ERSTE GROUP

6th Capital Markets Day

12 December 2008, Vienna

Analysing the balance sheet – Liabilities and capital

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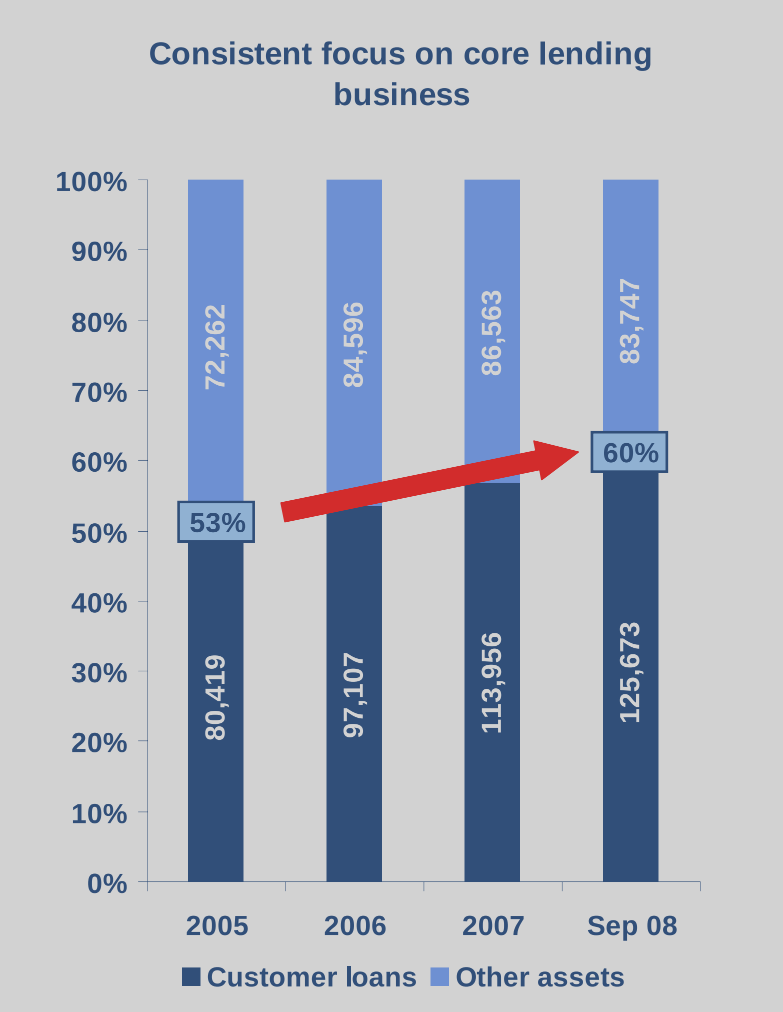
Presentation topics

ERSTE GROUP

- **Analysing short- and long-term debt**
  - Short-term funding
  - Long-term funding
- **Analysing customer deposits**
  - Overview
  - CEE deposits in detail
- **Analysing capital**
  - The government banking package
  - Regulatory capital and risk-weighted assets
  - Intangible assets and tangible equity
  - Principles of capital allocation
- **Conclusion**

Analysing the balance sheet – Track record of responsible business growth

ERSTE GROUP



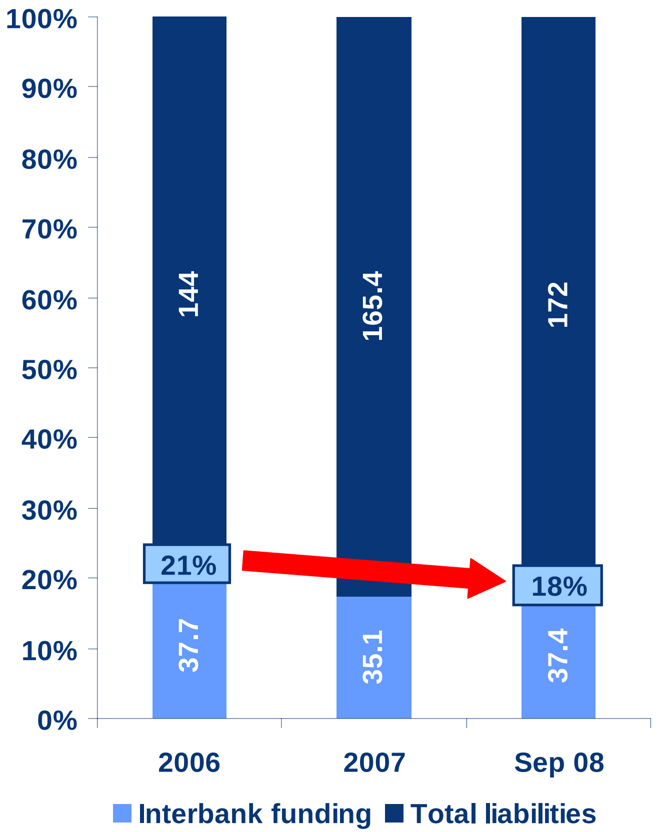
Short-term funding in detail – Stable share of interbank funding

ERSTE GROUP

- Erste Group was quick to react to market disruptions in August 2007 and took further actions during the crisis:
  - Collateral reserves activated

- Erste Bank was able to fund balance sheet growth without increasing interbank funding dependency:

Share of interbank funding in total liabilities



Short-term funding in detail – Well diversified interbank funding sources

ERSTE GROUP

- **Tested credit lines from interbank liquidity providers**
  - 2006: EUR 62bn from 393 different banking groups
  - 2007: EUR 65bn from 370 different banking groups
  - 2008: EUR 60bn from 391 different banking groups

- **Top 10 liquidity providers are providing only 18% of interbank funding**

- **Biggest lender around 4.5%**
  - Data per 10 December 2008 (yearly average in EUR million)

Liquidity provider #1	1,366
Liquidity provider #2	783
Liquidity provider #3	579
Liquidity provider #4	450
Liquidity provider #5	420
Liquidity provider #6	390
Liquidity provider #7	356
Liquidity provider #8	344
Liquidity provider #9	342
Liquidity provider #10	286

Short-term funding in detail – Funding over year-end is secured

ERSTE GROUP

Looking forward to year-end:

-Net cumulative cash outflows	EUR 9.1bn
-additional funding needs	EUR 0.8bn
= Total funding position over year end	**EUR 9.9bn**
+ Available collateral at central banks	EUR 9.6bn
+ Collateral reserve (not yet pledged)	EUR 0.9bn
+ Collateral in pipeline	EUR 0.5bn
= Total collateral available at year-end	**EUR 11.0bn**

Short-term funding in detail – Ample high-grade collateral available

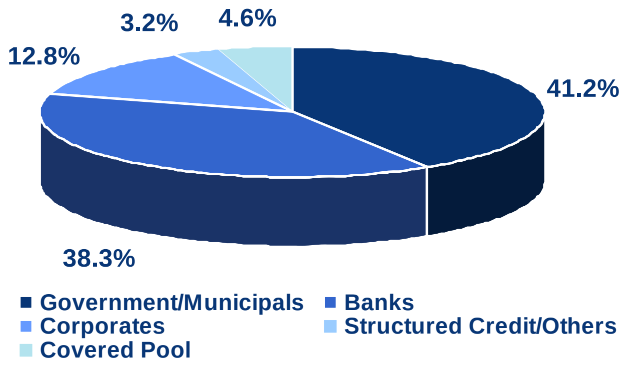
ERSTE GROUP

- **Collateral situation as per 10 December 2008 (in EUR):**

Total collateral of Erste Group	**23.5 bn**
– ECB eligible	9.3 bn
– SNB eligible	3.5 bn
– FED eligible	3.4 bn
– Other collateral	7.3 bn
In use	**9.4 bn**
– ECB tender operations	6.2 bn
– Swiss interbank repos	2.9 bn
– Euro GC interbank repos	0.3 bn
Available collateral	**14.1 bn**
– Available on ECB account	2.1bn
– Available for SNB repos	0.6 bn
– Available at FED discount window	3.4 bn
– Other collateral	9.0 bn

- **Additional EUR 1.9 bn ECB eligible collateral available via securities lending facility with Erste Sparinvest and Austrian savings banks**

Collateral split of Erste Group (Total volume: EUR 23.5 bn)



Short-term funding in detail – Short-term issuance activities and liquidity situation

ERSTE GROUP

- Erste Group is constantly issuing CPs and CDs in Europe and the US:

	Outstanding issuance	Average duration
31 Dec 2007	EUR 9.3bn	65 days
10 Dec 2008	EUR 8.1bn*	77 days

*) EUR 4bn issued to the Commercial Paper Funding Facility (CPFF)

- The Federal Reserve Discount Window is currently not in use

Long-term funding in detail – Proven flexibility and adaptability

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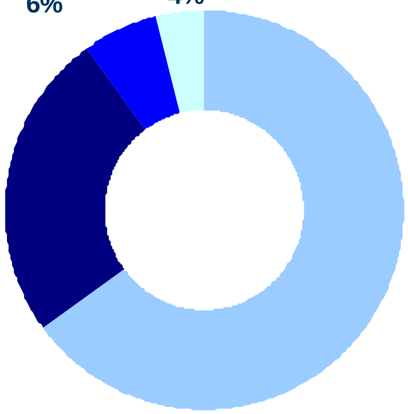
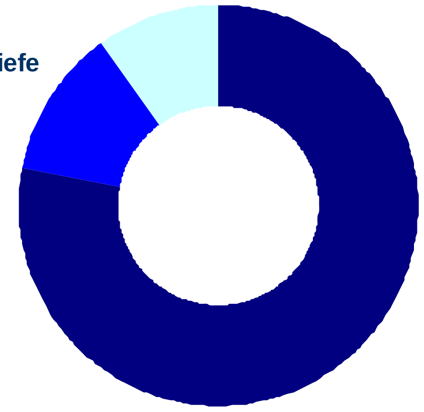
Planned Funding Structure 2008



- **PLAN:** was to fund 65% with Benchmark transactions and a third thru private placements and retail issues
- Due to the market turmoil and unfavorable conditions the funding strategy was changed

Actual Funding Structure YTD 2008



- **ACTUAL:** 78% was placed in senior unsecured through private placements and retail bonds
- NO public benchmark transaction was needed, due to our excellent reputation in the institutional and retail market.

Long-term funding in detail – Funding for 2008 completed, prefunding started

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Long Term Funding YTD 2008

- With EUR 6bn of long term funding ytd, our plan for 2008 (EUR 5 bn) is fulfilled
- Prefinancing for 2009 already started covering 27% of redemptions

in € mn	Amounts	Total issues	Ave. Maturity
Senior	4.845	169	2,4
Pfandbrief	762	24	4,7
LT2	467	10	11,7
UT2	97	1	8,5
T1	3	1	6,0
TOTAL	**6.174**	**205**	**3,4**

Funding 2008 costs for senior funding still **below 40 bps** (above EURIBOR) on average

Long-term funding in detail – Favourable redemption profile

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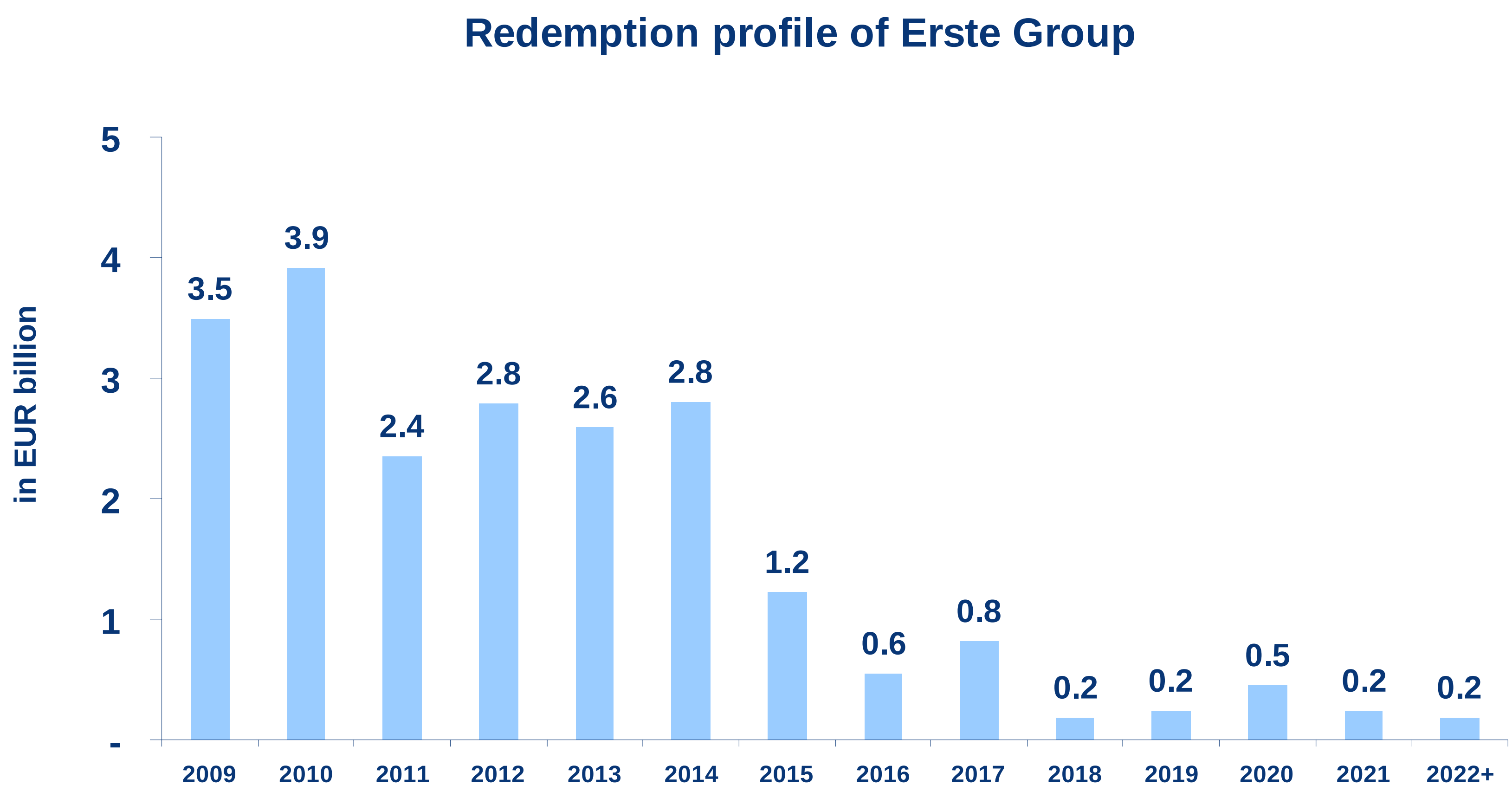

Long-term funding in detail – outlook 2009: Focus on guaranteed and/or Pfandbrief issues

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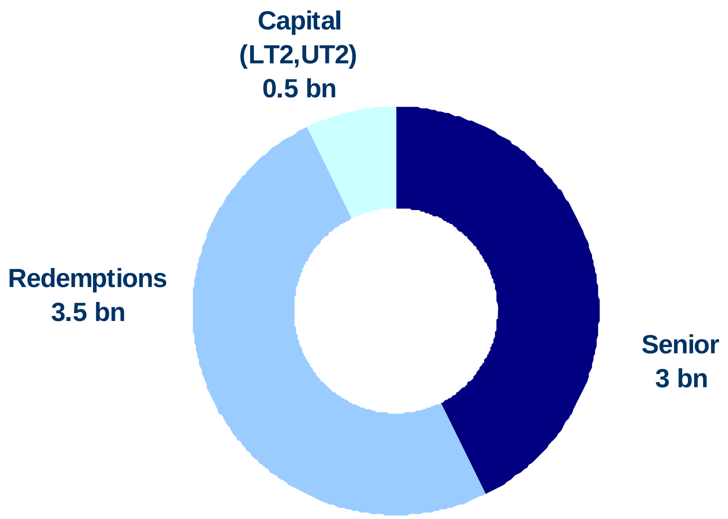
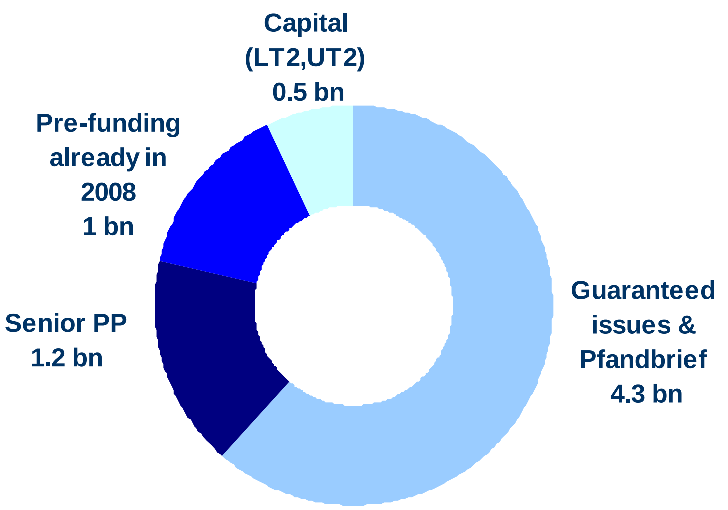
Funding needs 2009



Expected Funding Structure 2009



Pfandbrief cover pool amounts to EUR 6bn

Funding: conclusion –
Customer deposits are key funding source

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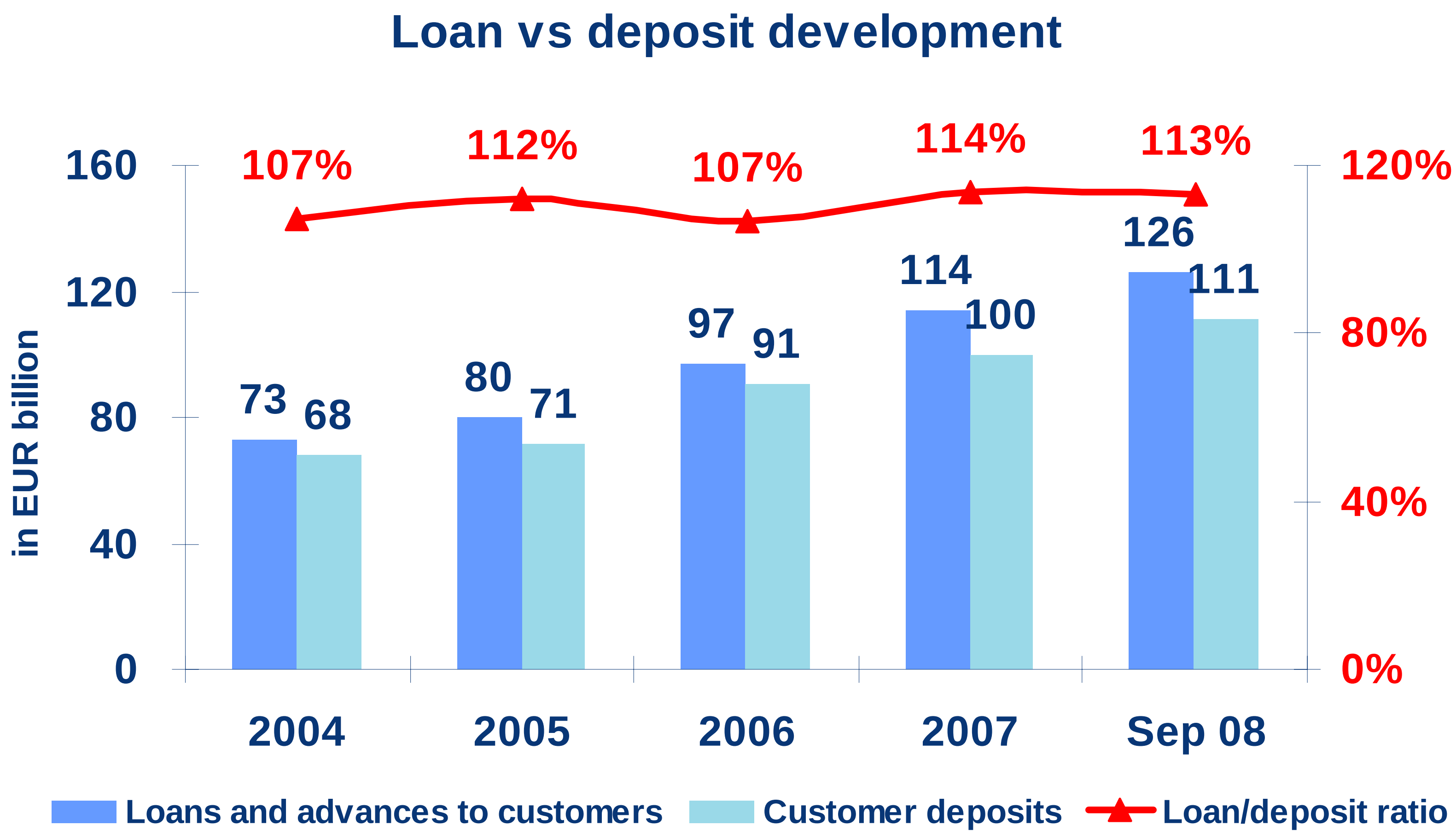

Funding: conclusion – Favourable balance sheet structure

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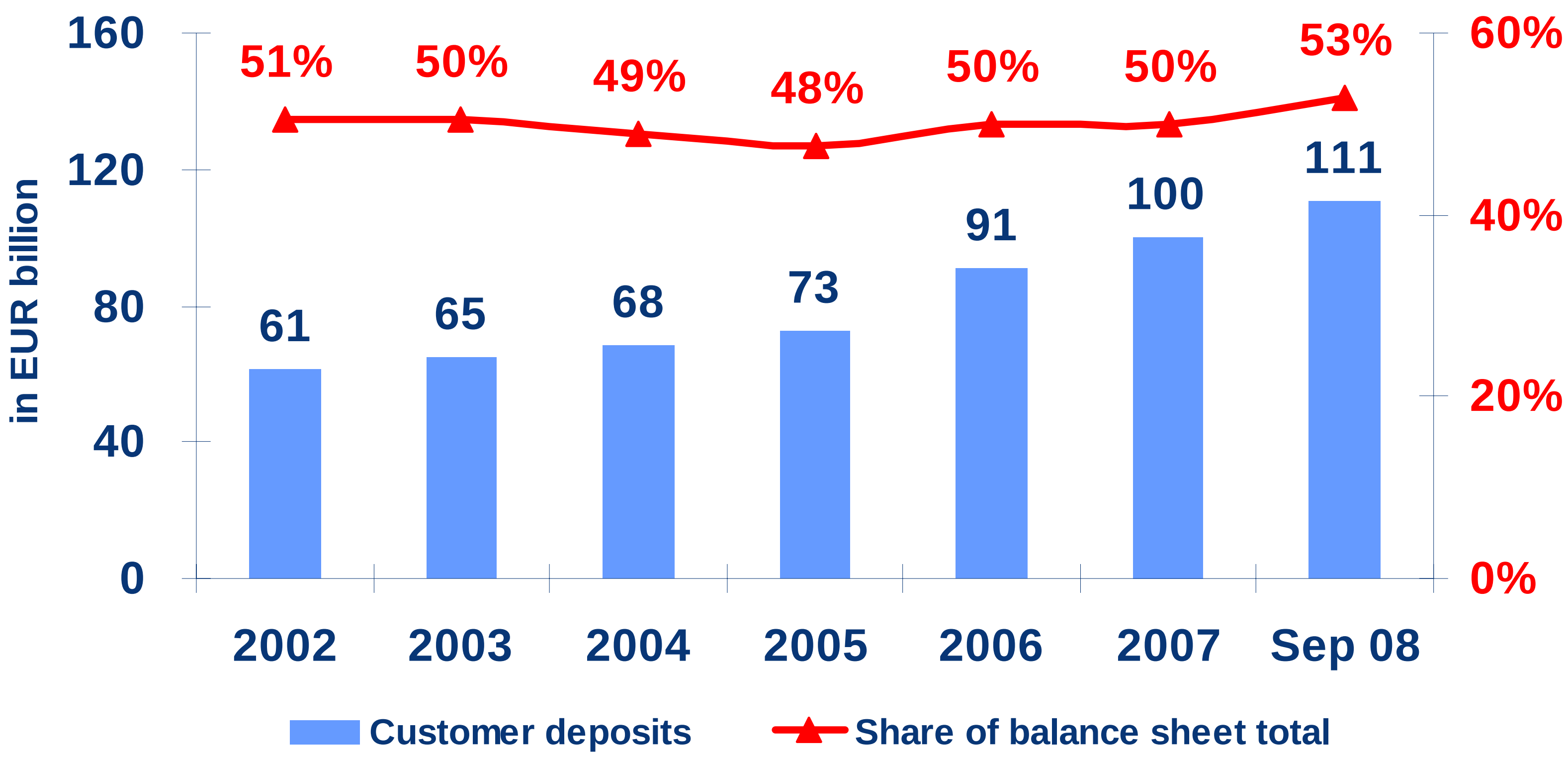
Deposits and their share of the total balance sheet



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ERSTE GROUP

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Customer deposits in detail: overview – CEE already commands the highest share

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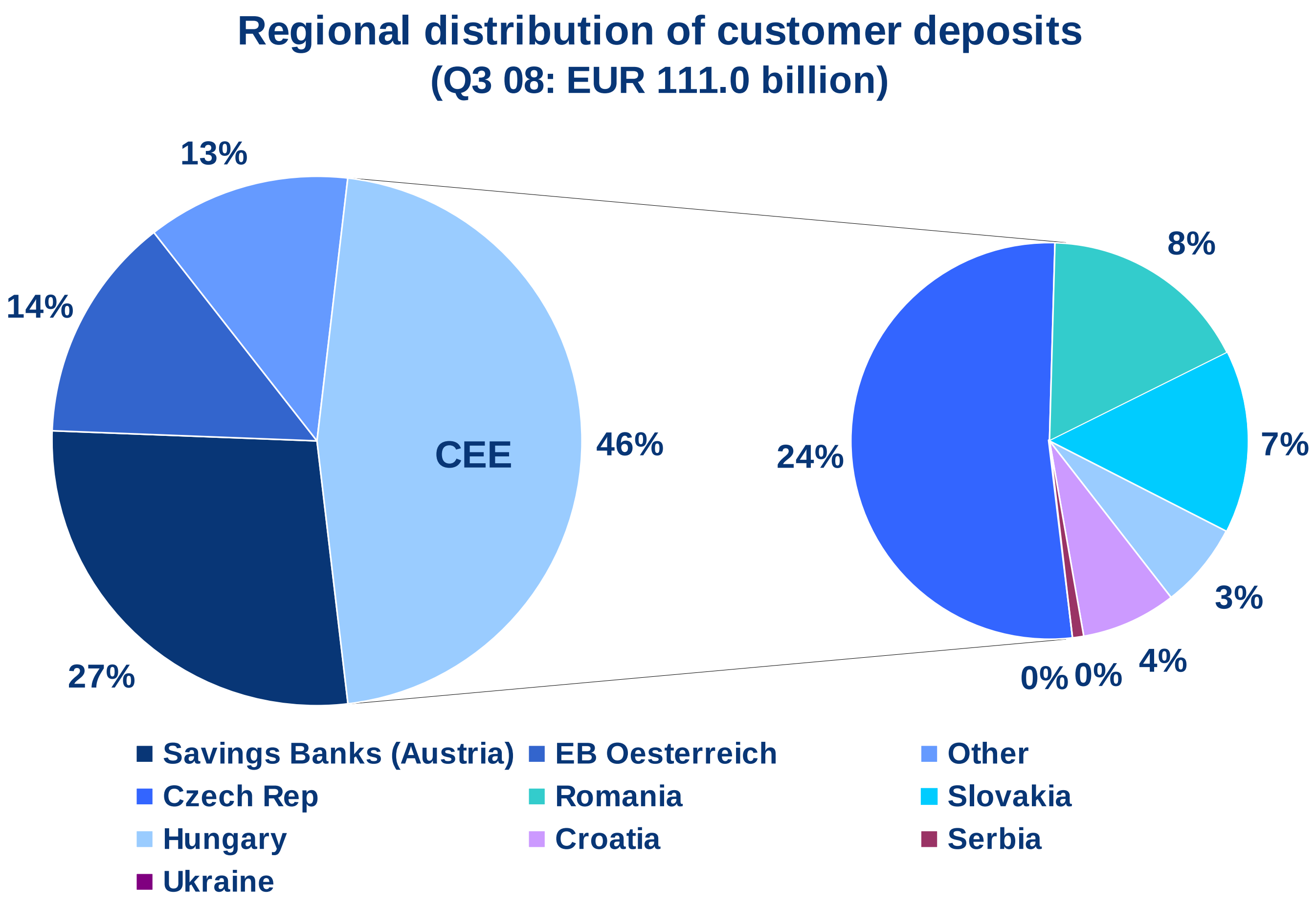

Deposits in detail: CEE = EUR 51.1 bn –
Local currency deposits dominate the book

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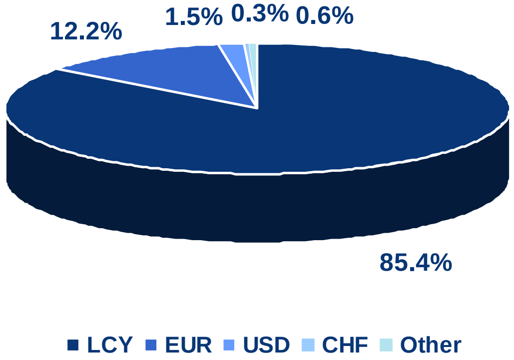
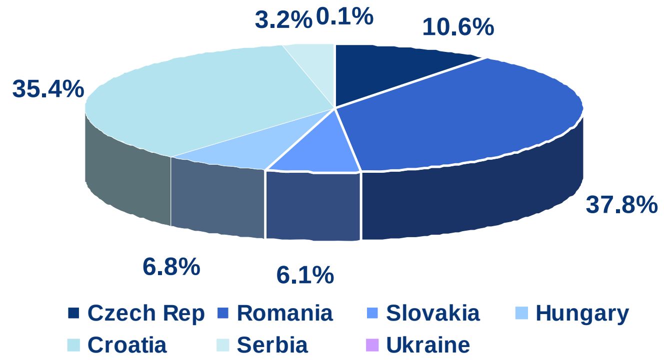
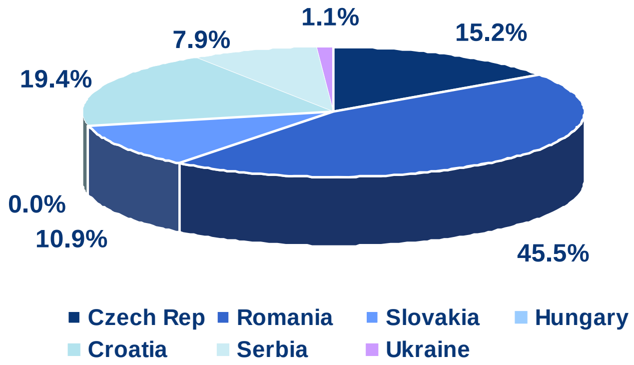
Currency split of CEE deposits
(Q3 08: EUR 51.1 bn)



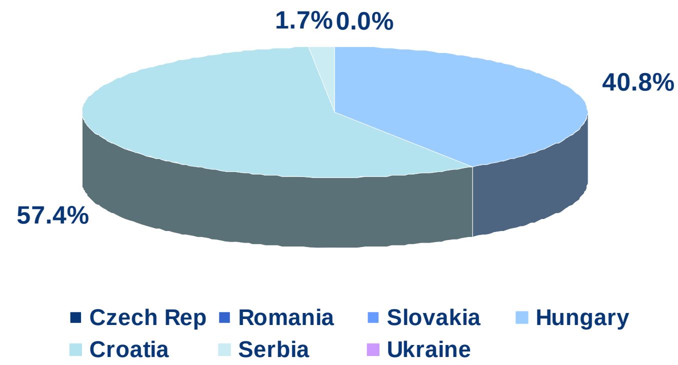
CEE FX deposits by country: EUR
(Q3 08: EUR 6.2 bn)



CEE FX deposits by country: USD
(Q3 08: EUR 0.8 bn)

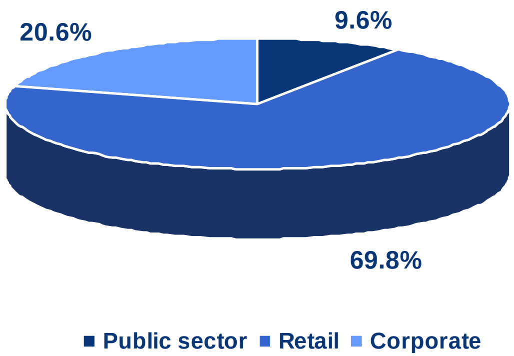


CEE FX deposits by country: CHF
(Q3 08: EUR 0.1 bn)

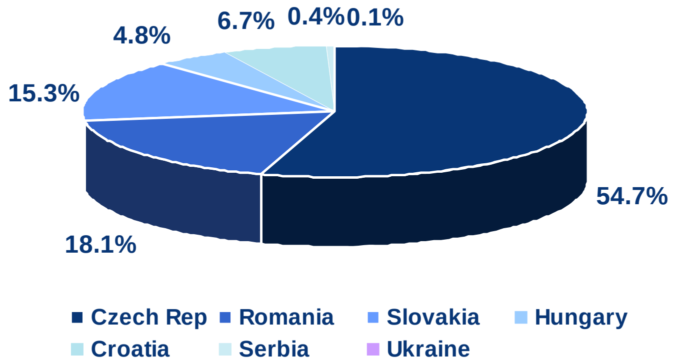


Deposits in detail: CEE = EUR 51.1 bn – Unparalleled retail deposit franchise in CEE

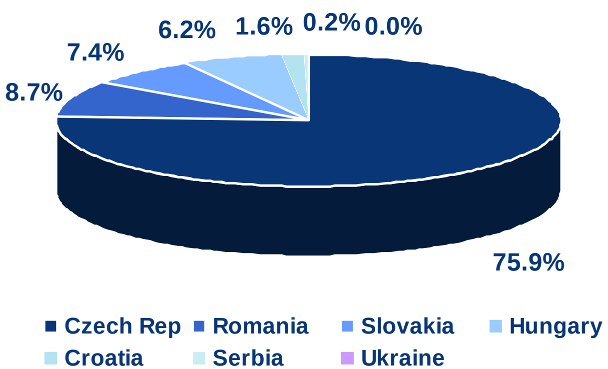
Customer split of CEE deposits (Q3 08: EUR 51.1 bn)



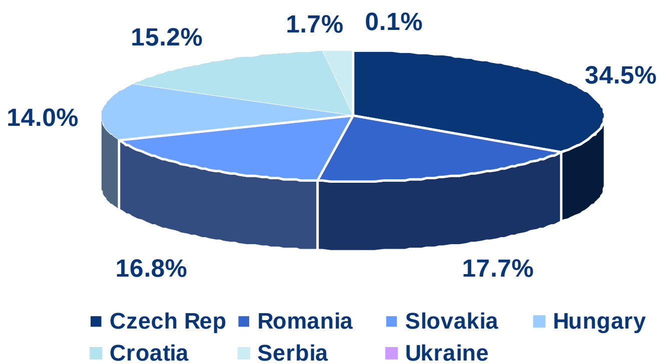
CEE retail deposits by country (Q3 08: EUR 35.6 bn)



CEE public sector deposits by country (Q3 08: EUR 4.9 bn)



CEE corporate deposits by country (Q3 08: EUR 10.5 bn)



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The government banking package – Status quo

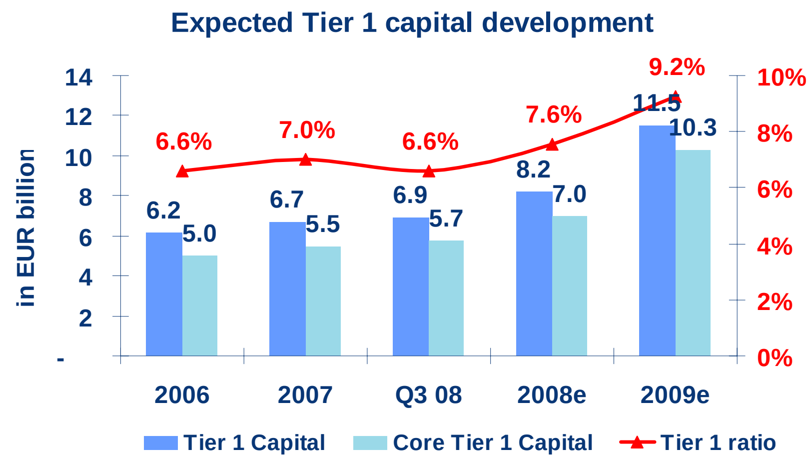
ERSTE GROUP

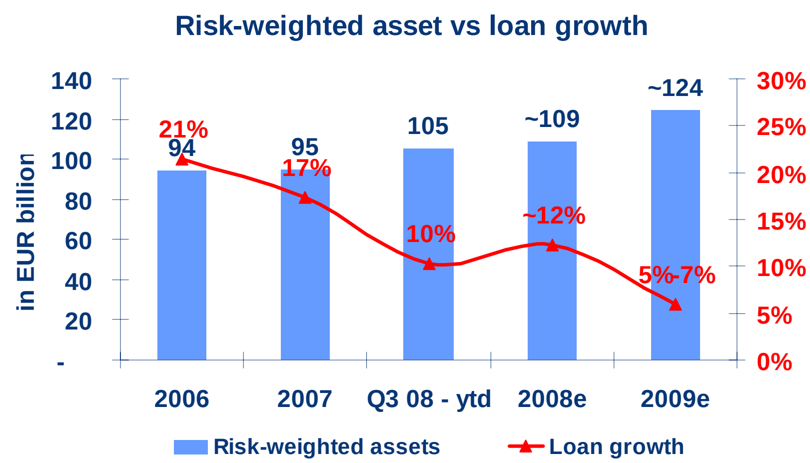
- **Extraordinary General Meeting on 2 Dec 2008 approved capital increase**
  - Authorisation of the Management Board with consent of the Supervisory Board to raise participation capital by the issuance of certificates
  - Nominal value up to EUR 2.7 bn
  - The capital may be subscribed not only by the Republic of Austria, but also by existing shareholders and other investors
  - Issuance in several tranches is possible, some may be bearer certificates, some registered certificates
- **European Commission set guidelines for state aid to banks**
  - Any **distortion of competition** should be **minimized**, e.g. by the
    - limitation of the total size of the balance sheet
    - maintenance of enhanced minimum solvency requirement
    - inclusion of private participation
  - Any aid scheme will need **to be approved by the EC**
  - EC will look more favourably on financial institutions that are **fundamentally sound**
  - The **Government should receive rights** from beneficiary banks, e.g. adequate remuneration or claw-back mechanism
- **Final terms to be determined within the next weeks**

Capital position and risk-weighted assets – Stronger capital base influenced by Basel II

ERSTE GROUP

- **Tier 1 ratio to reach all-time high in 2008**
  - Thanks to continued profitability and to sale of insurance operations to VIG
- **Basel II requires higher capital levels in an economic downturn – procyclicality**
  - Procyclicality is the expected effect from recalibration of client ratings and expected downward migration of loan portfolios
  - Procyclicality is expected to increase RWAs by about 10% in 2009
  - RWA growth based on business expansion in 2009 of about 4-6 %
- **Participation capital expected to boost Tier 1 (core tier 1) to very healthy levels in 2009**





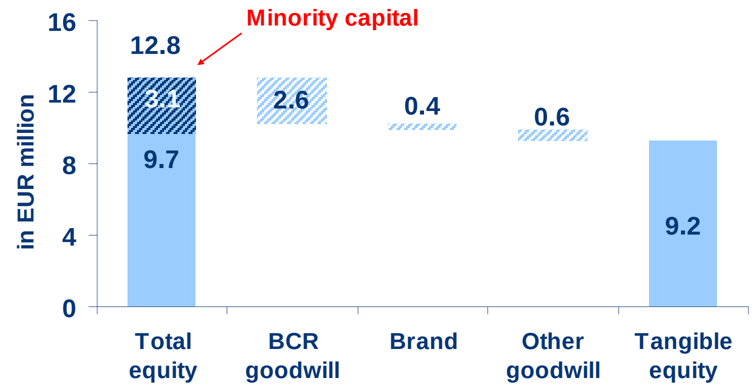
Analysing intangible assets – How intangible assets impact capital

ERSTE GROUP

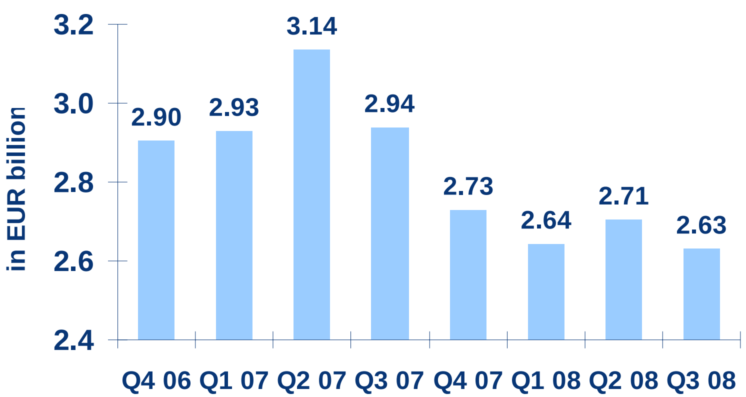
– Details on BCR goodwill

- BCR goodwill carried in RON on the balance sheet: depreciation of RON leads to lower goodwill and capital
- Goodwill is allocated to brand, customer relationships (amortised) and remaining goodwill
- Impairment-tested on an annual basis
- Based on multi-year DCF model
- Sale of insurance business will in addition reduce BCR goodwill by EUR 70m and goodwill allocated to customer relationships by EUR 50 m (total reduction in 08 around EUR 190m)

Reconciliation - total/tangible equity (Q3 08)

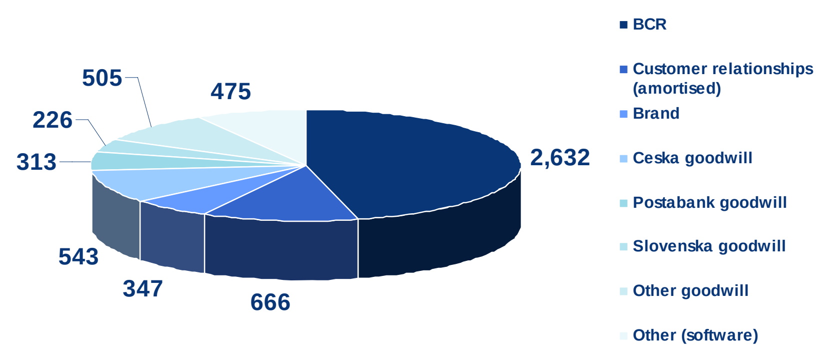


Example: volatility of BCR goodwill



Intangibles composition (Q3 08)

(EUR 5,707 m)



Principles of capital allocation – Driven by 3 factors

ERSTE GROUP

- **Economic capital consumption of business lines is a function of:**
  - Credit risk: based on risk-weighted assets according to Basel II
  - Operational risk: based on administrative costs
  - Market risk: based on VaR (value at risk) limits
- **Budgeting and targetting process**
  - Capital and funding ratios determine growth potential
  - based on EVA and dEVA translated to RWA and funding targets per business line
  - together with cost targets budgeted capital per business line is derived

Principles of capital allocation – Performance management and capital

ERSTE GROUP

- **Budget 2009 includes clear targets per business line in terms of:**
  - RWA development
  - Liquidity (L/D ratio, deposit targets)
  - Costs
- **Monitoring and reallocation process**
  - Permanent monitoring of target fulfillment and EVA development throughout 2009
  - as groupwide targets are fixed, reallocation of capital and liquidity between business lines to be decided based on EVA development
- **Pricing**
  - Strict pricing mechanisms implemented groupwide with strong focus on cost of liquidity and capital

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Conclusion –
Improving capital position, strong deposit base

ERSTE GROUP

- **Forward-looking capital allocation**
  - Liquidity aspects and expected risk costs were cornerstones in 2009 capital allocation and budgeting process

- **Improvement in regulatory capital position and strengthening core tier 1 capital position**

- **Declining leverage – further reduction of non-core assets in 2009**

- **Sound short-term and long-term funding strategy**

- **Particular strength in retail deposit funding**