

5th Capital Markets Day

21 September 2007, Bratislava

CS - Change amid continuing growth

Gernot Mittendorfer, CEO, Česká spořitelna



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- **Housekeeping**
 - Who is in, who is out and who has moved on?
 - **Operating environment review**
 - Unabated economic growth
 - Material tax policy changes
 - Strong banking market performance
 - **Business performance review**
 - Operating performance analysis
 - Growth drivers
 - Competitive position
 - **Financial and business outlook**

All financial and market data are shown in EUR. Local currency data have been translated at the respective historic rates.
Growth rates and ratios are based on local currency data. All macro data based on Erste Group Research.

Housekeeping – Management changes, continuity maintained

- **Česká spořitelna has a new CEO since June 2007**
 - Gernot Mittendorfer replaced Jack Stack who joined Erste Group's supervisory board
 - Gernot Mittendorfer was already board member of ČS responsible for corporate banking in 2000-2004; from 2004 to May 2007 he was CEO of Salzburger Sparkasse
- **Various ČS managers took over new top positions within Erste Group**
 - Martin Škopek, former board member of ČS, became board member of BCR
 - Pavel Cetkovský, former Head of Balance Sheet Management in ČS, became board member of Erste Bank Ukraine
 - Jozef Síkela, former Head of Large Corporates in ČS, became board member of Erste Bank Ukraine
 - Frank-Michael Beitz, former Head of Credit Risk Management in ČS, became board member of SLSP
- **This development is evidence of Erste Group's growing talent pool, as well as sharing of know-how and management talent within the group**

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Operating environment – Balanced economic growth

– GDP set to rise by >5% in real terms

- Driven by exports, private consumption and fixed capital formation
- Short-term growth expected to moderate as a result of tax reform – lower consumption

– Employment situation very benign

- Unemployment expected to decline for the fourth year running to below 7%
- Real wage growth remains manageable in the mid-single digits

– No meaningful external imbalances

- Czech Republic runs a trade surplus
- Current account deficit averages 3-4%

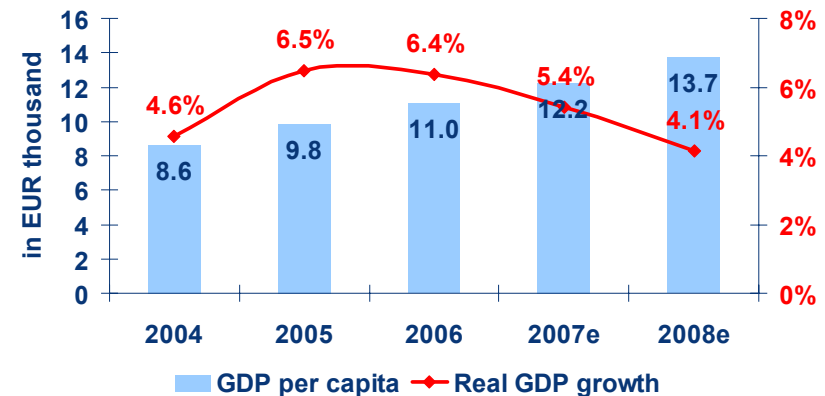
– Stable currency, low interest rates

- Currency remains strong and stable vs EUR
- Interest rates tracking EUR rates, but at lower level; current base rate stands at 3.25%

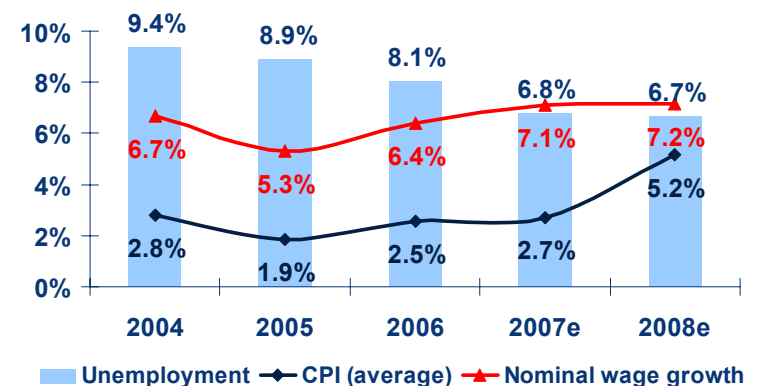
– Temporary increase of CPI in 2008 connected to government tax reform

- One-time jump in prices because of lower tier VAT increase from 5% to 9%

Key economic indicators



Unemployment vs inflation vs wage growth



Operating environment – Government adopts low tax strategy

– Public finance reform approved by Parliament

- Awaiting approval in Senate and President's signature before 2008 changes become effective
- Coalition government has prepared set of legal changes for stabilising public finance
 - Introduction of flat personal income tax rate of 15% in 2008 and 12.5% from 2009 (of the „super-gross“ salary)
 - Increase of lower tier VAT from 5% to 9%; possibility of group VAT registration
 - Gradual decrease of corporate tax rate (21% in 2008, 20% in 2009 and 19% in 2010)
 - Changes in calculation of tax base; caps on social and health insurance; social benefit cuts

– Long-term increase in competitiveness

- Immediate impact will be somewhat lower, but still 4%+ real GDP growth in 2008
 - Mainly due to lower consumption
 - Cut in mandatory expenditures by CZK 25bn to compensate for lower income tax revenues
 - Temporary rise in inflation due to higher VAT and lower growth of real disposable income
- Czech Republic will become one of the most attractive places to do business

– Overall positive impact on Česká spořitelna

Operating environment – Expected impact of tax reform

– Stronger GDP growth as of 2009

- Long-term: drop in tax burden should support higher GDP growth in coming years
- Budget deficit moving towards Maastricht criteria: -3.7% in 07, -3.0% in 08, -2.6% in 09
- Short-term: minor drop (50-100 bps) in growth

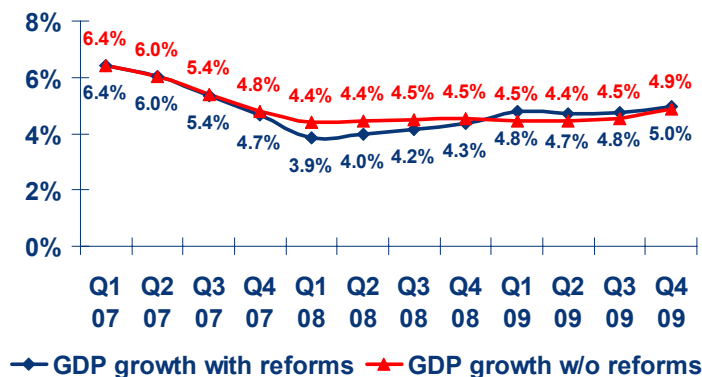
– Impact on employed population

- Combination of income tax effects, VAT effects and social spending cuts = short-term negative for most of the population
- Short-term negative impact on consumption - some CZK minus 15bn

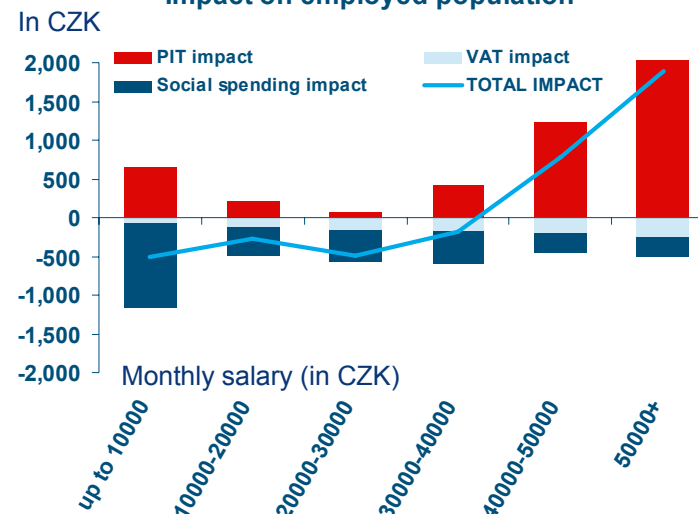
– Eurozone entry date shifted from 2010 to 2012

- Government reforms should stabilise public finances and enable the Czech Republic to fulfil all criteria for euro adoption in 2012

Expected GDP impact of tax reform



Impact on employed population



Operating environment – Banking market with significant future potential

– Strong growth continues

- Retail loans lead the way...
- ... driven by strong mortgage demand
- Continuation of trend expected in 2008, but at somewhat lower level due to tax reform measures as well as pre-stocking of housing loans ahead of tax changes in 2008

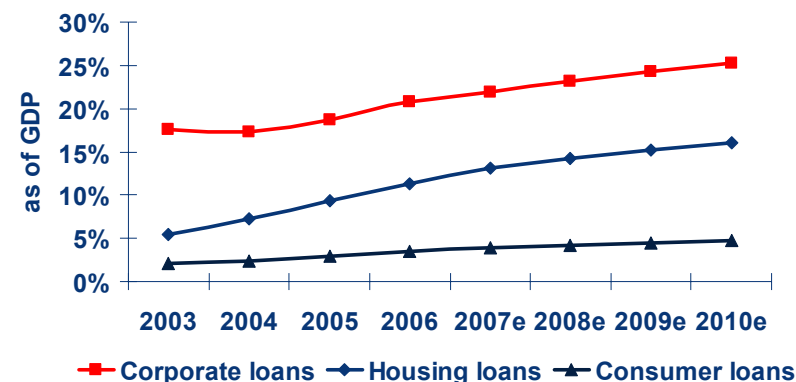
– Gradual increase of interest rates

- 2-week repo rate increased by 75 bps in 2007 to 3.25%; still way below euro level
- FX loans remain immaterial in the market

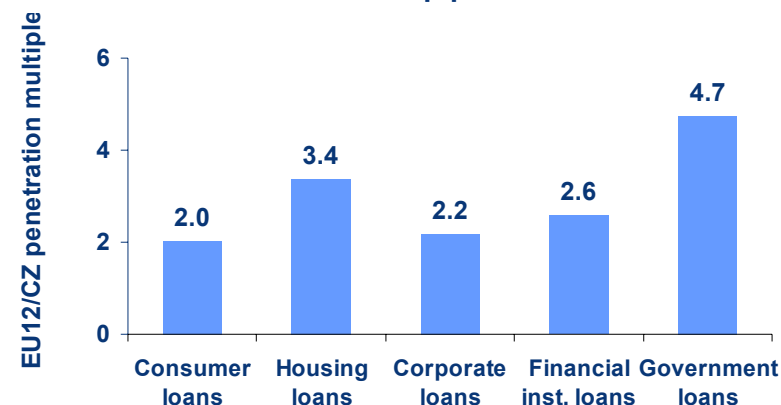
– Large growth potential in retail housing loans (mortgages and building loans)

- Volume of retail housing loans/GDP 3.4 times lower than in EU 12 (2006)
- Housing loan penetration still stands at only 11% in CR (2006)

Loan penetration forecast



Asset catch-up potential



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Operating performance analysis – Long-term performance highlights

- **Gradually improving net interest margin**

- Supported by continued shift in asset mix

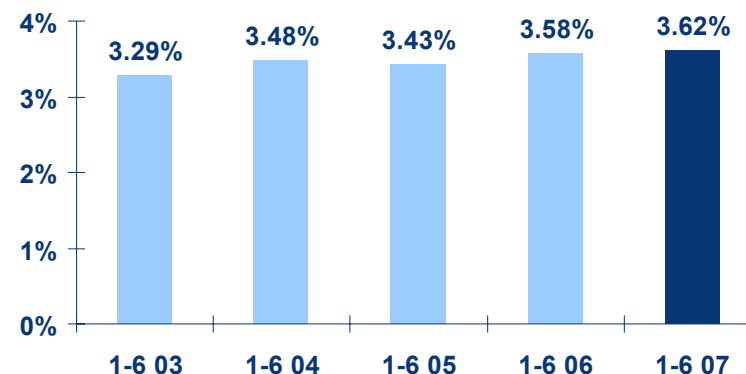
- **Rising loan-to-deposit ratio**

- Thanks to consistently strong retail loan growth, in particular housing loans

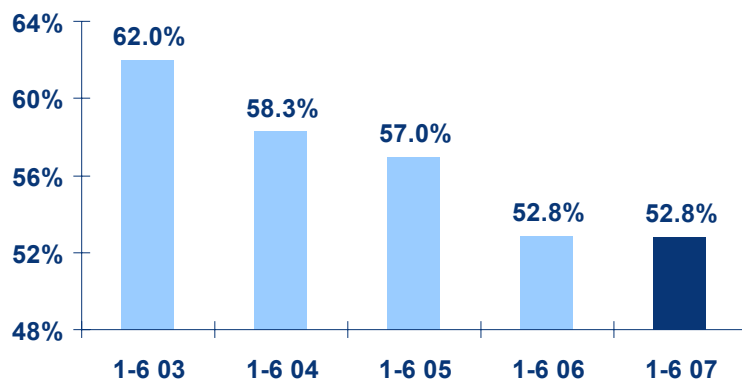
- **Cost/income ratio continues to decline**

- Despite investments into future growth – First Choice Bank plus group projects

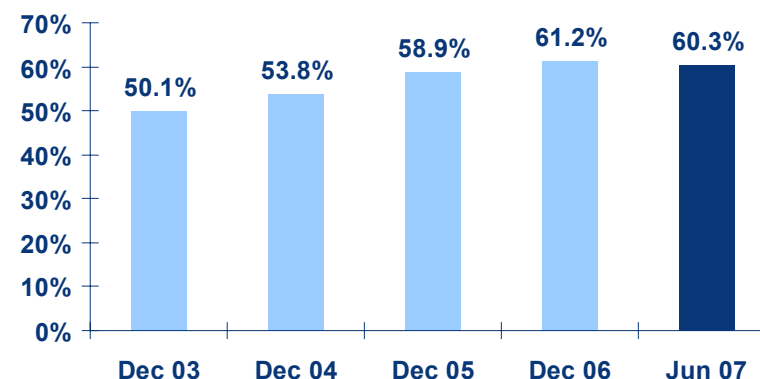
Net interest margin



Cost/income ratio



Loan/deposit ratio



Operating performance analysis – Retail business underpins operating profit growth

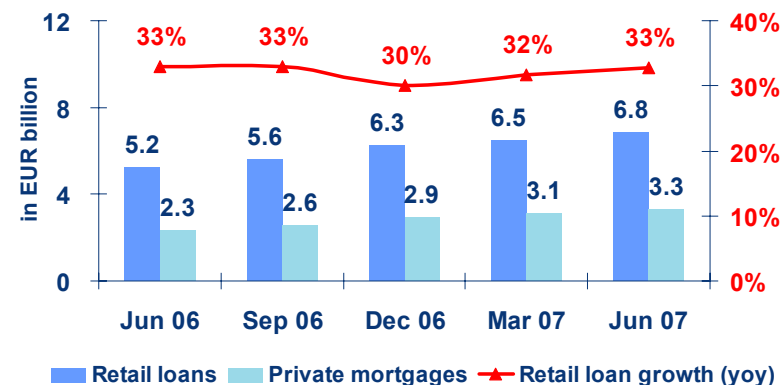
– Growth reflected in both revenues and costs

- Strong growth in customer loans and structure of deposits supports net interest income growth
- Continued positive changes in asset mix – higher growth in higher margin retail
- Cost development influenced by business development and ČS contribution to building synergies within Erste Group
- Provisioning levels in line with strong loan growth at about 50-60 bps

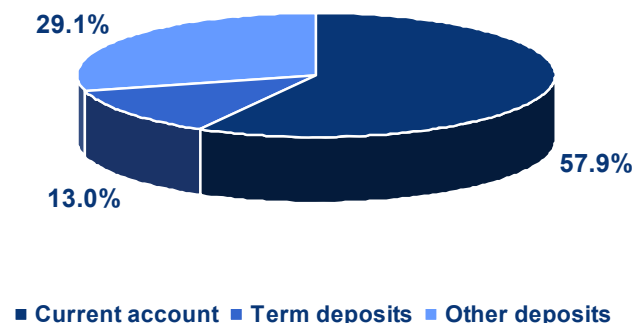
– First Choice Bank programme on track

- FCB adds 300 bps additional income growth, 100 bps additional expense growth
- 65 out of 93 milestones successfully reached, eg three private banking centres, real estate fund for retail investors etc.

Retail loan development



Retail deposit structure by deposit type
(H1 07)



Operating performance analysis – Active development of fee income is a key focus

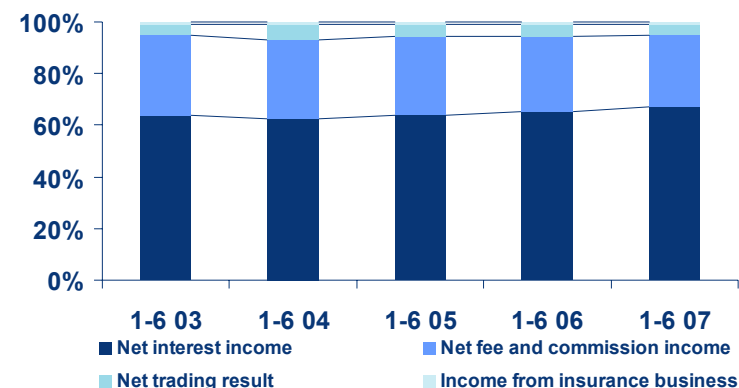
– Volume driven growth of net fees

- H1 07 growth of net fees influenced by seasonality and unusually high result in H1 06 (in securities trading)
- 6-8% increase of net fees expected for 2007

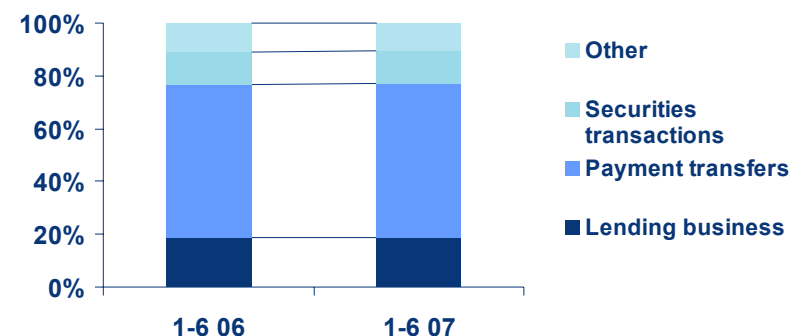
– Pro-active support of fee income through:

- New personal account offered since August
 - Price set according to client's individual choice of products
 - Allows re-pricing payment services in spite of high customer sensitivity
 - Should bring higher usage of ČS products
 - New products sold with the account (eg new types of insurance)
 - Revolutionary movement in the Czech banking market – shift from universal packages to individual solution
- Wealth management project
 - Will further increase share of fee income from securities, but in 3-5 years horizon

Structure of operating income (5y view)



Structure of net commission income



Operating performance analysis – Operating expenses driven by business expansion

– Personnel expenses influenced by increase in salaries

- 6.5% increase in base salaries effective 1 April 2007 (of which 3% because of longer working hours)
- Slight decrease in staff to 10,733 due to transfer of 259 people into group IT company as of 1 June 2007

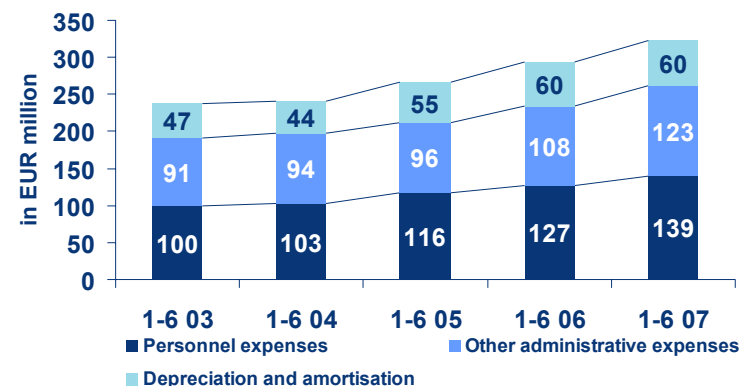
– Other administrative expenses driven by business expansion and NGA projects

- Strong business volume leads to higher operating expenses
- New business activities
- Payments for NGA projects

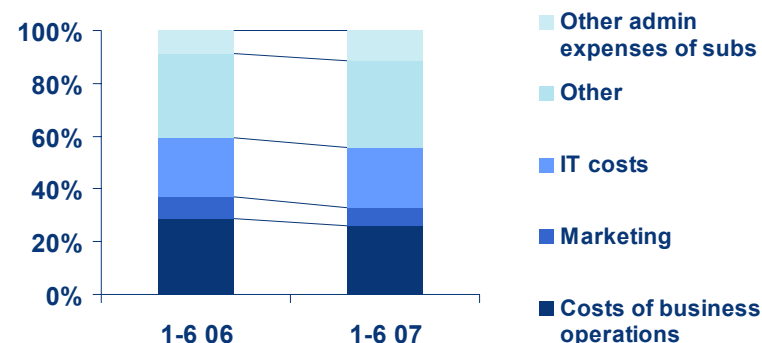
– Overall 6-7% growth of total G&A expenses expected for FY 2007

- As opposed to 8.2% in H1 07
- Due to cost cutting measures in H2 07

5-year development of operating expenses



Structure of other administrative expenses



Growth drivers – Retail loan growth consistently above 30%

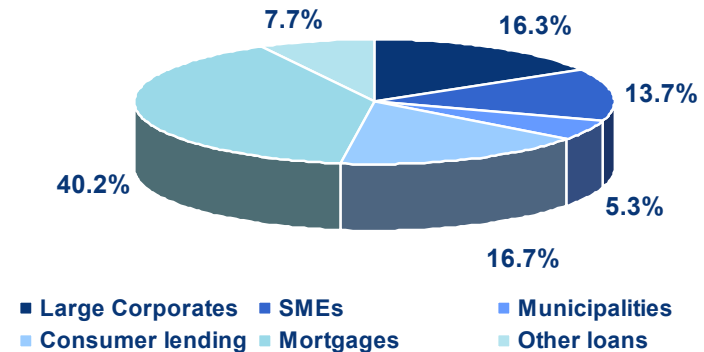
– Almost 20% overall annual loan growth

- Driven by private mortgages (+43% yoy) and consumer lending (+23% yoy)
- Significant growth of loans to SMEs (+22% yoy)
- Gradual repayments of loans to Czech Consolidation Agency

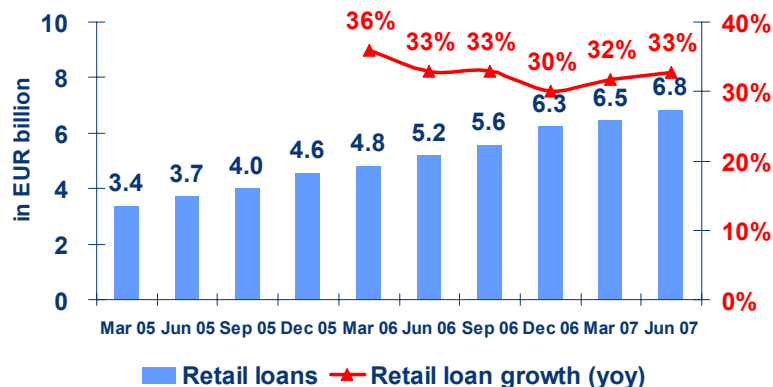
– Asset quality remains stable

- NPL ratio (NPLs to total loans) = 1.8% on consolidated basis

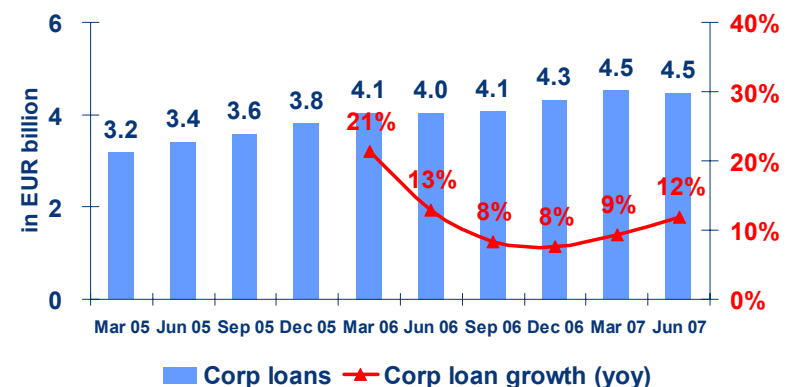
Loan book structure
(H1 07)



Retail loan development



Corporate loan development



Growth drivers – Wealth management to add further value

– Strong growth in funds and deposits

- Total funds under management climbed to CZK 682.9bn in H1 07 (12.4% YTD)
- Good growth in both banking deposits and funds under management of ČS subsidiaries

– New product offer

- March 2007 - Česká spořitelna launched first real estate fund for retail investors
 - By the end of June the fund acquired almost CZK 500m in client funds
- New life cycle funds launched in September
 - Substitute for lacking pension reform

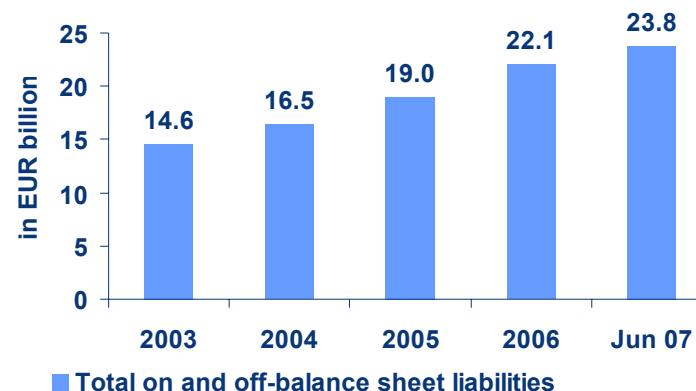
– Wealth management project

- New project aimed at providing customers with more value for money
- Advisory services for retail investors
- Three new private banking centres established (Prague, Brno, Ostrava)

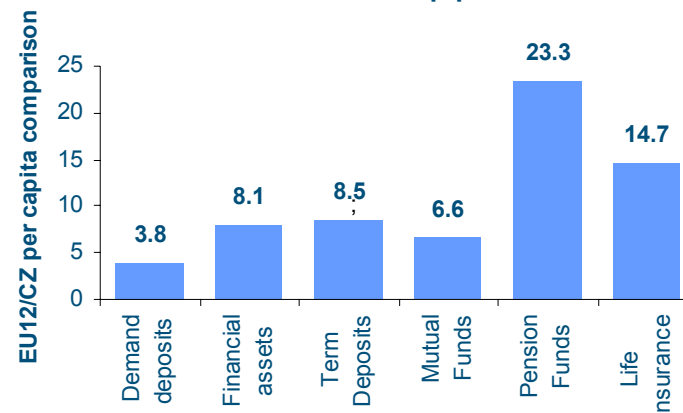
– In liabilities largest under-penetration in pension funds and life insurance

- Pension fund volume accounts for only EUR 467 per capita compared to EUR 10,872 in EU 12 (2006)
- Life insurance penetration at EUR 613 per capita in the Czech Republic compared to EUR 9,016 in EU 12

5-year development of liabilities



Liabilities catch-up potential



Competitive position – Market leadership maintained

– Market position overview

- No. 2 by total assets (2006: No. 2)
- No. 1 by total loans (2006: No. 1)
- No. 1 by total deposits (2006: No. 1)
- Gains in key growth segments, e.g. mortgage loan market share reached 34%

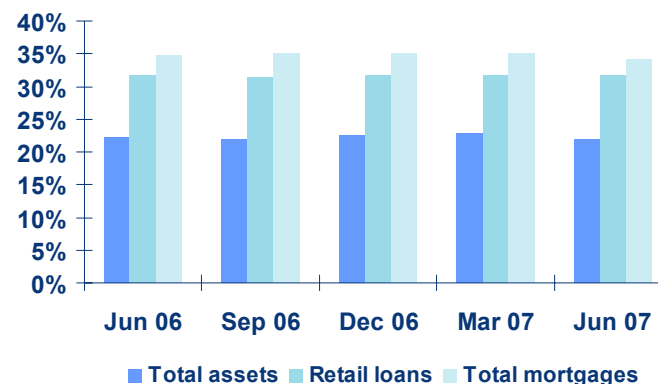
– Market structure remains stable

- Concentrated banking market
- 3 dominant players, including CS
- 37 banks in total, 29 owned by foreigners

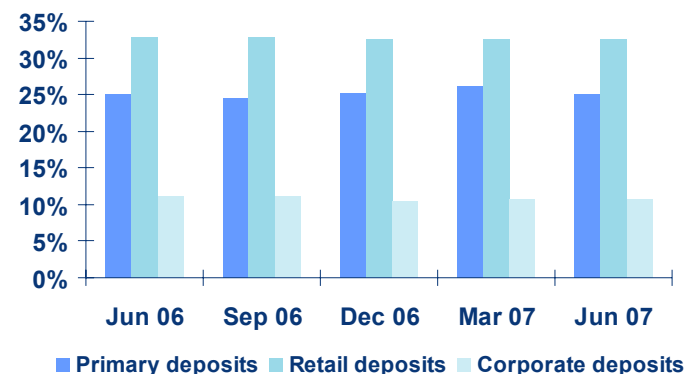
– Main competitors

- Komerční banka – SME and large corporate business; mortgages; loans from building savings
- ČSOB – mutual fund business; mortgages; loans from building savings; SME business
- GE Money Bank, Raiffeisen – consumer lending

Market share development - asset side



Market share development - liability side



– Housekeeping

- Who is in, who is out and who has moved on?
- Other significant events in the past year

– Operating environment review

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– Business performance review

- Operating performance analysis
 - Net commission income
 - Operating costs
- Growth drivers
- Competitive position

– Financial and business outlook

Business and financial outlook – Positive for 2007

– Strong economy continues

- Solid, mid-single digit GDP growth
- Disposable income growth continues

– Favourable interest rate scenario

- Slowly rising interest rates support revenue growth - already three rate hikes in 2007 (May, July and August)
- 25bps hike yields CZK 160m in additional revenues

– Targets reflect fundamentals

- Maintenance of >20% ROE
- Further improvement of cost/income ratio as revenue growth outpaces expenses
- NIM will improve as a result of rising interest rates and changing asset mix
- Loan/deposit ratio to exceed 70% by YE 08
 - From 60% - 65% at YE 2007
 - Slowdown in 2007 caused by strong deposit growth

	07 target*
Net profit growth	15-20%
Return on equity	> 20%
Cost/income ratio	< 53%

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