

Erste Group Press Conference

Q2 2015 results

7 August 2015

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Presentation topics

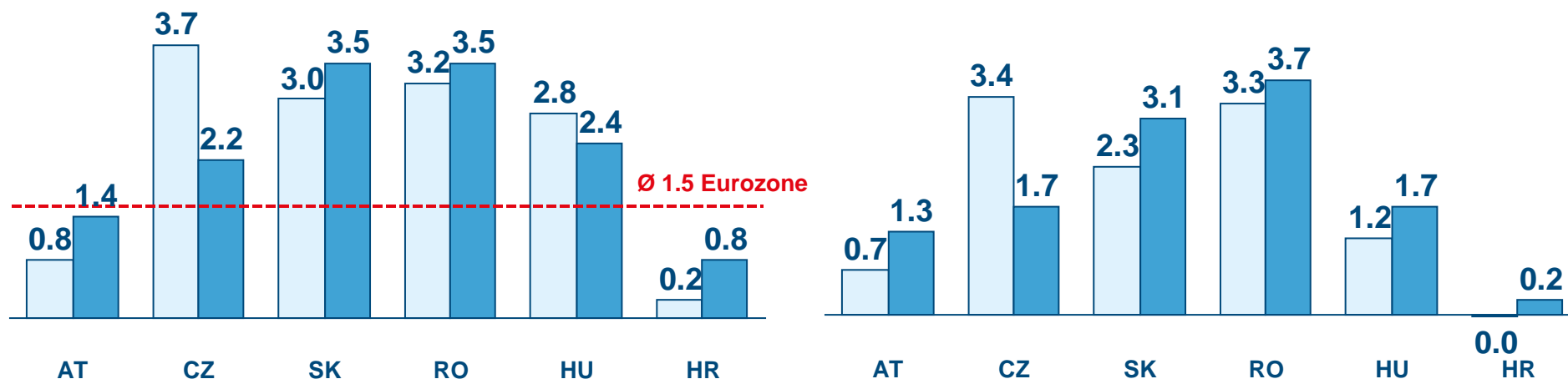
- Business environment
- Business performance
- Assets and liabilities
- Outlook

Most CEE countries should continue to significantly outpace EU growth



Real GDP growth (in %)

Domestic demand contribution to GDP growth (in %)



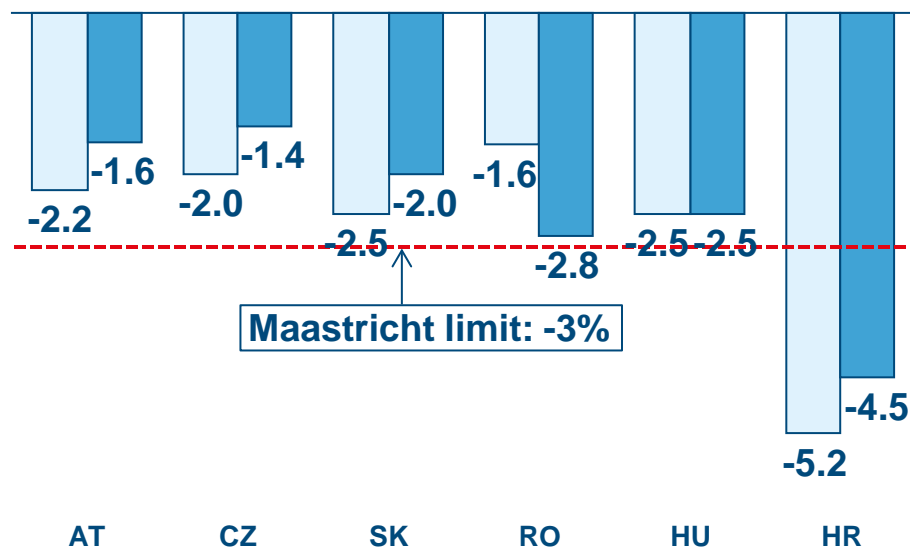
- Erste Group's core CEE markets expected to grow by more than 3% in 2015, with continued positive outlook for 2016
- Growth-driving factors are country specific - in Austria, Czech Republic and Slovakia investments play a leading role
- Inflation is expected to increase from low levels as support from low commodity prices wanes and private consumption picks up; temporary negative price development in RO due to VAT cut

Source: Erste Research; Domestic demand = private consumption + public consumption + gross capital expenditure

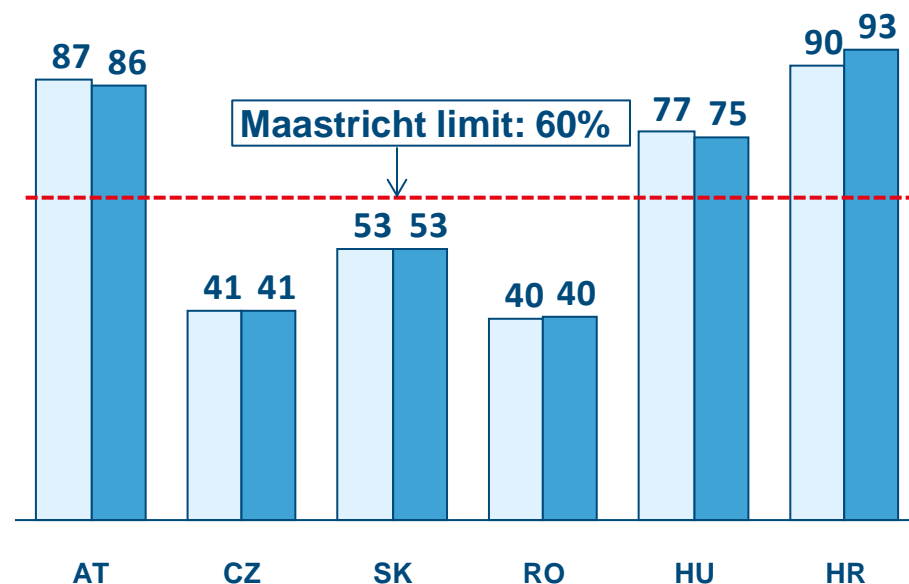
CEE continues to be the least indebted region (on average) in Europe

2015
2016

General government balance (in % of GDP)



Public debt (in % of GDP)



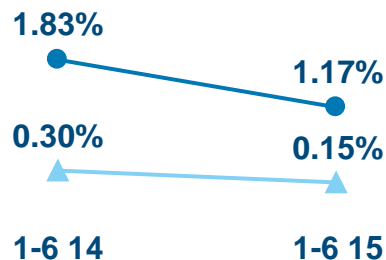
- Healthy public finances in most of Erste Group's core CEE markets: most countries fulfill Maastricht criteria
- Sustainable current account balances, supported by competitive economies with decreasing unemployment rates

Source: Erste Research

End of easing cycle in CEE – no hikes in sight

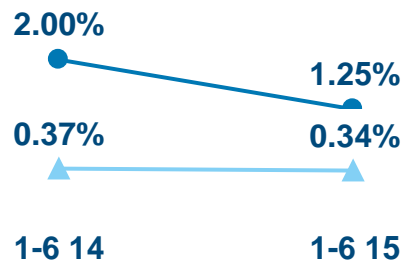
▲ 3m Interbank
● 10-year Gov

Austria



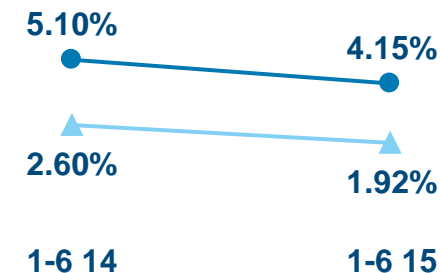
- ECB cut discount rate to 0.05% in Sept 14; maintains expansionary monetary policy stance

Czech Republic



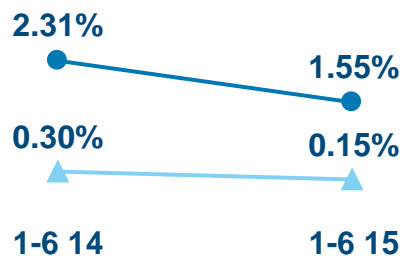
- National bank maintains ultra-low interest rates since Nov 2012 at 0.05%

Romania



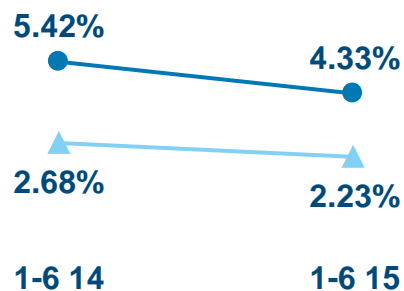
- Central bank cut policy rate to historic low of 1.75% in May 2015

Slovakia



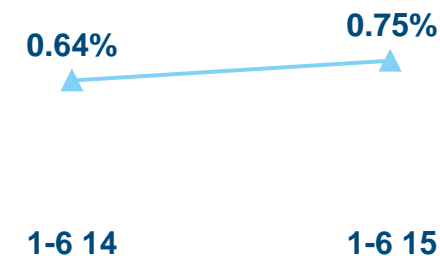
- As part of euro zone ECB rates are applicable in SK

Hungary



- National bank restarted easing cycle in Feb 2015; cutting base rate to 1.35% in July 2015, completing easing cycle

Croatia



- Central bank maintains discount rate at 7.0% since mid-2011

Source: Bloomberg.

CEE ratings are continuously improving

Rating changes from 2000 to 2015 (S&P's)

S&P rating	HR	CZ	HU	PL	RO	SK	SI	AU	F	BE	ES	IT
AAA								2000	2000			
AA+								2015		2000	2000	
AA									2015	2015		2000
AA-		2015										
A+						2015						
A							2000					
A-		2000	2000	2015			2015					
BBB+				2000								
BBB											2015	
BBB-	2000				2015							2015
BB+			2015			2000						
BB	2015											
BB-												
B+												
B												
B-					2000							
CCC+												
CCC												
CCC-												
CC+												
CC												
C												
D												

Highlights

- Rating agencies acknowledge improving macro fundamentals in CEE
- Czech Republic's and Slovakia's ratings already in core Europe league – comparable to France and Belgium
- Romania and Italy in the same rating class.

Source: Bloomberg. Legend: downgrade

■ upgrade

■

Presentation topics

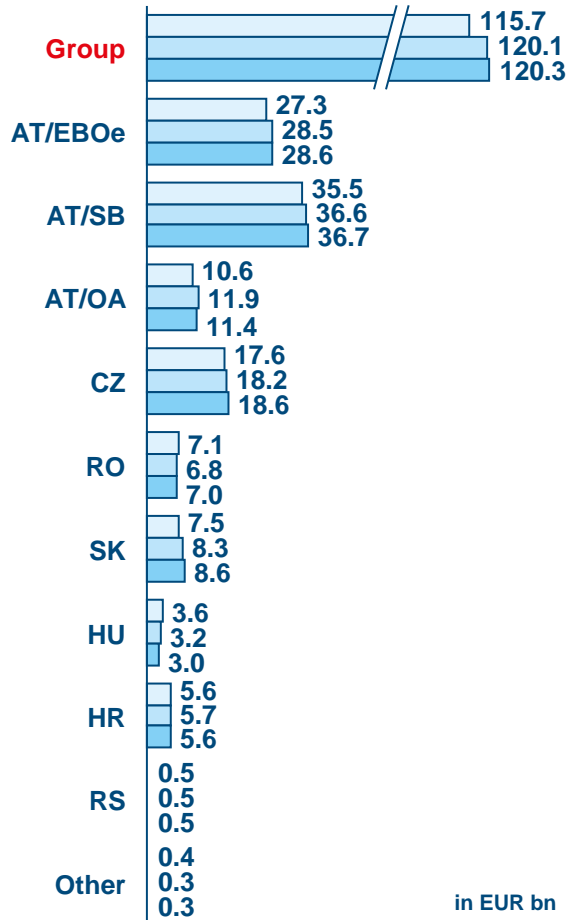
- Business environment
- **Business performance**
- Assets and liabilities
- Outlook

Performing loan stock and growth –

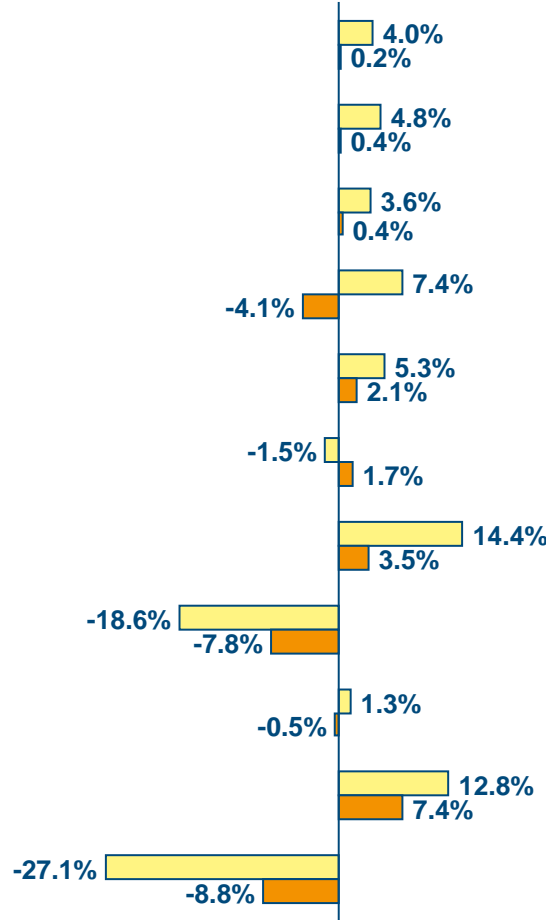
Performing loan volume grows by 4.0% yoy, edges up qoq

■ YoY ■ 30/06/14
■ QoQ ■ 31/03/15
■ 30/06/15

Geographic view



Growth



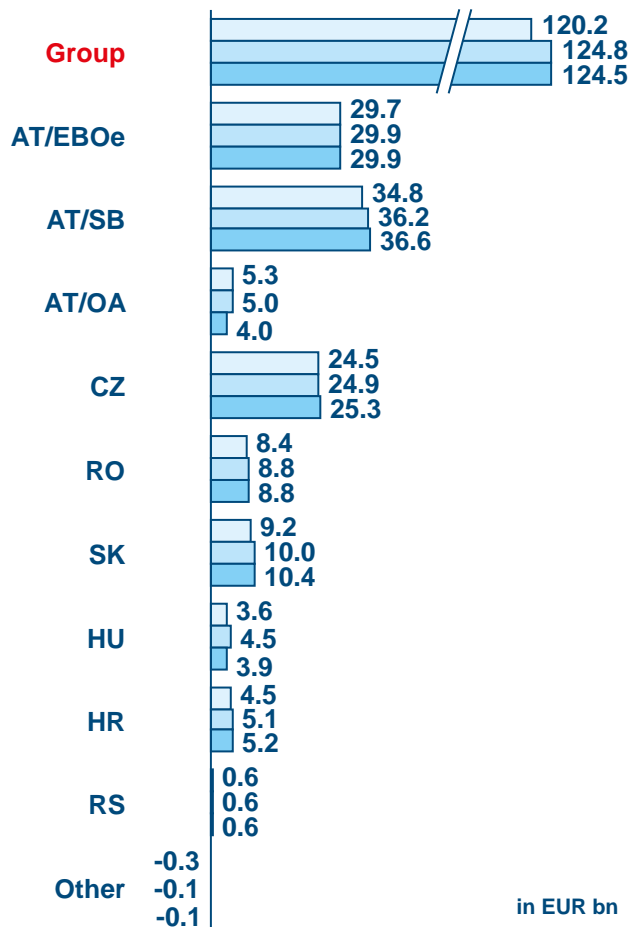
Highlights

- Across the board growth of the mortgage loan portfolio
- Fifth consecutive quarter with rising performing loan volume, due to qoq increases in Czech Republic, Slovakia and Romania
- **Slovakia:** remains growth driver, based on continued Retail strength
- **Romania:** slight qoq increase in performing loans driven by Retail
- **Hungary:** qoq decline mainly due to 5% HUF depreciation in Q2 15

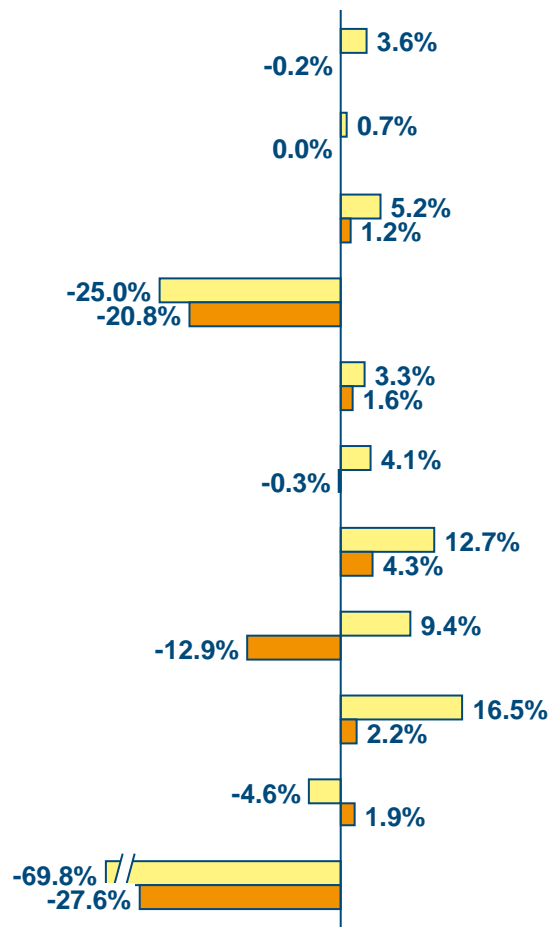
Customer deposit stock & growth – Deposits grow by 3.6% yoy, stable qoq

■ YoY ■ 30/06/14
■ QoQ ■ 31/03/15
■ 30/06/15

Geographic view



Growth



Highlights

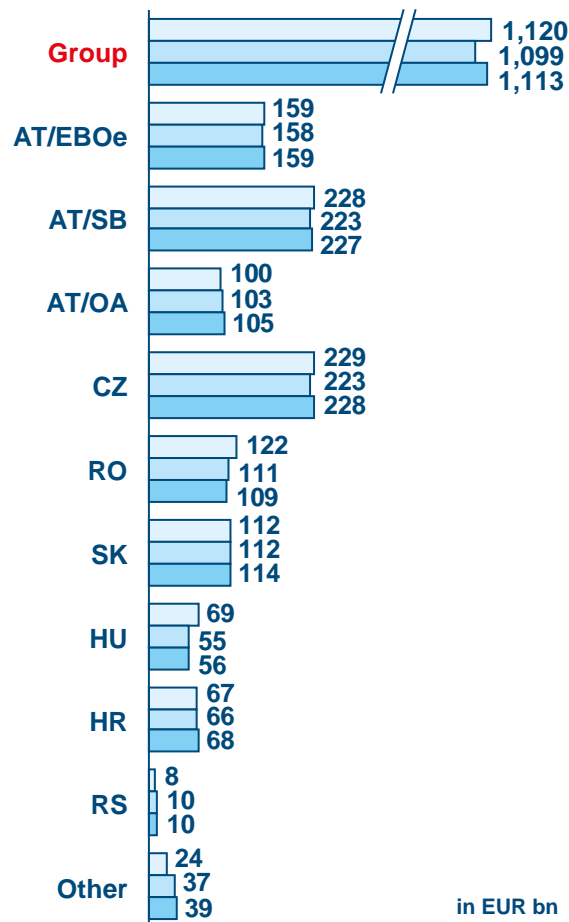
- Continued customer trust despite low interest rate environment
- Customer deposits up 3.6% yoy (stable qoq), mainly driven by retail and SME, as well as savings banks
- **Slovakia:** deposit growth broadly in line with loan growth ytd
- **Romania:** yoy increase driven by Retail
- **Hungary:** qoq decrease driven by outflows in corporate as per normal business cycle; yoy retail deposits still solidly up

NII and NIM –

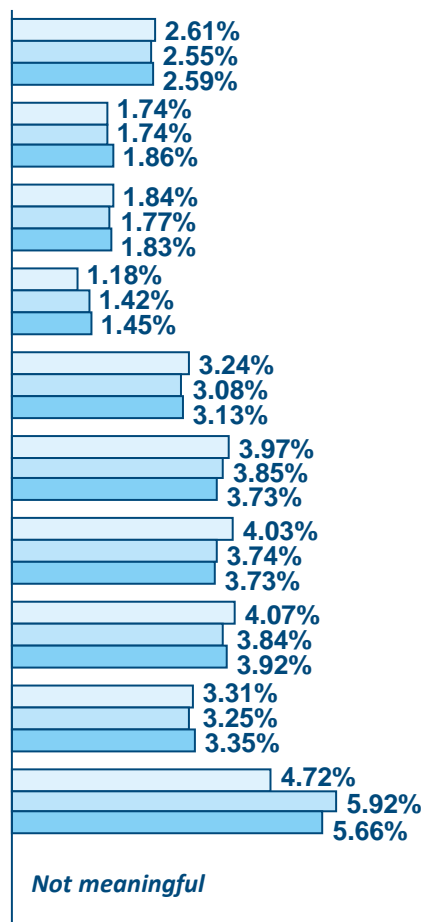
Q2 15 NII & NIM stable yoy and qoq

Q2 14
Q1 15
Q2 15

Net interest income



Net interest margin

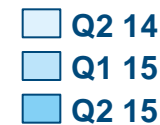


Highlights

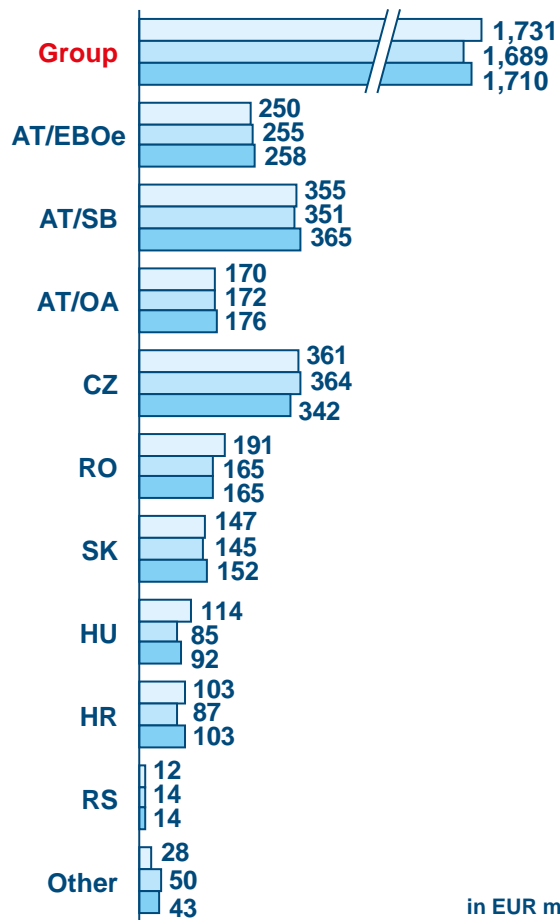
- Group NII stable, supported by shifts of the deposit structure from long-term to shorter term
- **Romania:** yoy decrease driven by significantly lower average loan volumes
- **Hungary:** yoy decline driven by CHF conversion induced lower volumes
- **Other Austria:** improvements primarily on better performance in Commercial Real Estate

Operating income –

Q2 15 operating income stable yoy and qoq



Geographic view



Highlights

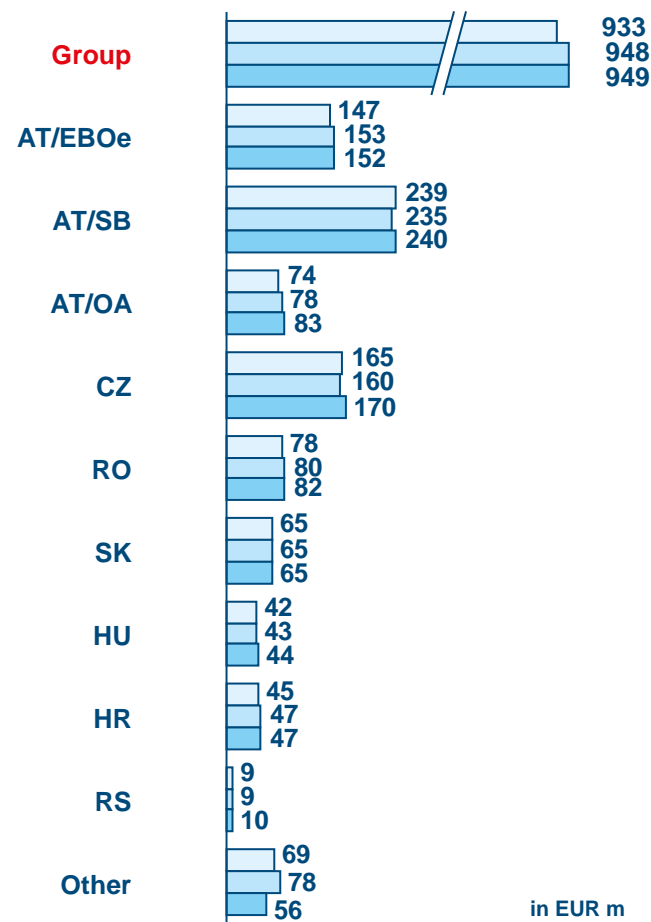
- **AT/EBOe:** increased NII due to higher loan volumes and structural changes in the deposits structure (short-term savings)
- **AT/Savings Banks:** increase driven by net trading
- **Czech Rep.:** yoy decline due to NII and fee pressure
- **Romania:** yoy decline due to NII (lower volumes & lower market interest rates)
- **Hungary:** yoy decline in NII due to shrinking loan volumes as a result of CHF conversion

Operating expenses –

Costs flat qoq, slightly up yoy

Q2 14
Q1 15
Q2 15

Geographic view



Highlights

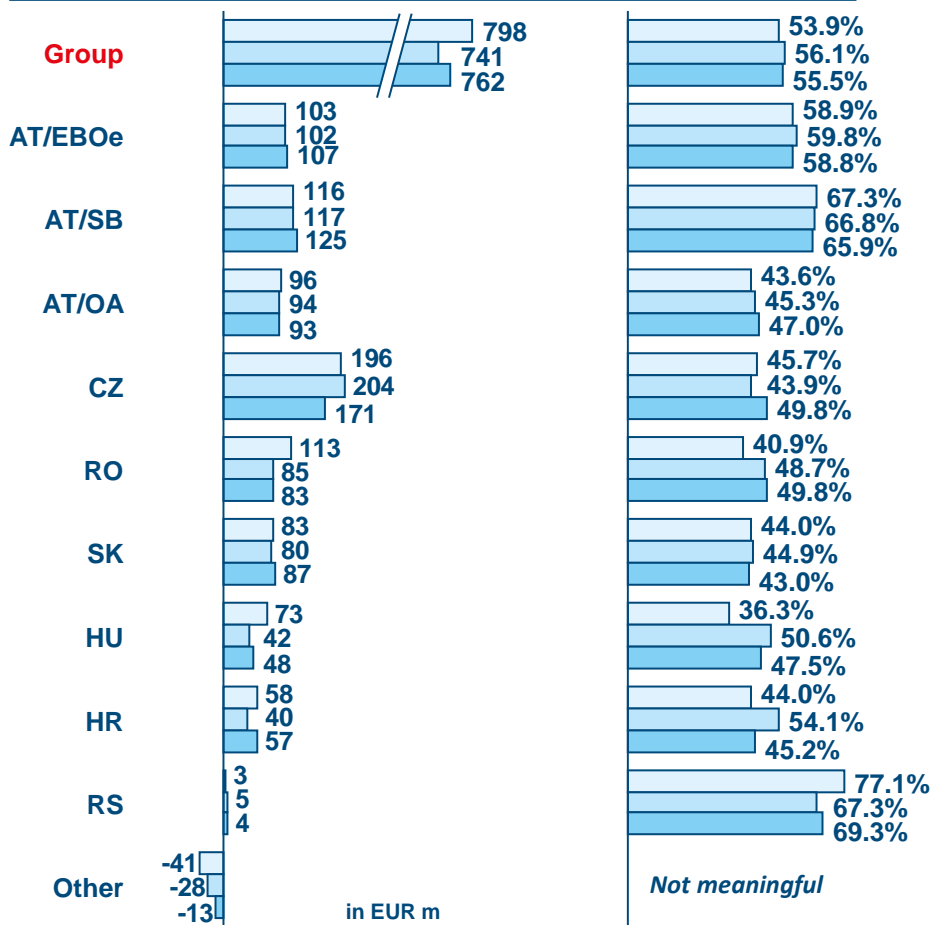
- Regulatory requirements push for higher headcount related to finance & risk management; IT. Offsets cost discipline in all entities
- Headcount up 1,1% to 46,575 compared with December 2014

Operating result and CIR –

Operating result up by 2.8% qoq, down by 4.6% yoy

■ Q2 14
■ Q1 15
■ Q2 15

Geographic view



Highlights

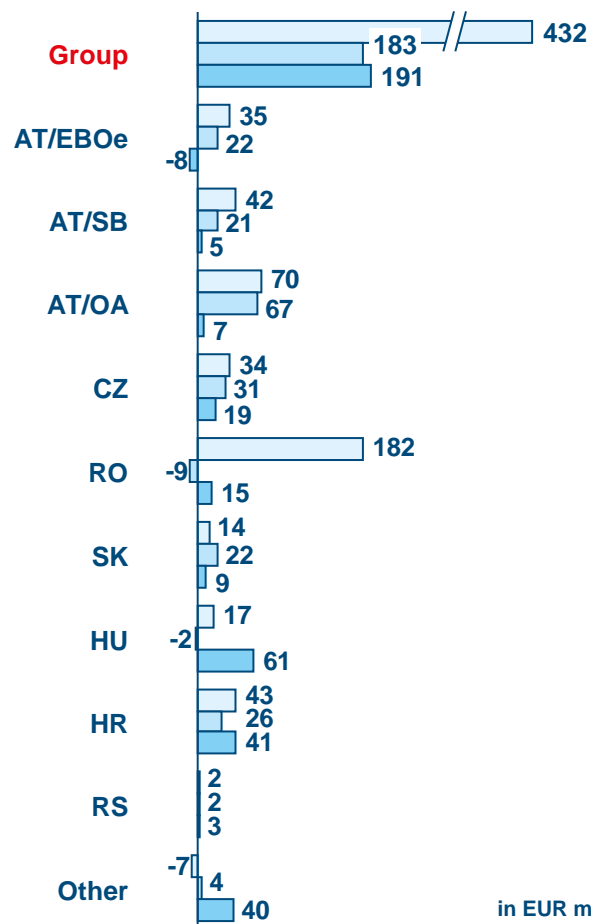
- Operating result within guidance due to stable NII and slightly higher fee income, accompanied by slightly higher operating expenses yoy driven by regulatory requirements

Risk costs –

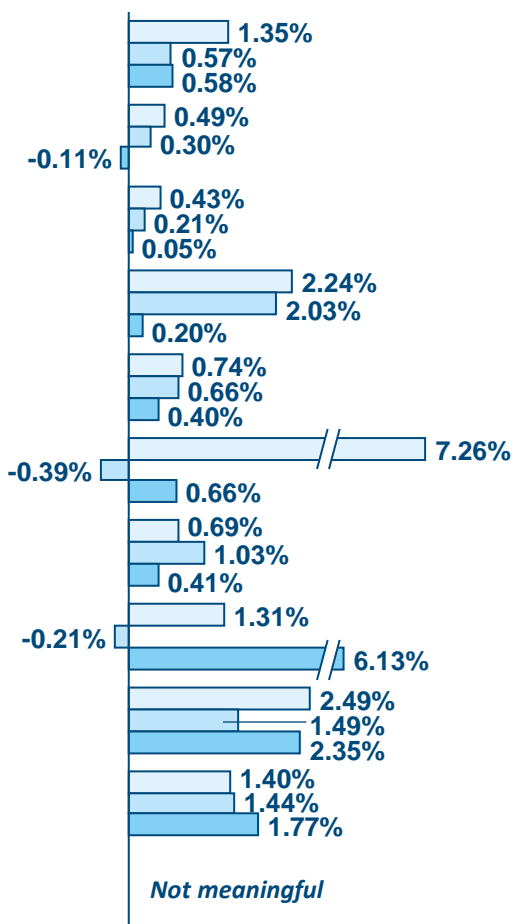
Risk costs remain low in Q2 15 due to Austria and Romania

Q2 14
Q1 15
Q2 15

Risk costs



Risk costs in bps



Highlights

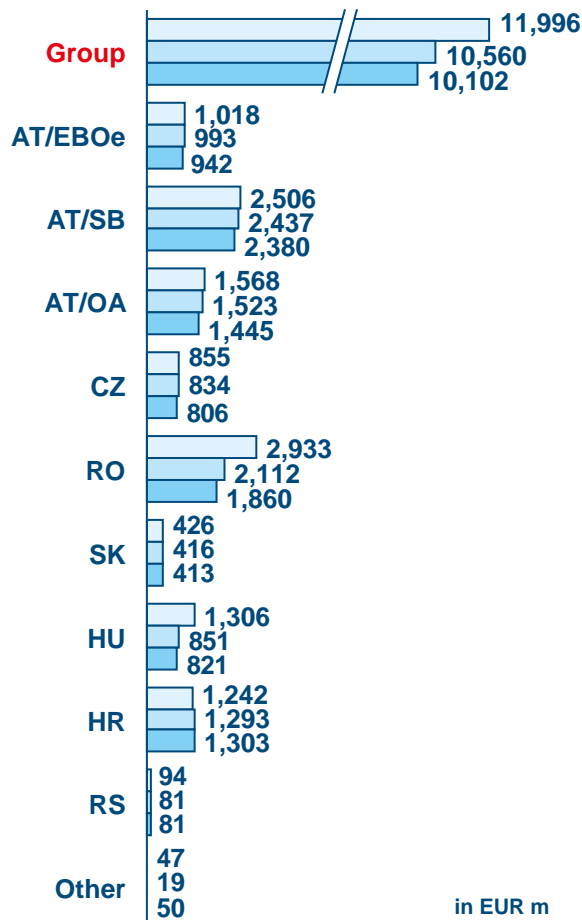
- Continued strong risk performance in Q2 15 supported by risk management actions taken in 2014 (Romania, Hungary), and favorable H1'15 developments in Austria
- Romania:** Significant decline yoy and qoq following exceptional 2014 provisioning actions and YTD recoveries in corporate segments
- AT/EBOe & AT/SB & AT/OA:** Favorable default/provisioning trends observed in H1'15
- Other Austria:** Improvement driven by the ongoing CRE restructuring actions in Immorent
- Hungary:** Q2 performance in line with full-year outlook following the FX conversion one-off effect in Q1
- Croatia:** Stable yoy trend with Q2 performance driven by increased coverage on SME clients

Non-performing loans and NPL ratio –

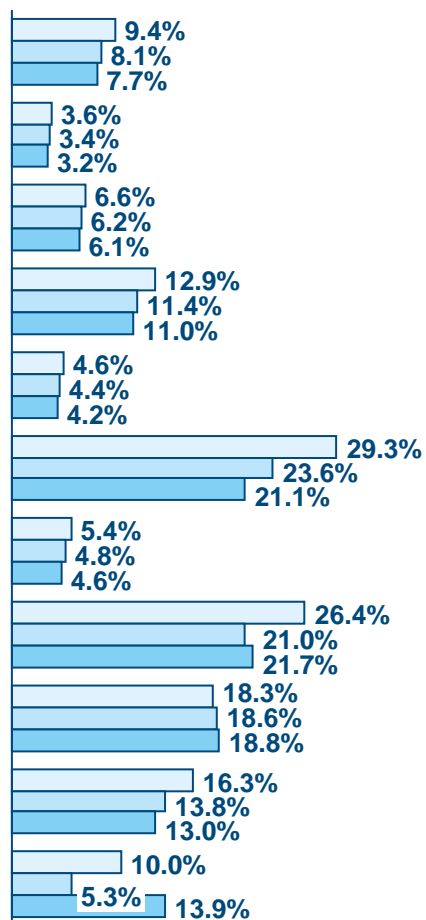
NPL ratio falls for the 6th consecutive quarter to 7.7%

30/06/14
31/03/15
30/06/15

Non-performing loans (NPL)



NPL ratio

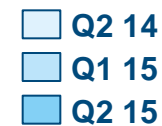


Highlights

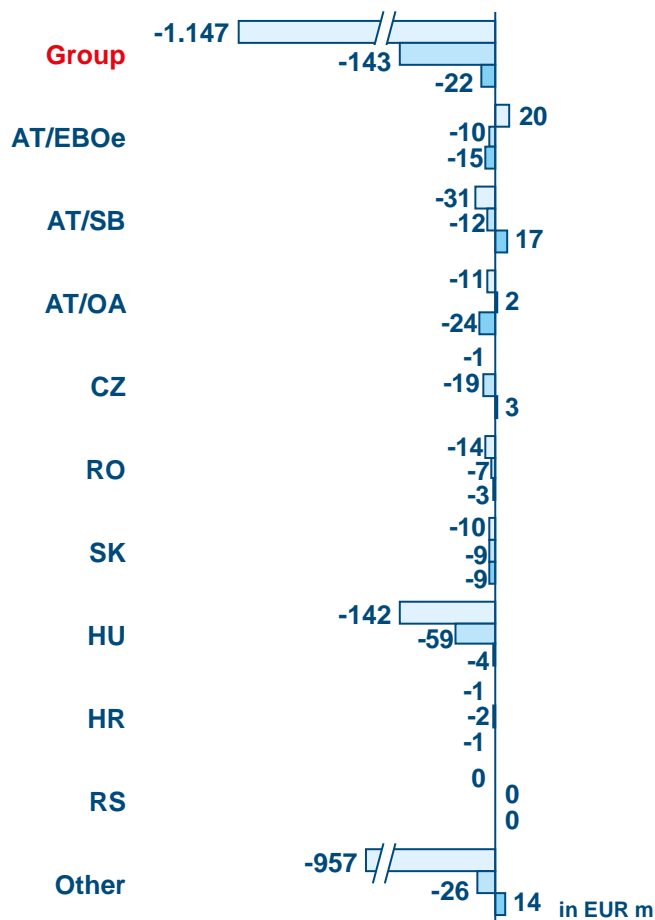
- Continued decline of group NPL volume in Q2 15 supported by most business lines and geographic segments
- NPL sales of EUR 149.9m in Q2 15 (Q1 15: EUR 61.6m)
 - Retail: EUR 51.0m (Q1 15: EUR 20.9m)
 - Corporate: EUR 98.9m (Q1 15: EUR 40.7m)
- NPL sales driven by Romania and Hungary, along with additional minor transactions in Slovakia, Czech Republic and Austria

Other result –

Q2 15 other result benefits from financial asset gains and lack of one-offs



Geographic view

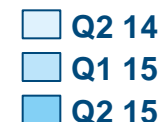


Highlights

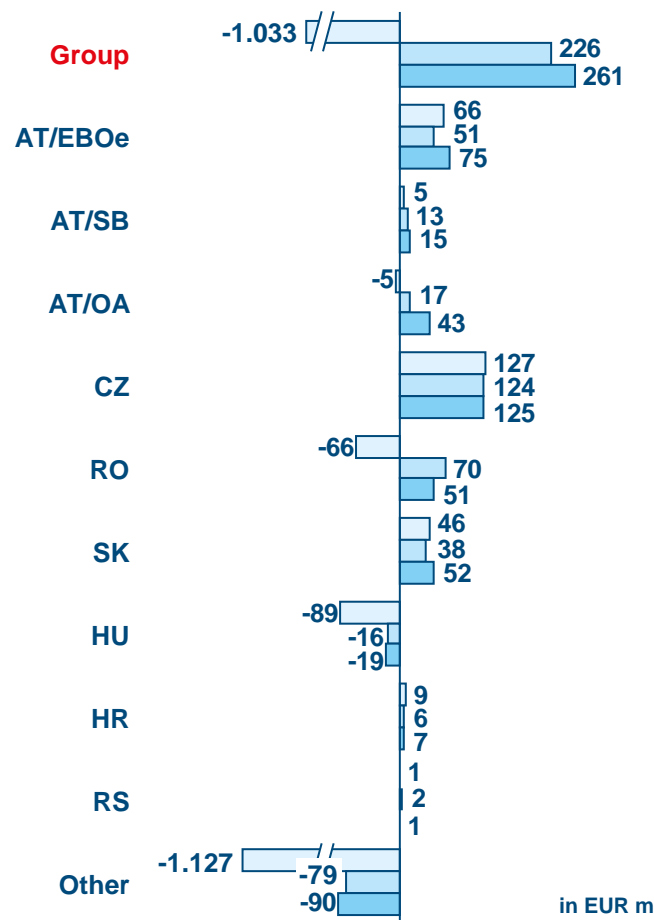
- QOQ and YOY improvements as all EU banking taxes already paid in Q1 15 and intangible write-downs (mostly BCR) already made in 2014
- **Hungary:** qoq improvement due to booking of full annual banking tax in Q1 15, yoy improvement due to FX conversion charges in Q2 14
- **AT/Savings Banks:** yoy and qoq improvement primarily driven by valuation effects
- **Czech Rep.:** Q2 15 benefitted from lack of EU resolution fund contribution, which burdened Q1 15

Net result –

Continued positive trend in Q2 15



Net result by geography



Highlights

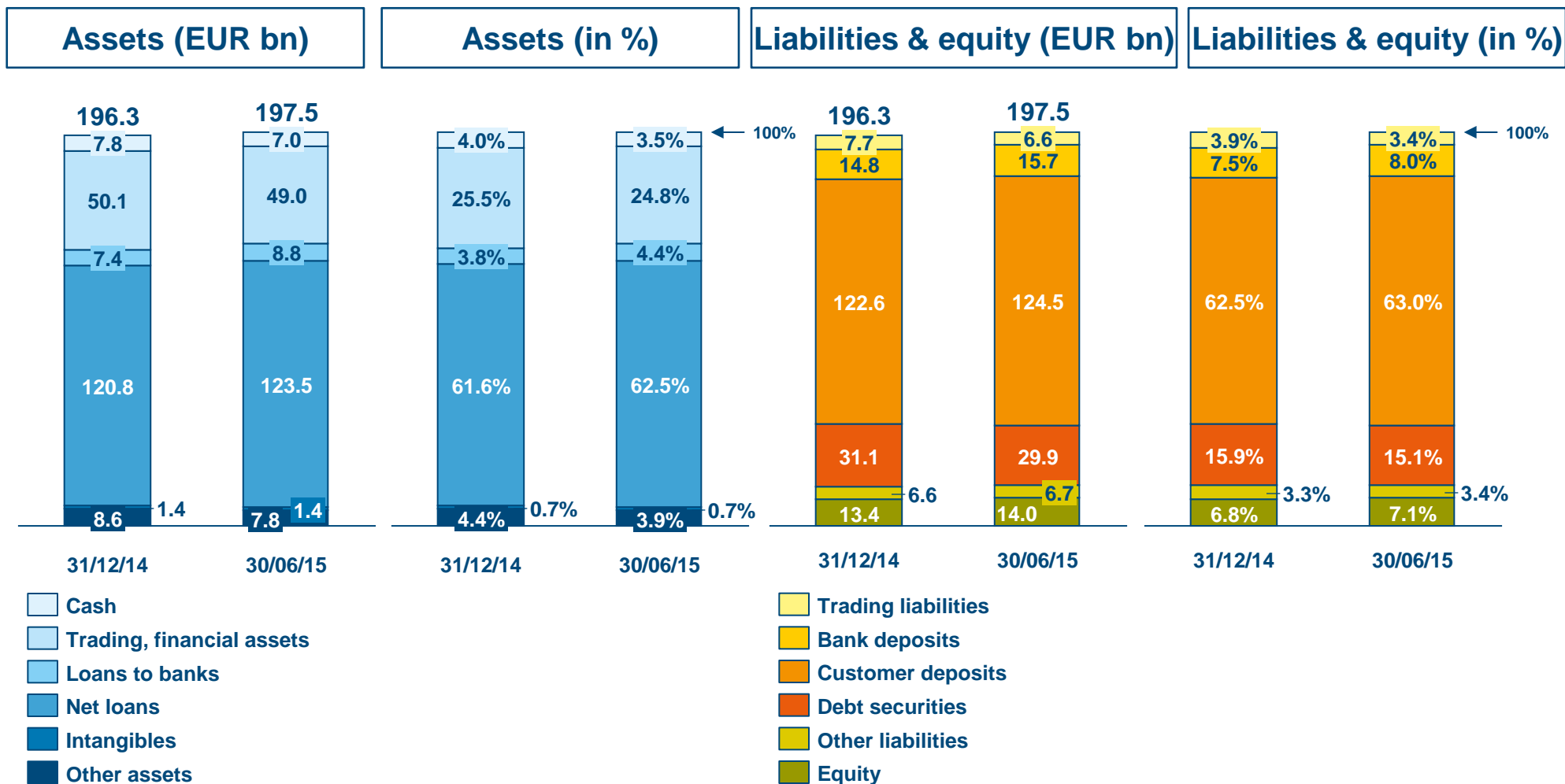
- Q2 15 net profit confirms positive trend, driven by Austria, Romania, Hungary and segment Other
- **Romania:** big swing in profitability in Q1 15 confirmed in Q2 15 as risk costs remain low
- **Hungary:** yoy improvement due to FX conversion charges in Q2 14, which did not recur in Q2 15; qoq flat
- **Return on equity** advances to 10.2% in Q2 15, following 9.0% in Q1 15

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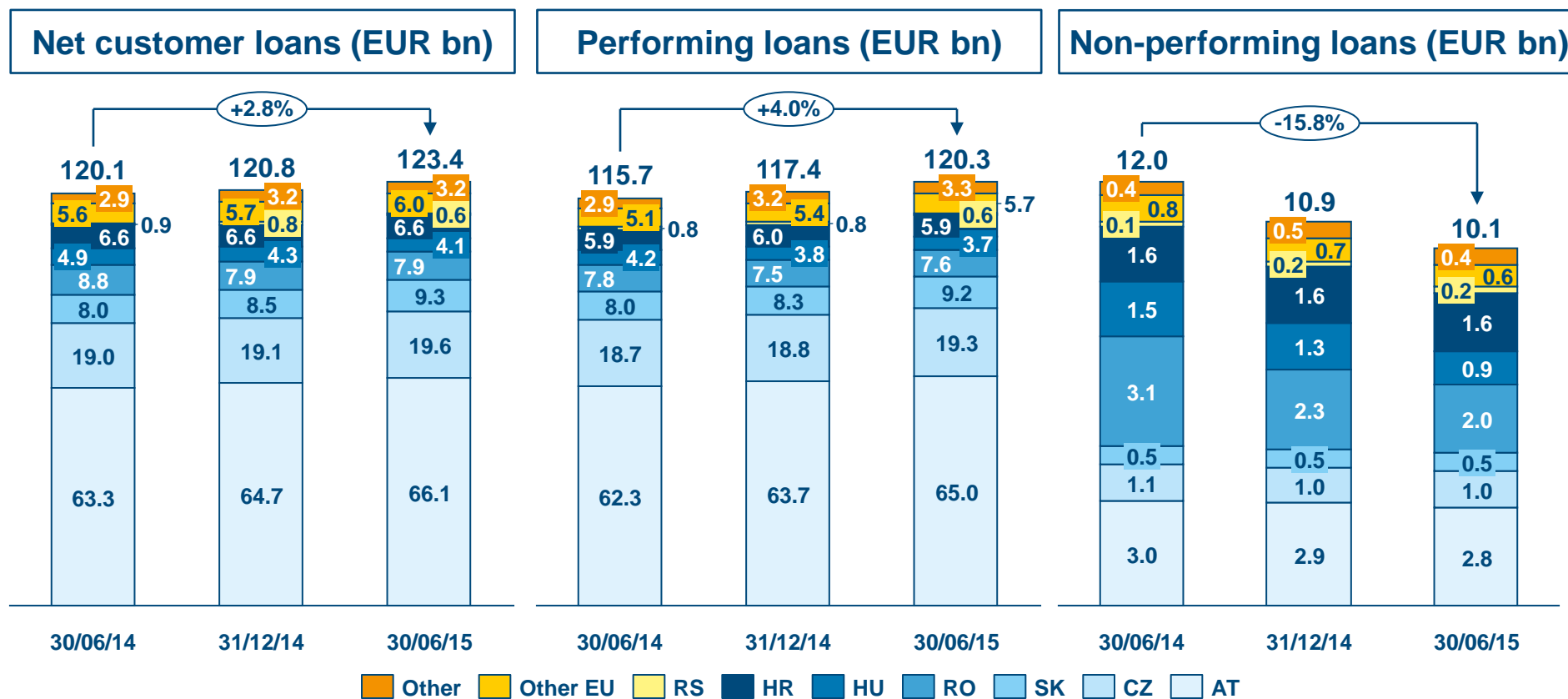
YTD overview –

Loan/deposit ratio stable at 99.2% (Dec 14: 98.6%)



Assets and liabilities –

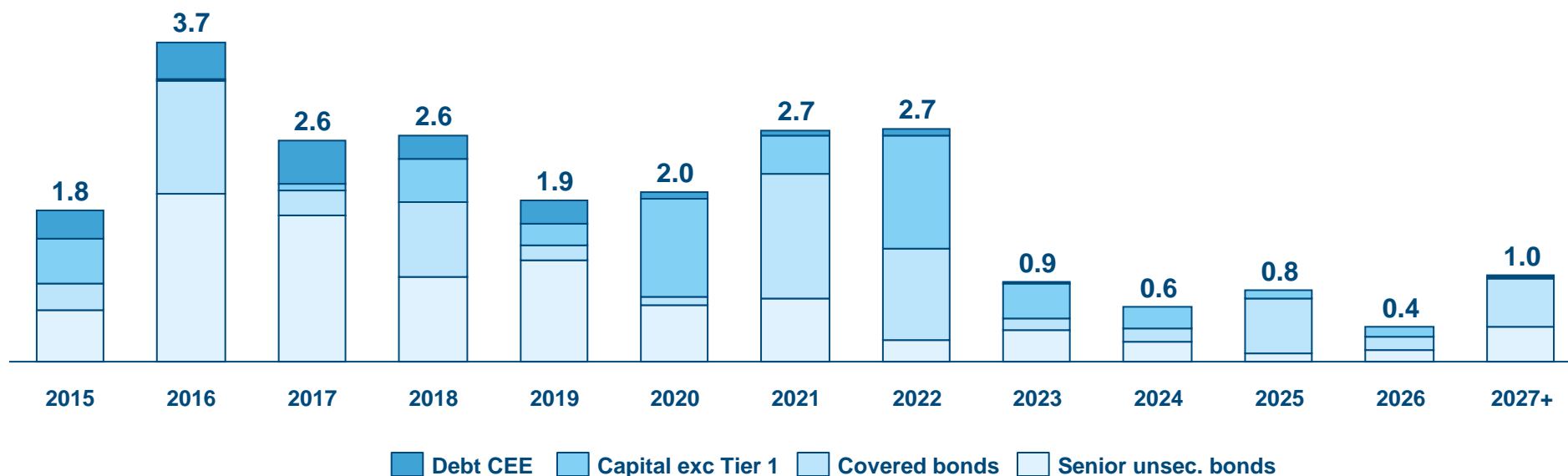
Performing loans up 4.0% yoy, NPLs down 15.8%



- Performing loan growth accelerates, driven by Austria, Slovakia and Czech Republic, Other EU and Other:
 - QOQ increase in Austria due to growth in corporate business, yoy growth driven by retail
 - Slight increase in performing loans in Romania, continued decline in Hungary
- 15.8% yoy decline in NPL stock mainly driven by NPL sales and upgrades across most geographies

LT funding – Limited LT funding needs

Maturity profile of debt (EUR bn)

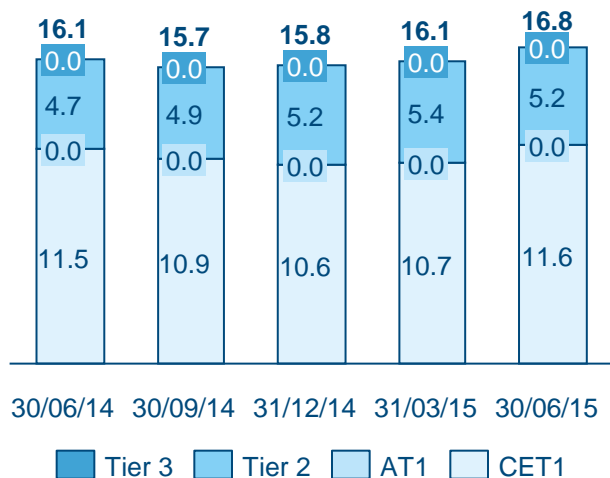


- Increased appetite for issues in covered bond format led to a successful EUR 500m 10y mortgage Pfandbrief (MS + 6 bps) in the first quarter
- Historically low refinancing cost result in an ongoing prolongation of the redemption profile (average maturity of issues during 2015 amounted to 8 years)
-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

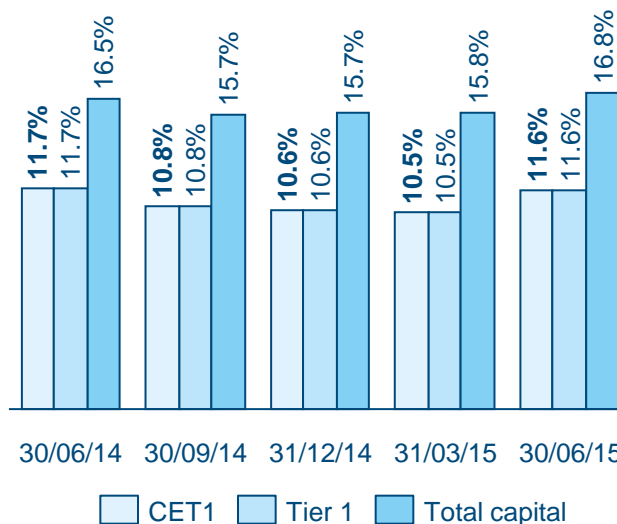
Capital position –

B3 phased-in CET1 ratio increases to 11.6% at 30 June 15 (v/s 10% required)

Basel 3 capital (phased-in)



Basel 3 capital ratios (phased-in)



Highlights

- B3 phased-in CET1 ratio at 11.6% at 30 June 2015 (YE 2014: 10.6%) mainly driven by slightly improved total capital and reduction in risk-weighted assets
- B3FL CET1 ratio at 11.3%

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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**
 - 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