

## 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<br>adjusted | Q4 18        | Q1 19        | 1-3 18<br>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        |
| <b>Net result attributable to owners of the parent</b>                 | <b>336.1</b>      | <b>565.2</b> | <b>377.0</b> | <b>336.1</b>       | <b>377.0</b> |
| 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          |
| <b>Total assets</b>                                   | <b>230,018</b> | <b>236,792</b> | <b>243,706</b> | <b>236,792</b> | <b>243,706</b> |
| 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         |
| <b>Total liabilities and equity</b>                   | <b>230,018</b> | <b>236,792</b> | <b>243,706</b> | <b>236,792</b> | <b>243,706</b> |
| 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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