

Erste Group: Despite net loss of EUR -929.7 million in first half of 2014, CET 1-ratio rises; improved asset quality

31.07.2014

“Our results partially reflect the measures we announced on 3 July. Given this framework, the development of the quality of our loan portfolio is satisfying. It is showing an ongoing tendency of improvement. With regard to the stress test we see in particular a positive development of our core capital ratio: despite the loss, it improved to 11.7% under phased-in Basel III“, explained Andreas Treichl, CEO of Erste Group Bank AG, at the presentation of the results for the first half of 2014. „The decision to accelerate the clean-up of our balance-sheet frees up resources so that we not only post better results in 2015, but also contribute to restoring credit growth in CEE. We are already seeing a visible and more balanced economic growth across the region and as one of the biggest players we aim to be strong and ready to finance this growth.“

HIGHLIGHTS

(January-June 2014 compared with January-June 2013; as of 30 June 2014 compared with 31 December 2013)

Net interest income declined to EUR 2,243.6 million (EUR 2,339.9 million), mainly due to the persistently low-interest-rate environment and FX translation effects. **Net fee and commission income** increased to EUR 907.0 million (EUR 894.1 million) driven by the securities business and the **net trading and fair value result** rose to EUR 138.0 million (EUR 103.6 million). **Operating income** amounted to EUR 3,421.7 million (-1.8%; EUR 3,483.0 million).

General administrative expenses declined by 3.3% to EUR 1,896.4 million (EUR 1,960.2 million), mainly due to lower personnel expenses. This led to an **operating result** of EUR 1,525.3 million (+0.2%; EUR 1,522.7 million) and an improved **cost/income ratio** of 55.4% (56.3%).

Despite the expected rise in 2014 risk costs announced in early July, **net impairment loss on financial assets not measured at fair value through profit or loss (net)** rose only moderately, by 1.5%, to EUR 796.1 million or 125 basis points of the average volume of customer loans (EUR 784.3 million or 120 basis points). This is attributable to the fact that a significant proportion of risk costs in Romania resulting from the sale of non-performing loans will only arise in the second half of the year. In addition, the item other operating result included EUR 130.3 million of the risk costs expected by Erste Group in relation to the consumer loan law passed by the Hungarian parliament in early July. On a stable volume of customer loans, the **NPL ratio** declined to 9.4% (9.6%) in the second quarter. The **NPL coverage ratio** improved to 64.0% (63.1%).

Other operating result amounted to EUR -1,271.8 million (EUR -377.6 million), primarily due to the write-down of intangible assets in the total amount of EUR 956.4 million, mostly in Romania (EUR 854.2 million). The entire goodwill (EUR 319.1 million), brand (EUR 294.6 million) and customer relationships (EUR 176.1 million) as well as other miscellaneous intangible assets (EUR 64.4 million) were written down – as well as goodwill related to business in Croatia. At EUR 154.1 million (EUR 184.7 million) levies on banking activities were again significant: EUR 63.2 million (EUR 83.3 million) in Austria, EUR 20.7 million (EUR 21.0 million) in Slovakia and EUR 70.1 million (EUR 80.4 million) in Hungary (included the full Hungarian banking tax of EUR 47.9 million for 2014).

Taxes on income rose to EUR 335.6 million mainly due to a negative change in deferred taxes(net) in the amount of EUR 164.2 million. The **net result attributable to owners of the parent** amounted to EUR -929.7 million (EUR 302.2 million), tax expenses accounted for EUR 489.7 million thereof.

Total IFRS-capital declined to EUR 14.1 billion (EUR 14.8 billion). **Common equity tier 1 capital** (CET 1, phased-in) increased to EUR 11.5 billion versus EUR 11.2 billion (Basel 2.5). **Risk-weighted assets** (phased-in) were unchanged at EUR 98.0 billion (EUR 97.9 billion). The **common equity tier 1 ratio** (CET 1, phased-in) improved to 11.7% versus 11.4% (Basel 2.5). The **total capital ratio** (Basel 3, phased-in) rose to 16.5% versus 16.3% (Basel 2.5).

Total assets amounted to EUR 198.4 billion (EUR 200.1 billion). **Loans and advances to customers (net)** were stable at EUR 120.0 billion (EUR 119.9 billion). The **loan-to-deposit ratio** stood at 99.8% (98.0%).

Outlook

Erste Group confirms its guidance of 3 July 2014 for 2014 and 2015 as follows:

For the geographic segment Romania: a full normalisation of risk costs at 100-150bps of average gross customer loans starting in 2015, accompanied by an accelerated NPL reduction (down about EUR 800 million or 25%, compared to year-end 2013) already in 2014; a significant rise in the NPL coverage ratio; a lower, but sustainable operating result due to a lower unwinding impact on net interest income;

For the geographic segment Hungary: a gradual normalisation of risk costs to 150-200bps (by 2016) of average gross customer loans based on the assumption that all government actions will be completed in 2014; a lower, but sustainable operating result due to lower net interest income;

For Erste Group (consolidated):

A group operating result, which – despite stable underlying group operating trends – will be pushed slightly below guidance in 2014 due to weaker operating results in Romania and Hungary;

Risk costs of EUR 2.1–2.4 billion depending on booking of Hungarian consumer loan law impact in risk provisions or other operating result;

A net loss for 2014 of EUR 1.4-1.6 billion;

A CET 1-ratio (fully loaded, based on current definitions) of about 10.0% at year-end;

Strongly improved post-provision result and net profit (ROTE: 8-10%) in 2015, despite still disproportionate banking levies.

[Erste Group - Half Year 2014 Results \[pdf; 59.5 KB\]](#)