

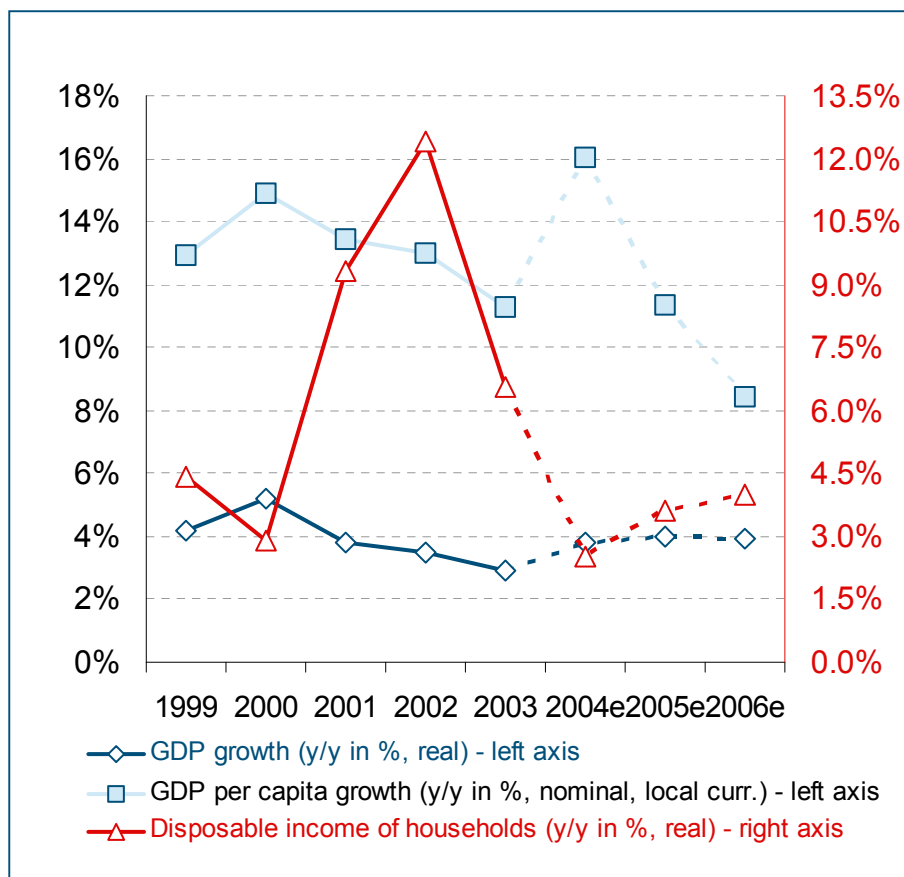
> Erste Bank Hungary

The integration of Postabank – Erste Bank Hungary '05 and beyond

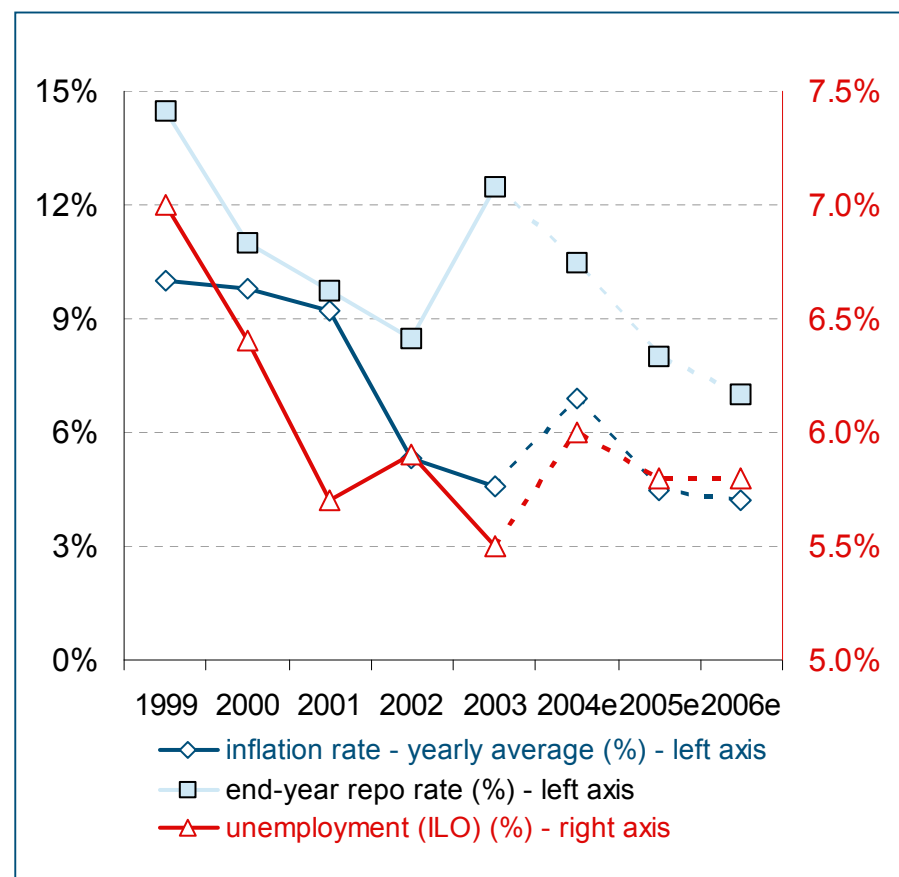
- > 2nd Capital Markets Day**
- > Budapest**
24 September 2004
- > Peter Kisbenedek**
CEO of Erste Bank Hungary

> Hungary: Macroeconomic Overview

GDP and disposable income growth

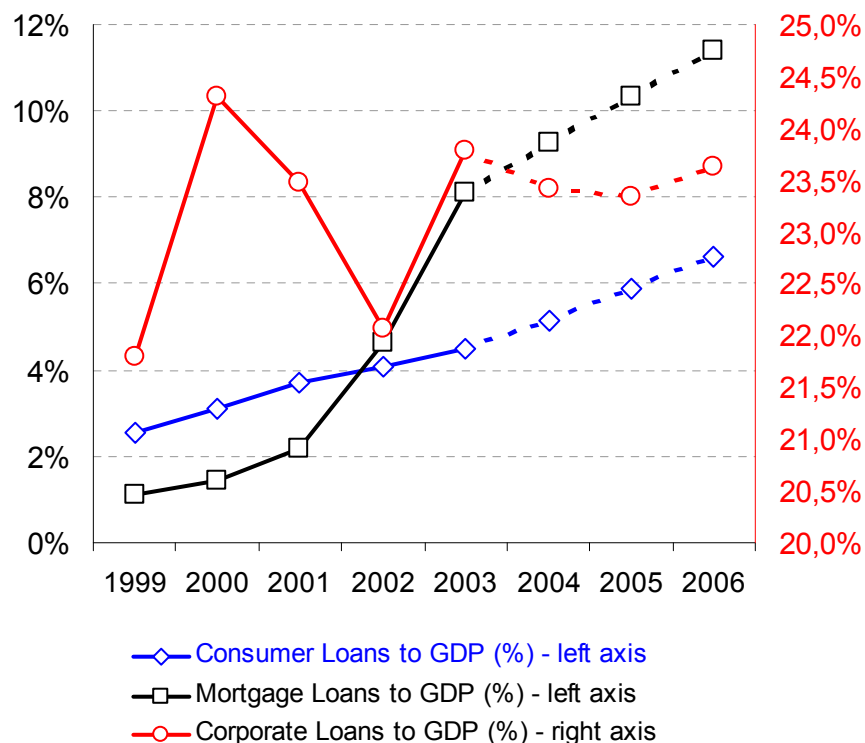


Price index, discount and unemployment rates

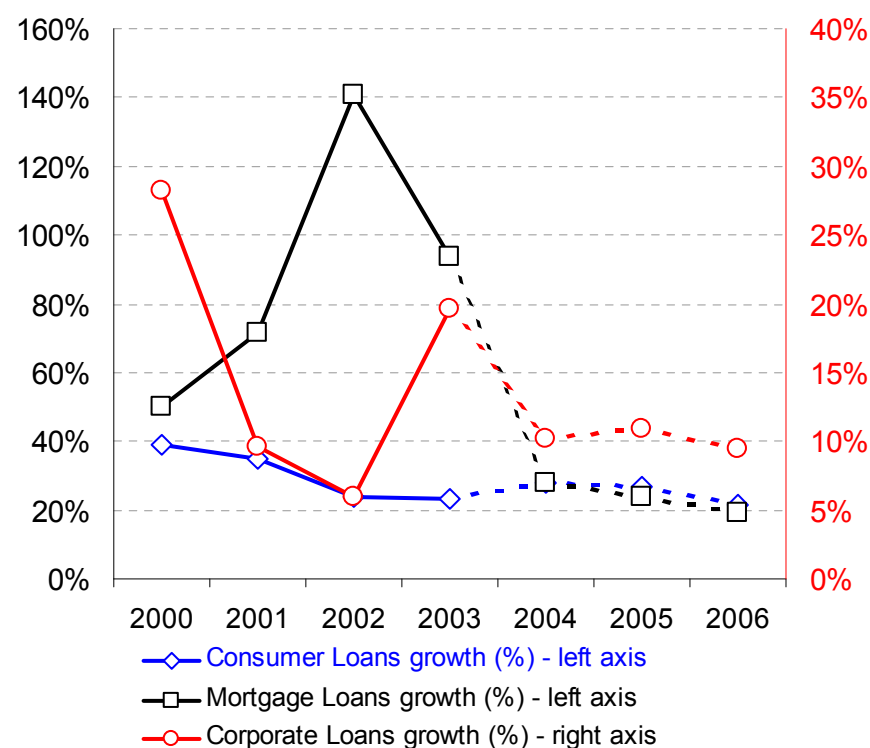


> Hungary: Banking Market Potential

Loans to GDP



Loan Growth



> Current Market Position

> Current Market Position

Development of market shares in H1 2004 – merged EBH

	31.12.03	30.6.04
Total Assets	6.5%	6.3%
Retail Loans	7.9%	8.0%
Retail Deposits	9.2%	8.5%
Investment Funds	2.6%	7.0%
Corporate Loans	7.9%	8.0%
Corporate Deposits	5.1%	5.0%

- » Market shares stable despite intense integration process
- » Substantial market share gain in investment fund business
 - » Boosting investment funds offset the loss of market share in retail deposits

> **Current Market Position**

No.2 retail bank in Hungary after the merger

» EBH showed dynamic organic growth in 2000-2003

» Housing loans to be a key growth driver supported by state subsidy system

» Market positions of EBH after merger with Postabank

» Number 2 in retail loans

» Number 3 in retail deposits

» 3rd largest branch network (160 branches)

» Number 6 in total assets

» Following the completion of integration by end 2004, focus will fully return to business and growth

» Capitalizing on a well-executed integration, the merged bank continues to target a 20-25% retail market share in Hungary

» Target: Merged Bank to continue the success of “old” EBH in exceeding market growth

> Update on Postabank integration

> **Goal of the Integration Program**

To make the business case a reality

» Original targets

- » Integrate PB and EBH by mid-2005
- » By end 2004, achieve the following tasks:
 - Legal merger completed
 - Branch integration and closures accomplished
 - Headcount reductions fulfilled according to business case (appr. 25% reduction)
 - First wave of technical migration executed
 - Real strategic cooperation with Magyar Posta established
 - New brand implemented

» With the achievement of the above goals, integration program to be closed by end of 2004

- » IT migration to be finalized by Q2 2005

> Key Integration Milestones

Bulk of integration steps achieved before legal merger

» Privatization transaction closed	16.12.2003
» Appointment of the 2nd level management	21.12.2003
» Establishment of the Corporate Business	31.01.2004
» Merging of the Treasury	29.02.2004
» Appointment of branch managers completed	31.03.2004
» Selection of all branch employees completed	05.04.2004
» Product and pricing harmonization completed	30.04.2004
» Legal Merger completed	31.08.2004
<hr/>	
» Launch of Image campaign for the merged bank	01.10.2004
» Start of Wave I of automated migration	29.10.2004
» Branch reconstructions and relocations completed	31.12.2004
» Automated migration completed	30.06.2005

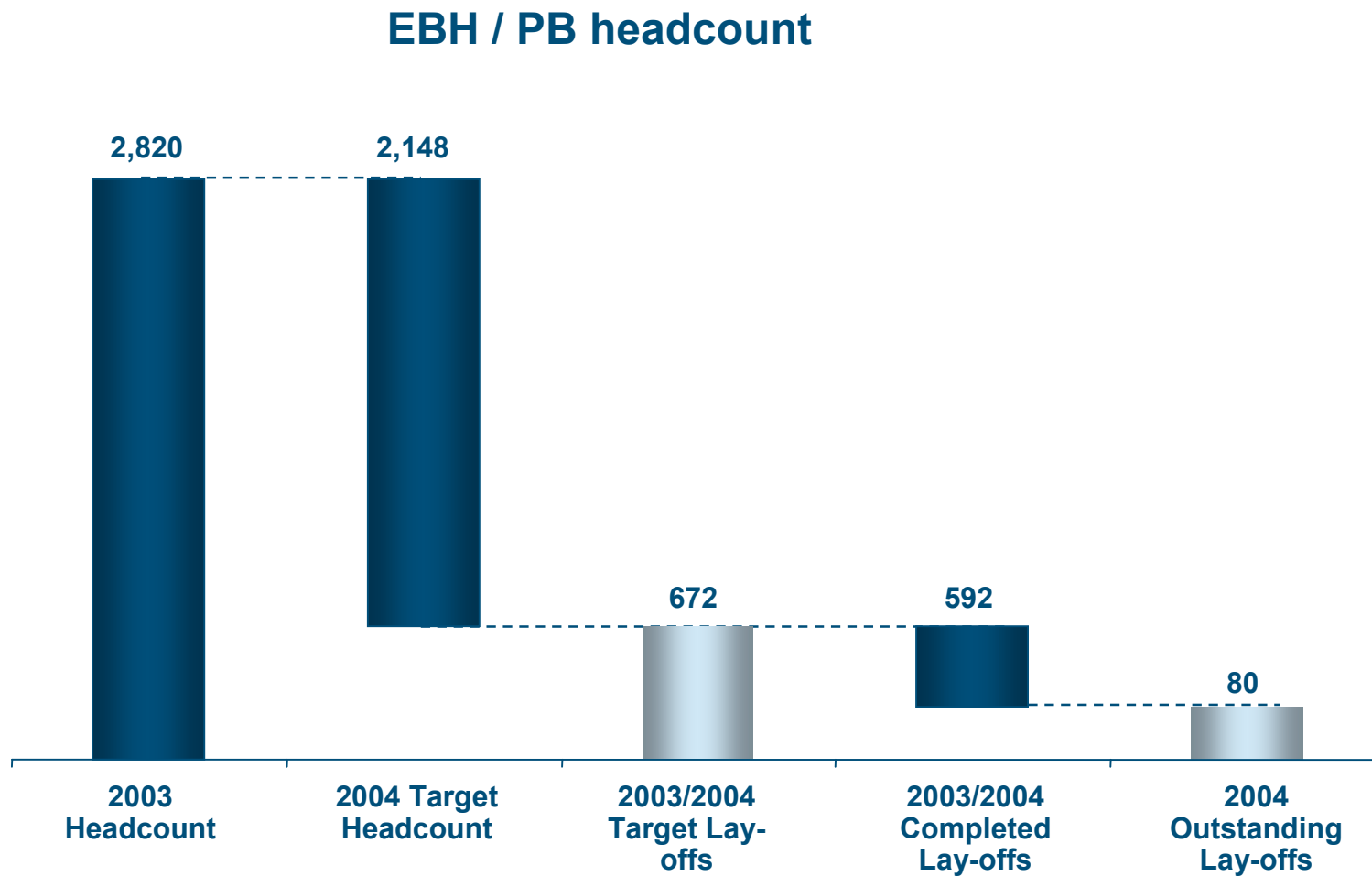
> **Legal Framework Allowing for Fast Integration**

Legal merger completed on 31 August, 2004

- » **Unique legal structure created for the period until legal merger**
 - » Allowed the realization of several rationalization steps before legal merger
- » **EBH and Postabank operated as separate entities under a common management until legal merger**
 - » Double-employment and / or outplacement for first two levels of management and for other justified cases
 - Better communications and higher level of certainty among staff
- » **Cross-agency agreement conducted between EBH and Postabank with both banks acting as agent of the other**
 - » Extended network coverage for the clientele of both banks
 - » Branch rationalization/integration and subsequent headcount reduction could materialize before legal merger
- » **No forced buy-out of minority shareholders**

> Results from Employee Selection and Headcount Reduction (Bank only)

Bulk of the planned staff cuts for 2004 completed



**> Update on the review of strategic cooperation
with Magyar Posta**

> **Status of Magyar Posta project**

Key achievements to date

Background:

» **Old Postabank and Magyar Posta (MP) business model was not in line with Erste Bank's strategic goals**

» Selling potential of MP's network (2,800 post offices) remained unexploited

Action:

» **In February 2004, a joint project was set up with MP, with the aim of creating a new cooperation model**

» Product portfolio to be totally renewed, replacing the current paper-based products

» IT infrastructure to be installed in the larger post offices,

» Substantial training program to be set up for the postal sales staff

» Private label concept to be implemented - products to be sold under Magyar Posta brand

» Revenue sharing model to be introduced (instead of the existing transaction-based commission system)

» Exclusivity granted to Erste in areas covered by the agreement

– Exclusivity does not apply to MP's existing contract for providing banking services

> **Status of Magyar Posta project (2)**

Key Agreement signed this week

» Agreement signed on current account product group

- » Product group covers current accounts, savings accounts account transactions, deposits, debit cards, overdrafts

» Agreement signed on the distribution of investment funds

- » Simple products (e.g. money market fund) to be introduced first
- » Postal volumes expected to reach 17.5% of total funds under management by 2006

» Each agreement to have a scope of 6+2 years

» Contract for other product groups to be signed until end of 2004

- » Agreement on consumer loans to be signed in October 2004

» Fast rollout to post offices

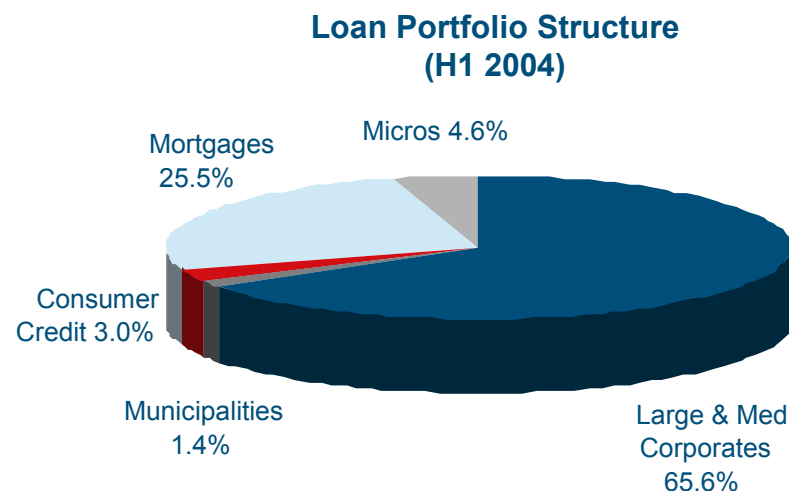
- » Online services to be available in at least 200 post offices by mid 2005

> Loan growth potential

> Loan portfolio structure

Loans to customers

HUFm	31.12.03	30.06.04	YTD Growth
Corporate Loans	423,197	467,864	10.6%
Large & Med Corporates	415,770	458,211	10.2%
Municipalities	7,427	9,653	30.0%
Retail Loans	202,746	230,411	13.6%
Consumer Credit	17,739	20,745	16.9%
Mortgages	153,431	177,720	15.8%
Micros	31,576	31,946	1.2%



- » **Shift to FX financing in mortgage loans due to reduced subsidies and high HUF interest rate**
 - » Mortgage lending slowed down at the beginning of 2004, as demand was brought forward to H2 2003
- » **Consumer loans rose 16.9% YTD**
 - » Introduction of FX financing in H2 2004 is expected to boost the business
- » **Loans to municipalities soared in H1 2004**
 - » Business results in corporate segment were supported by fast organizational integration
- » **Net interest margin of loan portfolio remained stable at 2.2.%**
 - » Avg. margin in retail: 4%
 - » Avg. margin in corporate: 1.3%

> Lending market environment

Retail lending market to grow around 27% in 2004

- » **Market growth decelerated in H1 2004 due to high HUF interest rates and reduction of state subsidies**
 - » Retail lending segment grew by 13.6% in H1 2004 (YTD)
 - » Shift to FX loans due to market conditions
- » **FX loans represented 10.5% of retail loans at the end of H1 2004**
 - » Ratio for EBH is 12.3%
- » **Retail loans to GDP (13.3%) to still offer significant growth potential**
 - » HUF loans to regain popularity if interest rate level drops

> Outlook for lending business

Target Client Segments

Retail

» Middle class private clients

- » Average and/or above average monthly income (ca. 550-600 EUR net income)
- » Existing banking relationship with any bank
- » Cross-selling to Postabank's 500,000 retail clients
→ increase product per customer ratio from 1.6 to 2.5

» Clients of Magyar Posta

- » Average and/or under average monthly income
- » Often no existing banking relationship
- » Opportunity to acquire new customers

» Free professionals → profitable growth market (ca. 60,000)

» Micro clients → high market potential (ca. 600,000) but unexploited due to current risk profile

Corporate

» SME clients → well developed market, high competition and market potential

» Municipalities → segment supported by EU funds

> Outlook for lending business (2)

Growth of retail loan portfolio to continue

- » **Retail lending to reach CAGR of 26.5% during 2004-2006**
- » **Retail mortgage loans 2004-2006 target CAGR: 25.5%**
 - » Poor housing conditions and the under-mortgaged status of Hungary's housing stock bodes well for growth potential
 - » FX housing loans to represent majority of new disbursements in the upcoming year
 - » Free-utilization mortgage loans to be a key growth driver
- » **Consumer credit target 2004-2006 CAGR: 36.8%**
 - » Further dynamic growth due to more sophisticated customer needs
 - » FX-based financing to boost volumes
- » **Corporate segment target 2004-2006 CAGR: 9.6%**
 - » Corporate loan book to grow in line with the market
 - » Increased emphasis on value added services due to low lending margins (especially for large corporates)
 - » Continued focus on SME and municipalities segments, also supported by inflow of EU funds

> Margin outlook

Only gradual erosion expected

Avg. net interest margins – retail loans

	30.6.2004
Consumer Credit	10.3%
Mortgages	3.2%
Micros	3.5%
Retail Banking Avg	4.0%

Avg. net interest margins – corporate loans

	30.6.2004
Large Corporates	0.6%
Medium Corporates	1.7%
Municipalities	2.5%
Corporate Avg	1.3%

Avg. net interest margins outlook – total customer loans

	2003	H1 2004	2004e	2005e	2006e
Retail Loans	n.a. ¹	4.0%	3.9%	3.5%	3.1%
Corporate Loans	n.a. ¹	1.3%	1.4%	1.1%	1.1%
Total customer loans	3.0%	2.2%	2.2%	2.0%	1.8%

¹ Pro-forma data not available for Erste Bank Hungary & Postabank combined

- » Lending margins to remain relatively stable in 2004-2006
- » High margin on existing mortgage loan portfolio ensured
- » Margin on FX mortgage loans to be above 4%

> Loan Portfolio Quality (NBH Classification)

EBH & Postabank pro forma data

In HUF m	31.12.2002		31.12.2003		30.06.2004	
	Out.	Prov.	Out.	Prov.	Out.	Prov.
Total	442,954	16,139	635,610	10,328	708,826	13,572
Standard	398,276	0	597,439	0	670,175	0
Watch	15,127	440	16,077	342	9,724	517
Substandard	5,704	751	9,747	1,834	11,844	2,344
Doubtful	14,749	7,071	6,810	2,559	9,622	4,049
Bad	9,098	7,877	6,537	5,593	7,461	6,662

» Provisioning charge for 2004 - 2006

» corporate loans 40 – 50 bps

» retail loans 60 – 80 bps

> Strengths & Weaknesses in Lending

Well Positioned Further Growth and Market Share Gains

Strengths / Opportunities

- » Loans to GDP well below the Western European level
 - » High growth potential in retail mortgage lending and consumer credit segments
 - » Good dynamics in SME and municipalities business
- » Accessibility - third largest retail banking network
 - » Strong agent network
 - » Access to Magyar Posta customers
- » Cross-selling opportunities – taking advantage of PB's low cross-selling ratio
- » Fast and innovative product development
- » Sound risk management and good portfolio quality

Challenges / Threats

- » Loan approval process could be streamlined (project for 2005)
- » High interest rate level does not bode well for HUF lending
- » Competitive pricing (especially lending fees)

> Fee income potential

> Outlook for fee income growth

Dynamic growth of fee income expected

HUFm	31.12.2003	30.6.2004
Lending business	655	-263
Payment transaction	7,916	5,604
Securities	1,766	1,128
Funds transfer fee	1,095	488
Others	-1,967	-932
Fee and Commission Result	9,465	6,025

» 18.4% expected fee income growth in 2004

» Expected CAGR of fee income 6.5% for 2004 - 2006

- » Dealer fees in leasing business (car financing) reduce consolidated data
- » Leasing income displayed among interest income
- » Bulk of lending fees (loan extension fee) booked as interest-like income

> Outlook for fee income growth (cont.)

Pricing policy

Pricing policy:

- » **Multi-channel approach → strong differentiation among sales channels**
 - » Very competitive pricing of electronic channels
 - » Full pricing for labor intensive transactions
- » **Always one acquisition product offered with very attractive promotional pricing**
 - » Loans, deposits and inv. funds to be the key acquisition products
 - » Customer acquisition to be difficult via current account offers

Fee and commission result – 2004-2006 target CAGR: 6.5% (consolidated)

- » **19.6% avg. growth for bank only in 2004-2006**
- » **Dealer fees in leasing business (car financing) reduce consolidated data**
 - » Leasing income displayed among interest income
- » **Bulk of lending fees (loan extension fee) booked as interest-like income**

> Strengths & Weaknesses in Fees

Fees to be the key driver for income growth

Strengths / Opportunities

- » Channel-based pricing strategy
- » Well communicated pricing
- » Large customer base
- » Primary account for high proportion of customers (Postabank)
 - » Solid transaction usage
- » Relatively limited sensitivity of customers in case of transaction fees
- » Dynamic growth of asset management and para-banking products expected

Challenges / Threats

- » Non-transactional (lending, deposit) relationship with many EBH customers
 - » Secondary account → low transaction usage
- » Strategy for POS merchant acquiring needs revision
- » Stiff competition in lending fees

> Administrative expenses

> Administrative expenses

Cost cutting initiatives

HUF m	31.12.2003	%	30.6.2004	%
Operating Expenses	41,751	100.0%	21,339	100.0%
Personnel Expenses	18,747	44.9%	9,498	44.5%
Other admin. Expenses	18,083	43.3%	9,606	45.0%
Depreciation	4,921	11.8%	2,235	10.5%

- » Strict cost control is essential as the average salary in the low end segment (branch employees) will rise well above inflation over the course of next years
- » Utilization of synergies from the integration of EBH and PB
 - » Work force reduced by ca. 25%
 - » Rationalization of branch network
 - » Vendor contract renegotiated
- » Efficient branch model applied
 - » Relatively small branches (150 sqm, 4 employees), requiring limited investments
 - » If the branch reached full capacity, another one is opened close by
- » Process reengineering to be implemented increase efficiency (e.g. loan approval procedure)
- » Outsourcing of non-core activities → better cost control, quality assurance
- » Operating expenses to show only limited growth in 2004-2006 (nominal CAGR 5.0%)

> Outlook 2004-2006

> Outlook for 2004-2006

Low double-digit ROE and positive group contribution in 2004

	2004	2005-6
» ROE	Above 10%	2005: > 15% ¹ 2006: > 25% ¹
» Cost/Income Ratio	< 70%	2005: 65% 2006: < 60%
» Branch Network	Approx. 160	
» Headcount	2,150	

¹ to be achieved despite 2% negative corporate tax effect

» Government proposal to increase corporate tax for financial institutions to have negative impact on profitability

- » Corporate tax for financial institutions to rise from 16% to 24% as of 2005
- » Effective tax rate (incl. local taxes) to be above 30%

> Thank You for Your Attention!