

BoAML Annual Financials Conference

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The financial crisis – 10 years on

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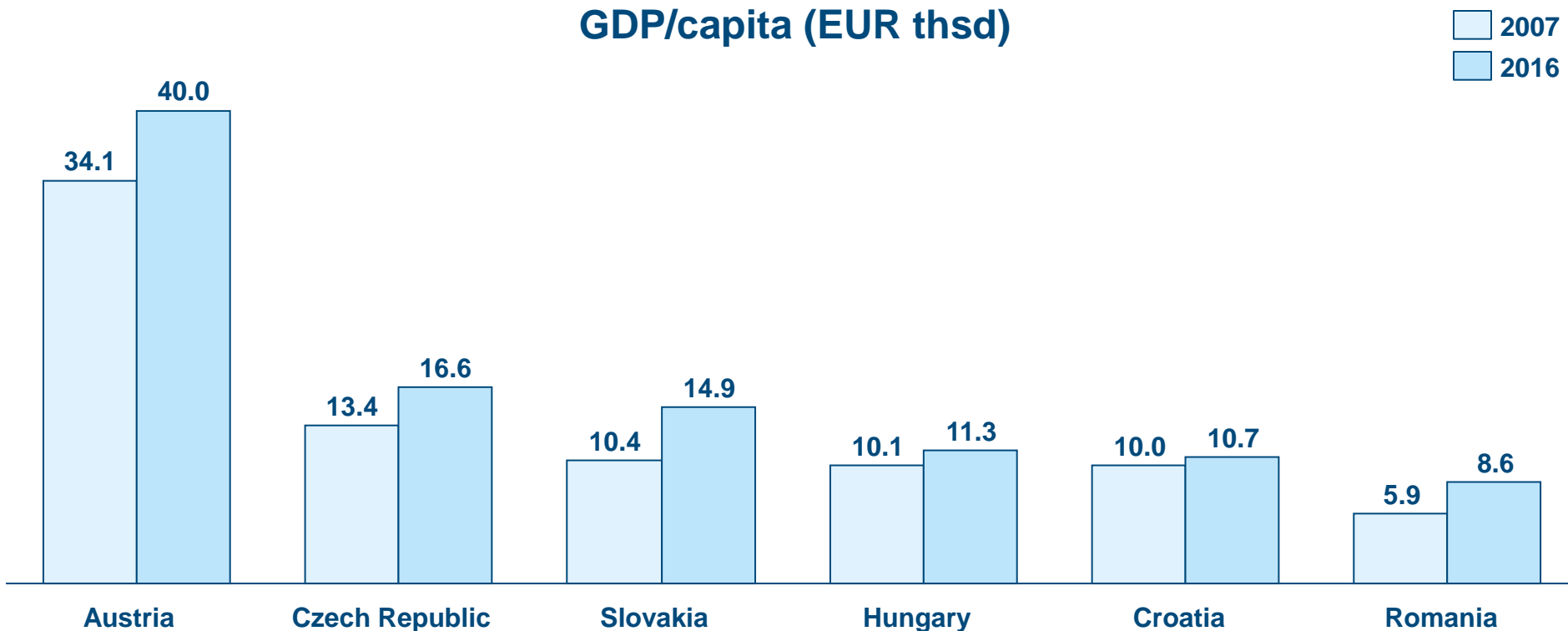
Presentation topics

- Austria and CEE: Business environment
- Erste Group: Business performance – Balance sheet
- Erste Group: Business performance – Income statement
- Conclusion and outlook

Business environment –

Central and Eastern Europe has significantly outgrown Western Europe

GDP/capita (EUR thsd)

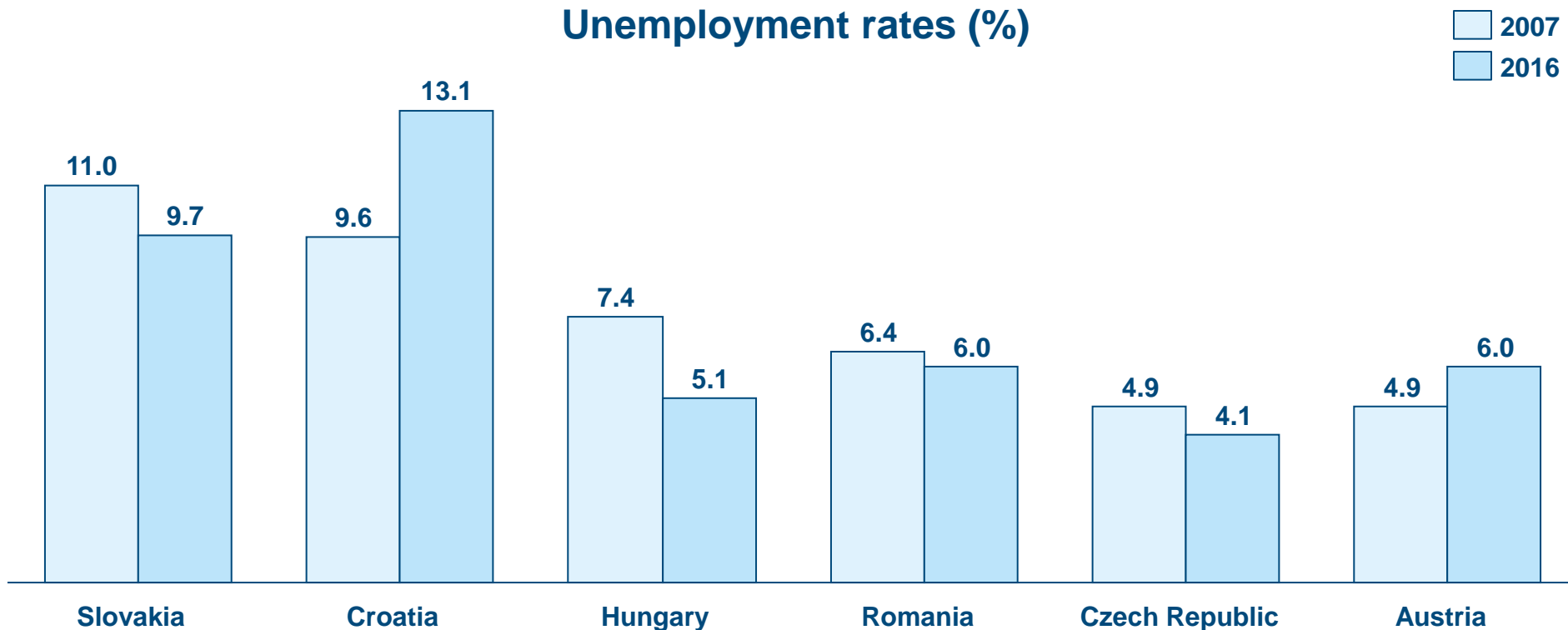


- CEE has clearly outgrown WE; however, gap is still significant
- Austria is among the wealthiest countries in the European Union
- CEE is very diverse with Czech Republic and Slovakia being among the richest nations

Business environment –

Unemployment rates have visibly improved in CEE

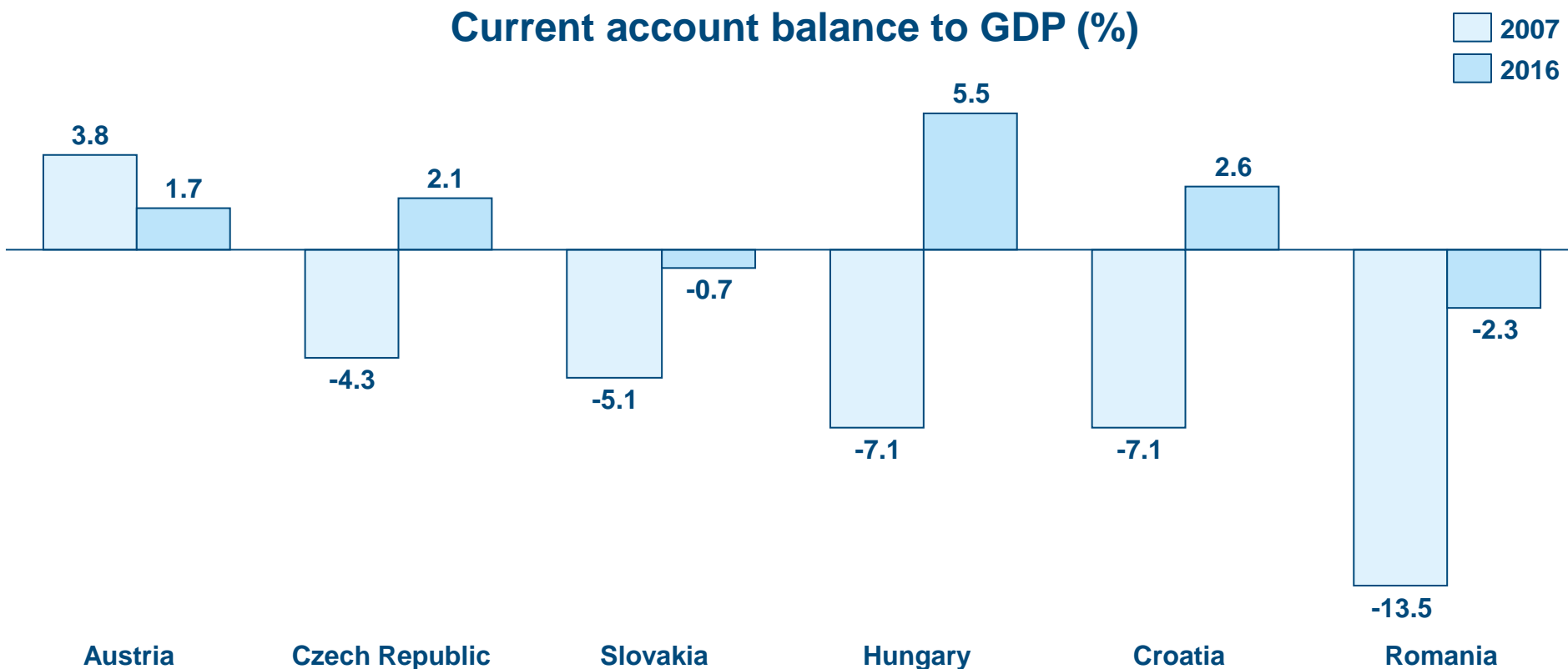
Unemployment rates (%)



- Declining trends in CEE with Croatia being the only exception
- Czech Republic, Hungary: among countries with the lowest unemployment rates in EU
- Austria: relatively slow growth of economy with structural problems in the labour market

Business environment –

Competitive export sectors supported turnaround in current account balances



- Most CEE countries boast current account surpluses
- Due to expanding manufacturing capacities as a result of continued foreign investments
- Romania: relatively large deficit due mainly to government's fiscal easing measures

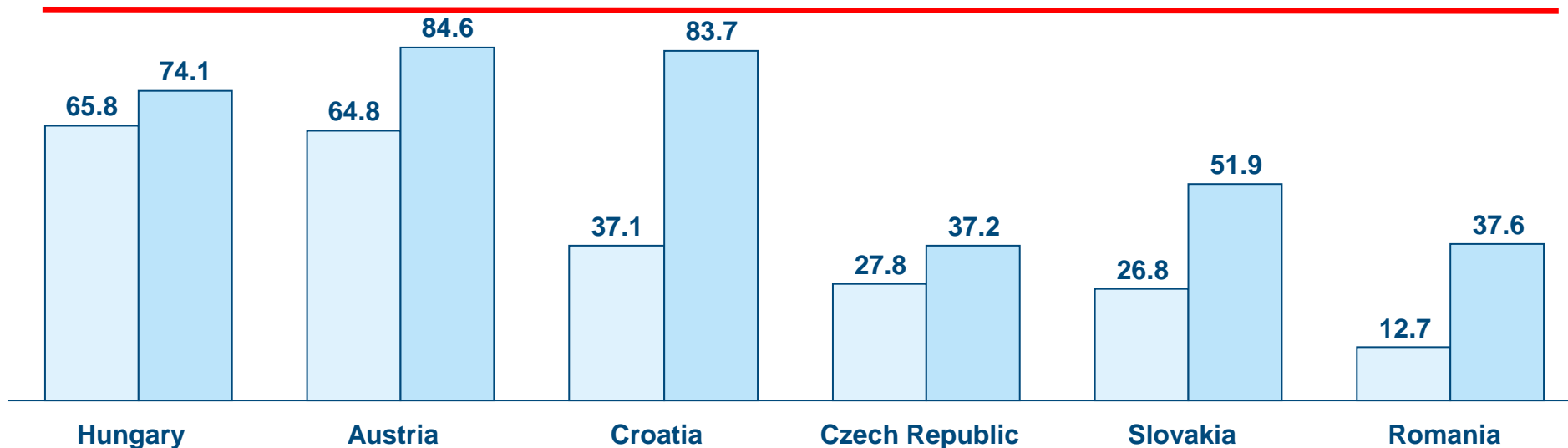
Business environment –

Public indebtedness in CEE at better levels than in EU

Public debt to GDP (%)

2007
2016

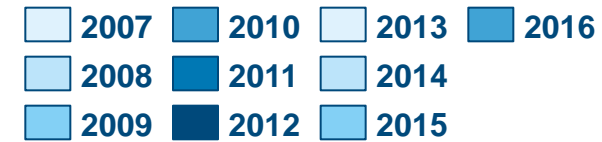
European Union average 2016: 85%



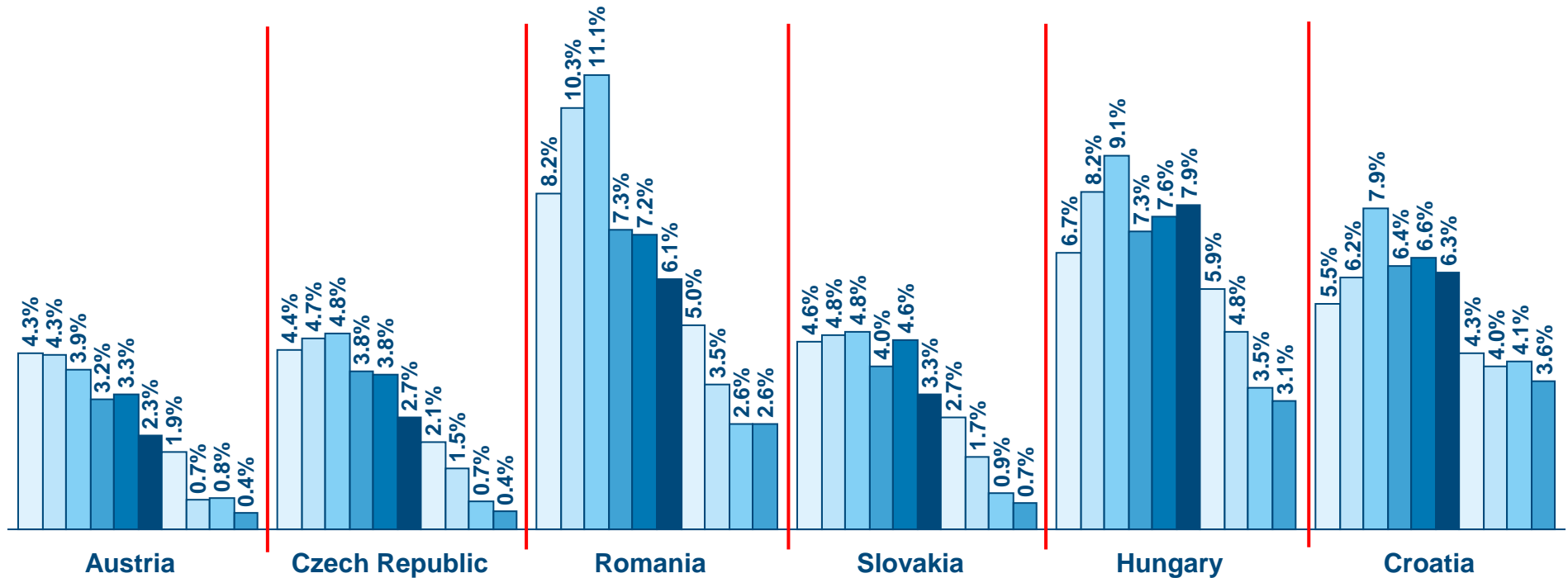
- Solid public finances across the region with significantly lower than EU avg. indebtedness
- Many CEE countries fulfil Maastricht criteria of 60%
- Austria: banking failures and expansionary fiscal policies led to increase

Business environment –

Interest rates have reached historical lows

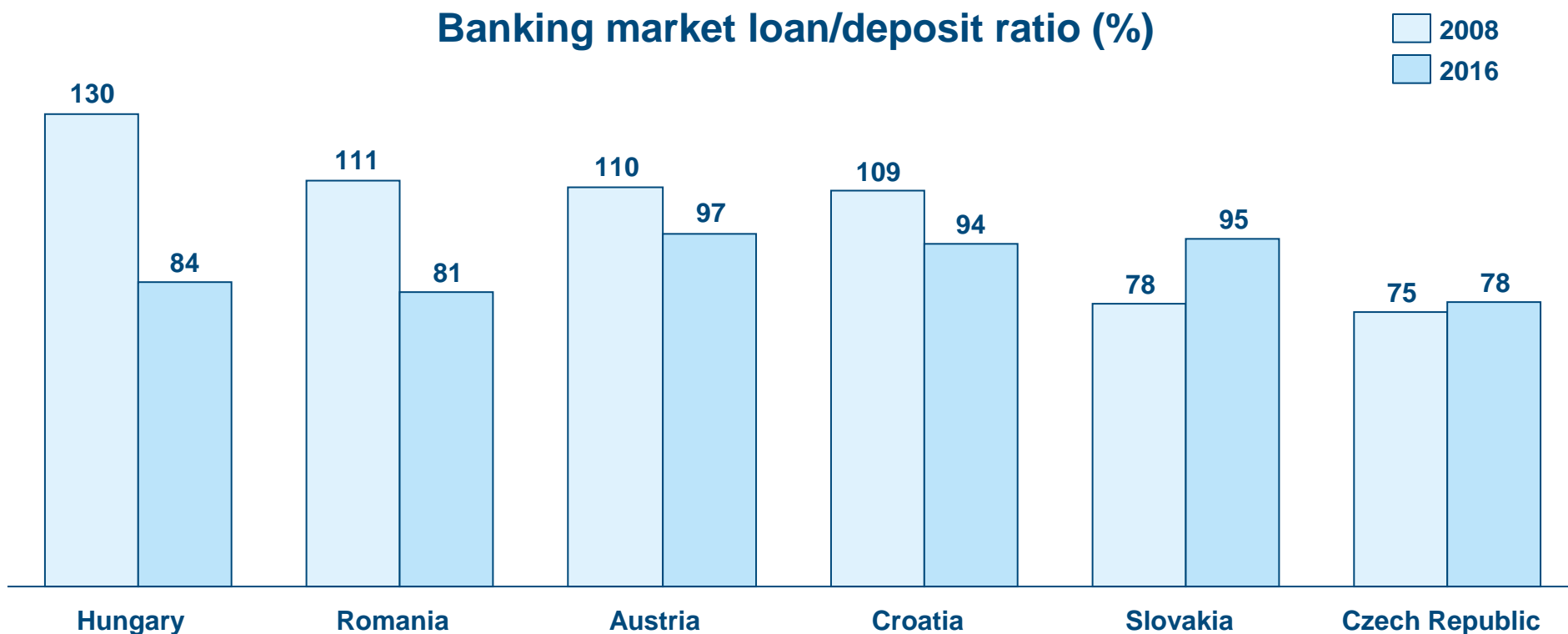


Government bond yields (10y, avg.,%)



- Last decade was characterised by continuously declining interest rates
- Currently, still historically low interest rates in many CEE countries
- Czech Republic: first interest rate increase in CEE in August 2017 (20bps to 0.25%)

Business environment – Balanced banking markets across the region



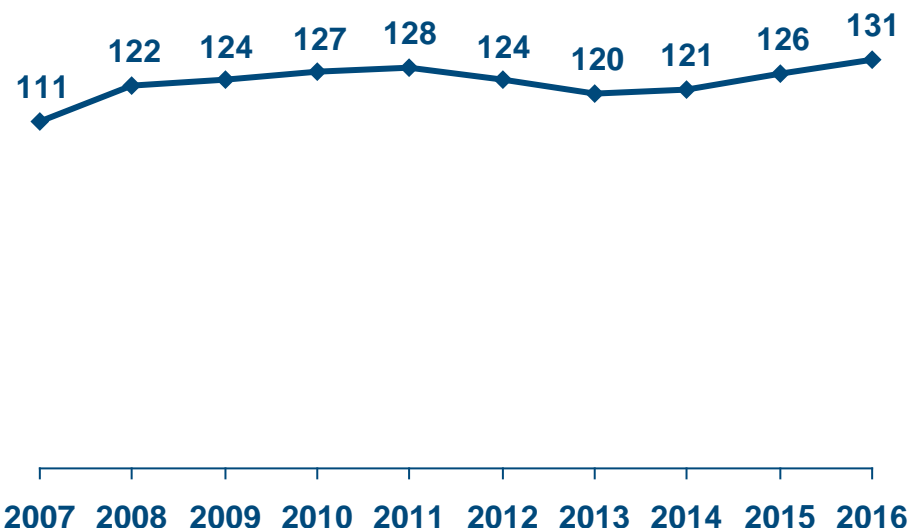
- Balanced banking markets with local currency lending being supported by local funding
- Most visible decline in Romania and Hungary where FX-based lending played a role
- Czech Republic and Slovakia clearly outgrow other markets in the region

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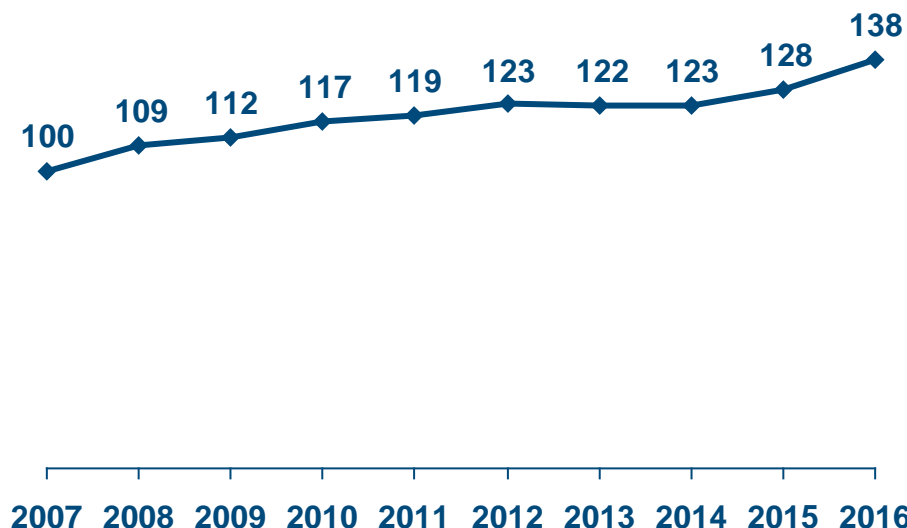
Erste Group business performance – Deposits have been outgrowing loans

Customer loans (EUR billion)



- Loan growth has mainly been driven by mortgage lending
- Czech Republic and Slovakia outgrow other markets with loan growth of 8-10%
- Significant potential in Romania and Hungary based on macroeconomic developments and low penetration

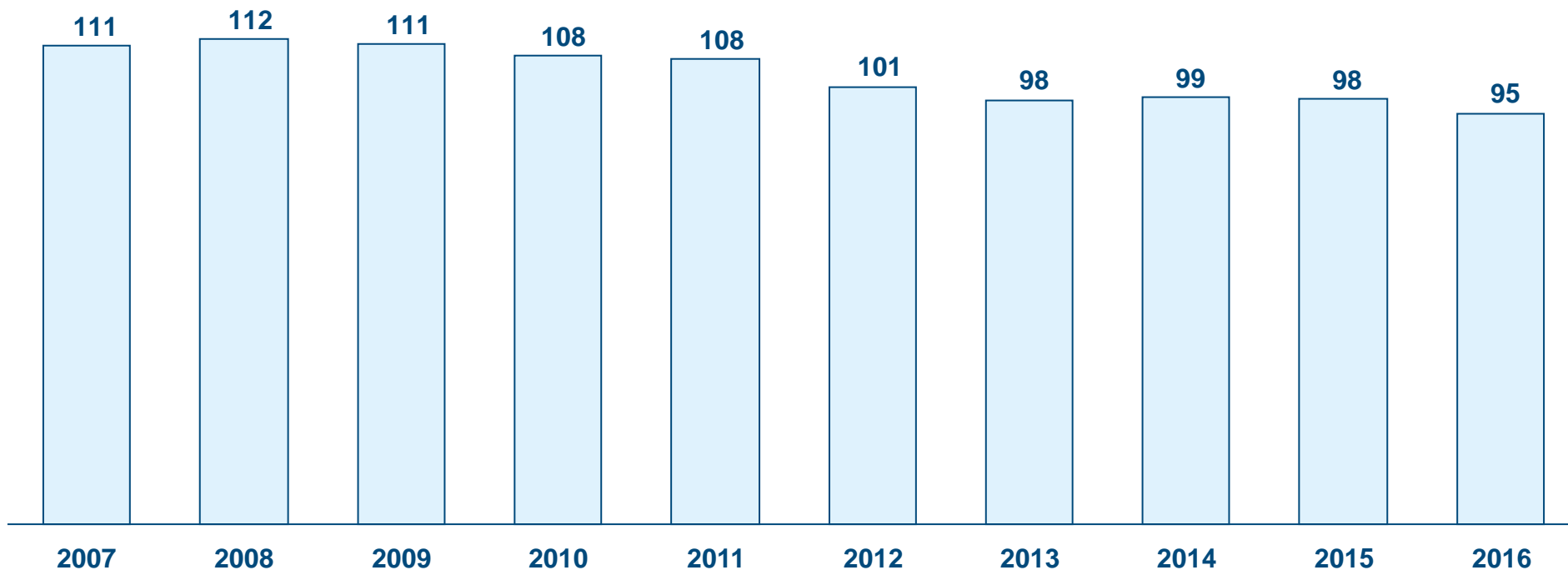
Customer deposits (EUR billion)



- Deposits are clearly the main form of savings in CEE
- Strong deposit inflow continues across the region despite very low interest rates
- 2017: retail and corporate clients park cash in overnight accounts

Erste Group business performance – Loan/deposit ratio below 100% since 2013

Loan/deposit ratio (%)



- Loan/deposit ratio has declined due to limited loan growth and strong deposit inflows
- Czech Republic, Romania, Hungary: around 70% loan/deposit ratio
- Austria, Slovakia, Croatia: 90-100% loan/deposit ratio

Erste Group business performance – Strong capitalisation, increasing dividend

CET1 ratio (final,%)



Dividend per share (EUR)



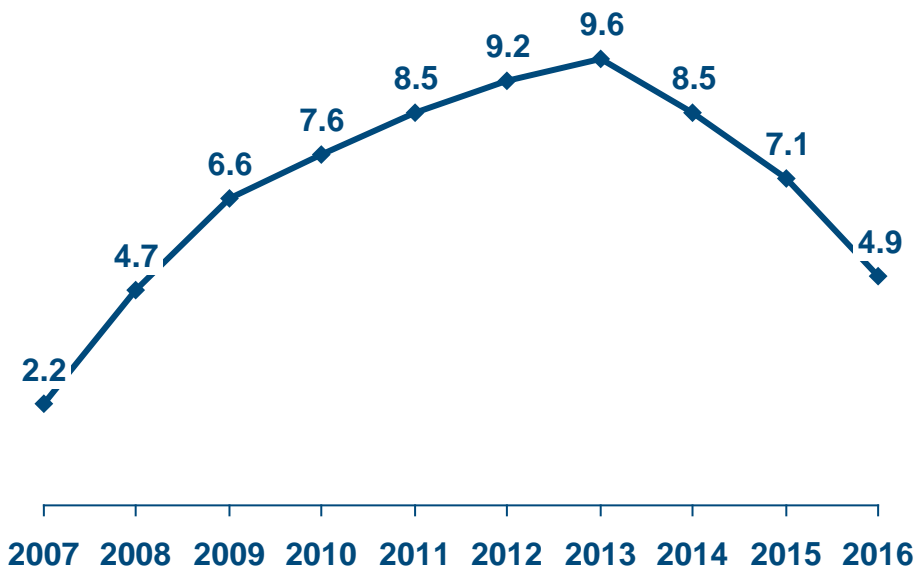
- Very strong improvement over the last decade despite RWA inflation
- Erste Group target of 12.75%+ including management buffer of 100bps
- H1 2017: 12.8% includes interim profit for H1 2017

- No official dividend policy has been published; increasing dividend payments can be expected
- EUR 0.6 per share dividend included in H1 2017 capital calculation
- 2011 and 2014: Erste did not pay dividend due to PL loss

Erste Group business performance –

Asset quality developments have been very encouraging

NPL ratio (%)



NPL coverage ratio (%)



- Supportive macroeconomic environment with low interest rates and declining unemployment
- Most visible decline in Romania and Hungary: NPL rates of 11.0% and 7.2% as of June 2017
- Significant NPL sales in Romania, Hungary, and Croatia

- NPL provision coverage excluding collateral remains in the comfort zone
- Lower than avg in Austria while highest in Romania with 92.1%
- NPL provision coverage rose as NPL stock declined faster than allowances for loans

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Erste Group business performance –

Revenues have been impacted by lower NII; cost base has remained flat

Operating income (EUR billion)



Operating expenses (EUR billion)



2007 2008 2009 2010 2011 2012 2013 2014 2015 2016

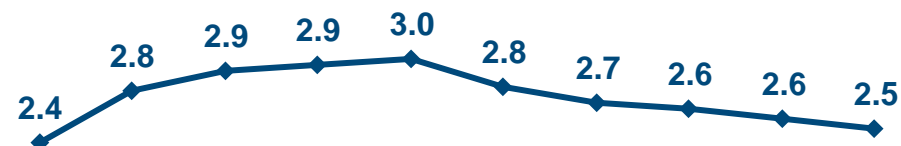
2007 2008 2009 2010 2011 2012 2013 2014 2015 2016

- Net interest income impacted by low interest rates, limited loan growth, loan composition, and sovereign book
- Fee and commission income supported by converting deposits to asset management products and digital sales
- 2017: At best flat revenues expected

- Relatively stable cost base of around EUR 4bn
- H1 2017: operating expenses of EUR 2.0bn include deposit insurance contribution of EUR 68.6m
- 2017: operating expenses expected to rise by 1% to 2%, driven mainly by IT and digital infrastructure upgrades

Erste Group business performance – CEE has higher margin and lower CIR than Austria

Net interest margin (%)



2007 2008 2009 2010 2011 2012 2013 2014 2015 2016

- Loan growth is mainly driven by lower margin mortgage lending
- Higher margin FX-based lending played an important role in elevated margins in the past
- H1 2017: NIM of 2.4% impacted by lower interest income from government bonds

Cost/income ratio (%)



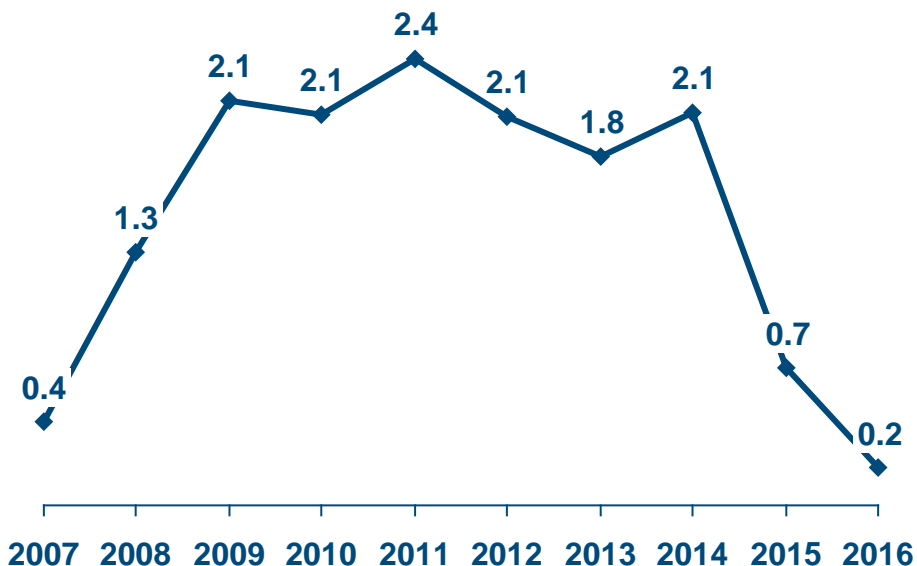
2007 2008 2009 2010 2011 2012 2013 2014 2015 2016

- Cost/income ratio has increased due to lower operating income; improvement in 2009 due to turnaround in trading result and growth in NII
- Austria (H1 2017): 64.1% (EBÖ: 63.4%; SB: 70.0%)
- CEE (H1 2017): 50.6%

Erste Group business performance –

Drastic improvement in asset quality positively impacts risk costs, drives PPOP

Risk costs (EUR billion)



Post-provision operating result (EUR billion)

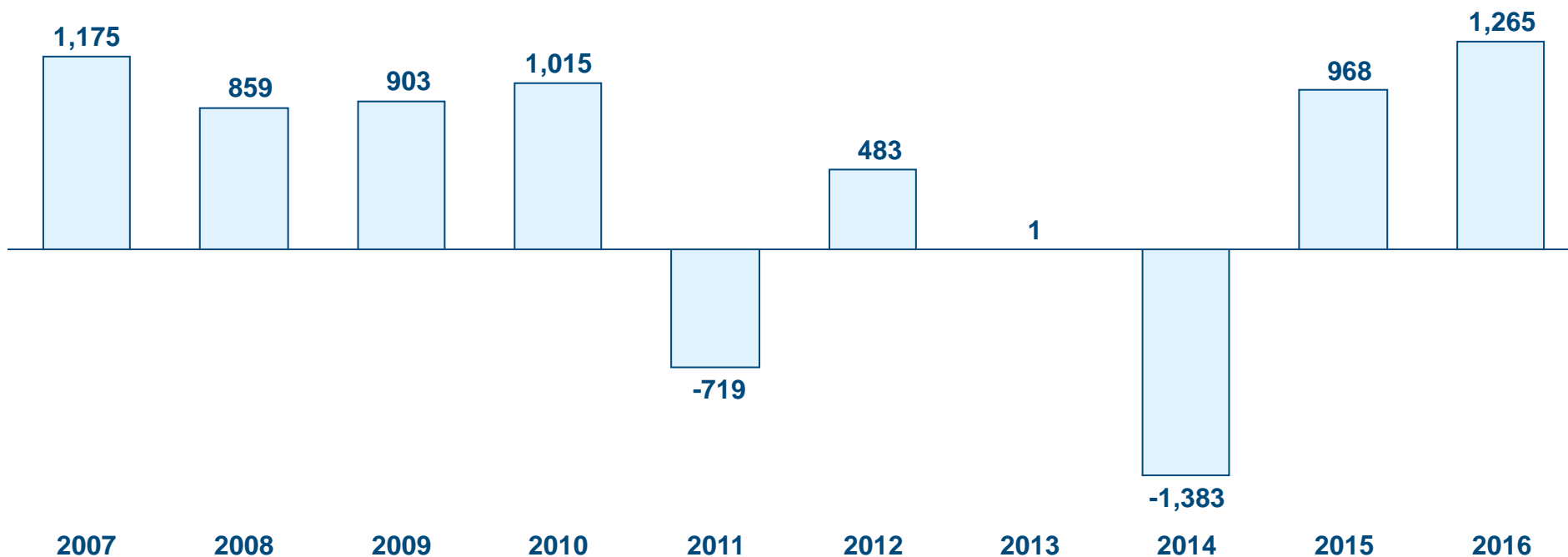


- Declining risk costs since 2014 driven by improving asset quality across the region
- H1 2017: Risk costs of EUR 104m including provisions for single default of Croatian large corporate
- 2017: guidance of 30 basis points

- 2009-2014: performance impacted by elevated risk provisions in Romania and Hungary
- 2015-2016: drastic improvement supported by falling risk costs
- H1 2017: risk costs of 15 basis points

Erste Group business performance – Return to sustainable profitability after 2014

Net result (EUR million)



- 2011 and 2014: net loss driven mainly by Romania and Hungary
- H1 2017: Net profit of EUR 624.7 million
- 2017 guidance: ROTE of 10%+ (based on average tangible equity)

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Conclusion – Outlook 2017

Macro outlook 2017

- Real GDP growth of between 2.1-5.1% expected in 2017 in CEE and Austria
- Real GDP growth to be driven by solid domestic demand, as real wage growth and declining unemployment support economic activity in CEE
- Solid public finances across CEE

Business outlook 2017

- ROTE for 2017 targeted at 10%+ (based on average tangible equity in 2017)
- Assumptions for 2017: at best flat revenues (assuming 5%+ net loan growth); cost inflation of 1-2% due to regulatory projects and digitalisation; increase in risk costs, remaining at historically low levels; positive swing in other operating result due to lower Austrian banking tax

Risk factors for guidance

- Impact from expansionary monetary central bank policies, inc negative interest rates
- Political risks, eg various elections in key EU economies
- Geopolitical risks and global economic risks
- Consumer protection initiatives