

**ERSTE&STEIERMÄRKISCHE BANK d.d.**

**Investor Presentation**

June 2021



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# Summary

## Republic of Croatia

- Member of European Union (since 2013)
- Sovereign ratings at BBB- with stable outlook (S&P), BBB- with stable outlook (Fitch) and Ba1 with stable outlook (Moody's)
- Economy hit by the COVID-19 lockdown and consequent recession, 2021 prospects facing second wave headwinds

## Erste Group

- Founded in 1819 as the first Austrian savings bank, Erste Group went public in 1997 with a strategy to expand its retail business into CEE
- Erste Group has grown to one of the largest financial services providers in the Eastern part of EU in terms of clients and total assets
- Number of customers has increased from 600,000 to 16.1 mil. in Austria, Czech Republic, Slovakia, Romania, Hungary, Croatia and Serbia
- Erste Group strives to be the leading retail and corporate bank in the eastern part of the European Union, including Austria

## Croatian Banking Market

- Despite economic pressures, banking sector remains strong with no capital shortfalls of the largest Croatian banks even in stress test scenarios according to a comprehensive assesment of ECB
- The significant increase in costs due to the COVID-19 pandemic influence on credit risk recognition and reduced net operating income almost halved the profit compared to the same period last year (nine months)
- Household lending slowed down, mainly due to a decline in general-purrpose cash loans. Following vigorous lending activity in 1Q 2020, corporate placements declined afterwards

## ERSTE&STEIERMÄRKISCHE BANK d.d. („Erste Bank Croatia”; „EBC”)

- EBC is the third largest bank in Croatia in terms of total assets, retail loans, total deposits as well as distribution network
- Current rating from Fitch stands at BBB+ with stable outlook
- Higher risk costs with significant negative impact on net profit
- Loans growing stronger than market both in corporate and retail segment in 2020

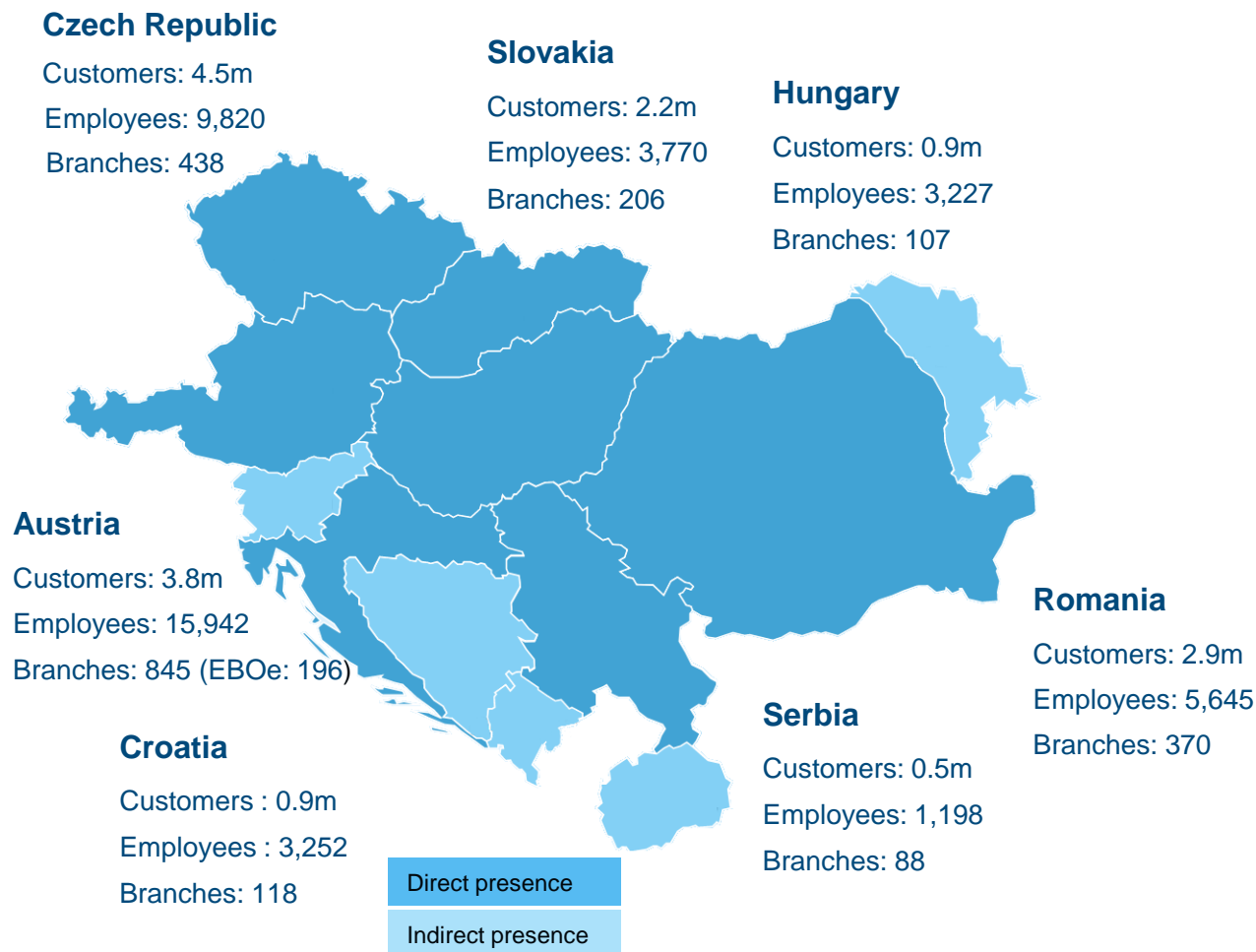
# Presentation Topics

## 1. Erste Group | EBC at Glance

2. Republic of Croatia
3. Croatian Banking Market
4. Erste Bank Croatia
5. Funding
6. Additional Information

# Erste Group at a Glance

Leading retail and corporate bank in 7 geographically connected countries



## Key information as of Dec 2020

Total assets	<b>EUR 277bn</b>
Net profit	<b>EUR 783mn</b>
NPL coverage	<b>88.6%</b>
NPL ratio	<b>2.7%</b>
CET 1 ratio*	<b>14.2%</b>
Total capital ratio*	<b>19.7%</b>
Loan/deposit ratio	<b>86.9%</b>
Leverage ratio	<b>6.7%</b>
Credit ratings**	<b>A (Stable) / A2 (Positive) / A (RWN)</b>

\* Basel 3 \*\* S&P | Moody's | Fitch

# Erste Bank Croatia at a Glance

Third bank in Croatia with best customer experience among peers

## About Erste&Steiermarkische Bank d.d.

- Established as Riječka banka d.d. in 1954; in Erste Group ownership since 2003
- #No1 in customer experience
- More than 910 thousand customers
- 118 branches and 745 ATM-s

## Sustainable Development and Environment

- Focus on 6 Sustainable Development Goals („SDG“):
  - 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)
  - Climate Action (SDG 13)
- Measurable reductions in CO2 (-14%) and paper usage per FTE (-22%) since 2019

## Key Information (December 2020)

Total assets	<b>HRK 82.5bn</b>
Net profit	<b>HRK 460mn</b>
NPL coverage	<b>89.7%</b>
NPL ratio	<b>6.7%</b>
CET 1 ratio	<b>17.5%</b>
Total capital ratio	<b>18.7%</b>
Loan/deposit ratio	<b>88.7%</b>
ROE	<b>4.6%</b>
CIR	<b>53.7%</b>

Source: Audited Consolidated Financial Statements

## Credit Ratings

Issuer	Rating
Fitch	BBB+ stable

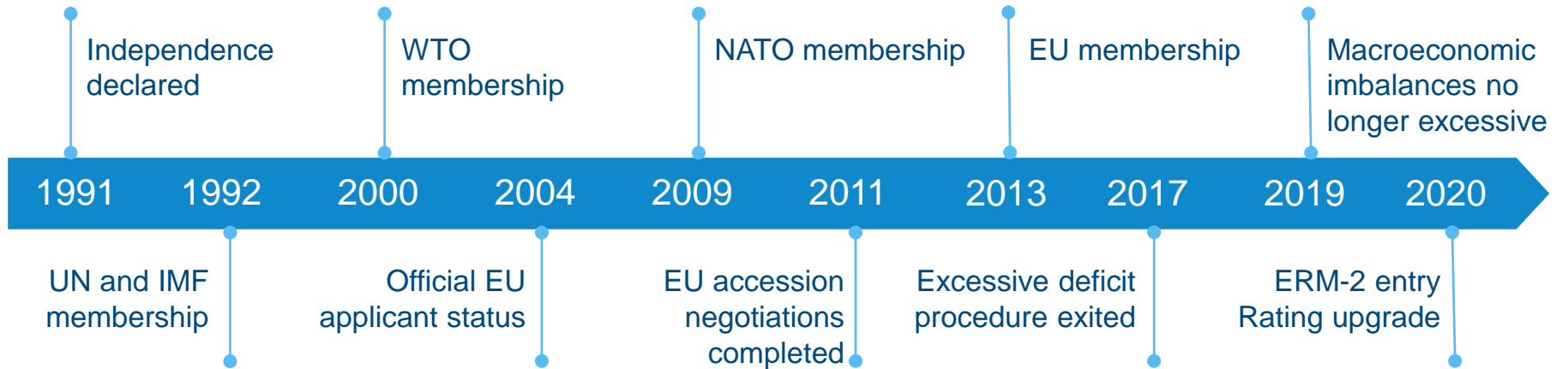
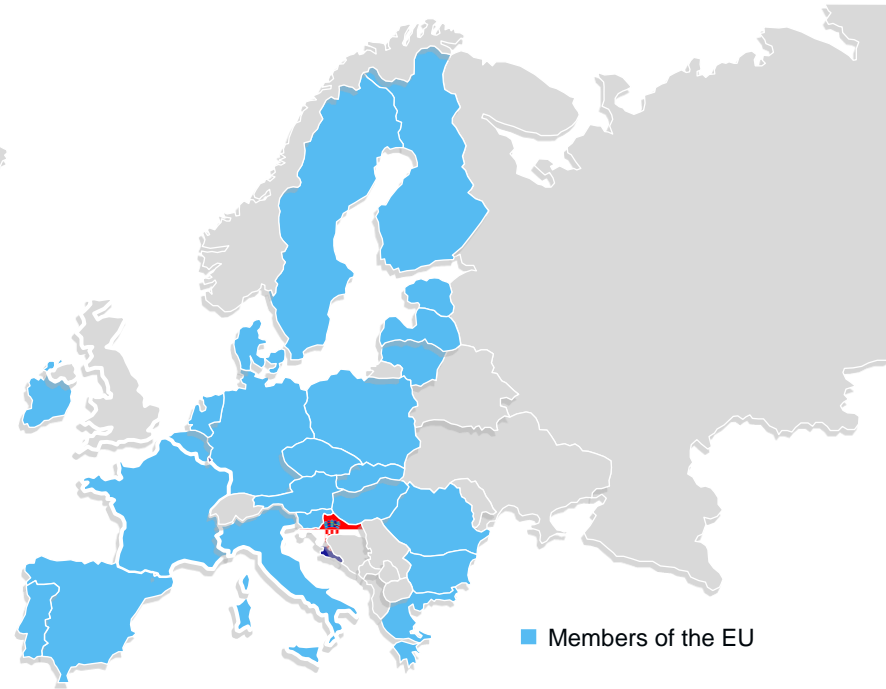
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# Republic of Croatia – Key Figures

- Area:** 56,594 km<sup>2</sup> (land); 31,067 km<sup>2</sup> (sea)
- Population:** Approx 4.1 million
- GDP per capita:** Approx. €12,679 in 2020 (provisional)
- Credit ratings\*:** Ba1 (stable outlook) | BBB- (stable outlook) | BBB- (stable outlook)
- Capital:** Zagreb

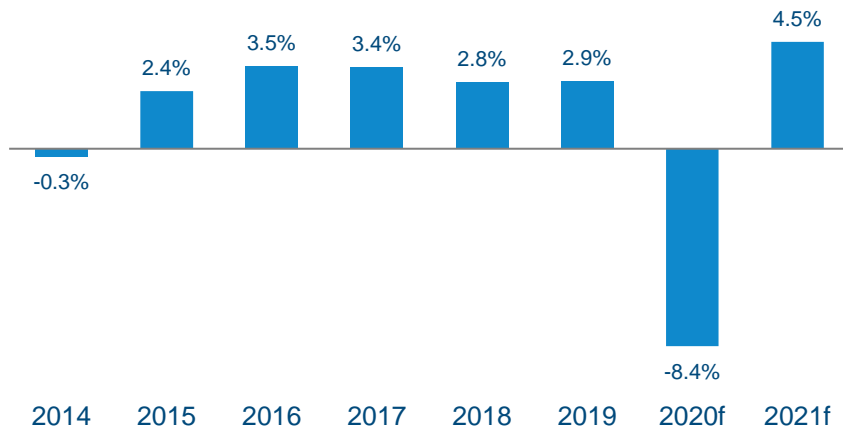
\* Ratings by Moody's | S&P | Fitch





# Macroeconomic Development

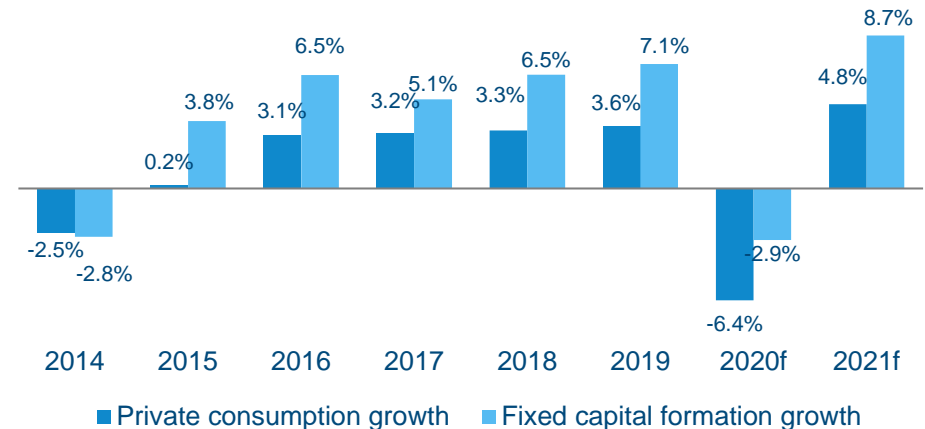
## Real GDP growth (%)



Source: Statistical Office, ECB Research

- Negative COVID-19 effects were already hinted at the start of the last year, as growth slowed to 0.2% in the 1Q, followed by double-digit contraction in 2Q and 3Q (-15.3% and -10%, as follows). Last quarter brought moderation of the downturn (-7% y/y), which rounded up FY20 decline at 8.4% y/y.
- Domestic demand took a hit as private consumption was down 6.4% y/y, while investments overall held better than anticipated (-2.9% y/y). Strongest drag came from the exports side, with services (namely tourism) dropping 45% y/y, largely affecting FY20 subpar performance vs. EU average.

## Components of GDP

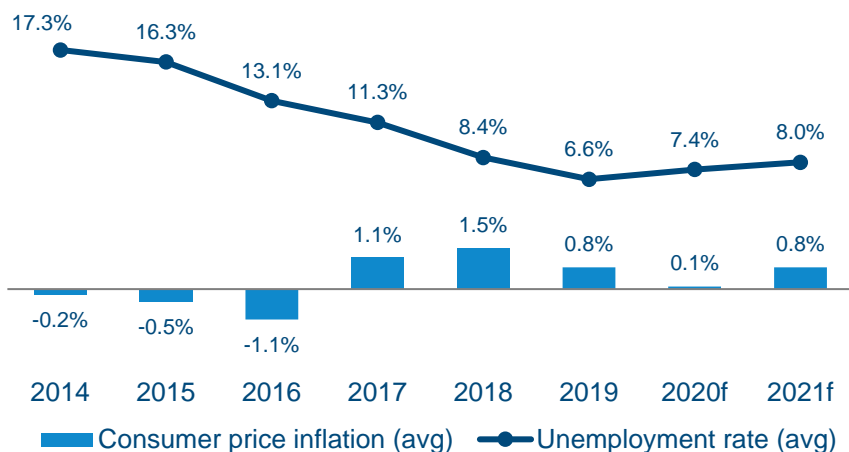


Source: Statistical Office, ECB Research

- Going into 2021, risks on both sides remain elevated amid uncertainty related to pandemic/vaccination trajectory, and consequently, tourism rebound potential and external demand recovery.
- Domestic demand should recover amid low base effect on the private consumption side and EU-backed investments activity, while EU rebound would deliver support to exports side, with tourism expected to recovery back to 65-70% of the pre-COVID-19 levels in the baseline scenario
- Bottom line, we see 2021 GDP growth around 4.5% mark.

# Macroeconomic Development (Cont'd)

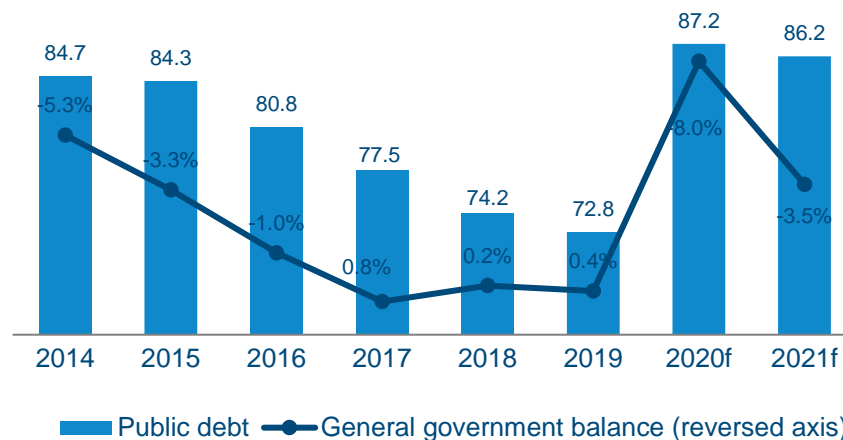
## Unemployment and inflation (%)



Source: Statistical Office, EBC Research

- COVID-19 pandemic also negatively reflected on the labor market. However, upward movement has been less aggressive than initially feared, with labor market being safeguarded by the government measures, thus unemployment rates in 2020-21 are seen remaining in single-digit region, albeit at more elevated mark.
- YE20 CPI figure revealed intensified deflationary pressures, with average 2020 inflation landing at 0.1%. Outlook implies demand side pressure remaining on the weak side and energy prices footprint normalizing. We expect only modest acceleration towards the 1% region in 2021.

## Public debt and govt. balance (share of GDP)



Source: Statistical Office, ECB Research

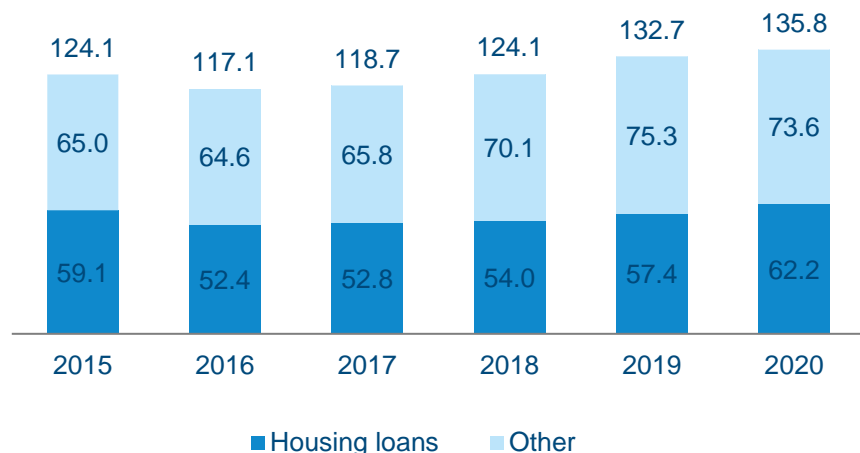
- Positive fiscal trends would come to a halt in 2020, following COVID-19 outbreak and governments efforts to contain negative effects – unfavorable economic growth outlook, alongside rising pressures on the expenditures side, suggests budget gap in the region around 8% of GDP in 2020. Consequently, public debt would reverse its trajectory by moving closer to 90% of GDP level in 2020.
- News on the rating side remain supportive, as S&P and Fitch affirmed Croatia's IG rating, while Moody's upgraded Croatia's rating by one notch to 'Ba1', with stable outlook.

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# Outstanding Retail Loans and Debt of Households

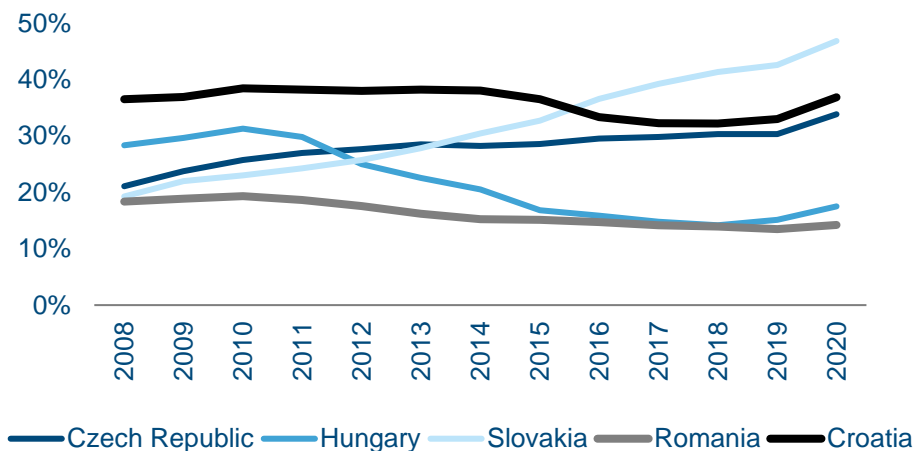
## Development of retail loans (HRK bn)



Source: CNB

- Housing loans constitute the majority of retail loans
- Following 7% y/y increase in 2019, retail loans growth slowed down significantly in 2020, with loans to households rising only 2% y/y
  - Housing loans increased particularly strongly, around 8% y/y in 2020
  - On the other hand, non-purpose cash loans, under the influence of uncertainty due to the COVID-19 crisis, decreased by HRK 0.7bn, or 1.4% compared to the end of last year

## Retail loans to GDP

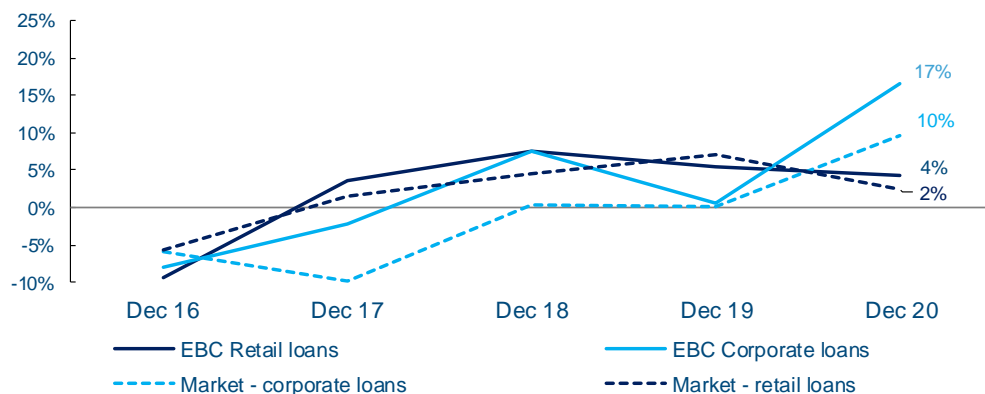


Source: Erste Group Research

- Croatia's households traditionally are showing relatively high penetration rates in the CEE region
- After period of weaker credit growth and gradual deleveraging, recent period brought more positive credit footprint and increasing penetration level (also courtesy of declining GDP base)

# Outstanding Loans and Deposits

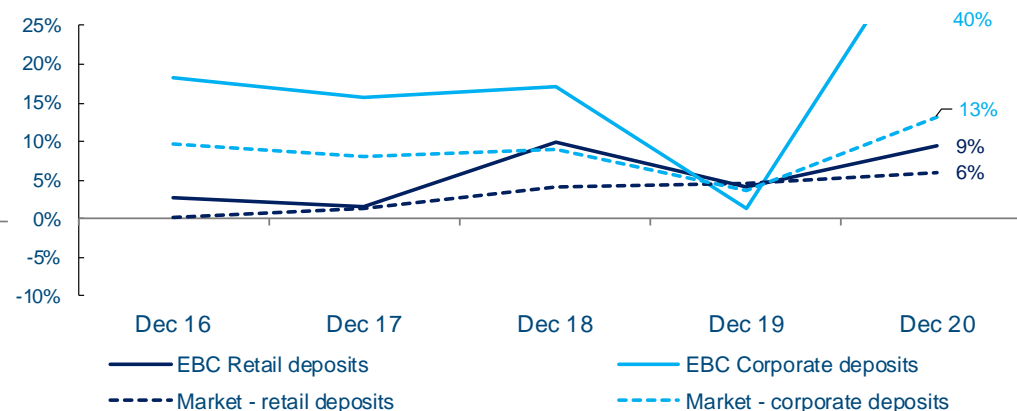
## Retail and corporate gross loans (YoY growth)



Source: CNB

- Both retail and corporate segment have increasing market shares in gross loans in the period from 2016 to 2020
- The significant growth in corporate segment in EBC in 2020 was driven by government units and large corporate segment
- In retail segment EBC has been steadily increasing its market share in housing loans, one of the key products for creating long-lasting relationship with clients
- A significant growth of cash loan volumes on the market resulted in a decrease of EBC's market share in 2019. While the loan demand was hit by the COVID-19 pandemic in 2020, EBC managed to cope with it and increase its market share

## Retail and corporate deposits (YoY growth)

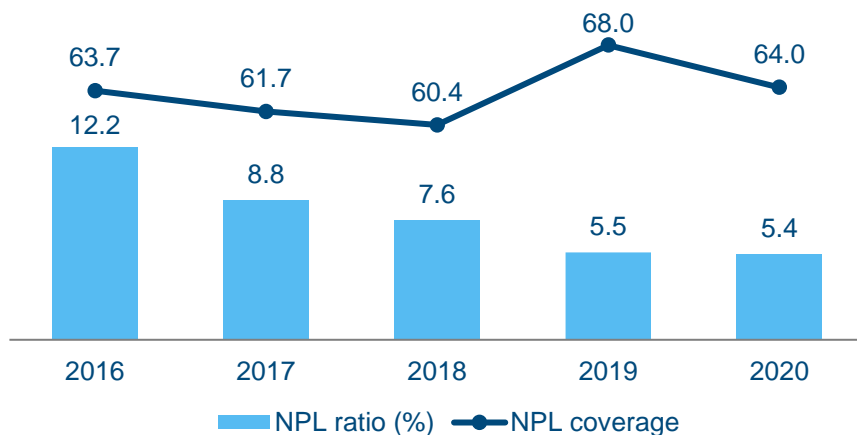


Source: CNB

- From 2016 to 2020 a growth of deposits was noticeable in both the market as well as EBC
- Both retail and corporate segments were increasing their market shares
- The significant increase of deposits in EBC in 2020 was mainly driven by the COVID-19 pandemic, but partially also is the result of regular business activities

# NPL Rates and Profitability of the Sector

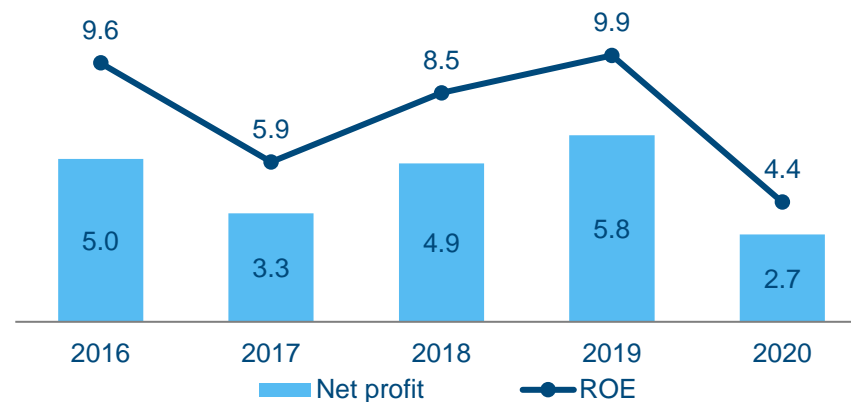
## NPL ratio and NPL coverage



Source: CNB

- In recent years total level of non-performing loans has been on downward trajectory, with 2020 figure remaining on similar levels to 2019
  - Non-performing loans rose in the household loan portfolio, in which the share of NPLs increased from 5.8% to 7.1%
  - The share of NPLs in the non-financial corporate sector decreased from 13.7% to 12.5%, primarily due to the sale of non-performing receivables and introduction of COVID-19 moratoria

## Profitability of the sector (HRK bn / %)

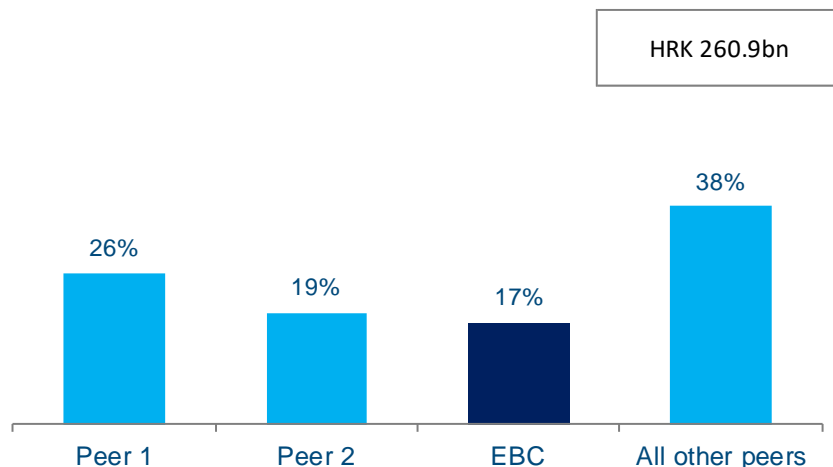


Source: CNB

- Croatian banks posted net profit of HRK 2.7bn in 2020, slightly less than a half of 2019 realization
- Biggest impact on the decline in profit came from shrinking operating result and increased credit risk, with latter one increasing as a result of COVID-19 pandemic
- With the decline in profits, profitability indicators also came under pressure, with ROE declining from 9.9% to 4.4% in 2020
- Stability of the banking sector remained intact with capital adequacy ratio remaining flat just shy of 25%

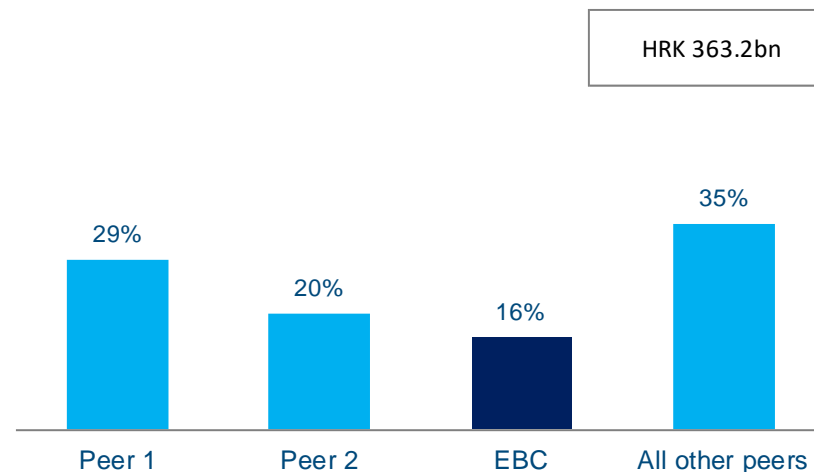
# Main Players on Croatian Banking Market

Customer loan market shares (Dec. 2020)



Source: CNB, publicly available information for major banks

Customer deposit market shares (Dec. 2020)



Source: CNB, publicly available information for major banks

- As the 3<sup>rd</sup> bank in terms of loans to customers, EBC has established a strong market position
- During 2020 the bank has increased its loan volumes. As a result, market share increased by 1 p.p. as of 31 December 2020
- This growth has been driven by the central government unit and large corporate segment. The increase of loan demand observed on the market was partially result of the COVID-19 pandemic and increased government funding needs

- As bank number 3 in terms of customer deposits, EBC has established a strong position in the market in this segment as well
- As a result of an increase in corporate and retail segments, the market share increased in 2020 by an additional 1.4 p.p.
- The structure of deposits has been changing in favor of a'vista deposits supported by the low interest rate environment

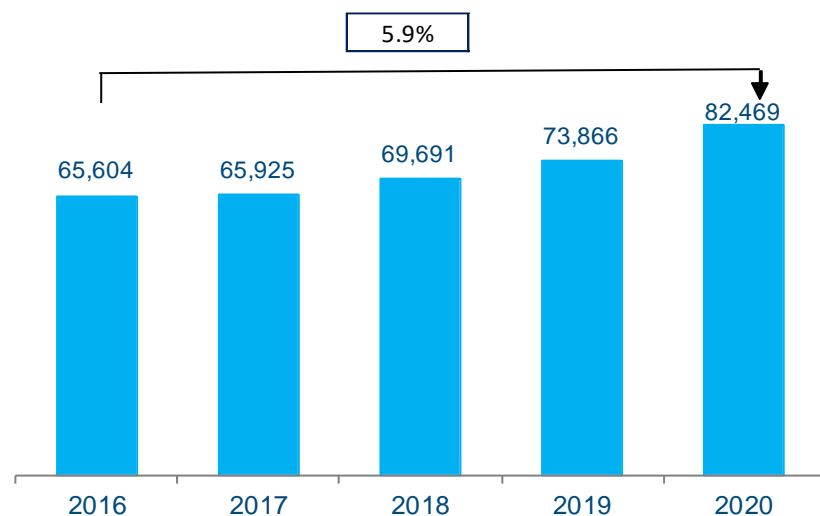
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# Historical Performance of EBC Group

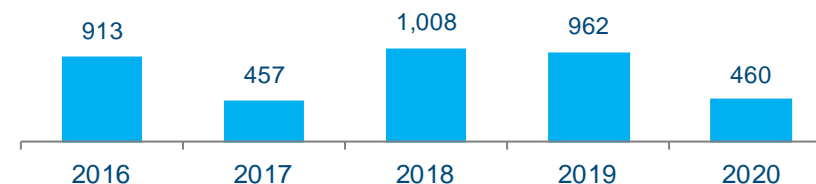
Total assets (HRK m)



Source: Audited Consolidated Financial Statements

- The EBC Group total assets have been continuously growing in the last 5 years
- Compound growth is mostly driven by increasing loan portfolio both in retail and corporate segments due to favorable market conditions. In 2020, year characterized by the COVID-19 pandemic, the loan demand was mostly driven by large corporate segment (including government), additionally supported by significant increase of liquid assets

Net profit (HRK m)

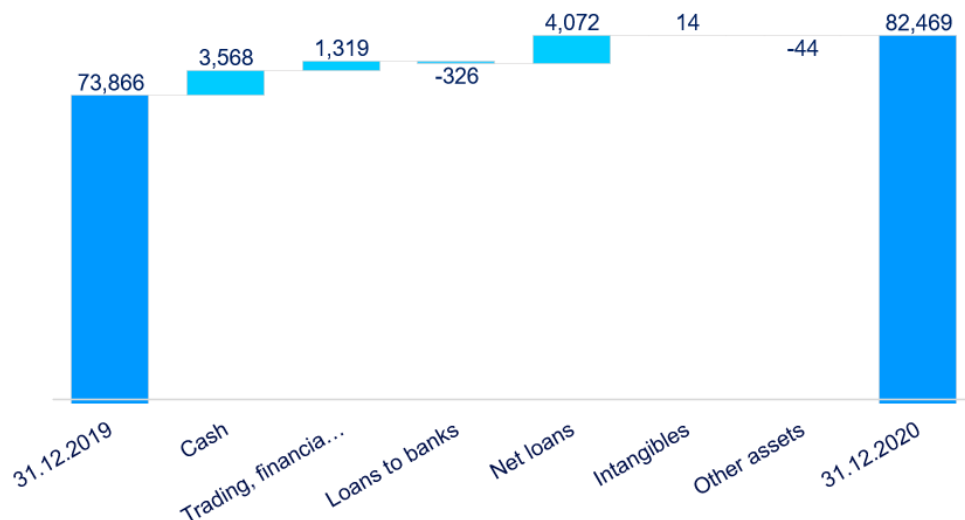


Source: Audited Consolidated Financial Statements

- Positive net profit developments were interrupted in 2017 by a default of a systemically important corporate client and in 2020 by the COVID-19 pandemic
- Both 2017 and 2020 were impacted by a strong increase of risk cost
- Operating result is strong and overall stable, with a decreasing trend due to continuous pressures on operating income and increasing pressures on operating expenses

# Balance Sheet Performance of EBC Group

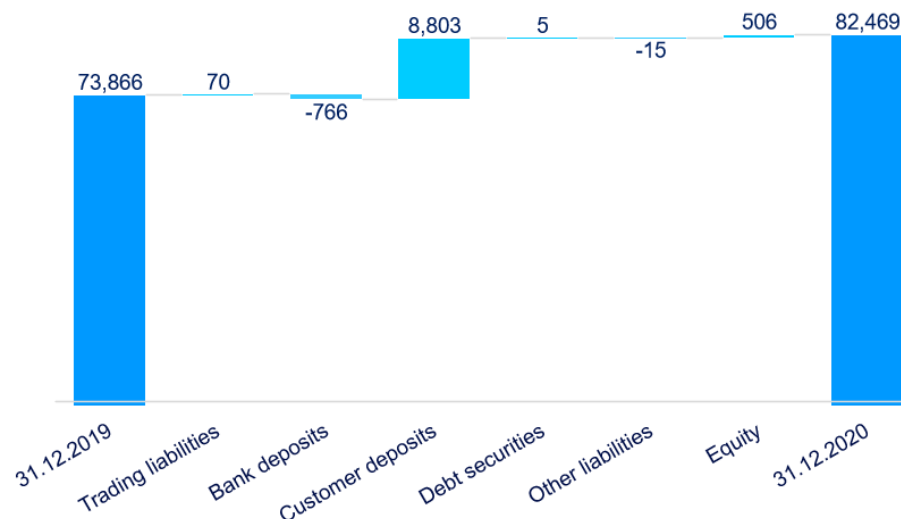
Total assets development in 2020 (HRK m)



Source: Audited Consolidated Financial Statements

- Part of the liquidity surplus, coming from deposits, has been directed into loans to customers (mainly corporate segment incl. government loans, but also retail segment)
- Liquidity surplus has been held as cash on hand or cash balances with the Croatian National Bank

Total liabilities development in 2020 (HRK m)

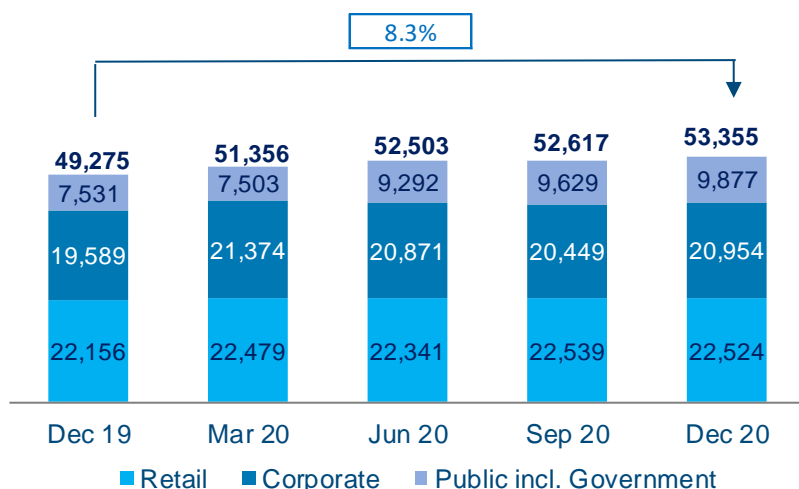


Source: Audited Consolidated Financial Statements

- The major change in the structure of liabilities comes from the increase of deposits due to COVID-19 pandemic (withdrawals from open-end investment funds and lower consumption) in addition to regular business activities

# Balance Sheet Performance of EBC Group (cont'd)

## Net customer loans\* (HRK m)

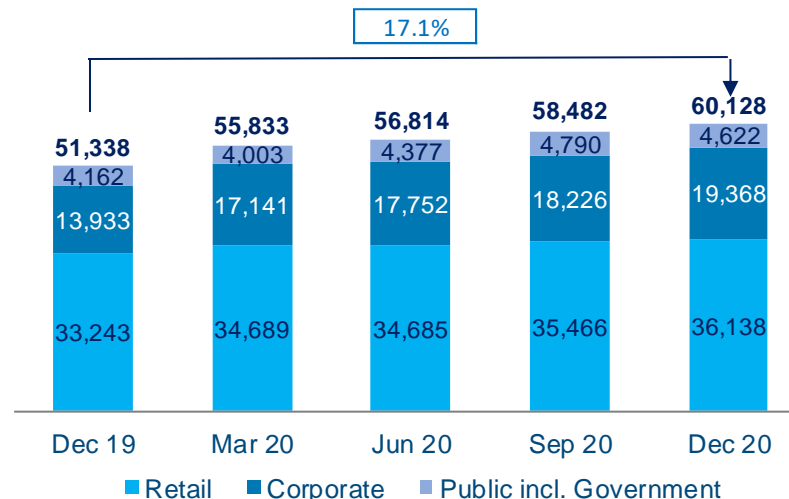


Source: Audited Consolidated Financial Statements

### Customer loans grew by 8.3% yoy

- In 2020 new business volumes were affected by the COVID-19 pandemic in both retail and SME segment, while total loans mainly increased due to government loans and a few larger long-term tickets in large corporate segment
- Slower pace of growth was recorded in retail loans (2% yoy) – growth is under the influence of housing loans subsidized by the government as well as the postponed repayments due to approved moratoriums
- Corporate & public loans grew strongly by 14% yoy - driven by public loans growth of +31% yoy

## Customer deposits (HRK m)



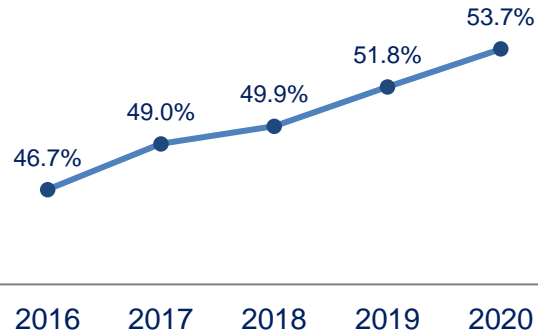
Source: Audited Consolidated Financial Statements

### Customer deposits expanded yoy by 17.1% yoy

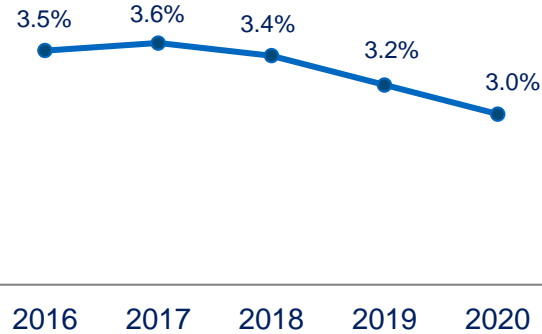
- Both retail and corporate business lines recorded growth of a'vista deposits during the year, partially due to the COVID-19 pandemic (withdrawals from open-end investment funds and lower consumption) in addition to regular business activities
- Retail deposits grew by 9% yoy
- Corporate & public deposits grew strongly, the corporate side by 39% and the public by 11% yoy as a result of increased a'vista deposits due to few larger tickets and reduced spending

# Key Financial Ratios of EBC Group

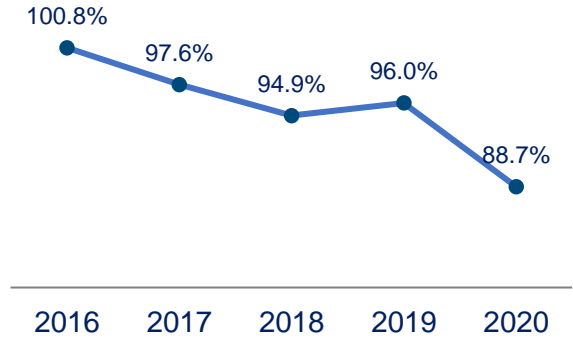
## Cost income ratio



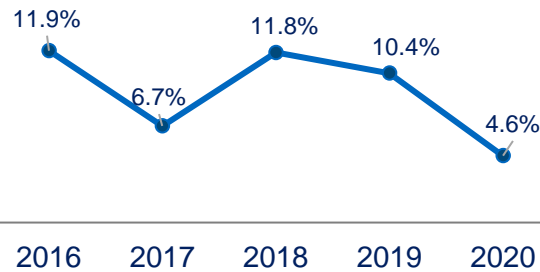
## Net interest margin



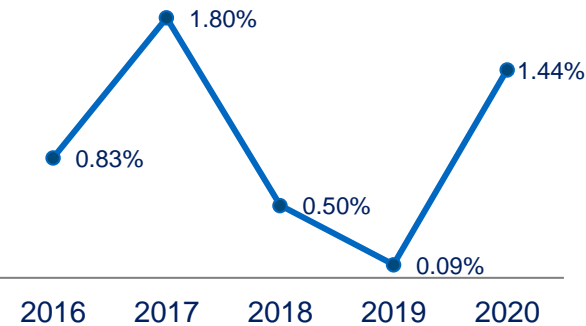
## Net loan/deposit ratio



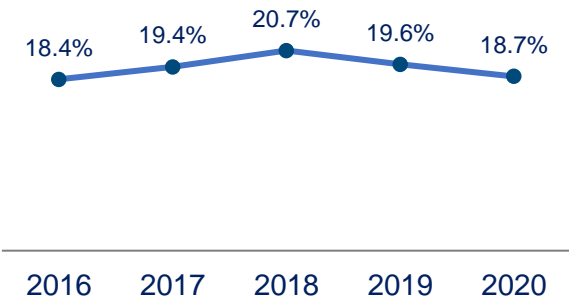
## ROE



## Risk cost

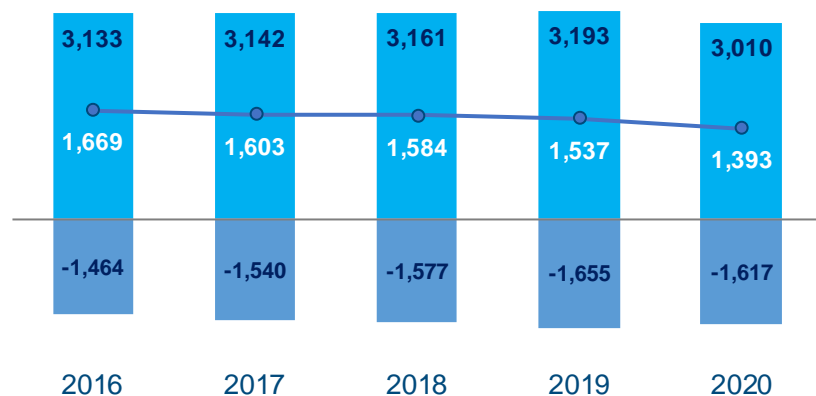


## Solvency ratio



# Operating and Net Results

## Operating result development (HRK m)

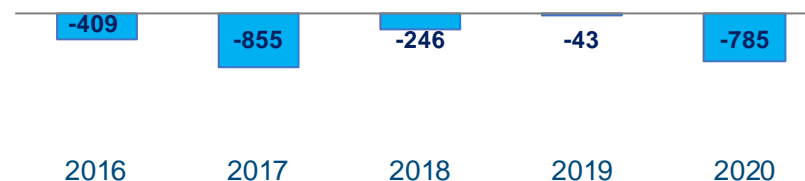


Operating income Operating expenses Operating result

Source: Audited Consolidated Financial Statements

- Operating result reached HRK 1.4b at the end of 2020 (-9.4% yoy)
- Operating income was under the influence of the COVID-19 pandemic, with products whose income is generated by volumes of transactions affected stronger
- Negative impacts on operating result were partially offset by lower operating expenses (PEREX and OPEX)

## Risk cost development (HRK m)



Source: Audited Consolidated Financial Statements

- The major impact on net profit in 2020, 52% yoy, is coming from significantly higher risk cost due to COVID-19 pandemic

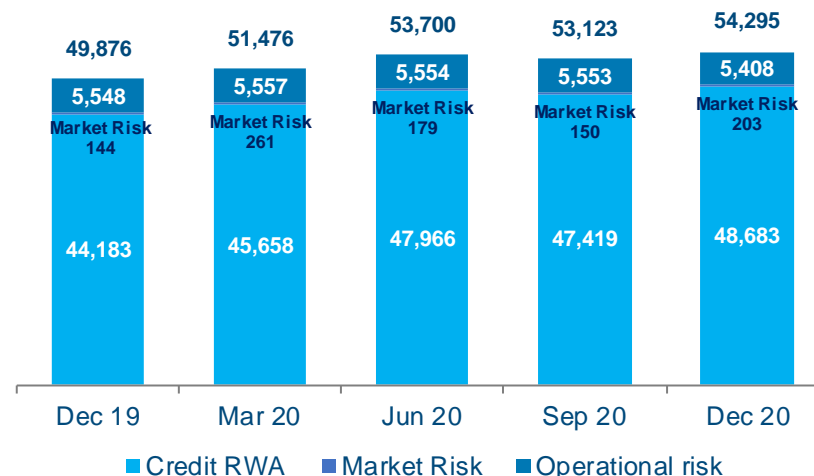
# Capital Position

Basel 3 Capital (fully loaded, HRK m)

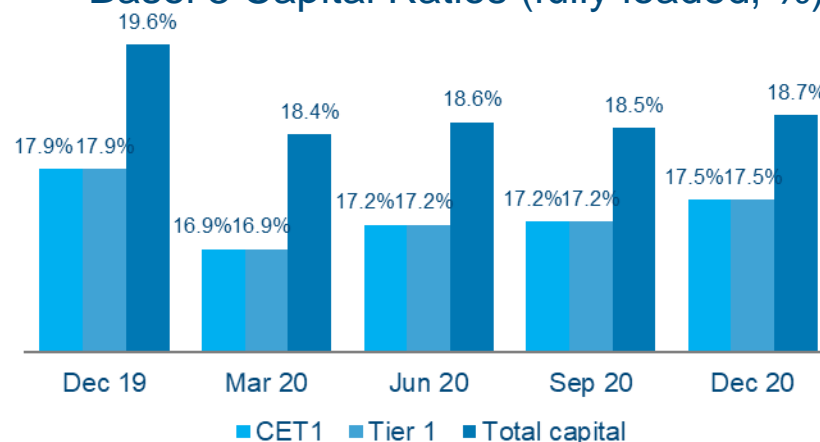


- The bank's capital position has remained strong during the pandemic and well above minimum requirements with CET1 of 17.5% and total capital ratio of 18.7%
- Own funds increased in 2020 due the full retention of net profit for 2019 based on the decision of the Croatian National Bank related to COVID-19 measures as well as partial inclusion of net profit in 2020
- Total risk exposure amount increased in 2020 due to exposure increase on the one hand and methodology impacts on the other

Risk-weighted Assets (fully loaded, HRK m)



Basel 3 Capital Ratios (fully loaded, %)



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# Additional information: MREL details

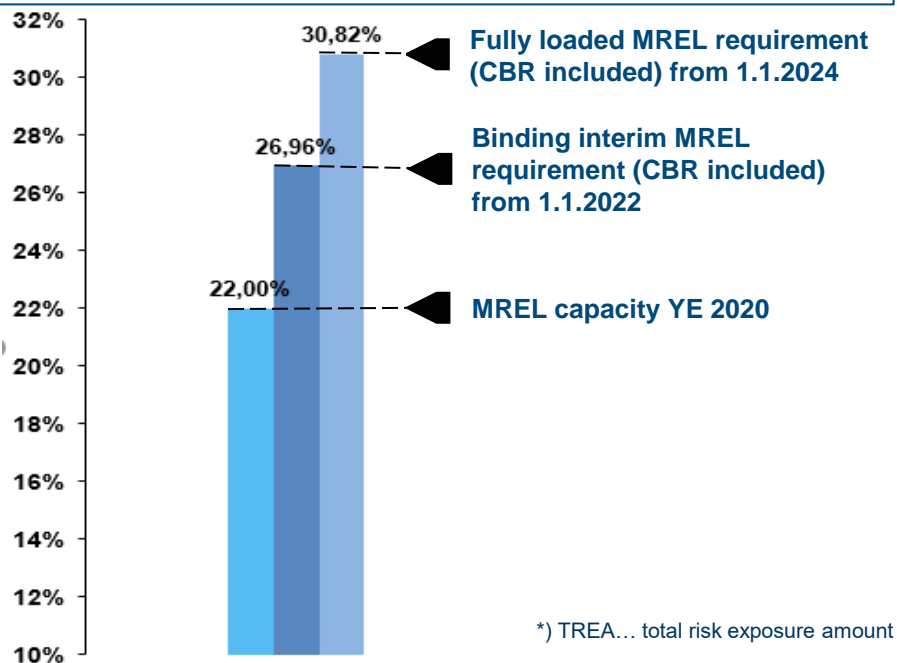
## Croatian resolution group: MREL requirement based on RWA

### Croatian Resolution Group

Entities within the Croatian resolution group:

- ERSTE&STEIERMÄRKISCHE BANK d.d. (HR)
- ERSTE&STEIERMÄRKISCHE S-LEASING d.o.o. (HR)
- ERSTE CARD CLUB (HR)
- ERSTE CARD d.o.o. (SI)

### MREL based on TREA (RWA)\*



### Key take-aways

- EBC's setup is based on a multiple point of entry (MPE) resolution approach
- **In June 2021, EBC received its first MREL requirement** set by the SRB and calibrated on balance sheet data as of 31 December 2019 and the Bank Recovery and Resolution Directive 2 (BRRD2).
- EBC, as the Point of Entry of the Croatian resolution group, must comply with binding interim MREL requirements equivalent to 20.96% + Combined Buffer Requirement (CBR) (6%) = 26.96% of the Total Risk Exposure Amount (TREA) and 5.91% of the Leverage Ratio Exposure (LRE) of the Croatian resolution group starting from 1 January 2022. The MREL requirements on fully loaded basis, effective from 1 January 2024, are equivalent to 24,82% + CBR (6%) = 30.82% of TREA and 5.91% of LRE of the Croatian resolution group, respectively.
- No subordination requirement has been set at the level of the Croatian resolution group.
- These requirements are in line with our expectations and have been duly considered in our funding plan for this and the following years.
- Based on the Croatia resolution group's RWAs as of December 2020 of approx. EUR 6.7bn, the MREL capacity was at level of 22%.



# Funding Plans

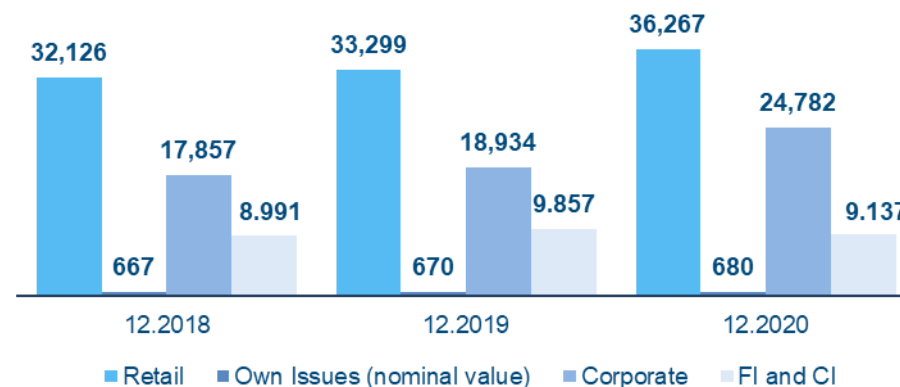
## 2021 Funding Plan

- Potential inaugural international transaction planned in Senior Preferred format and sub-benchmark size in 2021
- After the inaugural issue an average yearly MREL issuance plan in the amount of EUR 200-350mn is envisaged
- Further planned issuances will be done out of the Multi Issuer Programme

## Documentation in place

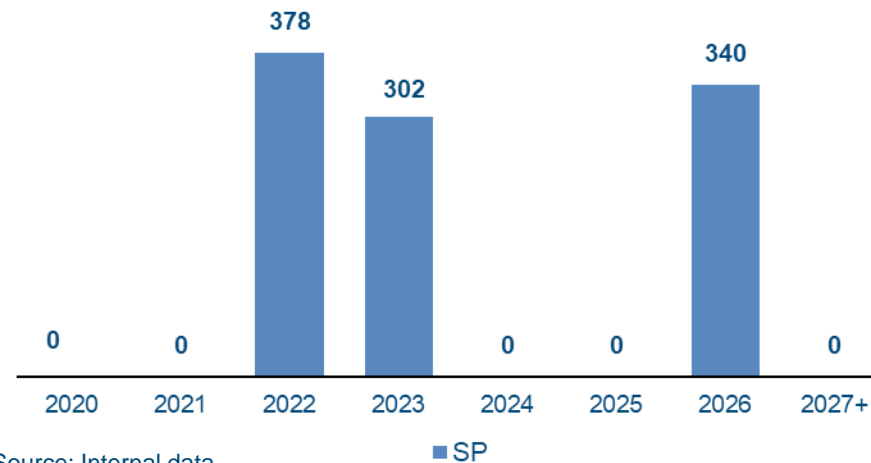
- Programmes:
  - Multi Issuer EMTN Programme (for Preferred Senior and Non-Preferred Senior Notes)
  - Preferred Senior Retail Programme
- Governing Law: Croatian | German
- Listing: Zagreb Stock Exchange | Vienna Stock Exchange

## EBC Funding Mix (12/2018 – 12/2020, HRK m)



Source: Internal data

## Maturity Profile as of February 2021 (HRK m)



Source: Internal data

# Introduction of the new regulation in Croatia

By joining the Single Supervisory Mechanism (SSM) and the Single Resolution Mechanism (SRM) on October 1<sup>st</sup> 2020, the Republic of Croatia became the member of Banking Union which was created to align responsibility for supervision, resolution and funding at EU level. As a member of the Banking Union, the Republic of Croatia is subject to common EU rules, which prevents regulatory arbitrage and supports stability of the system and market competition on equal terms.

In December 2020, following acts introducing further harmonization with EU regulations, following acts were adopted:

- the Act on Amendments to the Credit Institutions Act, which transposes into Croatian legislation Directive (EU) 2019/878 (Capital Requirements Directive V/CRD V), introduces certain adjustments and national discretions in accordance with Regulation (EU) 2019/876 (Capital Requirements Regulation II/CRR II) and minor adjustments to Directive (EU) 2019/879 (Bank Recovery and Resolution Directive II /BRRD II). The most significant amendments relate to capital conservation measures adopted to further strengthen the ability of credit institutions to withstand possible shocks, to preserve financial stability by strengthening the capital needs of credit institutions and measures to improve their lending activity.
- the Act on the Resolution of Credit Institutions and Investment Firms, which transposes into Croatian legislation Bank Recovery and Resolution Directive II /BRRD II. For the most part, the amendments relate to the provisions establishing a minimum requirement for own funds and eligible liabilities (MREL), resolution provisions (including bail-in and insolvency ranking ). MREL is designed to ensure that institutions have sufficient capacity to cover losses and recapitalize in the event of resolution, where the costs of resolution would be shouldered by the owners and creditors rather than taxpayers and also with minimal impact on financial stability.

# Presentation Topics

1. Erste Group | EBC at Glance
2. Republic of Croatia
3. Croatian Banking Market
4. Erste Bank Croatia
5. Funding
- 6. Additional Information**

# EBC Group Balance sheet

HRK m	12/2019	12/2020	Y-o-Y
Cash and cash balances	5,105	8,673	3,568
Financial assets held for trading - Derivatives	225	162	-63
Non-trading financial assets at fair value through profit or loss	199	188	-11
other comprehensive income	10,604	11,278	674
Financial assets at amortised cost	51,295	56,154	4,859
Debt securities	1,642	2,361	719
Loans and advances to banks	4,367	4,041	-326
Loans and advances to customers	45,286	49,752	4,466
Finance lease receivables	2,453	2,460	7
Property and equipment	1,311	1,236	-75
Investment properties	33	5	-28
Intangible assets	376	390	14
Investments in associates	58	59	1
Current tax assets	12	123	111
Deferred tax assets	187	197	10
Trade and other receivables	1,537	1,143	-394
Other assets	471	401	-70
<b>Total assets</b>	<b>73,866</b>	<b>82,469</b>	<b>8,603</b>

HRK m	12/2019	12/2020	Y-o-Y
Financial liabilities – held for trading	36	106	70
Financial liabilities measured at amortised cost	62,690	70,636	7,946
Deposits from banks	9,814	9,048	-766
Deposits from customers	51,325	60,128	8,803
Debt securities issued	672	677	5
Other financial liabilities	879	783	-96
Finance lease liabilities	98	102	4
Provisions	494	582	88
Current tax liabilities	24	6	-18
Deferred tax liabilities	5	4	-1
Other liabilities	641	649	8
Equity attributable to owners of the parent	9,690	10,186	496
Equity attributable to non-controlling interests	188	198	10
<b>Total liabilities and equity</b>	<b>73,866</b>	<b>82,469</b>	<b>8,603</b>

# EBC Group Profit and Loss Statement

HRK m	12/2019	12/2020	Y-o-Y
Net interest income	2.046,0	2.025,0	-21,0
Interest income	2.401,0	2.401,0	0,0
Interest expense	-355,0	-355,0	0,0
Net fee and commission income	803,0	694,0	-109,0
Fee and commission income	1.057,0	925,0	-132,0
Fee and commission expense	-254,0	-231,0	23,0
Dividend income	1,0	1,0	0,0
Net trading result	234,0	211,0	-23,0
Gains/losses from financial instruments measured at FVTPL	4,0	-14,0	-18,0
Net result from equity method investments	9,0	8,0	-1,0
Rental income from investment properties & other operating leases	95,0	86,0	-9,0
Personnel expenses	-747,0	-718,0	29,0
Other administrative expenses	-660,0	-648,0	12,0
Depreciation and Amortization	-248,0	-251,0	-3,0
Net impairment loss on financial instruments	-43,0	-785,0	-742,0
Other operating result	-284,0	-126,0	158,0
<b>Pre-tax profit from continuing operations</b>	<b>1.211,0</b>	<b>482,0</b>	<b>-729,0</b>
Taxes on income	-229,0	-10,0	219,0
<b>Net profit of the year</b>	<b>982,0</b>	<b>472,0</b>	<b>-510,0</b>
attributable to non-controlling interests	20,0	12,0	-8,0
<b>attributable to owners of the parent</b>	<b>962,0</b>	<b>460,0</b>	<b>-502,0</b>
Operating income	3.192,0	3.010,0	-182,0
Operating expense	-1.655,0	-1.617,0	38,0
<b>Operating result</b>	<b>1.537,0</b>	<b>1.393,0</b>	<b>-144,0</b>

# Our response to Coronavirus

EBC is there for its employees, clients and communities

## Employees

- Home office encouraged wherever applicable
- Employees divided in 4 categories (colors) in order to preserve their health
- Psychological support available

## Retail costumers

- Suspension of execution of all enforcement measures against until October 18th
- Moratoria on loan repayments (opt-in, up to 9 months) – no fees charged, Bank covers the notarization cost, only regular interest rates charged
- No fees for cash withdrawals at ATM's outside of the bank's network by the end of July
- Automatic extension of all approved overdrafts (with maturity between March and June 2020) for the next 3-6 months under the same conditions
- Standard restructuring measures, if needed, at clients' disposal after COVID-19 ones expire
- Major part of retail moratoria expired till January 2021

## Corporate customers

- Moratoria on loan repayments (opt-in, up to 9 months, up to 12 months for tourism and tourism dependent industries)
- New financing options in the form of loans for liquidity and working capital
- Favorable guarantee schemes in cooperation with domestic and international financial institutions
- No penalty fees charged – until October 18th

## Communities

- Donation to hospitals impacted with earthquake amid COVID-19
- Regular disinfection measures in branches to protect the health of clients/employees taken
- Business continuity and services availability for the clients ensured
- Special attention put on the most vulnerable groups of consumers – elderly, clients with blocked/protected accounts etc.
- Proactive role in public communication/transparent approach, regular and clear communication to the clients and business partners

# Investor Relations Details

Erste Group Bank AG, Am Belvedere 1, 1100 Vienna

E-mail: [investor.relations@erstegroup.com](mailto:investor.relations@erstegroup.com)

Internet: <http://www.erstegroup.com/investors/debt>

ERSTE&STEIERMÄRKISCHE BANK d.d.

Ivana Lučića 2, 10 000 Zagreb

Croatia

<https://www.erstebank.hr/en/about-us/bonds>

[https://www.erstebank.hr/content/dam/hr/ebc/www\\_erstebank\\_hr/eng/bonds/investor-presentation.pdf](https://www.erstebank.hr/content/dam/hr/ebc/www_erstebank_hr/eng/bonds/investor-presentation.pdf)

<https://www.erstebank.hr/en/about-us/financial-reports-and-announcements>

## Contacts

### Erste Bank Croatia

Alen Kovač

Tel: +385 72 371 383

E-mail: [akovac2@erstebank.hr](mailto:akovac2@erstebank.hr)

### Erste Group

Thomas Sommerauer, Head of Group Investor Relations

Tel: +43 50100 17326

E-mail: [thomas.sommerauer@erstegroup.com](mailto:thomas.sommerauer@erstegroup.com)

Peter Makray, Investor Relations Manager

Tel: +43 50100 16878

E-mail: [peter.makray@erstegroup.com](mailto:peter.makray@erstegroup.com)

Simone Pilz, Investor Relations Manager

Tel: +43 50100 13036

E-mail: [simone.pilz@erstegroup.com](mailto:simone.pilz@erstegroup.com)