

Erste Group posts net profit of EUR 293.8 million in 1-6 2020

Financial data

Income statement

in EUR million	Q2 19	Q1 20	Q2 20	1-6 19	1-6 20
Net interest income	1,168.8	1,229.0	1,167.9	2,329.7	2,396.9
Net fee and commission income	492.7	504.2	452.5	980.4	956.7
Net trading result and gains/losses from financial instruments at FVPL	93.7	-119.9	129.2	169.9	9.3
Operating income	1,821.2	1,663.0	1,808.9	3,592.9	3,471.9
Operating expenses	-1,030.4	-1,111.2	-1,003.5	-2,146.0	-2,114.7
Operating result	790.9	551.7	805.4	1,446.9	1,357.2
Impairment result from financial instruments	7.1	-61.7	-613.7	42.8	-675.4
Post-provision operating result	797.9	490.0	191.8	1,489.7	681.8
Net result attributable to owners of the parent	354.9	235.3	58.5	731.9	293.8
Net interest margin (on average interest-bearing assets)	2.18%	2.18%	2.04%	2.18%	2.10%
Cost/income ratio	56.6%	66.8%	55.5%	59.7%	60.9%
Provisioning ratio (on average gross customer loans)	-0.02%	0.15%	1.48%	-0.06%	0.82%
Tax rate	19.9%	28.5%	25.1%	18.5%	27.5%
Return on equity	9.3%	6.6%	0.2%	10.2%	3.4%

Balance sheet

in EUR million	Jun 19	Mar 20	Jun 20	Dec 19	Jun 20
Cash and cash balances	16,843	23,031	18,433	10,693	18,433
Trading, financial assets	45,620	46,970	47,667	44,295	47,667
Loans and advances to banks	23,035	24,264	27,418	23,055	27,418
Loans and advances to customers	155,331	161,119	163,736	160,270	163,736
Intangible assets	1,490	1,322	1,331	1,368	1,331
Miscellaneous assets	5,943	6,193	6,106	6,012	6,106
Total assets	248,261	262,898	264,692	245,693	264,692
Financial liabilities held for trading	2,518	3,322	2,737	2,421	2,737
Deposits from banks	19,043	20,703	21,984	13,141	21,984
Deposits from customers	169,668	181,691	182,670	173,846	182,670
Debt securities issued	30,773	29,413	29,431	30,371	29,431
Miscellaneous liabilities	6,609	6,716	6,669	5,437	6,669
Total equity	19,649	21,053	21,200	20,477	21,200
Total liabilities and equity	248,261	262,898	264,692	245,693	264,692
Loan/deposit ratio	91.5%	88.7%	89.6%	92.2%	89.6%
NPL ratio	2.8%	2.4%	2.4%	2.5%	2.4%
NPL coverage ratio (based on AC loans, ex collateral)	75.4%	80.9%	91.1%	77.1%	91.1%
Texas ratio	22.3%	18.9%	18.8%	19.9%	18.8%
CET1 ratio (final)	13.5%	13.1%	14.2%	13.7%	14.2%

HIGHLIGHTS

P&L 1-6 2020 compared with 1-6 2019; balance sheet as of 30 June 2020 compared with 31 December 2019

Net interest income increased – mainly in Austria, but also in Romania – to EUR 2,396.9 million (+2.9%; EUR 2,329.7 million). **Net fee and commission income** declined to EUR 956.7 million (-2.4%; EUR 980.4 million) as lower income from payment services and lending was offset only partly by higher income from other fee and commission income categories. While **net trading result** declined significantly to EUR -19.2 million (EUR 310.1 million), the line item **gains/losses from financial instruments measured at fair value through profit or loss** improved to EUR 28.5 million (EUR -140.1 million), both line items being impacted by valuation effects due to market volatility amid the Covid-19 outbreak. **Operating income** decreased to EUR 3,471.9 million (-3.4%; EUR 3,592.9 million). **General administrative expenses** declined to EUR 2,114.7 million (-1.5%; EUR 2,146.0 million). While personnel expenses rose to EUR 1,265.5 million (+0.8%; EUR 1,255.9 million), other administrative expenses were reduced to EUR 583.3 million (-6.7%; EUR 625.5 million). Almost all payments into deposit insurance schemes expected for 2020 – EUR 92.3 million (EUR 92.9 million) – are already included in other administrative expenses. Amortisation and depreciation amounted to EUR 265.9 million (EUR 264.6 million). Overall, the **operating result** declined to EUR 1,357.2 million (-6.2%; EUR 1,446.9 million). The **cost/income ratio** rose to 60.9% (59.7%).

Due to net allocations, the **impairment result from financial instruments** amounted to EUR -675.4 million or 82 basis points of average gross customers loans (net releases of EUR 42.8 million or 2 basis points). Allocations to provisions for loans as well as for commitments and guarantees given went up in all core markets. This marked rise in allocations to provisions was primarily driven by the deterioration in the macroeconomic outlook due to Covid-19. A positive contribution came from high income from the recovery of loans already written off in Romania. The **NPL ratio** based on gross customer loans improved to 2.4% (2.5%). The **NPL coverage ratio** increased to 91.1% (77.1%).

Other operating result improved to EUR -169.9 million (EUR -351.0 million). Expenses for the annual contributions to resolution funds included in this line item rose – in particular in Austria – to EUR 93.7 million (EUR 76.3 million). The rise in banking and transaction taxes to EUR 83.0 million (EUR 64.7 million) is primarily attributable to the doubling of banking levies in Slovakia to EUR 33.8 million (EUR 16.0 million) as the change in the law adopted in 2019 took effect as of 1 January 2020. Hungarian banking tax for the entire financial year 2020 was EUR 14.3 million (EUR 12.6 million). In the comparative period, other operating result included allocations to a provision in the amount of EUR 150.8 million set aside for losses expected to result from a supreme court decision concerning the business activities of a Romanian subsidiary.

Taxes on income declined to EUR 140.3 million (EUR 212.7 million). The minority charge decreased to EUR 76.1 million (EUR 205.2 million) due to significantly lower earnings contributions of the savings banks. The **net result attributable to owners of the parent** amounted to EUR 293.8 million (-59.9%; EUR 731.9 million).

Total equity not including AT1 instruments rose to EUR 19.2 billion (EUR 19.0 billion). After regulatory deductions and filtering in accordance with the CRR, **common equity tier 1 capital** (CET1, final) increased to EUR 16.4 billion (EUR 16.3 billion), total **own funds** (final) amounted to EUR 22.0 billion (EUR 22.0 billion). Interim profit is included in the above figures. Total risk – **risk-weighted assets** including credit, market and operational risk (CRR, final) – decreased to EUR 115.3 billion (EUR 118.6 billion). The **common equity tier 1 ratio** (CET1, final) increased to 14.2% (13.7%), the **total capital ratio** to 19.1% (18.5%).

Total assets increased to EUR 264.7 billion (EUR 245.7 billion). On the asset side, cash and cash balances rose to EUR 18.4 billion (EUR 10.7 billion), loans and advances to banks to EUR 27.4 billion (EUR 23.1 billion). **Loans and advances to customers** increased to EUR 163.7 billion (+2.2%; EUR 160.3 billion). On the liability side, deposits from banks grew significantly to EUR 22.0 billion (EUR 13.1 billion) as a result of increased ECB refinancing (TLTROs). **Customer deposits** rose again – in particular in the Czech Republic and Austria – to EUR 182.7 billion (+5.1%; EUR 173.8 billion). The **loan-to-deposit ratio** stood at 89.6% (92.2%).

OUTLOOK

World-wide, the year 2020 has been characterised by the Covid-19 pandemic. The wide-ranging economic and social restrictions imposed to contain the coronavirus have caused significant economic upheaval. The macroeconomic downturn is a direct consequence of the varying degrees of lockdowns of public life imposed by governments world-wide. To mitigate the sometimes dramatic negative impact, all states have passed substantial relief packages ranging from debt moratoria for bank loans, guarantees and bridge financing, short-time work schemes and tax deferrals to direct payments. Central banks have cut interest rates, provided liquidity on an unprecedented scale and decided to buy government and corporate bonds. Bank regulators have reduced capital requirements and recommended a pragmatic interpretation of financial accounting standards as well as postponing dividend payments to a later date.

Against this backdrop, gross domestic product is expected to decline markedly, by four to nine percent, in Austria and Central and Eastern Europe in 2020. This should be followed by a recovery in the year 2021, which, however, will not be following a linear path depending on developments on the health side and the administrative measures taken. With economic activity reduced, operating income is expected to decrease. Specifically, it is expected that 2020 net interest income will decline on the back of substantial rate cuts in the Czech Republic, Romania, Hungary and Serbia, lower organic lending growth, a changed portfolio composition with state-guaranteed business at lower margins and negative currency effects. Net fee and commission income is expected to be adversely affected by weaker economic activity. A decline in net trading and fair value result had already been forecast even before the breakout of the coronavirus in view of the strong positive valuation results posted in 2019. In this environment, operating expenses should improve year on year, supported by lower travel expenses, savings due to increased efficiency and positive foreign currency effects. In 2020, the main impact on profit will come from risk costs: for the full year, risk provisions are expected to amount to 65 to 80 basis points of average gross customer loans. The management board of Erste Group is aiming to frontload as much risk costs as is justifiable based on macroeconomic data and forecasts, the development of company ratings and an assessment of the retail customer portfolio. In the absence of goodwill writedowns, other operating result should improve in 2020 versus 2019, when it was weighed down by substantial one-off effects. The tax rate will very likely rise as profitability in countries with low tax rates is forecast to decline. Overall, net profit is expected to decrease significantly in 2020.

The common equity tier 1 ratio (CET1 ratio) is expected to remain at a solid level offering significant room to manoeuvre should the economic development deteriorate. Medium-term, the Erste Group's target common equity tier 1 ratio continues to be 13.5%. Erste Group is confident and determined to pay a cash dividend for the financial year 2019 as well as for 2020 once the recommendation on dividend payments imposed by the supervisory authority is lifted effective 1 January 2021, depending, of course, on the economic and business outlook.

Potential risks to the guidance are a longer-than-expected duration of the Covid-19 crisis, impacts from other than expected interest rate developments, political or regulatory measures against banks as well as geopolitical and global economic developments. In addition, a deterioration of the economic environment could lead to goodwill writedowns. Erste Group is moreover exposed to legal risks that may materialise regardless of the economic environment.

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