

Erste Group – 9th Capital Markets Day

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Czechia/Česká spořitelna: The flawless convergence wave rider

Tomáš Salomon, CEO Česká spořitelna

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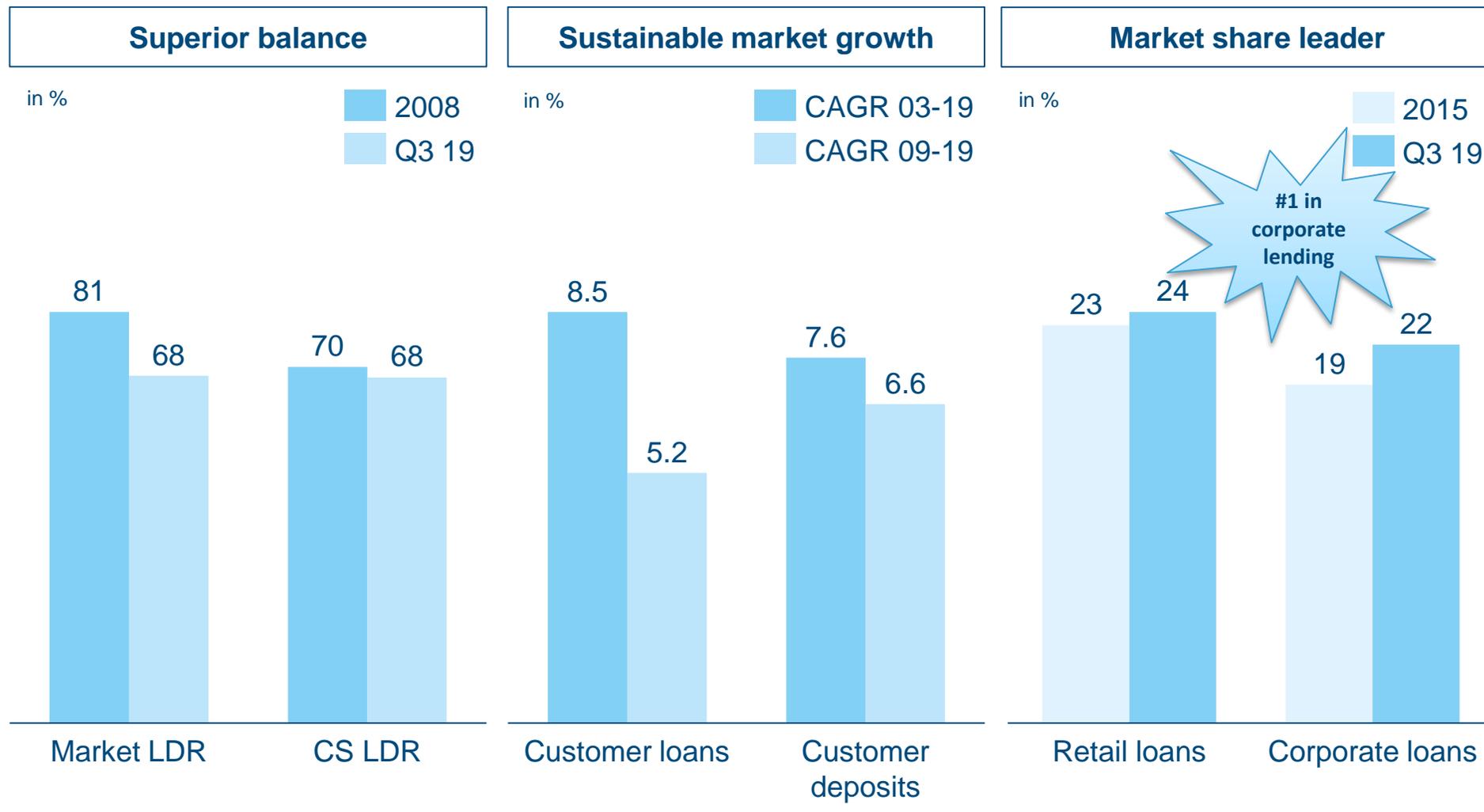
Presentation topics –

The flawless convergence wave rider

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

The model banking market – Česká spořitelna is the consistent market leader

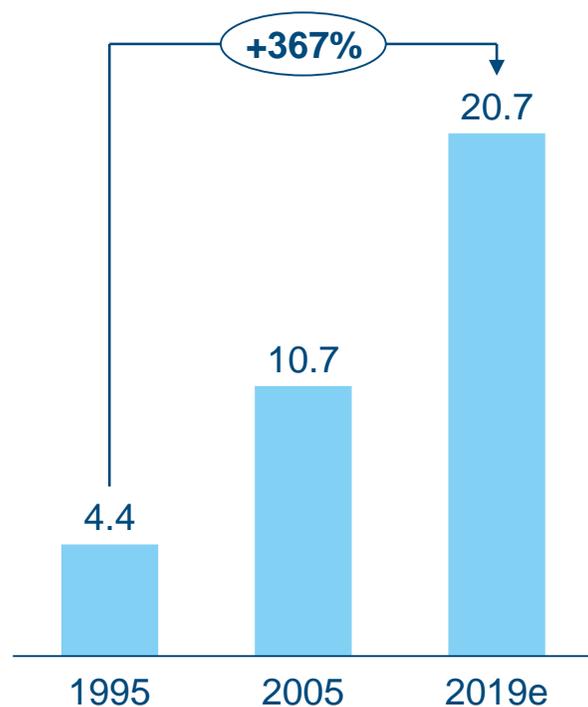
GROWTH



The model economy – Czechia has been riding the convergence wave flawlessly

Smooth GDP per capita ride

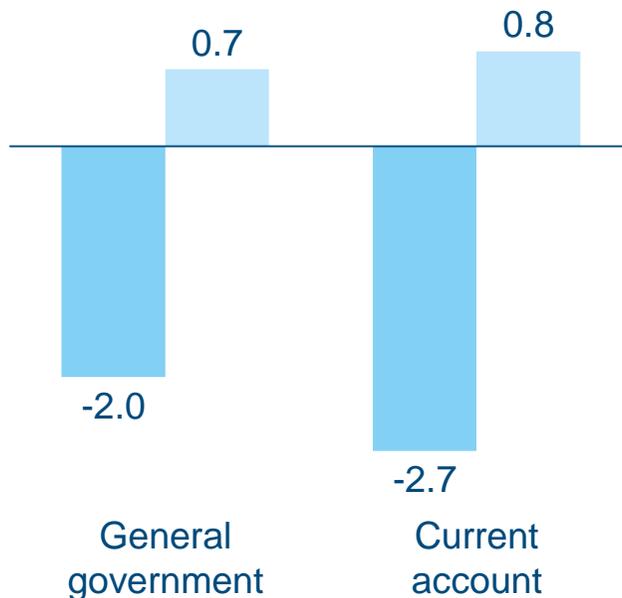
in EUR thsd



Sound economic balances

in %

■ Ø2004-08
■ Ø2015-19



Very complex economy



Top 10 safest country globally



Economic complexity (MIT research)
9th globally



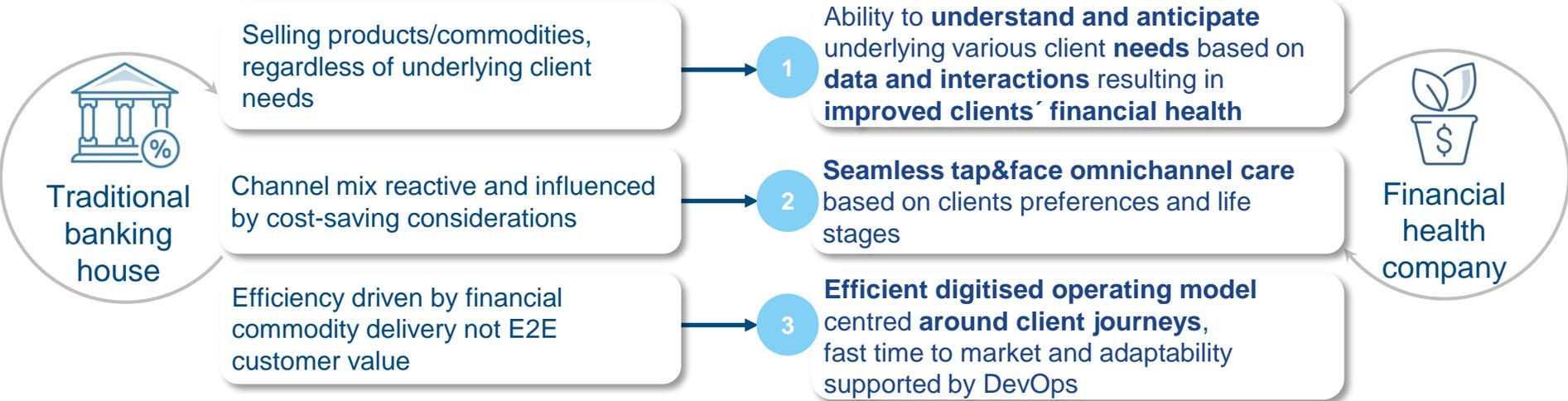
14% of GDP high-tech
Top 5 in EU



Healthy and profitable banking sector

Source: Erste Group Research, Observatory of Economic complexity, Global peace index

The model bank – Transformation into a financial health company



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Introduction –

Czechia is known globally for ŠKODA cars and beer, but there's much more...

Pre-1989

Now

In cars CZ has leap-frogged over last 30 years since fall of iron curtain. After years of frozen innovations, CZ is again able to produce competitive car models



Beer was already perfect back then, so nothing has changed



But there's so much more: CZ diversified from heavy industry to 3D printing, PC antivirus software, nanofibers or successful start-ups (KIWI.com, Apiary)



Presentation topics

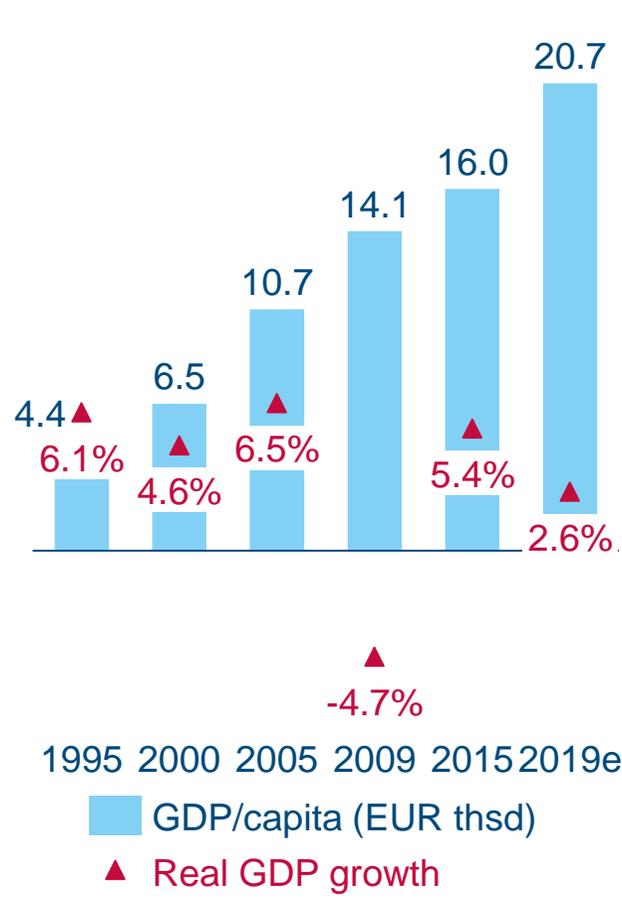
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Economic environment – Increased resistance to external events

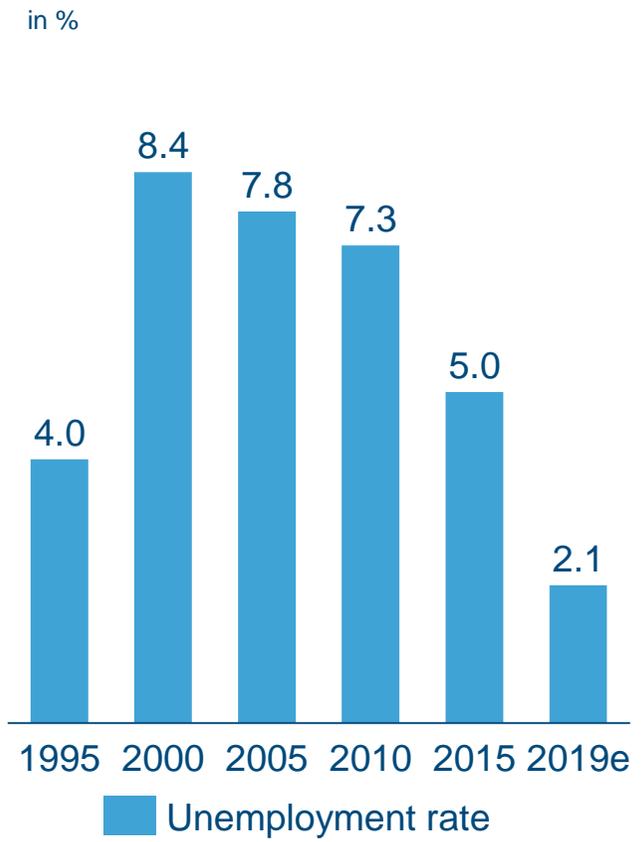
Key developments

- GDP per capita in PPS reached 90% of the EU average in 2018
- Economic growth remains slightly below 3%
 - Growth driven by both domestic and foreign demand
- Higher resilience of the economy to external shocks
 - Lower impact of weakening German economy
- Lowest unemployment rate among the EU countries

GDP



Labour market



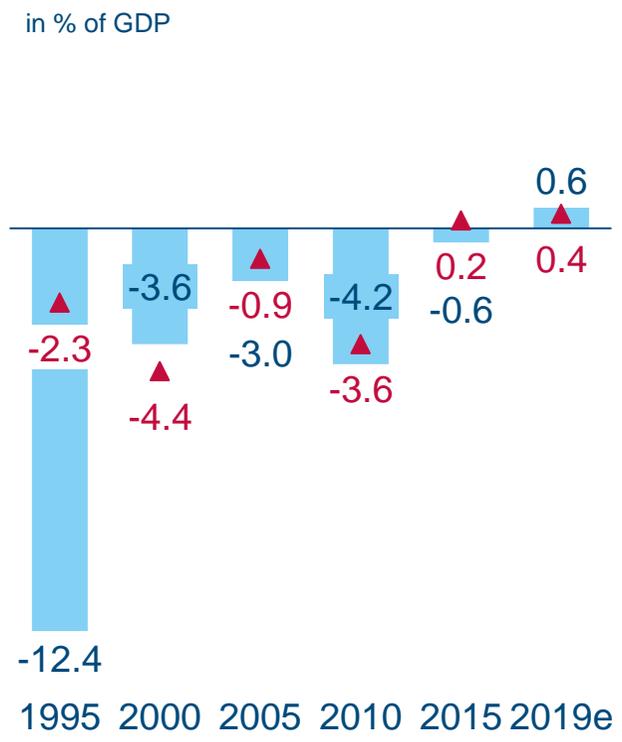
Source: Erste Group Research

Economic environment – Fiscal discipline led to rating upgrade

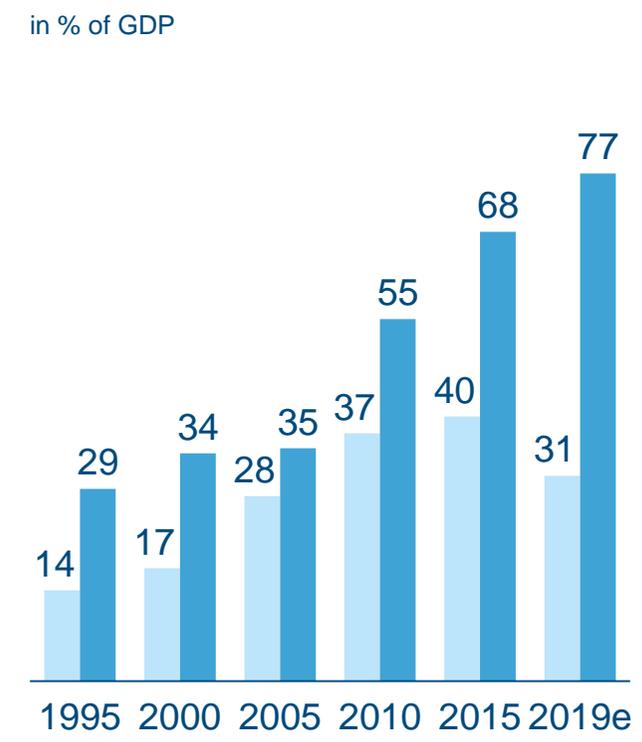
Key developments

- General government budget has turned to surplus in recent years
- Government debt to GDP is one of the lowest among the EU countries
- Strong fiscal discipline was a key reason behind the recent Moody's credit rating increase by one notch to Aa3
- Current account balance also reaches surplus confirming favourable development of the economy

Economic balances



Public & external debt



■ Government balance
▲ Current account balance

■ Public debt
■ External debt

Source: Erste Group Research

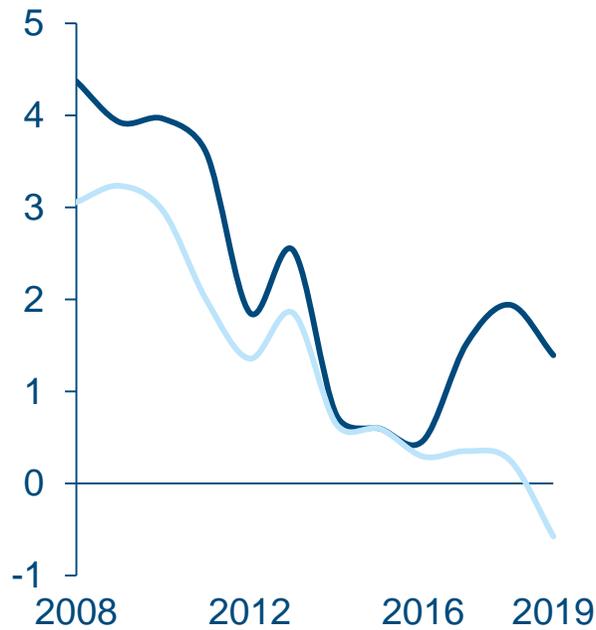
Economic environment –

Short-term rates confirm healthy economy

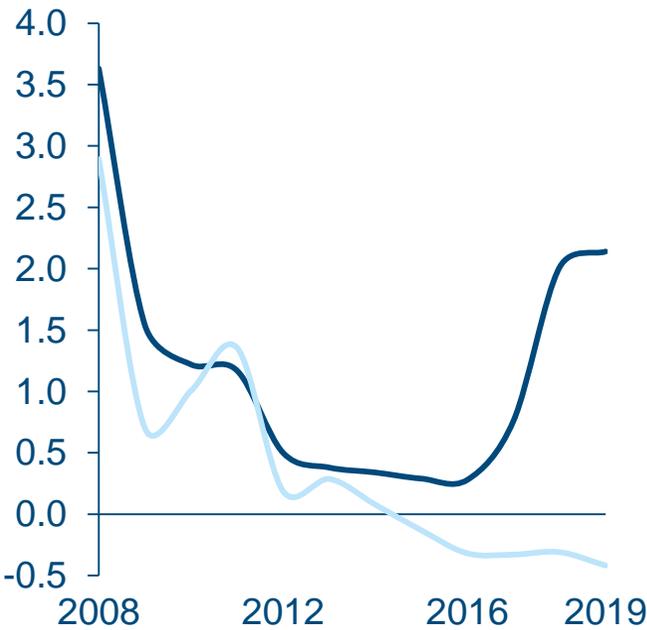
Key developments

- Central Bank supports the economy via appropriate measures
- Recent FX cap improved GDP growth, current monetary policy tightening against overheating of the economy
- Development of short-term rates confirms the healthy development of the economy
- Long-term rates impacted by rates in the euro area and higher uncertainty in the global economy

Government bond yield



Short-term interest rate



— 10y year-end rate — 3m PRIBOR
— 10y eop German Gov. bond yield — 3m EURIBOR

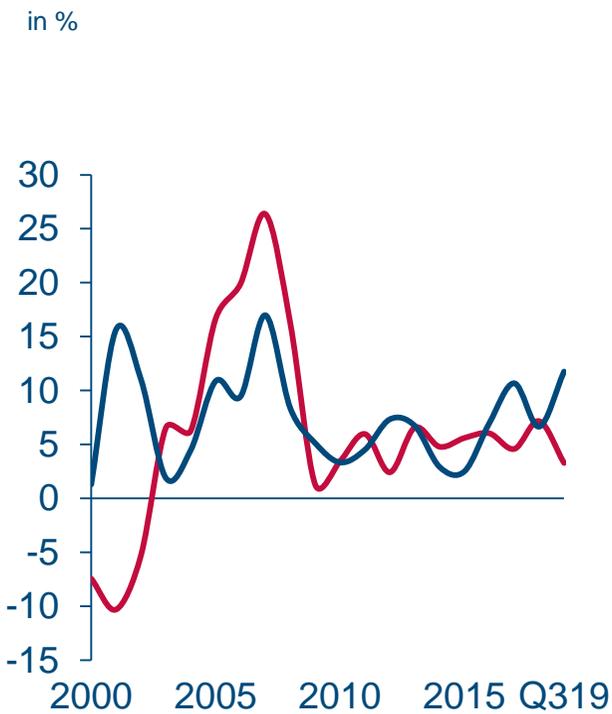
Source: ThomsonReuters

Banking market – Gradual convergence to Western Europe

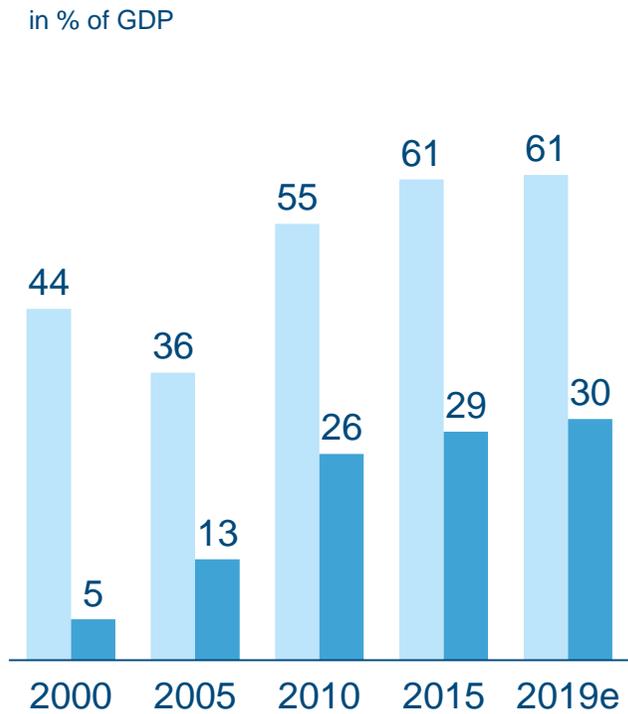
Key developments

- Volume, structure and quality of banking products and services have gradually approached those in Germany and Austria
- Key contributor to loan growth was the rise of housing loans
- Consumer loan penetration rate already reached Austrian level
- Still significant room for convergence in case of corporate and housing loans as % of GDP
 - Corporate: CZ 22% vs EMU 36%
 - Housing: CZ 24% vs EMU 38%

Market growth



Penetration



— Customer loan growth
— Customer deposit growth

■ Customer loans
■ Household loans

Source: Czech National Bank

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Customer loans – Česká spořitelna outpaces competition

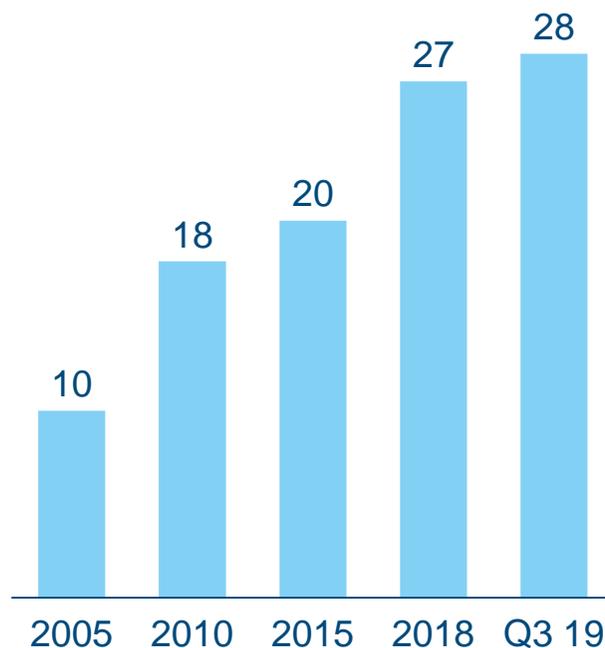
GROWTH

Key developments

- Sustainable excellent growth dynamics in both Retail and Corporate segments
- Volume growth in Retail driven mainly by double digit growth in housing loans
- CS maintained above market growth despite increasing competition in recent years
- Corporate loan growth has accelerated in recent years mainly in SME and Large Corporate segments
- CS is number one corporate lender on the Czech market

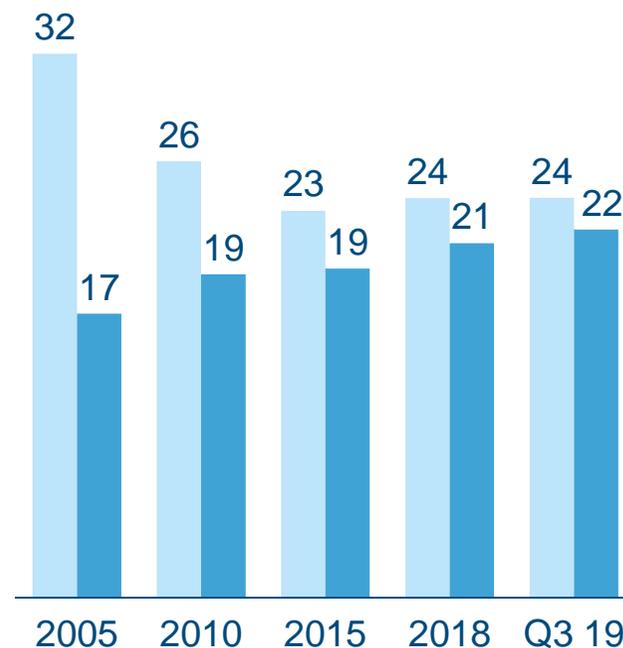
Volume evolution

in EUR bn



Market shares

in %



Customer loans

Retail loans

Corporate loans

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

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Key developments

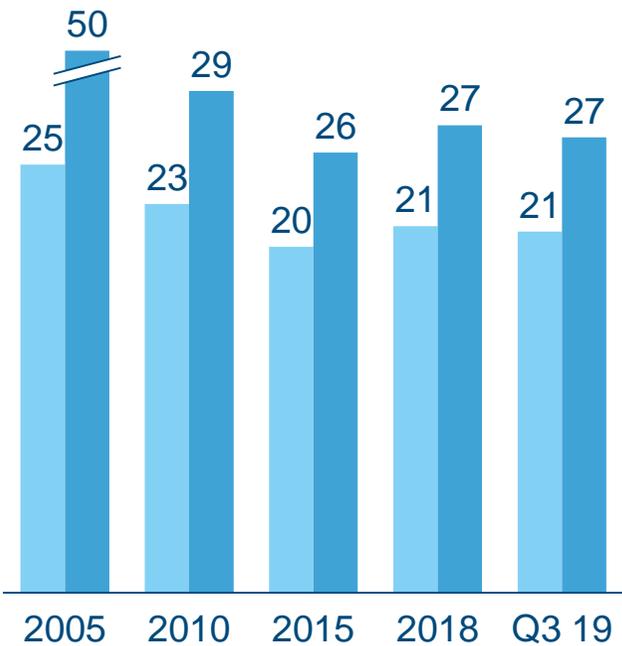
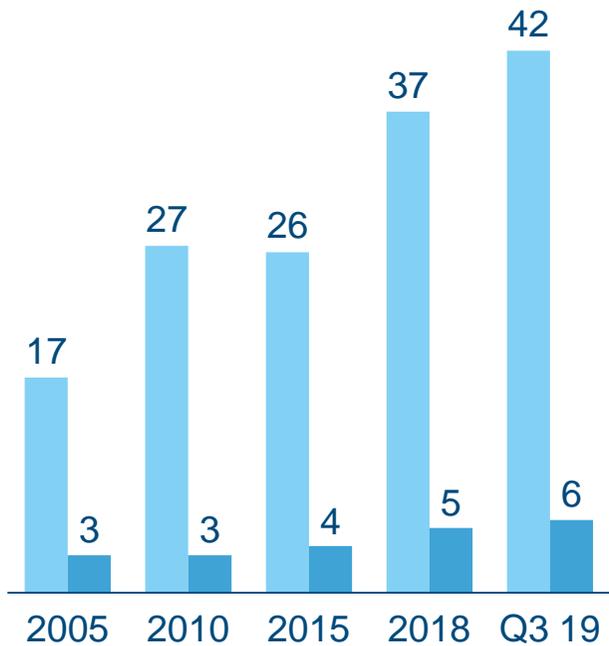
Development of volume

Market shares

- CS continues to be funded primarily by retail and corporate deposits
 - Excellent funding position with loan-to-deposit ratio at ~ 70%
- Deposit growth driven by increasing household wealth and excellent reputation
 - CS seen as most trusted bank of the country based on local Fincentrum "Bank of the Year" award
- Costs of funds under control despite new market entrants and increasing competition

in EUR bn

in %



Customer deposits
Assets under management

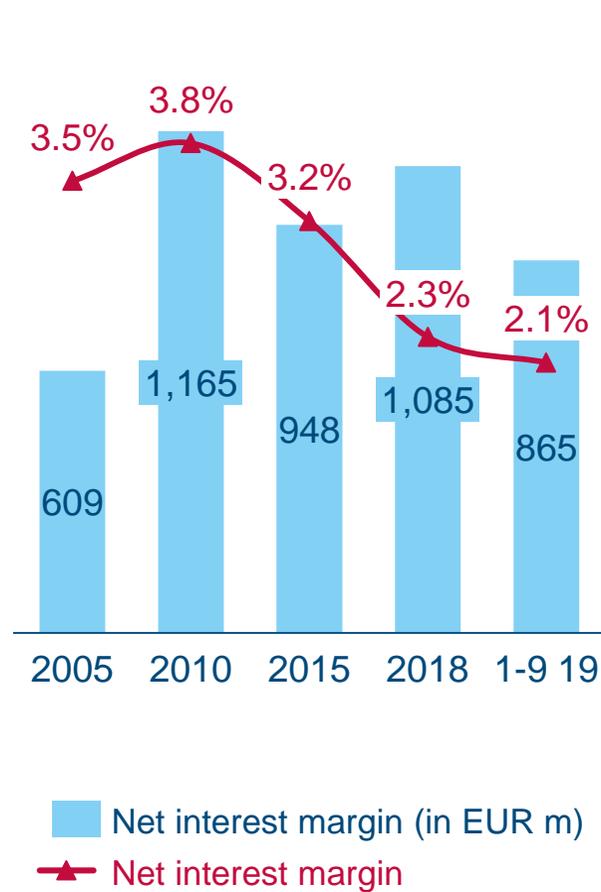
Customer deposits
Assets under management

Net interest income and fee income – Growing NII accompanied with turnaround in fee income

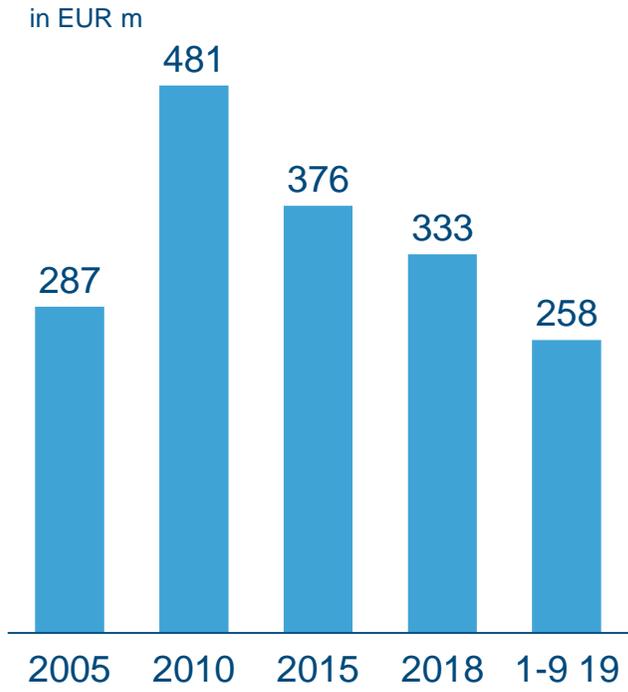
Key developments

- NIM impacted by change in asset mix, high volumes of deposits from credit institutions related to FX intervention of CNB, low interest rates & convergence of product margins
- Since 2018, CS has benefitted from steadily growing loan portfolio, reasonable cost of funds and recent CNB interest rate hikes
- Fee income under pressure due to increasing competition and regulatory changes
- Turnaround of fee income (Q3 19 y-o-y growth close to 5%)
 - Driven by insurance and asset mgt. supported by advisory concept "My healthy finance"

NII & NIM



Net fee and commission income



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

Operating result –

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Low CIR due to excellent cost management and growing income

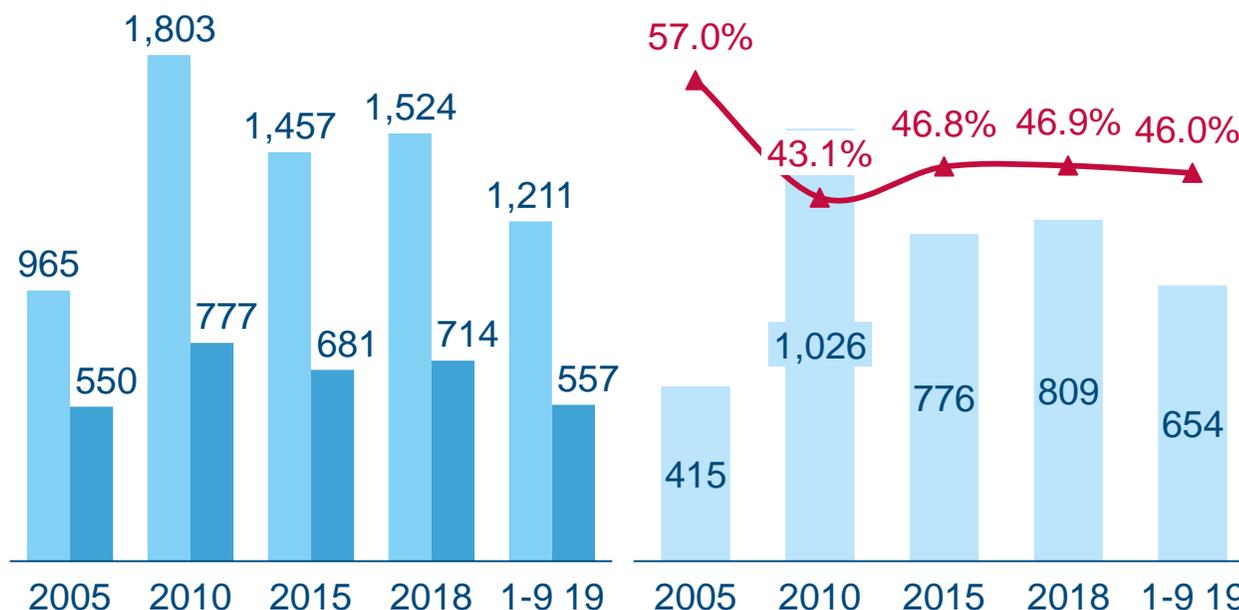
Key developments

Operating income & expenses

Operating result & CIR

- Operating income development driven mainly by net interest income
- Despite significant market increases of salaries, regulatory impacts and growing business, CS was successful in cost management reflected in flat operating expenses
- Despite challenging market situation CS maintained its efficiency
 - Cost/income ratio of 46% in 1-9 19

in EUR m



■ Operating income
■ Operating expenses

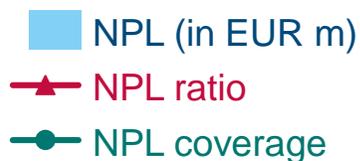
■ Operating result (in EUR m)
▲ Cost/income ratio

Asset quality and risk costs – Constantly improving asset quality

Key developments

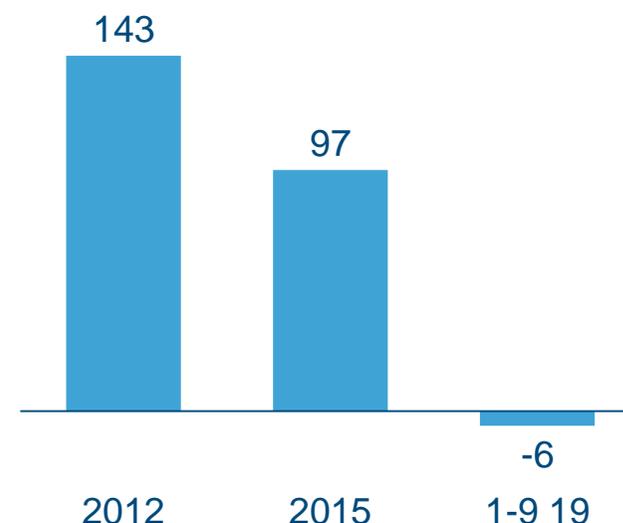
- NPL ratio currently at historical low due to combination of low default rates during past years and active steering of NPL stock (high recoveries, write-offs, sales when available and reasonable)
- Combination of low NPL stock and IFRS9 portfolio provisions push the NPL coverage to very comfortable level
- Low risk costs are caused by the combination of low default rates and high recoveries from current NPL stock

Asset quality*



Risk costs

in EUR m



*) Asset quality based on segment reporting

Net result –

GROWTH

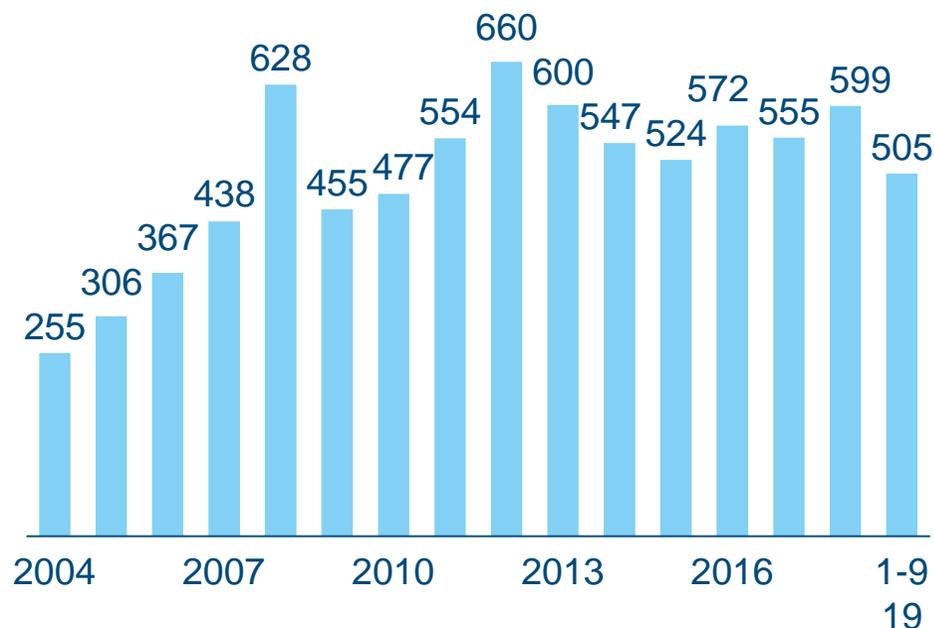
Outstanding bottom line boosted by excellent operating result & low risk

Key developments

- CS managed to consistently grow and protect net result despite challenging conditions impacted by low interest rate environment and increasing regulatory impacts
- Sustainability of financial performance has been successfully demonstrated since financial crisis in 2008
- Solid bottom line performance is reflected in consistent double digit ROE despite significantly improved capital position
 - Capitalisation went up from 10% (2008) to 19% (2018)

Net result evolution

in EUR m



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Digital snapshot – Česká spořitelna's digital world

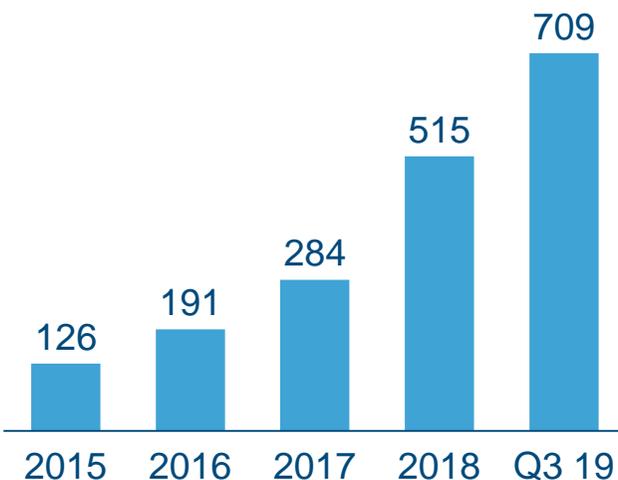
Active digital clients

in million



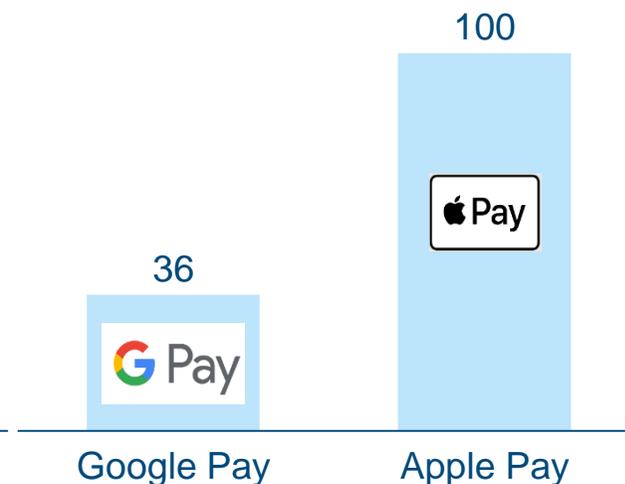
Active mobile digital clients

in thsd



Google Pay & Apple Pay clients

in thsd



- George
 - Client migration from Servis 24 Internet Banking to George has been completed
 - Introduction of useful tips pertaining to overdraft increases and insolvency insurance
- Multibanking
 - CS uses other banks' PSD2 APIs to launch the first multi-banking payment button
- CS has offered Apple Pay & Google Pay since 2019
 - Very high interest given the high penetration of contactless terminals (highest in EU)
 - CS also offers niche payment options Garmin Pay, Fitbit Pay

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Conclusion – Outlook Czechia/Česká spořitelna

Macro

- Positive macro environment expected to prevail
- Growth supported by household consumption, investments and net exports
- Public finances remain in very good shape

Banking market

- Continued convergence potential
- Ongoing consolidation pressure
- Loans and deposits expected to sustainably grow by mid-single digit figures
- Prevailing opportunity in moving deposits into higher-yielding and more sophisticated investment products

Česká spořitelna

- CS very well positioned for outgrowing market & gaining new clients
- Revenue increase driven by accelerated coverage of client needs and growing number of (primary) clients
- Efficiency remains key priority supported by digital model

Digitalisation

- 1 million clients expected to be onboarded into mobile George during 2020
- USP advisory concept getting mobile
- Digital identity opening new untapped opportunities