

# Morgan Stanley Annual European Financials Conference

March 2015, London

**Erste Group –**

**Transforming business models: digital, regulation and macro challenges**

Gernot Mittendorfer, CFO Erste Group

## Disclaimer –

### Cautionary note regarding forward-looking statements

- THE INFORMATION CONTAINED IN THIS DOCUMENT HAS NOT BEEN INDEPENDENTLY VERIFIED AND NO REPRESENTATION OR WARRANTY EXPRESSED OR IMPLIED IS MADE AS TO, AND NO RELIANCE SHOULD BE PLACED ON, THE FAIRNESS, ACCURACY, COMPLETENESS OR CORRECTNESS OF THIS INFORMATION OR OPINIONS CONTAINED HEREIN.
- CERTAIN STATEMENTS CONTAINED IN THIS DOCUMENT MAY BE STATEMENTS OF FUTURE EXPECTATIONS AND OTHER FORWARD-LOOKING STATEMENTS THAT ARE BASED ON MANAGEMENT'S CURRENT VIEWS AND ASSUMPTIONS AND INVOLVE KNOWN AND UNKNOWN RISKS AND UNCERTAINTIES THAT COULD CAUSE ACTUAL RESULTS, PERFORMANCE OR EVENTS TO DIFFER MATERIALLY FROM THOSE EXPRESSED OR IMPLIED IN SUCH STATEMENTS.
- NONE OF ERSTE GROUP OR ANY OF ITS AFFILIATES, ADVISORS OR REPRESENTATIVES SHALL HAVE ANY LIABILITY WHATSOEVER (IN NEGLIGENCE OR OTHERWISE) FOR ANY LOSS HOWSOEVER ARISING FROM ANY USE OF THIS DOCUMENT OR ITS CONTENT OR OTHERWISE ARISING IN CONNECTION WITH THIS DOCUMENT.
- THIS DOCUMENT DOES NOT CONSTITUTE AN OFFER OR INVITATION TO PURCHASE OR SUBSCRIBE FOR ANY SHARES AND NEITHER IT NOR ANY PART OF IT SHALL FORM THE BASIS OF OR BE RELIED UPON IN CONNECTION WITH ANY CONTRACT OR COMMITMENT WHATSOEVER.

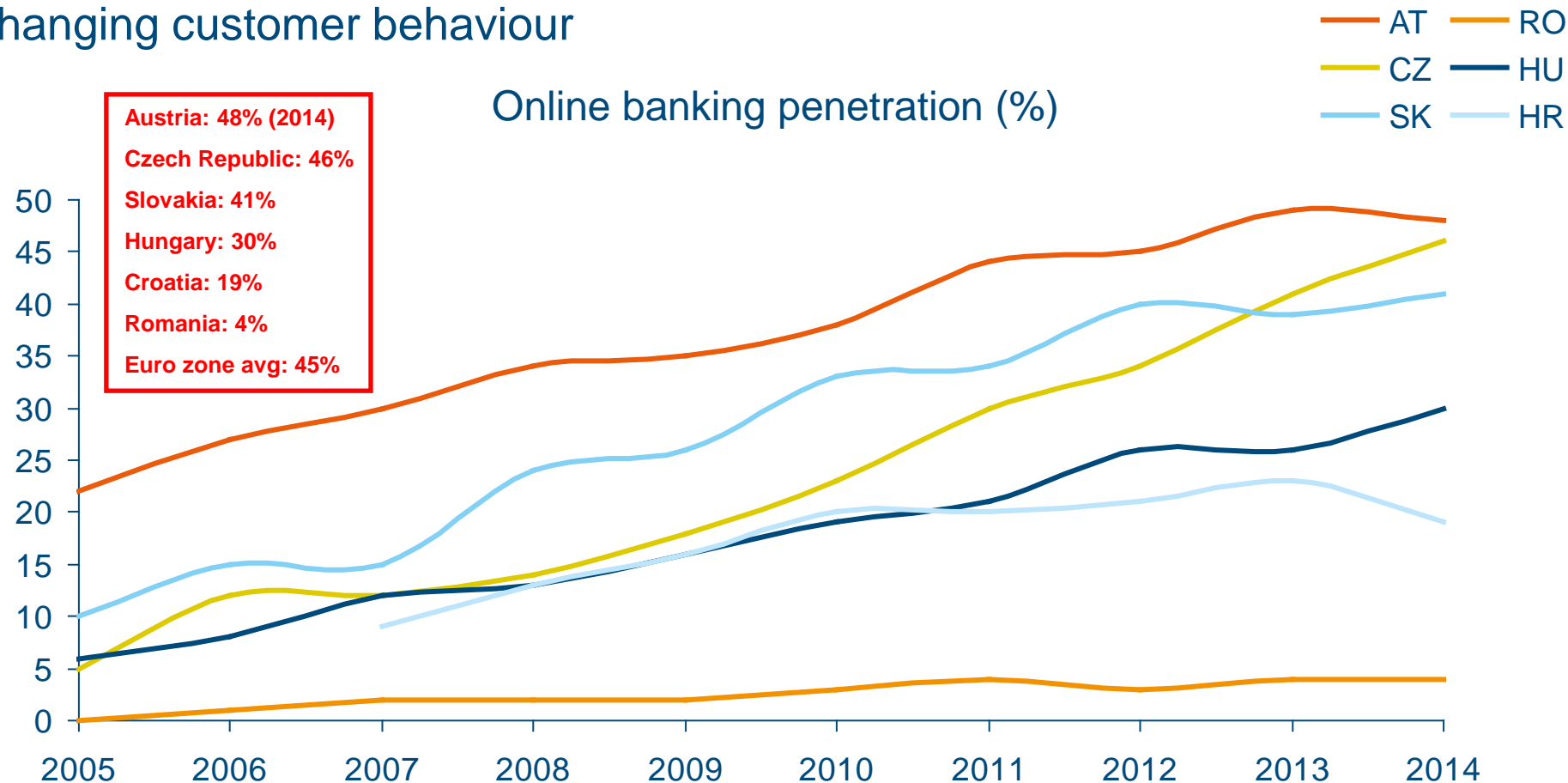
# Presentation topics

- Digital banking
- Regulatory environment
- Macroeconomic environment
- Outlook
- Additional information

# The digital banking challenge – Competing against start-ups, technology companies and other banks



# The digital banking challenge – Changing customer behaviour

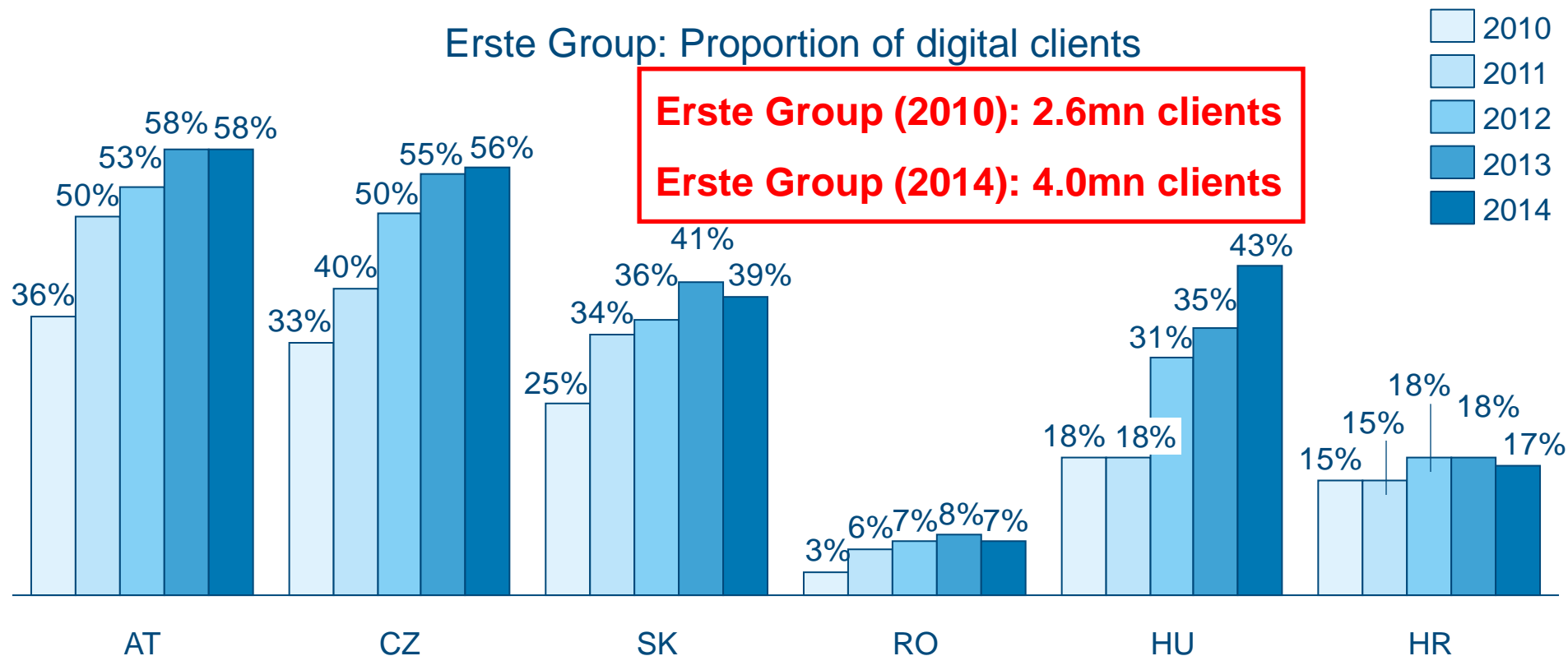


- Very high penetration in Northern European countries (around 80%) compared to Southern Europe (20-30%)
- Penetration of CEE countries has significantly increased but still much lower than Euro zone average

Source: Eurostat; Croatia not available for 2005 and 2006

# The digital banking challenge – Continuous increase of digital clients

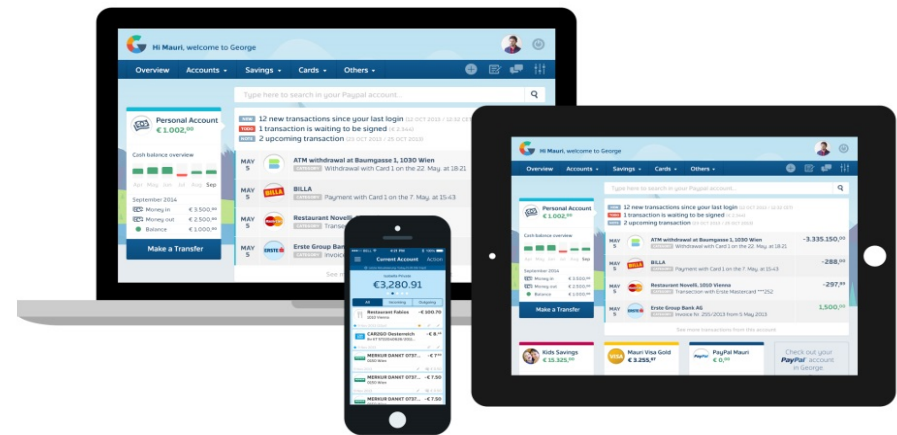
Erste Group: Proportion of digital clients



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

# The digital banking challenge – 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, ie 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



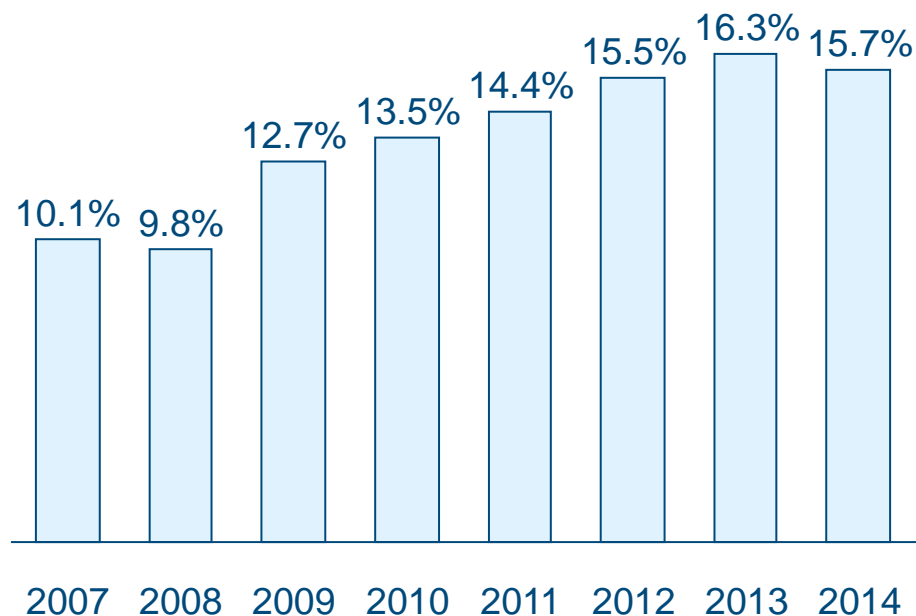
# Presentation topics

- Digital banking
- **Regulatory environment**
- Macroeconomic environment
- Outlook
- Additional information

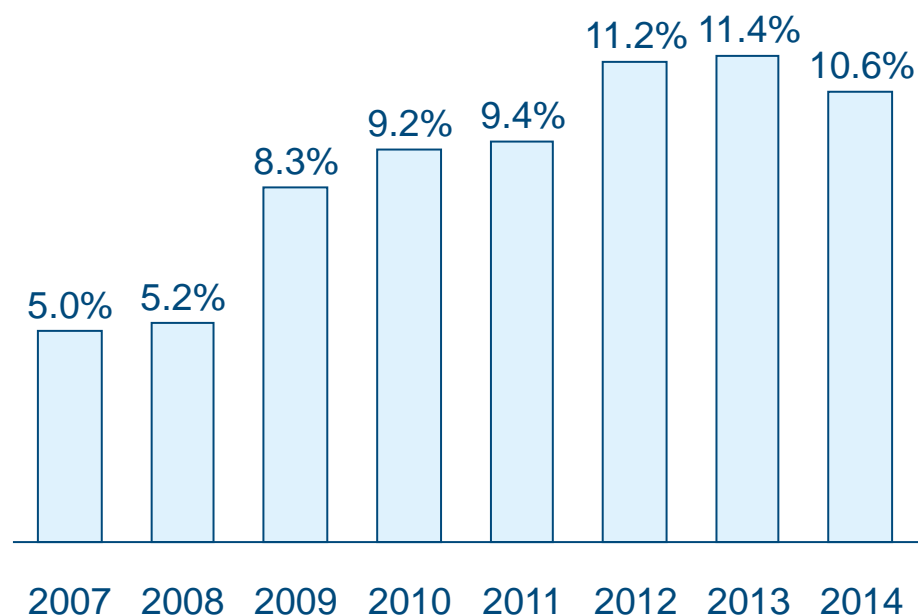


## Regulatory environment – ECB expected to harmonise capital ratios

Erste Group: Total capital ratio\*



Erste Group: CET1 ratio\*

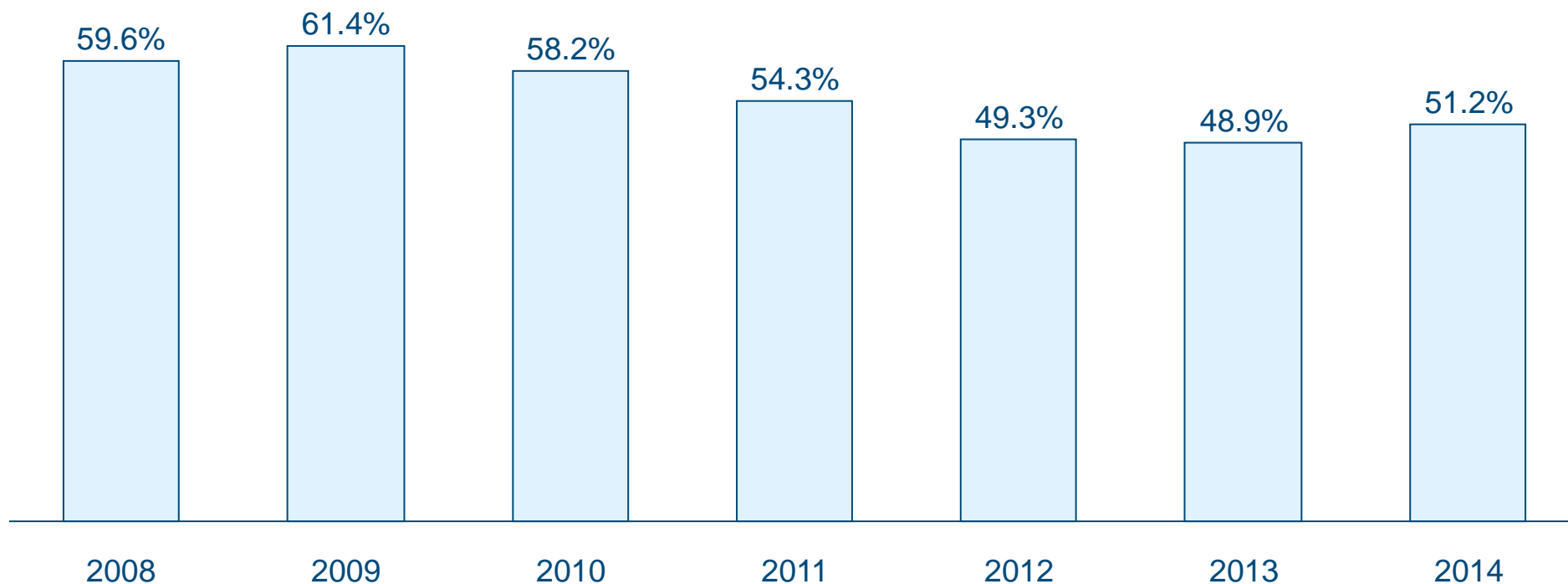


- B3FL CET 1-ratio at 10.6% (YE 2014) – no gap between B3FL CET 1-ratio and phased-in CET 1-ratio
- Full recognition of AFS reserve (post haircut) under fully loaded regime

\*2014: Basel 3 Phased-in; previous years: Basel 2 and 2.5

## Regulatory environment – Erste Group boasts a high risk weighting ratio

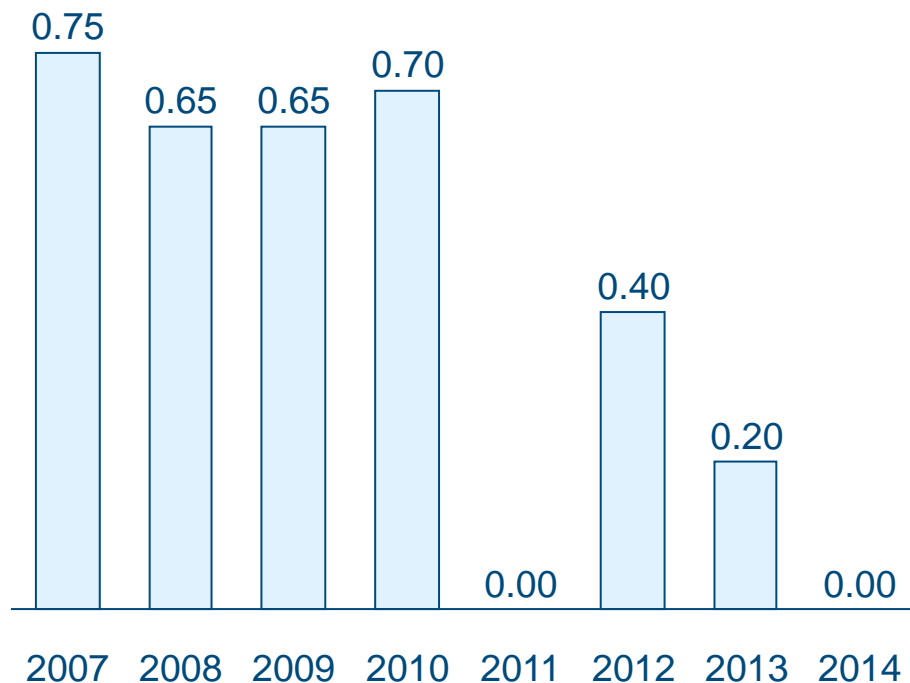
Erste Group: total risk-weighted assets to total assets



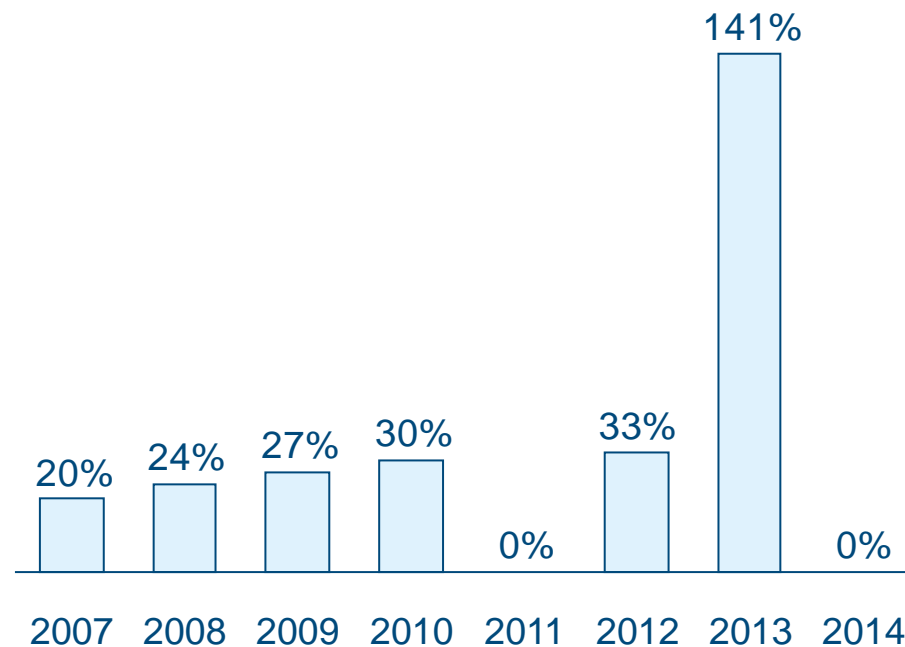
- Credit RWA in relation to total assets amounted to 44.4% as of Dec 2014
- Marginal market risk, amounting to only 1.6% of total assets as of Dec 2014

## Regulatory environment – ECB will influence dividend payments of European banks

Erste Group: Dividend per share (EUR)



Erste Group: Dividend payout ratio



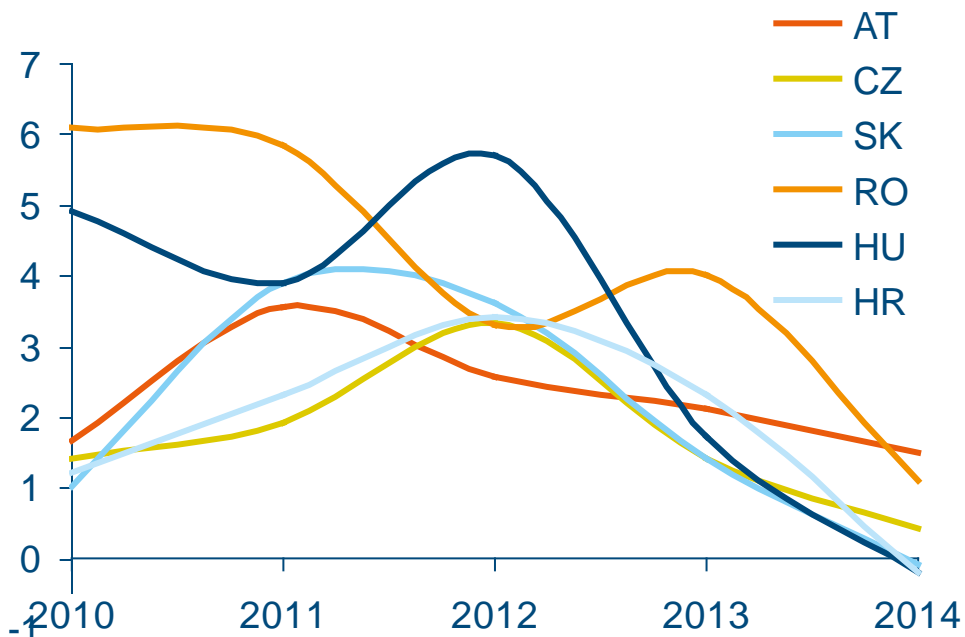
- Management proposes no dividend payment to AGM after 2014 results
- Resumption of dividend payment for FY 2015 expected in 2016

# Presentation topics

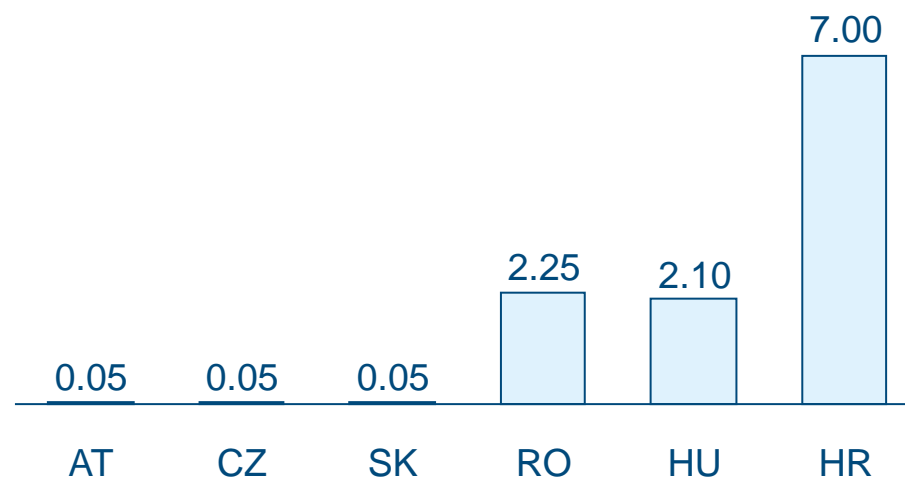
- Digital banking
- Regulatory environment
- **Macroeconomic environment**
- Outlook
- Additional information

# Macroeconomic environment – Historic low interest rate environment poses challenges

Consumer price index (avg. in %)



Key central bank policy rates (%)

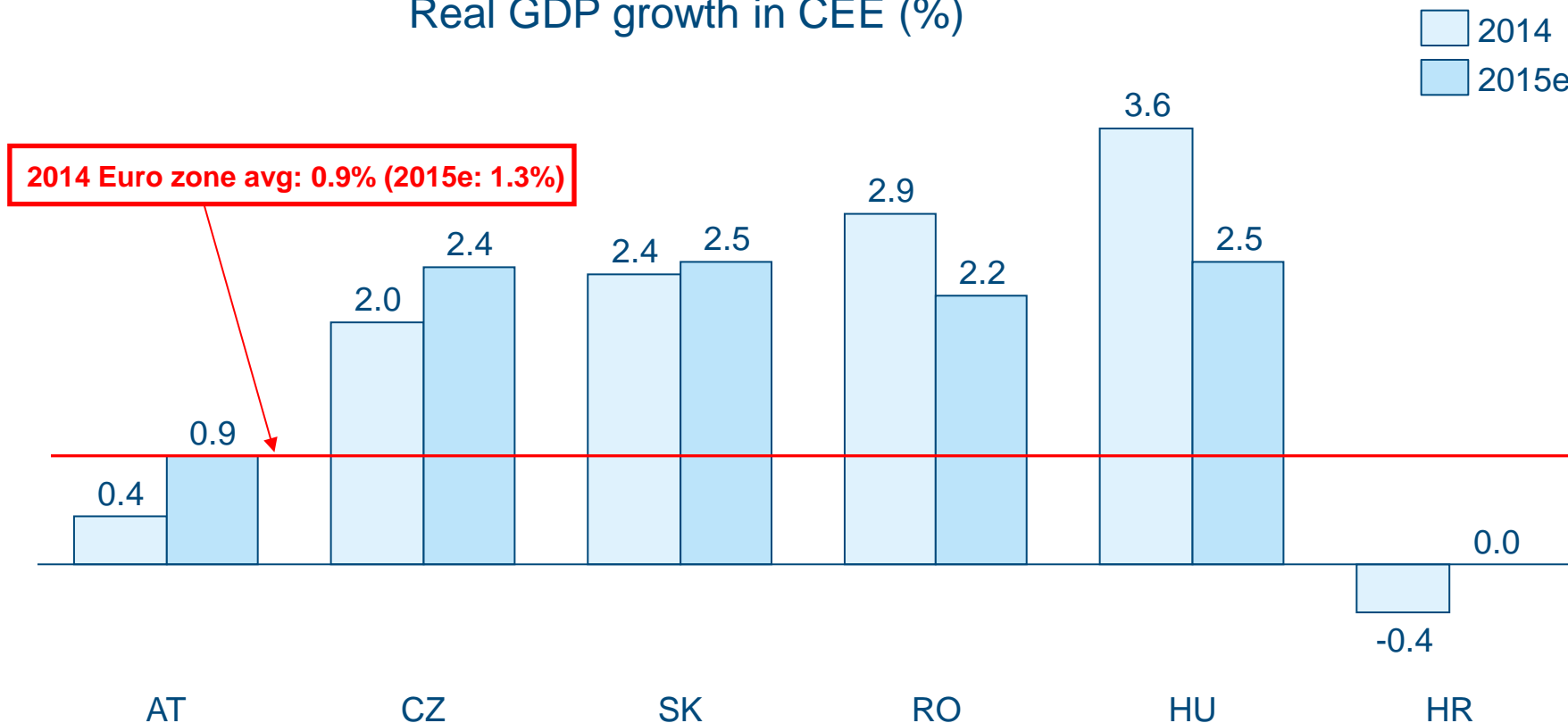


- Falling inflation in 2014 driven mainly by subdued fuel and food prices
- Interest rates expected to remain low in 2015
- Despite low rates most of the CEE currencies were relatively stable in 2014

Source: Erste Group Research

## Macroeconomic environment – CEE economies have continuously outgrown the euro zone

Real GDP growth in CEE (%)

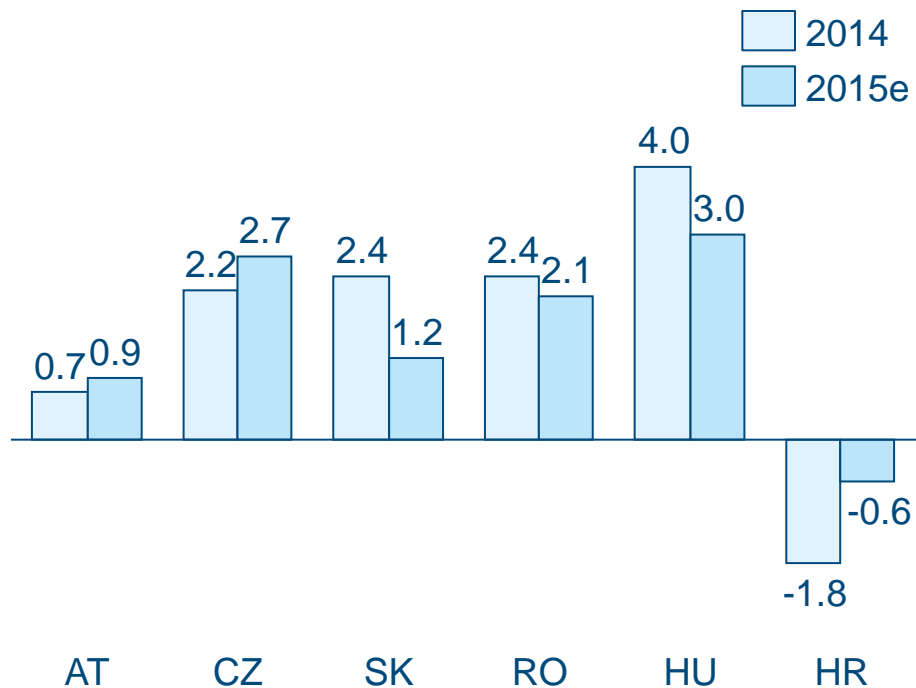


- Most of the CEE economies expected to maintain their growth of around 2-3% in 2015
- Positive 2015 outlook supported by Q4 GDP data: AT (0.0%), CZ (+1.3%), RO (+2.5%), SK (+2.4%), HU (+3.4%)

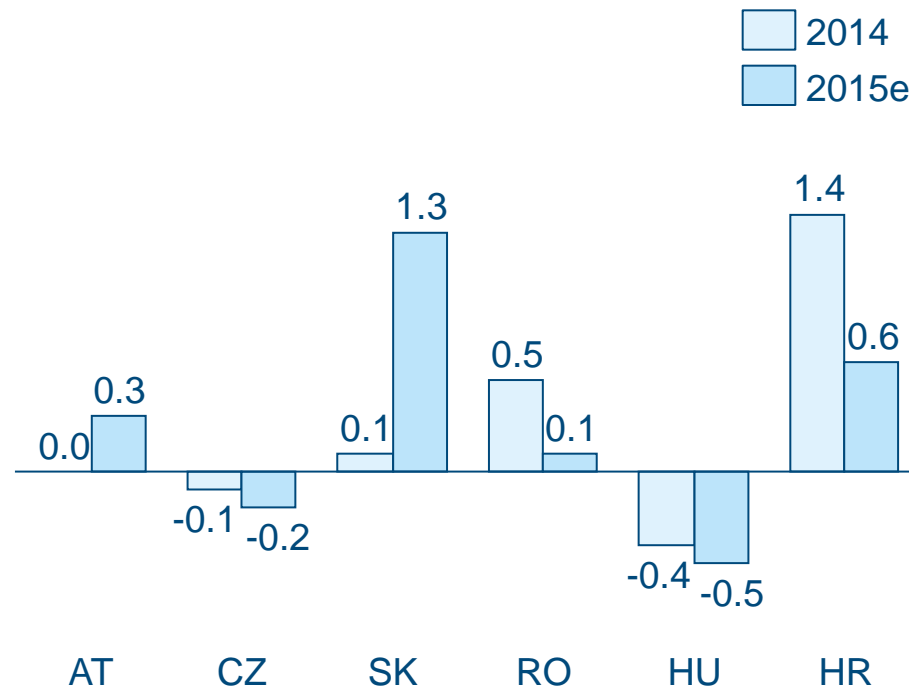
Source: Erste Group Research

## Macroeconomic environment – Improved domestic demand drives economic growth

Domestic demand contribution to growth (%)



Net export contribution to growth (%)



- Domestic demand has visibly improved across the region and become the main contributor to growth
- Exports are supported by improving German economy (+1.5% yoy in Q4 2015)

Domestic demand contribution includes inventory change. Source: Erste Group Research, EU Autumn Economic Forecast 2014.

# Presentation topics

- Digital banking
- Regulatory environment
- Macroeconomic environment
- **Outlook**
- Additional information



## Conclusion – Outlook

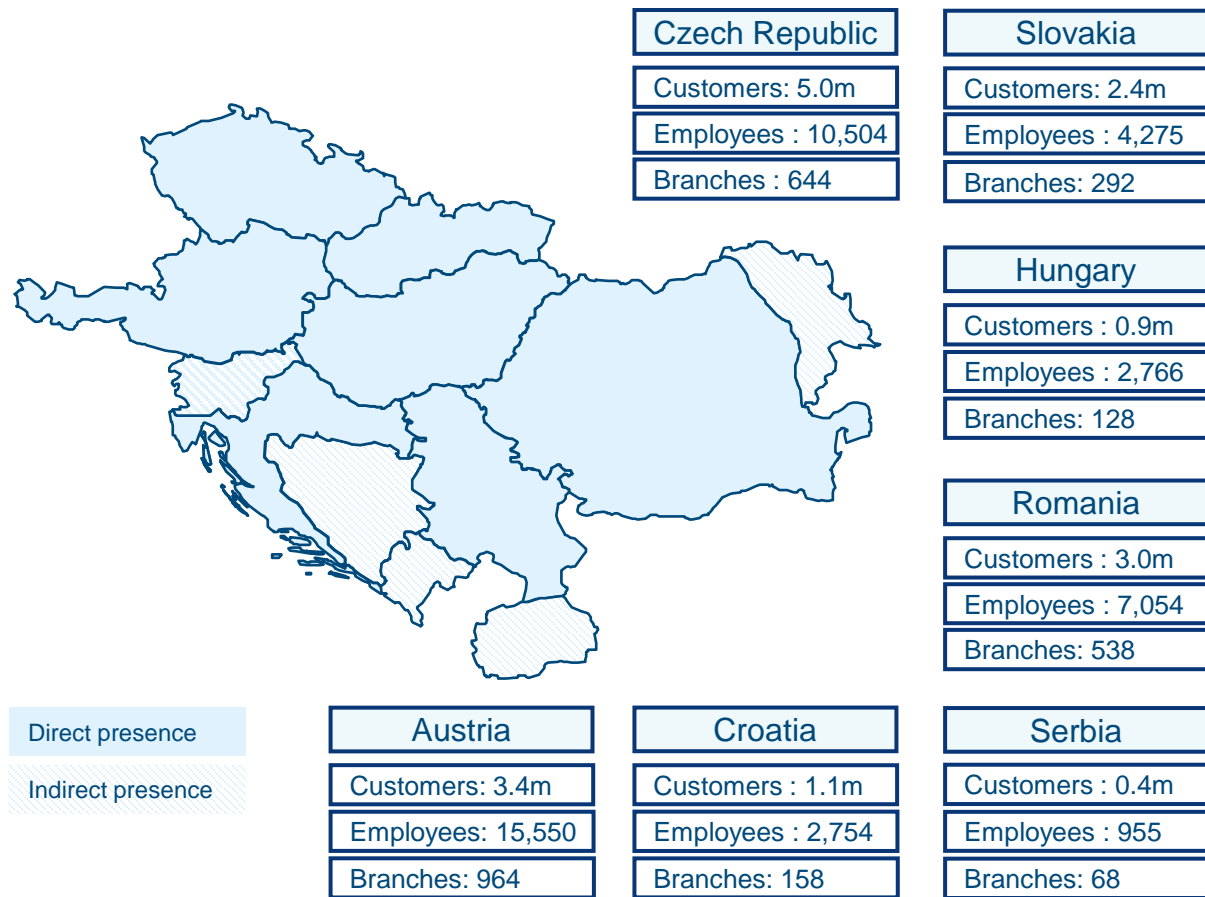
- **Operating environment anticipated to be conducive to credit expansion**
  - Real GDP growth of between 2-3% expected in 2015 in all major CEE markets, except Croatia
  - Real GDP growth to be driven by rising domestic demand
  - Real GDP growth in Austria expected at below 1% in 2015
- **Return on 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 effects of lower average volume and expected reversal of positive 2014 trading effect in 2015) 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 significantly in 2015
  - Banking levies expected at about EUR 360m in 2015, including contributions to European bank resolution and deposit insurance funds; related discussions with Austrian government still ongoing
- **Risks to guidance**
  - Consumer protection initiatives, eg potential pre-election CHF legislation in Croatia
  - Geopolitical risks (Eastern Ukraine conflict, Greece) resulting in potentially negative economic impacts

# Presentation topics

- Digital banking
- Regulatory environment
- Macroeconomic environment
- Outlook
- **Additional information**

# 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 (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

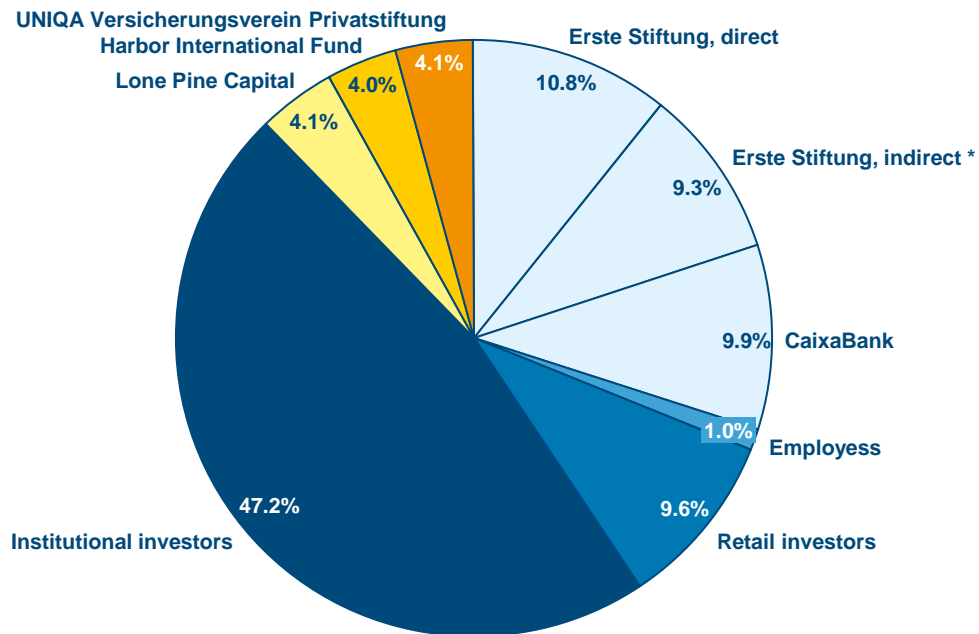
Any bank exposure is only held for liquidity or balance sheet management reasons or to support client business

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

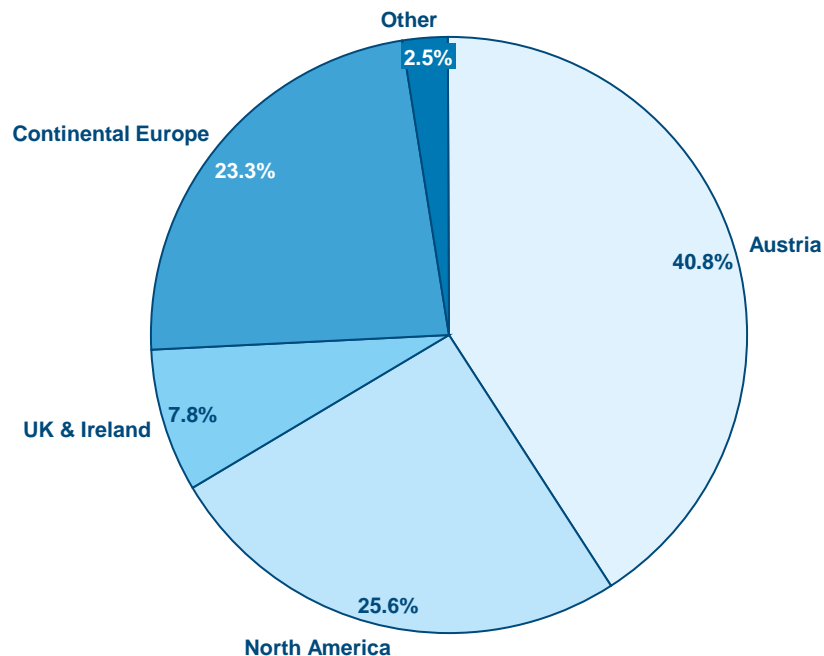
# Additional information: shareholder structure –

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