Erste Group posts net profit of EUR 637.1 million in 1-9 2020

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
Net result attributable to owners of the parent	**491.1**	**58.5**	**343.3**	**1,223.0**	**637.1**
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%
Return on equity	14.3%	0.2%	9.6%	11.6%	5.5%

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%
Texas ratio	21.0%	18.8%	18.2%	19.9%	18.2%
CET1 ratio (final)	13.1%	14.2%	14.1%	13.7%	14.1%

HIGHLIGHTS

P&L 1-9 2020 compared with 1-9 2019; balance sheet as of 30 September 2020 compared with 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

World-wide, the year 2020 has been characterised by the Covid-19 pandemic. The wide-ranging economic and social restrictions imposed to contain the coronavirus have caused significant economic upheaval. The macroeconomic downturn is a direct consequence of the varying degrees of lockdowns of public life imposed by governments world-wide. To mitigate the sometimes dramatic negative impact, all states have passed substantial relief packages ranging from debt moratoria for bank loans, guarantees and bridge financing, short-time work schemes and tax deferrals to direct payments. Central banks have cut interest rates, provided liquidity on an unprecedented scale and decided to buy government and corporate bonds. Bank regulators have reduced capital requirements and recommended a pragmatic interpretation of financial accounting standards as well as postponing dividend payments to a later date.

Against this backdrop, gross domestic product is expected to decline markedly, by four to nine percent, in Austria and Central and Eastern Europe in 2020. This should be followed by a recovery in the year 2021, which, however, will not be following a linear path depending on developments on the health side and the administrative measures taken. With economic activity reduced, operating income is expected to decrease. Specifically, it is expected that in 2020 net interest income will remain flat on the back of substantial rate cuts in the Czech Republic, lower organic lending growth, and negative currency effects. Net fee and commission income is expected to decline slightly due to weaker economic activity. A decline in net trading and fair value result had already been forecast even before the breakout of the coronavirus in view of the strong positive valuation results posted in 2019. In this environment, operating expenses should improve year on year, supported by lower travel expenses, savings due to increased efficiency and positive foreign currency effects. In 2020, the main impact on profit will come from risk costs: for the full year, risk provisions are expected to amount to 65 to 80 basis points of average gross customer loans. The management board of Erste Group is aiming to frontload as much risk costs as is justifiable based on macroeconomic data and forecasts, the development of company ratings and an assessment of the retail customer portfolio. Based on the assumption of state support measures remaining in place and a tangible macroeconomic recovery materialising, Erste Group expects a slight decline in risk costs in 2021. In the absence of goodwill writedowns, other operating result should improve in 2020 versus 2019, when it was weighed down by substantial one-off effects. The tax rate will very likely rise as profitability in countries with low tax rates is forecast to decline. Overall, net profit is expected to decrease significantly in 2020.

The common equity tier 1 ratio (CET1 ratio) is expected to remain at a strong level offering significant room to manoeuvre should the economic development deteriorate. Erste Group's target common equity tier 1 ratio continues to be 13.5%. The management and supervisory boards of Erste Group are proposing to the 2020 annual general meeting, scheduled for 10 November 2020, to pay a cash dividend of EUR 0.75 per share for the financial year 2019. The payment is conditional upon regulators adjusting their current recommendation to refrain from distributions to shareholders and no other legal restrictions being in force prohibiting such distributions on 8 February 2021. An announcement on the proposed dividend for the 2020 business year is scheduled for 26 February 2021, when preliminary results for the 2020 business year will be published.

Potential risks to the guidance are a longer-than-expected duration of the Covid-19 crisis, impacts from other than expected interest rate developments, political or regulatory measures against banks as well as geopolitical and global economic developments. In addition, a deterioration of the economic environment could lead to goodwill writedowns. Erste Group is moreover exposed to legal risks that may materialise regardless of the economic environment.

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