Press release

4 May 2018

Erste Group Q1 2018 results:
EUR 333 million net profit marks a solid start to the year

"A net profit of almost EUR 333 million (+26.8% YoY) for the first quarter is a solid start to the year. This comes on the back of good asset quality, strong inflow of customer deposits (up EUR 7.4% YoY, to EUR 155.3 billion), as well as continuous loan growth (up 7.3% YoY, to EUR 140.5 billion). We also saw a higher net interest income and better commission income, which grew by 3.0% and 4.6%, respectively. The good bottom line was supported by the benign risk environment, which had seen a further decrease in the NPL-ratio from 4.0% to 3.7%.

The increase of our cost base in the first quarter was due to the strong inflow of deposits, which led to substantially higher contribution to the Deposit Insurance Fund and to higher personnel expenses due to the raising wages as a result of the strong economic development in our region, especially in Czechia and Slovakia.

Our capital situation remains very strong at EUR 14.4 billion. The slight decrease of 30 basis points and its impact on our Basel 3 fully loaded ratio, which now stands at 12.5%, reflects the fact that retained earnings are traditionally not accrued in the first quarter and the effects of implementing the IFRS 9 accounting standard.

We take this week`s decision by Moody's to upgrade our ratings and maintain a positive outlook as further market confirmation for our business model as a bank geared to servicing retail and corporate clients in Central and Eastern Europe. This upgrade will also have a positive impact on our funding situation," said Andreas Treichl, CEO of Erste Group Bank AG.

"The first quarter of 2018 was also marked by George, our digital platform, surpassing two million users in the three markets in which it's already been introduced. And we successfully executed the first transactions on a trade finance platform using blockchain technology for our corporate clients," Treichl continued.

HIGHLIGHTS

P&L: financial results from January-March 2018 are compared with those from January-March 2017 and balance sheet positions as of 31 March 2018 with those as of 31 December 2017.

Net interest income increased – mainly in the Czech Republic and in Austria – to EUR 1,082.6 million (+3.0%; EUR 1,051.3 million). **Net fee and commission income** rose to EUR 478.6 million (+4.6%; EUR 457.7 million). Strong rises were seen in income from asset management and from lending. While **net trading result** declined significantly to EUR 11.3 million (EUR 48.6 million), the line item gains/losses from financial instruments measured at fair value through profit or loss improved. **Operating income** rose to EUR 1,651.6 million (+2.1%; EUR 1,617.5 million). The increase in **general administrative expenses** to EUR 1,065.0 million (+4.6%; EUR 1,018.3 million) was attributable to a rise in other administrative expenses and in depreciation and amortisation (+3.6% and +1.5%, respectively), as well as higher personnel expenses of EUR 604.5 million (+5.7%; EUR 571.7 million). Other administrative expenses included almost all payments to deposit insurance systems expected in 2018 in the amount of EUR 74.2 million (EUR 64.7 million). Consequently, the **operating result** decreased to EUR 586.7 million (-2.1%; EUR 599.2 million). The **cost/income ratio** rose to 64.5% (63.0%).

The **impairment result from financial instruments** amounted to EUR 54.4 million or adjusted for net allocation of provisions for commitments and guarantees given and financial assets (FVOCI) -22 basis points of average gross customer loans (net allocations of EUR 65.8 million or 19 basis points) due to net releases on the back of improved asset quality. This was attributable to the substantial decline in the balance of the allocation and release of provisions for the lending business, most notably in Austria and in the Czech Republic. The **NPL ratio** improved further to 3.7% (4.0%). The **NPL coverage ratio** increased to 72.5% (68.8%)

Other operating result amounted to EUR -128.0 million (EUR -127.1 million). It included expenses for the annual contributions to resolution funds in the amount of EUR 68.2 million (EUR 77.5 million). Banking and transaction taxes were slightly higher at EUR 38.6 million (EUR 35.8 million), including EUR 13.7 million in Hungarian banking taxes posted upfront for the full financial year 2018. Other taxes rose to EUR 9.5 million (EUR 5.6 million).

The minority charge declined to EUR 70.1 million (-8.8%; EUR 76.8 million) due to lower earnings contributions of the savings banks. The **net result attributable to owners of the parent** increased to EUR 332.6 million (+26.8%; EUR 262.2 million).

Total equity not including AT1 instruments declined to EUR 17.0 billion (EUR 17.3 billion). Transition to the new financial reporting standard IFRS 9 as of 1 January 2018 resulted in a reduction of total equity by EUR 0.6 billion. After regulatory deductions and filtering in accordance with CRR, **common equity tier 1 capital** (CET1, Basel 3 phased-in) amounted to EUR 14.4 billion (EUR 14.7 billion), total **own funds** (Basel 3 phased in) to EUR 20.1 billion (EUR 20.3 billion). First quarter earnings are not included in the above figures. Total risk (**risk-weighted assets** including credit, market and operational risk, Basel 3 phased-in) rose to EUR 114.0 billion (EUR 110.0 billion). The **common equity tier 1 ratio** (CET 1, Basel 3 phased-in) stood at 12.6% (13.4%), the **total capital ratio** (Basel 3 phased-in) at 17.7% (18.5%).

Total assets increased to EUR 230.0 billion (+4.2%; EUR 220.7 billion). On the asset side, cash and cash balances rose to EUR 25.2 billion (EUR 21.8 billion), loans and receivables to credit institutions increased to EUR 11.9 billion (EUR 9.1 billion). **Loans and receivables to customers** rose to EUR 142.1 billion (+1.8%; EUR 139.5 billion). On the liability side, deposits from banks increased to EUR 21.0 billion (EUR 16.3 billion) and **customer deposits** continued to grow – most notably in the Czech Republic and in Austria – to EUR 155.3 billion (+2.9%; EUR 151.0 billion). The **loan-to-deposit ratio** stood at 91.5% (92.4%).

OUTLOOK

Operating environment anticipated to be conducive to credit expansion. Real GDP growth is expected to be between 3% and 5% in Erste Group's CEE core markets, including Austria, in 2018. Real GDP growth should primarily be driven by solid domestic demand, as real wage growth and declining unemployment should support economic activity in CEE. Fiscal discipline is expected to be maintained across CEE.

Business outlook. Erste Group aims to achieve a return on tangible equity (ROTE) of more than 10% in 2018 (based on average tangible equity in 2018). The underlying assumptions are slightly growing revenues (assuming 5%+ net loan growth and further interest rate hikes in the Czech Republic and Romania), slightly falling expenses due to lower project-related costs and an increase in risk costs, albeit remaining at historically low levels.

Risks to guidance. Impact from other than expected interest rate development; political or regulatory measures against banks; and geopolitical risks and global economic risks.

KEY FINANCIAL DATA

Income statement

in EUR million	Q1 17	Q4 17	Q1 18	1-3 17	1-3 18
Net interest income	1,051.3	1,123.9	1,082.6	1,051.3	1,082.6
Net fee and commission income	457.7	489.7	478.6	457.7	478.6
Net trading result	48.6	83.5	11.3	48.6	11.3
Operating income	1,617.5	1,732.1	1,651.6	1,617.5	1,651.6
Operating expenses	-1,018.3	-1,144.7	-1,065.0	-1,018.3	-1,065.0
Operating result	599.2	587.5	586.6	599.2	586.6
Impairment result from financial instruments	-65.8	-60.5	54.4	-65.8	54.4
Post-provision operating result	533.4	526.9	641.0	533.4	641.0
Net result attributable to owners of the parent	**262.2**	**328.6**	**332.6**	**262.2**	**332.6**
Net interest margin (on average interest-bearing assets)	2.33%	2.41%	2.27%	2.33%	2.27%
Cost/income ratio	63.0%	66.1%	64.5%	63.0%	64.5%
Provisioning ratio (on average gross customer loans)	0.19%	0.17%	-0.22%	0.19%	-0.22%
Tax rate	22.0%	9.8%	22.2%	22.0%	22.2%
Return on equity	8.7%	9.1%	10.4%	8.7%	10.4%

Balance sheet

in EUR million	Mar 17	Dec 17	Mar 18	Dec 17	Mar 18
Cash and cash balances	24,731	21,796	25,246	21,796	25,246
Trading, financial assets	46,145	42,752	43,607	42,752	43,607
Loans and receivables to credit institutions	10,448	9,126	11,944	9,126	11,944
Loans and receivables to customers	132,992	139,532	142,059	139,532	142,059
Intangible assets	1,378	1,524	1,511	1,524	1,511
Miscellaneous assets	7,105	5,929	5,651	5,929	5,651
Total assets	**222,798**	**220,659**	**230,018**	**220,659**	**230,018**
Financial liabilities held for trading	4,314	3,423	2,940	3,423	2,940
Deposits from banks	22,935	16,349	20,988	16,349	20,988
Deposits from customers	144,707	150,969	155,306	150,969	155,306
Debt securities issued	27,127	25,095	26,423	25,095	26,423
Miscellaneous liabilities	6,822	6,535	6,366	6,535	6,366
Total equity	16,894	18,288	17,996	18,288	17,996
Total liabilities and equity	**222,798**	**220,659**	**230,018**	**220,659**	**230,018**
Loan/deposit ratio	91.9%	92.4%	91.5%	92.4%	91.5%
NPL ratio	4.9%	4.0%	3.7%	4.0%	3.7%
NPL coverage (exc collateral)	67.6%	68.8%	72.5%	68.8%	72.5%
Texas ratio	34.3%	29.2%	28.1%	29.2%	28.1%
CET 1 ratio (phased-in)	13.0%	13.4%	12.6%	13.4%	12.6%

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