ERSTE Group



# Erste Group posts net profit of EUR 1,137.0 million in H1 2022

## Financial data

| Income statement | | | | | |
|---|---|---|---|---|---|
| in EUR million | Q2 21 | Q1 22 | Q2 22 | 1-6 21 | 1-6 22 |
| Net interest income | 1,276.5 | 1,392.1 | 1,444.9 | 2,448.7 | 2,837.0 |
| Net fee and commission income | 559.0 | 615.3 | 599.5 | 1,099.0 | 1,214.9 |
| Net trading result and gains/losses from financial instruments at FVPL | 60.3 | -16.9 | 1.2 | 126.7 | -15.7 |
| Operating income | 1,962.1 | 2,036.2 | 2,110.4 | 3,790.7 | 4,146.7 |
| Operating expenses | -999.7 | -1,235.2 | -1,050.1 | -2,103.0 | -2,285.4 |
| Operating result | 962.4 | 801.0 | 1,060.3 | 1,687.7 | 1,861.3 |
| Impairment result from financial instruments | -47.2 | -59.1 | 85.1 | -82.9 | 26.0 |
| Post-provision operating result | 915.2 | 741.9 | 1,145.4 | 1,604.8 | 1,887.3 |
| **Net result attributable to owners of the parent** | **562.9** | **448.8** | **688.2** | **918.0** | **1,137.0** |
| | | | | | |
| Net interest margin (on average interest-bearing assets) | 2.13% | 2.14% | 2.15% | 2.07% | 2.16% |
| Cost/income ratio | 51.0% | 60.7% | 49.8% | 55.5% | 55.1% |
| Provisioning ratio (on average gross customer loans) | 0.11% | 0.13% | -0.18% | 0.10% | -0.03% |
| Tax rate | 18.7% | 18.9% | 19.0% | 20.0% | 19.0% |
| Return on equity | 13.0% | 11.2% | 15.7% | 11.3% | 13.5% |

| Balance sheet | | | | | |
|---|---|---|---|---|---|
| in EUR million | Jun 21 | Mar 22 | Jun 22 | Dec 21 | Jun 22 |
| Cash and cash balances | 48,421 | 46,225 | 42,818 | 45,495 | 42,818 |
| Trading, financial assets | 50,849 | 55,825 | 56,560 | 53,211 | 56,560 |
| Loans and advances to banks | 24,541 | 30,825 | 28,704 | 21,001 | 28,704 |
| Loans and advances to customers | 172,114 | 185,293 | 191,543 | 180,268 | 191,543 |
| Intangible assets | 1,342 | 1,337 | 1,315 | 1,362 | 1,315 |
| Miscellaneous assets | 6,168 | 6,106 | 6,153 | 6,090 | 6,153 |
| **Total assets** | **303,435** | **325,610** | **327,093** | **307,428** | **327,093** |
| | | | | | |
| Financial liabilities held for trading | 2,412 | 2,917 | 3,005 | 2,474 | 3,005 |
| Deposits from banks | 34,643 | 34,781 | 36,665 | 31,886 | 36,665 |
| Deposits from customers | 206,256 | 222,382 | 225,515 | 210,523 | 225,515 |
| Debt securities issued | 30,243 | 33,984 | 31,226 | 32,130 | 31,226 |
| Miscellaneous liabilities | 6,510 | 7,478 | 6,796 | 6,902 | 6,796 |
| Total equity | 23,371 | 24,068 | 23,886 | 23,513 | 23,886 |
| **Total liabilities and equity** | **303,435** | **325,610** | **327,093** | **307,428** | **327,093** |
| | | | | | |
| Loan/deposit ratio | 83.4% | 83.3% | 84.9% | 85.6% | 84.9% |
| NPL ratio | 2.5% | 2.3% | 2.2% | 2.4% | 2.2% |
| NPL coverage ratio (based on AC loans, ex collateral) | 91.4% | 91.9% | 91.8% | 90.9% | 91.8% |
| Texas ratio | 18.9% | 17.9% | 17.6% | 18.3% | 17.6% |
| CET1 ratio (final) | 14.2% | 13.7% | 14.2% | 14.5% | 14.2% |

## HIGHLIGHTS

P&L 1-6 2022 compared with 1-6 2021; balance sheet as of 30 June 2022 compared with 31 December 2021

**Net interest income** increased to EUR 2,837.0 million (+15.9%; EUR 2,448.7 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 1,214.9 million (+10.5%; EUR 1,099.0 million). 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 EUR -532.5 million (EUR 43.1 million); the line item **gains/losses from financial instruments measured at fair value through profit or loss** rose to EUR 516.8 million (EUR 83.6 million). The development of these two line items was mostly attributable to valuation effects. **Operating income** increased to EUR 4,146.7 million (+9.4%; EUR 3,790.7 million). **General administrative expenses** rose to EUR 2,285.4 million (+8.7%; EUR 2,103.0 million). Personnel expenses were higher at EUR 1,294.7 million (+3.7%; EUR 1,248.9 million). The marked rise in other administrative expenses to EUR 717.7 million (+23.5%; EUR 581.3 million) is mainly due to a substantial rise in payments into deposit insurance schemes to EUR 156.7 million (EUR 109.2 million) – most of the regular contributions expected for 2022 have already been posted upfront – as well as higher IT expenses in Austria. Depreciation and amortisation amounted to EUR 273.0 million (+0.1%; EUR 272.8 million). The **operating result** increased markedly to EUR 1,861.3 million (+10.3%; EUR 1,687.7 million). The **cost/income ratio** improved to 55.1% (55.5%).

Due to net releases, the **impairment result from financial instruments** amounted to EUR 26.0 million or -3 basis points of average gross customer loans (EUR -82.9 million or 10 basis points). Net allocations to provisions for loans as well as for commitments and guarantees were posted in Romania, Slovakia and Serbia. 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 Czech Republic, Hungary and Austria. A review of the general provisioning related to Covid-19 developments as well as the geopolitical and economic situation in the second quarter led to a net release of EUR 132 million. Overall, end of June crises-related general provisions amounted to approximately EUR 500 million. The **NPL ratio** based on gross customer loans improved to 2.2% (2.5%), the lowest level recorded since the IPO. The **NPL coverage ratio** (excluding collateral) was up at 91.8% (91.4%).

**Other operating result** amounted to EUR -199.2 million (EUR -172.4 million). 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 EUR 139.0 million (EUR 108.2 million). Banking levies – currently payable in two core markets – increased to EUR 110.9 million (EUR 52.2 million). Thereof, EUR 94.6 million were charged in Hungary, including regular banking tax for the full financial year in the amount of EUR 17.7 million (EUR 14.9 million), transaction tax for the first half of 2022 in the amount of EUR 27.0 million (EUR 23.3 million) and a new windfall profit tax of EUR 49.9 million for the full year of 2022 based on the net revenues of the preceding year. In Austria, banking tax equaled EUR 16.3 million (EUR 13.9 million). A positive contribution came from the release of provisions for potential legal risks relating to Romanian consumer protection legislation in the amount of EUR 41.8 million also reflected in other operating income.

Taxes on income were up at EUR 315.2 million (EUR 287.3 million). The minority charge decreased to EUR 207.0 million (EUR 229.8 million) due to lower earnings contributions of the savings banks. The **net result attributable to owners of the parent** rose to EUR 1,137.0 million (EUR 918.0 million) on the back of the strong operating result and the net release of provisions.

**Total equity** not including AT1 instruments rose to EUR 21.7 billion (EUR 21.3 billion). After regulatory deductions and filtering in accordance with the Capital Requirements Regulation (CRR), **common equity tier 1 capital** (CET1, final) rose to EUR 19.6 billion (EUR 18.8 billion), total **own funds** (final) to EUR 25.6 billion (EUR 24.8 billion). The interim profit for the first two quarters of the year is included in the above figures. Total risk (**risk-weighted assets** including credit, market and operational risk, CRR final) rose to EUR 138.2 billion (EUR 129.6 billion). The **common equity tier 1 ratio** (CET1, final) stood at 14.2% (14.5%), the **total capital ratio** at 18.5% (19.1%).

**Total assets** increased to EUR 327.1 billion (+6.4%; EUR 307.4 billion). On the asset side, cash and cash balances declined to EUR 42.8 billion (EUR 45.5 billion), loans and advances to banks went up – most notably in the Czech Republic – to EUR 28.7 billion (EUR 21.0 billion). **Loans and advances to customers** increased significantly in almost all core markets to EUR 191.5 billion (+6.3%; EUR 180.3 billion). On the liability side, deposits from banks grew to EUR 36.7 billion (EUR 31.9 billion). **Customer deposits** rose in nearly all core markets – most strongly in Austria and the Czech Republic – to EUR 225.5 billion (+7.1%; EUR 210.5 billion). The **loan-to-deposit ratio** declined to 84.9% (85.6%).

## OUTLOOK

All forward-looking statements in this outlook are based on the assumption that the Erste Group core markets will be able to import adequate quantities of gas from Russia at least in 2022. In addition, (geo-)political, regulatory, economic or health risks that are not quantifiable at present may render target achievement more challenging.

For 2022, Erste Group is again pursuing the goal of generating a double-digit return on tangible equity (ROTE). Positive contributions will be coming primarily from the positive economic development in all core markets (Austria, the Czech Republic, Slovakia, Hungary, Romania, Croatia and Serbia) – albeit at a slower pace than in 2021 – as well as from a rise in short-term and long-term interest rates driven by inflation. This should lead to an improved operating result and continued low risk costs.

In 2022, Erste Group's core markets are expected to see real GDP growth of approximately two to five percent. At the same time, year-on-year inflation being further fuelled by the geopolitical conflict surrounding Ukraine will remain a key issue throughout the year. Unemployment rates are nonetheless expected to remain low (approximately 3% to 7%). Current account balances will deteriorate in most countries due to higher costs of energy imports. The fiscal situation will remain stretched amid a variety of fiscal policy challenges. Public debt levels will be significantly below the EU average, though.

Against this backdrop, Erste Group expects high-single digit net loan growth. This development, supported by sharper-than-expected rate hikes in CEE together with the changed interest rate policy of the ECB, should support a low-double digit rise in net interest income. The second important income component – net fee and commission income – is projected to grow in the mid-single digit range following the exceptional performance in 2021. As in 2021, positive momentum should again come from payment services and asset management. Positive contributions are also expected from insurance brokerage. The net trading and fair value result will very likely fall significantly short of last year's result due to rate-driven valuation losses. The remaining income components should by and large remain stable. Overall, operating income should thus improve significantly in 2022. Operating expenses are expected to rise more moderately than operating income, as a result of which the cost/income ratio should fall to below 55% already in 2022, and thus significantly earlier than planned (2024). In addition, Erste Group will again be investing in IT and thus its competitive position in 2022. Here, the focus will be on progressive IT modernisation, back office digitalisation and the continuing expansion of the digital platform George.

Given the still positive economic outlook described above, risk costs should remain low in 2022. While precise forecasts regarding the currently low risk cost levels are hard to make, Erste Group still assumes that in 2022 risk costs will not exceed 20 basis points of average gross customer loans. The NPL ratio should be below 3.0%.

Other operating result is expected to come in lower than last year due to higher banking levies such as contributions to resolution funds and banking taxes. Assuming a low effective group tax rate of around 19% and lower minority charges than in 2021, Erste Group aims to achieve a double-digit return on tangible equity (ROTE) for 2022. Erste Group's CET1 ratio should remain above 14%. For the 2022 financial year, Erste Group is planning to pay a dividend of EUR 1.90 per share.

Risks factors to the forecast include (geo-)political and economic developments (including the impacts of monetary and fiscal policies), regulatory measures as well as global health risks and changes in the competitive environment. Financial forecasts are moreover rendered even more uncertain by government-imposed Covid-19 measures and their effects on economic activity. The development of the Russia-Ukraine conflict does not have any direct impact on Erste Group as it does not maintain any local presence in either of these countries. Exposure to these two markets is immaterial and still no additional risk provisioning is currently required in this context. Indirect consequences such as financial market volatility or the impact of sanctions on some of Erste

Group's clients cannot be ruled out, however. Going forward, geopolitical developments may lead to banks based in member states of the European Union becoming distressed and failing. In such a case, the possible tapping of national or European deposit insurance and resolution systems may also have financial impacts on Erste Group member banks. Erste Group is moreover exposed to non-financial and legal risks that may materialise regardless of the economic environment. A worse-than-expected development of the economy may also lead to a need for the write-off of goodwill.

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