FitchRatings

Banks
Universal Commercial Banks
Austria

Erste Group Bank AG

Key Rating Drivers

Improved Resilience, Strong Franchise: Erste Group Bank AG's ratings reflect its strengthened financial profile and resilience, strong execution of its consistent strategy and tightened risk appetite. They also reflect its diversified business model focused on retail and corporate banking underpinned by leading franchises and favourable conditions and growth potential in its main core markets of Austria, the Czech Republic, Slovakia and Romania.

Focus on Stronger CEE Markets: Erste should benefit in the long term from its primary focus on economically stronger central and eastern European (CEE) countries. Its performance is regularly exposed to political risk in these markets, but we believe this is sufficiently mitigated by the region's favourable interest rates, sound operating margins and growth potential.

Sound Profitability: Improved economic conditions in CEE, minimal risk costs and disciplined pricing drive Erste's sound profits despite pressure on operating expenses from wage inflation. We expect resilient pre-impairment profits with fairly moderate variability over the cycle.

Sound Earnings Strengthen Capitalisation: Erste's common equity Tier 1 (CET1) ratio target of 13.5% comfortably exceeds its regulatory requirements and is commensurate with its risk profile. Increasingly balanced profit contributions from its CEE subsidiaries, where operating profits are materially higher than in Austria, should support its capital ratios through the cycle.

Strengthened Risk Controls: Robust demand has driven Erste's above-average loan growth over the past three years, while the bank's maintained reasonable underwriting standards, in our view. In conjunction with its robust centralised risk controls, including over the minority-owned Austrian savings banks, this has supported Erste's positive asset-quality development.

Significantly Improved Asset Quality: Erste has halved its impaired loan ratio over the past six years on the back of better economic conditions as well as aggressive portfolio sales and write-offs. We expect risk costs to start rising toward the end of 2020 from their current negligible level (3bp of gross loans in 9M19) toward Erste's through the cycle forecast of 30bp-50bp.

Moderate Interest Rate Risk: The combination of a high (but declining) share of variable-rate loans in Erste's back book and monetary policy tightening in the Czech Republic (where the group holds a large share of its security portfolio) and Romania ease the pressure that record-low interest rates in the eurozone exert on net interest margin (NIM). The bank expects to absorb most of the decline in interest income arising from security reinvestments in 2020.

MPE Preferred Resolution Strategy: Erste targets a multiple point-of-entry (MPE) resolution strategy with resolution groups in each of its six EU core markets, further limiting intragroup contagion risk, which is already mitigated by the group's policy of largely self-funded CEE subsidiaries. We expect the group's parent and the CEE subsidiaries to increase their senior non-preferred (SNP) debt issuance to meet their resolution buffer requirements by 2024.

Rating Sensitivities

Operating Environment Limits Upside: An upgrade of Erste's ratings would require a combination of stronger asset-quality metrics, earnings and capitalisation to make up for the higher risk associated with its operations in weaker CEE markets (Romania, Hungary, Croatia). The Stable Outlook reflects Fitch Ratings' view that significant short-term improvements are unlikely at this advanced stage of the economic cycle.

A downgrade could result from adverse market or economic developments eroding profits and asset quality, capital erosion from insufficient internal capital generation, or if management feels compelled to increase its risk appetite to protect its franchise in its main markets.

Ratings

Foreign Currency	
Long-Term IDR	A
Short-Term IDR	F1
Viability Rating	a
Support Rating	5
Support Rating Floor	NF
Sovereign Risk	
Long-Term Foreign-Currency IDR	AA+
Long-Term Local-Currency IDR	AA+
Country Ceiling	AAA
Outlooks	
Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Foreign-Currency IDR	Positive
Sovereign Long-Term Local-Currency IDR	Positive

Applicable Criteria

Bank Rating Criteria (October 2018)
Short Term Ratings Criteria (May 2019)

Related Research

Fitch Upgrades Erste to 'A', Outlook Stable (February 2019)
Fitch Rates Erste Group's Debut Senior Non-Preferred Notes Final 'A' (May 2019)
Fitch Ratings 2020 Outlook: Western European Banks (December 2019)

Analysts

Patrick Rioual
+49 69 768076 123
patrick.rioual@fitchratings.com

Marco Diamantini
+49 69 768076 114
marco.diamantini@fitchratings.com

Issuer Ratings (Including Major Issuing Entities)

Rating level	Rating
Long Term - IDR	A
Short Term IDR	F1
Derivative Counterparty Rating	A(dcr)
Viability Rating (VR)	a
Support Rating	5
Support Rating Floor	NF
Outlook/Watch	Stable

Source: Fitch Ratings

Debt Rating Classes

Rating level	Rating
Deposit Rating	A
Long-Term Senior Preferred	A
Short-Term Senior Preferred	F1
Senior Non-Preferred	A
Tier 2 subordinated debt	A-
Erste Finance (Delaware) LLC CP programme guaranteed by Erste	F1

Source: Fitch Ratings

Ratings Navigator – Standalone Assessment

Significant Changes

Preferred Resolution Strategy Multiple Points of Entry

Erste targets an MPE resolution strategy with one resolution group for each of its six EU core markets. We believe this would further limit intragroup contagion risk, which is already largely mitigated by the group's policy that prescribes that the CEE subsidiaries must be largely self-funded. However, the MPE strategy would not change our assumptions for intragroup support, as we would still expect Erste to support its foreign subsidiaries via pre-emptive measures, such as capital injections, guarantees or liquidity lines, should such measures become necessary.

Erste expects a final decision over its resolution plan in 1H20. Discussions with the Single Resolution Board and the Romanian regulator over the Romanian resolution perimeter are continuing. However, the Romanian subsidiary's inaugural SNP issuance in 4Q19 suggests that an MPE resolution strategy has become more likely. Erste's plans presented in 4Q19 to increase local debt issuance in CEE to build up local MREL buffers assume that this will increase the group's annual funding costs by a moderate EUR60 million by 2024.

Erste Group Bank AG, the group's parent entity, is intended to become the Austrian resolution perimeter's point of entry. It issued its first EUR500 million SNP benchmark bond in May 2019 as part of its plan to become MREL-compliant by 2024. The Austrian resolution group is also intended to include the largest Austrian subsidiary, Erste Bank der oesterreichischen Sparkassen AG (EBOe) and its consolidated three larger majority-owned savings banks as well as 43 smaller savings banks and other less material operations outside Austria. Unlike the CEE subsidiaries' resolution groups, the Austrian resolution group will not become a legal entity or reporting unit and is therefore not subject to a capital requirement at consolidated level.

Bar Chart Legend

Vertical bars – VR range of Rating Factor	
Bar Colors – Influence on final VR	
Higher influence	
Moderate influence	
Lower influence	
Bar Arrows – Rating Factor Outlook	
⇧ Positive	⇩ Negative
⇳ Evolving	▫ Stable

Company Summary

Universal Bank with Leading Franchise in Austria and CEE

Erste's company profile benefits from its strong franchise and geographic diversification across its core Austrian and CEE markets. It is the Austrian savings banks' central institution and one of the largest banks in CEE, with leading market shares in the Czech Republic, Romania and Slovakia as well as smaller retail and corporate operations in Croatia, Hungary and Serbia, and some less material cross-border business in the Balkans region.

The parent entity, Erste Group Bank AG, is the group's listed operating bank holding company. It manages the group and owns the Austrian and CEE subsidiaries. In Austria, Erste's retail and SME banking franchise includes EBOe and 43 smaller savings banks managed under a mutual support scheme (Haftungsverbund) controlled by Erste, even though they are not owned (or minority-owned) by Erste. Control over the savings banks and cross-guarantee provisions allow Erste to consolidate all members of the scheme.

The group's legal structure is more customary in CEE, where the group's parent is the dominant or sole owner of the local units. Given the core role of CEE for the group and the parent's record of extensive support in the region, we view Erste's willingness to support its CEE operations as very high, even though all foreign entities are excluded from the mutual support scheme.

Key Qualitative Assessment Factors

Clearly Defined and Consistent Strategic Commitment to CEE

Cyclical headwinds and a series of adverse political, legislative and regulatory measures have tested the resilience of Erste's Austrian and CEE businesses in 2013-2015. Disruptions in the global financial crisis and at the height of the tensions with CEE legislators in 2014-2015 prompted high risk provisions and goodwill impairments. Despite these difficult developments, Erste's strong long-term strategic commitment to its core region has not been fundamentally affected. Because of Erste's strong franchise, we believe that Erste could expand into other advanced CEE countries via its digital retail banking platform George or acquisitions, most notably into Poland, where Commerzbank's subsidiary mBank is up for sale.

Economic Environment in CEE Supports Ratings

Economic growth across CEE is slowing from a cyclical peak but has remained healthy and largely immune to the slowdown in western Europe in 2019 as strong labour markets fuel robust domestic demand. External imbalances have continued to unwind in most of the region over the current cycle. Overheating risks persist in Romania but, elsewhere, pressures have generally been confined to labour and real estate markets, with the latter eased by macro-prudential measures. In the Czech Republic and Slovakia, the countercyclical capital buffer will increase by 50bp to 2% by July 2020, which most banks should be able to absorb easily.

Adequate Underwriting Standards Mitigate Risks from Robust Loan Growth

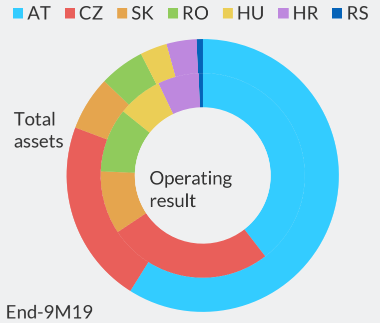
Erste increased its net interest income by expanding its loan book by 6% a year for the past three years. Strong demand from corporates and SMEs has fuelled this growth as companies took advantage of the favourable credit conditions to pre-fund a large share of their investment needs. As a result, we expect corporate loan growth to slow in 2020.

We believe that Erste's underwriting standards, sector diversification and borrowers' improved credit profiles adequately mitigate the risk arising from its substantial expansion in corporate lending. Its EUR6.4 billion automotive exposure is focused on large manufacturers and suppliers. This could delay the credit risk implications of a potential crisis of the car sector.

Erste's debt-to-income and loan-to-value (LTV) ratios indicate reasonable risk appetite in retail lending. Except for euro loans in Serbia (EUR300 million) and in Croatia (EUR1 billion), unsecured lending in CEE is generally extended in local currency, and so is secured lending, although euro loans are permitted to clients with matching euro income.

The share of unsecured loans in the retail portfolios varies by country but, with the exception of Croatia, mortgages make up the majority of retail loans in CEE and Austria. Regulatory LTV or debt service-to-income limits in the Czech Republic, Slovakia, Hungary and Romania ensure

Core Markets Overview



End-9M19
Source: Fitch Ratings, Erste

AT= Austria; CZ = Czech Republic; SK = Slovakia; RO = Romania; HU = Hungary; HR = Croatia; RS = Serbia minimum market standards. This contains the risk that uncontrolled competition may excessively loosen underwriting practices. This also offers some protection against the strong property price inflation prevailing in these countries (8% on average in 2018).

Erste has also tightened its approach to commercial real estate lending in recent years. Its EUR32 billion portfolio focuses on capital cities and regional centres in CEE. It also includes a EUR6 billion exposure to Austrian housing associations, which we consider lower-risk.

Mutual Support Scheme Underpins Cohesive Risk Controls in Austria

Erste Group Bank AG is a member of the mutual support scheme of the Austrian savings banks sector. Erste's 63.5% stake in Haftungsverbund GmbH, the steering company of the Austrian savings bank sector, gives the group's parent extensive control over the appointment of the individual savings banks' boards as well as budgeting, among others. The mutual support scheme is empowered to set, monitor and enforce common risk policies upon member banks. In exchange, it supports troubled members by guaranteeing certain liabilities.

No such support measures have been required in recent years thanks to the solid domestic economy and to the early-warning system managed by the steering company, which has ensured timely pre-emptive actions. Erste's capital ratios benefit from its control over the mutual support scheme which, under EU regulation, exempts the group from deducting EUR4 billion minority interests in savings banks members from the group's regulatory CET1 capital.

Favourable Interest Rate Environment in CEE Mitigates Group's Interest Rate Risk

Erste's market risk consists primarily of interest rate risk, mainly in the banking books of the Austrian savings banks. Similar to eurozone peers, we expect the group's NIM to deteriorate after the ECB's latest interest rate cut, also because a ruling by the Austrian Supreme Court prohibits banks from passing on negative rates to mass-retail clients.

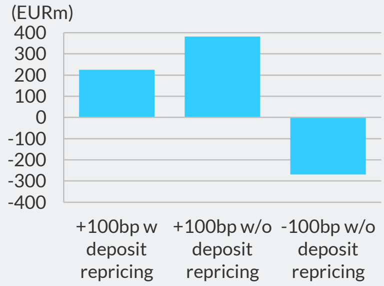
More than 80% of Erste's EUR41 billion bond portfolio consists of government bonds that still yield well over 2% on average. The government bond portfolio is exposed to the eurozone's low interest rates through gradual reinvestments of the share that is euro-denominated, which we estimate at 40%. Management forecasts that its interest income from securities will gradually decline to EUR830 million in 2020 from EUR880 million in 2019. However, the EUR8 billion that is koruna-denominated provides a strong mitigating factor as the Czech central bank raised its main policy rate to 200bp from 25bp in the past 2.5 years. This is also true to a lesser extent in Romania (EUR5 billion securities portfolio), where the main policy rate was raised to 250bp from 175bp at end-2017.

Maturing higher-rate loans have weighed on Erste's interest income less than other western European peers. This is because 82% of its client loan book carried variable rates until 2013, which used to be common practice in the Austrian banking sector. Since then, Austrian banks have absorbed some of the competitive pressure by allowing households and SMEs to lock in the prevailing extra-low rates on most newly originated loans. Hence, the proportion of Erste's stock of client loans with medium- or long-term fixed interest periods has increased (to 36% overall and, as we estimate, over 40% in Austria) and will further rise. Erste does not have a dedicated hedging strategy for fixed-rate loans. Instead, it steers its interest rate risk at group level.

The bank's large excess liquidity placed at central banks outside the eurozone is another factor mitigating the margin erosion. In addition, interest expenses on deposits in the Czech Republic and Romania were broadly unaffected by the interest rate hikes initiated by the respective central banks since 2017 due to prevailing market discipline and the subsidiary's strong franchises, easing the pressure on NIM at group level.

Erste is exposed to a lesser extent to interest rate risk in its trading book and fixed-income valuation risk in its securities portfolios, translation risk from its unhedged equity stakes in its non-eurozone subsidiaries and foreign-exchange risk from open positions, although the latter has been significantly mitigated by the increase in local-currency funding in CEE.

Group NII Sensitivity
Parallel 100bp shift



Source: Fitch Ratings, Erste

Summary Financials and Key Ratios

(EURm)	30 September 2019 9 months Unaudited	31 December 2018 Year end Unqualified	31 December 2017 Year end Unqualified	31 December 2016 Year end Unqualified
Summary income statement				
Net interest & dividend income	3,541	4,611	4,397	4,420
Net fees & commissions	1,484	1,908	1,852	1,783
Other operating income	386	402	577	498
Total operating income	5,412	6,921	6,826	6,701
Operating costs	3,549	4,486	4,633	4,604
Pre-impairment operating profit	1,863	2,436	2,193	2,097
Loan & other impairment charges	-43	-59	115	224
Operating profit	1,906	2,495	2,078	1,873
Other non-operating items (net)	-9	0	-1	77
Tax	351	333	410	414
Net income	1,546	2,163	1,668	1,537
Summary balance sheet				
Gross loans	161,124	152,885	143,509	135,267
- Of which impaired	3,917	4,354	5,776	6,678
Loan-loss allowances	3,283	3,563	3,977	4,613
Net loans	157,841	149,322	139,532	130,654
Interbank	25,241	19,103	9,126	3,469
Derivatives	3,733	3,170	4,218	5,899
Other securities & earning assets	43,771	41,963	40,943	44,606
Total earning assets	230,586	213,844	193,605	184,629
Cash & due from banks	15,638	17,549	21,796	18,353
Other assets	7,282	5,399	5,045	5,246
Total assets	252,101	236,792	220,659	208,227
Liabilities				
Customer deposits	168,635	161,155	149,903	137,857
Interbank & other short-term funding	24,782	21,043	18,464	16,144
Other long-term funding	28,730	27,836	24,046	25,835
Trading liabilities & derivatives	3,042	2,785	4,449	6,177
Total funding	225,189	212,819	196,863	186,012
Other liabilities	6,782	5,104	5,508	5,613
Pref. shares & hybrid capital	1,490	993	993	497
Total equity	18,639	17,876	17,295	16,105
Total liabilities & equity	252,101	236,792	220,659	208,227
Ratios (%; annualised as appropriate)				
Profitability				
Operating profit/RWAs	2.1	2.2	1.9	1.8
Net interest income/average earning assets	2.1	2.2	2.3	2.4
Cost/income ratio	65.7	64.9	68.0	68.8
Net RoE	11.3	12.5	10.0	9.9

Summary Financials and Key Ratios

	30 September 2019	31 December 2018	31 December 2017	31 December 2016
	9 months	Year end	Year end	Year end
(EURm)	Unaudited	Unqualified	Unqualified	Unqualified
Asset quality				
Impaired loans ratio	2.4	2.9	4.0	4.9
Loan growth	5.4	6.5	6.1	2.6
Loan-loss allowances/impaired loans	83.8	81.8	68.9	69.1
Loan impairment charges/average gross loans	0.0	0.0	0.1	0.1
Capitalisation				
Fitch Core Capital ratio	14.6	14.7	14.4	14.3
Tangible common equity ratio	6.8	7.0	7.2	7.1
CET 1 ratio	13.2	13.5	13.4	13.4
Basel leverage ratio	6.5	6.6	6.6	6.2
Unreserved impaired loans/FCC	3.6	4.7	11.3	14.2
Funding & liquidity				
Loans/customer deposits	95.6	94.9	95.7	98.1
LCR	145.6	150.1	145.2	142.6
Customer deposits/funding	75.3	76.2	77.3	76.2

Source: Fitch Ratings

Key Financial Metrics – Latest Developments

Above-Average Profits Upholds Sound Capitalisation amid Strong Loan Growth

We expect Erste's operating profit to exceed EUR2.5 billion in 2019 and to remain well above its cyclical average in 2020. A gradual upward normalisation of risk costs is unlikely to prevent Erste from achieving its targeted return on tangible equity of more than 10% in 2020. Its 9M19 pre-tax profit was flat yoy as a 4% rise in net interest and fee income and an extraordinarily strong net trading result offset a EUR151 million provision following a ruling (contested by Erste) from the Romanian High Court on alleged mis-selling by Erste's local building society.

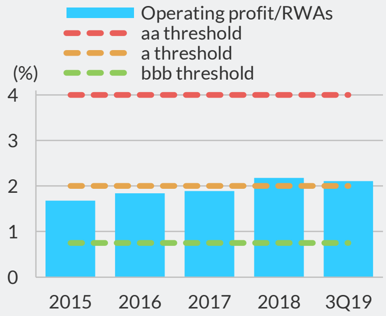
Sound profits combined with an expected maximum pay-out ratio of 50% in the long run should allow Erste to accommodate robust loan growth while maintaining its current capitalisation level. Its leverage ratio compares favourably with large European peers, driven by the structurally higher RWA density of CEE operations.

Erste expects up to EUR5 billion of credit-risk RWA relief in 2020 from model change approvals and from an extension of internal models to its Romanian subsidiary. This will mitigate RWA inflation of EUR2.7 billion from the ECB's review of internal models (TRIM) in 2019. We therefore believe the bank will comfortably meet its CET1 target ratio of 13.5%. We view this target as sustainable since Erste does not expect any material RWA inflation post-TRIM from the implementation of Basel IV due to its relatively high RWA density. The bank could return capital in excess of a CET1 ratio of 14% to investors, but larger acquisitions are unlikely to dilute its capitalisation as they would probably require substantial capital increases.

Fee Income Growth to Support Target Cost-to-Income Ratio of 55% by 2024

Erste expects to raise its fee income by about 4% a year to EUR2.4 billion in the next five years by using its high retail deposit market shares to promote bancassurance and asset management products. Converting excess deposits to fee-generating off-balance sheet investment products would help contain the pressure on NIM. We view positively Erste's efforts to position itself as 'financial health' provider and advise its clients, notably by using its

Strengthened Profitability



Source: Fitch Ratings, Erste

George platform, on the increasingly negative implications of holding unnecessary large cash balances. The Austrian Supreme Court's ruling makes these changes even more pressing.

Despite the ruling, Austrian banks are still allowed to raise fees on deposit accounts. This should translate into higher fee income from payments. However, given the major asset classes' downside valuation risk at the peak of the cycle, convincing generally risk-averse Austrian households to invest in capital market products is likely to be a long-term endeavour.

Delivering on its fee income growth target would ease the pressure on Erste's operating income from the likely cyclical decline in loan growth and margins. It would also mitigate the pronounced wage inflation in tight labour markets across CEE. While most banks across western Europe struggle to stabilise their cost bases, we believe Erste has some room to reduce its expenses in Austria, especially at the parent entity and at EBOe. However, digitalisation processes in the mid- and back-office will increase IT expenses by 6%-7% in 2019 and 2021 before they start containing cost inflation. We do not expect material cost reductions in the Austrian savings bank segment, which accounted for a quarter of the group's cost base in 9M19 but caused half of the total cost inflation over the past five years.

Banking Taxes in Slovakia and Romania are Reminders of Political Risk in CEE

Recent initiatives by CEE governments to levy onerous taxes from local banks are a reminder that Erste remains exposed to material performance drains in CEE, especially as long as the sound profitability of the region's banking sectors represents an attractive source of funds to fill the respective governments' budgetary gaps. We believe this will remain an element of unpredictability for Erste's earnings in CEE, albeit overall a clearly manageable one.

In 4Q19, the Slovak government announced an increase of the bank levy to 0.4% of banks' liabilities in 2020. It is unclear whether the tax, which is expected to raise EUR130 million (equivalent to 0.1% of GDP and 30% of Slovakian banks' 2018 net profits), will be recurring or one-time. Should it recur, we expect Erste to impair part of its EUR165 million goodwill on its Slovak subsidiary.

In 1Q19, the Romanian government revised its tax on banks' financial assets. The taxable base was reduced essentially to performing loans that are not guaranteed by the state and Erste expects to pay up to EUR20 million in 2019. Tax payments could increase in the following years if Erste fails to achieve tax reliefs by meeting or progressing towards government-imposed lending growth and margin targets.

Improved Asset Quality

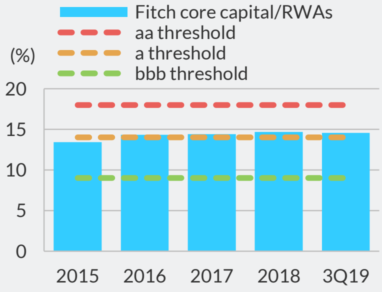
Asset Quality by Segment

	Austria				CEE						
End-3Q19	Total	EBOe	Savings banks	Other	Total	Czech Rep.	Romania	Slovakia	Hungary	Croatia	Serbia
Gross loans (EURbn)	96	34	47	15	65	29	9	14	5	7	1
- Retail (%)	44	50	53	0	61	60	61	74	53	45	54
- Corporates (%)	56	50	47	100	39	40	39	26	47	55	46
- FC loans (%)	9	5	7	26	44	16	39	0	27	63	78
- NPL ratio (%)	2.3	1.4	2.9	2.6	3.1	1.7	4.9	3.3	2.6	7.3	1.5
- NPL coverage (%)	64	64	65	61	91	100	104	78	91	82	129

Source: Fitch Ratings, Erste

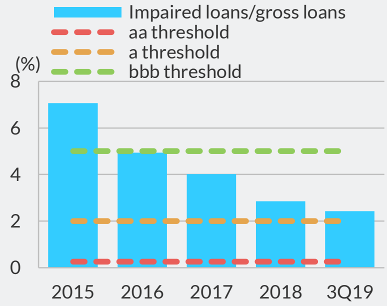
Erste has more than halved its stock of impaired loans from its peak in 2013 through aggressive sales and work-outs amid rapidly improved economic conditions and the emergence of an increasingly liquid and sophisticated secondary market for impaired loans in CEE. We view its impaired loan reserve coverage as adequate in light of its comfortable average loan collateralisation. Its impaired loan ratio is likely to be very close to its cyclical low,

Retained Earnings Offset RWAs Growth



Source: Fitch Ratings, Erste

NPL Ratio Improvement



Source: Fitch Ratings, Erste

but its tightened risk appetite since the last credit cycle should help navigate the next downturn. We expect risk costs to start rising towards the end of 2020 from their current negligible level (3bp of gross loans in 9M19) toward Erste's through the cycle forecast of 30bp -50bp.

Risks from legacy, carry-trade driven Swiss franc retail mortgages in Austria are mitigated by their gradual shrinkage (to EUR3.3 billion at end-3Q19) and borrowers' typically above-average financial flexibility. Most are endowment loans with very long tenors, bullet maturities and collateralised with investment funds or life insurance contracts. Years of strong increase in Austrian property prices have created additional buffer by reducing the loans' LTVs.

Improved Local Loans-to-Deposits Ratios in CEE

Erste's funding is primarily underpinned by leading deposit franchises in its core markets, particularly in Austria, where it sources over half of its client deposits. The group has cut its wholesale funding needs over the past decade by developing the local deposit franchises of its CEE units, which are now largely deposit-funded and have excess liquidity in local currencies. The resilience of CEE deposits has improved. Hungarian banks' funding needs briefly spiked in mid-2019 as strong demand for new sovereign bonds absorbed part of households' liquidity. However, this did not materially affect the loan to deposit ratio of Erste's Hungarian subsidiary and we expect deposit growth to continue in the near term but at a slower pace.

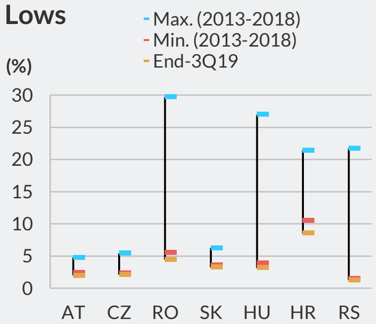
The group's parent issues most of the Erste's wholesale funding, which is well-diversified by type of instrument and maturity. The larger CEE units have also developed local covered and unsecured debt issuance franchises to underpin their independence from intragroup funding. They will continue to do so in the medium term to meet their local MREL.

Sovereign Support Assessment

Erste's Support Rating and Support Rating Floor reflect our view that, since the EU's Bank Recovery and Resolution Directive came into force in Austria in 2015, senior creditors have no longer been able to rely on full extraordinary sovereign support if Erste becomes non-viable.

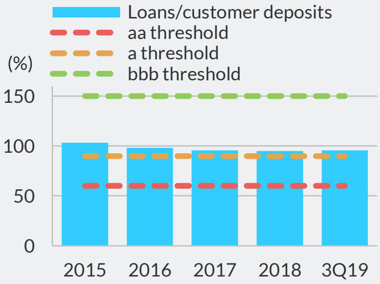
Support Rating Floor			Value
Typical D-SIB SRF for sovereign's rating level (assuming high propensity)			A+ to A-
Actual country D-SIB SRF			NF
Support Rating Floor:			**NF**
Support Factors	**Positive**	**Neutral**	**Negative**
Sovereign ability to support system			
Size of banking system relative to economy		✓	
Size of potential problem		✓	
Structure of banking system		✓	
Liability structure of banking system		✓	
Sovereign financial flexibility (for rating level)		✓	
Sovereign propensity to support system			
Resolution legislation with senior debt bail-in			✓
Track record of banking sector support			✓
Government statements of support		✓	
Sovereign propensity to support bank			
Systemic importance		✓	
Liability structure of bank		✓	
Ownership		✓	
Specifics of bank failure		✓	

Local NPL Ratios at Record Lows



Source: Fitch Ratings, Erste

Deposit Growth Supports Funding



Source: Fitch Ratings, Erste

Environmental, Social and Governance Considerations

Erste's highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact, either due to their nature or the way in which they are being managed by the bank. For more information on our ESG Relevance Scores, visit www.fitchratings.com/esg.

FitchRatings **Erste Group Bank AG** — **Banks** Ratings Navigator

Credit-Relevant ESG Derivation

Erste Group Bank AG has 5 ESG potential rating drivers

- Erste Group Bank AG has exposure to compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security) but this has very low impact on the rating.
- Governance is minimally relevant to the rating and is not currently a driver.

			Overall ESG Scale
key driver	0	issues	5
driver	0	issues	4
potential driver	5	issues	3
not a rating driver	4	issues	2
not a rating driver	5	issues	1

Environmental (E)

General Issues	E Score	Sector-Specific Issues	Reference	E Scale
GHG Emissions & Air Quality	1	n.a.	n.a.	5
Energy Management	1	n.a.	n.a.	4
Water & Wastewater Management	1	n.a.	n.a.	3
Waste & Hazardous Materials Management; Ecological Impacts	1	n.a.	n.a.	2
Exposure to Environmental Impacts	2	Impact of extreme weather events on assets and/or operations and corresponding risk appetite & management; catastrophe risk; credit concentrations	Company Profile; Management & Strategy; Risk Appetite; Asset Quality	1

Social (S)

General Issues	S Score	Sector-Specific Issues	Reference	S Scale
Human Rights, Community Relations, Access & Affordability	2	Services for underbanked and underserved communities: SME and community development programs; financial literacy programs	Company Profile; Management & Strategy; Risk Appetite	5
Customer Welfare - Fair Messaging, Privacy & Data Security	3	Compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security)	Operating Environment; Company Profile; Management & Strategy; Risk Appetite	4
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Company Profile; Management & Strategy	3
Employee Wellbeing	1	n.a.	n.a.	2
Exposure to Social Impacts	2	Shift in social or consumer preferences as a result of an institution's social positions, or social and/or political disapproval of core banking practices	Company Profile; Financial Profile	1

Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference	G Scale
Management Strategy	3	Operational implementation of strategy	Management & Strategy	5
Governance Structure	3	Board independence and effectiveness; ownership concentration; protection of creditor/stakeholder rights; legal /compliance risks; business continuity; key person risk; related party transactions	Management & Strategy; Earnings & Profitability; Capitalisation & Leverage	4
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Company Profile	3
Financial Transparency	3	Quality and frequency of financial reporting and auditing processes	Management & Strategy	2
				1

How to Read This Page
ESG scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant and green (1) is least relevant.

The Environmental (E), Social (S) and Governance (G) tables break out the individual components of the scale. The left-hand box shows the aggregate E, S, or G score. General Issues are relevant across all markets with Sector-Specific Issues unique to a particular industry group. Scores are assigned to each sector-specific issue. These scores signify the credit-relevance of the sector-specific issues to the issuing entity's overall credit rating. The Reference box highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis.

The Credit-Relevant ESG Derivation table shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the entity's credit rating. The three columns to the left of the overall ESG score summarize the issuing entity's sub-component ESG scores. The box on the far left identifies the [number of] general ESG issues that are drivers or potential drivers of the issuing entity's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the score.

Classification of ESG issues has been developed from Fitch's sector and sub-sector ratings criteria and the General Issues and the Sector-Specific Issues have been informed with SASB's Materiality Map.

Sector references in the scale definitions below refer to Sector as displayed in the Sector Details box on page 1 of the navigator.

CREDIT-RELEVANT ESG SCALE

How relevant are E, S and G issues to the overall credit rating?

5	Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
4	Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
3	Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator.
2	Irrelevant to the entity rating but relevant to the sector.
1	Irrelevant to the entity rating and irrelevant to the sector.

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.