Erste Group posts net profit of EUR 624.7 million in H1 17

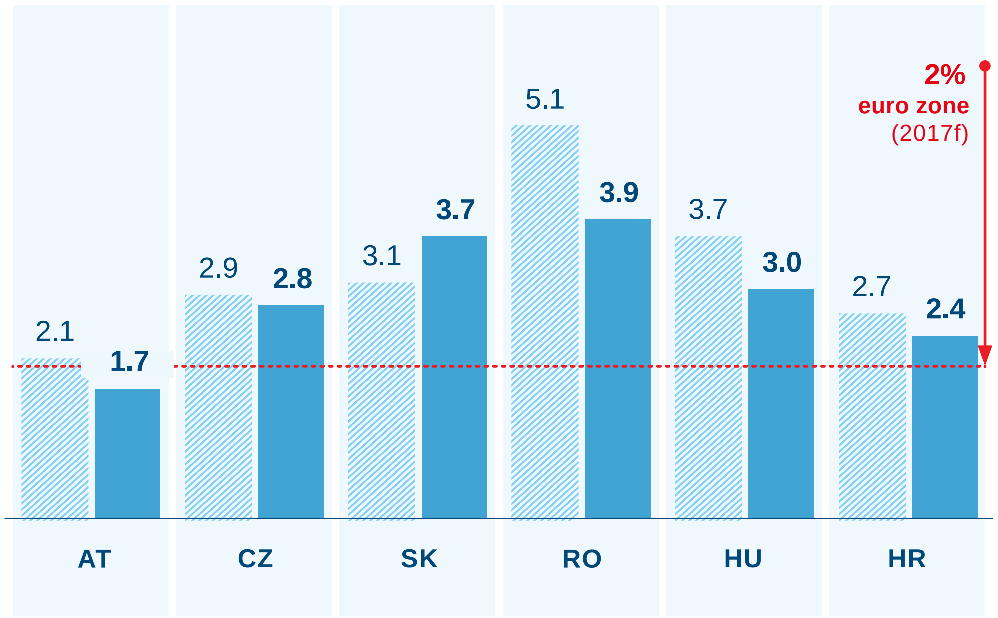
Press conference

4 August 2017

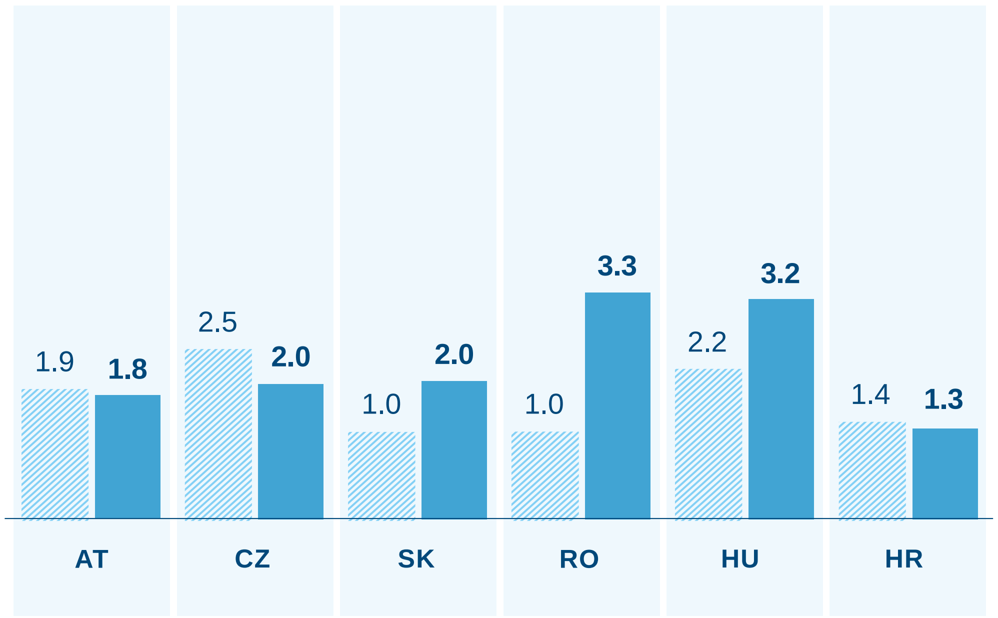
Business environment –
Central and Eastern Europe is the fastest growing EU region

▨ 2017 ● **2018**

Real GDP growth (in %)



Inflation (CPI average, in %)

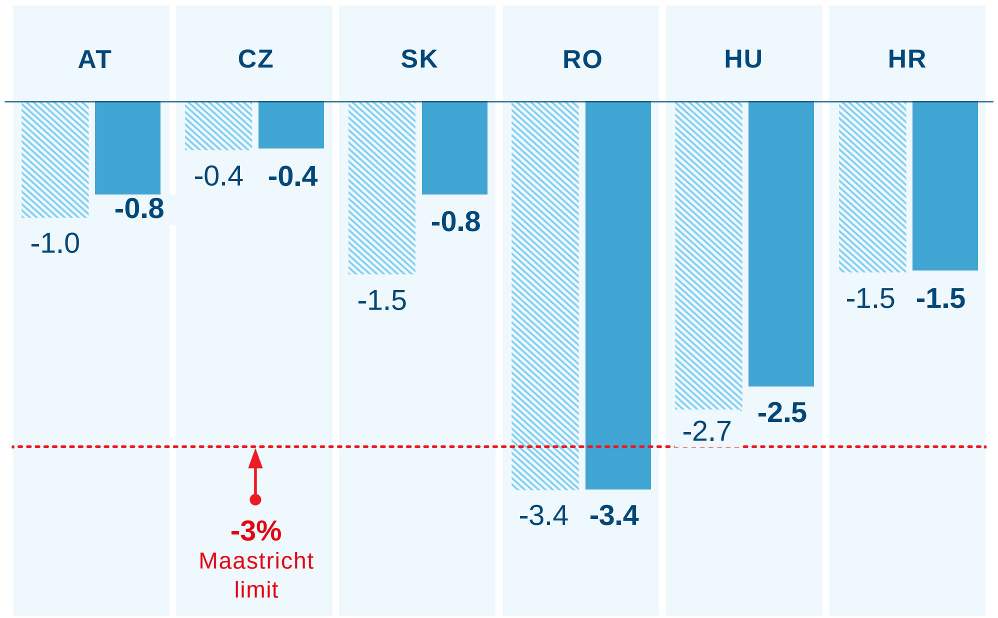


- → **CEE markets expected to grow by about 3-5% in 2017, well above the average for the euro zone**
- → **Domestic demand is expected to be the main driver of economic growth in 2017**
- → **Consumption is supported by improving labour markets, wage increases and low inflation rates across the region**

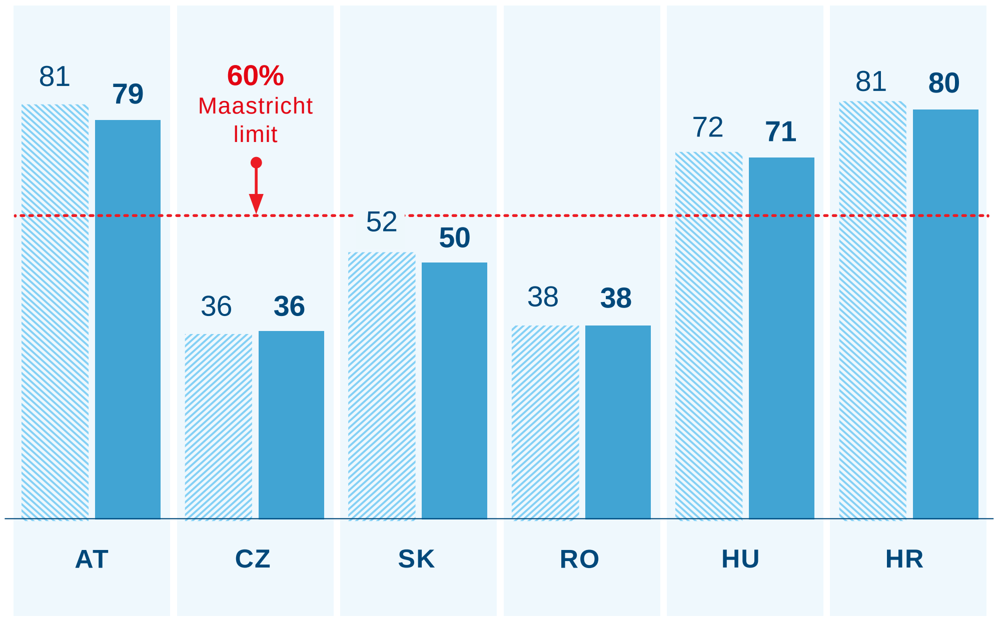
Business environment –
Solid public finances in the markets of Erste Group

▨ 2017 ● **2018**

Budget deficit (in % of GDP)

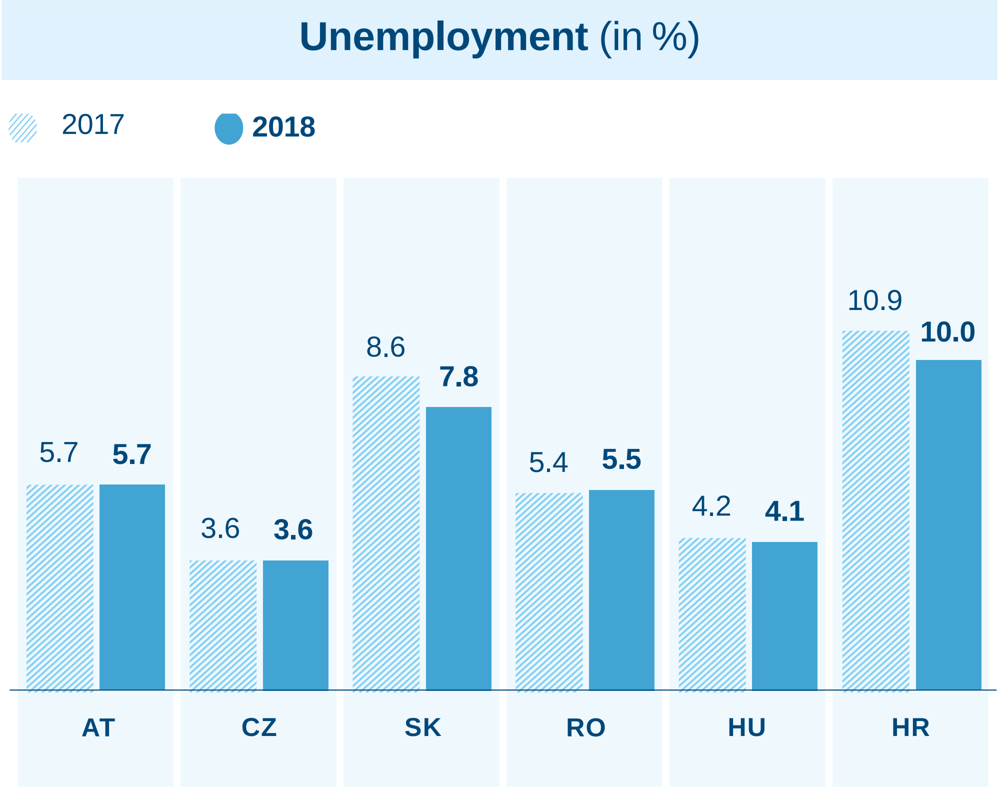


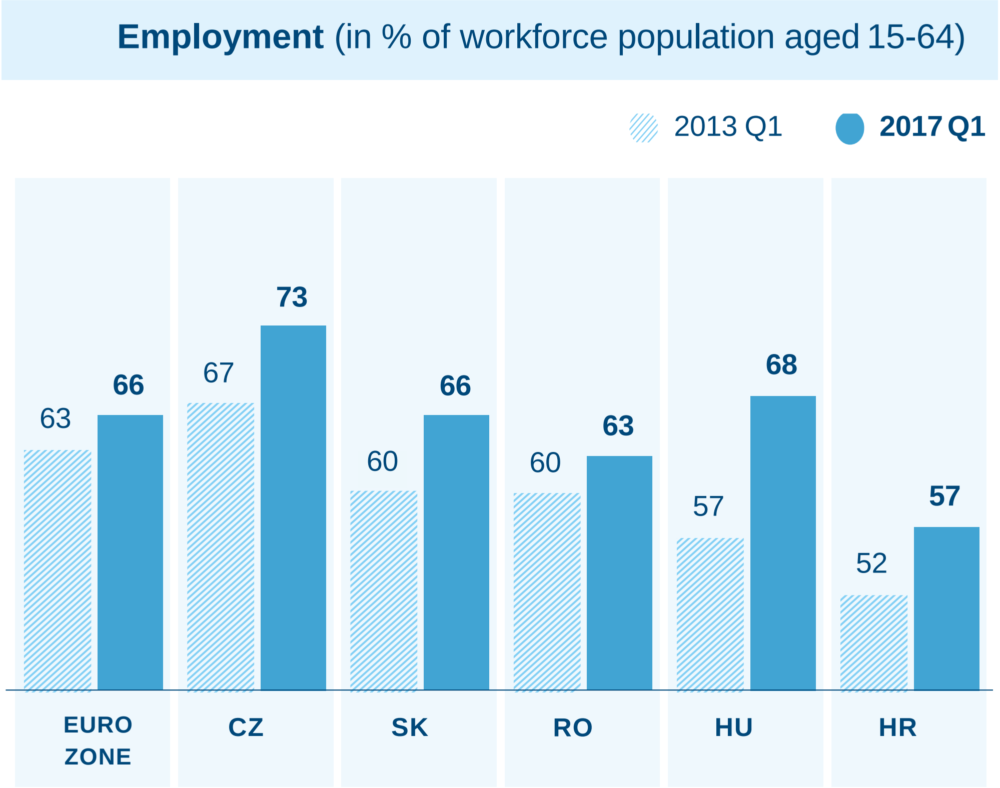
Public debt ratio (in % of GDP)



- → **Almost all countries in the CEE region appear set to fulfill the Maastricht budget deficit criteria**
- → **Public debt ratio in most countries below Maastricht's 60% GDP limit, with Austria, Hungary and Croatia being exceptions**

Business environment –
CEE economies are creating jobs much faster than the euro zone





→ **Unemployment levels expected to continue to decline**

→ **Solid economic growth is leading to labor shortages in some markets**

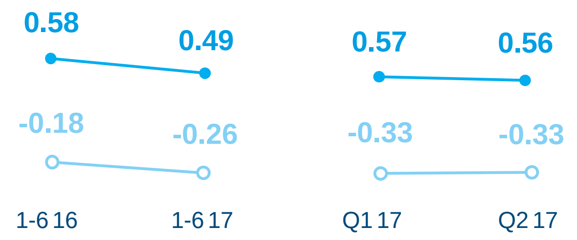
Business environment –
Czech Rep. increases key policy rate by 20 bp in August 2017

● 3M Interbank ● **10YR GOV**

IN %

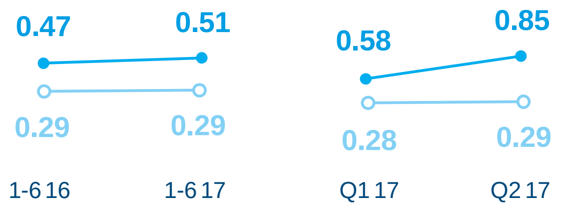
Source: Bloomberg

Austria



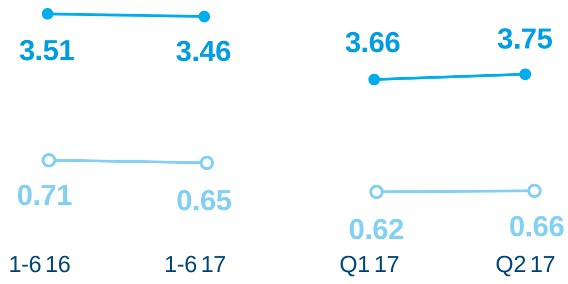
- → **ECB cut discount rate to zero in March 16**
- → **Maintains expansionary monetary policy stance**

Czech Republic



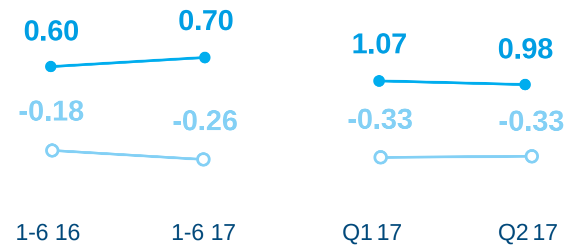
- → **Natl bank decided to lift benchmark rate from historic low of 0.05% to 0.25% in August 17**

Romania



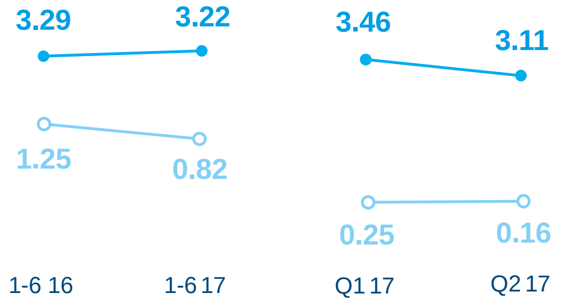
- → **Central bank cut policy rate to historic low of 1.75% in May 15**

Slovakia



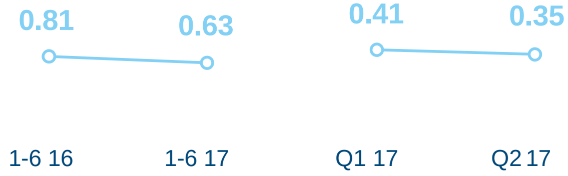
- → **As part of euro zone ECB rates are applicable in SK**

Hungary



- → **National bank cut the benchmark interest rate to record low of 0.9% in May 16**

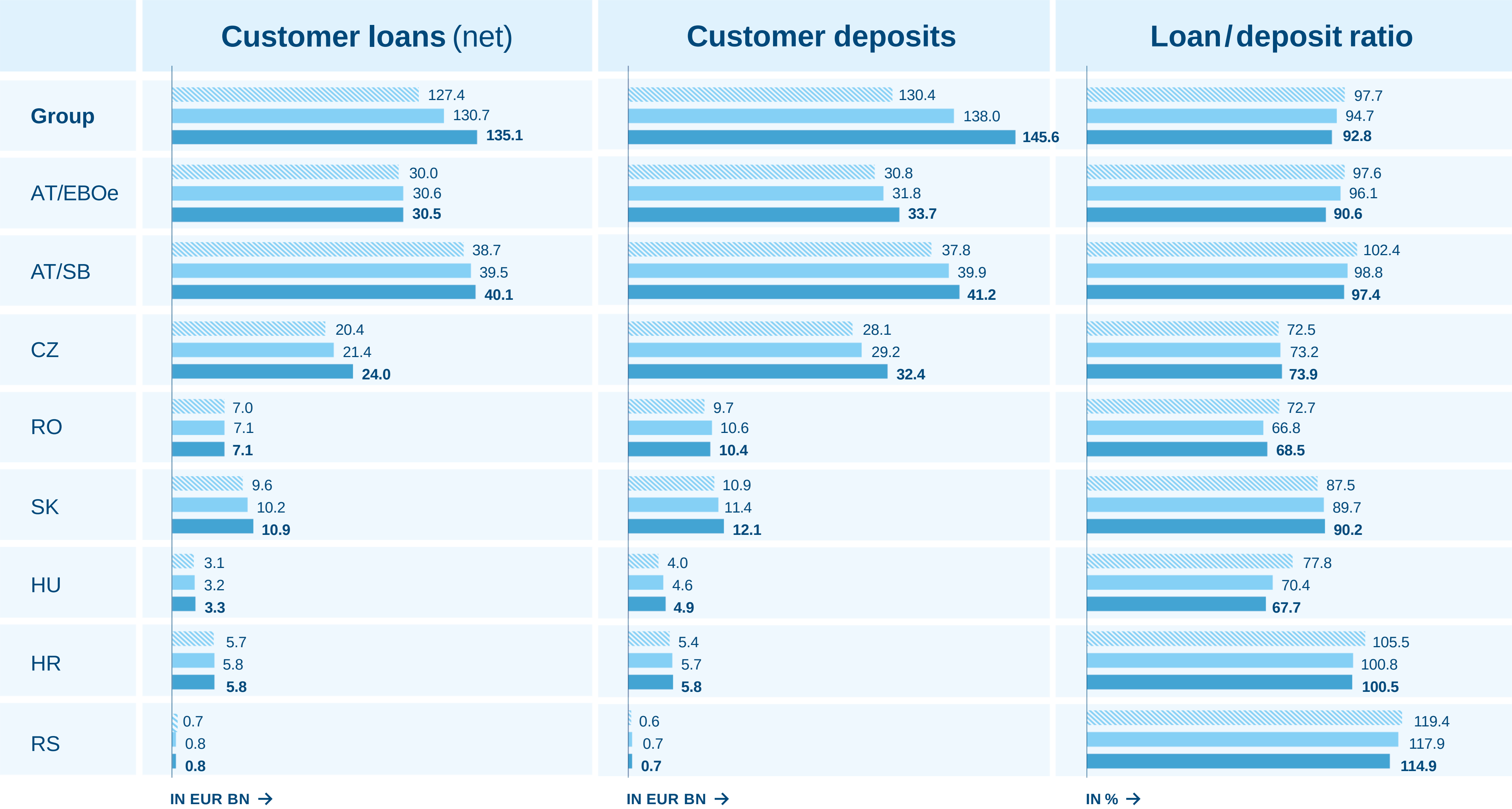
Croatia



- → **Central bank maintains discount rate at 3.0% since 2015**

Business performance: customer loans and deposits –
Strong growth in loan volume (6% yoy) and deposits (11.6 % yoy)

▨ 30/06/16
● 31/12/16
● 30/06/17



	Customer loans (net)	**Customer deposits**	**Loan/deposit ratio**
Group	127.4 130.7 **135.1**	130.4 138.0 **145.6**	97.7 94.7 **92.8**
AT/EBOe	30.0 30.6 **30.5**	30.8 31.8 **33.7**	97.6 96.1 **90.6**
AT/SB	38.7 39.5 **40.1**	37.8 39.9 **41.2**	102.4 98.8 **97.4**
CZ	20.4 21.4 **24.0**	28.1 29.2 **32.4**	72.5 73.2 **73.9**
RO	7.0 7.1 **7.1**	9.7 10.6 **10.4**	72.7 66.8 **68.5**
SK	9.6 10.2 **10.9**	10.9 11.4 **12.1**	87.5 89.7 **90.2**
HU	3.1 3.2 **3.3**	4.0 4.6 **4.9**	77.8 70.4 **67.7**
HR	5.7 5.8 **5.8**	5.4 5.7 **5.8**	105.5 100.8 **100.5**
RS	0.7 0.8 **0.8**	0.6 0.7 **0.7**	119.4 117.9 **114.9**
	IN EUR BN →	IN EUR BN →	IN % →

Business performance: retail –
Clients value Erste's click and mortar offering

→ **Customers increasingly rely on digital channels for their everyday banking needs: 1 in 4 clients are active digital users at Erste**

→ **Growing relevance of digital channels also for consumer loans and deposit products: In Slovenska sporitelna, 1 in 3 consumer loans were launched digitally**

→ **Branches retain their key role for providing advice on big-ticket financial decisions**

Highlights in H1 17

MORTGAGES

EUR 3.5 bn

in nearly 50,000 newly granted mortgages

CONSUMER LENDING

EUR 2 bn

in newly disbursed consumer loans

RETAIL DEPOSITS

EUR 9 bn

in continued inflows across our markets

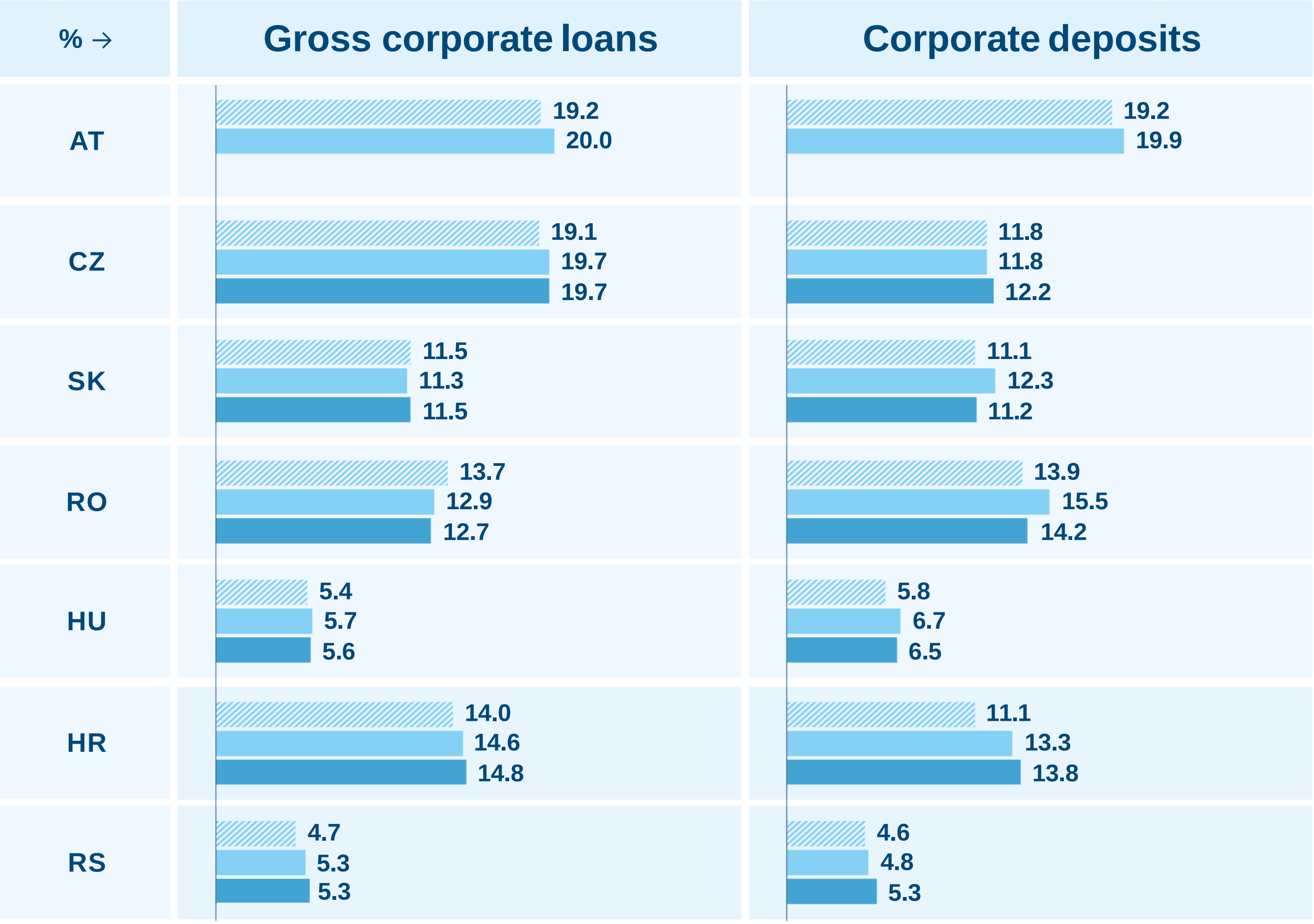
GROWTH IN ASSET MANAGEMENT

EUR 282 mn

retail inflow vs. EUR 62 mn in H1 16

Business performance: corporate –
Real progress in corporate lending: 5% yoy growth

▨ 30/06/16 ● 31/03/17 ● 30/06/17



Highlights

EUR 46.2 bn total corporate loan portfolio of Erste Group

→ **EUR 1.2 bn new loans granted in H1 17; Significant growth in AUT, CZ and SK**

→ **Destination of new loans**

Investment loans: ~50 %

Overdrafts and working capital: ~30%

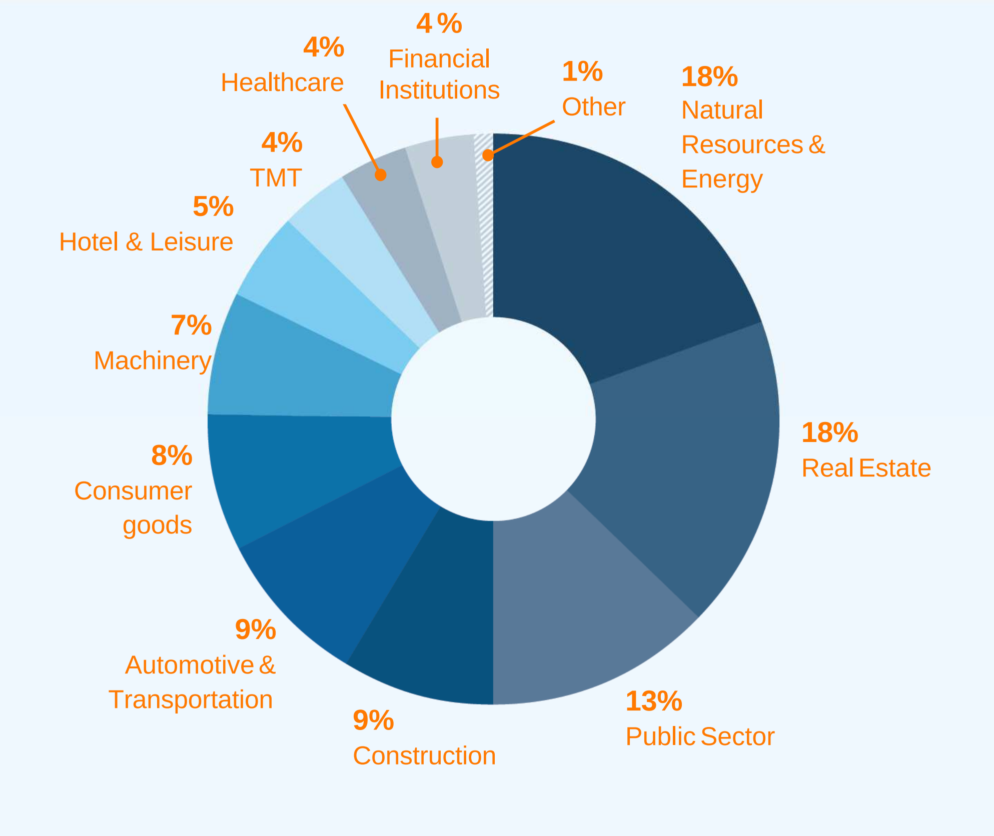
Trade and Supply Chain Finance: ~10%

Acquisition finance: ~5%

* Percentages represent market shares; AT market shares for 30/06/17 not yet available

Business performance: corporate –
75% of new corporate loans in H1 17 granted to SMEs

Structure of EUR 46.2bn total loan portfolio



Highlights

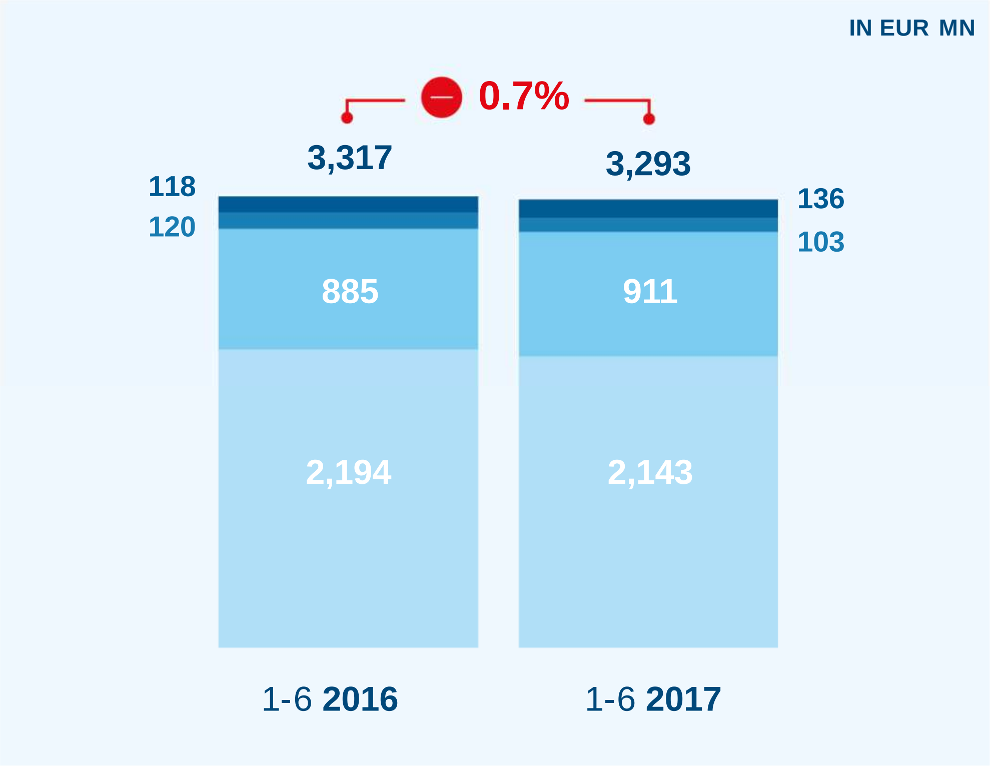
→ **Erste Group services ~100,000 companies,** out of which 75% are SMEs representing ~ 15% of the total CEE work force (in the private sector)

→ **1,500 new SME clients added in H1 17;** approval process for SME loans reduced to 2-4 days

→ **Growth industries in H1 17:**
  - → **automotive & transportation** (+16% loan volume vs FY 16)
  - → **consumer goods** (+8%)
  - → **health care** (+5%)
  - → **real estate** (+5%)

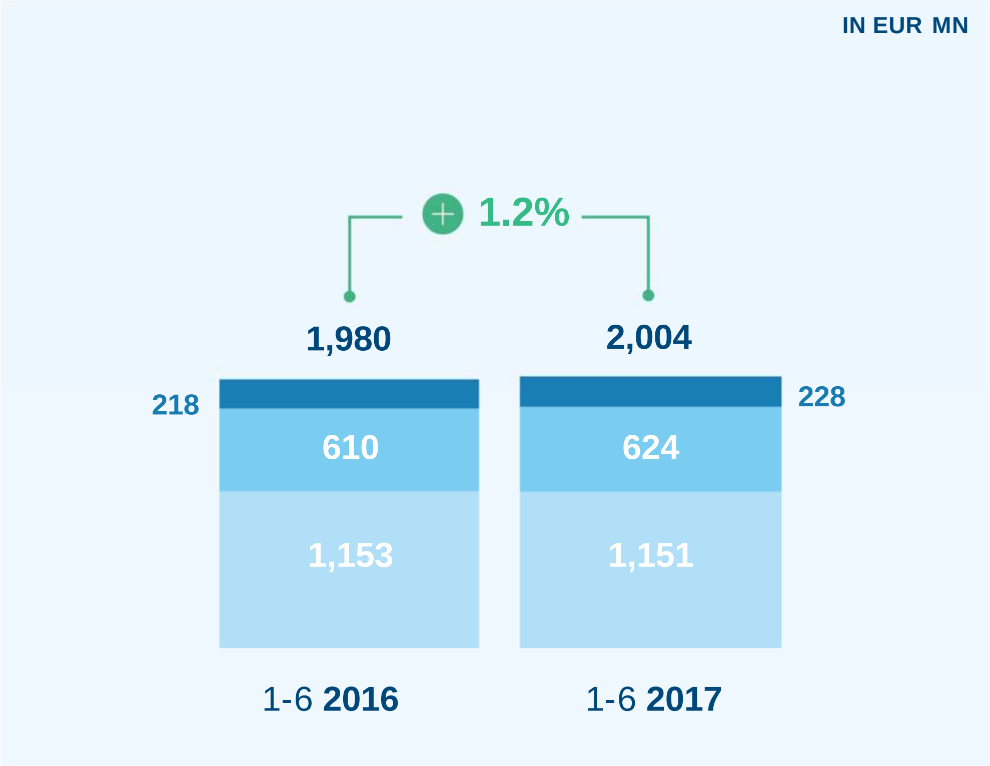
Business performance: operating income and expenses –
Low interest rate environment impacts income, IT investments drive costs

Operating Income



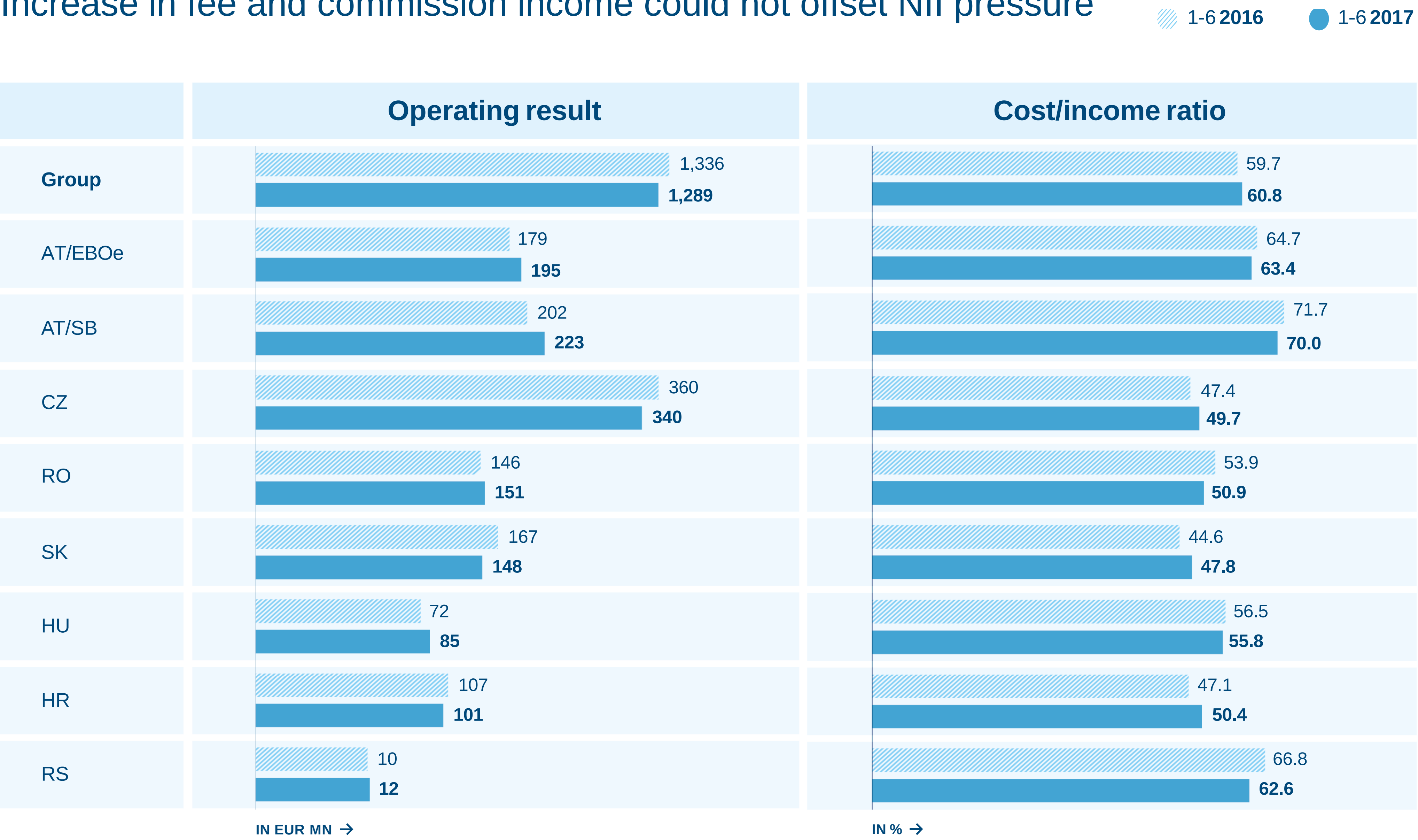
- Net interest income
- Net fee and commission income
- Net trading and fair value result
- Other income

Operating Expenses



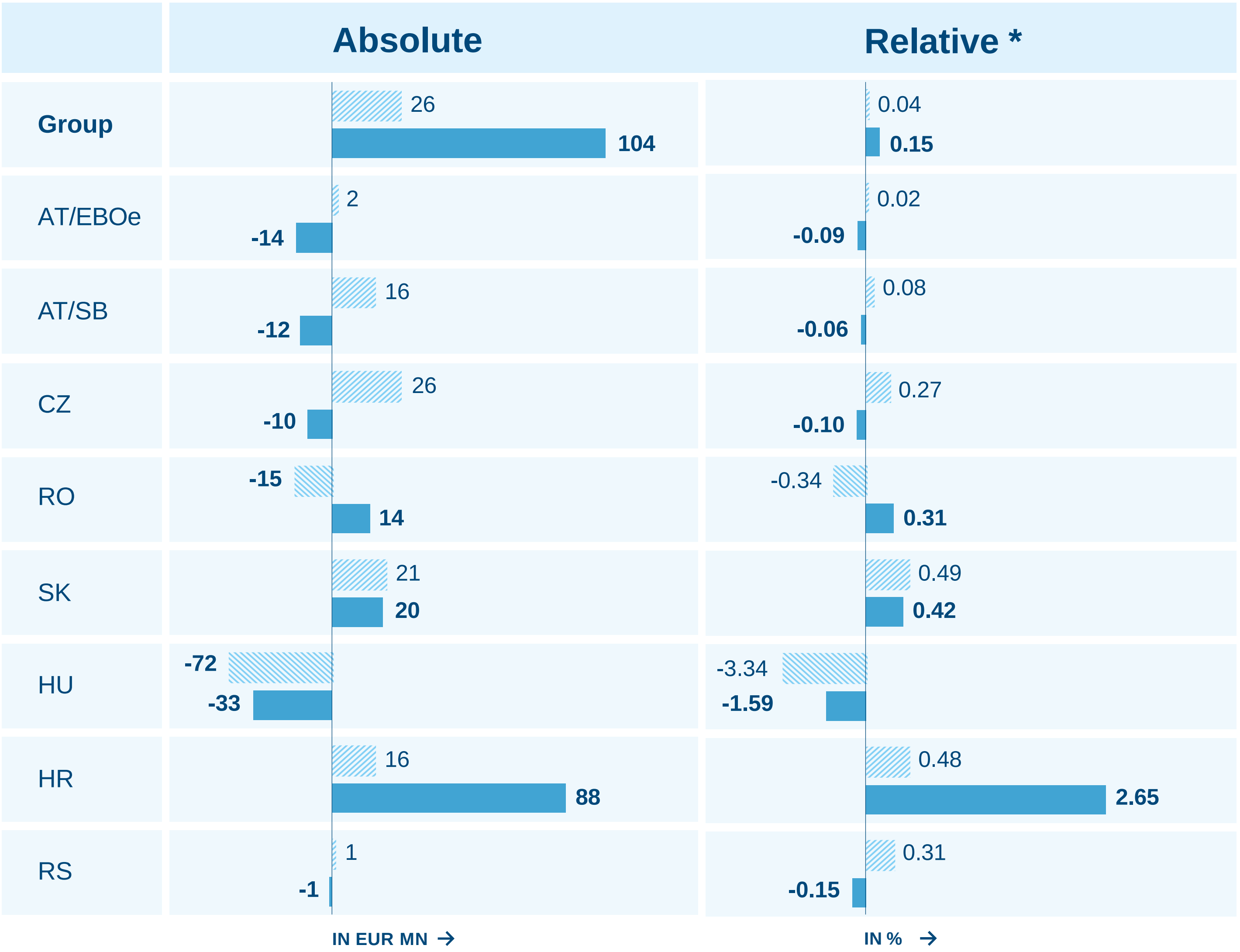
- Personnel expenses
- Other administrative expenses
- Depreciation and amortisation

Business performance: operating result and cost/income ratio – Increase in fee and commission income could not offset NII pressure



Business performance: risk costs –
Risk costs remain at historically low levels (15 bp at Group level)

▨ 1-6 **2016** ● 1-6 **2017**



Highlights

→ **Year-on-year risk performance characterised by a reduced level of net releases and a continuation of historically low risk costs (except HR)**

→ **Country trends:**

HR: increase due to a single default in Corporates

HU: reduced level of net releases in Retail and Corporates

CZ: net releases and improved recoveries

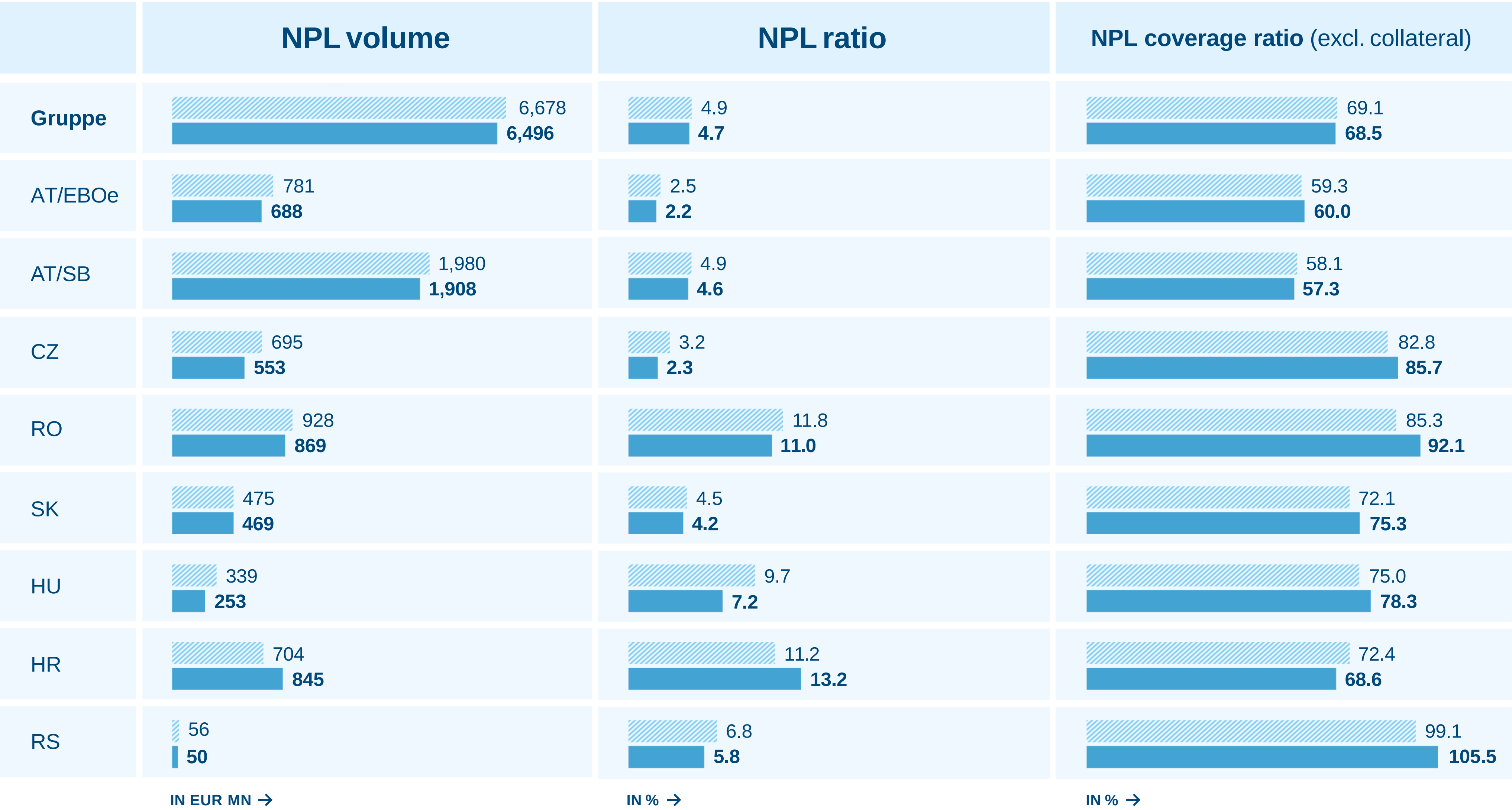
* Relative risk costs are defined as annualised quarterly risk costs over average gross customer loans

Business performance: asset quality –

NPL ratio improves for the 14th consecutive quarter to 4.7%

▨ 31/12/16

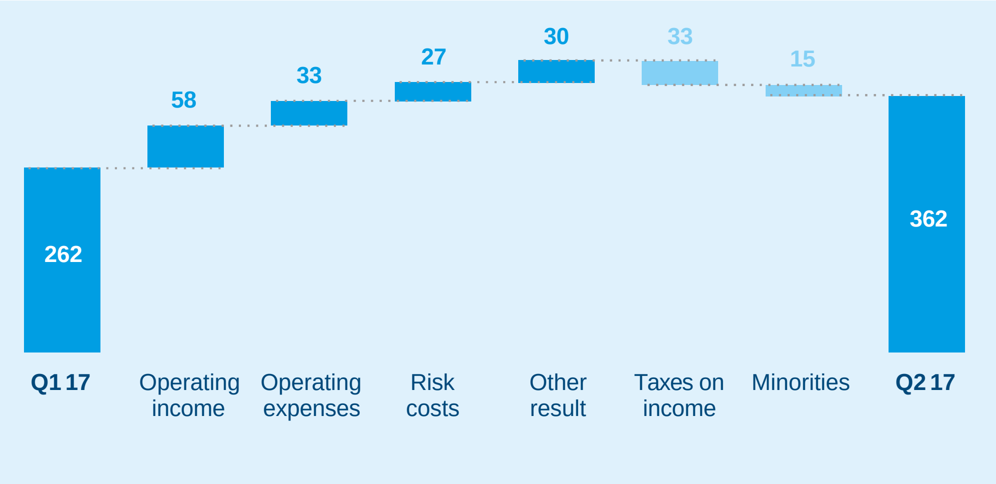
● 30/06/17



	NPL volume		NPL ratio		NPL coverage ratio (excl. collateral)	
	31/12/16	30/06/17	31/12/16	30/06/17	31/12/16	30/06/17
Gruppe	6,678	**6,496**	4.9	**4.7**	69.1	**68.5**
AT/EBOe	781	**688**	2.5	**2.2**	59.3	**60.0**
AT/SB	1,980	**1,908**	4.9	**4.6**	58.1	**57.3**
CZ	695	**553**	3.2	**2.3**	82.8	**85.7**
RO	928	**869**	11.8	**11.0**	85.3	**92.1**
SK	475	**469**	4.5	**4.2**	72.1	**75.3**
HU	339	**253**	9.7	**7.2**	75.0	**78.3**
HR	704	**845**	11.2	**13.2**	72.4	**68.6**
RS	56	**50**	6.8	**5.8**	99.1	**105.5**
	IN EUR MN →		IN % →		IN % →	

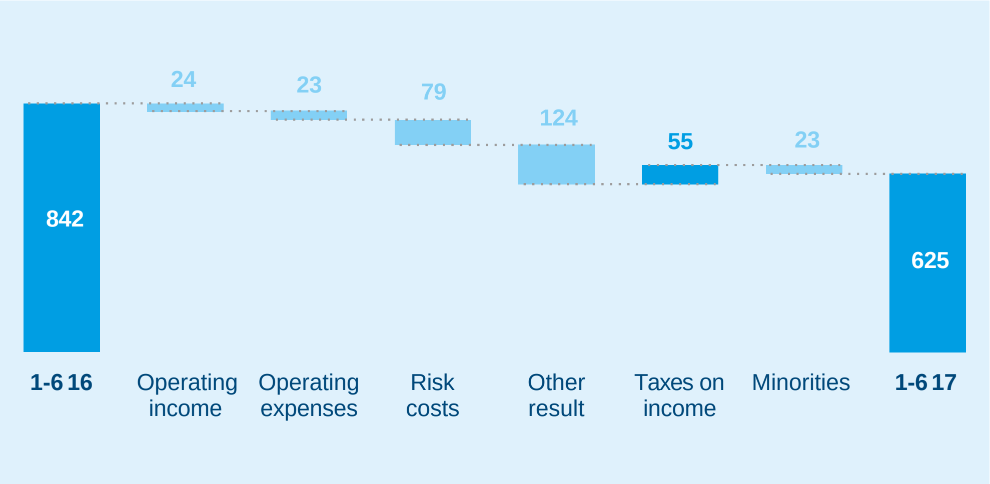
Business performance: net profit –
Solid result places Erste Group well on track to deliver ROTE of 10%+ in 2017

QoQ net profit reconciliation (EUR m)



- Erste Group Q2 17 net profit amounted to EUR 362.5m; qoq rise primarily due to improved NII and better other result (despite EUR 45.0m provisions for court rulings related to the passing on of negative interest rates to retail borrowers in AT)
- Revenues increased on higher NII, supported by seasonally higher dividend income
- Operating expenses improved primarily due to booking of full-year deposit insurance in Q1 17

YoY net profit reconciliation (EUR m)

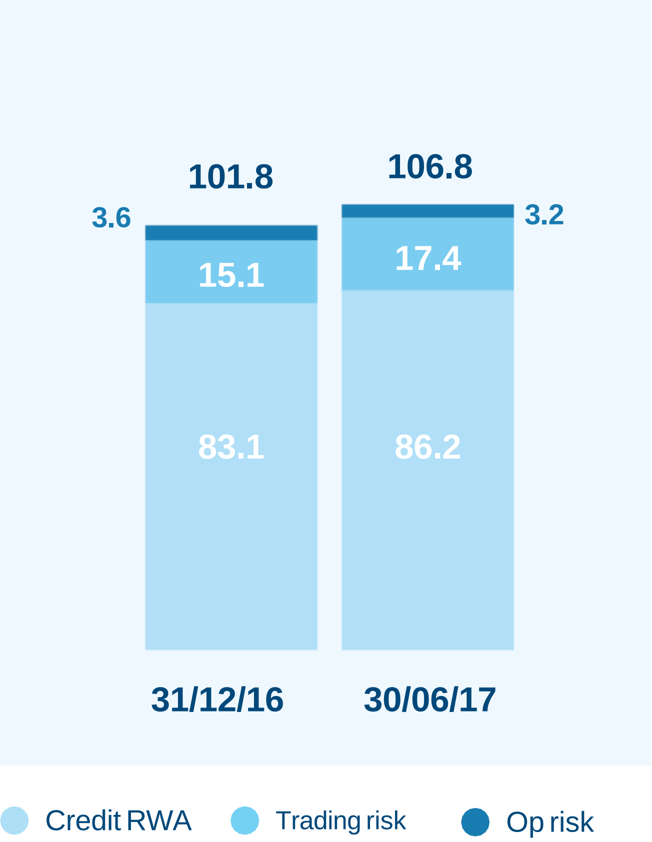


- 25.8% yoy decline in net profit primarily driven by other result and increased, but still benign risk costs
- Other result declined mainly on non-recurrence of positive one-off (sales of shares in VISA Europe: EUR 138.7 mn) in Q2 16
- After net releases in H1 16, risk costs rose to 15 bps of average gross customer loans, remaining well ahead of guidance

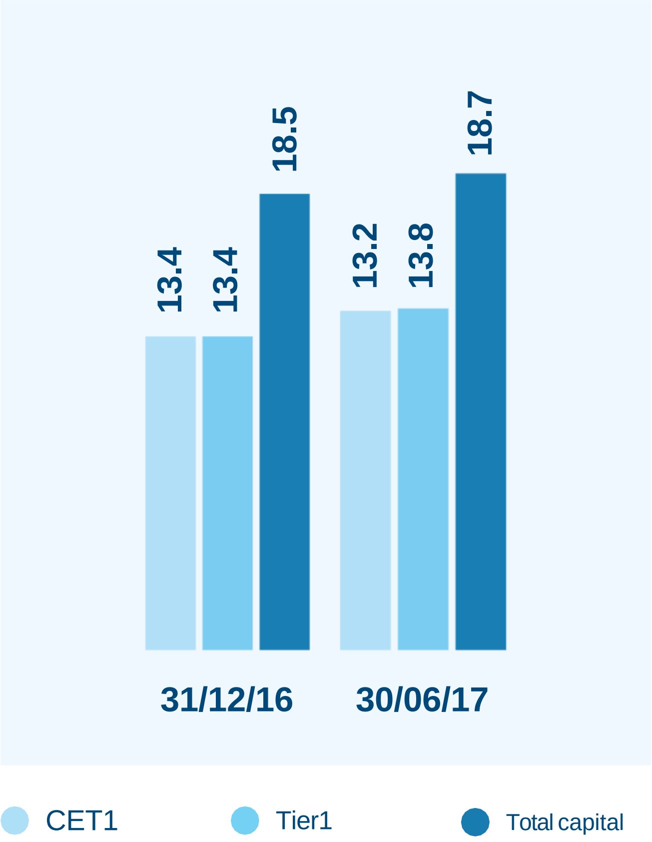
Business performance: regulatory capital –
CET1 (Basel 3, fully loaded) solid at 12.8%, impacted mainly by RWA inflation

Regulatory capital (EUR bn)

Risk-weighted assets (EUR bn)



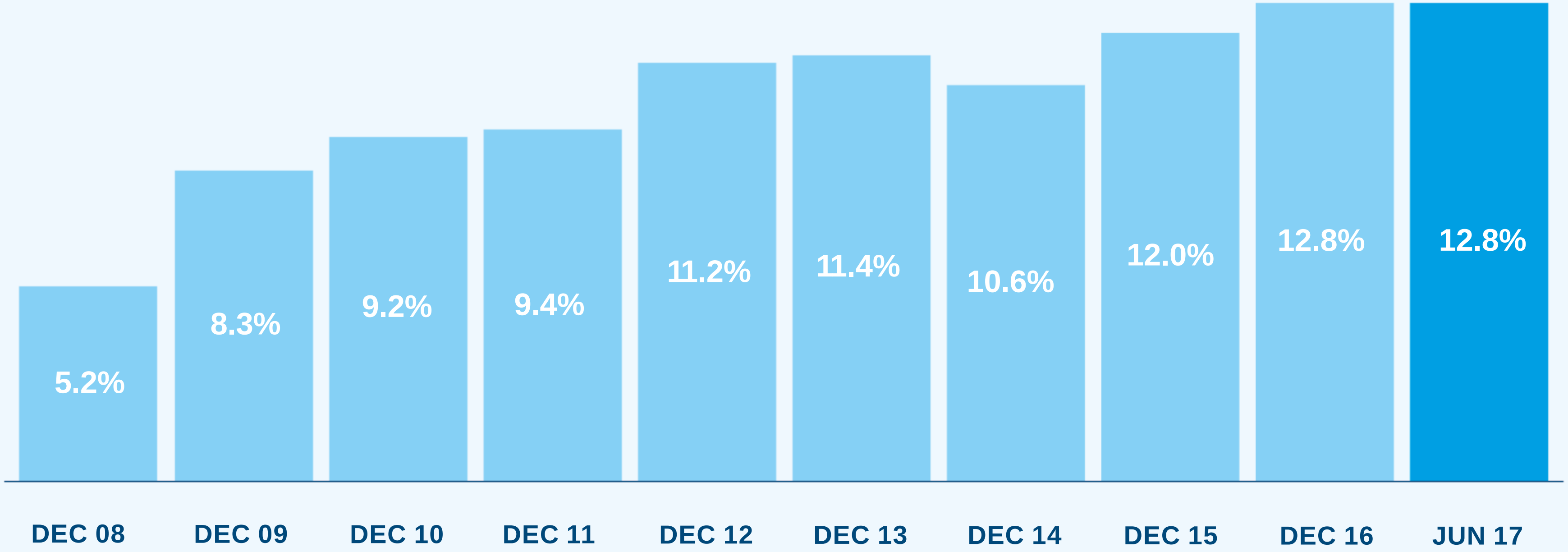
Capital ratios (B3, phased-in; in %)



Business performance: capital ratios (Basel 3, fully loaded)

Excellent capital generation across the years

Common equity tier one capital ratio (Basel 3, fully loaded)



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