

Erste Group – 9th Capital Markets Day

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Croatia/Erste Bank Croatia: Leading in customer satisfaction

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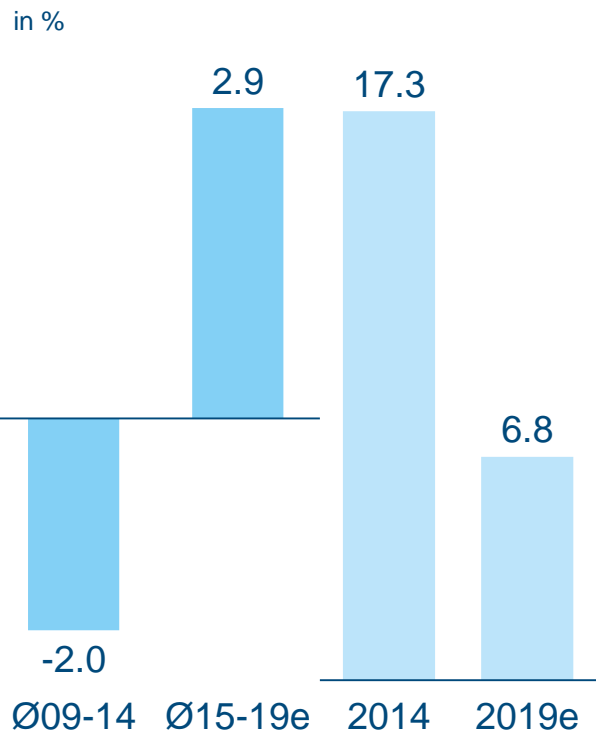
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Presentation topics – Leading in customer satisfaction

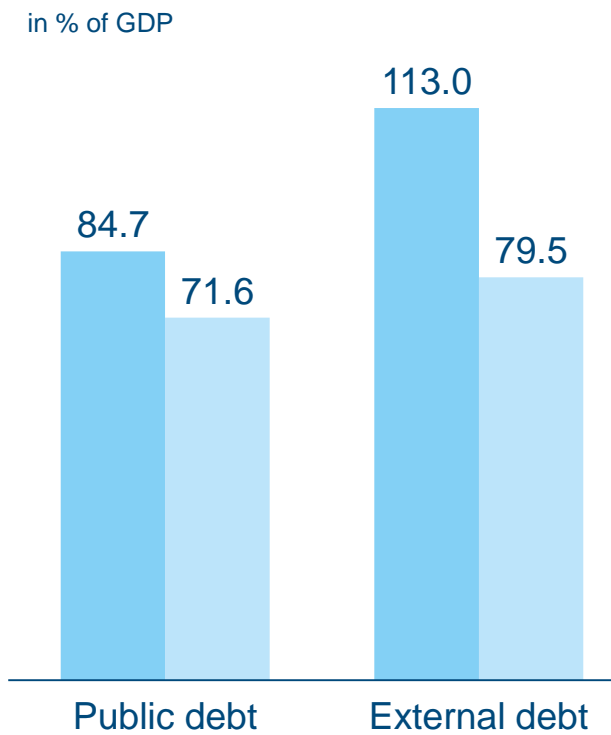
- Executive summary
- The growth story
 - Intro
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The economic turnaround – From recession to healthy growth

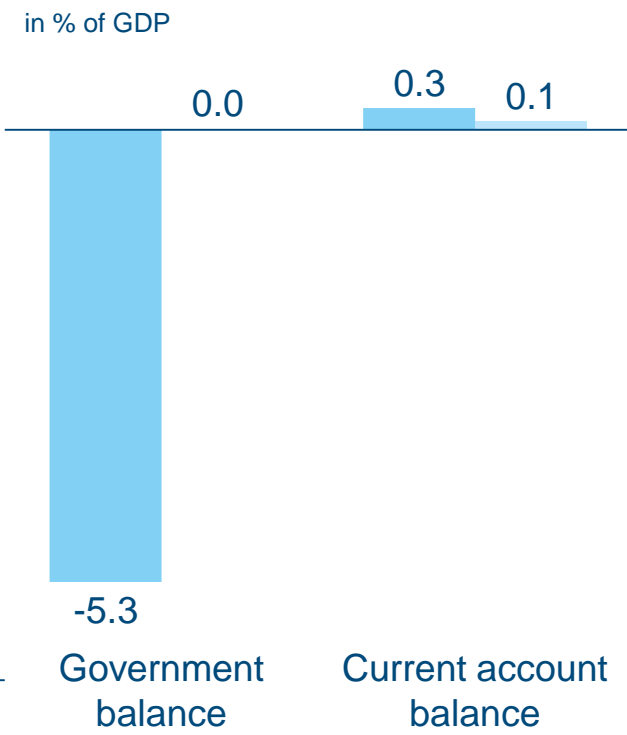
Improved GDP & labour market



Lower indebtedness



Sound economic balances



■ Real GDP growth
■ Unemployment rate

■ 2014 ■ 2019e

■ 2014 ■ 2019e

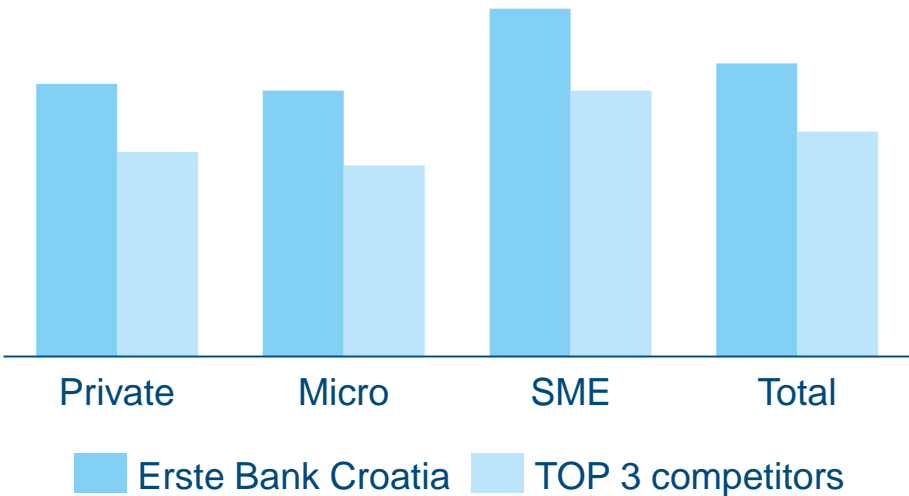
Source: Erste Group Research

Erste Bank Croatia: excellent reputation – Leading brand position and customer satisfaction in Croatia

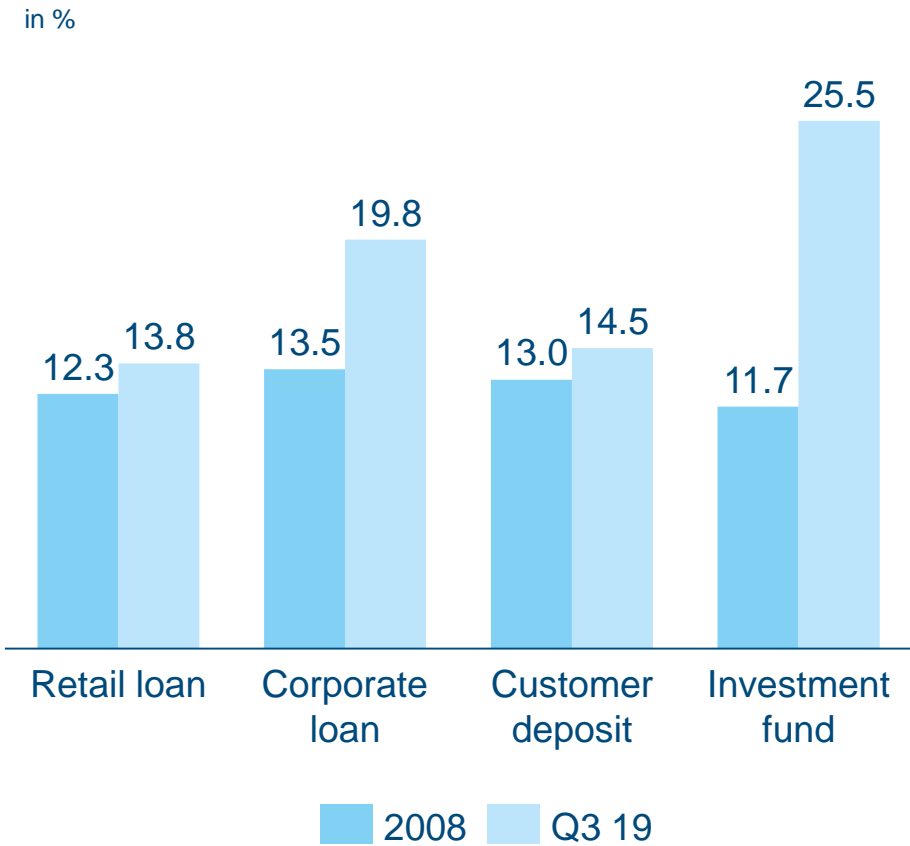
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Most recommended bank in Croatia

Would you recommend your main bank to family and friends/companies like yours?



Increasing market shares in all segments



HE HS Leading innovation in open banking

Erste Group in Montenegro –

Erste Bank Podgorica has been awarded the best bank in the country

GROWTH

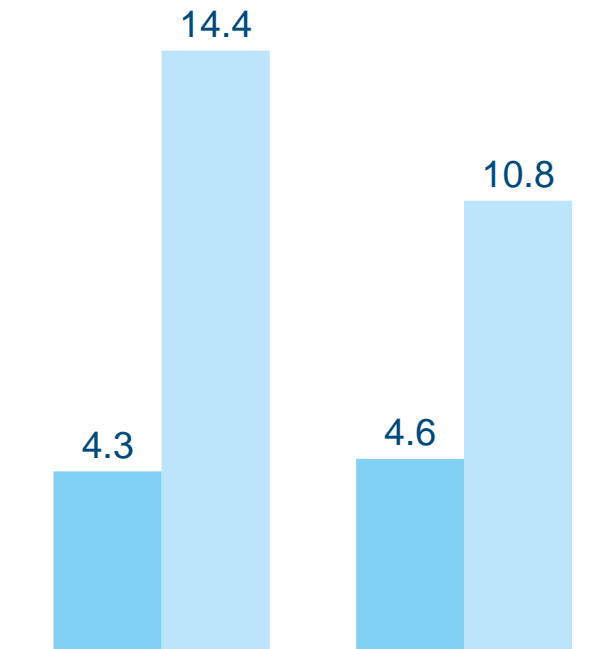
Spot on Montenegro

Very strong market positions*

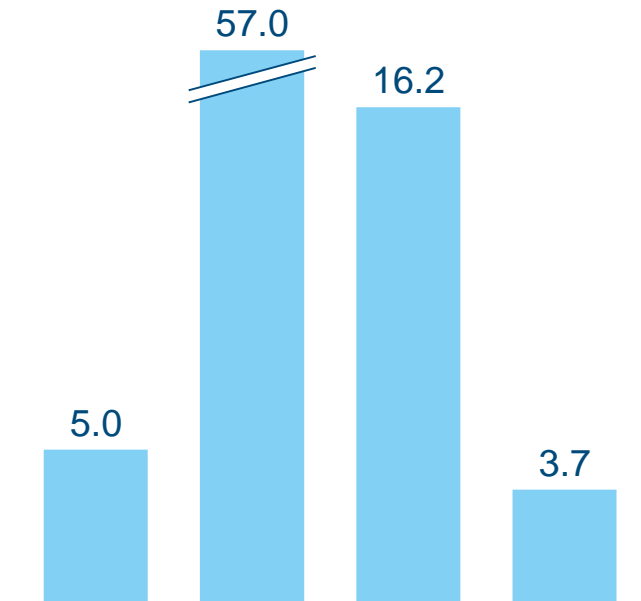
Impressive business indicators



in %



in %



Customer loan market share

Customer deposit market share

NIM

CIR

ROE

NPL ratio

2008

Q3 19



Q3 19

*) Erste Bank Podgorica is 100% owned by Erste Bank Croatia

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Introduction – Clear market leader in open banking



The image illustrates the transition from physical cash to digital payments. On the left, a stack of black leather wallets is overflowing with Euro banknotes, including 100 and 200 Euro notes. On the right, the HEKS PAY app is showcased. The app's logo, 'HEKS PAY', is displayed in large, stylized green and blue letters. Below the logo, four smartphones are shown, each displaying a different screen of the app: a balance screen showing 280€, a transaction list, a payment confirmation screen for 100€, and a transaction history screen. At the bottom of the app interface, there are buttons for 'GET IT ON Google Play' and 'Download on the App Store'.

Presentation topics

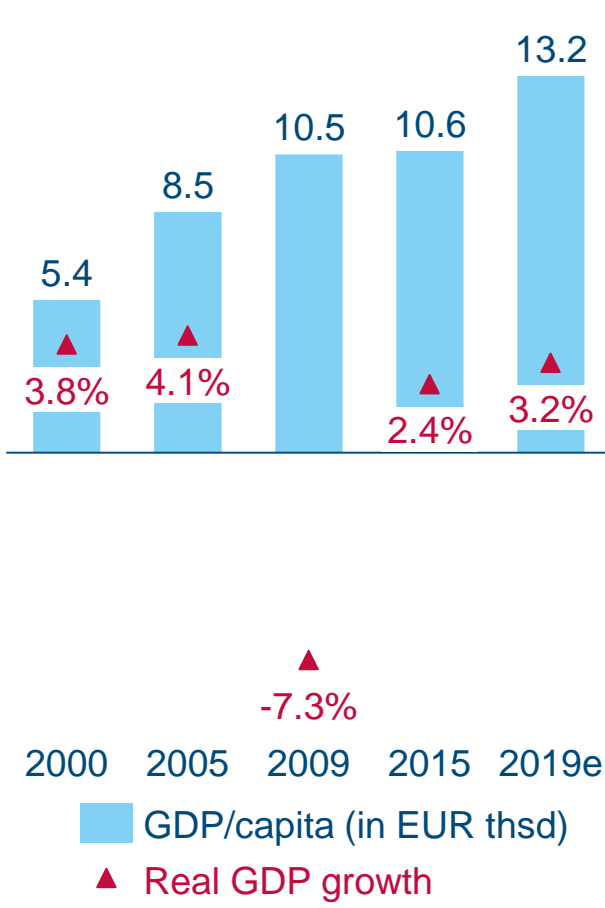
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Economic environment – Convergence story restarted

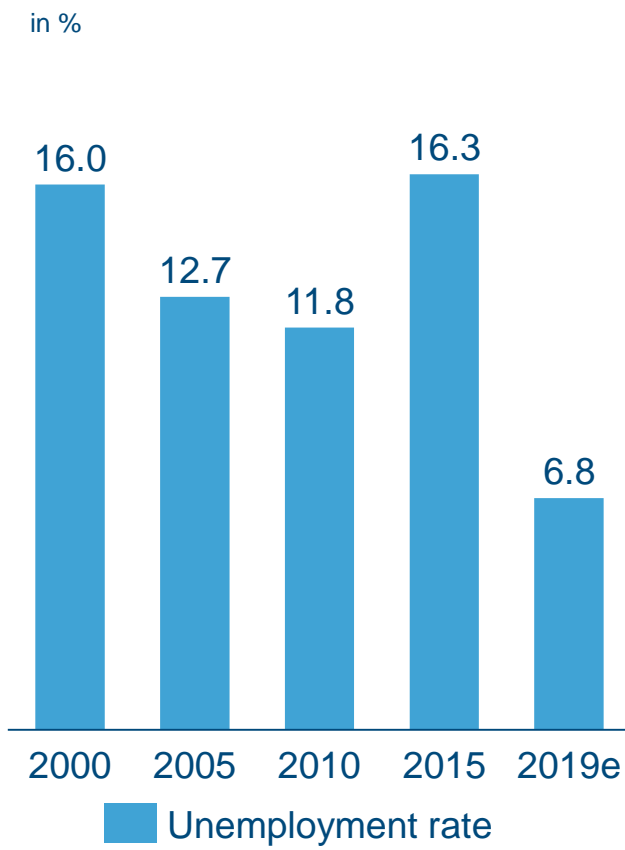
Key developments

- Following lengthy recession, economic performance normalised with GDP growing at moderate pace in the last 5 years
- Growth structure remained balanced between external and domestic demand
- EU fund absorption rate has potential to increase
- Labour market getting increasingly tight

GDP



Labour market



Source: Erste Group Research

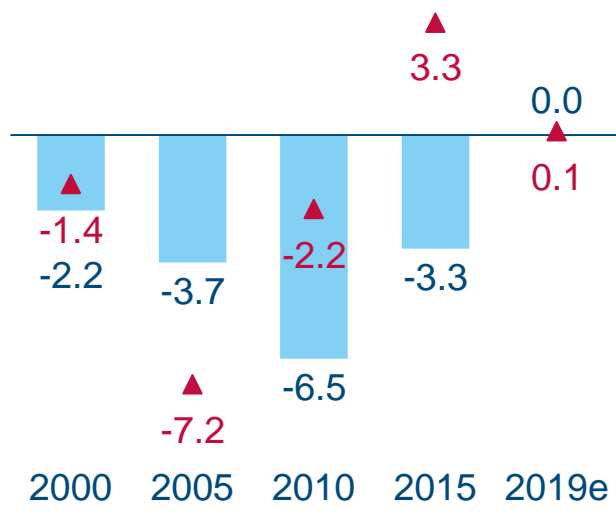
Economic environment – External imbalances significantly reduced

Key developments

- Croatia has been running current account surplus since 2014, signalling overall sustainable growth footprint
- Consequently external debt shifted to downward trajectory
- Fiscal performance also improved with anticipated budget surplus in 2017-19 period
- Public debt is trending steadily down

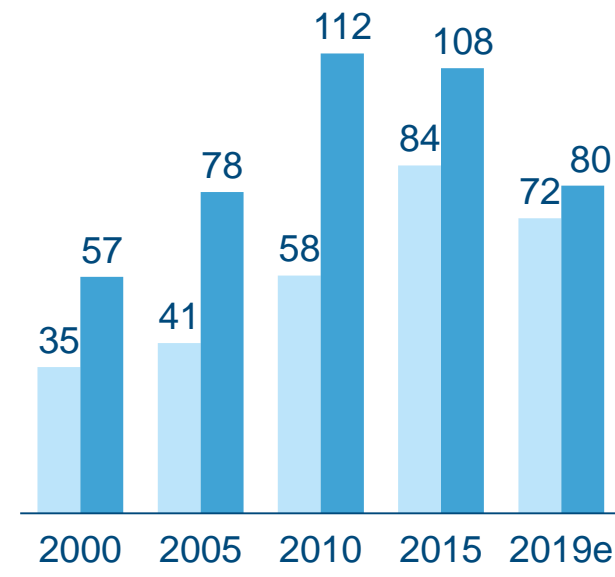
Economic balances

in % of GDP



Public & external debt

in % of GDP



■ Government balance*
▲ Current account balance

■ Public debt
■ External debt

Source: Erste Group Research

*) 2001 government balance data shown in 2000

Economic environment – Monetary conditions remain loose

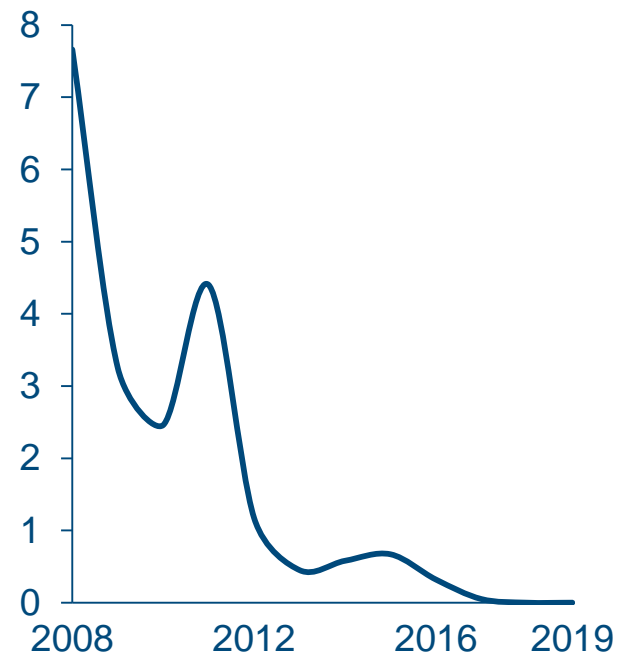
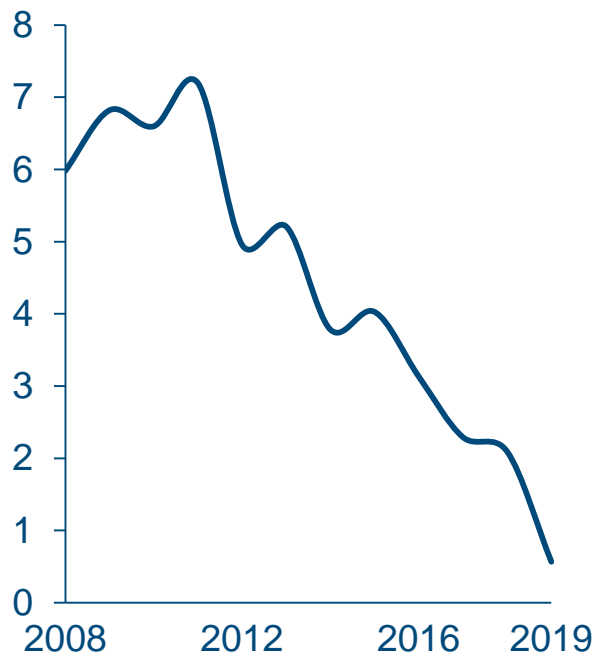
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Key developments

Government bond yield

Short-term interest rate

- The National Bank of Croatia has traditionally focused on managing FX rate in tight peg
- Global environment and improving local fundamentals allowed for accommodative stance as LCY liquidity is concerned
- Low yield-environment, along with improving fiscal metrics and formalisation of EMU membership aspirations led to both strong yield and spread compression



— 10y year-end rate

— 3m ZIBOR

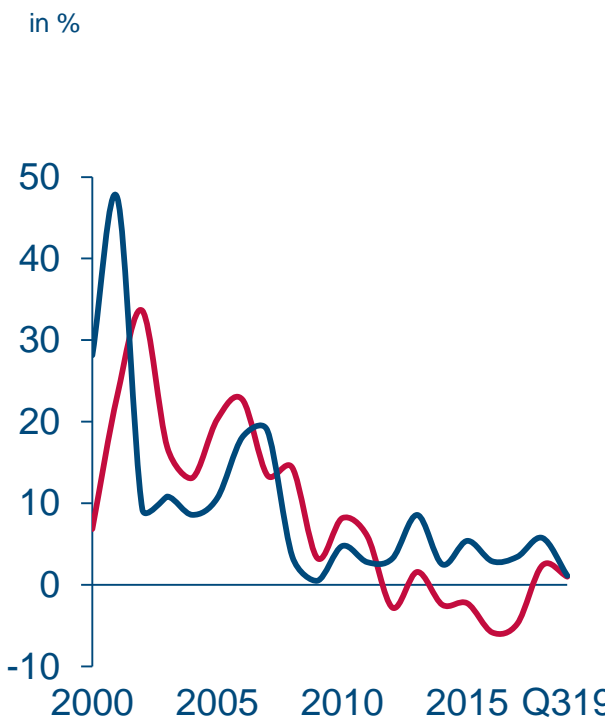
Source: ThomsonReuters

Banking market – Growth rates normalising following prolonged deleveraging

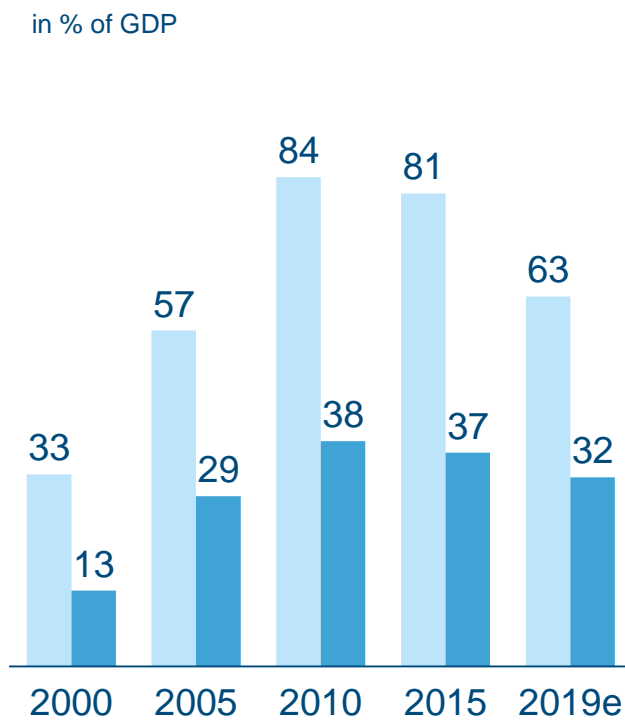
Key developments

- Croatia ranks high among CEE peers based on penetration
- Last decade showed some cooling-off reflecting a more sustainable GDP growth profile and deleveraging of both corporate and households
- Credit dynamics gathered some traction reflecting mostly revived economic outlook

Market growth



Penetration



— Customer loan growth
— Customer deposit growth

■ Customer loans
■ Household loans

Source: National Bank of Croatia

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Customer loans – Long-term steady performance

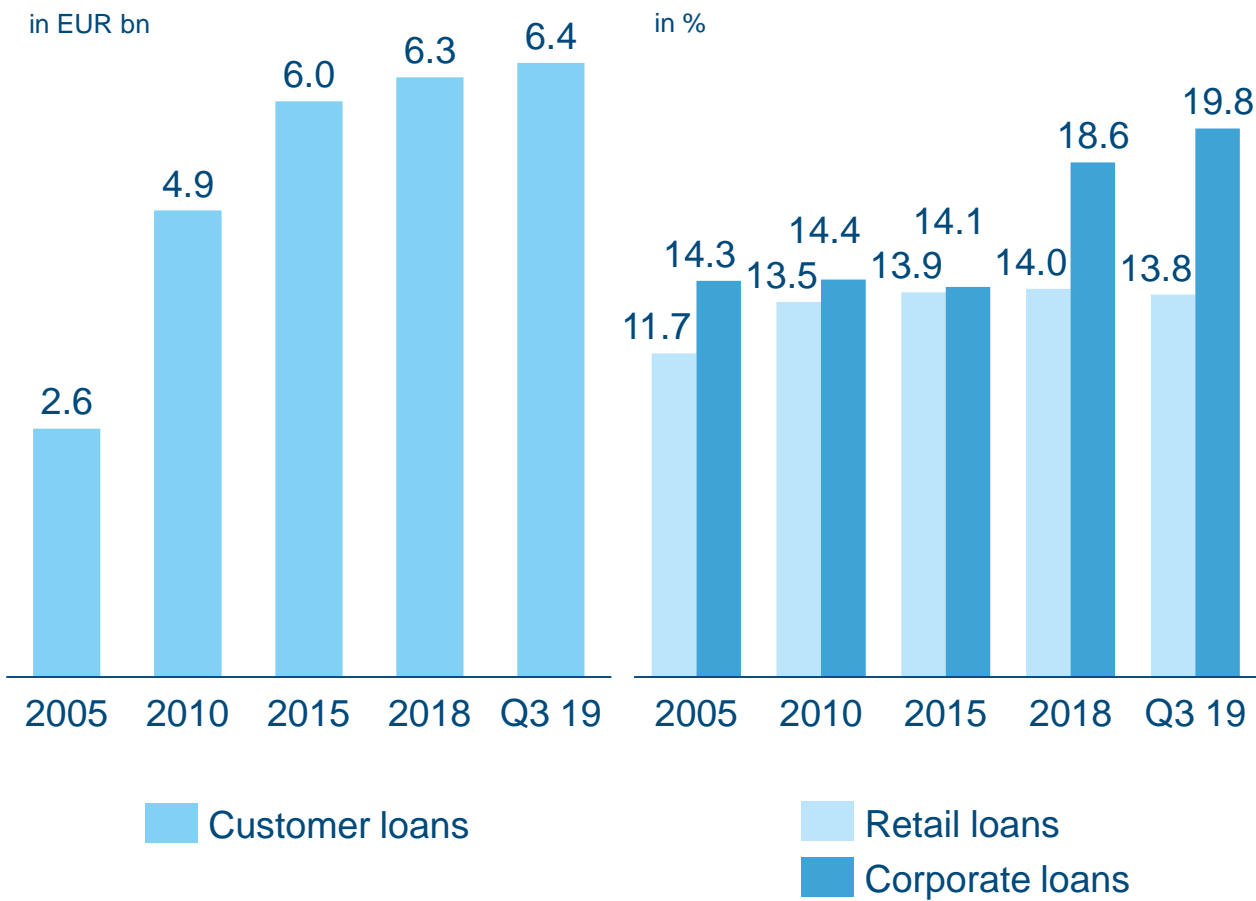
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Key developments

Volume evolution

Market shares

- Retail business reflects modest volume increase and stable market share evolution in increasingly competitive landscape
- Increasing focus on SME business in recent years resulted in robust volume performance on corporate side, translating into strong market share gains



Customer deposits and asset management – Strong market position in both segments

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Key developments

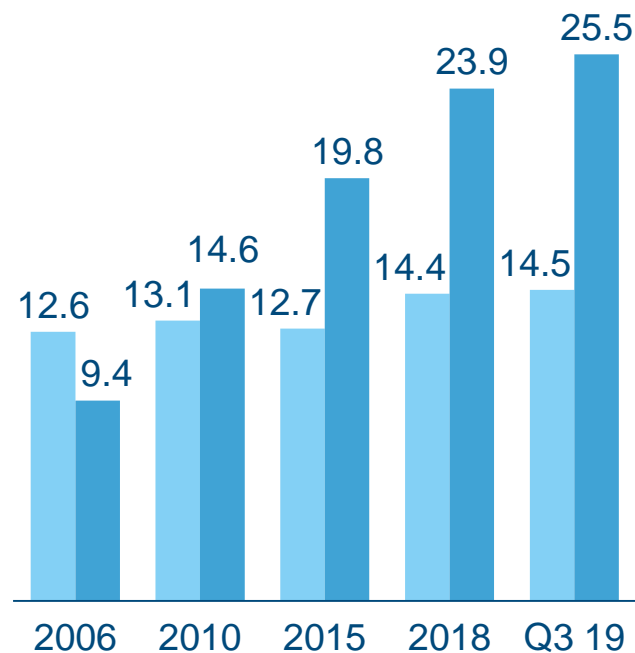
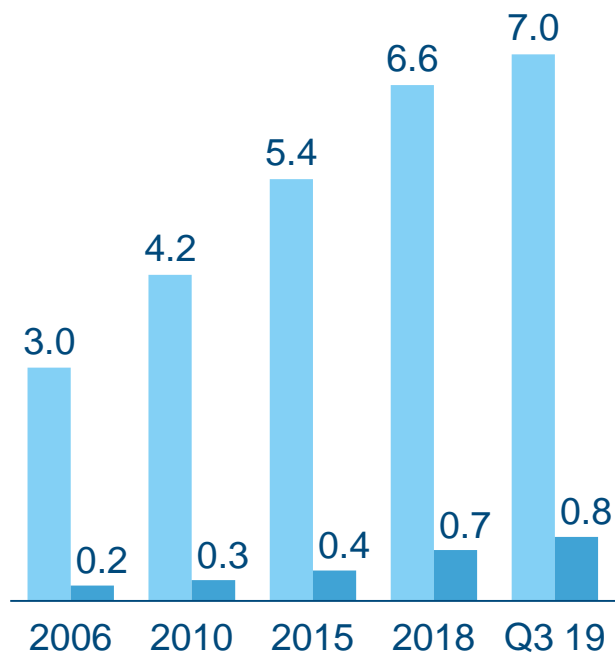
Development of volume

Market shares

- Deposit side growth illustrate resilience to low-interest environment
- Clients maintain traditional approach and keep exposure to riskier asset classes fairly low
- Market share performance highlights excellence in asset management business
- Strong and stable presence in deposits

in EUR bn

in %



Customer deposits
Assets under management

Customer deposits
Assets under management

Net interest income and fee income – Fee business shows steady growth

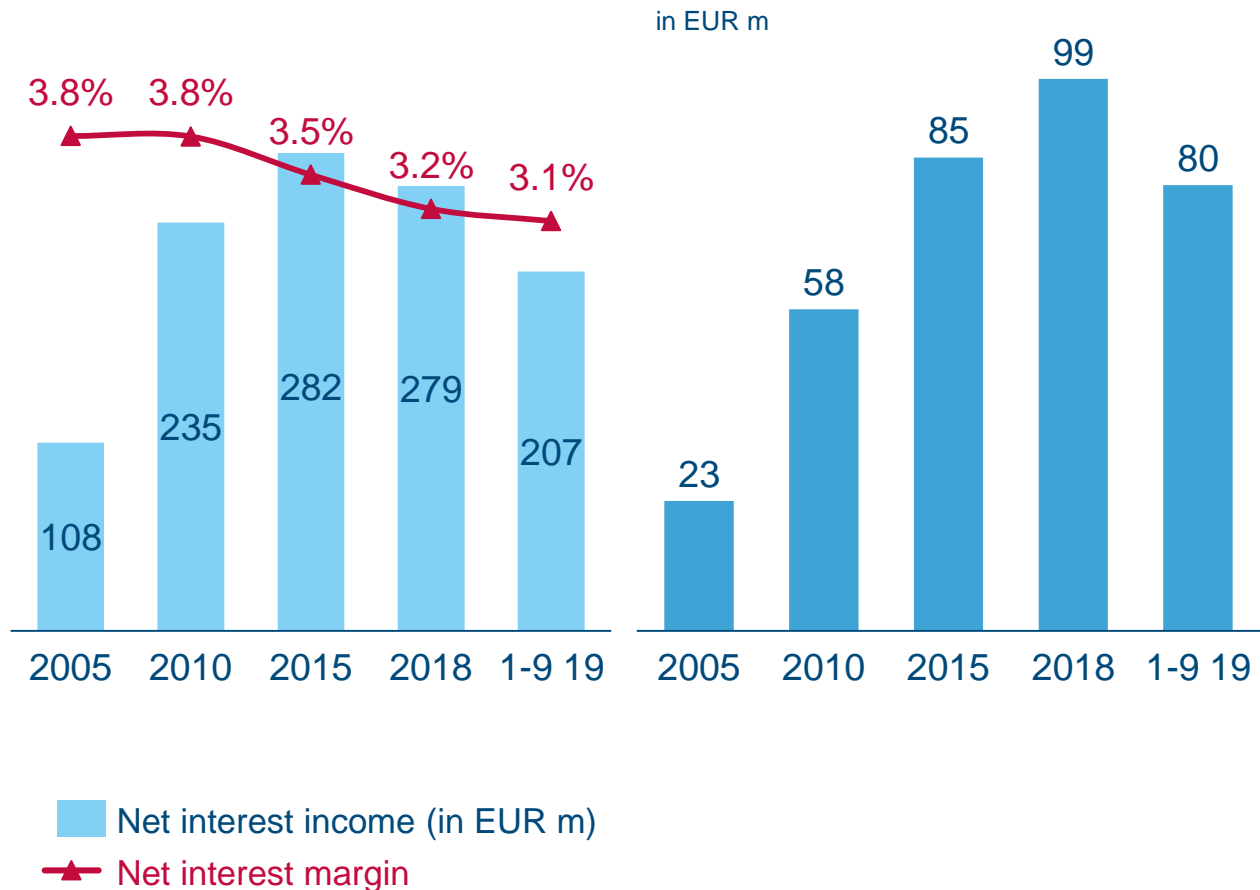
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Key developments

NII & NIM

Net fee and commission income

- Net interest income holds ground as volumes recover, while NIM remains under pressure amid competitive pressure and diminishing manoeuvring space on liabilities side
- Fee income shows steady increase and will remain in focus

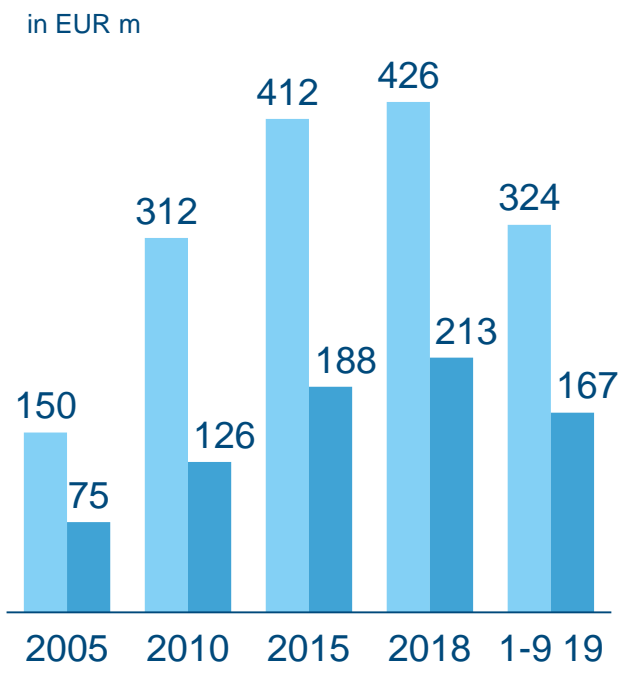


Operating result – Operating result reflecting demanding market environment

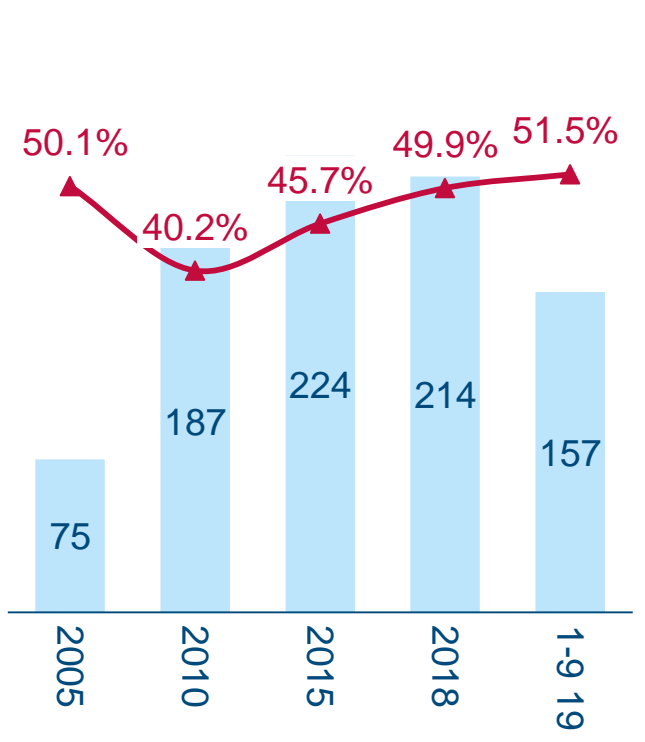
Key developments

- Operating income is mostly steady - loan margins pressure compensated with loan growth and focus on fee income
- Operating expense development reflects tighter labour market and IT related costs
- CIR slightly above 50%

Operating income & expenses



Operating result & CIR



■ Operating income
■ Operating expenses

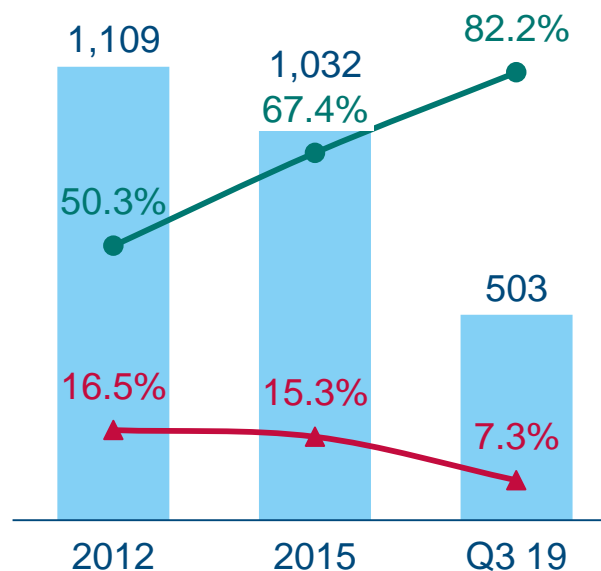
■ Operating result (in EUR m)
▲ Cost/income ratio

Asset quality and risk costs – Steadily improving risk profile

Key developments

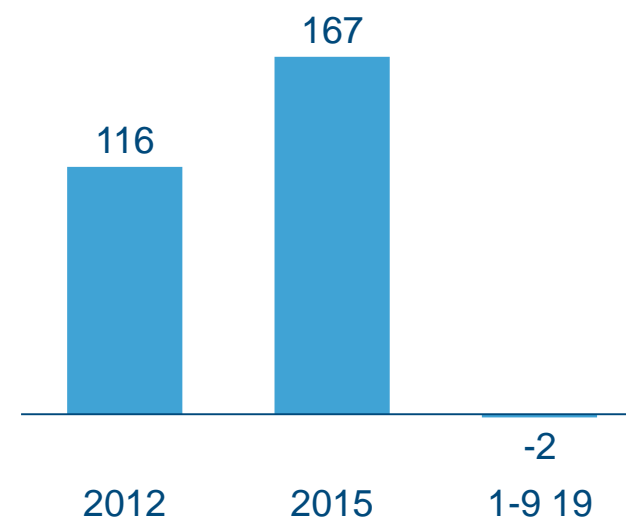
- Economic conditions have supported favourable NPL trend
- Intensified NPL sale efforts supported additional reduction of the NPL stock
- Risk cost at low levels, NPL coverage in comfortable region

Asset quality*



Risk costs

in EUR m



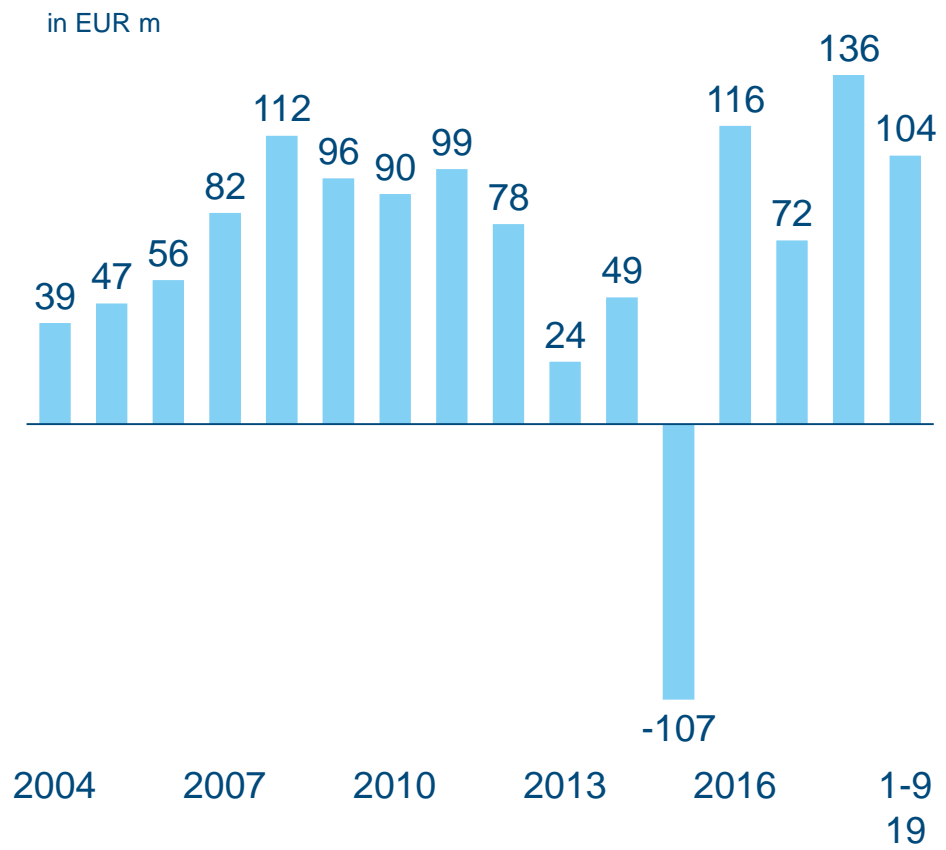
*) Asset quality based on segment reporting

Net result – Positive trends excluding one-offs

Key developments

- Historical volatility in net result driven by one-offs
 - 2015 – CHF conversion
 - 2017 – Agrokor related
- 2018 brought record strong performance
- 2019 on the same track when adjusted for legal case one-off

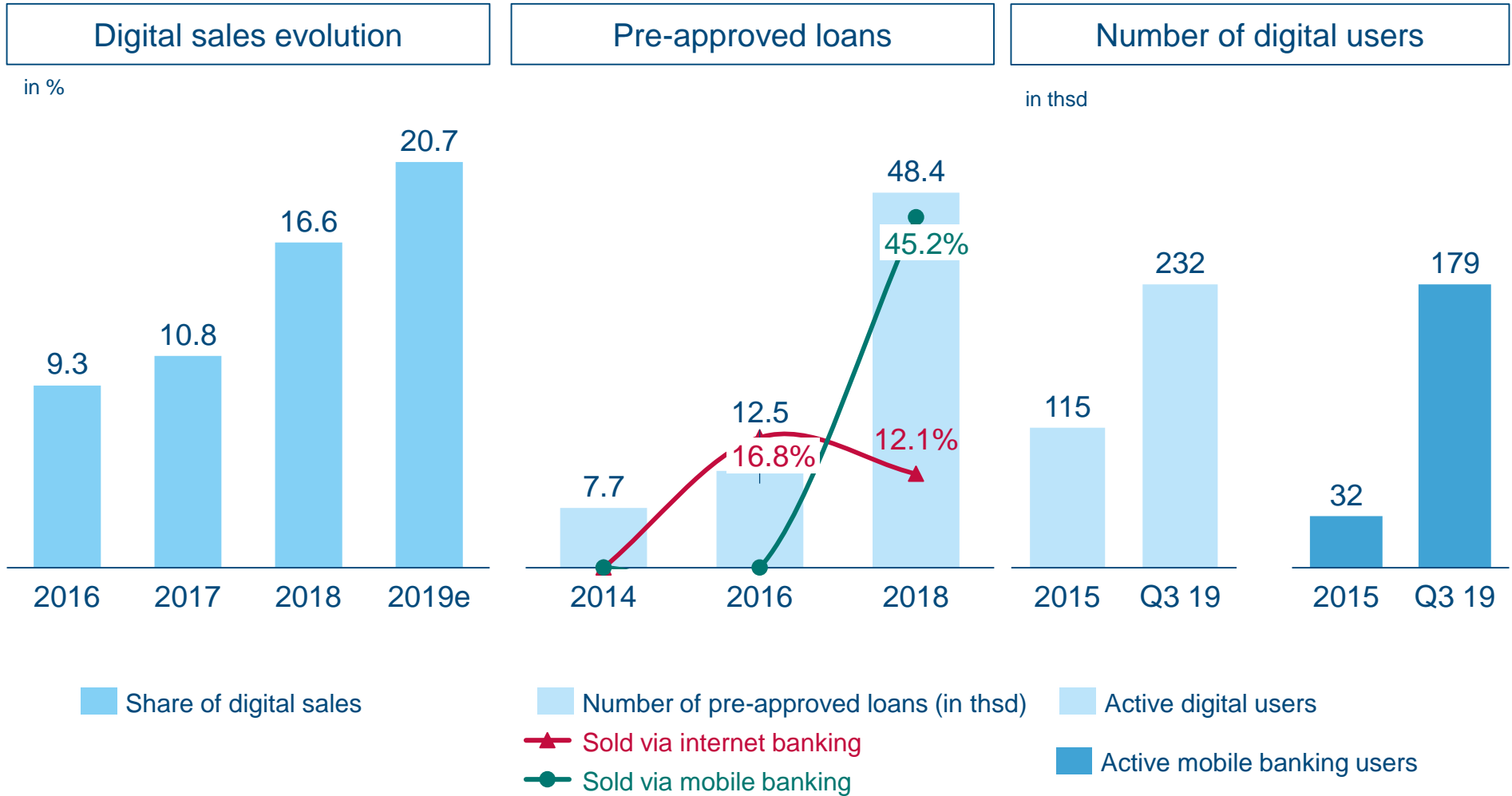
Net result evolution



Presentation topics

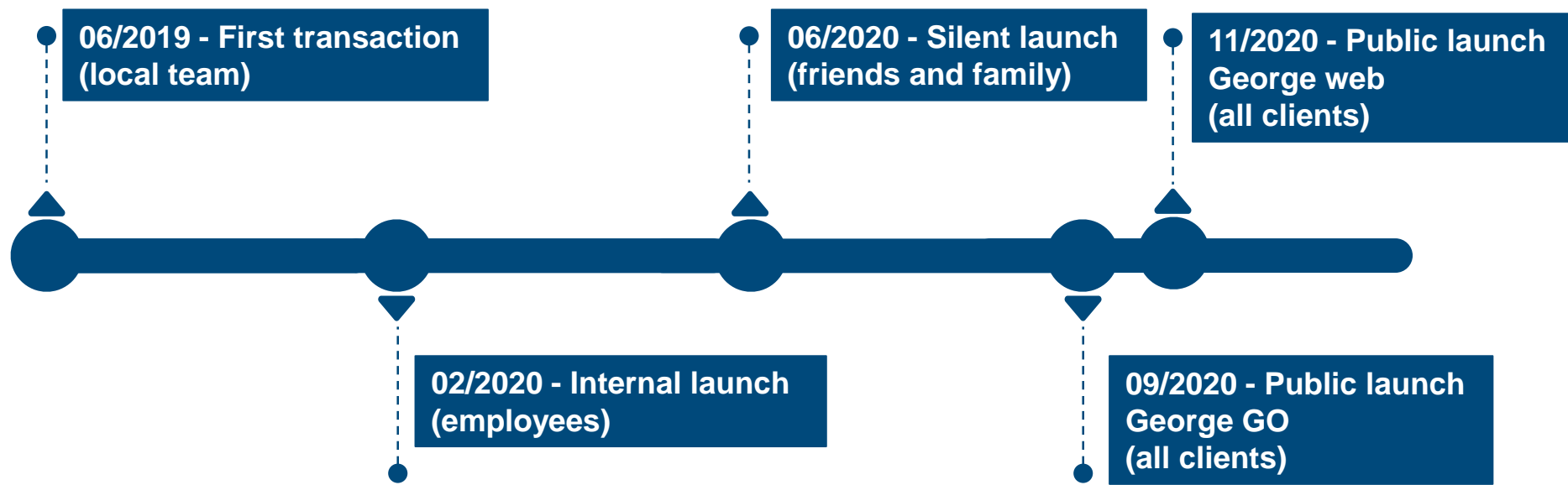
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Digital snapshot – Mobile platform dominating



George rollout plan 2020 –

All existing digital users will be migrated in one quarter



Keks Pay –

An app anyone can use

Key developments

- KEKS Pay - an innovative mobile app oriented towards P2P bill splitting and collecting money
 - KEKS Pay is a free app to send money
 - Fully digital onboarding in less than 60 seconds
 - First 8 months – 60,000 users, 75% not Erste customers
 - 250,000 transactions – 65% by non customers via cards
 - On a daily basis over 3,000 unique user logins and activities in the app



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Conclusion – Outlook Croatia/Erste Bank Croatia

Macro

- GDP growth restored and looking more sustainable
- EU member since 2013, Croatia seeking to become EMU member

Banking market

- Credit growth revived
- Margins under pressure

Erste Bank Croatia

- EBC further strengthens position among top3 banks
- Seeking to maintain the service level supremacy

Digitalisation

- George roll-out in 2020
- Keks Pay moving towards digital on-boarding & consumer loan