Press release 2 November 2020

Erste Group's underlying performance remains solid despite the pandemic impact

"Considering the unprecedented crisis environment, Erste Group's profitability remains satisfactory at 637 million euros in net profit for the first nine months of 2020, with the third quarter being very strong. Our operating income decreased only by 2 percent year-on-year, loan loss provisions amounted to 70 basis points, and continued cost discipline resulted in lower expenses year-on-year. These results speak to the strength of our business model, our capital position, as well the resilience of the Central and Eastern European markets in which we operate.

The economic outlook for 2021 depends on the course of the pandemic. In any case, our commitment to continue supporting our customers and delivering results for our shareholders remains as solid as ever," **comments Stefan Doerfler, CFO of Erste Group.**

EARNINGS PERFORMANCE IN BRIEF

In the interim management report, financial results from January- September 2020 are compared with those from January-September 2019 and balance sheet positions as of 30 September 2020 with those as of 31 December 2019.

Net interest income increased – mainly in Austria, but also in Romania – to EUR 3,589.3 million (+2.0%; EUR 3,517.4 million). **Net fee and commission income** decreased to EUR 1,448.3 million (-2.4%; EUR 1,484.3 million) as lower income from payment services (EUR 17 million due to SEPA) and lending was not fully offset by higher income from other fee and commission income categories. While **net trading result** declined significantly to EUR 9.0 million (EUR 419.3 million), the line item **gains/losses from financial instruments measured at fair value through profit or loss** improved to EUR 81.4 million (EUR -189.4 million), both line items being impacted by valuation effects due to market volatility amid the Covid-19 pandemic. **Operating income** decreased to EUR 5,285.8 million (-2.0%; EUR 5,394.1 million). **General administrative expenses** declined to EUR 3,123.2 million (-1.2%; EUR 3,160.8 million). While personnel expenses rose to EUR 1.902,2 million (+0.8%; EUR1,887.2 million), other administrative expenses were reduced to EUR 819.0 million (-6.9%; EUR 879.3 million). Almost all payments into deposit insurance schemes expected for 2020 – EUR 100.3 million (EUR 97.7 million) – are already included in other administrative expenses. Amortisation and depreciation amounted to EUR 402.0 million (EUR 394.4 million). Overall, the **operating result** declined to EUR 2,162.7 million (-3.2%; EUR 2,233.3 million). The **cost/income ratio** rose to 59.1% (58.6%).

Due to net allocations, the **impairment result from financial instruments** amounted to EUR -870.1 million or 70 basis points of average gross customers loans (net releases of EUR 42.9 million or -4 basis points). Allocations to provisions for loans as well as for commitments and guarantees given went up in all core markets. The marked rise in allocations to provisions 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 in Romania. The **NPL ratio** based on gross customer loans improved to 2.4% (2.5%). The **NPL coverage ratio** increased to 95,5% (77.1%).

Other operating result improved to EUR -213.6 million (EUR -397.2 million). Expenses for the annual contributions to resolution funds included in this line item rose – in particular in Austria – to EUR 93.7 million (EUR 75.3 million). The rise in banking and transaction taxes to EUR 100.3 million (EUR 90.9 million) is primarily attributable to banking levies in Slovakia in the amount of EUR 33.8 million (EUR 24.2 million) posted for the last time in the first half of the year. Hungarian banking tax for the entire financial year 2020 was EUR 14.4 million (EUR 12.6 million). In the comparative period, other operating result included allocations to a provision in the amount of EUR 150.8 million set aside for losses expected to result from a supreme court decision concerning the business activities of a Romanian subsidiary.

Taxes on income declined to EUR 264.2 million (EUR 350.9 million). The minority charge decreased to EUR 177.1 million (EUR 322.7 million) due to significantly lower earnings contributions of the savings banks. The **net result attributable to owners of the parent** amounted to EUR 637.1 million (-47.9%; EUR 1,223.0 million).

Total equity not including AT1 instruments rose to EUR 19.5 billion (EUR 19.0 billion). After regulatory deductions and filtering in accordance with the CRR, **common equity tier 1 capital** (CET1, final) increased to EUR 16.4 billion (EUR 16.3 billion), total **own funds** (final) rose to EUR 22.4 billion (EUR 22.0 billion). While interim profit of the first half year is included in the above figures, interim profit for the third quarter is not. Total risk – **risk-weighted assets** including credit, market and operational risk (CRR, final) – decreased to EUR 116.1 billion (EUR 118.6 billion). The **common equity tier 1 ratio** (CET1, final) increased to 14.1% (13.7%), the **total capital ratio** to 19.3% (18.5%).

Total assets rose to EUR 272.0 billion (EUR 245.7 billion). On the asset side, cash and cash balances increased, primarily in Austria, to EUR 27.8 billion (EUR 10.7 billion), loans and advances to banks to EUR 25.7 billion (EUR 23.1 billion). **Loans and advances to customers** increased to EUR 164.5 billion (+2.6%; EUR 160.3 billion). On the liability side, deposits from banks grew significantly to EUR 26.4 billion (EUR 13.1 billion) as a result of increased ECB refinancing (TLTRO). **Customer deposits** rose again – in particular in the Czech Republic and Austria – to EUR 184.8 billion (+6.3%; EUR 173.8 billion). The **loan-to-deposit ratio** stood at 89.0% (92.2%).

OUTLOOK 2020/21

Operating environment	• **Real GDP decline of between 4-9%** expected in 2020, Q4 restrictions no yet incorporated • Non-linear economic recovery in 2021 • CEE-wide concerted fiscal mitigation efforts
Business performance	• Challenged revenue outlook amid economic downturn, rate cuts & market volatility, **costs to decline in 2020** • Lower organic growth, protected growth (guarantees) and freezing of good portfolio through moratoria
Credit risk	• 2020e risk costs confirmed at approx. 65-80bps (of average gross customer loans) • **2021e risk charge expected to be below 2020 level**
Capital position	• CET1 ratio is expected to remain strong with significant cushion in case of worse than expected economic performance • **CET1 target of 13.5% unchanged**
Profitability	• 2020e net result to be meaningfully lower than in 2019 • Dividend: proposal put forward to AGM (subject to regulatory directives)
Risk factors to guidance	• Longer than expected duration of Covid-19 crisis • Political or regulatory measures against banks • Geopolitical, global economic and global health risks • Economic downturn may put goodwill at risk

KEY FINANCIAL DATA

Income statement					
in EUR million	**Q3 19**	**Q2 20**	**Q3 20**	**1-9 19**	**1-9 20**
Net interest income	1,187.7	1,167.9	1,192.4	3,517.4	3,589.3
Net fee and commission income	503.9	452.5	491.6	1,484.3	1,448.3
Net trading result and gains/losses from financial instruments at FVPL	60.0	129.2	81.0	229.9	90.4
Operating income	1,801.2	1,808.9	1,814.0	5,394.1	5,285.8
Operating expenses	-1,014.9	-1,003.5	-1,008.5	-3,160.8	-3,123.2
Operating result	**786.4**	**805.4**	**805.5**	**2,233.3**	**2,162.7**
Impairment result from financial instruments	0.1	-613.7	-194.7	42.9	-870.1
Post-provision operating result	**786.5**	**191.8**	**610.8**	**2,276.2**	**1,292.6**
Other operating result	-46.2	-42.3	-43.8	-397.2	-213.6
Levies on banking activities	-26.2	-33.1	-17.3	-90.9	-100.3
Pre-tax result from continuing operations	746.8	148.8	568.3	1,896.6	1,078.4
Taxes on income	-138.2	-37.3	-123.9	-350.9	-264.2
Net result for the period	**608.6**	**111.5**	**444.4**	**1,545.7**	**814.2**
Net result attributable to non-controlling interests	117.6	53.0	101.0	322.7	177.1
Net result attributable to owners of the parent	**491.1**	**58.5**	**343.3**	**1,223.0**	**637.1**
Earnings per share	1.15	0.02	0.81	2.78	1.37
Return on equity	14.3%	0.2%	9.6%	11.6%	5.5%
Net interest margin (on average interest-bearing assets)	2.14%	2.04%	2.04%	2.17%	2.09%
Cost/income ratio	56.3%	55.5%	55.6%	58.6%	59.1%
Provisioning ratio (on average gross customer loans)	0.00%	1.48%	0.46%	-0.04%	0.70%
Tax rate	18.5%	25.1%	21.8%	18.5%	24.5%

Balance sheet					
in EUR million	**Sep 19**	**Jun 20**	**Sep 20**	**Dec 19**	**Sep 20**
Cash and cash balances	15,638	18,433	27,848	10,693	27,848
Trading, financial assets	45,895	47,667	46,511	44,295	46,511
Loans and advances to banks	25,241	27,418	25,672	23,055	25,672
Loans and advances to customers	157,841	163,736	164,514	160,270	164,514
Intangible assets	1,491	1,331	1,331	1,368	1,331
Miscellaneous assets	5,996	6,106	6,107	6,012	6,107
Total assets	**252,101**	**264,692**	**271,983**	**245,693**	**271,983**
Financial liabilities held for trading	2,751	2,737	2,845	2,421	2,845
Deposits from banks	19,936	21,984	26,433	13,141	26,433
Deposits from customers	172,511	182,670	184,830	173,846	184,830
Debt securities issued	30,103	29,431	29,675	30,371	29,675
Miscellaneous liabilities	6,670	6,669	6,762	5,437	6,762
Total equity	20,130	21,200	21,438	20,477	21,438
Total liabilities and equity	**252,101**	**264,692**	**271,983**	**245,693**	**271,983**
Loan/deposit ratio	91.5%	89.6%	89.0%	92.2%	89.0%
NPL ratio	2.7%	2.4%	2.4%	2.5%	2.4%
NPL coverage ratio (based on AC loans, ex collateral)	76.9%	91.1%	95.5%	77.1%	95.5%
CET1 ratio (final)	13.1%	14.2%	14.1%	13.7%	14.1%

Ratings	**Sep 19**	**Jun 20**	**Sep 20**
Fitch			
Long-term	A	A	A
Short-term	F1	F1	F1
Outlook	Stable	RWN	RWN
Moody´s			
Long-term	A2	A2	A2
Short-term	P-1	P-1	P-1
Outlook	Positive	Positive	Positive
Standard & Poor´s			
Long-term	A	A	A
Short-term	A-1	A-1	A-1
Outlook	Positive	Stable	Stable

In case of media inquiries, please reach to Erste Group Corporate Communication:

Peter Thier Tel. +43 50100 – 17247 Email: peter.thier@erstegroup.com
Carmen Staicu Tel: +43 50100 – 11681 Email: carmen.staicu@erstegroup.com
Peter Klopf Tel. +43 50100 – 11676 Email: peter.klopf@erstegroup.com
Martin Sonn-Wende Tel. +43 50100 – 11680 Email: martin.sonn-wende@erstegropup.com

This press release is also available at: www.erstegroup.com/pressrelease