



Joint Congress of UNECE & EuBV 2010

May 17-19, 2010 – Munich/Germany

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Agenda

1. Volksbank International – An Introduction
2. Status Quo - Mortgage Market in CEE
3. New Approaches to Mortgage Loans – The Need for Differentiation



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VOLKSBANK INTERNATIONAL - AN INTRODUCTION

A large, light grey stylized 'V' logo, which is part of the Volksbank branding.

One of the First in CEE

- Volksbank AG (VBAG), majority shareholder of Volksbank International AG (VBI), was **one of the first** international banks to commence activities in CEE.
- VBAG started its expansion into **CEE in 1991** by establishing a subsidiary in Slovakia.
- In 2004 / 2005, DZ BANK / WGZ BANK on the one hand, and the French BPCE on the other, each acquired stakes of 24.5% in VBI.
- Today, the VBI Group network comprises **10** successful and expanding **VBI banks in 9 countries** in CEE: Slovakia, Czech Republic, Hungary, Slovenia, Croatia, Romania, Bosnia-Herzegovina, Serbia and Ukraine.



Respectable profit in 2009 ^{/1}

- 10 full service banks in 9 CEE countries
- 582 sales outlets
- 5,483 employees
- Total assets amounting to EUR 13.9 billion
- 1.5 million customer accounts



Respectable profit in 2009 ^{1/2}

- Positive EBT amounting to **EUR 47.5 million**
- Operational income (before risk): **EUR 243.4 million** (+ 38.0%)
- Interest income: **EUR 407.8 million** (+ 21.8%), **Tier 1 = 12,8%**
- **Total volume of retail mortgages 02/2010: 3,75 billion EUR** (80% of Retail Loan Volume)
- New allocation of risk provisions amounting to EUR 174.6 million
- Focus on customer-related business with private individuals and small and medium enterprises
- Conservative risk policy
- Outlook: Upward trend in CEE at the end of 2010

Comparison 2008 to 2009

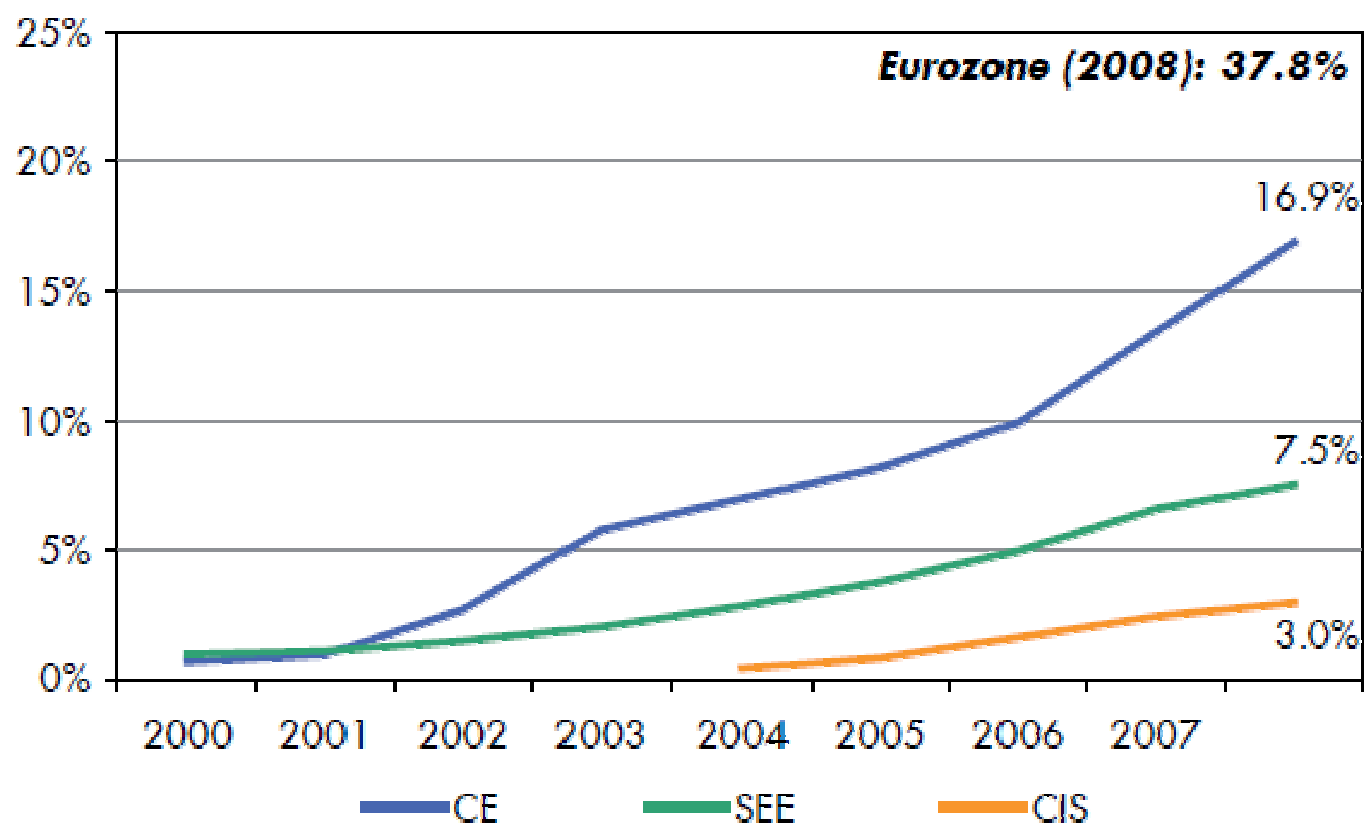


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STATUS QUO – MORTGAGE MARKET IN CEE



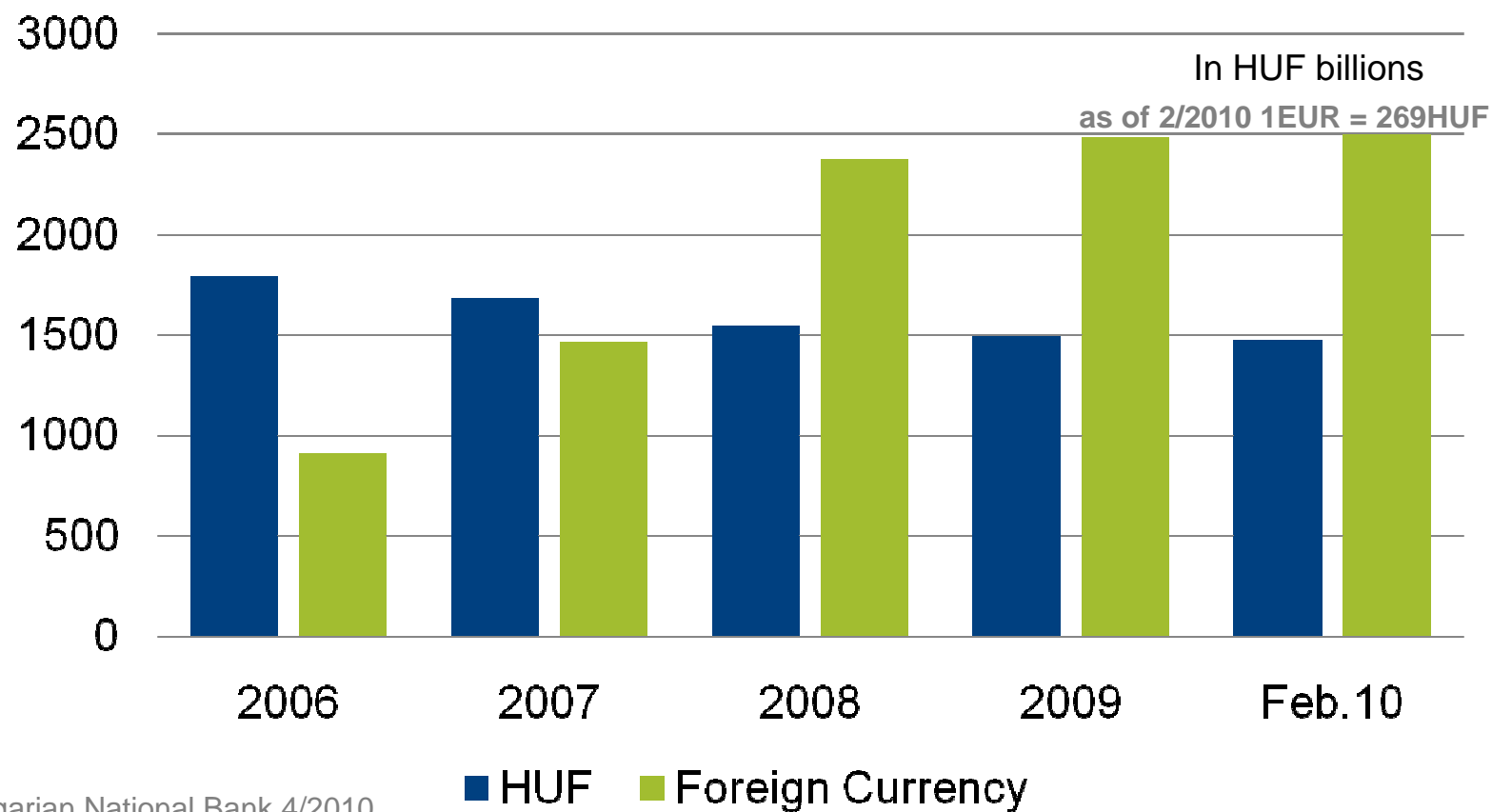
Development of Mortgage Loans in % of GDP



Source: Raiffeisen RESEARCH 12/2009



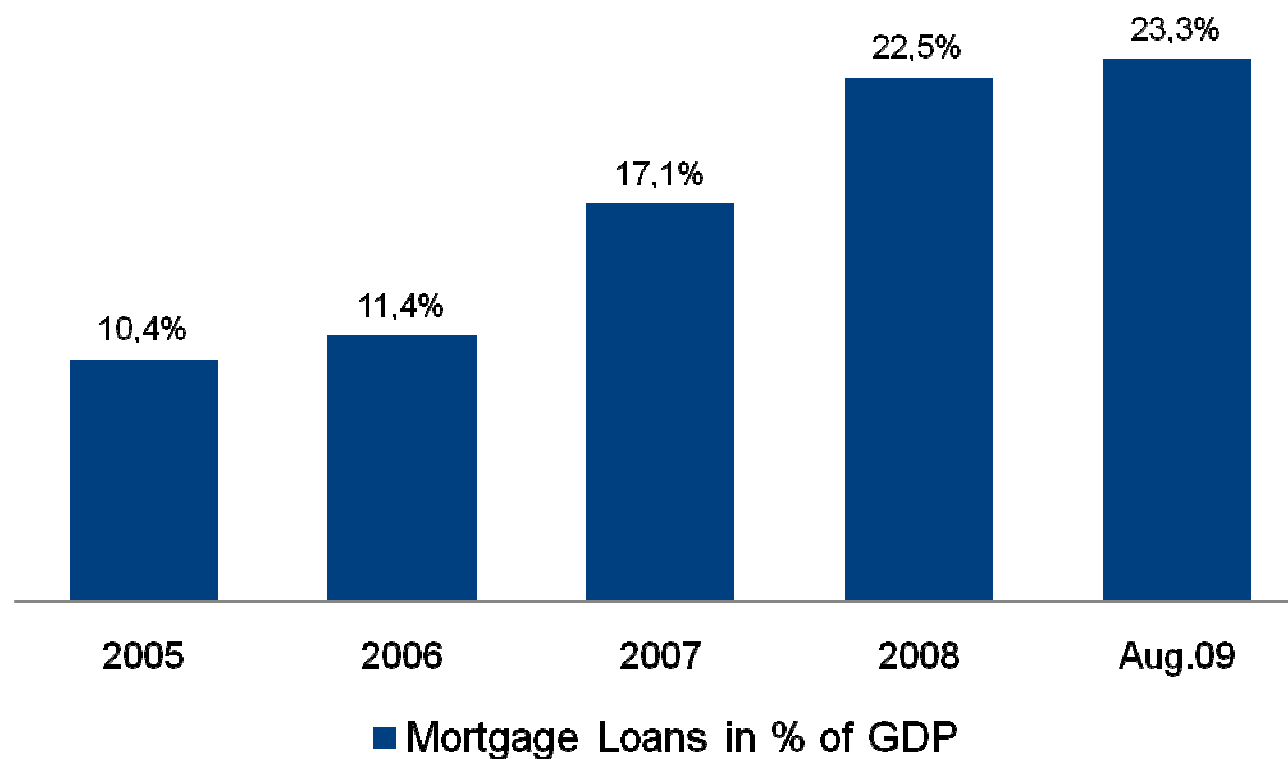
Focus: Mortgage Loans Market in Hungary



Source: Hungarian National Bank 4/2010



Focus: Mortgage to GDP Ratio Hungary

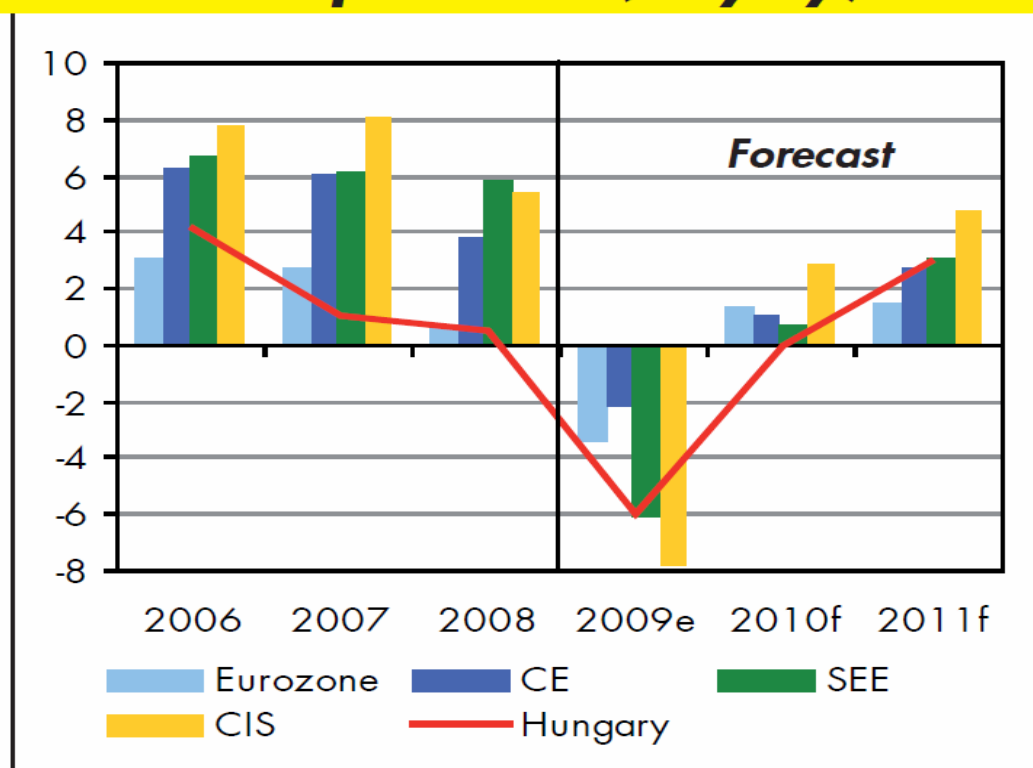


Source: Raiffeisen RESEARCH 4/2010



Mortgage to GDP Ratio in CEE

GDP comparison (% yoy)



Source: Raiffeisen RESEARCH 4/2010

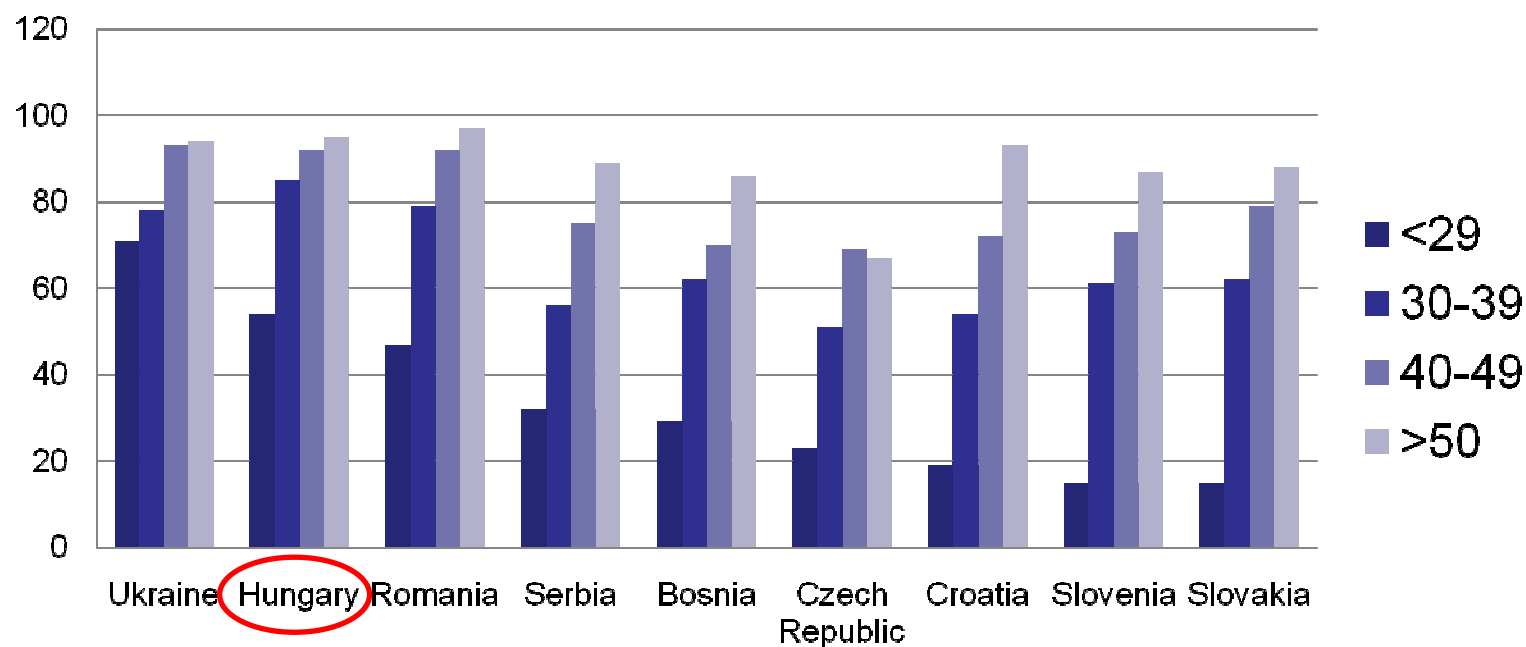
From Moscow to Mortgage

- Improved living standards in CEE countries lead to a new demand for real estate properties
 - Short term perspective: Slower demand due to crisis
 - Medium/Long term perspective: Growth in demand continues
- The communist regime left the CEE region with a unique housing stock of relatively recent, but often rundown homes
- Quality and maintenance issues are particularly relevant in some CIS countries
- In Central European countries, like Hungary and the Czech Republic, quality standards are much more similar to western ones



A Younger Generation Seeks Real Estate/1

Home Ownership by Age (in %)

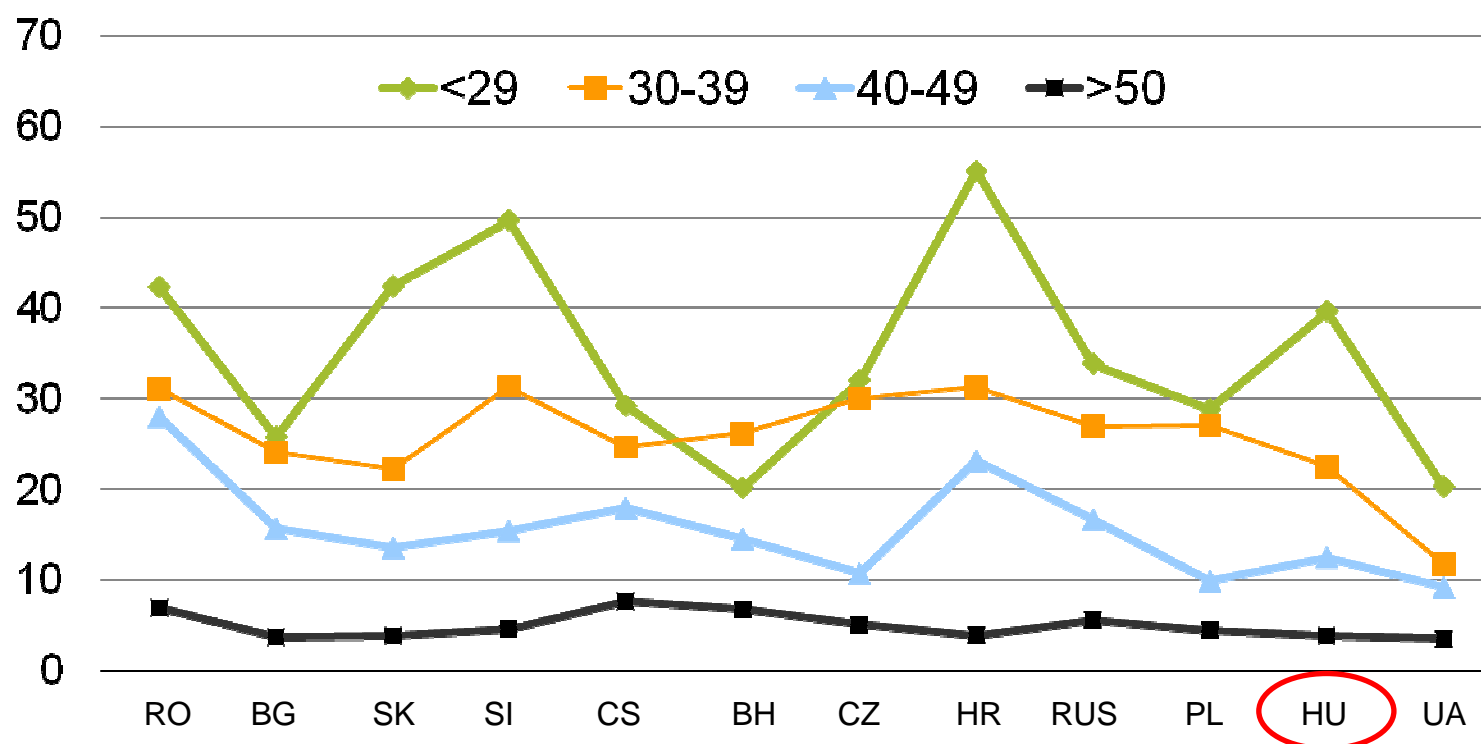


Source: UniCredit RESEARCH 2008



A Younger Generation Seeks Real Estate/2

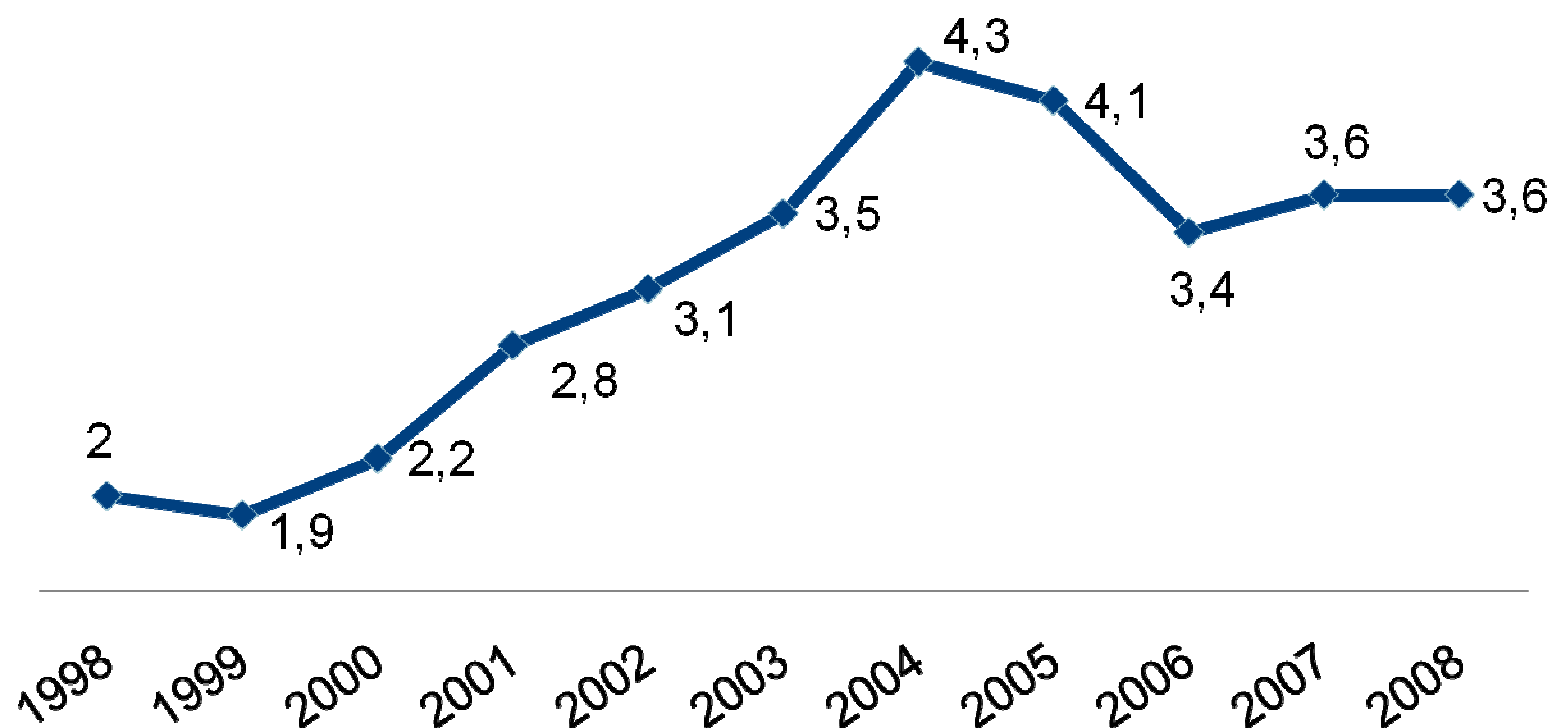
Propensity to Buy Real Estate by Age in %



Source: UniCredit RESEARCH 2008



Focus: Dwelling unit completion per '000 inhabitants in Hungary



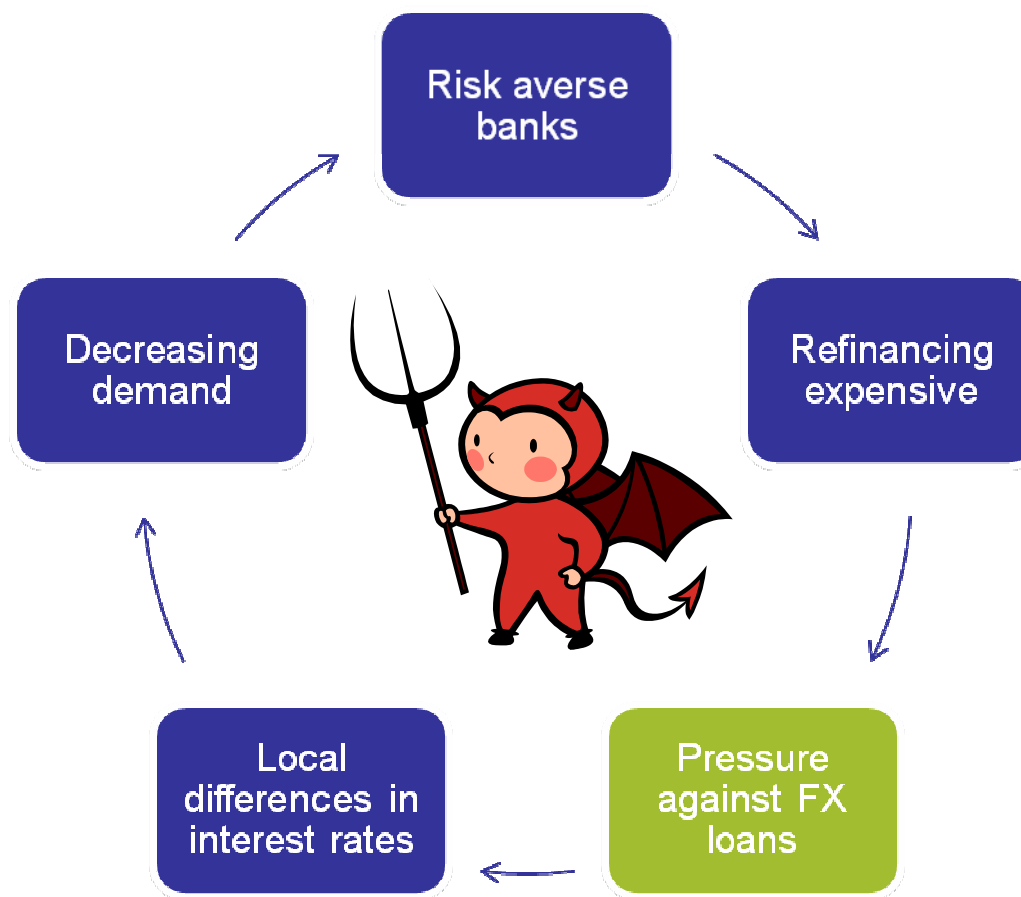
Source: Hungarian Central Statistical Office 4/2010

Questionnaire Among VBI Heads of Retail

- Total market growth expected to decline in 2010, **regain growth starting 2011 & 2012**
- Average **margin level will likely stay the same**, VB Romania expects an adaptation of its margin to the level of other CEE countries.
- Most important sales channels will be the **internet, external sales agents as well as cooperations with real estate agencies**
- Key factors for success are **a good price-performance ratio, brand awareness, fast decision process & a customer oriented product range**



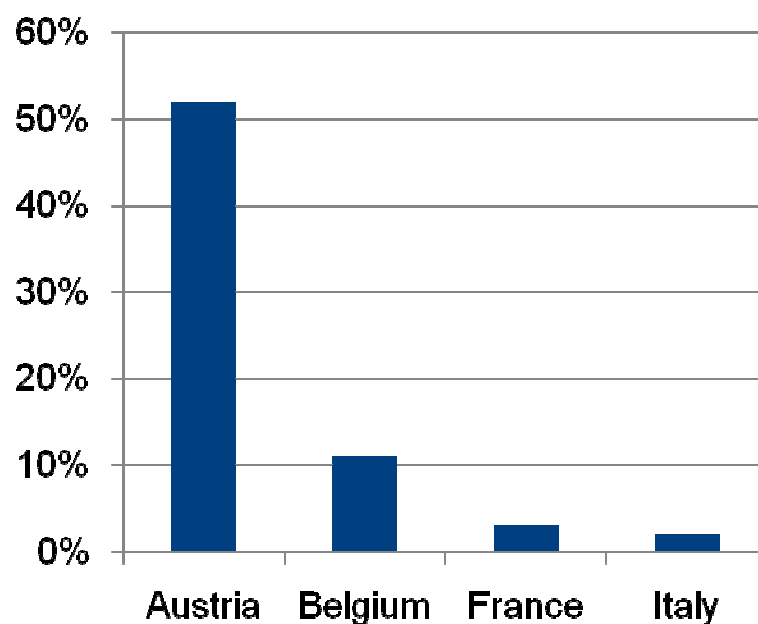
Vicious Mortgage Circle





Pressure
against FX
loans

National Banks Push Against FX Loans



**Austrian FX claims in CESEE in
relation to GDP**

Loan to value ceilings

HUF	EUR	Other FX
No limit	80% of HUF limit	60% of HUF limit

**Regulation by the Hungarian
Government to limit FX lending –
effective June 2010**

Growth Steady but Slower How to Make the Most of It?





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NEW APPROACHES TO MORTGAGES - THE NEED FOR DIFFERENTIATION

Different Approach to Selling Mortgages Needed



The same product has a price difference of + 800 %

Energy Efficiency Line by VB Bosnia

- **For corporate clients**

- Reduction of energy consumption
- Heat efficiency / Rehabilitation of existing boilers
- Installation of variable speed drivers on selected electric motors
- Implementation of energy saving measures in industrial buildings

- **For private households**

- Thermal insulation (windows, walls, roof, ...)
- Modernization of heating system

- **Loan Amount: EUR 7.500 – EUR 50.000 (7,95% p.a.)**



VB Hungary – New State Subsidy Loan

- Housing purpose loan was created in 2009
- Loan only available in HUF (Hungarian currency)
- Based on a state interest subsidy
- Available to families with at least 2 children
- Intention: Helping families sustaining, modernizing and building their future
- Maturity: 5-35 years
- Interest rate (after subsidy): 6% - 7,41% yearly fixed or every 5 years



Rules of State Interest Subsidy

- Value of subsidy in % of government bond yield

Age of applicant < 45 years and > 6 children	Age of applicant < 45 years and = 5 children	Age of applicant < 45 years and = 4 children	Age of applicant < 45 years and = 3 children	Age of applicant < 45 years and = 2 children	Age of applicant < 35 years and = 1 child
70%	64%	59%	55%	52%	50%

(In case of house modernization subsidy is 40%)

- Other real estate ownership is forbidden
- Income from sold property has to be expended on the new property buying/building
- Purchase price or building calculation is max. 25 million HUF in Budapest and county town, 20 million HUF in other area.
- Applicant has to justify with bills the 100% of purchase price or 70% of building calculation
- Currency of loan is only in HUF.

State Subsidy Loan VB Hungary

Advantages for clients

- Loan with favorable interest, state interest subsidy for 20 years
- Predictable, interest fixed yearly or every 5 years,
- Based on HUF, without risk of exchange rates
- Determined persons can combine with state guarantee, they can get loan without further resources

Advantages for the bank

- Cheap HUF based loan for our customers → competitive with EUR loans
- Regular income from state subsidy (~3,38-4,34%)
- Mortgage loan without risk of exchange rate, capability of repayment is more measurable
- Determined persons may combine with state guarantee → further collateral for our Bank

Hedging Mortgage Interest Rates with Interest Caps/1



- Customer safeguards his risk by agreeing to a certain interest cap
- In case of an interest increase the customer receives a compensation
- Compensation equals the difference between base value and cap

Hedging Mortgage Interest Rates with Interest Caps/2

Advantages for clients

- Client is able to hedge interest rate risk
- Attractive alternatives to offers by building societies → attractive product
- No taxation problems
- No prior knowledge needed
- Reasonable pricing

Advantages for the bank

- Improved image by offering an attractive and safe product
- Additional fee income



Questions & Answers





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