

**> Panel:  
Update on Central Europe**

**Erste Bank Croatia - among the country's most  
dynamic banks**

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## > **Presentation topics**

- 1. Croatian banking market - overview**
2. Loan growth potential
3. Erste Bank Croatia - key areas of focus
4. Outlook

## > Banking sector overview

### General trend: Strong foreign ownership driving consolidation

- » Over 90% of Croatian banking sector assets are foreign owned
- » Restrictive monetary policy slows down growth but maintains margins
- » Competition among the larger banks puts pressure on smaller banks
- » Recent developments: OTP acquired Nova banka, UCI/HVB might lead to divestment

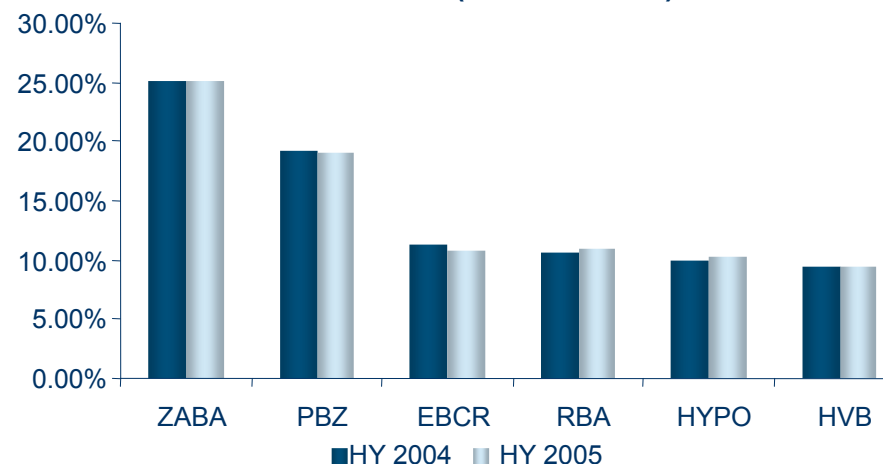
Croat Market (EUR bn)	YE03	YE04	Δ 04/03	HY05	Δ H1 05/04
Total assets	26.0	30.1	15.8%	30.5	1.3%
Total loans (net)	15.2	17.2	13.2%	18.5	7.6%
Total deposits	15.7	17.0	8.3%	17.0	0.0%

HRK/EUR 7.5

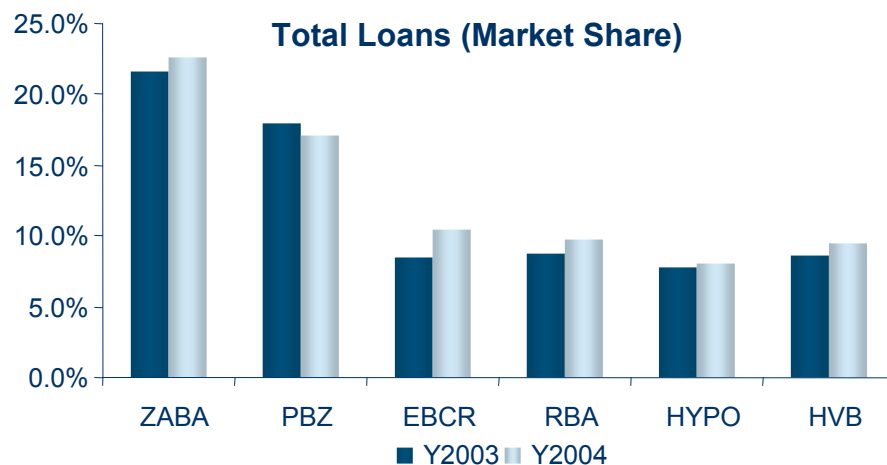
## > Competitive environment

- » **Zagrebacka Banka** – the largest bank in Croatia with some 25% market share; key focus on retail banking and large clients; owned by Unicredit
- » **Privredna Banka** – second largest bank with almost 20% market share; originally focused on large corporate and public clients, expansion into retail banking in the recent years; owned by Intesa
- » **Raiffeisen** – most similar to EBCR in terms of market position; focused on organic growth, with good position in the large corporates, capital markets and retail segments; c.10% market share
- » **HVB Splitska banka** – product of the merger of HVB Croatia with Splitska banka; good position in Dalmatia; development prospects depend on Unicredito-HVB merger; market share 9%

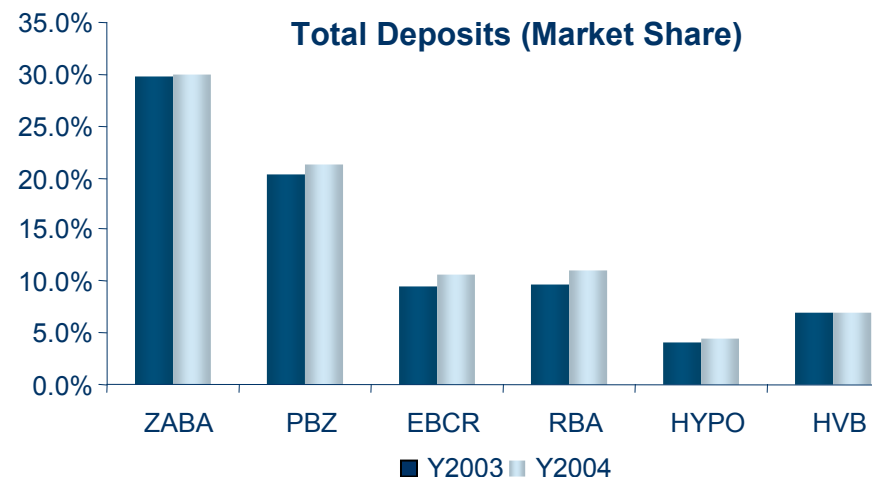
Total Assets (Market Share)



Total Loans (Market Share)



Total Deposits (Market Share)



## > Market position

### Erste Bank Croatia holds a firm third place

	Market share	Movement	Position
Total assets	11.0%	↓	3-4
Loans to clients	11.7%	↑	3
Client deposits	10.3%	↑	3-4
Retail loans	11.0%	↑	3
Retail deposits	9.8%	↑	3
Corporate loans	12.3%	↑	3
Corporate deposits	11.6%	→	4
Asset Management	21.4%	↑	2

#### » Substantial market share gains since year-end 2003

- » 2-3% market share increase in corporate and retail lending
- » 1-2% market share increase in corporate and retail deposits

#### » Competitive position of EBCR

- » Solid third place in client business with 600,000 clients and over 120 branches
- » Competitive advantages: good & efficient client service and competitive products
- » Among the top banks in Croatia in terms of client satisfaction (30,000 new clients in 1H '05)

## > **Presentation topics**

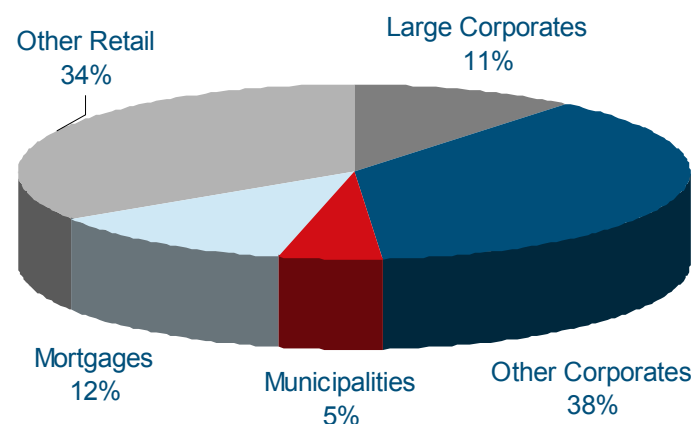
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## > Lending is a key driver of EBCR's growth

**Among the leading lenders in Croatia, especially in retail and SMEs**

HRK mn	H1 2004	H1 2005	YoY Growth
<b>Corporate loans</b>	<b>6,924</b>	<b>8,982</b>	<b>29.7%</b>
Corporates	6,327	8,162	29.0%
Large Corporates	1,385	1,839	32.8%
Other Corporates	4,942	6,323	27.9%
Municipalities & Others	597	821	37.5%
<b>Retail loans</b>	<b>5,330</b>	<b>7,814</b>	<b>46.6%</b>
Mortgages	944	2,094	121.8%
Other loans	4,386	5,720	30.4%
<b>Total loans</b>	<b>12,254</b>	<b>16,796</b>	<b>37.1%</b>

**Loan Portfolio Structure (H1 2005)**



- » Continued strong demand for retail loans – mortgages more than doubled yoy
- » Over last 2 years EBCR grew its loan portfolio at more than double the average growth rate of the banking sector
- » Currently some 53.5% of the total loan portfolio is in corporate loans,
  - » This share should be closer to 50% by the end of the year, also due to external factors
- » EBCR's market share in client loans is significantly above its share in total assets

## > **EBCR lending activities – Retail outlook**

### **Impressive growth in retail lending in H1 2005 to continue**

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- » **Retail lending growth rates expected to be 35+% in 2005**
  - » Annual growth in retail mortgages of 40+%
  - » Annual growth in other (consumer) loans of 25+%
- » **Continued focus on mortgage lending, improving the risk profile of the overall portfolio (expected annual growth of some 20% in 2006-8)**
  - » Strong retail demand for housing, construction sector very active
  - » Improving collateral legislation and foreclosure possibilities
  - » Majority of retail housing assets still not leveraged
- » **Continued healthy growth in the consumer finance area (expected annual growth in the area of 10-15% in 2006-8)**
- » **EBCR aims to increase market share in retail lending to 13-14% by end 2008**
- » **Main growth drivers in retail lending**
  - » Mortgage loans, where EBCR has launched a number of innovative products
  - » “Customer-friendly” cash loans with attractive overall terms
  - » Efficient customer service and approval procedures



## > **EBCR lending activities – Corporate outlook**

**After a particularly strong 2004, the solid growth trend continues**

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- » **Total corporate loans to grow over 15% in 2005**
- » **Expected growth rates in corporate lending of 15-20% p.a. over the next 2-3 years**
  - » Steadily increasing activities in the SME sector, driven by tourism, construction / real estate, services and trade
  - » Consolidation in large corporate sector, Croatian “blue chips” securing their positions
  - » Ongoing 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
  - » Expansion in the area of real estate financing (residential and commercial)
  - » Emphasis on municipal lending and lending to other public entities
- » **EBCR is among the leading banks in Croatia in distributing Government sponsored financing lines for the SME sector (aiming primarily at increasing exports and employment)**
- » **EBCR aims to increase market share in corporate lending to some 15% by 2008**

## > **EBCR loan portfolio – Margin development**

### **Margins under competitive pressure, but offset by volume growth**

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- » **Current average retail lending margins (over Euribor)**
  - » Mortgage Lending: approx. 340 bps
  - » Other (consumer) lending: approx. 700 bps
- » **Current average corporate lending margins (over Euribor)**
  - » Large corporates: approx. 200 bps
  - » SMEs: approx. 370 bps
- » **Expected moderate narrowing of interest margins 2005-2007**
- » **Trends leading to margin compression**
  - » Competition and consolidation of the banking sector
  - » Increased regulatory costs due to restrictive monetary policy
- » **Nevertheless there are trends that slow down margin compression**
  - » State financing currently mainly through the domestic market, some “crowding out” effects
  - » Banks become more discerning about lending growth in view of risk and regulatory costs

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## > **EBCR – overall objective**

### **Committed to maintaining above average growth and profitability**

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#### **» EBCR is in a good position to continue increasing its market shares**

- » Making solid advances towards achieving target market share of 15% by 2008, especially in the area of customer lending

#### **» The expansion strategy revolves around three main areas**

- » Continued geographic expansion
- » Focus on customer lending as a core expertise of EBCR and cross-selling
- » Continued improvement of service & product quality

#### **» Maintain above-average profitability by balancing growth and cost efficiency**

- » Continuous process automation and focus on cost controls
- » Increasing benefits from group synergies

## > EBCR's growth strategy: geographic expansion



★ New branches : 2005→9; 2006→7; 2007 →7

- » EBCR has solid branch coverage of Central and North-Western Croatia
- » Regional expansion plans are focused on
  - » Greater Zagreb
  - » Southern Croatia
  - » Eastern Croatia
- » 9 new branches to be opened in 2005
  - » Also closing 8 small loss-making branches
- » By 2008 EBCR aims to have all major cities in Croatia covered

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## > EBCR confirms its ambitious growth targets

### EBCR's updated mid-term plan shows improved performance

	2005 target	2006 target
» Net profit growth	~ 15%	~ 15%
» ROE	~ 19%	~ 20%
» Cost/Income Ratio	< 55%	Low-50s%

- » EBCR is committed to and fully focused on strong growth and expansion
- » To achieve growth targets, investments in branch network and service quality are needed
  - » Leading to slightly higher growth in operating costs than forecast in 2004, but not at the expense of profitability or efficiency