

German & Austrian Corporate Conference

23–24 June 2009, Frankfurt

Erste Group –

**Strong operating performance mitigates
increased risk costs**

Bernhard Spalt, Chief Risk Officer

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Presentation topics



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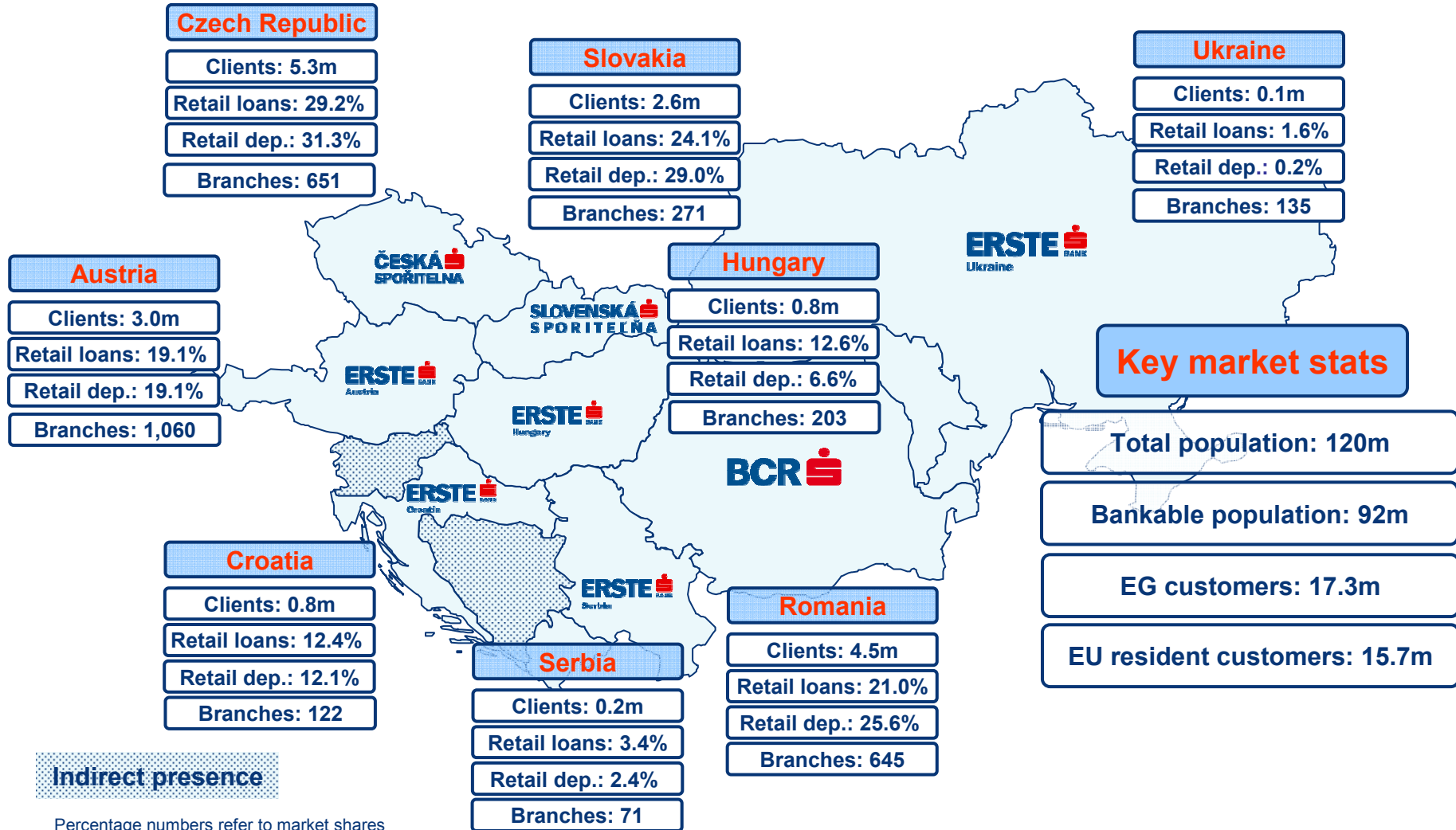
– **Erste Group in the CEE region**

– Q1 09 financial highlights

– Risk costs and NPLs

– Conclusion

Erste Group in the region – Strong presence in core markets within the EU



Erste Group in the region – Update on the macro environment

– **Economies will contract in 2009 but intensity of macro shock is easing**

- GDP growth outlook remains challenging but first signs of recovery in manufacturing and sustainability of capital inflows are being witnessed

– **External support stabilises currencies and will support economies**

- Preventive packages provided by IMF, EU and other IFIs for Hungary, Romania and Serbia as well as Ukraine

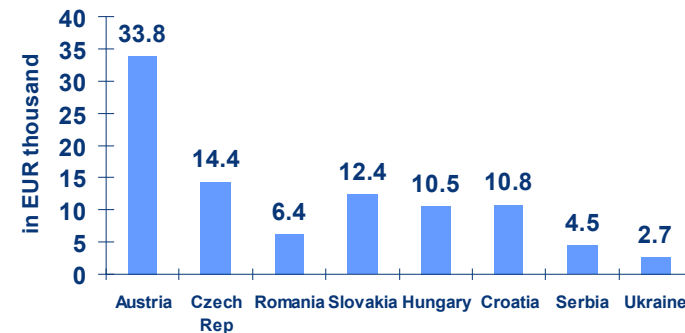
– **Fundamental differences between countries become more important**

- Open economies like CZ and SK more exposed to EU slowdown but are well positioned for recovery
- Romania to benefit from large home market and EU supported infrastructure investments
 - Current account deficit expected to decline substantially

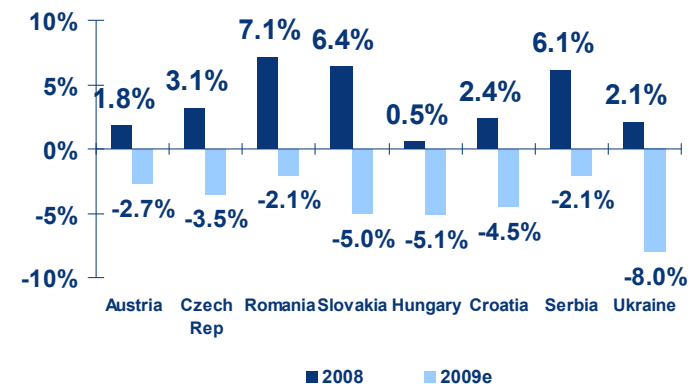
– **Region will remain investment destination**

- Favourable tax regimes
- Educated workforce, labour market flexibility
- Cost advantages vs Western Europe

GDP per capita in the CEE (2008)

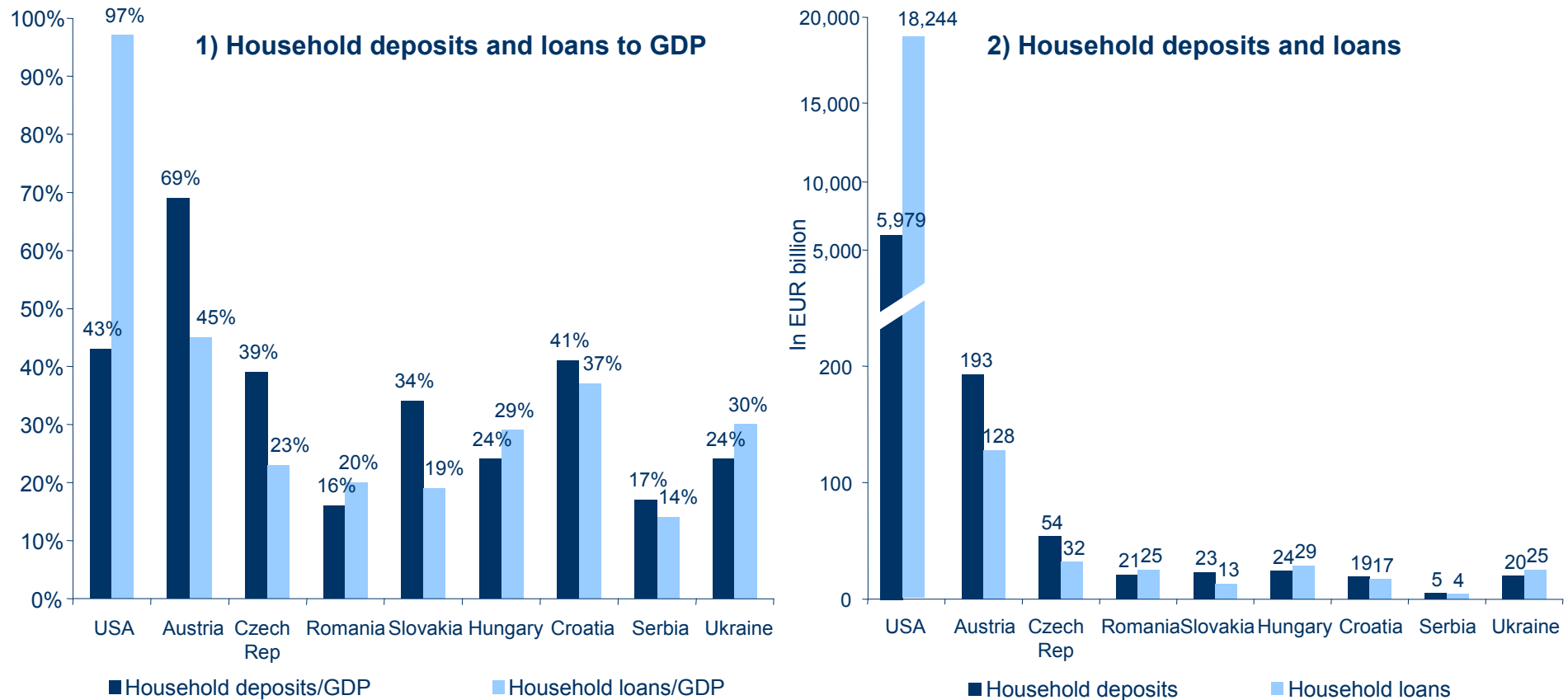


Real GDP growth outlook for CEE



Erste Group in the region – Growth opportunities remain in place

Financial intermediation in the US and CEE (2008)



USA figures do not include money market funds; including these, deposit penetration would be 54%

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– Erste Group in the CEE region

– **Q1 09 financial highlights**

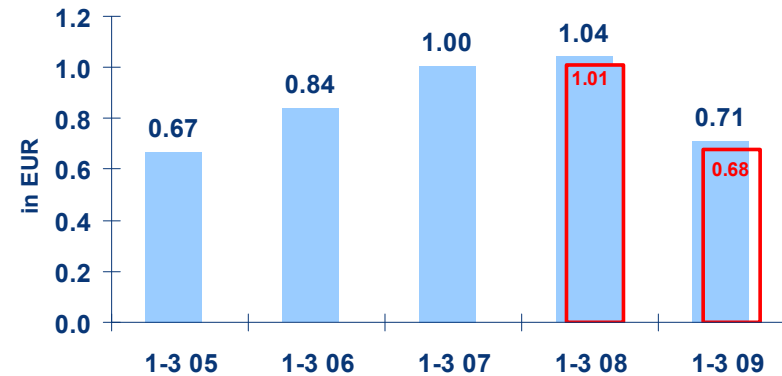
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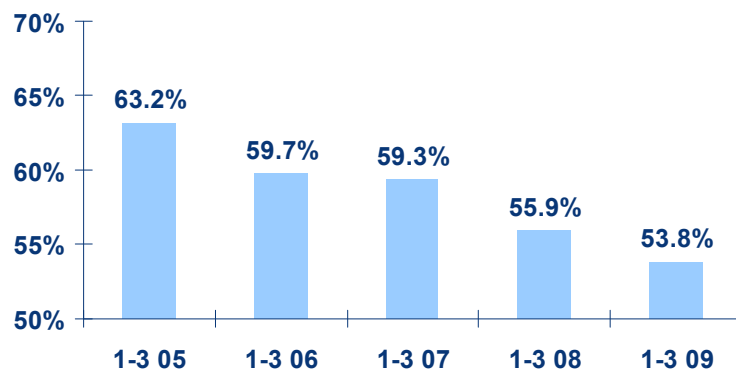
Q1 09 financial highlights – Strong operating performance – up 10.3% yoy

- **Operating profit increased by 10.3% to EUR 838.5m (Q1 08: EUR 760.5m)**
 - Backed by a record operating income (up 5.2% yoy to EUR 1.8bn) and contained cost growth (up 1.2% yoy to EUR 975.9m)
- **NIM on interest bearing assets (IBA) stable at 2.9% from 2.8% at FY 08**
- **Net profit declined by 26.5% to EUR 232.2m yoy**
 - Impacted by higher risk costs and negative m-t-m valuations
- **Total assets declined by 1.2% to EUR 199.1bn**
 - Mainly due to weaker CEE currencies and a reduction of interbank business
- **Cost/income ratio at historic low of 53.8%**

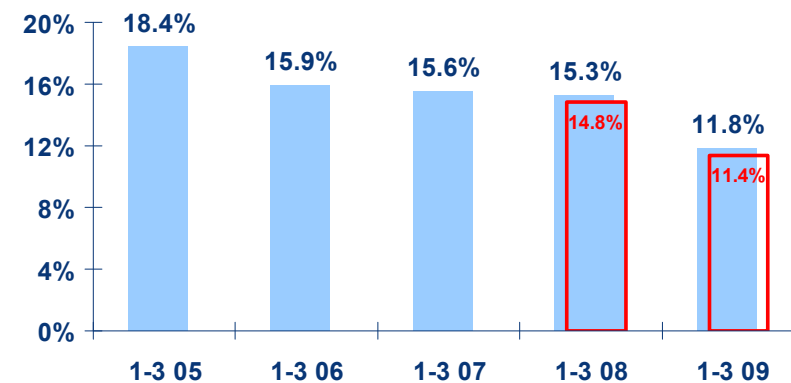
Cash earnings per share *



Cost/income ratio



Cash return on equity *



*) Red bars denote reported EPS and ROE respectively.

Cash EPS and EPS are adjusted for non cash items amounting to EUR 15.8m in Q1 09 (linear depreciation of customer relationship value). EPS calculated on average number of shares for the period (ex treasury shares and shares owned by savings banks with EB participations).

Q1 09 financial highlights – Segment operating performance overview



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– Retail & SME segment contribution impacted by lower loan demand and weaker currencies

- Austria supported by resilient NII and strong cost control at EB Oesterreich.
- CEE performance impacted partly by weaker CEE currencies. Revenues were supported by strong NII across the region while fees and trading were impacted by lower volumes.
- Cost growth remained contained

– GCIB contributed strongly to operating performance

- Strong increase in NII offsetting decline in fees
- Tight expense control - costs declined by 0.9%
- Erste Group well positioned to take advantage of business opportunities

– Group Markets operating result doubled

- Solid NII supported by money market result in Vienna and a EUR 83m increase in trading result
- 4.5% costs decline reflected in CIR of 21.4%

– Corporate Center performance impacted by negative ALM contribution

- NII - Negative contribution from ALM – due to higher funding costs

Operating result per segment *

in EUR million	1-3 09	1-3 08	Change
Retail & SME	616.6	641.1	(3.8%)
Austria	189.4	197.1	(3.9%)
<i>EB Oesterreich</i>	71.6	64.8	10.6%
<i>Savings Banks</i>	117.7	132.3	(11.0%)
Central and Eastern Europe	427.2	444.0	(3.8%)
<i>Czech Republic</i>	181.8	188.1	(3.3%)
<i>Romania</i>	132.1	136.9	(3.5%)
<i>Slovakia</i>	42.9	47.5	(9.7%)
<i>Hungary</i>	33.2	43.1	(23.0%)
<i>Croatia</i>	33.4	32.4	3.2%
<i>Serbia</i>	3.1	0.4	>100.0%
<i>Ukraine</i>	0.8	(4.3)	na
GCIB	131.3	103.8	26.5%
Group Markets	167.7	85.0	97.4%
Corporate Center	(77.0)	(69.3)	(11.0%)
Total Erste Group	838.6	760.5	10.3%

*) Changes in scope of consolidation leading to only minor distortion: 1 additional savings bank (Kufstein) joined the Haftungsverbund in Jan 2009; Investbanka, Macedonia was acquired by the Styrian SB in Oct 2008

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– **Risk costs and NPLs**

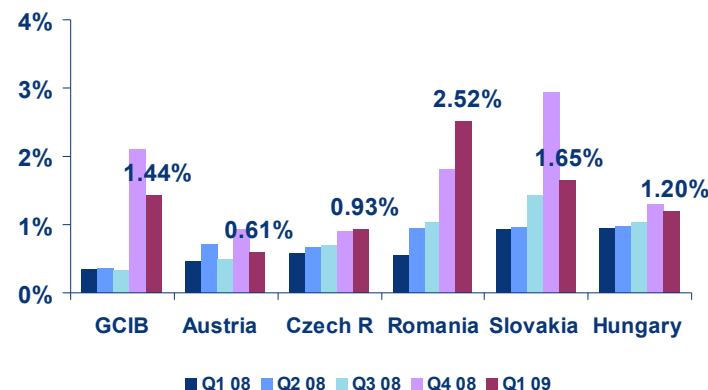
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Risk costs and NPLs –

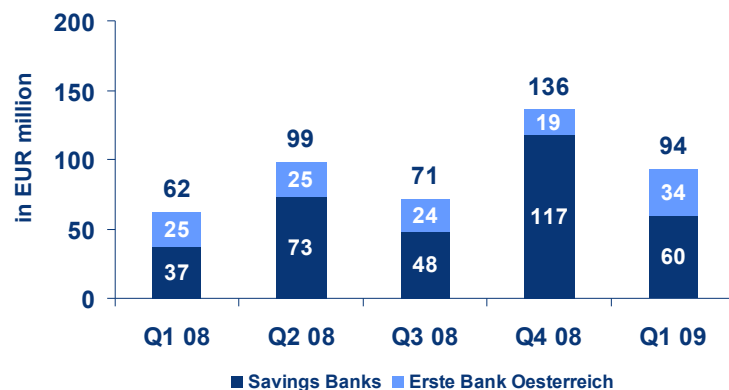
Risk costs up to 117bps reflecting macro environment

- Risk costs development in line with expectations reflecting the general economic environment
 - Risk costs for Q1 at EUR 370m or 117bps on an annualised basis
 - CEE Retail & SME accounted for 47% of risk costs booked
- Conservative provisioning has been applied anticipating portfolio deterioration going forward
- Risk costs increased across all the geographies albeit from very low levels; notable increases in Romania, Ukraine and the Austrian savings banks

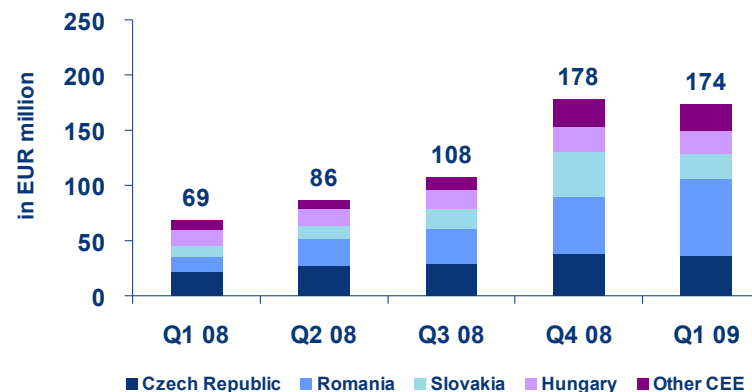
Risk costs in key segments



Quarterly risk cost development
(Retail & SME detail: Austria)



Quarterly risk cost development
(Retail & SME detail: CEE)

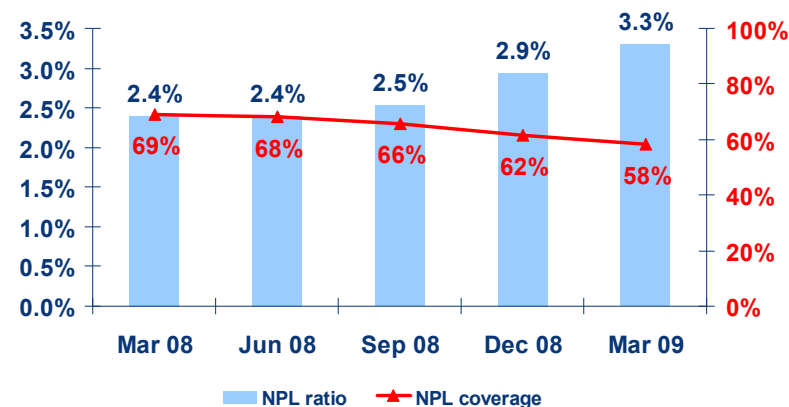


*) Quarterly risk costs on average customer loans by segment

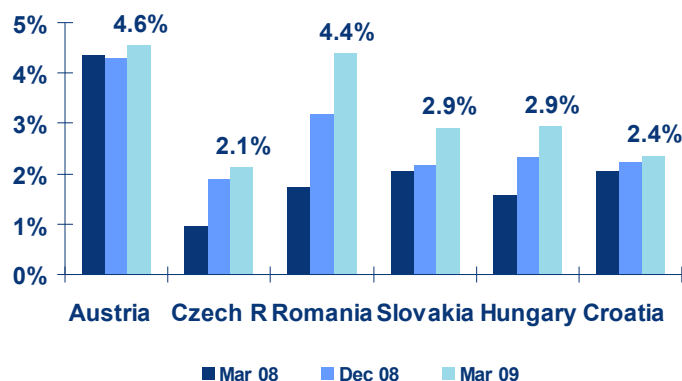
Risk costs and NPLs – Non-performing loans and NPL coverage

- **NPL ratios have increased but still remain at a manageable level**
 - NPLs in Austria higher than in CEE due to different methodology
 - NPL development shows differences within CEE driven also by the level of FX lending together with currency depreciation
- **NPL coverage (excluding collateral) has declined**
 - Comprehensive Basel II default definition overstates NPL figures
 - Coverage ratio of 71.7% (excl. collateral) in CEE at comfortable level
 - Including collateral coverage ratio remains above 100% in CEE
 - Increase in NPL coverage in GCIB division to 64.0% (exc. collateral)
- **High recovery rates achieved**
 - 83% on Hungarian mortgages auctioned through court in Q1 09

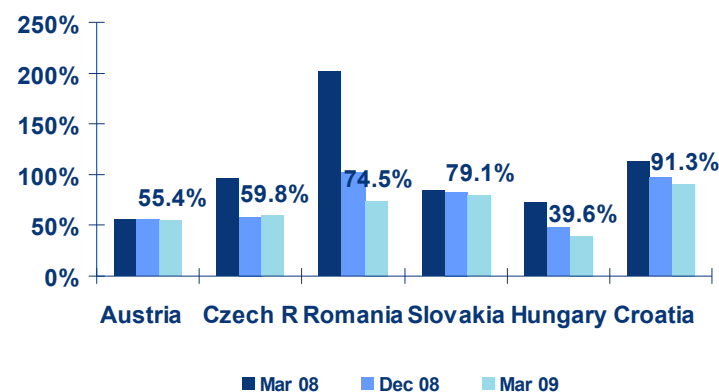
Group NPL ratio vs group NPL coverage



NPL ratios in key markets



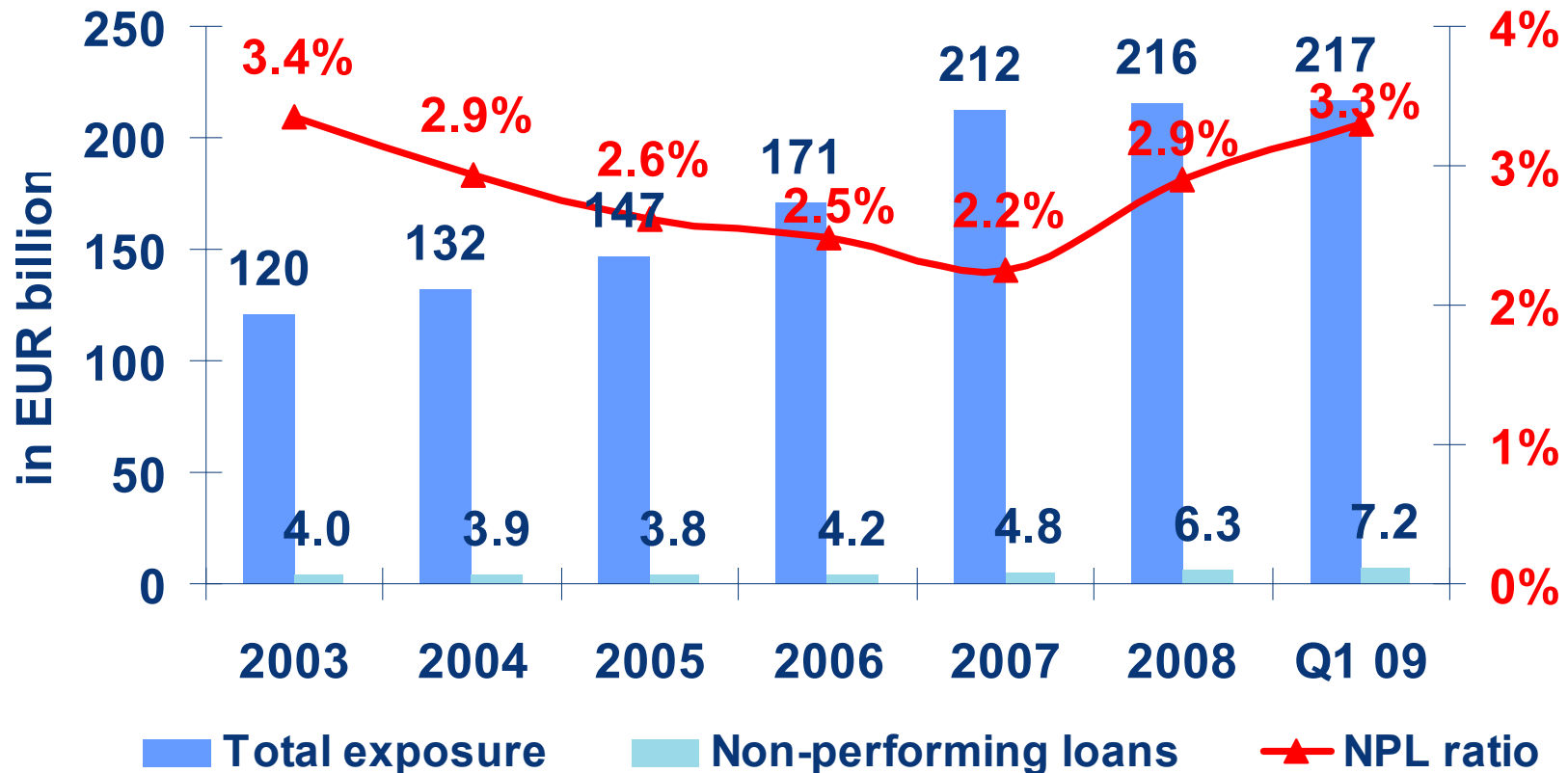
NPL coverage ratios in key markets



*) NPLs and NPL coverage ratios (as percentage of total risk assets) are based on country of origination, not segment view, in order to show longer term developments.

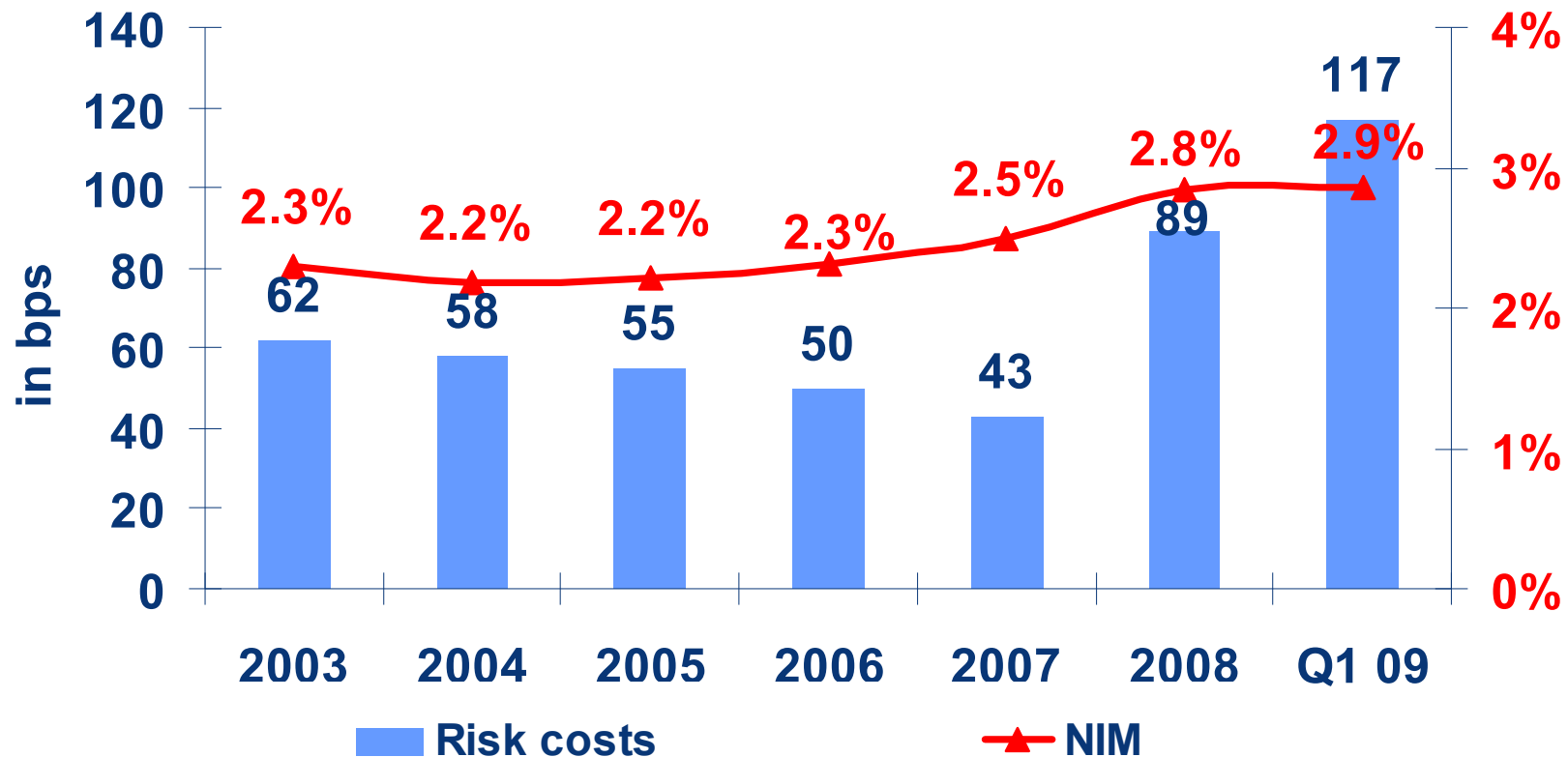
Risk costs and NPLs – Where do we stand in terms of NPLs?

Credit exposure and NPL development



Risk costs and NPLs – Where do we stand in terms of risk costs?

Net interest margin vs risk costs (ytd)



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Conclusion – Solid liquidity position and improved capital ratios



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- **Strength of deposit franchise sustaining growth and market share**
 - Erste Group has excess liquidity in all local currencies
 - Loan to deposit ratio expected to remain balanced – at around 115%

- **Erste Group's long-term funding for 2009 already covered**
 - Total funding needs for 2009 expected to be maximum EUR 5 – 7bn
 - EUR 1bn has been pre-funded in 2008
 - Successful issuance of first Austrian benchmark Pfandbrief (EUR 1 bn)
 - Total of EUR 6.9bn already raised in 2009

- **Capital strengthened through agreement with Austrian government**
 - Completion of deal with the Austrian government (EUR 2.7bn) will improve Erste Group's Tier 1 (7.8% as reported in Q1 09) by additional 170bps
 - Participation capital amounted to EUR 1.76bn after completion in May 2009 (inc. EUR 540m from public offering)
 - Hybrid capital of up to EUR 1bn to be issued in the coming months

Conclusion – Remaining positive, but cautious

- **Our core markets are EU-member states converging towards the Euro**
 - We are operating in underpenetrated retail banking markets
 - We are market leaders in most of our chosen countries
 - Our growth remains selective
- **Operating performance remains strong**
 - Backed by record operating income and contained cost growth
- **Risk cost continue to rise but are well covered by net interest income**
 - Q1 09 net interest income: EUR 1,226m vs Q1 09 risk costs: EUR 370m
 - Stable margins to mitigate credit risk
- **NPLs are rising, but only gradually**
 - Driven by downward migration, but also technical effects (workout vs sale of NPLs)
 - Promising workout and collection efforts will support containment of NPL growth
- **Long-term growth prospects remain unchanged**