

- > Retail and Mortgage Austria –  
Focus on wealth management

- > 4<sup>th</sup> Capital Markets Day

- > Bucharest, 9 October 2006

- > Peter Bosek, Head of Retail Austria

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## **Stable operating environment**

- » **Austria growing faster than EU15**
- » **Change in political landscape following elections**
- » **Stable competitive environment**

## **Wealth management to be future growth driver**

- » **Key trends – above-average mortgage lending**
- » **Growth drivers – wealth management**
- » **Competitive position – unchanged**

## **Outlook – sustained profitability**

# > Stable economic fundamentals

## GDP growth to exceed 3% in 2006

- » Strongest economic growth since 2000
- » Driven by surge in investments and improvement in Eurozone economies

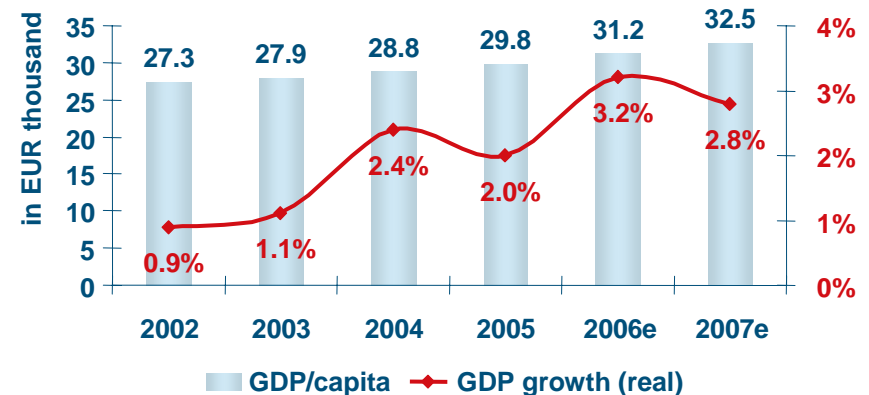
## Disposable income/capita up by 3.7% in 2005, # 4 in Eurozone

- » Increase in employment strengthens purchase power of private households
- » Improving consumer confidence supports private consumption

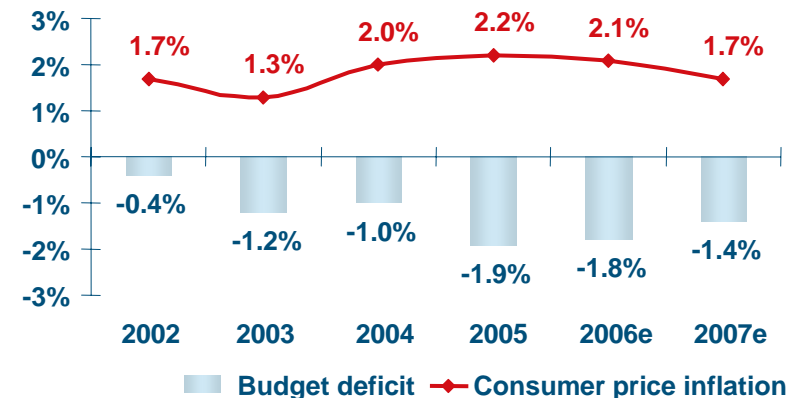
## Other indicators positive

- » Unemployment is consistently amongst the lowest of EU members
- » Inflation trend in line with Eurozone
- » Disciplined government spending, balanced budget targeted in 2008

GDP growth above EU 15



Disciplined public spending



# > No major shifts in economic policy expected

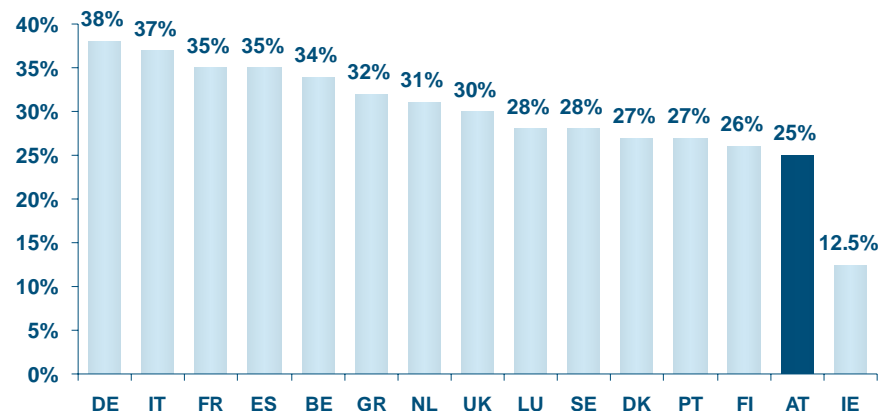
## October elections changed political landscape

- » Grand coalition between Social Democrats and Conservatives likely..
- » ...but no significant impact on business environment expected
- » Corporate tax rate expected to remain amongst lowest in EU

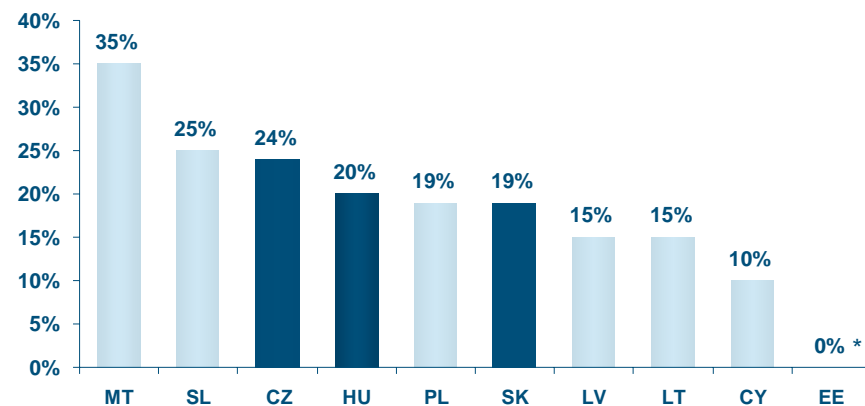
## High level of consumer protection

- » Latest constitutional court ruling on deposit pricing is likely to keep margins at a low level
- » Competitive pressure on deposit margins continues

Corporate tax rates - EU 15



Corporate tax rates - EU NMS-10



\* 0% on undistributed profits, but 15% on distributed profits

# > Austria is a mature banking market

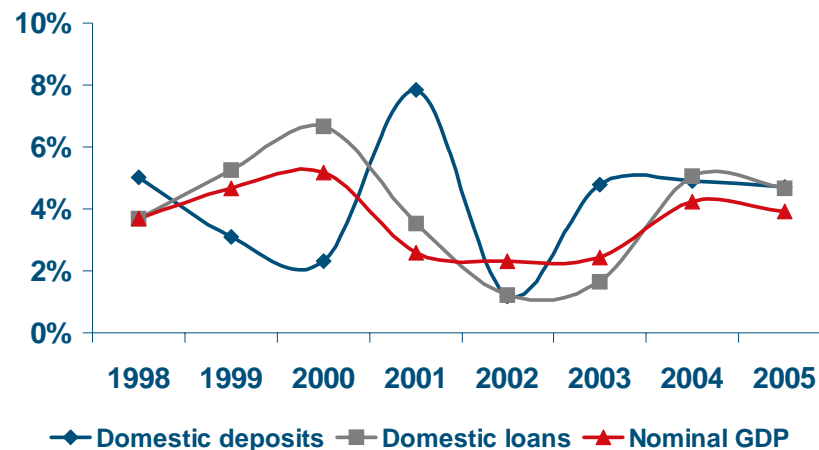
## Growth in line with nominal GDP

- » For all major categories: domestic assets, loans, deposits, etc
- » Above average growth in foreign assets is driven by CEE expansion of Austrian banks

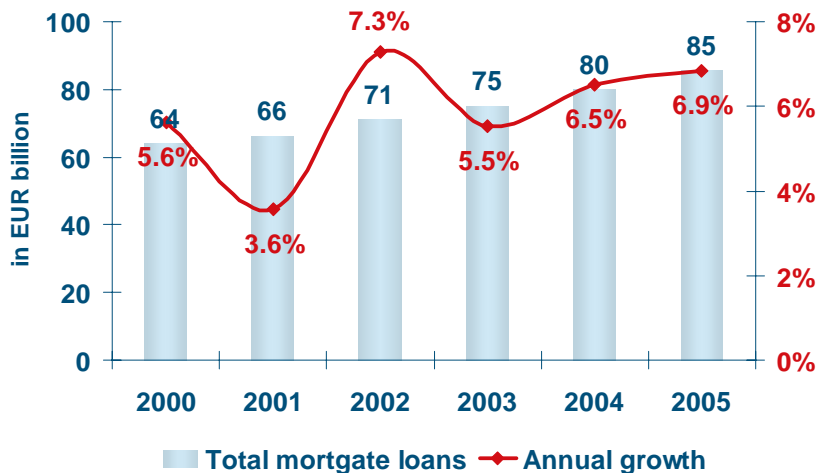
## Selected growth areas do exist

- » Retail mortgages on the back of low interest rates and low penetration

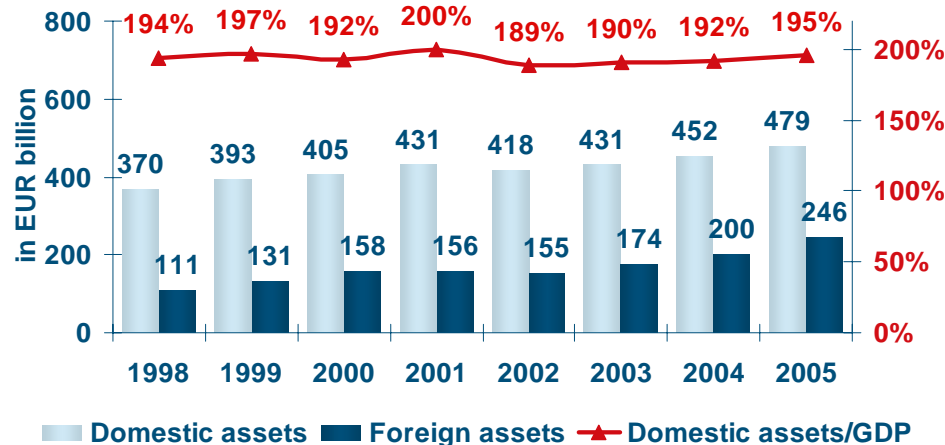
Domestic deposits vs domestic loan growth



Total mortgage volume (EUR bn)



Asset growth in Austria



# > Agenda

## Stable operating environment

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## Wealth management to be future growth driver

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## Outlook – sustained profitability

# > Continuing above-average mortgage lending

## Mortgages outgrow retail loans

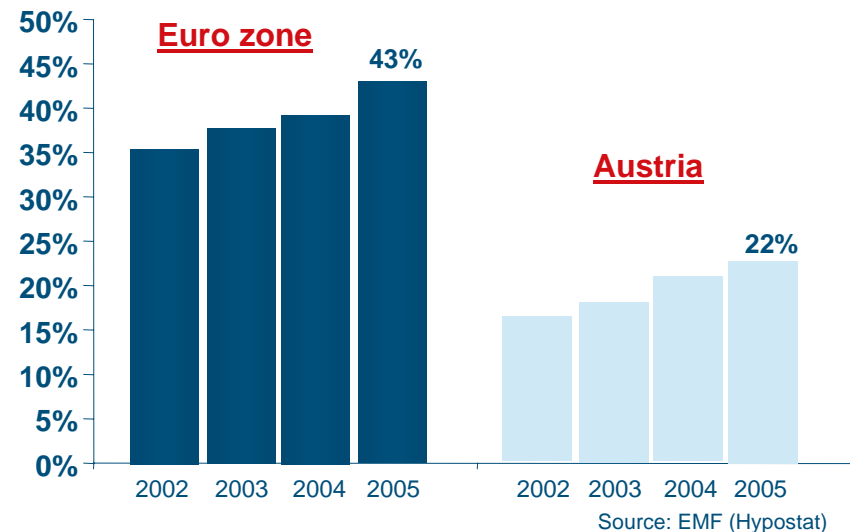
- » Above-average growth in total housing loans continues (+6.9% yoy)
- » Consumer mortgages grow strongly
  - » EUR 4.1bn (1H 2006, +14%)
- » Commercial social housing finance growth in line with R&M segment
  - » EUR 2.0bn (1H 2006, +6% yoy)
- » Building Society volumes growing, but at a slower pace
  - » EUR 5.3bn (1H 2006, +2% yoy)
- » Retail mortgage margins stable at around 125bp

## Mortgage penetration increases in line with Eurozone

- » ... but still far behind European average

| R&M loan portfolio (EURm)             | H1 04  | H1 05  | H1 06  | yoy growth |
|---------------------------------------|--------|--------|--------|------------|
| SME                                   | 1,544  | 1,549  | 1,560  | 0.7%       |
| Retail                                | 1,661  | 1,678  | 1,734  | 3.3%       |
| Housing loans (inc. Building Society) | 9,859  | 10,631 | 11,362 | 6.9%       |
| Own Savingsbanks                      | 4,591  | 4,766  | 4,764  | 0.0%       |
| Total R&M loans                       | 17,655 | 18,624 | 19,420 | 4.3%       |

Mortgage penetration (mortgage/GDP)





# > Wealth management remains the key driver

## Leader in retail funds

- » FuM/capita growth in Austria among the highest within the EU (CAGR 02-05: +20%)
- » Erste Bank market shares continue to rise (18% total and 21% in retail funds)
- » Fees stable, above international levels
- » Shift from bond to equity funds will provide additional leverage

## Significant rise in equity ownership

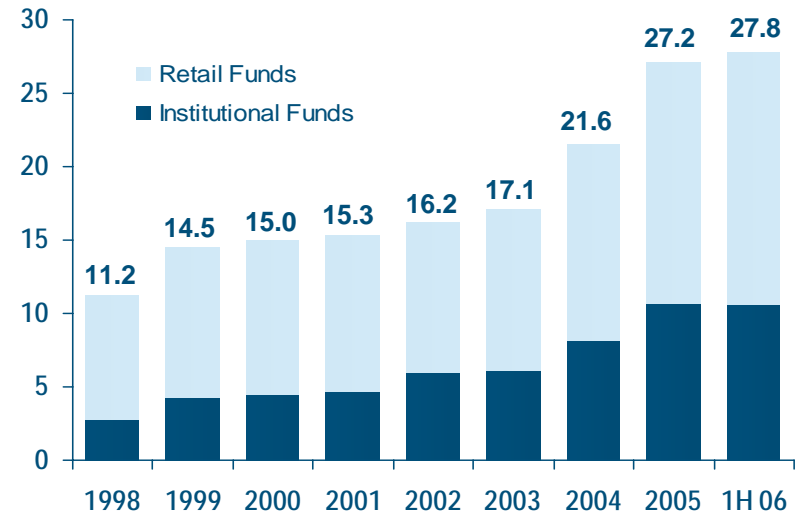
- » Over the past 3 years the share of equities within Austrian household savings has risen to 9%

## Increased targeting of retiree segment (age 60+)

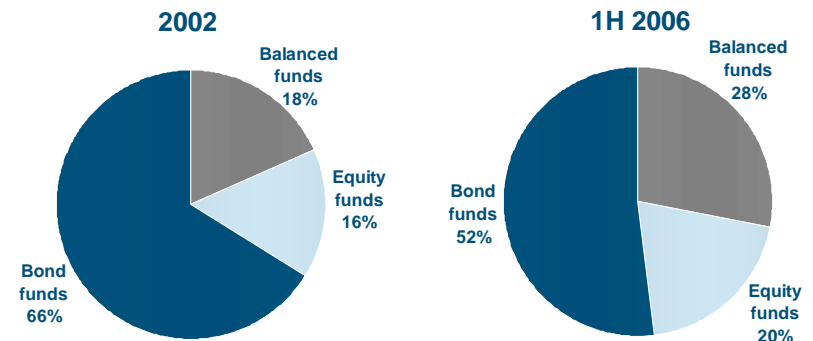
## Generous government incentives

- » Supporting private old age provision

Erste Bank fund volumes (EUR bn)



Austrian investment fund market structure



# > Competitive position remains stable

## Major market trends in 2006

- » Consumer finance initiative by BA-CA
- » Active sub-prime lending segment: GE Money Bank, RBS, CC Bank

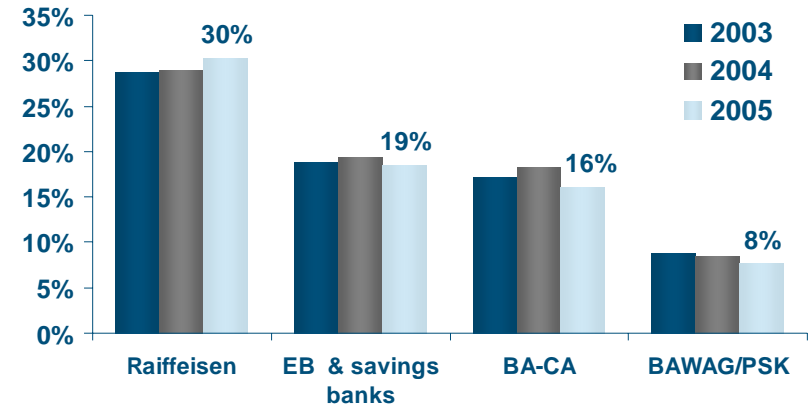
## Maintaining position despite intense competition on the liability side

- » Funds lost to ING Direct compensated by inflows as a result of the BAWAG crisis
- » 50% of initial defections to ING Direct subsequently returned to EB

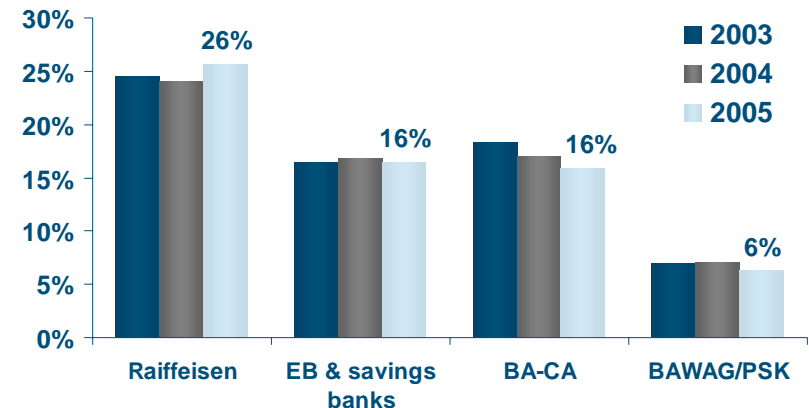
## Limited benefits from rising rates

- » Due to high competition, especially on the deposit side
- » Automatic interest adjustment clauses

Total deposit market shares - Austria



Total loan market shares - Austria



Sources: OENB, annual reports

# > Agenda

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## **Outlook – sustained profitability**

# > Outlook R&M segment – sustained profitability

## Outlook 2006 based on:

- » **H2 06 commission income will not match strong levels of H1 06**
  - » Lower level of capital markets transactions in Austria in H2 06
  - » Generally unstable securities market environment
- » **Persistent pressure on liability margins**
- » **Weaker contribution from insurance business**
  - » High valuation gains in 2005
  - » Negative valuation impact in 2006

|                   | 06 outlook* | 07 target* |
|-------------------|-------------|------------|
| Net profit growth | < 10%       | 15%        |
| Return on equity  | > 10%       | 12%        |
| Cost/income ratio | < 72%       | < 70%      |

\*) based on segment contribution and current equity allocation

## Positive overall sentiment reflected in improved 2007 targets

- » **Strong demand for mortgage lending at stable margins with benign risk costs**
- » **Focus on high margin security products**
- » **Tight cost control**