

# **Morgan Stanley Annual European Financials Conference**

**25-27 March 2014, London**



**Erste Group –  
From AQR to recovery –  
Key debates of European financials**  
Andreas Treichl, Chief Executive Officer

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# ECB comprehensive assessment – An important step towards banking union

## ECB Comprehensive Assessment

**Pillar 1:  
Supervisory risk  
assessment**

**Pillar 2:  
Asset quality  
review**

**Pillar 3:  
Stress test**

**Funding,  
Leverage,  
Liquidity**

**Asset valuations,  
NPL classifications,  
Collateral valuations,  
Provisioning**

**Resilience under  
difficult  
macroeconomic  
scenarios**

**Erste Group:**



**Erste Group:  
expected impact built  
into 2014 guidance**

**Erste Group:**



# Pillar 1: Update on funding –

## Excellent liquidity position, limited funding requirements

- **Loan/deposit ratio amounted to 104.3% as of Dec 2013 (Dec 2012: 107.2%)**

- Retail deposits remain a key pillar in funding mix...
- ...providing solid funding needs in all local currencies

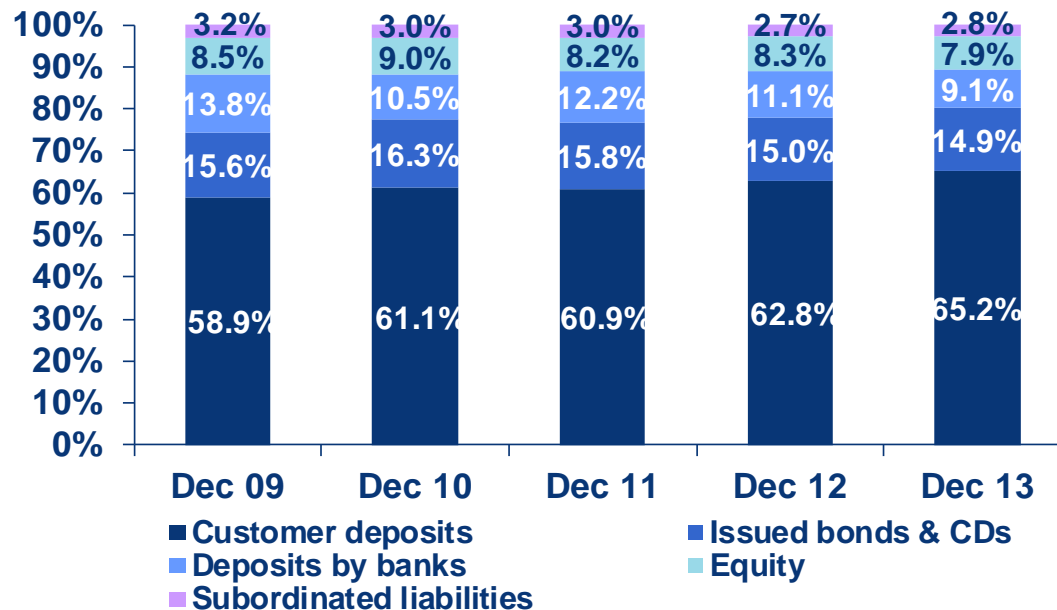
- **Short-term funding needs very well covered**

- Investments in highly liquid assets resulted in comfortable collateral coverage of short-term funding needs

- **Long-term funding**

- Limited funding needs in 2014 (< EUR 2 billion)

**Evolution of funding mix**

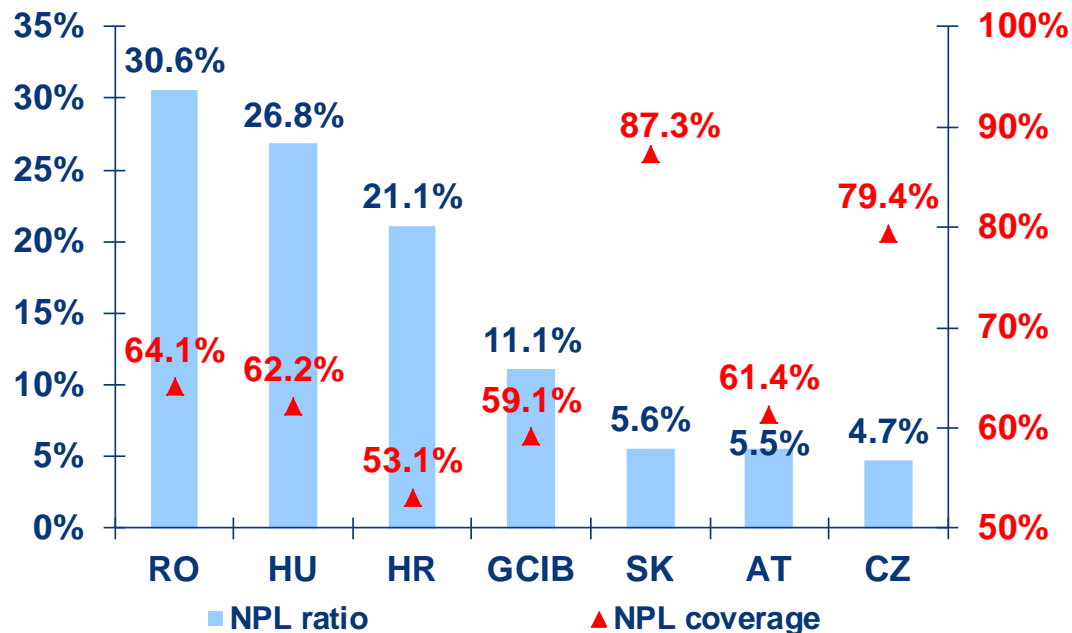


# Pillar 2: Update on asset quality –

## Visible improvement; expected AQR impact in guidance

- **Absolute amount of NPLs has declined for two consecutive quarters**
  - Group NPL ratio at 9.6% (Dec 2013)
  - Group NPL coverage at 63.1% (Dec 2013)
- **AQR expected to pay particular attention to challenging markets**
  - Very good and continuously improving asset quality in Austria, Czech Republic and Slovakia
  - Still weak asset quality in Romania, Hungary, Croatia and commercial real estate

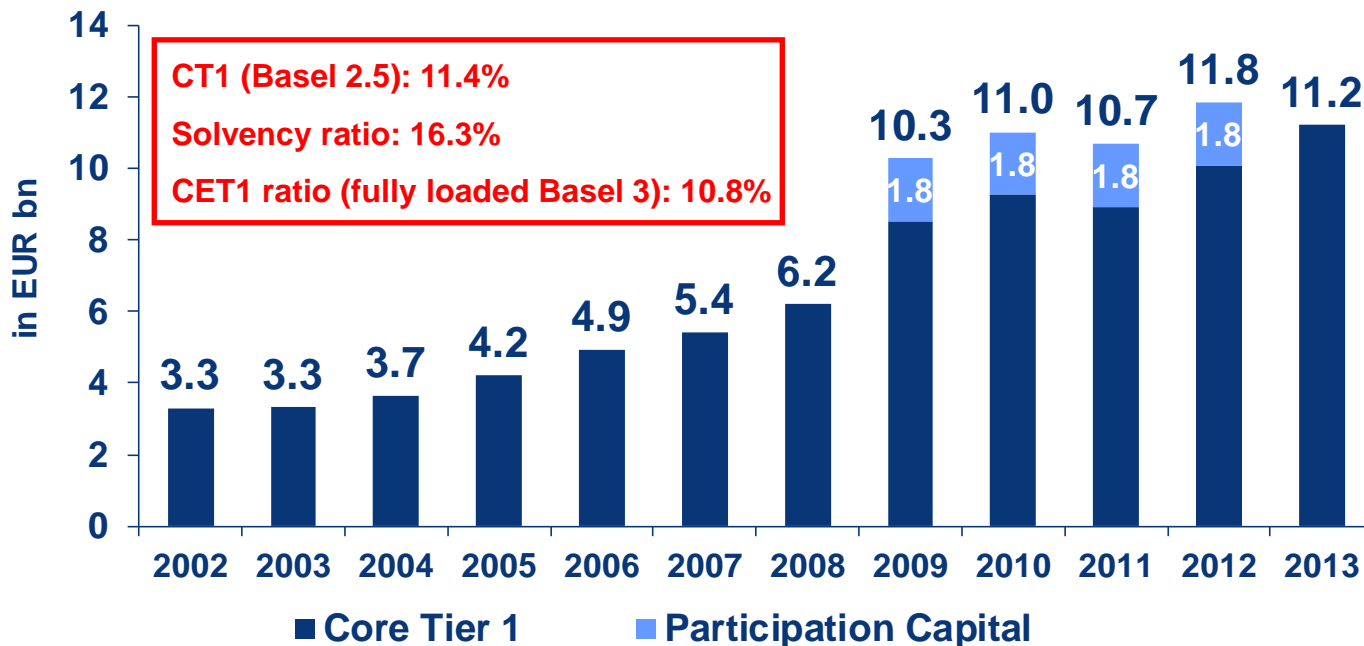
**NPL ratio and NPL coverage (Dec 2013)**



# Pillar 3: Update on capital – Strong and vastly improved capitalisation

- First Austrian bank that fully repaid the participation capital (EUR 1.76bn)
- Capital increase of EUR 660.6m conducted in July 2013
- EG already meets the 10% fully loaded CET1 Basel 3 capital ratio (agreed to achieve by YE 2014)

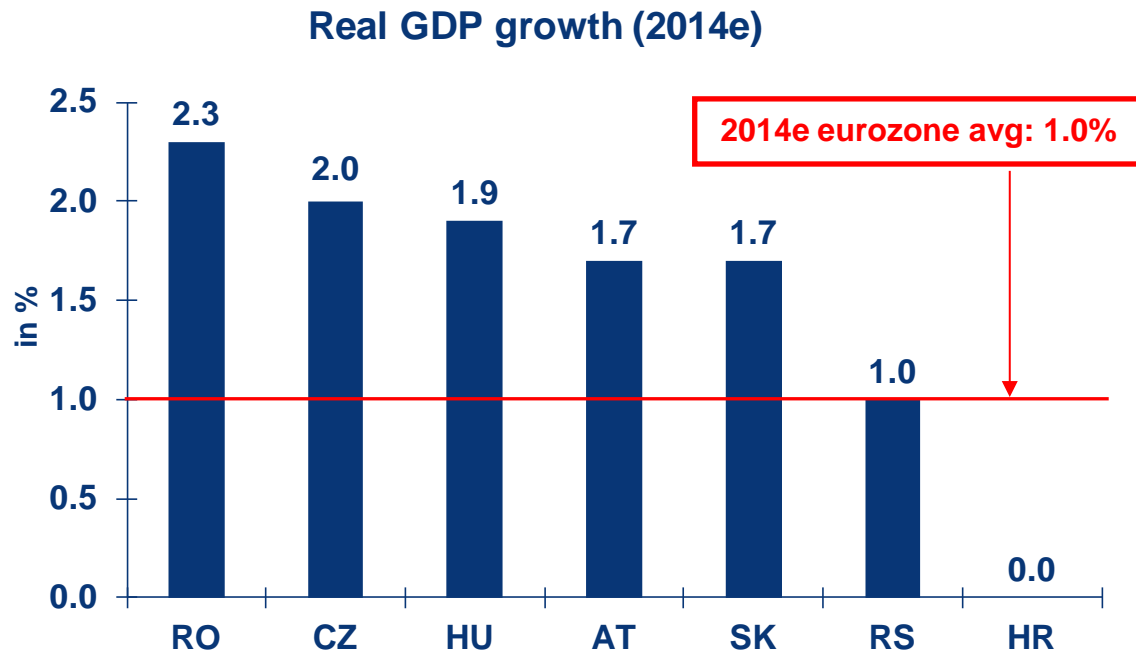
## Development of Core Tier 1 capital



# Pillar 3: Update on the economic environment –

## Economic recovery becoming visible in CEE

- **Some of the CEE countries achieved marginally better than expected growth in 2013**
  - Growth has mainly been driven by exports, domestic demand has just started to gradually improve
  - Consumer confidence has improved slightly across the region
  - CEE (including Austria) has continuously outgrown the eurozone
- **Falling inflation in all CEE countries**
- **Very low interest rate environment**



Source: Erste Group Research



# Adoption of EBA financial reporting standards –

## Introduction of more detailed segment report

### Erste Group – Business line segmentation

Retail	SME	ALM & Local CC	Savings Banks	Large Corporates	Commercial Real Estate	Other Corporate	Group Markets	Group Corporate Center	Intra Group Elimination
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### Erste Group – Geographic segmentation

Austria	Central and Eastern Europe							Other
EBOe & subsidiaries	Savings Banks	Other Austria	Czech Republic	Romania	Slovakia	Hungary	Croatia	Serbia

# Erste Group business assessment – Geographic and business line analysis

## Erste Group Business Assessment

	Austria	Czech Republic	Slovakia	Romania	Hungary	Croatia
Retail	++	+	++	O	O	++
SME	+	+	+	-	-	++
Corporate	O	+	O	-	-	+
Commercial Real Estate	+	+	O	--	--	-

++: Best in country    +: Good    O: OK    -: Behind competitors    --: Not good

# Open topics –

There are still a lot of unanswered questions

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## – **European banking still requires some fundamental decisions before market expectations can be met!**

- Will that be a banking union?
- What kind of banking union?
  - Only regulatory
  - Regulatory and recovery and resolution fund
- What will the non-euro countries do (very important for Erste Group/CZ)?
- What will be the result of the AQR?
- Will bad banks be taken out?

## – **No clear path to be seen before November 2014**

# Conclusion –

## Implications and outlook for Erste Group

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- **Best result for Erste Group**
  - Banking union → YES
  - Recovery and resolution fund → YES
  - Non-euro countries join banking union → YES
  - Bad banks will be allowed to fail → YES
- **We will speed up**
  - Cutting of bad cost
  - Investing in digital banking
  - Eliminating non-core investments
- **We feel fine**
  - With capital
  - With liquidity
  - With human talent with good spirit
- **We feel partially fine**
  - Vis a vis our competitors
  - With our strategy
  - With our region
- **We are worried about**
  - Populist politicians
- **Our goals**
  - Become the undisputed leader in retail banking in our region
  - Catch up with strongest competitors in corporate banking
  - Fill last hole in regional strategy: Poland
  - Earn our cost of capital + 2pps as soon as possible

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# Strategy –

A real customer need is the reason for all business

## Customer banking in Central and Eastern Europe

### Eastern part of EU

### Focus on CEE, limited exposure to other Europe

#### Retail banking

Focus on local currency mortgage and consumer loans funded by local deposits

FX loans only in EUR for clients with EUR income (or equivalent) and where funded by local FX deposits (RO, HR & RS)

Savings products, asset management and pension products

Potential future expansion into Poland

#### Corporate banking

Large, local corporate and SME banking

Advisory services, with focus on providing access to capital markets and corporate finance

Real estate business that goes beyond financing

Potential future expansion into Poland

#### Capital markets

Focus on customer business, incl. customer-based trading activities

In addition to core markets, presences in Poland, Turkey, Germany and London with institutional client focus and selected product mix

Building debt and equity capital markets in CEE

#### Public sector

Financing sovereigns and municipalities with focus on infrastructure development in core markets

Any sovereign holdings are only held for market-making, liquidity or balance sheet management reasons

#### Interbank business

Focus on banks that operate in the core markets

Any bank exposure is only held for liquidity or balance sheet management reasons or to support client business

# Strategy –

## Customer banking in the eastern part of the EU

Austria	Czech Republic	Slovakia
Clients: 3.4m	Clients: 5.3m	Clients: 2.4m
Retail loans: 19.0%	Retail loans: 23.6%	Retail loans: 25.8%
Retail dep.: 18.3%	Retail dep.: 26.9%	Retail dep.: 26.5%
Branches: 972	Branches: 653	Branches: 292

– Leading retail and corporate bank with 16.5m customers in 7 geographically connected countries



– Favourable mix of mature & emerging markets with low penetration rates

– Potential for cross selling and organic growth in CEE

Romania	Hungary	Croatia	Serbia
Clients: 3.2m	Clients: 0.9m	Clients: 1.0m	Clients: 0.3m
Retail loans: 17.7%	Retail loans: 15.5%	Retail loans: 13.8%	Retail loans: 3.4%
Retail dep.: 18.1%	Retail dep.: 7.0%	Retail dep.: 12.8%	Retail dep.: 2.8%
Branches: 563	Branches: 135	Branches: 150	Branches: 68

