Press release 28 February 2018

Erste Group 2017 results: net profit of EUR 1.31bn (ROTE 11.5%) prompts increased dividend proposal of EUR 1.20 per share

"2017 proved once more that our business model as a bank geared to service the private and corporate clients in Central and Eastern Europe is working, and with great results – including the highest-ever net profit in our history, of EUR 1.31 billion.

The proof is also in the exceptional net inflow of EUR 13 billion in client deposits and the strong demand from entrepreneurs and private households, to whom we granted over EUR 9 billion in new loans to pursue their aspirations.

This development was strongly supported by the growth of the CEE economies, which outperformed that in Western Europe and should continue to do so in 2018. In addition, our liquidity and capital situation have been solid pillars for the full-year 2017 results.

With the NPL ratio now at 4 percent, we have reached a level that we haven't seen since before the global financial crisis, while our risk provisions are at an extraordinarily low 9 basis points. However, we should not forget that the goal is not to completely eradicate risk costs. We are here to take risks – and only by doing so can we support our clients to grow.

Having a positive outlook in mind, we feel that our shareholders should benefit from these good 2017 results and will therefore propose to them a dividend of EUR 1.20 per share, an increase of 20 percent on the previous year.

For 2018, we have two clear focus areas: investing in the employees so that we can deliver the best advice to clients, and expanding George as the number one digital banking platform in all of our countries. A fully digitalized bank together with the best client relationship managers is what we are ultimately aiming for," said Andreas Treichl, CEO of Erste Group Bank AG.

HIGHLIGHTS

P&L 2017 compared with 2016; balance sheet 31 December 2017 compared with 31 December 2016

Net interest income declined to EUR 4,353.2 million (-0.5%; EUR 4,374.5 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 1,851.6 million (+3.8%; EUR 1,783.0 million). Income from the securities business, from asset management and from brokerage was up substantially, while income from the lending business declined. **Net trading result** decreased significantly to EUR 222.8 million (-21.5%; EUR 283.8 million). **Operating income** was nearly stable at EUR 6,669.0 million (-0.3%; EUR 6,691.2 million). **General administrative expenses** rose to EUR 4,158.2 million (+3.2%; EUR 4,028.2 million). This was attributable to an increase in other administrative expenses and in depreciation and amortisation (+6.0% and +1.5%, respectively) as well as higher personnel expenses of EUR 2,388.6 million (+2.1%; EUR 2,339.3 million). This line item also included deposit insurance payments in the amount of EUR 82.2 million (EUR 88.8 million). Consequently, the **operating result** decreased to EUR 2,510.8 million (-5.7%; EUR 2,663.0 million). The **cost/income ratio** rose to 62.4% (60.2%).

Net impairment loss on financial assets declined even further to EUR 132.0 million or 9 basis points of average gross customer loans (EUR 195.7 million or 15 basis points) and thus to a historical low. This was attributable to the substantial decline in the balance of the allocation and release of provisions for the lending business, mostly in Austria and in the Czech Republic. The **NPL ratio** improved further to 4.0% (4.9%). The **NPL cover ratio** was stable at 68.8% (69.1%).

Other operating result amounted to EUR -457.4 million (EUR -665.0 million). The improvement was largely due to the significant reduction of Austrian banking taxes to EUR 23.0 million (EUR 306.7 million, including a one-off payment of EUR 200.9 million under the Austrian Bank Tax Act). Overall, banking and transaction taxes declined to EUR 105.7 million (EUR 388.8 million). This line item includes the annual contributions to resolution funds in the amount of EUR 65.8 million (EUR 65.6 million) and EUR 45.0 million in expenses for losses from loans to consumers incurred as a result of supreme court rulings regarding negative reference interest rates in Austria.

The minority charge rose to EUR 351.5 million (+29.2%; EUR 272.0 million) due to a rise in the earnings contributions of the savings banks. The **net result attributable to owners of the parent** rose to EUR 1,316.2 million (+4.1%; EUR 1,264.7 million).

Total equity not including AT1 instruments rose to EUR 17.3 billion (EUR 16.1 billion). After regulatory deductions and filtering according to the CRR, **common equity tier 1 capital** (CET1, Basel 3 phased-in) increased to EUR 14.7 billion (EUR 13.6 billion). Total **own funds** (Basel 3 phased-in) went up to EUR 20.3 billion (EUR 18.8 billion). Total risk (**risk-weighted assets** including credit, market and operational risk, Basel 3 phased-in) rose to EUR 110.0 billion (EUR 101.8 billion). The **common equity tier 1 ratio** (CET1, Basel 3 phased-in) remained stable at 13.4% (13.4%), the **total capital ratio** (Basel 3 phased-in) at 18.5% (18.5%).

Total assets increased to EUR 220.7 billion (+6.0%; EUR 208.2 billion). On the asset side, cash and cash balances rose to EUR 21.8 billion (EUR 18.4 billion), loans and receivables to credit institutions increased to EUR 9.1 billion (EUR 3.5 billion). **Loans and receivables to customers** rose to EUR 139.5 billion (+6.8%; EUR 130.7 billion). On the liability side, deposits from banks increased to EUR 16.3 billion (EUR 14.6 billion) and **customer deposits** continued to grow – most notably in the Czech Republic and in Austria – to EUR 150.9 billion (+9.4%; EUR 138.0 billion). The **loan-to-deposit** ratio stood at 92.4% (94.7%).

OUTLOOK 2018

Erste Group targets a return on tangible equity (ROTE) of more than 10% in 2018. The expected very solid macro-economic development in the core markets Czech Republic, Slovakia, Hungary, Romania, Croatia, Serbia and Austria, rising interest rate levels in several of our markets and still historically low risk costs should be supportive factors to achieve this target. On the other hand, a global or regional slowdown of economic growth as well as potential – and as yet unquantifiable – political or regulatory risks might jeopardize achieving the target.

In 2018, the positive development of the economy should be reflected in growth rates (real GDP growth) of around 3% to 5% in the Erste Group's CEE core markets. All other economic parameters are currently expected to be similarly robust. Unemployment rates should remain at historic lows – in the Czech Republic and in Hungary they are already among the lowest in the EU. Inflation is forecast to rise but remain subdued by historical standards and strong competitive positions should again lead to current account surpluses. The fiscal situation and public debt levels are also projected to remain sound. Austria should see accelerating economic growth at a rate of close to 3%. Overall, growth continues to be driven by domestic demand across all economies. The contribution of exports is forecast as neutral.

Against this backdrop, Erste Group expects mid-single digit net loan growth. In 2018, net interest income should also be slightly up on the back of rising short and long-term interest rates, primarily in the Czech Republic and Romania, but also globally, and therefore declining margin pressure from sovereign bond reinvestments. The second key income component, net fee and commission income, is also expected to increase moderately in 2018. As in 2017, some positive momentum should again come from the securities business, fund management and the insurance business. The other income components are expected to remain stable, by and large, despite the volatility of the net trading and fair value results. Consequently, operating income should grow slightly in 2018.

Operating expenses are expected to decline marginally in 2018, mainly due to the fact that in 2017 higher IT expenditure was incurred for regulatory projects, which will not recur on the same scale in 2018. However, Erste Group will continue to invest in digitalisation and thereby its future competitiveness in 2018. The focus will be on product simplification, process standardisation or the group-wide implementation of the digital platform George. After its rollout in Austria, George will be fully up and running in the Czech Republic, Slovakia and Romania in 2018.

Overall, the operating result is projected to rise in 2018.

Risk costs should support net profit again in 2018. Amid a moderate rise of interest rates, risk costs should go up only slightly. Further improvements in asset quality, however, should have a dampening effect. Overall, Erste Group does not expect a recurrence of the historically low risk cost level of 2017 of just 9 basis points of average gross customer loans. While precise forecasts are difficult in the current environment, Erste Group projects for 2018 risk costs of up to 20 basis points of average gross customer loans. The implementation of accounting standard IFRS 9 is not expected to materially impact financial results in 2018.

Assuming a tax rate of around 22% 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 interest rate trends that differ from expectations, political or regulatory measures targeting banks as well as geopolitical and global economic developments.

KEY FINANCIAL DATA

Income statement					
in EUR million	**Q4 16**	**Q3 17**	**Q4 17**	**2016**	**2017**
Net interest income	1,107.0	1,086.3	1,123.9	4,374.5	4,353.2
Net fee and commission income	463.2	451.0	489.7	1,783.0	1,851.6
Net trading result	65.1	36.5	83.5	283.8	222.8
Operating income	1,731.5	1,644.2	1,732.1	6,691.2	6,669.0
Operating expenses	-1,065.1	-1,010.1	-1,144.7	-4,028.2	-4,158.2
Operating result	666.4	634.1	587.5	2,663.0	2,510.8
Net impairment loss on financial assets	-132.5	32.9	-60.5	-195.7	-132.0
Post-provision operating result	533.9	667.0	526.9	2,467.3	2,378.8
Net result attributable to owners of the parent	**85.6**	**363.0**	**328.6**	**1,264.7**	**1,316.2**
Net interest margin (on average interest-bearing assets)	2.52%	2.39%	2.41%	2.51%	2.40%
Cost/income ratio	61.5%	61.4%	66.1%	60.2%	62.4%
Provisioning ratio (on average gross customer loans)	0.39%	-0.09%	0.17%	0.15%	0.09%
Tax rate	8.0%	23.3%	9.8%	21.2%	19.7%
Return on equity	2.8%	11.7%	9.1%	10.8%	10.1%

Balance sheet					
in EUR million	**Dec 16**	**Sep 17**	**Dec 17**	**Dec 16**	**Dec 17**
Cash and cash balances	18,353	22,104	21,796	18,353	21,796
Trading, financial assets	47,586	43,539	42,753	47,586	42,753
Loans and receivables to credit institutions	3,469	10,358	9,126	3,469	9,126
Loans and receivables to customers	130,654	138,005	139,532	130,654	139,532
Intangible assets	1,390	1,474	1,524	1,390	1,524
Miscellaneous assets	6,775	6,234	5,929	6,775	5,929
Total assets	**208,227**	**221,715**	**220,659**	**208,227**	**220,659**
Financial liabilities - held for trading	4,762	3,551	3,423	4,762	3,423
Deposits from banks	14,631	19,226	16,349	14,631	16,349
Deposits from customers	138,013	148,363	150,969	138,013	150,969
Debt securities issued	27,192	25,661	25,095	27,192	25,095
Miscellaneous liabilities	7,027	6,945	6,535	7,027	6,535
Total equity	16,602	17,969	18,288	16,602	18,288
Total liabilities and equity	**208,227**	**221,715**	**220,659**	**208,227**	**220,659**
Loan/deposit ratio	94.7%	93.0%	92.4%	94.7%	92.4%
NPL ratio	4.9%	4.3%	4.0%	4.9%	4.0%
NPL coverage (exc collateral)	69.1%	69.5%	68.8%	69.1%	68.8%
Texas ratio	34.6%	31.3%	29.2%	34.6%	29.2%
CET 1 ratio (phased-in)	13.4%	12.8%	13.4%	13.4%	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
Nathalie Boyke Tel +43 5 0100 - 19781 E-mail: nathalie.boyke@erstegroup.com

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