Erste Group's net profit rises by 10% to EUR 255 million in Q1 2010 on higher operating income and lower costs

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Highlights:

- Erste Group started well into FY 2010, posting a strong operating result of EUR 983.2 million in Q1 2010, up 17.3% on Q1 2009, and net profit of EUR 255.2 million, up 10.0% on Q1 2009. The cost/income ratio improved to 49.2%, from 53.8% in Q1 2009.
- The operating result was driven by record operating income, which rose by 6.7% to EUR 1,936.3 million, and a decline in operating expenses, which fell by 2.3% to EUR 953.1 million. Net interest income grew by 8.0% to EUR 1,323.6 million on the back of an improving net interest margin, which rose to 3.03%, from 2.86% in Q1 2009. Net commission income posted the first year-on-year increase in six quarters, growing by 6.1% to EUR 471.5 million in Q1 2010, due to increased fees from securities business and payment transfers. Net trading result held up very well, declining by only 1.8% compared to Q1 2009 to EUR 141.2 million.
- Risk costs declined significantly quarter-on-quarter to EUR 531.2 million or 164 basis points of average customer loans (Q4 09: EUR 607.4 million and 189 bps, respectively). Thus, the risk costs sank for the first time since Q1 2009. Compared to the first quarter last year, risk costs increased (Q1 09: EUR 370.2 million and 117 bps, respectively) – albeit at a slower rate of 43.5% as compared to FY 2009.
- Following strong deceleration in NPL growth in the second half of 2009, new NPL formation in Q1 2010 remained at the lower levels seen in the two previous quarters. As a result, the NPL ratio in relation to customer loans reached 6.9%, following 6.6% at year-end 2009. The NPL coverage ratio improved significantly to 59.0%, compared to 57.2% at year-end 2009.
- Net profit after minorities rose by 10.0%, from EUR 232.1 million to EUR 255.2 million in Q1 2010, on the back of strong contributions from the Czech, Slovak and Austrian subsidiaries. Cash return on equity decreased from 9.7% in FY 2009 to 8.1% as a result of the significantly enlarged capital base.
- Total assets increased by a significant 3.1% year-to-date to EUR 208.0 billion. This was mainly due to rising interbank and financial asset volumes, driven by strong growth in customer deposits (+3.2% year-to-date to EUR 115.6 billion). The loan-to-deposit ratio was 112.7%.
- Erste Group's shareholders' equity continued to improve strongly in Q1 2010, driven by quarterly earnings, a positive change in the AfS reserve and currency effects. In Q1 2010, Erste Group's equity therefore rose by EUR 0.6 billion to EUR 13.3 billion. In line with moderate loan growth, risk-weighted assets remained flat at EUR 105.9 billion. Prior to the inclusion of retained earnings, this resulted in a tier 1 ratio (credit risk) of 11.0%, compared to 10.8% at year-end 2009 and a core tier 1 ratio (total risk) of 8.5%, up from 8.3% at year-end 2009.

[1] The term "net profit after minorities" corresponds to the term "net profit attributable to owners of the parent".

"Erste Group has made a strong start to the 2010 financial year, supported by the gradual improvement in economic fundamentals in Central and Eastern Europe", explained Andreas Treichl, CEO of Erste Group Bank AG, at the presentation of the first quarter 2010 results. "This trend was supported by strengthening currencies across the region and lower interest rates in Romania and Hungary. While these positive developments have not yet translated into a meaningful revival of credit growth, they underpinned the continued stabilisation in asset quality and led to the first decline in risk costs in four quarters", Treichl continued. "Erste Group is a key partner of the real economy in Central and Eastern Europe and will therefore benefit strongly as the economic recovery gathers pace," Treichl concluded.

Earnings performance in brief
In the first quarter of 2010, the **operating result** improved on the previous year to EUR 983.2 million (+17.3% vs. EUR 838.5 million in the first quarter of 2009). This positive development was driven by higher operating income as well as lower operating expenses.

Overall, **operating income** rose by 6.7%, reaching a new record at EUR 1,936.3 million (Q1 2009: EUR 1,814.4 million). This increase is attributable primarily to the rise in net interest income (+8.0% to EUR 1,323.6 million) and net commission income (+6.1% to EUR 471.5 million). The net trading result declined slightly by 1.8% to EUR 141.2 million. The 2.3% decrease in **general administrative expenses**, from EUR 975.9 million to EUR 953.1 million, also had a major influence on this result. Consequently, the **cost/income ratio** improved to 49.2% (Q1 2009: 53.8%)

Net profit after minorities increased by 10.0% to EUR 255.2 million in the first quarter of 2010, despite the higher risk costs year-on-year.

Cash return on equity, i.e. return-on-equity adjusted for non-cash expenses such as goodwill amortisation and linear amortisation for the customer base, dropped from 9.7% (reported ROE: 9.1%) in 2009 to 8.1% (reported ROE: 7.8%). This was due especially to the substantial rise in the capital base (shareholders' equity was up by nearly 50% EUR 8.9 billion in the first quarter of 2009 to EUR 13.3 billion in the first quarter of 2010) last year.

Cash earnings per share equalled EUR 0.62 (reported EPS: EUR 0.59) in first quarter of 2010 versus EUR 0.71 (reported EPS: EUR 0.68) in the first quarter of 2009, mainly due to the higher capital base.

Total assets have risen since year-end 2009 by 3.1% to EUR 208.0 billion. On the liability side, this was due mainly to the steep increase in customer deposits, which triggered a rise in interbank assets and investments in securities on the asset side.

Whilst risk-weighted assets remained nearly unchanged, the **solvency ratio** improved from 12.7% at year-end 2009 to 12.8% as of 31 March 2010. This placed it comfortably above the legal minimum requirement of 8.0%. The **tier 1 ratio** in relation to credit risk was 11.0% as of 31 March 2010 (year-end 2009: 10.8%).

Outlook
Erste Group's markets in Central and Eastern Europe have either emerged or are about to emerge from recession and are expected to enjoy moderate growth in 2010. As the economic recovery will initially be driven by exports rather than domestic demand, the return of volume growth to the banking sector is expected to be slow. Nevertheless, the improvement in operating conditions should have positive, if gradual, effects on asset quality. Accordingly, Erste Group continues to expect risk costs to remain elevated for the better part of 2010.

Erste Group has performed exceptionally well during difficult economic times and is ideally placed to capitalise on future growth opportunities in Central and Eastern Europe – a region that benefits from orderly public finances, flexible labour markets and low taxes.

Financial performance in detail [pdf; 183.9 KB]

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