

Erste Group achieves solid net profit of EUR 903.4 million despite higher risk costs

Highlights¹:

- Erste Group continued the trend of the first three quarters and posted a record operating result of **EUR 3,771.4 million** in 2009, up 25.8% on the previous year. As a result, the return on equity improved to its best ever level at **50.2%**.
- This success was driven by a significant increase in operating income, which rose by 8.3% to EUR 7,578.8 million, and a marked decline in operating expenses, which fell by 4.9% to EUR 3,807.4 million. **Net interest income** improved during the course of the year, growing by 6.3% to EUR 5,220.9 million. Moderate growth in deposits (+2.5% to EUR 115.7 billion) and customer loans (+2.3% to EUR 129.1 billion) as well as stable net interest margins contributed to this rise. **Net commission income** declined by 10.1% to **EUR 1,772.8 million** in 2009. **Net trading result** rose by more than 400% to **EUR 585.1 million**. This significant increase was driven by a very weak 2008 result and an improvement in the market environment.
- **Risk costs** rose by 92% to EUR 2,056.6 million or **161 basis points** (2008: 88 bps) of average customer loans. The deceleration in NPL growth continued in the fourth quarter. The NPL ratio in relation to average customer loans reached 6.6% at YE 2009, following 6.3% in the third quarter (YE 2008: 4.7%). The NPL coverage ratio, which deteriorated until mid-year, also improved to 57.2%, following 56.7% in the third quarter (YE 2008: 62.8%).
- **Net profit after minorities²** rose by 5.1% from EUR 859.6 million to **EUR 903.4 million**. All CEE subsidiaries, except for Erste Bank Ukraine, continued to operate profitably in 2009. Return on equity equalled 9.1%.
- **Summary of fourth quarter 2009 performance:** Net interest income continued to improve to EUR 1,380.0 million. Net commission income also developed positively, posting an 8.1% increase compared to the third quarter to EUR 459.5 million. As expected, net trading result declined significantly compared to the previous quarters to EUR 82.1 million. As general administrative expenses remained almost unchanged at EUR 927.1 million, the operating result at EUR 994.5 million was only marginally below the record level achieved in the third quarter (EUR 1,000.5 million).
- The capital increase, which was successfully executed in the fourth quarter of 2009, resulted in a significantly improved capital position of Erste Group. Overall, Erste Group's equity rose by EUR 4.6 billion in 2009 to EUR 12.7 billion. The **tier 1 ratio (credit risk)** equalled **10.8%**, after 7.2% in 2008 and the **core tier 1 ratio (total risk)** improved to **8.3%** from 5.2% in 2008.
- Based on these positive business trends, the management board of Erste Group will propose an unchanged dividend of **EUR 0.65** to the annual general meeting.

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 in 2009. As a result, comparisons with the previous year and rates of change are slightly distorted.

² The term "net profit after minorities" corresponds to the term "net profit attributable to owners of the parent".

The global economic crisis has hit Europe and Erste Group's region in equal measure. *"This led to substantially higher risk costs"*, explained Andreas Treichl, CEO of Erste Group Bank AG, at the presentation of the preliminary FY 2009 results. *"On a positive note, demand for simple and transparent deposit and loan products rose on the back of the uncertainty created by the crisis"*, Treichl continued. Thanks to its strong liquidity position Erste Group – being the clear retail market leader in the region – benefited from this trend. According to Treichl, *"the consistent focus on its savings bank business model and successful cost management have helped to cushion the bank from the crisis"*.

"The past year has also proved that the countries of Central and Eastern Europe – despite weaknesses in the institutional framework – coped much better with the crisis than expected by many. Despite the economic crisis the CEE region continues to be an attractive region for Erste Group, thanks to stable margins, slowly rising credit demand and growing customer deposits, especially in the retail business", Treichl concluded.

Earnings performance in brief

Operating profit was up in the financial year 2009 to EUR 3,771.4 million (+25.8% vs. EUR 2,997.0 million in FY 2008). This was the best operating performance in Erste Group's history. It was driven mainly by higher net interest income and a better trading result as well as lower operating expenses. Net fee and commission income decreased.

Overall, **operating income** grew by 8.3% to EUR 7,578.8 million (following EUR 6,998.9 million). This increase was attributable primarily to the increase in net interest income (+6.3% to EUR 5,220.9 million) and the trading result (+410.1% to EUR 585.1 million). Net fee and commission income declined by 10.1% to EUR 1,772.8m. The decrease in **general administrative expenses** by 4.9% from EUR 4,001.9 million to EUR 3,807.4 million also had a major influence on this result. As a result the **cost/income ratio** improved to 50.2% (2008: 57.2%).

The **net profit after minorities** rose by 5.1% to EUR 903.4 million in 2009 despite an almost 100% increase in risk costs

The **cash return on equity**, i.e. the return on equity adjusted for non-cash items, such as goodwill write-downs³ and the linear depreciation of customer relationships, in relation to the capital base enlarged by participation capital and the proceeds from the capital increase – dropped from 10.1% (reported value: 9.6%) in 2008 to 9.7% (reported value: 9.1%).

Until May 2009, Erste Group had issued participation capital with a total nominal value of EUR 1.76 billion. A share of EUR 1.224 billion was subscribed to by the Republic of Austria and EUR 540.0 million by retail investors. Furthermore, Erste Group carried out a capital increase in November 2009, in which EUR 1.74 billion were placed with institutional and retail investors.

Cash-earnings per share amounted to EUR 2.57 in 2009 (reported value: EUR 2.37) vs. EUR 2.89 (reported value: EUR 2.74) in the previous year.

At EUR 201.7 billion, **total assets** remained almost unchanged versus year-end 2008.

The **solvency ratio** in relation to total risk improved from 9.8% at year-end 2008 to 12.7% as of 31 December 2009 due to the issuance of participation capital in an amount of EUR 1.76 billion and the capital increase of EUR 1.74 billion. It was therefore comfortably above the legal minimum requirement of 8.0%. The **tier 1 ratio** in relation to credit risk was 10.8% as of 31 December 2009, following 7.2% at year-end 2008.

Outlook

Supported by the stabilisation of the global economy in the second half of 2009, the countries of Central and Eastern Europe have also emerged from recession and are expected to enjoy moderate growth in 2010. While this should continue to have positive effects on asset quality, any improvement will be gradual in nature and influenced by the development of key economic variables, most notably unemployment. Accordingly, Erste Group continues to expect that risk costs will remain elevated for the better part of 2010.

Irrespective of the speed of the economic recovery, Erste Group firmly believes in the strength of its retail business model – a belief that is backed up by the group’s outstanding operating performance throughout the economic downturn.

Erste Group is equally confident that the timing and structure of any new regulatory framework for banks will be carefully considered, as policy makers and regulators increasingly appreciate the consequences of any such measures for the growth prospects of the real economy.

Exchange rate development

Euro FX rates	End of period rates			Average rates		
	Dec 09	Dec 08	Change	2009	2008	Change
CZK/EUR	26.47	26.88	1.5%	26.46	25.16	-5.2%
RON/EUR	4.24	4.02	-5.3%	4.24	3.69	-14.8%
HUF/EUR	270.42	266.70	-1.4%	280.66	251.25	-11.7%
HRK/EUR	7.30	7.36	0.8%	7.34	7.23	-1.5%
RSD/EUR	95.73	89.73	-6.7%	93.98	81.88	-14.8%
UAH/EUR	11.59	10.85	-6.9%	11.23	7.86	-42.9%

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

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Appendix

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

in EUR million	2009	2008	Change
Net interest income	5,220.9	4,913.1	6.3%
Risk provisions for loans and advances	-2,056.6	-1,071.4	92.0%
Net fee and commission income	1,772.8	1,971.1	-10.1%
Net trading result	585.1	114.7	>100.0%
General administrative expenses	-3,807.4	-4,001.9	-4.9%
Other operating result	-355.8	-778.8	54.3%
Result from financial assets - FV	113.2	-295.6	na
Result from financial assets - AfS	-204.1	-213.8	4.5%
Result from financial assets - HtM	-6.8	-61.2	88.9%
Pre-tax profit from continuing operations	1,261.3	576.2	>100.0%
Taxes on income	-284.7	-177.3	60.6%
Post-tax profit from continuing operations	976.6	398.9	>100.0%
Post-tax profit from discontinuing operations	0.0	639.7	na
Net profit for the period	976.6	1,038.6	-6.0%
Attributable to non-controlling interests	73.2	179.0	-59.1%
Attributable to owners of the parent	903.4	859.6	5.1%

II. BALANCE SHEET (IFRS) OF ERSTE GROUP

in EUR million	Dec 09	Dec 08	Change
ASSETS			
Cash and balances with central banks	5,996	7,556	-20.6%
Loans and advances to credit institutions	13,140	14,344	-8.4%
Loans and advances to customers	129,134	126,185	2.3%
Risk provisions for loans and advances	-4,954	-3,783	31.0%
Trading assets	8,598	7,534	14.1%
Financial assets - at fair value through profit or loss	2,997	4,058	-26.1%
Financial assets - available for sale	16,390	16,033	2.2%
Financial assets - held to maturity	14,899	14,145	5.3%
Equity holdings in associates accounted for at equity	241	260	-7.3%
Intangible assets	4,867	4,805	1.3%
Property and equipment	2,344	2,386	-1.8%
Tax assets	577	859	-32.8%
Assets held for sale	58	526	-89.0%
Other assets	7,423	6,533	13.6%
Total assets	201,710	201,441	0.1%
LIABILITIES AND EQUITY			
Deposits by banks	26,295	34,672	-24.2%
Customer deposits	112,042	109,305	2.5%
Debt securities in issue	29,612	30,483	-2.9%
Trading liabilities	3,157	2,519	25.3%
Other provisions	1,670	1,620	3.1%
Tax liabilities	361	389	-7.2%
Liabilities associated with assets held for sale	0	343	na
Other liabilities	6,302	4,968	26.9%
Subordinated liabilities	6,148	6,047	1.7%
Total equity	16,123	11,095	45.3%
Attributable to owners of the parent	12,709	8,079	57.3%
Attributable to non-controlling interests	3,414	3,016	13.2%
Total liabilities and equity	201,710	201,441	0.1%