

Press release

Vienna, 30 July 2009

Thanks to solid business model Erste Group posts net profit of EUR 492 million in H1 09, despite higher risk costs

Highlights¹:

- Erste Group posted **record operating profit** of EUR 1,776.4 million in H1 09. This is an improvement of 19.1% on H1 08, which was not yet impacted by the economic downturn. Operating income grew by 7.0% to EUR 3,736.6 million while operating expenses were down by 2.1% to EUR 1,960.2 million compared to H1 08.
- **Net interest income and net trading result** were the **major operating income drivers** in H1 09. Despite limited loan growth – customer loans advanced to EUR 128.1 billion in H1 09 from EUR 126.2 billion at year-end 2008. Thanks to stable net interest margins across all geographies, net interest income remained strong at EUR 2,505.3 million (up 8.6% on H1 08), supported by a robust performance of the Retail & SME segment. The excellent net trading result was mainly due to a strong performance of the fixed income and money markets businesses.
- **Risk costs rose** to EUR 892.1 million (up 132.3% on H1 09) or 141 bps of average customer loans. The NPL ratio (based on total exposure) increased from 2.9% in Q4 08 to 3.6% in H1 09, mainly driven by the CEE retail business, the Haftungsverbund savings banks in Austria and portfolio provisions in the Group Corporate and Investment Banking business.
- Erste Group **has not taken advantage of reclassifying assets** as a result of the easing of accounting rules. Results from all categories of financial assets were primarily impacted by revaluation requirements in the ABS/CDO portfolio: the negative P&L effect in Q2 09 equalled EUR 11.3 million (pre-tax) after EUR 54.8 million in Q1 09, while the negative impact on shareholders' equity declined to EUR 43.0 million in Q2 09, compared to EUR 88 million in Q1 09.
- **Net profit amounted to EUR 492.1 million** in H1 09, down 22.7% on EUR 636.6 million in H1 08. All countries, except for Ukraine, where Erste Group has only a small presence, operated profitably in H1 09.
- The **reported tier 1 ratio** improved to **8.4%** at H1 09 (2008: 7.2%) following the issuance of participation capital (EUR 1.224 billion subscribed by the Republic of Austria and EUR 540 million by private investors). Risk-weighted assets grew by 4.0% to EUR 108 billion in H1 09.
- The **loan-to-deposit ratio improved** from 115.4% at year-end 2008 to **112.9% at H1 09**.

“The economic downturn has now fully taken hold of Central and Eastern Europe. While the situation differs substantially from country to country, the decline in demand is the common denominator. While we believe that economic conditions will remain difficult in coming months, we do not believe in the disaster scenarios for the region. As a retail bank we are closely linked to the real economy in each country. Our knowledge of the private and corporate customer is improving at a good pace, allowing us to take effective measures to guide our bank as well as our customers through the crisis. Accordingly, we are convinced that we can offset any further deterioration in the regional economic environment thanks to the quality of our business model”, said Andreas Treichl, CEO of Erste Group.

Earnings performance in brief

¹ In January 2009, Sparkasse Kufstein joined the *Haftungsverbund* (cross guarantee system of the Austrian savings banks) and therefore was included in the consolidated financial statements from this point in time. Furthermore, Ringturm KAG and Opportunity Bank a.d., Montenegro, acquired by Erste & Steiermärkische banka d.d., was consolidated for the first time as of 31 March 2009. In addition, Investbanka a.d. Skopje, Macedonia, acquired by Steiermärkische Bank und Sparkassen AG, has been part of the consolidated financial statements since 1 October 2008 and was not included during the entire reporting period for the previous year. As the criteria for IFRS 5 (sale within 12 months) were not fulfilled for the sale of Anglo Romanian Bank, a reclassification took place from the item “Assets held for sale and discontinued operations” to the respective balance sheet positions. As a result, comparisons with the previous year and rates of change are slightly distorted.

During the first half of 2009, the **operating result** reached a new record value of EUR 1,776.4 million (+19.1% compared with EUR 1,491.0 million in the first half of 2008). This development was particularly due to the strong rise in net interest income (+8.6% to EUR 2,505.3 million), which more than compensated for the decline in net commission income (-11.4% to EUR 888.2 million). The excellent trading result (+86.1% to EUR 343.1 million) also contributed to the 7.0% improvement in **operating income** from EUR 3,492.6 million to EUR 3,736.6 million. **Operating expenses** were reduced by 2.1% from EUR 2,001.6 million to EUR 1,960.2 million. The **cost/income ratio** therefore improved significantly to 52.5% (half-year 2008: 57.3%).

Net profit after minority interests fell, in particular due to higher risk costs (costs for risk provisions more than doubled in the first half-year to EUR 892.1 million), by 22.7% to EUR 492.1 million.

Return on equity (cash, i.e. eliminating linear depreciation for the customer base) fell from 15.2% (stated value 14.7%) in the half-year 2008 to the current 11.6% (stated value: 11.2%).

Cash earnings per share were EUR 1.41 during the first half of 2009 (stated value EUR 1.35), compared with EUR 2.10 (stated value EUR 2.03) in the comparative period of the previous year.

Compared with year-end 2008, **total assets** increased by 1.4% to EUR 204.2 billion.

By April 2009, Erste Group placed participation capital in the total nominal amount of EUR 1.76 billion. Of this, EUR 1.224 billion was subscribed to by the Republic of Austria and EUR 540 million by private parties.

In spite of a rise in risk-weighted assets, the credit-risk-related **solvency ratio** improved due to the issuance of participation capital of EUR 1.76 billion, from 10.1% at year-end 2008, to 11.1% as of 30 June 2009. It was therefore still comfortably above the legal minimum requirement of 8.0%. The **tier 1 ratio** in relation to the credit risk equalled 8.4% as at 30 June 2009 (after 7.2% at the end of 2008).

Outlook

“While the deterioration in economic indicators has led to higher risk costs, we are convinced that we will continue to execute our business model profitably. This development will be supported by our regional focus, the ideal mix between retail, SME and large corporate customers, as well as the long-term orientation of our business model and our well balanced loan-to-deposit ratio,” commented Treichl on the outlook.

Exchange rate development

Euro FX rates	End of period rates			Average rates		
	Jun 09	Dec 08	Change	1-6 09	1-6 08	Change
CZK/EUR	25.88	26.88	3.7%	27.16	25.35	-7.1%
RON/EUR	4.21	4.02	-4.6%	4.23	3.68	-15.2%
HUF/EUR	271.55	266.70	-1.8%	290.24	252.41	-15.0%
HRK/EUR	7.27	7.36	1.1%	7.38	7.26	-1.6%
RSD/EUR	93.96	89.73	-4.7%	94.05	81.56	-15.3%
UAH/EUR	10.90	10.85	-0.5%	10.61	7.51	-41.2%

Positive change = appreciation vs EUR, negative change = depreciation vs EUR

Appendix

I. PROFIT AND LOSS ACCOUNT (IFRS) OF ERSTE GROUP

in EUR million	1-6 09	1-6 08	Change
Net interest income	2,505.3	2,306.0	8.6%
Risk provisions for loans and advances	-892.1	-384.1	>100.0%
Net fee and commission income	888.2	1,002.2	-11.4%
Net trading result	343.1	184.4	86.1%
General administrative expenses	-1,960.2	-2,001.6	-2.1%
Other operating result	-87.5	-84.8	-3.2%
Result from financial assets - FV	-12.1	-79.9	84.9%
Result from financial assets - AfS	-18.7	-6.5	na
Result from financial assets - HtM	-0.9	0.1	na
Pre-tax profit from continuing operations	765.1	935.8	-18.2%
Taxes on income	-191.3	-187.2	2.2%
Net profit before minorities from continuing operations	573.8	748.6	-23.4%
Post-tax profit from discontinuing ops	0.0	10.1	na
Net profit before minorities	573.8	758.7	-24.4%
Minority interests	-81.7	-122.1	-33.1%
Net profit after minorities	492.1	636.6	-22.7%

II. BALANCE SHEET (IFRS) OF ERSTE GROUP

in EUR million	Jun 09	Dec 08	Change
ASSETS			
Cash and balances with central banks	6,897	7,556	-8.7%
Loans and advances to credit institutions	13,800	14,344	-3.8%
Loans and advances to customers	128,110	126,185	1.5%
Risk provisions for loans and advances	-4,311	-3,783	14.0%

Trading assets	8,147	7,534	8.1%
Financial assets - at fair value through profit or loss	3,574	4,058	-11.9%
Financial assets - available for sale	17,586	16,033	9.7%
Financial assets - held to maturity	13,968	14,145	-1.3%
Equity holdings in associates accounted for at equity	261	260	0.4%
Intangible assets	4,738	4,805	-1.4%
Property and equipment	2,363	2,386	-1.0%
Tax assets	838	859	-2.4%
Assets held for sale	60	526	-88.6%
Other assets	8,136	6,533	24.5%
Total assets	204,167	201,441	1.4%
LIABILITIES AND EQUITY			
Deposits by banks	29,776	34,672	-14.1%
Customer deposits	113,489	109,305	3.8%
Debt securities in issue	30,130	30,483	-1.2%
Trading liabilities	2,690	2,519	6.8%
Other provisions	1,681	1,620	3.8%
Tax liabilities	302	389	-22.4%
Liabilities associated with assets held for sale	0	343	na
Other liabilities	6,665	4,968	34.2%
Subordinated liabilities	6,141	6,047	1.6%
Total equity	13,293	11,095	19.8%
Shareholders' equity	10,098	8,079	25.0%
Minority interests	3,195	3,016	5.9%
Total liabilities and equity	204,167	201,441	1.4%