

**> Panel:
Update on Central Europe
Erste Bank Hungary (EBH)
On track for growth after the merger**

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> **Presentation topics**

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

> Banking sector overview

General trend: The success of the sector continues

» **Total assets of the sector rose 16.8% yoy in H1 2005 to EUR 73.9bn**

- » growth rate similar to that of 1999-2002
- » 2003 was an exceptional year with total assets growing 24%

» **Total loans grew 13.4% yoy in H1 2005**

- » proportion of FX loans increased from 38.3% to 47.9%

» **Top ten banks accounted for 72.7% of total assets in H1 2005; top five for 55.5%**

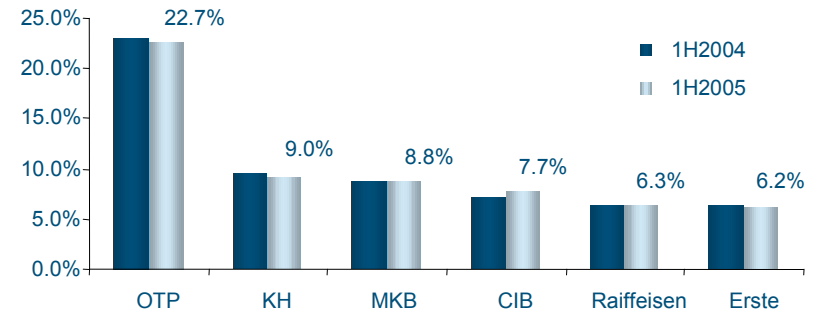
Hungarian Mkt (EUR bn)	YE03	YE04	Δ 04/03	HY05	Δ H1 05/04
Total assets	59.2	69.0	16.6%	73.9	7.1%
Total loans (net)	35.3	40.3	14.2%	43.0	6.7%
Total deposits	31.8	35.3	11.0%	37.1	5.1%

Exchange rate: 247.71

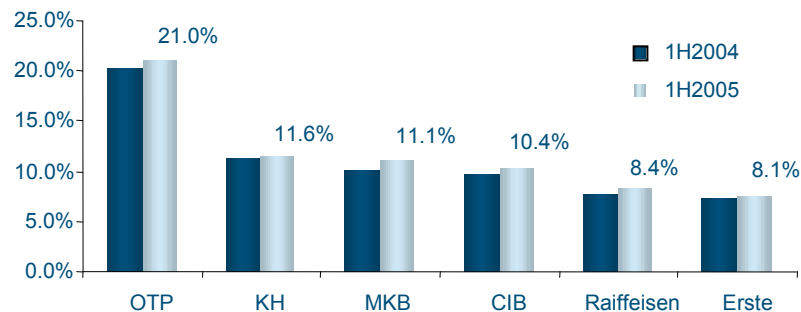
> Competitive environment

- » **OTP** – dominant but slowly eroding market share in retail banking.
- » **K&H** – traditionally strong both in corporate and retail segments
- » **Raiffeisen** – well-positioned in corporate, municipality business. Increasing focus on retail banking

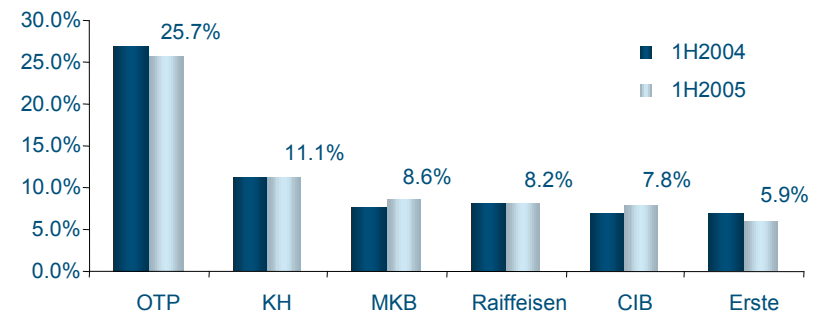
Total Assets (market share)



Total Loans (market share)



Total Deposits (market share)



> Market position

Number 2 by retail clients

	Market share	Movement	Position
Total assets	6.2%	↓	6
Total loans	8.1%	↑	6
Total deposits	5.9%	↓	6
Retail loans	8.0%	→	3
Retail deposits	6.2%	↓	4
Corporate loans	8.4%	↑	7
Corporate deposits	5.3%	↑	7
Investment funds	10.0%	↑	4

» Significant rise in investment funds market share to 10% from 2.6% in December 2003 compensates decrease in retail deposits

> **Market position**

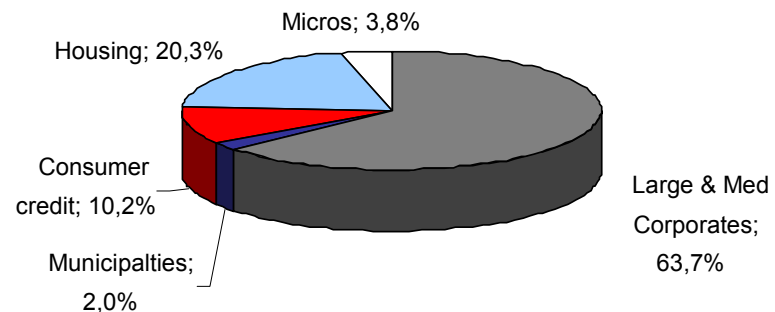
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> Loan portfolio structure

Loans to customers soar in H1 2005

HUF mn	H1 2004	H1 2005	YoY Growth
Corporate loans	464 681	541 958	16.6%
<i>Large & Med Corporates</i>	455 028	525 436	15.5%
<i>Municipalities</i>	9 653	16 522	71.2%
Retail loans	227 476	282 473	24.2%
<i>Consumer credit</i>	63 578	84 278	32.6%
<i>Housing</i>	131 952	167 202	26.7%
<i>Micros</i>	31 946	30 992	-3.0%
Total loans	692 157	824 431	19.1%

Loan Portfolio Structure (H1 2005)



- » Consumer loans increased dynamically in H1 2005
- » Housing loans shift to FX after changes in the state subsidy system
- » Loans to municipalities increased significantly in H1 2005

> Loan portfolio – margins

Margins will remain high despite competitive environment

Avg. lending margin – retail loans

	H1 2005
Consumer loans	7.75%
Mortgages	4.10%
Micros	4.95%
Retail lending Avg	6.02%

Avg. lending margin – corporate loans

	H1 2005
Large corporates	0.95%
Medium corporates	2.58%
Municipalities	2.40%
Corporate lending Avg	2.32%

Avg. lending margin outlook – total customer loans

	2004	H1 2005	2005e
Retail loans	4.89%	6.02%	5.81%
Corporate loans	1.81%	2.32%	2.33%
Total customer loans	2.83%	3.56%	3.53%

> Lending market environment – outlook for EBH

Retail lending market to grow 23% in 2005

- » **Retail loans to GDP 14.7% significant growth potential**
- » **Lending margins decrease slowly**
- » **EBH's retail lending will be mainly driven by high-margin consumer loans**
- » **FX-based lending still main driver of growth**
- » **Micro loan market getting competitive with significant growth potential**
- » **Corporate loans to GDP 24.6% will rise driven by Municipalities and SME business**

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> Cooperation with the Hungarian Post

Rollout to post offices is progressing as planned

- » **2004: strategic agreements were signed**
- » **2005-2006: year of network expansion**
 - » 200 largest post offices on-line by July 2005 representing 60-65% of distribution potential
- » **2006-2007: focus on increasing sales volumes**
- » **Volume of investment funds (ca. HUF 3.0bn NAV) is encouraging**
- » **Successful launch of consumer loans**
- » **Increasing number of new clients**

> Challenges

Significant increase in retail market shares

- » **Exploit underutilised customer base acquired with Postabank**
 - » Improve cross-selling ratios
- » **Capitalise on the expansion of branch network**
 - » EBH will have the second largest network in Hungary by the end of 2005
- » **Increase distribution effectiveness of the Hungarian Post**
 - » 400 on-line post-offices by mid 2006
- » **National Bank of Hungary has cut interest rate eight times in 2005**
 - » Benchmark interest rate fell from 9.5% to 6.25% as there was no inflationary pressure in the economy
 - » We expect interest rates to fall to 5.75% by the end of 2005 as we do not expect significant price increases (avg. CPI inflation for 2005: 3.8%)

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> Outlook for 2005 - 2006

EBH is upgrading 2005 targets

	2005 target	2006 target
» Net profit growth	> 100%	> 20%
» ROE	~ 25%	> 25%
» Cost/Income Ratio	Mid 50s	Low 50s

» High level of profitability maintained despite 8% special income tax for banks