Press release

28 February 2020

CEE growth driving strong operating performance: Erste Group posts 8.7% hike in operating result to EUR 2.97 billion in 2019; proposes increased dividend of EUR 1.50 per share

"*Our annual operating result of nearly 3 billion euros, which is a significant increase of 8.7 percent, proves Erste is really fit at its core. This is quite rare in European banking at the moment – and gives us a strong foundation for future growth*," says Bernhard Spalt, CEO of Erste Group Bank AG.

"*Thanks to our footprint, we're active in the economically most dynamic region in Europe, with CEE countries posting GDP growth more than twice as high as the Eurozone average. Importantly, this growth is mostly generated by domestic demand, thanks to low unemployment rates and rising real wages. Given the region's resilient growth path, the scale of our franchise and the strength of our brand, we were able to achieve a 7 percent increase in both deposit and loan volumes. Our operating income rose twice as fast as costs, with advances across all revenue streams.*

The continued benign risk environment contributed to a further improvement in the NPL ratio to 2.5 percent, reflecting the fundamental health of our assets.

We are satisfied with our liquidity position, as we are with our capital: our common equity tier one capital ratio stands at 13.7 percent, comfortably above regulatory requirements.
We would like to share our good result in 2019 with our shareholders and will therefore propose increasing the dividend to 1.50 euro per share at the annual general meeting."

HIGHLIGHTS

P&L 2019 compared with 2018; balance sheet as of 31 December 2019 compared with 31 December 2018.

Net interest income increased – mainly in the Czech Republic, but also in Romania and Hungary – to EUR 4,746.8 million (+3.6%; EUR 4,582.0 million). **Net fee and commission income** rose to EUR 2,000.1 million (+4.8%; EUR 1,908.4 million), driven mainly by higher payment fees, insurance brokerage fees and asset management fees. While **net trading result** improved significantly to EUR 318.3 million (EUR -1.7 million), the line item **gains/losses from financial instruments measured at fair value through profit or loss** declined to EUR -24.5 million (EUR 195.4 million). The development of both line items was driven by valuation effects due to market interest rate volatility. **Operating income** increased to EUR 7,255.9 million (+4.9%; EUR 6,915.6 million). The increase in **general administrative expenses** to EUR 4,283.3 million (+2.4%; EUR 4,181.1 million) was mainly attributable to a rise in personnel expenses to EUR 2,537.1 million (+2.5%; EUR 2,474.2 million). Payments to deposit insurance systems included in other administrative expenses rose to EUR 104.8 million (EUR 88.6 million). The increase in amortisation and depreciation to EUR 541.0 million (EUR 472.0 million) is attributable to the first-time application of the new financial reporting standard for leases (IFRS 16) as of 1 January 2019, while a corresponding positive effect was recorded in other administrative expenses. Overall, the **operating result** increased to EUR 2,972.7 million (+8.7%; EUR 2,734.6 million) and the **cost/income ratio** improved to 59.0% (60.5%).

Due to net allocations in Austria and Slovakia in both the retail and the corporate segments, the **impairment result from financial instruments** amounted to EUR-39.2 million or, adjusted for net allocations to provisions for commitments and guarantees given, 7 basis points of average gross customer loans (net releases of EUR 59.3 million or -3 basis points). Positive effects came from substantial income from the recovery of loans already written off, primarily in the Czech Republic, Hungary and Romania, as well as from releases of provisions for commitments and guarantees given in Austria, the Czech Republic and Romania. The **NPL ratio** based on gross customer loans improved again to 2.5% (3.2%), the **NPL coverage ratio** to 77.1% (73.4%).

Other operating result amounted to EUR -628.2 million (EUR-304.5 million). The deterioration is attributable to a provision in the amount of EUR 153.3 million set aside for losses expected from a supreme court decision concerning the business activities of a Romanian subsidiary as well as goodwill impairment in Slovakia in the amount of EUR 165.0 million. The expenses for the annual contributions to resolution funds included in this line item rose – in particular in the Czech Republic – to EUR 75.3 million (EUR 70.3 million). Levies on banking activities increased to EUR 128.0 million (EUR 112.2 million), including a EUR 11.0 million banking tax payable in Romania for the first time in the reporting year.

The minority charge rose due to significantly better results from the savings banks to EUR 440.9 million (EUR 369.1 million). The **net result attributable to owners of the parent** declined to EUR 1,470.1 million (-18.0%; EUR 1,793.4 million) due to the one-off effects.

Total equity not including AT1 instruments rose to EUR 19.0 billion (EUR 17.9 billion). After regulatory deductions and filtering in accordance with CRR, **common equity tier 1 capital** (CET1, CRR final) amounted to EUR 16.3 billion (+4.9%; EUR 15.5 billion), total **own funds** (CRR final) to EUR 22.0 billion (EUR 20.9 billion). Total risk (**risk-weighted assets** including credit, market and operational risk, CRR final) rose to EUR 118.6 billion (EUR 115.4 billion). The **common equity tier 1 ratio** (CET 1, CRR final) stood at 13.7% (13.5%), the **total capital ratio** at 18.5% (18.1%).

Total assets rose to EUR 245.7 billion (EUR 236.8 billion). On the asset side, cash and cash balances decreased substantially to EUR 10.7 billion (EUR 17.5 billion), while loans and advances to credit institutions increased to EUR 23.1 billion (EUR 19.1 billion). On the back of continuing loan growth in all core markets, **loans and advances to customers** rose to EUR 160.3 billion (+7.3%; EUR 149.3 billion). On the liability side, deposits from banks declined to EUR 13.1 billion (EUR 17.7 billion) while **customer deposits** increased again markedly – across all Erste Group markets – to EUR 173.8 billion (+6.9%; EUR 162.6 billion). **The loan-to-deposit ratio** stood at 92.2% (91.8%).

OUTLOOK

Erste Group targets a return on tangible equity (ROTE) of above 10% in 2020. The expected positive, albeit moderating, macro-economic development in the core markets Czech Republic, Slovakia, Hungary, Romania, Croatia, Serbia and Austria as well as an improvement in other operating result that was negatively impacted by one-off effects in 2019 should be supportive factors to achieve this target. On the other hand, a global or regional slowdown of economic growth as well as potential – and as yet unquantifiable – political or regulatory risks might jeopardize achieving the target.

In 2020, the positive development of the economy should be reflected in growth rates (real GDP growth) of 2% to 4% in Erste Group's CEE core markets. All other economic parameters are currently expected to be similarly robust. Unemployment rates should remain at historic lows – in the Czech Republic and in Hungary they are already among the lowest in the EU. Inflation is forecast to remain broadly stable. Strong competitive positions should again lead to current account surpluses in most countries. The fiscal situation and public debt levels are also projected to remain sound. Austria should see continued dynamic economic growth at a rate of 1.3%. Overall, growth continues to be driven by domestic demand across all economies. The contribution of exports is forecast as neutral.

Against this backdrop, Erste Group expects mid-single digit net loan growth. Despite negative interest rates in the euro zone but supported by moderately increasing short term market rates in Czech Republic and Hungary net interest income should thus increase further in 2020. The second key income component, net fee and commission income, is also expected to rise. As in 2019, some positive momentum should again come from asset management, insurance brokerage and payment services. Most of the other income components are expected to remain stable, by and large. Considering the good performance in 2019, net trading and fair value results are expected to be lower. Overall, operating income should continue to grow in 2020. Operating expenses are expected to rise in 2020, partly due to anticipated further wage increases in all core markets of Erste Group. However, Erste Group will continue to invest in IT and thereby its future competitiveness in 2020. The focus will be on progressive IT modernisation, back office digitalisation as well as the group-wide implementation and expansion of the digital platform George. The roll-out of George will continue in Hungary and Croatia in 2020. Positive jaws is the ambition for 2020, even though it will be tougher to achieve than in 2019 as revenue pressures increase. Overall, the operating result is projected to rise in 2020.

Risk costs should remain low in 2020 on the back of the low interest rate environment. While precise forecasts are difficult in the current environment, Erste Group projects for 2020 risk costs of below 20 basis points of average gross customer loans. The solid, albeit slowing, macro environment should support asset quality as will the well-balanced diversified loan portfolio.

We do expect an improvement in other operating result due to the non-recurrence of the significant one-off negative effects of 2019. Assuming a tax rate of below 20% and a similar high level of minority charges, Erste Group aims to achieve a return on tangible equity (ROTE) of above 10%.

Potential risks to the guidance are interest rate trends that differ from expectations, political or regulatory measures targeting banks, geopolitical and global economic developments as well as potential negative economic effects from the spreading of the corona virus.

Financial data

Income statement					
in EUR million	**Q4 18**	**Q3 19**	**Q4 19**	**2018**	**2019**
Net interest income	1,210.0	1,187.7	1,229.5	4,582.0	4,746.8
Net fee and commission income	477.7	503.9	515.9	1,908.4	2,000.1
Net trading result and gains/losses from financial instruments at FVPL	78.3	60.0	63.9	193.7	293.8
Operating income	1,819.5	1,801.2	1,861.8	6,915.6	7,255.9
Operating expenses	-1,078.8	-1,014.9	-1,122.4	-4,181.1	-4,283.3
Operating result	740.6	786.4	739.4	2,734.6	2,972.7
Impairment result from financial instruments	-42.9	0.1	-82.1	59.3	-39.2
Post-provision operating result	697.7	786.5	657.3	2,793.8	2,933.5
Net result attributable to owners of the parent	**565.2**	**491.1**	**247.2**	**1,793.4**	**1,470.1**
Net interest margin (on average interest-bearing assets)	2.33%	2.14%	2.20%	2.30%	2.18%
Cost/income ratio	59.3%	56.3%	60.3%	60.5%	59.0%
Provisioning ratio (on average gross customer loans)	0.12%	0.05%	0.17%	-0.03%	0.07%
Tax rate	-3.6%	18.5%	15.7%	13.3%	18.0%
Return on equity	16.0%	14.3%	5.5%	13.4%	10.0%

Balance sheet					
in EUR million	**Dec 18**	**Sep 19**	**Dec 19**	**Dec 18**	**Dec 19**
Cash and cash balances	17,549	15,638	10,693	17,549	10,693
Trading, financial assets	43,930	45,895	44,295	43,930	44,295
Loans and advances to banks	19,103	25,241	23,055	19,103	23,055
Loans and advances to customers	149,321	157,841	160,270	149,321	160,270
Intangible assets	1,507	1,491	1,368	1,507	1,368
Miscellaneous assets	5,382	5,996	6,012	5,382	6,012
Total assets	**236,792**	**252,101**	**245,693**	**236,792**	**245,693**
Financial liabilities held for trading	2,508	2,751	2,421	2,508	2,421
Deposits from banks	17,658	19,936	13,141	17,658	13,141
Deposits from customers	162,638	172,511	173,846	162,638	173,846
Debt securities issued	29,738	30,103	30,371	29,738	30,371
Miscellaneous liabilities	5,381	6,670	5,437	5,381	5,437
Total equity	18,869	20,130	20,477	18,869	20,477
Total liabilities and equity	**236,792**	**252,101**	**245,693**	**236,792**	**245,693**
Loan/deposit ratio	91.8%	91.5%	92.2%	91.8%	92.2%
NPL ratio	3.2%	2.7%	2.5%	3.2%	2.5%
NPL coverage ratio (based on AC loans, ex collateral)	73.4%	76.9%	77.1%	73.4%	77.1%
Texas ratio	24.5%	21.0%	19.9%	24.5%	19.9%
CET1 ratio (phased-in)	13.5%	13.2%	13.8%	13.5%	13.8%

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