ERSTE Group

Investor information

Vienna, 28 April 2023

Erste Group starts well into new year, posts net profit of EUR 593.6 million in Q1 2023

Financial data

Income statement					
in EUR million	**Q1 22**	**Q4 22**	**Q1 23**	**1-3 22**	**1-3 23**
Net interest income	1,392.1	1,565.4	1,769.0	1,392.1	1,769.0
Net fee and commission income	615.3	622.5	642.7	615.3	642.7
Net trading result and gains/losses from financial instruments at FVPL	-16.9	57.9	35.3	-16.9	35.3
Operating income	2,036.2	2,299.9	2,498.7	2,036.2	2,498.7
Operating expenses	-1,235.2	-1,193.5	-1,242.0	-1,235.2	-1,242.0
Operating result	801.0	1,106.4	1,256.7	801.0	1,256.7
Impairment result from financial instruments	-59.1	-141.3	20.7	-59.1	20.7
Post-provision operating result	741.9	965.1	1,277.3	741.9	1,277.3
Net result attributable to owners of the parent	**448.8**	**517.7**	**593.6**	**448.8**	**593.6**
Net interest margin (on average interest-bearing assets)	2.14%	2.25%	2.50%	2.14%	2.50%
Cost/income ratio	60.7%	51.9%	49.7%	60.7%	49.7%
Provisioning ratio (on average gross customer loans)	0.13%	0.28%	-0.04%	0.13%	-0.04%
Tax rate	18.9%	15.0%	18.5%	18.9%	18.5%
Return on equity	11.2%	11.2%	13.5%	11.2%	13.5%

Balance sheet					
in EUR million	**Mar 22**	**Dec 22**	**Mar 23**	**Dec 22**	**Mar 23**
Cash and cash balances	46,225	35,685	43,305	35,685	43,305
Trading, financial assets	55,825	59,833	61,683	59,833	61,683
Loans and advances to banks	30,825	18,435	27,299	18,435	27,299
Loans and advances to customers	185,293	202,109	202,668	202,109	202,668
Intangible assets	1,337	1,347	1,335	1,347	1,335
Miscellaneous assets	6,106	6,456	6,631	6,456	6,631
Total assets	**325,610**	**323,865**	**342,921**	**323,865**	**342,921**
Financial liabilities held for trading	2,917	3,264	3,139	3,264	3,139
Deposits from banks	34,781	28,821	29,876	28,821	29,876
Deposits from customers	222,382	223,973	238,074	223,973	238,074
Debt securities issued	33,984	35,904	38,246	35,904	38,246
Miscellaneous liabilities	7,478	6,599	7,103	6,599	7,103
Total equity	24,068	25,305	26,483	25,305	26,483
Total liabilities and equity	**325,610**	**323,865**	**342,921**	**323,865**	**342,921**
Loan/deposit ratio	83.3%	90.2%	85.1%	90.2%	85.1%
NPL ratio	2.3%	2.0%	2.1%	2.0%	2.1%
NPL coverage ratio (based on AC loans, ex collateral)	91.9%	94.6%	94.3%	94.6%	94.3%
Texas ratio	17.9%	16.4%	15.8%	16.4%	15.8%
CET1 ratio (final)	13.7%	14.2%	14.0%	14.2%	14.0%

HIGHLIGHTS

P&L 1-3 2023 compared with 1-3 2022;
balance sheet as of 31 March 2023 compared with 31 December 2022

Net interest income increased to EUR 1,769.0 million (+27.1%; EUR 1,392.1 million) on the back of higher market interest rates – mainly in Austria, Hungary and Romania – as well as larger customer loan volume across all markets. **Net fee and commission income** rose to EUR 642.7 million (+4.4%; EUR 615.3 million). Growth was registered in nearly all core markets, most notably in payment services but also in asset management. **Net trading result** improved to EUR 116.7 million (EUR -256.6 million); the line item **gains/losses from financial instruments measured at fair value through profit or loss** declined to EUR -81.4 million (EUR 239.7 million). The development of these two line items was mostly attributable to valuation effects. **Operating income** increased to EUR 2,498.7 million (+22.7%; EUR 2,036.2 million). **General administrative expenses** were nearly unchanged at EUR 1,242.0 million (+0.6%; EUR 1,235.2 million). Personnel expenses were higher at EUR 697.5 million (+10.6%; EUR 630.7 million). The decline in other administrative expenses to EUR 408.6 million (-12.7%; EUR 468.1 million) was mainly due to the reduction of contributions to deposit insurance schemes to EUR 113.5 million (EUR 199.2 million). Most of the contributions expected for 2023 have already been posted upfront. In the first quarter of 2022, the Sberbank Europe deposit insurance case had resulted in higher expenses. Amortisation and depreciation amounted to EUR 135.9 million (-0.4%; EUR 136.4 million).
Overall, the **operating result** increased markedly to EUR 1,256.7 million (+56.9%; EUR 801.0 million). The **cost/income ratio** improved to 49.7% (60.7%).

The **impairment result from financial instruments** amounted to EUR 20.7 million or 4 basis points of average gross customers loans (EUR -59.1 million or 13 basis points). Positive contributions came from net releases of provisions for commitments and guarantees in nearly all segments as well as from income from the recovery of loans already written off, most notably in Austria and the Czech Republic. In the first quarter, there were neither updates on forward-looking economic indicators (FLIs) nor any application of stage overlays. Overall, crisis-induced performing risk provisions stood unchanged at approximately EUR 900 million as of end of March. The **NPL ratio** based on gross customer loans was almost unchanged at 2.1% (2.0%). The **NPL coverage ratio** (excluding collateral) stood at 94.3% (94.6%).

Other operating result amounted to EUR -274.3 million (EUR -132.7 million). Expenses for annual contributions to resolution funds included in this line item already for the full year of 2023 rose – most notably in Austria – to EUR 138.1 million (EUR 123.1 million). Banking levies – currently payable in two core markets – increased to EUR 99.1 million (EUR 40.2 million). Thereof, EUR 89.5 million were charged in Hungary: in addition to regular banking tax of EUR 18.8 million (EUR 18.0 million), a windfall profit tax of EUR 53.3 million based on the preceding year's net revenues was posted (both likewise upfront for the full year of 2023). The windfall tax for the previous year (EUR 49.9 million) had been posted only in the second quarter of 2022. Hungarian transaction tax for the first quarter amounted to EUR 17.4 million (EUR 14.1 million). In Austria, banking tax equaled EUR 9.6 million (EUR 8.1 million). In addition, other operating result was adversely affected by valuation effects.

Taxes on income amounted to EUR 185.6 million (EUR 115.6 million). The rise of the minority charge to EUR 224.0 million (EUR 45.7 million) was attributable to significantly better results from the savings banks – primarily due to higher net interest income. The **net result attributable to owners of the parent** rose to EUR 593.6 million (EUR 448.8 million) on the back of the strong operating result and the net release of risk provisions.

Total equity not including AT1 instruments rose to EUR 24.2 billion (EUR 23.1 billion). After regulatory deductions and filtering in accordance with the Capital Requirements Regulation (CRR), **common equity tier 1 capital** (CET1, final) rose to EUR 20.5 billion (EUR 20.4 billion), total **own funds** (final) to EUR 26.4 billion (EUR 26.2 billion). Interim profit for the first quarter of the year is not included in the above figures. Total risk (**risk-weighted assets** including credit, market and operational risk, CRR final) rose to EUR 146.2 billion (EUR 143.9 billion). The **common equity tier 1 ratio** (CET1, final) stood at 14.0% (14.2%), the **total capital ratio** at 18.0% (18.2%).

Total assets increased to EUR 342.9 billion (+5.9%; EUR 323.9 billion). On the asset side, cash and cash balances were up at EUR 43.3 billion (EUR 35.7 billion), loans and advances to banks rose to EUR 27.3 billion (EUR 18.4 billion), most notably in Austria and the Czech Republic. **Loans and advances to customers** have risen only moderately year to date, to EUR 202.7 billion (+0.3%; EUR 202.1 billion), as demand for corporate loans – a major growth driver over long periods in the previous year – remained subdued. On the liability side, deposits from banks grew to EUR 29.9 billion (EUR 28.8 billion). **Customer deposits** rose in nearly all core markets – most strongly in Austria and the Czech Republic – to EUR 238.1 billion (+6.3%; EUR 224.0 billion). The **loan-to-deposit ratio** stood at 85.1% (90.2%).

OUTLOOK

Erste Group's goal for 2023 is to achieve a return on tangible equity (ROTE) in the range of 13 to 15%. Four key factors will support achievement of this goal: firstly, positive economic growth in all core markets (Austria, Czech Republic, Slovakia, Romania, Hungary, Croatia and Serbia) despite significant geopolitical and political risks, which, should they materialise, would likely negatively impact economic performance; secondly, an interest rate environment that is characterised by broadly stable central bank rates in such countries as the Czech Republic, Romania and Hungary, as well as euro zone interest rates that rise in line with market expectations (as of mid-April 2023); thirdly, a credit risk environment marked by low default rates as in 2022; and, finally, the continuous ability of Erste Group to innovate and successfully expand its digital offering. Assuming that these conditions are met, operating result and the cost/income ratio are projected to improve.

The expectation by economists is for Erste Group's core markets to avoid recession in 2023 and, in fact, to post real GDP growth. Inflationary pressures are expected to subside in 2023, following double digit-levels in 2022 as a result of exceptionally high energy prices. Continued strong labour markets should be supportive of economic performance in all of Erste Group's markets. Current account balances, which suffered significantly during 2022 on the back of exceptionally high energy prices, are expected to improve again in 2023 benefiting from a reversal in energy prices. Fiscal balances should likewise consolidate again after significant budget deficits in 2022. Public debt to GDP in all Erste Group markets is projected to be broadly stable, and hence remain materially below the euro zone average.

Against this backdrop, Erste Group expects net loan growth in the mid-single digits. Retail and corporate business should contribute in all markets of Erste Group towards the aim to grow in line with the banking markets. Loan growth as well as interest rate tailwinds, as detailed above, should result in an increase of net interest income of around 15%. The second most important income component – net fee and commission income – is expected to rise in the mid-single digits. As in 2022, positive growth momentum should again come from payment services and insurance brokerage fees, while additional contributions form asset management and securities business are dependent on a constructive capital markets environment. The net trading and fair value result, which suffered significantly in 2022 from negative valuation effects tied to strongly rising interest rates mostly in the CEE region but also in the eurozone, should normalise again in 2023 due to less steep interest rate increases in the eurozone. This, however, will depend substantially on the actual interest rate environment. The remaining income components are forecast to remain, by and large, stable. Overall, operating income should increase in 2023. Operating expenses are expected to rise by approximately 9% – and thus at a lower level than operating income – resulting in a further cost/income ratio improvement compared to 2022 to approximately 51%.

Based on the robust macro outlook described above, risk costs should remain at a low level in 2023. While precise forecasting is hard at current low risk cost levels, Erste Group believes that in 2023 risk costs will be below 25 basis points of average gross customer loans.

Other operating result is expected to remain by and large unchanged in the absence of significant one-off effects. Assuming an effective group tax rate of below 20% and higher minority charges as in 2022, Erste Group aims to achieve a ROTE in the range of 13 to 15%. Erste Group's CET1 ratio is expected to remain strong. Consequently, Erste Group will propose a dividend of EUR 1.90 per share for the 2022 fiscal year to the 2023 AGM. In addition, Erste Group filed an application seeking regulatory approval of a share buy-back in a volume of EUR 300 million in 2023.

Potential risks to the guidance include (geo)political and economic (including monetary and fiscal policy impacts) developments, regulatory measures as well as changes to the competitive environment. The evolving Russia-Ukraine conflict does not impact Erste Group directly, as it has no operating presence in those countries. Indirect effects, such as financial market volatility, sanctions-related knock-on effects or the emergence of deposit insurance or resolution cases cannot be ruled out, though. Erste Group is moreover exposed to non-financial and legal risks that may materialise regardless of the economic environment. Worse than expected economic development may put goodwill at risk.

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