

Erste Group Bank AG

Annual results 2011

29 February 2012, Vienna

Erste Group returns to profitability in Q4 11 - net loss 2011 reduced to EUR 718.9m

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Presentation topics



ERSTE GROUP

- **Erste Group's development in 2011**
- Central and Eastern Europe
- Outlook 2012

FY 2011 executive summary –

Strong Q4 11 net profit reduces FY 2011 net loss



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- **Solid quarterly result of EUR 254.1m in Q4 11 on profitable core business**
 - especially in Austria, Czech Republic, Slovakia and Croatia
- **FY 2011 net loss of EUR 718.9m a result of one-off items**
 - Revaluation of written CDS held by International Business (IB) and subsequent close out
 - Unorthodox politics in Hungary, FX conversion law and deteriorating economy
 - Impairment of goodwill in Romania and Hungary
- **EBA CT1 ratio rises to 8.9% at YE 11, capital gap narrows to EUR 166m (Q3 11 EUR 743m)**
 - On profitable Q4 11 and EUR 5.8bn cut in RWA as a result of reduction in non-core assets
- **Basel 2.5 CET1 ratio reaches 9.4% (incl. participation capital) in 2011 following 9.2% (Basel 2 CT1) in 2010, excl. participation capital 7.8%**

2011 results –

FY 2011 performance affected by one-off items in Q3



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in EUR million	2011	2010	Change	Comment
Net interest income	5,569.0	5,439.2	2.4%	Solid performance of core business
Risk provisions for loans	(2,266.9)	(2,021.0)	12.2%	Up in HU, down or flat all other segments
Net fee and commission income	1,787.2	1,842.5	(3.0%)	Reduced securities business
Net trading result	122.3	321.9	(62.0%)	Written CDS in International Business
General administrative expenses	(3,850.9)	(3,816.8)	0.9%	
Other operating result	(1,589.9)	(439.3)	>100.0%	Goodwill, banking taxes
Result from financial instruments - FV	0.3	(6.0)	na	} Impairment & selling losses on peripheral bonds
Result from financial assets - AfS	(66.2)	9.2	na	
Result from financial assets - HtM	(27.1)	(5.5)	>100.0%	
Pre-tax profit/loss	(322.2)	1,324.2	na	
Taxes on income	(240.4)	(280.9)	(14.4%)	
Net profit/loss for the period	(562.6)	1,043.3	na	
Non-controlling interests	156.3	164.6	(5.0%)	
Owners of the parent	(718.9)	878.7	na	

Q4 results –

Solid net profit



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in EUR million	Q4 11	Q3 11	Change	Comment
Net interest income	1,434.9	1,430.2	0.3%	Shifting of NII on trading assets
Risk provisions for loans	(407.7)	(938.4)	(56.6%)	Q3 11 impacted by HU one-off
Net fee and commission income	435.2	445.9	(2.4%)	Reduced securities business
Net trading result	84.9	(251.4)	na	CDS closing & derivatives positive in Q4
General administrative expenses	(959.3)	(965.3)	(0.6%)	
Other operating result	(129.5)	(1,200.2)	(89.2%)	Mainly goodwill in Q3, HU tax reduction Q4
Result from financial instruments - FV	8.1	12.1	(33.1%)	} Impairment on greek bonds
Result from financial assets - AfS	(3.4)	(76.9)	(95.6%)	
Result from financial assets - HtM	(10.1)	(19.0)	(46.8%)	
Pre-tax profit/loss	453.1	(1,563.0)	na	
Taxes on income	(135.4)	70.4	na	
Net profit/loss for the period	317.7	(1,492.6)	na	
Non-controlling interests	63.6	1.2	>100.0%	
Owners of the parent	254.1	(1,493.8)	na	

Balance sheet –

Successful RWA reduction in non-core business

in EUR million	Dec 11	Dec 10	Change	Comment
Cash and balances with central banks	9,413	5,839	61.2%	Temporary additional liquidity from LTRO
Loans and advances to credit institutions	7,578	12,496	(39.4%)	Reduced non-core business
Loans and advances to customers	134,750	132,334	1.8%	Increase in AT, SK
Risk provisions for loans and advances	(7,027)	(6,119)	14.8%	Driven by Hungary
Derivative financial instruments	10,931	8,508	28.5%	
Trading assets	5,876	5,536	6.1%	
Financial assets - FV	1,813	2,435	(25.5%)	} Basel 3, excess liquidity and deposit growth invested (bonds, CEE region)
Financial assets - AfS	20,245	17,751	14.0%	
Financial assets - HtM	16,074	14,235	12.9%	
Equity holdings in associates	173	223	(22.4%)	
Intangible assets	3,532	4,675	(24.4%)	Impairment of goodwill
Property and equipment	2,361	2,446	(3.5%)	
Current tax assets	116	116	0.0%	
Deferred tax assets	702	617	13.8%	
Assets held for sale	87	52	67.3%	
Other assets	3,382	4,626	(26.9%)	
Total assets	210,006	205,770	2.1%	
Risk-weighted assets	114,019	119,844	(4.9%)	

– Additional comments:

- RWA were reduced by 4.9% on cut back of non-core activities
- Financial assets rose yoy as a result of preparatory actions to meet Basel III liquidity requirements as of 2014 (e.g. LCR) and because of investing surplus liquidity in CEE bonds

Balance sheet –



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Loan-to-deposit ratio of 113.3% at end of the year 2011

in EUR million	Dec 11	Dec 10	Change	Comment
Deposits by banks	23,785	20,154	18.0%	LTRO
Customer deposits	118,880	117,016	1.6%	Growth in AT & RO, decline in HU
Debt securities in issue	30,782	31,298	(1.6%)	
Derivative financial instruments	9,337	8,399	11.2%	
Trading liabilities	536	216	>100.0%	
Provisions	1,580	1,545	2.3%	
Current tax liabilities	34	68	(50.0%)	
Deferred tax liabilities	345	328	5.2%	
Other liabilities	3,764	4,350	(13.5%)	
Subordinated liabilities	5,783	5,838	(0.9%)	
Total equity	15,180	16,558	(8.3%)	
Non-controlling interests	3,143	3,444	(8.7%)	
Owners of the parent	12,037	13,114	(8.2%)	
Total liabilities and equity	210,006	205,770	2.1%	
Core Tier 1	9.4%	9.2%		

Off-balance sheet assets –

Exclusively related to customer business

in EUR million	2011	2010
Guarantees and warranties	6,920	7,826
<i>of which: in relation to corporate business</i>	6,170	
Credit default swaps (protection sold)	0	0
Undrawn lines, loan commitments, promissory notes	18,579	19,446
<i>of which: in relation to corporate business</i>	9,762	
<i>of which: in relation to retail business</i>	7,238	
<i>of which: in relation to sovereigns, municipalities</i>	1,221	
Total	25,499	27,272

– **Details on guarantees & warranties:**

- appr. 55% is related to Austria (mainly guarantees for construction companies)
- appr. 75% is EUR-based

– **Details on undrawn lines and loan commitments:**

- appr. 65% related to Austria
- appr. 80% is EUR-based
- product split remained unchanged in Corporate and Retail with appr. 2/3 related to revolving loans, appr. 1/5 related to term loans and rest to overdrafts and other

Asset quality review –

New NPL formation declined yoy

– New NPL formation declined yoy

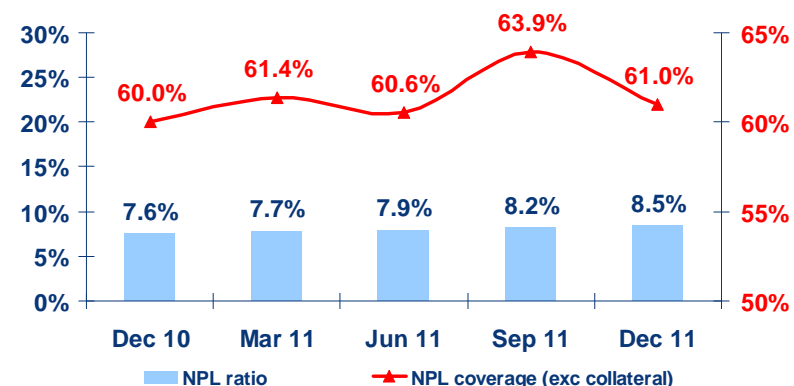
- New formation mainly in Hungary (deterioration of corporate and real estate portfolio) and Romania (weak SME business)
- Qoq: New NPL formation down from EUR 499m in Q3 to EUR 275m in Q4

– NPL coverage ratio slightly up to 61.0%

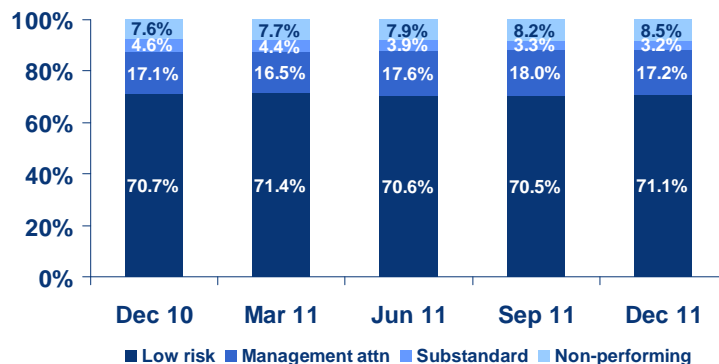
– Migration trends still mixed

- While low risk share is increasing and substandard further decreasing, new NPL formation still significant

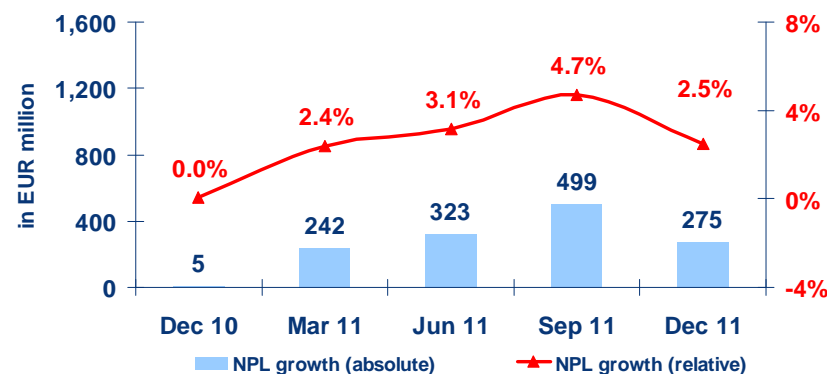
Erste Group: NPL ratio vs NPL coverage



Customer loans by risk class



Quarterly NPL growth (absolute/relative)



Asset quality review –

Austria, Czech Republic and Slovakia improved, Hungary and Romania still mixed

– Stable NPL ratio in Austria

- Slight reduction of NPLs in savings banks
- Further reduction of CHF loans due to conversion into EUR loans

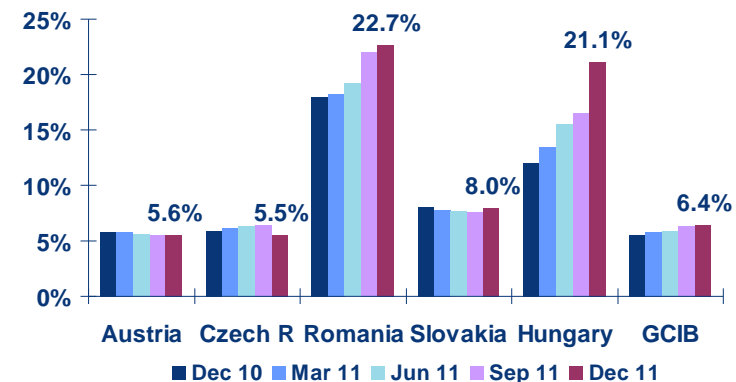
– Czech Republic and Slovakia improved

- Czech Republic: reduction of NPL ratio mainly due to write-offs and NPL sales
- Slovakia: Healthy demand for new loans; good new booking quality led to increase of low risk category

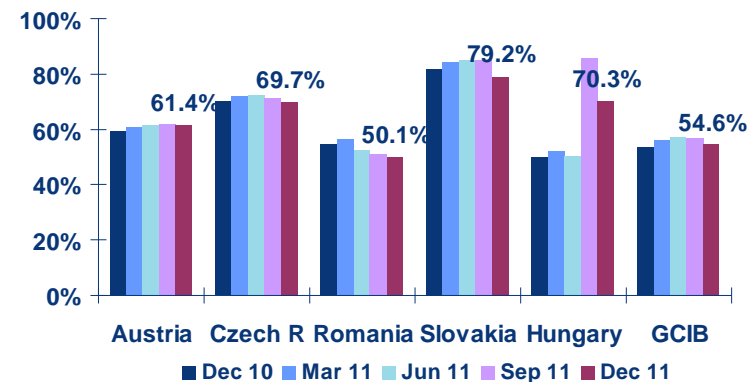
– Hungary and Romania remain challenging countries

- Romania shows diverging development
 - Still rising NPL ratio due to real estate and SME business
 - New loans booked in retail is mainly low risk business
- Hungary still problematic
 - Local corporate and real estate business drove new NPL formation
 - NPL coverage ratio down due to usage of provisions for FX conversion

NPL ratios in key segments



NPL coverage ratios in key segments (excluding collateral)

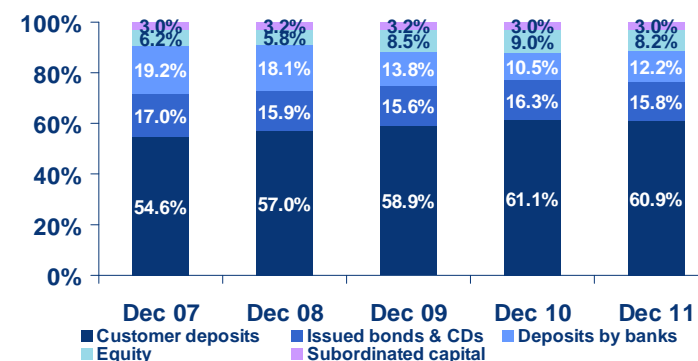


Funding update –

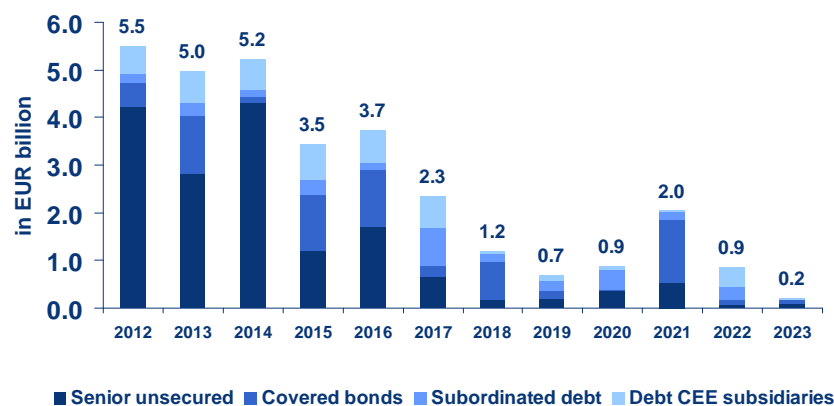
Customer deposits are primary source of funding

- **Customer deposits are primary source of funding**
 - Customer deposits grew 2011 by 1.6%
 - Customer deposits grew within the last 4 years by more than 20%, while interbank money market funding decreased by almost 40%.
- **Loan-to-deposit ratio slightly increased to 113.3% (YE 2010 113.1%)**
- **Limited long-term funding required**
 - Reduced funding needs for 2012 of EUR 3.5bn due to decrease of non-core business
 - Prolongation of average maturity
 - Successful issuance of a 10yr EUR 1bn covered bonds

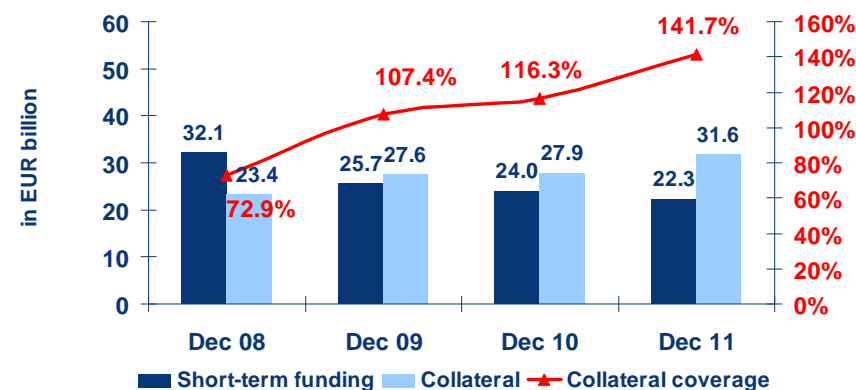
Evolution of Erste Group's funding mix



Redemption profile of Erste Group
Dec 2011



Short-term funding vs collateral coverage

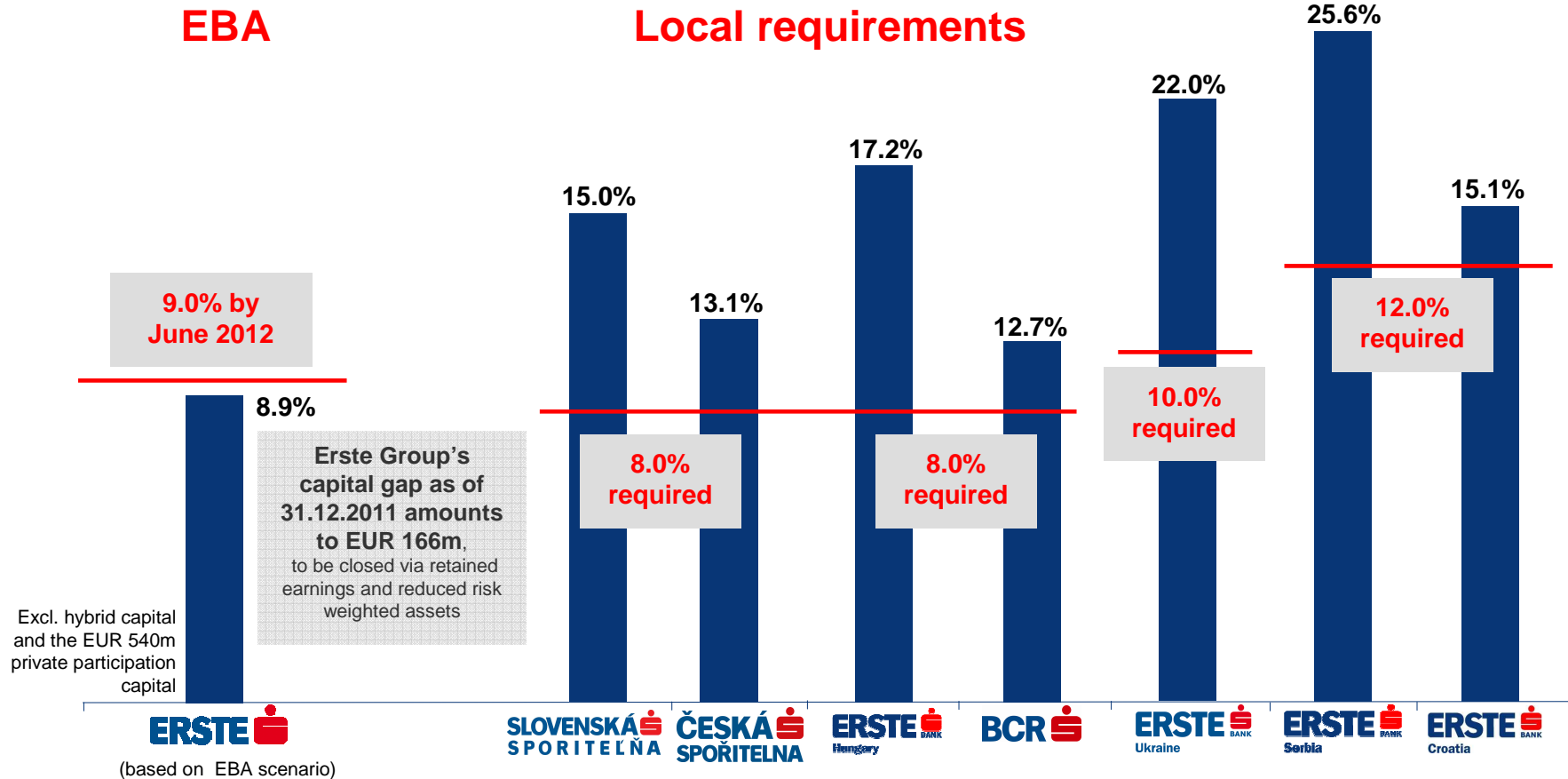


Capital requirements –

Erste Group and its subsidiaries comfortable



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Erste Group shows core tier 1 ratios (total risk):
 tier-1-capital excl. hybrid and after regulatory deductions divided by total RWA – incl. credit risk, market and operational risk.

Local subsidiaries show solvency ratios.

Data as of YE 2011

Presentation topics



ERSTE GROUP

- Erste Group's development in 2011
- **Central and Eastern Europe**
- Outlook 2012

Results of CEE subsidiaries –

Czech Republic, Austria and Slovakia top performers



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in EUR million	Czech Republic			Slovakia			EBOe		
	2011	2010	Change	2011	2010	Change	2011	2010	Change
Operating income	1,634	1,626	0.5%	553	537	2.9%	1,007	1,001	0.6%
Operating expenses	(714)	(710)	0.6%	(224)	(222)	0.8%	(609)	(607)	0.4%
Operating result	920	917	0.4%	329	315	4.4%	397	394	0.9%
Risk costs	(210)	(366)	(42.5%)	(74)	(123)	(40.3%)	(101)	(148)	(31.6%)
Other result	(122)	(83)	46.4%	(40)	(21)	95.4%	(64)	(26)	>100.0%
Net profit/loss	456	379	20.4%	173	137	26.8%	178	167	6.6%

in EUR million	Croatia			Romania			Hungary		
	2011	2010	Change	2011	2010	Change	2011	2010	Change
Operating income	350	332	5.4%	852	957	(11.0%)	520	508	2.3%
Operating expenses	(141)	(139)	(1.5%)	(376)	(375)	0.3%	(200)	(203)	(1.0%)
Operating result	209	193	8.3%	475	582	(18.3%)	319	306	4.4%
Risk costs	(109)	(106)	3.2%	(499)	(507)	(1.5%)	(812)	(244)	>100.0%
Other result	(10)	(5)	>100.0%	(31)	(50)	(38.4%)	(57)	(68)	(16.7%)
Net profit/loss	44	37	18.5%	(23)	9	na	(567)	(22)	>100.0%

Refinancing needs of CEE-subsubsidiaries – Limited due to strong local deposit base



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– In 2011 Erste Group granted

- in total EUR 134.8bn loans
- whereof EUR 52.4bn in CEE
- vis-à-vis EUR 52,0bn local deposits

– Strong differences across CEE

- whereas the Czech Republic and Slovakia have strong deposit surpluses
- Romania, Hungary and Ukraine are refinanced via Erste Group
- in total only EUR 10bn out of EUR 134.8 loans were refinanced out of Vienna

– Retail business in CEE

- Local customer deposits as key pillar for refinancing

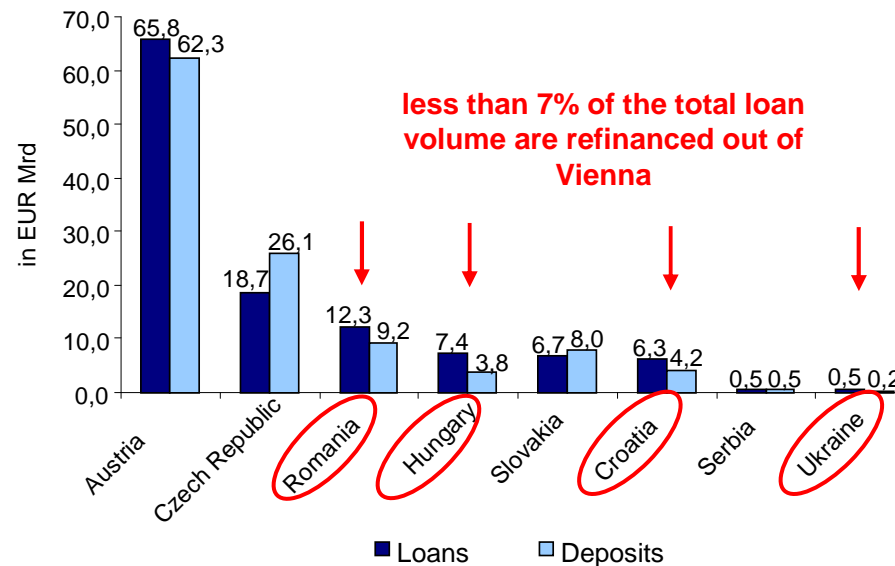
– In order to extend local funding the following steps are necessary

- Development of local capital markets in CEE
- Initiatives for local Covered Bonds

Lending in 2011:

- only EUR 10bn of CEE-loans out of total EUR 135bn loans are funded out of Vienna

- EUR 52.4bn loans vs.
- EUR 52.0bn local deposits



Status quo Hungary and Romania

Operating in a challenging environment

- **Still fragile economic outlook for Hungary; Banking market is still very challenging**

- All three major rating agencies downgraded Hungary to non-investment grade
- IMF-agreement on financial assistance program (EUR 15-20bn) to be expected in H1 2012; agreement would lead to more sustainable economic measures and more stable currency
- National Bank of Hungary to introduce 2-year variable-rate refinancing credit facility with the aim of supporting lending activity

- **EBH to reach profitability in 2014 based on its new strategy**

- Focus on local currency lending from locally sourced liquidity; Reduce dependence on parent company funding
- Smaller size reflects market circumstances – 15% headcount reduction, Network reduction by 43 branches

- **GDP growth surprised on the upside in 2011; fiscal reforms and structural adjustments to be continued**

- Real GDP up 2.5% yoy supported by agriculture, industry and exports
- New government will not deviate from the agreement with the IMF-EC
- Target 2012: restructuring state-owned enterprises and selling state stakes in energy and transport companies

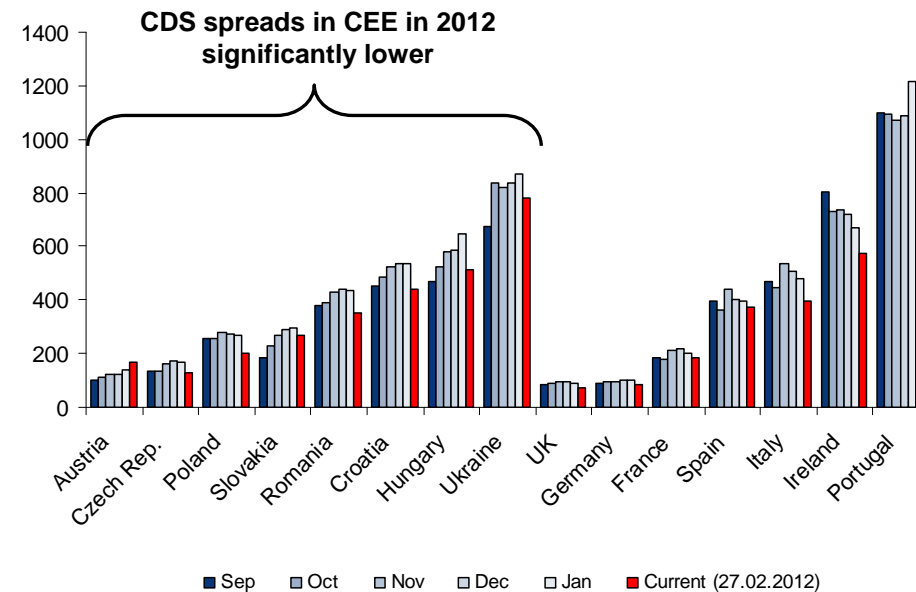
- **BCR: Results impacted by sluggish loan growth; lower margins and still high provisioning**

- SIF transaction update: 4 SIFs signed binding agreements; By the end of February 2012 EGB share in BCR is 92.3%
- Still sound efficiency benefiting from economies of scale and strict cost control
- Strategic aim to build profitable business with core customers, improve asset structure and actively manage capital

CEE sovereign bonds – Successful placements in 2012

- CEE¹⁾ countries need to issue about EUR 35 billion of new debt in 2012²⁾ (compared to the net issuance in the Eurozone of about EUR 300 billion)
- In the first two months of 2012 CEE-countries successfully placed government bonds:
 - Czech Republic benefits from solid and stable fundamentals: EUR 2bn benchmark bond was issued last week
 - Poland increased the volume of their EUR 750 m and USD 1bn bond in January in 2012. In addition they placed EUR 527m in registered bonds
 - Romania experienced strong demand for it's USD 1,5bn bond, issued end of January
 - Slovakia already successfully placed EUR 1bn benchmark bond at the beginning of 2012

Development of CDS spreads
(Sep 2011 – Feb 2012)



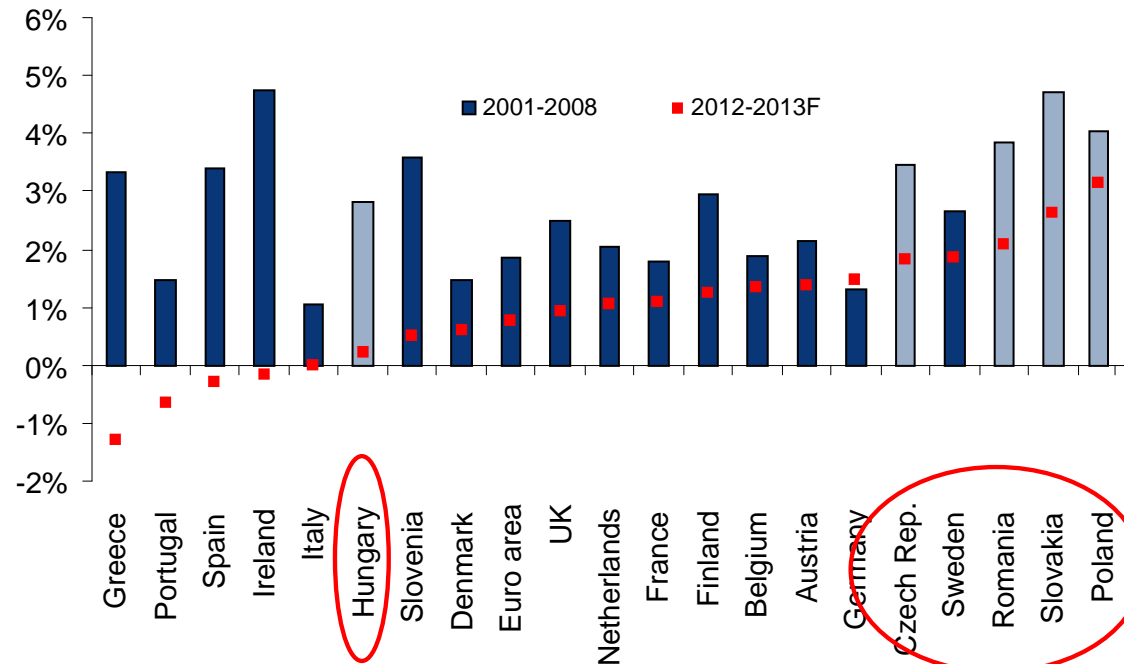
1) Czech Republic, Slovakia, Poland, Hungary, Croatia, Romania
 2) EUR 107 billion including the rollover of redeeming debt in 2012

Source: Erste Group Research

CEE growth potential – Twice as high as in Eurozone

- Adjusted for cyclical component, CEE countries (apart from Hungary) have twice as high potential growth than the Eurozone (2-4% vs. 1%) in the following two years
- Exports and investments will be the main growth drivers
- In Hungary, pending reforms of the labor market, unorthodox policy decisions and a relatively high tax burden have an adverse effect on potential growth

Average growth of potential output (according to the European Commission)



Source: European Commission, Economic Forecasts Autumn 2011

Presentation topics



ERSTE GROUP

- Erste Group's development in 2011
- Central and Eastern Europe
- **Outlook 2012**

Erste Group in 2012

Focus on retail and corporate business in CEE



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- **Despite subdued growth outlook for CEE, underlying macroeconomic data in core markets points towards stronger GDP growth than in most other EU countries**
 - Austria, Czech Republic and Slovakia are well positioned to weather a potential recession in EU
 - Romania remains on track despite slow economic recovery
 - Hungary: improved market confidence due to planned IMF negotiations

- **Operating result expected to increase slightly in 2012**
 - Despite ongoing reduction in non-core assets
 - Selective loan growth in our core markets
 - Unchanged cost basis

- **Risk costs to decrease as 2011 extraordinary effects expected not to recur**

- **EBA capital ratio to exceed 9% beyond 30 June 2012**