Hypo Group Alpe Adria: A good start to the financial year 2009

Hypo Alpe Adria Bank

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**Hypo Group Alpe Adria: A good start to the financial year 2009**

- Total assets up approximately 14% to EUR 43.3 billion
- Exceptional charges not balanced by increased net interest income
- Growth of operational business remains intact
- Consolidated net income before tax for 2008 EUR -472 million
- 2008 ended with expected consolidated net income after tax and minority interests of around EUR -520 million
- Positive start to 2009

“Hypo Group Alpe Adria has made a good start to the new 2009 financial year, achieving increases in a number of essential key figures. This is an important signal for the Bank and for our customers,” said the Chairman of the Executive Board, Dr. Tilo Berlin, and the Deputy Chairman of the Executive Board designate, Andreas Dörhöfer, at the balance sheet press conference on 23 April 2009 in Klagenfurt.

However, the 2008 financial year ended with a clearly negative consolidated net income, which at around EUR -520 million corresponds to already published estimates. The consolidated result before tax stands at EUR -472 million.

In the sphere of operational customer business, the development continued to be satisfactory in 2008 in both the banking and leasing segments in spite of crisis conditions, with the net interest income achieving a two-figure increase of around 17% and loans and advances to customers increasing by around 19% by comparison with the previous year.

However, this positive development was not sufficient to compensate for the very high exceptional charges of around EUR -730 million. The reasons for this were primarily the significantly high risk provisions on loans and advances, the effects of the international financial crisis and the downward adjustments undertaken in the context of consolidated companies which are not active in core business areas.

There was particularly positive development in the core markets of Hypo Group Alpe Adria. The banking subsidiaries of Hypo Group Alpe Adria in Croatia, Slovenia, Italy, Bosnia-Herzegovina and Serbia ended the 2008 financial year with a positive annual result. “The development of business in our core markets confirms the continuing potential of the Alps-Adriatic region,” said Dr. Tilo Berlin

**Development of result**

A clear increase was recorded in the net interest income for the 2008 financial year, which rose by around 17% to EUR 702 million by comparison with the previous year. The income from fees and commissions fell slightly by comparison with the previous year (-3%) and now stands at EUR 118 million. Adjusted to take account of the net income from fees and commissions for one consolidated company that was still included in 2007, there is actually a slight rise of about 2% in the income from fees and commissions.

The burdens imposed by the financial markets crisis, and in particular the currency devaluation in South-Eastern Europe, are reflected in a clearly negative trading result, which fell from the previous year's level of EUR 22 million to EUR -38 million.

In the sphere of risk provisions, there was a rise by comparison with the previous year, from EUR -274 million in 2007 to EUR -533 million in 2008. This is attributable mainly to the clearly more restrictive policy on risk provision and the exceptional charges arising from individual commitments.

**Development of the consolidated balance sheet**

Hypo Group Alpe Adria continued to grow in its markets in the 2008 financial year, achieving total assets per the balance sheet date of 31 December 2008 in the amount of EUR 43.3 billion, which corresponds to an increase of around 14% as against the comparable figure for the previous year (EUR 37.9 billion). On the assets side, this rise in the consolidated total assets was in particular carried by the growth in loans in the first nine months of the financial year and the increase in
The collapse of the US investment bank Lehman Brothers in mid-September, and the associated further escalation of the financial markets crisis, resulted inter alia in a drastic shortage of liquidity for refinancing on the capital market. As a result, the framework conditions deteriorated from the beginning of the fourth quarter, and therefore significant restrictions on new financing business were also imposed by Hypo Group Alpe Adria.

On the liabilities side, there was an increase of EUR 2.8 billion in liabilities towards banks by comparison with the previous year, bringing the figure to EUR 7.3 billion; similarly, a slight increase of around 3% was achieved in customer deposits in spite of the difficult market environment.

**Strong equity capital base**
The Group’s equity capital rose in the 2008 financial year by 52% to EUR 2.5 billion. Positive effects were achieved principally by the EUR 700 million capital increase undertaken in December by the majority shareholder BayernLB, and the provision of EUR 900 million in participation capital by the Republic of Austria. On the other hand, the negative annual income and the effects arising from the financial markets crisis (which had a negative effect on the revaluation reserve for securities) led to a corresponding reduction.

The capital measures that have been carried out have brought the equity capital base up to international level. There was a clear increase in 2008 in the total eligible capital of the Group, which stood at EUR 4,173 million per the balance sheet date (2007: EUR 2,872 million); the statutory minimum requirement is EUR 2,797 million, so that there is now surplus coverage in the amount of EUR 1,376 million.

In relation to the credit risk (banking book), the capital ratio (TIER 1 ratio) was 8.3% per 31 December 2008, whereas at the end of 2007 this ratio stood at 6.3%. In relation to the entire equity calculation basis (including market risk and operational risk), per 31 December 2008 the total equity ratio stood at 11.9% (2007: 10%), well above the minimum of 8% required by law in Austria.

**Restructuring measures**
Some considerable time ago Hypo Group Alpe Adria began to make massive improvements in its internal structure, and above all to reduce its risk positions. With these measures, and with the start of the Fit 2013 programme, Hypo Group Alpe Adria is now embedded in the “Herkules” restructuring programme introduced by BayernLB. For example, the merger of the two Croatian subsidiary banks was instituted at the end of 2007 and successfully concluded by 1 March 2009. The market position has been hugely improved as a result, and Hypo Group Alpe Adria is now one of the strongest financial institutions in Croatia. Because of the worldwide financial crisis, however, the restructuring process that has been initiated requires continued pressure, particularly as far as the reduction of risk positions and cutting of costs are concerned.

Initial planning envisages a total reduction of 2,100 employees within the whole of Hypo Group Alpe Adria over a period of 5 years up to 2013. About half of this reduction will be achieved by staff reductions within Hypo Group Alpe Adria as a whole, and the other half by the sale of equity interests, in the context of which it is intended that the jobs in question should be retained.

Some 180 jobs will be affected in Austria, and as far as possible these job losses will be absorbed by natural fluctuation. In subsequent years there will be further selective staff reductions. As a result, a net number of about 120 employees will be affected by the measures in Austria over the next 5 years.

The details of the restructuring measures are currently being worked out on the basis of fundamental decisions.

**Outlook for 2009**
Overall, Hypo Group Alpe Adria has made a positive start to the current 2009 financial year. However, as it is still not possible to foresee what additional effects the international economic crisis will have on the finance sector and on Hypo Group Alpe Adria, no reliable prognosis can be given for the year as a whole at the present time. For 2009 and 2010, the Bank assumes that risk provisions will remain high for the loan and leasing portfolio, but on the basis of the strengthening of the equity capital base and
the improved organisational structure, it regards itself as well equipped to cope with future challenges.

The consolidated annual report for 2008 of Hypo Group Alpe Adria and the annual financial report for 2008 pursuant to § 82 (4) of the Austrian Stock Exchange Act for Hypo Alpe-Adria-Bank International AG were published on 23 April 2009 on the company's website (www.hypo-alpe-adria.com) in the section "Investor Relations", from where they can be downloaded.

**Hypo Group Alpe Adria**

*Hypo Group Alpe Adria is an international financial group with more than 380 banking and leasing locations in 12 countries (Austria, Italy, Slovenia, Croatia, Bosnia-Herzegovina, Serbia, Montenegro, Germany, Hungary, Bulgaria, Macedonia and the Ukraine), which can look back on a history of more than 110 years. The principal company of Hypo Group Alpe Adria is Hypo Alpe-Adria-Bank International AG, which has its head office in Klagenfurt (Austria). Its owners are BayernLB (67.08%), the GRAWE group (20.48%), Kärntner Landesholding (12.42%) and Hypo Alpe-Adria Mitarbeiter Privatstiftung (0.02%). The network of Hypo Group Alpe Adria currently has around 7,500 employees serving more than 1.3 million customers.*

**Hypo Alpe-Adria-Leasing Holding AG**

*Hypo Alpe-Adria-Leasing Holding AG is a subsidiary of Hypo Alpe-Adria-Bank International AG. In 1990, the first leasing company was formed in Austria; further subsidiaries followed in Slovenia, Croatia, Bosnia-Herzegovina, Serbia, Germany, Italy, Montenegro, Hungary, Bulgaria, Macedonia and the Ukraine. Hypo Group Alpe Adria Leasing currently has over 1,100 employees at 80 locations, serving more than 83,000 customers.*

Contact:
Hypo Alpe-Adria-Marketing und Advertising GmbH
Mag. Martina Uster
Telephone: 0043 (0)50202-2893
Mobile: 0043 (0)664 856 89 03
martina.uster@hypo-alpe-adria.com
www.hypo-alpe-adria.com