

# Erste Group – 9<sup>th</sup> Capital Markets Day

21 November 2019, Vienna

**Safeguarding healthy growth**  
Alexandra Habeler-Drabek, CRO Erste Group

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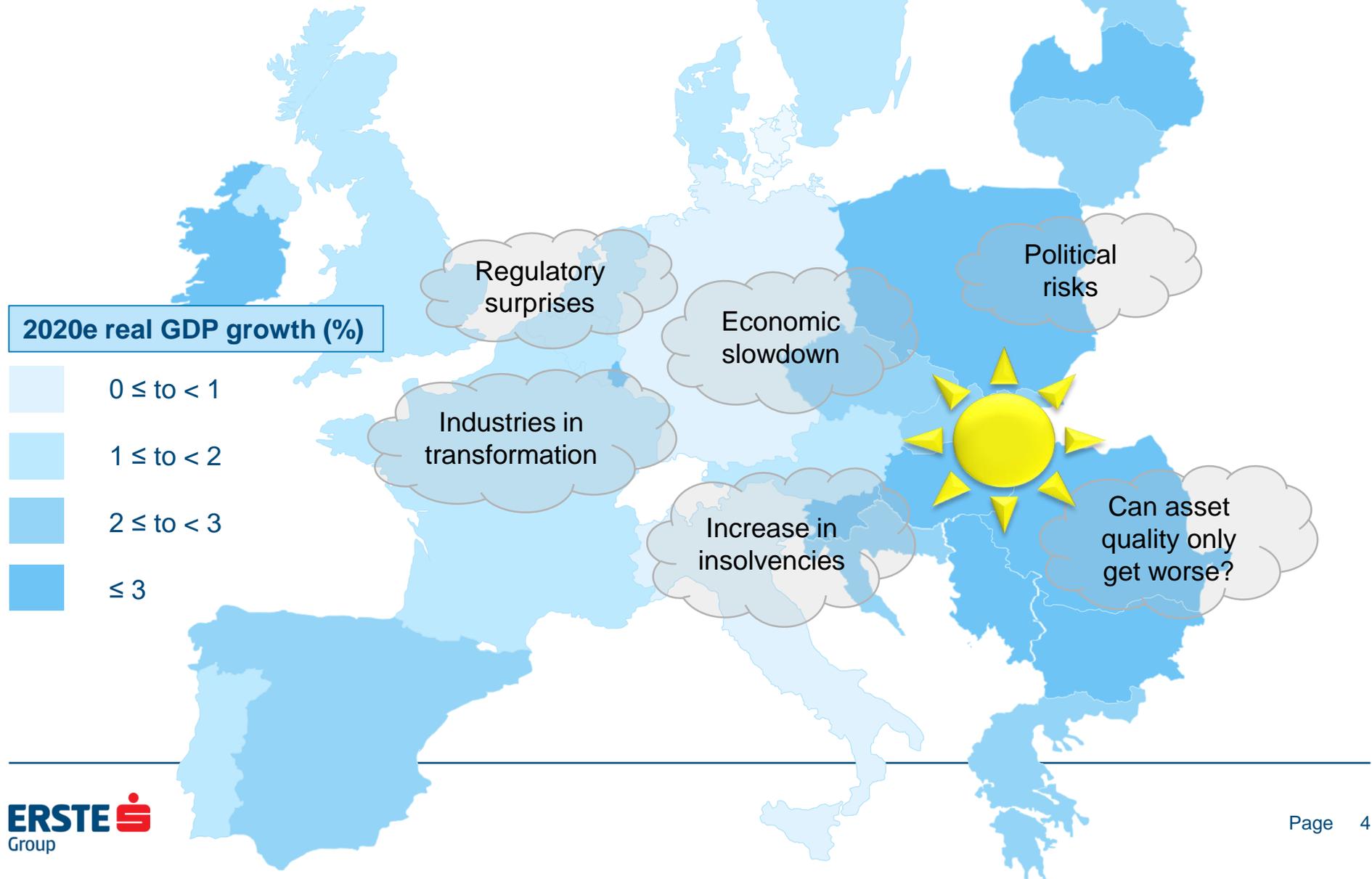
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# Presentation topics – Safeguarding healthy growth

- Credit risk
  - Where are we now?
    - Operating environment
    - Asset quality and risk costs
    - Portfolio diversification
  - Regulatory topics
    - RWAs in light of Basel IV & TRIM
    - Macro-prudential measures
- Compliance
- Conclusion

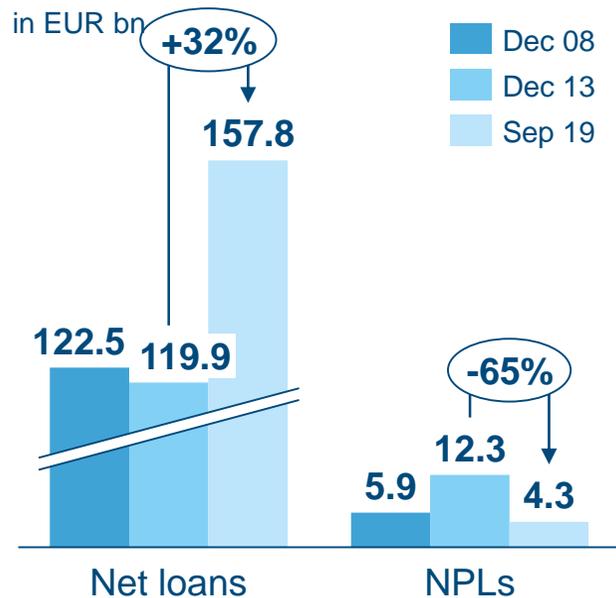
# Where are we now? –

Ready to cope with a more challenging operating environment

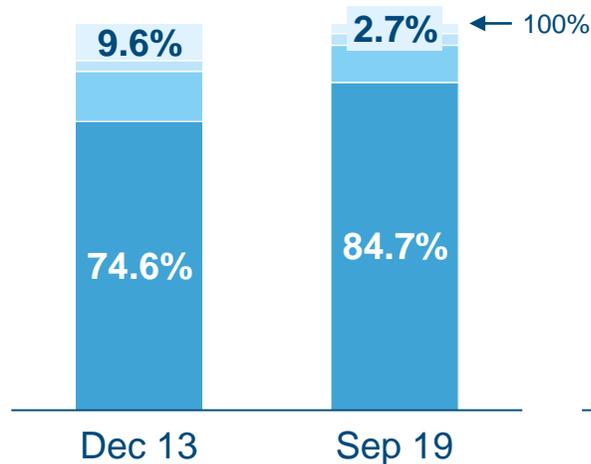


# Where are we now? – Asset quality and risk costs have come a long way...

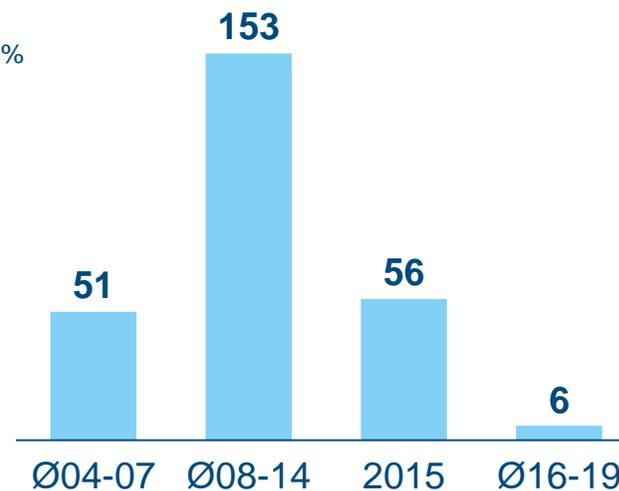
Net loans vs NPLs



Asset quality evolution



Risk costs (bps)



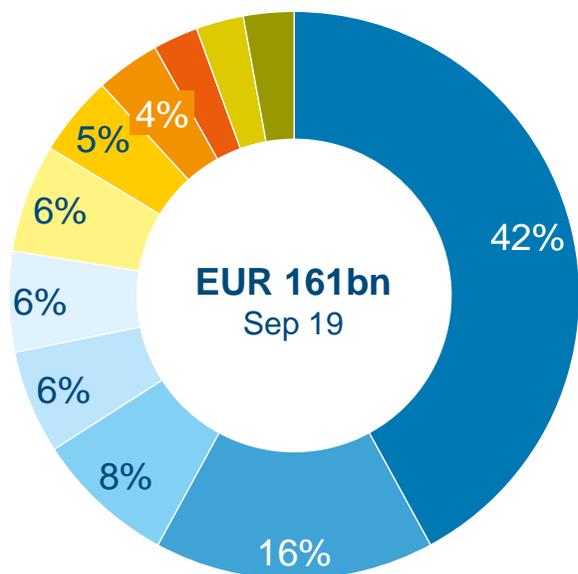
- Healthy loan growth in core markets
  - Roughly evenly split between retail/corporate
  - Tighter lending standards
- Legacy issues successfully solved
  - FX lending, opportunistic business
- NPL stock drastically reduced
  - NPL sales, recoveries

- Low risk
- Management attention
- Substandard
- Non-performing

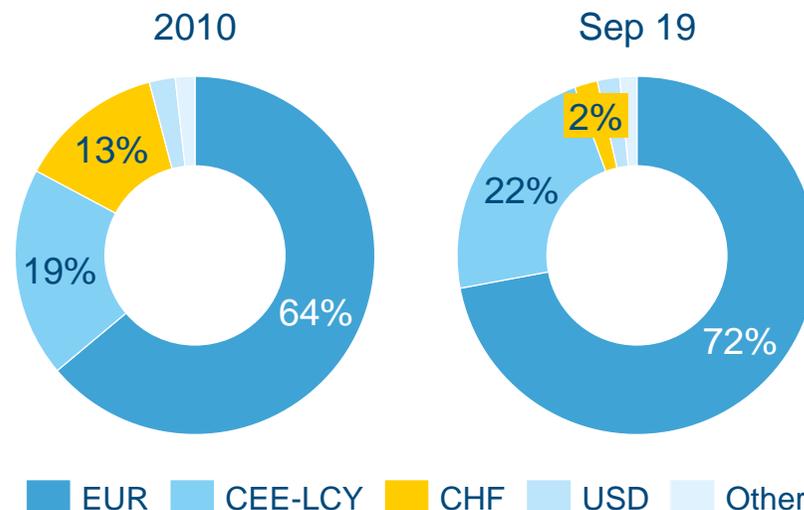
- Current low risk costs driven by **strong economic performance** and **low/negative interest rates**
- Best estimate for **through-the-cycle risk costs** currently stands at **30-50bps** of average customer loans

# Where are we now? – Well diversified, de-risked loan portfolio

Gross loans by industries



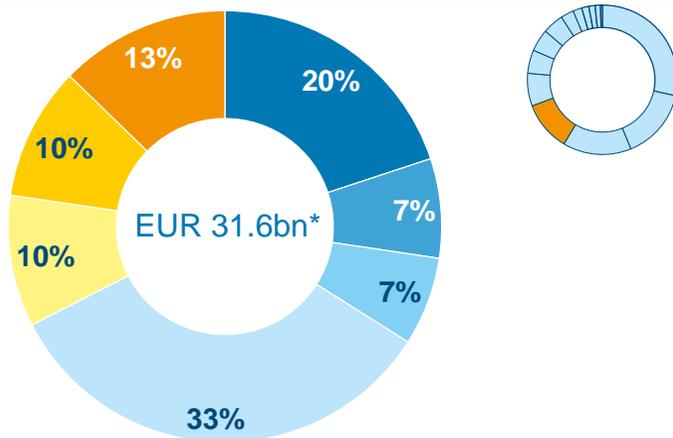
Gross loans by currencies



- Significant de-risking in terms of currency split
- **No retail FX lending** in any of the core markets; HR and RS are exceptions due to euro dominance in the local economies

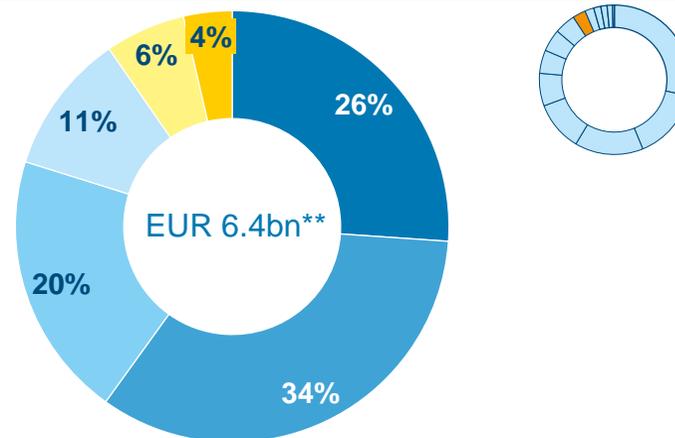
# Where are we now? – Snapshot on key exposures

## Real estate & housing\*



- Exposure focused on capitals and regional centers in CEE markets showing a positive demographic development
- Almost **2/3 of residential portfolio with non-profit-housing associations** (AT) with no defaults over the past 15 years
- CRE portfolio with strong **focus (more than 80%) on income producing projects**

## Automotive



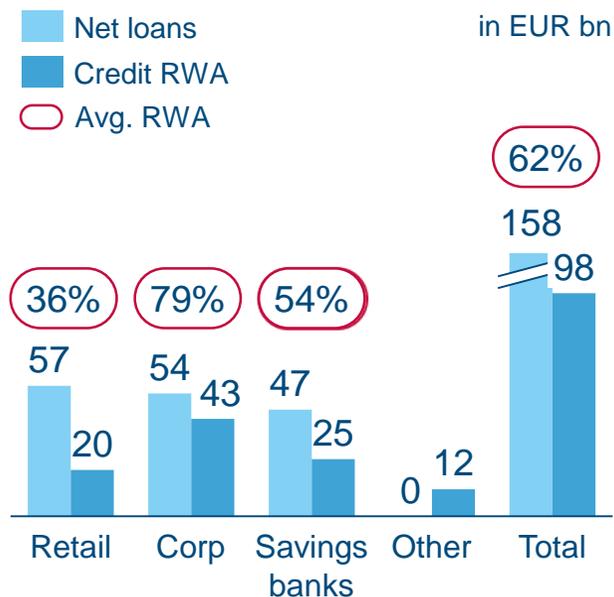
- Most relevant part of direct automotive exposure is with top names of international manufacturers and suppliers
- CEE has higher employment share in the automotive industry compared to the EU average (~5-6% vs 3.4%), but is also home to the most modern and efficient manufacturing facilities in Europe

\*) Internal business view as of Jun 19. Mixed portfolio includes exposures to companies in real estate and housing industries, covering both residential and commercial real estate.

\*\*) Data as of Sep 19.

# Regulatory topics – From Basel IV to TRIM to macro-prudential measures

## RWA & Basel IV\*



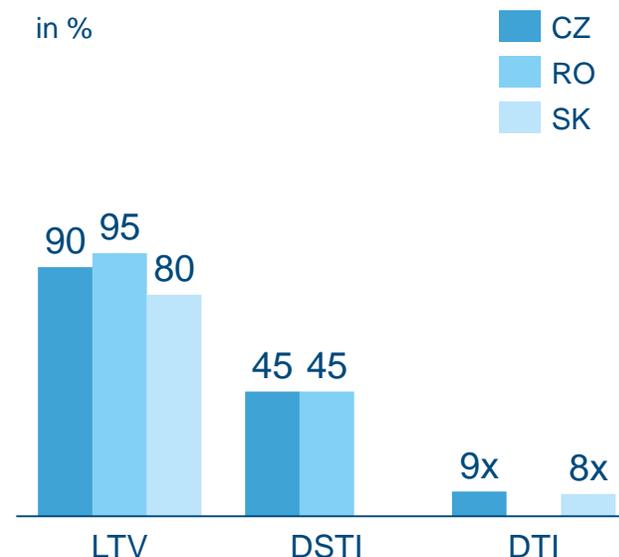
- **No material negative impact expected** from Basel IV due to existing high RWA density
- **RWA inflation highly dependent on growth mix and asset quality** development

## RWA add-ons (inc TRIM)\*

Type of add-on	Amount
BCR IRB (non-TRIM)	EUR +2.4 bn
LGD AT (defaulted loans)	EUR +0.3 bn
LGD methodology (non-default)	EUR +0.5 bn
Specialised lending AT	EUR +1.7 bn
Specialised lending SK	EUR +0.2 bn
<b>Total</b>	<b>EUR +5.1 bn</b>
thereof TRIM	EUR +2.7 bn

- Model change approvals will bring a relief to the imposed add-ons

## Macro-prudential measures\*\*



- In addition certain tenor restrictions for unsecured loans are in place in CZ, HR, RS
- Overall **limited impact on Erste Group**, as existing portfolio is within these limits
- Implementation of macro-prudential measures is **positive** as it **keeps loan growth on sustainable path** and **levels the playing field among competitors**

\*) As of Sep 19. \*\*) Applicable to mortgage loans. Certain further portfolio level restrictions may apply. RO LTV relates to Prima Casa loans.

# Compliance –

A part of our purpose driven approach and business model

## Our approach

- Compliance is **more than the fulfilment of legal and regulatory requirements**
  - It not only protects and enables us to manage risks but also supports sustainable business growth and fosters digital transformation
- We invest into compliance technology to be more effective and efficient in managing compliance risk

## Responsibilities

- Erste Group's **Statement of Purpose**
- Compliance is not only a function, but the way we do business with roles and responsibilities for every employee, forming Erste Group's culture of compliance

## Erste Group's compliance risk profile

### Stable customer base

**70%** of our customers  
> 10years

### Clear regional footprint

**98%** domestic customers  
in core markets  
**90%** of transactions  
within CEE region

### Correspondent banking

Only **0.1%** of transactions  
between non-customers through  
correspondent banking  
**75%** of correspondent banks  
in EU and core markets

Governance framework

Group-wide policies

Monitoring

Three lines of defense

## Conclusion –

There are a lot of reasons to be optimistic about the future

### Risk costs

- Risks costs are expected to stay at historically low levels in 2019, 2020 supported by ultra-low interest rates
- Risk costs in 2020 expected at <20bps of average customer loans
- Best estimate for through-the-cycle risk costs: 30-50 bps



### RWA

- Development is function of volume growth and structure of growth
- Regulatory drivers should be marginal, although positive model impacts expected by end-2019/ early 2020



### Asset quality

- Solid, albeit slowing, macro environment to support asset quality, as will well-balanced, diversified loan portfolio
- Solid lending standards in all core markets



### Compliance

- Embedded in corporate culture and business purpose
- Continuing investments in IT and staff
- Findings: no newsworthy incidents

