

Erste Group: Despite net loss of EUR -929.7 million in the first half of 2014, CET 1-ratio rises; improved asset quality

Financial data

Income statement					
in EUR million	Q2 13	Q1 14	Q2 14	1-6 13	1-6 14
Net interest income	1.143.3	1.123.9	1.119.7	2.339.9	2.243.6
Net fee and commission income	446.8	452.1	454.9	894.1	907.0
Net trading and fair value result	72.8	50.4	87.7	103.6	138.0
Operating income	1.734.9	1.690.6	1.731.1	3.483.0	3.421.7
Operating expenses	-970.3	-963.3	-933.1	-1.960.2	-1.896.4
Operating result	764.6	727.3	798.0	1.522.7	1.525.3
Net impairment loss on non-fair value financial assets	-412.6	-364.2	-431.9	-784.3	-796.1
Post-provision operating result	352.1	363.0	366.1	738.4	729.1
Net result attributable to owners of the parent	125.5	103.3	-1.033.1	302.2	-929.7
Net interest margin (on average interest-bearing assets)	2.61%	2.62%	2.61%	2.66%	2.62%
Cost/income ratio	55.9%	57.0%	53.9%	56.3%	55.4%
Provisioning ratio (on average gross customer loans)	1.27%	1.14%	1.35%	1.20%	1.25%
Tax rate	-133.7%	41.6%	-30.2%	-6.6%	-62.0%
Return on equity	3.9%	3.6%	-37.6%	4.7%	-16.8%
Balance sheet					
in EUR million	Jun 13	Mar 14	Jun 14	Dec 13	Jun 14
Cash and cash balances	10.578	10.373	7.267	9.301	7.267
Trading, financial assets	54.964	52.270	52.288	51.269	52.288
Loans and receivables to credit institutions	9.150	9.962	8.548	8.377	8.548
Loans and receivables to customers	121.999	119.805	120.005	119.945	120.005
Intangible assets	2.807	2.408	1.438	2.441	1.438
Miscellaneous assets	10.932	9.085	8.852	8.786	8.852
Total assets	210.431	203.903	198.398	200.118	198.398
Financial liabilities - held for trading	7.533	7.042	7.152	6.475	7.152
Deposits from banks	22.004	24.421	18.803	17.299	18.803
Deposits from customers	122.470	119.445	120.250	122.415	120.250
Debt securities issued	33.653	31.043	31.033	33.124	31.033
Miscellaneous liabilities	8.533	6.883	7.081	6.020	7.081
Total equity	16.238	15.069	14.080	14.785	14.080
Total liabilities and equity	210.431	203.903	198.398	200.118	198.398
Loan/deposit ratio	99.6%	100.3%	99.8%	98.0%	99.8%
NPL ratio	9.7%	9.6%	9.4%	9.6%	9.4%
NPL coverage (exc collateral)	61.7%	62.6%	64.0%	63.1%	64.0%
CET 1 ratio (phased-in)	11.8%	11.1%	11.7%	11.4%	11.7%

Highlights

January-June 2014 compared with January-June 2013; as of 30 June 2014 compared with 31 December 2013

Net interest income declined to EUR 2,243.6 million (EUR 2,339.9 million), mainly due to the persistently low interest-rate environment and FX translation effects. **Net fee and commission income** increased to EUR 907.0 million (EUR 894.1 million) driven by the securities business and the **net trading and fair value result** rose to EUR 138.0 million (EUR 103.6 million). **Operating income** amounted to EUR 3,421.7 million (-1.8%; EUR 3,483.0 million).

General administrative expenses declined by 3.3% to EUR 1,896.4 million (EUR 1,960.2 million), mainly due to lower personnel expenses. This led to an **operating result** of EUR 1,525.3 million (+0.2%; EUR 1,522.7 million) and an improved **cost/income ratio** of 55.4% (56.3%).

Despite the expected rise in 2014 risk costs announced in early July, **net impairment loss on financial assets not measured at fair value through profit or loss (net)** rose only moderately, by 1.5%, to EUR 796.1 million or 125 basis points of the average volume of customer loans (EUR 784.3 million or 120 basis points). This is attributable to the fact that a significant proportion of risk costs in Romania resulting from the sale of non-performing loans will only arise in the second half of the year. In addition, the item other operating result included EUR 130.3 million of the risk costs expected by Erste Group in relation to the consumer loan law passed by the Hungarian parliament in early July. On a stable volume of customer loans, the **NPL ratio** declined to 9.4% (9.6%) in the second quarter. The **NPL coverage ratio** improved to 64.0% (63.1%).

Other operating result amounted to EUR -1,271.8 million (EUR -377.6 million), primarily due to the write-down of intangible assets in the total amount of EUR 956.4 million, mostly in Romania (EUR 854.2 million). The entire goodwill (EUR 319.1 million), brand (EUR 294.6 million) and customer relationships (EUR 176.1 million) as well as other miscellaneous intangible assets (EUR 64.4 million) were written down – as well as goodwill related to business in Croatia. At EUR 154.1 million (EUR 184.7 million) levies on banking activities were again significant: EUR 63.2 million (EUR 83.3 million) in Austria, EUR 20.7 million (EUR 21.0 million) in Slovakia and EUR 70.1 million (EUR 80.4 million) in Hungary (included the full Hungarian banking tax of EUR 47.9 million for 2014).

Taxes on income rose to EUR 335.6 million mainly due to a negative change in deferred taxes (net) in the amount of EUR 164.2 million. The **net result attributable to owners of the parent** amounted to EUR -929.7 million (EUR 302.2 million), tax expenses accounted for EUR 489.7 million thereof.

Total IFRS-capital declined to EUR 14.1 billion (EUR 14.8 billion). **Common equity tier 1 capital** (CET 1, phased-in) increased to EUR 11.5 billion versus EUR 11.2 billion (Basel 2.5). **Risk-weighted assets** (phased-in) were unchanged at EUR 98.0 billion (EUR 97.9 billion). The **common equity tier 1 ratio** (CET 1, phased-in) improved to 11.7% versus 11.4% (Basel 2.5). The **total capital ratio** (Basel 3, phased-in) rose to 16.5% versus 16.3% (Basel 2.5).

Total assets amounted to EUR 198.4 billion (EUR 200.1 billion). Loans and advances to customers (net) were stable at EUR 120.0 billion (EUR 119.9 billion). The **loan-to-deposit ratio** stood at 99.8% (98.0%).

Outlook

Erste Group confirms its guidance of 3 July 2014 for 2014 and 2015 as follows:

- **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 (down about EUR 800 million or 25%, compared to year-end 2013) already in 2014; a significant rise in the NPL coverage ratio; 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;

• **For Erste Group (consolidated):**

- A group operating result, which – despite stable underlying group operating trends – will be pushed slightly below guidance in 2014 due to weaker operating results in Romania and Hungary;
- Risk costs of EUR 2.1-2.4 billion depending on booking of Hungarian consumer loan law impact in risk provisions or other operating result;
- A net loss for 2014 of EUR 1.4-1.6 billion;
- A CET 1-ratio (fully loaded, based on current definitions) of about 10.0% at year-end;
- Strongly improved post-provision result and net profit (ROTE: 8-10%) in 2015, despite still disproportionate banking levies.

Presentation of results via audio webcast and telephone conference for analysts

Date	Thursday 31 July 2014
Time	9:00 Vienna / 8:00 London / 3:00 New York The presentation will be held in English.
Audio webcast	http://www.erstegroup.com/investorrelations
Dial-in for analysts	UK: +44 (0) 20 3427 1910 US: +1 877 280 2296
Replay	Will be available at http://www.erstegroup.com/en/Investors/Webcasts-Videos .

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