



## Erste Bank achieves strong earnings growth through expansion in Central Europe

### Highlights

(H1 2001 compared with H1 2000, unless stated.)

Growth in total assets vs. end 2000: +15.6% to EUR 82.3 billion

Net interest income +77.8% to EUR 670.0 million

Commission income +55.0% to EUR 278.0 million

Operating result +58.0% to EUR 314.2 million

Pre-tax profit +41.2% to EUR 193.5 million

Net profit after minority interests +15.4% to EUR 107.9 million

Return on equity (RoE) 12.3% (same as Full Year 2000)

**Erste Bank** continued to perform strongly in H1 2001. The Erste Bank Group as a whole succeeded in evading the negative trend afflicting most financial institutions in Western Europe in H1 2001 and, despite difficult market conditions, continued to achieve strong growth in earnings.

The Bank achieved growth of 58 % in its **operating result** to EUR 314.2 million and 15.4 % growth in net profit after tax and minority interests to EUR 107.9 million. Apart from favourable developments in Austria, this was above all due to contributions from subsidiaries in Central Europe.

#### Andreas Treichl, CEO, said:

"This clearly shows that Erste Bank's CEE growth strategy is already bearing fruit and is also making the Bank less dependent on economic developments in Western Europe."

"The results we have achieved show that expansion into Austria's neighbouring markets was the right step. Our earnings and return on equity reflect not only our solid performance in Austria but also strong results at our key Central European subsidiaries, where the performance demonstrates that the transformation is being implemented rapidly and successfully."

The **return on equity** (RoE) reached the favourable levels seen for the full year 2000, despite full consolidation of Slovenska sporitel'na and Ceska sporitel'na.

### REVIEW OF OPERATIONS

At **Ceska sporitel'na (CS)** the transformation process has been running for around one year and continues to remain on track. The modernisation of branches and the training of staff to enhance service standards has begun to produce results. Since the acquisition of a majority stake in CS, the number of customers has increased from 3.5 million to around 4 million. As part of the restructuring, CS will introduce in September a new logo consistent with the Erste Bank family of logos.

In July 2001 CS executed the planned transfer to Konsolidacni banka of CZK 7.9 in loans from CS' existing portfolio. The smooth implementation of this transaction, following appropriate due diligence on the loan portfolio, underlines the logic of the agreement at the time of the acquisition, which ensured full ring fencing by the Czech state of risks in the existing CS credit portfolio.

At **Slovenska sporitel'na (SLSP)** the restructuring process has already started. In a similar approach to that used in the Czech Republic, here transformation teams are also being created, which will comprise staff from both SLSP and Erste Bank who jointly plan and implement projects.

In Hungary, **Erste Bank Hungary** acquired the five branches of Hungary's HBW Savings Bank, with around 5,000 customer accounts. Overall, this year the bank plans to spend around HUF 1.2 billion on the modernisation of the enlarged network of around 60 branches. Business has progressed very favourably so far this year.

In **Austria** preparations for the **harmonisation of IT systems** of the savings banks and Erste Bank are fully up to speed. At end Q2 2002 the joint IT platform is expected to be fully operational, as part of the easd+ project. The previously completed harmonisation of ATMs across the savings bank sector was one of the many steps in this project.

## COMPARABILITY OF ACCOUNTS

Key influences on the profit and loss account for H1 2001, when compared with H1 2000, were the first time consolidation of **Slovenska sporitel'na (SLSP)** and **Ceska sporitelna (CS)**. For the balance sheet, the key influence was the consolidation of SLSP (CS had been included in end 2000 Group figures). The **sale of a stake of around 20 % in SLSP** to the European Bank for Reconstruction and Development (EBRD) is factored into H1 2001 results.

## PROFIT AND LOSS ACCOUNT

Among the influences on the **profit and loss account**, the **increase in net interest income was the key driver of earnings**. Compared with the same period last year, net **interest income** increased by 77.8 % to EUR 670.0 million. Even if one excludes CS and SLSP, growth was particularly strong (+ 10.6 %). This was mainly due to a slight increase in interest margins, exceptionally strong results in international business and effective asset / liability management. Thanks to expansion into Central Europe, the interest margin for the Group as a whole increased continuously, rising from 1.34 % in 1999 to 1.70 % now.

**Net commission income** grew 55.0% to EUR 278.0 million, mainly due to contributions from Central European businesses. Adjusted for these contributions, the figure was only modestly below the strong result last year (- 4 %), due to a decline in fees and commissions from securities business as a result of adverse market conditions.

**The trading result** increased slightly (+6.7% to EUR 64 million), although securities business declined due to market conditions.

**Personnel expenses** increased due to the consolidation of CS and SLSP, rising 46.4 % to EUR 358.2 million. For the same reasons, **other administrative expenses** increased by 85.6 % to EUR 239.0 million. Net of CS and SLSP, personnel and other administrative expenses changed by + 0.3 % and - 2.6 % respectively, representing a significant achievement. Depreciation of fixed assets increased at an exceptional rate, mainly due to higher IT investments.

**General administrative** expenses as a whole (comprising personnel and **other administrative expenses** and depreciation) increased by 67.2 % to EUR 697.8 million due to consolidation of the two major Central European subsidiaries (CS and SLSP). Strict cost controls at Erste Bank in Austria ensured that the increase net of CS and SLSP was only 0.3 %.

The **operating result** grew to EUR 314.2 million, an increase of 58.0 % over the same period last year. However, both CS and SLSP made a substantial contribution, together accounting for around one third of the operating result. Net of CS and SLSP the increase was 6.5 %.

In spite of the increased expenses, Erste Bank succeeded in turning around its **cost / income ratio**, which was cut to 69 % after 70.2 % in Q1 2001 (and 67.7 % in H1 2000). Net of CS and SLSP the H1 2001 figure was 66.4 %. This underlines the success of cost control measures at Erste Bank.

**Risk provisions in lending business** increased by 54.4 % to EUR 93.1 million, mainly as a result of bringing the risk provisioning policy of the Czech and Slovak subsidiaries into line with the conservative standards of Erste Bank. Domestically the risk profile of business with SMEs was characterised by stability. As far as major corporate insolvencies as concerned, Erste Bank is only impacted by one company and in that case only to a limited degree. The increase in domestic risk provisions by 13 % in H1 2001 was mainly due to this major client insolvency, which has been fully accounted for in the results for the first half year. For the full year, Erste Bank does not expect to make further increases in risk provisions.

The deterioration in **other operating results** from EUR - 1.5 million to EUR - 27.6 million was due to planned goodwill amortisation resulting from the CS and SLSP acquisitions.

The **pre-tax** profit of EUR 193.5 million represented an increase of 41.2 % compared with the same period last year, while net profit after tax and minority interests increased 15.4 % to EUR 107.9 million.

## BALANCE SHEET

**Balance sheet** developments were influenced by the consolidation of SLSP (CS had already been included at end 2000).

**Total assets** reached EUR 82.3 billion at 30.6.2001, representing growth of 15.6 % compared with year end 2000. Net of SLSP the increase was 9 %.

On the asset side, **loans and advances to customers** increased by 12.9 % to EUR 35.3 billion. Net of SLSP the increase was 10.8 %, in part due to a reclassification of asset swaps from securities into loans and advances, as a result of the first time application of IAS 39.

On the liability side, **amounts owed to customers** increased by 16.2 %, benefiting significantly from the deposit growth at CS and SLSP.

**Debts evidenced by certificates** including subordinated capital increased by 14.7 % to EUR 12.3 billion, or by 13.8

% net of SLSP.

**Core capital** of the Erste Bank Group according the Austrian Banking Act was EUR 2.1 billion at 30.6.2001, representing a **core capital ratio** (Tier 1) of 6.1 %.

## OUTLOOK

The **key financial target of the Erste Bank Group for the full year 2001** continues to be an RoE above the 12 % mark, despite difficult market conditions and the impact of consolidating CS and SLSP. The target for **2003** remains an RoE of at least **14 %**. The target for the cost / income ratio in 2003 is a maximum of 66 %.

## SEGMENT REPORTING

In the **retail and real estate** segment Erste Bank achieved an increase in pre-tax profit of EUR 24.9 million to EUR 53.3 million during H1 2001, compared with the same period last year. The RoE increased from 7.6 % to 16.1 %. The Bank achieved a slight reduction in the cost / income ratio from 81.4 % to 80.8 %. The impact of consolidating CS, which had not been included for the same period last year, was particularly evident in the results for net interest income, net commission income as well as general administrative expenses. Net of CS there would have been a decline in earnings, mainly due to the transfer of Styrian branches (which had still been included in H1 2000 results), as well as a decline in commission and trading income. Developments in interest rates so far this year have produced an improvement in the interest margin in Austria.

The **large corporate client** segment achieved an increase in pre-tax profit to EUR 78.1 million. The improvement was mainly due to business at foreign branches (outside Austria) and in international business, while increased risk provisions in Austria hindered a greater improvement in earnings. The RoE was 20.4 %, representing a modest decline on the same period last year (22.7 %), in part due to an increase in equity attributed to this division. The cost / income ratio increased slightly to 38.4%, for reasons including the first time consolidation of expense items for CS.

Pre-tax profit in the **trading and investment banking** segment more than tripled compared with the same period last year and reached EUR 52.9 million. The RoE increased from 22.4 % to 39.6 %, while the cost / income ratio declined from 72.7 % to 56.2 %. This was due to successful management of the deposit and credit structure against a background of changes in the yield curve. Even net of CS, the increase in profits was still almost 3 times last year's level.

The decline in pre-tax profit in **asset gathering** to EUR 27.3 million and the increase in the cost / income ratio to 43.4 % was due to turbulence on international capital markets and associated nervousness among investors. The weaker result was particularly influenced by declining fund sales driven by market conditions.

The loss attributable to the **corporate centre** grew to EUR - 38.6 million. The reasons for this were in particular refinancing costs and goodwill amortisation in respect of the CS acquisition (first consolidated in Q3 2000). In addition, this segment carried the operating costs of the growing Internet subsidiary 'ecetra'.

The segment covered by **Slovenska sporitel'na** includes not only the earnings contribution but also refinancing costs and goodwill amortisation. The bank is currently presented as a separate segment, because a segmentation exercise is in progress, along the lines of that conducted at CS.

**Background information on Erste Bank and detailed financial statements are attached.**

**For further information please contact:**

Michael Mauritz, Public Relations  
Telephone: (+43 1) 050 100 - 19603

E-Mail: [Michael Mauritz](mailto:Michael.Mauritz@erstebank.com)

Karin Berger, Public Relations  
Telephone: (+43 1) 050 100 - 17629

E-Mail: [Karin Berger](mailto:Karin.Berger@erstebank.com)

**Background information on Erste Bank**

Erste Bank - Highlights

A top ten European financial service provider by number of customers  
The leading player in Central European financial services by number of customers and share of deposits  
Erste Bank and its Austrian savings bank partners together serve over 8 million customers in Central Europe

and have an 11% share of customer deposits in the region, according to recent analyst estimates

#### Central Europe

Within only three years, Erste Bank has successfully implemented plans announced in 1997 of acquiring or establishing significant operations in the neighbouring markets of Central Europe. The largest acquisitions in the region were in the Czech Republic and Slovakia:

In January 2000 Erste Bank acquired a majority stake in Ceska sporitelna, the leading Czech retail bank with over 3.5 million customers.

At the beginning of 2001 Erste Bank signed an agreement to acquire a majority stake in Slovenská sporiteľňa, the largest bank in the Slovak Republic with 1.8 million customers.

Through these and other recent acquisitions, Erste Bank has significantly enhanced its attractiveness as a distribution partner for the insurance industry and international mutual fund managers.

#### Erste Bank's financial targets for Year End 2003

With the RoE on an upward trend and the cost / income ratio on a downward trend, Erste Bank is making good progress towards its conservative 2003 targets, which are as follows:

RoE at least 14 %

Cost / Income Ratio a maximum of 66 %

#### Recent share price performance

In Q1 2001 the Erste Bank share price grew by 20 %, making it one of the best performing European banking stocks.

#### Customer and product focus

The Erste Bank Group's customer focus is on the retail market as well as small to medium-sized enterprises. The product focus is moving increasingly towards higher margin commission-based business where Erste Bank has achieved particular success, including asset management, insurance and leasing.

#### Strategy

Erste Bank has four basic strategic objectives:

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#### Strategy

Erste Bank has four basic strategic objectives:

- to exploit its core business potential in Austria and focus on its key competencies,
- to build on its role as the lead bank of the Austrian savings banks sector and to seek increasingly closer co-operation and co-ordination within the sector, with the sharing of resources and responsibilities, creating synergies for the parties in terms of cost reduction and revenue growth,
- to grow its business in an extended home market in Central Europe with a potential customer base of some 40 million people and maintain its position as the leading retail financial institution in that market, and
- to offer the premier on-line access to innovative products across its extended home market.

#### Savings bank strategy

The pioneering partnership approach adopted in Austria has enabled Erste Bank to leverage its core competencies across the large distribution network offered by the Austrian savings banks, offering new sources of growth potential in a mature market.

[Half year results PR FINAL \(pdf 22.8 KB\) \[pdf; 22,8 KB\]](#)

## Q1 2001 Balance Sheet according to IAS

in EUR m	EB ex SLSP				
	30/06/2001	31/12/2000	+/- %	30/06/2001	+/- %
<b>Assets</b>					
1. Cash	1,475	1,146	28.7	1,207	5.3
2. Loans and advances to credit institutions	22,579	19,472	16.0	21,279	9.3
3. Loans and advances to customers	35,278	31,238	12.9	34,597	10.8
4. - Risk provisions for loans and advances	-1,874	-1,544	21.4	-1,629	5.5
5. Trading assets	3,837	3,210	19.5	3,804	18.5
6. Investments available for sale	2,686	3,932	-31.7	2,489	-36.7
7. Financial investments	13,304	9,542	39.4	11,302	18.4
8. Intangible fixed assets	788	605	30.2	603	-0.3
9. Tangible fixed assets	1,249	1,032	21.0	1,058	2.5
10. Other assets	3,005	2,563	17.2	2,883	12.5
<b>Total assets</b>	<b>82,327</b>	<b>71,196</b>	<b>15.6</b>	<b>77,593</b>	<b>9.0</b>
<b>Liabilities</b>					
1. Amounts owed to credit institutions	29,259	25,639	14.1	29,103	13.5
2. Amounts owed to customers	33,515	28,841	16.2	29,591	2.6
3. Debts evidenced by certificates	9,488	8,306	14.2	9,488	14.2
4. Provisions	825	764	8.0	774	1.3
5. Other liabilities	3,675	2,527	45.4	3,252	28.7
6. Subordinated capital	2,824	2,430	16.2	2,731	12.4
7. Minority interest	941	833	13.0	865	3.8
8. Equity	1,800	1,856	-3.0	1,789	-3.6
<b>Total liabilities</b>	<b>82,327</b>	<b>71,196</b>	<b>15.6</b>	<b>77,593</b>	<b>9.0</b>

## H1 2001 Income Statement according to IAS

in EUR m	EB ex CS und SLSP *)				
	1.1.-30.6.01	1.1.-30.6.00	+/- %	1.1.-30.6.01	+/- %
<b>I. Net interest income</b>	<b>670.0</b>	<b>376.8</b>	<b>77.8</b>	<b>416.9</b>	<b>10.6</b>
- Risk provisions for loans and advances	-93.1	-60.3	54.4	-68.3	13.3
Surplus on fee and commission income	278.0	179.3	55.0	171.4	-4.4
Net trading result	64.0	60.0	6.7	42.0	-30.0
General administrative expenses	-697.8	-417.3	67.2	-418.5	0.3
Other operating result	-27.6	-1.5	-1,740.0	-3.5	-133.0
Extraordinary result	0.0	0.0	0.0	0.0	0.0
<b>II. Pre-tax profit</b>	<b>193.5</b>	<b>137.0</b>	<b>41.2</b>	<b>140.0</b>	<b>2.2</b>
Taxes on income	-44.5	-28.8	54.5	-28.8	0.0
<b>III. Net profit</b>	<b>149.0</b>	<b>108.2</b>	<b>37.7</b>	<b>111.2</b>	<b>2.8</b>
Minority interests	-41.1	-14.7	179.6	-12.9	-12.2
<b>IV. Net profit after minorities</b>	<b>107.9</b>	<b>93.5</b>	<b>15.4</b>	<b>98.3</b>	<b>5.1</b>

\*) Pro forma after deduction of results, depreciation of goodwill and funding costs



in EUR m	Corporate Centre		Slovenska sporitel'na		
	H1 2001	H1 2000	H1 2001 excl. CS	H1 2001	H1 2000
Net interest income	-9.8	0.3	0.9	63.2	-
Risk provisions for loans and adv.	0.0	0.0	0.0	-3.5	-
Net commission income	4.4	2.1	2.0	13.9	-
Net trading result	-5.5	1.3	-6.3	9.7	-
General administrative expenses	-8.6	-10.0	-10.2	-56.8	-
Other operating results	-19.0	-3.7	-11.6	-6.0	-
<b>Pre-tax profit</b>	<b>-38.6</b>	<b>-10.0</b>	<b>-25.2</b>	<b>20.5</b>	-
Taxes on income					-
Minority interests					-
<b>Net profit after minority interests</b>					-
Average risk-weighted assets	225.6	391.7	225.6	983.8	-
Average attributed equity	11.4	20.4	11.4	49.6	-
Cost/Income Ratio	-78.8%	>100%	>100%	65.4%	-
ROE based on net profit before tax	>100%	-97.6%	>100%	82.7%	-
ROE based on net profit after min. int.					-
Thereof business with savings banks (based on net profit before tax)	0.1	0.0	0.1	0.0	-

in EUR m	Total		H1 2001
	H1 2001	H1 2000	excl. CS & SLSP
Net interest income	670.0	376.8	416.8
Risk provisions for loans and adv.	-93.1	-60.3	-68.3
Net commission income	278.0	179.3	171.4
Net trading result	64.0	60.0	42.1
General administrative expenses	-697.8	-417.3	-418.6
Other operating results	-27.6	-1.5	-3.4
<b>Pre-tax profit</b>	<b>193.5</b>	<b>137.0</b>	<b>140.0</b>
Taxes on income	-44.5	-28.8	-28.8
Minority interests	-41.1	-14.7	-12.9
<b>Net profit after minority interests</b>	<b>107.9</b>	<b>93.5</b>	<b>98.3</b>
Average risk-weighted assets	34,915.1	27,507.2	29,203.4
Average attributed equity	1,757.3	1,438.5	1,758.9
Cost/Income Ratio	69.0%	67.7%	66.4%
ROE based on net profit before tax	22.0%	19.1%	15.9%
ROE based on net profit after min. int.	12.3%	13.0%	11.2%
Thereof business with savings banks (based on net profit before tax)	17.4	20.7	17.4

ENDS

Please note that due to rounding up/down, there may be minor discrepancies between the sum of the P&L line items from each segment, and the totals given in the H1 2001 Income Statement.