Press release

28 February 2019

Erste Group posts net profit of nearly EUR 1.8 bn
Strong operating profit, flat costs and benign risk environment; proposed dividend of EUR 1.40 per share

"*Our annual net profit, which rose by more than a third to nearly 1.8 billion euros, is not only the best in our history, it's also a telling symbol for our 200 year anniversary and the sustainability of a business model that has greatly changed the region in which we are once again active today*," says Andreas Treichl, CEO of Erste Group Bank AG.

"*The fact that this result was underpinned by strong fundamentals – a 7 per cent increase in both deposit and loan volumes – further points to the soundness of our model. Our footprint continues to place us in the most economically dynamic region of the EU. Low unemployment rates, rising real wages and increasing economic competitiveness have prompted our region's entrepreneurs to take more risks and to invest – and thus, to create jobs. This positive sentiment is also apparent in the retail sector, where customer demand for housing and consumer loans remained solid. The strong continued growth on the deposit side underscores the confidence our customers place in us as a 200-year-old institution, but it is also reflects the failure of capital markets to provide a compelling alternative to savings books. As far as the challenges that our region presents to us as a company, the past year made clear that political risk outweighs commercial risk – but that phenomenon is not unique to the CEE region.*

Our business model continued to play to its strengths in 2018: A consistently benign risk environment contributed to a further improvement in the NPL ratio to 3.2 per cent. Net interest income rose by 5.3 per cent, while net commission income increased by 3.1 per cent. Costs remained almost unchanged and were thus another factor for the significant increase in the operating result by just under 9 percent.

We are satisfied with our liquidity position, as we are with our capital: our common equity tier one capital ratio stood at 13.5 per cent, while the total capital ratio was 18.2 per cent. Given this context, we also want to share the good result with the shareholders and will therefore propose an increased dividend of 1.40 euro per share at our annual general meeting."

HIGHLIGHTS

P&L 2018 compared with 2017; balance sheet as of 31 December 2018 compared with 31 December 2017

Net interest income increased – mainly in the Czech Republic and in Romania, but also in Austria – to EUR 4,582.0 million (+5.3%; EUR 4,353.2 million). **Net fee and commission income** rose to EUR 1,908.4 million (+3.1%; EUR 1,851.6 million), primarily on the back of significantly higher income from payment services and asset management. While **net trading result** was down at EUR -1.7 million (EUR 222.8 million), the line item **gains/losses from financial instruments measured at fair value through profit or loss** improved to EUR 195.4 million (EUR -12.3 million). **Operating income** rose to EUR 6,915.6 million (+3.7%; EUR 6,669.0 million). **General administrative expenses** were nearly stable at EUR 4,181.1 million (+0.5%; EUR 4,158.2 million). This was mostly attributable to the reduction of other administrative expenses to EUR 1,234.9 million (-5.7%; EUR 1,309.6 million). Payments to deposit insurance systems included in this line item amounted to EUR 88.6 million (EUR 82.8 million). This reduction almost fully compensated the rise in personnel expenses to EUR 2,474.2 million (+3.6%; EUR 2,388.6 million) and in depreciation and amortisation (+2.6%). Overall, the **operating result** improved to EUR 2,734.6 million (+8.9%; EUR 2,510.8 million) and the **cost/income ratio** to 60.5% (62.4%).

The **impairment result from financial instruments** amounted to EUR 59.3 million due to net releases on the back of improved asset quality or, adjusted for net allocation of provisions for commitments and guarantees given, -14 basis points of average gross customer loans (net allocations of EUR 132.0 million or 9 basis points). This was attributable to the substantial improvement in net allocations to risk provisions for the lending business across almost all segments, most notably in Croatia and Austria. The **NPL ratio** based on gross customer loans improved again to 3.2% (4.0%), the **NPL coverage ratio** to 73.0% (68.8%).

Other operating result improved to EUR -304.5 million (EUR -457.4 million). It included expenses for the annual contributions to resolution funds in the amount of EUR 70.3 million (EUR 65.8 million). Banking and transaction taxes increased to EUR 112.2 million (EUR 105.7 million. Other taxes were positive at EUR 1.0 million (EUR -37.7 million) due to one-off effects. In the financial year 2017, other operating result had included EUR 45.0 million in provisions for losses from loans to consumers resulting from supreme court rulings regarding negative reference interest rates in Austria.

Taxes on income decreased significantly to EUR 332.4 million (EUR 410.1 million) as deferred tax assets were recognised, resulting in deferred tax income. The minority charge increased to EUR 369.1 million (+5.0%; EUR 351.5 million). The **net result attributable to owners of the parent** rose to EUR 1,793.4 million (+36.3%; EUR 1.316.2 million).

Total equity not including AT1 instruments rose to EUR 17.9 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 15.5 billion (+5.3%; EUR 14.7 billion), total **own funds** (Basel 3 phased in) to EUR 20.9 billion (EUR 20.3 billion). Total risk (**risk-weighted assets** including credit, market and operational risk, Basel 3 phased-in) rose to EUR 114.6 billion (EUR 110.0 billion). The **common equity tier 1 ratio** (CET 1, Basel 3 phased-in) stood at 13.5% (13.4%), the **total capital ratio** (Basel 3 phased-in) at 18.2% (18.5%).

Total assets were up at EUR 236.8 billion (+7.3%; EUR 220.7 billion). On the asset side, cash and cash balances decreased to EUR 17.5 billion (EUR 21.8 billion), while loans and advances to credit institutions increased to EUR 19.1 billion (EUR 9.1 billion). **Loans and advances to customers** rose to EUR 149.3 billion (+7.0%; EUR 139.5 billion). On the liability side, deposits from banks increased to EUR 17.7 billion (EUR 16.3 billion) and **customer deposits** grew again – in all core markets – to EUR 162.6 billion (+7.7%; EUR 151.0 billion). The **loan-to-deposit ratio** stood at 91.8% (92.4%).

OUTLOOK

The outlook is based on a solid macroeconomic development in our region, which is expected to experience real GDP growth of approximately 3% in CEE and above 2% in Austria on the back of continued strong domestic demand, rising real wages, low unemployment, and healthy public finances across CEE.

Based on loan growth in the mid-single digit percentage range, we expect revenues to grow more strongly than costs. Risk costs will rise, but remain at historically low levels (10-20bps). Other operating result will be negatively impacted by the Romanian banking tax. On the back of the low average tax rates in CEE, the tax rate of Erste Group is expected to remain below 20%.

Based on this assumption, the Return on Tangible Equity (ROTE) for 2019 is targeted at above 11%.

ERSTE Group

Financial data

Income statement					
in EUR million	**Q4 17**	**Q3 18**	**Q4 18**	**2017**	**2018**
Net interest income	1,123.9	1,158.2	1,210.0	4,353.2	4,582.0
Net fee and commission income	489.7	471.4	477.7	1,851.6	1,908.4
Net trading result and gains/losses from financial instruments at FVPL	59.1	36.9	78.3	210.5	193.7
Operating income	1,732.1	1,722.1	1,819.5	6,669.0	6,915.6
Operating expenses	-1,144.7	-1,025.8	-1,078.8	-4,158.2	-4,181.1
Operating result	587.5	696.3	740.6	2,510.8	2,734.6
Impairment result from financial instruments	-60.5	28.9	-42.9	-132.0	59.3
Post-provision operating result	526.9	725.2	697.7	2,378.8	2,793.8
Net result attributable to owners of the parent	**328.6**	**454.0**	**565.2**	**1,316.2**	**1,793.4**
Net interest margin (on average interest-bearing assets)	2.41%	2.27%	2.33%	2.40%	2.30%
Cost/income ratio	66.1%	59.6%	59.3%	62.4%	60.5%
Provisioning ratio (on average gross customer loans)	0.17%	-0.02%	0.11%	0.09%	-0.14%
Tax rate	9.8%	17.3%	-3.6%	19.7%	13.3%
Return on equity	9.1%	14.4%	16.0%	10.1%	13.4%

Balance sheet					
in EUR million	**Dec 17**	**Sep 18**	**Dec 18**	**Dec 17**	**Dec 18**
Cash and cash balances	21,796	15,237	17,549	21,796	17,549
Trading, financial assets	42,752	44,333	43,930	42,752	43,930
Loans and advances to banks	9,126	19,972	19,103	9,126	19,103
Loans and advances to customers	139,532	148,311	149,321	139,532	149,321
Intangible assets	1,524	1,483	1,507	1,524	1,507
Miscellaneous assets	5,929	5,491	5,382	5,929	5,382
Total assets	**220,659**	**234,827**	**236,792**	**220,659**	**236,792**
Financial liabilities held for trading	3,423	2,865	2,508	3,423	2,508
Deposits from banks	16,349	19,086	17,658	16,349	17,658
Deposits from customers	150,969	159,828	162,638	150,969	162,638
Debt securities issued	25,095	28,249	29,738	25,095	29,738
Miscellaneous liabilities	6,535	6,403	5,381	6,535	5,381
Total equity	18,288	18,396	18,869	18,288	18,869
Total liabilities and equity	**220,659**	**234,827**	**236,792**	**220,659**	**236,792**
Loan/deposit ratio	92.4%	92.8%	91.8%	92.4%	91.8%
NPL ratio	4.0%	3.5%	3.2%	4.0%	3.2%
NPL coverage (exc collateral)	68.8%	70.7%	73.0%	68.8%	73.0%
Texas ratio	29.2%	27.1%	24.5%	29.2%	24.5%
CET 1 ratio (phased-in)	13.4%	12.5%	13.5%	13.4%	13.5%

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