

# 5th Capital Markets Day

21 September 2007, Bratislava

## Talking strategy

Andreas Treichl, CEO



## Cautionary note regarding forward-looking statements

---

- THE INFORMATION CONTAINED IN THIS DOCUMENT HAS NOT BEEN INDEPENDENTLY VERIFIED AND NO REPRESENTATION OR WARRANTY EXPRESSED OR IMPLIED IS MADE AS TO, AND NO RELIANCE SHOULD BE PLACED ON, THE FAIRNESS, ACCURACY, COMPLETENESS OR CORRECTNESS OF THIS INFORMATION OR OPINIONS CONTAINED HEREIN.
- CERTAIN STATEMENTS CONTAINED IN THIS DOCUMENT MAY BE STATEMENTS OF FUTURE EXPECTATIONS AND OTHER FORWARD-LOOKING STATEMENTS THAT ARE BASED ON MANAGEMENT'S CURRENT VIEWS AND ASSUMPTIONS AND INVOLVE KNOWN AND UNKNOWN RISKS AND UNCERTAINTIES THAT COULD CAUSE ACTUAL RESULTS, PERFORMANCE OR EVENTS TO DIFFER MATERIALLY FROM THOSE EXPRESSED OR IMPLIED IN SUCH STATEMENTS.
- NONE OF ERSTE BANK OR ANY OF ITS AFFILIATES, ADVISORS OR REPRESENTATIVES SHALL HAVE ANY LIABILITY WHATSOEVER (IN NEGLIGENCE OR OTHERWISE) FOR ANY LOSS WHATSOEVER ARISING FROM ANY USE OF THIS DOCUMENT OR ITS CONTENT OR OTHERWISE ARISING IN CONNECTION WITH THIS DOCUMENT.
- THIS DOCUMENT DOES NOT CONSTITUTE AN OFFER OR INVITATION TO PURCHASE OR SUBSCRIBE FOR ANY SHARES AND NEITHER IT NOR ANY PART OF IT SHALL FORM THE BASIS OF OR BE RELIED UPON IN CONNECTION WITH ANY CONTRACT OR COMMITMENT WHATSOEVER.

---

## – Wrapping up Central and Eastern Europe

- CEE subsidiaries in context
- Hungary
- Croatia
- Serbia
- Ukraine
- Target summary

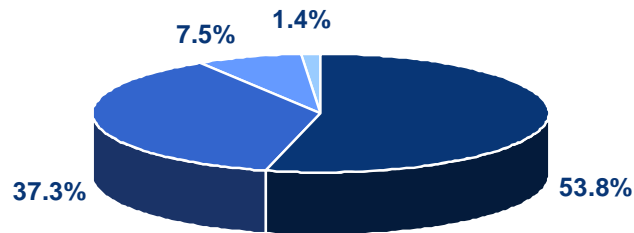
## – Setting the scene for future growth

## – Outlook

All financial and market data are shown in EUR. Local currency data have been translated at the respective historic rates. Growth rates and ratios are based on local currency data. All macro data based on Erste Group Research.

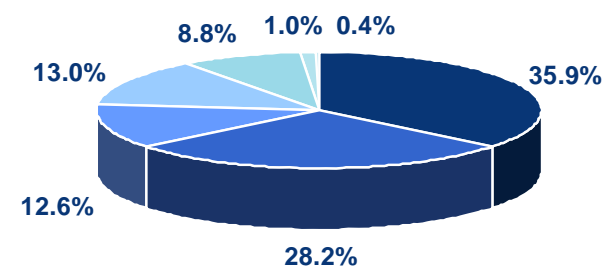
# Wrapping up Central and Eastern Europe – CEE subsidiaries in context

RWA distribution by segment  
(H1 07)



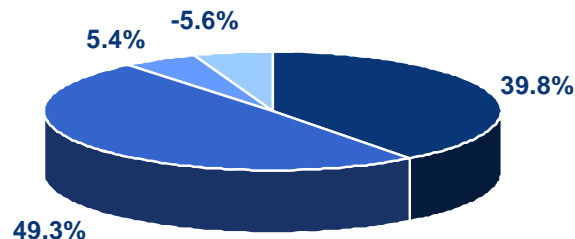
■ Austria ■ CEE ■ Intl Business ■ Corp Center

RWA distribution in CEE  
(H1 07)



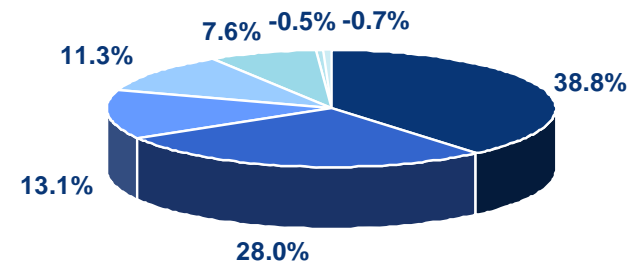
■ Czech Rep ■ Romania ■ Slovakia ■ Hungary  
■ Croatia ■ Serbia ■ Ukraine

Operating profit distribution by segment  
(H1 07)



■ Austria ■ CEE ■ Intl Business ■ Corp Center

Operating profit distribution in CEE  
(H1 07)



■ Czech Rep ■ Romania ■ Slovakia ■ Hungary  
■ Croatia ■ Serbia ■ Ukraine

# CEE review – Hungary

## Economy reflects austerity package

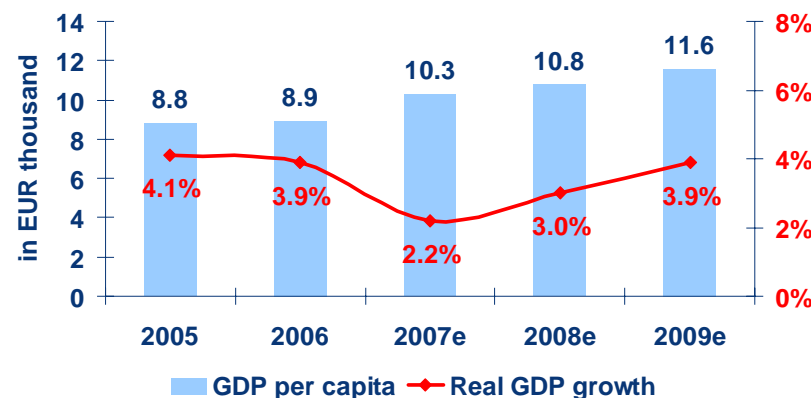
### – GDP growth set to recover in 2008

- Slowdown continued in Q2 07, driven especially by weak domestic demand
- Exports continue to be the main growth driver, supported by strong EU economies
- Spike in EUR GDP/capita is solely due to exchange rate movements

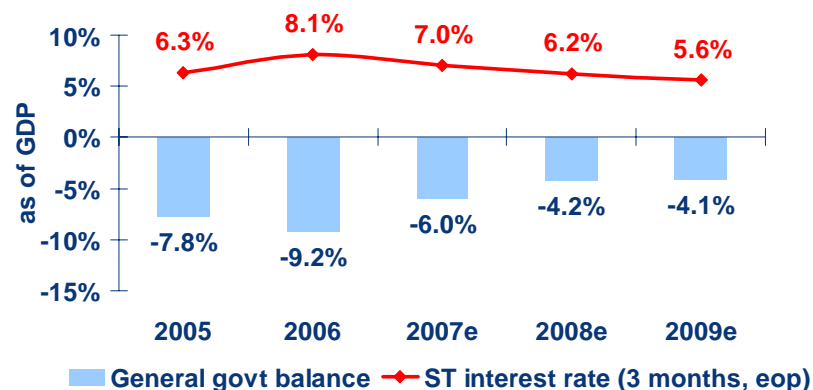
### – Effects of the austerity package are already visible

- Budget deficit expected to decline strongly starting 2007 to 6.0%, instead of 7-8% without any measures
- Interest rates have peaked at 8% in 2006; rate cutting cycle started with latest base rate cut to 7.75% in June 07
- Inflation spike due to administered price hikes in 2007 (7.7%).
  - Gradual CPI decline expected in the coming quarters with stronger decline from 2008 (4.2%)
- Stabilisation HUF/EUR exchange rate in the 250-270 range

Key economic indicators



Interest rates vs government balance



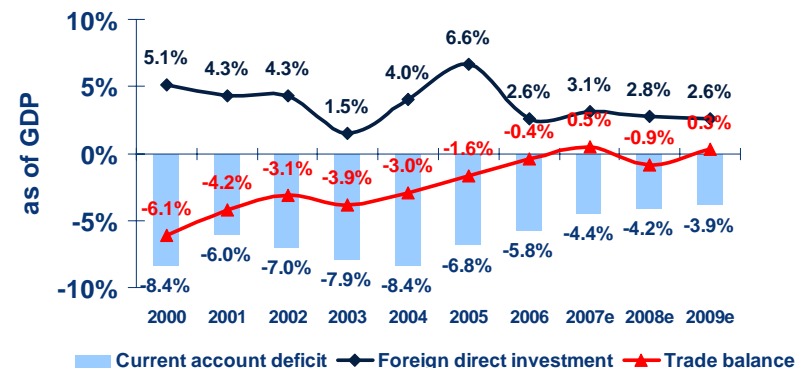
All financial and market data are shown in EUR. Local currency data have been translated at the respective historic rates. Growth rates and ratios are based on local currency data. All macro data based on Erste Group Research.

# CEE review – Hungary

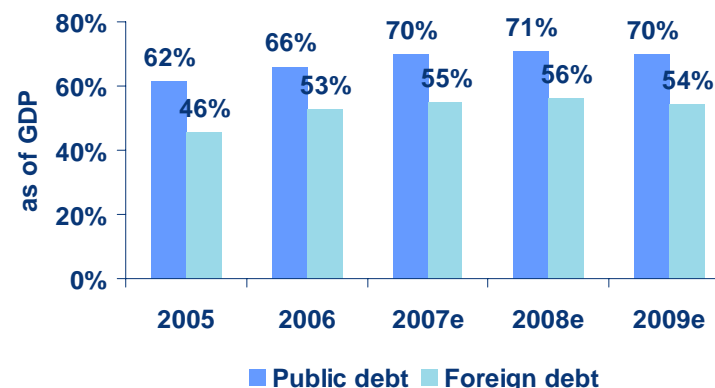
## Imbalances are being addressed

- **Trade surplus supports the economy**
  - Current account deficit at sustainable levels
  - FDI inflows cover 2/3 of the external deficit
- **Public debt should peak in 2008**
  - Foreign debt remains at manageable levels, but majority is short-term and owned by foreign investors
  - Public debt will remain outside Maastricht criteria for some considerable time
- **EU checks Hungary's economic progress every six months and has indicated in June 07 that the country is progressing on the right track**
- **Euro entry not before 2014-2015**

FDI vs trade and current account balance



Public and foreign indebtedness



All financial and market data are shown in EUR. Local currency data have been translated at the respective historic rates. Growth rates and ratios are based on local currency data. All macro data based on Erste Group Research.

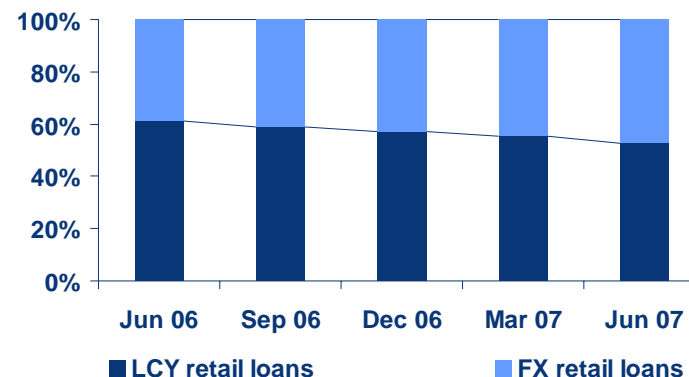
# CEE review – Hungary

## Retail banking market still in growth mode

### – Loan growth in positive territory

- Banking asset penetration > 100%
- Retail loans – up 8.8% ytd – and in particular mortgages remain key growth drivers
- Corporate loans grew at a substantially lower pace – up 1.5% ytd
- FX still a key market feature
- 2006 once again proved that Central Bank defends currency at the expense of local rate hikes
- 90% of new loans are CHF-based

Banking market - FX share in retail lending

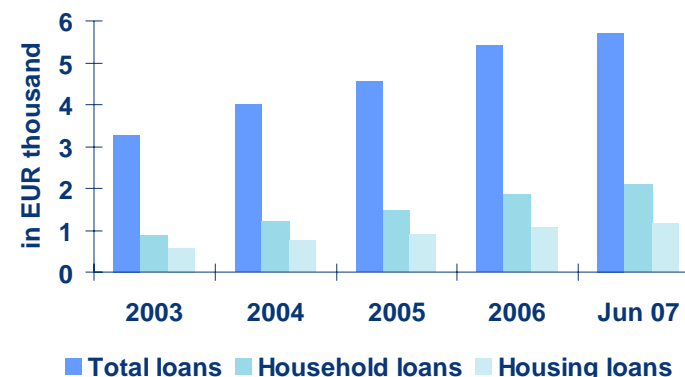


### – Per capita indebtedness moderate

### – Strong demand for investment funds at the expense of deposit growth

- Due to change in tax legislation (higher tax on interest income from long-term deposits) low single-digit growth in overall deposits

Per capita indebtedness



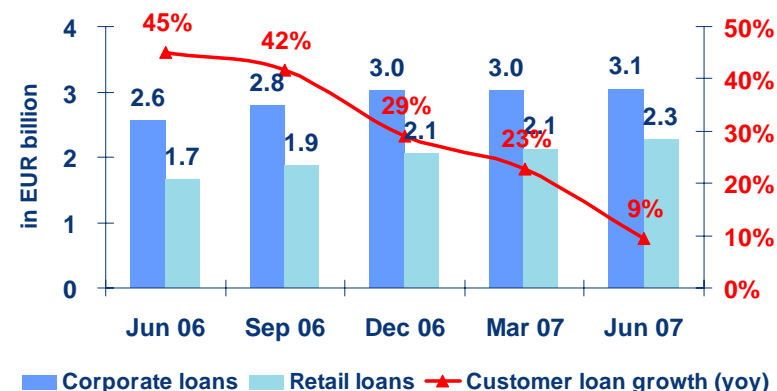
All financial and market data are shown in EUR. Local currency data have been translated at the respective historic rates. Growth rates and ratios are based on local currency data. All macro data based on Erste Group Research.

# CEE review – Hungary

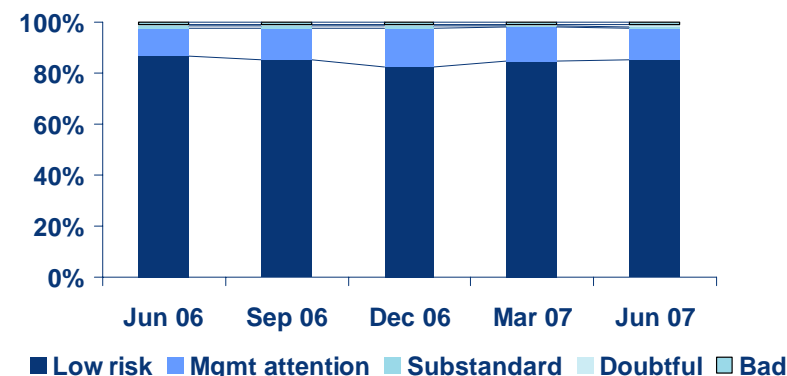
## Erste Bank Hungary remains successful

- **Market-beating retail loan growth**
  - High single-digit growth in retail, while corporate loans suffered mild decline ytd
  - Growth acceleration expected for 09 & 10
- **Margins recovering after dip**
  - Time-lag in passing on CHF rate rises, stronger competition and extraordinary effects led to NIM decline in Q1 07
  - 400 bps realistic level in current environment
- **Excellent network coverage**
  - 188 now, max 200 branches by year-end 07
  - Leveraging 324-strong online post offices
    - Excellent sales results especially in the field of investment funds and postal current accounts
- **Focus on operating expenses**
  - Spike in inflation had negative impact
  - Growth of below 10% vs 2006
- **Asset quality and risk costs stable**
  - Isolated deterioration possible

Loan book trends



Asset quality development



All financial and market data are shown in EUR. Local currency data have been translated at the respective historic rates. Growth rates and ratios are based on local currency data. All macro data based on Erste Group Research.



# CEE review – Croatia

## Economic growth set to reach 4-year high

### – Real GDP growth above 5% in 2007

- Growth averaged 7% yoy in Q1 07
- Performance boosted by strong domestic demand – strong surge of private consumption along with ongoing strong investment activity

### – External imbalances remain

- Trade deficit continues to put pressure on the current account (expected at 8% of GDP)

### – Subdued inflation pressures

- Slight upward trend expected towards year-end; CPI inflation in 3.0-3.5% band – supply side pressures to dominate

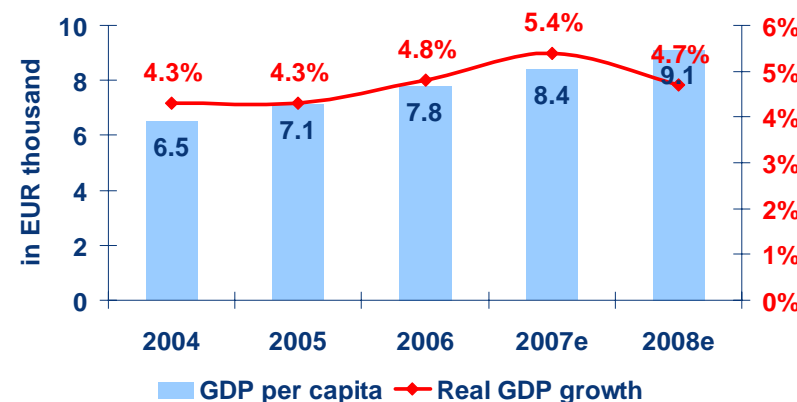
### – Exchange rates in narrow range

- As a result of seasonal tourist related pattern, coupled with CNB interventions to prevent excess volatility

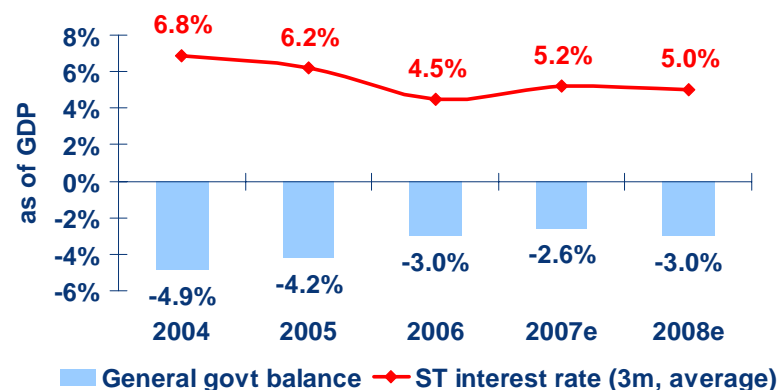
### – Fiscal budget deficit below key 3%-mark

- Real economy boosts fiscal revenues
- Within Maastricht limits

Key economic indicators



Interest rates vs government balance

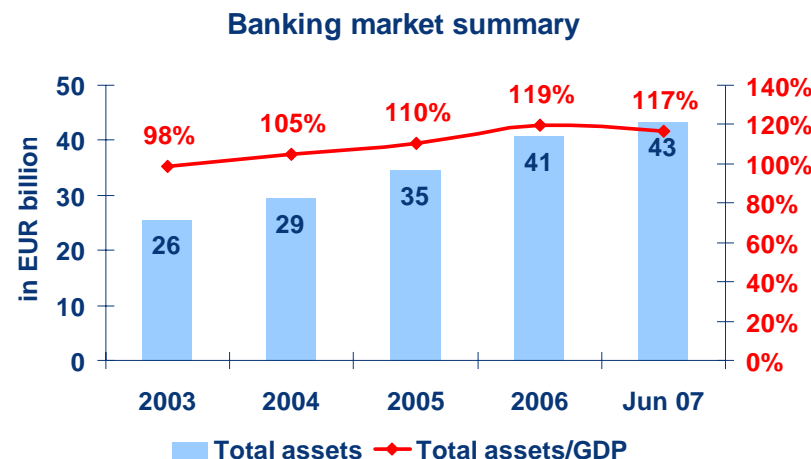


All financial and market data are shown in EUR. Local currency data have been translated at the respective historic rates. Growth rates and ratios are based on local currency data. All macro data based on Erste Group Research.

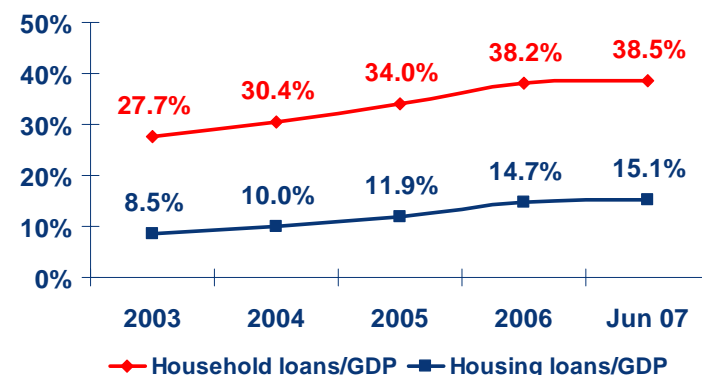
# CEE review – Croatia

## Banking market in managed growth mode

- **Banking market expands within tight limits set by the central bank**
  - CNB targets 12% pa credit growth; tight regime to continue in 2008
  - Banks can only extend credit at 0.5% per months pace in H2 07 for both on and off balance sheet items each
- **No change in reserve requirements**
  - FX refinancing remains expensive
  - In addition to obligatory reserve (17%) banks have to deposit an additional 55% with the CNB – which in the environment of rising global interest rates makes cost of foreign financing high
  - Pace of credit activity is dictated by CNB as penalty for excess credit activity in form of purchase of CNB bills is prohibitively high in P/L terms
- **Banks shift to domestic deposit activity to lower cost of funding**



### Selected asset-side penetration measures



All financial and market data are shown in EUR. Local currency data have been translated at the respective historic rates. Growth rates and ratios are based on local currency data. All macro data based on Erste Group Research.

### – Excellent loan growth despite CNB measures

- Double-digit growth in retail and SME, leading to market share expansion and sustainable NII growth

### – Highly encouraging deposit growth

- Once again double-digit growth in retail – in line with market growth – and SME – exceeding market growth

### – Strong operating metrics

- Rise in net interest margin to 3.3% in H1 07 (2006: 2.9%) thanks to shift from foreign borrowing to client deposit growth
- Cost/income ratio improvement to 48% in H1 07
- Ongoing branch optimisation

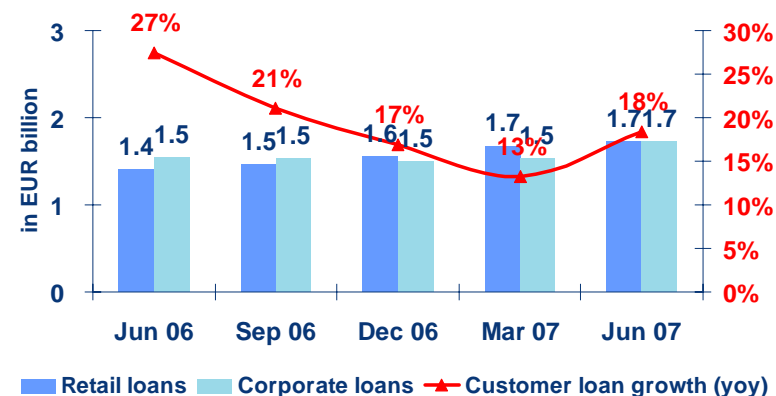
### – Solid asset quality, stable risk costs

- Risk costs stand at about 40 bps

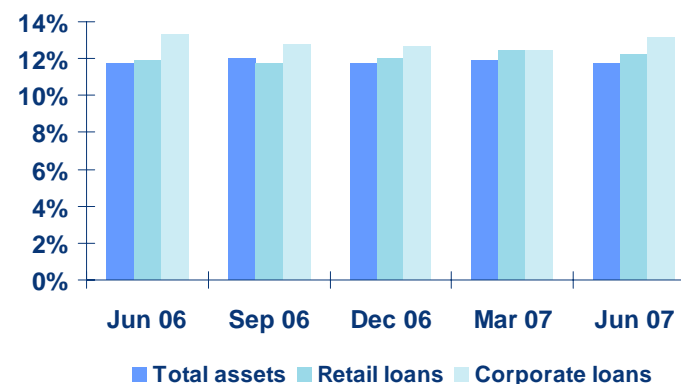
### – Diners Club Adriatic to add further value

- Acquisition of 140.000 new clients will lift cross-selling opportunities
- Strong market position of DCA in cards
- Enlarged product portfolio

Loan development



Market share development - asset side



All financial and market data are shown in EUR. Local currency data have been translated at the respective historic rates. Growth rates and ratios are based on local currency data. All macro data based on Erste Group Research.

# CEE review – Serbia

## Economy in convergence mode

### – Solid economic growth

- GDP growth rate in 2007 expected at 5%+ – mostly consumption-induced
- Services the fastest growing sector

### – Inflation in the single-digits

- Stable inflation forecast for 2008 and 2009
- Central bank started inflation targeting
- 2W reference repo rate lowered from 18% to 9.5%; recently the central bank hiked rates again by 25bps to 9.75%, indicating some inflation concerns

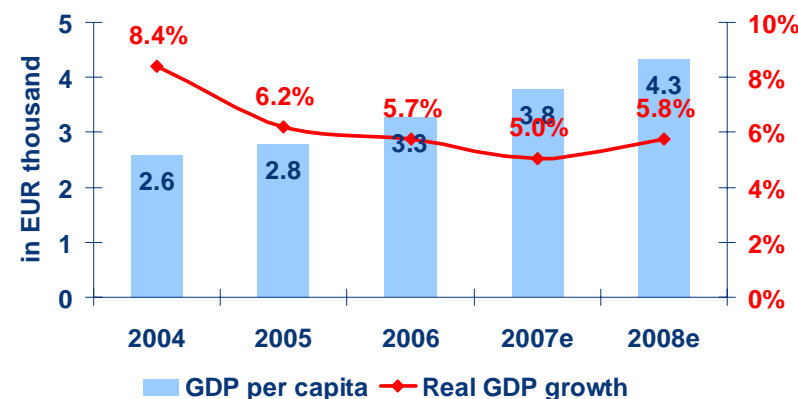
### – Stable exchange rate

- Exchange rate stabilised at 78-82 RSD/EUR

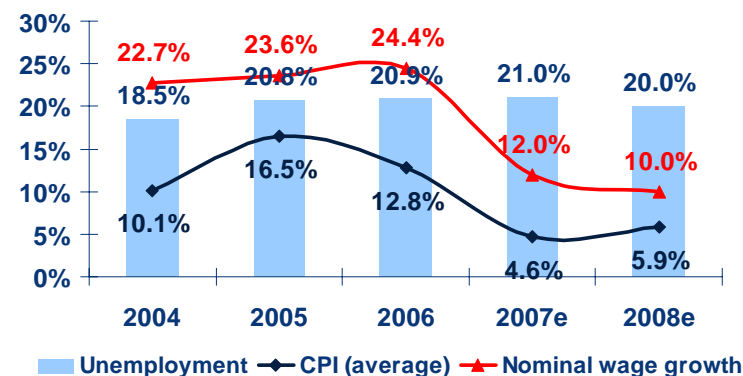
### – New government since May 2007

- Pro-EU political bloc (centre-right) formed new government
- Kosovo status is the main political issue
- Expansionary fiscal policy – significant wage increases in the public sector, wide-reaching National Investment Programme

Key economic indicators



Unemployment vs inflation vs wage growth



All financial and market data are shown in EUR. Local currency data have been translated at the respective historic rates. Growth rates and ratios are based on local currency data. All macro data based on Erste Group Research.

# CEE review – Serbia

## Banking market impacted by central bank

### – Credit growth remains robust

- Credit expansion accelerated recently bringing growth rates to above 40% yoy
- Loans remain FX-dominated
- Household loans remain the main growth driver with annual growth rates of about 50%
- Slight acceleration of corporate loans
- Housing loans play an increasingly important role in the household loan portfolio

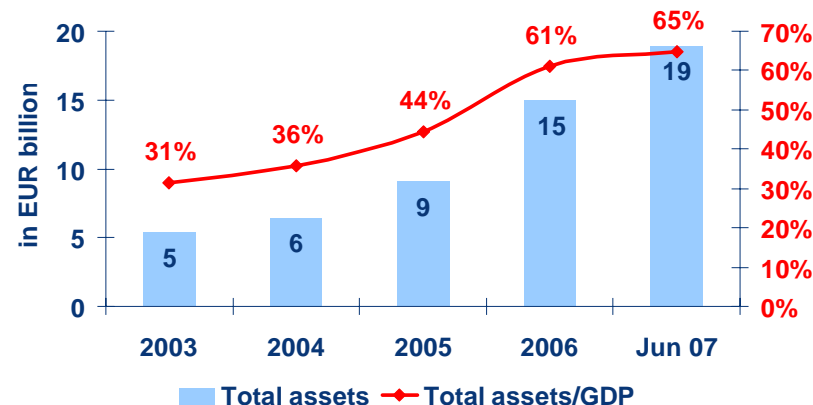
### – Tight retail lending guidelines

- Central bank employs set of tight rules to curb inflationary pressures
  - Max term of free utilisation cash loans = 2y
  - Retail loan volume limited to 150% of equity
  - Rigid local risk ratings and provisioning standards
  - High minimum reserves for FX funding (40-45%)

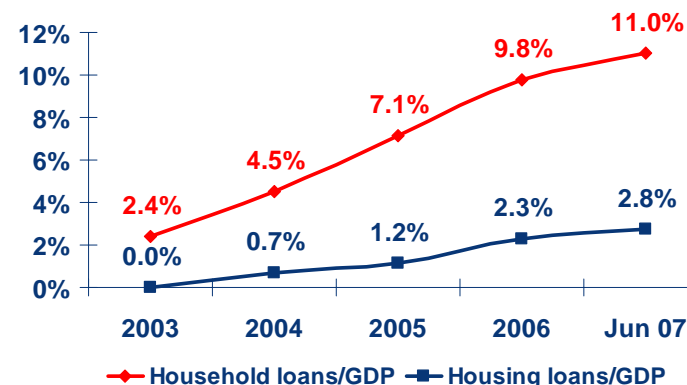
### – Consolidating market

- Mergers lead to reduction of the number of players
- Banks started cross-border refinancing of part of their corporate portfolios due to high obligatory reserves

Banking market summary



Selected asset-side penetration measures



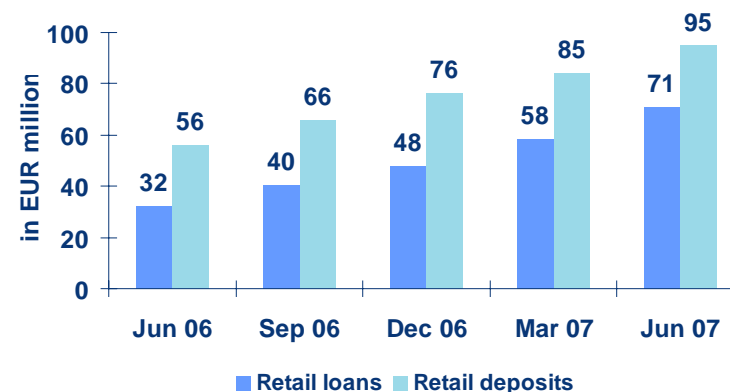
All financial and market data are shown in EUR. Local currency data have been translated at the respective historic rates. Growth rates and ratios are based on local currency data. All macro data based on Erste Group Research.

# CEE review – Serbia

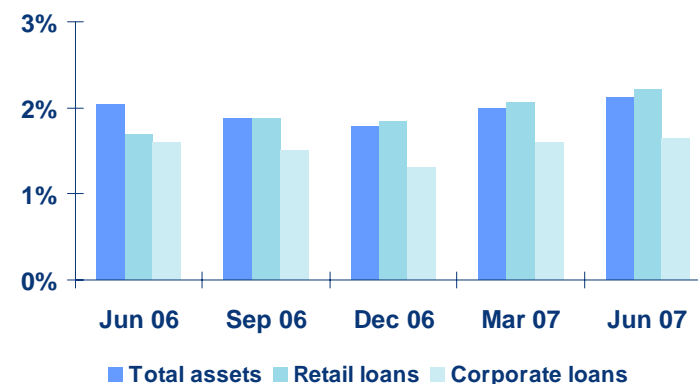
## Erste Bank Serbia expands cautiously

- **Retail market share improves considerably**
  - Retail loan share up to 2.2%
  - Retail deposits also reach 2.2%
- **Expansion of branch network from 59 to 66**
  - Coverage of all major cities in Serbia has been ensured
- **Successful migration to a new IT system in January 2007**
  - Stabilisation phase largely completed by the end of Q1 2007
- **Introduction of a number of new products**
  - Main focus on cards and retail business
- **Very active and already among the leading banks on the local interbank market**
- **Main goal to significantly increase business volume with current operating base**

Retail business development



Market share development - asset side



All financial and market data are shown in EUR. Local currency data have been translated at the respective historic rates. Growth rates and ratios are based on local currency data. All macro data based on Erste Group Research.

# CEE review – Ukraine

## Economy growing fast from a low base

### – Strong GDP growth momentum

- Consumption and investment grow in equal measure
- Fueled particularly by upswing in metal markets

### – Continued high FDI inflows

- Contribute to fast rising trade and current account deficits; coverage ratio FDI/CA deficit > 100%
- Key to industrial restructuring and convergence

### – Inflation stands at about 10%

- Main reason is high-pass through of energy prices and drought

### – Exchange rate key to stability monetary policy

- USD pegging may be loosened in 2008

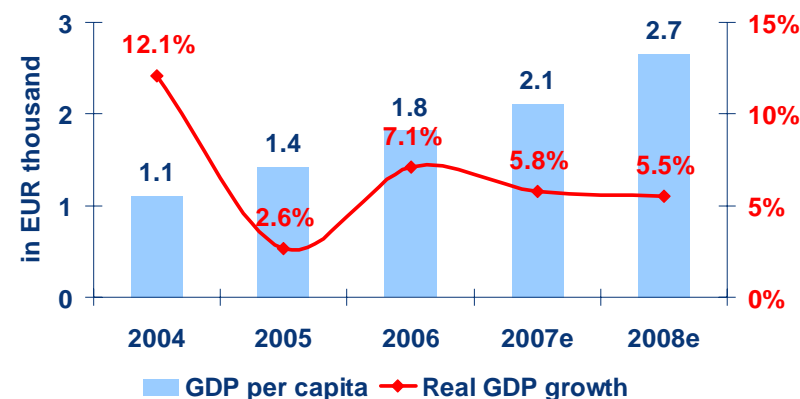
### – Prudent fiscal policy

- Budget deficit expected at around 3% in 2007

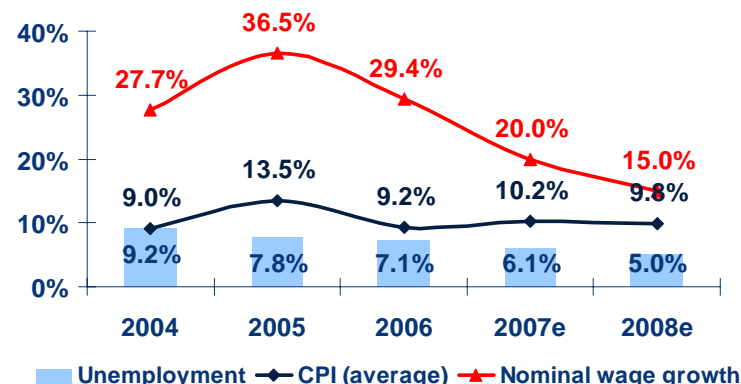
### – General election ahead

- Result uncertain, clear majority for one block may trigger reduction of overregulation in business environment and social reforms

Key economic indicators



Unemployment vs inflation vs wage growth



All financial and market data are shown in EUR. Local currency data have been translated at the respective historic rates. Growth rates and ratios are based on local currency data. All macro data based on Erste Group Research.

# CEE review – Ukraine

## Rapid growth throughout banking sector

- **Banking market characterised by annual growth rates in excess of 50%**

- Since 2004 total banking assets grew more than 4-fold

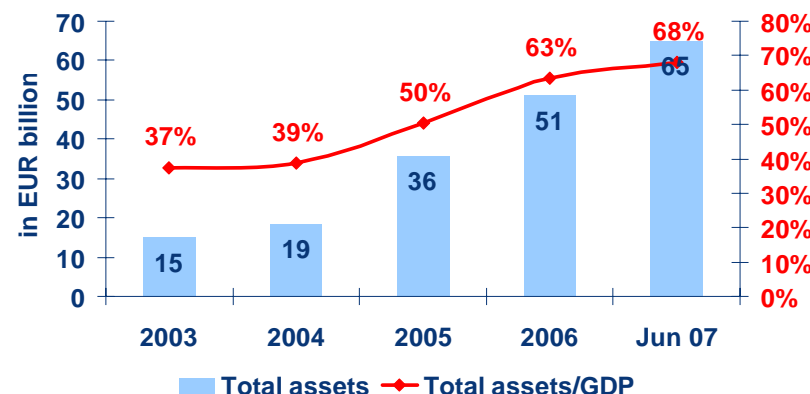
- **Household loans follow similar pattern as in other CEE countries**

- Retail loan penetration stands just above 15% as at H1 07
- Housing loan still below the radar screen

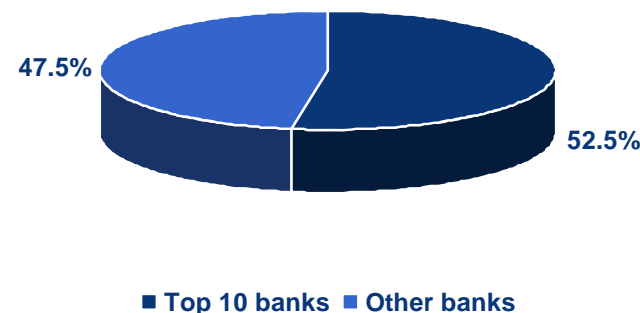
- **Still highly fragmented market**

- Top 10 banks own only half of the market
- Market leader has only a 12% share
- Industry consolidation inevitable

Banking market summary



Structure of the Ukrainian banking market  
(Total asset distribution - H1 07)



All financial and market data are shown in EUR. Local currency data have been translated at the respective historic rates. Growth rates and ratios are based on local currency data. All macro data based on Erste Group Research.

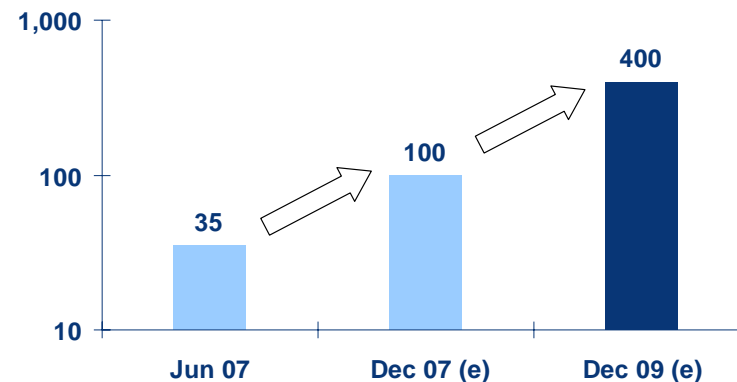


# CEE review – Ukraine

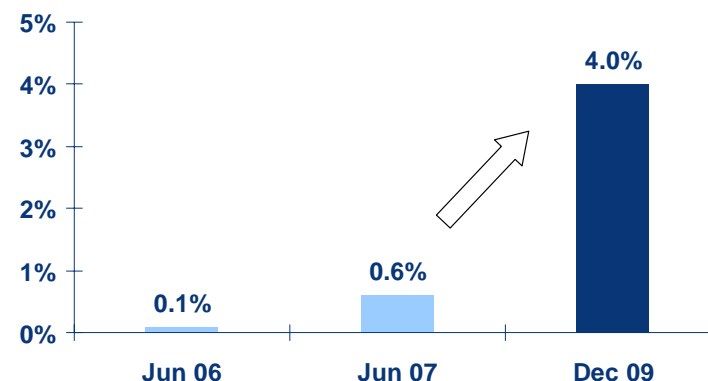
## Erste Bank Ukraine in high growth phase

- **Successful rebranding to Erste Bank Ukraine in May 2007**
- **Exceptional growth ahead**
  - 10-fold increase in branch numbers
  - Fast rising employee base (now: 635)
  - Supported by ambitious investment programme: about EUR 400m to 2010
- **Market share to grow strongly**
  - Retail lending market share already stands at 0.6%; up to 4% in selected regions; 1% in Kiev
  - Strong outperformance of market growth expected in all segments in the coming years
  - Goal: 4% retail lending share in 2009
- **Erste Bank Ukraine will make positive group contribution in 2010**








Branch network development



Retail lending market share



# CEE review – Target summary

	2007 net profit growth	2007 ROE	2007 CIR	Commentary
	15-20%	> 20%	< 53%	2008 targets (in line with new GPM logic) to be provided with Q3 07 results
	> 15%	> 20%	< 54%	
	15% adjusted for NII correction	> 20%	< 55%	
	> 15%	-	< 51%	
	-	-	-	2007: slightly negative 2008 targets as above
	40%	-	-	CIR, ROE targets relate to 2009
	-	-	-	Break-even in 2009, 2007 opex: EUR 25-30m, 2008 opex: about EUR 50m

---

## – Wrapping up Central and Eastern Europe

- CEE subsidiaries in context
- Hungary
- Croatia
- Serbia
- Ukraine
- Target summary

## – Setting the scene for future growth

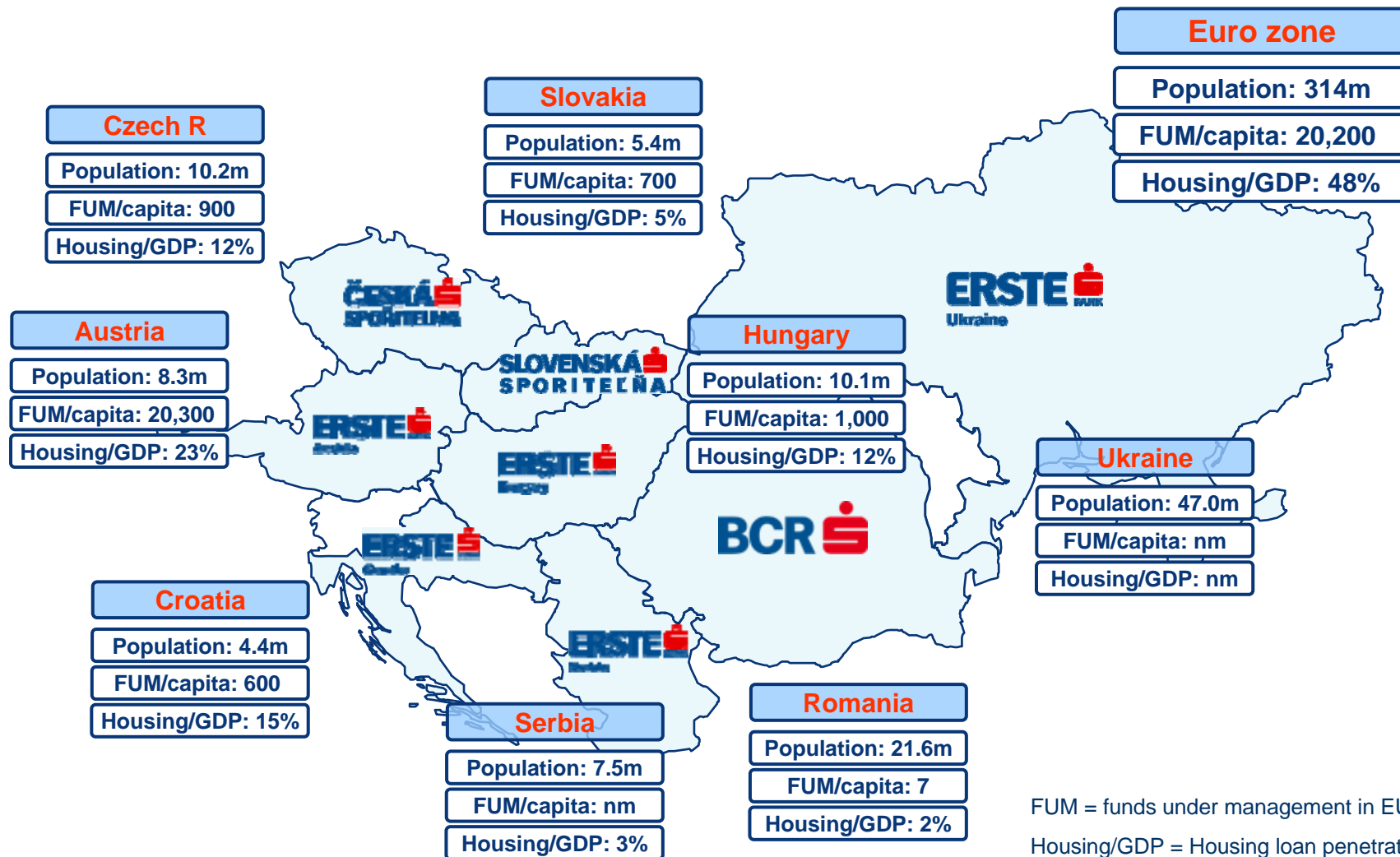
## – Outlook

# Setting the scene for future growth – Doing the right business in the right region



- 1 Retail banking is the fastest growing segment in Central and Eastern Europe
- 2 Central and Eastern Europe is the fastest growing region within the European Union

# Setting the scene for future growth – EU membership, emerging markets opportunity



# Setting the scene for future growth – All buildings blocks are in place

## – Favourable macro environment in CEE

- Real GDP growth of 4-8% in most CEE markets
- Continued strong FDI inflows
- Euro adoption in most CEE countries within the foreseeable future

## – Superior customer base in terms of future potential

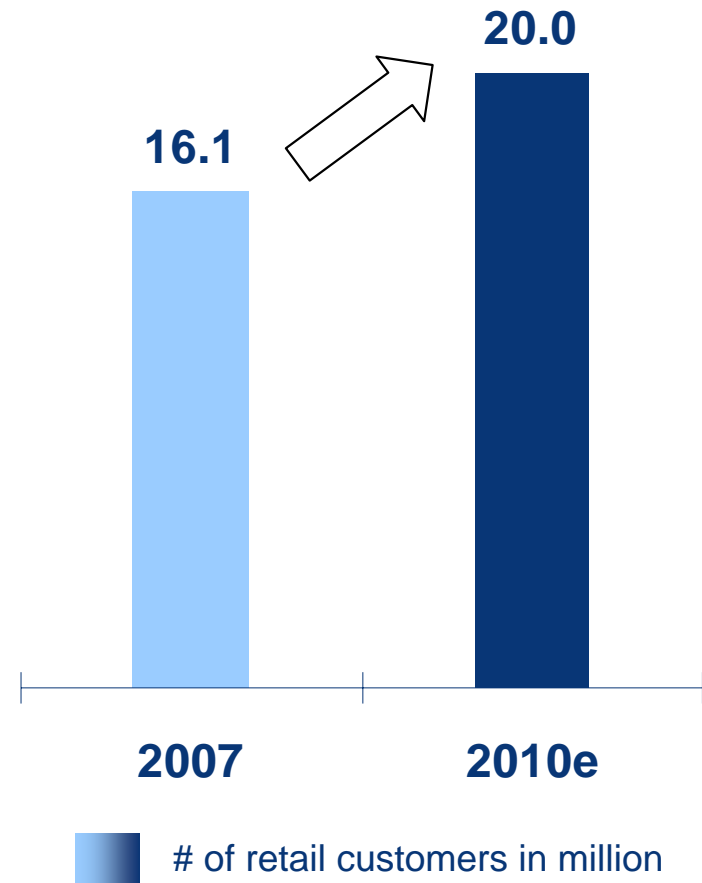
- 16.1 million retail customers
- Under penetrated banking markets

## – Foundation for above-average growth is under-penetration in key product areas

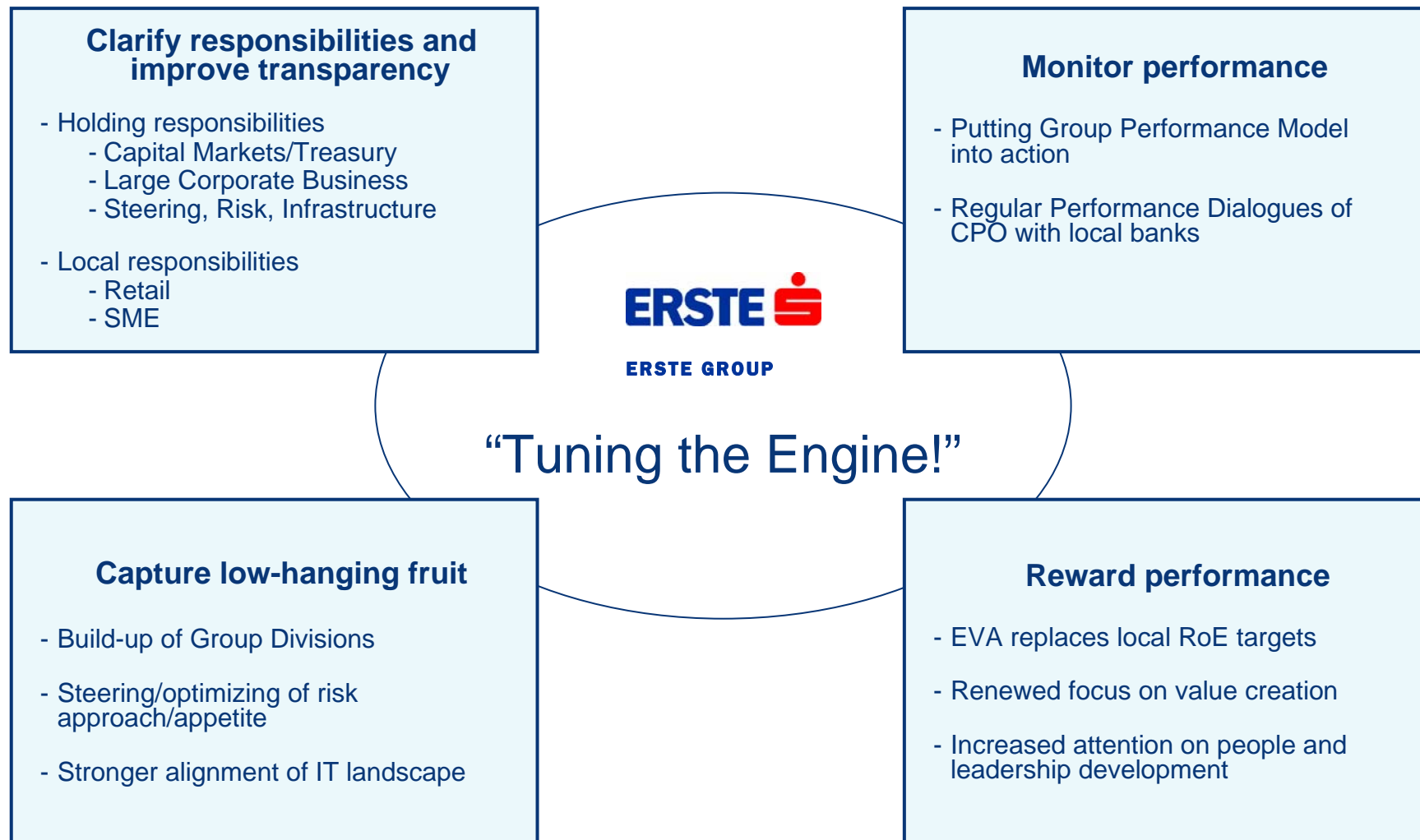
- Case study: Ceska sporitelna
  - 5m customers
  - Market share in mortgage loans: 34%
  - # of disbursed mortgages: 80 000

## – Outperforming the fastest-growing markets in the EU

## Fast growing customer base



# Setting the scene for future growth – Realising the potential through new Group structure



---

## – Wrapping up Central and Eastern Europe

- CEE subsidiaries in context
- Hungary
- Croatia
- Serbia
- Ukraine
- Target summary

## – Setting the scene for future growth

## – Outlook



# Outlook – Financial targets confirmed

- **We have a clean book, which will stay so in the future**
  - No subprime
  - No conduits
  - No SIVs
- **Guidance 2007: unchanged – net profit growth of at least 25%**
- **Guidance 2008: 7% cost growth – full update for 2008 at Q3 results**
- **Mid-term group targets reconfirmed**

**Net profit<sup>(1)</sup> growth**

**More than 20% p.a. average until 2009**

**Cost/income ratio**

**Below 55% in 2009**

**Return on equity<sup>(2)</sup>**

**18-20% in 2009**

(1) Net profit after minorities

(2) Based on a Tier 1 ratio of at least 7%