Erste Group returns to profitability in Q4 11 and cuts net loss for 2011 to EUR 718.9 million; timely compliance with EBA capital requirement

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Highlights:

In the fourth quarter 2011, **net profit after minorities** amounted to **EUR 254.1 million**. This solid quarterly result cut the **net loss for the year after minorities** to**EUR 718.9 million**.

At 31 December 2011, the **core tier 1 ratio** (total risk; Basel 2.5) stood at **9.4%** (year-end 2010: 9.2%; Basel 2). Calculated by the **EBA** (European Banking Authority) method the **core tier 1 ratio** was **8.9%** at year-end 2011. The capital shortfall to be covered by the end of June was reduced from EUR 743 million to EUR 166 million.

Erste Group's **shareholders' equity** amounted to **EUR 12.0 billion** at 31 December 2011 (year-end 2010: EUR 13.1 billion) and **core tier 1 capital** to **EUR 10.7 billion** (year-end 2010: EUR 11.0 billion). Through a variety of measures, in particular the reduction of non core business, **total risk-weighted assets** were reduced by 4.8% versus year-end 2010 to **EUR 114.0 billion**.

Total assets, at **EUR 210.0 billion**, were up 2.1% in 2011 from EUR 205.8 billion. The **loan-to-deposit ratio** stood at **113.3%** at 31 December 2011 (year-end 2010: 113.1%). Customer deposits, at EUR 118.9 billion, were up almost 1.6% year on year, while lending volume rose by 1.8% to EUR 134.8 billion.

Net interest income improved by 2.4% from EUR 5,439.2 million in the financial year 2010 to **EUR 5,569.0 million** in the financial year 2011. At the same time, **net fee and commission income** declined by 3.0% to **EUR 1,787.2 million** (2010: EUR 1,842.5 million). At **EUR 122.3 million**, the **net trading result** was 62.0% lower than in 2010 (EUR 321.9 million). This was due primarily to changes in the fair value of the CDS portfolio of the International Business unit in the amount of EUR 182.6 million, which was closed out almost completely in the fourth quarter 2011.

Operating income of **EUR 7,478.5 million** (2010: EUR 7,603.6 million) was impacted by the net trading result. Despite higher inflation rates, **general administrative expenses** increased only by 0.9% from EUR 3,816.8 million to **EUR 3,850.9 million**. As a result, **operating result** decreased to **EUR 3,627.6 million** (2010: EUR 3,786.8 million). The **cost/income ratio** stood at **51.5%** (2010: 50.2%).

Risk costs were up 12.2% from EUR 2,021.0 million (155 basis points of average customer loans) in 2010 to **EUR 2.266,9 million,** or 168 basis points, in 2011. This was primarily due to the need for additional risk provisions in Hungary partly in connection with the policy-makers' decision to allow premature repayment of foreign-currency loans on preferential terms. In other core countries (Austria, Czech Republic and Slovakia) asset quality improved. The **NPL ratio** as a percentage of loans to customers rose to **8.5%** at 31 December 2011 (year-end 2010: 7.6%). The **NPL coverage ratio** improved to **61.0%** (year-end 2010: 60.0%).

"By returning to profitability in the fourth quarter we have proven that our business model – being the bank for retail and corporate clients in the eastern part of the European Union – works even as economic conditions remain challenging. In the financial year 2011, net profit was up in almost all countries. In Hungary and Romania we have strengthened the top management and taken action to return to a successful development," said Andreas Treichl, Chief Executive Officer of Erste Group Bank AG, when presenting the preliminary results for the financial year 2011. "We have taken the necessary steps and cut back non-core activities even more resolutely than we had done over the past years. This has enabled us to improve our core capital ratio", Treichl continued. "We are on track to meet the core tier 1 ratio of 9% required by the EBA at the end of June 2012 and beyond. At year-end 2011, the EBA core tier 1 ratio already stood at 8.9%, thus reducing the capital shortfall from EUR 743 million to EUR 166 million," Treichl concluded.

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