

**Erste Group –
8th Capital Markets Day
9 December 2011, Vienna**

**Reinforcing our customer banking focus
in Central and Eastern Europe**

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A real customer need is the reason for all business

Customer banking in Central and Eastern Europe

Eastern part of EU

Focus on CEE, limited exposure to other Europe

Retail banking

Focus on local currency mortgage and consumer loans funded by local deposits

FX loans only where funded by local FX deposits (RO & HR)

Savings products, asset management and pension products

Potential future expansion into Poland

Corporate banking

Large, local corporate and SME banking

Advisory services, with focus on providing access to capital markets and corporate finance

Real estate business that goes beyond financing

Potential future expansion into Poland

Capital markets

Focus on customer business, incl. customer-based trading activities

In addition to core markets, presences in Poland, Turkey, Germany and London with institutional client focus and selected product mix

Building debt and equity capital markets in CEE

Public sector

Financing sovereigns and municipalities with focus on infrastructure development in core markets

Any sovereign holdings are only held for market-making, liquidity or balance sheet management reasons

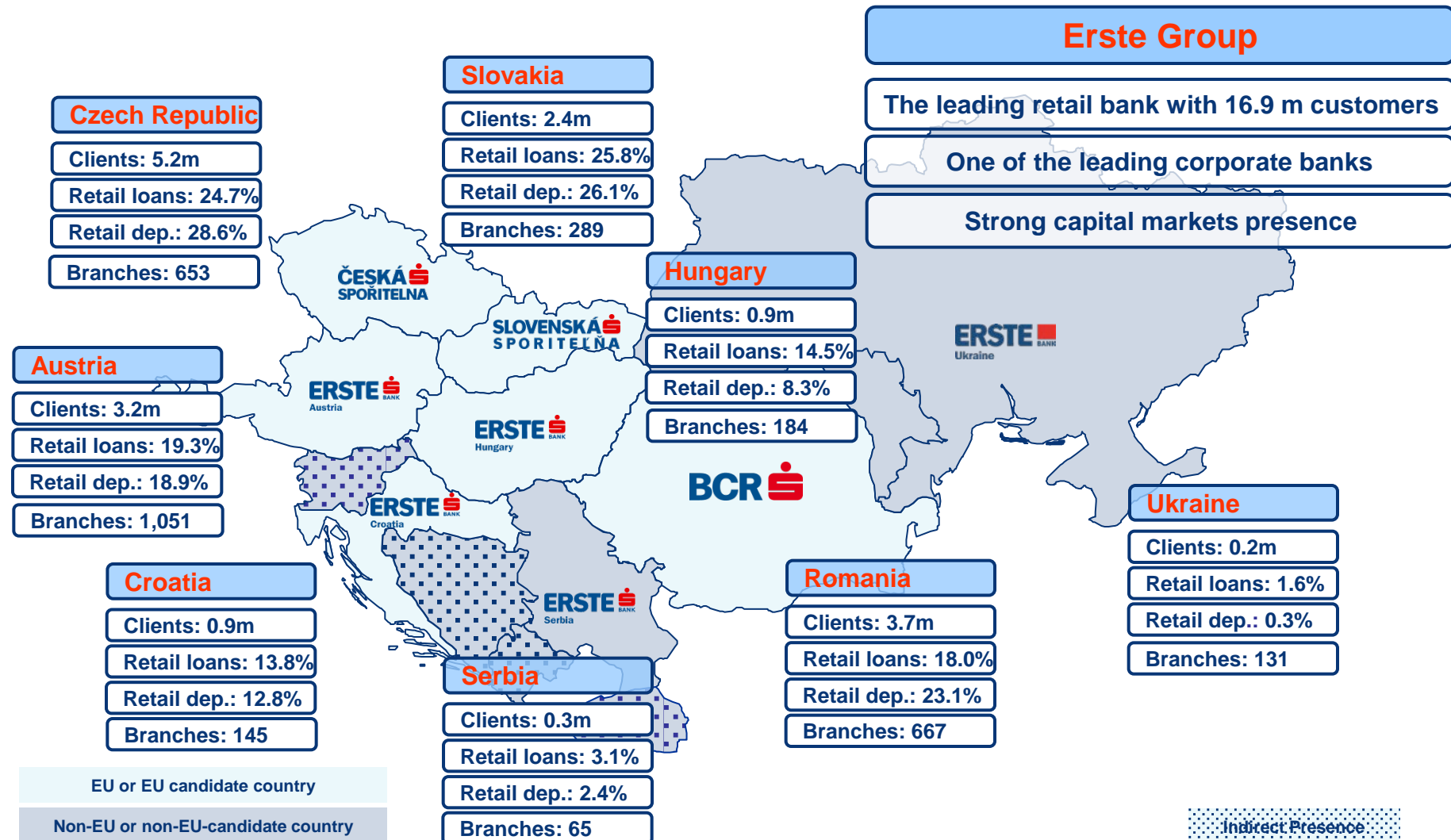
Interbank business

Focus on banks that operate in the core markets

Any bank exposure is only held for liquidity or balance sheet management reasons or to support client business

Strategy –

Customer banking in the eastern part of the EU

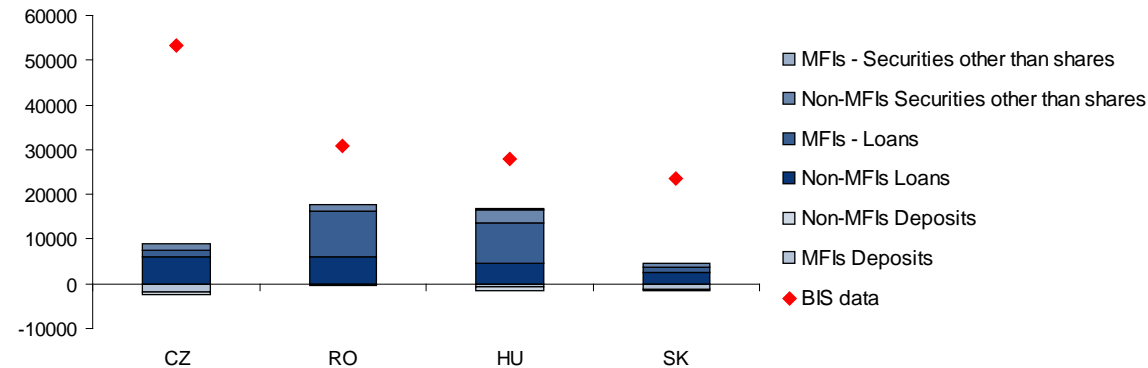


The CEE region and its prospects –

ECB vs BIS data: getting the facts right (gross vs net)

- **BIS data: exposure of Austrian banks to core CEE* countries totaled about EUR 135bn as of June 2011**
- **ECB data: lending to core CEE totaled EUR 48bn as of June 2011**
- **Austrian banks lent more money to Germany (EUR 53bn in gross) than to core CEE in total**
- **Use ECB statistics rather than BIS for cross-border lending**

Lending of Austrian banks to core CEE countries (EURmn, June 2011)



*core CEE = Czech Republic, Hungary, Romania, Slovakia

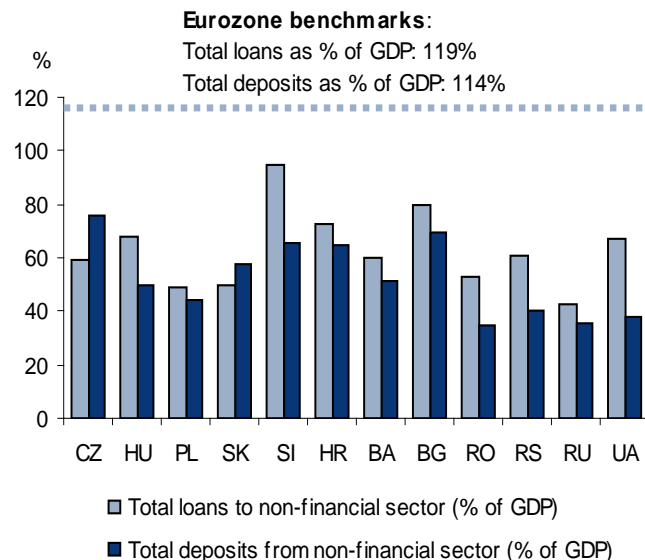
Source: ECB, BIS, Erste Group Research

The CEE region and its prospects –

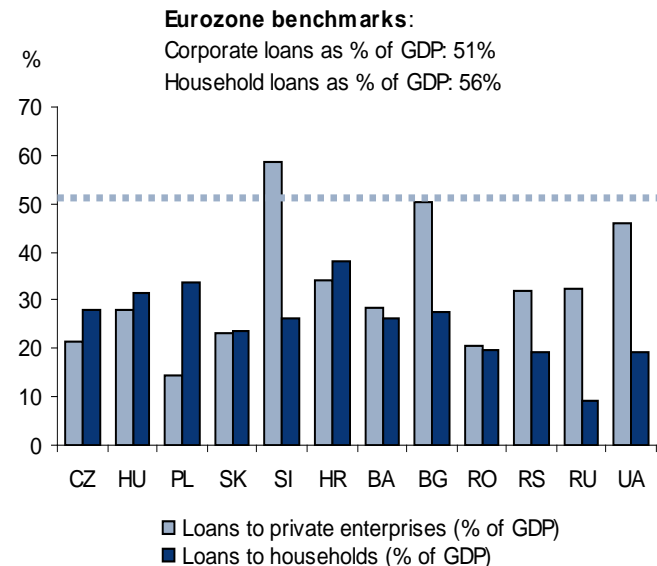
Penetration rates in CEE

- Indebtedness of private sector in all CEE countries lower than in the Eurozone
- Loan penetration in CEE-12 with 50% of GDP, significantly below Eurozone's 119%
- Household loans in CEE-12 with 18% of GDP, far below the Eurozone benchmark of 56%
- Penetration rates in CEE still indicate huge long-term catch-up potential to the Eurozone benchmarks of 119% (loans/GDP) and 114% (deposits/GDP)
- Corporate loans in Poland, Romania, Czech Republic provide strongest catch-up potential

Loan and deposit penetration 2010 (% of GDP)



Corporate and household loan penetration 2010 (% of GDP)



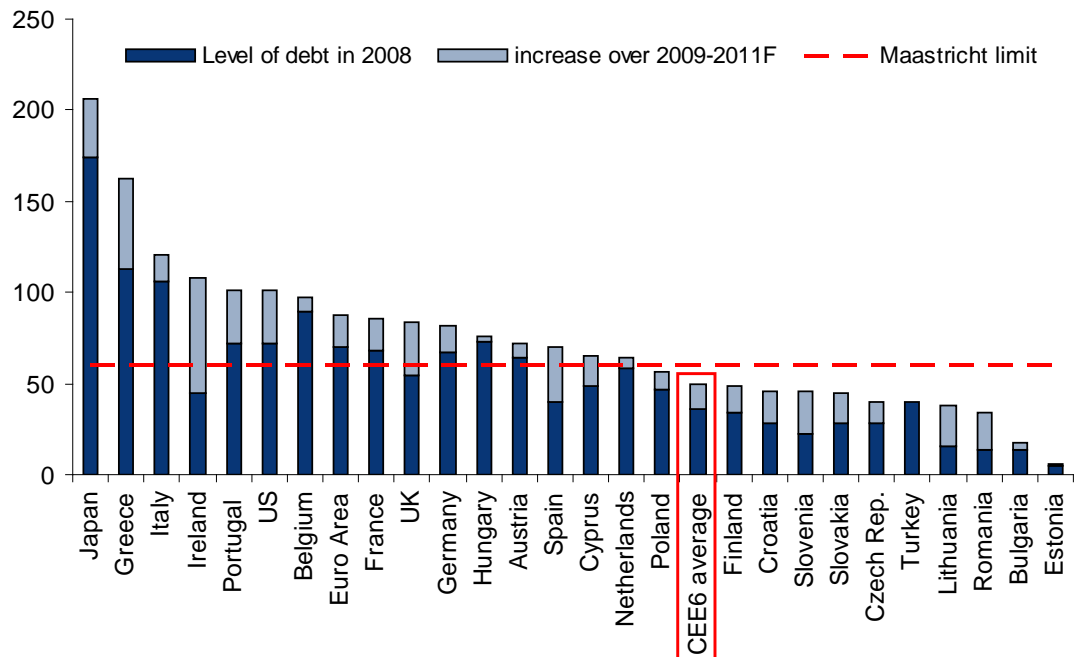
Source: National Bank data, Erste Group Research

The CEE region and its prospects –

Gross debt below average in international comparison

- None of the CEE countries is experiencing such problems as the Eurozone peripheral countries in terms of debt sustainability
- The debt level has never been an issue, apart from Hungary, where the debt to GDP ratio is still more than 10pp below the Euro Area average (2011F is 90%)
- Other CEE countries have their debt to GDP about 50% of GDP in average (2011F), well below the 60% of GDP required by the Maastricht treaty

Gross public debt (% of GDP)

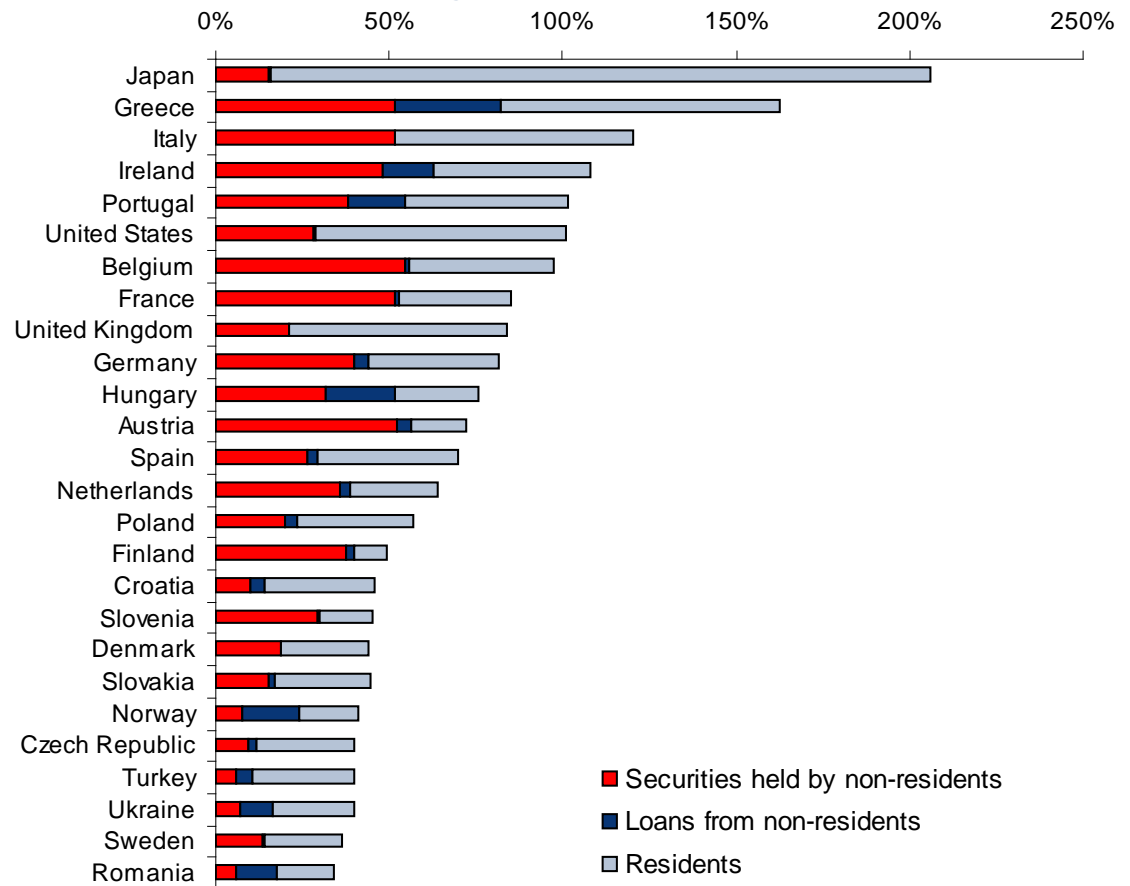


Source: European Commission (AMECO), Erste Group Research

The CEE region and its prospects –

Lower foreign ownership of government bonds

Breakdown of government debt 2011F (% of GDP, non-resident holdings are as of June 2011)



Source: IMF, AMECO, Erste Group Research

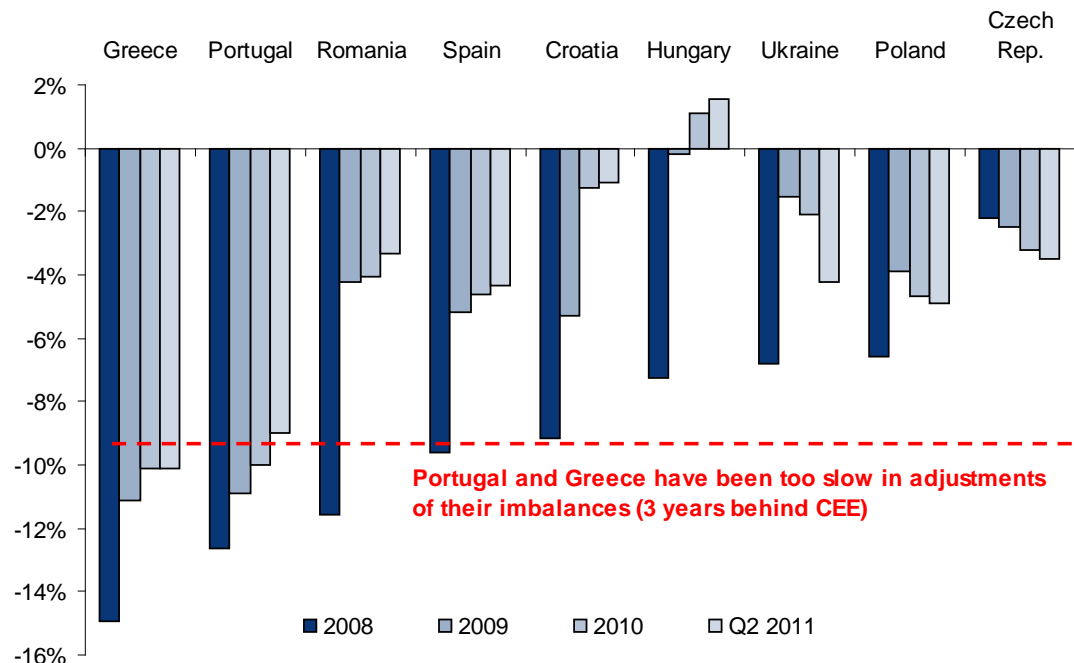
- Countries with high stock of debt held by non-residents are potentially more sensitive to global sell-off
- Relatively low proportion of government securities is held by non-residents in CEE
 - the highest share in Hungary
 - the lowest in Romania

The CEE region and its prospects –

Faster improvement of CEE C/A deficits

- The former Achilles heel of high current account deficits has been tackled
- The Romanian current account deficit narrowed from almost 14% to below 5% of GDP, Croatia's from 7% to 1.4% and Hungary's turned into a surplus of 2.8%, from a deficit of 7% of GDP in 2007.
- This has substantially reduced the external financing needs of CEE countries, which had made them so vulnerable in the past.
- The progress was achieved very quickly (much faster than in some peripheral countries).

Current account balance (% of GDP)



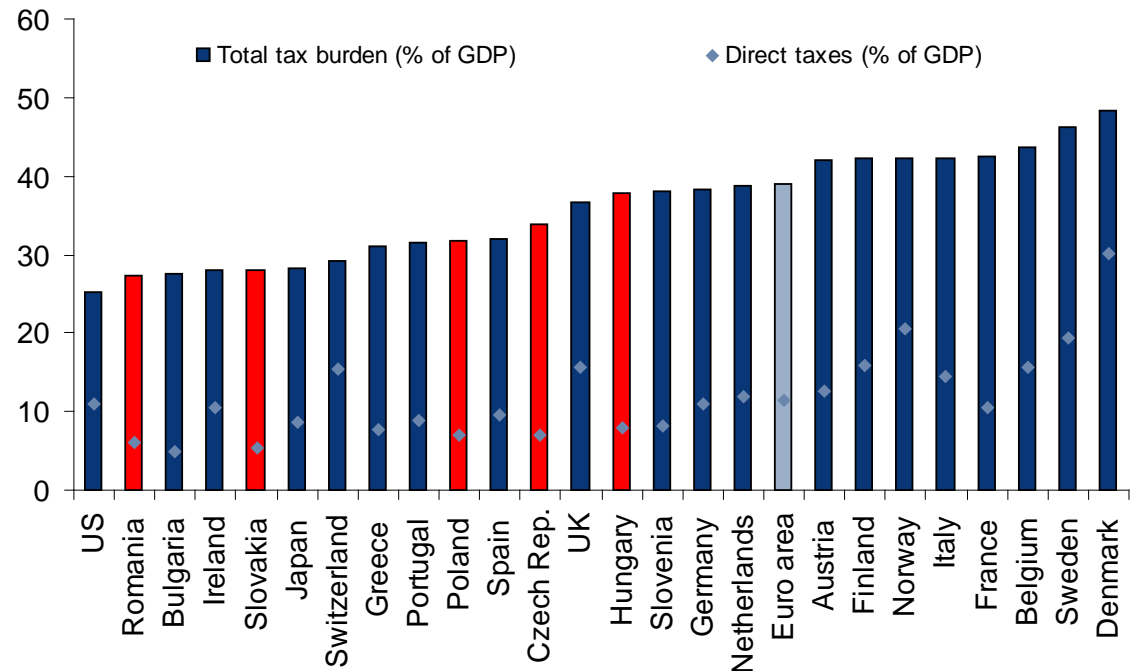
Source: Datastream, Erste Group Research

The CEE region and its prospects –

Lower income tax vs. Western Europe

- CEE countries have much lower redistribution and welfare state compared to Western Europe
- There is bias to tax consumption rather than income or capital in order to support investments
- VAT is rather high in CEE, while income taxes are in many cases below 20%

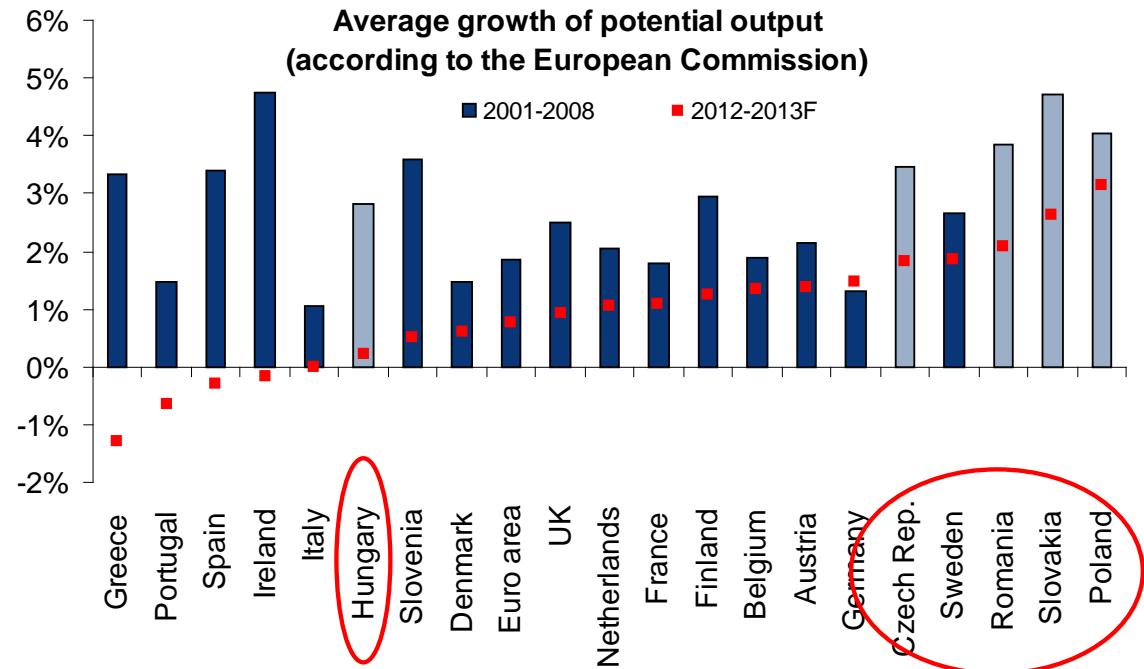
Total tax burden (% of GDP, 2010)



Source: European Commission (AMECO), Erste Group Research

The CEE region and its prospects – Higher growth potential

- Adjusted for cyclical component, CEE countries besides Hungary have twice as high potential growth than the Euro Area (2-4% vs. 1%) in the following years
- In Hungary, pending reforms of the labor market, unorthodox policy decisions and a relatively high tax burden have an adverse effect on potential growth



Source: European Commission, Economic Forecasts Autumn 2011