

**Erste Group –  
8<sup>th</sup> Capital Markets Day  
9 December 2011, Vienna**



**Czech Republic: High profitability in a successful country**

**Pavel Kysilka, CEO, Česká spořitelna**

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# Pavel Kysilka –

## First year as CEO of Ceska sporitelna

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- **Chief Executive Officer of Ceska sporitelna since January 1, 2011**
  - Responsible for Operations, Research, EU Office, IT, Project Management, Corporate Communications, Marketing, Service Quality, HR and Internal Audit
- **Appointed Member of the Board of Directors in October 2004**
- **Joined Ceska sporitelna in 2000 as Chief Economist and Member of the Senior Management Team**
- **During his career he gained experience in various positions**
  - Economic Institute of Czech Academy of Science
  - Chief Advisor to Minister of Economy
  - Executive Governor of the Czech Central Bank
  - Responsible for Czech currency introduction and split of Czech – Slovak monetary union in 1993
  - IMF external expert – introduction of national currencies in five East European countries
- **Pavel Kysilka is a graduate of the University of Economics in Prague**

*„Banking is a long-distance run. Those who approach it as if it were a sprint can never succeed... Banks have been forced to think about their track record and approach. I, too, am disappointed with the old approach of banks and therefore welcome such a reflection. I am particularly allergic to arrogance and feel that the crisis taught banks that arrogance does not pay off.“*

- **Doing business in the Czech Republic**
- **Czech macroeconomic environment**
  - Economic growth outlook
  - Level of indebtedness
  - Market perception
- **Banking market development**
  - Competitive environment
  - Growth prospects
- **CS: business performance review**
  - Operating performance overview
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  - Pension fund
- **Outlook**
- **Appendix**

# Doing business in the Czech Republic –

## Operating in one of Europe's most successful countries

<b>Macroeconomy</b>	<ul style="list-style-type: none"><li>• One of the most successful and stable economies in Central- and Eastern Europe</li><li>• Rating agencies have acknowledged macroeconomic stability</li></ul>	
<b>Politics</b>	<ul style="list-style-type: none"><li>• Relatively stable political environment – governing parties enjoy a comfortable majority in the Parliament</li><li>• Government reform package passed through the Parliament</li></ul>	
<b>Banking market</b>	<ul style="list-style-type: none"><li>• Balanced and profitable market in which there is still room for growth</li><li>• Strong capital and liquidity positions</li><li>• Stable regulatory environment</li></ul>	
<b>Competition</b>	<ul style="list-style-type: none"><li>• Market has been dominated by three big banks (including Ceska sporitelna) covering more than half of the market</li></ul>	
<b>Ceska sporitelna</b>	<ul style="list-style-type: none"><li>• Ceska sporitelna has maintained its market leader position while keeping its high profitability through the last decade</li></ul>	
<b>Outlook for CS</b>	<ul style="list-style-type: none"><li>• Ceska sporitelna expected to remain one of the most profitable subsidiaries of Erste Group</li></ul>	

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  - Competitive environment
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  - Operating performance overview
  - Credit risk management
  - Development of customer loans and deposits
- **Special topic**
  - Pension fund
- **Outlook**
- **Appendix**

# Macroeconomic environment – One of Europe's strongest economies

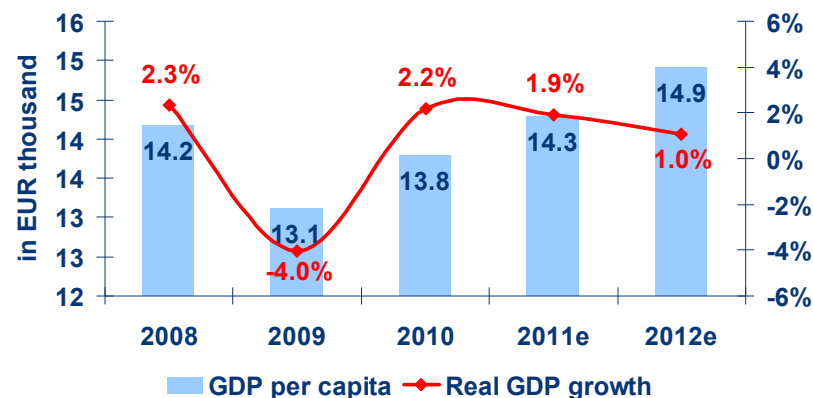
## – Czech economy to build on its strong fundamentals

- Exports and fixed investments have been the drivers of the economy
  - Very strong ties with Germany
- Household demand remains depressed
  - Labour market improves slowly
  - Fiscal restrictions
  - Declining consumer confidence due to European debt crisis and recession fears
- Economy grew by 2.5% y/y in H1 2011
  - Stagnated q/q in 3Q 2011

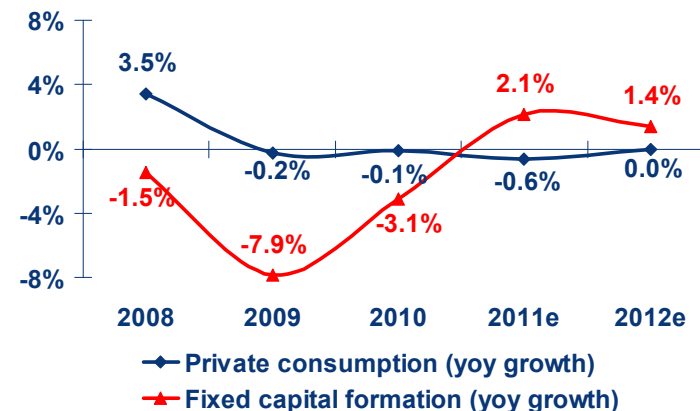
## – Real GDP to grow by 1% in 2012

- Driven mainly by net exports
- Direct exposure to peripheral Europe is negligible
  - However, lower demand from core EMU and declining confidence will have an impact
- Households to be impacted by stagnating labour market and falling real wage (VAT hike)

Key economic indicators



Analysis of growth drivers



# Macroeconomic environment –

## One of Europe's strongest economies

### – Rating agencies acknowledge economic performance and fiscal reforms

- S&P upgraded Czech R. to AA- in Aug 2011
- Moody's rating: A1
- Fitch rating: A+

### – Indebtedness low compared to EMU

- Government is determined to push the deficit below 3% Maastricht limit by 2014

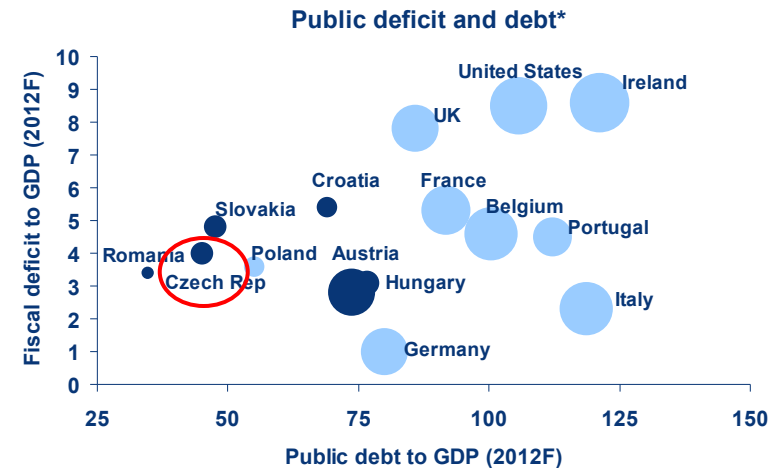
### – Unemployment to stay below 9% in 2012

### – Inflation consistently low

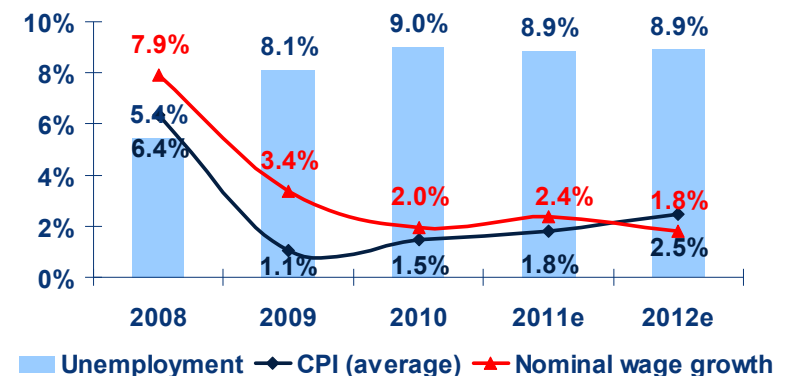
- Remains below the CNB target of 2% in 2011

### – Interest rate at a very low level

- Base rate at 0.75% since May 2010
  - Rate hike not expected in near future
- Currency under pressure due to debt crisis
  - Repetition of Q1 2009 weakening not expected



### Unemployment vs inflation vs wage growth



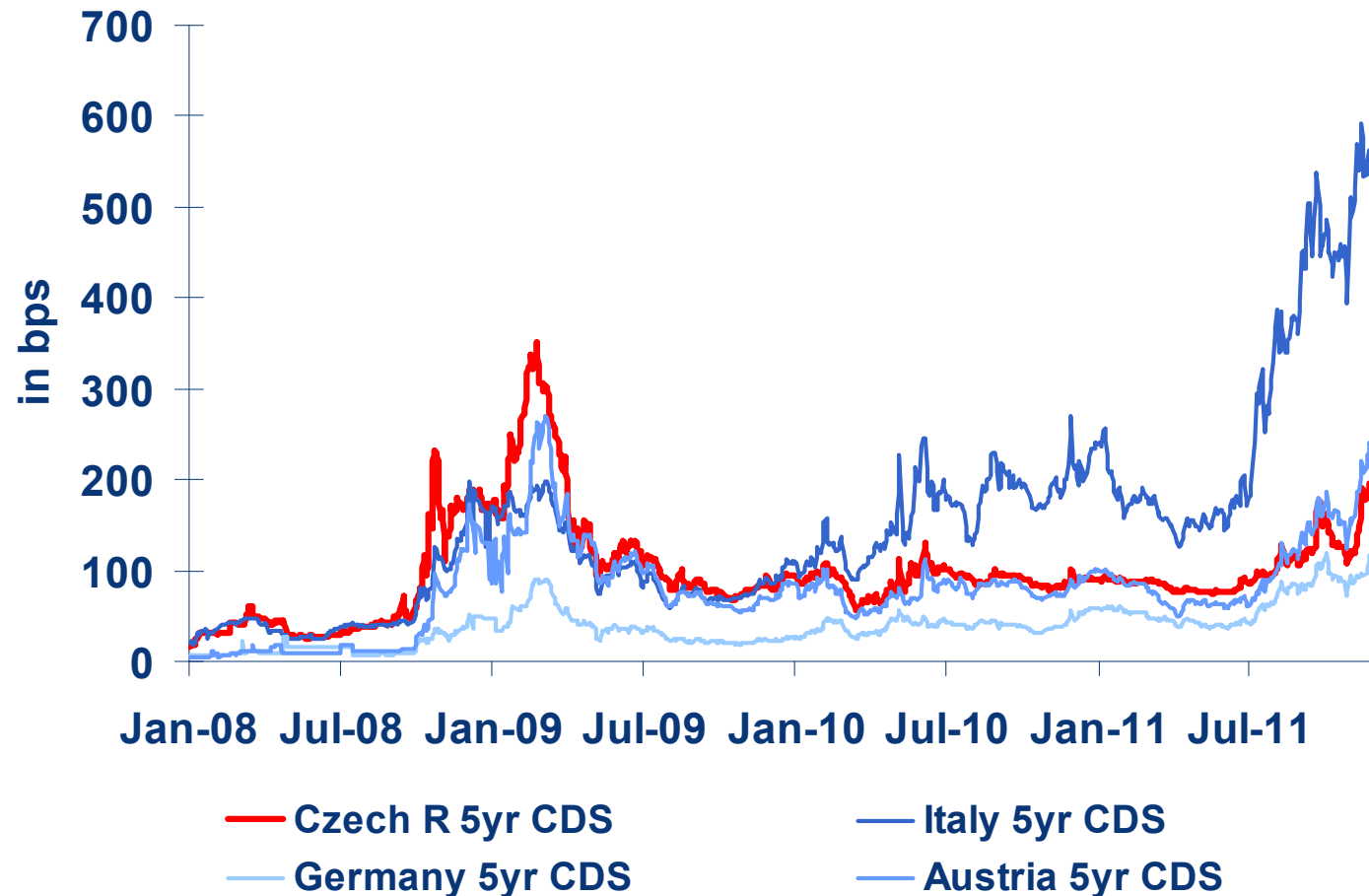
\* bubble size indicates public debt per capita



# Macroeconomic environment –

## Market perception: development of Czech CDS

### Development of CDS prices



- 
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    - Competitive environment
    - Growth prospects
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    - Pension fund
  - **Outlook**
  - **Appendix**

# Banking market development –

## Competitive positions

### – Concentrated banking market

- 44 banks (36 foreign-owned)
- 3 dominant players
- New players entering the market (Zuno, Air Bank, Equa Bank)

### – CS: leading market shares across all product areas

- No. 1 by total assets
- No. 1 by customer loans
- No. 1 by customer deposits
- No. 1 by payment cards

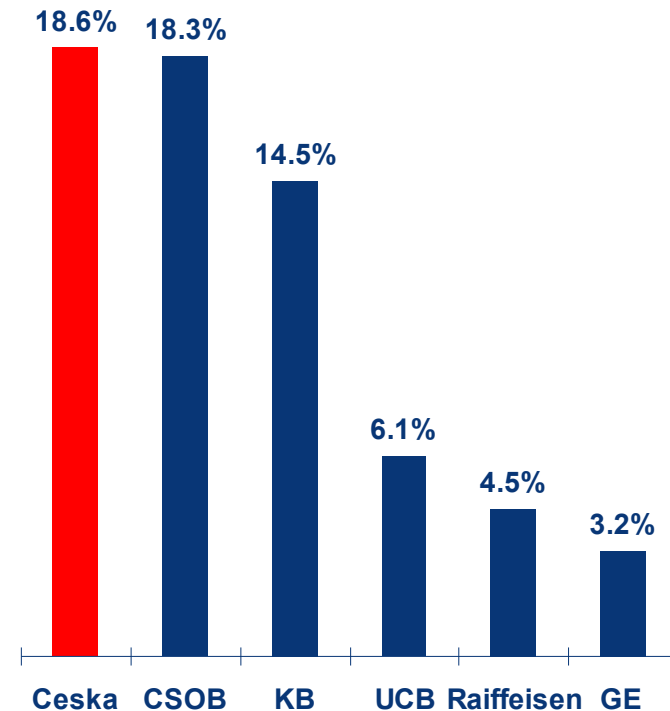
### – Very strong retail franchise

- 653 branches across the country

### – Biggest customer base

- More than 5 million customers

Top Czech banks –  
market share by total assets (Q3 2011)\*



\*Market shares based on Parent Bank figures; source Czech National Bank

# Banking market development –

## Balanced market with slow growth

### – One of the most balanced banking markets in Europe

- Loan to deposit ratio at 78%
- Strong capital and liquidity positions
  - Capital adequacy at 16%
- Minimal FX-based lending
  - Only in the export oriented corporate sector
- ROE around 20%

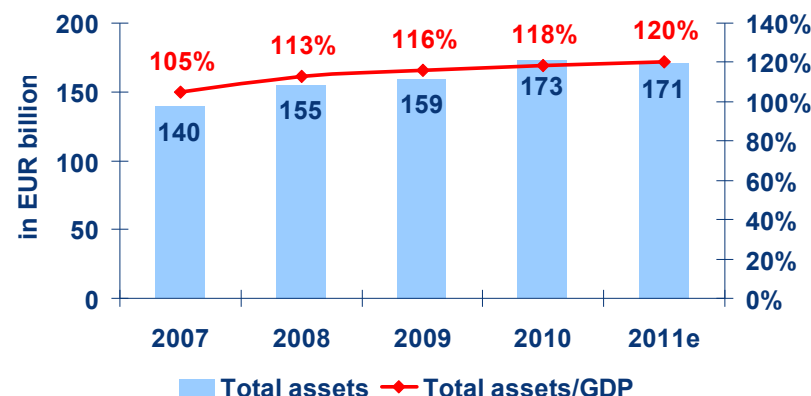
### – CNB released its stress test in Nov 2011

- Czech financial sector remains resilient to wide range of external risks
- Capital adequacy in the Czech banking sector remains above 11% in stress scenario in 2013

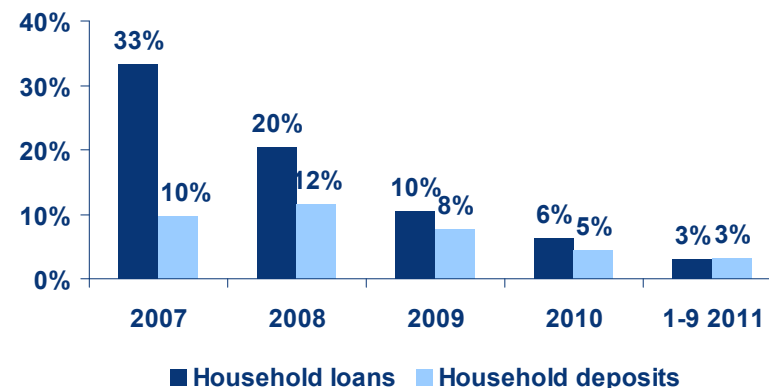
### – Growth has slowed down further in 2011

- Low single digit loan and deposit growth expected in 2012
  - Lending to be driven by mortgage loans

Banking market summary



Growth rates - household loans and deposits



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  - **Special topic**
    - Pension fund
  - **Outlook**
  - **Appendix**

# CS: business performance review –

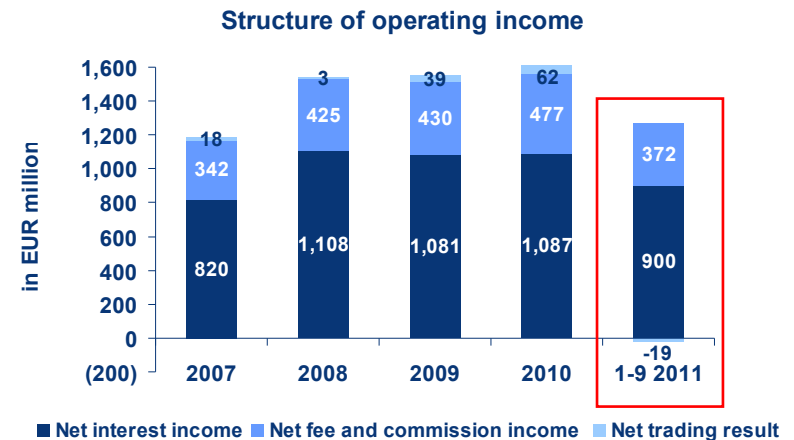
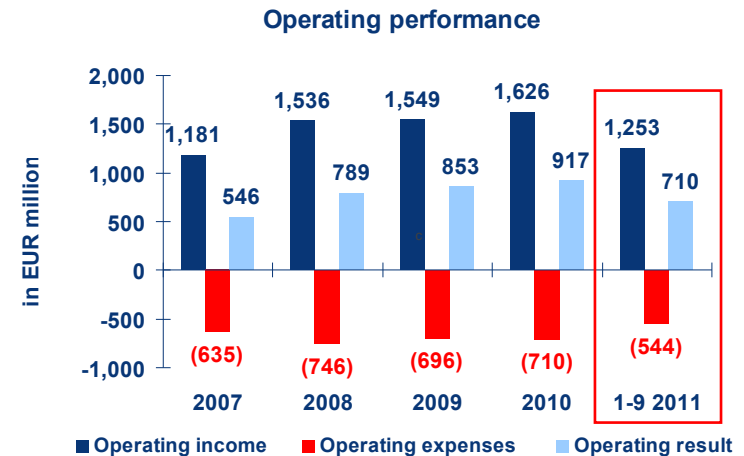
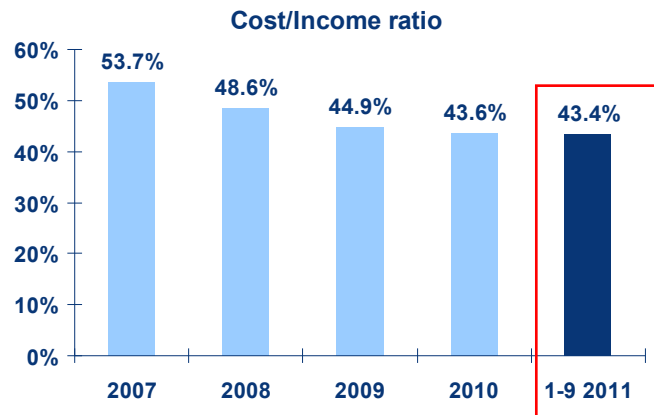
## Operating performance overview

### – Operating income mainly driven by strong performance of net interest income

- Net interest income reflects favourable asset mix, effective placement of liquidity and deposit margin
- Net fee income benefit from growing payment transactions and securities business
- Recent weakness in trading result due to significant market volatility
- Core income went up by 10% yoy in 1-9 2011

### – Operating expenses reflect strict cost control

- Declining IT costs
- Headcount reduction of 500 positions in Q1 2011

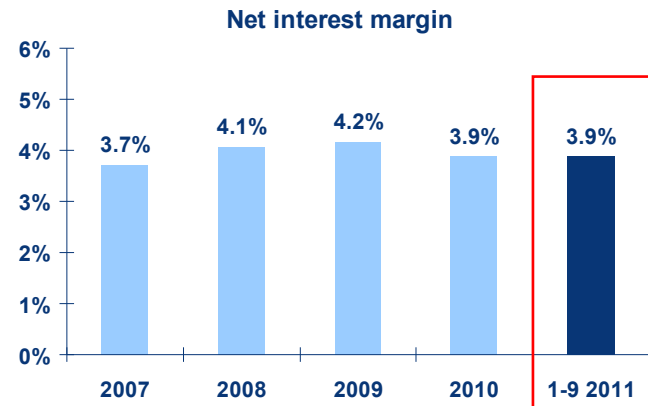


# CS: business performance review –

## Margins versus risk costs

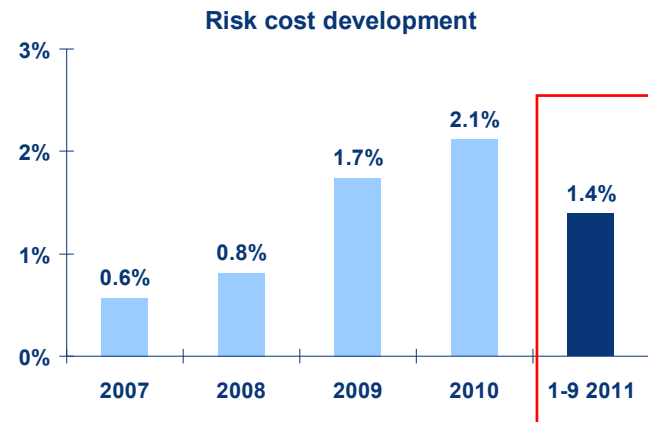
### – Net interest margin has remained stable at a relatively high level

- Despite the very low interest rate environment
  - Base rate at 0.75% since May 2010
- Average yield on customer loans: 6.5%
  - Strong asset repricing ability
- Cost of funds: 0.68%
  - Very strong brand name



### – Risk costs clearly on a downward trend

- Recovery well under way
- Reflecting relatively favourable macroeconomic developments
- Improvement visible in corporate and retail businesses



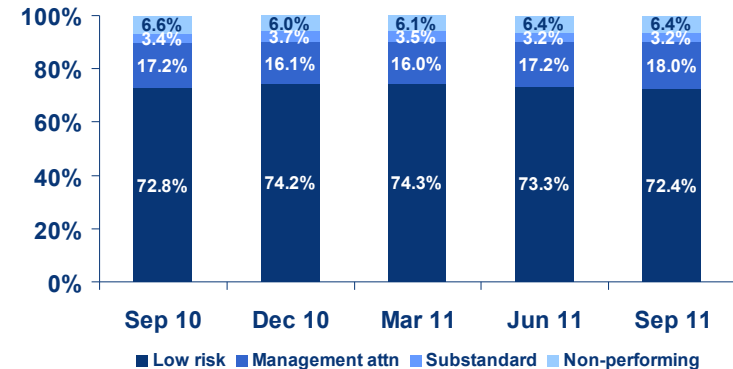
NIM is based on country of origination concept, not segment view, in order to show longer time series

# CS: business performance review –

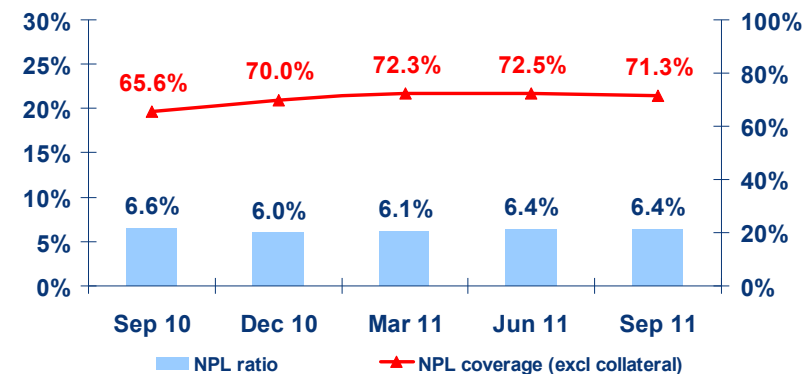
## Credit risk management

- Ceska's loan portfolio well diversified with main focus on private individuals
- **Portfolio quality at market level**
  - Retail NPL ratio of 4.7%
  - SME NPL ratio of 10.7%
  - No defaults in municipality segment
  - Share of FX-denominated lending below 5%
- **Low indebtedness feature**
  - 23% on mortgage loans
  - 13% on unsecured loans
- **Retail mortgage LTV at 61%**
  - Only minimal real estate price decline
- **Very satisfying coverage ratio**
  - Including collateral coverage is above 100%

Segment Czech Republic - Migration analysis



Segment Czech Republic - NPL ratio vs NPL coverage



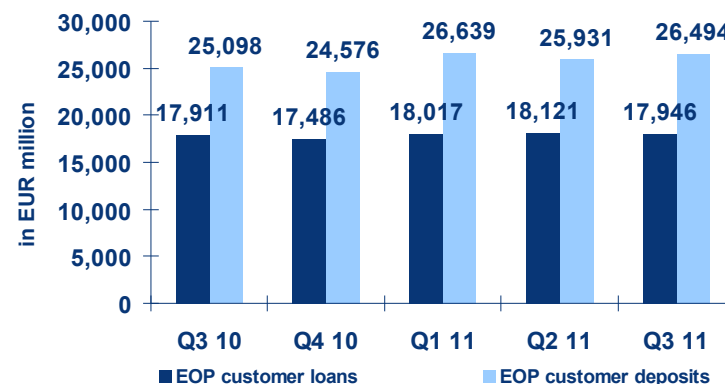


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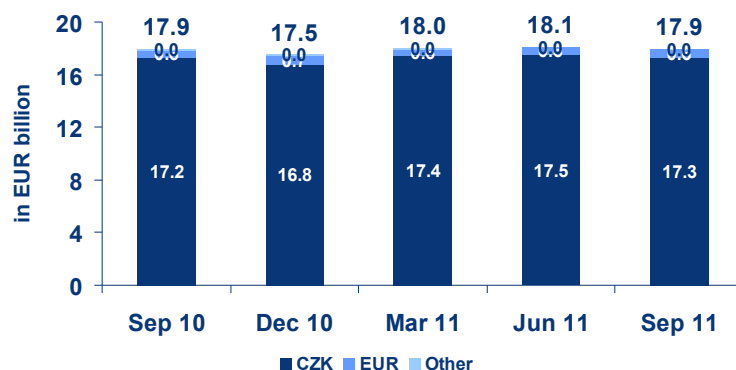
## Development of customer loans and deposits

- **Loan growth in the low single digit area**
  - Recent pick up in mortgages and SME loans
  - Growth limited by still low household consumption
- **Deposits very stable**
  - YTY increase attributed to growing deposits from municipalities and private individuals
  - Faster growth in term deposits
- **Traditionally low loan to deposit ratio**
  - 67% as of Q3 2011

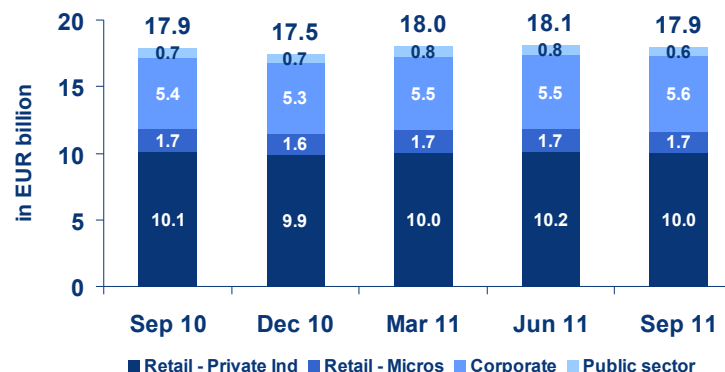
Segment Czech Republic -  
Customer loans vs. deposits



Segment Czech Republic -  
Customer loans by currency



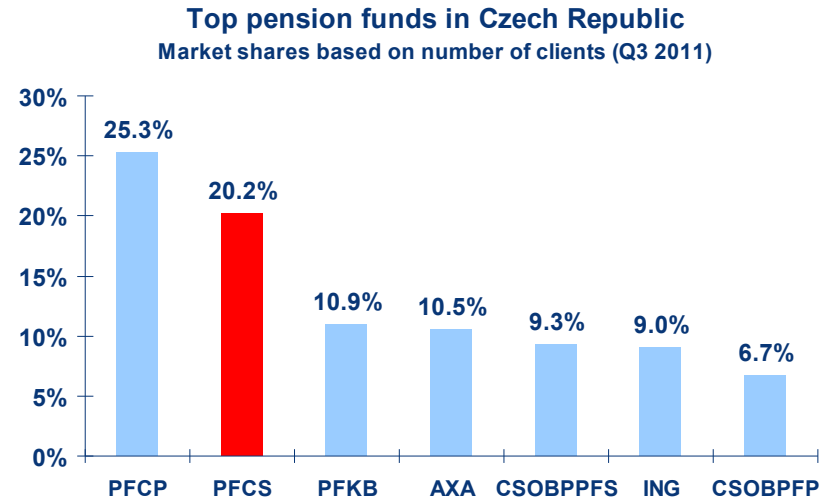
Segment Czech Republic -  
Customer loans by Basel II customer segment



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  - Pension fund
- **Outlook**
- **Appendix**

# Special topic – Pension fund

- **Penzijni fond Ceske sporitelny is the second largest pension fund in the Czech Republic**
  - Number of clients 930,000
- **Number of CS Pension fund's clients increased much faster compared to competitors in 2011**
- **CS Pension fund reached the 2nd position considering client's yield**
  - 2.34% in 2010
- **Vast majority of the clients' assets is invested in bonds (76%)**
  - 90% of portfolio invested in CZK
- **Pension reform to take final form in 2012**
  - In force from January 1, 2013
  - Establishing of the 2nd pillar of pension system
  - With the aim to attract more clients and offer more investments strategies



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  - Pension fund
- **Outlook**
- **Appendix**

## – One of the strongest economies in Europe

- Excellent geographic location
- Small, open, and developed economy which has outperformed CEE peers
- Strong industrial base and developed service sector
- One of the biggest beneficiaries of the German economy

## – Very healthy banking market

- One of the most developed banking markets in CEE
- Very strong capital and liquidity position
- Balanced market with a loan to deposit ratio of 78%
- Still room for growth based on penetration compared to Western Europe

## – Ceska sporitelna to continue its excellent performance

- Biggest financial institution in the Czech Republic with a very strong customer base
- Growth to slightly pick up in 2012
- Profitability expected to remain strong based on operating performance and further decline in risk costs

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  - Competitive environment
  - Growth prospects
- **CS: business performance review**
  - Operating performance overview
  - Credit risk management
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  - Pension fund
- **Outlook**
- **Appendix**

# Ceska sporitelna –

## Strategic Goals 2012-2014

- Grow profit faster than others in the sector
- Keep market share and the share on the total yields at current levels despite strong competition
- Achieve sustainable profit growth while keeping risk under control
- Stabilize the exceptional Cost / Income Ratio mid-term
- Increase added-value on capital sources

**Goal: Become the # 1 in the six core client segments and become one of the key banks in two other segments by 2014**

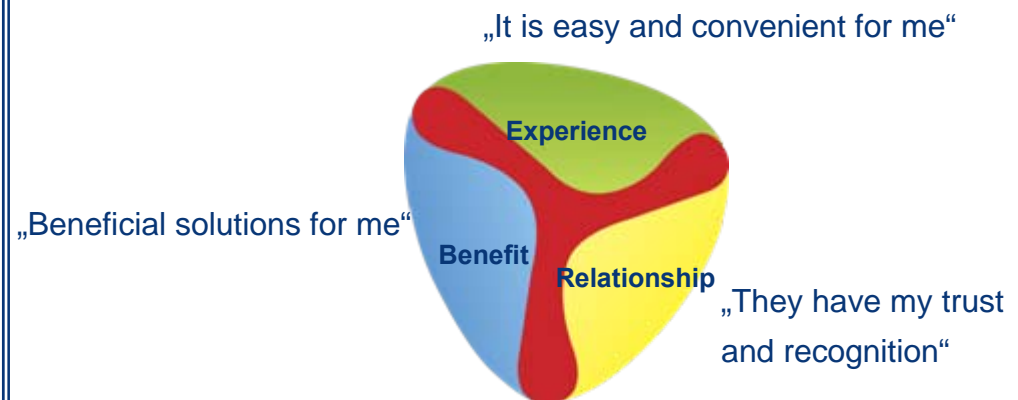
**#1**

- Mass market
- Mass affluent
- Top affluent
- Public and Non-Profit Sector
- SMEs
- Local large Corporate

**One of the Top Banks**

- Entrepreneurs
- Global Large Companies

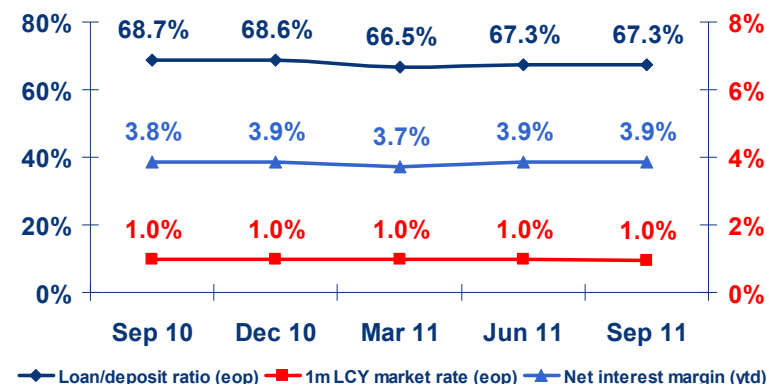
**The BENEFIT that we deliver to our clients, the EXPERIENCE of our clients and RELATIONSHIP to the community are three strategic pillars of Ceska sporitelna**



# Key local entity data (IFRS, consolidated) – Ceska sporitelna

Key figures and ratios	1-9 11	1-9 10	
<b>Cost/income ratio</b>	<b>41.9%</b>	<b>41.4%</b>	
<b>Return on equity</b>	<b>17.3%</b>	<b>16.9%</b>	
Sep 11	Dec 10	Change	
Erste Group stake	97.99%		
<b>Solvency ratio</b>	<b>14.0%</b>	<b>13.9%</b>	
Employees	10,296	10,711	(3.9%)
Branches	653	667	(2.1%)
Customers (in m)	5.2	5.3	(0.9%)
<b>Market share - retail loans</b>	<b>24.8%</b>	<b>25.7%</b>	
<b>Market share - retail deposits</b>	<b>28.5%</b>	<b>29.0%</b>	
Market share - corporate loans	18.9%	19.1%	
Market share - corporate deposits	11.0%	12.8%	
Market share - total assets	21.3%	21.3%	

Rate and margin environment



in EUR million	1-9 11	1-9 10	Change
Net interest income	958.4	927.4	3.3%
Risk provisions for loans and advances	(201.7)	(320.4)	(37.0%)
Net fee and commission income	376.1	368.7	2.0%
Net trading result	27.6	100.5	(72.5%)
General administrative expenses	(570.2)	(578.6)	(1.5%)
Other operating result	(86.7)	(69.1)	(25.5%)
Result from financial assets - FV	(7.0)	(5.1)	(37.3%)
Result from financial assets - AfS	(10.2)	3.5	na
Result from financial assets - HtM	1.2	4.7	(74.5%)
<b>Pre-tax profit from continuing operations</b>	<b>487.5</b>	<b>431.6</b>	<b>13.0%</b>
Taxes on income	(96.4)	(87.7)	9.9%
Post-tax profit from continuing operations	391.1	343.9	13.7%
Post-tax profit from discontinuing operations	0.0	0.0	na
<b>Net profit for the period</b>	<b>391.1</b>	<b>343.9</b>	<b>13.7%</b>
Attributable to non-controlling interests	(1.5)	3.8	na
<b>Attributable to owners of the parent</b>	<b>392.6</b>	<b>340.1</b>	<b>15.4%</b>
EUR FX rate (ave)	24.4	24.4	

in EUR million	Sep 11	Dec 10	Change
Loans and advances to credit institutions	5,730	7,067	(18.9%)
<b>Loans and advances to customers</b>	<b>19,050</b>	<b>18,582</b>	<b>2.5%</b>
Risk provisions for loans and advances	(863)	(777)	11.1%
Financial assets - at fair value through profit or loss	535	387	38.2%
Financial assets - available for sale	1,158	818	41.5%
Financial assets - held to maturity	7,024	5,210	34.8%
Other assets	5,018	4,327	16.0%
<b>Total assets</b>	<b>37,652</b>	<b>35,616</b>	<b>5.7%</b>
<b>Interest-bearing assets</b>	<b>32,634</b>	<b>31,288</b>	<b>4.3%</b>
Deposits by banks	2,513	2,109	19.2%
<b>Customer deposits</b>	<b>28,318</b>	<b>27,078</b>	<b>4.6%</b>
Debt securities in issue	2,022	1,909	5.9%
Other liabilities	1,715	1,653	3.7%
<b>Total equity</b>	<b>3,083</b>	<b>2,866</b>	<b>7.6%</b>
Attributable to non-controlling interests	4	7	(35.6%)
<b>Attributable to owners of the parent</b>	<b>3,079</b>	<b>2,859</b>	<b>7.7%</b>
EUR FX rate (eop)	24.8	24.8	

\*) 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