

Erste Group posts net profit of EUR 377.0 million in 1-3 2019, outlook confirmed

Financial data

Income statement

in EUR million	Q1 18 adjusted	Q4 18	Q1 19	1-3 18 adjusted	1-3 19
Net interest income	1,082.6	1,210.0	1,160.9	1,082.6	1,160.9
Net fee and commission income	478.6	477.7	487.7	478.6	487.7
Net trading result and gains/losses from financial instruments at FVPL	41.6	78.3	76.2	41.6	76.2
Operating income	1,655.1	1,819.5	1,771.7	1,655.1	1,771.7
Operating expenses	-1,065.0	-1,078.8	-1,115.6	-1,065.0	-1,115.6
Operating result	590.2	740.6	656.0	590.2	656.0
Impairment result from financial instruments	54.4	-42.9	35.8	54.4	35.8
Post-provision operating result	644.5	697.7	691.8	644.5	691.8
Net result attributable to owners of the parent	336.1	565.2	377.0	336.1	377.0
Net interest margin (on average interest-bearing assets)	2.27%	2.33%	2.18%	2.27%	2.18%
Cost/income ratio	64.3%	59.3%	63.0%	64.3%	63.0%
Provisioning ratio (on average gross customer loans)	-0.22%	0.12%	0.01%	-0.22%	0.01%
Tax rate	22.0%	-3.6%	17.0%	22.0%	17.0%
Return on equity	10.5%	16.0%	11.1%	10.5%	11.1%

Balance sheet

in EUR million	Mar 18	Dec 18	Mar 19	Dec 18	Mar 19
Cash and cash balances	25,246	17,549	16,382	17,549	16,382
Trading, financial assets	43,607	43,930	45,191	43,930	45,191
Loans and advances to banks	11,944	19,103	22,741	19,103	22,741
Loans and advances to customers	142,059	149,321	151,957	149,321	151,957
Intangible assets	1,511	1,507	1,489	1,507	1,489
Miscellaneous assets	5,651	5,382	5,946	5,382	5,946
Total assets	230,018	236,792	243,706	236,792	243,706
Financial liabilities held for trading	2,940	2,508	2,277	2,508	2,277
Deposits from banks	20,988	17,658	20,295	17,658	20,295
Deposits from customers	155,306	162,638	166,216	162,638	166,216
Debt securities issued	26,451	29,738	28,670	29,738	28,670
Miscellaneous liabilities	6,366	5,381	6,492	5,381	6,492
Total equity	17,968	18,869	19,754	18,869	19,754
Total liabilities and equity	230,018	236,792	243,706	236,792	243,706
Loan/deposit ratio	91.5%	91.8%	91.4%	91.8%	91.4%
NPL ratio	3.7%	3.2%	3.0%	3.2%	3.0%
NPL coverage ratio (based on AC loans, ex collateral)	73.0%	73.4%	74.5%	73.4%	74.5%
Texas ratio	28.1%	24.5%	23.2%	24.5%	23.2%
CET 1 ratio (phased-in)	12.6%	13.5%	13.2%	13.5%	13.2%

HIGHLIGHTS

P&L 1-3 2019 compared with 1-3 2018; balance sheet as of 31 March 2019 compared with 31 December 2018

Net interest income increased – mainly in the Czech Republic, but also in other core markets – to EUR 1,160.9 million (EUR 1,082.6 million). **Net fee and commission income** rose to EUR 487.7 million (EUR 478.6 million) primarily on the back of payment services. While **net trading result** improved significantly to EUR 153.3 million (EUR 11.3 million), the line item **gains/losses from financial instruments measured at fair value through profit or loss** declined to EUR -77.1 million (EUR 30.3 million), both line items being impacted by valuation effects related to own liabilities from debt securities issued. **Operating income** rose to EUR 1,771.7 million (EUR 1,655.1 million). The increase in **general administrative expenses** to EUR 1,115.6 million (+4.8%; EUR 1,065.0 million) was attributable to a rise in other administrative expenses to EUR 358.3 million (+4.0%; EUR 344.5 million) as well as higher personnel expenses in the amount of EUR 621.9 million (+2.9%; EUR 604.5 million). Other administrative expenses included almost all contributions to deposit insurance systems expected in 2019 in the amount of EUR 87.5 million (EUR 74.2 million). The increase in amortisation and depreciation to EUR 135.4 million (EUR 115.9 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** improved to EUR 656.0 million (EUR 590.2 million) and the **cost/income ratio** to 63.0% (64.3%).

Due to net releases on the back of continued solid asset quality, the **impairment result from financial instruments** amounted to EUR 35.8 million or, adjusted for net allocation of provisions for commitments and guarantees given, 1 basis point of average gross customer loans (EUR 54.4 million or -22 basis points). This was mainly attributable to income received from the recovery of loans already written off as well as from releases of provisions for commitments and guarantees given in the Czech Republic and Romania. The **NPL ratio** based on gross customer loans improved again to 3.0% (3.2%), the **NPL coverage ratio** to 74.2% (73.0%).

Other operating result amounted to EUR 131.1 million (EUR -128.0 million). The expenses for the annual contributions to resolution funds included in this line item rose – in particular in the Czech Republic – to EUR 78.0 million (EUR 68.2 million). Banking and transaction taxes were nearly unchanged at EUR 38.8 million (EUR 38.6 million), including EUR 12.5 million (EUR 13.7 million) in Hungarian banking taxes posted upfront for the full financial year 2019. Other taxes decreased to EUR 3.7 million (EUR 9.5 million).

The minority charge rose due to better results from the savings banks to EUR 89.3 million (EUR 70.1 million). The **net result attributable to owners of the parent** increased to EUR 377.0 million (EUR 336.1 million).

Total equity not including AT1 instruments rose to EUR 18.3 billion (EUR 17.9 billion). After regulatory deductions and filtering in accordance with CRR, **common equity tier 1 capital** (CET1, final) amounted to EUR 15.4 billion (EUR 15.5 billion), total **own funds** (final) to EUR 21.3 billion (EUR 20.9 billion). Interim profit is not included in the above figures. Due to net releases in the first quarter no risk costs were deducted. Total risk – **risk-weighted assets** including credit, market and operational risk (CRR, final) – rose to EUR 117.2 billion (EUR 115.4 billion). The **common equity tier 1 ratio** (CET 1, final) stood at 13.2% (13.5%), the **total capital ratio** at 18.2% (18.1%).

Total assets rose to EUR 243.7 billion (EUR 236.8 billion). On the asset side, cash and cash balances decreased to EUR 16.4 billion (EUR 17.5 billion) while loans and advances to credit institutions increased to EUR 22.7 billion (EUR 19.1 billion). **Loans and advances to customers** rose to EUR 152.0 billion (EUR 149.3 billion). On the liability side, deposits from banks increased to EUR 20.3 billion (EUR 17.7 billion) and **customer deposits** grew again – most notably in the Czech Republic and in Austria – to EUR 166.2 billion (EUR 162.6 billion). The **loan-to-deposit ratio** stood at 91.4% (91.8%).

OUTLOOK

Operating environment anticipated to be conducive to credit expansion.

Real GDP growth is forecast to come in at around 3% in Erste Group's CEE core markets and about 2% in Austria in 2019, again driven primarily by robust domestic demand. In CEE, economic activity should be supported by real wage growth and low unemployment. Fiscal discipline is expected to be maintained across CEE.

Business outlook. Erste Group aims to achieve a return on tangible equity (ROTE) of more than 11% in 2019 (based on average tangible equity in 2019). The underlying assumptions are: revenues rising faster than costs (based on mid-single digit net loan growth), risk costs higher, but still at a historically benign level (10 to 20 basis points), with a tax rate of below 20%. The amended Romanian banking tax is expected to negatively impact other operating result by a maximum of EUR 20 million in 2019.

Risks to guidance. Impact from other than expected interest rate development; political or regulatory measures against banks; as well as geopolitical and global economic risks.

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