ERSTE GROUP

Erste Group – 8th Capital Markets Day

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Capital planning in a volatile regulatory environment

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Presentation topics

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- **Regulatory realities at the end of 2011**
  - European Banking Authority capital requirements
  - OeNB/FMA requirements (sustainable business model)
  - Basel III requirements
  - Related topics

- **Compliance with EBA rules**
  - Adapted budgeting guidelines
  - Cost control measures
  - Other measures

- **Compliance with OeNB/FMA rules**

- **Conclusion**

Regulatory realities at the end of 2011 –
EBA capital requirement: 9% CET1 by 30 June 2012

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- **The European Banking Authority (EBA) has set new capital rules in October 2011**
  - Not in line with Basel III that will be adopted by the legislative in 2012 (CRD IV) in terms of capital definition and requirements

- **Summary of the new EBA rules**
  - Point-in time approach
  - Transition to Basel III unclear
  - State participation capital is eligible
  - Private participation capital is not eligible
  - No definition of own funds ratio
  - Savings banks minorities included

- **In order to reach the new short-term benchmark, banks will be forced…**
  - …to dispose of risk-weighted assets and…
  - …improve profitability…
  - …and/or raise capital

- **Erste Group's shortfall was confirmed at EUR 743 million**
  - Based on inclusion of 1-9 2011 financial figures

Regulatory realities at the end of 2011 –

Basel III capital requirement: 4.5% CET1 by 1 Jan 2015

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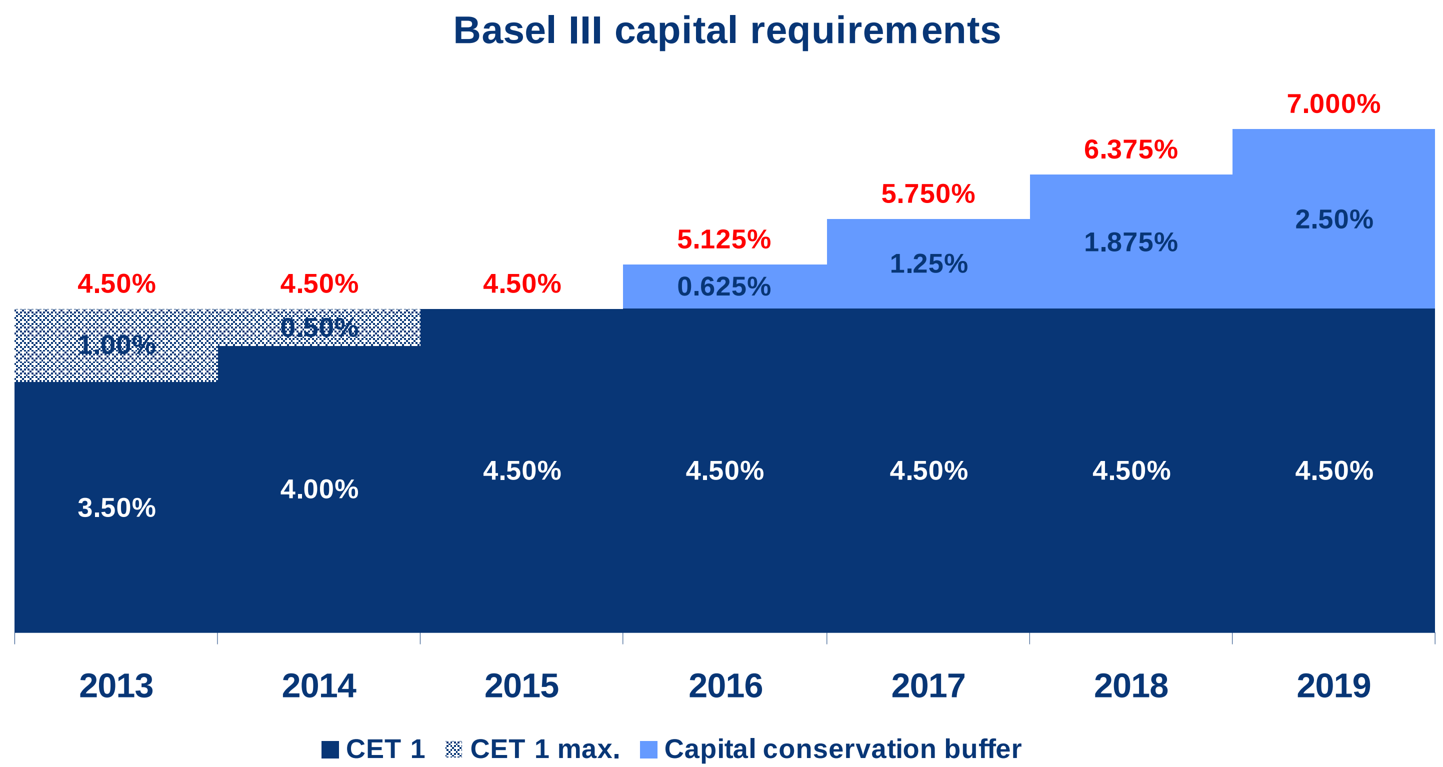
- Effective from 2013 with phasing-in mechanisms to 2019
- State participation capital is eligible (grandfathered until 2018)
- Private participation capital to be phased out from 2013 to 2022
- Countercyclical CET1 buffer of up to 2.5% phased in from 2016, Erste Group is no G-SIFI



Regulatory realities at the end of 2011 –
OeNB/FMA capital requirement: 7% CET1 by 1 Jan 13

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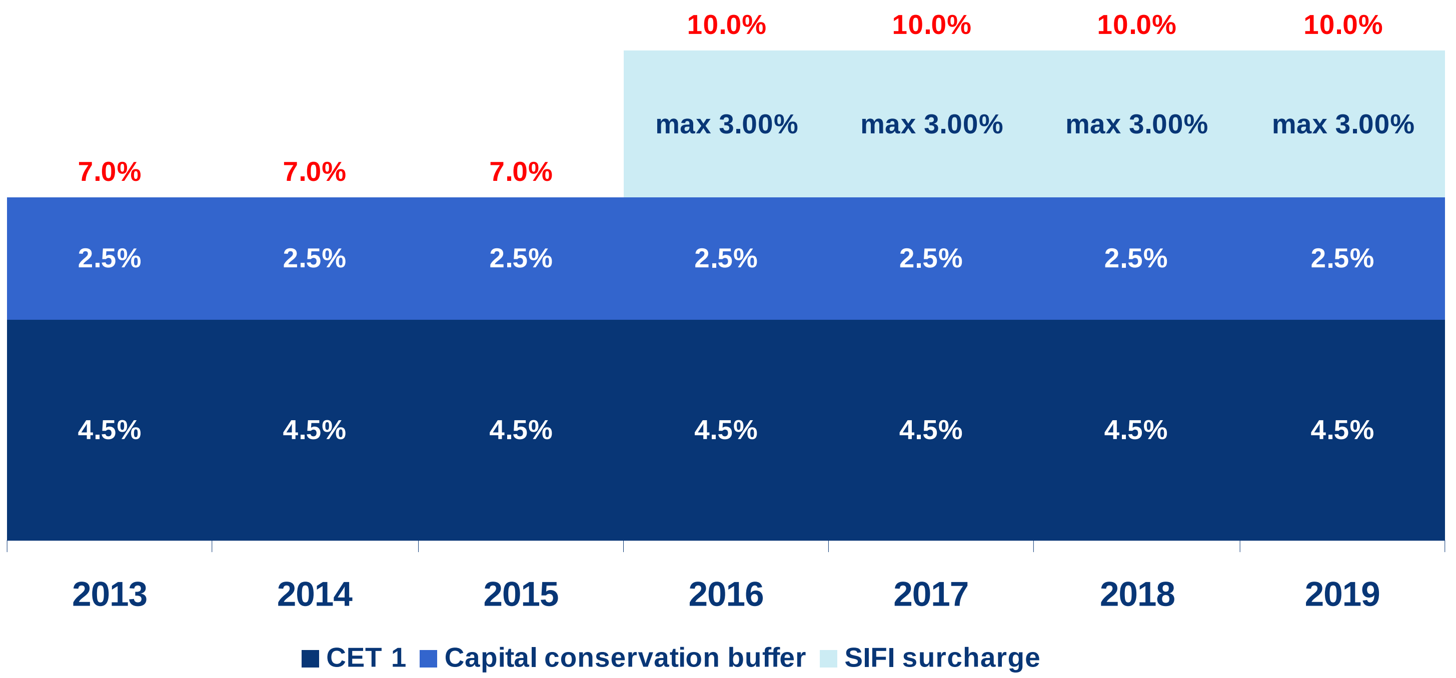
- **Fully-loaded Basel III (capital) is valid from 2013 with no phasing-in arrangements**
- **State and private participation capital is eligible (grandfathered until 2018)**
- **Treatment of countercyclical buffer unclear, no definition of own funds ratio**
- **CEE SIFI surcharge of up to 3% from 2016 (“Closer to 2% than to 3%”)**
- **Acceleration of minority capital deduction**
- **Countercyclical CET1 buffer of up to 2.5% phased, to be phased in from 2016**

OeNB capital requirements (Basel III Austrian finish)



Regulatory realities at the end of 2011 –
Related topics

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- **Treatment of minorities**
  - Capital surplus exceeding regulatory minimum from minorities has to be deducted from core tier 1 capital under Basel III
  - Under Basel III savings banks of the cross-guarantee system (Haftungsverbund) might fall under this rule (in contrast to Basel II)
  - However, any deduction would be phased in from 2014 to 2018 (20% per year)
  - Final decision expected before June 2012

- **OeNB sustainable business model rules**
  - 110% loan/stable funding ratio cap for new business in countries were loan/stable funding ratio (based on existing stock) exceeds 110%
  - Broad definition of stable funding
    - Customer deposits
    - Local capital markets issuance in excess of 1 year (long-term issuance)
    - Funding from supranational organisations, if organisation takes counterparty risk
  - Main goal: reduce dependence on parent company funding and thus limit potential negative spill-over effects on the Austrian economy
  - Fostering the application of sustainable business models

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Compliance with EBA rules–
Sharper budgeting guidelines

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- **Clear definition of core region**
  - Markets in which Erste Group has a full banking operation and Top 3 market positions

- **Clear definition of core customers**
  - Retail and corporate customers who have their principal banking relationship with Erste Group
  - Customer relationships are built on transactional business via current accounts

- **Clear definition of core businesses**
  - Retail banking: retail is the biggest contributor to profitability and the biggest funding provider
  - Local corporate, SME and large corporate business
    - Focus on principal banking relationships, on systematic involvement in import/export streams in our markets
    - Real estate business focuses on infrastructure development esp. supporting the flow of EU funds
    - Overall business size is depends on local funding capacity including surplus retail funding
  - Capital markets and investment banking business
    - Support all other businesses in relation to treasury products including enabling functions, eg market making
    - Same size limitations as in corporate business in terms of liquidity and capital, Basel III implications
    - DCM, ECM focus As a major part of our business with corporate customers
  - No opportunistic business: any sovereign or banking portfolios are held for liquidity and balance sheet management reasons only

- **Higher cost of capital; will lead to asset repricing**

Compliance with EBA rules –
Retained earnings + RWA reductions to close EBA gap

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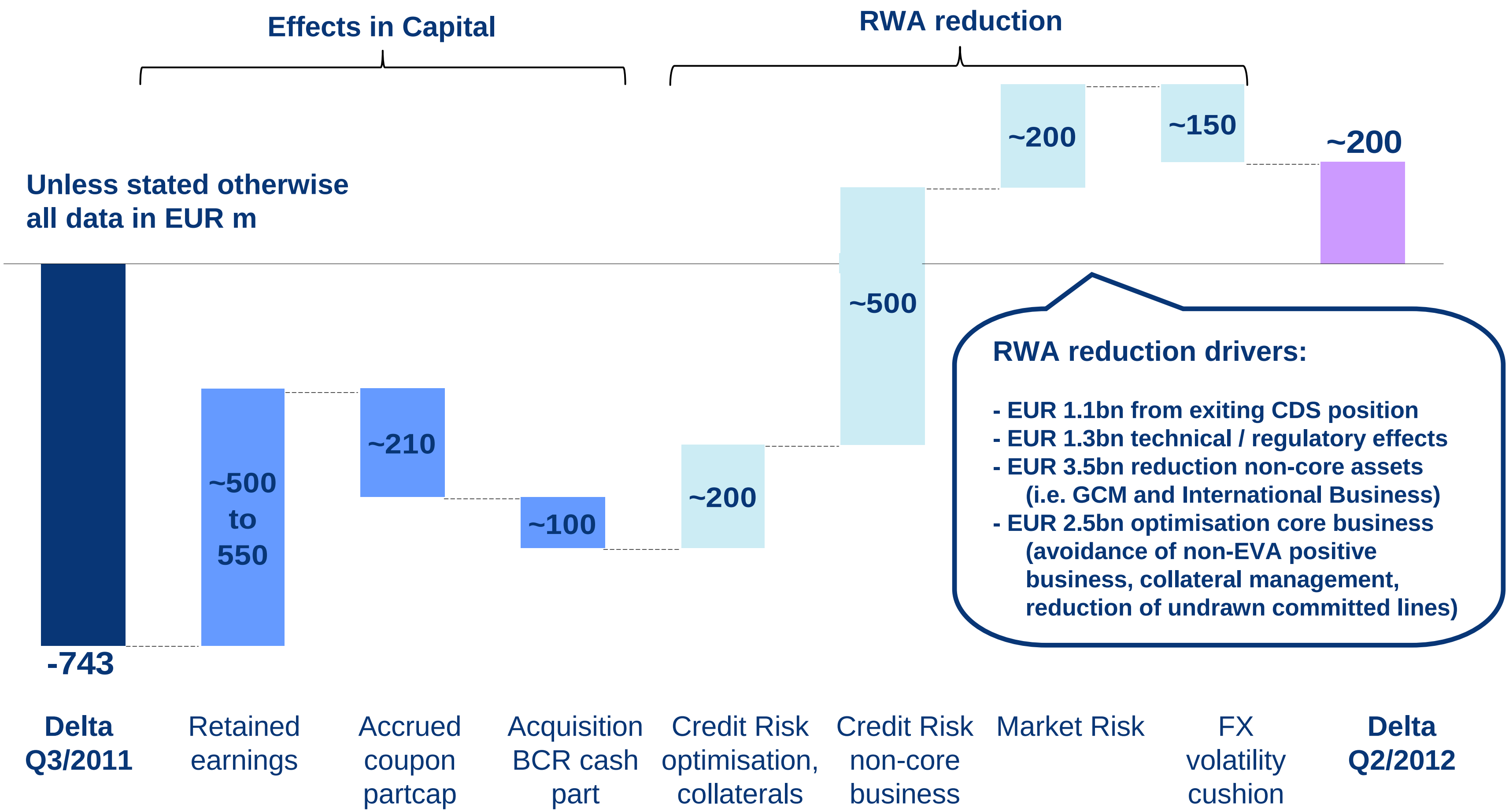
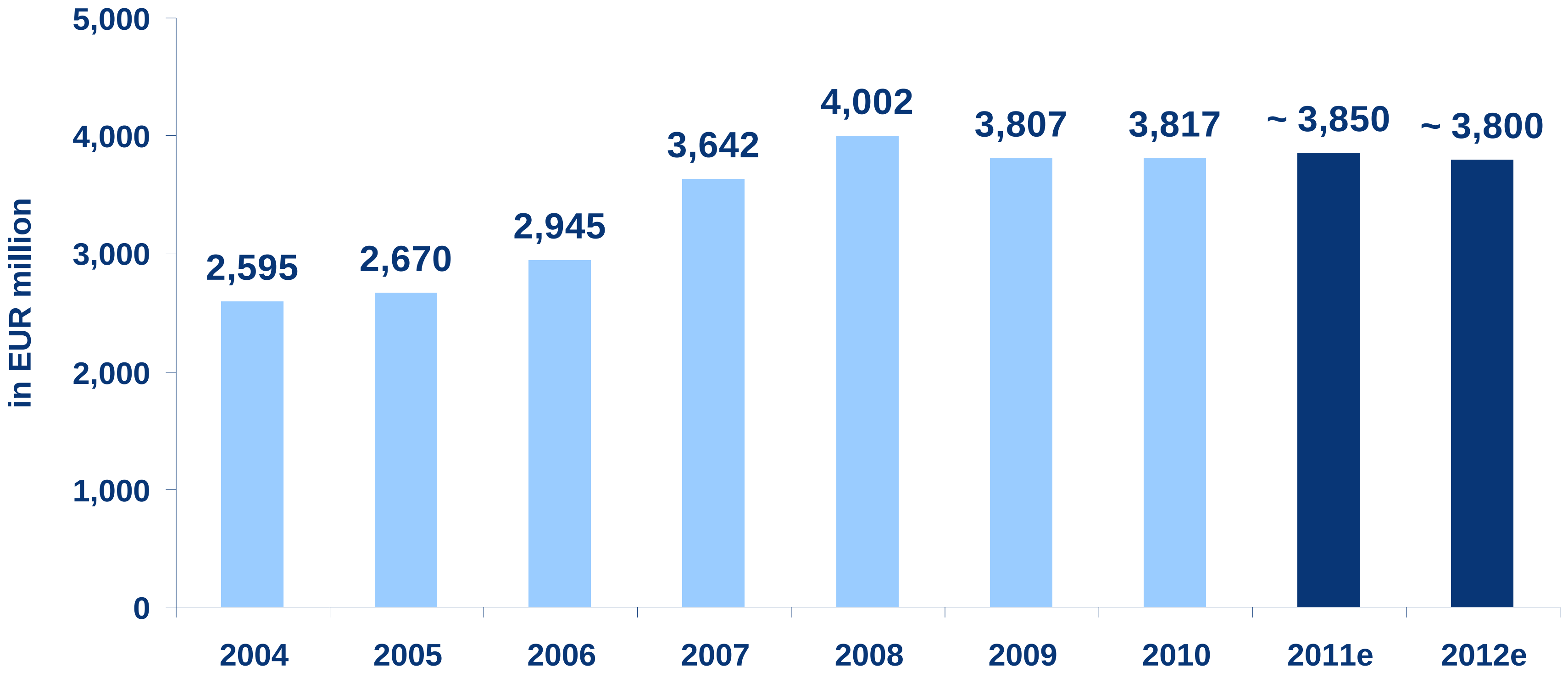
- Erste Group to bridge gap to 9% of 743m EUR (Q3/2011) and exceed this ratio by about EUR 200m to reach minimum 9.1% by mid-2012
- EUR 40m gains from CDS disposal reserved for future RWA reductions



Compliance with EBA rules –
Cost control measures

- Despite inflation, regulatory investments and continued investments into infrastructure costs are expected to decline in 2012

Cost history and forecast



Compliance with EBA rules –
Additional measures to improve capital ratio

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- **Redemptions**
  - Corporate portfolios have an average maturity of 5 years, translating to maturing RWA of EUR 5 billion in the first half of 2012
  - In the retail business the potential equals EUR 2 billion in RWAs (avg. maturity 6 years)

- **Optimisation of risk-weighted assets**
  - Off-balance sheet undrawn credit facilities amount to EUR 19 billion
  - Optimising terms and reduction of unnecessary commitments represents a substantial lever to further improve capital ratios
  - Collateral management

Compliance with EBA rules –

Other measures: participation capital (PC) strategies

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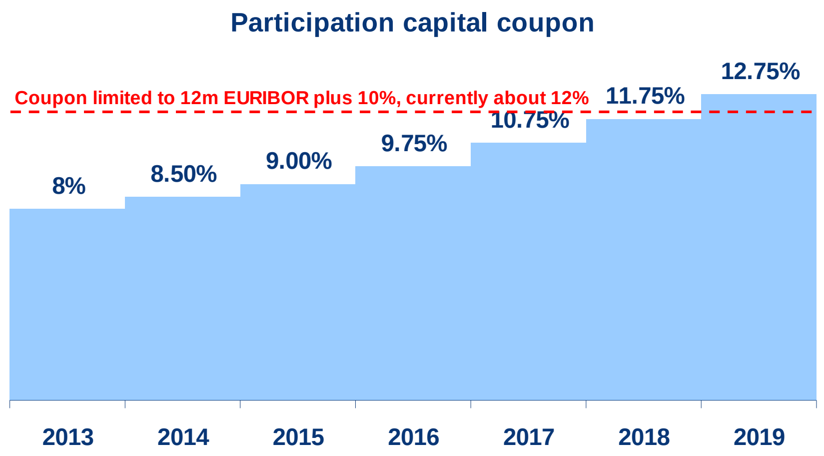
- **Erste Group holds EUR 1.22bn in state, and EUR 540m in private participation capital**

- **If capital is not repaid until year-end 2018, to be repaid at 150% of nominal value**

- **Treatment varies, depending on capital regime**
  - EBA recognises state PC, but not private PC
  - Basel III: state PC grandfathered until 2018, private PC recognition phased out from 2013 to 2022 in 10%-steps
  - OeNB/FMA scheme: state and private PC recognised

- **Private PC strategy: although not recognised by EBA, still serves a useful purpose under Basel III and the OeNB/FMA scheme**



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Compliance with OeNB/FMA rules –
Compliance will not be an issue

- **Generally, the OeNB requirement is easier to fulfil than the one from EBA**
  - OeNB requires a minimum ratio of 7% (instead of 9%)
  - OeNB considers the private participation capital (EBA does not)
  - Erste Group's capital position at year-end 2012 will be better than at H1 2012

- **However, Basel III implementation will lead to an RWA uplift of up to EUR 8bn from 2013**

- **The de-consolidation of the savings banks would additionally support the CET1 ratio**
  - +2.1%: decrease of EUR 27bn in RWA
  - -2.4%: capital of the savings banks of EUR 2.8bn
  - +0.5%: lower deduction of own shares and intangible assets (EUR +0.6bn capital)

- **Estimated capital ratio (acc. to OeNB rules) per 1 Jan 2013 at about 9.0% based on deconsolidation of the savings banks**

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Conclusion –
Swift compliance with new capital regimes

- **Erste Group will achieve the EBA 9% benchmark by 30 June 2012**
- **Erste Group will achieve fully-loaded Basel III rules pursuant to OeNB/FMA**
- **Focused capital management**
- **Strict cost management**