

6th Capital Markets Day

12 December 2008, Vienna

Analysing the balance sheet – An in-depth look at assets and asset quality

Bernhard Spalt, Chief Risk Officer

– Analysing customer loans

- Overview
- CEE loan book in detail
- Real estate loans in detail
- Non-performing loan and NPL coverage
- Growth and risk cost outlook

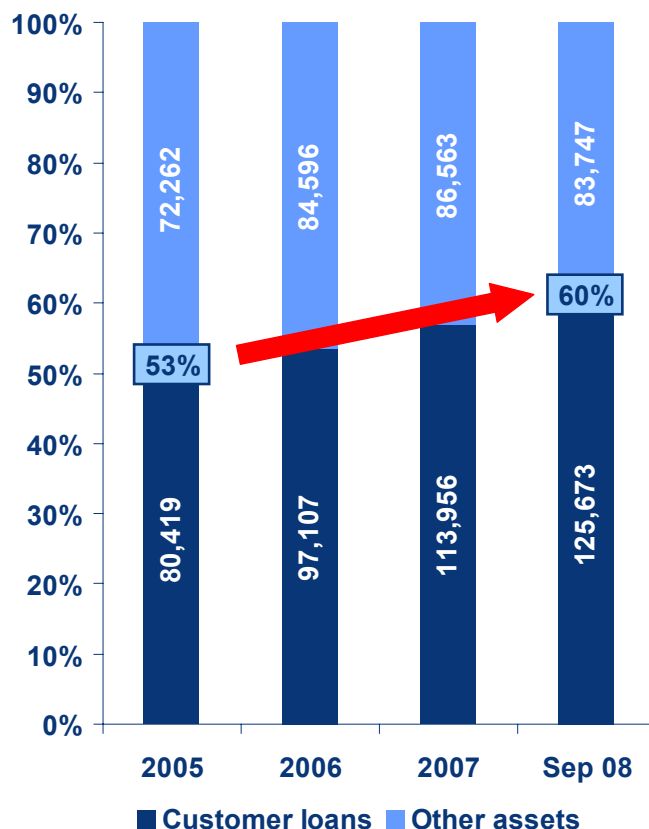
– Analysing structured credit

- ABS/CDO exposure: status quo & outlook

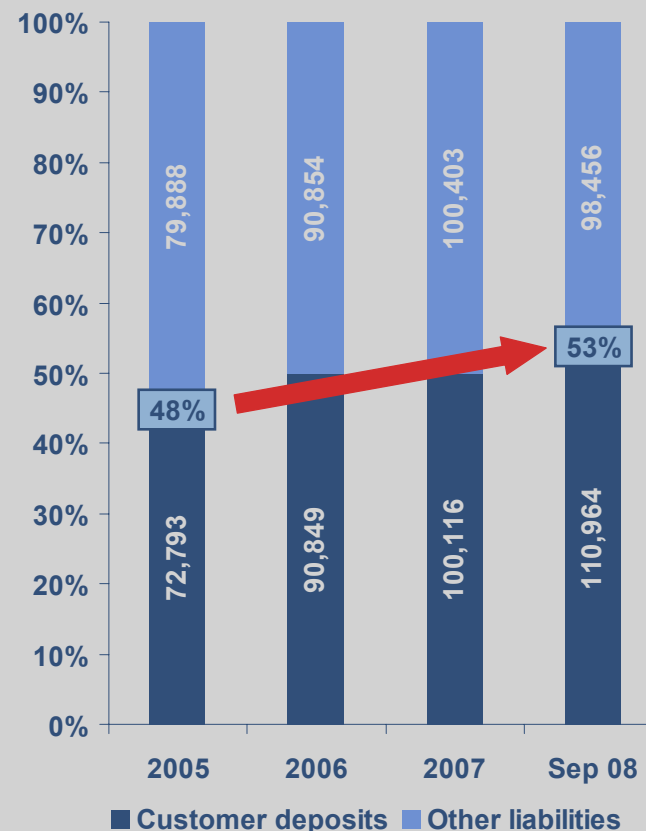
– Conclusion

Analysing the balance sheet – Track record of responsible business growth

Consistent focus on core lending business

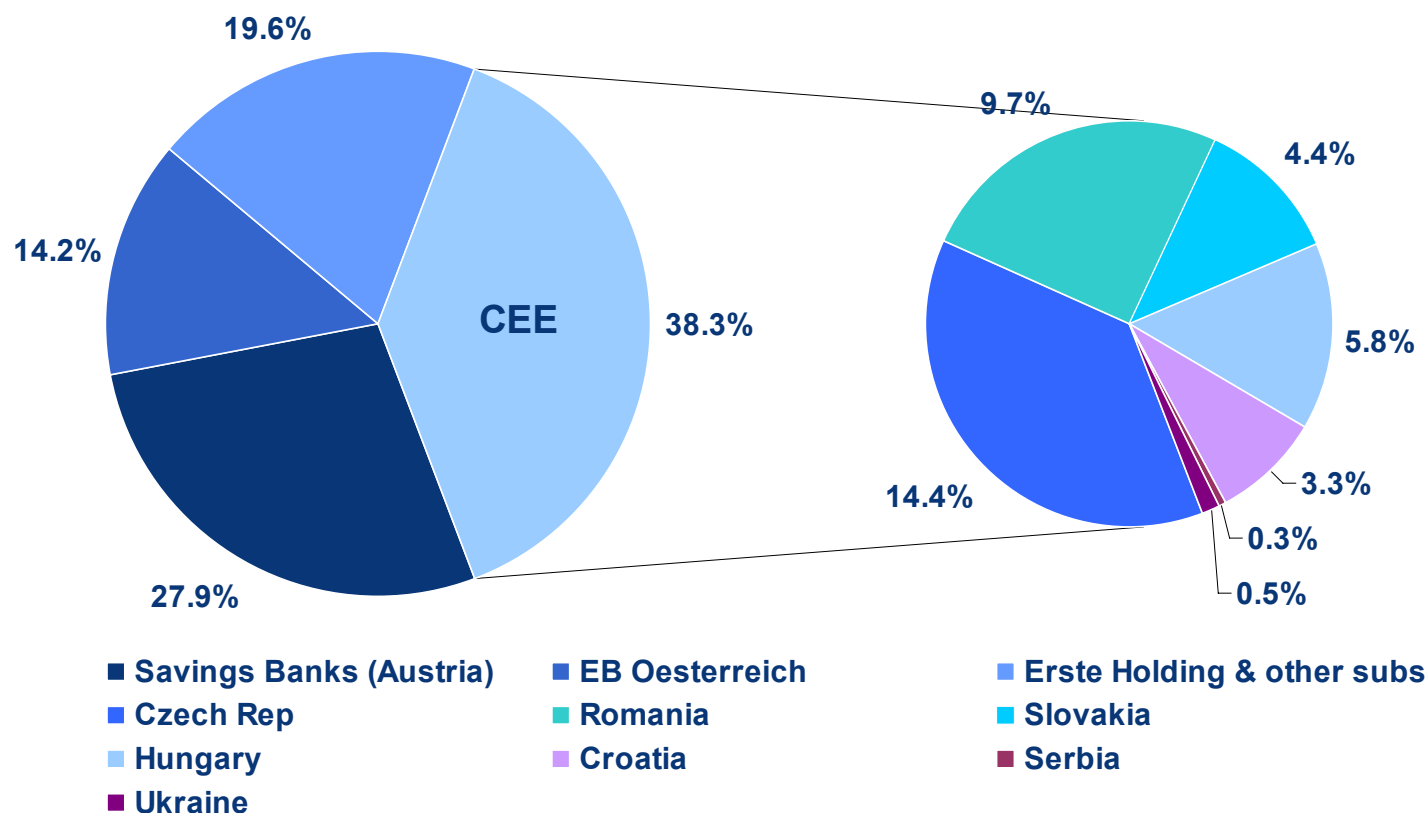


Sustainable deposit funding underpins asset growth



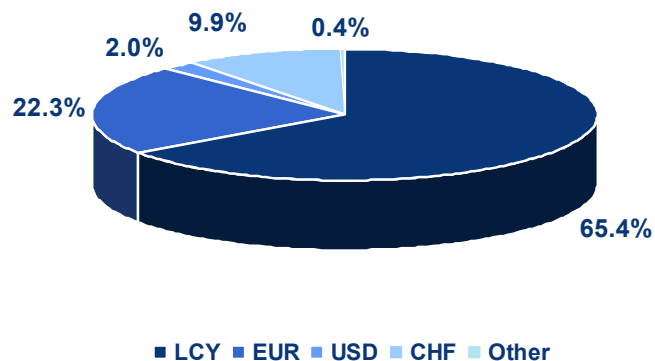
Loan book in detail: overview – Austria still commands the highest share

Regional distribution of customer loans
(Q3 08: EUR 125.7 billion)

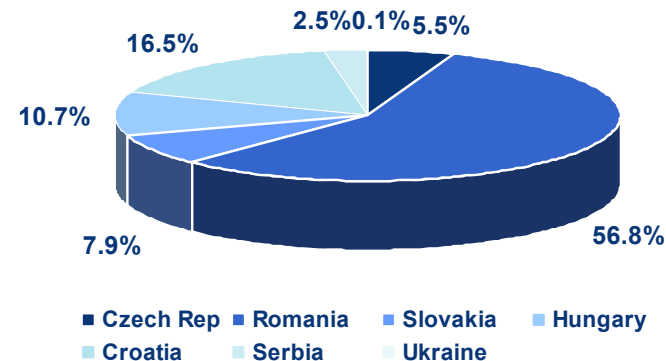


Loan book in detail: CEE = EUR 48.2 bn – Local currency loans dominate the book

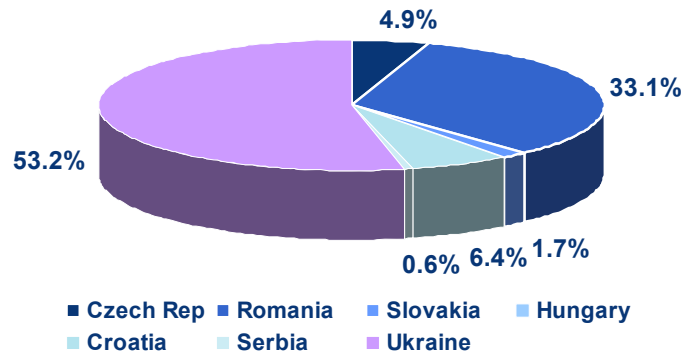
Currency split of CEE loan book
(Q3 08: EUR 48.2 bn)



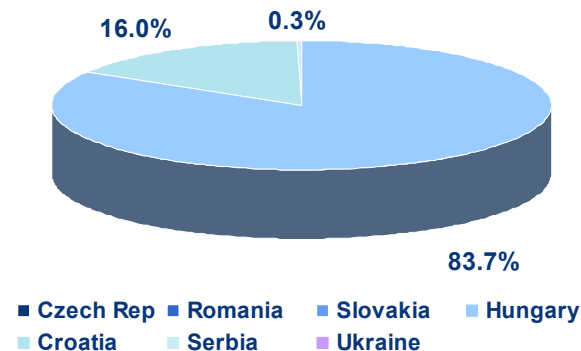
CEE FX loans by country: EUR
(Q3 08: EUR 10.7 bn)



CEE FX loans by country: USD
(Q3 08: EUR 1.0 bn)

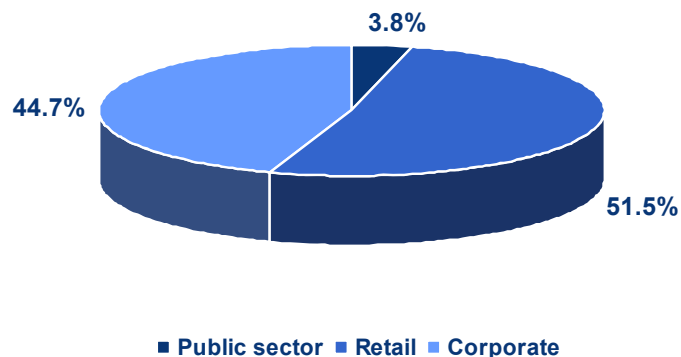


CEE FX loans by country: CHF
(Q3 08: EUR 4.8 bn)

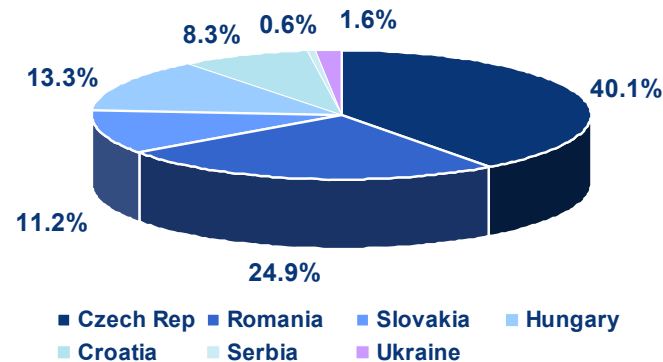


Loan book in detail: CEE = EUR 48.2 bn – Retail is the most important customer segment

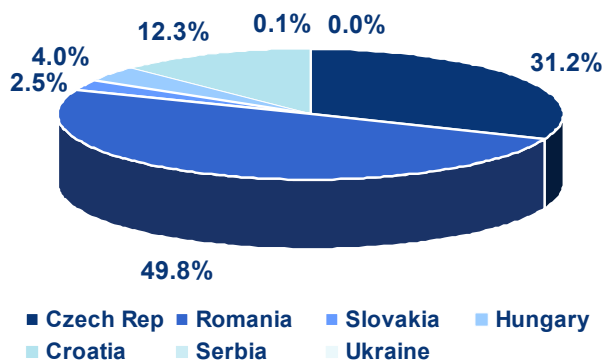
Customer split of CEE loan book
(Q3 08: EUR 48.2 bn)



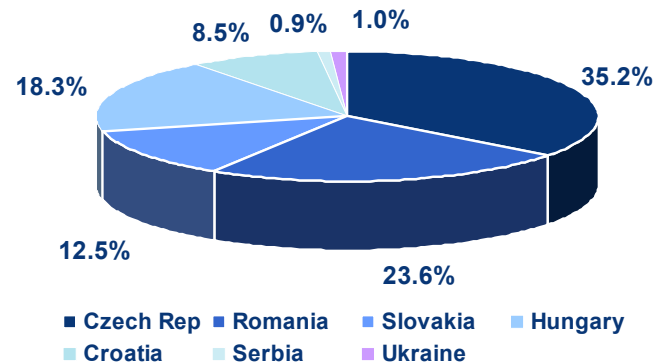
CEE retail loans by country
(Q3 08: EUR 24.8 bn)



CEE public sector loans by country
(Q3 08: EUR 1.8 bn)



CEE corporate loans by country
(Q3 08: EUR 21.5 bn)



Loan book in detail: CEE retail = EUR 24.8 bn – Retail portfolio benefits from risk-mitigating factors

– High share of secured loans

– Healthy LTV levels

- Average LTV at portfolio level in our 4 largest markets (Czech Republic, Hungary, Romania and Slovakia accounting for 90% of the total retail mortgage book) ranges between 51% (Hungary) and 65% (Czech Republic)

– Conservative customer indebtedness

- Monthly repayment obligation to monthly income in our 4 largest markets ranges between 25% (Czech Republic) and 43% (Romania) – calculated on official documented income

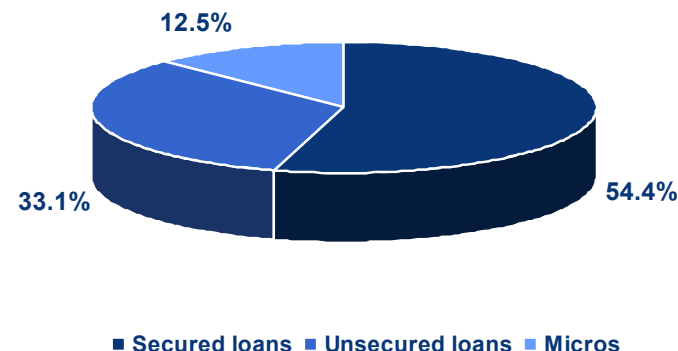
– Stronger customer profile:

	Czech Republic	Hungary	Romania	Slovakia
Avg income of Erste borrowers (EUR)	1765	567	744	679
Avg income in the country (EUR)	661	537	223	496

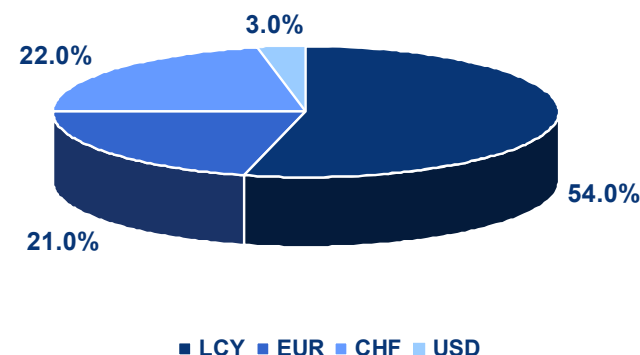
– Secured portfolio with limited CHF and USD exposure

- Foreign exchange denominated loans represent 46% of the mortgage secured retail portfolio
- 22% in CHF and distributed between Hungary (82%) Croatia (18%) and Serbia (0.1%)

Retail loans - secured/unsecured split
(Q3 08: EUR 24.8 bn)



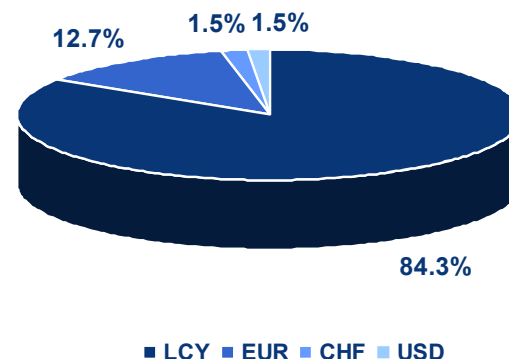
CEE secured retail loans by currency
(Q3 08: EUR 13.5 bn)



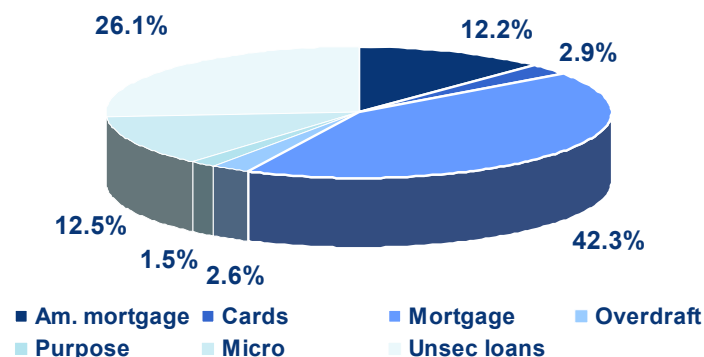
Loan book in detail: CEE retail = EUR 24.8 bn – CEE retail FX exposure focused on secured loans

- Unsecured loans represent one third of the retail portfolio
- Unsecured portfolio with limited FX exposure
 - Foreign exchange denominated loans represent 16% of the unsecured loan portfolio
 - 13% out of this is in EUR while CHF and USD are negligible (1.5% each).
- High risk unsecured products have negligible share
 - Unsecured revolving products (credit cards / overdrafts) traditionally representing high risk account for about 5% of the total CEE retail portfolio

CEE unsecured retail loans by currency
(Q3 08: EUR 8.2 bn)



Retail loans by product
(Q3 08: EUR 24.8 bn)



Loan book in detail: CEE retail = EUR 24.8 bn – Responding to a tougher macro environment

– Sensible business growth through:

– Targeted acquisition

- Focusing on less vulnerable segments through adjusting LTV and indebtedness calculation by risk segments
- Shifting to existing customer base with payment and/or transaction history

– Proactive management of existing portfolios

- Anticipate sensitive segments and develop contingency plans;
- Strengthen collections in order to have the ability to identify customer repayment difficulties early and build customer loyalty for long term relationship and co-operation;
- Evaluate loan rewrites (extended tenor and/or currency conversion) to help stressed borrower instead of straight foreclosure

– Monitoring potential macroeconomic impacts on retail customers

- Developed tailor-made retail portfolio specific stress testing model for regular stress testing exercise

Loan book in detail: CEE retail = EUR 24.8 bn – Stress-testing the CEE retail portfolio

– Assumptions

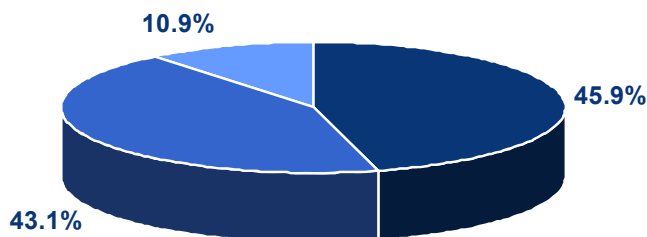
- Retail portfolio performance in worsening economic environment is driven by customers' repayment ability
 - Private individuals' repayment ability is best expressed in terms of customers' indebtedness defined as monthly debt service over monthly income
 - The stress test factors in changes in the following macroeconomic indicators: real wage growth, exchange rates and unemployment

– Key Findings

- Portfolio sensitivity in a stress scenario is mainly driven by exchange rate movements
 - The overall risk of the unsecured portfolio is higher however, its sensitivity in terms of potential change in risk cost is lower than in case of the secured portfolio. This is driven by a lower foreign exchange share in the unsecured portfolio which helps to mitigate the change in customers repayment ability due to foreign exchange volatility
- **Romanian example:**
 - **A sustained RON devaluation of 50% vs the EUR would increase risk costs by EUR 26m**

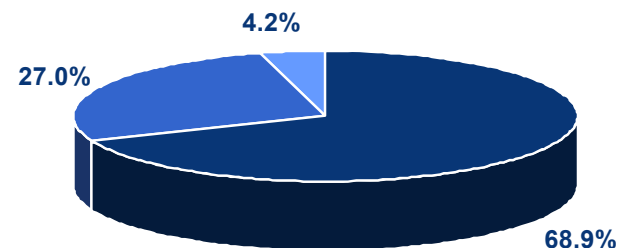
Loan book in detail: CEE corporate = EUR 21.5 bn – SME is strongest element in the corporate book

CEE corporate loans by customer
(Q3 08: EUR 21.5 bn)



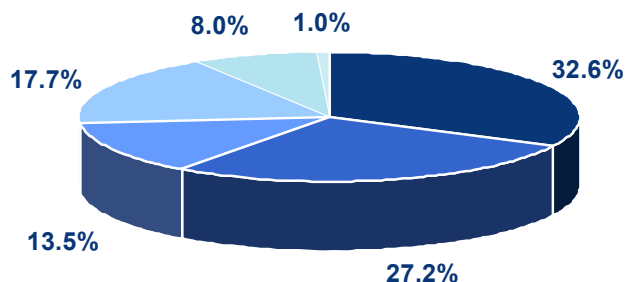
■ SME ■ Large corporates ■ Other

CEE corporate loans by loan type
(Q3 08: EUR 21.5 bn)



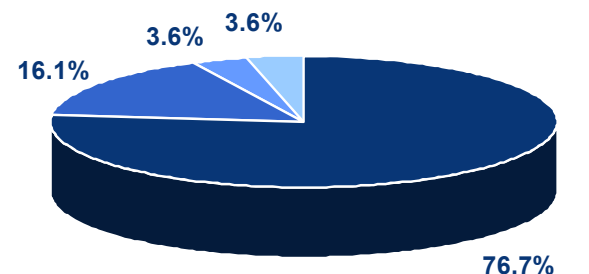
■ Non-revolving ■ Revolving ■ Other

CEE corporate loans by country
(Q3 08: EUR 21.5 bn)



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

Corporate loans by rating
(Q3 08: EUR 21.5 bn)

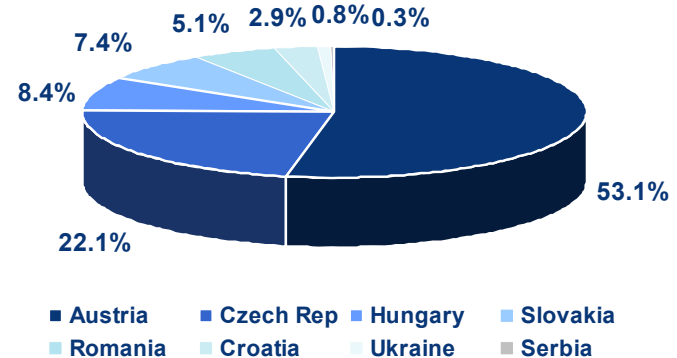


■ Low Risk ■ Management attention
■ Substandard ■ Non-performing

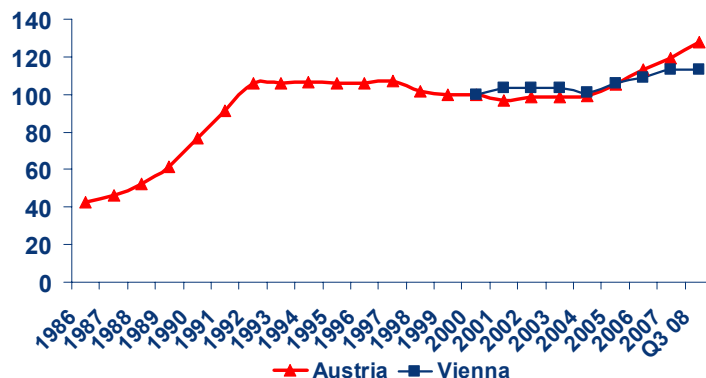
Loan book in detail: real estate loan drill-down – Real estate loans mostly located in Austria

- Bulk of retail and commercial real estate loans is in the lowest risk countries
- CEE exposure is well diversified with focus on developed end of the markets
- Austria features a low residential ownership ratio (~20%) ...
- ...and extremely low price volatility

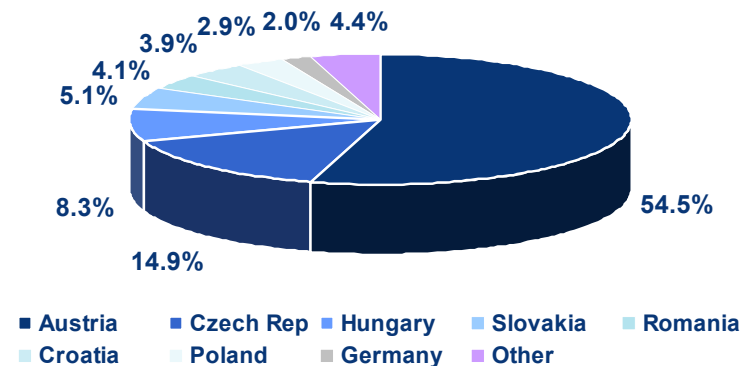
Retail housing loans by country
(Q3 08: EUR 23.2 bn)



Austrian house price index (2000 = 100)



Commercial real estate loans by country
(Q3 08: EUR 18.1 bn)



Loan book in detail: retail housing loans – CEE is underpenetrated and underleveraged

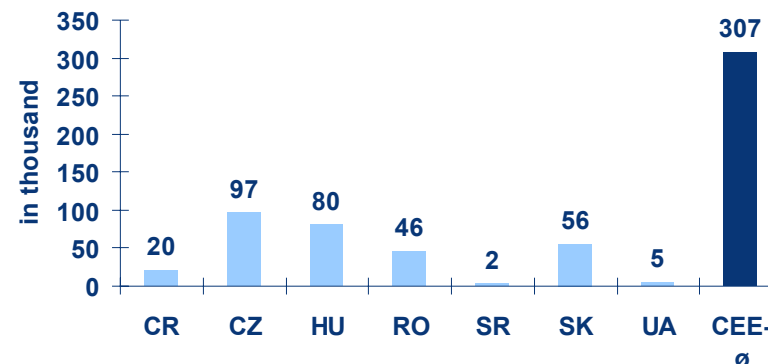
– CEE retail housing loans in context

- Total stock consists of 307 thousand loans (ex building society in CZ) across the region
- In comparison: customer base = 13.6 million
- Average loan size = EUR 34 thousand

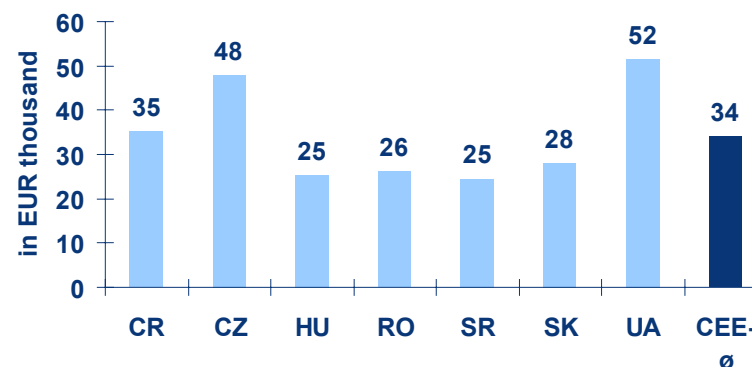
– Very high home ownership ratio due to privatisation of previously state-owned flats

– Housing loan penetration ratios range from 10% - 15% of GDP as at end-2007 in developed CEE, despite strong growth over the past years

Number of housing loans in CEE



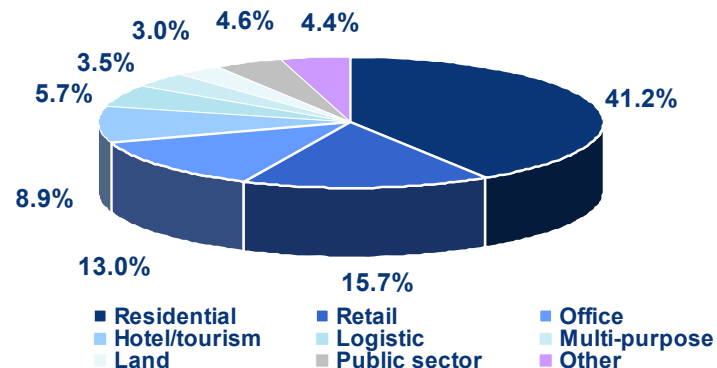
Average housing loan size in CEE



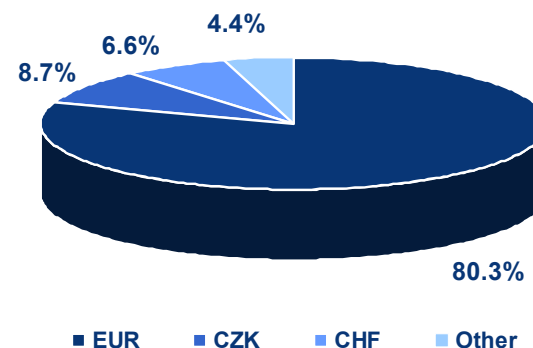
Loan book in detail: commercial real estate loans – Conservative strategy across the portfolio (1)

- Very well diversified portfolio in respect of regions, asset segments and currencies
- Real estate is focused in most stable economies of our region (~70% Austria and Czech Republic)
- Exposure focused on economic centers (~80%)

Comm real estate loans by project type
(Q3 08: EUR 18.1 bn)



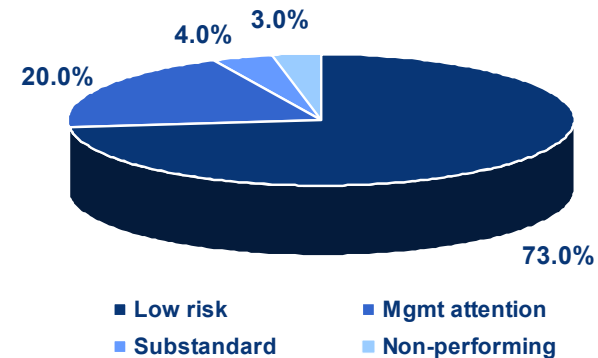
Comm real estate loans by currency
(Q3 08: EUR 18.1 bn)



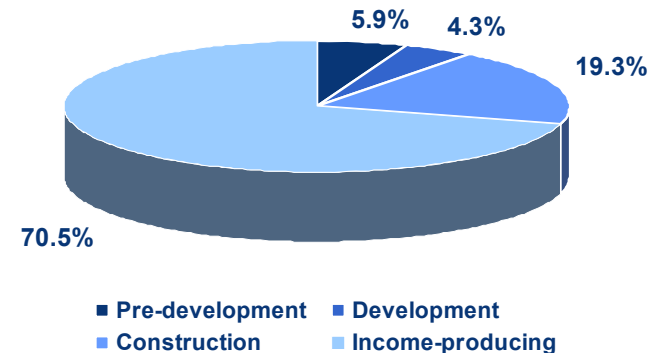
Loan book in detail: commercial real estate loans – Conservative strategy across the portfolio (2)

- Comfortable asset quality distribution
- No holding company financing
- Focus on pre-let developments and income producing assets
- Average LTV is significantly below 60% across portfolio

Comm real estate loans by rating
(Q3 08: EUR 18.1 bn)



Comm real estate loans by development stage
(Q3 08: EUR 18.1 bn)

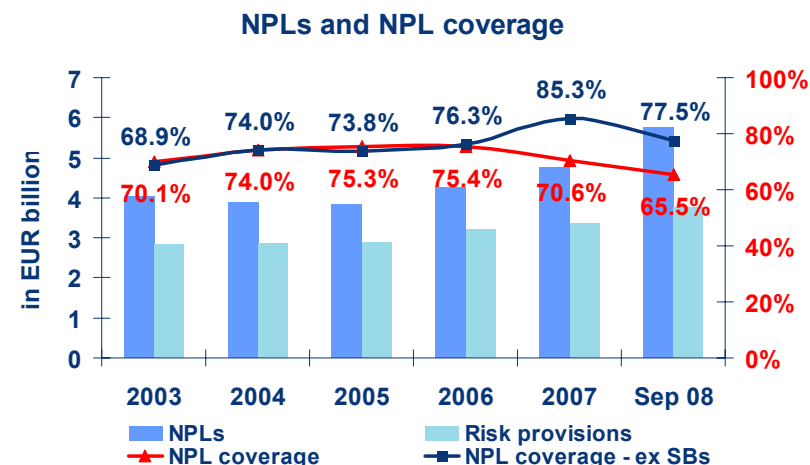
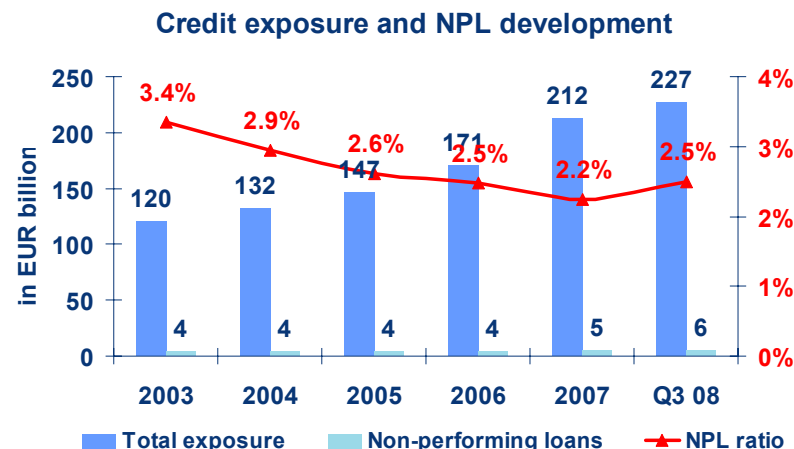


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- **Tighter debt financing and uncertainty about future to lift yields by ~10 %**
 - Growth in CEE-Markets will remain well above Western European markets – long-term growth prospects intact
 - Lower prices will lead to higher LTV-ratios
 - Rent levels to stay flat or slightly decreasing

 - **Easing of competitive tension will lead to better quality, new opportunities**
 - Banks with no presence in our region have left the market
 - Increased demand for sale-and-lease-back transactions
 - Access to new clients
 - Increased pricing ability
 - Improved collateral-structures

Analysing exposure and asset quality – Overview and highlights

- Rise in NPL ratio since YE 2007, but so far well within historical range
- Declining NPL coverage ratio in 2007 & 2008 driven by Austrian savings banks
 - Savings banks include performing exposures of defaulted clients in NPLs
- Limited automotive exposure
 - Exposure to manufacturers and suppliers:
 - < 0.25% of total exposure
 - < 0.3% of total loans
 - No exposure clusters in CEE



Loan book in detail: – Group growth and risk cost outlook

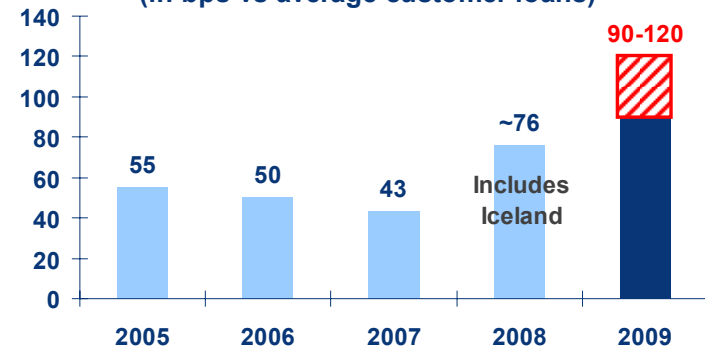
– Main risk cost drivers:

- Economic slowdown
- Seasoning of portfolio
- Product mix (secured/unsecured)
- Potentially rising unemployment
- Potential FX-fluctuations

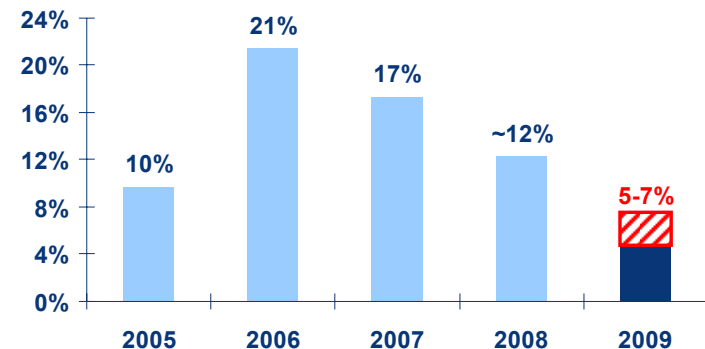
– Main loan growth drivers

- Growth will slow down substantially, but continue to be driven by CEE
- Retail loans expected to grow faster than corporate segment
- Higher share of local currency business as CHF lending stopped in Hungary and Austria

Expected risk cost development for Erste Group
(in bps vs average customer loans)



Expected customer loan growth for Erste Group



– Analysing customer loans

- Overview
- CEE loan book in detail
- Real estate loans in detail
- Non-performing loan and NPL coverage
- Growth and risk cost outlook

– Analysing structured credit

- ABS/CDO exposure: status quo & outlook

– Conclusion

Analysing financial assets – Overall ABS & CDO exposure (1): update

– Face value of ABS/CDO exposure declined by EUR 139m to EUR 3.2 bn since YE 2007

- USD appreciation increased portfolio by EUR 157m
- Due to redemptions of EUR 296m
- Further redemptions of EUR 50m expected in 2008

– Market value of ABS/CDO portfolio declined by EUR 767m to EUR 2.4 bn since YE 2007

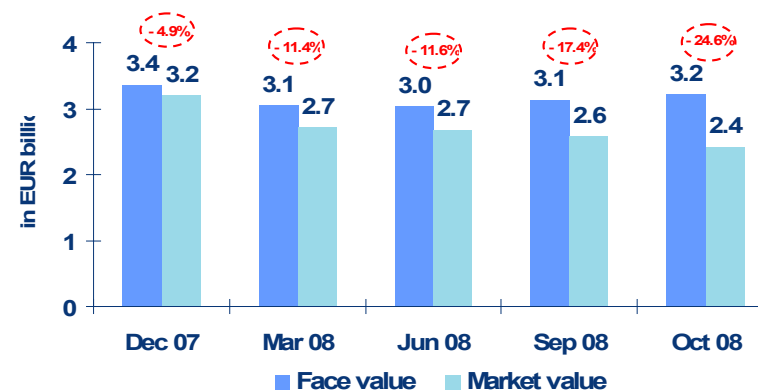
- Due to redemptions of EUR 280m
- USD appreciation increased the value by EUR 117m
- Further market price decline of 20% decreased the market value by EUR 604m

– Rating migration (Jan - Oct 08)

- 12 upgrades (underlying assets: EUR 57m)
- 7 downgrades (underlying assets: EUR 94m)

***) Difference between face value and market value is not comparable to m-t-m valuation impact in P&L and balance sheet**

ABS & CDO exposure development*
(including redemptions and reinvestments)

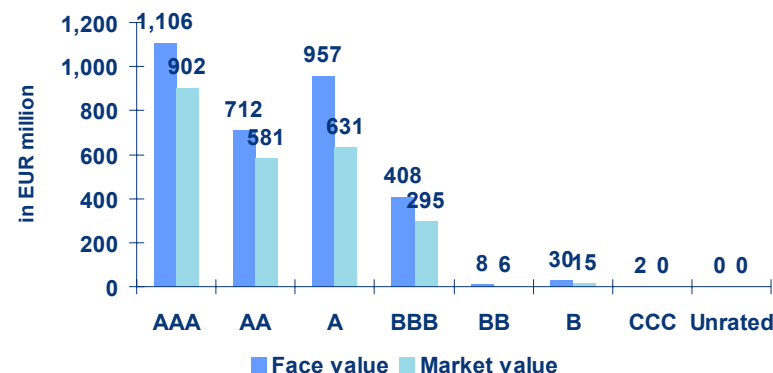


ABS/CDO portfolio by book (October 2008)*				
in EUR m	Face Value	Market Value	Change	+/- %
FV (m-t-m)	452	342	(111)	(24.5%)
AfS (m-t-m)	1,685	1,185	(500)	(29.7%)
HtM (at cost)	1,085	903	(182)	(16.7%)
Total	3,222	2,430	(793)	(24.6%)

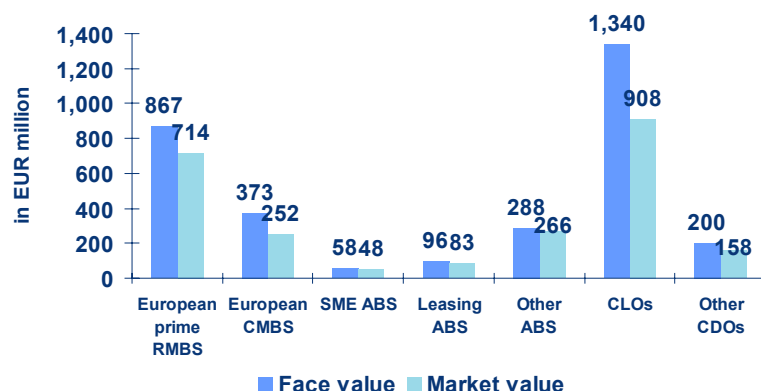
Analysing financial assets – Overall ABS & CDO exposure (2)

- No impairment in 2008
- Outlook for overall portfolio for 2009:
 - Further redemptions of nearly EUR 500m
 - Impairments < EUR 20m (UK CMBS)
 - Maintenance of portfolio quality, ie 95% rated investment-grade

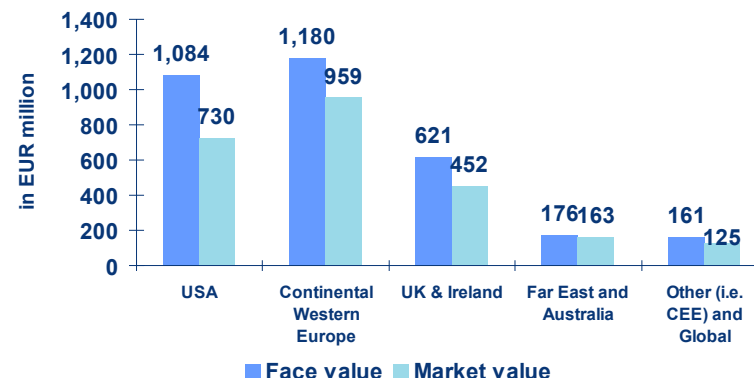
Portfolio split by rating*
(including redemptions and reinvestments)



Portfolio split by product*
(including redemptions and reinvestments)



Portfolio split by region*
(including redemptions and reinvestments)



Analysing financial assets – UK CMBS portfolio (31 Oct 2008)

– Main parameters of UK CMBS portfolio

- Nominal value: EUR 263m, market value: EUR 166m
- Average seasoning of 2.5 years from Oct 2008
- Average remaining period is 5.1 years from Oct 2008

– Stress variables:

- LTV ratio
- Quality of tenants
- Interest cover ratio (ICR)

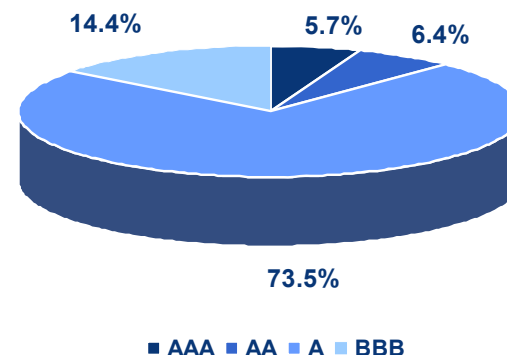
– Base case assumptions

- Deterioration of commercial real estate market in 2009, stabilisation in 2010 and a recovery in 2011
- ▶ **LOSS < EUR 20 million in 2009 – 2011 period**

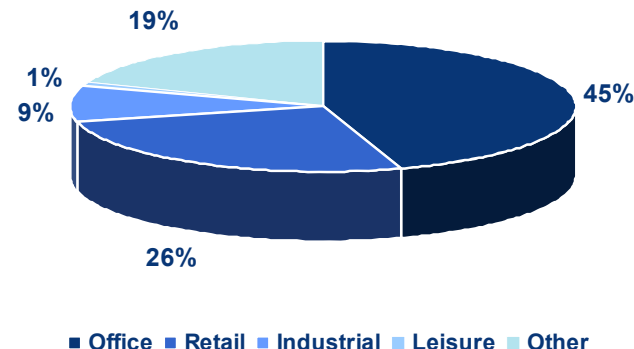
– Worst case assumptions:

- More severe deterioration in 2009 and continued deterioration in 2010 and 2011
- ▶ **LOSS < EUR 60 million in 2009 – 2011 period**

UK CMBS portfolio by rating
(Oct 08, nominal value EUR 263 m)



UK CMBS portfolio by sector
(Oct 08, nominal value: EUR 263 m)



Analysing financial assets – UK RMBS portfolio (31 Oct 2008)

– Main parameters of UK RMBS portfolio

- Nominal value: EUR 311m
- Market value: EUR 247m
- **Only prime (no non-conforming) RMBS**
- Average LTV = 70% , average indexed LTV = 63% as of 31 Oct 2008
- Average seasoning = 3 years
- Remaining average life = 2 years

– Base case assumptions

- 90+ days arrears for 2009 and 2010 = 2 x 2008 level, for 2011 1.5x, current thereafter
- Roll-rate of defaults to repossessions = 50% for 2009 and 2010; 25% for 2011, 20% thereafter
- Loss severity = 30% for 2009 and 2010, 20% for 2011 and 15% thereafter

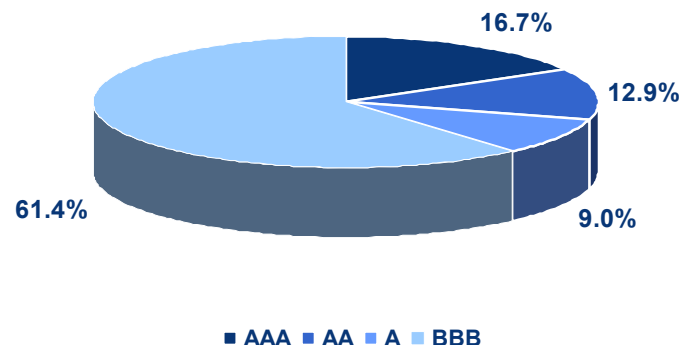
► NO IMPAIRMENT

– Worst case assumptions – as above, plus:

- Repossessions: 75% for 2009, 2010; 37.5% for 2011
- Loss severity: 45% for 2009 and 2010, 30% for 2011

► NO IMPAIRMENT

UK RMBS portfolio by quality
(Oct 08, nominal value: EUR 311m)



Analysing financial assets – US CLO portfolio (31 Oct 2008)

– Main parameters of US CLO portfolio

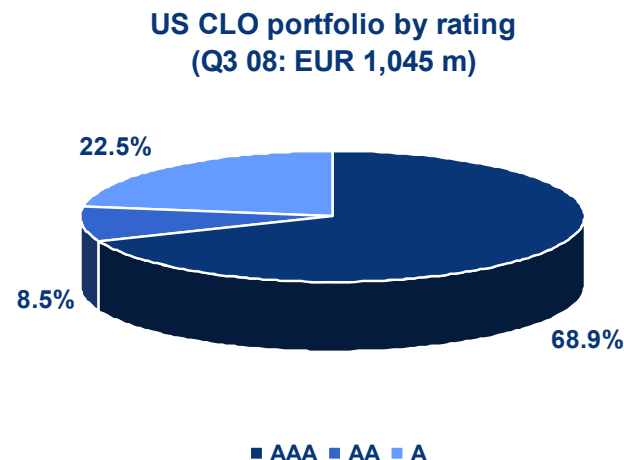
- Nominal value: EUR 1,045m
- Market value: EUR 696m
- Reinvestment period end in late 2011 - 2014
- Remaining average life = 7 years
- Subordination in our CLO's averages 24% for AAA, 19% for AA and 15% for A
- Current market parameters: default rate of 2%, recovery rate of 65%, prepayment rate of 10%

– Base case assumptions

- Default rate: 5% YE 2008, 9% in 2009, 10% in 2010, 8% in 2011, 5% thereafter until the securities are fully amortised
- Recovery rate of 60%
- Pre-payment rate of 10%
- **NO IMPAIRMENT, NO RATING CHANGES**

– Worst case assumptions

- Default rate: 5% YE 2008, 12% in 2009, 18% in 2010, 10% in 2011, 7% in 2012; 5% thereafter until the securities are fully amortised
- Recovery rate of 60%
- Pre-payment rate of 10%
- **NO IMPAIRMENT**



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Conclusion – Sustainable business model, prudent lending approach

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- **Focus on customer business and sound lending standards to limit loss potential**
 - Retail: Dominance of secured lending and low indebtedness of customers
 - Emphasis of Erste real estate portfolio in most stable economies (AT/CZ), prudent lending standards (avg. LTV below 60%) and only selective new business
 - Large Corporate exposure overall of manageable size, currently very cautious lending approach
 - **Only gradual shifts in asset quality expected**
 - NPLs to rise moderately
 - **Risk costs overall will remain manageable**
 - Expected range: 90 – 120 bps over average customer loans