

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

21 November 2019, Vienna

**Austria/Erste Bank Oesterreich: More than a cost opportunity?**

Peter Bosek, CEO Erste Bank Oesterreich

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# Presentation topics

## More than a cost opportunity?

- Executive summary
- The growth story
  - Intro
  - The macro story
  - The micro story
- The digital story
- Conclusion

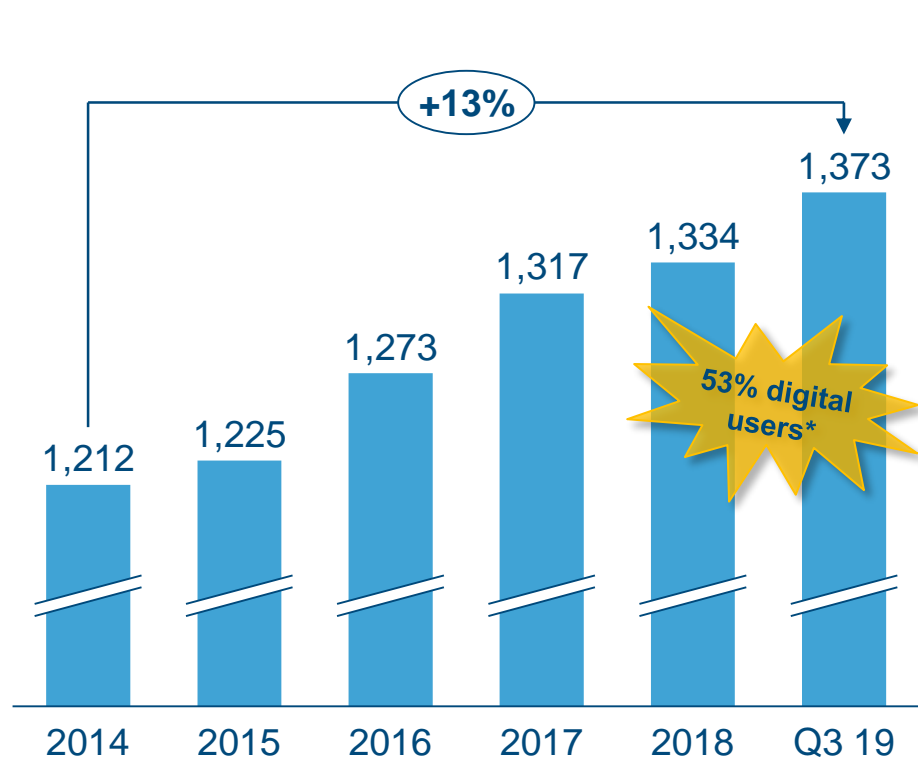
# Austria is also a growth story –

**GROWTH**

Strong rise in retail client base, corporate loans increase above market levels

**# of retail clients**

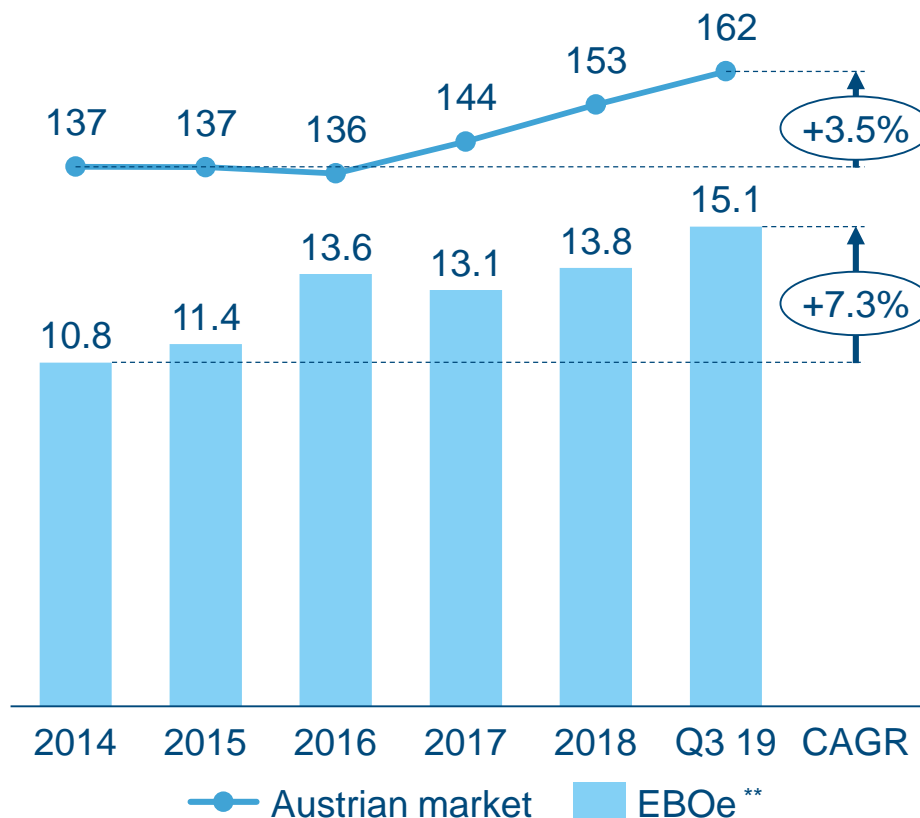
in thsd



\*) Clients with George access

**Corporate loan evolution**

in EUR bn



\*\*) Unconsolidated figures

# The George factor – Rising digital penetration reflected in revenues

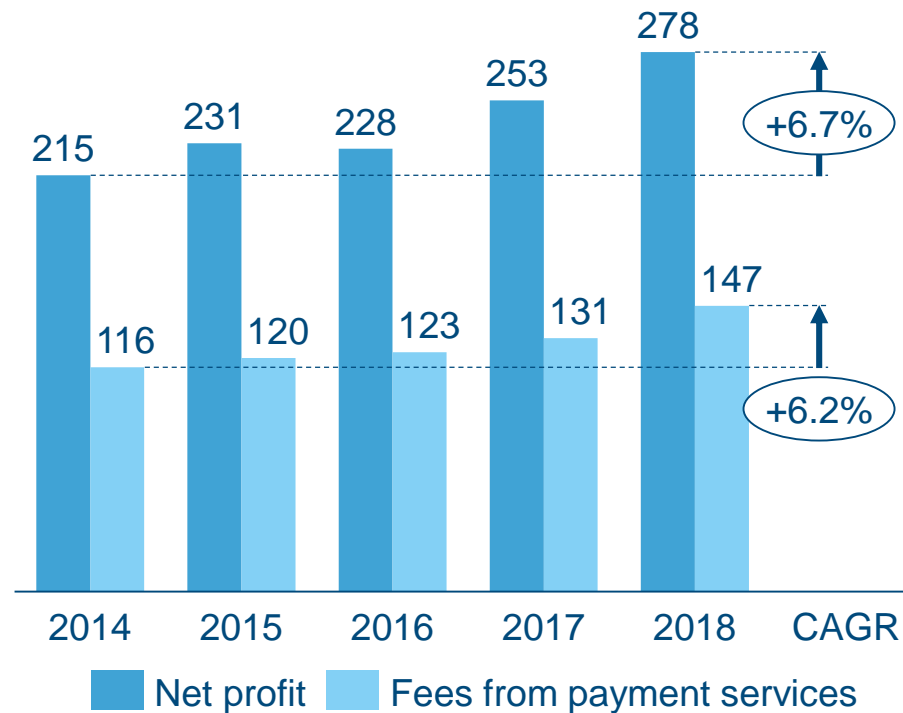
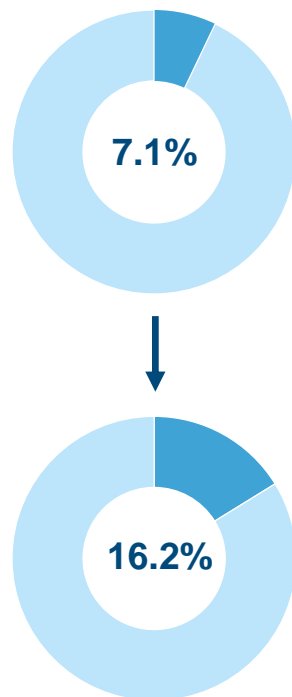
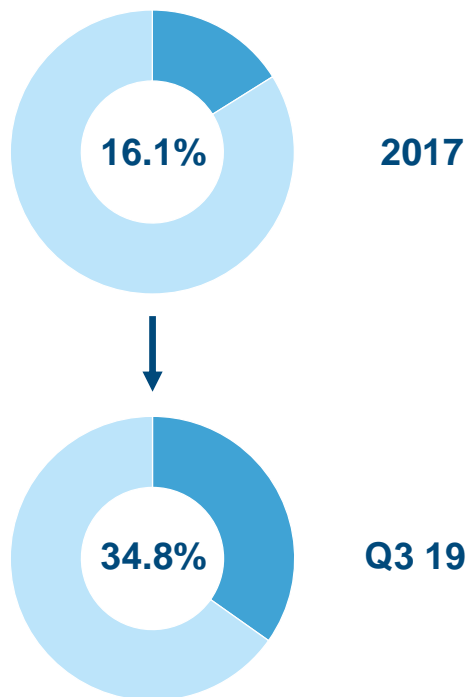
**Digital penetration\* is on the rise...**

**... as are net profit and payment service fees**

in EUR m

## Consumer loans

## Credit cards



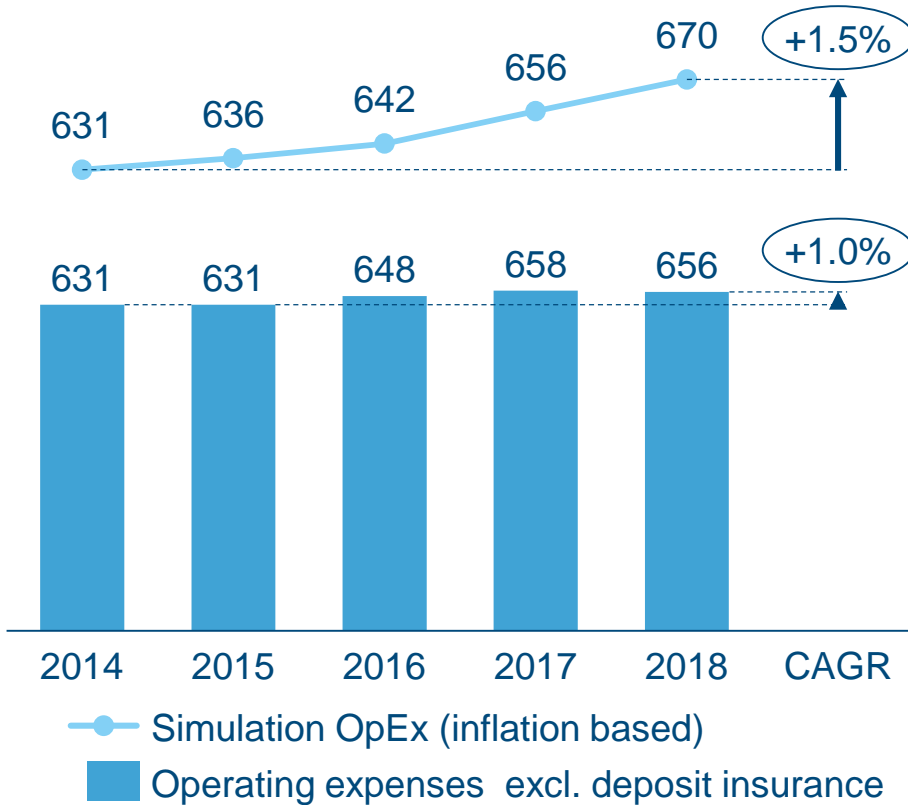
\*) % of products sold via digital channel

# Costs, costs, costs... –

## Strong track record of cost containment & further efforts ahead

### Below inflation operating expense trajectory

in EUR m



### Significant cost efforts going forward

- Erste Bank Oesterreich will contribute significantly to the group CIR target of ~55% by 2024
- Aim to slightly reduce costs in absolute terms over the period to 2024
- Digitalise operations
- Streamline corporate business between Holding and Erste Bank Oesterreich


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# Erste Bank Oesterreich & subsidiaries –

**GROWTH**


4 regional banks, building society and leasing entity covering most of Austria

**ERSTE  & Subs**

Branches: 192  
 Clients: 1.399k  
 Loans: 33.087m  
 Deposits: 35.450m  
 FTEs: 3.946

Salzburger  
**SPARKASSE **


Branches: 61  
 Clients: 224k  
 Loans: 4.648m  
 Deposits: 4.071m  
 FTEs: 543

**ERSTE **

Branches: 90  
 Clients: 1.000k  
 Loans: 19.509m  
 Deposits: 22.160m  
 FTEs: 2.307

** BAUSPARKASSE**

Loans: 5.144m  
 Deposits: 5.673m  
 FTEs: 196

Tiroler  
**SPARKASSE **

Branches: 26  
 Clients: 140k  
 Loans: 3.033m  
 Deposits: 2.635m  
 FTEs: 323

** LEASING**

Loans: 1287m  
 FTEs: 146

**SPARKASSE **  
 Hainburg-Bruck-Neusiedl

Branches: 15  
 Clients: 51k  
 Loans: 529m  
 Deposits: 935m  
 FTEs: 101



IFRS data as of 31.12.2018; Client figures: Retail MIS



# Catch-up potential in asset management and bancassurance – Share of AuM & share ownership substantially below EU peers ...

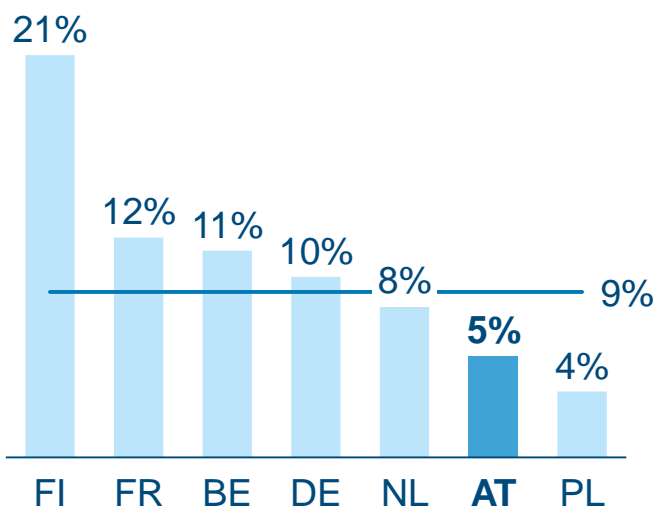
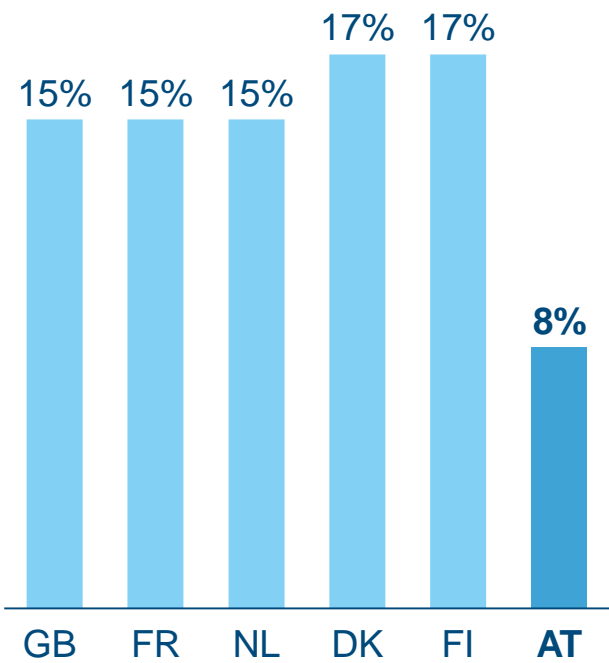
GROWTH

## Key messages

## Share of AuM\*

## Share ownership

- In 2017, assets under management accounted for only **8%** of total financial assets while the average share in selected comparable **European countries** amounted to **15%**
- Also in 2017, only **5%** of households in Austria owned **publicly traded shares**, compared to 21% in Finland and 9% in the euro area
- Therefore, Austria shows **significant growth potential**: In Q2 19, private households held financial assets in the amount of approx. EUR 700bn. Raising the share from 8% to 15% would translate into **additional EUR 50bn AuM**



■ Share of assets under mgmt. in % of total financial assets

■ Share ownership — Euro area

\*) Source: BCG (Global Asset Management 2018: The digital metamorphosis), data as of 2017

# Catch-up potential in asset management and bancassurance – ... and insurance penetration mirrors the picture

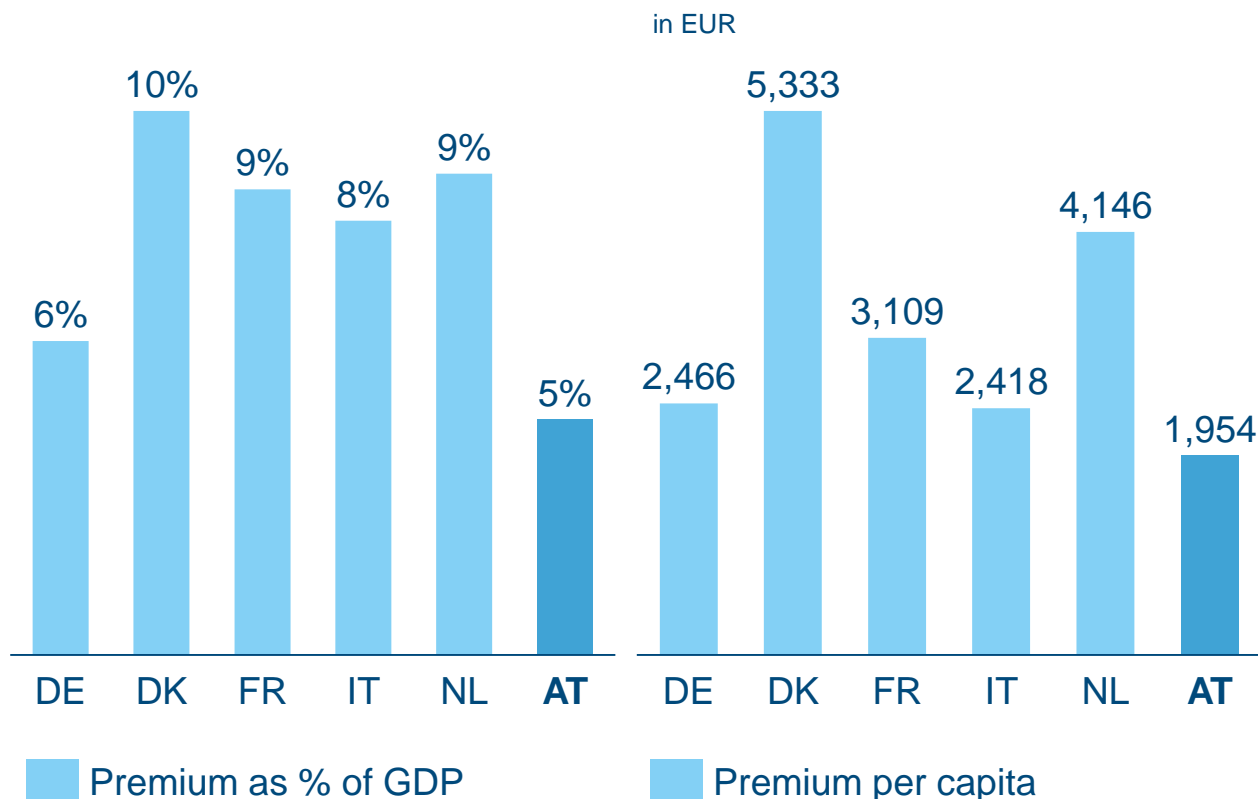
GROWTH

## Key messages

## Total insurance penetration\*

## Insurance premium per capita

- In 2018, **total insurance penetration stood at 5%**, within euro zone only underperformed by Cyprus and Greece, showing significant catch-up potential
- While EU peers recorded visible growth rates in premium per capita **between 2015 and 2018**, e.g. Germany 3.4% p.a., **Austria grew by 1.1% p.a. only**



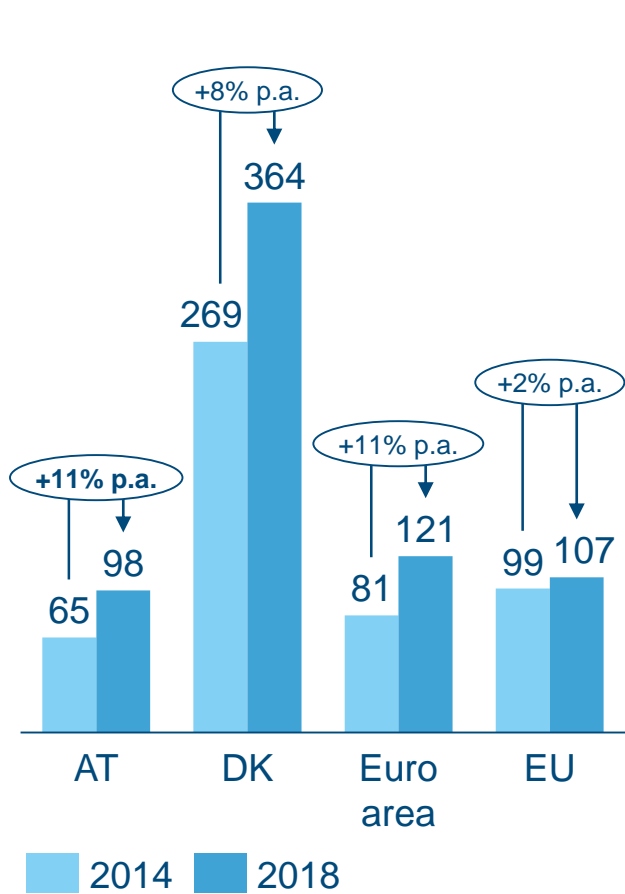
\*) Source: Sigma Explorer (Swiss Re), data as of 2018, source premium/capita data in USD

# Further growth opportunities – Primarily in card business and mortgage lending

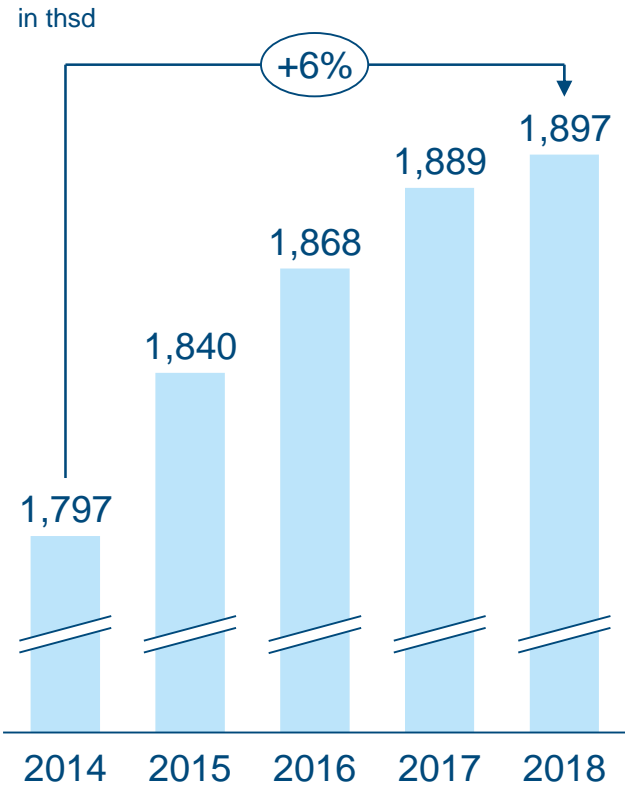
## Key messages

- **Card usage** in Austria still **below EU average** with 98 payments per capita a year. Denmark on top of ranking with 364 card payments in 2018
- However, **strong increase in number of card payments** in Austria with +10.6% p.a. over the past 5 years, with growth comparable to euro area
- Vienna's population has **grown** on average by **1.4% p.a.** in the last 5 years, reaching almost 1.9 million people in 2018, driving demand for housing

## # card payments per capita



## Population Vienna



# Presentation topics

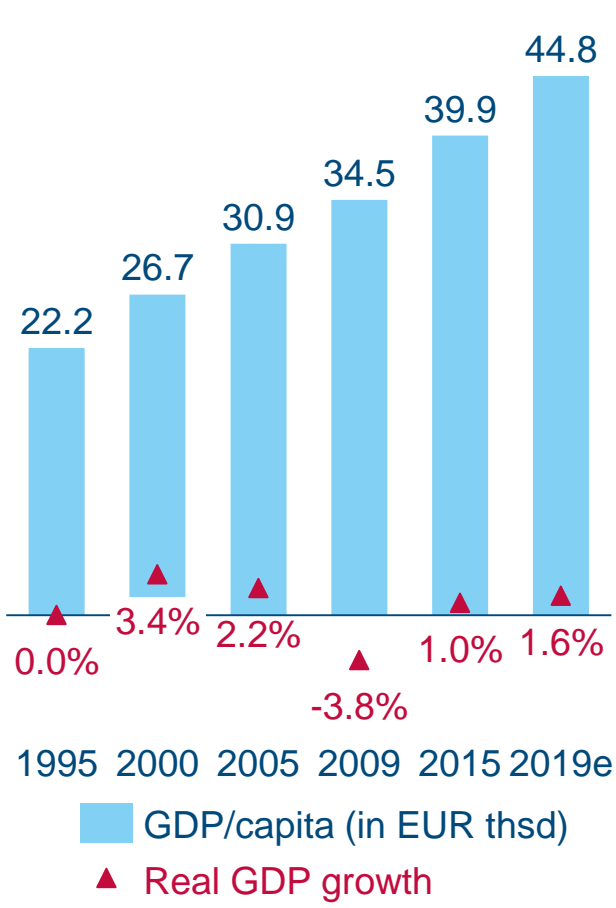
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# Economic environment – Stable growth in a mature market

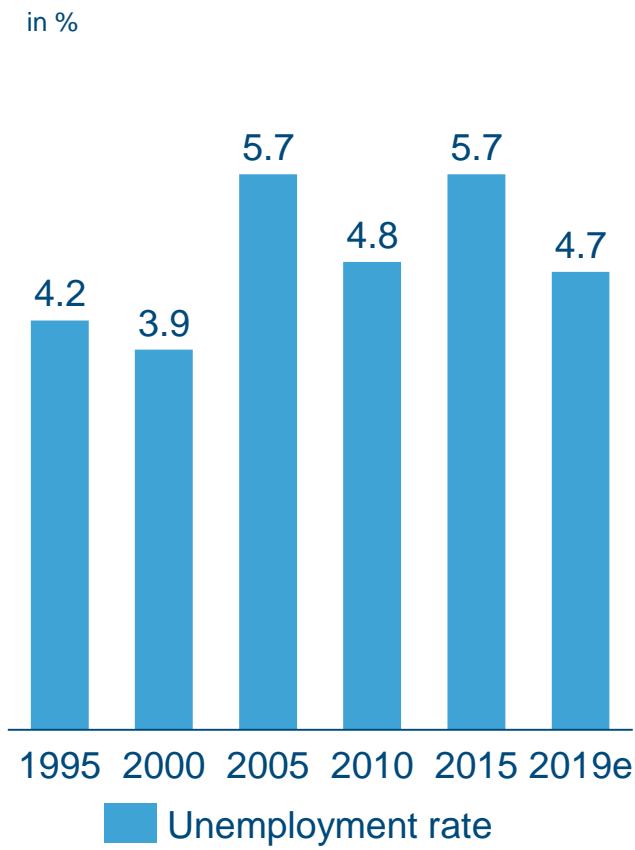
## Key developments

- GDP growth mainly driven by private consumption
- Investments cool down a bit after solid development in 2017 and 2018
- Exports impacted by global economic slowdown
- Unemployment rate at a declining path again

## GDP



## Labour market



Source: Erste Group Research

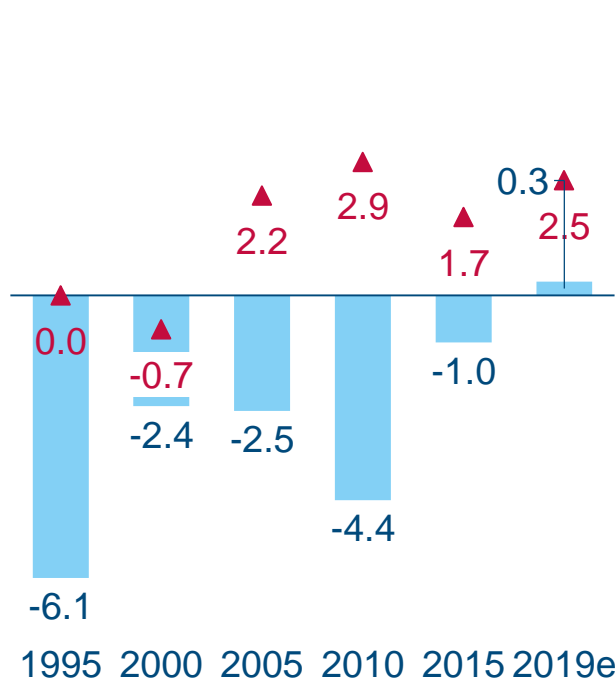
# Economic environment – Balanced budget achieved

## Key developments

- Public debt on declining path after temporary increase driven by bailing-in of failed banks
- Low interest rate environment and bad banks' resolution contribute to recently improved government finance

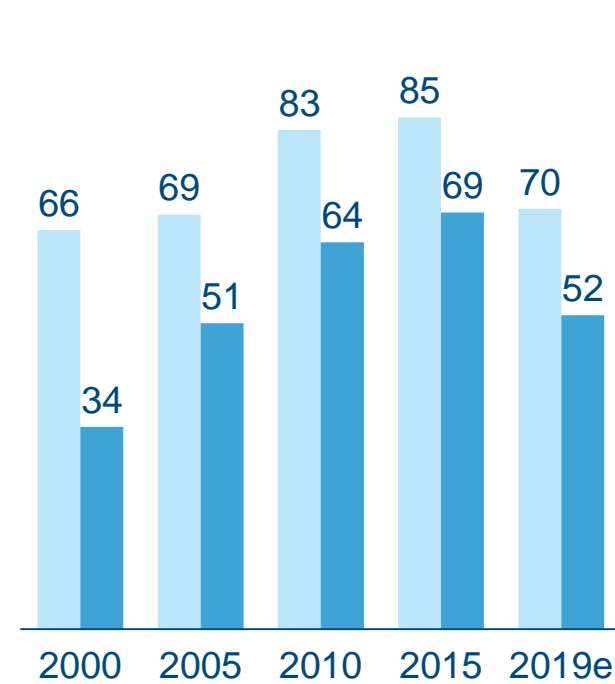
## Economic balances

in % GDP



## Public & external debt

in % GDP



■ Government balance  
▲ Current account balance

■ Public debt  
■ External debt

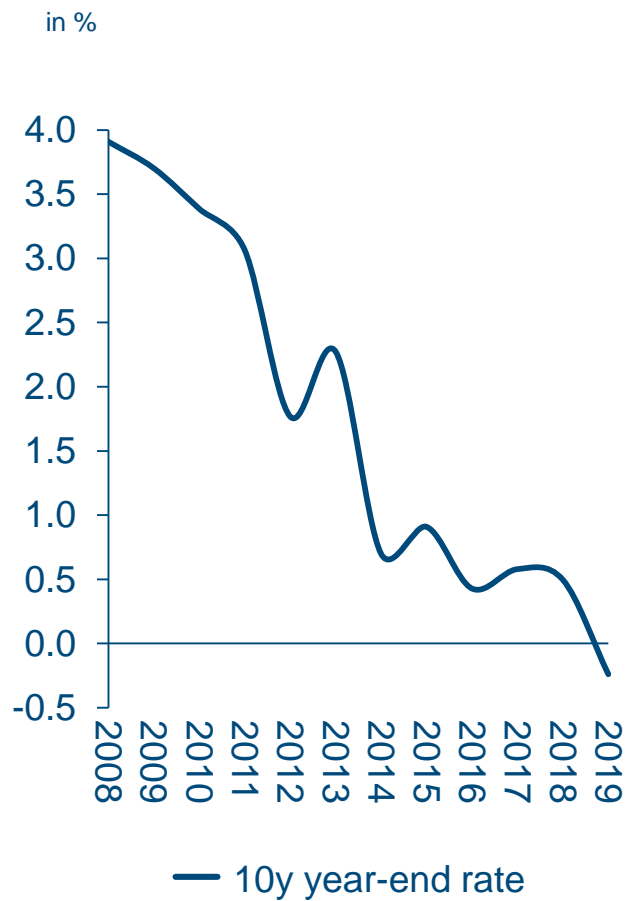
Source: Erste Group Research

# Economic environment – Interest rates at historical lows

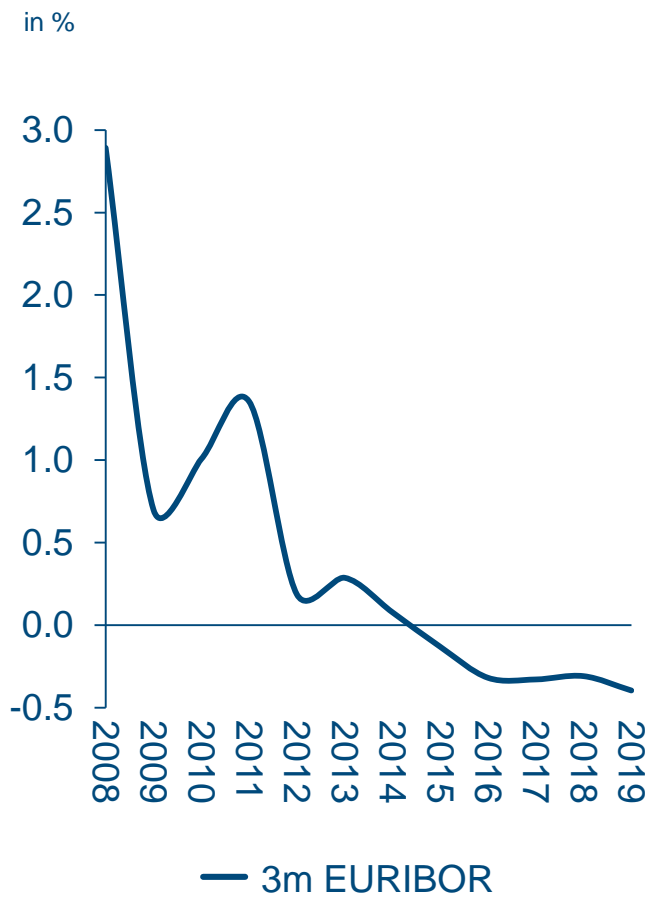
## Key developments

- ECB cut interest rates further from -0.40% to -0.50% in Sep 19
- 3m EURIBOR went further down to negative territory
- 10y yields also declined to negative territory in line with government bond yields
- Spread remained between 20 and 30 basis points

## Government bond yield



## Short-term interest rate



Source: ThomsonReuters

# Banking market – Loan growth accelerated

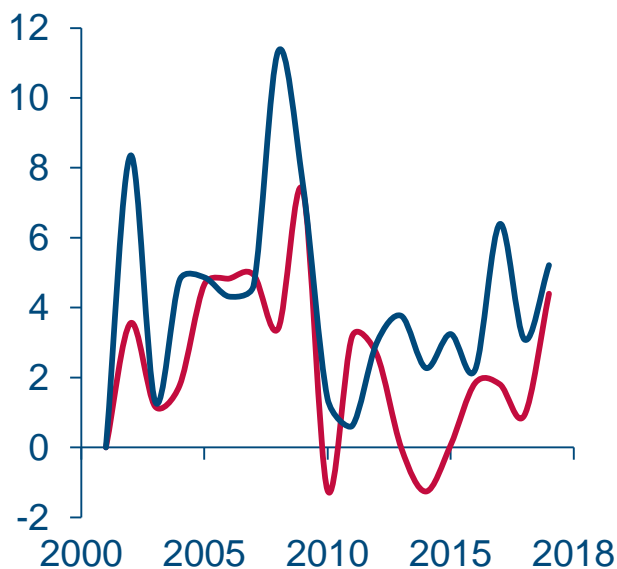
GROWTH

## Key developments

- Visible pick-up in loan growth in 2017 and 2018, accompanied by solid deposit inflows
- Loans/GDP ratio declined

## Market growth

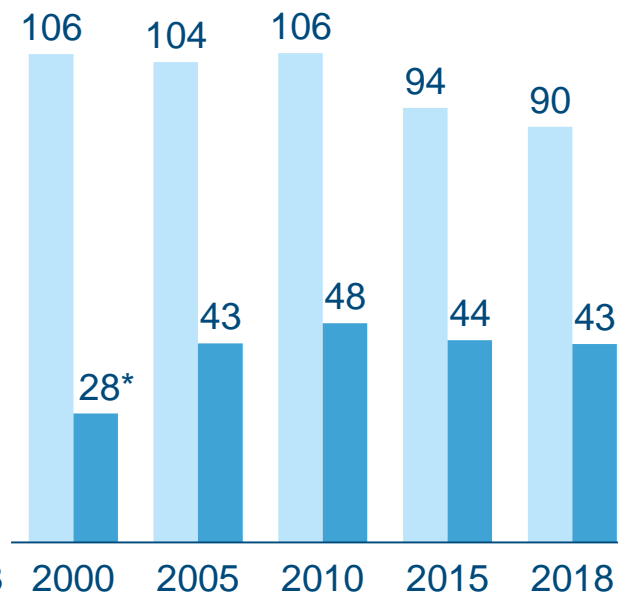
in %



— Customer loan growth  
— Customer deposit growth

## Penetration

in % of GDP



■ Customer loans  
■ Household loans

Source: Oesterreichische Nationalbank

\*) Data as of 2001



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# Customer loans –

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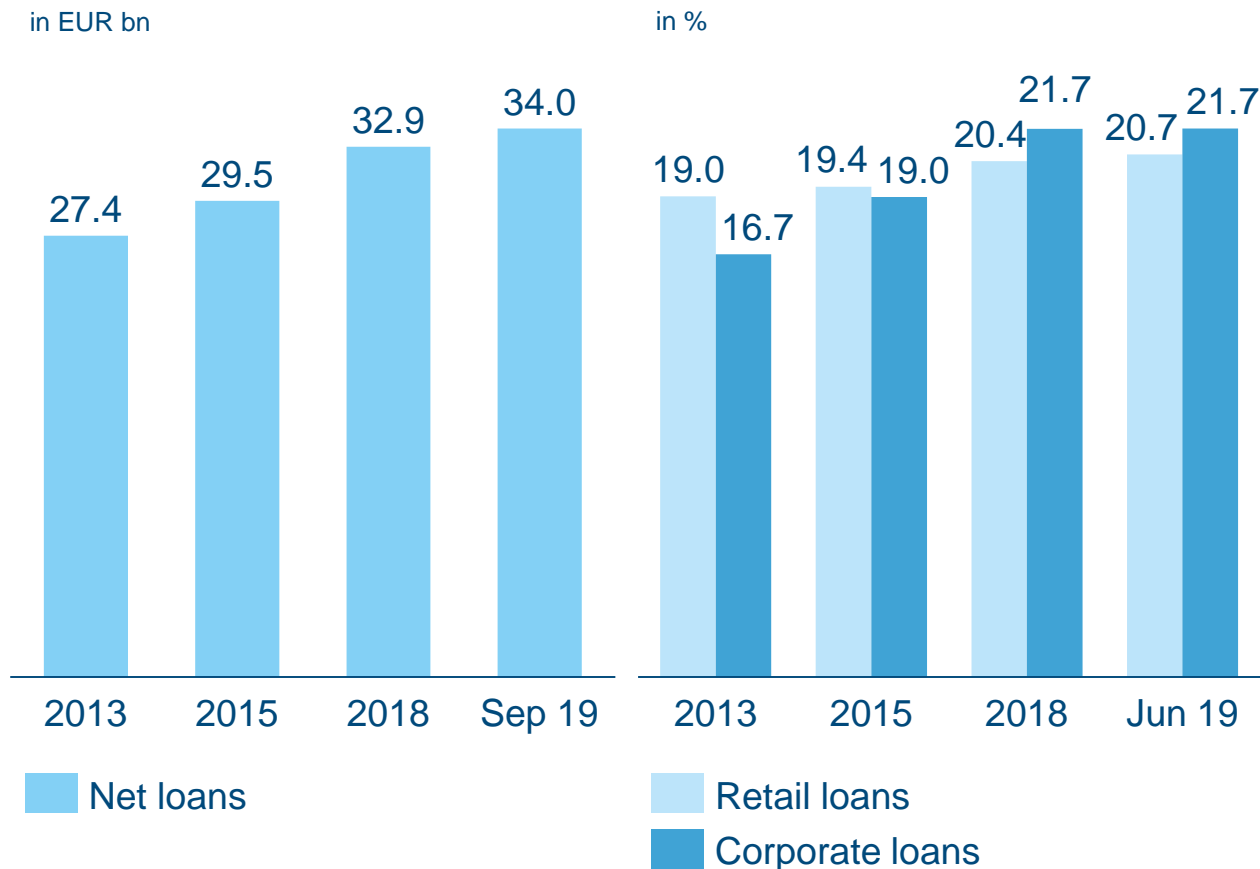
Rising market shares, particularly visible in Corporate business

## Key developments

## Volume evolution

## Market shares\*

- Solid volume growth both in Retail and Corporate business
- Loans are driven by Mortgages and SME lending
- Outgrowing market in Corporate lending



\*) Combined market share EBOe and savings banks

# Customer deposits and asset management – Deposits remain the main source of funding

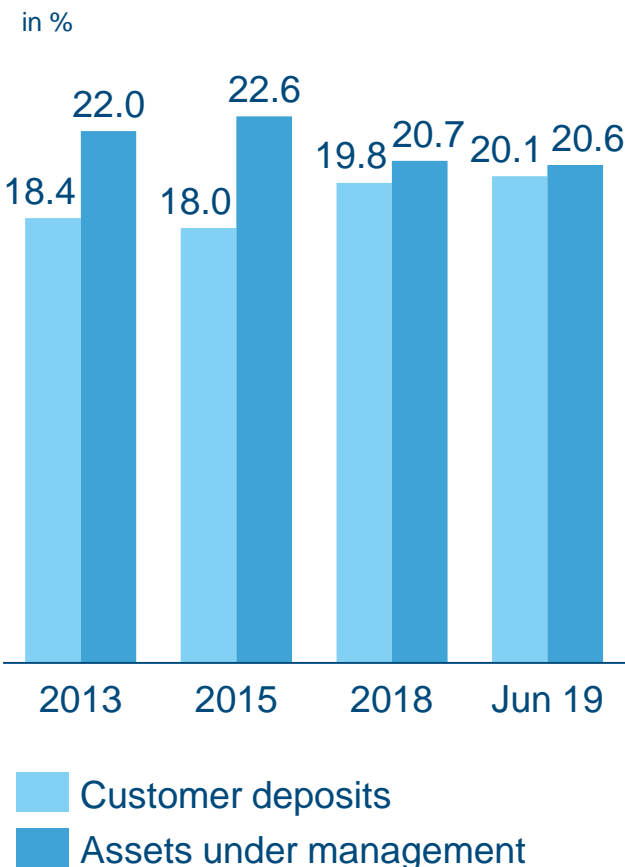
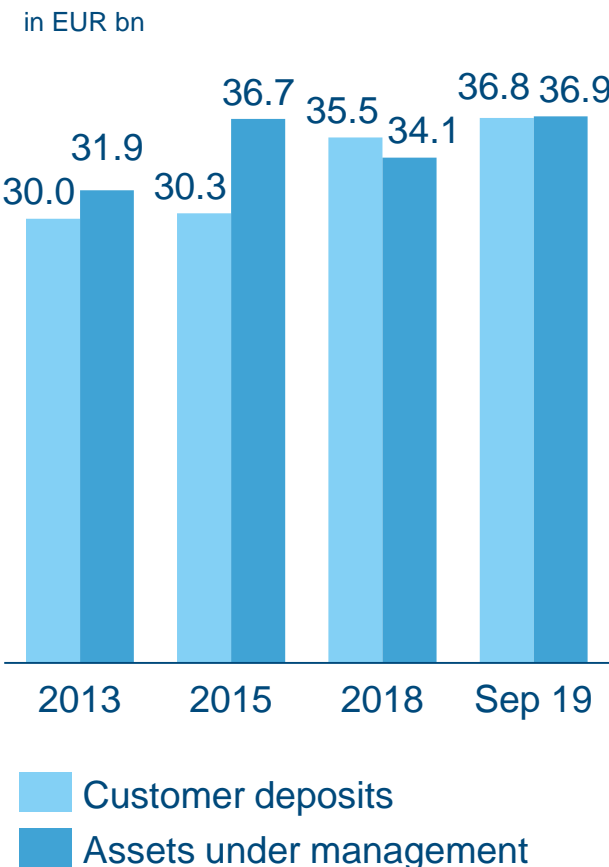
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## Key developments

## Development of volume

## Market shares\*

- Significant deposit inflow despite low interest rate environment
- Customer deposit market shares temporarily declined post-crises, steady increase since
- AuM (funds) declined in 2018 in line with negative market performance (esp. in Q4 18). Negative performance in retail net sales partially offset by sales through discretionary portfolio management and real estate funds.



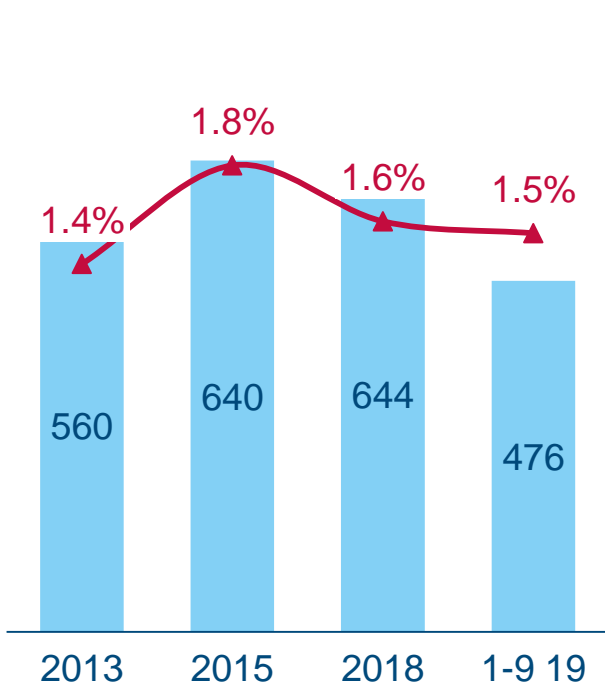
\*) Combined market share EBOe and savings banks

# Net interest income and fee income – Interest environment weighs on NII while fee income improves steadily

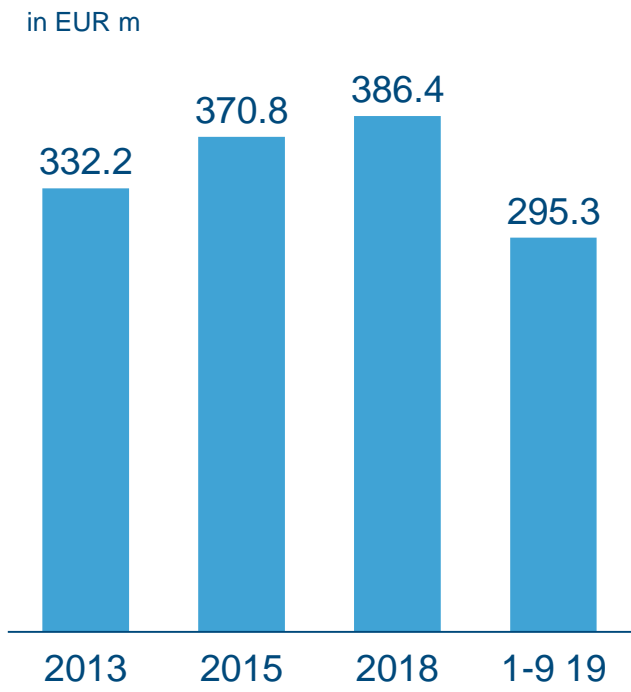
## Key developments

- Net interest income reflects mainly significant loan growth development, but headwind from low interest rate environment has increased
- NIM development mirrors rate environment
- Fee and commission income increased steadily, mainly driven by payment services

## NII & NIM



## Net fee and commission income



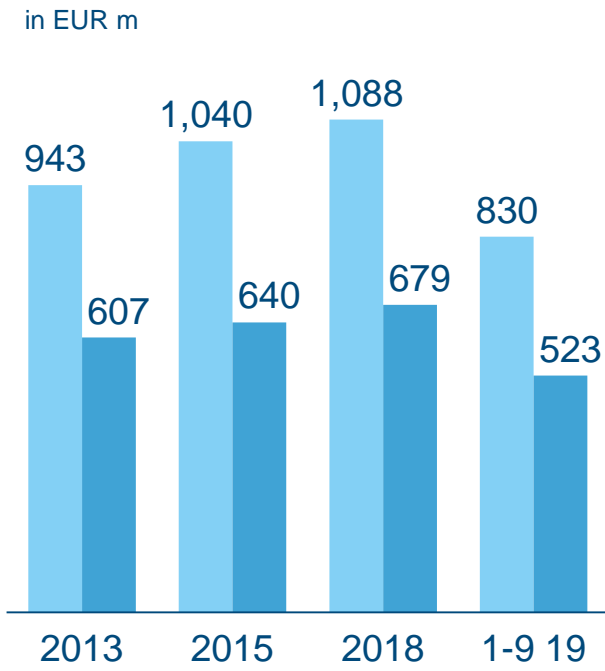
■ Net interest income (in EUR m)  
 ▲ Net interest margin

# Operating result – Revenues rise slower than expenses

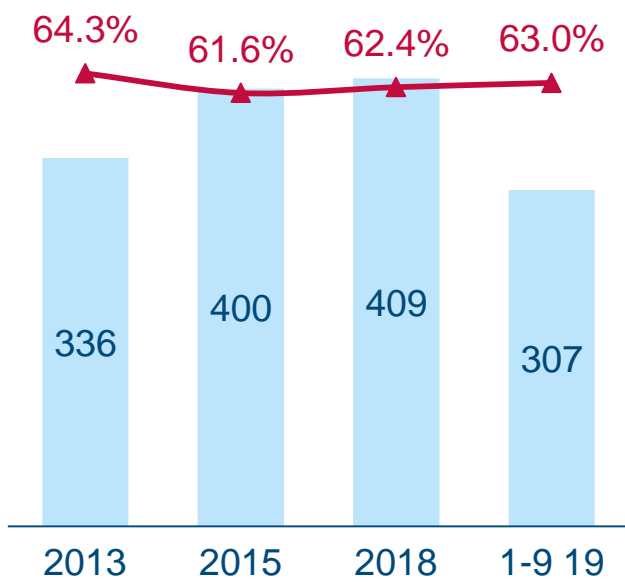
## Key developments

- Solid development of operating income mainly driven by net interest income and fee performance
- Operating expenses increased primarily on other admin. expenses (mainly IT and deposit insurance contribution), in 2019 increase is predominantly driven by wage inflation

## Operating income & expenses



## Operating result & CIR



■ Operating income  
■ Operating expenses

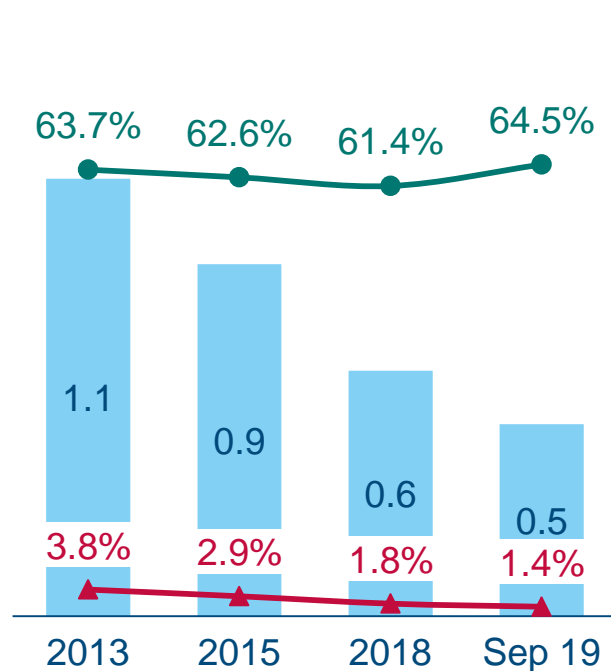
■ Operating result (in EUR m)  
▲ Cost/income ratio

# Asset quality and risk costs – Continuation of high asset quality trends

## Key developments

- Reduction of NPLs on recoveries and write-offs, NPL ratio declines further
- Traditionally relatively low risk costs, net releases in recent past
- Coverage ratio remained stable above 60%

## Asset quality



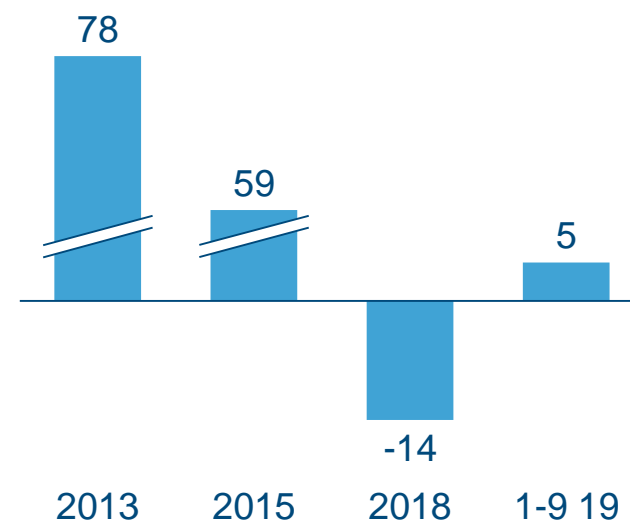
■ NPL (in EUR m)

▲ NPL ratio

● NPL coverage

## Risk costs

in EUR m



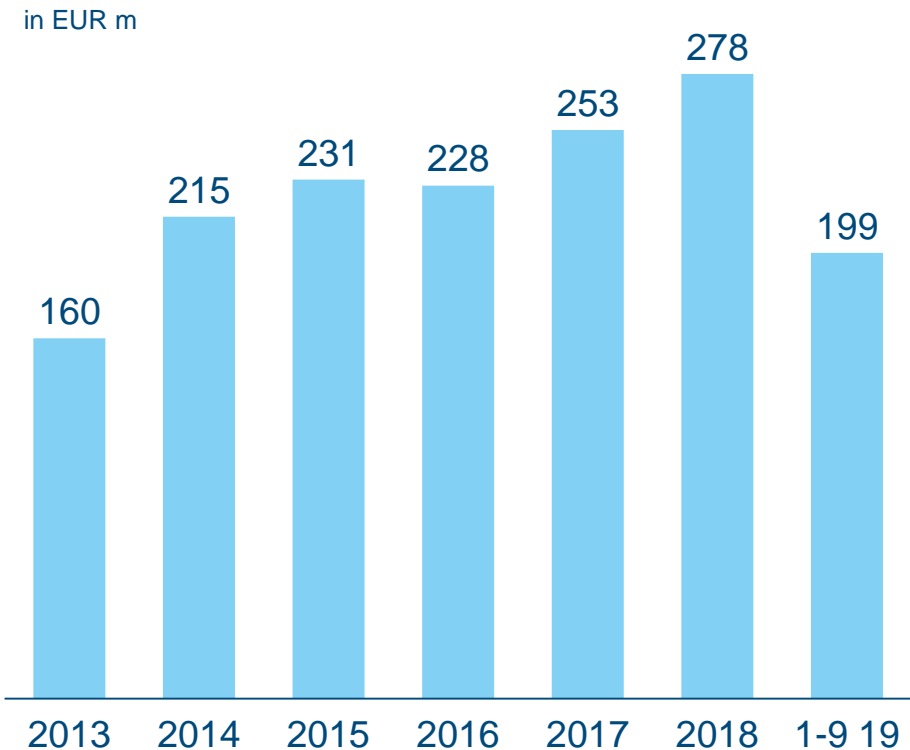
# Net result – Solid profitability in a mature market

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## Key developments

- Net result improved on operating performance, supported by risk cost development
- Banking tax has been cut significantly since 2016

## Net result evolution



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- **The digital story**
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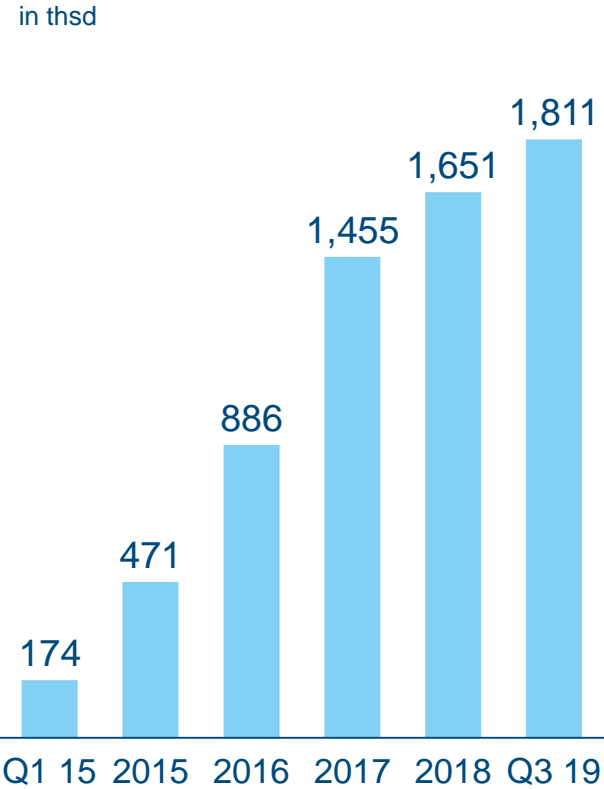


# George driving digitisation of clients – Rapid increase of George users and overall digital penetration

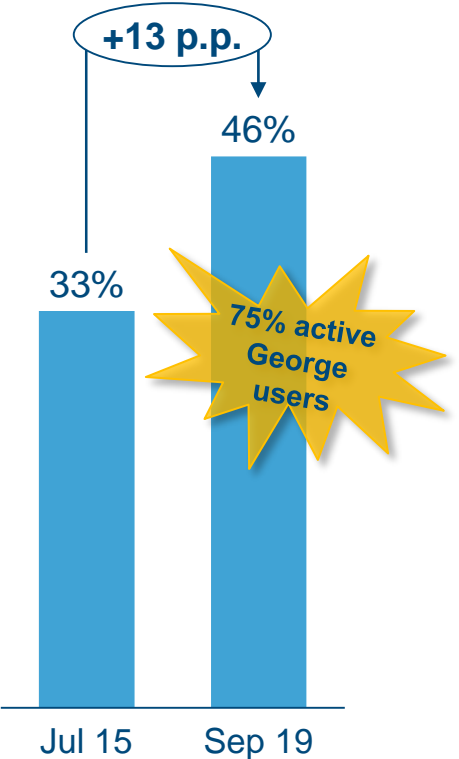
## Key messages

- George grew to be the country's most popular banking platform with more than **1.8m users** end of September 2019
- Rapid migration to George and growth in users. First time key achievements so far: **5 m transfers/month** in Q3 18, **30m logins/month** in Q2 19
- George driving digital penetration with **46%** of all **potential users** in **EBOe** and **Sparkassen** already being **active digital users**, comparing to 33% digital usage in Q2 15. And **75%** of users with a George access are already **monthly active users**

## George user\* in Austria



## Digital banking penetration Austria\*\*



\*) Clients with George access in Austria. Official launch of George in beginning 2015  
 \*\*) Percentage of active digital users across all potential users in Austria (EBOe and Sparkassen clients)

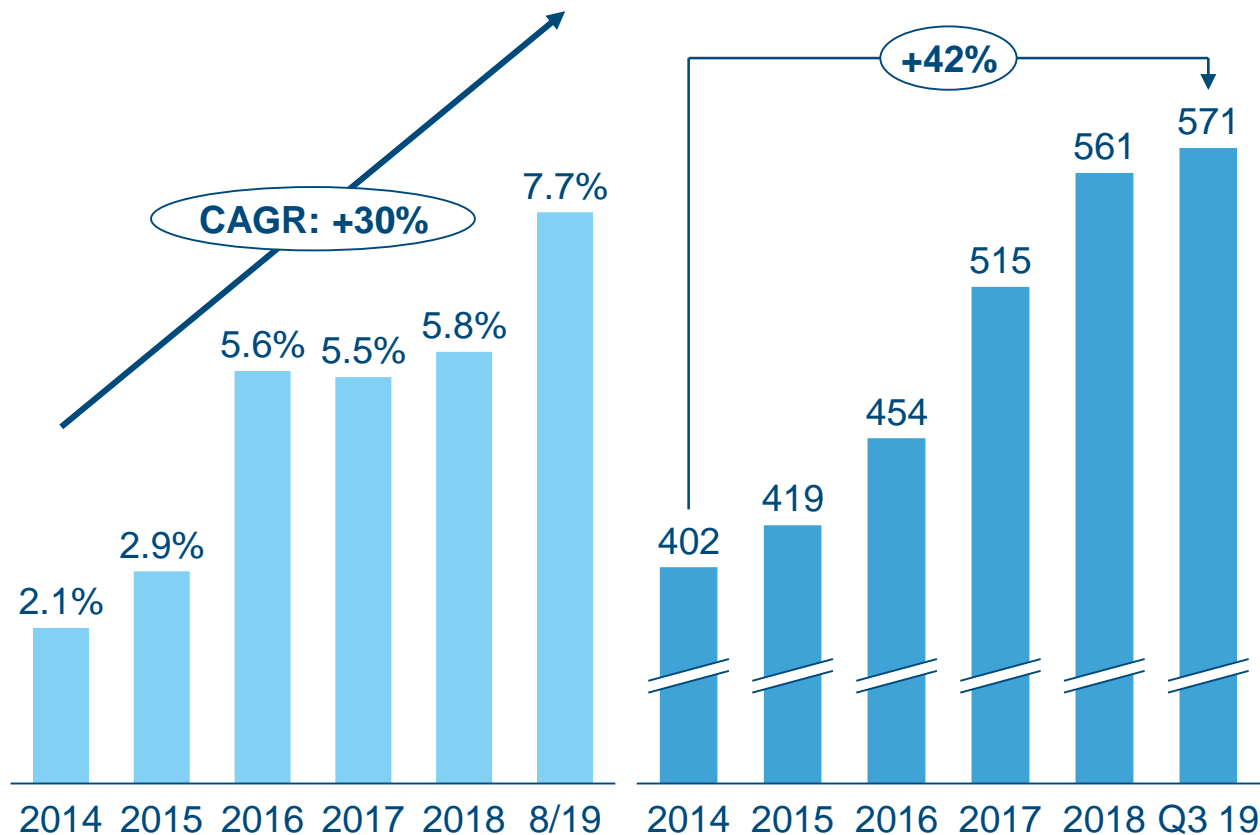
# George driving digitisation and efficiency – Case study securities

## Key messages

## % contribution margin securities generated via George

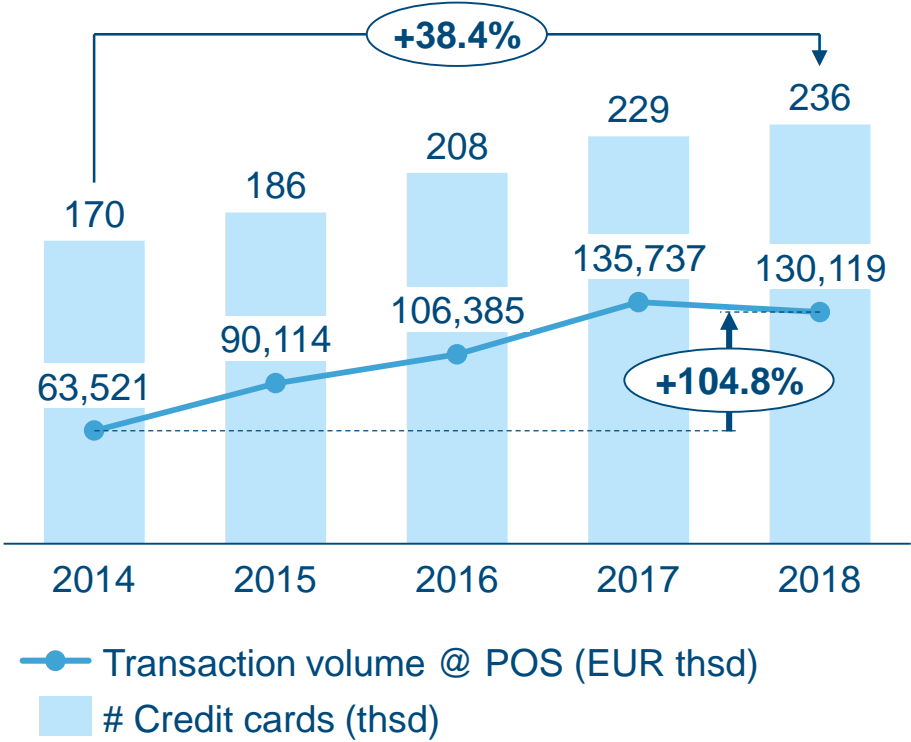
## Premium retail customers per advisor

- George already contributes 7.7% to the contribution margin from securities business (securities sold/bought fully digitally)
- This constitutes an impressive growth of 30% per annum over the last years
- In addition, George and digitalisation drive efficiency with a coverage ratio increase by 42% over the last 5 years in the premium segment

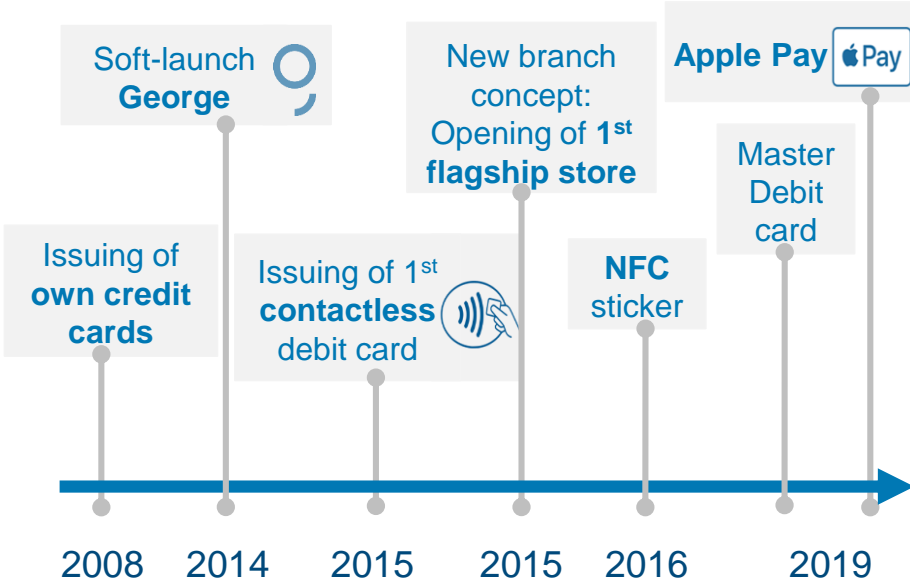


# Visible results of business model transformation – Growing card numbers and transaction volumes

Cards & volume development in EBOe



Timeline of transformation



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## Conclusion –

### Macro

- Stable macro environment
- GDP growth mainly driven by household consumption
- Government debt on declining path

### Banking market

- Customer deposits have outgrown customer loans for the past years
- Strong loan growth in corporate business in the recent past
- Traditionally low risk costs

### Erste Bank Oesterreich

- EBOe well positioned for outgrowing market
- Significant catch-up potential in asset management business
- Mortgage lending driven by favourable market conditions

### Digitalisation

- Digital platform George launched in 2015
- More than 1.8 million George users
- More than 5 million transfers a month via George (first time in Q3 2018)