Press release

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Erste Group Q1 2020 results: Strong capitalization, excellent liquidity position and asset quality provide solid starting point for facing tough Coronavirus-driven economic environment

"*The ongoing global crisis is confronting all of us – as individuals and families, but also as countries and regions, employees and businesses - with challenges that none of us could have imagined just a few weeks ago.*

What started as a health crisis has evolved into an unprecedented economic crisis, as necessary lockdown measures have smothered both supply and demand in markets across the world. We have no blueprint for how to deal with a situation like this, except common sense. No country, no region and no sector is exempt from the impact of this pandemic – all of us truly are in this together.

There's never a good time for a global crisis like the one we're experiencing. But the states in Central and Eastern Europe did their macroeconomic homework over the past years. As a result, our CEE region is much better positioned to face the economic fallout of the coronavirus crisis than it had been during the financial crisis a decade ago.

We at Erste Group are also entering this crisis from a position of strength. We are a strongly capitalized financial group with a business model that has proven its merits and a well-balanced loan portfolio marked by strong asset quality. As we help our clients respond to this crisis, we can draw on the strong standing of our subsidiary banks in what will continue to be Europe's growth region, on the competitive advantage of our digital banking platform George, and on our excellent liquidity position.

Let there be no doubt about it: A very challenging year lies ahead of all of us. But let there also be no doubt about Erste's commitment to help its customers get through these difficult times. We will do so via streamlined application processes for repayment standstills and state-guaranteed loans, through countless individual advisory sessions, and on the basis of effective cooperation with governments, regulators, and all our stakeholders. We will do so because we are deeply committed to our region and believe in its people and businesses, their enduring potential, and their promising future on the other side of this crisis," says Bernd Spalt, CEO of Erste Group Bank AG.

HIGHLIGHTS

Financial results from January-March 2020 are compared with those from January-March 2019 and balance sheet positions as of 31 March 2020 with those as of 31 December 2019.

Net interest income increased – mainly in the Czech Republic and Austria, but also in Romania – to EUR 1,229.0 million (+5.9%; EUR 1,160.9 million). **Net fee and commission income** rose to EUR 504.2 million (+3.4%; EUR 487.7 million), primarily on the back of increased fees from securities business but also from asset management and insurance brokerage. While **net trading result** declined significantly to EUR -157.4 million (EUR 153.3 million), the line item **gains/losses from financial instruments measured at fair value through profit or loss** was up at EUR 37.5 million (EUR -77.1 million), both line items being impacted by valuation effects due to increased market volatility amid the COVID-19 outbreak. **Operating income** decreased to EUR 1,633.0 million (-6.1%; EUR 1,771.7 million). **General administrative expenses** slightly declined to EUR 1,111.2 million (-0.4%; EUR 1115.6 million) as personnel expenses rose to EUR 630.0 million (+1.3%; EUR 621.9

million) while other administrative expenses came in lower at EUR 344.8 million (-3.8%; EUR 358.3 million). Other administrative expenses already included almost all payments into deposit insurance schemes expected in 2020 in the amount of EUR 88.3 million (EUR 87.5 million). Amortisation and depreciation amounted to EUR 136.5 million (EUR 135.4 million). Overall, the **operating result** declined to EUR 551.7 million (-15.9%; EUR 656.0 million). The **cost/income ratio** rose to 66.8% (63.0%).

Due to net allocations, the **impairment result from financial instruments** amounted to EUR -61.7 million or 15 basis points of average gross customer loans (net releases of EUR 35.8 million or -9 basis points). Allocations to provisions for loans as well as for commitments and guarantees given rose mainly in Austria and in the Czech Republic, while a positive contribution was recorded from the recovery of loans already written off in Romania. Allocations to provisions in the first quarter of 2020 related to COVID-19 were so far minor and primarily based on expert estimates but did not yet include any allocations for the expected deterioration in the macroeconomic outlook. The **NPL ratio** based on gross customer loans improved further to 2.4% (2.5%). The **NPL coverage ratio** increased to 80.9% (77.1%).

Other operating result amounted to EUR -127.6 million (EUR -131.1 million). The expenses for the annual contributions to resolution funds included in this line item rose – in particular in the Czech Republic and in Slovakia – to EUR 84.0 million (EUR 78.0 million). The rise in banking and transaction taxes to EUR 49.9 million (EUR 38.8 million) is primarily attributable to the doubling of banking levies in Slovakia to EUR 16.9 million (EUR 8.0 million) as the change in the law adopted in 2019 took effect as of 1 January 2020. Hungarian banking tax for the financial year 2020 amounted to EUR 14.2 million (EUR 12.5 million).

Due to one-off effects in Romania, taxes on income increased to EUR 103.0 million (EUR 95.5 million). The minority charge declined to EUR 23.0 million (EUR 89.3 million) due to significantly lower earnings contributions of the savings banks. The **net result attributable to owners of the parent** amounted to EUR 235.3 million (-37.6%; EUR 377.0 million).

Total equity not including AT1 instruments rose to EUR 19.1 billion (EUR 19.0 billion). After regulatory deductions and filtering in accordance with the CRR, **common equity tier 1 capital** (CET1, final) amounted to EUR 15.8 billion (EUR 16.3 billion), total **own funds** (final) to EUR 21.3 billion (EUR 22.0 billion). While first-quarter profit is not included, risk costs are deducted. Total risk – **risk-weighted assets** including credit, market and operational risk (CRR, final) – rose to EUR 120.5 billion (EUR 118.6 billion). The **common equity tier 1 ratio** (CET1, final) stood at 13.1% (13.7%), the **total capital ratio** at 17.7% (18.5%).

Total assets rose to EUR 262.9 billion (EUR 245.7 billion). On the asset side, cash and cash balances increased to EUR 23.0 billion (EUR 10.7 billion), while loans and advances to credit institutions increased to EUR 24.3 billion (EUR 23.1 billion). **Loans and advances to customers** rose to EUR 161.1 billion (+0.5%; EUR 160.3 billion). On the liability side, deposits from banks increased to EUR 20.7 billion (EUR 13.1 billion) and **customer deposits** grew again – most notably in the Czech Republic and in Austria – to EUR 182.2 billion (+4.8%; EUR 173.8 billion). The **loan-to-deposit ratio** stood at 88.4% (92.2%).

OUTLOOK

Since publishing of the Q4 19 and FY2019 financial results on 28 February 2020 the global economic outlook has deteriorated significantly. Economic performance is a fundamental driver of Erste Group's financial performance, consequently this development is expected to lead to a material, but as yet unquantifiable, deterioration in the bank's profitability in 2020. Both, the macroeconomic downturn and lower profitability, are a direct result of governments worldwide opting for social and economic lockdown strategies of varying degrees in an effort to contain the spreading of the coronavirus. This containment strategy served the primary purpose of flattening the expected load curve on the health system, while causing significant and tangible collateral damage, such as lower economic activity, surging unemployment and a significant decline in global stock markets. In order to mitigate collateral damage, governments, central banks and regulators have implemented a number of measures, such as: loan moratoria, loan guarantees, direct payments to affected industries and consumers, tax and social security contribution breaks or deferrals, labour market support measures, such as short-term work schemes, liquidity injections, relaxation of collateral requirements, rate cuts, quantitative easing through government and corporate bond purchases, relaxation of capital requirements; and, pragmatism on IFRS9 staging in the wake of loan moratoria and loan guarantees.

Despite all of this and first tentative attempts to slowly exit all-encompassing lockdowns in countries such as the Czech Republic and Austria, global real GDP in 2020 is expected to plunge the most since World War II. In the context of Austria and Central and Eastern Europe, the current expectation is for a real GDP decline between 4.2% and 7.5% in 2020, with all corresponding negative effects on individual P&L line items, asset quality and capital. In concrete terms, net interest income is expected to decline in 2020, due to a combination of significant rate cuts in the Czech Republic, Romania and Serbia, a changed business mix on the back of lower margin state guaranteed business, and negative FX effects. Fee income is expected to suffer primarily from weaker economic activity, translating into lower payment transfer fees, and materially lower fees from securities business. A decline of the net trading and fair value result was already expected even prior to the emergence of the coronavirus, on the back of strong valuation gains in 2019. Overall, operating income is likely to decline in 2020. Operating expenses, at the start of the year expected to increase in 2020, will likely decline as lower travel expenses, efficiency savings and positive FX effects will support such a development. Nonetheless, operating result is expected to retreat in 2020 compared to 2019 levels; the cost/income ratio will deteriorate. The wildcard for 2020 and beyond is risk costs. As a matter of policy Erste Group's management will aim to frontload as much risk costs as is justifiable based on macroeconomic data and forecasts, development of company ratings as well retail portfolio assessment into 2020. Accordingly, a significant rise in risk costs is expected in 2020. Based on the currently most probable scenario that assumes a 6-month V-shape recovery risk costs for 2020 are estimated at 50-80 basis points of average gross customer loans. Barring any goodwill write-downs, other operating result is expected to improve in 2020, as 2019 was burdened by significant one-off effects. The tax ratio will almost certainly rise as profitability in low tax countries is expected to decline. The minority charge will decline as profitability at the savings banks is expected to drop. Overall, a significant drop in net profit is expected in 2020.

Erste Group has set aside EUR 1.5 per share as a potential dividend payment for 2019. At the end March 2020 Erste Group announced that it will postpone the AGM and the final dividend decision to Q4 2020 in order to be in a position to take a more informed, fact-based decision as relates to the economic consequences of the coronavirus outbreak. It is the firm intention of the management of Erste Group to pay a dividend for 2019, the magnitude of which will be primarily determined by economic realities prevailing at the time. The final decision will also carefully balance regulatory advice with the imperative of maintaining investor confidence in Erste Group specifically and capital markets in general, as well as aim to ensure the equitable treatment of all asset classes.

Financial data

Income statement					
in EUR million	**Q1 19**	**Q4 19**	**Q1 20**	**1-3 19**	**1-3 20**
Net interest income	1,160.9	1,229.5	1,229.0	1,160.9	1,229.0
Net fee and commission income	487.7	515.9	504.2	487.7	504.2
Net trading result and gains/losses from financial instruments at FVPL	76.2	63.9	-119.9	76.2	-119.9
Operating income	1,771.7	1,861.8	1,663.0	1,771.7	1,663.0
Operating expenses	-1,115.6	-1,122.4	-1,111.2	-1,115.6	-1,111.2
Operating result	**656.0**	**739.4**	**551.7**	**656.0**	**551.7**
Impairment result from financial instruments	35.8	-82.1	-61.7	35.8	-61.7
Post-provision operating result	**691.8**	**657.3**	**490.0**	**691.8**	**490.0**
Other operating result	-131.1	-230.9	-127.6	-131.1	-127.6
Levies on banking activities	-38.8	-37.1	-49.9	-38.8	-49.9
Pre-tax result from continuing operations	561.8	433.2	361.3	561.8	361.3
Taxes on income	-95.5	-67.8	-103.0	-95.5	-103.0
Net result for the period	**466.3**	**365.4**	**258.3**	**466.3**	**258.3**
Net result attributable to non-controlling interests	89.3	118.2	23.0	89.3	23.0
Net result attributable to owners of the parent	**377.0**	**247.2**	**235.3**	**377.0**	**235.3**
Earnings per share	0.88	0.45	0.55	0.88	0.55
Return on equity	11.1%	5.5%	6.6%	11.1%	6.6%
Net interest margin (on average interest-bearing assets)	2.18%	2.20%	2.18%	2.18%	2.18%
Cost/income ratio	63.0%	60.3%	66.8%	63.0%	66.8%
Provisioning ratio (on average gross customer loans)	-0.09%	0.20%	0.15%	-0.09%	0.15%
Tax rate	17.0%	15.7%	28.5%	17.0%	28.5%

Balance sheet					
in EUR million	**Mar 19**	**Dec 19**	**Mar 20**	**Dec 19**	**Mar 20**
Cash and cash balances	16,382	10,693	23,031	10,693	23,031
Trading, financial assets	45,191	44,295	46,970	44,295	46,970
Loans and advances to banks	22,741	23,055	24,264	23,055	24,264
Loans and advances to customers	151,957	160,270	161,119	160,270	161,119
Intangible assets	1,489	1,368	1,322	1,368	1,322
Miscellaneous assets	5,946	6,012	6,193	6,012	6,193
Total assets	**243,706**	**245,693**	**262,898**	**245,693**	**262,898**
Financial liabilities held for trading	2,277	2,421	3,322	2,421	3,322
Deposits from banks	20,295	13,141	20,703	13,141	20,703
Deposits from customers	166,216	173,846	182,211	173,846	182,211
Debt securities issued	28,670	30,371	29,413	30,371	29,413
Miscellaneous liabilities	6,492	5,437	6,196	5,437	6,196
Total equity	19,754	20,477	21,053	20,477	21,053
Total liabilities and equity	**243,706**	**245,693**	**262,898**	**245,693**	**262,898**
Loan/deposit ratio	91.4%	92.2%	88.4%	92.2%	88.4%
NPL ratio	3.0%	2.5%	2.4%	2.5%	2.4%
NPL coverage ratio (based on AC loans, ex collateral)	74.5%	77.1%	80.9%	77.1%	80.9%
CET1 ratio (final)	13.2%	13.7%	13.1%	13.7%	13.1%

Ratings	**Mar 19**	**Dec 19**	**Mar 20**
Fitch			
Long-term	A	A	A
Short-term	F1	F1	F1
Outlook	Stable	Stable	RWN
Moody´s			
Long-term	A2	A2	A2
Short-term	P-1	P-1	P-1
Outlook	Positive	Positive	Positive
Standard & Poor´s			
Long-term	A	A	A
Short-term	A-1	A-1	A-1
Outlook	Positive	Positive	Positive

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