Ad hoc release — Vienna, 4 May 2016

Erste Group posts net profit of EUR 274.7 million in Q1 16 despite upfront booking of banking levies and regulatory charges; outlook confirmed

Financial data

Income statement					
in EUR million	Q1 15	Q4 15	Q1 16	1–3 15	1–3 16
Net interest income	1,098.5	1,120.4	1,092.2	1,098.5	1,092.2
Net fee and commission income	461.0	489.2	443.1	461.0	443.1
Net trading and fair value result	72.4	17.2	43.5	72.4	43.5
Operating income	1,689.1	1,680.9	1,629.3	1,689.1	1,629.3
Operating expenses	–948.1	–1,016.5	–1,008.8	–948.1	–1,008.8
Operating result	741.0	664.4	620.5	741.0	620.5
Net impairment loss on non-fair value financial assets	–183.1	–210.7	–56.4	–183.1	–56.4
Post-provision operating result	557.8	453.7	564.1	557.8	564.1
Net result attributable to owners of the parent	**225.8**	**204.0**	**274.7**	**225.8**	**274.7**
Net interest margin (on average interest-bearing assets)	2.55%	2.59%	2.51%	2.55%	2.51%
Cost/income ratio	56.1%	60.5%	61.9%	56.1%	61.9%
Provisioning ratio (on average gross customer loans)	0.57%	0.64%	0.17%	0.57%	0.17%
Tax rate	28.6%	0.7%	24.5%	28.6%	24.5%
Return on equity	9.0%	7.5%	9.8%	9.0%	9.8%

Balance sheet					
in EUR million	Mar 15	Dec 15	Mar 16	Dec 15	Mar 16
Cash and cash balances	8,223	12,350	14,641	12,350	14,641
Trading, financial assets	52,285	47,542	48,680	47,542	48,680
Loans and receivables to credit institutions	8,345	4,805	6,680	4,805	6,680
Loans and receivables to customers	123,437	125,897	126,740	125,897	126,740
Intangible assets	1,415	1,465	1,447	1,465	1,447
Miscellaneous assets	8,865	7,685	8,182	7,685	8,182
Total assets	**202,570**	**199,743**	**206,369**	**199,743**	**206,369**
Financial liabilities - held for trading	8,988	5,867	6,612	5,867	6,612
Deposits from banks	16,389	14,212	17,330	14,212	17,330
Deposits from customers	124,752	127,946	128,640	127,946	128,640
Debt securities issued	30,852	29,654	30,060	29,654	30,060
Miscellaneous liabilities	7,635	7,257	8,509	7,257	8,509
Total equity	13,956	14,807	15,218	14,807	15,218
Total liabilities and equity	**202,570**	**199,743**	**206,369**	**199,743**	**206,369**
Loan/deposit ratio	98.9%	98.4%	98.5%	98.4%	98.5%
NPL ratio	8.1%	7.1%	6.7%	7.1%	6.7%
NPL coverage (exc collateral)	67.7%	64.5%	66.5%	64.5%	66.5%
CET 1 ratio (phased-in)	10.5%	12.3%	12.1%	12.3%	12.1%

Highlights

January-March 2016 compared with January-March 2015; 31 March 2016 compared with 31 December 2015

Net interest income declined moderately to EUR 1,092.2 million (EUR 1,098.5 million) in a challenging environment of persistently low interest rates. **Net fee and commission income** decreased to EUR 443.1 million (EUR 461.0 million), mainly due to lower income from the securities business and payment services. Due to the non-recurrence of one-off effects, the **net trading and fair value result** declined to EUR 43.5 million (EUR 72.4 million). **Operating income** went down to EUR 1,629.3 million (-3.5%; EUR 1,689.1 million). **General administrative expenses** rose to EUR 1,008.8 million (+6.4%; EUR 948.1 million), mainly as a result of the advance booking of most of the expected contributions for 2016 to deposit insurance schemes in the total amount of EUR 71.7 million (EUR 19.2 million). This resulted in a decline of the **operating result** to EUR 620.5 million (-16.3%; EUR 741.0 million). The **cost/income ratio** stood at 61.9% (56.1%).

Net impairment loss on financial assets not measured at fair value through profit or loss dropped to EUR 56.4 million or 17 basis points of average gross customer loans (-69.2%; EUR 183.1 million or 57 basis points), primarily due to a substantial decline of non-performing loans and higher income from the recovery of loans already written off. The **NPL ratio** improved further to 6.7% (7.1%). The **NPL coverage ratio** stood at 66.5% (64.5%).

Other operating result amounted to EUR -139.5 million (EUR -153.5 million). This includes expected expenses for the annual contributions to resolution funds of EUR 64.7 million (EUR 54.9 million). At EUR 62.8 million (EUR 91.8 million), banking and financial transaction taxes were lower than in the previous year, which is attributable to the significant reduction of the Hungarian banking levies to EUR 27.1 million (EUR 56.5 million). Banking levies remained high in Austria at EUR 29.5 million (EUR 29.5 million) and amounted to EUR 6.2 million (EUR 5.8 million) in Slovakia.

Due to the lower profitability of the savings banks, the minority charge declined to EUR 47.8 million (EUR 70.8 million). The **net result attributable to owners of the parent** rose to EUR 274.7 million (EUR 225.8 million).

Total equity rose to EUR 15.2 billion (EUR 14.8 billion). After regulatory deductions and filtering according to the CRR, **common equity tier 1 capital** (CET1, Basel 3 phased-in) increased to EUR 12.2 billion (EUR 12.1 billion), total eligible **own funds** (Basel 3 phased-in) amounted to EUR 17.7 billion (EUR 17.6 billion). While the calculation did not include the interim profit, risk costs of the reporting period were deducted. Total risk, i.e. **risk-weighted assets** including credit, market and operational risk (Basel 3 phased-in) increased to EUR 100.5 billion (EUR 98.3 billion). The **common equity tier 1 ratio** (CET1, Basel 3 phased-in) stood at 12.1% (12.3%), the **total capital ratio** (Basel 3 phased-in) at 17.6% (17.9%).

Total assets increased to EUR 206.4 billion (EUR 199.7 billion), driven mainly by an increase in cash and cash balances, including in particular deposits at central banks, to EUR 14.6 billion (EUR 12.4 billion) and loans and receivables to credit institutions to EUR 6.7 billion (EUR 4.8 billion). **Loans and receivables to customers (net)** increased moderately to EUR 126.7 billion (EUR 125.9 billion). On the liability side, deposits from banks rose to EUR 17.3 billion (EUR 14.2 billion) and **customer deposits** were slightly higher at EUR 128.6 billion (EUR 127.9 billion). The **loan-to-deposit ratio** stood at 98.5% (98.4%).

Outlook

Operating environment anticipated to be conducive to credit expansion. Real GDP growth in 2016 is expected to be between 1.5% and 4.1% in all major CEE markets, including Austria, driven by solid domestic demand.

Return on tangible equity (ROTE) expected at about 10-11% in 2016 underpinning continued dividend payout. Support factors include continued loan growth; further improvement in asset quality amid a benign risk environment as well as a positive one-off impact related to the sale of a participation in VISA in the amount of about EUR 127 million pre-tax. Headwinds are the persistent low interest rate environment affecting group operating income, primarily net interest 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 funds and deposit insurance fund contributions) will have a negative pre-tax impact of about EUR 360 million in 2016.

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

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

Date	Wednesday 4 May 2016	
Time	8:00 London / 9:00 Vienna / 3:00 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 20 3427 1915 0800 279 5736
	US:	+1 718 354 1158 1877 280 2296
	Confirmation Code 9828714	
Replay	Will be available at https://www.erstegroup.com/en/investors/events/irevents.	

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