

06 August 2015

## Erste Bank – 2Q15 Preview

### Op. Income Lower; EPS Growth Driven by Lower Risk Cost

Banks	CURRENT PRICE	27.8 EUR	<b>BUY</b> CURRENT RATING
CEE REGION /CZECH REPUBLIC	TARGET PRICE	28.0 EUR	

Bloomberg	EBS AV
Reuters	ERST VI
www.erstegroup.com	
Market Cap	EUR 11,955m
Shares outst.	429.8m
Free float	75 %
Next corporate event	
Results 2Q15: 07 August 2015	
Performance	1M 3M 12M
Absolute	+11% +11% +46%

#### 2Q15 Results Preview

We expect Erste's net profit to continue to normalize in 2Q15 on the back of significantly lower loan loss provisions and free of balance sheet charges. **Thus we see Erste delivering a net profit of EUR 238mn in 2Q15 compared to a loss of EUR 1.0bn a year ago.**

Operating income should slightly decline y/y (Patria est. -1.5% vs cons -2.2%) owing to lower net interest income and weaker trading result relative to a strong print in 2Q14. We expect operating expenses to be slightly up y/y in 2Q15 bringing net operating result 5.5% lower y/y.

**On the back of improved asset quality in Erste's markets, especially in Hungary and Romania, we expect the risk line to significantly improve in 2Q15. Hence, we expect cost of risk to reach EUR 247mn, down 42.6% y/y.** Also, the "other operating result" should not be burdened by clearing charges narrowing the loss of this P&L line significantly to EUR -100mn vis-à-vis EUR -1.15bn.

Group's Basel 3 CET1 ratio should rise to 10.8% in 2Q15 from 10.2% seen in the previous quarter due to the improved profitability and a cease of some temporary effects from 1Q15.

As volatility of the operating income should stay relatively low, investors will likely look at the development of bad loan provisions and Basel 3 CET1 capital ratio. **We think the market is gradually reflecting Erste's EPS recovery potential from normalising asset quality in CEE leaving not much room to further re-rate from current price levels. Nevertheless, Erste remain our preferred bank stock within the CEE region.**

#### Erste Bank - 2Q15 preview

EUR mln.	2Q14A	2Q15E Patria	2Q15E Cons.	y/y Patria	y/y Cons.
Net interest income	1 120	1 103	1 095	-1,5%	-2,2%
Net commission income	455	463	463	1,8%	1,8%
Other oper. result	157	128	119	-18,5%	-24,3%
Operating income	1 731	1 694	1 683	-2,1%	-2,8%
Operating expenses	(933)	(940)	(941)	0,8%	0,9%
Operating result	798	754	743	-5,5%	-6,9%
Risk provisions	(432)	(248)	(247)	-42,6%	-42,9%
Pre-tax profit	(781)	406	435	N/A	N/A
Net profit	(1 033)	237	238	N/A	N/A

**Tomas Tomcany**  
Analyst  
Patria Finance a.s.  
+420 221 424 149  
tomcany@patria.cz

\* consensus data as collected by IR dept. of Erste Group  
Conference call on Friday, August 7 @ 09:00 CET, Dial-in: UK/Europe: +44 20 3427 1904, PIN: 1038822

06 May 2015

The company disclosures can be consulted on our website <http://www.patria.cz/stocks/research/recommendation.html>

Patria Finance  
Jungmannova 745/24  
110 00 Prague 1  
Czech Republic  
+420 221 424 111  
Regulated by CNB

Patria – Institutional sales  
Jungmannova 745/24  
110 00 Prague 1  
Czech Republic  
+420 221 424 216  
Regulated by CNB

Patria – Retail sales  
Jungmannova 745/24  
110 00 Prague 1  
Czech Republic  
+420 221 424 109  
Regulated by CNB

Patria - Research  
Jungmannova 745/24  
110 00 Prague 1  
Czech Republic  
+420 221 424 128  
Regulated by CNB

## Information for investors of Patria Group

### Legal notice concerning the presentation of investment recommendations

This document, investment advice and other economic and investment analysis ("analysis") was prepared by the analytical department of the joint-stock company Patria Direct, a.s. ("Patria Direct"), a licensed securities broker-dealer regulated by the Czech National Bank. Patria Direct is part of Patria Finance a.s. group ("Patria Finance"), part of this group are also Patria Online, a.s. and Patria Corporate Finance, a.s. (all companies belonging to the Patria Finance group companies are referred to as "Patria"). In case the document or analysis was not prepared solely by Patria Direct analysts, such persons are mentioned in such document.

### Valuation:

When preparing the analyses, Patria uses generally accepted valuation methods, namely: (i) discounting future free cash flow (Discounted Cash Flow valuation, DCF), (ii) discounting of future dividends (Dividend Discount Model, DDM), (iii) comparison in a group of comparable companies (Market-Based Valuation, MBV), and (iv) a screening system. Less frequent are some other methods of determining a fair valuation or a target price, such as Residual Income Valuation.

DCF and DDM: the advantage of these methods is that future financial results are calculated; their disadvantage is that such forecast of future financial results is affected by the analyst's own judgment.

MBV: this method is more independent from the analyst's own judgment; however, it is usually based on current financial results which may differ from the future ones.

Screening system: this method is based on two dimensions: (i) assessment of potential growth and (ii) identification of an attractive value of the shares. According to the screening results, individual sectors and titles can be sorted into a two-dimensional space which allows the assessment of their relative attractiveness.

### Conflict of interests:

Patria or parties affiliated with Patria (especially Patria Finance group companies) may execute or seek opportunities to execute transactions with companies that are mentioned in particular analyses. Therefore, Patria or parties affiliated with Patria may get into a conflict of interest that could affect the objectivity of given analyses.

Unless otherwise stated in the document, Patria does not have a significant financial interest in any of the instruments or investment strategies presented in the analyses.

Instruments covered in the analyses represent investment tips of Patria's analysts. At a given moment, however, recommendations of Patria's brokers or other employees regarding these instruments may be different, especially with regard to (i) an investment profile of a specific Patria's client to whom Patria provides investment advice, and also (ii) to the current or expected future development on financial and capital markets.

Although this document and the analyses were made in accordance with the rules to avoid conflicts of interest, affiliated entities and individual Patria's departments may realize investment decisions that are inconsistent with recommendations or views expressed in these analyses.

Investors should therefore consider this particular analysis only as one of several factors in their investment decision.

By way of its internal rules, Patria prohibits its analysts to undertake personal transactions with investment instruments that are subject to analysis of a given analysts; i.e. it is forbidden to for the analysts to trade on their own account with instruments to which such analysts creates an analysis of investment opportunities. In relation to such investment instruments, the analysts are prohibited to provide investment services (with the exception of making investment recommendations). More information about the conflict of interest restrictions are listed on the website [www.patria-direct.cz](http://www.patria-direct.cz), in the "Documents" section in a document "Conflicts of Interest".

Information on whether Patria or parties affiliated with Patria (especially Patria Finance group companies):

- act as a market maker in relation to financial instruments of some of the companies mentioned in the analysis ("issuer");
- provide liquidity in relation to financial instruments of the issuer;
- received compensation from the issuer's for investment banking services;
- have a direct or indirect interest in the issuer's share capital in excess of five percent;
- have been a leading manager or co-manager of public offerings of financial instruments issued by the issuer in the last twelve months;
- have an agreement with the issuer relating to the creation and dissemination of investment recommendations; or
- notified the issuer with the analysis prior to its dissemination, or whether a given analysis was amended as a result of such notification;

are published on a webpage accessible remotely at <http://www.patria.cz/stocks/research/recommendation.html>. This webpage also includes a list of contracts regarding the provision of investment services entered into with the issuer and an overview of changes in the level of investment recommendations and price targets during the past 12 months.

Patria belongs to a KBC Bank group and, unless otherwise stated in the analysis, Patria is not aware of any potential conflict of interest arising from the participation in this group. Patria created the analysis independently from other members of the group and without any detailed knowledge of specific investment activities and interests of this business group's individual members.

### Analysts' compensation:

Analysts are compensated according to various criteria, including the quality and accuracy of their analysis, customer satisfaction, competitive factors and overall Patria's profitability which also includes profits derived from financial banking revenues. No part of the analysts' compensation was, nor will be, directly or indirectly, related to specific recommendations or opinions expressed in given analyses.

### General information:

Despite Patria based the preparation of a document on reliable external sources, it is not liable for the completeness and accuracy of information used. Such document may be changed without prior notice.

The analyses provide general information only. They do not constitute an offer to buy or sell financial instruments. Financial instruments or strategies mentioned may not be suitable for all investors. Opinions and recommendations do not take into account the situation and personal circumstances of individual clients, their financial situation, knowledge, experience, objectives or needs and thus the analyses are not intended to recommend specific financial instruments or strategies to particular investors.

The analyses are prepared primarily for investors who are expected to make their own investment decisions based on their own assessment of a particular investment suitability in any investment instruments mentioned in a given analysis, especially by appropriately considering the price, possible dangers and risks, their own investment strategy and their own legal, tax and financial situation. An analysis should not be the sole basis for an investment decision.

An investor should seek professional assessment, including tax advice, on the suitability of an investment in any financial instruments, other investments or investment strategies mentioned in a given analysis or recommended in such analysis.

Value, price, or income from such assets may change or be affected by movements in exchange rates. As a result of these changes, the investment value of such assets may decline. Successful investments in the past neither indicate nor guarantee favourable results in the future.

### Jurisdictions outside the Czech Republic:

The analyses are intended for distribution in the Czech and Slovak Republic, or in other countries of the European Union. Distribution of specific analyses to the public outside the Czech and Slovak Republics may be restricted by law of that particular country. Persons who become the recipients of a given analysis should therefore properly inform themselves about the existence of such restriction. Non-adherence to such restrictions may result in a violation of the laws of the Czech Republic or that particular country.