

Press release

Outlook information will follow at 11:15 CET

26 February 2021

Preliminary results 2020:

Erste Group generates net profit of 783 mn euros in Corona-impacted year

- Operating result stable, but risk provisions weigh on net income
- Growth in loans and deposits across all markets
- Management board to propose dividend of 0.50 euros per share at AGM; up to 1.00 euros per share reserved for potential dividend at a later date

Erste Group, the leading lender in Central and Eastern Europe, ended the Corona year 2020 with a solid operating result of 2.9 billion euros (-1.3% year-on-year). The stock exchange-listed banking group formed almost 1.3 billion euros in risk provisions for impending loan losses in the aftermath of the pandemic. As a result, net income fell by 46.7% to 783 million euros. Customer loans, on the other hand, increased by 3.6% to 166.1 billion euros and customer deposit volumes rose by 9.9% to 191.1 billion euros. The common equity tier 1 ratio (CET1, final) rose again, from 13.7% to 14.2%.

Erste Group CFO Stefan Dörfler: *"We performed well in all our markets in an exceptionally challenging year. Our operating results remained stable and our capitalization is excellent. We want our shareholders to share in these results, which is why -- in line with the ECB recommendation -- we will propose a dividend of 50 cents per share for 2020 at the Annual General Meeting and also reserve up to one euro per share for a potential dividend payout at a later date."*

EARNINGS DOWN SLIGHTLY

Net interest income increased – mainly in Austria, but also in Romania and Hungary – by 0.6% year-on-year to 4.8 billion euros. Net interest income in the Czech Republic declined significantly due to lower interest rates. **Net fee and commission income** decreased by 1.2% to 1.98 billion euros. Higher income from the securities business and asset management did not fully compensate for the declines in other fee and commission income categories – most notably in payment services. The total revenues stemming from the **net trading result** and the line item **gains/losses from financial instruments measured at fair value** experienced a significant decline of 32.1% to almost 200 million euros. **Operating income** therefore fell by 1.4% to 7.2 billion euros.

COSTS ALSO DOWN SLIGHTLY

At the same time, the bank managed to lower **general administrative expenses** by 1.5% to 4.2 billion euros. Personnel expenses declined by 0.6% to 2.5 billion euros, reflecting the impact of positive currency effects and a decrease in the headcount (on a FTE basis) from 47,284 to 45,690 at the end of the period. This decline of 3.4% is mainly attributable to the outsourcing of cash-in-transit and administrative services in Romania. Other administrative expenses were reduced by 3.8% to 1.2 billion euros. Payments into deposit insurance schemes included in other administrative expenses rose to 132 million euros. Depreciation and amortisation was unchanged at 541 million euros.

HIGH RISK PROVISIONING IMPACTS RESULT

Overall, the **operating result** declined by 1.3% to 2.9 billion euros, while the **cost/income ratio** was unchanged at 59.0%. Due to net allocations, the **impairment result from financial instruments amounted** to -1.3 billion euros or 78 basis points of average gross customers loans (2019: -39.2 million euros or 7 basis points). The marked rise in allocations to provisions for loans was primarily driven by the deterioration in the macroeconomic outlook due to Covid-19. A positive contribution came from high income from the recovery of loans already written off, primarily in Romania and Hungary. The **NPL ratio** based on gross customer loans deteriorated to 2.7% (2.5%), the **NPL coverage ratio** rose to 88.6% (77.1%).

Other operating result improved to -278 million euros (-628 million euros). The expenses for the annual contributions to resolution funds included in this line item rose – in particular in Austria – to nearly 94 million euros. The decline in banking and transaction taxes to 118 million euros is primarily attributable to the abolition of banking tax in Romania. In the previous year, other operating result included allocations to a provision in the amount of 153 million euros set aside for losses expected from a supreme court decision concerning the business activities of a Romanian subsidiary, as well as the write-off of goodwill in Slovakia in the amount of 165 million euros.

Taxes on income declined to 343 million euros. The minority charge fell by 45% to 242.3 million euros due to significantly lower earnings contribution of the savings banks. The **net result attributable to owners of the parent** (net profit) declined by 46.7% to 783.1 million euros.

GROWTH IN BOTH LENDING AND DEPOSITS

Total assets rose by 12.9% to 277.4 billion euros. On the asset side, cash and cash balances increased, primarily in Austria, to 35.8 billion euros, a rise of 235.2%. Loans and advances to banks decreased by 6.9% to 21.5 billion euros. **Loans and advances to customers** increased by 3.6% to 166.1 billion euros – reflecting particularly strong lending growth in Croatia, Slovakia, Austria and Serbia.

On the liability side, deposits from banks grew significantly (up 88.5%) to 24.8 billion euros on the back of increased ECB refinancing (TLTROs). **Customer deposits** rose again – in all core markets, primarily in Austria and the Czech Republic – to 191.1 billion euros, a year-on-year rise of 9.9%. The **loan-to-deposit ratio** stood at 86.9% (92.2%).

FINANCIAL DATA

Income statement in EUR mn	2019	2020	% change
Net interest income	4,746.8	4,774.8	0.6
Net fee and commission income	2,000.1	1,976.8	-1.2
Net trading result and gains/losses from financial instruments at FVPL	293.8	199.5	-32.1
Operating income	7,255.9	7,155.1	-1.4
Operating expenses	-4,283.3	-4,220.5	-1.5
Operating result	2,972.7	2,934.6	-1.3
Impairment result from financial instruments	-39.2	-1,294.8	3203.1
Post-provision operating result	2,933.5	1,639.8	-44.1
Net result attributable to owners of the parent	1,470.1	783.1	-46.7
Key income statement ratios	2019	2020	change
Net interest margin (on average interest-bearing assets)	2.18%	2.08%	-0.10 PP
Cost/income ratio	59.0%	59.0%	0 PP
Provisioning ratio (on average gross customer loans)	0.02%	0.78%	0.76 PP

Balance sheet in EUR mn	Dec 19	Dec 20	% change
Loans and advances to customers	160,270	166,050	3.6
Risk-weighted assets (RWA)	118,600	120,100	1.3
Deposits from customers	173,846	191,070	9.9
Total assets	245,693	277,394	12.9
Key balance sheet ratios	Dec 19	Dec 20	change
Loan/deposit ratio	92.2%	86.9%	-5.3 PP
NPL ratio	2.5%	2.7%	0.2 PP
NPL coverage ratio (based on AC loans, excl. collateral)	77.1%	88.6%	11.5 PP
CET1 ratio (final)	13.7%	14.2%	0.5 PP

Key ratios for Erste Group shares in EUR per share	2019	2020	% change
Earnings per share	3.23	1.57	-51.4
Dividend proposal (in line with the ECB proposal)	-	0.50	-
Reserved for potential dividend at a later date (distribution only possible once current ECB recommendation is lifted)	-	up to 1.00	-

All figures have yet to be confirmed by the auditors; for this reason, they are preliminary figures at this time. The audited financial statements will be published with the 2020 Annual Report on March 26, 2021.