

Erste Group posts net profit of EUR 262.2 million in 1-3 2017; on track for a 10%+ ROTE

Financial data

Income statement

in EUR million	Q1 16	Q4 16	Q1 17	1-3 16	1-3 17
Net interest income	1,092.2	1,107.0	1,051.3	1,092.2	1,051.3
Net fee and commission income	443.1	463.2	457.7	443.1	457.7
Net trading result	51.2	65.1	48.6	51.2	48.6
Operating income	1,629.3	1,731.5	1,617.5	1,629.3	1,617.5
Operating expenses	-1,008.8	-1,065.1	-1,018.3	-1,008.8	-1,018.3
Operating result	620.5	666.4	599.2	620.5	599.2
Net impairment loss on financial assets	-56.4	-132.5	-65.8	-56.4	-65.8
Post-provision operating result	564.1	533.9	533.4	564.1	533.4
Net result attributable to owners of the parent	274.7	85.6	262.2	274.7	262.2
Net interest margin (on average interest-bearing assets)	2.51%	2.52%	2.33%	2.51%	2.33%
Cost/income ratio	61.9%	61.5%	63.0%	61.9%	63.0%
Provisioning ratio (on average gross customer loans)	0.17%	0.39%	0.19%	0.17%	0.19%
Tax rate	24.5%	8.0%	22.0%	24.5%	22.0%
Return on equity	9.8%	2.8%	8.7%	9.8%	8.7%

Balance sheet

in EUR million	Mar 16	Dec 16	Mar 17	Dec 16	Mar 17
Cash and cash balances	14,641	18,353	24,731	18,353	24,731
Trading, financial assets	48,680	47,586	46,145	47,586	46,145
Loans and receivables to credit institutions	6,680	3,469	10,448	3,469	10,448
Loans and receivables to customers	126,740	130,654	132,992	130,654	132,992
Intangible assets	1,447	1,390	1,378	1,390	1,378
Miscellaneous assets	8,182	6,775	7,105	6,775	7,105
Total assets	206,369	208,227	222,798	208,227	222,798
Financial liabilities - held for trading	6,612	4,762	4,314	4,762	4,314
Deposits from banks	17,330	14,631	22,935	14,631	22,935
Deposits from customers	128,640	138,013	144,707	138,013	144,707
Debt securities issued	30,060	27,192	27,127	27,192	27,127
Miscellaneous liabilities	8,509	7,027	6,822	7,027	6,822
Total equity	15,218	16,602	16,894	16,602	16,894
Total liabilities and equity	206,369	208,227	222,798	208,227	222,798
Loan/deposit ratio	98.5%	94.7%	91.9%	94.7%	91.9%
NPL ratio	6.7%	4.9%	4.9%	4.9%	4.9%
NPL coverage (exc collateral)	66.5%	69.1%	67.6%	69.1%	67.6%
Texas ratio	45.0%	34.6%	34.3%	34.6%	34.3%
CET 1 ratio (phased-in)	12.1%	13.4%	13.0%	13.4%	13.0%

Highlights

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

Net interest income declined to EUR 1,051.3 million (-3.7%; EUR 1,092.2 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 457.7 million (+3.3%; EUR 443.1 million). Income from the securities business and from asset management was up, while income from lending business declined. The **net trading result** decreased to EUR 48.6 million (-5.1%; EUR 51.2 million). **Operating income** was almost stable at EUR 1,617.5 million (-0.7%; EUR 1,629.3 million). **General administrative expenses** rose to EUR 1,018.3 million (+0.9%; EUR 1,008.8 million), which was mainly attributable to higher personnel expenses of EUR 571.7 million (+1.1%; EUR 565.4 million). This item already includes the upfront booking of almost all projected full-year deposit insurance payments for 2017 in the amount of EUR 64.7 million (EUR 71.7 million). The **operating result** consequently decreased to EUR 599.2 million (-3.4%; EUR 620.5 million). The **cost/income ratio** stood at 63.0% (61.9%).

Net impairment loss on financial assets remained close to historical lows at EUR 65.8 million or 19 basis points of average gross customer loans (EUR 56.4 million or 17 basis points). The **NPL ratio** remained at 4.9% (4.9%). The **NPL coverage ratio** declined slightly to 67.6% (69.1%).

Other operating result amounted to EUR -127.1 million (EUR -139.5 million). This includes expenses for the annual contributions to resolution funds in the amount of EUR 77.5 million (EUR 64.7 million). Banking and financial transaction taxes amounted to EUR 35.8 million (EUR 62.8 million). The decline was primarily due to the significantly lower Austrian banking tax in the amount of EUR 5.6 million (EUR 29.5 million) after a substantial one-off payment of banking tax in the fourth quarter of 2016. Banking levies in Hungary declined to EUR 23.6 million (EUR 26.9 million) and in Slovakia amounted to EUR 6.6 million (EUR 6.2 million).

The minority charge rose to EUR 76.8 million (+60.6%; EUR 47.8 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 262.2 million (-4.6%; EUR 274.7 million).

Total equity not including AT1 instruments rose to EUR 16.4 billion (EUR 16.1 billion). After regulatory deductions and filtering according to the CRR, **common equity tier 1 capital** (CET1, Basel 3 phased-in) slipped to EUR 13.4 billion (EUR 13.6 billion). Total **own funds** (Basel 3 phased-in) increased to EUR 19.0 billion (EUR 18.8 billion). Interim profit is not included in the above figures but first-quarter risk costs are deducted. Total risk (**risk-weighted assets** including credit, market and operational risk, Basel 3 phased-in) rose to EUR 103.6 billion (EUR 101.8 billion). The **common equity tier 1 ratio** (CET1, Basel 3 phased-in) stood at 13.0% (13.4%), the **total capital ratio** (Basel 3 phased-in) at 18.4% (18.5%).

Total assets increased to EUR 222.8 billion (+7.0%; EUR 208.2 billion). On the asset side, cash and cash balances were up at EUR 24.7 billion (EUR 18.4 billion), likewise, loans and receivables to credit institutions at EUR 10.4 billion (EUR 3.5 billion). **Loans and receivables to customers** rose to EUR 133.0 billion (+1.8%; EUR 130.7 billion). On the liability side, deposits from banks increased to EUR 22.9 billion (EUR 14.6 billion) and **customer deposits** grew again – most notably in the Czech Republic and in Austria – to EUR 144.7 billion (+4.9%; EUR 138.0 billion). The **loan-to-deposit ratio** stood at 91.9% (94.7%).

Outlook

Operating environment anticipated to be conducive to credit expansion. Real GDP growth is expected to be between 1.5% and 4.5% 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 5 May 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 9105 0800 279 6839 US: +1 719 325 2385 888-349-9618 Confirmation Code 8822457
Replay	Will be available at https://www.erstegroup.com/en/investors/events/irevents .

Erste Group, Am Belvedere 1, 1100 Vienna, Austria, Registration No. 33209m.

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

For more information, please contact:

Investor Relations

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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