

## Erste Group powers ahead in H1 2016: net profit of EUR 841.7 million, core capital ratio at 13.3% and further accelerating asset quality improvement

*“With profits of over 800 million euros, we are pleased to present the best half-year result in the history of our company. Our core capital ratio of 13.3 percent is clearly above the required level and highlights our strong capital base. It also permits us to be quite relaxed when viewing the outcome of the recent stress tests. The development of our asset quality is also gratifying. The nearly 17 percent decline in the volume of non-performing loans marks the sharpest improvement of any half-year. Due to this development, the NPL ratio has dropped from 7.1 percent to 5.8 percent since the beginning of the year.*

*However, we are operating in an economic and political environment in Europe that is overshadowed by uncertainty, in which banks have been burdened by special taxes for years, and in which political interventions in the pricing policy of the private sector are en vogue, even as banks are being confronted with demands to build up capital at a faster pace.*

*The zero and even negative interest rate policy of the European Central Bank – which is influenced by political necessities – weighs on not only the investment returns of our customers, but also our operating result. That result is also under pressure from constantly rising regulatory costs. The solid economic growth in our core markets of Central and Eastern Europe together with a strong demand for retail loans has not been enough to fully mitigate this trend.*

*Nonetheless, we are satisfied with our bottom line for the first half of this year, especially as all subsidiary banks contributed to this achievement. We are confident that we will be able to sustain the positive trend in our customer business, also due to further investments in our successful digitalisation projects. For this reason, we have also raised the outlook for the full year – despite the challenges – to a return-on-tangible-equity ratio of over 12 percent,”* said Andreas Treichl, CEO of Erste Group Bank AG.

### Highlights

P&L: January-June 2016 compared with January-June 2015; balance sheet: 30 June 2016 compared with 31 December 2015

In a challenging market environment of persistently low interest rates, **net interest income** was largely stable at EUR 2,194.1 million (-0.8%; EUR 2,211.9 million) on the back of moderate lending growth. **Net fee and commission income** decreased to EUR 884.9 million (-3.5%; EUR 917.4 million), mainly due to lower income from the securities business and payment services. The **net trading and fair value result** declined to EUR 107.5 million (EUR 136.5 million) due to the non-recurrence of positive one-off effects and a negative fair value result. **Operating income** went down to EUR 3,316.6 million (-2.4%; EUR 3,399.4 million). **General administrative expenses** rose to EUR 1,980.3 million (+4.4%; EUR 1,896.8 million), mainly as a result of the advance booking of most of the expected contributions to deposit insurance schemes for 2016 in the total amount of EUR 79.3 million (EUR 38.8 million) and higher personnel expenses of EUR 1,152.7 million (EUR 1,113.9 million). This resulted in a decline of the **operating result** to EUR 1,336.3 million (-11.1%; EUR 1,502.6 million). The **cost/income ratio** stood at 59.7% (55.8%). **Gains from financial assets and liabilities not measured at fair value through profit and loss (net)** include a gain from the sale of shares in VISA Europe in the amount of EUR 138.7 million.

**Net impairment loss on financial assets not measured at fair value through profit or loss** dropped to EUR 25.8 million or 4 basis points of average gross customer loans (-93.1%; EUR 373.9 million or 58 basis points), due to a substantial decline of non-performing loans and higher income from the recovery of loans already written off in Romania and Hungary. The **NPL ratio** improved further to 5.8% (7.7%). The **NPL coverage ratio** stood at 65.6% (68.2%).

**Other operating result** amounted to EUR -192.2 million (EUR -200.6 million). This includes expected expenses for the annual contributions to resolution funds in the amount of EUR 64.6 million (EUR 55.2 million). Banking and financial transaction taxes declined to EUR 107.6 million (EUR 137.2 million), which was attributable to the significant reduction of the Hungarian banking levies to EUR 38.2 million (EUR 65.5 million). In Austria, banking levies of EUR 57.1 million (EUR 60.1 million) were at about the same level as in the previous year and in Slovakia amounted to EUR 12.3 million (EUR 11.6 million).

Due to the lower earnings contributions of savings banks covered by the cross-guarantee system, the minority charge declined to EUR 146.2 million (EUR 203.4 million). The **net result attributable to owners of the parent** rose to EUR 841.7 million (EUR 487.2 million).

**Total equity** increased to EUR 16.0 billion (EUR 14.8 billion). After regulatory deductions and filtering according to the CRR, **common equity tier 1 capital** (CET1, Basel 3 phased-in) rose to EUR 13.4 billion (EUR 12.1 billion); total eligible **own funds** (Basel 3 phased in) amounted to EUR 18.9 billion (EUR 17.6 billion). Interim profit is included in the above figures. Total risk, i.e. **risk-weighted assets** including credit, market and operational risk (Basel 3 phased-in) rose to EUR 101.0 billion (EUR 98.3 billion). The **common equity tier 1 ratio** (CET 1, Basel 3 phased-in) stood at 13.3% (12.3%), the **total capital ratio** (Basel 3 phased-in) at 18.7% (17.9%).

**Total assets** increased to EUR 204.5 billion (EUR 199.7 billion). **Loans and receivables to customers (net)** were moderately higher at EUR 127.4 billion (+1.2%; EUR 125.9 billion). Securities held for trading rose to EUR 10.4 billion (EUR 8.7 billion). On the liabilities side, deposits from banks rose to EUR 16.4 billion (EUR 14.2 billion) and **customer deposits** increased to EUR 130.4 billion (EUR 127.9 billion). Debt securities in issue, mainly bonds and mortgage covered bonds, declined to EUR 28.0 billion (EUR 29.7 billion). The **loan-to-deposit ratio** stood at 97.7% (98.4%).

## OUTLOOK

**Operating environment anticipated to be conducive to credit expansion.** Real GDP growth in 2016 is expected to be between 1.4% and 4.1% in all major CEE markets, including Austria, driven by solid domestic demand.

**Return on tangible equity (ROTE) expected at above 12% in 2016 underpinning continued dividend payout.** Support factors include continued loan growth as well as further improvement in asset quality amid a benign risk environment. Headwinds are the persistent low interest rate environment affecting group operating income as well as lower operating results in Hungary (lower volumes) and Romania (following asset re-pricing). Banking levies (comprising banking taxes, financial transaction tax, resolution fund and deposit insurance fund contributions) are expected at about EUR 360 million pre-tax in 2016, prior to a potential banking tax one-off payment in Austria (pending parliamentary approval of the government proposal) of about EUR 200 million. An additional Austrian banking tax one-off payment in 2016 would result in a sustainable reduction from about EUR 130 million to about EUR 20 million pre-tax per annum from 2017. The guidance assumes no material negative one-offs in the second half of 2016.

**Risks to guidance.** Geopolitical risks and global economic risks, impact from negative interest rates, consumer protection initiatives.

## FINANCIAL DATA

### Income statement

in EUR million	Q2 15	Q1 16	Q2 16	1-6 15	1-6 16
Net interest income	1,113.4	1,092.2	1,101.9	2,211.9	2,194.1
Net fee and commission income	456.3	443.1	441.8	917.4	884.9
Net trading and fair value result	64.1	43.5	64.0	136.5	107.5
Operating income	1,710.3	1,629.3	1,687.3	3,399.4	3,316.6
Operating expenses	-948.7	-1,008.8	-971.5	-1,896.8	-1,980.3
<b>Operating result</b>	<b>761.6</b>	<b>620.5</b>	<b>715.8</b>	<b>1,502.6</b>	<b>1,336.3</b>
Net impairment loss on non-fair value financial assets	-190.8	-56.4	30.6	-373.9	-25.8
<b>Post-provision operating result</b>	<b>570.8</b>	<b>564.1</b>	<b>746.4</b>	<b>1,128.6</b>	<b>1,310.5</b>
Other operating result	-47.1	-139.5	-52.6	-200.6	-192.2
Levies on banking activities	-45.4	-62.8	-44.9	-137.2	-107.6
Pre-tax result from continuing operations	548.8	427.0	839.7	964.1	1,266.7
Taxes on income	-154.8	-104.5	-174.3	-273.4	-278.8
<b>Net result for the period</b>	<b>394.0</b>	<b>322.6</b>	<b>665.3</b>	<b>690.7</b>	<b>987.9</b>
Net result attributable to non-controlling interests	132.6	47.8	98.4	203.4	146.2
<b>Net result attributable to owners of the parent</b>	<b>261.4</b>	<b>274.7</b>	<b>567.0</b>	<b>487.2</b>	<b>841.7</b>
Earnings per share	0.61	0.64	1.32	1.14	1.96
Cash earnings per share	0.61	0.65	1.32	1.15	1.97
Return on equity	10.2%	9.8%	19.7%	9.6%	14.9%
Cash return on equity	10.2%	9.9%	19.8%	9.7%	14.9%
Net interest margin (on average interest-bearing assets)	2.59%	2.51%	2.57%	2.58%	2.54%
Cost/income ratio	55.5%	61.9%	57.6%	55.8%	59.7%
Provisioning ratio (on average gross customer loans)	0.58%	0.17%	-0.09%	0.58%	0.04%
Tax rate	28.2%	24.5%	20.8%	28.4%	22.0%

### Balance sheet

in EUR million	Jun 15	Mar 16	Jun 16	Dec 15	Jun 16
Cash and cash balances	7,011	14,641	12,982	12,350	12,982
Trading, financial assets	49,044	48,680	49,452	47,542	49,452
Loans and receivables to credit institutions	8,775	6,680	5,626	4,805	5,626
Loans and receivables to customers	123,504	126,740	127,407	125,897	127,407
Intangible assets	1,395	1,447	1,437	1,465	1,437
Miscellaneous assets	7,802	8,182	7,601	7,685	7,601
<b>Total assets</b>	<b>197,532</b>	<b>206,369</b>	<b>204,505</b>	<b>199,743</b>	<b>204,505</b>
Financial liabilities - held for trading	6,632	6,612	6,146	5,867	6,146
Deposits from banks	15,704	17,330	16,367	14,212	16,367
Deposits from customers	124,534	128,640	130,417	127,946	130,417
Debt securities issued	29,914	30,060	28,014	29,654	28,014
Miscellaneous liabilities	6,732	8,509	7,584	7,257	7,584
Total equity	14,015	15,218	15,977	14,807	15,977
<b>Total liabilities and equity</b>	<b>197,532</b>	<b>206,369</b>	<b>204,505</b>	<b>199,743</b>	<b>204,505</b>
Loan/deposit ratio	99.2%	98.5%	97.7%	98.4%	97.7%
NPL ratio	7.7%	6.7%	5.8%	7.1%	5.8%
NPL coverage (exc collateral)	68.2%	66.5%	65.6%	64.5%	65.6%
CET 1 ratio (phased-in)	11.6%	12.1%	13.3%	12.3%	13.3%

### Ratings

	Jun 15	Mar 16	Jun 16
<b>Fitch</b>			
Long-term	BBB+	BBB+	BBB+
Short-term	F2	F2	F2
Outlook	Stable	Stable	Stable
<b>Moody's</b>			
Long-term	Baa2	Baa2	Baa1
Short-term	P-2	P-2	P-2
Outlook	Stable	Positive	Stable
<b>Standard &amp; Poor's</b>			
Long-term	BBB+	BBB+	BBB+
Short-term	A-2	A-2	A-2
Outlook	Negative	Negative	Stable

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