

# BoAML Annual Banking, Insurance & Diversified Financials Conference

September 29 – October 1, London

**Erste Group –**

**Shaping a business fit for the post-crisis era**

Gernot Mittendorfer, CFO Erste Group

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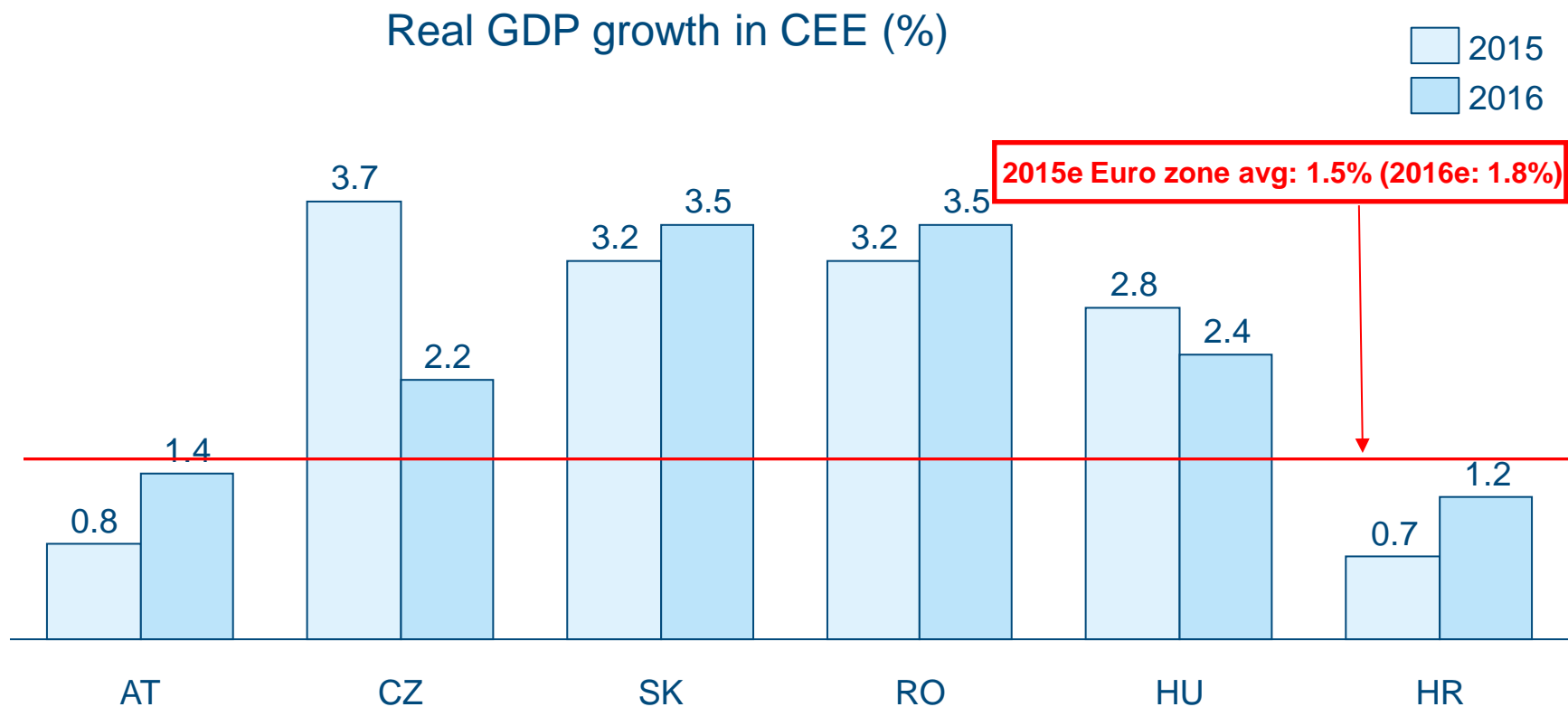
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# Presentation topics

- Operating in Europe's growth region
- Benefitting from resilient business model
- Embracing digital banking
- Outlook
- Additional information

## Operating in Europe's growth region –

Solid domestic demand expected to drive economic growth in 2015 and 2016

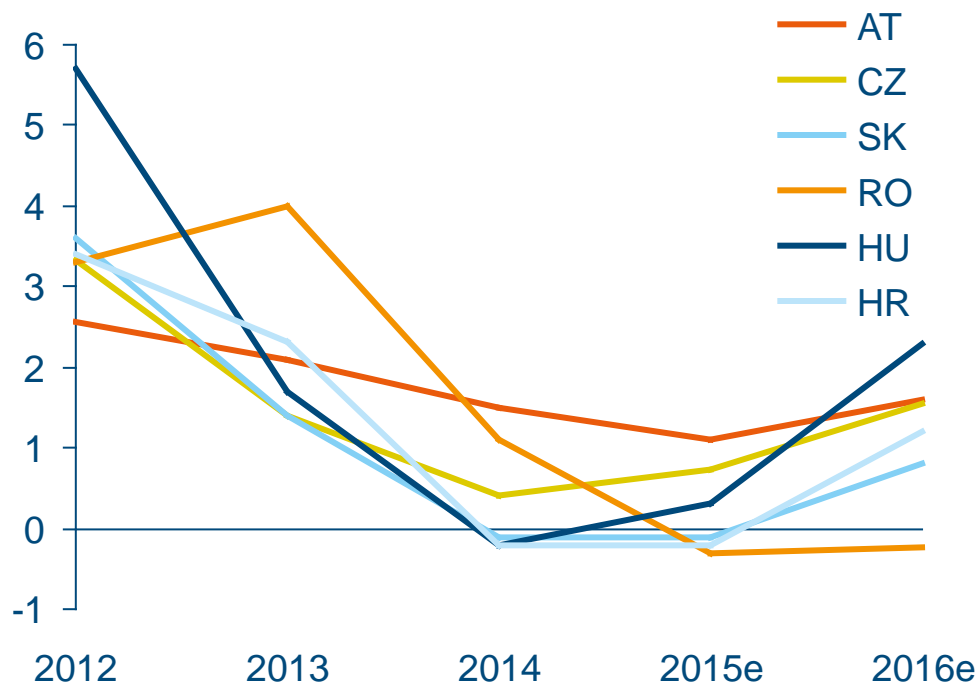


- EG's core CEE markets expected to grow by more than 3% in 2015, with continued positive outlook for 2016
- CEE economies have continuously outgrown the euro zone

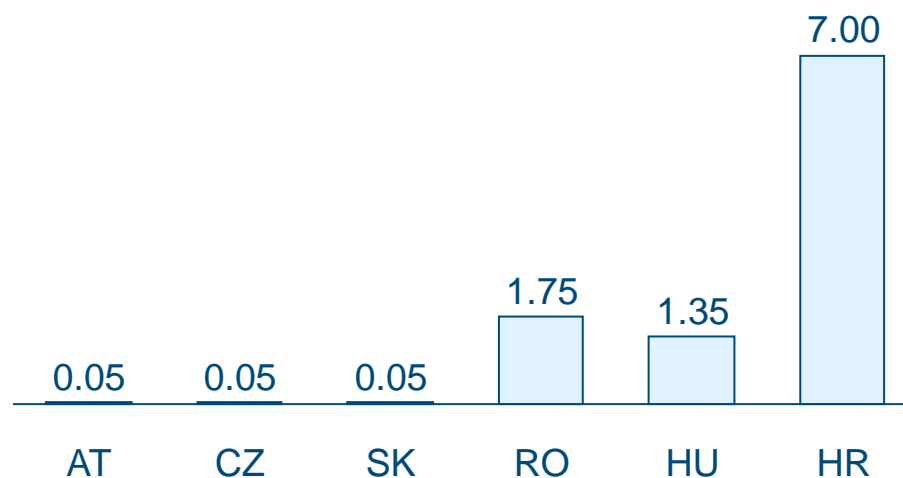
Source: Erste Group Research

# Operating in Europe's growth region – Inflation to increase from low levels: support from low commodity prices vanes

Consumer price index (avg. in %)



Key central bank policy rates (%)



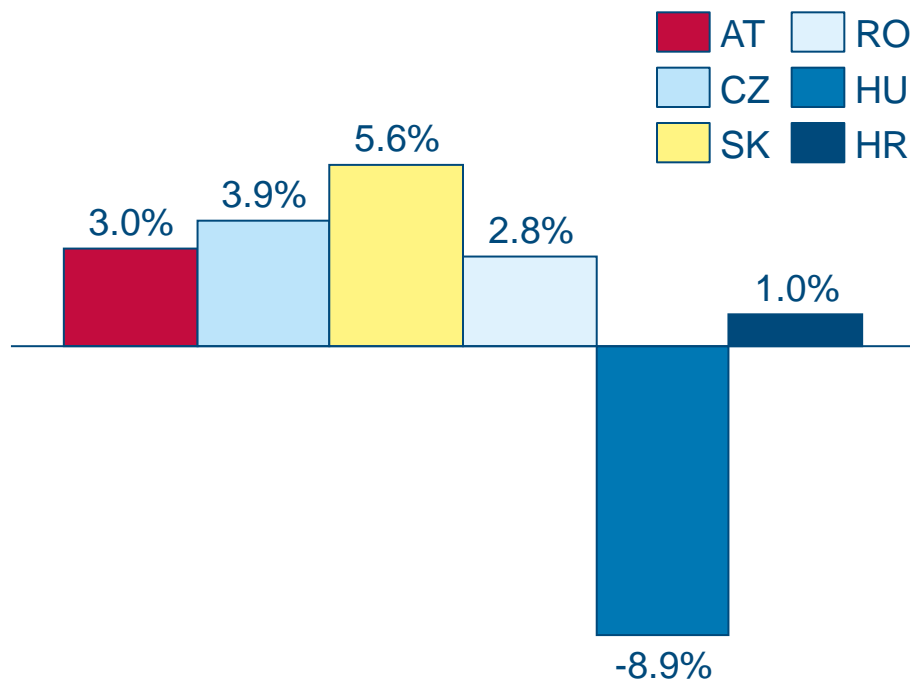
- Historic low interest rate environment poses challenges
- Interest rates expected to remain low in 2015 and 2016
- Despite low rates most of the CEE currencies have been relatively stable

Source: Erste Group Research

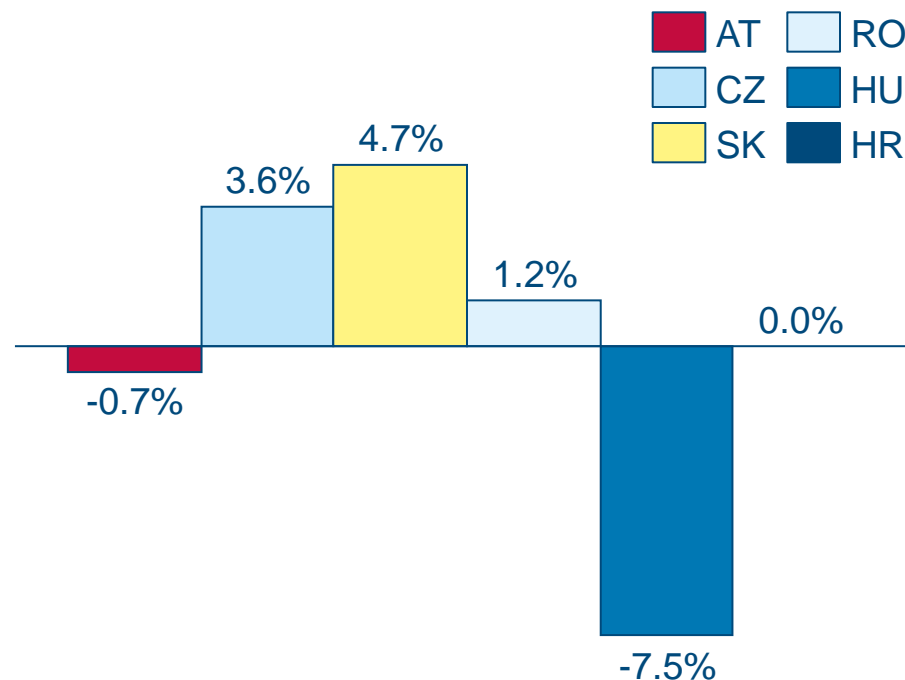
## Operating in Europe's growth region –

Lending markets have started to accelerate, HU impacted by FX conversion

Retail loan growth (ytd, H1 2015)



Corporate loan growth (ytd, H1 2015)



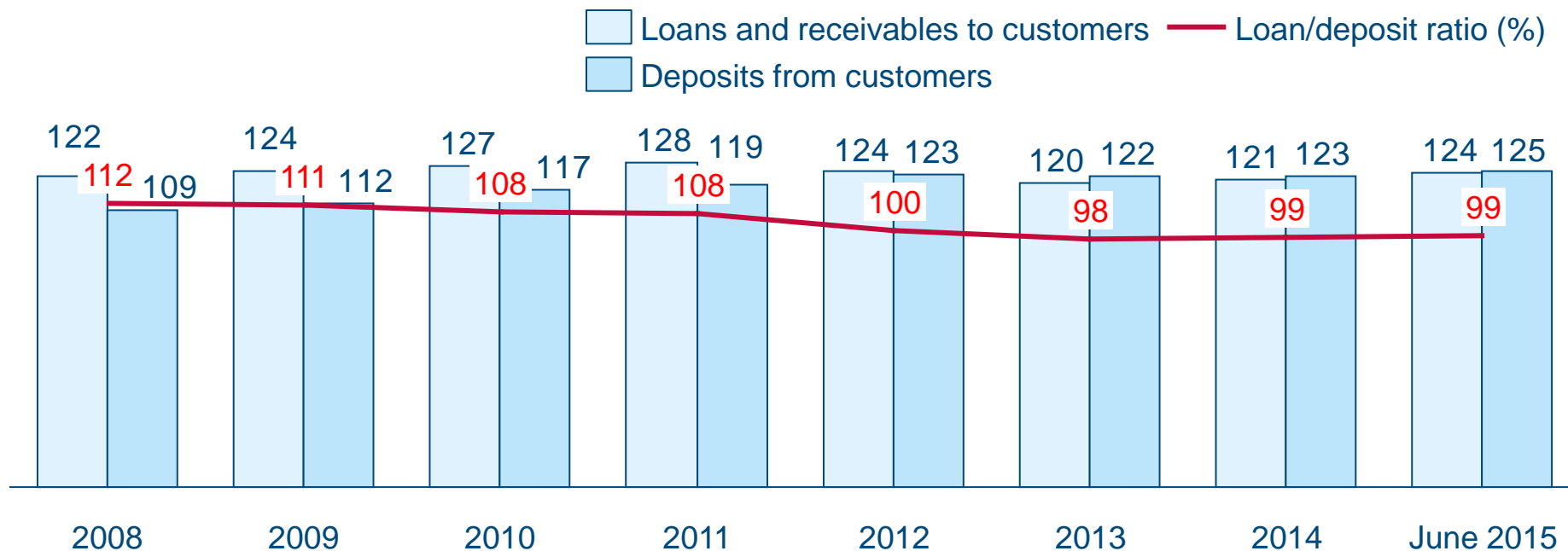
- Higher growth in retail segment across the region
- Slovakia has continuously outgrown other CEE countries
- Hungary: sharp decline due to FX loan conversion in Q1 15 (Q2 15 vs Q1 15: -1.4% in retail; -2.1% in corp.)

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## Benefitting from resilient business model – Very strong customer deposit base

Balance sheet development (EUR bn)



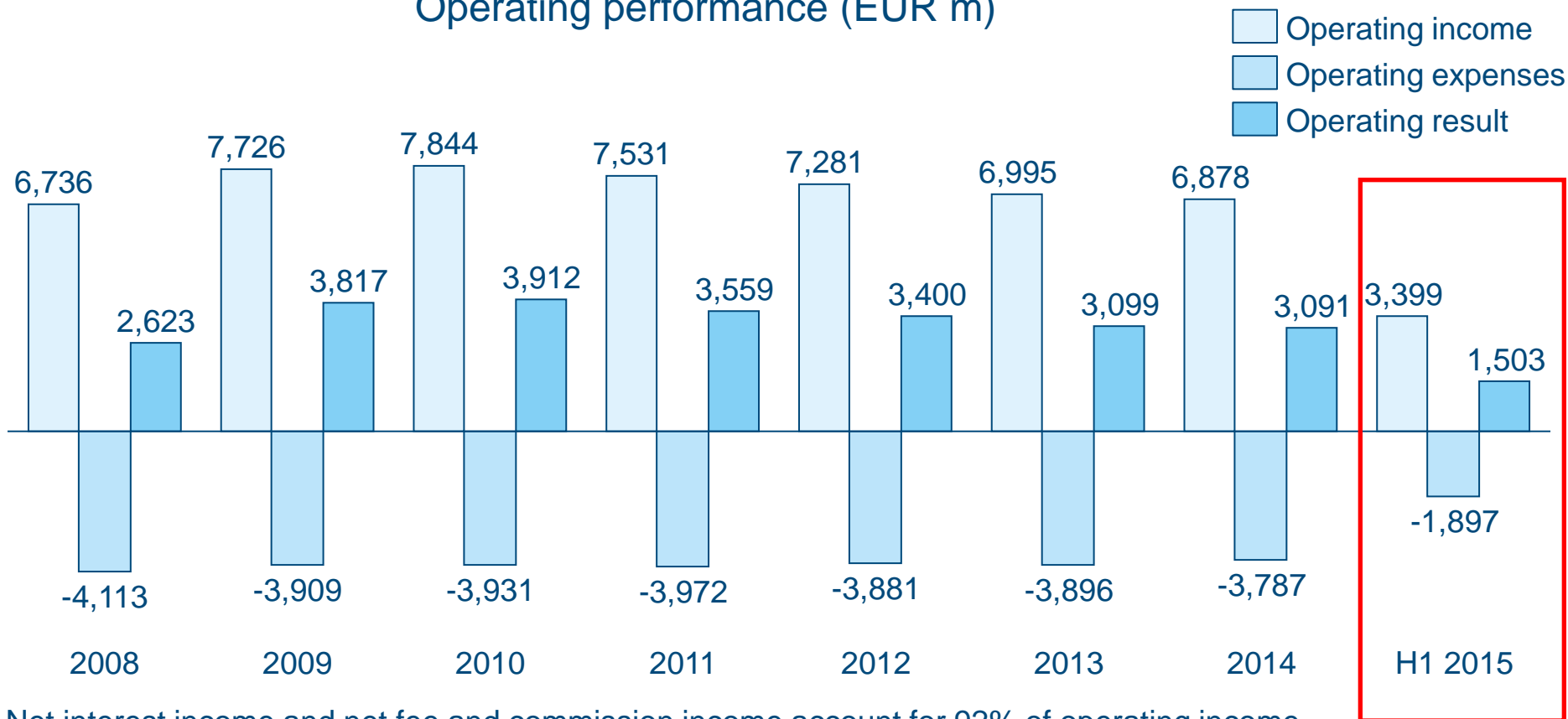
- Customer loans are the key asset components accounting for 63% of total assets (June 2015)
- Deposits from private individuals account for 72% of customer deposits (June 2015)
- Substantial increase of equity (EUR 14.0bn as of June 2015) over time (EUR 11.1bn as of Dec 2008)



## Benefitting from resilient business model –

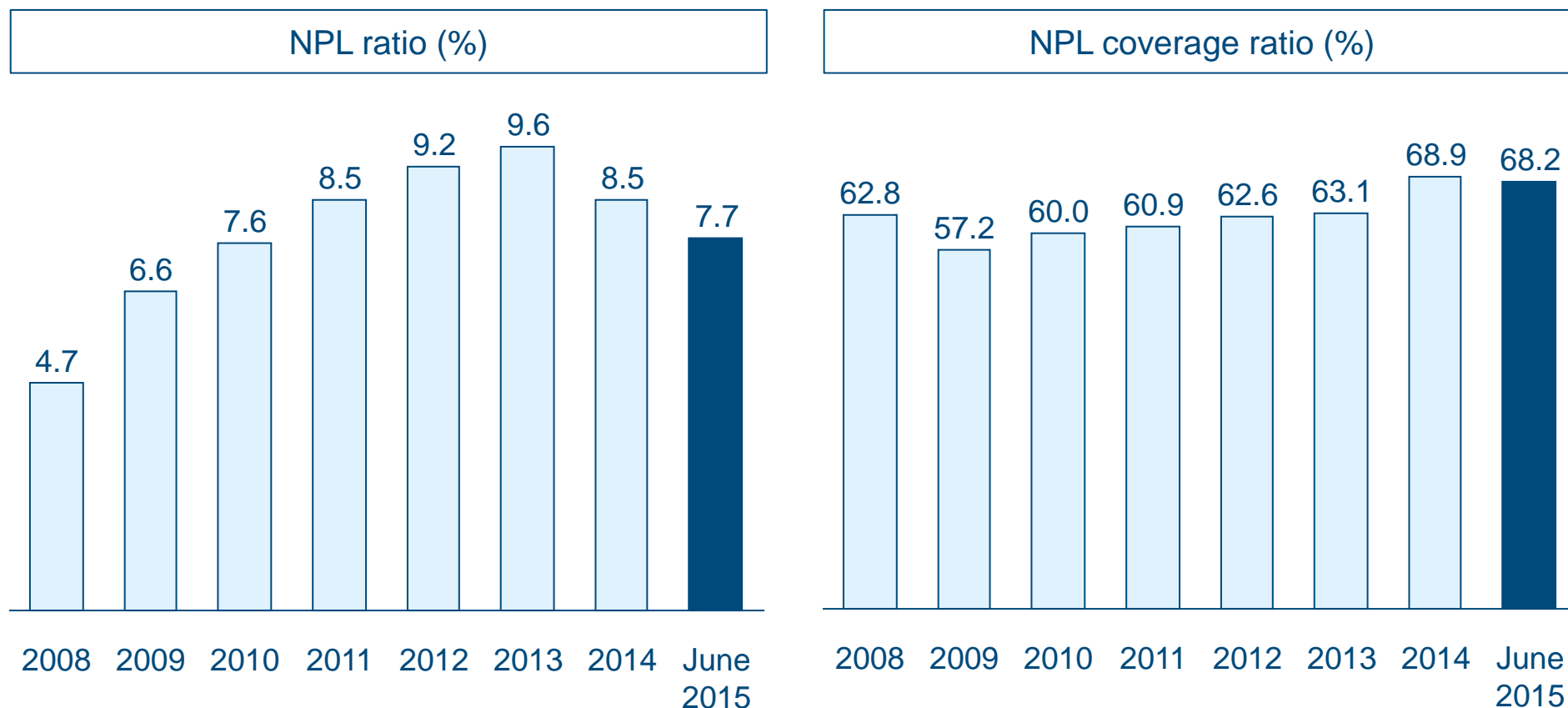
Strong operating track record despite low interest rate environment

Operating performance (EUR m)



- Net interest income and net fee and commission income account for 92% of operating income
- Relatively resilient net interest margin
- CIR (55.8% in H1 2015) reflects continuous and very strict cost control

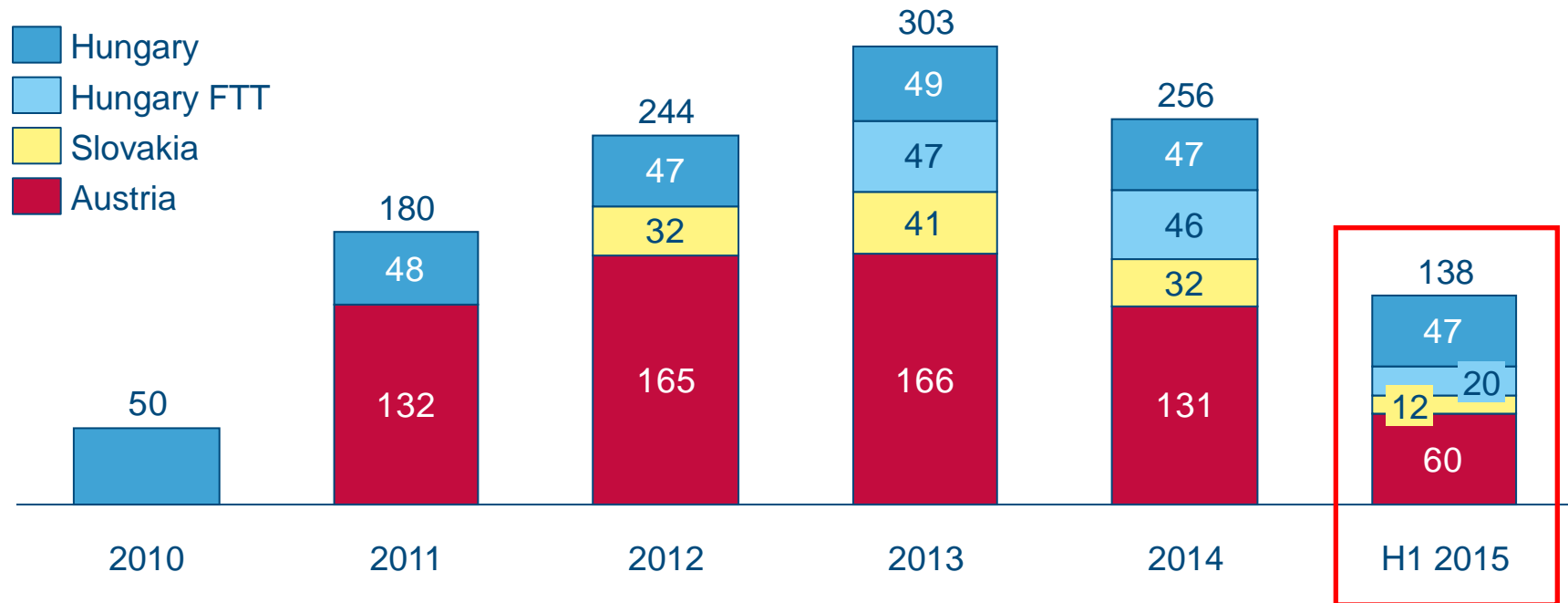
## Benefitting from resilient business model – Asset quality has significantly improved since 2013



- Continued decline of NPL volume in Q2 2015 supported by all major business lines and geographic segments except Croatia
- Continued improvement in migration trends with low risk share reaching pre-crisis levels at 78.2% (Q2 2015)

## Benefitting from resilient business model – Banking taxes to decline in Hungary and Slovakia

Banking taxes paid by Erste Group (EUR m)

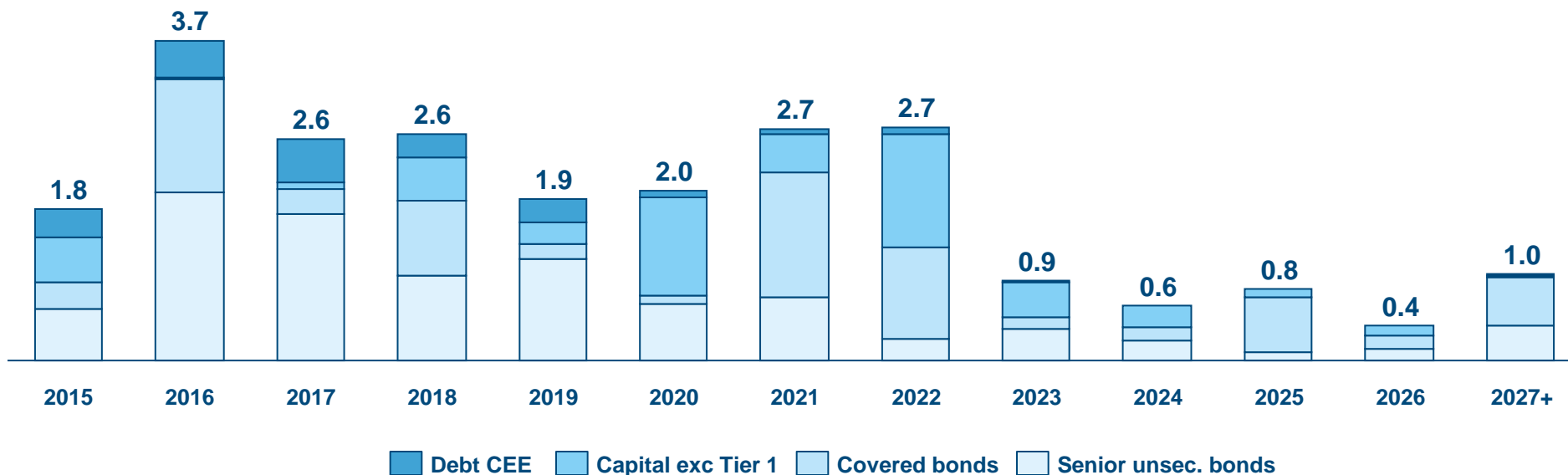


- Full 2015 Hungarian banking tax was booked in Q1 2015
- Banking levies expected at about EUR 360m this year incl. contribution to bank resolution & dep. insurance fund

In 2011, banking tax in Hungary was offset by the costs of repayment of foreign currency loans at non-market rates

## Benefitting from resilient business model – Limited LT funding needs

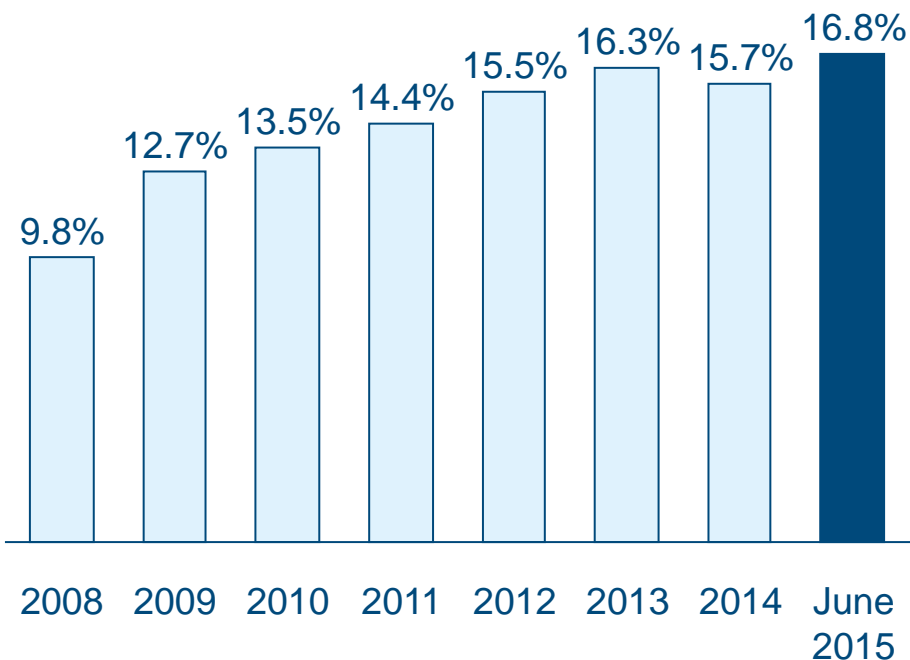
Maturity profile of debt (EUR bn)



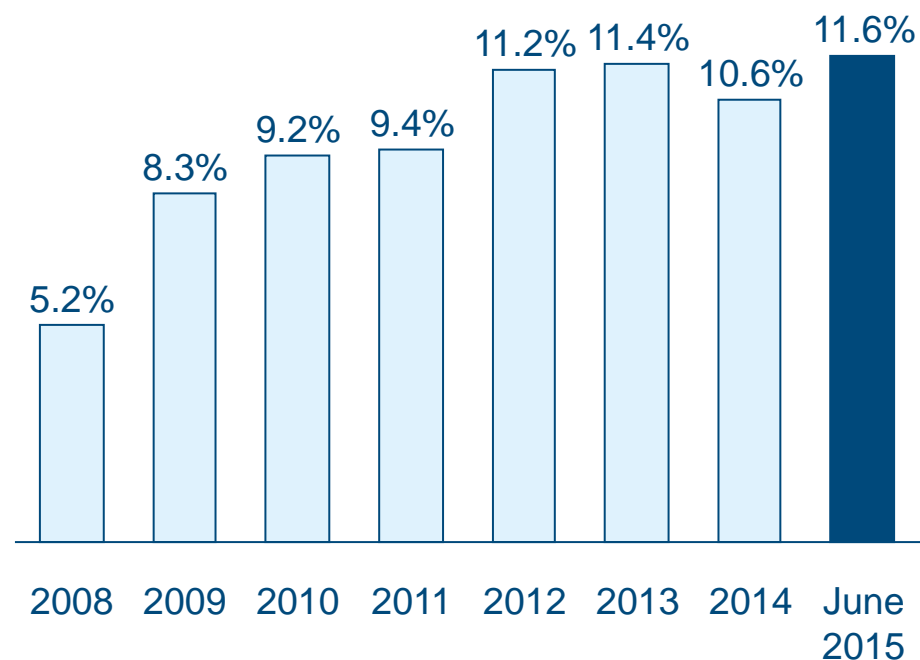
- Increased appetite for issues in covered bond format led to a successful EUR 500m 10y mortgage Pfandbrief (MS + 6 bps) in the first quarter
- Historically low refinancing cost result in an ongoing prolongation of the redemption profile (average maturity of issues during 2015 amounted to 8 years)
- Issuance of EUR 1.3bn was achieved in the first 6 months, which is more than half of the yearly funding target

## Benefitting from resilient business model – Vastly improved capitalisation

Total capital ratio\*



CET1-ratio\*



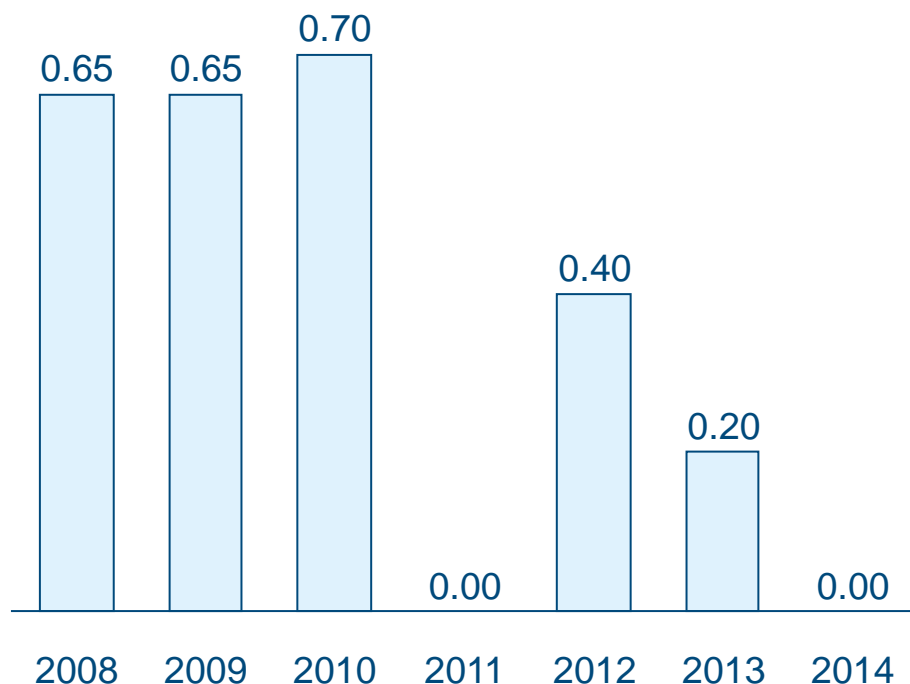
- B3FL CET1-ratio at 11.3% (30 June 2015): lack of temporary capital effects & slight reduction in RWAs
- B3FL Leverage ratio at 5.6% (30 June 2015)
- Strong rise in CET1 capital following ECB approval of H1 15 financial results

\*2014 and June 2015: Basel 3 phased-in; previous years: Basel 2 and 2.5

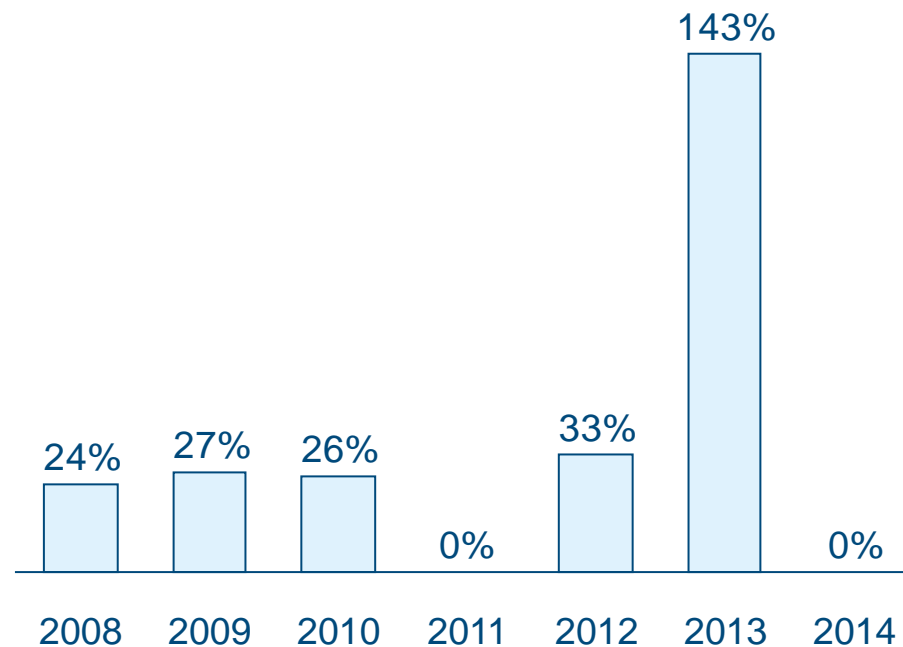
## Benefitting from resilient business model –

Resumption of dividend payment for FY 2015 expected in 2016

Dividend per share (EUR)



Dividend payout ratio



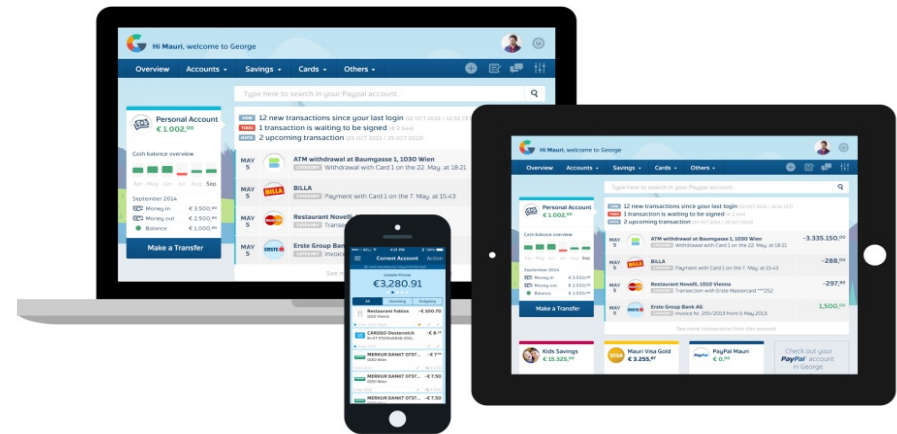
- ECB will influence dividend payments of European banks
- Erste Group expects to resume dividend payments for FY 2015

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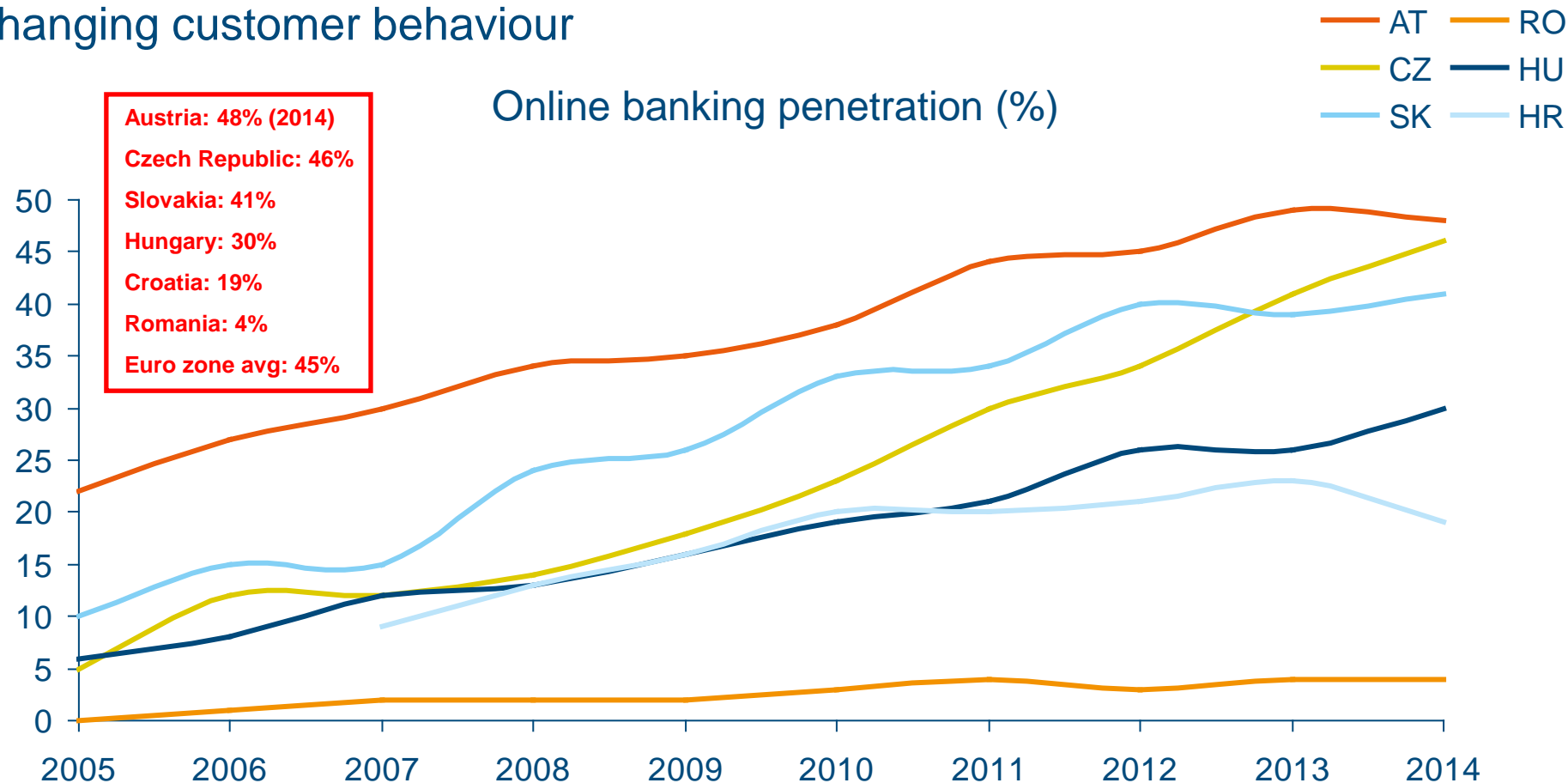
# Embracing digital banking – George: the foundation for a new digital financial ecosystem

- Philosophy behind George: making banking personal
  - Rollout of first uniform platform across the group commenced in 2015 in Austria
  - Enabling transformation of business model from branch centric to 360° omnichannel bank model
  - Enabling full customisation of banking experience through free and paid apps (plugins)
  - Permanent improvement/development, e.g. iterative product development
  - Erste advantage: we already know the customer, we have an existing relationship to the customer
- Future capabilities of George
  - Becoming virtual bank with full transactional and sales capabilities
  - Staged rollout process across the group





# Embracing digital banking – Changing customer behaviour



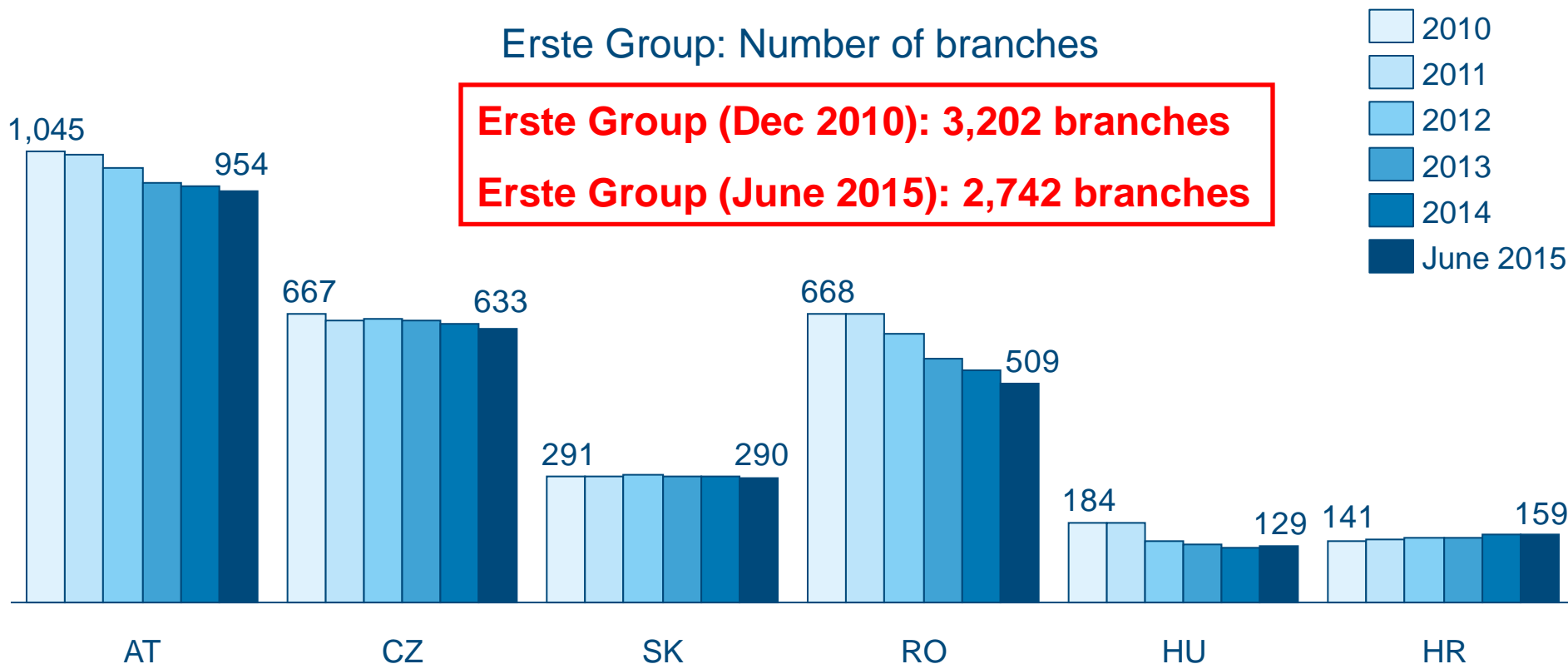
- Very high penetration in Northern European countries (around 80%) compared to Southern Europe (20-30%)
- Penetration of CEE countries has significantly increased but still much lower than Euro zone average

Source: Eurostat; Croatia not available for 2005 and 2006

## Embracing digital banking – Branch has become less important to customers

Erste Group: Number of branches

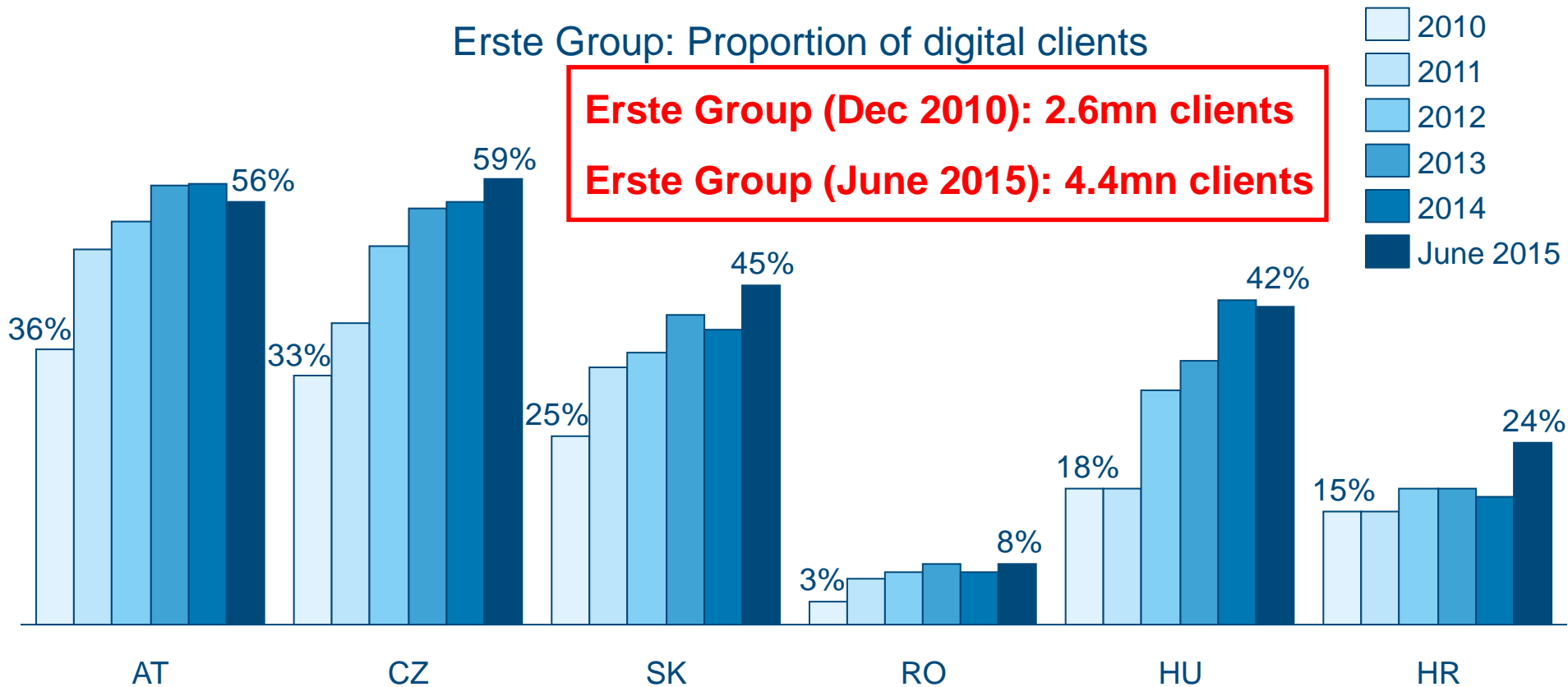
**Erste Group (Dec 2010): 3,202 branches**  
**Erste Group (June 2015): 2,742 branches**



- Erste Group's branch network has been significantly reduced in the last five years
- Further scope for branch network reduction

# Embracing digital banking – Continuous increase of digital clients

Erste Group: Proportion of digital clients



- Value in customer data
- Digitalisation will lead to cost reductions from smaller branch network and lower transaction costs

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## Conclusion – Outlook

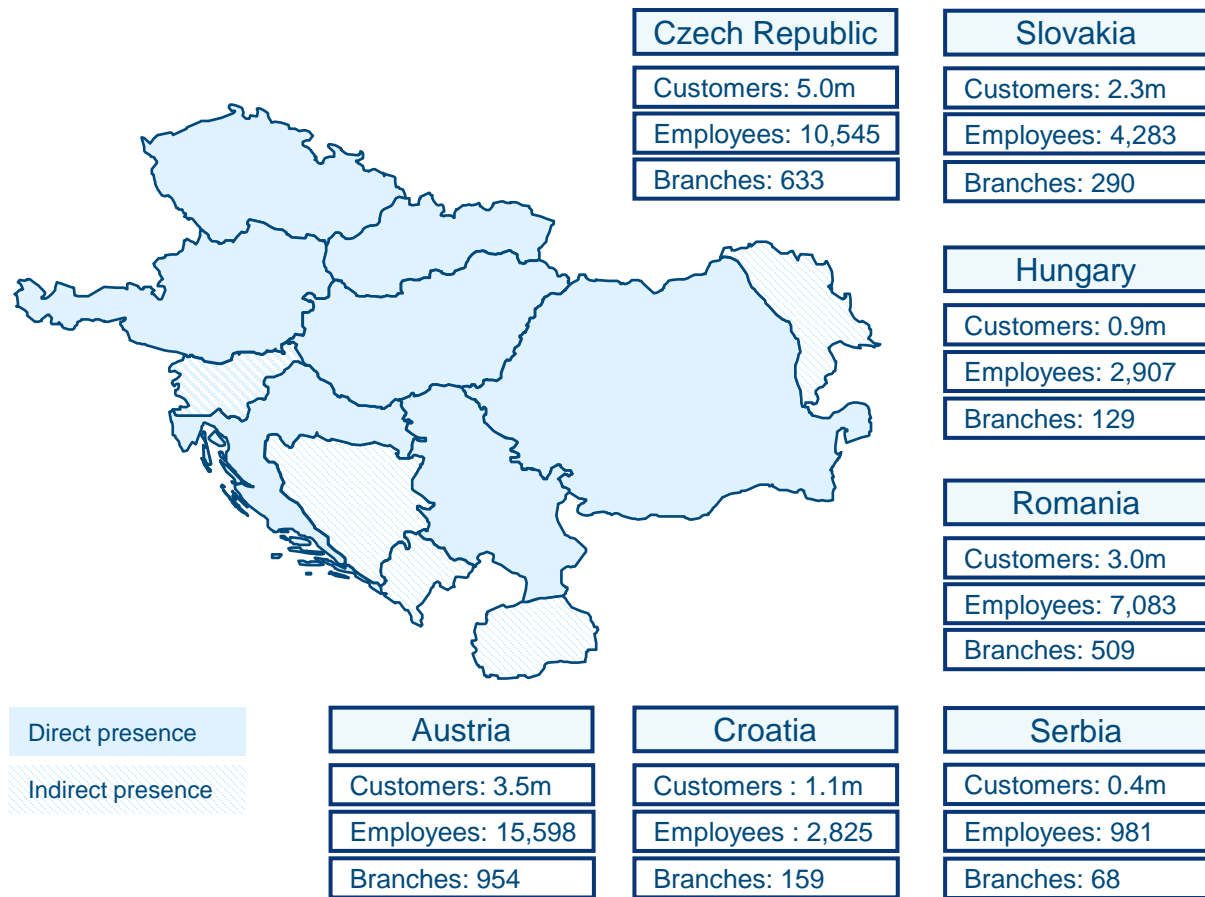
- **Operating environment anticipated to be conducive to credit expansion**
  - Real GDP growth of between 2-4% expected in 2015 in all major CEE markets, except Croatia
  - Real GDP growth to be driven by solid domestic demand
  - Real GDP growth in Austria expected at below 1% in 2015
- **Return on tangible equity (ROTE) expected at 8-10% in 2015 (YE 14 TE: EUR 8.4bn)**
  - Operating result expected to decline in the mid-single digits on the back of lower but sustainable operating results in Hungary (due to FX conversion related effect of lower average volume) and Romania (lower unwinding impact) as well as persistent low interest rate environment
  - Loan growth expected in the low single digits in 2015
  - Risk costs expected to decline to about EUR 0.9-1.1bn
  - Banking levies expected at about EUR 360m in 2015, including parallel contributions to national as well as European bank resolution and deposit insurance funds; related discussions with Austrian government still ongoing
- **Risks to guidance**
  - Consumer protection initiatives, e.g. CHF borrower support scheme in Croatia
  - Geopolitical risks resulting in potentially negative economic impacts

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# Additional information: footprint – Customer banking in Austria and the eastern part of the EU

## Erste Group footprint



## Highlights

- Leading retail and corporate bank in 7 geographically connected countries
- Favourable mix of mature & emerging markets with low penetration rates
- Potential for cross selling and organic growth in CEE

## Additional information: strategy –

A real customer need is the reason for all business

### Customer banking in Central and Eastern Europe

#### Eastern part of EU

##### 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 (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

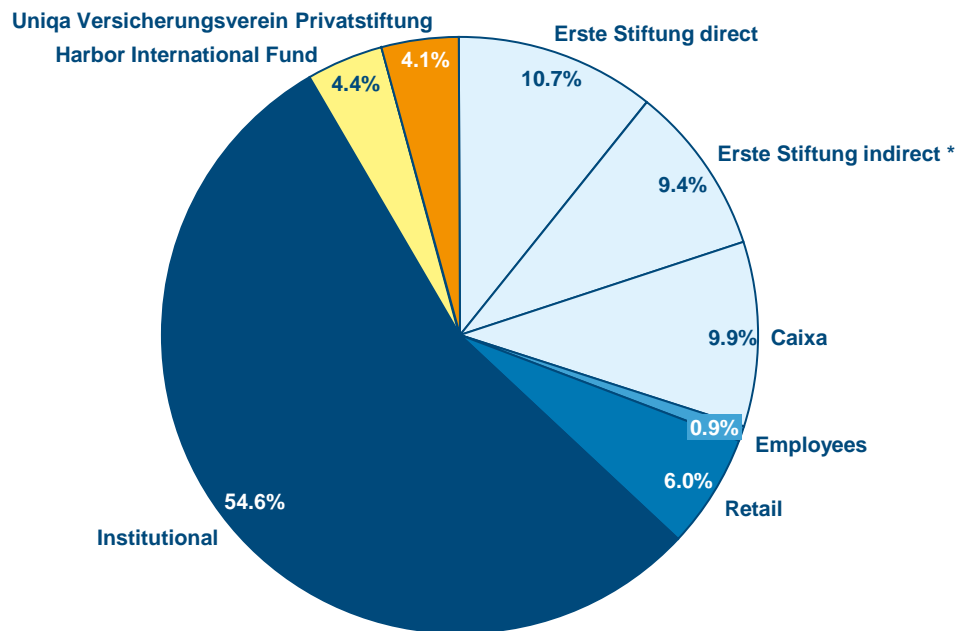
#### Focus on CEE, limited exposure to other Europe



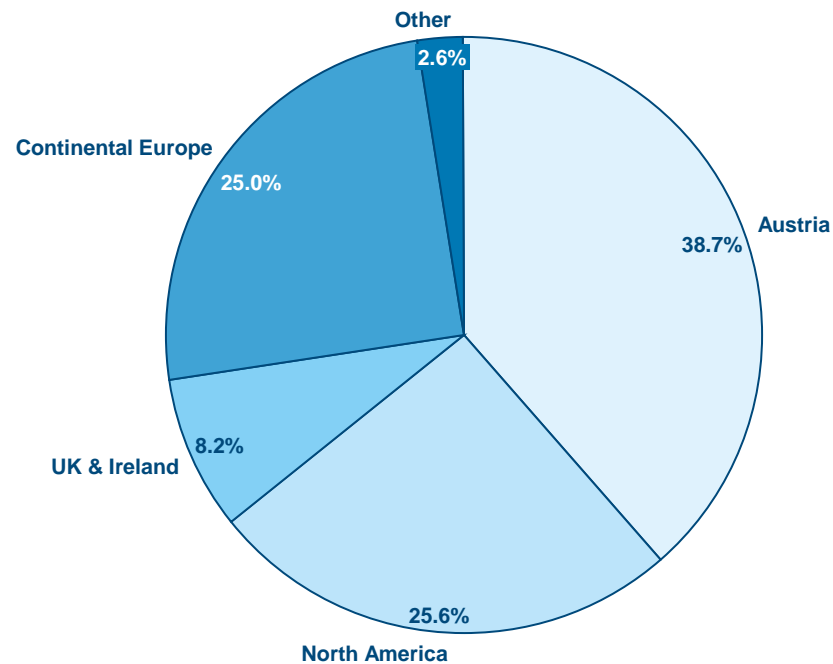
# Additional information: shareholder structure –

Total number of shares: 429,800,000

By investor



By region



\* Including voting rights of Erste Foundation, savings banks, savings banks foundations and Wiener Städtische Wechselseitige Versicherungsverein