

Erste Group posts net profit of EUR 841.7 million in the first half of 2016 – continued improvement of credit quality and capital position

Financial data

Income statement					
in EUR million	Q2 15	Q1 16	Q2 16	1-6 15	1-6 16
Net interest income	1,113.4	1,092.2	1,101.9	2,211.9	2,194.1
Net fee and commission income	456.3	443.1	441.8	917.4	884.9
Net trading and fair value result	64.1	43.5	64.0	136.5	107.5
Operating income	1,710.3	1,629.3	1,687.3	3,399.4	3,316.6
Operating expenses	-948.7	-1,008.8	-971.5	-1,896.8	-1,980.3
Operating result	761.6	620.5	715.8	1,502.6	1,336.3
Net impairment loss on non-fair value financial assets	-190.8	-56.4	30.6	-373.9	-25.8
Post-provision operating result	570.8	564.1	746.4	1,128.6	1,310.5
Net result attributable to owners of the parent	261.4	274.7	567.0	487.2	841.7
Net interest margin (on average interest-bearing assets)	2.59%	2.51%	2.57%	2.58%	2.54%
Cost/income ratio	55.5%	61.9%	57.6%	55.8%	59.7%
Provisioning ratio (on average gross customer loans)	0.58%	0.17%	-0.09%	0.58%	0.04%
Tax rate	28.2%	24.5%	20.8%	28.4%	22.0%
Return on equity	10.2%	9.8%	19.7%	9.6%	14.9%
Balance sheet					
in EUR million	Jun 15	Mar 16	Jun 16	Dec 15	Jun 16
Cash and cash balances	7,011	14,641	12,982	12,350	12,982
Trading, financial assets	49,044	48,680	49,452	47,542	49,452
Loans and receivables to credit institutions	8,775	6,680	5,626	4,805	5,626
Loans and receivables to customers	123,504	126,740	127,407	125,897	127,407
Intangible assets	1,395	1,447	1,437	1,465	1,437
Miscellaneous assets	7,802	8,182	7,601	7,685	7,601
Total assets	197,532	206,369	204,505	199,743	204,505
Financial liabilities - held for trading	6,632	6,612	6,146	5,867	6,146
Deposits from banks	15,704	17,330	16,367	14,212	16,367
Deposits from customers	124,534	128,640	130,417	127,946	130,417
Debt securities issued	29,914	30,060	28,014	29,654	28,014
Miscellaneous liabilities	6,732	8,509	7,584	7,257	7,584
Total equity	14,015	15,218	15,977	14,807	15,977
Total liabilities and equity	197,532	206,369	204,505	199,743	204,505
Loan/deposit ratio	99.2%	98.5%	97.7%	98.4%	97.7%
NPL ratio	7.7%	6.7%	5.8%	7.1%	5.8%
NPL coverage (exc collateral)	68.2%	66.5%	65.6%	64.5%	65.6%
Texas ratio	51.8%	45.0%	40.5%	48.1%	40.5%
CET 1 ratio (phased-in)	11.6%	12.1%	13.3%	12.3%	13.3%

Highlights

P&L: January-June 2016 compared with January-June 2015; balance sheet: 30 June 2016 compared with 31 December 2015

In a challenging market environment of persistently low interest rates, **net interest income** was largely stable at EUR 2,194.1 million (-0.8%; EUR 2,211.9 million) on the back of moderate lending growth. **Net fee and commission income** decreased to EUR 884.9 million (-3.5%; EUR 917.4 million), mainly due to lower income from the securities business and payment services. The **net trading and fair value result** declined to EUR 107.5 million (EUR 136.5 million) due to the non-recurrence of positive one-off effects and a negative fair value result. **Operating income** went down to EUR 3,316.6 million (-2.4%; EUR 3,399.4 million). **General administrative expenses** rose to EUR 1,980.3 million (+4.4%; EUR 1,896.8 million), mainly as a result of the advance booking of most of the expected contributions to deposit insurance schemes for 2016 in the total amount of EUR 79.3 million (EUR 38.8 million) and higher personnel expenses of EUR 1,152.7 million (EUR 1,113.9 million). This resulted in a decline of the **operating result** to EUR 1,336.3 million (-11.1%; EUR 1,502.6 million). The **cost/income ratio** stood at 59.7% (55.8%). **Gains from financial assets and liabilities not measured at fair value through profit and loss (net)** include a gain from the sale of shares in VISA Europe in the amount of EUR 138.7 million.

Net impairment loss on financial assets not measured at fair value through profit or loss dropped to EUR 25.8 million or 4 basis points of average gross customer loans (-93.1%; EUR 373.9 million or 58 basis points), due to a substantial decline of non-performing loans and higher income from the recovery of loans already written off in Romania and Hungary. The **NPL ratio** improved further to 5.8% (7.7%). The **NPL coverage ratio** stood at 65.6% (68.2%).

Other operating result amounted to EUR -192.2 million (EUR -200.6 million). This includes expected expenses for the annual contributions to resolution funds in the amount of EUR 64.6 million (EUR 55.2 million). Banking and financial transaction taxes declined to EUR 107.6 million (EUR 137.2 million), which was attributable to the significant reduction of the Hungarian banking levies to EUR 38.2 million (EUR 65.5 million). In Austria, banking levies of EUR 57.1 million (EUR 60.1 million) were at about the same level as in the previous year and in Slovakia amounted to EUR 12.3 million (EUR 11.6 million).

Due to the lower earnings contributions of savings banks covered by the cross-guarantee system, the minority charge declined to EUR 146.2 million (EUR 203.4 million). The **net result attributable to owners of the parent** rose to EUR 841.7 million (EUR 487.2 million).

Total equity increased to EUR 16.0 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 13.4 billion (EUR 12.1 billion); total eligible **own funds** (Basel 3 phased-in) amounted to EUR 18.9 billion (EUR 17.6 billion). Interim profit is included in the above figures. Total risk, i.e. **risk-weighted assets** including credit, market and operational risk (Basel 3 phased-in) rose to EUR 101.0 billion (EUR 98.3 billion). The **common equity tier 1 ratio** (CET 1, Basel 3 phased-in) stood at 13.3% (12.3%), the **total capital ratio** (Basel 3 phased-in) at 18.7% (17.9%).

Total assets increased to EUR 204.5 billion (EUR 199.7 billion). **Loans and receivables to customers (net)** were moderately higher at EUR 127.4 billion (+1.2%; EUR 125.9 billion). Securities held for trading rose to EUR 10.4 billion (EUR 8.7 billion). On the liabilities side, deposits from banks rose to EUR 16.4 billion (EUR 14.2 billion) and **customer deposits** increased to EUR 130.4 billion (EUR 127.9 billion). Debt securities in issue, mainly bonds and mortgage covered bonds, declined to EUR 28.0 billion (EUR 29.7 billion). The **loan-to-deposit ratio** stood at 97.7% (98.4%).

Outlook

Operating environment anticipated to be conducive to credit expansion. Real GDP growth in 2016 is expected to be between 1.4% and 4.1% in all major CEE markets, including Austria, driven by solid domestic demand.

Return on tangible equity (ROTE) expected at above 12% in 2016 underpinning continued dividend payout.

Support factors include continued loan growth as well as further improvement in asset quality amid a benign risk environment. Headwinds are the persistent low interest rate environment affecting group operating income as well as lower operating results in Hungary (lower volumes) and Romania (following asset re-pricing). Banking levies (comprising banking taxes, financial transaction tax, resolution fund and deposit insurance fund contributions) are expected at about EUR 360 million pre-tax in 2016, prior to a potential banking tax one-off payment in Austria (pending parliamentary approval of the government proposal) of about EUR 200 million. An additional Austrian banking tax one-off payment in 2016 would result in a sustainable reduction from about EUR 130 million to about EUR 20 million pre-tax per annum from 2017. The guidance assumes no material negative one-offs in the second half of 2016.

Risks to guidance. Geopolitical risks and global economic risks, impact from negative interest rates, consumer protection initiatives.

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

Date	Friday 5 August 2016
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 20 7136 2055 0800 279 4841 US: +1646 254 3367 1877 280 2342 Confirmation Code 3671984
Replay	Will be available at https://www.erstegroup.com/en/investors/events/irevents .

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