Erste Group –
9th Capital Markets Day

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Maintaining positive momentum –

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Presentation topics –
Maintaining positive momentum

- Profitability outlook
  - A closer look at: net interest income
  - A closer look at: fee and commission income
  - A closer look at: operating costs
- Capital outlook
- Conclusion

The big picture on profitability –
Looking at the expected 2019 and 2020 P&L trends*

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	2019e	2020e	Key drivers
NII	+	+	NII growth to slow in 2020 due to lower interest rates and moderating loan growth
Fees	+	+	Fee growth to be maintained supported by prosperity advice strategy
Trading/FV	+	–	Tough 2019 comparison; 2019 benefited from FV gains due to declining rates
Other income	=	=	Primarily stable rental income
Costs	–	–	Cost updrift to be capped in low single digits, despite wage inflation
Risk costs	=	=	Lower for longer risk costs (<20bps in 2020) are flipside of low/negatives interest rates
OOR	–	+	2019 OOR negatively impacted by RO High Court one-off, doubling of SK banking tax (?)
Net profit	–	+	**ROTE > 10% in 2020, for the 6th consecutive year**

*) + denotes yoy improvement, - yoy deterioration.

A closer look at net interest income –
Key driver analysis

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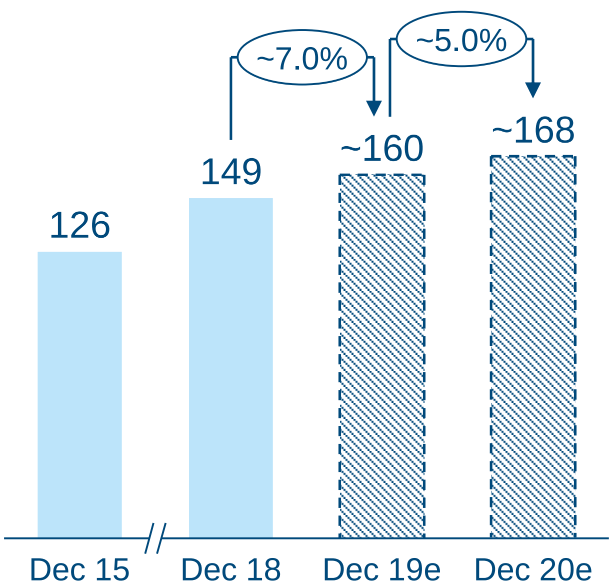
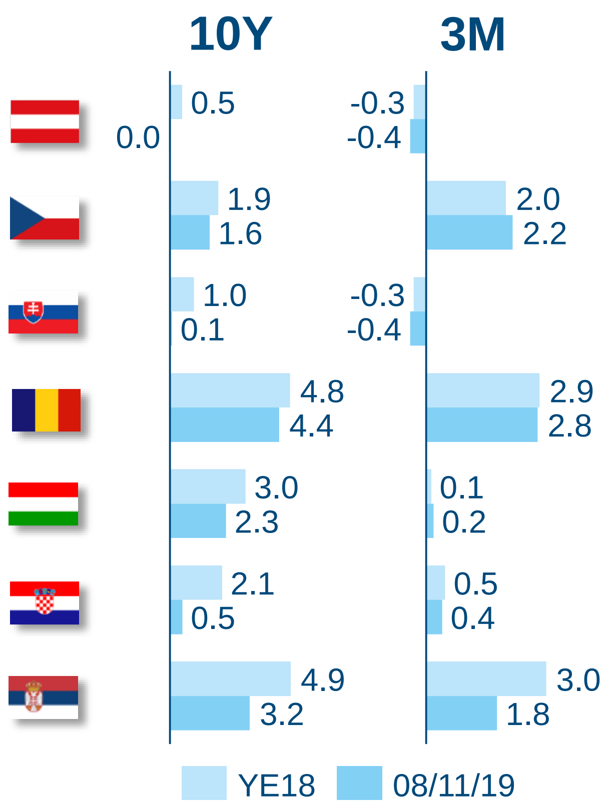
Net loan growth

in EUR bn

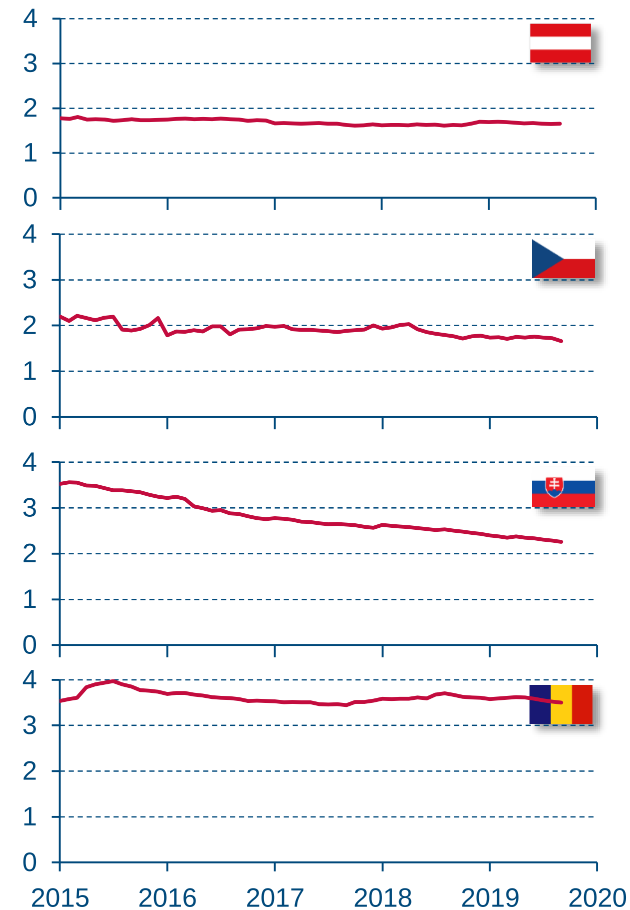


Interest rates

in %



Bank lending margins*



*) Source: ECB. Lending margin in % on **outstanding loans** to non-financial corporations and households, respectively.

A closer look at net interest income –
More on NII: investment headwinds, sensitivities, IRR management

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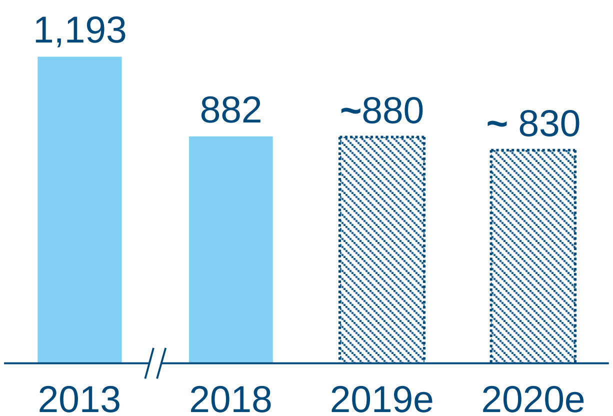
Interest income from securities

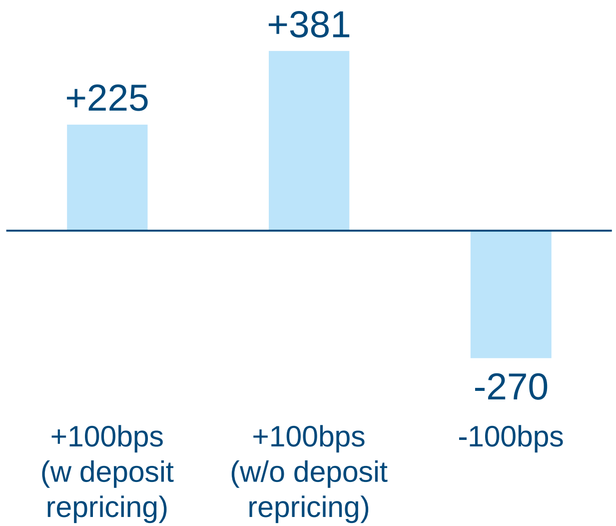
in EUR m



- 2019 effect limited due to early portfolio build up at still higher rates
- Average back-book yield: **2.29%**
- Average duration: **4.6 years**
- 2020 redemptions: **EUR 4.7bn** with average **yield of 2.73%**

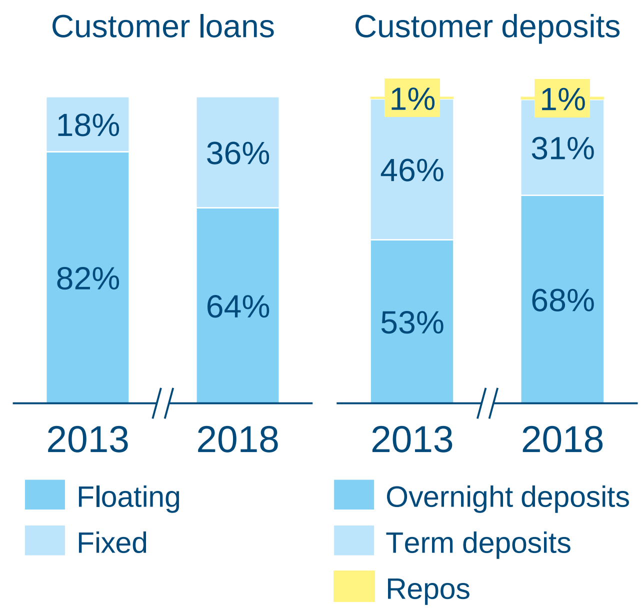
Group NII sensitivity

in EUR m



- NII pressure mitigation through client deposit pricing and **efficient placement of liquidity surplus** (due to access to multiple central banks) and interest rate positioning

Interest rate risk management



- In parallel with the increasing volume of retail sight deposits (most of them modelled as long-term fixed rate liabilities) the share of fixed rate loans has grown as well
- No dedicated hedging strategy for fixed rate loans, the **interest rate risk is steered on total balance sheet level**

A closer look at net fee income –
Retail prosperity advice strategy to lift fee growth to new level

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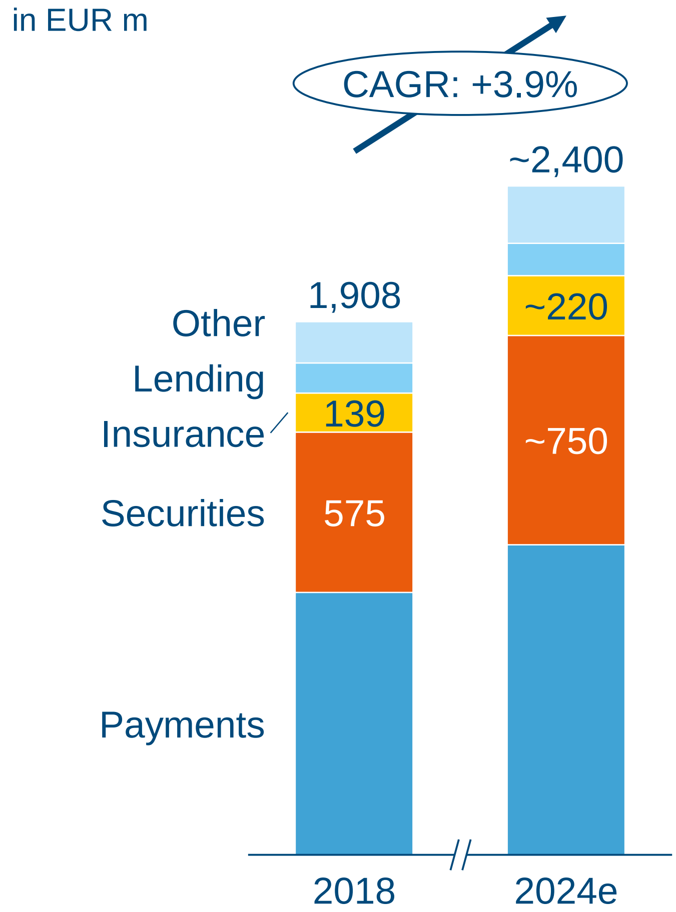
Growth potential in AM & bancassurance



Key initiatives

- Renewed drive in asset management
  - Educate client base about negative long term implications of low interest rate environment
  - Significantly expand digital offering, ie Financial Coach and Investment Manager in George
  - Offer entry-product for new-to-securities clients
  - Regular investments in funds and one-off investments in capital protected notes as major pillars
- Broaden and deepen insurance offering
  - Expand business relationship with Vienna Insurance Group (VIG)
  - Improve product penetration in all product categories (life, non-life, PPI-CPI) from current 7-8% to 11-12% range by 2024

A closer look at operating expenses –
Targeting a cost/income ratio of ~55% by 2024

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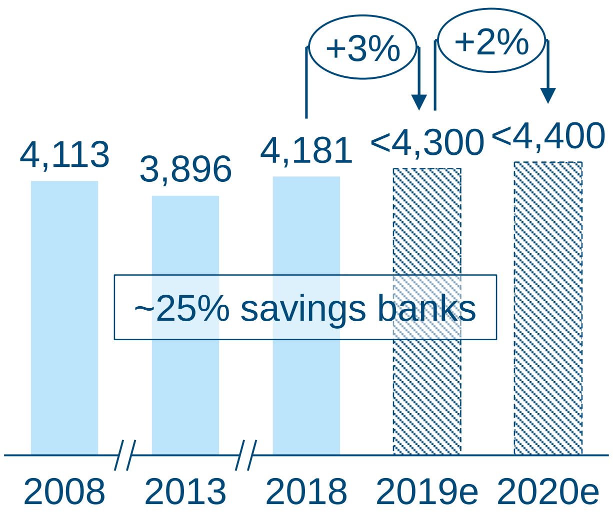
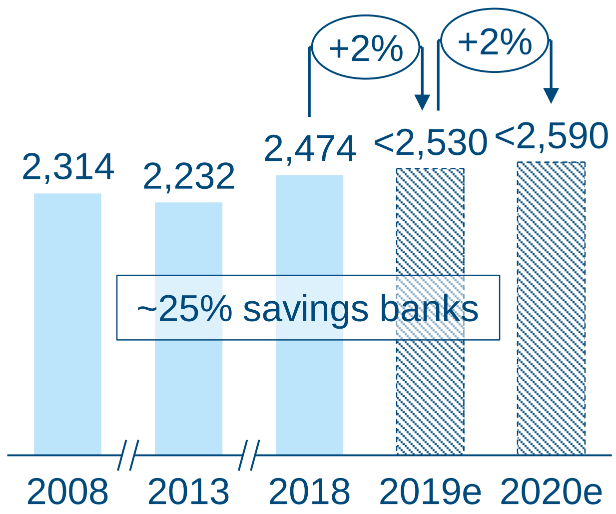
The big picture	Personnel costs	IT costs

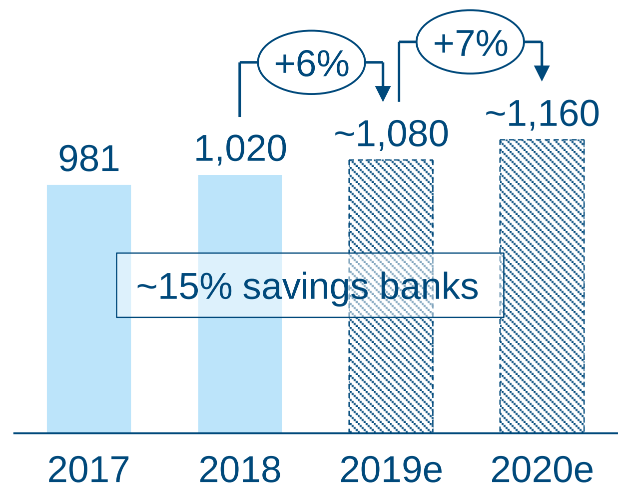
in EUR m



in EUR m



in EUR m



- **Solid long-term cost track record**
- Main drivers are rising personnel and IT-related expenses
- Between 2013 and 2018 number of employees (FTEs) rose by 1,727
- IT-related expenses rose particularly in the past 2y due to regulatory projects

- Staff expenses are largest cost driver:
  - AT (collective bargaining agreement): in 2018 +2.78%, in 2019 +2.99%
  - CEE 2018: highest in HU at +5.0%
  - CEE 2019: highest in CZ and HR at 5.0%
  - Wage pressure expected to continue albeit at lower pace

- IT costs will stay elevated as investments into progressive IT modernisation and back office digitalisation ramp up
- Total cost of progressive IT modernisation over 5 years estimated at ~EUR 300m
- **Rising IT investments will strongly contribute to overall cost containment** through efficiency gains

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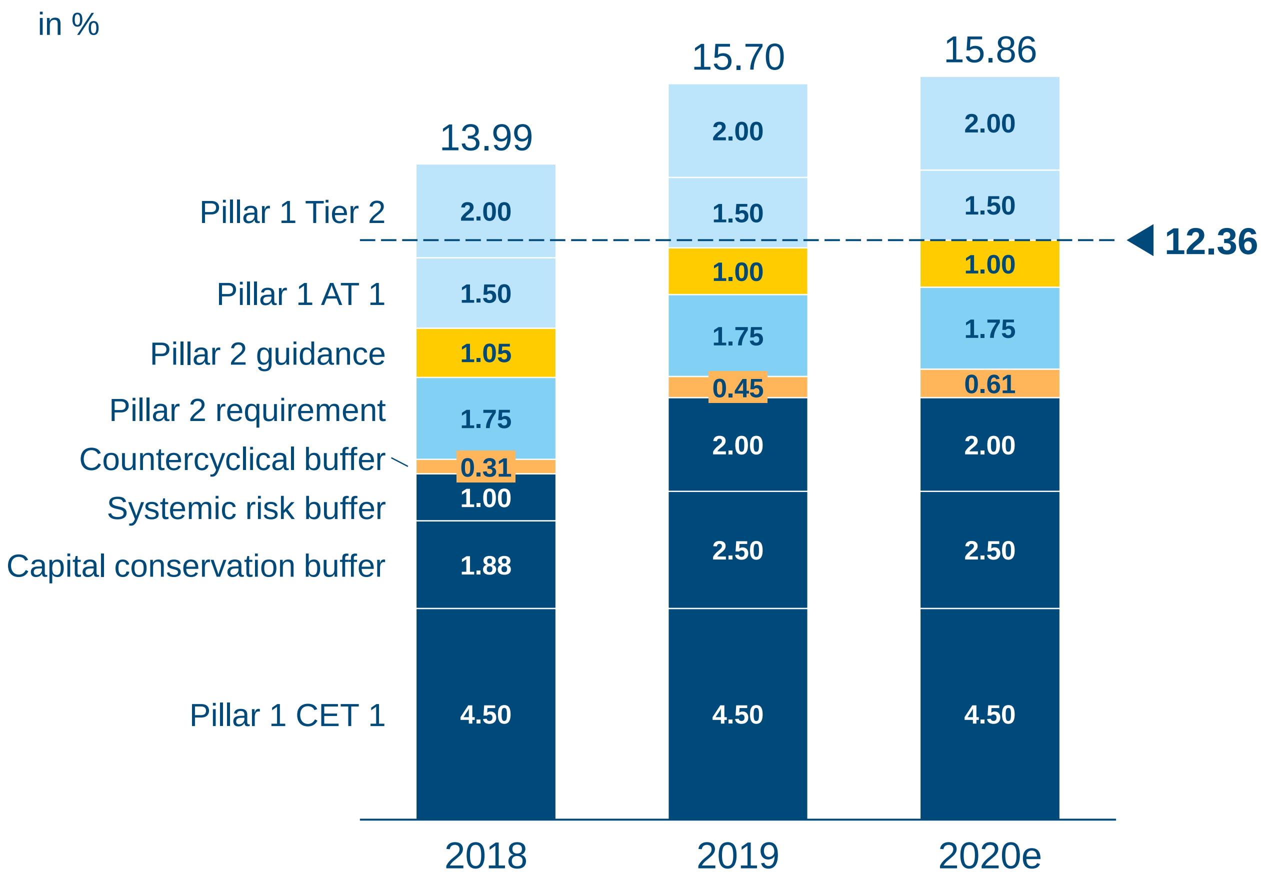
Capital snapshot –
CET1 requirement slightly up to 12.36% in 2020, target unchanged at 13.5%

Capital requirements in detail *



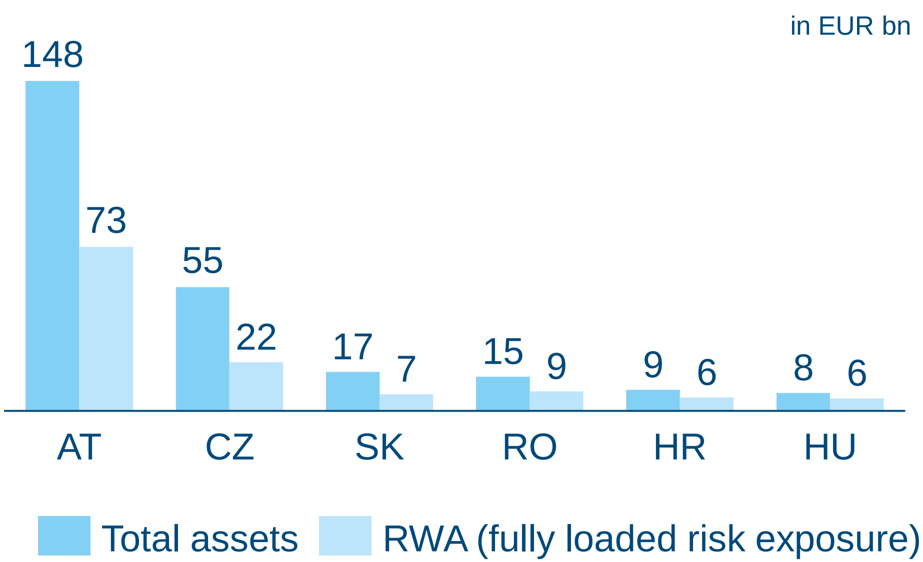
*) In 2018 and 2019 P2G only applicable to CET1; in 2020 P2G applicable to all capital ratios (CET1, T1 and total capital),

Capital target

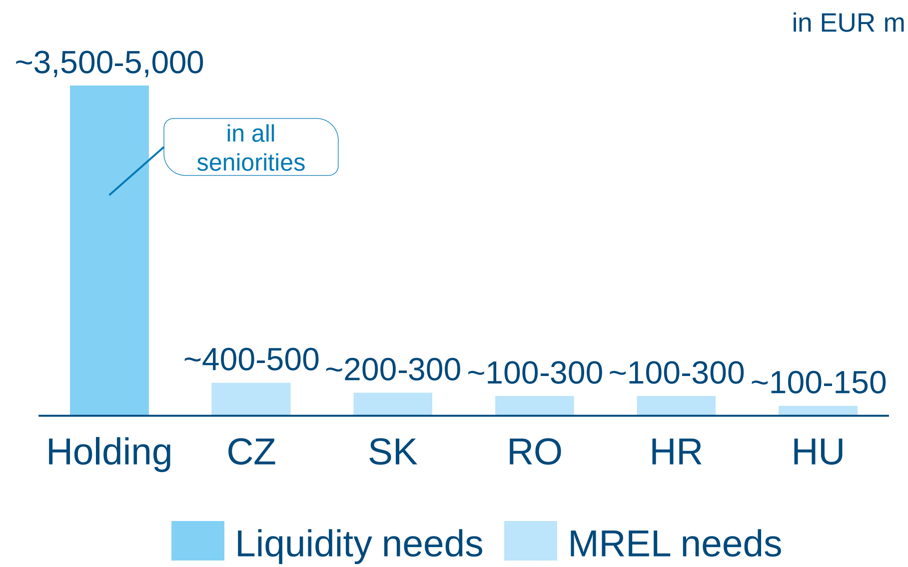
- **Internal CET1 capital target** remains **unchanged at 13.5%**, including **100-150 bps management buffer**
- Erste Group will **meet CET1 capital target comfortably at year-end 2019**
- Erste Group defines **excess capital** as **CET1 ratio sustainably above 14%**
- 2019 DPS on track for EUR 1.5
- No extra distribution planned for 2019
- **M&A not top of agenda**, but participation in in-market consolidation remains an option as does evaluation of mBank acquisition in Poland
- In absence of any material M&A, **unchanged progressive dividend policy** up to a payout level of ~50% in the current growth environment
- **CRDV**: double counting of 200bps SRB/OSII buffer highlighted to regulators and financial market stability board; on-going discussions with aim to mitigate punitive impact

MREL update –
MREL issuance is not going to have a material impact on funding costs

MREL resolution groups (2018)



Preliminary 5-year issuance plan (avg pa)



- Erste Group **targets** a **multiple point of entry (MPE) resolution strategy** covering 6 resolution groups, however discussion with one National Resolution Authority still ongoing
- The Austrian resolution group (parent company, EBOe and savings banks) is not considered a legal entity or reporting unit, hence there is neither a statutory reporting nor a capital requirement for the Austrian resolution group

- CEE issuances mainly domestic
- In 2020, pure MREL funding costs for CEE resolution groups are expected at ~ EUR 13m; increasing to **~ EUR 60m pa at the end of the MREL transition period (2024)**
- These amounts are highly dependent on market conditions, assumed business/RWA growth and MREL target development.

Conclusion –
2020: on track for 6th consecutive year of double-digit ROTE

Macro	• Solid, but moderating macro outlook for 2020 • CEE to continue to significantly outgrow Western Europe	✓
Operating leverage	• Loan growth to ease to mid-single digits • Positive jaws is the ambition for 2020, even though it will be tougher to achieve than in 2019, as revenue pressures increase	✓
Bottom line	• ROTE > 10% (based on expected average tangible equity in 2020)	✓
Capital & dividends	• Progressive dividend policy, with incremental annual rise in DPS • 2019 dividend target: EUR 1.5 per share • No special dividend planned for 2019 business year	✓