

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

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**Serbia/Erste Bank Serbia: The organic growth champion**

Slavko Carić, CEO Erste Bank Serbia

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# Presentation topics – The organic growth champion

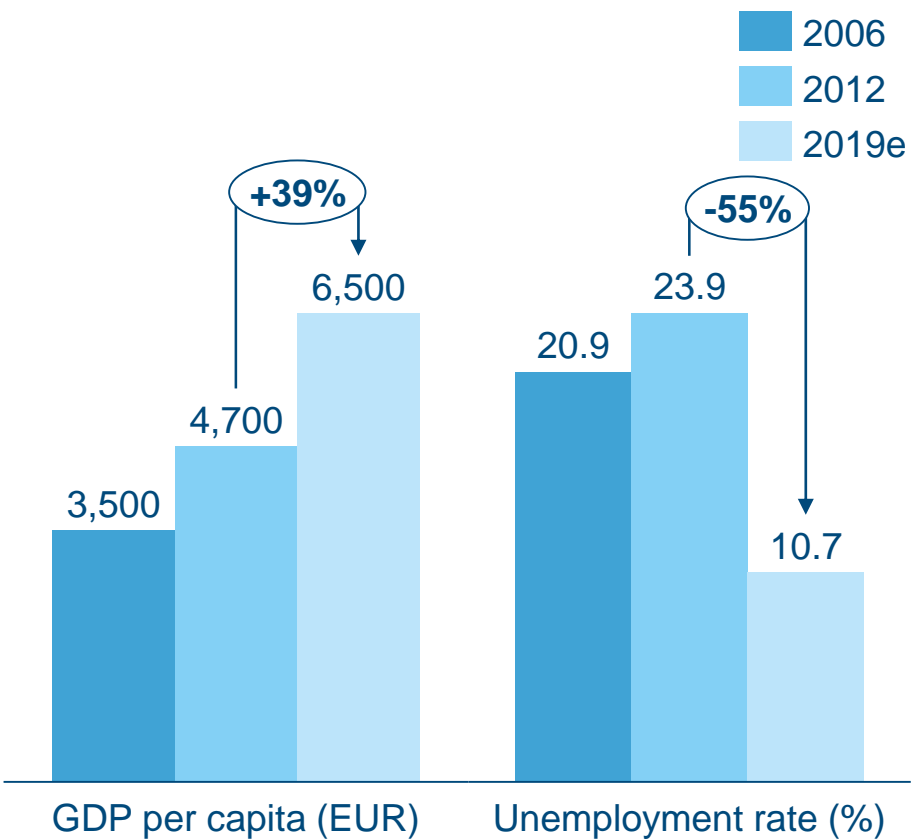
- Executive summary
- The growth story
  - Intro
  - The macro story
  - The micro story
- The digital story
- Conclusion

# The economic upswing –

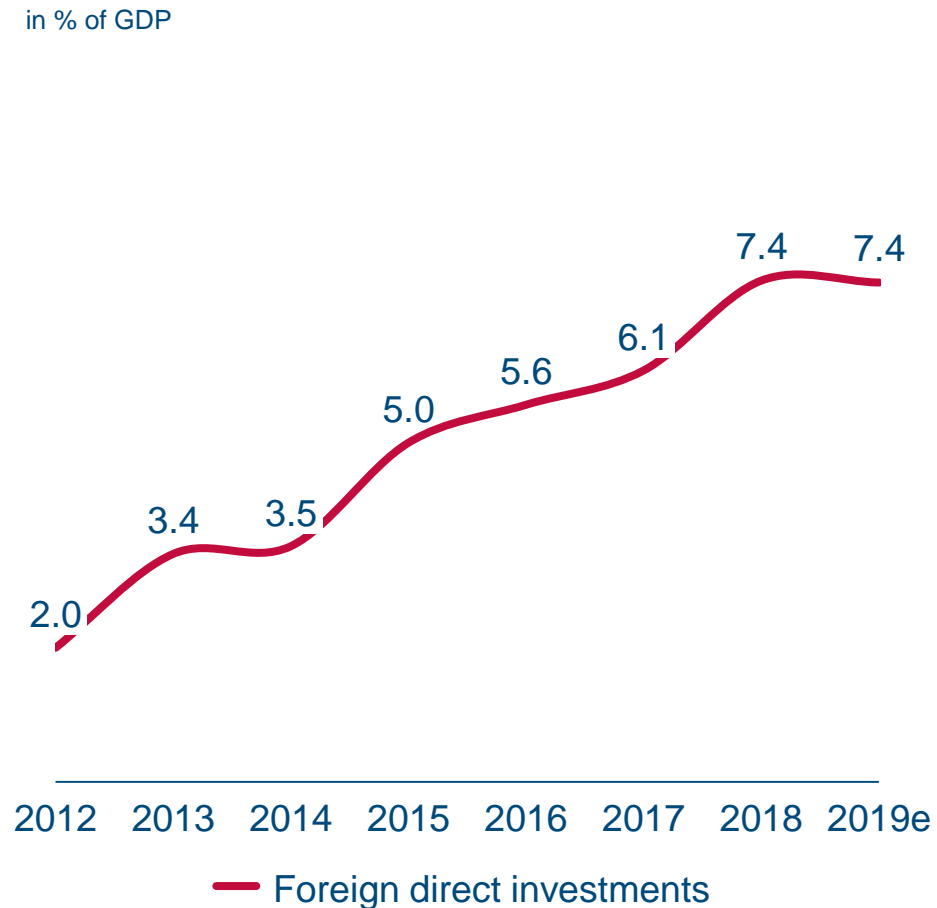
Serbia has enjoyed political stability & EU-oriented strategy since 2012

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Remarkably improved economy...



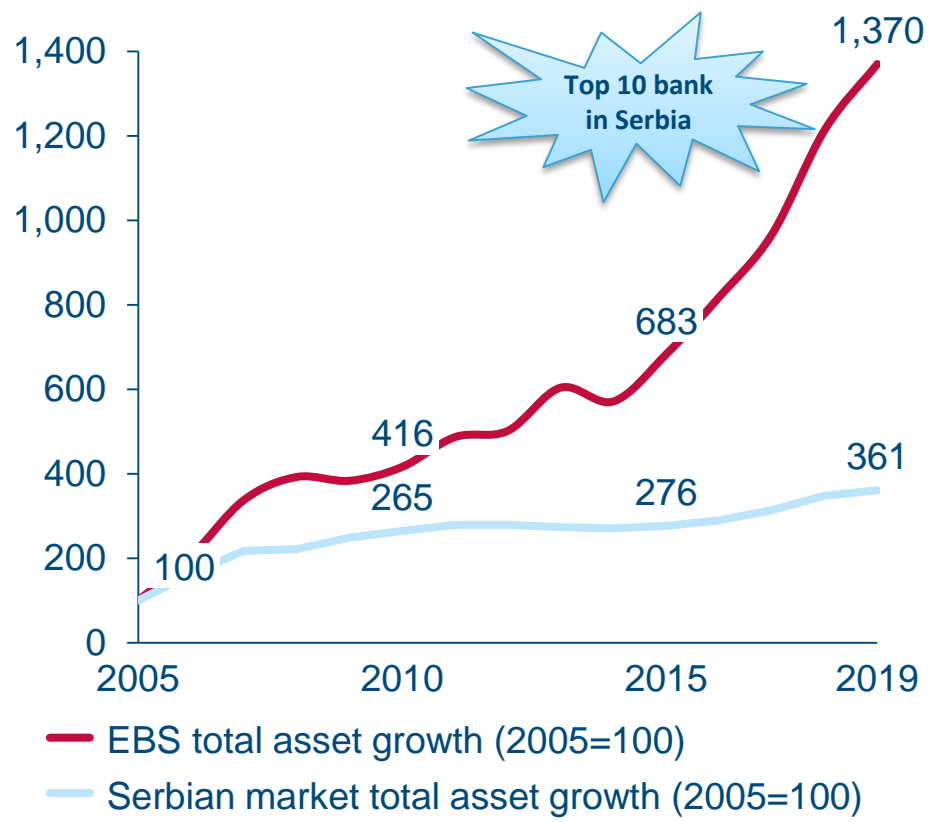
...driven mainly by investments



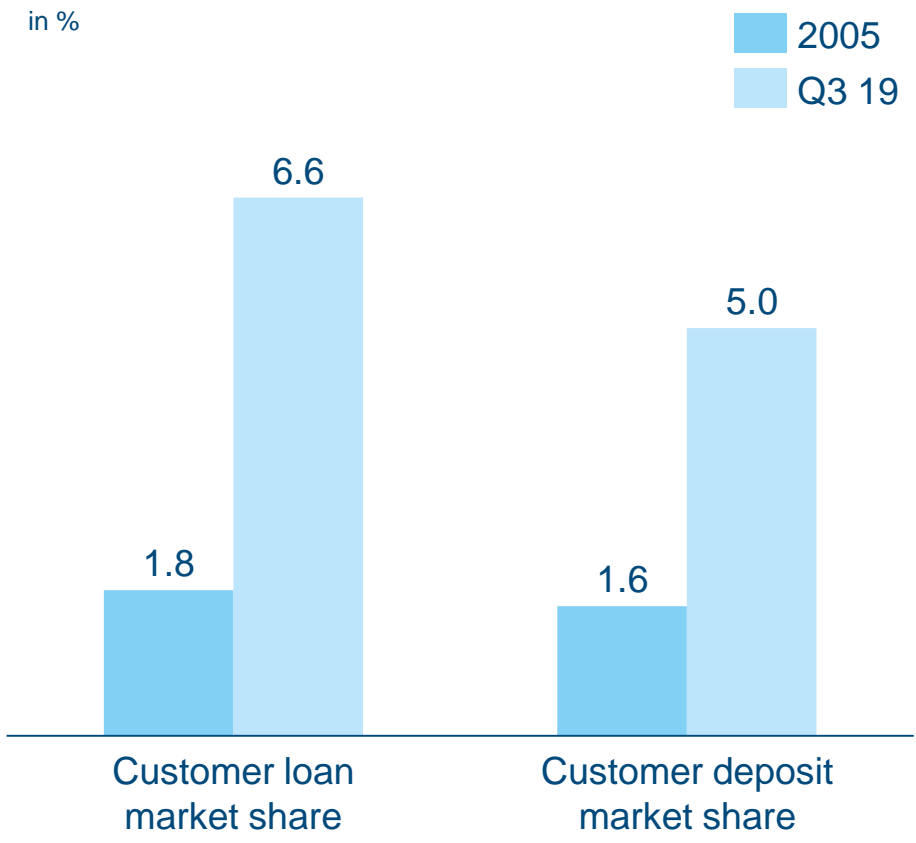
Source: Erste Group Research

# The organic growth champion – EBS has become a significant player in the Serbian market

**EBS continuously outgrows the market**



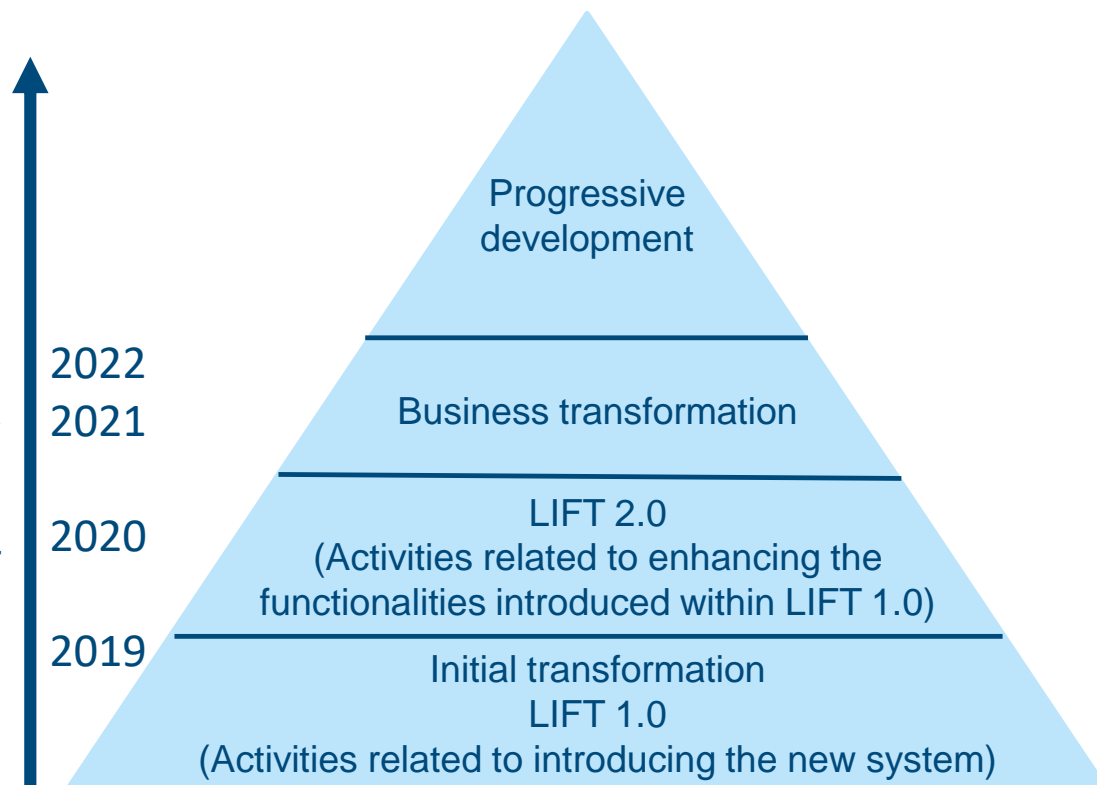
**Higher market shares in every segment**



# The IT quantum leap – Moving from legacy core banking system to Temenos platform

## Key steps

- Temenos 24 platform - a state-of-the-art, easily adaptable core banking system
- New core IT system by H1 2021
- Aim is to have a leading role in the digital transformation of financial services in Serbia
- EBS seizes the central role in its customers' financial lives by becoming a truly customer-centric organisation



# Presentation topics

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## Introduction – Modern approach to branch design



- Modern approach to branch design: improving customer experience by simplifying design, removing friction, integrating new technologies and trying to introduce more consumers to alternative digital delivery channels
- EBS redesigned three state-of-the-art branch offices in Belgrade, Novi Sad and Subotica to reflect consumer needs while providing the most efficient and rewarding customer experience



# Presentation topics

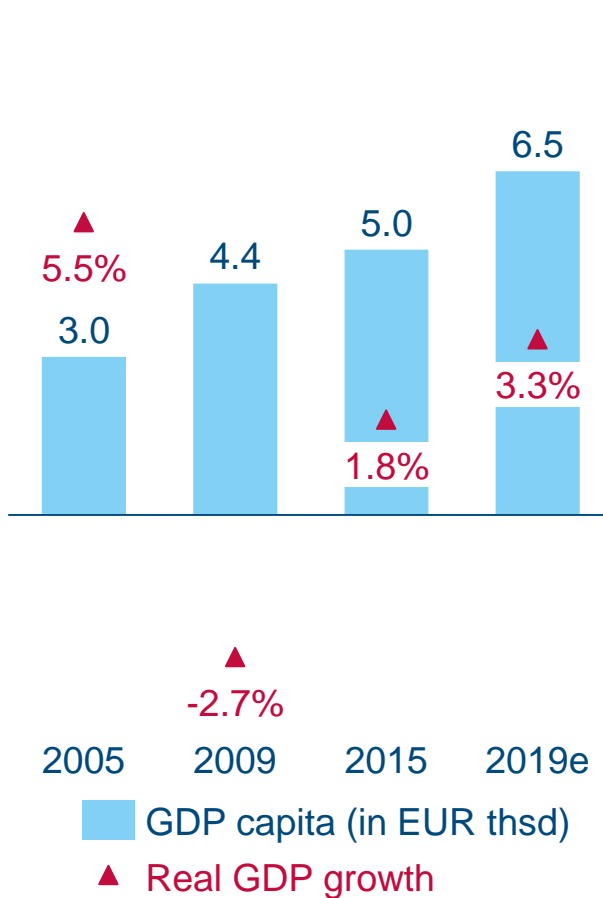
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# Economic environment – Balanced growth with more room for convergence

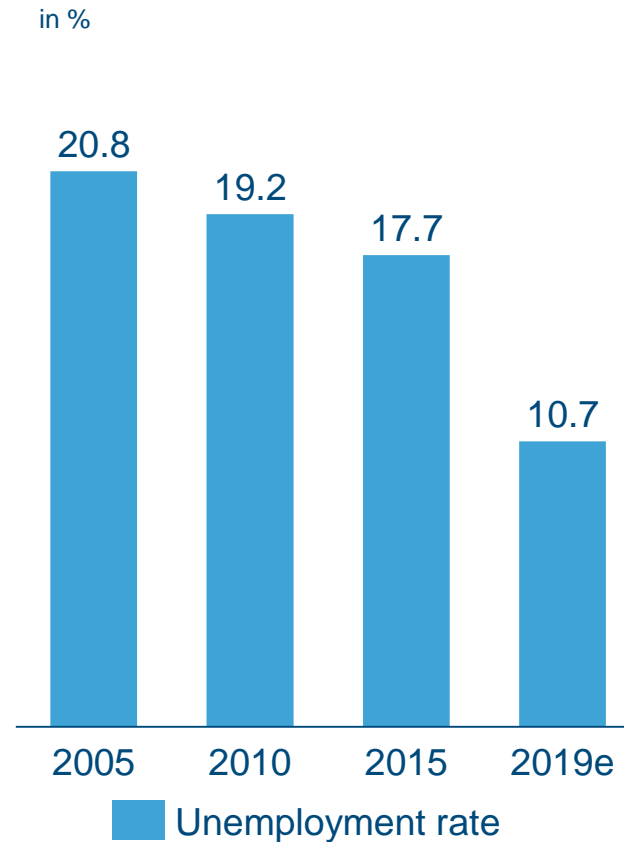
## Key developments

- Robust recovery since the breakup of Yugoslavia
- Free market- and pre-accession agreements with EU attracted more investors and credit agencies
- Large FDI inflow significantly contributed to recovery and industry profile change
- Growth shall continue to be driven by domestic demand, investments, business and tax incentives
- Convergence potential still very high at 3.5-4% estimated mid-term growth

## GDP



## Labour market



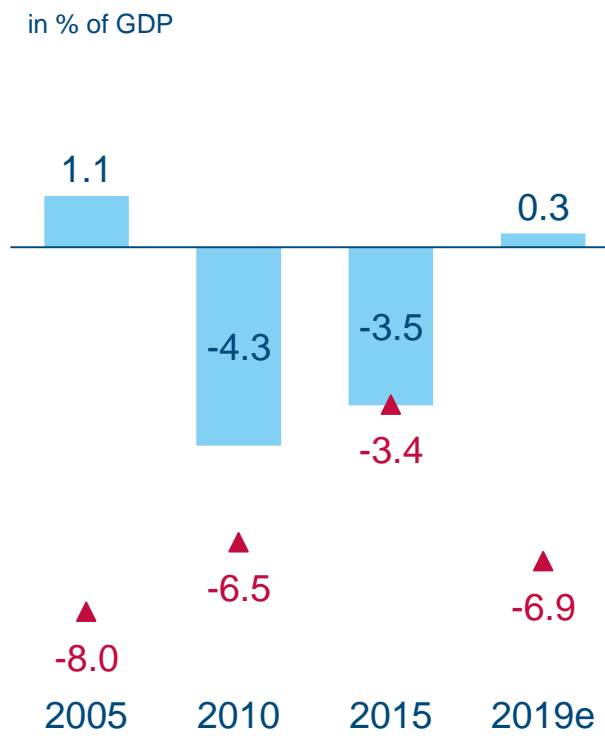
Source: Erste Group Research

# Economic environment – Prudential behaviour opens room for investments

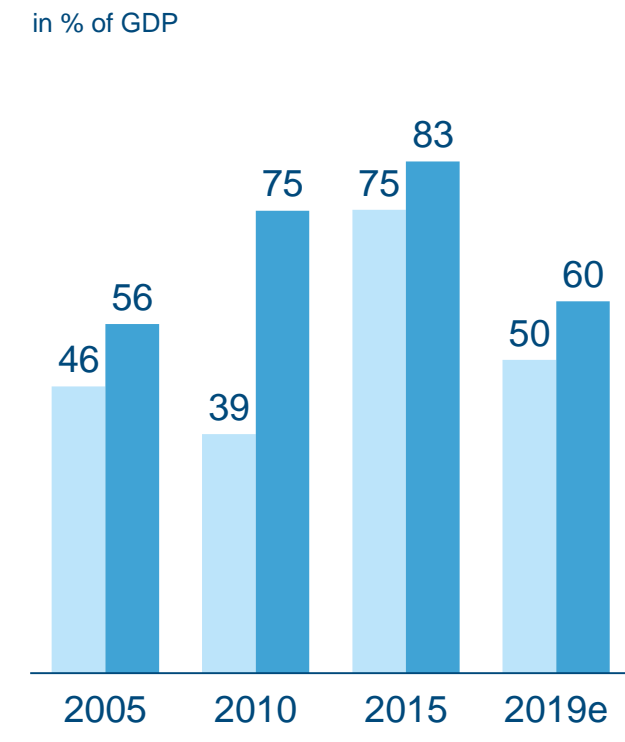
## Key developments

- Fiscal policy is expected to remain prudent
- Government expected to engage more in large investment programs
- Exports and FDI continue to be well diversified across sectors
- Fiscal discipline and prudent market behaviour bring down debt levels continuously
- Large import component continues to pressure current account

## Economic balances



## Public & external debt



- Government balance
- ▲ Current account balance
- Public debt
- External debt

Source: Erste Group Research

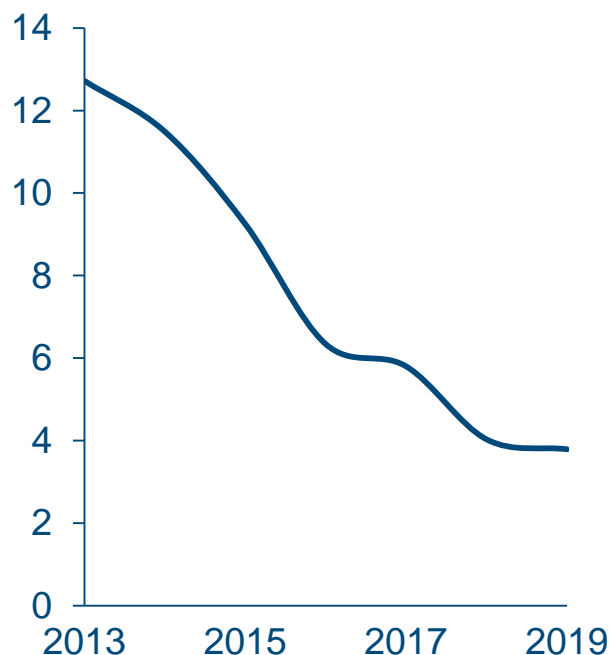
# Economic environment – Country risk significantly fades

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## Key developments

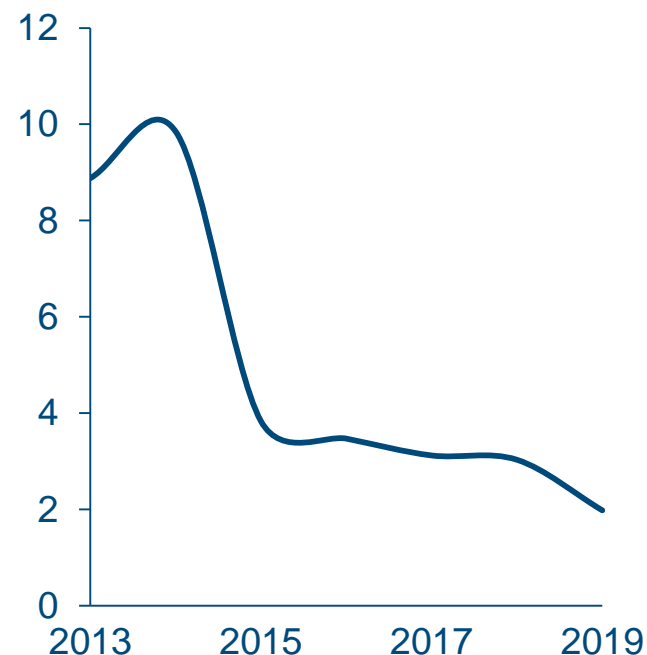
- Country risk has faded significantly since 2004 when Serbia received its first credit rating
- Serbia currently waits for its first ever upgrade to investment grade, potentially to be confirmed in late 2020 or early 2021
- Recent debt issues on domestic- and foreign markets attracted high demand
- Central Bank under pressure to ease more due to low inflation and external uncertainties

## Government bond yield



— 5y avg rate

## Short-term interest rate



— 3m BELIBOR

Source: ThomsonReuters, Erste Group Research

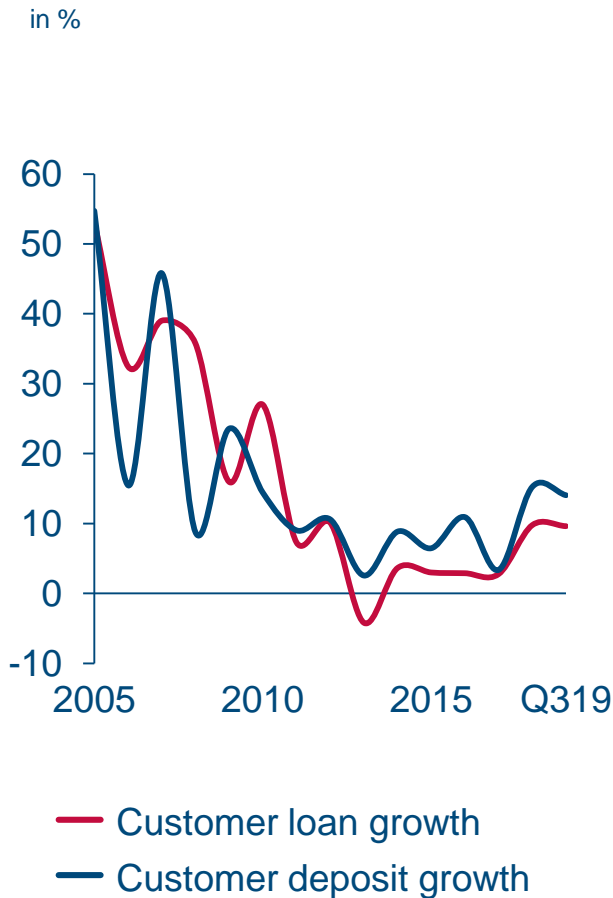
# Banking market – From zero to hero

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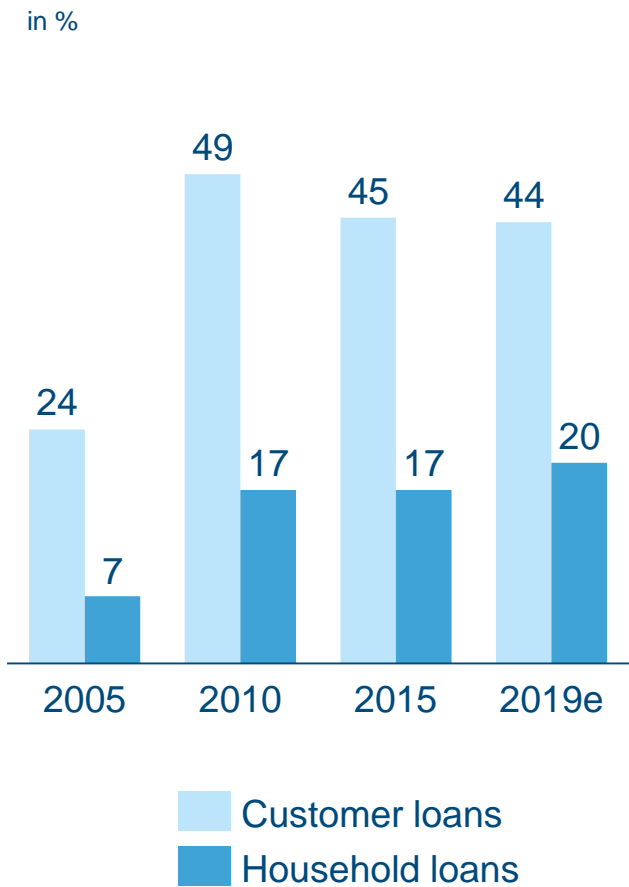
## Key developments

- Serbian banking sector has propelled since the political and economic changes in 2005
- Consolidation wave has been in full swing for three years, with more M&A activities ahead
- Credit activity mostly driven by retail business, while corporate lending has picked up recently
- Low interest rates environment puts pressure on margins, however, sector profitability remains high
- NPLs have been substantially reduced since 2015
- Capital adequacy ratio at historical highs

## Market growth



## Penetration



Source: National Bank of Serbia

# Presentation topics

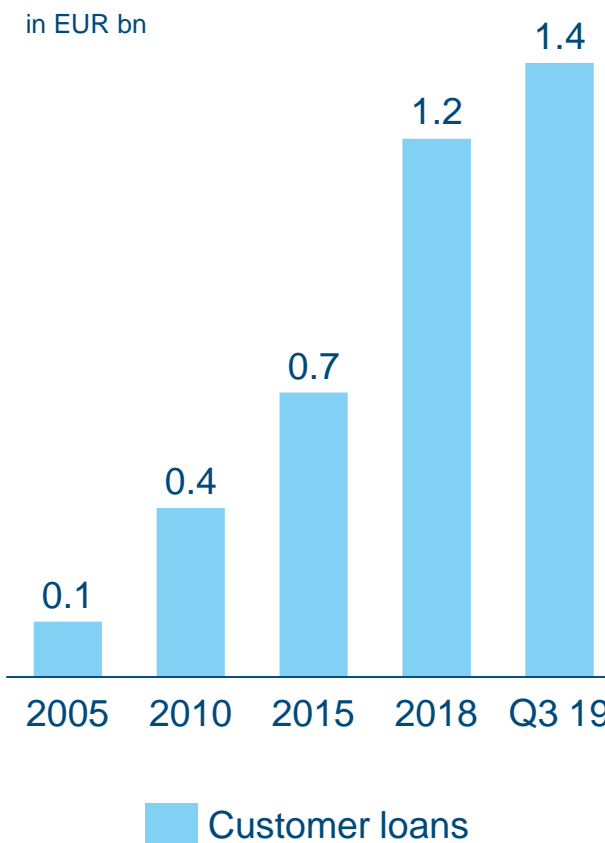
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# Customer loans – Highest growth among Serbian banks

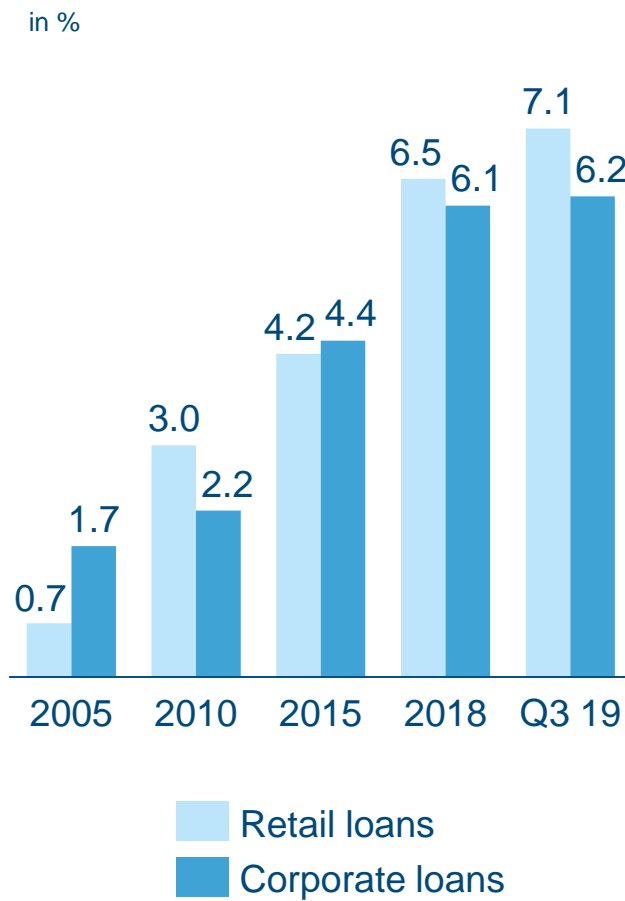
## Key developments

- EBS has had the highest organic growth in Serbian banking sector
- Market CAGR 2015-2018: 5%
- EBS CAGR 2015-2018: 19%
- Ranked 6th on the market based on customer lending
- Retail lending driven by housing and cash loans
- Corporate lending driven by commercial loans with main contributor being SME segment

## Volume evolution



## Market shares



# Customer deposits and asset management – Continuously strong growth

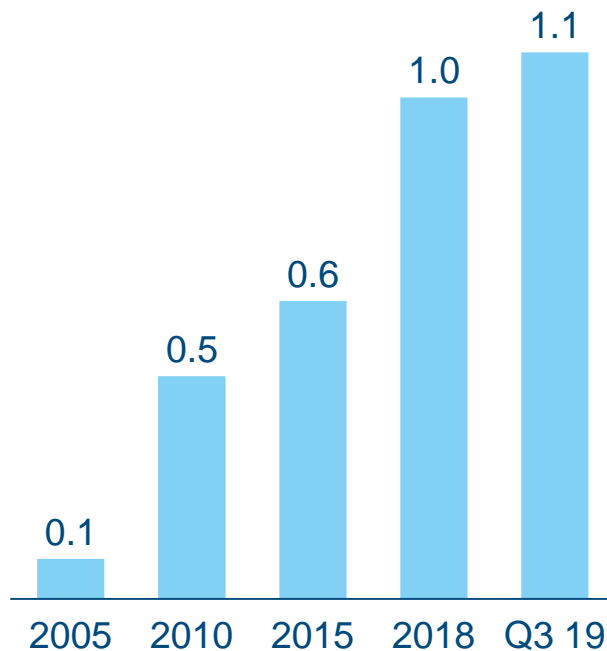
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## Key developments

- Position of a challenger bank has its price tag where entrance card in client relationship is mostly in loan business while full client business is missing at the beginning
- Market CAGR 2015-2018: 10%
- EBS CAGR 2015-2018: 19%

## Development of volume

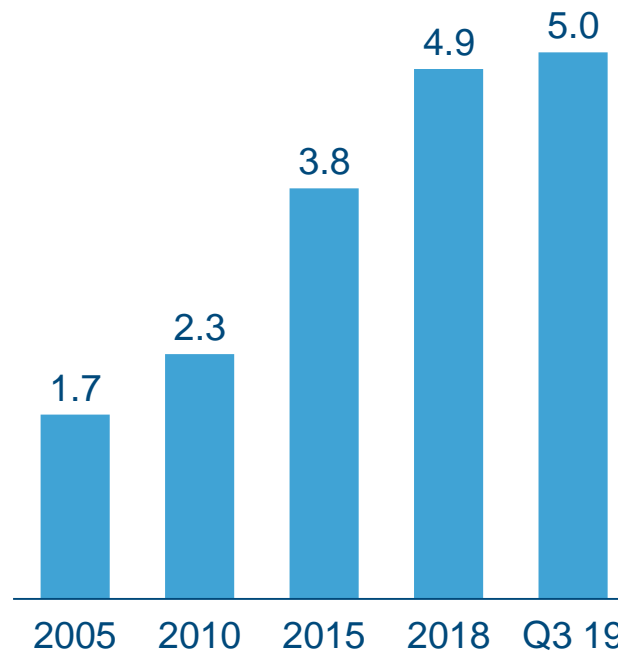
in EUR bn



Customer deposits

## Market shares

in %



Customer deposits



# Net interest income and fee income – EBS achieves high NII growth driven by significant volumes

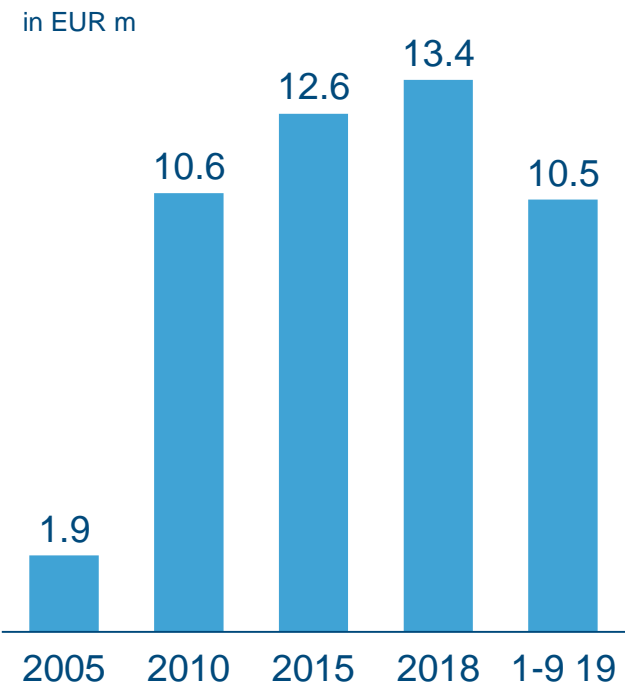
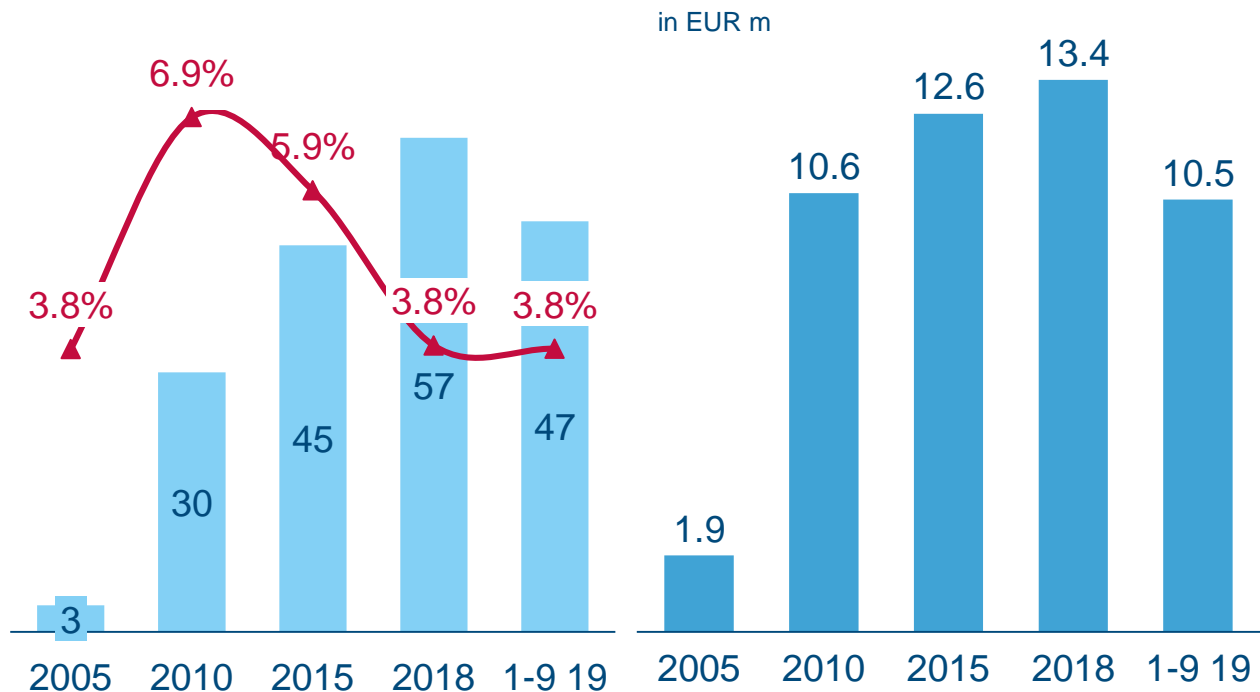
GROWTH

## Key developments

## NII & NIM

## Net fee and commission income

- Net interest income driven by constant volumes growth
- Significant decline of NIM
  - Drop of market interest rates
  - Dominance of housing loans
- Fee and commission income growing in line with market



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

# Operating result –

## Relatively high CIR driven by project costs in 2019

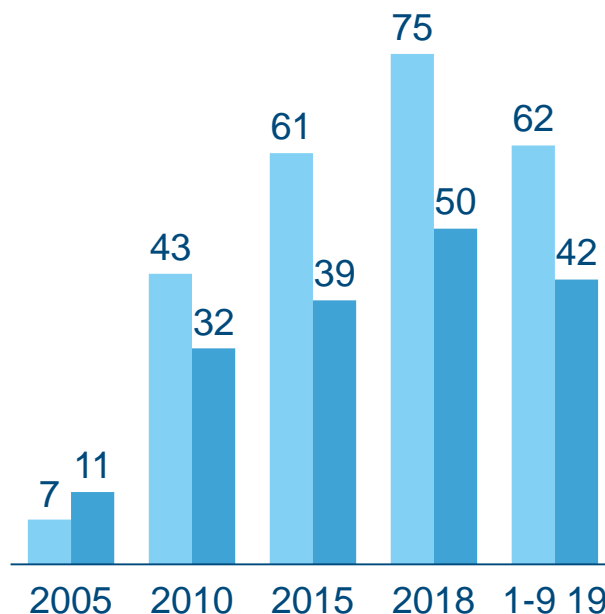
GROWTH

### Key developments

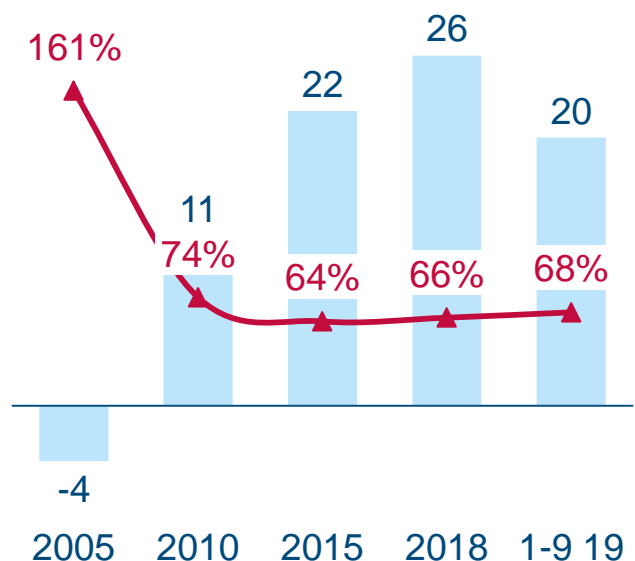
- Main driver of operating income has been portfolio growth with its impact on NII as well as growth of net fee and commission income
- Operating expenses are higher in last two years mostly due to investment in bank transformation
- CIR has increased in 2019 due to projects cost

### Operating income & expenses

in EUR m



### Operating result & CIR



Operating income  
Operating expenses

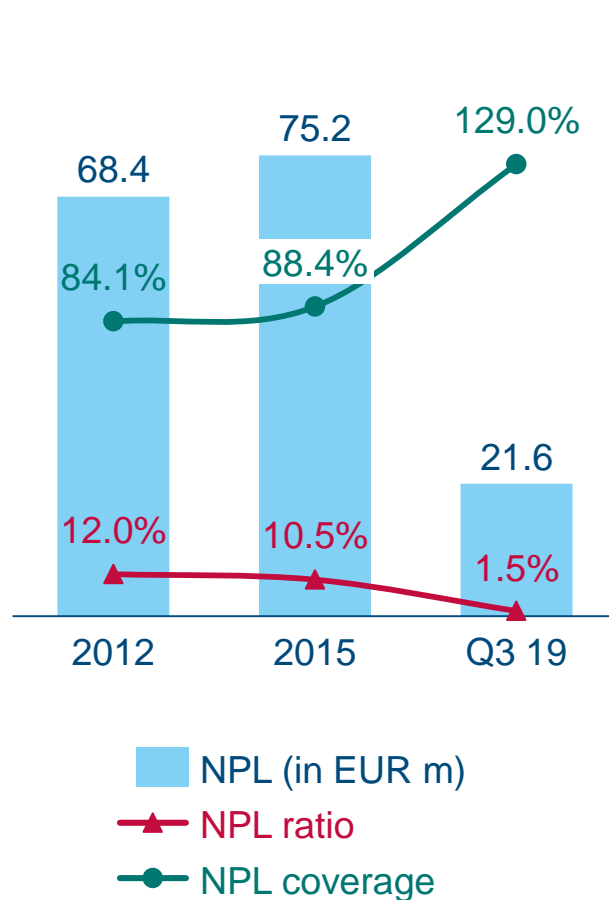
Operating result (in EUR m)  
Cost/income ratio

# Asset quality and risk costs – Improvements in all aspects

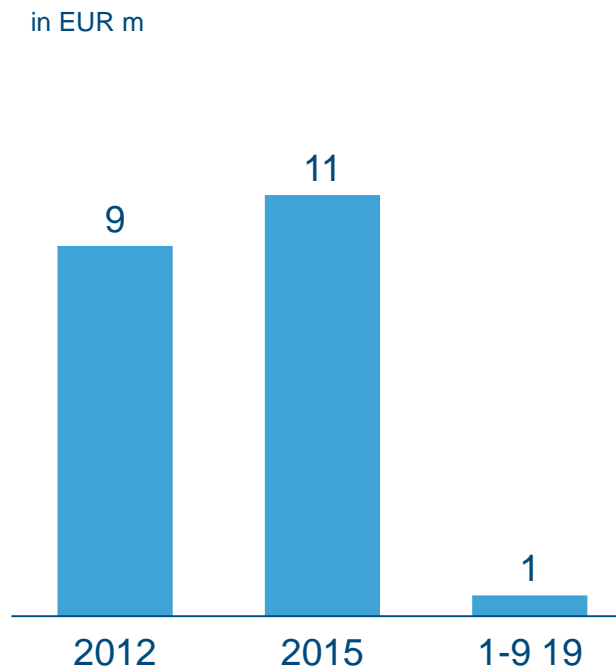
## Key developments

- Positive macroeconomic environment led to decreasing risk densities
- High recoveries and NPL sales over last years
- IFRS 9 and enforced write offs by Central Bank
- NPL ratio at historical low with coverage above 100%
- Improved rating models and underwriting procedures led to overall improvement

## Asset quality\*



## Risk costs



\*Asset quality based on segment reporting

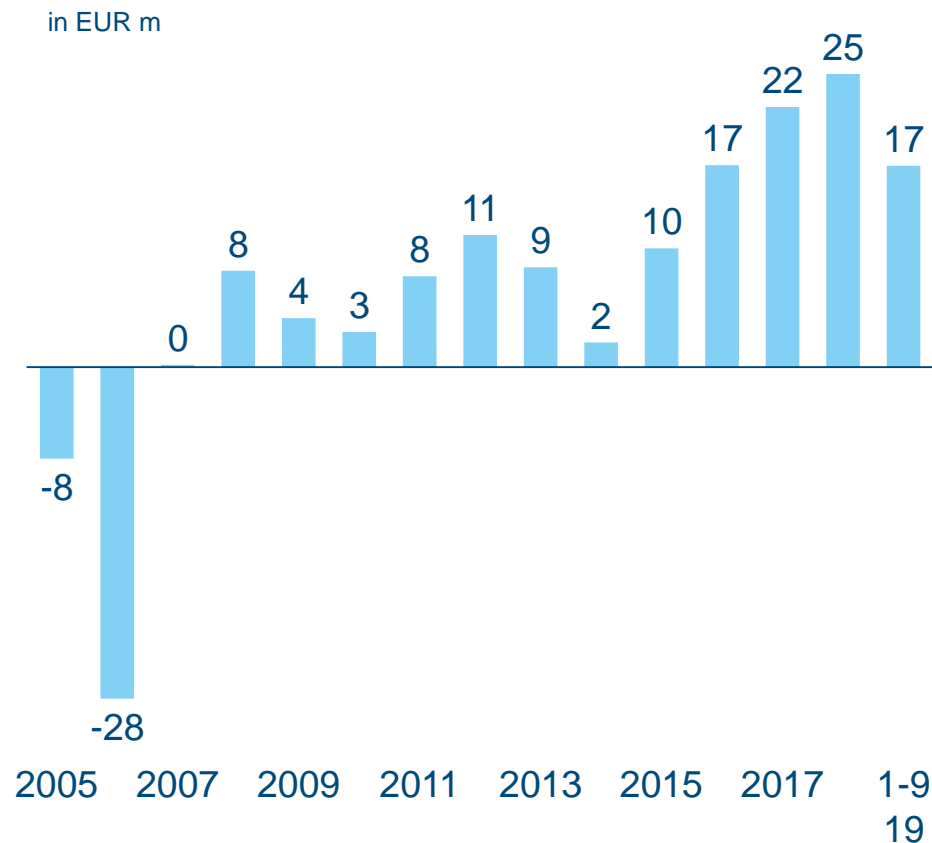
# Net result – Sustainable profitability

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## Key developments

- Recognised as a systemically important bank, EBS has been achieving record business results for several consecutive years
  - Growth of assets
  - Increase of NII (despite decline of NIM)
  - Favourable risk cost development since 2015
  - Optimisation of funding
- Net profit has been achieved for 12 consecutive years

## Net result evolution



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# Digital snapshot – Digital products have gained popularity

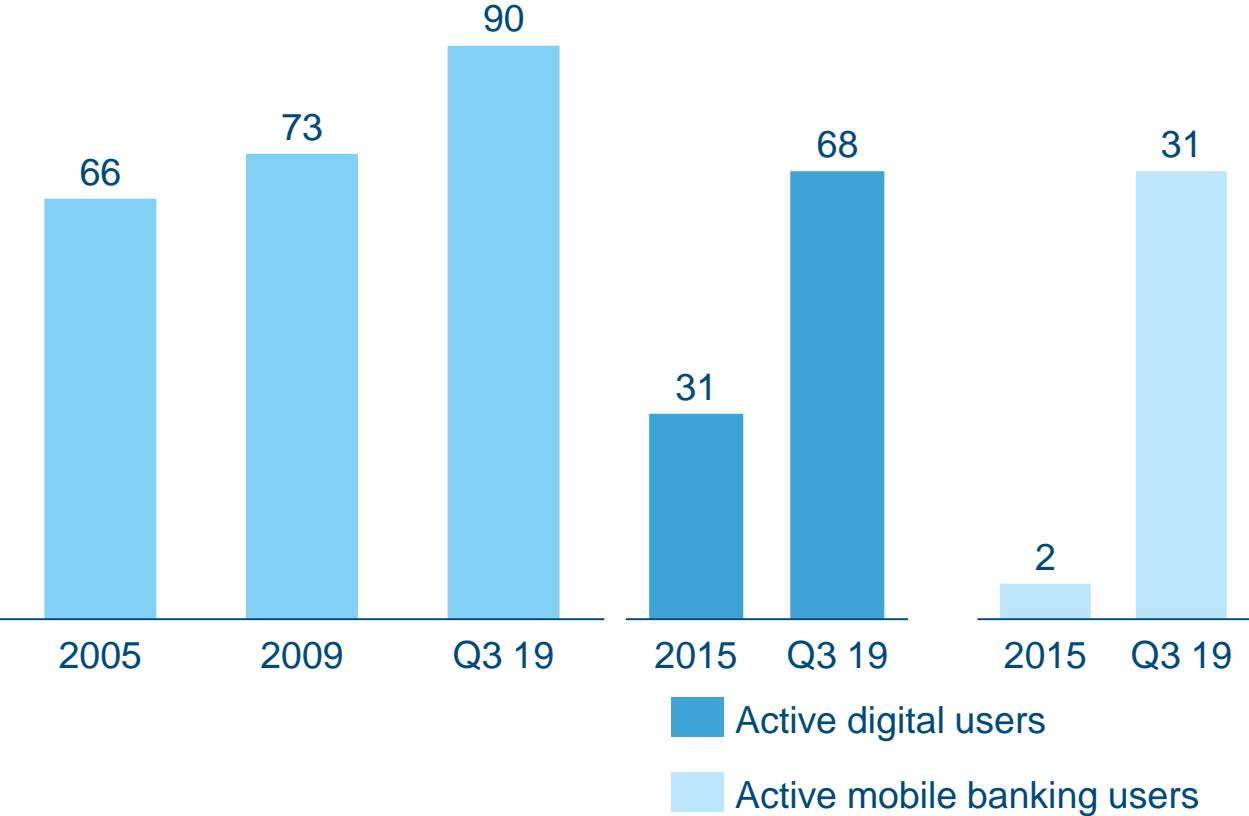
## Key developments

- Continuous growth in numbers of digitally active users
  - 24% YoY growth in 2017
  - 28% YoY growth in 2018
- Noticeable shift towards usage of mobile banking over past few years
- Continuous increase in share of digitally sold products
  - 8% in 2018
- Migration to new IT system will bring major improvements of digital channels

## Number of branches

## Number of digital users

in thsd



## Digital snapshot – New IT system will lead to many improvements

### Main focus before implementing new IT system

- Increase in share of digitally active clients
  - In-branch education of clients and investing effort in migration to digital channels
  - Continuous focus on education of employees and raising digital awareness
- Further enhancement of digital sales capabilities
  - Improvement of prospect management
  - Introduction of video-legitimation (E2E online on boarding)
  - Expanding existing product offering on digital channels

### New possibilities by migration to new IT system

- Migration to new IT system will bring major improvements of digital channels
  - E2E online sales processes
  - Scalability & integration
  - Opportunities for cooperation with fintechs through open APIs
  - Potential for new & innovative services in payments area

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# Conclusion – Outlook Serbia/Erste Bank Serbia

## Macro

- Domestic demand expected to remain the main driver
- Rapid convergence towards EU to continue

## Banking market

- Retail segment will stay very vivid
- New boost expected to come from corporate segment

## Erste Bank Serbia

- EBS to remain one of the top banks in Serbia
- Sustainable profitability to continue

## Digitalisation

- Further increase of digital activity of client base
- New IT system to unleash new innovative features & services