

Ad-hoc information

Vienna, 30 July 2008

Strong performance continues in H1 2008: operating profit up 25%, net income rises to EUR 637 million

The first half of 2008 was certainly one of the most turbulent in the history of the financial markets. Therefore we can be all the more satisfied with the operating trends in our banking group. For the most part, the economies in Central and Eastern Europe were able to ward off the effects of the financial crisis and continued to show stable growth rates far above those in Western Europe. Thus, in the first half of the year trends in the two key revenue line items – net interest and net commission income – were also positive. The latter climbed to over a billion euros for the first time ever in H1 08. Loan growth was also in line with our expectations as far as the amount and risk levels are concerned. We are convinced that Central and Eastern Europe will continue to be one of the most interesting economic regions and are optimistic about the further development of the reorganised Erste Bank Group.

Highlights

- **Operating profit growth remains at high level – 25.3% in H1 08.** Record operating income in Q2 08 and an excellent performance of the CEE businesses contributed strongly to operating profit of EUR 1,503.6 million in H2 08. Correspondingly, despite unfavourable financial market conditions, net profit after minority interests also jumped by 12.5% to EUR 636.6 million.
- **Continuing convergence of Romanian economy supports strong performance of BCR.** Real GDP recorded growth of 8.2% in Q1 08; at the same time trade dynamics improved, leading to a downward revision of the current account deficit forecast for 2008; appreciation of the RON and higher local interest rates helped to contain inflation. Moderate deceleration of loan growth to sustainable levels of about 30% pa as a result of base effect and Central Bank policy measures is anticipated and fully in line with BCR's business plan. **2008 and 2009 profit guidance for Romania is confirmed.**
- **Stable ABS/CDO portfolio.** Despite turbulent market conditions in June negative mark-to-market valuation impact on pre-tax profit limited to EUR 10.7 million. Due to the quality of the underlying assets **no impairment** is anticipated for **2008**.
- **Erste Bank confirms guidance for 2008 (net income growth of at least +20%) and 2009 (at least 25%) on the back of robust economic growth outlook for Central and Eastern Europe, despite higher risk costs.** Current 2008 expectations for economic growth range between 7% on the upper end (Romania, Slovakia, Ukraine and Serbia) and 2% at the lower end (recovering Hungary). The Czech Republic and Croatia are expected to grow between 4% and 5% in real terms. **Rise in risk provisions reflects one-off effects, accounting changes as well as proactive and cautious provisioning policy: risk provisions as a percentage of average customer loans not to exceed 70bps in 2008.**
- **Strong capital base and liquidity position:** tier 1 ratio at 6.9% almost unchanged vs year-end 2007 level of 7.0%. This value does not take into account retained earnings for the first half or the sale of the insurance business. Year-end 2008 tier 1 ratio expected at above 8%. Sustained strengthening of liquidity position thanks to dynamic growth in customer deposits: accordingly, 2008 refinancing requirement declines to below EUR 5 billion; refinancing costs to fall to below 35 bps (compared to 2008 guidance of 40 bps).

Earnings performance in brief

Operating income increased by 17.2% to EUR 3,505.2 million. This was despite the slight decrease in the net trading result (-16.0% to EUR 184.4 million) in the first half of 2008 which was no surprise given the developments in the capital markets, and above all due to the strong net interest income (+24.1% to EUR 2,306.0 million). **General administrative expenses** rose by 11.7% to EUR 2,001.6 million. The **operating result** was up 25.3% to EUR 1,503.6 million, the cost/income ratio improved to 57.1% (total for 2007: 58.8%).

Net profit after minorities rose by 12.5% to EUR 636.6 million.

The **return on equity** (cash, i.e. without the linear amortisation of customer relationships and distribution networks from acquisitions made), increased from 14.6% (reported value 14.1%) in the full year 2007 to 15.2% (reported value 14.7%).

Earnings per share (cash) were EUR 2.10 in the first half of 2008 (reported value EUR 2.03). This was 11.1% higher than the comparable figure in the previous year (EUR 1.89/ reported value EUR 1.82).

Compared to the end of 2007, total assets in the first half of 2008 expanded by 6.8% to EUR 214.2 billion.

The **solvency ratio** with respect to credit risk decreased slightly due to the growth in loan volume, from 10.5% at year-end 2007 to 10.1% as of 30 June 2008. This remains significantly above the statutory minimum requirement of 8%. The **tier 1 ratio** in relation to the credit risk was 6.9% as at 30 June 2008.

Outlook

Erste Bank continues to anticipate a positive business performance for the full year of 2008 and confirms its existing targets: annual growth in net profit after minorities of at least 20% for 2008 and 25% for 2009. Thanks to the sale of the insurance division and the related strengthening of the capital base (positive effect on the core capital ratio: +70 basis points) a tier 1 ratio of over 8% is now anticipated for 2009. As a result return on equity should exceed 16% in 2009. The cost/income ratio is expected to improve below 55%.