

# Business in CEE in times of the Covid-19 pandemic

## Erste Group Bank AG

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# Erste Group at a glance

## A leading financial services provider in CEE



Key metrics (in Mio. EUR)	2017	2018	2019	H1 20
Balance sheet	220,659	236,792	245,693	264,692
CET 1 Ratio	13.4%	13.5%	13.7%	14.2%
FTEs	47,702	47,397	47,284	47,552
Branches	2,604	2,565	2,373	2,318
Clients (Mio.)	16,1	16,2	16,6	16,1

### Rating

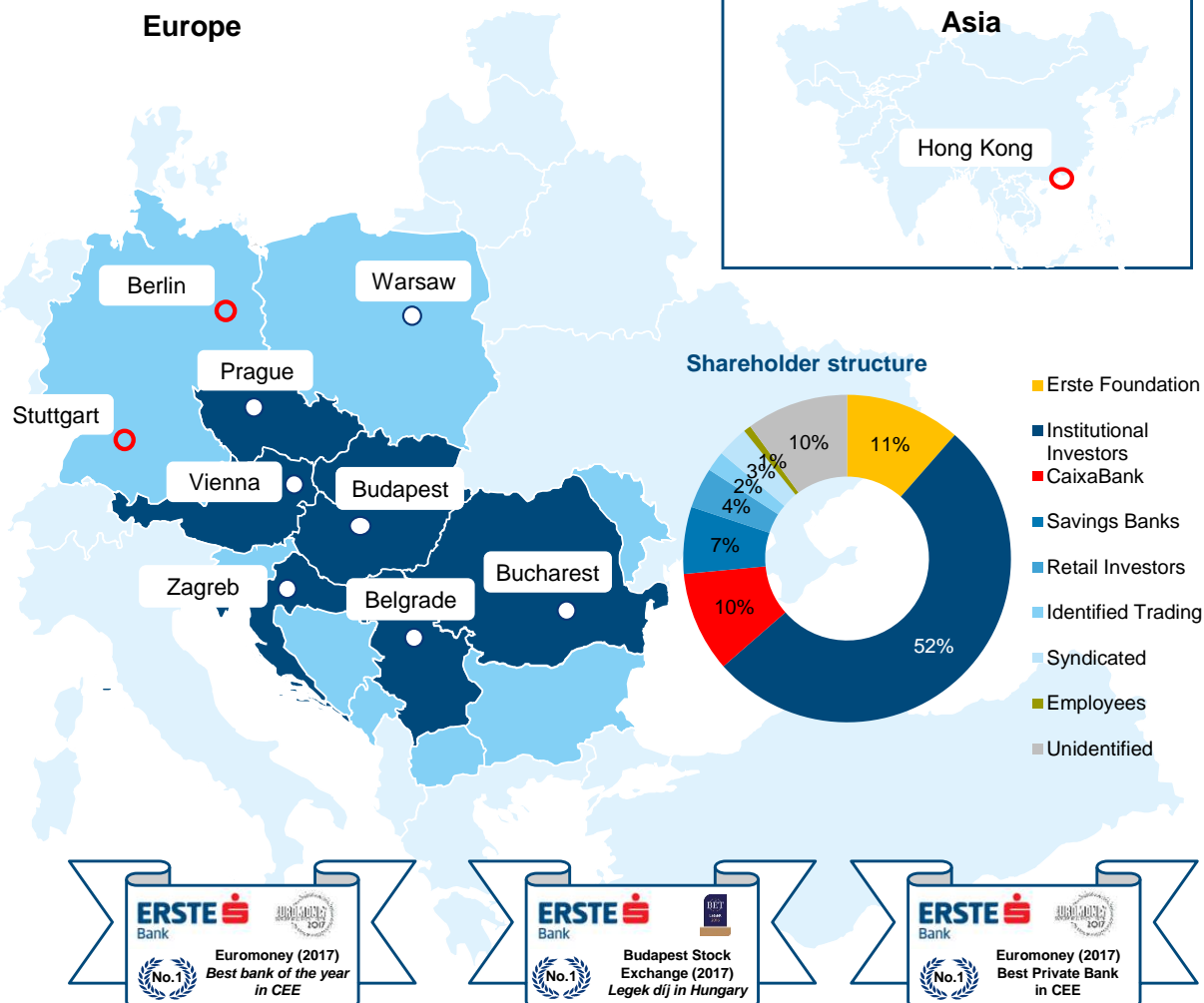
Moody's	A2	Positive
S&P	A	Stable
Fitch	A	Negative

Core markets of Erste Group with locally operating subsidiaries

Extended core markets

Investment banking offices

Branches and distribution offices



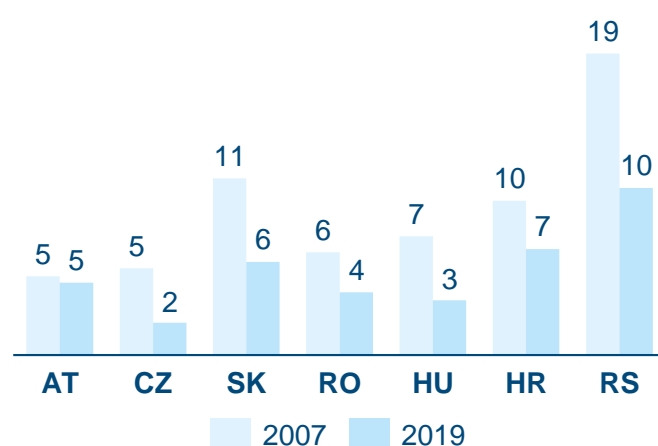
# Pre-crisis macroeconomic environment

## CEE tackled the Covid-19 challenge from a position of strength

### Economy

- Strong labour markets
  - Unemployment rates at historic lows in most countries at the end of 2019
  - Real wage growth
- Reduced external vulnerabilities
  - Materially improved current account balances in all Erste CEE countries
- Sound government finances
- Manageable public debt
- Low interest rates

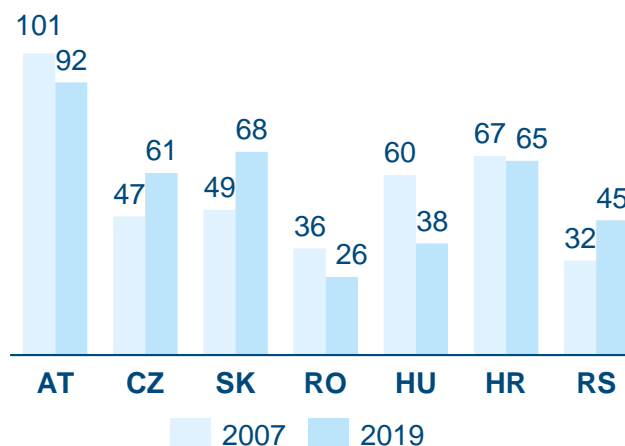
Unemployment rates (in %)



### Banking markets

- Deposit overhang & excess liquidity on system level in all key markets
- No excesses, rather sustainable asset growth over the past years
- Sustainable growth opportunities

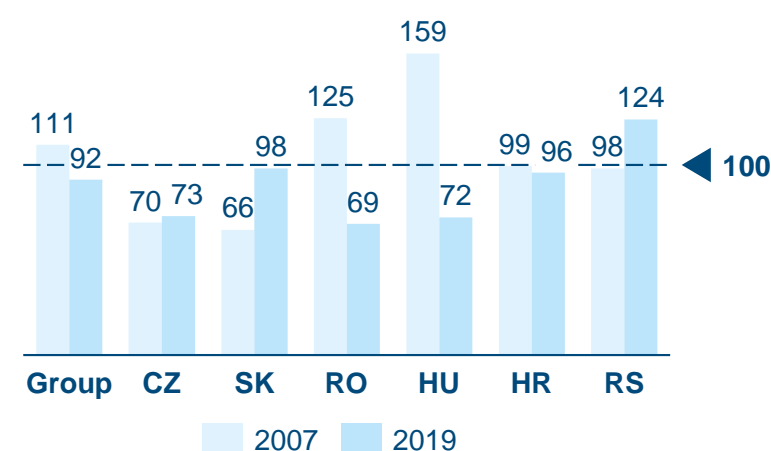
Customer loans/GDP (in %)



### Subsidiary banks

- Fully self-funded business model as opposed to parent company dependency
- Focus on local currency lending
- Historically low NPL ratios
- Strong market shares
- High capital ratios

Loan/deposit ratios (in %)

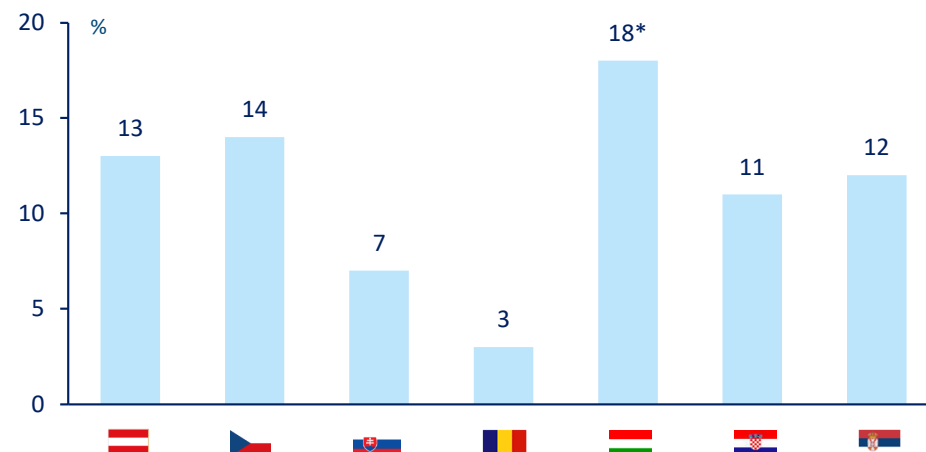


# Current macroeconomic environment

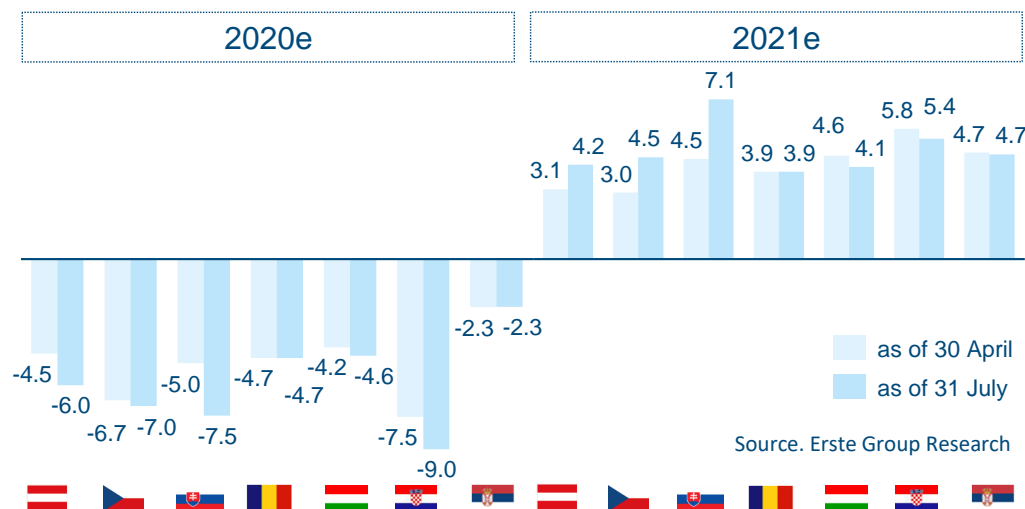
## Extended, wave-shaped economic recovery is most likely scenario

- **Real GDP to decline 4%-9% in 2020** in Erste Group's core markets following severe lockdowns across CEE
  - Q2 20 expected to be the hardest hit period
  - Recovery to start already in Q3 on the back of opening up economies
- **Short-time employment situation improved in recent weeks**, but unemployment rate is expected to rise going into 2021
- In 2021, **economic recovery expected to continue at a higher intensity** due to improved domestic and foreign demand compared to subdued 2020 levels

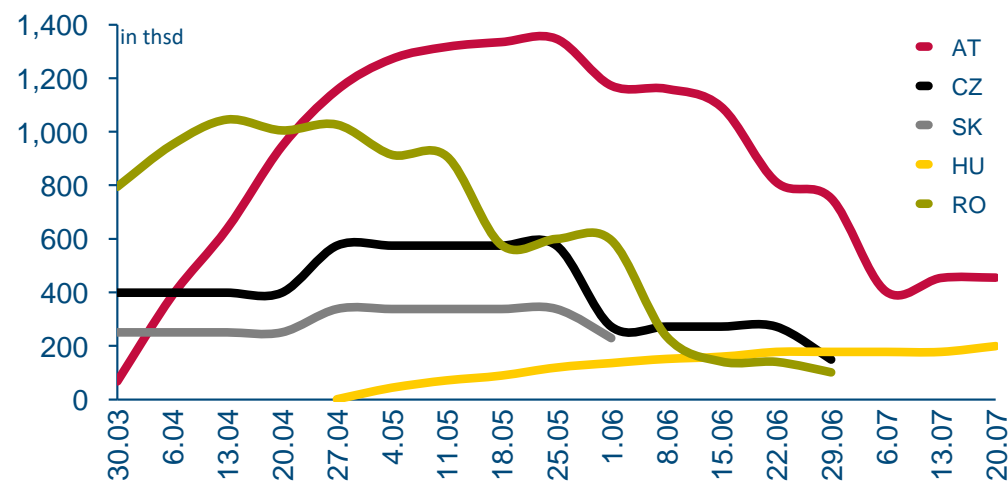
Covid-19 measures (% of GDP)



Evolution of real GDP forecasts



Evolution of short-time work schemes



HU: Covid-19 data as % of GDP includes Central Bank measures

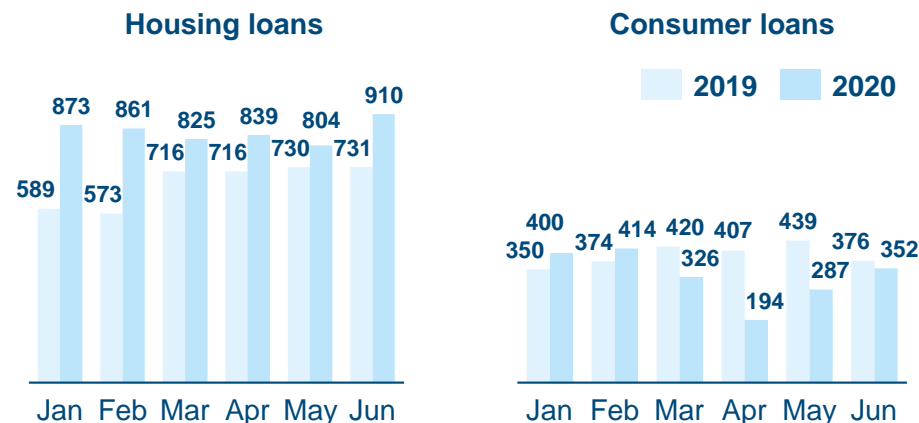
# Business impact (1)

## Retail clients – what's happening on the ground?

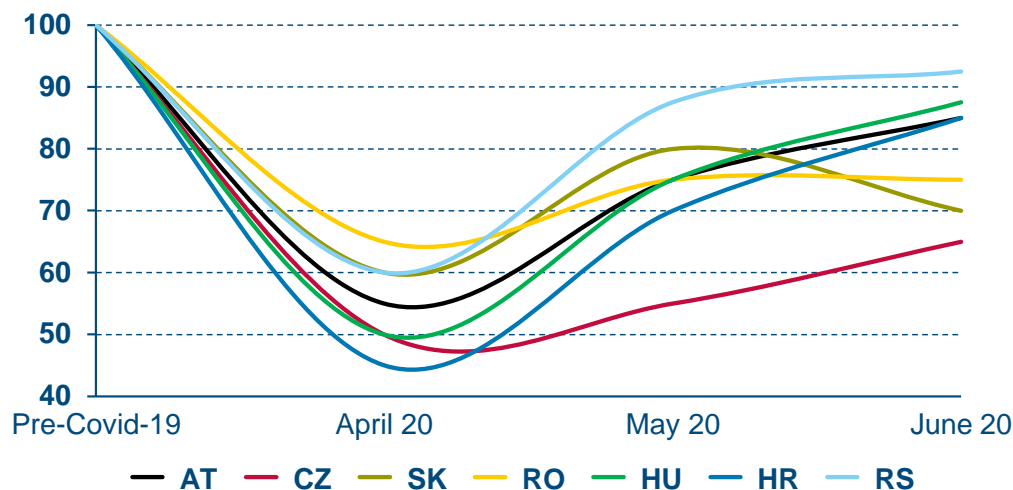
- **Covid-19 has drastically impacted the financial security of Erste Groups's retail customers**
  - Several clients have lost **their jobs or been forced into short-time working schemes**
  - In May 2020, approx. 40% of Erste Groups's retail clients faced a drop in their monthly income compared to their average LTM income
  - Around 190.000 of those customers will face a **liquidity gap within the next 6 months**
  - Clients have become more conscious regarding the financial impact of their lifestyle and have been requesting more personalized support
- **Erste Group has supported its clients on various channels**
  - **All time high of digital activity and mobile transactions**, many first-time users
  - **Intensified customer contacts** through pro-active personalised information provision and advice via branches, call centers and George to approx. 3.4m retail clients since the start of the lockdowns
  - Digital sales peaked during lockdowns
  - Cashless transactions on the rise
  - **Branch traffic has reached a low at the end of April** amid severe lockdowns, but is since then in recovery mode
- **Diverging product demand trends** emerging in Q2 20
  - Continued **strong demand for housing loans**
  - **Lower demand for consumer loans**, but recovering as of late, even with tighter lending standards to adjust to COVID-19 world
  - Asset management sales volumes suffered from a volatile market environment; strategic focus on long term savings plans
  - Insurance sales declined during lockdowns but are in recovery mode

### Monthly new sales volumes\*

(2019 vs 2020, in EUR million)



### Branch traffic development since Covid-19 (in %)



Retail H1 20 NPL ratio stood at 2.4% (±0% since Dec-19)  
Retail H1 20 risk provision expenses amounted to EUR 245m (+1,325%)

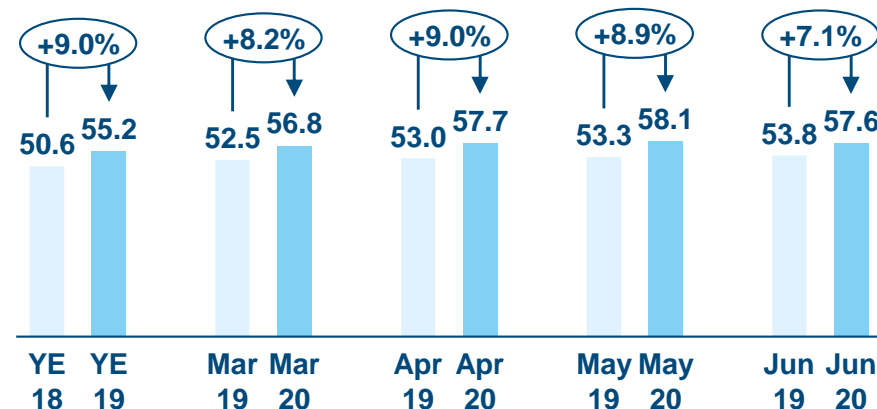
## Business impact (2)

### Corporate clients – what's happening on the ground?

- **Business in cyclical industries most impacted by Covid-19, e.g. tourism, restaurants, automotives etc.**
  - From the onset, Erste Group reached out pro-actively to its corporate clients offering support on liquidity shortfalls and loan deferrals
  - Erste Group's support was offered **even before government mandated moratoria were enacted** and also **extended to clients that were ineligible for state-aid**, e.g. large corporates
- **Clients coping with the new realities**
  - Loan demand is still intact, albeit slowing in Q2
  - **Volumes supported by guaranteed business as well as moratoria**
  - Clients are building **liquidity buffers and war chests**
  - Most investment projects resumed after interruptions of various lengths
  - Some clients are already gearing up for acquisitions to take advantage of emerging opportunities
  - **Overall well diversified loan demand across sectors**
- **Competition among lenders is intensifying again**
  - At start of crisis, interest margins were widening but with the ECB's easing of conditions under TLTRO3 there has been **a renewed emergence of pricing competition**
  - State guaranteed loans come with interest rate caps, hence not supportive for maintaining margins
- **Clients continue to tap capital markets**
  - 94 mandated transactions in H1 20 with a total issuance volume of EUR 54bn, mostly debt capital markets

#### Corporate loan stock development\*

(gross, business line view, in EUR bn)



#### Volume-based moratoria participation

(in %)



# The other side

## The effects of Covid-19 on Erste Group's internal operations

**In response to the rising Covid-infections, Erste Group prepared a pandemic response plan that foresaw:**

- Almost all HQ employees were to work remotely
  - Over 90% of HQ employees did so between March-May (up from 41% before)
  - IT infrastructure was to be tested intensively beforehand to be able to cope with the large amount of VPN accesses
- Support for retail customers:
  - Branches were to remain open to perform their role as critical infrastructure elements in supporting the continuation of business activities
  - Required health and safety measures were to be implemented to keep clients and employees safe
  - Extended online and remote services were to be offered
- Support for corporate customers:
  - Expanded client advisory services to be offered, also with regards to state-sponsored support programs
- Non-essential trainings and almost all travel arrangements were to be cancelled
  - Significant number of projects that required on-site presence of international colleagues needed to be postponed

**Following a reduction in infection rates and the easing of governmental restrictions, Erste Group also eased some of its security measures:**

- Employees could return to HQ but were assigned to different teams, which would alternate between working in the office and from home – only max. 50% of employees in HQ at any time
- Social distancing and virus prevention measures were implemented throughout the offices
- Business travelling and trainings have resumed



# Conclusion

## Key takeaways and outlook for 2020

### Q2 20 key takeaways

### 2020 outlook

#### Operating environment

- From mid-March **Covid-19 lockdowns caused standstill** in social and economic life
- **Reopening of economies** from May/June
- Finetuning of health & economic protection measures

- Covid-19 lockdowns redefine macro outlook
- **Real GDP decline of between 4-9%** expected in 2020, followed by recovery in 2021
- CEE-wide concerted fiscal mitigation efforts

#### Business performance

- **NII held up yoy**, while **fees suffered from lower economic activity** during lockdowns
- Full recovery of trading/FV result
- **Cost reduction** due to reduced other admin expenses

- Challenged revenue outlook amid economic downturn, rate cuts, **expenses to improve**
- Lower organic growth, protected growth (guarantees) and freezing of good portfolio through moratoria

#### Credit risk

- **Erste Group addressed Covid-19 risk provisioning challenge head on** by providing 148bps in Q2 20, based on macro and vulnerable industries overlay, minor portfolio deterioration

- **2020e risk costs at approx. 65-80bps (of average gross customer loans)**
- Aim to frontload as much as is justifiable in 2020

#### Capital position

- **Fully loaded CET 1 ratio at record 14.2%, despite continued dividend accrual for 2020**
- SME supporting factor contributed to strong capital performance

- CET1 ratio is expected to remain strong with significant cushion in case of worse than expected economic performance
- **Medium-term CET1 target of 13.5% unchanged**

#### Profitability

- Profitability declined due to forward-looking provisioning and weaker core top line

- Net result expected meaningfully lower than in 2019
- Management **intends to pay dividend both for 2019 and 2020**, subject to business conditions and to regulatory approval








#### Risk factors to guidance

- Longer than expected duration of Covid-19 crisis
- Political or regulatory measures against banks
- Geopolitical, global economic and global health risks
- Economic downturn may put goodwill at risk










## Appendix – Overview on state-sponsored programs in our core markets

## The political/fiscal reaction – Lockdowns followed by fiscal support measures across CEE

							
Loan moratoria/payment holidays	✓	✓	✓	✓	✓	✓	✓
Loan guarantees, bridge loans	✓	✓	✓	✓	✓	✓	✓
Labour market support (eg short-time work schemes)	✓	✓	✓	✓	✓	✓	✓
Tax incentives (Cuts, holidays, deferrals)	✓	✓	✓	✓	✓	✓	✓
Direct payments	✓	✓	—	—	✓	—	✓
COVID-19 measures (% of GDP)	13%	14%	7%	18%*	3%	11%	12%

\* Hungary: COVID-19 data as % of GDP includes Central Bank measures








# The political/fiscal reaction – Details on moratoria

	Main characteristics	Opt-in / out	Retail / Corp	Period	Participation*	Upfront loss
	<ul style="list-style-type: none"> <li>Statutory</li> <li>Interest charged during deferral period &amp; paid after the moratoria</li> </ul>	Opt-in	Retail Micro	Ext. to up to 7 months	Retail: 5% Corp: 5%	None
	<ul style="list-style-type: none"> <li>Statutory</li> <li>Interest charged during deferral period</li> <li>Rate cap at 2w repo + 8pp</li> </ul>	Opt-in	Retail Corp.	3 to 6 months	Retail: 6% Corp: 8%	None
	<ul style="list-style-type: none"> <li>Statutory</li> <li>Interest charged during deferral period &amp; paid after the moratoria</li> </ul>	Opt-in	Retail Micro SME	Up to 9 months	Retail: 12% Corp: 20%	None
	<ul style="list-style-type: none"> <li>Statutory</li> <li>Interest cannot be charged on unpaid interest (monthly instalment cannot increase after moratoria &amp; maturity will be extended)</li> </ul>	Opt-out	Retail Corp.	Up to 9 months	Retail: 45% Corp: 32%	EUR 17.6m (Q1 2020)
	<ul style="list-style-type: none"> <li>Statutory</li> <li>Interest capitalised &amp; paid over the life of the contract (except mortgage for which interest will be accumulated &amp; paid in 5 years)</li> </ul>	Opt-in	Retail Corp.	Up to 9 months	Retail: 7% Corp: 12%	None
	<ul style="list-style-type: none"> <li>Not statutory; banks encouraged to participate in moratoria</li> <li>Interest capitalised &amp; paid over the life of the contract</li> </ul>	Opt-in	Retail Corp.	Ext. to up to 6 months	Retail: 7% Corp: 21%	None
	<ul style="list-style-type: none"> <li>Statutory</li> <li>Interest cannot be charged on unpaid interest</li> </ul>	Opt-out	Retail Corp.	Expired in June	Retail: 72% Corp: 63%	None

\* Customer participation in moratoria at Erste Group subsidiaries as of June 30, 2020; moratoria participation in Austria includes deferrals








# The political/fiscal reaction –

## Details on loan guarantees

	Main characteristics	Guarantee	Interest	Period
	<ul style="list-style-type: none"> <li>EUR 9bn programme for loans and guarantees for enterprises, especially SMEs</li> <li>Bridging loans in case of liquidity shortages</li> </ul>	Up to 100%	Subsidised (varies by products)	2-5 years
	<ul style="list-style-type: none"> <li>EUR 33bn (COVID I, II, III) subsidised &amp; guaranteed loan programmes</li> <li>COVID Praha for SMEs in Prague</li> </ul>	80-90% (30% cap at portfolio level)	Subsidised with absolute cap	Up to 3 years
	<ul style="list-style-type: none"> <li>EUR 2.2bn in two state guarantee schemes (micro &amp; SME, large corporates)</li> </ul>	80-90%	Absolute cap or subsidy of up to 4%	Up to 6 years
	<ul style="list-style-type: none"> <li>EUR 5.6bn guaranteed loans to enterprises</li> </ul>	80%	0-2.6%	3-15 years
	<ul style="list-style-type: none"> <li>EUR 3bn state guarantee scheme for micro &amp; SME loans</li> </ul>	SME 80% Micro 90%	Fully subsidised	3-6 years
	<ul style="list-style-type: none"> <li>EUR 1.5bn guaranteed loans for companies</li> <li>EUR 0.8bn working capital loans</li> </ul>	Up to 80%	Zero for 50% of the loan	Up to 5 years
	<ul style="list-style-type: none"> <li>EUR 2.2bn programme for state guaranteed loans for micro companies and SMEs</li> </ul>	80% (30% cap at portfolio level)	<ul style="list-style-type: none"> <li>4% LCY</li> <li>&lt;3% EUR</li> </ul>	Up to 3 years

# Our response to Coronavirus –

## Erste Group is there for its customers, communities and employees

	Employees	Retail customers	Corporate customers	Communities
	70%-95% of HQ employees in home office in March-May	Branches remaining open & extending online services	Expanding client advisory & transmitting state support	Supporting health care workers, affected people, hospitals
	<ul style="list-style-type: none"> <li>Majority of HQ in home office</li> <li>Psychological support</li> <li>Health insurance benefit</li> </ul>	<ul style="list-style-type: none"> <li>Branches remain open</li> <li>George available for moratorium applications</li> </ul>	<ul style="list-style-type: none"> <li>Extended credit facilities</li> <li>Online process for moratorium applications</li> </ul>	<ul style="list-style-type: none"> <li>Donation to Austrian Red Cross</li> </ul>
	<ul style="list-style-type: none"> <li>Majority of HQ in home office</li> <li>Protective equipment</li> <li>24/7 online doctor</li> </ul>	<ul style="list-style-type: none"> <li>Branches remain open</li> <li>Banker on phone/online</li> </ul>	<ul style="list-style-type: none"> <li>Extended phone service</li> <li>Free payment terminals</li> </ul>	<ul style="list-style-type: none"> <li>Donation to affected families</li> <li>TV campaign on masks</li> </ul>
	<ul style="list-style-type: none"> <li>Majority of HQ in home office</li> <li>Special benefits for pregnant, elderly people</li> </ul>	<ul style="list-style-type: none"> <li>Branches remain open</li> <li>Mobile ATMs available</li> <li>Special COVID-19 website</li> </ul>	<ul style="list-style-type: none"> <li>Postponed repayments (beyond statutory)</li> <li>Extended credit lines</li> </ul>	<ul style="list-style-type: none"> <li>Donation to emergency committee</li> <li>Educational webinars</li> </ul>
	<ul style="list-style-type: none"> <li>Majority of HQ in home office</li> <li>Transport allowance</li> <li>Psychological support</li> </ul>	<ul style="list-style-type: none"> <li>Branches remain open</li> <li>More call centre staff</li> <li>Educational videos</li> </ul>	<ul style="list-style-type: none"> <li>Simplified processes</li> <li>Flexible lending and account administration</li> </ul>	<ul style="list-style-type: none"> <li>Loan programme and donations to health care workers</li> </ul>
	<ul style="list-style-type: none"> <li>Majority of HQ in home office</li> <li>High-risk employees working exclusively from home office</li> </ul>	<ul style="list-style-type: none"> <li>Branches remain open</li> <li>Repayment holiday</li> <li>Tripled call centre capacity</li> </ul>	<ul style="list-style-type: none"> <li>Repayment holiday</li> <li>Extended revolving credit facilities</li> </ul>	<ul style="list-style-type: none"> <li>Donation to health care system &amp; education &amp; NGOs</li> <li>Entrepreneurial education</li> </ul>
	<ul style="list-style-type: none"> <li>Majority of HQ in home office</li> <li>Psychological support</li> </ul>	<ul style="list-style-type: none"> <li>Branches remain open</li> <li>Public notary cost relief</li> </ul>	<ul style="list-style-type: none"> <li>Working capital loans</li> <li>EIF guarantees for SME – up to 80%</li> </ul>	<ul style="list-style-type: none"> <li>Donation to hospitals</li> <li>Special benefits to most vulnerable communities</li> </ul>
	<ul style="list-style-type: none"> <li>Majority of HQ in home office</li> <li>Paid leave for high risk employees</li> </ul>	<ul style="list-style-type: none"> <li>Branches remain open</li> <li>Special authorisation for pension payment</li> </ul>	<ul style="list-style-type: none"> <li>Various fee reliefs, eased conditions offered for businesses</li> </ul>	<ul style="list-style-type: none"> <li>Healthcare donations</li> <li>Supporting disabled and elderly people</li> </ul>