Bank of America Merrill Lynch Banking Conference
Low rates and heavy regulation: how to deliver shareholder returns

London, 1-2 October 2014

Delivering shareholder returns by eliminating legacy issues

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ERSTE Group

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Presentation topics

- Footprint & business environment
- Challenges for banks
- Eliminating legacy issues
- Outlook

Footprint –
Customer banking in Austria and the eastern part of the EU

Erste Group footprint

	Customers	Employees	Branches
Czech Republic	5.2m	10,474	644
Slovakia	2.4m	4,228	293
Hungary	0.9m	2,809	128
Romania	3.1m	7,078	551
Austria	3.4m	15,658	966
Croatia	1.1m	2,752	160
Serbia	0.3m	988	67

Highlights

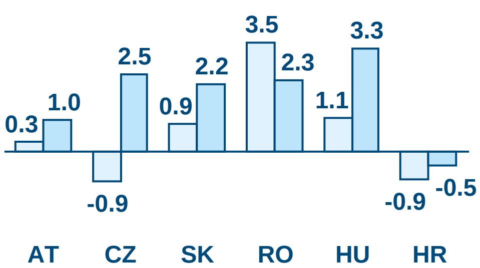
- Consistent business strategy focused upon real economy ever since foundation in 1819
- Relationship approach
- Leading retail and corporate bank in 7 geographically connected countries
- Favourable mix of mature & emerging markets with low penetration rates
- Potential for cross selling and organic growth in CEE

ERSTE Group

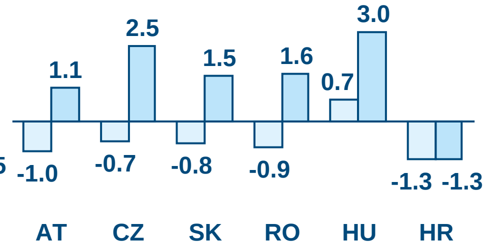
Business environment –
Visible macroeconomic improvement across the CEE region

2013
2014

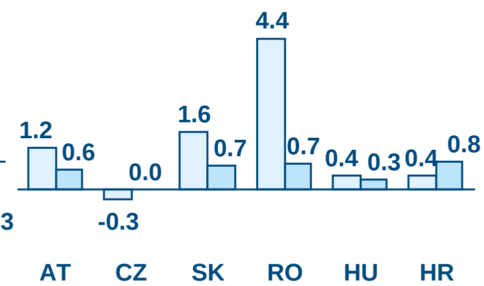
Real GDP growth (in %)



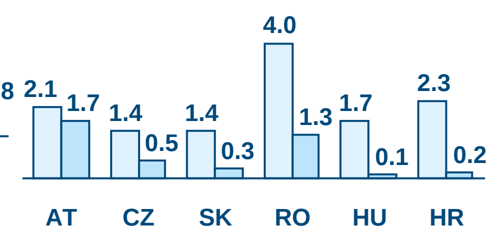
Dom. demand contribution* (in %)



Net export contribution* (in %)

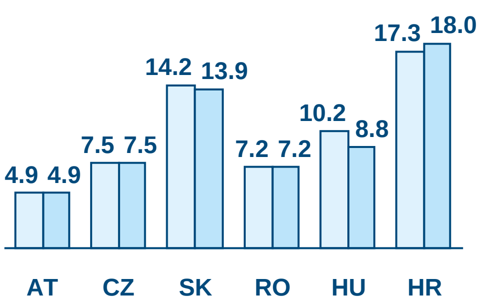


Consumer price inflation (ave, in %)

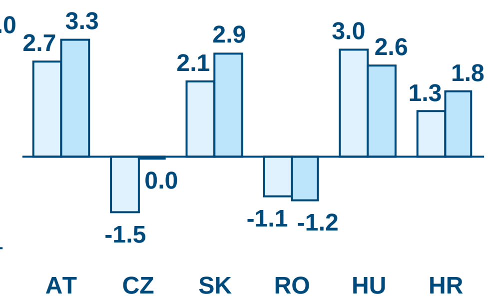


- CEE economies grew faster than the euro zone in Q2 2014 (euro zone GDP grew by 0.7% yoy in Q2)
  - Positive outlook for 2014 supported by Q2 GDP data: AT (+0.1%), CZ (+2.7%), RO (+1.2%), SK (+2.5%), HU (+3.9%)
  - 2014 GDP yoy estimates improved for most of CEE countries as economies remained driven by exports with visible improvement in domestic demand

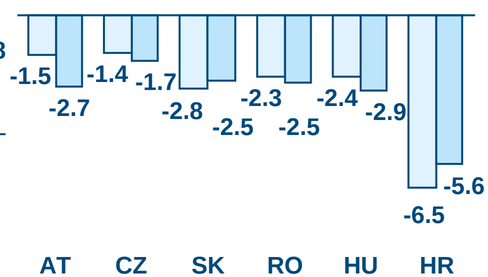
Unemployment rate (eop, in %)



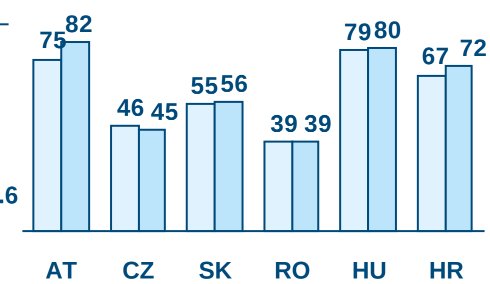
Current account balance (% of GDP)



Gen gov balance (% of GDP)



Public debt (% of GDP)



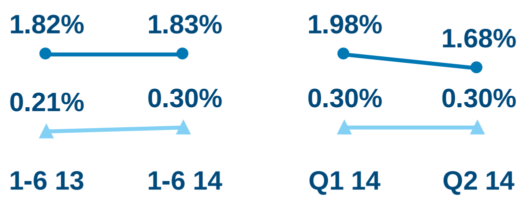
- Solid public finances across Erste Group's core markets recognised by Moody's: Romania upgraded to investment grade (BBB-) in May 14
- Sustainable current account balances, supported by competitive economies; Hungary has announced new austerity package

* Contribution to real GDP growth. Domestic demand contribution includes inventory change. Source: Erste Group Research, EU Spring Economic Forecast 2014.

Business environment –
Historic low interest rate environment poses challenges

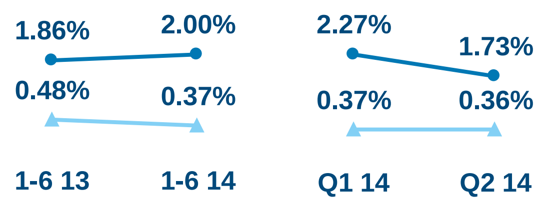
3M Interbank
10YR GOV

Austria



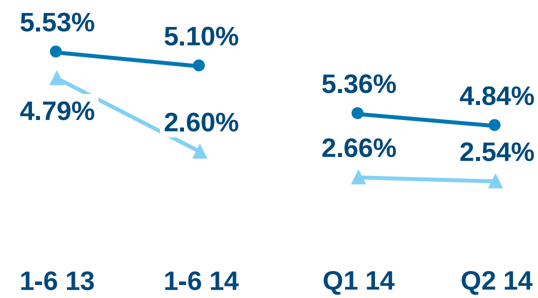
- ECB cut discount rate to 0.05% in Sept 14
- Maintains expansionary monetary policy stance

Czech Republic



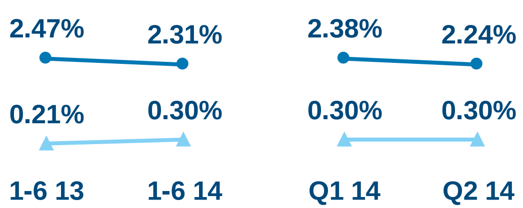
- National bank maintains ultra-low interest rates since November 2012 at 0.05%

Romania



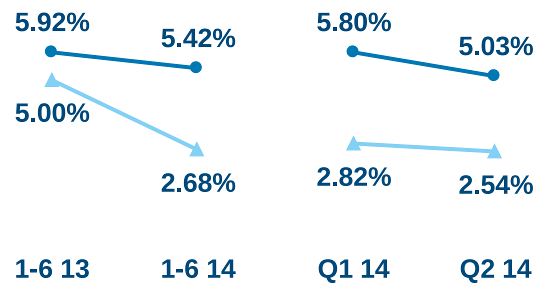
- Central bank cut policy rate to historic low of 3.25% in August 2014

Slovakia



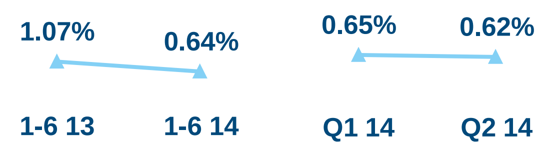
- As part of euro zone ECB rates are applicable in SK

Hungary



- National bank concluded easing cycle on 22 July 2014 after cutting base rate to historic low of 2.1%

Croatia



- Central bank maintains discount rate at 7.0% since mid-2011

Source: Bloomberg.

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Challenges for banks –
Meeting the demands of investors, regulators and customers

- Regulators
  - ECB vs EBA vs national regulators
  - Basel 3/ CRD IV, CRR: CET1, LCR, NSFR
  - Resolution regime, European deposit insurance
  - Stress tests: data collection
  - Regulatory compliance is costly

- Investors
  - Sustainable ROE above cost of capital (increased due to regulatory demands)
  - Delivering on business model
  - Cost discipline
  - Risk costs

- Customers
  - Easy to understand products designed to meet customer needs: “solutions instead of product push”
  - Transition between channels: digital banking, new type of branches
  - New competition e.g. mobile banking via non-bank payment service providers
  - Consumer protection, transparency

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Eliminating legacy issues –
2014 expected to be final year of one-offs related to pre-crisis issues

One-offs with effect on regulatory capital

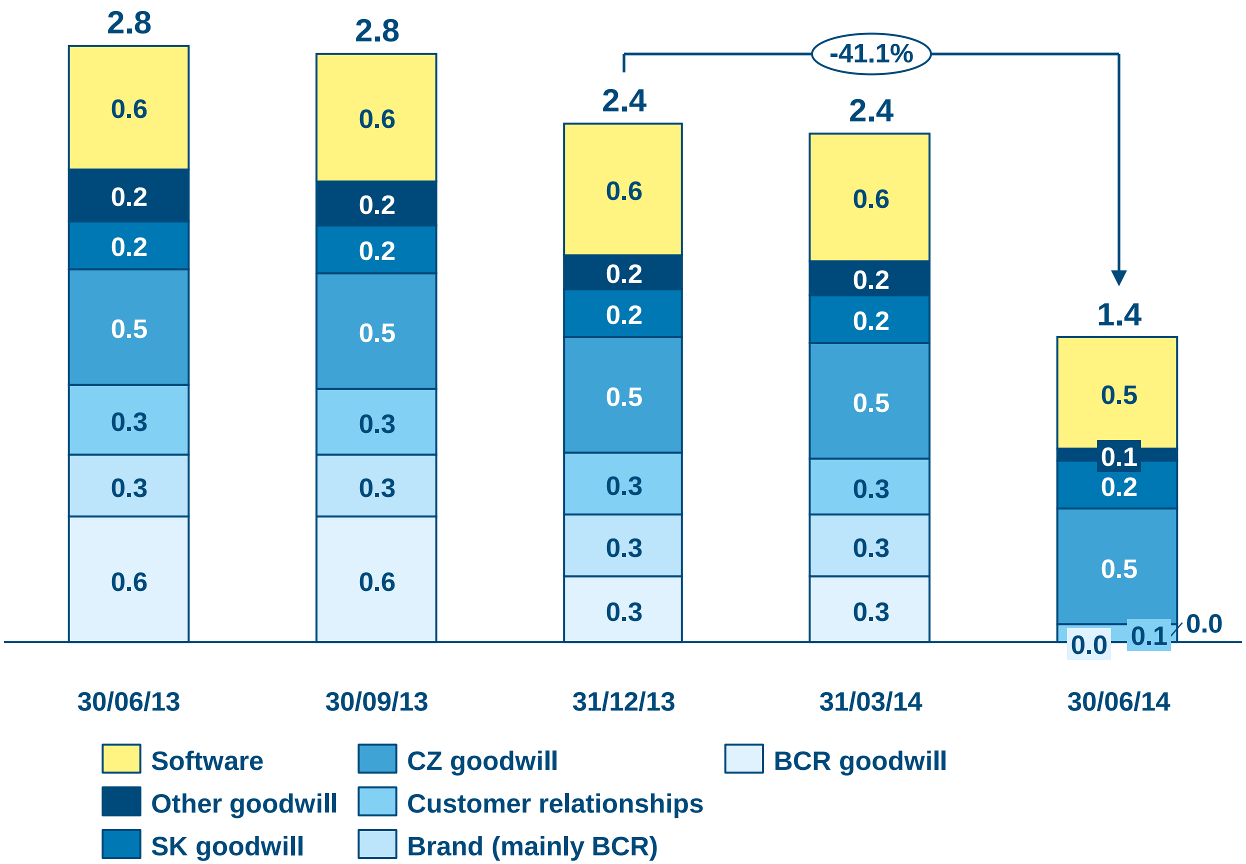
- **Additional risk provisions of about EUR 400m in Romania**
  - EUR 80m booked in H1 14; bulk expected to occur in H2 14 as LGD recalibration under way and uncertainty about pricing of NPL sales
  - Booked in risk costs of SME and CRE segments (BL) and Romania segment (geo)
- **Hungary: consumer loan law (bid-/ask-spread, unilateral interest and fee changes) impact of EUR350-400m**
  - EUR 130.3m in H1 14, remaining impact expected to occur in H2 14
  - Booked in other operating result; booking could be reversed into risk costs, depending on final legislative clarification (cash payback vs principal reduction)
  - No clarity yet on potential additional losses in Hungary from FX loan conversion into HUF expected for year-end 2014; hence no provision included in Q2 14 figures
- **Negative change in deferred taxes (net) of EUR 164.2m**
  - Minor impact of 4 and 13bps in fully-loaded and phased-in scenario
  - Accounting standard-induced booking, under Austrian tax regulation tax losses can be carried forward indefinitely

One-offs with no effect on regulatory capital

- **Write-down of remaining goodwill, value of customer relationships, brand and other intangibles related to Romania**
  - Total impact of EUR 854.2m (cumulative)
  - Booked in other operating result of Group Corporate Center (BL) and Other segment (geo)
- **Full write-down of remaining goodwill related to Croatia and minor participations**
  - Total impact of EUR 101.8m
  - Booked in other operating result of Group Corporate Center (BL) and Other segment (geo)

Eliminating legacy issues –
Significant reduction in intangibles to 13.8% of book value

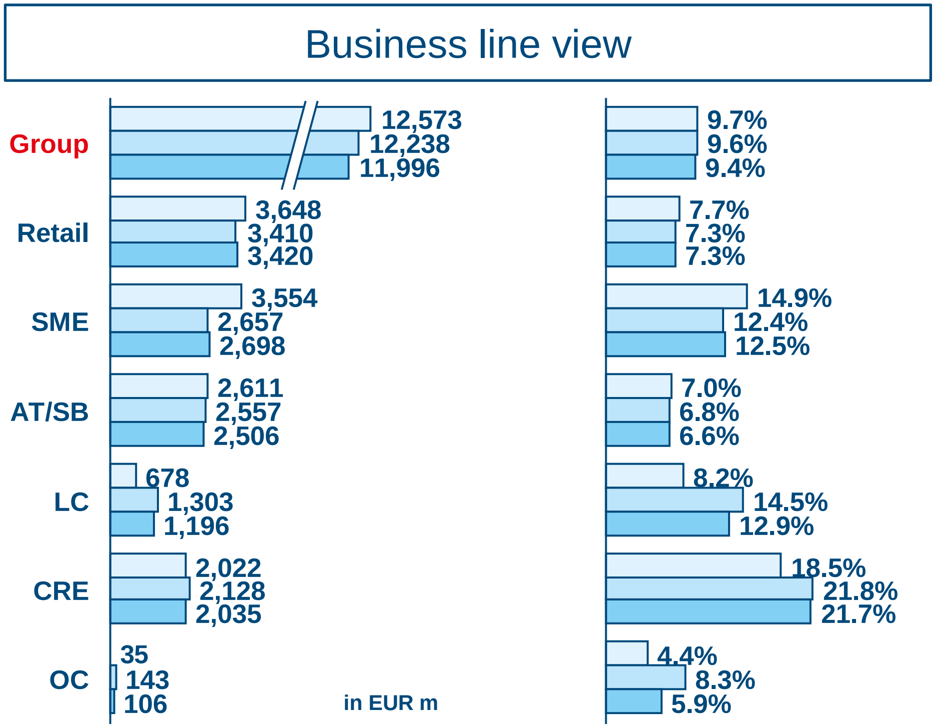
Quarterly development of intangibles (EUR bn)

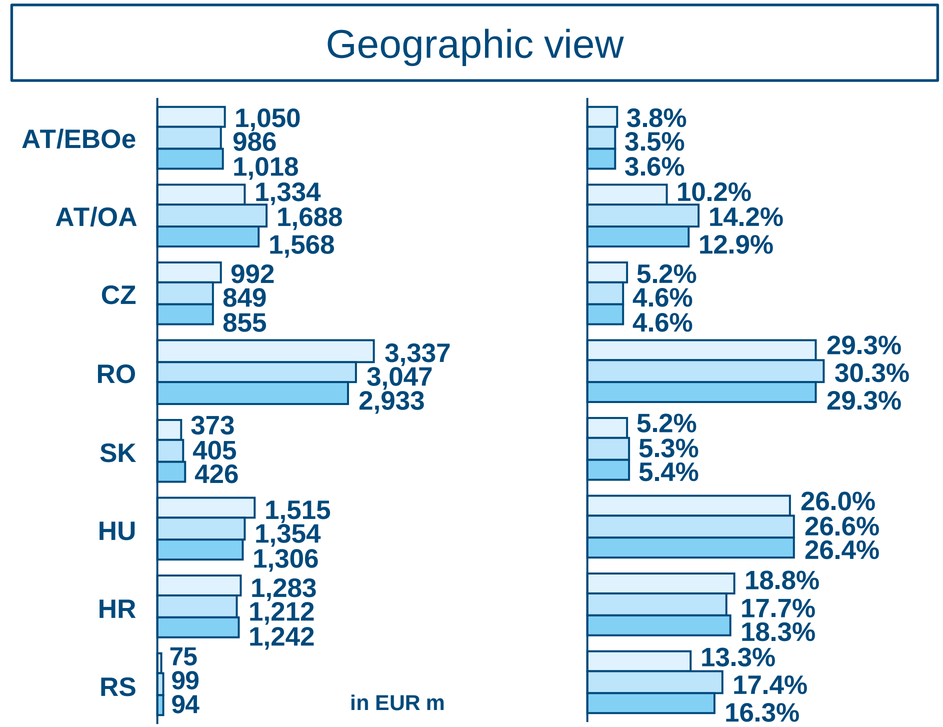


Highlights

- Extraordinary intangible write-downs amounted to EUR 956.4m in Q2 14
  - RO goodwill: EUR 319.1m
  - RO customer relationships: EUR 176.1m
  - RO brand: EUR 294.6m
  - RO other intangibles: EUR 64.4m
  - HR & related: EUR 101.8m
- CZ and SK goodwill are carried in EUR
- No goodwill related to Hungary
- No goodwill related to Romania
- Reduced customer relationship amortisation expenses booked in operating costs of the Group Corporate Center

Eliminating legacy issues –
Declining non-performing loans volume, declining NPL ratio





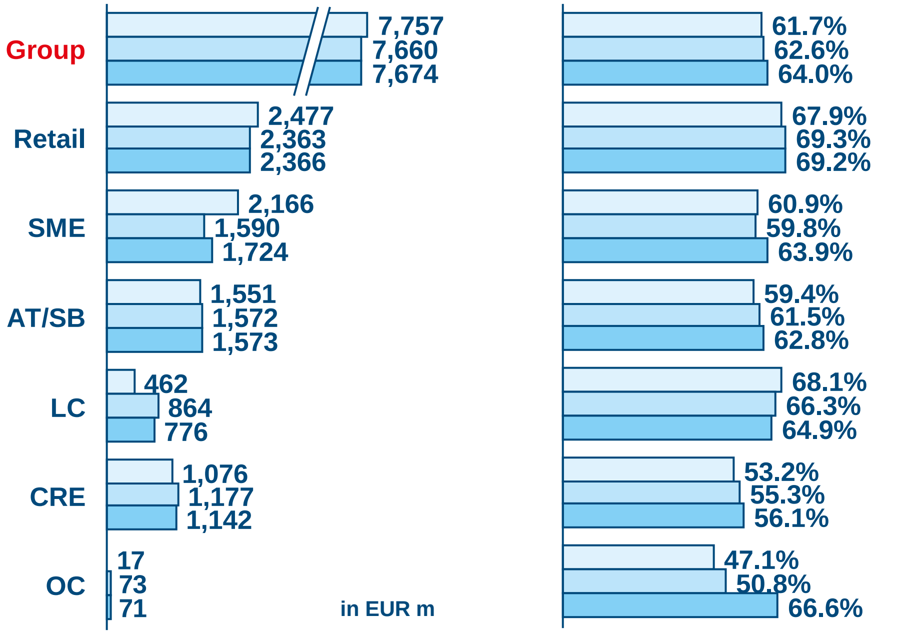
- Continued decline of group NPL volume and group NPL ratio on supportive trends in CRE, LC (BL) and RO, HU (geo)
- NPL sales amounted to EUR 134.9m in Q2 14
  - Retail: EUR 50.5m
  - Corporate: EUR 84.4m
- Reallocation of about EUR 800m from SME to LC is key reason for rising NPL ratio in LC and decline in SME; underlying trends stable

- NPL sales mainly in HU (EUR 53.1m), leading to NPL decline in same amount; NPL ratio stable due to declining overall loan volume
- NPL sales of EUR 41.8m in AT/OA (Holding, Immorent)
- Minor sales in CZ, SK, RO
- RO: First large volume NPL package of about EUR 240m sold in July 2014 and further significant NPL sales until YE 2014 expected

Eliminating legacy issues –
NPL coverage rises to multi-year high of 64.0%

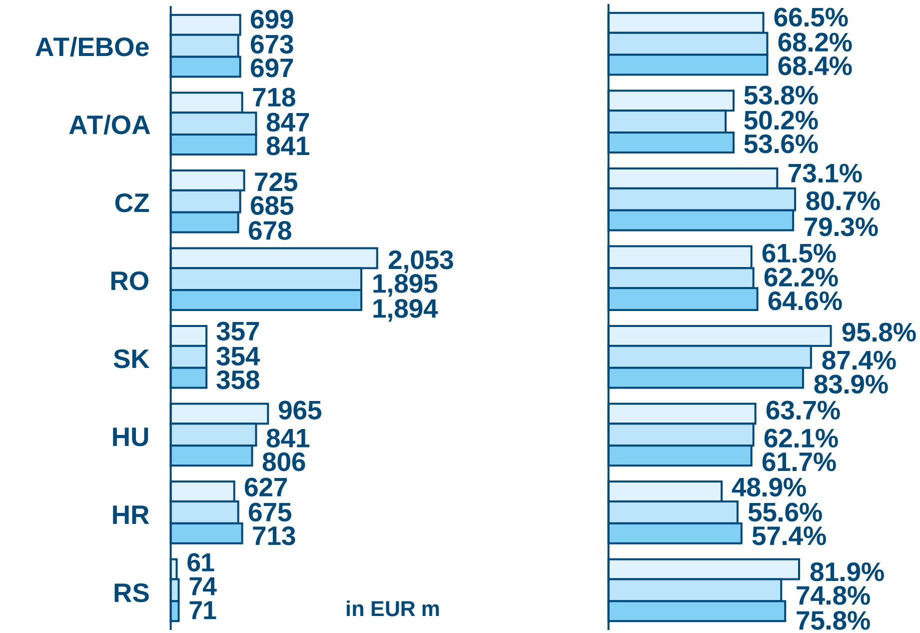
30/06/13
31/03/14
30/06/14

Business line view



- Improving group coverage ratio over the past quarters following significant provisioning in SME and CRE
- LC: decline in coverage driven by reallocation from SME
- SME: higher qoq coverage due to higher provisioning of new NPLs

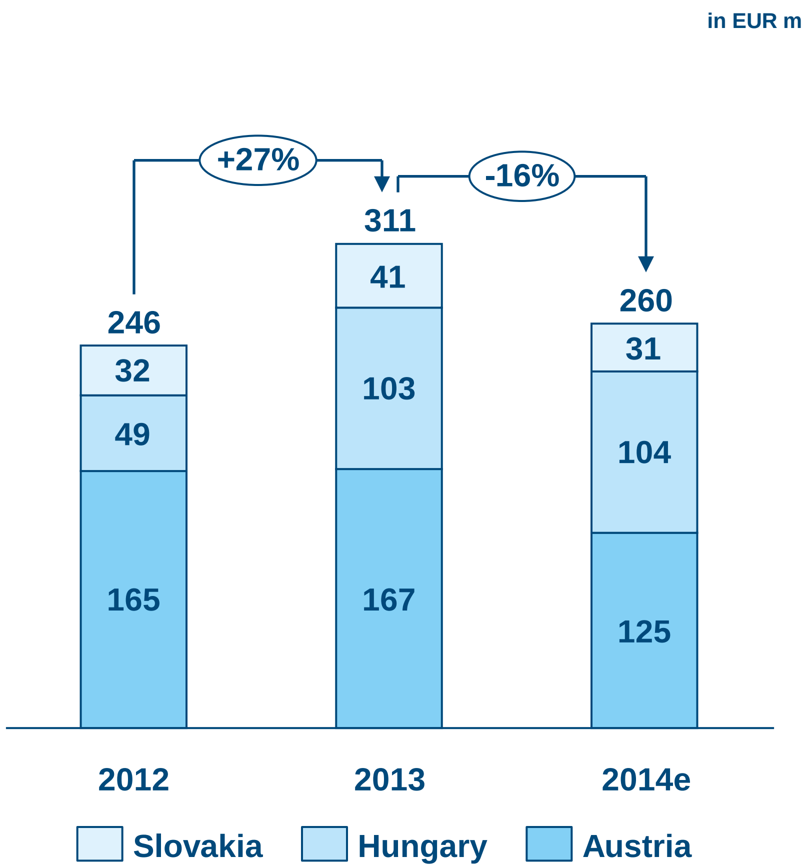
Geographic view



- Continued increase in coverage in HR
- AT/OA qoq coverage rise reflects additional provisions in CRE
- RO qoq coverage increase on the back of additional provisions for CRE and SME ahead of accelerated NPL reduction

Eliminating legacy issues –
Banking levies remain drag on profitability and capital generation capacity

Trending down but …

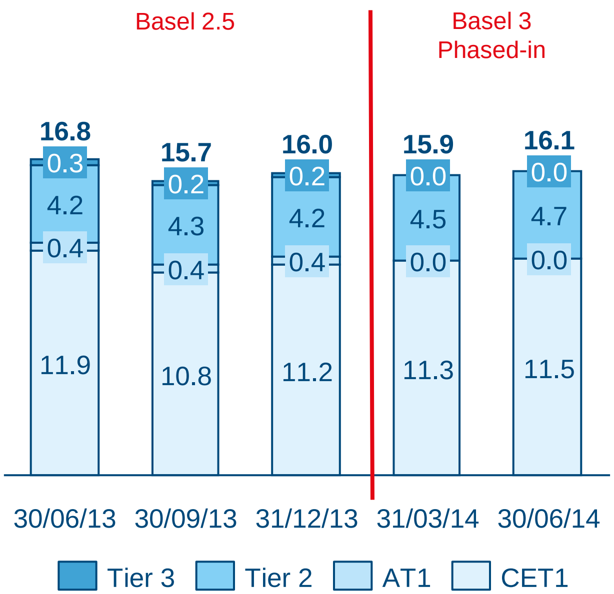


… remaining high by international comparison

- **Austria**
  - New calculation applicable since January 2014
  - In negotiation: will payments into resolution fund and deposit guarantee schemes be deductable?
- **Slovakia**
  - From 2015 onwards banking levies reduced to 0.2% on corporate and retail deposits instead of 0.4% as total amount already paid in reached EUR 500m by 25 July 2014
  - Further reduction to 0.1% when next threshold of EUR 750m is reached
  - No banking levy payable in Q4 2014
- **Hungary**
  - Calculation of banking tax still based on balance sheet as of 2009 (approx. 50% higher than current balance sheet total)
  - Financial transaction tax introduced in 2013
  - No indication for reduction plans yet

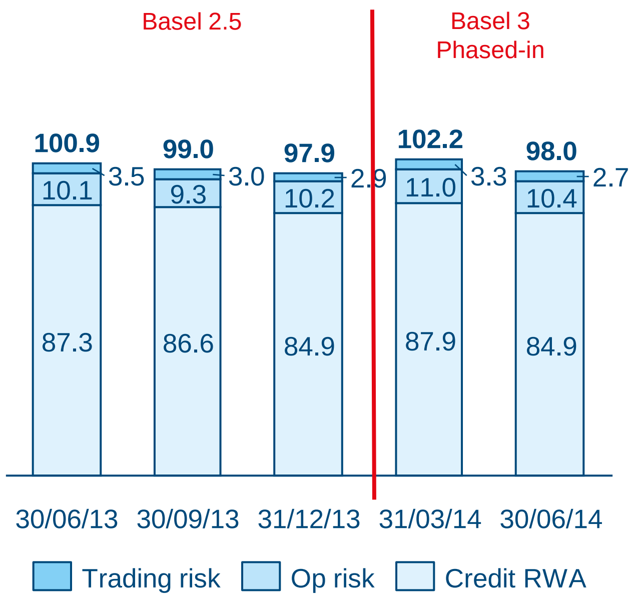
Eliminating legacy issues: improved capital position –
CET 1-ratio (fully loaded) at 10.8%, as impairments do not impact capital ratios

Basel 2.5/Basel 3 capital (EUR bn)



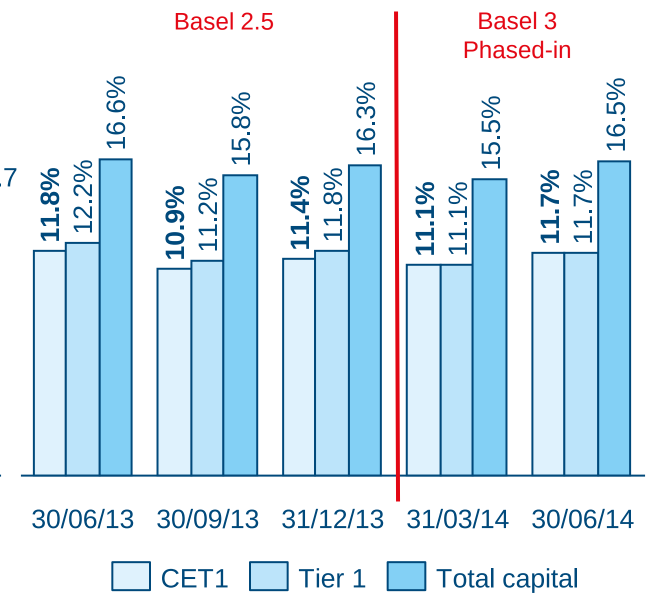
- Lower qoq deductions from capital due to negative DTA change

Risk-weighted assets (EUR bn)



- QOQ normalisation of RWAs due to:
  - Benefit from SME support factor: EUR 1.2bn
  - Benefit from negative DTA change: EUR 0.4bn
  - Exposure reductions: EUR 0.5bn
  - Migration to default: EUR 0.5bn

Basel 2.5/Basel 3 capital ratios



- Basel 3 CET1 ratio (final) equalled 10.8% at 30 June 2014 (YE 2013: 10.8%)
  - Driven by ytd stability in capital and RWA

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Conclusion –
Outlook

- For Erste Group (consolidated):
  - A group operating result, which – despite stable underlying group operating trends – could be pushed slightly below guidance in 2014 due to weaker operating results in Romania and Hungary;
  - Risk costs of EUR 2.1 – 2.4bn, depending on booking of Hungarian consumer loan law impact in risk provisions or other operating result;
  - A net loss for 2014 of EUR 1.4-1.6bn;
  - A CET 1-ratio (fully loaded, based on current definitions) of about 10.0% at year-end;
  - Strongly improved post-provision result and net profit (ROTE: 8-10%) in 2015, despite still disproportionate banking levies.
- For the geographic segment Romania: a full normalisation of risk costs at 100-150bps of average gross customer loans starting in 2015, accompanied by an accelerated NPL reduction (down about EUR 800 million or 25%, compared to year-end 2013) already in 2014; a significant rise in the NPL coverage ratio; a lower, but sustainable operating result due to a lower unwinding impact on net interest income
- For the geographic segment Hungary: a gradual normalisation of risk costs to 150-200bps (by 2016) of average gross customer loans based on the assumption that all government actions will be completed in 2014; a lower, but sustainable operating result due to lower net interest income

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