

> **Erste Bank Croatia**

**Building a retail bank with 15% market share
and a meaningful contributor to group profits**

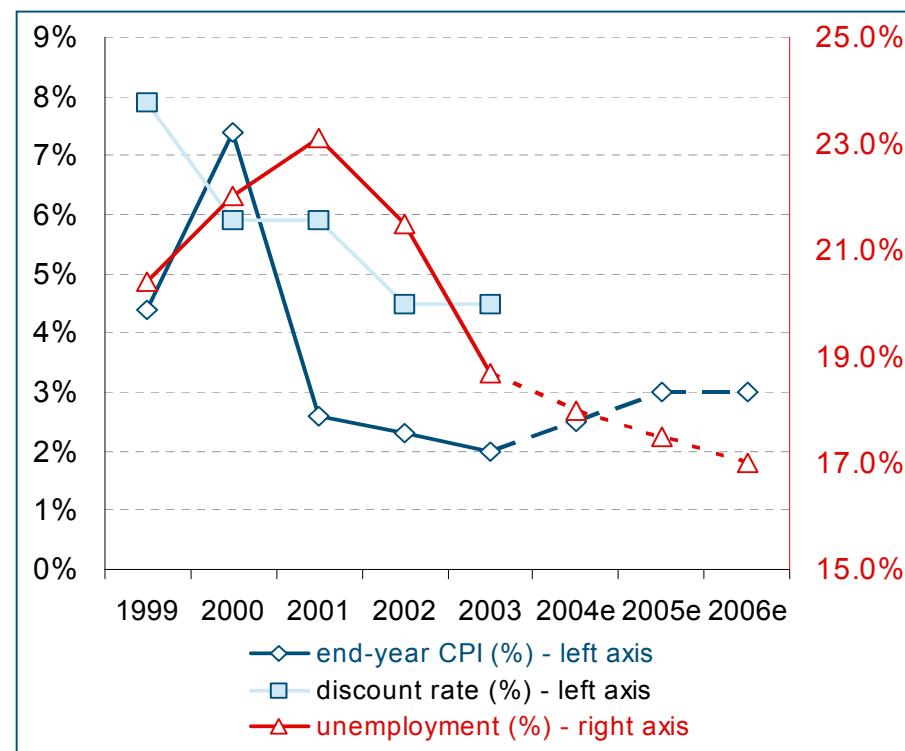
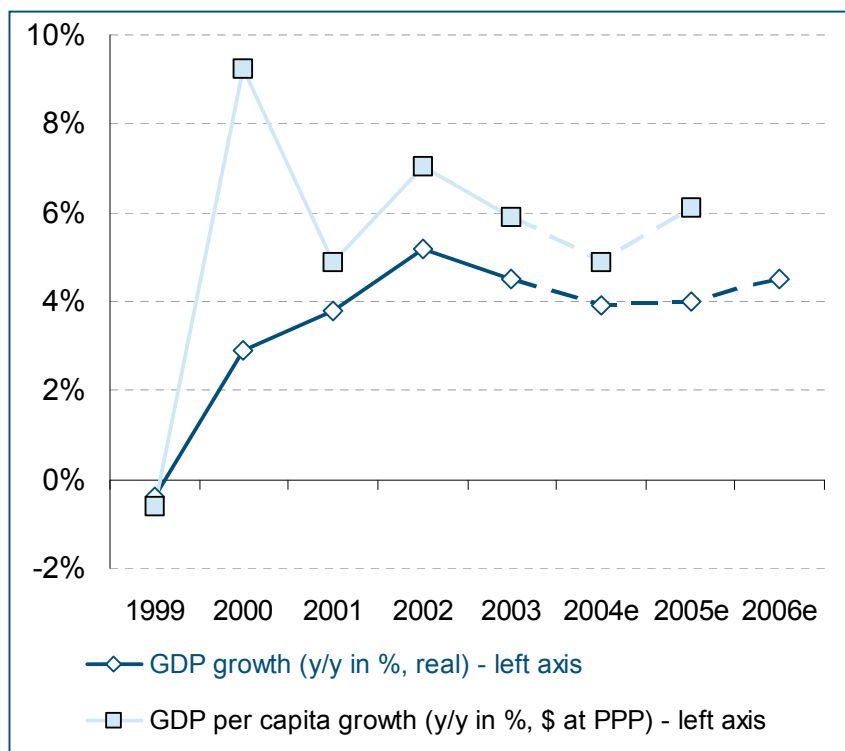
> 2nd Capital Markets Day

> Budapest
24 September 2004

> Sava Dalbokov, Member of the EBCR Managing Board

> Croatia: Macroeconomic Overview

Stable macro-economic environment, but some challenges ahead



Positive developments

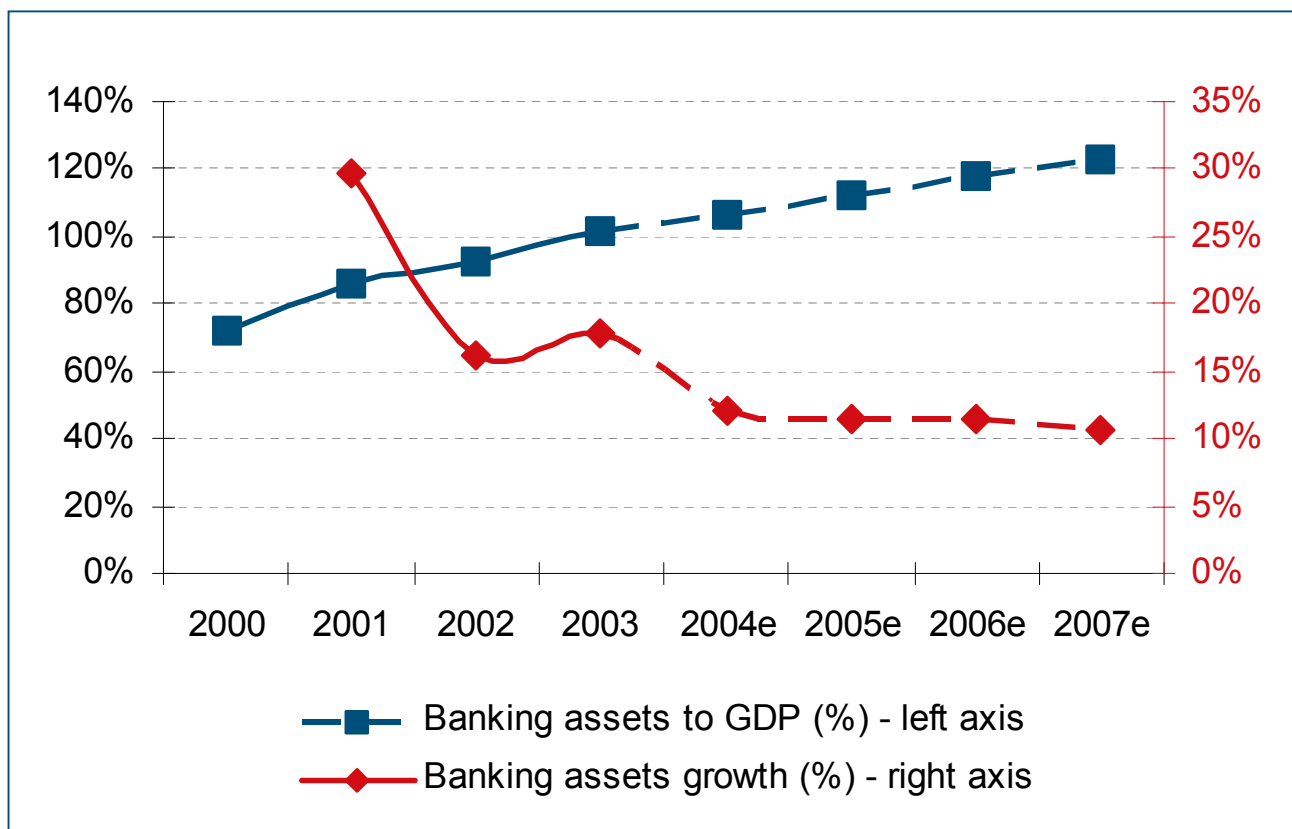
- » Positive indications for Croatia's EU accession (June 2004) => 50 bps reduction of sovereign spreads
- » Strong tourist season and increasing popularity of Croatia as a tourist destination

Challenges

- » Public spending and government deficit at a relatively high level => reduction needed
- » Foreign debt increasing rapidly => restrictive monetary policy to curb this development

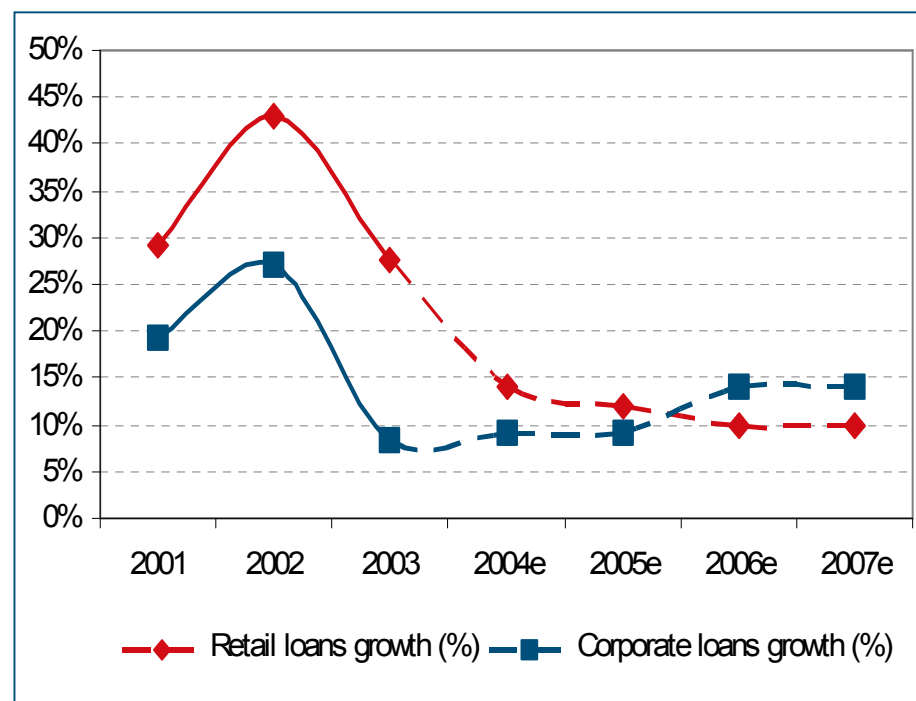
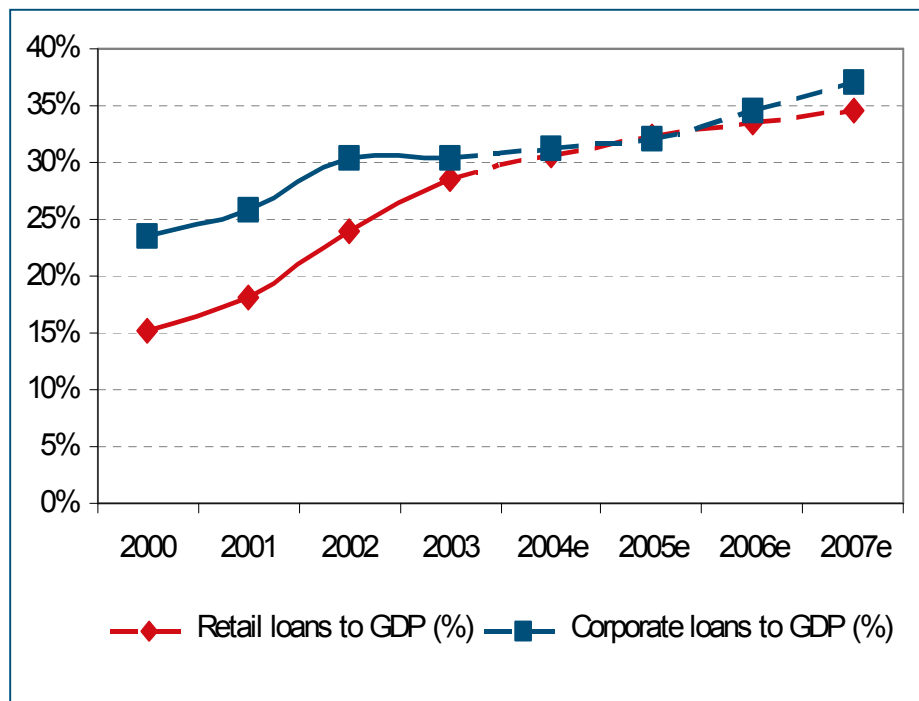
> Croatia: Banking Market Penetration Total Assets

Penetration levels among the highest in Central Europe



> Croatia: Banking Market Potential Lending

Deceleration in retail lending, corporate loan growth to pick up



» Consumption-driven retail lending expected to slow down

- » Relatively high penetration rates in this area
- » Introduction of a central credit register for retail loans

» Good potential in corporate lending, driven by ongoing economic restructuring

- » EU accession expected to bring additional positive effects, especially in the public sector

> Current Market Position

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Return to accelerated growth following a successful merger

- » **2003 was marked by the rapid and highly successful merger between Riječka banka and the former Erste & Steiermarkische Bank**
 - » Full organisational and IT integration achieved within 12 months
 - » Virtually no loss of customers and solid growth even in the merger year
 - » Significant efficiency improvements by centralising back office functions and introducing a customer-oriented approach at the former Riječka banka
- » **Full focus on market growth and continuous increases in market shares in 2004**
- » **EBCR is among the top banks in Croatia with third largest retail customer base and branch network**
- » **Current market shares are about 9.5% to 10% in key customer segments**

> EBCR Development of Market Shares in 2004

Return to growth, strong gains especially in corporate lending

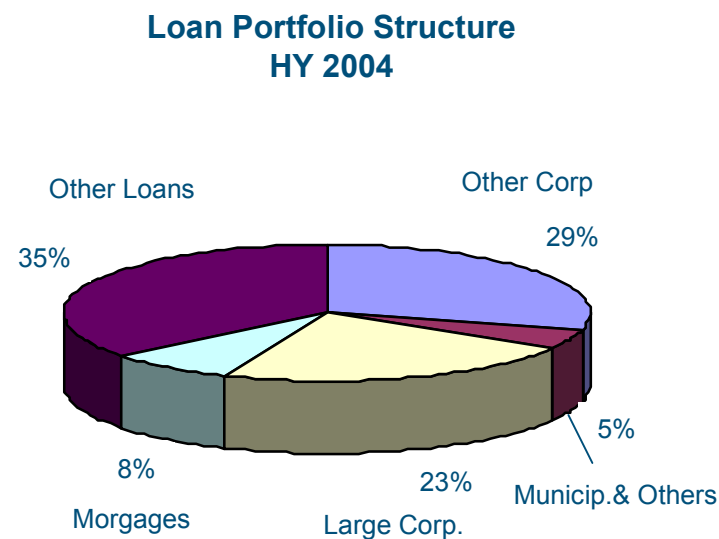
	31.12.02	31.12.03	30.6.04
Total Assets	9.0%	9.6%	9.6%
Total Loans	9.1%	9.1%	9.9%
Retail Loans	9.3%	9.0%	9.1%
Corporate Loans	8.9%	9.2%	10.6%
Total Deposits	8.4%	9.1%	9.2%
Retail Deposits	8.3%	8.8%	9.0%
Corporate Deposits	8.5%	9.8%	9.5%

> Loan growth potential

> Detailed Structure of EBCR Loan Portfolio

Strong growth in retail mortgages and SME lending

HRK m	31.12.03	30.06.04	YTD Growth
Corporate Loans	5,600	6,924	23.6%
Corporates	4,999	6,327	26.6%
Large Corporates	2,236	2,790	24.8%
Other Corporates	2,763	3,537	28.0%
Municipalities & Others	601	597	-0.7%
Retail Loans	4,973	5,330	7.2%
Mortgage Loans	772	944	22.3%
Other Loans	4,201	4,386	4.4%
Total Customer Loans	10,573	12,254	28.0%



> **Focus on Lending Activities: Market Environment**

Demand for Lending still High

- » **Over the past few years growth in lending has been strong especially in the retail segment**
 - » Retail lending grew 43% in 2002 and 28% in 2003, primarily driven by consumption
 - » More moderate corporate lending growth at 27% in 2002 and 8% in 2003
- » **Mid- and long-term loans generally euro-linked (the Croatian economy is highly euro-denominated)**
- » **Since 2003 the Croatian National Bank has been trying to bring down lending growth in order to curb foreign indebtedness**
 - » Successive introduction of various reserves on foreign borrowing by banks, leading to increase in costs of foreign funding
 - » Increased borrowing costs only partially passed on to end customers due to competition
- » **Expected slow-down in consumption-driven retail lending, however, solid overall growth outlook over the next few years**
 - » Expected average growth rates between 15% and 10% p.a. for the next 2-3 years

> **EBCR Lending Activities – Retail Outlook**

Continue healthy growth trend, focusing on mortgage lending and consumer loans

» **Total retail loans to grow over 20% in 2004**

- » Annual growth in retail mortgages of 70+%
- » Annual growth in other (consumer) loans of some 12%

» **Continued focus on mortgage lending (targeted annual growth of 20+% in 2005-6), improving the risk profile of the overall portfolio**

- » Strong retail demand for housing, construction sector very active
- » Improving collateral legislation and foreclosure possibilities
- » Majority of retail housing assets still unleveraged

» **In the consumer finance area, growth rates to normalise at about 12-14% p.a.**

- » Market reaching saturation, availability of non-mortgage collateral increasingly limited
- » Establishment of a central retail credit register
- » Above-average potential in credit card loans, partly at the expense of cash loans

» **EBCR aims to increase market share in retail lending to 11-12% by end 2008**

> **EBCR Lending Activities – Corporate Outlook**

2004 particularly strong in corporate lending, growth trend to continue

- » **Total corporate loans to grow over 30% in 2004**
 - » SME lending is the main growth driver with projected annual growth of 35%
- » **Expected growth rates in corporate lending of 15-30% p.a. over the next 2-3 yrs**
 - » SMEs are increasingly active, driven by tourism, construction / real estate, services and trade
 - » Large corporate sector consolidating, Croatian “blue chips” securing their positions
 - » Significant investment demands of the public sector
- » **EBCR is well positioned to capitalise on growth trends**
 - » Focus on SMEs through geographic expansion and further penetration of existing markets
 - » Expansion in large corporate segment, based on acceptable risk-return parameters
 - » Emphasis on municipal lending and lending to other public entities
- » **EBCR aims to increase market share in corporate lending to 13-14% by end 2008**

> EBCR Loan Portfolio – Margin Development

Declining margins due to competition, but growth to offset margin compression

- » **Current average retail lending margins (over Euribor)**
 - » Mortgage Lending: approx. 400 bps
 - » Other (consumer) lending: approx. 750 bps
- » **Expected developments in retail margins in 2005-6**
 - » Mortgage Lending: decrease by approx. 0.5 – 0.75%
 - » Other (consumer) lending: decrease by approx. 1-1.5%
- » **Current average corporate lending margins (over Euribor)**
 - » Large corporates: approx. 250 bps
 - » SMEs: approx. 450 bps
- » **Expected developments in corporate margins in 2005-6**
 - » Large corporates: decrease by approx. 0.75%
 - » Other (SME) lending: decrease by approx. 1-1.5%
- » **Trends leading to margin compression**
 - » Competition, especially for good corporate clients, in the public sector and in retail
 - » Country risk spreads coming down
- » **Nevertheless there are trends that slow down margin compression**
 - » Restrictive monetary policy of the National Bank and extra costs of foreign refinancing
 - » Profit targets and increasing awareness of risk-adjusted pricing

> EBCR Loan Portfolio – Risk Profile

in HRK m, IFRS	31.12.2002				31.12.2003				30.6.2004			
	Out.	%	Prov	Covg.	Out.	%	Prov	Covg.	Out.	%	Prov	Covg.
EBCR Total	4,398	100.0%	390	8.9%	10,573	100.0%	715	6.8%	12,254	100.0%	727	5.9%
Standard	3,800	86.4%	0	0.0%	7,278	68.8%	0	0.0%	11,334	92.5%	0	0.0%
Watch	44	1.0%	0	0.0%	2,008	19.0%	0	0.0%	192	1.6%	53	27.6%
Non Standard	153	3.5%	33	21.5%	673	6.4%	156	23.2%	108	0.9%	61	56.5%
Doubtful	104	2.4%	59	57.1%	184	1.7%	129	70.1%	27	0.2%	20	74.1%
Loss	297	6.8%	297	100.0%	430	4.1%	430	100.0%	593	4.8%	593	100.0%

- » **Change in accounting principles since 1.1.2004: introduction of IAS 39 for loans**
- » **Resulted into a transfer of the bulk of “Watch” loans to “Standard”**
- » **Standard loans covered by a general provision in the range of 0.85-1.2%**
- » **Specific provisions are created for the rest of the portfolio**
- » **Expected risk costs of about 30bps in 2004 and about 60bps 2005/06**

NOTE: Figures as at 31.12.2002 refer to Erste & Steiermaerkische Bank before the merger with Rijecka banka d.d.

> SWOT – EBCR and the Croatian Lending Market

Well Positioned for Further Growth and Market Share Gains

Strengths / Opportunities	Challenges / Threats
<ul style="list-style-type: none">» Well rounded product portfolio, innovation track record in the lending area» Quick reaction and decision times» Strong risk management and good portfolio quality» Strong growth in core segments SME and retail mortgage lending» Good position in high-growth sectors, such as tourism and real estate» Excellent growth potential in the retail and corporate mortgage markets, as well as in SMEs and the tourism sector» Still good opportunities in the consumer finance area, but growth coming down» Municipalities and public sector will also be borrowing more	<ul style="list-style-type: none">» Further expansion of the client base in areas where EBCR is geographically less present» Further market penetration in some of EBCR's core markets (Rijeka and Istra)» Streamlining of approval process and strengthening cross-border co-operation in the large corporate segment» Undifferentiated restrictive policy of the Croatian National Bank toward lending, further limitation to inflow of foreign capital» Margin erosion due to competitive pressures» Economy still not fully restructured, some fall-outs of larger systems still possible

- » **In the medium term (till 2008), EBCR can attain market shares of 11-12% in retail lending and 13-14% in corporate lending through organic growth**

> Fee income potential

> Fee & Commission Income Development in 2004

Growth driven by card business and payments

HRK m	31.12.2003	%	30.6.2004	%
Documentary & lending-related business	20	21.1%	11	19.6%
Payment transfers	53	55.7%	41	73.2%
Others	22	23.2%	4	7.2%
Net Fee and Commission Result	95	100.0%	56	100.0%

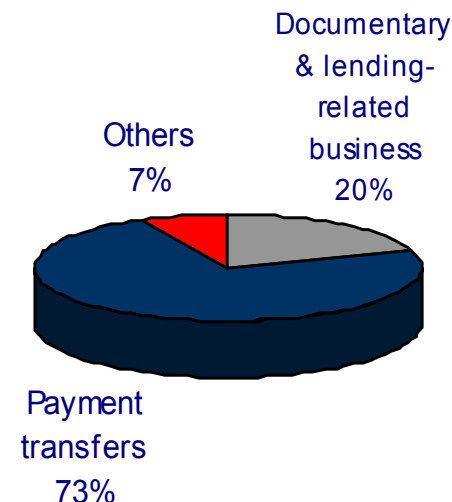
Net Fee Income Structure (HY2004)

» **Generally, second half is stronger for EBCR's fee activities**

- » Tourism related fees from card business
- » Intensified activity in the area of corporate payments in the last quarter of the year

» **Good outlook for 2004**

- » Expected annual growth in net fee & commission income of some 20%, driven by card business and domestic payments



> Overview of Fee & Commission Business – Retail

Significant growth potential in cards & para-banking products

» Currently main fee generating sources are account management, cards and domestic payment services

- » EBCR has made significant advances in channeling domestic payments through its own network, including through alternative channels
- » Steady growth in retail customer and card base

» Measures & Growth Initiatives for Retail Fee Income

- » Ongoing revision of transaction fee levels and implementation of new ones with the objective to move clients toward self-service channels => increase penetration of alternative channels and minimise transaction costs
- » Continued increase in sales of banking and para-banking products (current accounts), implementation of product packaging – focus on life insurance, investment and pension funds and building savings (expected annual growth rates of 30-50%)
- » Increase card usage (especially POS transactions) and number of card products
- » Fully implement personal banking approach as basis for cross selling
- » Strengthen asset management (presently 5% market share) and pension funds (10% market share)

» Target growth rates for retail & card fee income of 20-30% p.a. over next 3 yrs

- » Fastest growth expected in card business and fees from sales of para-banking products
- » Solid base-line growth in fees from payment services, potential for some fee increases

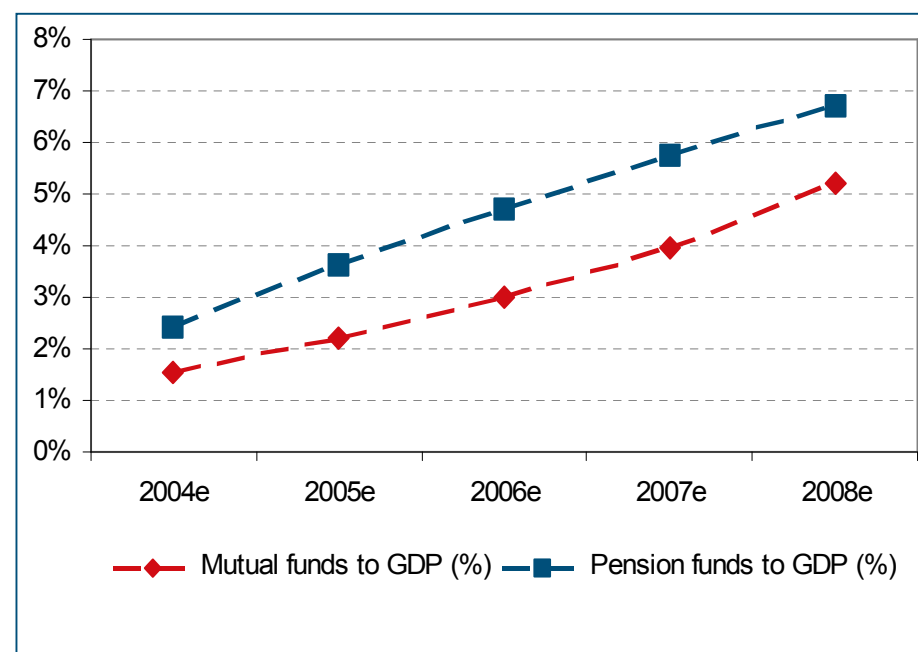
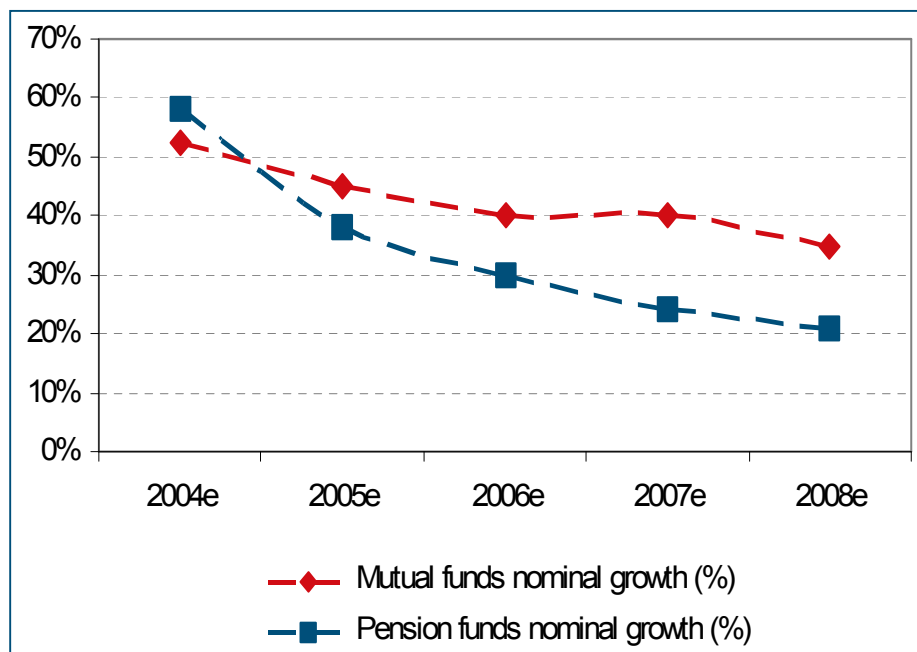
> **Overview of Fee & Commission Business – Corporate**

Steady growth, driven by increasing client base & improved cross-selling

- » **Growth in fees from documentary business likely to be tempered by continued intensification of economic relationships with the EU and margin pressure**
 - » Expected annual growth rates in the range of 10-15% over the next 2-3 years
 - » EBCR has a good market position in segments which will still need documentary payments
- » **Fee income from corporate payments offer considerable growth potential**
 - » Domestic corporate payments were deregulated three years ago with banks taking over this part of the business from the central state clearing agency
 - » Increasing foreign payments volume but pressure on margins neutralises growth effects
 - » EBCR has made significant advances in channeling domestic corporate payments through its own network, but further potential exists (especially using alternative distribution channels)
 - » In the area of cash business, EBCR plans to strongly market this service in its core markets
- » **Targeted average growth rates for corporate fee income are about 18-20% p.a. over the next 2-3 years**
 - » Main driver domestic payments
 - » Additional potential in cross-selling of para-banking products (insurance and funds) and treasury products

> Croatia: Mutual Funds and Pension Funds

Strong growth, but from a low base



- » **Pension funds (second pillar) play an increasingly important role as investors**
 - » Total pension fund assets to reach some HRK 7,4 bn. by year-end 2004
 - » Steady annual inflows of HRK 2,5 – 2,8 bn.
 - » Erste Group owns fourth largest pension fund management co. with 10% market share
- » **Growth in the mutual fund segment dependent on domestic liquidity**
 - » Total assets under management currently HRK 3.8 bn., could reach HRK 4.3 bn. till year-end
 - » Erste Invest (asset management subsidiary) currently holds 5% of assets under management and is the fastest growing asset management company in 2004

> Strengths and Weaknesses in Fees

Fee and Commission Income Offers Considerable Growth Potential

Strengths / Opportunities

- » Solid offering in the areas of payment services, cards and multi-channel
- » Large distribution network and retail client base
- » Good co-operation with other “product providers” in the para-banking area
- » Market for additional banking services is still in development
- » Fees for transactions at the counter only to a limited extent
- » Customer awareness of para-banking products is growing

Challenges / Threats

- » Fully implement personal banking approach as basis for cross-selling
- » Constant development of the card and multi-channel offering to keep up with the competition
- » Strengthen the position of the Erste Group in Croatia, e.g. in the asset management area
- » Competition from other large financial groups
- » Increase in retail disposable income not sufficiently fast to generate stronger demand for new financial products

- » **Putting a special emphasis on non-interest income growth, EBCR aims to increase the share of non-interest income to total operating income to close to 30% over the next 3 years (from currently some 25%)**

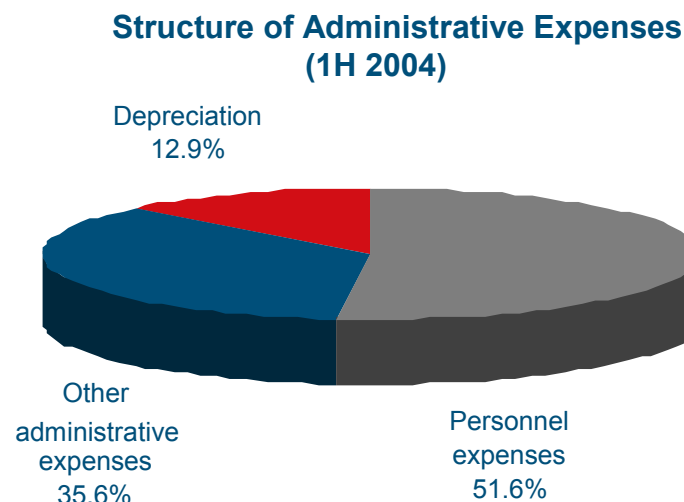
> Administrative expenses

> Admin Costs: maintaining a “lean growth” strategy

Market share gains, but not at the expense of efficiency

HRK m	31.12.03	30.6.04	HY 04 %
Personnel expenses	256	117	51.6%
Other administrative expenses	174	81	35.6%
Depreciation	70	29	12.9%
Total General Administrative Expenses	500	228	100.0%

- » Total operating costs for 2004 expected to be below total operating costs for 2003, despite targeted 15% growth in total assets and close to 30% growth in customer lending
- » Despite ambitious growth plans, EBCR aims to maintain a cost-income ratio in the mid 50's
- » Constant control over growth of cost base, further cost reductions to come through efficiency improvement initiatives, such as further process automation



> Outlook 2004-2006

> EBCR has proven that it can combine strong growth with solid financial results

Continue on the path of accelerated growth and performance

	2004 Targets	2005-2006
» Net Profit after Tax	about 15% growth	about 15% growth
» ROE:	about 18%	18 - 20%
» Cost/Income Ratio:	55%	mid-50s%
» Net Interest Margin:	3.9%	3.6 – 3.8%
» Revenues:	15% growth	15% growth
» Expenses:	0% to slightly negative	about 5%

> Thank You for Your Attention!