

- > Erste Bank Hungary –
Success against the odds

- > 4th Capital Markets Day

- > Bucharest, 9 October 2006

- > Peter Kisbenedek, CEO, Erste Bank Hungary

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Challenging operating environment

- » The austerity package
- » Temporary economic slowdown
- » Slowing banking market

Making the best of the situation

- » Key trends – strong margins and operating growth
- » Growth drivers – cost control and loan growth
- » Competitive position expanded

Outlook – growth remains on the agenda

*) All financial and market data are shown in EUR. Local currency data have been translated at the respective historic rates; the Q3/06 eop rate was applied to forecasts. Growth rates and ratios are based on local currency data.

> The austerity package in detail

Major goals to 2008

- » Distinct focus on additional revenues
- » Cut deficit by HUF 350bn in 2006
- » Cut deficit by HUF 1,000bn in both 07 & 08

Corporate income tax up

- » 20% (instead of the previous 16%) corporate tax as of Sept 2006
- » Existing banks tax of 8% expires end-2006
- » New banks tax: 5% of interest income related to state subsidized loans as of 2007

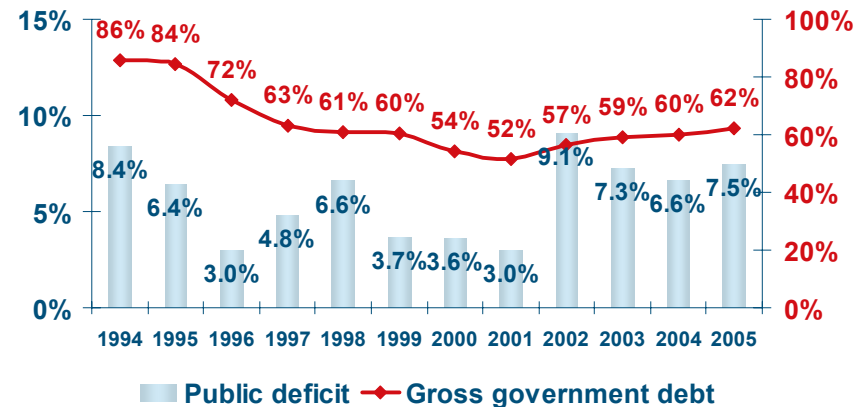
Personal income tax up

- » Effects only highest bracket (> HUF 6m)
- » Contribution hikes effect all employees
- » Fewer tax breaks

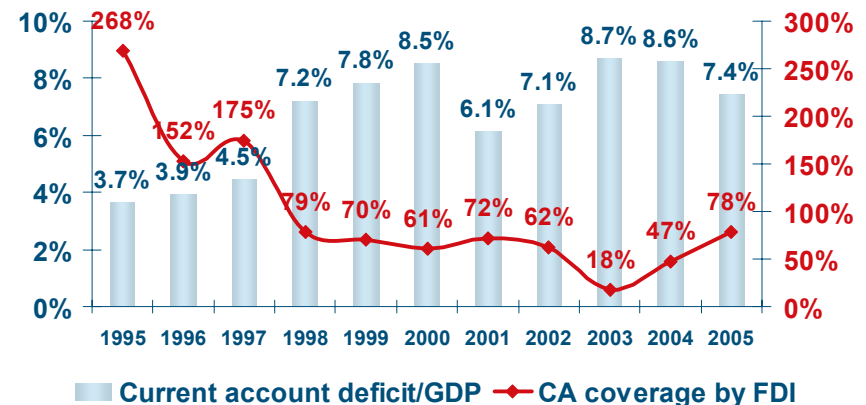
Additional measures

- » Lower rate VAT up to 20% (15%) from 09/06
- » Capital gains tax of 20% introduced
- » Employer contributions up

Public debt vs budget deficit (% of GDP)



Current account deficit vs FDI coverage



Source for charts: Hungarian National Bank

> Growth to slow as imbalances are addressed

GDP growth likely to slow down

- » Fiscal measures will dent GDP & disposable income growth, at least in 07
- » Growth is expected to bounce back thereafter to levels above 4%

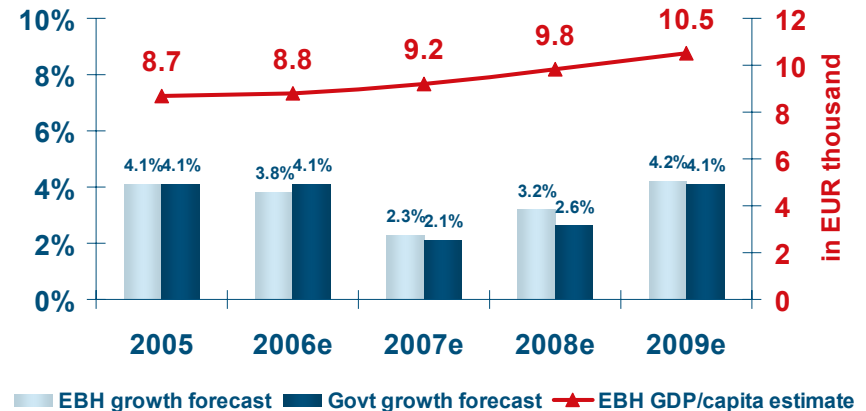
Temporary end to disinflation

- » Energy price increases
- » Increase in VAT rates

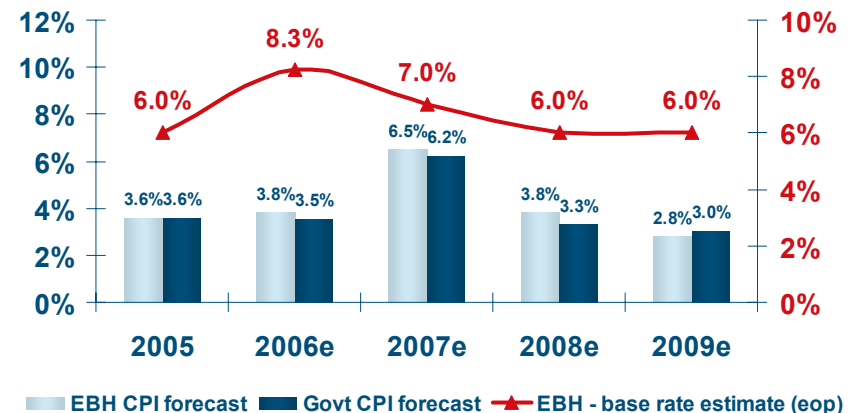
Interest rates on the rise

- » Central bank has raised rates by 175 bps to 775bps to help stabilise the currency
- » Minimal further increases to 800/825 bps expected by year-end
- » Erste Bank estimates that currency will remain within the 250 – 270 trading band to the Euro over the next years

GDP growth (real) vs GDP/capita



CPI (ave) and base rate development



Source for charts: Hungarian Government, Erste Bank Hungary, Eurostat

> Austerity measures also underpin EMU convergence

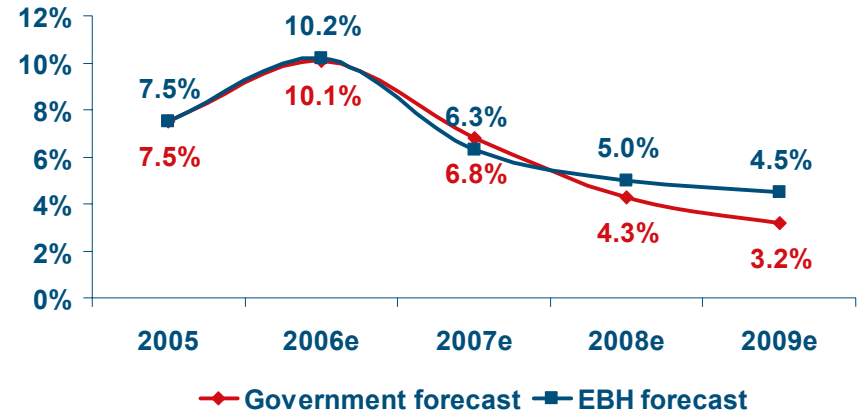
EU accepted Hungary's convergence programme

- » Hungary's revised convergence programme accepted on 26 Sept 2006
- » Realistic macro figures should help to restore government credibility
- » Budget deficit to drop significantly in the coming years, approaching 3% by the end of 2010
- » Government envisages Euro entry in 2011-2013

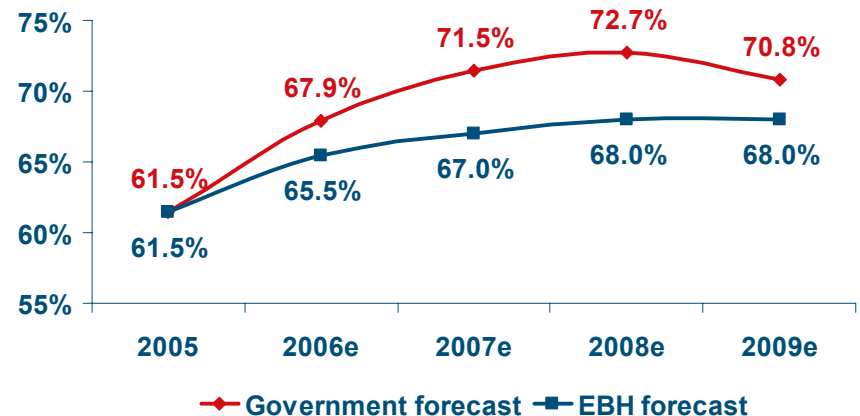
Erste Bank Hungary assessment

- » Deficit will drop to 3% of GDP by 2010
- » Public debt level $\leq 60\%$ not before 2014
- » Euro entry only in 2014-2015

Govt budget deficit (% of GDP)



Public debt (% of GDP)



Source for charts: Hungarian Government, Erste Bank Hungary

> Strong banking market will take a breather

Major growth drivers so far

- » Retail, especially mortgages as well as consumer loans and SME lending
- » FX lending in general

Factors behind slow deposit growth

- » Investment fund growth (H1 06: +33%)
- » Taxation changes favoured funds

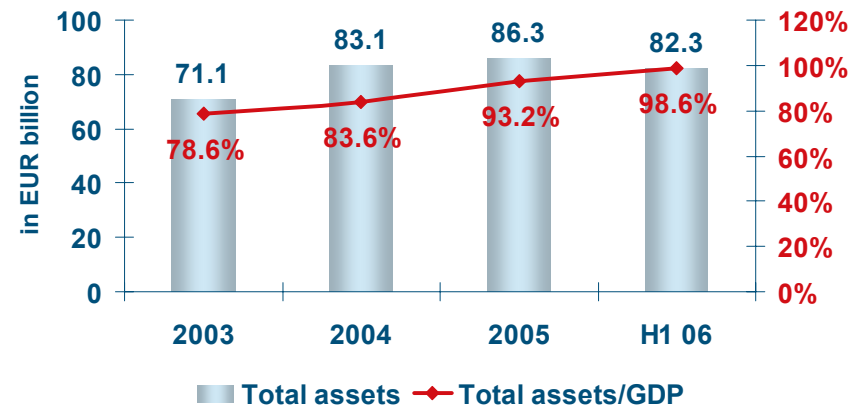
Lending growth will ease off

- » Realistic loan growth CAGRs in the order of 12%-13% (2006 – 2008)

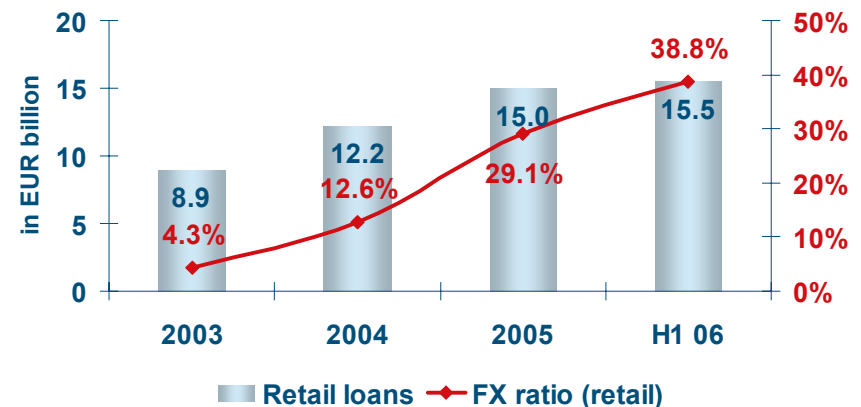
FX loans likely to remain popular

- » Sharp increase since 2003 due to change in subsidy policy
- » 90% of new volume in H1 06 were FX loans
- » Interest rate differentials have increased

Asset base of the banking market



Strong rise in retail loans fuelled by FX loans



Source for charts: Hungarian National Bank

> Agenda

Challenging operating environment

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Making the best of the situation

- » **Key trends – strong margins and operating growth**
- » **Growth drivers – cost control and loan growth**
- » **Competitive position expanded**

Outlook – growth remains on the agenda

> Strong margins – fee income back on track

Operating income hits all-time high

- » NII is supported by strong retail lending
- » Fee income back to normal, after one-off items in Q1/06; to grow 15% yoy in 2006
- » Income growth outpaces expense growth

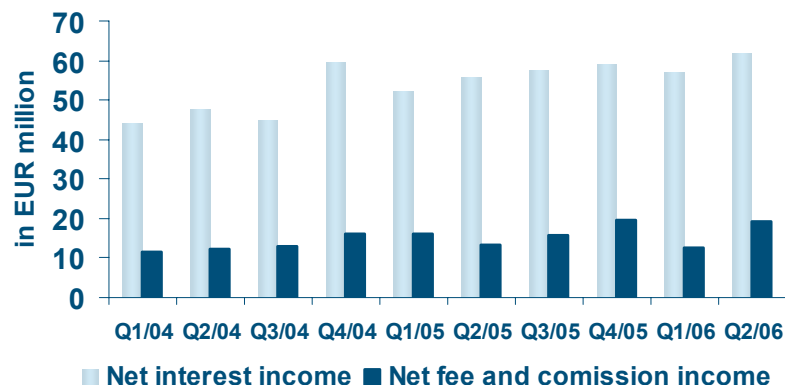
Margins remain solid

- » 400-500 bps a realistic level for 2006
- » Some compression from the above-average levels is natural and expected

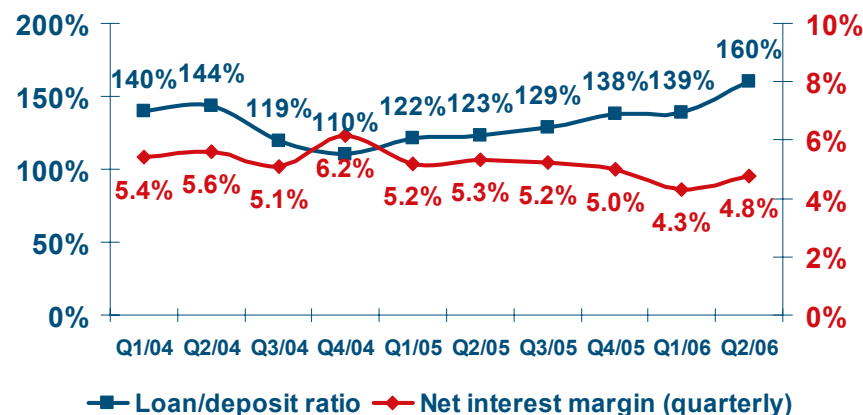
FX loans are manageable

- » LTV ratios between 50 – 70% limit risk
- » Currency would have to deteriorate drastically to levels of 360-500 HUF/EUR to push LTVs above 100%

Net interest and fee income on the up



Margins - high in a CEE context



Source for charts: Erste Bank Hungary

> Growth drivers – cost control, loan growth

Tight cost control

- » Higher inflation will impact cost base
- » Compensated by strict cost saving measures

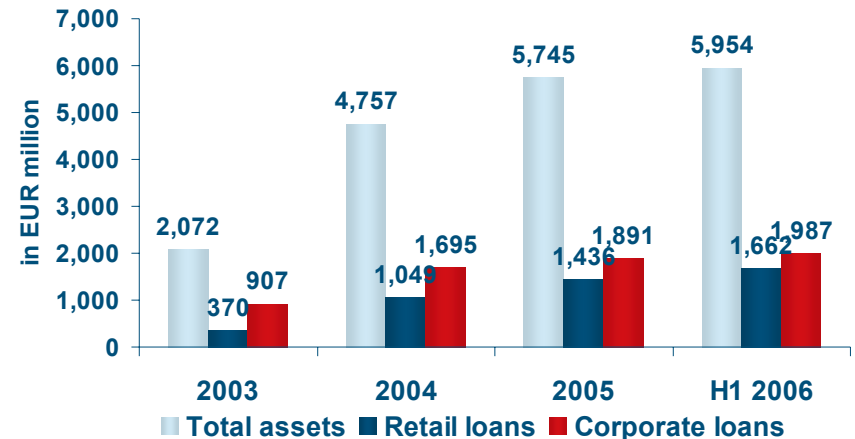
Loan growth – leaner times ahead

- » Loan growth, especially retail and mortgage, has been major driver so far
- » Growth will take knock as a result of the austerity package, before it picks up in 09
- » EBH expects retail loans to grow in low double-digits (2006 – 2008)
- » Similar growth rates for the growth driver in the corporate segment, SME loans

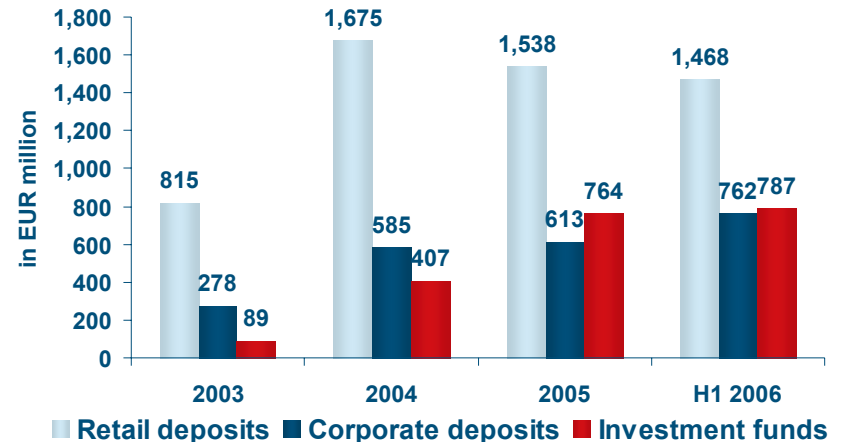
Branch network expansion

- » Target: 200 by year-end 2006 (up from 170)
- » On-line postal network has been extended

Asset-side volume development



Liability-side volume development



Source for charts: Erste Bank Hungary

> Growth driver – cooperation with the Hungarian Post

Key achievements to date

- » 2004: strategic agreements were signed
- » 2005-2006: years of network expansion
 - » 320 online post offices
- » 2006-2007: focus on increasing sales volumes

Widening product portfolio

- » Successful launch of consumer loans in the beginning of 2005
- » Sales of investment funds encouraging
- » Credit card was introduced in June 2006

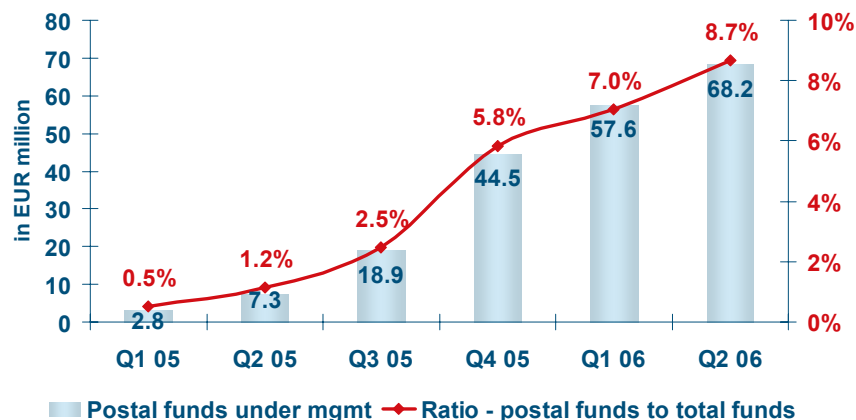
Increasing client numbers

- » Increasing number of postal current accounts (87,000 at the end of H1 06) – 13% of EBH's total
- » Cards (88,000) represent 14% of EBH's total

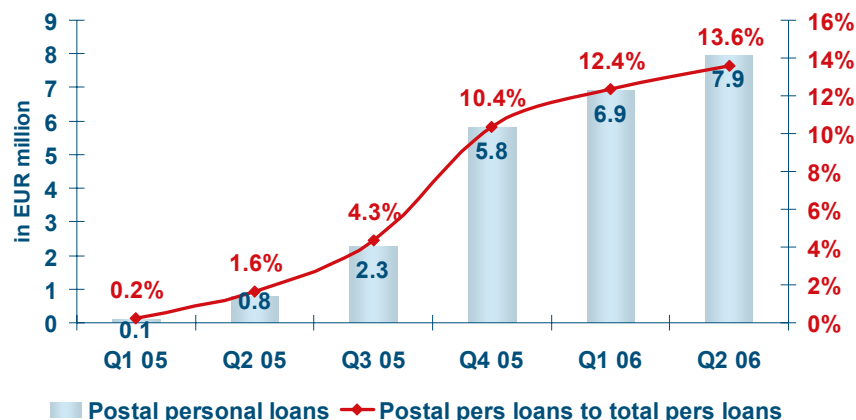
Growing share of retail revenues

- » Postal interest and fee income represented 3.2% of EBH's total retail revenues in H1 2006
- » Target: 8% by 2010

Post strongly contributes to fund sales



Post strongly contributes to personal loan sales



Source for charts: Erste Bank Hungary

> Better competitive position, stable market structure

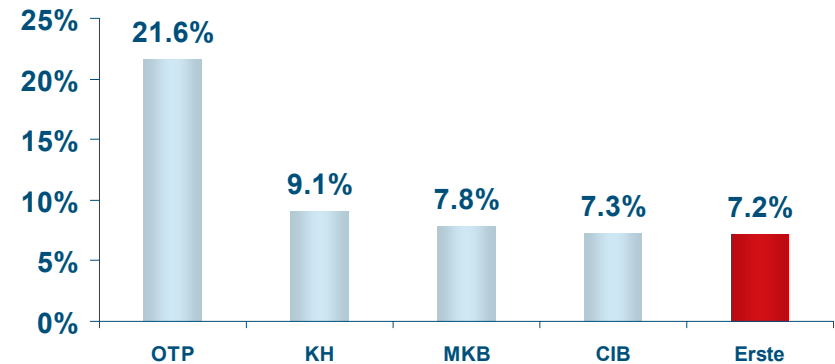
No. 2 in retail lending

- » Among the top 5 bank in terms of total assets
- » No. 1 brokerage house (No. 1 a year ago)
- » No. 2 by retail loans (No. 3)
- » No. 2 by housing loans (No. 3)
- » No. 2 by branch network

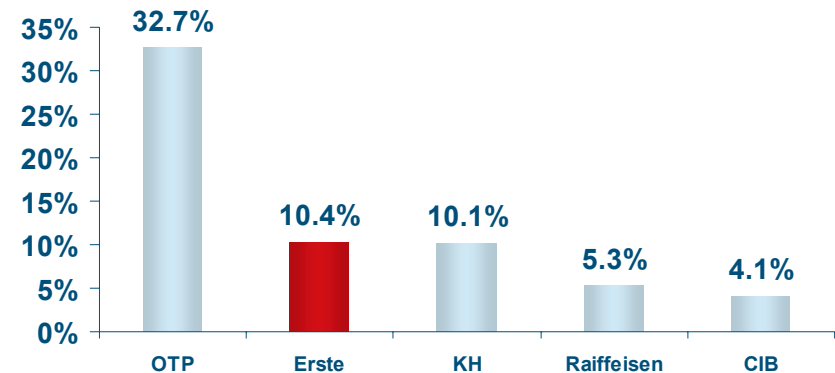
Market structure unchanged

- » Competitive, healthy market environment, with majority of banks being shareholder-oriented
- » Market has one dominant player – OTP
- » Most other significant players, like Erste Bank Hungary, are foreign-owned

Top 5 by assets (H1 06)



Top 5 by retail loans (H1 06)



Source for charts: Erste Bank Hungary, local banks

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Outlook – growth remains on the agenda

> Outlook – growth remains on the agenda

Less favourable environment

- » Lower, but still solidly positive GDP growth
- » Higher local interest rates
- » Temporary rise in inflation
- » Lower, but still double-digit demand for retail loans

Targets reflect new situation

- » Tight cost control
- » ROE expected to remain above 20%, despite extra taxation measures
- » Expected effective tax rate will decline in 2007 vs 2006 due to absence of “double taxation” in the latter half of 2006

| | 06 outlook* | 07 target* |
|-------------------|-------------|------------|
| Net profit growth | ~17% | ~20% |
| Return on equity | > 20% | > 20% |
| Cost/income ratio | < 55% | < 54% |
| | | |

*) Please note: all targets relate to local, consolidated results.