Investor information | Vienna, 30 April 2021

Erste Group starts well into new year, posts net profit of EUR 355.1 million in Q1 2021

Financial data

Income statement					
in EUR million	Q1 20	Q4 20	Q1 21	1-3 20	1-3 21
Net interest income	1,229.0	1,185.6	1,172.1	1,229.0	1,172.1
Net fee and commission income	504.2	528.5	540.0	504.2	540.0
Net trading result and gains/losses from financial instruments at FVPL	-119.9	109.2	66.4	-119.9	66.4
Operating income	1,663.0	1,869.3	1,828.6	1,663.0	1,828.6
Operating expenses	-1,111.2	-1,097.3	-1,103.3	-1,111.2	-1,103.3
Operating result	551.7	771.9	725.3	551.7	725.3
Impairment result from financial instruments	-61.7	-424.7	-35.7	-61.7	-35.7
Post-provision operating result	490.0	347.3	689.6	490.0	689.6
Net result attributable to owners of the parent	**235.3**	**146.0**	**355.1**	**235.3**	**355.1**
Net interest margin (on average interest-bearing assets)	2.18%	2.05%	1.99%	2.18%	1.99%
Cost/income ratio	66.8%	58.7%	60.3%	66.8%	60.3%
Provisioning ratio (on average gross customer loans)	0.15%	1.00%	0.08%	0.15%	0.08%
Tax rate	28.5%	27.0%	22.0%	28.5%	22.0%
Return on equity	6.6%	2.3%	9.6%	6.6%	9.6%

Balance sheet					
in EUR million	Mar 20	Dec 20	Mar 21	Dec 20	Mar 21
Cash and cash balances	23,031	35,839	53,954	35,839	53,954
Trading, financial assets	46,970	46,849	48,381	46,849	48,381
Loans and advances to banks	24,264	21,466	27,477	21,466	27,477
Loans and advances to customers	161,119	166,050	167,839	166,050	167,839
Intangible assets	1,322	1,359	1,332	1,359	1,332
Miscellaneous assets	6,193	5,830	5,985	5,830	5,985
Total assets	**262,898**	**277,394**	**304,969**	**277,394**	**304,969**
Financial liabilities held for trading	3,322	2,625	2,192	2,625	2,192
Deposits from banks	20,703	24,771	35,288	24,771	35,288
Deposits from customers	181,691	191,070	205,374	191,070	205,374
Debt securities issued	29,413	30,676	32,516	30,676	32,516
Miscellaneous liabilities	6,716	5,840	6,827	5,840	6,827
Total equity	21,053	22,410	22,771	22,410	22,771
Total liabilities and equity	**262,898**	**277,394**	**304,969**	**277,394**	**304,969**
Loan/deposit ratio	88.7%	86.9%	81.7%	86.9%	81.7%
NPL ratio	2.4%	2.7%	2.6%	2.7%	2.6%
NPL coverage ratio (based on AC loans, ex collateral)	80.9%	88.6%	89.5%	88.6%	89.5%
Texas ratio	18.9%	20.3%	19.8%	20.3%	19.8%
CET1 ratio (final)	13.1%	14.2%	14.0%	14.2%	14.0%

HIGHLIGHTS

P&L 1-3 2021 compared with 1-3 2020; balance sheet as of 31 March 2021 compared with 31 December 2020

Net interest income declined – mainly in the Czech Republic and Austria – to EUR 1,172.1 million (-4.6%; EUR 1,229.0 million). **Net fee and commission income** rose to EUR 540.0 million (+7.1%; EUR 504.2 million) as increases were recorded in all fee and commission income categories, most notably in the securities business and in asset management. **Net trading result** improved significantly to EUR 9.5 million (EUR -157.4 million); **gains/losses from financial instruments measured at fair value through profit or loss** were up at EUR 56.9 million (EUR 37.5 million). Both line items were driven mostly by valuation effects. As a result, **operating income** increased to EUR 1,828.6 million (+10.0%; EUR 1,663.0 million). **General administrative expenses** declined to EUR 1,103.3 million (-0.7%; EUR 1,111.2 million). Personnel expenses were lower at EUR 622.4 million (-1.2%; EUR 630.0 million). Other administrative expenses were nearly unchanged at EUR 345.8 million (+0.3%; EUR 344.8 million) despite a significant rise in payments into deposit insurance schemes to EUR 107.6 million (EUR 88.3 million). Most of the contributions expected for 2021 have already been posted upfront. Amortisation and depreciation amounted to EUR 135.1 million (EUR 136.5 million). Overall, the **operating result** increased to EUR 725.3 million (+31.5%; EUR 551.7 million) and the **cost/income ratio** improved to 60.3% (66.8%).

Due to net allocations, the **impairment result from financial instruments** amounted to EUR -35.7 million or 8 basis points of average gross customers loans (EUR -61.7 million or 15 basis points). Positive contributions came primarily from the release of provisions for loans in Austria and Romania and the recovery of loans already written off in Hungary and Austria. Net allocations to provisions for commitments and guarantees given were likewise lower. The **NPL ratio** based on gross customer loans improved to 2.6% (2.7%). The **NPL coverage ratio** increased to 89.5% (88.6%).

Other operating result amounted to EUR -126.7 million (EUR -127.6 million). Expenses for the annual contributions to resolution funds for the full year 2021 included in this line item rose – most strongly in Austria and Romania – to EUR 100.3 million (EUR 84.0 million). The decline in banking levies to EUR 33.2 million (EUR 49.9 million) is primarily attributable to the abolition of banking tax in Slovakia. At present, banking levies are payable in two core markets: in Hungary, banking tax for the full year amounted to EUR 14.7 million (EUR 14.2 million) and transaction tax for the quarter to another EUR 11.6 million (EUR 12.5 million). In Austria, banking tax equalled EUR 7.0 million (EUR 6.3 million).

Taxes on income increased to EUR 124.3 million (EUR 103.0 million). The minority charge improved to EUR 85.7 million (EUR 23.0 million) due to significantly higher earnings contributions of the savings banks. The **net result attributable to owners of the parent** rose to EUR 355.1 million (+50.9%; EUR 235.3 million).

Total equity not including AT1 instruments rose to EUR 20.0 billion (EUR 19.7 billion). After regulatory deductions and filtering in accordance with the CRR, **common equity tier 1 capital** (CET1, final) was broadly unchanged at EUR 17.0 billion (EUR 17.1 billion), as were total **own funds** (final) at EUR 23.4 billion (EUR 23.6 billion). The above figures do not include interim profit, while risk costs were deducted. Total risk – **risk-weighted assets** including credit, market and operational risk (CRR, final) – increased moderately to EUR 121.0 billion (EUR 120.2 billion). The **common equity tier 1 ratio** (CET1, final) stood at 14.0% (14.2%), the **total capital ratio** at 19.4% (19.7%).

Total assets increased to EUR 305.0 billion (+9.9%; EUR 277.4 billion). On the asset side, cash and cash balances rose, most notably in Austria, to EUR 54.0 billion (EUR 35.8 billion), loans and advances to banks to EUR 27.5 billion (EUR 21.5 billion). **Loans and advances to customers** increased to EUR 167.8 billion (+1.1%; EUR 166.1 billion). On the liability side, deposits from banks grew significantly to EUR 35.3 billion (EUR 24.8 billion) as a result of increased ECB refinancing (TLTRO). **Customer deposits** rose again in all core markets – most strongly in the Czech Republic and Austria – to EUR 205.4 billion (+7.5%; EUR 191.1 billion). The **loan-to-deposit ratio** declined significantly to 81.7% (86.9%).

OUTLOOK

Erste Group's goal for 2021 is to increase net profit. Among the factors that will support achievement of this goal are a recovery of the econ-omies of all core markets – the Czech Republic, Slovakia, Hungary, Romania, Croatia, Serbia and Austria – and, on this basis, a reduction of risk costs and an improvement in the operating result. A continuation or further escalation of Covid-19 measures by governments as well as potential – and as yet unquantifiable – political, regulatory or economic risks may render meeting this goal more challenging.

In 2021, the positive development of the economy should be reflected in growth rates (real GDP growth) of between 2.8% and 4.5% in Erste Group's CEE core markets. The development of other economic indicators should vary depending on Covid-19 policy measures imposed by authorities and/or the phasing out of state support. Unemployment rates are expected to rise but, in the Czech Republic and Hungary, should remain among the lowest in the EU. Inflation rates are forecast to decline in the Czech Republic and Slovakia while the other core markets are likely to see a slight acceleration. In most countries, sustained competitiveness should again result in solid and, in Slovakia and Romania, stronger current account balances. The fiscal situation should likewise improve again after the significant budget deficits posted in the year 2020. Public debt is projected to remain largely stable, albeit at a significantly elevated level.

Against this backdrop, Erste Group expects net loan growth in the low to mid-single digit range. This performance should keep net interest income stable despite negative interest rates in the euro zone. The second most important income component – net fee and commission in-come – is expected to rise in mid single digits with upside potential. As in 2020, positive momentum should again come from fund manage-ment, the securities business and insurance brokerage. Given the average result seen in 2020, the net trading and fair value result is expected to come in higher. This, however, will depend substantially on the financial market environment. The remaining income components are forecast to remain, by and large, stable. Overall, operating income should increase again in 2021. Operating expenses are expected to rise slightly in 2021, partly due to re-emerging wage pressure across all Erste Group markets. In addition, Erste Group will continue to invest in IT in 2021 and thus strengthening its competitive position, with a focus on progressive IT modernisation, backoffice digitalisation and ex-pansion of the digital platform George. The rollout of George in Hungary and Croatia should be completed in 2021, as a result of which customers will be able to access George in the six largest core markets. Though faced with more challenges in a largely unpredictable envi-ronment, Erste Group is striving to make operating income grow faster than costs. This leads Erste Group to project a rise in the operating result in 2021.

Based on the scenario described above, risks costs should decline again in 2021. While precise forecasting is hard in the current Covid-19 environment, Erste Group believes that in 2021 risk costs will not exceed 65 basis points of average gross customer loans. A review of this guidance will be dependent on vaccination progress, effectiveness of state support measures and magnitude of the economic recovery. Due to the expected expiry of state support schemes a rise of the NPL ratio to 3 - 4% is expected, though.

Other operating result is expected to remain unchanged in the absence of significant one-off effects. Assuming a tax rate of below 25% and a similar level of minority charges as in the previous year, Erste Group aims to achieve an improvement in net profit. Erste Group's CET1 ratio is expected to remain strong. The management board proposes to the annual general meeting in May – in line with ECB recommendation – a dividend for 2020 of EUR 0.5 per share. An additional EUR 1/share has been reserved for a potential later payment.

Potential risks to the guidance are besides other than expected (geo)political, economic (monetary and fiscal policies) and regulatory measures and developments also global health risks and changes to the competitive environment. In addition, given the Covid-19 govern-mental measures and their impact on the economic development, financial forecasts are still subject to an elevated level of uncertainty. Erste Group is moreover exposed to non-financial and legal risks that may materialise regardless of the economic environment. Worse than expected economic development may put goodwill at risk.

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