Operating and net profit in line with guidance; solid capital base; credit growth coupled with massive reduction of bad loans

30.10.2014

"Our results for the first nine months of 2014 are in line with the assumptions we made this summer," commented Andreas Treichl, CEO of Erste Group Bank AG, on the results for the first three quarters of 2014. "We comfortably passed the AQR and stress test conducted by the ECB resp. EBA, despite the harsher assumptions used for some of our CEE core markets - especially the Czech Republic and Croatia - compared to Southern and Western Europe. Additional risk provisions are currently not expected. We were able to reduce nonperforming loans by more than EUR 1bn on a year-on-year comparison and are showing a strongly improved credit quality for the fifth quarter in a row. The growth outlook for our region is, despite a slight weakening, still double as high as that of the eurozone - this will allow, after a long time, for our healthy loan portfolio to grow again. Our capital base is better than expected, and therefore the CET1-ratio should be comfortably above 10% also at the end of the year," concluded Treichl.

Highlights
(January-September 2014 compared with January-September 2013; 30 September 2014 compared with 31 December 2013)
Net interest income declined to EUR 3,369.6 million (EUR 3,515.8 million), mainly due to the persistently low interest rate environment and FX translation effects. Net fee and commission income increased to EUR 1,372.7 million (EUR 1,343.7 million) on the back of an improved result from asset management. The net trading and fair value result declined to EUR 166.5 million (EUR 184.2 million). Operating income amounted to EUR 5,117.5 million (-2.8%; EUR 5,263.3 million). General administrative expenses declined by 4.8% to EUR 2,783.7 million (EUR 2,924.4 million), mainly due to lower personnel expenses on the back of lower average headcount (caused by the sale of Erste Bank Ukraine and the turnaround program in BCR). This led to an operating result of EUR 2,333.8 million (-0.2%; EUR 2,338.9 million) and an improved cost/income ratio of 54.4% (55.6%). In line with the expected rise in 2014 risk costs announced on 3 July 2014, net impairment loss on financial assets not measured at fair value through profit or loss went up by 34.5% to EUR 1,674.9 million or 175 basis points of average customer loans (EUR 1,245.0 million or 120 basis points). This was attributable in particular to additional risk costs in Romania resulting from the announced accelerated NPL reduction. The NPL ratio declined substantially to 8.9% (9.6%) on the back of successful NPL sales in Romania. Conversely, the NPL coverage ratio improved significantly to 68.8% (63.1%). Other operating result amounted to EUR -1,682.7 million (EUR -520.2 million). This was primarily due to the write-down of goodwill in the amount of EUR 420.9 million as well as of brand and customer relationships in Romania of EUR 489.8 million in total. At EUR 208.7 million (EUR 247.1 million) levies on banking activities were again significant: EUR 95.3 million (EUR 125.0 million) in Austria, EUR 31.5 million (EUR 31.1 million) in Slovakia, and EUR 81.8 million (EUR 90.9 million) in Hungary (this included the full Hungarian banking tax of EUR 47.9 million for 2014). In addition, the item other operating result includes EUR 360.8 million in expenses expected by Erste Group as a result of the consumer loan law passed by the Hungarian parliament.

Taxes on income rose to EUR 433.9 million due to a negative change in deferred taxes (net) in the amount of EUR 141.1 million. The net result attributable to owners of the parent amounted to EUR -1,484.0 million (EUR 430.6 million), in line with guidance
Total IFRS capital declined to EUR 13.7 billion (EUR 14.8 billion). Common equity tier 1 capital (CET 1, phased-in) decreased to EUR 10.9 billion versus EUR 11.2 billion (Basel 2.5). Risk-weighted assets (phased-in) increased to

EUR 100.6 billion (EUR 97.9 billion). The common equity tier 1 ratio (CET 1, phased-in) stood at 10.8% versus 11.4% (Basel 2.5), the total capital ratio (Basel 3, phased-in) 15.7% versus 16.3% (Basel 2.5). Total assets amounted to EUR 197.0 billion (EUR 200.1 billion). Loans and advances to customers (net) increased slightly to EUR 120.5 billion (EUR 119.9 billion). The loan-to-deposit ratio stood at 100.3% (98.0%).

Outlook for 2014

For Erste Group (consolidated):

o Risk costs of EUR 2.1-2.4 billion depending on booking of Hungarian consumer loan law impact (EUR 350-400 million, EUR 360.8 million of which have already been booked) in risk provisions or other operating result; any costs related to the potential discounted conversion of Hungarian retail FX loans are not included in this guidance.
o A net loss for 2014 of EUR 1.4-1.6 billion;
o A CET 1-ratio (fully loaded, based on current definitions) of comfortably above 10.0% at year-end;
o Strongly improved post-provision result and net profit (ROTE: 8-10%) in 2015, despite still disproportionate banking levies.

For the geographic segment Romania: a full normalisation of risk costs at 100-150 bps of average gross customer loans starting in 2015, accompanied by an accelerated NPL reduction already in 2014; 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 150-200 bps (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.

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