ERSTE GROUP

Erste Group –
Bank of America Merrill Lynch Banking Conference

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Erste Group –
Prepared for growth in Central and Eastern Europe

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Presentation topics

ERSTE GROUP

- **Macroeconomic snapshot**
- **Erste Group**
  - Balance sheet development
  - Operating performance
  - Asset quality review
  - Update on banking tax
  - Capital
  - Update on Romania
- **Outlook**
- **Appendix**

Macroeconomic snapshot –
CEE to benefit from strong fundamentals

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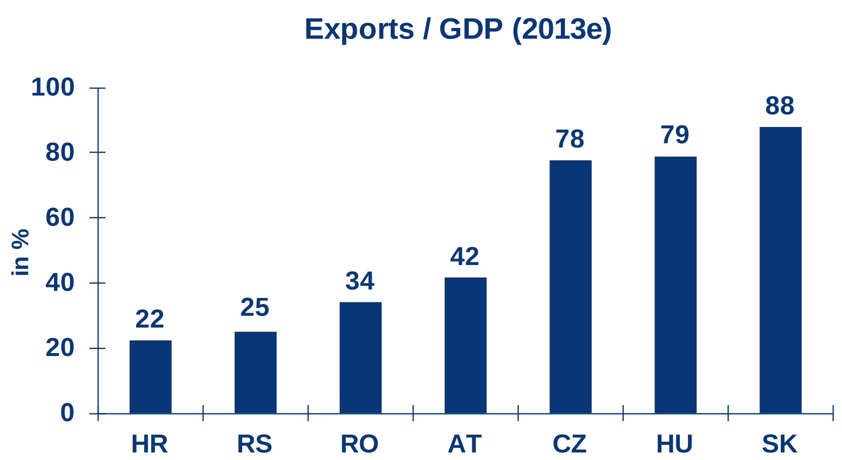
- **CEE continuously outgrows the Eurozone**
  - Growth mainly driven by exports
  - Eurozone's weakness still a drag on current economic developments in CEE
- **CEE will benefit from its favorable economic fundamentals**
  - CEE is an excellent region for exports with ideal location next to big consumer markets
  - Strong industrial basis
  - CEE converges to EU levels of productivity with still low labor costs
  - Competitiveness expected to improve compared to Western Europe
  - Relatively low indebtedness



Source: Erste Research

Macroeconomic snapshot –
Consumer confidence in CEE has improved in H1 2013

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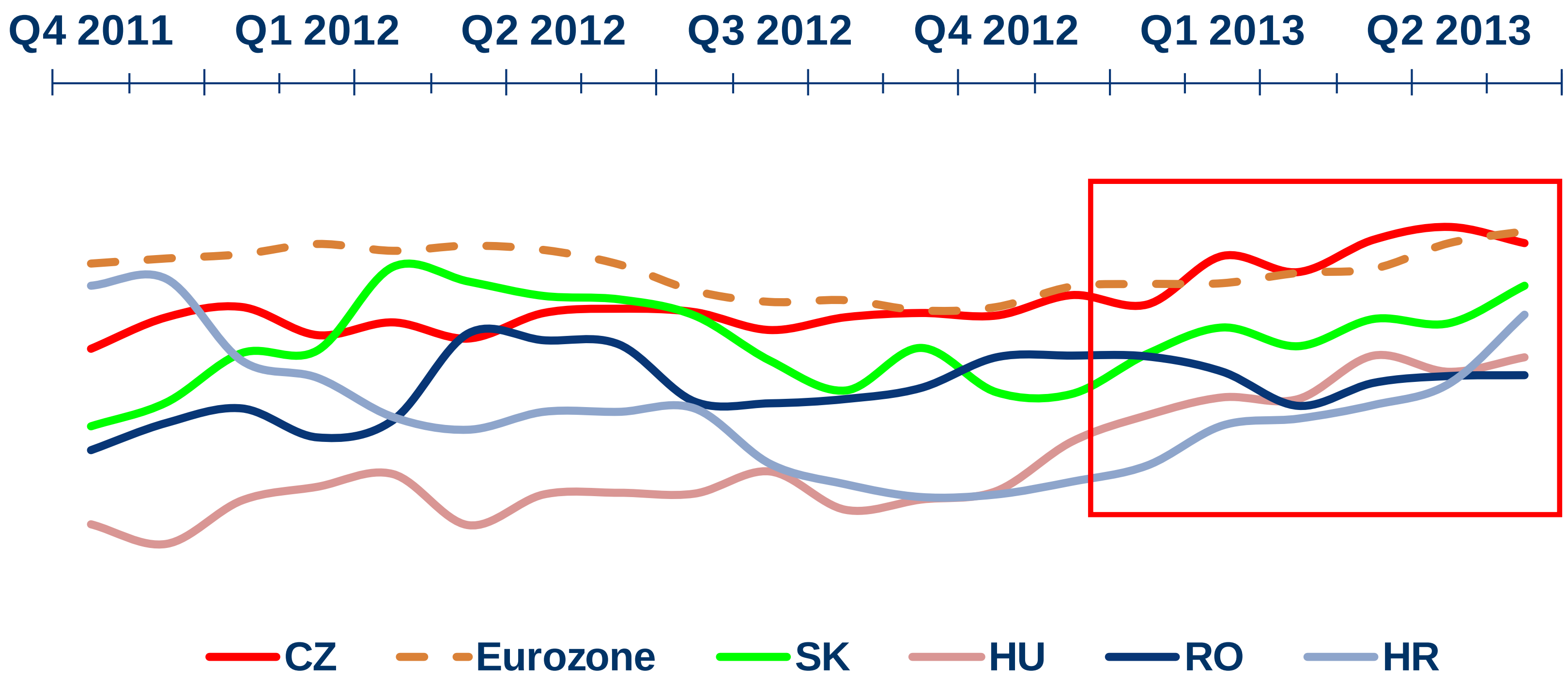
Consumer confidence in CEE



Source: European Commission

Macroeconomic snapshot –
Falling inflation in a very low interest rate environment

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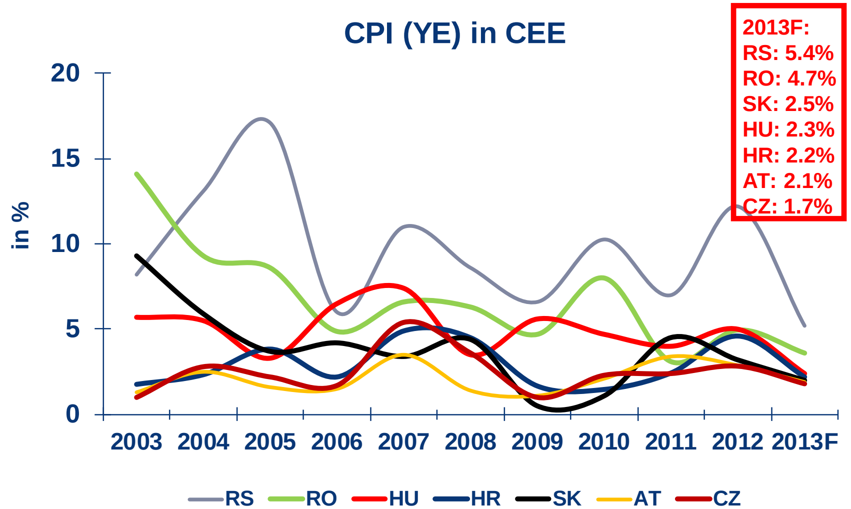
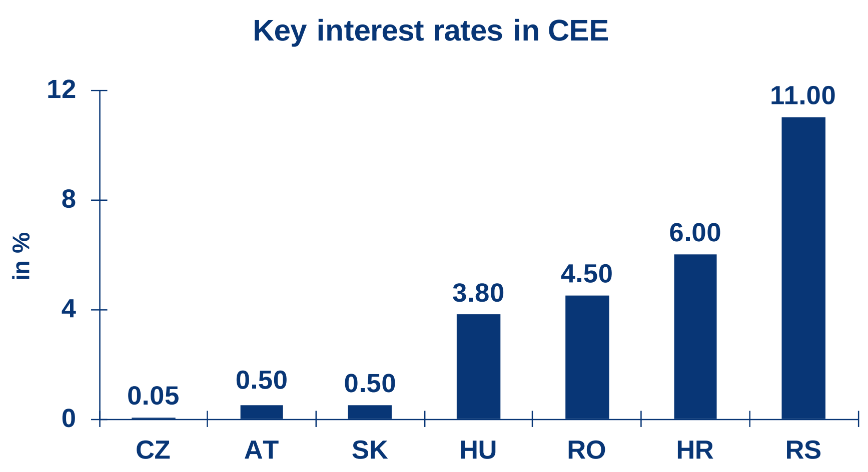
- **Falling inflation in all CEE countries**
  - Driven mainly by subdued fuel and food prices
  - Hungary: inflation is at 38-year low reflecting administrative price reductions and lack of domestic demand
  - Romania: better agricultural performance expected to drive down food prices in 2013
  - Low inflation expected to raise the purchasing power of consumers
- **Very low interest rate environment**
  - Historically low base rates in Czech Republic (0.05%), Romania (4.50%), and Hungary (3.80%)
  - Despite low rates currencies have performed relatively stable
  - Low rates expected to support economic growth across the region





Source: Erste Research, National banks

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Balance sheet development –
Strong customer deposit base

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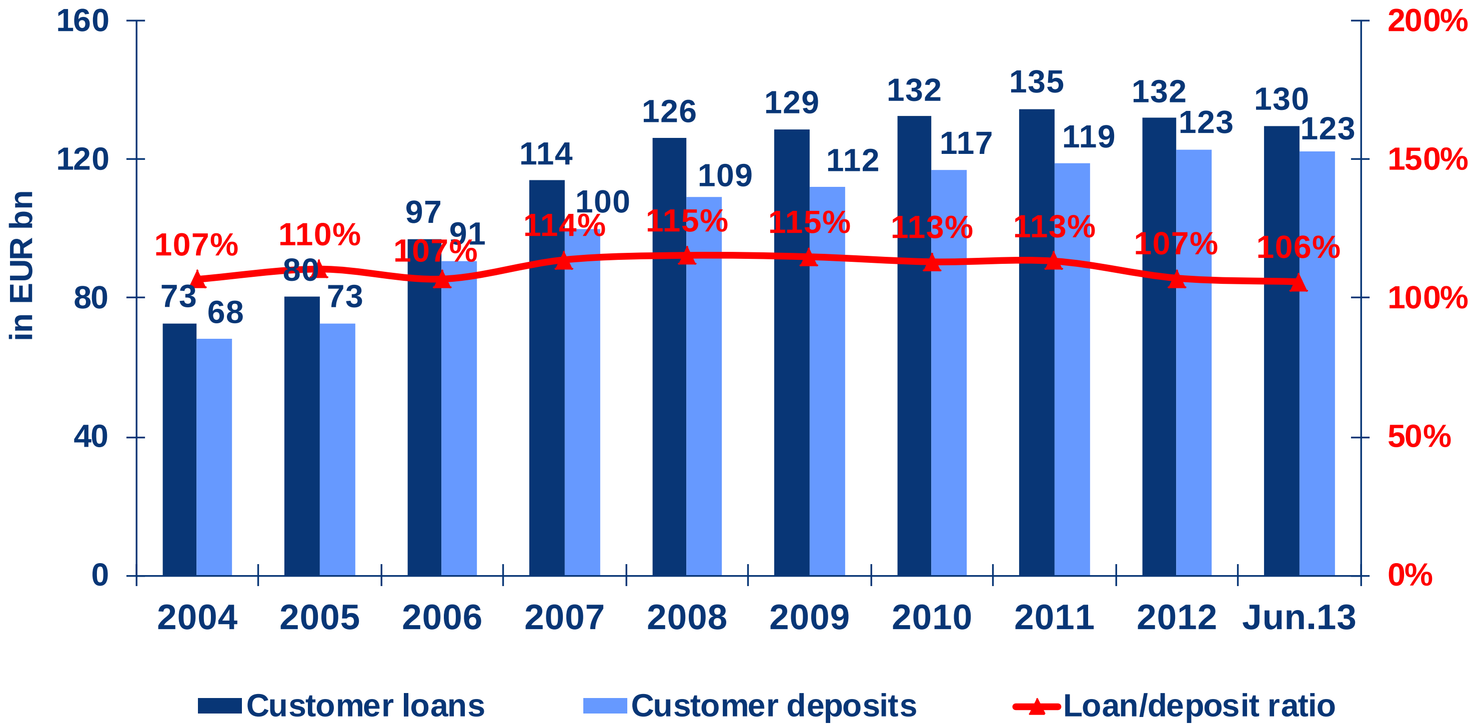
- Customer loans are the key asset component, amounting to 62% as of June 2013
- Deposits from private individuals and SMEs represent 93% of customer deposits as of June 2013
- Loan/deposit ratio improved to 106% as of June 2013 (2008: 115%)
- Substantial increase of equity (EUR 16.2bn as of June 2013) over time (2008: EUR 11.1bn)

Balance sheet development



Operating performance –
Operating result reflects strict cost control

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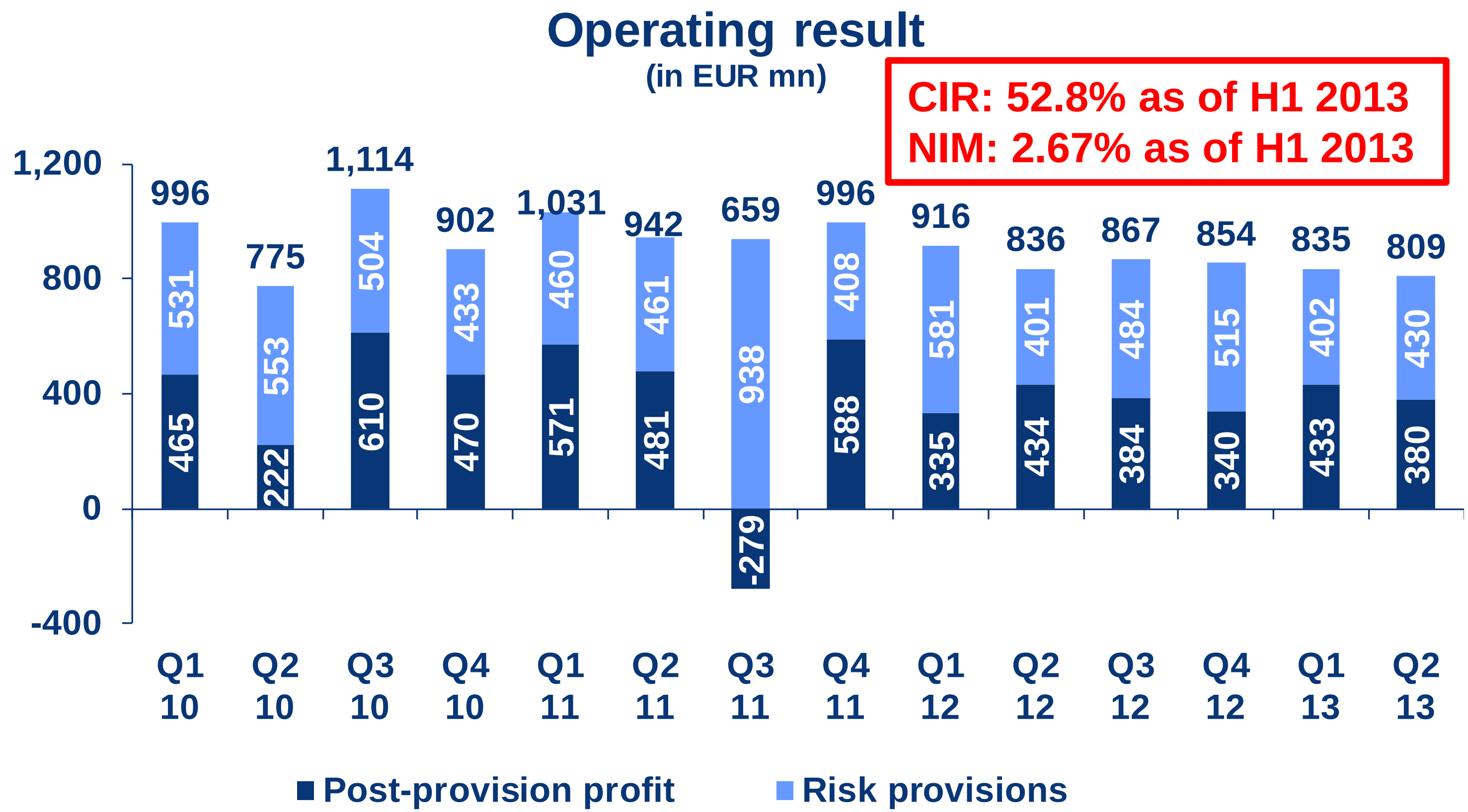
- **Sound underlying operating performance**
  - Cost/income ratio reflects continuous and very strict cost control
  - Relatively resilient margins despite the very low interest rate environment
  - Net interest income and net fee income account for 95% of operating income



Asset quality –
Declining risk costs but pressure on net interest margin

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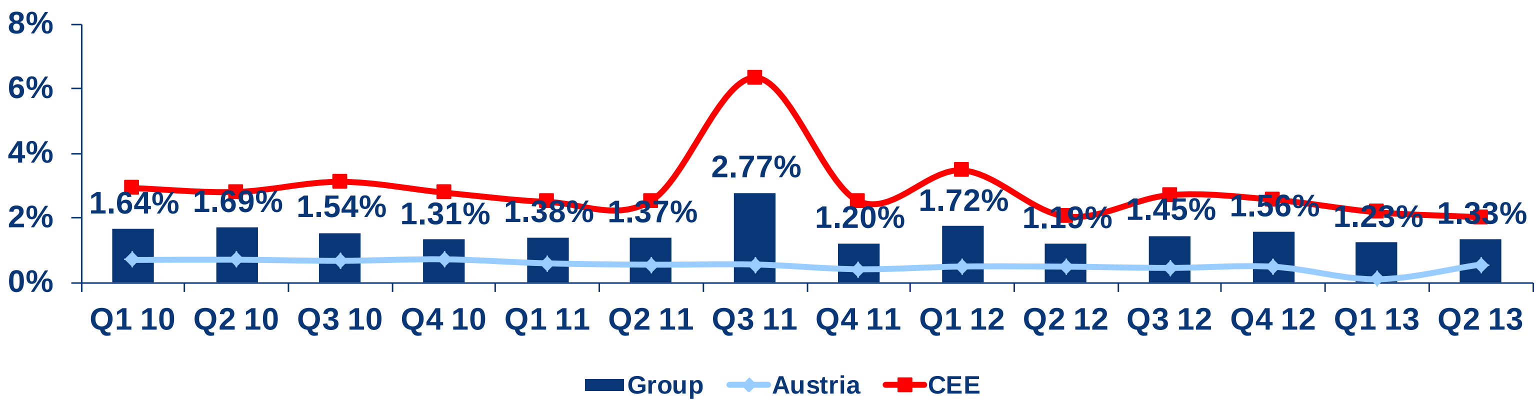
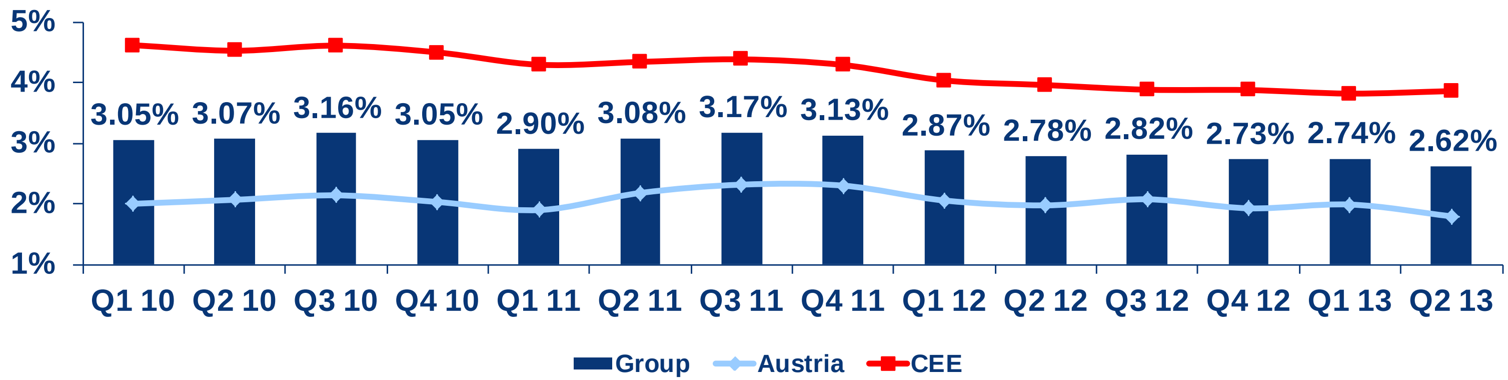
Risk cost development



Net interest margin development



Update on banking tax –
Banking taxes have a significant impact on Erste Group

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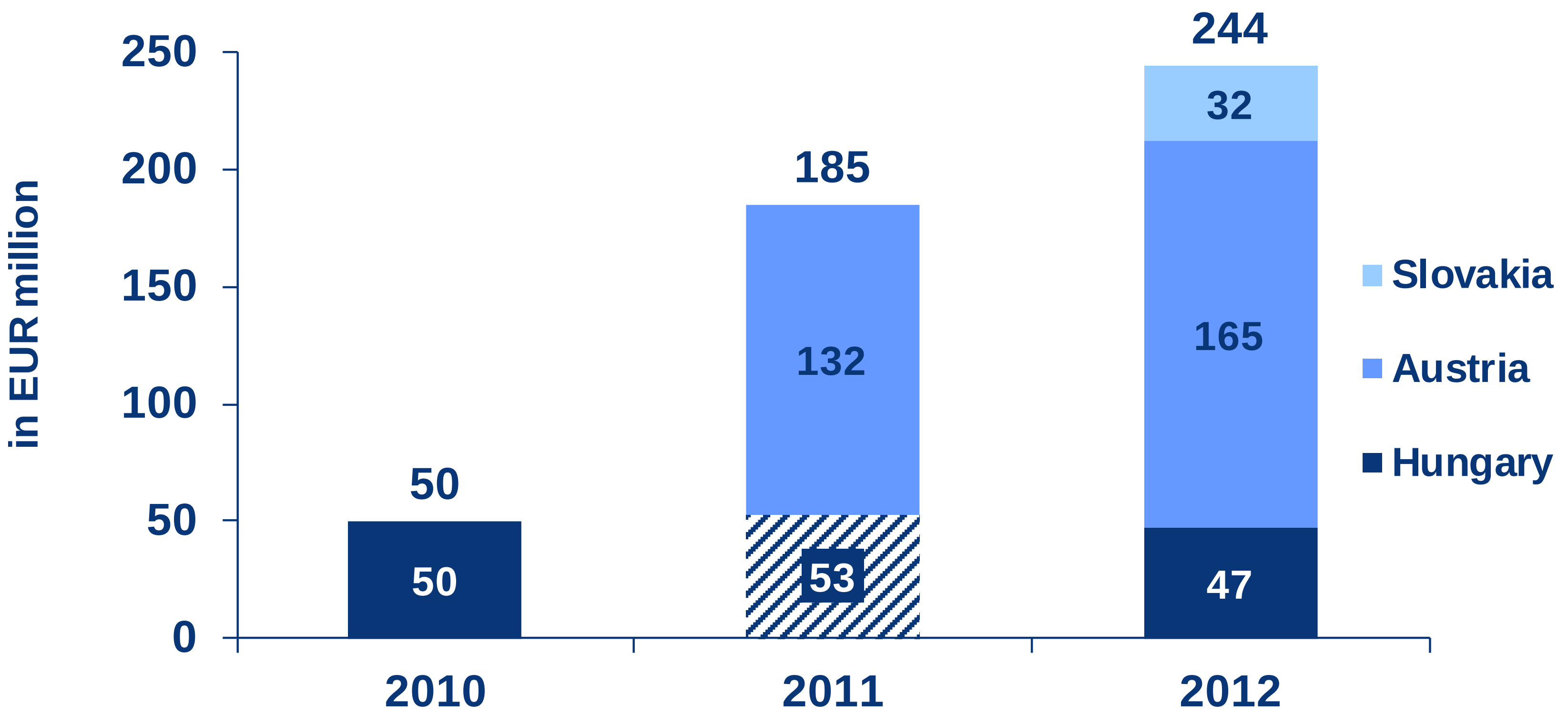
Development of banking taxes

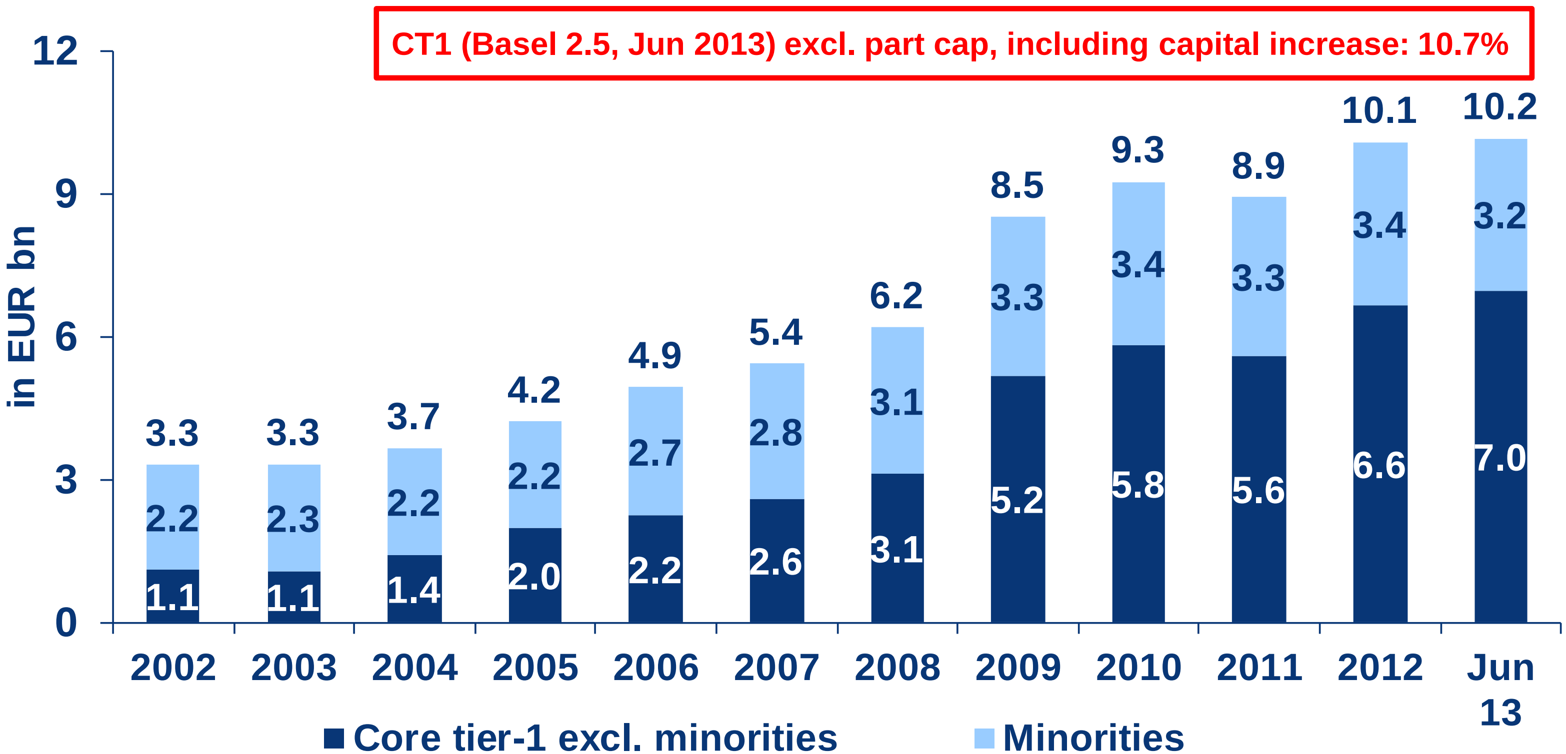


In 2011, banking tax in Hungary was offset by the costs of repayment of foreign currency loans at non-market rates

Capitalisation –
Strong and vastly improved capitalisation

- Switch to IFRS in calculation of qualifying capital as of Mar 13; no material impact due to improved AfS reserve
- Final decision on regulatory treatment of savings banks minorities under Basel 3 passed by European Parliament: full recognition of minorities

Development of CT-1 capital (excluding hybrid and adjusted for participation capital)



Core tier 1 ratio (CT1 ratio) = tier 1 capital excl. hybrid and after regulatory deductions divided by total RWA, including credit risk, market and operational risk. Based on Basel 2.5.

Capitalisation –
Capital position after capital increase

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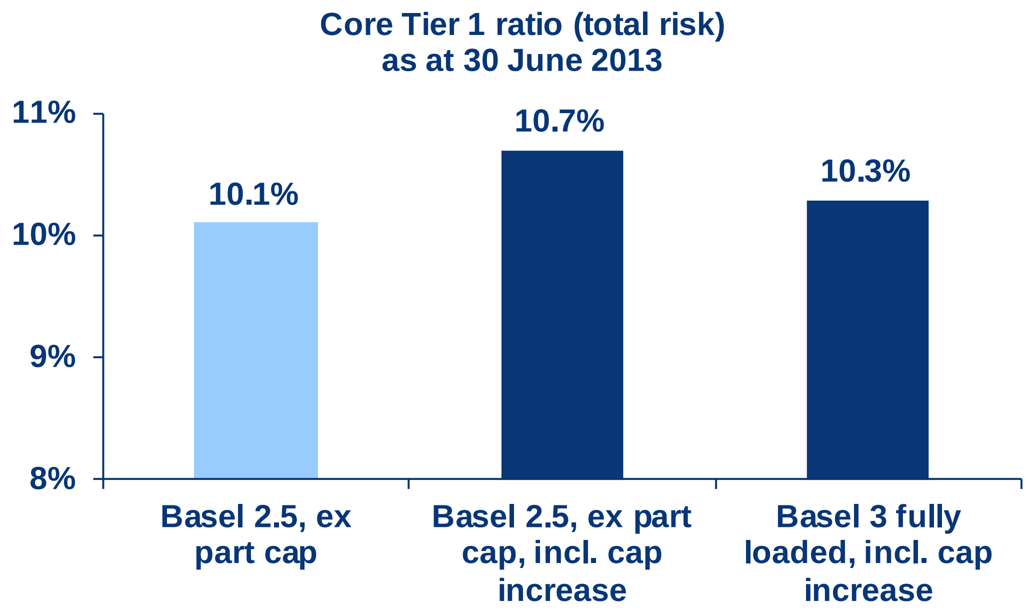
- Capital increase in the amount of EUR 660.6 million conducted in July 2013
- First Austrian bank which fully repaid the entire participation capital – demonstrating strength of Erste Group
- Full repayment of government and private participation capital was executed on 8 August 2013
- Erste Group expects to comfortably meet its targeted 10% fully loaded Basel 3 common equity tier-1 ratio from the end of 2014 onwards
- Full repayment of government and private participation capital combined with the recent capital increase will be EPS accretive from 2014 onwards



- Fully loaded Basel 3 CET1 at 10.3% (pro forma as of June 13, after capital increase)
- Transition in Romania for the calculation of RWA from standardised approach to IRB approach is expected to take effect in 2015 with a negative impact of approx. 40bps

Core tier 1 ratio (CT1 ratio) = tier 1 capital excl. hybrid and after regulatory deductions divided by total RWA, including credit risk, market and operational risk. Based on Basel 2.5.

Update on BCR –
Restructuring well under way

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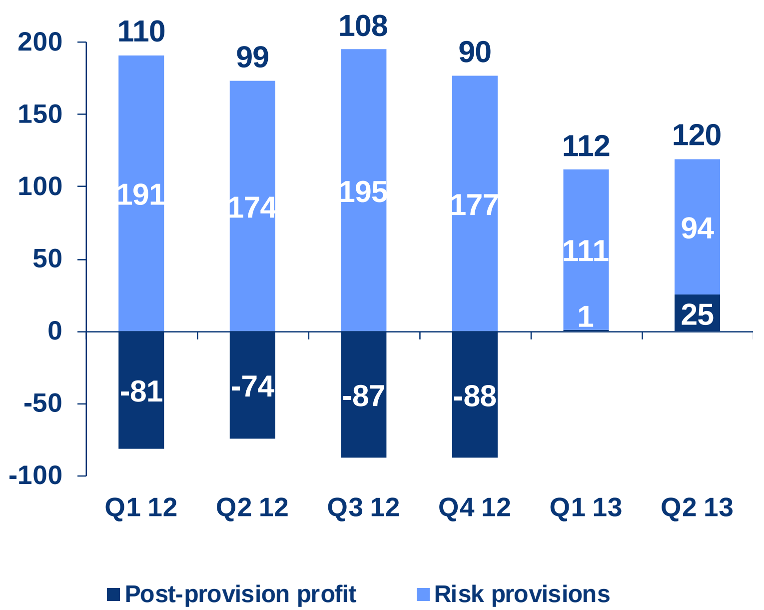
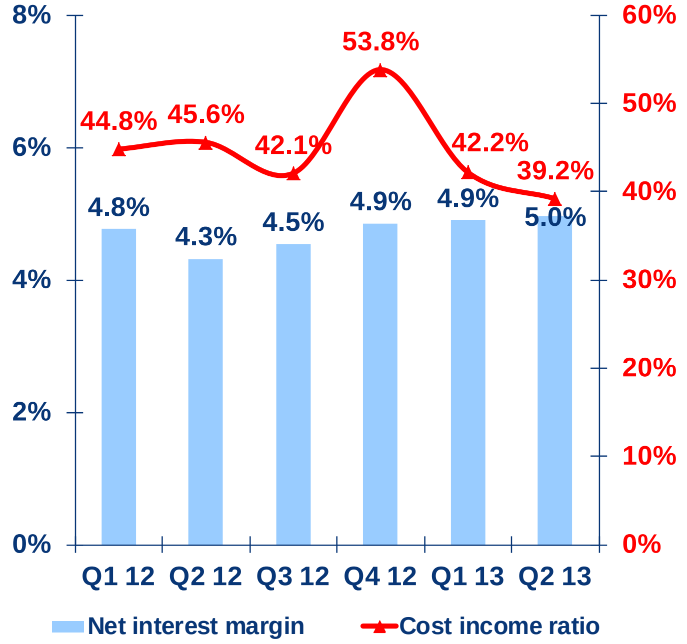
- **Operating income to grow in the mid-single digits in 2013**
  - Strict deposit pricing discipline
  - New current account product launched in Q4 2012; 215,000 bundles sold by June 2013
  - Focus on transaction banking and fee business
- **Operating expenses to decline in the mid-single digits in 2013 with full effect of restructuring to be seen in 2014**
  - Ongoing simplification and improvement of all structures in headquarter and subsidiaries
  - Branch network optimisation; Group headcount target of 7,500 FTE by end of 2013

BCR: Operating result (in EUR mn)



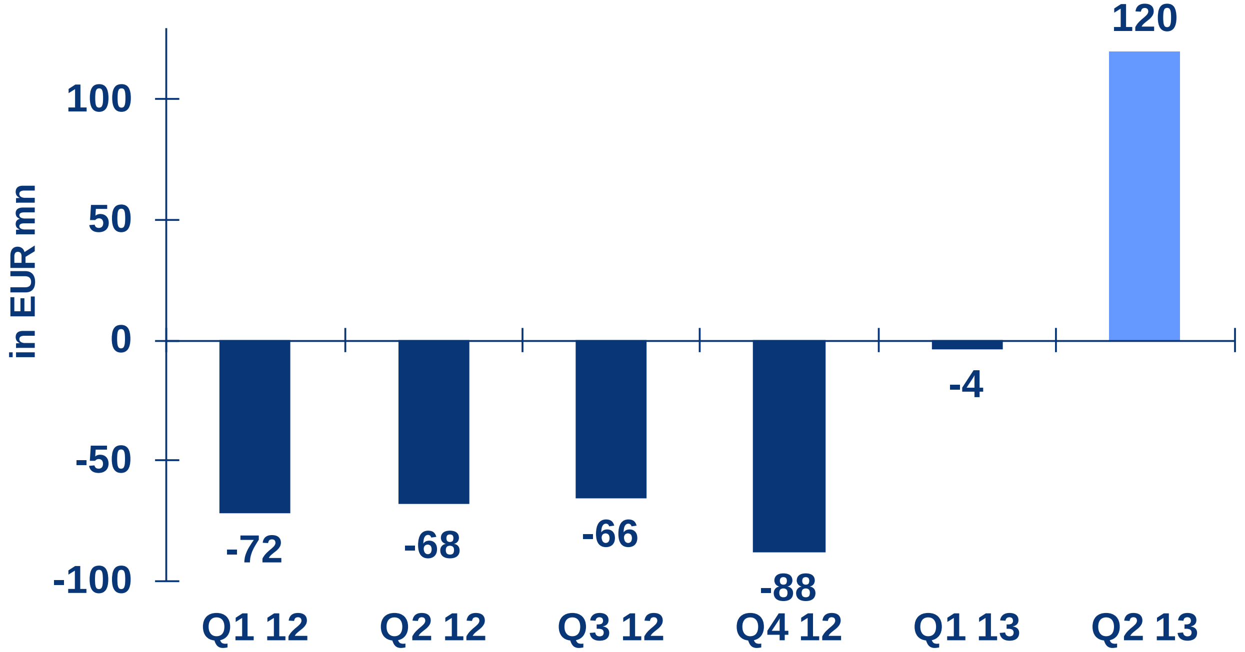
BCR: NIM and CIR



Update on BCR –
Strong decline in risk costs

- **Significant improvement of net result on lower risk costs and on release of deferred tax liability in Q2 13**
  - Deferred tax liability amounted to EUR 127.7m
  - Strong decline in risk costs
    - Absolute NPL volume to peak and modestly decline in 2013
    - 6^{th} consecutive quarter of improving NPL provisioning coverage; 60.4% as of June 2013
    - Risk provisions expected to decline significantly in 2013

BCR: Net profit after minorities



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Conclusion –
Outlook

- **Erste Group expects a slight improvement in economic performance for Central and Eastern Europe in H2 2013, even though growth will remain moderate**
- **For 2013 Erste Group expects operating result to decline up to 5% compared to 2012**
  - Lower operating income as a result of moderate loan demand and low interest rates
  - Partially offset by lower operating costs
- **Group risk costs are expected to decline by 10-15% in 2013**
  - Mainly due to declining risk costs in Romania
- **BCR is expected to return to profitability in 2013**
  - Irrespective of extraordinary tax-effect

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Strategy –
A real customer need is the reason for all business

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Customer banking in Central and Eastern Europe

Eastern part of EU		Focus on CEE, limited exposure to other Europe		
Retail banking	**Corporate banking**	**Capital markets**	**Public sector**	**Interbank business**
Focus on local currency mortgage and consumer loans funded by local deposits FX loans only in EUR for clients with EUR income (or equivalent) and where funded by local FX deposits (RO, HR & RS) Savings products, asset management and pension products Potential future expansion into Poland	Large, local corporate and SME banking Advisory services, with focus on providing access to capital markets and corporate finance Real estate business that goes beyond financing Potential future expansion into Poland	Focus on customer business, incl. customer-based trading activities In addition to core markets, presences in Poland, Turkey, Germany and London with institutional client focus and selected product mix Building debt and equity capital markets in CEE	Financing sovereigns and municipalities with focus on infrastructure development in core markets Any sovereign holdings are only held for market-making, liquidity or balance sheet management reasons	Focus on banks that operate in the core markets Any bank exposure is only held for liquidity or balance sheet management reasons or to support client business

Strategy –
Customer banking in the eastern part of the EU

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Austria	Czech Republic	Slovakia
Clients: 3.3m	Clients: 5.3m	Clients: 2.4m
Retail loans: 19.0%	Retail loans: 23.7%	Retail loans: 26.4%
Retail dep.: 18.3%	Retail dep.: 27.4%	Retail dep.: 25.9%
Branches: 981	Branches: 653	Branches: 296

Romania	Hungary	Croatia	Serbia
Clients: 3.4m	Clients: 0.9m	Clients: 1.0m	Clients: 0.3m
Retail loans: 18.1%	Retail loans: 15.6%	Retail loans: 13.7%	Retail loans: 3.4%
Retail dep.: 19.2%	Retail dep.: 8.2%	Retail dep.: 12.7%	Retail dep.: 2.6%
Branches: 562	Branches: 136	Branches: 150	Branches: 68

- **Leading retail and corporate bank with 16.6m customers in 7 geographically connected countries**
- **Favourable mix of mature & emerging markets with low penetration rates**
- **Potential for cross selling and organic growth in CEE**

EU or EU candidate

Indirect presence

Valuation of banks –
Valuations differ significantly across Europe

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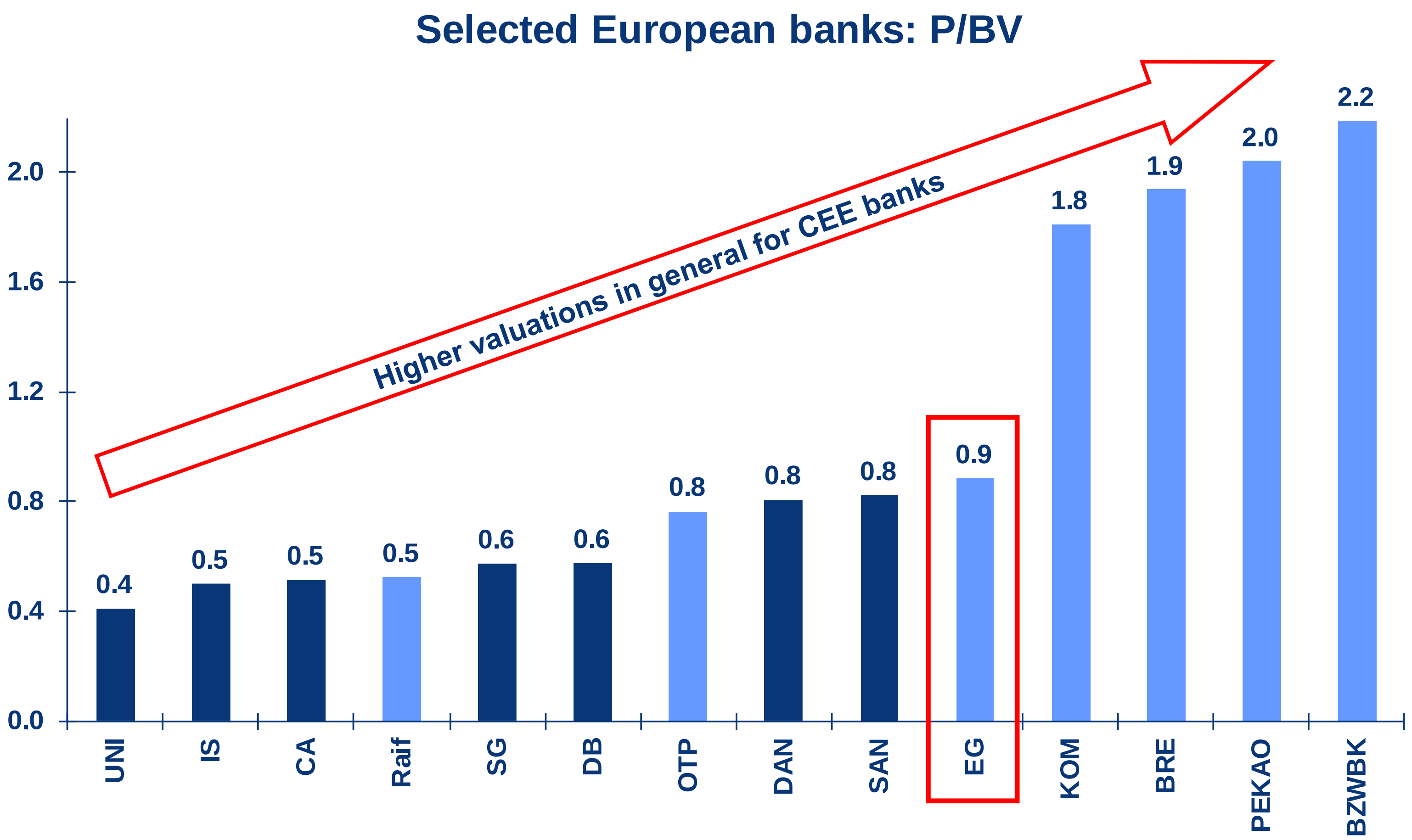

Light blue indicates CEE banks

Source: Bloomberg; EG adjusted for capital increase and redemption of participation capital