Erste Group posts net profit of EUR 430.3 million in the first nine months of 2013; risk costs decline

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HIGHLIGHTS

Net interest income decreased to **EUR 3,651.6 million** in 1-9 2013 (1-9 2012: EUR 3,968.9 million) due to subdued credit demand and low market interest rates. **Net fee and commission income** rose from EUR 1,284.3 million in 1-9 2012 to **EUR 1,346.3 million** as a result of higher income from the securities business. The **net trading result** improved from EUR 191.4 million to **EUR 241.0 million**.

Operating income amounted to **EUR 5,238.9 million** (-3.8% versus 1-9 2012: EUR 5,444.6 million). Strict cost management reduced **general administrative expenses** by 2.9%, from EUR 2,826.1 million to **EUR 2,743.0 million** in 1-9 2013. This led to an **operating result** of **EUR 2,495.9 million**
(-4.7% versus 1-9 2012: EUR 2,618.5 million) and a **cost/income ratio** of **52.4%** (1-9 2012: 51.9%).

Risk costs showed a positive trend and declined by 14.0% to **EUR 1,260.0 million**, or **129 basis points** of average customer loans in 1-9 2013, from EUR 1,465.3 million, or 146 basis points, in
1-9 2012. The **NPL ratio** stood at **9.6%** as of 30 September 2013 (year-end 2012: 9.2%), driven by the decline in the loan book and NPL inflows in the commercial real estate business. The **NPL coverage ratio** improved to **63.0%** (year-end 2012: 62.6%).

The **other operating result** amounted to **EUR -578.5 million** versus EUR -214.0 million in 1-9 2012. This development was largely attributable to the non-recurrence of – on balance – positive one-off effects in 1-9 2012 as well as to negative one-off effects (sale of Ukraine subsidiary, extraordinary taxes in Hungary, goodwill write-down in Croatia) of EUR 157.4 million in 1-9 2013. Banking and financial transaction taxes levied in Austria, Hungary and Slovakia had a negative impact of **EUR 247.1 million** (1-9 2012: EUR 173.0 million). **Taxes on income** benefited from a positive one-off effect of EUR 127.7 million in Romania.

Net profit after minorities amounted to **EUR 430.3 million** in 1-9 2013 versus a profit of EUR 597.3 million in the previous year that had been driven by one-off effects.

Following a capital increase of EUR 660.6 million and the full repayment of participation capital of EUR 1.76 billion, **shareholders' equity** stood at **EUR 11.8 billion** (year-end 2012: EUR 12.9 billion).
Core tier 1 capital amounted to **EUR 10.8 billion** as at 30 September 2013 (year-end 2012: EUR 11.8 billion). The reduction of **risk-weighted assets** to **EUR 99.0 billion** (year-end 2012: EUR 105.3 billion) was primarily due to the deconsolidation of the Ukrainian subsidiary, lower exposure and the ongoing shift towards secured lending. The **core tier 1 ratio** (total risk; Basel 2.5) stood at **10.9%** (year-end 2012: 11.2%).

Total assets as of 30 September 2013 amounted to **EUR 207.9 billion** (year-end 2012: EUR 213.8 billion). The year-to-date decline was primarily attributable to lower asset volumes and to valuation changes. The underlying deposit base was stable at EUR 122.1 billion while loans and advances to customers declined to EUR 129.5 billion as of the reporting date. The latter reflected subdued loan demand in most business lines. The **loan-to-deposit ratio** improved to **106.1%** as of 30 September 2013 (year-end 2012: 107.2%).

"Despite a number of extraordinary effects, such as banking levies, costs associated with the Ukraine exit and goodwill write-downs, Erste Group posted a net profit EUR 430.3 million in the first nine months of 2013", said Andreas Treichl, CEO of Erste Group Bank AG, when presenting the results. "While customer loan volumes declined as of the reporting date, there were some encouraging signs of renewed loan growth in the third quarter – in line with the brightening macroeconomic performance – occurred particularly in Austria and the Czech Republic. The first visible quarter-on-quarter improvement in the NPL ratio in many years is equally noteworthy," Treichl continued. "The highlights of the third quarter were the full repayment of participation capital and the successful issuance of equity which pushed the fully loaded common equity tier 1 ratio (Basel 3) to a comfortable 10.3%," Treichl concluded.

Earnings performance in brief

Despite a reduction in operating costs, the **operating result** declined to EUR 2,495.9 million in the first nine months of 2013 (-4.7% versus EUR 2,618.5 million in 1-9 2012) due to lower operating income.

Operating income amounted to EUR 5,238.9 million in the first nine months of 2013 (1-9 2012: EUR 5,444.6 million). The 3.8% decline was mainly due to lower net interest income (-8.0% to EUR 3,651.6 million), which was not fully offset by a rise in the net trading result (+25.9% to EUR 241.0 million) and higher net fee and commission income (+4.8% to EUR 1,346.3 million).

General administrative expenses were down 2.9% to EUR 2,743.0 million (1-9 2012: EUR 2,826.1 million). This resulted in a **cost/income ratio** of 52.4% (1-9 2012: 51.9%).

Net profit after minorities declined from EUR 597.3 million in the first nine months of 2012, which had benefited from – on balance – positive one-off effects, to EUR 430.3 million.

Cash return on equity, i.e. return on equity adjusted for non-cash expenses such as goodwill impairment and straight-line amortisation of customer relationships, stood at 5.3% (reported ROE: 4.5%) versus 8.5% (reported ROE: 6.3%) in the first nine months of 2012. **Cash earnings per share** for the first nine months of 2013 amounted to EUR 1.06 (reported EPS: EUR 0.85) versus EUR 1.82 (reported EPS: EUR 1.26) in the first nine months of 2012.

Total assets, at EUR 207.9 billion, were down 2.8% versus year-end 2012. Risk-weighted assets declined by EUR 6.0% to EUR 99.0 billion (year-end 2012: EUR 105.3 billion).

Following a capital increase of EUR 660.6 million and the full redemption of participation capital of EUR 1.76 billion, the **solvency ratio** stood at 15.8% as of 30 September 2013 (year-end 2012: 15.5%), well above the legal minimum requirement. The **core tier 1 ratio** relating to total risk and as defined by Basel 2.5, was 10.9% as of 30 September 2013 (year-end 2012: 11.2%).

Outlook

Erste Group confirms its expectation that the economic performance in Central and Eastern Europe will continue to improve slightly until year-end 2013. However, loan demand is not expected to pick up significantly in the remainder of 2013. Erste Group expects the operating result to decline by up to 5% in 2013, due to expected lower operating income being only partially offset by lower operating costs. It is estimated that the risk costs of Erste Group will decrease by approximately 10-15% in 2013, mainly due to the expected improvement of the risk situation in Romania. This guidance excludes any negative effects from a potential FX borrower support scheme in Hungary. Banking taxes (excluding financial transaction taxes) in Austria, Slovakia and Hungary of approximately EUR 260 million pre-tax (approximately EUR 200 million post-tax) are expected to continue to impact net profit adversely in 2013. Erste Group continues to expect that the Romanian retail and SME segment will return to profitability in 2013 (irrespective of the extraordinary tax effect).

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