Adhoc service of the pressetext news agency
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publication: 04.11.2016 07:30
source: http://adhoc.pressetext.com/news/1478241000307
PDF: http://adhoc.pressetext.com/news/media/1478241000307
keywords: Erste Group Bank AG / outlook / quarterly result

Public disclosure of inside information according to article 17 MAR

Erste Group Bank: posts net profit of EUR 1,179.2 million in 1-9 2016 and announces outlook for 2017

Vienna (pta009/04.11.2016/07:30) - Highlights

P&L: January-September 2016 compared with January-September 2015; balance sheet: 30 September 2016 compared with 31 December 2015

Net interest income declined to EUR 3,267.5 million (-1.7%; EUR 3,324.3 million), mainly due to a market environment of persistently low interest rates and the continued NPL sales not fully offset by lending growth. Net fee and commission income decreased to EUR 1,319.8 million (-3.8%; EUR 1,372.6 million), primarily due to lower income from securities business and payment services. Net trading and fair value result was marginally lower at EUR 191.6 million (-0.7%; EUR 193.0 million). Consequently, operating income declined to EUR 4,959.7 million (-2.6%; EUR 5,090.9 million). General administrative expenses rose to EUR 2,963.0 million (+3.9%; EUR 2,852.4 million), driven mainly by higher IT costs and personnel expenses of EUR 1,724.7 million (+3.4%; EUR 1,667.5 million). This resulted in a decline of the operating result to EUR 1,996.6 million (-10.8%; EUR 2,238.5 million). The cost/income ratio stood at 59.7% (56.0%). Gains from financial assets and liabilities not measured at fair value through profit and loss (net) include a gain, posted in the second quarter, from the sale of shares in VISA Europe in the amount of EUR 138.7 million.

Net impairment loss on financial assets not measured at fair value through profit or loss dropped significantly to EUR 63.2 million or 6 basis points of average gross customer loans (-87.8%; EUR 518.4 million or 53 basis points) on the back of a substantial decline of non-performing loans and higher income from the recovery of loans already written off in Romania and Hungary. The NPL ratio improved further to 5.5% (7.1%).
The NPL coverage ratio stood at 67.7% (64.5%).

Other operating result amounted to EUR -252.4 million (EUR -377.4 million). This includes expenses for the annual contributions to resolution funds in the amount of EUR 64.6 million (EUR 56.2 million). Banking and financial transaction taxes declined to EUR 151.7 million (EUR 187.7 million), which was attributable to the significant reduction of the Hungarian banking levies to EUR 47.4 million (EUR 74.6 million). In Austria, banking levies declined slightly to EUR 85.6 million (EUR 95.6 million) and in Slovakia amounted to EUR 18.6 million (EUR 17.5 million).

As the earnings contributions of savings banks covered by the cross-guarantee system declined from historically very high levels, the minority charge decreased to EUR 245.6 million (EUR 275.0 million). The net result attributable to owners of the parent rose to EUR 1,179.2 million (EUR 764.2 million).

Total equity increased to EUR 16.5 billion (EUR 14.8 billion). After regulatory deductions and filtering according to the CRR, common equity tier 1 capital (CET1, Basel 3 phased-in) rose to EUR 13.3 billion (EUR 12.1 billion); total eligible own funds (Basel 3 phased in) amounted to EUR 18.5 billion (EUR 17.6 billion). While half-year interim profit is included in the above figures, third quarter profit is not included; third quarter risk cost are deducted. Total risk, i.e. risk-weighted assets including credit, market and operational risk (Basel 3 phased-in) rose to EUR 100.7 billion (EUR 98.3 billion). The common equity tier 1 ratio (CET 1, Basel 3 phased-in) stood at 13.2% (12.3%), the total capital ratio (Basel 3 phased-in) at 18.4% (17.9%).

Total assets increased to EUR 206.8 billion (EUR 199.7 billion). Loans and receivables to customers (net) were moderately higher at EUR 129.0 billion (+2.4%; EUR 125.9 billion). Securities held for trading rose to EUR 9.7 billion (EUR 8.7 billion). On the liabilities side, deposits from banks rose to EUR 15.2 billion (EUR 14.2 billion) and customer deposits increased to EUR 134.0 billion (+4.7%; EUR 127.9 billion). Debt securities in issue, mainly bonds and mortgage covered bonds, declined to EUR 27.3 billion (-7.9%; EUR 29.7 billion). The loan-to-deposit ratio stood at 96.2% (98.4%).

Outlook

Operating environment anticipated to be conducive to credit expansion. While in 2016 real GDP growth is expected to be between 1.3% and 4.5% in all major CEE markets, including Austria, in 2017 a range of 2-3% is estimated in CEE, about 1.5% in Austria. Real GDP growth should be driven by solid domestic demand, whereby real wage growth and declining unemployment should support economic activity in CEE. Solid public finances across CEE should prevail.

Return on tangible equity (ROTE) expectations. Confirmed at above 12% in 2016 (based on average tangible equity in 2016); for 2016; on track for a dividend of EUR 1 per share (+100% vs 2015), which corresponds to a dividend yield of about 3.5%. ROTE for 2017 is targeted at above 10% (based on average tangible equity in 2017 based on the following assumptions: the Austrian banking tax one-off payment will already take place in 2016 and for 2017 at best flat revenues (assuming 5%+ net loan growth); cost inflation of 1-2% due to digitalisation; increase in risk costs, albeit remaining at historically low levels; positive swing in other operating result due to lower Austrian banking tax.

Risks to guidance. Impact from expansionary monetary central bank policies including negative interest rates; political risks such as timely implementation of Austrian banking tax reduction; geopolitical risks and global economic risks; consumer protection initiatives.

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