ERSTE GROUP

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Erste Group – Competing in the age of austerity

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Presentation topics *

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– **Business snapshot**

– Business environment

– Competing in a new environment

– Summary

*) The following tables and texts may contain rounding differences.

H1 2010 business snapshot –
Continued strong operating performance in Q2 2010

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- **Continued revenue growth and cost management pushed cost/income ratio to new low**
  - **Operating income rose by 4.1% to EUR 3,889.8 million despite a 30% yoy decline in the net trading result**
  - **Operating result improved by 12.1% to EUR 1,991.4 million in H1 2010 supported by another quarter of record revenues and declining costs**
  - **Cost/income ratio reached 48.8% in H1 2010 (H1 2009: 52.5%)**
  - **Net profit declined by 4.1% to EUR 471.9 million in H1 2010 mainly due to higher minority interests**
- **Stabilising trends in asset quality continued in H1 2010**
  - **New NPL formation in Q2 2010 remained at the lower levels (+5.9% qoq) recorded in the previous three quarters**
  - **NPL ratio based on total customer loans increased to 7.3% (year-end 2009: 6.6%)**
  - **NPL coverage continued to improve, reaching 59.7% (year-end 2009: 57.2%)**
- **Risk costs remained below H2 2009 level, despite a quarter-on-quarter increase in Q2 2010**
  - **Risk costs amounted to EUR 1,084.2 million or 167 bps of average customer loans in H1 2010**
  - **Compared to Q1 2010 (EUR 531.2 million or 164 bps) risk costs rose by 4.1% to EUR 553.0 million or 169 bps, but decreased on Q4 2009 (EUR 607.4 million or 189 bps)**
- **Continued comfortable liquidity position**
  - **Solid deposit funding base – loan/deposit ratio improved to 112.4%**
  - **More than 50% of 2010 long-term funding already covered with increased focus on private placements**
- **European stress test confirmed solid capitalisation**
  - **Calculated Tier 1 ratio (total risk) of 8.0% in 2011 in worst case scenario (including additional sovereign stress)**
  - **Despite application of tougher macroeconomic assumptions than required by CEBS**

H1 2010 business snapshot –

Improving operating result across all key segments

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in EUR million	1-6 10	1-6 09	Change	Q2 10	Q1 10	Q2 09
Retail & SME	**1,569.5**	1,346.8	16.5%	**831.0**	738.5	708.2
Austria	**419.8**	376.4	11.5%	**219.7**	200.0	177.3
EB Oesterreich	**193.8**	153.2	26.5%	**98.7**	95.0	95.0
Savings Banks	**226.0**	223.2	1.3%	**121.0**	105.0	105.0
Central and Eastern Europe	**1,149.7**	970.4	18.5%	**611.3**	538.4	530.9
Czech Republic	**429.3**	404.7	6.1%	**218.4**	211.0	211.0
Romania	**331.8**	272.9	21.6%	**185.4**	146.4	139.2
Slovakia	**148.9**	97.2	53.1%	**77.7**	71.3	52.7
Hungary	**145.3**	110.8	31.1%	**76.7**	68.7	75.6
Croatia*	**89.0**	79.3	12.2%	**48.2**	40.8	43.2
Serbia	**3.1**	6.4	(51.9%)	**1.8**	1.3	3.3
Ukraine	**2.2**	(1.0)	na	**3.1**	(0.9)	(1.8)
GCIB	**285.3**	267.4	6.7%	**139.9**	145.4	134.0
Group Markets	**178.2**	342.0	(47.9%)	**63.2**	115.0	174.3
Corporate Center	**(41.6)**	(179.7)	76.8%	**(25.9)**	(15.7)	(78.6)
Total Erste Group	**1,991.3**	1,776.4	12.1%	**1,008.1**	983.2	937.8

*) Changes in scope of consolidation leading to minor distortions: Opportunity Bank, Montenegro was acquired by EBCR in March 2009.

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Business environment: Economy –
Short-term: Recovery on track in most of CEE

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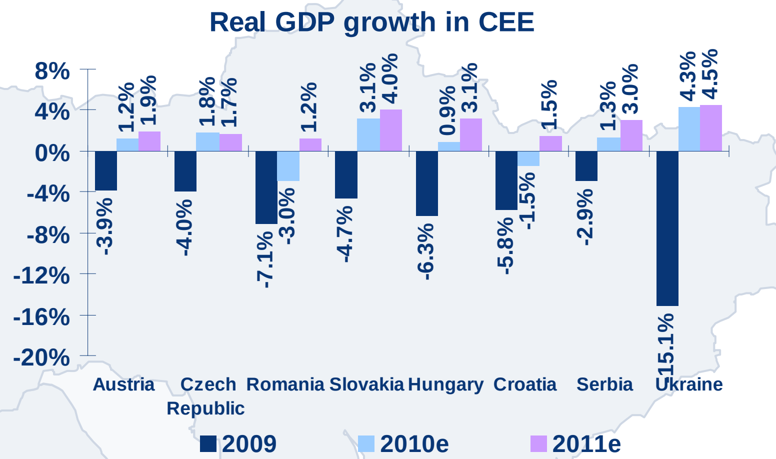
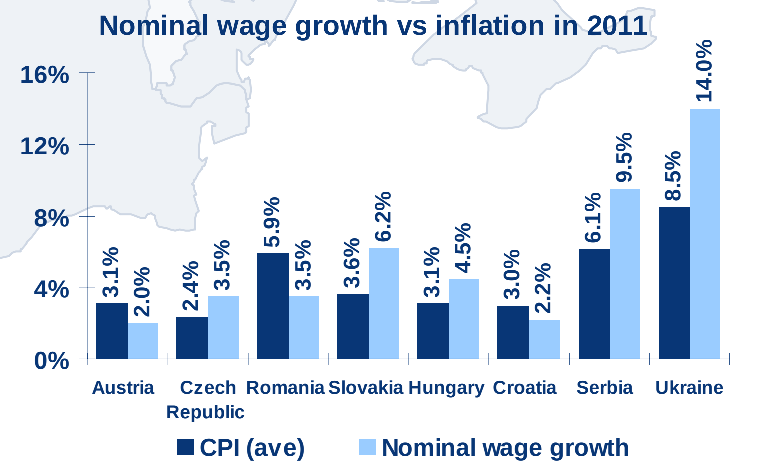
- **Economic recovery is under way and growth is set to return to all CEE countries in 2011**
  - Currently growth is mainly driven by exports but in 2011 domestic demand will increasingly become a growth driver
  - Romania: negative short-term effects from VAT increase and cuts in public sector pay but return to growth in 2011
  - Croatia: similar growth scenario as in Romania but benefits from exposure to tourism
  - Marked acceleration in growth expected for Hungary and Serbia in 2011
  - Stable development in the Czech Republic while Slovakia will continue to outperform
- **2010: Significant improvement in industrial output thanks to rising exports**
  - Main driver behind recovery
  - Unit labour costs declined in CEE as productivity increased
- **2011: Real wage growth to support domestic demand in most CEE countries**



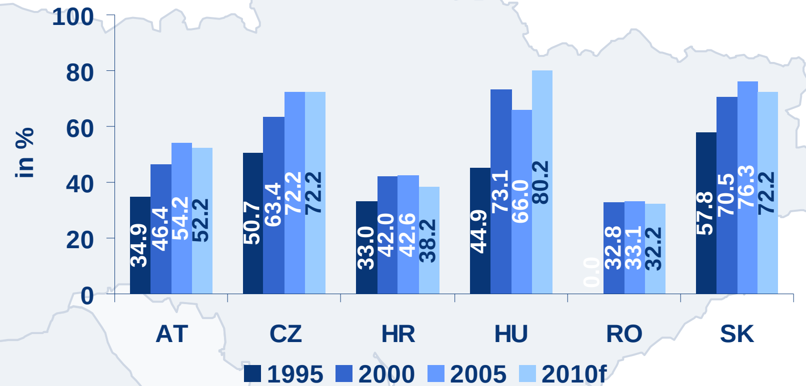


Source: Erste Group Research

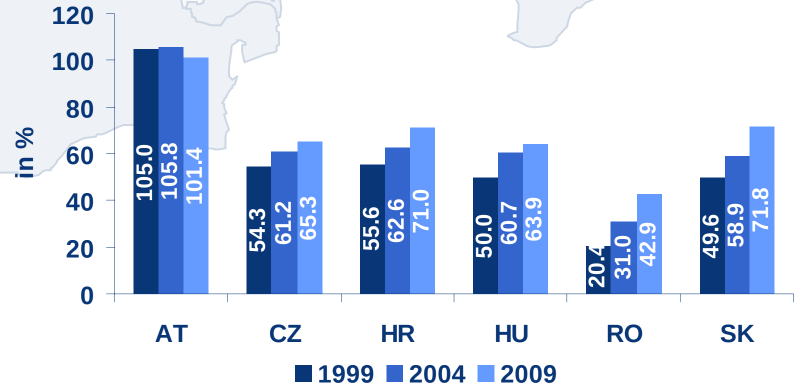
Business environment: Economy –
Long-term: CEE has taken advantage of globalisation

- **Significant rise in trade volumes in most CEE economies over the past 15 years**
  - Continuous improvements in competitiveness compared to EU 15
  - Supported by ideal location next to one of the biggest consumer markets
  - Fuelled by fast-growing domestic economies
- **Improved labour productivity as a result of fostering private enterprise**
  - Politics created environment conducive to investments: favourable tax regime, improved infrastructure and educated workforce
  - Ensuing strong inflows of FDIs enabled renewal of industrial base, the creation of employment and the spreading of wealth
- **These trends are set to continue as CEE converges to EU levels of productivity**

Export quotas (goods & services) in CEE



Labour productivity per employee in CEE
(as % of EU 15, PPS)

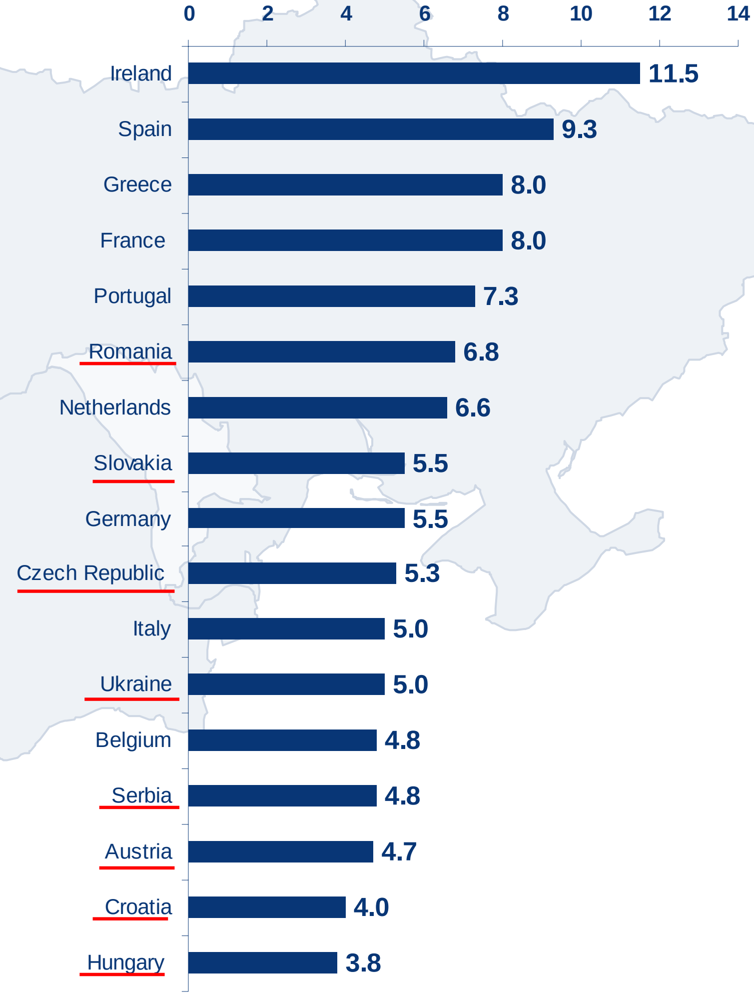


Source: Erste Group Research

Business environment: Economy –
CEE public finances compare well to rest of EU

- **CEE governments have introduced measures to meet agreed fiscal deficit targets**
  - In agreement with international organisations such as the IMF and EBRD
- **Romania aims to cut costs, while boosting revenues**
  - Cost cutting measures include: 25% wage cut for public sector employees, 15% cut in social allowances
  - Higher revenues from 5pp VAT increase to 24%
- **Hungary cuts personal income tax and corporate tax for SMEs, but introduces bank tax**
  - Cost measures: wage cuts for public sector employees
  - Flat personal income tax to be introduced gradually
  - Lower tax for small companies in order to reduce tax evasion and increase revenue intake
- **Ukraine raises energy prices in order to keep deficit under target level of 5%**

Agreed 2010 fiscal deficit targets in % of GDP



Source: Erste Group Research

Business environment: Regulatory matters –
From banking tax to Basel III

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- **Banking tax update: from discussion to real taxes**
  - Hungary: implemented banking tax for 2010 and 2011; undefined for 2012
    - Pre-tax impact on Erste Group: about EUR 48m; post-tax: about EUR 37m per annum
  - Austria: continued discussion but introduction of tax is almost certain for 2011
    - Total volume for Austria: EUR 500m; potential impact on Erste Group: up to EUR 100m pre-tax
  - EU-wide: at the deliberation stage

- **Basel III: September announcement brought clarification on timeline**
  - Tougher capital standards confirmed based on stricter definition of capital/RWAs
    - New minimum core tier 1 ratio/tier 1 ratio as of 2013, fully implemented as of 2015
    - Implementation of capital conservation buffer by 2019, starting in 2016
    - Counter-cyclical buffer + systemic importance surcharge yet to be determined
    - Final calculation of minority capital overspills yet to be determined
  - Leverage ratio: to be in force as of 2018, prior to that parallel run
  - Liquidity coverage: introduction of minimum standard as of 2015
  - Net stable funding ratio: introduction of minimum standard as of 2018
  - **Overall, Erste Group welcomes the reinforcement of regulatory regime**

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ERSTE GROUP

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Competing in a new environment –
Preparing for the next upturn: income up, costs down

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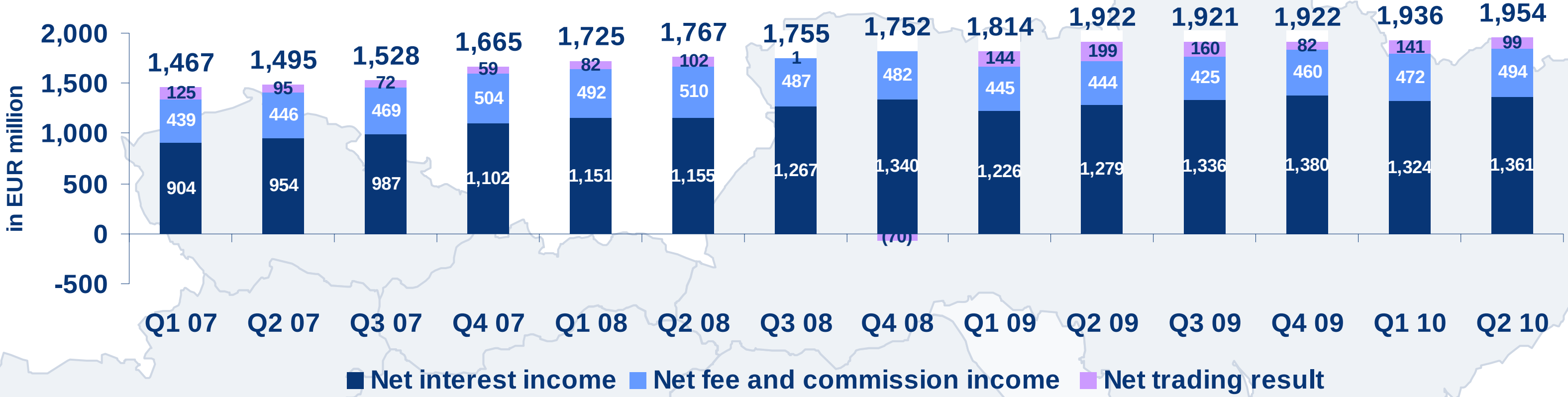
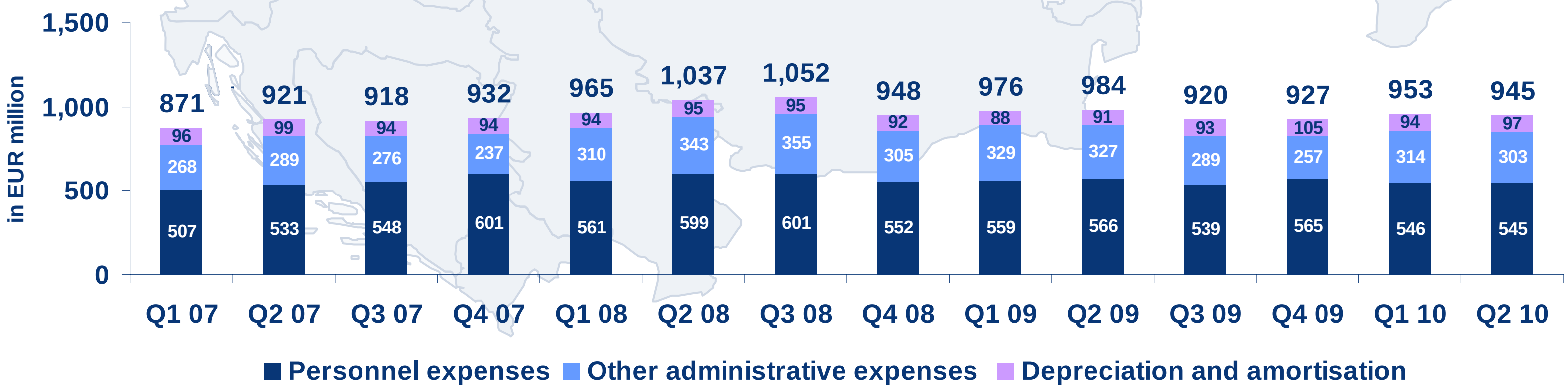
Erste Group's operating income history



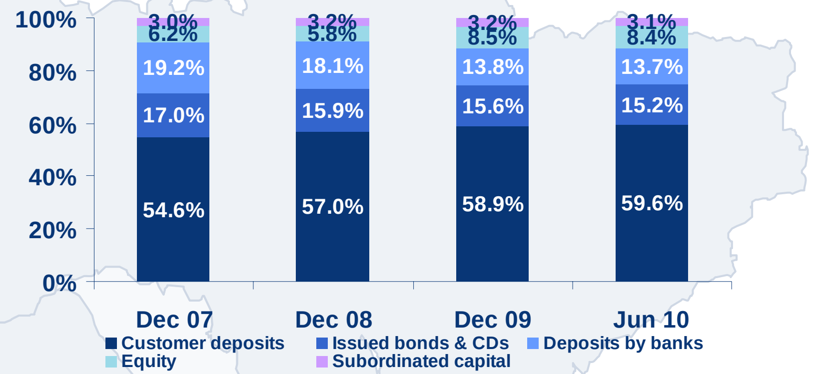
Erste Group's operating expense history



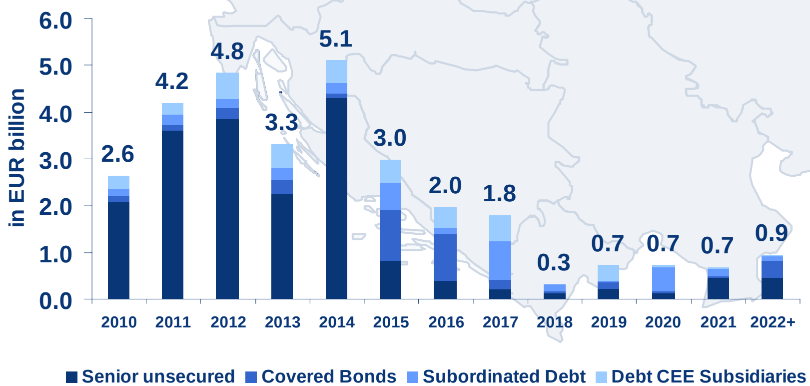
Competing in a new environment –
Funding will remain key differentiator going forward

- **Customer deposits remain the main source of funding**
  - Providing a solid funding base in all local currencies
  - Reflected in loan/deposit ratio improvement to 112.4%
- **Short-term funding needs well covered**
  - Stable share of short-term funding
  - Collateral capacity exceeds funding needs
- **Limited long-term funding required**
  - Total funding needs for 2010 of EUR 4 billion, of which close to 80% has already been raised
  - H2 10 focus is on covered bonds and retail placements
  - Continued focus on extension of maturity profile

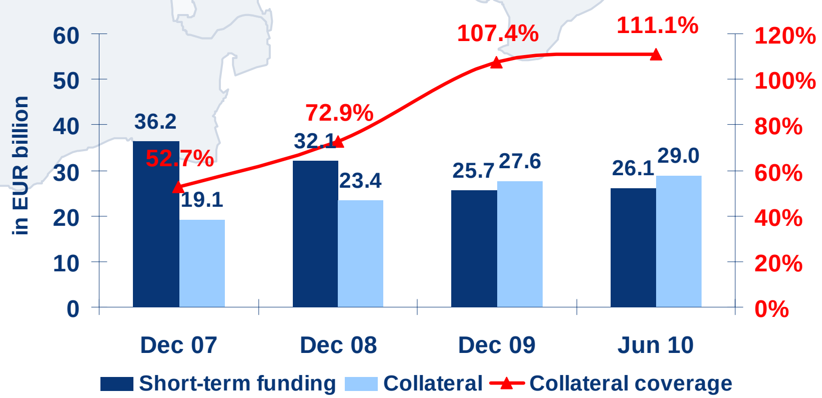
Evolution of Erste Group's funding mix



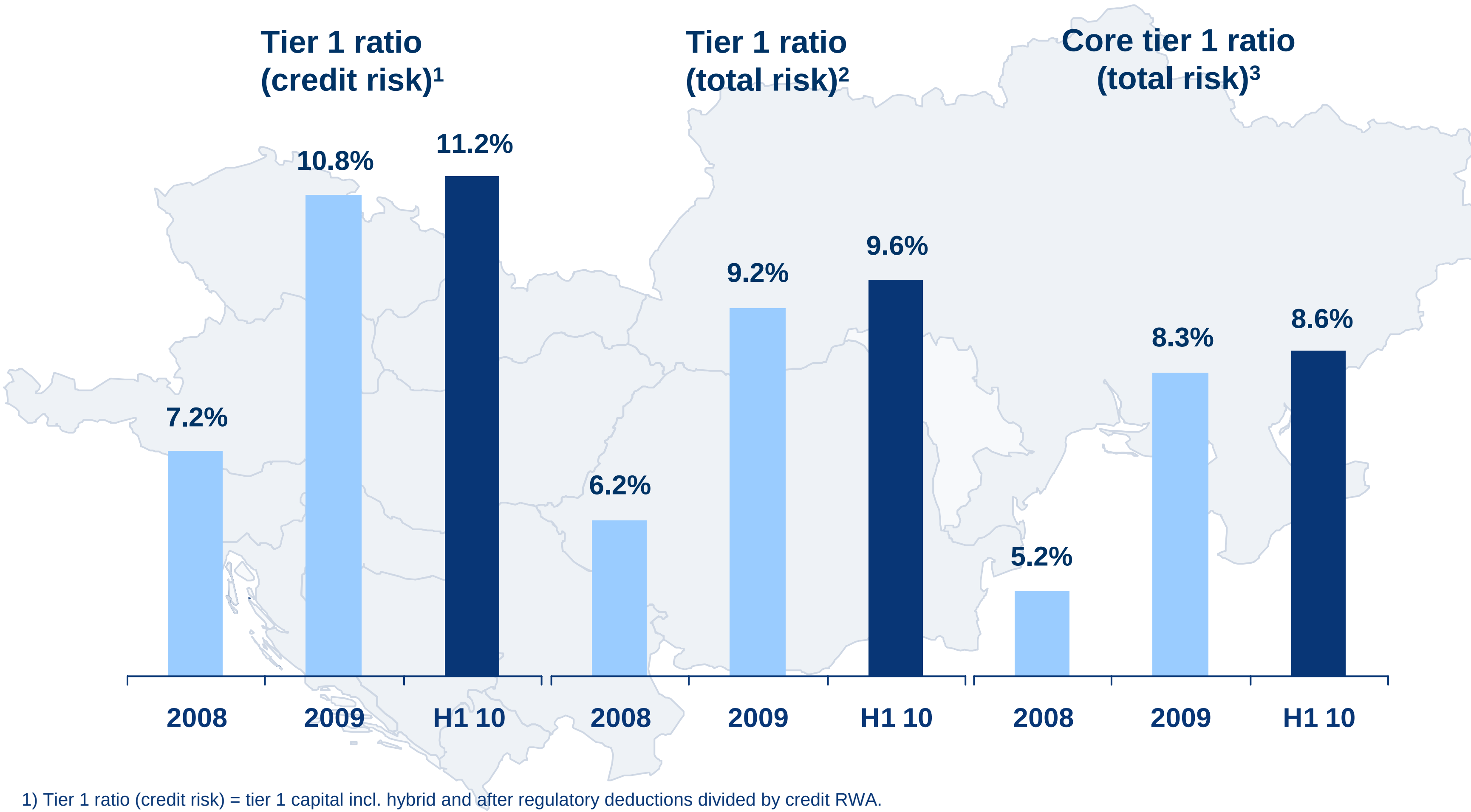
Redemption profile of Erste Group (H1 2010)



Short-term funding vs collateral coverage



Competing in a new environment –
Well prepared for tighter capital standards



1) Tier 1 ratio (credit risk) = tier 1 capital incl. hybrid and after regulatory deductions divided by credit RWA.

2) Tier 1 ratio (total risk) = tier 1 capital incl. hybrid and after regulatory deductions divided by total RWA - including credit risk, market and operational risk.

3) Core tier 1 ratio (total risk) = tier 1 capital excl. hybrid and after regulatory deductions divided by total RWA - including credit risk, market and operational risk.

Erste Group's business/capital strategy –

A look at Basel III – impact analysis

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- **Pro-forma analysis at H1 2010 based on requirements for 2019**
  - 4.5% common equity capital ratio and 2.5% capital conservation buffer effective 2019
  - Minority deduction of EUR 450 million calculated on 4.5% common equity T1 ratio
    - Based on minorities other than the savings banks (BCR and smaller participations)
    - Solution for savings banks minorities of EUR 1.7 billion will be found: exemption or other form of cooperation
  - Full repayment of EUR 1.2bn government participation capital
  - Full deduction of hybrid capital and full inclusion of RWA effects
  - Full inclusion of capital deductions and of H1 2010 net profit

Common equity capital (Mitigated Basel III impact)

	in EUR bn
Tier I Capital after deductions	11.7
Government participation capital	-1.2
Hybrid capital	-1.2
Minorities	-0.5
Basel III deductions (net) and H1 2010 net profit	0.3
Basel III Tier I capital	**9.1**

Risk-weighted assets (Minor impact from Basel III)

	in EUR bn
Total RWA at 30 June 2010	122.3
Basel III impact on RWA (market risk, counterparty risk, etc.)	7.9
Total RWA post Basel III	**130.2**

= 7.0% ✓

➔ **Only applicable as of 2013!**

- **Erste Group already meets the 2019 target for common equity tier 1 ratio**
- **Erste Group does not need or intend to issue equity**

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Outlook –
Slow economic recovery, better regulatory visibility

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- **Most CEE markets have emerged from recession …**
  - Austria, Czech Republic, Slovakia set to grow faster than EU average in 2010
  - Outlook for Hungary remains uncertain but low single-digit GDP growth in 2010 is likely
  - In Romania the recovery will be more protracted with growth expected to return in 2011

- **… but risk costs will remain elevated in 2010**
  - Speed of economic recovery and improvement in asset quality remains difficult to predict
  - Risk costs to remain at 2009 level this year

- **Improved visibility regarding future regulatory environment**
  - Differences in business models and importance of retail banks for economic development better reflected in updated BIS III proposals
    - Pragmatic solution regarding savings banks minorities seems feasible
  - Better clarity on banking taxes
    - Hungary introduced a banking tax at very elevated levels but likely limited to a 1-2 year period
    - Austria is still considering adoption of a tax in 2011
    - So far no plans for banking taxes in other CEE countries

- **Erste Group has performed exceptionally well during difficult economic times and is ideally placed to capitalise on future growth opportunities in Central and Eastern Europe**