

**> Panel:
Update on Central Europe**

Česká spořitelna (CS)

**Focusing on loan growth to compensate low
interest rate environment**

**> Jack Stack
CEO of Česká spořitelna**

> **Presentation topics**

- 1. Czech banking market - overview**
2. Loan growth potential
3. Česká spořitelna – key areas of focus
4. Outlook

> Banking sector overview

Highly concentrated and competitive banking sector

» Concentration of banking activities

- » Three banks, CS, KB and CSOB, dominate in almost all types of banking business
- » Czech banking sector comprises 35 banks, of which 26 are foreign owned

» Under penetrated banking market with potential for growth, especially in SME and consumer lending, credit cards, asset management and insurance

» Monoline companies (e.g. Cetelem, Home Credit and Multiservis) emerging as strong competitors

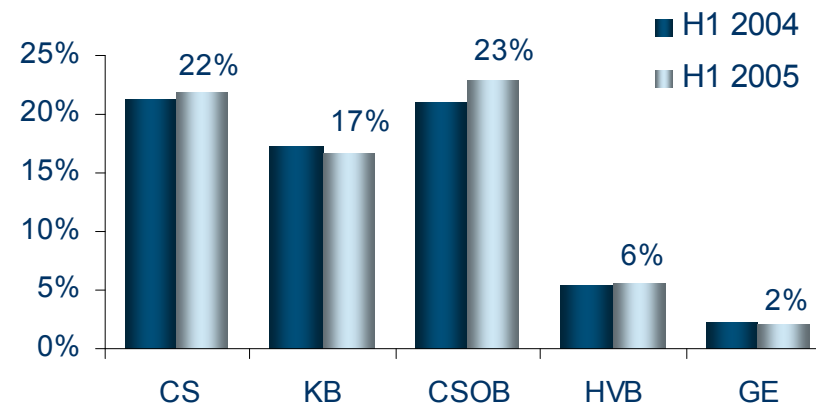
Czech Market (EUR bn)	YE03	YE04	Δ 04/03	HY05	Δ H1 05/04
Total assets	83.8	87.4	4.3%	94.8	8.5%
Total loans (net)	33.0	35.6	7.9%	36.3	2.0%
Total deposits	55.2	57.4	4.0%	63.1	9.9%

Exchange rate: 30.1719 CZK /EUR

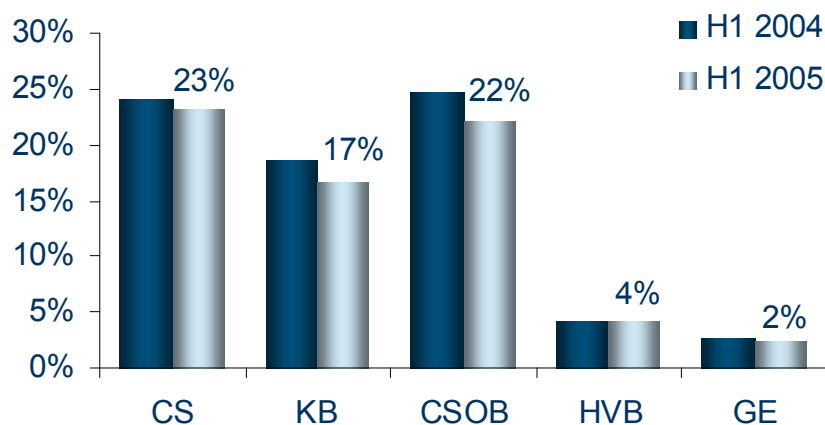
> Competitive environment

- » **KB** – oriented more towards high net-worth individuals and commercial
- » **ČSOB** – traditionally focused on corporate clients, trying aggressively to gain market share in retail segment
- » **GE Money Bank** – particularly strong in consumer lending

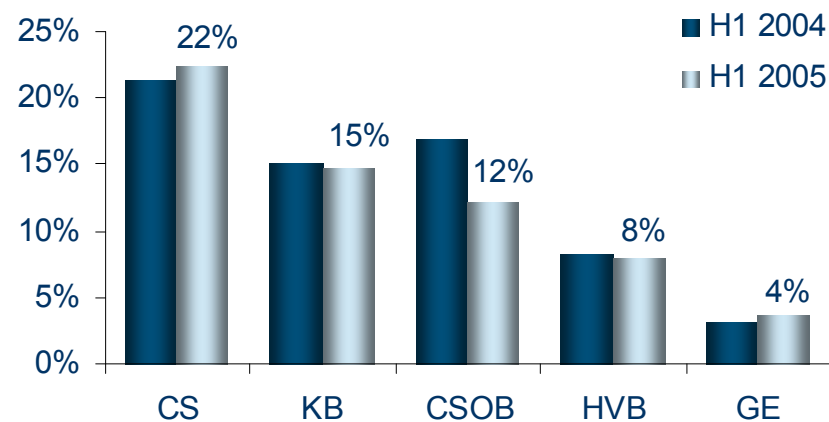
Total Assets (*market shares*)



Total Deposits (*market shares*)



Total Loans (*market shares*)



> Market position

CS is the largest Czech bank by number of clients

	Market Share	Movement	Position
Total assets	22.0%	↑	2
Loans to clients	22.5%	↑	1
Client deposits	23.1%	↓	2
Retail loans	32.1%	↑	1
Retail deposits	32.8%	↑	2
Mortgages	36.3%	↑	1
Retail mortgages	35.4%	↑	1
Asset Management	37.1%	↓	1

- » CS ranks first in the Czech banking market by total client loans and second by total assets and total client deposits (30/06/2005)
- » CS experienced the highest loan growth in the Czech Republic during H1 2005
 - » Fastest growing in mortgages, consumer lending and credit cards

> **Czech banking market as a part of EU**

EU entry has significant impact on banking business

- » **Legal structure for market economy in place**
- » **Harmonisation of legal regulations of banking activities**
- » **Uniform banking licence procedures for the whole EU market**
- » **Basel II**
 - » Includes operational risk
 - » More accurate measurement of risks and better risk management
- » **Potential connection of Czech Central Credit Register (CCR) with registers in other EU members**
- » **Government officials expect introduction of the EURO in 2010**

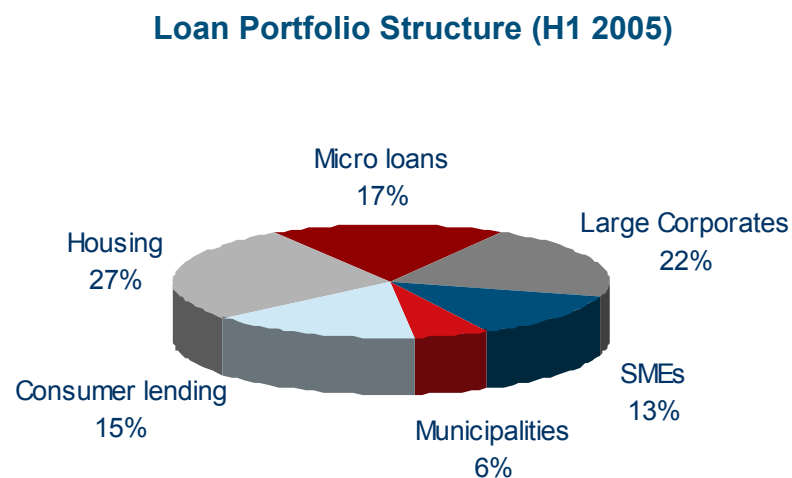
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> Loan portfolio structure

Almost 45% of loan growth is from housing and real estate loans

CZK m	H1 2004	H1 2005	YoY % Growth
Corporate loans	85,508	102,002	19.3
<i>Large Corporates</i>	42,063	51,525	22.5
<i>SMEs</i>	24,336	31,082	27.7
<i>Corp. mortgages</i>	10,514	11,237	6.9
<i>Municipalities</i>	8,595	8,158	-5.1
Retail loans	80,525	111,209	38.1
<i>Consumer loans</i>	27,762	37,003	33.3
<i>Mortgage loans</i>	34,923	54,106	54.9
<i>Loans to Micros</i>	7,205	9,586	33.0
<i>Other loans</i>	10,635	10,514	-1.1
Financial Markets	39,611	26,137	-34.0
Total customer loans	205,644	239,348	16.4

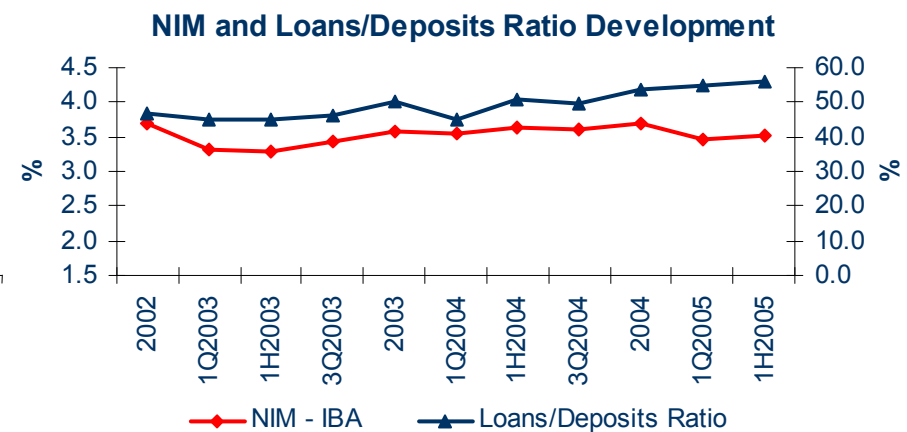
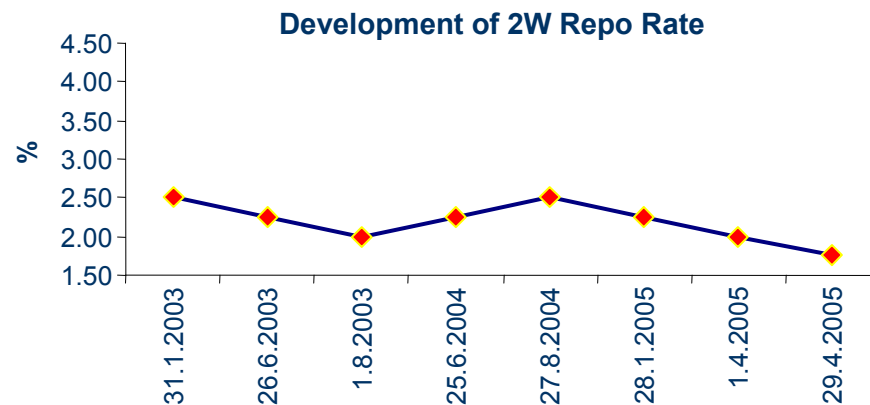


» CS Bank YoY growth (volumes compared to KB and CSOB):

- » Is the strongest in
 - Private Mortgages (+CZK 19.2 bn)
 - Consumer Lending (+CZK 9.2 bn)
- » In SME (+CZK 6.8 bn) slightly behind KB
- » In Large Corporates (+CZK 9.4 bn) slower than in CSOB

> Market interest rates and CS net interest margin

NIM remains stable despite continued low interest rates



» Interest rates in Czech market at historic low level

- » 2 week repo rate below ECB level
- » First potential hike predicted for 2nd Quarter 2006

» Net interest margin of CS stable although market interest rates trending down

- » CS achieved NIM in H1 2005 of 3.5% (measured by average interest bearing assets)
- » CS was able to pass almost 75% of the latest rate cut to deposit clients
- » Fast loan growth and changing asset mix to higher margin products contribute to stable NIM
- » Continuously improving loan to deposit ratio (56.2% in H1 2005)

> **Loan portfolio development in H1 2005**

Rapid loan growth but portfolio quality remains stable

- » **Loans to customers grew faster than at any time in CS history – faster in many areas than any other competitor**
 - » Retail and corporate business lines both had more than 10% growth YTD
 - » Private mortgages had the fastest growth; good growth was experienced by almost all lines of business and product offerings
 - » Loan growth reflects growing economy, a consumer population that did not have access to loans in the past, and a more sophisticated banking system better able to understand customer needs and manage credit risk
- » **Loan and deposit growth led to NII growth of 7.2% in H1 2005**
 - » NII growth would have been above 10 % except for the decreasing interest rate environment and resulting lower value of deposits
 - » The imbalance between loans (insufficient) and deposits creates an unfavourable environment for CS in a low interest rate environment; Czech rates are below the European Central Bank level (1.75 % vs. 2.00 %)
- » **Loans to deposits ratio improved to 56.2% from 53.8% in 2004**
- » **Loan portfolio quality remains stable with 1.8% share of NPLs**

> **Loan portfolio targets for 2005 - 2006**

Above average loan growth to continue (targeting 15 - 20%)

» **SMEs** **14 - 18%**

- Targeted industry focus for SMEs
- Professional team and well established distribution network

» **Municipalities** **10%**

- Benefiting from EU funds

» **Corporate** **10 - 15%**

» **Retail** **25 - 30%**

- » Mortgages 40 - 50%
- » Micros 30 - 40%
- » Consumer Lending 25 - 35%

- Generally under penetrated market
- Low interest rates support higher demand
- Attractive products and wide distribution network

> Average lending margins

Margin expectations in line with new interest rate environment

	2003	2004	2005e
Large Corporates	1.4%	1.1%	1.1% - 1.2%
SMEs	2.8%	2.4%	2.2% - 2.4%
Municipalities	0.7% - 1.9%	0.7 - 1.7%	0.7% - 1.4%
Credit cards	14.5%	15.7%	15.0%
Consumer lending*	8.8%	9.0%	8.0% - 9.0%
Mortgages	1.9% - 2.5%	1.7% - 2.4%	1.5% - 2.3%

* including American/2nd mortgages

- » **Modest changes in expected margins result from change in CNB's monetary policy and adjusted CS forecasts of interest rate development**
 - » CS expects flat development of interest rates for the remainder of 2005 and interest rate increases sometime in 2006
- » **Price competition in large corporates, large municipalities and private mortgages continues**

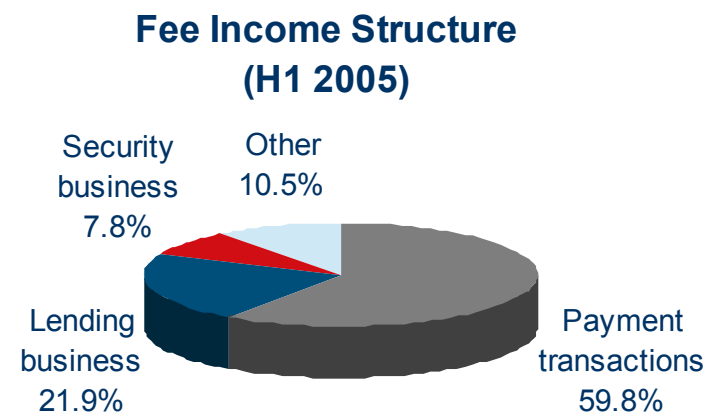
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> Fee income structure and outlook

Growth based on volume increase rather than pricing changes

In CZK m	H1 2004	H1 2005	Yoy % growth
Payment transactions	2,468	2,610	5.8
Lending business	798	956	19.8
Security business	283	341	20.5
Other	533	458	-14.1
Total	4,082	4,365	6.9



» Re-pricing ability of CS limited

- » Volume driven growth expected, with biggest growth in the areas of lending and security business

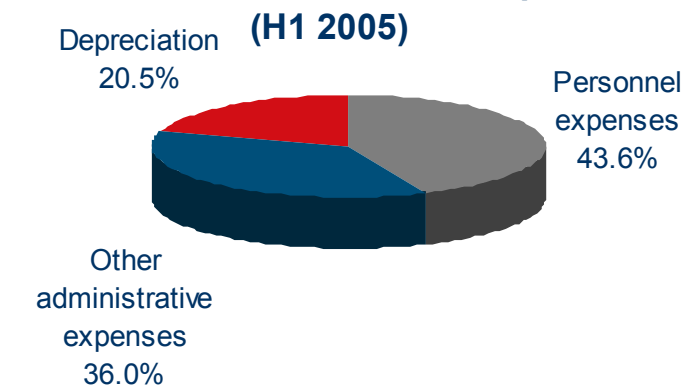
> Administrative expenses structure and outlook

Efficiency programme should bring CIR to low 50s in 2 years

	% Δ 2004 (on 2003)	% Δ 2005e (on 2004)
Personnel expenses	2%	3%
Other administrative expenses	9%	-
Depreciation	4%	11%
Total	5%	3%

- » Personnel expenses will decrease in 2006 due to elimination of up to 1,000 positions
- » The peak of Depreciation growth will be in 2005

Structure of Administrative Expenses



> **Administrative expenses structure and outlook**

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> Outlook 2005 and beyond

	2005 target	2006 target
» Net profit growth	10%	10%
» ROE	> 20%	> 20%
» Cost/Income Ratio	55-57%	< 54%

» Revenues 2006

- » Growing loan volumes and changing asset mix will partially compensate for low interest rate environment
- » Volume driven increase of net fees and commissions

» Expenses 2006

- » Headcount reduction and continued expense management