Erste Group posts net profit of EUR 2,309.6 million in the first three quarters of 2023

Financial data

Income statement					
in EUR million	**Q3 22**	**Q2 23**	**Q3 23**	**1-9 22**	**1-9 23**
Net interest income	1,548.2	1,792.2	1,861.2	4,385.2	5,422.3
Net fee and commission income	615.1	631.9	662.9	1,829.9	1,937.6
Net trading result and gains/losses from financial instruments at FVPL	-89.5	171.3	113.1	-105.2	319.7
Operating income	2,124.0	2,662.4	2,691.6	6,270.7	7,852.8
Operating expenses	-1,096.0	-1,230.2	-1,202.4	-3,381.3	-3,674.6
Operating result	1,028.1	1,432.3	1,489.2	2,889.4	4,178.1
Impairment result from financial instruments	-184.3	8.3	-156.5	-158.3	-127.5
Post-provision operating result	843.8	1,440.5	1,332.7	2,731.1	4,050.6
Net result attributable to owners of the parent	**510.0**	**896.3**	**819.7**	**1,647.0**	**2,309.6**
Net interest margin (on average interest-bearing assets)	2.24%	2.45%	2.50%	2.19%	2.50%
Cost/income ratio	51.6%	46.2%	44.7%	53.9%	46.8%
Provisioning ratio (on average gross customer loans)	0.37%	-0.02%	0.30%	0.11%	0.08%
Tax rate	15.8%	17.7%	18.0%	18.0%	18.0%
Return on equity	12.5%	18.7%	17.7%	13.2%	16.7%

Balance sheet					
in EUR million	**Sep 22**	**Jun 23**	**Sep 23**	**Dec 22**	**Sep 23**
Cash and cash balances	44,552	32,810	31,922	35,685	31,922
Trading, financial assets	57,902	64,946	63,504	59,833	63,504
Loans and advances to banks	26,721	33,454	28,094	18,435	28,094
Loans and advances to customers	198,794	204,881	206,153	202,109	206,153
Intangible assets	1,300	1,328	1,313	1,347	1,313
Miscellaneous assets	6,028	6,573	6,175	6,456	6,175
Total assets	**335,297**	**343,993**	**337,161**	**323,865**	**337,161**
Financial liabilities held for trading	3,175	2,788	2,428	3,264	2,428
Deposits from banks	36,158	25,669	23,223	28,821	23,223
Deposits from customers	232,450	241,082	235,773	223,973	235,773
Debt securities issued	32,331	40,646	41,089	35,904	41,089
Miscellaneous liabilities	6,598	7,072	6,961	6,599	6,961
Total equity	24,584	26,735	27,687	25,305	27,687
Total liabilities and equity	**335,297**	**343,993**	**337,161**	**323,865**	**337,161**
Loan/deposit ratio	85.5%	85.0%	87.4%	90.2%	87.4%
NPL ratio	2.0%	2.0%	2.0%	2.0%	2.0%
NPL coverage ratio (based on AC loans, ex collateral)	96.8%	96.7%	96.7%	94.6%	96.7%
Texas ratio	16.2%	15.2%	15.1%	16.4%	15.1%
CET1 ratio (final)	13.8%	14.9%	14.5%	14.2%	14.5%

HIGHLIGHTS

P&L 1-9 2023 compared with 1-9 2022;
balance sheet as of 30 September 2023 compared with 31 December 2022

Net interest income increased significantly to EUR 5,422.3 million (+23.7%; EUR 4,385.2 million), most strongly in Austria, on the back of higher market interest rates as well as larger loan volume. **Net fee and commission income** rose to EUR 1,937.6 million (+5.9%; EUR 1,829.9 million). Growth was registered across all core markets, most notably in payment services but also in asset management. **Net trading result** improved to EUR 337.4 million (EUR -848.5 million); the line item **gains/losses from financial instruments measured at fair value through profit or loss** declined to EUR -17.7 million (EUR 743.3 million). The development of these two line items was mostly attributable to valuation effects. **Operating income** increased to EUR 7,852.8 million (+25.2%; EUR 6,270.7 million). **General administrative expenses** were up at EUR 3,674.6 million (+8.7%; EUR 3,381.3 million). Personnel expenses rose to EUR 2,195.4 million (+11.6%; EUR 1,967.2 million) driven by salary increases. The rise in other administrative expenses to EUR 1,062.0 million (+5.8%; EUR 1,003.4 million) was primarily due to higher IT and marketing expenses. Contributions to deposit insurance schemes included in other administrative expenses – already posted upfront for the full year of 2023 – declined to EUR 119.0 million (EUR 158.4 million); most notably in Hungary (where in the comparable period of 2022, the Sberbank Europe deposit insurance case had resulted in higher expenses). Amortisation and depreciation amounted to EUR 417,3 million (+1.6%; EUR 410.7 million). Overall, the **operating result** increased markedly to EUR 4,178.1 million (+44.6%; EUR 2,889.4 million). The **cost/income ratio** improved to 46.8% (53.9%).

The **impairment result from financial instruments** amounted to EUR -127.5 million or 8 basis points of average gross customer loans (EUR -158.3 million or 11 basis points). Net allocations to provisions for loans and advances were posted in all core markets, with the exception of Croatia. Positive contributions came from net releases of provisions for commitments and guarantees as well as from income from the recovery of loans already written off (in both cases most notably in Austria). The **NPL ratio** based on gross customer loans was stable at 2.0% (2.0%). The **NPL coverage ratio** (excluding collateral) went up to 96.7% (94.6%).

Other operating result amounted to EUR -326.9 million (EUR -246.5 million). Expenses for annual contributions to resolution funds included in this line item already for the full year of 2023 declined (most notably in Austria and the Czech Republic) to EUR 113.5 million (EUR 139.1 million). Banking levies – currently payable in two core markets – increased to EUR 147.8 million (EUR 133.2 million). Thereof, EUR 118.9 million were charged in Hungary. In Austria, banking tax rose to EUR 28.9 million (EUR 24.8 million). In addition, other operating result was adversely affected by valuation effects.

Taxes on income amounted to EUR 669.6 million (EUR 434.5 million). The rise in the minority charge to EUR 740.9 million (EUR 332.6 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 2,309.6 million (EUR 1.647.0 million) on the back of the strong operating result and low risk costs.

Total equity not including AT1 instruments rose to EUR 25.3 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 21.4 billion (EUR 20.4 billion), total **own funds** (final) to EUR 27.7 billion (EUR 26.2 billion). While interim profit for the first half of the year is included in the above figures, profit of the third quarter is not.

Total risk (**risk-weighted assets** including credit, market and operational risk, CRR final) rose to EUR 148.0 billion (EUR 143.9 billion). The **common equity tier 1 ratio** (CET1, final) stood at 14.5% (14.2%), the **total capital ratio** at 18.7% (18.2%).

Total assets increased to EUR 337.2 billion (+4.1%; EUR 323.9 billion). On the asset side, cash and cash balances declined to EUR 31.9 billion (EUR 35.7 billion), loans and advances to banks rose to EUR 28.1 billion (EUR 18.4 billion), most notably in Austria and the Czech Republic. **Loans and advances to customers** have risen in all core markets year to date to EUR 206.2 billion (+2.0%; EUR 202.1 billion) with both retail and corporate loans volumes growing. On the liability side, deposits from banks declined to EUR 23.2 billion (EUR 28.8 billion). **Customer deposits** rose in nearly all core markets – most strongly in Austria and the Czech Republic – to EUR 235.8 billion (+5.3%; EUR 224.0 billion). The **loan-to-deposit ratio** stood at 87.4% (90.2%).

OUTLOOK

Erste Group's goal for 2023 is to achieve a return on tangible equity (ROTE) of above 15%. Four key factors will support achievement of this goal: firstly, positive economic growth in most of the seven core markets (Austria, Czech Republic, Slovakia, Romania, Hungary, Croatia and Serbia) despite significant geopolitical and political risks, which, should they materialise, would likely negatively impact economic performance; secondly, an interest rate environment that is characterised by broadly stable central bank rates in such countries as the Czech Republic and Romania, as well as the significantly higher euro zone interest rates; thirdly, a credit risk environment marked by low default rates as in 2022; and, finally, the continuous ability of Erste Group to innovate and successfully expand its digital offering. Assuming that these conditions are met, operating result and the cost/income ratio are projected to improve.

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 of about 5%. Retail and corporate business should contribute in all markets of Erste Group towards the aim to grow in line with the banking markets. Loan growth as well as interest rate tailwinds, as detailed above, should result in an increase of net interest income of above 20%. The second most important income component – net fee and commission income – is expected to rise by more than 5%. As in 2022, positive growth momentum should again come from payment services and insurance brokerage fees, while additional contributions from asset management and securities business are dependent on a constructive capital markets environment. The net trading and fair value result, which suffered significantly in 2022 from negative valuation effects tied to strongly rising interest rates mostly in the CEE region but also in the eurozone, should normalise again in 2023 due to the exhaustion of the rates cycle in the euro zone and stable or falling rates in the CEE region. This, however, will depend substantially on the actual interest rate environment.

The remaining income components are forecast to remain, by and large, stable. Overall, operating income should increase in 2023. Operating expenses are expected to rise by approximately 9% – and thus at a lower level than operating income – resulting in a further cost/income ratio improvement compared to 2022 to less than 50%.

Based on the macro outlook described above, risk costs should remain at a low level in 2023. While precise forecasting is hard at current low risk cost levels, Erste Group believes that in 2023 risk costs will be below 10 basis points of average gross customer loans.

Other operating result is expected to remain by and large unchanged in the absence of significant one-off effects. Assuming an effective group tax rate of below 20% and higher minority charges as in 2022, Erste Group aims to achieve a ROTE above 15%. Erste Group's CET1 ratio is expected to remain strong. Consequently, Erste Group plans for a dividend of EUR 2.7 per share for the 2023 fiscal year. The share buy-back in a volume of up to EUR 300 million is progressing well and already deducted from capital in full.

Based on the assumption of an improving economic environment Erste Group's goal for 2024 is to achieve again a return on tangible equity (ROTE) of around 15%.

Potential risks to the guidance include (geo)political and economic (including monetary and fiscal policy impacts) developments, regulatory measures as well as changes to the competitive environment. The evolving international (military) conflicts e.g. Russia-Ukraine or in the Mid East do not impact Erste Group directly, as it has no operating presence in the regions involved. Indirect effects, such as financial market volatility, sanctions-related knock-on effects or the emergence of deposit insurance or resolution cases cannot be ruled out, though. 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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