FitchRatings

Banks
Universal Commercial Banks
Austria

Erste Group Bank AG

Key Rating Drivers

Business Profile Drives Ratings: Erste Group Bank AG's (Erste) Long-Term Issuer Default Rating (IDR) is driven by its Viability Rating (VR). The VR is one notch above the implied VR, reflecting the high importance for Erste's ratings of the group's diversified business profile, which is underpinned by its leading franchise in retail and SME banking in Austria and central and eastern Europe (CEE).

The ratings also reflect the group's resilient asset quality, strong earnings, adequate capitalisation and stable funding. The group's material operations in less developed and more volatile countries in CEE translate into a slightly weaker operating environment compared with that of peers that solely focus on Austria. As a result, Fitch Ratings expects stronger financial metrics from Erste than from purely Austrian-focused peers to maintain a VR of 'a'.

Good Risk Controls: Erste's generally prudent risk appetite is supported by the predominance of its Austrian and Czech exposures. Credit standards are broadly in line with market practice in Austria, but are more stringent than local peers' in CEE. Structural interest-rate and foreign-currency risks are modest. Political risks will remain a source of unpredictability but manageable for Erste's earnings in CEE because the sound profits of the region's banking sector represent an attractive source of funds to fill the governments' budgetary gaps.

Resilient Asset Quality: Rising interest rates, high inflation and a possible halt to Russian gas supplies to the EU will likely increase the impaired loans ratio in the next two years. At the same time, we expect Erste's four-year average impaired loans ratio to remain below 4%, a level commensurate with the asset quality score of 'bbb+'. This is because asset quality benefits from adequate collateralisation of the loan book and comfortable impaired loans coverage, which will likely be increased by precautionary provisions in 2H22.

Strong Revenue Growth: We expect operating profit to be 2.2% of risk-weighted assets (RWAs) in 2022, driven by strong business growth and rising interest rates. Higher interest rates will sustain revenue growth also in the next two years, albeit at a slower pace due to declining demand from corporates and households, repricing of deposits and possible repayment of central-bank tenders (TLTRO).

Higher cost inflation and loan impairment charges (LICs) will weigh on profitability but we believe that Erste's earnings will continue to benefit from sound operating margins and growth potential in the group's markets in the long term.

Adequate Capitalisation: Erste's fully loaded common equity Tier1 (CET1) ratio of 14.2% at end-1H22 is commensurate with the group's risk profile. Capitalisation benefits from strong retained earnings, low unreserved impaired loans, moderate concentrations and good capital-market access.

Higher credit risk could offset profit retention, pushing the CET1 ratio towards the management's 13.5% target, but we expect the bank to implement capital-enhancing measures should the ratio fall below its target. Erste's leverage ratio of 6.3% is higher than large European peers', due to the higher RWAs density in CEE.

Stable Funding; Comfortable Liquidity: Erste's funding benefits from its strong deposit franchise, which limits the bank's reliance on capital markets. Ample, high-quality liquidity reduces refinancing risk. We believe Erste's multiple-point-of-entry (MPE) resolution strategy limits intra-group contagion risk and supports the group's policy of largely self-funded CEE operations. The MPE strategy does not constrain intra-group support, in our view, as we expect Erste to pre-emptively support its foreign subsidiaries if needed.

Ratings

Foreign Currency

Long-Term IDR	A
Short-Term IDR	F1
Derivative Counterparty Rating	A(dcr)
Viability Rating	a
Government Support Rating	ns

Sovereign Risk (Austria)

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	Negative
Sovereign Long-Term Local-Currency IDR	Negative

Applicable Criteria

Bank Rating Criteria (September 2022)

Related Research

Fitch Affirms Erste Group at 'A'; Stable Outlook (October 2022)

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Rating Sensitivities

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

We could downgrade the VR and Long-Term IDR if asset quality and operating profitability deteriorate substantially and on a sustained basis, most likely due to severe damage to the SME and corporate loan portfolios. In particular, an impaired loan ratio above 5% or operating profitability/RWAs materially below 2% on a sustained basis would lead to a downgrade.

We would also downgrade the ratings if the CET1 ratio falls below its 13.5% target on a sustained basis. Erste's Short-Term IDR would be downgraded if both Erste's Long-Term IDR and funding and liquidity score are downgraded.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

Rating upside for Erste is limited in the medium term. An upgrade of its VR and Long-Term IDR and debt ratings would require an improvement of its operating environment in CEE, stronger asset-quality metrics and earnings generation, together with higher capital ratios.

Other Debt and Issuer Ratings

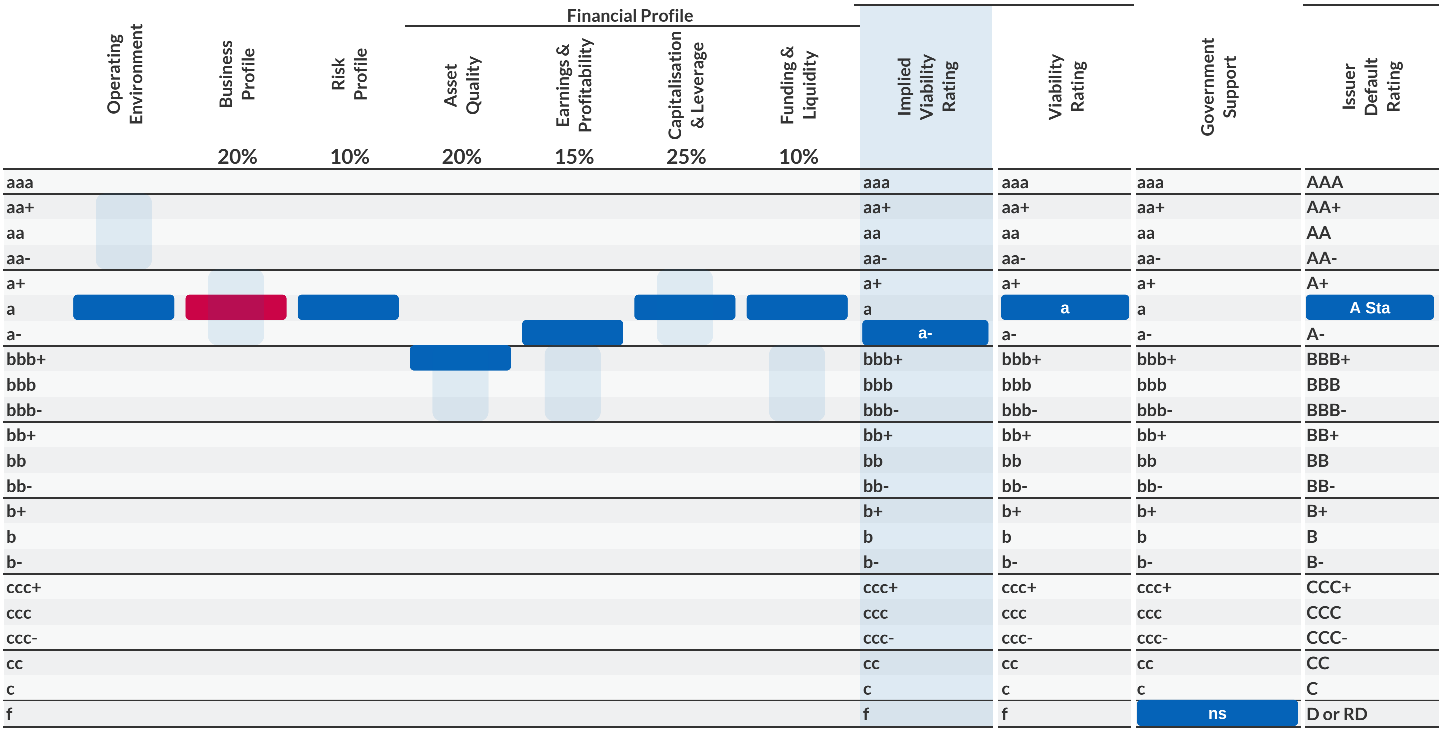
Rating level	Rating
Senior non-preferred	A-
Long term senior preferred	A
Short term senior preferred	F1
Subordinated Tier 2	BBB+

Source: Fitch Ratings

Erste's Derivative Counterparty Rating (DCR) and senior preferred (SP) debt ratings are aligned with its IDRs, and its senior non-preferred (SNP) debt is rated one notch below its Long-Term IDR to reflect the risk of below-average recoveries for SNP creditors in a resolution. This is because we expect Erste to use SP debt to meet its resolution buffer requirements, and we do not expect SNP and more junior debt to sustainably exceed 10% of the Austrian resolution group's RWAs. The Tier 2 debt is rated two notches below the VR to reflect subordinated creditors' above-average loss severity.

Erste's Short-Term IDR of 'F1' is the baseline option mapping to a Long-Term IDR of 'A', and reflects the group's robust funding and liquidity, which we score at 'a'. The rating of Erste Finance (Delaware) LLC's commercial paper programme is aligned with Erste's Short-Term IDR, based on Erste's guarantee of the programme.

Ratings Navigator



The Key Rating Driver (KRD) weightings used to determine the implied VR are shown as percentages at the top. In cases where the implied VR is adjusted upwards or downwards to arrive at the VR, the KRD associated with the adjustment reason is highlighted in red. The shaded areas indicate the benchmark-implied scores for each KRD.

VR - Adjustments to Key Rating Drivers

The operating environment score of ‘a’ is below the ‘aa’ category implied score due to the following adjustment reason: international operations (negative).

The earnings & profitability score of ‘a-’ is above the ‘bbb’ category implied score due to the following adjustment reason: revenue diversification (positive)

The funding & liquidity score of ‘a’ is above the ‘bbb’ category implied score due to the following adjustment reason: deposit structure (positive)

Company Summary and Key Qualitative Factors

Operating Environment

Erste's core markets performed well in 2021 and 1H22, but the economic outlook has deteriorated following the Russian invasion of Ukraine. Businesses exited the pandemic with full order books, but face high uncertainty and surging energy and other input prices. As a result, inflation increased to a multi-decade high in 9M22, with an expected dampening effect on growth in the next quarters.

Our baseline forecast assumes that Russian gas flows will continue at the current reduced volumes. But a further escalation of the Ukrainian conflict could lead to severe restrictions to oil and gas supply to Erste's markets. A further cut in natural gas supplies from Russia in 2022 would, in our view, lead to much higher insolvency rates within the next eighteen months, despite mitigating factors that provide a cushion in the short term. Austria, the Czech Republic, Hungary, and Slovakia are particularly vulnerable given their high reliance on Russian gas and their lack of viable alternative energy supplies. This could trigger a recession, even-higher inflation, and hit public finances. Even countries with meaningful domestic gas production, such as Romania, or liquified natural gas terminals, such as Croatia, would face significantly higher energy prices. Permanently higher energy prices also pose a risk to potential growth in the medium to long term due to a loss of international price competitiveness.

Business Profile

Erste's strong franchise and geographic diversification across its core Austrian and CEE markets benefits its company profile. It is the Austrian savings banks' central institution and one of the largest banks in CEE, with leading market shares in Austria, 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. Erste focuses on retail and SME lending. The majority of loans and deposits are in Austria, but operating profits are mainly earned in CEE. Profits in Romania, Hungary and Croatia have been volatile in the past due to high loan-impairment charges (LICs), but we expect the financial profile of Erste's CEE subsidiaries to remain stronger than most local peers' due to the bank's strong market position, scale and conservative risk profile.

Erste Group Bank AG, the group's parent entity and listed operating bank holding company, manages the group and owns the Austrian and CEE subsidiaries. In Austria, Erste's retail and SME banking franchise includes Erste Bank der oesterreichischen Sparkassen AG (EBOe) and over 40 smaller savings banks linked to the parent by an institutional protection and cross-guarantee scheme (Haftungsverbund).

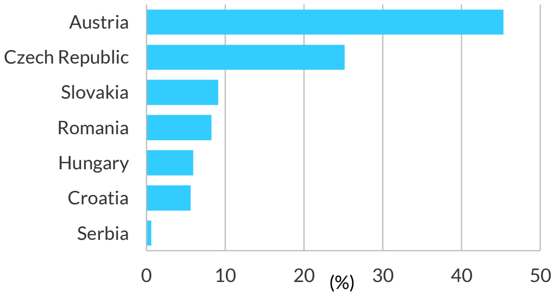
Erste consolidates all savings banks as it controls all scheme members via its 63.5% stake in the scheme's steering company. The mutual support scheme sets, monitors and enforces common risk policies upon all members. In exchange, it supports troubled members by guaranteeing certain liabilities. Support measures have not been required in recent years due to the solid Austrian economy and the steering company's early warning system, which has ensured timely pre-emptive actions.

Erste's structure is more standard in CEE, where the group's parent is the dominant or sole owner of the local units. The CEE subsidiaries are excluded from the Austrian mutual support scheme, but we view Erste's willingness to support them as very high, given the parent's record of extensive support in the CEE region, which has a core importance for the group. Erste has incurred material financial drains in its CEE segment in the past, due to economic swings and a series of adverse political, legislative and regulatory measures, which have tested the resilience of its CEE operations and the group's commitment to the region. We believe this will remain an element of unpredictability for Erste's earnings in CEE (although overall a manageable one) because the sound profits of the region's banking sector represent an attractive source of funds to fill the governments' budgetary gaps. However, we do not expect this to fundamentally affect Erste's strong long-term commitment to its core region.

Erste plans to grow organically in CEE, but also screens the market for bolt-on M&A opportunities and portfolio acquisitions. It is also rapidly expanding its proprietary digital retail platform George, which has been rolled out to almost all of its CEE markets. George is onboarding new clients at a sustained pace.

Pre-Tax Profit, by Country

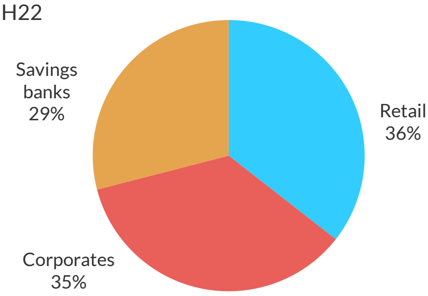
Average 2018-2021



Source: Fitch Ratings, Erste

Loans, by Segment

End-1H22



Source: Fitch Ratings, Erste

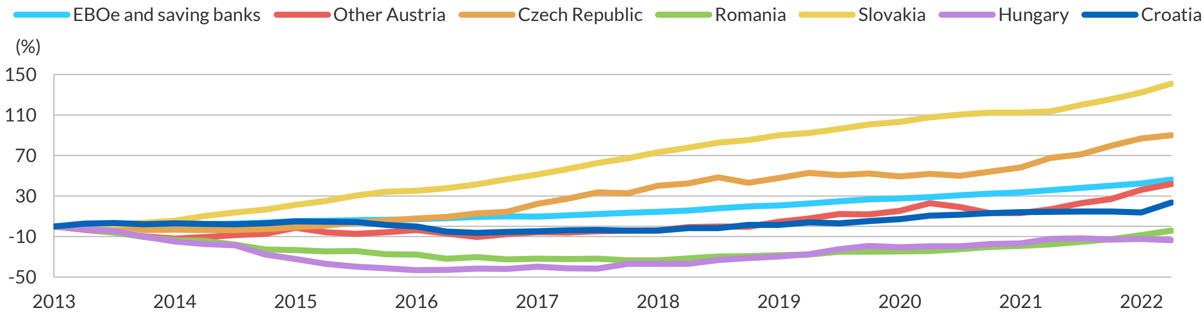
Risk Profile

Erste's generally prudent risk appetite is supported by the predominance of its Austrian and Czech exposures. Credit standards are broadly in line with market practice in Austria, but are more stringent than local peers' in CEE, underpinned by the group's centralised, sophisticated risk-control framework. Except for euro-denominated loans in Serbia and Croatia, lending in CEE is generally extended in local currency, although euro loans are permitted to clients with matching euro income.

The proportion 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. The share of variable rate mortgages in the bank's retail portfolio is high compared to European peers. However, we do not expect high inflation and rising interest rates to cause a surge in loan defaults. This is because the proportion of buy-to-let mortgages in the portfolio is low, demand overhang should prevent a sharp correction in property valuations, and we do not expect the unemployment rate to rise materially in Erste's core markets. The number of exceptions to lending policies in new lending in Austria will likely decline after the introduction of a macroprudential loan-to-value limit of 90% in 2022. This measure was introduced after over half of the mortgages extended by Austrian banks in 2021 required a downpayment of less than 20%.

Erste's corporate loan book is SME-heavy but diversified by sector. Erste has tightened its approach to commercial real-estate lending (18% of gross loans), with a focus on capital cities and regional centres in CEE. Besides a sizeable portion of hotels, retailers and offices, it includes a EUR7 billion exposure to Austrian housing associations, which we consider lower-risk.

Loan Growth by Legal Entity



Source: Fitch Ratings, Erste

Financial Profile

Asset Quality

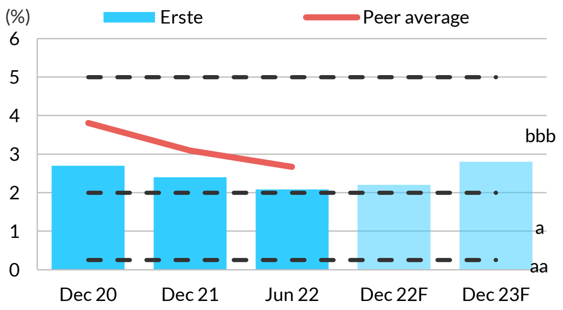
Erste has cut its impaired loan ratio (including purchased or originated credit impaired loans) to 2.1% at end-1H22 – a cut of more than three quarters from its peak in 2013. Tightened risk appetite since the previous credit cycle and extensive government support strongly contained defaults during the pandemic. The impaired loans volume reverted to close to its end-2019 level at end-1H22 despite loan growth of about 20% over the same period.

Impaired loans are almost fully covered by loan loss allowances and the coverage ratio increases to 144% when including collateral. Loan loss allowances were boosted by precautionary provisions during the pandemic. These crisis-related provisions were largely carried forward to cover expected credit losses from potential indirect impacts from the war in Ukraine, and amounted to EUR500 million (26bp of gross loans) at end-1H22. We expect updated macroeconomic assumptions, in combination with higher management overlays for portfolios vulnerable to rising inflation and interest rates, to lead to an increase in loan loss allowances in 2H22. This will likely drive LICs close to the bank's guidance of 20bp of gross loans for 2022 – from -3bp in 1H22.

We expect impairments and negative rating migration to drive LICs in 2023 and 2024. In particular, we expect LICs to exceed management's through the cycle guidance of 30bp–50bp if the export of Russian natural gas to the EU is cut. In a stress test conducted in June, Erste predicted LICs of 95bp and 85bp for 2022 and 2023, respectively, if Russian gas supplies to the EU were stopped on 1 July 2022. However, the stress test did not account for government support measures and progress in energy diversification, which would significantly mitigate the impact on the economy. While the development of LICs remains highly uncertain, we expect impaired loans to remain below 4% of gross loans on average in a plausible downside scenario, which is commensurate with an asset quality score of 'bbb+' when considering the comfortable collateralisation of the loan book.

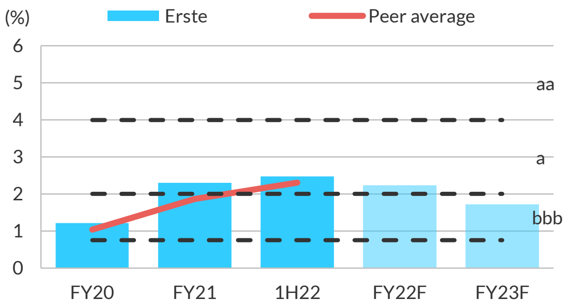
Erste's combined direct exposure to Russia, Ukraine, and Belarus is immaterial and the exposure to clients directly affected by the conflict (e.g. due to sector-specific sanctions, local operations or larger shares of revenue generated in these countries) is less than 2% of Erste's credit exposure at end-1H22. Erste's exposure to the cyclical industries most exposed to rising energy prices, which include metals, paper, construction building materials, automotive, airlines and road freight carriers, is manageable at 4.2% of total credit exposure.

Impaired Loans/Gross Loans



Source: Fitch Ratings, Fitch Solutions

Operating Profit/Risk-Weighted Assets



Source: Fitch Ratings, Fitch Solutions

Earnings and Profitability

We expect an operating profit/RWA of 2.2% in 2022, driven by strong business growth and rising interest rates. Erste's 1H22 net interest income (NII) growth of 16% yoy has benefitted from strong loan growth as well as interest rate increases in the Czech Republic, Romania and Hungary. We expect the increases in euro interest rates to sustain NII in Austria and Slovakia in 2H22 and drive NII growth to low double digits in 2022, in line with management's guidance. Higher interest rates will sustain NII growth also in the next two years albeit at a slower pace due to declining demand from corporates and households, repricing of deposits, and TLTRO maturing.

The recovery of retail payments has offset slower growth in the securities and asset-management business in 1H22, driving the net fee and commission income (NCI) growth of 11% yoy. We expect this trend to continue in 2H22 and Erste to reach its EUR2.4 billion NCI target for 2024 already this year. This is rating-positive as it enhances revenue diversification.

Increases in interest rates drove temporary valuation losses in the Austrian saving banks' liquidity and in the Hungarian fair-value loan portfolios, resulting in a net trading and investment (NTI) loss in 1H22. We expect flat NTI income in 2H22, but the losses will be likely recovered as assets approach maturity. Erste's markets division performed well, in line with peers', and we expect fixed-income and currency trading revenue to offset lower origination volumes in the next quarters.

Total non-interest expenses increased 9% yoy in 1H22, driven by higher personnel and IT expenses as well as increased contributions to deposit insurance systems and bank levies. Wage inflation accelerated in all of Erste's markets in 2Q22 and we expect personnel expenses to drive cost inflation in 2022 and 2023. Moreover, 2023 and 2024 non-interest expenses will be inflated by bank levies in Hungary and the Czech Republic.

Erste's revenue growth trajectory supports that the bank will reach its management's cost/income ratio target of 55% already in 2022, two years ahead of plan. However, maintaining this cost/income ratio over the next years will depend on the bank's ability to maintain cost inflation under control. While there is room to improve cost efficiency, particularly at the Austrian parent entity and at EBOe, we believe the group's cost base will evolve broadly in line with inflation and do not expect material cost reductions in the Austrian savings bank segment. The latter accounts for a quarter of the group's cost base but has caused half of the total cost inflation before 2021.

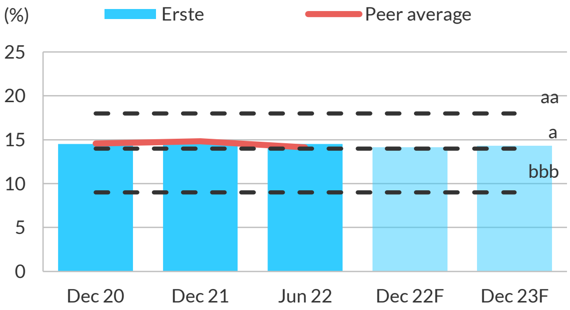
Capital and Leverage

We view Erste's capitalisation as appropriate for its risk profile. Erste's capitalisation benefits from its control over the mutual support scheme which, under EU regulation, exempts the group from deducting EUR4 billion of minority interests in the Austrian savings banks from the group's CET1 capital.

We expect capital ratios to continue exceeding regulatory requirements after the two 25bp increments in Erste's combined buffer requirement at end-2022 and end-2023. The fully loaded CET1 ratio slightly declined at end-1H22 (14.2%; end-2021: 14.5%), mainly due to business growth and the first-time implementation of structural foreign-exchange (FX) positions in market risk, which were mostly offset by the interim profit. We do not expect material regulatory RWAs inflation in 2H22 and 2023. However, we expect RWAs to increase due to negative rating migration in the next two years as well as loan growth and modest long-term RWA growth from the phasing in of Basel IV. At the same time, Erste's strong organic capital generation, sustained by a target pay-out ratio of 40-50%, should accommodate this growth. We also believe the bank would implement capital-enhancing countermeasures should the CET1 ratio fall close to the management's 13.5% target. CET1 capital in excess of 14% and not allocated for organic growth or regular dividend distribution will be likely returned to investors through a share buyback or used for acquisitions.

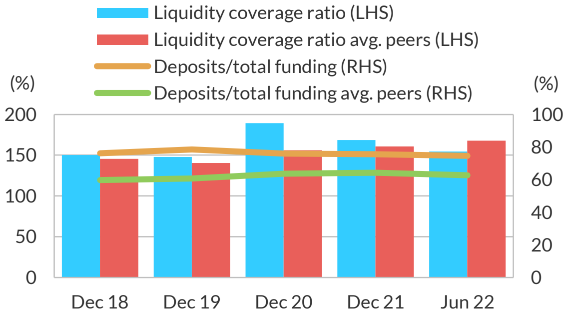
Erste's leverage ratio of 6.3% compares well with that of large European peers', driven by the CEE operations' higher RWA density and the Austrian savings banks' use of the standardised approach for calculating credit risk RWAs.

CET1 Ratio



Source: Fitch Ratings, Fitch Solutions

Funding & Liquidity vs Peers



Source: Fitch Ratings, Fitch Solutions

Funding and Liquidity

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. Customer deposits, two thirds from retail clients, increased 6% year-to-date at end-1H22 and accounted for about three quarters of total funding.

Erste has earned positive passive margins on its macro hedges as deposit rates have been increasing at a slower pace than market rates. However, we expect deposits to reprice faster in the coming quarters, especially after the ECB's termination of TLTRO, which will likely reduce liquidity in the system.

Erste has cut its wholesale funding needs over the past decade by developing its local deposit franchises in CEE, where it is now largely deposit-funded and has excess liquidity in local currencies. The group's parent entity will continue to issue most wholesale funding. At the same time, the CEE subsidiaries should continue to issue all together EUR1.2 billion–1.7 billion a year to meet their resolution buffer requirements by 2024. We view this as manageable, even in the higher interest rates environment.

We expect Erste's liquidity to decline in the next quarters due to the possible early repayment of TLTRO, but to remain strong. The bank's liquidity buffer (unencumbered collateral + cash) of EUR73 billion at end-1H22 covered almost a quarter of its total funding.

About Fitch Forecasts

The forecasts in the charts in this section reflect Fitch's forward view on the bank's core financial metrics per Fitch's Bank Rating Criteria. They are based on a combination of Fitch's macro-economic forecasts, outlook at the sector level and company-specific considerations. As a result, Fitch's forecasts may materially differ from the guidance provided by the rated entity to the market.

To the extent Fitch is aware of material non-public information with respect to future events such as planned recapitalisations or merger and acquisition activity, Fitch will not reflect these non-public future events in its published forecasts. However, where relevant, such information is considered by Fitch as part of the rating process.
Black dashed lines represent indicative quantitative ranges and implied scores for Fitch's core financial metrics for banks operating in the environments that Fitch scores in the 'a' category. Light-blue columns represent Fitch's forecasts. Peer average includes KBC Bank NV (VR: a), UniCredit S.p.A. (bbb), Intesa Sanpaolo S.p.A. (bbb), ING Bank N.V. (a+), Societe Generale S.A. (a-).

Financials

Financial Statements

	30 Jun 22		31 Dec 21	31 Dec 20	31 Dec 19
	(USDm)	(EURm)	(EURm)	(EURm)	(EURm)
Summary income statement					
Net interest and dividend income	2,968	2,857	5,009	4,795	4,775
Net fees and commissions	1,262	1,215	2,304	1,977	2,000
Other operating income	48	46	397	390	505
Total operating income	4,277	4,118	7,709	7,162	7,280
Operating costs	2,581	2,485	4,617	4,441	4,750
Pre-impairment operating profit	1,696	1,633	3,092	2,721	2,531
Loan and other impairment charges	-27	-26	159	1,295	39
Operating profit	1,723	1,659	2,933	1,426	2,491
Other non-operating items (net)	0.	0	0	-58	-162
Tax	327	315	525	343	419
Net income	1,396	1,344	2,408	1,026	1,911
Other comprehensive income	-170	-163	-6	-161	-93
Fitch comprehensive income	1,226	1,181	2,402	864	1,818
Summary balance sheet					
Assets					
Gross loans	202,938	195,376	184,206	170,053	163,444
- Of which impaired	4,213	4,056	4,415	4,599	3,838
Loan loss allowances	4,028	3,878	3,938	4,003	3,175
Net loans	198,909	191,498	180,268	166,050	160,269
Interbank	29,862	28,750	21,001	21,466	23,055
Derivatives	2,043	1,966	2,338	3,165	2,932
Other securities and earning assets	58,370	56,195	52,503	45,366	42,919
Total earning assets	289,184	278,409	256,110	236,047	229,174
Cash and due from banks	44,476	42,818	45,495	35,839	10,693
Other assets	6,093	5,866	5,823	5,508	5,825
Total assets	339,753	327,093	307,428	277,394	245,693
Liabilities					
Customer deposits	229,968	221,399	209,895	189,801	171,826
Interbank and other short-term funding	45,275	43,589	34,750	27,592	15,836
Other long-term funding	29,518	28,419	29,894	29,124	29,181
Trading liabilities and derivatives	3,493	3,363	2,783	2,814	2,690
Total funding and derivatives	308,255	296,769	277,322	249,332	219,533
Other liabilities	6,687	6,438	6,593	5,651	5,683
Preference shares and hybrid capital	2,323	2,236	2,236	2,733	1,490
Total equity	22,488	21,650	21,277	19,677	18,987
Total liabilities and equity	339,753	327,093	307,428	277,394	245,693
Exchange rate		USD1 = EUR0.96274	USD1 = EUR0.884173	USD1 = EUR0.821963	USD1 = EUR0.89015

Source: Fitch Ratings, Fitch Solutions, Erste

Key Ratios

	30 Jun 22	31 Dec 21	31 Dec 20	31 Dec 19
Ratios (annualised as appropriate)				
Profitability				
Operating profit/risk-weighted assets	2.5	2.3	1.2	2.1
Net interest income/average earning assets	2.1	2.0	2.0	2.1
Non-interest expense/gross revenue	60.5	60.0	62.1	65.4
Net income/average equity	12.6	11.7	5.3	10.4
Asset quality				
Impaired loans ratio	2.1	2.4	2.7	2.4
Growth in gross loans	6.1	8.3	4.0	6.9
Loan loss allowances/impaired loans	95.6	89.2	87.0	82.7
Loan impairment charges/average gross loans	0.0	0.0	0.7	0.1
Capitalisation				
Common equity Tier 1 ratio	14.5	14.8	14.5	13.8
Fully loaded common equity Tier 1 ratio	14.2	14.5	14.2	13.7
Tangible common equity/tangible assets	6.2	6.5	6.6	7.2
Basel leverage ratio	6.3	6.5	6.7	6.8
Net impaired loans/common equity Tier 1	0.9	2.5	3.5	4.1
Funding and liquidity				
Gross loans/customer deposits	88.3	87.8	89.6	95.1
Liquidity coverage ratio	154.3	168.6	189.3	148.0
Customer deposits/total non-equity funding	74.6	75.6	76.0	78.6
Net stable funding ratio	144.2	150.2	n.a.	n.a.

Source: Fitch Ratings, Fitch Solutions, Erste

Commercial Banks: Government Support	
Typical D-SIB GSR for sovereign's rating level (assuming high propensity)	A+ to A-
Actual jurisdiction D-SIB GSR	ns
Government Support Rating	ns
Government ability to support D-SIBs	
Sovereign Rating	AA+/ Negative
Size of banking system	Neutral
Structure of banking system	Neutral
Sovereign financial flexibility (for rating level)	Neutral
Government propensity to support D-SIBs	
Resolution legislation	Negative
Support stance	Neutral
Government propensity to support bank	
Systemic importance	Neutral
Liability structure	Neutral
Ownership	Neutral

The colours indicate the weighting of each KRD in the assessment.
Higher influence Moderate influence Lower influence

Erste's 'no support' Government Support Rating reflects Fitch's view that senior creditors can no longer rely on full extraordinary state support. This is driven by the EU's Bank Recovery and Resolution Directive and the Single Resolution Mechanism, which provide a resolution framework that is likely to require senior creditors participating in losses, if necessary, instead, or ahead, of a bank receiving sovereign support.

Environmental, Social and Governance Considerations

Overall ESG

5	
4	
3	
2	
1	

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.

Environmental (E)

General Issues	Score	Impact	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	Business Profile (incl. Management & governance); Risk Profile; Asset Quality	1

Social (S)

General Issues	Score	Impact	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	Business Profile (incl. Management & governance); Risk Profile	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; Business Profile (incl. Management & governance); Risk Profile	4
Labor Relations & Practices	2		Impact of labor negotiations, including board/employee compensation and composition	Business Profile (incl. Management & governance)	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	Business Profile (incl. Management & governance); Financial Profile	1

Governance (G)

General Issues	Score	Impact	Sector-Specific Issues	Reference	G Scale
Management Strategy	3		Operational implementation of strategy	Business Profile (incl. Management & governance)	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	Business Profile (incl. Management & governance); Earnings & Profitability; Capitalisation & Leverage	4
Group Structure	3		Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Business Profile (incl. Management & governance)	3
Financial Transparency	3		Quality and frequency of financial reporting and auditing processes	Business Profile (incl. Management & governance)	2
					1

Unless otherwise disclosed in this section, the 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 on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

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.