

Erste Group – 9th Capital Markets Day

21 November 2019, Vienna

Hungary/Erste Bank Hungary: The comeback kid
Radovan Jelascy, CEO Erste Bank Hungary

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Presentation topics – The comeback kid

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

The economic turnaround – From economic basket case to EU growth leader

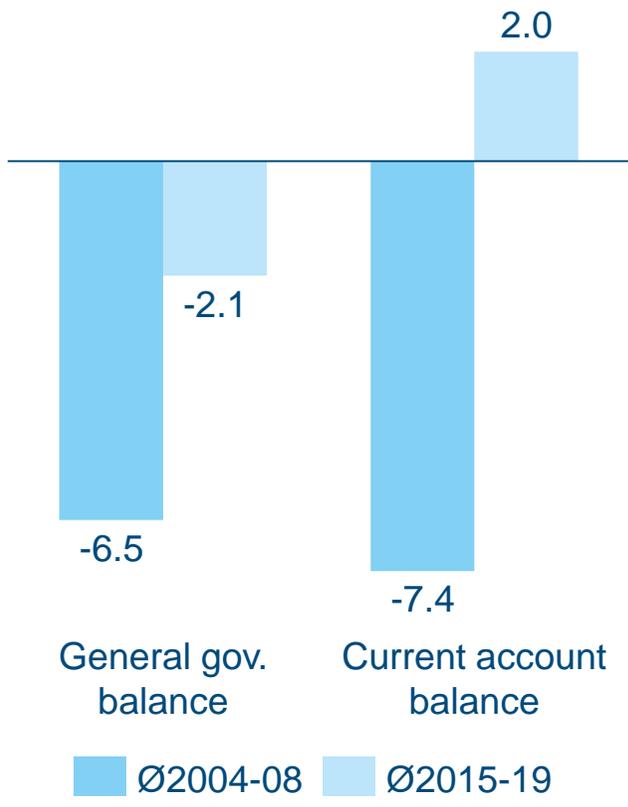
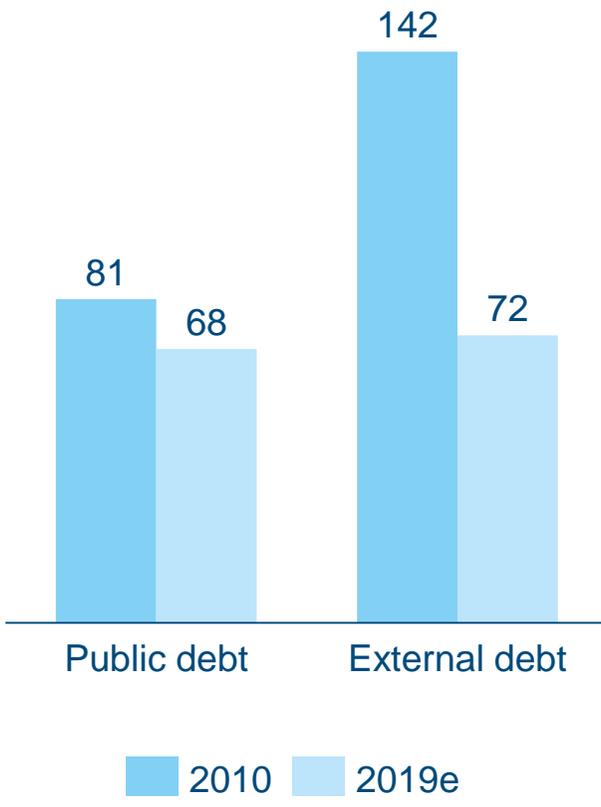
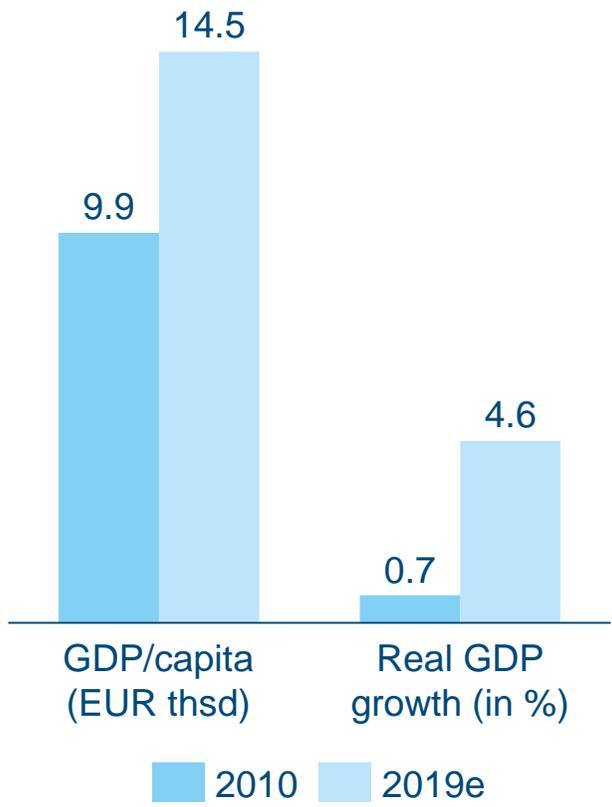
EU GDP growth leader

External debt to GDP halved

Improved economic balances

in % of GDP

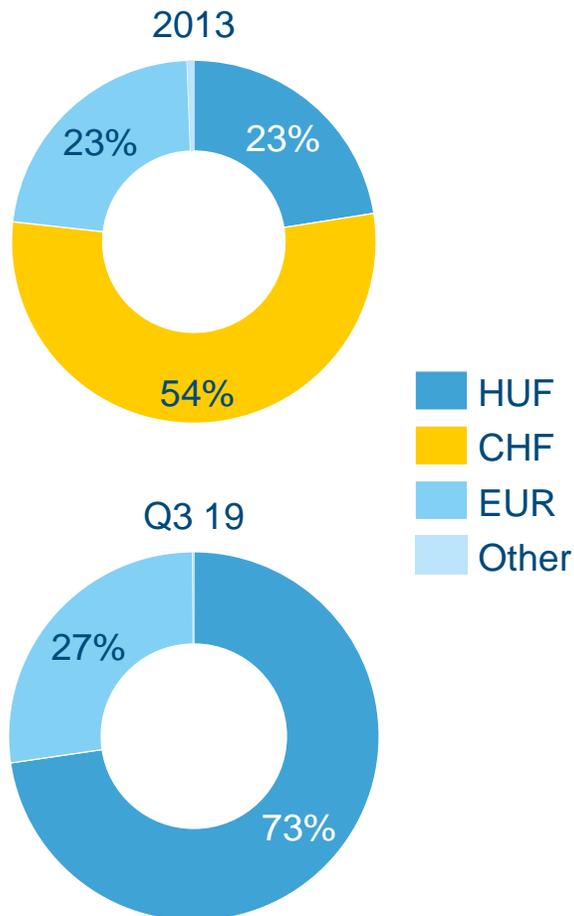
in % of GDP



Source: Erste Group Research

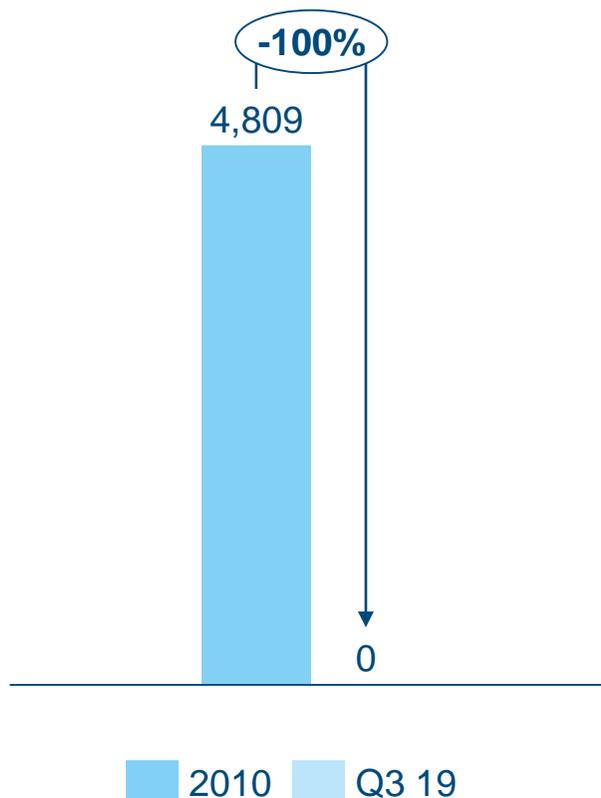
The bank turnaround – From parent-funded CHF monoline to balanced growth model

Loan book: HUF dominates



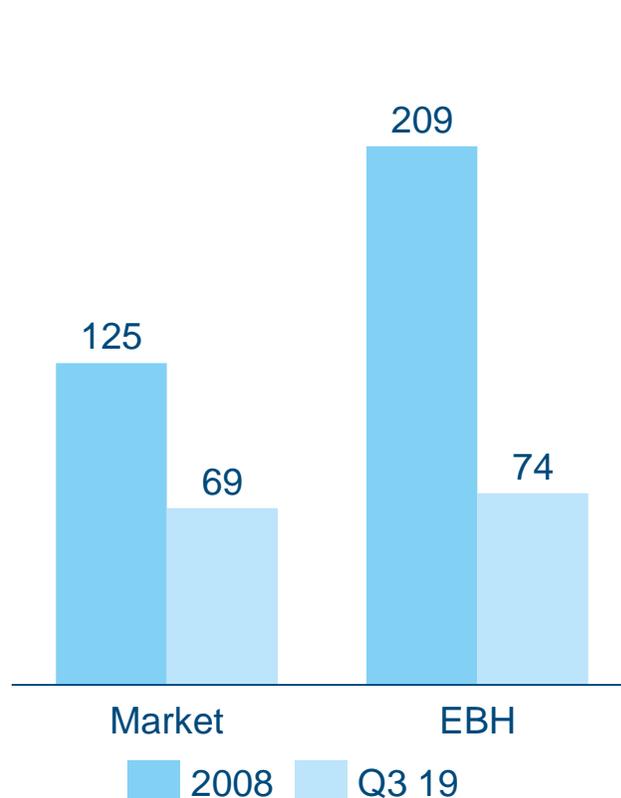
Intragroup funding fell to zero

in EUR m



EBH loan/deposit ratio at 74%

in %

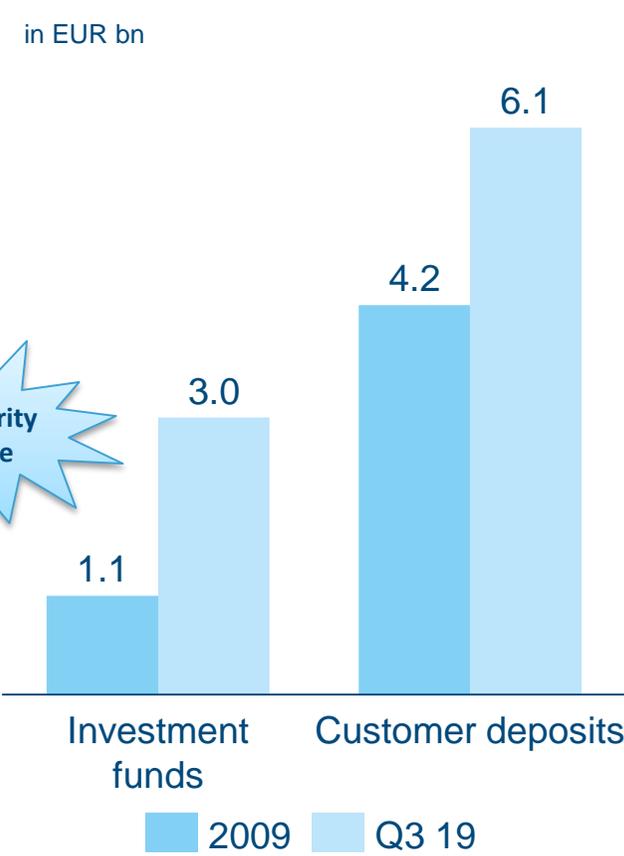
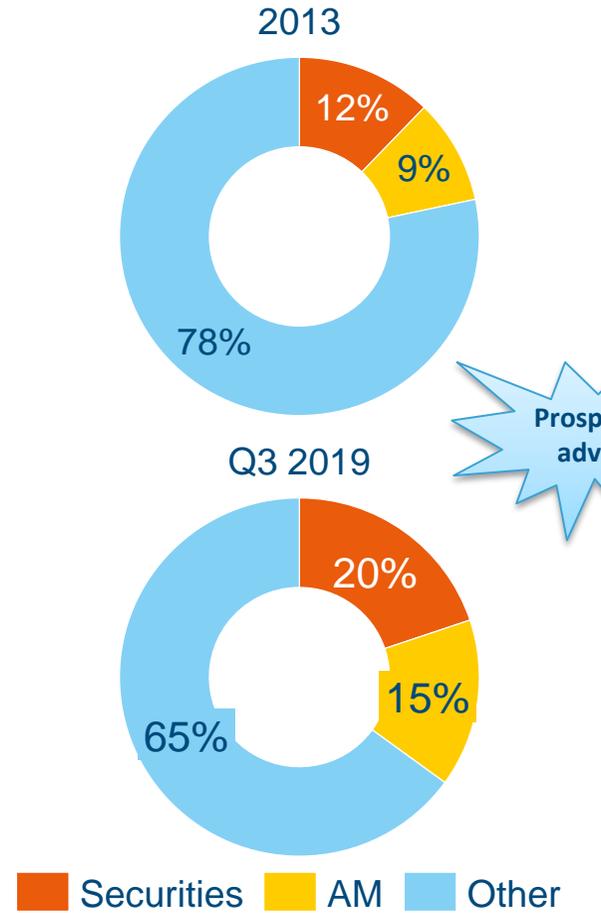
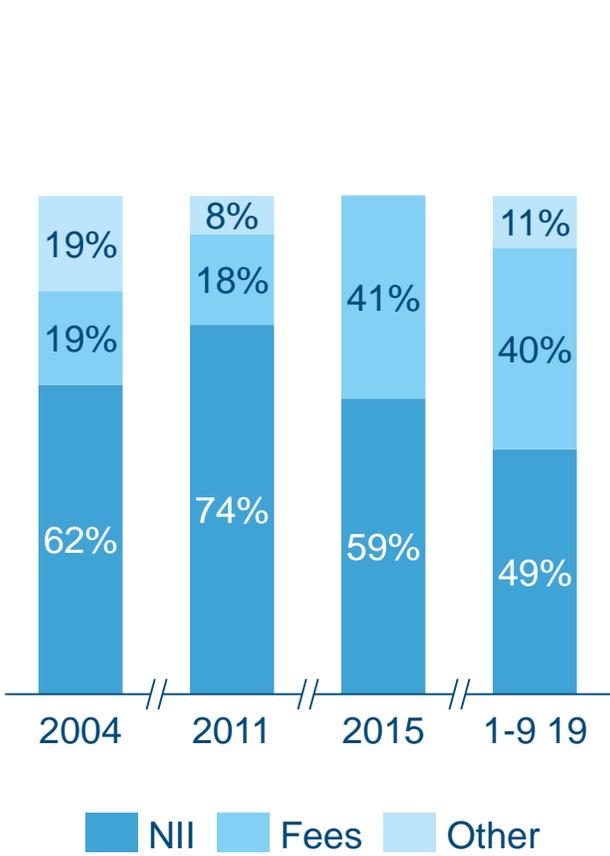


Fee income leadership – Strong track record in deposit conversion

Income*: high fee proportion

Fee split*: prosperity advice

Very strong funds business



Prosperity advice

*) Adjusted for FTT from 2013

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Introduction –

Over the last 20 years, many developments have been made in Hungary

Before 1998



2019



Mercedes-Benz



Introduction – ...and also in EBH

2009



2019



Presentation topics

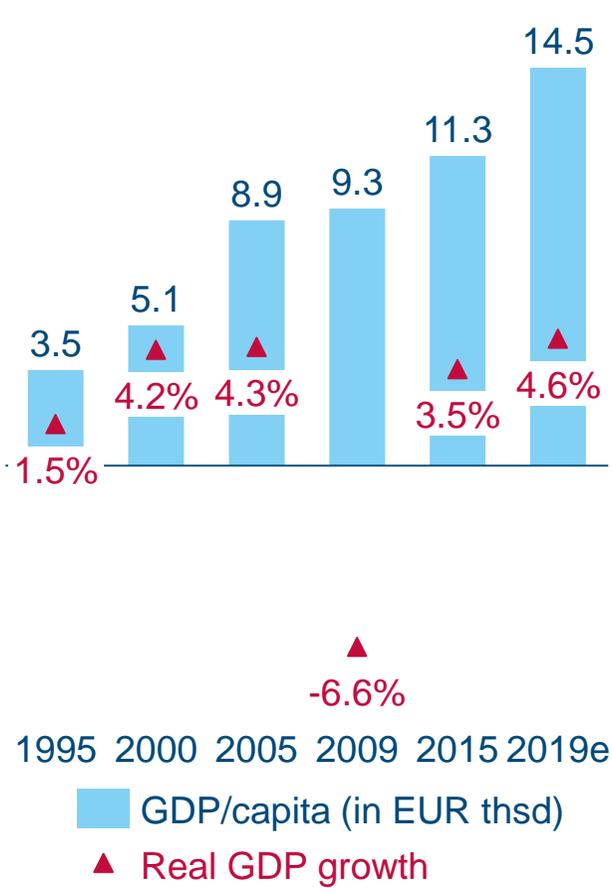
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Economic environment – Hungary is currently the fastest growing EU economy

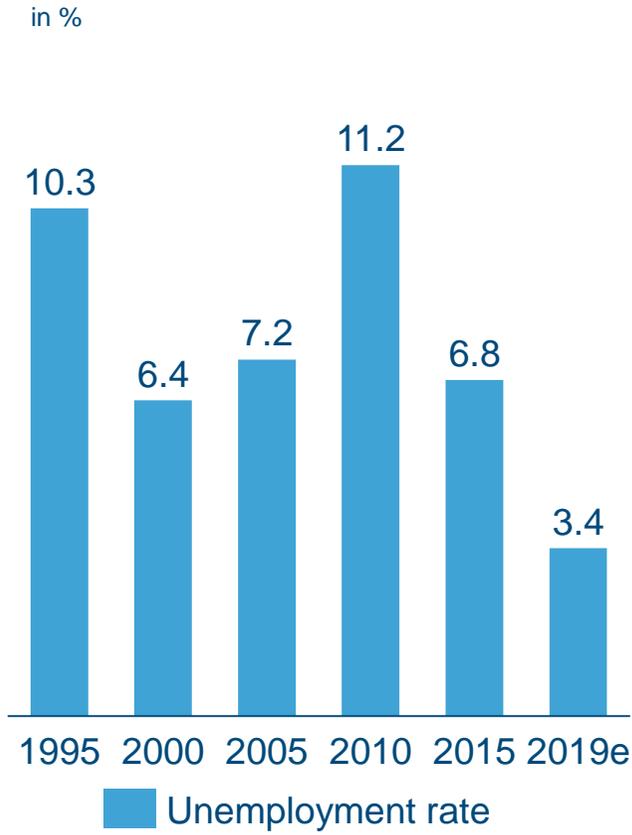
Key developments

- GDP has mainly been driven by domestic demand since 2013 (avg. 190 bps/year)
 - Investments since 2013
 - Consumption since 2018
- Very strong investments (avg. 170 bps/year)
- Exports, although to a lesser extent, have also contributed to economic growth
- Unemployment rate has declined to the third lowest in the EU

GDP



Labour market



Source: Erste Group Research

Economic environment – From twin deficits to balanced economy

Key developments

- Serious macroeconomic imbalances before 2010
 - Hungary faced twin deficits for many years
- Public debt started to decline in 2010 due to stable fiscal position and economic growth
- Currency composition of public debt changed substantially
 - Q3 19 only 18.2% in FX
 - 28.2% of HUF-based held by households
- External debt was significantly reduced due to improvement of current account balance

Economic balances

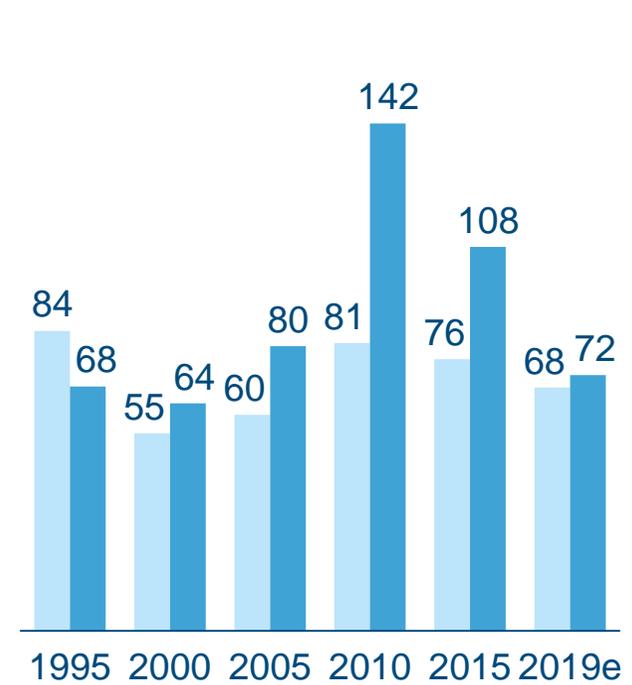
in % of GDP



■ Government balance
▲ Current account balance

Public & external debt

in % of GDP



■ Public debt
■ External debt

Source: Erste Group Research

Economic environment –

Interest rates close to historical lows

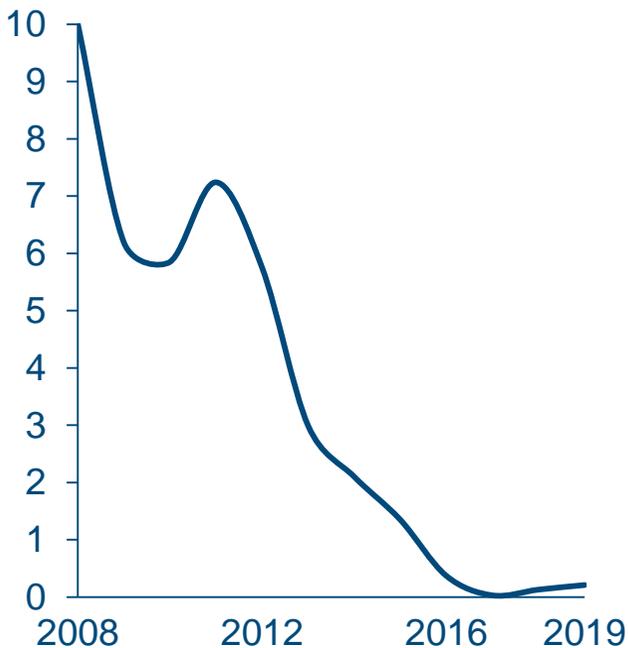
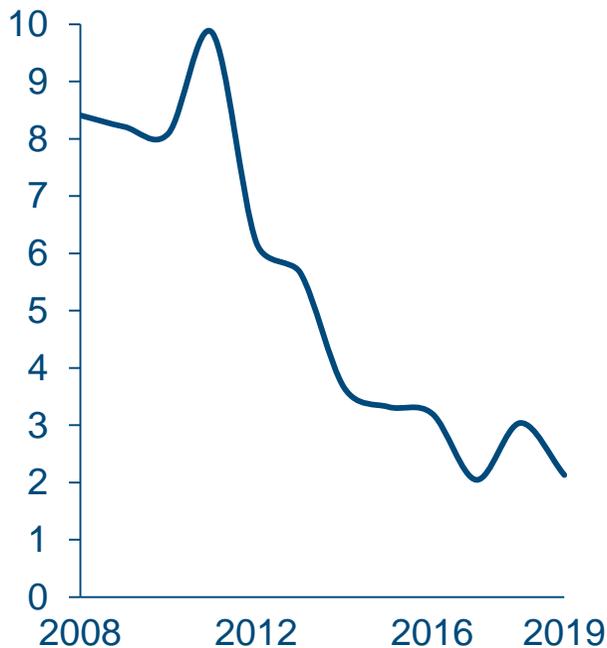
GROWTH

Key developments

Government bond yield

Short-term interest rate

- Central Bank has kept the base rate at a historical low of 0.9% since 2016
- Newly implemented 5y retail government bond in 2019 is protection for the Hungarian public against inflation while it also reduces foreign indebtedness
- HUF is currently traded close to its historical low versus the EUR due mainly to loose monetary policy and changing current account balance perspectives



— 10y year-end rate

— 3m BUBOR

Source: ThomsonReuters

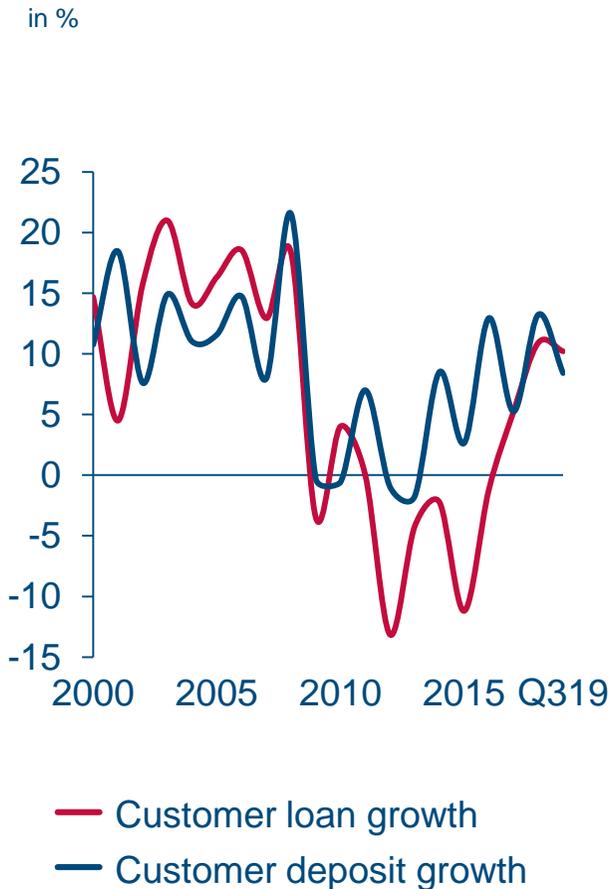
Banking market – From deleveraging to rapid growth

GROWTH

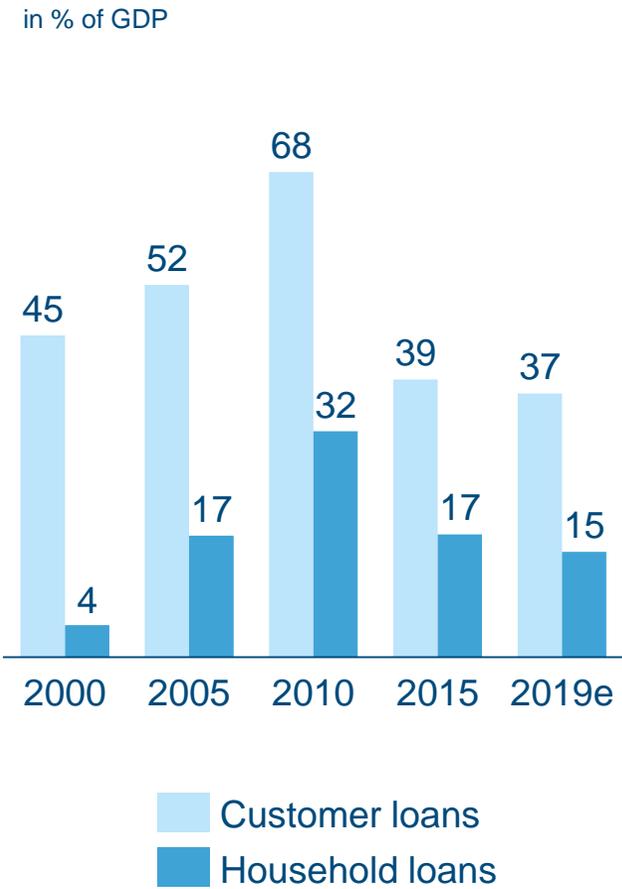
Key developments

- Loan-to-deposit ratio declined from 128% (2007) to 68% (2018) due to significant deleveraging of the banking market
- The relatively developed Hungarian capital market has played an important role in the savings market
- Despite fast growth, penetration rates indicate significant growth potential

Market growth



Penetration



Source: National Bank of Hungary

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Customer loans –

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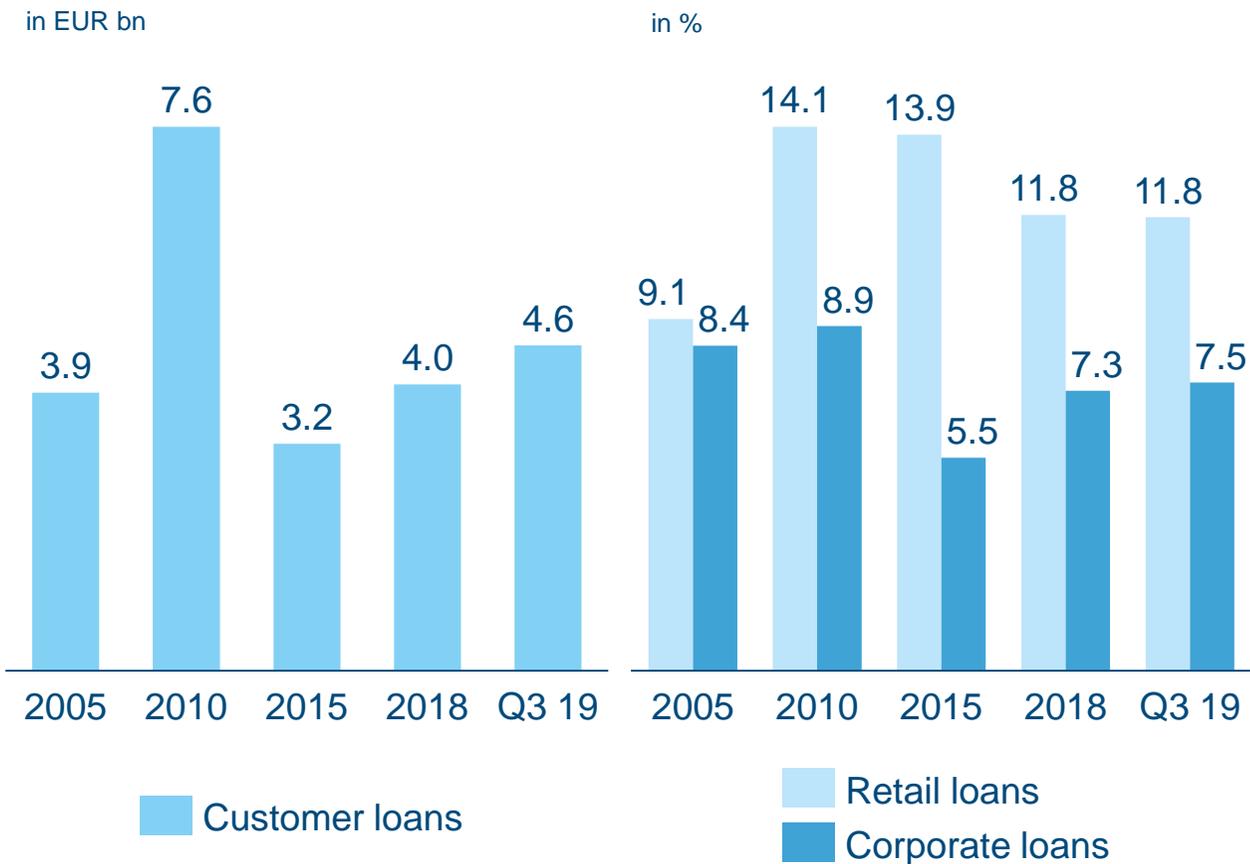
After significant deleveraging, sustainable growth has re-emerged

Key developments

Volume evolution

Market shares

- EBH was one of the market leaders in CHF-based lending
- Corporate lending is one of the main priorities of Erste Bank Hungary
 - Targeting TOP 3 positions
 - SME has already doubled
- Within retail loans substantial shift from secured (17% → 12%) to unsecured (6% → 14%) market share during 2011-2018



Customer deposits and asset management – Steady growth

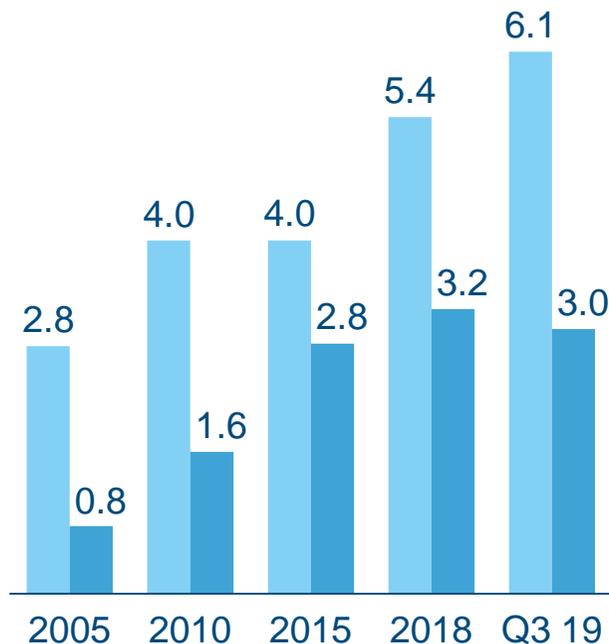
GROWTH

Key developments

- Significant deposit inflow despite low interest rate environment
- Continuous market share increase in savings products
- EBH targets to become the leading market player in wealth management
- Government bonds reduced the increase of deposit inflow

Development of volume

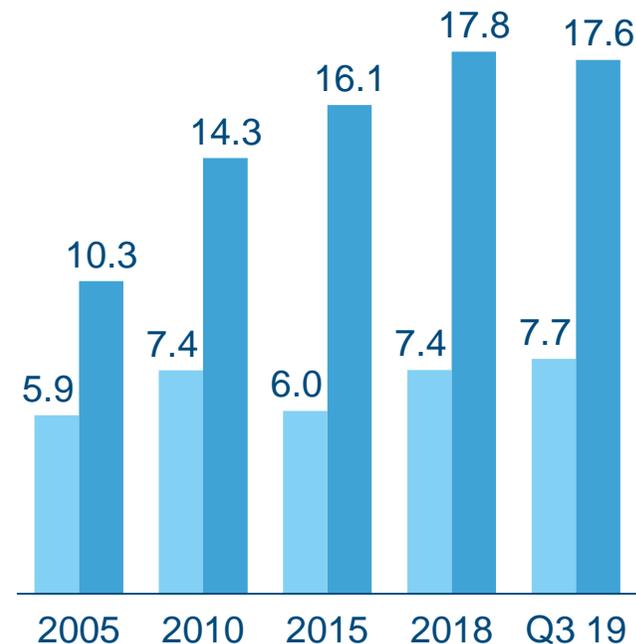
in EUR bn



Customer deposits
Assets under management

Market shares

in %



Customer deposits
Assets under management

Net interest income and fee income – Strong fee generation track record, NII moving north again

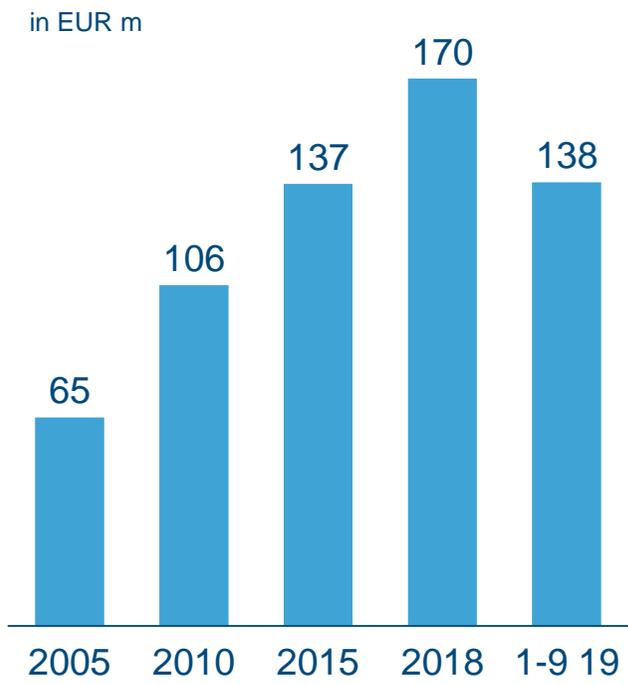
Key developments

- Net interest income has increased since 2016
 - Supported recently by strong loan growth as well as loan portfolio shift
- NIM has significantly declined from peak level but remained relatively stable since 2016 due to the portfolio composition
- Fee and commission income represents relatively high share of revenues
 - Driven by asset management business and increased number of active clients

NII & NIM



Net fee and commission income



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

Operating result –

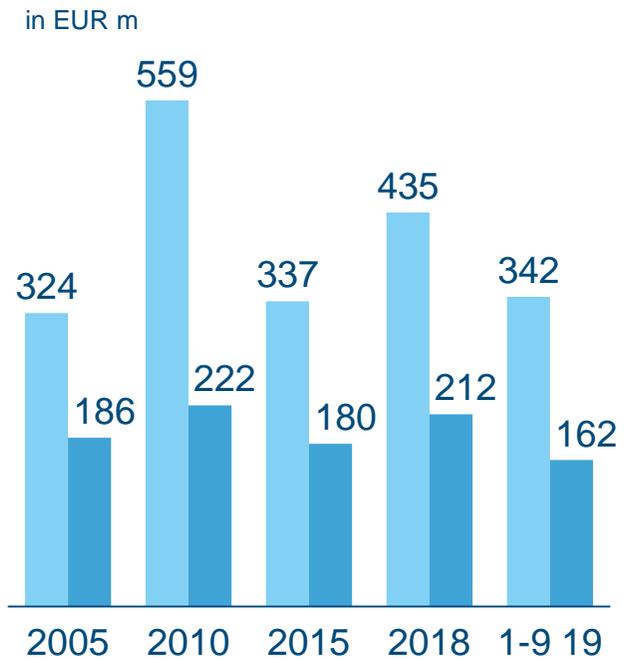
GROWTH

Revenues rise again & strict cost control: CIR back to below 50%

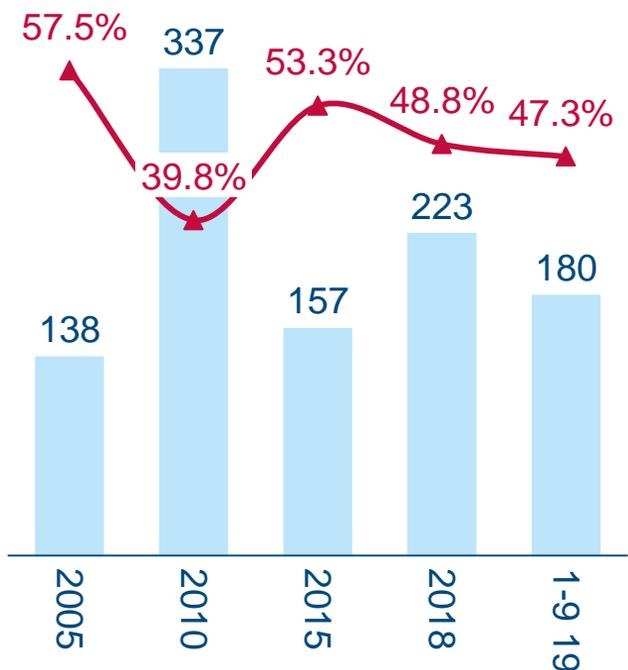
Key developments

- Massive deleveraging impacted revenues in 2011-2015
- CIR improved to below 50%
- Recent increase of operating expenses is due to substantial investments and wage inflation
- EBH's CIR is on declining path as opposed to banking market CIR

Operating income & expenses



Operating result & CIR



■ Operating income
■ Operating expenses

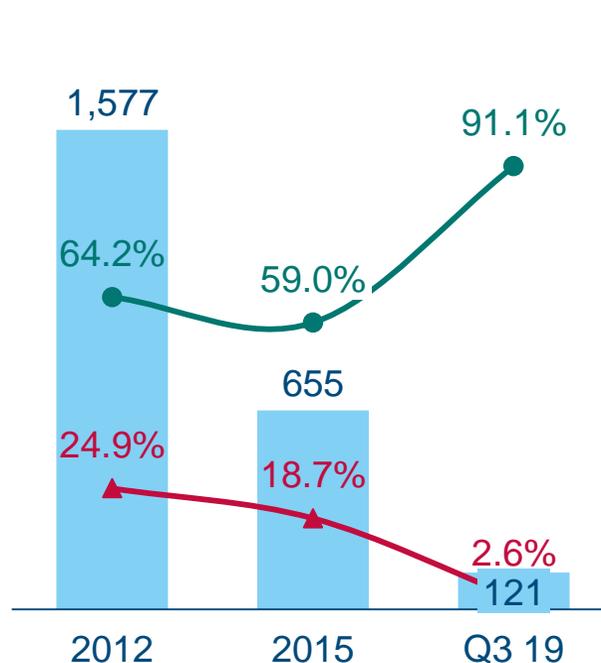
■ Operating result (in EUR m)
▲ Cost/income ratio (in %)

Asset quality and risk costs – Complete clean-up of the loan book has taken place since 2013

Key developments

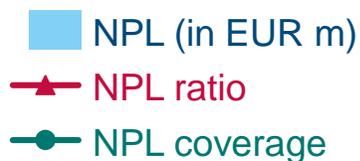
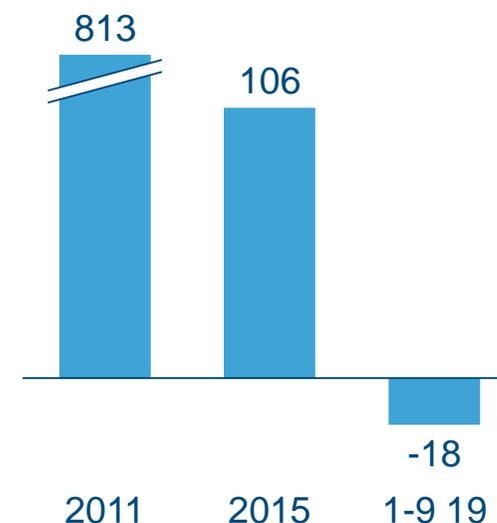
- Lending policy and favourable macroeconomic developments have supported asset quality improvement
- Recoveries, write-offs, and NPL sales have contributed to the significant reduction of the NPL book since 2013
- Coverage ratio increased from 59% (2015) to 91% (Q3 19)

Asset quality*



Risk costs

in EUR m



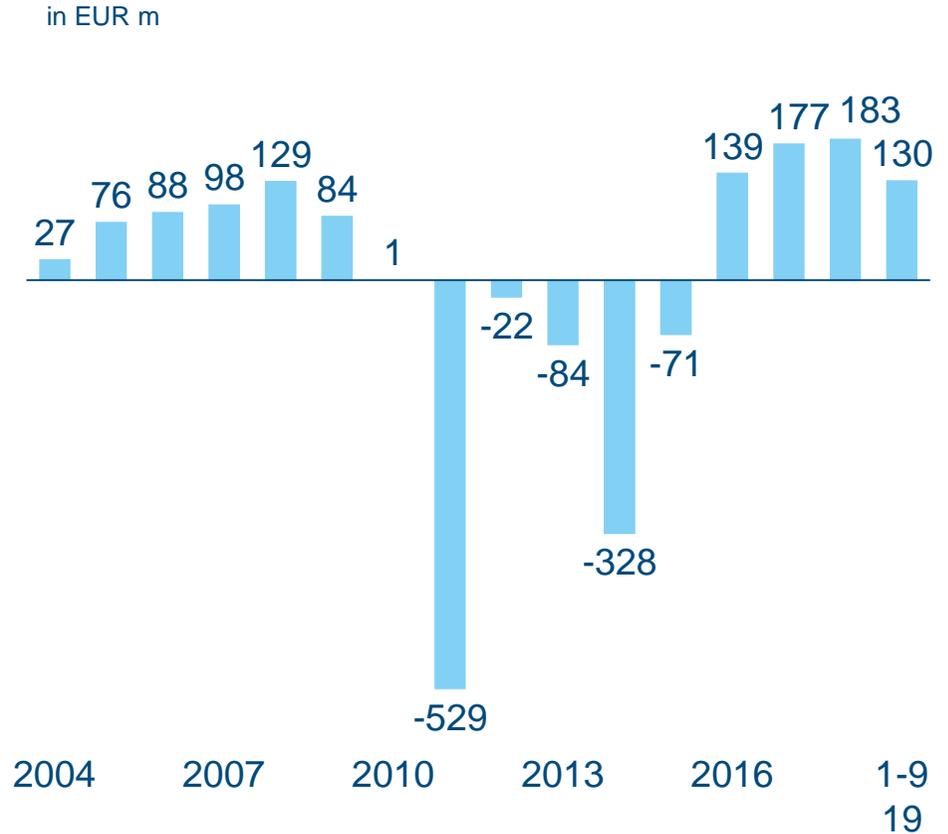
*) Asset quality based on segment reporting

Net result – Sustainable profitability since 2016

Key developments

- Net profit has continuously increased since 2016
 - Net losses of previous years were due mainly to conversion of CHF-based loans and high risk provisions
- Effect of loss carry forward expected to gradually decrease until 2023
- Net result has been impacted by introduction of banking tax in 2010 and financial transaction tax in 2013
- Banking tax has been cut significantly since 2015
 - 2015 banking tax: EUR 46m
 - 2018 banking tax: EUR 14m
- Financial transaction tax has been stable
 - 2018 FTT: EUR 45m
 - Significant part of FTT has been reflected in fee income

Net result evolution



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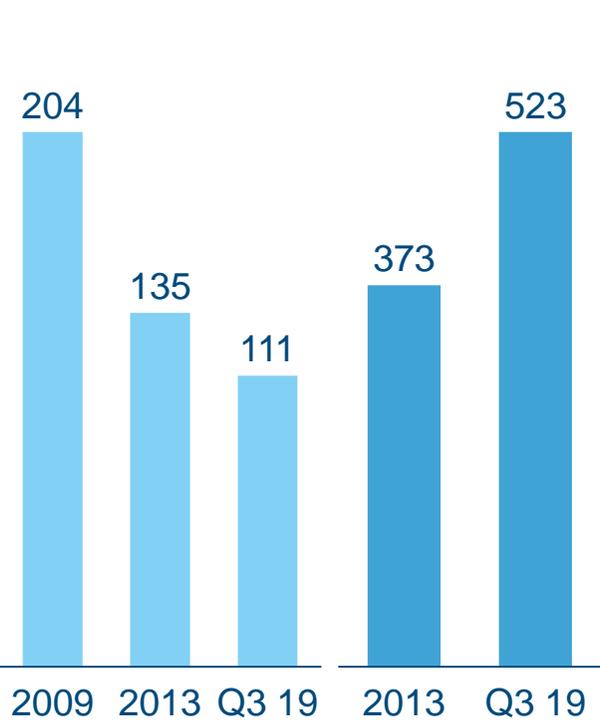
Digital snapshot –

Digital has already been at the core of EBH’s growth strategy

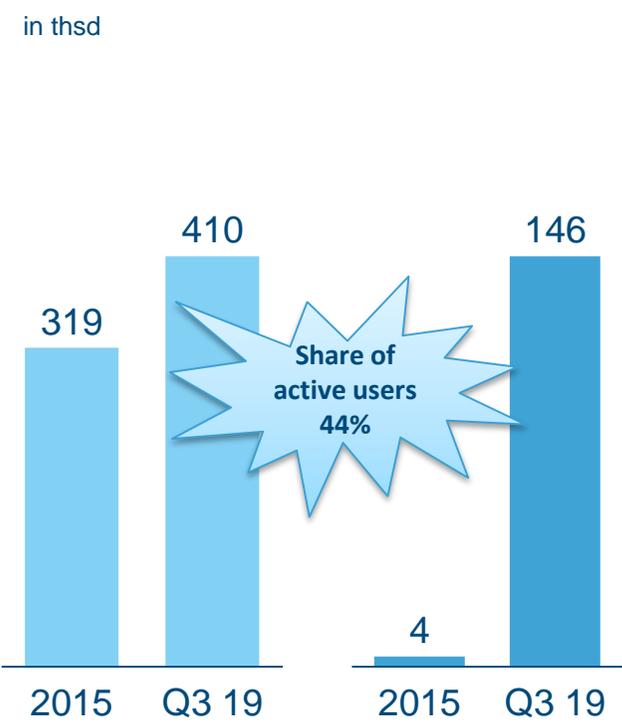
Key developments

- Branch network optimisation with implementation of new layout has been ongoing
- EBH’s branches account for 6% of the total 2,000 branches in Hungary
- Digital banking increasingly contributes to product sales, e.g. E2E digital personal loan for existing clients offered since spring 2019
- Chabot as a service channel launched in 2018, further expansion planned
- MobilePay and Apple Pay offered by EBH since 2019

Number of branches and clients



Number of digital users

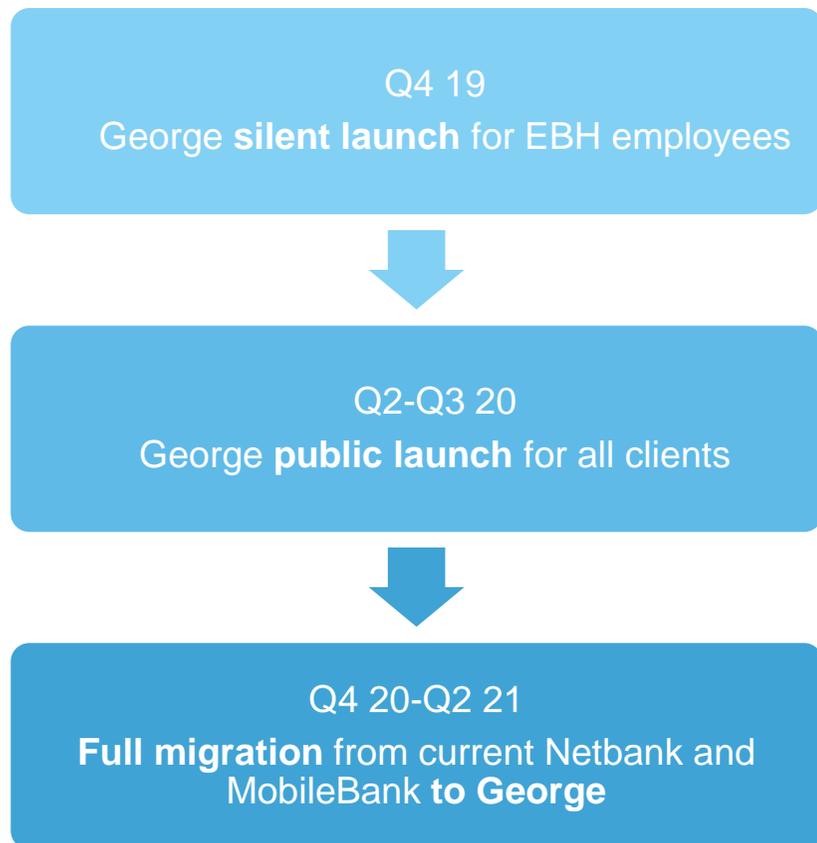


Number of branches
Number of salary clients

Active digital users
Active mobile banking users

Digital timeline – George goes to Hungary in 2020

Introduction of George in 2020



Digital aspirations until 2024

- Tablet based on-boarding in February 2020, extension to basic products in 2020
- Online on-boarding in 2020
- ~60% E2E digital sales as % of total sales for simple products to be reached by 2024 (e.g. cash loan)
- 35% E2E digital share of cash loan total sales to be reached by 2024
- Fully paperless sales and advisory processes in branches by 2024
- 75% active digital share to be reached by 2024

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Conclusion – Outlook Hungary/Erste Bank Hungary

Macro

- Strong economic performance expected to continue
- Main driver of growth to remain consumption and investments

Banking market

- High-single digit loan growth to continue after years of deleveraging
- More asset management products instead of deposits

Erste Bank Hungary

- Revenues to be supported by loan growth & high share of fee income
- Costs to remain under strict control, target of CIR below 45%

Digitalisation

- George rollout to Hungary in 2020
- High share of digitally active clients