

7th Capital Markets Day –

4 October 2010, Dubrovnik, Croatia

A map of Central Europe, including Austria, Czech Republic, Slovakia, Hungary, and Poland. Austria is highlighted with a white hatched pattern.

Taking stock after 20 years of transformation –
Austria: A beneficiary of EU integration and CEE convergence

Peter Bosek
Member of the Board, Erste Bank Oesterreich

– Long-term economic development patterns

- Economic scorecard: real economy, fiscal performance & monetary policy
- Economic and political timeline
- Focus topic: charting the development of residential real estate

– Evolution of the banking market

- Retail banking highlights
 - Traditionally overbanked, but profitable
 - Stable loan business
 - Wealth management is a key fee generator
- Corporate banking development
 - Increasing margins and solid potential for fee business

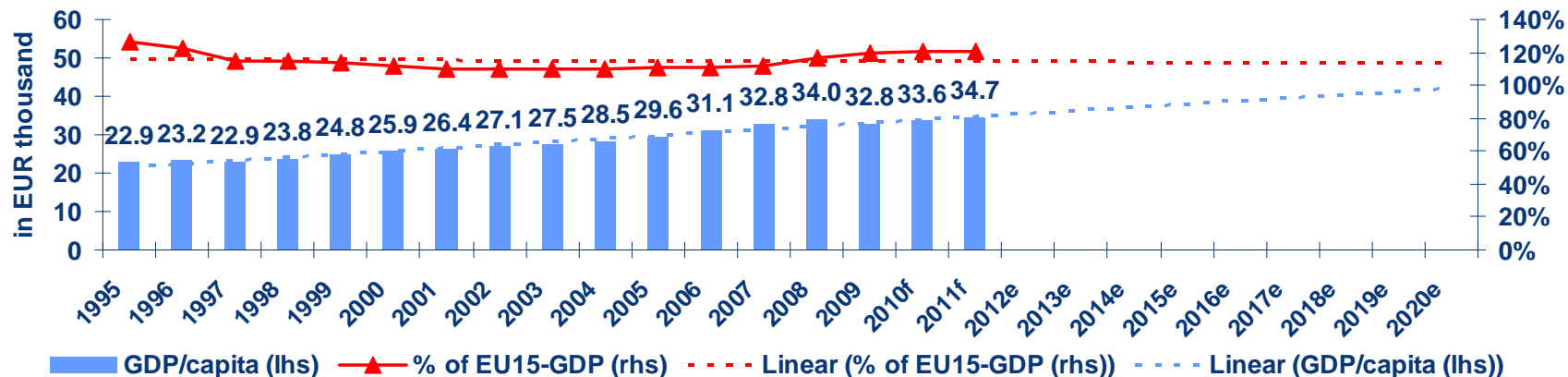
– Track record of Erste Bank Oesterreich

- Long-term financial performance
- Analysing credit risk
- Conclusion

Economic and political timeline –

Austria grew consistently faster than EU-15 since 2004

Austria - GDP/capita vs % of EU15 GDP/capita



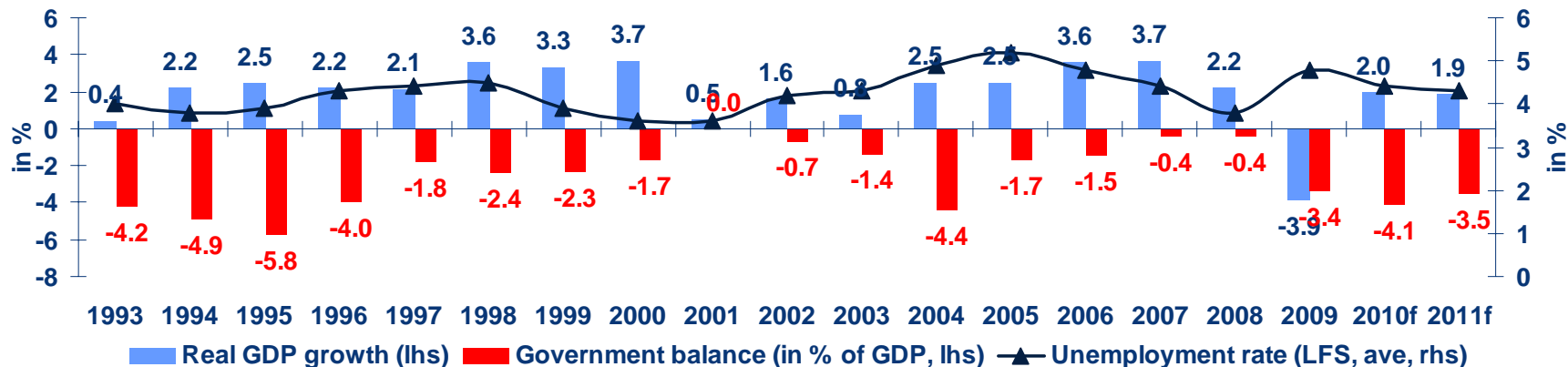
1987-2000 Grand coalition	2000-2002 Small coalition I	2002-2006 Small coalition II	2006-2008: Grand coalition I	Since 2008: Grand coalition II
<ul style="list-style-type: none"> » The fall of the iron curtain in 1989 is a milestone for Austria's "small globalisation" strategy » Coalition government between largest parties of the country, the Social Democrats and the conservative People's Party » Limited political reforms » Major achievement is the accession to the European Union in 1995 	<ul style="list-style-type: none"> » Coalition of People's Party with Freedom Party leads to international condemnation » EU briefly freezes diplomatic relations with Austria » Increased political reform efforts & euro adoption » Renewed privatisation efforts of formerly state-owned enterprises (Telekom Austria, Austrian Post, etc.) 	<ul style="list-style-type: none"> » EU-enlargement to CEE is Austria's top strategic priority » EUR 900m state aid guarantee to rescue trade union and BAWAG » Austria's economy starts to outperform Eurozone averages in 2004 	<ul style="list-style-type: none"> » No main political reforms due to political blocking tactics by the two coalition parties 	<ul style="list-style-type: none"> » Successful cooperation of government, public and private sector during the recession » Economic stimulus packages (e.g. infrastructure investments) » Tax reform (e.g. cut of income tax) » Austerity measures (40% by taxation, 60% by expenditure cuts)

Source: Eurostat

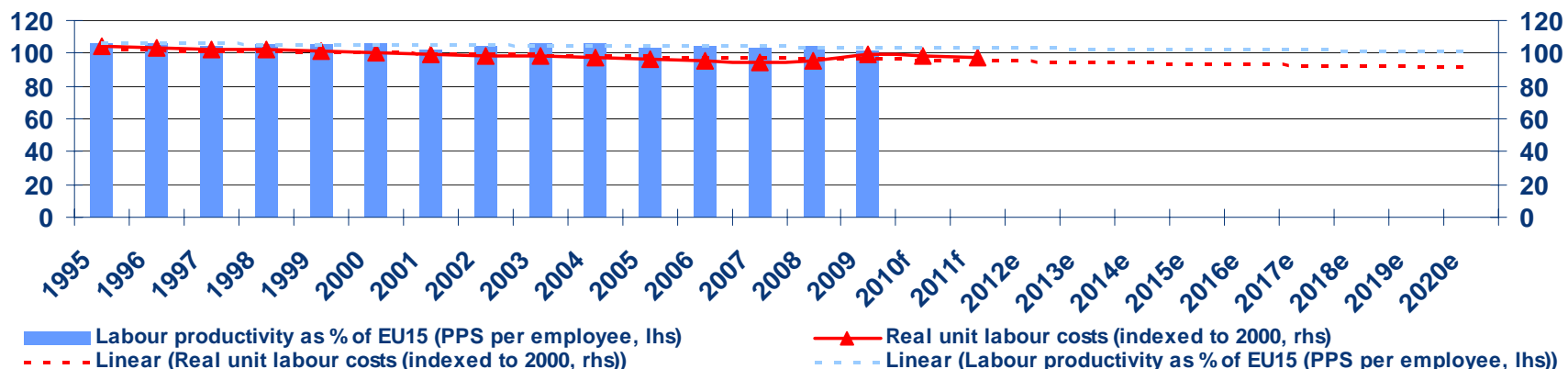
Economic scorecard: The real economy –

Low unemployment supported by competitive economy

Austria - Real GDP growth vs fiscal balance vs unemployment rate

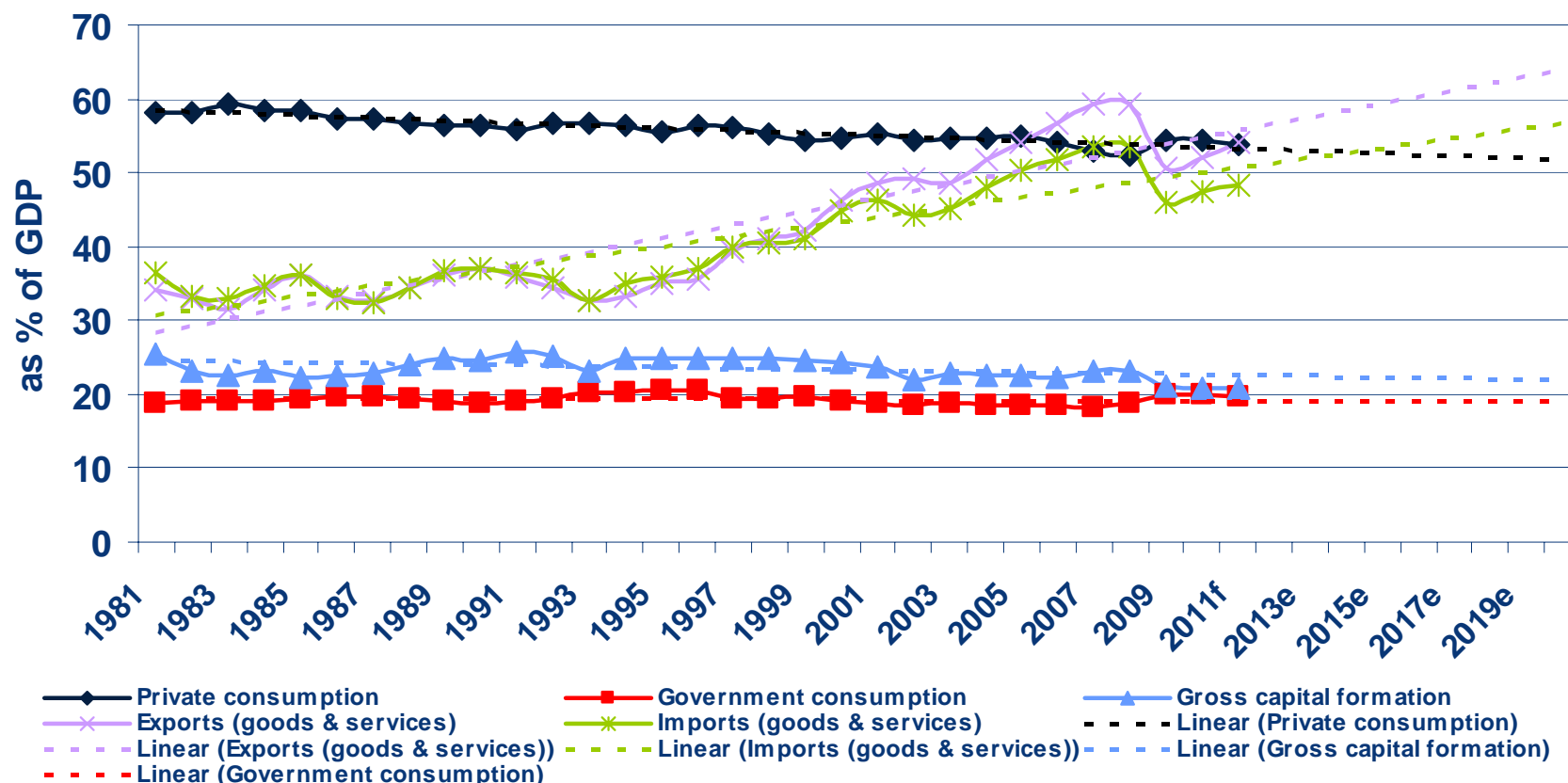


Austria - Labour productivity vs real unit labour costs



Economic scorecard: GDP composition – EU integration & CEE proximity fuel trade

AT: Composition of GDP - expenditure approach

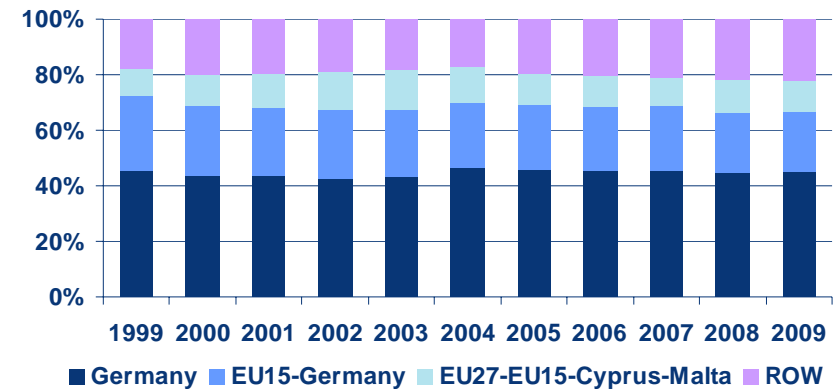


Economic scorecard: trade drilldown –

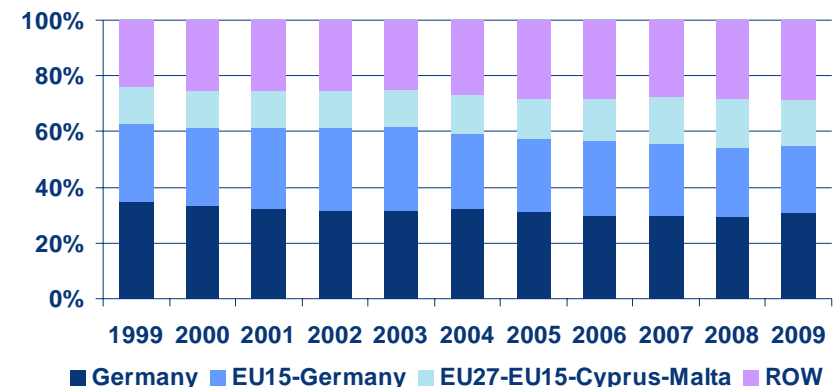
Germany is the single biggest trading partner of Austria

- As a **small and open economy** foreign trade is crucial for Austria's economic performance (more than 50% of GDP is accounted for by exports)
- Since 2002, the **Austrian current account** has been **positive**, which confirms the international competitiveness of the country
- The **majority (2/3) of foreign trade** is already **settled in euro** and thus without currency risk
- **Germany is by far Austria's most important single trade partner** (1/3 of export volume)
- The economies of **Central and Eastern Europe** (based on CEE-20 definition) are also crucial for Austria (2/5 of exports)
 - CEE region **to be the growth engine in the long term in Europe, with considerable catch-up potential**
- Other important trade partners: Switzerland, China, Japan, Turkey, Korea, Singapore and Taiwan

Austria - Goods import distribution

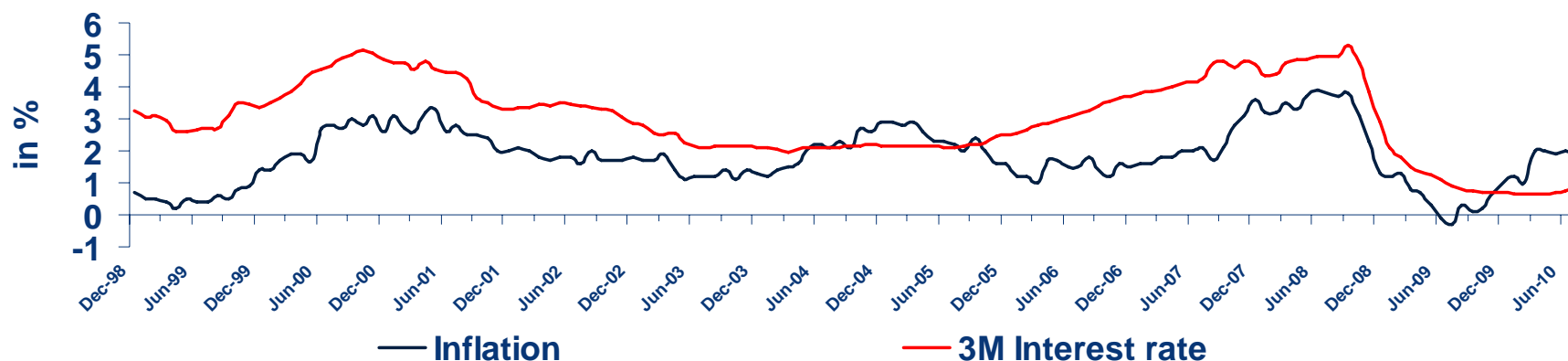


Austria - Goods export distribution



Economic scorecard: Monetary policy – Stable inflationary and interest rate environment

Austria: Inflation and interest rates

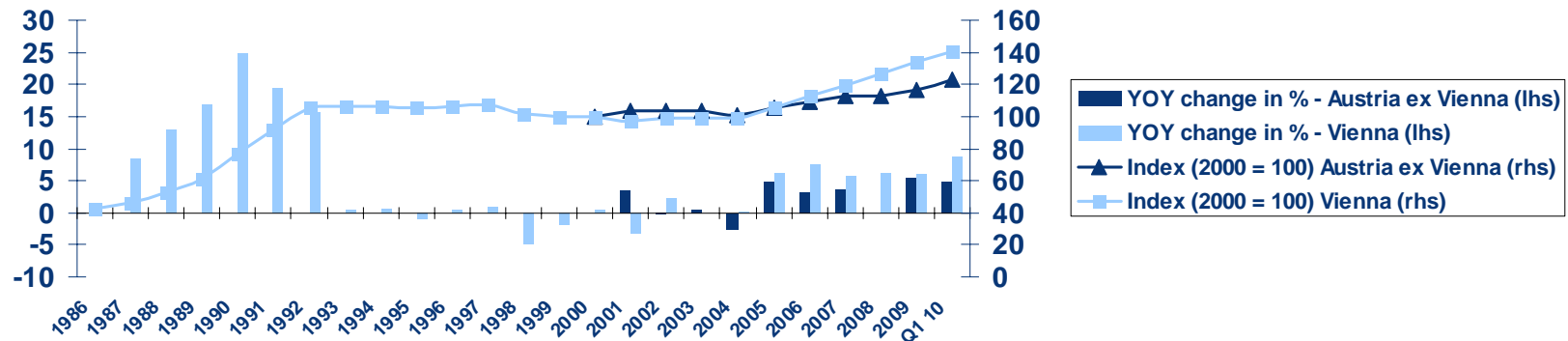


1987-2000 Grand coalition	2000-2003 Small coalition I	2003-2007 Small coalition II	2007-2008: Grand coalition I	Since 2008: Grand coalition II
<ul style="list-style-type: none"> » Austrian has a long tradition of maintaining the value of the currency, the Austrian Schilling, through “Hartwährungspolitik” (peg towards the Deutsche Mark). » Average rate of inflation in the above mentioned period is 2.7%. » Average yield of 10Y Austrian Government Bonds is 6.4% 	<ul style="list-style-type: none"> » Austria, as a core member of the Eurozone, now supports a stable euro. » Entrance into the Eurozone brought lower inflation (1.99%)... » ... and lower interest rates, e.g. 4.75% (10Y government bonds) and 3.6% (3-M interest rate) 	<ul style="list-style-type: none"> » According to Moody's, Austria has a very high debt affordability. » The “Aaa” top rating for Austria is based on the government's “very high” level of economic, institutional and financial strength, contributing to a very high resistance to event risk. » Inflation below ECB's target of 2% » Lower 3-M rate: 2.6% 	<ul style="list-style-type: none"> » Austria's fundamentals are superior to those of Germany and Eurozone. » The spread of 10Y Austrian government bonds against the German bonds has been 15bps (long-term average). » Inflation above ECB's target (2.2% in 2007 and 3.2% in 2008) » Higher 3-M interest rate: 3.7% 	<ul style="list-style-type: none"> » The spread of 10Y Austrian government bonds has been on a gradual slide to around 45bps against 10Y German government bonds towards the end of 2009. » Meanwhile the excessive spreads have come down and we believe that they should further narrow. » 3-M Euribor on a record low in 2010: 0.63%

Focus: residential real estate –

Austria benefits from stable real estate markets

Real estate prices in Austria



– Residential real estate prices developed in line with economy in Austria

- Sufficient availability of affordable housing thanks to high share of state-subsidised cooperative and council housing
- Home ownership is still comparatively low at 20-25% compared to Western as well as Eastern Europe due to limited incentives to purchase homes

– Vienna enjoyed bursts of growth in the late 1980ies and since 2005

- But overall CAGR (1986-2009) remained at a sustainable 5.1%
- City of Vienna is largest landlord managing 220,000 council flats; roughly a third of Vienna's population live in such council flats
- Prices should continue to rise based on immigration and gradual shift towards home ownership

– Long-term economic development patterns

- Economic and political timeline
- Economic scorecard: real economy, fiscal performance & monetary policy
- Additional measures of progress: social indicators
- Focus topic: charting the development of residential real estate

– Evolution of the banking market

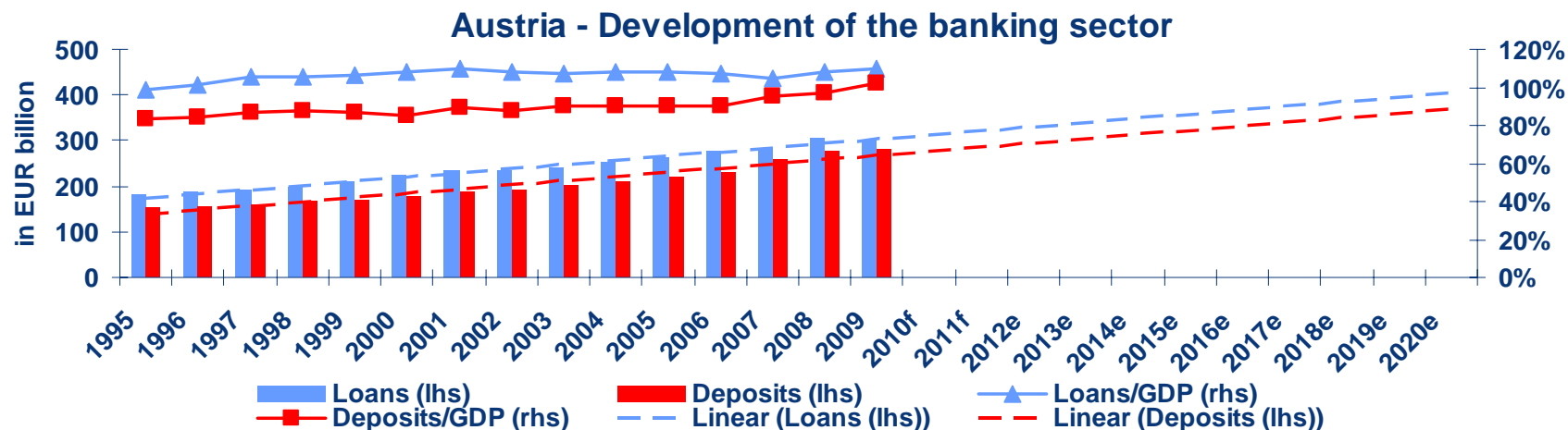
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– Track record of Erste Bank Oesterreich

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Evolution of the banking market –

Volume trends underscore stability of the market



1977-1990 Gradual liberalisation of the banking sector	1990-2000 Consolidation and internationalisation of the banking sector	Since 2000 Austrian banks benefits from CEE expansion
<ul style="list-style-type: none"> » 1977: Relaxation of branch opening approval process leading to branch boom » 1979: Credit Act » 1979: Liberalisation of credit business, no restrictions on branch openings or liability interest rates 	<ul style="list-style-type: none"> » 1985: Agreement between credit associations on interest rates » 1986: Amended Credit Act defines higher capital ratios and new capital instruments to tame credit growth / improve capitalisation. » 1990: Merger of Länderbank und Zentralsparkasse Wien → Bank Austria » 1991: Free movement of capital; start of CEE expansion of Austrian banks » 1992: Merger of Girozentrale and ÖCI → GiroCredit 	<ul style="list-style-type: none"> » 1993: New Banking Act to comply with EU regulations » 1997: Bank Austria buys Creditanstalt, Erste Group buys GiroCredit » 2000: Hypo-Vereinsbank buys Bank Austria » 2001: Erste Group buys Ceska sporitelna » 2002: Establishment of new banking supervisory body (FMA) » 2005: Merger of BAWAG und PSK » 2006: Government steps in to save BAWAG; Cerberus buys BAWAG » 2009: Hypo-Alpe Adria is taken over by the state » 2010: RI and RZB merger

The evolution of retail banking – Traditionally overbanked, but profitable

– The Austrian retail customer benefits from excellent service accessibility

- Branch density is among the highest in Europe (2008: 1,625 inhabitants per branch), only beaten by Spain
- Wide network of ATMs and POSs, with fast increasing share of non-cash transactions

– Some facts about the typical retail client

- Conservative approach to borrowing and investing money (funds, investment certificates, etc.)
- Overdraft is the short-term financing method of choice among private individuals
- Credit card penetration has grown strongly, but they are mostly used as a means to settle payments abroad

– Competitive, but profitable market

- There are many cooperative or non-profit structures, making it important to focus on profitable segments of the market

Non-cash payment services indicators *

	1980	2010
# of ATMs	35	7,650
# of POS	40	85,000
# of debit cards	1,300,000	7,700,000
# credit cards	6,000	2,440,000

Non-cash transaction volumes *

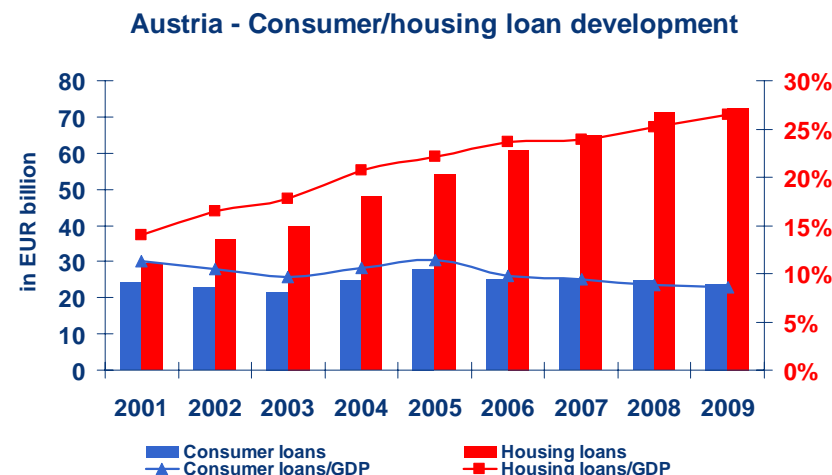
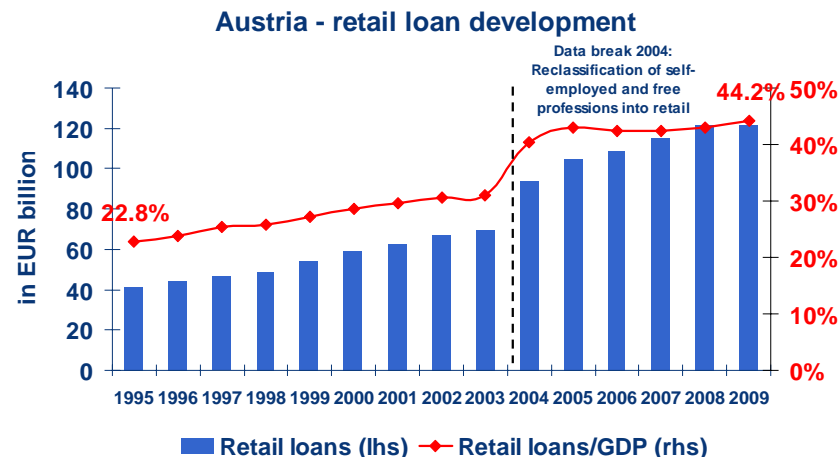
	2005	2009
# of debit card transactions	326.4m	445.7m
# of credit card transactions	24.9m	34.8m
Debit card turnover (EUR)	25.5bn	33.6bn
Credit card turnover (EUR)	2.4bn	3.5bn

Source: All data except for number of debit and credit cards paylife GmbH, number of credit/debit cards OeNB.

The evolution of retail banking –

Austria benefits from measured loan growth

- No excesses, but gradual and sustainable expansion
- Housing loans are key growth driver
 - Due to structurally low home ownership ratio and high level of affordability of existing and newly built homes
 - Despite discontinuation of FX loans (CHF) in Q4 2008
 - Offering solid margins and very low default rates
- Decreasing significance of consumer loans over the past decade
 - In contrast to many CEE markets



The evolution of retail banking –

Fund business is a key revenue generator

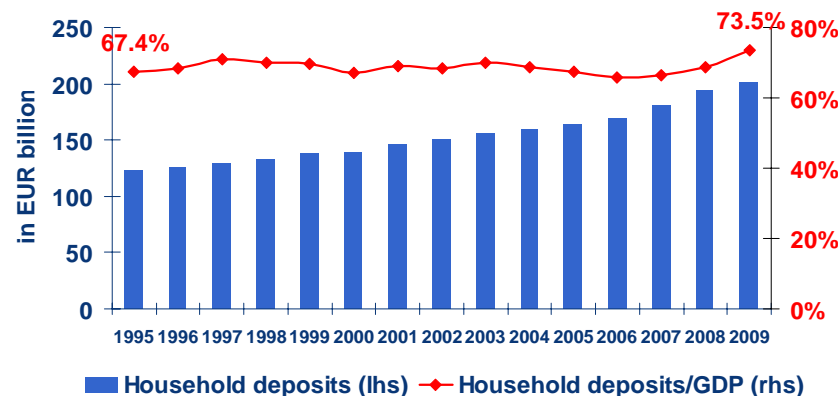
– Household deposits remained strong through the economic downturn

- Supported by favourable composition (2009):
 - 75% are savings deposits
 - 20%+ are demand deposits
 - Remainder are time deposits
- Erste Bank Oesterreich (EBOe) managed to gain market share during the same time without engaging in aggressive pricing tactics

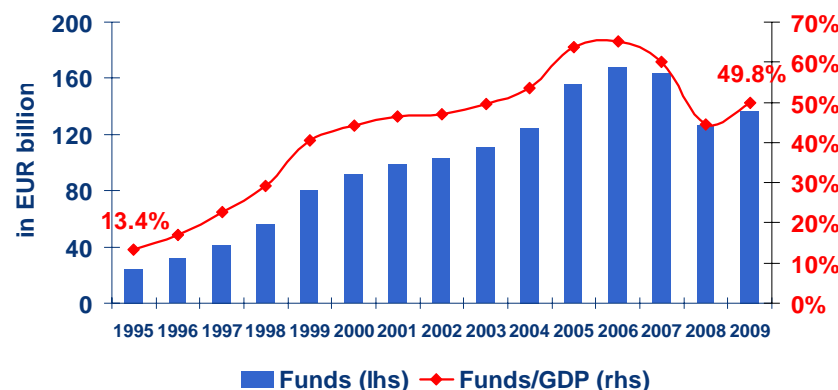
– Asset management is regaining strength after suffering from risk aversion as a result of price declines in 2008 and 2009

- Following dramatic growth (volume and value) in the decade prior to 2007
- Will remain a key revenue generator going forward thanks to heightened emphasis on individual old age provision
- EBOe and savings banks will align their product offer to address this market

Austria - Retail deposit development



Austria - Development of the mutual fund market



The evolution of corporate banking –

Increasing margins and solid potential for fee business

– Corporate Austria has developed rapidly as a result of EU integration and CEE expansion

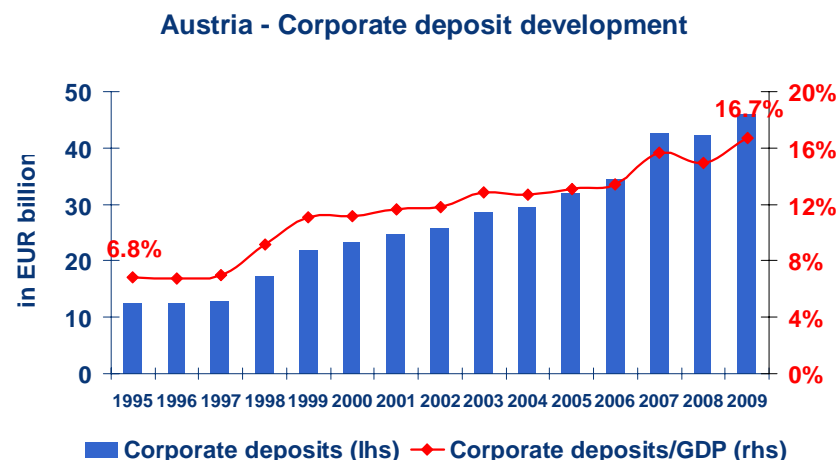
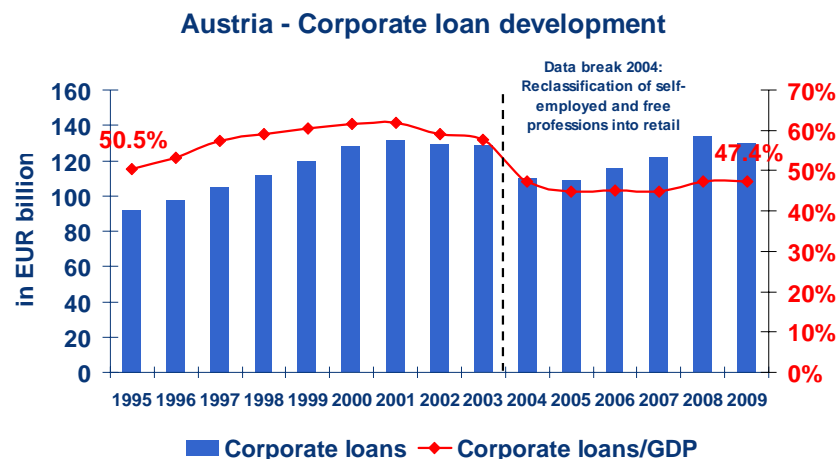
- Resulting in higher profitability, which led to strong growth in corporate deposits and...
- ...increased demand for corporate loans. Asset growth was less pronounced, as companies increasingly tapped capital markets
- Debt capital markets will continue to be growth driver

– 2010: Economic recovery goes hand in hand with stronger competition

- Economic downturn mainly hit SME-clients, rather than larger corporates – stabilisation is under way
- Slower than expected increase of demand on financing side due to slow economic recovery
- Some players in corporate banking have disappeared

– Erste Bank improved profitability in the corporate segment over the past years

- Thanks to rigid cost management and re-pricing
- Successful focus on fee business will be continued



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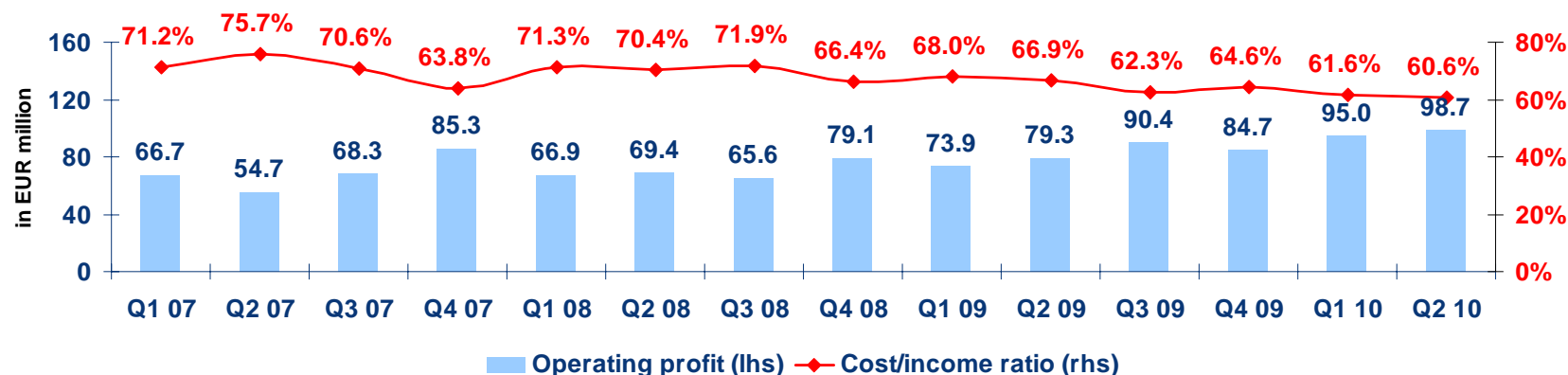
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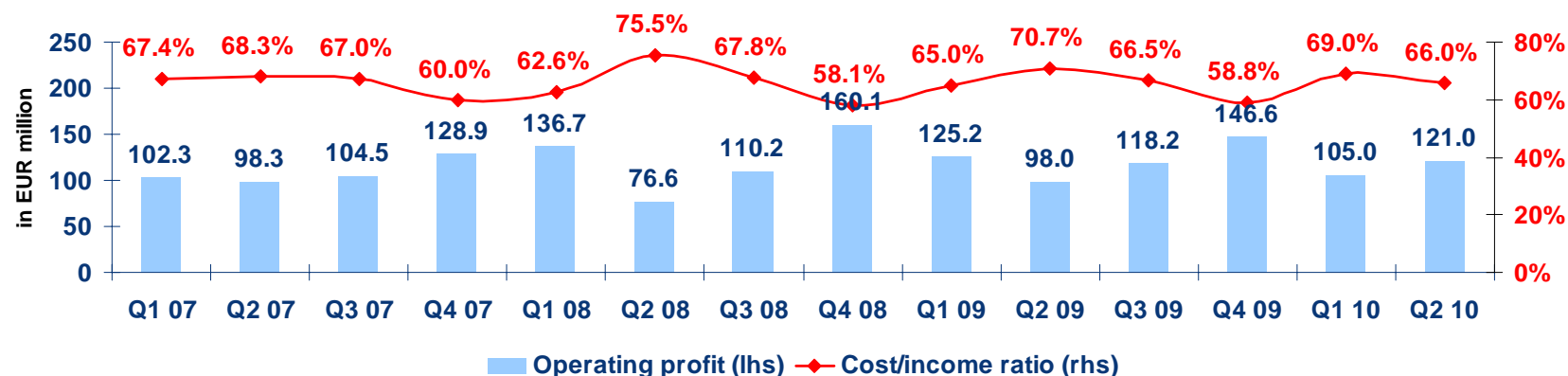
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Long-term financial performance – Erste Bank Oesterreich drives Austrian profitability

Segment Erste Bank Oesterreich - Operating profit vs operating efficiency



Segment Savings Banks (Austria) - Operating profit vs operating efficiency



Analysing the credit risk cycle – Rock-solid asset quality despite varying loan books

– Economic downturn was hardly noticeable in Austrian Retail & SME asset quality

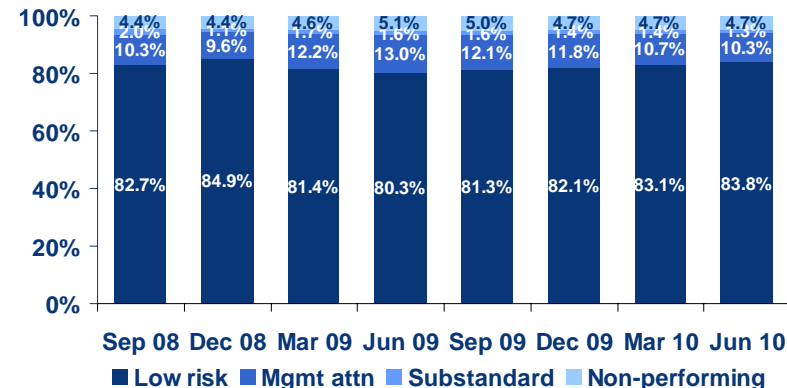
- Deterioration in the first half of 2009 was almost fully recovered in subsequent quarters
- FX housing loans continued to perform well through the downturn; CHF lending has been discontinued as of Q4 08

– Divergence in asset quality between savings banks and EBOs is due to higher share of micro financing at savings banks, as they serve mostly rural regions

– Higher base level of NPLs is mainly due to application of customer concept in retail and preference for internal workout as opposed to NPL sales

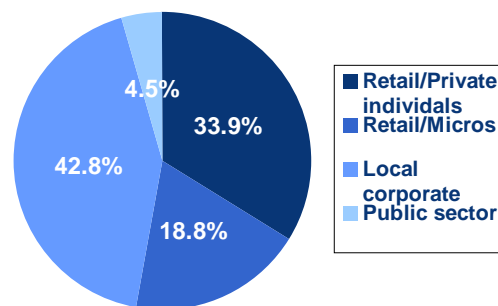
– Stability in asset quality is set to continue

Erste Bank Oesterreich: customer loan migration since Lehman default

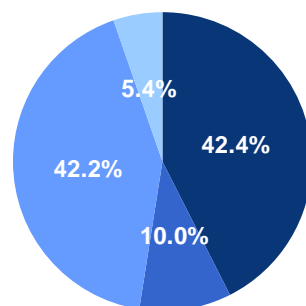


Loan book composition in Austria (June 2010)

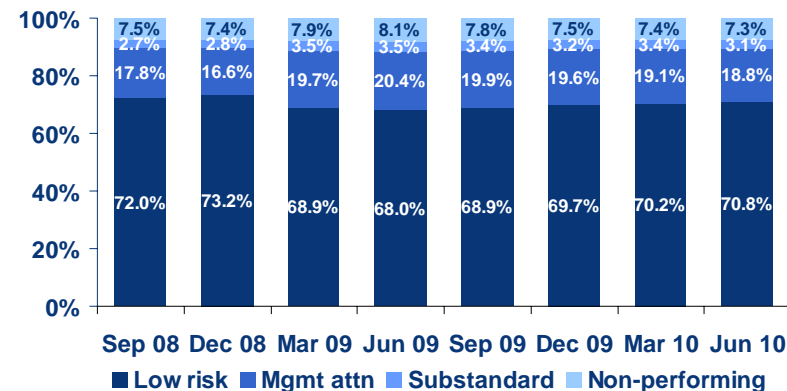
Savings banks: EUR 36.7bn



EB Oesterreich: EUR 26.8bn



Savings banks: customer loan migration since Lehman default



– From an economic point of view Austria is a very promising market

- Despite being very competitive the strategic focus is to raise profitability by increasing the number of clients and having a strong focus on fee business
- We were successful in doing so in the past, expanding the number of customers from 600 thousand in 2005 to 715 thousand now (EB Oesterreich only)
- Innovation will be the key to success in the Austrian banking market

– Continued focus on cost management and revenue generation

- Despite significant success in cost reduction, further cost efficiency measures are necessary and possible – at EBOe as well as savings banks level
- Harmonisation and concentration of operations in EBOe and its subsidiaries as well as in the savings banks will underpin these cost reduction efforts
- Revenue generation will be focused on higher margin fee business (e.g. private old age provision)

– Become the bank of first choice in Austria – together with the savings banks

- Focus is on quality of service rather than quantity, i.e. better exploitation of existing distribution network (1,000+ branches) rather than opening new branches
- Existing branches are well located, ie in the “fastest-growing” regions of Austria