



Erste Group posts net profit of EUR 103.3 million for the first quarter of 2014, customer loan volume stable

"Erste Group posted a net profit of EUR 103.3 million in the first quarter of 2014. The main factors impacting the results are well known: the sustained low interest rates, subdued credit demand and last but not least, substantial banking and transactions taxes in Austria, Hungary and Slovakia," explained Andreas Treichl, CEO of Erste Group Bank AG, at the presentation of the results for the first quarter of 2014. "The continued economic upswing in our core markets should have a positive impact on the bank's earnings in the medium to long term. Improved consumer confidence has not yet resulted in a sustainable increase of lending, but the net loan volume of Erste Group has remained stable since the start of the year," stated Treichl in his closing statement.

Summary

(January-March 2014 compared with January-March 2013; as of 31 March 2014 compared with 31 December 2013)

Net interest income declined to EUR 1,123.9 million (EUR 1,196.7 million), mainly due to subdued loan demand in a persistently low interest rate environment and FX translation effects. While **net fee and commission income** rose slightly to EUR 452.1 million (EUR 447.4 million) driven by the securities business, the **net trading and fair value** result improved markedly to EUR 50.4 million (EUR 30.7 million). **Operating income** amounted to EUR 1,690.6 million (-3.3%; EUR 1,748.0 million).

Strict cost management reduced **general administrative expenses** by 2.7% to EUR 963.3 million (EUR 989.9 million). This led to an **operating result** of EUR 727.3 million (-4.1%; EUR 758.1 million) and an almost unchanged **cost/income ratio** of 57.0% (56.6%).

Net impairment loss on financial assets (net) declined by 2.0% to EUR 364.2 million or 114 basis points of average customer loans (EUR 371.8 million or 113 basis points, which was mainly attributable to the significant decline in the commercial real estate business. On an unchanged volume of customer loans, the **NPL ratio** was stable at 9.6% in the first quarter of 2014 (9.6%). The **NPL coverage ratio** declined slightly to 62.6% (63.1%).

Other operating result amounted to EUR -119.8 million (EUR -98.2 million) upon recognition of the full amount of the annual banking tax in Hungary. Overall, levies on banking activities amounted to EUR 99.8 million (EUR 71.6 million) whereof EUR 30.4 million (EUR 41.6 million) in Austria, EUR 10.3 million (EUR 10.5 million) in Slovakia, and EUR 59.1 million (EUR 19.5 million) in Hungary. **Loss from financial assets and liabilities not measured at fair value** amounted to EUR 3.7 million versus a gain of EUR 22.0 million.

The tax rate rose to 41.6%, in line with expectations, as the Austrian tax group did not recognise any deferred tax assets. This also had an impact on Erste Group's net result: **net result attributable to owners of the parent** amounted to EUR 103.3 million (EUR 176.6 million).

Total capital rose to EUR 15.1 billion (EUR 14.8 billion). **Common equity tier 1 capital** (CET 1, phased-in) stood at EUR 11.3 billion versus EUR 11.2 billion (Basel 2.5). The rise in **risk-weighted assets** by 4.4% to EUR 102.2 billion (EUR 97.9 billion) was largely the result of the first-time application of Basel 3 rules. The **common equity tier 1 ratio** (CET1, phased-in) stood at 11.1% versus 11.4% (Basel 2.5). The **total capital ratio** (Basel 3, phased-in) amounted to 15.4% versus 16.3% (Basel 2.5).

Total assets amounted to EUR 203.9 billion. **Loans and advances to customers (net)** were stable at EUR 119.8 billion (EUR 119.9 billion). The **loan-to-deposit ratio** stood at 100.3% (98.0%).

Outlook for 2014

For 2014, Erste Group has planned with a stable operating environment in its markets in Austria and Central and Eastern Europe: while economic growth is forecast to average 1.9% (Erste Group Research), interest rates are expected to remain persistently low or fall even further in certain geographies. Against this backdrop, Erste Group aims to keep operating profit stable ($\pm 2\%$) at about EUR 3.1 billion. Net customer loans are expected to remain equally stable ($\pm 2\%$) at about EUR 120 billion. In light of the upcoming ECB Asset Quality Review, Erste Group does not expect a decline in risk costs beyond 5% or to about EUR 1.7 billion. Erste Group does not anticipate recognising deferred tax assets in the Austrian tax group in 2014, which will result in a significantly elevated tax rate of about 40%. The decline in banking taxes from EUR 311 million in 2013 to about EUR 270 million in 2014 should positively affect net profit.

Quarterly financial data

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