

Erste Group – 9th Capital Markets Day

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CEE convergence goes digital

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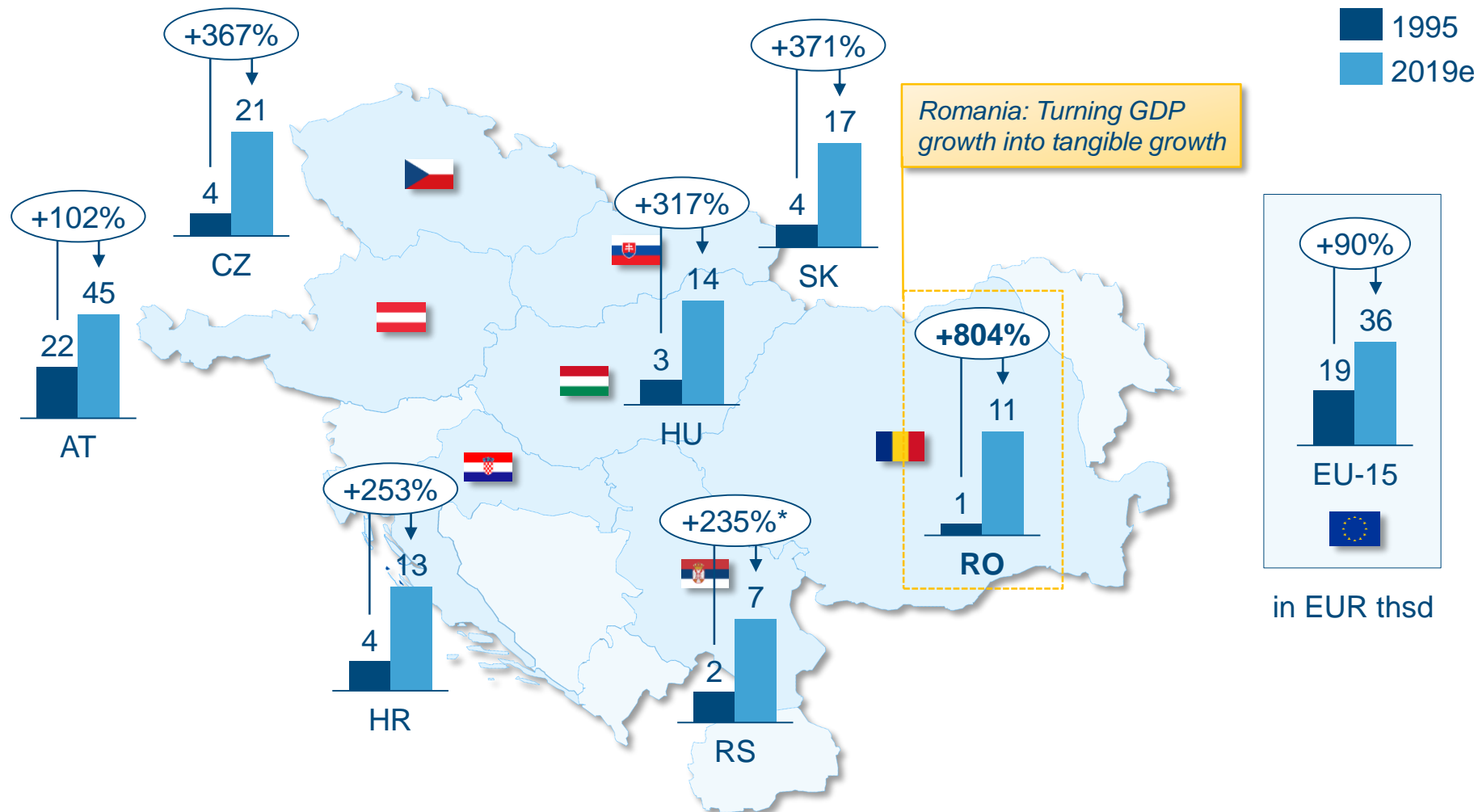
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Presentation topics – CEE convergence goes digital

- The growth story
 - The macro story
 - The micro story
- The digital story
- The financial story

The macro story: GDP/capita – CEE GDP/capita convergence track record bodes well for the future*

GROWTH



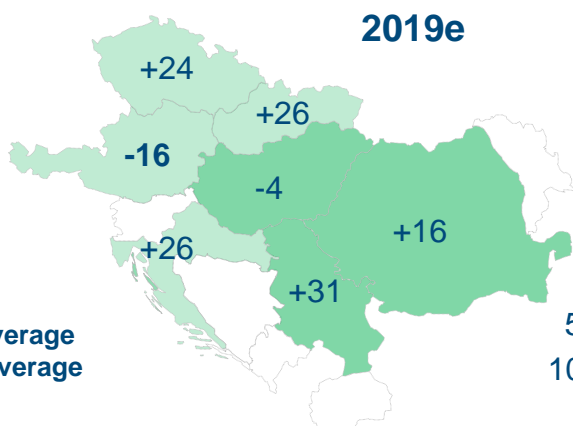
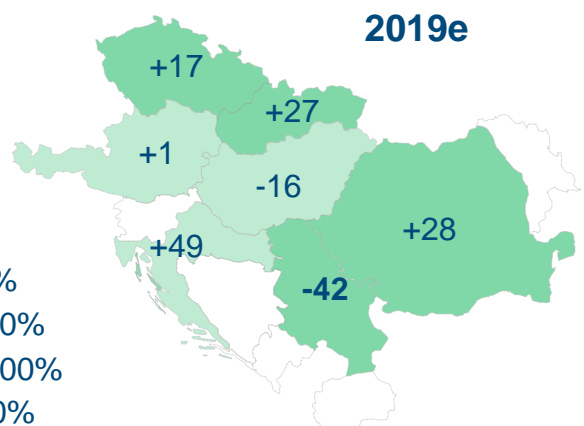
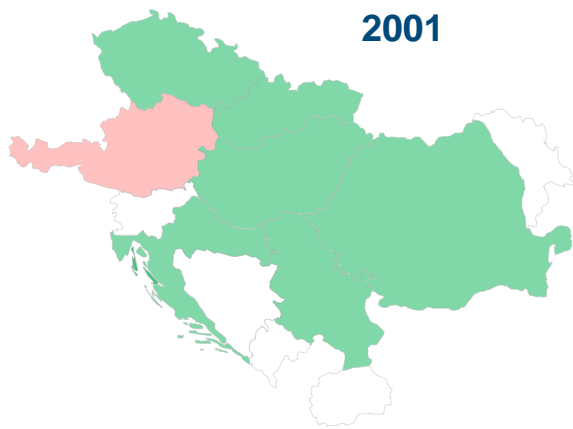
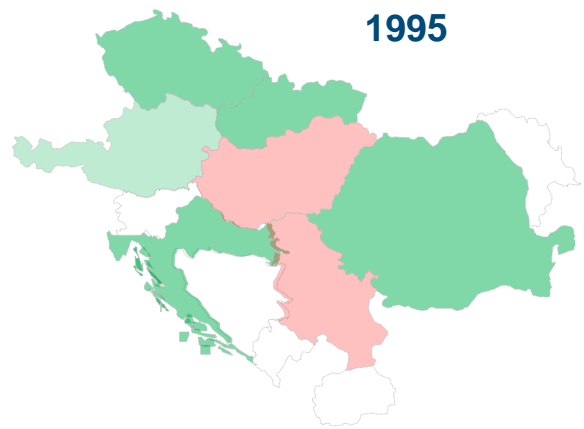
*) Source: Eurostat, local statistical offices, Erste Group Research. Serbia 1995 figure is for 2001.

The macro story: indebtedness –

Public and private sector leverage remains limited in CEE

General government debt/GDP*

Customer loans/GDP*



- <60%
- 60-80%
- 80-100%
- >100%

+ ...%-point increase in leverage
 - ...%-point decrease in leverage

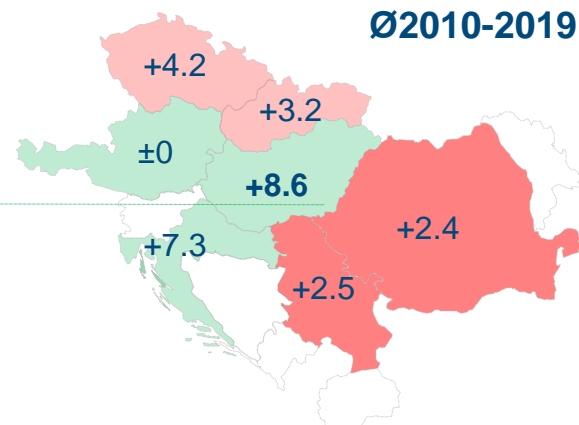
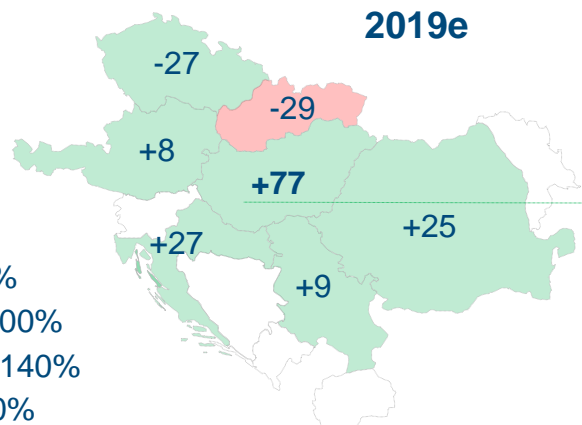
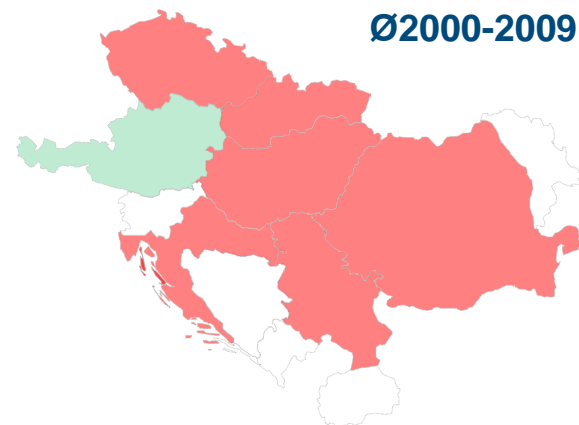
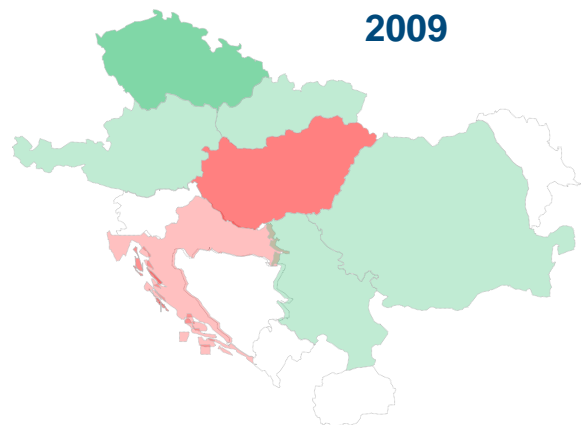
- <50%
- 50-100%
- 100-150%
- >150%

*) Source: Erste Group Research. Serbia figures are for 2001 as opposed to 1995.

The macro story: external position – Sustainable external balances, improved competitiveness across CEE

External debt/GDP

Current account balance/GDP



Hungary: The comeback kid

- <60%
- 60-100%
- 100-140%
- >140%

+...%-point improvement
-...%-point deterioration

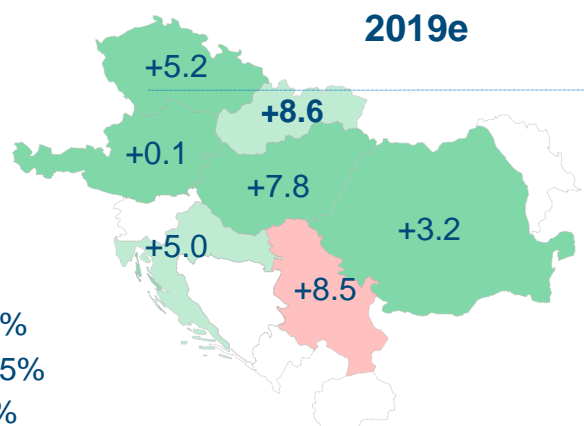
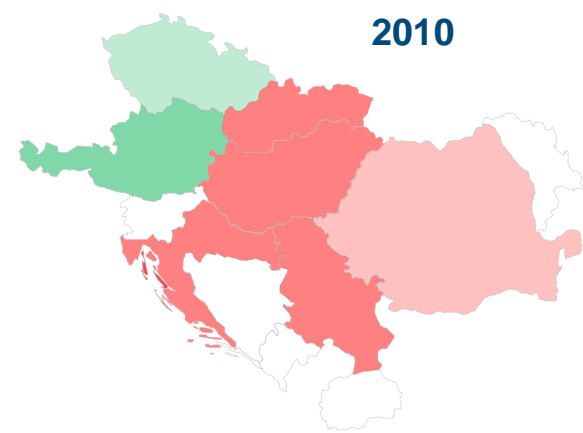
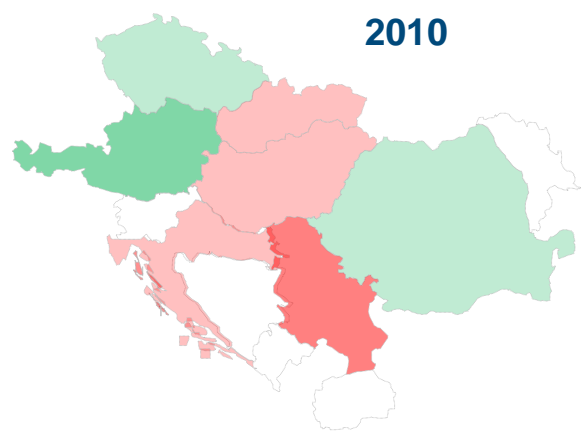
- >3%
- 0-3%
- 0 to -3%
- <-3%

*) Source: Eurostat, local statistical offices, Erste Group Research. Chart figures denote %-point-change between current and earlier period.

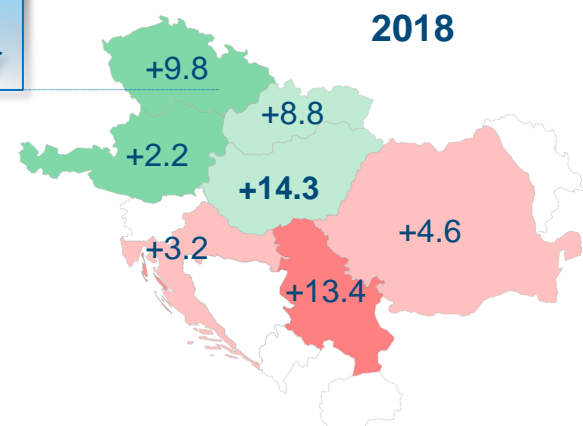
The macro story: labour market – EU-leading unemployment rates, strongly improved labour participation

Unemployment rate*

Employment rate*



Czechia: The flawless convergence wave rider



- <5%
- 5-10%
- 10-15%
- >15%

+...%-point improvement
-...%-point deterioration

- >70%
- 65-70%
- 60-65%
- <60%

*) Eurostat, local statistical offices, Erste Group Research. Share of total employment (resident population concept - LFS) in 15-64 age bracket. Serbia 2010 employment rate datapoint is for 2011.

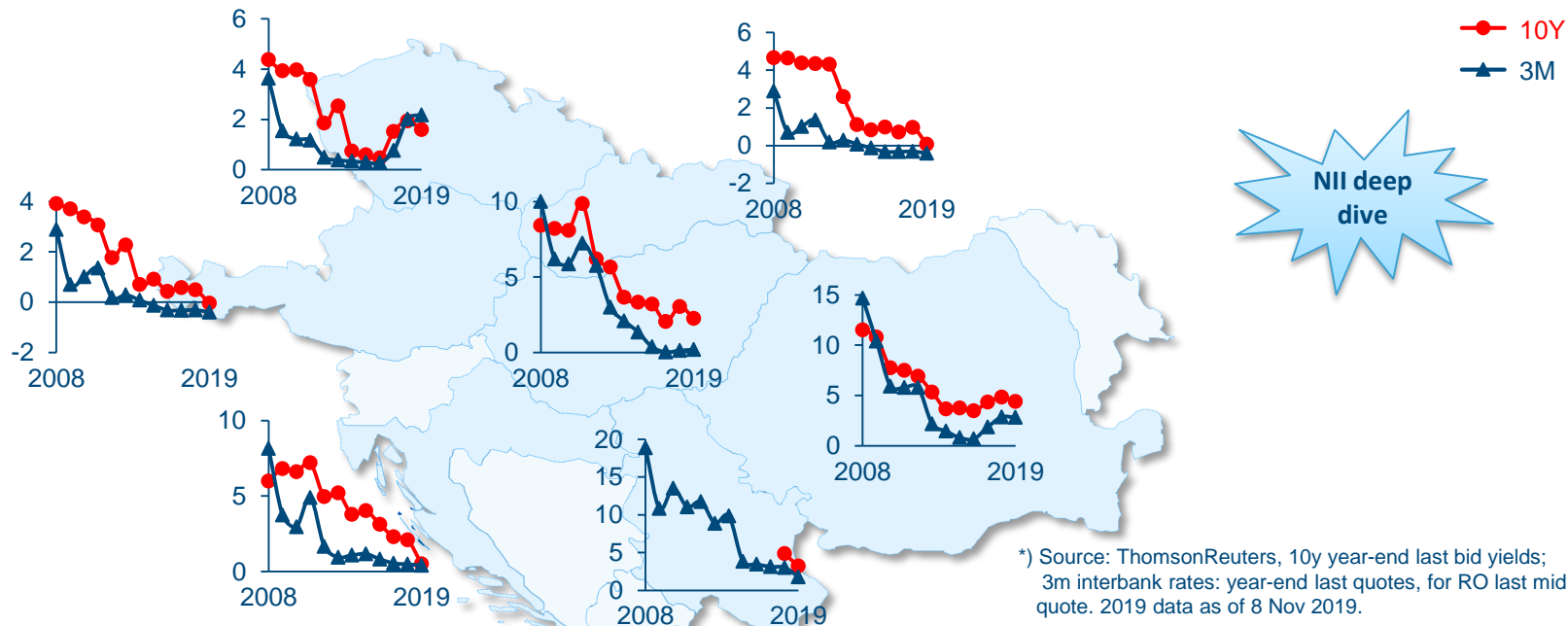
The macro story: interest rates –

A clear headwind, but in CEE interest rates are at least positive...

Government bond yields*

Short term interest rates*

in %



*) Source: ThomsonReuters, 10y year-end last bid yields; 3m interbank rates: year-end last quotes, for RO last mid quote. 2019 data as of 8 Nov 2019.

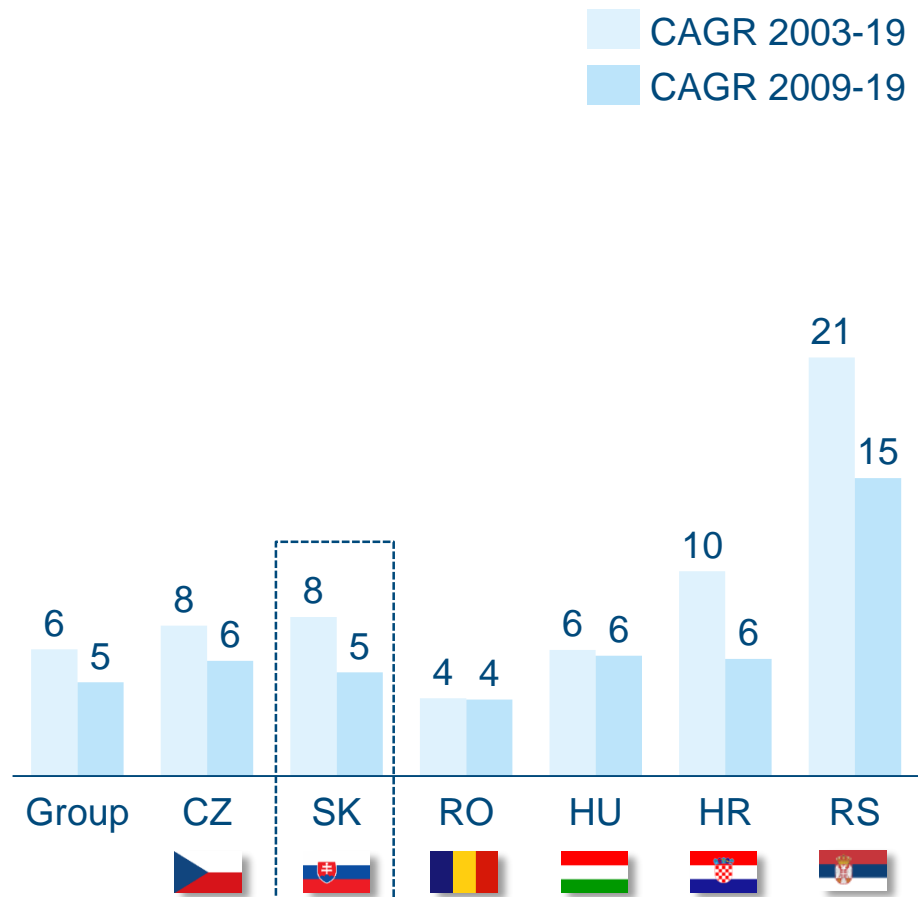
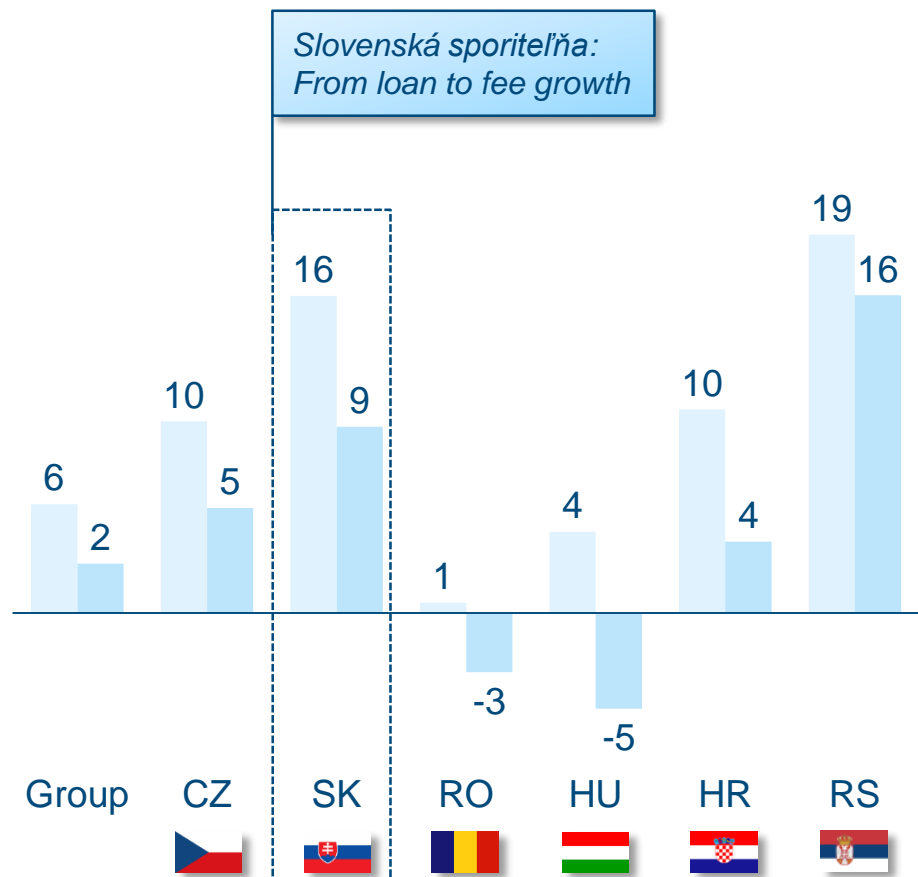
- Financial and trading assets amount to EUR 42.3bn (Q3 19)
- Approx. 80% are invested in government securities, primarily in core CEE countries (AT, CZ, SK, RO and HU)
- The differential between backbook and reinvestment yield as well as maturity profile are key determinants of NII headwind from this portfolio
- Short term interbank rates are used as reference rates in variable customer loans
- The **long term decline in short rates** has significantly **reduced interest income from customer loans**
- The sharp **increase in short rates in CZ and RO** has strongly **supported NII expansion in 2018 and 2019**, supplemented by loan growth in both geographies

The micro story: volume growth – Solid macro, low leverage to drive continued volume growth

Net loan CAGRs at Erste Group*

Customer deposit CAGRs at Erste Group*

in %



*) CAGR is calculated to Sep 2019 in EUR terms. RO CAGR (2006-Sep 19), RS CAGR (2005-Sep 19).

The micro story: market share growth –

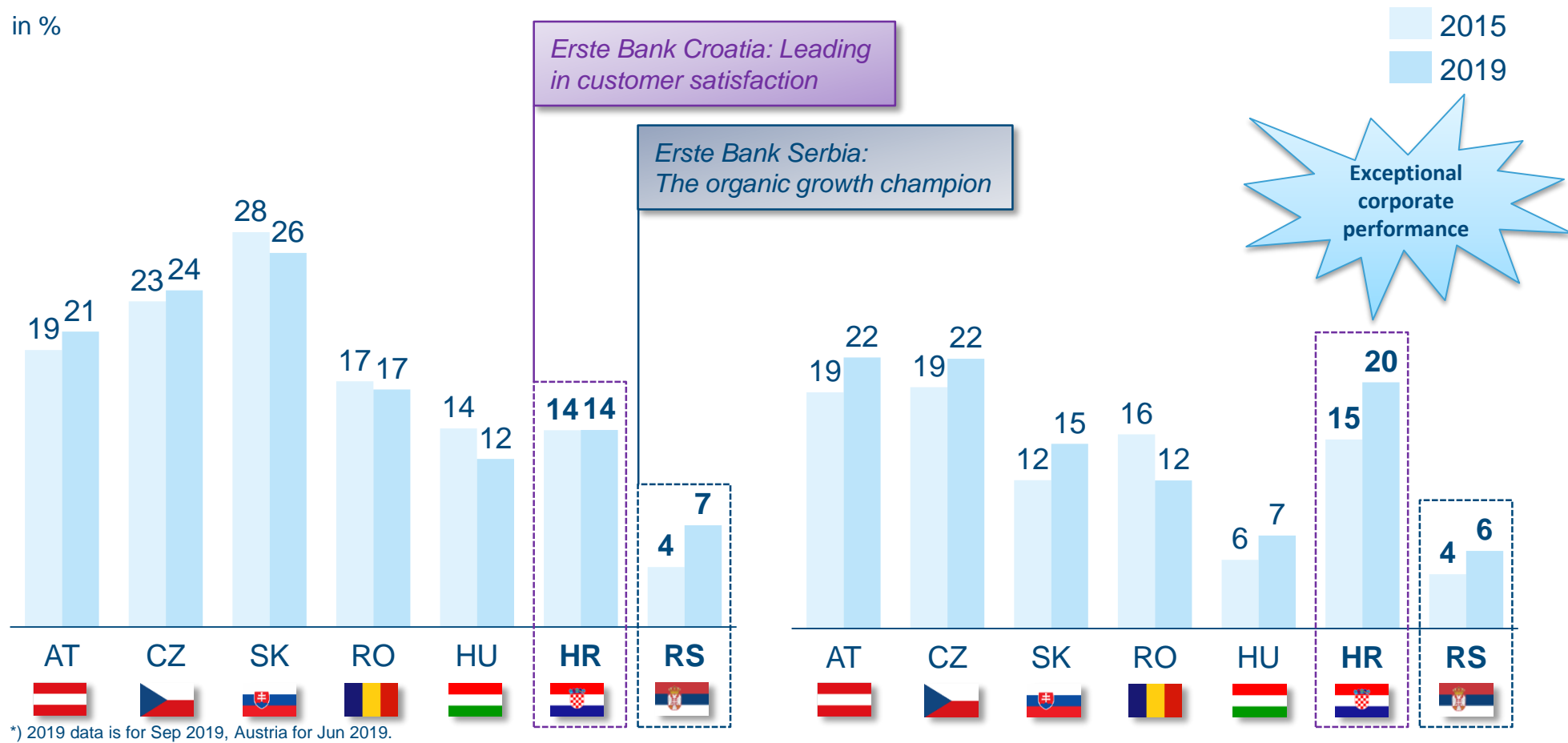
GROWTH

Strong performance in Austria, Czechia, Serbia; corporate business

Retail loan market share

Corporate loan market share

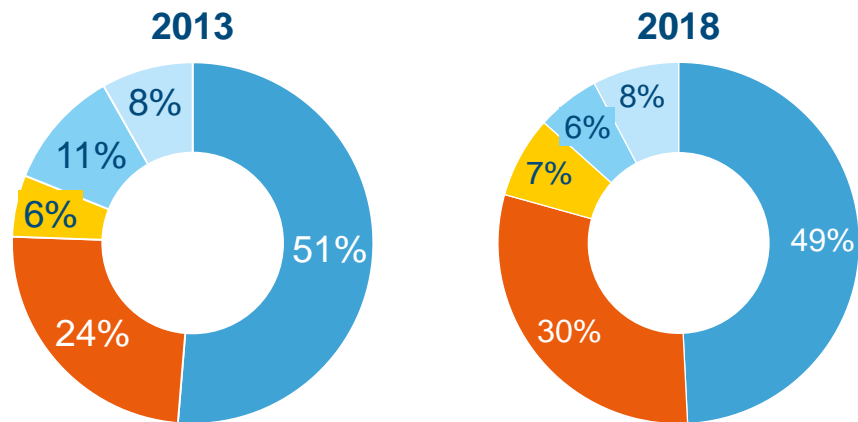
in %



The micro story: prosperity advice – Improving retail and corporate customers' financial health

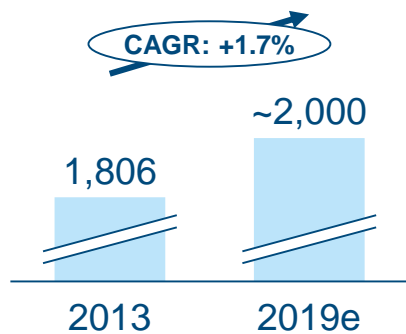
A look at fees

2024 fee target

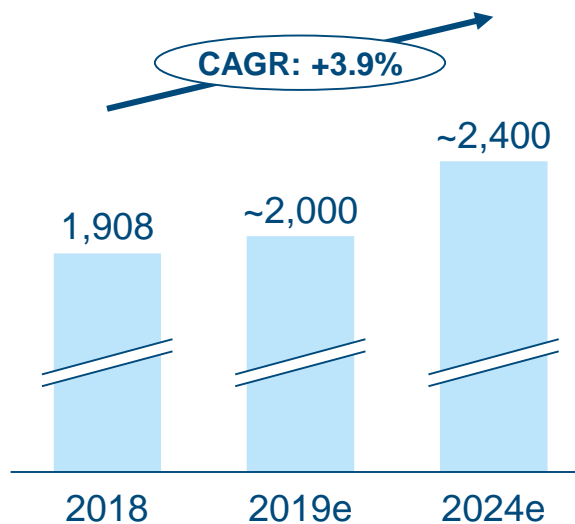


- Payments
- Securities
- Insurance
- Lending
- Other

Total fees (in EUR m)



in EUR m



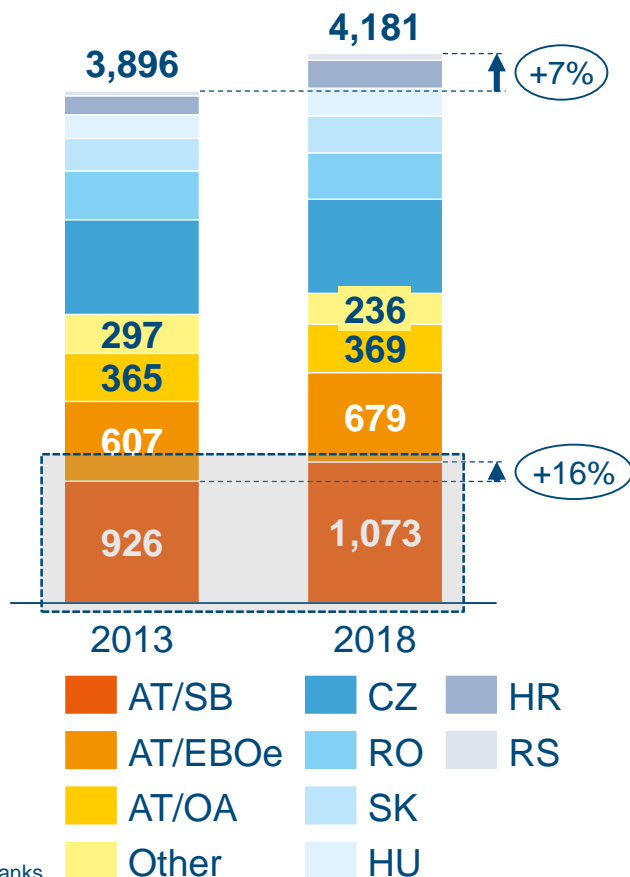
- Asset management has performed well over the past years and should benefit from advisory engine developed for George that is designed to create a **win/win situation for bank and customers alike in fighting low interest rates as key element of digital prosperity advice strategy**
- 2nd pillar of prosperity advice strategy will focus on **expanding bancassurance product offering**

The micro story: cost containment – Focusing on a CIR of ~55% by 2024*

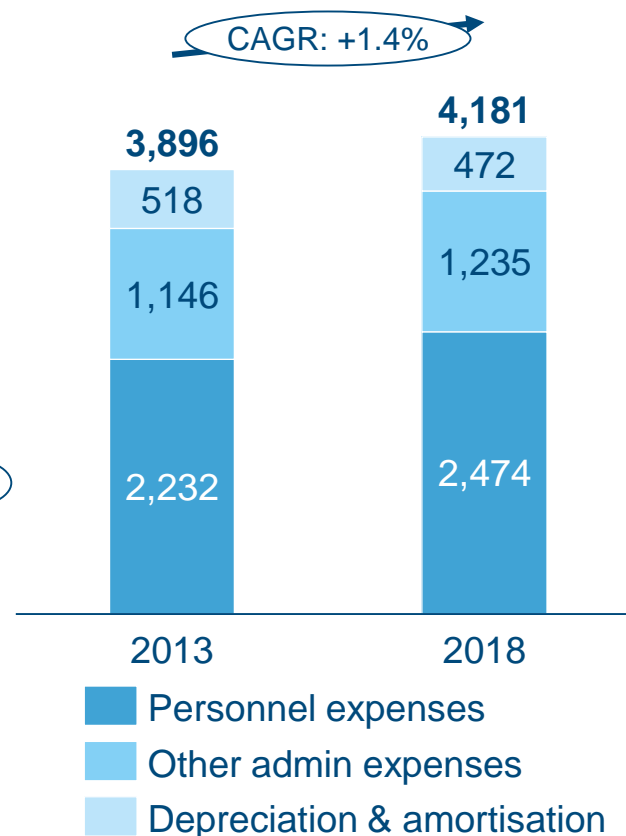
Key expense levers

- Building on the solid cost track record of the past decade
- Continued cost optimisation with ambition to keep **cost inflation below revenue growth**
- Kick off back office digitalisation with focus on Austria to tackle elevated Austrian CIR
- Austria = EBOe, Holding (Other Austria & Other segments)
- **Savings banks** are responsible for about a quarter of the cost base but for more than half of the cost updrifts over the past 5 years

Costs by segments



Costs by type



*) CIR target relates to consolidated group, ie including savings banks.

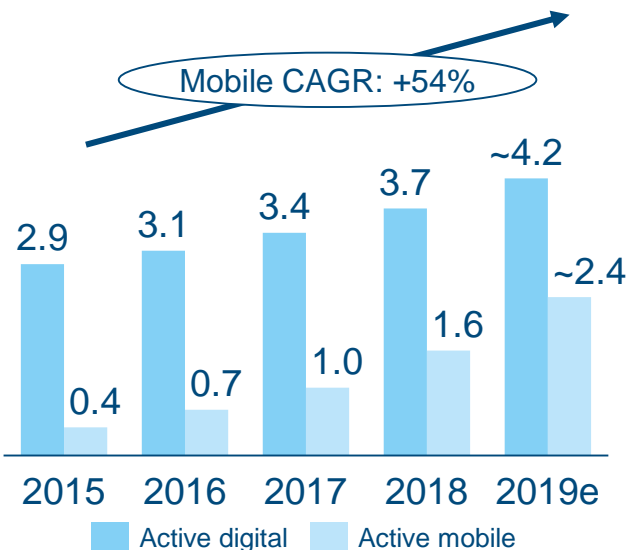
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The digital story – Digital adoption progresses at a rapid pace

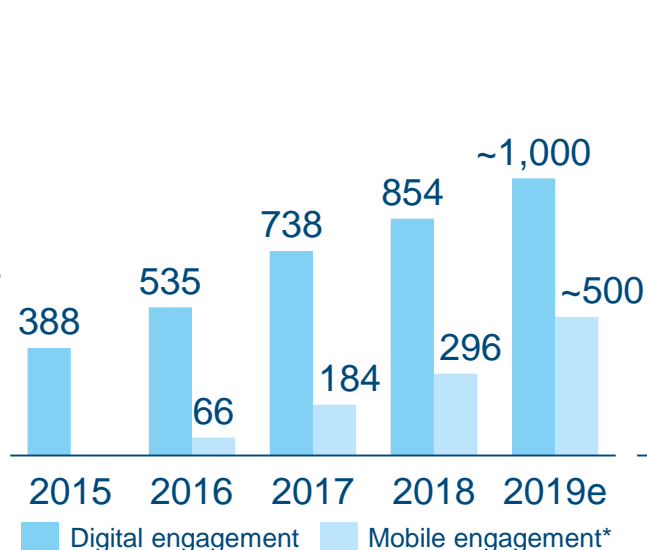
Retail: digital/mobile active users

in million

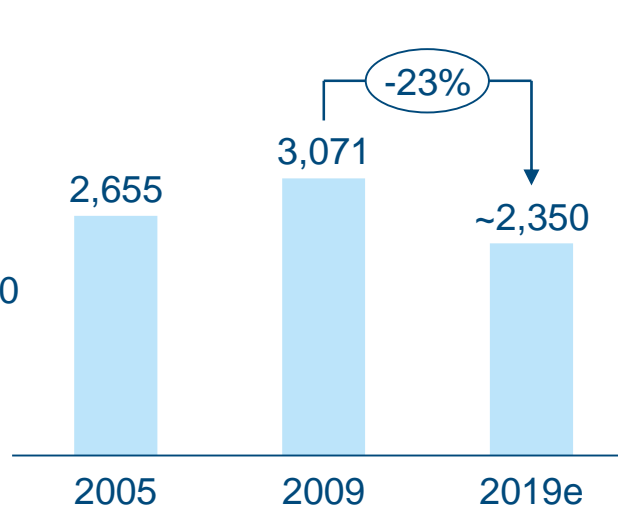


Retail: digital engagement (logins/visits)

in million



Branch development



- Expansion in mobile usage driven by:
 - Speed of George rollout
 - Capability set of George
- **George reached 5.3m registered users** in Q3 19

- Fast-paced digital adoption leads to **explosion in client touchpoints**
- Key challenge will be to convert touchpoints into sales

- Branch count peaked in 2009
- Significant reductions in Hungary, Czechia, Romania, Austria and Slovakia
- Branch reductions mitigate cost pressures in other areas (IT & digital, general wage inflation, regulatory)

*) No data available for 2015.

The digital story – Where are we in our digital transformation?

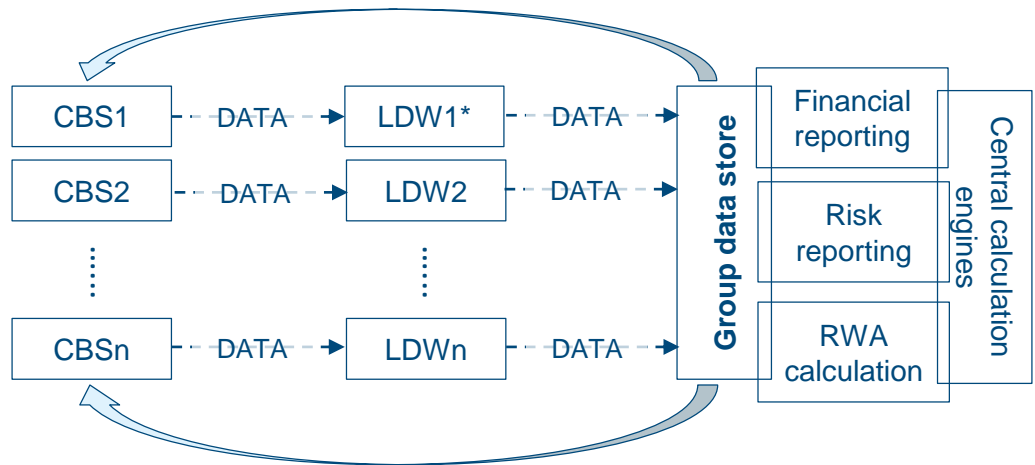
Front end



- Corporate**
- Currently different legacy solutions in use in the various countries
 - Aim to develop a **new, uniform corporate front end** across the entire region along the lines of George



Data warehouse/
Regulatory



Completion rate: **~70%**
Full completion: **2021**

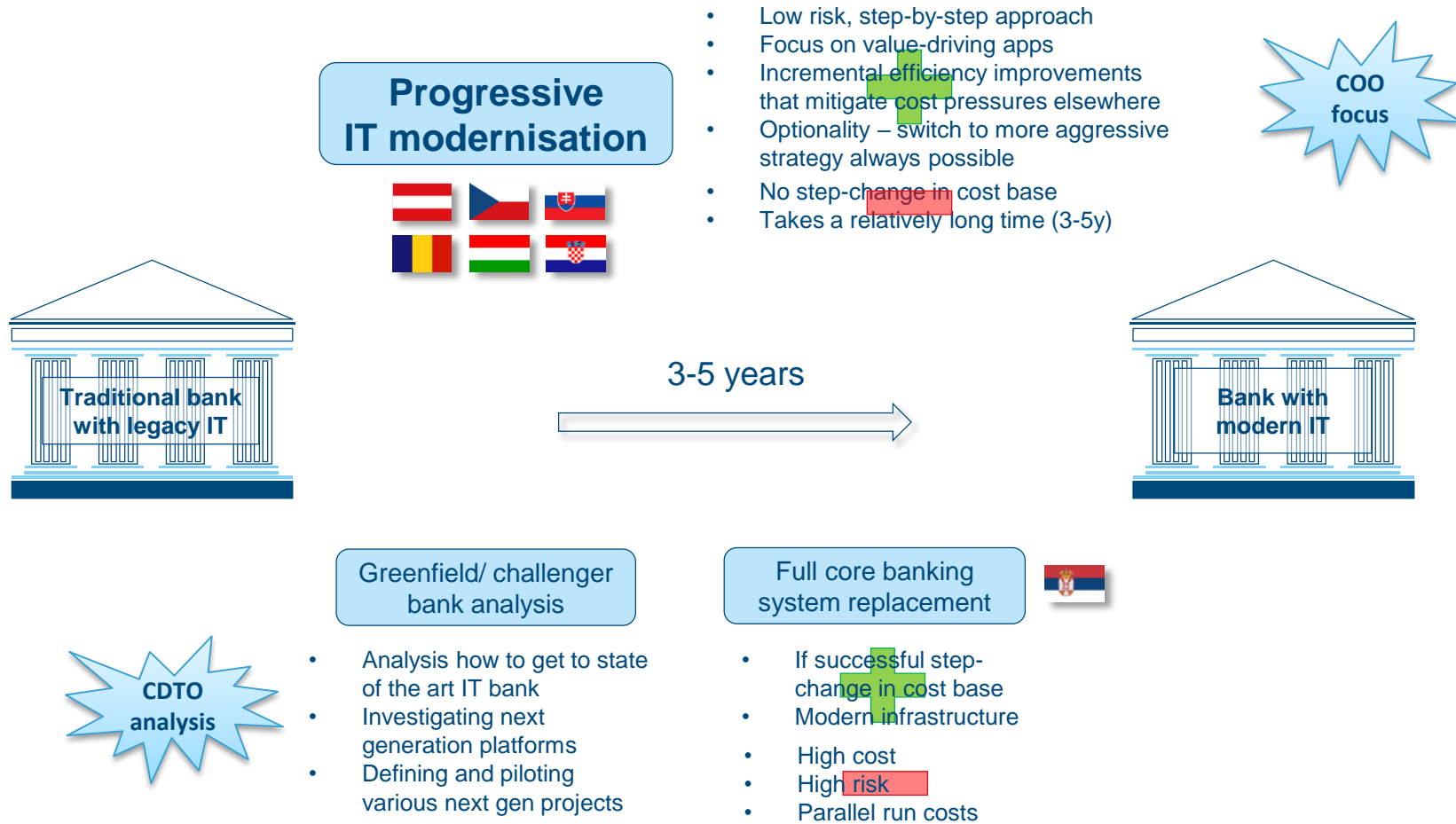
Mid & back office

- **We are at the start of the process**
- **This will be a focus area going forward for both COO and CDTO in order to generate efficiency gains**



*) Full rollout includes decommissioning of legacy system and migration of customer base. CBS...core banking system, LDW...local data warehouse.

The digital story – How do we want to proceed from here?



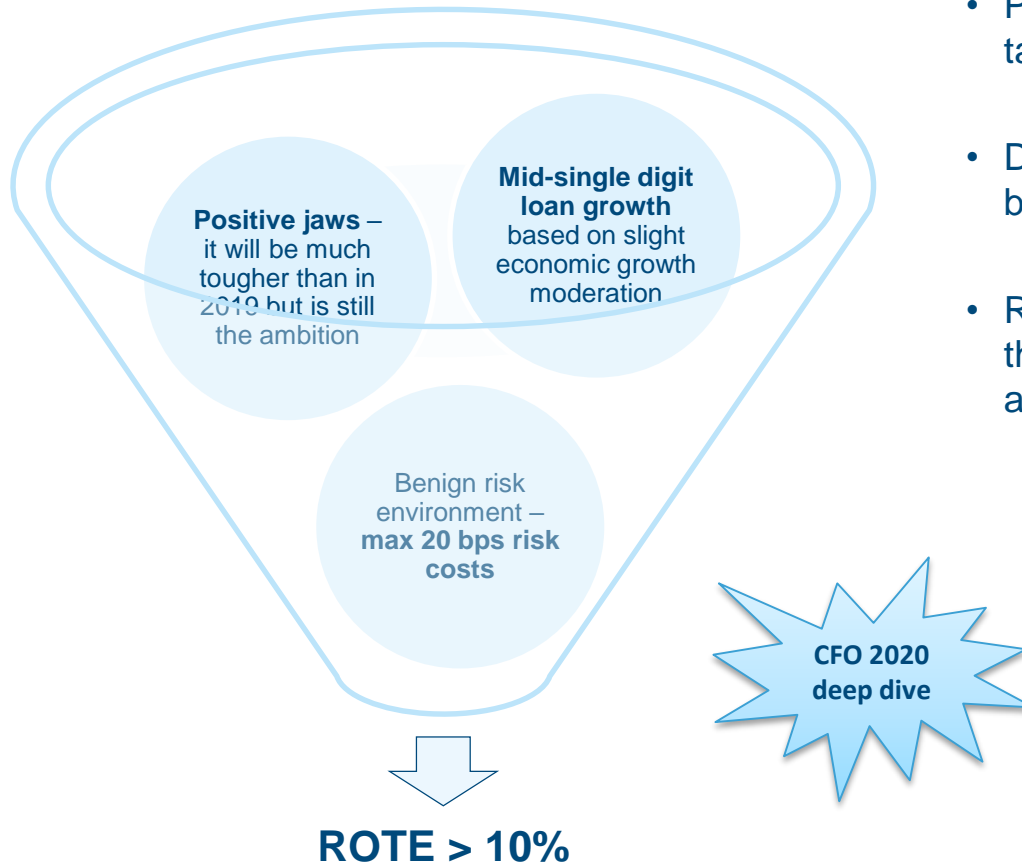
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The financial story –

What does all of this mean for 2020 and beyond?

2020 financial outlook



Beyond 2020

- Pushing forward prosperity advice strategy – main targets already announced today
- Driving forward progressive IT modernisation and back office digitalisation
- Reaching a cost/income ratio of ~55% by 2024 through ongoing efficiency improvements and addressing resulting cost cutting potentials