Press release 28 February 2017

Erste Group posts net profit of EUR 1.26 billion in 2016; EUR 4.8 billion in new net lending; CET 1 ratio 13.4%; dividend EUR 1 per share

"Erste Group achieved its best results ever this past year. We recorded a net profit of 1.26 billion euros on the back of lower risk costs driven by an improvement in our asset quality that saw our NPL ratio decline to below five percent. Operating income decreased slightly, pressured by the low interest rate environment, while operating costs rose, reflecting our increased investments in IT and digitalization. While loan growth was decent, with nearly five billion euros in net new loans granted in 2016, customer deposits – in total retail and corporate - increased by more than ten billion euros. While this savings inflow is a strong indication of the trust placed in our group, it also shows once more that the low interest rate environment by itself isn't encouraging investments.

With the CEE region maintaining economic growth momentum above the Eurozone average, all of our subsidiaries performed well, contributing to our strong Group net profit. As a result, we have managed to more than double our capital base since the beginning of the global financial crisis, boosting our phased-in Basel 3 core tier one ratio to 13.4 percent as of year-end. Based on these good results, we will propose to pay a dividend of one euro per share to our shareholders.

Our focus in 2017 and going forward is on investing in understanding our clients and their individual situations better, including through smart data management, and on delivering banking services that are truly personalized and relevant to them," said Andreas Treichl, CEO of Erste Group Bank AG.

HIGHLIGHTS

P&L 2016 compared with 2015; balance sheet 31 December 2016 compared with 31 December 2015

Net interest income declined to EUR 4,374.5 million (-1.6%; EUR 4,444.7 million), mainly due to a market environment of persistently low interest rates and large-scale NPL reductions. This development was not fully offset by lending growth. **Net fee and commission income** decreased to EUR 1,783.0 million (-4.2%; EUR 1,861.8 million) reflecting a decline in income from lending business and payment services as well as lower income from the securities business. **Net trading and fair value result** rose to EUR 272.3 million (+29.6%; EUR 210.1 million). Consequently, **operating income** declined to EUR 6,691.2 million (-1.2%; EUR 6,771.8 million). **General administrative expenses** increased to EUR 4,028.2 million (+4.1%; EUR 3,868.9 million), driven mainly by higher IT and consultancy costs as well as a rise in personnel expenses to EUR 2,339.3 million (+4.2%; EUR 2,244.6 million). This resulted in a decline of the **operating result** to EUR 2,663.0 million (-8.3%; EUR 2,902.9 million). The **cost/income ratio** stood at 60.2% (57.1%). **Result from financial assets and liabilities not measured at fair value through profit and loss (net)** include a gain, posted in the second quarter, from the sale of shares in VISA Europe in the amount of EUR 138.7 million.

Net impairment loss on financial assets declined substantially to EUR 195.7 million or 15 basis points of aver-age gross customer loans (-73.2%; EUR 729.1 million or 56 basis points), on the back of a significant decline of non-performing loans and higher income from the recovery of loans already written off in Romania and Hungary. The **NPL ratio** improved significantly to 4.9% (7.1%). The **NPL coverage ratio** increased markedly to 69.1% (64.5%).

Other operating result amounted to EUR -665.0 million (EUR -635.6 million). This includes expenses for the annual contributions to resolution funds in the amount of EUR 65.6 million (EUR 51.3 million).

Banking and financial transaction taxes amounted to EUR 388.8 million (EUR 236.2 million). This rise was attributable to a one-off payment of banking tax pursuant to the Austrian Bank Tax Act (Stabilitätsabgabegesetz) in the amount of EUR 200.9 million preceding a significant reduction of future annual banking tax payments in Austria. Overall, banking levies in Austria amounted EUR 306.7 million (EUR 128.6 million). In Hungary, banking levies declined significantly to EUR 57.0 million (EUR 84.0 million) and in Slovakia amounted to EUR 25.1 million (EUR 23.6 million).

As the earnings contributions of savings banks covered by the cross-guarantee system declined slightly from historically very high levels, the minority charge decreased to EUR 272.0 million (-11.4%; EUR 307.0 million). The **net result attributable to owners of the parent** rose to EUR 1,264.7 million (+30.6%; EUR 968.2 million).

Total equity – adjusted for additional tier 1 capital – increased to EUR 16.1 billion (EUR 14.8 billion). After regulatory deductions and filtering according to the CRR, **common equity tier 1 capital** (CET1, Basel 3 phased-in) rose to EUR 13.6 billion (EUR 12.1 billion); total eligible **own funds** (Basel 3 phased in) amounted to EUR 18.8 billion (EUR 17.6 billion). Total risk, i.e. **risk-weighted assets** including credit, market and operational risk (Basel 3 phased-in) rose to EUR 101.8 billion (EUR 98.3 billion). The **common equity tier 1 ratio** (CET 1, Basel 3 phased-in) stood at 13.4% (12.3%), the **total capital ratio** (Basel 3 phased-in) at 18.5% (17.9%).

Total assets increased to EUR 208.2 billion (EUR 199.7 billion), driven mainly by an increase in cash and cash balances, including in particular cash balances at central banks, to EUR 18.4 billion (EUR 12.4 billion). **Loans and receivables to customers (net)** rose to EUR 130.7 billion (+3.8%; EUR 125.9 billion). Securities held for trading declined to EUR 8.0 billion (EUR 8.7 billion). On the liability side, **customer deposits** grew substantially – particularly in the Czech Republic, Austria and Romania – to EUR 138.0 billion (+7.9%; EUR 127.9 billion). Deposits from banks were higher at EUR 14.6 billion (+3.0%; EUR 14.2 billion). **Debt securities in issue**, mainly bonds and mortgage covered bonds, declined to EUR 27.2 billion (-8.3%; EUR 29.7 billion). The **loan-to-deposit** ratio stood at 94.7% (98.4%).

OUTLOOK

Erste Group expects a return on tangible equity (ROTE) of more than 10% in 2017. The anticipated solid macroeconomic development in the core markets Czech Republic, Slovakia, Hungary, Romania, Croatia, Serbia and Austria, the unchanged very positive assessment of the bank's risk profile and the significant reduction of banking tax in Austria should be supportive factors to achieve this target. On the other hand, the persistent low interest rate environment, the non-recurrence of one-off effects such as the sale of VISA shares and potential – and as yet unquantifiable – political risks might jeopardize it.

In 2017, the positive development of the economy should be reflected in growth rates (real GDP growth) between 1.5-4.5% in Erste Group's CEE core markets. All other economic parameters are currently expected to develop likewise robustly. Unemployment rates should decline further – in the Czech Republic and in Hungary they are already among the lowest in the EU. Inflation is forecast to remain low and strong competitive positions should again lead to current account surpluses. The fiscal situation and public debt levels are also projected to remain sound. In Austria, by contrast, growth is forecast to be less dynamic, at a rate of 1.5%. Unemployment is expected to stabilise in 2017 after rising in 2016. Overall, growth continues to be driven by domestic demand across all economies, even though exports are expected to make a positive contribution to growth in most countries.

Against this backdrop, Erste Group expects mid-single digit net loan growth which is required to offset margin pressure resulting from sovereign bond reinvestments in the ongoing low interest rate environment. The strong improvement in asset quality also has an adverse impact on net interest income. With every further reduction of the NPL portfolio – driven, on the one hand, by NPL sales but also by the improved portfolio quality – net interest income will decline on the back of the lower unwinding effect. Overall, Erste Group expects that, at best, it will be able to keep net interest income stable in 2017. If the interest rate environment remains unchanged, a slight decline might also be possible, though.

The second key income component, net fee and commission income, is expected to remain at about the same level in 2017 as in the previous year. Some positive momentum should come from the anticipated rising loan demand and the dynamic economic environment. After a weak year in 2016, the securities business should also pick up again. The other income components are expected to remain flat, by and large, despite the volatility of the net trading and fair value result. Operating income should hence remain stable in 2017 or decline marginally in the case of lower-than-expected loan growth.

Operating expenses are expected to rise by 1-2% in 2017. This cost inflation will be mainly driven by IT investments necessary to secure Erste Group's future competitiveness and measures induced by regulatory requirements. Further investments in product simplification, process standardisation or the group-wide implementation of the digital platform George underline the digital strategy. After its rollout in Austria, George will be launched in the Czech Republic, in Slovakia and Romania in 2017. Additional cost drivers are regulatory expenses related for example to the implementation of IFRS 9 from the beginning of 2018 or to preparations for AnaCredit, a Europe-wide bank loans dataset overseen by the ECB. The operating result is therefore projected to slightly decline in 2017.

Risk costs should again support net profit in 2017. While the low interest rate environment has a negative impact on net interest income, it does have a positive effect on risk costs which, unlike net interest income, benefit additionally from the reduction of NPLs. Erste Group, however, does not expect a recurrence of the historically low risk cost level of the year 2016 of just 15 basis points of average customer loans. While precise forecasts are difficult in the current environment, Erste Group projects for 2017 risk costs of about 30 basis points of average customer loans.

Other result is anticipated to develop positively. Even though the one-off effects of the sale of VISA shares will not recur, banking tax in Austria is set to decrease significantly after the one-off payment of EUR 200.9 million to the Innovation Fund in 2016. As a result, this line item will improve barring the occurrence of any unforeseen events.

Assuming a similar tax rate as in 2016 and a similar level of minority charges, Erste Group aims to achieve a return on tangible equity (ROTE) of more than 10%.

Potential risks to the guidance are the impact from expansionary monetary central bank policies including negative interest rates, political risks e.g. related to various elections in key EU economies, geopolitical risks and global economic risks or consumer protection initiatives.

FINANCIAL DATA

Income statement					
in EUR million	Q4 15	Q3 16	Q4 16	2015	2016
Net interest income	1,120.4	1,073.4	1,107.0	4,444.7	4,374.5
Net fee and commission income	489.2	434.9	463.2	1,861.8	1,783.0
Net trading and fair value result	17.2	84.1	80.7	210.1	272.3
Operating income	1,680.9	1,643.1	1,731.5	6,771.8	6,691.2
Operating expenses	-1,016.5	-982.7	-1,065.1	-3,868.9	-4,028.2
Operating result	664.4	660.4	666.4	2,902.9	2,663.0
Net impairment loss on financial assets	-210.7	-37.4	-132.5	-729.1	-195.7
Post-provision operating result	453.7	622.9	533.9	2,173.8	2,467.3
Net result attributable to owners of the parent	**204.0**	**337.4**	**85.6**	**968.2**	**1,264.7**
Net interest margin (on average interest-bearing assets)	2.59%	2.43%	2.52%	2.59%	2.51%
Cost/income ratio	60.5%	59.8%	61.5%	57.1%	60.2%
Provisioning ratio (on average gross customer loans)	0.64%	0.11%	0.39%	0.56%	0.15%
Tax rate	0.7%	22.3%	8.0%	22.2%	21.2%
Return on equity	7.5%	11.1%	2.8%	9.3%	10.8%

Balance sheet					
in EUR million	Dec 15	Sep 16	Dec 16	Dec 15	Dec 16
Cash and cash balances	12,350	14,743	18,353	12,350	18,353
Trading, financial assets	47,542	49,064	47,586	47,542	47,586
Loans and receivables to credit institutions	4,805	5,191	3,469	4,805	3,469
Loans and receivables to customers	125,897	128,985	130,654	125,897	130,654
Intangible assets	1,465	1,443	1,390	1,465	1,390
Miscellaneous assets	7,685	7,386	6,775	7,685	6,775
Total assets	**199,743**	**206,811**	**208,227**	**199,743**	**208,227**
Financial liabilities - held for trading	5,867	6,272	4,762	5,867	4,762
Deposits from banks	14,212	15,228	14,631	14,212	14,631
Deposits from customers	127,946	134,023	138,013	127,946	138,013
Debt securities issued	29,654	27,300	27,192	29,654	27,192
Miscellaneous liabilities	7,257	7,459	7,027	7,257	7,027
Total equity	14,807	16,529	16,602	14,807	16,602
Total liabilities and equity	**199,743**	**206,811**	**208,227**	**199,743**	**208,227**
Loan/deposit ratio	98.4%	96.2%	94.7%	98.4%	94.7%
NPL ratio	7.1%	5.5%	4.9%	7.1%	4.9%
NPL coverage (exc collateral)	64.5%	67.7%	69.1%	64.5%	69.1%
CET 1 ratio (phased-in)	12.3%	13.2%	13.4%	12.3%	13.4%

For more information, please contact:

Erste Group Press Department, Am Belvedere 1, 1100 Vienna, Austria

Michael Mauritz Tel: +43 50100 - 19603 E-Mail: michael.mauritz@erstegroup.com
Carmen Staicu Tel: +43 50100 - 11681 E-Mail: carmen.staicu@erstegroup.com
Peter Klopf Tel +43 5 0100 - 11671 E-mail: peter.klopf@erstegroup.com

Internet: www.erstegroup.com/newsroom Twitter: @ErsteGroup