

- > Erste Bank Serbia –
Establishing the platform for growth
 - > 4th Capital Markets Day
 - > Bucharest, 9 October 2006
 - > Sava Dalbokov, CEO, Erste Bank Serbia

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> Agenda

Developing operating environment

- » **Fast moving economy – volatile political situation**
- » **Restrictive monetary policy**
- » **Banking market – opportunities abound**

Setting the stage for growth

- » **Key trends – transformation and expansion**
- » **Growth drivers – retail loans and deposits**
- » **Competitive position – start small, think big**

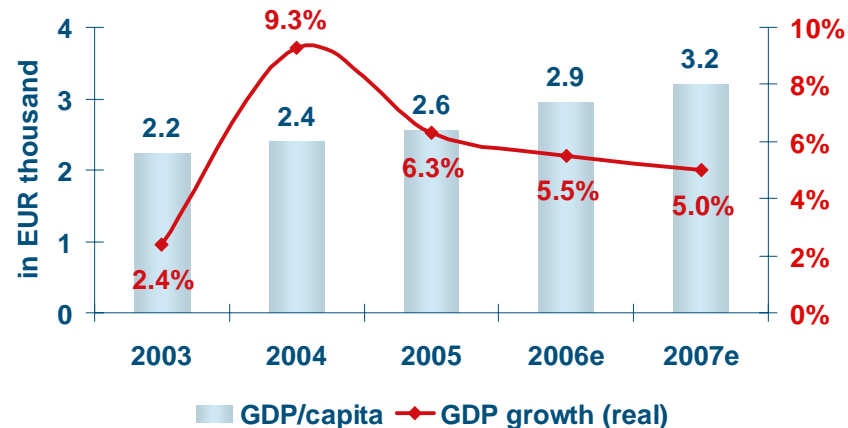
Outlook – turnaround in sight

> Strong economic growth set to continue

Solid economic fundamentals

- » GDP growth for 2006 expected to surpass forecast and reach 6.5-7.0%
- » Strong FDI inflows in 2006 (banks, mobile telephony) – estimated at EUR 3bn
- » Accelerated GDP growth set to continue driven by consumption as well as public and private investment
- » Running fiscal surpluses, but embarking on an expansionary programme

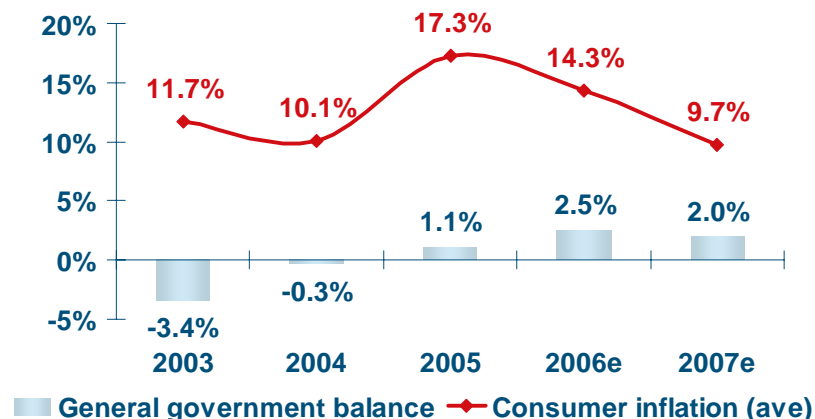
Progressing on a solid growth track



National and local elections ahead

- » Pro-EU political bloc (centre-right) has good prospects, although the Serbian Radical Party is the strongest single party
- » New constitution text agreed, referendum planned in early November, then national and local elections in December 2006

Inflation down, public finances exemplary



Source for charts: International Monetary Fund

> Restrictive monetary policy in place

Limitations to (retail) lending and foreign refinancing to curb inflation

- » **In an effort to bring inflation down to single-digit levels, the National Bank of Serbia has introduced a number of measures to slow down the lending activities of commercial banks**
 - » High obligatory reserves for FX funding sources (40% to 60% for short-term funding from abroad)
 - » High short-term local interest rates, absorbing excess liquidity (nominal short-term interest rates of some 18-20% against projected annual inflation for 2006 of some 10-14%)
 - » Rigid risk rating and provisioning standards for retail lending (monthly debt burden resulting from all financial obligations limited to 30% of official income)
 - » Additional capital requirements for retail lending growth (where retail loans exceed 2x equity, high additional non-interest bearing “penalty reserves” are charged)

Appreciation of the Serbian dinar (CSD) against the Euro

- » **4-5% in 2006 due to strong inflows of foreign capital and high real local interest rates**
- » **Temporary departure from the continuous depreciation of CSD against EUR, however depreciation trend expected to resume due to high current account deficits**
- » **Inflation for 2006 expected to reach around 10% (significantly below initial expectations), in line with National Bank objectives**
 - » However, monetary easing unlikely in the next 12-18 months

> Banking market offers substantial opportunities

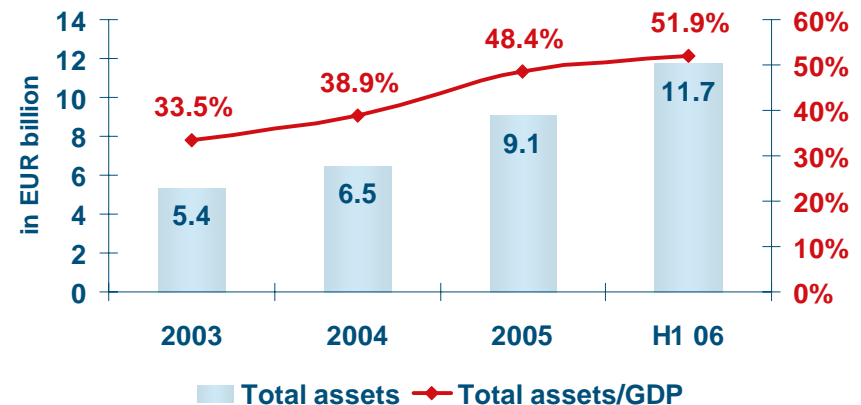
Significant growth potential, despite restrictive environment

- » Low penetration levels with total customer loans and deposits at some 25-30% of GDP (H1 06)
- » Retail lending has particularly high growth potential: average retail loan per capita is some EUR 250 vs EUR 450 in Bulgaria and EUR 2700 in Croatia (all data as per H1 06)

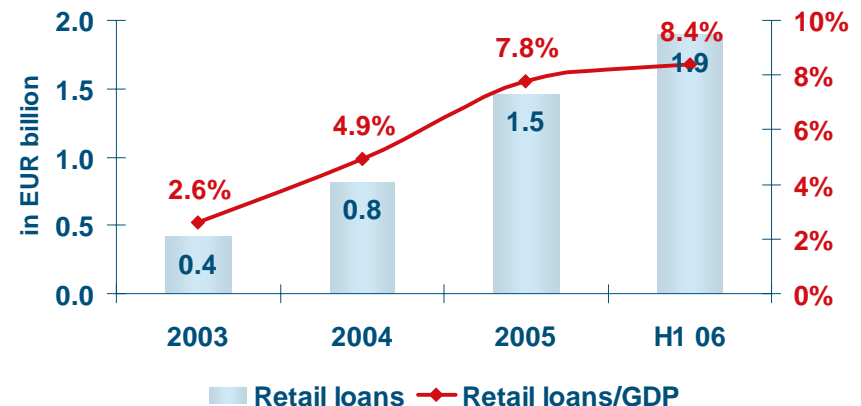
Declining interest rates will support future growth

- » Local rates still solidly double-digit (1m offer rate – BELIBOR at end Q3/06: 20%)
- » Rates will decline in line with the disinflation policy announced by the National Bank

Asset base of the banking market



Retail lending drives growth



Source for charts: National Bank of Serbia

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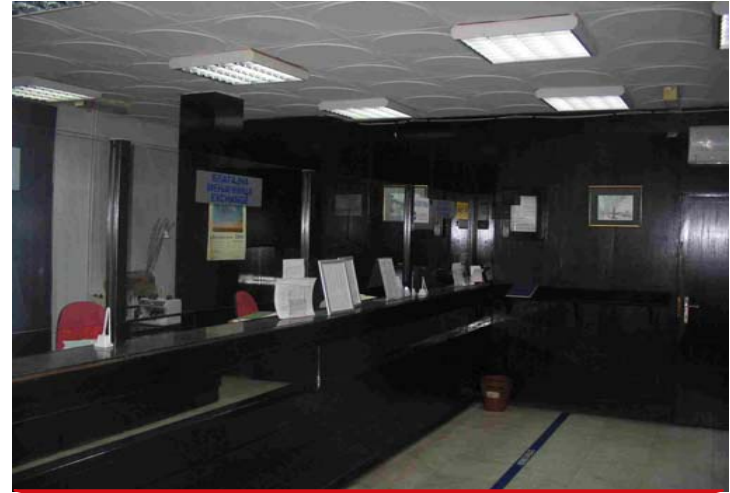
- » **Key trends – transformation and expansion**
- » **Growth drivers – retail loans and deposits**
- » **Competitive position – start small, think big**

Outlook – turnaround in sight

> Key trends – transformation and expansion

Main focus in 2006 on building a solid platform for future growth

- » From product-based to customer-oriented: organisational restructuring
- » From tellers to sellers: voluntary departure programme, over 300 new employees, extensive training initiatives
- » From regional to national: 12 new branches in 2006, emphasis on Belgrade and other larger cities
- » From traditional to modern:
 - » Refurbishment of the entire network of 60 branches
 - » Migration to a new IT system (some 20.000 man-days; total investments of EUR 6m in 2006)
 - » New products and multi-channel capabilities
- » From reactive to pro-active: sales-focused initiatives and related bonus structures

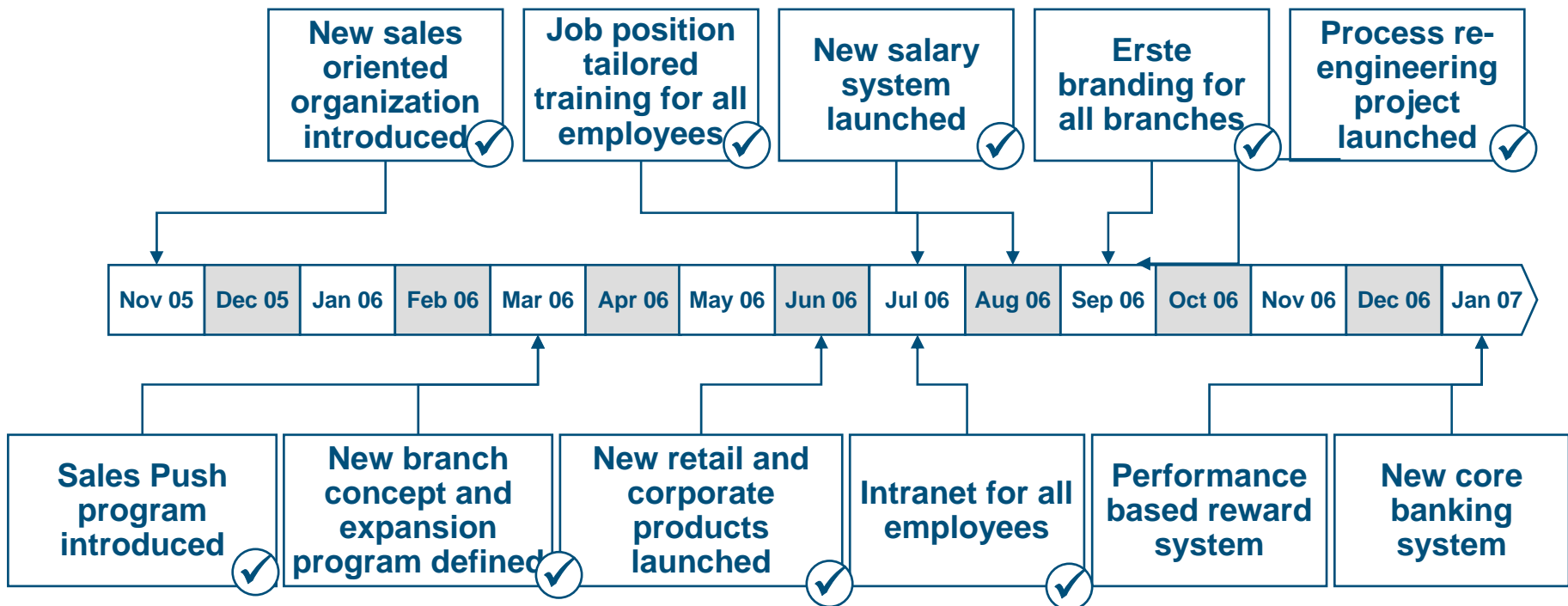


> Transformation to be largely completed in 2006

Key transformation milestones achieved as planned

» Main outstanding activities till year-end include:

- » Go-live of new IT system in January '07
- » Implementation of a performance-based reward system for '07
- » Process refinement and alignment in line with new IT system



> Growth drivers – retail and network expansion

Significant increase in retail activities

- » Despite extensive transformation efforts
- » Retail loan portfolio doubled in H1 2006
- » Retail deposit growth tops 30% in H1 2006
- » Over 5,000 new clients in H1 2006
- » Close to 30,000 new cards issued in H1 2006

Network expansion

- » Expanding market position in Belgrade
- » New branches in other major cities
- » Stronger leverage of good regional position in Vojvodina

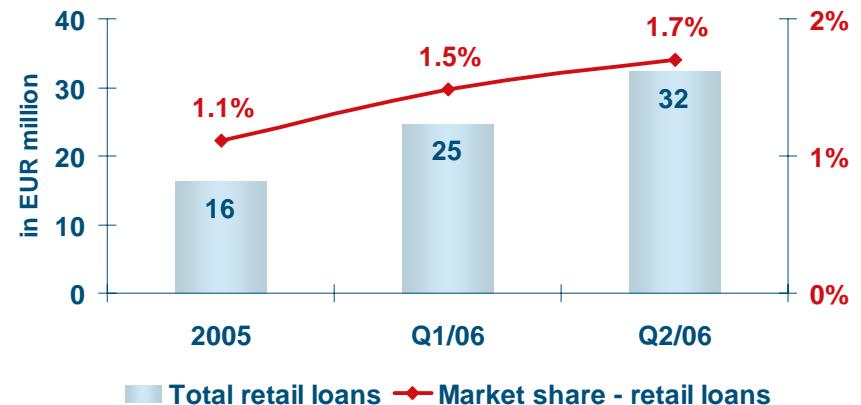
Attractive net interest margins

- » 500-600 bps for consumer loans in 2006-7
- » 200-300 bps for mortgage loans in 2006-7
- » Expected to remain stable or increase

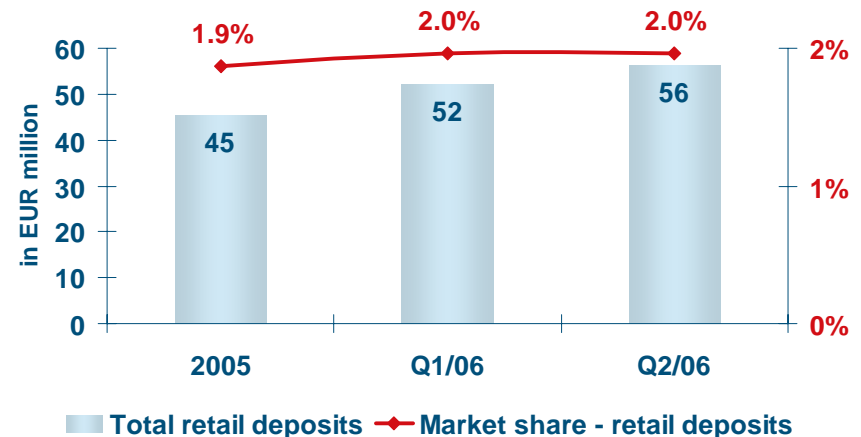
Good platform for further growth

- » Improved product offering
- » Stronger sales focus

Retail loans - growing fast from a low base



Retail deposits - starting to gain share



Source for charts: National Bank of Serbia, Erste Bank Serbia

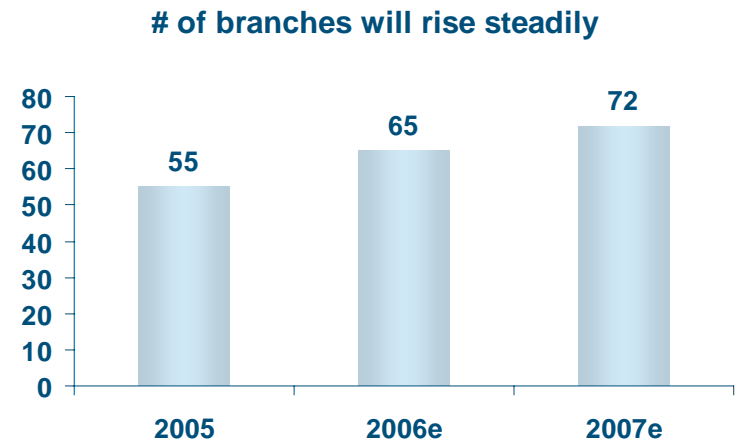
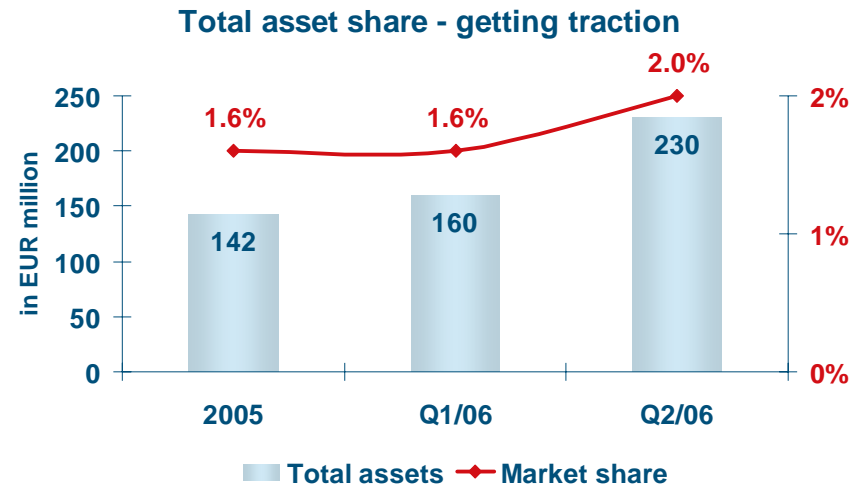
> Competitive position – start small, think big

Continued increase in market share

- » Growing share in total assets due to lending growth and EUR 30m capital increase in Q2 2006
- » Target to gain 1% market share per annum in key customer segments
- » Supported by branch refurbishment and expansion programme

Quickly evolving market structure

- » No dominant players: top 5 banks account for 55%, top 13 for 75% of banking assets
- » Major international players include Raiffeisen, Banca Intesa and Hypo-Alpe-Adria Bank
- » Continuous consolidation: number of banks down from 47 to 38, share of largest banks is growing
- » Foreign ownership: over 70% of banking assets in foreign hands, trend continuing
- » Ongoing privatisation efforts



Source for charts: National Bank of Serbia, Erste Bank Serbia

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> Outlook – stage set for expansion and profitability

Restructuring to be completed in 06, poised for major growth in 07

» 2006 is a restructuring year for Erste Bank Serbia

- » Net loss of EUR 27m expected for 2006, of which EUR 17m related to one-offs
 - EUR 8m risk provisions for the old portfolio (already provisioned on group level)
 - EUR 5m severance payments related to voluntary departure programme
 - EUR 3m IT migration and consulting services
 - EUR 1m travel, training and other

» Ambitious growth targets for 2007 to reach break-even

- » Over 115% growth in corporate lending, focus on SMEs and larger national players
- » Over 100% growth in retail lending, focus on cash loans, cards and mortgages
- » Target market share of 3-4% in key segments

» Strong focus on extracting the full potential from the existing network in a difficult growth environment

» Aim to reach RoE of 15-20% in 2008, in line with original business plan

- » Future RoE influenced by changes in regulatory capital requirements (eg for retail loans)