Press release

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Erste Group 1-9/2022 results: Solid operating performance reflects resilient CEE markets

- Solid loan volume growth (+ 10.3 % YTD), with rises in both corporates and retail segments
- Strong gains in net interest income drives rise in operating result
- NPL ratio declines to post-IPO record low of 2.0 %
- GDP growth in 2023 seen at lower levels, inflation rates expected to decline but remain elevated

Erste Group Bank AG reported an operating result of 2.89 billion euros for the first nine months of 2022, a 11.4 % rise compared to the same period a year earlier. The 19.5 % rise in net interest income to 4.39 billion euros reflected both solid lending growth and favorable interest rate developments, especially in non-Eurozone markets. Net fee and commission income was up 8.3 % to 1.83 billion euros, driven mainly by gains in payments and asset management. During the reporting period, the rise in operating income (+9.3 % to 6.27 billion euros) outpaced that in operating expenses (+7.7 % to 3.38 billion euros). Risk costs rose to -158 million euros or 11 basis points (1-9/2021: -52 million euros or 4 basis points), reflecting a dimming macro environment. Both the NPL ratio (2.0 % compared to 2.4 % at the end of 2021) and the NPL coverage ratio (96.8 % vs. 90.9 %) improved. The banking group's net profit amounted to 1.65 billion euros (1-9/2021: 1.45 billion euros).

"The overall framework for the coming year will be a challenging one, both for our region and the world more globally. Still, our markets show promising signs that they'll outperform Western Europe on the back of strong employment rates and solid public finances," explains **Willi Cernko**, CEO of Erste Group. *"Inflation will remain the main challenge for our corporate and retail customers. But we are capable and willing to support the economies and the people of our region throughout challenging times."*

"*Coupled with interest rate shifts and our cost discipline, increased lending volumes helped improve our performance at both the operating level and at the bottom line. Thanks to our solid capitalization and good liquidity position, I am confident that we will show resilience in 2023,*" said **Stefan Dörfler**, CFO of Erste Group.

In the interim management report, financial results from January-September 2022 are compared with those from January-September 2021 and balance sheet positions as of 30 September 2022 with those as of 31 December 2021.

Gains in NII and fees income offset losses in net trading result

Net interest income increased to 4,385.2 million euros (+19.5 %; 3,669.5 million euros) driven in particular by rate hikes outside the euro zone – mainly in the Czech Republic, Hungary and Romania – as well as significant loan growth across all markets. **Net fee and commission income** rose to 1,829.9 million euros (+8.3 %; 1,690.4 million euros). Increases were posted across nearly all fee and commission income categories and all core markets, with significant growth seen in particular in payment services and asset management. **Net trading result** declined to -848.5 million euros (67.5 million euros); the line item **gains/losses from financial instruments measured at fair value through profit or loss** rose to 743.3 million euros (133.5 million euros). The development of these two line items was mostly attributable to valuation effects. **Operating income** increased to EUR 6,270.7 million (+9.3 %; 5,735.0 million euros).

Strong operating result and improved cost/income ratio

General administrative expenses were up at 3,381.3 million euros (+7.7 %; 3,141.0 million euros). Personnel expenses were higher at 1,967.2 million euros (+4.6 %; 1,881.3 million euros). The headcount remained virtually unchanged compared with year-end 2021, with a change of +1,1 % to 45,078 (on a FTE basis). The marked rise in other administrative expenses to 1,003.4 million euros (+18.5 %; 846.6 million euros) is mainly due to a substantial rise in payments into deposit insurance schemes to 158.4 million euros (113.1 million euros) – most of the regular contributions expected for 2022 have already been posted upfront – as well as increases across all cost categories, in particular IT and office expenses. Amortisation and depreciation amounted to 410.7 million euros (-0.6 %; 413.2 million euros). Overall, the **operating result** increased markedly to 2,889.4 million euros (+11.4 %; 2,594.0 million euros). The **cost/income ratio** improved to 53.9 % (54.8 %).

NPL ratio of 2.0 % marks historic low since IPO

Due to net allocations, the **impairment result from financial instruments** ("risk costs") amounted to -158.3 million euros or -11 basis points of average gross customers loans (-51.6 million euros or 4 basis points). Net allocations to provisions for loans as well as for commitments and guarantees were posted in all core markets, with the exception of Croatia. Positive contributions came from continued high income from the recovery of loans already written off in all segments, most notably in the Czech Republic and Croatia. After a review and release of Covid related provisions, an update of the forward looking indicator parameters (FLIs) as well as the introduction of management overlays for cyclical industries in the second quarter, additional management overlays for industries being highly effected by the volatile energy markets (energy, metals and chemicals) have been introduced in an amount of 147 million euros in the third quarter. Overall, end of September crises-related general provisions amounted to 676 million euros. The **NPL ratio** based on gross customer loans improved further to 2.0 % (2.4 %), the lowest level recorded since the IPO. The **NPL coverage ratio** (excluding collateral) was up at 96.8 % (90.9 %).

Net result rises to 1.65 billion euros in first nine months

Other operating result amounted to -246.5 million euros (-243.3 million euros). Expenses for the annual contributions to resolution funds for the full year of 2022 included in this line item rose – most strongly in Austria and the Czech Republic – to 139.1 million euros (108.5 million euros). Banking levies – currently payable in two core markets – increased to 133.2 million euros (71.6 million euros). Thereof, 108.4 million euros were charged in Hungary, including regular banking tax for the full financial year in the amount of 16.1 million euros (14.9 million euros), transaction tax for the first three quarters in the amount of 42.4 million euros (35.7 million euros) and a new windfall profit tax of 49.9 million euros for the full year of 2022 based on the net revenues of the preceding year. In Austria, banking tax equaled 24.8 million euros (20.9 million euros). A positive contribution came from the release of provisions for potential legal risks relating to Romanian consumer protection legislation in the amount of 41.8 million euros also reflected in other operating income.

Taxes on income amounted to 434.5 million euros (433.6 million euros). The minority charge decreased to 332.6 million euros (397.2 million euros) due to lower earnings contributions of the savings banks mainly resulting from increased impairment of financial instruments. The **net result attributable to owners of the parent** rose to 1,647.0 million euros (1,451.4 million euros) on the back of the strong operating result.

Strong growth in lending volumes, CET1 stands at 14.2 % (pro-forma)

Total equity not including AT1 instruments rose to 22.3 billion euros (21.3 billion euros). After regulatory deductions and filtering in accordance with the Capital Requirements Regulation (CRR), **common equity tier 1 capital** (CET1, final) rose to 19.4 billion euros (18.8 billion euros), total **own funds** (final) to 25.2 billion euros (24.8 billion euros). While the interim profit for the first two quarters of the year is included in the above figures and ratios below, the third quarter is not. Total risk (**risk-weighted assets** including credit, market and operational risk, CRR final) rose to 140,8 billion euros (129.6 billion euros). The **common equity tier 1 ratio** (CET1) stood at 14.2 % on a pro-forma basis (14.5 %), the **total capital ratio** at 17,9 % (19.1 %).

Total assets increased to 335.3 billion euros (+9.1 %; 307.4 billion euros). On the asset side, cash and cash balances declined to 44.6 billion euros (45.5 billion euros), loans and advances to banks went up – most notably in Slovakia, the Czech Republic and Austria – to 26.7 billion euros (21.0 billion euros). **Loans and advances to customers** increased in all core markets to 198.8 billion euros (+10.3 %; 180.3 billion euros), most significantly in in Austria and the Czech Republic. On the liability side, deposits from banks grew to 36.2 billion euros (31.9 billion euros). **Customer deposits** rose in nearly all core markets – most strongly in Austria and the Czech Republic – to 232.5 billion euros (+10.4 %; 210.5 billion euros). The **loan-to-deposit ratio** stood at 85.5 % (85.6 %).

Outlook: Erste markets expected to remain resilient

While economic performance in the current year has proven to be stronger than previously forecast (current estimates now see 2022 **real GDP growth rates** in Erste's core markets ranging between 1.8 % and 6.2 %), Erste Group expects growth to slow down in 2023, with the average real GDP growth rate in its markets seen at 1.2 %, compared to 0.3 % in the Eurozone. **Unemployment rates** are nonetheless projected to remain low (approximately 3 % to 7 %). **Public debt levels** across CEE will remain significantly below the EU average. **Inflation** is expected to slow down in 2023, yet it is estimated to remain elevated throughout the year, with the annual average ranging from 5.2 % to 14.3 % across Erste's core markets.

Against this backdrop, Erste Group expects **net loan growth** to slow down from above 10 % in 2022 to around 5 % in 2023. This development, combined with a favourable rate environment in CEE together with normalised policy interest rates of the ECB, should result in growth in **net interest income** of approximately 20 % in 2022 and around 10 % in 2023.

In line with the weaker economic outlook for 2023, but assuming continued strong labour markets across CEE, Erste Group expects **risk costs** to remain low and not exceed 35 basis points in 2023 (2022 target: below 20 basis points). The **NPL ratio** is expected to rise from around 2 % in 2022, but remain below 3 % in 2023.

Erste Group targets a **return on tangible equity** (ROTE) of around 14 % for 2022 and 13-15 % for 2023. The **CET1 ratio** should remain above 14 % throughout the forecasted period. Erste Group plans to pay a **dividend** of 1.90 euros per share for the 2022 financial year.

All forward-looking statements in this outlook are based on the following key assumptions: significant economic slowdown, but no negative YoY real GDP growth in 2023; no further material political or regulatory interventions; no futher worsening of geopolitical situation; stabilisation of European energy situation.

Media inquiries:
Erste Group | Press Department, Am Belvedere 1, 1100 Wien
Christian Hromatka, 050100 - 13711, E-Mail: christian.hromatka@erstegroup.com
Martin Sonn-Wende, 050100 - 11680, E-Mail: martin.sonn-wende@erstegroup.com
Peter Klopf, 050100 - 11676, E-Mail: peter.klopf@erstegroup.com

FINANCIAL DATA

Income statement

in EUR mn	1-9 21	1-9 22	% change
Net interest income	3,669.5	4,385.2	19.5
Net fee and commission income	1,690.4	1,829.9	8.3
Net trading result and gains/losses from financial instruments at FVPL	201.0	-105.2	
Operating income	5,735.0	6,270.7	9.3
Operating expenses	3,141.0	3,381.3	7.7
Operating result	**2,594.0**	**2,889.4**	**11.4**
Impairment result from financial instruments ("risk costs")	-51.6	-158.3	>100
Post-provision operating result	2,542.4	2,731.1	7.4
Net result attributable to owners of the parent ("net profit")	**1,451.4**	**1,647.0**	13.5

Key income statement ratios	1-9 21	1-9 22	change
Earnings per share (in EUR)	3.24	3.73	0.49
Return on equity	12.1%	13.2%	1.1 PP
Net interest margin (on average interest-bearing assets)	2.04%	2.19%	0.15 PP
Cost/income ratio	54.8%	53.9%	-0.9 PP
Provisioning ratio (on average gross customer loans)	0.04%	0.11%	0.07 PP

Balance sheet

in EUR mn	Dec 21	Sep 22	% YTD change
Loans and advances to customers	180,268	198,794	10.3
Risk-weighted assets (RWA)	129,647	140,776	8.6
Deposits from customers	210,523	232,450	10.4
Total assets	**307,428**	**335,297**	**9.1**

Key balance sheet ratios	Dec 21	Sep 22	YTD change
Loan/deposit ratio	85.6%	85.5%	-0.1 PP
NPL ratio	2.4%	2.0%	-0.4 PP
NPL coverage ratio (based on AC loans, excl. collateral)	90.9%	96.8%	5.9 PP
CET1 ratio (on a pro forma basis for Sep 2022)	14.5%	14.2%	-0.3 PP