ERSTE Group

Press release

31 July 2019

Erste Group posts solid HY profit of EUR 732 million, driven by highest operating result in five years

"*We are very satisfied with our net profit of EUR 732 million for the first half of this year – it is a strong result. In particular, it is a strong result because it is based on a foundation of solid key indicators ranging from operating income and operating expenses to risk costs, capital and liquidity. Of course there is always room to further improve our performance, but we are moving in the right direction,"* says Andreas Treichl, CEO of Erste Group Bank AG.

"*The healthy macroeconomic growth in our region, which remains the growth powerhouse of the European Union, is also reflected in the 7 percent increase year-on-year in our customer loans volume to EUR 155.3 billion, However, the increase in our customer deposits by 8 percent to EUR 169.7 billion is a cause for concern during what continues to be a low interest rate environment – deposits are not anymore the basis on which our customers can build their financial well-being. One of our main tasks in the coming years will be to develop attractive investment products with adequate risk levels,*" Treichl continues.

The current conditions make us confident about reaching the goals that we have set for our 200 anniversary year: growing our income at a rate higher than expenses, keeping risk costs low, and achieving a solid return on equity of above 11 percent."

HIGHLIGHTS

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

Net interest income increased – mainly in the Czech Republic, but also in other core markets – to EUR 2,329.7 million (EUR 2,213.8 million). **Net fee and commission income** rose to EUR 980.4 million (EUR 959.3 million), primarily on the back of payment services and from lending. While **net trading result** improved significantly to EUR 310.1 million (EUR 11.9 million), the line item **gains/losses from financial instruments measured at fair value through profit or loss** declined to EUR -140.1 million (EUR 66.6 million), the development of both line items was driven by valuation effects. **Operating income** rose to EUR 3,592.9 million (+6.5%; EUR 3,374.1 million). The increase in **general administrative expenses** to EUR 2,146.0 million (+3.3%; EUR 2,076.5 million) was mainly attributable to a rise in personnel expenses to EUR 1,255.9 million (+3.2%; EUR 1,216.7 million). Other administrative expenses included almost all payments to deposit insurance systems expected in 2019 in the amount of EUR 92.9 million (EUR 80.2 million). The increase in amortisation and depreciation to EUR 264.6 million (EUR 232.3 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** increased to EUR 1,446.9 million (+11.5%; EUR 1,297.6 million) and the **cost/income ratio** improved to 59.7% (61.5%).

Due to net releases on the back of continued solid asset quality, **the impairment result from financial instruments** amounted to EUR 42.8 million or, adjusted for net allocation of provisions for commitments and guarantees given, 2 basis points of average gross customer loans (EUR 73.2 million or -12 basis points). This was mainly attributable to substantial income received from the recovery of loans already written off, primarily in the Czech Republic and in Hungary, as well as from releases of provisions for commitments and guarantees in Austria, the Czech Republic and Romania. The **NPL ratio** improved further to 2.8% (3.2%). The **NPL coverage ratio** increased to 75.4% (73.4%).

Other operating result amounted to EUR -351.0 million (EUR -204.6 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 76.3 million (EUR 71.3 million). Banking and transaction taxes were slightly higher at EUR 64.7 million (EUR 63.3 million), including EUR 12.6 million (EUR 13.8 million) in Hungarian banking taxes posted upfront for the full financial year. Other taxes were nearly unchanged at EUR 6.4 million (EUR 6.5 million).

The minority charge rose due to significantly better results from the savings banks to EUR 205.2 million (EUR 165.5 million). The
net result attributable to owners of the parent declined to EUR 731.9 million (EUR 774.3 million).

Total equity not including AT1 instruments rose to EUR 18.2 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 16.1 billion (EUR 15.5 billion), total **own funds** (final) to EUR 21.8 billion (EUR 20.9 billion). Interim profit is included in the above figures. Total risk – **risk-weighted assets** including credit, market and operational risk (CRR, final) – rose to EUR 118.8 billion (EUR 115.4 billion). The **common equity tier 1 ratio** (CET1, final) stood at 13.5% (13.5%), the **total capital ratio** at 18.3% (18.1%).

Total assets rose to EUR 248.3 billion (EUR 236.8 billion). On the asset side, cash and cash balances decreased to EUR 16.8 billion (EUR 17.5 billion), while loans and advances to credit institutions increased to EUR 23.0 billion (EUR 19.1 billion). **Loans and advances to customers** rose to EUR 155.3 billion (+4.0%; EUR 149.3 billion). On the liability side, deposits from banks increased to EUR 19.0 billion (EUR 17.7 billion) and **customer deposits** grew again – most notably in the Czech Republic and in Austria – to EUR 169.7 billion (+4.3%; 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.

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Financial data

Income statement					
in EUR million	**Q2 18**	**Q1 19**	**Q2 19**	**1-6 18**	**1-6 19**
Net interest income	1,131.2	1,160.9	1,168.8	2,213.8	2,329.7
Net fee and commission income	480.7	487.7	492.7	959.3	980.4
Net trading result and gains/losses from financial instruments at FVPL	36.9	76.2	93.7	78.5	169.9
Operating income	1,719.0	1,771.7	1,821.2	3,374.1	3,592.9
Operating expenses	-1,011.5	-1,115.6	-1,030.4	-2,076.5	-2,146.0
Operating result	**707.5**	**656.0**	**790.9**	**1,297.6**	**1,446.9**
Impairment result from financial instruments	18.9	35.8	7.1	73.2	42.8
Post-provision operating result	**726.3**	**691.8**	**797.9**	**1,370.9**	**1,489.7**
Net result attributable to owners of the parent	**438.2**	**377.0**	**354.9**	**774.3**	**731.9**
Net interest margin (on average interest-bearing assets)	2.32%	2.18%	2.18%	2.30%	2.18%
Cost/income ratio	58.8%	63.0%	56.6%	61.5%	59.7%
Provisioning ratio (on average gross customer loans)	-0.02%	0.01%	0.03%	-0.12%	0.02%
Tax rate	18.4%	17.0%	19.9%	20.0%	18.5%
Return on equity	12.8%	11.1%	9.3%	11.7%	10.2%

Balance sheet					
in EUR million	**Jun 18**	**Mar 19**	**Jun 19**	**Dec 18**	**Jun 19**
Cash and cash balances	16,888	16,382	16,843	17,549	16,843
Trading, financial assets	43,899	45,191	45,620	43,930	45,620
Loans and advances to banks	17,149	22,741	23,035	19,103	23,035
Loans and advances to customers	144,730	151,957	155,331	149,321	155,331
Intangible assets	1,507	1,489	1,490	1,507	1,490
Miscellaneous assets	5,705	5,946	5,943	5,382	5,943
Total assets	**229,878**	**243,706**	**248,261**	**236,792**	**248,261**
Financial liabilities held for trading	3,070	2,277	2,518	2,508	2,518
Deposits from banks	17,867	20,295	19,043	17,658	19,043
Deposits from customers	156,831	166,216	169,668	162,638	169,668
Debt securities issued	28,474	28,670	30,773	29,738	30,773
Miscellaneous liabilities	5,928	6,492	6,609	5,381	6,609
Total equity	17,708	19,754	19,649	18,869	19,649
Total liabilities and equity	**229,878**	**243,706**	**248,261**	**236,792**	**248,261**
Loan/deposit ratio	92.3%	91.4%	91.5%	91.8%	91.5%
NPL ratio	3.6%	3.0%	2.8%	3.2%	2.8%
NPL coverage ratio (based on AC loans, ex collateral)	72.5%	74.5%	75.4%	73.4%	75.4%
CET 1 ratio (phased-in)	12.6%	13.2%	13.6%	13.5%	13.6%

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