Media information
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Solid revenue growth in Q1 as CEE markets prove resilient

- Net interest income up 27.1 % year-on-year to EUR 1.77 bn
- Operating result at EUR 1.26 bn, up 56.9 % year-on-year
- NPL ratio at 2.1 %; net release of EUR 20.7 mn risk provisions in Q1
- Rise in customer deposits outpaces lending volume growth

Erste Group Bank AG reported an operating result of 1.26 billion euros for the first three months of 2023. This year-on-year rise of nearly 57 % reflected solid net interest income of 1.77 billion euros (up 27.1 % y/y) on the back of generally favorable interest rate developments and a larger customer loan volume. Gains in payment services and in asset management led to a 4.4 % y/y rise in net fee and commission income to 643 million euros. Valuation effects saw the net trading result improve to 117 million euros compared to a loss of 257 million euros during the same period a year earlier. Operating expenses were 0.6 % higher y/y at 1.24 billion euros. The first quarter saw a net release of risk provisions leading to a positive impairment result of 20.7 million euros, which contributed to a net result of 594 million euros for the quarter.

"The economies in Central and Eastern Europe have not escaped the global slowdown in economic growth, but they are proving to be resilient. We're confident that CEE's convergence story remains intact and that the region will once again stand out as the growth region within Europe as of 2024," said **Erste Group CEO Willi Cernko**. *"In addition to that confidence, we also have a very clear vision for digitalization. We've already shown that with the success of George for our retail customers across six markets. Now, we've launched George Business for corporate users in Austria and will expand this innovative business banking platform to our other markets too. We'll continue to drive digital innovation as a key means of providing our customers with the data, tools, and knowledge they need to advance their financial well-being."*

"Lending growth slowed in the first quarter, reflecting the more muted overall macro environment. However, net interest income grew strongly and remained the key revenue driver. NII grew on the back of favorable rate cycles in most of the markets and higher customer loan volumes in all of them. Our bottom line in the first three months of 2023 also benefitted from operating expenses that were in line with expectations and from a risk environment that remained benign," said **Stefan Dörfler**, **Erste Group's CFO**. *"Given recent developments in the global banking market, we welcome the deposit inflows we had in recent months. They are a sign of the trust that customers place in us as a stable leader in the CEE region. The solid operating and bottom line results we posted in the first quarter also provide us with confidence that we're well underway to meet our upgraded full-year guidance."*

In the interim management report, financial results from January-March 2023 are compared with those from January-March 2022 and balance sheet positions as of 31 March 2023 with those as of 31 December 2022.

Higher operating income reflects NII gains, improved net trading result

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).

Operating result up sharply to 1.25 billion euros

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 %).

Risk environment remains benign

The **impairment result from financial instruments** amounted to net releases of 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, no changes were undertaken on forward-looking economic indicators (FLIs) or on the 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 %).

Net profit rises on strong operating result, net release of risk provisions

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.

Rise in customer deposits outpaces lending volume growth

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

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. Loan growth as well as interest rate tailwinds, as detailed above, should result in an increase of **net interest income** of around 15%. Based on the robust macro outlook described above, **risk costs** should remain at a low level in 2023. On the basis of current forecasts, Erste Group expects that **risk costs** in 2023 will be below 25 basis points of average gross customer loans.

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 May. In addition, Erste Group filed an application seeking regulatory approval of a **share buy-back** in a volume of up to EUR 300 million in 2023.

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FINANCIAL DATA FOR 1-3 2023

Income statement

in EUR mn	1-3 2022	1-3 2023	% change
Net interest income	1,392.1	1,769.0	27.1
Net fee and commission income	615.3	642.7	4.4
Net trading result and gains/losses from financial instruments at FVPL	-16.9	35.3	n/a
Operating income	2,036.2	2,498.7	22.7
Operating expenses	-1,235.2	-1,242.0	0.6
Operating result	801.0	1,256.7	56.9
Impairment result from financial instruments ("risk costs")	-59.1	20.7	n/a
Post-provision operating result	741.9	1,277.3	72.2
Net result attributable to owners of the parent	**448.8**	**593.6**	32.3

Key income statement ratios	1-3 2022	1-3 2023	change
Earnings per share (in EUR)	1.05	1.39	0.34
Return on equity	11.2%	13.5%	2.3 PP
Net interest margin (on average interest-bearing assets)	2.14%	2.50%	0.36 PP
Cost/income ratio	60.7%	49.7%	- 11.0 PP
Provisioning ratio (on average gross customer loans)	0.13%	-0.04%	- 0.17 PP

Balance sheet

in EUR mn	Dec 22	Mar 23	% YTD change
Loans and advances to customers	202,109	202,668	0.3
Risk-weighted assets (RWA)	143,926	146,220	1.6
Deposits from customers	223,973	238,074	6.3
Total assets	**323,865**	**342,921**	**5.9**

Key balance sheet ratios	Dec 22	Mar 23	YTD change
Loan/deposit ratio	90.2%	85.1%	- 5.1 PP
NPL ratio	2.0%	2.1%	0.1 PP
NPL coverage ratio (based on AC loans, excl. collateral)	94.6%	94.3%	- 0.3 PP
CET1 ratio (final)	14.2%	14.0%	- 0.2 PP