

Erste Group posts net profit of EUR 624.7 million in 1-6 2017; on track for a 10%+ ROTE

Financial data

Income statement					
in EUR million	Q2 16	Q1 17	Q2 17	1-6 16	1-6 17
Net interest income	1,101.9	1,051.3	1,091.7	2,194.1	2,143.0
Net fee and commission income	441.8	457.7	453.2	884.9	910.9
Net trading result	68.8	48.6	54.3	120.0	102.9
Operating income	1,687.3	1,617.5	1,675.2	3,316.6	3,292.8
Operating expenses	-971.5	-1,018.3	-985.2	-1,980.3	-2,003.5
Operating result	715.8	599.2	690.0	1,336.3	1,289.3
Net impairment loss on financial assets	30.6	-65.8	-38.6	-25.8	-104.3
Post-provision operating result	746.4	533.4	651.5	1,310.5	1,184.9
Net result attributable to owners of the parent	567.0	262.2	362.5	841.7	624.7
Net interest margin (on average interest-bearing assets)	2.57%	2.33%	2.44%	2.54%	2.40%
Cost/income ratio	57.6%	63.0%	58.8%	59.7%	60.8%
Provisioning ratio (on average gross customer loans)	-0.09%	0.19%	0.11%	0.04%	0.15%
Tax rate	20.8%	22.0%	22.0%	22.0%	22.0%
Return on equity	19.7%	8.7%	11.1%	14.9%	9.9%
Balance sheet					
in EUR million	Jun 16	Mar 17	Jun 17	Dec 16	Jun 17
Cash and cash balances	12,982	24,731	25,842	18,353	25,842
Trading, financial assets	49,452	46,145	44,886	47,586	44,886
Loans and receivables to credit institutions	5,626	10,448	4,347	3,469	4,347
Loans and receivables to customers	127,407	132,992	135,122	130,654	135,122
Intangible assets	1,437	1,378	1,458	1,390	1,458
Miscellaneous assets	7,601	7,105	6,501	6,775	6,501
Total assets	204,505	222,798	218,156	208,227	218,156
Financial liabilities - held for trading	6,146	4,314	3,960	4,762	3,960
Deposits from banks	16,367	22,935	17,883	14,631	17,883
Deposits from customers	130,417	144,707	145,574	138,013	145,574
Debt securities issued	28,014	27,127	26,602	27,192	26,602
Miscellaneous liabilities	7,584	6,822	6,621	7,027	6,621
Total equity	15,977	16,894	17,515	16,602	17,515
Total liabilities and equity	204,505	222,798	218,156	208,227	218,156
Loan/deposit ratio	97.7%	91.9%	92.8%	94.7%	92.8%
NPL ratio	5.8%	4.9%	4.7%	4.9%	4.7%
NPL coverage (exc collateral)	65.6%	67.6%	68.5%	69.1%	68.5%
Texas ratio	40.5%	34.3%	33.3%	34.6%	33.3%
CET 1 ratio (phased-in)	13.3%	13.0%	13.2%	13.4%	13.2%

Highlights

P&L: January-June 2017 compared with January-June 2016; balance sheet: 30 June 2017 compared with 31 December 2016

Net interest income declined to EUR 2,143.0 million (-2.3%; EUR 2,194.1 million) despite lending growth, mostly due to lower interest income from the government bond portfolio and a lower unwinding effect. **Net fee and commission income** increased to EUR 910.9 million (+2.9%; EUR 884.9 million). Income from the securities business and from asset management was up substantially, while income from the lending business declined. The **net trading result** decreased to EUR 102.9 million (-14.3%; EUR 120.0 million). While **operating income** was almost stable at EUR 3,292.8 million (-0.7%; EUR 3,316.6 million), **general administrative expenses** rose to EUR 2,003.5 million (+1.2%; EUR 1,980.3 million) in line with expectations. This was attributable to an increase in other administrative expenses as well as depreciation and amortisation while personnel expenses were nearly unchanged at EUR 1,151.3 million (-0.1%; EUR 1,152.7 million). Almost all projected deposit insurance payments for 2017 in the amount of EUR 68.6 million (EUR 79.3 million) are already included in this line item. Consequently, the **operating result** decreased to EUR 1,289.3 million (-3.5%; EUR 1,336.3 million). The **cost/income ratio** rose marginally to 60.8% (59.7%).

Net impairment loss on financial assets remained low at EUR 104.3 million or 15 basis points of average gross customer loans (EUR 25.8 million or 4 basis points). In the previous year, substantial income from the recovery of loans already written off in Romania and Hungary had a positive impact. The **NPL ratio** improved again to 4.7% (4.9%) The **NPL coverage ratio** was stable at 68.5% (69.1%).

Other operating result amounted to EUR -209.8 million (EUR -192.2 million). This line item includes the annual contributions to resolution funds in the amount of EUR 65.4 million (EUR 64.6 million), banking and financial transaction taxes of EUR 59.4 million (EUR 107.6 million), and provisions of EUR 45.0 million for expected losses from loans to consumers due to supreme court rulings regarding negative interest reference rates in Austria.

The minority charge rose to EUR 169.1 million (+15.7%; EUR 146.2 million) due to a rise in the earnings contributions of the savings banks. The **net result attributable to owners of the parent** declined to EUR 624.7 million (-25.8%; EUR 841.7 million), which was primarily due to a gain from the sale of shares in VISA Europe in the amount of EUR 138.7 million (pre-tax) in previous year.

Total equity not including AT1 instruments rose to EUR 16.5 billion (EUR 16.1 billion). After regulatory deductions and filtering according to the CRR, **common equity tier 1 capital** (CET1, Basel 3 phased-in) increased to EUR 14.1 billion (EUR 13.6 billion). Total **own funds** (Basel 3 phased-in) went up to EUR 19.9 billion (EUR 18.8 billion). Interim profit is included in the above figures. Total risk (**risk-weighted assets** including credit, market and operational risk, Basel 3 phased-in) rose to EUR 106.8 billion (EUR 101.8 billion). The **common equity tier 1 ratio** (CET1, Basel 3 phased-in) stood at 13.2% (13.4%), the **total capital ratio** (Basel 3 phased-in) at 18.7% (18.5%).

Total assets increased to EUR 218.2 billion (+4.8%; EUR 208.2 billion). On the asset side, cash and cash balances rose to EUR 25.8 billion (EUR 18.4 billion), while loans and receivables to credit institutions increased to EUR 4.3 billion (EUR 3.5 billion). **Loans and receivables to customers** rose to EUR 135.1 billion (+3.4%; EUR 130.7 billion). On the liability side, deposits from banks increased to EUR 17.9 billion (EUR 14.6 billion) and **customer deposits** continued to grow – most notably in the Czech Republic and in Austria – to EUR 145.6 billion (+5.5%; EUR 138.0 billion). The **loan-to-deposit** ratio stood at 92.8% (94.7%).

Outlook 2017

Operating environment anticipated to be conducive to credit expansion. Real GDP growth is expected to be between 2.1% and 5.1% in Erste Group's CEE core markets, including Austria, in 2017. Real GDP growth should primarily be driven by solid domestic demand, whereby real wage growth and declining unemployment should support economic activity in CEE. 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 10% (based on average tangible equity in 2017). The underlying assumptions are: at best flat revenues (assuming 5%+ net loan growth); cost inflation of 1–2% due to regulatory projects and digitalisation; increase in risk costs, albeit remaining at historically low levels; positive swing in other operating result due to lower Austrian banking tax.

Risks to guidance. Impact of expansionary monetary policies by central banks including negative interest rates; political risks such as various elections in key EU economies; geopolitical risks and global economic risks; consumer protection initiatives.

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

Date	Friday 4 August 2017
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: +44 330 336 9412 0800 279 7204 US: +1 719 325 2202 866 548 4713 Confirmation Code 4727629
Replay	Will be available at https://www.erstegroup.com/en/investors/events/irevents .

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Erste Group shares (ISIN AT0000652011) are traded in Vienna, Prague Bucharest. The issues of Erste Group Bank AG are admitted to trading on the following regulated markets: Vienna, Luxembourg, Budapest, Bucharest, Zagreb, Stuttgart. The five biggest listed issues of Erste Group Bank AG in terms of issue volume have the following ISINs: AT0000A17ZZ3, AT0000A17ZV2, XS0743547183, XS0580561545, XS0432079381

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