

Erste Group posts net profit of EUR 764.2 million in 1-9 15; NPL ratio improves to 7.4%, strong capital ratios

Financial data

Income statement

in EUR million	Q3 14	Q2 15	Q3 15	1-9 14 restated	1-9 15
Net interest income	1,126.0	1,113.4	1,112.3	3,369.6	3,324.3
Net fee and commission income	465.8	456.3	455.2	1,372.7	1,372.6
Net trading and fair value result	28.4	64.1	56.4	166.5	193.0
Operating income	1,695.8	1,710.3	1,691.6	5,117.5	5,090.9
Operating expenses	-887.3	-948.7	-955.6	-2,783.7	-2,852.4
Operating result	808.5	761.6	735.9	2,333.8	2,238.5
Net impairment loss on non-fair value financial assets	-878.8	-190.8	-144.4	-1,599.4	-518.4
Post-provision operating result	-70.3	570.8	591.5	734.4	1,720.1
Net result attributable to owners of the parent	-554.2	261.4	276.9	-1,424.6	764.2
Net interest margin (on average interest-bearing assets)	2.68%	2.59%	2.57%	2.64%	2.58%
Cost/income ratio	52.3%	55.5%	56.5%	54.4%	56.0%
Provisioning ratio (on average gross customer loans)	2.75%	0.58%	0.44%	1.67%	0.53%
Tax rate	-23.7%	28.2%	20.3%	-50.7%	25.9%
Return on equity	-21.7%	10.2%	10.5%	-17.6%	9.9%

Balance sheet

in EUR million	Sep 14	Jun 15	Sep 15	Dec 14	Sep 15
Cash and cash balances	8,010	7,011	11,097	7,835	11,097
Trading, financial assets	51,051	49,044	47,910	50,131	47,910
Loans and receivables to credit institutions	7,166	8,775	8,384	7,442	8,384
Loans and receivables to customers	120,451	123,504	124,521	120,834	124,521
Intangible assets	1,456	1,395	1,393	1,441	1,393
Miscellaneous assets	8,839	7,802	7,867	8,604	7,867
Total assets	196,973	197,532	201,171	196,287	201,171
Financial liabilities - held for trading	8,488	6,632	6,364	7,746	6,364
Deposits from banks	16,483	15,704	17,414	14,803	17,414
Deposits from customers	120,061	124,534	125,439	122,583	125,439
Debt securities issued	31,211	29,914	30,620	31,140	30,620
Miscellaneous liabilities	7,078	6,732	6,896	6,573	6,896
Total equity	13,652	14,015	14,437	13,443	14,437
Total liabilities and equity	196,973	197,532	201,171	196,287	201,171
Loan/deposit ratio	100.3%	99.2%	99.3%	98.6%	99.3%
NPL ratio	8.9%	7.7%	7.4%	8.5%	7.4%
NPL coverage (exc collateral)	68.8%	68.2%	69.2%	68.9%	69.2%
CET 1 ratio (phased-in)	10.8%	11.6%	11.5%	10.6%	11.5%

Highlights

January-September 2015 compared with January- September 2014; 30 September 2015 compared with 31 December 2014

Net interest income declined moderately to EUR 3,324.3 million (EUR 3,369.6 million), mainly due to the persistently low interest rate environment and expected developments in Romania and Hungary which could not be fully offset by loan growth. **Net fee and commission income** was stable at EUR 1,372.6 million (EUR 1,372.7 million) on the back of better results from the securities and custody business and asset management. The **net trading and fair value result** improved to EUR 193.0 million (EUR 166.5 million). **Operating income** declined marginally to EUR 5,090.9 million (-0.5%; EUR 5,117.5 million). **General administrative expenses** rose to EUR 2,852.4 million (EUR 2,783.7 million). This resulted in a decline of the **operating result** to EUR 2,238.5 million (-4.1%; EUR 2,333.8 million). The **cost/income ratio** amounted to 56.0% (54.5%).

Net impairment loss on financial assets not measured at fair value through profit or loss declined significantly to EUR 518.4 million or 53 basis points of average gross customer loans (-67.6%; EUR 1,599.4 million or 167 basis points), primarily due to a substantial decline in Romania but also due to a positive trend in all Austrian segments. The **NPL ratio** improved further to 7.4% (8.5%). The **NPL coverage ratio** stood at 69.2% (68.9%).

Other operating result amounted to EUR -377.4 million (EUR -1,628.6 million). The significant positive change was attributable to the non-recurrence of high negative one-off effects posted in the first nine months of 2014 (primarily intangible write-downs). Current figures already include provisions for the 2015 full-year contributions to national resolution funds expected to amount to EUR 56.2 million as well as for losses resulting from legislation requiring the conversion of customer loans (Swiss francs to euro) in Croatia in the amount of EUR 144.9 million. At EUR 187.7 million (EUR 208.7 million), banking and financial transaction taxes were again significant: EUR 95.6 million (EUR 95.3 million) in Austria, EUR 17.5 million (EUR 31.5 million) in Slovakia and EUR 74.6 million (EUR 81.8 million) in Hungary (including the full Hungarian banking tax of EUR 46.2 million for 2015).

Due to the good risk development at the Savings Banks and the turnaround in Romania, the minority charge was high at EUR 275.0 million (EUR 94.6 million). The **net result attributable to owners of the parent** rose to EUR 764.2 million (EUR -1,424.6 million).

Total equity (IFRS) rose to EUR 14.4 billion (EUR 13.4 billion). Including the half year interim profit and deducting risk costs of the third quarter of 2015, **common equity tier 1 capital** (CET1, Basel 3 phased-in) increased to EUR 11.6 billion (EUR 10.6 billion), total eligible **own funds** (Basel 3 phased-in) amounted to EUR 16.9 billion (EUR 15.8 billion). Total risk, i.e. **risk-weighted assets** including credit, market and operational risk (Basel 3 phased-in) decreased to EUR 100.4 billion (EUR 100.6 billion). The **common equity tier 1 ratio** (CET1, Basel 3 phased-in) stood at 11.5% (10.6%), the **total capital ratio** (Basel 3 phased-in) at 16.8% (15.7%).

Total assets rose to EUR 201.2 billion (EUR 196.3 billion), driven mainly by the increase in customer lending volume with **loans and receivables to customers (net)** rising to EUR 124.5 billion (EUR 120.8 billion). Within liabilities, **customer deposits** increased to EUR 125.4 billion (EUR 122.6 billion). The **loan-to-deposit ratio** stood at 99.3% (98.6%).

Outlook

Operating environment anticipated to be conducive to credit expansion. Real GDP growth in 2015 is expected to be between 2% and 4% in all major CEE markets, except Croatia, driven by solid domestic demand. For Austria, a real GDP growth below 1% is forecast.

Return on tangible equity (ROTE) expected at approximately 10% in 2015. Operating result is expected to decline in the mid-single digits while loan growth in the low single digits is anticipated. The risk costs guidance of EUR 750-950 million reflects the accounting treatment of Croatian CHF conversion costs of EUR 144.9 million in other operating result. Banking levies are expected at about EUR 320 million, including parallel contributions to national as well as European bank resolution and deposit insurance funds. Related discussions with the Austrian government are still ongoing.

Return on tangible equity (ROTE) expected at 10-11% in 2016.

Risks to guidance. Consumer protection initiatives or geopolitical risks that could have negative economic impacts.

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

Date	Friday 6 November 2015
Time	9:00 Vienna / 8:00 London / 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 (0)20 3427 1909 0800 279 4992 US: +1 646 254 3388 1877 280 1254 Confirmation Code 1378074
Replay	Will be available at http://www.erstegroup.com/en/Investors/Webcasts-Videos .

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