ERSTE Group

Press release

31 July 2018

Erste Group H1 2018 results: Strong net profit of EUR 774mn based on improved operating performance and benign risk environment

"*Erste Group's performance in the first six months of this year has been one of the best ever -- our net profit rose by 24 percent year-on-year to 774 million euros. This was driven by an increase of 3.3 percent in net interest income and 5.3 percent in fees income, risk costs remaining at low levels and the cost/income ratio dropping from 64.3 percent to 58.8 percent in the second quarter.*

We expect this positive trend in our operating performance to continue in the second half of 2018, based on the persisting outperformance of CEE economies, with low unemployment rates, rising real wages and increasing economic competitiveness," said Andreas Treichl, CEO of Erste Group Bank AG.

HIGHLIGHTS

P&L 1-6 2018 compared with 1-6 2017; balance sheet as of 30 June 2018 compared with 31 December 2017

Net interest income increased – mainly in the Czech Republic and in Romania – to EUR 2,213.8 million (+3.3%; EUR 2,143.0 million). **Net fee and commission income** rose to EUR 959.3 million (+5.3%; EUR 910.9 million) mostly on the back of stronger income from payment services, asset management and lending. While **net trading result** declined significantly to EUR 11.9 million (EUR 102.9 million), the line item gains/losses from financial instruments measured at fair value through profit or loss improved to EUR 66.6 million (EUR 4.5 million). **Operating income** rose to EUR 3,374.1 million (+2.5%; EUR 3,292.8 million). The increase in **general administrative expenses** to EUR 2,076.5 million (+3.6%; EUR 2,003.5 million) was mainly attributable to higher personnel expenses of EUR 1,216.7 million (+5.7%; EUR 1,151.3 million). Depreciation and amortisation was up slightly (+1.8%); administrative expenses were almost unchanged (+0.5%). Other administrative expenses included almost all payments to deposit insurance systems expected in 2018 in the amount of EUR 80.2 million (EUR 68.6 million). Overall, the **operating result** was slightly higher at EUR 1,297.6 million (+0.7%; EUR 1,289.3 million). The **cost/income ratio** rose to 61.5% (60.8%).

The **impairment result from financial instruments** amounted to EUR 73.2 million or, adjusted for net allocation of provisions for commitments and guarantees given, -12 basis points of average gross customer loans (net allocations of EUR 104.3 million or 15 basis points) due to net releases on the back of improved asset quality. This was attributable to the substantial decline in the balance of the allocation and release of provisions for the lending business across almost all segments, most notably in Croatia and in Austria. The **NPL ratio** improved again to 3.6% (4.0%), the **NPL coverage ratio** increased to 72.0% (68.8%) (both based on gross customer loans).

Other operating result amounted to EUR -204.6 million (EUR -209.8 million). It included expenses for the annual contributions to resolution funds in the amount of EUR 71.3 million (EUR 65.4 million). Banking and transaction taxes increased – primarily in Hungary and in Slovakia – to EUR 63.0 million (EUR 59.4 million), including EUR 13.8 million (EUR 13.3 million) in Hungarian banking taxes booked upfront for the full financial year. Other taxes decreased to EUR 6.5 million (EUR 11.9 million).

The minority charge declined slightly to EUR 165.5 million (-2.1%; EUR 169.1 million). The **net result attributable to owners of the parent** increased to EUR 774.3 million (+24.0%; EUR 624.7 million).

Total equity not including AT1 instruments declined to EUR 16.7 billion (EUR 17.3 billion). Transition to the new financial reporting standard IFRS 9 as of 1 January 2018 resulted in a reduction of total equity by EUR 0.7 billion. After regulatory deductions and filtering in accordance with CRR, **common equity tier 1 capital** (CET1, Basel 3 phased-in) amounted to EUR 14.7 billion (EUR 14.7 billion), total **own funds** (Basel 3 phased in) to EUR 20.3 billion (EUR 20.3 billion). First half year earnings are included in the above figures. Total risk (**risk-weighted assets** including credit, market and operational risk, Basel 3 phased-in) rose to EUR 116.3 billion (EUR 110.0

billion). The **common equity tier 1 ratio** (CET 1, Basel 3 phased-in) stood at 12.6% (13.4%), the **total capital ratio** (Basel 3 phased-in) at 17.4% (18.5%).

Total assets were up at EUR 229.9 billion (+4.2%; EUR 220.7 billion). On the asset side, cash and cash balances decreased to EUR 16.9 billion (EUR 21.8 billion), while loans and receivables to credit institutions increased to EUR 17.1 billion (EUR 9.1 billion). **Loans and receivables to customers** rose to EUR 144.7 billion (+3.7%; EUR 139.5 billion). On the liability side, deposits from banks increased to EUR 17.9 billion (EUR 16.3 billion) and **customer deposits** grew again – most notably in Austria, the Czech Republic and Slovakia – to EUR 156.8 billion (+3.9%; EUR 151.0 billion). The **loan-to-deposit ratio** stood at 92.3% (92.4%).

OUTLOOK

Operating environment anticipated to be conducive to credit expansion. Real GDP growth is expected to be approximately between 3% and 4% in Erste Group's CEE core markets, including Austria, in 2018. It should primarily be driven by solid domestic demand, as real wage growth and declining unemployment should support economic activity in CEE. 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 10% in 2018 (based on average tangible equity in 2018). The underlying assumptions are slightly growing revenues (assuming 5%+ net loan growth and interest rate hikes in the Czech Republic and Romania), slightly falling expenses due to lower project-related costs and risk costs remaining at historically low levels.

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

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KEY FINANCIAL DATA

Income statement

in EUR million	Q2 17	Q1 18 Adjusted	Q2 18	1-6 17	1-6 18
Net interest income	1,091.7	1,082.6	1,131.2	2,143.0	2,213.8
Net fee and commission income	453.2	478.6	480.7	910.9	959.3
Net trading result	54.3	11.3	0.6	102.9	11.9
Operating income	1,675.2	1,655.1	1,719.0	3,292.8	3,374.1
Operating expenses	-985.2	-1,065.0	-1,011.5	-2,003.5	-2,076.5
Operating result	690.0	590.2	707.5	1,289.3	1,297.6
Impairment result from financial instruments	-38.6	0.0	18.9	-104.3	73.2
Post-provision operating result	651.5	644.5	726.3	1,184.9	1,370.9
Net result attributable to owners of the parent	**362.5**	**336.1**	**438.2**	**624.7**	**774.3**
Net interest margin (on average interest-bearing assets)	2.44%	2.27%	2.32%	2.40%	2.30%
Cost/income ratio	58.8%	64.3%	58.8%	60.8%	61.5%
Provisioning ratio (on average gross customer loans)	0.11%	-0.22%	-0.02%	0.15%	-0.12%
Tax rate	22.0%	22.0%	18.4%	22.0%	20.0%
Return on equity	11.1%	10.5%	12.8%	9.9%	11.7%

Balance sheet

in EUR million	Jun 17	Mar 18	Jun 18	Dec 17	Jun 18
Cash and cash balances	25,842	25,246	16,888	21,796	16,888
Trading, financial assets	44,886	43,607	43,899	42,752	43,899
Loans and receivables to credit institutions	4,347	11,944	17,149	9,126	17,149
Loans and receivables to customers	135,122	142,059	144,730	139,532	144,730
Intangible assets	1,458	1,511	1,507	1,524	1,507
Miscellaneous assets	6,501	5,651	5,705	5,929	5,705
Total assets	**218,156**	**230,018**	**229,878**	**220,659**	**229,878**
Financial liabilities held for trading	3,960	2,940	3,070	3,423	3,070
Deposits from banks	17,883	20,988	17,867	16,349	17,867
Deposits from customers	145,574	155,306	156,831	150,969	156,831
Debt securities issued	26,602	26,423	28,474	25,095	28,474
Miscellaneous liabilities	6,621	6,366	5,928	6,535	5,928
Total equity	17,515	17,996	17,708	18,288	17,708
Total liabilities and equity	**218,156**	**230,018**	**229,878**	**220,659**	**229,878**
Loan/deposit ratio	92.8%	91.5%	92.3%	92.4%	92.3%
NPL ratio	4.7%	3.7%	3.6%	4.0%	3.6%
NPL coverage (exc collateral)	68.5%	72.5%	72.0%	68.8%	72.0%
Texas ratio	33.3%	28.1%	27.9%	29.2%	27.9%
CET 1 ratio (phased-in)	13.2%	12.6%	12.6%	13.4%	12.6%