# Erste Group Bank AG
# FY 2013 preliminary results

**28 February 2014**

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ERSTE
Group

# Presentation topics

– Erste Group’s development in 2013

– Erste’s tax environment

– Central and Eastern Europe

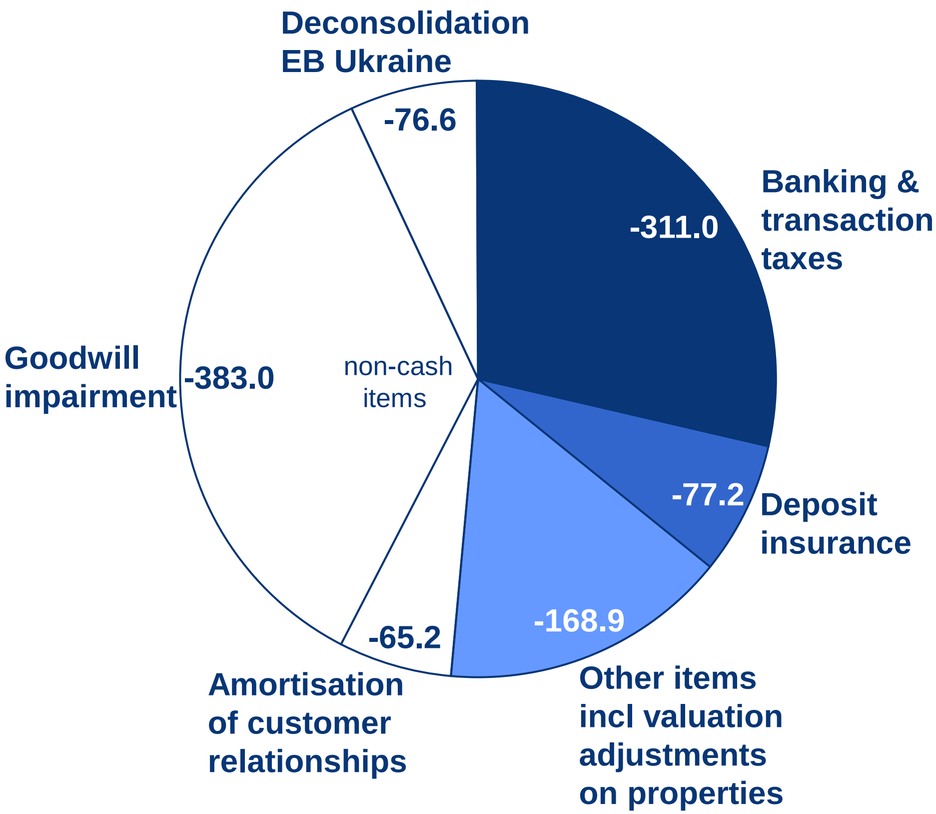
– Outlook 2014

# Income statement (IFRS) FY 2013 –
## Net profit down on impairments and tax effects

| in EUR million | 2013 | 2012 | Change | Comment |
|---|---|---|---|---|
| Net interest income | 4,858.1 | 5,235.3 | (7.2%) | Low interest rates, subdued loan demand |
| Risk provisions for loans | (1,763.4) | (1,980.0) | (10.9%) | Significant reduction in retail & SME business |
| Net fee and commission income | 1,810.0 | 1,720.8 | 5.2% | Stronger securities business in Austria |
| Net trading result | 293.2 | 273.4 | 7.2% | Higher income from securities trading |
| General administrative expenses | (3,653.5) | (3,756.7) | (2.7%) | Strict cost control across the group |
| Other operating result | (1,081.9) | (724.3) | 49.4% | Higher banking levies, hybrid buybacks in 2012 |
| *Thereof banking taxes + FTT* | *(311.0)* | *(245.8)* | *26.5%* | *Higher banking taxes in SK and HU, FTT in HU* |
| Result from financial instruments - FV | (76.3) | (3.6) | >100.0% | Valuation effects and write-downs |
| Result from financial assets - AfS | (13.5) | 56.2 | na | |
| Result from financial assets - HtM | 1.5 | (19.9) | na | |
| Pre-tax profit/loss | 374.3 | 801.2 | (53.3%) | |
| Taxes on income | (178.5) | (170.2) | 4.9% | DTAs not fully recognised; pos. effect in RO in Q2 |
| Net profit/loss for the period | 195.8 | 631.0 | (69.0%) | |
| Attributable to non-controlling interests | 134.8 | 147.5 | (8.6%) | |
| Attributable to owners of the parent | 61.0 | 483.5 | (87.4%) | |

# Income statement (IFRS) drill-down –
## Other operating result in detail

### Other operating result 2013: - EUR 1,081.9m




- **Banking taxes and FTT:**
  - **AT: EUR 166.4m**
  - **HU: EUR 103.4m**
  - **SK: EUR 41.2m**
- **2013 negative one-off effects:**
  - **Deconsolidation EB Ukraine**
  - **Goodwill impairments**
  - **Hungarian one-off on FTT and fine of Competition Authority**
- **Goodwill impairment**
  - **BCR: EUR 281.0m**
  - **EB Croatia: EUR 52.2m**
  - **Others: EUR 49.8m**

# Balance sheet (IFRS) – Assets

## Lower customer loans, lower RWAs

| in EUR million | Dec 13 | Dec 12 | Change | Comment |
|---|---|---|---|---|
| Cash and balances with central banks | 8,670 | 9,740 | (11.0%) | |
| Loans and advances to credit institutions | 9,062 | 9,074 | (0.1%) | |
| Loans and advances to customers | 127,698 | 131,928 | (3.2%) | Reduction in most segments and FX effects |
| Risk provisions for loans and advances | (7,810) | (7,644) | 2.2% | Driven by Hungary & GCIB |
| Derivative financial instruments | 8,285 | 13,289 | (37.7%) | Volume reduction and valuation changes |
| Trading assets | 5,941 | 5,178 | 14.7% | |
| Financial assets - FV | 529 | 716 | (26.1%) | |
| Financial assets - AfS | 20,581 | 22,418 | (8.2%) | |
| Financial assets - HtM | 17,781 | 18,975 | (6.3%) | |
| Equity holdings in associates | 208 | 174 | 19.2% | |
| Intangible assets | 2,441 | 2,894 | (15.7%) | Goodwill write-downs |
| Property and equipment | 2,057 | 2,228 | (7.7%) | |
| Investment properties | 951 | 1,023 | (7.1%) | |
| Current tax assets | 100 | 128 | (21.3%) | |
| Deferred tax assets | 719 | 658 | 9.4% | |
| Assets held for sale | 75 | 708 | (89.4%) | Deconsolidation of EB Ukraine |
| Other assets | 2,590 | 2,338 | 10.8% | |
| **Total assets** | **199,876** | **213,824** | **(6.5%)** | |
| **Risk-weighted assets** | **97,901** | **105,323** | **(7.0%)** | |

# Balance sheet (IFRS) – Liabilities
## Strong deposit base

| in EUR million | Dec 13 | Dec 12 | Change | Comment |
|---|---|---|---|---|
| Deposits by banks | 17,126 | 21,822 | (21.5%) | |
| Customer deposits | 122,442 | 123,053 | (0.5%) | Stable in retail &SME, decline in term deposits |
| Debt securities in issue | 27,986 | 29,427 | (4.9%) | |
| Value adjustments from Portfolio fair value hedges | 734 | 1,220 | (39.9%) | |
| Derivative financial instruments | 6,731 | 10,878 | (38.1%) | |
| Trading liabilities | 388 | 481 | (19.4%) | |
| Provisions | 1,448 | 1,488 | (2.7%) | |
| Current tax liabilities | 85 | 53 | 59.4% | |
| Deferred tax liabilities | 169 | 324 | (47.6%) | |
| Liabilities associated with assets held for sale | 0 | 339 | na | Deconsolidation of EB Ukraine |
| Other liabilities | 2,654 | 3,077 | (13.8%) | |
| Subordinated liabilities | 5,333 | 5,323 | 0.2% | |
| Total equity | 14,781 | 16,339 | (9.5%) | Early redemption of part.cap., capital increase |
| Attributable to non-controlling interests | 3,457 | 3,483 | (0.8%) | |
| Attributable to owners of the parent | 11,324 | 12,855 | (11.9%) | |
| **Total liabilities and equity** | **199,876** | **213,824** | **(6.5%)** | |
| **Core tier 1 ratio** | **11.5%** | **11.2%** | | |

# Segment highlights –

## Turnaround in RO, solid results in EBOe, CZ and SK

### Top segment performers in 2013:

| | Romania | | | EB Oesterreich | | |
|---|---|---|---|---|---|---|
| in EUR million | 2013 | 2012 | Δ | 2013 | 2012 | Δ |
| Operating income | 775 | 763 | 2% | 962 | 953 | 1% |
| Operating expenses | (314) | (356) | (12%) | (594) | (615) | (3%) |
| Operating result | 460 | 407 | 13% | 368 | 338 | 9% |
| Risk costs | (386) | (737) | (48%) | (70) | (96) | (27%) |
| Other result | (66) | (49) | 36% | (40) | 13 | na |
| Net profit/loss | 128 | (294) | na | 184 | 192 | (4%) |

| | Czech Republic | | | Slovakia | | |
|---|---|---|---|---|---|---|
| in EUR million | 2013 | 2012 | Δ | 2013 | 2012 | Δ |
| Operating income | 1,438 | 1,581 | (9%) | 541 | 538 | 1% |
| Operating expenses | (645) | (692) | (7%) | (238) | (236) | 1% |
| Operating result | 793 | 889 | (11%) | 303 | 302 | 0% |
| Risk costs | (119) | (140) | (15%) | (39) | (53) | (27%) |
| Other result | (50) | (93) | (46%) | (41) | (38) | 10% |
| Net profit/loss | 494 | 518 | (5%) | 174 | 169 | 3% |

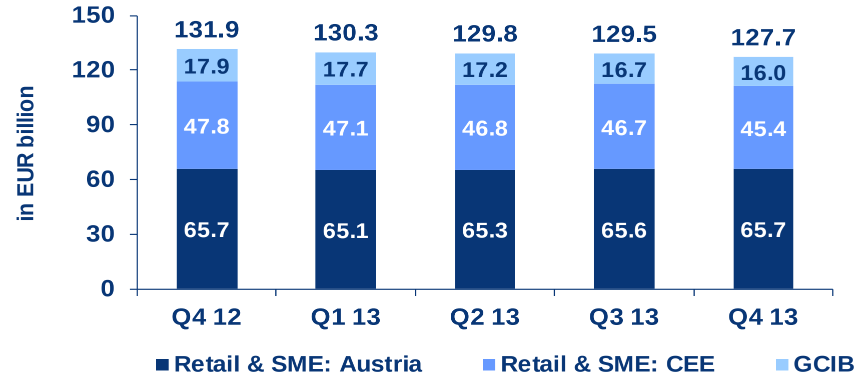
### Special management attention on:

| | Hungary | | | GCIB | | |
|---|---|---|---|---|---|---|
| in EUR million | 2013 | 2012 | Δ | 2013 | 2012 | Δ |
| Operating income | 395 | 411 | (4%) | 535 | 587 | (9%) |
| Operating expenses | (165) | (170) | (3%) | (192) | (197) | (3%) |
| Operating result | 231 | 242 | (5%) | 343 | 391 | (12%) |
| Risk costs | (206) | (215) | (4%) | (531) | (347) | 53% |
| Other result | (132) | (73) | 81% | (59) | (102) | (42%) |
| Net profit/loss | (109) | (55) | 98% | (224) | (56) | >100% |

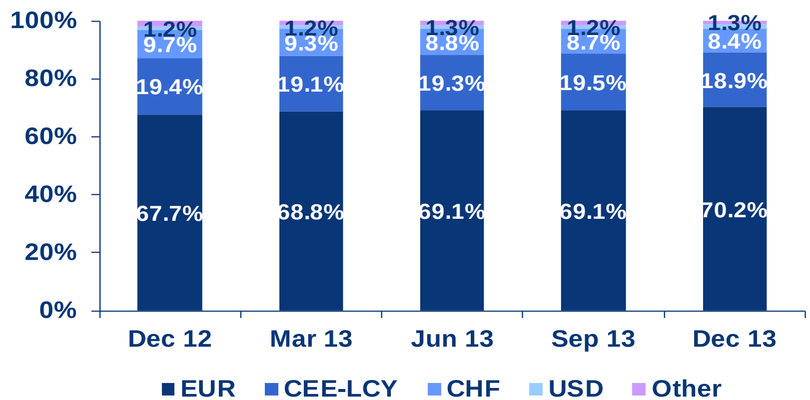
# Loan book –
## Decline in GCIB and most CEE

- **Customer loans declined by 3.2% yoy, 1.4% qoq reductions mainly in GCIB, RO and HU**
  - Austria: stable loan book yoy, increase qoq
  - CEE: overall declining loan book, most pronounced in RO and HU, decline in CZ due to FX effect; increase in SK loan book by 5.9%, also up in HR
  - GCIB decline due to commercial real estate and International Business
- **Increased share of EUR and LCY loans**
  - Share of CHF loans down to 8.4% of total loan book as of Dec 2013 due to successful efforts to convert CHF loans in Austria and to reduction in HU

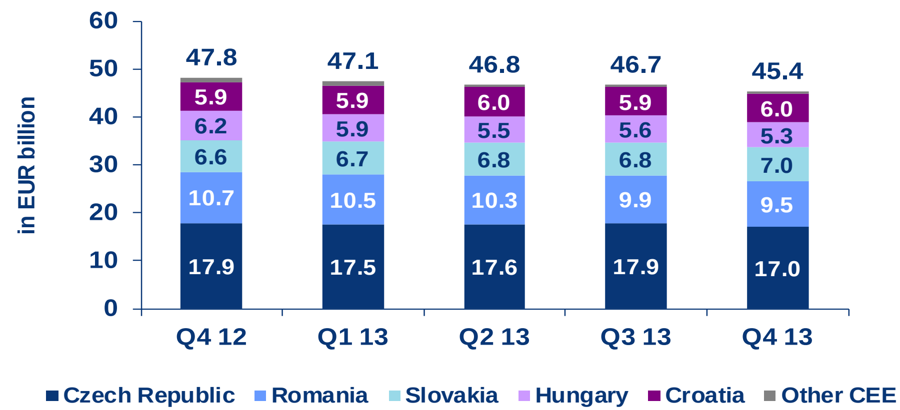
**Customer loans by main segments**




**Customer loans by currency**




**Quarterly loan book trends (Retail & SME detail: CEE)**



# Asset quality –

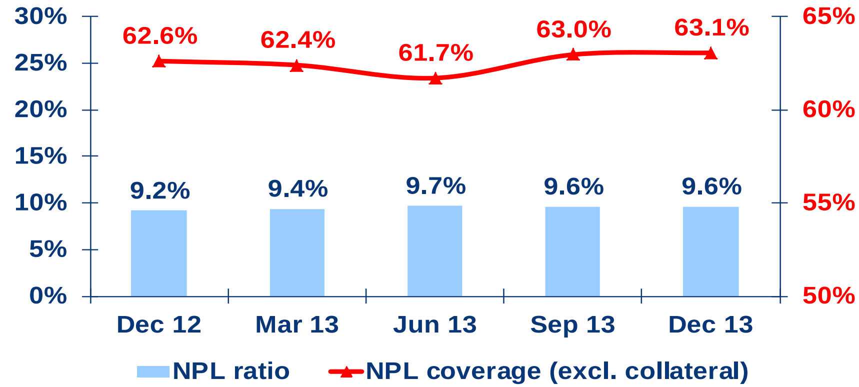
## Decline in NPLs continued in Q4 2013, CZ & SK further improved, while RO stabilises

- Second consecutive quarter of declining NPL stock, NPL coverage ratio improved to 63.1%
  - NPL reduction of EUR 175m qoq in Romanian retail & SME business
- Retail & SME/Austria: asset quality stable
  - NPL ratio stable at 5.5% with a coverage ratio of 61.4%
- Czech Republic & Slovakia: low NPL ratios (~ 5%) combined with high NPL coverage ratios (~80%; without collaterals)
- Croatia, Hungary & Romania:
  - HU: decline in loan book more pronounced than decline in NPLs, which are up to 26.8% with a coverage ratio of 62.2%
  - RO: second quarter of decline in NPL formation since beginning of the crisis; NPL ratio increased to 30.6% on shrinking loan book; NPL coverage improved further to 64.1%
  - CRO: NPL ratio increases to 21.1% despite slowdown in qoq NPL formation

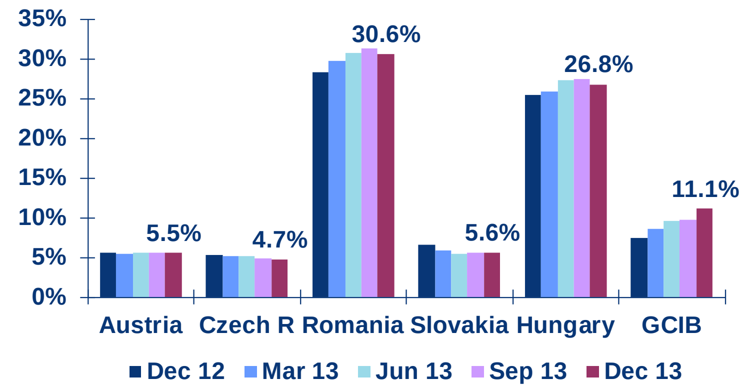
GCIB: significant loan reductions in both corporate and commercial real estate business

- NPL ratio increased to 11.1% driven by commercial real estate and corporate business in RO, NPL coverage ratio at 59.1%

**Erste Group: NPL ratio vs NPL coverage**

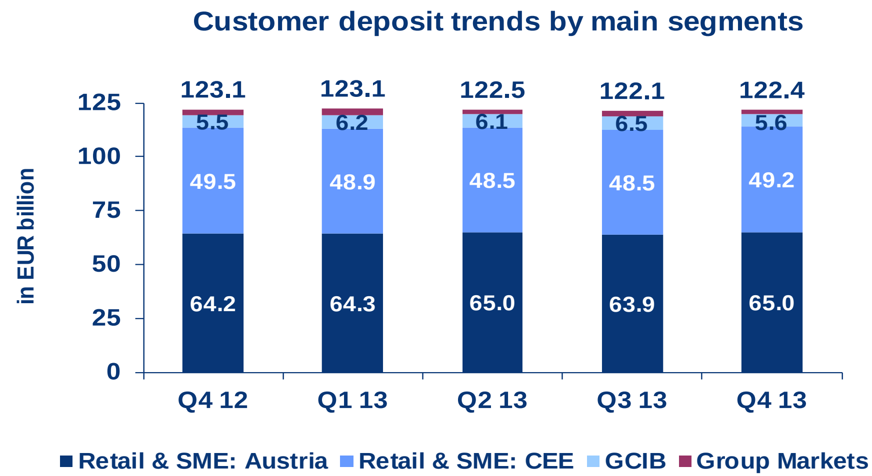


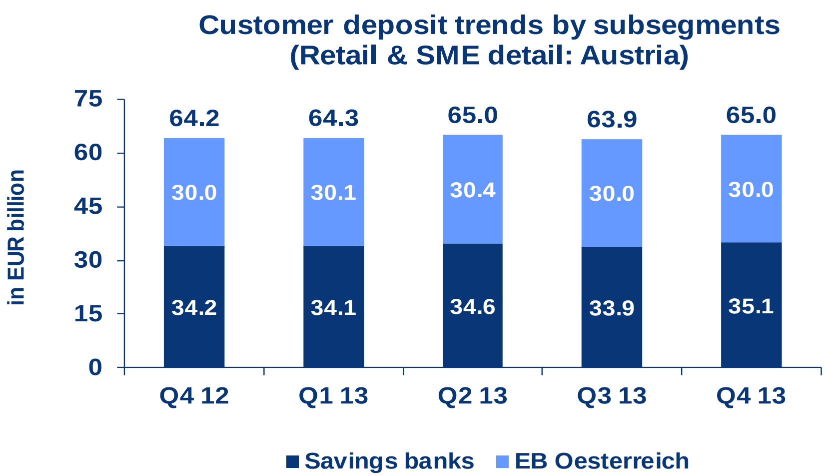

**NPL ratios in key segments**

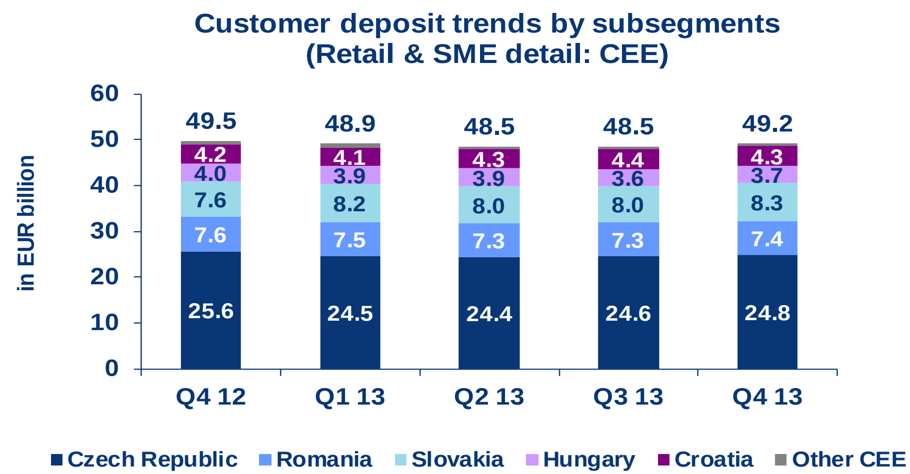


# Funding update –
## Stable customer deposit performance

- **Relatively strong customer deposit base**
  - Decline by 0.5% yoy mainly on term deposits (institutional clients)
  - Retail & SME deposits in Austria increased by 1.4%
  - Increase in Slovakia, Croatia and Serbia while deposits decreased in the Czech Republic, Hungary and Romania (on weaker RON and repricing efforts)
  - GCIB deposits stable yoy
- **Loan/deposit ratio amounted to 104.3% as of Dec 2013 (YE 2012: 107.2%)**

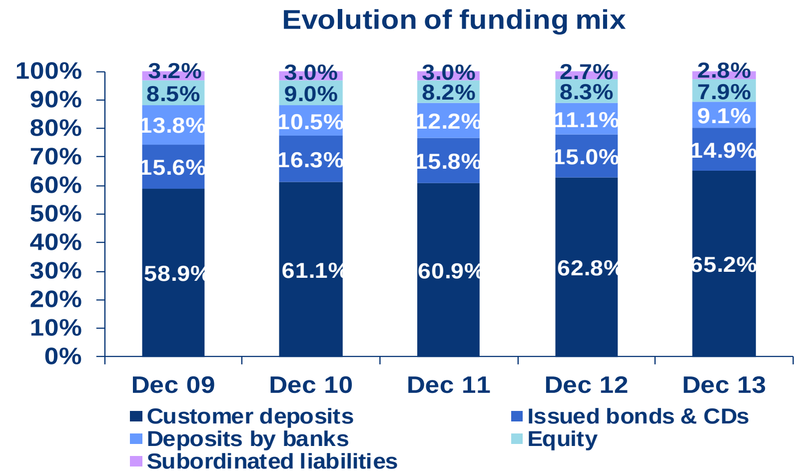


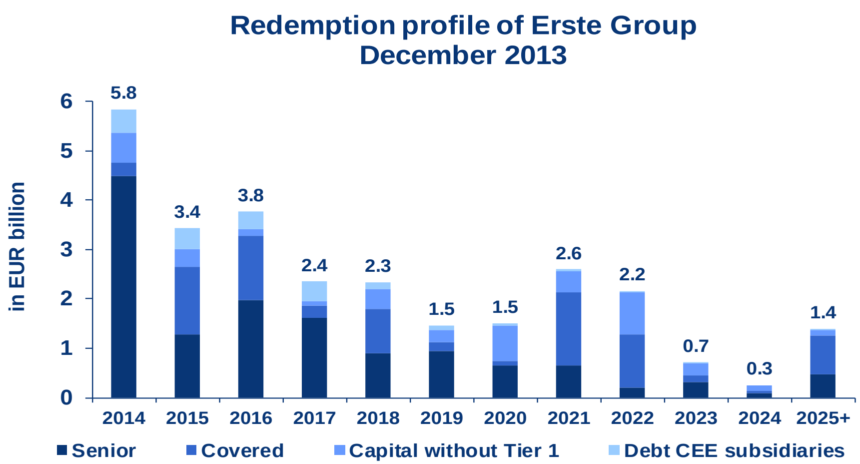



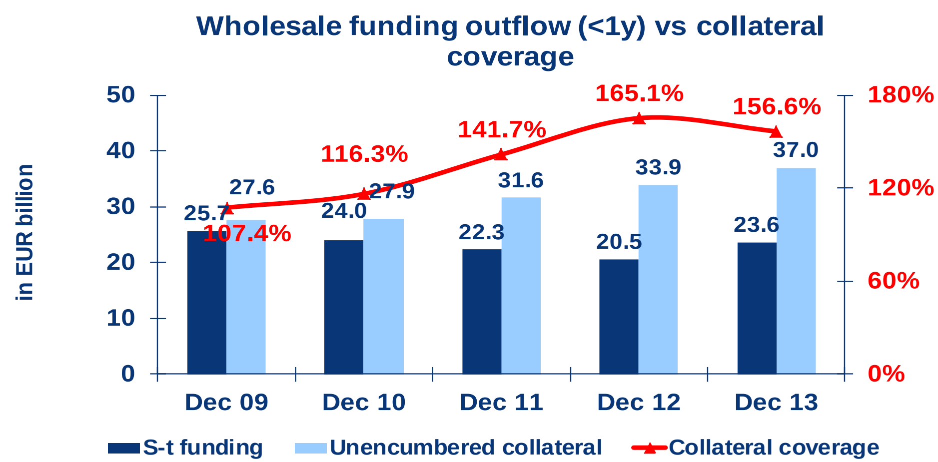



# Funding update –
## Strong liquidity position, limited funding requirements

- **Short-term funding needs very well covered**
  - Investment in highly liquid assets resulted in comfortable collateral coverage of short-term funding needs
- **Long-term funding**
  - Solid deposit growth allowed Erste Group to focus on retail issuance in 2013
  - Erste pre-funded Q1 14 redemptions with a 5.5yrs senior benchmark bond in November 2013 during favourable market conditions and priced at MS+74bp
  - Limited funding needs in 2014 (< EUR 2 billion)

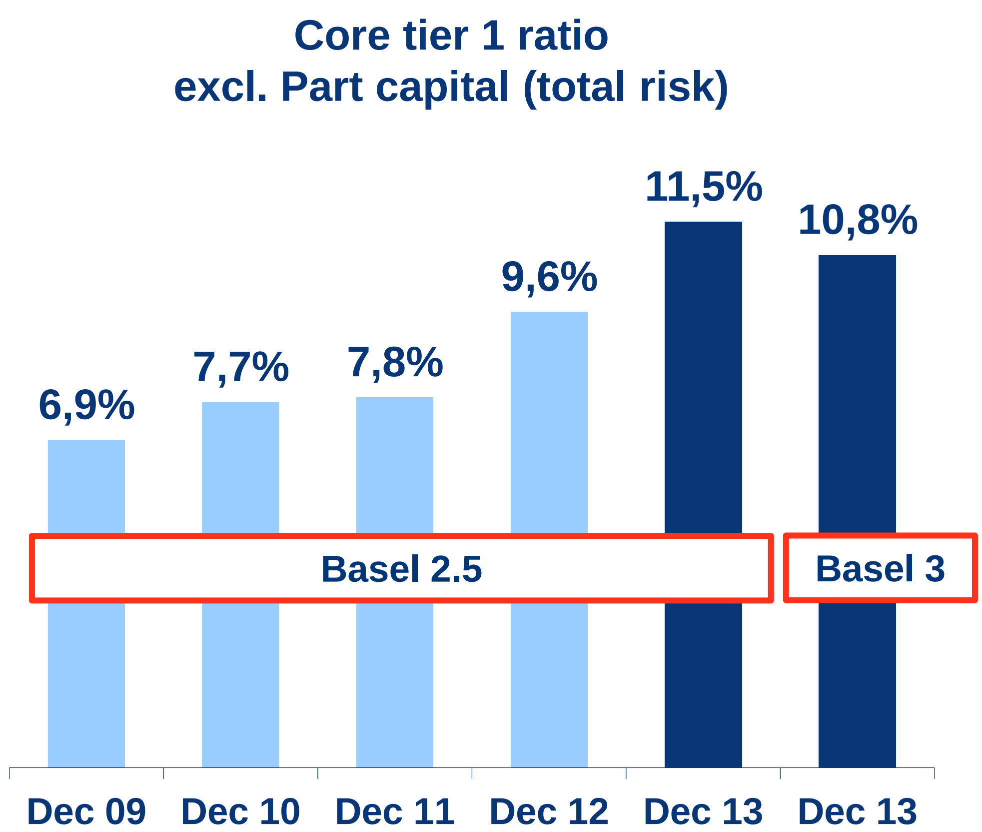


# Solid capital position

## Erste Group comfortably meets the fully loaded Basel 3 equity tier-1 ratio




Core tier 1 ratio (CT1 ratio) = tier 1 capital excl. hybrid and after regulatory deductions divided by total RWA, including credit risk, market and operational risk. Based on Basel 2.5. Data for 2009 – 2012 adjusted for participation capital repayment.

# Presentation topics

– Erste Group's development in 2013

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– Central and Eastern Europe

– Outlook 2014

# Impact of banking tax on Erste's net profit

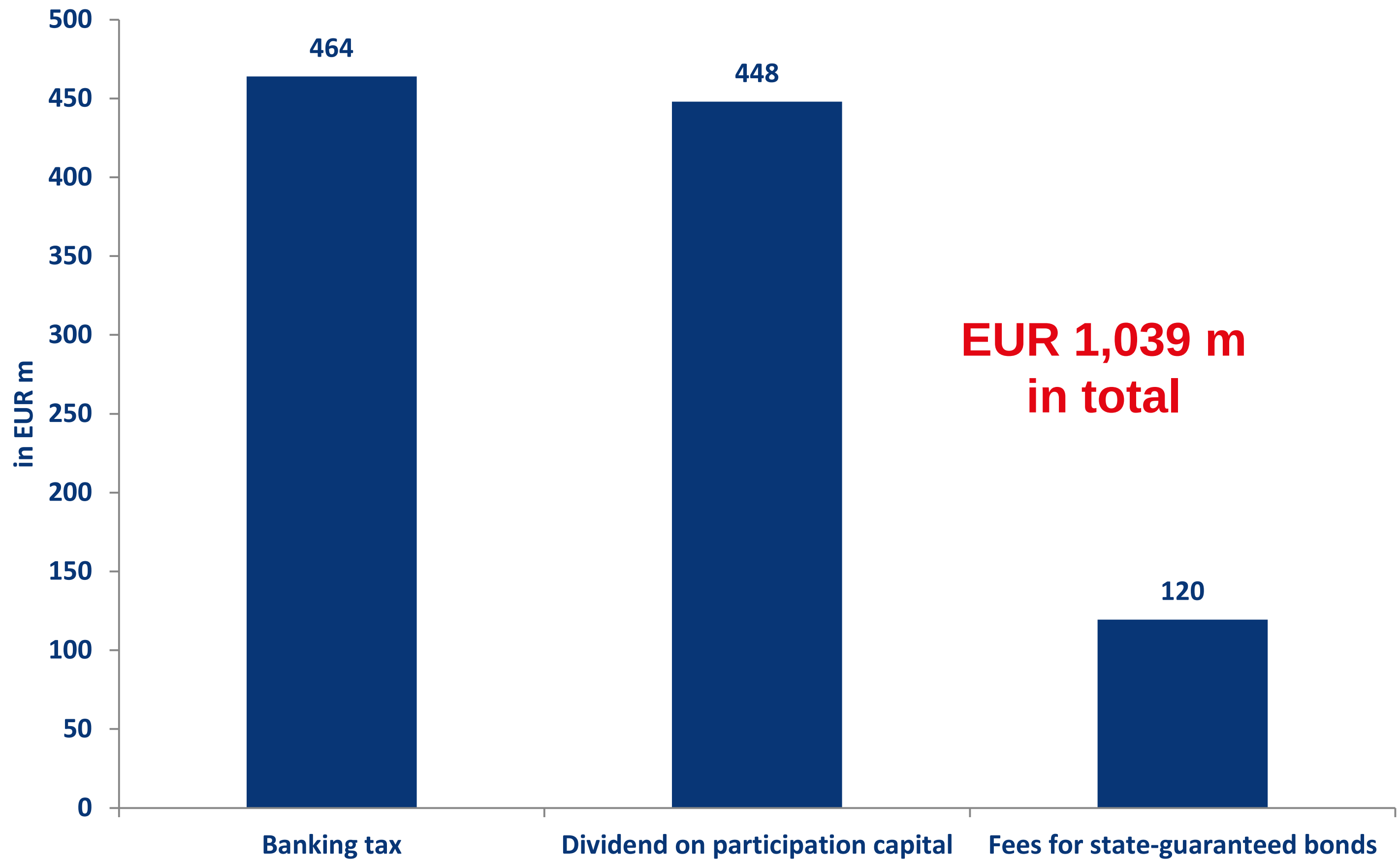
## Pre-tax profit as big as banking tax

| | |
|---|---|
| **Pre-tax profit (without banking tax)** | **685.3** |
| **Banking tax** | **- 311.0** |
| **Current tax** | **- 311.0** |
| **Net profit 2013** | **~61.0** |

**Erste's tax rate amounts to ~90%**

# State aid provided by Erste Group in 2009-2013

## The Austrian state received more than EUR 1 bn from Erste Group



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# 4Q13 GDP growth in CEE above expectations

## Strong debt pre-financing done in most CEE countries

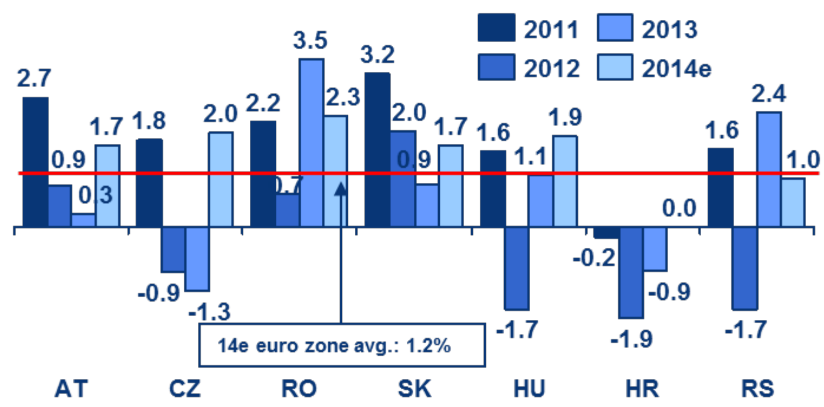
**Some of the CEE countries have achieved marginally better than expected economic growth in 2013**

- **However, growth was mainly driven by exports, domestic demand has just started to gradually improve**
- **Consumer confidence has improved slightly across the region in 2013**
- **Falling inflation in all CEE countries**
- **Very low interest rate environment**
- **Most CEE countries will benefit from lower indebtedness and positive economic fundamentals in next 2-3 years**

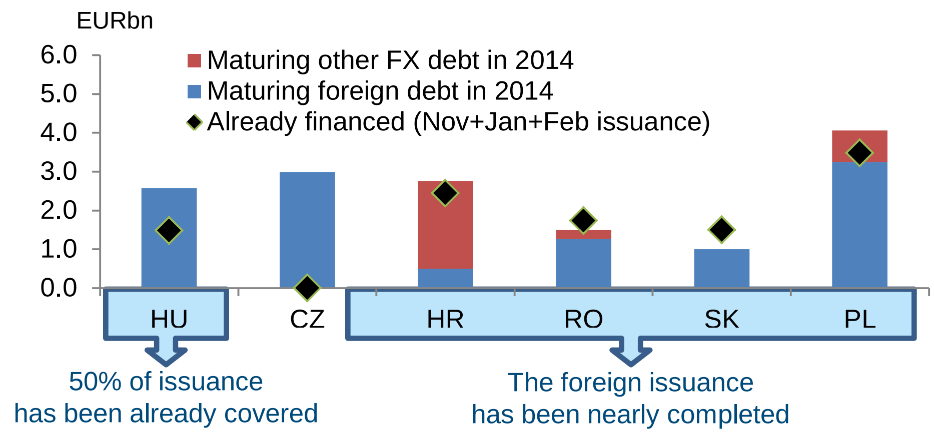
**Strong grovernment prefinancing activity helped markets:**

- **Nov: HR: 11Y (USD1.75bn)**
  **HU: 10Y (USD 2bn)**
  **SRB: 5Y (USD1bn)**
- **Jan-Feb: PL: 10Y (EUR2bn), 10Y (USD2bn)**
  **SK: 15Y (EUR1.5bn)**
  **RO: 10Y (USD1bn), 30Y (USD1bn)**
  **HR: 5Y (EUR 0.5bn), 10Y (EUR 0.65bn)**

**Real GDP growth in Erste Group's core markets (in %)**



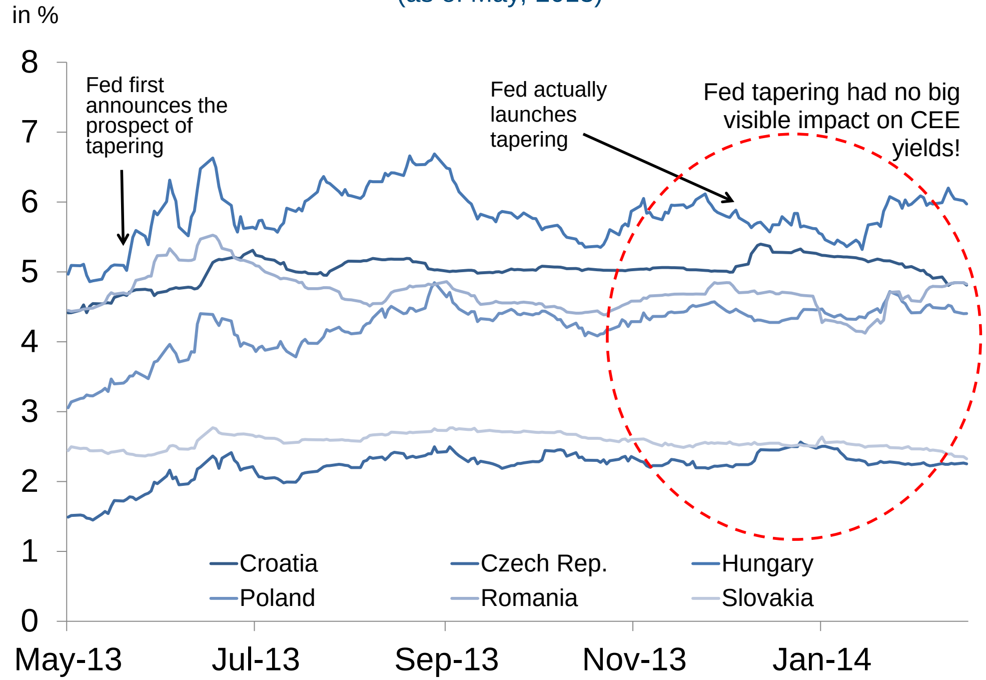

**Issuance vs. 2014 maturities**



# Fed tapering had no large impact on CEE yields after end-2013 implementation

- **Ample government prefinancing carried out in Nov-Feb helps bond markets in CEE**
- **Low inflation allowed for dovish monetary policy, which plays against yield increases**
- **Domestic factors (sound current account balance and budget balance situation) mitigate tapering's effects in CEE6**

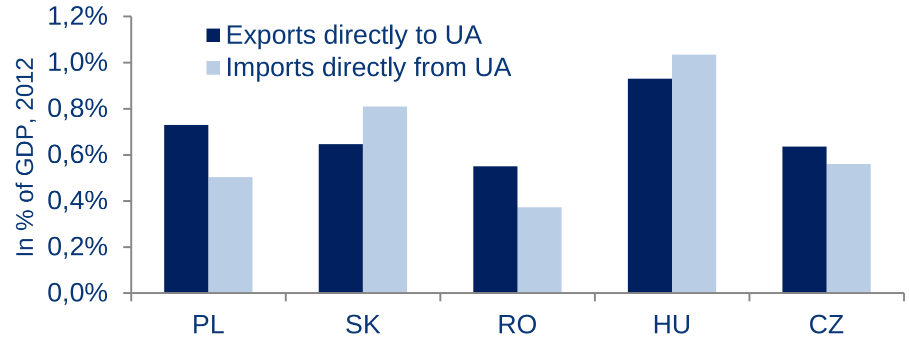
**10Y yield development in CEE**
(as of May, 2013)**




** Except: 5Y for Romania, 7Y for Croatia
Source: Bloomberg

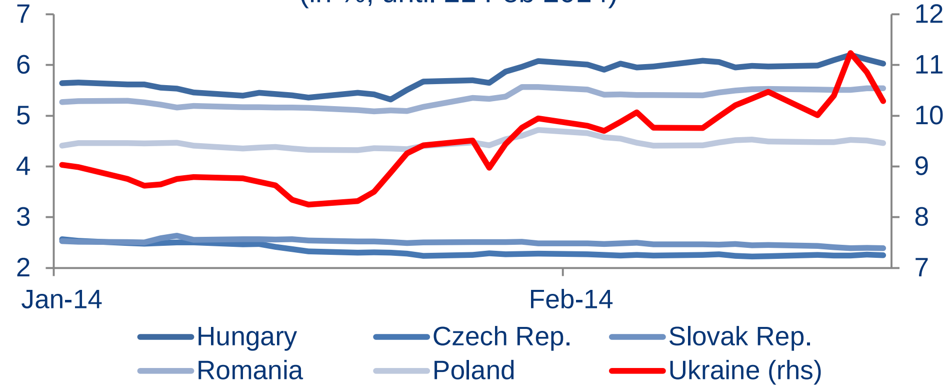
# Direct impact of Ukraine on CEE limited

- **Low direct dependency on the Ukrainian economy**
- **Russian energy transport is important, but end of heating season helps and it is not in the interest of UA, RU to halt energy transports**
- **High current account surplus, relatively balanced budgets help mitigate sentiment spillover factors**




Source: Bloomberg, Erste Group Research

**10Y govt bond yields**
(in %; until 21 Feb 2014)



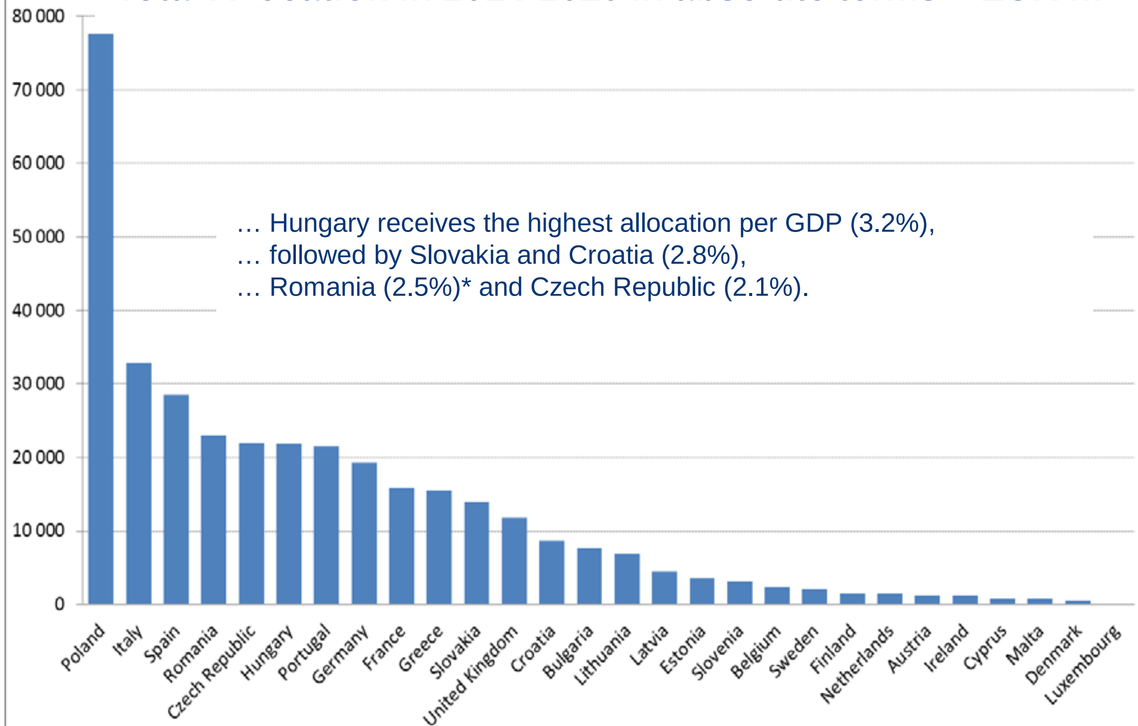

Source: Bloomberg

# EU Funds 2014-2020

## A 50% absorption would boost the GDP of CEE6' by additional 1.5% per year

- **CEE6 to receive EUR ~170 bn, half of the total EU Funds' volume**
- **A 50% absorption would lead to additional annual GDP boost in CEE6 of up to 1.5%, if by 100% absorbed, GDP would grow additionally by 3%**
- **Hungary is winner in terms of total allocation per GDP (3.2%), Slovakia ranks 2nd in terms of annual allocation par capita (EUR 369)**
- **BUT: need to significantly reduce bureaucracy, introduce more transparent processes of project selection, and establish closer regional cooperation**

**Total Allocation in 2014-2020 in absolute terms – EUR m**




*Source: European Commission, Eurostat; Note: current prices*

CEE6: Poland, Czech Republic, Hungary, Slovakia, Romania and Croatia
* Romania will receive financial assistance from other European programs as well, such as the Common Agriculture Policy.

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# Conclusion –
## Outlook

- Erste Group expects a stable operating environment in its markets:
  - expected economic growth ~ 1.7%
  - persistently low or even falling interest rates

- Erste Group anticipates a slow start to the year but aims to keep operating profit stable (± 2%) at about EUR 3.1 billion

- Net customer loans are set to remain stable (± 2%) at about EUR 120 billion

- In light of the upcoming ECB Asset Quality Review, Erste Group does not expect a decline in risk costs beyond 5% or to about EUR 1.7 billion

- Tax rate of about 40% also in 2014

- The decline in banking taxes from EUR 311 million in 2013 to about EUR 270 million in 2014 should positively affect net profit

- Management proposes dividend of EUR 0.20 per share to AGM