

Erste Group – 9th Capital Markets Day

21 November 2019, Vienna

Hungary/Erste Bank Hungary: The comeback kid

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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

GROWTH

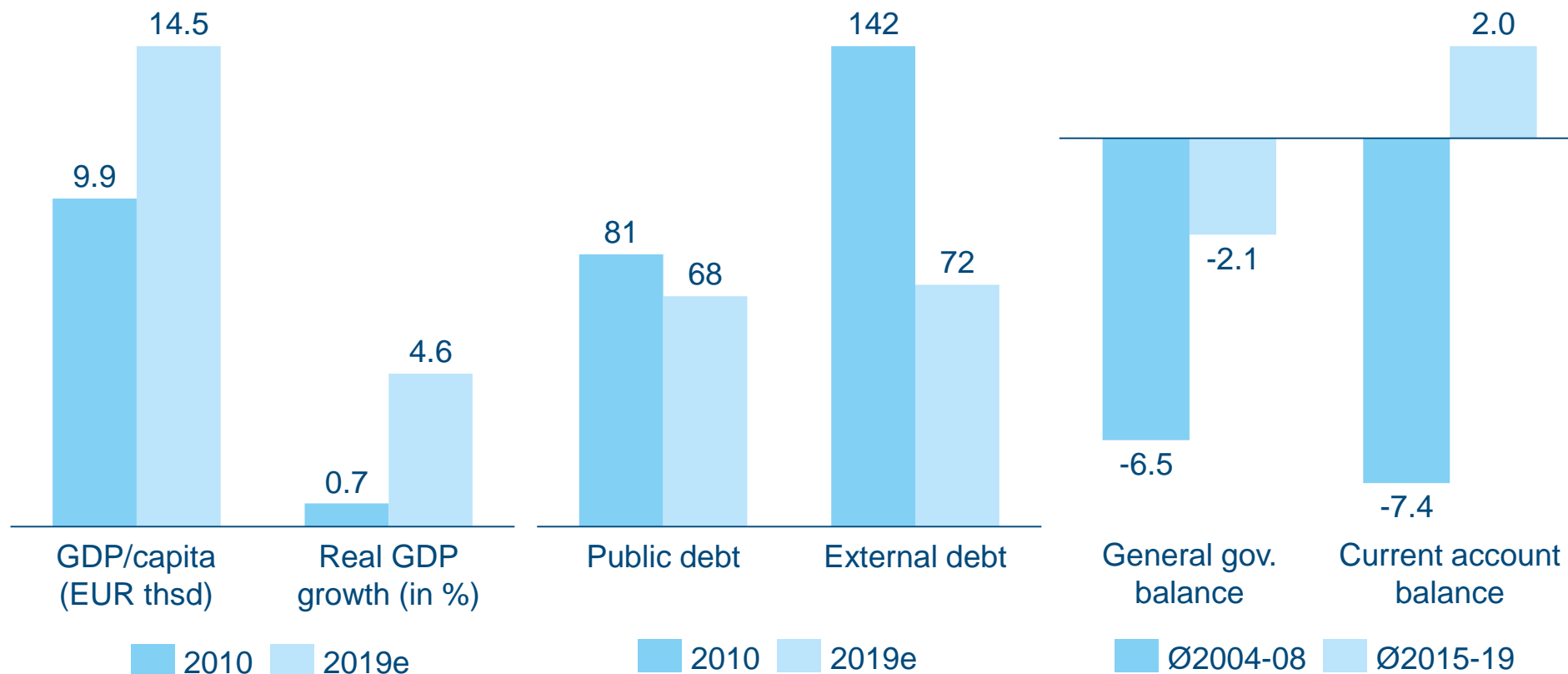
EU GDP growth leader

External debt to GDP halved

Improved economic balances

in % of GDP

in % of GDP



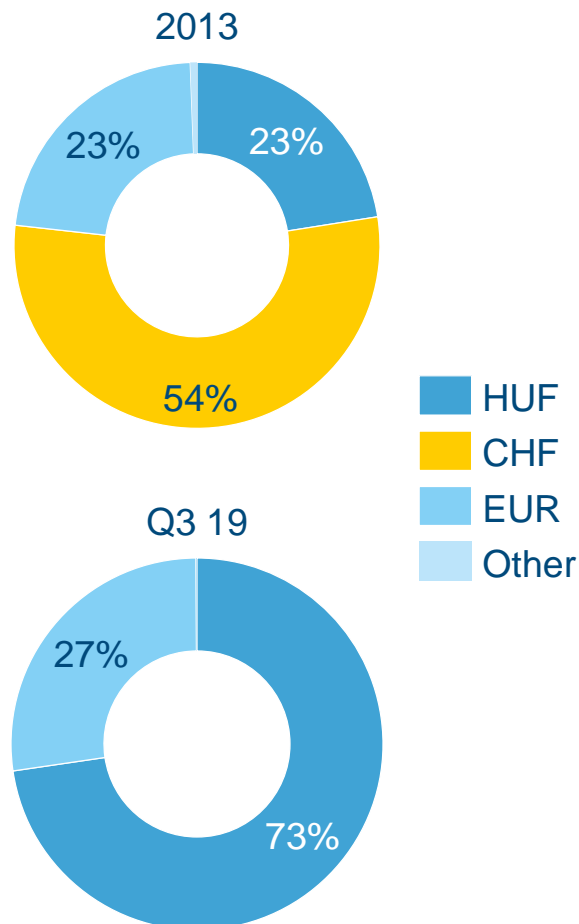
Source: Erste Group Research

The bank turnaround –

From parent-funded CHF monoline to balanced growth model

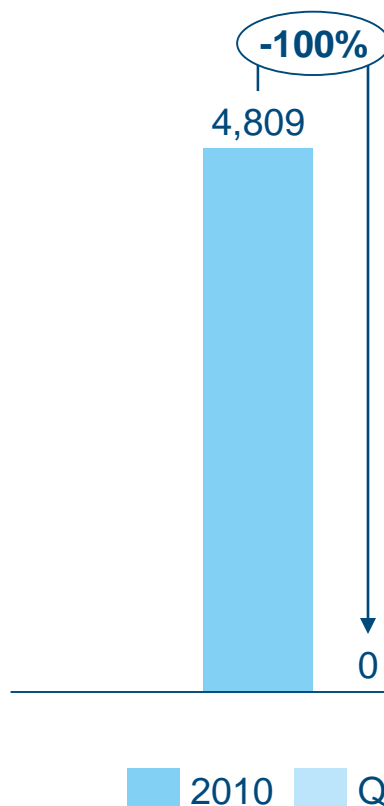
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Loan book: HUF dominates



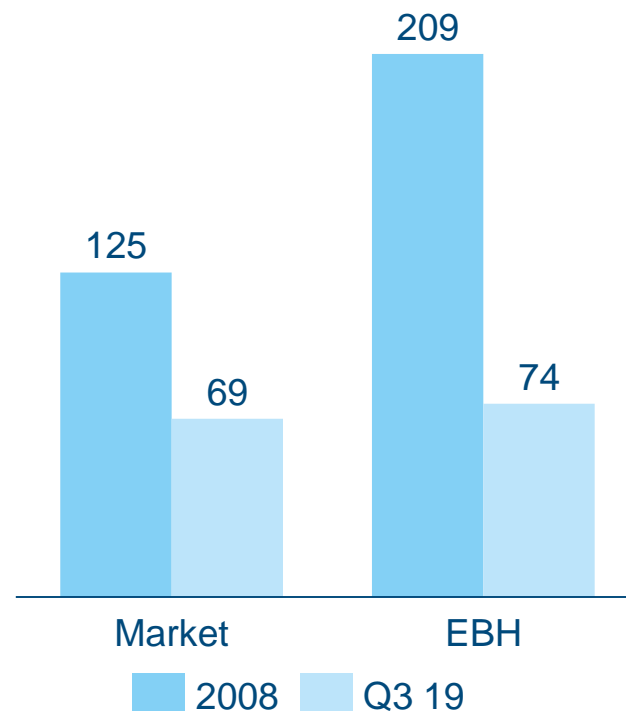
Intragroup funding fell to zero

in EUR m



EBH loan/deposit ratio at 74%

in %



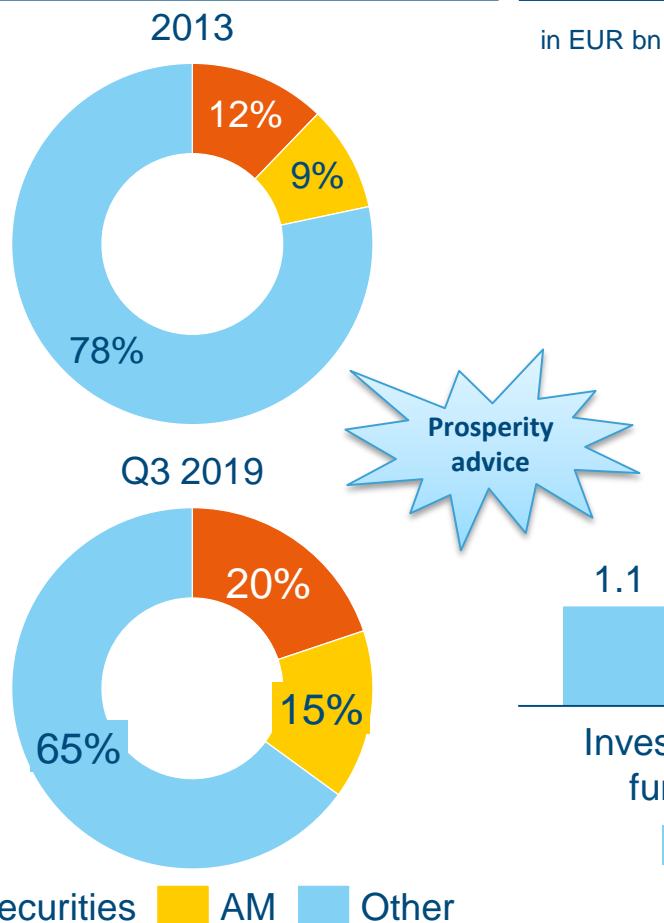
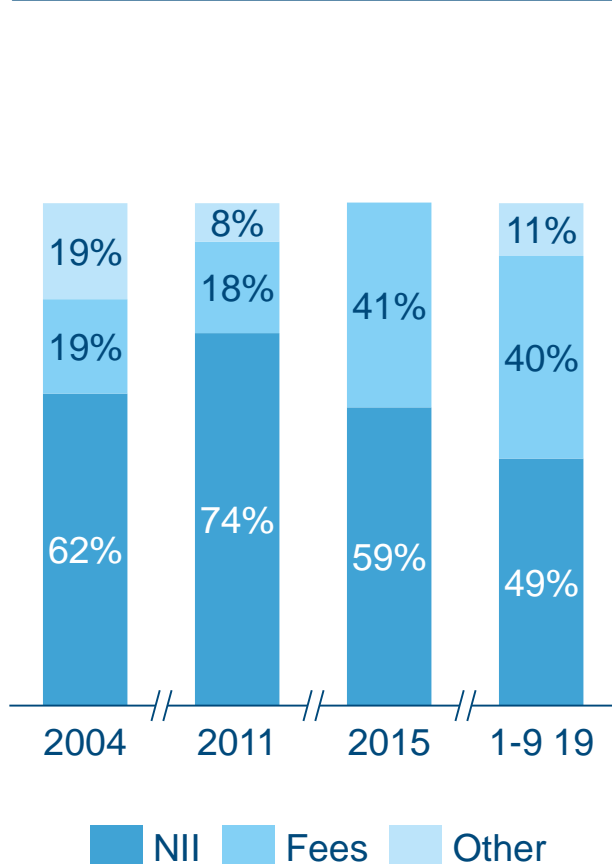
Fee income leadership – Strong track record in deposit conversion

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Income*: high fee proportion

Fee split*: prosperity advice

Very strong funds business



*) 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



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Economic environment –

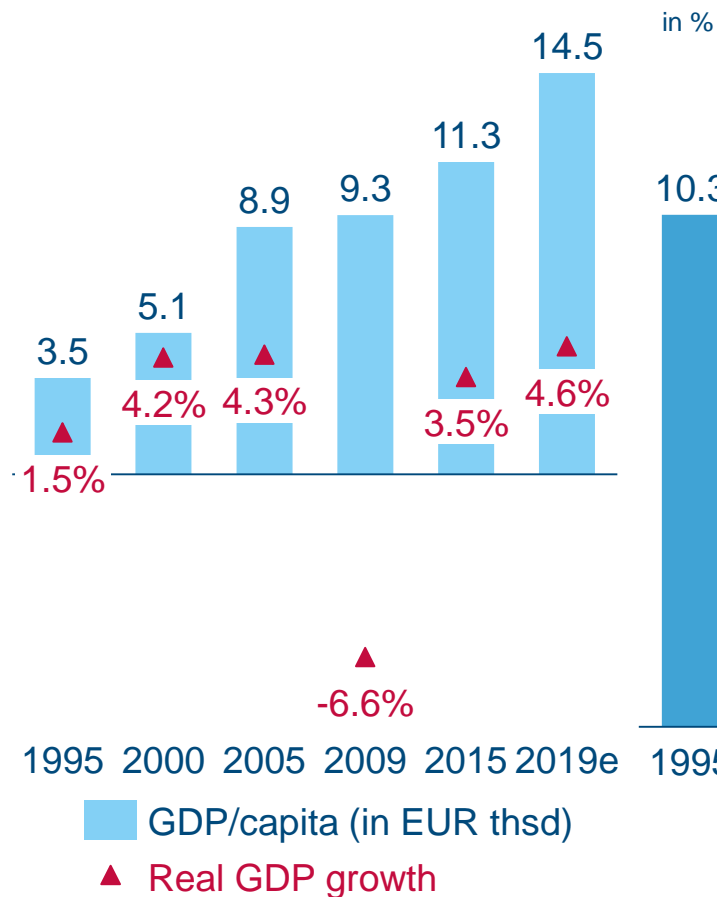
Hungary is currently the fastest growing EU economy

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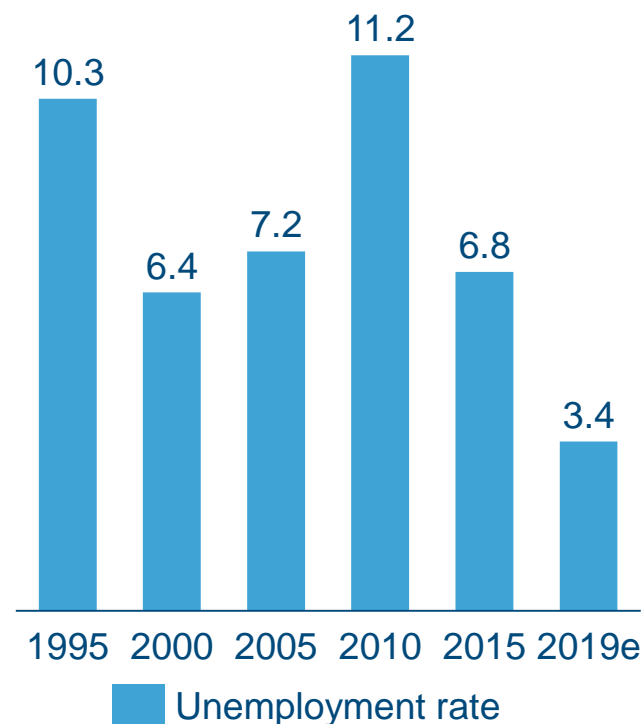
Key developments

- 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

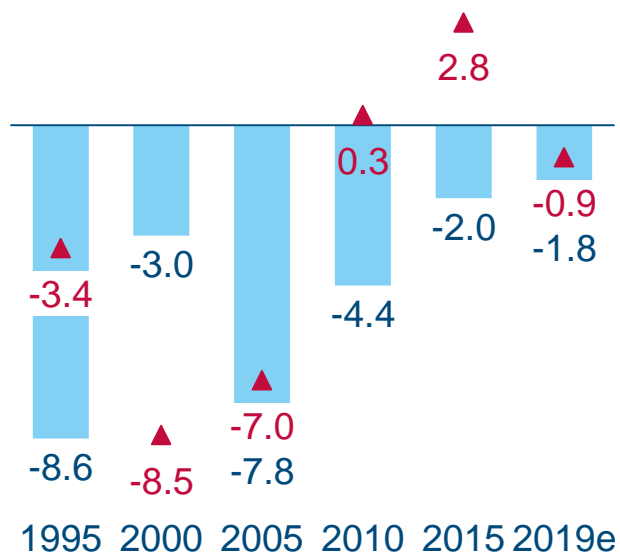
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Key developments

- 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

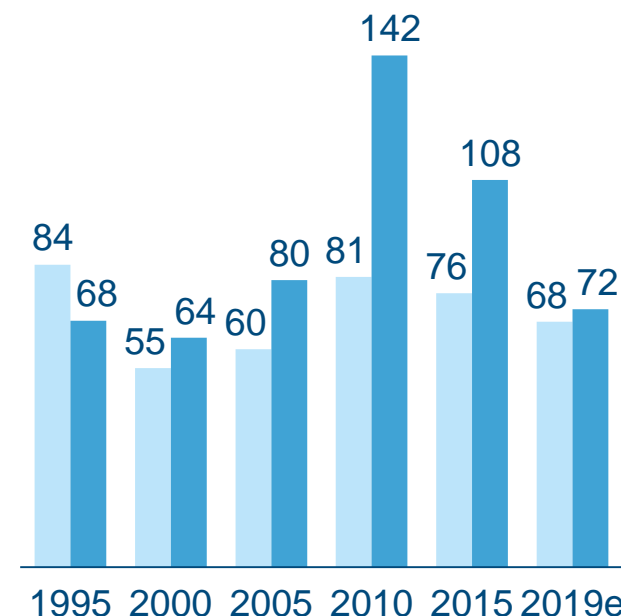
Economic balances

in % of GDP



Public & external debt

in % of GDP



Government balance
Current account balance

Public debt
External debt

Source: Erste Group Research

Economic environment –

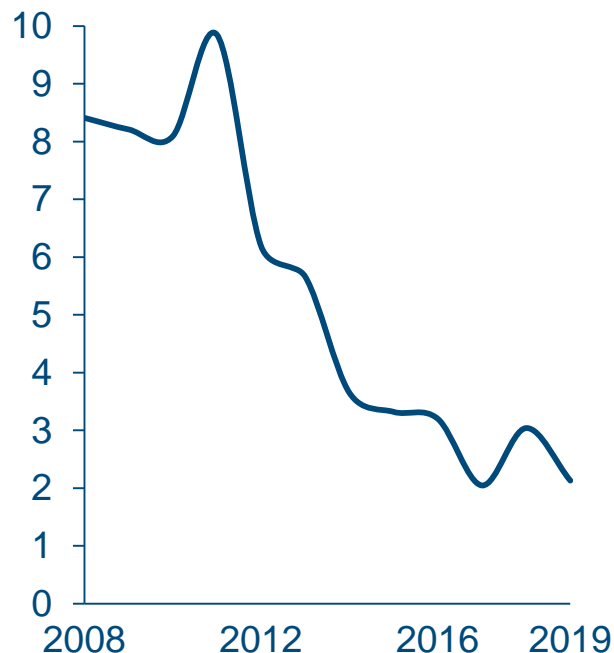
Interest rates close to historical lows

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Key developments

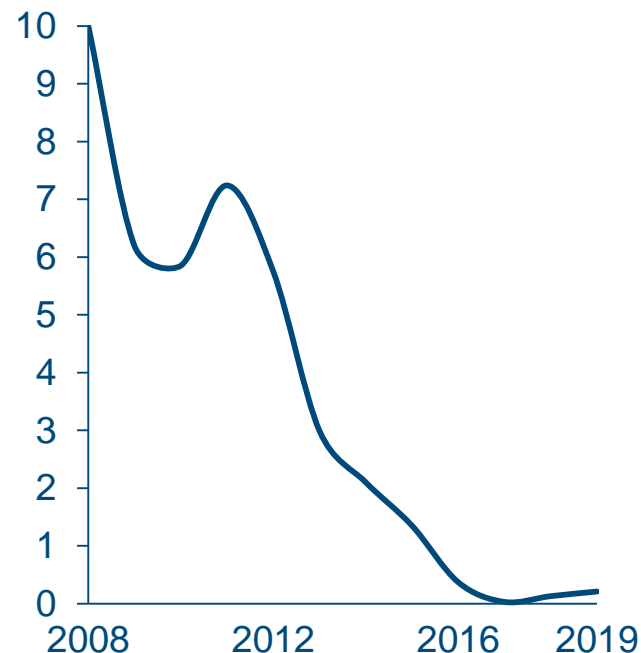
- Central Bank has kept the base rate at a historical low of 0.9% since 2016
- Newly implemented 5y retail government bond in 2019 is protection for the Hungarian public against inflation while it also reduces foreign indebtedness
- HUF is currently traded close to its historical low versus the EUR due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

Government bond yield



— 10y year-end rate

Short-term interest rate



— 3m BUBOR

Source: ThomsonReuters

Banking market – From deleveraging to rapid growth

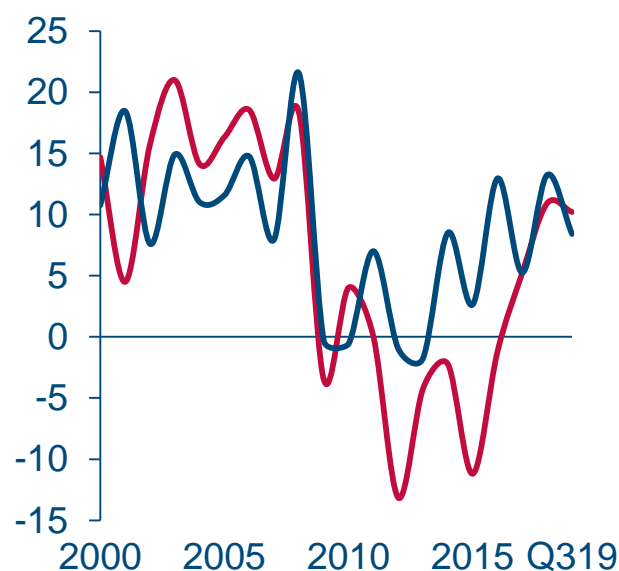
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Key developments

- 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 and in important role in in the savings market
- Despite fast growth, penetration rates indicate significant growth potential

Market growth

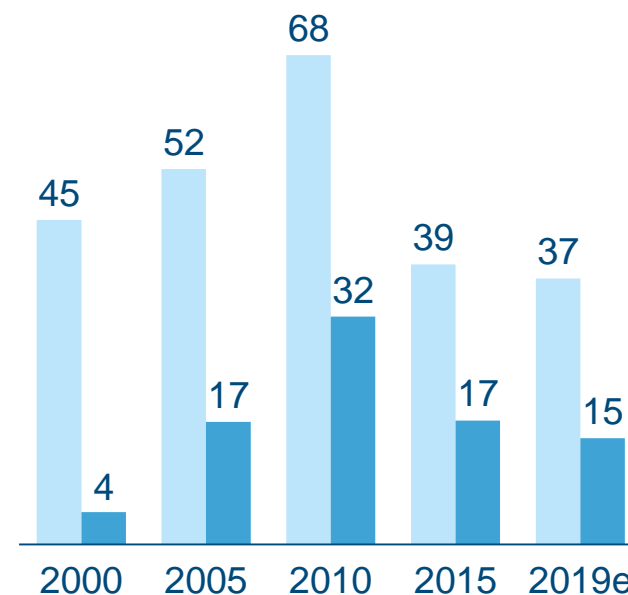
in %



— Customer loan growth
— Customer deposit growth

Penetration

in % of GDP



■ Customer loans
■ Household loans

Source: National Bank of Hungary

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Customer loans –

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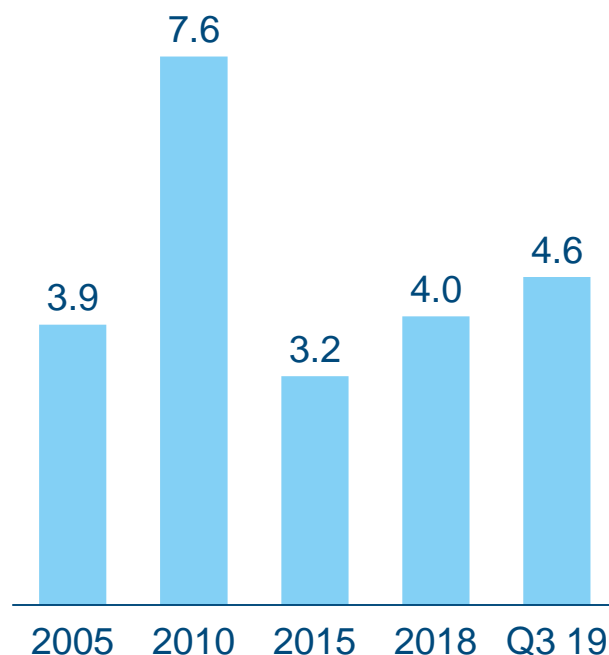
After significant deleveraging, sustainable growth has re-emerged

Key developments

- 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

Volume evolution

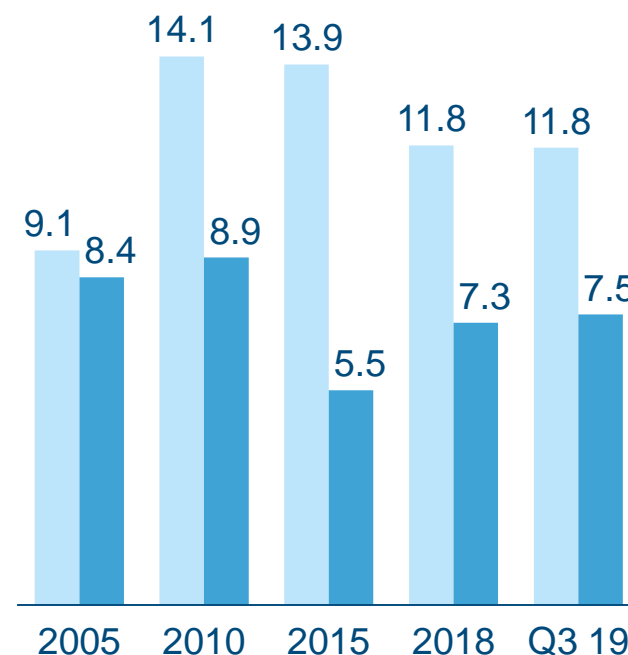
in EUR bn



Customer loans

Market shares

in %



Retail loans

Corporate loans

Customer deposits and asset management – Steady growth

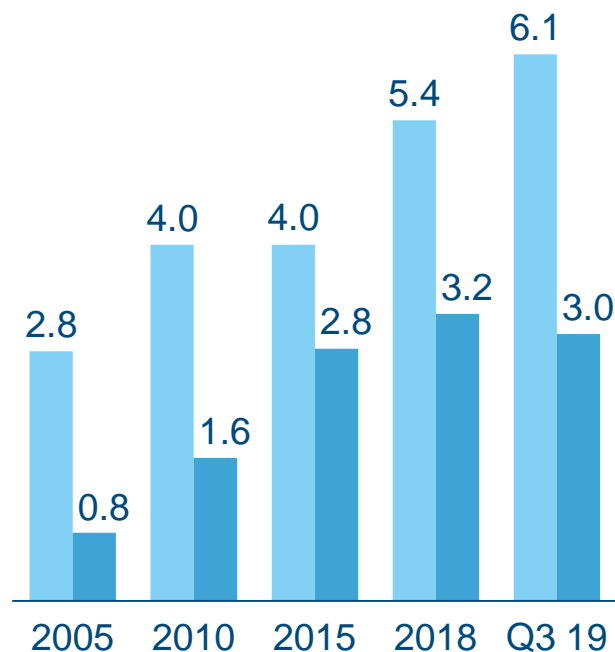
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Key developments

- 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

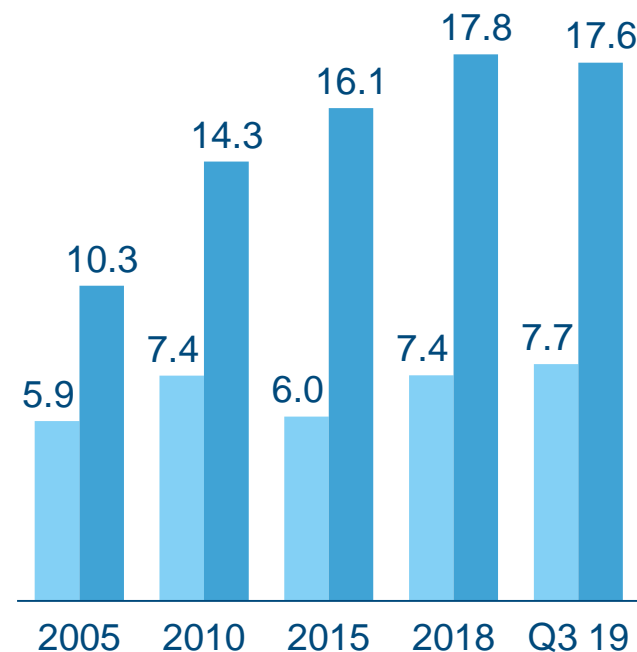
in EUR bn



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

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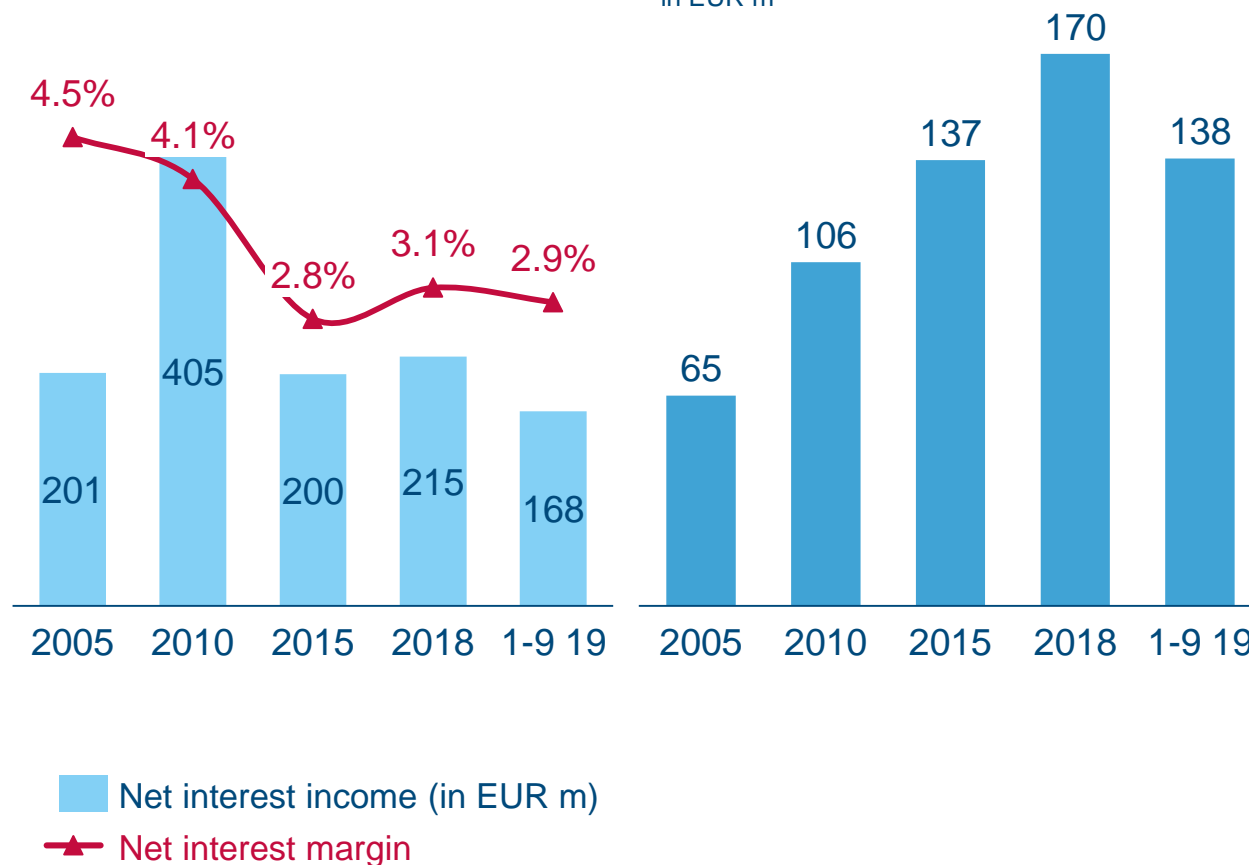
Key developments

- 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

in EUR m



Operating result –

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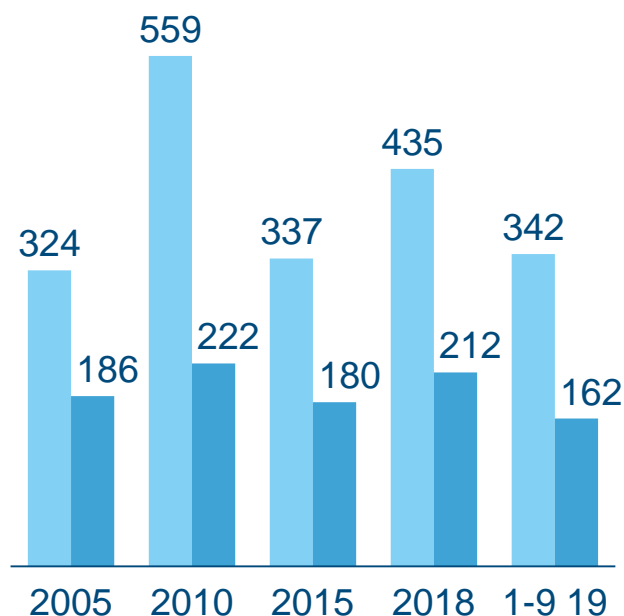
Revenues rise again & strict cost control: CIR back to below 50%

Key developments

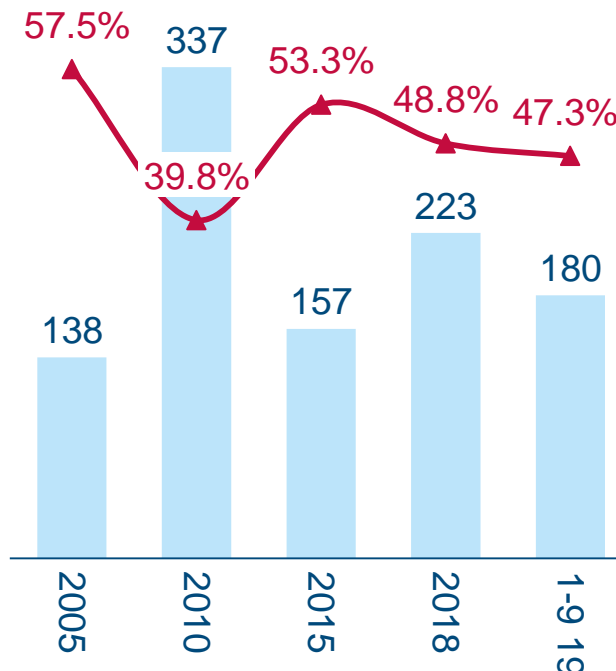
- Massive deleveraging impacted revenues in 2011-2015
- CIR improved to below 50%
- Recent increase of operating expenses is due to substantial investments and wage inflation
- EBH's CIR is on declining path as opposed to banking market CIR

Operating income & expenses

in EUR m



Operating result & CIR



Operating income
Operating expenses

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

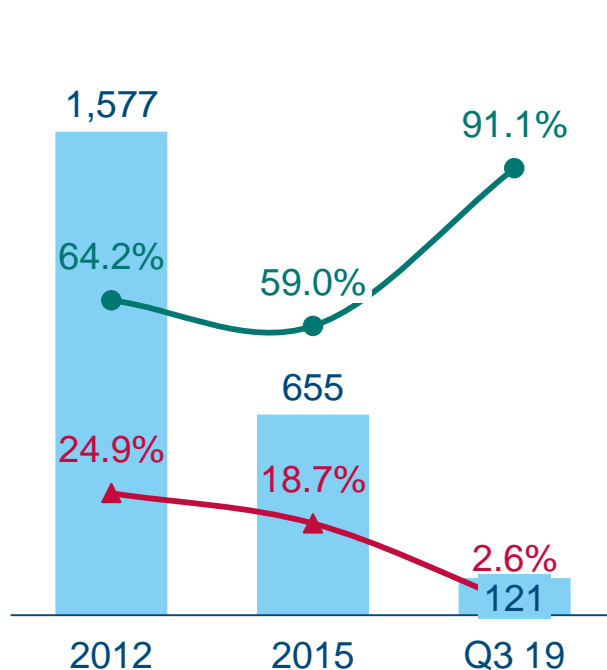
Asset quality and risk costs –

Complete clean-up of the loan book has taken place since 2013

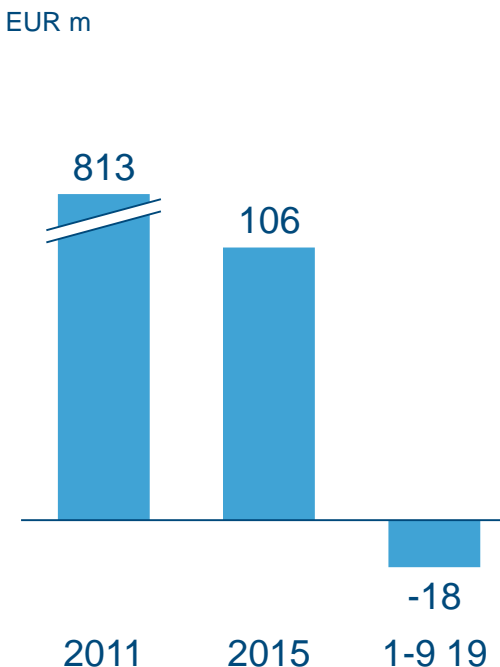
Key developments

- 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



*) Asset quality based on segment reporting

Net result –

Sustainable profitability since 2016

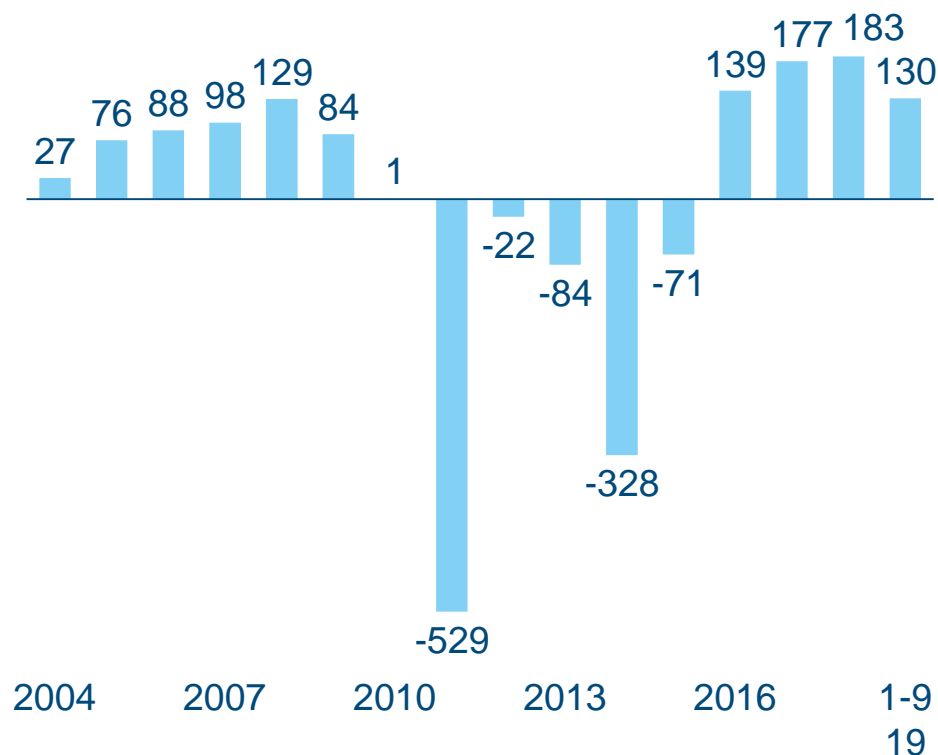
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Key developments

- 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
 - 2015 banking tax: EUR 46m
 - 2018 banking tax: EUR 14m
- 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

in EUR m



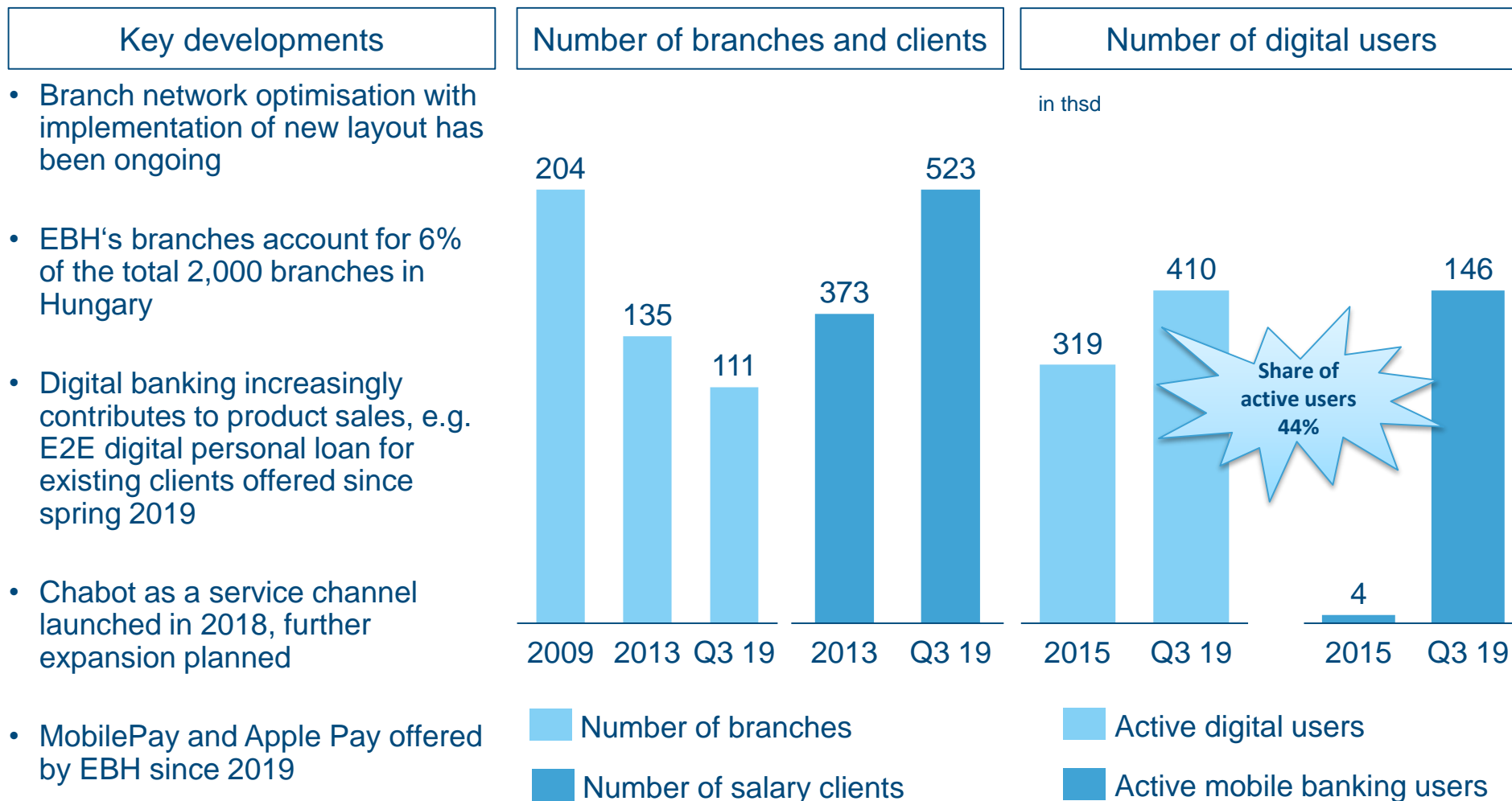
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Digital snapshot –

DIGITAL

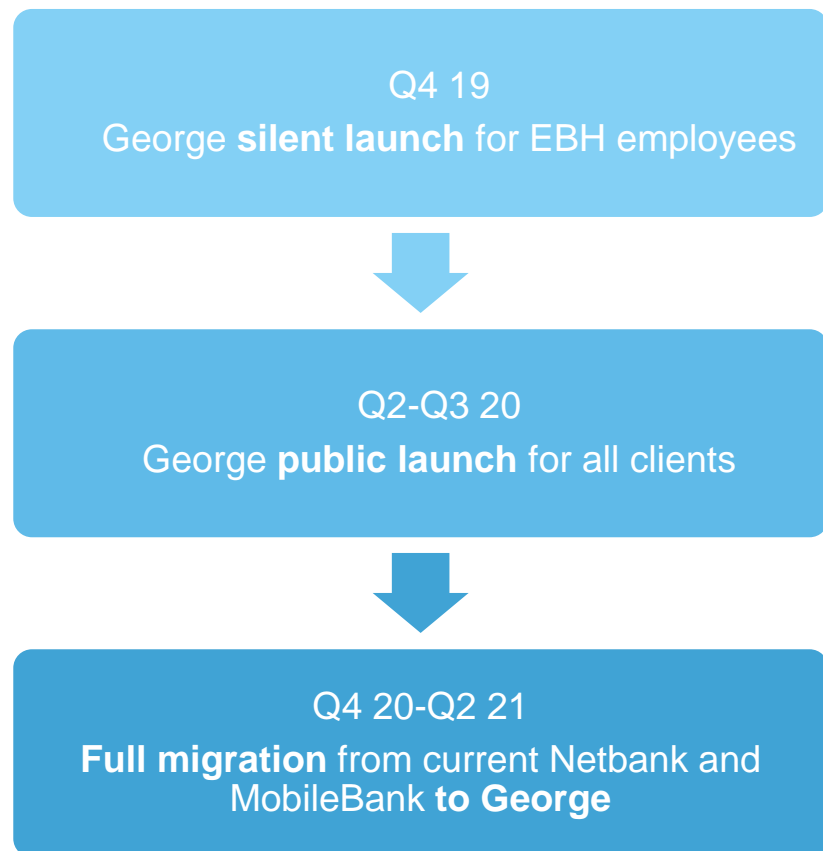
Digital has already been at the core of EBH's growth strategy



Digital timeline – George goes to Hungary in 2020

DIGITAL

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