

## Erste Group Update – 2018 EU-Wide Stress Test Results

Erste Group Bank AG (Erste Group) was subject to the 2018 EU-wide stress test conducted by the European Banking Authority (EBA), in cooperation with the European Central Bank (ECB), the European Commission (EC) and the European Systemic Risk Board (ESRB).

Erste Group notes the announcements made today by the EBA on the EU-wide stress test and fully acknowledges the outcomes of this exercise.

The 2018 EU-wide stress test does not contain a pass fail threshold and instead is designed to be used as an important source of information for the purposes of the supervisory review and evaluation process. The results will assist competent authorities in assessing Erste Group's ability to meet applicable prudential requirements under stressed scenarios.

The adverse stress test scenario was set by the ECB/ESRB and covers a three-year time horizon (2018-2020). The stress test has been carried out applying a static balance sheet assumption as at December 2017 adjusted for IFRS9 implementation, and therefore does not take into account future business strategies and management actions. It is not a forecast of Erste Group's profits.

### Erste Group comments on stress test results

The European Banking Authority (EBA) has today published the results of the 2018 stress test. The application of the adverse scenario resulted in a fully loaded CET 1 ratio of 8.5% (year-end 2020) in the case of Erste Group versus actual fully loaded starting point of 12.9% at the end of 2017. In total, the stress-induced change amounted to -450 bps comparing to a change of -423bps in the 2016 EBA stress test.

The assumptions underlying the adverse scenario of the 2018 EBA stress test include:

- Cumulative real GDP drop of 2.7% in the European Union (cumulative decline of up to 3.1% in Erste Group's CEE markets),
- Cumulative decline in residential property prices of 19.1% in the European Union (with more than average stress of over 30% in case of Austria and lower than average stress for the rest of Erste Group's core markets),
- Rise in short- and long-term interest rates: 3M EUR swap rates increase of +87bps and long-term interest rates increase between 98bps and 275bps for Erste Group's core markets,
- Depreciation of Erste Group relevant CEE currencies by 7.4% to 14.6% vs EUR, and appreciation of 8.0% of CHF vs EUR compared to the baseline scenario,
- Static balance sheet assumption (frozen at 2017 levels).

The adverse scenario of the 2018 EBA stress test projects Erste Group to be significantly loss-making throughout the 2018-20 forecast period. The main drivers underlying the EBA adverse scenario stress test result are as follows:

- A reduction in net interest income (NII) by about EUR 3.6bn (cumulative impact over the forecast period vs 2017 actuals), or, on average, by EUR 1.2bn per year or about 28% from 2018 onwards as compared to 2017 reported NII. The 2018 stress test estimation is attributable to:
  - EUR 2.7bn NII decline (cumulative, 2018-20), due to methodological re-pricing effects from higher interest rates and
  - EUR 0.9bn NII decline (cumulative, 2018-20), due to assumed severe asset quality deterioration and only partial recognition of incremental unwinding effect.

- Total cumulative NII reduction of EUR 3.6bn in the adverse scenario is a net result of the higher interest expense of EUR 4.3bn and higher interest income of EUR 0.7bn as compared to cumulative 2017 reported figures.
- The baseline scenario results in a cumulative NII decrease of EUR 2.3bn compared to the starting point, dropping from EUR 4.3bn in 2017 to EUR 3.7bn in 2018 and further to EUR 3.4bn in 2020. Compared to the baseline scenario, total actual NII for period 2017 Q4 to 2018 Q3 amounts to EUR 4.5bn.
- An increase in impairments on financial assets, resulting in cumulative impairments of EUR 5.7bn in the 2018-2020 adverse scenario. Actual impairments on financial assets stood at EUR 0.1bn in 2017 and releases in the amount of EUR 0.1bn have been recorded in the first three quarters of 2018.

During the EBA Stress Test 2018 exercise, Erste Group has applied for a material change of its operational risk model. As it was approved in October 2018 only, its positive impact of 33bps on the CET1 ratio (fully-loaded) is not included in the stress test results.

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