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Erste Group posts net profit of EUR 1,451.4 million in the first 9 months of 2021 on the back of a strong operating performance and low risk costs

Financial data

Income statement					
in EUR million	**Q3 20**	**Q2 21**	**Q3 21**	**1-9 20**	**1-9 21**
Net interest income	1,192.4	1,276.5	1,220.8	3,589.3	3,669.5
Net fee and commission income	491.6	559.0	591.4	1,448.3	1,690.4
Net trading result and gains/losses from financial instruments at FVPL	81.0	60.3	74.3	90.4	201.0
Operating income	1,814.0	1,962.1	1,944.3	5,285.8	5,735.0
Operating expenses	-1,008.5	-999.7	-1,038.0	-3,123.2	-3,141.0
Operating result	805.5	962.4	906.3	2,162.7	2,594.0
Impairment result from financial instruments	-194.7	-47.2	31.3	-870.1	-51.6
Post-provision operating result	610.8	915.2	937.6	1,292.6	2,542.4
Net result attributable to owners of the parent	**343.3**	**562.9**	**533.4**	**637.1**	**1,451.4**
Net interest margin (on average interest-bearing assets)	2.04%	2.13%	1.98%	2.09%	2.04%
Cost/income ratio	55.6%	51.0%	53.4%	59.1%	54.8%
Provisioning ratio (on average gross customer loans)	0.46%	0.11%	-0.07%	0.70%	0.04%
Tax rate	21.8%	18.7%	17.3%	24.5%	19.0%
Return on equity	9.6%	13.0%	13.7%	5.5%	12.1%

Balance sheet					
in EUR million	**Sep 20**	**Jun 21**	**Sep 21**	**Dec 20**	**Sep 21**
Cash and cash balances	27,848	48,421	47,125	35,839	47,125
Trading, financial assets	46,511	50,849	51,239	46,849	51,239
Loans and advances to banks	25,672	24,541	27,749	21,466	27,749
Loans and advances to customers	164,514	172,114	175,929	166,050	175,929
Intangible assets	1,331	1,342	1,326	1,359	1,326
Miscellaneous assets	6,107	6,168	5,872	5,830	5,872
Total assets	**271,983**	**303,435**	**309,240**	**277,394**	**309,240**
Financial liabilities held for trading	2,845	2,412	2,193	2,625	2,193
Deposits from banks	26,433	34,643	35,387	24,771	35,387
Deposits from customers	184,830	206,256	207,506	191,070	207,506
Debt securities issued	29,675	30,243	33,505	30,676	33,505
Miscellaneous liabilities	6,762	6,510	6,696	5,840	6,696
Total equity	21,438	23,371	23,954	22,410	23,954
Total liabilities and equity	**271,983**	**303,435**	**309,240**	**277,394**	**309,240**
Loan/deposit ratio	89.0%	83.4%	84.8%	86.9%	84.8%
NPL ratio	2.4%	2.5%	2.4%	2.7%	2.4%
NPL coverage ratio (based on AC loans, ex collateral)	95.5%	91.4%	92.7%	88.6%	92.7%
Texas ratio	18.2%	18.9%	18.0%	20.3%	18.0%
CET1 ratio (final)	14.1%	14.2%	14.2%	14.2%	14.2%

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HIGHLIGHTS

P&L 1-9 2021 compared with 1-9 2020; balance sheet as of 30 September 2021 compared with 31 December 2020

Net interest income increased to EUR 3,669.5 million (+2.2%; EUR 3,589.3 million), primarily due to one-off effects resulting from TLTRO III take-up in Austria and Slovakia. **Net fee and commission income** rose to EUR 1,690.4 million (+16.7%; EUR 1,448.3 million). Increases were posted across all fee and commission categories and core markets, with significant growth seen in particular in payment services as well as in asset management and in the securities business. **Net trading result** improved to EUR 67.5 million (EUR 9.0 million); the line item **gains/losses from financial instruments measured at fair value through profit or loss** rose to EUR 133.5 million (EUR 81.4 million). The development of these two line items was driven mostly by valuation effects. **Operating income** increased to EUR 5,735.0 million (+8.5%; EUR 5,285.8 million).
General administrative expenses rose moderately to EUR 3,141.0 million (+0.6%; EUR 3,123.2 million). Personnel expenses declined to EUR 1,881.3 million (-1.1%; EUR 1,902.2 million) while other administrative expenses were higher at EUR 846.6 million (+3.4%; EUR 819.0 million). Payments into deposit insurance schemes included in other administrative expenses rose to EUR 113.1 million (EUR 100.3 million). Almost all payments expected for 2021 have already been posted. Depreciation and amortisation increased to EUR 413.2 million (+2.8%; EUR 402.0 million). The **operating result** was up markedly at EUR 2,594.0 million (+19.9%; EUR 2,162.7 million) and the **cost/income ratio** improved significantly to 54.8% (59.1%).

Due to net allocations, the **impairment result from financial instruments** amounted to EUR -51.6 million or 4 basis points of average gross customers loans (EUR -870.1 million or 70 basis points). Net allocations to provisions for loans as well as for commitments and guarantees were posted in the Czech Republic, Romania, Serbia and Hungary, but remained generally at a very low level. A positive contribution came from income related to the recovery of loans already written off as well as from releases, most notably in Austria (in the Savings Banks segment). In the comparative period, updated risk parameters with forward looking information related to Covid-19 had resulted in high net allocations to provisions for loans as well as for commitments and guarantees given. The **NPL ratio** based on gross customer loans improved to a historic low at 2.4% (2.7%).
The **NPL coverage ratio** (excluding collateral) increased to 92.7% (88.6%).

Other operating result amounted to EUR -243.3 million (EUR -213.6 million). Expenses for the annual contributions to resolution funds for the full year 2021 included in this line item rose – most strongly in Austria and Romania – to EUR 108.5 million (EUR 93.7 million). The decline in banking levies to EUR 71.6 million (EUR 100.3 million) is primarily attributable to the abolition of banking tax in Slovakia. At present, banking levies are payable in two core markets: in Hungary, banking tax for the full financial year amounted to EUR 14.9 million (EUR 14.4 million) and transaction tax for the first three quarters to another EUR 35.7 million (EUR 33.1 million). In Austria, banking tax equalled EUR 20.9 million (EUR 19.0 million).

Taxes on income increased to EUR 433.6 million (EUR 264.2 million). The minority charge rose to EUR 397.2 million (EUR 177.1 million) due to significantly higher earnings contributions from the savings banks. The **net result attributable to owners of the parent** rose to EUR 1,451.4 million (EUR 637.1 million) on the back of the strong operating result and low risk costs.

Total equity not including AT1 instruments rose to EUR 21.2 billion (EUR 19.7 billion). After regulatory deductions and filtering in accordance with the CRR, **common equity tier 1 capital** (CET1, final) rose to EUR 18.3 billion (EUR 17.1 billion), as were total **own funds** (final) to EUR 23.9 billion (EUR 23.6 billion), both figures include the interim profit for the first half of the year but not for the third quarter. Total risk – **risk-weighted assets** including credit, market and operational risk (CRR, final) – increased moderately to EUR 128.5 billion (EUR 120.2 billion). The **common equity tier 1 ratio** (CET1, final) stood at 14.2% (14.2%), the **total capital ratio** at 18.6% (19.7%).

Total assets increased to EUR 309.2 billion (+11.5%; EUR 277.4 billion). On the asset side, cash and cash balances increased, primarily in Austria, to EUR 47.1 billion (EUR 35.8 billion), loans and advances to banks to EUR 27.7 billion (EUR 21.5 billion). **Loans and advances** to customers rose to EUR 175.9 billion (+5.9%; EUR 166.1 billion). On the liability side, deposits from banks grew significantly to EUR 35.4 billion (EUR 24.8 billion) as a result of increased ECB refinancing (TLTRO III). **Customer deposits** rose in all core markets – most strongly in Austria and in the Czech Republic – to EUR 207.5 billion (+8.6%; EUR 191.1 billion). The **loan-to-deposit ratio** declined significantly to 84.8% (86.9%).

OUTLOOK

Erste Group's goal for 2021 is to increase net profit and achieve a double-digit return on tangible equity (ROTE). Among the factors that will support achievement of this goal are a recovery of the economies of all core markets – the Czech Republic, Slovakia, Hungary, Romania, Croatia, Serbia and Austria – and, on this basis, an improvement in the operating result and a reduction of risk costs. A continuation or further escalation of Covid-19 measures by governments as well as potential – and as yet unquantifiable – political, regulatory or economic risks may render meeting this goal more challenging.

In the past quarter the economic growth outlook for Erste Group's CEE core markets in 2021 was again upgraded from 3-7% to 3.3-7.5%. The development of other economic indicators is expected to vary depending on Covid-19 policy measures imposed by authorities and/or the phasing out of state support. Unemployment rates are expected to rise slightly but, in the Czech Republic and Hungary, should remain among the lowest in the EU. Inflation rates are forecast to rise across all geographies. In most countries, sustained competitiveness should again result in sustainable current account balances. The fiscal situation should likewise improve again after the significant budget deficits posted in the year 2020. Public debt is projected to remain largely stable, albeit at significantly elevated levels.

Against this backdrop, Erste Group expects net loan growth in the mid to high-single digits. This performance as well as interest rate tail-winds should lead to a low-single digit increase in net interest income despite negative interest rates in the euro zone. The second most important income component – net fee and commission income – is expected to rise in the low double digits. As in 2020, positive momentum should again come from fund management, the securities business, insurance brokerage as well as a recovery in payment services fees. Given the average result seen in 2020, the net trading and fair value result is expected to come in higher. This, however, will depend substantially on the financial market environment. The remaining income components are forecast to remain, by and large, stable. Overall, operating income should increase markedly in 2021. Operating expenses are expected to rise only slightly in 2021. In addition, Erste Group will continue to invest in IT in 2021 and thus strengthening its competitive position, with a focus on progressive IT modernisation, back office digitalisation and expansion of the digital platform George. The rollout of George in Hungary and Croatia should be completed in 2021, as a result of which customers will be able to access George in the six largest core markets. Adding it all up, Erste Group's expects operating result to grow by a double-digit percentage.

Based on the improved macro outlook described above, risks costs should decline significantly in 2021. While precise forecasting is hard in the current Covid-19 environment, Erste Group believes that in 2021 risk costs will not exceed 15 basis points of average gross customer loans. The NPL ratio is expected at approximately 2.5%.

Other operating result is expected to remain unchanged in the absence of significant one-off effects. Assuming a lower tax rate of about 19% and despite higher minority charges than in the previous year, Erste Group aims to achieve a significant improvement in net profit resulting in a double-digit ROTE. Erste Group's CET1 ratio is expected to remain strong. As the ECB lifted its dividend recommendation, an additional EUR 1/share is expected to be paid in the fourth quarter of 2021 following approval by an extraordinary general meeting. For the 2021 fiscal year Erste Group targets a dividend of EUR 1.6 per share, thereby returning to its progressive dividend policy.

Potential risks to the guidance are besides other than expected (geo)political, economic (monetary and fiscal policies) and regulatory measures and developments also global health risks and changes to the competitive environment. In addition, given the Covid-19 governmental measures and their impact on the economic development, financial forecasts are still subject to an elevated level of uncertainty. 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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