

Erste Group increases Q1 2011 net profit to EUR 260.6 million on lower risk costs, despite negative impact from banking taxes

Highlights

Net interest income amounted to **EUR 1,295.7 million** in the first quarter 2011 (-2.1% versus Q1 2010). This was in part due to a slight decrease in the net interest margin to 2.88% (versus 3.03% in Q1 2010), which was attributable to a marginally changed balance sheet structure, as well as continued low market interest rates.

Net commission income grew by 2.1% to **EUR 481.2 million** in the first quarter of 2011, driven by increased fees from securities business and payment transfers.

The net trading result remained flat at EUR 139.7 million (-1.1%).

Operating expenses: On the back of ongoing tight cost control and despite rising inflation, operating expenses remained stable in the first quarter 2011 at EUR 963.0 million (+1.0%, currency-adjusted +0.3%). This resulted in a **cost/income ratio** of **50.2%** (compared to 49.2% in Q1 2010).

Risk costs declined by 13.4% from EUR 531.2 million (164 basis points of average customer loans) in Q1 2010 to **EUR 460.1 million** or **138 bps**, respectively, in the first quarter of 2011. This development was primarily due to the gradual economic recovery – albeit at different pace in various countries – in Central and Eastern Europe. The **NPL ratio** in relation to customer loans remained stable at **7.7%** at the end of the first quarter of 2011 (year-end 2010: 7.6%). The **NPL coverage ratio improved to 61.4%**, compared to 60.0% at year-end 2010.

Net profit after minorities^[1] rose to **EUR 260.6 million** in the first quarter of 2011, up 2.1% year-on-year. In light of the extraordinary charges of EUR 47.9 million (pre-tax) for banking taxes in Austria and Hungary, this was a very satisfactory performance.

The **loan-to-deposit ratio** continued to improve, **111.4%** at 31 March 2011 (31 December 2010: 113.4%), driven by increased customer deposits (+1.9% to EUR 119.2 billion) with loan demand remaining subdued. Otherwise, the growth in **total assets**, up 3.7% to **EUR 213.5 billion**, was principally related to higher interbank business volumes in the first quarter of 2011.

Erste Group's **shareholders' equity^[2]** improved further in the first quarter 2011 to **EUR 14.1 billion**, mainly due to the increased net profit. In line with the still moderate loan growth, risk-weighted assets remained flat at EUR 119.8 billion versus year-end 2010. Prior to the inclusion of retained earnings, this resulted in a **tier 1 ratio (total risk)** of **10.4%**, compared to 10.2% at year-end 2010 and a **core tier 1 ratio (total risk)** of **9.4%** (year-end 2010: 9.2%).

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

[2] The term "shareholders' equity" corresponds to the term "total equity attributable to owners of the parent".

"Erste Group has made a good start to the new financial year, posting an increase in net profit as a result of declining risk costs and despite the significant negative impact from the banking taxes in Austria and Hungary", said Andreas Treichl, CEO of Erste Group Bank AG, at the presentation of the first quarter 2011 results. "Overall, macroeconomic fundamentals in Central and Eastern Europe, as well as sentiment towards the region, continued to improve. This was reflected in significantly increased industrial output together with currency appreciation as well as a tightening in CDS spreads", Treichl continued. "While Romania and Hungary continued to work through economic issues and are not expected to show meaningful improvements before the second half of 2011, the performance in the Czech Republic, Slovakia and Austria (the markets which account for roughly two thirds of total business volumes) makes us confident about our ability to significantly raise

profitability again this year”, Treichl concluded.

[Results \[pdf; 181.9 KB\]](#)