

Erste Group posts a net result of EUR 1.22 billion for the first nine months of 2019

"We continued to achieve very good results also in the third quarter, with healthy growth in both lending (+5.7 percent ytd) and deposits (+6.1 percent ytd), as well as excellent liquidity and funding positions. Overall for the first nine months of 2019, Erste Group achieved a net result of 1.22 billion euros. What's more, our income growth outpaced cost growth, despite rising wages across CEE and the higher contributions we made to deposit insurance systems during the reporting period. As a result, we managed to improve our cost/income ratio to 58.6 percent. The continued vitality of the CEE economies contributed to the risk environment in the region remaining exceptionally benign. Our NPL ratio improved further by slipping to 2.7 percent, reflecting our healthy asset quality.

Erste Group's capital base is very solid due to steady organic growth over the past years, and has been supported by successful placements of additional tier one capital in the market. Taking into account retained earnings for the third quarter (including accrued dividends), our common equity tier one ratio stood at 13.5 percent as of the end of September, thus meeting our internal CET1 target.

Going forward, CEE is set to remain Europe's unquestionable growth engine and Erste Group, as the leading financial institution of the region, is well positioned to continue supporting it. Although across the globe, there are gathering signs of a downturn in the economic cycle, we remain confident that the CEE region will continue to outpace the Eurozone and that its growth will prove to be more sustainable than in the 2000's," said Andreas Treichl, CEO of Erste Group Bank AG.

HIGHLIGHTS

Financial results from January-September 2019 are compared with those from January- September 2018 and balance sheet positions as of 30 September 2019 with those as of 31 December 2018.

Net interest income increased – mainly in the Czech Republic, but also in Romania and Hungary – to EUR 3,517.4 million (+4.3%; EUR 3,372.0 million). **Net fee and commission income** rose to EUR 1,484.3 million (+3.7%; EUR 1,430.7 million) on the back of payment services, from lending and asset management. While **net trading result** improved significantly to EUR 419.3 million (EUR -50.4 million), the line item **gains/losses from financial instruments measured at fair value through profit or loss** declined to EUR -189.4 million (EUR 165.8 million), the development of both line items was driven by valuation effects. **Operating income** increased to EUR 5,394.1 million (+5.8%; EUR 5,096.2 million). The increase in **general administrative expenses** to EUR 3,160.8 million (+1.9%; EUR 3,102.3 million) was mainly attributable to a rise in personnel expenses to EUR 1,887.2 million (+3.1%; EUR 1,830.5 million). Other administrative expenses included almost all payments to deposit insurance systems expected in 2019 in the amount of EUR 97.7 million (EUR 84.2 million). The increase in amortisation and depreciation to EUR 394.4 million (EUR 350.3 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** rose to EUR 2,233.3 million (+12.0%; EUR 1,993.9 million) and the **cost/income ratio** improved to 58.6% (60.9%).

Due to net releases on the back of continued solid asset quality, the **impairment result from financial instruments** amounted to EUR 42.9 million or, adjusted for net allocation of provisions for commitments and guarantees given, 3 basis points of average gross customer loans (EUR 102.2 million or -8 basis points). This was mainly attributable to substantial income received 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 further to 2.7% (3.2%). The **NPL coverage ratio** increased to 76.9% (73.4%).

Other operating result amounted to EUR -397.2 million (EUR -237.0 million). The deterioration is attributable to a provision in the amount of EUR 150.8 million set aside for losses expected from a decision of the Romanian High Court in relation to the business activities of a local subsidiary. 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 70.4 million). Banking and transaction taxes were slightly higher at EUR 90.9 million (EUR 88.1 million), including EUR 12.6 million (EUR 13.8 million) in Hungarian banking taxes posted upfront for the full financial year. Other taxes amounted to EUR 8.3 million (EUR 6.4 million).

The minority charge rose due to significantly better results from the savings banks to EUR 322.7 million (EUR 285.8 million). The **net result attributable to owners of the parent** amounted to EUR 1,223.0 million (-0.4%; EUR 1,228.3 million).

Total equity not including AT1 instruments rose to EUR 18.6 billion (EUR 17.9 billion). After regulatory deductions and filtering in accordance with the CRR, **common equity tier 1 capital** (CET1, final) amounted to EUR 15.9 billion (EUR 15.5 billion), total **own funds** (final) to EUR 21.5 billion (EUR 20.9 billion). While half-year interim profit is included in the above figures, third-quarter profit is not included. Total risk – **risk-weighted assets** including credit, market and operational risk (CRR, final) – rose to EUR 121.4 billion (EUR 115.4 billion). The **common equity tier 1 ratio** (CET1, final) stood at 13.1% (13.5%), the **total capital ratio** at 17.7% (18.1%).

Total assets rose to EUR 252.1 billion (EUR 236.8 billion). On the asset side, cash and cash balances decreased to EUR 15.6 billion (EUR 17.5 billion), while loans and advances to credit institutions increased to EUR 25.2 billion (EUR 19.1 billion). **Loans and advances to customers** rose to EUR 157.8 billion (+5.7%; EUR 149.3 billion). On the liability side, deposits from banks increased to EUR 19.9 billion (EUR 17.7 billion) and **customer deposits** grew again – most notably in the Czech Republic and in Austria – to EUR 172.5 billion (+6.1%; EUR 162.6 billion). The **loan-to-deposit ratio** stood at 91.5% (91.8%).

OUTLOOK

Operating environment anticipated to be conducive to credit expansion.

Real GDP growth is forecast to come in at around 3-4% 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 (up to 10 basis points), with a tax rate of below 20%.

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.

KEY FINANCIAL DATA

Income statement					
in EUR million	Q3 18	Q2 19	Q3 19	1-9 18	1-9 19
Net interest income	1,158.2	1,168.8	1,187.7	3,372.0	3,517.4
Net fee and commission income	471.4	492.7	503.9	1,430.7	1,484.3
Net trading result and gains/losses from financial instruments at FVPL	36.9	93.7	60.0	115.4	229.9
Operating income	1,722.1	1,821.2	1,801.2	5,096.2	5,394.1
Operating expenses	-1,025.8	-1,030.4	-1,014.9	-3,102.3	-3,160.8
Operating result	696.3	790.9	786.4	1,993.9	2,233.3
Impairment result from financial instruments	28.9	7.1	0.1	102.2	42.9
Post-provision operating result	725.2	797.9	786.5	2,096.1	2,276.2
Other operating result	-32.4	-219.9	-46.2	-237.0	-397.2
Levies on banking activities	-24.8	-25.9	-26.2	-88.1	-90.9
Pre-tax result from continuing operations	694.3	588.0	746.8	1,869.0	1,896.6
Taxes on income	-120.0	-117.2	-138.2	-355.0	-350.9
Net result for the period	574.2	470.8	608.6	1,514.0	1,545.7
Net result attributable to non-controlling interests	120.3	115.9	117.6	285.8	322.7
Net result attributable to owners of the parent	454.0	354.9	491.1	1,228.3	1,223.0
Earnings per share	1.06	0.74	1.15	2.79	2.78
Return on equity	14.4%	9.3%	14.3%	12.5%	11.6%
Net interest margin (on average interest-bearing assets)	2.27%	2.18%	2.14%	2.29%	2.17%
Cost/income ratio	59.6%	56.6%	56.3%	60.9%	58.6%
Provisioning ratio (on average gross customer loans)	-0.02%	0.03%	0.05%	-0.08%	0.03%
Tax rate	17.3%	19.9%	18.5%	19.0%	18.5%

Balance sheet

in EUR million	Sep 18	Jun 19	Sep 19	Dec 18	Sep 19
Cash and cash balances	15,237	16,843	15,638	17,549	15,638
Trading, financial assets	44,333	45,620	45,895	43,930	45,895
Loans and advances to banks	19,972	23,035	25,241	19,103	25,241
Loans and advances to customers	148,311	155,331	157,841	149,321	157,841
Intangible assets	1,483	1,490	1,491	1,507	1,491
Miscellaneous assets	5,491	5,943	5,996	5,382	5,996
Total assets	234,827	248,261	252,101	236,792	252,101
Financial liabilities held for trading	2,865	2,518	2,751	2,508	2,751
Deposits from banks	19,086	19,043	19,936	17,658	19,936
Deposits from customers	159,828	169,668	172,511	162,638	172,511
Debt securities issued	28,249	30,773	30,103	29,738	30,103
Miscellaneous liabilities	6,403	6,609	6,670	5,381	6,670
Total equity	18,396	19,649	20,130	18,869	20,130
Total liabilities and equity	234,827	248,261	252,101	236,792	252,101
Loan/deposit ratio	92.8%	91.5%	91.5%	91.8%	91.5%
NPL ratio	3.5%	2.8%	2.7%	3.2%	2.7%
NPL coverage ratio (based on AC loans, ex collateral)	71.1%	75.4%	76.9%	73.4%	76.9%
CET 1 ratio (phased-in)	12.5%	13.6%	13.2%	13.5%	13.2%

Ratings	Sep 18	Jun 19	Sep 19
Fitch			
Long-term	A-	A	A
Short-term	F1	F1	F1
Outlook	Stable	Stable	Stable
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	Positive	Positive

Erste Group External Communication:

Carmen Staicu
Peter Klopff

Tel: +43 50100 – 11681
Tel: +43 50100 – 11676

Email: carmen.staicu@erstegroup.com
Email: peter.klopf@erstegroup.com