

**> Slovenská sporiteľňa, a.s.**

**Is 15% loan growth in SLSP core business sustainable?  
How will we maintain ROE of >20% after tax?**

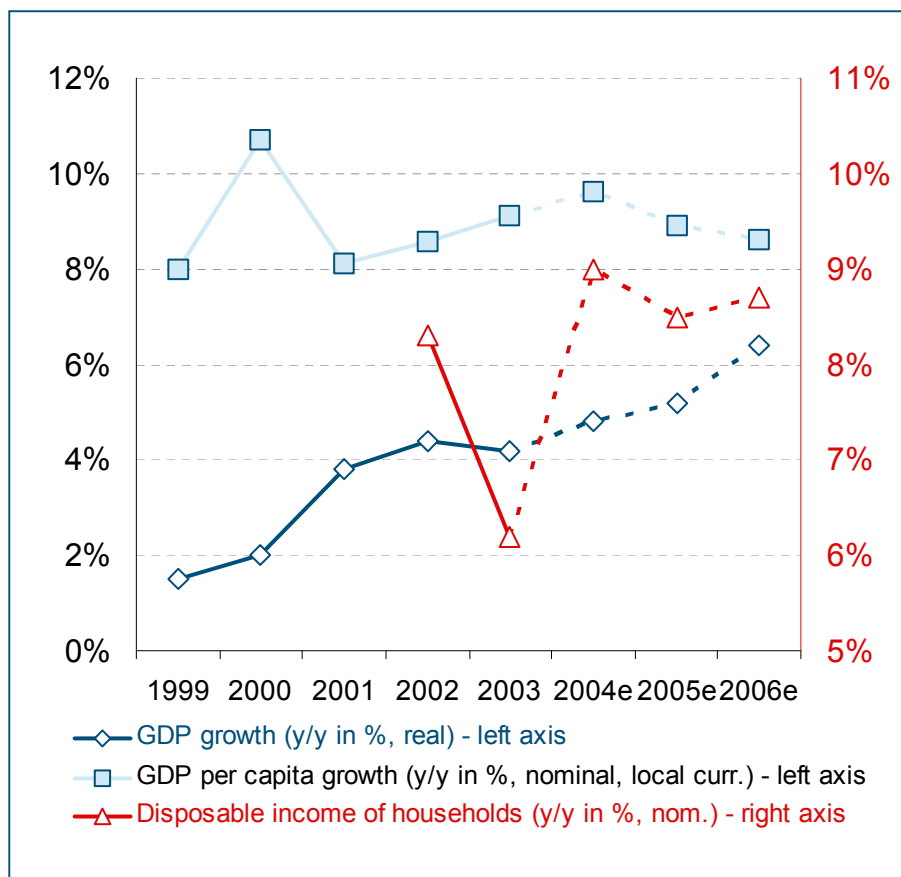
> 2<sup>nd</sup> Capital Markets Day

> Budapest  
24 September 2004

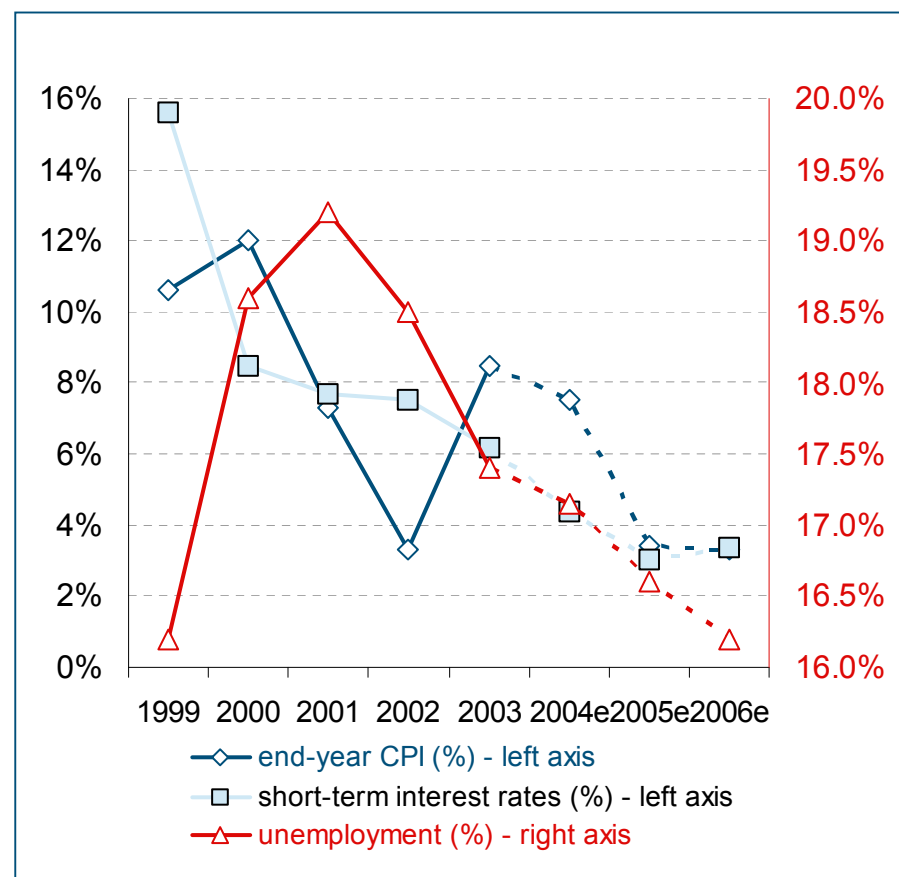
> Regina Ovesny-Straka, CEO of Slovenska Sporitelna

# > Slovakia: Macroeconomic Overview

## GDP and disposable income growth

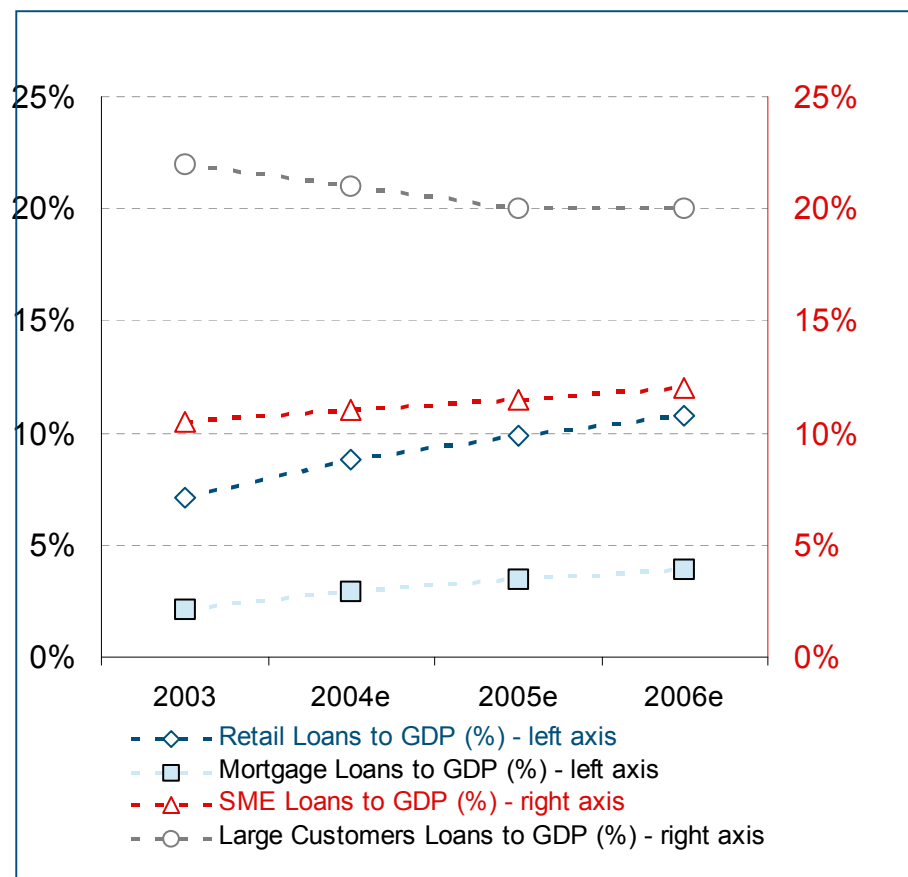


## Price index, discount and unemployment rates

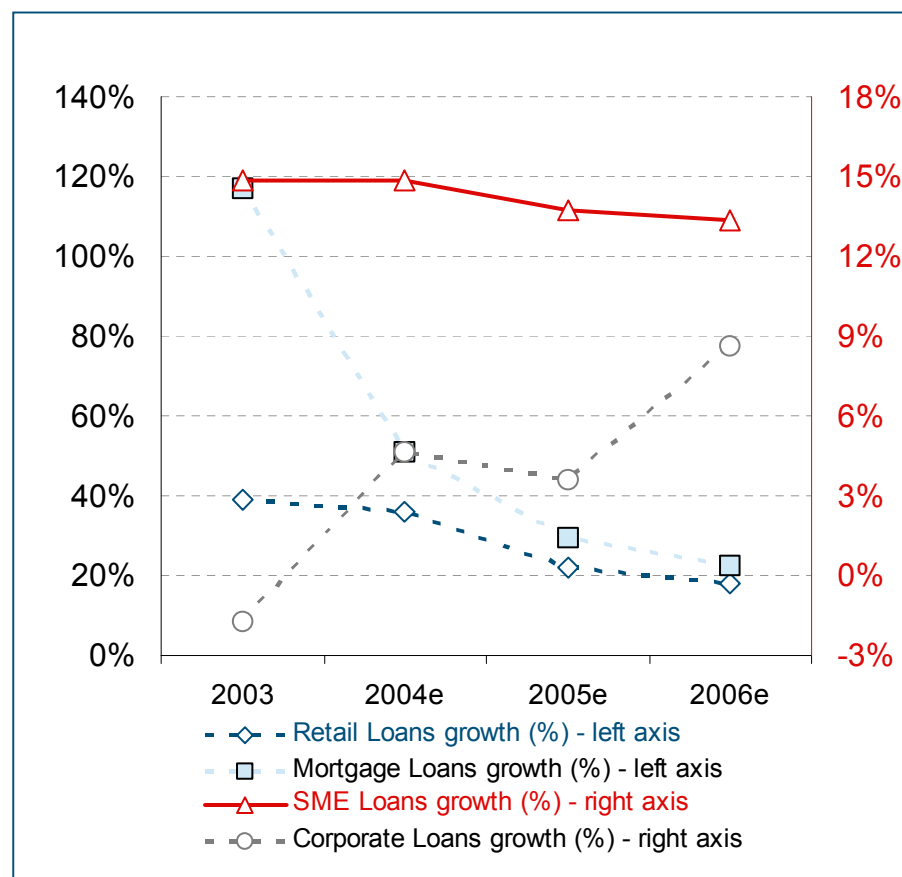


# > Slovakia: Banking Market Potential

## Growth of Loans to GDP

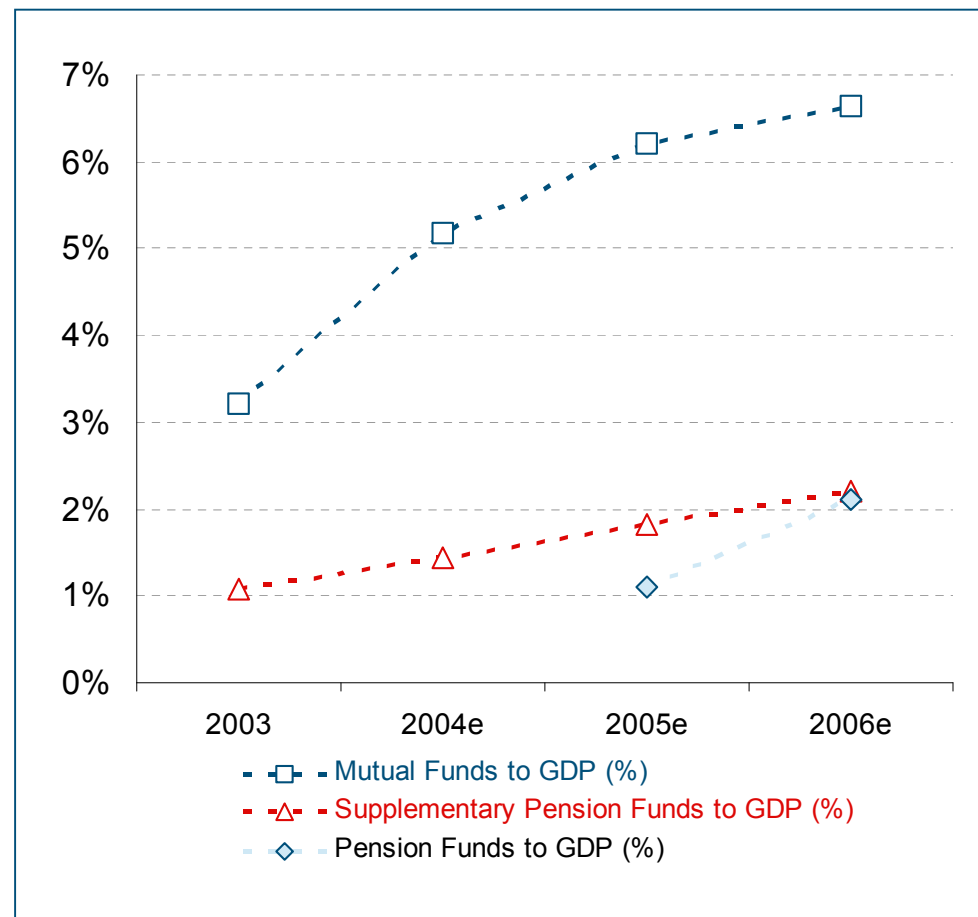


## Loan Growth



Remark: Mortgage loans also contain consumer loans with real estate collateral

## > Slovakia: Mutual Funds and Pension Funds



## **> Slovakia achieving sustainable growth**

**Investment climate in Slovakia is improving; ratings of other V4 countries deteriorating**

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- » **Slovakia has undergone deep structural reforms; recent World Bank study 'Doing Business in 2005' proclaims Slovakia to be leading reformer in 2003 across 156 observed countries**
  - » "Slovakia was the leading reformer: introducing flexible working hours, easing the hiring of first-time workers, opening a private credit registry, cutting the time to start a business in half and, thanks to a new collateral law, reducing the time to recover debt by three-quarters."
- » **Slovakia jumped into World's TOP20 destinations for ease of doing business**
- » **Fitch ratings has increased the rating of Slovakia to A+ this week**
- » **Credible fiscal policy will allow interest rates to be maintained at relatively low level as rapid economic growth is driven by productivity growth**
- » **Slovakia is likely to fulfil Maastricht criteria in 2006-8 and be ready to adopt euro in 2009 as the latest**

## **> Current Market Position**

## **> Loan growth potential**

## > Market positions

### Slovenska sporitelna strengthens its position in lending

- » Customer base of 2.4m retail clients and about 100 thousand corporate clients
- » The bank controls 21.6% of total banking assets
- » Slovenska Sporitelna operates the largest own branch network (341 branches)

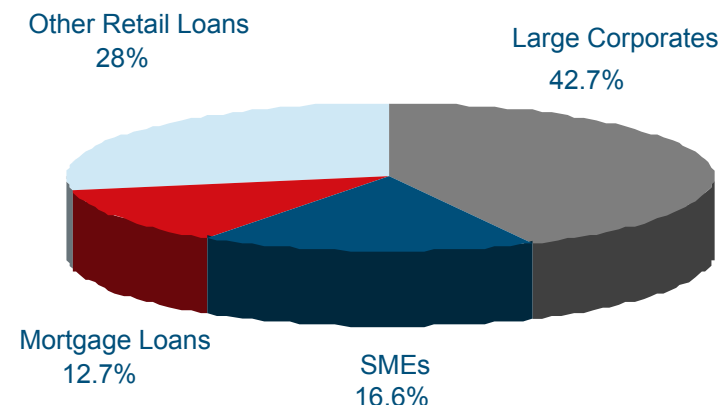
	31.12.01	31.12.02	31.12.03	30.6.04
Total assets	23.3%	24.3%	21.2%	21.6%
Total deposits	26.6%	25.7%	24.7%	23.7%
Retail deposits	38.9%	37.7%	36.2%	34.7%
Corporate deposits	7.9%	9.3%	11.3%	12.6%
Total loans	8.7%	11.1%	13.9%	14.2%
Retail loans	21.9%	20.5%	22.9%	22.5%
Corporate loans	5.9%	9.1%	11.2%	11.4%
Mortgage loans	22.2%	26.6%	24.9%	22.6%
Assets under mgmt, cum. net sales	1.4%	17.9%	26.5%	28.7%



## > Detailed Structure of SLSP Loan Book

### Structure according to account manager principle

SKKm	31.12.03	30.06.04	YTD Growth
<b>Corporate Loans</b>	<b>32,901</b>	<b>33,755</b>	<b>2.6%</b>
Large Corporates	25,787	24,284	-5.8%
SMEs	7,114	9,471	33.1%
<b>Retail Loans</b>	<b>20,595</b>	<b>23,157</b>	<b>12.4%</b>
Mortgage Loans	6,216	7,219	16.1%
Other Retail Loans	14,379	15,938	10.8%
<b>Total Loans</b>	<b>54,691</b>	<b>58,341</b>	<b>6.7%</b>



- » Retail lending increased 44% in 1H2004 compared to 1H2003, corporate loans went up 36% in the same period, more volumes are always sold in 2nd half of a year
- » SLSP plans to double the volume of retail loans by 2006 from the current level
- » More emphasis on SME clients in corporate lending, the volume will grow about 20% y/y in 2005-6, while in segment of Large corporate clients about 15% y/y

## > Detailed Structure of SLSP Loan Book (cont.)

### Loan Margin development

%	31.12.03	30.6.04	% Chg	31.12.04e	31.12.05e	31.12.06e
<b>Retail loans</b>	<b>2.7%</b>	<b>3.9%</b>	<b>1.1%</b>	<b>3.8-3.9%</b>	<b>4.6-4.8%</b>	<b>4.7-5.2%</b>
Mortgage loans	1.8%	2.0%	0.2%	1.7-2.0%	1.9-2.1%	1.8-2.2%
Other retail loans	3.1%	4.7%	1.6%	4.5-4.7%	5.8-6.1%	6.1-6.4%
<b>Corp. loans - large corp.</b>	<b>1.3%</b>	<b>0.7%</b>	<b>-0.6%</b>	<b>0.7-0.9%</b>	<b>0.6-0.7%</b>	<b>0.7-0.9%</b>
<b>Corp. loans - SME</b>	<b>1.2%</b>	<b>1.9%</b>	<b>0.7%</b>	<b>1.9-2.1%</b>	<b>1.9-2.0%</b>	<b>1.8-2.1%</b>
<b>Total loans</b>	<b>1.8%</b>	<b>2.1%</b>	<b>0.3%</b>	<b>2.1-2.2%</b>	<b>2.5-2.7%</b>	<b>2.7-3.0%</b>

- » Falling margins on corporate loans slow down by optimising risk profile
- » Interest rate ranges introduced in common retail products to assess better credit risk
- » More weight on retail consumer loans, overdrafts and corporate loans to SMEs should help to increase overall margin even above 2.5% level by 2006

## > Asset quality & risk provisions

	31.12.2003				30.6.2004			
SKK m	Loans gross	Provisions	Loans netto	Coverage ratio	Loans gross	Provisions *	Loans netto	Coverage ratio
Standard loans	36,553	978	35,575	2.7%	41,710	1002	40,708	2.4%
Watch loans	13,212	288	12,924	2.2%	11,864	406	11,458	3.4%
Classified loans:	4,926	3895	1,031	79.1%	4,767	3681	1,086	77.2%
<i>Substandard</i>	922	151	771	16.4%	815	166	649	20.4%
<i>Doubtful</i>	491	263	228	53.6%	485	248	237	51.1%
<i>Loss loans</i>	3,513	3481	32	99.1%	3,467	3268	199	94.3%
<b>Total</b>	<b>54,691</b>	<b>5,161</b>	<b>49,530</b>		<b>58,341</b>	<b>5,089</b>	<b>53,252</b>	

- » The overall portfolio quality continuously improves; high risk loans are comfortably covered by specific loan loss provisions (LLP)
- » In 2004, no substantial creation of new specific LLP is expected
- » The outlook for 2005-6 is positive due to well accepted Risk Management tools and policies, together with their ongoing enhancement and calibration

## > SWOT – the lending market

**Slovenska sporitelna is a well prepared for further loan expansion**

### Strengths / Opportunities

- » Long established market presence
- » Largest retail client base and long-term relationship with clients
- » Well trained distribution network
- » Sophisticated risk management
- » Strong economic growth will boost disposable income of households and consumption
- » Stock of capital is sufficient for further credit expansion
- » Co-financing of EU projects

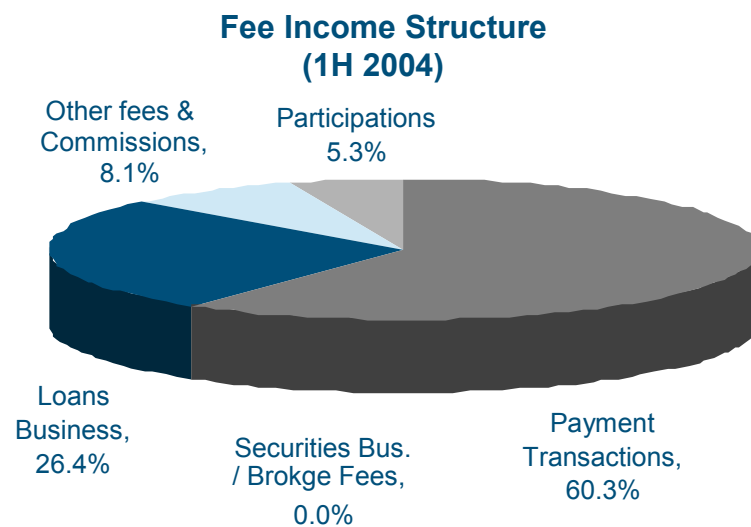
### Challenges / Threats

- » Further expansion in SMEs and Large corporate clients segment
- » Development of further products
- » Borrowing in foreign currency will be preferred in corporate lending
- » Pressure on margins stemming from increasing competition

## **> Fee income potential**

## > Fee income Structure

SKKm	31.12.03	%	30.6.04	%
Payment Transactions	1,322	62.2%	743	60.3%
Loans Business	485	22.8%	326	26.4%
Securities Business / Brokerage Fees	-5	-0.2%	-2	-0.2%
Other fees & Commissions	218	10.3%	100	8.1%
Total SLSP Fees	2,020	95.0%	1,168	94.7%
Participations	106	5.0%	65	5.3%
<b>Total Fees</b>	<b>2,126</b>	<b>100.0%</b>	<b>1,233</b>	<b>100.0%</b>



## **> Fee income - outlook**

### **2004**

- » Net fees and commissions rose 34% in 1H2004 compared to 1H2003 and they constitute now more than 22% of the total operating income
- » Fee income from payment transactions to increase 20% y/y in 2004 driven by current account payments and fees from ATM/POS
- » Fee income from participations are on up-trend (40% y/y growth estimated for year 2004) mainly thanks to successful selling of mutual funds

### **2005-2006**

- » Net fee and commission income is expected to grow 25% annually in average in 2005 and 2006
- » Share of net fee and commission income on the operating income will increase to approximately 28% by 2006
- » Fee income from participations should benefit also from leasing business and generate almost 10% of fee income by 2006
- » Fee income from life insurance is to more than double by 2006

## > SWOT – fees and commissions

### Fees and commissions increased by growing financial intermediation

#### Strengths / Opportunities:

- » The largest bank with full range of financial services
- » Almost every second Slovak is a client of Slovenska sporitelna
- » Widespread POS and ATM distribution network
- » Using strong position in lending business to further expansion
- » Increase of cashless transactions
- » Growing demand for mutual funds, leasing and life insurance
- » Security business

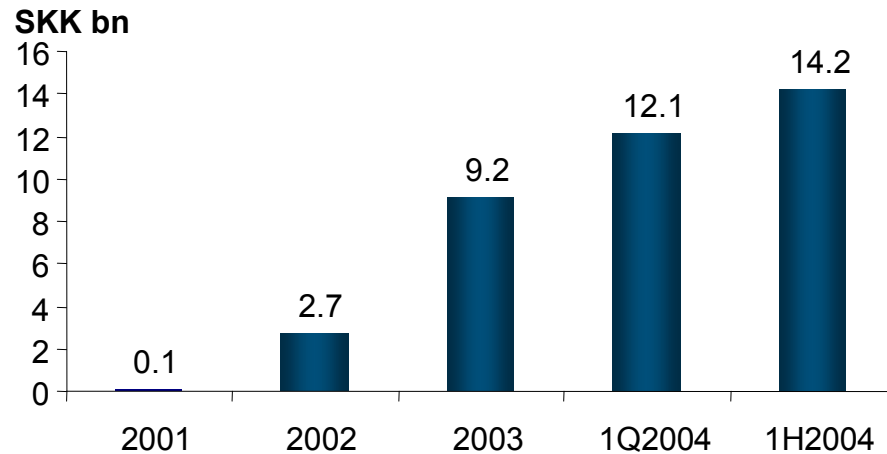
#### Challenges / Threats:

- » Reaching a higher level of cross-selling
- » Teach conservative clients to prefer cashless payments
- » Increase market share in POS/ATM network
- » Increasing competition and pressure on fees
- » Attempts to regulate fees by consumer protection organisations
- » Falling income from exchange fees (EURO)

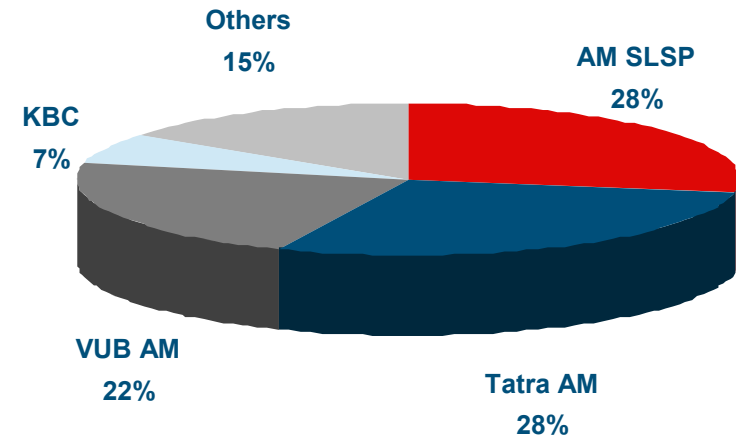


## > Assets under Management (mutual funds only)

Development of Assets under Management



Market share 1H2004 (mutual funds)



- » Awareness for these products is growing
- » Less volatile products (like money market funds) are preferred
- » AM SLSP took the lead in volume of assets under management in September

## **> Administrative expenses**

## > Operational costs

### General administrative expenses

SKK m	H1 2004	H1 2003	% Change
Personnel expenses	1,325	1,209	9.6
Other administrative expenses, thereof	1,174	1,141	2.9
Depreciation, thereof	559	670	(16.6)
<b>General administrative expenses total</b>	<b>3,058</b>	<b>3,020</b>	<b>1.3</b>

- » Expected avg. inflation in 2004 is 7.5%, which means that SLSP reduces costs substantially in real terms
- » Cost cutting project in 2003 resulted into headcount reduction in 2004 (103 as of 06/2004)
- » SLSP will keep general administrative expenses growth below inflation rate in the budgeting period 2005-2006 therefore further reduction of staff and operating expenditures are planned

## **> Cost cutting measures**

- » **Expenses kept under control using budget-holder system and clear, unique cost responsibilities**
- » **Group synergies will have positive impact in long term run**
- » **Process optimization within SLSP will heavily continue in 2005-2006**
- » **Optimization of branch network is continuing**
- » **Outsourcing of selected activities is in progress**
- » **Office space optimization is running**
- » **Detailed cost-benefit analysis for most new intentions supports the management decisions**

## > SWOT – administrative expenses

### Strengths / Opportunities

- » Growth of expenses below the inflation
- » Optimizing cost structure (IT infrastructure, distribution channels, premises)
- » Economies of scale
- » Reasonable Outsourcing
- » EB Group synergies
- » Running cost-cutting projects

### Challenges / Threats

- » Further optimization of headcount and locations
- » Analysis and improvements of processes
- » Further concentration in salary system on sales results
- » Wage pressures from the labor market
- » Investments into IT (Basel II)
- » Euro introduction might lead to higher IT Investments
- » Unexpected movements of competitors (products, It-support, distribution channels)

## **> Outlook 2004-2006**

## > Outlook 2005-2006

	2004 Targets	2005-2006
» Net Profit after Taxes:	+ 15%	above 10% growth
» ROE:	about 20%	about 20%
» Cost/Income ratio:	57 - 58%	55 - 57%
» Net Interest Margin:	4.3%	3.5 - 3.8%
» Revenues:		>10% growth
» Expenses:	below inflation	below inflation

**> Thank You for Your Attention!**