ERSTE GROUP

Erste Group – 8th Capital Markets Day

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Hungary: Road map to profitability

Radovan Jelasity, CEO, Erste Bank Hungary

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Radovan Jelasity –
Introduction of the new CEO

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- **CEO of Erste Bank Hungary (since June 2011)**

- **Governor of National Bank of Serbia (2004-2010)**
  - Consolidation of the banking and insurance sector, including closure of 30 banks in 2001 and 24 insurance companies in 2004
  - Reorganization of NBS by reducing workforce by 60% and closing 170 branches in 35 cities
  - Establishment of insurance, leasing and voluntary pension fund supervision within Central Bank
  - Represented Serbia at IMF and World Bank negotiations over 9 years

- **Vice Governor of National Bank of Serbia (2000-2003)**
  - Restructured banking Supervision department
  - Developed and implemented banking resolution programme
  - Issued new licenses to strategic investors (banks) from the EU

- **Senior Associate at McKinsey & Company, Frankfurt (1999-2000)**
  - Worked on various short and mid-term projects in Germany, Poland and Bulgaria, mainly in the banking industry (mortgage finance, hostile takeover, restructuring, corporate strategy)
  - Prepared largest IPO in Germany in 2000

- **Relationship Manager at Deutsche Bank AG, Frankfurt (1995-1999)**
  - Assisted in the development of the bank‘s strategy in CEE
  - Relationship management with over 100 banks from former Yugoslavia

Presentation topics

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- **Doing business in Hungary**
- **Analysing the past: factors that led to record loss in 2011**
- **The current situation: where do the market and EBH stand now?**
- **Going forward: Road map to profitability**
- **Outlook**
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Doing business in Hungary –
Operating in a very challenging environment

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Macroeconomy	• Fragile economic outlook with growth lagging behind CEE peers • Moody's recently downgraded HU to non-investment grade (S&P, Fitch negative outlook)	X
Politics	• Imbalanced political landscape where governing party has two-third majority • Unstable regulatory environment – accidental passing of laws, no harmonization with respective EU institutions, no constructive dialogue • Uncertainty driven by unorthodox measures, no cooperation with IMF and EU yet	X
Banking market	• Highest banking tax in Europe (0.53% of balance sheet) • FX early repayment act (total sector loss estimated at EUR 600-700mn) • Nationalisation of pension funds (approximately 10% of GDP)	X
Competition	• All major banks have been heavily hit by the unorthodox measures of the government	X
Erste Bank Hungary	• Government decisions and need for additional provisioning have led to record loss in 2011	X
Outlook for EBH	• Strong retail basis of about 0.9mn clients of which 40% are under 40 years • Expected to be profitable in 2014 based on new strategy	✓

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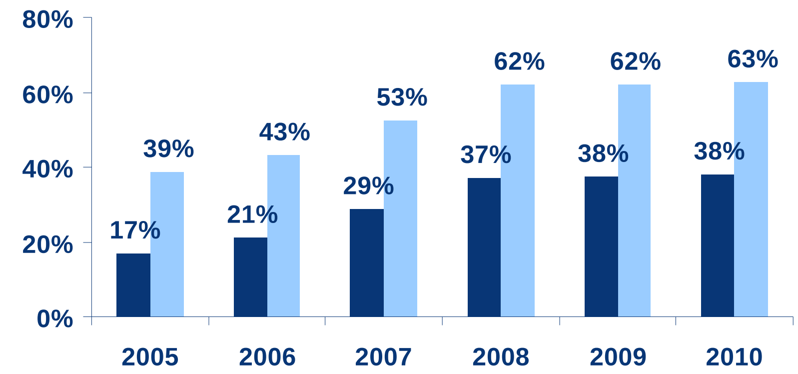
Foreign exchange lending in Hungary –

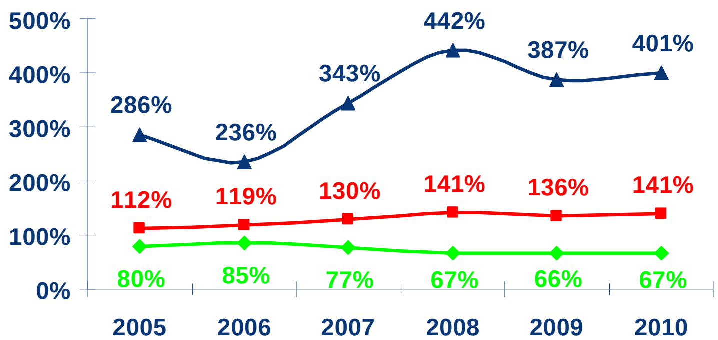
FX lending went off track in Hungary

- **Foreign currency lending gained popularity mainly due to lower monthly instalments…**
  - Substantial interest rate difference between HUF and CHF or EUR rates (~5%) due to high HUF rates
  - Most FX-based loans were granted in 2005-2008
- **… and led to a very distorted banking market**
  - As opposed to some other CEE countries, Hungarians have very limited FX savings
- **FX mortgage lending was abolished from Q2 2010**

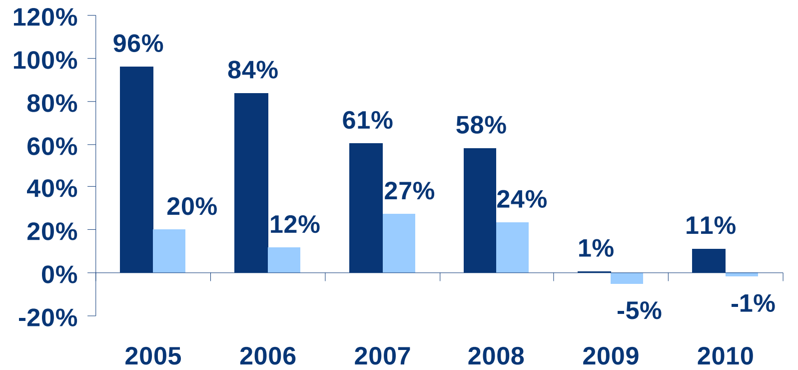
Development of FX-denominated loans



Loan/Deposit ratio



Annual growth of FX-denominated loans



Corporate business at EBH –
Focus on gaining market shares led to NPL growth

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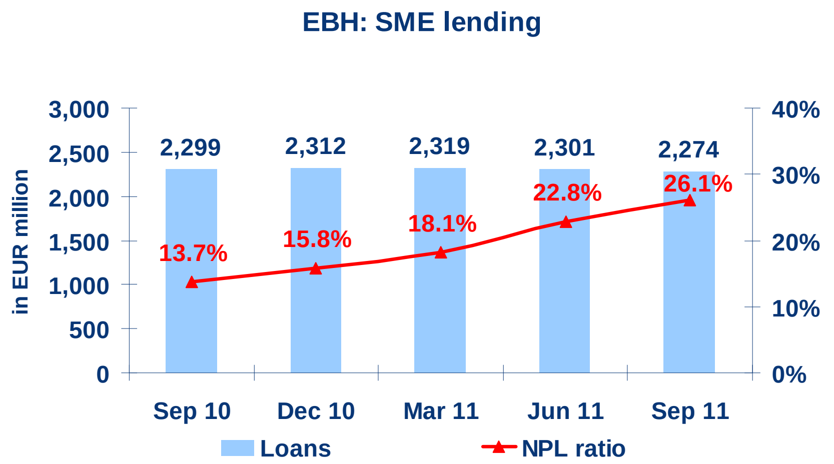
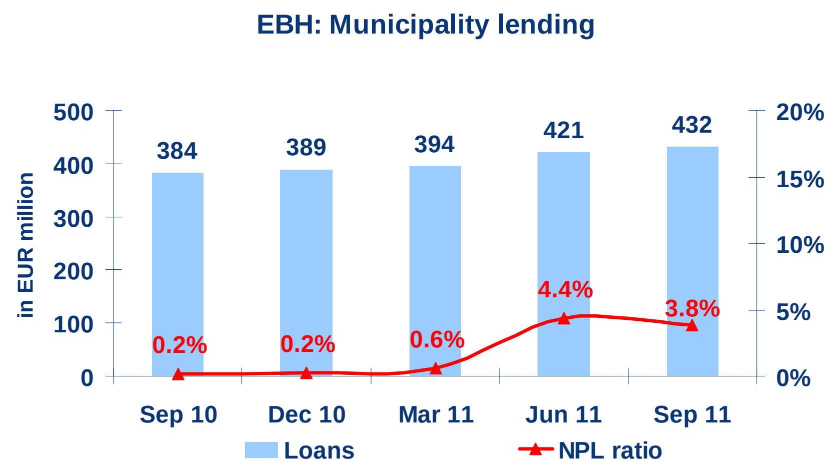
- **SME business**
  - Very sensitive to macroeconomic development
  - Relatively high proportion of HUF loans (65%)
  - Continuously rising risk costs
- **Municipality business**
  - Close to half of loans/bonds in CHF
  - State taking over debt from counties
- **Real estate business**
  - Booming developments before the crisis
  - Current low demand and high vacancies have led to elevated NPL (31%)
- **Large Corporate business**
  - Small but profitable segment
  - Relatively high crisis resistance
  - High competition, low margins





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Where does the banking market stand now? –
Update on the recent developments

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Political/regulatory environment have become a major profitability driver

Direct impact

- Highest banking tax in Europe (0.53% of bank's balance sheet)
- Loss due to FX early repayment act (total sector loss forecasted: EUR 600-700mn)
- Nationalisation of pension funds (EUR 9bn, ~10% of GDP)
- Regulatory restrictions
- Quarterly quota on foreclosures

Indirect impact

- Weakening HUF, higher CDS due to lack of credibility
- Moody's downgrade to non-investment grade - > base rate hike to 6.5%, higher funding costs
- Unemployment rate above 10% - > impact on NPL
- Zero GDP growth expected in 2012, keeping loan demand at low level

Potential threats

- Extension of FX early repayment
- Municipality FX denominated loans
- Government review of PPP investments
- Further unorthodox measures

Where does EBH stand now? –

Profit wiped out by risk provisions and state intervention

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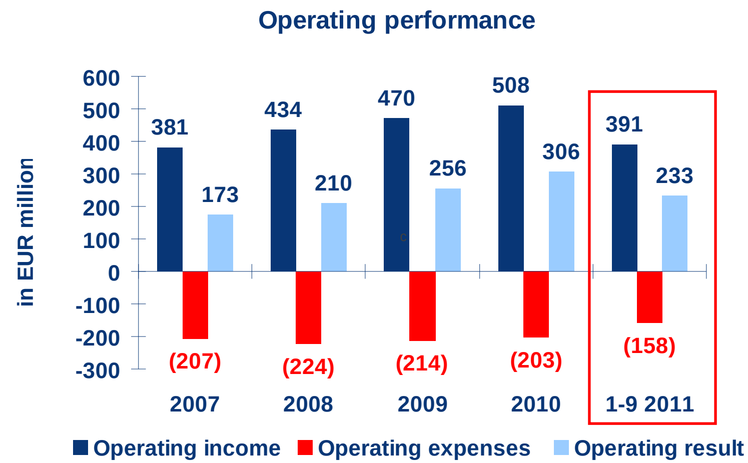
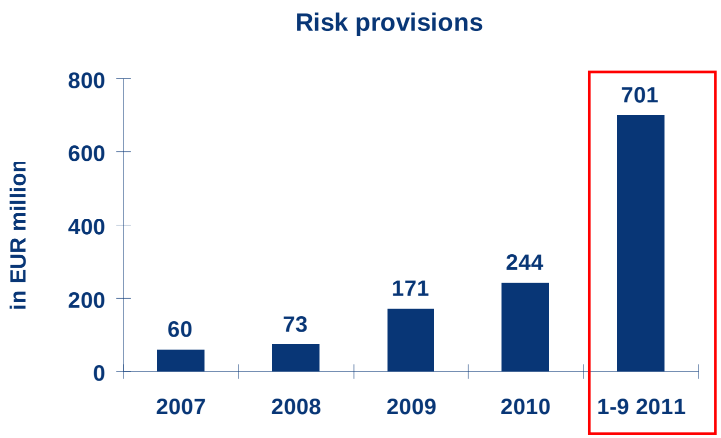
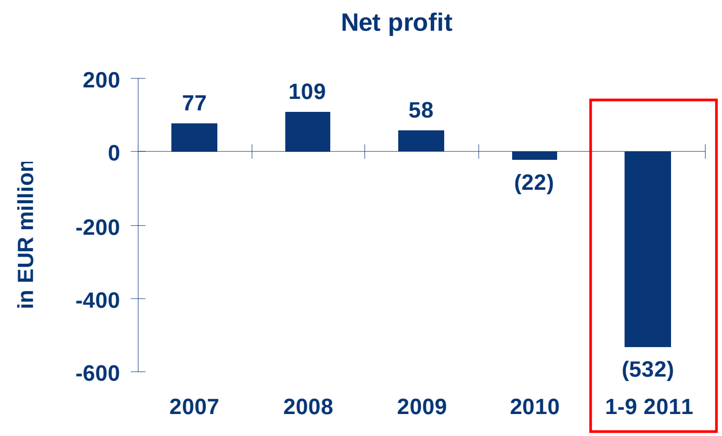
- **Operating performance has remained strong**
  - Stable net interest margin (4.4% as of Sept 2011)
  - 0.9mn client base
  - Strong brand recognition

- **2011 net loss expected at about EUR 550mn**
  - Risk provisions driven by portfolio deterioration and additional provisions related to FX conversion (total of EUR 450mn)
  - Excessive bank tax (approx. EUR 45mn)







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New profile of EBH –
Goals to be reached by implementing a new strategy

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Independent,

(minimize parent funding, lower loan-to-deposit ratio, ability to raise sufficient HUF)

well diversified,

(more balanced NII and fee income, lower dependence on mortgage loans, close asset/liability market share gap)

and sustainably profitable bank

(well managed risk costs, aggressive work-out, ongoing efficiency gains)

with a new strategy and clear vision.

(complete repositioning of EBH)

EBH to become an efficient, standalone bank –
Business model going through fundamental change

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Efficiency	Self funding (mid-term)	Risk management	Focus on WO/collection
• Reduction of branch network from 184 to 141 by the end of H1 2012 • Around 15% workforce reduction in branches and subsidiaries • Around 20% reduction of other costs items (Marketing, IT, etc.) • Integration of subsidiaries (Leasing, Factoring)	• Focus on savings (Building Society, investments, deposit) • Issuance of HUF bonds and mortgage bonds • Substantial reduction of parent funding	• Centralized credit risk management • More restrictive (DBA, LTV) lending only to active retail clients	Corporate workout: • Restructure the corporate workout department • Increase capacities, introduce a new IT system • Bonus driven salary scheme • Improvement of an early warning system Retail workout: • Merge retail and leasing workout, review relationships with collection agencies • Extend activities over 180+ DPD • Implement a more proactive resolution approach

Strategic implications for EBH –
Relationship bank focusing on customer experience

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Retail business:
Relationship bank instead of lending only

- **Termination of cooperation with external loan agents already in Q3 2011**
- **Reduction of branches and employees**
  - 43 branches will be closed (out of 184 branches)
  - Closure of oversized branches
- **Client activation**
  - Aggressive acquisition of new “salary clients”
  - Activation of existing (borrowing) clients
- **Focus on strategic partnerships**
  - Supershop program
  - Extended cooperation with the Hungarian Post
- **Enhance customer experience**
  - Targeted service levels to be defined

Corporate business:
Selective client focus with efficient operation

- **Business focus**
  - Selective mid-sized and large corporates
  - Concentration on export-driven companies
  - Focus on subsidiaries of Austrian/German firms
  - Complete redesign of small/micro approach
  - New motivation scheme
- **Transaction focus**
  - Focus on fee based products
  - Concentrate on cash management, factoring and plain structured trade finance
- **Efficiency**
  - Introduction of automated lending workflow process
  - Redesign of commercial centres model with stronger responsibility for client relationship and sales
- **Organization**
  - Centralized Real Estate business, replacement of under-performing mid-management

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- Appendix

Conclusion –
Reaching net profit in 2014

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- **Political reality requires a complete strategic rethinking**
  - Unstable and unpredictable environment often driven by government actions

- **Business decisions have also contributed to 2011 performance**
  - Imbalanced business model with main focus on FX lending

- **Strategic repositioning of Erste Bank Hungary**
  - Termination of cooperation with external loan sales agents in Q3 2011
  - Relationship bank instead of lending only
  - Focus on local currency business from locally sourced liquidity
  - Reduce dependence on parent bank funding
  - 15% headcount reduction in 2012
  - Network reduction by 43 branches in 2012

- **Mid-term goals to be achieved:**
  - Savings banks orientated business model
  - Balanced loan to deposit ratio
  - Profitability to return in 2014 based on new strategy

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– **Appendix**

Detailed update on early repayment at EBH –
FX loan repayment scheme as per 7 December 2011

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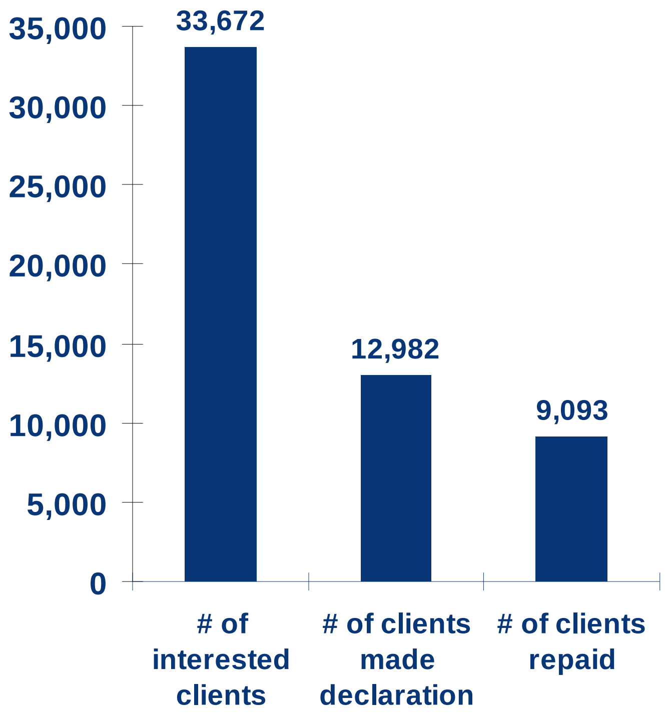
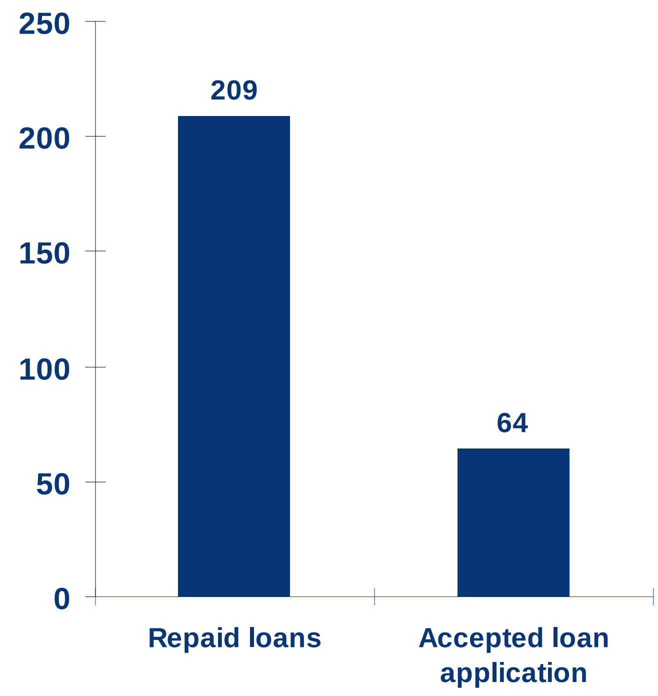
Erste Bank Hungary – Update on the number of involved clients



Erste Bank Hungary – Update on loan amounts in EUR million



Key local entity data (IFRS, consolidated) – Erste Bank Hungary

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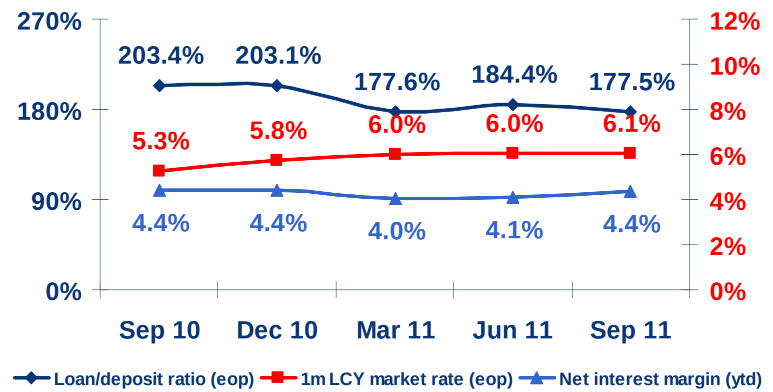
Key figures and ratios	1-9 11	1-9 10	
Cost/income ratio	**39.6%**	**39.4%**	
Return on equity	**n.a.**	**2.0%**	
	Sep 11	**Dec 10**	**Change**
Erste Group stake	99.94%		
Solvency ratio	**12.7%**	**12.4%**	
Employees	2,972	2,900	2.5%
Branches	184	184	0.0%
Customers (in m)	0.9	0.9	5.2%
Market share - retail loans	**14.5%**	**14.1%**	
Market share - retail deposits	**8.3%**	**7.7%**	
Market share - corporate loans	8.9%	8.9%	
Market share - corporate deposits	7.2%	6.7%	
Market share - total assets	8.8%	8.8%	

Rate and margin environment



in EUR million	1-9 11	1-9 10	Change
Net interest income	313.4	306.1	2.4%
Risk provisions for loans and advances	(339.9)	(184.6)	84.1%
Net fee and commission income	78.9	80.1	(1.5%)
Net trading result	34.8	40.9	(14.9%)
General administrative expenses	(169.2)	(168.2)	0.6%
Other operating result	(57.5)	(48.8)	(17.8%)
Result from financial assets - FV	0.0	0.0	na
Result from financial assets - AfS	0.0	0.0	na
Result from financial assets - HtM	0.0	0.0	na
Pre-tax profit from continuing operations	**(139.5)**	**25.5**	**na**
Taxes on income	(11.7)	(16.3)	(28.2%)
Post-tax profit from continuing operations	(151.2)	9.2	na
Post-tax profit from discontinuing operations	0.0	0.0	na
Net profit for the period	**(151.2)**	**9.2**	**na**
Attributable to non-controlling interests	(0.3)	(0.1)	>100.0%
Attributable to owners of the parent	**(150.9)**	**9.3**	**na**
EUR FX rate (ave)	271.3	271.3	

in EUR million	Sep 11	Dec 10	Change
Loans and advances to credit institutions	368	404	(8.9%)
Loans and advances to customers	**8,055**	**7,706**	**4.5%**
Risk provisions for loans and advances	(744)	(455)	63.5%
Financial assets - at fair value through profit or loss	0	0	na
Financial assets - available for sale	351	109	>100.0%
Financial assets - held to maturity	1,113	1,059	5.2%
Other assets	1,886	1,379	36.8%
Total assets	**11,030**	**10,201**	**8.1%**
Interest-bearing assets	**9,143**	**8,822**	**3.6%**
Deposits by banks	5,439	5,171	5.2%
Customer deposits	**4,538**	**3,794**	**19.6%**
Debt securities in issue	17	83	(79.6%)
Other liabilities	649	622	4.4%
Total equity	**387**	**531**	**(27.1%)**
Attributable to non-controlling interests	(0)	(0)	>100.0%
Attributable to owners of the parent	**387**	**531**	**(27.1%)**
EUR FX rate (eop)	292.6	292.6	

*) To eliminate currency effects, 1-9 11 exchange rates were used for P&L and balance sheet conversion. Market share data is as of Sep 2011