ERSTE GROUP

7th Capital Markets Day –

4 October 2010, Dubrovnik, Croatia

Analysing credit risk –

Stabilisation in 2010; improvements in asset quality expected in 2011

Bernhard Spalt

CRO, Erste Group

Presentation topics

- **Drivers of credit risk**

- **Erste Group's loan book**
  - Structure and medium-term evolution
  - Portfolio performance indicators
  - Illustration of migration dynamics

- **Loan book deep-dive**
  - Analysing the corporate portfolio
  - Analysing the retail portfolio

- **Conclusion**

Drivers of credit risk –
GDP growth, unemployment and FX are key variables

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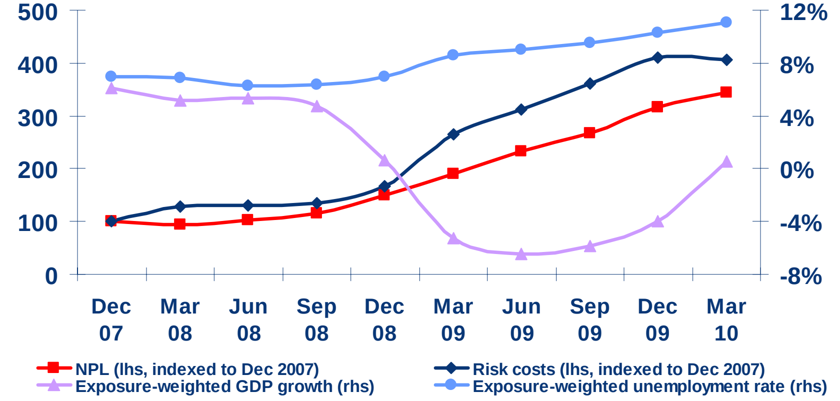
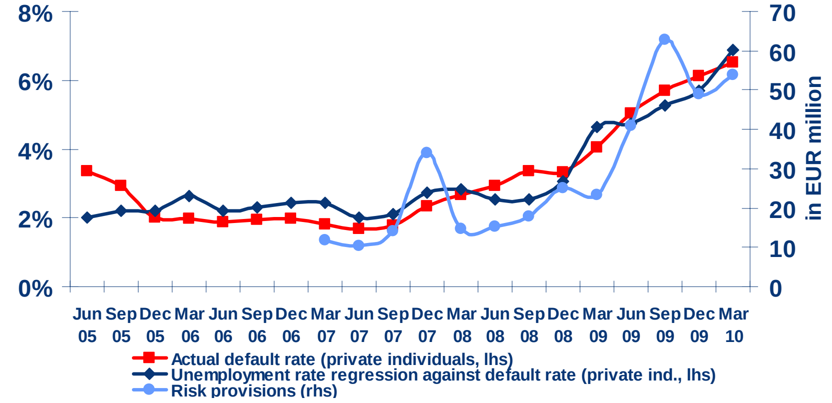
- **Portfolio quality and macroeconomic environment are highly correlated, as expected…**
  - Real growth in GDP
  - Unemployment rate
  - Real wage growth
  - Foreign exchange rate (where applicable)
- **These parameters are used to model the portfolio developments in order to:**
  - Actively steer credit risk
  - Mitigate adverse trends

Correlation between economic and asset quality indicators in Central and Eastern Europe



Example Hungary: Correlation between unemployment rate and default rate



Erste Group's loan book –
Structure & medium term evolution

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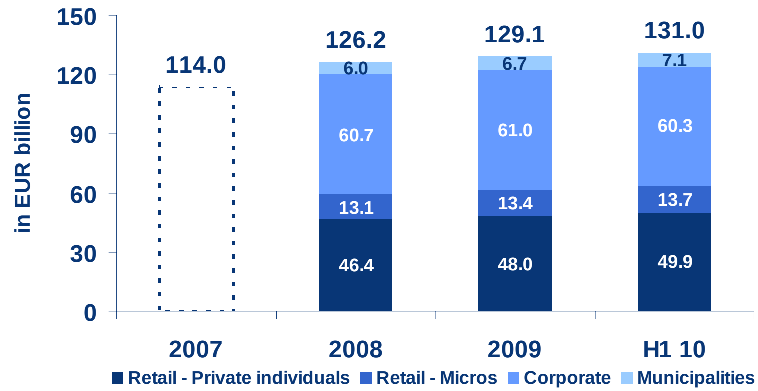
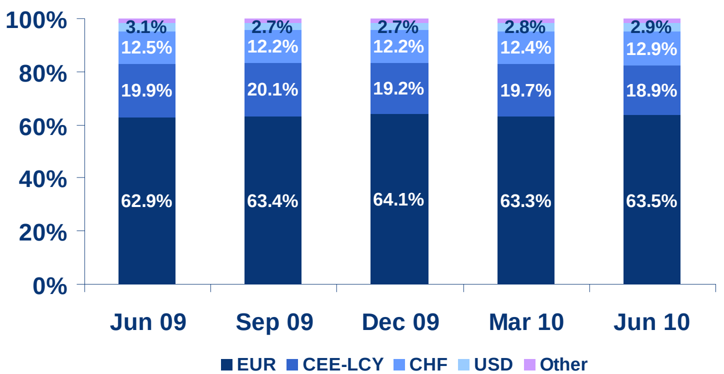
- **Loan growth came to a halt during the course of 2009 and will not reaccelerate before 2011**
  - Lack of growth driven by a deleveraging client base
  - Loan book movements in 2009 and 2010 are mostly explained by FX movements
  - Reacceleration is a function of economic recovery

- **Underlying structure of loan book remained unchanged during the downturn**
  - Private individuals are single most important segment; corporate loans are made up of SME (2/3) and large corporate loans (1/3)
  - Stable Austria, Czech Republic and Slovakia make up roughly 75% of the book

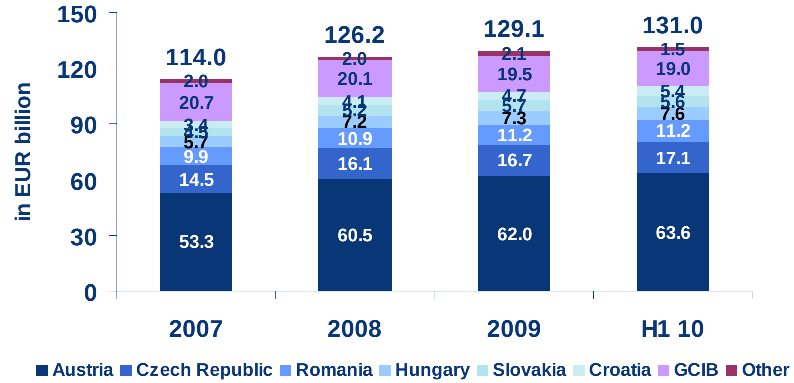
Customer loans by Basel II customer segments



Customer loans by currency



Customer loans by reporting segment



Erste Group’s loan book –
Portfolio performance & migration

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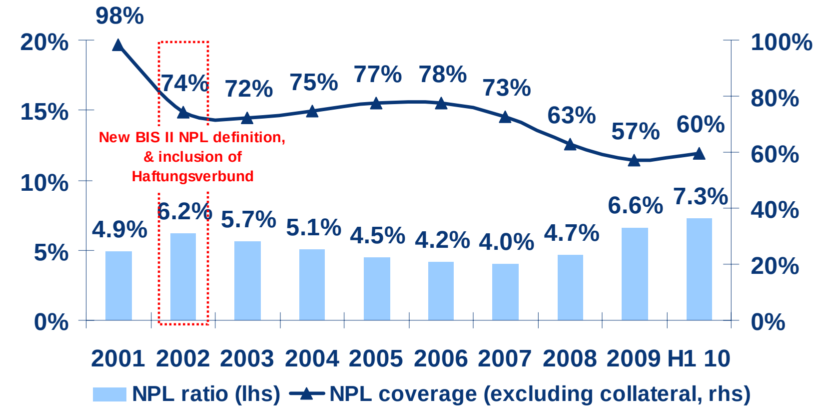
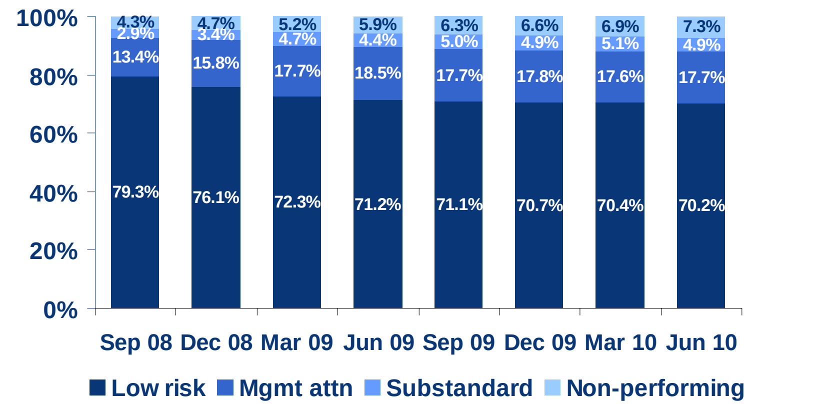
- **NPL ratio will reach multi-year high in 2010 and should level off thereafter**
  - Based on slowly accelerating loan growth in 2011, and careful, but time-consuming workout of NPLs in order to preserve value
  - Declining NPL new formation should support lower P&L risk costs in 2011
- **NPL coverage ratio will rise in 2010**
  - As a result of conservative provisioning in all business segments
- **Downward migration of portfolio has slowed considerably**
  - Low-risk bucket has stabilised at about 70%
  - Mgmt attention and substandard volumes declined slightly over past quarters
  - NPLs still rising due to absence of sales and slow workout

Erste Group: NPL ratio vs NPL coverage *



Customer loan migration since Lehman default

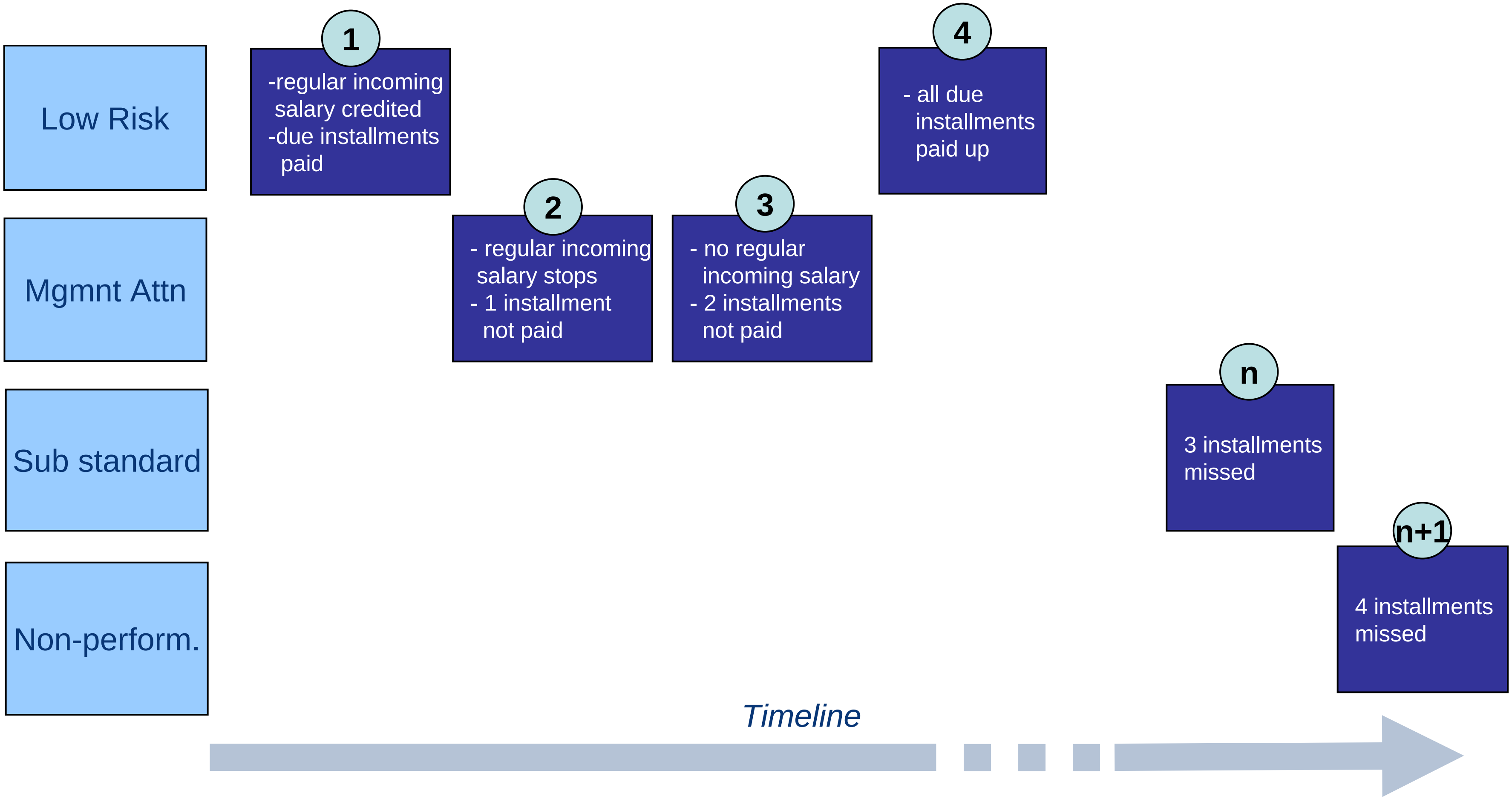


*) NPL ratio and NPL coverage based on customer loans as of 2008, prior to 2008 based on Erste Group estimates.

Erste Group's loan book –
Illustration of migration dynamics

ERSTE GROUP

Scenario: a deposit client with regular salary transfer to his account who receives a loan product and based on 'behaviour' migrates through different rating categories over time as follows:



Presentation topics

- **Drivers of credit risk**

- **Erste Group's loan book**
  - Structure and medium-term evolution
  - Portfolio performance indicators
  - Illustration of migration dynamics

- **Loan book deep-dive**
  - Analysing the corporate portfolio
  - Analysing the retail portfolio

- **Conclusion**

Loan book deep dive: Corporate –
Analysing the corporate portfolio (1/2)

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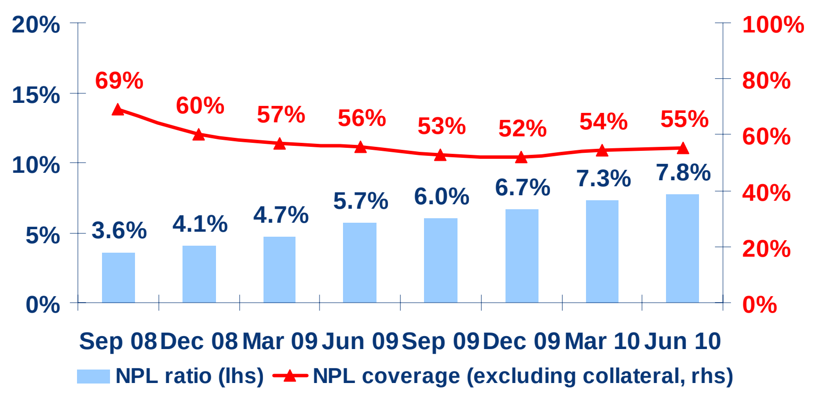
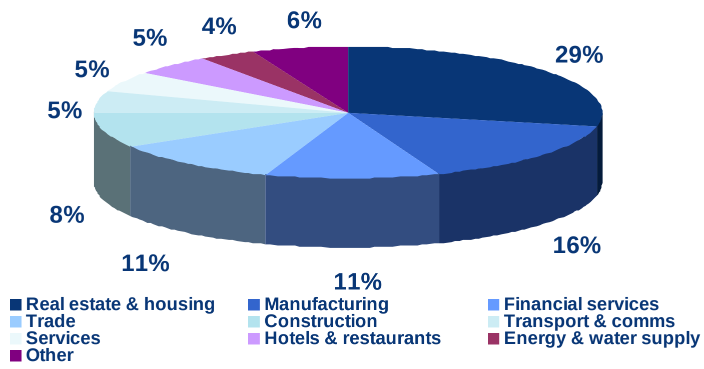
- **Total volume: EUR 60.3 billion as of June 2010**
- **YTD volume growth was negative due to redemptions and lower demand**
- **Well-balanced mix of industries**
  - Commercial real estate portfolio is concentrated in Austria (>50%) and Czech Republic; ¾ of portfolio is income-producing
- **NPL coverage ratio for corporate portfolio continued to improve compared to both H1 2010 as well as Q1 2010 due to conservative risk provisioning**

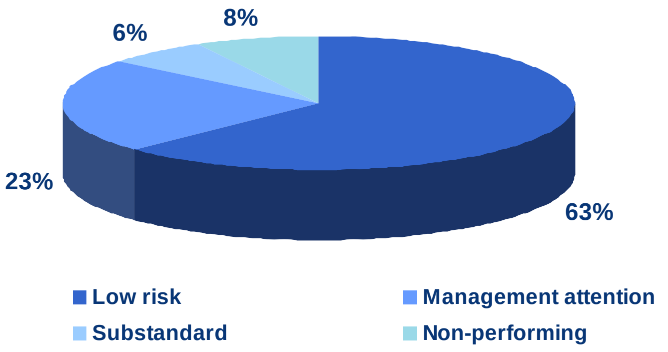
Corporate loans: NPL ratio vs NPL coverage *



Corporate loans by industries
(H1 10: EUR 60.3 billion)



Corporate loans by risk category
(H1 2010: EUR 60.3 billion)



*) Corporate loans, excluding loans to public sector clients.

Loan book deep dive: Corporate –
Analysing the corporate portfolio (2/2)

- **More than three-quarters of portfolio originates from economically stable markets (AT, CZ, SK, other EU)**
- **87% of portfolio is in core markets**
- **Nearly 85% of portfolio in EUR or local CEE currency**

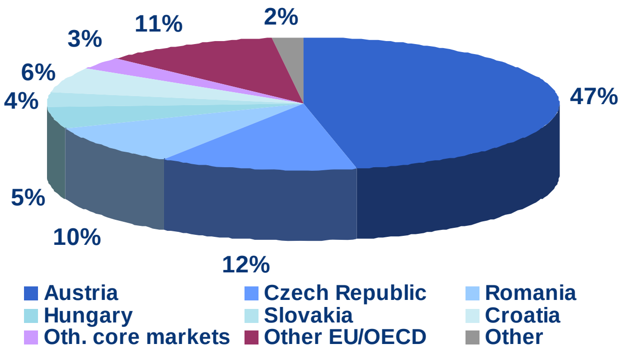
- **Czech Republic: ahead of the recovery curve**
  - Flat loan growth and stabilisation of new NPL formation expected in H2 10, recovery of the economy will lead to rating improvements during 2011
  - Time intensive restructuring process; no re-defaults occurred on restructured loans

- **Slovakia benefits from improving outlook**
  - Robust economy, falling portfolio volume, improving NPL and risk cost situation

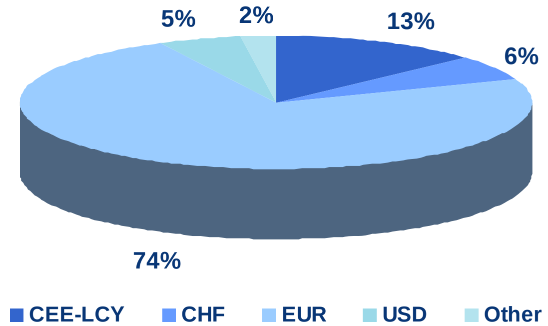
- **Hungary will not improve before 2011**
  - Weak economy and FX-volatility drive asset quality
  - Another difficult year for the corporate segment

- **Romania shows a mixed picture**
  - Large corporates: credit quality stabilisation
  - SME: Hit hard by economic contraction, continuing difficult situation with no improvement in risk costs in the near future

Corporate loans by country of origination
(H1 2010: EUR 60.3 billion)

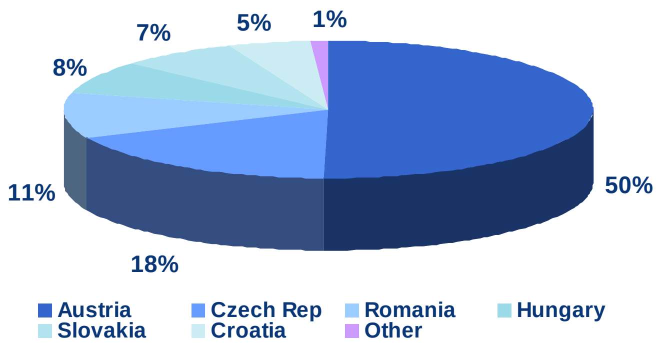


Corporate loans by currency
(H1 2010: EUR 60.3 billion)

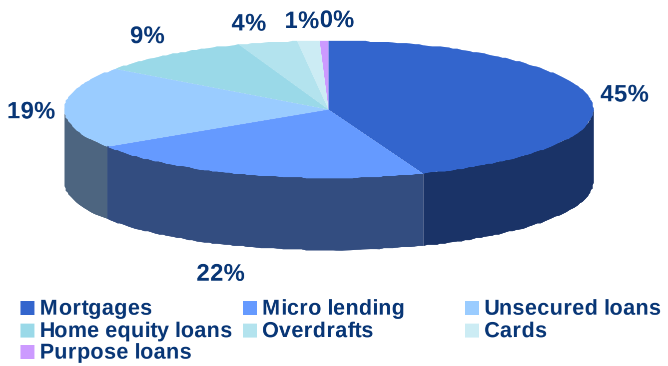


Loan book deep dive: Retail –
Conservative country and product mix

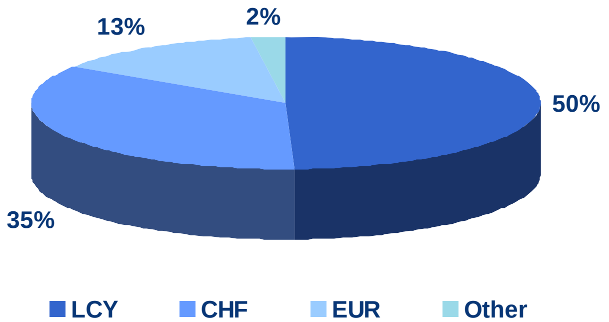
Erste Group: retail loans - country split
(H1 2010: EUR 54.8 billion)



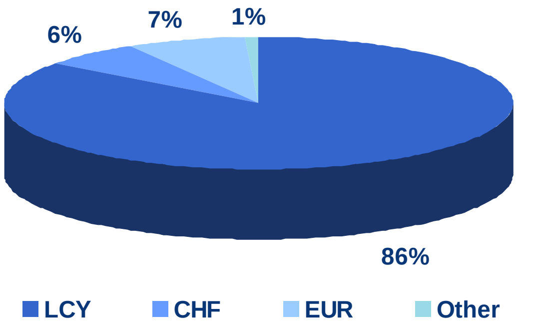
Erste Group: retail loans - product split
(H1 2010: EUR 54.8 billion)



Retail/private individual secured loans - FX split
(H1 2010: EUR 29.4 billion)



Retail/private individual unsecured loans - FX split
(H1 2010: EUR 13.3 billion)



*) Retail loan analysis excludes building society business in Austria and subsidiaries of CEE entities.

Loan book deep dive: Retail –
Portfolio performance and FX exposure

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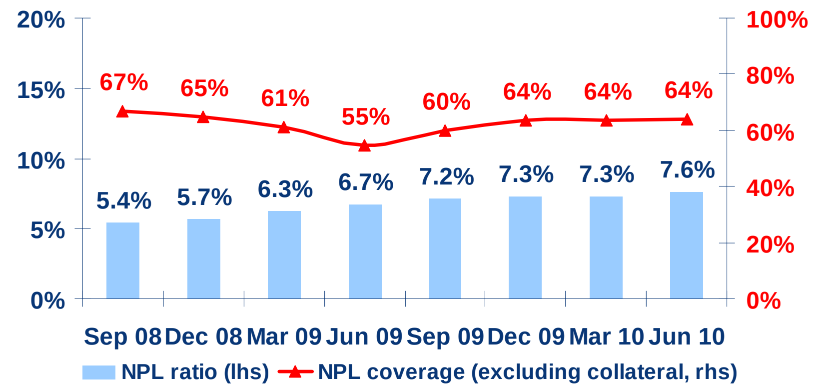
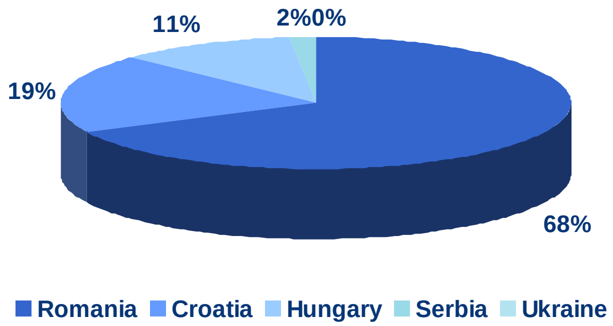
- **NPL ratio has stabilised since Q3 09 while NPL coverage has improved significantly**
- **The main retail loan currency is local currency**
  - CHF-based loans represent 26% of retail loans to private individuals; EUR-based loans make up 11%
  - The largest share of the CHF portfolio is in low risk Austria followed by Hungary and Croatia, while Romania has the largest share in the EUR book

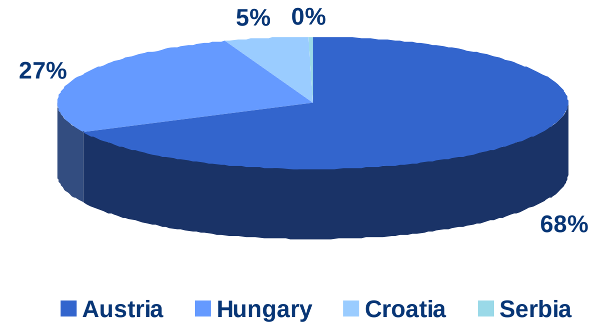
Retail loans: NPL ratio vs NPL coverage



Retail/private individual EUR loans - country split
(H1 2010: EUR 4.9 billion)



Retail/private individual CHF loans - country split
(H1 2010: EUR 11.2 billion)



Loan book deep dive: Retail –
Romania drilldown: status quo & strategic actions

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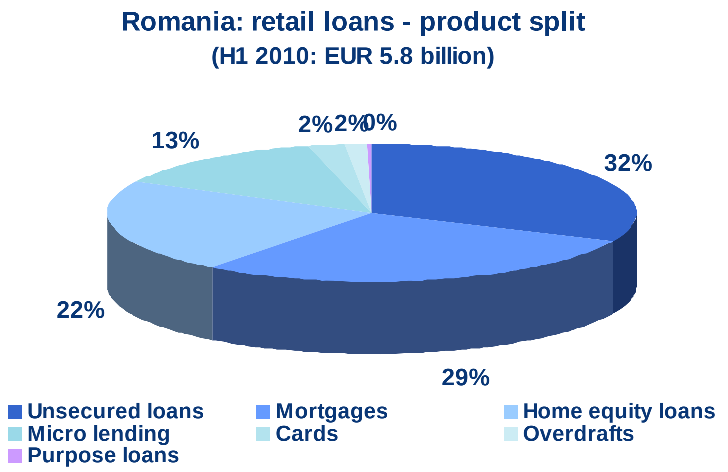
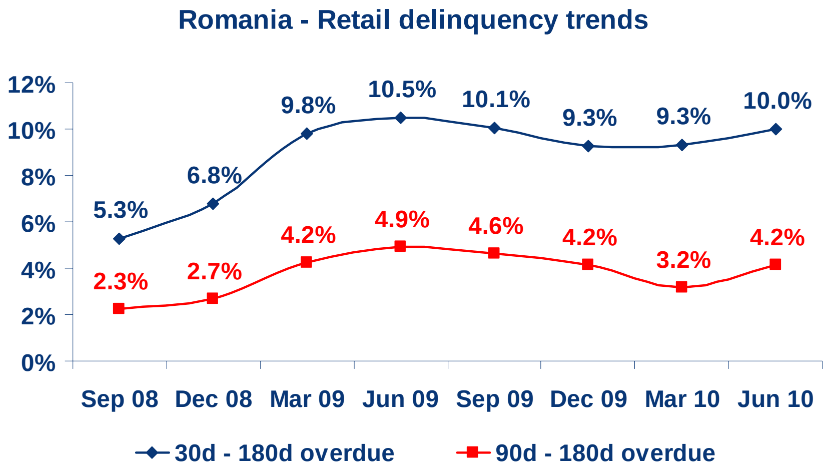
- **State-guaranteed, EUR-based mortgage loans are key growth driver**
  - **Growth update:** total new bookings amount to about EUR 250 million per quarter, lagging slightly behind redemptions; focus is on secured business
  - **Composition update:** Mortgages recorded good growth at the expense of consumer loans resulting in an increased share of secured EUR FX loans (59% of total portfolio)
  - **Foreclosure update:** minimal foreclosures (currently less than 1% of NPL portfolio) as focus is on rescheduling, collections and restructuring in order to build customer loyalty for long-term relationships and preserve value

- **Expanded collection activities and reinforced lending processes**
  - Implementation of state-of-the-art collection system to enhance existing early collection processes
  - Improvement of accuracy and coverage of rating / scoring models e.g. behavioral scoring
  - Application scoring cut-off increased for all products types and channels and changed approval process
  - Smart and tailor-made restructuring agreements even for defaulted customers to maintain payment

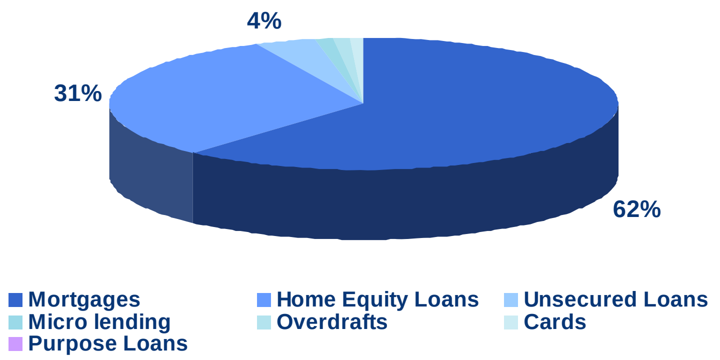




Loan book deep dive: Retail –
Hungary drilldown: status quo & strategic actions

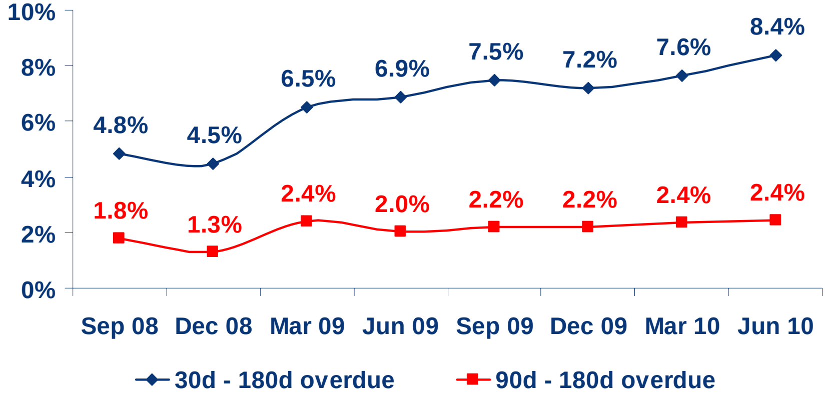
- **Focus on HUF loans amid limited demand**
  - **Growth update:** new bookings amount to about EUR 80 million a quarter, broadly covering redemptions on a currency-adjusted basis
  - New business is almost entirely HUF-based
  - **Composition update:** Despite high share of CHF loans (H1 2010: 71%), the retail book benefits from very high share of secured loans; EUR loans amount to 13% and HUF loans amount to 16% of book
  - **Foreclosure update:** almost no foreclosures due to government-initiated moratorium on seizing owner-occupied residential properties until April 2011

Hungary: retail loans - product split
(H1 2010: EUR 4.2 billion)



- **Enhanced early collection measures, tighter lending standards**
  - Expansion of collection capacities, with particular focus on early collection processes
  - Tighter maximum indebtedness and lower LTV ratios in line with new regulatory requirements
  - Implementation of new rating systems and rating scale in order to further improve decision making

Hungary - Retail delinquency trends



Loan book deep dive: Retail –
Key risk mitigants

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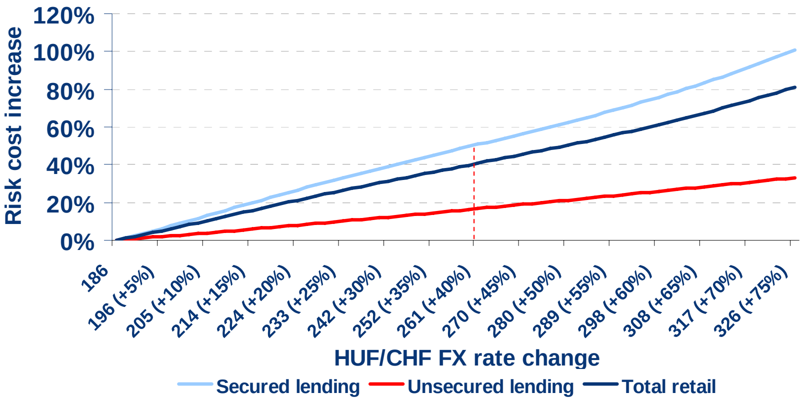
- **Higher volumes in lower risk countries**
- **Growing local currency/euro based portfolio**
- **Increasing share of secured loans**
- **Unsecured loans are dominated by local currency (85%), no CHF exposure in unsecured products**
- **Safe debt service ratios and low LTV ratios**
- **Selective restructuring programmes**
  - Available to customers with reduced repayment ability (vs. anybody)
  - Aimed at providing relief vs. postponing potential performance issues
- **Regular stress-testing of portfolio**
  - The effects of selected macro economic indicators directly affecting customers' repayment ability are regularly simulated

Country	DSR/ Secured *	DSR/ Unsecured *	LTV
Czech Republic	45.3%	23.2%	62.9%
Croatia	30.8%	24.1%	80.0%
Hungary	50.5%	35.5%	56.3%
Romania	51.0%	43.4%	59.0%
Serbia	39.4%	26.4%	70.0%
Slovakia	33.6%	27.8%	56.3%

Example Hungary -
Correlation between CHF and risk costs in 2010 *



*) DSR = Debt service ratio. Figures are portfolio-level averages, calculated on evidenced net income.

Presentation topics

ERSTE GROUP

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Conclusion

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- **Improving economic outlook and declining unemployment rates will translate into improved portfolio quality and risk costs**
- **Corporate segment to recover sooner with retail lagging somewhat behind**
- **However, there are diverging developments within Erste's core markets**
  - Some fragility remains in Romania and Hungary where the impact of the austerity packages and political actions could hamper the recovery process
  - Positive asset quality developments are expected in Austria, the Czech Republic and Slovakia
- **The development of FX and unemployment rates will continue to be important drivers of retail portfolio quality and risk costs**
- **Risk costs in 2010 will be at last year's level, gradual decline in risk costs expected as of Q4 10; further improvements expected in 2011 – in line with economic recovery**

Customer loan split
(H1 2010: EUR 131.0 billion)