

Erste Group starts well into new year, posts net profit of EUR 448.8 million in Q1 2022

Financial data

Income statement

in EUR million	Q1 21	Q4 21	Q1 22	1-3 21	1-3 22
Net interest income	1,172.1	1,306.2	1,392.1	1,172.1	1,392.1
Net fee and commission income	540.0	613.3	615.3	540.0	615.3
Net trading result and gains/losses from financial instruments at FVPL	66.4	30.9	-16.9	66.4	-16.9
Operating income	1,828.6	2,007.0	2,036.2	1,828.6	2,036.2
Operating expenses	-1,103.3	-1,165.5	-1,235.2	-1,103.3	-1,235.2
Operating result	725.3	841.5	801.0	725.3	801.0
Impairment result from financial instruments	-35.7	-107.2	-59.1	-35.7	-59.1
Post-provision operating result	689.6	734.3	741.9	689.6	741.9
Net result attributable to owners of the parent	355.1	472.0	448.8	355.1	448.8
Net interest margin (on average interest-bearing assets)	1.99%	2.08%	2.14%	1.99%	2.14%
Cost/income ratio	60.3%	58.1%	60.7%	60.3%	60.7%
Provisioning ratio (on average gross customer loans)	0.08%	0.24%	0.13%	0.08%	0.13%
Tax rate	22.0%	14.1%	18.9%	22.0%	18.9%
Return on equity	9.6%	10.1%	11.2%	9.6%	11.2%

Balance sheet

in EUR million	Mar 21	Dec 21	Mar 22	Dec 21	Mar 22
Cash and cash balances	53,954	45,495	46,225	45,495	46,225
Trading, financial assets	48,381	53,211	55,825	53,211	55,825
Loans and advances to banks	27,477	21,001	30,825	21,001	30,825
Loans and advances to customers	167,839	180,268	185,293	180,268	185,293
Intangible assets	1,332	1,362	1,337	1,362	1,337
Miscellaneous assets	5,985	6,090	6,106	6,090	6,106
Total assets	304,969	307,428	325,610	307,428	325,610
Financial liabilities held for trading	2,192	2,474	2,917	2,474	2,917
Deposits from banks	35,288	31,886	34,781	31,886	34,781
Deposits from customers	205,374	210,523	222,382	210,523	222,382
Debt securities issued	32,516	32,130	33,984	32,130	33,984
Miscellaneous liabilities	6,827	6,902	7,478	6,902	7,478
Total equity	22,771	23,513	24,068	23,513	24,068
Total liabilities and equity	304,969	307,428	325,610	307,428	325,610
Loan/deposit ratio	81.7%	85.6%	83.3%	85.6%	83.3%
NPL ratio	2.6%	2.4%	2.3%	2.4%	2.3%
NPL coverage ratio (based on AC loans, ex collateral)	89.5%	90.9%	91.9%	90.9%	91.9%
Texas ratio	19.8%	18.3%	17.9%	18.3%	17.9%
CET1 ratio (final)	14.0%	14.5%	13.7%	14.5%	13.7%

HIGHLIGHTS

P&L 1-3 2022 compared with 1-3 2021; balance sheet as of 31 March 2022 compared with 31 December 2021

Net interest income increased to EUR 1,392.1 million (+18.8%; EUR 1,172.1 million) driven 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 EUR 615.3 million (+14.0%; EUR 540.0 million). Increases were posted across all fee and commission categories and core markets, with significant growth seen in particular in payment services and asset management. **Net trading result** deteriorated to EUR -256.6 million (EUR 9.5 million); the line item **gains/losses from financial instruments measured at fair value through profit or loss** rose to EUR 239.7 million (EUR 56.9 million). The development of these two line items was mostly attributable to valuation effects. **Operating income** increased to EUR 2,036.2 million (+11.4%; EUR 1,828.6 million). **General administrative expenses** rose to EUR 1,235.2 million (+12.0%; EUR 1,103.3 million). Personnel expenses were up moderately at EUR 630.7 million (+1.3%; EUR 622.4 million). The marked rise in other administrative expenses to EUR 468.1 million (+35.3%; EUR 345.8 million) is mainly due to a substantial rise in payments into deposit insurance schemes to EUR 199.2 million (EUR 107.6 million). Most of the regular contributions expected for 2022 have already been posted upfront. The significant increase in contributions for 2022 is attributable to higher payments in Austria and Hungary as a result of the Sberbank Europe AG deposit insurance case. Depreciation and amortisation rose to EUR 136.4 million (+1.0%; EUR 135.1 million). The **operating result** increased markedly to EUR 801.0 million (+10.4%; EUR 725.3 million). The **cost/income ratio** was nearly unchanged at 60.7% (60.3%).

Due to net allocations, the **impairment result from financial instruments** amounted to EUR -59.1 million or 13 basis points of average gross customers loans (EUR -35.7 million or 8 basis points). Net allocations to provisions for loans as well as for commitments and guarantees were posted in Austria as well as in Slovakia, the Czech Republic and Romania, but remained generally at a very low level. Positive contributions came from income from the recovery of loans already written off in all segments as well as from releases, most notably in Croatia. The **NPL ratio** based on gross customer loans improved to a historic low since the IPO at 2.3% (2.4%). The **NPL coverage ratio** (excluding collateral) increased to 91.9% (90.9%).

Other operating result amounted to EUR -132.7 million (EUR -126.7 million). Expenses for the annual contributions to resolution funds for the full year 2022 included in this line item rose – most strongly in Austria and the Czech Republic – to EUR 123.1 million (EUR 100.3 million). Banking levies were up at EUR 40.2 million (EUR 33.2 million). At present, banking levies are payable in two core markets: in Hungary, banking tax for the full financial year amounted to EUR 18.0 million (EUR 14.7 million) and transaction tax for the first quarter to another EUR 14.1 million (EUR 11.6 million). In Austria, banking tax equaled EUR 8.1 million (EUR 7.0 million).

Taxes on income declined to EUR 115.6 million (EUR 124.3 million). The minority charge decreased to EUR 45.7 million (EUR 85.7 million) due to significantly lower earnings contributions of the savings banks, mostly as a result of increased contributions to the deposit insurance system. The **net result attributable to owners of the parent** rose to EUR 448.8 million (EUR 355.1 million) on the back of the strong operating result and low risk costs.

Total equity not including AT1 instruments rose to EUR 21.8 billion (EUR 21.3 billion). After regulatory deductions and filtering in accordance with the CRR, **common equity tier 1 capital** (CET1, final) declined to EUR 18.6 billion (EUR 18.8 billion), while total **own funds** (final) slipped to EUR 24.3 billion (EUR 24.8 billion). While both figures do not include the interim profit for the first quarter of the year, risk costs were already deducted. Total risk – **risk-weighted assets** including credit, market and operational risk (CRR, final) – increased to EUR 135.5 billion (EUR 129.6 billion). The **common equity tier 1 ratio** (CET1, final) stood at 13.7% (14.5%), the **total capital ratio** at 17.9% (19.1%).

Total assets increased to EUR 325.6 billion (+5.9%; EUR 307.4 billion). On the asset side, cash and cash balances rose to EUR 46.2 billion (EUR 45.5 billion), loans and advances to banks – primarily in the Czech Republic – to EUR 30.8 billion (EUR 21.0 billion). **Loans and advances to customers** increased to EUR 185.3 billion (+2.8%; EUR 180.3 billion), most significantly in Austria and in the Czech Republic. On the liability side, deposits from banks grew to EUR 34.8 billion (EUR 31.9 billion). **Customer deposits** rose in all core markets – most strongly in Austria and the Czech Republic – to EUR 222.4 billion (+5.6%; EUR 210.5 billion). The **loan-to-deposit ratio** declined significantly to 83.3% (85.6%).

OUTLOOK

Erste Group's goal for 2022 is again to achieve a double-digit return on tangible equity (ROTE). Among the factors that will support achievement of this goal is the economic performance – albeit decelerating compared to 2021 – of all core markets Austria, Czech Republic, Slovakia, Hungary, Romania, Croatia and Serbia and inflation-linked increases of short and long term interest rates. On this basis, an improvement in the operating result and still low risk cost are expected. Potential and as yet unquantifiable (geo-)political, regulatory, economic or health risks may render meeting the goals more challenging.

Erste Group's core markets are expected to post real GDP growth in the order of 1% to 5% in 2022. Inflation will remain a key theme throughout the year further accelerated by the Ukraine war and related sanctions against Russia imposed by the US and the European Union. In this environment unemployment rates are expected to remain at low levels (approximately 3% to 7%). In most countries, sustained competitiveness should again result in sustainable current account balances. The fiscal situation should likewise improve – albeit due to the various fiscal challenges only moderately – after significant budget deficits in 2021. Public debt to GDP is projected to improve across the board, albeit from elevated levels.

Against this backdrop, Erste Group expects net loan growth in the mid-single digits. This performance as well as stronger than expected interest rate tailwinds in CEE should lead to an at least high single-digit increase in net interest income despite still negative policy rates in the euro zone. The second most important income component – net fee and commission income – is expected to rise in the mid-single digits, following the exceptional performance in 2021. As in 2021, positive momentum should again come from payment services fees as well as asset management and securities business, assuming a continued constructive capital markets environment. Insurance brokerage is also expected to contribute. The net trading and fair value result is expected to come in at a similar level as in the previous year. 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 in 2022. Operating expenses are expected to rise at a lower level than operating income, thus resulting in a cost income ratio of below 55% in 2022, significantly earlier than planned (2024). In addition, Erste Group will continue to invest in IT in 2022 and thus strengthen its competitive position, with a focus on progressive IT modernisation, back-office digitalisation and further development of the digital platform George.

Based on the at least still positive macro outlook described above, risks costs should remain at a low level in 2022. While precise forecasting is hard at current low risk cost levels, Erste Group believes that in 2022 risk costs will be below 20 basis points of average gross customer loans. The NPL ratio is expected below 3.0%.

Other operating result is expected to remain unchanged in the absence of significant one-off effects. Assuming a low effective group tax rate of about 19% and lower minority charges than in 2021, Erste Group aims to achieve a double-digit ROTE. Erste Group's CET1 ratio is expected to remain strong. Consequently, Erste Group will propose a dividend of EUR 1.6 per share for the 2021 fiscal year to the 2022 AGM.

Potential risks to the guidance include (geo-)political and economic (including monetary and fiscal policy impacts) developments, regulatory measures as well as 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. The evolving Russia-Ukraine conflict does not impact Erste Group directly, as it has no operating presence in those countries; exposures to both countries are negligible and no additional risk provisioning is currently required in this context. Indirect effects, such as financial market volatility or sanctions-related knock-on effects on some of our customers cannot be ruled out, though. Further geopolitical developments might lead to economic difficulties and failure of banks based in EU Member States. As a consequence, the possible activation of national or European deposit insurance and resolution systems might have financial impacts on member banks of Erste Group. 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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