income ratio for mortgage applicants, with the limits set at 8.5 and 45%, respectively. In addition, the upper limit on the loan-to-value ratio was reduced to 80%. The new rules will come into force in April 2022. The central bank also increased the countercyclical capital buffer for banks in gradual steps to 2% until 1 January 2023.

Financial intermediation – Czech Republic (in % of GDP)



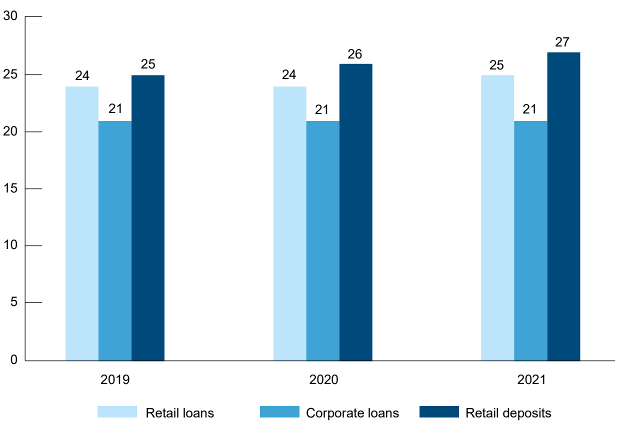
Source: Czech National Bank, Erste Group

Corporate loans grew by 6.0% reflecting a revival in investment activity. Customer deposit inflows remained very strong with a growth rate of 6.6%. Retail and corporate deposits grew similarly, by 6.8% and 7.5% respectively. The Czech banking market remained one of the most liquid in Central and Eastern Europe. At year-end, the banking sector loan-to-deposit ratio stood at 69.9%. The solid fundamentals were confirmed by the banking sector's total capital ratio of well above 20%.

The Czech banking market continued to perform well in terms of profitability. Revenues, especially net interest income, benefitted from loan growth as well as interest rate hikes in the second half of the year. Fee and commission income, driven mainly by asset management and insurance businesses, also supported revenues. Cost management remained strict with banks further reducing their number of branches throughout the year. Risk provisions decreased significantly and hence contributed to rising profits. The share of non-performing loans remained close to historically low levels; the coverage ratio increased significantly. Overall, the banking sector ended the year with a return on equity of 10.2%.

The consolidation of the banking sector continued in 2021. Moneta Money Bank decided to acquire Air Bank Group and the Czech and Slovak Home Credit. Other smaller transactions also took place such as Raiffeisenbank purchasing Equa bank and Česká spořitelna taking over the Czech branches and business of Waldviertler Sparkasse. The three largest banks have 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 its very strong market positions across all product categories. Retail lending market shares ranged from 24% to 27%, market shares in the corporate lending business remained above 20%. At 26%, the bank also retained the top position in consumer lending, including the credit card business. Česká spořitelna built on its market leadership position in asset management products, pushing its market share to 26%. Overall, its market share in terms of total assets stood at 19.1%.

Business review 2021 – questions to Tomáš Salomon, CEO of Česká spořitelna

How did the competitive environment change?
Looking back at 2021 should fill us with optimism for the future. Even though both we and our clients had to deal with various obstacles in the course of the year together we have managed to overcome most of them and are gradually returning to "normal".

Financial results of Česká spořitelna and also other banks in the market confirm the long-term stability of the banking sector in the region.

It is evident that the new "normal" will differ significantly from the previous one: the economic and social environments have changed by leaps and bounds and all of us need to adapt as rapidly as possible. How we do this will determine our future success. It is not only the form by which traditional banking services are provided and their digitalisation that are undergoing rapid transformation, but also their content.

After a long time, the Czech banking market experienced some M&As. Česká spořitelna took over the branches of Waldviertler Sparkasse located in the Czech Republic, and Raiffeisenbank took over Equa bank. Meanwhile, Moneta announced it will merge with Air Bank and Home Credit (of the PPF Group). The new bank will become the biggest consumer lender and the third biggest in terms of customers (2.5 million) behind Česká spořitelna and ČSOB.

Which ESG related topics were most relevant for you?
We sailed through the year 2021 on a "green wave". Česká spořitelna made the largest-ever issue of green bonds among financial institutions operating on the domestic market, offering international investors bonds in an amount of EUR 500 million. The proceeds will finance projects focused on sustainability and the environment. We also opened three new ESG mixed mutual funds.

Together with nine other banks, Česká spořitelna supported the establishment of the Commission for Sustainable Finance at the Czech Banking Association. The banks also signed a Memorandum for Sustainable Finance.

Česká spořitelna was also among those who initiated an annual Carbon Tracker report that should help companies to track their CO_2 footprint and to transform according to upcoming ESG legislation.

Česká spořitelna defined an ESG, Environmental, Social and Governance, risk policy as its basic framework for identifying and managing sustainability related goals and risks.

How did you manage to successfully differentiate your business activities from those of your competition?
In 2021, Česká spořitelna continued its own strategic transformation. We are again a step further along on our journey, from being a commodity-offering financial services provider to being a trusted partner for our clients. We were able to provide personalised advice to more clients in our branches and corporate centres. We have improved our online advisory services and further developed our digital platform George, which is already used by more than 1.8 million customers. In cooperation with partner firms, we also launched a unique application that allows users to turn their mobile phone into a payment terminal to accept credit cards. Czech retailers were the first in Central Europe to obtain this option. We offered our clients the use of Banking Identity, a solution for online communication with the state and companies. Česká spořitelna's Banking Identity has become the most used Banking Identity for communication with the state and has real potential to drive the much-needed digitalisation of the Czech Republic.

Looking back at the year, what major achievements or challenges were especially noteworthy?
While the focus was heavily on the environmental part of ESG, we did not forget about the social aspects either. In 2021, we continued to help the Czech Republic where it was needed. At the beginning of the year, for example, we set up a special phone line to help seniors register for their coronavirus vaccination. We supported communities with our long standing grant programme, helped tornado-devastated Moravia, and continued the cooperation with dozens of our partners in the non-profit sector.

A tremendous amount of employee work and dedication stands behind these activities and accomplishments. Thanks to their efforts, we earned a number of significant awards in 2021: we defended our victory in the Bank of the Year competition and won four Golden Crowns for our products. Česká spořitelna's customer care scored in the prestigious international competition European Customer Centricity Awards, in which we won the top prize among 210 projects of 86 companies from 26 countries.

Financial review

in EUR million	2020	2021	Change
Net interest income	1,049.0	1,150.5	9.7%
Net fee and commission income	311.6	358.2	14.9%
Net trading result and gains/losses from financial instruments at FVPL	94.7	63.5	-32.9%
Operating income	1,466.6	1,589.9	8.4%
Operating expenses	-722.4	-795.3	10.1%
Operating result	744.2	794.6	6.8%
Cost/income ratio	49.3%	50.0%	
Impairment result from financial instruments	-299.8	-69.4	-76.8%
Other result	-25.6	-75.9	>100.0%
Net result attributable to owners of the parent	334.7	504.1	50.6%
Return on allocated capital	12.9%	16.6%	

The segment analysis is done on a constant currency basis. The CZK appreciated by 3.0% against the EUR in the reporting period. Net interest income in the Czech Republic segment (comprising Česká spořitelna Group) increased on higher business volumes and the non-recurrence of loan repayment moratorium modification losses. The increase in net fee and commission income was mainly driven by higher securities and insurance brokerage fees. Negative valuation effects resulted in a lower net trading result and gains/losses from financial instruments at FVPL. Operating expenses increased due to higher personnel as well as IT and marketing costs. The deposit insurance contribution amounted to EUR 10.8 million (EUR 10.1 million). Overall, the operating result increased while the cost/income ratio deteriorated. Impairment result from financial instruments improved significantly as last year updated risk parameters with forward looking information and stage overlays related to the Covid-19 crisis led to high risk provisioning. Other result deteriorated mainly due to higher impairments of non-financial assets and provisions for legal expenses. Payments into the resolution fund amounted to EUR 31.9 million (EUR 29.1 million). Altogether, these developments led to a significant improvement in the net result attributable to the owners of the parent.

Credit risk

Credit risk exposure in the Czech Republic segment rose to EUR 71.2 billion (+14.8%) while loans to customers increased to EUR 34.5 billion (+16.4%). The strong growth rates were largely driven by the appreciation of the Czech koruna against the euro. Retail business volume registered above-average growth supported mainly by strong demand for mortgage loans, but the large corporates business also expanded significantly. Customer loan volume as a percentage of Erste Group's total loans to customers increased significantly to 18.7% (17.4%). 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 and was again better than the average of Erste Group's core markets in Central and Eastern Europe. Non-performing loans as a percentage of total loans to customers declined to 2.1% (2.2%). Loan loss provisions amounted to 111.3% (115.1%) of non-performing loans.

SLOVAKIA

Economic review

Slovakia is an open economy characterised by strong automotive, electronics and services sectors. Economic growth in 2021 was mainly driven by domestic demand, especially private consumption, supported by the easing of Covid-19 containment measures during summer. Economic growth also benefitted from investment activity. The industry-heavy export sector, however, was adversely affected by severe supply-chain disruptions. Global semiconductor shortages persisted throughout the year and constrained the country's automotive industry. Slovakia's labour market showed signs of resilience. The unemployment rate rose moderately to 7.0% supported by government measures to protect jobs. Overall, real GDP increased by 3.0%, and GDP per capita amounted to EUR 17,700.

The general government deficit increased to 6.0% of GDP in 2021, mainly driven by temporary Covid 19 pandemic-related support measures, including short-time work schemes. Tax revenues, especially value added tax and corporate income tax, were positively impacted by the economic rebound. On the other hand, social transfers, subsidies, investments and expenditure on goods and services grew relatively fast. The country's public debt as a percentage of GDP increased further to 62.9%.

Inflationary pressures intensified in the second half of the year and reached a multi-year high in November. Main drivers were oil and commodity prices, higher excise taxes on tobacco, levels of rents and supply-side constraints. Overall, average consumer price inflation amounted to 3.2%. As Slovakia is part of the euro zone, its monetary policy is set by the European Central Bank (ECB) which kept its discount rate at zero throughout the year. In the context of the Covid 19 pandemic, the ECB introduced the Pandemic Emergency Purchase Programme (PEPP) and also used long-term refinancing operations (TLTRO) as important components of its monetary policy.

Rating agencies acknowledged Slovakia's positive macroeconomic developments. Standard & Poor's upgraded its outlook from Negative to Stable and kept its long-term credit rating at A+. Moody's and Fitch confirmed their ratings at A2 and A, respectively, with a stable outlook from Moody's and a negative outlook from Fitch.

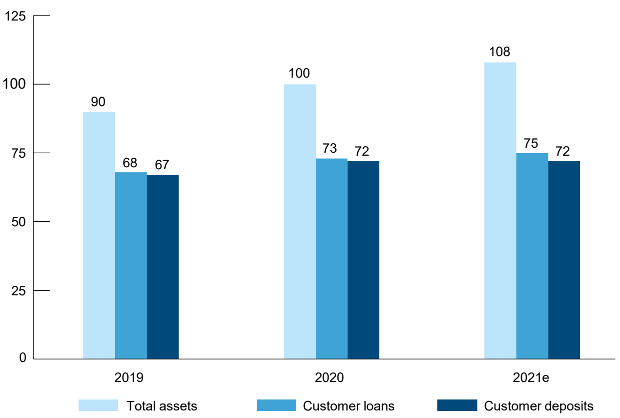
Key economic indicators – Slovakia	2018	2019	2020	2021e
Population (ave, million)	5.5	5.5	5.5	5.5
GDP (nominal, EUR billion)	89.4	94.0	92.1	97.0
GDP/capita (in EUR thousand)	16.4	17.2	16.9	17.7
Real GDP growth	3.8	2.6	-4.4	3.0
Private consumption growth	4.2	2.6	-1.3	1.0
Exports (share of GDP)	84.0	80.3	76.0	83.8
Imports (share of GDP)	84.3	81.5	74.9	84.0
Unemployment (Eurostat definition)	6.5	5.8	6.7	7.0
Consumer price inflation (ave)	2.5	2.7	1.9	3.2
Short term interest rate (3 months average)	-0.3	-0.4	-0.4	-0.6
Current account balance (share of GDP)	-2.2	-3.4	0.1	-1.1
General government balance (share of GDP)	-1.0	-1.3	-5.5	-6.0

Source: Erste Group

Market review

Market loan growth accelerated in 2021. Customer loans increased by 7.5%, driven by surging housing loans, which grew by 11.8%. The substantial increase in housing loans was attributable to the very low interest rate environment, a strong labour market and rising real estate prices. Consumer loans declined further by 6.1%. Up 6.2%, customer deposits rose slower than customer loans, resulting in a system loan-to-deposit ratio of 104.4%. The positive trend in asset management continued with an annual growth rate of 22.5%. The National Bank of Slovakia maintained its macroprudential measures during the pandemic and left the debt-service-to-income (DSTI), debt-to-income (DTI) and loan-to-value (LTV) regulations unchanged throughout the year. The countercyclical buffer remained at 1.00%.

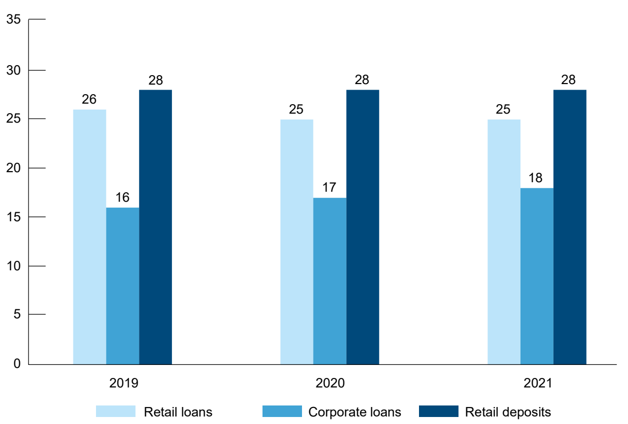
Financial intermediation – Slovakia (in % of GDP)



Source: National Bank of Slovakia, Erste Group

For the Slovak banking sector 2021 was one of its most profitable years. Very low market interest rates continued to weigh on net interest income which was partially offset by TLTRO measures. Fee and commission income was supported by asset management and insurance brokerage business. Expenses remained well under control.

Market shares – Slovakia (in %)



Source: National Bank of Slovakia, Erste Group

Financial institutions further reduced the number of branches and employees. Risk costs significantly declined following substantial risk provisioning of the previous year. Asset quality developed favourably. The NPL ratio decreased further to 2.2%, the NPL coverage ratio stood at 105.2%. The participation rate in Covid 19 moratoria was lower than expected. Banking tax, based on total liabilities, excluding equity and subordinated debt, was discontinued in the second half of 2020. The banking sector remained well capitalised. Overall, the sector's return on equity stood at 7.5%.

Although there was no major acquisition in Slovakia's banking market in 2021, consolidation of the industry is expected to continue in the future. Slovenská sporiteľňa remained the country's largest bank. It continues to control 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 continued to benefit from its very strong asset management business, holding a 19.5% market share. Slovenská sporiteľňa commands higher market shares in the retail than in the corporate sector. In the retail loan business, the bank's market share was 24.7%, while for corporate lending it was 18.1%. At 13.4%, its market share in corporate deposits was also significantly lower than in retail deposits at 28.3%.

Business review 2021 – questions to Peter Krutil, CEO of Slovenská sporiteľňa

How did the competitive environment change?
Overall, positive factors overweighed the negative ones in 2021. After the initial shock caused by the pandemic, the economic recovery was swift and robust. In addition, the cancellation of the bank levy in 2020 helped as well to reduce uncertainties. On the other hand, the main negative factor – extremely low interest rates – is still present, depleting the main income source of Slovak banks. In the meantime, however, inflation went up so we will see whether the central bank sticks to its plan to increase interest rates only sometime in 2023.

Which ESG related topics were most relevant for you?
Slovenská sporiteľňa, as a responsible and relevant partner for its customers, made three commitments to the public which are meant to move Slovakia towards a better future. We will plant 300,000 trees across the country to fight climate change. We will provide financial education to 200,000 young people through the unique initiative of Slovenská sporiteľňa's foundation FinQ to improve the financial situation of the new generation. And finally, we will support people in challenging social conditions as a thousand of them will be provided with new homes thanks to social housing provided by our bank.

It goes without saying that improving energy efficiency, reducing emissions and paper usage has been on the agenda for 10 years. Among activities in the environmental area, I would like to emphasise the inaugural green bond we issued in 2021 and the signing of the memorandum on sustainable business.

Diversity and inclusion was another key topic for us last year. The human resources department prepared workshops and lectures covering these topics and produced various educational videos.

How did you manage to successfully differentiate your business activities from those of your competition?
It is our basic approach: First of all, it is about the people. Thanks to hardworking and passionate employees, step by step, we turned into the digital leader in the Slovak banking market. The number of George users topped 1 million in 2021 and more than 800,000 already downloaded the mobile application; more than 660,000 of them actively use it. These are significant numbers given a total population of just 5.5 million. The swiftly growing number of users together with the improving digital offering naturally leads to higher digital sales. But for me, it is not just about numbers. I appreciate that our clients enjoy banking in George which is confirmed by the positive feedback from surveys as well as by the app stores ratings.

Financial health of the customers remained the key ambition for our bank. We have enhanced the Financial plan application used in branch tablets. Every customer is provided with individual advice and possibilities to optimise her or his financial wealth. Growth of asset management was another success story. We account for almost 40% of the market net sales and improved the market share on net asset value by superb 2.5 percentage points, becoming the number two on the market.

Looking back at the year, what major achievements or challenges were especially noteworthy?
I would not want to omit the record high net profit we reported in 2021, although we need to look at the result in the context of the risk costs in the past two years. What I am really proud of is that our operating result increased by strong 5%. Fee income was almost 20% higher compared to the previous year, operating expenses remained well under control thanks to the continuation of the internal optimisation programme, and the decline of net interest income was softened by the TLTRO participation.

Retail loans proved to be more challenging than expected. Housing loans, after a gradual growth deceleration in recent years, returned to exceptional growth of almost 12%. It was fuelled by still high demand, surging real estate prices, and persistently low interest rates. Slovenská sporiteľňa stood its ground and defended the market leading position amid an exceptional wave of refinancing, caused by aggressive pricing by some of the market challengers. At the same time, we are getting less dependent on external financial advisors, trying to increase the share of sales from our branch network and digital channels in the process.

Don't let me forget to mention that we kept improving our corporate loans market share also in 2021. The year-end figure of more than 18% is a record high, and it confirmed our ambition to be the bank of first choice also for corporate customers.

As an external appreciation that we are doing things right, our bank received the Via Bona award from the Pontis Foundation for fair, responsible and sustainable business in the category Well-Governed Company.

Financial review

in EUR million	2020	2021	Change
Net interest income	438.4	434.9	-0.8%
Net fee and commission income	147.1	174.3	18.4%
Net trading result and gains/losses from financial instruments at FVPL	11.8	9.0	-23.2%
Operating income	601.2	625.0	4.0%
Operating expenses	-287.1	-292.4	1.9%
Operating result	314.1	332.6	5.9%
Cost/income ratio	47.8%	46.8%	
Impairment result from financial instruments	-107.9	-1.1	-99.0%
Other result	-49.3	-18.2	-63.1%
Net result attributable to owners of the parent	115.8	237.9	>100.0%
Return on allocated capital	10.5%	18.6%	

Net interest income in the Slovakia segment (comprising Slovenská sporiteľňa Group) decreased moderately as the negative impact of lower consumer loan volumes and lower margins for housing loans in the retail business as well as the lower result from bond investments was only partially compensated by a one-off booking related to TLTRO III refinancing with ECB (EUR 12.9 million). Net fee and commission income increased on the back of higher income from payment, securities 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 a higher deposit insurance contribution of EUR 9.4 million (EUR 1.1 million) on the back of a methodology change and higher IT costs. This increase was partially compensated by lower depreciation and personnel expenses. Consequently, operating result increased and the cost/income ratio improved. Impairment result from financial instruments improved significantly as last year updated risk parameters with forward looking information and stage overlays related to Covid-19 crisis led to high risk provisioning. Other result improved due to the abolition of the banking tax as of the second half of last year (EUR 33.8 million in the first half year of 2020). Payment into the resolution fund increased slightly to EUR 4.7 million (EUR 4.0 million). Overall, the net result attributable to the owners of the parent increased significantly.

Credit risk

Credit risk exposure in the Slovakia segment amounted to EUR 22.5 billion (+7.3%) while loans to customers rose to EUR 16.2 billion (+6.2%). Their share of Erste Group's total loan portfolio declined to 8.8% (9.0%). Loan volume growth was driven mostly by retail customers and small and medium-sized businesses, while business with large corporates was slightly down. The share of loans to private households was again significantly larger in the Slovakia segment than in other core markets and accounted for 66.8% (67.2%) of total loans to customers. This customer mix with a substantial proportion of retail mortgage loans also explains the large share of secured business of 57.2% (58.7%) in the entire loan portfolio, which exceeds that of other Central and Eastern European core markets. The NPL ratio declined significantly to a historically low level of 1.8% (2.4%). The positive trend was particularly notable in the Corporates business segment. Loan loss provisions exceeded non-performing loans significantly. The NPL coverage ratio rose to 115.9% (107.4%).

ROMANIA

Economic review

Romania's economy is characterised by its dominant services and manufacturing sectors. Following a decline of real GDP by 3.7% due to Covid 19 related measures in the previous year, the economy recovered in 2021. Real GDP expanded by 5.6% driven by domestic demand which was supported by tight labour market conditions and wage increases. GDP per capita increased to EUR 12,400. The services sector remained the main contributor to GDP growth, followed by industry and agriculture. Construction was a minor drag to GDP growth along with net exports. Exports were affected by supply-chain disruptions, with the auto industry output declining in the second half of the year. The Covid 19 pandemic did not weigh too much on the labour market, the unemployment rate declined to 5.5% at the end of the year, marginally above pre-Covid 19 levels.

The Romanian political environment remained volatile in 2021. After the collapse of the centre-right government in September the National Liberal Party and the Social Democratic Party formed a new government. The budget deficit stood at 7.8% of GDP. State revenues improved on the stronger-than-expected GDP development, while expenditures, especially wage related expenditures, were contained. The government introduced measures to dampen the energy prices shock. Public debt to GDP increased to 50.0%. Consumer price inflation increased from 2.7% in 2020 to an average of 5.0% in 2021 mainly due to higher gas, electricity and fuel prices. Core inflation increased to 4.7% on the back of higher processed food prices and higher energy costs, above the central bank target range of 1.5-3.5%. The Romanian leu continued its gradual depreciation against the euro and traded between 4.85 and 4.95 throughout the year. In response to high inflation, the National Bank of Romania increased its key policy rate by 50 basis points in two steps to 1.75% in 2021 and widened its symmetrical standing facilities corridor from ±50 to ±100 basis points, thus hiking the credit facility rate, which is the most relevant instrument under the firm liquidity management policy, by 100 basis points to 2.75%. Romania's long-term credit rating was affirmed at BBB- by Standard & Poor's and Fitch and at Baa3 by Moody's in 2021. Standard & Poor's and Moody's upgraded the outlook to stable from negative, while Fitch kept its negative outlook.

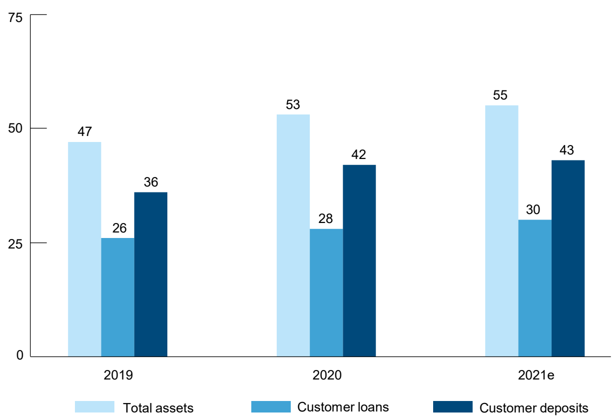
Key economic indicators – Romania	2018	2019	2020	2021e
Population (ave, million)	19.5	19.4	19.3	19.2
GDP (nominal, EUR billion)	204.5	223.2	218.2	238.0
GDP/capita (in EUR thousand)	10.5	11.5	11.3	12.4
Real GDP growth	4.5	4.2	-3.7	5.6
Private consumption growth	7.6	3.8	-5.1	6.0
Exports (share of GDP)	33.1	30.9	28.5	31.4
Imports (share of GDP)	40.5	38.7	36.9	41.3
Unemployment (Eurostat definition)	5.3	4.9	6.0	5.5
Consumer price inflation (ave)	4.6	3.8	2.7	5.0
Short term interest rate (3 months average)	2.8	3.1	2.4	1.8
EUR FX rate (ave)	4.7	4.7	4.8	4.9
EUR FX rate (eop)	4.7	4.8	4.9	4.9
Current account balance (share of GDP)	-4.6	-4.9	-5.0	-7.1
General government balance (share of GDP)	-2.9	-4.4	-9.4	-7.8

Source: Erste Group

Market review

In 2021, the Romanian banking market was characterised by the increasing adoption of green financing frameworks, the continuation of digitalisation efforts and a few smaller acquisitions. Customer loans increased by 18.7%, while customer deposits were up by 14.1%. On the lending side, growth was mainly attributable to corporate loans which expanded by 28.0%. Governmental loans grew rapidly towards the end of the year. Retail loans rose by 9.7%, with housing loans growing by 12.9% year-on-year. The 14.1% increase in customer deposits was driven by the corporate sector. Overall, the banking system's loan-to-deposit ratio increased slightly to 69.6%. The Romanian banking sector remained strongly capitalised with an aggregated capital adequacy ratio of 23.1%.

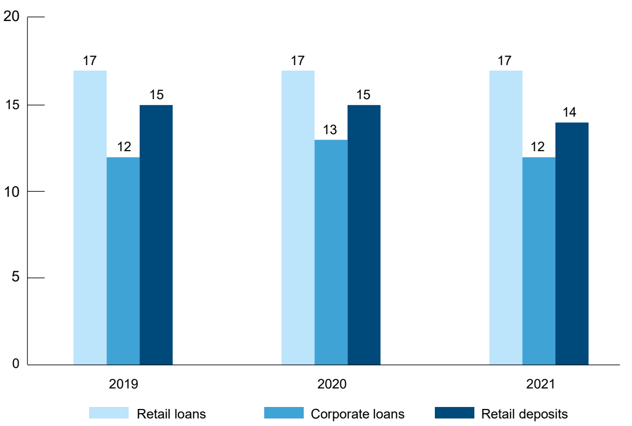
Financial intermediation – Romania (in % of GDP)



Source: National Bank of Romania, Erste Group

The Romanian banking sector increased its profitability in 2021. Net interest income was supported by interest rate hikes in the second half of the year while risk provisions declined significantly. Asset quality did not deteriorate and Covid 19 loan moratoria participation was low. Fee and commission income was significantly supported by asset management related fees. Cost control remained strict and the banking system's cost/income ratio improved to 54.8%. Overall, the Romanian banking sector achieved a return on equity of 13.5% in 2021.

Market shares – Romania (in %)



Source: National Bank of Romania, Erste Group

Banca Comercială Română was the second largest bank in the country based on both customer loan and deposit market shares. The bank kept its market leader position in asset management and in mortgage lending. The bank's customer loan market share was 14.4% at year-end 2021. Its retail loan market share stood at 17.0%, while in the corporate sector it amounted to 12.1%. At 13.9%, the bank remained the second largest bank in Romania in terms of total assets.

Business review 2021 – questions to Sergiu Manea, CEO of Banca Comercială Română

How did the competitive environment change?

Over the last year, Romanian banks accelerated their investments in digitalisation, enabling enhanced customer experience, while adapting their footprint to the change in customer behaviour.

At the same time, green financing gained momentum given the expected lending potential in this segment due to the support by the European policy agenda. We were one of the first banks to provide such products.

Going forward, investments in digital transformation are expected to remain a strategic focus for banks. Market consolidation should continue given the relatively high number of small banks lacking economies of scale to generate sustainable shareholder value and the need to further invest in technology to stay competitive.

Which ESG related topics were most relevant for you?
We are taking our social responsibility and impact on community and environment very seriously by financing projects with both ecological and social value. Last year, Banca Comercială Română set up its own Sustainability Committee and also succeeded to reduce its carbon footprint. Both our headquarters buildings are LEED Platinum certified and switched to 100% renewable energy.

In 2021, we created a mortgage product for acquiring privately owned homes with the best energy labels on the market. It quickly came to represent about 18% of the applications in the second half of the year and even reached a third of the mortgage loans disbursed in December. Our bank also launched a new product dedicated to energy efficiency projects for SMEs.

And last but not least, in 2021, Banca Comercială Română issued its inaugural green bond in an amount of RON 500 million. The funds will be channelled towards financing and refinancing of green mortgage loans, commercial real estate and renewable energy projects.

How did you manage to successfully differentiate your business activities from those of your competition?
Our flexibility and resilience helped us grow on many levels: digitalisation, improved customer experience and financial education. We created SmartWork@BCR, a programme which promotes a hybrid way of working aimed to improve employees' wellbeing and prepare them for future agile competences.

In 2021, we reached two million internet and mobile banking users , of which almost 1.4 million are active customers in George, our intelligent banking ecosystem. George has also become available for businesses, with unique features for microenterprises and SMEs. More than 100,000 companies have been either migrated or newly enrolled. Furthermore, George developed local partnerships beyond the banking realm, introducing new product offers related to health, mobility and technology. By the end of the year, 11 digital labs were actively working to develop new products and services for both private individuals and companies.

Banca Comercială Română continues to be recognised as a leader of financial education in Romania. Our Money School programme is the most comprehensive financial literacy programme for all ages in Romania, with over 500,000 people trained offline and online in the last five years. In addition, BCR Business School, our online platform, offering free access to online courses for entrepreneurs, exceeded 17,000 people enrolled, and our InnovX-BCR business accelerator dedicated to support tech start-ups so far cooperates with 110 companies.

Our bank has further developed the pillar of financial health and was the only bank placing practical advisory tips in a national marketing campaign, with a reach of 11.5 million people. At the same time, our customer satisfaction index for private individuals has improved.

We also further delivered on our omni-channel strategy and created a financial advisory programme based on existing client info, which is used by our colleagues in front office. We also extended the capacities of our Contact Center via online and phone approach.

Last but not least, Banca Comercială Română implemented an innovative near field communication payment solution for public transportation in 16 cities, enabling Romania to rank 2^{nd} in Europe by number of transactions made by card, phone or other devices.

Looking back at the year, what major achievements or challenges were especially noteworthy?
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Financial review

in EUR million	2020	2021	Change
Net interest income	435.7	432.6	-0.7%
Net fee and commission income	146.8	176.4	20.2%
Net trading result and gains/losses from financial instruments at FVPL	73.7	77.9	5.8%
Operating income	678.6	710.9	4.8%
Operating expenses	-344.9	-339.7	-1.5%
Operating result	333.7	371.2	11.3%
Cost/income ratio	50.8%	47.8%	
Impairment result from financial instruments	-107.7	-46.4	-56.9%
Other result	-60.2	-32.8	-45.5%
Net result attributable to owners of the parent	122.4	236.1	92.9%
Return on allocated capital	8.7%	13.7%	

The segment analysis is done on a constant currency basis. The RON depreciated by 1.7% against the EUR in the reporting period. Net interest income in the Romania segment (comprising Banca Comercială Română Group) remained largely stable, as the effect from higher loan volumes was offset by lower result from bond investments and the negative FX translation effect. Net fee and commission income improved mainly due to higher payment fees in retail and corporate business. Securities, insurance brokerage and lending fees went up as well. The increase of net trading result and gains/losses from financial instruments at FVPL was attributable to an improved contribution from FX business. Operating expenses decreased mainly due to lower personnel expenses driven by the deconsolidation of a subsidiary as well as a lower deposit insurance contribution of EUR 3.4 million (EUR 4.4 million). Overall, operating result increased and the cost/income ratio improved. The significant improvement of the impairment result from financial instruments was a consequence of last year's update of risk parameters with forward looking information and stage overlays related to the Covid-19 crisis. Other result improved mainly due to lower impairments and higher selling gains from property. Payment into the resolution fund increased to EUR 11.4 million (EUR 7.7 million). The net result attributable to the owners of the parent increased notably.

Credit risk

Credit risk exposure in the Romania segment increased to EUR 18.9 billion (+5.0%). A key contribution to growth came from loans to customers, which rose by EUR 888 million to EUR 10.2 billion. Their share in Erste Group's total customer loan portfolio stood unchanged at 5.5%. An expansion of lending volume was seen primarily in the Corporates business segment, specifically in large corporates and in the public sector. The share of foreign currency loans decreased further to 30.2% (34.2%) and was almost completely denominated in euro. Non-performing loans were lower at EUR 400 million (-4.5%), with declines registered across all customer segments. As a result of this development and the growth of the loan portfolio, non-performing loans as a percentage of total loans to customers decreased substantially to 3.9% (4.5%). Loan loss provisions increased to 138.2% (122.5%) of non-performing loans.

HUNGARY

Economic review

In 2021, Hungary's economy performed well despite temporary restrictions to contain the Covid 19 pandemic. The country's GDP recovered faster than expected and reached pre-pandemic levels already in the second quarter of the year. Economic performance was mainly driven by strong domestic demand and investments. Household consumption benefited from robust income gains, Covid 19-related government support measures and buoyant consumer confidence. Public investment grew markedly. Exports, on the other hand, performed weaker, mainly due to supply chain disruptions which had a negative impact on the country's strong automotive industry. The unemployment rate remained flat at 4.1%, low compared to many other European countries. Overall, real GDP increased by 7.1%, GDP per capita amounted to EUR 15,600.

The general government deficit stood at 7.3% of GDP. Covid 19-related government measures included a subsidised loan programme for SMEs, a temporary reduction of municipality taxes, support for buying and renovating homes as well as a VAT reduction on newly built houses. Revenue growth was stronger than expected. The public debt to GDP improved to 78.2% in 2021.

Rising commodity prices contributed to the high inflation in 2021. Core inflation rose above the upper end of the central bank's target range of 2% to 4%. Wage growth remained robust and sizeable salary increases took place in the public sector. Regulated prices for energy and a cap on fuel prices mitigated the price increase. Overall, average consumer prices rose by 5.1%. In June, the Hungarian National Bank was the first central bank in CEE to increase its key policy rate. Overall, it increased the key rate in seven steps from 0.6% to 2.4% in 2021. The Hungarian forint depreciated slightly against the euro.

Moody's acknowledged Hungary's economic developments and upgraded the country's long-term credit rating from Baa3 to Baa2 with a stable outlook. Standard & Poor's and Fitch left the country's long-term credit rating at BBB with a stable outlook.

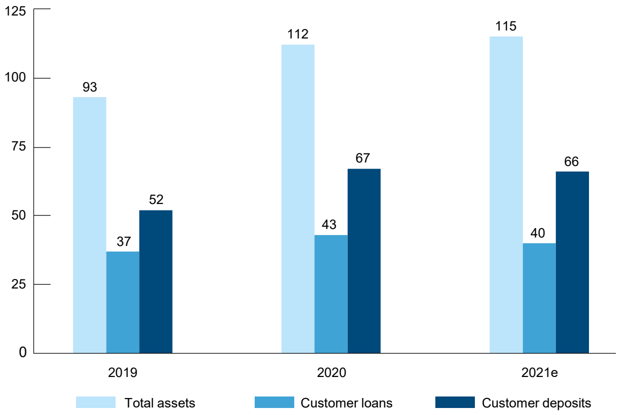
Key economic indicators – Hungary	2018	2019	2020	2021e
Population (ave, million)	9.8	9.8	9.8	9.7
GDP (nominal, EUR billion)	136.1	146.1	136.7	151.7
GDP/capita (in EUR thousand)	13.9	14.9	14.0	15.6
Real GDP growth	5.4	4.6	-4.7	7.1
Private consumption growth	4.2	4.5	-2.0	4.1
Exports (share of GDP)	65.1	63.3	65.3	67.8
Imports (share of GDP)	66.7	65.9	66.3	70.1
Unemployment (Eurostat definition)	3.6	3.3	4.1	4.1
Consumer price inflation (ave)	2.8	3.4	3.3	5.1
Short term interest rate (3 months average)	0.1	0.2	0.7	1.5
EUR FX rate (ave)	318.9	325.4	351.2	358.5
EUR FX rate (eop)	321.5	330.5	365.1	369.0
Current account balance (share of GDP)	0.2	-0.7	-1.6	-2.9
General government balance (share of GDP)	-2.1	-2.1	-8.0	-7.3

Source: Erste Group

Market review

Hungary's banking market performed well in 2021. Customer loans grew by 7.8% mainly driven by the continuous strong demand for housing loans. Retail loans increased by 15.0% and were also supported by consumer lending, largely attributable to the very popular baby-loan programme. The government has further extended its state guaranteed mortgage programme (CSOK), a preferential loan scheme for families with children. This programme was combined with a "green home programme" with additional features available for eligible new apartments and houses. In addition, a preferential loan for home renovation was implemented. On the corporate side, a crisis loan, a compensation loan, and a 0% interest restart programme were introduced during the year. Corporate loan growth amounted to 10.8%. Customer deposits, mainly driven by retail deposits, grew less than loans, at 12.2%. Overall, the banking system's loan-to-deposit ratio declined further to 61.5% at year-end.

Financial intermediation – Hungary (in % of GDP)

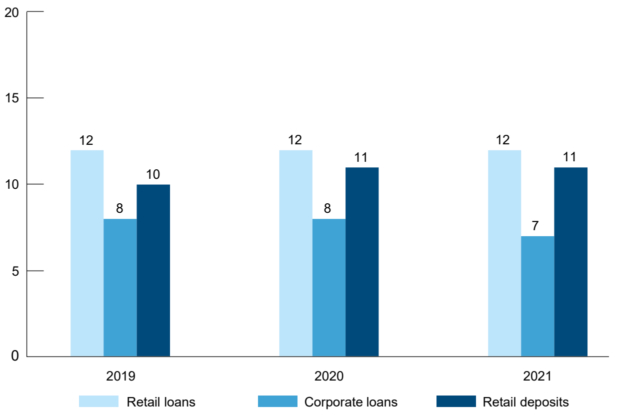


Source: National Bank of Hungary, Erste Group

Hungary's banking market increased its profitability in 2021. Revenues were supported by rising interest rates in the second half of the year while fee and commission income benefitted significantly from the growing asset management business. The government announced an interest rate cap regulation in December 2021 which limits the reference interest rate of qualifying mortgages for the period between 1 January and 30 June 2022 at levels of 27 October 2021. Administrative expenses remained under control although the increase of personnel expenses was already visible. Risk costs were low following the substantial risk provisioning of the previous year. Asset quality developed favourably. The government extended Covid 19 moratoria on loan repayments for vulnerable borrowers until 30 June 2022. In addition, corporate borrowers with a decline in revenue of at least 25% remained also eligible. Participation in the extended moratoria remained low, though. Banks continued to pay banking tax and transaction tax in 2021. Overall, the banking sector's return on equity stood at 11.6%. The Hungarian banking sector continued to be well capitalised, with a capital adequacy ratio of around 18.6%.

The consolidation of the Hungarian banking market continued. Erste Bank Hungary announced the acquisition of the Hungarian subsidiary of Commerzbank, thus strengthening its position in corporate banking. Magnet Bank acquired Sopron Bank, and further details on the merger of MKB Bank, Takarék Bank and Budapest Bank were announced. The newly formed bank will become the second largest bank in the country.

Market shares – Hungary (in %)



Source: National Bank of Hungary, Erste Group

Erste Bank Hungary remained one of the major market players in the country. It introduced George, Erste Group's digital banking platform in February 2021. Erste Bank Hungary's market share in customer loans increased slightly to 9.1%, with the retail business remaining more dominant than the corporate business. The customer deposit market share improved to 8.9%. At 6.7%, Erste Bank Hungary's was the fifth largest bank in the country in terms of total assets.

Business review 2021 – questions to Radován Jelasity, CEO of Erste Bank Hungary,

How did the competitive environment change?

Market consolidation sped up in 2021. Several M&A deals were signed last year which will shape the banking sector in the future. Erste Bank Hungary will take over 100% shares of Commerzbank Zrt., the Hungarian subsidiary of Commerzbank AG. Magnet Bank is going to buy Sopron Bank, the Hungarian subsidiary of Hypo-Bank Burgenland AG. Last, but not least the most transformative transaction on our market: As the first step of creating a new bank, MKB Bank and Budapest Bank will merge in March 2022 and Takarék Bank will join in 2023 according to the plans of the Hungarian Bankholding. Overall, we are well positioned to benefit from this consolidation process.

Which ESG related topics were most relevant for you?

Erste Bank Hungary works on decreasing its ecological footprint, supports the well-being of its employees and customers and aims to maximise its positive effect on society. We are aware that the Bank has the greatest impact on the environment through its customers, that is why we started to assess their indirect impacts, and target setting became one of our short-term goals. 2022 is going to be about implementation already.

Digitalisation is not only about providing the best possible service for our customers, but also about contributing to a more environmental-friendly operation of the Bank.

In order to make our ESG related activities and aspirations more transparent, we have published our first sustainability report in 2021.

How did you manage to successfully differentiate your business activities from those of your competition?

2021 was for our bank about George as it had one of the biggest effects on our operation. The newly rolled-out digital platform has replaced the previous netbanking and mobile banking interfaces. George is continuously improving, each month new features and services become available for the customers. The bank reached 500,000 active clients last year, 60% thereof are retail customers.

To further strengthen our position in the country's securities trading market and to acquire further digital competences, Erste Bank Hungary's Investment subsidiary (Erste Befektetési Zrt.) acquired the online broker Random Capital. The acquisition makes Erste the leading trading firm in Hungary in that area.

As mentioned earlier, Erste Bank acquired 100% of Commerzbank Zrt., the agreement was signed in December 2021. Through the acquisition, we strengthen our corporate banking division, in particular the large corporate segment.

Looking back at the year, what major achievements or challenges were especially noteworthy?

Erste Bank Hungary not only kept its high level of employee engagement score at 77% but also increased its Customer Satisfaction Index (CXI) further in all segments and retained its market leader position in micro and SME.

Our efforts were rewarded by numerous awards. We won silver prizes of Mastercard in the "Bank of the year", the "Best marketing communication campaign of the year" and "Mobile banking solution of the year" categories. In addition, Social Banking won the golden prize for "Social initiative of the year" by Mastercard. Erste Bank Hungary was also awarded with several HR awards, such as "Golden prize in change management category" by PPH Media and „Silver prize for online community building during Covid" by MPRSZ. The premium segment of Erste Bank won the silver prize of Blochamps Capital in the "Private banking of the year" category. Erste Bank Hungary also received 2 awards of the Budapest Stock Exchange: "The stock futures trading company with the highest turnover for the year" and "The stock trading company with the highest turnover for the year".

Financial review

in EUR million	2020	2021	Change
Net interest income	217.9	257.2	18.1%
Net fee and commission income	181.1	207.4	14.5%
Net trading result and gains/losses from financial instruments at FVPL	24.7	10.0	-59.5%
Operating income	431.4	482.7	11.9%
Operating expenses	-213.3	-230.7	8.1%
Operating result	218.1	252.0	15.6%
Cost/income ratio	49.4%	47.8%	
Impairment result from financial instruments	-78.0	-16.2	-79.3%
Other result	-65.5	-56.9	-13.0%
Net result attributable to owners of the parent	56.1	156.0	>100.0%
Return on allocated capital	5.8%	13.0%	

The segment analysis is done on a constant currency basis. The HUF depreciated by 2.1% against the EUR in the reporting period. Net interest income in the Hungary segment (comprising Erste Bank Hungary Group) increased due to higher customer loan and deposit volumes as well as a positive contribution from securities and money market placements, despite the negative impact from interest refund related to revolving loans in moratoria and modification losses related to the mortgage interest cap. Net fee and commission income rose on higher securities, payment and insurance brokerage fees. Net trading result and gains/losses from financial instruments at FVPL decreased due to valuation effects. Operating expenses went up on the back of higher personnel costs, IT costs and depreciation. Deposit insurance contributions went up to EUR 7.1 million (EUR 5.8 million). Overall, operating result and the cost/income ratio improved. The significant improvement of the impairment result from financial instruments was a consequence of last year's update of risk parameters with forward looking information and stage overlays related to the Covid-19 crisis. Other result improved mainly due to higher property selling gains. This line item also included the banking tax of EUR 15.0 million (EUR 14.5 million), transaction tax of EUR 47.9 million (EUR 44.0 million) and the contribution to the resolution fund of EUR 5.6 million (EUR 3.5 million). Consequently, the net result attributable to the owners of the parent increased significantly.

Credit risk

Credit risk exposure in the Hungary segment rose to EUR 12.2 billion (+16.1%). This very robust growth was mainly attributable to increased investments in the Group Markets business segment. Loans to customers grew at a lesser extent to EUR 5.2 billion (+5.3%). The share of the Hungary segment in Erste Group's total loans to customers declined marginally to 2.8% (2.9%). While loans to private households increased to 3.0 billion (+10.4%), loans to corporates stagnated at EUR 2.2 billion. The share of loans denominated in Hungarian forint rose to 76.0% (73.7%). The quality of the loan portfolio showed a negative trend as a moratorium granted because of the Covid-19 pandemic expired in the fourth quarter of 2021. This affected primarily the Retail business segment. Non-performing loans as a percentage of total loans to customers increased to 3.7% (3.0%). Loan loss provisions declined to 95.4% (111.4%) of non-performing loans.

CROATIA

Economic review

Croatia was among the best performing economies in Central Eastern Europe in 2021. Its economic recovery was broad-based. Strong household consumption and the rebound of Croatia's well-developed tourism sector were the main drivers of growth. Tourism, accounting for approximately one fifth of Croatia's GDP, returned to 80% of 2019 pre-covid 19 levels, which was much better than expected. Overnight stays increased by more than 50% compared to 2020. Private consumption experienced a strong rebound, as labour market conditions improved, and consumer sentiment remained strong. Investments accelerated, supported by the European Union's Multiannual Financial Frameworks. In 2021, exports played a less supportive role in the economic activity. The country's unemployment rate slightly increased to 7.8%. Overall, real GDP increased by 10.4% and GDP per capita amounted to EUR 14,100.

Due to the strong economic recovery and the gradual phasing out of Covid 19 support measures, the general government deficit declined to 4.5% of GDP. Tax revenues were subdued mainly as a result of personal income tax rate cuts and companies offsetting taxable profits by carrying forward losses incurred during the Covid 19 pandemic. VAT revenues, on the other hand, performed well amidst rising household and tourist consumption. Expenses remained under upward pressure mainly due to higher wages in the public sector, pension payments and rising healthcare expenditures. Phasing out of Covid 19 subsidies, however, impacted expenses positively in 2021. Public debt as a percentage of GDP decreased to 81.2%.

Inflation was driven by rising energy and food prices. Average consumer prices increased to 2.6%. Core inflation, excluding food and energy, remained close to 1.6%. The Croatian kuna remained broadly stable against the euro at around 7.45 to 7.55 throughout the year. Given the country's very high use of the euro and the intended euro adoption as of 1 January 2023, the Croatian National Bank's objective to preserve nominal exchange rate stability remained unchanged, and it kept its accommodative monetary stance throughout the year.

In November 2021, Fitch upgraded Croatia's long-term credit rating to BBB and changed its outlook from stable to positive, the country's best rating in history. Fitch confirmed its opinion that Croatia is in the position to join the euro in January 2023 due to its significant progress in meeting convergence and structural reform criteria. Moody's and Standard & Poor's kept Croatia's long-term credit rating at Ba1 and BBB-, respectively, both with a stable outlook.

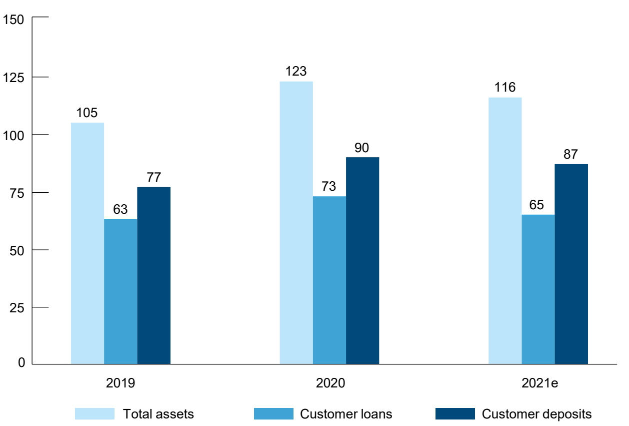
Key economic indicators – Croatia	2018	2019	2020	2021e
Population (ave, million)	4.1	4.1	4.1	4.1
GDP (nominal, EUR billion)	52.7	55.5	50.2	57.5
GDP/capita (in EUR thousand)	12.8	13.6	12.3	14.1
Real GDP growth	2.9	3.5	-8.1	10.4
Private consumption growth	3.3	4.0	-5.3	10.4
Exports (share of GDP)	23.2	23.2	24.3	26.4
Imports (share of GDP)	41.5	42.0	41.6	45.1
Unemployment (Eurostat definition)	8.4	6.6	7.5	7.8
Consumer price inflation (ave)	1.5	0.8	0.1	2.6
Short term interest rate (3 months average)	0.5	0.5	0.5	0.5
EUR FX rate (ave)	7.4	7.4	7.5	7.5
EUR FX rate (eop)	7.4	7.5	7.5	7.5
Current account balance (share of GDP)	1.9	3.0	-0.1	2.9
General government balance (share of GDP)	0.2	0.3	-7.4	-4.5

Source: Erste Group

Market review

Due to the anticipated adoption of the euro Croatia's financial institutions started to make major adjustments in their IT systems and ATM networks and prepared for the imminent conversion of local currency. The Croatian Central Bank urged citizens to convert their cash reserves denominated in kuna into euro. The European Commission will complete its assessment in July 2022. Starting with September 2022, dual-price listings will be used and remain mandatory throughout 2023 to limit effects on the inflation rate.

Financial intermediation – Croatia (in % of GDP)

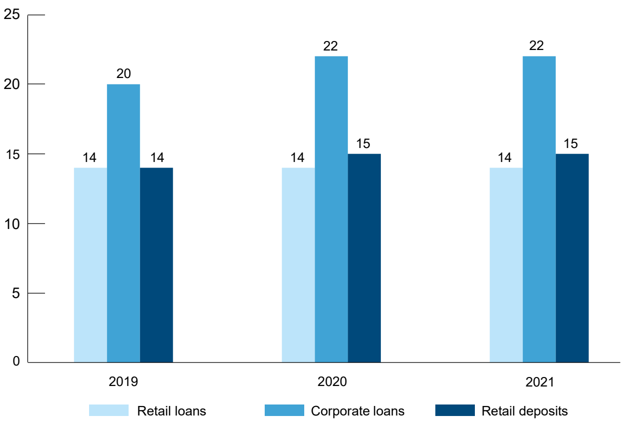


Source: National Bank of Croatia, Erste Group

Despite the country's outstanding economic growth, the Croatian banking market grew less dynamically than most of the CEE countries. Customer loans grew only by 1.5%, driven almost entirely by housing loans which benefitted from the government's subsidised loans scheme and strong demand. Corporate loan volume declined slightly reflecting limited demand during the Covid 19 pandemic. Customer deposits increased by 10.1%, continuously driven mainly by corporate deposits. Retail deposits grew only moderately. The banking system's loan-to-deposit ratio declined further to 74.5% at the end of the year.

Profitability of the Croatian banking system increased significantly in 2021 mainly due to substantially lower risk provisions. Revenues increased only moderately, reflecting relatively low customer loan growth. Operating expenses remained well under control and the banking system's cost/income ratio stood at 48.8% in 2021. Non-performing loans as a percentage of total customer loans decreased to 4.3%, the coverage ratio stood at 63.2%. The capital adequacy ratio of the banking system remained robust at 25.6%. Overall, the country's banking sector achieved an 8.4% return on equity.

Market shares – Croatia (in %)



Source: National Bank of Croatia, Erste Group

Erste Bank Croatia remained among the three largest banks of the country. In terms of total assets, the bank had a market share of

16.6% at the end of the year. It continued to benefit from its very strong brand and the digital platform George which was introduced in the last quarter of 2020. At the end of 2021, Erste Bank Croatia had 370,000 digital customers. In addition to George, the digital platform KEKS Pay reached more than 230,000 users, of which 75% were not customers of Erste Bank Croatia. The bank's customer loans and customer deposits market shares stood at 17.3% and 16.2%, respectively. The bank's loan-to-deposit ratio amounted to 78.8%.

Business review 2021 – questions to Christoph Schöfböck, CEO of Erste Bank Croatia,

How did the competitive environment change?
In 2021, the recovery of the Croatian economy was tremendous driven by a great tourism season and exports, but also strong domestic demand. The Croatian banking system remained stable and well-capitalised. The banking market was highly competitive, characterised by high liquidity, further interest rate decline and continued margin pressure. On the other hand, the level of non-performing loans remained stable. Overall, net profit of the banks marked a significant recovery in 2021.

Croatia has further pursued its path towards euro adoption with 1 January 2023 as the target date. The adjustment process for the adoption of the new currency was started by the banks already during 2021. Our country will also join the Schengen Area.

With positive economic trends, stable public finance and the potential that lies in using European funds under the Next Generation Programme, Croatia can be optimistic about the future. Continuous work on further improvements of the legal framework remains among the fundamental preconditions for long-term sustainable economic growth and development though.

Which ESG related topics were most relevant for you?
We have already started the process of aligning our internal policies with new ESG frameworks and the Taxonomy. Our non-financial reporting has been aligned with international frameworks. We have identified six fundamental Sustainable Development Goals to which we want to contribute: good health and well-being (SDG 3), quality education (SDG 4), gender equality (SDG 5), decent work and economic growth (SDG 8), reducing inequalities (SDG 10) and climate action (SDG 13).

Our market share in renewable energy financing amounts to 20% and the current exposure in the green segment is around EUR 120 million. In addition, the funds raised by our bond issuance in June 2021 are to be used for the promotion of green and sustainable investments as well.

We have continued our free-of-charge School of Smart Finance programme. Due to the epidemiological conditions the programme was offered online. So far, almost 10,000 participants received personal finance training through this programme.

How did you manage to successfully differentiate your business activities from those of your competition?
Our efforts in supporting our clients paid off. In particular customer deposits showed a visible increase, total loans rose only moderately.

A strong emphasis was placed on further developing our digital solutions and the migration of digital service users to Erste Group's digital platform George. At the end of 2021, we recorded more than 413,000 digital users, almost 310,000 of those were active ones, an impressive increase of 21% compared to 2020. Three years after its market launch, KEKS Pay app continued to attract new users at a rapid pace. At the end of year, 75% of its 230,000 users were customers of other banks.

Looking back at the year, what major achievements or challenges were especially noteworthy?
At the end of June, we successfully carried out our first international MREL eligible bonds issuance in the amount of EUR 400 million. This step not only confirmed our position as the most active bond issuer among financial institutions in Croatia, but also allowed us to set new standards in the Croatian banking market. The funds raised by the issue are used for green and sustainable investments, which will, in turn, keep us on the path to a successful and long-term sustainable business in the domestic market.

FitchRatings raised Erste Bank Croatia's long-term credit rating from BBB+ to A-, which represents the best rating of a bank or company on the Croatian market. This excellent rating is the highest possible level, given the ceiling for the Republic of Croatia.

Last but not least, please let me point out that our bank has defended its excellent brand position, with the highest customer satisfaction on the market.

In 2021, Erste Bank Croatia was named best private banking in Croatia awarded by The Banker and PWM Professional Wealth Management, international financial magazines from the Financial Times Group. Winning this award for the fourth time represents an exceptional recognition for the high-quality of private banking services provided by our bank.

Financial review

in EUR million	2020	2021	Change
Net interest income	270.8	269.5	-0.5%
Net fee and commission income	92.0	107.5	16.8%
Net trading result and gains/losses from financial instruments at FVPL	26.2	30.0	14.5%
Operating income	401.5	416.9	3.8%
Operating expenses	-214.6	-217.8	1.5%
Operating result	187.0	199.1	6.5%
Cost/income ratio	53.4%	52.2%	
Impairment result from financial instruments	-104.2	-22.2	-78.7%
Other result	-16.7	5.3	n/a
Net result attributable to owners of the parent	43.9	103.7	>100.0%
Return on allocated capital	7.2%	14.1%	

The segment analysis is done on a constant currency basis. The HRK remained largely stable against the EUR in the reporting period. Net interest income in the Croatia segment (comprising Erste Bank Croatia Group) remained almost unchanged as the effect of the lower interest rate environment was offset by the non-recurrence of modification losses related to loan moratoria booked last year. Net fee and commission income went up due to higher payment, lending and insurance brokerage fees. Net trading result and gains/losses from financial instruments at FVPL improved driven by a higher result from foreign currency transactions and valuation effects. Operating expenses went up on the back of higher personnel and IT costs, partially offset by lower deposit insurance contribution of EUR 1.9 million (EUR 12.3 million). Overall, operating result and the cost/income ratio improved. The significant improvement of the impairment result from financial instruments was a consequence of last year's update of risk parameters with forward looking information and stage overlays related to the Covid-19 crisis which led to high risk provisioning. Other result improved mainly due to releases of provisions for legal expenses and a lower resolution fund contribution of EUR 3.4 million (EUR 5.7 million). Consequently, the net result attributable to the owners of the parent increased significantly.

Credit risk

In the Croatia segment, credit risk exposure rose to EUR 12.1 billion (+6.9%), while loans to customers increased only slightly to EUR 7.6 billion (+1.4%). Customer loan volume as a percentage of Erste Group's total loans to customers consequently fell to 4.1% (4.4%). There was little change in the composition of the loan portfolio by business segments. The share of retail customers stood at 44.2% (44.1%). Local currency loans accounted for 38.4% (38.1%) of total loans to customers. Most loans were denominated in euro. The volume of Swiss franc-denominated loans has practically become irrelevant. The share of foreign currency loans is still high due to the widespread use of the euro in Croatia. Euro loans are usually matched by corresponding income or deposits in euro. Croatia intends to join the eurozone as of 1 January 2013. In line with the trend seen in recent years, loan quality improved once again. The NPL ratio decreased to 5.5% (6.7%). The NPL coverage ratio based on loan loss provisions rose to 102.5% (89.7%).

SERBIA

Economic review

The Serbian economy was again one of the best performers in CEE in 2021. Economic growth was mainly driven by the significant increase of private consumption and investments. Production benefited from the strong rebound of the services sector and large infrastructure projects. Government expenditure and exports contributed to economic growth to a lesser extent. For the first time since 2012, the country's unemployment rate increased, to 11.2% at the end of the year. Overall, real GDP increased by 7.4%, and GDP per capita amounted to EUR 7,800.

The general government deficit decreased to 4.2% of GDP as the economic recovery supported revenues. The decline of the deficit was also attributable to a reduction of the overall expenditure on Covid-19 support measures, despite new measures adopted in April 2021 including wage subsidies, one-off payments to citizens and specific support to the most affected sectors. Public debt as a percentage of GDP decreased slightly to 56.7% in 2021.

Inflation pressures visibly intensified in the second half of the year due to supply-side constraints and higher energy and food prices. Overall, average consumer prices increased by 4.0%. The Serbian dinar was among the most stable currencies in CEE, trading around 117 versus the euro throughout the year. The National Bank of Serbia started to tighten its monetary policy, albeit leaving the key rate unchanged at 1.0%.

Rating agencies acknowledged the country's favourable macroeconomic developments. Moody's upgraded the country's long-term credit rating from Ba3 to Ba2 with a stable outlook. Standard & Poor's kept its rating at BB+ but raised the outlook from stable to positive, bringing the country at the doorstep of an investment grade rating. Fitch left its BB+ rating with a stable outlook unchanged throughout the year.

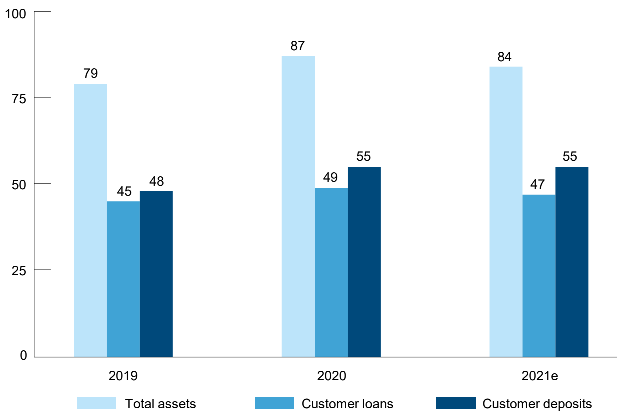
Key economic indicators – Serbia	2018	2019	2020	2021e
Population (ave, million)	7.0	7.0	6.9	6.8
GDP (nominal, EUR billion)	42.9	46.0	46.8	53.2
GDP/capita (in EUR thousand)	6.1	6.6	6.8	7.8
Real GDP growth	4.5	4.3	-0.9	7.4
Private consumption growth	3.1	3.7	-1.9	8.1
Exports (share of GDP)	38.0	38.1	36.4	40.5
Imports (share of GDP)	51.1	51.9	49.1	53.5
Unemployment (Eurostat definition)	13.7	11.2	9.7	11.2
Consumer price inflation (ave)	2.0	1.9	1.6	4.0
Short term interest rate (3 months average)	3.0	2.5	1.2	0.9
EUR FX rate (ave)	118.3	117.9	117.6	117.6
EUR FX rate (eop)	118.3	117.6	117.6	117.6
Current account balance (share of GDP)	-4.8	-6.9	-4.1	-3.5
General government balance (share of GDP)	0.6	-0.2	-8.0	-4.2

Source: Erste Group

Market review

Reflecting the favourable macroeconomic developments, Serbia's banking market performed well in 2021. The banking system's lending activity remained strong with retail loans growing by double digit figures. Retail loans, up by 10.7%, were mainly driven by housing loans which rose by 17.4%. Corporate loans grew by 9.4%. The currency structure of customer loans changed further in favour of loans denominated in Serbian dinar on the back of local currency lending programmes that were introduced a year ago. Customer deposits grew by 13.3%, driven equally by retail and corporate sectors. Overall, the banking system's loan to deposit ratio stood at 86.1% in 2021.

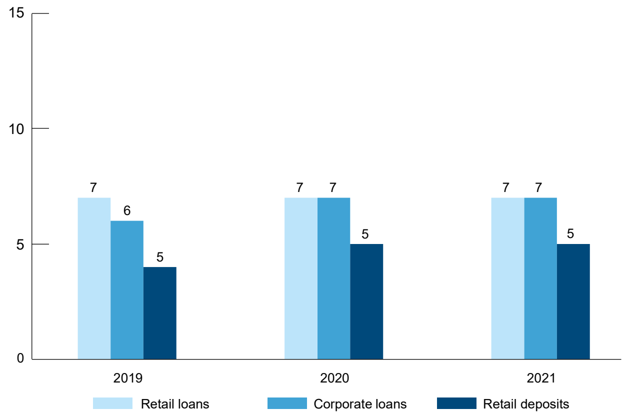
Financial intermediation – Serbia (in % of GDP)



Source: National Bank of Serbia, Erste Group

Serbia's banking system increased its profitability driven mainly by rising revenues and low risk provisions. The NPL ratio remained low at 3.5%, while the coverage ratio stood at 57.6%. Digitalisation was boosted significantly due to the banks' continuous efforts to migrate customers to digital channels. The National Bank of Serbia did not change capital requirements throughout the year and kept the countercyclical buffer at 0%. The banking system's capital adequacy remained strong at 21.7%, its return on equity improved to 7.3%.

Market shares – Serbia (in %)



Source: National Bank of Serbia, Erste Group

Consolidation of the Serbian banking sector accelerated. The Hungarian OTP Group merged its Serbian subsidiaries OTP banka Srbija and Vojvođanska banka, creating the largest bank of the country in terms of customer loans with a market share of 16.6%. State-owned Banka Poštanska štedionica merged with MTS banka, and Greek Eurobank merged with Direktna Banka. Raiffeisen Bank International announced that its Serbian subsidiary signed an agreement to acquire Crédit Agricole's Serbian operation.

Erste Bank Serbia is among the ten largest banks in the country. Based on its total assets of 6.1% the company further strengthened its market position. Its market share in customer loans was unchanged at 7.1%. At 7.3%, the bank's market share in retail loans was more pronounced than in corporate loans (7.0%). The bank's customer deposit market share increased to 6.2%. Overall, the bank's loan-to-deposit ratio stood at 99.1% at the end of 2021.

Business review 2021 – questions to Slavko Carić, CEO of Erste Bank Serbia

How did the competitive environment change?
We can say that 2021 was a dynamic year characterised by further market consolidation. In the Large Corporates segment we see peers aggressively financing both working capital and long term loans at low interest rates. M & A activities led to additional competitive pressure. The historically low interest rates on housing loans combined with a reduction in the obligatory down payment contributed to a significant increase in demand for these loans.

Competitors are improving their digital offerings, rapidly innovating sales channels together with process improvement.

Which ESG related topics were most relevant for you?
ESG in general is extremely important for our bank. If we had to highlight one aspect then that would be, for sure, the environmental part. We follow all guidelines in terms of legislation and the EU Taxonomy, and we are analysing our portfolio to learn more about our current position, while we are also extremely interested in supporting our clients in their projects related to decrease CO_2 emissions. We need to educate ourselves and to support our clients during the transition. In cooperation with EBRD we financed procuring and installing of energy-efficient technologies for households. We are among a few banks in Serbia who offer these loans and the only one that promotes long-term savings through reducing electricity costs with a specific marketing campaign.

We are recognised as a market leader in energy efficiency financing, such as public lightening projects or heating and thermal power saving projects, but we also financed public infrastructure projects or waste management plants. Together with S-Leasing we financed 85 new buses for public transportation for the City of Belgrade. We also plan to replace our own car fleet with full electric or hybrid cars and to install solar panels on our headquarter buildings in Belgrade and possibly also in Novi Sad.

With regard to Social Banking we have become a trusted and valuable partner of the civil society in our country. We achieve our objectives through strengthening and creating new partnerships covering different stakeholders, launching new joint activities and projects, providing greater financial support through social banking lending, and strengthening our capacities for providing non-financial support to social banking clients. So far, we have supported more than 400 start-ups, social enterprises and NGOs. We strongly believe that this is just the beginning of our journey and that we will achieve much higher figures in the following years.

How did you manage to successfully differentiate your business activities from those of your competition?
We are of the opinion that we have a better know-how of the construction industry than peers. This is recognised by the market and our SME guarantees growth figures confirms that. In addition, our willingness and ability to support clients in more complex transactions, both working capital and capex financing, is something that differentiates us. We also put a clear focus on future green projects. Let me mention our success story with Telekom Srbija which was strongly supported by Group Syndication. We could disburse a significant amount in an extremely short period of time. We can offer attractive conditions due to the cooperation with EBRD and KfW (Kreditanstalt für Wiederaufbau).

We are also highly committed to customer satisfaction. We aim to offer suitable personalised solutions. Furthermore, we were especially focused on financial education through various channels, starting at the youngest with the concept of „learning through gaming“ which resulted in creating our Game App “The Guardians of Dragons treasure”. In addition, we provided financial education both to clients and to our employees. Another focus is on raising awareness for the importance of being insured.

We constantly work on the improvement of our digital services. Erste eBiz and mBiz service are available to all entrepreneurs and legal entities. Improvements in the card business also help us stay competitive. Last but not least, we have expanded the self-service zones, and the network of ATMs helps us reduce the number of transactions in the branches and provides our customers with services also outside the bank’s working hours.

Looking back at the year, what major achievements or challenges were especially noteworthy?
We increased our client base by some 46,000 new customers. By growing our loans by 9%, we reached a market share of more than 7%. With an increase of almost 17%, we also had a significant inflow of deposits.

After Covid-19 that strongly affected our promotional activities in 2020, we changed our approach and launched a new image campaign “Our Heroines”, presenting three women who believe in themselves. The campaign is followed by documentaries about each of them. We have invited women, beginners in their private business, to nominate topics that we will elaborate in free webinars to support their first business steps.

#ErsteZnali, one-of-a kind, our comprehensive financial education programme for all age groups launched in 2019, was further developed to engage elementary schools. By signing a cooperation agreement with the Ministry of education in 2021 we started a 4-year project to implement financial education into school’s curriculum named ŠKOLA NOVCA ZA OSNOVCA (The School of Money).

Our efforts were recognised, we won several prizes. The Serbian Responsible Business Forum awarded us as Sustainable Growth Champions for our Step by Step social banking programme. Euromoney named us the Best Cash Management Service Provider in the country. The Association of Business Women in Serbia awarded Erste Bank Serbia for the continuous career development of female managers.

Financial review

in EUR million	2020	2021	Change
Net interest income	63.6	72.8	14.5%
Net fee and commission income	16.1	20.2	25.5%
Net trading result and gains/losses from financial instruments at FVPL	3.9	4.7	18.1%
Operating income	83.8	97.9	16.8%
Operating expenses	-60.3	-65.4	8.4%
Operating result	23.4	32.4	38.4%
Cost/income ratio	72.0%	66.9%	
Impairment result from financial instruments	-13.5	-8.2	-39.1%
Other result	-4.8	-5.8	21.1%
Net result attributable to owners of the parent	4.2	13.9	>100.0%
Return on allocated capital	2.4%	6.7%	

The segment analysis is done on a constant currency basis. The Serbian Dinar (RSD) remained stable against the EUR in the reporting period. Net interest income in the Serbia segment (comprising Erste Bank Serbia Group) increased mainly due to higher loan and deposit volumes in retail and corporate business. Net fee and commission income went up due to higher payment and insurance brokerage fees. Net trading result and gains/losses from financial instruments at FVPL increased driven by a higher result from foreign currency transactions and derivatives. Operating expenses rose mainly due to higher personnel, legal and consultancy costs and depreciation. Deposit insurance contribution rose to EUR 4.3 million (EUR 3.5 million). Operating result increased and the cost/income ratio improved. Impairment result from financial instruments improved as a consequence of last year's update of risk parameters with forward looking information. Other result deteriorated due to higher provisions for litigations. Overall, the net result attributable to owners of the parent increased.

Credit risk

As in previous years, credit risk exposure in the Serbia segment increased again substantially and stood at EUR 2.9 billion (+13.6%). The customer loan portfolio was also up. Loans to customers increased to EUR 1.9 billion (+8.7%), with the Retail and Corporate segments registering similar growth rates. Foreign-currency loans, denominated almost exclusively in euro, accounted for 73.1% (75.3%) of the total loan portfolio. The very large proportion of foreign-currency loans is mainly attributable to the wide-spread use of the euro in Serbia. Euro loans are usually matched by corresponding income or deposits in euro. Non-performing loans rose to 2.1% (1.5%) of total loans to customers, with loans to corporates growing faster than retail loans. Loan loss provisions declined to 124.4% (168.2%) of non-performing loans.

OTHER

Financial review

in EUR million	2020	2021	Change
Net interest income	140.9	214.3	52.1%
Net fee and commission income	-94.1	-86.1	-8.5%
Net trading result and gains/losses from financial instruments at FVPL	-41.9	-71.4	70.6%
Operating income	-4.4	57.8	n/a
Operating expenses	-193.1	-201.7	4.4%
Operating result	-197.5	-143.9	-27.1%
Cost/income ratio	>100.0%	>100.0%	
Impairment result from financial instruments	21.7	9.0	-58.7%
Other result	-21.7	-115.4	>100.0%
Net result attributable to owners of the parent	-260.9	-69.3	-73.5%
Return on allocated capital	-3.4%	-1.1%	

Operating income improved primarily due to one-off booking related to TLTRO III refinancing with ECB partially offset by a lower valuation result. Although operating expenses went up slightly, operating result improved. Other result deteriorated on the back of negative valuation effects. The tax charge developed positively. Consequently, the net result attributable to owners of the parent improved.

Business segments

Erste Group – business segments

Retail	Corporates	Group Markets	Asset/Liability Management & Local Corporate Center	Savings Banks	Group Corporate Center	Intragroup Elimination

Retail. The Retail segment comprises the business with private individuals, micros and free professionals within the responsibility of account managers in the retail network. This business is operated by the local banks in cooperation with their subsidiaries such as leasing and asset management companies with a focus on simple products ranging from mortgage and consumer loans, investment products, current accounts, savings products to credit cards and cross selling products such as leasing, insurance and building society products.

Corporates. The Corporates segment comprises business done with corporate customers of different turnover size (small and medium-sized enterprises and Large Corporate customers) as well as commercial real estate and public sector business.

Group Markets. The Group Markets (GM) segment comprises trading and markets services as well as customer business with financial institutions. It includes all activities related to the trading books of Erste Group, including the execution of trade, market making and short-term liquidity management. In addition, it comprises business connected with servicing financial institutions as clients.

Asset/Liability Management & Local Corporate Center. The Asset/Liability Management & Local Corporate Center (ALM & LCC) segment includes all asset/liability management functions – local and of Erste Group Bank AG (Holding) – as well as the local corporate centers which comprise all non-core banking business activities such as internal service providers and reconciliation items to local entity results. The corporate center of Erste Group Bank AG is included in the Group Corporate Center segment.

Savings Banks. The Savings Banks segment is identical to the operating segment Savings Banks.

Group Corporate Center. The Group Corporate Center (GCC) segment covers mainly centrally managed activities and items that are not directly allocated to other segments. It comprises the corporate center of Erste Group Bank AG (and thus dividends and the refinancing costs from participations, general administrative expenses), internal service providers (facility management, IT, procurement), the banking tax of Erste Group Bank AG as well as free capital of Erste Group (defined as the difference of the total average IFRS equity and the average economical equity allocated to the segments).

Intragroup Elimination. Intragroup Elimination (IC) is not defined as a segment but is the reconciliation to the consolidated accounting result. It includes intragroup eliminations between participations of Erste Group (e.g. intragroup funding, internal cost charges). Intragroup eliminations within partial groups are disclosed in the respective segments.

Dividend elimination between Erste Group Bank AG and its fully consolidated subsidiaries is performed in Group Corporate Center. Consolidation differences arising between the segments, which are eliminated over the lifespan of the underlying transaction, are part of Group Corporate Center.

RETAIL

Financial review

in EUR million	2020	2021	Change
Net interest income	2,083.7	2,102.4	0.9%
Net fee and commission income	1,047.9	1,206.6	15.1%
Net trading result and gains/losses from financial instruments at FVPL	89.4	90.7	1.5%
Operating income	3,248.8	3,431.1	5.6%
Operating expenses	-2,067.7	-2,111.8	2.1%
Operating result	1,181.2	1,319.3	11.7%
Cost/income ratio	63.6%	61.5%	
Impairment result from financial instruments	-392.2	-122.4	-68.8%
Other result	-68.9	-58.2	-15.5%
Net result attributable to owners of the parent	583.9	889.7	52.4%
Return on allocated capital	18.4%	25.3%	

The increase in net interest income was driven by the growth of customer loan and deposit volumes across all markets. Net interest income improved in the Czech Republic, Hungary and Serbia from loan and deposit business, partially offset by the change in transfer prices related to the deposit business as a response to the lower interest rate environment and a corresponding positive effect in ALM & Local Corporate Center. Contributions from the lending business in Slovakia and Austria declined primarily on the impact of lower market rates. Net fee and commission income increased due to higher fees from securities business, higher payment fees and improved insurance brokerage fees. Net trading result and gains/losses from financial instruments FVPL increased moderately due to higher foreign currency transactions in the Czech Republic, Hungary, Romania, Croatia and Slovakia, partially offset by negative valuation effects in Hungary. Operating expenses increased mainly due to higher personnel and IT expenses, partially offset by lower deposit insurance contributions in Austria and Croatia. Consequently, operating result increased and the cost/income ratio improved. The impairment result from financial instruments improved significantly across all markets as last year updated risk parameters with forward looking information and stage overlays related to the Covid-19 crisis led to high risk provisioning. The main driver of the other result improvement was the abolition of the banking tax in Slovakia as of the second half of last year, partially offset by negative effects in other entities. Overall, the net result attributable to the owners of the parent increased significantly.

Credit risk

Credit risk exposure in the Retail business segment rose to EUR 76.7 billion (+9.8%). The customer loan portfolio increased to EUR 66.7 billion (+9.2%). The share of the retail business (without Savings Banks) in Erste Group's total customer loans was up marginally at 36.2% (35.9%). The collateralisation ratio, which reflects the ratio of collateral to loan volume, stood at 64.9% (65.9%). The quality of the retail customer loan portfolio improved. While non-performing loans saw hardly any change and again amounted to EUR 1.5 billion, their share of total retail customer loans decreased to 2.2% (2.4%). In terms of the NPL ratio (non-performing loans as a percentage of total loans), loan quality was thus again very high in the Retail segment and better than the loan quality in other business segments. The share of low-risk loans as a percentage of total retail customer loans was high at 86.8% (86.0%). Loan loss provisions were again increased and amounted to 101.1% (98.2%) of the total non-performing loans portfolio.

CORPORATES

Financial review

in EUR million	2020	2021	Change
Net interest income	1,109.4	1,190.7	7.3%
Net fee and commission income	282.3	332.5	17.8%
Net trading result and gains/losses from financial instruments at FVPL	64.1	99.8	55.8%
Operating income	1,561.3	1,733.1	11.0%
Operating expenses	-535.7	-543.7	1.5%
Operating result	1,025.6	1,189.4	16.0%
Cost/income ratio	34.3%	31.4%	
Impairment result from financial instruments	-656.0	-60.0	-90.9%
Other result	-65.5	-11.7	-82.1%
Net result attributable to owners of the parent	193.7	858.4	>100.0%
Return on allocated capital	5.1%	16.9%	

Net interest income improved primarily due to higher customer loan volumes as well as higher income from early loan repayments. Net fee and commission income increased mainly because of higher payment and lending fees. Net trading result and gains/losses from financial instruments at FVPL improved significantly due to positive valuation effects mainly in the Holding and the Czech Republic. Operating expenses increased moderately. Consequently, operating result went up and the cost/income ratio improved. The impairment result from financial instruments improved significantly as last year updated risk parameters with forward looking information and stage overlays related to the Covid-19 crisis led to high risk provisioning. Other result improved mainly due to real estate selling gains as well as the release of provisions for legal expenses. Consequently, the net result attributable to the owners of the parent improved significantly.

Credit risk

Credit risk exposure in the Corporates business segment rose to EUR 91.6 billion (+10.5%). Loans to customers increased to EUR 62.7 billion (+9.0%) and accounted for 34.1% (33.9%) of Erste Group's total loans to customers. The big difference between credit risk exposure and the customer loan portfolio in the Corporates segment is primarily due to a large volume of guarantees and unused loan commitments. Within the Corporates business segment, loans to large corporates saw above-average growth (+12.8), while growth rates in the commercial real estate business (+5.8%) and in business with the public sector (+4.5%) were slightly lower. Non-performing loans declined slightly. The NPL ratio decreased to 2.5% (2.8%). The development of credit quality was strong, particularly in the large corporates business. Loan loss provisions amounted to 97.9% (94.8%) of non-performing loans to corporates.

GROUP MARKETS

Financial review

in EUR million	2020	2021	Change
Net interest income	252.2	205.8	-18.4%
Net fee and commission income	240.9	289.9	20.4%
Net trading result and gains/losses from financial instruments at FVPL	38.5	110.1	>100.0%
Operating income	529.7	606.3	14.5%
Operating expenses	-232.0	-237.3	2.3%
Operating result	297.7	369.0	24.0%
Cost/income ratio	43.8%	39.1%	
Impairment result from financial instruments	-0.8	-5.6	>100.0%
Other result	-25.7	-27.6	7.3%
Net result attributable to owners of the parent	211.0	260.6	23.5%
Return on allocated capital	24.4%	24.0%	

Net interest income decreased on the back of lower market interest rates. Net fee and commission income increased mostly due to the higher contribution of the securities business driven among others by higher assets under management with institutional clients in Austria. Net trading result and gains/losses from financial instruments at FVPL improved significantly due to valuation results of interest rate derivatives, equity futures and bonds. Overall, operating income increased notably. As operating expenses went up only slightly, operating result increased significantly and the cost/income ratio improved. Impairment result from financial instruments deteriorated due to higher provisioning requirements in Austria. Other result remained by and large stable. Overall, the net result attributable to the owners of the parent improved significantly.

ASSET/LIABILITY MANAGEMENT & LOCAL CORPORATE CENTER

Financial review

in EUR million	2020	2021	Change
Net interest income	86.2	223.2	>100.0%
Net fee and commission income	-79.3	-85.6	7.9%
Net trading result and gains/losses from financial instruments at FVPL	13.2	-26.5	n/a
Operating income	58.0	155.1	>100.0%
Operating expenses	-107.4	-124.1	15.5%
Operating result	-49.4	31.0	n/a
Cost/income ratio	>100%	80.0%	
Impairment result from financial instruments	-3.0	-2.3	-23.8%
Other result	-111.8	-137.7	23.2%
Net result attributable to owners of the parent	-112.7	-135.6	20.4%
Return on allocated capital	-3.6%	-3.1%	

Net interest income improved primarily due to a one-off booking related to TLTRO III refinancing with ECB (EUR 79.3 million), lower transfer prices that led to a negative impact in the retail segment and a corresponding positive effect in ALM & LCC as well as lower refinancing costs in the Holding and higher income from investments in Czech Republic and Hungary. These effects were partially offset by higher interest expense from the placement of excess liquidity with the ECB. Net fee and commission income decreased mainly due to a higher internal fee recharge between Group Markets and ALM & LCC in the Czech Republic and the Holding. The deterioration of net trading result and gains/losses from financial instruments at FVPL was driven by valuation effects. Operating expenses increased mainly due to higher personnel expenses in Austria and higher property management costs in the Czech Republic. Overall, operating result improved. Other result worsened primarily due to breakage costs in Austria related to an early loan repayment and impairments of buildings and IT in the Czech Republic, partially compensated by higher real estate selling gains in Romania. As the tax charge increased significantly, the net result attributable to the owners of the parent deteriorated.

SAVINGS BANKS

The business segment Savings Banks is identical to the operating segment Savings Banks (see page 32).

GROUP CORPORATE CENTER

Financial Review

in EUR million	2020	2021	Change
Net interest income	89.1	100.5	12.8%
Net fee and commission income	6.6	5.9	-11.8%
Net trading result and gains/losses from financial instruments at FVPL	37.1	-27.8	n/a
Operating income	124.8	76.9	-38.3%
Operating expenses	-1,013.0	-904.2	-10.7%
Operating result	-888.2	-827.3	-6.9%
Cost/income ratio	>100.0%	>100.0%	
Impairment result from financial instruments	24.4	7.7	-68.5%
Other result	829.5	616.3	-25.7%
Net result attributable to owners of the parent	-134.4	-32.9	-75.5%
Return on allocated capital	-2.1%	-0.6%	

Operating income decreased on lower net trading result and gains/losses from financial instruments at FVPL due to valuation effects. Operating expenses decreased on eliminated costs between the two IT entities after their merger – countereffect in intercompany eliminations. Other result deteriorated due to negative valuation effects as well as intercompany effects. The tax charge developed positively. All in all, the net result attributable to owners of the parent improved.