ERSTE GROUP

7th Capital Markets Day –

4 October 2010, Dubrovnik, Croatia

Strategy update –

Doing the homework for the next upturn

Andreas Treichl

CEO, Erste Group

Presentation topics

ERSTE GROUP

- **The current business environment**
  - Reading the pulse of the economic recovery
    - Short-term view: recovery on track in most CEE countries
    - Long-term view: CEE is a major beneficiary of globalisation
  - Banking market: 2010 – a year of consolidation, 2011 – the return of growth
  - Regulatory matters – from banking tax to Basel III

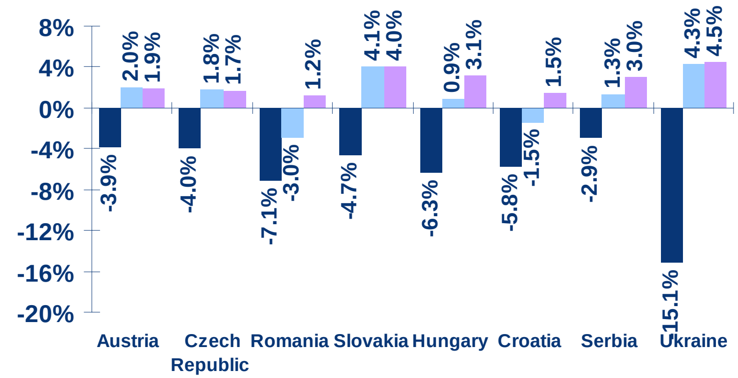
- **Erste Group‘s business**
  - Regional strategy: focusing on our strengths
  - Business strategy: doing the homework for the next upturn
  - Capital strategy: comfortable capitalisation, no equity issuance
  - Liquidity strategy: compliance with Basel III ratios will not be an issue

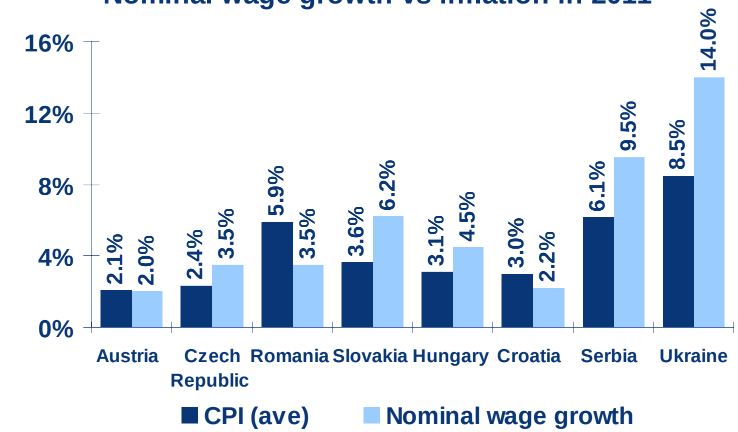
- **Conclusion**

Business environment: Economy –
Short-term: Recovery on track in most of CEE

ERSTE GROUP

- **Economic recovery is under way and growth is set to return to all CEE countries in 2011**
  - Currently growth is mainly driven by exports but in 2011 domestic demand will increasingly become a growth driver
  - Romania: negative short-term effects from VAT increase and cuts in public sector pay but return to growth in 2011
  - Croatia: similar growth scenario as in Romania but benefits from exposure to tourism
  - Marked acceleration in growth expected for Hungary and Serbia in 2011
  - Stable development in the Czech Republic & Austria while Slovakia will continue to outperform
- **2010: Significant improvement in industrial output thanks to rising exports**
  - Main driver behind recovery
  - Unit labour costs declined in CEE as productivity increased
- **2011: Real wage growth to support domestic demand in most CEE countries**



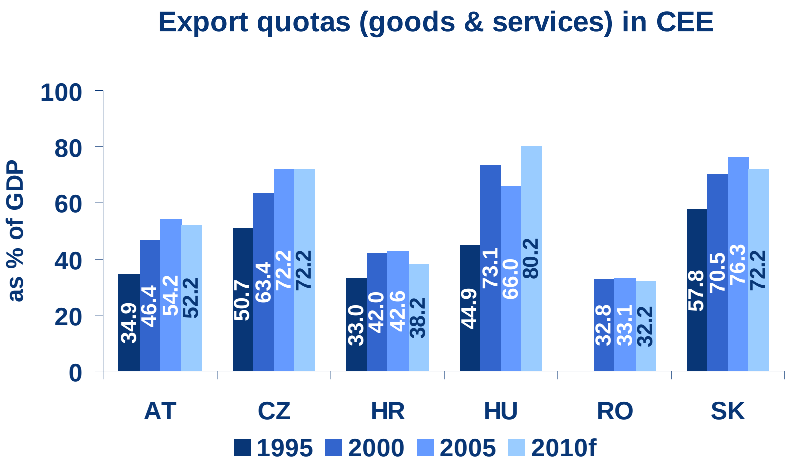


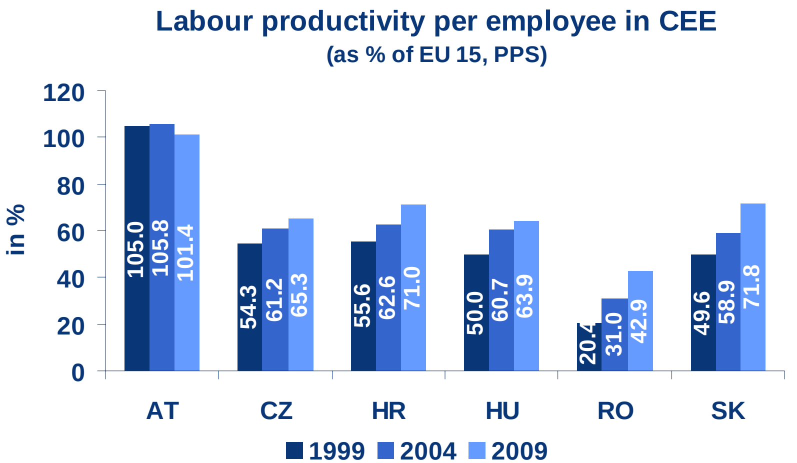
Source: Erste Group Research

Business environment: Economy –
Long-term: CEE has taken advantage of globalisation

ERSTE GROUP

- **Significant rise in trade volumes in most CEE economies over the past 15 years**
  - Continuous improvements in competitiveness compared to EU 15
  - Supported by ideal location next to one of the biggest consumer markets
  - Fuelled by fast-growing domestic economies
- **Improved labour productivity as a result of fostering private enterprise**
  - Politics created environment conducive to investments: favourable tax regime, improved infrastructure and educated workforce
  - Ensuing strong inflows of FDIs enabled renewal of industrial base, the creation of employment and the spreading of wealth
- **These trends are set to continue as CEE converges to EU levels of productivity**

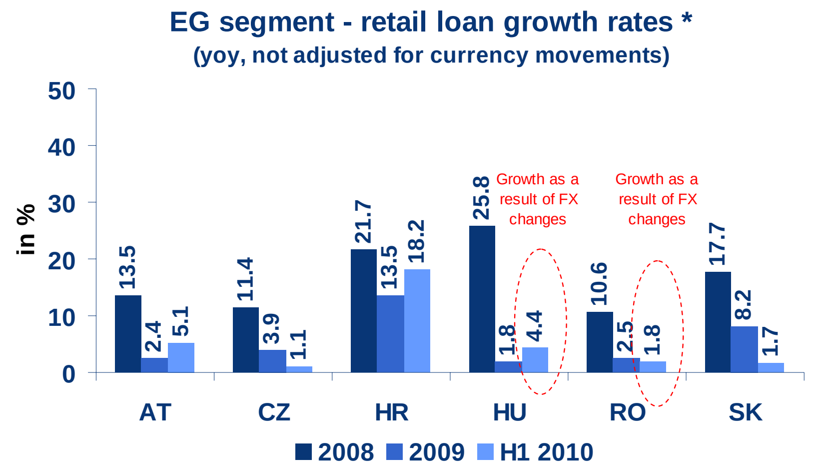


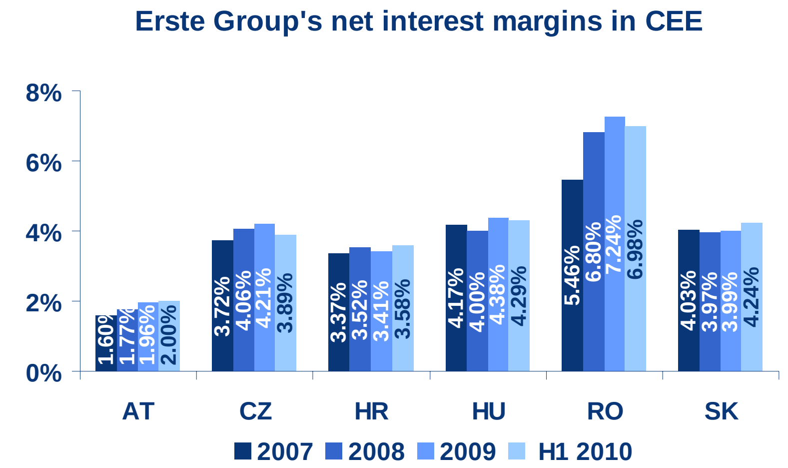


Source: Eurostat

Business environment: Banking market –
2011: the return of moderate volume growth

- **CEE lending: the crisis is behind us but growth will not arrive before 2011**
  - 2010 will be a lost year in terms of growth, but valuable in terms of consolidation and digesting the effects of the downturn
  - 2011: the return of volume growth, depending on the market, in the mid- to high single digits
- **With margins at highs there is scope for increased competition in CEE**
  - Retail business: focus is on existing clients with known credit histories and on secured business; higher share of LCY business
  - Corporate business: demand is rising across the region but competition for better rated assets leads to rise in unsecured lending and to relaxation of lending standards
- **Continued strong deposit market**





*) Based on Retail & SME segment data.

Business environment: Regulatory matters – From banking tax to Basel III

ERSTE GROUP

- **Banking tax update: from discussion to real taxes**
  - Hungary: implemented banking tax for 2010 and 2011
    - Pre-tax impact on Erste Group: about EUR 48m; post-tax: about EUR 37m per annum
  - Austria: continued discussion but introduction of tax is almost certain for 2011
    - Total volume for Austria: EUR 500m; potential impact on Erste Group: up to EUR 100m pre-tax
    - EU-wide: at the deliberation stage

- **Basel III: September announcement brought clarification on timeline**
  - Tougher capital standards confirmed based on stricter definition of capital/RWAs
    - New minimum core tier 1 ratio/tier 1 ratio as of 2013, fully implemented as of 2015
    - Implementation of capital conservation buffer by 2019, starting in 2016
    - Counter-cyclical buffer + systemic importance surcharge yet to be determined
    - Final calculation of minority capital overspills yet to be determined
  - Leverage ratio: to be in force as of 2018, prior to that parallel run
  - Liquidity coverage: introduction of minimum standard as of 2015
  - Net stable funding ratio: introduction of minimum standard as of 2018
  - Overall, Erste Group welcomes the reinforcement of regulatory regime

Presentation topics

- **The current business environment**
  - Reading the pulse of the economic recovery
    - Short-term view: recovery on track in most CEE countries
    - Long-term view: CEE is a major beneficiary of globalisation
  - Banking market: 2010 – a year of consolidation, 2011 – the return of growth
  - Regulatory matters – from banking tax to Basel III

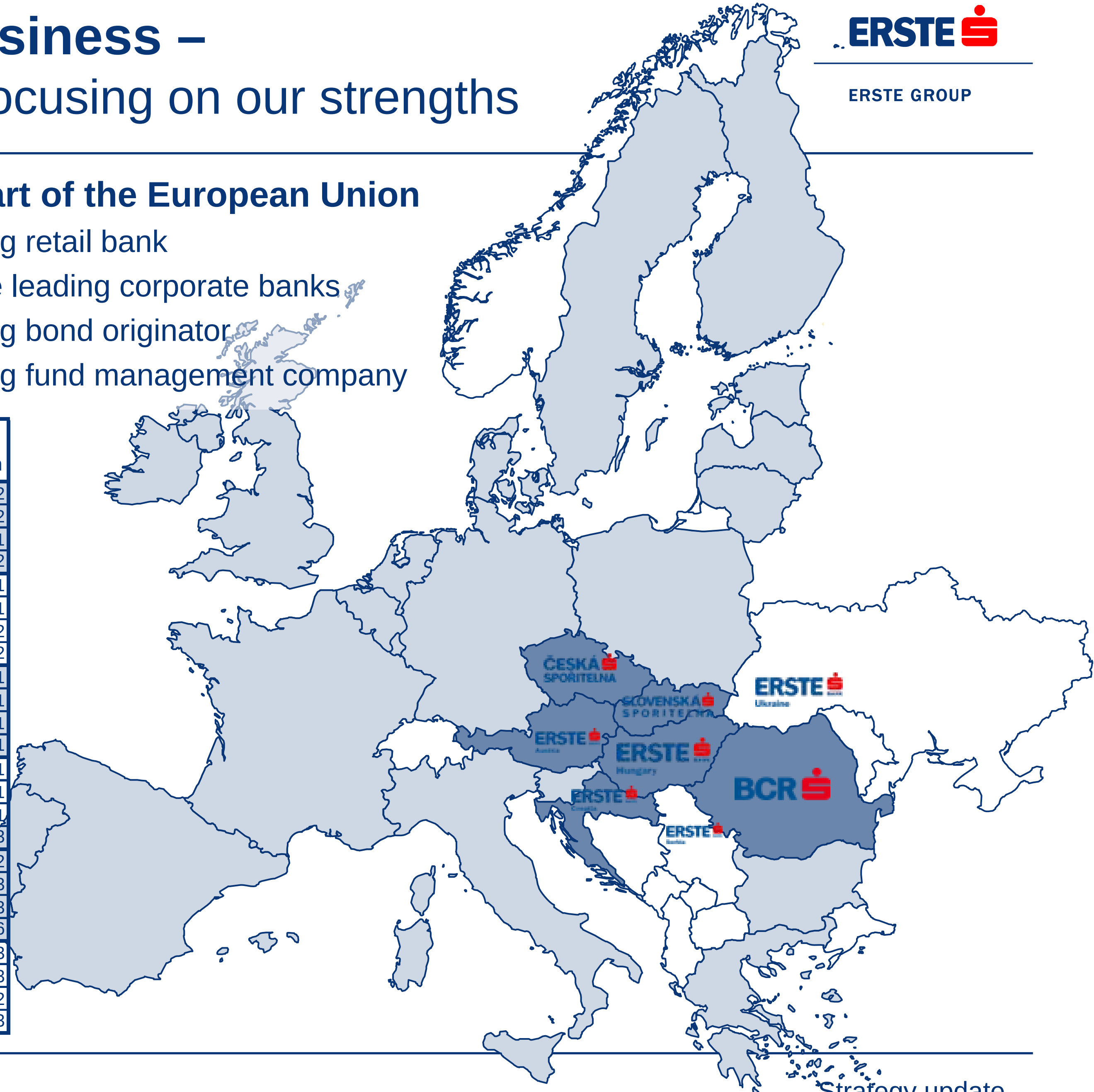
- **Erste Group‘s business**
  - Regional strategy: focusing on our strengths
  - Business strategy: doing the homework for the next upturn
  - Capital strategy: comfortable capitalisation, no equity issuance
  - Liquidity strategy: compliance with Basel III ratios will not be an issue

- **Conclusion**

Erste Group's business –
Regional strategy: focusing on our strengths

- **Focus on the eastern part of the European Union**
  - Erste Group is the leading retail bank
  - Erste Group is one of the leading corporate banks
  - Erste Group is the leading bond originator
  - Erste Group is the leading fund management company

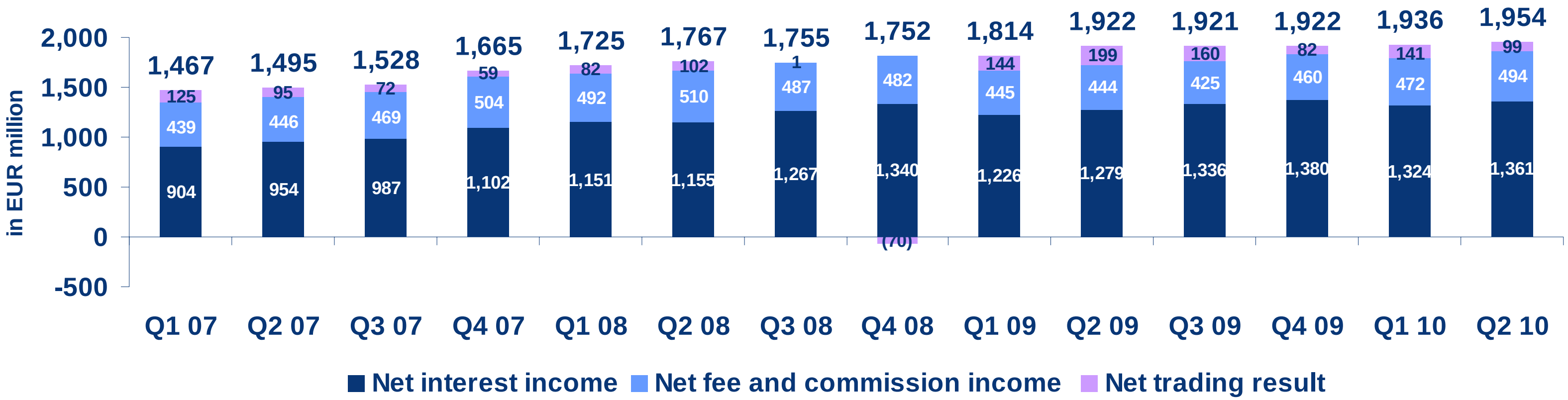
Country	Product category	Market share	Market position
Austria	Retail loans	19%	2
	Retail deposits	19%	2
	Assets under mgmt	22%	1
	Corporate loans	17%	2
Czech Republic	Retail loans	27%	1
	Retail deposits	29%	1
	Assets under mgmt	26%	2
	Corporate loans	23%	2
Romania	Retail loans	20%	1
	Retail deposits	23%	1
	Assets under mgmt	46%	1
	Corporate loans	24%	1
Slovakia	Retail loans	27%	1
	Retail deposits	28%	1
	Assets under mgmt	22%	1
	Corporate loans	14%	3
Hungary	Retail loans	14%	2
	Retail deposits	8%	3
	Assets under mgmt	11%	3
	Corporate loans	9%	6
Croatia	Retail loans	13%	3
	Retail deposits	13%	3
	Assets under mgmt	21%	2
	Corporate loans	15%	3



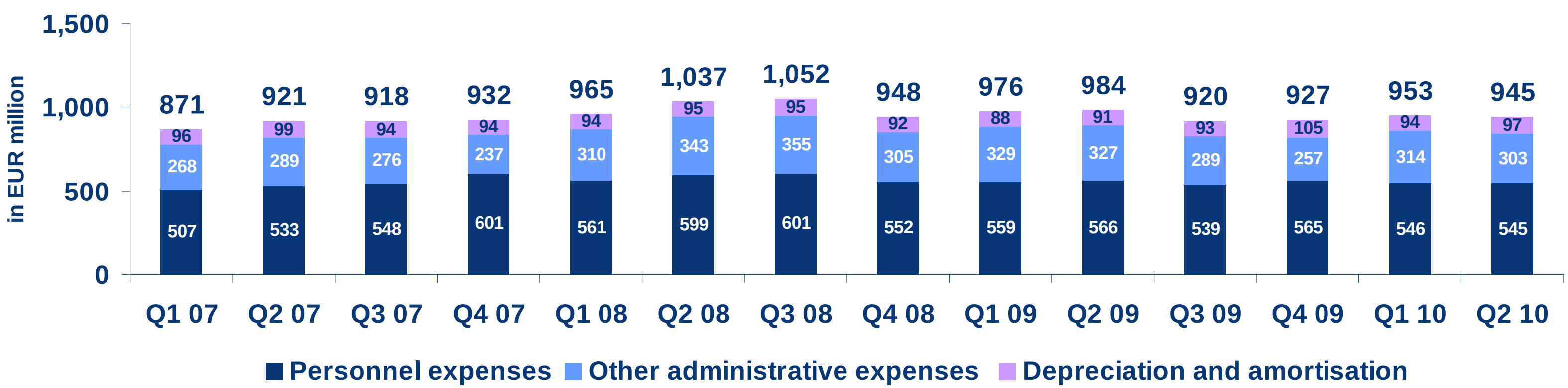
Erste Group's business –
Preparing for the upturn: income up, costs down

ERSTE GROUP

Erste Group's operating income history

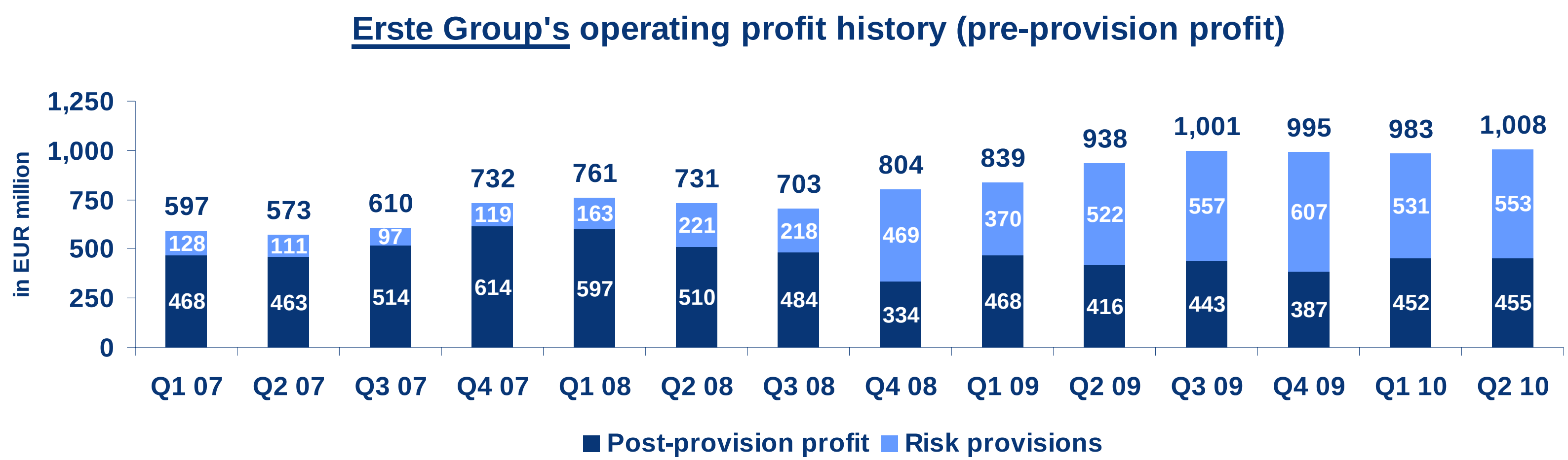


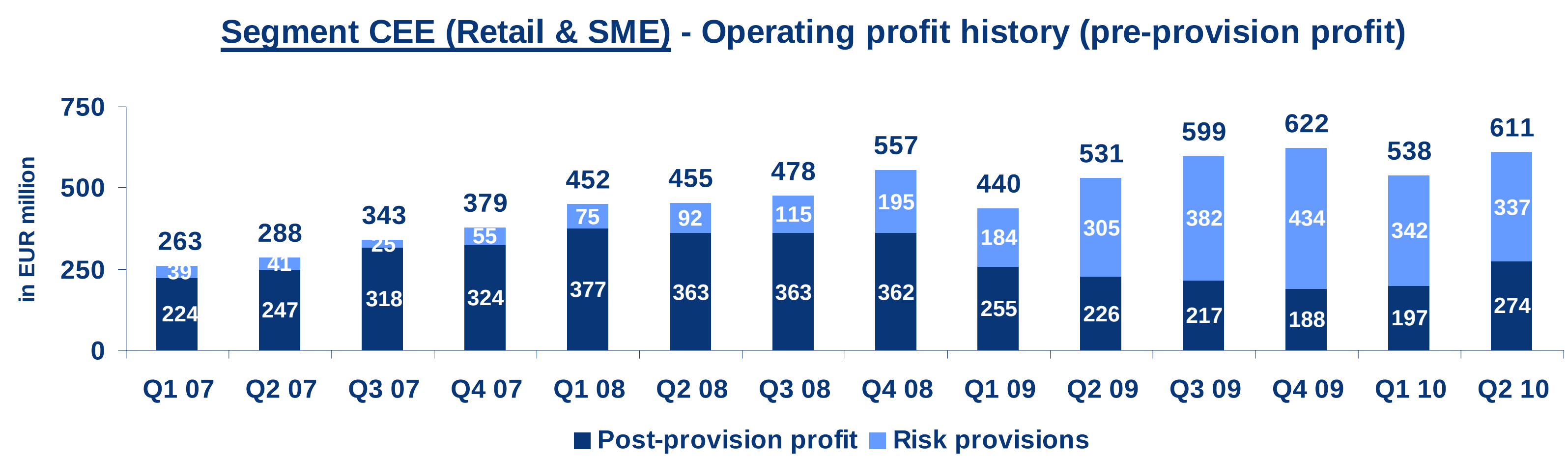
Erste Group's operating expense history



Erste Group's business –
Preparing for the upturn: record pre-provision profitability

ERSTE GROUP



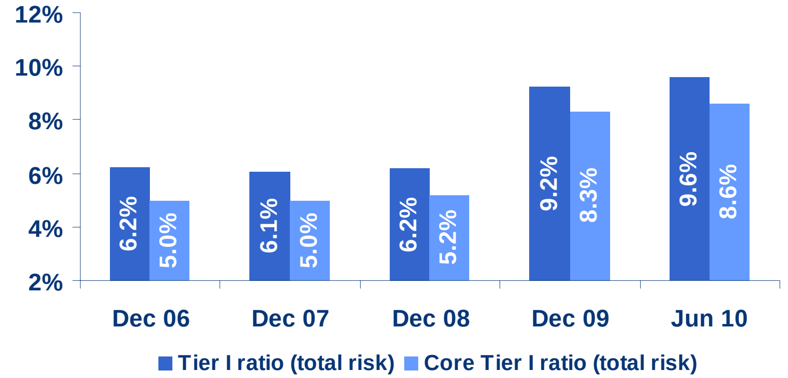


Erste Group's business: Capital strategy –
Erste Group is already very well capitalised

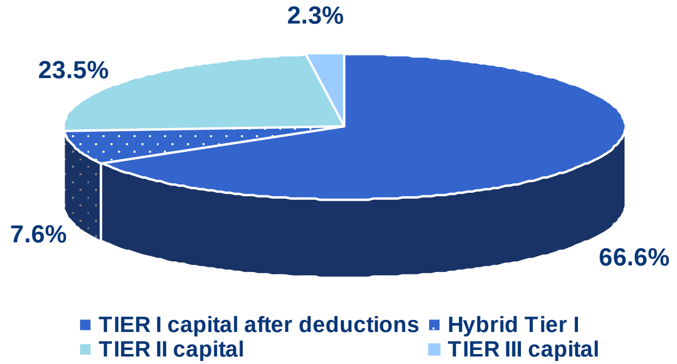
ERSTE GROUP

- **Erste Group is well capitalised and will add to its capital strength through retained earnings**
  - Even after exclusion of state/private participation capital and hybrid capital
- **Tier 1 capital* benefits from high share of core tier 1 capital**
  - 75% common equity
  - 14% participation capital
  - 11% hybrid tier 1 capital
- **RWA composition is also favourable**
  - High share of credit risk, low share of market risk

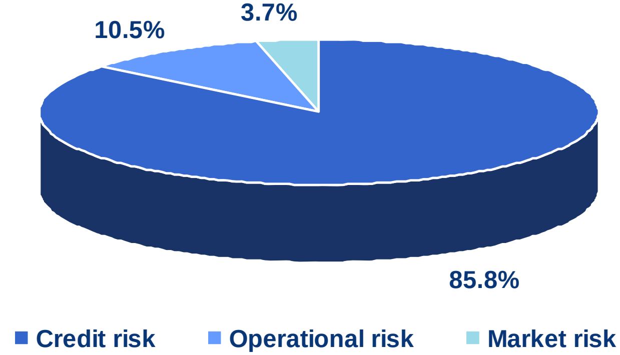
Key capital ratios



Capital/numerator: own funds composition
(Own funds @ 30 June 2010: EUR 15.8 bn)



Capital/denominator: RWA composition
(Total risk @ 30 June 2010: EUR 122.3 bn)



*) Regulatory capital accoring to Austrian Banking Act

Erste Group's business: Capital strategy –
Basel III: RWAs are closely linked to business model

ERSTE GROUP

Balance sheet structure per H1 2010

Erste Group's business: Capital strategy –
Basel III – capital impact analysis

ERSTE GROUP

- **Pro-forma analysis at H1 2010 based on requirements for 2019**
  - 4.5% common equity capital ratio and 2.5% capital conservation buffer effective 2019
  - Minority deduction of EUR 450 million calculated on 4.5% common equity T1 ratio
    - Based on minorities other than the savings banks (BCR and smaller participations)
    - Solution for savings banks minorities of EUR 1.7 billion (overspill) will be found: exemption or other form of cooperation
  - Full repayment of government participation capital
  - Full deduction of hybrid capital and full inclusion of RWA effects
  - Full inclusion of capital deductions and of H1 2010 net profit

Common equity capital (Mitigated Basel III impact)

	in EUR bn
Tier I Capital after deductions	11.7
Government participation capital	-1.2
Hybrid capital	-1.2
Minorities	-0.5
Basel III deductions (net) and H1 2010 net profit	0.3
Basel III Tier I capital	**9.1**

Risk-weighted assets (Minor impact from Basel III)

	in EUR bn
Total RWA at 30 June 2010	122.3
Basel III impact on RWA (market risk, counterparty risk, etc.)	7.9
Total RWA post Basel III	**130.2**

= 7.0% ✓

➔ **Only applicable as of 2013!**

- **Erste Group already meets the 2019 target for the common equity tier 1 ratio**
- **Erste Group does not need or intend to issue equity**

Erste Group's business: Capital strategy –
Participation capital strategy

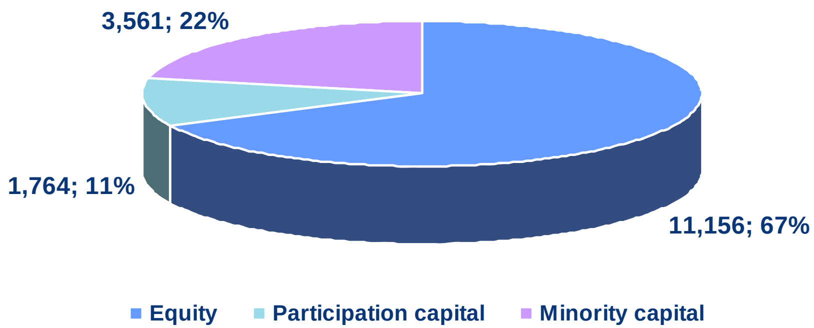
ERSTE GROUP

− Features of participation capital:

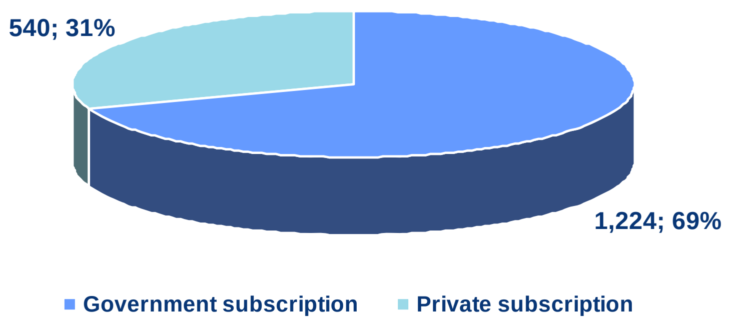
- − Step-up in interest rate from 2014 followed by additional step-ups in subsequent years
- − Step-up in capital repayment obligation from 2019 to 150%
- − Dividend amounts to 8% after tax
- − Government portion to be grandfathered as common equity under Basel III until 1 January 2018, private portion until 1 January 2013

− No intention to raise equity in order to repay participation capital

Total equity (IFRS) composition
(30 June 2010: EUR 16.5 bn)



Participation capital investors
(30 June 2010: EUR 1.76 bn)

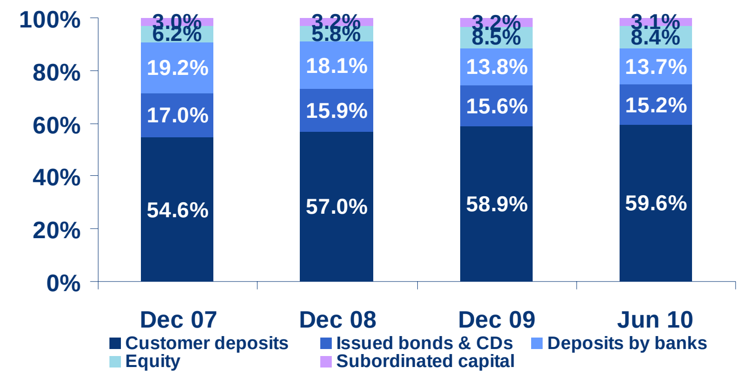


Erste Group's business: Liquidity strategy –
Funding will remain key differentiator going forward

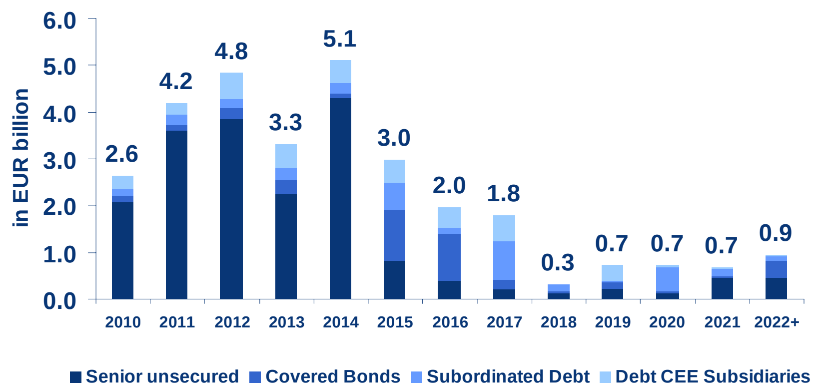
ERSTE GROUP

- **Erste Group is in a comfortable position regarding liquidity according to BIS III**
- **Substantial uncertainties regarding ratio calculation remain, including:**
  - Treatment of covered bonds
  - Definition of stable client relationship
  - Definition of operational client relationship
  - Assumptions on client loan rollovers
  - Definition of committed credit/liquidity facility
  - Drawdown factors on contingent liabilities (guarantees, letters of credit, etc.)
- **Pro-forma calculation of key ratios – timely compliance with Basel III ratios will not be an issue**
  - **LCR** (to be applied as of 2015): 66% pro-forma H1 10
  - **NSFR** (to be applied as of 2018): 91% pro-forma H1 10

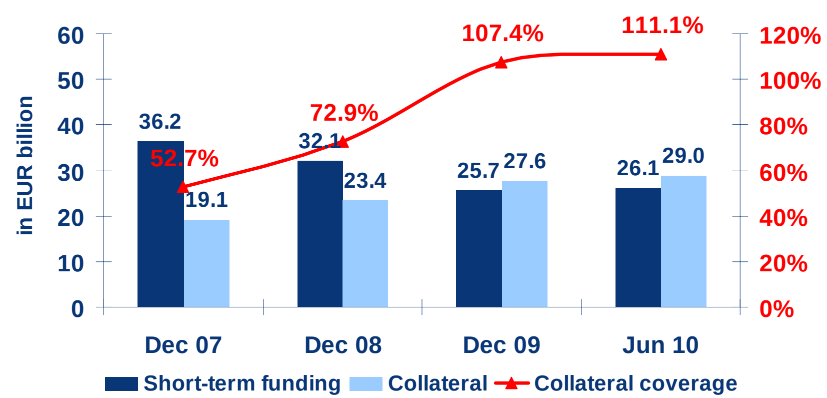
Evolution of Erste Group's funding mix



Redemption profile of Erste Group (H1 2010)



Short-term funding vs collateral coverage



Presentation topics

ERSTE GROUP

- **The current business environment**
  - Reading the pulse of the economic recovery
    - Short-term view: recovery on track in most CEE countries
    - Long-term view: CEE is a major beneficiary of globalisation
  - Banking market: 2010 – a year of consolidation, 2011 – the return of growth
  - Regulatory matters – from banking tax to Basel III

- **Erste Group‘s business**
  - Regional strategy: focusing on our strengths
  - Business strategy: doing the homework for the next upturn
  - Capital strategy: comfortable capitalisation, no equity issuance
  - Liquidity strategy: compliance with Basel III ratios will not be an issue

- **Conclusion**

Conclusion –
Outlook

ERSTE GROUP

- **Economies will continue to recover in 2011**
  - Austria, Czech Republic and Slovakia to lead the way based on rising domestic demand, following export-led growth in 2010
- **Strong operating performance to continue in H2 2010**
  - Outlook for 2011 operating performance is supported by continued revenue growth in Erste Group's core business
    - Based on expectation for mid-single digit loan growth at group level, resilient margins in core business and rising fee income
    - Based on continued strict cost management
- **Credit risk: improvements ahead**
  - H2 2010 will see lower risk costs than H1 2010
  - 2011: continued declining risk cost trend based on economic recovery
- **Participation capital to be repaid with no need to raise equity**
  - Ability to generate retained earnings remains strong
  - Common equity ratio in accordance with Basel III comfortably above 7%