ERSTE GROUP

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AD HOC INFORMATION

Erste Group posts net profit of EUR 453.6 million in first half of 2012 and increases EBA capital ratio (excluding retained earnings) to 9.9%

HIGHLIGHTS[1]

- **Net interest income** eased 1.9% to **EUR 2,651.7 million** in H1 2012 driven by the reduction of non-core assets and subdued credit demand. **Net fee and commission income** amounted to **EUR 865.5 million** in H1 2012, down 4.5% on H1 2011 due to weaker securities business. The deterioration in **net trading result** from EUR 288.8 million in H1 2011 to **EUR 121.5 million** in H1 2012 was due to valuation gains in H1 2011, which did not recur in H1 2012.
- Driven by the lower net trading result, **operating income** was down 6.7% to **EUR 3,638.7 million** (H1 2011: EUR 3,898.8 million). Effective cost management resulted in a 2.0% drop in **general administrative expenses** from EUR 1,926.3 million in H1 2011 to **EUR 1,887.4 million** in H1 2012. Thus, the **operating result** amounted to **EUR 1,751.3 million** (H1 2011: EUR 1,972.5 million). The **cost/income ratio** stood at **51.9%** (H1 2011: 49.4%).
- **Risk costs** rose 6.6% from EUR 920.8 million in H1 2011 to **EUR 981.8 million** in H1 2012, or to 146 basis points of average customer loans. With the exception of Romania and Croatia, the provisioning level for the core countries declined or remained stable. Asset quality was mixed, with Austria, the Czech Republic and Slovakia showing improving trends while Romania, Hungary and Croatia deteriorated. Overall, the **NPL ratio** increased to **9.2%** as of 30 June 2012 (year-end 2011: 8.5%), while the **NPL coverage ratio** improved to **61.2%** (year-end 2011: 61.0%).
- **Other operating result** improved to **EUR -68.1 million** in H1 2012 compared to EUR -260.2 million. This was mainly due to a EUR 413.2 million contribution from the buy-back of tier 1 and tier 2 instruments, which was partly offset by a goodwill adjustment of EUR 210.0 million for Banca Comercială Română as well as a EUR 60.6 million charge related to the FX mortgage interest subsidy legislation in Hungary (booked as risk costs in Q1 2012 and now presented as other operating result). A banking tax charge of EUR 114.5 million continued to weigh on this position in H1 2012.
- Thus, **net profit after minorities**[2] declined by 12.9% to **EUR 453.6 million** in H1 2012.
- **Core tier 1 capital** improved significantly to **EUR 11.3 billion** (year-end 2011: EUR 10.7 billion), resulting in a rise of the **core tier 1 ratio** (total risk; Basel 2.5) to **10.4%** (year-end 2011: 9.4%). The **EBA capital ratio** increased to **9.9%** (year-end 2011: 8.9%). Including retained earnings, the EBA capital ratio reached 10.4%. The continued improvement in capital ratios was supported by a decline in **total risk-weighted assets** of 4.4% to **EUR 109.0 billion** as of 30 June 2012 (year-end 2011: EUR 114.0 billion). **Shareholders' equity**[3] rose substantially to **EUR 12.6 billion** (year-end 2011: EUR 12.0 billion).
- Driven by deposit growth and investments into highly liquid assets, **total assets** grew by 2.5% to **EUR 215.2 billion** versus EUR 210.0 billion at year-end 2011. The **loan-to-deposit ratio** improved to **109.6%** as of 30 June 2012 (year-end 2011: 113.3%).

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[1] In accordance with IAS 8, comparative figures in the financial results have been restated. For further details, see Notes to the financial statements in the 2012 half-year report

[2] The term "net profit/loss for the period after minorities" corresponds to the term "net profit/loss for the period attributable to the owners of the parent"

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

Outlook

Macroeconomic prospects across Europe including Erste Group's core markets have continued to weaken in the first half of 2012. While Austria, Slovakia and Romania are still expected to show some GDP growth in 2012, the other economies are forecast to see GDP contraction, driven by restrained public sector and private household spending as well as low investment activity and weakening exports. The sovereign debt crisis in the euro zone periphery continues to weigh heavily on the political agenda and on the economic lead indicators.

Against this background, Erste Group's priorities for the remainder of 2012 will be the maintenance of the strong capital and liquidity position as well as strict cost management. The continued reduction of non-core assets, reducing yield levels on high-quality sovereign bonds, the absence of loan growth on an aggregated basis as well as the low level of consumer finance in new lending flows will negatively impact net interest income. Equally fee income from securities business/wealth management will remain under pressure. While the full-year operating result is expected to stay somewhat behind 2011, risk costs are also expected to decline to about EUR 2.0 billion in 2012, despite risk costs peaking in Romania this year. In addition, BCR, Erste Group's Romanian subsidiary is expected to return to profitability in 2013.

Erste Group expects to comfortably and sustainably meet all capital requirements (EBA, Basel 3) as and when required, command a liquidity position superior to almost all competitors and, therefore, sees itself well positioned to take advantage of growth opportunities in its core customer business going forward.

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