Ad hoc release Vienna, 30 October 2014

Erste Group: asset quality improvement gains momentum as AQR confirms solid capital base; net loss for first nine months of 2014 in line with guidance at EUR 1,484.0 million

Financial data

Income statement					
in EUR million	Q3 13	Q2 14	Q3 14	1–9 13	1–9 14
Net interest income	1,175.9	1,119.7	1,126.0	3,515.8	3,369.6
Net fee and commission income	449.5	454.9	465.8	1,343.7	1,372.7
Net trading and fair value result	80.7	87.7	28.4	184.2	166.5
Operating income	1,780.4	1,731.1	1,695.8	5,263.3	5,117.5
Operating expenses	−964.2	−933.1	−887.3	−2,924.4	−2,783.7
Operating result	816.2	798.0	808.5	2,338.9	2,333.8
Net impairment loss on non-fair value financial assets	−460.7	−431.9	−878.8	−1,245.0	−1,674.9
Post-provision operating result	355.5	366.1	−70.3	1,093.9	658.8
Net result attributable to owners of the parent	**128.4**	**−1,033.1**	**−554.2**	**430.6**	**−1,484.0**
Net interest margin (on average interest-bearing assets)	2.71%	2.61%	2.68%	2.68%	2.64%
Cost/income ratio	54.2%	53.9%	52.3%	55.6%	54.4%
Provisioning ratio (on average gross customer loans)	1.42%	1.35%	2.75%	1.27%	1.75%
Tax rate	25.5%	−30.2%	−23.7%	5.2%	−45.4%
Return on equity	4.2%	−37.6%	−21.7%	4.6%	−18.3%

Balance sheet					
in EUR million	Sep 13	Jun 14	Sep 14	Dec 13	Sep 14
Cash and cash balances	11,852	7,267	8,010	9,301	8,010
Trading, financial assets	53,554	52,288	51,051	51,269	51,051
Loans and receivables to credit institutions	7,757	8,548	7,166	8,377	7,166
Loans and receivables to customers	121,656	120,005	120,451	119,945	120,451
Intangible assets	2,766	1,438	1,456	2,441	1,456
Miscellaneous assets	10,500	8,852	8,839	8,786	8,839
Total assets	**208,084**	**198,398**	**196,973**	**200,118**	**196,973**
Financial liabilities - held for trading	7,154	7,152	8,488	6,475	8,488
Deposits from banks	23,163	18,803	16,483	17,299	16,483
Deposits from customers	122,010	120,250	120,061	122,415	120,061
Debt securities issued	32,303	31,033	31,211	33,124	31,211
Miscellaneous liabilities	8,159	7,081	7,078	6,020	7,078
Total equity	15,294	14,080	13,652	14,785	13,652
Total liabilities and equity	**208,084**	**198,398**	**196,973**	**200,118**	**196,973**
Loan/deposit ratio	99.7%	99.8%	100.3%	98.0%	100.3%
NPL ratio	9.6%	9.4%	8.9%	9.6%	8.9%
NPL coverage (exc collateral)	63.0%	64.0%	68.8%	63.1%	68.8%
CET 1 ratio (phased-in)	10.9%	11.7%	10.8%	11.4%	10.8%

Highlights

January-September 2014 compared with January-September 2013; 30 September 2014 compared with 31 December 2013

Net interest income declined to EUR 3,369.6 million (EUR 3,515.8 million), mainly due to the persistently low interest rate environment and FX translation effects. **Net fee and commission income** increased to EUR 1,372.7 million (EUR 1,343.7 million) on the back of an improved result from asset management. The **net trading and fair value result** declined to EUR 166.5 million (EUR 184.2 million). **Operating income** amounted to EUR 5,117.5 million (-2.8%; EUR 5,263.3 million).

General administrative expenses declined by 4.8% to EUR 2,783.7 million (EUR 2,924.4 million), mainly due to lower personnel expenses on the back of lower average headcount. This led to an **operating result** of EUR 2,333.8 million (-0.2%; EUR 2,338.9 million) and an improved **cost/income ratio** of 54.4% (55.6%).

In line with the expected rise in 2014 risk costs announced on 3 July 2014, **net impairment loss on financial assets not measured at fair value through profit or loss** went up by 34.5% to EUR 1,674.9 million or 175 basis points of average customer loans (EUR 1,245.0 million or 120 basis points). This was attributable in particular to additional risk costs in Romania resulting from the announced accelerated NPL reduction. The **NPL ratio** declined substantially to 8.9% (9.6%) on the back of successful NPL sales in Romania. The **NPL coverage ratio** improved significantly to 68.8% (63.1%).

Other operating result amounted to EUR -1,682.7 million (EUR -520.2 million). This was primarily due to the write-down of goodwill in the amount of EUR 420.9 million as well as of brand and customer relationships in Romania of EUR 489.8 million in total. At EUR 208.7 million (EUR 247.1 million) levies on banking activities were again significant: EUR 95.3 million (EUR 125.0 million) in Austria, EUR 31.5 million (EUR 31.1 million) in Slovakia, and EUR 81.8 million (EUR 90.9 million) in Hungary (this included the full Hungarian banking tax of EUR 47.9 million for 2014). In addition, the item other operating result includes EUR 360.8 million in expenses expected by Erste Group as a result of the consumer loan law passed by the Hungarian parliament.

Taxes on income rose to EUR 433.9 million due to a negative change in deferred taxes (net) in the amount of EUR 141.1 million. The **net result attributable to owners of the parent** amounted to EUR -1,484.0 million (EUR 430.6 million), in line with guidance.

Total IFRS capital declined to EUR 13.7 billion (EUR 14.8 billion). **Common equity tier 1 capital** (CET 1, phased-in) decreased to EUR 10.9 billion versus EUR 11.2 billion (Basel 2.5). **Risk-weighted assets** (phased-in) increased to EUR 100.6 billion (EUR 97.9 billion). The **common equity tier 1 ratio** (CET 1, phased-in) stood at 10.8% versus 11.4% (Basel 2.5), the **total capital ratio** (Basel 3, phased-in) 15.7% versus 16.3% (Basel 2.5).

Total assets amounted to EUR 197.0 billion (EUR 200.1 billion). **Loans and advances to customers (net)** increased slightly to EUR 120.5 billion (EUR 119.9 billion). The **loan-to-deposit ratio** stood at 100.3% (98.0%)

Outlook

- **For Erste Group (consolidated):**
  - Risk costs of EUR 2.1-2.4 billion depending on booking of Hungarian consumer loan law impact (EUR 350-400 million, EUR 360.8 million of which have already been booked) in risk costs or other operating result; any costs related to the unlikely, but still possible discounted conversion of Hungarian retail FX loans are not included in this guidance.
  - A net loss for 2014 of EUR 1.4-1.6 billion;
  - A CET 1-ratio (fully loaded, based on current definitions) of comfortably above 10.0% at year-end;
  - Strongly improved post-provision result and net profit (ROTE: 8-10%) in 2015, despite still disproportionate banking levies.
- **For the geographic segment Romania:** a full normalisation of risk costs at 100-150 bps of average gross customer loans starting in 2015, accompanied by an accelerated NPL reduction already in 2014; a lower, but sustainable operating result due to a lower unwinding impact on net interest income;
- **For the geographic segment Hungary:** a gradual normalisation of risk costs to 150-200 bps (by 2016) of average gross customer loans based on the assumption that all government actions will be completed in 2014; a lower, but sustainable operating result due to lower net interest income.

Presentation of results via audio webcast and telephone conference for portfolio managers and analysts

Date	Thursday 30 October 2014	
Time	9:00 Vienna / 8:00 London / 4:00 New York The presentation will be held in English.	
Live audio webcast	http://www.erstegroup.com/investorrelations (slide presentation)	
Dial-in for analysts	UK:	+44 (0) 20 3427 1912 0800 279 4977
	US:	+1 718 354 1157 1877 280 2296
	Confirmation Code 9955355	
Replay	Will be available at http://www.erstegroup.com/en/Investors/Webcasts-Videos.	

For more information, please contact:

Erste Group, Investor Relations, Graben 21, 1010 Vienna, Austria, Fax: +43 5 0100 9 13112

Email: investor.relations@erstegroup.com
Internet: http://www.erstegroup.com/investorrelations http://twitter.com/ErsteGroupIR http://slideshare.net/Erste_Group

Thomas Sommerauer Tel +43 5 0100 17326, Email: thomas.sommerauer@erstegroup.com
Peter Makray Tel +43 5 0100 16878, Email: peter.makray@erstegroup.com
Simone Pilz Tel +43 5 0100 13036, Email: simone.pilz@erstegroup.com
Gerald Krames Tel +43 5 0100 12751, Email: gerald.krames@erstegroup.com

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