

Erste Group – 9th Capital Markets Day

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Slovakia/Slovenská sporiteľňa: Moving from loan growth to fee growth

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Presentation topics – Moving from loan growth to fee growth

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

Strong convergence track record – Economic performance among the best in CEE

GROWTH

Number 2 in convergence

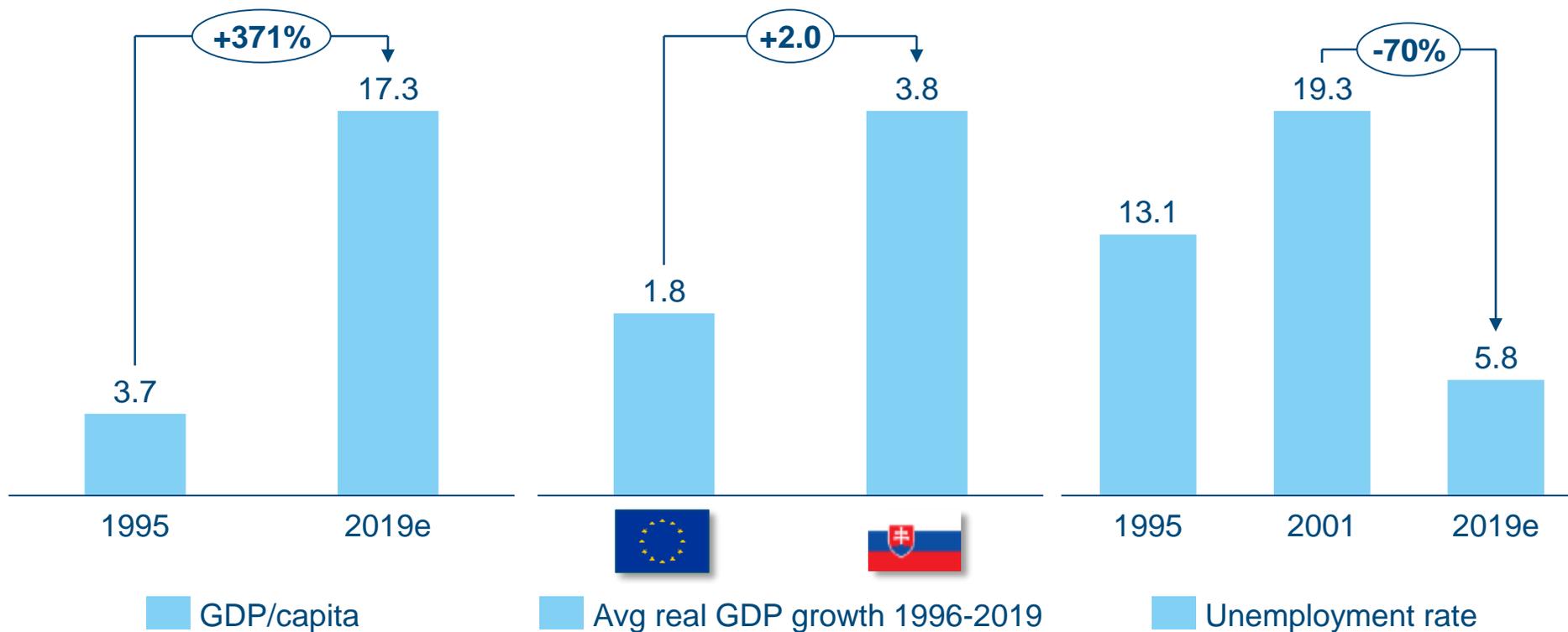
2pp GDP growth differential

Vastly improved labour market

in EUR thsd

in %

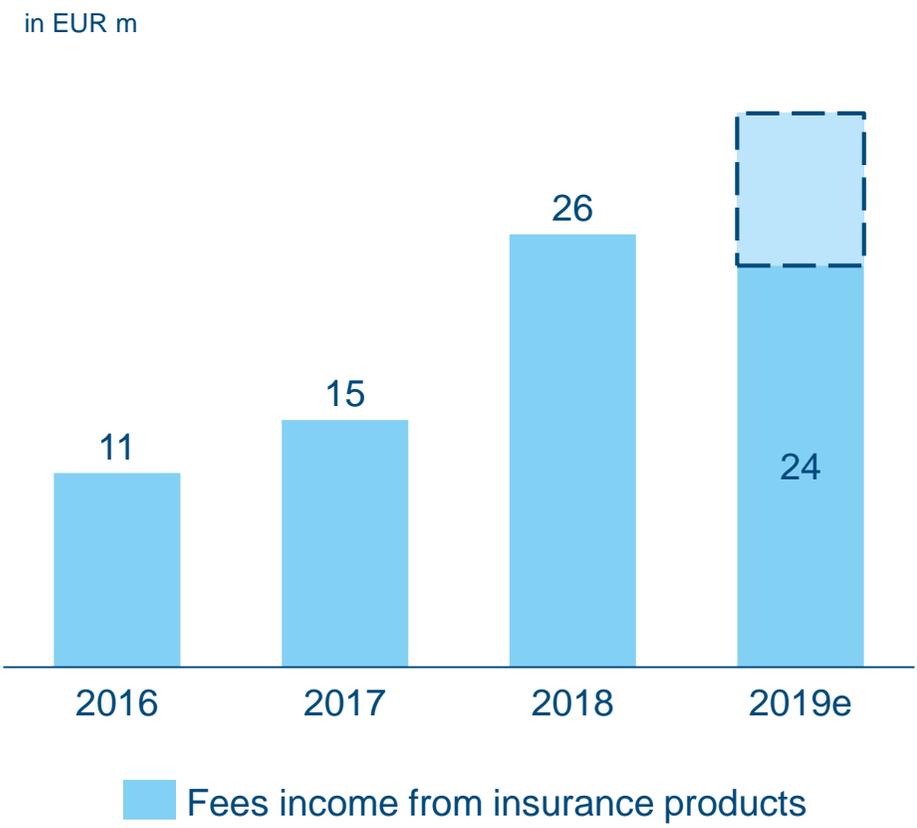
in %



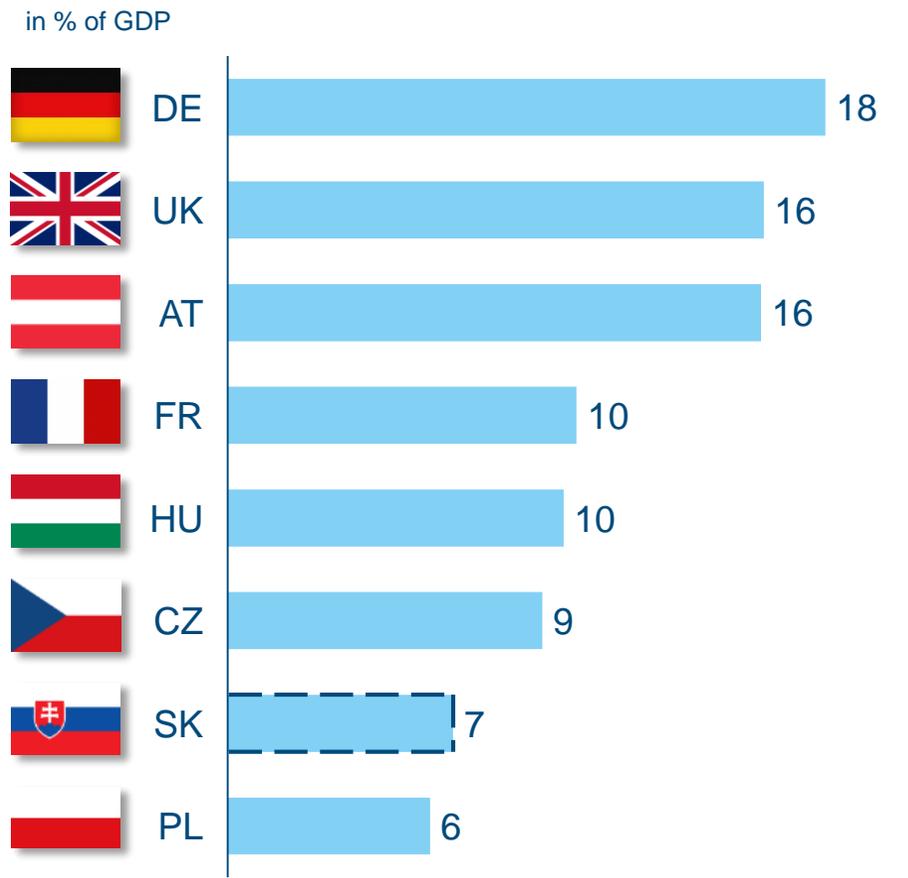
Source: Erste Group Research. European Commission

From loan to fee growth – Robust insurance growth, asset management with high potential

Strong growth in insurance fees



Investments* of households still low in Slovakia



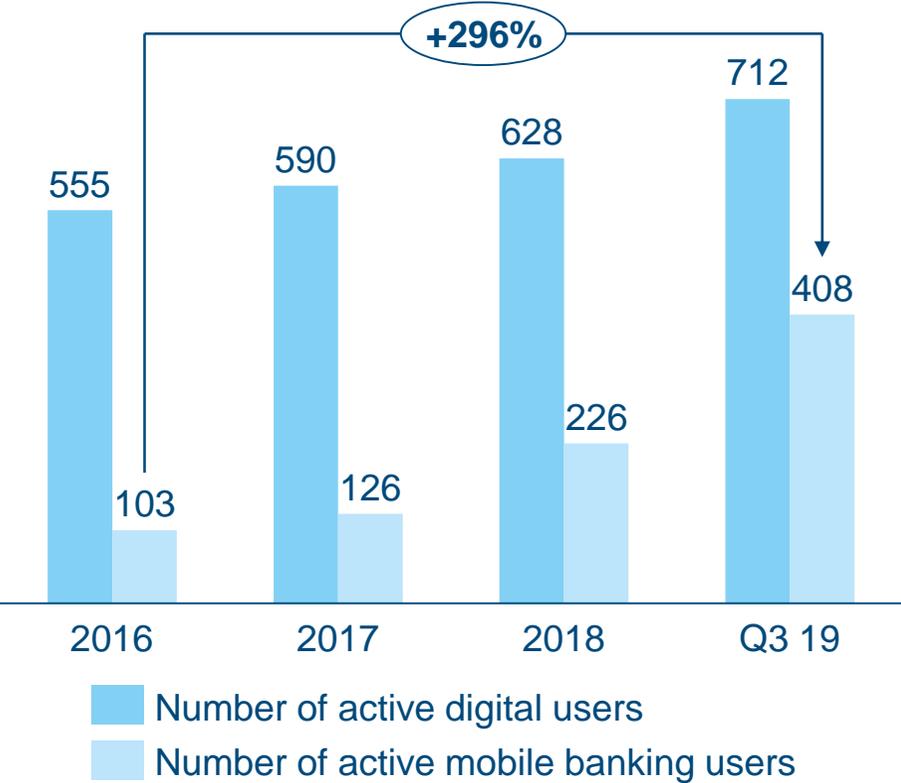
Source: Erste Group Research, Eurostat

*) Investment fund shares/units held by households

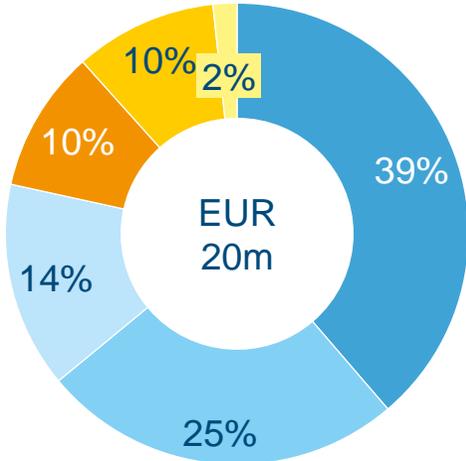
Digital snapshot – Fast adoption, tangible savings

Number of digital clients continuously rising

in thsd



Significant annual savings from digitalisation



- ATMs - paperless & reduction
- Push notifications instead of SMS
- E-statements instead & paperless CRM
- Fewer branches needed (2016-19)
- Fewer branch FTE needed (2016-19)
- Fewer branches & FTE needed (future 5Y potential)

Presentation topics

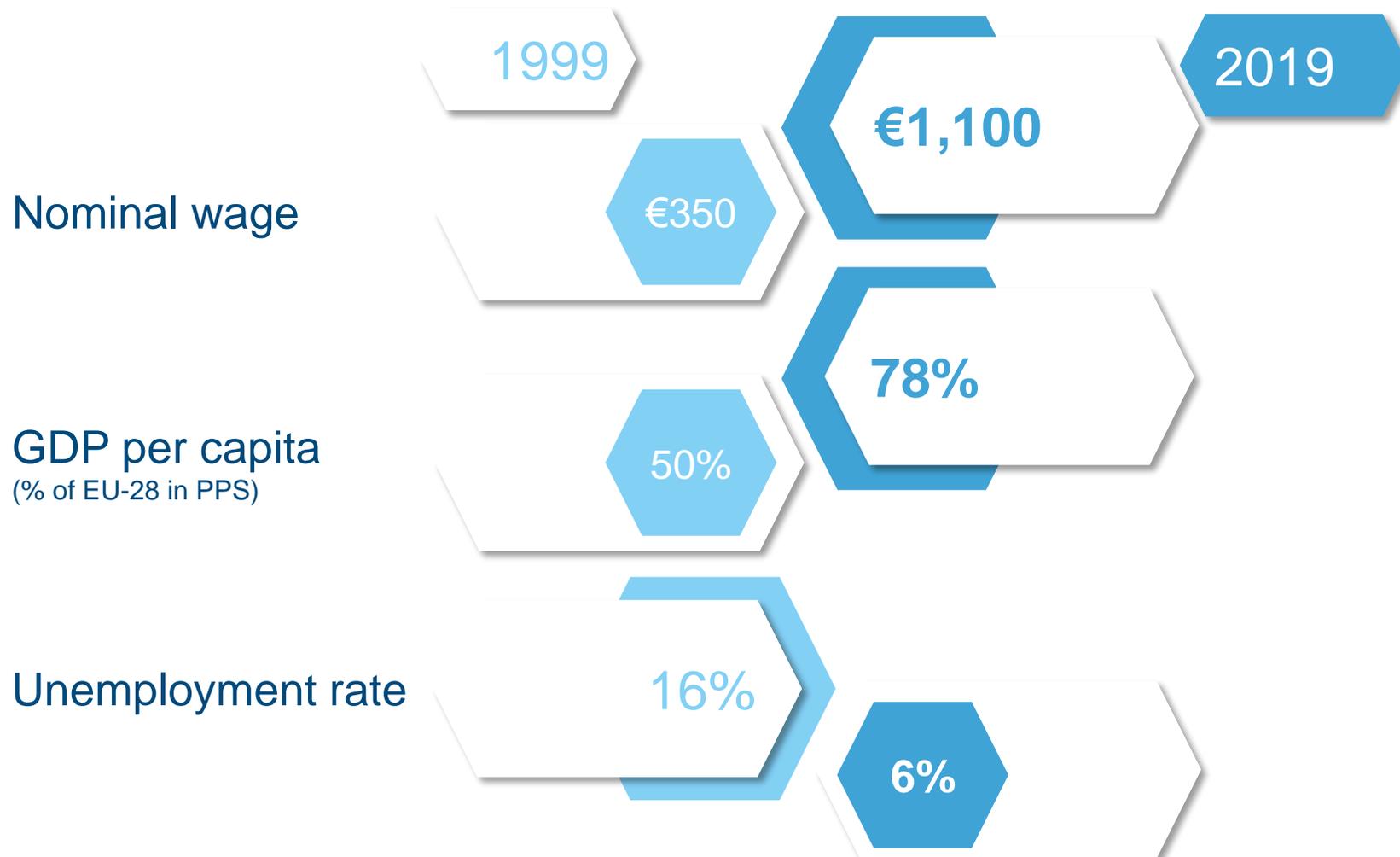
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Introduction – Slovakia's improvement over the last 20 year



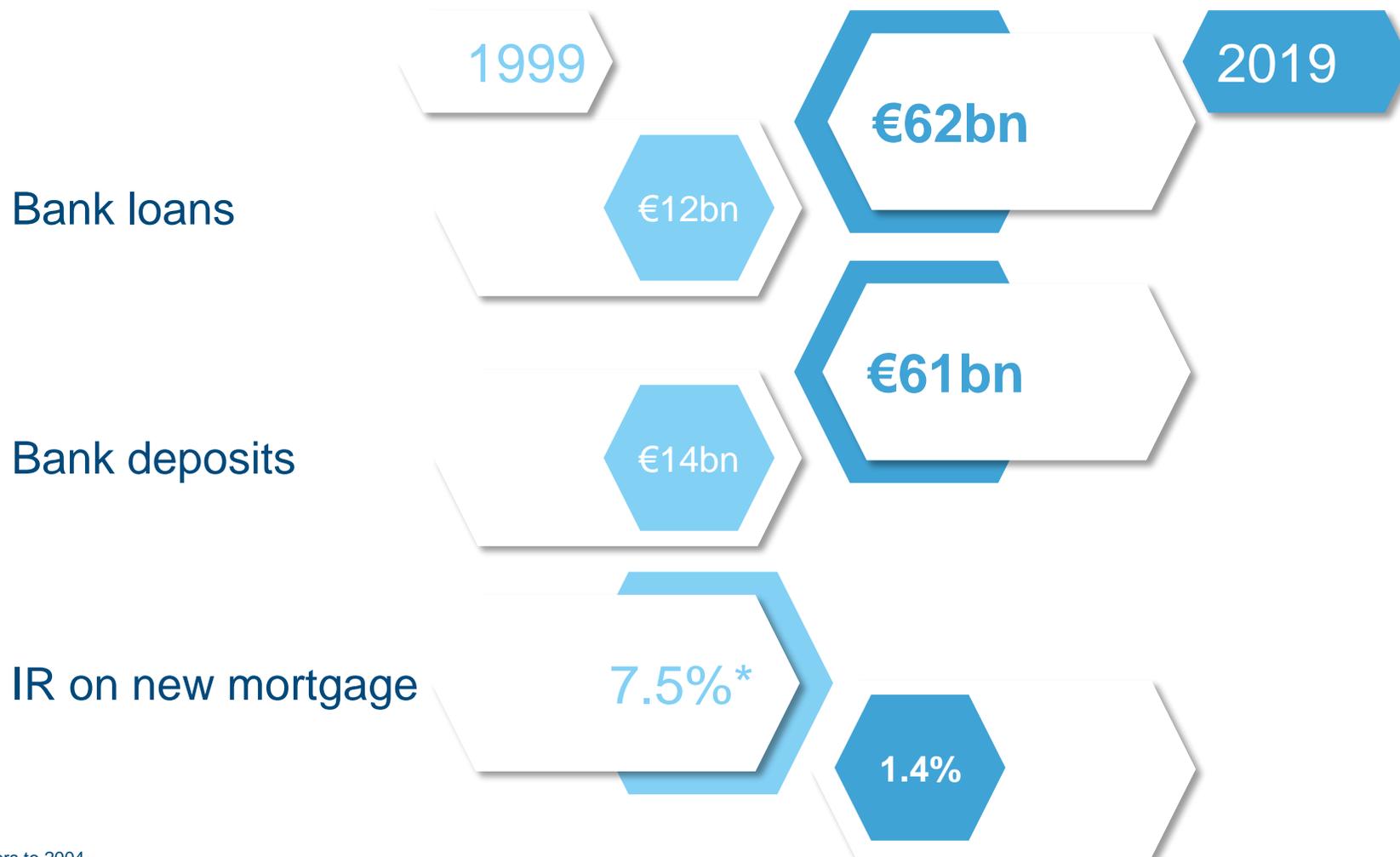
Introduction –

Slovakia's economic improvement over the last 20 years



Introduction –

Slovakia's banking market improvement over the last 20 years



*Data refers to 2004

Presentation topics

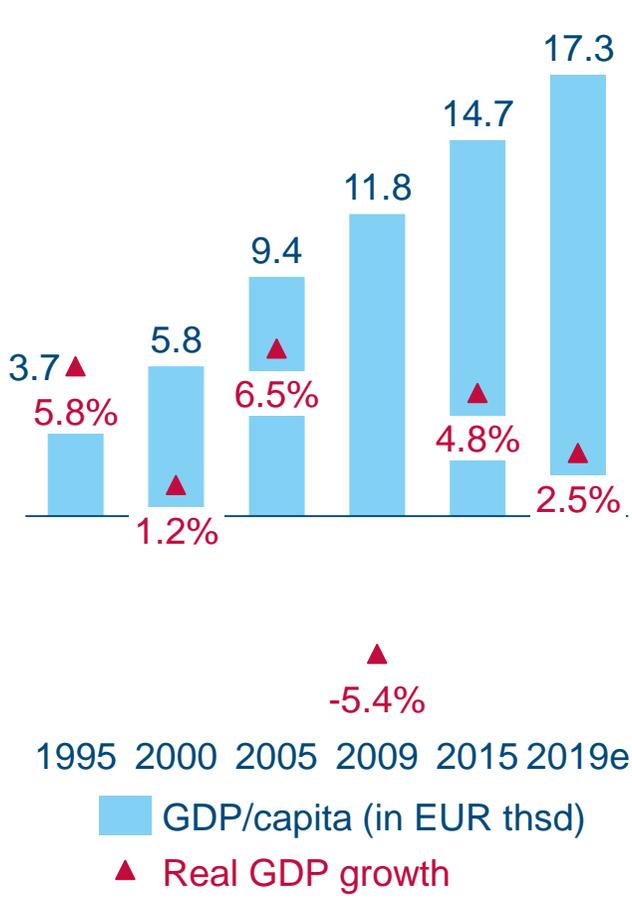
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Economic environment – Strong long-term convergence story

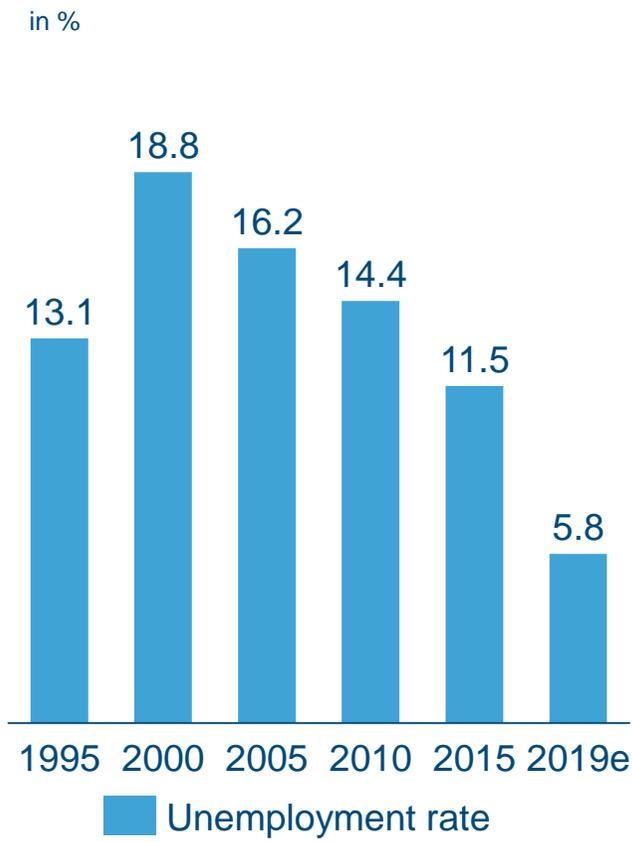
Key developments

- Slovakia was one of the fastest growing EU countries over the last 10-20 years, consistently outperforming EU both before and after the crisis
- With European economic cool down, Slovak growth is also expected to slow down from 4.0% in 2018 to around 2.5% in 2019
- Unemployment rate is at record low near 6%

GDP



Labour market



Source: Erste Group Research

Economic environment – Lower deficit has led to decline of public debt

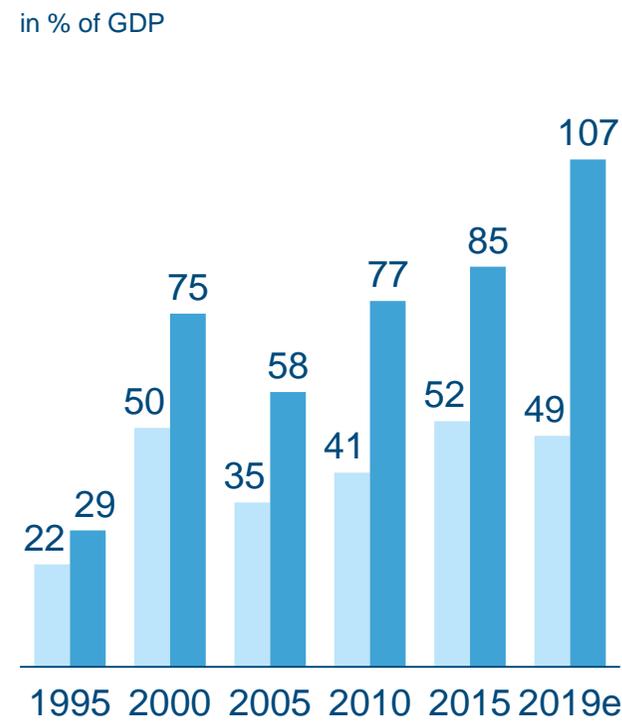
Key developments

- Public finance deficit declined to around 1% of GDP in 2017-18
- Public debt peaked in 2013 and has been declining since then
- Debt brake has been in place since 2012, with sanctions in case specific thresholds are breached

Economic balances



Public & external debt



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

Source: Erste Group Research

Economic environment – Government bond yields have turned negative

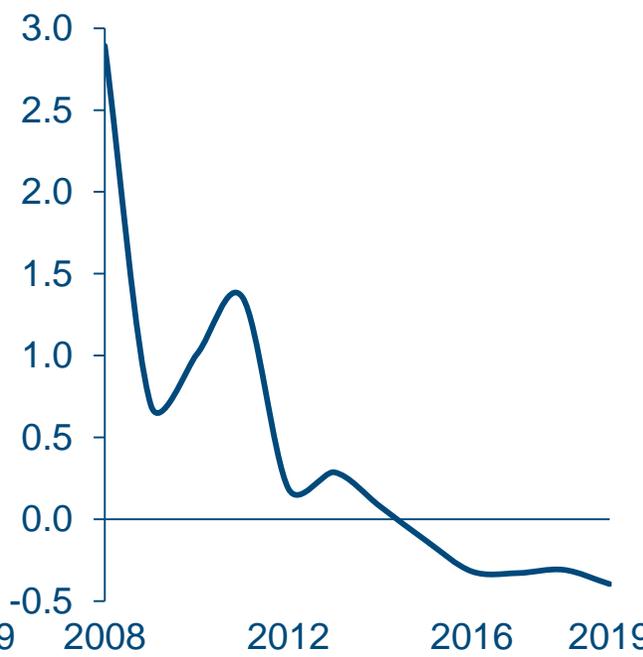
Key developments

- Rates & yields are primarily driven by euro zone developments
- Decline of government bond yields both in the mid-term and in short-term
- 10Y government bond yields have recently entered negative territory

Government bond yield



Short-term interest rate



— 10y year-end rate

— 3m EURIBOR

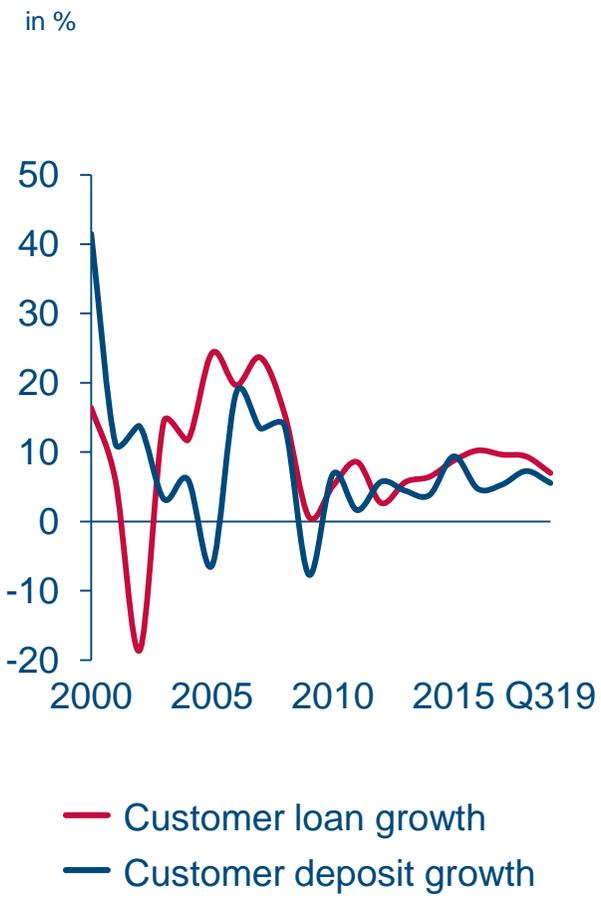
Source: ThomsonReuters

Banking market – Robust growth in lending and savings

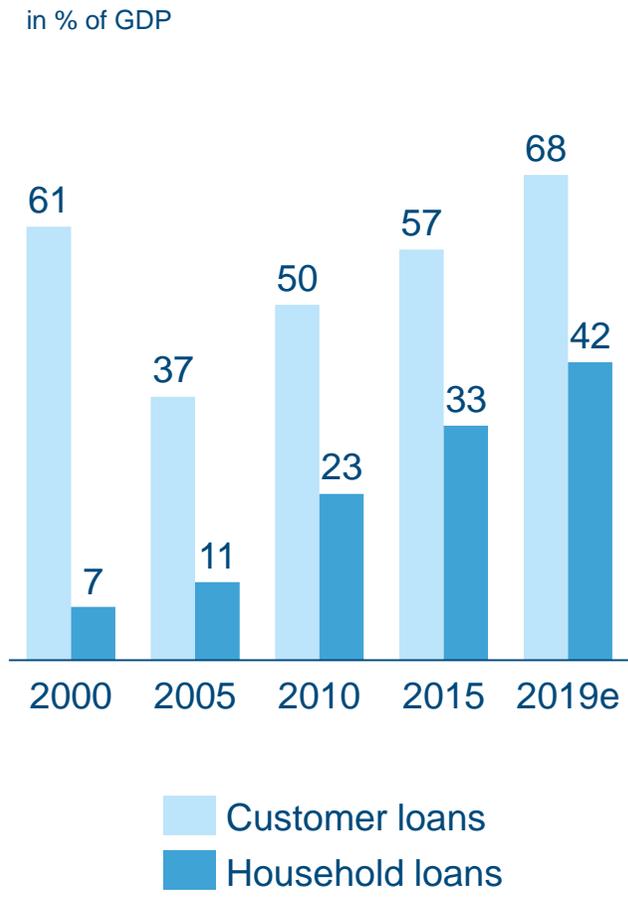
Key developments

- Loan growth in recent years has been fuelled mainly by retail loans
 - Central Bank tries to curb excessive growth by a set of limits (debt-to-income, debt-service-to income, loan-to-value)
- Penetration of household loans has grown steadily since the first half of the 2000s
 - Recent development shows weakening of this trend
 - Stabilisation is expected in coming years
- Volume of deposits also expanded significantly in the past but grew at a lower pace than loans
 - Loan-to-deposit ratio above 100% since 2018

Market growth



Penetration



Source: National Bank of Slovakia

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Customer loans – Double-digit growth in retail for two decades

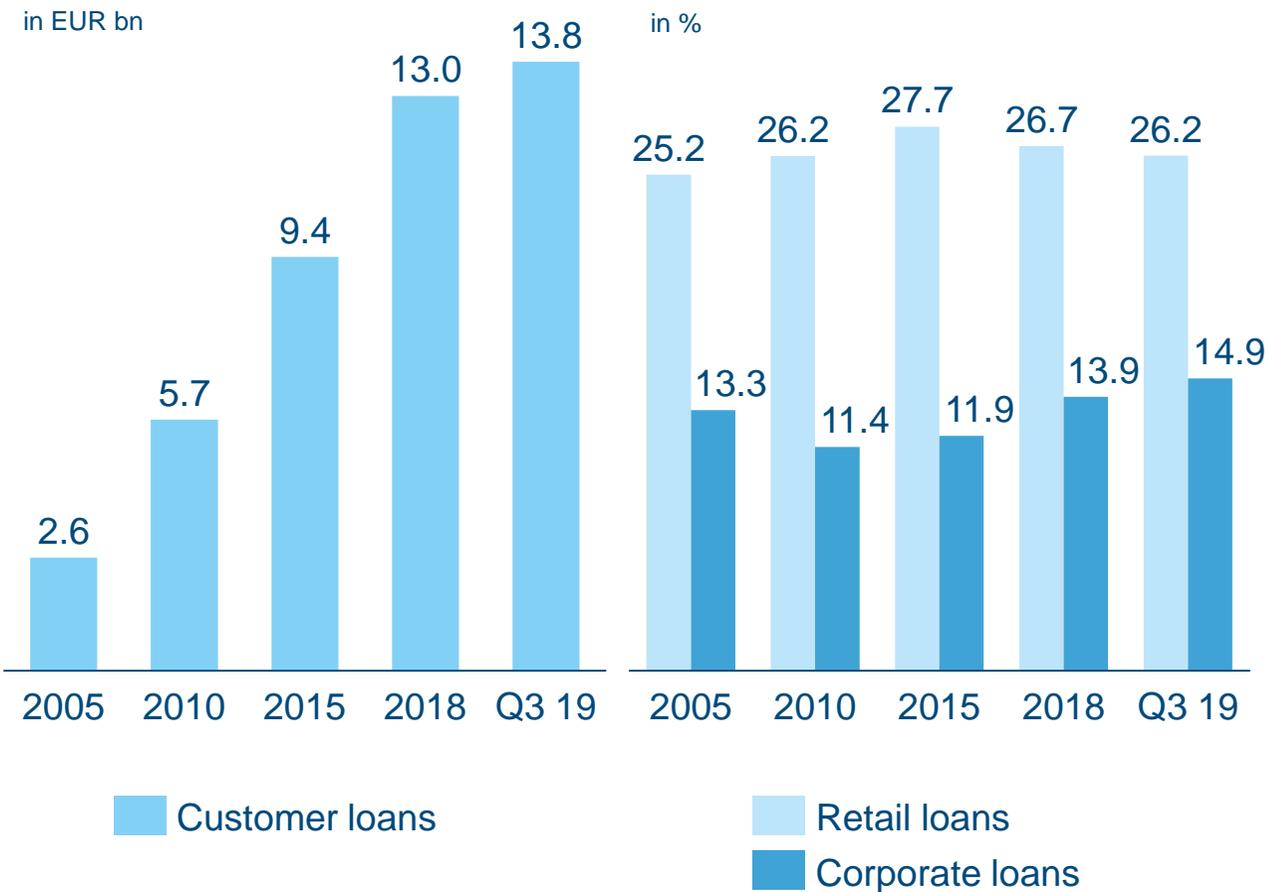
GROWTH

Key developments

Volume evolution

Market shares

- SLSP is long-time leader in retail lending in Slovakia
- Strong increase in corporate market share in recent years
 - SLSP became #3 in the corporate market
- SLSP's loan portfolio grew on average 9% annually in past decade



Customer deposits and asset management – Deposits fully cover loans to customers

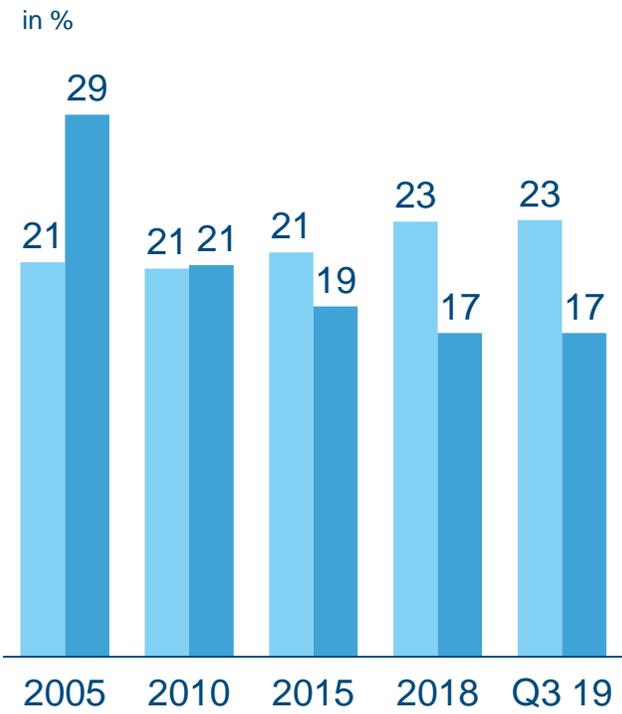
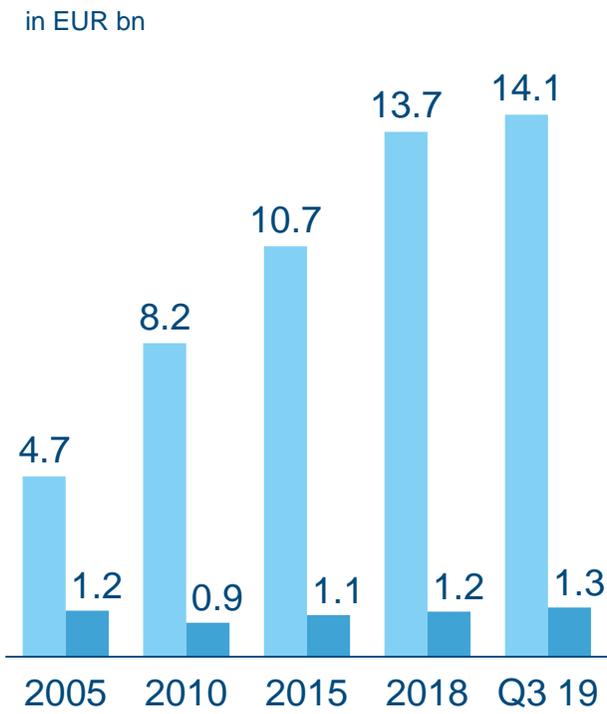
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Key developments

Development of volume

Market shares

- SLSP keeps dominant position in retail deposits (28% market share)
- Steady inflow of customer deposits seen in the past
 - Growth averaged around 8% in the last 5 years
- Loan-to-deposit ratio at a healthy level of 98%



Customer deposits
Assets under management

Customer deposits
Assets under management

Net interest income and fee income –

GROWTH

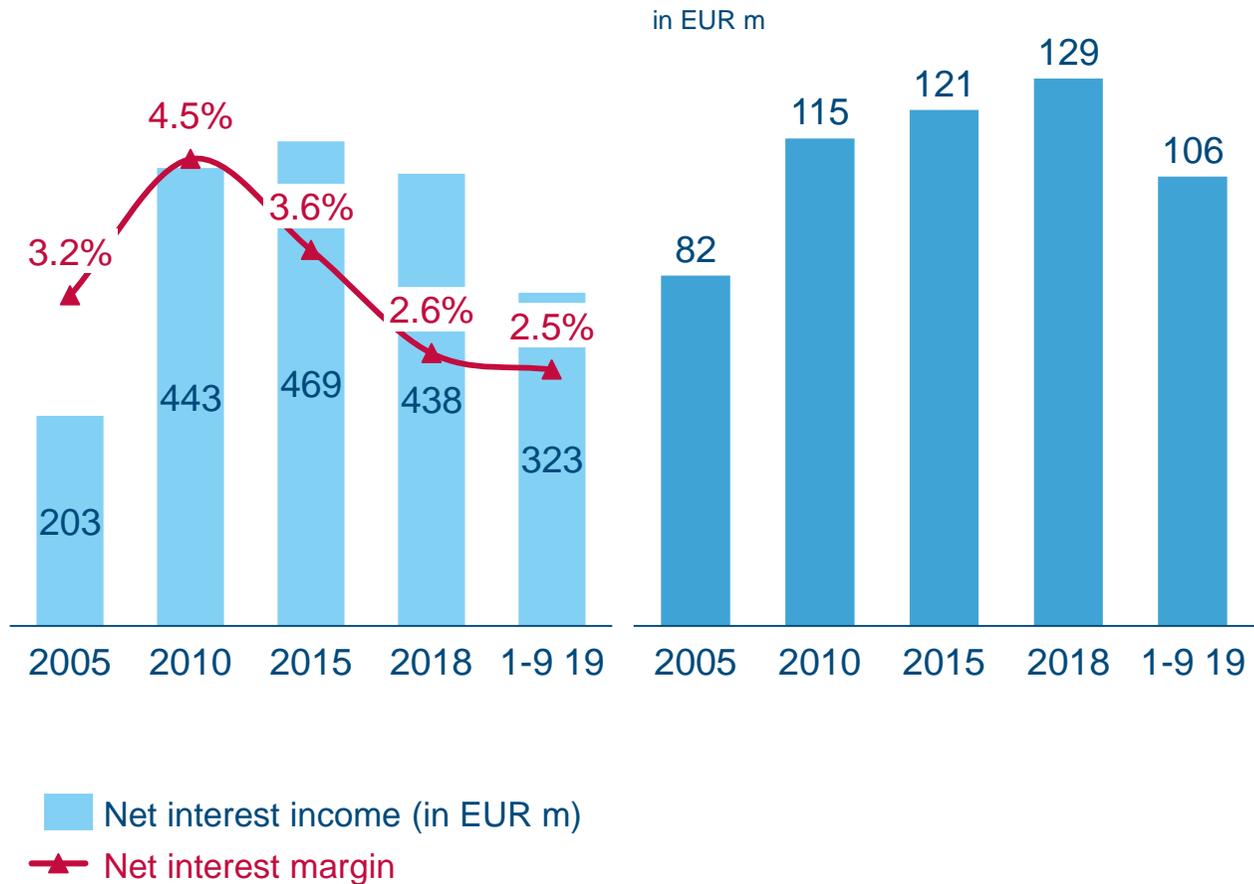
Fee income among top priorities in light of low interest margins

Key developments

NII & NIM

Net fee and commission income

- Low interest rate environment and competition pushed margins down
 - Interest rates in Slovakia are among the lowest on new housing loans in the euro zone
- Net fee and commission income growing impressively in 2019
 - Driven mainly by insurance related products and lending business

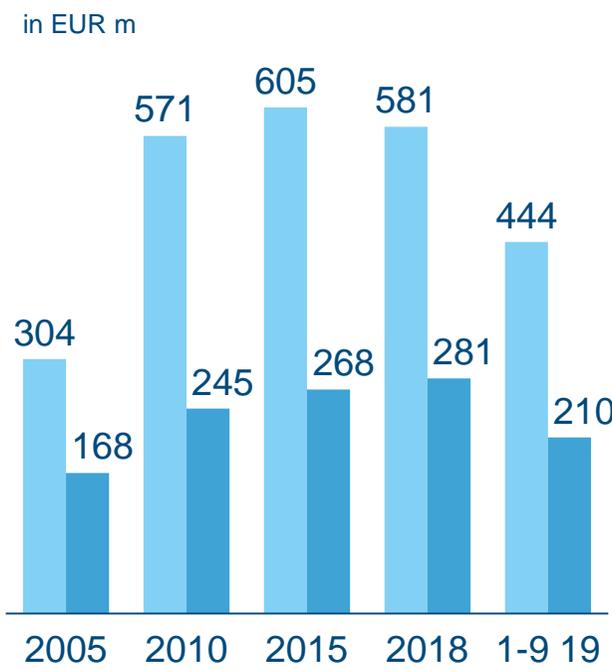


Operating result – Cost/income ratio below 50% for 10 years

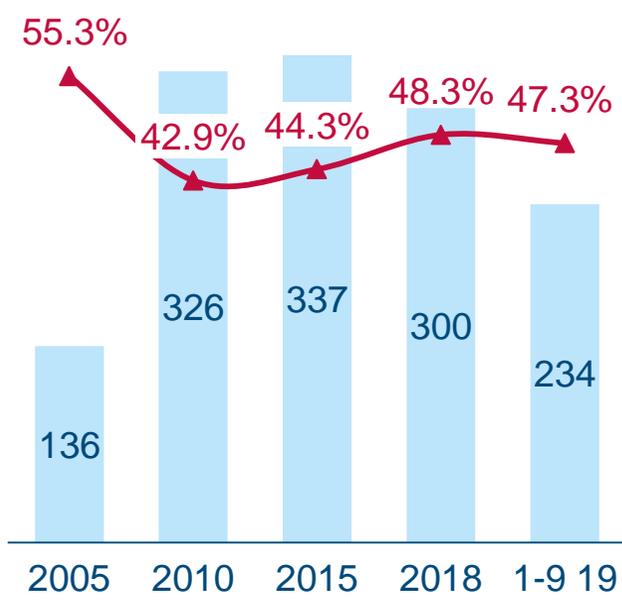
Key developments

- SLSP is among the most efficient banks in Slovakia
 - 46% average CIR over last 10 years
- Around 80% of operating income comes from Retail segment

Operating income & expenses



Operating result & CIR



■ Operating income
■ Operating expenses

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

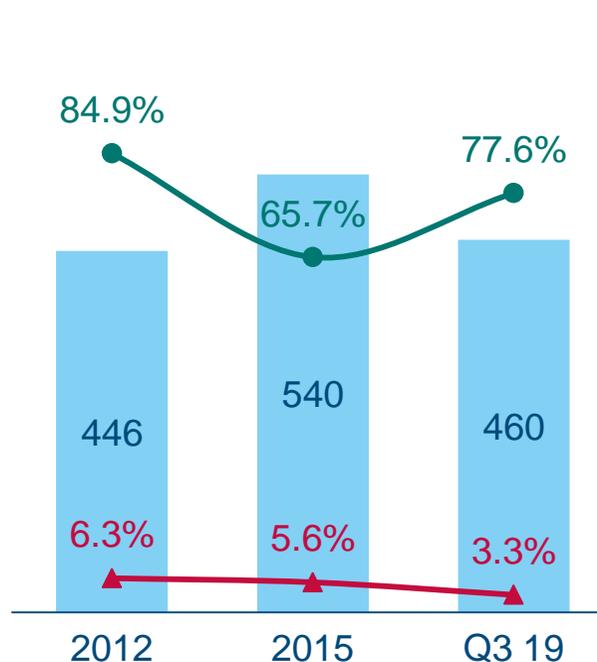
Asset quality and risk costs –

Asset quality keeps improving & risk costs close to historical low

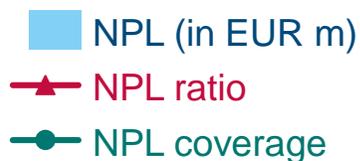
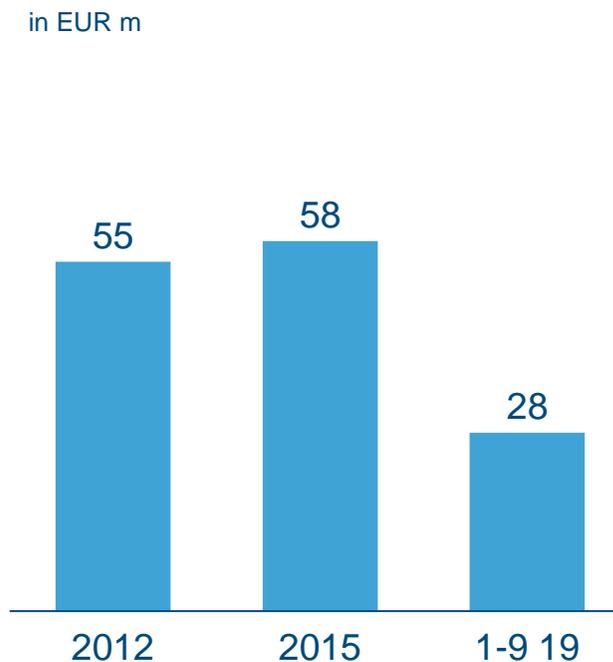
Key developments

- Despite strong loan growth, volume of non-performing loans has been shrinking in recent years
- NPL ratio has declined significantly
- NPL coverage ratio has been traditionally high
- Risk costs compared to gross customer loans fell from crisis levels of above 2% to 0.2% in 2018

Asset quality*



Risk costs



*Asset quality based on segment reporting

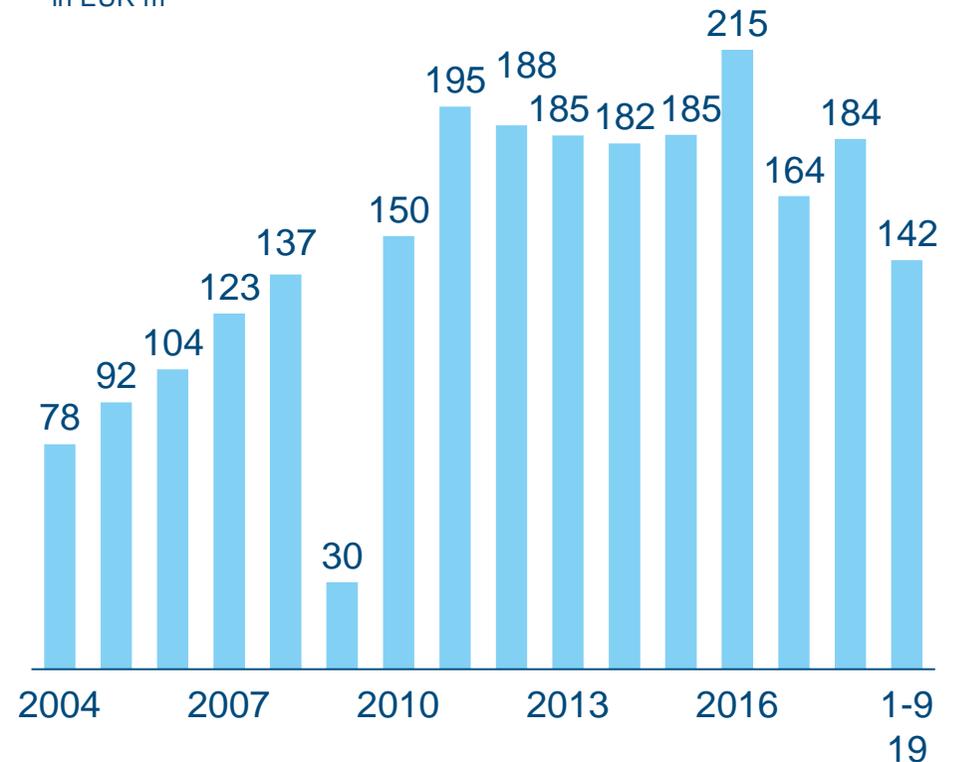
Net result – Strong and stable profitability

Key developments

- Excellent operating performance has enabled SLSP to earn solid profit and to become the most profitable bank in Slovakia
- Average post-crisis ROE of around 14% is much higher than the market average of 9%
- Bank levy contribution
 - Remains at 0.2% of eligible base in 2019
 - Although bank tax was scheduled to end in 2020 there is a proposal for doubling the rate to 0.4% as of 2020 and to extend it indefinitely
 - Approval by the Parliament expected
 - SLSP paid more than EUR 200m banking tax since its introduction in 2012

Net result evolution

in EUR m



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- **The digital story**
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Digital snapshot –

Number of digital users increased significantly due to George

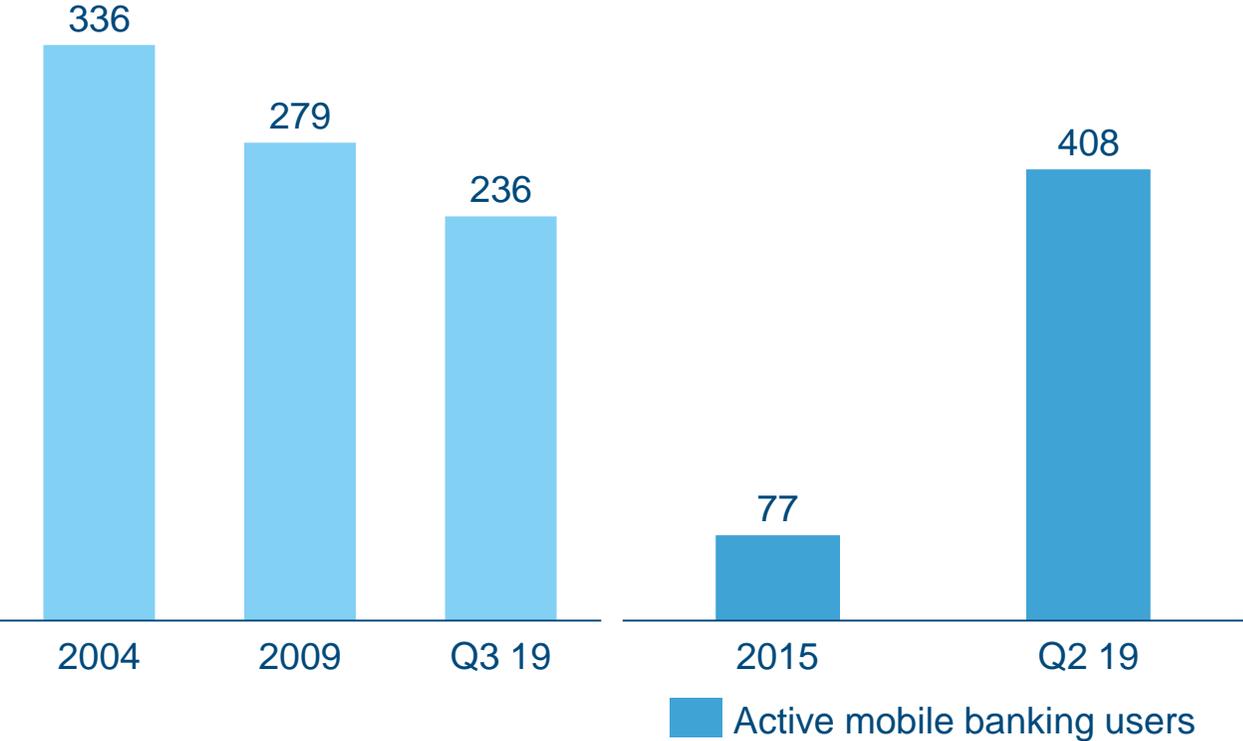
Key developments

- George introduction visibly increased number of both internet banking and mobile banking users
- With customers increasingly moving from physical to digital channels, SLSP was able to optimise its branch network

Number of branches

Number of digital users

in thsd



Digital snapshot – SLSP gradually brings customer journeys to digital channels

Key developments

- Tablets at branches are important part of branch service model, improving customer experience & providing simple navigation for advisors
- SLSP has gradually deployed additional product sales and servicing into George web, George mobile app and tablets

	George web	George app	Tablet
Client profile	✓	✓	✓
New current account	Planned 2020	Partial, planned	Planned 2020
Savings	✓	✓	✓
New housing loan	Planned 2020	Planned 2020	Partial
New consumer loan	✓	✓	Partial
Life insurance	X	X	✓
Insurance of personal belongings	✓	✓	✓
Travel insurance	Planned 2020	Planned 2020	Planned 2020
Investments	Planned 2019	Planned 2019	Planned 2020
Pension savings	X	X	✓

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Conclusion – Outlook Slovakia/Slovenská sporiteľňa

Macro

- Economy slowed down but should continue to outperform the EU average
- Disposable income of households is likely to increase further

Banking market

- After double-digit growth in recent years, customer loans are likely to slow down due to limits imposed by the National Bank
- Yet, growth rates remain high in EU standards
- Bank levy likely to increase from 0.2% to 0.4% as of 2020

Slovenská sporiteľňa

- Financial advisory and active clients are priorities
- Focus on fee and commission income (insurance and asset management)
- Micros and SME as growth segments
- Increasing ability to change through agile elements, DevOps...*

Digitalisation

- Additional products (savings, consumer loans, insurance products; investments to be included in 2020) and processes have been gradually brought to George, George App & tablets
- Digitalisation should enable optimisation of branches and reduction of other costs

*to facilitate agile, SLSP also implemented changes in areas like automation of build, deployment and testing