

Erste Group increases 2010 net profit by 12.4% to EUR 1,015.4 million on strong operating result and lower risk costs

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Erste Group posted its best ever **operating result** at **EUR 3,987.9 million** in 2010 (+5.7% compared to 2009). Record **operating income** of **EUR 7,804.7 million** (+3.0% on the previous year) and stable operating expenses of EUR 3,816.8 million (+0.2% vs. 2009) contributed to this success. Correspondingly, the **cost/income ratio** continued to improve from 50.2% to **48.9%** in 2010.

The positive trend in net interest income and net commission income more than offset the decline in the net trading result. A rise in interest-bearing assets underpinned the 3.7% rise in net **interest income** to **EUR 5,412.5 million**. Most notably, net commission income increased by a significant 9.2% to EUR 1,936.0 million in 2010 due to higher fees from securities business and payment transfers. Following the exceptionally strong performance in 2009, the **net trading result** expectedly declined by 22.0% to EUR 456.2 million.

Risk costs declined in 2010 by 1.2% to **EUR 2,031.2 million** or **155 basis points** of average customer loans (2009: EUR 2,056.6 million or 161 basis points). Despite the notable reduction in new NPL formation compared to 2009, the NPL ratio based on customer loans increased from 6.6% to 7.6% in 2010. Compared to the previous quarter, the NPL ratio remained stable for the first time since Q2 08. The NPL coverage ratio improved to 60.0% from 57.2% as at 31 December 2009.

Net profit after minorities rose by 12.4%, from EUR 903.4 million to **EUR 1,015.4 million** in 2010 despite the negative impact of items such as the Hungarian banking tax, which amounted to EUR 49.8 million (pre-tax) in 2010. Cash return on equity decreased from 9.7% to 8.2% as a result of the significantly enlarged capital base.

Total assets grew by 2.1% to **EUR 205.9 billion** in 2010. Customer business gained in importance on the asset as well as the liability side: as a result of exchange rate volatility customer loans grew by 2.8% to EUR 132.7 billion (year-end 2009: EUR 129.1 billion), while customer deposits rose to EUR 117.0 billion (+4.4% vs. EUR 112.0 billion at year-end 2009). The **loan-to-deposit ratio** improved to **113.4%** (year-end 2009: 115.3%). Deposits by banks continued to decline significantly, falling by 23.4% to EUR 20.2 billion and reflecting the diminishing importance of wholesale short-term funding.

Erste Group's capital base continued to improve in 2010, driven in particular by rising profitability. In 2010 **shareholders' equity** rose by 6.9% to **EUR 13.6 billion** compared to year-end 2009. Alongside stagnant loan volumes, **total risk-weighted assets** declined from EUR 123.9 billion at year-end 2009 to **EUR 119.8 billion**. This resulted in a **Tier 1 ratio (total risk)** of **10.2%** (year-end 2009: 9.2%) and a **core Tier 1 ratio (total risk)** of **9.2%**, up from 8.3% at year-end 2009.

As a result of solid profitability, the management board of Erste Group will propose an unchanged **dividend of EUR 0.65** (2009: EUR 0.65) to the Annual General Meeting on 12 May 2011.

"In 2010, Erste Group posted its highest net profit since 2007 on the back of a very strong performance in Slovakia, continued operating excellence and the first year-on-year decline in risk costs since 2004. The remarkable improvement in operating efficiency was reflected in the fact that risk costs more than quadrupled since 2007, while net profit declined only marginally over the same time. Accordingly, our capital base widened to a level that is more than commensurate with the capital requirements of our real economy-driven business model", explained Andreas Treichl, CEO of Erste Group Bank AG, at the presentation of the preliminary results for 2010. "In addition, our access to

reasonably priced long-term funding and the rapidly declining reliance on the interbank market remained a key competitive advantage in 2010”, Treichl continued. “The operating environment in Central and Eastern Europe was characterised by a return to economic growth in most of Erste Group’s core markets with key indicators comparing favourably to Western and Southern Europe, especially as regards sustainability of public finances. While the economic recovery was mostly export-driven and not yet broad-based, we have every confidence that due to the flexible economic structure prevailing in CEE, private consumption will see a revival in 2011 and lead to continued business growth for Erste Group”, Treichl concluded.

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

[1] The term „shareholders equity“ corresponds to the term “total equity attributable to owners of the parent”.

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